

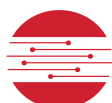
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2021

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-36454



Kimball® Electronics

KIMBALL ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

Indiana

*(State or other jurisdiction of
incorporation or organization)*

1205 Kimball Boulevard, Jasper, Indiana

(Address of principal executive offices)

35-2047713

(I.R.S. Employer Identification No.)

47546

(Zip Code)

(812) 634-4000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each Class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	KE	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Emerging growth company ☐

Non-accelerated filer ☐

Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates, as of December 31, 2020 (the last business day of the Registrant's most recently completed second fiscal quarter), was \$379.4 million based on 95.7% of common stock held by non-affiliates.

The number of shares outstanding of the Registrant's common stock as of August 13, 2021 was 24,957,061 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Share Owners to be held on November 9, 2021, are incorporated by reference into Part III.

KIMBALL ELECTRONICS, INC.

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PART I

Item 1 - *Business*

General

As used herein, the terms “Company,” “Kimball Electronics,” “we,” “us,” or “our” refer to Kimball Electronics, Inc., the Registrant, and its subsidiaries. Reference to a year relates to a fiscal year, ended June 30 of the year indicated, rather than a calendar year unless the context indicates otherwise. Additionally, references to the first, second, third, and fourth quarters refer to those respective quarters of the fiscal year indicated.

Forward-Looking Statements

This document contains certain forward-looking statements. These are statements made by management, using their best business judgment based upon facts known at the time of the statements or reasonable estimates, about future results, plans, or future performance and business of the Company. Such statements involve risk and uncertainty, and their ultimate validity is affected by a number of factors, both specific and general. They should not be construed as a guarantee that such results or events will, in fact, occur or be realized as actual results may differ materially from those expressed in these forward-looking statements. The statements may be identified by the use of words such as “believes,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “estimates,” “forecasts,” “seeks,” “likely,” “future,” “may,” “might,” “should,” “would,” “will,” and similar expressions. It is not possible to foresee or identify all factors that could cause actual results to differ from expected or historical results. We make no commitment to update these factors or to revise any forward-looking statements for events or circumstances occurring after the statement is issued, except as required by law.

The risk factors discussed in Item 1A - Risk Factors of this report could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.

At any time when we make forward-looking statements, we desire to take advantage of the “safe harbor” which is afforded such statements under the Private Securities Litigation Reform Act of 1995 where factors could cause actual results to differ materially from forward-looking statements.

Overview

Kimball Electronics was founded in 1961 and was incorporated in 1998. We are a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We offer a package of value that begins with our core competency of producing durable electronics and have expanded into diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and production automation, test, and inspection equipment. This package of value includes our set of robust processes and procedures that help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We believe our customers appreciate our body of knowledge as it relates to the design and manufacture of their products that require durability, reliability, the highest levels of quality control, and regulatory compliance. We deliver award-winning service from our highly integrated global footprint which is enabled by a largely common operating system, a standardization strategy, global procedures, and teamwork. Our Customer Relationship Management (“CRM”) model is key to providing our customers convenient access to our global footprint and all of our services throughout the entire product life cycle. Because our customers are in businesses where engineering changes must be tightly controlled and long product life cycles are common, our track record of quality, financial stability, social responsibility, and commitment to long-term relationships is important to them.

We have been producing safety critical electronic assemblies for our automotive customers for over 35 years. During this time, we have built up a body of knowledge that has not only proven to be valuable to our automotive customers, but to our medical, industrial, and public safety customers as well. We have been successful in growing and diversifying our business by leveraging our automotive experience and know-how in the areas of design and process validation, traceability, process and change control, and lean manufacturing to create valuable and innovative solutions for customers in the medical, industrial, and public safety end market verticals. These solutions include diversified contract manufacturing services for medical disposables, precision molded plastics, and design, production, and servicing of automation, test, and inspection equipment for industrial applications. We have harmonized our quality systems to be compliant with various important industry certifications and regulatory requirements. This allows us to take advantage of other strategic points of leverage in the supply chain and within

our operations so we can cost-effectively manufacture electronic and non-electronic products in the same production facility for customers from all four of our end market verticals.

Many of our customers are multinational companies that sell their products in multiple regions of the world. For these customers, it is important for them to be able to leverage their investment in their supply partner relationships such that the same partner provides them with engineering, manufacturing, and supply chain support in multiple regions of the world. It is common for us to manufacture the same product for the same customer in multiple locations. Our strategy for expanding our global footprint has aligned us with the preferences of the customers in our four end market verticals and has positioned us well to support their global growth initiatives. Our global systems, procedures, processes, and teamwork combined with our CRM model have allowed us to accomplish this goal for many of our largest customers.

Our global processes and central functions that support component sourcing, procurement, quoting, and customer pricing provide commonality and consistency among the various regions in which we operate. We have a central, global sourcing organization that utilizes procurement processes and practices to help secure sources from around the world and to ensure sufficient availability of components and a uniform approach to pricing while leveraging the purchase volume of the entire organization. Customer pricing for the products we produce is primarily managed centrally utilizing a standardized quoting model regardless of where our customers request their products to be produced.

Our CRM model combines members of our team from within our manufacturing facilities and members of our business development team who reside remotely and nearer to our customers around the world. We also have cross-functional teams in the areas of quality, operational excellence, quoting, and design engineering with representatives from our various locations that provide support to our teams on a global basis. The skill sets of these team members and the clarity in their roles and responsibilities help provide our customers with a strong conduit that is critical to execution and forming a strong relationship. We have institutionalized a customer scorecard process that provides all levels of our company with valuable feedback that helps us drive the actions for continuous improvement. Our customer scorecard process has helped us deliver award-winning service and build loyalty with our customers.

Our corporate headquarters is located at 1205 Kimball Boulevard, Jasper, Indiana. Production occurs in our facilities located in the United States, China, Mexico, Poland, Romania, Thailand, and Vietnam.

Our services are sold globally on a contract basis, and we produce products to our customers' specifications. Our manufacturing services primarily include:

- Design services and support;
- Supply chain services and support;
- Rapid prototyping and new product introduction support;
- Product design and process validation and qualification;
- Industrialization and automation of manufacturing processes;
- Reliability testing (testing of products under a series of extreme environmental conditions);
- Production and testing of printed circuit board assemblies (PCBAs);
- Production and assembly of medical devices, medical disposables including packaging, and other non-electronic products;
- Drug delivery devices and solutions with and without electronics;
- Design engineering and manufacturing of automation, test, and inspection equipment;
- Design engineering and production of precision molded plastics;
- Software design capabilities; and
- Complete product life cycle management.

We pride ourselves on the fact that we pay close attention to the evolving needs and preferences of our customers. As we have done in the past, we will continue to look for opportunities to grow and diversify our business by expanding our package of value and our global footprint.

Reporting Segment

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Each of our business units qualifies as an operating segment with its results regularly reviewed by our chief operating decision maker. Our chief operating decision maker is our Chief Executive Officer. Our operating segments meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2021, all of our business units provide contract manufacturing services for electronic and other assemblies or components primarily in automotive, medical, industrial, and public safety applications, all to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products, all have similar characteristics. Each of our business units service customers in multiple markets and many of our customers' programs are manufactured and serviced by multiple business units. We leverage global processes such as component procurement and customer pricing that provide commonality and consistency among the various regions in which we operate. All of our operating segments have similar long-term economic characteristics and, as such, have been aggregated into one reportable segment.

Our Business Strategy

We intend to achieve sustained, profitable growth in the markets we serve by supporting the global growth initiatives of our customers, and we will continue our development into a multifaceted manufacturing solutions company. Key elements of executing our strategy include:

- Leveraging Our Global Footprint – continue our strategy of utilizing our presence in key global regions, including new potential country locations and/or facility expansion as our customer demands dictate;
- Expanding Our Package of Value – enhance our core strengths and expand upon our package of value through diversified contract manufacturing services in areas such as complex system assembly, specialized processes, precision molded plastics; and
- Expanding Our Markets – explore opportunities that will broaden existing or establish new markets, capabilities, or technologies such as automation, test, and inspection equipment for industrial applications.

We expect to make investments that will strengthen or add new capabilities to our package of value as a multifaceted manufacturing solutions company, including through acquisitions. See Item 1A - Risk Factors for risks associated with acquisitions.

Our Business Offerings

We offer contract electronics manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end market verticals. We further offer diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, as well as production automation, test, and inspection equipment. Our services support the complete product life cycle of our customers' products, and our processes and capabilities cover a range of products from high volume-low mix to high mix-low volume. We collaborate with third-party design services companies to bring innovative, complete design solutions to our customers. We offer Design for Excellence input to our customers as a part of our standard package of value. We use sophisticated software tools to integrate the supply chain in a way that provides our customers with the flexibility their business requires. Our robust new product introduction process and our extensive manufacturing capabilities give us the ability to execute to the various quality and reliability expectations of our customers in each of our end market verticals.

We value our customers and their unique needs and expectations. Our customer focus and dedication to unparalleled excellence in engineering and manufacturing has resulted in proven success in the contract manufacturing industry. Personal relationships are important to us. We strive to build long-term global partnerships. Our commitment to support our customers is backed by our history and demonstrated performance for the past 60 years.

Marketing Channels

Manufacturing services, including engineering and supply chain support, are marketed by our business development team. We use a CRM model to provide our customers with convenient access to our global footprint and all of our services throughout the entire product life cycle.

Major Competitive Factors

Key competitive factors in the markets we serve include competitive pricing, quality and reliability, engineering design services, production flexibility, on-time delivery, customer lead time, test capability, and global presence. Numerous contract manufacturing service providers compete globally for business from existing and potential customers. We also face competition from our customers' own capacity and capabilities to in-source production. Growth in the EMS industry is created through the proliferation of electronic components in today's advanced products and the continuing trend of original equipment manufacturers in the electronics industry subcontracting the assembly process to companies with a core competency in this area. The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. New customers and program start-ups generally cause margin dilution early in the life of a program, which is generally recovered as the program becomes established and matures. Our continuing success depends upon our ability to replace expiring customers/programs with new customers/programs.

We do not believe that we, or the industry in general, have any special practices or special conditions affecting working capital items that are significant for understanding our business other than fluctuating inventory levels which may increase in conjunction with the start-up of new programs and component availability.

Our Competitive Strengths

Our competitive strengths derive from our experience of producing safety critical electronic assemblies for automotive customers for over 35 years and leveraging this experience to create valuable and innovative solutions for customers in different industries. Our core strengths include:

- Our core competency of producing durable electronics;
- Our body of knowledge as it relates to the design and manufacture of products that require high levels of quality control, reliability, and durability;
- Our highly integrated, global footprint;
- Our capability to provide our customers diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and automation, test, and inspection equipment;
- Our CRM model and our customer scorecard process;
- Our ability to provide our customers with valuable input regarding designs for improved manufacturability, reliability, and cost;
- Our quality systems, industry certifications, and regulatory compliance;
- Our integrated supply chain solutions and competitive bid process resulting in competitive raw material pricing; and
- Complete product life cycle management.

Competitors

The EMS industry is very competitive as numerous manufacturers compete for business from existing and potential customers. Our competition includes EMS companies such as Benchmark Electronics, Inc., Flex Ltd., Jabil Inc., Plexus Corp., and Sanmina Corporation. We do not have a significant share of the EMS market and were ranked the 20th largest global EMS provider for calendar year 2020 by *Manufacturing Market Insider* in the March 2021 edition published by New Venture Research.

Locations

As of June 30, 2021, we have eleven manufacturing facilities with two located in Indiana, two in China, and one located in each of California, Florida, Mexico, Poland, Romania, Thailand, and Vietnam. Our software design services are primarily performed at our location in India. We continually assess our capacity needs and evaluate our operations to optimize our service levels for supporting our customers' needs around the globe. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations.

Seasonality

Consolidated sales revenue is generally not affected by seasonality.

Customers

While the total electronic assemblies market has broad applications, our customers are concentrated in the automotive, medical, industrial, and public safety industries.

Sales by industry as a percent of net sales for each of the three years in the period ended June 30, 2021 were as follows:

	Year Ended June 30		
	2021	2020	2019
Automotive	43%	38%	40%
Medical	30%	33%	31%
Industrial	23%	23%	22%
Public Safety	3%	5%	6%
Other	1%	1%	1%
Total	100%	100%	100%

Included in our sales were a significant amount to Nexteer Automotive, Philips, and ZF, which accounted for the following portions of net sales:

	Year Ended June 30		
	2021	2020	2019
Nexteer Automotive	17%	14%	12%
Philips	15%	16%	14%
ZF	*	*	12%

* amount is less than 10% of total

The nature of the contract manufacturing business is such that start-up of new programs to replace expiring programs occurs frequently. Our agreements with customers are often not for a definitive term and are amended and extended, but generally continue for the relevant product's life cycle, which can be difficult to predict at the beginning of a program. Typically, our customer agreements do not commit the customer to purchase our services until a purchase order is provided, which are generally short term in nature. Our customers generally have the right to cancel a particular program subject to contractual provisions governing termination, the final product runs, excess or obsolete inventory, and end-of-life pricing, which reduces the additional costs that we incur when a manufacturing services agreement is terminated.

Raw Materials

Raw materials utilized in the manufacture of contract electronic products are generally readily available from both domestic and foreign sources, although from time to time the industry experiences shortages of certain components due to supply and demand forces, combined with rapid product life cycles of certain components. In addition, unforeseen events such as natural disasters and the COVID-19 global pandemic can and have disrupted portions of the supply chain. We believe that maintaining close communication with suppliers helps minimize potential disruption in our supply chain.

The EMS industry is currently experiencing component shortages, component allocations, and shipping delays, particularly with semiconductors, driven by the strong demand in consumer electronics and the beginning of a global recovery, and complicated by the continued impact of COVID-19. Component shortages or allocations could increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. The semiconductor shortage has adversely impacted global manufacturing, including the automotive industry, leading to automakers temporarily suspending production in recent months. We have taken various actions to mitigate the risk and minimize the impact to our customers as well as the adverse effect component shortages or allocations could have on our results.

Raw materials are normally acquired for specific customer orders and may or may not be interchangeable among products. Inherent risks associated with rapid technological changes within this contract industry are mitigated by procuring raw materials, for the most part, based on firm orders. In certain instances, such as when lead times dictate, we enter into contractual agreements for material in excess of the levels required to fulfill customer orders. In turn, material authorization agreements with customers cover a portion of the exposure for material which is purchased prior to having a firm order. We may also purchase additional inventory to support new product introductions, transfers of production between manufacturing facilities, and to mitigate the potential impact from component shortages.

Intellectual Property

Our primary intellectual property is our proprietary manufacturing technology and processes that allow us to provide competitive contract manufacturing and design services to our customers. As such, this intellectual property is complex and normally contained within our facilities. To protect our trade secrets, our manufacturing technology and processes, and other proprietary rights, we rely primarily on a combination of intellectual property laws pertaining to trade secrets and copyrights; non-disclosure agreements with our customers, employees, and suppliers; and our internal security procedures and systems. We feel that relying on trade secret or copyright protections is a superior strategy because there is no disclosure of the information to outside parties, and protections do not expire after a length of time. We currently have or are pursuing a modest number of patents for some of our innovations and technologies in the United States and foreign countries. We also maintain trademark rights (including registrations) for “Kimball Electronics,” “GES” and other wordmarks and trademarks that we use in our business in the United States and around the world. We have policies and procedures to identify and protect our own intellectual property and that of our customers and suppliers.

Corporate Social Responsibility

We are committed to our environmental, social, and governance philosophies and practices, which have been a part of who we are since our founding in 1961. To showcase how our employees around the world share a strong sense of responsibility to protect the environment, sustain a safety focus at our facilities, and give back in meaningful ways to the communities where we live and work, we issued our latest annual Environmental, Social & Governance Report (“ESG Report”) in December 2020. The ESG Report highlights the long-term environmental, social, and governance principles, and practices designed to support the Company’s commitment to sustaining “lasting relationships” and achieving “global success” with its stakeholders wherever Kimball Electronics’ touch is felt throughout the world. The ESG Report reflects several long-standing Guiding Principles of the Company: Our customer is our business; our people are the company; the environment is our home; we strive to help our communities be great places to live; profitability and financial resources give us the freedom to shape our future and achieve our vision. The ESG Report is posted on our website.

Environment and Energy Matters

Our operations are subject to various foreign, federal, state, and local laws and regulations with respect to environmental matters. We believe that we are in substantial compliance with present laws and regulations and that there are no material liabilities related to such items.

We are dedicated to excellence, leadership, and stewardship in protecting the environment and communities in which we have operations. We believe that continued compliance with foreign, federal, state, and local laws and regulations which have been enacted relating to the protection of the environment will not have a material effect on our capital expenditures, earnings, or competitive position. Management believes capital expenditures for environmental control equipment will not represent a material portion of total capital expenditures.

Our operations require significant amounts of energy, including natural gas and electricity. Federal, foreign, and state regulations may control the allocation of fuels available to us, but to date we have experienced no interruption of production due to such regulations.

Our People are the Company: Human Capital Management

We believe our people are the company. We believe in creating quality for life. We believe lasting relationships create our global success. We believe our people are the competitive edge for our service, quality and value. Kimball Electronics has been built upon the tradition of pride in craftsmanship, mutual trust, personal integrity, respect for dignity of the individual, a spirit of cooperation, and a sense of family and good humor. We seek to enhance this culture as we grow. We believe in the inherent value of all individuals.

To raise awareness of our commitment to human rights and to foster compliance with our Global Human Rights Policy, we have incorporated it as an integral part of our Code of Conduct, train all of our employees worldwide on human rights issues, and require our suppliers, vendors, contractors, and partners to meet the same standards. To this end, through our Guiding Principles, we champion transparency and accountability for ourselves.

Because our people are the reason for our success, central to our long-term strategy is attracting, developing, and retaining the best talent globally and strengthening collaboration. We are committed to pay equity and apply the principle of equal pay for work of equal value in all regions where we operate. As of June 30, 2021, Kimball Electronics employed approximately 6,400 people worldwide, with approximately 1,300 located in the United States and approximately 5,100 located in foreign countries. Approximately fifty percent of our worldwide workforce is female, including fifty percent of our executive officers. Ten

percent of our executive officers are African American and ten percent are Hispanic or Latino. We continue to execute on our commitment to diversity, equity, and inclusion, and exhibit our commitment to gender, racial, and ethnic diversity by striving toward the corporate goals we outline in our Global Human Rights Policy, including by:

- Increasing female representation globally at the executive and senior management levels;
- Increasing racial and ethnic diversity at the executive and senior management levels so our leadership will reflect our organization and the communities in which we operate;
- Holding leadership accountable for diversity, equity, and inclusion outcomes.

The average tenure within our workforce is 6.6 years, and we work hard to mitigate turnover risk by consistently and formally surveying our workforce about how well we are living up to our *People* Guiding Principles by asking them to anonymously rate us on a scale from 1 (low) to 10 (high). We currently have a score of 8.15 across our enterprise. We believe this is evidence that we truly operate our business as our people are the company. We consistently have a participation rate in our Guiding Principles survey that exceeds 90%. Upon completion of this survey every year, each local management team receives qualitative and quantitative feedback and are responsible for crafting improvement plans based on our people's inputs.

Our U.S. operations are not subject to collective bargaining arrangements. Certain foreign operations are subject to collective bargaining arrangements, many mandated by government regulation or customs of the particular countries. We believe that our employee relations are good.

For additional information, see the Company's Proxy Statement to be filed for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Our People are the Company: Human Capital Management."

Available Information

The Company makes available free of charge through its website, <http://investors.kimballelectronics.com>, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). All reports the Company files with the SEC are also available via the SEC website, <http://www.sec.gov>. The Company's website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.

Item 1A - Risk Factors

The following important risk factors, among others, could affect future results and events, causing results and events to differ materially from those expressed or implied in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on our business, financial condition, and results of operations and should be carefully considered. Many of the risk factors could be exacerbated by the COVID-19 pandemic and any worsening of the global business and economic environment as a result. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial, or we have not predicted may also affect our business, financial condition, or results of operations. Because of these and other factors, past performance should not be considered an indication of future performance.

Business and Operational Risks

Reduction of purchases by, or the loss of, one or more key customers could reduce revenues and profitability.

Losses of key customers within specific industries or significant volume reductions from key customers are both risks. If one of our current customers merges with or is acquired by a party that currently is aligned with a competitor, or the combination creates excess capacity, we could lose future revenues. Our continuing success is dependent upon replacing expiring contract customers/programs with new customers/programs. See “Customers” in Item 1 - Business for disclosure of the net sales as a percentage of consolidated net sales for each of our significant customers during fiscal years 2021, 2020, and 2019. Regardless of whether our agreements with our customers, including our significant customers, have a definite term, our customers typically do not have an obligation to purchase a minimum quantity of products or services as individual purchase orders or other product or project specific documentation are typically entered into from time to time. Our customers generally have the right to cancel a particular product, subject to contractual provisions governing the final product runs, excess or obsolete inventory, recovery of dedicated investments, and end-of-life pricing. As such, our ability to continue the relationships with such customers is uncertain.

Significant declines in the level of purchases by key customers or the loss of a significant number of customers could have a material adverse effect on our business. In addition, the nature of the contract manufacturing industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently, and new customers and program start-ups generally cause margin dilution early in the life of a program. We can provide no assurance that we will be able to fully replace any lost sales, which could have an adverse effect on our financial position, results of operations, or cash flows.

We may be unable to purchase a sufficient amount of materials, parts, and components for use in our products at competitive prices, in a timely manner, or at all.

We depend on suppliers globally to provide timely delivery of materials, parts, and components for use in our products. The financial stability of suppliers is monitored by us when feasible as the loss of a significant supplier could have an adverse impact on our operations. Suppliers adjust their capacity as demand fluctuates, and component shortages and/or component allocations could occur in addition to longer lead times. Certain components purchased by us are primarily manufactured in select regions of the world and issues in those regions could cause manufacturing delays. Maintaining strong relationships with key suppliers of components critical to the manufacturing process is essential. Price increases of commodity components, including increased tariffs, could have an adverse impact on our profitability if we cannot offset such increases with other cost reductions or by price increases to customers. Materials utilized in our manufacturing process are generally available, but future availability is unknown and could impact our ability to meet customer order requirements. The EMS industry is currently experiencing component shortages, component allocations, and shipping delays, particularly with semiconductors, driven by the strong demand in consumer electronics and the beginning of a global recovery, and complicated by the continued impact of COVID-19. Component shortages or allocations could increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. If suppliers fail to meet commitments to us in terms of price, delivery, or quality, or if the supply chain is unable to react timely to increases in demand, it could interrupt our operations and negatively impact our ability to meet commitments to customers.

We are subject to manufacturing inefficiencies or underutilization due to start-up or expansion of facilities, programs, transfers of production, personnel turnover and shortages, and other related factors.

We are currently expanding our global operations by increasing our product and service offerings and scaling our infrastructure at certain facilities to support our business. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage these expansions effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

The start-up of new programs requires the coordination of the design and manufacturing processes. The design and engineering required for certain new programs can take an extended period of time, and further time may be required to achieve customer acceptance. Accordingly, the launch of any particular program may be delayed, less successful than we originally anticipated, or not successful at all. Additionally, most of our customers do not commit to long-term production schedules, and we are unable to forecast the level of customer orders with certainty over a given period of time. As a result, at times it can be difficult for us to schedule production and maximize utilization of our manufacturing capacity. Fluctuations and deferrals of customer orders may have a material adverse effect on our ability to utilize our fixed capacity. All of these types of manufacturing inefficiencies could have an adverse impact on our financial position, operating margins, results of operations, or cash flows.

The high demand for manufacturing labor in certain geographic areas in which we operate makes recruiting new production employees and retaining experienced production employees difficult. Shortages of production workers could adversely impact our ability to complete our customers' orders on a timely basis, which could adversely affect our relations with customers, potentially resulting in reduction in orders from customers or loss of customers. Turnover in personnel could result in additional training and inefficiencies that could adversely impact our operating results.

Our international operations make us vulnerable to financial and operational risks associated with doing business in foreign countries.

We have operations outside the United States, primarily in China, India, Mexico, Poland, Romania, Thailand, and Vietnam. Our international operations are subject to a number of risks, which may include the following:

- economic and political instability, including the uncertainties caused by the United Kingdom's exit from the European Union;
- foreign governments' measures taken in response to the COVID-19 pandemic;
- warfare, riots, terrorism, and other forms of violence or geopolitical disruption;
- compliance with laws, such as the Foreign Corrupt Practices Act, applicable to U.S. companies doing business outside the United States;
- changes in U.S. or foreign policies, regulatory requirements, and laws;
- tariffs and other trade barriers, including tariffs imposed by the United States as well as responsive tariffs imposed by China, the European Union, or Mexico;
- potentially adverse tax consequences, including changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries; and
- foreign labor practices.

These risks could have an adverse effect on our financial position, results of operations, or cash flows. In addition, fluctuations in exchange rates could impact our operating results. Our risk management strategy includes the use of derivative financial instruments to hedge certain foreign currency exposures. Any hedging techniques we implement contain risks and may not be entirely effective. Exchange rate fluctuations could also make our products more expensive than competitors' products not subject to these fluctuations, which could adversely affect our revenues and profitability in international markets.

Certain foreign jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our operations in the United States, we may incur significant penalties and/or taxes to repatriate these funds.

We operate in a highly competitive industry and may not be able to compete successfully.

Numerous manufacturers within the contract manufacturing industry compete globally for business from existing and potential customers. Some of our competitors have greater resources and more geographically diversified international operations than we do. We also face competition from the manufacturing operations of our customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing to contract manufacturing service providers. In the past, some of our customers have decided to in-source a portion of their manufacturing from us in order to utilize their excess internal manufacturing capacity. The competition may further intensify as more companies enter the markets in which we operate, as existing competitors expand capacity, and as the industry consolidates.

In relation to customer pricing pressures, if we cannot achieve the proportionate reductions in costs, profit margins may suffer. The high level of competition in the industry impacts our ability to implement price increases or, in some cases, even maintain prices, which also could lower profit margins. In addition, as end markets dictate, we are continually assessing excess capacity and developing plans to better utilize manufacturing operations, including consolidating and shifting manufacturing capacity to lower cost venues as necessary.

If our engineering and manufacturing services do not meet our customers' quality standards, our sales, operating results, and reputation could suffer.

We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems, certifications, and controls in our operations in an effort to ensure sustained compliance with various product and quality system regulations and requirements, and to meet the needs of our customers. However, in the event we fail to adhere to these requirements, we become subject to costs associated with product defects, interruptions in production, and reputational harm. Our failure to comply with applicable quality system standards could, in turn, adversely affect our customers through failures to supply product to them. Quality or noncompliance failures could have an adverse effect on our reputation in addition to an adverse impact on our financial position, results of operations, or cash flows. While we maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices, our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from liabilities related to product defects.

Our business may be harmed due to failure to successfully implement information technology solutions or a lack of reasonable safeguards to maintain data security, including adherence to data privacy laws and physical security measures.

The operation of our business depends on effective information technology systems, which are subject to the risk of security breach or cybersecurity threat, including misappropriation of assets or other sensitive information, such as confidential business information and personally identifiable data relating to employees, customers, and other business partners, or data corruption which could cause operational disruption. As we could be the target of cyber and other security threats, which are becoming increasingly sophisticated, we must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address, and mitigate the risk of unauthorized access, misuse, computer viruses, and other events that could have a security impact. Information systems require an ongoing commitment of significant resources to research new technologies and processes, maintain and enhance existing systems, and develop new systems in order to keep pace with changes in information processing technology and evolving industry standards as well as to protect against cyber risks and security breaches. While we provide employee awareness training around phishing, malware, and other cyber threats to help protect against these cyber and security risks, we cannot ensure the measures we take to protect our information technology systems will be sufficient.

Implementation delays, poor execution, or a breach of information technology systems could disrupt our operations, damage our reputation, or increase costs related to the mitigation of, response to, or litigation arising from any such issue. Similar risks exist with our third-party vendors. Any problems caused by these third parties, including those resulting from disruption in communications services, cyber attacks, or security breaches, have the potential to hinder our ability to conduct business. In addition, data privacy laws and regulations, such as the European Union General Data Protection Regulation and similar legislation in jurisdictions in which we operate, pose increasingly complex compliance challenges and potentially elevate costs, and any failure to comply with these laws and regulations could result in significant penalties.

The cost of providing employee healthcare benefits could increase and reduce our profitability.

We are self-insured up to certain limits for certain domestic employee health benefits. For these self-insured health plans, we incur the cost of claims, which may include catastrophic claims, with the employees bearing a limited portion of the cost through insurance premiums and deductibles. Accordingly, increases in employee healthcare benefit costs, including as a result of the high costs associated with treatments and prescriptions for rare diseases could have an adverse effect on our profitability.

Regulatory and Litigation Risks

Litigation or legal proceedings could expose us to significant liabilities and have a negative impact on our reputation.

We are or may become party to various claims and legal proceedings in the ordinary course of our business. These claims and legal proceedings may include lawsuits or claims relating to contracts, intellectual property, product recalls, product liability, employment matters, environmental matters, regulatory compliance, or other aspects of our business. Even when not merited, the defense of these claims and legal proceedings may divert our management's attention, and we may incur significant expenses in defending these claims and proceedings. In addition, we may be required to pay damage awards or settlements or become subject to injunctions or other equitable remedies, which could have a material adverse effect on our financial position, cash flows, or results of operations. The outcome of litigation is often difficult to predict, and the outcome of pending or future claims and legal proceedings may have a material adverse effect on our financial position, cash flows, or results of operations. We evaluate these claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our current assessments and estimates. If actual outcomes or losses differ materially from our current assessments and estimates or additional claims or legal proceedings are initiated, we could be exposed to significant liabilities.

Failure to protect our intellectual property could undermine our competitive position.

Competing effectively depends, to a significant extent, on maintaining the proprietary nature of our intellectual property. We attempt to protect our intellectual property rights worldwide through a combination of keeping our proprietary information secret and utilizing trademark, copyright, and trade secret laws, as well as licensing agreements and third-party non-disclosure and assignment agreements. Because of the differences in foreign laws concerning proprietary rights, our intellectual property rights do not generally receive the same degree of protection in foreign countries as they do in the United States, and therefore, in some parts of the world, we have limited protections, if any, for our intellectual property. If we are unable to adequately protect our intellectual property embodied in our solutions, designs, processes, and products, the competitive advantages of our proprietary technology could be reduced or eliminated, which would harm our business and could have a material adverse effect on our results of operations and financial position.

Anti-takeover provisions in our organizational documents and Indiana law could delay or prevent a change in control.

We have adopted Amended and Restated Articles of Incorporation and Amended and Restated Bylaws. Certain provisions of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws may delay or prevent a merger or acquisition that a Share Owner may consider favorable. For example, the Amended and Restated Articles of Incorporation authorizes our Board of Directors to issue one or more series of preferred stock, prevents Share Owners from acting by written consent without unanimous consent, and requires a supermajority Share Owner approval for certain business combinations with related persons. These provisions may discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Indiana law also imposes some restrictions on potential acquirers.

Our failure to maintain applicable registrations for our manufacturing facilities could negatively impact our ability to produce products for our customers.

We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems, certifications, and controls in our operations in an effort to ensure sustained compliance with various product and quality system regulations and requirements, and to meet the needs of our customers. However, in the event we fail to adhere to these requirements, we become subject to potential investigations and fines and penalties. Our failure to comply with applicable regulations and quality system standards could, in turn, adversely affect our customers through failures to supply product to them or delays in their ability to obtain and maintain product approvals. As a medical device manufacturer, we also have additional compliance requirements. The U.S. Food and Drug Administration (“FDA”) extensively regulates all aspects of product and manufacturing quality for medical products under its current Good Manufacturing Practices (cGMP) regulations. Outside the U.S., our operations and our customers’ products are subject to similar regulatory requirements, notably by the European Medicines Agency and the Safe Food and Drug Administration in China. For instance, we are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA’s Quality System Regulation (“QSR”) requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. Any determination by the FDA or other regulatory authorities of manufacturing or other deficiencies could adversely affect our business. Failure or noncompliance could have an adverse effect on our reputation in addition to an adverse impact on our financial position, results of operations, or cash flows.

We are subject to extensive environmental regulation and significant potential environmental liabilities.

The past and present operation and ownership by Kimball Electronics of manufacturing plants and real property are subject to extensive and changing federal, state, local, and foreign environmental laws and regulations, including those relating to discharges in air, water, and land, the handling and disposal of solid and hazardous waste, the use of certain hazardous materials in the production of select products, and the remediation of contamination associated with releases of hazardous substances. In addition, the increased prevalence of global climate change concerns may result in new regulations that may negatively impact us. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted, or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures, some of which could be material. In addition, any investigations or remedial efforts relating to environmental matters could involve material costs or otherwise result in material liabilities.

The long-term effects of climate change on the global economy and our industry in particular are unclear. Changes in climate where we, our customers, and our supply chain operate could have a long-term adverse impact on our business, results of operations, and financial condition. In addition, we have committed to cut our greenhouse gas emissions, water usage, electrical usage, and air emissions significantly by 2025 as part of our long-term sustainability strategy, and we may take additional voluntary steps to mitigate our impact on the environment. Environmental regulations or changes in the supply, demand, or available sources of energy or other resources may affect the availability or cost of goods and services, including natural resources, necessary to run our business. The cost of energy is a critical component of freight expense and the cost of

operating manufacturing facilities. Increases in the cost of energy could reduce our profitability. Given the political significance and uncertainty around these issues, we cannot predict how legislation, regulation, and increased awareness of these issues will affect our operations and financial condition.

Compliance with government legislation and regulations may significantly increase our operating costs in the United States and abroad.

Legislation and regulations promulgated by the U.S. federal and foreign governments could significantly impact our profitability by burdening us with forced cost choices that either cannot be recovered by increased pricing or, if we increase our pricing, could negatively impact demand for our products. For example:

- Changes in policies by the U.S. or other governments could negatively affect our operating results due to changes in duties, tariffs or taxes, or limitations on currency or fund transfers, as well as government-imposed restrictions on producing certain products in, or shipping them to, specific countries. For example, our facility in Mexico operates under the Mexican Maquiladora (“IMMEX”) program. This program provides for reduced tariffs and eased import regulations. We could be adversely affected by changes in the IMMEX program or our failure to comply with its requirements. As another example, the U.S. government has imposed tariffs on certain products imported from China. China has imposed tariffs on certain U.S. products in retaliation. These tariffs could force our customers or us to consider various strategic options including, but not limited to, looking for different suppliers, shifting production to facilities in different geographic regions, absorbing the additional costs, or passing the cost on to customers. Ultimately, these tariffs could adversely affect the competitiveness of our domestic operations, which could lead to the reduction or exit of certain U.S. manufacturing capacity. Depending on the types of changes made, demand for our foreign manufacturing facilities could be reduced, or operating costs in our manufacturing facilities could be increased, which could negatively impact our financial performance. Moreover, any retaliatory actions by other countries where we operate could also negatively impact our financial performance.
- The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as “conflict minerals,” originating from the Democratic Republic of Congo (“DRC”) and adjoining countries. These rules could adversely affect the sourcing, supply, and pricing of materials used in our products, as the number of suppliers who provide conflict-free minerals may be limited. We may also suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to modify our products to avoid the use of such materials. We may also face challenges in satisfying customers who may require that our products be certified as containing conflict-free minerals or that we adopt more stringent guidelines like those fostered by the Responsible Materials Initiative (“RMI”).
- We are subject to a variety of federal, state, local and foreign environmental, health and safety, product stewardship and producer responsibility laws and regulations, including those arising from global pandemics or relating to the use, generation, storage, discharge and disposal of hazardous chemicals used during our manufacturing process, those governing worker health and safety, those requiring design changes, supply chain investigation or conformity assessments, and those relating to the recycling or reuse of products we manufacture. These include EU regulations and directives, such as the Restrictions on Hazardous Substances (RoHS), the Waste Electrical and Electronic Equipment (“WEEE”) directives, and the Registration, Evaluation, Authorization, and Restriction of Chemicals (“REACH”) regulation, and similar regulations in China (the Management Methods for Controlling Pollution for Electronic Information Products or “China RoHS”). In addition, new technical classifications of e-Waste being discussed in the Basel Convention technical working group could affect both our customers’ abilities and obligations in electronics repair and refurbishment. If we fail to comply with any present or future regulations or timely obtain any needed permits, we could become subject to liabilities, and we could face fines or penalties, the suspension of production, or prohibitions on sales of products we manufacture. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses, including expenses associated with the recall of any non-compliant product or with changes in our operational, procurement and inventory management activities.

In addition, there is an increasing governmental focus around the world on global warming and environmental impact issues, which may result in new environmental, health and safety regulations that may affect us, our suppliers and our customers. This could cause us to incur additional direct costs for compliance, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that are passed on to us. These costs may adversely impact our operations and financial condition.

Social and environmental responsibility policies and guidelines may increase our costs and impose difficult and expensive compliance requirements.

Along with our stakeholders and our broader industry, we have increased our focus on sustainability and measurement of our progress against Environmental, Social, and Governance (“ESG”) criteria. Our customers have adopted, and may continue to adopt, procurement policies that require us to comply with social, and environmental responsibility provisions. In addition, an increasing number of investors have adopted, and may continue to adopt, ESG policies for their portfolio companies, and various voluntarily sustainability initiatives and organizations have promulgated different social and environmental responsibility and sustainability guidelines. These practices, policies, provisions, and initiatives are under active development, subject to change, can be unpredictable and conflicting, and may prove difficult and expensive for us to comply with. These costs may adversely impact our operations and financial condition.

Financial Risks

We are exposed to the credit risk of our customers.

The instability of market conditions drives an elevated risk of potential bankruptcy of customers resulting in a greater risk of uncollectible outstanding accounts receivable. Accordingly, we intensely monitor our receivables and related credit risks. The realization of these risks could have a negative impact on our profitability.

Failure to effectively manage working capital may adversely affect our cash flow from operations.

We closely monitor inventory and receivable efficiencies and continuously strive to improve these measures of working capital, but customer financial difficulties, cancellation or delay of customer orders, shifts in customer payment practices, transfers of production among our manufacturing facilities, additional inventory purchases to mitigate potential impact from component shortages, or manufacturing delays could adversely affect our cash flow from operations.

We could incur losses due to asset impairment.

As business conditions change, we must continually evaluate and work toward the optimum asset base. It is possible that certain assets such as, but not limited to, facilities, equipment, intangible assets, or goodwill could be impaired at some point in the future depending on changing business conditions. Such impairment could have an adverse impact on our financial position and results of operations.

For example, in fiscal year 2020, we recorded a \$7.9 million impairment charge associated with the goodwill of our GES reporting unit. See Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for further discussion of the charge.

Fluctuations in our effective tax rate could have a significant impact on our financial position, results of operations, or cash flows.

Our effective tax rate is highly dependent upon the geographic mix of earnings across the jurisdictions where we operate. Changes in tax laws or tax rates in those jurisdictions could have a material impact on our operating results. Judgment is required in determining the worldwide provision for income taxes, other tax liabilities, interest, and penalties. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law (including adverse changes to the manner in which the United States and other countries tax multinational companies or interpret their tax laws). We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes. In addition, our effective tax rate may be increased by changes in the valuation of deferred tax assets and liabilities, changes in our cash management strategies, changes in local tax rates, or countries adopting more aggressive interpretations of tax laws.

Several countries where we operate provide tax incentives to attract and retain business. We have obtained incentives where available and practicable. Our taxes could increase if: certain incentives were retracted, they were not renewed upon expiration, we no longer qualify for such programs, or tax rates applicable to us in such jurisdictions were otherwise increased. In addition, further acquisitions may cause our effective tax rate to increase. Given the scope of our international operations and our international tax arrangements, changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries could have a material impact on our financial results and competitiveness.

Certain of our subsidiaries provide financing, products, and services to, and may undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm’s length pricing

principles and that contemporaneous documentation must exist to support such pricing. Due to inconsistencies among jurisdictions in the application of the arm's length standard, our transfer pricing methods may be challenged and, if not upheld, could increase our income tax expense. Risks associated with transfer pricing adjustments are further highlighted by the global initiative from the Organization for Economic Cooperation and Development ("OECD") known as the Base Erosion and Profit Shifting ("BEPS") project. The BEPS project is challenging longstanding international tax norms regarding the taxation of profits from cross-border business. Given the scope of our international operations and the fluid and uncertain nature of how the BEPS project might ultimately lead to future legislation, it is difficult to assess how any changes in tax laws would impact our income tax expense.

A failure to comply with the financial covenants under our credit facilities could adversely impact us.

Our primary credit facility requires us to comply with certain financial covenants. We believe the most significant covenants under our credit facilities are the ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, as defined in our primary credit facility, and the fixed charge coverage ratio. More detail on these financial covenants is discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. As of June 30, 2021, we had \$66.2 million in borrowings under our credit facilities and had total cash and cash equivalents of \$106.4 million. In the future, a default on the financial covenants under our credit facilities could cause an increase in the borrowing rates or make it more difficult for us to secure future financing, which could adversely affect our financial condition.

We are exposed to interest rate risk on our borrowings.

We have exposure to interest rate risk on our borrowings under our credit facilities. The interest rates of these borrowings are based on a spread plus applicable base rate, including the London interbank offered rate ("LIBOR"), the prime rate of a reference bank, or the federal funds rate. An adverse change in the base rates upon which our interest rates are determined could have a material adverse effect on our financial position, results of operations, or cash flows.

In addition, the United Kingdom's Financial Conduct Authority has announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR. In March 2021, the administrator of LIBOR, the ICE Benchmark Administration, publicly announced that it will cease publication of LIBOR settings, either on December 31, 2021 or June 30, 2023, subject to the LIBOR settings. As LIBOR is discontinued and we transition to a new rate, interest rates on our current or future indebtedness may be adversely affected.

General Risk Factors

We will face risks commonly encountered with growth through acquisitions.

Our sales growth plans may occur through both organic growth and acquisitions. Acquisitions involve many risks, including:

- difficulties in identifying suitable acquisition candidates and in negotiating and consummating acquisitions on terms attractive to us;
- difficulties in the assimilation of the personnel, processes, and operations of the acquired company;
- difficulties in bringing internal control over financial reporting into compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner;
- the diversion of resources, including diverting management's attention from our current operations;
- risks of entering new geographic or product markets in which we have limited or no direct prior experience;
- the potential loss of key customers of the acquired company;
- the potential loss of key employees of the acquired company;
- the potential incurrence of indebtedness to fund the acquisition;
- the potential issuance of common stock for some or all of the purchase price, which could dilute ownership interests of our current Share Owners;
- the acquired business not achieving anticipated revenues, earnings, cash flow, or market share;
- excess capacity;
- the assumption of undisclosed liabilities;
- potential adverse tax effects; and
- dilution of earnings.

We may implement future restructuring efforts and those efforts may not be successful.

We continually evaluate our manufacturing capabilities and capacities in relation to current and anticipated market conditions. We may implement restructuring plans in the future, and the successful execution of those restructuring initiatives will be dependent on various factors and may not be accomplished as quickly or effectively as anticipated.

Changes in financial accounting standards or policies have affected, and in the future may affect, our reported financial condition or results of operations.

We prepare our financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the American Institute of Certified Public Accountants, the SEC, and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results and may affect our reporting of transactions that are completed before a change is announced. Changes to those rules or questions as to how we interpret or implement them may have a material adverse effect on our reported financial results or on the way we conduct business. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information on the adoption of the new accounting guidance.

Our failure to retain the existing management team, maintain our engineering, technical, and manufacturing process expertise, or continue to attract qualified personnel could adversely affect our business.

We depend significantly on our executive officers and other key personnel. The unexpected loss of the services of any one of these executive officers or other key personnel may have an adverse effect on us.

Our success also depends on keeping pace with technological advancements, including Industry 4.0, and adapting services to provide manufacturing capabilities which meet customers’ changing needs. Therefore, we must retain our qualified engineering and technical personnel and successfully anticipate and respond to technological changes in a cost effective and timely manner. Our culture and guiding principles focus on continuous training, motivating, and development of employees, and we strive to attract, motivate, and retain qualified personnel. Failure to retain and attract qualified personnel could adversely affect our business.

A change in our sales mix among various products could have a negative impact on our gross profit margin.

Changes in product sales mix could negatively impact our gross margin as margins of different products vary. We strive to improve the margins of all products, but certain products have lower margins in order to price the product competitively or in connection with the start-up of a new program. An increase in the proportion of sales of products with lower margins could have an adverse impact on our financial position, results of operations, or cash flows.

Natural disasters or other catastrophic events such as the COVID-19 pandemic may impact our production schedules and, in turn, negatively impact profitability.

Natural disasters or other catastrophic events, including severe weather, terrorist attacks, power interruptions, fires, and pandemics, could disrupt operations and likewise our ability to produce or deliver products. Our manufacturing operations require significant amounts of energy, including natural gas and oil, and governmental regulations may control the allocation of such fuels to Kimball Electronics. Employees are an integral part of our business, and events such as a pandemic could reduce the availability of employees reporting for work. In the event we experience a temporary or permanent interruption in our ability to produce or deliver product, revenues could be reduced, and business could be materially adversely affected. In addition, catastrophic events, or the threat thereof, can adversely affect U.S. and world economies, and could result in reduced demand for our customers’ products and delayed or lost revenue for our services. Further, any continuing disruption in our computer systems could adversely affect the ability to receive and process customer orders, manufacture products, and ship products on a timely basis, and could adversely affect relations with customers, potentially resulting in reduction in orders from customers or loss of customers. We maintain insurance to help protect us from costs relating to some of these matters, but such may not be sufficient or paid in a timely manner to us in the event of such an interruption.

For example, the COVID-19 pandemic poses the risk that we or our employees, suppliers, customers, and others may be restricted or prevented from conducting business activities as normal for indefinite or intermittent periods of time, which has impacted and will continue to impact our global operations. Several of our facilities have experienced temporary suspensions of operations due to the COVID-19 outbreak. While all facilities have since resumed normal operations, further temporary suspensions could occur. All of our operations have been, and will continue to be, impacted to varying degrees by government measures worldwide to contain or mitigate the spread of the virus, including travel restrictions, restrictions on operation of businesses, shelter in place orders, and mandatory closures of schools and child-care facilities, which in turn can have adverse

impacts on the availability of critical components, our supply chain, capacity utilization at our facilities, and the ability of certain employees to return to work. We have modified our business practices for the continued health and safety of our employees and may take further actions, or be required to take further actions, that are in the best interests of our employees. Our suppliers and customers have also implemented, or may implement, similar practices in response to the pandemic. The implementation of health and safety practices by us or our suppliers or customers could adversely impact deliveries and productivity and increase costs. In addition, responding to the continuing pandemic could divert management's attention from our key strategic priorities or cause us to divert or delay the application of our resources toward initiatives that may otherwise increase our long-term value. We cannot reasonably predict the full extent to which the COVID-19 pandemic will impact our financial position, results of operations, and cash flows, which will depend on future developments that are highly uncertain and continuously evolving, including, the duration of the COVID-19 pandemic and its severity, new medical and other information that may emerge concerning COVID-19, further actions by governmental entities or others in response to the pandemic, and how quickly and to what extent normal economic and operating conditions can resume.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

As of June 30, 2021, we had eleven manufacturing facilities with two located in Indiana, two in China, and one located in each of California, Florida, Mexico, Poland, Romania, Thailand, and Vietnam. These facilities occupy approximately 1,374,000 square feet in aggregate, substantially all of which are owned. We lease a facility in India that accommodates our software design services. In addition, we own a 42,000 square-foot building to house our headquarters located in Jasper, Indiana.

Generally, our manufacturing facilities are utilized at normal capacity levels on a multiple shift basis. At times, certain facilities utilize reduced shifts due to demand and sales fluctuations. We continually assess our capacity needs and evaluate our operations to optimize our service levels by geographic region. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations.

Significant loss of income resulting from a facility catastrophe would be partially offset by business interruption insurance coverage.

We hold land leases for our facilities in China, Thailand, and Vietnam with these leases expiring from fiscal year 2030 to 2057. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for additional information concerning leases. In addition, we own approximately 109 acres of land which includes land where our facilities reside.

Item 3 - Legal Proceedings

We and our subsidiaries are not parties to any pending legal proceedings, other than ordinary routine litigation and claims incidental to the business. The outcome of current routine pending litigation and claims, individually and in the aggregate, is not expected to have a material adverse impact on our business or financial condition.

Item 4 - Mine Safety Disclosures

Not applicable.

Information about Our Executive Officers

Our executive officers as of August 27, 2021 are as follows:

(Age as of August 27, 2021)

Name	Age	Office and Area of Responsibility
Donald D. Charron	57	Chairman of the Board and Chief Executive Officer
Desiree L. Castillejos	50	Vice President, Corporate Development and M&A, and Chief Strategy Officer
Jana T. Croom	44	Vice President, Chief Financial Officer
Jessica L. DeLorenzo	36	Vice President, Human Resources
John H. Kahle	64	Vice President, General Counsel, Chief Compliance Officer, and Secretary
LeRoy W. Kemper	50	Vice President, Diversified Contract Manufacturing Services
Steven T. Korn	57	President, Global Electronics Manufacturing Services Operations
Sandy A. Smith	58	Vice President, Information Technology
Kathy R. Thomson	52	Vice President, Global Business Development and Design Services
Christopher J. Thyen	58	Vice President, New Platforms

Executive officers are appointed annually by the Board of Directors. The following is a brief description of the business experience during the past five or more years of each of our executive officers.

Mr. Charron is our Chairman of the Board and Chief Executive Officer. Mr. Charron has served in this role since October 2014.

Ms. Castillejos was appointed Vice President, Corporate Development and M&A, and Chief Strategy Officer in August 2018. Prior to joining Kimball Electronics, she held the position of Vice President, Corporate Development for Nokia Technology since 2016. Prior to Nokia Technology, she served as the Vice President, Corporate Development for Persistent Systems since 2010.

Ms. Croom was appointed Vice President, Chief Financial Officer effective July 1, 2021. Ms. Croom joined Kimball Electronics in January 2021 in the role of Vice President, Finance. Prior to joining Kimball Electronics, she held the position of Vice President, Financial Planning and Analysis for NiSource Inc. since August 2019. Previously at NiSource Inc., she served as Director of Operations Planning since March 2017 and Director of Regulatory Affairs since April 2014.

Ms. DeLorenzo was appointed Vice President, Human Resources in June 2018. Ms. DeLorenzo joined Kimball Electronics in 2015 in the position of Director, Organizational Development.

Mr. Kahle is our Vice President, General Counsel, Chief Compliance Officer, and Secretary. Mr. Kahle has served as our Vice President, General Counsel, and Secretary since October 2014 and was appointed Chief Compliance Officer in April 2016.

Mr. Kemper was appointed Vice President, Diversified Contract Manufacturing Services, effective July 1, 2020. Previously, Mr. Kemper held the position of General Manager, Kimball Electronics Indianapolis since 2018. Prior to joining Kimball Electronics, he held the position of President for iScribeMD since 2017. Prior to iScribeMD, he served as the Vice President of Operations for Fresh Products since 2012.

Mr. Korn was appointed President, Global Electronics Manufacturing Services Operations, effective July 1, 2020. Previously, Mr. Korn held the position of Vice President, North American Operations and had served in this role since 2007.

Ms. Smith is our Vice President, Information Technology and has served in this role since 2004.

Ms. Thomson was appointed Vice President, Global Business Development and Design Services in August 2018. Previously Ms. Thomson held the position of Vice President of Business Development for Creation Technologies since 2012.

Mr. Thyen was appointed our Vice President, New Platforms, in August 2018. Prior to this, he served as Vice President, Business Development since 2008.

PART II

Item 5 - Market for Registrant's Common Equity, Related Share Owner Matters and Issuer Purchases of Equity Securities

Market Information

The Company's common stock trades on the Nasdaq Global Select Market of The Nasdaq Stock Market LLC ("Nasdaq") under the symbol: KE.

Dividends

Since inception, we have not paid any dividends on our common stock, and we currently do not have plans to pay dividends in fiscal year 2022. Our Board of Directors (the "Board") regularly reviews our capital allocation strategy.

Share Owners

On August 13, 2021, the Company's common stock was owned by approximately 1,151 Share Owners of record.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item concerning securities authorized for issuance under equity compensation plans is incorporated by reference to Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters of Part III.

Issuer Purchases of Equity Securities

On October 21, 2015, our Board approved an 18-month stock repurchase plan (the "Plan"), authorizing the repurchase of up to \$20 million worth of our common stock. Then, separately on each of September 29, 2016, August 23, 2017, November 8, 2018, and November 10, 2020, the Board extended and increased the Plan to allow the repurchase of up to an additional \$20 million worth of common stock with no expiration date, which brought the total authorized stock repurchases under the Plan to \$100 million.

During the three months ended June 30, 2021, the Company did not repurchase any common stock. During fiscal year 2021, the Company has repurchased \$3.0 million of common stock under the Plan. The Company's maximum value of remaining shares that may be purchased under the Plan was \$20.3 million at June 30, 2021.

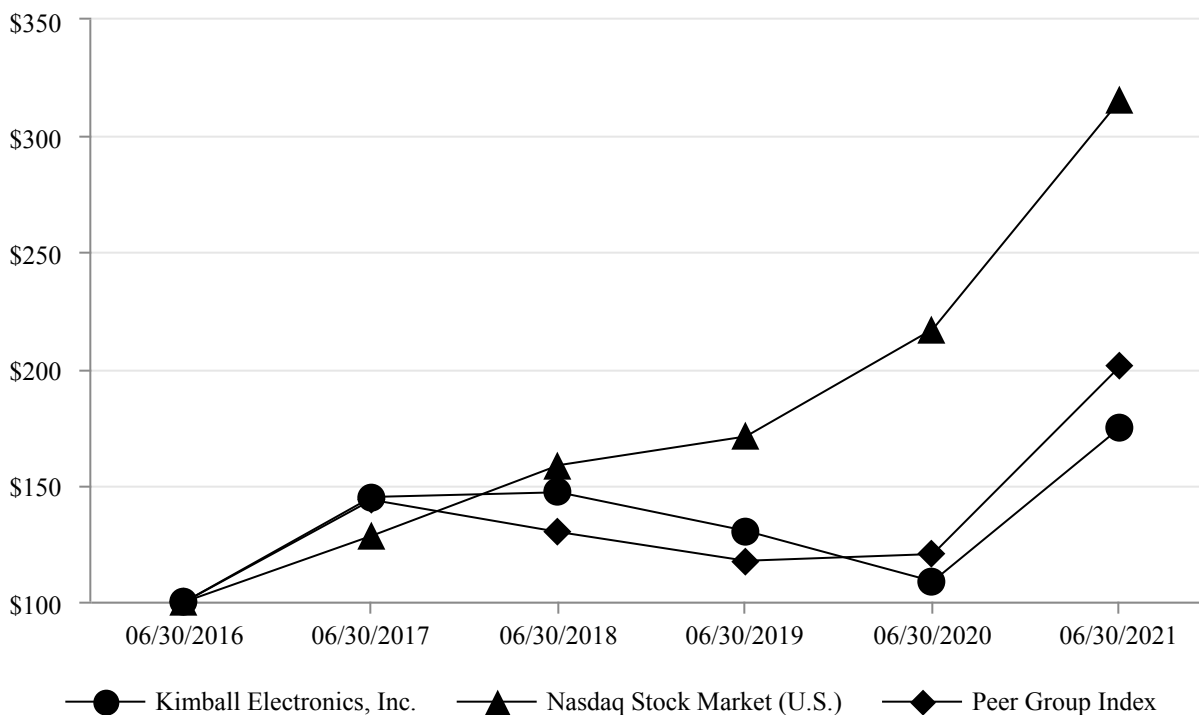
Performance Graph

The following performance graph is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

The graph below compares the cumulative total return to Share Owners of the Company’s common stock for the five-year period commencing June 30, 2016 and ending June 30, 2021 to the cumulative total return of the Nasdaq Stock Market (U.S.) and a peer group index for the same period of time. The peer group index is comprised of publicly traded companies in the EMS industry and includes: Benchmark Electronics, Inc., Flex Ltd., Jabil Inc., Plexus Corp., and Sanmina Corporation. The public companies included in the peer group each have a larger revenue base than we do.

The graph assumes \$100 is invested in the Company’s stock and each of the two indexes at the closing market quotations on June 30, 2016 and that dividends, if any, are reinvested. The performances shown on the graph are not necessarily indicative of future price performance.

Comparison of Cumulative Total Return



	06/30/2016	06/30/2017	06/30/2018	06/30/2019	06/30/2020	06/30/2021
Kimball Electronics, Inc.	\$ 100.00	\$ 144.98	\$ 146.99	\$ 130.44	\$ 108.76	\$ 174.62
Nasdaq Stock Market (U.S.)	\$ 100.00	\$ 128.32	\$ 158.64	\$ 170.97	\$ 217.05	\$ 315.26
Peer Group Index	\$ 100.00	\$ 143.73	\$ 129.92	\$ 117.57	\$ 120.46	\$ 201.01

Item 6 - [Reserved]

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We are a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services ("EMS") and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. Our core competency is producing durable electronics, and we further offer diversified contract manufacturing services for non-electronic components, medical devices, medical disposables, drug delivery devices and solutions, precision molded plastics, and production automation, test, and inspection equipment. Our manufacturing services, including engineering and supply chain support, utilize common production and support capabilities globally. We are well recognized by our customers and the industry for our excellent quality, reliability, and innovative service. For the third time in four years, we were recognized in 2021 for achieving the Highest Overall Customer Rating in CIRCUITS ASSEMBLY's 2021 Service Excellence Awards. CIRCUITS ASSEMBLY is a leading brand and technical publication for electronics manufacturers worldwide.

The contract manufacturing services industry is very competitive. As a mid-sized player, we can expect to be challenged by the agility and flexibility of the smaller, regional players, and we can expect to be challenged by the scale and price competitiveness of the larger, global players. We enjoy a unique market position between these extremes which allows us to compete with the larger scale players for high-volume projects, but also maintain our competitive position in the generally lower volume durable electronics market space. We expect to continue to effectively operate in this market space; however, one significant challenge will be maintaining our profit margins while we continue our revenue growth. Price increases are uncommon in the market as production efficiencies and material pricing advantages for most projects drive costs and prices down over the life of the projects. This characteristic of the contract electronics marketplace is expected to continue.

The Worldwide Manufacturing Services Market - 2021 Edition, a comprehensive study on the worldwide EMS market published by New Market Research ("NVR"), provided worldwide forecast trends through 2025. NVR projects the worldwide assembly market for electronics products to grow at a compound annual growth rate ("CAGR") of 3.4% over the next five years, with the EMS industry projected to grow at a CAGR of 7.1%.

We continue to monitor the current economic and industry conditions for uncertainties that may pose a threat to our future growth or cause disruption in business strategy, execution, and timing in the markets in which we compete. The COVID-19 pandemic continues to impact the global economy, and we are actively monitoring its impact on all our operations. The well-being and safety of our employees remains our number one priority, and we are following guidelines suggested by applicable authorities, including utilizing protective shields, face masks, body temperature scanning, social distancing, and proper hygiene as appropriate for our operations. Our response to each positive case in our facilities follows our procedures for communication to our employees, contact tracing, self-quarantining, testing, and sanitization of the affected work areas. Because of the variety of critical medical device assemblies we manufacture around the world, our facilities were classified as "essential businesses" or otherwise permitted to operate under shelter in place orders or other similar orders during government-mandated COVID-19 shutdowns, but all have been affected to varying degrees by COVID-19. We continue to maintain close contact and communication with our customers and our supply chain to ensure safety measures follow appropriate guidelines for the health and safety of all parties and to minimize disruption of operations. While the availability of vaccines is encouraging, significant uncertainties and risks still exist related to the effectiveness and uptake of the various vaccines and the severity and duration of the impact of COVID-19 on our end markets, the supply chain, the health and availability of our workforce, and global macroeconomic conditions; therefore, its financial impact on our future results cannot be reasonably estimated but could be material.

The EMS industry is currently experiencing component shortages and component allocations, particularly with semiconductors driven by the strong demand in consumer electronics and the beginning of a global recovery. Component shortages or allocations could increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. The semiconductor shortage has adversely impacted global manufacturing, including the automotive industry, leading to automakers temporarily suspending production in recent months. We have taken various actions to mitigate the risk and minimize the impact to our customers as well as the adverse effect component shortages or allocations could have on our results; however, the duration or severity of the semiconductor shortage is unknown, and its financial impact on our results cannot be reasonably estimated but could be material.

Demand from customers in the automotive market is gaining momentum, after recently being adversely impacted by COVID-19, as we experienced a record sales quarter in our automotive vertical in the second quarter of fiscal year 2021 and growth in the second half of fiscal year 2021 over the second half of fiscal year 2020. We are monitoring, however, the current shortage of semiconductors and the continuing impact on global automobile production. We anticipate demand from customers in the automotive market to remain strong during fiscal year 2022, but we expect a stronger second half of fiscal year 2022 than

the first half as we expect the supply to catch up with the demand. In the medical market, sales returned to the pre-COVID-19 pandemic levels starting with the second quarter of fiscal year 2021 after we experienced a record sales quarter in the first quarter of fiscal year 2021 due to the significant increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products, as a direct result of COVID-19. Sales were adversely impacted in the medical market due to lower demand for non-critical medical products, but we believe this demand will increase as elective procedures resume to pre-COVID-19 levels. In the industrial market, we had record sales in the current fiscal year in large part due to improved sales of automation, test, and inspection equipment and higher end market demand for climate control products. Sales to customers in the public safety market were lower in fiscal year 2021 compared to fiscal year 2020 primarily due to the phase out of certain programs.

We have a strong focus on cost control and closely monitor market changes and our liquidity in order to proactively adjust our operating costs and discretionary capital spending as needed. We expect to make investments that will strengthen or add new capabilities to our package of value as a multifaceted manufacturing solutions company, including through acquisitions and capacity expansions. Managing working capital in conjunction with fluctuating demand levels is likewise key. In addition, a long-standing component of our profit-sharing incentive bonus plan is that it is linked to our financial performance which results in varying amounts of compensation expense as profits change.

We continue to maintain a strong balance sheet as of the end of fiscal year 2021, which included a current ratio of 1.9, a debt-to-equity ratio of 0.1, and Share Owners' equity of \$442 million. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, some of which are uncommitted, totaled \$206.7 million at June 30, 2021.

In addition to the above discussion related to the current market conditions, management currently considers the following events, trends, and uncertainties to be most important to understanding our financial condition and operating performance:

- Employees throughout our business operations are an integral part of our ability to compete successfully, and the stability of the management team is critical to long-term Share Owner value. Our talent management and succession planning processes help to maintain stability in management.
- Due to the contract and project nature of the contract manufacturing industry, fluctuation in the demand for our products and variation in the gross margin on those programs is inherent to our business. Effective management of manufacturing capacity is, and will continue to be, critical to our success.
- The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. While our agreements with customers generally do not have a definitive term and thus could be canceled at any time with little or no notice, we generally realize relatively few cancellations prior to the end of the product's life cycle. We attribute this to our focus on long-term customer relationships, meeting customer expectations, required capital investment, and product qualification cycle times. As such, our ability to continue contractual relationships with our customers, including our principal customers, is not certain. New customers and program start-ups generally cause margin dilution early in the life of a program, which are generally recovered as the program becomes established and matures.

- Risk factors within our business include, but are not limited to, general economic and market conditions, component availability, customer order delays, globalization, global health emergencies including the COVID-19 pandemic, impact related to tariffs and other trade barriers, foreign currency exchange rate fluctuations, rapid technological changes, supplier and customer financial stability, the contract nature of this industry, the concentration of sales to large customers, and the potential for customers to choose a dual sourcing strategy or to in-source a greater portion of their manufacturing. The continuing success of our business is dependent upon our ability to replace expiring customers/programs with new customers/programs. We monitor our success in this area by tracking the number of customers and the percentage of our net sales generated from them by years of service as depicted in the table below. While variation in the size of program awards makes it difficult to directly correlate this data to our sales trends, we believe it does provide useful information regarding our customer loyalty and new business growth. Additional risk factors that could have an effect on our performance are located within Item 1A - Risk Factors.

Customer Service Years	Year End		
	2021	2020	2019
More than 10 Years			
% of Net Sales	81%	76%	78%
# of Customers	33	38	37
5 to 10 Years			
% of Net Sales	16%	11%	11%
# of Customers	23	19	17
Less than 5 Years			
% of Net Sales	3%	13%	11%
# of Customers	16	21	21
Total			
% of Net Sales	100%	100%	100%
# of Customers	72	78	75

Presentation of Results of Operations and Liquidity and Capital Resources

A discussion regarding our financial condition and results of operations for fiscal year 2021 compared to fiscal year 2020 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2020 compared to fiscal year 2019 can be found under captions entitled “Results of Operations - Fiscal Year 2020 Compared with Fiscal Year 2019” and “Liquidity and Capital Resources” in the section entitled “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2020 filed with the SEC on August 27, 2020, which is available free of charge through the SEC’s website at <http://www.sec.gov> or the Company’s website, <http://investors.kimballelectronics.com>. The Company’s website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.

Results of Operations - Fiscal Year 2021 Compared with Fiscal Year 2020

	At or For the Year Ended June 30				
	2021	as a % of Net Sales	2020	as a % of Net Sales	% Change
(Amounts in Millions, Except for Per Share Data)					
Net Sales	\$ 1,291.8		\$ 1,200.6		8%
Gross Profit	\$ 118.0	9.1%	\$ 83.8	7.0%	41%
Selling and Administrative Expenses	\$ 52.7	4.0%	\$ 43.9	3.7%	20%
Other General Income	\$ 0.4		\$ —		
Goodwill Impairment	\$ —	—%	\$ 7.9	0.6%	
Operating Income	\$ 65.7	5.1%	\$ 32.0	2.7%	105%
Net Income	\$ 56.8		\$ 18.2		212%
Diluted Earnings per Share	\$ 2.24		\$ 0.71		
Open Orders	\$ 749.0		\$ 421.0		78%

Net Sales by Vertical Market	For the Year Ended		
	June 30		
(Amounts in Millions)	2021	2020	% Change
Automotive	\$ 551.5	\$ 457.4	21%
Medical	384.8	397.8	(3)%
Industrial	293.7	271.0	8%
Public Safety	48.1	56.2	(14)%
Other	13.7	18.2	(25)%
Total Net Sales	<u>\$ 1,291.8</u>	<u>\$ 1,200.6</u>	8%

Net sales in fiscal year 2021 increased by 8% compared to net sales in fiscal year 2020 including a favorable impact of 3% from foreign exchange fluctuations. By end market vertical, our market verticals fluctuated as follows:

- We experienced record sales to customers in the automotive market during the current fiscal year as the automotive industry was returning to more normalized levels from the prior fiscal year, during which many automakers suspended production in our fourth fiscal quarter due to the COVID-19 pandemic. Sales to customers in the automotive market also improved from the ramp-up of certain programs, including programs for fully electric vehicles.
- Sales to customers in the medical market were down slightly in the current fiscal year when compared to the prior fiscal year due to the lower demand for non-critical medical products due to the COVID-19 pandemic. Fiscal years 2021 and 2020 benefited from the temporary increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products as a direct result of the COVID-19 pandemic and related global shortage of respiratory equipment.
- We also experienced record sales to customers in the industrial market during the current fiscal year, as a result of improved sales of automation, test, and inspection equipment and higher end market demand for climate control products, which were partially offset by decreased demand for smart metering products.
- Sales to customers in the public safety market were lower in fiscal year 2021 compared to fiscal year 2020 primarily due to the phase out of certain programs.

A significant amount of sales to Nexteer Automotive and Philips accounted for the following portions of our net sales:

	Year Ended June 30	
	2021	2020
Nexteer Automotive	17%	14%
Philips	15%	16%

Open orders were up 78% as of June 30, 2021 compared to June 30, 2020, primarily from an increase in the automotive vertical. The increase in open orders in the automotive market is driven by the overall increase in demand coupled with the global semiconductor and other component shortages, which has limited our ability to fulfill customer orders. Open orders in the automotive market were down at June 30, 2020 due to the severe impact of the COVID-19 pandemic on the automotive industry in the prior year. Open orders are the aggregate sales price of production pursuant to unfulfilled customer orders, which may be delayed or canceled by the customer subject to contractual termination provisions. Substantially all of the open orders as of June 30, 2021 are expected to be filled within the next twelve months. Open orders at a point in time may not be indicative of future sales trends due to the contract nature of our business. Additionally, COVID-19 could impact the timing of fulfillment of open orders.

Gross profit as a percent of net sales improved to 9.1% in fiscal year 2021 from 7.0% in fiscal year 2020 primarily due to improved operating execution, favorable product mix within our automotive vertical driven by a shift to more mature and larger programs, and favorable foreign currency fluctuations, which were partially offset by higher profit-sharing incentive bonus expense.

For fiscal year 2021, selling and administrative expenses increased both as a percent of net sales and in absolute dollars compared to fiscal year 2020. The current fiscal year selling and administrative expenses increased in absolute dollars from the prior fiscal year primarily due to an increase in profit-sharing incentive bonus expense, higher salary and related payroll costs, and the increase in the fair value of the liability for the supplemental employee retirement plan (“SERP”).

Other General Income in fiscal year 2021 of \$0.4 million resulted from payments received related to class action lawsuits in which Kimball Electronics was a class member, partially offset by lawsuit settlement accruals and payments. No Other General Income was recorded during fiscal year 2020.

We recorded a non-cash pre-tax goodwill impairment charge of \$7.9 million during fiscal year 2020 related to our GES reporting unit. See Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for more information on goodwill impairment. No goodwill impairment charge was recorded during fiscal year 2021.

Other Income (Expense) consisted of the following:

Other Income (Expense)	Year Ended June 30	
	2021	2020
(Amounts in Thousands)		
Interest Income	\$ 102	\$ 60
Interest Expense	(2,165)	(4,421)
Foreign Currency/Derivative Gain	4,806	420
Gain on SERP Investments	2,073	848
Adjustments after Measurement Period of GES Acquisition	53	(3,785)
Other	(518)	39
Other Income (Expense), net	<u>\$ 4,351</u>	<u>\$ (6,839)</u>

The Foreign Currency/Derivative Gain resulted from net foreign currency exchange rate movements during the period. The revaluation of the fair value of the supplemental employee retirement plan ("SERP") investments recorded in Other Income (Expense) is offset by the revaluation of the SERP liability recorded in Selling and Administrative Expenses, and thus there is no effect on net income. The Adjustments after Measurement Period of GES Acquisition are amounts recorded after the twelve-month measurement period which ended on September 30, 2019, with the fiscal year 2020 amount reflecting the final net working capital adjustment on the GES acquisition as determined by the dispute resolution procedure provided for under the terms of the asset purchase agreement. See Note 2 - Acquisition of Notes to Consolidated Financial Statements for more information on this acquisition. The decrease in interest expense was driven by lower borrowings on credit facilities and lower interest rates. Other includes fees associated with our credit facilities, amortization of actuarial gains (losses), and other miscellaneous items that are not directly related to operations.

Our income before income taxes and effective tax rate were comprised of the following U.S. and foreign components:

	Year Ended June 30, 2021		Year Ended June 30, 2020	
	Income Before Taxes	Effective Tax Rate	Income (Loss) Before Taxes	Effective Tax Rate
(Amounts in Thousands)				
United States	\$ 10,439	11.4%	\$ (6,117)	28.7%
Foreign	\$ 59,615	20.2%	\$ 31,274	27.9%
Total	<u>\$ 70,054</u>	18.9%	<u>\$ 25,157</u>	27.7%

When compared to the statutory rate, the domestic effective tax rate for fiscal year 2021 was favorably impacted by research and development credits. The consolidated effective tax rate was also favorably impacted by the mix of taxable earnings within our various tax jurisdictions and foreign exchange rate movements.

The domestic effective tax rate and the consolidated effective tax rate for fiscal year 2020 were unfavorably impacted by tax expense due to the global intangible low-taxed income tax provisions of the Tax Cuts and Jobs Act ("Tax Reform") and the valuation allowance recorded related to state tax credits, partially offset by favorable tax credits.

Our overall effective tax rate will fluctuate depending on the geographic distribution of our worldwide earnings. See Note 11 - Income Taxes of Notes to Consolidated Financial Statements for more information.

We recorded net income of \$56.8 million in fiscal year 2021, or \$2.24 per diluted share, an increase of 212% from fiscal year 2020 net income of \$18.2 million, or \$0.71 per diluted share. Fiscal year 2020 results include the following non-recurring charges previously discussed: a \$6.9 million after-tax non-cash goodwill impairment charge, or \$0.28 per diluted share, and the \$2.9 million after-tax net working capital adjustment on the GES acquisition, or \$0.11 per diluted share.

Comparing the balance sheet as of June 30, 2021 to June 30, 2020, Receivables increased \$23.2 million largely due to increased sales volumes and customer sales mix. Contract assets decreased \$24.5 million as a result of the impact of timing of shipments and related billings to our customers. Our inventory balance decreased \$18.7 million due to the consumption of the inventory build at the end of the prior fiscal year to support the increased demand for medical assemblies and changes in customers' forecasts as a result of COVID-19 in addition to the current component shortages reducing our inventory levels. Also contributing to the inventory balance decrease was the reimbursement from certain customers for the excess raw material inventory we purchased based on their forecasts during the ramp-up due to COVID-19. Borrowings under credit facilities decreased \$51.9 million largely due to payments on the U.S. primary credit facility.

Liquidity and Capital Resources

Working capital at June 30, 2021 was \$282.6 million compared to working capital of \$285.8 million at June 30, 2020. The current ratio was 1.9 and 2.0 at June 30, 2021 and June 30, 2020, respectively. The debt-to-equity ratio was 0.1 and 0.3 at June 30, 2021 and June 30, 2020, respectively. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, some of which are uncommitted, totaled \$206.7 million at June 30, 2021 and \$142.5 million at June 30, 2020.

Cash Conversion Days ("CCD") are calculated as the sum of Days Sales Outstanding ("DSO") plus Contract Asset Days ("CAD") plus Production Days Supply on Hand ("PDSOH") less Accounts Payable Days ("APD"). CCD, or a similar metric, is used in our industry and by our management to measure the efficiency of managing working capital. The following table summarizes our CCD for the quarterly periods indicated.

	Three Months Ended				
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
DSO	53	57	58	51	50
CAD	14	17	19	19	22
PDSOH	61	56	58	64	76
APD	64	64	60	58	67
CCD	64	66	75	76	81

We define DSO as the average of monthly trade accounts and notes receivable divided by an average day's net sales, CAD as the average monthly contract assets divided by an average day's net sales, PDSOH as the average of monthly gross inventory divided by an average day's cost of sales, and APD as the average of monthly accounts payable divided by an average day's cost of sales.

Cash Flows

The following table reflects the major categories of cash flows for the fiscal years ended June 30, 2021 and 2020.

	Year Ended June 30	
(Amounts in Millions)	2021	2020
Net cash provided by operating activities	\$ 130.1	\$ 72.8
Net cash used for investing activities	\$ (38.8)	\$ (38.5)
Net cash used for financing activities	\$ (53.1)	\$ (17.9)

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year ended June 30, 2021 was driven both by net income adjusted for non-cash items and changes in operating assets and liabilities. Net cash provided by operating activities for the fiscal year ended June 30, 2020 was primarily driven by net income adjusted for non-cash items. Changes in operating assets and liabilities provided \$40.4 million and \$7.9 million of cash for the fiscal years ended June 30, 2021 and 2020, respectively.

The cash provided of \$40.4 million from changes in operating assets and liabilities in fiscal year 2021 was primarily due to a decrease in contract assets, which provided cash of \$24.5 million as a result of the impact of timing of shipments and related billings to our customers, the decrease in inventory, which provided cash of \$18.6 million primarily due to the consumption of the inventory build at the end of the prior fiscal year in addition to the reimbursement from certain customers for the excess raw material inventory we purchased based on their forecasts during the ramp-up due to COVID-19, and the increase in accounts payable, which provided cash of \$14.6 million. Partially offsetting cash provided by contract assets and inventory was an increase in accounts receivable, which used cash of \$28.4 million primarily resulting from increased sales volumes and customer sales mix.

The cash provided of \$7.9 million from changes in operating assets and liabilities in fiscal year 2020 was primarily due to a decrease in accounts receivable, which provided cash of \$41.9 million largely due to the increased utilization of accounts receivable factoring arrangements. Partially offsetting cash provided by the decrease in accounts receivable was an increase in contract assets, which used cash of \$18.4 million to support the increased demand for medical assemblies in addition to certain contracts with customers beginning to meet the criteria to recognize revenue over time during the fiscal year, and an increase in inventory, which used cash of \$15.1 million primarily to support the increased demand for medical assemblies.

Cash Flows from Investing Activities

Net cash used for investing activities during fiscal year 2021 includes \$39.4 million cash used for capital investments. The capital investments were primarily for machinery and equipment for capacity purposes and to support new business awards in addition to capital investments for the beginning of expansions at our Thailand and Mexico facilities.

Net cash used for investing activities during fiscal year 2020 includes \$38.7 million cash used for capital investments. The capital investments were primarily for machinery and equipment for capacity purposes and to support new business awards.

Cash Flows from Financing Activities

Net cash used by financing activities for the fiscal year ended June 30, 2021 resulted largely from net payments on our credit facilities of \$52.3 million.

Net cash used by financing activities for the fiscal year ended June 30, 2020 resulted largely from net payments on our primary credit facility of \$11.4 million, repurchases of our common stock under an authorized stock repurchase plan, and the remittance of tax withholdings on share-based payments, which were partially offset by borrowings of \$3.3 million on our Netherlands facility.

Credit Facilities

The Company maintains a U.S. primary credit facility (the “primary credit facility”) among the Company, the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Documentation Agent, scheduled to mature July 27, 2023. The primary credit facility provides for \$150 million in borrowings, with an option to increase the amount available for borrowing to \$225 million at the Company’s request, subject to the consent of each lender participating in such increase.

The proceeds of the loans on the primary credit facility are to be used for working capital and general corporate purposes of the Company including capital expenditures and acquisitions. A portion of the credit facility, not to exceed \$15 million of the principal amount, was available for the issuance of letters of credit. A commitment fee on the unused portion of the principal amount of the credit facility was payable at a rate that ranged from 20.0 to 25.0 basis points per annum as determined by the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

The interest rate on borrowings is dependent on the type of borrowings and will be one of the following two options:

- the London Interbank Offered Rate (“LIBOR”) in effect two business days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined under the primary credit facility, plus the Eurocurrency Loans spread which can range from 125.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA; or
- the Alternate Base Rate (“ABR”), which is defined as the highest of the fluctuating rate per annum equal to the higher of
 - a. JPMorgan’s prime rate;
 - b. 1% per annum above the Adjusted LIBO Rate (as defined under the primary credit facility); or
 - c. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the primary credit facility);plus the ABR Loans spread which can range from 25.0 to 75.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

At June 30, 2021, we had \$62.7 million in borrowings under the primary credit facility and \$0.4 million in letters of credit against the primary credit facility. At June 30, 2021, \$40.0 million of the borrowings were classified as long term as the Company intends, and has the ability, to refinance for a period longer than twelve months. At June 30, 2020, we had \$111.4 million in borrowings under the primary credit facility and \$0.4 million in letters of credit against the primary credit facility, and \$91.5 million of the borrowings were classified as long term. Our debt classified as long term at June 30, 2021 declined \$51.5 million from June 30, 2020 as we remitted payment of \$46.5 million for borrowings under the primary credit facility and reclassified \$5.0 million of the borrowings under the primary credit facility to short term as we have the intent and the ability to repay within twelve months.

The Company's financial covenants under the primary credit facility require:

- a ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be greater than 3.0 to 1.0, and
- a fixed charge coverage ratio, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be less than 1.10 to 1.00.

We were in compliance with the financial covenants during the fiscal year ended June 30, 2021.

Kimball Electronics has foreign credit facilities available to satisfy short-term cash needs at specific foreign locations rather than funding from intercompany sources. These foreign credit facilities can be canceled at any time by either the bank or us. As of June 30, 2021, we maintained the following foreign credit facilities:

- A Thailand overdraft credit facility which allows for borrowings up to 2.4 million Thai Baht (approximately \$0.1 million at June 30, 2021 exchange rates). We had no borrowings outstanding under this credit facility as of June 30, 2021 or June 30, 2020.
- An uncommitted revolving credit facility for our Netherlands subsidiary, which allows for borrowings of up to 9.2 million Euro (approximately \$10.9 million at June 30, 2021 exchange rates) that can be drawn in Euro, U.S. dollars, or other optional currency. At June 30, 2021 and 2020, we had \$3.5 million and \$6.7 million, respectively, in borrowings outstanding under this credit facility. The facility matures on June 22, 2022.
- An uncommitted revolving credit facility for our Poland operation, which allows for borrowings up to 5 million Euro (approximately \$5.9 million at June 30, 2021 exchange rates) that can be drawn in Euro, U.S. dollars, or Polish Zloty. We had no borrowings outstanding under this credit facility as of June 30, 2021 or June 30, 2020. The facility matures on December 20, 2021.

During the current fiscal year, the 364-day multi-currency revolving credit facility (the "secondary credit facility") matured on May 18, 2021, which allowed for borrowings up to \$30.0 million. We did not extend the secondary credit facility as it was intended to provide additional domestic liquidity at the enterprise level to help support the increased demand in medical assemblies that is attributable to the COVID-19 pandemic, and we had no borrowings on the secondary credit facility during its term.

Factoring Arrangements

The Company may utilize accounts receivable factoring arrangements with third-party financial institutions in order to extend terms for the customer without negatively impacting our cash flow. These arrangements in all cases do not contain recourse provisions which would obligate us in the event of our customers' failure to pay. Receivables are considered sold when they are transferred beyond the reach of Kimball Electronics and its creditors, the purchaser has the right to pledge or exchange the receivables, and we have surrendered control over the transferred receivables. During the fiscal years ended June 30, 2021 and 2020, we sold, without recourse, \$306.3 million and \$280.7 million of accounts receivable, respectively. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information regarding the factoring arrangements.

Future Liquidity

We believe our principal sources of liquidity from available funds on hand, cash generated from operations, and the availability of borrowing under our credit facilities, will be sufficient to meet our working capital and other operating needs for at least the next 12 months. The unused borrowings in USD equivalent under all of our credit facilities totaled \$100.3 million at June 30, 2021. We expect to continue to prudently invest in capital expenditures, including for capacity expansions and potential acquisitions, that would help us continue our growth and development as a multifaceted manufacturing solutions company. In fiscal year 2021, we have approved capacity expansions at our Thailand and Mexico facilities. We are in a solid financial position to be able to weather the continuing impact of COVID-19; however, significant uncertainties and risks exist related to the severity and duration of its impact to certain markets, the supply chain, and global macroeconomic conditions.

At June 30, 2021, our capital expenditure commitments were approximately \$28 million, consisting primarily of commitments for the expansions of our Mexico and Thailand facilities, capital related to new program wins, and productivity improvements including automation. We anticipate our available liquidity will be sufficient to fund these capital expenditures.

We have purchase obligations that arise in the normal course of business for items such as raw materials, services, and software acquisitions/license commitments. In certain instances, such as when lead times dictate, we enter into contractual agreements for material in excess of the levels required to fulfill customer orders to help mitigate the potential impact related to component shortages, which require longer lead times. In turn, our material authorization agreements with customers cover a portion of the exposure for material which is purchased prior to having a firm order.

At June 30, 2021, our foreign operations held cash totaling \$105.2 million and the aggregate unremitted earnings of our foreign subsidiaries were approximately \$313 million. Most of these accumulated unremitted foreign earnings have been invested in active non-U.S. business operations, and we expect we may only repatriate a minor amount of these earnings to the United States in a tax-efficient manner. Our intent is to permanently reinvest the remaining funds outside of the United States, and our current plans do not demonstrate a need to repatriate these funds to our U.S. operations. However, if such funds were repatriated, a portion of the funds remitted may be subject to applicable non-U.S. income and withholding taxes.

On October 21, 2015, the Company's Board of Directors approved a resolution to authorize an 18-month stock repurchase plan (the "Plan") to allow the repurchase of up to \$20 million of common stock. Then, separately on each of September 29, 2016, August 23, 2017, November 8, 2018 and November 10, 2020, the Board extended and increased the Plan to allow the repurchase of up to an additional \$20 million worth of common stock with no expiration date, which brought the total authorized stock repurchases under the Plan to \$100 million. The Plan may be suspended or discontinued at any time. The extent to which the Company repurchases its shares, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements, and other corporate considerations, as determined by the Company's management team. The Company expects to finance the purchases with existing liquidity. The Company has repurchased \$79.7 million of common stock under the Plan through June 30, 2021.

Our ability to generate cash from operations to meet our liquidity obligations could be adversely affected in the future by factors such as general economic and market conditions, lack of availability of raw material components in the supply chain, a decline in demand for our services, loss of key contract customers, unsuccessful integration of acquisitions and new operations, global health emergencies such as the COVID-19 pandemic, the duration and severity of the COVID-19 pandemic and the related uncertainties around the financial impact, and other unforeseen circumstances. In particular, should demand for our customers' products and, in turn, our services decrease significantly over the next 12 months, the available cash provided by operations could be adversely impacted.

The preceding statements include forward-looking statements under the Private Securities Litigation Reform Act of 1995. Certain factors could cause actual results to differ materially from forward-looking statements.

Fair Value

During fiscal year 2021, no level 1 or level 2 financial instruments were affected by a lack of market liquidity. For level 1 financial assets, readily available market pricing was used to value the financial instruments. Our foreign currency derivative assets and liabilities, which were classified as level 2, were independently valued using observable market inputs such as forward interest rate yield curves, current spot rates, and time value calculations. To verify the reasonableness of the independently determined fair values, these derivative fair values were compared to fair values calculated by the counterparty banks. Our own credit risk and counterparty credit risk had an immaterial impact on the valuation of the foreign currency derivatives. See Note 13 - Fair Value of Notes to Consolidated Financial Statements for more information.

Off-Balance Sheet Arrangements

As of June 30, 2021, we do not have any material off-balance sheet arrangements.

Critical Accounting Policies

Kimball Electronics' Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the Consolidated Financial Statements and related notes. Actual results could differ from these estimates and assumptions. Management uses its best judgment in the assumptions used to value these estimates, which are based on current facts and circumstances, prior experience, and other assumptions that are believed to be reasonable. Management believes the following critical accounting policies reflect the more significant judgments and estimates used in preparation of our Consolidated Financial Statements and are the policies that are most critical in the portrayal of our financial position and results of operations. Management has discussed these critical accounting policies and estimates with the Audit Committee of the Company's Board of Directors and with the Company's independent registered public accounting firm.

Revenue recognition - Kimball Electronics recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services and products. The majority of our revenue is recognized over time as manufacturing services are performed where we manufacture a product with no alternative use and have an enforceable right to payment for performance completed to date. The remaining revenue is recognized when the customer obtains control of the manufactured product. We have elected to account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, we record customer payments of shipping and handling costs as a component of net sales and classify such costs as a component of cost of sales. We recognize sales net of applicable sales or value add taxes. Based on estimated product returns and price concessions, a reserve for returns and allowances is recorded at the time revenue is recognized, resulting in a reduction of revenue.

Goodwill and Other Intangible Assets - Goodwill, \$12.0 million as of both June 30, 2021 and 2020 represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, goodwill is tested at the reporting unit level. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is written down to its estimated fair value. No impairment charges were recorded in fiscal year 2021 resulting from our annual impairment tests for all reporting units. In fiscal year 2020, we reported a \$7.9 million goodwill impairment charge for our GES reporting unit, partially offset by a \$1.0 million reduction in income tax expense associated with the deferred tax asset established for the deductible portion of the impaired goodwill.

Other Intangible Assets, \$17.0 million and \$19.3 million as of June 30, 2021 and 2020, respectively, are reported on the Consolidated Balance Sheets and consist of capitalized software, customer relationships, technology, and trade name. Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets.

See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for further discussion of the Company's goodwill and intangible asset accounting policies, along with Note 6 - Goodwill and Other Intangible Assets for further discussion of the calculated fiscal year 2020 goodwill impairment charge.

Taxes - Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. We evaluate the recoverability of our deferred tax assets each quarter by assessing the likelihood of future taxable income and available tax planning strategies that could be implemented to realize our deferred tax assets. If recovery is not likely, we provide a valuation allowance based on our best estimate of future taxable income in the various taxing jurisdictions and the amount of deferred taxes ultimately realizable. Future events could change management's assessment.

We operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. However, we believe we have made adequate provision for income and other taxes for all years that are subject to audit. As tax positions are effectively settled, the tax provision will be adjusted accordingly. The liability for uncertain income tax and other tax positions, including accrued interest and penalties on those positions, was \$3.0 million and \$4.5 million at June 30, 2021 and June 30, 2020, respectively.

New Accounting Standards

See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for information regarding New Accounting Standards.

Item 7A - *Quantitative and Qualitative Disclosures About Market Risk*

Foreign Exchange Rate Risk: Kimball Electronics operates internationally and thus is subject to potentially adverse movements in foreign currency rate changes. Our risk management strategy includes the use of derivative financial instruments to hedge certain foreign currency exposures. Derivatives are used only to manage underlying exposures and are not used in a speculative manner. Further information on derivative financial instruments is provided in Note 14 - Derivative Instruments of Notes to Consolidated Financial Statements. We estimate that a hypothetical 10% adverse change in foreign currency exchange rates from levels at June 30, 2021 relative to non-functional currency balances of monetary instruments, to the extent not hedged by derivative instruments, would not have a material impact on profitability in an annual period.

Interest Rate Risk: Our primary exposure to market risk for changes in interest rates relates to our primary credit facility, described further in Note 8 - Credit Facilities of Notes to Consolidated Financial Statements, as the interest rates paid for borrowings are determined at the time of borrowing based on market indices. Therefore, although we can elect to fix the interest rate at the time of borrowing, the facility does expose us to market risk for changes in interest rates. We estimate that a hypothetical 10% change in interest rates on borrowing levels at June 30, 2021 would not have a material impact of profitability in an annual period. The interest rate on certain borrowings under our credit facilities, including our primary credit facility, are based on LIBOR. The United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR. In March 2021, the administrator of LIBOR, the ICE Benchmark Administration, announced that it will cease publication of (i) the overnight and 1, 3, 6, and 12 months U.S. dollar LIBOR settings after June 30, 2023 and (ii) all other LIBOR settings, including the 1 week and 2 months U.S. dollar LIBOR settings, after December 31, 2021. If LIBOR is discontinued and we transition to a new rate, interest rates on our current or future indebtedness may be adversely affected. The Company is monitoring these developments.

Item 8 - Financial Statements and Supplementary Data

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Kimball Electronics, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting and for the preparation and integrity of the accompanying financial statements and other related information in this report. The consolidated financial statements of the Company and its subsidiaries, including the footnotes, were prepared in accordance with accounting principles generally accepted in the United States of America and include judgments and estimates, which in the opinion of management are applied on an appropriately conservative basis. We maintain a system of internal and disclosure controls intended to provide reasonable assurance that assets are safeguarded from loss or material misuse, transactions are authorized and recorded properly, and that the accounting records may be relied upon for the preparation of the financial statements. This system is tested and evaluated regularly for adherence and effectiveness by employees who work within the internal control processes and by our staff of internal auditors.

The Audit Committee of the Board of Directors, which is comprised of directors who are not employees of the Company, meets regularly with management, our internal auditors, and the independent registered public accounting firm to review our financial policies and procedures, our internal control structure, the objectivity of our financial reporting, and the independence of the independent registered public accounting firm. The internal auditors and the independent registered public accounting firm have free and direct access to the Audit Committee, and they meet periodically, without management present, to discuss appropriate matters.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation.

These consolidated financial statements are subject to an evaluation of internal control over financial reporting conducted under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, conducted under the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that our internal control over financial reporting was effective as of June 30, 2021.

/s/ DONALD D. CHARRON

Donald D. Charron
Chairman of the Board,
Chief Executive Officer
August 27, 2021

/s/ JANA T. CROOM

Jana T. Croom
Vice President,
Chief Financial Officer
August 27, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Share Owners and the Board of Directors of Kimball Electronics, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kimball Electronics, Inc. and subsidiaries (the “Company”) as of June 30, 2021 and 2020, the related consolidated statements of income, comprehensive income, share owners’ equity, and cash flows, for each of the three years in the period ended June 30, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of June 30, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2021, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management’s report on internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition - Contracts Recognized Over Time - Refer to Notes 1 and 3 to the financial statements

Critical Audit Matter Description

The majority of the Company's revenue is recognized over time as manufacturing services are performed when the Company manufactures a product to customer specifications with no alternative use and for which the Company has an enforceable right to payment for performance completed to date. The Company generally recognizes revenue over time using costs based input methods to depict the Company's progress towards meeting its performance obligations, in which judgement is required to evaluate assumptions including the anticipated margins to estimate the corresponding amount of revenue to recognize.

The timing differences of revenue recognition, billings to the Company's customers, and cash collections from the Company's customers result in billed accounts receivable and unbilled accounts receivable. Contract assets on the consolidated balance sheets relate to unbilled accounts receivable and occur when revenue is recognized over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date, which are generally transferred to receivables in the next fiscal quarter due to the short-term nature of the manufacturing cycle. The contract asset balance was \$45.9 million as of June 30, 2021.

We identified the Company's revenue recognition over time for contracts with customers as a critical audit matter because of the judgments required to evaluate assumptions including the anticipated margins to estimate the corresponding amount of revenue to recognize and contract assets to record. This required an increased extent of audit effort due to the significant number of contracts on which the Company recognizes revenue over time, and a high degree of auditor judgment when performing procedures to audit management's estimate of anticipated margins used to recognize revenue over time and evaluating the results of those procedures.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimates of the anticipated margins used to recognize revenue over time and record contract assets included the following, among others:

- We tested the effectiveness of controls over the Company's recognition of revenues over time and the related contract asset balance, including management's process for estimating the anticipated margins for products manufactured to customer specifications for which the Company has an enforceable right to payment for performance completed to date.
- We evaluated management's ability to estimate revenue accurately by comparing actual margins to management's historical estimates for completed contracts.
- We selected a sample of contracts with customers and performed the following:
 - Evaluated whether the contracts with customers were properly included or excluded in management's calculation of over time contract revenue based on the terms and conditions of each contract, including whether the Company determined the product has no alternative use and that the Company has an enforceable right to payment for performance completed to date.
 - Compared the transaction prices to the consideration expected to be received based on current rights and obligations under the contracts and any modifications that were agreed upon with the customers.
 - Tested the accuracy and completeness of the costs incurred to date for the respective performance obligations, by comparing the quantities on hand and standard cost per the calculation to the Company's perpetual inventory information.
 - Evaluated the calculation of the amount of revenue to recognize for the performance obligation by:
 - Evaluating the reasonableness of management's anticipated margins used in the Company's calculation of revenue for performance obligations
 - Evaluating the appropriateness and consistency of the methods and assumptions used by management to develop the estimates of anticipated margin at completion
- We tested the mathematical accuracy of management's calculation of revenue recognized over time and the related contract asset balance.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Indianapolis, Indiana

August 27, 2021

We have served as the Company's auditor since 2014.

KIMBALL ELECTRONICS, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except for Share Data)

	<u>June 30,</u> <u>2021</u>	<u>June 30,</u> <u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 106,442	\$ 64,990
Receivables, net of allowances of \$177 and \$523, respectively	203,382	180,133
Contract assets	45,863	70,350
Inventories	200,386	219,043
Prepaid expenses and other current assets	27,320	23,891
Total current assets	<u>583,393</u>	<u>558,407</u>
Property and Equipment, net of accumulated depreciation of \$264,907 and \$236,373, respectively	163,251	154,529
Goodwill	12,011	12,011
Other Intangible Assets, net of accumulated amortization of \$35,813 and \$32,756, respectively	17,008	19,343
Other Assets	38,398	30,539
Total Assets	<u>\$ 814,061</u>	<u>\$ 774,829</u>
LIABILITIES AND SHARE OWNERS' EQUITY		
Current Liabilities:		
Current portion of borrowings under credit facilities	\$ 26,214	\$ 26,638
Accounts payable	216,544	203,703
Accrued expenses	58,016	42,264
Total current liabilities	<u>300,774</u>	<u>272,605</u>
Other Liabilities:		
Long-term debt under credit facilities, less current portion	40,000	91,500
Long-term income taxes payable	8,854	9,765
Other long-term liabilities	22,461	21,594
Total other liabilities	<u>71,315</u>	<u>122,859</u>
Share Owners' Equity:		
Preferred stock-no par value		
Shares authorized: 15,000,000		
Shares issued: None	—	—
Common stock-no par value		
Shares authorized: 150,000,000		
Shares issued: 29,430,000	—	—
Additional paid-in capital	308,123	306,808
Retained earnings	208,969	152,178
Accumulated other comprehensive loss	(4,883)	(10,551)
Treasury stock, at cost:		
Shares: 4,473,000 and 4,443,000, respectively	<u>(70,237)</u>	<u>(69,070)</u>
Total Share Owners' Equity	<u>441,972</u>	<u>379,365</u>
Total Liabilities and Share Owners' Equity	<u>\$ 814,061</u>	<u>\$ 774,829</u>

See Notes to Consolidated Financial Statements

KIMBALL ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Per Share Data)

	Year Ended June 30		
	2021	2020	2019
Net Sales	\$ 1,291,807	\$ 1,200,550	\$ 1,181,844
Cost of Sales	1,173,772	1,116,709	1,093,438
Gross Profit	118,035	83,841	88,406
Selling and Administrative Expenses	52,704	43,920	46,653
Other General Income	(372)	—	(307)
Goodwill Impairment	—	7,925	—
Operating Income	65,703	31,996	42,060
Other Income (Expense):			
Interest income	102	60	62
Interest expense	(2,165)	(4,421)	(4,069)
Non-operating income	7,929	2,103	1,483
Non-operating expense	(1,515)	(4,581)	(1,051)
Other income (expense), net	4,351	(6,839)	(3,575)
Income Before Taxes on Income	70,054	25,157	38,485
Provision for Income Taxes	13,263	6,961	6,927
Net Income	<u>\$ 56,791</u>	<u>\$ 18,196</u>	<u>\$ 31,558</u>
Earnings Per Share of Common Stock:			
Basic	\$ 2.26	\$ 0.72	\$ 1.22
Diluted	\$ 2.24	\$ 0.71	\$ 1.21
Average Number of Shares Outstanding:			
Basic	25,088	25,243	25,857
Diluted	25,284	25,428	26,082

See Notes to Consolidated Financial Statements

KIMBALL ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Year Ended June 30, 2021			Year Ended June 30, 2020			Year Ended June 30, 2019		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Net Income			\$ 56,791			\$ 18,196			\$ 31,558
Other Comprehensive Income (Loss):									
Foreign currency translation adjustments	\$ 5,671	\$ —	\$ 5,671	\$ (1,046)	\$ —	\$ (1,046)	\$ (2,491)	\$ —	\$ (2,491)
Postemployment actuarial change	(718)	212	(506)	122	(35)	87	447	(108)	339
Derivative gain (loss)	335	(221)	114	(2,079)	509	(1,570)	3,337	(699)	2,638
Reclassification to (earnings) loss:									
Derivatives	814	(101)	713	(64)	(22)	(86)	(1,066)	209	(857)
Amortization of actuarial change	(428)	104	(324)	(406)	98	(308)	(472)	114	(358)
Other Comprehensive Income (Loss)	\$ 5,674	\$ (6)	\$ 5,668	\$ (3,473)	\$ 550	\$ (2,923)	\$ (245)	\$ (484)	\$ (729)
Total Comprehensive Income			<u>\$ 62,459</u>			<u>\$ 15,273</u>			<u>\$ 30,829</u>

See Notes to Consolidated Financial Statements

KIMBALL ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Year Ended June 30		
	2021	2020	2019
Cash Flows From Operating Activities:			
Net income	\$ 56,791	\$ 18,196	\$ 31,558
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization	34,020	30,872	28,873
Loss (gain) on sales of assets	66	69	(4)
Deferred income tax and other deferred charges	(5,783)	(1,070)	(1,541)
Deferred tax valuation allowance	165	979	20
Goodwill impairment	—	7,925	—
Stock-based compensation	3,907	4,039	5,678
Net working capital adjustment on acquisition	—	3,785	—
Other, net	520	159	431
Change in operating assets and liabilities:			
Receivables	(28,391)	41,928	(36,535)
Contract assets	24,487	(18,421)	(8,688)
Inventories	18,589	(15,053)	(35,094)
Prepaid expenses and other assets	(1,729)	(1,519)	(6,284)
Accounts payable	14,599	3,622	8,001
Accrued expenses and taxes payable	12,854	(2,703)	6,837
Net cash provided by (used for) operating activities	130,095	72,808	(6,748)
Cash Flows From Investing Activities:			
Capital expenditures	(38,382)	(38,364)	(24,665)
Proceeds from sales of assets	513	158	1,036
Payments for acquisitions, net of cash acquired	—	—	(43,889)
Purchases of capitalized software	(970)	(385)	(1,178)
Other, net	43	109	(13)
Net cash used for investing activities	(38,796)	(38,482)	(68,709)
Cash Flows From Financing Activities:			
Proceeds from credit facilities	—	—	91,500
Payments on credit facilities	(46,500)	—	(12,843)
Additional net change in revolving credit facilities	(5,768)	(8,083)	26,415
Settlements on previous year acquisition	2,957	—	—
Repurchases of common stock	(2,996)	(8,794)	(23,431)
Payments related to tax withholding for stock-based compensation	(771)	(1,012)	(1,766)
Debt issuance costs	—	(45)	(445)
Net cash (used for) provided by financing activities	(53,078)	(17,934)	79,430
Effect of Exchange Rate Change on Cash and Cash Equivalents	3,231	(678)	(1,125)
Net Increase in Cash and Cash Equivalents	41,452	15,714	2,848
Cash and Cash Equivalents at Beginning of Year	64,990	49,276	46,428
Cash and Cash Equivalents at End of Year	\$ 106,442	\$ 64,990	\$ 49,276

See Notes to Consolidated Financial Statements

KIMBALL ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF SHARE OWNERS' EQUITY
(Amounts in Thousands, Except for Share Data)

	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Share Owners' Equity
Amounts at June 30, 2018	\$ 304,215	\$ 99,374	\$ (6,899)	\$ (41,163)	\$ 355,527
Net income		31,558			31,558
Other comprehensive income (loss)			(729)		(729)
Cumulative effect of accounting change		3,050			3,050
Issuance of non-restricted stock (4,000 shares) . . .	28			44	72
Compensation expense related to stock compensation plans	5,569				5,569
Performance share issuance (203,000 shares)	(3,895)			2,133	(1,762)
Repurchase of Common Stock (1,320,000 shares) .				(23,431)	(23,431)
Amounts at June 30, 2019	\$ 305,917	\$ 133,982	\$ (7,628)	\$ (62,417)	\$ 369,854
Net income		18,196			18,196
Other comprehensive income (loss)			(2,923)		(2,923)
Issuance of non-restricted stock (4,000 shares)	22			48	70
Compensation expense related to stock compensation plans	3,948				3,948
Performance share issuance (184,000 shares)	(3,047)			2,061	(986)
Deferred share issuance (3,000 shares)	(32)			32	—
Repurchase of Common Stock (623,000 shares) .				(8,794)	(8,794)
Amounts at June 30, 2020	\$ 306,808	\$ 152,178	\$ (10,551)	\$ (69,070)	\$ 379,365
Net income		56,791			56,791
Other comprehensive income (loss)			5,668		5,668
Issuance of non-restricted stock (4,000 shares)	19			47	66
Compensation expense related to stock compensation plans	3,850				3,850
Performance share issuance (156,000 shares)	(2,524)			1,752	(772)
Deferred share issuance (3,000 shares)	(30)			30	—
Repurchase of Common Stock (193,000 shares)				(2,996)	(2,996)
Amounts at June 30, 2021	<u>\$ 308,123</u>	<u>\$ 208,969</u>	<u>\$ (4,883)</u>	<u>\$ (70,237)</u>	<u>\$ 441,972</u>

See Notes to Consolidated Financial Statements

KIMBALL ELECTRONICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Business Description and Summary of Significant Accounting Policies

Business Description:

Kimball Electronics, Inc. (also referred to herein as “Kimball Electronics,” the “Company,” “we,” “us,” or “our”) is a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We offer a package of value that begins with our core competency of producing durable electronics and includes our set of robust processes and procedures that help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We further offer diversified contract manufacturing services for non-electronic components, medical devices, medical disposables, precision molded plastics, and production automation, test, and inspection equipment. We are well recognized by customers and industry trade publications for our excellent quality, reliability, and innovative service.

The Company acquired GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as “GES”) on October 1, 2018, which specialize in design, production, and servicing of automation, test, and inspection equipment for industrial applications in the semiconductor, electronics, and life sciences industries.

Principles of Consolidation:

The Consolidated Financial Statements include the accounts of all domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation. The operating results of the GES acquisition are included in the Consolidated Financial Statements beginning as of the acquisition date of October 1, 2018.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts included in the Consolidated Financial Statements and related note disclosures. While efforts are made to assure estimates used are reasonably accurate based on management’s knowledge of current events, actual results could differ from those estimates. We have made estimates and assumptions considering the impact of the COVID-19 pandemic on our business. These estimates may change as new events occur and more information is obtained.

Segment Information:

Kimball Electronics has business units located in the United States, China, Mexico, Poland, Romania, and Thailand, and each of these business units qualify as operating segments. In addition, GES has operations located in the United States, China, India, Japan, and Vietnam. The GES operations qualify as a single operating segment with its group results regularly reviewed by our chief operating decision maker, which is our Chief Executive Officer.

Our operating segments meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2021, all of our operating segments provide contract manufacturing services, including engineering and supply chain support, for the production of electronic assemblies and other products including medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment primarily in automotive, medical, industrial, and public safety applications, to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products have similar characteristics across all our operating segments. Each of our operating segments service customers in multiple markets, and many of our customers’ programs are manufactured and serviced by multiple operating segments. We leverage global processes such as component procurement and customer pricing that provide commonality and consistency among the various regions in which we operate. All of our operating segments have similar long-term economic characteristics, and as such, have been aggregated into one reportable segment.

Revenue Recognition:

We recognize revenue in accordance with the standard issued by the Financial Accounting Standards Board (“FASB”), Revenue from Contracts with Customers and all the related amendments. Our revenue from contracts with customers is generated primarily from manufacturing services provided for the production of electronic assemblies, components, medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment built to customer’s specifications. Our customer agreements are generally not for a definitive term but continue for the relevant product’s life cycle. Typically, our customer agreements do not commit the customer to purchase our services until a purchase order is provided, which is generally short term in nature. Customer purchase orders primarily have a single performance obligation. Generally, the prices stated in the customer purchase orders are agreed upon prices for the manufactured product and do not vary over the term of the order, and therefore, the majority of our contracts do not contain variable consideration. In limited circumstances, we may enter into a contract which contains minimum quantity thresholds to cover our capital costs, and we may offer our customer a rebate for specific volume thresholds or other incentives; in these cases, the rebates or incentives are accounted for as variable consideration.

The majority of our revenue is recognized over time as manufacturing services are performed as we manufacture a product to customer specifications with no alternative use and we have an enforceable right to payment for performance completed to date. The remaining revenue for manufacturing services is recognized when the customer obtains control of the product, typically either upon shipment or delivery of the product dependent on the terms of the contract, and the customer is able to direct the use of and obtain substantially all of the remaining benefits from the asset. We generally recognize revenue over time using costs based input methods, in which judgment is required to evaluate assumptions including anticipated margins to estimate the corresponding amount of revenue to recognize. Costs used as a basis for estimating anticipated margins include material, direct and indirect labor, and appropriate applied overheads. Anticipated margins are determined based on historical or quoted customer pricing. Costs based input methods are considered a faithful depiction of our efforts and progress toward satisfying our performance obligations for manufacturing services and for which we believe we are entitled to payment for performance completed to date. The cumulative effect of revisions to estimates related to net contract revenues or costs are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated.

We have elected to account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated services and products. Accordingly, we record customer payments of shipping and handling costs as a component of net sales and classify such costs as a component of cost of sales. We recognize sales net of applicable sales or value add taxes. Based on estimated product returns and price concessions, a reserve for returns and allowances is recorded at the time revenue is recognized, resulting in a reduction of net revenue.

Direct incremental costs to obtain and fulfill a contract are capitalized as a contract asset only if they are material, expected to be recovered, and are not accounted for in accordance with other guidance. Incidental items that are immaterial in the context of the contract are recognized as expense in the period incurred.

Cash and Cash Equivalents:

Cash equivalents consist primarily of highly liquid investments with original maturities of three months or less at the time of acquisition. Cash and cash equivalents consist of bank accounts and money market funds. Bank accounts are stated at cost, which approximates fair value, and money market funds are stated at fair value.

Trade Accounts Receivable:

The Company’s trade accounts receivable are recorded per the terms of the agreement or sale, and accrued interest is recognized when earned. Our policy for estimating the allowance for credit losses on trade accounts receivable includes analysis of such items as aging, credit worthiness, payment history, and historical bad debt experience. Management uses these specific analyses in conjunction with an evaluation of the general economic and market conditions to estimate expected credit losses. Management believes that historical loss information generally provides a basis for its assessment of expected credit losses. Trade accounts receivable are written off after exhaustive collection efforts occur and the receivable is deemed uncollectible. See section entitled “New Accounting Standards” below for information on the adoption of the new accounting standard for the measurement of credit losses. Adjustments to the allowance for credit losses are recorded in Selling and Administrative Expenses on our Consolidated Statements of Income.

In the ordinary course of business, customers periodically negotiate extended payment terms on trade accounts receivable. Customary terms require payment within 30 to 45 days, with any terms beyond 45 days being considered extended payment terms. We utilize factoring arrangements with third-party financial institutions for certain of our accounts receivables in order to extend terms for the customer without negatively impacting our cash flow. These arrangements in all cases do not contain recourse provisions which would obligate us in the event of our customers’ failure to pay. Receivables are considered sold

when they are transferred beyond the reach of Kimball Electronics and its creditors, the purchaser has the right to pledge or exchange the receivables, and we have surrendered control over the transferred receivables. During fiscal years 2021, 2020, and 2019, we sold, without recourse, \$306.3 million, \$280.7 million, and \$261.2 million of accounts receivable, respectively. Factoring fees were \$1.2 million, \$1.9 million, and \$1.7 million during fiscal years 2021, 2020, and 2019, respectively, and were included in Selling and Administrative Expenses on the Consolidated Statements of Income.

One of our China operations, in limited circumstances, may receive banker's acceptance drafts from customers as payment on account. The banker's acceptance drafts are non-interest bearing and primarily mature within six months from the origination date. The Company has the ability to sell the drafts at a discount or transfer the drafts in settlement of current accounts payable prior to the scheduled maturity date. These drafts, which totaled less than \$0.1 million at June 30, 2021 and \$7.1 million at June 30, 2020, are reflected in Receivables on the Consolidated Balance Sheets until the banker's drafts are sold at a discount, transferred in settlement of current accounts payable, or cash is received at maturity. Banker's acceptance drafts sold at a discount or transferred in settlement of current accounts payable during fiscal years 2021, 2020, and 2019 were \$1.8 million, \$6.8 million, and \$2.7 million, respectively. See Note 7 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements for more information on banker's acceptance drafts.

Inventories:

Inventories are stated at the lower of cost and net realizable value. Cost includes material, labor, and applicable manufacturing overhead. Costs associated with underutilization of capacity are expensed as incurred. Inventories are valued using the first-in, first-out ("FIFO") method. Inventories are adjusted for excess and obsolete inventory. Evaluation of excess inventory includes such factors as anticipated usage, inventory turnover, inventory levels, and product demand levels. Factors considered when evaluating obsolescence include the age of on-hand inventory and reduction in value due to damage, design changes, or cessation of product lines.

Property, Equipment, and Depreciation:

Property and equipment are stated at cost less accumulated depreciation and depreciated over the estimated useful life of the assets using the straight-line method. Generally, maintenance and repairs are expensed as incurred. Depreciation and expenses for maintenance and repairs are included in both Cost of Sales and Selling and Administrative Expense on the Consolidated Statements of Income.

Impairment of Long-Lived Assets:

We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair market value less cost to sell at the date management commits to a plan of disposal. Impairment of long-lived assets was not material during fiscal years 2021, 2020, and 2019.

Goodwill:

Goodwill represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, goodwill is assessed or tested at the reporting unit level. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is written down to its estimated fair value.

To test for goodwill impairment, we use a combination of the Income Approach and the Market Approach. The discounted cash flow method (Income Approach) uses forecasted information based on management's strategic plans and projections. Discount rates are developed using a weighted average cost of capital ("WACC") methodology. The WACC represents the blended average required rate of return for equity and debt capital based on observed market return data and company specific risk factors. In the Market Approach, fair value is determined using transactional evidence for similar publicly traded equity. See Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for more information on our goodwill impairment tests.

Other Intangible Assets:

Other Intangible Assets reported on the Consolidated Balance Sheets consist of capitalized software, customer relationships, technology, and trade name. Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Internal-use software is stated at cost less accumulated amortization and is amortized using the straight-line method.

During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, and could include internal payroll and payroll-related costs for employees who are directly associated with a software project. Upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion, and business process reengineering costs are expensed in the period in which they are incurred. We have not recognized impairment on other intangible assets during fiscal years 2021, 2020, or 2019.

Leases:

The Company leases certain office, manufacturing, and warehouse facilities under operating leases, in addition to land on which certain office and manufacturing facilities resides. These operating leases expire from fiscal year 2022 to 2057. Operating lease costs and cash payments for operating leases are immaterial to the Consolidated Statements of Income and our Consolidated Statements of Cash Flows. Lease right-of-use assets and lease liabilities each totaled \$1.6 million and \$2.0 million at June 30, 2021 and June 30, 2020, respectively. Lease right-of-use assets are included in Other Assets and lease liabilities are included in Accrued expenses and Other long-term liabilities on the Consolidated Balance Sheets. The future undiscounted operating lease payments as of June 30, 2021 were \$0.7 million, \$0.3 million, \$0.2 million, \$0.1 million, and \$0.1 million for the five years ended June 30, 2026, and \$0.3 million thereafter.

Research and Development:

The costs of research and development are expensed as incurred. Research and development costs were approximately, in millions, \$21, \$17, and \$15 in fiscal years 2021, 2020, and 2019, respectively.

Insurance and Self-insurance:

We are self-insured up to certain limits for general liability, workers' compensation, and certain domestic employee health benefits including medical, short-term disability, and dental, with the related liabilities included in the accompanying financial statements. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims, and other analyses, which are based on historical information along with certain assumptions about future events. Approximately 20% of the workforce is covered under self-insured medical and short-term disability plans. At June 30, 2021 and 2020, accrued liabilities for self-insurance exposure were \$1.1 million and \$1.6 million, respectively.

The remainder of our workforce not covered by self-insured plans have medical and disability coverage through either our external plans or government plans. Insurance benefits are not provided to retired employees.

Income Taxes:

Deferred income tax assets and liabilities, recorded in Other Assets and Other long-term liabilities, respectively, in the Consolidated Balance Sheets, are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. We evaluate the recoverability of deferred tax assets each quarter by assessing the likelihood of future taxable income and available tax planning strategies that could be implemented to realize our deferred tax assets. If recovery is not likely, we provide a valuation allowance based on our best estimate of future taxable income in the various taxing jurisdictions and the amount of deferred taxes ultimately realizable. Future events could change management's assessment.

We operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex uncertain tax positions, which may require an extended period of time to resolve. A tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. We maintain a liability for uncertain income tax and other tax positions, including accrued interest and penalties on those positions. As tax positions are effectively settled, the tax liability is adjusted accordingly. We recognize interest and penalties related to unrecognized tax benefits in Provision for Income Taxes on the Consolidated Statements of Income. See Note 11 - Income Taxes of Notes to Consolidated Financial Statements for more information on income taxes.

Concentrations of Credit Risk:

We have business and credit risks associated with our customers. The Company monitors credit quality and associated risks of receivables on an individual basis based on criteria such as financial stability of the party and collection experience in conjunction with general economic and market conditions.

A summary of significant customers' net sales and trade receivables as a percentage of consolidated net sales and consolidated trade receivables is as follows:

	Net Sales			Trade Receivables	
	Year Ended June 30			As of June 30	
	2021	2020	2019	2021	2020
Nexteer Automotive	17%	14%	12%	24%	17%
Philips	15%	16%	14%	*	*
ZF	*	*	12%	11%	*

* amount is less than 10% of total

Off-Balance Sheet Risk:

Off-balance sheet arrangements are limited to banker's acceptance drafts transferred with recourse provisions at one of the Company's China operations and standby letters of credit entered into in the normal course of business as described in Note 7 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements.

Other General Income:

Other General Income in fiscal years 2021 and 2019 consisted of \$0.4 million and \$0.3 million, respectively, resulting from payments received related to class action lawsuits in which Kimball Electronics was a class member, partially offset by lawsuit settlement accruals and payments in fiscal year 2021. We recorded no Other General Income during fiscal year 2020.

Non-operating Income and Expense:

Non-operating income and expense include the impact of such items as foreign currency rate movements and related derivative gain or loss, fair value adjustments on supplemental employee retirement plan ("SERP") investments, government subsidies, bank charges, and other miscellaneous non-operating income and expense items that are not directly related to operations. The gain or loss on SERP investments is offset by a change in the SERP liability that is recognized in Selling and Administrative Expense. Non-operating income in fiscal year 2021 included \$4.8 million in net gains from foreign currency rate movements and related derivative gain or loss. Non-operating expense in fiscal year 2020 included a \$3.8 million net working capital adjustment recorded after the end of the measurement period of the GES acquisition that was determined through the dispute resolution procedure provided for under the terms of the asset purchase agreement. See Note 2 - Acquisition of Notes to Consolidated Financial Statements for more information on the net working capital adjustment.

Foreign Currency Translation:

The Company predominantly uses the U.S. dollar and Euro as its functional currencies. Foreign currency assets and liabilities are remeasured into functional currencies at end-of-period exchange rates, except for nonmonetary assets and equity, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at the weighted average exchange rate during the fiscal year, except for expenses related to nonmonetary assets, which are remeasured at historical exchange rates. Gains and losses from foreign currency remeasurement are reported in Non-operating income or expense on the Consolidated Statements of Income.

For business units whose functional currency is other than the U.S. dollar, the translation of functional currency statements to U.S. dollar statements uses end-of-period exchange rates for assets and liabilities, weighted average exchange rates for revenue and expenses, and historical rates for equity. The resulting currency translation adjustment is recorded in Accumulated Other Comprehensive Income (Loss), as a component of Share Owners' Equity.

Derivative Instruments and Hedging Activities:

Derivative financial instruments are recognized on the balance sheet as assets and liabilities and are measured at fair value. Changes in the fair value of derivatives are recorded each period in earnings or Accumulated Other Comprehensive Income (Loss), depending on whether a derivative is designated and effective as part of a hedge transaction, and if it is, the type of hedge transaction. Hedge accounting is utilized when a derivative is expected to be highly effective upon execution and continues to be highly effective over the duration of the hedge transaction. Hedge accounting permits gains and losses on derivative instruments to be deferred in Accumulated Other Comprehensive Income (Loss) and subsequently included in earnings in the periods in which earnings are affected by the hedged item. We use derivatives primarily for forward purchases of foreign currency to manage exposure to the variability of cash flows, primarily related to the foreign exchange rate risks

inherent in forecasted transactions denominated in foreign currency. Cash receipts and cash payments related to derivative instruments are recorded in the same category as the cash flows from the items being hedged on the Consolidated Statements of Cash Flows. See Note 14 - Derivative Instruments of Notes to Consolidated Financial Statements for more information on derivative instruments and hedging activities.

Stock-Based Compensation:

As described in Note 10 - Stock Compensation Plans of Notes to Consolidated Financial Statements, the Company maintains the 2014 Stock Option and Incentive Plan, which allows for the issuance of incentive stock options, stock appreciation rights, restricted shares, unrestricted shares, restricted share units, or performance shares and performance units for grant to officers and other key employees, and to members of the Board of Directors who are not employees. The Company also maintains the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (the "Deferral Plan"), which allows Non-Employee Directors to elect to defer all, or a portion of, their retainer fees in stock. We recognize the cost resulting from share-based payment transactions using a fair-value-based method. The estimated fair value of outstanding performance shares is based on the stock price at the date of the grant. Stock-based compensation expense is recognized for the portion of the award for which performance targets have been established and is expected to vest. The Company has elected to account for forfeitures by reversing the compensation costs at the time a forfeiture occurs.

New Accounting Standards:

Adopted in Fiscal Year 2021:

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance on the Measurement of Credit Losses on Financial Instruments, which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. We adopted this standard effective July 1, 2020, the beginning of our first quarter of fiscal year 2021, and the adoption did not have a material effect on our Consolidated Financial Statements.

In August 2018, the FASB issued guidance on Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This new guidance amends the accounting for implementation, setup, and other upfront costs incurred in a cloud computing hosting arrangement. The amendment aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendment also requires companies to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including options to extend the agreement that is in control of the customer. We adopted this standard prospectively during the first quarter of fiscal year 2021, and the adoption did not have a material effect on our Consolidated Financial Statements.

Not Yet Adopted:

In December 2019, the FASB issued guidance on Simplifying the Accounting for Income Taxes, intended to simplify various aspects related to the accounting for income taxes. We will adopt this standard effective July 1, 2021, and the adoption of this guidance will not have a material impact on our consolidated financial statements.

Note 2 Acquisition

On October 1, 2018, the Company completed the acquisition of GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as "GES"). The acquisition included purchasing substantially all of the assets and assuming certain liabilities of GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., GES Infotek Pvt. Ltd., (India), GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., (China), Suzhou Global Equipment Services and Trading Co., Ltd. (China), and acquiring 100% of the capital stock of Global Equipment Services & Manufacturing Vietnam Company Limited.

This acquisition supported the Company's strategy for growth and diversification into a multifaceted manufacturing solutions company. GES specializes in design, production, and servicing of automation, test, and inspection equipment for industrial applications in the semiconductor, electronics, and life sciences industries.

Incremental costs expensed as incurred directly related to the acquisition included \$0.8 million and \$0.5 million during the fiscal years ended June 30, 2020 and 2019, respectively. These costs were recorded in Selling and Administrative Expenses on our Consolidated Statements of Income. The operating results of this acquisition are included in the Company's consolidated financial statements beginning on the acquisition date of October 1, 2018.

The GES acquisition was accounted for as a business combination. The Company recorded a net adjusted purchase price of \$42.4 million which included a reduction for a net working capital adjustment of \$7.6 million. The net working capital adjustment was disputed by the sellers, and in July 2020, it was determined, through the dispute resolution procedure provided for under the terms of the asset purchase agreement, the final net working capital adjustment to be \$3.8 million. As a result, for fiscal year 2020, after the end of the twelve-month measurement period, the Company recorded a \$3.8 million pre-tax charge in the Non-operating expense line on the Consolidated Statements of Income. The twelve-month measurement period ended on September 30, 2019.

Note 3 Revenue from Contracts with Customers

Our revenue from contracts with customers is generated primarily from manufacturing services provided for the production of electronic assemblies, electronic and non-electronic components, medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment in automotive, medical, industrial, and public safety applications, to the specifications and designs of our customers.

The following table disaggregates our revenue by end market vertical for fiscal years 2021, 2020, and 2019:

(Amounts in Millions)	Year Ended		
	2021	2020	2019
Vertical Markets:			
Automotive	\$ 551.5	\$ 457.4	\$ 474.3
Medical	384.8	397.8	367.5
Industrial	293.7	271.0	255.9
Public Safety	48.1	56.2	66.2
Other	13.7	18.2	17.9
Total net sales	<u>\$ 1,291.8</u>	<u>\$ 1,200.6</u>	<u>\$ 1,181.8</u>

For fiscal years 2021, 2020, and 2019, approximately 89%, 78%, and 70% of our net sales, respectively, were recognized over time as manufacturing services were performed under a customer contract on a product with no alternative use and for which we have an enforceable right to payment for performance completed to date. The remaining sales revenues were recognized at a point in time when the customer obtained control of the products.

The timing differences of revenue recognition, billings to our customers, and cash collections from our customers result in billed accounts receivable and unbilled accounts receivable. Contract assets on the Consolidated Balance Sheets relate to unbilled accounts receivable and occur when revenue is recognized over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date, which are generally transferred to receivables in the next fiscal quarter due to the short-term nature of the manufacturing cycle. Contract assets were \$45.9 million and \$70.4 million as of June 30, 2021 and 2020, respectively.

In limited circumstances, the Company may receive payments from customers in advance of the satisfaction of performance obligations primarily for tooling or other miscellaneous services or costs. These advance payments are recognized as contract liabilities until the performance obligations are completed and are included in Accrued expenses on the Consolidated Balance Sheets, which amounted to \$7.6 million and \$7.1 million as of June 30, 2021 and 2020, respectively. Our performance obligations are short term in nature and therefore our contract liabilities are all expected to be settled within twelve months.

Note 4 Inventories

Inventories were valued using the lower of first-in, first-out ("FIFO") cost and net realizable value. Inventory components were as follows at June 30:

(Amounts in Thousands)	2021	2020
Finished products	\$ 769	\$ 4,529
Work-in-process	5,149	3,577
Raw materials	194,468	210,937
Total inventory	<u>\$ 200,386</u>	<u>\$ 219,043</u>

Note 5 Property and Equipment

Major classes of property and equipment consist of the following at June 30:

(Amounts in Thousands)	2021	2020
Land and land use rights	\$ 14,978	\$ 11,792
Buildings and improvements	84,096	80,606
Machinery and equipment	309,731	278,858
Construction-in-progress	19,353	19,646
Total	\$ 428,158	\$ 390,902
Less: Accumulated depreciation	(264,907)	(236,373)
Property and equipment, net	<u>\$ 163,251</u>	<u>\$ 154,529</u>

The useful lives used in computing depreciation are based on estimated service lives for classes of property, as follows:

	Years
Buildings and improvements	5 to 40
Machinery and equipment	3 to 11
Land use rights	39
Leasehold improvements	Lesser of Useful Life or Term of Lease

Depreciation of property and equipment totaled, in millions, \$30.7 for fiscal year 2021, \$27.7 for fiscal year 2020, and \$26.3 for fiscal year 2019.

Note 6 Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

(Amounts in Thousands)

Balance as of June 30, 2019

Goodwill	\$ 30,930
Accumulated impairment	(12,826)
Goodwill, net	<u>18,104</u>
Purchase Accounting Adjustments	1,832
Impairment	(7,925)

Balance as of June 30, 2020

Goodwill	32,762
Accumulated impairment	(20,751)
Goodwill, net	<u>12,011</u>

Balance as of June 30, 2021

Goodwill	32,762
Accumulated impairment	(20,751)
Goodwill, net	<u>\$ 12,011</u>

We acquired \$13.7 million in goodwill resulting from the GES acquisition, with \$1.8 million added in fiscal year 2020 as a result of fair value measurement period adjustments. See Note 2 - Acquisition of Notes to Consolidated Financial Statements for more information on this acquisition. During fiscal years 2021 and 2019, no goodwill impairment was recognized. During fiscal year 2020, \$7.9 million of goodwill impairment was recognized at the GES reporting unit.

GES's annual goodwill impairment test date is April 30th. Subsequent to our annual test date in fiscal year 2020, we identified an indicator of impairment related to future anticipated revenues, which triggered an additional impairment test as of June 30, 2020. The June 30, 2020 test (the "GES impairment test") resulted in a \$7.9 million goodwill impairment charge, partially offset by a \$1.0 million reduction in income tax expense associated with the deferred tax asset established for the deductible portion of the impaired goodwill. For the GES impairment test, we used an independent, third-party valuation specialist to assist in the determination of fair value for the GES reporting unit. We used a combination of the Income Approach, using a discounted cash flow model, and the Market Approach, based on projected fiscal year 2021 results.

We also used the independent, third-party valuation specialist to assist in the GES annual impairment test for fiscal year 2021, using a combination of the Income Approach and the Market Approach to determine fair value. The GES reporting unit fair value exceeded the carrying value by 35% as of April 30, 2021; therefore, no goodwill impairment was recognized in fiscal year 2021.

A summary of other intangible assets subject to amortization is as follows:

(Amounts in Thousands)	June 30, 2021			June 30, 2020		
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Capitalized Software	\$ 32,774	\$ 28,751	\$ 4,023	\$ 32,052	\$ 27,851	\$ 4,201
Customer Relationships	8,618	2,520	6,098	8,618	2,014	6,604
Technology	5,060	2,790	2,270	5,060	1,777	3,283
Trade Name	6,369	1,752	4,617	6,369	1,114	5,255
Other Intangible Assets	<u>\$ 52,821</u>	<u>\$ 35,813</u>	<u>\$ 17,008</u>	<u>\$ 52,099</u>	<u>\$ 32,756</u>	<u>\$ 19,343</u>

During fiscal years 2021, 2020, and 2019, amortization expense of other intangible assets was, in millions, \$3.3, \$3.2, and \$2.6, respectively. Amortization expense in future periods is expected to be, in millions, \$3.2, \$3.1, \$2.2, \$1.6, and \$1.5 in the five years ending June 30, 2026, and \$5.4 thereafter. The estimated useful life of internal-use software ranges from 3 to 10 years. The amortization period for the customer relationships, technology, and trade name intangible assets is 15 years, 5 years, and 10 years, respectively. We have no intangible assets with indefinite useful lives which are not subject to amortization.

Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets.

Note 7 Commitments and Contingent Liabilities

Guarantees:

As of June 30, 2021 and 2020, we had no guarantees issued which were contingent on the future performance of another entity. Standby letters of credit may be issued to third-party suppliers and insurance institutions and can only be drawn upon in the event of the Company's failure to pay its obligations to the beneficiary. We had a maximum financial exposure from unused standby letters of credit totaling \$0.4 million as of both June 30, 2021 and 2020. We do not expect circumstances to arise that would require us to perform under any of these arrangements and believe that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect our consolidated financial statements. Accordingly, no liability has been recorded as of June 30, 2021 and 2020 with respect to the standby letters of credit. We also may enter into commercial letters of credit to facilitate payments to vendors and from customers.

Banker's Acceptance Drafts:

One of the Company's China operations, in limited circumstances, receives banker's acceptance drafts from customers as settlement for their trade accounts receivable. We in turn may transfer the acceptance drafts to a supplier of ours in settlement of current accounts payable. These drafts contain certain recourse provisions afforded to the transferee under laws of The People's Republic of China. If a transferee were to exercise its available recourse rights, the draft would revert back to our China operation and we would be required to satisfy the obligation with the transferee. At June 30, 2021 and 2020, the drafts transferred and outstanding totaled \$0.1 million and \$0.4 million, respectively. No transferee has exercised their recourse rights against us. For additional information on banker's acceptance drafts, see Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements.

Product Warranties:

The Company provides only assurance-type warranties for a limited time period, which cover workmanship and assures the product complies with specifications provided by or agreed upon with the customer. We maintain a provision for limited warranty repair or replacement of products manufactured and sold, which has been established in specific manufacturing contract agreements. We estimate product warranty liability at the time of sale based on historical repair or replacement cost trends in conjunction with the length of the warranty offered. Management refines the warranty liability periodically based on changes in historical cost trends and in certain cases where specific warranty issues become known. Product warranty liability is recorded in Accrued expenses and Other long-term liabilities on the Consolidated Balance Sheets.

Changes in the product warranty liability during fiscal years 2021, 2020, and 2019 were as follows:

(Amounts in Thousands)	2021	2020	2019
Product Warranty Liability at the beginning of the year	\$ 647	\$ 958	\$ 656
Additions to warranty accrual (including changes in estimates)	21	(271)	361
Settlements made (in cash or in kind)	(58)	(40)	(59)
Product Warranty Liability at the end of the year	<u>\$ 610</u>	<u>\$ 647</u>	<u>\$ 958</u>

Note 8 Credit Facilities

Credit facilities consisted of the following:

(Amounts in Millions, in U.S Dollar Equivalents)	Unused Borrowings at June 30, 2021	Borrowings Outstanding at June 30, 2021	Borrowings Outstanding at June 30, 2020
Primary credit facility ⁽¹⁾	\$ 86.9	\$ 62.7	\$ 111.4
Thailand overdraft credit facility ⁽²⁾	0.1	—	—
Netherlands revolving credit facility ⁽³⁾	7.4	3.5	6.7
Poland revolving credit facility ⁽⁴⁾	5.9	—	—
Total credit facilities	<u>\$ 100.3</u>	<u>66.2</u>	<u>118.1</u>
Less: current portion		(26.2)	(26.6)
Long-term debt under credit facilities, less current portion ⁽⁵⁾		<u>\$ 40.0</u>	<u>\$ 91.5</u>

- (1) The Company maintains a U.S. primary credit facility (the “primary credit facility”) among the Company, the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Documentation Agent, scheduled to mature July 27, 2023. The primary credit facility provides for \$150 million in borrowings, with an option to increase the amount available for borrowing to \$225 million at the Company’s request, subject to the consent of each lender participating in such increase. This facility is maintained for working capital and general corporate purposes of the Company including capital expenditures and acquisitions. A commitment fee is payable on the unused portion of the credit facility which was immaterial to our operating results in fiscal years 2021, 2020, and 2019. The commitment fee on the unused portion of principal amount of the credit facility is payable at a rate that ranges from 20.0 to 25.0 basis points per annum as determined by the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA, as defined in the primary facility. Types of borrowings available on the primary facility include revolving loans, multi-currency term loans, and swingline loans.

The interest rate on borrowings is dependent on the type of borrowings and will be one of the following two options:

- the London Interbank Offered Rate (“LIBOR”) in effect two business days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined under the primary credit facility, plus the Eurocurrency Loans spread which can range from 125.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA; or
- the Alternate Base Rate (“ABR”), which is defined as the highest of the fluctuating rate per annum equal to the higher of
 - JPMorgan’s prime rate;
 - 1% per annum above the Adjusted LIBO Rate (as defined under the primary credit facility); or
 - 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the primary credit facility);
 plus the ABR Loans spread which can range from 25.0 to 75.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

The Company’s financial covenants under the primary credit facility require:

- a ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be greater than 3.0 to 1.0, and
- a fixed charge coverage ratio, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be less than 1.10 to 1.00.

The Company had \$0.4 million in letters of credit contingently committed against the primary credit facility at both June 30, 2021 and 2020.

- (2) The Company also maintains a foreign credit facility for its operation in Thailand which allows for borrowings of up to 2.4 million Thai Baht (approximately \$0.1 million at June 30, 2021 exchange rates). This credit facility can be terminated at any time by either the Company or the bank by giving prior written notice of at least 15 days to the other party. Interest on borrowing under this facility is charged at a rate of interest determined by the bank in accordance with relevant laws and regulations for charging interest on an overdraft facility.
- (3) The Company also maintains an uncommitted revolving credit facility for our Netherlands subsidiary. The Netherlands credit facility allows for borrowings of up to 9.2 million Euro (approximately \$10.9 million at June 30, 2021 exchange rates), which borrowings can be made in Euro, U.S. dollars, or other optional currency. The availability of funds under this facility is at the sole discretion of the bank. Proceeds from the facility are to be used for general corporate purposes. Interest on borrowing under this facility is charged at a rate of interest dependent on the denomination of the currency borrowed. The facility matures on June 22, 2022.
- (4) The Company also maintains an uncommitted revolving credit facility for our Poland operation, which allows for borrowings up to 5 million Euro (approximately \$5.9 million at June 30, 2021 exchange rates) that can be drawn in Euro, U.S. dollars, or Polish Zloty. The availability of funds under this uncommitted facility is at the sole discretion of the bank. Proceeds from the facility are to be used for general working capital purposes. Interest on borrowing under this facility is charged at a rate of interest dependent on the denomination of the currency borrowed. The facility matures on December 20, 2021.
- (5) The amount of Long-term debt under credit facilities, less current maturities reflects the borrowings on the primary credit facility that the Company intends, and has the ability, to refinance for a period longer than twelve months. The primary credit facility matures on July 27, 2023.

The weighted-average interest rate on borrowings outstanding under the credit facilities at June 30, 2021 and June 30, 2020 were 2.0% and 2.5%, respectively. Cash payments for interest on borrowings in fiscal years 2021, 2020, and 2019 were, in millions, \$2.5, \$4.9, and \$3.0, respectively. Capitalized interest expense was immaterial during fiscal years 2021, 2020, and 2019.

Note 9 Employee Benefit Plans

Defined Contribution Retirement Plans:

The Company maintains a trustee defined contribution retirement plan which is in effect for substantially all domestic employees meeting the eligibility requirements. The Company also maintains a supplemental employee retirement plan ("SERP") for executives and other key employees which enables them to defer cash compensation on a pre-tax basis in excess of IRS limitations. The SERP is structured as a rabbi trust, and therefore, assets in the SERP portfolio are subject to creditor claims in the event of bankruptcy.

The discretionary employer contribution for domestic employees is determined annually by the Compensation and Governance Committee of the Company's Board of Directors. Total expense related to employer contributions to the domestic retirement plans was, in millions, \$1.9, \$2.4, and \$2.1 for fiscal years 2021, 2020, and 2019, respectively.

Defined Benefit Postemployment Plans:

The Company established and maintains severance plans for all domestic employees and other postemployment plans for certain foreign subsidiaries. There are no statutory requirements for the Company to contribute to the plans, nor do employees contribute to the plans. The plans hold no assets. Benefits are paid using available cash on hand when eligible employees meet plan qualifications for payment.

As of June 30, 2021 and 2020, total obligations under these plans were \$5.4 million and \$4.2 million, respectively, of which \$4.6 million and \$3.6 million were long term and \$0.8 million and \$0.6 million were short term. Of the total obligation at June 30, 2021 and 2020, domestic plans were \$1.2 million and \$1.1 million and foreign plans were \$4.2 million and \$3.1 million, respectively. Actuarial (gain) loss is recorded in Accumulated Other Comprehensive (Income) Loss and amortized into net period benefit cost on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans. Net periodic benefit cost recognized for these plans in fiscal years 2021, 2020, and 2019 were \$0.4 million, \$0.3 million, and \$0.8 million, respectively.

Note 10 Stock Compensation Plans

A stock compensation plan was created and adopted by the Company's Board of Directors (the "Board") on October 3, 2014. The Kimball Electronics, Inc. 2014 Stock Option and Incentive Plan (the "Plan") allows for the issuance of up to 4.5 million shares and may be awarded in the form of incentive stock options, stock appreciation rights, restricted shares, unrestricted shares, restricted share units, or performance shares and performance units. The Plan is a ten-year plan with no further awards allowed to be made under the Plan after October 1, 2024.

On October 20, 2016, the Board approved a nonqualified deferred stock compensation plan, the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (the "Deferral Plan"), which allows Non-Employee Directors to elect to defer all, or a portion of, their retainer fees in stock until retirement or termination from the Board or death. The Deferral Plan allows for issuance of up to 1.0 million shares of the Company's common stock.

Pre-tax stock compensation charged against income in fiscal years 2021, 2020, and 2019 was \$3.9 million, \$4.0 million, and \$5.7 million, respectively. These costs are included in Selling and Administrative Expenses.

Performance Shares:

The Company awards performance shares to officers and other key employees. The annual performance share awards are approved by the Compensation and Governance Committee of the Board. Under these awards, shares will be issued to each participant based upon a combination of the bonus percentage attainment component, calculated as a three-year average bonus percentage under the Company's profit sharing incentive bonus plan, and a growth attainment component, which is the Company's growth in sales revenue based on comparison of its three-year compounded annual growth rate ("CAGR") with the Electronics Manufacturing Services Industry's three-year CAGR.

Performance shares are vested when shares of the Company's Common Stock are issued shortly after the end of the fiscal year in which the performance measurement period is complete. Certain outstanding performance shares are applicable to performance measurement periods in future fiscal years and will be measured at fair value when the performance targets are established in future fiscal years. The contractual life of performance shares is three years. If a participant is not employed on the date shares are issued, the performance share award is forfeited, except in the case of death, retirement at age 62 or older, total permanent disability, or certain other circumstances described in the Plan.

A summary of the Company's performance share activity during fiscal year 2021 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Performance shares outstanding at July 1, 2020	443,536	\$ 16.58
Granted	250,837	\$ 13.67
Vested	(239,194)	\$ 16.99
Forfeited	(20,280)	\$ 15.98
Performance shares outstanding at June 30, 2021	<u>434,899</u>	\$ 14.71

As of June 30, 2021, there was approximately \$3.8 million of unrecognized compensation cost related to performance shares, based on the latest estimated attainment of performance goals. That cost is expected to be recognized over annual performance periods ending August 2021 through August 2023, with a weighted average vesting period of eleven months. The fair value of performance shares is based on the stock price at the date of grant. During fiscal years 2021, 2020, and 2019, respectively, 239,194, 253,483, and 292,175 performance shares vested at a fair value of \$4.1 million, \$3.9 million, and \$3.9 million. The performance shares vested represent the total number of shares vested prior to the reduction of shares withheld to satisfy tax withholding obligations. The number of outstanding shares presented in the above table, the amounts of unrecognized compensation, and the weighted average period include performance shares awarded that are applicable to future performance measurement periods and will be measured at fair value when the performance targets are established in future fiscal years.

Unrestricted Share Grants:

Unrestricted shares may be granted to employees and members of the Board as consideration for services rendered. Unrestricted share grants do not have vesting periods, holding periods, restrictions on sale, or other restrictions. The fair value of unrestricted shares is based on the stock price at the date of the award. During fiscal years 2021, 2020, and 2019, respectively, the Company granted a total of 4,235, 4,258, and 4,236 unrestricted shares at an average grant date fair value of \$15.35, \$16.99, and \$17.69 for a total fair value of \$0.1 million for each of these fiscal years. Unrestricted shares were awarded to non-employee members of the Board as compensation for director's fees, including directors' elections to receive unrestricted shares in lieu of cash payment. Director's fees are expensed over the period that directors earn the compensation. Unrestricted shares were also awarded to a key employee which were expensed immediately.

Restricted Share Units:

Restricted share units (“RSUs”) may be granted to employees as consideration for services rendered. RSUs are participating securities and upon vesting, the outstanding number of RSUs are converted to shares of common stock. RSUs are expensed over the contractual vesting period as earned. If the employment of a holder of an RSU terminates before the RSU has vested for any reason other than death, retirement, or total permanent disability, the RSU will be forfeited. During fiscal year 2021, the Company granted 3,322 RSUs to new key employees at an average grant date fair value of \$19.63 for a total fair value of \$0.1 million. No RSUs were granted during fiscal years 2020 and 2019. The contractual life of the RSUs is one year or less.

Deferred Share Units:

Deferred share units may be granted to non-employee members of the Board under the Deferral Plan as compensation for the portion of their annual retainer fees resulting from their election to receive deferred share units in lieu of cash payment or unrestricted shares. Director’s fees are expensed over the period that directors earn the compensation. Deferred share units are participating securities and are payable in common stock in a lump sum or installments in accordance with deferral elections upon a director’s retirement or termination from the Board or death. During fiscal years 2021, 2020, and 2019, respectively, 37,132, 32,950, and 32,758 deferred share units were granted to non-employee members of the Board at an average grant date fair value of \$15.35, \$17.30, and \$17.40 for a total fair value of \$0.6 million for each of these fiscal years. During fiscal year 2021, 2,754 shares of common stock were issued under the Deferral Plan to a former non-employee member of the Board in accordance with their deferral election at an average fair value of \$17.51.

Note 11 Income Taxes

The U.S. Tax Cuts and Jobs Act (“Tax Reform”) was enacted into law on December 22, 2017, making broad and complex changes to the U.S. tax code, for which complete guidance may have not yet been issued. Tax Reform, in addition to other changes, required a one-time transition tax on certain unremitted earnings of foreign subsidiaries that is payable over an eight-year period. As of both June 30, 2021 and 2020, the remaining provision recorded for the one-time deemed repatriation tax was \$9.8 million, payable through fiscal year 2026, with the long-term portion recorded in Long-term income taxes payable on the Consolidated Balance Sheets. As of June 30, 2021, \$0.9 million of the remaining deemed repatriation tax is short term and is recorded in Accrued expenses on the Consolidated Balance Sheet.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The components of the deferred tax assets and liabilities as of June 30, 2021 and 2020, were as follows:

(Amounts in Thousands)	2021	2020
Deferred Tax Assets:		
Receivables	\$ 95	\$ 145
Inventory	1,726	1,894
Employee benefits	282	224
Deferred compensation	8,732	5,338
Other current liabilities	1,115	265
Tax credit carryforwards	3,388	2,445
Goodwill	1,328	1,608
Net operating loss carryforward	2,037	2,398
Miscellaneous	5,496	4,020
Valuation Allowance	(1,802)	(1,637)
Total asset	<u>\$ 22,397</u>	<u>\$ 16,700</u>
Deferred Tax Liabilities:		
Other intangible assets	\$ 1,210	\$ 1,313
Property and equipment	869	1,211
Net foreign currency gains	2	22
Miscellaneous	659	581
Total liability	<u>\$ 2,740</u>	<u>\$ 3,127</u>
Net Deferred Income Taxes	<u>\$ 19,657</u>	<u>\$ 13,573</u>

Income tax benefits associated with the net operating loss carryforwards expire from fiscal year 2023 to 2040. Income tax benefits associated with tax credit carryforwards primarily expire from fiscal year 2022 to 2030. A valuation allowance was provided as of June 30, 2021 and 2020 for deferred tax assets related to certain state credits of, in millions, \$1.8 and \$1.6, respectively. Except as reserved for in the valuation allowance, we believe our tax credit and net operating loss carryforwards are more likely than not to be realized in the future.

The components of income before taxes on income are as follows:

(Amounts in Thousands)	Year Ended June 30		
	2021	2020	2019
United States	\$ 10,439	\$ (6,117)	\$ 11,191
Foreign	59,615	31,274	27,294
Total income before taxes on income	<u>\$ 70,054</u>	<u>\$ 25,157</u>	<u>\$ 38,485</u>

The aggregate unremitted earnings of the Company's foreign subsidiaries were approximately \$313 million as of June 30, 2021. Most of these accumulated unremitted foreign earnings have been invested in active non-U.S. business operations, and we expect we may only repatriate a minor amount of these earnings to the United States in a tax-efficient manner. Our intent is to permanently reinvest these funds outside of the United States, and our current plans do not demonstrate a need to repatriate these funds to our U.S. operations. However, if such funds were repatriated, a portion of the funds remitted may be subject to applicable non-U.S. income and withholding taxes.

The provision for income taxes is composed of the following items:

(Amounts in Thousands)	Year Ended June 30		
	2021	2020	2019
Current Taxes:			
Federal	\$ 3,921	\$ (1,666)	\$ 872
Foreign	14,664	8,479	7,545
State	769	(29)	203
Total payable	<u>\$ 19,354</u>	<u>\$ 6,784</u>	<u>\$ 8,620</u>
Deferred Taxes:			
Federal	\$ (2,459)	\$ 99	\$ 67
Foreign	(2,598)	237	(1,177)
State	(1,199)	(1,138)	(603)
Valuation allowance	165	979	20
Total deferred	<u>\$ (6,091)</u>	<u>\$ 177</u>	<u>\$ (1,693)</u>
Total provision for income taxes	<u>\$ 13,263</u>	<u>\$ 6,961</u>	<u>\$ 6,927</u>

A reconciliation of the statutory U.S. income tax rate to the Company's effective income tax rate follows:

(Amounts in Thousands)	Year Ended June 30					
	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Tax computed at U.S. federal statutory rate	\$ 14,711	21.0%	\$ 5,283	21.0%	\$ 8,082	21.0%
State income taxes, net of federal income tax benefit	(374)	(0.5)	(1,128)	(4.5)	(320)	(0.8)
Foreign tax rate differential	1,320	1.9	714	2.8	313	0.8
Impact of foreign exchange rates on foreign income taxes	(1,111)	(1.6)	867	3.4	156	0.4
Non-deductible goodwill impairment	—	—	388	1.5	—	—
Valuation allowance	165	0.2	979	3.9	20	0.1
Research credit	(996)	(1.4)	(1,056)	(4.2)	(627)	(1.6)
Deemed repatriation	—	—	—	—	(416)	(1.1)
Revaluation of net deferred tax assets	—	—	—	—	(10)	—
Global intangible low tax income	181	0.3	607	2.4	—	—
Other - net	(633)	(1.0)	307	1.4	(271)	(0.8)
Total provision for income taxes	<u>\$ 13,263</u>	<u>18.9%</u>	<u>\$ 6,961</u>	<u>27.7%</u>	<u>\$ 6,927</u>	<u>18.0%</u>

Net cash payments for income taxes were, in thousands, \$13,358, \$9,096 and \$10,172 in fiscal years 2021, 2020, and 2019, respectively.

Changes in the unrecognized tax benefit, excluding accrued interest and penalties, during fiscal years 2021, 2020, and 2019 were as follows:

(Amounts in Thousands)	2021	2020	2019
Beginning balance - July 1	\$ 954	\$ 904	\$ 160
Tax positions related to prior fiscal years:			
Additions	142	116	758
Reductions	—	—	—
Tax positions related to current fiscal year:			
Additions	—	—	—
Reductions	—	—	—
Settlements	(8)	—	—
Lapses in statute of limitations	(76)	(66)	(14)
Ending balance - June 30	<u>\$ 1,012</u>	<u>\$ 954</u>	<u>\$ 904</u>
Portion that, if recognized, would reduce tax expense and effective tax rate	<u>\$ 323</u>	<u>\$ 262</u>	<u>\$ 214</u>

We do not expect the change in the amount of unrecognized tax benefits in the next 12 months to have a significant impact on our results of operations or financial position. We recognize interest and penalties related to unrecognized tax benefits in Provision for Income Taxes on the Consolidated Statements of Income.

Interest and penalties accrued for unrecognized tax benefits as of June 30, 2021, 2020, and 2019 was \$1.2 million, \$1.6 million, and \$1.6 million. Expenses related to interest and penalties in fiscal years 2021, 2020, and 2019 were not material.

Liabilities for unrecognized tax benefits, including interest and penalties, have been recorded as a result of the GES acquisition related to pre-closing tax periods of Global Equipment Services & Manufacturing Vietnam Company Limited. This reflects management's best assessment of the estimated taxes, interest, and penalties that are more likely than not to be paid under the applicable laws in the various jurisdictions. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities.

The Company or its wholly-owned subsidiaries file U.S. federal income tax returns and income tax returns in various state, local, and foreign jurisdictions. We are no longer subject to any significant U.S. federal tax examinations by tax authorities for years before fiscal year 2018. We are subject to income tax examinations by various, state, local, and foreign jurisdiction tax authorities for years after June 30, 2016.

Global Equipment Services & Manufacturing Vietnam Company Limited is subject to U.S. federal tax examinations and various state and local jurisdictions by tax authorities for years after December 31, 2007 and for various foreign jurisdictions for years after December 31, 2009 relating to periods prior to the acquisition date.

Note 12 Share Owners' Equity

On October 21, 2015, the Company's Board of Directors (the "Board") authorized an 18-month stock repurchase plan (the "Plan") allowing a repurchase of up to \$20 million worth of common stock. Then, separately on each of September 29, 2016, August 23, 2017, November 8, 2018, and November 10, 2020, the Board extended and increased the Plan to allow the repurchase of up to an additional \$20 million worth of common stock with no expiration date, which brought the total authorized stock repurchases under the Plan to \$100 million. Purchases may be made under various programs, including in open-market transactions, block transactions on or off an exchange, or in privately negotiated transactions, all in accordance with applicable securities laws and regulations. The Plan may be suspended or discontinued at any time.

During fiscal year 2021, the Company repurchased \$3.0 million of common stock under the Plan at an average price of \$15.51 per share, which was recorded as Treasury stock, at cost in the Consolidated Balance Sheet. Since the inception of the Plan, the Company has repurchased \$79.7 million of common stock under that Plan at an average cost of \$14.95 per share.

Note 13 Fair Value

The Company categorizes assets and liabilities measured at fair value into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

There were no changes in the inputs or valuation techniques used to measure fair values during fiscal year 2021.

Financial Instruments Recognized at Fair Value:

The following methods and assumptions were used to measure fair value:

Financial Instrument	Level	Valuation Technique/Inputs Used
Cash Equivalents	1	Market - Quoted market prices
Derivative Assets: Foreign exchange contracts	2	Market - Based on observable market inputs using standard calculations, such as time value, forward interest rate yield curves, and current spot rates, considering counterparty credit risk
Trading securities: Mutual funds held in SERP	1	Market - Quoted market prices
Derivative Liabilities: Foreign exchange contracts	2	Market - Based on observable market inputs using standard calculations, such as time value, forward interest rate yield curves, and current spot rates adjusted for Kimball Electronics' non-performance risk

Recurring Fair Value Measurements:

As of June 30, 2021 and 2020, the fair values of financial assets and liabilities that are measured at fair value on a recurring basis using the market approach are categorized as follows:

		June 30, 2021		
		Level 1	Level 2	Total
(Amounts in Thousands)				
Assets				
Cash equivalents		\$ 1,540	\$ —	\$ 1,540
Derivatives: foreign exchange contracts		—	1,468	1,468
Trading securities: mutual funds held in nonqualified SERP		12,644	—	12,644
Total assets at fair value		<u>\$ 14,184</u>	<u>\$ 1,468</u>	<u>\$ 15,652</u>
Liabilities				
Derivatives: foreign exchange contracts		\$ —	\$ 1,702	\$ 1,702
Total liabilities at fair value		<u>\$ —</u>	<u>\$ 1,702</u>	<u>\$ 1,702</u>
		June 30, 2020		
		Level 1	Level 2	Total
(Amounts in Thousands)				
Assets				
Cash equivalents		\$ 1,140	\$ —	\$ 1,140
Derivatives: foreign exchange contracts		—	741	741
Trading securities: mutual funds held in nonqualified SERP		10,477	—	10,477
Total assets at fair value		<u>\$ 11,617</u>	<u>\$ 741</u>	<u>\$ 12,358</u>
Liabilities				
Derivatives: foreign exchange contracts		\$ —	\$ 2,134	\$ 2,134
Total liabilities at fair value		<u>\$ —</u>	<u>\$ 2,134</u>	<u>\$ 2,134</u>

We had no Level 3 assets or liabilities during fiscal years 2021 and 2020.

The nonqualified supplemental employee retirement plan (“SERP”) assets consist primarily of equity funds, balanced funds, bond funds, and a money market fund. The SERP investment assets are offset by a SERP liability which represents the Company’s obligation to distribute SERP funds to participants. See Note 15 - Investments of Notes to Consolidated Financial Statements for further information regarding the SERP.

Financial Instruments Not Carried At Fair Value:

Financial instruments that are not reflected in the Consolidated Balance Sheets at fair value that have carrying amounts which approximate fair value include the following:

Financial Instrument	Level	Valuation Technique/Inputs Used
Notes receivable	2	Market - Price approximated based on the assumed collection of receivables in the normal course of business, taking into account non-performance risk
Borrowings under credit facilities	2	Market - Based on observable market rates, taking into account Kimball Electronics’ non-performance risk

The carrying values of our cash deposit accounts, trade accounts receivable, and trade accounts payable approximate fair value due to their relatively short maturity and immaterial non-performance risk.

Note 14 Derivative Instruments

Foreign Exchange Contracts:

We operate internationally and are therefore exposed to foreign currency exchange rate fluctuations in the normal course of our business. Our primary means of managing this exposure is to utilize natural hedges, such as aligning currencies used in the supply chain with the sale currency. To the extent natural hedging techniques do not fully offset currency risk, we use derivative instruments with the objective of reducing the residual exposure to certain foreign currency rate movements. Factors considered in the decision to hedge an underlying market exposure include the materiality of the risk, the volatility of the market, the duration of the hedge, the degree to which the underlying exposure is committed to, and the availability, effectiveness, and cost of derivative instruments. Derivative instruments are only utilized for risk management purposes and are not used for speculative or trading purposes.

We use forward contracts designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in forecasted transactions denominated in a foreign currency. Foreign exchange contracts are also used to hedge against foreign currency exchange rate risks related to intercompany balances denominated in currencies other than the functional currencies. As of June 30, 2021, we had outstanding foreign exchange contracts to hedge currencies against the U.S. dollar in the aggregate notional amount of \$43.8 million and to hedge currencies against the Euro in the aggregate notional amount of 65.9 million Euro. The notional amounts are indicators of the volume of derivative activities but may not be indicators of the potential gain or loss on the derivatives.

In limited cases due to unexpected changes in forecasted transactions, cash flow hedges may cease to meet the criteria to be designated as cash flow hedges. Depending on the type of exposure hedged, we may either purchase a derivative contract in the opposite position of the undesignated hedge or may retain the hedge until it matures if the hedge continues to provide an adequate offset in earnings against the currency revaluation impact of foreign currency denominated liabilities.

The fair value of outstanding derivative instruments is recognized on the balance sheet as a derivative asset or liability. When derivatives are settled with the counterparty, the derivative asset or liability is relieved and cash flow is impacted for the net settlement. For derivative instruments that meet the criteria of hedging instruments under FASB guidance, the effective portions of the gain or loss on the derivative instrument are initially recorded net of related tax effect in Accumulated Other Comprehensive Income (Loss), a component of Share Owners' Equity, and are subsequently reclassified into earnings in the period or periods during which the hedged transaction is recognized in earnings. The gain or loss associated with derivative instruments that are not designated as hedging instruments or that cease to meet the criteria for hedging under FASB guidance is reported immediately in Non-operating income or expense on the Consolidated Statements of Income.

Based on fair values as of June 30, 2021, we estimate that approximately \$0.7 million of pre-tax derivative loss deferred in Accumulated Other Comprehensive Income (Loss) will be reclassified into earnings, along with the earnings effects of related forecasted transactions, within the fiscal year ending June 30, 2022. Losses on foreign exchange contracts are generally offset by gains in operating costs in the income statement when the underlying hedged transaction is recognized in earnings. Because gains or losses on foreign exchange contracts fluctuate partially based on currency spot rates, the future effect on earnings of the cash flow hedges alone is not determinable, but in conjunction with the underlying hedged transactions, the result is expected to be a decline in currency risk. The maximum length of time we had hedged our exposure to the variability in future cash flows was 12 months as of both June 30, 2021 and June 30, 2020.

See Note 13 - Fair Value of Notes to Consolidated Financial Statements for further information regarding the fair value of derivative assets and liabilities and Note 19 - Accumulated Other Comprehensive Income (Loss) of Notes to Consolidated Financial Statements for the amount and changes in derivative gains and losses deferred in Accumulated Other Comprehensive Income (Loss).

Information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Income are presented below.

Fair Values of Derivative Instruments on the Consolidated Balance Sheets

(Amounts in Thousands)	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value As of		Balance Sheet Location	Fair Value As of	
		June 30 2021	June 30 2020		June 30 2021	June 30 2020
Derivatives Designated as Hedging Instruments:						
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 1,158	\$ 517	Accrued expenses	\$ 1,549	\$ 2,054
Derivatives Not Designated as Hedging Instruments:						
Foreign exchange contracts	Prepaid expenses and other current assets	310	224	Accrued expenses	153	80
Total derivatives		\$ 1,468	\$ 741		\$ 1,702	\$ 2,134

The Effect of Derivative Instruments on Other Comprehensive Income (Loss)

(Amounts in Thousands)	June 30		
	2021	2020	2019
Amount of Pre-Tax Gain or (Loss) Recognized in Other Comprehensive Income (Loss) (OCI) on Derivatives:			
Foreign exchange contracts	\$ 335	\$ (2,079)	\$ 3,337

The Effect of Derivative Instruments on Consolidated Statements of Income

(Amounts in Thousands)		Year Ended June 30		
Derivatives in Cash Flow Hedging Relationships	Location of Gain or (Loss)	2021	2020	2019
Amount of Pre-Tax Gain or (Loss) Reclassified from Accumulated OCI into Income:				
Foreign exchange contracts	Cost of Sales	\$ (814)	\$ 64	\$ 1,061
Foreign exchange contracts	Non-operating income (expense)	—	—	5
Total		\$ (814)	\$ 64	\$ 1,066

Derivatives Not Designated as Hedging Instruments

Amount of Pre-Tax Gain or (Loss) Recognized in Income on Derivatives:					
Foreign exchange contracts		Non-operating income (expense)	\$ (1,415)	\$ 1,558	\$ 2,766
Total Derivative Pre-Tax Gain (Loss) Recognized in Income			<u>\$ (2,229)</u>	<u>\$ 1,622</u>	<u>\$ 3,832</u>

Note 15 Investments

Supplemental Employee Retirement Plan Investments:

The Company maintains a self-directed supplemental employee retirement plan (“SERP”) for executives and other key employees. The Company SERP utilizes a rabbi trust, and therefore, assets in the SERP portfolio are subject to creditor claims in the event of bankruptcy. We recognize SERP investment assets on the balance sheet at current fair value. A SERP liability of the same amount is recorded on the balance sheet representing an obligation to distribute SERP funds to participants. The SERP investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized in income in the Other Income (Expense) category. Adjustments made to revalue the SERP liability are also recognized in income as selling and administrative expenses and offset valuation adjustments on SERP investment assets. The change in net unrealized holding gains for the fiscal years ended June 30, 2021, 2020, and 2019 was \$1.5 million, \$0.4 million, and less than \$0.1 million, respectively.

SERP asset and liability balances applicable to Kimball Electronics participants were as follows:

(Amounts in Thousands)	June 30	
	2021	2020
SERP investments - current asset	\$ 3,095	\$ 1,972
SERP investments - other long-term asset	9,549	8,505
Total SERP investments	<u>\$ 12,644</u>	<u>\$ 10,477</u>
SERP obligation - current liability	\$ 3,095	\$ 1,972
SERP obligation - other long-term liability	9,549	8,505
Total SERP obligation	<u>\$ 12,644</u>	<u>\$ 10,477</u>

Note 16 Accrued Expenses

Accrued expenses consisted of:

(Amounts in Thousands)	June 30	
	2021	2020
Taxes	\$ 11,012	\$ 5,135
Compensation	28,744	16,839
Customer advance payments	7,580	7,145
Retirement plan	2,094	2,337
Insurance	1,126	1,618
Other expenses	7,460	9,190
Total accrued expenses	<u>\$ 58,016</u>	<u>\$ 42,264</u>

Note 17 Geographic Information

The following geographic area data includes net sales based on the country location of the Company's business unit providing the manufacturing or other service and long-lived assets based on physical location. Long-lived assets include property and equipment and capitalized software.

(Amounts in Thousands)	At or For the Year Ended June 30		
	2021	2020	2019
Net Sales:			
United States	\$ 359,839	\$ 346,376	\$ 321,805
Poland	268,129	244,107	251,635
Mexico	265,476	232,135	282,400
China	180,405	159,746	146,332
Thailand	100,478	124,415	113,276
Other Foreign	117,480	93,771	66,396
Total net sales	<u>\$ 1,291,807</u>	<u>\$ 1,200,550</u>	<u>\$ 1,181,844</u>
Long-Lived Assets:			
United States	\$ 47,499	\$ 48,190	\$ 43,887
Mexico	43,792	36,548	31,238
Poland	31,412	32,670	29,736
Romania	15,273	17,707	19,546
China	15,228	10,405	12,138
Other Foreign	14,070	13,210	11,975
Total long-lived assets	<u>\$ 167,274</u>	<u>\$ 158,730</u>	<u>\$ 148,520</u>

Note 18 Earnings Per Share

Basic and diluted earnings per share were calculated as follows under the two-class method:

(Amounts in thousands, except per share data)

	Year Ended June 30		
	2021	2020	2019
Basic and Diluted Earnings Per Share:			
Net Income	\$ 56,791	\$ 18,196	\$ 31,558
Less: Net Income allocated to participating securities	84	24	32
Net Income allocated to common Share Owners	<u>\$ 56,707</u>	<u>\$ 18,172</u>	<u>\$ 31,526</u>
Basic weighted average common shares outstanding	25,088	25,243	25,857
Dilutive effect of average outstanding stock compensation awards	196	185	225
Dilutive weighted average shares outstanding	<u>25,284</u>	<u>25,428</u>	<u>26,082</u>
Earnings Per Share of Common Stock:			
Basic	\$ 2.26	\$ 0.72	\$ 1.22
Diluted	\$ 2.24	\$ 0.71	\$ 1.21

Note 19 Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of Accumulated Other Comprehensive Income (Loss), net of tax, were as follows:

(Amounts in Thousands)	Foreign Currency Translation Adjustments	Derivative Gain (Loss)	Postemployment Benefits Net Actuarial Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2019	\$ (6,848)	\$ (1,598)	\$ 818	\$ (7,628)
Other comprehensive income (loss) before reclassifications	(1,046)	(1,570)	87	(2,529)
Reclassification to (earnings) loss	—	(86)	(308)	(394)
Net current-period other comprehensive income (loss)	<u>\$ (1,046)</u>	<u>\$ (1,656)</u>	<u>\$ (221)</u>	<u>\$ (2,923)</u>
Balance at June 30, 2020	\$ (7,894)	\$ (3,254)	\$ 597	\$ (10,551)
Other comprehensive income (loss) before reclassifications	5,671	114	(506)	5,279
Reclassification to (earnings) loss	—	713	(324)	389
Net current-period other comprehensive income (loss)	<u>5,671</u>	<u>827</u>	<u>(830)</u>	<u>5,668</u>
Balance at June 30, 2021	<u>\$ (2,223)</u>	<u>\$ (2,427)</u>	<u>\$ (233)</u>	<u>\$ (4,883)</u>

The following reclassifications were made from Accumulated Other Comprehensive Income (Loss) to the Consolidated Statements of Income:

Reclassifications from Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Year Ended June 30		Affected Line Item in the Consolidated Statements of Income
	2021	2020	
Derivative Gain (Loss) ⁽¹⁾	\$ (814)	\$ 64	Cost of Sales
	—	—	Non-operating income (expense), net
	101	22	Benefit (Provision) for Income Taxes
	<u>\$ (713)</u>	<u>\$ 86</u>	Net of Tax
Postemployment Benefits:			
Amortization of Actuarial Gain (Loss) ⁽²⁾	\$ 428	\$ 406	Non-operating income
	(104)	(98)	Benefit (Provision) for Income Taxes
	<u>\$ 324</u>	<u>\$ 308</u>	Net of Tax
Total Reclassifications for the Period	<u>\$ (389)</u>	<u>\$ 394</u>	Net of Tax

Amounts in parentheses indicate reductions to income.

(1) See Note 14 - Derivative Instruments of Notes to Consolidated Financial Statements for further information on derivative instruments.

(2) See Note 9 - Employee Benefit Plans of Notes to Consolidated Financial Statements for further information on postemployment benefit plans.

Item 9 - Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

Kimball Electronics maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation of those controls and procedures performed, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective as of June 30, 2021.

- (b) Management's report on internal control over financial reporting.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations adopted pursuant thereto, the Company included a report of management's assessment of the effectiveness of its internal control over financial reporting as part of this report. The effectiveness of the Company's internal control over financial reporting as of June 30, 2021 has been audited by the Company's independent registered public accounting firm. Management's report and the independent registered public accounting firm's attestation report are included in the Company's Consolidated Financial Statements under the caption entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

- (c) Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2021 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B - Other Information

None.

Item 9C - Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10 - Directors, Executive Officers and Corporate Governance

Directors

The information required by this item with respect to Directors is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Election of Directors."

Committees

The information required by this item with respect to the Audit Committee and its financial expert and with respect to the Compensation and Governance Committee's responsibility for establishing procedures by which Share Owners may recommend nominees to the Board of Directors is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Corporate Governance at Kimball Electronics."

Information about Our Executive Officers

The information required by this item with respect to Executive Officers of the Registrant is included at the end of Part I of this Annual Report on Form 10-K and is incorporated herein by reference. Additional information about our Executive Officers also appears in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Compensation Discussion and Analysis."

Compliance with Section 16(a) of the Exchange Act

The information required by this item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Delinquent Section 16(a) Reports."

Code of Ethics

Kimball Electronics has a code of ethics that applies to all of its employees, including the Chief Executive Officer, the Chief Financial Officer, and the Corporate Controller (functioning as Principal Accounting Officer). The code of ethics is posted on the Company's website at <http://investors.kimballelectronics.com>. It is our intention to disclose any amendments to the code of ethics on this website. In addition, any waivers of the code of ethics for directors or executive officers of the Company will be disclosed in a Current Report on Form 8-K.

Item 11 - Executive Compensation

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the captions "Corporate Governance at Kimball Electronics," "Compensation Discussion and Analysis," "Report of the Compensation and Governance Committee," and "Executive Compensation."

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters

Security Ownership

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Share Ownership Information."

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Equity Compensation Plans Information."

Item 13 - *Certain Relationships and Related Transactions, and Director Independence*

Relationships and Related Transactions

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Review and Approval of Transactions with Related Persons."

Director Independence

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Corporate Governance at Kimball Electronics."

Item 14 - *Principal Accounting Fees and Services*

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 9, 2021 under the caption "Selection of Independent Registered Public Accounting Firm" and "Appendix A — Approval Process for Services Performed by the Independent Registered Public Accounting Firm."

PART IV

Item 15 - Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements:

The following consolidated financial statements of the Company are found in Item 8 and incorporated herein.

Management's Report on Internal Control Over Financial Reporting	33
Report of Independent Registered Public Accounting Firm	34
Consolidated Balance Sheets as of June 30, 2021 and 2020	37
Consolidated Statements of Income for Each of the Three Years in the Period Ended June 30, 2021 ..	38
Consolidated Statements of Comprehensive Income for Each of the Three Years in the Period Ended June 30, 2021	39
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended June 30, 2021	40
Consolidated Statements of Share Owners' Equity for Each of the Three Years in the Period Ended June 30, 2021	41
Notes to Consolidated Financial Statements	42

(2) Financial Statement Schedules:

II. Valuation and Qualifying Accounts for Each of the Three Years in the Period Ended June 30, 2021	72
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Schedules other than those listed above are omitted because they are either not required or not applicable, or the required information is presented in the Consolidated Financial Statements.

(3) Exhibits

See the Index of Exhibits which immediately precedes the Signatures page in this Annual Report on Form 10-K for a list of the exhibits filed or incorporated herein as a part of this report.

Item 16 - Form 10-K Summary

None.

KIMBALL ELECTRONICS, INC.
INDEX OF EXHIBITS

Exhibit No.	Description	Incorporated by Reference			
		Form	Period Ending	Exhibit	Filing Date
2.1	Separation and Distribution Agreement by and between Kimball International, Inc. and Kimball Electronics, Inc.	8-K		2.1	11/3/2014
2.2 ^{(c)(d)}	Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of May 11, 2018	10-K	6/30/2018	2.2	8/28/2018
2.3	Amendment Number One to Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of July 12, 2018	10-Q	12/31/2018	2.1	2/7/2019
2.4 ^(c)	Amendment Number Two to Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of September 14, 2018	10-Q	12/31/2018	2.2	2/7/2019
3.1	Amended and Restated Articles of Incorporation of the Company	8-K		3.1	2/18/2021
3.2	Amended and Restated By-Laws of the Company	8-K		3.2	2/18/2021
4.1	Description of the Company's Registered Securities	<i>Filed Herewith</i>			
10.1 ^(a)	Form of Employment Agreement	8-K		10.1	6/30/2017
10.2 ^(a)	2014 Stock Option and Incentive Plan	S-8		4.3	10/30/2014
10.3	Tax Matters Agreement by and among Kimball International, Inc. and Kimball Electronics, Inc.	8-K		10.1	11/3/2014
10.4 ^(a)	Description of the Kimball Electronics, Inc. 2019 Profit Sharing Incentive Bonus Plan	8-K		10.1	11/12/2019
10.5 ^(a)	Kimball Electronics, Inc. Supplemental Employee Retirement Plan ("SERP")	10		10.8	9/4/2014
10.6 ^(a)	Form of Long-Term Performance Share Award Agreement, as amended June 29, 2016, to be used for Long-Term Performance Share Awards granted on or subsequent to June 29, 2016	8-K		10.1	6/27/2016
10.7 ^(a)	Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan	8-K		10.1	10/25/2016
10.8 ^(a)	Form of Fee Deferral Election Agreement under the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan	8-K		10.2	10/25/2016
10.9	Amended and Restated Credit Agreement among Kimball Electronics, Inc., the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent and Bank of America, N.A., as Documentation Agent	8-K		10.1	8/1/2018
10.10 ^(a)	Form of Long-Term Performance Share Award Agreement	8-K		10.1	7/6/2021

Exhibit No.	Description	Incorporated by Reference		
		Form	Period Ending	Exhibit Filing Date
10.11 ^(a)	Kimball Electronics, Inc. Executive Severance and Change in Control Plan	8-K		10.2 7/6/2021
21	Subsidiaries of the Registrant	<i>Filed Herewith</i>		
23	Consent of Independent Registered Public Accounting Firm	<i>Filed Herewith</i>		
24	Power of Attorney	<i>Filed Herewith</i>		
31.1	Certification filed by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<i>Filed Herewith</i>		
31.2	Certification filed by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<i>Filed Herewith</i>		
32.1 ^(b)	Certification furnished by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<i>Furnished Herewith</i>		
32.2 ^(b)	Certification furnished by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<i>Furnished Herewith</i>		
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its Inline XBRL tags are embedded within the Inline XBRL document	<i>Filed Herewith</i>		
101.SCH	Inline XBRL Taxonomy Extension Schema Document	<i>Filed Herewith</i>		
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	<i>Filed Herewith</i>		
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	<i>Filed Herewith</i>		
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	<i>Filed Herewith</i>		
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	<i>Filed Herewith</i>		
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	<i>Filed Herewith</i>		

^(a) Constitutes management contract or compensatory arrangement

^(b) In accordance with Item 601(b)(32)(ii) of Regulation S-K, the certifications furnished in Exhibit 32.1 and 32.2 will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

^(c) Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant will supplementally furnish any of the omitted schedules or exhibits to the Securities and Exchange Commission upon request.

^(d) Confidential treatment has been requested and granted as to certain portions of this Exhibit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KIMBALL ELECTRONICS, INC.

By: /s/ JANA T. CROOM

Jana T. Croom
Vice President,
Chief Financial Officer
August 27, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ DONALD D. CHARRON

Donald D. Charron
Chairman of the Board,
Chief Executive Officer
August 27, 2021

/s/ JANA T. CROOM

Jana T. Croom
Vice President,
Chief Financial Officer
August 27, 2021

/s/ ADAM M. BAUMANN

Adam M. Baumann
Corporate Controller,
(functioning as Principal Accounting Officer)
August 27, 2021

Signature

GREGORY J. LAMPERT *

Gregory J. Lampert
Director

ROBERT J. PHILLIPPY *

Robert J. Phillippy
Director

HOLLY A. VAN DEURSEN *

Holly A. Van Deursen
Director

Signature

COLLEEN C. REPPLIER *

Colleen C. Repplier
Director

GREGORY A. THAXTON *

Gregory A. Thaxton
Director

MICHELE A. M. HOLCOMB, PhD *

Michele A. M. Holcomb, PhD
Director

- * The undersigned does hereby sign this document on my behalf pursuant to powers of attorney duly executed and filed with the Securities and Exchange Commission, all in the capacities as indicated:

Date

August 27, 2021

/s/ DONALD D. CHARRON

Donald D. Charron
As Attorney-In-Fact

KIMBALL ELECTRONICS, INC.

Schedule II. - Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Additions (Reductions) to Expense	Adjustments to Other Accounts	Write-offs and Recoveries	Balance at End of Year
(Amounts in Thousands)					
Year Ended June 30, 2021					
Valuation Allowances:					
Receivables	\$ 523	\$ (163)	\$ (9)	\$ (174)	\$ 177
Deferred Tax Asset	\$ 1,637	\$ 165	\$ —	\$ —	\$ 1,802
Year Ended June 30, 2020					
Valuation Allowances:					
Receivables	\$ 270	\$ 265	\$ (5)	\$ (7)	\$ 523
Deferred Tax Asset	\$ 658	\$ 979	\$ —	\$ —	\$ 1,637
Year Ended June 30, 2019					
Valuation Allowances:					
Receivables	\$ 482	\$ 184	\$ 14	\$ (410)	\$ 270
Deferred Tax Asset	\$ 638	\$ 20	\$ —	\$ —	\$ 658

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald D. Charron, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kimball Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 27, 2021

/s/ DONALD D. CHARRON

DONALD D. CHARRON
Chairman of the Board,
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jana T. Croom, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kimball Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 27, 2021

/s/ JANA T. CROOM

JANA T. CROOM
Vice President,
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kimball Electronics, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald D. Charron, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 27, 2021

/s/ DONALD D. CHARRON

DONALD D. CHARRON
Chairman of the Board,
Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kimball Electronics, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jana T. Croom, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 27, 2021

/s/ JANA T. CROOM

JANA T. CROOM
Vice President,
Chief Financial Officer