

Second Quarter Fiscal 2022 Results

Quarter Ended December 31, 2021

Supplementary Information to the February 8, 2022 Earnings Conference Call & Webcast



Safe Harbor Statement

Certain statements contained within this supplementary information, including our fiscal year 2022 guidance, and any statements made during our earnings conference call today may be considered forward-looking under the Private Securities Litigation Reform Act of 1995. The statements may be identified by the use of words such as “expect,” “should,” “goal,” “predict,” “will,” “future,” “optimistic,” “confident,” and “believe.” Undue reliance should not be placed on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections. These forward-looking statements are subject to risks and uncertainties including, without limitation, global economic conditions, geopolitical environment, global health emergencies including the COVID-19 pandemic, availability or cost of raw materials and components, foreign exchange fluctuations, and our ability to convert new business opportunities into customers and revenue. Additional cautionary statements regarding other risk factors that could have an effect on the future performance of Kimball Electronics, Inc. (the “Company”) are contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2021, our earnings release, and other filings with the Securities and Exchange Commission (the “SEC”).

This supplementary information contains non-GAAP financial measures. The non-GAAP financial measures contained herein include Adjusted Selling & Administrative Expenses, Adjusted Operating Income, Adjusted Net Income, Adjusted Diluted Earnings Per Share, and Return on Invested Capital (“ROIC”). Management believes these measures are useful and allow investors to meaningfully trend, analyze, and benchmark the performance of the Company’s core operations. Many of the Company’s internal performance measures that management uses to make certain operating decisions use these and other non-GAAP measures to enable meaningful trending of core operating metrics. Reconciliations of the reported GAAP numbers to these non-GAAP financial measures are included on the Reconciliation of Non-GAAP Results slide, which is the final slide of this supplementary information.

Today's speakers



**Don
Charron** ■

CHAIRMAN AND
CHIEF EXECUTIVE OFFICER



**Jana
Croom** ■

VICE PRESIDENT,
CHIEF FINANCIAL OFFICER



**Andy
Regrut** ■

HEAD OF INVESTOR
RELATIONS

Q2 was another hard-fought quarter...

- Global supply chain issues stemming from the COVID-19 pandemic persisted and adversely impacted results
- Component shortages continued to make it challenging to obtain materials needed to support customer demand
- Conditions improved modestly in December with sales accelerating
- Lost absorption was significant again this quarter, as we remained committed to retaining our highly skilled workforce
- Well positioned with record levels of backlog
- Reiterating sales guidance for fiscal 2022, result at lower end of range
- Revising operating income guidance for difficult first half and outlook for balance of fiscal year

Our manufacturing facilities have been ramping up production



- Expect running several production lines at maximum capacity
- Often, we are the single source supplier
- Customers may share eagerness for conditions to normalize so that we both can deliver on contractual agreements
- Customer collaboration at levels even higher than our award-winning norm

Facility expansion in Poznan, Poland

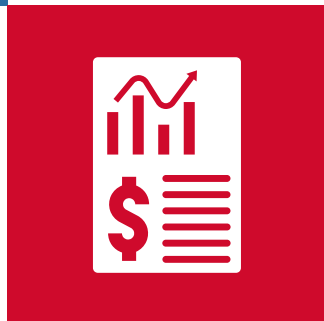


- Third facility expansion in the last 15 months
- Representative of our success in winning new business
- Additional capacity needed for programs with new and existing customers
- Expect to add approximately 40% to existing production square footage
- Leverage team in Poland to support customers based in Europe
- Expansion expected to be complete in early fiscal 2024

Updating Capex guidance for fiscal 2022



- Includes early investments in Poznan
- Additional capital related to a major win in the next generation of electronic braking systems for a long-standing customer:
 - New high-tech system will support one of the world's most popular light pick-up trucks
 - Similar to Poland, reflects success in new business development activities
- With the expansions in Thailand, Mexico and Poland, expanding square footage capabilities to support growth potential in excess of \$2 billion of annual revenue
- Strength of our funnel and newly awarded programs

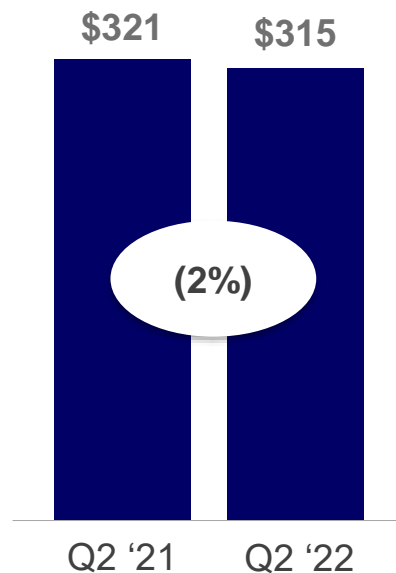


Disappointed with the results in the first half of the fiscal year

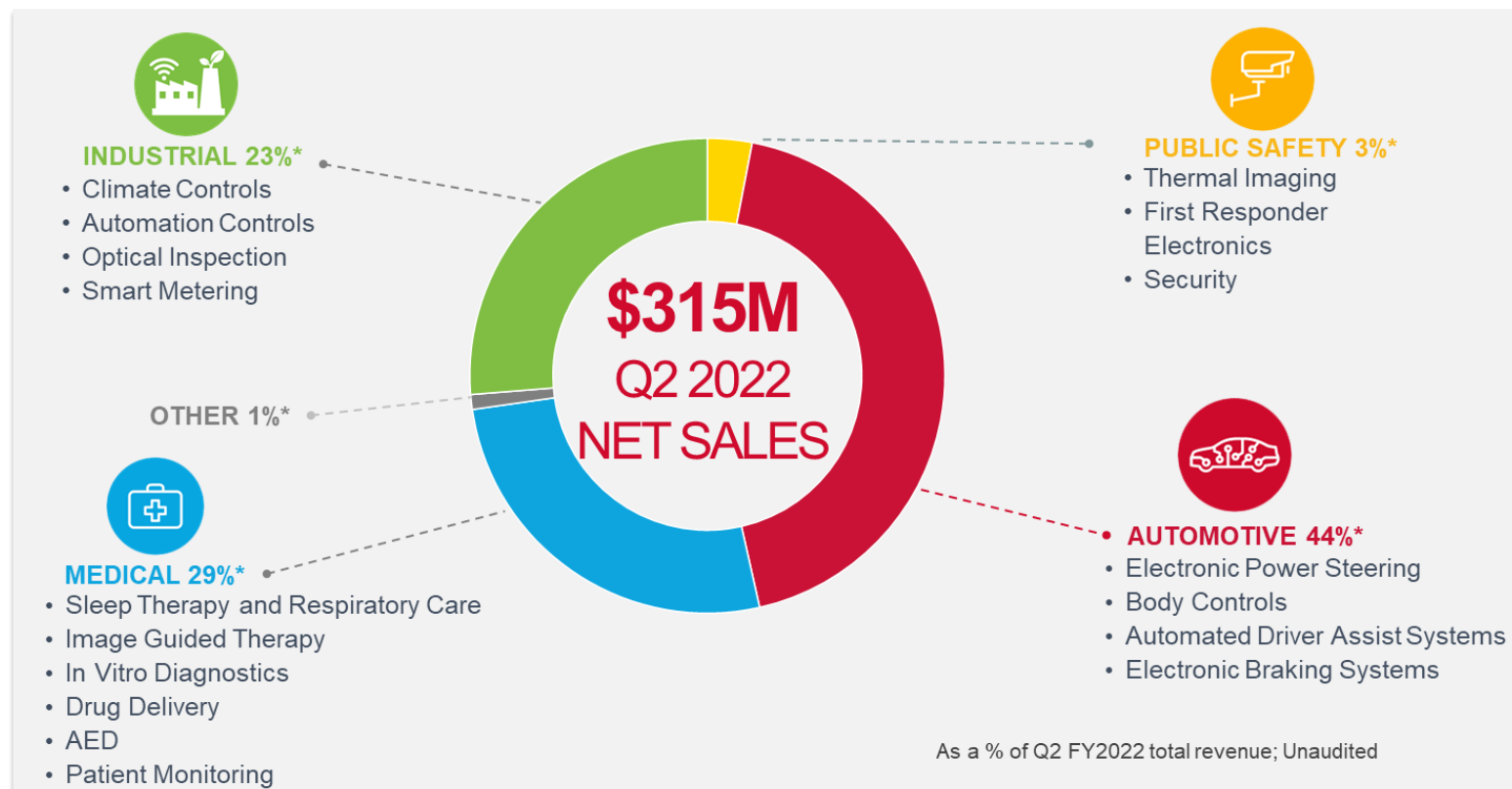
- Outcome driven by the unavailability of materials
- Lowering forecast for operating income margin in fiscal 2022
- Fully anticipate returning to an annual run rate for operating income levels in a range of 4.5% - 5% as the supply chain normalizes
- Expect second half of fiscal 2022 to significantly ramp-up throughout the period, with a very strong finish to the fiscal year and operating income above that range, as the backlog of open orders is worked down

Net sales decreased 2% compared to the same period last year

Net Sales



3 of 4 vertical markets reported increases in the quarter

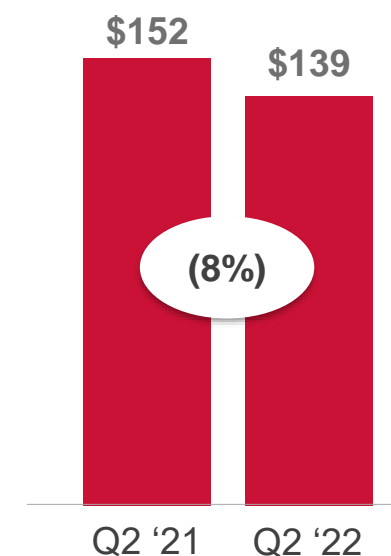


Sales in the Automotive vertical market decreased 8%



- Automotive was the only vertical market with decreasing sales in Q2
- First quarterly decline in over a year
- Driven by shortage of semiconductors
- This vertical market reported record sales in the second quarter last year
- OEMs are forecasting double-digit growth as the industry looks to recover
- We remain bullish on the growth prospects of this vertical market

Automotive

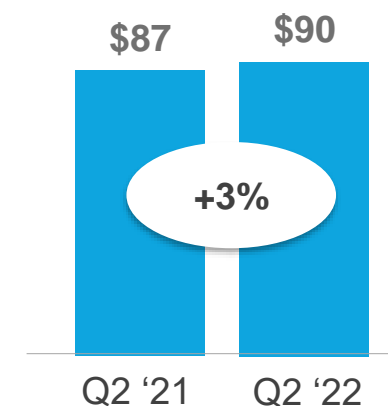


Sales in the Medical vertical market increased 3%



- Welcomed rebound to a business that has experienced ebbs & flows throughout the pandemic
- Increase driven by launch and ramp-up of new products
- Longer-term, we continue to believe the megatrends in the healthcare industry are an excellent set-up for growth
- Launch of Kimball Medical Solutions should continue to drive growth supporting our goal of 30% of revenue coming from this space

Medical



Sales in the Industrial vertical market increased 6%



- Glad to see early signs of bouncing back from today's challenging operating environment
- Business commonly referred to as “green & clean”
- Climate control, smart metering, and new customer additions drove increase in Q2
- Represent longer-term growth opportunities
- Consumption – and ultimately conservation – of water, gas, and electricity increase in popularity

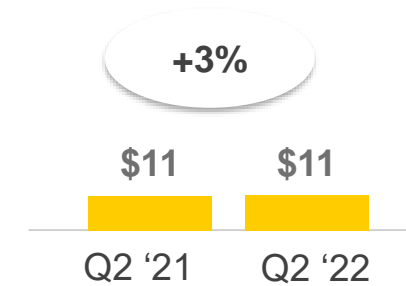


Sales in the Public Safety vertical market increased 3%



- Sales were \$10.8 million in Q2

Public Safety



Summary



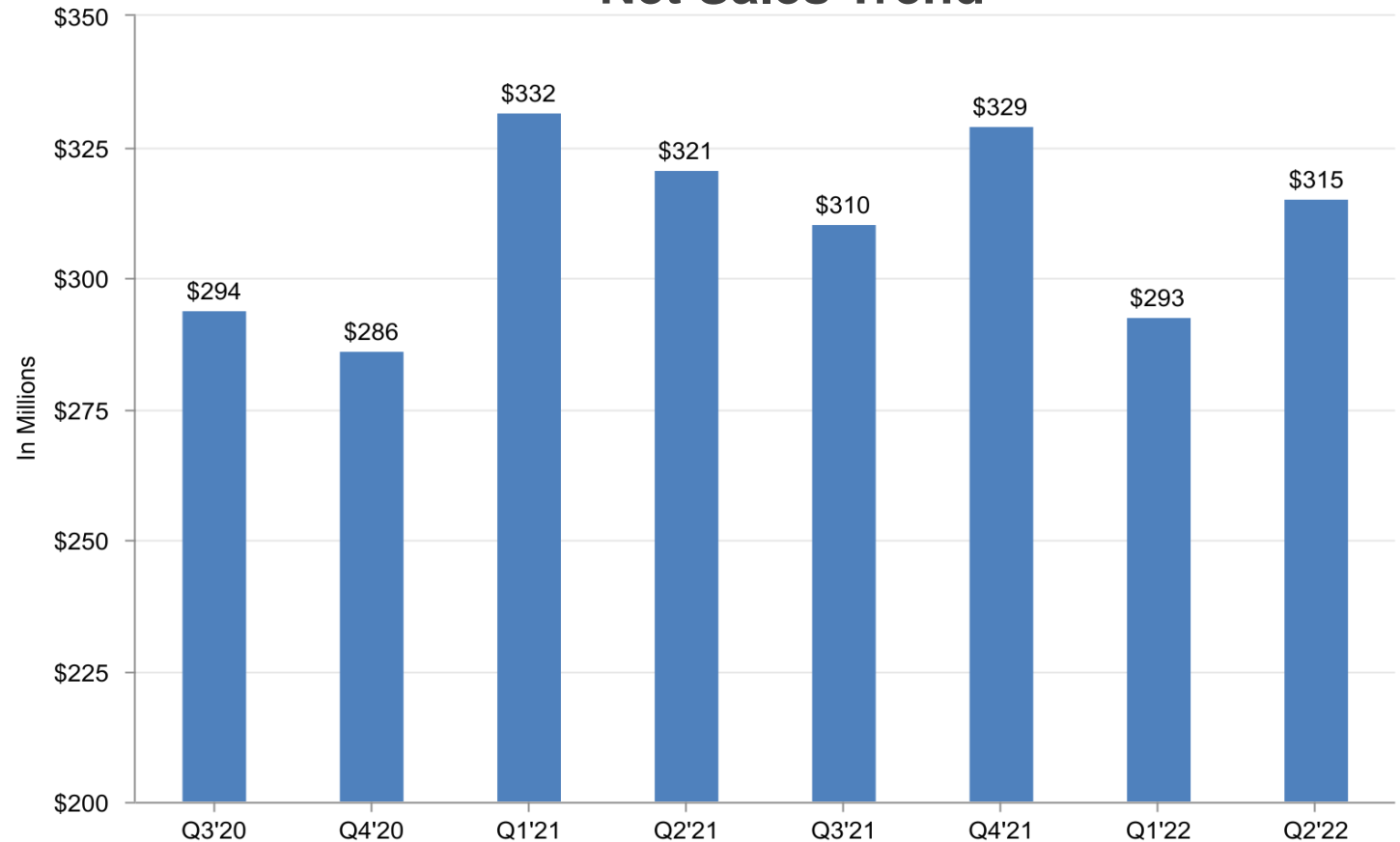
- Challenging quarter with very good work from our team in tough conditions
- Signs of improvement as evidenced by the higher level of sales in Q2 compared to Q1... an 8% increase
- December the best month

Net sales declined 2% compared to Q2 2021

Overview

- Sales were \$315.3 million, a 2% decrease compared Q2 last year
- Foreign exchange rates had a negligible impact on sales

Net Sales Trend

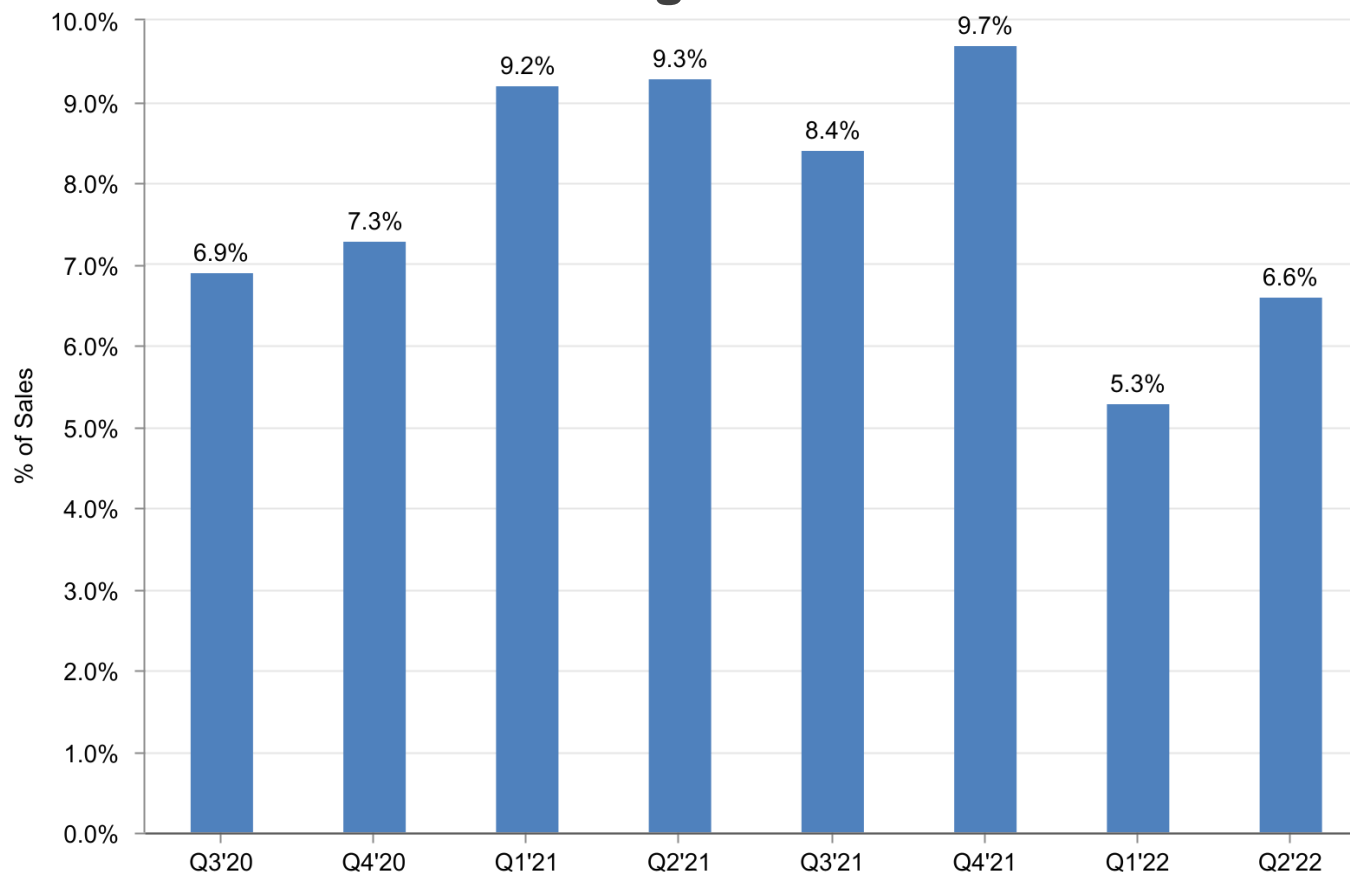


Gross margin rate of 6.6%, a 270 bps decline compared to Q2 2021

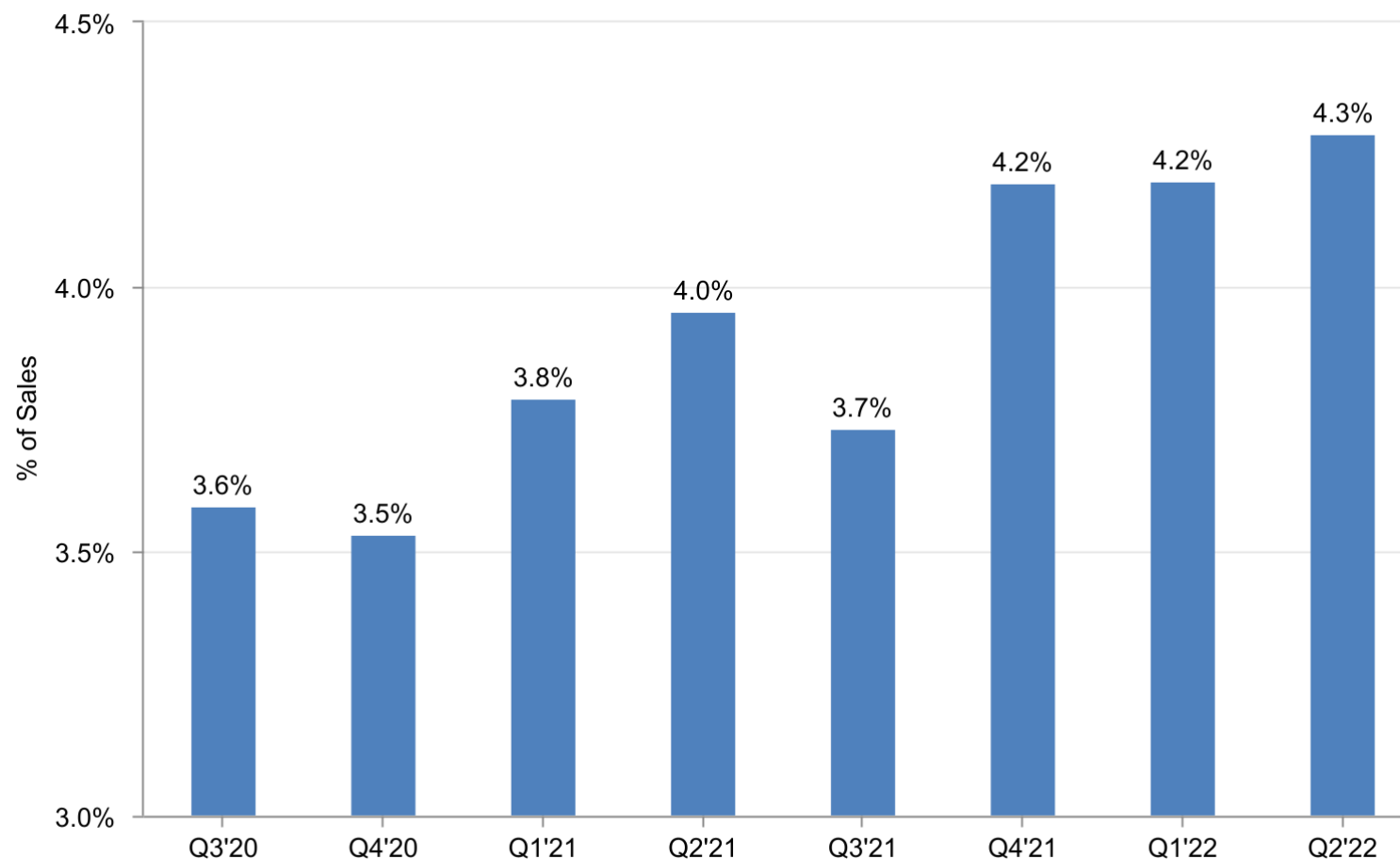
Drivers of GM%

- Challenged by lower volumes related to the continued global parts shortage; impacting our absorption rate
- Certain costs have increased this year... including higher material costs, increased freight, and wage inflation and other labor costs
- Partially offset by lower profit-sharing bonus expense and lower depreciation

Gross Margin Trend



Adjusted Selling & Administrative Expense (%)⁽¹⁾⁽²⁾



(1) Adjusted Selling & Administrative Expense is a Non-GAAP measure – refer to Reconciliation of Non-GAAP Results on the final slide of this supplementary information.

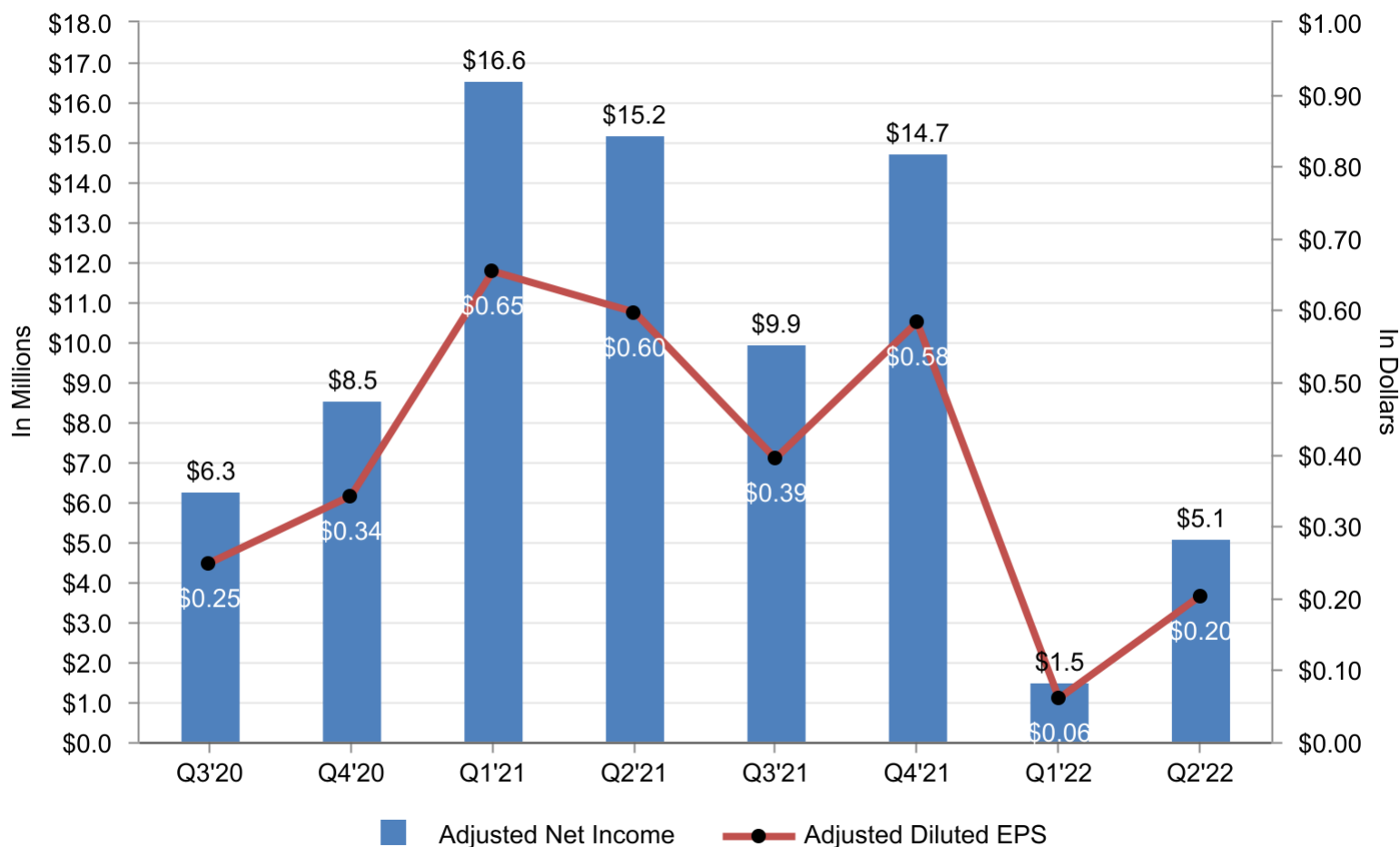
(2) Beginning in Q1'21, Adjusted Selling & Administrative Expense excludes changes in the fair value of our supplemental employee retirement plan ("SERP") liability. Prior periods have been revised accordingly.

Adjusted Operating Income ⁽¹⁾⁽²⁾



(1) Adjusted Operating Income is a Non-GAAP measure – refer to Reconciliation of Non-GAAP Results on the final slide of this supplementary information.
(2) Beginning in Q1'21, Adjusted Operating Income excludes changes in the fair value of our supplemental employee retirement plan (“SERP”) liability. Prior periods have been revised accordingly.

Adjusted Net Income and Adjusted Diluted EPS⁽¹⁾



(1) Adjusted Net Income and Adjusted Diluted EPS are Non-GAAP measures – refer to Reconciliation of Non-GAAP Results on the final slide of this supplementary information.

Balance Sheet

- Cash and cash equivalents were \$56.7 million at December 31, 2021
- Cash flow used for operating activities was \$48.3 million in the second quarter of fiscal 2022
- Cash conversion days were 81 days, up from 75 days in the second quarter last year
 - Inventory increased over \$40 million in the quarter and \$100 million year-to-date
- Capital investments in the second quarter of fiscal 2022 were \$15.1 million
- Borrowings on our credit facilities were \$103.0 million at December 31, 2021
- Our short-term liquidity available totaled \$119.5 million at December 31, 2021

Share repurchases

- No shares were repurchased in the second quarter of fiscal 2022
- Looking at balance sheet and capital allocation opportunities
- Share repurchases would be an effective use of capital
- Since October 2015, under our Board authorized share repurchase program:
 - A total of \$79.7 million returned to Share Owners by repurchasing 5.3 million shares of common stock
 - \$20.3 million remaining on program for deployment

Guidance for fiscal year 2022

Net sales range

\$1.4 - \$1.5 billion

Increase compared to fiscal 2021

▲ 8% - 16% in net sales

Operating income expected to be
3.75% - 4.25% of net sales

CapEx

\$70 - \$80 million



Supports facility
expansions in
Thailand, Mexico,
early investments in
Poland



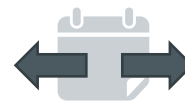
Expect to finish the fiscal year at the lower end of the sales range of \$1.4 - \$1.5 billion



Operating income guidance of 3.75% - 4.25% compares to original guidance of 4.5% - 5.0%



Fully anticipate returning to an annual run rate for operating income in a range of 4.5% - 5.0% of net sales



Expect the second half of fiscal 2022 to ramp-up significantly throughout the period, with a very strong finish to the fiscal year and operating income above that range, as we work down the backlog of orders



CapEx guidance of \$70 - \$80 million compares to original guidance of \$60 - \$70 million.

Additional capacity from facility expansions is needed for programs with new and existing customers, and a major win in the next generation of electronic braking systems for a longstanding customer

Closing comments



- First half of fiscal 2022 not for the faint of heart
 - Ongoing impact of the pandemic, global supply chain issues, parts shortages, and rising costs creating challenging environment
- Forecasting a strong second half to the fiscal year
- Backlog of open orders at record levels – up approximately 78% compared to Q2 2021
- Expansion in Poland is representative of success in winning new business
- Adding to package of value as multifaceted manufacturing solutions provider
- Supports growing business to the \$2 billion revenue milestone
- ESG Report for 2021 available on corporate website

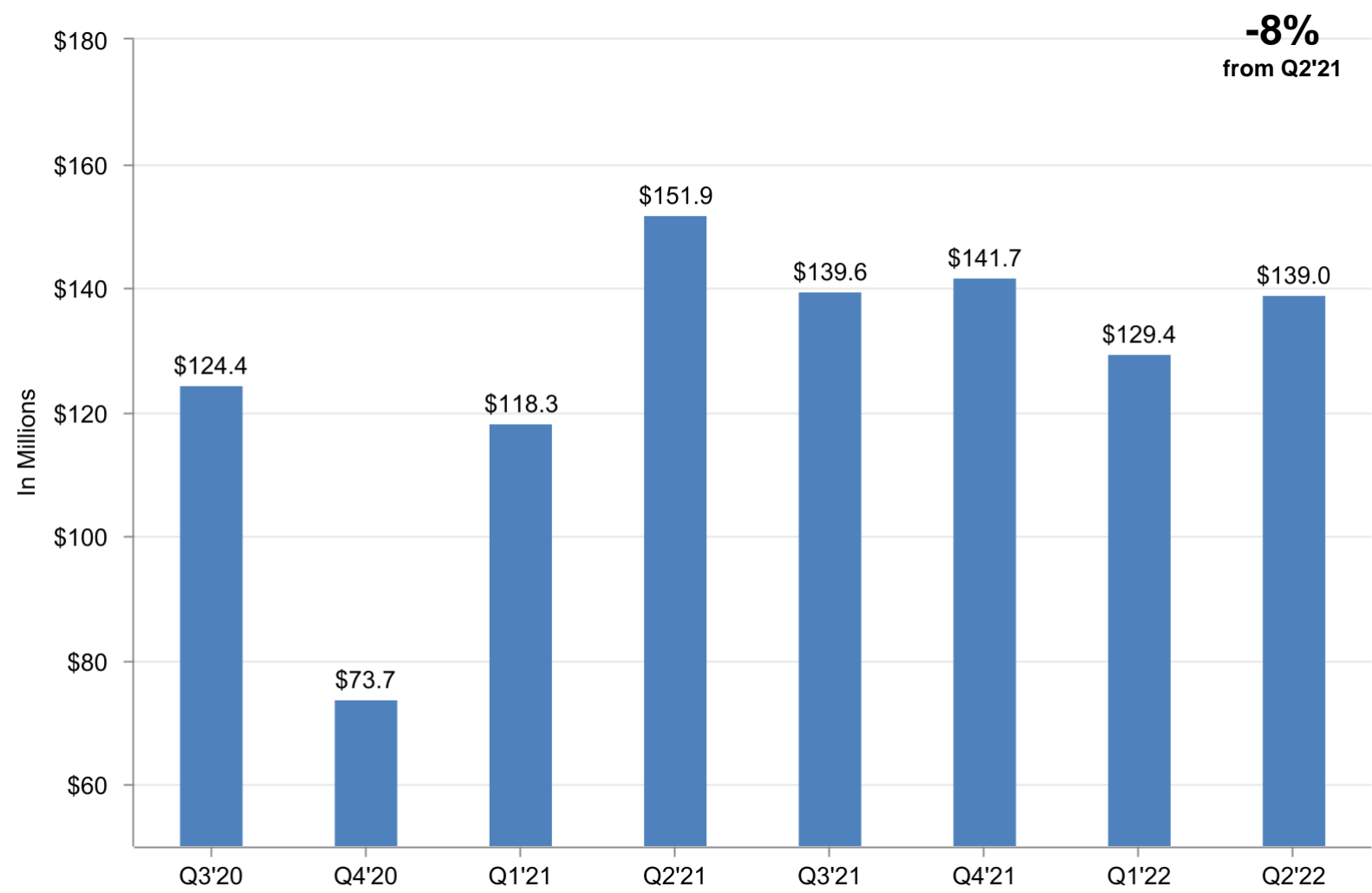
Q&A



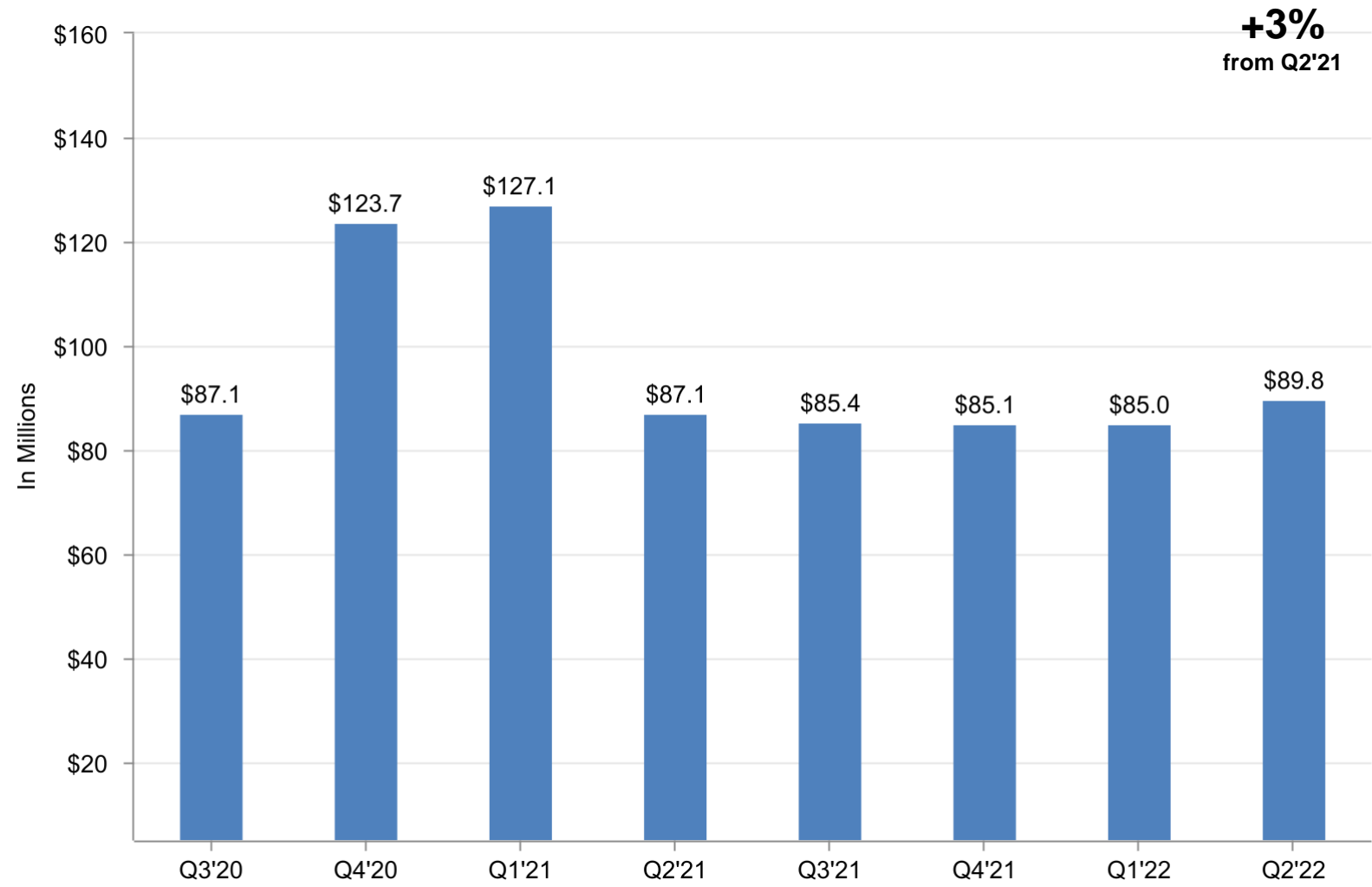
Appendix



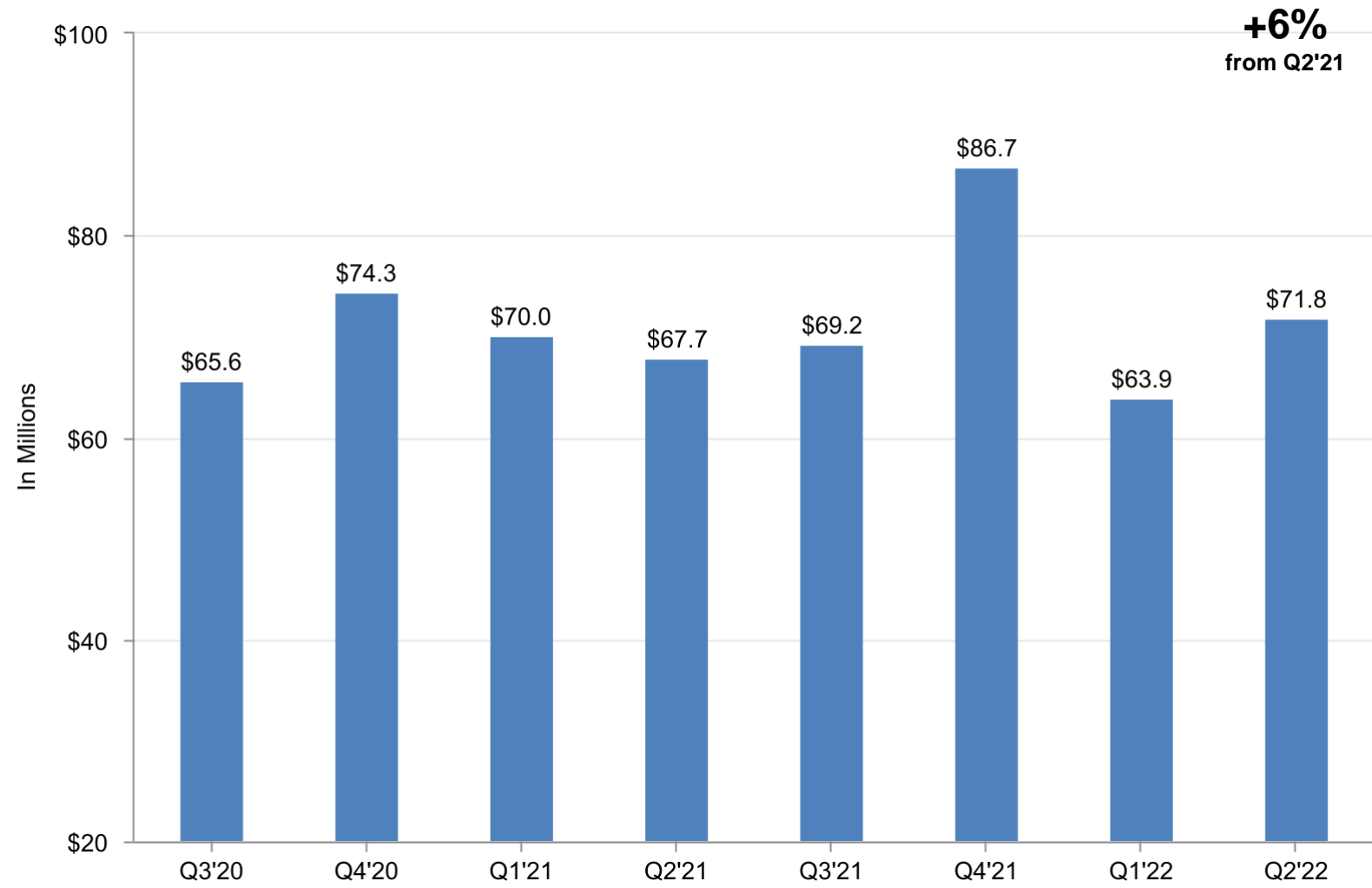
Net Sales Automotive Vertical Market



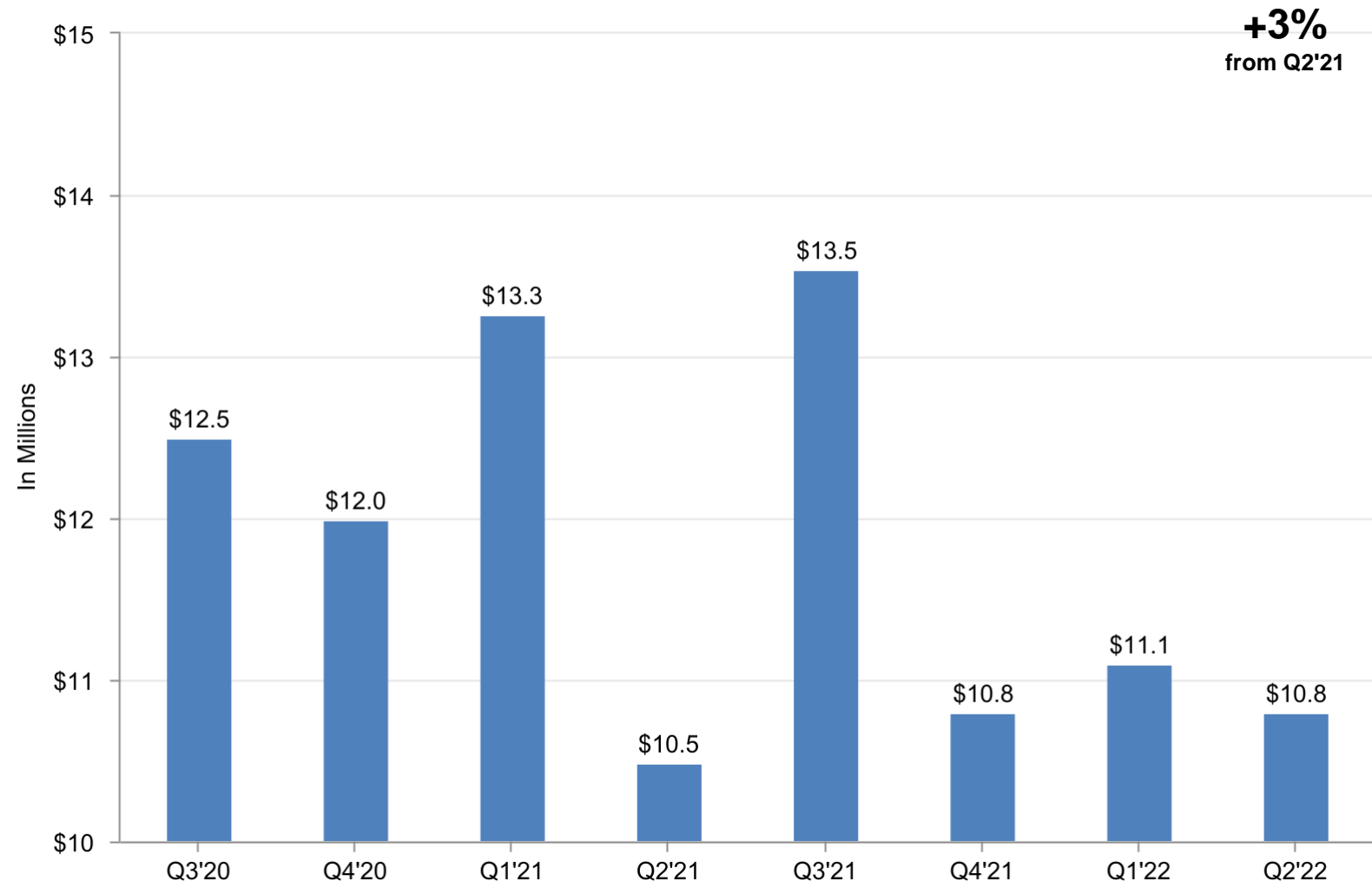
Net Sales Medical Vertical Market



Net Sales Industrial Vertical Market



Net Sales Public Safety Vertical Market



Reconciliation of Non-GAAP Results

(Unaudited, Amounts in Thousands, Except Per Share Data)	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Selling & Administrative Expenses, as reported	\$ 9,624	\$ 11,391	\$ 13,117	\$ 13,486	\$ 11,744	\$ 14,357	\$ 12,204	\$ 13,923
Less: SERP ⁽²⁾	(914)	1,282	550	811	164	548	(87)	402
Adjusted S&A Expense	\$ 10,538	\$ 10,109	\$ 12,567	\$ 12,675	\$ 11,580	\$ 13,809	\$ 12,291	\$ 13,521
Operating Income, as reported	\$ 10,588	\$ 1,609	\$ 17,807	\$ 16,179	\$ 14,638	\$ 17,079	\$ 4,780	\$ 6,914
Add: SERP ⁽²⁾	(914)	1,282	550	811	164	548	(87)	402
Add: Goodwill Impairment	—	7,925	—	—	—	—	—	—
Add: Lawsuit Settlements (Recovery)	—	—	(341)	—	(376)	345	(1,384)	—
Adjusted Operating Income ⁽²⁾	\$ 9,674	\$ 10,816	\$ 18,016	\$ 16,990	\$ 14,426	\$ 17,972	\$ 3,309	\$ 7,316
Net Income, as reported	\$ 6,259	\$ (1,273)	\$ 16,811	\$ 15,062	\$ 10,472	\$ 14,446	\$ 2,564	\$ 5,113
Add: After-Tax Goodwill Impairment	—	6,947	—	—	—	—	—	—
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	—	2,871	—	133	(254)	—	—	—
Add: Lawsuit Settlements (Recovery)	—	—	(259)	—	(285)	262	(1,050)	—
Adjusted Net Income	\$ 6,259	\$ 8,545	\$ 16,552	\$ 15,195	\$ 9,933	\$ 14,708	\$ 1,514	\$ 5,113
Diluted Earnings per Share, as reported	\$ 0.25	\$ (0.05)	\$ 0.66	\$ 0.60	\$ 0.41	\$ 0.57	\$ 0.10	\$ 0.20
Add: After-Tax Goodwill Impairment	—	\$ 0.28	—	—	—	—	—	—
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	—	\$ 0.11	—	—	\$ (0.01)	—	—	—
Add: Lawsuit Settlements (Recovery)	—	—	\$ (0.01)	—	\$ (0.01)	\$ 0.01	\$ (0.04)	—
Adjusted Diluted Earnings per Share	\$ 0.25	\$ 0.34	\$ 0.65	\$ 0.60	\$ 0.39	\$ 0.58	\$ 0.06	\$ 0.20
Operating Income (GAAP) (TTM)	\$ 40,706	\$ 31,996	\$ 38,688	\$ 46,183	\$ 50,233	\$ 65,703	\$ 52,676	\$ 43,411
Add: Goodwill Impairment (TTM)	—	7,925	7,925	7,925	7,925	—	—	—
Add: SERP (TTM) ⁽²⁾	(206)	848	1,420	1,729	2,807	2,073	1,436	1,027
Add: Lawsuit Settlements (Recovery) (TTM)	(215)	—	(341)	(341)	(717)	(372)	(1,415)	(1,415)
Adj. Operating Income (non-GAAP) (TTM) ⁽²⁾	\$ 40,285	\$ 40,769	\$ 47,692	\$ 55,496	\$ 60,248	\$ 67,404	\$ 52,697	\$ 43,023
Tax Effect (TTM) ⁽²⁾	9,090	9,831	9,940	10,859	11,786	12,844	11,017	9,530
After-Tax Adj. Operating Income (TTM) ⁽²⁾	\$ 31,195	\$ 30,938	\$ 37,752	\$ 44,637	\$ 48,462	\$ 54,560	\$ 41,680	\$ 33,493
Average Invested Capital ⁽¹⁾	\$ 438,634	\$ 437,263	\$ 435,465	\$ 433,192	\$ 423,545	\$ 415,999	\$ 414,121	\$ 424,854
ROIC ⁽²⁾	7.1 %	7.1 %	8.7 %	10.3 %	11.4 %	13.1 %	10.1 %	7.9 %

(1) Average Invested Capital is computed using the Share Owners equity plus current and non-current debt less cash and cash equivalents averaged for the last five quarters.

(2) Beginning in Q1 FY'21, adjusted selling and administrative expense, adjusted operating income, and ROIC exclude changes in the fair value of our supplemental employee retirement plan ("SERP") liability. Prior periods have been revised accordingly.