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Kimball Electronics, Inc.

Fourth Quarter and Fiscal Year 2022 Earnings Results

August 5, 2022

CORPORATE PARTICIPANTS

Andy Regrut, *Vice President and Head of Investor Relations*

Donald Charron, *Chairman of the Board and Chief Executive Officer*

Jana Croom, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Anja Soderstrom, *Sidoti & Co.*

Jaeson Schmidt, *Lake Street Capital Markets*

Robert Shapiro, *Singular Research*

Hendi Susanto, *Gabelli Funds*

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the Kimball Electronics Fourth Quarter and Fiscal 2022 Earnings Conference Call. My name is Darius, and I'll be the facilitator for today's call.

After the completion of the prepared remarks from Kimball Electronics' leadership team, there will be a question-and-answer period. Today's call, August 5, 2022, is being recorded. A replay of the call will be available on the Investor Relations page of the Kimball Electronics website.

At this time, I would like to turn the call over to Andy Regrut, Vice President, Investor Relations. Mr. Regrut, you may begin.

Andy Regrut

Thank you, Darius.

Good morning, everyone. Welcome to our fourth quarter conference call.

With me here today is Don Charron, our Chairman and CEO, and Jana Croom, Chief Financial Officer.

We issued a press release yesterday afternoon with our results for the fourth quarter and full fiscal year ended June 30, 2022. To accompany today's call, a presentation has been posted to the Investor Relations page on our Company website.

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Before we get started, I'd like to remind you that we will be making forward-looking statements that involve risk and uncertainty and are subject to our Safe Harbor provisions as stated in our press release and SEC filings, and that actual results can differ materially from the forward-looking statements. All commentary today is focused on adjusted non-GAAP results. Reconciliations of GAAP to non-GAAP amounts are available in our press release.

This morning, Don will start the call with a few opening comments, Jana will review the financial results for the quarter and guidance for Fiscal 2023, and Don will complete our prepared remarks before taking your questions.

I'll now turn the call over to Don.

Donald Charron

Thanks, Andy. Good morning, everyone.

I'm very pleased with Q4 and the full Fiscal Year 2022 results. For the second consecutive quarter, net sales reached an all-time high for the Company and operating income margin exceeded 5%. These results were in line with the guidance we provided in May and required highest levels of partnership across the value chain, including our global organization, our customers, the OEMs, and our suppliers.

In total, Fiscal 2022 was very much the bifurcated year we expected with a strong second half driving annual revenue to record levels. The world continues to experience unprecedented events and circumstances, and the lockdowns associated with China's zero tolerance policy on COVID-19 have been a reminder of how unpredictable the current environment can be. It seems we all are adjusting to a new normal way of living, working, and interacting with one another.

Our Company is embracing this ever-changing landscape with commitment and resolve, engaging in customer collaboration at levels even higher than our award-winning norm. These strong customer partnerships have produced several business wins along with expansions of our existing programs, which have us poised for growth into the future.

In fact, our backlog of open orders now exceeds $1 billion. As a result, our guidance reflects the strength continuing with double-digit sales increases and operating margin improvement in Fiscal 2023. We will experience a quarterly step up in performance over the course of the year due to new and existing programs ramping up volumes, steadily improving leverage of our completed facility expansions, and the continued ease of global supply chain constraints.

Turning back to the results for Fiscal 2022. Net sales in Q4 were $373 million, a 13% increase compared to the fourth quarter last year. This result could have been better as foreign exchange rates had relatively large impact on net sales in the period compared to Q4 of last year, a 3% unfavorable impact. Similar to Q3, the top line growth in the fourth quarter was driven by all four of the vertical markets we serve.

Net sales in Automotive, our largest business, were $152 million. This represents a 7% increase compared to Q4 last year and 41% of total Company sales in the quarter. It also completes a record year for the Automotive vertical market with total annual sales topping $580 million, which is up 6% from last year. Our success in this vertical market is a result of supporting programs, including the ramp-up of new product introductions in electronic power steering, automated driver assistance, passenger safety systems, vehicle mobility management, and electronic braking, including redundant braking systems in self-driving setups for both EVs, that is electric vehicles, and those powered by internal combustion engines.

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Net sales in Medical were $114 million, a 34% increase compared to Q4 last year and 30% of total Company sales. This was our best performing business in the quarter and capped off a year where the medical industry continues to recover and normalize from the pandemic. In total, our sales in the medical vertical market grew 2% in Fiscal Year 2022 to $392 million with applications supporting sleep therapy and respiratory care, image-guided therapy, in vitro diagnostics, drug delivery systems, AEDs, and patient monitoring equipment.

Industrial had a best ever quarter in Q4 with sales totaling $88 million, a 2% increase over the fourth quarter last year. This record performance was driven by products for climate control. It also completes a year where sales in the Industrial vertical exceeded $300 million or 5% above last year.

Finally, net sales in Public Safety were $14 million, a 33% increase compared to the fourth quarter of last year with the growth driven by thermal imaging, first responder electronics, and the production of security access products. This vertical market finished Fiscal Year 2022 with $50 million in revenue, a 4% increase year-over-year.

So in summary, another excellent quarter of record-setting top line growth and operating margin in excess of 5%. As I noted a moment ago, net sales were adversely affected by the strengthening of the US dollar. Foreign currency also unfavorably impacted earnings in the quarter. We estimate $0.12 per diluted share in non-operating expense in our provision for income taxes.

I'll now turn the call over to Jana to provide more insight on this impact while reviewing the financial results for the fourth quarter. She will also detail our guidance for Fiscal Year 2023. Jana?

Jana Croom

Thank you. Good morning, everyone.

As Don highlighted, total net sales in our fourth quarter were $373 million, an all-time quarterly high for our Company, but what he didn't mention was that this level of sales was 1.5% higher than the previous record, which was last quarter. So, a very encouraging trend.

The growth margin rate in Q4 was 9.2%, a 50-basis point decrease compared to the same period last year, but still a very strong result while facing several headwinds in the quarter, with low absorption in our facility in China, which was most directly impacted by the lockdowns from the zero-tolerance policy on COVID-19, the ramp-up of our facility expansion in Mexico, as well as general inflation.

Adjusted selling and administrative expenses in the fourth quarter were $14.8 million compared to $13.8 million in Q4 last year, with the increase in absolute dollars resulting from higher salary and related payroll costs and stock-based compensation. When measured as a percent of sales, however, adjusted selling and administrative expenses were 4%, a 20-basis point improvement compared to Q4 last year, with lower bonus costs in Fiscal '22 primarily accounting for the difference.

Adjusted operating income for the fourth quarter was $19.4 million or 5.2% of net sales, which compares to last year's Q4 adjusted results of $18 million or 5.5% of net sales. Other income and expense was an expense of $5.3 million in the fourth quarter versus income of $400,000 in Q4 of Fiscal 2021, with the change resulting from higher interest expense this year due to record levels of inventory and the foreign exchange impact that Don noted. This occurred primarily due to the strengthening of the US dollar compared to the euro and China's yuan.

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Effective tax rate in Q4 was approximately 35.1% compared to 17.6% in the fourth quarter last year. The increase resulted from foreign exchange remeasurement and non-deductible executive compensation expense associated with Section 162(m). Additionally, the prior year Q4 benefited from a reversal in state tax valuation allowance. We expect the effective tax rate in Fiscal 2023 to be in the mid 20% range, similar with our historical trend.

Net income in the fourth quarter of Fiscal 2022 was $9.9 million or $0.40 per diluted share compared to adjusted net income in Q4 last year of $14.7 million or $0.58 per diluted share with the decline predominantly driven by below the line items such as the higher other income and expense and effective tax rate I just mentioned.

Turning now to the balance sheet. Cash and cash equivalents at June 30, 2022 were $49.9 million and cash flow provided by operating activities in the quarter was $1.5 million. For the full year, we used $83 million of cash from operations. Cash conversion days in Q4 were 91 days, up from 64 days in the fourth quarter of last year. All three of these results, that is cash from operations in the quarter, full year, and CCD were driven by an increase in inventory, which is up $195 million from a year ago and $57 million from last quarter. We continue to have a dollar of inventory waiting on a dime, so to speak.

Materials that are needed and available today are being purchased so that we can fill customer orders when parts impacted by the component shortages are received. We expect inventory levels to normalize as the parts shortage situation improves and the backlog of open orders is worked down. This is reflected in our guidance of a stair stepped Fiscal 2023.

Capital expenditures in the fourth quarter were $25 million, largely in support of our facility expansions in Mexico and Poland, as well as new business awards. For Fiscal Year 2022, Capex totaled $75 million, which was at the midpoint of our updated guidance for the year. Borrowings on our credit facilities at June 30, 2022 were $180.6 million compared to $66 million a year ago, and $137 million at the end of Q3. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facility, totaled $178.6 million at June 30, 2022.

During the fourth quarter, we invested $4.2 million to repurchase 225,000 shares at an average price of $18.77. Since October of 2015, under our Board-authorized share repurchase program, a total of $88.8 million has been returned to our share owners by purchasing $5.8 million shares of common stock. We have $11.2 million remaining on the repurchase program.

So, in summary, Fiscal 2022 was a good year for our Company with record results on the top line and a strong funnel of new business increasing our backlog of open orders. We executed a capital deployment strategy that included investing in future growth with expansions at multiple facilities, returning cash to share owners in the form of stock repurchases, and supporting our customers with strategic inventory builds to mitigate parts shortages. Even though the increases adversely impacted certain financial metrics, including cash flow, CCD, and ROIC, we fully expect improvement in these areas as conditions normalize in the global supply chain.

As Don noted, we are providing guidance for Fiscal Year 2023 with net sales estimated to be in the range of $1.6 billion to $1.7 billion, a 19% to 26% increase year-over-year. Operating margin is expected to be in the range of 4.6% to 5.2%, and capital expenditures totaling $80 million to $100 million, which includes equipment in the facility expansion in Mexico, the expansion in Poland, and capital deployment to support a healthy funnel of new product introductions and the addition of equipment with leading edge technologies and capabilities.

With that, I'll now turn the call back over to Don.

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Donald Charron

Thanks, Jana.

Before we open the lines for questions, I'd like to share a few thoughts in closing. We are very proud of our accomplishments in Fiscal Year 2022, and we believe the Company is ideally positioned for growth in Fiscal Year 2023 and the years to follow.

As an EBA Company, we are incented to make investments that drive shareholder value with returns that exceed our weighted average cost of capital by a targeted amount. I am pleased to announce that one such investment, our facility expansion in Mexico is complete, with the ribbon cutting ceremony to celebrate the new footprint planned for August 11. Similar to the construction recently completed in Thailand, this expansion was on budget and on time and doubles our capacity in Mexico. We also recently broke ground on our facility expansion in Poland, which will increase existing production square footage by approximately 40%. This project is on schedule for completion roughly a year from now in early Fiscal Year 2024. Each of these facility expansions align our production capacity with our customers' growth as we take aim at the $2 billion annual revenue milestone.

Our strategy as a premier multifaceted manufacturing solutions provider focuses on applications which involve high levels of complexity, quality, reliability, and customer service. We strive to be a supplier of choice, and this past year approximately 80% of our revenue came from customers we've done business with for over 10 years. As part of our strategic plan, we've identified mega trends in vertical markets which fuel our growth with our diversification objective where each vertical—Automotive, Medical, and Industrial—represent one third of the total Company.

This will be achieved with higher rates of growth in Medical and Industrial when compared to Automotive, which is quite a goal considering the promising growth opportunities we have in the Automotive vertical market with the electrification of vehicles. Electronic content is being added at an increasing rate, and advanced technologies and expanded operating systems that require stringent production standards and compliance with industry regulated certifications, all of which align very well with our core competencies and manufacturing capabilities.

In addition, over the last couple of years, consumer demand has outpaced supply, making it difficult for some to purchase a new vehicle. As a result, the average age of cars and trucks in the U.S. is now at an all-time high, approximately 12.5 years. We see this as a leading indicator for the consumer demand trend to continue as purchases to replace vehicles increases. Our expertise in chassis control may also benefit as autonomous driving and overall vehicle connectivity increase in popularity and adoption.

The industry mega trends in Medical suggests excellent opportunities for growth as well as the population continues to age and accessibility and affordability to healthcare increases. Also the movement towards smaller device sizes with high levels of precision and accuracy and connected drug delivery systems bode well for our Company. Our new business development efforts have a heavy lean toward Medical with significant focus in this vertical market. In addition, our manufacturing facility in Indianapolis recently received MedAccred injection molding accreditation. This designation identifies and verifies compliance with critical manufacturing process requirements and puts Kimball Medical solutions in a group of select injection molders that have been endorsed to serve the medical industry.

Finally, Industrial, which we refer to often as green and clean, has an excellent setup for growth. The consumer trends, which are raising awareness on the consumption of natural resources with the objective of increasing conservation of water, gas, and electricity provide a path for the applications we support. For example, OEMs of climate control systems are looking to increase efficiency in their units, and the

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electronic controls that they design and that we manufacture can improve when and how long their products operate, which optimizes energy efficiency and overall performance.

We see a synergistic opportunity to combine our Public Safety vertical into Industrial for operating and reporting purposes going forward. In total, each of these vertical markets is critical toward achieving the double-digit top line growth in our guidance for Fiscal Year 2023 and the longer-term target of $2 billion in annual revenue.

Also some of you may notice that Mike Morales will not be asking any questions on our earnings call today. That is because he joined our organization as Director of Corporate Development this month, reporting directly to Jana. We are excited to have him as a part of the Kimball team.

Finally, at the center of our success is the Kimball family worldwide. I'd like to thank them for their dedication and support throughout Fiscal Year 2022 and look forward to their partnership in the upcoming year.

I would now like to open the lines for questions. Darius, do we have any analysts with questions in the queue?

Operator

The first question comes from Anja Soderstrom from Sidoti. Please go ahead.

Anja Soderstrom

Hi everyone and congratulations on another outstanding quarter, and congratulations on the new hire.

Donald Charron

Thank you

Anja Soderstrom

I wanted to start off with asking about the path through price increases. You're able to pass those through to your customers, right, on the components?

Donald Charron

Yes, that's right, Anja. We have very strong working relationships with our customers, and as we have come across for example increases in material prices or premiums that we have to pay or any extraordinary costs like logistics, freight costs, etc., we are able to pass the majority of those onto our customers in the selling prices.

Anja Soderstrom

Okay. Does that show up in your revenues but to the extent you're not able to add any profit on that? Once everything normalized, would that have sort of maybe an even more positive effect on your margins?

Donald Charron

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It would be small, Anja, but yes, that would show up in our revenue. Also show up in our margins as well to some extent. I think you use the word, the frame, mark up on the increases that we're passing on. That wouldn't be the sort of normal way we would do business. The understanding we would have with our customers would be to pass through the actual cost impact. So yes, it would have just a very slight dilutionary effect on margins.

Anja Soderstrom

Okay. Thank you.

Then in terms of Medical, what are you seeing there in terms of the catch up on the electives there, and what does your backlog look like in Medical?

Donald Charron

It's very strong there as well, and what we have been predicting, and what the industry has been predicting, is the sort of return of a lot of those elective or scheduled procedures, and of course our sales have increased as a result as well. We are constrained there also with shortages. Unfortunately, it's not just limited to some of the other areas that we maybe talk about more frequently, like our Automotive vertical, but we are also constrained there in terms of being able to catch up all the backlog, but it's steadily improving.

Anja Soderstrom

What are you seeing in terms of the supply chain? Is it sort of slightly moving towards more positive territory, or is it still a long way to go?

Donald Charron

I would say for our end market verticals and the component technology and categories that are most often used in those products for our end market verticals, I'd say it's improving, but very slowly. I think, as you know, we don't do anything in the consumer electronic space, for example, clearly there, it's much better. It's different and it's much better, and it's not only caught up but maybe flipped to even a surplus situation. But the technologies and the component categories that are often designed into what we do for our customers and our end market verticals, still trying to catch up and it's still pretty sluggish.

Anja Soderstrom

Okay.

How is the situation in Europe now? Is that opening up a little bit more after the COVID lockdowns? Are you picking up there or what are you seeing in Europe?

Donald Charron

Yes, it's pretty steady for us there as well in our two facilities there, and as you know, most of what we produce there stays in the European Union. We're watching that very carefully because it seems like it could slow down quicker. Each and every month, as we get new inputs from our customers there, we're studying those very carefully because yes, it seems like things are still not quite like they were before COVID, and I think maybe the sort of recessionary or global recessionary fears might be a bit greater there.

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Here as we sort of ended our fiscal year and go into July and August, it's difficult to get a read this time of year. As you know, Anja, July and August is a sort of a slowdown period in Europe anyway, but we're anxiously waiting for things to—for everyone to get back from their vacations and see how things look as we go into September, October, and November.

Anja Soderstrom

Okay. Thank you. That was all for me.

Donald Charron

Thank you, Anja.

Operator

The next question comes from Jaeson Schmidt from Lake Street. Please go ahead.

Jaeson Schmidt

Hey guys. Thanks for taking my questions, and I also want to echo my congratulations on a strong finish to the year.

Just a clarification. I know you called out some FX headwinds to sales in June but how much revenue could you not ship because of supply constraints?

Donald Charron

Yes. Hard to put an exact number to that, Jaeson, in terms of what it could have been had we had all the parts that we needed to shift, but I think the way we want you to think about it is the fact that when you go back to the full year guidance that we issued a year ago, at the start of Fiscal Year 2022, we guided between $1.4 billion and $1.5 billion. Obviously we ended $50 million below the low end of that guidance. So as we said in the last call, we would at least feel like if we had the components we needed, we'd be at the upper end of that guidance, and maybe even better.

So we think there's at least $150 million, probably the number’s a bit bigger, of backlog that we should have already shipped during the fiscal year. Obviously, making that all up in one quarter would be extremely difficult because we lost it steadily over the course of the fiscal year of 2022, but that's how we'd want you to look at what didn't ship.

Just looking at order backlog and what our customers ask for from us, and again on both existing programs and new programs we're launching, yes, we could easily say we'd be at the upper end of our guidance that we gave at the beginning of last fiscal year. I will say for the guidance that we provided for Fiscal Year 2023, we've taken what we learned from Fiscal Year 2022. We continue to study component availability, especially the component availability that matters most to us and our customers and the end markets we serve, and we tried our best to factor that into the full year guidance.

So we are still going to be restricted, constrained in terms of what we can build in Fiscal Year '23. It's obviously improving because we're projecting a pretty significant increase in output year-over-year as we contemplate a year that would provide top line growth of 19% to 26%, but I guess the key point there is that fantastic, you could say, growth and recovery, but our Fiscal Year ‘23 will still be constrained by the availability of material.

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Jaeson Schmidt

Okay. No, that's really helpful color, and acknowledging sort of that you just noted scrubbing that kind of outlook pretty well.

Are you at all concerned or are you baking in the potential for any de-commits?

Donald Charron

We've been working very closely with our customers to dial in sort of their outlook into our outlook as carefully as we can and making sure it's aligned, and we have those conversations with those customers each and every month as we go through the sales and operations planning process. We haven't seen a lot of de-commits, or let's say customers pulling demand down or out. Again, that's pretty fluid as the whole world sort of looks at what the global economic growth will look like as we finish this calendar year and go into Calendar 2023. But I feel comfortable that we have ourselves in a great position with our customers to put into our demand profiles the best look that they have in terms of what their demand is going to be.

They're also by the way working on their inventory levels, getting those buffers back in place, catching up because they don't like operating as thinly as we are operating right now in terms of overall availability. We are literally in some cases shipping by air from our facility and maybe one of our customers is shipping by air to their customer, and so it's really impactful to all of us to be in this mode. So, I suspect that we will have a buffer, a period of time to rebuild up the inventory in the supply chain, from anything really big happening in the sort of global economic outlook of growth.

Jaeson Schmidt

Okay. That makes sense.

Then just the last one for me, and I'll jump back in the queue. Just holding up on Anja's question on the medical and how that is reflected in the pipeline, at a high level, if we think about that $1 billion plus in your pipeline, does it break down between the segments pretty similar to what you saw in this past fiscal year?

Donald Charron

Yes, I think that's fair. I think that's a fair assessment, directionally correct. When we look at where we stand today across all the verticals, and obviously we're providing a big growth number in our guidance, but when we look across our verticals, the guidance for consolidated growth is not that different by vertical.

I hope that answers your question, Jaeson. Does that help?

Jaeson Schmidt

It does. That's perfect. Thanks a lot guys.

Donald Charron

Thanks, Jaeson.

Jana Croom

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Thanks, Jaeson.

Operator

The next question comes from Robert Shapiro from Singular Research. Please go ahead.

Robert Shapiro

Hi. Thanks for taking my questions.

My first question is the sales expectation of 19% to 26% increase for next year is on top of this past quarter, there was an all-time high in sales. So can you talk about how the environment gives you such confidence that you can handle such a sales increase during this year?

Donald Charron

Yes, that's a really good question, Rob.

We talked about it in a couple of our previous calls, about getting our footprint in place, including people, resources, processes, and capital equipment, in most cases, at least a year ahead of starting production. It's just sort of the nature of the beast in terms of the verticals we serve and the expectations of the customers to have that capacity in place, validated and ready to go, and then ramping it up over a period of time.

So you could argue in many ways that most of the resources that we need to produce the revenue we just guided to for Fiscal Year 2023 are already in place. We've been putting them in place steadily throughout Fiscal Year 2022. As we talked in webcast here today, this idea of sort of a stair step year where we start Q1 with ramping up many of those new lines and by the end of the Fiscal Year in Q4, many of those same lines will be running at rate.

So that's really what we face. The confidence level then is pretty high for us in the sense that, yes, we've been working really hard to get those resources in place, and we believe we got them in place. As I said, we've still got to see an improving material availability market, and we've got those constraints factored into our guidance, so obviously, the fact that I'm saying we're constrained still by material and guiding to 19% to 26% growth, yes, if we didn't have any material issues, that number would be bigger.

And that's a challenge. That's a challenge for our facilities around the world, and we'll have many lines running at full capacity or near full capacity, and many of our customers are counting on us to get to those rates. It's absolutely imperative for them to achieve their business plans as well.

Robert Shapiro

Great.

During 2022, sales increased over the four quarters. Is there seasonality in your business that we should account for in 2023? Or should we assume sales to be kind of similar in each of the quarters?

Donald Charron

Yes, that's a really hard question to answer, Rob, in the sense that we've been constrained in so many areas that if there was seasonality, it would be replaced by availability, if that makes sense. We haven't

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really had customers ask us to do anything but produce everything we can. That's been more of the norm. We've been gated by so many material shortages that literally if, for example, you know or maybe you've heard today that we have a pretty big business in climate control with a lot of the large customer that are in that value chain, both tiered suppliers that are providing systems to the brands that you would know very well, like Trane (phon) and Carrier and Lean these types of people.

Their businesses tend to have seasonality. They sell a lot more air conditioners when it's really hot out, for example, and they sell a lot more furnaces when it's cold out, and so those climate control customers would typically, we would say, have some seasonality as a result, but what we've seen with the parts shortage situation, much of that seasonality is just—well, we just can't see it now because we're asked to build everything we can based on availability of components. I think it's something we'll come back to and look at once the value chain in some of the markets we serve sort of gets back to some sort of new normal.

Jana Croom

Hey, Rob, I would add that as you're building out your model for Fiscal Year 2023, I wouldn't think so much about seasonality, but I would think about the fact that as we're opening up particularly the New Mexico facility, as Thailand which opened in January, ramp up to full speed, you would expect sequential growth and revenue as we have more new product introductions, and we get the ramping up the Don referred to of all of those new products, and so not so much seasonality, but definitely stair step sequential growth quarter-over-quarter.

Robert Shapiro

Great. Thank you. Thank you both.

Donald Charron

Thanks Rob.

Operator

The next question comes from Hendi Susanto from Gabelli Funds. Please go ahead.

Hendi Susanto

Good morning, Don and Jana.

Donald Charron

Hello, Hendi.

Jana Croom

Good morning.

Hendi Susanto

Don, I would like to request more insight into the step up from $1.3 billion to $1.6 billion to $1.7 billion. Kimball Electronics has significantly invested in capacity expansion. So in terms of where the incremental

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revenue, like $300 million to $400 million come from, like which production capacity across Thailand, Mexico, and Poland, can you help us sharing more colors on that?

Donald Charron

Yes, I can Hendi, and yes, for sure, the expansion sort of telegraphs that we have a lot of growth going into those parts of our footprint. So Thailand, Mexico, and Poland, all of them previously announced expansions, two of them are already taking occupancy on. So yes, those, we got a lot of business pointed towards that part of our footprint and the growth is significant there, but I would also say that we've been very successful growing where we've not announced expansions, and maybe the way to say that is not yet announced expansions.

First of all, we've been very successful growing in all the regions of the world that our supply chains feed into. So Europe, North America, China for China have all been successful for us from a business development perspective, and so as we look at the growth that we've guided for Fiscal Year 2023, it is very well spread across the regions we support and really across our entire footprint.

Hendi Susanto

I see.

Then Don, and then furthermore with the $80 million to $100 million of Capex investment in the current fiscal year, how close is Kimball Electronics toward the $2 billion revenue goal? I'm wondering that $80 million to $100 million of Capex, how much capacity in terms of dollars of revenue that is associated with let's say like a midpoint of $90 million of Capex?

Donald Charron

Yes. As we talked about in the script today, Hendi, we've got our sights set on a $2 billion annual revenue goal, and with the Capex that we've had the last couple of years and the Capex we're guiding to for this year, as we exit Fiscal Year 2023, we think we'll have the footprint to approach that annual revenue number, both from a facility standpoint and also approaching it from an equipment standpoint as well.

Hendi Susanto

Okay.

And then one question for Jana. Depreciation will go up because of Capex investment. How will that affect gross margin and operating margin for the next one or two years?

Jana Croom

Yes. What I would say is I would plan for the Capex, the higher level of Capex, to have a roughly 10-year depreciable life. I think that's probably pretty standard for our industry, but what you should also expect is increased revenue over time associated with that Capex investment, such that over the longer term, you're going to be able to maintain that growth margin rate. So there should be a little bit of a differential that you're going to see in the beginning as that capital starts to earn its value, but that's just the temporary difference between capital deployment, timing, and revenue coming through and as we sort of cycle through, that's going to normalize and I would expect our gross margin rates to hold in very nicely.

Hendi Susanto

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Thank you, Don. Thank you, Jana.

Donald Charron

Thanks, Hendi

Operator

It appears you have no questions at this moment, so I'm going to hand it back to Don for any final remarks.

Donald Charron

Thank you, everyone. That brings us to the end of today's call. We appreciate your interest and look forward to speaking with you in the near future. If you have any questions in the interim, please feel free to reach out to Andy. Have a good day.

Operator

At this time listen, listeners may simply hang up to disconnect from the call. Thank you and have a nice day.

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