Kimball Electronics

First Quarter Fiscal 2023 Results

Quarter Ended September 30, 2022

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

Safe Harbor Statement

Certain statements contained within this supplementary information, including our fiscal year 2023 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, and conflicts such as the war in Ukraine, 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, 2022, 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 Constant Currency Growth, 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 in the Appendix of this supplementary information.

Today’s speakers



Don Charron
Chairman & CEO



Jana Croom
CFO



Andy Regrut
VP Investor Relations

Pleased with Q1 results and strong start to the new fiscal year



- For the third consecutive quarter, net sales surged to a record-breaking level, setting another all-time high for our company
- Operating income margin improved compared to the same period last year
- These results were in line with our estimates as we ramp-up production on new & existing programs
- Leverage our facility expansions in Thailand and Mexico
- These investments increased fixed costs that were not fully absorbed when comparing the operating margin rate to Q422

Affirming guidance for the full year with results expected at the high-end of the guidance range

Today’s operating environment remaining challenging, filled with uncertainty

- Geopolitical events
- The pandemic
- Global supply chain disruptions and parts shortages
- An economic slowdown with rising inflation rates

Our team continues to navigate these unprecedented circumstances by focusing on what we can control…

- Health & safety of our associates
  - Not just their physical well-being
  - Mental health is as important as ever
- The global supply chain
  - Signs of a gradual recovery from the pandemic
  - Modest improvements occurring at a measured pace
- Addressing parts shortages has become a constant priority for many in the value chain
  - Not all microchips created equal, high-grade chips still in short supply
- As costs rise, we are leveraging productivity improvements and partnering with customers to maintain competitiveness

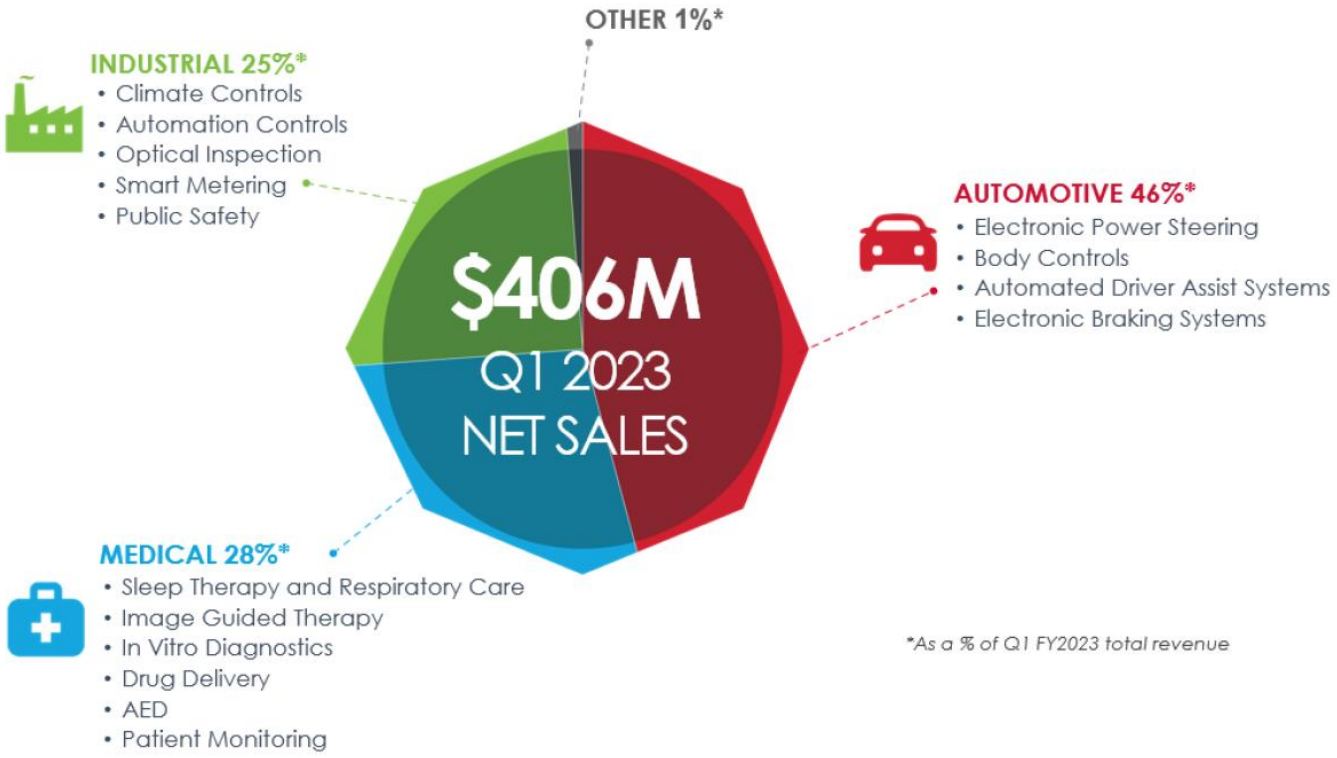




For the first quarter, net sales were $406 million, a 39% increase compared to Q1 last year

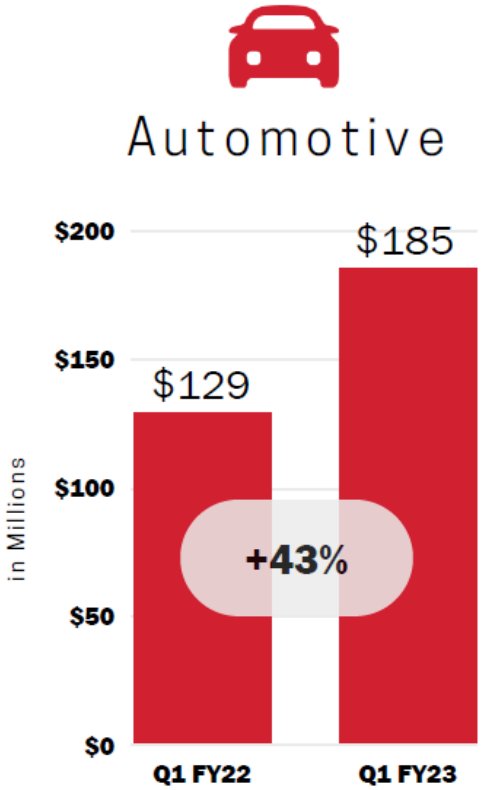


FX unfavorably impacted sales by 5% in Q1



Record high… 1st time sales exceeded $400 million in quarter
All three vertical markets reported large increases

Net sales in Automotive were a record $185 million



43% increase compared to Q1 last year

Represents 46% of total company sales in the quarter

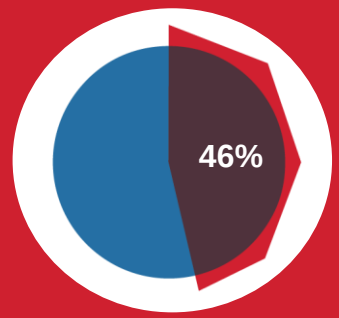
21% step-up from Q4

Advanced Driver Assistance Systems

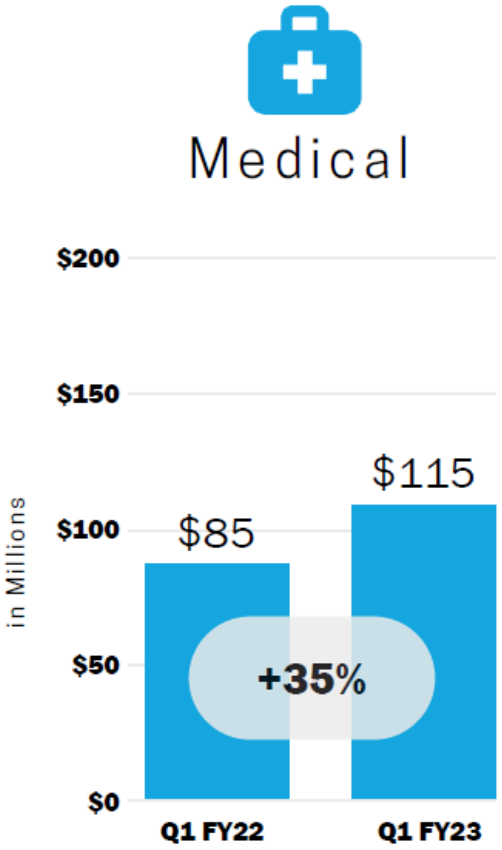
- Battery management
- Electronic steering
- Electronic motor controls
- Redundant safety systems

- We are ideally positioned to assist as the electrification of vehicles evolves



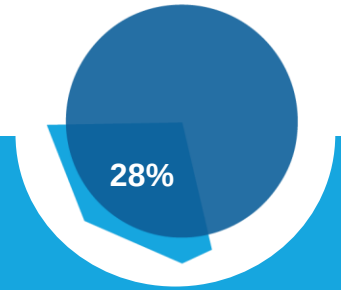


Net sales in Medical were $115 million



- 35% increase compared to Q1 last year
- Represents 28% of total company sales in the quarter
- Second consecutive quarter for this business to post gains in excess of 30%
- Kimball Medical Solutions highlights our full-service of capabilities
  - When our customers consider the whole package of value, it's clear our offering extends beyond electronics



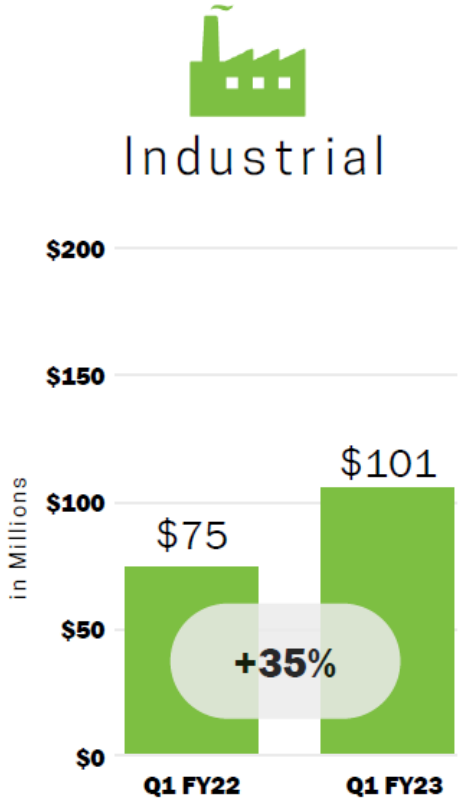


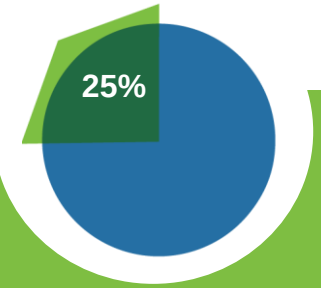
Net sales in our Industrial vertical totaled $101 million





- 35% increase over the recasted first quarter last year
- Represents 25% of total company sales
- As a reminder, Public Safety is now included in Industrial results
- We collaborate with our customers on products that support smart cities, energy efficiency, and energy management
  - As well as industrial devices and applications focused on public safety





Recent advances in electronics and mobile technology, combined with life-style changes coming out of the pandemic, are producing growth opportunities

Summary

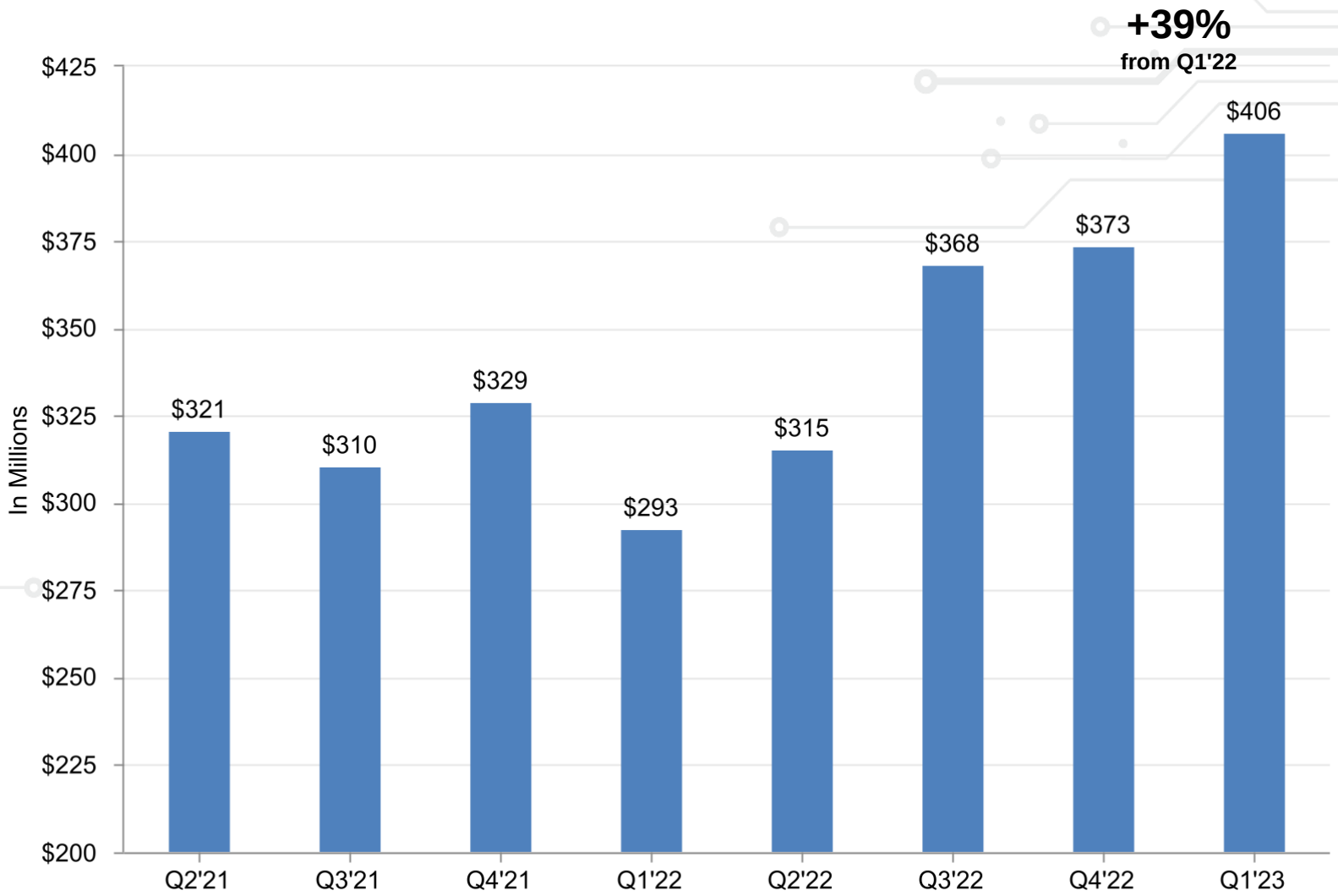


- A very good quarter and strong start to the new fiscal year
- Record-setting sales
- Momentum that will continue throughout fiscal 2023

Net sales in Q1 were an all-time, record high for the company

Foreign exchange adversely impacted sales by 5% in the quarter

At historical rates, the growth in Q1 would have been even more impressive

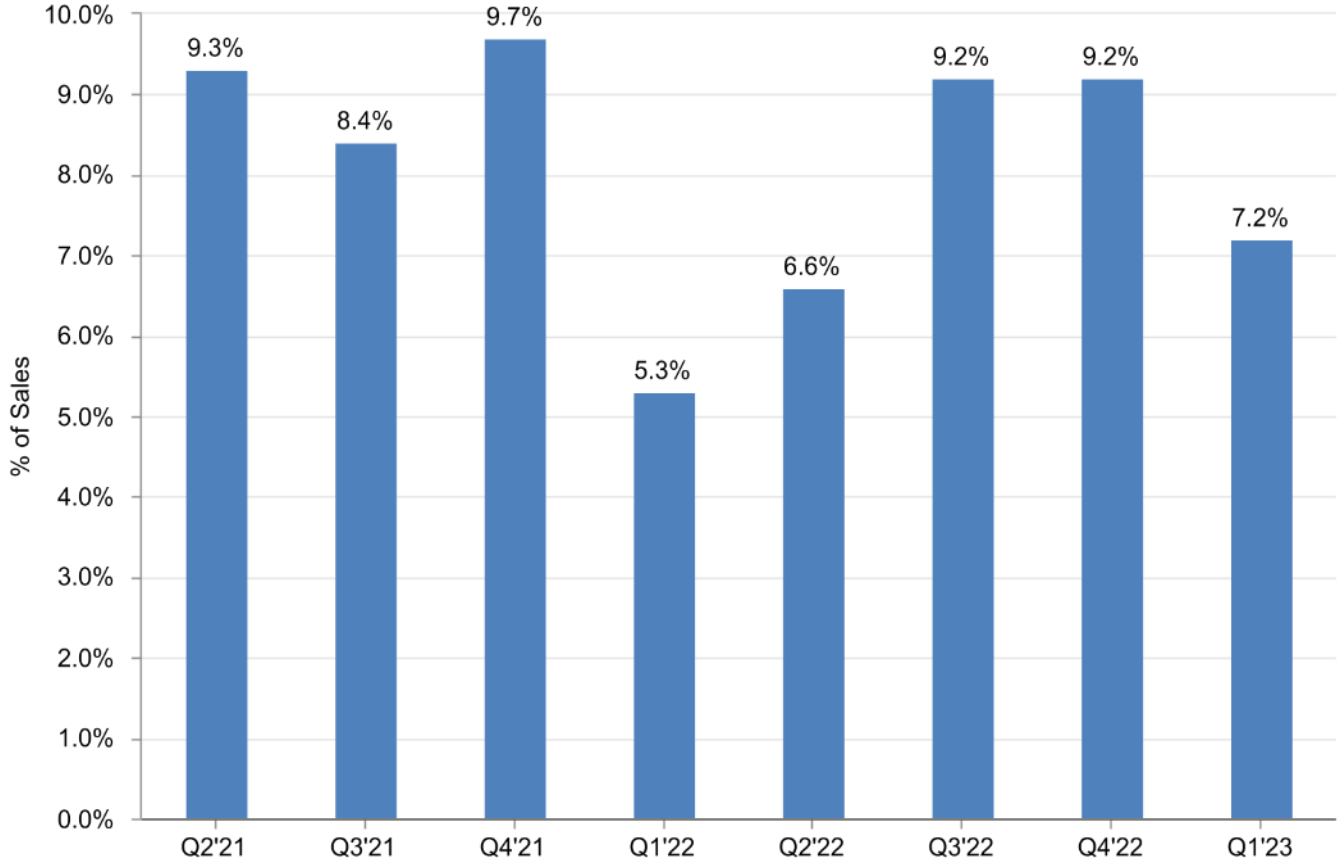


The gross margin rate in Q1 was 7.2%, a 190 bps improvement compared to the first quarter last year

Drivers of GM%

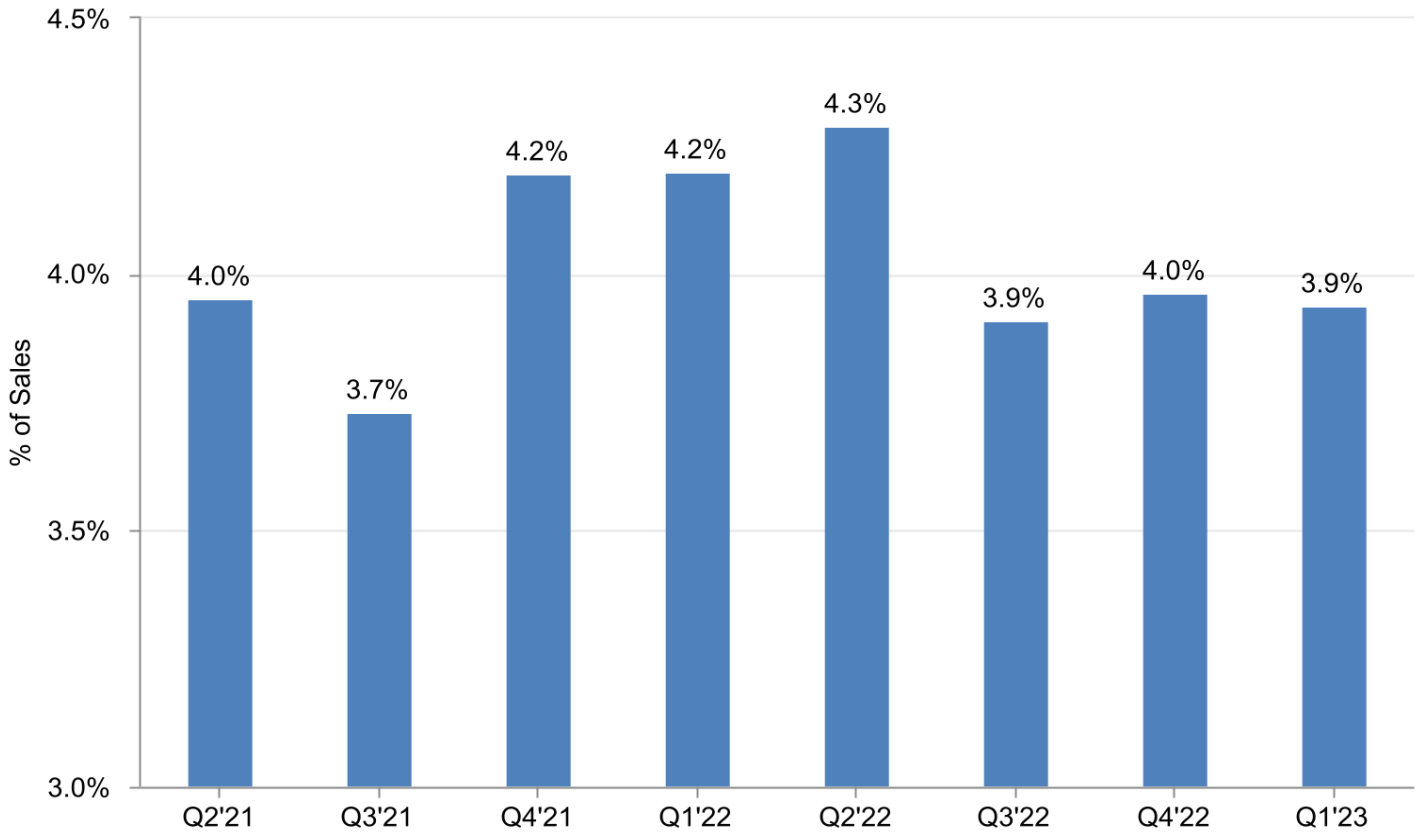
- Record sales driving a higher level of absorption this year versus a year ago
- In Q1 2022, production was more significantly curtailed by parts shortages

Gross Margin Trend



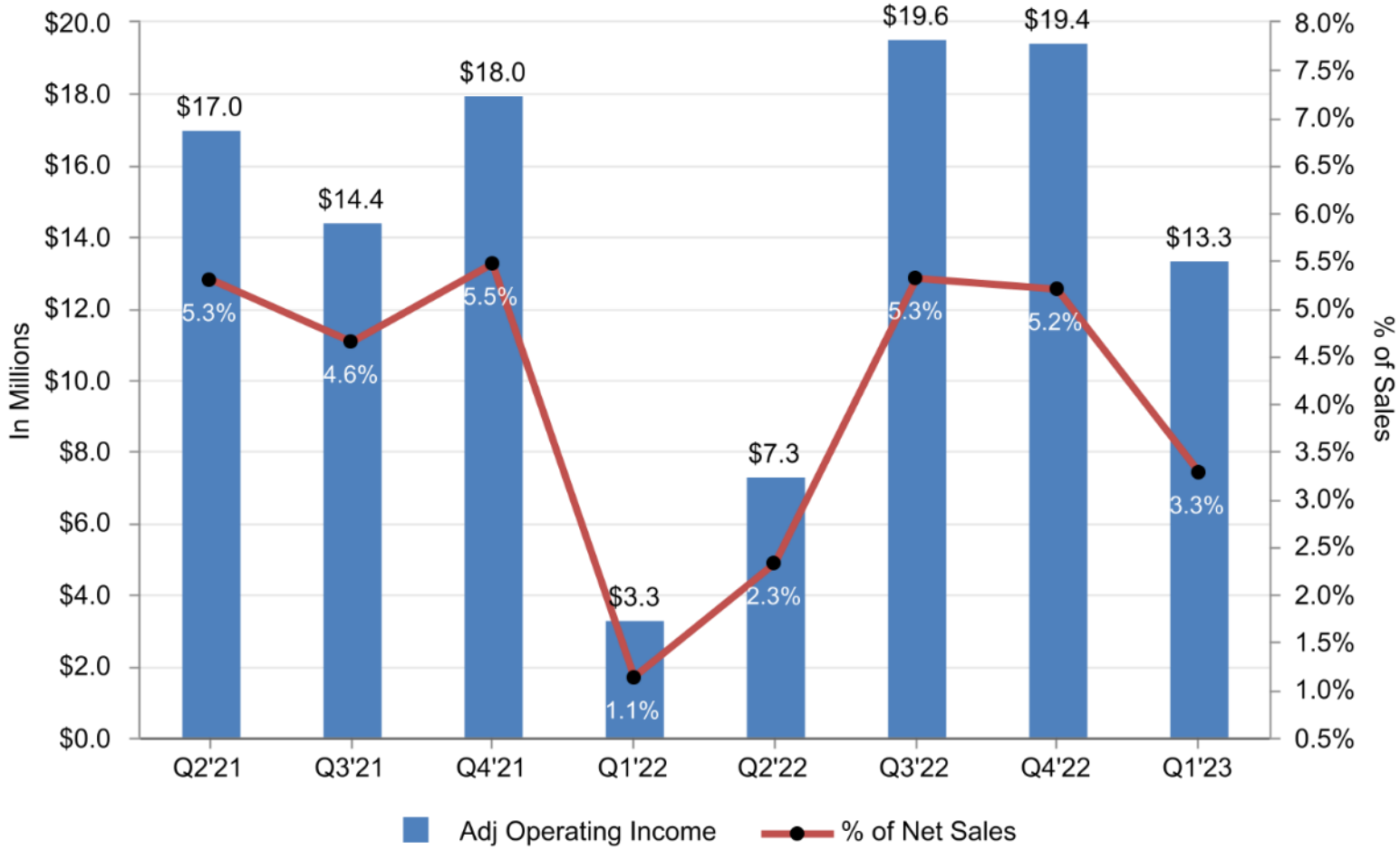
Adjusted selling and administrative expenses (1)

- Adjusted selling and administrative expenses were $16.0 million, compared to $12.3 million in Q1 last year
- Increase resulted from:
  - Higher salary and related payroll costs
  - Stock-based compensation
  - Factoring fees associated with accounts receivable
  - Travel expenses
- When measured as a percent of sales, adjusted selling and administrative expenses were 3.9%, a 30 bps improvement compared to Q1 last year



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

Adjusted operating income (1)



(1) Adjusted Operating Income is a Non-GAAP measure – refer to Reconciliation of Non-GAAP Results in the Appendix of this supplementary information.

Other income & expense and the effective tax rate



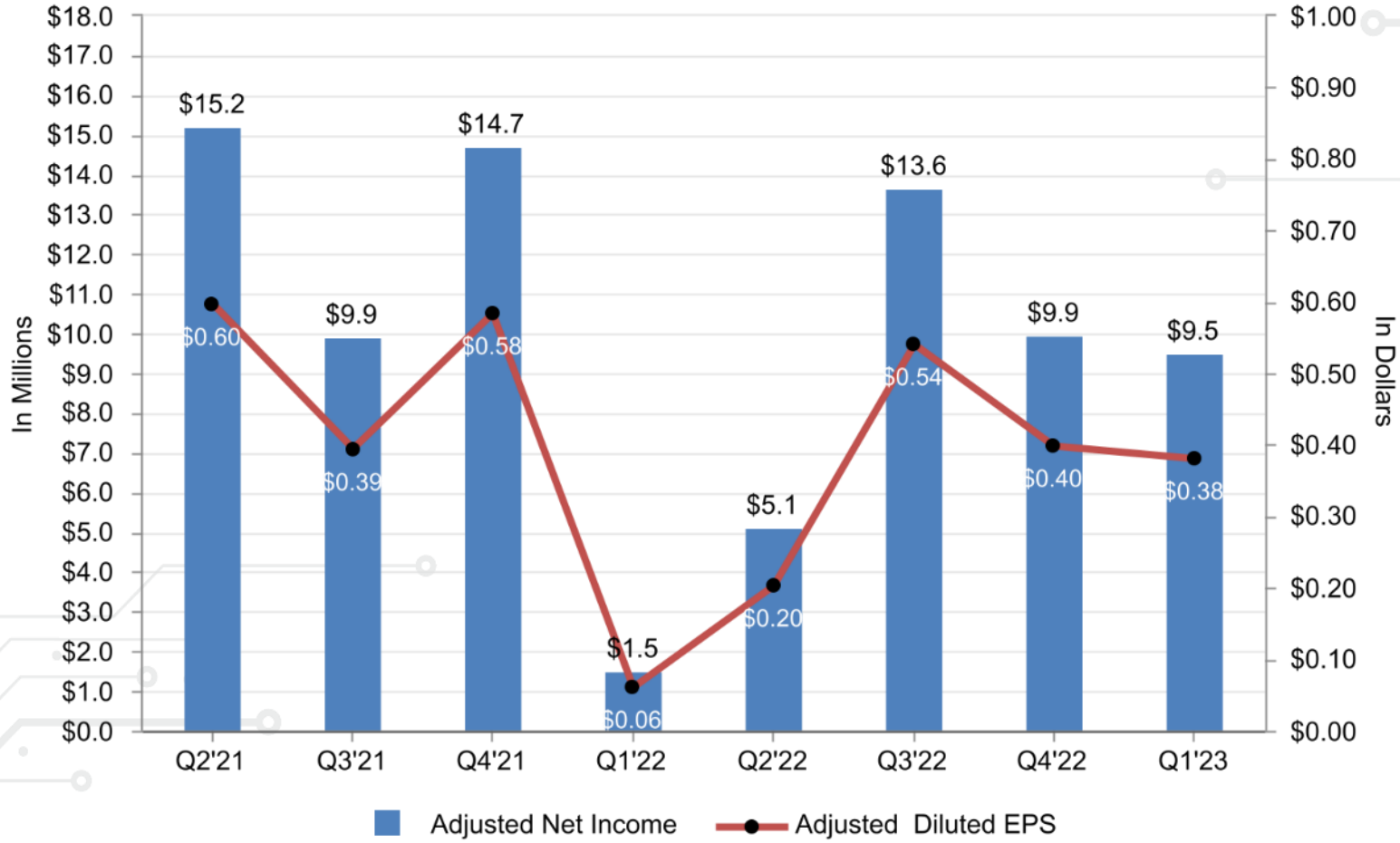




- Other income & expense increased slightly with expense of $1.4 million in the first quarter of this year vs. $1.2 million last year

- The effective tax rate in Q1 was 21.9%, compared to 27.4% in the first quarter last year

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 in the Appendix of this supplementary information.

Balance sheet

- Cash and cash equivalents were $19.7 million at September 30, 2022
- Cash flow used by operating activities was $60.2 million in the first quarter of fiscal 2023
- Cash conversion days were 99 days, up from 73 days in the first quarter last year
- Cash flow and CCD were driven by an increase in inventory:
  - Inventory increased $187.4 million from a year ago and $53.9 million from last quarter
  - We continue to purchase material not impacted by the parts shortages so that we can fulfill customer orders once the components in short supply are received
  - The increase is heavily concentrated in Mexico and Thailand, where recent expansions doubled our footprint

Balance sheet - continued

- Capital investments in the first quarter were $19 million, largely in support of our facility expansion in Poland, equipment for the expansion in Mexico, and new product introductions
- Borrowings on our credit facilities at September 30, 2022, were $232.5 million compared to $72.6 million dollars a year ago, and $180.6 million at the end of fiscal 2022
- Our short-term liquidity available totaled $113.4 million at September 30, 2022

Share repurchases



- No shares were repurchased in the first quarter of fiscal 2023
- Since October 2015, under our Board authorized share repurchase program:
  - A total of $88.8 million returned to Share Owners by repurchasing 5.8 million shares of common stock
  - $11.2 million remaining on program for deployment

Affirming guidance for fiscal 2023, and expect full year results to be at the high-end of the range for sales and OI %

Net sales range

$1.6 - $1.7 billion

Increase compared to fiscal 2022

▲19% - 26% in net sales

Operating income expected to be **4.6**% - **5.2%** of net sales

CapEx

$80 - $100 million



Net sales estimated to be in the range of $1.6 - $1.7 billion, a 19% - 26% increase compared to fiscal 2022

Operating income margin of 4.6% - 5.2%

CapEx guidance of $80 - $100 million

CapEx includes equipment in the facility expansion in Mexico, and facility expansion in Poland

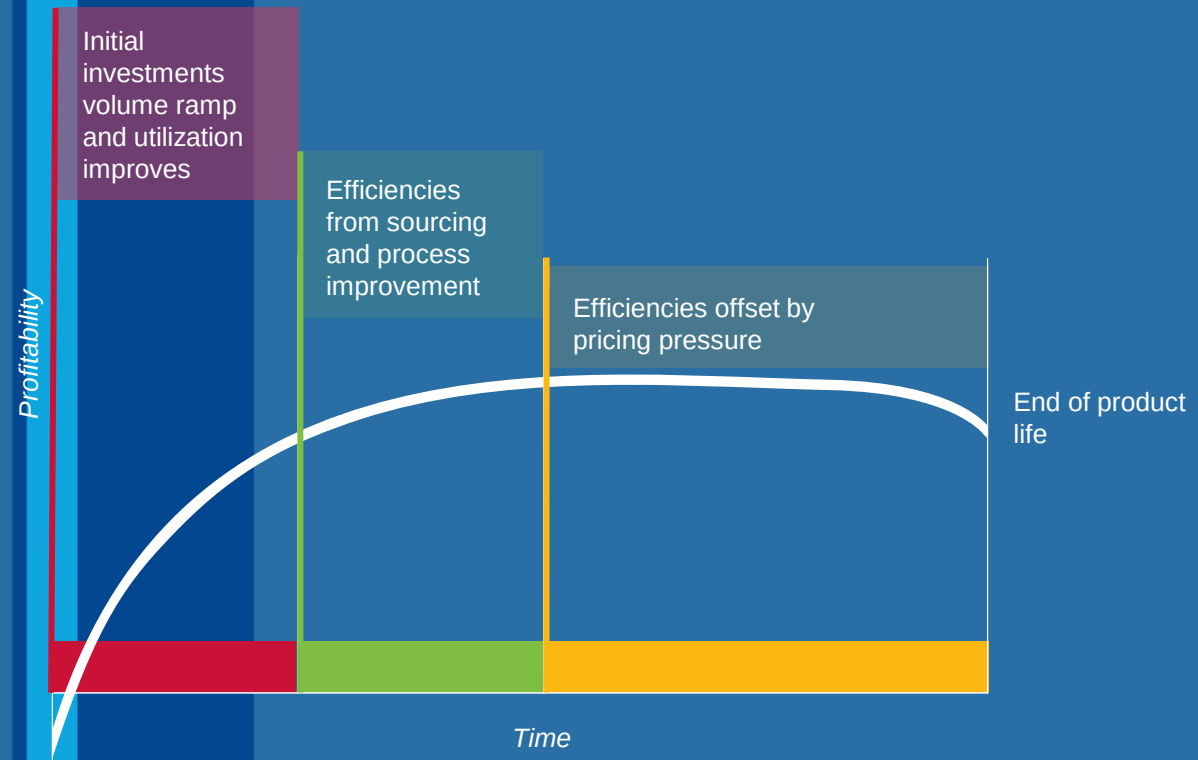
Capital deployment to support a healthy funnel of new product introductions

Addition of equipment with leading-edge technologies and capabilities

Program life cycle

THESE PROGRAMS PROGRESS at a slow and steady pace, allowing for long-term sustainable growth gained through sourcing efficiencies and process improvements.

Program Lifecycle:



As new programs mature, volumes ramp, and cost efficiencies are gained

Increased launch activity due to facility expansions has put near-term pressure on profitability/returns

Expect sequential quarterly increases in a stair stepped fiscal 2023

Affirming full year guidance with results expected at high-end of the range for sales and operating margin

Closing comments

- Very proud of our accomplishments in Q1
- Includes not only financial results, but other achievements, honors, and distinctions
  - Awarded Silver Medal for corporate social responsibility and business sustainability from EcoVadis
  - Silver Medal places our company in the top 25% of the 90,000+ companies EcoVadis rates
  - Demonstrates how we live our Guiding Principles through awareness and respect for sustainability, business ethics, the environment, and human rights



Don Charron,
Chairman and CEO

We are very bullish on the long-term prospects for the company

Outlook for fiscal 2023 includes record results in certain financial metrics, including top-line growth

- Forecasting sequential quarterly increases for the balance of fiscal 2023
- Emphasis on aligning production forecasts with material availability and manufacturing capacity
- Increasing cash flow through inventory management and driving additional and sustainable operating leverage

$2 billion annual revenue milestone is clearly in our sights

- Manufacturing capacity is being carefully evaluated at each location to support the higher level of production needed to reach this milestone
- Partnership with all members of the value chain is critical



Welcome

- Tom Vadaketh appointed new Director at our Board Meeting in September
    - Stands for election to a full term at our Annual Meeting of Share Owners later this week
- Well-rounded financial expertise and vast experience with major multinational organizations
- Demonstrated leadership in a variety of global businesses driving both organic growth and strategic acquisitions



Tom G. Vadaketh

Q&A

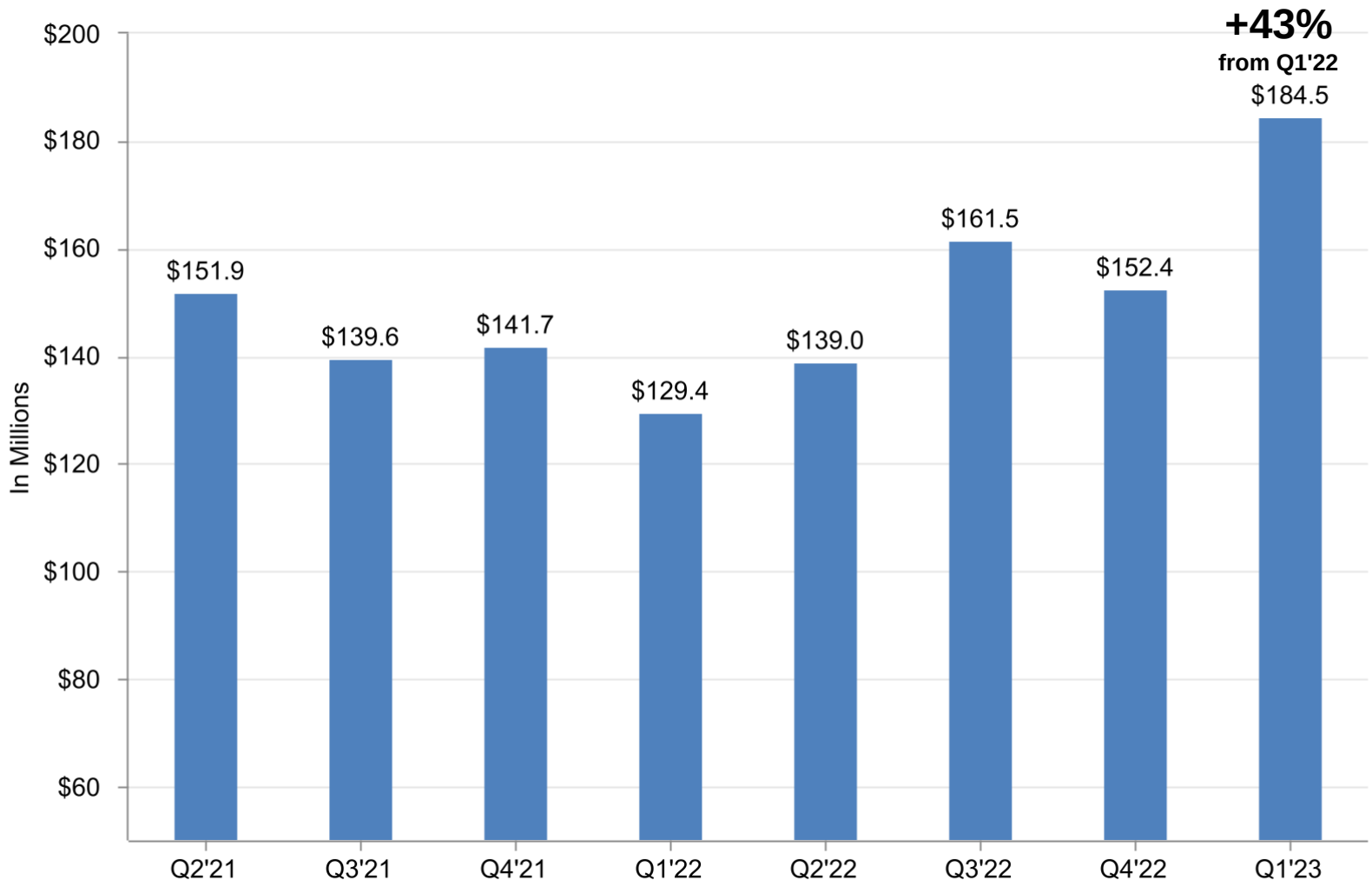
Appendix

Non-GAAP Reconciliation

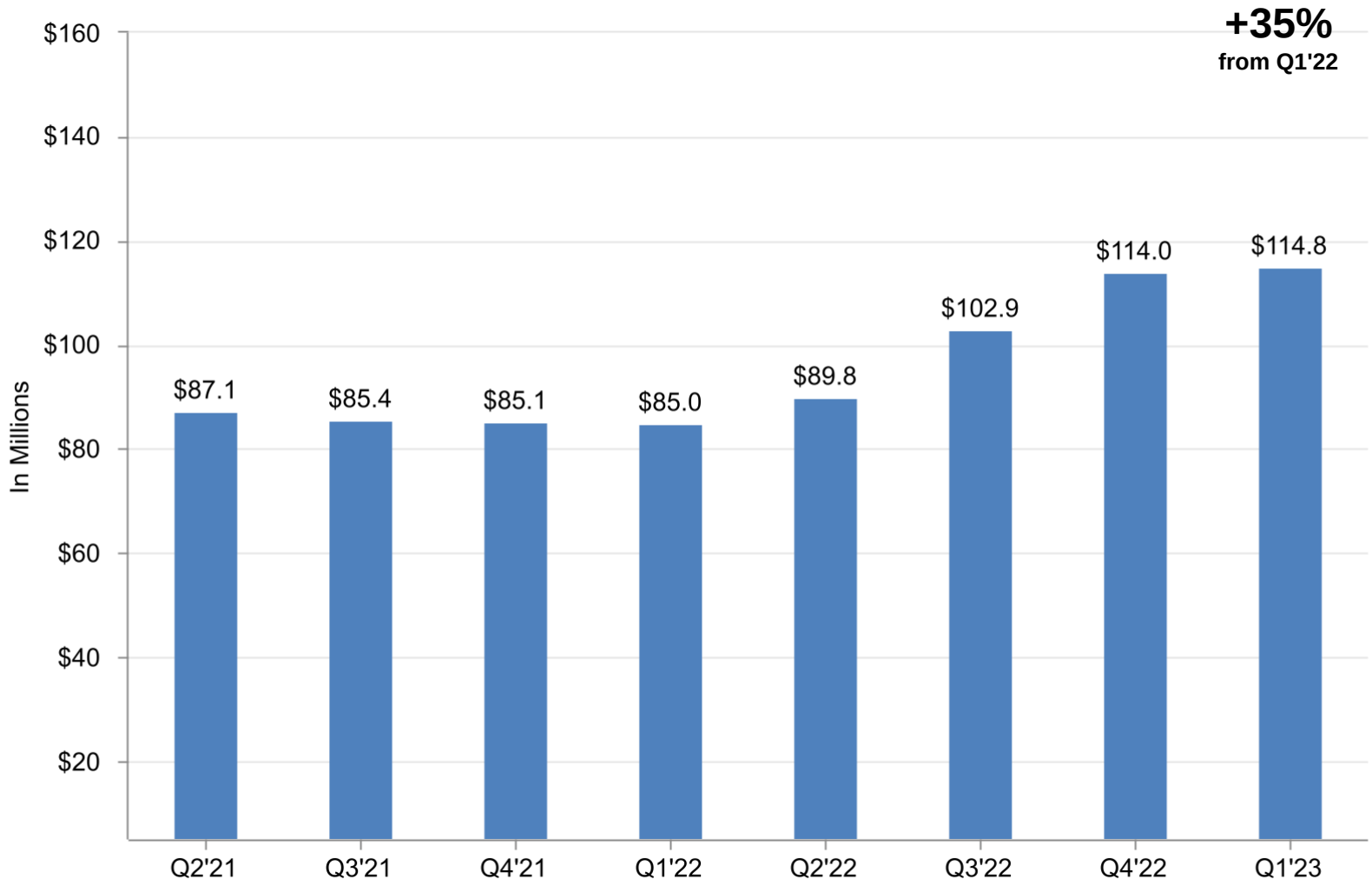
(Unaudited, Amounts in Thousands, Except Per Share Data)	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23
Net Sales Growth (vs. same quarter in prior year)	4 %	6 %	15 %	(12)%	(2)%	19 %	13 %	39 %
Foreign Currency Exchange Impact	3 %	3 %	3 %	1 %	— %	(2)%	(3)%	(5)%
Constant Currency Growth	1 %	3 %	12 %	(13)%	(2)%	21 %	16 %	44 %
Selling & Administrative Expenses, as reported	$ 13,486	$ 11,744	$ 14,357	$ 12,204	$ 13,923	$ 13,667	$ 13,643	$ 15,750
Less: SERP	811	164	548	(87)	402	(719)	(1,159)	(235)
Adjusted S&A Expense	$ 12,675	$ 11,580	$ 13,809	$ 12,291	$ 13,521	$ 14,386	$ 14,802	$ 15,985
Operating Income, as reported	$ 16,179	$ 14,638	$ 17,079	$ 4,780	$ 6,914	$ 20,277	$ 20,578	$ 13,571
Add: SERP	811	164	548	(87)	402	(719)	(1,159)	(235)
Add: Lawsuit Settlements (Recovery)	—	(376)	345	(1,384)	—	—	—	—
Adjusted Operating Income	$ 16,990	$ 14,426	$ 17,972	$ 3,309	$ 7,316	$ 19,558	$ 19,419	$ 13,336
Net Income, as reported	$ 15,062	$ 10,472	$ 14,446	$ 2,564	$ 5,113	$ 13,638	$ 9,938	$ 9,509
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	133	(254)	—	—	—	—	—	—
Add: Lawsuit Settlements (Recovery)	—	(285)	262	(1,050)	—	—	—	—
Adjusted Net Income	$ 15,195	$ 9,933	$ 14,708	$ 1,514	$ 5,113	$ 13,638	$ 9,938	$ 9,509
Diluted Earnings per Share, as reported	$ 0.60	$ 0.41	$ 0.57	$ 0.10	$ 0.20	$ 0.54	$ 0.40	$ 0.38
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	$ —	$ (0.01)	$ —	$ —	$ —	$ —	$ —	$ —
Add: Lawsuit Settlements (Recovery)	$ —	$ (0.01)	$ 0.01	$ (0.04)	$ —	$ —	$ —	$ —
Adjusted Diluted Earnings per Share	$ 0.60	$ 0.39	$ 0.58	$ 0.06	$ 0.20	$ 0.54	$ 0.40	$ 0.38
Operating Income (GAAP) (TTM)	$ 46,183	$ 50,233	$ 65,703	$ 52,676	$ 43,411	$ 49,050	$ 52,549	$ 61,340
Add: Goodwill Impairment (TTM)	7,925	7,925	—	—	—	—	—	—
Add: SERP (TTM)	1,729	2,807	2,073	1,436	1,027	144	(1,563)	(1,711)
Add: Lawsuit Settlements (Recovery) (TTM)	(341)	(717)	(372)	(1,415)	(1,415)	(1,039)	(1,384)	—
Adj. Operating Income (non-GAAP) (TTM)	$ 55,496	$ 60,248	$ 67,404	$ 52,697	$ 43,023	$ 48,155	$ 49,602	$ 59,629
Tax Effect (TTM)	10,859	11,786	12,844	11,017	9,530	10,774	14,417	16,356
After-Tax Adj. Operating Income (TTM)	$ 44,637	$ 48,462	$ 54,560	$ 41,680	$ 33,493	$ 37,381	$ 35,185	$ 43,273
Average Invested Capital (1)	$ 433,192	$ 423,545	$ 415,999	$ 414,121	$ 424,854	$ 453,479	$ 491,252	$ 544,711
ROIC	10.3 %	11.4 %	13.1 %	10.1 %	7.9 %	8.2 %	7.2 %	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.

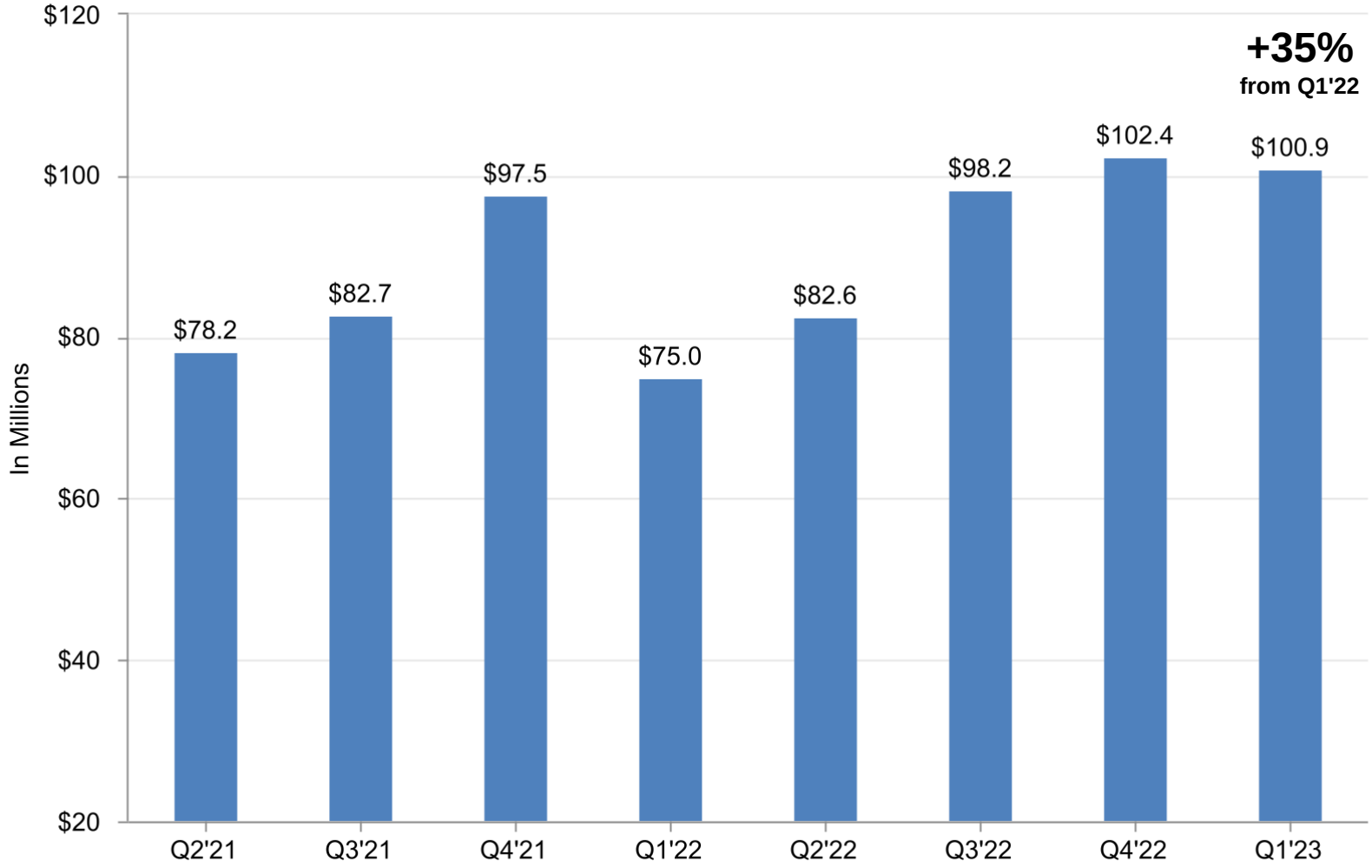
Net Sales, Automotive



Net Sales, Medical



Net Sales, Industrial



Beginning in FY23, Public Safety was combined with Industrial; all prior periods have been recast to conform to current period presentation