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Earnings Call

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Operator

Good morning, ladies and gentlemen. Welcome to the Kimball Electronics Fourth Quarter Fiscal 2023 Earnings Conference Call. My name is Carla, and I will be the facilitator for today's call. [Operator Instructions] Today's call August 17th, 2023 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 Andrew Regrut, Vice President, Investor Relations. Mr. Regrut, you may begin.

Andrew D. Regrut
Vice President of Investor Relations

Thank you, and good morning, everyone. Welcome to our Fourth Quarter Conference Call. With me here today is Ric Phillips, our Chief Executive Officer; 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, 2023.

To accompany today's call, a presentation has been posted to the Investor Relations page on our company website. Before we get started, I'd like to remind you that we will be making forward-looking statements that involve risks and uncertainties 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, Ric will start the call with a few opening comments. Jana will review the financial results for the quarter and guidance for fiscal 2024, and Ric will complete our prepared remarks before taking your questions. I'll now turn the call over to Ric.

Richard D. Phillips
CEO & Director

Thank you, and good morning, everyone. As previously communicated in a press release earlier this week, Don Charron, the longtime Chairman and CEO of Kimball Electronics, recently passed away.

As you might imagine, all of us in the Kimball family are deeply saddened by this news and mourning his loss. In the short time that I knew Don, it was clear to me that he was a strong believer in doing the right thing and inspiring others to be a better version of themselves. Don's contributions to the company and the EMS industry in general are countless. His achievements are impressive and his humility and generosity unparallel.

Don's legacy after 24 years of dedicated service is a corporate culture unlike any other. And I believe I speak for the entire Kimball Electronics team in saying that we are grateful for the opportunity to have known and worked with Don.

Our thoughts and prayers are with the entire Charron family. As difficult as it may be, we do need to focus on the task at hand, which is discussing our results from the quarter, the fiscal year and the outlook for the business. I am confident it is what Don would have wanted us to do.

So with that, I am very pleased with the results we reported for the fourth quarter and fiscal year 2023. Q4 was our sixth consecutive quarter with record sales and operating income and EPS were at all-time highs for the company. The strong finish to the fiscal year drove net sales above the guidance we provided in May and contributed to better-than-expected cash flow generation in the quarter.

This performance was achieved with the highest levels of teamwork from our global organization and many others in the value chain. I would like to thank our employees, our customers and our vendor partners for their passion, commitment and support.

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In total, fiscal 2023 was an excellent year for Kimball Electronics, highlighted by record sales, margin expansion, a 79% increase in net income and improved return on invested capital. Each of our three vertical end markets reported strong results, and we believe the momentum will continue, fueled in part by industry megatrends, even if consumer demand softens during a global economic slowdown.

Approximately 48% of our customers reached an all-time high in sales volume with us for the year. And similar to prior years, 77% of the revenue was with customers we've worked with for a decade or more. The team supported new product introductions at a rate 4x above the historic norm, and we continue to leverage our facility expansions in Thailand and Mexico all while navigating a challenging macro environment.

During the year, we received multiple customer service awards, 4 in China alone. And for the ninth consecutive year, we were recognized by Circuit Assembly in multiple categories for service excellence. Our ESG disclosures once again received high marks with the most recent coming from ISS with a prime rating which places us among the top 10% in our industry. I am very proud of these accomplishments and all of our achievements in fiscal 2023. We continue to see a strong pipeline for future growth and we are excited by the prospects of our longer-term funnel of new business opportunities.

Turning back to the fourth quarter. Net sales totaled $496 million, a 33% increase compared to the same period last year. Conditions in the global supply chain continue to improve gradually with component parts needed for our production requirements slowly increasing in availability.

In fact, for the first time in a couple of years, part shortages did not materially impact sales. Starting with automotive, our largest business, net sales totaled $220 million in the fourth quarter, an all-time best. This represents a 44% increase compared to Q4 of fiscal 2022 and 44% of total company sales. It also completes a record year with total annual revenue topping $820 million, a 41% increase over the prior year.

Approximately 70% of our automotive business supports electronic power steering with the balance in other applications such as regenerative braking.

In Q4, and for that matter, the full fiscal year, braking systems manufactured in our facility in Reynosa, Mexico were a major contributor to the overall increase in automotive. We expect growth in this vertical market to continue, fueled by the industry megatrend of adding electronic content to vehicles. Our experience in chassis control aligns very well with this trend, especially as features that assist drivers in vehicle movements such as lane departure and self-parking, increase in popularity and adoption.

These features leverage advanced technologies and expanded operating systems. And as more of them are added to the ECU or Electronic Control Unit in the steering column, the complexity of the manufacturing process and value-added contribution increases, which is good for us. As we have said many times, the steering architecture for electric motors, internal combustion engines or a hybrid of the two is roughly the same. So our support is agnostic to the type of vehicles produced.

Also, this business is sticky. Automotive is an industry that is highly regulated with stringent certifications and validation protocols, making it expensive and time-consuming to change the supply chain once production has commenced. And programs are often single source awards that can span 8 to 10 years in length.

Next is medical. With net sales in the fourth quarter of $121 million, a 6% increase compared to Q4 last year and 24% of total company. The results this quarter were adversely impacted by a decline in sales with a major customer who is remediating an FDA recall that is not related to our work with them. For fiscal 2023 in total, sales in the medical vertical market grew 26% to a record of $494 million, with the increase driven by applications supporting sleep therapy and respiratory care, image-guided therapy, in vitro diagnostics, drug delivery systems, AED and patient monitoring equipment.

Longer term, the industry megatrends in medical continue to support future growth, especially as the population ages and accessibility and affordability to health care increases. Also, the movement towards smaller medical device sizes with high levels of precision and accuracy and connected drug delivery systems fit very well with our expertise. Our new business development efforts are heavily focused on

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medical as OEMs look to outsource higher-level assemblies or HLAs. HLAs as a category represent an opportunity for us to add more value-added content.

For instance, our facility in Mexico is now producing a pediatric flow meter for React Health. This is an example of how we can bring value and speed to the market with only 9 months needed from start to first shipment.

Finally, net sales in the industrial vertical market totaled $142 million, a 38% increase over the fourth quarter last year and 29% of total company sales. This topped our previous best from last quarter by 12%. It also completes a year where sales in this business were nearly $475 million or 33% above fiscal 2023.

Our position in industrial is an excellent setup for future growth. With consumer trends raising awareness on the consumption of natural resources and encouraging the conservation of water, gas and electricity. This megatrend is supported by legislation and incentives focused on decarbonization. We are strategically aligned with products that reduce environmental impacts and promote energy efficiency, safety and carbon neutrality. This includes most major brands of residential and commercial heating and cooling systems, smart metering, factory automation and EV supercharging stations.

So in summary, an excellent quarter, a record-setting year and solid momentum headed into fiscal 2024. I'll now turn the call over to Jana to review the Q4 financials in more detail and outline our guidance for the coming year. Jana?

Jana T. Croom
Chief Financial Officer

Thank you, Ric, and good morning, everyone. As Ric highlighted, we had an excellent finish to a record year with net sales in the fourth quarter of $496.1 million, a 33% increase over Q4 last year. This was our sixth consecutive quarter with record revenue, eclipsing our previous best by more than $10 million and capping off the sequential step-up that was reflected in our guidance.

In our fourth quarter, foreign exchange had a negligible impact on consolidated sales year-over-year. The gross margin rate in Q4 was 10%, an all-time high for the company and an 80 basis point improvement compared to the fourth quarter of fiscal 2022, with the increase driven by high levels of operational efficiency resulting from record sales in our EMS manufacturing facilities and the completion of a high-margin program in our AT&M business produced throughout the fiscal year, but shipped in the fourth quarter.

The gross margin rate in fiscal 2023 is an example where excellent results could have been better. Non-manufacturer revenue that is pass-through sales on items such as expedited freight or spot purchases and materials had a dilutive impact on gross margin. These sales are intended to recover unusual costs on a dollar-for-dollar basis, but there is no margin associated with them. Cost recovery for actions taken to mitigate part shortages have become more common these days.

And in fiscal 2023, we estimate the impact was approximately 20 basis points on our gross margin versus normal. I'd like to point out that we don't adjust for this or really any items we consider core cost of doing business and our adjusted OI margin. Adjusted Selling and Administrative expenses in the first quarter were $18.2 million compared to $14.8 million in Q4 last year. With the increase resulting from added resources to support our top line growth, wage inflation and higher bonus expense. When measured as a percentage of sales, however, adjusted Selling and Administrative expenses were 3.7%, a 30 basis point improvement compared to Q4 last year.

Adjusted operating income for the fourth quarter was $31.5 million or 6.3% of net sales, which compares to last year's adjusted results of $19.4 million or 5.2% of net sales. This was also a record result for the company and reflects a sequential 100 basis point step-up compared to the third quarter, driven by the record gross margin I mentioned a moment ago and continued leverage of our facility expansions in Thailand and Mexico.

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Other income and expense of $4.9 million compared to expense of $5.3 million last year. The effective tax rate was 27.6% in the fourth quarter compared to 35.1% in Q4 last year. With the lower rate resulting from less executive compensation reaching the annual limit for deductibility and the mix of earnings being more heavily weighted towards lower tax jurisdictions.

Adjusted net income in the fourth quarter of fiscal 2023 was $19 million or $0.76 per diluted share compared to net income in Q4 last year of $9.9 million or $0.40 per diluted share representing a 90% plus increase in EPS year-over-year.

Turning now to the balance sheet. Cash and cash equivalents at June 30, 2023, were $43 million and cash flow generated by operating activities in the quarter was $44.1 million. Cash conversion days were 94 days compared to 86 days in the fourth quarter of last year and 92 days in Q3. As a reminder, we started including customer advances in our CCD calculation. Q4 of last year has been recast to reflect this change. Inventory ended the quarter at $450 million, $55 million higher than Q4 last year, but $38 million lower than Q3.

As anticipated, inventory is leveling off, contributing to the improved cash flow generation in the quarter. And we expect this trend to continue in fiscal 2024. Capital expenditures in the fourth quarter were $23.9 million, supporting our facility expansion in Poland adding equipment in Mexico and the capital needed for new product introductions across our global footprint.

For fiscal 2023 in total, CapEx equaled $90.7 million which was near the midpoint of our guidance range. Borrowings on our credit facility at June 30, 2023, were $281.5 million compared to $180.6 million a year ago and $289.4 million at the end of Q3. Our short-term liquidity available represented as cash and cash equivalents plus the unused portion of our credit facilities totaled $194.1 million (sic [$149.1] million at June 30, 2023.

There were no shares repurchased in the fourth quarter of 2023 since October 2015 under our Board-authorized share repurchase program. A total of $88.8 million has been returned to our shareowners by purchasing 5.8 million shares of common stock. We have $11.2 million remaining on the repurchase program.

In total, fiscal 2023 was an excellent year for our company with record sales of $1.8 billion, a 35% increase year-over-year, adjusted operating income of 4.8% of net sales, a 110 basis point improvement compared to fiscal 2022. Year-over-year EPS growth of nearly 80% and return on invested capital of 9.4% versus ROIC of 7.2% last year.

As Ric highlighted, we are providing guidance for fiscal year 2024 and with net sales estimated to be in the range of $1.9 billion to $1.95 billion, a 4% to 7% increase year-over-year. This outlook reflects a decline in our medical business of approximately 10%. The decrease is driven by a $100 million reduction in sales with a major customer partially offset by growth in other medical programs.

Despite that short-term decrease, we expect growth with other customers to still allow us to achieve positive growth overall in fiscal 2024. We are very encouraged with future business opportunities, particularly as our major customer is able to resume certain product shipments in the years to come.

While we pride ourselves on long-term customer relationships, it is also important to note that we have made meaningful progress in diversifying our customer base by adding 8% new customers in FY '24. Our guidance for operating income in fiscal 2024 is a range of 4.7% to 5.2% of net sales, taking into consideration the ramp-up of the facility expansion in Poland, while staying in line with our longer-term objective of 5-plus percent OI margin.

Capital expenditures are expected to be in the $70 million to $80 million range. We will continue to deploy a capital allocation strategy focused on organic growth, with approximately 30% of our CapEx supporting maintenance requirements and the balance representing investments in growth, automation and efficiency to support a funnel of new business opportunities and our recent facility expansion.

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In addition, inventory should normalize as global supply chain disruptions continue to ease and the resulting cash flow generated from improved working capital management will be directed towards reducing our leverage ratio.

And finally, on behalf of the Kimball family, I would like to thank the investment community for its outpouring of condolences during this difficult time. For many, myself included, Don played a key role in educating us not just about Kimball but about the EMS industry. Don love to show off our facilities, and he was exceptionally proud of our employees and the quality of work we did to take care of our customers.

We will miss him. I'll now turn the call back over to Ric.

Richard D. Phillips
CEO & Director

Thanks, Jana. Before we open the lines for questions, I'd like to share a few thoughts in closing. It's been about 6 months since I first joined the Kimball family, and in some ways, feels like I started yesterday. When I was first looking at a new professional opportunity, I was attracted to Kimball Electronics for 3 reasons. The culture, the people and the business opportunity for value creation. Fast forward to today, all of them are better than what I expected.

First, we live our culture every day. It's reflected in our annual guiding principle survey with employee engagement scores well above industry norms, and we hear it from our customers that our culture differentiates us from our peers. In my career, I've seen a lot of companies, and I can tell you this one upholds its principles better than any other I've seen. It's impressive with consistency at each of the locations I visited and an incredibly strong foundation.

The people they are outstanding with the level of commitment, passion and love for the company. When you have that, there's not a lot you can't do. And the business opportunity is tremendous. You can see it in our performance, and we have great momentum to go even better places than where we are today. So I'm having fun working with a great team.

In July, our extended leadership team gathered for a summit with a theme focused on winning together the Kimball way. It was a great opportunity to reflect on our first role of the company, which is to be leaders of the entire business. If we have that mindset and bring it to work every day, we'll be successful.

For me, winning together is the fun of business. It's working on a great team with a great culture and a common set of priorities. It's understanding that if we're not getting better tomorrow, someone will pass us up. That continuous improvement mindset is a great trade and a core belief of our company.

So what does it mean to win the Kimball way? It means staying true to our guiding principles. It means being collaborative and team oriented. It means setting high aspirations, not on realistic goals, but attainable targets that require stretching to reach. Winning the Kimball way is maintaining focus on our strategic priorities, communicating openly and proactively and being accountable to our company, to our customers, to each other and to our shareowners. It's what you can expect from me and it's a priority for our team.

We've accomplished a great deal in the past 6 months and during a record-setting fiscal 2023, but I'm even more excited now about what lies ahead for the company.

Andrew D. Regrut
Vice President of Investor Relations

Operator, we would now like to open the lines for questions, please.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Derek Soderberg from Cantor Fitzgerald. Please go ahead with your question.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Just want to start off by sending my condolences to the friends and family of Don. I had the opportunity to meet him in Jasper and got a personal tour of the facility from Don. What a joy that was to have that opportunity with him. As it relates to the quarter, I just want to congratulate the Kimball team on the great quarter.

And as it relates to sort of the strength in automotive, I think that certainly stuck out in the quarter, like the braking systems, you're ramping in Reynosa were a major contributor. But first, how many programs are you ramping and braking today? And do you expect to start ramping new program wins in fiscal '24 in braking and then beyond that, when do you expect revenue from braking to really sort of hit that inflection point to become a material portion of company sales?

Jana T. Croom
Chief Financial Officer

Yes, that's a great question. So we actually don't disclose exactly how many NPIs we have relative to braking. But as we've talked about repeatedly, it is growing, and we expect it to be a significant portion of our automotive book of business into the future. And we expect to be producing braking programs in all of our geographic regions within the next 2 fiscal years.

So I know that's not exactly approved to your question, Derek.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Yes. Well, maybe can you just speak about some of the customer feedback you've gotten on those programs? Do you think you can expand braking to some of the customers you've been working with for a while in steering. Any commentary on some of the feedback you're getting from customers?

Jana T. Croom
Chief Financial Officer

Yes, absolutely. And so as we've discussed, regenerative braking, which is the specific area of braking that we play in is really gaining traction. It started off specifically with electric vehicles. And so while steering is engine-agnostic, regenerative braking right now is specific to the EV market. And basically, what it does is it allows you to store that power back to the battery. What we are finding is the additional benefits of regenerative braking, which is higher safety, less wear and tear on the vehicle, et cetera, is gaining adoption with internal combustion engines as well.

And so as a result of that, more and more of our customers, the Tier 1 suppliers are entering into regenerative braking as the next generations of all types of vehicles are coming out. And so the work that we did launching back in has been very, very well received. And we are actively working with multiple partners. So not just the braking in Reynosa was very specific to one automotive customer. What I am pleased to say is that we are working with multiple customers now on regenerative braking programs across the globe. And as we've said before, remember, we don't hunt those opportunities. Our customers are coming to us saying, hey, we're launching this and we want you all to be our supplier and partner of choice.

Richard D. Phillips
CEO & Director

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And Derek, it's Ric. Just adding on. I was recently in Reynosa and I would say the customer feedback has been very strong. The particular line that we began with there in braking was -- is extremely highly automated and effective, and it's really exciting to see that ramp up. There's kind of no people around. Other than monitoring, which is exciting and a lot of great feedback based on that.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Got it. That's great to hear and appreciate the detail. If I could squeeze in one more. Jana, it sounds like you can turn the dial a bit on inventory, just given some of the easing supply disruptions. Can you talk about inventory levels sort of as we look into fiscal '24? What sort of the new normal for inventory levels you'd like to work towards. Maybe you can express that as a ratio. How should we think about inventory levels as we sort of move throughout fiscal '24?

Jana T. Croom
Chief Financial Officer

Yes. It's interesting because I as well as you all have been paying a lot of attention to a couple of things: inventories, backlog of open orders, et cetera, and really trying to figure out what does this look like into the future. Obviously, right, PDSOH at 92 days, this is not where we want it to be but if I'm being perfectly honest, I think 65 days is probably a metric of bygone days. I think that just-in-time inventory isn't something people -- it's primacy and recency, right?

And so there's some psychology to the level of inventory that our customers want us to hold. I think 75 days as a target over the next 4 to 5 quarters is really what we're shooting for at minimum. And so we'll continue to monitor it. But that's what I'm looking at. And so as it translates what you saw is exactly what we expected, right, which was the rise of the inventory levels and then sort of the roll off to the steady state where we're at now. And so we should be able to continue to grow revenue but not have meaningful increase in our inventory level in terms of absolute dollars in FY '24.

Operator

The next question comes from Tim Moore from EF Hutton. Tim, you may ask your question.

Timothy M. Moore
EF Hutton, Research Division

Thanks. It was very nice to see the continued strong organic sales growth, gross margin expansion and the return of free cash flow that was amazing free cash flow number. I just had a question. For your sales growth guidance for this year, were the swing factors between the low end and the high end range, is that more based on a mild recession factored in? Or is it based on if EV's industrial growth remains pretty strong. Just kind of curious if you can maybe speak to what the difference scenario wise between the top end and the low end.

Jana T. Croom
Chief Financial Officer

Yes. So that's actually a really great question and guidance is something, quite honestly, we grappled with a lot trying to take in all of the macro data that we're seeing, particularly as it relates to China, Europe, et cetera. We really, really work with our customers to make sure that what we have in terms of forecasting is as accurate as it can be.

We try really hard to get all of the false signals out of the funnel and to put forth. And so what we provided you in terms of our net sales guidance, is really what we think we're going to achieve and the buoys in the water are what might happen in terms of recessionary output and also steady state norm. It's also really interesting to point out that after a 35% growth year, we're still growing at 4% to 7%, and that's with a $100 million reduction in a single customer. So if that tells you anything that should help provide some guidance in terms of where we're thinking we're going to shake out for the full year.

Timothy M. Moore

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EF Hutton, Research Division

Jana, that's great. And I'm glad you mentioned that in your prepared remarks about that medical customer. Ric, I have a 2-part question for you. Could you maybe elaborate on your more selective growth approach? I believe Kimball Electronics has walked away from some lower margin opportunities in the past like heated car seats and power windows. But I'm also wondering maybe if you talk about that, if you can also maybe talk about on the other hand, there's a large medical opportunity for downstream.

I imagine some customers are coming to you like they're doing to other providers and asking you maybe to take on a little bit more of their business. Can you maybe talk about that and how you have to see if it's a strategic fit, maybe that could help medical revenues accelerate after that one customer's hiccup normalizes?

Richard D. Phillips
CEO & Director

Sure. Absolutely, Tim. And great question. Certainly something that we think hard about. We do pride ourselves to your point on really being selective in the programs that we participate in. We want them to be large enough that they can scale. We want them to be growing over time so that we're working with our customers to drive growth. And we want to make sure it's a fit such that it can meet our profitability hurdle. So we scrutinize that pretty hard. We also are revamping our strategic planning process even further to look further out at different technologies and really try to anticipate the fit there.

So there is a lot of rigor that goes into that funnel and the screen and where we really go after and try to win programs. And what we see is those ones that we determine our fit and go after, we have a really high win rate that we're really proud of. To your question in medical, we're hunting medical hard. We are seeing lots of activity in terms of discussions, quoting on specific programs, but also to your point, this trend of OEMs in medical looking to outsource manufacturing is obviously a really attractive trend for us.

We're in multiple discussions on that topic right now. And in fact, we almost internally look at that as a form of M&A, right, a way to sort of acquire the manufacturing of our customers in a way that maybe allows them to free up capital and resources and allows us to specialize in what we do best. That's particularly effective and attractive to us, as I mentioned, in high-level assembly. That's section of that medical business that we really like because it expands our role, it's sticky, and it's a great place for us to partner and even more so for the long term.

Timothy M. Moore
EF Hutton, Research Division

Great. That's very helpful, Ric. And that's exciting news to probably see a reacceleration in medical when you lap this customer drag. And Jana, just lastly, and then I'll save the rest of my questions for off-line later. You provided capital expenditure guidance for this year, but how should we think about the step down in CapEx for the following year after you finish spending on the Poland plant, maybe by the spring and finished the equipment for Mexico. It's fair to assume that it would probably be below the $70 million to $80 million guidance this year, right? I'm thinking for the June 25 year, should step down anything.

Jana T. Croom
Chief Financial Officer

Well, FY '24 is really about sort of growing into our clothes also. So in 18 months, we expanded 3 facilities, higher CapEx, bricks and mortar, getting the SMT lines in place. And so we're really focused this year on that 38% capacity increase and maximizing that as much as we possibly can. What we're examining into FY '24 is the macro environment, the growth curve that we're seeing and what we may need to do in terms of future expansion.

So I don't quite want to say FY '24 is going to be a downtick because we haven't sorted through that yet. Provided we are not expanding in another geographic region, you could expect, yes, that it would normalize to something along the lines of depreciation plus what we would need to spend for automation

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and higher-level technology. But I'm not ready to commit to anything related to FY '24 yet. So you don't get the hold us to it. More to come.

Operator

The next question comes from Anja Soderstrom from Sidoti.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Also want to start with expressing my sincere condolences for the passing of Don. In terms of the supply chain, what are you seeing there now in terms of headwinds for the quarter? And how should we think about that going forward?

Jana T. Croom
Chief Financial Officer

Thankfully, this was the first quarter in probably 2 years that supply chain challenges didn't have an impact on revenue, right? So a negligible impact in our ability to convert and ship. And we haven't seen that in a long time. And so that 52-week lead time that we kept talking about right? It's finally here. And so the parts are showing up, and we're actually able to deliver to our customers.

And so we feel good about where the supply chain is now what I think you're going to see, right, and we keep an eye on it with the backlog of open orders, et cetera, is making sure that the signal on the supply chain is clean, right? So you don't have any of the double counting or some of the gaming that you might have seen people try to do related to trying to get parts. So the fact that the supply chain is functioning better is good for everybody. I would like to remind everybody that we're still on NCNR, right?

So noncancelable, nonreturnable, which means if our customers make an order, and we do inventory purchases on their behalf, the inventory is there, and they understand that contractual obligation that they have with us. But happily, the supply chain is -- so still longer lead times right? And so we still have longer lead times that we're working through, but we are able to get all the parts that we need to service our customers.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Okay. And in terms of the guidance for fiscal 2024, how should we think about the cadence given the ramp-up plan especially?

Jana T. Croom
Chief Financial Officer

Yes. So Anja, we made a solemn vow that we were not going to use the word bifurcated or stair stepped. We were going to erase all of those words from our vocabulary and hopefully, yours too. Obviously, Poland is not nearly as big as Mexico. And so we would expect the impact due to absorption to be muted versus what we saw last year.

Our endeavor, as we continue to grow, is that each new facility has a more and more muted impact versus what we saw in previous years. And so that's -- we hope that the quarters are closer together. The one thing that I -- we saw some seasonality in AT&M in Q4, and we noted that in the script that we were working on a high-margin program for them over the course of the year that ultimately shipped in Q4.

That contributed to the high margin that we saw. I don't know if you remember on the Q3 call, I alluded to the fact that I thought Q3 margin this year might have been better. It was because of the timing of some of that work and just the way it happened to shake out this year. So I would not also expect that Q4 next year would be another 6.3% margin year. We're expecting the quarters to be much more even.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

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Okay. That makes sense. And then it was also the sort of second quarter, you're talking about this large medical customer that has the FDA recall. How should we think about time frame for that? And is there a backlog building out that might help you with the guidance or are your guidance dependent on that coming through in fiscal 2024 or?

Jana T. Croom
Chief Financial Officer

We made the decision in partnership with that customer that we were not going to have expectations for FY '24. As you know, it takes a while to work through these things. There's a consent decree, et cetera. And so we really need to allow that customer the opportunity to work through that. At a pace that's not determined by Kimball, right? And so we want to be good partners.

We've enjoyed a long-lasting relationship with them. We consider them a key customer and key relationship partner. And so we're just going to hold while they work through things. And we'll give you an update on longer term and future years. But for FY '24, it really is just a pause.

Richard D. Phillips
CEO & Director

And Anja, it's Ric, what we're encouraged by is outside of that customer, some of the opportunities and growth that we're seeing is partially offsetting that in the near term.

Operator

The next question comes from Max Michaelis from Lake Street Capital.

Maxwell Scott Michaelis
Lake Street Capital Markets, LLC, Research Division

Congrats on the quarter and condolences to Don and his family from everybody here at Lake Street. I just want to dive into my first question here. I was wondering if you guys pull forward any demand from Q1 '24 into fiscal into the Q4 revenue number, just given the sizable beat on the top line.

Jana T. Croom
Chief Financial Officer

We did not. There's no pull forward in Q4.

Maxwell Scott Michaelis
Lake Street Capital Markets, LLC, Research Division

Okay. And then just shifting to CapEx. I know you mentioned 30% into maintenance and then some other dollars allocated towards facility ramp. Just want to get a sense of other growth initiatives you guys are maybe seeing right now, not existing ones, but new ones that you guys are kind of looking into in possible growth areas?

Jana T. Croom
Chief Financial Officer

Yes. So as I alluded to earlier, we don't want to be premature in talking about future growth areas or expansion. We really are trying to digest and fully utilize what we have. You know how critical that is in terms of absorption and getting your OI margin where it needs to be. I will also remind everybody we're an EVA company.

Our incentive compensation is EVA-based, so high, high, high focus on ROIC. That should give everyone a big sigh of relief in terms of we're not going to go out and make any dumb acquisitions because we're too disciplined to that. As Ric said, though, we do look at upstream manufacturing activities, specifically opportunities with higher level assemblies with some of our medical customers and new medical customers in terms of opportunity there.

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The other thing is our investment in automation and technology is really critical, right? It does a couple of things. It allows us to control for the direct labor and you all know what the inflationary environment related to wages has been. So that's critical for us. But it's also just an expectation of our customers, right? Parts are getting smaller and smaller, the ability to do automated optical inspection, automated placement of parts, et cetera.

And so investing in the equipment that allows us to do that is really something that you have to do to stay relevant and a high-quality partner, particularly given that the things that we produce are very difficult to produce to begin with. And so as you see that higher level of electronification and electronic content, the investment in automation and is really critical.

Maxwell Scott Michaelis
Lake Street Capital Markets, LLC, Research Division

And then just last one for me. Just kind of given -- I want to get a timing sense of this pullback in the larger medical customer. When did they pull back in the quarter? And if you can share what was the contribution in Q4?

Jana T. Croom
Chief Financial Officer

So we are going to see it begin in Q1 FY '24. Fiscal '23, we were partnering with them on the recall. I will point out that we did not play a part in the recall. Our position was to partner with them on correcting equipment so that it could be sent back to customers. That work has completed and there is not new production pending the work that they have to do with the FDA. And so we will begin to feel it -- we will begin to feel it in the first quarter of this fiscal year.

Operator

Our next question comes from Mike Crawford from B. Riley.

Mike Crawford
B. Riley

I'd like to go back to what Ric was talking about at the beginning of the call about this continuous improvement culture at Kimball. And really, the question ties into and besides things like quality, on-time delivery speed to market, how do you benchmark versus competitors and really, I guess, the ancillary part of the question is, in your business, you're constantly giving back say, gain margin to customers where it's never -- I don't think going to be a 10% operating income business. And so how do you balance all those variables?

Richard D. Phillips
CEO & Director

Sure. No, great question. We do try to look at a number of variables. I mean one benchmark that we track very closely every month relative to competitors is win rate. So as I had mentioned earlier, we're pretty selective in the programs we go after. We get lots of bid requests. We analyze them. We discuss them with customers and then when we target them, we seek a really high win rate, and we've been achieving that. So that's one really important benchmark for us is what's our win rate and -- why did we win?

And if we lost, why do we lose and what are we going to do differently? So I think that's one thing that's very important. Another one obviously is, are we outgrowing competitors in each of our verticals. That's one of the aspirations that we have. That obviously means we're taking share and we feel like we've delivered on that significantly in fiscal 2023, and we have that aspiration moving forward.

And then, of course, operating income rate is something that's near and dear to all of our hearts. As Jana mentioned on the call, we have very little adjustment to what we do and generally, our GAAP and our adjusted OI rates are right now, they're the same. They're always very close. And I don't know that, that's the case for all of our competitors. So we try to look at that gap OI rate as a measure of profitability and knowing that, to your earlier point, we've got to be driving continuous improvement on that to maintain and improve it over time, given the competitive pressures and dynamics with the customers.

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Operator

The next question comes from Hendi Susanto from Gabelli Funds

Hendi Susanto
Gabelli Funds, LLC

First, my heart goes out to Don Charron's family and Kimball Electronics family. My first question is about CapEx. If I see the fiscal year 2024 CapEx guidance of $70 million to $80 million, it's not that far different from the $91 million spend in fiscal year 2023. That included capacity expansion. So I'm wondering how much more of facility expansion and capacity additions are associated with the fiscal year 2024 CapEx? And then related to that, is there a way to draw total manufacturing capacity now in dollar terms?

Jana T. Croom
Chief Financial Officer

Yes. So great questions. What you're seeing in FY '24 is continued capacity utilization and ramp, particularly in Mexico and Poland. And so while the bricks-and-mortar expansions are done, we've cut the ribbon on both. They're up and running. We're continuing to put SMT lines in those facilities.

And so there's a building that's up and FY '24 has some continuation of the equipment that we need to put in to continue to serve all of the NPIs so that we can get those plants fully utilized. And then I apologize Hendi, I ask your question again on manufacturing.

Hendi Susanto
Gabelli Funds, LLC

Like is there any update on how much total manufacturing capacity in the dollar terms? I think my sense is that Kimball Electronics' capacity now is above the $2 billion mark. Wondering whether there's any update on.

Jana T. Croom
Chief Financial Officer

Yes. So Don used to say all the time, we are building for $500 million quarters, right? And so with the completion of Poland, it's 38% capacity increase and yes Hendi, we do not need to expand any further to be over the $2 billion mark. Having said that, as we look at our longer-term growth rate opportunities and strength of funnel, we have some work to do on the organic growth side to support everything that is coming our way and so more to come on that. But certainly, we could get above the $2 billion mark with the current capacity we have now that Poland is up and running.

Hendi Susanto
Gabelli Funds, LLC

And then Jana and Ric braking system is now a new growth driver in your automotive vertical. Is there a way to size how big braking systems sales or whether you can quantify or quantify how much of the 4% to 7% organic growth target in fiscal year 2024 is associated with braking systems?

Jana T. Croom
Chief Financial Officer

We can't -- while we don't quantify what braking systems is significantly as a percentage of automotive sales. But what we have said is -- that is the key focus area of growth for us within automotive. Now we won't turn down a profitable next-generation steering program because we do steering incredibly well. And that's also a highly profitable program that we enjoy with our customers. But you're not going to see us to -- I think it was Derek's point earlier, you're not going to see us putting in sunroof and window lifts and those things.

It's really going to be focused on that next-generation technology within steering and braking and other areas that have high-quality capability, life-saving requirements, et cetera. That said differently that braking is very important.

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Operator

[Operator Instructions] The next question comes from Mac Furst from Singular Research.

Mac Furst
Singular Research

This is Mac Furst with Singular Research. So congratulations on the quarter, well done. Thank you all for your hard work. Condolences to Don's family on his passing. I have a clarifying question as far as medical is concerned. So you said one customer pulled back. Revenue growth was rather muted. And if I understand you correctly, and if you can just please clarify, you think at this point in time, there's a permanent step down of about $100 million in the medical field because of some issues regarding to that 1 customer. So it's unlikely that, that revenue -- with that specific customer is going to come back anytime soon. Did I get that right?

Jana T. Croom
Chief Financial Officer

You got that right. Yes, we pull -- so if you wanted to know what the net was, you could take our guidance for FY '24 and add $100 million to it, and that's what it would have been, but for this impact.

Richard D. Phillips
CEO & Director

Mac, it's Ric. I think the other aspect to that is exactly what Jana said for 2024. We are, as we continue to have a close partnership with that customer, we'll be working with them on how they come out of this from a remediation standpoint.

So we would anticipate business coming back, but we don't have a time line on it.

Jana T. Croom
Chief Financial Officer

And out of respect for them, we're not going to try and estimate because that's their business. And we are here to support. They've been an excellent partner, and we will follow their lead in terms of what next sense are in that partnership.

Operator
At this time, there are no further questions. A replay will be available 30 minutes after the completion of today's call. [Operator Instructions] At this time, listeners may kindly disconnect from the call. Thank you, and have a nice day.

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