Second Quarter Fiscal 2024 Results

Quarter Ended December 31, 2023

Supplementary Information to the February 6, 2024, Earnings Conference Call & Webcast

Safe Harbor Statement

Certain statements contained within this supplementary information, including our fiscal year 2024 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, 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, 2023, 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 the final slide of this supplementary information.

Supplemental disclosures in our press release

Other Financial Metrics

(Unaudited)

(Amounts in Millions, except CCD)

	At or For the Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Depreciation and Amortization	$ 9.1	$ 8.0	$ 18.1	$ 15.6
Stock-Based Compensation	$ 2.0	$ 1.7	$ 3.7	$ 3.4
Cash Conversion Days (CCD) (1)	117	97		
Open Orders (2)	$ 836	$ 1,037		

(1) Cash Conversion Days ("CCD") are calculated as the sum of Days Sales Outstanding plus Contract Asset Days plus Production Days Supply on Hand less Accounts Payable Days and less Advances from Customers Days. CCD, or a similar metric, is used in our industry and by our management to measure the efficiency of managing working capital.

(2) Open Orders are the aggregate sales price of production pursuant to unfulfilled customer orders.

Today's Speakers

- Opening comments
- Financial results for the second quarter
- Updated guidance for fiscal year 2024
- Closing comments
- Q&A



Ric Phillips
CEO



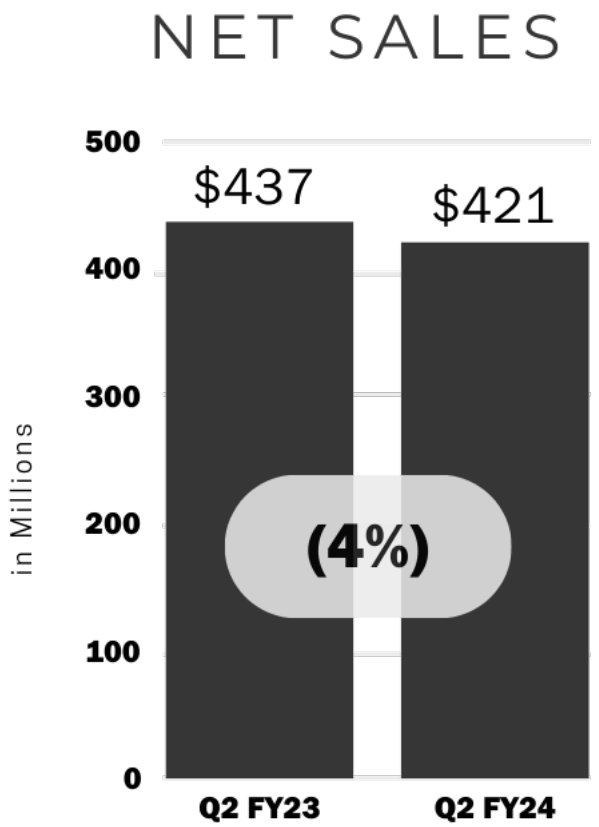
Jana Croom
CFO

Q2 was hard fought with our team navigating a challenging operating environment

- Global macro headwinds have persisted, and the consumer is pulling back
- The markets we serve are experiencing demand softening and our customers are changing production schedules and delivery date requirements
- Sales in Q2 declined compared to the same period last year
- Margins remained stable, thanks in part to proactive measures taken to align our cost structure with slowing sales
- Updated our guidance for sales and operating income for the full year to reflect these trends
- Macro environment likely to remain challenging for some time
- Guidance for capital expenditures in fiscal 2024 did not change
- Balanced capital allocation strategy focused on organic growth, global expansion, and long-lasting customer relationships

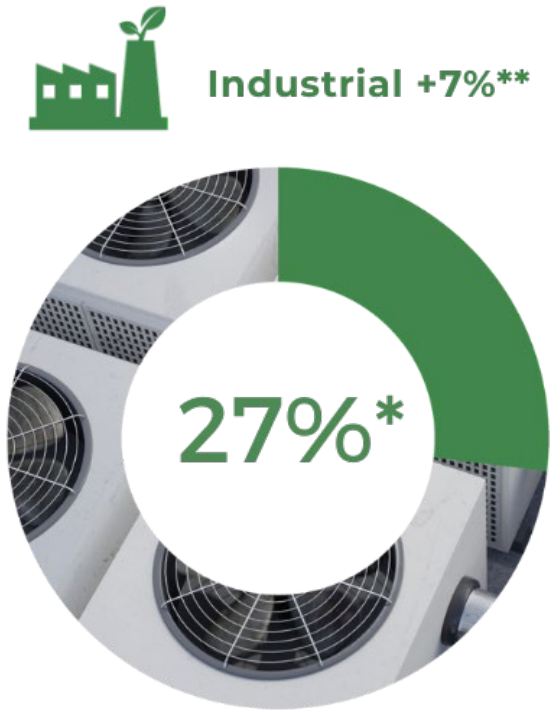
Net sales in Q2 totaled $421 million

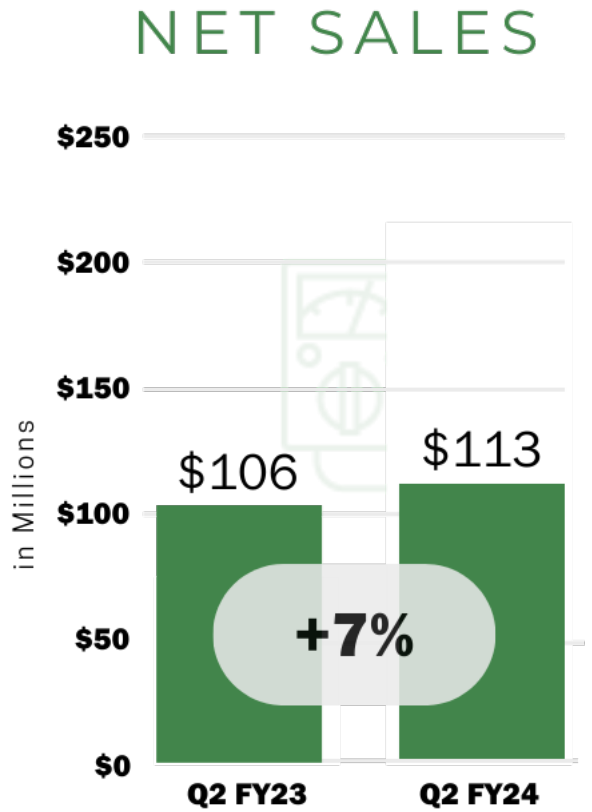
- 4% decrease compared to second quarter of last year
- Sales in North America up low double-digits
- Offset by declines in Asia and Europe
  - Thailand impacted by major Medical customer involved in FDA recall
  - Europe appears to be a region of the world where the general economic slowdown is more significant



Industrial posted year-over-year growth in the quarter

- Net sales totaled $113 million
- 7% increase compared to Q2 last year
- 27% of total company sales
- Strength this quarter
  - Charging systems
  - Climate control
  - Public safety products





*Percentage of net sales

**Percentage increase compared to Q2 of fiscal year 2023

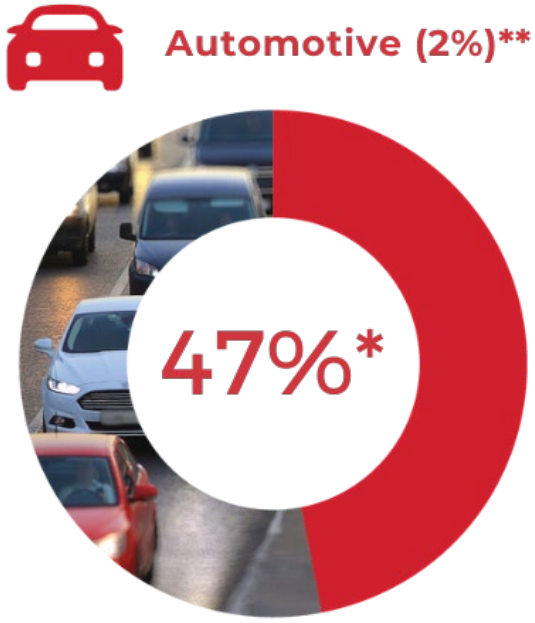
We refer to Industrial as “green & clean”

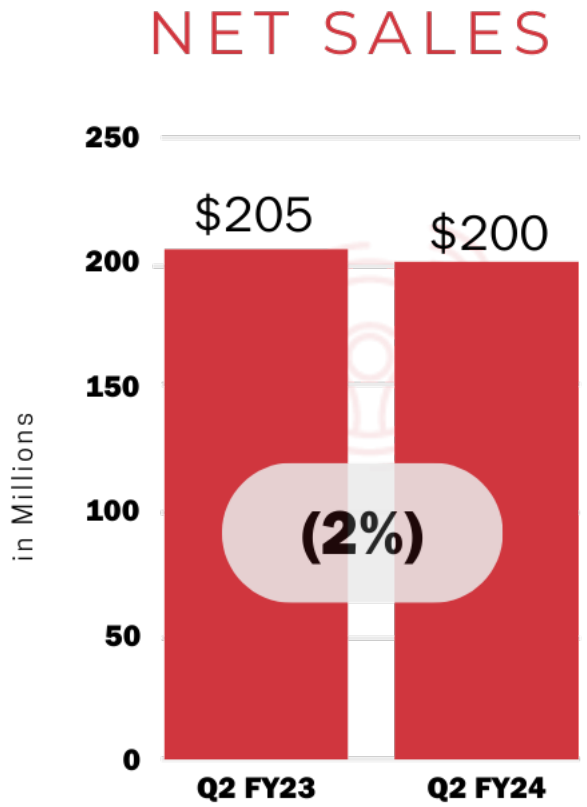
- Our products reduce environmental impacts
  - Promote energy efficiency, safety, carbon neutrality
  - Responsible use of natural resources
- We specialize in…
  - Heating & cooling systems
  - Factory automation
  - Optical inspection
  - Electronic locking devices
  - Charging stations



Net sales in Automotive totaled $200 million

- 2% decrease compared to Q2 last year
- 47% of total company sales
- Decline this quarter:
  - Weakening demand in Europe
  - Partially offset by incremental strength in China



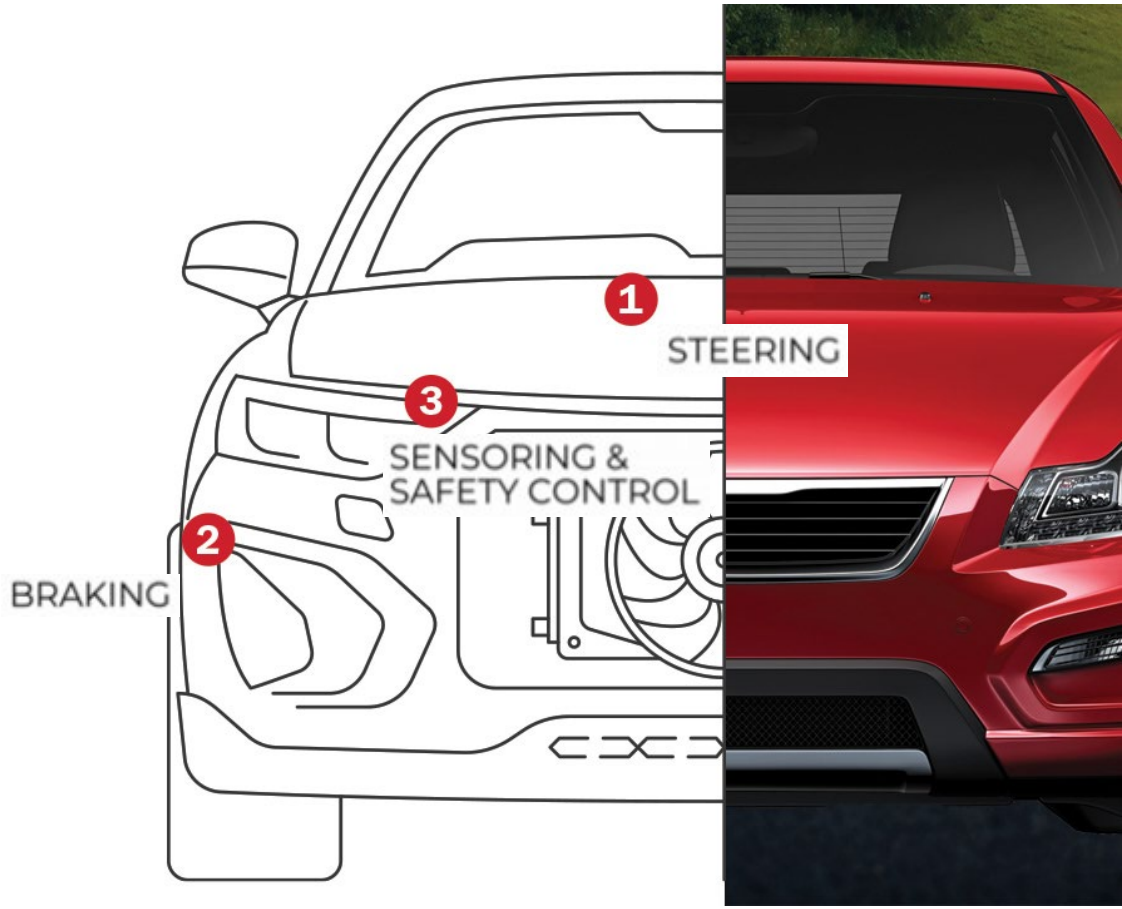


*Percentage of net sales

**Percentage decrease compared to Q2 of fiscal year 2023

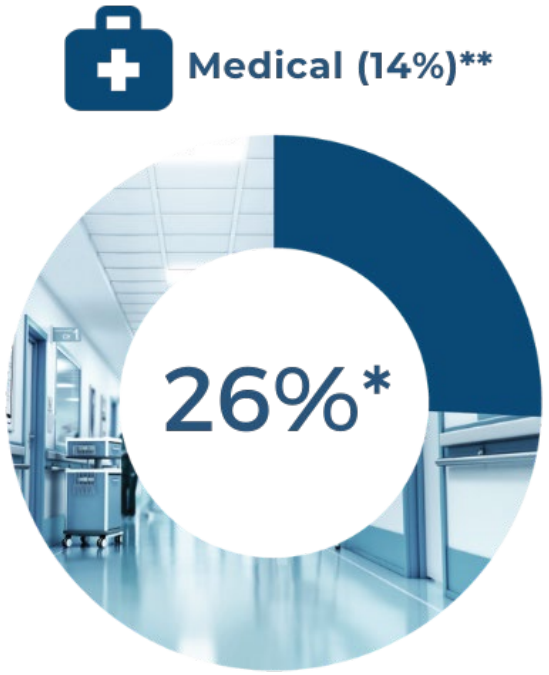
Strong runway for growth in the Automotive vertical

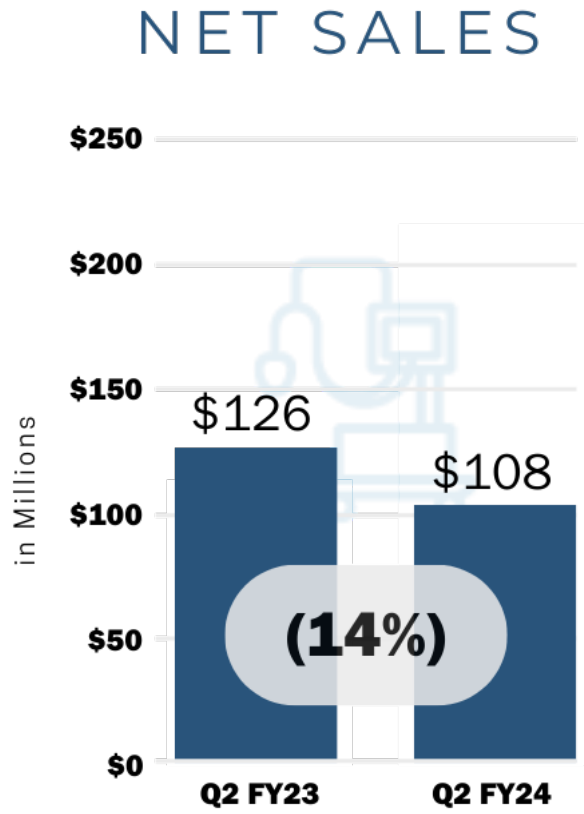
- Industry trend toward incorporating electronic content to vehicles
  - Steering
  - Braking systems
- Proven expertise manufacturing safety critical products
  - Meet stringent regulatory requirements of the industry
  - Most of our Automotive business is currently in steering and braking
  - Engine type doesn't matter
  - Architectures are essentially the same for ICE, EV, or hybrid of the two



As expected, net sales in Medical declined in Q2

- Net sales totaled $108 million
- 14% decrease compared to Q2 last year
- 26% of total company sales
- Annual guidance reflects $100 million reduction in sales with a major medical customer
    - Partially offset by growth in other programs

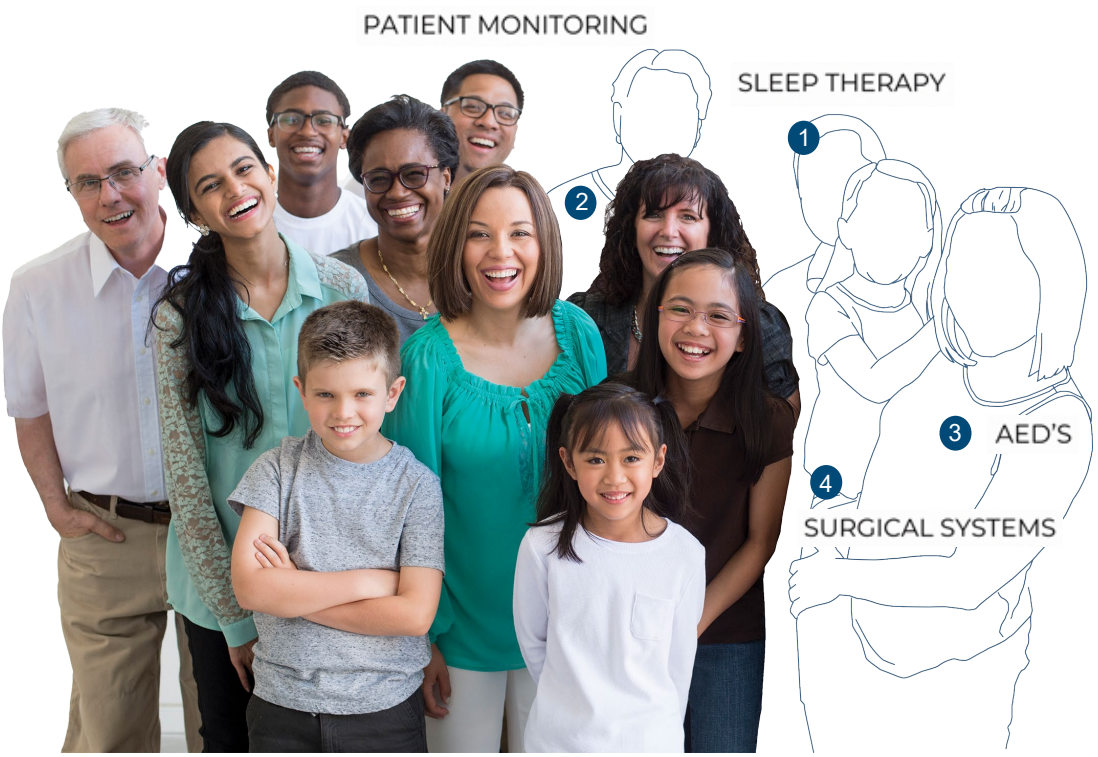




*Percentage of net sales

**Percentage decrease compared to Q2 of fiscal year 2023

Growth opportunities in Medical will continue to emerge



- Industry megatrends
  - Population aging
  - Access & affordability to healthcare increasing
  - Medical devices getting smaller in size and requiring higher levels of precision & accuracy
  - Drug delivery systems becoming more prevalent
- Our manufacturing capabilities extend beyond electronics and PCBAs
  - Precision injected molded plastics
  - Complete assembly for drug delivery systems
  - Sterilization & cold chain management
- Higher level assemblies (HLAs) represent opportunity for more value-added content

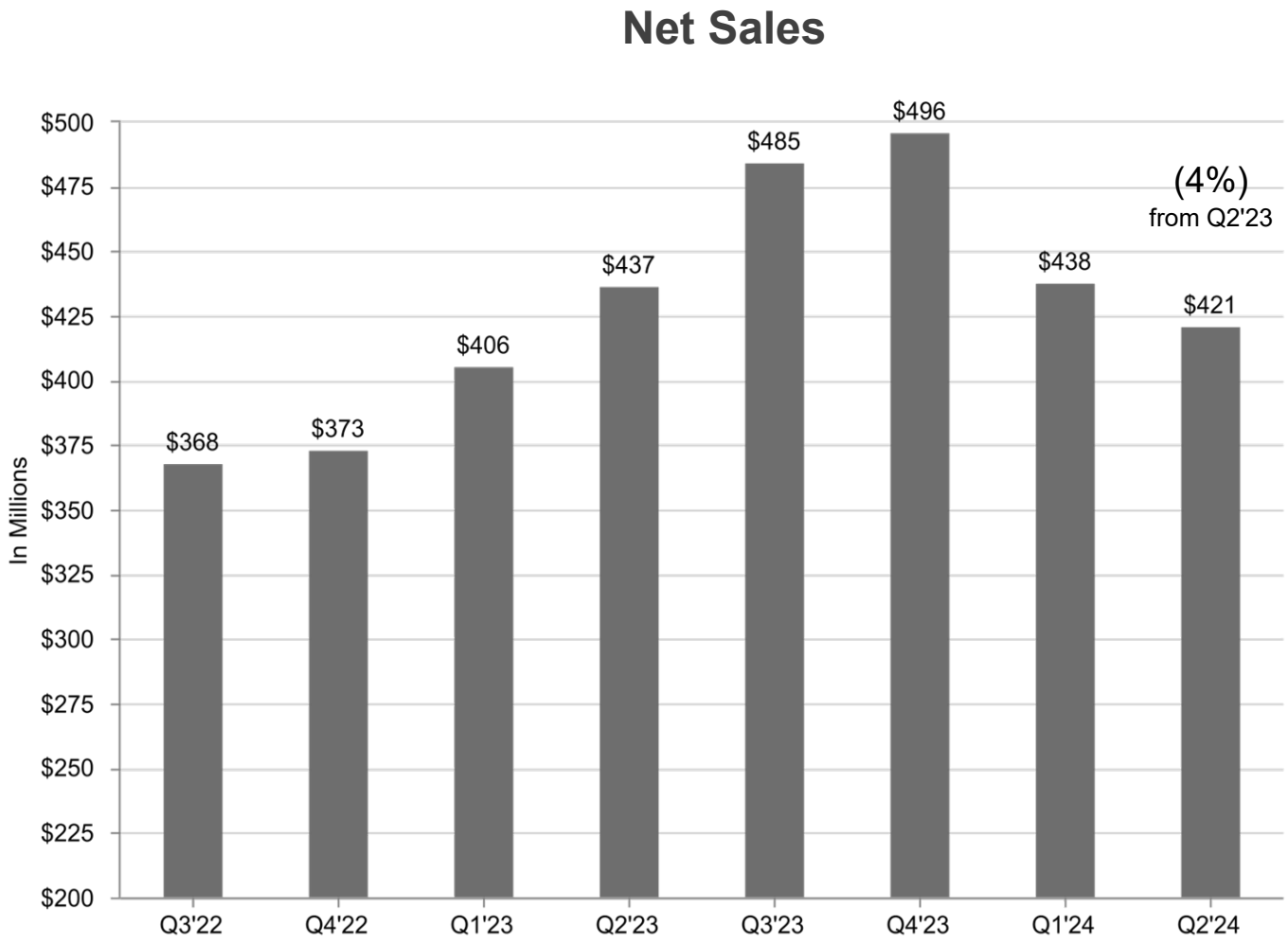
Summary

- Solid quarter in difficult operating environment
- Updated outlook for fiscal year 2024



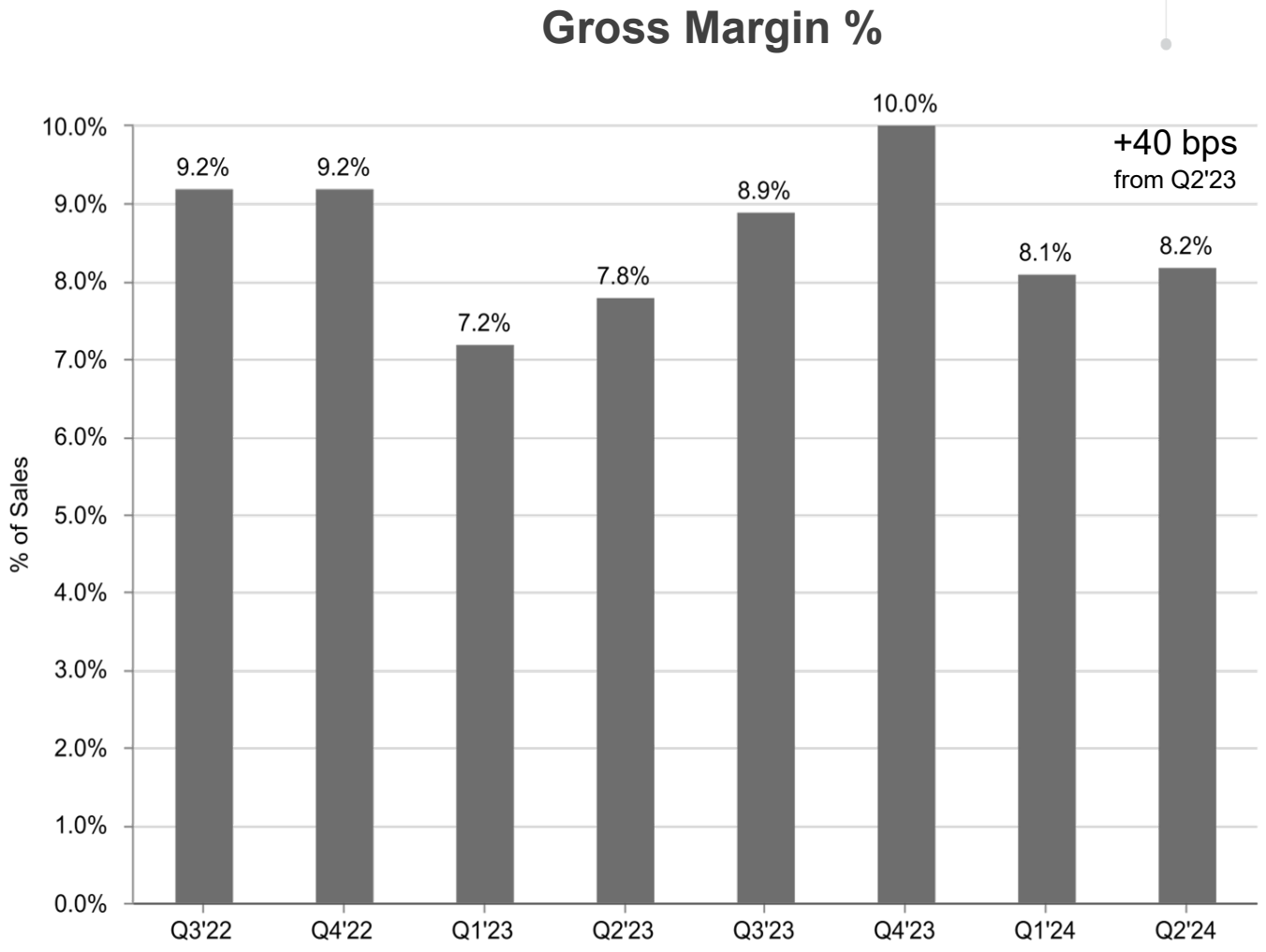
Net sales in Q2 were $421.2 million

- 4% decrease compared to the second quarter of fiscal 2023
- Foreign exchange had a 1% favorable impact on consolidated sales year-over-year



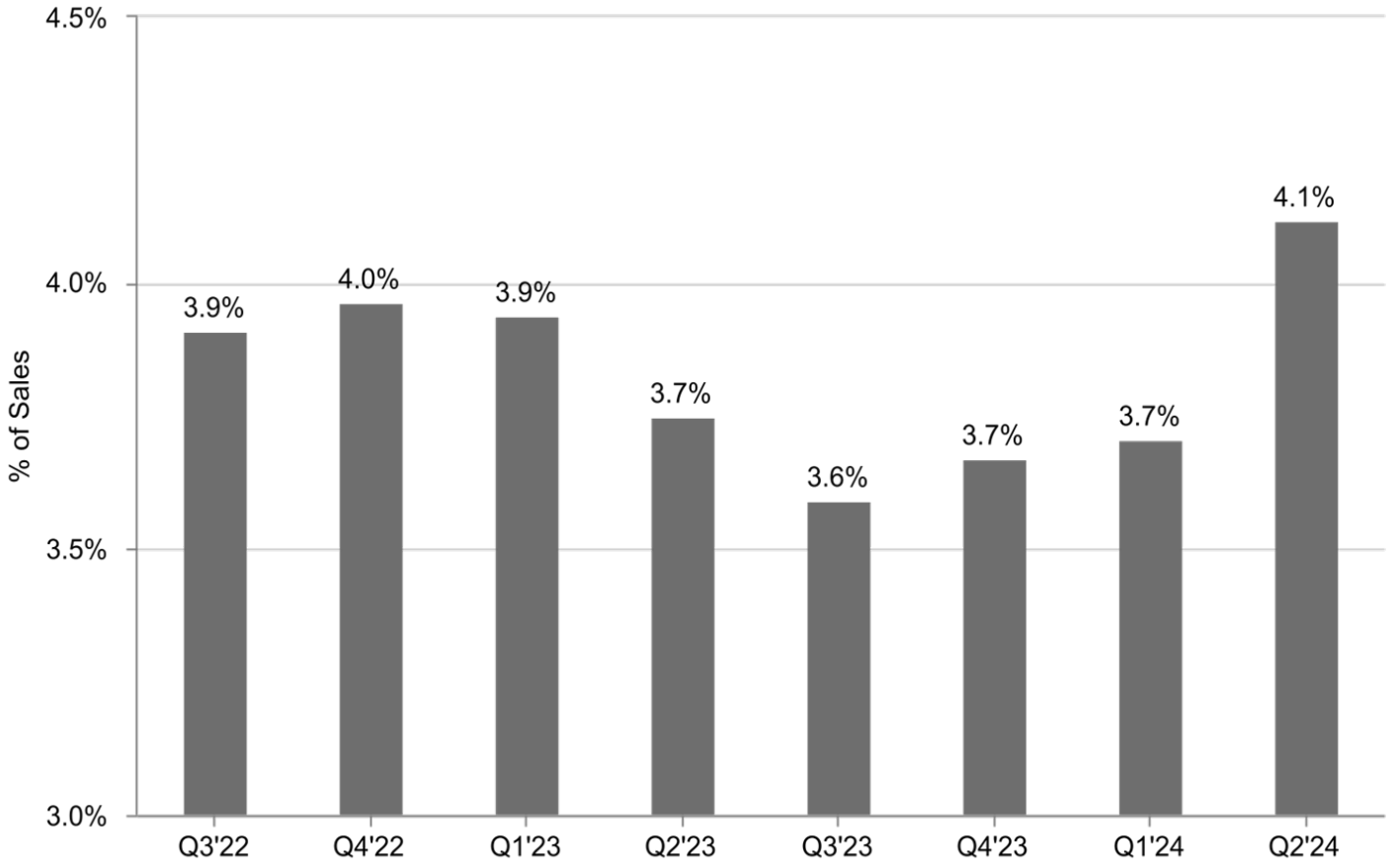
The gross margin rate in Q2 was 8.2%

- 40 basis point improvement compared to the same period last year
- Increase predominately driven by
  - Favorable product mix
  - Lower material costs compared to 12-months ago when global component part shortages were impacting EMS
  - Aligning costs to current macro environment



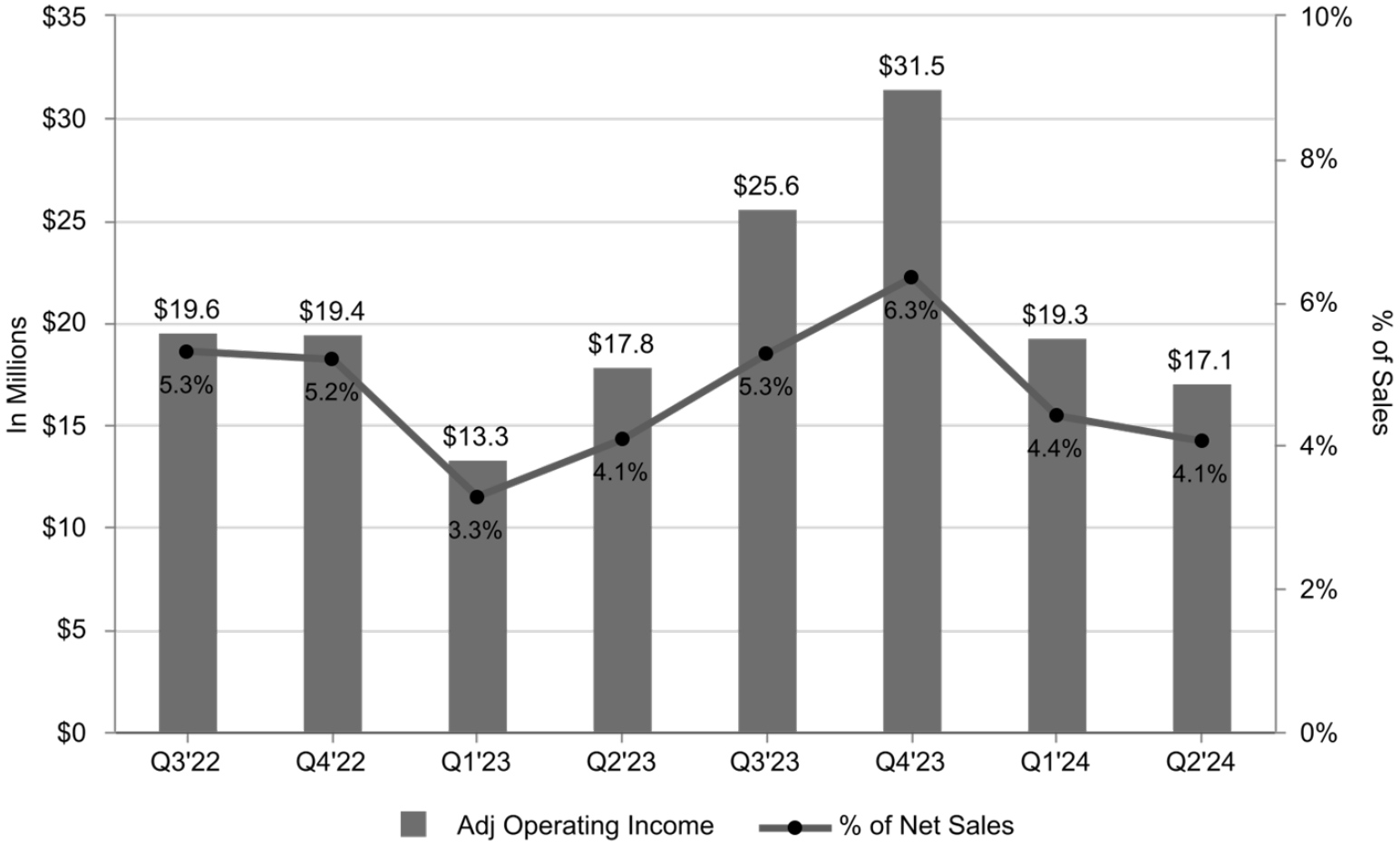
Adjusted selling and administrative expenses (1)

- $17.3 million in Q2 of fiscal 2024 compared to $16.4 million in the second quarter of last year
- Increase driven by $2 million allowance for credit losses
- Customer associated with this charge is not in bankruptcy
- As percentage of sales, adjusted S&A expenses were 4.1%, 40 bps higher than Q2 of last year



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

Adjusted operating income (1)

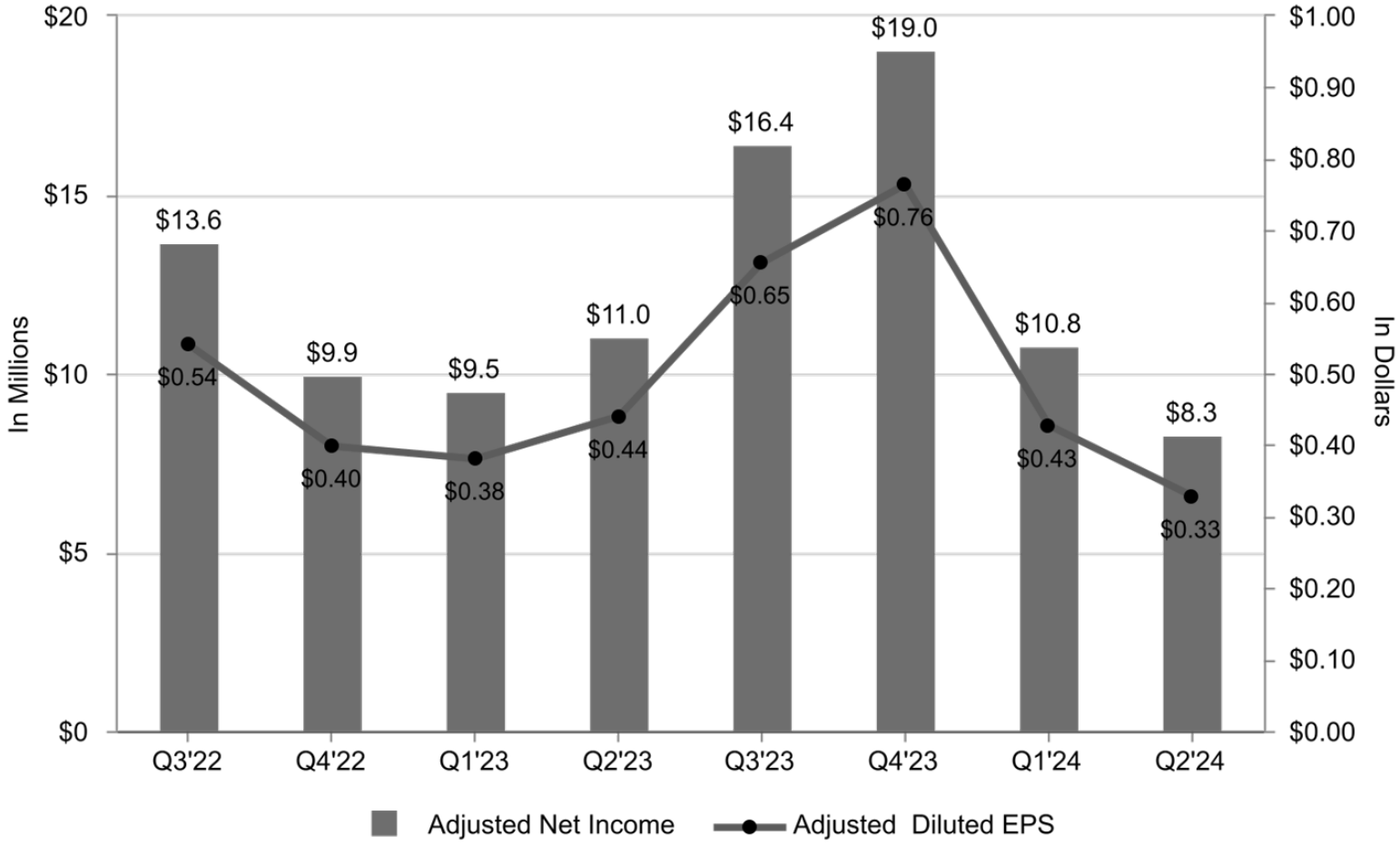


(1) Adjusted Operating Income is a Non-GAAP measure – refer to Reconciliation of Non-GAAP Results in the supplementary information of this presentation.

Other income & expense and the effective tax rate

- Other income & expense was expense of $5.3 million, compared to expense of $3.3 million last year
- The increase is a result of higher interest expense year-over-year
  - Product of our elevated debt levels and the current interest rate environment
- The effective tax rate in Q2 was 26.5%, compared to 24.5% in Q2 of fiscal 2023

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 supplementary information of this presentation.

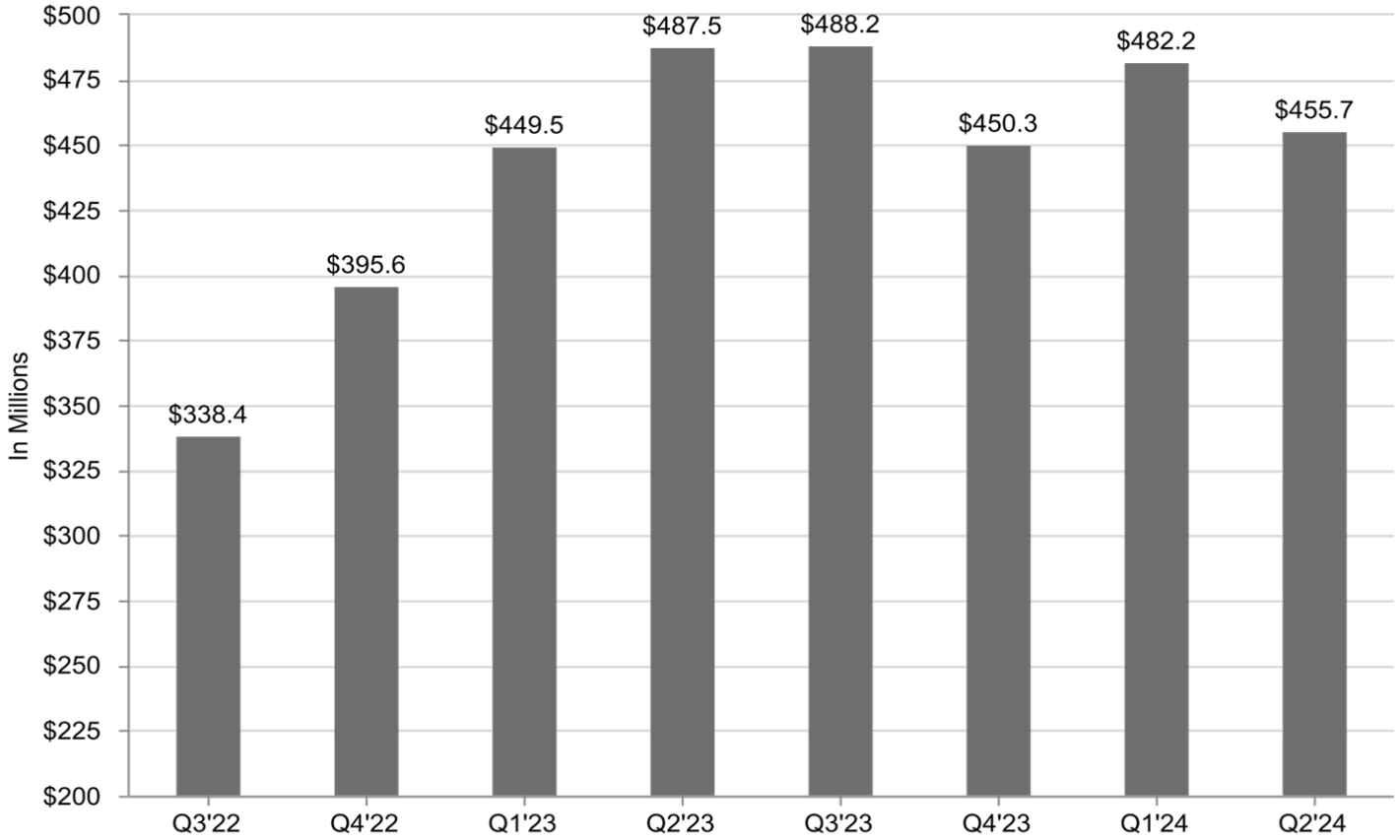
Balance sheet

- Cash and cash equivalents were $39.9 million at December 31, 2023
- Cash flow used by operating activities in the second quarter of fiscal 2024 was $30.7 million
- Cash conversion days were 117 days, compared to 97 days in the second quarter last year, and 103 days last quarter
    - Customer advances now included in CCD calculations*
    - Increase in CCD this quarter compared to Q2 in the prior year
        - Days Sales Outstanding
        - Contract Asset Days
        - Accounts Payable Days

** Note: prior periods have been recast to include customer advances*

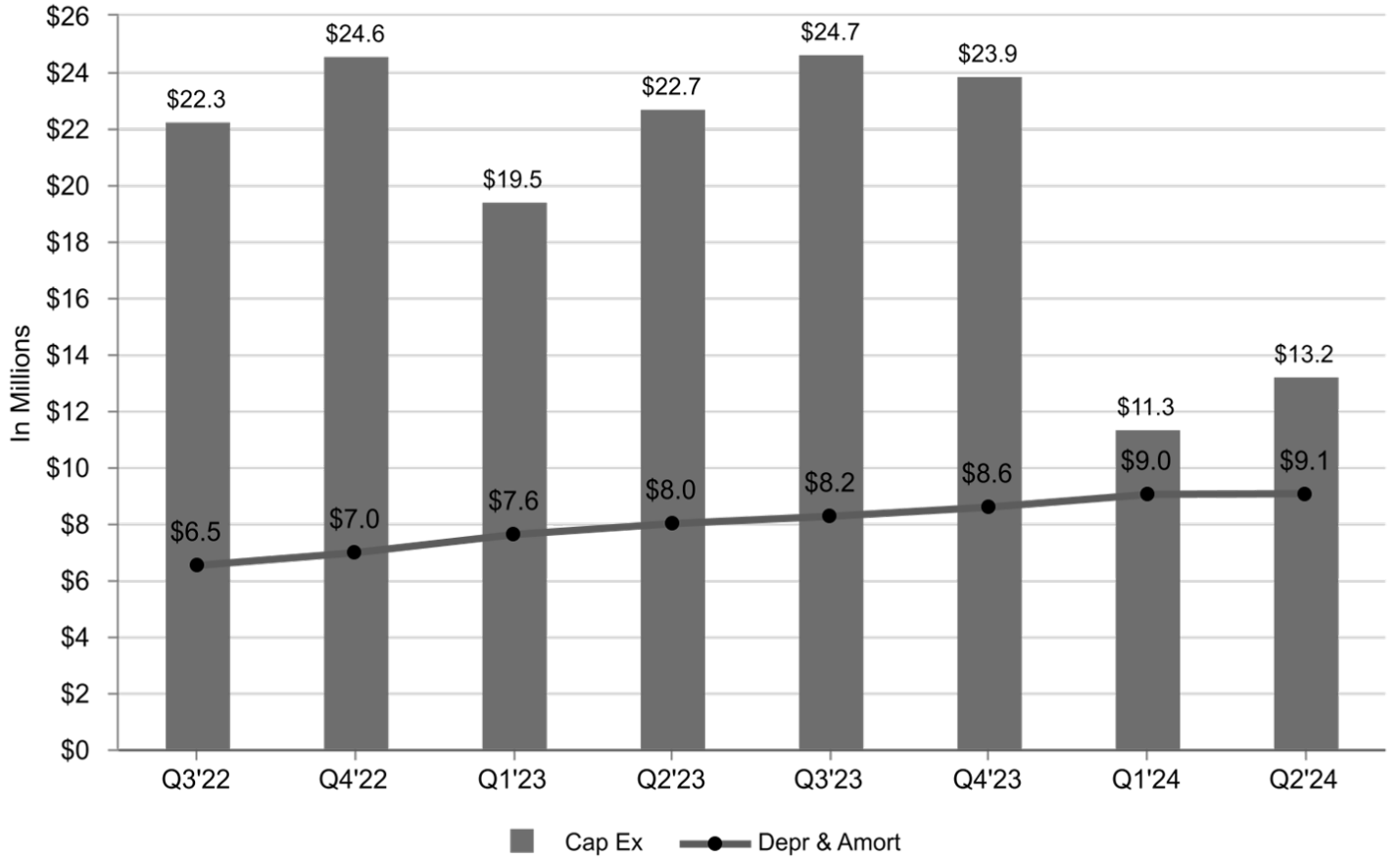
Inventory ended the quarter at $455.7 million

- Compared to $487.5 million at the end of Q2 last year
- Compared to $482.2 million last quarter
- Expect this number to continue to decline as we work with customers to “right-size” inventory to match demand



Capital expenditures in Q2 were $13.2 million

- Supporting organic growth
- Maintenance requirements
- Investments in automation and efficiency



(1) Capital Expenditures include purchases of capitalized software.

Borrowings

- Borrowings on credit facilities at December 31, 2023, were $321.8 million
  - Compared to $273.5 million dollars a year ago
  - Borrowings at the end of Q1 were $296.7 million
- Short-term liquidity available totaled $105.7 million at the end of the second quarter

Short-term credit facility

- On January 5, 2024, we amended our short-term credit facility to provide additional domestic liquidity for investments needed to meet working capital and other operating needs
  - Increases borrowing limit to $100 million, from $50 million
  - Changes maturity date to January 3, 2025, from February 2, 2024

Share repurchases

- No shares were repurchased in the second quarter of fiscal 2024
- 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

Updating guidance for fiscal year 2024

- Net sales expected to decline 2% - 4% compared to fiscal 2023
  - Previous estimate was flat with prior year
- Operating income estimated to be in the range of 4.2% to 4.6% of net sales
  - Previous guidance was flat with prior year
- The outlook for capital expenditures did not change with a range of $70 - $80 million

CIRCUITS ASSEMBLY Service Excellence Awards

- In November, we achieved the Highest Overall Customer Ratings in the categories of:
  - Dependability and timely delivery
  - Technology
  - Value for price
  - Manufacturing quality
- Awards based solely on direct customer input
- Very proud of our team's consistent focus on building long-term relationships with customers



Questions

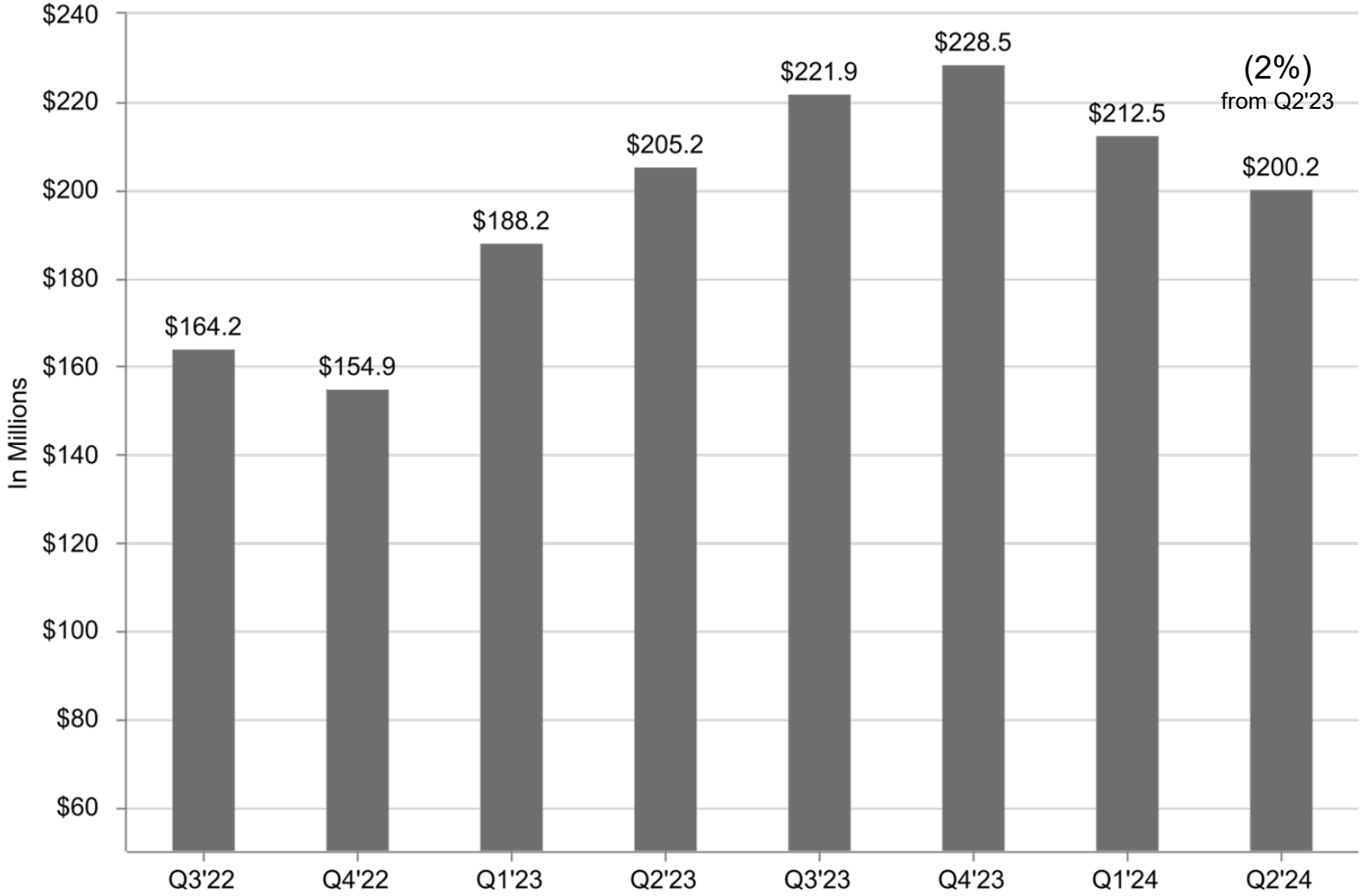
Appendix

Reconciliation of Non-GAAP Results

(Unaudited, Amounts in Thousands, Except Per Share Data)	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24
Net Sales Growth (vs. same quarter in prior year)	19 %	13 %	39 %	39 %	32 %	33 %	8 %	(4)%
Foreign Currency Exchange Impact	(2)%	(3)%	(5)%	(5)%	(2)%	— %	1 %	1 %
Constant Currency Growth	21 %	16 %	44 %	44 %	34 %	33 %	7 %	(5)%
Selling & Administrative Expenses, as reported	$ 13,667	$ 13,643	$ 15,750	$ 16,702	$ 17,752	$ 18,444	$ 16,052	$ 17,823
Less: SERP	(719)	(1,159)	(235)	340	353	243	(177)	484
Adjusted S&A Expense	$ 14,386	$ 14,802	$ 15,985	$ 16,362	$ 17,399	$ 18,201	$ 16,229	$ 17,339
Operating Income, as reported	$ 20,277	$ 20,578	$ 13,571	$ 17,489	$ 25,220	$ 31,449	$ 19,490	$ 16,610
Add: SERP	(719)	(1,159)	(235)	340	353	243	(177)	484
Add: Lawsuit Settlements (Recovery)	—	—	—	—	—	(212)	—	—
Adjusted Operating Income	$ 19,558	$ 19,419	$ 13,336	$ 17,829	$ 25,573	$ 31,480	$ 19,313	$ 17,094
Net Income, as reported	$ 13,638	$ 9,938	$ 9,509	$ 10,720	$ 16,400	$ 19,202	$ 10,754	$ 8,290
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	—	—	—	279	—	—	—	—
Add: Lawsuit Settlements (Recovery)	—	—	—	—	—	(161)	—	—
Adjusted Net Income	$ 13,638	$ 9,938	$ 9,509	$ 10,999	$ 16,400	$ 19,041	$ 10,754	$ 8,290
Diluted Earnings per Share, as reported	$ 0.54	$ 0.40	$ 0.38	$ 0.43	$ 0.65	$ 0.76	$ 0.43	$ 0.33
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	$ —	$ —	$ —	$ 0.01	$ —	$ —	$ —	$ —
Add: Lawsuit Settlements (Recovery)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Adjusted Diluted Earnings per Share	$ 0.54	$ 0.40	$ 0.38	$ 0.44	$ 0.65	$ 0.76	$ 0.43	$ 0.33
Operating Income (GAAP) (TTM)	$ 49,050	$ 52,549	$ 61,340	$ 71,915	$ 76,858	$ 87,729	$ 93,648	$ 92,769
Add: Goodwill Impairment (TTM)	—	—	—	—	—	—	—	—
Add: SERP (TTM)	144	(1,563)	(1,711)	(1,773)	(701)	701	759	903
Add: Lawsuit Settlements (Recovery) (TTM)	(1,039)	(1,384)	—	—	—	(212)	(212)	(212)
Adj. Operating Income (non-GAAP) (TTM)	$ 48,155	$ 49,602	$ 59,629	$ 70,142	$ 76,157	$ 88,218	$ 94,195	$ 93,460
Tax Effect (TTM)	10,774	14,417	16,356	18,856	20,375	22,235	22,913	23,204
After-Tax Adj. Operating Income (TTM)	$ 37,381	$ 35,185	$ 43,273	$ 51,286	$ 55,782	$ 65,983	$ 71,282	$ 70,256
Average Invested Capital [1]	$ 453,479	$ 491,252	$ 544,711	$ 605,772	$ 659,911	$ 701,364	$ 738,096	$ 770,051
ROIC	8.2 %	7.2 %	7.9 %	8.5 %	8.5 %	9.4 %	9.7 %	9.1 %

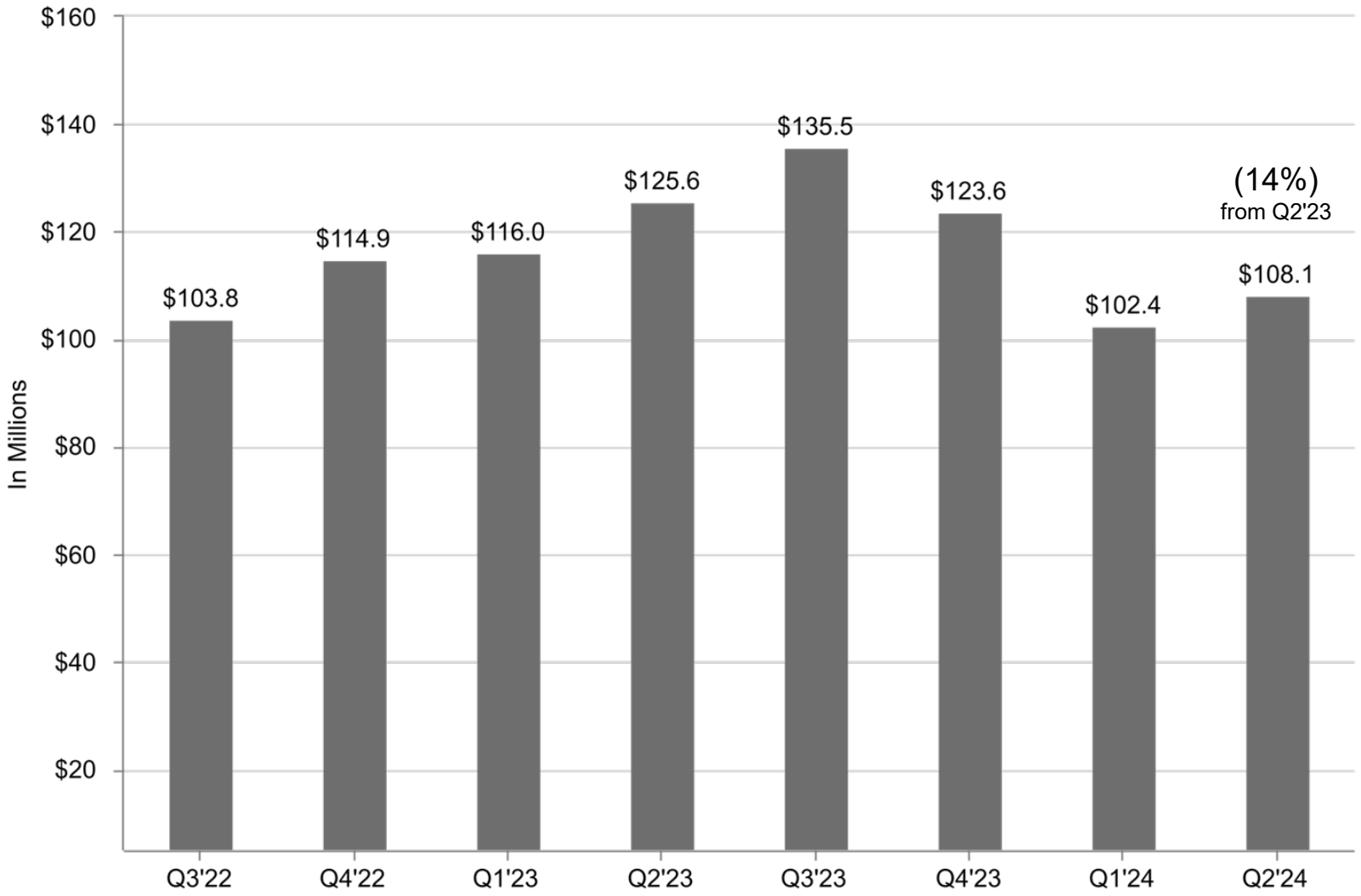
(1) Average Invested Capital is computed using the Share Owners equity plus current and non-current debt less cash and cash equivalents averaged for the last five quarters.

Net Sales in Automotive (1)



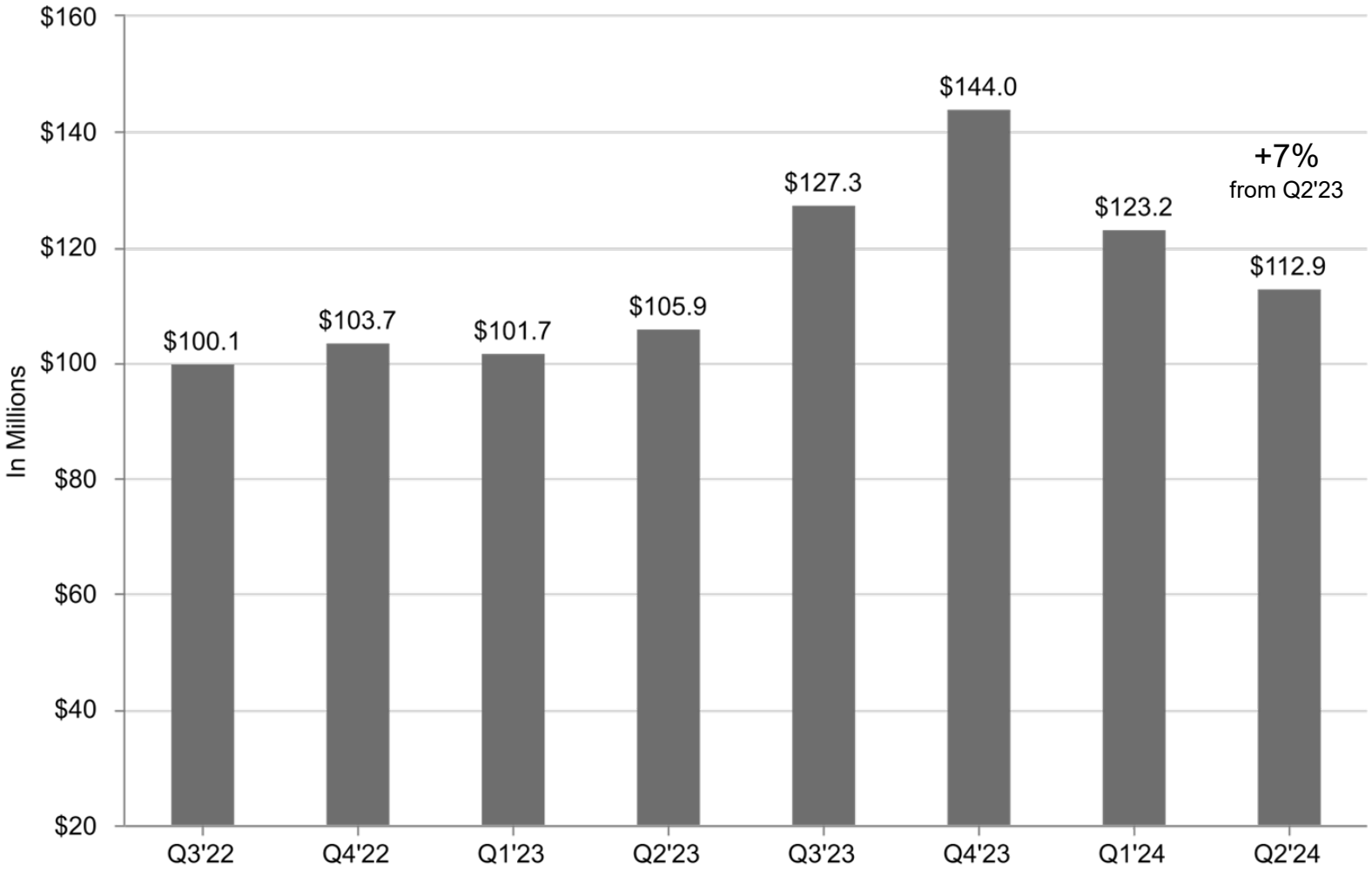
(1) Beginning in fiscal year 2024, miscellaneous sales previously reported in Other are now reported in the respective three end market verticals; all prior periods have been restated to conform to current period presentation

Net Sales in Medical (1)



(1) Beginning in fiscal year 2024, miscellaneous sales previously reported in Other are now reported in the respective three end market verticals; all prior periods have been restated to conform to current period presentation

Net Sales in Industrial (1) (2)



(1) Beginning in fiscal year 2023, Public Safety was combined with Industrial; all prior periods have been recast to conform to current period presentation

(2) Beginning in fiscal year 2024, miscellaneous sales previously reported in Other are now reported in the respective three end market verticals; all prior periods have been recast to conform to current period presentation.