Third Quarter Fiscal 2024 Results

Quarter Ended March 31, 2024

Supplementary Information to the May 8, 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 include 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 slides.

Today's Speakers

- Opening comments
- Financial results for the third quarter
- Guidance for fiscal 2024
- Closing comments
- Q&A



Ric Phillips
CEO



Jana Croom
CFO

1st year at Kimball Electronics…

- Good journey already, excited about the future for the Company
- Drawn to the Kimball opportunity for a number of reasons
  - Outstanding company culture
  - Opportunity to build on a strong foundation to achieve significant value creation
- Experiences so far have confirmed those perspectives
- Spent a great deal of time visiting our locations, meeting with customers, and working with our Leadership Team to complete an in-depth review of our strategic focus, vertical market structure, and organization design
- Announcing steps to sharpen our strategic focus and further position the Company for profitable growth and stronger performance

Update on our strategic direction and structure

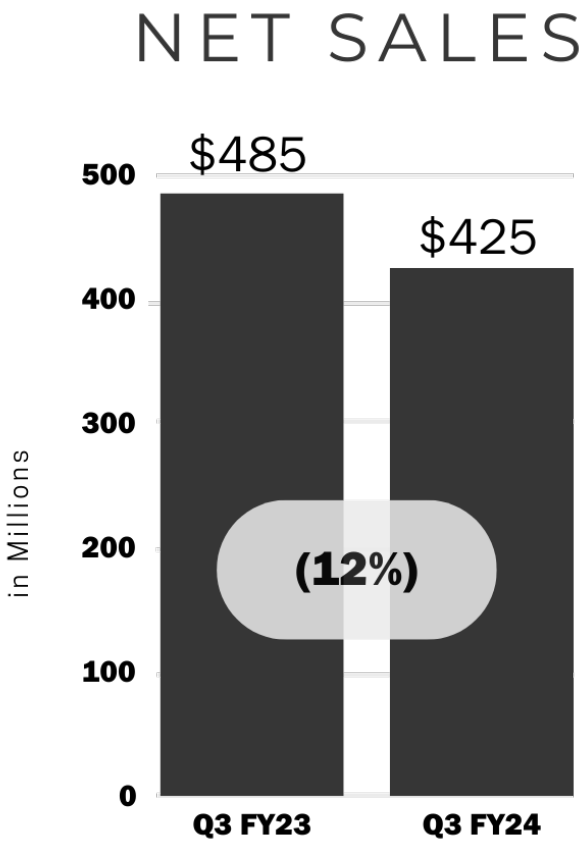
- Divesting our Automation, Test & Measurement business
- Increasing the focus and support on our core EMS business
  - Realigning our Medical solutions business unit into our EMS medical vertical
  - Elevated two key executives to enterprise-wide operations
- Responding to end market softness by “controlling what we can control”
  - Resizing our team, taking specific cost actions
  - Continuing focus on significant working capital improvements
- Recorded impairment and a restructuring charge in Q3

Operating environment remained challenged for EMS

- Expect macro headwinds to persist in fiscal 2025
- During this period of end market softness, we are taking action by:
  - Proactively aligning our cost structure with short-term demand trends
  - Remaining competitive with stable operating margins
  - Focusing on working capital improvements
- Inventory down over $90 million from peak
- Continue to make investments in longer-term growth opportunities supported by robust funnel of new business in the next 18-24 months
- Deploying a capital allocation strategy that balances organic growth, lasting customer relationships, and returning cash to Share Owners with opportunistic share repurchases

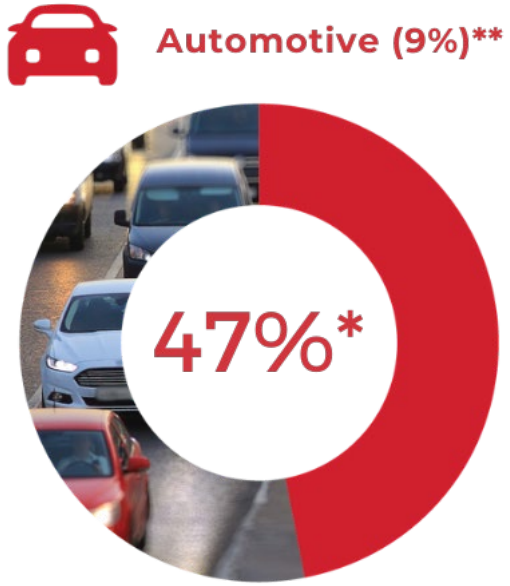
Net sales in Q3 totaled $425 million

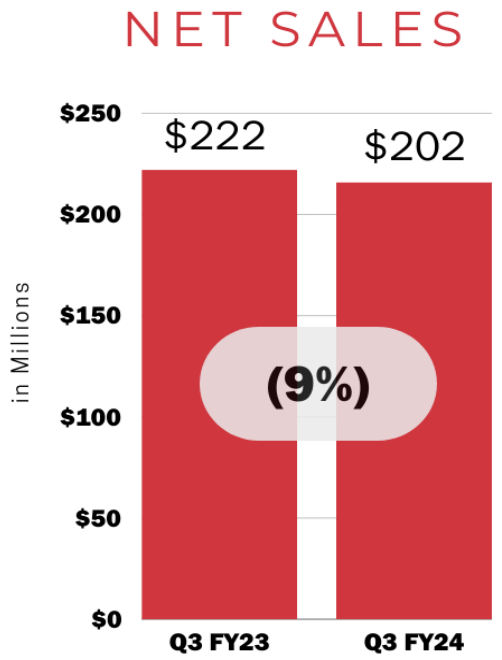
- 12% decrease compared to Q3 of last year
- Decline shared across the 3 vertical markets
- Softness in each region of our global footprint
- Sequentially, sales increased $4 million, or nearly 1%
- Difficult “comps” – growth in Q3 last year was 32%
- 2-year stack – growth estimated in the low-to-mid teens
- Anticipate year-over-year declines next quarter
  - Expect sequential growth over Q3



Net sales in Automotive totaled $202 million

- Down 9% compared to Q3 last year
- 47% of total company sales
- Decrease this quarter:
  - Continued weak demand in Europe
  - Incremental softness in North America
  - Decline in China
- Compared to last quarter, North America and Europe both posted sequential increases



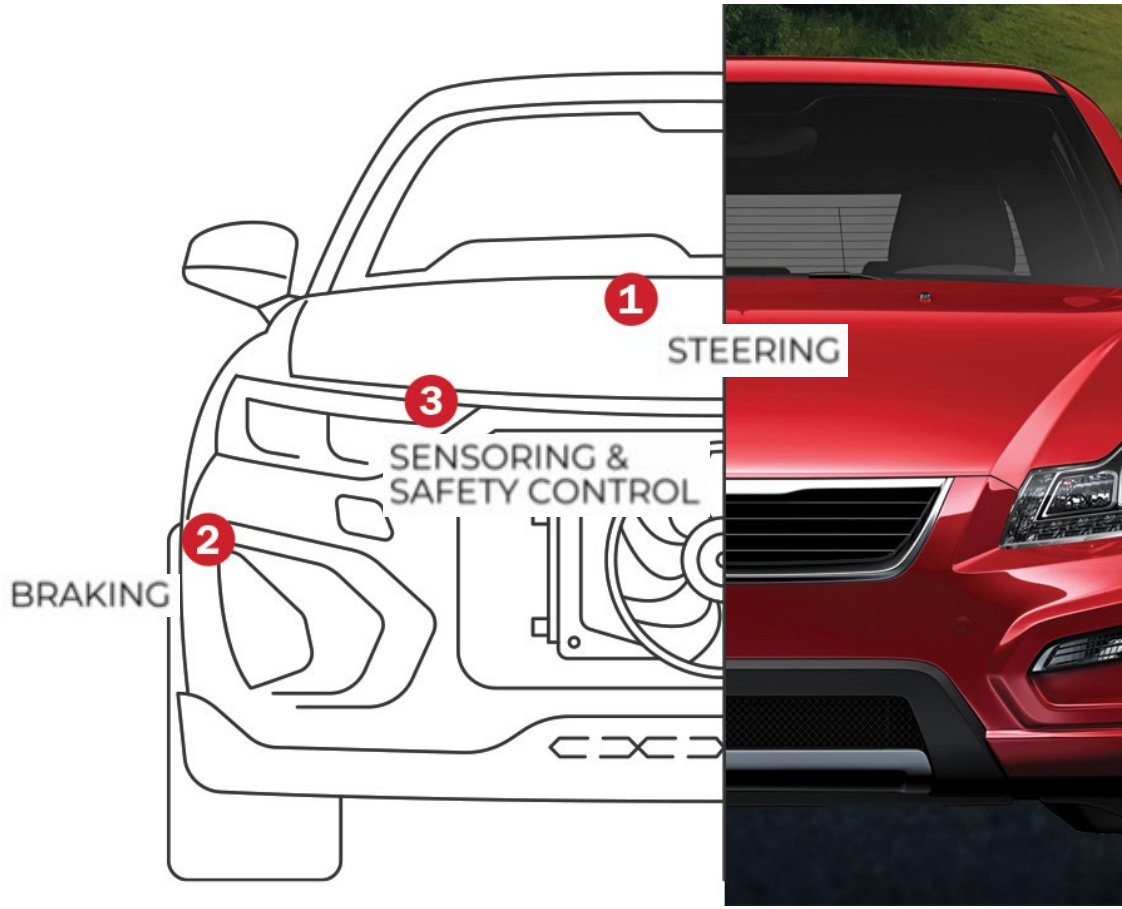


*Percentage of net sales

**Percentage decrease compared to Q3 of fiscal year 2023

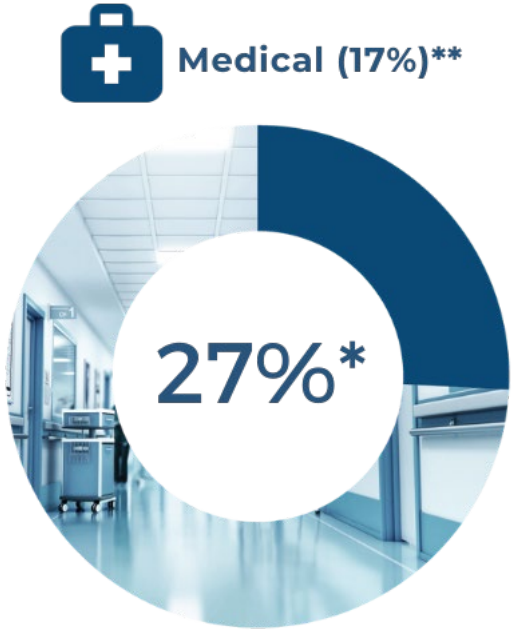
Long-term growth in Automotive

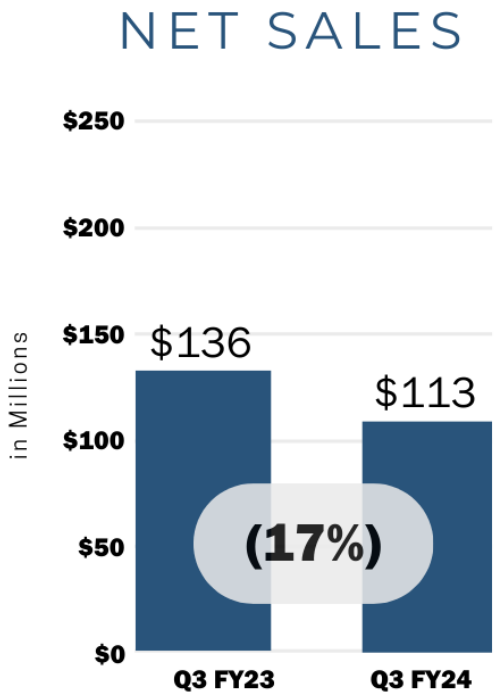
- Increase in the rate at which electronic content is being added to vehicles – steering & braking
- Content leverages advanced technologies and expanded operating systems
  - Align with core manufacturing capabilities
  - Proven expertise in safety critical products
- Architectures of steering and braking are agnostic to vehicle type – ICE, EV, hybrid
- Automotive industry is highly regulated
- Business is “sticky” with program life cycles that can span 8 to 10 years in length with single source awards



Net sales in Medical were $113 million

- 17% decrease compared to Q3 last year
- 27% of total company sales
- Decline driven by lost sales with major customer involved in FDA recall, partially offset by growth with other customers
- Annual guidance assumes a net $50 million reduction
  - $100 million decrease with customer involved in recall
  - Partially offset by $50 million increase in new & existing programs

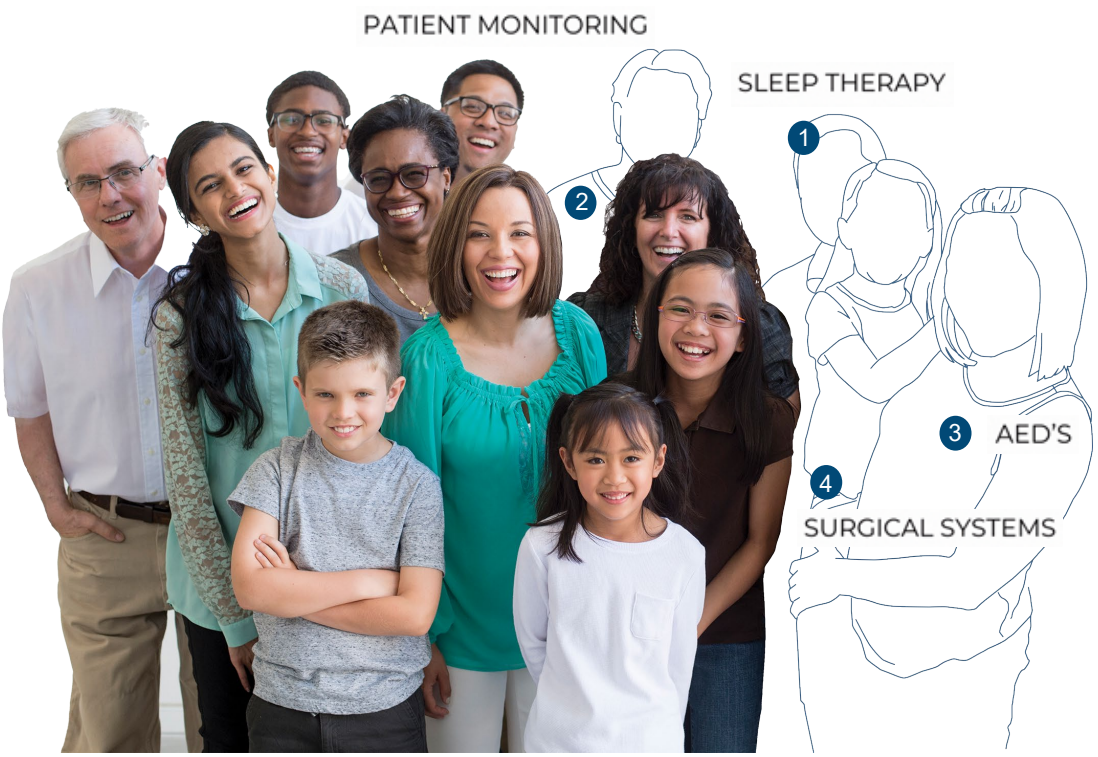




*Percentage of net sales

**Percentage decrease compared to Q3 of fiscal year 2023

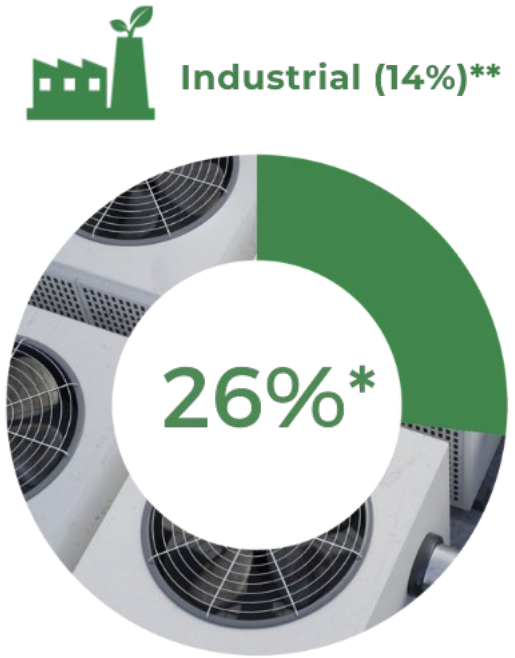
Strategically positioned to support growth driven by industry megatrends



- Aging population
- Increasing access & affordability to healthcare
- Decreasing device sizes, combined with the need for higher levels of precision
- Increasing drug delivery systems
- Industry-wide trend to outsource higher level assemblies
- Strategically positioned with Kimball Medical Solutions

Net sales in Industrial were $110 million

- 14% decrease compared to Q3 last year
- 26% of total company sales
- AT&M results included in this vertical
  - Drove half of the decline in Q3
- Lower demand for internal climate control systems
- Smart Meters in Europe have been commoditizing

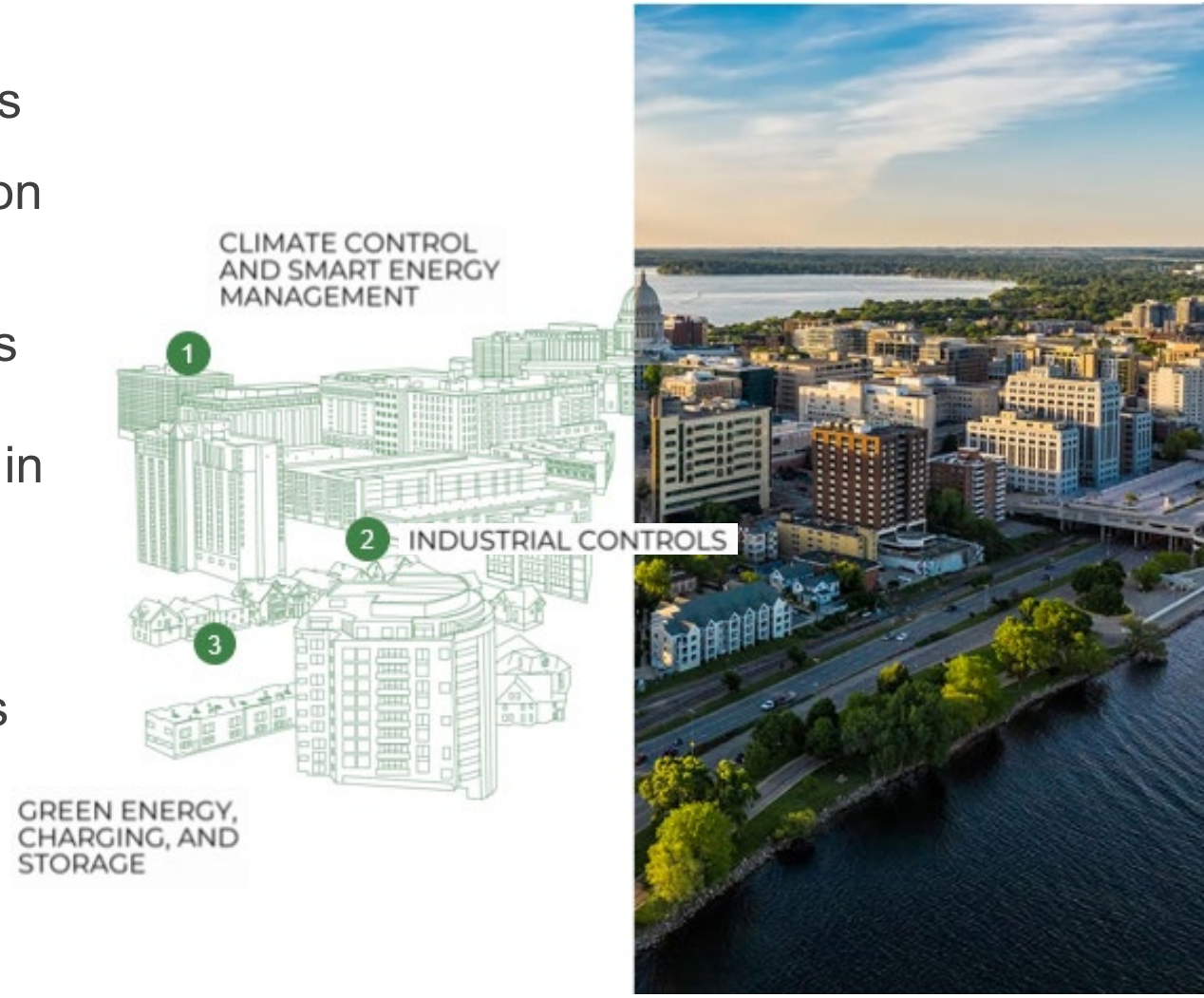


*Percentage of net sales

**Percentage decrease compared to Q3 of fiscal year 2023

We refer to Industrial as “green & clean”

- Our products reduce environmental impacts
  - Promote energy efficiency, safety, carbon neutrality
  - Better consumption of natural resources
- Meaningful growth drivers from megatrend in legislation and incentives supporting decarbonization
- Strategically positioned to support products that reduce environmental impacts



Summary

- Quarter filled with a number of important developments
- Insights on financial results
- Review guidance



Q3 results include…

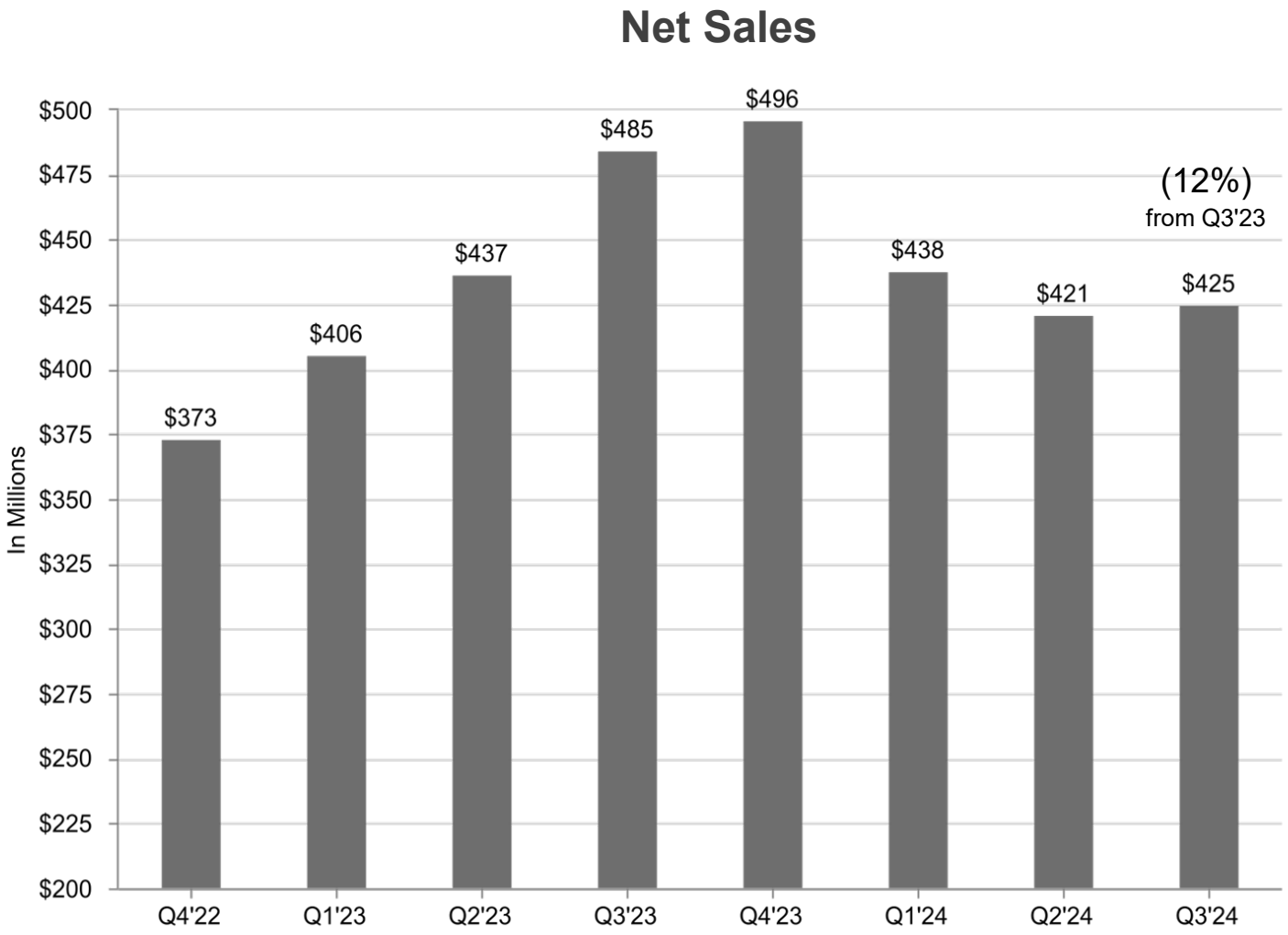
- Impairment associated with the AT&M business
- Restructuring expenses in support of sharpening strategic focus
- All in, activity totaled $14.5 million, or $0.58 per share:

	After-tax $	EPS
Goodwill & asset impairment	$14.0	$0.56
Restructuring expense	$1.2	$0.05
Recovery of legal settlement	($0.7)	($0.03)
Total	$14.5	$0.58

- *Review of financial results for the quarter will exclude these items*

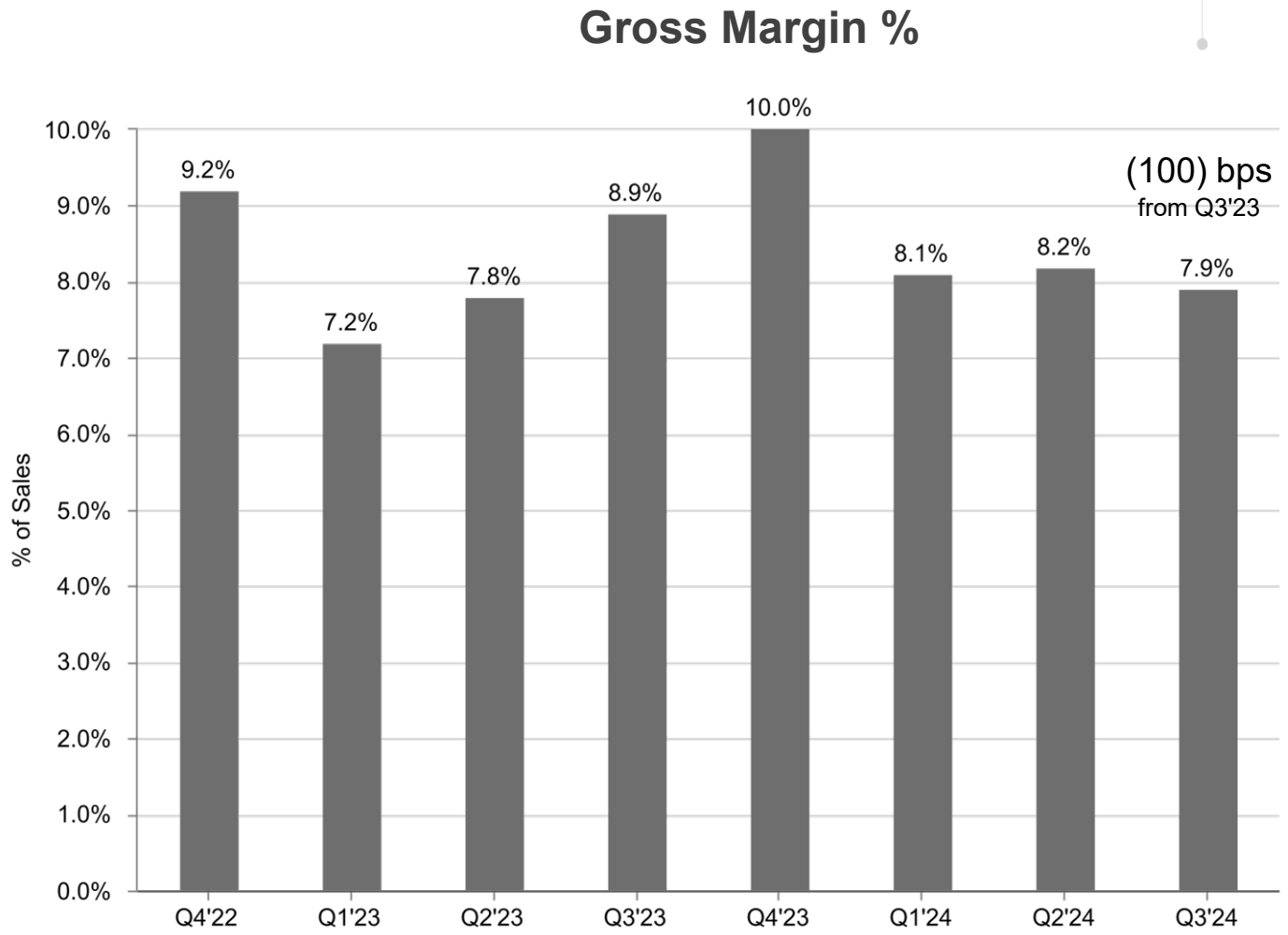
Net sales in Q3 were $425 million

- 12% decrease compared to the third quarter of fiscal 2023
- AT&M contributed over 100 bps to the decline
- Foreign exchange did not impact consolidated sales year-over-year



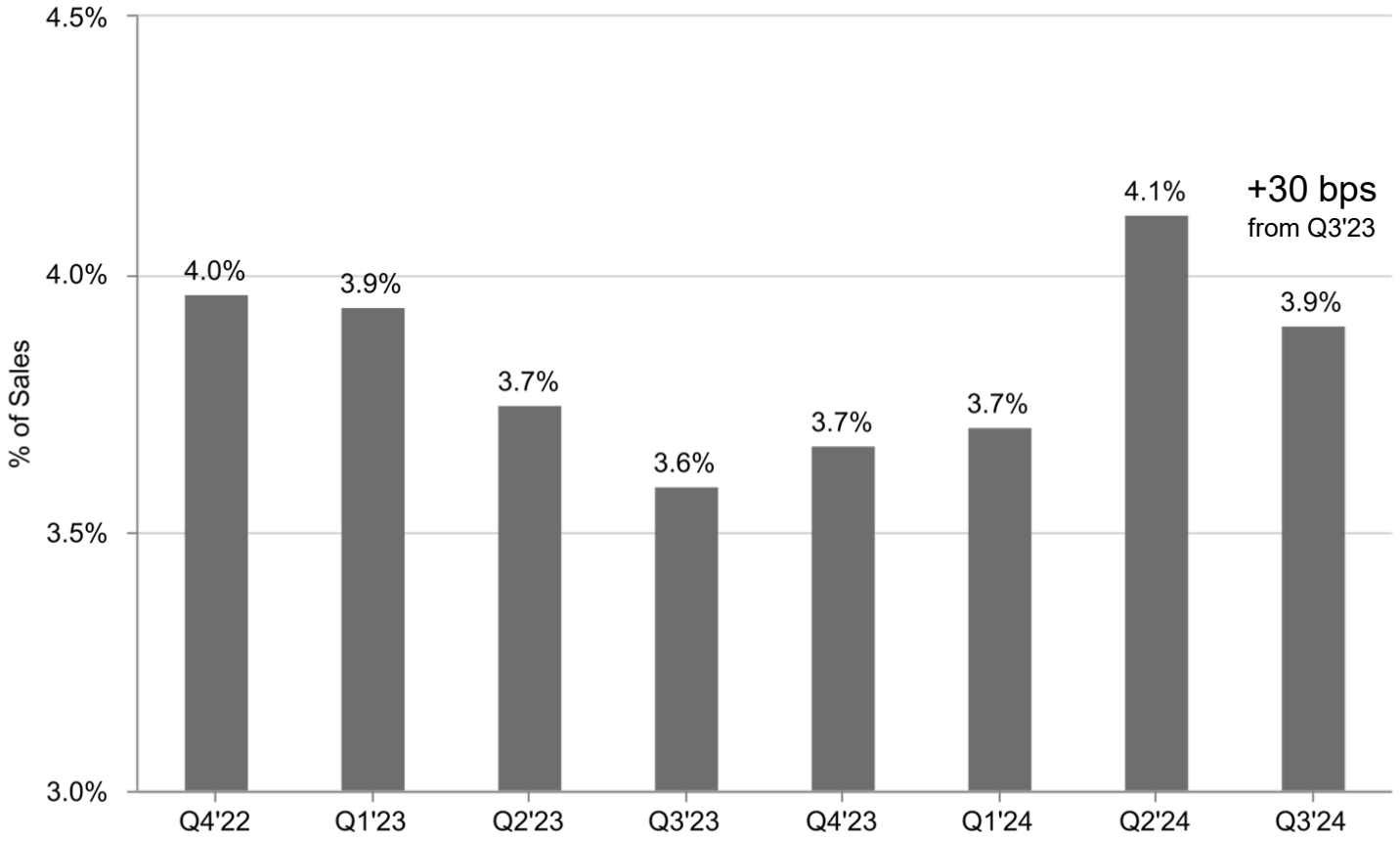
The gross margin rate in Q3 was 7.9%

- 100 bps decline compared to the same period last year
- Decrease driven by:
  - Lower absorption in EMS manufacturing facilities
  - AT&M
- Both a result of declining sales



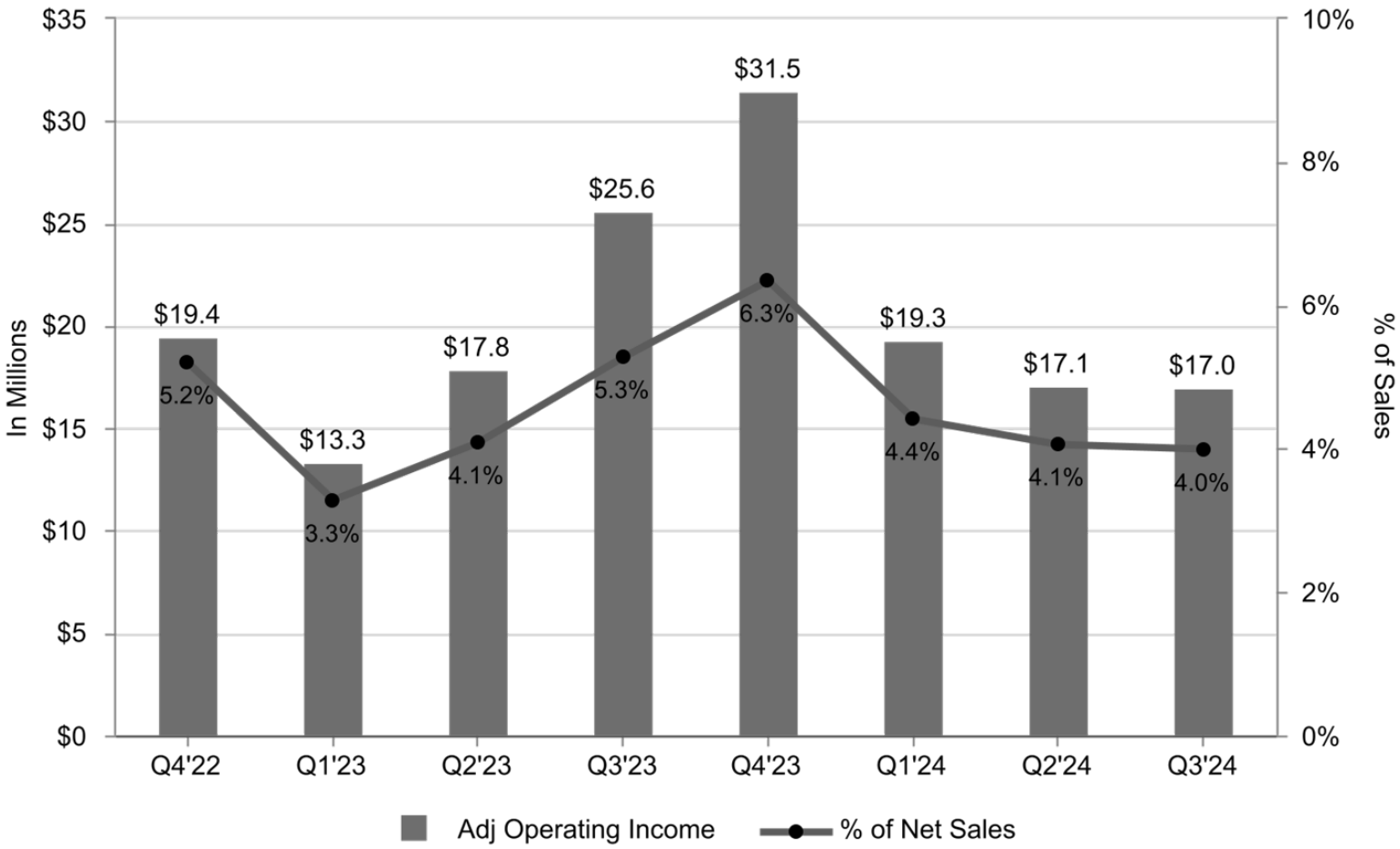
Adjusted selling and administrative expenses (1)

- $16.6 million in Q3
  - $0.8 million decline compared to Q3 last year
  - Decrease resulting from lower bonus expense
- As percentage of sales:
  - Adjusted S&A expenses were 3.9%
  - 30 bps increase versus Q3 of last year



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

Adjusted operating income (1)

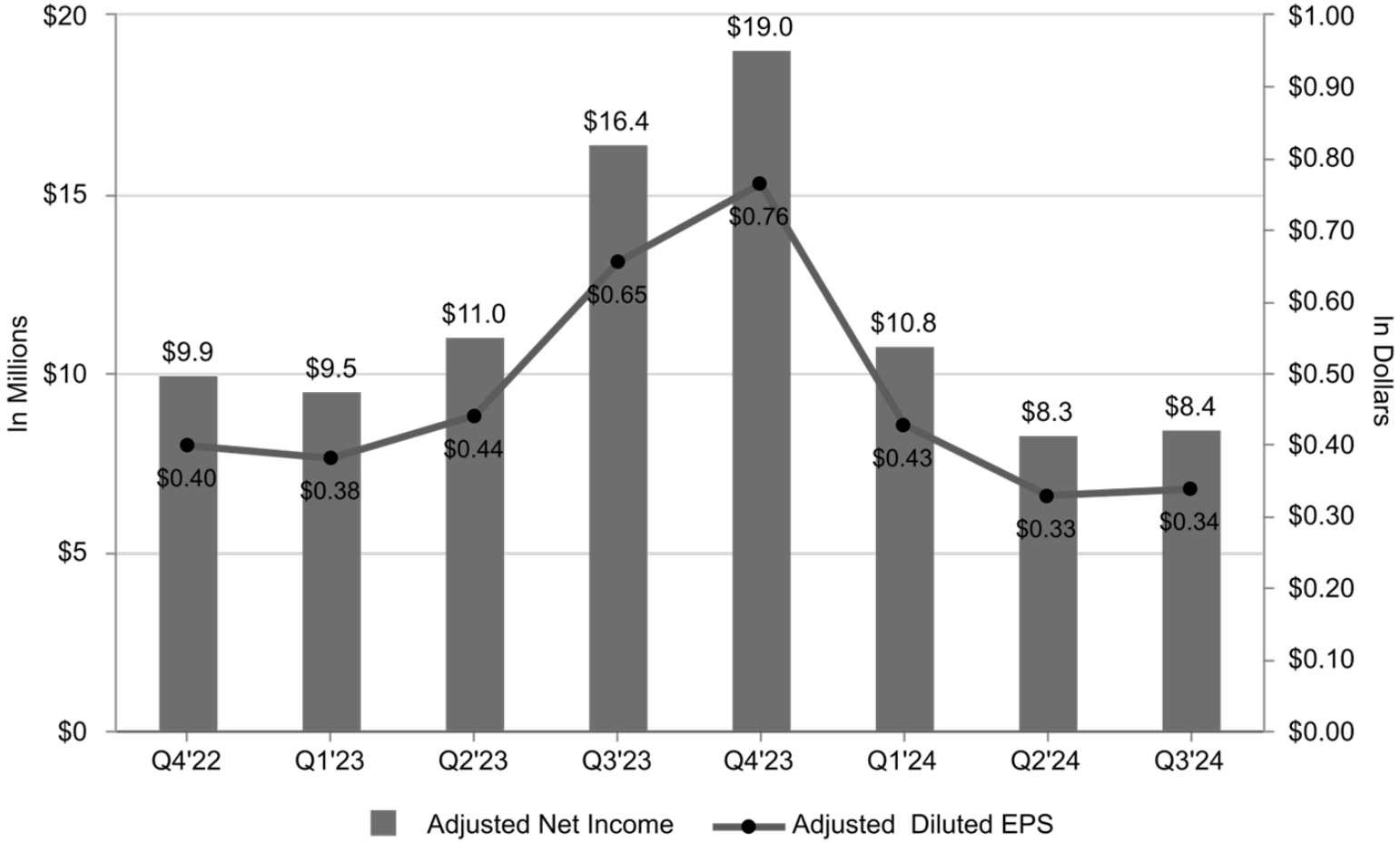


(1) Adjusted Operating Income is a Non-GAAP measure – refer to Reconciliation of Non-GAAP Results in the supplementary information.

Other income & expense and the effective tax rate

- Other income & expense was expense of $6.3 million, compared to expense of $3.3 million last year
- The increase is a result of…
  - Higher interest expense year-over-year, a product of our elevated debt levels and the current interest rate environment
  - Foreign currency movement
- The actual effective tax rate, skewed higher by the impacts of the impairment and restructuring charges, was ~52% in Q3
  - Continue to expect a consolidated tax rate in the mid-twenties

Adjusted net income and adjusted diluted EPS (1)



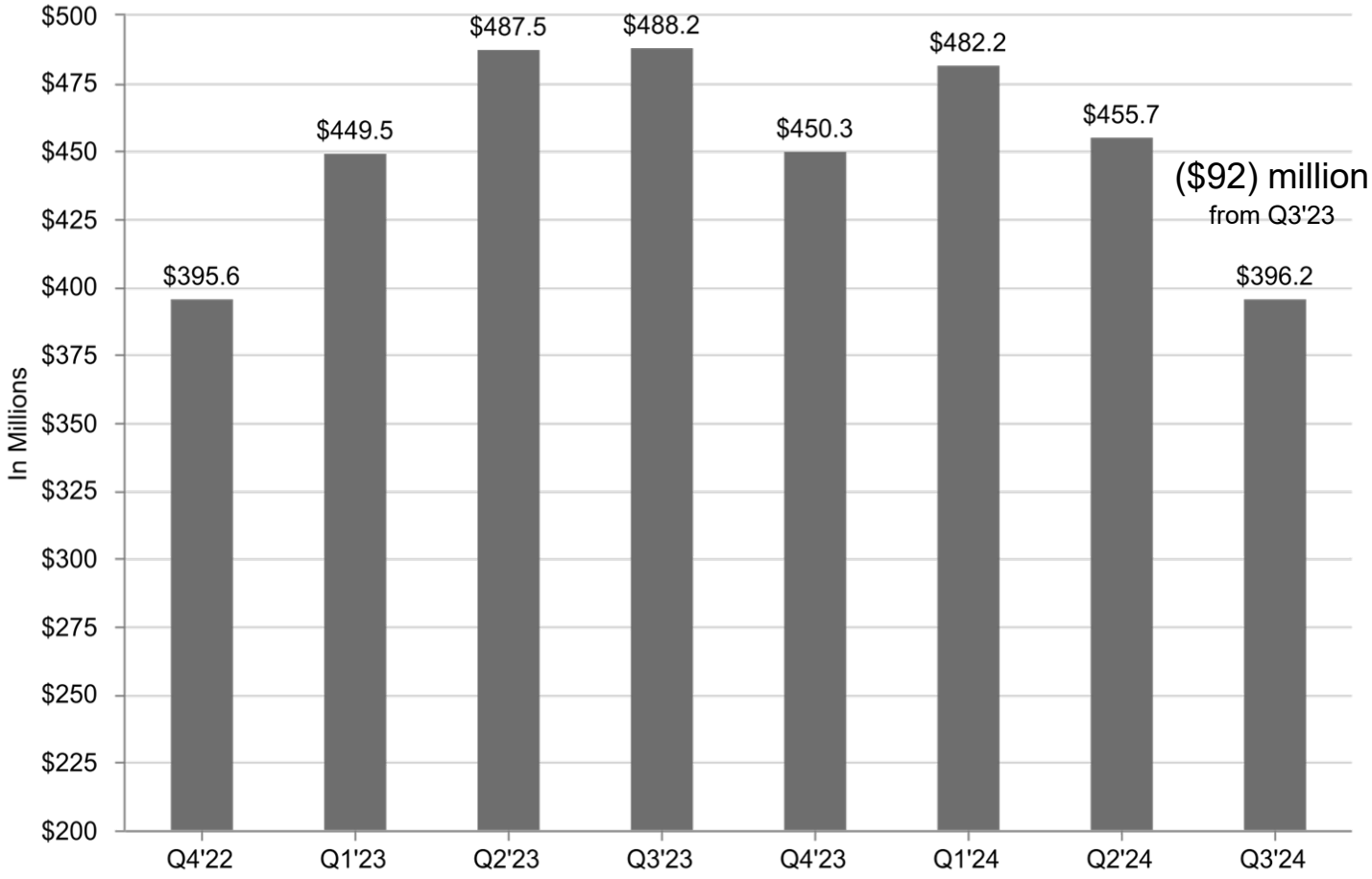
(1) Adjusted Net Income and Adjusted Diluted EPS are Non-GAAP measures – refer to Reconciliation of Non-GAAP Results in the supplementary information.

Balance sheet

- Cash and cash equivalents were $65.2 million at March 31, 2024
- Cash flow from operating activities in the third quarter of fiscal 2024 was $42.6 million
- Cash conversion days were 110 days, compared to 92 days in the third quarter last year, and 117 days last quarter
  - Decrease in CCD this quarter compared to Q2 was overall better management of working capital
    - Improvement in Production Days Sales on Hand
- Looking to continue to improve CCD

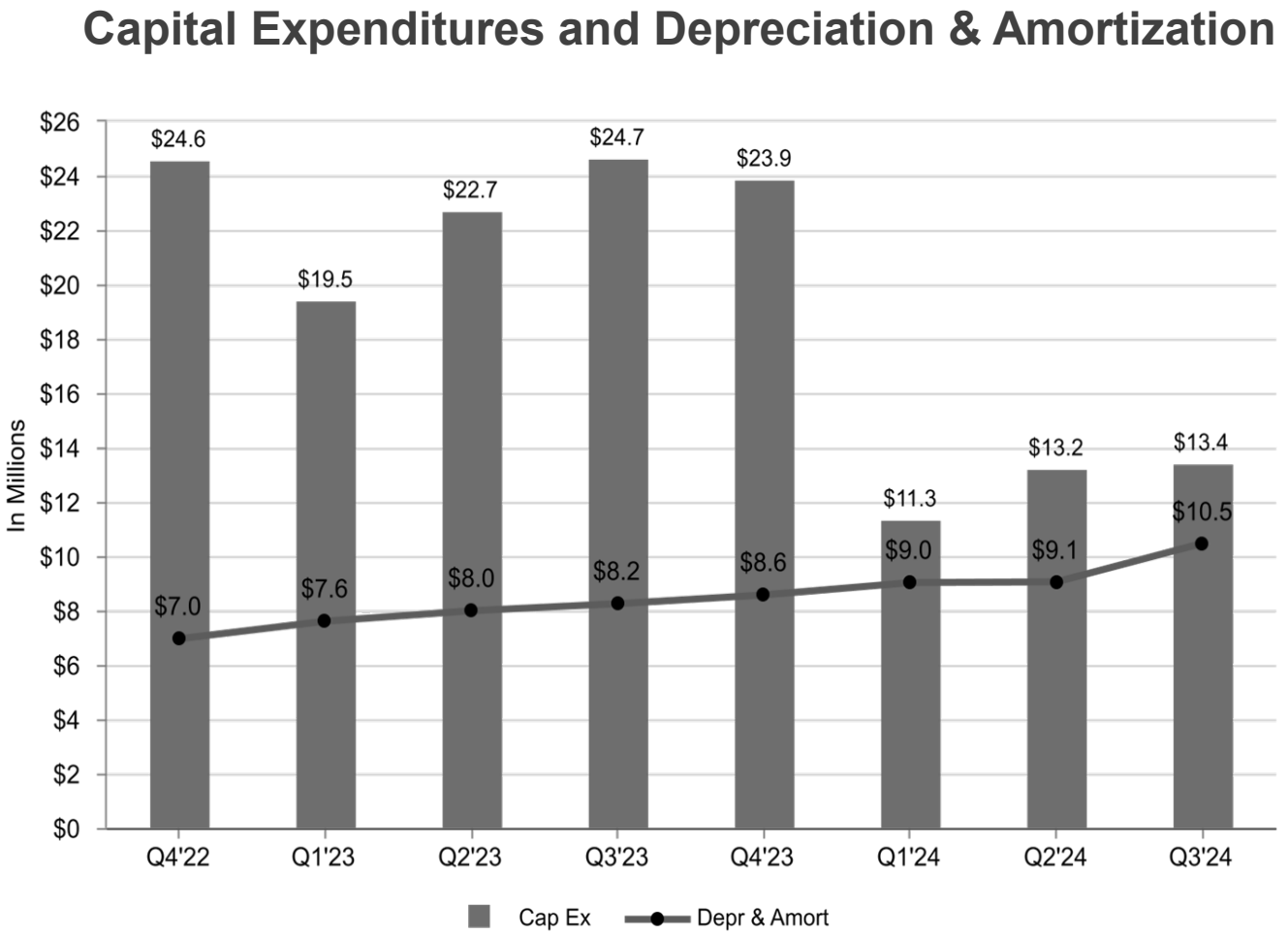
Inventory ended the quarter at $396.2 million

- $92 million reduction compared to Q3 last year
- Expect additional declines with “right-sizing” inventory to match current demand



Capital expenditures in Q3 were $13.4 million

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



Note: Capital Expenditures include purchases of capitalized software.

Borrowings

- Borrowings on credit facilities at March 31, 2024, were $319.6 million
  - Compared to $289.4 million a year ago
  - Borrowings at the end of Q2 were $321.8 million
- Short-term liquidity available totaled $182.6 million at the end of the third quarter

Share repurchases

- No shares were repurchased in the third 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
- *Expect to return cash to Share Owners with opportunistic share repurchases in the quarters to come*

Guidance for fiscal year 2024

- Reiterating our guidance for adjusted operating income
  - Range of 4.2% to 4.6% of net sales
- Updated guidance for net sales
  - Expected to decline 4% to 6% compared to fiscal 2023
  - Previous estimate was a decline of 2% to 4%
- Updated guidance for capital expenditures
  - Expect $55 to $60 million
  - Previous estimate was $70 to $80 million
- Expect to continue to streamline the Company, with additional pre-tax restructuring charges of $1 to $2 million

2023 Guiding Principles Report

- Recently published our annual ESG disclosures
  - “How We Are Winning Together, The Kimball Way”
- Reflects deep roots of sustainability in our culture
- Highlights numerous recognitions and accomplishments from calendar 2023
- Demonstrates our dedication to the Guiding Principles of Customers, People, Citizenship, and Profits
- Available on our corporate website



Positioning the Company for long-term value creation

- Uncertainty as to when consumer demand will return to “normalized” cycles
- Work to stabilize and improve operating income margin
- Divestiture of AT&M business will increase our focus on EMS operations
- Consolidating EMS and Medical Solutions manufacturing organizations solidifies Medical platforms, particularly in higher level assemblies
- Improving our shared services organization through a lens of “centers-of-excellence”
- Company is leaner, more nimble, and with a cost structure that aligns with current market conditions
- As future growth materializes, intend to hold savings to enhance competitiveness and improve returns to stakeholders

Questions

Appendix

Reconciliation of Non-GAAP Results

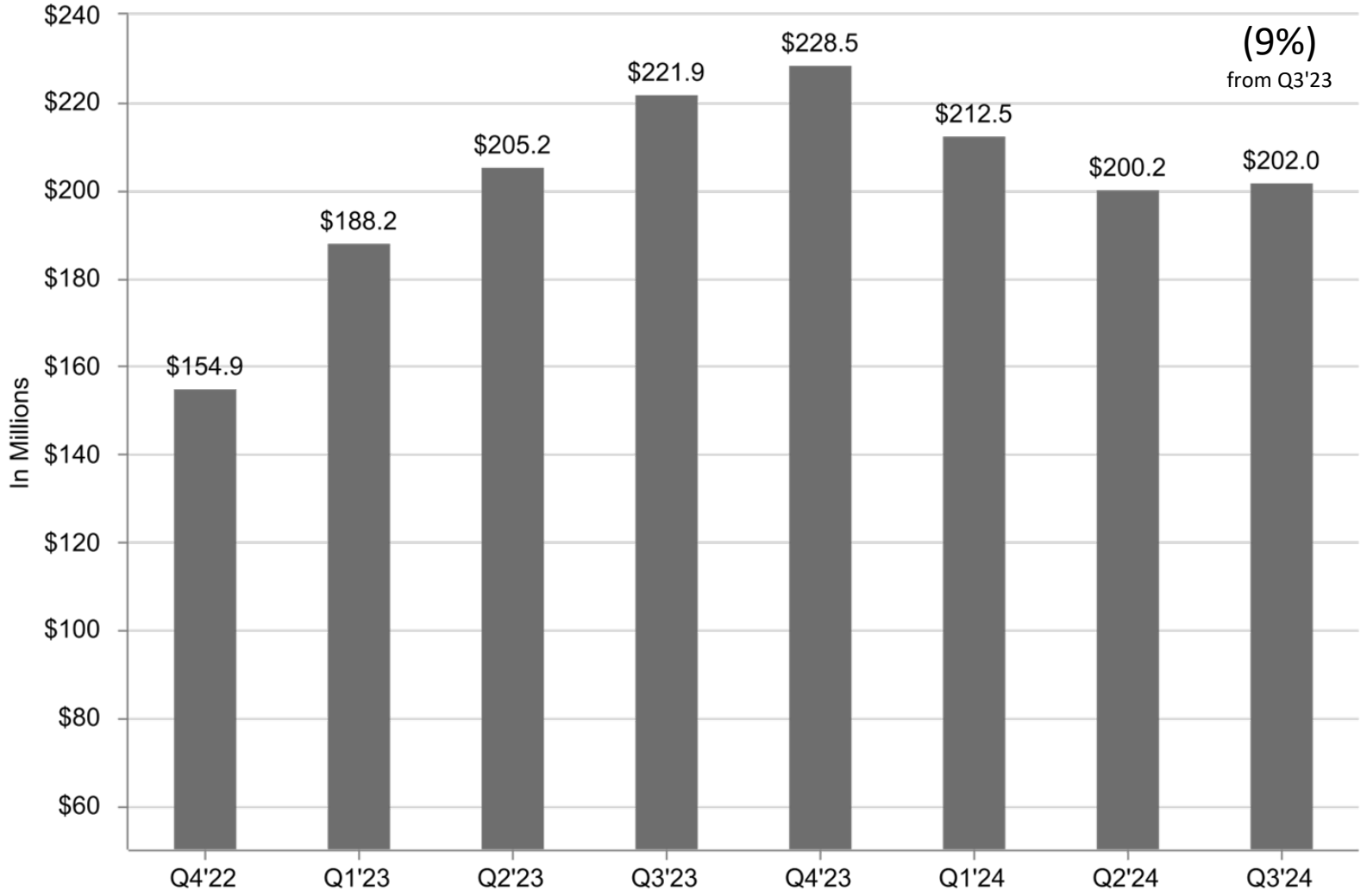
(Unaudited, Amounts in Thousands, Except Per Share Data)	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24
Net Sales Growth (vs. same quarter in prior year)	13 %	39 %	39 %	32 %	33 %	8 %	(4)%	(12)%
Foreign Currency Exchange Impact	(3)%	(5)%	(5)%	(2)%	— %	1 %	1 %	— %
Constant Currency Growth	16 %	44 %	44 %	34 %	33 %	7 %	(5)%	(12)%
Selling & Administrative Expenses, as reported	$ 13,643	$ 15,750	$ 16,702	$ 17,752	$ 18,444	$ 16,052	$ 17,823	$ 16,861
Less: SERP	(1,159)	(235)	340	353	243	(177)	484	277
Adjusted S&A Expense	$ 14,802	$ 15,985	$ 16,362	$ 17,399	$ 18,201	$ 16,229	$ 17,339	$ 16,584
Operating Income, as reported	$ 20,578	$ 13,571	$ 17,489	$ 25,220	$ 31,449	$ 19,490	$ 16,610	$ (6,431)
Add: SERP	(1,159)	(235)	340	353	243	(177)	484	277
Add: Lawsuit Settlements (Recovery)	—	—	—	—	(212)	—	—	(892)
Add: Restructuring Expense	—	—	—	—	—	—	—	1,622
Add: Goodwill Impairment	—	—	—	—	—	—	—	5,820
Add: Asset Impairment	—	—	—	—	—	—	—	16,564
Adjusted Operating Income	$ 19,419	$ 13,336	$ 17,829	$ 25,573	$ 31,480	$ 19,313	$ 17,094	$ 16,960
Net Income, as reported	$ 9,938	$ 9,509	$ 10,720	$ 16,400	$ 19,202	$ 10,754	$ 8,290	$ (6,076)
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	—	—	279	—	—	—	—	—
Add: Lawsuit Settlements (Recovery), After Tax	—	—	—	—	(161)	—	—	(676)
Add: After Tax Restructuring	—	—	—	—	—	—	—	1,230
Add: After-Tax Goodwill Impairment	—	—	—	—	—	—	—	4,414
Add: After Tax Asset Impairment	—	—	—	—	—	—	—	9,549
Adjusted Net Income	$ 9,938	$ 9,509	$ 10,999	$ 16,400	$ 19,041	$ 10,754	$ 8,290	$ 8,441
Diluted Earnings per Share, as reported	$ 0.40	$ 0.38	$ 0.43	$ 0.65	$ 0.76	$ 0.43	$ 0.33	$ (0.24)
Add: After-Tax Adjustments after Measurement Period of GES Acquisition	$ —	$ —	$ 0.01	$ —	$ —	$ —	$ —	$ —
Add: Lawsuit Settlements (Recovery)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (0.03)
Add:Restructuring Expense	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 0.05
Add Goodwill Impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 0.18
Add: Asset Impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 0.38
Adjusted Diluted Earnings per Share	$ 0.40	$ 0.38	$ 0.44	$ 0.65	$ 0.76	$ 0.43	$ 0.33	$ 0.34

Reconciliation of Non-GAAP Results continued…

(Unaudited, Amounts in Thousands, Except Per Share Data)	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24
Operating Income (GAAP) (TTM)	$ 52,549	$ 61,340	$ 71,915	$ 76,858	$ 87,729	$ 93,648	$ 92,769	$ 61,118
Add: Goodwill Impairment (TTM)	—	—	—	—	—	—	—	5,820
Add: Asset Impairment (TTM)	—	—	—	—	—	—	—	16,564
Add: Restructuring Expense (TTM)	—	—	—	—	—	—	—	1,622
Add: SERP (TTM)	(1,563)	(1,711)	(1,773)	(701)	701	759	903	827
Add: Lawsuit Settlements (Recovery) (TTM)	(1,384)	—	—	—	(212)	(212)	(212)	(1,104)
Adj. Operating Income (non-GAAP) (TTM)	$ 49,602	$ 59,629	$ 70,142	$ 76,157	$ 88,218	$ 94,195	$ 93,460	$ 84,847
Tax Effect (TTM)	14,417	16,356	18,856	20,375	22,235	22,913	23,204	19,947
After-Tax Adj. Operating Income (TTM)	$ 35,185	$ 43,273	$ 51,286	$ 55,782	$ 65,983	$ 71,282	$ 70,256	$ 64,900
Average Invested Capital [1]	$ 491,252	$ 544,711	$ 605,772	$ 659,911	$ 701,364	$ 738,096	$ 770,051	$ 783,059
ROIC	7.2 %	7.9 %	8.5 %	8.5 %	9.4 %	9.7 %	9.1 %	8.3 %

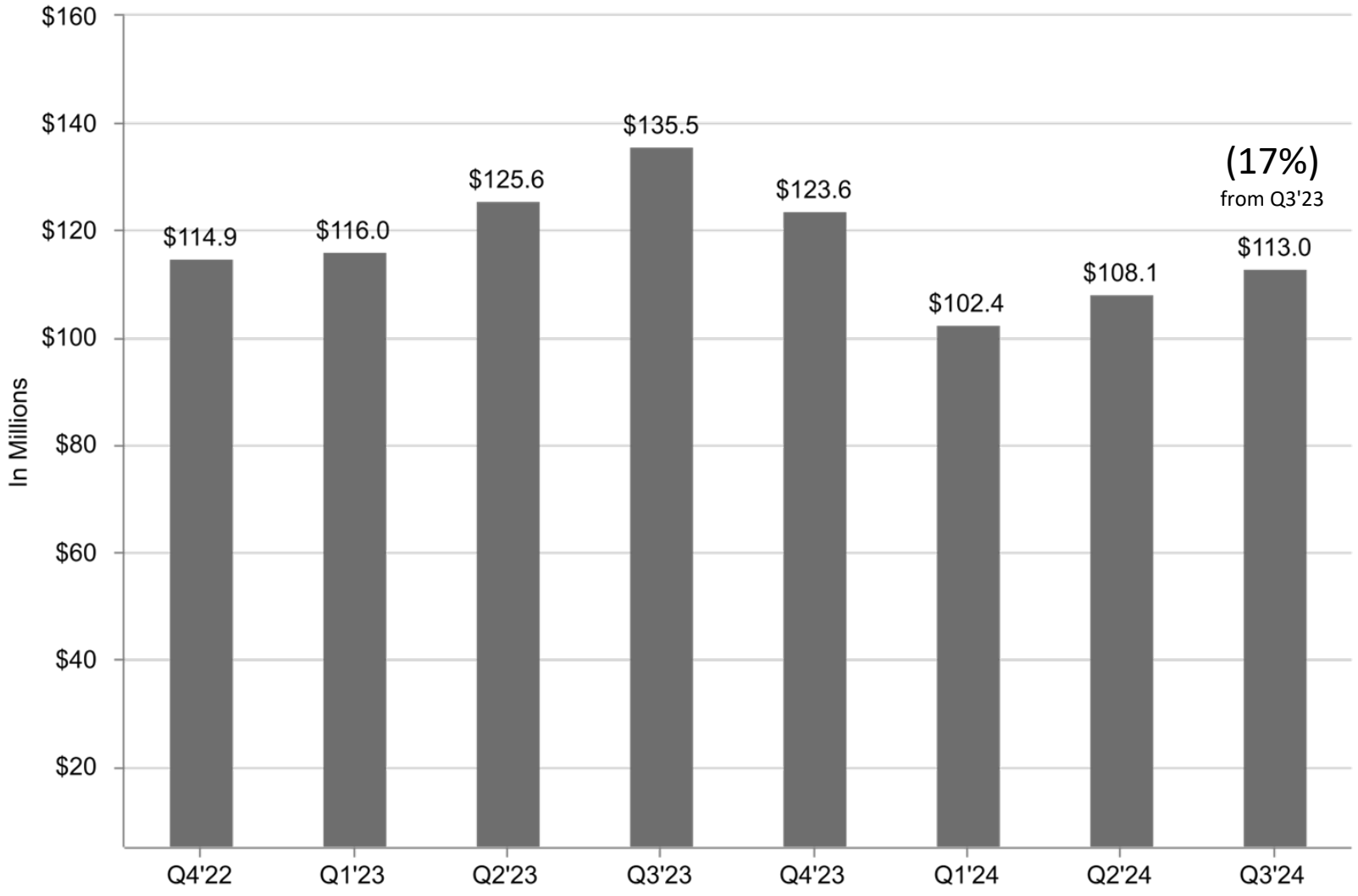
(1) Average Invested Capital is computed using the Share Owners equity plus current and non-current debt less cash and cash equivalents averaged for the last five quarters.

Net Sales in Automotive (1)



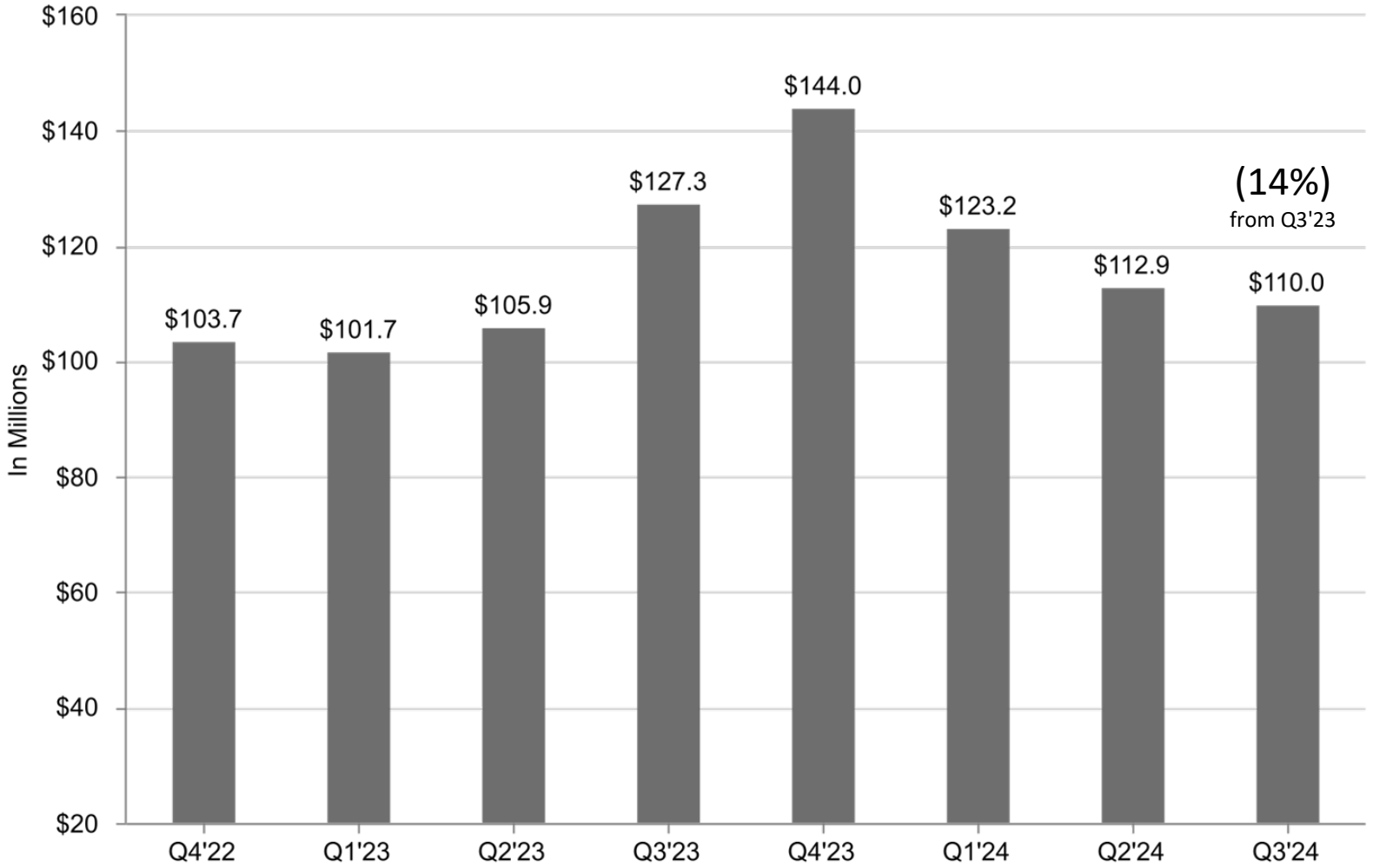
(1) Beginning in fiscal year 2024, miscellaneous sales previously reported in Other are now reported in the respective three end market verticals; all prior periods have been recast to conform to current period presentation

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 recast 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.