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Call Participants

EXECUTIVES

Andrew D. Regrut
Vice President of Investor Relations

Jana T. Croom
Chief Financial Officer

Richard D. Phillips
CEO & Director

ANALYSTS

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Griffin Taylor Boss
B. Riley Securities, Inc., Research Division

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Timothy M. Moore
EF Hutton LLC, Research Division

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Kimball Electronics Third Quarter Fiscal 2024 Earnings Conference Call. My name is Carla, and I will be the facilitator for today's call. [Operator Instructions]. Today's call May 8, 2024 is being recorded. A replay of the call will be available on the Investor Relations page of the Kimball Electronics website. At this time, I would like to turn the call over to Andy Regrut, Vice President, Investor Relations. Mr. Regrut, you may begin.

Andrew D. Regrut
Vice President of Investor Relations

Thank you, operator, and good morning, everyone. Welcome to our third 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 third quarter of fiscal 2024. 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 risk and uncertainty and are subject to our safe harbor provisions as stated in our press release and SEC filings and that actual results can differ materially from the forward-looking statements. Our commentary today will be 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

Thanks, Andy, and good morning, everyone. As you know, I recently completed my first year at Kimball Electronics. It's been a good journey already, and I am excited about the future for the company. Before I get into our Q3 results, I want to share some observations on the business and provide an update on our strategic direction and structure moving forward.

Firstly, I mentioned early on that I was drawn to the Kimball opportunity for a number of reasons. But at the top of my list were the outstanding company culture and the opportunity to build on a strong foundation to achieve significant value creation. My experiences so far have confirmed those perspectives.

We 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. Based on that review, we are announcing steps today to sharpen our strategic focus and to further position the company for profitable growth and stronger performance moving forward.

Those steps which we have taken recently or are taking now include the following: first, divesting our automation, test and measurement business. While this business has a bright future ahead, it is not a good strategic fit for Kimball and our goals for future growth. The business models are not synergistic, and it is imperative that we focus on the growth opportunities in our core EMS business. We are still an active customer of the AT&M business.

Next, increasing the focus and support for our core EMS business, including realigning our medical solutions business unit in Indianapolis into our EMS medical vertical for further differentiation. Consistent with these structural moves, we have elevated 2 key executives to enterprise-wide operations and commercial responsibility. Steve Korn as Chief Operating Officer; and Kathy Thomson as Chief Commercial Officer.

In addition, we are responding to this period of end market softness by controlling what we can control, including resizing our team, taking specific cost actions and continuing to focus on significant working capital improvements. We recorded impairment and restructuring charge in the third quarter to support some of these actions. Jana will provide additional detail in a few moments.

As we anticipated, the operating environment remained challenged for the EMS industry and our sales in the third quarter declined. We expect the 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 and focusing on working capital improvements.

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Notably, inventory levels are now down over $90 million from the peak. We continue to make investments in longer-term growth opportunities that are supported by a robust funnel of new business in the next 18 to 24 months, while 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 the third quarter totaled $425 million, a 12% decrease from the prior year. The decline was shared across the 3 vertical markets we support with softness in each region of our global footprint. On a sequential basis, however, sales increased $4 million or nearly 1%, which is impressive given the 32% growth we experienced in the prior year quarter. We estimate on a 2-year stack basis, the growth in each of our verticals is in the low to mid-teens. Although we are anticipating year-over-year declines next quarter, we do expect sequential growth over Q3.

Net sales in the automotive vertical, our largest business, were $202 million, down 9% compared to Q3 last year and 47% of total company sales. The decrease this quarter was driven by continued weak demand in Europe, incremental softness in North America and a decline in China. When comparing Q3 sales to last quarter, North America and Europe both posted sequential increases. We continue to believe the longer-term opportunity for growth in automotive will be driven by an increase in the rate at which electronic content is being added to vehicles, specifically in steering and braking systems. This content leverages advanced technologies and expanded operating systems that align very well with our core manufacturing capabilities and proven expertise in safety critical products, which ideally positions us for further advancements.

As we have stated numerous times, the architectures of the steering and braking systems are agnostic to vehicle type, internal combustion engines, EVs or hybrids and that the automotive industry is highly regulated with stringent certifications, validation protocols and change management systems. So this business is sticky and often results in program life cycles that can span 8 to 10 years in length with single source awards.

Net sales in our medical vertical were $113 million, a 17% decrease compared to Q3 last year and 27% of total company sales. The decline this quarter was driven by lost sales with a major customer involved in an FDA recall, partially offset by growth with other customers.

As a reminder, our annual guidance assumes a net $50 million reduction in medical sales from this dynamic. That is a $100 million decrease in sales with the customer involved in the recall, partially offset by a $50 million increase in sales in new and existing programs. Similar to automotive, we continue to believe megatrends in the medical industry, including an aging population, increasing access and affordability to health care, decreasing medical device sizes, combined with the need for higher levels of precision, increasing connected drug delivery systems and the industry-wide trend of outsourcing higher-level assemblies will contribute to our longer-term top line growth. We are strategically positioned to support technological advances in this vertical through Kimball Medical Solutions.

Net sales in Industrial were $110 million, a 14% decrease compared to Q3 last year and 26% of total company sales. As a reminder, results for the AT&M business are included in this vertical. In the third quarter, approximately half of the decline in sales in industrial resulted from year-over-year weakness in the AT&M business, with the balance driven by lower demand for internal climate control systems and smart meters in Europe, which as we reported last quarter, have been commoditizing.

We frequently refer to industrial as green and clean with products that promote energy efficiency, safety, carbon neutrality and the better consumption of natural resources, including water, gas and electricity. We see the mega trend in legislation and incentives supporting the decarbonization as meaningful growth drivers, and we are strategically positioned to support products that reduce environmental impacts. So a quarter filled with a number of important developments. I'll now turn the call over to Jana for her insights on the financial results and a review of our guidance. Jana?

Jana T. Croom
Chief Financial Officer

Thank you, Ric, and good morning, everyone. As Ric mentioned a moment ago, our results this quarter included impairment associated with the AT&M business as well as restructuring expenses in support of sharpening the strategic focus of the company. All in, the activity totaled $14.5 million after tax or $0.58 per share, with goodwill and asset impairment equaling $14 million or $0.56 per diluted share, restructuring expense of $1.2 million or $0.05 per diluted share, partially offset by recovery of a legal settlement of $700,000 or $0.03 per diluted share. For clarity, my review of the financial results for the quarter will exclude these items.

Net sales in Q3 were $425 million, a 12% decrease compared to the third quarter of fiscal 2023. For context, the AT&M business contributed over 100 basis points to the decline. There was not an impact from foreign exchange on consolidated sales year-over-

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year. The gross margin rate in Q3 was 7.9%, a 100 basis point decline compared to 8.9% in the third quarter of fiscal 2023, with the decrease coming from lower absorption in our EMS manufacturing facilities and the AT&M business, both a result of declining sales.

Adjusted selling and administrative expenses in the third quarter were $16.6 million, an $800,000 decline compared to the adjusted results in Q3 of last year, primarily the result of lower bonus. We are continuing to take a hard look at our cost structure in the current macroeconomic environment.

When measured as a percentage of sales, adjusted selling and administrative expenses were 3.9%, a 30 basis point increase versus Q3 last year due to lower sales. Adjusted operating income for the third quarter was $17 million or 4% of net sales, which compares to last year's adjusted results of $25.6 million or 5.3% of net sales.

Other income and expense was expense of $6.3 million in the third quarter versus expense of $3.3 million in Q3 of fiscal 2023, with the change resulting from higher interest expense this year, an outcome of elevated debt levels in the current interest rate environment and foreign currency movements.

The actual effective tax rate skewed higher by the impact of the impairment and restructuring charges was approximately 52% in the third quarter of fiscal 2024. We continue to expect a consolidated tax rate in the mid-20s. Adjusted net income in the third quarter of fiscal 2024 was $8.4 million or $0.34 per diluted share compared to adjusted net income in Q3 last year of $16.4 million or $0.65 per diluted share.

Turning now to the balance sheet. Cash and cash equivalents at March 31, 2024, were $65.2 million, and cash flow from operating activities in the quarter was $42.6 million. Cash conversion days were 110 days compared to 92 days in the third quarter of last year and 117 days in Q2. The decrease in CCD this quarter compared to Q2 was driven by overall better management of working capital, with the biggest improvement occurring in production day sales on hand. We are looking to continue to significantly improve our cash conversion days as we actively and aggressively manage its components.

Inventory ended the quarter at $396.2 million compared to $488.2 million at the end of Q3 of fiscal 2023 and $455.7 million last quarter. We are very pleased with the reduction in inventory and expect this number to continue to decline as we work with customers to rightsize inventory to match the current demand outlook. Capital expenditures in the third quarter were $13.4 million, a balance of supporting future growth, maintenance requirements and investments in automation and efficiency.

Borrowings on our credit facility at March 31, 2024, were $319.6 million compared to $289.4 million a year ago and $321.8 million at the end of Q2. Our short-term liquidity available represented as cash and cash equivalent plus the unused portion of our credit facilities totaled $182.6 million at the end of third quarter.

There were no share repurchases in the third quarter of fiscal 2024. Since October 2015, under our Board-approved authorized share repurchase program, a total of $88.8 million has been returned to our shareholders by purchasing 5.8 million shares of common stock. We have $11.2 million remaining on the repurchase program. And as Ric highlighted, we expect to return cash to shareholders with opportunistic share repurchases in the quarters to come.

We are reiterating guidance for adjusted operating income of 4.2% to 4.6% of net sales. In response to the current environment, net sales are expected to decline 4% to 6% compared to prior year. Our estimate for capital expenditures has been updated with an expected outcome in the range of $55 million to $60 million compared to our prior guidance of $70 million to $80 million.

As Ric previously stated, we anticipate macro headwinds to persist in fiscal 2025 based on early indications from customers. As a result, we expect to continue executing our efforts to streamline the company with additional anticipated pretax restructuring charges of $1 million to $2 million. We will provide a more fulsome update next quarter when we provide FY '25 guidance.

I'll now turn the call back over to Ric.

Richard D. Phillips
CEO & Director

Thanks, Jana. Before opening the lines for questions, I'd like to share a few thoughts in closing. We recently published our annual ESG disclosures with the release of our 2023 guiding principles report themed How We Are Winning Together The Kimball Way. The report reflects the deep roots of sustainability in our culture and highlights numerous sustainability-related recognitions and accomplishments from calendar 2023.

I'd like to thank our team for once again putting together a best-in-class summary that captures the focus, effort and achievements from the company towards sustainability. I believe the 2023 report is our finest and demonstrates our dedication to the guiding

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principles of customers, people, citizenship and profits. For those of you that have not had the opportunity to review the report, it can be found on our corporate website. I am confident you will be thoroughly impressed.

During this time of short-term market choppiness and uncertainty as to when consumer demand will return to normalized cycles, the actions announced today further position the company for long-term value creation. We continue to work to stabilize and improve our operating income margin. The divestiture of the AT&M business will increase our focus on EMS operations, while consolidating the EMS and medical solutions manufacturing organizations solidifies our medical platforms, particularly as we look to extend our reach into higher level assemblies.

In addition, we are improving our shared services organization through a lens of centers of excellence with new processes that leverage recent investments in technology. All of these actions have made the company leaner, more nimble and with the cost structure that aligns with the current market conditions, but not at the expense of future growth, we won't cross that line. As the future growth materializes, we intend to hold these savings, enhancing our competitiveness and improving returns to stakeholders.
As I mentioned earlier, I've never been more excited about the future of the company. Carla, we would now like to open the lines for questions.

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Question and Answer

Operator

[Operator Instructions]. Our first question comes from Griffin Boss from B. Riley Securities.

Griffin Taylor Boss
B. Riley Securities, Inc., Research Division

So first, I'll just start out broadly. In the first quarter, you mentioned your expectations that macro would remain challenging for some time, right? Obviously, now you're being a little more direct in saying it might persist through fiscal year '25. I'm just curious if this is -- if that's maybe longer than you thought last quarter? Or what has changed? Are you seeing any incremental weakness in certain end markets? Just a little bit more color there would be helpful.

Richard D. Phillips
CEO & Director

Yes, thanks for joining the call. I would say, Griffin, we've tried not to be too precise in predicting the return to normal levels of demand stability just because there's so much uncertainty and so many factors. We obviously stay very close to our customers and their demand signals and work with them on what they're seeing and expecting. And I would say, while we haven't predicted this return to stability, it has persisted probably longer than we anticipated. And those are the signals we continue to see.

Again, we're having a lot of success in building our funnel in winning new programs and delivering on operations and quality performance. And so we continue to have that really optimistic long-term view. But to your point, this softness has been persisting and that's why we updated our perspective on fiscal year 2025.

Jana T. Croom
Chief Financial Officer

Yes. Griffin, what I will add is if you had talked to us 9 months ago, we would have said it's going to be a short-lived decline and it's not the funnel of new business. It's really the volume decline in some of our existing business that is challenging revenue right now. And we're seeing it everywhere in the globe. And so it's interesting because this quarter, we saw all verticals and all geographic regions impacted. So beyond Europe, which is where we saw it began into North America and Asia.

Griffin Taylor Boss
B. Riley Securities, Inc., Research Division

Got it. Okay. That's helpful. So has anything changed? I guess I'll just hone in on maybe North American steering and braking. Obviously, that's been an area of strength in the past couple of quarters. Has that trend changed at all? Or what are you seeing in that market?

Jana T. Croom
Chief Financial Officer

So we are seeing softening in the North America market. We're seeing softening in the Asia market related to the steering and braking business. And I think it's just a result of a couple of things. One, inventory levels as we're the Tier 2 supplier and the Tier 1s are sitting on a fair amount of inventory. But that's also a reflection of consumer demand. And so I think everyone is sort of taking a bit of a wait-and-see approach given the geopolitical environment, you couple that with some things that EV and hybrid automakers have to work through in terms of improving battery life, which is something they've been talking about, and we've been seeing and here we are. But we do expect it to be -- to persist through fiscal 2025. And that is new.

Griffin Taylor Boss
B. Riley Securities, Inc., Research Division

Okay. Understood. Got it. And then just switching over to the Automation Test & Measurement divestiture. Can you give any more sense of the size of that business or scale as it relates to revenue or its contribution to the company?

Jana T. Croom
Chief Financial Officer

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Yes. So actually, Griffin, if you look in our press release, we tried to give it to you, so you wouldn't have to guess. We're not giving you complete information right now because the sale is in progress. But once the sale is consummated, we will give you more fulsome information. What we disclosed in the press release was net sales and operating income for the 3 months and the 9 months. And then, of course, as we proceed through FY '25, we'll give you all of that information as well to help give you some color. Sure. I was going to give you the numbers, but if...

Griffin Taylor Boss
B. Riley Securities, Inc., Research Division

Yes. Well, hey, I mean -- okay. All right. I'll check back to the press release. Appreciate it.

Operator

Our next question comes from Derek Soderberg from Cantor Fitzgerald.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Just back to the divestiture here. Can you quantify all the cost savings you expect on an annual basis? What sort of the change to OpEx growth, maintenance CapEx? What's the change you expect in the model post divestiture here? So maybe we'll just start there.

Jana T. Croom
Chief Financial Officer

Yes. Derek, and thank you for the question. So I'll start with CapEx because that's probably the easiest. This particular business was not significantly capital intensive. And so you will see some decline in CapEx, but it's not going to be meaningful. The CapEx that you're going to see from us going forward is going to be more a function of rightsizing the need to continue to invest in the business for future growth against the current economic environment. And so look for FY '25 to be similar in nature to FY '24 is what I would tell you to model.

In terms of additional opportunities for cost savings, the focus is going to be on rightsizing the company for the current demand, considering the future growth that we've got. And I'm just going to go ahead and say it at some point, Derek, we are -- our goal of adjusted operating income margin in the 5% to 5.5% range needs to stop being the goal and something we actually deliver. And so with that in mind, we are going to be looking to streamline the company to deliver those results.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Got it.

[indiscernible].

Jana T. Croom
Chief Financial Officer

Yes. Go ahead.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Yes, sure. Well, really appreciate some color there. I wanted to move on to automotive. Curious when might we see the next big, I guess, braking win for you guys. Can you talk about the pipeline specifically for advanced braking? What's the interest level there? Is the interest more in North America or China? Can you just talk about that pipeline.

Jana T. Croom
Chief Financial Officer

So we are going to tell you at Q4, we just need to get permission to disclose it. We already have the next braking win, and it's actually going to be in Europe, and it's going to be up and running in FY '25. So if you recall a while back, we said that eventually, we

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would have braking in every region of the world, and that is still absolutely the expectation and well underway. I just -- I don't have all the details right now but for Q4, I will.

Derek John Soderberg
Cantor Fitzgerald & Co., Research Division

Got it. That's good to hear. And then, Jana, just in terms of use of capital here. You guys called out share repurchases. What's changed in terms of the priority on that? Do you think shares here at 21 are opportunistic? And then on M&A, it seems to me like maybe the focus has shifted a little bit more towards organic growth and away from M&A. Is that the case?

Jana T. Croom
Chief Financial Officer

Yes. Those are great questions. So yes, absolutely. Part of the reason that we had suspended share repurchase quite honestly, was we're trying to get our balance sheet at a state where it was healthier considering net debt-to-EBITDA levels, inventory levels, debt levels, cash, et cetera, where we sit now with net debt and also looking at where our stock price is. Yes, I consider the stock price an absolute value here. But also candidly, if we as Kimball aren't buying our stock, why should we be convincing anybody else to buy our stock. And so we are going to be in the market repurchasing our shares.

In terms of the way that we think about the future of Kimball, the pipeline is really robust. And quite honestly, from just a risk reward perspective, you would always acquire more of Kimball because that is what you know, and that's what you know you can do well. That is not to say that we would not be interested in pursuing inorganic opportunities. There are some really interesting things out there. But as we've said previously, it would be in the health care space because we were not looking for increased exposure in autos or necessarily industrial. We've got really great funnels there. It would be in a geographic region that we don't currently serve that was going to add something to our complement or it would be us buying a capability that we don't already have.

Candidly, though, our favorite acquisitions to make are when one of our customer says, "Hey, I don't want to produce this book of business anymore. Kimball will you take this over for us. And again, that's something that we know that we can do well. And so I would expect if we were to announce something, it would be in that vein.

Operator

Our next question comes from Jaeson Schmidt from Lake Street.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Just a couple on the Test & Measurement business. How much of the updated outlook is being driven by the sale versus just broader softness?

Jana T. Croom
Chief Financial Officer

Yes, that's a great question. So as we look at our industrial segment, which is where AT&M lives this quarter, for example, if I look at the decline in Industrial, roughly half of it was from AT&M. And remember, it's not discos. That's truly the decline year-over-year that we saw in revenue in the AT&M business. So hopefully, that gives you some color there.

But we are -- so if I had to chunk it out you in big pictures, I would say, you've got the FDA recall from a single customer. The softness in industrial, half of it is the AT&M business. And then you've got some bright spots in medical that are offsetting some softness that we're seeing in automotive.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Okay. That's really helpful. And then, Ric, just curious how much of this decision is driven by when you first came in, looked at the broader book of business. And as you noted, the test and measurement business isn't terribly synergistic? Or how much of this is being driven by just a response to overall market conditions in the broader business?

Richard D. Phillips
CEO & Director

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Very much the former, Jason. I think we -- as I got into the business and together with the leadership team really spent a lot of time conducting a strategic review. I saw that the strategic fit really wasn't there. And that I think the AT&M business will be served better by a different owner and will also allow Kimball to really focus on what we think is a really bright long-term future in EMS, including our medical solutions that capabilities that we have. So very, very much strategic as opposed to current market conditions.

Jaeson Allen Min Schmidt
Lake Street Capital Markets, LLC, Research Division

Got it. And then just last one for me, and I'll jump back in the queue. Jana, you noted inventory worked down quite a bit in the quarter. Would we expect it to continue to decline this calendar year?

Jana T. Croom
Chief Financial Officer

Yes. And in fact, we're expecting it to continue to decline this fiscal year. It's a combination of 2 things. What we saw was everyone wanted excess inventory on hand because they wanted to feel comfortable coming out of the supply chain shortages that we saw in COVID. And then everyone realized they had too much inventory and the customer demand for us as the Tier 2 suppliers started to drop off. And so we had to rightsize the amount of inventory that we had to the current demand. And so as we work through the remainder of the calendar year and even yet this quarter, we're actively working with customers to rightsize the inventory, cancel what we can, push out what we can and really get the inventory right-sized for the revenue that we're going to produce.

Operator

And our next question is from Tim Moore from EF Hutton.

Timothy M. Moore
EF Hutton LLC, Research Division

Ric Jana, it was nice to see the working capital recovery benefit. I mean it seemed like free cash flow was about $29 million in the quarter. So that was great, and I'm glad you're still clawing that back. Jana, I actually I had a question. You lowered your CapEx guidance by $15 million to $20 million this year. It's really not that much tied to the divestiture. And how should we think about next year would kind of that $15 million to $20 million CapEx cut roll over and be catch up next year? Are you thinking maybe $70 million to $80 million CapEx for next year?

Jana T. Croom
Chief Financial Officer

No. I'm very clear about that. It's not uncommon to have a company to take a little bit of what I'll refer to as a CapEx diet as you're looking at the outlook that we're looking at. And so think of it -- frame it this way. You know that depreciation is roughly $38 million to $40 million. It is very important that companies keep their maintenance CapEx program in place because if you get off a maintenance CapEx program, just all sorts of challenging things happen downstream, and so we won't do that.

And then the balance of it is going to be what I'll refer to as aggressively timed growth. As you all know, the lead time for our new programs to get up and running, particularly automotive can be 12 to 18 months. And so what we're really aggressively managing is the timing that we have to spend that capital to get that SMT line up and running PPAP cleared certified versus earning the dollar of revenue. And so we are going to keep that absolutely as tight as possible, not sacrificing future growth and getting programs up and running on time, but just being very, very mindful of the way that we are spending our cash.

Timothy M. Moore
EF Hutton LLC, Research Division

Great. No, that makes sense, especially considering how much you guys spent on expansion CapEx in the prior 2 years. But I have a question actually for Ric. I know you've been talking about the incoming opportunities for medical in-sourcing decisions and taking some processes in house from some major customers and potential customers. So it seems like that's been under consideration for maybe the last 12 months. Have you signed off on any of them or greenlit any of them?

Richard D. Phillips
CEO & Director

Well, we have. We're not yet able to comment specifically on that, but we've had some good success there. And again, the -- we're really pleased that everyone knows about the FDA recall situation, a significant impact in the year to us. And again, to be clear on

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that, we've not assumed that business returning in any of our future forecasts. We stand ready to support it. So that's had a significant impact, but we've had significant wins elsewhere that have already begun to offset that, as you know. And there are more coming, and there's one very significant one that fits right into the category that you just described. We'll be talking more about that very soon.

Timothy M. Moore
EF Hutton LLC, Research Division

Good. Good. Because I mean, it just seems like that pipeline is so big that you could eventually backfill in that consent decree customer issue, not immediately, but over the next few quarters. One last question maybe for Jana on gross margin. It came in a bit light in the quarter. I'm just -- I know you only have one quarter left in the fiscal year and investors should be looking at for the next fiscal year and the good setup for next year. But is an 8.4%, 8.3% gross margin possible in the June quarter if you exclude the discontinued automation test measurement, which seems to be losing $8 million operating income in a quarter when you strip that out as a discontinued item.

Jana T. Croom
Chief Financial Officer

So our goal if you just do the rough math around getting to 5%, you need gross margin sort of in that 8.5% range, SG&A in the 3.5% range. What I will tell you is we're still rightsizing the business and examining the revenue. So I don't know that we quite get there in Q4, but certainly, that's the goal for FY '25.

But we're going to have close to be in our adjusted OI guidance range for OI margin, so you can sort of back into the math of where we might be in Q4.

Timothy M. Moore
EF Hutton LLC, Research Division

No, that's fine. That's fine. And it's nice -- I mean I guess it's not nice. This was a big operating loss of, I don't know, $30 million a year run rate, but it's great to you're getting rid of that and doing the proper ROI. So thanks a lot. I appreciate it.

Jana T. Croom
Chief Financial Officer

Yes. So the one thing -- yes, Tim, I just want to call out, though, the loss in the quarter includes all of the restructuring and impairment. So when you're looking at GES business, you're going to have to strip that out and get to the right number.

Timothy M. Moore
EF Hutton LLC, Research Division

Yes. So that was $22 million. And so maybe it's more like an $8 million a year or something like that, ex goodwill impairment and the asset stuff. Okay. Well, thank you.

Operator
We currently have no further questions, and I kindly remind you that a replay of the call will be available on the Investors Relations page of the Kimball Electronics website. And this concludes today's conference call. Have a nice day. You may now disconnect your lines.

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