Kimball Electronics, Inc.
Second Quarter Fiscal 2025 Earnings Conference Call
February 5, 2025

Presenters
Andrew Regrut, Treasurer & Investor Relations Officer
Ric Phillips, Chief Executive Officer
Jana Croom, Chief Financial Officer
Steve Korn, Chief Operating Officer

Q&A Participants
Derek Soderberg – Cantor Fitzgerald
Mike Crawford – B. Riley Securities
Jaeson Schmidt – Lake Street Capital Markets
Anja Soderstrom – Sidoti & Company
Hendi Susanto – Gabelli Funds

Operator
Good morning, ladies and gentlemen. Welcome to the Kimball Electronics Second Quarter Fiscal 2025 Earnings Conference Call. My name is Daryl, and I will be the facilitator for today's call.

All lines have been placed in a listen-only mode to prevent any background noise. After completion of the prepared remarks from the Kimball Electronics leadership team, there will be a question-and-answer period. To ask a question, simply press the "*" and then the number "1" on your telephone keypad.

Today's call, February 5, 2025, 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, Treasurer and Investor Relations Officer. Mr. Regrut, you may begin.

Andrew Regrut
Thank you, and good morning, everyone. Welcome to our second quarter conference call. With me here today is Ric Phillips, our Chief Executive Officer; Steve Korn, Chief Operating Officer; and Jana Croom, Chief Financial Officer.

We issued a press release yesterday afternoon with our results for the second quarter of fiscal 2025, ended December 31, 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 2025, and Ric will complete our prepared remarks before taking your questions.

I'll now turn the call over to Ric.

Ric Phillips
Thanks, Andy, and good morning, everyone. Results for the second quarter were in line with expectations as we continue to navigate a sustained period of declining customer demand, while focusing on what is controllable.

For the fourth consecutive quarter, cash flow generated from operating activities was positive, inventory levels were reduced and debt was paid down with borrowings nearly 40% lower than a year ago. Our improved balance sheet provides ample liquidity to weather our current challenges, along with the necessary dry powder to, opportunistically and meaningfully, invest in growing the business.

The company is being strategically repositioned for a return to growth with restructuring plan that includes the divestiture of the noncore assets from the AT&M business, improved facility utilization with the planned closing of our plant in Tampa and increased focus on the Medical CMO. Our efforts in all three vertical markets have been sharpened to target attractive new spaces that align with our capabilities.

While we remain optimistic for the future, we acknowledge that the necessary changes won't happen over night. As a result, we have revised our expectations for the full fiscal year as we anticipate more time will be needed to stabilize the business and return to our historical growth pattern.

Net sales in the second quarter totaled $357 million, a 13% decline year-over-year when excluding AT&M, with an increase in Asia, offset by double-digit declines in North America and Europe. From an end market perspective, each of the 3 verticals we serve were down in the quarter.

Starting with Automotive, net sales were $193 million, a 4% decrease compared to the second quarter of last year and representing 54% of total company sales. Our Automotive business is heavily concentrated in North America and China and for the second consecutive quarter, results in China were strong, with monthly production rates reaching record high levels in

support of our largest customer. This strength, however, was offset in North America where volumes continue to soften from overstocking, lower demand and end-of-life production.
In addition, we continue to support the wind down of the electronic braking program in Reynosa where our customer, a Tier 1 supplier, is no longer producing the system for the OEM. Operating activities associated with this program are scheduled to conclude in short order, which is in line with our original expectations.

Sales in the Automotive vertical were also down year-over-year in Europe as that market continues to experience challenges. On the positive side, we're in the process of ramping up the new braking program in Romania, where we saw our first shipments in January.

Next is Medical, with net sales in Q2 of $84 million, a 22% decrease compared to the same period last year and 23% of total company. The decline in the quarter predominantly occurred in North America and Asia related to a program that is going end of life in Thailand and continued revenue decline as a result of adjacent impacts of an FDA recall related to our largest Medical customer.

If you recall, the bulk of revenue loss for this customer occurred in FY '24. However, we are still seeing declines related to our production of parts and repair kits for existing machines.

As part of a return to growth, we're encouraged by the longer-term prospects in this vertical with our focus on higher-level assemblies and finished medical devices. As we mentioned last quarter, we were recently selected as the sole supplier of the Respiratory Care Final Assembly and HLA business for our largest Medical customer. And we are working toward the launch of this program in late fiscal 2026.

Our manufacturing capabilities as a CMO extend beyond electronics and printed circuit board assemblies and include operations such as precision injected molded plastics, complete device assembly and cold chain management, all of which support the production of selected drug delivery devices such as auto-injectors.

These capabilities are a differentiator in an overall very attractive market, and we expect similar growth opportunities to continue to emerge as the population ages, access and affordability to health care increases, medical devices get smaller in size and require higher levels of precision and accuracy and connected drug delivery systems become more common, as consumer adoption increases.

To keep pace with the industry growth, we are looking to elevate our prominence as a CMO, with an expanded manufacturing footprint through adjacencies and additional vertical integration of our production capabilities.

Finally, Industrial with net sales of $81 million, down 20% year-over-year when excluding AT&M and representing 23% of total company sales. The decrease occurred in North America and

Europe. Sales in Asia were slightly lower with declines in smart metering programs where our customers are experiencing continued market share loss from commoditization and moderate reductions in climate controls and public safety.

I'll now turn the call over to Jana to provide more details on the financial results for Q2 and our updated guidance for the full year. Jana.

Jana Croom
Thank you, Ric, and good morning, everyone. As Ric highlighted, net sales in the second quarter were $357.4 million, a 15% decrease, year-over-year, 13% when excluding AT&M. Foreign exchange had a near 0 impact on sales in Q2. On a sequential basis, however, sales were down 5% compared to Q1, driven by declines in both the Medical and Industrial verticals, partially offset by a low single-digit increase in Automotive.

The gross margin rate in Q2 was 6.6%, a 160 basis point decline compared to the second quarter of fiscal 2024, with the decrease coming from lower absorption, a result of declining sales.

Adjusted selling and administrative expense in the second quarter was $10.1 million, a $5.3 million or 34% reduction, compared to the $15.4 million we reported in Q2, last year. The decrease was driven by our efforts to align discretionary spending with current demand, lower bonus expense, along with no AT&M expense this year, compared to a full quarter in fiscal 2024.

In addition, if you recall, a year ago, we recorded a $2 million allowance for credit losses, which was not required again. When measured as a percentage of sales, adjusted selling and administrative expenses were 2.9%, an 80 basis point improvement compared to 3.7% in Q2, last year.

Our expectation for SG&A as a percentage of net sales remains 3.5%, although there will be fluctuations at times as we look to right size expense prudently, while we work through the current environment.

Adjusted operating income for the second quarter was $13.3 million, or 3.7% of net sales, which compares to last year's adjusted results of $19.1 million, or 4.5% of net sales. As a reminder, we have adopted the industry norm of excluding stock compensation expense from the calculation on these metrics. The result from last year has been recast to reflect this change.

Other income and expense was expense of $4.8 million, compared to $5.3 million of expense last year, with the reduction being driven by lower interest expense, down 31%, year-over-year.

The effective tax rate was 1.2% in the second quarter, compared to 26.5% in Q2 of fiscal 2024.

This is due primarily to the reversal of a valuation allowance, as we reconcile the anticipated closure of our Tampa facility with the sale of the AT&M business. We expect a tax rate in the mid-20s for the full fiscal year.

Adjusted net income in the second quarter of fiscal 2025 was $7.4 million, or $0.29 per diluted share, compared to adjusted net income in Q2 last year of $9.8 million, or $0.39 per diluted share.

Turning now to the balance sheet, cash and cash equivalents at December 31, 2024, were $53.9 million. Cash flow generated by operating activities in the quarter was $29.5 million, our fourth consecutive quarter of positive cash flow. Cash conversion days were 107 days, compared to 117 days in Q2 of fiscal 2024 and 108 days, last quarter. We are continuing to focus on improving cash conversion days by actively managing the components and are pleased with our progress, thus far.

Inventory ended the quarter at $306.2 million, which represents a $29 million reduction compared to Q1 and $149 million, or 33% lower than a year ago. Again, we're pleased with our progress in reducing inventory and will continue to work with our customers to right size the current demand outlook.

Capital expenditures in the second quarter were $6.5 million, balanced between maintenance requirements and investment in long-term growth.

Borrowings at December 31, 2024, were $205 million, a $41 million reduction from the first quarter and down $90 million, or 30% from the beginning of the fiscal year.

Short-term liquidity available, represented as cash and cash equivalents plus the unused portion of our credit facilities, totaled $280.3 million at the end of the second quarter. This is a great example of controlling what we can control and setting up our balance sheet for future growth.

It is important to highlight that during Q2, we significantly enhanced our capital structure with the amendment of the credit facility, replacing the $100 million sidecar that was up for renewal in January with a Term Loan A of the same amount and with a pricing grid that mirrors the revolver. The TLA provides additional domestic liquidity for investments needed to meet working capital and other operating needs, as well as supporting our efforts to grow the business, through organic and inorganic channels. The Term Loan A has a tenor that is off-cycle from the revolver, and we added a new lender to the syndicate.

I would like to thank all of our banking partners for their ongoing support, as well as our team here at Jasper for their hard work, diligence and patience needed on this transaction, particularly given much of the heavy lift occurred during the holiday season.

In the second quarter, we invested $3 million to repurchase 160,000 shares. Since October 2015, under our Board authorized share repurchase program, a total of $97.7 million has been returned to our shareholders by purchasing 6.3 million shares of common stock. We have $22.3 million remaining on the repurchase program.

During the November meeting of the Board of Directors, the Board unanimously increased the share repurchase program, by $20 million.

As Ric mentioned, we are updating our guidance for fiscal year 2025 with net sales now expected to be in the range of $1.4 billion to $1.44 billion, compared to the previous guidance of $1.44 billion to $1.54 billion.

Adjusted operating income is estimated at 3.4% to 3.6% of net sales, compared to our previous guidance of 4% to 4.5% of net sales.

The outlook for capital expenditures remains unchanged at $40 million to $50 million. And in addition, we now estimate total exit costs associated to the closing of the facility in Tampa in the range of $6.5 million to $8.5 million, and we fully expect the proceeds from the sale of this property to exceed the exit costs.

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

Ric Phillips
Thanks, Jana. As you know, President Trump issued three executive orders implementing tariffs on February 1 on virtually all goods from China, Mexico and Canada, which have now been paused 30 days in the case of Mexico and Canada. We are partnering with our customers to understand the impacts and to determine the best solutions in the short term and the long term for their supply chains.

Our Mexico facility exports approximately 25% to 30% of its production into the United States. Our U.S. facilities import certain components from China, Mexico and Canada on our customers' behalf to use in manufacturing their products. There are a variety of options we will continue to review with our customers. Our customers may be able to change Kimball's final delivery location, shift production to another Kimball facility or pay the tariffs.

We are also evaluating the impact to our supply chains, including the goods we import into the U.S. that support manufacturing in our U.S. locations.

As you would expect, given our guiding principles and our reputation for customer service, Kimball stands ready to support our overall supply chain and our customers as they navigate these significant developments.

Lastly, I'd like to recognize our team for, once again, being honored by Circuits Assembly Service Excellence Awards. In November, we achieved the highest overall customer ratings in all seven categories of dependability and timely delivery, manufacturing quality, responsiveness, technology, value for the price, flexibility and overall satisfaction.

These awards are based solely on direct customer input, and I am very proud of our team's consistent focus on building long-term relationships with all customers, regardless of whether they are new or those we've worked with for a decade or more.

The Kimball team is well known for our culture driven by our guiding principles and a common set of priorities that have allowed us to, continuously, improve and to keep our promises, even during the most challenging of times.

With customer demand continuing to soften in the markets we support and the timing of a recovery in our core EMS business becoming increasingly more difficult to predict and likely continuing through calendar year 2025, we have intensified our efforts to broaden our capabilities and role as a CMO.

With a strong balance sheet, we're pursuing different paths of growth, focused on emerging medical technologies, high-level assemblies and a variety of drug device combinations. As I mentioned earlier, however, these changes will not come overnight, but I'm excited for the future of the company, and thank you for your support.

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

Operator
Ladies and gentlemen, analysts may ask a question at this time by simply pressing “*”, “1” on your dial pad. You may remove yourself from the queue by pressing “*”, “2” on your dial pad. We ask that if you are using a speakerphone, you pick up your handset, before asking your question.

One moment, please, for the first question. Our first questions come from the line of Derek Soderberg with Cantor Fitzgerald. Please proceed with your question.

Derek Soderberg
Yeah, hey, everyone. Thanks for taking my questions. It seems like you're continuing to navigate this environment pretty well here. Congrats on reducing those borrowings. Just a question on tariffs to start. Is there a level of tariffs where it wouldn't make sense to move production back even at 25%? Is it still better to manufacture there versus Jasper? How should we think about that 25% number? Even at 25%, would you still consider moving some of that production to Jasper? And then on top of that, what's sort of the utilization rate in Jasper, today, and how much free capacity do you have there in that event? And then I've got a follow-up.

Steve Korn
Derek, this is Steve Korn. Let me try to answer that for you. We've done some analysis for a few customers on that 25% with the tariffs coming from China, additional tariffs there plus the ones that were there previously first Trump Administration, what the Biden Administration did, it's still more cost effective for most products to be done in Mexico with those additional tariffs. If required, we would see a better solution potentially moving business to Thailand and eliminating both the tariffs from Mexico and China, at that time.

Derek Soderberg
Got it. That's helpful. It is. It is. And then, Jana, so inventory is getting reduced. Like I said, you're paying down some of that debt; balance sheet is in a good place. How much more room do we have here on inventory to work with? How do you expect that to trend over the next few quarters here? And then where do you see cash conversion days moving towards--how is that trending?

Jana Croom
Well, Steve and I will tag team this one together because what I was going to say is, at this point, the focus is on days, more than it is absolute dollars of reduction. Your inventory, if you think about it this way, should be a function of revenue and turns. And so, we've done a great job of rightsizing the inventory, bringing it down as we've seen our revenues come down.

Obviously, sitting at 107 days isn't where we want to be, but we're very, very pleased with the progress we've made, thus far, pulling 10 days out versus a year ago, a day lower than we were last quarter. We're continuing to work with our customers to see what the rightsizing is going to continue to look like. At some point, we're going to start to grow again, and you may see inventory in absolute dollars increase, but it's really about the days management. I would like it if it was not a 3-digit number, if it was a 2-digit number. I don't know what you have to add with that.

Steve Korn
Yeah, I think what we see, Derek, is our internal data shows the inventory is going to continue to drop over the next six and 12 months, as we burn through some of the inventory that we bought. Some of that was with the agreements that our customers had with the suppliers. So we continue to see a positive trend, going forward, on the inventory reducing.

Derek Soderberg
That’s great, really appreciate it. Thanks.

Operator
Thank you. Our next questions come from the line of Mike Crawford with B. Riley Securities.

Mike Crawford

Thank you. How should we track what you're doing to start winning the winnables? Like, is there a bid and proposal pipeline you can quantify or win rate on bids submitted or anything like that?

Jana Croom
Yeah, so Mike, we are in the process now of working with our Chief Commercial Officer to begin disclosing more information on the funnel and win rates. We're looking at what our competitors disclose and how we can capture our data in a way that would be more valuable to you.

So we hear you loud and clear, and that is something that we are actively working on and you should look for us to roll out in the coming quarters. I don't know if it will be Q3 or if we might roll it out in Q4, along with FY '26 guidance. But we understand that we need to help you understand funnel win rates and future opportunity for Kimball for modeling purposes.

Mike Crawford
And so in that regard, you might not give us that answer three months from now, and then we might not--we might have to wait six months before we get fiscal '26 guidance. Is that what you're saying?

Jana Croom
So I'm interpreting that as, Jana, hurry up. And we hear you. And so we will definitely work on that for next quarter, more insight.

Mike Crawford
Okay. And I know you're not providing fiscal '26 guidance right now, but where we stand today, without knowing what your funnel is and seeing programs drop off, it's hard to model fiscal '26 being any higher than fiscal '25. How do you--how would you look at that logic?

Ric Phillips
I follow the logic, Mike. I think the--as you know, the--and as we've mentioned earlier in the call, the--this sustained customer demand weakness has been longer than we anticipated, and it's been more difficult to predict the stabilization. So, as you can imagine, we're all over it. We spend a ton of time as a team on the funnel and the future and not just the future funnel of wins, but the return to more stable levels on the programs that we already won that are--just happen to be delivering at lower numbers of demand that are there. But I don't think you're way off and we hope to update that over the coming months, but the softness has sustained, to your point.

Jana Croom
Calendar '25 is going to be difficult. What we're looking at now--which would take you through the first half of fiscal '26. What we're looking at now is everything that's launching in the back half of fiscal '26, which would be calendar '26 in terms of stabilization and then return to

growth. And we're not prepared to get into the details of that now because we still got more data coming in as we're trying to shore up the 12-month forecast. But we'll continue to give you the information, as we know it in the coming earnings call.

Mike Crawford
Okay, thank you. And then I don't think I heard the answer to the Jasper utilization and maybe you could frame that in terms of different shifts or potential incremental investment there?

Steve Korn
Yeah, I think in the Jasper utilization, it's probably right now around 65% utilization. We've pared down some shifts. We basically work there 24/7, Mike, but we do have space and capacity available. Obviously, we're moving some of the Tampa work into Jasper, as we speak. And then we do have space for other customers and have been reached out to by other customers about, potentially, doing some of the work they do in Mexico that we're not doing for them right now, but that they do in Mexico and having it moved to Jasper. So we're in those discussions, as we speak.

Mike Crawford
Okay. Well, that sounds like a good potential increase to the funnel. So thank you very much.

Operator
Thank you. Our next questions come from the line of Jaeson Schmidt with Lake Street Capital Markets. Please proceed with your question.

Jaeson Schmidt
Hey, guys, thanks for taking my questions. Just looking at the revised guidance for fiscal '25. Is this being driven by one particular vertical, or is it just broad-based softness across the entire business?

Jana Croom
We're seeing broad-based softness but Autos is holding in, even with the exit of the EV100 program, autos is holding in quite well, driven by strength in Asia. We're still waiting for our Medical and our Industrial verticals to sort of get their sea legs around them. And I would say that that is likely to continue, over the next few quarters.

Jaeson Schmidt
Got you. And Jana, I know you just laid out that you're going to be providing some additional metrics in the future. But just curious, when you look at the bookings activity in the December quarter, if it was in line with your guys' internal expectations, or has there been a deterioration in sort of bookings activity, both in December and now here in the March quarter?

Steve Korn

Hey, Jaeson, I'll answer that. What we've seen over the last six months is our bookings have been in line with our expectations, both with new business as well as some extensions of current business. So they are in line with what our expectations were in the first six months of the fiscal year.

Jaeson Schmidt
Okay. That's really helpful. And then last question from me, and I'll jump back in queue. When we think about further restructuring and the OpEx rationalization, is this sort of $10.5 million in selling and administration expenses sort of the new run rate, going forward?

Jana Croom
We're likely not going to be able to hold it that low for a sustained period of time. What we're trying to figure out is what is the discretionary balance. So part of the challenge, quite honestly, is--there are some real inflationary pressures related to our business for costs like insurance, health care, etc. And so, we've done a lot of discretionary cuts to try and offset those and reduce them down further. But there are limitations to all the things that we can take off the table as those costs continue to mount.

Our goal is 3.5% of net sales but we as a leadership team, also feel very, very strongly that it can't just be all on the facilities to reduce cost, right? So, corporate spending has to be tamed as well, and we have to be really, really good partners, globally, as we look to contain costs.

Jaeson Schmidt
Okay. That's really helpful. Thanks, guys.

Operator
Thank you. Our next questions come from the line of Anja Soderstrom with Sidoti. Please proceed with your question.

Anja Soderstrom
Hi, thank you for taking my questions. Most of them have been answered already, but I'm just curious, when you talk about the refocus on the Medical vertical, are you making any changes to your organization for that?

Ric Phillips
Yes. So we--hi, Anja, it's Ric. Good to hear from you. Yes, so we--at the time when we made the decision that we were going to move forward with the disposition of the AT&M business, at that same time, we actually took what, at that point, was a third pillar of the company, which is our drug delivery business that's really focused on CMO, and we moved that together with our core EMS Medical vertical. And that was--we felt like a really important roof for multiple reasons, both in terms of leadership talent and collaboration and engagement and also to bring together the very complementary capabilities of those two. And we think in a pretty differentiated way.

So, we did make that change from an actual structure standpoint, and that's how we are going to market there. And so we've got the full force of our business development team in EMS now collaborating to help target that space. So yeah, we did make a structural change, and we're excited about what we're seeing there. And as you know, it takes time from wins to convert to dollars on the P&L, but we're really encouraged and we're investing there. And we like the profile of that business as well as the market growth rates that we see, over time, in that business in Medical.

Anja Soderstrom
Okay, thank you. And then in the Industrial, it seems like the smart meter commoditization is still hurting you. When do we think that's going to bottom out? And how much of our revenue contribution was that one? And where do you think you will end up?

Steve Korn
Let me try to answer that for you, Anja. I think from a total revenue standpoint, the smart metering business, if you look at our total revenue, globally, based off a $1.4 billion, $1.5 billion run rate, that smart metering business might have been 2% to 3% of that number. We think where we're running today is the bottom from where we're at. We're seeing a little bit of positive activity there. But I would say we're at the bottom and--but it's still very competitive. I don't know if we'll see a significant amount of growth in that part of our Industrial, but we have other opportunities in the Industrial where we see growth.

Anja Soderstrom
Okay, thank you. And then, have you seen any changes to the competitive environment, at all?

Steve Korn
That's a really good question. I think what we've seen recently, both in the competitive environment and other environments is--and which has been a little bit different is some of our Automotive customers providing opportunity to move product from some of our competitors to us. So a little quicker ramp. We're seeing more of that activity right now, not quite sure why. That's probably been a little unique for us.

And then overall, the competitive environment, depending upon where we're at in the world, it's like it's been--I've been in EMS for 37 years, it's as competitive as it's always been. And sometimes it's a little bit more competitive if somebody has excess capacity, somewhere. So I wouldn't say it's significantly different than what we saw, before.

Anja Soderstrom
And just in general, the outsourcing trend, do you see that appetite increasing now? And maybe you were talking about some people wanting to move their production in Mexico to your facility in Jasper.

Steve Korn

Yeah, and I think as Ric stated earlier, with the Medical HLA, we're seeing more in that opportunity of opportunities of people moving out, not wanting to do the full manufacturing, deal with all of the FDA manufacturing requirements, the GMP, I think, is what we're seeing more activity. I think this opportunity with Mexico, who knows where it's going to land on March 1. And I think we all got to take the current administration serious when they say something. We learned that in the first time they were in place with the tariffs on China that those opportunities are going to happen as people look at their own manufacturing footprint and where is the right place to put it and where Kimball can help them be successful.

So, I think that's going to continue until we get through some of these potential tariffs and trade wars and where is the right place to put manufacturing. And some are going to offset it with, hey, we want to do a portion of it in the U.S. to be prepared, and we're going to keep the rest in Mexico or somewhere else. I think that's where we're going to see some activity.

Anja Soderstrom
Okay, thanks, that's all for me.

Operator
Thank you. As a reminder, if you would like to ask a question, please press "*", "1" on your dial pad. Our next questions come from the line of Hendi Susanto with Gabelli Funds. Please proceed with your question.

Hendi Susanto
Good morning. My first question is, would you be able to remind us like how much exposure you have in China Automotive market between local versus foreign OEMs?

Steve Korn
Yes. So what we've seen a lot--as Ric stated, Hendi, we had a fantastic fourth quarter of the calendar year, our highest revenue ever. What we're seeing is we're continuing to grow with the local OEMs, the local Chinese manufacturers is where we see that growth with our customers. So today, I would say we're probably somewhere around 50-50 of foreign versus local, but it's--the fastest growth for us is with the local manufacturers.

Hendi Susanto
Yes. And then some companies do express confidence that their automotive business in China can continue to demonstrate positive growth, despite of weaknesses in North America and Europe. Do you share that similar confidence?

Steve Korn
We're confident in our China operations competing and continuing to support the Chinese auto market business. They have done a great job, and we see ourselves continuing to be a great supplier there for those customers.

Ric Phillips
And Hendi I know, it's--we say this all the time, and I'm sure you're aware of it, but it's maybe worth restating because our Board certainly asks us about it. But we're China for China, right? So that product is staying in country, what we're manufacturing there. So it's a different risk profile, right, than thinking about that as a major export market, which is not for us.

Hendi Susanto
Yes. And then I would like to learn more about the ramp-up of braking program in Romania. Which end market and what your grow fee and what vehicle categories will it serve when it's launched, this year?

Steve Korn
We can't share all that information with you, Hendi, but it is launched and it launched in January, as Ric said, and continues to grow. It's in its first month, but we see a good trend there. It's for the European market. Today, it's on ICE vehicles. There is a portion that will go to EV, but the EV sales in Europe, similar to North America, are down. So today, most of what we're supporting are ICE vehicles with that new braking platform.

Hendi Susanto
Okay. That's very helpful.

Steve Korn
And then the end customer is a German manufacturer. That's what we can share is it's a German manufacturer, okay, all yours.

Hendi Susanto
Okay, thank you for that data point. And then the next question is about tariffs. If tariffs takes place, how much room of negotiation considering that pricing is part of the annual contract with customers?

Steve Korn
Yeah, that's a good question, Hendi. For the Mexico operation and what we manufacture in Mexico, as we shared in the release, 75% of what we do in Mexico stays in Mexico, so there's no tariffs for us on any of that product. And it goes to an end customer's facility in Mexico, which they will add value to and then import it or export it into the U.S.

For us, for what we ship into the U.S. is an export to the U.S., and the customer will take ownership at the border, and they would be responsible for the tariff cost on that portion of it. For the component side of things, that's where the negotiation would come for the products that we build in Jasper, Indianapolis or Tampa today yet. That's where the negotiations would come. And we learned a lot eight years ago with the first group of tariffs that the administration did with China. We have very good processes, and we've had really good discussions with our

customers with that. So, we feel confident that we'll be able to negotiate those costs with them.

Hendi Susanto
Got it. Yes. And then one last question. If you need to move production to Thailand, how long the qualification process will take, in general?

Steve Korn
Yes. That is different by customers. So, one of the products we just moved out of Tampa as part of their tow is going to Thailand. That took us about three and a half months to move that product, and it's fully qualified now.

Hendi Susanto
Okay.

Steve Korn
So maybe even a little bit shorter than that, but we started in November and here we sit in February, and we're done. So it's a little--about three months is a safe number, depending upon the product, the specific tooling for that product and any qualification on the customer side.

Hendi Susanto
Okay, thank you. All the best.

Steve Korn
Thanks.

Jana Croom
Thanks, Hendi.

Operator
Thank you so much. That does conclude our question-and-answer session. And with that, ladies and gentlemen, thank you for joining today's call. A replay of the call will be made available on the Investor Relations page on the Kimball Electronics website. You can access the replay by dialing (877) 660-6853 or (201) 612-7415. The replay will be available until February 19, 2025. The Access ID is 13751109. Thank you again. You may now disconnect.