Kimball Electronics, Inc.
Fourth Quarter and Fiscal Year 2025 Financial Results
August 14, 2025

Presenters
Andy Regrut, Treasurer and IR Officer
Ric Phillips, CEO
Jana Croom, CFO

Q&A Participants
Mike Crawford - B. Riley Securities
Derek Soderberg - Cantor Fitzgerald
Anja Soderstrom - Sidoti and Company
Jaeson Schmidt - Lake Street Capital Markets

Operator
Good morning, ladies and gentlemen. Welcome to the Kimball Electronics fourth 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 the 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 star then the number one on your telephone keypad. Today's call, August 14, 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.

Andy Regrut
Thank you and good morning, everyone. Welcome to our fourth quarter conference call. With me here today is Ric Phillips, our Chief Executive Officer, and Jana Croom, Chief Financial Officer. We issued a press release yesterday afternoon with our results for the fourth quarter and full fiscal year ended June 30, 2025. 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 2026, 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. I'm encouraged by the results for the fourth quarter and the solid finish to the fiscal year. Q4 came in better than expectations as sales increased sequentially, margins continued to improve, and working capital management drove our sixth consecutive quarter of positive cash flow, which was used to pay down debt. Our balance sheet is now in a position of competitive strength with ample liquidity to weather an unpredictable environment while providing dry powder for opportunistic investments.

In total, fiscal 2025 was a year of controlling what we could control. I am proud of our team as we made significant progress positioning the company for a return to profitable growth with noteworthy accomplishments including a record number of wins for future business, a meaningful increase in the number of green customer scorecards, quality ratings at a 15-year high, adjusting the cost structure and aligning the portfolio to demand trends, and intensifying our focus as a medical CMO. The new 300,000 square foot medical facility in Indianapolis, which we announced last quarter, is an important milestone in this strategy. It provides the space needed to expand our production capabilities beyond traditional printed electronics and circuit board assemblies, encompassing cold chain management, complete device assembly, and precision molded plastics.

Our current manufacturing includes medical disposables, single-use surgical instruments, and selected drug delivery devices such as auto-injectors. Additionally, we're looking to expand applications in areas such as cardiology, orthopedics, minimally invasive surgery, and surgical instruments and packaging. The medical market presents a compelling opportunity to diversify revenue and leverage our core strengths as a trusted partner in a complex and regulated industry. We expect fiscal 2026 to be another step forward in this journey, and we anticipate positive top line growth for the company overall in FY '27. As we return to growth, better capacity utilization will result in higher margins.

Turning now to the fourth quarter. Net sales for the company were $381 million, an 8% decline compared to Q4 last year when excluding the automation, test, and measurement business that was divested. For the second consecutive quarter, our medical business grew year-over-year while the other two verticals we serve reported declines. Sequentially, however, the top line increased 2% compared to Q3. Remember, the third quarter included a $24 million nonrecurring consigned inventory sale in the medical vertical, so the sequential sales for recurring business are even more encouraging than what's at the surface. Sales in medical were $107 million, up 5% compared to the same period last year and 28% of total company revenue.

The increase in Q4 was driven by a step-up in sales with our largest medical customer, a welcomed reprieve after a long period of decline during the FDA recall. We expect the growth with this customer to continue as we were selected as the sole supplier for the respiratory care final assembly and higher-level assemblies business with most of the production occurring at our facility in Thailand. Similar opportunities are possible as the population ages, access and affordability to healthcare 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. In general, HLAs and finished medical devices are a great business for us as the cost of sales is lower and the revenue potential is higher than what is customary with contract manufacturing in EMS, and this business increases our stickiness with customers.

Next is automotive with net sales of $184 million, a 13% decrease compared to the fourth quarter of last year and 48% of the total company. The decline in Q4 was driven by the electronic braking program that, as previously announced, is no longer being produced in Reynosa as a result of a commercial agreement by the OEM to transfer to another source. This impact was partially offset by the ramp-up of a similar but separate braking program in Romania. In addition, we continue to carefully monitor the demand for electronic steering systems for EVs, which were lower in the quarter. Finally, industrial, with net sales of $90 million, down 12% year-over-year when excluding AT&M and representing 24% of total company sales. We see early signs of stability with climate control systems, but this was offset by broad-based declines in other industrial segments in North America and Europe. Asia was approximately flat in Q4. I'll now ask Jana to provide more detail on the financial results for Q4 and our guidance for fiscal 2026. Jana?

Jana Croom
Thank you, and good morning, everyone. As Ric detailed, net sales in the fourth quarter were $380.5 million, a 12% decrease year-over-year, down 8% when excluding AT&M. Foreign exchange had a 1% favorable impact on consolidated sales in Q4. The gross margin rate in Q4 was 8%, a 50 basis point decrease compared to 8.5% in the same period of fiscal 2024 with lower absorption an outcome from reduced year-over-year sales driving the decline in rate, however, representing significant sequential improvement over the course of the fiscal year.

Adjusted selling and administrative expenses in the fourth quarter were $10.8 million, a $3.2 million or 23% reduction compared to the $14 million we reported in Q4 last year. The decrease occurred from our cost reduction efforts, reduced bonus expense, and not having AT&M in our portfolio this year versus the full quarter of expense in fiscal 2024. When measured as a percentage of sales, adjusted selling and administrative expenses were 2.8%, a 40 basis point improvement compared to 3.2% in Q4 of fiscal 2024. This is consistent with our commitment to control what we can control. All four quarters in the year were at an adjusted SG&A rate of 3% of sales or lower.

Adjusted operating income for the fourth quarter was $19.6 million or 5.2% of net sales, which compares to last year's adjusted results of $22.7 million or 5.3% of net sales, the third consecutive quarter of growth in absolute dollars and as a percentage of net sales. Other income and expense was expense of $3.8 million compared to $6.1 million of expense last year with interest expense, which was down nearly 50% year-over-year, responsible for the change. The effective tax rate in the fourth quarter was 48.3% compared to 44% in Q4 of fiscal 2024. As you may recall, last year's rate was skewed higher by the impact of a domestic valuation allowance and the impairment and restructuring charges associated with AT&M. We ended the

year with an effective tax rate of 35%, driven by the inclusion of GILTI income, which is subject to U.S. taxation despite being earned by our foreign subsidiaries and withholding tax related to cash repatriation from our foreign subsidiaries, which is offset by lower interest expense on our borrowings. In fiscal 2026, we expect a tax rate in the low 30%'s. Adjusted net income in the fourth quarter of fiscal 2025 was $8.4 million or $0.34 per diluted share compared to adjusted net income in Q4 last year of $9.7 million or $0.38 per diluted share.

Turning now to the balance sheet. Cash and cash equivalents at June 30, 2025, were $88.8 million. Cash generated by operating activities in the quarter were $78.1 million, our sixth consecutive quarter of positive cash flow. Cash conversion days were 85 days compared to 100 days in Q4 of fiscal 2024 and 99 days last quarter. This represents our lowest CCD in three years with the decrease this quarter compared to Q3 driven by all components of the calculation with PDSOH showing the strongest improvement. We see additional opportunity to drive higher levels of cash from our EMS operations while continuing to reduce CCD with new working capital initiatives that will be rolled out in FY '26.

Inventory ended the quarter at $273.5 million, a $23.1 million reduction compared to Q3 and $64.6 million or 19% lower than a year ago. Capital expenditures in the fourth quarter were $9.6 million. For the full year, CapEx was $33.7 million primarily to support new product introductions and maintenance needs. Borrowings at June 30, 2025, were $147.5 million, a $31.3 million reduction from the third quarter and down $147.3 million or 50% 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 $380.5 million at the end of the fourth quarter. We invested $3 million in Q4 to repurchase 162,000 shares. Since October 2015, under our board authorized share repurchase program, a total of $103.7 million has been returned to our shareholders by purchasing 6.6 million shares of common stock. We have $16.3 million remaining on the share repurchase program.

As Ric mentioned, fiscal 2025 was a year of controlling what we could control, and I am proud of our team's resilience and discipline. We made substantial progress adjusting our cost structure to demand trends throughout the year. We improved our balance sheet with working capital initiatives and aligned the portfolio for future growth expectations. We ended fiscal 2025 with net sales totaling $1.487 billion, the third highest annual revenue total in the 60-year history of the company, adjusted operating income of $61.3 million or 4% of net sales, inventory down nearly 20% year-over-year, cash generated by operating activities of $183.9 million, a record result for annual cash flow, CCD at our lowest level in three years, and debt paid down 50% in the fiscal year and at its lowest level in three years and $12 million invested to repurchase 653,000 shares of common stock. Fiscal 2026 will be a year of transition with net sales in the range of $1.35 billion to $1.45 billion, a 2% to 9% decrease compared to fiscal 2025, adjusted operating income in the range of 4.0% to 4.25% of net sales compared to 4.1% of net sales in fiscal 2025, and capital expenditures in the range of $50 million to $60 million.

To put our sales guidance in perspective, two important events occurred in fiscal 2025 that have been normalized when planning for fiscal 2026. The loss of the braking program in Reynosa will have a $60 million unfavorable impact in the year. In addition, we do not expect another large consigned inventory sale similar to Q3 to occur again. Without these two items, our top line guide is approximately flat year-over-year. We expect modest growth in our medical and industrial businesses, but it will be offset by a decline in automotive. Margins are estimated to be in line with FY '25 as we repurpose some of the benefit of the Tampa closure to focus on growing the CMO and our core EMS business. It's important to note that when top line growth returns, enhancements to our cost structure should support margin improvement. Capital expenditures will be heavily weighted towards our new facility in Indianapolis, approximately $30 million, with the balance supporting growth, automation, and maintenance. I'll now turn the call back over to Ric.

Ric Phillips
Thanks, Jana. Before we open the lines for questions, I'd like to share a few thoughts in closing. Our company has always focused on high complexity, high reliability programs, whether it's braking and steering systems in vehicles, motor controls for HVAC systems, or diagnostic and therapeutic equipment in the medical field. The emphasis on quality and reliability is deeply embedded in how we operate across all verticals. Internally, we reference a five 9s reliability standard, 99.999%, as a reflection of the performance and consistency we strive for. The medical CMO aligns well with this objective and our expertise in a highly regulated, highly engineered, complex manufacturing environment. We're approaching our medical CMO strategy with additional steps to position the company for long-term profitable growth.

As Jana mentioned, we expect to continue to generate positive cash flow, and we will deploy that capital towards growing the CMO. As we evaluate the medical CMO space, we see opportunity for higher EBITDA margins. Our strategy is to pursue growth with blue chip customers with long product life cycles and a high degree of visibility. It's not just about adding capabilities. It's about building a scalable platform that supports the work we already do well, creates opportunities for vertical integration, and positions us to take on more of the complex programs that align with our strengths. Drug delivery has been a key area of focus for us. Our capabilities are well established, and, with the new Indianapolis facility, we believe we're well positioned to meet current and future customer needs, but we're also committed to pursuing inorganic options to augment this space where it makes strategic sense.

Throughout this journey, we will stay true to our Guiding Principles and continue to be collaborative and team-oriented, set high long-term aspirations not unrealistic goals but attainable targets that require stretching, communicate openly and proactively, and remain accountable to our company, to our customers, to each other, and to our shareowners. In closing, I'd like to thank the entire Kimball team for their hard work, focus, and dedication as we build tomorrow together. I've never been more excited about the future of the company. Thank you for your support. Daryl, we would now like to open the lines for questions.

Operator
Thank you. Ladies and gentlemen, analysts may ask a question at this time by simply pressing star one on your dial pad. You may remove yourself from the queue by pressing star two on your dial pad. We ask that if you are using a speaker phone you pick up your phone before asking your questions. One moment, please, for your first question. Our first questions come from the line of Mike Crawford with B. Riley Securities. Please proceed with your questions.

Mike Crawford
Thank you. Can you remind us the timing of when the new facility in Indianapolis will be ready and the potential revenue capacity of that building?

Ric Phillips
Yeah, Mike. Thanks for joining us. So, we are planning the grand opening that facility in November of this year. We're obviously working on -- it was completely empty new building, so we're working on that. At that point, we will start to get equipment in there and get ready to produce. That facility is, at 300,000 square feet, it has a lot of capacity for growth. In addition to that, the way that that space is configured, we could expand further from there as needed. But we could handle hundreds of millions of dollars of business in that facility depending on the size of programs that ramp up.

Jana Croom
Well in excess of 0.5 billion.

Mike Crawford
Okay. Great. And I'm pleased to hear your capital allocation focus on the medical CMO. What about some other directions you've been considering in the past year like industrial adjacencies?

Ric Phillips
Yeah. So, we continue to, Mike, to try to take a really sharp strategic lens to where we're focused. We have been in some interesting discussions in industrial, to your point, which would get us beyond areas that we're currently in. We don't have anything to announce on that front at this point. In automotive, we continue, as you know, to feel that the steering and braking that we've been focused on is a great fit for us and gives us great potential moving forward. So, we do think it's a combination, obviously, a big ramp-up in the medical CMO, but we see opportunities across all of our verticals.

Mike Crawford
Okay. Thank you. And then just one last one for me. It's nice to hear your sole source for Phillips in Thailand, and I guess that you don't really have that many tariff issues with them given their problems in the U.S., but what about tariffs in general for your global footprint? Thank you.

Ric Phillips

Yeah. Just a couple of comments on that. I mean, one reminder is that for the majority of our business, we are not typically the importer of record, which provides us a little bit of protection. We also have a mindset and approach with our customers that the tariffs are a pass-through. So, if they hit us, they hit others. The other thing that we've done is just take some no-regrets moves given how uncertain the tariff environment is. So, we talk to our customers and are clear on the pass-through approach that we expect. We talk to customers proactively about -- as you well know, we have a global network. And if you want to leverage it in a different way based on your strategy and how tariffs are affecting you, we're happy to talk about leveraging all of our facilities. And we also work to qualify alternative sources of supply in different countries just to provide flexibility depending on which directions those go. So, that's been our approach. And like everyone else, we wake up in the morning and see what changed, but we're trying to be flexible and take that approach.

Mike Crawford
Great. Thank you.

Operator
Thank you. Our next questions come from the line of Derek Soderberg with Cantor Fitzgerald. Please proceed with your questions.

Derek Soderberg
Yeah. Hey, everyone. Congrats on the results. Thanks for taking the questions. I want to start with the large medical customer. You're going to be the sole supplier with final assembly, higher level assembly with that customer. Can you remind us what you were doing for the respiratory program the last time? Was it a similar type of arrangement? I was wondering if you can comment on sort of the margin profile change of that program.

Jana Croom
So, there's not really a margin profile change from what we were producing with them before. We're just starting to produce for them again, which is a really good sign. It's been a great customer. We were doing higher level full and final assembly for them prior. And there have not really been material changes, really any changes to the contract terms. We're just starting up again, which feels really, really great.

Derek Soderberg
Got it. And, Jana, was -- did you say that program was coming out of Thailand -- to your Thailand facility?

Jana Croom
Yes. It's coming out of our Thailand facility.

Derek Soderberg
Got it. Got it. Okay. That's helpful.

Jana Croom
Actually, let me restate that because what I just said was not entirely correct. We had started off the relationship doing printed circuit board assemblies. We had moved into doing some full and final assembly for them, but they had their own footprint in the U.S. We will be doing full and final assembly for all of their manufacturing now. They won't be doing any of it. It will all be supported by us. And there's not a second supplier. It's Kimball solely.

Derek Soderberg
Got it. Got it. That's great to hear. And then, Jana, while I have you, debt levels here are pretty low. I actually wanted to discuss the cash conversion days improving quite a bit here. Is there a sort of a structural new low for you guys as a company? It sounds like there's some room to improve that. What's sort of changing -- are these sort of initiatives you're taking as a company that's improving this? Is the industry kind of changing? What -- can you talk about some of those initiatives, and I guess how much room you have to continue to improve that number? Thanks.

Jana Croom
Yeah, that's a great question. I don't know so much that the industry is changing as much as things are pendulum, right? And so, you had just-in-time inventory, and then COVID hit. And then everybody said we want you to carry a ton of inventory, and we said, well, that's fine, but you've got to give us carrying costs on the inventory. And what you're seeing is more of a return to normal, right? So, 65 days is too tight, but 100 days is too wide. We're sitting at 85 days now with a goal to get down more towards 75-ish days, and there are a variety of things that you can do. You can offer AR factoring programs. You can offer supplier financing programs. It's really about controlling AR and AP days as you think about what that means for your DSO. PDSOH is much more a function of working with the customer on inventory terms. How much safety stock do we really need to have, getting better controls over longer line of sight around production and volume levels 15, 18, 24 months out, which you know has been something that I do believe the industry in total has been challenged yet. And so, just really getting better about that discipline and partnership with your entire supply chain.

Derek Soderberg
Got it. That’s super helpful. Thanks, Jana. Thanks, everyone.

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

Anja Soderstrom
Hi. Congratulations on the nice progress here. Thank you for taking my questions. So, in terms of the margin improvement, is that mainly going to be driven by the operating margin then or?

Jana Croom
Well, it's -- so gross margin, you're going to see improvement, and that's a result of a lot of the restructuring that we've done, capacity utilization efforts, the shutdown of Tampa. We've got controls on the SG&A side and a real discipline there, too. There's going to be some investment that we make in order to grow, and I alluded to that on the Q3 call, investments around IT innovation that we need to make, investments in business development that are just going to help shore us up for future growth. But as we have more revenue, similar to the question we got about HLA and final finished assembly, more revenue translates into better capacity utilization translates into higher margin, right? And so, that is what you should see once we sort of get past FY '26 is that really opening up in a more material way as we begin to grow again.

Anja Soderstrom
Okay. And you still expect adjusted SG&A to be around 3% of revenue?

Jana Croom
3.5 is our [inaudible]. Yeah, 3.5. So, it won't sustainably stay at 3. I think I alluded to that on the 3Q call.

Anja Soderstrom
Okay. Thank you. And then also in terms of your -- shifting a little bit more focus on to the medical segment. What kind of changes are you making to sort of sales organization and go-to-market strategy?

Ric Phillips
Yeah. No, it's a great question, Anja, and thanks for joining. Yeah, so we're making hires in business development as one straightforward path. As you know, we brought our medical businesses together a year or so ago. And in doing so, really leverages our strong and experienced leaders across the entirety now of that medical vertical. And we've also undertaken a pretty comprehensive marketing plan, particularly to support the CMO efforts as we now have capability to do things at a scale and at a technology level that we weren't able to do before. So, yes, we're making big investments, as you can imagine, with that new facility on the sales side to put effort around that to drive that business over time.

Anja Soderstrom
And when you go more heavily into that, has that changed your sort of competitive -- the guys you compete against? Or is it still the same?

Ric Phillips
It could have some changes there. What is a great differentiator for us relative to traditional competitors is we have the FDA experience, and we have the capability to actually handle the drug. So, that -- from what our customers tell us, that's a big advantage that allows us to be more sticky with them, allows us to play a bigger role in what they're doing, as well.

Anja Soderstrom
Okay. Thank you. And then I'm just curious within Indiana, the new facility there. Will there be a lot of automation there? And how is that sort of affecting the margins?

Ric Phillips
There will absolutely be a lot of automation there. We expect that that CMO segment will be accretive to our margins over time just because of the characteristics of the space. So, there'll certainly be significant investments in equipment and automation, but we still think that that space sets us up for margin accretion.

Anja Soderstrom
Okay. Thank you. That was all for me.

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

Jaeson Schmidt
Hey, guys. Thanks for taking my questions. Looking at that medical segment, obviously, the customer you called out should be a driver here. But are there other pockets of strength that you're expecting in that segment for this year?

Ric Phillips
Yes. Yes. We've actually introduced a number of customers. Some we've talked about in the past and some we haven't. But that -- we are definitely seeing incremental growth over time in medical beyond that customer. In fact, most of the new customers that we've introduced over the last two years have been in that medical segment. So, we do see opportunity to expand. We think our capabilities fit well. The shift that we've had over time to full assembly gives us more opportunities, and we've really demonstrated capability there.

Jaeson Schmidt
Okay. That's really helpful. And maybe not even looking at fiscal '26, but longer term, when you think about sort of driving growth in this business, how are you thinking about prioritizing sort of new customers versus expanding the number of programs at existing customers or really just kind of hoping that the demand profile of the programs you've already won just improves?

Ric Phillips
Great question. I'd say all of the above. I mean, we -- the quickest return to growth is the programs that we already won a couple of years ago where the demand has been softer than originally projected comes back. We can't control that, but it certainly can be a short-term driver. But beyond that, we are aggressively hunting new business. We are working very closely, and I feel like our customer relationships across the board are as good as they've ever been with existing customers and new programs coming to us. So, we think it will be a combination

of all those things. The area where you'll probably see the biggest new customer introduction will be the medical space.

Jaeson Schmidt
Okay. That's really helpful. I'll jump back in the queue. Thanks, guys.

Operator
Thank you. We have reached the end of our question-and-answer session. And with that, ladies and gentlemen, this does now conclude today's conference call. The telephone replay will be available approximately three hours after the conclusion of this event. You can access the replay by dialing (877) 660-6853 or (201) 612-7415. The replay will be available until August 28, 2025, using access ID 13755051. Thanks again for your participation. You may disconnect at this time. Enjoy the rest of your day.