Kimball Electronics, Inc.
First Quarter Fiscal Year 2026 Financial Results
November 6, 2025

Presenters
Andy Regrut, Treasurer & Investor Relations Officer
Ric Phillips, CEO
Jana Croom, CFO

Q&A Participants
Mike Crawford - B. Riley
Max Michaelis - Lake Street
Derek Soderberg - Cantor
Anja Soderstrom - Sidoti

Operator
Good morning, ladies and gentlemen, and welcome to the Kimball Electronics first quarter fiscal 2026 earnings conference call. My name is John, and I'll be your facilitator for today's call. All participants are in 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, November 6, 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, please begin.

Andy Regrut
Thank you and good morning, everyone. Welcome to our first 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 first quarter of fiscal 2026 ended September 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

Thank you, Andy, and good morning, everyone. I'm pleased with the results for the first quarter and start to the new fiscal year. Sales were in line with expectations, driven by strength in the medical vertical. Margins improved year-over-year, cash from operations was positive for the seventh consecutive quarter, and debt at the end of Q1 was the lowest level in over three years. We have ample liquidity to navigate the current operating environment and plenty of dry powder to opportunistically invest in growth. I continue to be impressed with our team's progress in positioning the company for the future. Our solid footing as an EMS provider and our capabilities as a medical CMO are unique in the industry, and we look to expand upon them through organic and possibly inorganic channels. We remain confident this powerful combination will result in a return to profitable top line growth next year, and we are reiterating our guidance for fiscal 2026.

Turning now to the first quarter. Net sales for the company were $366 million, a 2% decline compared to Q1 fiscal '25. From an end market perspective, strong results in medical were offset by declines in automotive and industrial. Starting with medical. Sales in the first quarter were $102 million, up 13% compared to the same period last year and 28% of total company revenue. Nearly half our medical sales were in North America, the other half roughly split between Asia and Europe. The increase in Q1 was driven by robust sales growth of approximately the same amount in both Asia and Europe while North America was up mid-single digits. We expect the growth to continue as we lean further into the medical space with production capabilities beyond electronics and printed circuit boards expanding into higher-level assemblies and finished medical devices. Our new medical facility in Indianapolis will add capacity for manufacturing medical products, single-use surgical instruments, and drug delivery devices such as autoinjectors. This is also where we are focusing our efforts on inorganic growth, potentially adding new end markets, customers, or even new geographies. We continue to view the medical market as a compelling opportunity to diversify revenue and leverage our core strengths as a trusted partner in a complex and highly regulated industry, particularly 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 the adoption by patients and end users increases.

Next is automotive with sales of $164 million, down 10% compared to the first quarter of last year and 45% of the total company. The decline in Q1 was driven by lower sales in North America, a result of the electronic braking program transferred out of Reynosa in mid-fiscal '25 and a decline in Asia. This combined impact was partially offset by strong sales growth in Europe as the new braking program in Romania continues to ramp up. Longer term, we expect to return to growth in this vertical, particularly as new systems and technologies such as steer-by-wire and brake-by-wire or electronic mechanical braking continue to increase the electronic content being added to vehicles. Finally, sales in industrial totaled $100 million, a 1% decrease compared to Q1 last year and 27% of total company sales. Our industrial business is heavily concentrated in North America, and the decline this quarter was in the low single-digit range where we are seeing softening demand for HVAC driven by the slowing housing market.

Europe, which is a much smaller business for us, was down more significantly while Asia reported strong sales growth in Q1.

Before I turn the call over to Jana, I would like to provide a brief update on tariffs. As you know, beginning in February 2025, the U.S. implemented tariffs on a variety of countries and commodities. The global tariff landscape is evolving at a rapid pace with changes impacting businesses and markets around the world. While these increased tariffs have and may continue to impact end consumer demand, we expect that we will recover the tariff costs by passing them on to our customers. If we're unable to fully recover these costs, our operating results and cash flows could be adversely impacted. We are working closely with manufacturing constituents and lawmakers to address the challenges real time. As we monitor the progression of tariffs, reciprocal tariffs, and the geopolitical economic environment broadly, we are committed to profitability and expect to incur additional restructuring costs over the course of the fiscal year as necessary. I'll now turn the call over to Jana for more detail on Q1 and our guidance for fiscal 2026. Jana?

Jana Croom
Thank you and good morning, everyone. As Ric highlighted, net sales in the first quarter were $365.6 million, a 2% decrease year-over-year. Foreign exchange had a 1% favorable impact on consolidated sales in Q1. One housekeeping item on our split of sales by vertical. Beginning this quarter, certain customers previously included in automotive were reclassified to industrial. This was done because our work for these customers is more aligned with commercial vehicle applications versus passenger vehicles. All prior periods have been recast for comparability. The gross margin rate in the first quarter was 7.9%, a 160 basis point increase compared to 6.3% in the same period of fiscal 2025 with the improvement driven by favorable product mix, the closure of our Tampa facility, and global restructuring efforts.

Adjusted selling and administrative expenses in the first quarter were $11.3 million, nearly flat year-over-year. When measured as a percentage of sales, the rate was 3.1% this year compared to 2.9% last year. In the first quarter of fiscal year 2026, following a customer termination of a program, an agreement was reached for the customer to compensate us for incurred costs, resulting in recognition of a $2 million recovery recorded in selling and administrative expenses. As I indicated in the last earnings call, we anticipate adjusted S&A will increase as a percentage of sales over the course of the year as we make strategic investments to support our long-term needs as we return to growth. Adjusted income for the first quarter was $17.5 million or 4.8% of net sales, which compares to last year's adjusted results of $12.6 million or 3.4% of net sales.

We expect Q1 to be our strongest quarter from an adjusted operating income perspective as demand and costs related to tariffs and softening in the U.S. housing market pressure margins in North America. Other income and expense was expense of $3.5 million compared to $6.2 million of expense last year. Once again, this quarter, interest expense drove the decrease, down 50% year-over-year. The effective tax rate in Q1 was 8.3% compared to a tax benefit of 9.4% last year. The lower rate in Q1 of this fiscal year is driven by tax opportunity related to

OBBA. As you may recall, last year's negative rate was a result of a favorable ruling on a prior period tax audit. For the full year of fiscal '26, we continue to expect an effective tax rate in the low 30s. Adjusted net income in the first quarter was $12.3 million or $0.49 per diluted share, up 2x from last year's adjusted results of $5.5 million or $0.22 per diluted share. We are pleased that, despite top line declines, we have made efforts across the business to right size expenses, reduce debt, and take advantage of tax opportunities, all of which meaningfully contribute to net income and EPS.

Turning now to the balance sheet. Cash and cash equivalents at September 30, 2025, were $75.7 million. Cash generated by operating activities in the quarter was $8.1 million, our seventh consecutive quarter of positive cash flow. Cash conversion days were 83 days, a two-day improvement compared to Q4 of fiscal '25 and a 25-day improvement year-over-year. This represents our lowest CCD in over three years with receivables and payables posting the largest improvement within the quarter. Inventory ended the quarter at $272.7 million, roughly flat versus Q4 but down $62.6 million or 19% from a year ago. Capital expenditures in the first quarter were $10.6 million with much of the spend on leasehold improvements in the new facility in Indianapolis.

Borrowings at September 30, 2025 were $138 million, a $9.5 million reduction from the fourth quarter and down $108 million or 44% from a year ago. Short-term liquidity available represented as cash and cash equivalents plus the unused portion of our credit facility totaled $370 million at the end of the first quarter. We invested $1.5 million in Q1 to repurchase 49,000 shares. Since October 2015, under our Board-authorized share repurchase program, a total of $105.2 million has been returned to our shareowners by purchasing 6.7 million shares of common stock. We have $14.8 million remaining on the repurchase program. As Ric mentioned, we are reiterating our guidance for fiscal '26 with net sales expected to be in the range of $1.35 billion to $1.45 billion and adjusted operating income of 4% to 4.25% of net sales. We continue to estimate capital expenditures of $50 million to $60 million in the fiscal year. 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. It is customary at the beginning of the fiscal year that I complete a profit-sharing bonus tour. It's an opportunity to travel to each location in our global footprint, connect with the teams, and experience real time the strides we're making to return to profitable growth. I'm very pleased with our progress. Whether it's in the new business we're winning in all verticals, improvements in our operations, quality, on-time delivery, or cost initiatives, the engagement and accomplishments are evident.

I'm also very encouraged by the early impacts on the top line in the medical business. This is expected to continue. As we evaluate the medical CMO space, we see an opportunity for accelerated growth and higher margins over time, our strategy to pursue growth with blue-chip customers with long product life cycles and a high degree of visibility. We're 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. A great example is the new facility in Indianapolis, adding production capabilities and capacity. But it's not the only. Our medical businesses in Thailand and Poland focused on HLAs and finished devices are also having a meaningful impact. As I noted earlier, we are looking to augment this growth with a tuck-in acquisition strategy that will add new end markets, manufacturing capabilities, and new customer relationships. I'm confident in this strategy and have never been more excited about the future of the company.

In closing, I am proud of how our entire organization addressed the challenges of the past two years while remaining keenly focused on our strategic future. We look forward to a return to growth in FY '27 centered on the medical space, aligning with our goal to even out our verticals and improve margins over time. We will continue to provide updates as the year progresses. Operator, we'd now like to open the line 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 handset before asking your question. One moment, please, for the first question. Your first question comes from the line of Mike Crawford from B. Riley. Your line is now open.

Mike Crawford
Thank you. And I really appreciate the working capital management. But as Kimball starts -- resumes top line growth, is that around the same time we should also expect to see an increase in the working capital? Or is there still more work -- progress you can make there?

Jana Croom
Hey. Good morning, Mike. That's a great question. So, yeah, I would not expect a significant amount of increased working capital management and debt reduction. To your point, as we prepare for growth in FY '27, we're going to have to buy all the inventory. We're going -- and so, I would actually take that as a good sign. So, to your point, we've done a lot to wring out the excess inventory in the balance sheet and improve working capital. But as we return to growth, you're going to see us have to spend some dollars, and you're going to see those numbers start to move.

Mike Crawford
And Jana, the cash conversion days, would that -- I mean, is this a good level to think about it remaining stable at?

Jana Croom

Ideally, I would like it to have a seven in front of it. But realistically, if we just stay where we are in the very low 80s, particularly as we start to grow the business again, I think stabilizing it here is pretty good.

Mike Crawford
Okay. Thank you. And then we like the 7.2% EBITDA margin in the quarter. We do have the message and, as modeled, have that stepping down for the rest of this year. But we also have that declining further next year, and I -- would -- is that the wrong way to be thinking about your business given where you are, or is it too early to tell?

Jana Croom
Well -- so, it is early days to think about FY '27. But I will say this. I would not expect a deterioration, right? As we return to growth, as we get better absorption in our facilities and we're going to work to do some additional restructuring over FY '26, we would actually expect EBITDA in FY '27 to be better, right? We need to get to a consistent adjusted operating income margin of 5 and then corresponding EBITDA margin on top of that. So, I would not be projecting declines next fiscal year.

Mike Crawford
All right. Well, thank you very much.

Operator
Your next question comes from the line of Max Michaelis from Lake Street. Your line is now open.

Max Michaelis
Hey, guys. Nice quarter. Thanks for taking my question. I want to jump to the medical segment here. And I know you talked about some inorganic opportunities. So, what's sort of the focus around potential acquisitions and maybe expanding already current platform offerings or kind of heading into new markets? And then can you also touch on some of those new markets that are kind of at the top of the charts?

Ric Phillips
Sure. Hi, Max. Good morning and thanks for your question. Yeah, definitely an area from an M&A standpoint that we are continuing to explore. It would be focused in the medical CMO space specifically. We like our differentiated capabilities there with our ability to handle drug and have significant experience with the FDA and so on, but there's always additional extensions of that that we could think about. And as I mentioned, that could include new technologies that extend us and allow us to play a bigger role with our customers there. It could include new customers. It could include new geographies. So, we look quite broadly at those potential opportunities but again very focused only on the medical CMO space at this point.

Max Michaelis

All right. Perfect. And then looking at my notes from last quarter, I think -- outside of medical growth, I think you guys maybe had expected some modest industrial growth. And I know sort of the HVAC softness kind of hindered that this quarter, but do you see any sort of maybe breakeven or maybe low single-digit growth in the industrial? Or should we kind of think of kind of the declining 1% as a solid cadence throughout the rest of the year?

Jana Croom
You could take Q1 results in terms of percentage of sales increase as sort of a proxy for full year FY '26. So, industrial is going to be softer than we had previously anticipated. Medical is going to be much stronger. And automotive is going to come in roughly as expected.

Max Michaelis
Okay. Perfect. And then just sort of your largest customer on the medical side in the respiratory care, the assembly and in higher-level assemblies, how did that perform in the quarter up to your expectations or compared to your expectations?

Ric Phillips
It's been very good. It's been very good. Our relationship with that customer has probably never been better. We expect continued growth, and the partnership in that program that we talked about has been very strong. So, we feel good about that.

Max Michaelis
All right. Congrats on the quarter, guys. Thanks for taking my questions.

Ric Phillips
Thank you.

Jana Croom
Thanks, Max.

Operator
Your next question comes from the line of Derek Soderberg from Cantor.

Derek Soderberg
Yeah. Hey, Ric. Hey, Jana. So, I want to start with the medical segment ramping up really nicely here on an organic basis. To me, it feels like you guys have been signing on new programs for over a year now, meaning these programs are starting to reach production and revenue. Can you talk about that pipeline of medical projects sort of turning into revenue over the next six months, maybe how that compares to where we were sort of at a year ago and how it sort of sets up the company for accelerated growth? How does that pipeline of those projects turning on look over the next six months?

Ric Phillips

Thanks, Derek. Yeah, we're really pleased with our funnel. I mean we're very focused across our leadership team on driving growth in medical. And so, we have very regular reviews of what new is coming in the funnel? What did we win? What can we add? And so, the outcome of those things in the funnel are uncertain, of course. But I would say the volume of that, particularly in medical, as you asked, is as high as it's been. So, we're really pleased about that, and we're hoping to close those as we move throughout the year. And again, we track it really closely but good funnel.

Jana Croom
And I think it's important to note the growth in medical was not centered in one customer or one program. It wasn't even centered in one geography, right? And so, the growth that you saw in medical was split between Europe, Asia, with a smaller piece in North America. So, to your point and Ric's point, multiple programs and customers.

Derek Soderberg
Yeah. That's great to hear. And then just a quick one on the automotive segment. Can you maybe talk about the core automotive business? What's maybe the run rate of high visibility revenue, revenue with long-standing customers on your core products? Can you talk about that? And are we sort of bottoming here in automotive? It sounds like we're going to be kind of flattish from here.

Ric Phillips
It's hard to say, Derek. I mean, I actually just met with our top four automotive customers in a week, and I'd say that they anticipate challenges over the next couple of years in the overall automotive market. So again, we really like where we're positioned, and electronic content being added to vehicles is huge for us. Our relationships are strong. We're continuing to be strategically focused in those areas of automotive that work for us and that are not commoditized. But we anticipate continued pressure whether it's from tariffs or the impacts on the economies around the world that put pressure on people buying cars.

Derek Soderberg
Got it. Got it. That's helpful. And then, Jana, a couple for you. Just with the balance sheet where it's at, you guys are buying shares back, paying down debt, much leaner company than you had been in the past. How are you feeling about -- there was a question on inorganic growth. How do you feel about making a move like that? And how do you balance just continuing to improve operations organically using your new capacity in medical, continuing to generate cash flow, et cetera? How are you guys thinking about that?

Jana Croom
Yeah. That's a really great question. And capital allocation has been top of mind for probably the last nine months as we were looking at the strengthening balance sheet and how we were going to deploy capital to grow the business most efficiently. What I can tell you right now is, given the 18-month growth pattern we had in terms of organic expansion with Thailand,

Poland, and Mexico from just a pure organic growth, we've got a really great footprint. You're seeing us now put capital to work in Indy for the CMO. And so, we need to grow into that body of manufacturing facilities. And so, we have plenty of dry powder for an inorganic opportunity. If there was something that came to this leadership team that was going to augment the CMO in a meaningful way, allow us to improve our EBITDA margins for the business, we would definitely take advantage of that. But nobody has got a burning hole in their pocket to spend cash, so we're not going to do something foolish. This company is very, very disciplined. And I think you guys know I'm a balance sheet CFO. And so, it would have to be really thoughtful. We wouldn't want to issue equity to do it unless it was something absolutely compelling. And quite honestly, I don't see that being feasible. And so, it's how much debt can you spend and still keep your balance sheet strong enough to support the working capital needs of the organization while it returns to growth.

Derek Soderberg
Yeah. Yeah. Got it. And one final one, Jana. Can you talk about the accelerated depreciation within the latest -- the Big Beautiful Bill? Is that impactful for you guys at all? That's my last question. Thanks.

Jana Croom
It is. And -- so, the bigger impact for us, for OBBA is, I mean, certainly accelerated depreciation but some things that we were able to take advantage of related to specifically interest expense deductions on domestic income. That for us was actually a slightly bigger benefit. We're looking specifically at R&D credits and some other things that we can take advantage of for sure, as well. And also, to be honest, we're still working through it. Yeah.

Derek Soderberg
Got it. That's helpful. Thanks, Jana.

Operator
As a reminder, if you have a question, please press star followed by the number one on your dial pad. Your next question comes from the line of Anja Soderstrom from Sidoti. Your line is now open.

Anja Soderstrom
Hi and thank you for taking my question. I'm just curious with the gross margin expansion despite the lower revenue, what's the puts and takes for that?

Jana Croom
Good morning, Anja. Sorry. You just caught me having a big drink of water. So, a few things related to gross margin. The first was we had favorable product mix, and that was driven across geographies with the ramping of certain programs coming online and just better absorption and utilization. As you know, we spent much of FY '25 and FY '24 doing restructuring. We're seeing some of the benefits of that come through. But the biggest benefit is closing our Tampa

facility and all of the fixed costs associated with that facility that are no longer part of our cost structure. And one of the things that we're doing is continuing to evaluate cost structure, restructuring efforts, S&A needs as we grow to figure out timing of some of those things so that we can hold not just gross margin but S&A at a level that we're delivering solid operating income margin and EBITDA to our shareholders. And that's really important.

Anja Soderstrom
Okay. And then did you say you expect the SG&A to increase as a percentage of sales for the rest of the year?

Jana Croom
We do. It was artificially low in FY '25 purposefully, and that was a result of us being really mindful about the challenges that we were having and the need to tighten the belt. But similar to working capital needs, there's S&A that we are going to have to spend in order to prepare for the growth.

Anja Soderstrom
Okay. And then that should come down then into 2027 as you expand your revenue and [inaudible].

Jana Croom
Yeah. And the focus areas for S&A are really going to be around things like technology, business development, areas where we just need to grow so that we can support the business.

Anja Soderstrom
Okay. And then how do you -- you touched on it a little bit already in terms of debt reduction, but how should we think about further debt reduction?

Jana Croom
So, I actually think next quarter debt is going to climb just a little bit, and it's going to be due to some of the needs that we have to [inaudible]. So, think about FY '27 return to growth NPI launch. We had to order all of that inventory. It's got to come in now so that we can be prepared for it. And so, you're going to see us spending a little bit in support of the growth that's coming. But I actually take that as a really good sign.

Anja Soderstrom
And then in terms of M&A opportunities, it seems like you are quite actively looking for opportunities there. How would you say the market has changed over the recent quarter?

Jana Croom
So, M&A has been really interesting, especially as a strategic buyer, right? And so, what you saw probably for the last three, four years was the PE companies being prepared to pay what I would consider to be somewhat absorbent multiples to buy up some of these companies. What

you're seeing now is a much more rational market, people being able to have the confidence to walk away if something just seems overly expensive. And so, because of that rationality, we actually feel better about being able to buy the right opportunity at the right price point and then integrate it and grow it as part of our CMO strategy. But we are very disciplined as a strategic. We don't want to get in over our skis. We've got a solid organic growth strategy. Nobody's got a burning hole in their pocket where we're going to do something that is not going to drive shareholder value first and foremost.

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

Operator
As a reminder, if you wish to ask a question, please press star one. There are no further questions at this time. This concludes today's conference call. A telephone replay of the call can be accessed by dialing (877) 660-6853 or (201) 612-7415 with the access code 13756492.