

**Kimball Electronics Inc.**  
**Second Quarter Fiscal Year 2026 Financial Results**  
**February 5, 2026**

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**Presenters**

**Andrew Regrut - VP of Investor Relations & Strategic Development and Treasurer**  
**Richard Phillips - CEO & Director**  
**Jana Croom - Chief Financial Officer**

**Q&A Participants**

**Mike Crawford - B. Riley Securities**  
**Derek Soderberg - Cantor Fitzgerald**  
**Anja Soderstrom - Sidoti**  
**Max Michaelis - Lake Street Capital Markets**

**Operator**

Good morning, ladies and gentlemen, and welcome to the Kimball Electronics Second Quarter Fiscal 2026 Earnings Conference Call. My name is Alicia, and I'll be your 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 and the number one on your telephone keypad. Today's call, February 5, 2026, 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'd like to turn the call over to Andy Regrut, Vice President, Investor Relations, Strategic Development and Treasurer. 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, and Jana Croom, Chief Financial Officer.

We issued a press release yesterday afternoon with our results for the second quarter of fiscal 2026 ended December 31, 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 risks and uncertainties 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 will now turn the call over to Ric.

**Richard Phillips**

Thank you, Andy, and good morning, everyone. I'm pleased with the results for the second quarter and our updated guidance for fiscal 2026. Sales in Q2 were in line with expectations, highlighted by another quarter of strong double-digit year-over-year growth in the Medical vertical. Margins improved compared to the same period last year, and cash from operations was positive for the eighth consecutive quarter. Our focus as a Medical CMO continues to gain momentum as we leverage our unique capabilities in the industry. We expect top line growth in Medical to outpace our other two verticals as we balance our portfolio across the markets we serve.

Our recent announcement to rebrand as Kimball Solutions and the grand opening of the new medical manufacturing facility in Indianapolis reflects this strategy and our expanded offering of capabilities and services.

Turning to the second quarter, net sales for the company were \$341 million, a 5% decline compared to Q2 last year. From an end market perspective, the strong results in Medical were offset by declines in North American automotive and industrial and continued softness in China.

Starting with Medical, sales in the second quarter were \$96 million, up 15% compared to the same period last year and 28% of total company sales. This represents our fourth consecutive quarter of year-over-year revenue growth in this vertical. Approximately half of our medical business is in North America; the other half is roughly split between Asia and Europe.

The increase in Q2 was driven by growth in Poland and Thailand. North America was flattish in the quarter. We continue to view the Medical vertical as a compelling opportunity to diversify our top line and leverage our core strengths as a trusted partner in a complex and highly regulated industry.

Megatrends, such as an aging population, increasing access and affordability to health care, and smaller medical devices requiring higher levels of precision and accuracy are expected to fuel future growth. Our strategy is to align with new and existing blue-chip customers in need of manufacturing capacity for products with long life cycles and high degrees of visibility. A great example of this strategy coming to life is our new facility in Indianapolis. Tomorrow, we will be celebrating the grand opening with a ribbon-cutting ceremony and plant tour showcasing our state-of-the-art facility that adds capacity to our U.S. footprint for manufacturing medical products, single-use surgical instruments and drug delivery devices such as auto-injectors. Indy,

however, is not the only example. Thailand, Poland, Mexico and Jasper also serves the medical market with HLAs and finished medical products.

To complement our organic growth, we're actively pursuing our discipline in acquisitions that could bring new customers, increase exposure to faster-growing end markets, expand our geographic reach and add manufacturing capabilities, including opportunities for vertical integration. Together, these strategies strengthen our global platform and position the company for a sustainable return to profitable growth.

Next is Automotive, with sales of \$162 million, down 13% compared to the second quarter of last year and 48% of the total company. The decline in Q2 was driven by lower sales in North America., the result of the electronic braking program transferred out of Reynosa in mid fiscal '25 and recent pressure in the U.S. related to tariffs. The combined impact represented the majority of the decrease in the quarter, although Automotive sales were also down in China. This was partially offset by strong growth in both Poland and Romania with programs in steering and braking, respectively.

Our company has supported the automotive market since the mid-80s and has become a very good business for us, generating strong cash flow when production volumes are at or above planned levels. Electronic steering and braking applications continue to be our sweet spot with advances such as steer by wire and brake by wire, or electronic mechanical braking, increasing the electronic content on vehicles.

We are also seeing early stages of growth from the full assembly of an EPP or Electronic Power Pack, a steering system HLA that integrates the motor and the ECU. In addition, OEMs are starting to design-in a second steering system in vehicles, this one in the rear of certain higher-end cars and trucks.

Finally, sales in Industrial totaled \$83 million, a 5% decrease compared to Q2 last year and 24% of total company sales. Our Industrial business is heavily concentrated in North America, where the majority of the decline occurred with lower demand for HVAC systems. This was partially offset by higher sales in Europe, a result of a rebound of the smart meter business for us in that region.

I'll now turn the call over to Jana for more detail on Q2 and our updated outlook with raised guidance for fiscal 2026. Jana?

**Jana Croom**

Thank you, and good morning, everyone. As Ric highlighted, net sales in the second quarter were \$341.3 million, a 5% decrease year-over-year. Foreign exchange had a 2% favorable impact on consolidated sales in the quarter. On a sequential basis, sales were down just over 6% compared to Q1, with the decline primarily occurring in the Industrial vertical market driven by reduced sales in the North American climate control submarket.

The gross margin rate in the second quarter was 8.2%, a 160 basis point improvement compared to 6.6% in the same period of fiscal 2025, with the increase resulting from favorable mix, the closure of our Tampa facility, favorable FX rates and our global restructuring efforts.

Adjusted selling and administrative expenses in the second quarter were \$12.6 million, a \$2.5 million increase year-over-year. When measured as a percentage of sales, the rate was 3.7% this year compared to 2.9% last year. As we previously indicated, expense will be higher in FY '26 as we make strategic investments in business transformation, IT solutions and business development for the future.

Adjusted operating income in Q2 was \$15.3 million, or 4.5% of net sales, which compares to last year's adjusted results of \$13.3 million or 3.7% of net sales. Our improved guidance for adjusted income reflects the impact of higher sales as well as the S&A investments I just spoke about and the grand opening of our new CMO facility in Indianapolis, where we will incur higher depreciation and other expenses related to the plant opening. We have worked hard to balance the needs of the business against the backdrop of declining sales. We will continue our restructuring efforts in FY '26 and beyond as we align our cost structure to end market demand.

Other income and expense was expense of \$3.8 million compared to \$4.8 million of expense last year. Once again this quarter, interest expense drove the decrease, down 50% year-over-year. The effective tax rate in Q2 was 47.9% compared to 1.2% last year with a higher rate driven by the impact of a provision to tax return adjustment and the valuation allowance adjustment associated with the expected sale of the Tampa facility. For the full year of fiscal '26, we continue to expect an effective tax rate in the high 20s to low 30s.

Adjusted net income in the first quarter was \$6.9 million, or \$0.28 per diluted share, compared to last year's adjusted results of \$7.4 million, or \$0.29 per diluted share.

Turning now to the balance sheet, cash and cash equivalents at December 31, 2025, were \$77.9 million. Cash generated by operating activities in the quarter was \$6.9 million, our eighth consecutive quarter of positive cash flow. Cash conversion days were 91 days, an eight-day increase compared to last quarter, but a 16-day improvement compared to Q2 of fiscal '25. We are continuing to focus on improving cash conversion days by actively managing the components and are pleased by our progress thus far.

Inventory ended the quarter at \$281.7 million, marginally higher than Q1, but down \$24.5 million or 8% from a year ago. Capital expenditures in Q2 were \$18.2 million, with much of the spend once again this quarter on leasehold improvements in the new facility in Indianapolis.

Borrowings at December 31, 2025, were \$154 million, up \$16 million from the first quarter, but down \$51 million or roughly 25% from a year ago. Short-term liquidity available represented as

cash and cash equivalents plus the unused portion of our credit facilities totaled \$363 million at the end of the second quarter.

We invested \$4.3 million in Q2 to repurchase 149,000 shares. Since October 2015, under our Board authorized share repurchase program, a total of \$109.5 million has been returned to our shareowners by purchasing 6.8 million shares of common stock. We have \$10.5 million remaining on the repurchase program.

As Ric mentioned, we are raising our guidance for fiscal '26 with net sales expected to be in the range of \$1.4 billion to \$1.46 billion, which compares to our previous guidance of \$1.35 billion to \$1.45 billion. The improvement is driven by strength in the Medical vertical as well as the ramp of Automotive programs at both European facilities.

Adjusted operating income now estimated to be 4.2% to 4.5% of net sales versus our prior estimate of 4.0% to 4.25% with the improvement driven by higher sales balanced against investments in our Indianapolis CMO facility, business development needs and business transformation and IT solutions to further innovations and enhance our capabilities. The guidance for capital expenditures did not change with a range of \$50 million to \$60 million for the fiscal year.

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

### **Richard Phillips**

Thanks, Jana. Before we open the lines for questions, I'd like to share a few thoughts in closing. As Jana detailed, we are pleased to raise the outlook for the fiscal year, driven by strength in the Medical vertical. We continue to monitor the outlook for FY '27, particularly in the North America automotive and industrial verticals as the consumer continues to respond to tariff impacts, changes in U.S. tax subsidies and economic concerns. We'll provide more color on our outlook as the year progresses.

2026 is a year of milestones for our company, with our facility in Romania celebrating 10 years of operations; China, 20 years; and it's the 65th anniversary for the enterprise. As we previously announced, we are celebrating this anniversary and embracing our future with a new company name, Kimball Solutions. This rebrand is a strategic move that reflects our evolution beyond traditional electronics manufacturing services with an expanded portfolio of capabilities that includes design and engineering support, supply chain management, precision plastics for medical applications and high-level and final product assemblies for the verticals we serve.

It also embodies our customer-centric approach to long-lasting partnerships, providing end-to-end solutions from design and prototyping to new product introduction, to manufacturing and aftermarket support. The rebrand will occur in a phased rollout at locations across the global footprint beginning in July of 2026 and will be completed when the company officially changes its name a year later, pending shareowners' approval. This change, along with the recent

investments in Indianapolis, demonstrates our commitment to innovation and the vision to deliver comprehensive solutions worldwide.

While the name of the company is changing, our core values of integrity, quality and continuous improvement remain steadfast. These steps are a celebration of our heritage and a move toward the future, building tomorrow together. I've never been more excited about the company, and thank you for your support.

Operator, 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 can remove yourself from the queue by pressing star, two. We ask that, if you are using a speakerphone, you pick up your handset before asking the question. One moment please while we poll for questions.

Our first question comes from the line of Mike Crawford with B. Riley Securities. Please proceed.

**Mike Crawford**

Thank you. Jana, starting with -- hello?

**Jana Croom**

Good morning.

**Mike Crawford**

Morning. Jana, starting with Automotive -- and I believe it's primarily Nexteer driving your steer-by-wire growth. Is that -- they remain your largest customer. It was a 19% customer in the September quarter. What percent was Nexteer in December?

**Jana Croom**

20%.

**Mike Crawford**

20%?

**Jana Croom**

Yes.

**Mike Crawford**

Thank you. And then are your other customers also expanding that, or is it more braking that's driving some of the recovery there?

**Jana Croom**

InComm Conferencing

So we are seeing steering and braking with our largest automotive customers now being Nexteer, ZF and Halla Mando. So it's not exclusive to Nexteer, but obviously, globally, Nexteer is our largest customer.

**Mike Crawford**

Okay. Yeah. Well, it's great to see that flattening out. And then on the growth side, can you remind us what the capacity is and ramp expectations are for this new facility in Indianapolis?

**Jana Croom**

Yeah, so the new facility in Indianapolis is 300,000 square feet under roof, and so considerably larger than our current footprint. We're not yet -- it depends on the makeup of the volume of work we've [sp] got to be able to tell you exactly what that's going to equate to in terms of revenue dollars, but significant opportunity for growth there. And we needed to demonstrate that for the types of business that we are quoting for that facility.

**Mike Crawford**

Uh-huh. And then, I mean, I think Philips remains your largest Medical customer to date, but I imagine much of the work that you're doing in Indianapolis would be with some of your emerging growing Medical customers, or do I have that wrong?

**Jana Croom**

No, you have that correct. And as an example, if you look at the growth in Q2 and the year-to-date growth, it was split fairly evenly amongst North America, Europe and Asia and fairly evenly in the subverticals within Medical, meaning it was not driven by respiratory care. And so Medical for Kimball is growing. And you're right, that CMO space would likely not have Philips content just because that's not the makeup of the business that we perform for them. It would be new customers and expanded opportunities there.

**Mike Crawford**

Okay thank you. And just a final question - would -- is it more plastic injection molding, or what are some of the value-added CMO applications that drive your fastest-growing parts of the business?

**Richard Phillips**

Yeah, Mike, it's Ric. Good morning. Great question. Yeah, so we expect that facility -- and again, as Jana said, we'll be working with customers. We're excited about our funnel and some of the discussions that we're having. But we could imagine, think of single-use surgical instruments, drug delivery devices such as an auto-injector. Certainly, as you said, plastic injection molding, we expect to be very significant, and we'll have significant capacity there. So all of those are expected to be housed at least partially in that CMO facility in Indy.

**Mike Crawford**

Oh, great. Thank you very much.

**Richard Phillips**

Thank you.

**Jana Croom**

Thanks, Mike.

**Operator**

Thank you. Our next question comes from the line of Derek Soderberg with Cantor Fitzgerald. Please proceed.

**Jana Croom**

Hey, Derek.

**Derek Soderberg**

Hey, thanks for taking the questions. Hey, Jana. So I wanted to start with automotive. So a little bit of softness in China and North America. Just given that you guys won't be competing against quarters in the past with the braking program in North America, just going forward, how should we think about sort of growth in the Automotive piece for Q3 and Q4, sort of flattish declines year-on-year, sort of down single-digit percentages? What's sort of the right way to think about Automotive for the rest of the year?

**Jana Croom**

Yeah, so great question. We will finally anniversary the end of the EB100 program in Q3. And so what we would expect is Q3 Automotive to be flat to potentially up just a little bit because we finally worked that through the system. And we've got the two new programs in Europe, and Europe has been rebounding nicely for us. And so in terms of Automotive and the sluggishness, the worst of it is past us in Q1 and Q2.

**Derek Soderberg**

Got it. That's helpful. And then, Ric, just if you could comment on some of the win rates you're seeing across the business. Any sort of change in the size of the wins? What sort of gets you excited for what you're seeing in the portfolio as we sort of kind of look forward here? Thanks.

**Richard Phillips**

Yeah, we're really excited, Derek, looking forward and appreciate the question. We're seeing pretty consistent win rates. I mean, not that it's not very competitive out there. And there are certainly situations where we have -- program bidding situations where we decide we're not willing to accept a level of margin that's not for us. So it's certainly -- I wouldn't characterize it as anything but very competitive.

However, we feel the strengths that we have in those long-term customer relationships, our capabilities, our flexibility and quality and operations record, all of those things that we've talked about in the past continue to serve us very well.

In terms of programs going forward, particularly in Medical, but also in Industrial, there's maybe a couple of things that are worth note. One is that we've always been open to and seeking what we call lift and shift opportunities, so where we're working with a customer who's currently doing their own manufacturing and has a desire to exit that for whatever reason to focus on R&D or marketing or sales or whatever is appropriate for them and have us take that over in our existing facility network.

So we're seeing that activity in terms of those conversations increase, and those tend to be large programs because this would be an example of a customer potentially shutting down an entire plant and moving that all into our footprint. So those are larger to the extent that we close those, and we're excited about those discussions. And then the CMO discussions that we're having also, those programs tend to be significantly larger than our typical average medical program just because of the nature of that business, the growth in that business and the scope and scale of what those customers are doing. But great question.

**Derek Soderberg**

Got it. That sounds great. Thanks.

**Operator**

Thank you. Our next question comes from the line of Anja Soderstrom with Sidoti.

Oh, and if anyone would like to ask a question, please press star, one.

**Anja Soderstrom**

Hi, thank you for taking my question. So I'm just curious, first, with this new facility that you're opening, as you ramp up, how should we think about that having an impact on the margin?

**Richard Phillips**

We certainly think over time that the CMO space has an opportunity for margins accretive to what you've seen from us historically. That's going to depend program by program and customer by customer, and again, all competitive situations. But we think that that space and our capabilities lends itself for that to be accretive in the long term.

**Jana Croom**

But, Anja, I will tell you, in the near term, it's going to drag, right, because we have all the depreciation expense, all the additional expense associated with the opening of that facility. We're currently running both facilities, right, because we've got to move everything over, and then we'll have to close the facility.

So for the next six to nine months or two to three quarters, it's going to be a drag. And the reason that I want to point that out is the operating income margin that we produced in Q2, considering the fact that we had \$16 million less sales and the impact of the grand opening of the Indy facility and other investments that we made I think is a testament to our commitment as a leadership team to deliver value to the organization and to our shareholders. It was a lot of work, and while we feel very confident in the strategy for the future, we're working hard to offset that drag in other areas of the business.

**Anja Soderstrom**

Okay. Thank you. And then how do you see the cash cycle days play out in the coming quarters? It was quite elevated for the quarter.

**Jana Croom**

Yeah, so for the last two years, we've really been after cash conversion, cash cycling. We've got a pretty aggressive PDSOH goal. We saw it tick up from 85 days to 90 days, primarily driven by North America and the impact of autos and industrials. We saw inventory tick up a little bit. That remains a key focus of the organization.

We worked really, really hard to get working capital solid and inventory reductions and corresponding impact in debt on the balance sheet. You can expect that to continue to be a laser focus of us as a leadership team. So said more plainly, I would expect Q3 to come back down from where it was in Q2.

**Anja Soderstrom**

Okay, thank you. That was all for me.

**Jana Croom**

I would like to -- and I know no one asked, but I think it would just be helpful to give a little bit more color specifically on the remainder of the year. So if you take the midpoint of our revenue guide at 1,430 and you strip out the full year or what we've done so far at 707, that leaves you with 723 million roughly to go. What that would insinuate is that Qs 3 and 4 are going to be roughly in line with Q1 in terms of revenue growth. And we already talked about autos and the fact that we've anniversaried EB100.

From a Medical perspective, I would like to remind everyone that we had the consigned inventory sale in Q3 of FY '25 of \$24 million. So when we report Q3, we're going to give you the results. We will tell you what growth was in Medical, including the inventory sales and excluding the inventory sales. So we won't make you do that math, but I just wanted to remind everybody of that.

And then it's Industrial, North America, and that's where our focus is going to continue to be in terms of seeing how that's going to shake out. So just as everybody is fine-tuning their models, some additional color I thought might be helpful for you.

**Operator**

Thank you. Our next question comes from the line of Max Michaelis with Lake Street Capital Markets. Please proceed.

**Max Michaelis**

Hey, guys, thanks for taking my question, and thanks for the color on the model, too. So if we look at Automotive, I was just hoping you could provide some more color on maybe the opportunity with the EPP, the Electronic Power Pack program, and then kind of some of the opportunities around the OEMs with the second steering design. I mean, can these become similar in size to the old braking program that ended up going away? Or kind of just help me out with where the potential is with these two programs.

**Jana Croom**

So we were really excited about the EPP program because it's our first higher-level assembly in Automotive where you're combining the motor and the printed circuit board assembly, and so that's really exciting.

In terms of size of the program, the EPP is not as big as the braking program was. It's probably about two-thirds of that size. But from a future strategic focus in Automotive, it's really excited. The other thing that I'll say is, as you think about the continuum of opportunity in Automotive, particularly as it relates to ADAS, right -- so you've got steering programs now, you've got braking programs now, steer-by-wire, brake-by-wire, that's all really exciting, but you also have ADAS where it's, hey, there's going to be a central brain functioning in the car that's going to be controlling all of the electronics in there, and that's something that Kimball is also interested in pursuing in the future.

We would expect, as EPP becomes more common in vehicles, as second steering column becomes more common in vehicles and ADAS, those are strategic areas that we would want to participate in, right? So I remember when autonomous driving lane departure features were only available in very, very high-end cars. Now they're everywhere, right? You're -- a Nissan Sentra's got it. So everybody everywhere is offering that feature, and it's exciting in terms of the strategic opportunities for Automotive.

**Max Michaelis**

Awesome. Thank you. Next one - if we look at the Medical space, you talked about inorganic opportunities last quarter. I don't think you have in the prepared remarks in this call. But if we look at some of the things you guys provide with the auto-injectors, sleep therapy, drug delivery, I mean, when you're looking at acquisitions, I mean, what are some of the other spaces or let's call them sub verticals that you guys are looking at where you're seeing some great opportunities?

**Andrew Regrut**

Hey, Max, it's Andy. We have done a fairly deep dive on end market exposures, and in vitro diagnostics is really interesting to us, cardiology is really interesting to us. So we would certainly consider opportunities or adjacencies to expand into those areas, especially if it provided a chance to either expand our relationship with an existing customer or add a new customer and the same for manufacturing capabilities.

**Max Michaelis**

All righty, I'll take the rest of mine off line. Thanks, guys.

**Richard Phillips**

Thank you.

**Jana Croom**

Thanks, Max.

**Operator**

Thank you. There are no further questions at this time. A replay of this call will be available beginning later today and will remain available through February 19, 2026. To access the replay, please dial (877) 660-6853 and enter the access ID 13757544. And with that, this concludes today's conference call. Thank you, everyone, for your participation. You may now disconnect.