

Kimball Electronics, Inc.
Third Quarter Fiscal Year 2026 Financial Results
May 6, 2026

Presenters

Richard Phillips, CEO

Jana Croom, CFO

Andy Regrut, VP, IR & Strategic Development, & Treasurer

Q&A Participants

Michael Crawford - B. Riley Securities, Inc.

Derek Soderberg - Cantor Fitzgerald & Co.

Maxwell Michaelis - Lake Street Capital Markets

Anja Soderstrom - Sidoti & Company

Operator

Good morning, ladies and gentlemen. Welcome to Kimball Electronics' Third Quarter Fiscal 2026 Earnings Conference Call. My name is Rob 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 "*" and "1" on your telephone keypad. Today's call, May 6, 2026, is being recorded. A replay will be available on the Investor Relations page of 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 now begin.

Andrew Regrut

Thank you, and good morning, everyone. Welcome to our third quarter conference call. With me here today is Ric Phillips, our Chief Executive Officer; and Jana Croom, Chief Financial Officer. We issued a press release yesterday afternoon with our results for the third quarter of fiscal 2026 ended March 31, 2026. 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 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.

Richard Phillips

Thank you, Andy, and good morning, everyone. Results for the third quarter were in line with expectations. Sales increased sequentially compared to Q2 driven by strong growth in our Medical vertical market. Margins remain solid and cash from operations was positive for the ninth consecutive quarter. We expect Q4 to be a good finish to the year and we are affirming our guidance for fiscal 2026 with adjusted operating margin estimated to be at the high end of the range.

As we look forward, the Medical CMO continues to be a key part of our strategy, and we are making deliberate investments in our capabilities, operating capacity and commercial focus. When volumes ramp, we expect it to become a meaningful driver of both top line growth and margin expansion. In addition, we continue to focus on inorganic growth as a possible complement to this strategy. We believe this could be a powerful combination for the future of our company.

Turning to the third quarter. Net sales were \$353 million, an increase of 3.4% compared to the prior quarter, with Medical up 10%. At face value, this result was a 6% decline compared to Q3 last year and all three end market verticals were down. It's important to highlight, however, that the third quarter of fiscal '25 included a nonrecurring sale of consigned inventory, totaling \$24 million in the medical market. If we normalize the comparison for that event, total company sales this quarter increased nearly 1% year-over-year, with Medical up a robust 17%. This would represent our third consecutive quarter of double-digit Medical growth and year-to-date growth of 15% in this vertical.

Drilling down a little deeper into Medical. Sales in the third quarter were \$106 million or 30% of the total company, which, at nearly one-third of the portfolio, is a key milestone in our strategic objective to balance the verticals with a higher concentration of Medical business.

North America accounted for slightly less than half of the sales in the quarter, while the other half was roughly split between Asia and Europe. The growth in Q3, after adjusting for the inventory sale last year, occurred primarily in Asia and North America, with increases in respiratory care, imaging systems, drug delivery devices, and blood separation products. Sales in Europe were up low single digits, driven primarily by patient monitoring systems.

Medical continues to be a compelling opportunity to diversify our top line and leverage core strengths. Our strategy is to support new and existing blue-chip customers in need of manufacturing capacity to keep pace with the overall market growth. And our state-of-the-art manufacturing facility in Indianapolis is designed to do just that. With capabilities in precision-injected molded plastics, complete device assembly, and cold chain management, we are uniquely positioned to produce medical disposables, surgical instruments, and selected drug

delivery devices such as auto-injectors. Our recent investments in this new facility underscore our deep commitment to the Medical CMO market.

Next is Automotive, with sales in the third quarter of \$161 million, down 3% compared to Q3 of last year, and 46% of the total company. The decline this quarter was primarily in Asia and North America, partially offset by growth in Europe. Similar to Q2, Poland and Romania reported strong sales resulting from the ramp-up of new programs in steering and braking. Combined, these two locations were up 20% in Automotive sales in the quarter, and we expect this strength to continue for the balance of '26.

In addition, we are carefully monitoring the demand for electronic steering systems for EVs, particularly in North America where legislative changes significantly impacted consumer incentives and the overall market, which unfortunately has significantly reduced the demand for EV programs we have won over the past few years. As you might imagine, this situation is fluid, particularly as gasoline prices move upward in the U.S.

Finally, sales in Industrial totaled \$86 million, an 8% decrease compared to Q3 last year, and 24% of total company sales. Once again this quarter, our Industrial business was heavily concentrated in North America where the majority of the decline occurred from lower demand for HVAC systems. Off-highway equipment and green energy were also down, partially offset by higher sales in public safety and smart meters, which continue to rebound in Europe but may be impacted near term by a protracted war in the Middle East. I'll now turn the call over to Jana for more detail on third quarter results and our guidance for fiscal 2026. Jana?

Jana Croom

Thank you, and good morning, everyone. As Ric highlighted, net sales in the third quarter were \$352.9 million, a 6% decrease year-over-year. Foreign exchange had a 3% favorable impact on consolidated sales in the quarter. On a sequential basis, sales increased 3.4%, driven by growth in the Medical vertical.

The gross margin rate in the third quarter was 7.9%, a 70 basis point improvement compared to 7.2% in Q3 of fiscal 2025, with the increase resulting from favorable mix offset by the ramp-up of the Medical CMO and a somewhat easier comparison as the inventory sales we experienced in Q3 of FY '25 had very little margin. We expect gross margin to remain under some pressure in FY '27 related to the cost of the facility as expenses associated with the expansion fully ramp up in Q4 this year. As we have previously stated, the path to the CMO revenue is 18 to 36 months for new programs, and we expect this impact to abate over time as business grows and margin improves.

Adjusted selling and administrative expenses in the third quarter were \$13 million, a \$1.8 million increase year-over-year. When measured as a percentage of sales, the rate was 3.7% this year, compared to 3% last year. As we previously indicated, expenses will be higher in FY '26 as we make strategic investments in business transformation, IT solutions that drive innovation and efficiency, and business development for the future.

Adjusted operating income in Q3 was \$14.8 million or 4.2% of net sales, which compares to last year's adjusted results of \$15.7 million, which was also 4.2% of net sales. Other income and expense was expense of \$3 million, compared to \$4.6 million of expense last year. Once again, this quarter, interest expense drove the decrease, down nearly 30% year-over-year.

The effective tax rate in Q3 was 34.9%, compared to 46.6% last year. As a reminder, the rate in the third quarter of fiscal 2025 was driven by the limitation of the tax deductibility of our interest expense, which cannot exceed a certain percentage of domestic EBIT. We expect a tax rate of approximately 30% for the full fiscal year. Adjusted net income in the third quarter was \$8 million or \$0.33 per diluted share, compared to last year's adjusted results of \$6.8 million or \$0.27 per diluted share.

Turning now to the balance sheet. Cash and cash equivalents at March 31, 2026 were \$82.5 million. Cash generated by operating activities in the quarter was \$14.9 million, our ninth consecutive quarter of positive cash flow. Cash conversion days were 90, a 1-day improvement compared to last quarter and a 9-day improvement compared to Q3 of fiscal 2025. For clarity, our CCD calculation in Q3 FY '25 excludes the consigned inventory sale. We continue to focus on improving cash conversion days by actively managing the components.

Inventory ended the quarter at \$273.3 million, an \$8.4 million reduction compared to Q2 and down \$23.3 million or 8% from a year ago. Capital expenditures in Q3 were \$14.4 million, with much of the spend on leasehold improvements in the new facility in Indianapolis balanced by spend to support new programs in Europe. We expect CapEx for the full year to be in our guidance range of \$50 million to \$60 million.

Borrowings at March 31, 2026 were \$163 million, up \$8.8 million from the second quarter but down \$15.8 million or roughly 9% from a year ago. Short-term liquidity available, represented as cash and cash equivalents plus the unused portion of our credit facilities, totaled \$358.5 million at the end of the third quarter. In April, we renewed our \$300 million revolver. Combined with our strong balance sheet, we have ample dry powder to support the future growth of the business, including opportunities for inorganic tuck-ins that would further our CMO strategy.

We invested \$4 million in Q3 to repurchase 165,000 shares. Since October 2015, under our Board-authorized share repurchase program, a total of \$113.5 million has been returned to shareholders by purchasing 7 million shares of common stock. We have \$6.5 million remaining on the repurchase program.

As Ric mentioned, we affirmed our revenue range of \$1.4 billion to \$1.46 billion and expect adjusted operating income margin to come in at the high end of our guidance range of 4.2% to 4.5%. This would indicate that Q sales will be in the range of \$370 million to \$380 million, with adjusted OI margin in the range of 4.4% to 4.6%. 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. We're expecting Q4 to be a good finish to the fiscal year with another sequential increase in sales and with the growth in Medical outpacing the other two verticals, as we monitor the impacts of the war in Iran, including higher freight and raw material costs, higher gas prices, and consumer sentiment.

Looking ahead, we continue to evaluate strategic opportunities that could accelerate the expansion of our Medical CMO. In particular, we see strong inorganic growth potential with established medical manufacturers outside the U.S. seeking domestic market entry and scaled U.S. production. The ideal profile would bring complementary capabilities such as micro-molding, advanced precision injection, and high-automation engineering expertise, while benefiting from cost-efficient operations in lower-cost geographies.

These efforts are ongoing and align with our objective to broaden our capabilities, deepen customer relationships, and position the company as a differentiated medical manufacturing partner. As I noted in my opening comments, we believe this is a powerful combination that will drive profitable growth in the future. I'm very excited for what's ahead for the company. Thank you for your ongoing 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 “*” “1” on your dial pad. You may remove yourself from the queue by pressing “*” “2” on your dial pad. We ask if you are using a speakerphone, you pick up your handset before asking your question. One moment, please, for the first question. The first question comes from the line of Mike Crawford with B. Riley Securities. Please proceed with your question.

Michael Crawford

Thank you. I was hoping you can give us some more--

Jana Croom

-- Good morning, Mike.

Michael Crawford

Good morning. Some more details on your new 300,000 square foot manufacturing facility and how your ramp of new programs in there is going to affect potential revenue growth and also margins, and like when you kind of hit that level where you're covering fixed costs and the margins start to layer in better on incremental revenue from there.

Richard Phillips

Morning, Mike. Thanks for joining and thanks for the question. Yeah, we're continuing to be really excited about Indianapolis, and actually just connected with our GM there in the last couple of days. The work continues to ramp up. Obviously, there's some approvals that we need, that we're working on, and the clean rooms are going in there and a lot of exciting things.

We expect that we'll be actually producing in there by the end of the calendar year as we ramp toward that. It will be a combination of, of course, we're taking lots of customers through there, as you can imagine, right now, existing and new potential customers, but we'll also be moving over all of our current production in Indianapolis to that facility.

So there'll be a combination of existing programs that are moving over, new programs that are coming. And we're also talking to customers about what we call lift-and-shift, which is programs that are already underway somewhere else, usually within the customers that we have producing themselves that we want to shift over to us and customers can find advantage from doing that.

So it will be a combination. New programs, as Jana mentioned in her remarks, take time to ramp up, between clinical trials and so on. But yeah, we'll be producing in there before the end of the calendar year and look to ramp that up through a combination of new and existing customers.

Jana Croom

So Mike, to give you a little more color on the margin impact. We expect a 40 to 50 basis point impact to gross margin in fiscal '27 related to the costs associated with ramping that facility. Because remember, we still have all the costs associated with the current facility. We have not closed that facility. It's continuing to operate. And so you're going to feel it -- we will feel it in FY '27 while we're bringing on new production. The expectation is that by FY '28, those -- the impact on margin starts to abate as you're bringing in more and more revenue to cover those fixed costs.

Michael Crawford

Okay. And just to continue on that, is that going to be most acute in the September, December and then start to abate in March?

Jana Croom

In terms of calendar, it depends on the timing of the -- it depends on the timing and speed of the ramp of new business, which is difficult to predict, and so I'm hesitant to give you for sure. But first half, we'll definitely feel it because there won't be much production there covering the expense. It depends on how Q3 and Q4 ramp as we are bringing in new business. And I can give you a better update on that in the coming quarters as volumes are ramping.

Michael Crawford

Okay. Thank you. And then just a final question for me is given that your Automotive business is well-situated for trends like electronic braking and steering and new technologies being brought up by your customers like Nexteer, but is that something that seems like has maybe turned, unless there's an unexpected program loss to, no one's fault, absent that, is that a vertical that you would expect to grow? Or is that really still overly dependent on the global macro economy?

Richard Phillips

You just nailed it, Mike. Global macro. So we continue to feel like we're well positioned in both steering and braking. We're really focused on ensuring that we win those next-generation programs. We don't see major changes or losses, as you mentioned, we've experienced in the

past at this point. But as I had mentioned in my remarks, the biggest pressure there has been the level of demand for programs that we already have been awarded where the demand hasn't been where we anticipated it to be.

So as we look forward, and obviously, as Jana said, we'll give more insight here as we get to year-end across the whole business and also, of course, in Automotive, on what we're seeing. But the global economy is truly the biggest impact and driver of what we see there. Because we feel good about our positioning, the programs that we've won. We're just waiting to see what the demand for those programs is going to look like in the short term.

Michael Crawford

Excellent. Thank you so much.

Operator

Our next questions are from the line of Derek Soderberg with Cantor Fitzgerald. Please proceed with your questions.

Derek Soderberg

Yeah, good morning, everyone, and congrats on returning to organic growth here. So starting with another question on the Medical facility. Ric, you mentioned you plan on moving existing programs into that facility. And then when you sort of take into account the Medical deals you've signed over the past 12 to 18 months or so, can you quantify how much of the facility's capacity you've booked already? Can you quantify that at all?

Richard Phillips

No, Derek, I think we're early on that. I mean, we've got -- as you know, it's a leased facility. We ensure that we have lots of space for growth. And I can tell you, I've personally taken customers through there, really excited about what that looks like. Some of those programs in CMO can be much more significant than the typical Medical programs that we've had. But I would say that we're early given the ramp to estimate capacity there. I will say we've had customers ask us, can you expand? And the answer is yes. But I think we're a little early on those moves.

Derek Soderberg

Got it. And then just on the pricing environment within the medical space specifically, we've seen some of your private peers mention intensifying competition in the medical and aerospace segments. Are you guys seeing any aggressive pricing and competitive bids for new medical opportunities? Seeing anything like that in the market?

Jana Croom

So the pricing is always competitive, that -- especially in the CMO/CDMO space, the pricing is always competitive. What I would say is it's still rational. And there are other areas of the market where we've seen where the pricing is not rational. But in the medical CMO space, we would say, aggressive, fair, but still rational.

And part of that is driven by just the need for supply chain in the space. The proliferation of growth in the medical space is such that they need more and more suppliers in the supply chain. And so that is keeping everything rational right now.

Derek Soderberg

Got it. And then my last question, just I was wondering if you could mention or talk about the M&A environment. It looks like your balance sheet just continues to improve here, debt coming down. I was wondering if your ability to go out and do a larger inorganic agreement to something that's increasingly on the table or maybe that those plans haven't changed. And then just broadly on the M&A space, how are valuations trending, getting more expensive? Anything sort of to note on that front? Thanks.

Richard Phillips

Yeah. Thanks, Derek. I mean, yes, very much part of our strategy. I'll tell you our efforts over the last year in terms of laying out criteria within the Medical CMO, thinking about potential targets, interacting with our Board, is at a high level. So definitely part of our strategy.

We think about it, as Jana had mentioned in her comments, around tuck-ins, opportunities that could add geographic advantages for us, things that could help us as we look to continue to fill capacity within the new facility in Indianapolis, opportunities that will advance our capabilities and expand what we're able to do from a technology standpoint. All of those are on the table. Our team is very active in evaluating. And yes, from a financial standpoint, we're very comfortable with the cash that we've generated and our situation from a debt standpoint, that we can act decisively in M&A.

Derek Soderberg

Perfect. Thank you.

Operator

Our next questions are from the line of Max Michaelis with Lake Street Capital Markets. Please proceed with your questions.

Maxwell Michaelis

Hey, guys. Thanks for taking my questions. First one for me, I think I read an article saying that you guys were targeting five new customers annually in the Medical side of the business. Maybe give us a few comments on maybe where you stand there in adding new customers this year.

Jana Croom

So you did read that. Our targeted goal is to add five new customers annually. This year -- am I allowed to say how many customers we've added? We're on target for goal, is what I will say. Now the question becomes, you bring the customers on, how big is the initial program that you've been awarded and then how quickly can you ramp that program and do what we call land and expand, which is you bring on a new program, you could do it exceptionally well, and then you expand with that customer into bigger programs, higher volumes, and you build the

relationship over time. That is very much center plate to the Kimball strategy, and not just for Medical, but that's our strategy for all three of our verticals.

Maxwell Michaelis

Okay. And were any of these new applications or are they all things you guys have done before?

Jana Croom

So some are new applications and then some are work that we've done for other customers that we're now going to be doing for the new customers that we're bringing onboard. It's both.

Maxwell Michaelis

Great. And then last one for me, I'll stick to Medical. I think you said in the prepared remarks, Europe grew low single digits. Is there any way you can share us the growth rate from the Asian market? And then kind of how you expect that to trend going forward into fiscal year '27, if you can share?

Jana Croom

Yes. Let me get there. We have that information.

Richard Phillips

As Jana pulls the specifics, Max, maybe just a general comment. As you I know are aware, our Thailand facility does a lot of our Medical work overseas and is an export facility. So I think you'll find that the Asia growth will likely be consistent with overall company growth because as, again, as an export facility, it's responding to growth opportunities globally.

Maxwell Michaelis

Okay. Thank you.

Operator

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

Anja Soderstrom

Hi. Thank you for taking my questions and congrats on the performance here in the quarter. I'm just curious, you're talking about the meaningful growth in the CMO business. But how dependent are you on new logos to drive that growth?

Andrew Regrut

Anja, we couldn't quite hear you. Could you say it one more time?

Anja Soderstrom

Yes. So you were talking about driving meaningful growth in the CMO business. But I'm just curious, how dependent are you on adding new logos to be able to drive that growth?

Richard Phillips

Got it. Yes. No, great question, Anja. I would say that's an important part of our strategy. So what we have -- what we knew and what we've found, since we have announced the Indianapolis facility, is you've got to have that space. You've got to have a modern, ready-to-go medical facility in order to attract those new logos.

So the conversations that we're having have accelerated. We do have existing customers that are really excited about what we're doing and we're talking about programs with them. But I would say if you fast-forward to the future, we'll be adding a number of new logos as part of that CMO growth strategy for sure.

Anja Soderstrom

Okay. Thank you. And then you talked about moving the production from the old facility to the new one. How much revenue do you generate from that facility? And what's sort of the time frame of completing that move?

Jana Croom

So we don't disclose the revenue of that facility specifically. We disclose revenue of North America. So unfortunately -- and I know we need to think about that because as we're talking about the CMO more, we need to be able to give you some of that. We're just -- we're not going to give that information today.

Anja Soderstrom

Okay. Thank you. Understood. And then in terms of M&A, are you more imminently looking at adding capabilities to make you more competitive, or adding customers?

Richard Phillips

I'd say both.

Jana Croom

Yes.

Richard Phillips

I'd say both. Yes. It's a combination of capabilities, customers, geographies. One of the things that I had mentioned on the call today is it's interesting that we have customers that we talk to who are looking for U.S. footprint, and that's one of the things that we think will help us really gain utilization in Indianapolis over time. It just gives us a new capability. But yes, all of the above: customers, capabilities, geographies.

Anja Soderstrom

Okay. Thank you. And then one last one on inventories. So that came down for the quarter. But with the growth you're expecting, how should we think about that? Was that some inventory you were -- that had built up that you're building down, or?

Jana Croom

I was going to say, that's just us working through days inventory. We are getting better and tighter with managing our inventory and our supply chain. So it doesn't necessarily have anything to do with revenue or top line. It's much more just working capital management that's improving.

Anja Soderstrom

Okay. Great. Good to hear. Thank you.

Jana Croom

And that's been a goal of ours over time. Yes. I want to go back to Max's question and answer it because he asked specifically about Medical in Asia. And that growth for Q3 was over 20%. It was offset by some movement that we've had in other areas, but it was over 20%.

Operator

Thank you. Ladies and gentlemen, this will conclude today's Q&A session and will also conclude today's conference. Before we go, we'd like to remind you that a telephone replay will be available of this call approximately three hours after the end of the conference. To access the conference replay, you may dial 1-877-660-6853. International callers, please dial 1-201-612-7415. You may use -- Access ID is 13759805. Thank you for joining us today. Have a wonderful day.

Jana Croom

Thank you.