Kimball Electronics Inc. (Q1 2021 Results)
November 04, 2020

Corporate Speakers:

- Don Charron; Kimball Electronics Inc.; Chairman & CEO
- Mike Sergesketter; Kimball Electronics Inc.; VP & CFO

Participants:

- Anja Soderstrom; Sidoti & Company, LLC; Analyst
- Mike Morales; Walthausen & Co. LLC; Analyst
- Richard Greenberg; Donald Smith & Co., Inc.; Analyst

PRESENTATION

Operator^ Good morning, ladies and gentlemen. My name is Sara and I'll be your conference call facilitator today. At this time, I would like to welcome everyone to the Kimball Electronics First Quarter Fiscal 2021 Financial Results Conference call.

(Operator Instructions)

Today's call, November 4, 2020, will be recorded and may contain forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. The risk factors that may influence the outcome of forward-looking statements can be seen in Kimball's annual report on Form 10-K for the year ended June 30, 2020, and in today's release. The panel for today's call is Don Charron, Chairman of the Board and Chief Executive Officer; and Mike Sergesketter, Vice President and Chief Financial Officer of Kimball Electronics.

I would now like to turn today's call over to Don Charron. Mr. Charron, you may begin.

Don Charron^ Thank you, Sarah, and welcome, everyone, to our first quarter conference call. Our earnings release was issued yesterday afternoon on the results of our first quarter ended September 30, 2020. We have posted a financial summary presentation to accompany this conference call. It can be found on our Investor Relations website within the Events and Presentations tab, or if you are listening via the webcast, you can follow along by advancing the slides or download them from the Downloads tab on the webcast portal.

I will begin by making a few remarks on the quarter and then turn it over to Mike for the financial overview. After that, we will answer any questions that you may have. We are very pleased with the operating results we delivered in the first quarter of fiscal year 2021. We set new quarterly records for sales, operating income, net income and diluted earnings per share while generating strong cash flow from operations for the second consecutive quarter. Beyond our excellent financial results, we never lost sight of the fact that the health and safety of our employees remains our #1 priority.

And we continue to make every effort to keep our facilities safe. The number of our employees testing positive for COVID-19 has been kept at a low level and disruptions have been kept to a minimum. Because of the disciplined response and extraordinary effort of our people around the world, we were able to continue to perform our mission as an essential business and support the significant increases from our medical customers, for their respiratory care and patient monitoring products.

In the first quarter of fiscal year 2021, sales in our Medical vertical increased 25% compared to the first quarter of fiscal year 2020 and were up 3% sequentially, setting a new quarterly sales record for our Medical vertical. We expect the sales in our medical vertical to normalize and begin to approximate pre COVID-19 run rates during the second quarter of fiscal year 2021.

The sales in our Automotive vertical continued to gain momentum during the first quarter of fiscal year 2021, increasing 61% from the previous quarter, and down just 5% from the first quarter of fiscal year 2020. We expect the sales in our Automotive vertical will return to pre COVID-19 levels in the second quarter and steadily increase throughout the fiscal year 2021.

October 1, 2020, marked the 2-year anniversary of our GES acquisition. GES was slightly accretive to our EPS for the first quarter of fiscal year 2021, which was a significant improvement when compared to the first quarter of fiscal year 2020. It is important to note that while we continue to gain traction with the new business pipeline for GES, we do have a degree of seasonality in that business with the fiscal second quarter being their weakest. However, our backlog of orders for machines to be shipped in the third and fourth quarters of fiscal year 2021 has been growing nicely.

Our cash conversion days for the quarter ended September 30, 2020, were 76 days, up from 73 days in the quarter ended September 30, 2019, but were down 5 days when compared to the fourth quarter of fiscal year 2020. While the volatility in demand has made it difficult for us to achieve our inventory objectives and thus, our cash conversion days objectives we remain committed to our inventory reduction goals and actions.

We invested $8.5 million in capital expenditures in the first quarter of fiscal year 2021. The majority of these capital investments were for capacity expansion and to support the launch and ramp-up of new programs. There were no shares purchased in the first quarter of fiscal year 2021.

As a result of the COVID-19 environment, our plan has been temporarily suspended until further determination by our Board. For fiscal year 2020, a total of $8.8 million was returned to our shareowners by purchasing 623,000 shares of our common stock, which brought our total to $76.7 million and 5.1 million shares purchased since October 2015 under our Board-authorized share repurchase program.

And lastly, as I stated earlier, I'm so proud of our people around the world and our collective response to the COVID-19 pandemic our strong company culture and core

values have and will continue to help us get through this together. Our #1 priority will continue to be keeping our employees healthy and safe and we'll continue to deliver on our promises to our customers. With our strong cash flow and balance sheet, the company is in a solid position, and we are committed to build success in the future. Now I'll turn it over to Mike to discuss our first quarter results in more detail. We will then open the call to your questions. Mike?

Mike Sergesketter^ Thanks, Don. During my comments, I will be referring to the slide deck that I mentioned, which can be found on our Investor Relations website within the Events and Presentations tab. Or if you're listening via the webcast, you can follow along by advancing the slides on the webcast portal. As shown on Slide 3, our first quarter net sales were $331.7 million, which was a 6% increase, and as Don mentioned, a new quarterly record, compared to net sales of $313.4 million in the prior year first quarter.

The increase in net sales compared to the prior year was driven by increases in the medical vertical and, to a lesser degree, the industrial vertical, partially offset by a decrease in the automotive vertical. Foreign exchange rates favorably impacted our net sales 1% compared to the first quarter a year ago. Slide 4 represents our net sales mix by vertical market. Our Automotive vertical was down 5% compared to the same quarter a year ago.

However, the Automotive vertical was up 61% sequentially as the automakers began to return to pre COVID-19 run rates during the quarter. Our medical vertical was up 25% in the current quarter compared to the prior year first quarter to a new quarterly record of $127.1 million, reflecting the continued increase in demand for medical assemblies specifically those related to respiratory care and patient monitoring products. Our Industrial vertical was up 8% from a year ago, primarily due to improved sales of automation, test and inspection equipment and higher end market demand for climate control products, which were partially offset by decreased demand for smart metering products.

Lastly, our Public Safety vertical sales were $13.3 million which were down 23% from the prior year first quarter, primarily due to the continued phase out of certain programs. Our gross margin in the first quarter, reflected on Slide 5, was 9.2%, a 210 basis point increase from the first quarter of last fiscal year. Gross margin improvement compared to the first quarter of last fiscal year was driven by a number of factors, including higher volumes and favorable product mix GES gaining traction with significant improvement in positive contribution, lower material cost as component shortage premiums have subsided and more efficient use of our manufacturing capacity and footprint.

Adjusted selling and administrative expenses, Slide 6 in the deck, were $12.6 million in the first quarter, up $1.5 million in absolute dollars and up 30 basis points compared to the prior year first quarter. The increase in selling and administrative absolute dollars was primarily driven by higher profit sharing bonus expense, resulting from our overall strong financial performance in the quarter.

Adjusted selling and administrative expenses excludes changes in the fair value of our SERP liability, which is directly offset in other income expense from changes in the fair value of the SERP investments. Adjusted operating income in the first quarter came in at $18 million or 5.4% of sales, and as shown on Slide 7 in the deck, an improvement from $11.1 million or 3.5% of net sales in the same period a year ago, driven by the increase in gross profit previously mentioned.

Adjusted operating income excludes changes in the fair value of our SERP liability. And in the first quarter of fiscal year 2021, excludes $300,000 of income recognized related to proceeds received from a class action lawsuit of which we were a member. Other income and expense net was income of $2.1 million in the first quarter, which compares to expense of $2.4 million in the first quarter of fiscal year 2020.

The other income net in the current year first quarter includes $2.4 million in net foreign currency gains, $500,000 in gains on the SERP investments, partially offset by $800,000 of interest expense. Other expense net in the prior year first quarter includes $1.2 million in interest expense and $1.1 million in net foreign currency losses.

The effective tax rate for the current year first quarter was approximately 16%. The current period effective tax rate was favorably impacted by an $800,000 discrete benefit from the reduction of our state tax valuation allowance related to R&D tax credit carryforwards. Mix of earnings within our various tax jurisdictions also favorably impacted the effective tax rate in the quarter. In the prior year first quarter, the effective tax rate was approximately 24% and was unfavorably impacted by a $300,000 discrete excess tax expense related to performance shares granted during the quarter.

Slide 8 reflects our adjusted net income trend. Our GAAP net income in the first quarter of fiscal year 2021 came in at $16.8 million, with adjusted net income of $16.6 million after adjusting for the after-tax impacts of the lawsuit settlement proceeds. This compares to GAAP and adjusted net income of $6.6 million in the first quarter of fiscal year 2020.

Diluted earnings per share in the current year first quarter was $0.66, with adjusted diluted earnings per share of $0.65 and these compared to both diluted EPS and adjusted diluted EPS of $0.26 reported in the same quarter last year. Cash and cash equivalents at September 30, 2020, were $73.4 million, operating cash flow trends are shown on Slide 11.

Our cash flow provided by operating activities during the fiscal first quarter was a strong $20.7 million driven primarily by net income plus noncash depreciation and amortization. In the prior year first quarter, operating activities provided $39.6 million of cash largely driven from increased utilization of third-party accounts receivable factoring arrangements.

Our cash conversion days, our CCD, was up 3 days for the 3 months ended September 30, 2020, when compared to the same period in the prior year. However, it was down 5 days from the fourth quarter of fiscal year 2020. The compared to the fourth quarter of

fiscal 2020, a decrease in PDSOH, or production days sales on hand, our inventory metric, was partially offset by a decrease in accounts payable days.

Slide 12 reflects our capital and depreciation trends. Capital investments in the fourth quarter totaled $8.5 million, largely related to manufacturing equipment to increase capacity and to support new production awards. Borrowings on our credit facilities at September 30, 2020, were $111 million, which was down $7 million from June 30, 2020.

Our short-term liquidity available represented as cash and cash equivalents plus the unused amount of our credit facilities, totaled $159 million at September 30, 2020. In conclusion, our financial condition continues to be strong, and we're in an excellent position to take advantage of growth opportunities and improve operating margins and return on invested capital while being able to confront the continued uncertainties caused by the COVID-19 pandemic. With that, I would like to open up today's call to questions from the analysts. Sarah, do we have any analysts with questions in the queue?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Our first question comes from the line of Anja Soderstrom from Sidoti & Co.

Anja Soderstrom^ And congratulations on a very strong quarter. My first question is going to be around the gross margin. It came in very high. How sustainable are those puts and takes in there? And how should we think about that going forward?

Don Charron^ Yes. As Mike mentioned, there were a number of factors that drove that gross margin number. The one factor that you mentioned that would likely change going forward is that favorable mix, favorable product mix factor as we stated in the release, we have some shifting going on in both our medical vertical and our automotive vertical.

And so as we think of getting back to sort of pre COVID-19 run rates, we would see -- we would expect to see, obviously, automotive would grow as it walks back to pre COVID-19 run rates. Medical would decline as we work through the deliveries that were related to the COVID-19 patient care. So that mix will change, obviously, from the quarter we just finished. And so that's the one factor I would say, would not be as sustainable going forward.

Of course, we'll have to see how those volumes play out here. We're still facing the pandemic and the uncertainties that are related to that. But that mix factor is one, I would think we want to have a close look at as we go forward. And then the other, I guess, point I'd make is we did -- as Mike mentioned, we did make some improvements in areas the utilization of our footprint, some of the work we've been doing in our global supply chain initiatives and material pricing and of course, our Lean Six Sigma efforts, we've doubled down our efforts in a lot of areas to drive productivity. And those, we would say, would be sustainable as we look going forward.

Anja Soderstrom^ Okay. And in terms of the supply chain, has that sort of normalized now and that pricing has normalized? Or what do you see in terms of supply?

Don Charron^ Yes, it has normalized, from especially some of the component categories that were in short supply and demand was working hard to catch up, let's say, a year ago, 5 quarters ago, et cetera. That has -- the supply has caught up in those key areas like in the capacitors that we talked about in the past, and pricing has also returned to more normalized levels. So we expect that, that situation has resolved itself as we go forward now.

Anja Soderstrom^ Okay. And then as I think about you ramping new programs and also switching, I guess, programs in Medical, how is that going to affect the gross margin?

Don Charron^ Well, certainly, as we look to ramp new programs, that part of the product life cycle is challenging for us as we ramp up let's say, a new program and get it to its quoted run rate. But I would say no different in how we look at the model going forward because we do have a number of mature programs that are fully ramped.

And as -- especially in the automotive vertical as we go forward now and get back to pre COVID-19 run rates. And actually, the other point in the Automotive vertical that's critical to understand is that the inventory levels in the industry, especially in the United States, are down in terms of finished goods. And so there will be a desire to not only replenish those inventories back to, let's say, normal levels, especially in the U.S., where we're particularly low on inventory here.

There'll be 2 factors, buyers coming back to the market and purchasing new cars, but also replenishing inventory. And so we expect several of those mature product lines that have been down in volume, especially last quarter, and have been recovering this past quarter, I should say. The quarter before that, they were down significantly. Those volumes on those mature programs will ramp, and that will help us. And it'll help offset some of those newer programs that are ramping up.

Anja Soderstrom^ Okay. Great. And then in terms of medical, what visibility do you have there in terms of sort of COVID related programs tapering off? And then how the electives are coming back?

Don Charron^ Yes, that's a really good question and one that's difficult for us to gain a lot of visibility around in our customers as well. What we do know is the COVID-19 patient care-related products that we supported in respiratory care and patient monitoring. We have worked off the backlog that was there over the past couple of quarters and have met the demand for the most part. And so returning to pre COVID-19 levels will be a decline for those products.

What we don't have a good handle on yet are the products that went down as a result of COVID-19. As you mentioned, elective surgery related products for us were down during

this period and how fast will they come back. And there were other product categories that actually declined during the pandemic period, while we were ramping up other products, they were declining.

And these would be less critical, but important products. And how fast they come back is really the degree of uncertainty. We just don't have a degree of certainty there, not visibility. We're working very closely with our customers. They expect the demand to come back. It's just really more around win.

Operator^ Our next question comes from the line of Mike Morales from Walthausen & Co.

Mike Morales^ I'll echo the strong execution that you guys had during the quarter. A couple of different things I wanted to count. Glad to hear that we can finally start talking about GES in kind of a positive light. I'd like to dig in a little bit more into the opportunities that you guys are seeing there. If I think about that business from the acquisition and kind of beyond -- there were pressures from the semi end market and particularly in smartphones.

And one thing at least that I've been hearing a lot about is that the smartphone market seems to be doing pretty well. And if we look out, call it, a year or 2, that seems like it has some legs to -- as well. Can you guys just talk about some of the opportunities that you're seeing now in GES that maybe weren't there in the past? And then from a financial perspective, maybe the margin profile of some of those products that you're looking to ship later this year.

Don Charron^ Sure. Yes, you're right. What we -- the end markets we support there today are primarily in the smart mobile device area, the manufacturing of smart mobile devices and, of course, to the semiconductor space and we do and have been working hard over the past couple of years on a growth and diversification strategy there. So we do want to, obviously, expand beyond those 2 end markets.

But we are seeing some strength and the traction that we've talked about is -- has really been around supporting the manufacture of new releases of some smart mobile devices. And those machines that I mentioned that the back orders have been increasing on -- for deliveries in the third and fourth quarter are primarily in that end market space. So we do expect that strength to continue.

And again, we're working hard on a diversification strategy. If you look at that platform -- if you look at GES as a platform, it's -- we're really positioned nicely to take advantage of a lot of the Industry 4.0 investments that are happening in manufacturing today and the automation and, of course, replacing human inspection with machine inspection, et cetera. Those are megatrends that have only been amplified here in this COVID-19 pandemic.

And so we expect that the opportunities will continue to grow for us, not only in these end markets, but others, as I mentioned, that we're working hard to develop. GES is a technology company. We don't do the simple stuff in that division, if you will, in that business unit. We add a fair amount of technology to solve the problems that our customers are asking us to solve.

And again, if you think about a manufacturing process to build anything, there's more and more machines going into that manufacturing process. And so and the quality expectations of the output of these manufacturing processes just continue to rise to near perfection in terms of the expectation. And so it requires and the products we develop, the machines we develop have a fair amount of know-how, if you will, engineering, technology involved in them.

And so we do expect to command a higher-margin for that business. We're still developing our expectations, still learning about some of those end markets and what they will bear. But we do expect because of that technology component that I mentioned that we should see higher margins in that business.

Mike Morales^ Great. So as I'm hearing figures about 200,000,000 5G handsets going to 400,000,000 and potentially 800,000,000 after that, that rising tide should continue to benefit GES as capacity that you dictate, is that fair?

Don Charron^ Yes.

Mike Morales^ Great. Great. Maybe switching gears a little bit. Could you help me understand some of the areas that you're seeing, at least in the new business pipeline now that it sounds like auto demand is coming back a little bit, medical demand is kind of tapering off. Are there any areas that you can talk about that you're seeing maybe a pronounced return in demand and is it ahead of what you expected from a timing perspective behind what you were expecting? Just help me understand where you're seeing the most opportunities today.

Don Charron^ Yes. Mike, I'm seeing some more than green shoots, if you will, in the automotive vertical. We'd actually started to slow down even before the COVID-19 pandemic. We had the GM strike. We had kind of probably 6, 7, 8 quarters pre COVID-19 pandemic that were more of a sort of a headwind in our automotive vertical and of course, we had to endure the complete shutdown here in the U.S. and for most of Europe, which was all of March, half of April.

So we endured that. And we've come back now. And last quarter, we weren't quite at, let's say, a pre COVID-19 run rate. If you look at our $118 million in revenue for the quarter, we -- if you look at the second quarter of last fiscal year, we were finishing closer to $135 million. So we're not at pre COVID-19 run rates. And it will take a while to ramp production back up in the whole value chain. But what I wouldn't want lost on that is not only mature programs ramping back up at some of the new launches that, in some cases, were delayed or at least slowed by the pandemic.

And so I really believe we're in a great position to see some steady growth in the Automotive vertical. As buyers come back to the market, which is a great sign. We've actually seen year-over-year growth, car companies reporting growth. Each region, China, North America, Europe, there are green shoots of growth coming back with buyers coming back to the market.

And when you combine that with the inventory levels, in the industry. I mean, it's -- to me, it's a great story and a great -- a starting point to, I think, a pretty good run. So that's one area that -- and we didn't mention in this script that we did last time. We are well positioned with the applications we support, whether it's a combustion engine driven car or whether it's a complete electric vehicle. And we -- one of the real significant growth areas inside of our Automotive vertical are the electronic assemblies that we ship to our customers who ship to fully electric vehicle manufacturers, and that's been a great story for us, and we expect it to continue to grow as we are fortunate there to be on one of the most popular electric vehicle brands in the world.

So that's a neat story, too, within the Automotive vertical. The Medical piece is definitely going to change. I think it's good news for the world if we don't need to build a lot more COVID-19 patient care product that means there's less hospitalizations. We're getting the pandemic behind us. And so we will see that drop back down to normal levels. Question is how fast does some of the other products come back that have really been down for a couple of quarters now during the pandemic.

As you know, those were not deemed critical to care. And so things like elective surgeries, we're being postponed and other products that we serve in our Medical vertical, we saw decreases, and it's really because they just were not critical to care in this pandemic. But that -- we do believe that business will come back. Our customers believe it will come back. And Medical has been a great growth story for us, and our ambition is to keep it a great growth story for us going forward.

Mike Morales^ Absolutely. And lastly from me, just from a capacity standpoint, how are you guys feeling right now on your ability to fill the demand that seems to be coming back? Are you capacity constrained? Will there need to be additional CapEx?

Don Charron^ Our utilization, as Mike reported, that was one of the factors that drove up our gross margin. Our utilization is fairly high. And we have parts of our footprint geographically that are reaching capacity. And so we are looking at that very carefully and making plans to be ready to expand and support the growth. The one thing I would say about just bricks-and-mortar and square footage, our plan there is to expand where we are, when we need to, and not necessarily a new country strategy like we did with Romania, which was our last greenfield.

And so there will be a CapEx component of that, but not the sort of greenfield long ramp up to breakeven kind of scenario. We're focused on growing our footprint where we already are and leveraging our talent in those areas. So some of the hot parts of our

footprint today, and I say, hot, I mean, parts of our footprint that customers are really wanting to grow, Thailand, Mexico. Of course, when we did Romania, Poland was at full capacity, and they remain at full capacity.

So we have parts of our footprint that we're pretty full, and we're strategically planning to expand our square footage as we need. So I -- the way I'd want you to think about it is -- and I've said this several times in the past, when we're running at a growth rate that we want to, we talk often about our goal in the -- we've talked often about our goal in the past. For growth -- organic growth to be around that 8% number, at least upper single digits.

That -- we would -- when we're growing at that rate, we would expect our CapEx for equipment capacity to approach depreciation or be around depreciation -- the rate of depreciation. And so -- but when we have to expand our footprint, that really sits on top of that kind of spending profile. And so if you think about having to expand 100,000 square feet, for example, and it's $10 million of capital to do that, that sort of sits on top of the normal CapEx run rate that would support adding equipment capacity and to launch new programs.

Operator^ Next question comes from the line of Richard Greenberg from Donald Smith & Co.

Richard Greenberg^ Don, I just wanted to follow-up on the margin issue. You had -- previously, you had talked about this 8% sales growth. And along with that, in the medium term, you were saying you would hope to get to a 4.5% operating margin. You obviously exceeded that this quarter. Part of that is mix as some other more sustainable item. Are you willing to kind of reset that number now? Or I mean, what should we be thinking longer-term is your goal in operating margin?

Don Charron^ Yes. It's a great question, Richard. We obviously had some nice tailwinds this quarter, and Mike pointed those out in the factors that he mentioned. I do -- I would say that we expect that the improvements that we've made in those margin items that were mentioned that we believe are sustainable should have us more consistently landing in a landing pattern around our long-time stated goal of 4.5%. As you know, we haven't been consistently hitting the 4.5% and I had a great quarter this quarter, obviously, at 5.4%. But we would expect that we would start to be more consistent in a landing pattern around 4.5%. Is that our upper limit? No, we've got plans to grow beyond 4.5%.

I think the first step is just consistently land around 4.5%, but we've got some ideas about how we can get north of 4.5% and set our goal higher than that. What we've been talking a lot about as a management team is, "Hey, let's consistently get the 4.5% on a consistent basis. And then let's talk about where we can go from there."

Richard Greenberg^ Okay. And then regarding capital usage, as you said, you hold off on the buyback. Cash is growing. You talked about acquisitions. Could we maybe revisit that? And in balance for us, you're thinking on what you've already talked about capital

spending. But balance for us the buybacks, debt paydown and more of what you're thinking in the M&A area.

Don Charron^ Yes. It's a topic on our Board agenda -- Board meeting agenda next week. We talk about it in each and every board meeting in terms of our sort of capital -- desired capital structure and capital allocation I'll start with our priority is going to be -- continue to be organic growth. And to the extent that we continue to have success growing organically, we'll put a priority on organic growth. Now that being said, you can do the math on our cash flow from operations, expected cash flow from operations we will have excess capital beyond what we need for organic growth.

The priorities after that, yes, paying down debt is certainly one. At some point, we put our share repurchase program on hold, just to be mindful of the pandemic and making sure we kept ourselves in a strong financial position. As we gain more confidence on the outlook, will we restart our share repurchase program. Certainly, that will be a discussion next week in the Board meeting.

And then finally, acquisitions. This is kind of a tough period to be looking at targets, quite frankly, in this pandemic. And so we are -- we do want to remain acquisitive. We would look at strategic targets, primarily in the medical space, especially within DCMS, sort of like what we did with Medivative, 4 years ago if you recall that, acquisition.

Those would be some ideal targets, but we'd have to be pretty confident in terms of what's happening with the pandemic and just the target itself to move forward there. I think the priorities would lie on the first 3 items I mentioned.

Richard Greenberg^ Okay. I mean, when you take a cold, hard look at your acquisitions that you've made in the past, it seems that there's maybe some successes, but certainly a little bit of near-term disappointments. You did have the goodwill impairment you took last year. Are you at all -- has that chastened you at all a little bit and to say, we're pretty -- we're doing a great job of growing organically, our stock arguably is pretty cheap. Maybe we should just stick to what we know and not necessarily add more goodwill and intangibles and hold off on acquisitions?

Don Charron^ Well, we've talked about that a lot, Richard, over the years. And the short answer is yes. We were not happy with the slow start we got with the GES acquisition. But I will go up a little bit higher and look at the acquisitions we've done over the years, they've really been strategic acquisitions that brought key capabilities or a market presence that we were seeking. And so those are really more long-term kinds of payoffs. The Medivative acquisition we did 4 years ago got us into a whole different area of capability in market. And we're doing very well with that.

GES, a very slow start. But again, the strategic assets that we brought into the company with GES are going to help us in other areas of our core EMS business, even, for example. But it's hard not to go through an acquisition like GES have conduct an

impairment study, find that you're impaired, have to take that charge. Those are difficult things that, yes, they do impact us as management.

And I would tell you, they impact our Board and their oversight of what we're doing from a strategic standpoint. Organically, if we can continue to grow like we've grown these acquisitions that we would look at would be more about bringing a capability that we don't have today or a market access point that we don't have today. Those would be the big drivers behind an acquisition. And so it's not about adding -- using that tool as a tool for growth as much as as it is adding capabilities developing those. And then, again, kind of pushing them back towards our organic growth plans with our existing customers.

Operator^ (Operator Instructions)

There are no further questions at this time. I will turn the call back to Mr. Charron.

Don Charron^ Thank you, Sarah. Thank you, everyone. That brings us to the end of today's call. We appreciate your interest and look forward to speaking with you on our next call. Thank you, and have a great day.

Operator^ At this time, listeners may simply hang up to disconnect from the call. Thank you, and have a good day.