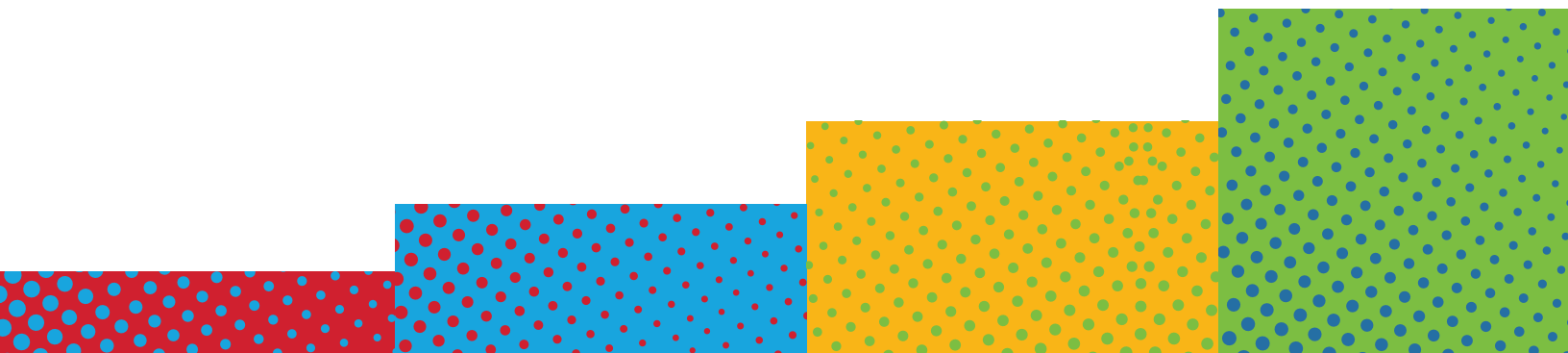


2022 Annual Report

# Poised for Growth



# About This Report

## Who We Are

Kimball Electronics was founded in 1961 and incorporated in 1998. We are a global, multifaceted manufacturing solutions provider of contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We deliver a package of value that begins with our core competency of producing durable electronics and has expanded into diversified contract manufacturing services for non-electronic components, medical disposables, drug delivery solutions, precision molded plastics, and production automation, test, and inspection equipment. Our design and manufacturing expertise coupled with robust processes and procedures help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We deliver award-winning service across our global footprint and operating system that is enabled by highly integrated procedures, standardization, and teamwork. Our Customer Relationship Management (“CRM”) model is key to providing our customers convenient access to our global footprint and all of our services throughout the entire product life cycle. Because our customers are in businesses where engineering changes must be tightly controlled and long product life cycles are common, they value our track record of quality, financial stability, social responsibility, and commitment to long-term relationships.

Our services are sold globally on a contract basis, and we produce products to our customers’ specifications. Our manufacturing services primarily include:

- Design services and support;
- Supply chain services and support;
- Rapid prototyping and new product introduction support;
- Product design and process validation and qualification;
- Industrialization and automation of manufacturing processes;
- Reliability testing (testing of products under a series of extreme environmental conditions);
- Production and testing of printed circuit board assemblies (PCBAs);
- Production and assembly of medical devices, medical disposables including packaging, and other non-electronic products;
- Drug delivery devices and solutions with and without electronics;
- Class 8 clean room assembly, cold chain and product sterilization management;
- Design engineering and manufacturing of automation, test, and inspection equipment;
- Design engineering and production of precision molded plastics;
- Software design; and
- Complete product life cycle management.



## Our Global Presence

Our global footprint supports our customers’ specialized manufacturing needs. Whether the requirement is in-region support for an end market, access to a lower cost market, or proximity to a customer team, Kimball Electronics has a solution.

### North America

Jasper, Indiana  
*(Manufacturing and World Headquarters)*  
Indianapolis, Indiana  
Tampa, Florida  
San Jose, California  
Reynosa, Mexico

### Europe

Poznan, Poland  
Timisoara, Romania

### Asia

Nanjing, China  
Suzhou, China  
Trivandrum, India  
Chiba, Japan  
Laem Chabang, Thailand  
Ho Chi Minh City, Vietnam

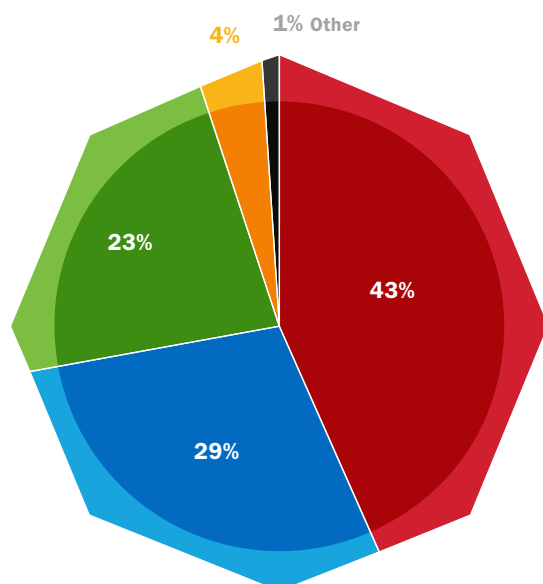
# Financial Highlights

Fiscal Year Ended June 30,

(Amounts in thousands, except per share data)

	2022	2021	% Change
<b>Net Sales</b>	<b>\$ 1,349,535</b>	\$ 1,291,807	4%
<b>Operating Income, as reported (GAAP)</b>	<b>\$ 52,549</b>	\$ 65,703	-20%
SERP	(1,563)	2,073	
Legal Settlements (Recovery)	(1,384)	(372)	
<b>Adjusted Operating Income (non-GAAP)</b>	<b>\$ 49,602</b>	\$ 67,404	-26%
<b>Net Income, as reported (GAAP)</b>	<b>\$ 31,253</b>	\$ 56,791	-45%
Adjustments After Measurement Period on GES Acquisition	—	(121)	
Legal Settlements (Recovery)	(1,050)	(282)	
<b>Adjusted Net Income (non-GAAP)</b>	<b>\$ 30,203</b>	\$ 56,388	-46%
<b>Diluted Earnings per Share, as reported (GAAP)</b>	<b>\$ 1.24</b>	\$ 2.24	-45%
Adjustments After Measurement Period on GES Acquisition	—	—	
Legal Settlements (Recovery)	(0.04)	(0.01)	
<b>Adjusted Diluted Earnings per Share (non-GAAP)</b>	<b>\$ 1.20</b>	\$ 2.23	-46%
<b>Return on Invested Capital</b>	<b>7.2%</b>	13.1%	-45%
<b>Cash Flow from Operations</b>	<b>\$ (83,178)</b>	\$ 130,095	-164%
<b>Capital Expenditures</b>	<b>\$ 74,714</b>	\$ 39,352	90%
<b>Share Owners' Equity</b>	<b>\$ 453,971</b>	\$ 441,972	3%

## Diversified Portfolio of End Markets and Market Services\*



### Automotive +6%\*\*

Electronic Power Steering, Stability Controls, Anti-Lock Braking, Sensors, Telematics, Video Camera Systems, Compass and Navigation Systems, High Efficiency Electronic Ignition Systems, Electronic Window Lifts, Occupant Safety Systems

### Medical +2%\*\*

Diagnostic Imaging, Urinalysis Equipment, Hematology Equipment, Surgical Instruments, Defibrillators, Vital Signs Monitoring, Laboratory Measurement, Physical Therapy, Glucose Monitoring, Respiration Monitors, Home Health Care, Sleep Therapy Device, Drug Delivery Devices

### Industrial +5%\*\*

Electronic Climate Controls, Flow Metering Controls, Power Metering Controls, Analytical Instrumentation, Motor Controllers, Production Automation, Test, and Inspection Equipment, Marine and Agricultural Electronic Controls

### Public Safety +4%\*\*

Emergency Personnel Communications, Material Identification Systems, Night Vision Systems, X-ray Systems, Surveillance Equipment, Fire Protection Equipment, Commercial Security Systems, Power Filters

\*Percentage of net sales

\*\*Percentage increases compared to fiscal year 2021



“Our strong company culture serves as the cornerstone of our Strategic Plan and the foundation of the organization.”

**Don Charron**  
Chairman and CEO

#### To Our Share Owners

Fiscal year 2022 was a good year for our company. While the world continued to experience unprecedented events and circumstances, we embraced an ever-changing global landscape with commitment and resolve, engaging in customer collaboration at levels even higher than our award-winning norm. Our strong customer partnerships produced several business wins, along with expansions of existing programs, that have us Poised for Growth as we look forward.

It is hard to believe the pandemic is now in its third year, and it seems we all are adjusting to a “new normal” way of living, working, and interacting with one another. Global supply chain issues have persisted, making it challenging to obtain materials needed to support strong customer demand, and resulted in the bifurcated year we expected. Throughout this crisis, we remained committed to retaining our highly skilled workforce, and when conditions improved, our business responded in the third and fourth quarters with record top-line results, and operating margin in excess of 5%. In total, consolidated net sales in fiscal year 2022 were \$1.35 billion, an all-time high for our company, with all four of the end market verticals we serve contributing to the growth.

#### Automotive

Automotive was the best performing vertical market in fiscal year 2022, with net sales exceeding \$582 million. This is our largest business, representing 43% of total company sales, with strength in electronic power steering, automated driver assistance, and electronic braking—including redundant braking systems in self-driving applications.

We expect the robust growth to continue with the industry megatrend we call the “electricification” of vehicles, with electronic content being added at an increasing rate. More than ever, cars and trucks have advanced technologies and expanded operating systems that require stringent production standards, and compliance with industry-regulated certifications, that align very well with our core manufacturing competencies. These applications and architectures are largely the same for both electric and internal combustion engines, although we see the rapid adoption of Electric Vehicles (EV), the expansion of autonomous driving, and vehicles with increasing connectivity, as additional areas of upside where our chassis control expertise can be a differentiator. With the average age of cars and trucks now at an all-time high, we expect strong consumer demand to continue as replacement purchases increase.

#### Medical

Net sales in the Medical vertical market were \$392 million, or 29% of total company sales. This was an encouraging result considering the impact the pandemic had on the Medical industry, with a significant decline in elective procedures during the crisis. Our success was driven by support in applications involving sleep therapy and respiratory care, image guided therapy, in vitro diagnostics, drug delivery systems, AED, and patient monitoring equipment.

Similar to Automotive, our Strategic Plan for the Medical vertical market suggests long-term, organic growth potential resulting from industry megatrends. The aging population, increasing access and affordability to healthcare, decreasing medical device sizes, and connected drug delivery systems align

very well with our manufacturing expertise. Our new business development team is focused on this growth potential with a heavy lean toward Medical. In addition, the recent launch of Kimball Medical Solutions highlights our package of value as a multifaceted manufacturing solutions provider.

We also believe, given the fragmentation in the industry, that Medical could be an area for inorganic growth, particularly if we can obtain access to new customers, technologies, or geographies through an acquisition, joint venture, or partnership.

#### Industrial & Public Safety

Our business supporting the Industrial vertical market, which we frequently call “green & clean”, also had a good year with improving top-line trends, after prolonged pandemic-related disruptions. Net sales in Industrial were \$308 million, and 23% of the total company sales. This performance was primarily driven by products for climate control. With consumer trends raising the awareness on consumption of natural resources, and an objective of increasing conservation, we expect these applications to produce a longer-term growth opportunity, particularly as the popularity and adoption increases with consumers in the U.S.

Public Safety is our smallest business with net sales in fiscal year 2022 totaling \$50 million. We see a synergistic opportunity in the future to combine this business with Industrial for operating and reporting purposes.

In fiscal year 2022, we also executed a capital deployment strategy that included investing in future growth with expansions at multiple facilities, including our facilities in Thailand, Mexico, and Poland. We returned cash to Share Owners in the form of stock repurchases, and we supported our customers with strategic inventory builds to mitigate parts shortages, even though the increases adversely impacted certain financial metrics, including cash flow, cash conversion days, and return on invested capital. We fully expect improvement in

these areas as conditions normalize in the global supply chain.

Our Strategic Plan outlines a path for robust top-line growth, profit improvement, and cash generation with a diversification objective where each vertical market, that is Automotive, Medical, and Industrial & Public Safety, represents one-third of the total company. Success in each is critical toward achieving the double-digit sales increase in our guidance for fiscal year 2023, and our longer-term target of \$2 billion in annual revenue.

#### The Path to \$2 Billion in Annual Revenue

We are uniquely positioned, and qualified, to capitalize on these growth opportunities within the vertical markets, particularly as macro headwinds subside. Our proven expertise, and end-to-end partnership, in the design, manufacture, and testing of electronic assemblies requiring the highest level of quality and reliability is critical to our customers, and our global footprint aligns with their geographic preferences and requirements. We strive to be a supplier of choice with our customer-centric focus, which when combined with our technical capabilities, frequently results in single source contracts with “sticky” relationships that can last years, if not decades. In fiscal year 2022, approximately 80% of our revenue came from customers we’ve done business with for over 10 years, and we have been recognized by them with numerous service excellence awards. We were also honored to be part of Forbes’ *America’s Best Small Companies* this past fiscal year. It’s extremely gratifying, and humbling, to receive the distinction of being one of the best, not only in our industry, but in all of corporate America.

To support our customers’ growth, we have been expanding manufacturing facilities in three regions of the world—Asia, North America, and Europe. As an Economic Value Added (EVA) or services company, we are incented to ensure that these investments increase Share Owner value with returns in excess of our weighted average cost of capital by a targeted amount. The facility

expansions will add 370,000 square feet to our footprint, representing a 38% increase in capacity. We generate approximately \$1 million of sales volume per 1,000 square feet, so the expansions are meaningful in the path to \$2 billion.

#### Thailand

Our facility in Thailand opened in the year 2000 and has grown to \$152 million in net sales in fiscal year 2022. A high percentage of the products produced there are exported, with concentration in the Medical vertical market. The expansion, which was completed in February 2022, doubled our footprint with capabilities that include in-house calibration, failure analysis, a clean room, and tooling shop.

#### Mexico

We have been in Mexico for 50 years and operate our largest facilities there. In fiscal year 2022, net sales totaled \$317 million, with a focus on the Automotive and Industrial vertical markets. Our expansion, which was completed in August 2022, doubled the footprint in Reynosa, with a second building added approximately one mile from the original location. The two facilities will operate as a single entity and will share leadership in key positions.

#### Poland

Our third facility expansion is in Poznan, Poland, which is located in the western portion of the country approximately 240 kilometers from Berlin. Similar to Thailand and Mexico, additional capacity is needed for programs with new and existing customers, in this case customers located in Europe. In fiscal year 2022, our facility in Poland recorded \$234 million of net sales, and the expansion will add approximately 40% to its production square footage. Construction is expected to be complete in fiscal year 2024.

With a backlog of open orders exceeding \$1 billion as of June 30, 2022, an all-time high for the Company, we have our sights set on the path to \$2 billion in annual revenue. It took our company 57 years to reach

\$1 billion in sales, and I am confident the second billion will be achieved in a fraction of that time.

**Our Corporate Culture**

I frequently hear from customers, and those familiar with the industry, that our team is a differentiator in the market place, and a competitive advantage when compared to peers. Our leadership believes you win with people, and we have worked very hard to develop a corporate culture that attracts, develops, and retains, the best and brightest talent available.

Our global organization shares common goals and is united by always wanting to “do the right thing” as reflected in our Guiding Principles:

- Our customer is our business.
- Our people are the Company.
- The environment is our home.
- Profits are the ultimate measure.

Our Guiding Principles recognize the benefits of a diverse workforce, an inclusive and collaborative work environment, and a corporate atmosphere that fosters mutual respect, individual dignity, and a sense of family and good humor. Each year, we survey our employees to gauge how well we live up to our principles and where we need to improve. I’m proud to report the response to the Guiding Principles survey for fiscal year 2022 was our best result in eight years as a public company, with a score of 8.32 out of 10. We view these high employee satisfaction scores as a measure of our team’s sense of purpose and belonging. The constructive feedback from the survey will be leveraged so that our employees can be a better version of themselves, while pursuing productive and fulfilling careers with the Company.

Once again this past year, we published an Environmental, Social, and Governance (ESG) report which highlights our enhanced transparency regarding our policies, statements, and goals in human rights, supply chain transparency, occupational health and safety, diversity and inclusion, progress on environmental stewardship, and good

governance. Each of our facilities around the world strives to help protect the environment and help make their communities a great place to live, while the leadership team is held accountable for developing and implementing policies and practices which improve our overall corporate responsibility. The Board also plays an active role, with a commitment to good corporate governance. We hope these reports provide insightful information on our initiatives, progress, and future plans, and increase your appreciation for the overall quality of our company.

And finally this past fiscal year, we surveyed investors and analysts to gain insight on their perceptions of Kimball Electronics. The feedback was consistent with our company being well regarded among the investment community, and our scores were comfortably higher than “normative data” for small-cap companies. We also validated that our relative small size, and general lack of awareness by investors, is an area of opportunity and will be a focus of future investor outreach initiatives.

We are focused on continuing to deliver on our promises to our customers, employees, Share Owners, and communities as we execute strategies to drive profitable growth and value creation. Our strong company culture serves as the cornerstone of our strategic plan and the foundation of the organization. After 24 years with the Company, I have never been more proud to be a member of the Kimball Electronics family, and I thank you for your support.





We invite you to stay informed by visiting our website at [www.kimballelectronics.com](http://www.kimballelectronics.com) as we continue to build lasting relationships and global success.

For more detailed insights into the past year, we encourage you to read the following Form 10-K.



Donald D. Charron  
Chairman and Chief Executive Officer

**Our Guiding Principles include:**

-  **Our People are the Company**
-  **Our Customer is our Business**
-  **The Environment is our Home**
-  **Profits are the Ultimate Measure**

# Embracing the ever-changing landscape with commitment and resolve.



**Global Pandemic**

While many may feel fatigue from pandemic-related constraints, this crisis does not appear to be behind us. The lockdowns associated with China’s zero-tolerance policy on COVID-19 are a reminder of the unpredictability of the current environment. Throughout this uncertainty, however, we have never lost sight of the fact that our number one priority is the health and safety of our people while maintaining excellent customer support. The protocols we have implemented continue to help us effectively meet the challenges and minimize disruptions stemming from this difficult operating environment.



**Ukraine Conflict**

The devastation resulting from the conflict in Ukraine is unimaginable for all of us. For our Ukrainian associates, particularly those operating in facilities located in nearby Poland and Romania, it hits even closer to home. Kimball Electronics and many of its employees have helped make a difference by actively engaging—financially and through volunteerism—in refugee support and medical assistance efforts to benefit those directly affected by the conflict. Selected beneficiary organizations include Red Cross, The Pink Box Foundation, Siepomaga, and Mercy Corps. While we do not directly procure any materials from Russia or Ukraine, we have taken the appropriate measures to safeguard our business and continue to fulfill customer commitments.

**Supply Chain Disruption**

Component parts shortages, which have impacted companies worldwide, continued to make it challenging to keep pace with strong market demand throughout the fiscal year. We were particularly disappointed by the lack of improvement early in the fiscal year due to increasing COVID-19 infections in Malaysia and the resulting restrictions, as well as the backlog for shipping containers entering U.S. west coast ports. In the face of this challenging period of disruption, we remained committed to retaining our highly skilled workforce, resulting in significant lost absorption in the first and second quarters. Yet, as conditions improved in the second half of the fiscal year, our perseverance began to pay dividends as business responded with record top-line results.



# Medical Market

Net sales in the Medical vertical market were \$392 million, or a 2% increase compared to fiscal year 2021. This was an encouraging result considering the impact the pandemic had on the Medical industry, with a significant decline in elective procedures during the crisis. Our success was driven by support in applications involving sleep therapy and respiratory care, image guided therapy, in vitro diagnostics, drug delivery systems, AED, and patient monitoring equipment.

## Kimball Electronics Introduces Kimball Medical Solutions

In August of 2021, Kimball Electronics was excited to announce the introduction of Kimball Medical Solutions, providing our medical customers a full-service approach across all of our capabilities: electronics manufacturing, precision injection molded plastics, contract manufacturing, assembly and packaging services, sterilization and cold chain management, custom automation services and test systems, machine vision and artificial intelligence, and design engineering services.

**“Considering our whole package of value, we think the customers in the medical market didn’t realize we went well beyond electronics. So we launched Kimball Medical Solutions to encourage customers to come to us as their single source provider. We can manufacture the electronics, the plastics, complete the assembly and manage all supply chain activities. We also have the automation equipment that can produce the product, as well as inspect and measure it. That’s the messaging: being a single source partner for all your medical manufacturing needs.”**

**Lee Kemper**  
Vice President, Diversified Contract Manufacturing Services



## Understanding Customer Needs

We understand medical customers have stringent standards for their products, so our capabilities are uniquely tailored to meet the requirements and challenges of the medical market. Since 1999, Kimball Electronics has served the medical market, manufacturing millions of medical devices, drug delivery devices and solutions, medical electronics, and single-use devices. By leveraging our focused medical core competencies, decades of experience, customer-aligned global footprint, disciplined culture, industry 4.0 experience, commitment to lasting relationships, and our purpose of Creating Quality for Life, we provide full-service solutions for complex products where others can't.



**+9 MILLION**  
single-use and surgical  
assemblies shipped annually

**+4.4 MILLION**  
medical electronic assemblies  
shipped annually



## End-To-End Partnerships

We provide end-to-end partnership solutions (from design engineering, to manufacturing, to automation, to regulatory support, to end of life support) focused on collaboration and transparency with our customers. We are trusted partners to manufacture medical electronic assemblies and provide full-system builds, and complete manufacturing services for some of the most complex medical products and product launches from anywhere in the world. To learn more about how Kimball Medical Solutions can provide end-to-end partnership solutions for the medical market, please visit [www.kimballmedicalsolutions.com](http://www.kimballmedicalsolutions.com).

**+5 million disposable diagnostic test products produced for our customers in fiscal year 2022**



**Helping our Customers to Lead in the Market**

As Advanced Driver Assistance Systems (ADAS) become more widely adopted and consumer trust continues to increase, Kimball Electronics is poised to continue its position as a leading EMS provider for the Automotive market. Kimball Electronics supports our customers in the manufacturing of key electronic assemblies that will enable further advances in ADAS such as: battery management, electronic steering control units, electronic motor control units, diesel engine electronic control units, electronic power steering units, overall vehicle electrification, and redundant safety control units.



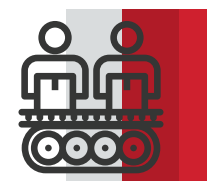
+20 million automotive assemblies manufactured in fiscal year 2022 for occupant safety, vehicle sensing, telematics, navigation, and window lift systems

# Automotive Market

Automotive was our best performing vertical market in fiscal year 2022, with net sales exceeding \$580 million. This represents a 6% increase compared to fiscal year 2021, with strength in electronic power steering, automated driver assistance, and electronic braking – including redundant safety systems in self-driving applications.

**Unparalleled Automotive Electronics Manufacturing Experience**

We understand the importance of safety and reliability and work with our market-leading customers to ensure the highest levels of quality and security of supply. Since 1985, the technology in vehicles has evolved. What has not changed? Kimball Electronics' ability to provide the highest quality and highest-reliability in automotive electronics manufacturing. That takes serious experience and "know-how". We continue to support customers that are recognized as leaders in automotive technologies and will continue to for many more decades.



+38 million automotive assemblies manufactured in fiscal year 2022

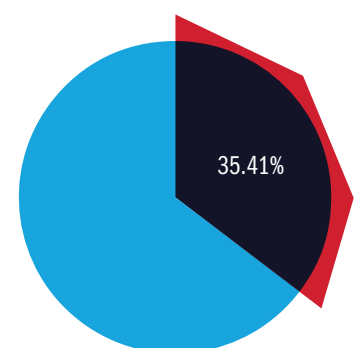
**Vehicle Electrification**

Automakers are continuing to respond to customer demand by developing more Electric Vehicle (EV) models, including both plug-in hybrid electric vehicles and battery electric vehicles, that are increasingly cost-competitive with their internal combustion engine counterparts. According to forecast summaries by the Edison Electric Institute (EEI), the available number of EVs is projected to reach 26.4 million in 2030, up from 2.4 million at the end of 2021, and predicted to be more than 10% of the 259 million vehicles (cars and light trucks) expected to be on U.S. roads in 2030. It took eight years to sell the first one million EVs and fewer than three years to sell the next million. It is projected that the next one million EVs will be sold in just twelve months, before the end of calendar year 2022. Annual sales of EVs will be nearly 5.6 million in 2030, reaching nearly 32% of annual light duty vehicle sales in 2030. Kimball Electronics is poised for growth as our customers make the transition to the demand in the electric vehicle market.



**"We see the rapid adoption of EVs, the expansion of autonomous driving, and vehicles with increasing connectivity as areas of possible upside where our chassis control expertise, and core manufacturing competencies, align very well with the stringent production standards of the automotive industry." Don Charron, CEO**

Source: *Electric Vehicle Sales and the Charging Infrastructure Required Through 2030*, Edison Electric Institute, June 2022.



35.41% of the Automotive assemblies manufactured in fiscal year 2022 were for the applications of steering and braking

**Meeting the Vehicle Electronics Needs of Tomorrow**

Kimball Electronics has over 37 years of experience producing the highest quality electronic assemblies that meet the most stringent regulatory requirements of the automotive industry. The innovations and initiatives propelling the growth in global vehicle production is centered on the development of autonomous vehicles and the electrification of tomorrow's cars. Kimball Electronics is actively manufacturing products for our customers in all vehicle electrification emerging areas with solutions and expertise in steering and braking systems. In fact, over 35% of the Automotive assemblies manufactured in fiscal year 2022 were for the safety-critical applications of steering and braking. Our longest customer relationships include some of the world's top manufacturers of steering and braking systems and the pioneers leading the way in developing the vehicles of tomorrow.

# Industrial and Public Safety Markets

Our business supporting the Industrial vertical market, which we frequently call “green & clean”, also had a good year with improving top-line trends, after prolonged pandemic-related disruptions.

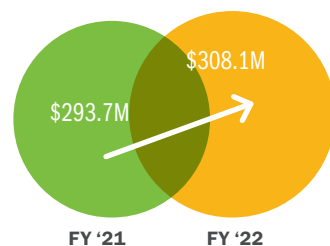
Net sales in Industrial were \$308 million, and 23% of the total company revenue. This performance was primarily driven by products for climate control. With consumer trends raising the awareness on consumption of natural resources, and an objective of increasing conservation, we expect these applications to produce a longer-term growth opportunity, particularly as the popularity and adoption increases with consumers in the U.S.

Public Safety is our smallest business with net sales in fiscal year 2022 totaling \$50 million. We see a synergistic opportunity in the future to combine this business with Industrial for operating and reporting purposes.

## Support for an Evolving Market

In the dynamic and evolving Industrial vertical market, we collaborate with our customers to help bring products to market that support smart cities, energy efficiency, energy management, motor controls, pump controls, electronic climate controls, as well as interoperability of industrial devices. Wherever technology leads us, we will continue to support customers that are recognized as leaders in the Industrial market both now and in the future.

## Sales in the Industrial Vertical Market



5% increase compared to last year

“Our commitment to exceeding customer expectations of quality, durability, and high-reliability when manufacturing industrial assemblies and products is what separates Kimball Electronics from our competition.”

**Dennis Gradler**  
Kimball Electronics Sr. Director of Industrial and Public Safety Solutions



## Smart Electronic Access Control Products

Our manufacturing for the Public Safety end market includes products that support the safeguarding of people, property, and infrastructure. In addition to the trend of a growing remote workforce, the future of door and smart access control will increasingly rely on electronics and on mobile technology. As the physical access control trends in 2022 shift to digital and as smart access control applications continue to evolve, Kimball Electronics is at the forefront supporting new product introductions for our customers.

+500,000 smart access control assemblies produced in fiscal year 2022



+17.5 million Industrial and Public Safety electronic assemblies manufactured in fiscal year 2022

## Helping Lead the Way in Smart Meter Manufacturing

Smart meters are electronic measurement devices used by utility companies and municipalities to communicate billing information to customers for electricity, water, and/or gas operating systems. They are rapidly being deployed throughout Europe and North America and are improving grid reliability, as well as energy, gas, and water usage efficiency every day. The accuracy and savings from the two-way communications technology for information, monitoring, and control are making smart meter deployment more and more common. Kimball Electronics has become a leader in the manufacturing of smart meter electronics and systems.

The global smart meters market is expected to grow by registering a Compound Annual Growth Rate (CAGR) of 7.74% over 5 years (forecast period 2022-2027).

Through our leadership and manufacturing expertise, we are poised for growth in our partnerships with our smart meter customers.

Source: Global Smart Meters Market—Growth, Trends, COVID-19 Impact, and Forecasts (2022–2027), Mordor Intelligence—2021







**Doubling our Manufacturing Capacity in Mexico**

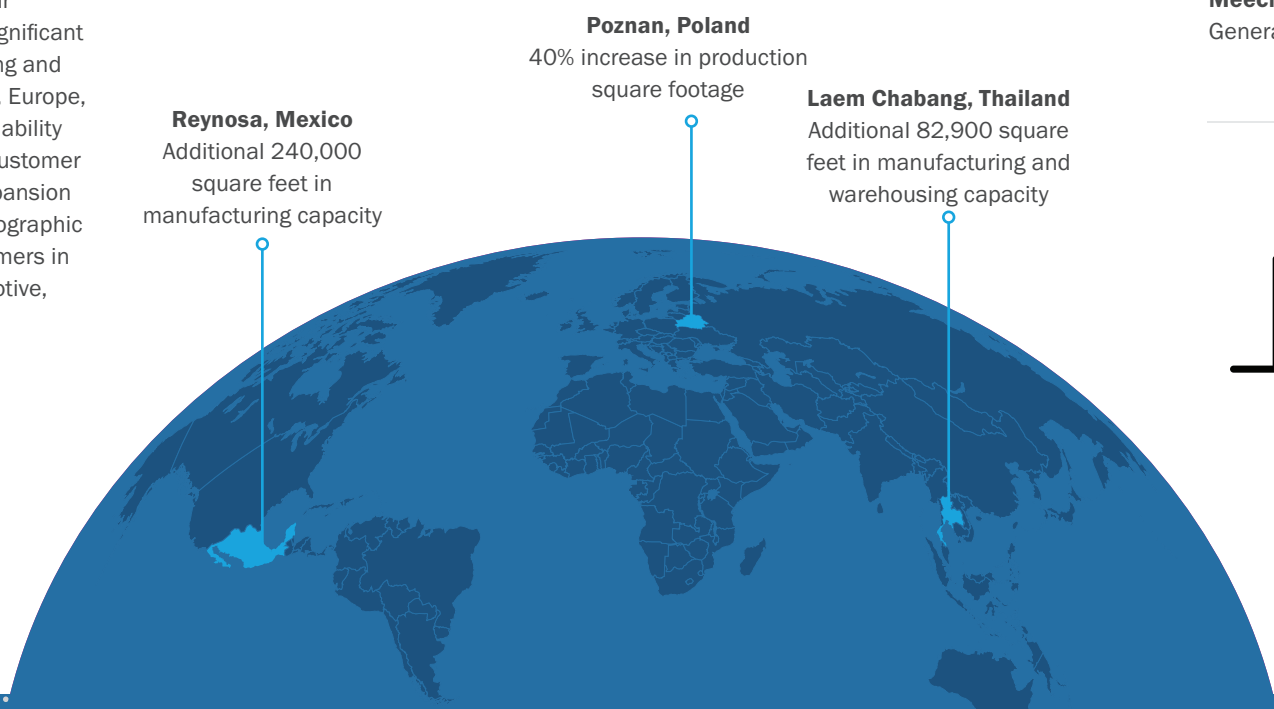
Our most recent manufacturing capacity expansion took place in Reynosa, Mexico, where we completed the construction of a new facility, Kimball Electronics—Mexico #2, in late June. We are leveraging our existing expertise to support the new facility but will be adding key talent to both facilities to support expected growth in Mexico as we service our customers in North America. The two facilities will operate as a single entity and will share leadership in key positions. Presently, Kimball Electronics—Mexico #1 has 230,000 square feet of floor space, while the new facility has more than doubled our manufacturing capacity by adding 240,000 square feet to our footprint in Reynosa, Mexico.

# Facilities Expansion

Kimball Electronics is expanding its global manufacturing and warehousing facilities to meet the growing demand from both existing and new customers.

**Our Customer's Success is Our Success**

We regard our customers as partners, and integral to all successful partnerships is a willingness to collaborate. The expertise we deliver results in more success for our customers which, in turn, helps drive our growth. In fiscal year 2022, we made significant progress in expanding our manufacturing and warehousing capacity in North America, Europe, and Asia to ensure Kimball Electronics' ability to support the long-term needs of our customer base across the globe. Our capacity expansion is underway in all three of our major geographic regions and will positively impact customers in our four End Market Verticals of Automotive, Medical, Industrial, and Public Safety.



↑ 38%

We're underway with 370,000 square feet of new facility expansions, representing an increase of 38% capacity worldwide.



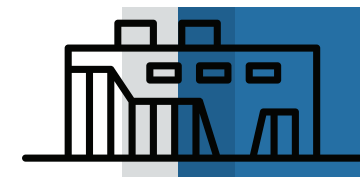
**Expanding Our Footprint in Thailand**

The fiscal year 2022 expansion project for Kimball Electronics—Thailand has more than doubled the capacity of our manufacturing facility. The new construction includes a 2-floor factory and a 3-floor office that increased manufacturing floor space by 61,400 square feet, representing a 114% increase from our current manufacturing floor space. Additionally, the new building increased our warehouse space by 21,500 square feet, a 133% increase, to support our upper-level assembly business. The new building also includes an in-house calibration laboratory, failure analysis laboratory, cleanliness test and tooling shop, and clean room space up to 200 m<sup>2</sup>, class 7 or 8 for Medical manufacturing.

“Our team is excited to more than double our manufacturing capacity in order to welcome new customers and to grow with our current customers in Thailand.”

**Meechai Charatpattanawong**

General Manager, Kimball Electronics – Thailand



**New Business Drives Growth in Poland**

The most recent facility expansion initiated in fiscal year 2022 is that of our Poland manufacturing facility. This expansion reflects our success in winning new business in Europe where additional capacity is needed for programs with new and existing customers. We will add approximately 40% more production square footage to the existing site, where we will leverage existing management and manufacturing expertise to support the growth but anticipate adding key talent to support future growth.

40% increase in production square footage

# Our Culture

We demonstrate our company purpose by Creating Quality for Life for our people through a respectful and rewarding company culture that encourages meaningful work, as well as for our communities through our positive societal impacts.



## Greater Indy Habitat for Humanity

In April 2022, our Indianapolis team volunteered part of its day doing panel and frame work for a Greater Indy Habitat for Humanity project. “A lot of employees said they couldn’t believe we did this and that they have not been with a company in the past that would do something like this,” says HR Manager Amy Mancini.

### The Greater Indy Habitat for Humanity received:



**\$20K**  
donated  
by Kimball  
Electronics

**200+**  
hours of paid  
volunteer work  
time



“One way we live up to our People Guiding Principles is through annual, onsite health screenings coordinated with a local hospital. This helps employees understand their own health status and, if needed, leads them to get timely treatment.”

**Thu Nguyen**  
Vietnam

## 8.32 out of 10: The collective score by Kimball Electronics employees in our Guiding Principles Survey

### Creating Quality for Life

To further support our company purpose of Creating Quality for Life within the communities in which we operate, Kimball Electronics committed \$100,000 to the Southwestern Indiana Child Advocacy Center Coalition’s (SWICACC) \$1.1 million capital campaign. **“SWICACC directly touches the lives of many in our community by protecting children who face abuse. They support a vital, direct human need. It’s an honor to partner with them,”** said **Jana Croom, Chief Financial Officer, Kimball Electronics**. SWICACC Director Tammy Lampert commented, “Community support is imperative for a project of this magnitude. We are beyond grateful not only for this gracious contribution, but also that Kimball Electronics sees this need and shares our vision to create a better future for our youth. Our new center will positively impact Southern Indiana’s generations to come.”

### Guiding Principles

Each year, employees around the world rate us on how well we are living up to the company culture we strive to provide as defined by the elements within our Guiding Principles. The most recent results tell us that the vast majority of our employees would recommend Kimball Electronics to friends and family as a strong employer with which to seek a career; that our people feel a personal connection to our company’s purpose statement, Creating Quality for Life; and that our company is improving when it comes to creating a sense of belonging through our diversity, equity, and inclusion efforts.



**“The psychological safety of our people must be taken just as seriously as their physical safety. We are striving to create a culture in which employees are comfortable stepping out of their own safety zone to talk about their own feelings related to stress and mental health.”**

**Steve Korn**  
President, Global EMS Operations, Kimball Electronics



**Jana Croom**  
Chief Financial Officer,  
Kimball Electronics

### Diversity, Equity, Inclusion & Belonging

As a human-centered company focused on Diversity, Equity, Inclusion & Belonging (DEI&B), we promote multiple “heritage” days and months by giving employees the option to participate in virtual events to encourage openness to others and learning new insights. In fiscal year 2022, our events featured coworkers and external experts sharing their life stories during Black History Month, Martin Luther King Jr. Day, Hispanic Heritage Month, Asian American Pacific Islander Heritage Month, Indigenous Peoples’ Day, LGBTQ+ Pride Month, and International Women’s Day. We encourage our people to network with peers and share ideas for future event topics that will further build a sense of belonging for everyone in our global company.



**44%**  
of our executive  
team is female

**11%**  
of our executive  
management team  
is ethnically diverse

**“Thank you for showing support of Asian Americans during this month. I’m impressed your company has three different AAPI Heritage Month Events. It’s amazing.”**

**Dr. Melissa May Borja, Ph.D.**  
(USA Today Women of the Year honoree and a leading expert on anti-Asian racism during the pandemic.)

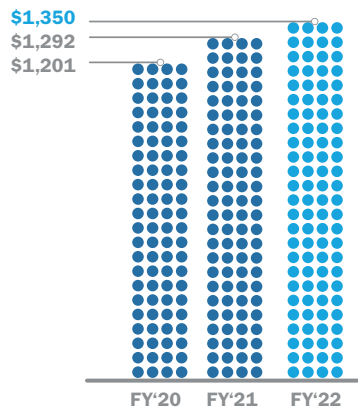


# Share Owner

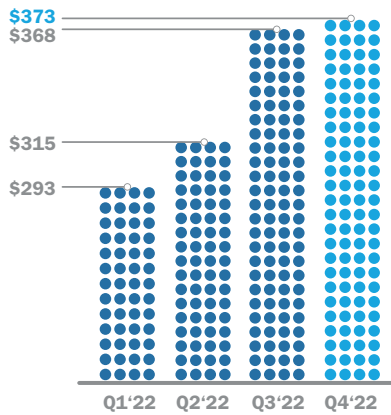
In fiscal year 2022, Kimball Electronics reported record top-line results with net sales totaling \$1.35 billion, an all-time high for the Company. This represents a 4% increase over the prior year, with growth in all end markets the Company serves. As expected, the year was bifurcated with revenue in the third and fourth quarters reaching the highest levels in the Company's history.

## Fiscal Year 2022 Top-Line Growth

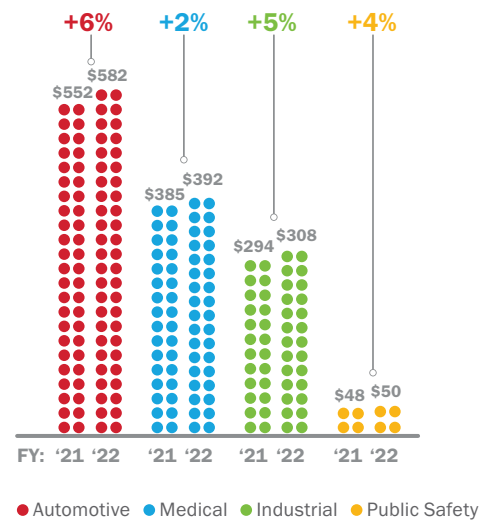
**Full Year Net Sales**  
(\$ in millions)



**Net Sales by Quarter**  
(\$ in millions)

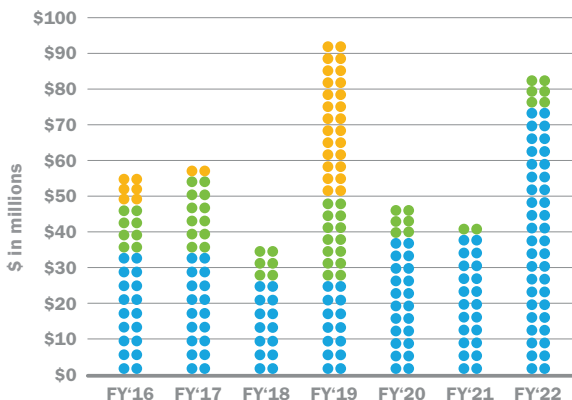


**Net Sales by Vertical Market**  
(\$ in millions)



### Capital Allocation Strategy

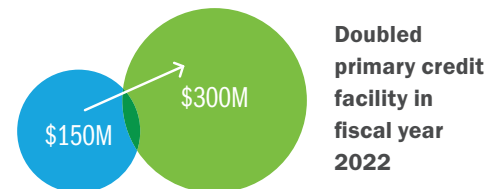
Deployed a capital allocation strategy that included investing in future growth with expansions at multiple facilities, returning cash to Share Owners in the form of stock repurchases, and supporting our customers with strategic inventory builds to mitigate parts shortages, even though the increases adversely impacted certain financial metrics including cash flow, Cash Conversion Days (CCD), and Return on Invested Capital (ROIC). We fully expect improvement in these areas as conditions normalize in the global supply chain.



- Reinvest in the Business**  
 Significant CapEx spending to fuel multi-year organic growth and expansion in ROIC.
- Acquisitions**  
 \$50+ million of acquisitions over past seven years. Going forward M&A will play an important role in strategic direction of the Company.
- Share Repurchase**  
 \$88.8 million of common stock repurchases representing 5.8 million shares since October of 2015.

### Credit Facility Increased to Support Future Growth

Doubled the primary credit facility with our banking partners with an increase to \$300 million, from \$150 million. This amended five year revolving credit facility gives us the flexibility to meet CapEx and working capital needs to support expansions, new product introductions, and other long-term strategic goals. As of June 30, 2022, our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, totaled \$178.6 million.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-36454



**KIMBALL ELECTRONICS, INC.**

*(Exact name of registrant as specified in its charter)*

**Indiana**

*(State or other jurisdiction of  
incorporation or organization)*

**1205 Kimball Boulevard, Jasper, Indiana**

*(Address of principal executive offices)*

**35-2047713**

*(I.R.S. Employer Identification No.)*

**47546**

*(Zip Code)*

**(812) 634-4000**

*Registrant's telephone number, including area code*

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each Class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	KE	The Nasdaq Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Emerging growth company

Non-accelerated filer  Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the common stock held by non-affiliates, as of December 31, 2021 (the last business day of the Registrant's most recently completed second fiscal quarter), was \$522.6 million based on 96.0% of common stock held by non-affiliates.

The number of shares outstanding of the Registrant's common stock as of August 15, 2022 was 24,625,797 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Share Owners to be held on November 11, 2022, are incorporated by reference into Part III.

**KIMBALL ELECTRONICS, INC.**

**FORM 10-K INDEX**

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## PART I

### Item 1 - *Business*

#### General

As used herein, the terms “Company,” “Kimball Electronics,” “we,” “us,” or “our” refer to Kimball Electronics, Inc., the Registrant, and its subsidiaries. Reference to a year relates to a fiscal year, ended June 30 of the year indicated, rather than a calendar year unless the context indicates otherwise. Additionally, references to the first, second, third, and fourth quarters refer to those respective quarters of the fiscal year indicated.

#### Forward-Looking Statements

This document contains certain forward-looking statements. These are statements made by management, using their best business judgment based upon facts known at the time of the statements or reasonable estimates, about future results, plans, or future performance and business of the Company. Such statements involve risk and uncertainty, and their ultimate validity is affected by a number of factors, both specific and general. They should not be construed as a guarantee that such results or events will, in fact, occur or be realized as actual results may differ materially from those expressed in these forward-looking statements. The statements may be identified by the use of words such as “believes,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “estimates,” “forecasts,” “seeks,” “likely,” “future,” “may,” “might,” “should,” “would,” “could,” “will,” “potentially,” and similar expressions. It is not possible to foresee or identify all factors that could cause actual results to differ from expected or historical results. We make no commitment to update these factors or to revise any forward-looking statements for events or circumstances occurring after the statement is issued, except as required by law.

The risk factors discussed in Item 1A - Risk Factors of this report could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.

At any time when we make forward-looking statements, we desire to take advantage of the “safe harbor” which is afforded such statements under the Private Securities Litigation Reform Act of 1995 where factors could cause actual results to differ materially from forward-looking statements.

#### Overview

Kimball Electronics was founded in 1961 and incorporated in 1998. We are a global, multifaceted manufacturing solutions provider of contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We deliver a package of value that begins with our core competency of producing durable electronics and has expanded into diversified contract manufacturing services for non-electronic components, medical disposables, drug delivery solutions, precision molded plastics, and production automation, test, and inspection equipment. Our design and manufacturing expertise coupled with robust processes and procedures help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We deliver award-winning service across our global footprint and operating system that is enabled by highly integrated procedures, standardization, and teamwork. Our Customer Relationship Management (“CRM”) model is key to providing our customers convenient access to our global footprint and all of our services throughout the entire product life cycle. Because our customers are in businesses where engineering changes must be tightly controlled and long product life cycles are common, they value our track record of quality, financial stability, social responsibility, and commitment to long-term relationships.

We have been producing safety critical electronic assemblies for our automotive customers for over 35 years. During this time, we have developed expertise that has proven to be valuable not only to our automotive customers, but also to our medical, industrial, and public safety customers as well. We have been successful in growing and diversifying our business by leveraging this experience and know-how in the areas of design and process validation, traceability, process and change control, and lean manufacturing to create valuable and innovative solutions for customers across these verticals. This includes diversified contract manufacturing services for medical disposables, precision molded plastics, and design, production, and servicing of automation, test, and inspection equipment for industrial applications. We have harmonized our quality systems to be compliant with various important industry certifications and regulatory requirements, which allows us to take advantage of other strategic points of leverage in the supply chain, and within our operations, to cost-effectively manufacture electronic and non-electronic products in the same production facility for customers from all four end market verticals.

Many of our customers are multinational companies selling products in multiple regions of the world. These customers leverage investments in their supplier relationships with partners like us that can provide them with engineering, manufacturing, and supply chain support in multiple regions of the world. We commonly manufacture the same product for the same customer in multiple locations. Coupled with our CRM model and our global systems, procedures, processes, and teamwork, our strategy for expanding our global footprint has aligned us with the preferences of the customers in our four end market verticals and has positioned us well to support their global growth initiatives.

Our global component sourcing, procurement, quoting, and customer pricing processes and central functions provide our customers with commonality and consistency across the various regions where we operate. For example, our central sourcing organization uses global procurement processes and strategies to ensure sufficient availability of components and a uniform approach to pricing while leveraging the purchase volume of the entire organization. We manage customer pricing for the products we produce primarily with a standardized, global quoting model that we can apply seamlessly wherever our customers ask us to produce their products.

Our CRM model combines experts from our manufacturing facilities and members of our business development team who reside remotely and nearer to our customers around the world. We also have cross-functional teams in the areas of quality, operational excellence, quoting, and design engineering with representatives from our various locations that provide support to our teams on a global basis. The skill sets of these team members and the clarity in their roles and responsibilities help provide our customers with a strong conduit that is critical to execution and forming a strong relationship. We have institutionalized a customer scorecard process that provides all levels of our company with valuable feedback that drives actions for continuous improvement. This process has helped us deliver award-winning service and build loyalty with our customers.

Our corporate headquarters is located at 1205 Kimball Boulevard, Jasper, Indiana. Production occurs in our facilities located in the United States, China, Mexico, Poland, Romania, Thailand, and Vietnam. We also have operations in India and Japan.

Our services are sold globally on a contract basis, and we produce products to our customers' specifications with manufacturing services which primarily include:

- Design services and support;
- Supply chain services and support;
- Rapid prototyping and new product introduction support;
- Product design and process validation and qualification;
- Industrialization and automation of manufacturing processes;
- Reliability testing (testing of products under a series of extreme environmental conditions);
- Production and testing of printed circuit board assemblies (PCBAs);
- Production and assembly of medical devices, medical disposables including packaging, and other non-electronic products;
- Drug delivery devices and solutions with and without electronics;
- Class 8 clean room assembly, cold chain and product sterilization management;
- Design engineering and manufacturing of automation, test, and inspection equipment;
- Design engineering and production of precision molded plastics;
- Software design; and
- Complete product life cycle management.

We pride ourselves on the fact that we pay close attention to the evolving needs and preferences of our customers, and we continue to look for opportunities to grow and diversify our business by expanding our package of value and global footprint.

## Reporting Segment

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and assessing performance. Each of our business units qualifies as an operating segment with its results regularly reviewed by our chief operating decision maker, the Chief Executive Officer. Our operating segments meet the aggregation criteria under the accounting guidance for segment reporting. As of June 30, 2022, all of our operating segments provided contract manufacturing services, including engineering and supply chain support, for the production of electronic assemblies and other products including medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment primarily in automotive, medical, industrial, and public safety applications, to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products have similar characteristics across all our operating segments. Each of our operating segments services customers in multiple markets, and many of our customers' programs are manufactured and serviced by multiple operating segments. We leverage global processes such as component procurement and customer pricing that provide commonality and consistency among the various regions in which we operate. All of our operating segments have similar long-term economic characteristics, and as such, have been aggregated into one reportable segment.

## Our Business Strategy

We intend to achieve sustained, profitable growth in the markets we serve by supporting the global growth initiatives of our customers as a multifaceted manufacturing solutions company. Key elements of executing our strategy include:

- Leveraging Our Global Footprint – continue our strategy of utilizing our presence in key regions worldwide, primarily focused on expansions of existing facilities, as well as potential new geographic regions, as our customer demands dictate;
- Expanding Our Package of Value – enhance our core strengths and expand our package of value through contract manufacturing services in areas such as complex system assembly, specialized processes, and precision molded plastics with particular emphasis on Kimball medical solutions;
- Expanding Our Markets – explore opportunities that will broaden existing or establish new markets, capabilities, or technologies such as automation, test, and inspection equipment for industrial applications.

We expect to make investments that will strengthen or add new capabilities to our package of value as a multifaceted manufacturing solutions company, including through acquisitions. See Item 1A - Risk Factors for risks associated with acquisitions.

## Our Business Offerings

We offer contract electronics manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end market verticals. We further offer diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, as well as production automation, test, and inspection equipment. Our services support the complete product life cycle of our customers' products, and our processes and capabilities cover a range of products from high volume-low mix to high mix-low volume. We bring innovative, complete design solutions to our customers. We offer Design for Excellence input to our customers as a part of our standard package of value, and we use sophisticated software tools to integrate the supply chain in a way that provides our customers with the flexibility their business requires. Our robust new product introduction process and our extensive manufacturing capabilities give us the ability to execute to the various quality and reliability expectations of our customers in each of our end market verticals.

We value our customers and their unique needs and expectations. Our customer focus and dedication to unparalleled excellence in engineering and manufacturing has resulted in proven success in the contract manufacturing industry. Personal relationships are important to us, and we strive to build long-term global partnerships. Our commitment to support our customers is backed by our history and demonstrated performance for the past 60 years.

## Marketing Channels

Manufacturing services, including engineering and supply chain support, are marketed by our business development team. We use a CRM model to provide our customers with convenient access to our global footprint and all of our services throughout the entire product life cycle.



## Major Competitive Factors

Key competitive factors in the markets we serve include quality and reliability, engineering design services, production flexibility, on-time delivery, customer lead time, test capability, competitive pricing, and global presence. Numerous contract manufacturing service providers compete globally for business from existing and potential customers. We also face competition from our customers' own capacity and capabilities to in-source production. The proliferation of electronic components in today's advanced products and the continuing trend of original equipment manufacturers in the electronics industry subcontracting the assembly process to companies with a core competency in this area drive growth in the EMS industry. The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. New customers and program start-ups generally cause margin dilution early in the life of a program, which is often recovered as the program becomes established and matures. Our continuing success depends upon our ability to replace expiring customers/programs with new customers/programs.

We do not believe that we, or the industry in general, have any special practices or special conditions affecting working capital items that are significant for understanding our business other than fluctuating inventory levels, which may increase in conjunction with the start-up of new programs and component availability.

## Our Competitive Strengths

We derive our competitive strengths from our experience of producing safety critical electronic assemblies for automotive customers for over 35 years and leveraging this experience to create valuable and innovative solutions for customers in different industries. Our strengths include:

- Core competency of producing durable electronics;
- Body of knowledge as it relates to the design and manufacture of products that require high levels of quality control, reliability, and durability;
- Highly integrated, global footprint;
- Capability to provide our customers diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and automation, test, and inspection equipment;
- CRM model and our customer scorecard process;
- Ability to provide our customers with valuable input regarding designs for improved manufacturability, reliability, and cost;
- Quality systems, industry certifications, and regulatory compliance;
- Integrated supply chain solutions and competitive bid process resulting in competitive raw material pricing; and
- Complete product life cycle management.

## Competitors

The EMS industry is very competitive as numerous manufacturers compete for business from existing and potential customers. Our competition includes EMS companies such as Benchmark Electronics, Inc., Flex Ltd., Jabil Inc., Plexus Corp., and Sanmina Corporation. We do not have a significant share of the EMS market and were ranked the 21st largest global EMS provider for calendar year 2021 by *Manufacturing Market Insider* in the March 2022 edition published by New Venture Research.

## Locations

As of June 30, 2022, we have eleven manufacturing facilities with two located in Indiana, two in China, and one located in each of California, Florida, Mexico, Poland, Romania, Thailand, and Vietnam. Our software design services are primarily performed at our location in India, and other support services are performed at our location in Japan. We continually assess our capacity needs and evaluate our operations to optimize our service levels for supporting our customers' needs around the globe, and we have recently expanded our facility in Thailand and are in the process of expanding the facilities in Mexico and Poland. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations.

## Seasonality

Consolidated sales revenue is generally not affected by seasonality.

## Customers

While the total electronic assemblies market has broad applications, our customers are concentrated in the automotive, medical, industrial, and public safety end markets.

Sales by industry as a percent of net sales for each of the three years in the period ended June 30, 2022 were as follows:

	Year Ended June 30		
	2022	2021	2020
Automotive	43%	43%	38%
Medical	29%	30%	33%
Industrial	23%	23%	23%
Public Safety	4%	3%	5%
Other	1%	1%	1%
Total	100%	100%	100%

Included in our sales were a significant amount to Nexteer Automotive and Philips, which accounted for the following portions of net sales:

	Year Ended June 30		
	2022	2021	2020
Nexteer Automotive	17%	17%	14%
Philips	15%	15%	16%

The nature of the contract manufacturing business is such that start-up of new programs to replace expiring programs occurs frequently. Our agreements with customers are often not for a definitive term and are amended and extended, but generally continue for the relevant product's life cycle, which can be difficult to predict at the beginning of a program. Typically, our customer agreements do not commit the customer to purchase our services until a purchase order is provided, which are generally short term in nature. Our customers generally have the right to cancel a particular program subject to contractual provisions governing termination, the final product runs, excess or obsolete inventory, and end-of-life pricing, which reduces the additional costs that we incur when a manufacturing services agreement is terminated.

## Raw Materials

Raw materials utilized in the manufacture of contract electronic products are generally readily available from both domestic and foreign sources, although from time to time the industry experiences shortages of certain components due to supply and demand forces, combined with rapid product life cycles of certain components. In addition, unforeseen events such as natural disasters and the COVID-19 global pandemic can and have disrupted portions of the supply chain. We believe that maintaining close communication with suppliers helps minimize potential disruption in our supply chain.

The EMS industry is currently experiencing component shortages, component allocations, cost inflation, and shipping delays, particularly with semiconductors, driven by the strong demand in electronics and the global recovery from the impact of COVID-19, complicated by its continued impact. Component shortages or allocations could continue to increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. The semiconductor shortage has adversely impacted global manufacturing, including the automotive industry, leading to automakers temporarily suspending production at times. We take various actions to attempt to mitigate the risk and minimize the impact to our customers as well as the adverse effect component shortages or allocations could have on our results. Through contractual pricing arrangements and negotiations with our customers, we attempt to mitigate the adverse effect that cost increases could have on our results.

Raw materials are normally acquired for specific customer orders and may or may not be interchangeable among products. Inherent risks associated with rapid technological changes within this contract industry are mitigated by procuring raw materials, for the most part, based on firm orders. In certain instances, such as when lead times dictate, we enter into contractual agreements for material in excess of the levels required to fulfill customer orders. In turn, material authorization agreements with customers cover a portion of the exposure for material which is purchased prior to having a firm order. We may also purchase additional inventory to support new product introductions, transfers of production between manufacturing facilities, and to mitigate the potential impact from component shortages.

## Intellectual Property

Our primary intellectual property is our proprietary manufacturing technology and processes that allow us to provide competitive contract manufacturing and design services to our customers. As such, this intellectual property is complex and normally contained within our facilities. To protect our trade secrets, our manufacturing technology and processes, and other proprietary rights, we rely primarily on a combination of intellectual property laws pertaining to trade secrets and copyrights; non-disclosure agreements with our customers, employees, and suppliers; and our internal security procedures and systems. We feel that relying on trade secret or copyright protections is a superior strategy because there is no disclosure of the information to outside parties, and protections do not expire after a length of time. We currently have or are pursuing a modest number of patents for some of our innovations and technologies in the United States and foreign countries. We also maintain trademark rights (including registrations) for “Kimball Electronics,” “GES” and other wordmarks and trademarks that we use in our business in the United States and around the world. We have policies and procedures to identify and protect our own intellectual property and that of our customers and suppliers.

## Corporate Social Responsibility

We are committed to responsible, sustainable environmental, social, and governance philosophies and practices, which have been a part of our fabric since our founding in 1961. To showcase how our employees around the world share a strong sense of responsibility to protect the environment, sustain a safety focus at our facilities, and give back in meaningful ways to the communities where we live and work, we issued our latest annual Environmental, Social & Governance Report (“ESG Report”) in February 2022. The ESG Report highlights the long-term environmental, social, and governance principles and practices designed to support the Company’s commitment to sustaining “lasting relationships” and achieving “global success” with its stakeholders wherever Kimball Electronics’ touch is felt throughout the world. The ESG Report reflects several long-standing Guiding Principles of the Company: our customer is our business; our people are the company; the environment is our home; we strive to help our communities be great places to live; profitability and financial resources give us the freedom to shape our future and achieve our vision. The ESG Report is posted on our website at <https://www.kimballelectronics.com/esg>. The Company’s website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.

### *Socially Responsible Supply Chain*

We are committed to the use of a socially responsible supply chain to reduce the risk of human rights violations and the use of conflict minerals (tin, tungsten, tantalum and gold, or “3TG”) from the Democratic Republic of Congo and certain adjoining countries. Our efforts include requiring our suppliers to undertake reasonable due diligence within their supply chain to ensure that the 3TG in the materials we source from them do not directly or indirectly contribute to significant adverse human rights impacts, as well as conducting due diligence before allowing a potential supplier to become one of our preferred suppliers. We request the return of reporting forms related to conflict minerals from our suppliers under the Responsible Minerals Initiative, or RMI, Conflict Minerals Survey. Further, we seek to remove any suppliers that continue to fail to meet our supplier and conflict minerals policies after being provided the opportunity to remedy non-compliance via implementation of a corrective action plan. We also conduct recurring internal trainings for all employees and certain select contractors on export compliance, anti-corruption and anti-slavery, and insider trading. In addition, Kimball Electronics is a member of the Responsible Minerals Initiative, which is evaluating the supply chain risks of conflict minerals and other minerals (e.g., cobalt, mica) and studying how to mitigate those risks.

### *Human Rights*

As reflected in our Vision and Guiding Principles, Kimball Electronics is committed to the highest standards of conduct in its business dealings. We are a human-centered company that fully supports human rights. For us, human rights are more than just being compliant--they are about doing the right thing. Our Guiding Principles outline the critical role Kimball plays as a corporate citizen for our customers, our people, our partners, our environment, our Share Owners, and our communities. Our human rights beliefs are deeply rooted in our Guiding Principles and expressed in our Global Human Rights Policy, which is supported by annual review that explains some of the practical actions that we take each year to implement our Policy.

Kimball has been built upon the tradition of pride in craftsmanship, mutual trust, personal integrity, respect for dignity of the individual, a spirit of cooperation, and a sense of family and good humor. We seek to enhance this culture as we grow. We believe that no company should prosper while violating the basic human rights of others whether through unlawful slavery, servitude, forced or compulsory labor, or otherwise exploitative means. We believe in upholding principles of human rights, fair remuneration and economic inclusion, fair labor practices, worker safety, and observing fair labor practices within our organization and our supply chain.

### *Diversity, Equity, Inclusion, and Belonging*

We value and work to promote a diverse, equitable and inclusive work environment. We are committed to holding ourselves accountable, taking action to continuously improve our policies and practices, and to uphold the principles that encompass diversity, equity, inclusion, and belonging as outlined in our Diversity, Equity, Inclusion, and Belonging (“DEI&B”) statement. Our strategy is to achieve excellence in customer service, employee relations, and business objectives through creativity, responsiveness, and innovation as a result of increased well-being, sense of belonging, and meaningful work for our employees. We actively promote DEI&B, and incorporate DEI&B into our culture, values, and strategies. We provide a report on the diversity of our employees to the Board of Directors annually.

### *Contributing to Our Communities*

One of our Guiding Principles is to strive to help our communities be great places to live. We live this Guiding Principle and further the goals of our Human Rights Policy when we contribute and encourage our employees to contribute to our local communities. In 2022, we committed \$100,000 to Southwestern Indiana Child Advocacy Center Coalition (“SWICACC”), a safe reporting center for abused or neglected children that serves seven counties in southwestern Indiana. On International Women’s Day 2021, we donated \$5,000 to Water To Thrive to build a freshwater well system for a village in Ethiopia because safe, fresh drinking water is a basic human right. We donated \$20,000 and over 200 hours of paid work time so that our employees could volunteer to help build a house for Greater Indy Habitat for Humanity. We donated \$10,000 each to the Red Cross in Poland and Romania to aid in Ukrainian relief efforts, and gave our employees in Poland two days of paid time off for volunteering to help refugees. Kimball Electronics Gives, an employee-based giving circle, raised enough money to offer grants totaling \$10,500 to eight worthy causes.

### **Environment and Energy Matters**

Our operations are subject to various foreign, federal, state, and local laws and regulations with respect to environmental matters. We believe that we are in substantial compliance with present laws and regulations and that there are no material liabilities related to such items.

We are dedicated to excellence, leadership, and stewardship in protecting the environment and communities in which we have operations. We believe that continued compliance with foreign, federal, state, and local laws and regulations which have been enacted relating to the protection of the environment will not have a material effect on our capital expenditures, earnings, or competitive position. Management believes capital expenditures for environmental control equipment will not represent a material portion of total capital expenditures.

Our operations require significant amounts of energy, including natural gas and electricity. Federal, foreign, and state regulations may control the allocation of fuels available to us, but to date we have experienced no interruption of production due to such regulations.

Refer to the discussion in Item 1A - Risk Factors for further details of the legal and regulatory initiatives related to environmental matters including climate change that could adversely affect our business, results of operations, and financial condition.

### **Our People are the Company: Human Capital Management**

We believe our people are the company. We believe in creating quality for life. We believe lasting relationships create our global success. We believe our people are the competitive edge for our service, quality, and value. Kimball Electronics has been built upon the tradition of pride in craftsmanship, mutual trust, personal integrity, respect for dignity of the individual, a spirit of cooperation, and a sense of family and good humor. We seek to enhance this culture as we grow. We believe in the inherent value of all individuals.

To raise awareness of our commitment to human rights and to foster compliance with our Global Human Rights Policy, we have incorporated it as an integral part of our Code of Conduct, train all of our employees worldwide on human rights issues, and require our suppliers, vendors, contractors, and partners to meet the same standards. To this end, through our Guiding Principles, we champion transparency and accountability for ourselves.

Because our people are the reason for our success, central to our long-term strategy is attracting, developing, and retaining the best talent globally and strengthening collaboration. We are committed to pay equity and apply the principle of equal pay for work of equal value in all regions where we operate. As of June 30, 2022, Kimball Electronics employed approximately 7,200 people worldwide, with approximately 1,200 located in the United States and approximately 6,000 located in foreign countries. Half of the independent members of the Board of Directors are female, along with four of our nine executive management team members and over 50% of our global workforce. We continue to execute on our commitment to diversity, equity, inclusion,

and belonging, and exhibit our commitment to gender, racial, and ethnic diversity by striving toward the corporate goals we outline in both our Global Human Rights Policy and Diversity, Equity, Inclusion, and Belonging statement, including by:

- Increasing female representation globally at the executive and senior management levels;
- Increasing racial and ethnic diversity at the executive and senior management levels so our leadership will reflect our organization and the communities in which we operate;
- Holding leadership accountable for diversity, equity, inclusion, and belonging outcomes.

The average tenure within our workforce is 6.15 years, and we work hard to mitigate turnover risk by consistently and formally surveying our workforce about how well we are living up to our *People* Guiding Principles by asking them to anonymously rate us on a scale from 1 (low) to 10 (high). We currently have a score of 8.32 across our enterprise. We believe this is evidence that we truly operate our business as our people are the company. We consistently have a participation rate in our Guiding Principles survey that exceeds 90%. Upon completion of this survey every year, each local management team receives qualitative and quantitative feedback and are responsible for crafting improvement plans based on our people's inputs.

Our U.S. operations are not subject to collective bargaining arrangements. Certain foreign operations are subject to collective bargaining arrangements, many mandated by government regulation or customs of the particular countries. We believe that our employee relations are good.

For additional information, see the Company's Proxy Statement to be filed for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Our People are the Company: Human Capital Management and Succession Planning Oversight."

#### **Available Information**

The Company makes available free of charge through its website, <http://investors.kimballelectronics.com>, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). All reports the Company files with the SEC are also available via the SEC website, <http://www.sec.gov>. The Company's website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.

## **Item 1A - Risk Factors**

The following important risk factors, among others, could affect future results and events, causing results and events to differ materially from those expressed or implied in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on our business, financial condition, and results of operations and should be carefully considered. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial, or we have not predicted may also affect our business, financial condition, or results of operations. Because of these and other factors, past performance should not be considered an indication of future performance.

### **Business and Operational Risks**

#### ***Reduction of purchases by, or the loss of, one or more key customers could reduce revenues and profitability.***

Losses of key customers within specific industries or significant volume reductions from key customers are both risks. Our continuing success is dependent upon replacing expiring contract customers/programs with new customers/programs. See “Customers” in Item 1 - Business for disclosure of the net sales as a percentage of consolidated net sales for each of our significant customers during fiscal years 2022, 2021, and 2020. Regardless of whether our agreements with our customers, including our significant customers, have a definite term, our customers typically do not commit to firm production schedules for more than one quarter. Our customers generally have the right to cancel a particular product, subject to contractual provisions governing the final product runs, excess or obsolete inventory, recovery of dedicated investments, and end-of-life pricing. As many of our costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for a product that represents a significant amount of revenue, can harm our gross profit margins and results of operations.

Significant declines in the level of purchases by key customers or the loss of a significant number of customers could have a material adverse effect on our business. In addition, the nature of the contract manufacturing industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently, and new customers and program start-ups generally cause margin dilution early in the life of a program. New customer relationships also present risk because we do not have an extensive product or customer relationship history.

Consolidation among our customers exposes us to increased risks, including reduced revenue and dependence on a smaller number of customers. Consolidation in industries that utilize our services may occur as companies combine to achieve further economies of scale and other synergies, which could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate duplicative product lines. Excess manufacturing capacity may increase pricing and competitive pressures for our industry as a whole and for us in particular.

We can provide no assurance that we will be able to fully replace any lost sales from these risks, which could have an adverse effect on our financial position, results of operations, or cash flows.

#### ***Supply chain disruptions, including the COVID-19 pandemic, could prevent us from purchasing sufficient materials, parts, and components necessary to meet customer demand at competitive prices, in a timely manner, or at all.***

We depend on suppliers globally to provide timely delivery of materials, parts, and components for use in our products. From time to time, we have experienced shortages of some of the materials, parts and components that we use, particularly with semiconductors. These shortages can result from strong demand for those components or from problems experienced by suppliers, such as shortages of raw materials and shipping delays for such components with common carriers. These unanticipated component shortages have and will continue to result in curtailed production or delays in production, which prevent us from making scheduled shipments to customers.

We have also experienced, and continue to experience, such shortages due to the effects of and responses to the COVID-19 pandemic, including the emergence of variants for which vaccines may not be effective, and may be impacted by other events outside our control, including macroeconomic events, trade restrictions, political crises, social unrest, terrorism, and conflicts (including the Russian invasion of and ongoing war in Ukraine). We cannot reasonably predict the full extent to which these events may impact our supply chain, because any impacts will depend on future developments that are highly uncertain and continuously evolving, including, the duration and severity of the ongoing COVID-19 pandemic and new information that may emerge concerning COVID-19, further actions by governmental entities or others in response to the types of events described above, and how quickly and to what extent normal economic and operating conditions can resume.

Suppliers adjust their capacity as demand fluctuates, and component shortages and/or component allocations could occur in addition to longer lead times. Certain components we purchased are primarily manufactured in select regions of the world and

issues in those regions could cause manufacturing delays. Maintaining strong relationships with key suppliers of components critical to the manufacturing process is essential. Component shortages may also increase our cost of goods sold because we may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components. These and other price increases, including increased tariffs, could have an adverse impact on our profitability if we cannot offset such increases with other cost reductions or by price increases to customers. If suppliers fail to meet commitments to us in terms of price, delivery, or quality, or if the supply chain is unable to react timely to increases in demand, it could interrupt our operations and negatively impact our ability to meet commitments to customers.

***The substantial investments required to start up and expand facilities and new customer programs may adversely affect our margins and profitability.***

We are currently expanding our global operations by increasing our product and service offerings and scaling our infrastructure at certain facilities to support our business. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage these expansions effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

Start-ups of new customer programs require the coordination of the design and manufacturing processes, as well as substantial investments in resources and equipment. The design and engineering required for certain new programs can take an extended period of time, and further time may be required to achieve customer acceptance. Accordingly, the launch of any particular program may be delayed, less successful than we originally anticipated, or not successful at all. Additionally, even after acceptance, most of our customers do not commit to long-term production schedules, and we are unable to forecast the level of customer orders with certainty over a given period of time. If our customers do not purchase anticipated levels of products, we may not recover our up-front investments, may not realize profits, and may not effectively utilize expanded fixed manufacturing capacities. All of these types of manufacturing inefficiencies could have an adverse impact on our financial position, operating margins, results of operations, or cash flows.

***Our international operations make us vulnerable to financial and operational risks associated with doing business in foreign countries.***

We derive a substantial majority of our revenues from our operations outside the United States, primarily in China, India, Mexico, Poland, Romania, Thailand, and Vietnam. Our international operations are subject to a number of risks, which may include the following:

- global, regional, or local economic and political instability;
- widespread health emergencies, such as COVID-19, and foreign governments' measures taken in response to them;
- foreign currency fluctuations including currency controls and inflation, which may adversely affect our ability to do business in certain markets and reduce the U.S. dollar value of revenues, profits, or cash flows we generate in non-U.S. markets;
- warfare, riots, terrorism, general strikes, or other forms of violence and/or geopolitical disruption;
- compliance with laws and regulations, including the U.S. Foreign Corrupt Practices Act, applicable to operations outside of the U.S.;
- changes in U.S. or foreign policies, regulatory requirements, and laws;
- tariffs and other trade barriers, including tariffs imposed by the United States as well as responsive tariffs imposed by China, the European Union, or Mexico;
- potentially adverse tax consequences, including changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries; and
- foreign labor practices.

These risks could have an adverse effect on our financial position, results of operations, or cash flows. Certain foreign jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our operations in the United States, we may incur significant penalties and/or taxes to repatriate these funds.

For example, the Russian invasion of Ukraine and the ongoing war there has impacted the global economy as the United States, the UK, the EU, and other countries have imposed broad export controls and financial and economic sanctions against Russia (a large exporter of commodities), Belarus, and specific areas of Ukraine, and may continue to impose additional sanctions or other measures. Russia may impose its own counteractive measures. Companies worldwide have interrupted or stopped production in Ukraine, Russia, and neighboring countries. We do not procure materials directly from Ukraine or Russia or have facilities there, but impacts like these, wherever they may occur, can further exacerbate the ongoing supply chain disruptions that are occurring across the globe, particularly in the automotive industry. Our European operations are located in Poland and

Romania, and both of these countries are part of NATO, which is actively taking, and could take in the future, certain measures in response to Russia's invasion of Ukraine.

The extent of the war's effect on the global economy and the duration, scope, and impacts of the conflict are unknown and highly unpredictable, and the consequences from future actions such as increased sanctions and retaliatory measures taken by the United States, NATO, or other countries cannot be predicted but could have an adverse impact on our business operations, particularly our European operations.

***We operate in a highly competitive industry and may not be able to compete successfully.***

Numerous manufacturers within the contract manufacturing industry compete globally for business from existing and potential customers. Some of our competitors have greater resources and more geographically diversified international operations than we do. We also face competition from the manufacturing operations of our customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing to contract manufacturing service providers. In the past, some of our customers have decided to in-source a portion of their manufacturing from us in order to utilize their excess internal manufacturing capacity. The competition may further intensify as more companies enter the markets in which we operate, as existing competitors expand capacity, and as the industry consolidates.

In relation to customer pricing pressures, if we cannot achieve the proportionate reductions in costs, profit margins may suffer. The high level of competition in the industry impacts our ability to implement price increases or, in some cases, even maintain prices, which also could lower profit margins. In addition, as end markets dictate, we are continually assessing excess capacity and developing plans to better utilize manufacturing operations, including consolidating and shifting manufacturing capacity to lower cost venues as necessary.

***If our engineering and manufacturing services do not meet our customers' quality standards, our sales, operating results, and reputation could suffer.***

We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems, certifications, and controls in our operations in an effort to ensure sustained compliance with various product and quality system regulations and requirements, and to meet the needs of our customers. However, in the event we fail to adhere to these requirements, we become subject to costs associated with product defects, interruptions in production, and reputational harm. Our failure to comply with applicable quality system standards could, in turn, adversely affect our customers through failures to supply product to them. Quality or noncompliance failures could have an adverse effect on our reputation in addition to an adverse impact on our financial position, results of operations, or cash flows. While we maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices, our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from liabilities related to product defects.

***Our business may be harmed due to failure to successfully implement information technology solutions or a lack of reasonable safeguards to maintain data security, including adherence to data privacy laws and physical security measures.***

The operation of our business depends on effective information technology systems, which are subject to the risk of security breach or cybersecurity threat, including misappropriation of assets or other sensitive information, such as confidential business information and personally identifiable data relating to employees, customers, and other business partners, or data corruption which could cause operational disruption. As we could be the target of cyber and other security threats, which are becoming increasingly sophisticated, we must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address, and mitigate the risk of unauthorized access, misuse, computer viruses, and other events that could have a security impact. Information systems require an ongoing commitment of significant resources to research new technologies and processes, maintain and enhance existing systems, and develop new systems in order to keep pace with changes in information processing technology and evolving industry standards as well as to protect against cyber risks and security breaches. While we provide employee awareness training around phishing, malware, and other cyber threats to help protect against these cyber and security risks, we cannot ensure the measures we take to protect our information technology systems will be sufficient.

Implementation delays, poor execution, or a breach of information technology systems could disrupt our operations, damage our reputation, or increase costs related to the mitigation of, response to, or litigation arising from any such issue. Similar risks exist with our third-party vendors. Any problems caused by these third parties, including those resulting from disruption in communications services, cyber attacks, or security breaches, have the potential to hinder our ability to conduct business. In addition, data privacy laws and regulations, such as the European Union General Data Protection Regulation ("GDPR"), the UK GDPR, ePrivacy Directive, the California Privacy Rights Act ("CPRA"), and similar legislation in jurisdictions in which we operate, pose increasingly complex compliance challenges and potentially elevate costs, and any failure to comply with these laws and regulations could result in significant penalties.



***We depend on attracting and retaining executive officers, key employees, skilled personnel, and sufficient labor to efficiently operate our business.***

Our success depends to a large extent on our ability to attract and retain highly qualified and diverse executive officers, key employees, and skilled personnel, and to continue to implement our succession plans for managers and other key employees. These employees are not generally bound by employment or non-competition agreements, and we cannot assure you that we will retain them. The labor market for these employees is intensely competitive, and compensation and benefit costs continue to increase significantly in the current economic environment. In particular, the high demand for manufacturing labor in certain geographic areas in which we operate makes recruiting new production employees and retaining experienced production employees difficult.

Our success also depends on keeping pace with technological advancements, including Industry 4.0, and adapting services to provide manufacturing capabilities which meet customers' changing needs. Therefore, we must retain our qualified engineering and technical personnel and successfully anticipate and respond to technological changes in a cost effective and timely manner.

Shortages of workers could adversely impact our ability to operate our business effectively and timely serve our customers' needs, which could adversely affect our relations with customers, result in reductions in orders from customers, or cause us to lose customers. Turnover in personnel could result in additional training and inefficiencies that could adversely impact our operating results. Our culture and guiding principles focus on continuous training, motivating, and development of employees, and we strive to attract, motivate, and retain qualified personnel. To aid in managing our growth and strengthening our pool of qualified personnel, we will need to internally develop, recruit, and retain diverse, qualified personnel. If we are not able to do so, our business and our ability to continue to grow could be harmed.

### **Regulatory and Litigation Risks**

***Litigation or legal proceedings could expose us to significant liabilities and have a negative impact on our reputation.***

We are or may become party to various claims and legal proceedings in the ordinary course of our business. These claims and legal proceedings may include lawsuits or claims relating to contracts, intellectual property, product recalls, product liability, employment matters, environmental matters, regulatory compliance, or other aspects of our business. Even when not merited, the defense of these claims and legal proceedings may divert our management's attention, and we may incur significant expenses in defending these claims and proceedings. In addition, we may be required to pay damage awards or settlements or become subject to injunctions or other equitable remedies, which could have a material adverse effect on our financial position, cash flows, or results of operations. The outcome of litigation is often difficult to predict, and the outcome of pending or future claims and legal proceedings may have a material adverse effect on our financial position, cash flows, or results of operations. We evaluate these claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our current assessments and estimates. If actual outcomes or losses differ materially from our current assessments and estimates or additional claims or legal proceedings are initiated, we could be exposed to significant liabilities.

***Failure to protect our intellectual property could undermine our competitive position.***

Competing effectively depends, to a significant extent, on maintaining the proprietary nature of our intellectual property. We attempt to protect our intellectual property rights worldwide through a combination of keeping our proprietary information secret and utilizing trademark, copyright, and trade secret laws, as well as licensing agreements and third-party non-disclosure and assignment agreements. Because of the differences in foreign laws concerning proprietary rights, our intellectual property rights do not generally receive the same degree of protection in foreign countries as they do in the United States, and therefore, in some parts of the world, we have limited protections, if any, for our intellectual property. If we are unable to adequately protect our intellectual property embodied in our solutions, designs, processes, and products, the competitive advantages of our proprietary technology could be reduced or eliminated, which would harm our business and could have a material adverse effect on our results of operations and financial position.

***Anti-takeover provisions in our organizational documents and Indiana law could delay or prevent a change in control.***

Certain provisions of our Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws may delay or prevent a merger or acquisition that a Share Owner may consider favorable. For example, the Amended and Restated Articles of Incorporation authorizes our Board of Directors to issue one or more series of preferred stock, prevents Share Owners from acting by written consent without unanimous consent, and requires a supermajority Share Owner approval for certain business

combinations with related persons. These provisions may discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Indiana law also imposes some restrictions on potential acquirers.

***Our failure to maintain applicable registrations for our manufacturing facilities could negatively impact our ability to produce products for our customers.***

We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems, certifications, and controls in our operations in an effort to ensure sustained compliance with various product and quality system regulations and requirements, and to meet the needs of our customers. However, in the event we fail to adhere to these requirements, we become subject to potential investigations and fines and penalties. Our failure to comply with applicable regulations and quality system standards could, in turn, adversely affect our customers through failures to supply product to them or delays in their ability to obtain and maintain product approvals. As a medical device manufacturer, we also have additional compliance requirements. The U.S. Food and Drug Administration (“FDA”) extensively regulates all aspects of product and manufacturing quality for medical products under its current Good Manufacturing Practices (cGMP) regulations. Outside the U.S., our operations and our customers’ products are subject to similar regulatory requirements, notably by the European Medicines Agency and the Safe Food and Drug Administration in China. For instance, we are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA’s Quality System Regulation (“QSR”) requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. Any determination by the FDA or other regulatory authorities of manufacturing or other deficiencies could adversely affect our business. Failure or noncompliance could have an adverse effect on our reputation in addition to an adverse impact on our financial position, results of operations, or cash flows.

***Climate change, and the legal and regulatory initiatives related to climate change, could subject us to extensive environmental regulation and significant potential environmental liabilities.***

There is increasing concern that a gradual increase in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters or extreme weather conditions, such as hurricanes, earthquakes, droughts, wildfires, cyclones, or floods. Physical climate risks and the operation of facilities in areas subject to increased water stress could impair our production capabilities, disrupt the operations of our supply chain and infrastructure, and impact our customers and their demand for our services.

The past and present operation and ownership by Kimball Electronics of manufacturing plants and real property are subject to extensive and changing federal, state, local, and foreign environmental laws and regulations, including those relating to discharges in air, water, and land, the handling and disposal of solid and hazardous waste, the use of certain hazardous materials in the production of select products, and the remediation of contamination associated with releases of hazardous substances. In addition, the increased prevalence of global climate change concerns may result in new regulations that may negatively impact us. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted, or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures, some of which could be material. In addition, any investigations or remedial efforts relating to environmental matters could involve material costs or otherwise result in material liabilities.

The long-term effects of climate change on the global economy and our industry in particular are unclear. Changes in climate where we, our customers, and our supply chain operate could have a long-term adverse impact on our business, results of operations, and financial condition. In addition, we have committed to cut our greenhouse gas emissions, water usage, electrical usage, and air emissions significantly by 2025 as part of our long-term sustainability strategy, and we may take additional voluntary steps to mitigate our impact on the environment. Environmental regulations or changes in the supply, demand, or available sources of energy, water, or other resources may affect the availability or cost of goods and services, including natural resources, necessary to run our business. The cost of energy is a critical component of freight expense and the cost of operating manufacturing facilities. Increases in the cost of energy in particular could reduce our profitability. Given the political significance and uncertainty around these issues, we cannot predict how climate change, and the legal and regulatory initiatives related to climate change, will affect our operations and financial condition.

***Compliance with government legislation and regulations may significantly increase our operating costs in the United States and abroad.***

Legislation and regulations promulgated by the U.S. federal and foreign governments could significantly impact our profitability by burdening us with forced cost choices that either cannot be recovered by increased pricing or, if we increase our pricing, could negatively impact demand for our products. For example:

- Changes in policies by the U.S. or other governments could negatively affect our operating results due to changes in duties, tariffs or taxes, or limitations on currency or fund transfers, as well as government-imposed restrictions on producing certain products in, or shipping them to, specific countries. For example, our facility in Mexico operates under the Mexican Maquiladora (“IMMEX”) program. This program provides for reduced tariffs and eased import regulations. We could be adversely affected by changes in the IMMEX program or our failure to comply with its requirements. As another example, the U.S. government has imposed tariffs on certain products imported from China. China has imposed tariffs on certain U.S. products in retaliation. These tariffs could force our customers or us to consider various strategic options including, but not limited to, looking for different suppliers, shifting production to facilities in different geographic regions, absorbing the additional costs, or passing the cost on to customers. Ultimately, these tariffs could adversely affect the competitiveness of our domestic operations, which could lead to the reduction or exit of certain U.S. manufacturing capacity. Depending on the types of changes made, demand for our foreign manufacturing facilities could be reduced, or operating costs in our manufacturing facilities could be increased, which could negatively impact our financial performance. Moreover, any retaliatory actions by other countries where we operate could also negatively impact our financial performance.
- The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as “conflict minerals,” originating from the Democratic Republic of Congo (“DRC”) and adjoining countries. These rules could adversely affect the sourcing, supply, and pricing of materials used in our products, as the number of suppliers who provide conflict-free minerals may be limited. We may also suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to modify our products to avoid the use of such materials. We may also face challenges in satisfying customers who may require that our products be certified as containing conflict-free minerals or that we adopt more stringent guidelines like those fostered by the Responsible Materials Initiative (“RMI”).
- We are subject to a variety of federal, state, local and foreign environmental, health and safety, product stewardship and producer responsibility laws and regulations, including those arising from global pandemics or relating to the use, generation, storage, discharge and disposal of hazardous chemicals used during our manufacturing process, those governing worker health and safety, those requiring design changes, supply chain investigation or conformity assessments, and those relating to the recycling or reuse of products we manufacture. These include EU regulations and directives, such as the Restrictions on Hazardous Substances (“RoHS”), the Waste Electrical and Electronic Equipment (“WEEE”) directives, and the Registration, Evaluation, Authorization, and Restriction of Chemicals (“REACH”) regulation, and similar regulations in China (the Management Methods for Controlling Pollution for Electronic Information Products or “China RoHS”). In addition, new technical classifications of e-Waste being discussed in the Basel Convention technical working group could affect both our customers’ abilities and obligations in electronics repair and refurbishment. If we fail to comply with any present or future regulations or timely obtain any needed permits, we could become subject to liabilities, and we could face fines or penalties, the suspension of production, or prohibitions on sales of products we manufacture. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses, including expenses associated with the recall of any non-compliant product or with changes in our operational, procurement and inventory management activities.

In addition, there is an increasing governmental focus around the world on climate change and environmental impact issues, which may result in new environmental, health, and safety regulations that may affect us, our suppliers and our customers. This could cause us to incur additional direct costs for compliance, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that are passed on to us. These costs may adversely impact our operations and financial condition.

***ESG issues, including those related to climate change and sustainability, may increase our costs and impose difficult and expensive compliance requirements.***

Customers, consumers, investors, and other stakeholders, particularly in the EMS industry, are increasingly focusing on environmental issues, including climate change, water use, deforestation, waste, and other sustainability concerns. Along with our stakeholders and our broader industry, we have increased our focus on sustainability and measurement of our progress against Environmental, Social, and Governance (“ESG”) criteria. We have established sustainability and ESG programs aligned with sound environmental, social and governance principles. These programs reflect our current initiatives and we cannot guarantee that we will be able to achieve the planned results. Our ability to successfully execute these initiatives and accurately report our progress presents numerous operational, financial, legal, reputational and other risks, many of which are outside our control, and all of which could have a material negative impact on our business. Additionally, the implementation of these initiatives imposes additional costs on us. If our ESG initiatives fail to satisfy investors, current or potential customers, consumers, and our other stakeholders, our reputation, our ability to sell products and services to customers, our ability to attract or retain employees, and our attractiveness as an investment or business partner could be negatively impacted. Similarly, our failure or perceived failure to pursue or fulfill our goals, targets, and objectives, or to satisfy various reporting standards within the timelines we announce, or at all, could also have similar negative impacts and expose us to government enforcement actions and private litigation.

In addition, our customers have adopted, and may continue to adopt, procurement policies that require us to comply with social, and environmental responsibility provisions. An increasing number of investors have adopted, and may continue to adopt, ESG policies for their portfolio companies, and various voluntarily sustainability initiatives and organizations have promulgated different social and environmental responsibility and sustainability guidelines. These practices, policies, provisions, and initiatives are under active development, subject to change, can be unpredictable and conflicting, and may prove difficult and expensive for us to comply with and could negatively affect our reputation, business, or financial condition.

#### **Financial Risks**

***We are exposed to the credit risk of our customers.***

The instability of market conditions drives an elevated risk of potential bankruptcy of customers resulting in a greater risk of uncollectible outstanding accounts receivable. Accordingly, we intensely monitor our receivables and related credit risks. The realization of these risks could have a negative impact on our profitability.

***Failure to effectively manage working capital may adversely affect our cash flow from operations.***

We closely monitor inventory and receivable efficiencies and continuously strive to improve these measures of working capital, but customer financial difficulties, cancellation or delay of customer orders, shifts in customer payment practices, transfers of production among our manufacturing facilities, additional inventory purchases to mitigate potential impact from component shortages, or manufacturing delays could adversely affect our cash flow from operations.

***We could incur losses due to asset impairment.***

As business conditions change, we must continually evaluate and work toward the optimum asset base. It is possible that certain assets such as, but not limited to, facilities, equipment, intangible assets, or goodwill could be impaired at some point in the future depending on changing business conditions. Such impairment could have an adverse impact on our financial position and results of operations.

***Fluctuations in our effective tax rate could have a significant impact on our financial position, results of operations, or cash flows.***

Our effective tax rate is highly dependent upon the geographic mix of earnings across the jurisdictions where we operate. Changes in tax laws or tax rates in those jurisdictions could have a material impact on our operating results. Judgment is required in determining the worldwide provision for income taxes, other tax liabilities, interest, and penalties. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law (including adverse changes to the manner in which the United States and other countries tax multinational companies or interpret their tax laws). We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes. In addition, our effective tax rate may be increased by changes in the valuation of deferred tax assets and liabilities, changes in our cash management strategies, changes in local tax rates, or countries adopting more aggressive interpretations of tax laws.

Several countries where we operate provide tax incentives to attract and retain business. We have obtained incentives where available and practicable. Our taxes could increase if: certain incentives were retracted, they were not renewed upon expiration, we no longer qualify for such programs, or tax rates applicable to us in such jurisdictions were otherwise increased.

In addition, further acquisitions may cause our effective tax rate to increase. Given the scope of our international operations and our international tax arrangements, changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries could have a material impact on our financial results and competitiveness.

Certain of our subsidiaries provide financing, products, and services to, and may undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles and that contemporaneous documentation must exist to support such pricing. Due to inconsistencies among jurisdictions in the application of the arm's length standard, our transfer pricing methods may be challenged and, if not upheld, could increase our income tax expense. Risks associated with transfer pricing adjustments are further highlighted by the global initiative from the Organization for Economic Cooperation and Development ("OECD") known as the Base Erosion and Profit Shifting ("BEPS") project. The BEPS project is challenging longstanding international tax norms regarding the taxation of profits from cross-border business. Given the scope of our international operations and the fluid and uncertain nature of how the BEPS project might ultimately lead to future legislation, it is difficult to assess how any changes in tax laws would impact our income tax expense.

***We are exposed to foreign currency risk.***

Fluctuations in exchange rates could impact our operating results. Our risk management strategy includes the use of derivative financial instruments to hedge certain foreign currency exposures. Any hedging techniques we implement contain risks and may not be entirely effective. Exchange rate fluctuations could also make our products more expensive than competitors' products not subject to these fluctuations, which could adversely affect our revenues and profitability in international markets.

***A failure to comply with the financial covenants under our credit facilities could adversely impact us.***

Our primary credit facility requires us to comply with certain financial covenants. We believe the most significant covenants under our credit facilities are the ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, as defined in our primary credit facility, and the interest coverage ratio. More detail on these financial covenants is discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. As of June 30, 2022, we had \$180.6 million in borrowings under our credit facilities and had total cash and cash equivalents of \$49.9 million. In the future, a default on the financial covenants under our credit facilities could cause an increase in the borrowing rates or make it more difficult for us to secure future financing, which could adversely affect our financial condition.

***We are exposed to interest rate risk on our borrowings.***

We have exposure to interest rate risk on our borrowings under our credit facilities. The interest rates of these borrowings are based on a spread plus applicable base rate, including the Secured Overnight Financing Rate ("SOFR"), the Euro Interbank Offered Rate ("EURIBOR"), the prime rate of a reference bank, or the federal funds rate. An adverse change in the base rates upon which our interest rates are determined could have a material adverse effect on our financial position, results of operations, or cash flows.

**General Risk Factors**

***We will face risks commonly encountered with growth through acquisitions.***

Our sales growth plans may occur through both organic growth and acquisitions. Acquisitions involve many risks, including:

- difficulties in identifying suitable acquisition candidates and in negotiating and consummating acquisitions on terms attractive to us;
- difficulties in the assimilation of the personnel, processes, and operations of the acquired company;
- difficulties in bringing internal control over financial reporting into compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner;
- the diversion of resources, including diverting management's attention from our current operations;
- risks of entering new geographic or product markets in which we have limited or no direct prior experience;
- the potential loss of key customers of the acquired company;
- the potential loss of key employees of the acquired company;
- the potential incurrence of indebtedness to fund the acquisition;
- the potential issuance of common stock for some or all of the purchase price, which could dilute ownership interests of our current Share Owners;
- the acquired business not achieving anticipated revenues, earnings, cash flow, or market share;
- excess capacity;
- the assumption of undisclosed liabilities;

- potential adverse tax effects; and
- dilution of earnings.

***We may implement future restructuring efforts and those efforts may not be successful.***

We continually evaluate our manufacturing capabilities and capacities in relation to current and anticipated market conditions. We may implement restructuring plans in the future, and the successful execution of those restructuring initiatives will be dependent on various factors and may not be accomplished as quickly or effectively as anticipated.

***Changes in financial accounting standards or policies have affected, and in the future may affect, our reported financial condition or results of operations.***

We prepare our financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the American Institute of Certified Public Accountants, the SEC, and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results and may affect our reporting of transactions that are completed before a change is announced. Changes to those rules or questions as to how we interpret or implement them may have a material adverse effect on our reported financial results or on the way we conduct business. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information on the adoption of the new accounting guidance.

***A change in our sales mix among various products could have a negative impact on our gross profit margin.***

Changes in product sales mix could negatively impact our gross margin as margins of different products vary. We strive to improve the margins of all products, but certain products have lower margins in order to price the product competitively or in connection with the start-up of a new program. An increase in the proportion of sales of products with lower margins could have an adverse impact on our financial position, results of operations, or cash flows.

***Natural disasters or other catastrophic events such as the COVID-19 pandemic may impact our production schedules and, in turn, negatively impact profitability.***

Natural disasters or other catastrophic events, including severe weather (including cyclones, hurricanes, and floods) as well as terrorist attacks, power interruptions, fires, and pandemics, could disrupt operations and likewise our ability to produce or deliver products. Our manufacturing operations require significant amounts of energy, including natural gas and oil, and governmental regulations may control the allocation of such fuels to Kimball Electronics. Employees are an integral part of our business, and events such as a pandemic could reduce the availability of employees reporting for work. In the event we experience a temporary or permanent interruption in our ability to produce or deliver product, revenues could be reduced, and business could be materially adversely affected. In addition, catastrophic events, or the threat thereof, can adversely affect U.S. and world economies, and could result in reduced demand for our customers’ products and delayed or lost revenue for our services. Further, any disruption in our IT systems could adversely affect the ability to receive and process customer orders, manufacture products, and ship products on a timely basis, and could adversely affect relations with customers, potentially resulting in reduction in orders from customers or loss of customers. We maintain insurance to help protect us from costs relating to some of these matters, but it may not be sufficient or paid in a timely manner to us in the event of such an interruption.

For example, the COVID-19 pandemic poses the risk that we or our employees, suppliers, customers, and others may be restricted or prevented from conducting business activities as normal for indefinite or intermittent periods of time, which has impacted and will continue to impact our global operations. All of our operations have been, and will continue to be, impacted to varying degrees by government measures worldwide to contain or mitigate the spread of the virus, including travel restrictions, restrictions on operation of businesses, shelter in place orders, and mandatory closures of schools and child-care facilities, which in turn can have adverse impacts on the availability of critical components, our supply chain, capacity utilization at our facilities, and the ability of certain employees to return to work. We have modified our business practices for the continued health and safety of our employees and may take further actions, or be required to take further actions, that are in the best interests of our employees. Our suppliers and customers have also implemented, or may implement, similar practices in response to the pandemic. The implementation of health and safety practices by us or our suppliers or customers could adversely impact deliveries and productivity and increase costs. In addition, responding to the continuing pandemic could divert management’s attention from our key strategic priorities or cause us to divert or delay the application of our resources toward initiatives that may otherwise increase our long-term value. We cannot reasonably predict the full extent to which the COVID-19 pandemic will impact our financial position, results of operations, and cash flows, which will depend on future developments that are highly uncertain and continuously evolving, including, the duration of the COVID-19 pandemic and its severity, new medical and other information that may emerge concerning COVID-19, further actions by governmental entities or others in response to the pandemic, and how quickly and to what extent normal economic and operating conditions can resume.

### **Item 1B - Unresolved Staff Comments**

None.

### **Item 2 - Properties**

As of June 30, 2022, we had eleven manufacturing facilities with two located in Indiana, two in China, and one located in each of California, Florida, Mexico, Poland, Romania, Thailand, and Vietnam. These facilities occupy approximately 1,761,000 square feet in aggregate, substantially all of which are owned. We lease facilities in India and Japan that accommodate our software design and other support services. In addition, we own a 42,000 square-foot building to house our headquarters located in Jasper, Indiana.

Generally, our manufacturing facilities are utilized at normal capacity levels on a multiple shift basis. At times, certain facilities utilize reduced shifts due to demand and sales fluctuations. We continually assess our capacity needs and evaluate our operations to optimize our service levels by geographic region. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations.

Significant loss of income resulting from a facility catastrophe would be partially offset by business interruption insurance coverage.

We hold land leases for our facilities in China, Thailand, and Vietnam with these leases expiring from fiscal year 2030 to 2057. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for additional information concerning leases. In addition, we own approximately 109 acres of land which includes land where our facilities reside.

### **Item 3 - Legal Proceedings**

We and our subsidiaries are not parties to any pending legal proceedings, other than ordinary routine litigation and claims incidental to the business. The outcome of current routine pending litigation and claims, individually and in the aggregate, is not expected to have a material adverse impact on our business or financial condition.

### **Item 4 - Mine Safety Disclosures**

Not applicable.

## Information about Our Executive Officers

Our executive officers as of August 30, 2022 are as follows:

(Age as of August 30, 2022)

<b>Name</b>	<b>Age</b>	<b>Office and Area of Responsibility</b>
Donald D. Charron	58	Chairman of the Board and Chief Executive Officer
Jana T. Croom	45	Chief Financial Officer
Jessica L. DeLorenzo	37	Vice President, Human Resources
Douglas A. Hass	46	Chief Legal and Compliance Officer, Secretary
LeRoy W. Kemper	51	Vice President, Diversified Contract Manufacturing Services
Steven T. Korn	58	President, Global Electronics Manufacturing Services Operations
Kathy R. Thomson	53	Vice President, Global Business Development and Design Services
Christopher J. Thyen	59	Vice President, New Platforms
Isabel S. Wells	46	Chief Information Officer

Executive officers are appointed annually by the Board of Directors. The following is a brief description of the business experience during the past five or more years of each of our executive officers.

Mr. Charron is our Chairman of the Board and Chief Executive Officer. Mr. Charron has served in this role since October 2014.

Ms. Croom is our Chief Financial Officer effective July 1, 2021. Ms. Croom joined Kimball Electronics in January 2021 in the role of Vice President, Finance. Prior to joining Kimball Electronics, she held the position of Vice President, Financial Planning and Analysis for NiSource Inc. since August 2019. Previously at NiSource Inc., she served as Director of Operations Planning since March 2017 and Director of Regulatory Affairs since April 2014.

Ms. DeLorenzo was appointed Vice President, Human Resources in June 2018. Ms. DeLorenzo joined Kimball Electronics in 2015 in the position of Director, Organizational Development.

Mr. Hass was appointed Chief Legal and Compliance Officer and Secretary effective January 1, 2022. He joined Kimball Electronics in August 2020 as Associate General Counsel and Assistant Secretary. Prior to Kimball Electronics, Mr. Hass served as General Counsel and Secretary of Lifeway Foods from 2016 through 2020.

Mr. Kemper was appointed Vice President, Diversified Contract Manufacturing Services, effective July 1, 2020. Previously, Mr. Kemper held the position of General Manager, Kimball Electronics Indianapolis since 2018. Prior to joining Kimball Electronics, he held the position of President for iScribeMD since 2017. Prior to iScribeMD, he served as the Vice President of Operations for Fresh Products since 2012.

Mr. Korn was appointed President, Global Electronics Manufacturing Services Operations, effective July 1, 2020. Previously, Mr. Korn held the position of Vice President, North American Operations and had served in this role since 2007.

Ms. Thomson was appointed Vice President, Global Business Development and Design Services in August 2018. Previously Ms. Thomson held the position of Vice President of Business Development for Creation Technologies since 2012.

Mr. Thyen was appointed our Vice President, New Platforms, in August 2018. Prior to this, he served as Vice President, Business Development since 2008.

Ms. Wells joined Kimball Electronics in April 2022 as Chief Information Officer. Prior to Kimball Electronics, Ms. Wells held the position of Vice President of IT at Avery Dennison since June 2019. From 2011 to 2019, Ms. Wells was Senior Director of IT at Avery Dennison.



## PART II

### Item 5 - Market for Registrant's Common Equity, Related Share Owner Matters and Issuer Purchases of Equity Securities

#### Market Information

The Company's common stock trades on the Nasdaq Global Select Market of The Nasdaq Stock Market LLC ("Nasdaq") under the symbol: KE.

#### Dividends

Since inception, we have not paid any dividends on our common stock, and we currently do not have plans to pay dividends in fiscal year 2023. Our Board of Directors (the "Board") regularly reviews our capital allocation strategy.

#### Share Owners

On August 15, 2022, the Company's common stock was owned by approximately 1,131 Share Owners of record.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item concerning securities authorized for issuance under equity compensation plans is incorporated by reference to Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters of Part III.

#### Issuer Purchases of Equity Securities

On October 21, 2015, our Board approved an 18-month stock repurchase plan (the "Plan"), authorizing the repurchase of up to \$20 million worth of our common stock. Then, separately on each of September 29, 2016, August 23, 2017, November 8, 2018, and November 10, 2020, the Board extended and increased the Plan to allow the repurchase of up to an additional \$20 million worth of common stock with no expiration date, which brought the total authorized stock repurchases under the Plan to \$100 million.

During fiscal year 2022, the Company repurchased \$9.1 million of common stock under the Plan. The following table contains information about our purchases of equity securities during the three months ended June 30, 2022.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
April 1, 2022 - April 30, 2022	—	\$ —	—	\$ 15,405,949
May 1, 2022 - May 31, 2022	141,113	\$ 18.10	141,113	\$ 12,852,192
June 1, 2022 - June 30, 2022	84,333	\$ 19.89	84,333	\$ 11,174,672
Total	<u>225,446</u>	\$ 18.77	<u>225,446</u>	

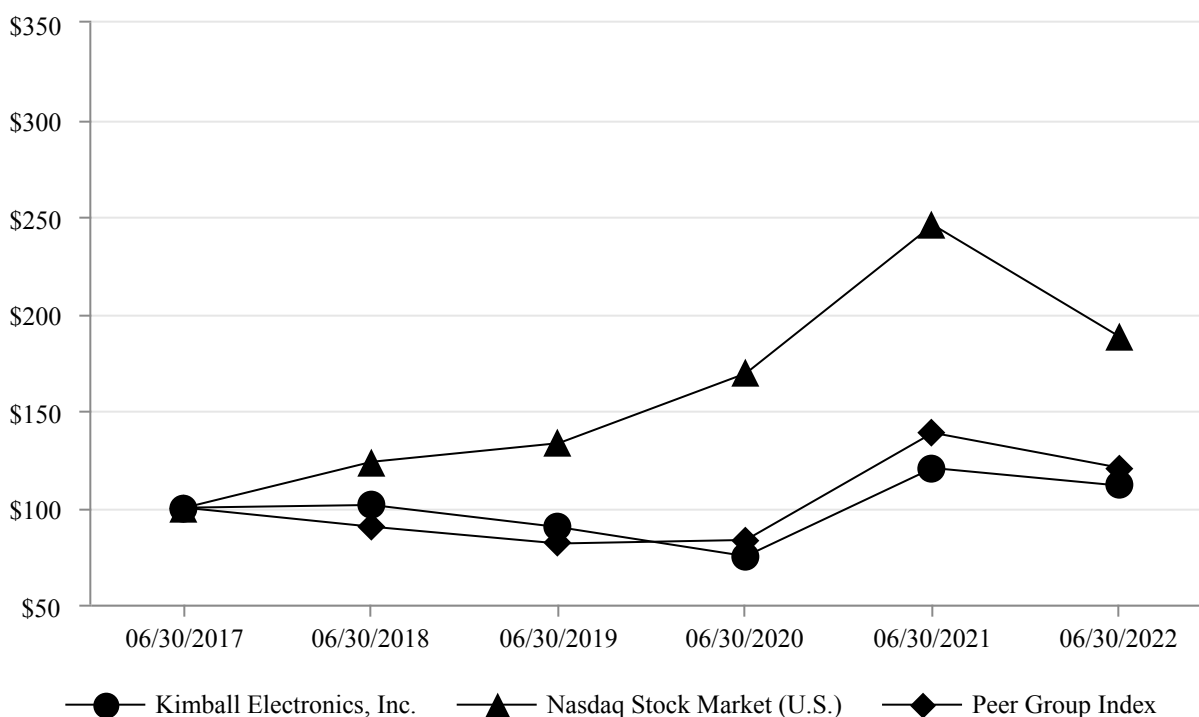
## Performance Graph

The following performance graph is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

The graph below compares the cumulative total return to Share Owners of the Company’s common stock for the five-year period commencing June 30, 2017 and ending June 30, 2022 to the cumulative total return of the Nasdaq Stock Market (U.S.) and a reference group index for the same period of time. Our cumulative total shareholder return (“TSR”) reference group index is comprised of: Benchmark Electronics, Inc., Flex Ltd., Jabil Inc., Plexus Corp., and Sanmina Corporation, each of which is a publicly traded company in the EMS industry. The public companies included in the cumulative TSR reference group each have a larger revenue base than we do.

The graph assumes \$100 is invested in the Company’s stock and each of the two indexes at the closing market quotations on June 30, 2017 and that dividends, if any, are reinvested. The performances shown on the graph are not necessarily indicative of future price performance.

### Comparison of Cumulative Total Return



	<u>06/30/2017</u>	<u>06/30/2018</u>	<u>06/30/2019</u>	<u>06/30/2020</u>	<u>06/30/2021</u>	<u>06/30/2022</u>
Kimball Electronics, Inc. ....	\$ 100.00	\$ 101.39	\$ 89.97	\$ 75.01	\$ 120.44	\$ 111.36
Nasdaq Stock Market (U.S.) ....	\$ 100.00	\$ 123.65	\$ 133.27	\$ 169.22	\$ 245.80	\$ 188.07
Peer Group Index .....	\$ 100.00	\$ 90.19	\$ 81.53	\$ 83.36	\$ 138.60	\$ 120.57

Item 6 - [Reserved]

## Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

### Business Overview

We are a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services ("EMS") and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. Our core competency is producing durable electronics, and we further offer diversified contract manufacturing services for non-electronic components, medical devices, medical disposables, drug delivery devices and solutions, precision molded plastics, and production automation, test, and inspection equipment. Our manufacturing services, including engineering and supply chain support, utilize common production and support capabilities globally. We are well recognized by our customers and the industry for our excellent quality, reliability, and innovative service. CIRCUIITS ASSEMBLY, a leading brand and technical publication for electronics manufacturers worldwide, has recognized us three times in the past four years for achieving the Highest Overall Customer Rating in their Service Excellence Awards.

The contract manufacturing services industry is very competitive. As a mid-sized player, we can expect to be challenged by the agility and flexibility of the smaller, regional players, and we can expect to be challenged by the scale and price competitiveness of the larger, global players. We enjoy a unique market position between these extremes which allows us to compete with the larger scale players for high-volume projects, but also maintain our competitive position in the generally lower volume durable electronics market space. We expect to continue to effectively operate in this market space; however, one significant challenge will be maintaining our profit margins while we continue our revenue growth. Price increases are uncommon in the market as production efficiencies and material pricing advantages for most projects drive costs and prices down over the life of the projects. This characteristic of the contract electronics marketplace is expected to continue.

*The Worldwide Manufacturing Services Market - 2022 Edition*, a comprehensive study on the worldwide EMS market published by New Venture Research ("NVR"), provided worldwide forecast trends through 2026. NVR projects the worldwide assembly market for electronics products to grow at a compound annual growth rate ("CAGR") of 4.3% over the next five years, with the EMS industry projected to grow at a CAGR of 5.5%.

We continue to monitor the current economic and industry conditions for uncertainties that may pose a threat to our future growth or cause disruption in business strategy, execution, and timing in the markets in which we compete. The COVID-19 pandemic continues to impact the global economy, and we are actively monitoring its impact on all our operations. The well-being and safety of our employees remains our number one priority, and we are following guidelines suggested by applicable authorities as appropriate for our operations. Our response to each positive case in our facilities follows our procedures for communication to our employees, contact tracing, self-quarantining, testing, and sanitization of the affected work areas. Nonetheless, all of our facilities have been affected to varying degrees by COVID-19. Most recently, due to the continued spread of COVID-19 cases, in various cities in China where our customers and suppliers operate, Chinese authorities have reinstated certain measures to keep COVID-19 in check, including travel restrictions, stay-at-home orders, compulsory quarantines, and the temporary closure of many corporate offices, manufacturing facilities, and factories. We continue to maintain close contact and communication with our customers and our supply chain to ensure safety measures follow appropriate guidelines for the health and safety of all parties and to minimize disruption of operations. While the availability of vaccines and other treatments is encouraging, significant uncertainties and risks still exist related to the severity and duration of the impact of COVID-19 on our end markets, the supply chain, the health and availability of our workforce, and global macroeconomic conditions; therefore, its financial impact on our future results cannot be reasonably estimated but could be material.

The EMS industry continues to experience component shortages, component allocations, and shipping delays, particularly with semiconductors, which have been especially challenging throughout this fiscal year. Component shortages or allocations could continue to increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. We have taken various actions to mitigate the risk and minimize the impact to our customers as well as the adverse effect component shortages, component allocations, or shipping delays could have on our results; however, the duration or severity of the components shortages is unknown.

COVID-19 interruptions and supply chain restraints have also resulted in an industry-wide inflation of components, labor, freight, and other operating costs. Through contractual pricing arrangements and negotiations with our customers, we have been able to mitigate a majority of these cost increases; however, our profitability has been impacted, and the financial impact on our future results cannot be reasonably estimated but could be material.

In February 2022, Russia launched an invasion of Ukraine. The ongoing war there has impacted the global economy as the United States, the UK, the EU, and other countries have imposed broad export controls and financial and economic sanctions against Russia (a large exporter of commodities), Belarus, and specific areas of Ukraine, and may continue to impose additional sanctions or other measures. Russia may impose its own counteractive measures. Companies worldwide are interrupting or

stopping production in Ukraine, Russia, and neighboring countries. We do not procure materials directly from Ukraine or Russia, but these impacts can further exacerbate the ongoing supply chain disruptions that are occurring across the globe, particularly in the automotive industry. While the precise effects on global economies of the ongoing war and sanctions remain uncertain, they have already resulted in significant volatility in financial markets, fluctuations in currency exchange rates, and an increase in energy and commodity prices globally. Should the war continue or escalate, there may be various economic and security consequences including, but not limited to, additional supply shortages of different kinds; further increases in prices of commodities; significant disruptions in logistics infrastructure and telecommunications services; and risks relating to the unavailability of information technology systems and infrastructure. The resulting impacts to the global economy, financial markets, inflation, interest rates, and unemployment, among others, could adversely impact economic and financial conditions, and may disrupt the global economy's ongoing recovery from the COVID-19 pandemic. Other potential consequences include, but are not limited to, growth in the number of popular uprisings in the region, increased political discontent, especially in the regions most affected by war or economic sanctions, increase in cyberterrorism activities and attacks, displacement of persons to regions close to the areas of conflict, and an increase in the number of refugees fleeing across Europe, among other unforeseen social and humanitarian effects. Any future negative impact to our operations cannot be reasonably estimated but could be material.

As expected, the second half of fiscal year 2022 finished stronger than the first half as we had record quarterly net sales in the fourth quarter and record annual net sales. Sales to customers in the automotive market and the industrial market experienced record annual net sales. We anticipate demand from customers in the automotive market to remain strong in fiscal year 2023 as the supply chain catches up with the demand and the continued ramp-up of certain programs and the launch of new programs. In the medical market, sales increased slightly by 2% as the prior fiscal year benefited from the COVID-19-related demand increase for medical assemblies. In the industrial market, sales increased in the current fiscal year in large part due to higher end market demand for climate control products. Sales to customers in the public safety market were slightly higher in the current fiscal year compared to fiscal year 2021.

We have a strong focus on cost control balanced with managing the future growth prospects of our business and growing backlog of orders due to the global component shortage and logistical challenges. We expect to make investments that will strengthen or add new capabilities to our package of value as a multifaceted manufacturing solutions company, including through our recently announced and completed capacity expansions. Managing working capital in conjunction with fluctuating demand levels is likewise key. In addition, a long-standing component of our profit-sharing incentive bonus plan is that it is linked to our financial performance which results in varying amounts of compensation expense as profits change.

We continue to maintain a strong balance sheet as of the end of fiscal year 2022, which included a current ratio of 1.9, a debt-to-equity ratio of 0.4, and Share Owners' equity of \$454 million. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, some of which are uncommitted, totaled \$178.6 million at June 30, 2022.

In addition to the above discussion related to the current market conditions, management currently considers the following events, trends, and uncertainties to be most important to understanding our financial condition and operating performance:

- Employees throughout our business operations are an integral part of our ability to compete successfully, and the stability of the management team is critical to long-term Share Owner value. Our talent management and succession planning processes help to maintain stability in management.
- Due to the contract and project nature of the contract manufacturing industry, fluctuation in the demand for our products and variation in the gross margin on those programs is inherent to our business. Effective management of manufacturing capacity is, and will continue to be, critical to our success.
- The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. As such, our ability to continue contractual relationships with our customers, including our principal customers, is not certain. While our agreements with customers generally do not have a definitive term and thus could be canceled at any time with little or no notice, we generally realize relatively few cancellations prior to the end of the product's life cycle. We attribute this to our focus on long-term customer relationships, meeting customer expectations, required capital investment, and product qualification cycle times. New customers and program start-ups generally cause margin dilution early in the life of a program, which are generally recovered as the program becomes established and matures.
- Risk factors within our business include, but are not limited to, general economic and market conditions, component availability, logistical challenges, customer order delays, globalization, global health emergencies including the COVID-19 pandemic, geopolitical conflicts such as the war in Ukraine, impact related to tariffs and other trade barriers, foreign currency exchange rate fluctuations, rapid technological changes, supplier and customer financial stability, the contract nature of this industry, the concentration of sales to significant customers, and the potential for

customers to choose a dual sourcing strategy or to in-source a greater portion of their manufacturing. The continuing success of our business is dependent upon our ability to replace expiring customers/programs with new customers/programs. We monitor our success in this area by tracking the number of customers and the percentage of our net sales generated from them by years of service as depicted in the table below. While variation in the size of program awards makes it difficult to directly correlate this data to our sales trends, we believe it does provide useful information regarding our customer loyalty and new business growth. Additional risk factors that could have an effect on our performance are located within Item 1A - Risk Factors.

<b>Customer Service Years</b>	<b>Year End</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>More than 10 Years</b>			
% of Net Sales .....	79%	81%	76%
# of Customers .....	34	33	38
<b>5 to 10 Years</b>			
% of Net Sales .....	17%	16%	11%
# of Customers .....	21	23	19
<b>Less than 5 Years</b>			
% of Net Sales .....	4%	3%	13%
# of Customers .....	11	16	21
<b>Total</b>			
% of Net Sales .....	100%	100%	100%
# of Customers .....	66	72	78

### **Presentation of Results of Operations and Liquidity and Capital Resources**

A discussion regarding our financial condition and results of operations for fiscal year 2022 compared to fiscal year 2021 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2021 compared to fiscal year 2020 can be found under captions entitled “Results of Operations - Fiscal Year 2021 Compared with Fiscal Year 2020” and “Liquidity and Capital Resources” in the section entitled “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2021 filed with the SEC on August 27, 2021, which is available free of charge through the SEC’s website at <http://www.sec.gov> or the Company’s website, <http://investors.kimballelectronics.com>. The Company’s website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.

### **Results of Operations - Fiscal Year 2022 Compared with Fiscal Year 2021**

	<b>At or For the Year Ended June 30</b>				
	<b>2022</b>	<b>as a % of Net Sales</b>	<b>2021</b>	<b>as a % of Net Sales</b>	<b>% Change</b>
(Amounts in Millions, Except for Per Share Data)					
Net Sales .....	\$ 1,349.5		\$ 1,291.8		4 %
Gross Profit .....	104.6	7.8%	118.0	9.1%	(11)%
Selling and Administrative Expenses .....	53.5	4.0%	52.7	4.0%	1 %
Other General Income .....	1.4		0.4		
Operating Income .....	52.5	3.9%	65.7	5.1%	(20)%
Other Income (Expense) .....	(8.7)		4.4		
Provision for Income Taxes .....	12.5		13.3		(6)%
Net Income .....	\$ 31.3		\$ 56.8		(45)%
Diluted Earnings per Share .....	\$ 1.24		\$ 2.24		(45)%
Open Orders .....	\$ 1,192		\$ 749		59 %

Net Sales by Vertical Market	For the Year Ended		
	June 30		
(Amounts in Millions)	2022	2021	% Change
Automotive	\$ 582.2	\$ 551.5	6%
Medical	391.7	384.8	2%
Industrial	308.1	293.7	5%
Public Safety	50.1	48.1	4%
Other	17.4	13.7	27%
Total Net Sales	<u>\$ 1,349.5</u>	<u>\$ 1,291.8</u>	4%

Net sales in fiscal year 2022 increased by 4% compared to net sales in fiscal year 2021, which included an unfavorable impact of 1% from foreign exchange fluctuations. By end market vertical, our market verticals fluctuated as follows:

- We experienced record sales to customers in the automotive market largely due to the ramp-up of certain programs and new product introductions, including programs for fully electric vehicles, partially offset by the unfavorable impact of component shortages.
- Sales to customers in the medical market improved slightly in the current fiscal year when compared to the prior fiscal year due to launch and ramp-up of new programs. Partially offsetting this increase was the benefit in the prior fiscal year sales of the temporary increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products as a direct result of the COVID-19 pandemic and related global shortage of respiratory equipment.
- We also experienced record sales to customers in the industrial market during the current fiscal year, as a result of higher end market demand for climate control products.
- Sales to customers in the public safety market were slightly higher in fiscal year 2022 compared to fiscal year 2021.

A significant amount of sales to Nexteer Automotive and Philips accounted for the following portions of our net sales:

	Year Ended June 30	
	2022	2021
Nexteer Automotive	17%	17%
Philips	15%	15%

Open orders were up 59% as of June 30, 2022 compared to June 30, 2021, primarily from an increase in the medical and automotive verticals. The increase in open orders in both the medical and automotive market is driven by the overall increase in demand coupled with the component shortages, which has limited our ability to fulfill customer orders. Open orders are the aggregate sales price of production pursuant to unfulfilled customer orders, which may be delayed or canceled by the customer subject to contractual termination provisions. The majority of open orders as of June 30, 2022 are expected to be filled within the next twelve months. Open orders at a point in time may not be indicative of future sales trends due to the contract nature of our business and the variability of order lead times among our customers. Additionally, COVID-19 and the component shortages could impact the timing of fulfillment of open orders.

Gross profit as a percent of net sales declined in fiscal year 2022 when compared to fiscal year 2021. We incurred higher material costs, increased freight costs, unfavorable foreign currency fluctuations, and wage inflation in the current fiscal year compared to the prior fiscal year. We also experienced lost absorption in the first half of the current fiscal year as we retained our workforce to be well-positioned for the anticipated growth in the second half of the current fiscal year. Partially offsetting these unfavorable factors in fiscal year 2022 were lower profit-sharing incentive bonus expense and lower depreciation from the change in estimates of useful lives on Surface Mount Technology production equipment. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information on the change in estimates of useful lives.

For fiscal year 2022, selling and administrative expenses increased slightly by 1% in absolute dollars but remained flat as a percent of net sales when compared to fiscal year 2021.

Other General Income in fiscal years 2022 and 2021 consisted of \$1.4 million and \$0.4 million, respectively, resulting from payments received related to class action lawsuits in which Kimball Electronics was a class member. The fiscal year 2021 amount was partially offset by lawsuit settlement accruals and payments.

Other Income (Expense) consisted of the following:

<b>Other Income (Expense)</b>	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
(Amounts in Thousands)		
Interest Income	\$ 81	\$ 102
Interest Expense	(2,655)	(2,165)
Foreign Currency/Derivative Gain (Loss)	(4,182)	4,806
Gain (Loss) on SERP Investments	(1,563)	2,073
Other	(499)	(465)
Other Income (Expense), net	<u>\$ (8,818)</u>	<u>\$ 4,351</u>

The Foreign Currency/Derivative Gain/(Loss) resulted from net foreign currency exchange rate movements during the periods. The loss in fiscal year 2022 and the gain in fiscal year 2021 were driven by the respective strengthening and weakening of the U.S. dollar versus foreign currencies that we have exposure to in our business. The revaluation of the fair value of the supplemental employee retirement plan (“SERP”) investments recorded in Other Income (Expense) is offset by the revaluation of the SERP liability recorded in Selling and Administrative Expenses, and thus there is no effect on net income. Other includes fees associated with our credit facilities, amortization of actuarial gains (losses), and other miscellaneous items that are not directly related to operations.

Our income before income taxes and effective tax rate were comprised of the following U.S. and foreign components:

<b>(Amounts in Thousands)</b>	<b>Year Ended June 30, 2022</b>		<b>Year Ended June 30, 2021</b>	
	<b>Income Before Taxes</b>	<b>Effective Tax Rate</b>	<b>Income Before Taxes</b>	<b>Effective Tax Rate</b>
United States	\$ 1,542	29.8%	\$ 10,439	11.4%
Foreign	\$ 42,189	28.5%	\$ 59,615	20.2%
Total	<u>\$ 43,731</u>	28.5%	<u>\$ 70,054</u>	18.9%

The consolidated effective tax rate for fiscal year 2022 was unfavorably impacted by the mix of taxable earnings within our various tax jurisdictions and foreign exchange rate movements.

The domestic effective tax rate and the consolidated effective tax rate for fiscal year 2021 were favorably impacted by a reversal of state valuation allowances. The consolidated effective tax rate was also favorably impacted by the mix of taxable earnings within our various tax jurisdictions and foreign exchange rate movements.

Our overall effective tax rate will fluctuate depending on the geographic distribution of our worldwide earnings. See Note 10 - Income Taxes of Notes to Consolidated Financial Statements for more information.

We recorded net income of \$31.3 million in fiscal year 2022, or \$1.24 per diluted share, a decrease of 45.0% from fiscal year 2021 net income of \$56.8 million, or \$2.24 per diluted share.

Comparing the balance sheet as of June 30, 2022 to June 30, 2021, Receivables increased \$19.5 million largely due to increased sales volumes. Our inventory balance increased \$195.2 million primarily due to the component shortages as we continued to purchase material not impacted by the shortages so we can fulfill our customer orders once the impacted components are received, as well as increased demand. Property and equipment, net increased \$43.6 million primarily from the Mexico and Thailand facility expansions. Accounts payable increased \$92.1 million primarily due to the increased inventory purchases. Borrowings under credit facilities increased \$114.4 million primarily due to borrowings on the U.S. primary credit facility for working capital purposes, including the strategic inventory builds to mitigate part shortages.

### **Liquidity and Capital Resources**

Working capital at June 30, 2022 was \$352.3 million compared to working capital of \$282.6 million at June 30, 2021. The current ratio was 1.9 at both June 30, 2022 and June 30, 2021. The debt-to-equity ratio was 0.4 and 0.1 at June 30, 2022 and June 30, 2021, respectively. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, some of which are uncommitted, totaled \$178.6 million at June 30, 2022 and \$206.7 million at June 30, 2021.

Cash Conversion Days (“CCD”) are calculated as the sum of Days Sales Outstanding (“DSO”) plus Contract Asset Days (“CAD”) plus Production Days Supply on Hand (“PDSOH”) less Accounts Payable Days (“APD”). CCD, or a similar metric, is used in our industry and by our management to measure the efficiency of managing working capital. The following table summarizes our CCD for the quarterly periods indicated.

	<b>Three Months Ended</b>				
	<b>June 30, 2022</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>
DSO .....	53	51	52	57	53
CAD .....	16	14	14	14	14
PDSOH .....	100	89	91	77	61
APD .....	78	71	76	75	64
CCD .....	91	83	81	73	64

We define DSO as the average of monthly trade accounts and notes receivable divided by an average day’s net sales, CAD as the average monthly contract assets divided by an average day’s net sales, PDSOH as the average of monthly gross inventory divided by an average day’s cost of sales, and APD as the average of monthly accounts payable divided by an average day’s cost of sales. Over the past several quarters, we have supported our customers through strategic inventory builds to mitigate parts shortages, which adversely impacted our PDSOH and CCD metrics.

### **Cash Flows**

The following table reflects the major categories of cash flows for the fiscal years ended June 30, 2022 and 2021.

<b>(Amounts in Millions)</b>	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Net cash (used for) provided by operating activities .....	\$ (83.2)	\$ 130.1
Net cash used for investing activities .....	\$ (74.8)	\$ (38.8)
Net cash provided by (used for) financing activities .....	\$ 103.7	\$ (53.1)

### **Cash Flows from Operating Activities**

Net cash used for operating activities for the fiscal year ended June 30, 2022 was driven by changes in operating assets and liabilities. Net cash provided by operating activities for the fiscal year ended June 30, 2021 was driven by net income adjusted for non-cash items and changes in operating assets and liabilities. Changes in operating assets and liabilities used \$152.8 million of cash in the fiscal year ended June 30, 2022 compared to \$40.4 million of cash provided in the fiscal year ended June 30, 2021.

The cash used of \$152.8 million from changes in operating assets and liabilities in fiscal year 2022 was largely due to an increase in inventory, which used cash of \$203.2 million primarily due to the component shortages as we continued to purchase material not impacted by the shortages so we can fulfill our customer orders once the impacted components are received, and an increase in accounts receivable, which used cash of \$26.5 million primarily resulting from increased sales volumes. Partially offsetting cash used by inventory was an increase in accounts payable, which provided cash of \$96.8 million largely resulting from increased inventory purchases.

The cash provided of \$40.4 million from changes in operating assets and liabilities in fiscal year 2021 was primarily due to a decrease in contract assets, which provided cash of \$24.5 million as a result of the impact of timing of shipments and related billings to our customers, the decrease in inventory, which provided cash of \$18.6 million primarily due to the consumption of the inventory build at the end of the prior fiscal year in addition to the reimbursement from certain customers for the excess raw material inventory we purchased based on their forecasts during the ramp-up due to COVID-19, and the increase in accounts payable, which provided cash of \$14.6 million. Partially offsetting cash provided by contract assets and inventory was an increase in accounts receivable, which used cash of \$28.4 million primarily resulting from increased sales volumes and customer sales mix.



### Cash Flows from Investing Activities

Net cash used for investing activities during fiscal year 2022 includes \$74.7 million cash used for capital investments. The capital investments were primarily for expansions at our Thailand and Mexico facilities and to support new business awards.

Net cash used for investing activities during fiscal year 2021 includes \$39.4 million cash used for capital investments. The capital investments were primarily for machinery and equipment for capacity purposes and to support new business awards in addition to capital investments for the beginning of the expansions at our Thailand and Mexico facilities.

### Cash Flows from Financing Activities

Net cash provided by financing activities for the fiscal year ended June 30, 2022 resulted largely from net borrowings on our credit facilities of \$114.9 million primarily for working capital purposes.

Net cash used for financing activities for the fiscal year ended June 30, 2021 resulted largely from net payments on our credit facilities of \$52.3 million.

### Credit Facilities

The Company maintained a U.S. primary credit facility which was scheduled to mature on July 23, 2023. On May 4, 2022, the Company entered into an amended and restated credit agreement (the “primary credit facility”) among the Company, the lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, and Bank of America, N.A., as Documentation Agent, and the primary credit facility is now scheduled to mature on May 4, 2027. The primary credit facility provides for \$300 million in borrowings, with an option to increase the amount available for borrowing to \$450 million at the Company’s request, subject to the consent of each lender participating in such increase.

The proceeds of the loans on the primary credit facility are to be used for working capital and general corporate purposes of the Company. A portion of the credit facility, not to exceed \$15 million of the principal amount, was available for the issuance of letters of credit. A commitment fee on the unused portion of the principal amount of the credit facility was payable at a rate that ranged from 10.0 to 25.0 basis points per annum as determined by the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA, as defined under the primary credit facility.

The interest rate on borrowings is dependent on the type and currencies of borrowings and will be one of the following options:

- any Term Benchmark borrowing denominated in U.S. Dollars will utilize the Secured Overnight Financing Rate (“SOFR”), which is a rate per annum equal to the secured overnight financing rate for such business day published by the SOFR Administrator, the Federal Reserve Bank of New York, on the immediately succeeding business day, plus the Revolving Commitment Term Benchmark spread which can range from 100.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA;
- any Term Benchmark borrowing denominated in Euros will utilize the Euro Interbank Offered Rate (“EURIBOR”) in effect two target days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined in the agreement, plus the Revolving Commitment Term Benchmark spread which can range from 100.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA; or
- the Alternate Base Rate (“ABR”), which is defined as the highest of the fluctuation rate per annum equal to the higher of:
  - a. Prime Rate in the U.S. last quoted by the Wall Street Journal, and if this is ceased to be quoted, the highest bank prime loan rate or similar loan rate quoted by the Federal Reserve Board;
  - b. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the primary credit facility); or
  - c. 1% per annum above the Adjusted Term SOFR Rate (as defined under the primary credit facility);

plus the Revolving Commitment ABR spread which can range from 0.0 to 75.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

At June 30, 2022, we had \$171.4 million in borrowings under the primary credit facility and \$0.4 million in letters of credit against the primary credit facility, and \$145.0 million of the borrowings were classified as long term. At June 30, 2021, we had \$62.7 million in borrowings under the primary credit facility and \$0.4 million in letters of credit against the primary credit facility, and \$40.0 million of the borrowings were classified as long term. Our debt classified as long term reflects the borrowings the Company intends, and has the ability, to refinance for a period longer than twelve months. As noted above in the Cash Flows for Financing Activities section, our borrowings on the primary credit facility increased due to working capital purposes.

The Company's financial covenants under the primary credit facility require:

- a ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be greater than 3.0 to 1.0 provided, however, that for each fiscal quarter end during the four quarter period following a material permitted acquisition, as defined in the Credit Agreement, the Company will not permit this financial covenant to be greater than 3.5 to 1.0 for each such fiscal quarter end, and
- an interest coverage ratio, defined as that ratio of consolidated EBITDA for such period to cash interest expense for such period, for any period of four consecutive fiscal quarters, to be less than 3.5 to 1.0.

We were in compliance with the financial covenants during the fiscal year ended June 30, 2022.

Kimball Electronics has foreign credit facilities available to satisfy short-term cash needs at specific foreign locations rather than funding from intercompany sources. These foreign credit facilities can be canceled at any time by either the bank or us. As of June 30, 2022, we maintained the following foreign credit facilities:

- A Thailand overdraft credit facility which allows for borrowings up to 2.4 million Thai Baht (approximately \$0.1 million at June 30, 2022 exchange rates). We had no borrowings outstanding under this credit facility as of June 30, 2022 or June 30, 2021.
- An uncommitted revolving credit facility for our Netherlands subsidiary, which allows for borrowings of up to 9.2 million Euro (approximately \$9.6 million at June 30, 2022 exchange rates) that can be drawn in Euro, U.S. dollars, or other optional currency. At June 30, 2022 and 2021, we had \$9.2 million and \$3.5 million, respectively, in borrowings outstanding under this credit facility. The facility matures in July 2023.

During the current fiscal year, the Poland revolving credit facility, which allowed borrowings up to 5 million Euro, matured and was not extended. There were no borrowings on the Poland revolving credit facility during the current or prior fiscal year.

Subsequent to June 30, 2022, the Company expanded the borrowing capacity of the Thailand credit facility to \$10 million and entered into a foreign credit facility for its EMS operation in China which allows for borrowings up to \$7.5 million. These facilities will be used for general corporate needs and working capital purposes, including the strategic inventory builds to mitigate part shortages.

### **Factoring Arrangements**

The Company may utilize accounts receivable factoring arrangements with third-party financial institutions in order to extend terms for the customer without negatively impacting our cash flow. These arrangements in all cases do not contain recourse provisions which would obligate us in the event of our customers' failure to pay. Receivables are considered sold when they are transferred beyond the reach of Kimball Electronics and its creditors, the purchaser has the right to pledge or exchange the receivables, and we have surrendered control over the transferred receivables. During the fiscal years ended June 30, 2022 and 2021, we sold, without recourse, \$303.4 million and \$306.3 million of accounts receivable, respectively. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information regarding the factoring arrangements.

### **Future Liquidity**

We believe our principal sources of liquidity from available funds on hand, cash generated from operations, and the availability of borrowing under our credit facilities, will be sufficient to meet our working capital and other operating needs for at least the next 12 months. The unused borrowings in USD equivalent under all of our credit facilities totaled \$128.7 million at June 30, 2022. We expect to continue to prudently invest in capital expenditures, including for capacity expansions and potential acquisitions, that would help us continue our growth as a multifaceted manufacturing solutions company. In fiscal year 2021, we approved capacity expansions at our Thailand and Mexico facilities. Our Thailand facility expansion was completed in the third quarter of fiscal year 2022, and we anticipate the Mexico facility expansion will be complete in the first quarter of fiscal year 2023. We have also approved a plan to expand the facility in Poznan, Poland, and the expansion is expected to be completed in early fiscal year 2024. We are in a solid financial position to be able to weather the continuing impact of COVID-19; however, significant uncertainties and risks exist related to the severity and duration of its impact to certain markets, the supply chain, and global macroeconomic conditions.

At June 30, 2022, our capital expenditure commitments were approximately \$22 million, consisting primarily of commitments for the expansion of our Poland facility, equipment for the Mexico and Thailand facility expansions, and capital related to new program wins. We anticipate our available liquidity will be sufficient to fund these capital expenditures.

We have purchase obligations that arise in the normal course of business for items such as raw materials, services, and software acquisitions/license commitments. In certain instances, such as when lead times dictate, we enter into contractual agreements

for material in excess of the levels required to fulfill customer orders to help mitigate the potential impact related to component shortages, which require longer lead times. In turn, our material authorization agreements with customers cover a portion of the exposure for material which is purchased prior to having a firm order.

At June 30, 2022, our foreign operations held cash totaling \$48.3 million and the aggregate unremitted earnings of our foreign subsidiaries were approximately \$353 million. Most of these accumulated unremitted foreign earnings have been invested in active non-U.S. business operations, and it is not anticipated such earnings will be remitted to the United States. Our intent is to permanently reinvest the remaining funds outside of the United States, and our current plans do not demonstrate a need to repatriate these funds to our U.S. operations. However, if such funds were repatriated, a portion of the funds remitted may be subject to applicable non-U.S. income and withholding taxes.

The Company has a Board-authorized stock repurchase plan (the “Plan”) to allow the repurchase of up to \$100 million of common stock. Purchases may be made under various programs, including in open-market transactions, block transactions on or off an exchange, or in privately negotiated transactions, all in accordance with applicable securities laws and regulations. The Plan has no expiration date but may be suspended or discontinued at any time. The extent to which the Company repurchases its shares, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements, and other corporate considerations, as determined by the Company’s management team. The Company expects to finance the purchases with existing liquidity. The Company has repurchased \$88.8 million of common stock under the Plan through June 30, 2022.

Our ability to generate cash from operations to meet our liquidity obligations could be adversely affected in the future by factors such as general economic and market conditions, lack of availability of raw material components in the supply chain, a decline in demand for our services, loss of key contract customers, unsuccessful integration of acquisitions and new operations, global health emergencies such as the COVID-19 pandemic, the duration and severity of the COVID-19 pandemic and the related uncertainties around the financial impact, and other unforeseen circumstances. In particular, should demand for our customers’ products and, in turn, our services decrease significantly over the next 12 months, the available cash provided by operations could be adversely impacted.

The preceding statements include forward-looking statements under the Private Securities Litigation Reform Act of 1995. Certain factors could cause actual results to differ materially from forward-looking statements.

### **Fair Value**

During fiscal year 2022, no level 1 or level 2 financial instruments were affected by a lack of market liquidity. For level 1 financial assets, readily available market pricing was used to value the financial instruments. Our foreign currency derivative assets and liabilities, which were classified as level 2, were independently valued using observable market inputs such as forward interest rate yield curves, current spot rates, and time value calculations. To verify the reasonableness of the independently determined fair values, these derivative fair values were compared to fair values calculated by the counterparty banks. Our own credit risk and counterparty credit risk had an immaterial impact on the valuation of the foreign currency derivatives. See Note 12 - Fair Value of Notes to Consolidated Financial Statements for more information.

### **Off-Balance Sheet Arrangements**

As of June 30, 2022, we do not have any material off-balance sheet arrangements.

### **Critical Accounting Policies**

Kimball Electronics’ Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the Consolidated Financial Statements and related notes. Actual results could differ from these estimates and assumptions. Management uses its best judgment in the assumptions used to value these estimates, which are based on current facts and circumstances, prior experience, and other assumptions that are believed to be reasonable. Management believes the following critical accounting policies reflect the more significant judgments and estimates used in preparation of our Consolidated Financial Statements and are the policies that are most critical in the portrayal of our financial position and results of operations. Management has discussed these critical accounting policies and estimates with the Audit Committee of the Company’s Board of Directors and with the Company’s independent registered public accounting firm.

*Revenue recognition* - Kimball Electronics recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services and products. The majority of our revenue is recognized over time as manufacturing services are performed where we manufacture a product with no alternative use and have an enforceable right to payment for performance completed to date. The remaining revenue is

recognized when the customer obtains control of the manufactured product. We have elected to account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, we record customer payments of shipping and handling costs as a component of net sales and classify such costs as a component of cost of sales. We recognize sales net of applicable sales or value add taxes. Based on estimated product returns and price concessions, a reserve for returns and allowances is recorded at the time revenue is recognized, resulting in a reduction of revenue.

*Goodwill and Other Intangible Assets* - Goodwill, \$12.0 million as of both June 30, 2022 and 2021 represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, goodwill is tested at the reporting unit level. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is written down to its estimated fair value. No impairment charges were recorded in fiscal year 2022 or 2021 resulting from our annual impairment tests for all reporting units.

Other Intangible Assets, \$14.7 million and \$17.0 million as of June 30, 2022 and 2021, respectively, are reported on the Consolidated Balance Sheets and consist of capitalized software, customer relationships, technology, and trade name. Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets.

See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for further discussion of the Company's goodwill and intangible asset accounting policies.

*Taxes* - Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. We evaluate the recoverability of our deferred tax assets each quarter by assessing the likelihood of future taxable income and available tax planning strategies that could be implemented to realize our deferred tax assets. If recovery is not likely, we provide a valuation allowance based on our best estimate of future taxable income in the various taxing jurisdictions and the amount of deferred taxes ultimately realizable. Future events could change management's assessment.

We operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. However, we believe we have made adequate provision for income and other taxes for all years that are subject to audit. As tax positions are effectively settled, the tax provision will be adjusted accordingly. The liability for uncertain income tax and other tax positions, including accrued interest and penalties on those positions, was \$1.8 million and \$3.0 million at June 30, 2022 and June 30, 2021, respectively.

### **New Accounting Standards**

See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for information regarding New Accounting Standards.

### **Item 7A - Quantitative and Qualitative Disclosures About Market Risk**

*Foreign Exchange Rate Risk:* Kimball Electronics operates internationally and thus is subject to potentially adverse movements in foreign currency rate changes. Our principal foreign currency exposures include the Euro, Polish zloty, Romanian leu, Chinese renminbi, Thai baht, and Mexican peso. Our risk management strategy includes the use of derivative financial instruments to hedge certain foreign currency exposures. Derivatives are used only to manage underlying exposures and are not used in a speculative manner. Further information on derivative financial instruments is provided in Note 13 - Derivative Instruments of Notes to Consolidated Financial Statements. We estimate that a hypothetical 10% adverse change in foreign currency exchange rates from levels at June 30, 2022 relative to non-functional currency balances of monetary instruments, to the extent not hedged by derivative instruments, would not have a material impact on profitability in an annual period. Actual future gains and losses could have a material impact in an annual period depending on changes or differences in market rates and interrelationships, hedging instruments, timing, and other factors.

*Interest Rate Risk:* Our primary exposure to market risk for changes in interest rates relates to our primary credit facility, described further in Note 7 - Credit Facilities of Notes to Consolidated Financial Statements, as the interest rates paid for borrowings are determined at the time of borrowing based on market indices. Therefore, although we can elect to fix the interest rate at the time of borrowing, the facility does expose us to market risk for changes in interest rates. We estimate that a hypothetical 10% change in interest rates on borrowing levels at June 30, 2022 would not have a material impact of profitability in an annual period. The interest rate on certain borrowings under our credit facilities, including our primary credit facility, are based on the Secured Overnight Financing Rate ("SOFR").

**Item 8 - Financial Statements and Supplementary Data**

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Kimball Electronics, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting and for the preparation and integrity of the accompanying financial statements and other related information in this report. The consolidated financial statements of the Company and its subsidiaries, including the footnotes, were prepared in accordance with accounting principles generally accepted in the United States of America and include judgments and estimates, which in the opinion of management are applied on an appropriately conservative basis. We maintain a system of internal and disclosure controls intended to provide reasonable assurance that assets are safeguarded from loss or material misuse, transactions are authorized and recorded properly, and that the accounting records may be relied upon for the preparation of the financial statements. This system is tested and evaluated regularly for adherence and effectiveness by employees who work within the internal control processes and by our staff of internal auditors.

The Audit Committee of the Board of Directors, which is comprised of directors who are not employees of the Company, meets regularly with management, our internal auditors, and the independent registered public accounting firm to review our financial policies and procedures, our internal control structure, the objectivity of our financial reporting, and the independence of the independent registered public accounting firm. The internal auditors and the independent registered public accounting firm have free and direct access to the Audit Committee, and they meet periodically, without management present, to discuss appropriate matters.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation.

These consolidated financial statements are subject to an evaluation of internal control over financial reporting conducted under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, conducted under the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that our internal control over financial reporting was effective as of June 30, 2022.

/s/ DONALD D. CHARRON

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Donald D. Charron  
*Chairman of the Board,*  
*Chief Executive Officer*  
August 30, 2022

/s/ JANA T. CROOM

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Jana T. Croom  
*Chief Financial Officer*  
August 30, 2022

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Share Owners and the Board of Directors of Kimball Electronics, Inc.

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kimball Electronics, Inc. and subsidiaries (the “Company”) as of June 30, 2022 and 2021, the related consolidated statements of income, comprehensive income, share owners’ equity, and cash flows, for each of the three years in the period ended June 30, 2022, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of June 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

### Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management’s report on internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

## **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### **Revenue Recognition - Contracts Recognized Over Time - Refer to Notes 1 and 2 to the financial statements**

#### ***Critical Audit Matter Description***

The majority of the Company's revenue is recognized over time as manufacturing services are performed when the Company manufactures a product to customer specifications with no alternative use and for which the Company has an enforceable right to payment for performance completed to date. The Company generally recognizes revenue over time using cost-based input methods to depict the Company's progress towards meeting its performance obligations, in which judgment is required to evaluate assumptions including the anticipated margins to estimate the corresponding amount of revenue to recognize.

The timing differences of revenue recognition, billings to the Company's customers, and cash collections from the Company's customers result in billed accounts receivable and unbilled accounts receivable. Contract assets on the consolidated balance sheets relate to unbilled accounts receivable and occur when revenue is recognized over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date, which are generally transferred to receivables in the next fiscal quarter due to the short-term nature of the manufacturing cycle. The contract asset balance was \$64.1 million as of June 30, 2022.



We identified the Company's revenue recognition over time for contracts with customers as a critical audit matter because of the judgments required to evaluate assumptions including the anticipated margins to estimate the corresponding amount of revenue to recognize and contract assets to record. This required an increased extent of audit effort due to the significant number of contracts on which the Company recognizes revenue over time, and a high degree of auditor judgment when performing procedures to audit management's estimate of anticipated margins used to recognize revenue over time and evaluating the results of those procedures.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to management's estimates of the anticipated margins used to recognize revenue over time and record contract assets included the following, among others:

- We tested the effectiveness of controls over the Company's recognition of revenue over time and the related contract asset balance, including management's process for estimating the anticipated margins for products manufactured to customer specifications for which the Company has an enforceable right to payment for performance completed to date.
- We evaluated management's ability to estimate revenue accurately by comparing actual margins to management's historical estimates for completed contracts.
- We selected a sample of contracts with customers and performed the following:
  - Evaluated whether the contracts with customers were properly included or excluded in management's calculation of over time contract revenue based on the terms and conditions of each contract, including whether the Company determined the product has no alternative use and that the Company has an enforceable right to payment for performance completed to date.
  - Compared the transaction prices to the consideration expected to be received based on current rights and obligations under the contracts and any modifications that were agreed upon with the customers.
  - Tested the accuracy and completeness of the costs incurred to date for the respective performance obligations by comparing the quantities on hand and standard cost per the calculation to the Company's perpetual inventory information and testing any manufacturing variances and purchase price adjustments.
  - Evaluated the calculation of the amount of revenue to recognize for the performance obligation by:
    - Evaluating the reasonableness of management's anticipated margins used in the Company's calculation of revenue for performance obligations.
    - Evaluating the appropriateness and consistency of the methods and assumptions used by management to develop the estimates of anticipated margin at completion.
- We tested the mathematical accuracy of management's calculation of revenue recognized over time and the related contract asset balance.

Indianapolis, Indiana

August 30, 2022

/s/ Deloitte & Touche LLP

We have served as the Company's auditor since 2014.

**KIMBALL ELECTRONICS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands, Except for Share Data)

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 49,851	\$ 106,442
Receivables, net of allowances of \$139 and \$177, respectively	222,857	203,382
Contract assets	64,080	45,863
Inventories	395,630	200,386
Prepaid expenses and other current assets	28,665	27,320
Total current assets	761,083	583,393
Property and Equipment, net of accumulated depreciation of \$271,139 and \$264,907, respectively	206,835	163,251
Goodwill	12,011	12,011
Other Intangible Assets, net of accumulated amortization of \$35,437 and \$35,813, respectively	14,707	17,008
Other Assets	41,131	38,398
Total Assets	\$ 1,035,767	\$ 814,061
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>		
Current Liabilities:		
Current portion of borrowings under credit facilities	\$ 35,580	\$ 26,214
Accounts payable	308,617	216,544
Accrued expenses	64,545	58,016
Total current liabilities	408,742	300,774
Other Liabilities:		
Long-term debt under credit facilities, less current portion	145,000	40,000
Long-term income taxes payable	7,812	8,854
Other long-term liabilities	20,242	22,461
Total other liabilities	173,054	71,315
Share Owners' Equity:		
Preferred stock-no par value		
Shares authorized: 15,000,000		
Shares issued: None	—	—
Common stock-no par value		
Shares authorized: 150,000,000		
Shares issued: 29,430,000	—	—
Additional paid-in capital	311,090	308,123
Retained earnings	240,222	208,969
Accumulated other comprehensive loss	(19,672)	(4,883)
Treasury stock, at cost:		
Shares: 4,804,000 and 4,473,000, respectively	(77,669)	(70,237)
Total Share Owners' Equity	453,971	441,972
Total Liabilities and Share Owners' Equity	\$ 1,035,767	\$ 814,061

See Notes to Consolidated Financial Statements

**KIMBALL ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands, Except for Per Share Data)

	Year Ended June 30		
	2022	2021	2020
Net Sales .....	\$ 1,349,535	\$ 1,291,807	\$ 1,200,550
Cost of Sales .....	1,244,933	1,173,772	1,116,709
Gross Profit .....	104,602	118,035	83,841
Selling and Administrative Expenses .....	53,437	52,704	43,920
Other General Income .....	(1,384)	(372)	—
Goodwill Impairment .....	—	—	7,925
Operating Income .....	52,549	65,703	31,996
Other Income (Expense):			
Interest income .....	81	102	60
Interest expense .....	(2,655)	(2,165)	(4,421)
Non-operating income .....	590	7,929	2,103
Non-operating expense .....	(6,834)	(1,515)	(4,581)
Other income (expense), net .....	(8,818)	4,351	(6,839)
Income Before Taxes on Income .....	43,731	70,054	25,157
Provision for Income Taxes .....	12,478	13,263	6,961
Net Income .....	\$ 31,253	\$ 56,791	\$ 18,196
Earnings Per Share of Common Stock:			
Basic .....	\$ 1.24	\$ 2.26	\$ 0.72
Diluted .....	\$ 1.24	\$ 2.24	\$ 0.71
Average Number of Shares Outstanding:			
Basic .....	25,115	25,088	25,243
Diluted .....	25,221	25,284	25,428

See Notes to Consolidated Financial Statements

**KIMBALL ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)

	Year Ended June 30, 2022			Year Ended June 30, 2021			Year Ended June 30, 2020		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Net Income .....			\$ 31,253			\$ 56,791			\$ 18,196
Other Comprehensive Income (Loss):									
Foreign currency translation adjustments .....	\$ (15,126)	\$ —	\$ (15,126)	\$ 5,671	\$ —	\$ 5,671	\$ (1,046)	\$ —	\$ (1,046)
Postemployment actuarial change .....	266	39	305	(718)	212	(506)	122	(35)	87
Derivative gain (loss) .....	468	(171)	297	335	(221)	114	(2,079)	509	(1,570)
Reclassification to (earnings) loss:									
Derivatives .....	(279)	206	(73)	814	(101)	713	(64)	(22)	(86)
Amortization of actuarial change .....	(253)	61	(192)	(428)	104	(324)	(406)	98	(308)
Other Comprehensive Income (Loss) .....	<u>\$ (14,924)</u>	<u>\$ 135</u>	<u>\$ (14,789)</u>	<u>\$ 5,674</u>	<u>\$ (6)</u>	<u>\$ 5,668</u>	<u>\$ (3,473)</u>	<u>\$ 550</u>	<u>\$ (2,923)</u>
Total Comprehensive Income .....			<u>\$ 16,464</u>			<u>\$ 62,459</u>			<u>\$ 15,273</u>

See Notes to Consolidated Financial Statements

**KIMBALL ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

	Year Ended June 30		
	2022	2021	2020
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 31,253	\$ 56,791	\$ 18,196
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Depreciation and amortization	29,411	34,020	30,872
Loss on sales of assets	90	66	69
Deferred income taxes	772	(6,305)	(450)
Goodwill impairment	—	—	7,925
Stock-based compensation	6,224	3,907	4,039
Net working capital adjustment on acquisition	—	—	3,785
Other, net	1,914	1,207	518
Change in operating assets and liabilities:			
Receivables	(26,483)	(28,391)	41,928
Contract assets	(18,217)	24,487	(18,421)
Inventories	(203,168)	18,589	(15,053)
Prepaid expenses and other assets	(5,086)	(1,729)	(1,519)
Accounts payable	96,776	14,599	3,622
Accrued expenses and taxes payable	3,336	12,854	(2,703)
Net cash (used for) provided by operating activities	(83,178)	130,095	72,808
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(73,957)	(38,382)	(38,364)
Proceeds from sales of assets	456	513	158
Purchases of capitalized software	(757)	(970)	(385)
Other, net	(540)	43	109
Net cash used for investing activities	(74,798)	(38,796)	(38,482)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from credit facilities	100,000	—	—
Payments on credit facilities	—	(46,500)	—
Additional net change in revolving credit facilities	14,936	(5,768)	(8,083)
Settlements on previous year acquisition	—	2,957	—
Repurchases of common stock	(8,952)	(2,996)	(8,794)
Payments related to tax withholding for stock-based compensation	(1,591)	(771)	(1,012)
Debt issuance costs	(652)	—	(45)
Net cash provided by (used for) financing activities	103,741	(53,078)	(17,934)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(2,356)	3,231	(678)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(56,591)</b>	<b>41,452</b>	<b>15,714</b>
Cash and Cash Equivalents at Beginning of Year	106,442	64,990	49,276
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 49,851</b>	<b>\$ 106,442</b>	<b>\$ 64,990</b>
<b>Supplemental Disclosure of Cash Flow Information</b>			
Cash paid during the year for:			
Income taxes	\$ 14,329	\$ 13,358	\$ 9,096
Interest expense	\$ 2,328	\$ 2,531	\$ 4,934
Non-cash investing activity:			
Unpaid purchases of property and equipment at the end of the year	\$ 4,538	\$ 3,667	\$ 4,764

See Notes to Consolidated Financial Statements

**KIMBALL ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF SHARE OWNERS' EQUITY**  
(Amounts in Thousands, Except for Share Data)

	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total Share Owners' Equity</u>
<b>Amounts at June 30, 2019</b> .....	\$ 305,917	\$ 133,982	\$ (7,628)	\$ (62,417)	\$ 369,854
Net income .....		18,196			18,196
Other comprehensive income (loss) .....			(2,923)		(2,923)
Issuance of non-restricted stock (4,000 shares) .....	22			48	70
Compensation expense related to stock compensation plans .....	3,948				3,948
Performance share issuance (184,000 shares) .....	(3,047)			2,061	(986)
Deferred share issuance (3,000 shares) .....	(32)			32	—
Repurchase of Common Stock (623,000 shares) .....				(8,794)	(8,794)
<b>Amounts at June 30, 2020</b> .....	\$ 306,808	\$ 152,178	\$ (10,551)	\$ (69,070)	\$ 379,365
Net income .....		56,791			56,791
Other comprehensive income (loss) .....			5,668		5,668
Issuance of non-restricted stock (4,000 shares) .....	19			47	66
Compensation expense related to stock compensation plans .....	3,850				3,850
Performance share issuance (156,000 shares) .....	(2,524)			1,752	(772)
Deferred share issuance (3,000 shares) .....	(30)			30	—
Repurchase of Common Stock (193,000 shares) .....				(2,996)	(2,996)
<b>Amounts at June 30, 2021</b> .....	\$ 308,123	\$ 208,969	\$ (4,883)	\$ (70,237)	\$ 441,972
Net income .....		31,253			31,253
Other comprehensive income (loss) .....			(14,789)		(14,789)
Issuance of non-restricted stock (6,000 shares) .....	73			70	143
Compensation expense related to stock compensation plans .....	6,092				6,092
Performance share issuance (143,000 shares) .....	(3,126)			1,566	(1,560)
Restricted share units issuance (2,000 shares) .....	(40)			22	(18)
Deferred share issuance (3,000 shares) .....	(32)			32	—
Repurchase of Common Stock (485,000 shares) .....				(9,122)	(9,122)
<b>Amounts at June 30, 2022</b> .....	<u>\$ 311,090</u>	<u>\$ 240,222</u>	<u>\$ (19,672)</u>	<u>\$ (77,669)</u>	<u>\$ 453,971</u>

See Notes to Consolidated Financial Statements

**KIMBALL ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Business Description and Summary of Significant Accounting Policies**

***Business Description:***

Kimball Electronics, Inc. (also referred to herein as “Kimball Electronics,” the “Company,” “we,” “us,” or “our”) is a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We deliver a package of value that begins with our core competency of producing durable electronics and has expanded into diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and production automation, test, and inspection equipment. Our design and manufacturing expertise coupled with robust processes and procedures help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We deliver award-winning service across our highly integrated global footprint, which is enabled by our largely common operating system, procedures, and standardization. We are well recognized by customers and industry trade publications for our excellent quality, reliability, and innovative service.

***Principles of Consolidation:***

The Consolidated Financial Statements include the accounts of all domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

Certain amounts for the years ended June 30, 2021 and 2020 have been reclassified to conform to current period presentation in the Consolidated Statements of Cash Flow within the Cash Flows from Operating Activities section. Deferred tax valuation allowance is now included with Deferred income taxes while the other deferred charges have been reclassified to Other, net.

***Use of Estimates:***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts included in the Consolidated Financial Statements and related note disclosures. While efforts are made to assure estimates used are reasonably accurate based on management’s knowledge of current events, actual results could differ from those estimates. We have made estimates and assumptions considering the impact of the COVID-19 pandemic on our business. These estimates may change as new events occur and more information is obtained.

***Change in Estimates:***

The Company reviews the estimated useful lives of its fixed assets on an ongoing basis. In evaluating useful lives, the Company considers how long assets will remain functionally efficient and effective, given levels of technology, competitive factors, and the economic environment. If the assessment indicates that the assets will continue to be used for a shorter or longer period than previously anticipated, the useful life of the assets is revised, resulting in a change in estimate. Changes in estimates are accounted for on a prospective basis by depreciating the assets’ current carrying values over their revised remaining useful lives.

The review performed by the Company in the current year indicated that Surface Mount Technology production equipment had actual lives that were longer than previously estimated. As a result of these findings, the Company changed its estimates of useful lives on these assets to 10 years, from lives of 5 or 7 years. The change was effective and accounted for prospectively beginning on November 1, 2021. The effects of this change in useful life estimate for the fiscal year ended June 30, 2022 were a decrease in depreciation expense of \$6.3 million, an increase in net income of \$4.9 million, and an increase to basic and diluted earnings per share by \$0.19.

***Segment Information:***

Kimball Electronics has business units located in the United States, China, Mexico, Poland, Romania, and Thailand, and each of these business units qualify as operating segments. In addition, GES has operations located in the United States, China, India, Japan, and Vietnam. The GES operations qualify as a single operating segment with its group results regularly reviewed by our chief operating decision maker, which is our Chief Executive Officer.

Our operating segments meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2022, all of our operating segments provide contract manufacturing services, including engineering and supply chain support, for the production of electronic assemblies and other products including medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment primarily in automotive, medical, industrial, and public safety applications, to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products have similar characteristics across all our operating segments. Each of our operating segments service customers in multiple markets, and many of our customers' programs are manufactured and serviced by multiple operating segments. We leverage global processes such as component procurement and customer pricing that provide commonality and consistency among the various regions in which we operate. All of our operating segments have similar long-term economic characteristics, and as such, have been aggregated into one reportable segment.

#### ***Revenue Recognition:***

We recognize revenue in accordance with the standard issued by the Financial Accounting Standards Board ("FASB"), Revenue from Contracts with Customers and all the related amendments. Our revenue from contracts with customers is generated primarily from manufacturing services provided for the production of electronic assemblies, components, medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment built to customer's specifications. Our customer agreements are generally not for a definitive term but continue for the relevant product's life cycle. Typically, our customer agreements do not commit the customer to purchase our services until a purchase order is provided, which is generally short term in nature. Customer purchase orders primarily have a single performance obligation. Generally, the prices stated in the customer purchase orders are agreed upon prices for the manufactured product and do not vary over the term of the order, and therefore, the majority of our contracts do not contain variable consideration. In limited circumstances, we may enter into a contract which contains minimum quantity thresholds to cover our capital costs, and we may offer our customer a rebate for specific volume thresholds or other incentives; in these cases, the rebates or incentives are accounted for as variable consideration.

The majority of our revenue is recognized over time as manufacturing services are performed as we manufacture a product to customer specifications with no alternative use and we have an enforceable right to payment for performance completed to date. The remaining revenue for manufacturing services is recognized when the customer obtains control of the product, typically either upon shipment or delivery of the product dependent on the terms of the contract, and the customer is able to direct the use of and obtain substantially all of the remaining benefits from the asset. We generally recognize revenue over time using costs based input methods, in which judgment is required to evaluate assumptions including anticipated margins to estimate the corresponding amount of revenue to recognize. Costs used as a basis for estimating anticipated margins include material, direct and indirect labor, and appropriate applied overheads. Anticipated margins are determined based on historical or quoted customer pricing. Costs based input methods are considered a faithful depiction of our efforts and progress toward satisfying our performance obligations for manufacturing services and for which we believe we are entitled to payment for performance completed to date. The cumulative effect of revisions to estimates related to net contract revenues or costs are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated.

We have elected to account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated services and products. Accordingly, we record customer payments of shipping and handling costs as a component of net sales and classify such costs as a component of cost of sales. We recognize sales net of applicable sales or value add taxes. Based on estimated product returns and price concessions, a reserve for returns and allowances is recorded at the time revenue is recognized, resulting in a reduction of net revenue.

Direct incremental costs to obtain and fulfill a contract are capitalized as a contract asset only if they are material, expected to be recovered, and are not accounted for in accordance with other guidance. Incidental items that are immaterial in the context of the contract are recognized as expense in the period incurred.

#### ***Cash and Cash Equivalents:***

Cash equivalents consist primarily of highly liquid investments with original maturities of three months or less at the time of acquisition. Cash and cash equivalents consist of bank accounts and money market funds. Bank accounts are stated at cost, which approximates fair value, and money market funds are stated at fair value.

#### ***Trade Accounts Receivable:***

The Company's trade accounts receivable are recorded per the terms of the agreement or sale, and accrued interest is recognized when earned. Our policy for estimating the allowance for credit losses on trade accounts receivable includes analysis of such items as aging, credit worthiness, payment history, and historical bad debt experience. Management uses these



specific analyses in conjunction with an evaluation of the general economic and market conditions to estimate expected credit losses. Management believes that historical loss information generally provides a basis for its assessment of expected credit losses. Trade accounts receivable are written off after exhaustive collection efforts occur and the receivable is deemed uncollectible. Adjustments to the allowance for credit losses are recorded in Selling and Administrative Expenses on our Consolidated Statements of Income.

In the ordinary course of business, customers periodically negotiate extended payment terms on trade accounts receivable. Customary terms require payment within 30 to 45 days, with any terms beyond 45 days being considered extended payment terms. We utilize factoring arrangements with third-party financial institutions for certain of our accounts receivables in order to extend terms for the customer without negatively impacting our cash flow. These arrangements in all cases do not contain recourse provisions which would obligate us in the event of our customers' failure to pay. Receivables are considered sold when they are transferred beyond the reach of Kimball Electronics and its creditors, the purchaser has the right to pledge or exchange the receivables, and we have surrendered control over the transferred receivables. During fiscal years 2022, 2021, and 2020, we sold, without recourse, \$303.4 million, \$306.3 million, and \$280.7 million of accounts receivable, respectively. Factoring fees were \$1.6 million, \$1.2 million, and \$1.9 million during fiscal years 2022, 2021, and 2020, respectively, and were included in Selling and Administrative Expenses on the Consolidated Statements of Income.

One of our China operations, in limited circumstances, may receive banker's acceptance drafts from customers as payment on account. The banker's acceptance drafts are non-interest bearing and primarily mature within six months from the origination date. The Company has the ability to sell the drafts at a discount or transfer the drafts in settlement of current accounts payable prior to the scheduled maturity date. We did not hold any drafts at June 30, 2022, and the drafts totaled less than \$0.1 million at June 30, 2021. These drafts were reflected in Receivables on the Consolidated Balance Sheets until the banker's drafts are sold at a discount, transferred in settlement of current accounts payable, or cash is received at maturity. Banker's acceptance drafts sold at a discount or transferred in settlement of current accounts payable during fiscal years 2022, 2021, and 2020 were less than \$0.1 million, \$1.8 million, and \$6.8 million, respectively. See Note 6 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements for more information on banker's acceptance drafts.

#### ***Inventories:***

Inventories are stated at the lower of cost and net realizable value. Cost includes material, labor, and applicable manufacturing overhead. Costs associated with underutilization of capacity are expensed as incurred. Inventories are valued using the first-in, first-out ("FIFO") method. Inventories are adjusted for excess and obsolete inventory. Evaluation of excess inventory includes such factors as anticipated usage, inventory turnover, inventory levels, and product demand levels. Factors considered when evaluating obsolescence include the age of on-hand inventory and reduction in value due to damage, design changes, or cessation of product lines.

#### ***Property, Equipment, and Depreciation:***

Property and equipment are stated at cost less accumulated depreciation and depreciated over the estimated useful life of the assets using the straight-line method. Generally, maintenance and repairs are expensed as incurred. Depreciation and expenses for maintenance and repairs are included in both Cost of Sales and Selling and Administrative Expense on the Consolidated Statements of Income.

#### ***Impairment of Long-Lived Assets:***

We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair market value less cost to sell at the date management commits to a plan of disposal. Impairment of long-lived assets was not material during fiscal years 2022, 2021, and 2020.

#### ***Goodwill:***

Goodwill represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, goodwill is assessed or tested at the reporting unit level. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is written down to its estimated fair value.

To test for goodwill impairment, we use a combination of the Income Approach and the Market Approach. The discounted cash flow method (Income Approach) uses forecasted information based on management's strategic plans and projections.

Discount rates are developed using a weighted average cost of capital (“WACC”) methodology. The WACC represents the blended average required rate of return for equity and debt capital based on observed market return data and company specific risk factors. In the Market Approach, fair value is determined using transactional evidence for similar publicly traded equity. See Note 5 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for more information on our goodwill.

#### ***Other Intangible Assets:***

Other Intangible Assets reported on the Consolidated Balance Sheets consist of capitalized software, customer relationships, technology, and trade name. Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Internal-use software is stated at cost less accumulated amortization and is amortized using the straight-line method. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, and could include internal payroll and payroll-related costs for employees who are directly associated with a software project. Upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion, and business process reengineering costs are expensed in the period in which they are incurred. We have not recognized impairment on other intangible assets during fiscal years 2022, 2021, or 2020.

#### ***Leases:***

The Company leases certain office, manufacturing, and warehouse facilities under operating leases, in addition to land on which certain office and manufacturing facilities reside. These operating leases expire from fiscal year 2023 to 2057. Operating lease costs and cash payments for operating leases are immaterial to the Consolidated Statements of Income and our Consolidated Statements of Cash Flows. Lease right-of-use assets and lease liabilities each totaled \$3.1 million and \$1.6 million at June 30, 2022 and June 30, 2021, respectively. Lease right-of-use assets are included in Other Assets and lease liabilities are included in Accrued expenses and Other long-term liabilities on the Consolidated Balance Sheets. The future undiscounted operating lease payments as of June 30, 2022 were \$1.0 million, \$0.9 million, \$0.6 million, \$0.5 million, and \$0.1 million for the five years ended June 30, 2027, and \$0.2 million thereafter.

#### ***Research and Development:***

The costs of research and development are expensed as incurred. Research and development costs were approximately, in millions, \$23.7, \$20.9, and \$16.9 in fiscal years 2022, 2021, and 2020, respectively.

#### ***Insurance and Self-insurance:***

We are self-insured up to certain limits for general liability, workers’ compensation, and certain domestic employee health benefits including medical, short-term disability, and dental, with the related liabilities included in the accompanying financial statements. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims, and other analyses, which are based on historical information along with certain assumptions about future events. Approximately 15% of the workforce is covered under self-insured medical and short-term disability plans. At June 30, 2022 and 2021, accrued liabilities for self-insurance exposure were \$1.4 million and \$1.1 million, respectively.

The remainder of our workforce not covered by self-insured plans have medical and disability coverage through either our external plans or government plans. Insurance benefits are not provided to retired employees.

#### ***Income Taxes:***

Deferred income tax assets and liabilities, recorded in Other Assets and Other long-term liabilities, respectively, in the Consolidated Balance Sheets, are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. We evaluate the recoverability of deferred tax assets each quarter by assessing the likelihood of future taxable income and available tax planning strategies that could be implemented to realize our deferred tax assets. If recovery is not likely, we provide a valuation allowance based on our best estimate of future taxable income in the various taxing jurisdictions and the amount of deferred taxes ultimately realizable. Future events could change management’s assessment.

We operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex uncertain tax positions, which may require an extended period of time to resolve. A tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by taxing

authorities, based on the technical merits of the position. We maintain a liability for uncertain income tax and other tax positions, including accrued interest and penalties on those positions. As tax positions are effectively settled, the tax liability is adjusted accordingly. We recognize interest and penalties related to unrecognized tax benefits in Provision for Income Taxes on the Consolidated Statements of Income. See Note 10 - Income Taxes of Notes to Consolidated Financial Statements for more information on income taxes.

**Concentrations of Credit Risk:**

We have business and credit risks associated with our customers. The Company monitors credit quality and associated risks of receivables on an individual basis based on criteria such as financial stability of the party and collection experience in conjunction with general economic and market conditions.

A summary of significant customers' net sales and trade receivables as a percentage of consolidated net sales and consolidated trade receivables is as follows:

	Net Sales			Trade Receivables	
	Year Ended June 30			As of June 30	
	2022	2021	2020	2022	2021
Nexteer Automotive .....	17%	17%	14%	22%	24%
Philips .....	15%	15%	16%	*	*
ZF .....	*	*	*	*	11%

\* amount is less than 10% of total

**Off-Balance Sheet Risk:**

Off-balance sheet arrangements are limited to banker's acceptance drafts transferred with recourse provisions at one of the Company's China operations and standby letters of credit entered into in the normal course of business as described in Note 6 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements.

**Other General Income:**

Other General Income in fiscal years 2022 and 2021 consisted of \$1.4 million and \$0.4 million, respectively, resulting from payments received related to class action lawsuits in which Kimball Electronics was a class member. These lawsuits alleged that certain suppliers to the EMS industry conspired over a number of years to raise and fix the prices of electronic components, resulting in overcharges to purchasers of those components. The fiscal year 2021 amount was partially offset by lawsuit settlement accruals and payments. We recorded no Other General Income during fiscal year 2020.

**Non-operating Income and Expense:**

Non-operating income and expense include the impact of such items as foreign currency rate movements and related derivative gain or loss, fair value adjustments on supplemental employee retirement plan ("SERP") investments, government subsidies, bank charges, and other miscellaneous non-operating income and expense items that are not directly related to operations. The gain or loss on SERP investments is offset by a change in the SERP liability that is recognized in Selling and Administrative Expense. Non-operating loss in fiscal year 2022 included \$4.2 million in net losses from foreign currency rate movements and related derivative gain or loss. Non-operating income in fiscal year 2021 included \$4.8 million in net gains from foreign currency rate movements and related derivative gain or loss. Non-operating expense in fiscal year 2020 included a \$3.8 million net working capital adjustment recorded after the end of the measurement period of the GES acquisition that was determined through the dispute resolution procedure provided for under the terms of the asset purchase agreement.

**Foreign Currency Translation:**

The Company predominantly uses the U.S. dollar and Euro as its functional currencies. Foreign currency assets and liabilities are remeasured into functional currencies at end-of-period exchange rates, except for nonmonetary assets and equity, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at the weighted average exchange rate during the fiscal year, except for expenses related to nonmonetary assets, which are remeasured at historical exchange rates. Gains and losses from foreign currency remeasurement are reported in Non-operating income or expense on the Consolidated Statements of Income.

For business units whose functional currency is other than the U.S. dollar, the translation of functional currency statements to U.S. dollar statements uses end-of-period exchange rates for assets and liabilities, weighted average exchange rates for revenue

and expenses, and historical rates for equity. The resulting currency translation adjustment is recorded in Accumulated Other Comprehensive Income (Loss), as a component of Share Owners' Equity.

***Derivative Instruments and Hedging Activities:***

Derivative financial instruments are recognized on the balance sheet as assets and liabilities and are measured at fair value. Changes in the fair value of derivatives are recorded each period in earnings or Accumulated Other Comprehensive Income (Loss), depending on whether a derivative is designated and effective as part of a hedge transaction, and if it is, the type of hedge transaction. Hedge accounting is utilized when a derivative is expected to be highly effective upon execution and continues to be highly effective over the duration of the hedge transaction. Hedge accounting permits gains and losses on derivative instruments to be deferred in Accumulated Other Comprehensive Income (Loss) and subsequently included in earnings in the periods in which earnings are affected by the hedged item. For transactions and balances denominated in currencies other than functional currencies, we use forward purchases to manage exposure to the variability of cash flows and foreign exchange contracts to hedge intercompany balances and other balance sheet positions. Cash receipts and cash payments related to derivative instruments are recorded in the same category as the cash flows from the items being hedged on the Consolidated Statements of Cash Flows. See Note 13 - Derivative Instruments of Notes to Consolidated Financial Statements for more information on derivative instruments and hedging activities.

***Stock-Based Compensation:***

As described in Note 9 - Stock Compensation Plans of Notes to Consolidated Financial Statements, the Company maintains the 2014 Stock Option and Incentive Plan, which allows for the issuance of incentive stock options, stock appreciation rights, restricted shares, unrestricted shares, restricted share units, or performance shares and performance units for grant to officers and other key employees, and to members of the Board of Directors who are not employees. The Company also maintains the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (the "Deferral Plan"), which allows Non-Employee Directors to elect to defer all, or a portion of, their retainer fees in stock. We recognize the cost resulting from share-based payment transactions using a fair-value-based method. The estimated fair value of outstanding performance shares is based on the stock price at the date of the grant. Stock-based compensation expense is recognized for the portion of the award for which performance targets have been established and is expected to vest. The Company has elected to account for forfeitures by reversing the compensation costs at the time a forfeiture occurs.

***New Accounting Standards:***

*Adopted in Fiscal Year 2022:*

In December 2019, the FASB issued guidance on Simplifying the Accounting for Income Taxes, intended to simplify various aspects related to the accounting for income taxes. We adopted this standard effective July 1, 2021, the beginning of our first quarter of fiscal year 2022, and the adoption did not have a material effect on our Consolidated Financial Statements.

**Note 2 Revenue from Contracts with Customers**

Our revenue from contracts with customers is generated primarily from manufacturing services provided for the production of electronic assemblies, electronic and non-electronic components, medical devices, medical disposables, precision molded plastics, and automation, test, and inspection equipment in automotive, medical, industrial, and public safety applications, to the specifications and designs of our customers.

The following table disaggregates our revenue by end market vertical for fiscal years 2022, 2021, and 2020:

(Amounts in Millions)	Year Ended		
	2022	2021	2020
<b>Vertical Markets:</b>			
Automotive .....	\$ 582.2	\$ 551.5	\$ 457.4
Medical .....	391.7	384.8	397.8
Industrial .....	308.1	293.7	271.0
Public Safety .....	50.1	48.1	56.2
Other .....	17.4	13.7	18.2
Total net sales .....	<u>\$ 1,349.5</u>	<u>\$ 1,291.8</u>	<u>\$ 1,200.6</u>

For fiscal years 2022, 2021, and 2020, approximately 95%, 89%, and 78% of our net sales, respectively, were recognized over time as manufacturing services were performed under a customer contract on a product with no alternative use and for which

we have an enforceable right to payment for performance completed to date. The remaining sales revenues were recognized at a point in time when the customer obtained control of the products.

The timing differences of revenue recognition, billings to our customers, and cash collections from our customers result in billed accounts receivable and unbilled accounts receivable. Contract assets on the Consolidated Balance Sheets relate to unbilled accounts receivable and occur when revenue is recognized over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date, which are generally transferred to receivables in the next fiscal quarter due to the short-term nature of the manufacturing cycle. Contract assets were \$64.1 million and \$45.9 million as of June 30, 2022 and 2021, respectively.

In limited circumstances, the Company may receive payments from customers in advance of the satisfaction of performance obligations primarily for material price variances, tooling, or other miscellaneous services or costs. These advance payments are recognized as contract liabilities until the performance obligations are completed and are included in Accrued expenses on the Consolidated Balance Sheets, which amounted to \$22.5 million and \$7.6 million as of June 30, 2022 and 2021, respectively. Our performance obligations are short term in nature and therefore our contract liabilities are all expected to be settled within twelve months.

### Note 3 Inventories

Inventories were valued using the lower of first-in, first-out (“FIFO”) cost and net realizable value. Inventory components were as follows at June 30:

(Amounts in Thousands)	<u>2022</u>	<u>2021</u>
Finished products .....	\$ 525	\$ 769
Work-in-process .....	4,911	5,149
Raw materials .....	390,194	194,468
Total inventory .....	<u>\$ 395,630</u>	<u>\$ 200,386</u>

### Note 4 Property and Equipment

Major classes of property and equipment consist of the following at June 30:

(Amounts in Thousands)	<u>2022</u>	<u>2021</u>
Land and land use rights .....	\$ 14,560	\$ 14,978
Buildings and improvements .....	112,485	84,096
Machinery and equipment .....	332,292	309,731
Construction-in-progress .....	18,637	19,353
Total .....	<u>\$ 477,974</u>	<u>\$ 428,158</u>
Less: Accumulated depreciation .....	(271,139)	(264,907)
Property and equipment, net .....	<u>\$ 206,835</u>	<u>\$ 163,251</u>

The useful lives used in computing depreciation are based on estimated service lives for classes of property, as follows:

	<u>Years</u>
Buildings and improvements .....	5 to 40
Machinery and equipment .....	3 to 11
Land use rights .....	39
Leasehold improvements .....	Lesser of Useful Life or Term of Lease

Depreciation of property and equipment totaled, in millions, \$26.0 for fiscal year 2022, \$30.7 for fiscal year 2021, and \$27.7 for fiscal year 2020.

## Note 5 Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

(Amounts in Thousands)

### Balance as of June 30, 2020

Goodwill	\$ 32,762
Accumulated impairment	(20,751)
Goodwill, net	<u>12,011</u>

### Balance as of June 30, 2021

Goodwill	32,762
Accumulated impairment	(20,751)
Goodwill, net	<u>12,011</u>

### Balance as of June 30, 2022

Goodwill	32,762
Accumulated impairment	(20,751)
Goodwill, net	<u>\$ 12,011</u>

During fiscal years 2022 and 2021, no goodwill impairment was recognized. During fiscal year 2020, \$7.9 million of goodwill impairment was recognized at the GES reporting unit. The impact to net income also included a \$1.0 million reduction in income tax expense associated with the deferred tax asset established for the deductible portion of the impaired goodwill. The balance of goodwill at the GES reporting unit was \$5.8 million at both June 30, 2022 and 2021.

A summary of other intangible assets subject to amortization is as follows:

(Amounts in Thousands)	June 30, 2022			June 30, 2021		
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Capitalized Software	\$ 29,891	\$ (26,209)	\$ 3,682	\$ 32,774	\$ (28,751)	\$ 4,023
Customer Relationships	8,618	(3,024)	5,594	8,618	(2,520)	6,098
Technology	5,060	(3,805)	1,255	5,060	(2,790)	2,270
Trade Name	6,575	(2,399)	4,176	6,369	(1,752)	4,617
Other Intangible Assets	<u>\$ 50,144</u>	<u>\$ (35,437)</u>	<u>\$ 14,707</u>	<u>\$ 52,821</u>	<u>\$ (35,813)</u>	<u>\$ 17,008</u>

During fiscal years 2022, 2021, and 2020, amortization expense of other intangible assets was, in millions, \$3.4, \$3.3, and \$3.2, respectively. Amortization expense in future periods is expected to be, in millions, \$3.3, \$2.4, \$1.8, \$1.5, and \$1.4 in the five years ending June 30, 2027, and \$4.3 thereafter. The estimated useful life of internal-use software ranges from 3 to 10 years. The amortization period for the customer relationships, technology, and trade name intangible assets is 15 years, 5 years, and 10 years, respectively. We have no intangible assets with indefinite useful lives which are not subject to amortization.

Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets.

## Note 6 Commitments and Contingent Liabilities

### Guarantees:

As of June 30, 2022 and 2021, we had no guarantees issued which were contingent on the future performance of another entity. Standby letters of credit may be issued to third-party suppliers and insurance institutions and can only be drawn upon in the event of the Company's failure to pay its obligations to the beneficiary. We had a maximum financial exposure from unused standby letters of credit totaling \$0.4 million as of both June 30, 2022 and 2021. We do not expect circumstances to arise that would require us to perform under any of these arrangements and believe that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect our consolidated financial statements. Accordingly, no liability has been recorded as of June 30, 2022 and 2021 with respect to the standby letters of credit. We also may enter into commercial letters of credit to facilitate payments to vendors and from customers.

### **Banker's Acceptance Drafts:**

One of the Company's China operations, in limited circumstances, receives banker's acceptance drafts from customers as settlement for their trade accounts receivable. We in turn may transfer the acceptance drafts to a supplier of ours in settlement of current accounts payable. These drafts contain certain recourse provisions afforded to the transferee under laws of The People's Republic of China. If a transferee were to exercise its available recourse rights, the draft would revert back to our China operation and we would be required to satisfy the obligation with the transferee. We did not have any drafts transferred and outstanding at June 30, 2022, and the drafts transferred and outstanding at June 30, 2021 totaled \$0.1 million. No transferee has exercised their recourse rights against us. For additional information on banker's acceptance drafts, see Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements.

### **Product Warranties:**

The Company provides only assurance-type warranties for a limited time period, which cover workmanship and assures the product complies with specifications provided by or agreed upon with the customer. We maintain a provision for limited warranty repair or replacement of products manufactured and sold, which has been established in specific manufacturing contract agreements. We estimate product warranty liability at the time of sale based on historical repair or replacement cost trends in conjunction with the length of the warranty offered. Management refines the warranty liability periodically based on changes in historical cost trends and in certain cases where specific warranty issues become known. Product warranty liability is recorded in Accrued expenses and Other long-term liabilities on the Consolidated Balance Sheets.

Changes in the product warranty liability during fiscal years 2022, 2021, and 2020 were as follows:

<b>(Amounts in Thousands)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Product Warranty Liability at the beginning of the year	\$ 610	\$ 647	\$ 958
Additions to warranty accrual (including changes in estimates)	(49)	21	(271)
Settlements made (in cash or in kind)	(32)	(58)	(40)
Product Warranty Liability at the end of the year	<u>\$ 529</u>	<u>\$ 610</u>	<u>\$ 647</u>

### **Note 7 Credit Facilities**

Credit facilities consisted of the following:

<b>(Amounts in Millions, in U.S Dollar Equivalents)</b>	<b>Available Borrowing Capacity at June 30, 2022</b>	<b>Borrowings Outstanding at June 30, 2022</b>	<b>Borrowings Outstanding at June 30, 2021</b>
Primary credit facility <sup>(1)</sup>	\$ 128.2	\$ 171.4	\$ 62.7
Thailand overdraft credit facility <sup>(2)</sup>	0.1	—	—
Netherlands revolving credit facility <sup>(3)</sup>	0.4	9.2	3.5
Total credit facilities	<u>\$ 128.7</u>	<u>180.6</u>	<u>66.2</u>
Less: current portion	—	(35.6)	(26.2)
Long-term debt under credit facilities, less current portion <sup>(4)</sup>	—	<u>\$ 145.0</u>	<u>\$ 40.0</u>

- (1) The Company maintained a U.S. primary credit facility which was scheduled to mature on July 23, 2023. On May 4, 2022, the Company entered into an amended and restated credit agreement (the "primary credit facility") among the Company, the lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, and Bank of America, N.A., as Documentation Agent, and the primary credit facility is now scheduled to mature May 4, 2027. The primary credit facility provides for \$300 million in borrowings, with an option to increase the amount available for borrowing to \$450 million at the Company's request, subject to the consent of each lender participating in such increase. This facility is maintained for working capital and general corporate purposes of the Company. The Company incurred \$0.6 million of debt issuance costs associated with the amended and restated credit agreement. A commitment fee is payable on the unused portion of the credit facility which was immaterial to our operating results in fiscal years 2022, 2021, and 2020. The commitment fee on the unused portion of principal amount of the credit facility is payable at a rate that ranges from 10.0 to 25.0 basis points per annum as determined by the Company's ratio of consolidated total indebtedness to adjusted consolidated EBITDA, as defined in the primary credit facility. Types of borrowings available on the primary credit facility include revolving loans, multi-currency term loans, and swingline loans.

The interest rate on borrowings is dependent on the type of borrowings and will be one of the following options:

- any Term Benchmark borrowing denominated in U.S. Dollars will utilize the Secured Overnight Financing Rate (“SOFR”), which is a rate per annum equal to the secured overnight financing rate for such business day published by the SOFR Administrator, the Federal Reserve Bank of New York, on the immediately succeeding business day, plus the Revolving Commitment Term Benchmark spread which can range from 100.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA;
- any Term Benchmark borrowing denominated in Euros will utilize the Euro Interbank Offered Rate (“EURIBOR”) in effect two target days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined in the agreement, plus the Revolving Commitment Term Benchmark spread which can range from 100.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA; or
- the Alternate Base Rate (“ABR”), which is defined as the highest of the fluctuating rate per annum equal to the higher of:
  - a. Prime Rate in the U.S. last quoted by the Wall Street Journal, and if this is ceased to be quoted, the highest bank prime loan rate or similar loan rate quoted by the Federal Reserve Board;
  - b. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the primary credit facility); or
  - c. 1% per annum above the Adjusted SOFR Rate (as defined under the primary credit facility);plus the Revolving Commitment ABR spread which can range from 0.0 to 75.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

The Company’s financial covenants under the primary credit facility require:

- a ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be greater than 3.0 to 1.0 provided, however, that for each fiscal quarter end during the four quarter period following a material permitted acquisition, as defined in the Credit Agreement, the Company will not permit this financial covenant to be greater than 3.5 to 1.0 for each such fiscal quarter end, and,
- an interest coverage ratio, defined as that ratio of consolidated EBITDA for such period to cash interest expense for such period, for any period of four consecutive fiscal quarters, to be less than 3.5 to 1.0.

The Company had \$0.4 million in letters of credit contingently committed against the primary credit facility at both June 30, 2022 and 2021.

- (2) The Company also maintains a foreign credit facility for its operation in Thailand which allows for borrowings of up to 2.4 million Thai Baht (approximately \$0.1 million at June 30, 2022 exchange rates). This credit facility can be terminated at any time by either the Company or the bank by giving prior written notice of at least 15 days to the other party. Interest on borrowing under this facility is charged at a rate of interest determined by the bank in accordance with relevant laws and regulations for charging interest on an overdraft facility.
- (3) The Company also maintains an uncommitted revolving credit facility for our Netherlands subsidiary. The Netherlands credit facility allows for borrowings of up to 9.2 million Euro (approximately \$9.6 million at June 30, 2022 exchange rates), which borrowings can be made in Euro, U.S. dollars, or other optional currency. The availability of funds under this facility is at the sole discretion of the bank. Proceeds from the facility are to be used for general corporate purposes. Interest on borrowing under this facility is charged at a rate of interest dependent on the denomination of the currency borrowed. The facility is scheduled to mature in July 2023.
- (4) The amount of Long-term debt under credit facilities, less current maturities reflects the borrowings on the primary credit facility that the Company intends, and has the ability, to refinance for a period longer than twelve months. The primary credit facility matures on May 4, 2027.

The weighted-average interest rate on borrowings outstanding under the credit facilities at June 30, 2022 and June 30, 2021 were 2.7% and 2.0%, respectively. Capitalized interest expense was immaterial during fiscal years 2022, 2021, and 2020.

Subsequent to June 30, 2022, the Company expanded the borrowing capacity of the Thailand credit facility to \$10 million and entered into a foreign credit facility for its EMS operation in China which allows for borrowings up to \$7.5 million.



## **Note 8 Employee Benefit Plans**

### ***Defined Contribution Retirement Plans:***

The Company maintains a trustee defined contribution retirement plan which is in effect for substantially all domestic employees meeting the eligibility requirements. Beginning January 1, 2022, the Company matches 50% of eligible employee contributions up to 6%. The Company also provides a discretionary employer contribution determined annually by the Compensation and Governance Committee of the Company's Board of Directors. Total expense related to employer contributions to the domestic retirement plans was, in millions, \$4.2, \$1.9, and \$2.4 for fiscal years 2022, 2021, and 2020, respectively.

The Company also maintains a supplemental employee retirement plan ("SERP") for executives and other key employees which enables them to defer cash compensation on a pre-tax basis in excess of IRS limitations. The SERP is structured as a rabbi trust, and therefore, assets in the SERP portfolio are subject to creditor claims in the event of bankruptcy. See Note 14 - Investments of Notes to Consolidated Financial Statements for further information regarding SERP.

### ***Defined Benefit Postemployment Plans:***

The Company established and maintains severance plans for all domestic employees and other postemployment plans for certain foreign subsidiaries. There are no statutory requirements for the Company to contribute to the plans, nor do employees contribute to the plans. The plans hold no assets. Benefits are paid using available cash on hand when eligible employees meet plan qualifications for payment.

As of both June 30, 2022 and 2021, total obligations under these plans were \$5.4 million, of which \$4.6 million were long term and \$0.8 million were short term. Of the total obligation at both June 30, 2022 and 2021, domestic plans were \$1.2 million and foreign plans were \$4.2 million. Actuarial (gain) loss is recorded in Accumulated Other Comprehensive (Income) Loss and amortized into net period benefit cost on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans. Net periodic benefit cost recognized for these plans in fiscal years 2022, 2021, and 2020 were \$0.5 million, \$0.4 million, and \$0.3 million, respectively.

## **Note 9 Stock Compensation Plans**

A stock compensation plan was created and adopted by the Company's Board of Directors (the "Board") on October 3, 2014. The Kimball Electronics, Inc. 2014 Stock Option and Incentive Plan (the "Plan") allows for the issuance of up to 4.5 million shares and may be awarded in the form of incentive stock options, stock appreciation rights, restricted shares, unrestricted shares, restricted share units, or performance shares and performance units. The Plan is a ten-year plan with no further awards allowed to be made under the Plan after October 1, 2024.

On October 20, 2016, the Board approved a nonqualified deferred stock compensation plan, the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (the "Deferral Plan"), which allows Non-Employee Directors to elect to defer all, or a portion of, their retainer fees in stock until retirement or termination from the Board or death. The Deferral Plan allows for issuance of up to 1.0 million shares of the Company's common stock.

Pre-tax stock compensation charged against income in fiscal years 2022, 2021, and 2020 was \$6.2 million, \$3.9 million, and \$4.0 million, respectively. These costs are included in Selling and Administrative Expenses.

### ***Performance Shares:***

The Company awards performance shares to officers and other key employees. The annual performance share awards are approved by the Compensation and Governance Committee of the Board. Beginning with awards granted in fiscal year 2022 that will vest in fiscal year 2025, awards cliff vest at the third anniversary of the award date. To avoid a gap in the vesting of awards due to the transition from grants that vested annually in three equal installments to ones that vest after three years, two smaller bridge awards were also granted for fiscal year 2022 and fiscal year 2022-2023 performance periods. The bridge award for the fiscal year 2022 performance period cliff vests at the first anniversary of the grant. The bridge award for the fiscal year 2022-2023 performance period cliff vests at the second anniversary of the grant. The award for the fiscal year 2022-2024 performance period, and future performance share awards, cliff vest at the third anniversary of the grant.

Under these awards, a number of shares will be issued to each participant based upon a combination of a profitability attainment component, based on the Company's operating income plan, and a growth attainment component, based on the Company's growth in sales revenue, comparing its three-year compounded annual growth rate ("CAGR") with the Electronics Manufacturing Services Industry's three-year CAGR. The number of shares issued will be less than the targeted shares issuable if the Company does not reach 100% of one or both of the above-mentioned performance metrics, and could be zero if the

Company does not reach the required minimum thresholds of either metric. The number of shares issued will exceed the number of targeted shares issuable (up to a maximum of 125%) if the Company exceeds 100% of one or both of the above-mentioned incentive metrics.

If a participant is not employed on the date shares are issued, the performance share award is forfeited, except in the case of death, retirement at age 62 or older, total permanent disability, or certain other circumstances described in the Plan.

A summary of the Company’s performance share activity during fiscal year 2022 is presented below:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Performance shares outstanding at July 1, 2021	434,899	\$ 14.71
Granted	296,662	\$ 23.26
Vested	(214,099)	\$ 15.48
Forfeited	(24,071)	\$ 14.51
Performance shares outstanding at June 30, 2022	493,391	\$ 19.52

As of June 30, 2022, there was approximately \$6.0 million of unrecognized compensation cost related to performance shares, based on the latest estimated attainment of performance goals. That cost is expected to be recognized over performance periods ending August 2022 through August 2024, with a weighted average vesting period of 1.2 years. The fair value of performance shares is based on the stock price at the date of grant. During fiscal years 2022, 2021, and 2020, respectively, 214,099, 239,194, and 253,483 performance shares vested at a fair value of \$3.3 million, \$4.1 million, and \$3.9 million. The performance shares vested represent the total number of shares vested prior to the reduction of shares withheld to satisfy tax withholding obligations. The number of outstanding shares presented in the above table, the amounts of unrecognized compensation, and the weighted average period include performance shares awarded that are applicable to future performance measurement periods and will be measured at fair value when the performance targets are established in future fiscal years.

***Unrestricted Share Grants:***

Unrestricted shares may be granted to key employees and non-employee members of the Board as consideration for services rendered. Unrestricted share grants do not have vesting periods, holding periods, restrictions on sale, or other restrictions. The fair value of unrestricted shares is based on the stock price at the date of the award. During fiscal years 2022, 2021, and 2020, respectively, the Company granted a total of 6,777, 4,235, and 4,258 unrestricted shares at an average grant date fair value of \$23.10, \$15.35, and \$16.99 for a total fair value of \$0.2 million, \$0.1 million, and \$0.1 million. Unrestricted shares are awarded to non-employee members of the Board as compensation for director’s fees, including directors’ elections to receive unrestricted shares in lieu of cash payment. Director’s fees are expensed over the period that directors earn the compensation. Unrestricted shares that are awarded to key employees are expensed immediately.

***Restricted Share Units:***

Restricted share units (“RSUs”) may be granted to employees as consideration for services rendered. RSUs are participating securities and upon vesting, the outstanding number of RSUs are converted to shares of common stock. RSUs are expensed over the contractual vesting period as earned. If the employment of a holder of an RSU terminates before the RSU has vested for any reason other than death, retirement, or total permanent disability, the RSU will be forfeited. During fiscal year 2021, the Company granted 3,322 RSUs to new key employees at an average grant date fair value of \$19.63 for a total fair value of \$0.1 million, and these RSUs vested in fiscal year 2022 as the contractual life of the RSUs were one year or less. No RSUs were granted during fiscal years 2022 and 2020.

***Deferred Share Units:***

Deferred share units may be granted to non-employee members of the Board under the Deferral Plan as compensation for the portion of their annual retainer fees resulting from their election to receive deferred share units in lieu of cash payment or unrestricted shares. Director’s fees are expensed over the period that directors earn the compensation. Deferred share units are participating securities and are payable in common stock in a lump sum or installments in accordance with deferral elections upon a director’s retirement or termination from the Board or death. During fiscal years 2022, 2021, and 2020, respectively, 34,480, 37,132, and 32,950 deferred share units were granted to non-employee members of the Board at an average grant date fair value of \$24.87, \$15.35, and \$17.30 for a total fair value of \$0.9 million, \$0.6 million, and \$0.6 million. During fiscal year 2022, 2,753 shares of common stock were issued under the Deferral Plan to a former non-employee member of the Board in accordance with their deferral election at an average fair value of \$17.55.

## Note 10 Income Taxes

The U.S. Tax Cuts and Jobs Act (“Tax Reform”) was enacted into law on December 22, 2017, making broad and complex changes to the U.S. tax code, for which complete guidance may have not yet been issued. Tax Reform required a one-time transition tax on certain unremitted earnings of foreign subsidiaries that is payable over an eight-year period. As of June 30, 2022 and 2021, the remaining provision recorded for the one-time deemed repatriation tax were \$8.9 million and \$9.8 million respectively, payable through fiscal year 2026, with the long-term portion recorded in Long-term income taxes payable on the Consolidated Balance Sheets. As of June 30, 2022 and 2021, \$1.0 million and \$0.9 million of the remaining deemed repatriation tax is short term and is recorded in Accrued expenses on the Consolidated Balance Sheet.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The components of the deferred tax assets and liabilities as of June 30, 2022 and 2021, were as follows:

(Amounts in Thousands)	2022	2021
Deferred Tax Assets:		
Receivables	\$ 46	\$ 95
Inventory	2,379	1,726
Employee benefits	197	282
Deferred compensation	7,141	8,732
Other current liabilities	—	1,115
Tax credit carryforwards	5,904	3,388
Goodwill	977	1,328
Net operating loss carryforward	2,664	2,037
Net foreign currency losses	477	—
Miscellaneous	6,957	5,496
Valuation Allowance	(3,536)	(1,802)
Total asset	\$ 23,206	\$ 22,397
Deferred Tax Liabilities:		
Other intangible assets	\$ 1,055	\$ 1,210
Property and equipment	2,050	869
Net foreign currency gains	—	2
Miscellaneous	1,353	659
Total liability	\$ 4,458	\$ 2,740
Net Deferred Income Taxes	\$ 18,748	\$ 19,657

Income tax benefits associated with the net operating loss carryforwards expire from fiscal year 2023 to 2042. Income tax benefits associated with tax credit carryforwards primarily expire from fiscal year 2025 to 2031. A valuation allowance was provided as of June 30, 2022 and 2021 for deferred tax assets related to certain state credits of \$3.5 million and \$1.8 million, respectively. Except as reserved for in the valuation allowance, we believe our tax credit and net operating loss carryforwards are more likely than not to be realized in the future.

The components of income before taxes on income are as follows:

(Amounts in Thousands)	Year Ended June 30		
	2022	2021	2020
United States	\$ 1,542	\$ 10,439	\$ (6,117)
Foreign	42,189	59,615	31,274
Total income before taxes on income	\$ 43,731	\$ 70,054	\$ 25,157

The aggregate unremitted earnings of the Company’s foreign subsidiaries were approximately \$353 million as of June 30, 2022. Most of these accumulated unremitted foreign earnings have been invested in active non-U.S. business operations, and it is not anticipated such earnings will be remitted to the United States. Our intent is to permanently reinvest these funds outside of the United States, and our current plans do not demonstrate a need to repatriate these funds to our U.S. operations. However, if such funds were repatriated, a portion of the funds remitted may be subject to applicable non-U.S. income and withholding taxes.

The provision for income taxes is composed of the following items:

(Amounts in Thousands)	Year Ended June 30		
	2022	2021	2020
<b>Current Taxes:</b>			
Federal	\$ 169	\$ 3,921	\$ (1,666)
Foreign	11,086	14,664	8,479
State	179	769	(29)
Total payable	<u>\$ 11,434</u>	<u>\$ 19,354</u>	<u>\$ 6,784</u>
<b>Deferred Taxes:</b>			
Federal	\$ (1,009)	\$ (2,459)	\$ 99
Foreign	922	(2,598)	237
State	(603)	(1,199)	(1,138)
Valuation allowance	1,734	165	979
Total deferred	<u>\$ 1,044</u>	<u>\$ (6,091)</u>	<u>\$ 177</u>
Total provision for income taxes	<u><u>\$ 12,478</u></u>	<u><u>\$ 13,263</u></u>	<u><u>\$ 6,961</u></u>

A reconciliation of the statutory U.S. income tax rate to the Company's effective income tax rate follows:

(Amounts in Thousands)	Year Ended June 30					
	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
Tax computed at U.S. federal statutory rate	\$ 9,184	21.0%	\$ 14,711	21.0%	\$ 5,283	21.0%
State income taxes, net of federal income tax benefit	(699)	(1.6)	(374)	(0.5)	(1,128)	(4.5)
Foreign tax rate differential	1,669	3.8	1,320	1.9	714	2.8
Impact of foreign exchange rates on foreign income taxes	1,693	3.9	(1,111)	(1.6)	867	3.4
Non-deductible goodwill impairment	—	—	—	—	388	1.5
Valuation allowance	1,734	4.0	165	0.2	979	3.9
Research credit	(1,094)	(2.5)	(996)	(1.4)	(1,056)	(4.2)
Global intangible low tax income	165	0.4	181	0.3	607	2.4
Non-deductible compensation	489	1.1	10	—	10	—
Other - net	(663)	(1.6)	(643)	(1.0)	297	1.4
Total provision for income taxes	<u><u>\$ 12,478</u></u>	<u><u>28.5%</u></u>	<u><u>\$ 13,263</u></u>	<u><u>18.9%</u></u>	<u><u>\$ 6,961</u></u>	<u><u>27.7%</u></u>

Changes in the unrecognized tax benefit, excluding accrued interest and penalties, during fiscal years 2022, 2021, and 2020 were as follows:

(Amounts in Thousands)	<u>2022</u>	<u>2021</u>	<u>2020</u>
Beginning balance - July 1	\$ 1,012	\$ 954	\$ 904
Tax positions related to prior fiscal years:			
Additions	85	142	116
Reductions	—	—	—
Tax positions related to current fiscal year:			
Additions	—	—	—
Reductions	—	—	—
Settlements	—	(8)	—
Lapses in statute of limitations	(695)	(76)	(66)
Ending balance - June 30	<u>\$ 402</u>	<u>\$ 1,012</u>	<u>\$ 954</u>
Portion that, if recognized, would reduce tax expense and effective tax rate	<u>\$ 363</u>	<u>\$ 323</u>	<u>\$ 262</u>

We do not expect the change in the amount of unrecognized tax benefits in the next 12 months to have a significant impact on our results of operations or financial position. We recognize interest and penalties related to unrecognized tax benefits in Provision for Income Taxes on the Consolidated Statements of Income.

Interest and penalties accrued for unrecognized tax benefits as of June 30, 2022, 2021, and 2020 was \$0.6 million, \$1.2 million, and \$1.6 million. Expenses related to interest and penalties in fiscal years 2022, 2021, and 2020 were not material.

The Company or its wholly-owned subsidiaries file U.S. federal income tax returns and income tax returns in various state, local, and foreign jurisdictions. We are no longer subject to any significant U.S. federal tax examinations by tax authorities for years before fiscal year 2018. We are subject to income tax examinations by various, state, local, and foreign jurisdiction tax authorities for years after June 30, 2016.

Global Equipment Services & Manufacturing Vietnam Company Limited is subject to tax examinations for various foreign jurisdictions for years after December 31, 2011 relating to periods prior to the acquisition date.

#### **Note 11 Share Owners' Equity**

On October 21, 2015, the Company's Board of Directors (the "Board") authorized an 18-month stock repurchase plan (the "Plan") allowing a repurchase of up to \$20 million worth of common stock. Then, separately on each of September 29, 2016, August 23, 2017, November 8, 2018, and November 10, 2020, the Board extended and increased the Plan to allow the repurchase of up to an additional \$20 million worth of common stock with no expiration date, which brought the total authorized stock repurchases under the Plan to \$100 million. Purchases may be made under various programs, including in open-market transactions, block transactions on or off an exchange, or in privately negotiated transactions, all in accordance with applicable securities laws and regulations. The Plan may be suspended or discontinued at any time.

During fiscal year 2022, the Company repurchased \$9.1 million of common stock under the Plan at an average price of \$18.82 per share, which was recorded as Treasury stock, at cost in the Consolidated Balance Sheet. Since the inception of the Plan, the Company has repurchased \$88.8 million of common stock under that Plan at an average cost of \$15.27 per share.

#### **Note 12 Fair Value**

The Company categorizes assets and liabilities measured at fair value into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

There were no changes in the inputs or valuation techniques used to measure fair values during fiscal year 2022.

**Financial Instruments Recognized at Fair Value:**

The following methods and assumptions were used to measure fair value:

<b>Financial Instrument</b>	<b>Level</b>	<b>Valuation Technique/Inputs Used</b>
Cash Equivalents	1	Market - Quoted market prices
Derivative Assets: Foreign exchange contracts	2	Market - Based on observable market inputs using standard calculations, such as time value, forward interest rate yield curves, and current spot rates, considering counterparty credit risk
Trading securities: Mutual funds held in SERP	1	Market - Quoted market prices
Derivative Liabilities: Foreign exchange contracts	2	Market - Based on observable market inputs using standard calculations, such as time value, forward interest rate yield curves, and current spot rates adjusted for Kimball Electronics' non-performance risk

**Recurring Fair Value Measurements:**

As of June 30, 2022 and 2021, the fair values of financial assets and liabilities that are measured at fair value on a recurring basis using the market approach are categorized as follows:

<b>(Amounts in Thousands)</b>	<b>June 30, 2022</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>			
Cash equivalents	\$ 1,541	\$ —	\$ 1,541
Derivatives: foreign exchange contracts	—	1,872	1,872
Trading securities: mutual funds held in nonqualified SERP	10,364	—	10,364
Total assets at fair value	<u>\$ 11,905</u>	<u>\$ 1,872</u>	<u>\$ 13,777</u>
<b>Liabilities</b>			
Derivatives: foreign exchange contracts	\$ —	\$ 3,522	\$ 3,522
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 3,522</u>	<u>\$ 3,522</u>
<b>June 30, 2021</b>			
<b>(Amounts in Thousands)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>			
Cash equivalents	\$ 1,540	\$ —	\$ 1,540
Derivatives: foreign exchange contracts	—	1,468	1,468
Trading securities: mutual funds held in nonqualified SERP	12,644	—	12,644
Total assets at fair value	<u>\$ 14,184</u>	<u>\$ 1,468</u>	<u>\$ 15,652</u>
<b>Liabilities</b>			
Derivatives: foreign exchange contracts	\$ —	\$ 1,702	\$ 1,702
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 1,702</u>	<u>\$ 1,702</u>

We had no Level 3 assets or liabilities as of June 30, 2022 and 2021, or any activity in Level 3 assets or liabilities during fiscal years 2022, 2021, and 2020.

The nonqualified supplemental employee retirement plan (“SERP”) assets consist primarily of equity funds, balanced funds, bond funds, and a money market fund. The SERP investment assets are offset by a SERP liability which represents the Company’s obligation to distribute SERP funds to participants. See Note 14 - Investments of Notes to Consolidated Financial Statements for further information regarding the SERP.

### ***Financial Instruments Not Carried At Fair Value:***

Financial instruments that are not reflected in the Consolidated Balance Sheets at fair value that have carrying amounts which approximate fair value include the following:

<b>Financial Instrument</b>	<b>Level</b>	<b>Valuation Technique/Inputs Used</b>
Notes receivable	2	Market - Price approximated based on the assumed collection of receivables in the normal course of business, taking into account non-performance risk
Borrowings under credit facilities	2	Market - Based on observable market rates, taking into account Kimball Electronics' non-performance risk

The carrying values of our cash deposit accounts, trade accounts receivable, and trade accounts payable approximate fair value due to their relatively short maturity and immaterial non-performance risk.

### **Note 13 Derivative Instruments**

#### ***Foreign Exchange Contracts:***

We operate internationally and are therefore exposed to foreign currency exchange rate fluctuations in the normal course of our business. Our primary means of managing this exposure is to utilize natural hedges, such as aligning currencies used in the supply chain with the sale currency. To the extent natural hedging techniques do not fully offset currency risk, we use derivative instruments with the objective of reducing the residual exposure to certain foreign currency rate movements. Factors considered in the decision to hedge an underlying market exposure include the materiality of the risk, the volatility of the market, the duration of the hedge, the degree to which the underlying exposure is committed to, and the availability, effectiveness, and cost of derivative instruments. Derivative instruments are only utilized for risk management purposes and are not used for speculative or trading purposes.

We use forward contracts designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in forecasted transactions denominated in a foreign currency. Non-designated foreign exchange contracts are also used to hedge against foreign currency exchange rate risks related to intercompany balances and other balance sheet positions denominated in currencies other than the functional currencies. As of June 30, 2022, we had outstanding foreign exchange contracts to hedge currencies against the U.S. dollar in the aggregate notional amount of \$41.7 million and to hedge currencies against the Euro in the aggregate notional amount of 54.8 million Euro. The notional amounts are indicators of the volume of derivative activities but may not be indicators of the potential gain or loss on the derivatives.

In limited cases due to unexpected changes in forecasted transactions, cash flow hedges may cease to meet the criteria to be designated as cash flow hedges. Depending on the type of exposure hedged, we may either purchase a derivative contract in the opposite position of the undesignated hedge or may retain the hedge until it matures if the hedge continues to provide an adequate offset in earnings against the currency revaluation impact of foreign currency denominated liabilities.

The fair value of outstanding derivative instruments is recognized on the Consolidated Balance Sheets as a derivative asset or liability and presented within Prepaid expenses and other current assets and Accrued expenses, respectively. When derivatives are settled with the counterparty, the derivative asset or liability is relieved and cash flow is impacted for the net settlement. For derivative instruments that meet the criteria of hedging instruments under FASB guidance, the effective portions of the gain or loss on the derivative instrument are initially recorded net of related tax effect in Accumulated Other Comprehensive Income (Loss), a component of Share Owners' Equity, and are subsequently reclassified into earnings in the period or periods during which the hedged transaction is recognized in earnings. The gain or loss associated with derivative instruments that are not designated as hedging instruments or that cease to meet the criteria for hedging under FASB guidance is reported immediately in Non-operating income or expense on the Consolidated Statements of Income.

Based on fair values as of June 30, 2022, we estimate that approximately \$0.5 million of pre-tax derivative loss deferred in Accumulated Other Comprehensive Income (Loss) will be reclassified into earnings, along with the earnings effects of related forecasted transactions, within the fiscal year ending June 30, 2023. Losses on foreign exchange contracts are generally offset by gains in operating costs in the income statement when the underlying hedged transaction is recognized in earnings. Because gains or losses on foreign exchange contracts fluctuate partially based on currency spot rates, the future effect on earnings of the cash flow hedges alone is not determinable, but in conjunction with the underlying hedged transactions, the result is expected to be a decline in currency risk. The maximum length of time we had hedged our exposure to the variability in future cash flows was 12 months as of both June 30, 2022 and June 30, 2021.

See Note 12 - Fair Value of Notes to Consolidated Financial Statements for further information regarding the fair value of derivative assets and liabilities and Note 18 - Accumulated Other Comprehensive Income (Loss) of Notes to Consolidated Financial Statements for the amount and changes in derivative gains and losses deferred in Accumulated Other Comprehensive Income (Loss).

Information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Income are presented below.

#### Fair Values of Derivative Instruments on the Consolidated Balance Sheets

(Amounts in Thousands)	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value As of		Balance Sheet Location	Fair Value As of	
		June 30 2022	June 30 2021		June 30 2022	June 30 2021
<b>Derivatives Designated as Hedging Instruments:</b>						
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 1,189	\$ 1,158	Accrued expenses	\$ 1,486	\$ 1,549
<b>Derivatives Not Designated as Hedging Instruments:</b>						
Foreign exchange contracts	Prepaid expenses and other current assets	683	310	Accrued expenses	2,036	153
<b>Total derivatives</b>		<u>\$ 1,872</u>	<u>\$ 1,468</u>		<u>\$ 3,522</u>	<u>\$ 1,702</u>

#### The Effect of Derivative Instruments on Other Comprehensive Income (Loss)

(Amounts in Thousands)	June 30		
	2022	2021	2020
<b>Amount of Pre-Tax Gain or (Loss) Recognized in Other Comprehensive Income (Loss) (OCI) on Derivatives:</b>			
Foreign exchange contracts	\$ 468	\$ 335	\$ (2,079)

#### The Effect of Derivative Instruments on Consolidated Statements of Income

(Amounts in Thousands)	Derivatives in Cash Flow Hedging Relationships	Location of Gain or (Loss)	Year Ended June 30		
			2022	2021	2020
<b>Amount of Pre-Tax Gain or (Loss) Reclassified from Accumulated OCI into Income:</b>					
Foreign exchange contracts		Cost of Sales	\$ 279	\$ (814)	\$ 64
<b>Total</b>			<u>\$ 279</u>	<u>\$ (814)</u>	<u>\$ 64</u>
<b>Derivatives Not Designated as Hedging Instruments</b>					
<b>Amount of Pre-Tax Gain or (Loss) Recognized in Income on Derivatives:</b>					
Foreign exchange contracts		Non-operating income (expense)	\$ (1,201)	\$ (1,415)	\$ 1,558
<b>Total Derivative Pre-Tax Gain (Loss) Recognized in Income</b>			<u>\$ (922)</u>	<u>\$ (2,229)</u>	<u>\$ 1,622</u>

#### Note 14 Investments

##### Supplemental Employee Retirement Plan Investments:

The Company maintains a self-directed supplemental employee retirement plan (“SERP”) for executives and other key employees. The Company SERP utilizes a rabbi trust, and therefore, assets in the SERP portfolio are subject to creditor claims in the event of bankruptcy. We recognize SERP investment assets on the balance sheet at current fair value. A SERP liability of the same amount is recorded on the balance sheet representing an obligation to distribute SERP funds to participants. The SERP investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized in income in the Other Income (Expense) category on our Consolidated Statements of Income. Adjustments made to revalue the SERP liability are also recognized in income as selling and administrative expenses and offset valuation adjustments on SERP investment assets. The change in net unrealized holding gains for the fiscal years ended June 30, 2022, 2021, and 2020 was \$(2.2) million, \$1.5 million, and less than \$0.4 million, respectively.



SERP asset and liability balances applicable to Kimball Electronics participants were as follows:

(Amounts in Thousands)	June 30	
	2022	2021
SERP investments - current asset	\$ 2,605	\$ 3,095
SERP investments - other long-term asset	7,759	9,549
Total SERP investments	<u>\$ 10,364</u>	<u>\$ 12,644</u>
SERP obligation - current liability	\$ 2,605	\$ 3,095
SERP obligation - other long-term liability	7,759	9,549
Total SERP obligation	<u>\$ 10,364</u>	<u>\$ 12,644</u>

#### Note 15 Accrued Expenses

Accrued expenses consisted of:

(Amounts in Thousands)	June 30	
	2022	2021
Taxes	\$ 8,962	\$ 11,012
Compensation	19,324	28,744
Customer advance payments	22,484	7,580
Retirement plan	3,135	2,094
Insurance	1,361	1,126
Other expenses	9,279	7,460
Total accrued expenses	<u>\$ 64,545</u>	<u>\$ 58,016</u>

#### Note 16 Geographic Information

The following geographic area data includes net sales based on the country location of the Company's business unit providing the manufacturing or other service and long-lived assets based on physical location. Long-lived assets include property and equipment and capitalized software.

(Amounts in Thousands)	Year Ended June 30		
	2022	2021	2020
Net Sales:			
United States	\$ 337,815	\$ 359,839	\$ 346,376
Mexico	316,884	265,476	232,135
Poland	234,057	268,129	244,107
China	204,851	180,405	159,746
Thailand	152,287	100,478	124,415
Other Foreign	103,641	117,480	93,771
Total net sales	<u>\$ 1,349,535</u>	<u>\$ 1,291,807</u>	<u>\$ 1,200,550</u>

(Amounts in Thousands)	June 30	
	2022	2021
Long-Lived Assets:		
Mexico	\$ 78,178	\$ 43,792
United States	47,353	47,499
Poland	25,924	31,412
Thailand	21,694	8,639
China	19,531	15,228
Other Foreign	17,837	20,704
Total long-lived assets	<u>\$ 210,517</u>	<u>\$ 167,274</u>

## Note 17 Earnings Per Share

Basic and diluted earnings per share were calculated as follows under the two-class method:

(Amounts in thousands, except per share data)

	Year Ended June 30		
	2022	2021	2020
Basic and Diluted Earnings Per Share:			
Net Income	\$ 31,253	\$ 56,791	\$ 18,196
Less: Net Income allocated to participating securities	45	84	24
Net Income allocated to common Share Owners	<u>\$ 31,208</u>	<u>\$ 56,707</u>	<u>\$ 18,172</u>
Basic weighted average common shares outstanding	25,115	25,088	25,243
Dilutive effect of average outstanding stock compensation awards	106	196	185
Dilutive weighted average shares outstanding	<u>25,221</u>	<u>25,284</u>	<u>25,428</u>
Earnings Per Share of Common Stock:			
Basic	\$ 1.24	\$ 2.26	\$ 0.72
Diluted	\$ 1.24	\$ 2.24	\$ 0.71

## Note 18 Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of Accumulated Other Comprehensive Income (Loss), net of tax, were as follows:

(Amounts in Thousands)	Foreign Currency Translation Adjustments	Derivative Gain (Loss)	Postemployment Benefits Net Actuarial Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2020	\$ (7,894)	\$ (3,254)	\$ 597	\$ (10,551)
Other comprehensive income (loss) before reclassifications	5,671	114	(506)	5,279
Reclassification to (earnings) loss	—	713	(324)	389
Net current-period other comprehensive income (loss)	<u>\$ 5,671</u>	<u>\$ 827</u>	<u>\$ (830)</u>	<u>\$ 5,668</u>
Balance at June 30, 2021	\$ (2,223)	\$ (2,427)	\$ (233)	\$ (4,883)
Other comprehensive income (loss) before reclassifications	(15,126)	297	305	(14,524)
Reclassification to (earnings) loss	—	(73)	(192)	(265)
Net current-period other comprehensive income (loss)	<u>(15,126)</u>	<u>224</u>	<u>113</u>	<u>(14,789)</u>
Balance at June 30, 2022	<u>\$ (17,349)</u>	<u>\$ (2,203)</u>	<u>\$ (120)</u>	<u>\$ (19,672)</u>

The following reclassifications were made from Accumulated Other Comprehensive Income (Loss) to the Consolidated Statements of Income:

**Reclassifications from Accumulated Other Comprehensive Income (Loss)**

(Amounts in Thousands)	Year Ended June 30		Affected Line Item in the Consolidated Statements of Income
	2022	2021	
Derivative Gain (Loss) <sup>(1)</sup>	\$ 279	\$ (814)	Cost of Sales
	(206)	101	Benefit (Provision) for Income Taxes
	<u>\$ 73</u>	<u>\$ (713)</u>	Net of Tax
Postemployment Benefits:			
Amortization of Actuarial Gain (Loss) <sup>(2)</sup>	\$ 253	\$ 428	Non-operating income
	(61)	(104)	Benefit (Provision) for Income Taxes
	<u>\$ 192</u>	<u>\$ 324</u>	Net of Tax
Total Reclassifications for the Period	<u>\$ 265</u>	<u>\$ (389)</u>	Net of Tax

Amounts in parentheses indicate reductions to income.

(1) See Note 13 - Derivative Instruments of Notes to Consolidated Financial Statements for further information on derivative instruments.

(2) See Note 8 - Employee Benefit Plans of Notes to Consolidated Financial Statements for further information on postemployment benefit plans.

**Item 9 - Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A - Controls and Procedures**

- (a) Evaluation of disclosure controls and procedures.

Kimball Electronics maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation of those controls and procedures performed, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective as of June 30, 2022.

- (b) Management's report on internal control over financial reporting.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations adopted pursuant thereto, the Company included a report of management's assessment of the effectiveness of its internal control over financial reporting as part of this report. The effectiveness of the Company's internal control over financial reporting as of June 30, 2022 has been audited by the Company's independent registered public accounting firm. Management's report and the independent registered public accounting firm's attestation report are included in the Company's Consolidated Financial Statements under the caption entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

- (c) Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2022 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B - Other Information**

None.

**Item 9C - Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

## PART III

### **Item 10 - Directors, Executive Officers and Corporate Governance**

#### **Directors**

The information required by this item with respect to Directors is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the captions "Election of Directors" and "Corporate Governance at Kimball Electronics."

#### **Committees**

The information required by this item with respect to the Audit Committee and its financial expert and with respect to the Compensation and Governance Committee's responsibility for establishing procedures by which Share Owners may recommend nominees to the Board of Directors is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Corporate Governance at Kimball Electronics."

#### **Information about Our Executive Officers**

The information required by this item with respect to Executive Officers of the Registrant is included at the end of Part I of this Annual Report on Form 10-K and is incorporated herein by reference. Additional information about our Executive Officers also appears in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Corporate Governance at Kimball Electronics."

#### **Compliance with Section 16(a) of the Exchange Act**

The information required by this item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Delinquent Section 16(a) Reports."

#### **Code of Ethics**

Kimball Electronics has a code of ethics that applies to all of its employees, including the Chief Executive Officer, the Chief Financial Officer, and the Corporate Controller (functioning as Principal Accounting Officer). The code of ethics is posted on the Company's website at <http://investors.kimballelectronics.com> under Governance Documents. The Company's website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K. It is our intention to disclose any amendments to the code of ethics on this website. In addition, any waivers of the code of ethics for directors or executive officers of the Company will be disclosed in a Current Report on Form 8-K.

### **Item 11 - Executive Compensation**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the captions "Corporate Governance at Kimball Electronics," "Compensation Discussion and Analysis," "Report of the Compensation and Governance Committee," "Compensation Related Risk Assessment," and "Executive Compensation."

### **Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters**

#### **Security Ownership**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Share Ownership Information."

#### **Securities Authorized for Issuance Under Equity Compensation Plans**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Equity Compensation Plans Information."

### **Item 13 - *Certain Relationships and Related Transactions, and Director Independence***

#### **Relationships and Related Transactions**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Review and Approval of Transactions with Related Persons."

#### **Director Independence**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the caption "Corporate Governance at Kimball Electronics."

### **Item 14 - *Principal Accounting Fees and Services***

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 11, 2022 under the captions "Selection of Independent Registered Public Accounting Firm" and "Appendix A — Approval Process for Services Performed by the Independent Registered Public Accounting Firm."

## PART IV

### Item 15 - Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements:

The following consolidated financial statements of the Company are found in Item 8 and incorporated herein.

Management's Report on Internal Control Over Financial Reporting .....	35
Report of Independent Registered Public Accounting Firm (PCAOB No. 34) .....	36
Consolidated Balance Sheets as of June 30, 2022 and 2021 .....	39
Consolidated Statements of Income for Each of the Three Years in the Period Ended June 30, 2022 ..	40
Consolidated Statements of Comprehensive Income for Each of the Three Years in the Period Ended June 30, 2022 .....	41
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended June 30, 2022 .....	42
Consolidated Statements of Share Owners' Equity for Each of the Three Years in the Period Ended June 30, 2022 .....	43
Notes to Consolidated Financial Statements .....	44

(2) Financial Statement Schedules:

II. Valuation and Qualifying Accounts for Each of the Three Years in the Period Ended June 30, 2022 .....	73
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Schedules other than those listed above are omitted because they are either not required or not applicable, or the required information is presented in the Consolidated Financial Statements.

(3) Exhibits

See the Index of Exhibits which immediately precedes the Signatures page in this Annual Report on Form 10-K for a list of the exhibits filed or incorporated herein as a part of this report.

### Item 16 - Form 10-K Summary

None.

**KIMBALL ELECTRONICS, INC.**

**INDEX OF EXHIBITS**

Exhibit No.	Description	Incorporated by Reference			
		Form	Period Ending	Exhibit	Filing Date
2.1	Separation and Distribution Agreement by and between Kimball International, Inc. and Kimball Electronics, Inc.	8-K		2.1	11/3/2014
2.2 <sup>(c)(d)</sup>	Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of May 11, 2018	10-K	6/30/2018	2.2	8/28/2018
2.3	Amendment Number One to Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of July 12, 2018	10-Q	12/31/2018	2.1	2/7/2019
2.4 <sup>(c)</sup>	Amendment Number Two to Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of September 14, 2018	10-Q	12/31/2018	2.2	2/7/2019
3.1	Amended and Restated Articles of Incorporation of the Company	8-K		3.1	2/18/2021
3.2	Amended and Restated By-Laws of the Company	8-K		3.2	2/18/2021
4.1	Description of the Company's Registered Securities	<i>Filed Herewith</i>			
10.1 <sup>(a)</sup>	2014 Stock Option and Incentive Plan	S-8		4.3	10/30/2014
10.2	Tax Matters Agreement by and among Kimball International, Inc. and Kimball Electronics, Inc.	8-K		10.1	11/3/2014
10.3 <sup>(a)</sup>	Description of the Kimball Electronics, Inc. Profit Sharing Incentive Bonus Plan	<i>Filed Herewith</i>			
10.4 <sup>(a)</sup>	Kimball Electronics, Inc. Supplemental Employee Retirement Plan ("SERP")	10		10.8	9/4/2014
10.5 <sup>(a)</sup>	Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan	8-K		10.1	10/25/2016
10.6 <sup>(a)</sup>	Form of Fee Deferral Election Agreement under the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan	8-K		10.2	10/25/2016
10.7	Amended and Restated Credit Agreement, dated as of May 4, 2022, among Kimball Electronics, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Bank of America, N.A., as Documentation Agent	10-Q	3/31/2022	10.1	5/6/2022
10.8 <sup>(a)</sup>	Kimball Electronics, Inc. Executive Severance and Change in Control Plan	8-K		10.2	7/6/2021
10.9 <sup>(a)</sup>	Form of Stock Award Notice for Performance Shares	<i>Filed Herewith</i>			
10.10 <sup>(a)</sup>	Form of Stock Award Notice for Restricted Shares	<i>Filed Herewith</i>			



Exhibit No.	Description	Incorporated by Reference		
		Form	Period Ending	Exhibit Filing Date
21	Subsidiaries of the Registrant	<i>Filed</i>		
		<i>Herewith</i>		
23	Consent of Independent Registered Public Accounting Firm	<i>Filed</i>		
		<i>Herewith</i>		
24	Power of Attorney	<i>Filed</i>		
		<i>Herewith</i>		
31.1	Certification filed by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<i>Filed</i>		
		<i>Herewith</i>		
31.2	Certification filed by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<i>Filed</i>		
		<i>Herewith</i>		
32.1 <sup>(b)</sup>	Certification furnished by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<i>Furnished</i>		
		<i>Herewith</i>		
32.2 <sup>(b)</sup>	Certification furnished by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<i>Furnished</i>		
		<i>Herewith</i>		
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its Inline XBRL tags are embedded within the Inline XBRL document	<i>Filed</i>		
		<i>Herewith</i>		
101.SCH	Inline XBRL Taxonomy Extension Schema Document	<i>Filed</i>		
		<i>Herewith</i>		
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	<i>Filed</i>		
		<i>Herewith</i>		
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	<i>Filed</i>		
		<i>Herewith</i>		
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	<i>Filed</i>		
		<i>Herewith</i>		
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	<i>Filed</i>		
		<i>Herewith</i>		
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	<i>Filed</i>		
		<i>Herewith</i>		

<sup>(a)</sup> Constitutes management contract or compensatory arrangement.

<sup>(b)</sup> In accordance with Item 601(b)(32)(ii) of Regulation S-K, the certifications furnished in Exhibit 32.1 and 32.2 will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

<sup>(c)</sup> Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant will supplementally furnish any of the omitted schedules or exhibits to the Securities and Exchange Commission upon request.

<sup>(d)</sup> Confidential treatment has been requested and granted as to certain portions of this Exhibit.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KIMBALL ELECTRONICS, INC.

By: /s/ JANA T. CROOM

Jana T. Croom  
*Chief Financial Officer*  
August 30, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ DONALD D. CHARRON

Donald D. Charron  
*Chairman of the Board,*  
*Chief Executive Officer*  
August 30, 2022

/s/ JANA T. CROOM

Jana T. Croom  
*Chief Financial Officer*  
August 30, 2022

/s/ ADAM M. BAUMANN

Adam M. Baumann  
*Corporate Controller,*  
*(functioning as Principal Accounting Officer)*  
August 30, 2022

**Signature**

GREGORY J. LAMPERT \*

Gregory J. Lampert  
*Director*

ROBERT J. PHILLIPPY \*

Robert J. Phillippy  
*Director*

HOLLY A. VAN DEURSEN \*

Holly A. Van Deursen  
*Director*

**Signature**

COLLEEN C. REPPLIER \*

Colleen C. Repplier  
*Director*

GREGORY A. THAXTON \*

Gregory A. Thaxton  
*Director*

MICHELE A. M. HOLCOMB, PhD \*

Michele A. M. Holcomb, PhD  
*Director*

\* The undersigned does hereby sign this document on my behalf pursuant to powers of attorney duly executed and filed with the Securities and Exchange Commission, all in the capacities as indicated:

**Date**

August 30, 2022

/s/ DONALD D. CHARRON

Donald D. Charron  
*As Attorney-In-Fact*

**KIMBALL ELECTRONICS, INC.**

**Schedule II. - Valuation and Qualifying Accounts**

<b>Description</b>	<b>Balance at Beginning of Year</b>	<b>Additions (Reductions) to Expense</b>	<b>Adjustments to Other Accounts</b>	<b>Write-offs and Recoveries</b>	<b>Balance at End of Year</b>
<b>(Amounts in Thousands)</b>					
Year Ended June 30, 2022					
Valuation Allowances:					
Receivables .....	\$ 177	\$ (53)	\$ 22	\$ (7)	\$ 139
Deferred Tax Asset .....	\$ 1,802	\$ 1,734	\$ —	\$ —	\$ 3,536
Year Ended June 30, 2021					
Valuation Allowances:					
Receivables .....	\$ 523	\$ (163)	\$ (9)	\$ (174)	\$ 177
Deferred Tax Asset .....	\$ 1,637	\$ 165	\$ —	\$ —	\$ 1,802
Year Ended June 30, 2020					
Valuation Allowances:					
Receivables .....	\$ 270	\$ 265	\$ (5)	\$ (7)	\$ 523
Deferred Tax Asset .....	\$ 658	\$ 979	\$ —	\$ —	\$ 1,637

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald D. Charron, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kimball Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 30, 2022

/s/ DONALD D. CHARRON

\_\_\_\_\_  
DONALD D. CHARRON  
Chairman of the Board,  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jana T. Croom, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kimball Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 30, 2022

/s/ JANA T. CROOM  
\_\_\_\_\_  
JANA T. CROOM  
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kimball Electronics, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald D. Charron, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 30, 2022

/s/ DONALD D. CHARRON

---

DONALD D. CHARRON  
Chairman of the Board,  
Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kimball Electronics, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jana T. Croom, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 30, 2022

/s/ JANA T. CROOM  
\_\_\_\_\_  
JANA T. CROOM  
Chief Financial Officer



# Leadership and Corporate Information

## Board of Directors

### Donald D. Charron

Chairman of the Board

### Michele A.M. Holcomb, Ph.D.

Director

### Gregory J. Lampert

Director

### Robert J. Phillippy

Director

### Colleen C. Replier

Director

### Gregory A. Thaxton

Director

### Holly A. Van Deursen

Director

## Leadership Team

### Donald D. Charron

Chairman of the Board and  
Chief Executive Officer

### Jana T. Croom

Chief Financial Officer

### Jessica L. DeLorenzo

Vice President, Human Resources

### Douglas A. Hass

Chief Legal and Compliance Officer,  
Secretary

### LeRoy W. Kemper

Vice President, Diversified Contract  
Manufacturing Services

### Steven T. Korn

President, Global Electronics Manufacturing  
Services Operations

### Kathy R. Thomson

Vice President, Global Business  
Development and Design Services

### Christopher J. Thyen

Vice President, New Platforms

### Isabel S. Wells

Chief Information Officer

## Retired Leadership

### Sandy A. Smith

Smith joined the Company 35 years ago and served in various roles throughout her long-tenured career. She became Vice President, Information Technology in 2014 when she led the IT team during the Spin-Off to achieve a complete technological separation from the former parent company and developed a global IT organization to support our expanding global footprint.

### John H. Kahle

Kahle joined the Company 35 years ago and served as legal counsel during his long-tenured career. He served as Vice President, General Counsel, Chief Compliance Officer, and Secretary since the Spin-Off in 2014. During his tenure at Kimball Electronics, Mr. Kahle was instrumental in providing legal expertise through global expansion, company growth, and additional demand for regulations and compliance globally.

## Corporate Information

### Form 10-K Report

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available, without charge, upon written request directed to Jana Croom, Chief Financial Officer, at our world headquarters and is available on our website at: [www.kimballelectronics.com](http://www.kimballelectronics.com).

### Transfer Agent and Registrar of the Common Stock

Share Owners with questions concerning address changes, registration changes, lost share certificates, or transferring shares may contact:

#### Mail

Broadridge Shareholder Services  
c/o Broadridge Corporate Issuer Solutions  
PO Box 1342  
Brentwood, NY 11717-0718  
[shareholder@broadridge.com](mailto:shareholder@broadridge.com)  
1-303-562-9275 or 1-888-789-8606

#### Overnight Mail

Broadridge Shareholder Services  
c/o Broadridge Corporate Issuer Solutions  
1155 Long Island Avenue  
Edgewood, NY 11717-8309  
Attn: IWS

#### Website

[shareholder.broadridge.com](http://shareholder.broadridge.com)

#### World Headquarters

Kimball Electronics, Inc.  
1205 Kimball Blvd.  
Jasper, IN 47546



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