



# Investor Presentation

Third Quarter Fiscal Year 2019

KIMBALL ELECTRONICS (Nasdaq: KE) //

## Safe Harbor Statement

Certain statements contained within this presentation may be considered forward-looking under the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties including, but not limited to, successful integration of acquisitions and new operations, global economic conditions, geopolitical environment, significant reductions in volumes and order patterns from key contract customers, loss of key customers or suppliers, financial stability of key customers and suppliers, availability or cost of raw materials, impact related to tariffs and other trade barriers, and increased competitive pricing pressures reflecting excess industry capacities. Additional cautionary statements regarding other risk factors that could have an effect on the future performance of Kimball Electronics, Inc. (the “Company”) are contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 and other filings with the Securities and Exchange Commission (the “SEC”).

This presentation contains non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company’s financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States in the statement of income, statement of comprehensive income, balance sheet, statement of cash flows, or statement of equity of the company. The non-GAAP financial measures contained herein include Adjusted Operating Income/Margin, Adjusted Net Income/Margin, Adjusted EBITDA/Margin, Tangible Book Value, Tangible Book Value per Share, Adjusted Earnings Per Share, and Return on Invested Capital (ROIC), which have been adjusted for spin-off expenses, proceeds from a lawsuit settlement, a bargain purchase gain, and adjustments to provision for income taxes related to the U.S. Tax Cuts and Jobs Act (“Tax Reform”) enacted in December 2017. Management believes it is useful for investors to understand how its core operations performed without the effects of incremental costs related to the spin-off, lawsuit proceeds, the bargain purchase gain, and adjustments to provision for income taxes related to Tax Reform. Excluding these amounts allows investors to meaningfully trend, analyze, and benchmark the performance of the Company’s core operations. Many of the Company’s internal performance measures that management uses to make certain operating decisions use these and other non-GAAP measures to enable meaningful trending of core operating metrics.

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## Who We Are

**Global contract manufacturer**  
of electronic components used in...

**Automotive, Industrial, Medical & Public Safety Industries**

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Focused on **non-commodity products and components**  
that require ...

**complexity, quality, reliability, and durability**

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**6,000+ employees in 9 countries\*\***

Headquarters:  
Jasper, Indiana

Established in 1961

Nasdaq: KE  
Market Cap\*: \$398 M  
TTM Revenue: \$1.1 B  
FYE: June 30

## Why Invest?

### Above Average Revenue Growth

- Expect high single-digit revenue growth
- Focus on secular growth trends
  - Positive outsourcing trends
  - Market share gains

### Sustainable Competitive Advantage

- Significant barriers to entry
- Focus in areas that require complexity, regulatory approval, and durable electronics
  - Sustainable long-term customer relationships

### Strong Balance Sheet

- Track record of disciplined capital allocation decisions
- Investment focus on ROIC
  - Repurchased >10% of outstanding shares
  - \$47 million in cash... \$107 million in total liquidity\*\*
  - \$150 million Credit Facility, with option to increase to \$225 million

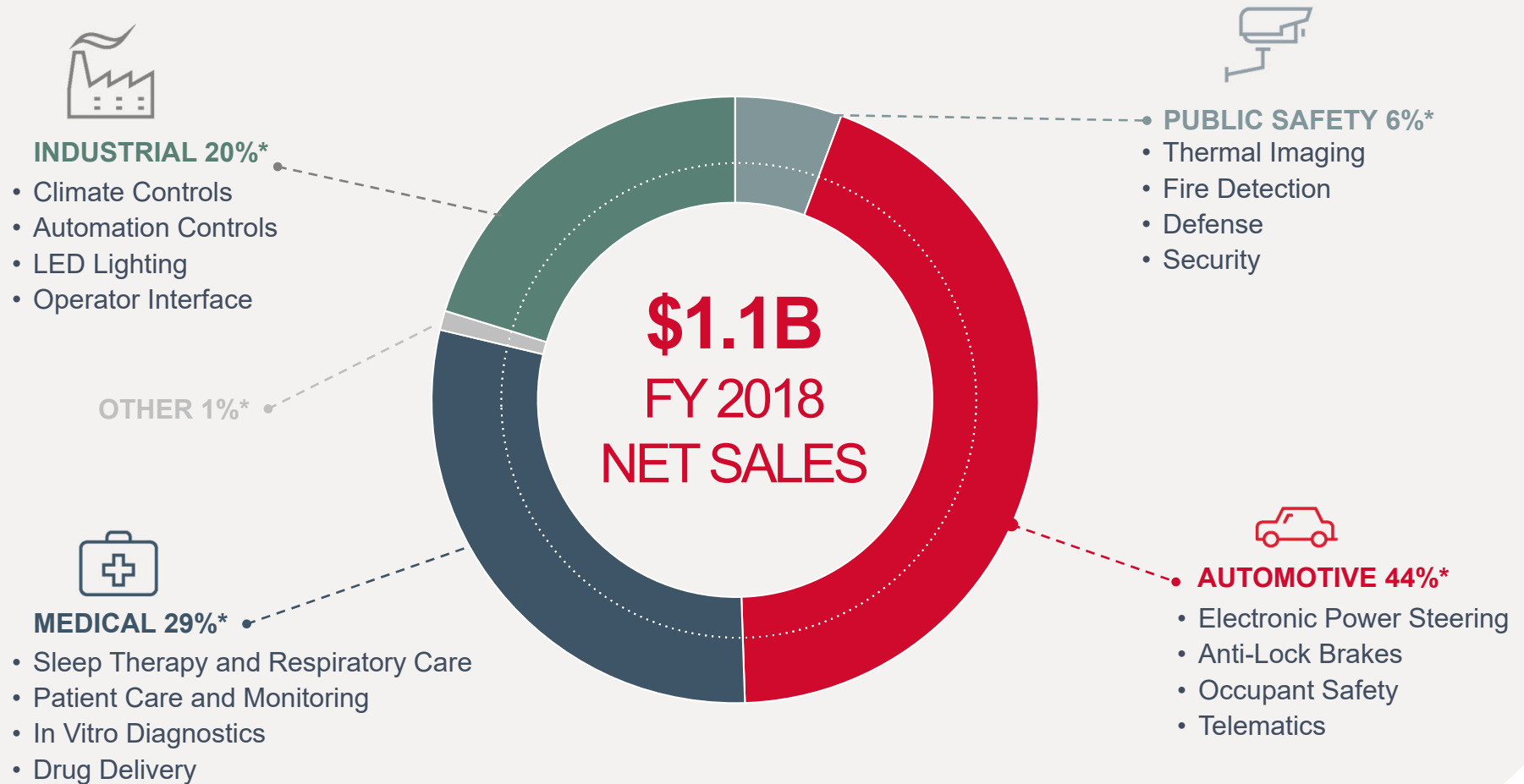
### Opportunities to Expand Profitability and Returns

- Utilization rates increase
- New customer programs mature
- Contribution from new strategic investments

### Predictable & Recurring Revenue

- 10 year+ relationships with 76% (as a % of revenue) of customers\*
- 3 to 10 year typical program life

# What We Do



**Contract Manufacturer of non-commodity products and components that require complexity, quality, reliability, and durability**

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## Our Value Proposition/Competitive Moat

**Global consistency** - Single instance of SAP supports manufacturing operations globally. Standard lean six sigma practices shared across all facilities.

**Deep domain expertise** - Experienced body of knowledge required for high quality, high reliability, highly complex, and durable electronics.

**Regulatory compliance & industry certifications** - FDA, ISO, UL, CSA, RoHS, WEEE, HALT, HASS, IPC, J-STD

**Global Footprint** – Support global OEMs in all areas of the world. More easily allows programs to be single sourced.

**58 year history** – Track record for quality and cost innovation.

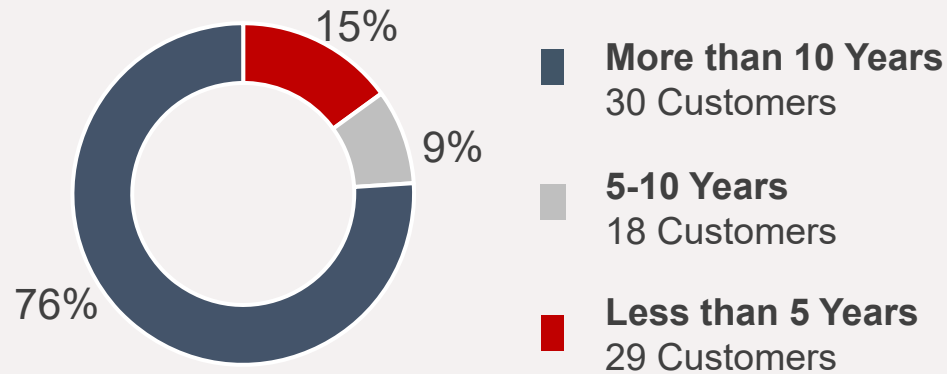
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# Global Footprint



**1.3 million square feet of owned manufacturing space**

# Sustainable Long-Term Customer Relationships



% of Net Sales FYTD'19

## Typical Program Length

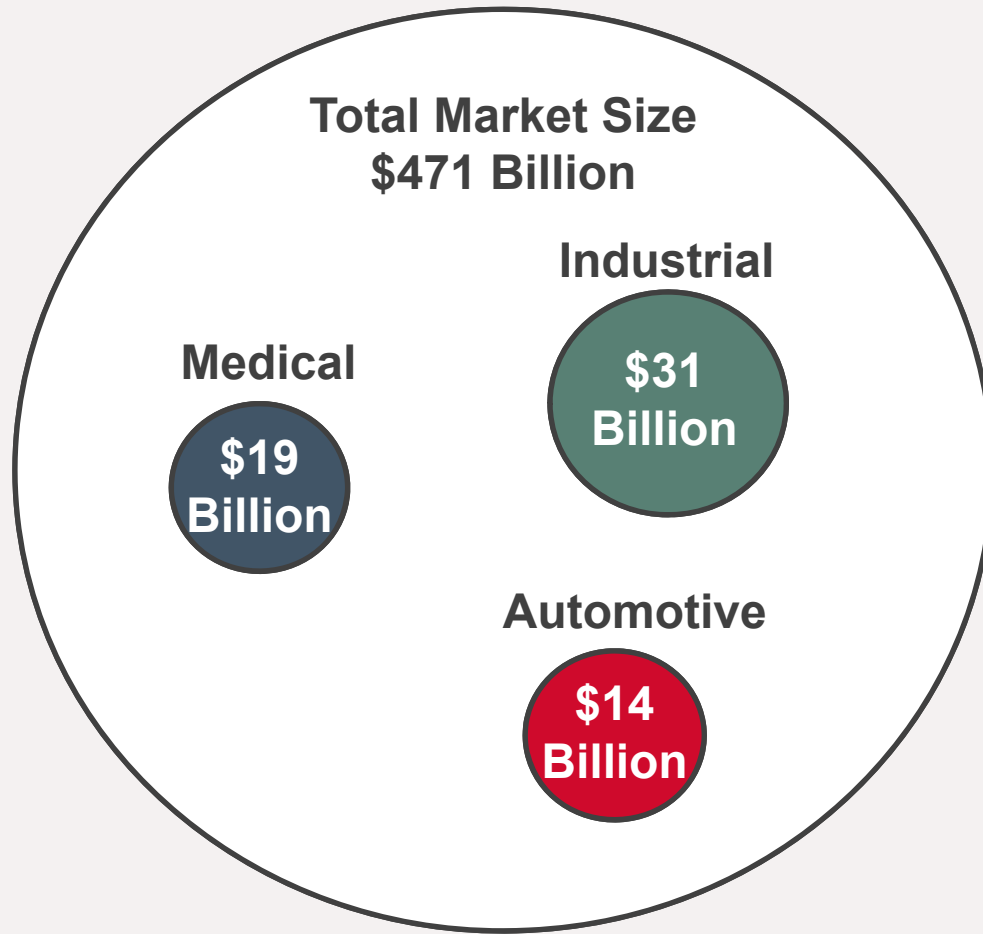
Automotive: 5-7 years  
Medical: 10 years  
Industrial: 3-5 years

**Programs are mostly single sourced**  
**Recurring revenue**

**Long-term predictable revenue enables multi-year planning**  
**Enables projects focused on multi-year ROIC**



## Sizable Addressable Market



<b>Market Verticals</b>	<b>CAGR 2012-2017</b>	<b>CAGR 2017-2022</b>
Automotive	5.9%	8.3%
Medical	5.1%	6.2%
Industrial	2.5%	5.9%
Total Market	2.7%	7.5%

## Focused on Fast Growing Market Verticals

Source: THE WORLDWIDE ELECTRONICS MANUFACTURING SERVICES MARKET – 2018 EDITION New Venture Research Corp.

# Rapid Change for Traditional Manufacturing

- **Outsourcing is accelerating...**

- Faster time to market
- Allocating resources to points of differentiation
- Eco-system is becoming exponentially more complicated
- Global worker shortage
- Near sourcing

- **Disruption is coming...**

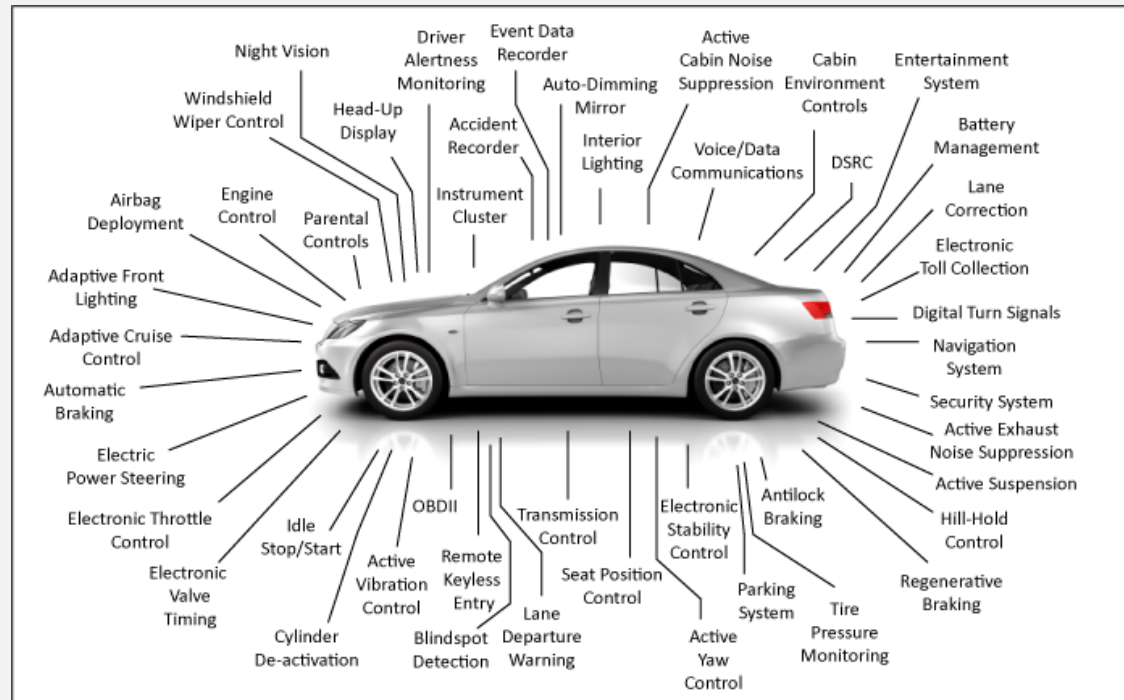
- Automation
- 3D Printing
- Artificial Intelligence
- Augmented Reality

**Creates Multiple Opportunities for Kimball Electronics**

# Megatrends Opportunities

## Increasing electronic content per vehicle

- Advanced Driver Assistance Systems (“ADAS”)
- Infotainment Systems
- Passenger Safety Systems
- Mobility/Vehicle Management
- Electric Vehicles
- Redundant Systems for Self Driving Cars



**Global Automotive electronics assembly value to grow 8.3% through 2022**

# Megatrends Opportunities

## Healthcare Growth

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- Aging Population
- Increasing Access to Care
- Remote Patient Monitoring
- Decreasing Device Size
- Connected Drug Delivery

## Internet Connected Devices

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- Internet of Things
- Smart Metering
- Energy Efficient Lighting

**Global Medical electronics assembly value  
to grow 6.2% through 2022**

**Global Industrial electronics assembly value  
to grow 5.9% through 2022**

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## Creating Shareholder Value

Target end markets with **strong secular** growth

Make investments that enable **greater strategic customer engagement** and **enhance return profile**

Leveraging existing assets & **continuously improving efficiencies**

# End Markets with Secular Growth - Automotive

## Kimball Automotive Growth

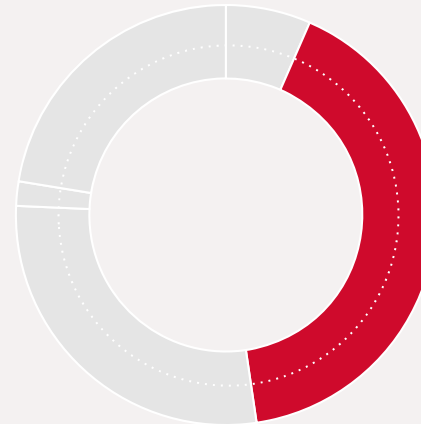
CAGR 2014-2018

14%



3QFY19 TTM Growth

2%



44% of Revenue\*

### AUTOMOTIVE

- Electronic Power Steering
- Anti-Lock Brakes
- Occupant Safety
- Telematics

## Market Growth

CAGR 2012-2017\*\*

5.9%



CAGR 2017-2022\*\*

8.3%



## Representative Customers



**1 in 5 light vehicles have a Kimball Part**

\*As a % of FY2018 total revenue

\*\* THE WORLDWIDE ELECTRONICS MANUFACTURING SERVICES MARKET – 2018 EDITION New Venture Research Corp .

# End Markets with Secular Growth - Medical

## Kimball Medical Growth

CAGR 2014-2018

11%



3QFY19 TTM Growth

20%



29% of Revenue\*

### MEDICAL

- Sleep Therapy and Respiratory Care
- Patient Care and Monitoring
- In Vitro Diagnostics
- Drug Delivery

## Market Growth

CAGR 2012-2017\*\*

5.1%



CAGR 2017-2022\*\*

6.2%



## Representative Customers

**ZOLL**  
Medical

**PHILIPS**  
Healthcare

**SIEMENS**  
Healthcare

**stryker**

\*As a % of FY2018 total revenue

\*\* THE WORLDWIDE ELECTRONICS MANUFACTURING SERVICES MARKET – 2018 EDITION New Venture Research Corp.

# End Markets with Secular Growth – Industrial

## Kimball Industrial Growth

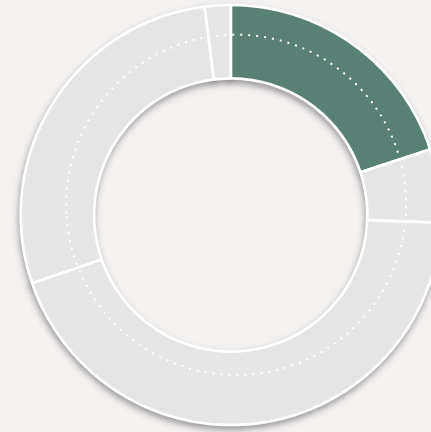
CAGR 2014-2018

3%



3QFY19 TTM Growth

15%



20% of Revenue\*

### INDUSTRIAL

- Climate Controls
- Automation Controls
- LED Lighting
- Operator Interface

## Market Growth

CAGR 2012-2017\*\*

2.5%



CAGR 2017-2022\*\*

5.9%



## Representative Customers



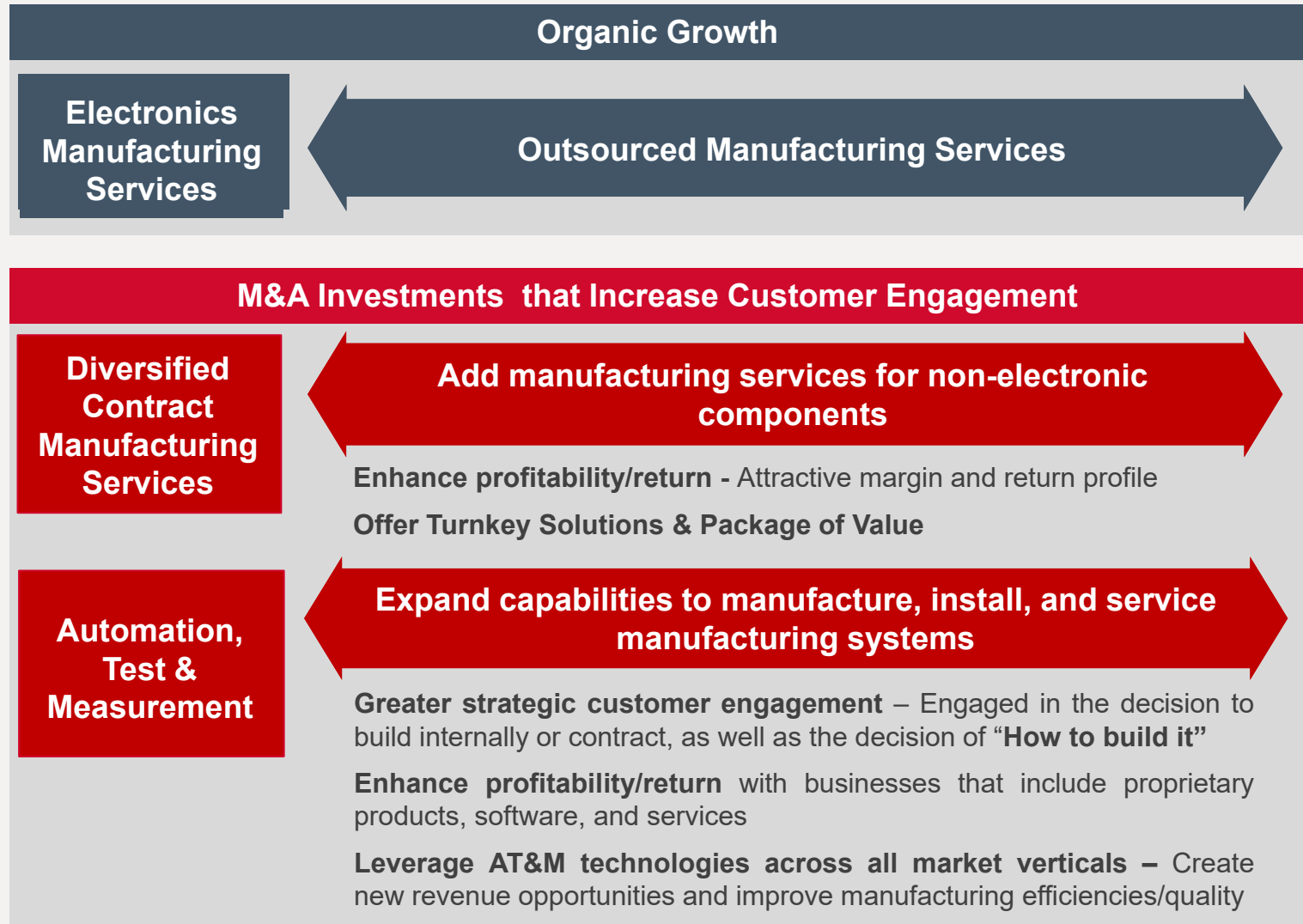
\*As a % of FY2018 total revenue

\*\* THE WORLDWIDE ELECTRONICS MANUFACTURING SERVICES MARKET – 2018 EDITION New Venture Research Corp. 16



# Multifaceted Manufacturing Solutions Company

Expanding Solution Set



# Acquisition Strategy

## Primary Focus:

To establish a global market leadership position as a premier AT&M provider

## Secondary Focus:

- Medical focused Diversified Contract Manufacturing Services
- Opportunistic deals in key market verticals

## Key Criteria

- New capabilities
- Alignment with four end-market strategy
- New customer relationships and minimum customer overlap
- EPS accretive by the second year and ROIC accretive by the third year

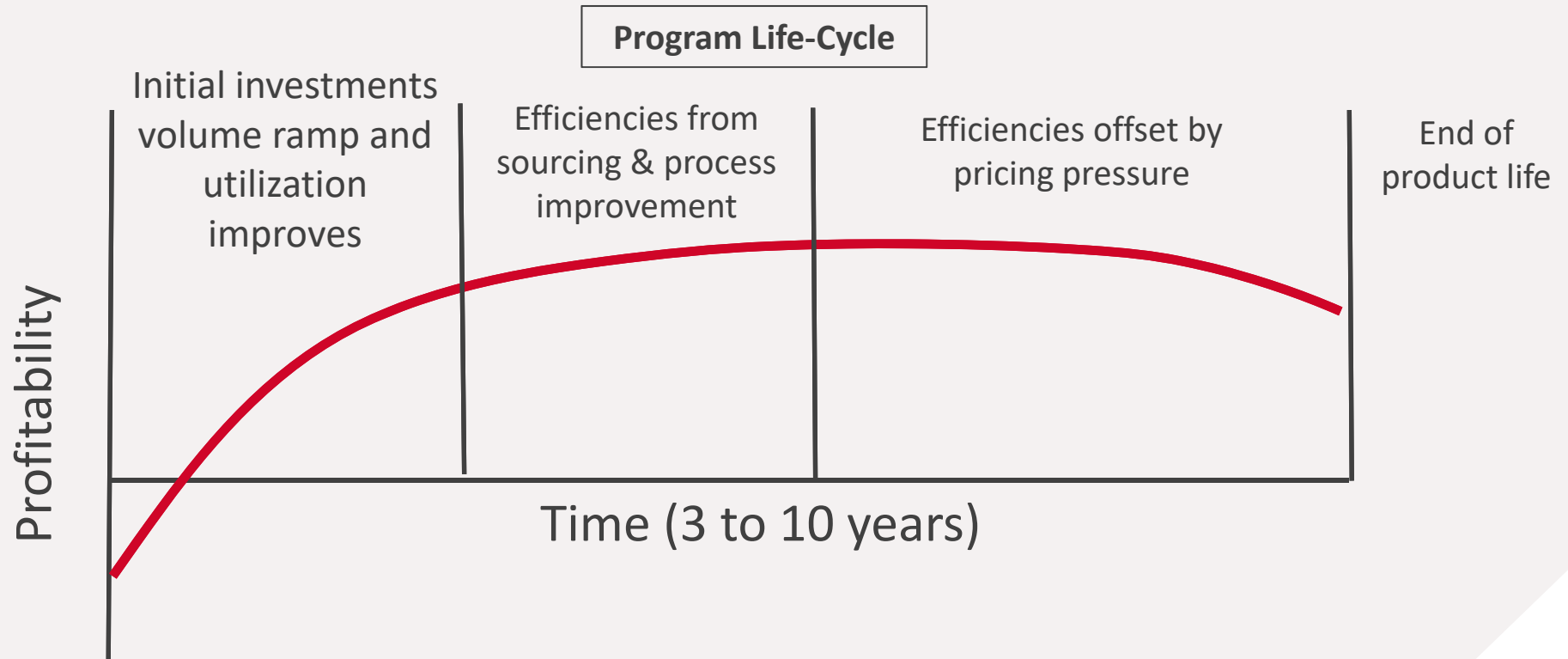
## GES Acquisition - Completed Oct 1, 2018

- First AT&M acquisition – Approximately \$45 million in Cash, plus assumed liabilities\*
- Added capabilities - production processing, test equipment design, volume manufacturing, and global services for the semiconductor, electronics, and life sciences industries

# ROIC Measured Over Multiple Years

As new programs mature, volumes ramp and cost efficiencies are gained  
Increased launch activity in recent years has put near term pressure on profitability/returns

ROIC measured over multiple years  
Programs are mostly single sourced



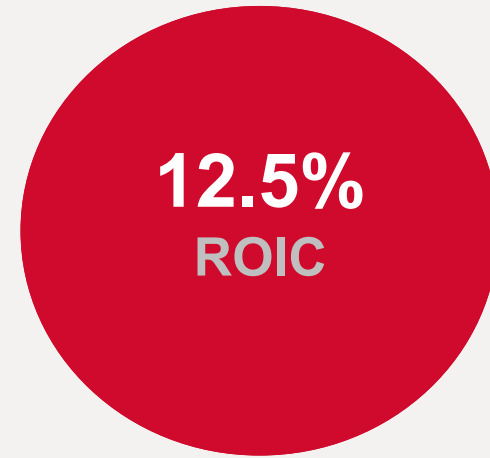
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# Financial Review

**Revenue Growth, Margin Expansion, and Strong Financial Profile**

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## Financial Targets

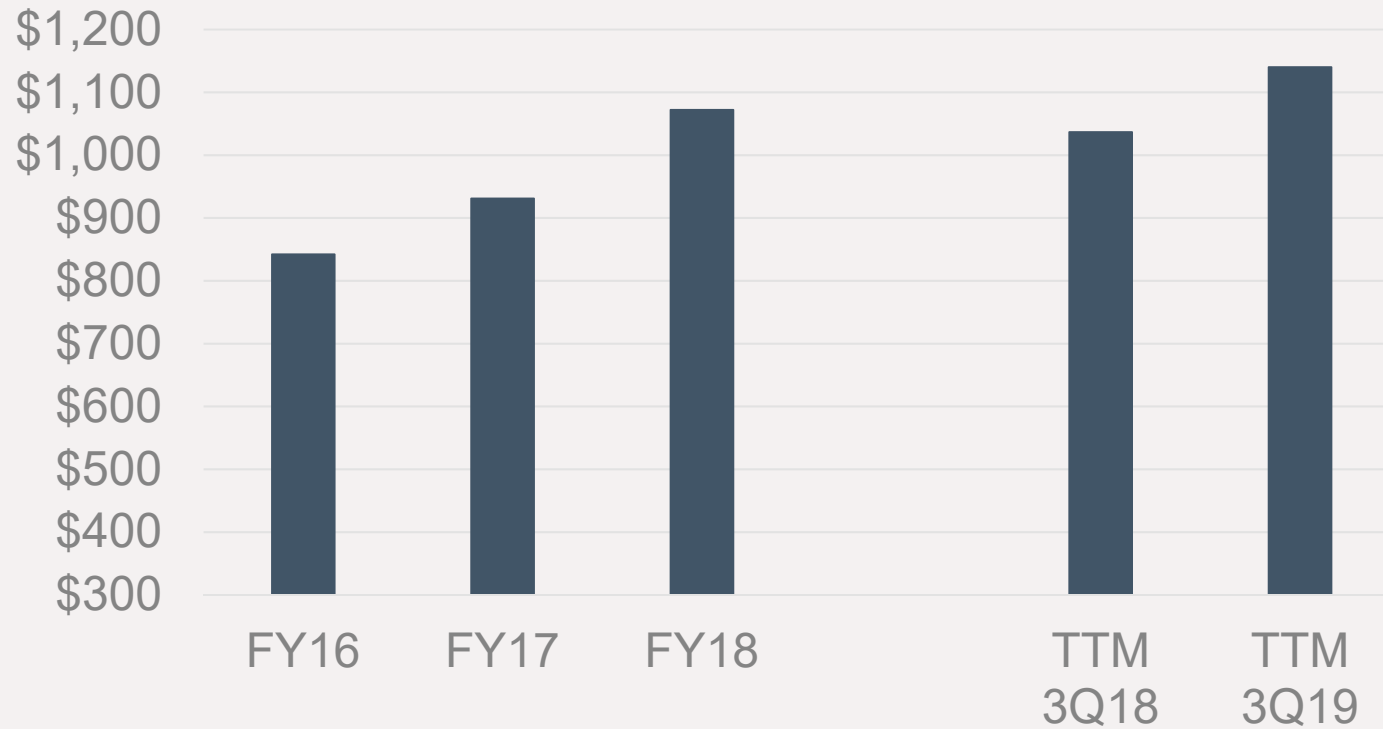


# Revenue Performance

**Target 8% - Achieving above target growth rates**

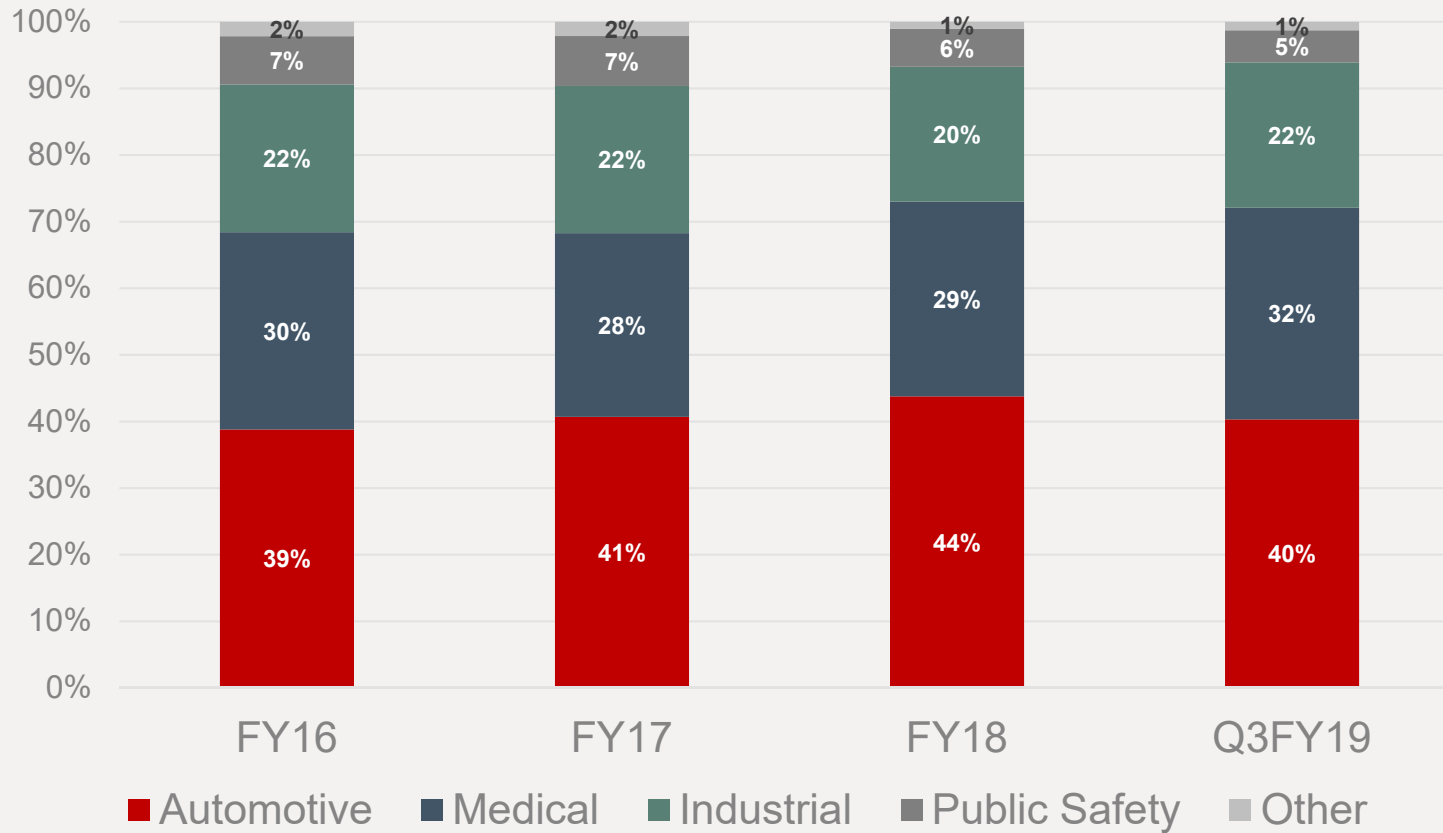
10% - CAGR FY2014 to FY2018

10% Growth TTM 3QFY19 (ended Mar. 31, 2019)



In \$ millions

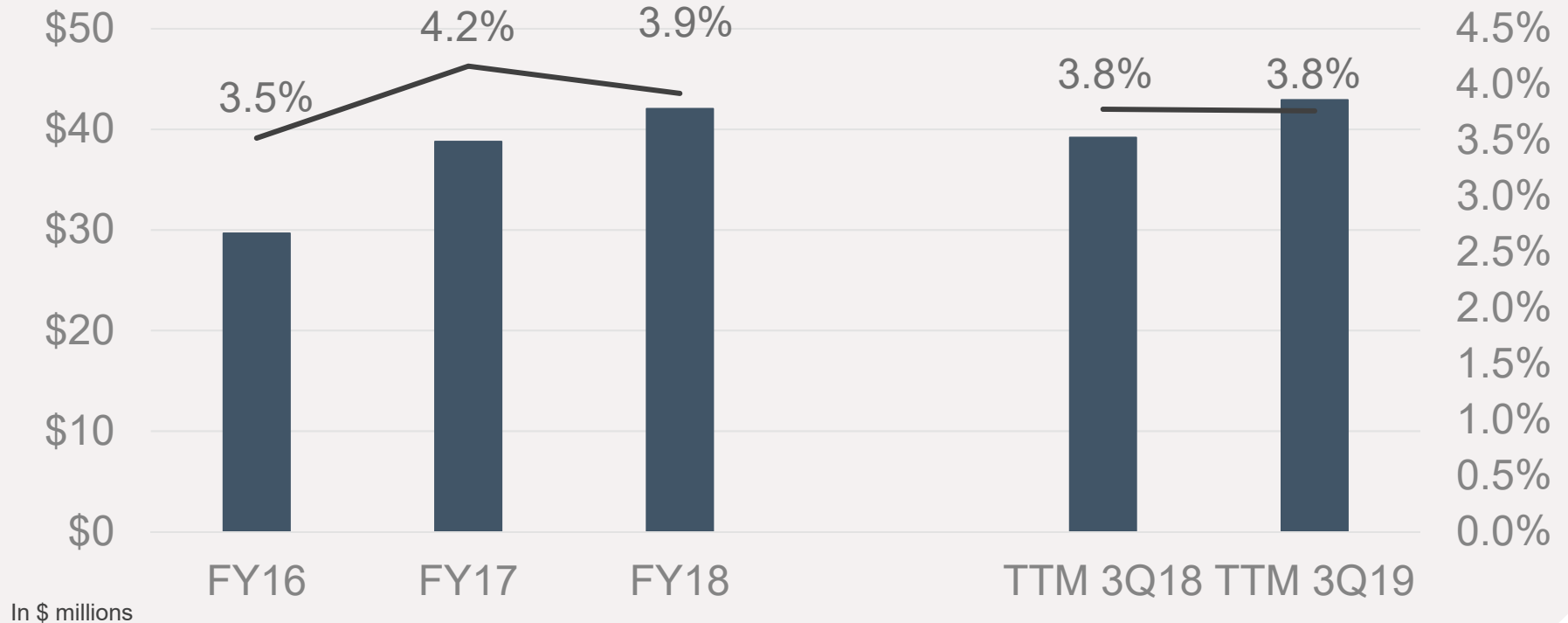
# Revenue Mix by Vertical Market



# Adjusted Operating Income/Margin\*

**Target 4.5% Operating Margin**

Expect improvement from ramping utilization of greenfield plant in Romania and maturity of new programs

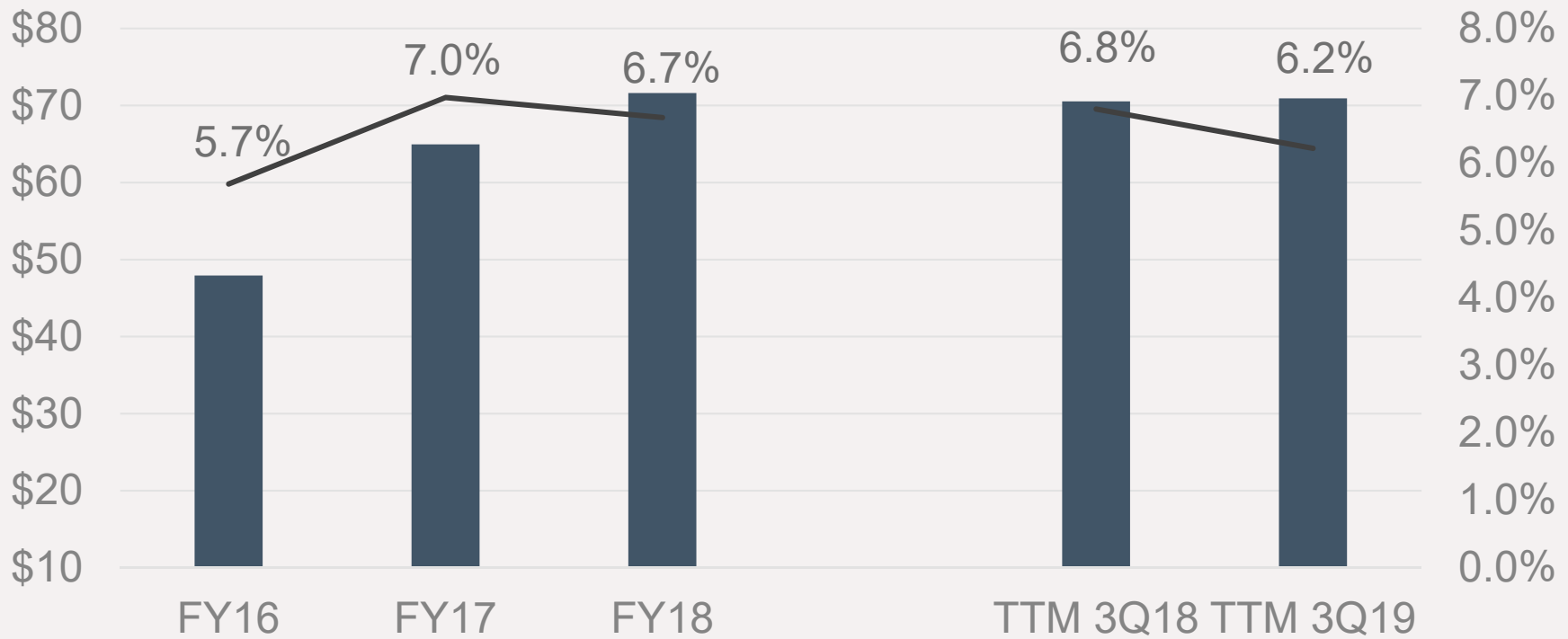


\*Adjusted Operating Income and Margin are Non-GAAP terms. A reconciliation is provided in the appendix of this presentation. Prior period amounts have been restated to reflect the retrospective adoption of new accounting guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost.



# Adjusted EBITDA/Margin\*

Expect improvement from ramping utilization of greenfield plant in Romania and maturity of new programs



In \$ millions

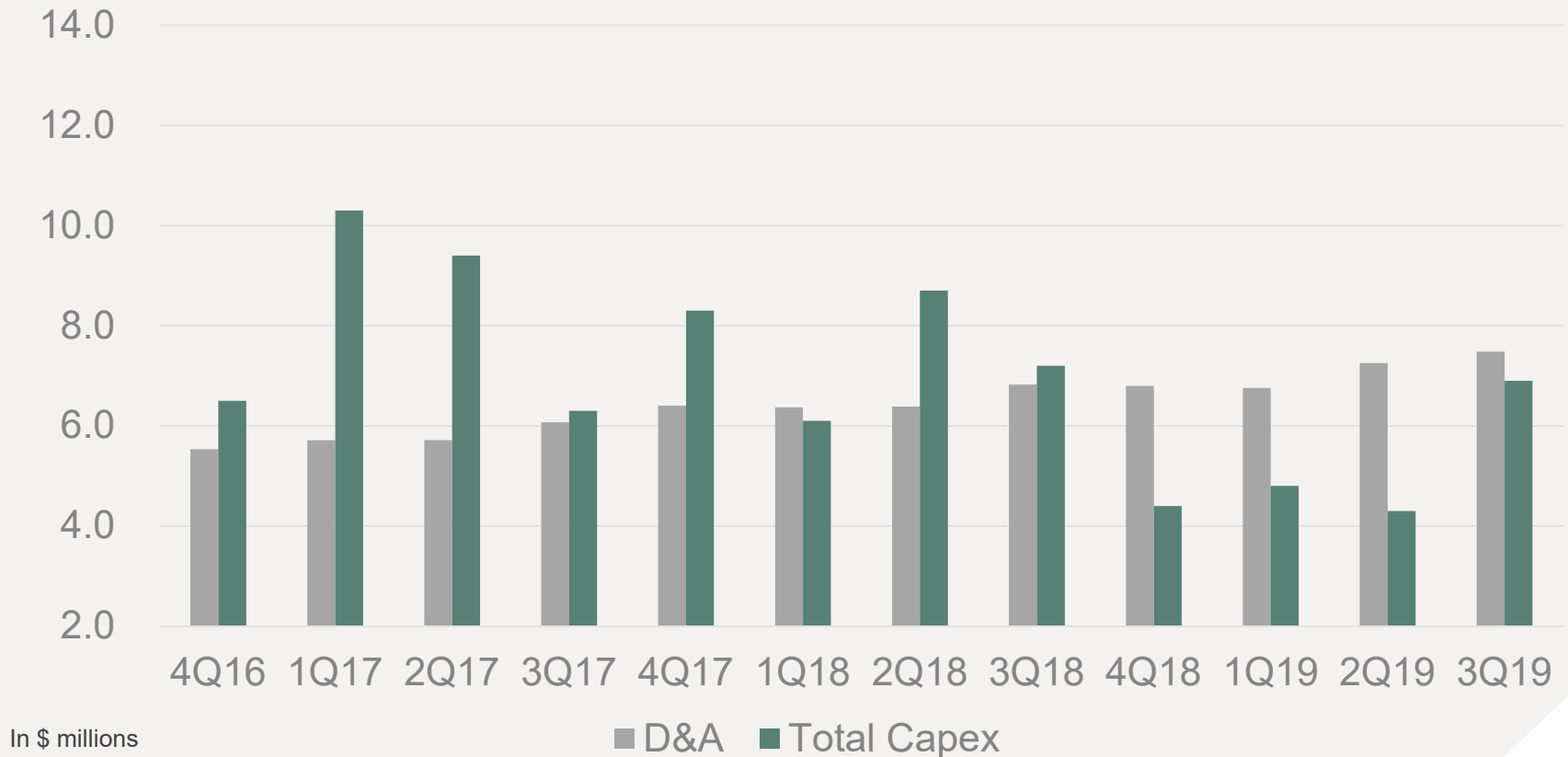
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# Capital Expenditures and D&A

Significant capex spending to fuel multi-year organic growth and expansion in ROIC

- DCMS
- Romanian Plant

**FY2015 to FY2017 - \$40 million+ investment in excess of D&A spent on Growth**

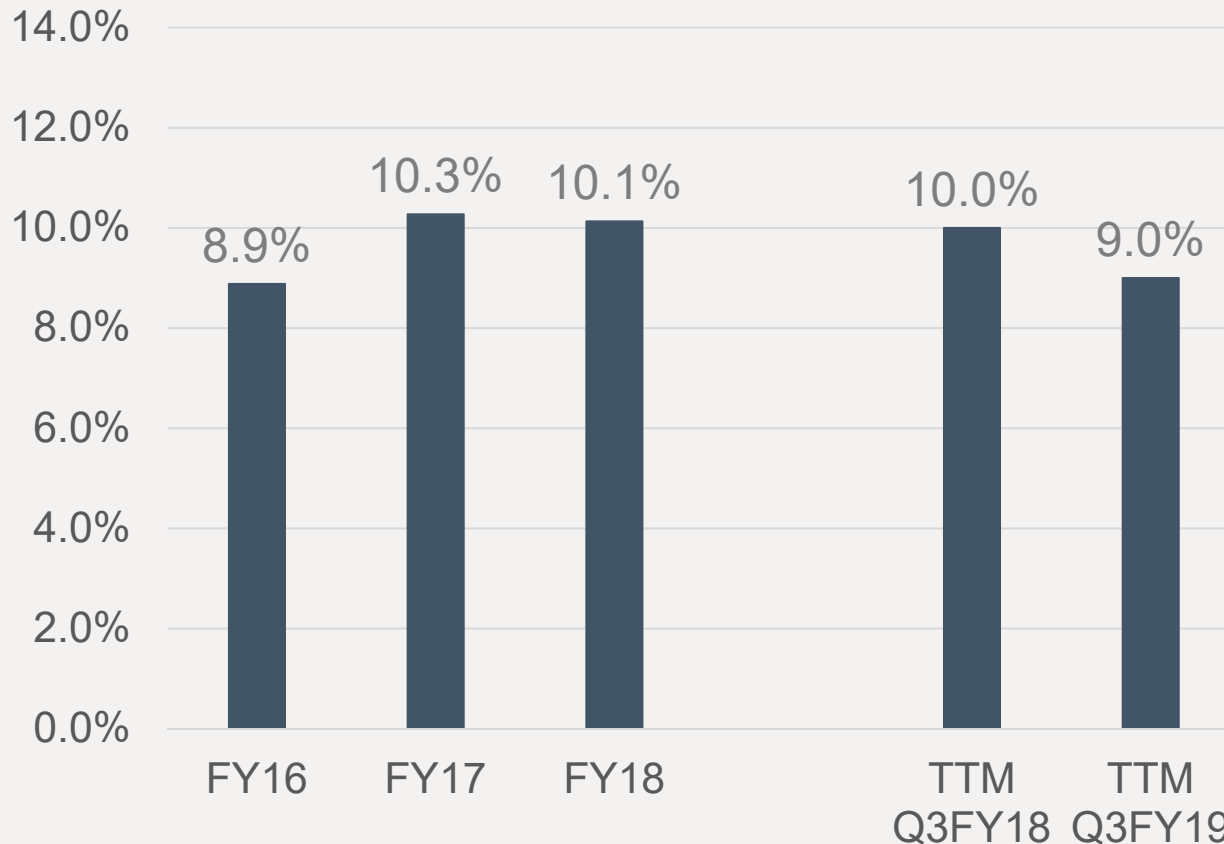


# Target ROIC 12.5%

Significant capex spending to fuel multi-year organic growth and expansion in ROIC

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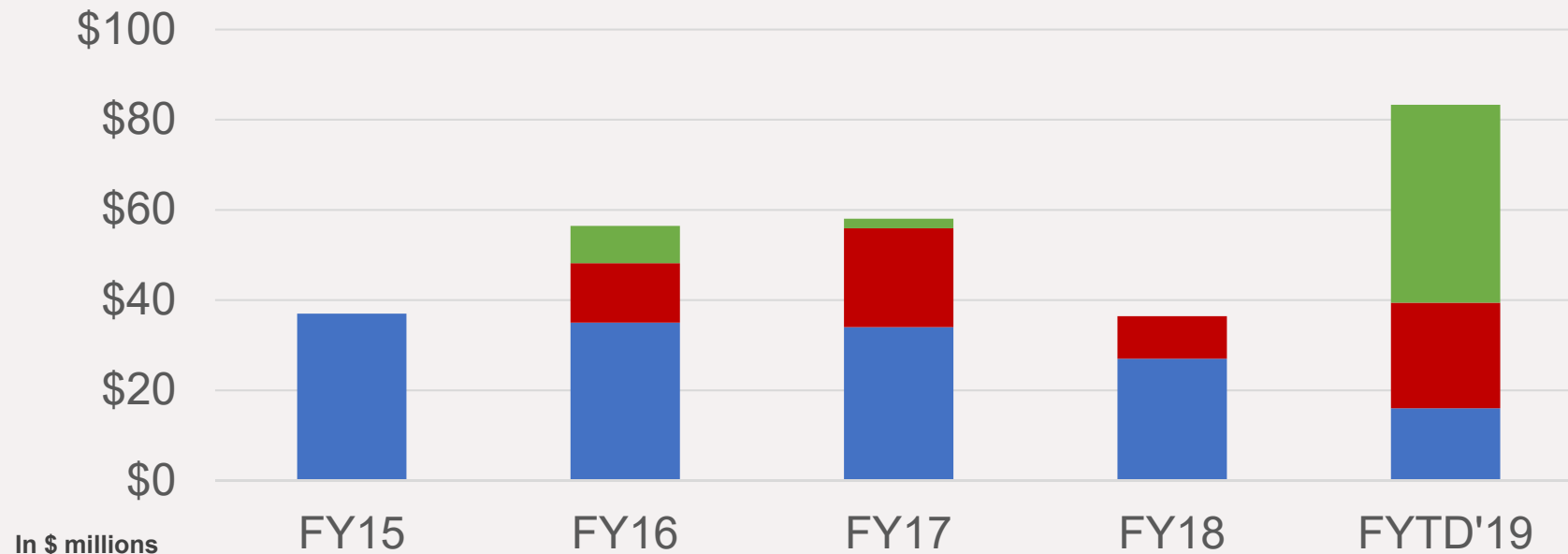


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KIMBALL ELECTRONICS Prior period amounts have been restated to reflect the retrospective adoption of new accounting guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost.

# Capital Allocation

- **Reinvest in the business** – Significant capex spending of approximately \$30 million/year to multi-year organic growth and expansion in ROIC
- **Acquisitions** - \$50+ million of acquisitions over past four years. Going forward M&A will play an important role in strategic direction of the firm.
- **Share Repurchase** – \$67.9 million of common stock repurchases representing more than 10% of outstanding shares through March 31, 2019 at an average price of \$15.04/share



## Strong Balance Sheet

### Ample Liquidity for Growth

\$47M in Cash\*

\$107 million in total liquidity\*

\$150M credit facility, with option to increase to \$225 million

1.3 million square feet of owned manufacturing space

### Consistent Working Capital Management\*\*

DSO – 56 to 58 days

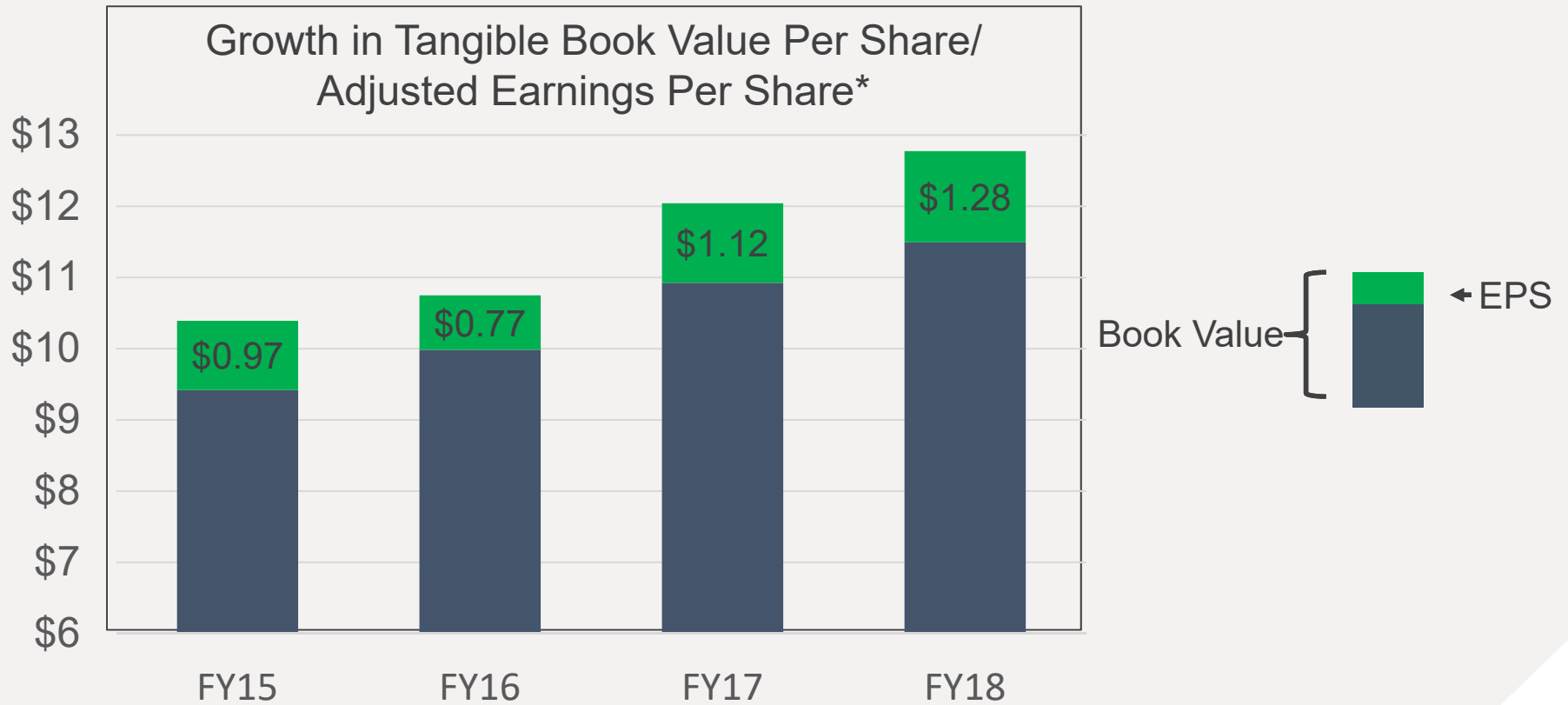
Inventory Turns – 4x to 6x per year

Cash Conversion Cycle – 62 to 75 days

\* As of Mar. 31, 2019

\*\* Range as reported for quarters ending Mar. 31 2018 and Mar. 31, 2019

# Growing Book Value



\* Adjusted Earnings Per Share and Tangible Book Value are Non-GAAP terms. A reconciliation is provided in the appendix of this presentation.

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### Predictable & Recurring Revenue

- 10 year+ relationships with 76% (as a % of revenue) of customers\*
- 3 to 10 year typical program life

# QUESTIONS



## Reconciliation of Non-GAAP Results

(In Millions)	FY16	FY17	FY18	TTM 3Q18	TTM 3Q19
Revenue, as reported	\$ 842	\$ 931	\$ 1,072	\$ 1,037	\$ 1,140
Operating Income (GAAP)	\$ 29.518	\$ 42.780	\$ 42.038	\$ 39.177	\$ 43.007
Add: Spin-off Expenses	0.137	-	-	-	-
Less: Lawsuit Proceeds	-	4.005	-	-	0.092
<b>Adjusted Operating Income (non-GAAP)</b>	<b>\$ 29.655</b>	<b>\$ 38.775</b>	<b>\$ 42.038</b>	<b>\$ 39.177</b>	<b>\$ 42.915</b>
<b>Adjusted Operating Margin (non-GAAP)</b>	<b>3.5%</b>	<b>4.2%</b>	<b>3.9%</b>	<b>3.8%</b>	<b>3.8%</b>
Revenue, as reported	\$842	\$931	\$1,072	\$1,037	\$1,140
Net Income (GAAP)	\$ 22.287	\$ 34.179	\$ 16.752	\$ 19.096	\$ 29.817
Add: Spin-off Costs	0.085	-	-	-	-
Add: Tax Adj. from Tax Reform	-	-	17.859	16.450	1.158
Less: Lawsuit Proceeds	-	2.499	-	-	0.070
Less: Bargain Purchase Gain	-	0.925	-	-	-
<b>Adjusted Net Income (non-GAAP)</b>	<b>\$ 22.372</b>	<b>\$ 30.755</b>	<b>\$ 34.611</b>	<b>\$ 35.546</b>	<b>\$ 30.905</b>
<b>Adjusted Net Income Margin (non-GAAP)</b>	<b>2.7%</b>	<b>3.3%</b>	<b>3.2%</b>	<b>3.4%</b>	<b>2.7%</b>
Revenue, as reported	\$842	\$931	\$1,072	\$1,037	\$1,140
Adjusted Net Income (non-GAAP)	\$ 22.372	\$ 30.755	\$ 34.611	\$ 35.546	\$ 30.905
Add Interest, net	0.001	0.207	0.454	0.423	2.737
Add Depreciation & Amortization	19.869	23.904	26.376	25.982	28.284
Add Taxes	5.689	10.076	10.164	8.576	8.999
<b>Adjusted EBITDA (non-GAAP)</b>	<b>\$ 47.931</b>	<b>\$ 64.942</b>	<b>\$ 71.605</b>	<b>\$ 70.527</b>	<b>\$ 70.925</b>
<b>Adjusted EBITDA Margin (non-GAAP)</b>	<b>5.7%</b>	<b>7.0%</b>	<b>6.7%</b>	<b>6.8%</b>	<b>6.2%</b>

\* Prior period amounts have been restated to reflect the retrospective adoption of new accounting guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost.

## Reconciliation of Non-GAAP Results

(In Millions, except per share data)	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Shareholders Equity, as reported	\$ 324.369	\$ 342.272	\$ 355.527
Goodwill & Intangibles	\$ 10.784	\$ 10.772	\$ 10.566
Tangible Book Value	\$ 313.585	\$ 331.500	\$ 344.961
Average Shares Outstanding (Dilluted)	29.176	27.530	27.007
<b>Tangible BV/Share</b>	<b>\$ 10.75</b>	<b>\$ 12.04</b>	<b>\$ 12.77</b>
Diluted Earnings per Share, as reported	\$ 0.76	\$ 1.24	\$ 0.62
Add: Tax Adj. from Tax Reform	-	-	0.66
Add: Impact of Spin-off Expenses	0.01	-	-
Less: Impact of Settlement Proceeds from Lawsuits	-	0.09	-
Less: Bargain Purchase Gain	-	0.03	-
<b>Adjusted Diluted Earnings per Share</b>	<b>\$ 0.77</b>	<b>\$ 1.12</b>	<b>\$ 1.28</b>

# Reconciliation of Non-GAAP Results

(In Thousands)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Operating Income (GAAP) (TTM)	\$ 35,381	\$ 40,671	\$ 43,115	\$ 42,780	\$ 39,568	\$ 37,515	\$ 39,177	\$ 42,038	\$ 39,547	\$ 39,640	\$ 43,007
Less: Lawsuit Proceeds (TTM)	\$ 4,005	\$ 4,005	\$ 4,005	\$ 4,005	\$ -	\$ -	\$ -	\$ -	\$ 92	\$ 92	\$ 92
<b>Adjusted Operating Income (non-GAAP) (TTM)</b>	<b>\$ 31,376</b>	<b>\$ 36,666</b>	<b>\$ 39,110</b>	<b>\$ 38,775</b>	<b>\$ 39,568</b>	<b>\$ 37,515</b>	<b>\$ 39,177</b>	<b>\$ 42,038</b>	<b>\$ 39,455</b>	<b>\$ 39,548</b>	<b>\$ 42,915</b>
<b>Tax Effect</b>	\$ 6,232	\$ 8,003	\$ 9,845	\$ 8,627	\$ 8,723	\$ 7,269	\$ 7,642	\$ 9,715	\$ 9,152	\$ 8,982	\$ 9,718
After Tax Adj. Operating Income (TTM)	\$ 25,144	\$ 28,663	\$ 29,265	\$ 30,148	\$ 30,845	\$ 30,246	\$ 31,535	\$ 32,323	\$ 30,303	\$ 30,566	\$ 33,197
Average Invested Capital *	\$271,587	\$277,291	\$285,547	\$293,516	\$302,721	\$308,339	\$315,751	\$319,074	\$326,168	\$342,408	\$366,995
ROIC	9.3%	10.3%	10.2%	10.3%	10.2%	9.8%	10.0%	10.1%	9.3%	8.9%	9.0%

\* Average Invested Capital is computed using Share Owners' equity plus current and non-current debt less cash and cash equivalents averaged for the last five quarters. Prior period amounts have been restated to reflect the retrospective adoption of new accounting guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost.

# Reconciliation of Non-GAAP Results

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Add: Spin-off Expenses	\$ 137	\$ -	\$ -	\$ -	\$ -
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<b>Adjusted Operating Income (non-GAAP)</b>	<b>\$ 29,655</b>	<b>\$ 38,775</b>	<b>\$ 42,038</b>	<b>\$ 39,177</b>	<b>\$ 42,915</b>
<b>Tax Effect</b>	\$ 6,267	\$ 8,627	\$ 9,715	\$ 7,642	\$ 9,718
After Tax Adj. Operating Income	\$ 23,388	\$ 30,148	\$ 32,323	\$ 31,535	\$ 33,197
Average Invested Capital *	\$ 263,371	\$ 293,516	\$ 319,074	\$ 315,751	\$ 366,995
ROIC	8.9%	10.3%	10.1%	10.0%	9.0%

\* Average Invested Capital is computed using Share Owners' equity plus current and non-current debt less cash and cash equivalents averaged for the last five quarters. Prior period amounts have been restated to reflect the retrospective adoption of new accounting guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost.