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Q2 2019 Kimball Electronics Inc Earnings Call

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CORPORATE PARTICIPANTS

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*
Michael K. Sergesketter *Kimball Electronics, Inc. - VP & CFO*

CONFERENCE CALL PARTICIPANTS

Hendi Susanto *G. Research, LLC - Research Analyst*
Michael Morales *Walthausen & Co., LLC - Research Analyst*
Richard L. Greenberg *Donald Smith & Co., Inc. - SVP, Director of Research & Senior Portfolio Manager*

PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Josh, and I will be your conference call facilitator today. At this time, I would like to welcome everyone to the Kimball Electronics Second Quarter Fiscal 2019 Financial Results Conference Call. (Operator Instructions) Today's call, February 7, 2019, will be recorded and may contain forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Risk Factors that may influence the outcome of forward-looking statements can be seen in Kimball's annual report on Form 10-K for the year ended June 30, 2018, and in today's release.

The panel for today's call is Don Charron, Chairman of the Board and Chief Executive Officer; and Mike Sergesketter, Vice President and Chief Financial Officer of Kimball Electronics. I would now like to turn today's call over to Don Charron. Mr. Charron, you may begin.

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

Thank you, Josh. Welcome, everyone, to our second quarter conference call. Our earnings release was issued yesterday afternoon on the results of our second quarter ended December 31, 2018. We have posted a financial summary presentation to accompany this conference call. The presentation can be found on our Investor Relations website within the Events & Presentations tab. Or if you're listening via the webcast, you can find it in the Downloads tab on the webcast portal.

I will begin by making a few remarks on the overall quarter, and then I'll turn it over to Mike for the financial overview. After that, we'll answer any questions that you may have.

We achieved solid year-over-year growth in 3 of our 4 end market verticals as the ramp-up of new program launches helped to more than offset continued softness in certain other programs primarily caused by global macroeconomic conditions, component shortages and trade uncertainties. We made good progress in optimizing our core business. And with the acquisition of GES, we took a significant step in our strategy to diversify our sales into a multifaceted manufacturing solutions provider. We are cautiously optimistic that our goal of 8% organic growth remains in reach for fiscal year 2019, and we expect to meet our 4.5% operating income goal for the second half of fiscal year 2019.

Our Romania operation continued to progress in its ramp-up and improved its impact on consolidated operating income by 30 basis points compared to the prior fiscal year second quarter.

Across all of our units, we continue to drive lean Six Sigma projects and global supply chain initiatives to improve yield and throughput and improve margins. Margin expansion and capital efficiency will continue to be priorities of focus for us. The market continues to experience component shortages, and we remain focused on doing what's necessary to secure raw materials in this tight supply market and to maintain the appropriate buffer stocks to minimize disruptions.

Our cash conversion days increased to 76 days for the quarter ended December 31, 2018, which is up from 60 days in the same quarter last year. As supply catches up to demand, we expect to work our inventory back down to normal levels. Thus far, we've managed to minimize the direct impact of the China tariffs. However, the indirect impact on the overall demand in China and the added strain on supplier and customer relationships continues to be a concern. We are anxiously awaiting the outcome of the U.S. China trade talks.

We continue to leverage our strong balance sheet and cash flow to make investments that will drive further growth in sales and profits.



We invested \$4.3 million in capital expenditures in the second quarter of fiscal year 2019 in part to support the launch and ramp-up of new programs.

During the second quarter of fiscal year 2019, we also returned \$13.3 million to our share owners by purchasing shares of our common stock, which brings our total to \$63.2 million and 4.2 million shares purchased since October 2015 under our board authorized share repurchase program.

And finally, we are diligently working on the integration of GES. Headquartered in San Jose, California, GES has business operations in China, India, Japan, the U.S. and Vietnam, and brings us new technologies and capabilities in automation, test and measurement. GES supports industrial customers in the smart mobile device and semiconductor manufacturing businesses, and it is important to note that GES' current portfolio of business contains a degree of seasonality with the low season being the quarter ending on December 31, and the high season being our fiscal year fourth quarter ending on June 30. The acquisition of GES is a significant step in our strategy to diversify ourselves into a multi-faceted manufacturing solutions provider, and we're excited about the opportunities to open new doors with new and existing customers.

Now I will turn it over to Mike to discuss our second quarter results in more detail. We will then open the call to your questions. Mike?

Michael K. Sergesketter *Kimball Electronics, Inc. - VP & CFO*

Thanks, Don. During my comments, I will be referring to the slide deck Don mentioned, which can be found on our Investor Relations website within the Events & Presentations tab. Or if you're listening via the webcast, you can find it in the Downloads tab on the webcast portal.

As shown on Slide 3, our second quarter sales were \$284.1 million, which was a 10% increase compared to net sales of \$258.2 million in the prior year second quarter. Sales from the GES acquisition and the impact from the adoption of new review -- new revenue recognition accounting rules each accounted for an increase in sales of 2%, which were partially offset by an unfavorable impact of 1% from foreign currency movements.

Slide 4 represents our net sales mix by vertical market. Comparing our net sales by vertical to the same quarter in the prior year, our automotive vertical was down 3% compared to the same quarter a year ago as demand in China and to a lesser degree Europe, more than offset higher sales in North America from the continued ramp-up of new program introductions.

Our Medical vertical was up 18% in the current quarter compared to Q2 last year from both continued ramp-up of new product launches and increased demand for existing programs. Our industrial vertical was up 20% from a year ago as a result of both the additional revenue associated with the GES acquisition and from an increase in demand for climate control products.

Lastly, our Public Safety vertical was up 29% from the prior year second quarter from both new product launches and increased demand for existing programs.

Our gross margin in the second quarter reflected on Slide 5 was 7.2%, which was down from 8.1% in the second quarter of last fiscal year. Our decrease in gross margin in the current year quarter compared to a year ago was largely related to unfavorable product mix to less mature programs; higher material costs, partially associated with the tightening of component availability; and the unfavorable impact to gross profit from the low seasonality of our recent acquisition. Sequentially, our gross margin improved in the second quarter from 6.8% gross margin realized in the first quarter of fiscal 2019 as improved optimization in our core business more than offset the current quarter impact of the GES acquisition.

Selling and administrator expenses, Slide 6 in the deck, were \$10.2 million in the second quarter, which were down approximately \$600,000 in absolute dollars and down 60 basis points compared to the prior year second quarter. Sequentially, selling and administrative expenses were down \$1 million from the first quarter of fiscal year 2019. The decrease in selling and administrative absolute dollars was primarily due to the reduction in the fair value of the supplemental employee retirement plan or SERP liability and associated incentive-based compensation. The revaluation of the SERP liability is exactly offset by losses recorded on the SERP

investments during the quarter, which is recorded in the other expense net line. These decreases were partially offset by higher salary and related payroll costs as well as amortization of finite lived tangible assets, which were acquired with the GES acquisition.

Operating income for the second quarter, on Slide 7 in the deck, came in at \$10.2 million or 3.6% of net sales compared to operating income of \$10.1 million or 3.9% of net sales in the same period a year ago. When compared sequentially to our first quarter of fiscal year 2019, our operating income improved from 2.6% operating income reported in the previous quarter.

Other income and expense net was an expense of \$1.6 million in the second quarter, which compares to income of \$500,000 in the second quarter of fiscal year 2018. Other expense net in the current year second quarter was primarily the result of \$1.1 million of interest expense and \$600,000 in losses on the SERP investments, which again was offset in selling and administrative expense from the reduction in fair value of the SERP liability. The \$1.1 million in interest expense in the quarter was primarily the result of increased borrowings on our credit facilities, related to financing the GES acquisition and for general corporate purposes and compares to \$100,000 in interest expense in the same quarter last year.

The SERP losses of \$600,000 in the quarter compares to \$300,000 in gains a year ago.

The effective tax rate for the current year second quarter was 17.4%. The current quarter effective tax rate was favorably impacted by discrete tax adjustments to provisions related to the Tax Cuts and Jobs Act or tax reform prior to the end of the 12 months remeasurement period, the discrete adjustment for state tax credits and a provision to return discrete adjustments.

In the prior year second quarter, we recorded \$16.6 million in provisions related to tax reform, which significantly impacted our effective tax rate and unfavorably impacted our diluted earnings per share by \$0.62.

Slide 8 reflects our adjusted net income trend. Our reported GAAP net income in the second quarter of fiscal year 2019 came in at \$7.1 million, which compares to a loss of \$8.3 million in the second quarter of fiscal 2018, primarily related to the tax reform provisions I just mentioned.

Our non-GAAP adjustment -- adjusted net income was \$6.9 million in the current year second quarter, which compares to \$8.2 million in the prior year second quarter after excluding the provision adjustments related to tax reform.

Diluted earnings per share ended at \$0.27 for the second quarter of this fiscal year, which compares to a loss of \$0.31 for the same quarter last year. Our non-GAAP diluted earnings per share came in at \$0.26 in the current quarter compared to \$0.31 a year ago when adjusted for both the impact for the provision adjustments related to the tax reform.

Cash and cash equivalents at December 31, 2018, were \$36 million.

Operating cash flow trends are shown on Slide 11. Our cash flow provided by operating activities during the current year second quarter was \$5.6 million as our net income plus noncash items more than offset the usage of cash related to an increase in working capital, primarily from an increase in contract assets and the inventories related to increased production volumes, the pushout of customer schedules and to manage through the tightening supply of certain components.

Our cash flow provided by operating activities in the prior second quarter was \$11.6 million. Our cash conversion days increased 16 days for the 3 months ended December 31, 2018, when compared to the same period in the prior year primarily related to increase in raw material inventories to maintain appropriate buffer stock levels in the current tight supply environment.

Our cash conversion day calculation compared to the prior year quarter includes 14 days for contract asset days recognized as a result of the new revenue recognition guidance that we adopted during the first quarter of the current fiscal year and an increase of 6 days in our PDSOH, or production day sales on hand, our inventory metric, which were only partially offset from a 4-day decline in our DSO, or days sales outstanding receivables metric.

The contract asset days are a new metric this fiscal year and relate to the acceleration of revenue for work performed to date and recognized over time as we manufacture the product. The majority of our contracts and revenue are now recognized over time in accordance with the new revenue recognition guidance. The increase from the addition of contract asset days should primarily be offset with the reduction in PDSOH inventory days as inventories relieve when revenue is recognized over time under the new revenue guidance.

Slide 12 reflects our capital and depreciation trends. Capital investments in the second quarter totaled \$4.3 million largely related to the manufacturing equipment to support new production awards and to increase capacity. In addition, we used approximately \$44 million in cash, net of cash acquired for the acquisition of GES during the current quarter.

Borrowings on our credit facility at December 31, 2018, were \$89 million, which were up from \$8 million in June of 2018. The increase in borrowings during the current year is in large part related to funding the GES acquisition as well as for domestic cash needs including for the repurchases of common stock.

Our short-term liquidity available represented as cash and cash equivalents plus the unused amount of our credit facilities totaled \$137 million at December 31, 2018.

In conclusion, our Q2 results did show improvement over Q1 despite the headwinds Don mentioned in his comments, and as he stated, we are cautiously optimistic that our goal of 8% organic growth remains in reach for fiscal year 2019, and we expect to meet our 4.5% operating income goal for the second half of fiscal year 2019.

With that, I would like to open up today's call to questions from the analysts.

Josh, do we have any analysts with questions in the queue?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Hendi Susanto from G. Research.

Hendi Susanto *G. Research, LLC - Research Analyst*

Good result in spite of the current environment. Don and Mike, can you quantify your exposure to China?

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

Well, we don't disclose sales by geographic region, Hendi, for competitive market intelligence reasons. So we could, though, just add some color -- more color around the impact that the tariff situation and other sort of global uncertainties have had on our China business. It's a double-digit decline for us year-over-year and it's a pretty significant market for us. So that's about as far as I can go in terms of adding any additional color to it. We obviously, as we stated in our webcast script are hopeful that we have a positive outcome with the U.S. China talks and a new trade agreement. Certainly, if that happens, we are hoping that we can move up off of these lows to maybe not new highs but something in between, a steadier run rate that would improve our results as we go forward. But I would also say that we've not factored that into our thoughts about the second half of our fiscal year. And so as we're talking about reaching our goal of 4.5% operating income and 8% organic growth, we are factoring in our current business run rates in China in restating those goals and our outlook as to whether or not we think we can reach them this year.

Hendi Susanto *G. Research, LLC - Research Analyst*

Got it. And then how is the current situation affect the ramp-up of your Romanian facility?

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

Well, we have had, as we stated again in the script that some slowness in Europe, not a significant as the slowdown in China. But we've seen some softness and so our operations in Poland and Romania are slightly impacted by that, but, again, not nearly to the degree that we are seeing the slowdown in China impact us. But we are continuing to make good progress in Romania. As we stated, we picked up a

nice improvement when compared year-over-year to the same quarter last year in terms of the impact of Romania on our operating income results. And we're entering into another phase of ramp-up this fiscal year in the second half of this fiscal year and going into fiscal year 2020. So we think we got a good plan, and we're on track to have Romania continue to contribute positively to our results.

Hendi Susanto G. Research, LLC - Research Analyst

Okay. Don, is there a way to break down what the driver of growth for the 8% organic growth in terms of which verticals should be a major contributor to that 8% organic growth in June fiscal year 2019?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Well, again, it's hard for us to give you any disclosures beyond what we've given you. But what we see in the second half of our fiscal year 2019 is really robust demand in North America. And that's really been the story for us even in the first half, as the China slow down really started in Q1. So we're -- as we look towards the second half of fiscal year 2019, we are expecting that robustness in North American demand will continue. And again, we're not factoring a whole lot of improvement above the bottoms of what we've seen in China, and we expect Europe to be somewhat stable for us in the second half. And so yes, we're counting on North America to help us really achieve that 8% organic growth this fiscal year.

Operator

And our next question comes from Mike Morales of Walthausen & Co.

Michael Morales Walthausen & Co., LLC - Research Analyst

So I'd like to dig into your gross margins a little bit more. I think this is an interesting situation that you guys have found yourself in. So help me understand where your mature programs are and where the newer programs are. Am I correct in characterizing China as having more of your mature programs at this point?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Yes.

Michael Morales Walthausen & Co., LLC - Research Analyst

Okay. So with that said, I mean, this is kind of impressive margin performance given that your more mature programs are seeing the degree of slowdown that you called out. How do you see your margin -- your gross margin profile progressing through the year with the strong demand in North America that you called out compared to history?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Yes. When we look at our gross margins and when we look at sort of the landing pattern that we had towards the end of fiscal year 2018, just a little bit north of 8% as we called out on Slide 5 in the deck. When we look out and get beyond sort of this China slowdown and a renormalization of our footprint and the utilization of that footprint, the growth in North America, we see ourselves back in that landing pattern and up off of these lows where we've been closer to 7% or 400 basis points down from, let's say, the landing pattern we had during the second half of fiscal year '18. So that's where we're driving ourselves to here in the second half and again that's a big driver behind our cautious optimism that we'll get to 4.5% in the second half of the fiscal year. (inaudible)

Michael Morales Walthausen & Co., LLC - Research Analyst

Sure. And on the component shortage, you mentioned that you expect to work towards back to normal levels. Is there anything that you can give me as far as the time frame on what you're seeing on the component supply side and which components you're seeing the most tightness in given some of that slowdown in Asia?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Yes, yes, the MLCC shortage really has impacted us, has affected deliveries, has been disruptive to us in our operations. We've been able to keep most of that disruption out of our customers' operations, but at an expense, making spot buys in the market and paying premiums, et cetera. MLCC is, by the way, the multilayered surrounding capacitors. We use them in almost everything we build and so that shortage really has been the largest headline for shortages throughout 2018. It's starting to subside a bit now, but there are still a few components -- few of those capacitors, voltage especially related, that are issues going into 2019. And then right behind MLCCs will

be power semiconductors and there are several different component categories within the power semiconductor group. And there are -- also we're making -- the major suppliers of those components are making good headway as well in terms of bringing new capacity online and catching up to demand. The automotive grade components continue to be more challenging to get than, let's say, the nonautomotive grade components. And in terms of inflation, price inflation, it's felt more there in the automotive grade versus the nonautomotive grade. I'll stop there. Did I answer your question, Mike, there was another part of that.

Michael Morales Walthausen & Co., LLC - Research Analyst

Yes, I mean, just from a timing perspective, looking at the calendar, is this a second half calendar '19 story that you maybe see some relief on this or (inaudible)?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Okay, the inventory reduction. We won't see a lot by March 31 ending quarter, although our efforts are ongoing, and we are working the situation pretty hard. But we do expect to see a nice impact in terms of improvement in our cash conversion days by the June 30 ending quarter.

Michael Morales Walthausen & Co., LLC - Research Analyst

That's very helpful. So now that you've had GES in the portfolio of your fourth quarter, can you give your thoughts on how that's progressing and is the expectation for neutral-to-slightly accretive in fiscal '19 still maintained?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Yes, we're really excited about the quality of the strategic assets that came across in the GES acquisition. And when we talk about opening new doors, new places for future growth for our company, we're very excited about that. We're also excited about how this acquisition can help us with our own internal Industry 4.0 strategy, the smart factory of the future and so there's a lot of positive things as we look further out in horizon that we now can say with even more confidence that these strategic assets are going to really help us in that regard. Couple of things about GES. Their current portfolio of business is somewhat concentrated in the smart mobile device and semiconductor manufacturing areas. Those areas notoriously have been cyclical. So we do have exposure there in terms of how the cycle moves through both of those end markets. And then there is some seasonality that also goes along with that, that we mentioned. But all that being said, yes, we still think our plans will indicate to us that we'll hit our publicly stated targets of being EPS accretive by the second year and ROIC accretive by the third year.

Michael Morales Walthausen & Co., LLC - Research Analyst

Okay. And then the color that you provided on the SG&A decline was very helpful. How do you think about this progressing through the year given some of the news we've been hearing about minimum wage increases in China? How do you see that shaping out?

Donald D. Charron Kimball Electronics, Inc. - Chairman & CEO

Well, it's certainly a pressure point. And I would say, rising cost of workers is everywhere in the world. I wouldn't single out China per se, I think, getting the talent we need and the cost of that talent is certainly going to be a pressure point on some of these cost categories -- well really many of the cost categories and the cost structure. Of course, for us getting that talent is critical. We feel like we're in good shape there. But we obviously have strategic ambitions that are going to require us to continue to add talent to our company, and so we will have that burden, that pressure point in terms of managing our cost structure going forward. But from a -- for our management team, we feel like as we grow, we need to look for those opportunities for leverage, to leverage our cost structure, leverage our SG&A, for example. And I go back 4-plus years ago when we were first spun as a public company, we added in all those public company costs, and we were relatively small company, little over \$800 million in sales roughly run rate. We are a bigger company today in terms of our sales run rate, and will be hopefully a bigger company in the future, and we expect to leverage that cost structure as we grow and that's something that's on the minds of us as management to really find ways to make those productivity gains happen.

Michael Morales Walthausen & Co., LLC - Research Analyst

Sure. And then lastly from me just on the capital allocation priorities. Obviously, you're active on the buyback. If I am doing my math correctly there should be about \$17 million-or-so left on that. So can you just rank your capital allocation priority looking forward?

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

Well, obviously, we were very active this last quarter. And as I stated in the last calls, we have this particular topic on every board meeting agenda, capital allocation, capital allocation priorities to the extent that we find the acquisitions in the market at the right price that we think can really move our strategy forward. We are certainly placing a priority there. We had a large priority on CapEx and if you noticed on our CapEx the last 3 quarters, we've actually been below appreciation with CapEx in the last 3 quarters. We expect that could tick up a bit here in the second half because we do have some new program wins that will acquire capital to support them. But overall, CapEx has been lower than it's been, let's say, the last few fiscal years. And so some of that is a bit of a proxy to the organic growth that we would expect going forward because as we said in the past, the CapEx should approximate depreciation to support, let's say, a mid-single-digit kind of growth rate. And so that's subsiding a little bit, the requirements for CapEx, so we'll keep an eye on that. But I would say, acquisitions that help accelerate our strategy and as you stated, we still got room in the board-approved buybacks. So we'll balance those carefully as long -- and as well as balancing it with paying down our debt, which we now have. So the Board will review that every quarter, we'll set those priorities and act accordingly, and I think, what you've seen in our allocation in the past, I don't see a lot of changes to the allocation in the future.

Operator

And our next question comes from Richard Greenberg of Donald Smith & Co.

Richard L. Greenberg *Donald Smith & Co., Inc. - SVP, Director of Research & Senior Portfolio Manager*

Don, there's got to be -- as you say, there is this balance of capital allocation, and I guess, the concern would be on GES. It looks like you -- from just looking at these numbers, you haven't filed your Q yet, but it looks like you took on about \$24 million of goodwill and intangibles, which implies you paid a price in excess probably you're around 2 times book and 100% of revenues, I think. And when you compare that versus your own stock, slight premium to book and 40% of revenues, and we know the history of most acquisitions, but acquisitions in this industry and what's happened to those kinds of intangible assets over time. So it seems to me you got to be really cautious when you make an acquisition like this relative to your own stock. What gives you that comfort level to pay that kind of price and how much more kind of those soft assets, which bother the heck out of people like us, are you willing to take on?

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

Well, I tell you that the GES acquisition certainly stretched us in terms of our views for the same reasons that you just mentioned. I would say that, for an acquisition that would be closer to what we do, let's say, in our traditional EMS business, we just wouldn't pay that kind of money for an acquisition like that. But for our new platform strategy, the strategic ambitions, we have in this new area of business for us in automation test and measurement, we just felt like this was a good asset for us to go after a good target to really launch this new platform strategy. And we feel like we are a good combination with this business in terms of being able to scale it up relatively quickly with the business combination and the combination of our resources, synergies within the customer base, et cetera. So I -- look, I'm not going to tell you that these are easy decisions for us. So there is no doubt our teams put a lot of time and energy and effort into analyzing those very things that you described for those very reasons. So and that will be the same as we scrutinize acquisitions going forward.

Richard L. Greenberg *Donald Smith & Co., Inc. - SVP, Director of Research & Senior Portfolio Manager*

Do you think that future acquisitions are going to be more in the line of this new kind of business, which does require these higher multiples paid or would it be more in your traditional business?

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

The traditional EMS business acquisitions that we've looked at are a bit overpriced, frankly, in our view. And again, we just couldn't really justify paying higher multiples for those acquisitions, even if we had a really good synergy list. We have a hard time justifying higher multiples for businesses that are just like our traditional EMS business and that are commanding a higher, let's say, multiple or multiples than we ourselves have in the market as a public company. The areas that we do like, if you go back to 2016, the acquisitions we did in the medical DCMS space, we like those acquisitions. It's maybe half a lane over or a full lane over from traditional EMS, but we like those businesses. We think that there is an opportunity to command a margin, maybe slightly higher than our average. And so those will continue to be a priority. In terms of our new platform strategy and automation test and measurement here, I think, we want to make sure we put all of our efforts on the integration of GES. We want to make sure we hit full benefit out of what we've acquired there. So when we do a bolt-on or tuck-in acquisition that would further develop our new platform strategy, yes, we'll certainly look at those, but



we like what we have got in the GES acquisition. Hardware -- it's hardware business, service business and a software business, all contained within the GES entities that we acquired and so we got a lot of work to do here. We think there is a lot of things we can do to bring out the synergies and to really grow this asset.

Richard L. Greenberg *Donald Smith & Co., Inc. - SVP, Director of Research & Senior Portfolio Manager*

Okay, okay. Just it rings kind of familiar to the -- like Celestica was talking about the acquisition they made, and I don't really know the business as well. But also mobility and semi-equipment -- now the semi-equipment business is kind of peaky. So I just question, did you guys kind of maybe mistime the cycle a little bit and overpaid just like it seems to me Celestica may have overpaid for their acquisition?

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

Well, hard to time the cycle, but you are right. Both semi and smart mobile device, those are definitely somewhere in a downward cycle. I don't know if the cycles are as predictable maybe or as long as deep as they have been in years passed, but we really were looking long term on this, Richard. This was a launching pad for us that we thought had -- I mean, it's hard to just find a perfect target, but we really liked what we saw in GES. Again, the hardware, software service aspects all being in place. We spent a lot of money in these areas ourselves in our own factories and that's one of those synergies that really helped build the business case for us as well, which we'll want to get at medium- to longer-term. But we're really looking at the long-term shareholder value creation here and yes, if you look at it on paper, you would say we bought it in the low season and maybe in a downward cycle. But I don't think we overpaid for it. I think we paid a fair value for it and I think it's up to us now as management to make this successful, get the true synergies out of it, and scale up the business, and generate profitable growth for our company.

Operator

(Operator Instructions) And I would now like to turn the call back over to Mr. Charron for any further remarks.

Donald D. Charron *Kimball Electronics, Inc. - Chairman & CEO*

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

Operator

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

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