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

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2021

OR

o 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	**35-2047713**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1205 Kimball Boulevard, Jasper, Indiana	**47546**
(Address of principal executive offices)	(Zip Code)

(812) 634-4000

Registrant's telephone number, including area code

Not Applicable

Former name, former address and former fiscal year, if changed since last report

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

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

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 x No o

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 x No o

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 o	Accelerated filer x	Emerging growth company o
Non-accelerated filer o	Smaller reporting company o	

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. o

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

The number of shares outstanding of the Registrant's common stock as of April 23, 2021 was 24,957,061 shares.

KIMBALL ELECTRONICS, INC.

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited) March 31, 2021	June 30, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 89,651	$ 64,990
Receivables, net of allowances of $284 and $523, respectively	197,769	180,133
Contract assets	53,171	70,350
Inventories	181,131	219,043
Prepaid expenses and other current assets	31,959	23,891
Total current assets	553,681	558,407
Property and Equipment, net of accumulated depreciation of $258,572 and $236,373, respectively	154,409	154,529
Goodwill	12,011	12,011
Other Intangible Assets, net of accumulated amortization of $35,183 and $32,756, respectively	17,590	19,343
Other Assets	37,542	30,539
Total Assets	$ 775,233	$ 774,829
LIABILITIES AND SHARE OWNERS' EQUITY		
Current Liabilities:		
Current portion of borrowings under credit facilities	$ 20,518	$ 26,638
Accounts payable	208,281	203,703
Accrued expenses	49,985	42,264
Total current liabilities	278,784	272,605
Other Liabilities:		
Long-term debt under credit facilities, less current portion	40,000	91,500
Long-term income taxes payable	8,854	9,765
Other long-term liabilities	22,630	21,594
Total other liabilities	71,484	122,859
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	306,997	306,808
Retained earnings	194,523	152,178
Accumulated other comprehensive loss	(6,318)	(10,551)
Treasury stock, at cost:		
Shares: 4,473,000 and 4,443,000, respectively	(70,237)	(69,070)
Total Share Owners' Equity	424,965	379,365
Total Liabilities and Share Owners' Equity	$ 775,233	$ 774,829

See Notes to Condensed Consolidated Financial Statements.

KIMBALL ELECTRONICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Per Share Data)

	Three Months Ended March 31		Nine Months Ended March 31	
(Unaudited)	**2021**	**2020**	**2021**	**2020**
Net Sales	$ 310,329	$ 293,925	$ 962,682	$ 914,394
Cost of Sales	284,323	273,713	876,428	851,478
Gross Profit	26,006	20,212	86,254	62,916
Selling and Administrative Expenses	11,744	9,624	38,347	32,529
Other General Income	(376)	—	(717)	—
Operating Income	14,638	10,588	48,624	30,387
Other Income (Expense):				
Interest income	38	18	71	43
Interest expense	(370)	(1,166)	(1,809)	(3,523)
Non-operating income (expense), net	(309)	(745)	5,643	(672)
Other income (expense), net	(641)	(1,893)	3,905	(4,152)
Income Before Taxes on Income	13,997	8,695	52,529	26,235
Provision for Income Taxes	3,525	2,436	10,184	6,766
Net Income	$ 10,472	$ 6,259	$ 42,345	$ 19,469
Earnings Per Share of Common Stock:				
Basic	$ 0.42	$ 0.25	$ 1.68	$ 0.77
Diluted	$ 0.41	$ 0.25	$ 1.67	$ 0.76
Average Number of Shares Outstanding:				
Basic	25,049	25,181	25,101	25,308
Diluted	25,217	25,287	25,288	25,466

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
(Unaudited)	**Pre-tax**	**Tax**	**Net of Tax**	**Pre-tax**	**Tax**	**Net of Tax**
Net income			$ 10,472			$ 6,259
Other comprehensive income (loss):						
Foreign currency translation adjustments	$ (5,177)	$ —	$ (5,177)	$ (1,802)	$ —	$ (1,802)
Postemployment actuarial change	18	(5)	13	44	(14)	30
Derivative gain (loss)	(1,108)	254	(854)	(5,171)	1,164	(4,007)
Reclassification to (earnings) loss:						
Derivatives	5	18	23	(124)	25	(99)
Amortization of actuarial change	(77)	20	(57)	(100)	24	(76)
Other comprehensive income (loss)	$ (6,339)	$ 287	$ (6,052)	$ (7,153)	$ 1,199	$ (5,954)
Total comprehensive income			$ 4,420			$ 305

	Nine Months Ended March 31, 2021			Nine Months Ended March 31, 2020		
(Unaudited)	**Pre-tax**	**Tax**	**Net of Tax**	**Pre-tax**	**Tax**	**Net of Tax**
Net income			$ 42,345			$ 19,469
Other comprehensive income (loss):						
Foreign currency translation adjustments	$ 4,262	$ —	$ 4,262	$ (3,004)	$ —	$ (3,004)
Postemployment actuarial change	(508)	159	(349)	(190)	55	(135)
Derivative gain (loss)	(230)	(64)	(294)	(3,592)	835	(2,757)
Reclassification to (earnings) loss:						
Derivatives	1,047	(175)	872	(1,434)	290	(1,144)
Amortization of actuarial change	(341)	83	(258)	(305)	74	(231)
Other comprehensive income (loss)	$ 4,230	$ 3	$ 4,233	$ (8,525)	$ 1,254	$ (7,271)
Total comprehensive income			$ 46,578			$ 12,198

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)	**Nine Months Ended March 31 2021**	**Nine Months Ended March 31 2020**
Cash Flows From Operating Activities:		
Net income	$ 42,345	$ 19,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,245	22,883
Loss on sales of assets	28	38
Deferred income tax and other deferred charges	(3,682)	5
Deferred tax valuation allowance	(320)	356
Stock-based compensation	2,767	3,123
Other, net	(48)	(210)
Change in operating assets and liabilities:		
Receivables	(22,986)	33,614
Contract assets	17,179	(17,545)
Inventories	37,635	4,469
Prepaid expenses and other assets	(6,603)	(2,495)
Accounts payable	7,431	(4,314)
Accrued expenses and taxes payable	4,764	(8,075)
Net cash provided by operating activities	103,755	51,318
Cash Flows From Investing Activities:		
Capital expenditures	(22,704)	(27,533)
Proceeds from sales of assets	391	98
Purchases of capitalized software	(702)	(235)
Other, net	43	68
Net cash used for investing activities	(22,972)	(27,602)
Cash Flows From Financing Activities:		
Payments on credit facilities	(34,500)	—
Net change in revolving credit facilities	(23,419)	(3,683)
Settlements on previous year acquisition	2,957	—
Repurchases of common stock	(2,996)	(8,794)
Payments related to tax withholding for stock-based compensation	(771)	(1,012)
Net cash used for financing activities	(58,729)	(13,489)
Effect of Exchange Rate Change on Cash and Cash Equivalents	2,607	(1,191)
Net Increase in Cash and Cash Equivalents	24,661	9,036
Cash and Cash Equivalents at Beginning of Period	64,990	49,276
Cash and Cash Equivalents at End of Period	$ 89,651	$ 58,312
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Income taxes	$ 10,818	$ 7,924
Interest expense	$ 2,197	$ 3,736

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended				
(Unaudited)	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Share Owners' Equity**
Amounts at December 31, 2020	$ 306,120	$ 184,051	$ (266)	$ (70,267)	$ 419,638
Net income		10,472			10,472
Other comprehensive income (loss)			(6,052)		(6,052)
Compensation expense related to stock compensation plans	907				907
Deferred share issuance (3,000 shares)	(30)			30	—
Amounts at March 31, 2021	$ 306,997	$ 194,523	$ (6,318)	$ (70,237)	$ 424,965
Amounts at December 31, 2019	$ 305,041	$ 147,192	$ (8,945)	$ (66,450)	$ 376,838
Net income		6,259			6,259
Other comprehensive income (loss)			(5,954)		(5,954)
Compensation expense related to stock compensation plans	908				908
Performance share issuance (3,000 shares)	(11)			34	23
Deferred share issuance (3,000 shares)	(32)			32	—
Repurchase of Common Stock (214,000 shares)				(2,686)	(2,686)
Amounts at March 31, 2020	$ 305,906	$ 153,451	$ (14,899)	$ (69,070)	$ 375,388

	Nine Months Ended				
(Unaudited)	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Share Owners' Equity**
Amounts at June 30, 2020	$ 306,808	$ 152,178	$ (10,551)	$ (69,070)	$ 379,365
Net income		42,345			42,345
Other comprehensive income (loss)			4,233		4,233
Issuance of non-restricted stock (4,000 shares)	19			46	65
Compensation expense related to stock compensation plans	2,724				2,724
Performance share issuance (156,000 shares)	(2,524)			1,753	(771)
Deferred share issuance (3,000 shares)	(30)			30	—
Repurchase of Common Stock (193,000 shares)				(2,996)	(2,996)
Amounts at March 31, 2021	$ 306,997	$ 194,523	$ (6,318)	$ (70,237)	$ 424,965
Amounts at June 30, 2019	$ 305,917	$ 133,982	$ (7,628)	$ (62,417)	$ 369,854
Net income		19,469			19,469
Other comprehensive income (loss)			(7,271)		(7,271)
Issuance of non-restricted stock (4,000 shares)	22			48	70
Compensation expense related to stock compensation plans	3,046				3,046
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)
Amounts at March 31, 2020	$ 305,906	$ 153,451	$ (14,899)	$ (69,070)	$ 375,388

See Notes to Condensed Consolidated Financial Statements.

KIMBALL ELECTRONICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 offer a package of value that begins with our core competency of producing “durable electronics” and includes our set of robust processes and procedures that help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We further offer diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and production automation, test, and inspection equipment. We are consistently recognized by customers and industry trade publications for our excellent quality, reliability, and innovative service.

Basis of Presentation:

The Condensed Consolidated Financial Statements presented herein reflect the consolidated financial position as of March 31, 2021 and June 30, 2020, results of operations for the three and nine months ended March 31, 2021 and 2020, cash flows for the nine months ended March 31, 2021 and 2020, and share owners’ equity for the three and nine months ended March 31, 2021 and 2020. The financial data presented herein is unaudited and should be read in conjunction with the annual Consolidated Financial Statements as of and for the year ended June 30, 2020 and related notes thereto included in our Annual Report on Form 10-K. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted, although we believe that the disclosures are adequate to make the information presented not misleading. Intercompany transactions and balances have been eliminated. Management believes the financial statements include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly the financial statements for the interim periods. The results of operations for the interim periods shown in this report are not necessarily indicative of results for any future interim period or for the entire fiscal year. Additionally, the impacts of the global COVID-19 pandemic on our business are currently not fully known. Continued related disruptions, including to the supply chain, transportation systems, and demand for our customers products, could adversely impact our results of operations and financial condition. We continue to actively monitor the situation and take actions that may be required by federal, state, or local authorities or that we determine are in the best interests of our employees, customers, suppliers, and the communities in which we operate. We cannot predict the duration or severity of the impact COVID-19 could have on our business or on our future financial results.

Revenue Recognition:

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 disposables, precision molded plastics, and automation, test, and inspection equipment all 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, we account for these pricing components 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 the total estimated costs to determine our progress towards contract completion and to calculate the corresponding amount of revenue to recognize. Estimated costs include material, direct and indirect labor, and appropriate applied overheads. 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.

Notes Receivable and Trade Accounts Receivable:

The Company’s notes receivable and trade accounts receivable are recorded per the terms of the agreement or sale, and accrued interest is recognized when earned. We determine on a case-by-case basis the cessation of accruing interest, the resumption of accruing interest, the method of recording payments received on nonaccrual receivables, and the delinquency status for our limited number of notes receivable.

Our policy for estimating the allowance for credit losses on trade accounts receivable and notes 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 on the trade accounts receivable and notes receivable. Management believes that historical loss information generally provides a basis for its assessment of expected credit losses. Trade accounts receivable and notes receivable are written off after exhaustive collection efforts occur and the receivable is deemed uncollectible. See section entitled “New Accounting Standards” below for information on the adoption of the new accounting standard for the measurement of credit losses. Adjustments to the allowance for credit losses are recorded in Selling and Administrative Expenses on our Condensed 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 for certain of our accounts receivables 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. In the nine months ended March 31, 2021 and 2020, we sold, without recourse, $246.3 million and $202.0 million of accounts receivable, respectively. Factoring fees were $0.2 million and $0.4 million for the three months ended March 31, 2021 and 2020, respectively, and $1.0 million and $1.5 million during the nine months ended March 31, 2021 and 2020, respectively. Factoring fees are recorded in Selling and Administrative Expenses on our Condensed 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. These drafts, which totaled less than $0.1 million at March 31, 2021 and $7.1 million at June 30, 2020, are reflected in Receivables on the Condensed 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 the nine months ended March 31, 2021 and 2020 were $1.8 million and $6.5 million, respectively.

Goodwill and Other Intangible Assets:

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 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. Other Intangible Assets consist of capitalized software, customer relationships, technology, and trade name, and 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. As of March 31, 2021, the Company determined there have been no indicators of impairment for goodwill and other intangible assets. See Note 12 - Goodwill and Other Intangible Assets of Notes to Condensed Consolidated Financial statements for more information on Goodwill and Other Intangible Assets.

Leases:

The Company leases certain office, manufacturing, and warehouse facilities under operating leases, in addition to land on which certain office and manufacturing facilities resides. Operating lease costs and cash payments for operating leases are immaterial to the Condensed Consolidated Statements of Income and our Condensed Consolidated Statements of Cash Flows. Lease right-of-use assets and lease liabilities each totaled $1.8 million and $2.0 million at March 31, 2021 and June 30, 2020, 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 Condensed Consolidated Balance Sheets.

Other General Income:

Other General Income in the three and nine months ended March 31, 2021 included $0.4 million and $0.7 million, respectively, of pre-tax income resulting from payments received related to class action lawsuits in which Kimball Electronics was a class member. No Other General Income was recorded in the three and nine months ended March 31, 2020.

Non-operating Income (Expense), net:

Non-operating income (expense), net includes 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, amortization of actuarial gains (losses), and other miscellaneous non-operating income and expense items that are not directly related to operations. The gain on SERP investments is offset by a change in the SERP liability that is recognized in Selling and Administrative Expenses.

Components of Non-operating income (expense), net:

	Three Months Ended March 31		Nine Months Ended March 31	
(Amounts in Thousands)	**2021**	**2020**	**2021**	**2020**
Foreign currency/derivative gain (loss)	$ (637)	$ 200	$ 4,330	$ (143)
Gain (loss) on SERP investments	164	(914)	1,525	(434)
Adjustments after measurement period of GES acquisition	335	—	53	—
Other	(171)	(31)	(265)	(95)
Non-operating income (expense), net	$ (309)	$ (745)	$ 5,643	$ (672)

Income Taxes:

In determining the quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on expected annual income, statutory tax rates, and available tax planning opportunities in the various jurisdictions in which we operate. Unusual or infrequently occurring items are separately recognized in the quarter in which they occur.

Deferred income tax assets and liabilities, recorded in Other Assets and Other long-term liabilities, respectively, in the Condensed 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 Condensed Consolidated Statements of Income.

The U.S. Tax Cuts and Jobs Act (“Tax Reform”) was enacted into law on December 22, 2017. Tax Reform made broad and complex changes to the U.S. tax code, for which complete guidance may have not yet been issued. Tax Reform changes included, but were not limited to, (i) reducing the U.S. corporate statutory tax rate, (ii) requiring a one-time transition tax on certain unremitted earnings of foreign subsidiaries that is payable over an eight-year period, (iii) eliminating U.S. federal income taxes on dividends from foreign subsidiaries, and (iv) bonus depreciation that will allow for full expensing of qualifying property. As of both March 31, 2021 and June 30, 2020, the remaining provision recorded for the one-time deemed repatriation tax was $9.8 million, payable through fiscal year 2026, with the long-term portion recorded in Long-term income taxes payable on the Condensed Consolidated Balance Sheets. As of March 31, 2021, $0.9 million of the remaining deemed repatriation tax is short term and is recorded in Accrued expenses on the Condensed Consolidated Balance Sheet.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law making several changes to the Internal Revenue Code. The changes include but are not limited to: increasing the limitation on the amount of deductible interest expense, allowing companies to carry back certain net operating losses, and increasing the amount of net operating loss carryforwards the corporations can use to offset taxable income. The tax law changes in the Act did not have a material impact on the Company’s Provision for Income Taxes for the three and nine months ended March 31, 2021.

New Accounting Standards:

Adopted in fiscal year 2021:

In June 2016, the Financial Accounting Standards Board (“FASB”) issued guidance on the Measurement of Credit Losses on Financial Instruments, which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. We adopted this standard effective July 1, 2020, the beginning of our first quarter of fiscal year 2021, and the adoption did not have a material effect on our Condensed Consolidated Financial Statements.

In August 2018, the FASB issued guidance on Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This new guidance amends the accounting for implementation, setup, and other upfront costs incurred in a cloud computing hosting arrangement. The amendment aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendment also requires companies to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including options to extend the agreement that is in control of the customer. We adopted this standard prospectively during the first quarter of fiscal year 2021, and the adoption did not have a material effect on our Condensed Consolidated Financial Statements.

Not Yet Adopted:

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. The guidance is effective for fiscal years beginning after December 15, 2020 and for interim periods within those fiscal years. We do not expect the adoption of this guidance to have a material impact 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 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 the three and nine months ended March 31, 2021 and 2020.

	Three Months Ended March 31		Nine Months Ended March 31	
(Amounts in Millions)	**2021**	**2020**	**2021**	**2020**
Vertical Markets:				
Automotive	$ 139.6	$ 124.4	$ 409.7	$ 383.7
Medical	85.4	87.1	299.7	274.1
Industrial	69.2	65.6	207.0	196.7
Public Safety	13.5	12.5	37.3	44.2
Other	2.6	4.3	9.0	15.7
Total net sales	$ 310.3	$ 293.9	$ 962.7	$ 914.4

For the three months ended March 31, 2021 and 2020, approximately 95% and 88% 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 we have an enforceable right to payment for performance completed to date. For the nine months ended March 31, 2021 and 2020, approximately 89% and 75% of our net sales, respectively, were recognized over time. 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 Condensed 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 $53.2 million and $70.4 million as of March 31, 2021 and June 30, 2020, respectively.

In limited circumstances, the Company may receive payments from customers in advance of the satisfaction of performance obligations primarily for 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 Condensed Consolidated Balance Sheets, which amounted to $6.0 million and $7.1 million as of March 31, 2021 and June 30, 2020, respectively.

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:

(Amounts in Thousands)	**March 31, 2021**	**June 30, 2020**
Finished products	$ 1,244	$ 4,529
Work-in-process	9,124	3,577
Raw materials	170,763	210,937
Total inventory	$ 181,131	$ 219,043

Note 4. Accumulated Other Comprehensive Income (Loss)

During the nine months ended March 31, 2021 and 2020, the changes in the balances of each component of Accumulated Other Comprehensive Income (Loss), net of tax, were as follows:

Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Foreign Currency Translation Adjustments	Derivative Gain (Loss)	Post Employment 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	4,262	(294)	(349)	3,619
Reclassification to (earnings) loss	—	872	(258)	614
Net current-period other comprehensive income (loss)	4,262	578	(607)	4,233
Balance at March 31, 2021	$ (3,632)	$ (2,676)	$ (10)	$ (6,318)
Balance at June 30, 2019	$ (6,848)	$ (1,598)	$ 818	$ (7,628)
Other comprehensive income (loss) before reclassifications	(3,004)	(2,757)	(135)	(5,896)
Reclassification to (earnings) loss	—	(1,144)	(231)	(1,375)
Net current-period other comprehensive income (loss)	(3,004)	(3,901)	(366)	(7,271)
Balance at March 31, 2020	$ (9,852)	$ (5,499)	$ 452	$ (14,899)

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

Reclassifications from Accumulated Other Comprehensive Income (Loss)	Three Months Ended March 31		Nine Months Ended March 31		
(Amounts in Thousands)	2021	2020	2021	2020	Affected Line Item in the Condensed Consolidated Statements of Income
Derivative gain (loss) [(1)]	$ (5)	$ 124	$ (1,047)	$ 1,434	Cost of Sales
	(18)	(25)	175	(290)	Benefit (Provision) for Income Taxes
	$ (23)	$ 99	$ (872)	$ 1,144	Net of Tax
Postemployment Benefits:					
Amortization of actuarial gain [(2)]	77	100	341	305	Non-operating income (expense), net
	(20)	(24)	(83)	(74)	Benefit (Provision) for Income Taxes
	$ 57	$ 76	$ 258	$ 231	Net of Tax
Total reclassifications for the period	$ 34	$ 175	$ (614)	$ 1,375	Net of Tax

Amounts in parentheses indicate reductions to income.

(1) See Note 8 - Derivative Instruments of Notes to Condensed Consolidated Financial Statements for further information on derivative instruments.

(2) See Note 10 - Employee Benefit Plans of Notes to Condensed Consolidated Financial Statements for further information on postemployment benefit plans.

Note 5. Commitments and Contingent Liabilities

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.

Changes in the product warranty accrual for the nine months ended March 31, 2021 and 2020 were as follows:

	Nine Months Ended March 31	
(Amounts in Thousands)	**2021**	**2020**
Product warranty liability at the beginning of the period	$ 647	$ 958
Additions to warranty accrual (including changes in estimates)	(31)	(269)
Settlements made (in cash or in kind)	(58)	(30)
Product warranty liability at the end of the period	$ 558	$ 659

Note 6. Credit Facilities

Credit facilities consisted of the following:

(Amounts in Millions, in U.S Dollar Equivalents)	**Unused Borrowings at March 31, 2021**	**Borrowings Outstanding at March 31, 2021**	**Borrowings Outstanding at June 30, 2020**
Primary credit facility [1]	$ 92.6	$ 57.0	$ 111.4
Secondary credit facility [2]	30.0	—	—
Thailand overdraft credit facility	0.1	—	—
Netherlands revolving credit facility	7.3	3.5	6.7
Poland revolving credit facility	5.9	—	—
Total credit facilities	$ 135.9	$ 60.5	$ 118.1
Less: current portion		$ (20.5)	$ (26.6)
Long-term debt under credit facilities, less current portion [3]		$ 40.0	$ 91.5

(1) The Company maintains a U.S. primary credit facility (the "primary facility") among the Company, the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Documentation Agent, scheduled to mature July 27, 2023. The primary facility provides for $150 million in borrowings, with an option to increase the amount available for borrowing to $225 million upon 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 including capital expenditures and potential acquisitions. A commitment fee is payable on the unused portion of the credit facility at a rate that ranges from 20.0 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 facility. Types of borrowings available on the primary 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 two options:

- the London Interbank Offered Rate ("LIBOR") in effect two business days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined in the agreement, plus the Eurocurrency Loans spread which can range from 125.0 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. JPMorgan's prime rate;

  b. 1% per annum above the Adjusted LIBO Rate (as defined under the primary credit facility); or

  c. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the primary credit facility);

  plus the ABR Loans spread which can range from 25.0 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, and
- a fixed charge coverage ratio, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be less than 1.1 to 1.0.

The Company had $0.4 million in letters of credit contingently committed against the credit facility at both March 31, 2021 and June 30, 2020.

(2) The Company also maintains a 364-day multi-currency revolving credit facility (the "secondary credit facility") among the Company, as borrower, certain subsidiaries of the Company as guarantors, the lenders party thereto, JPMorgan Chase Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Documentation Agent, which allows for borrowings of up to $30 million and has a maturity date of May 18, 2021. This secondary credit facility is to be used for working capital and general corporate purposes. A commitment fee on the unused portion of principal amount of this secondary credit facility is payable at 50.0 basis points per annum.

(3) The amount of Long-term debt under credit facilities, less current maturities reflects the borrowings on the primary facility that the Company intends, and has the ability, to refinance for a period longer than twelve months. The primary credit facility matures on July 27, 2023.

The weighted-average interest rate on borrowings outstanding under the credit facilities at March 31, 2021 and June 30, 2020 was 1.6% and 2.5%, respectively.

Note 7. 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 the nine months ended March 31, 2021. For more information on inputs and fair valuation techniques used, refer to our Annual Report on Form 10-K for the year ended June 30, 2020.

Recurring Fair Value Measurements:

As of March 31, 2021 and June 30, 2020, 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:

	March 31, 2021		
(Amounts in Thousands)	**Level 1**	**Level 2**	**Total**
Assets			
Cash equivalents	$ 1,540	$ —	$ 1,540
Derivatives: foreign exchange contracts	—	1,903	1,903
Trading securities: mutual funds held in nonqualified SERP	12,056	—	12,056
Total assets at fair value	$ 13,596	$ 1,903	$ 15,499
Liabilities			
Derivatives: foreign exchange contracts	$ —	$ 2,363	$ 2,363
Total liabilities at fair value	$ —	$ 2,363	$ 2,363

	June 30, 2020		
(Amounts in Thousands)	**Level 1**	**Level 2**	**Total**
Assets			
Cash equivalents	$ 1,140	$ —	$ 1,140
Derivatives: foreign exchange contracts	—	741	741
Trading securities: mutual funds held in nonqualified SERP	10,477	—	10,477
Total assets at fair value	$ 11,617	$ 741	$ 12,358
Liabilities			
Derivatives: foreign exchange contracts	$ —	$ 2,134	$ 2,134
Total liabilities at fair value	$ —	$ 2,134	$ 2,134

We had no level 3 assets or liabilities during the nine months ended March 31, 2021.

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 9 - Investments of Notes to Condensed Consolidated Financial Statements for further information regarding the SERP.

Financial Instruments Not Carried At Fair Value:

Financial instruments that are not reflected in the Condensed Consolidated Balance Sheets at fair value that have carrying amounts which approximate fair value include notes receivable and borrowings under credit facilities. There were no changes to the inputs and valuation techniques used to assess the fair value of these financial instruments during the nine months ended March 31, 2021. For more information on inputs and fair valuation techniques used, refer to our Annual Report on Form 10-K for the year ended June 30, 2020.

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

Note 8. Derivative Instruments

Foreign Exchange Contracts:

We operate internationally and are therefore exposed to foreign currency exchange rate fluctuations in the normal course of 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. Foreign exchange contracts are also used to hedge against foreign currency exchange rate risks related to intercompany balances denominated in currencies other than the functional currencies. As of March 31, 2021, we had outstanding foreign exchange contracts to hedge currencies against the U.S. dollar in the aggregate notional amount of $51.1 million and to hedge currencies against the Euro in the aggregate notional amount of 65.9 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 balance sheet as a derivative asset or liability. 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 gain or loss on the derivative instrument is initially recorded net of related tax effect in Accumulated Other Comprehensive Income (Loss), a component of Share Owners' Equity, and is 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 (expense), net on the Condensed Consolidated Statements of Income.

Based on fair values as of March 31, 2021, we estimate that approximately $1.0 million of pre-tax derivative loss deferred in Accumulated Other Comprehensive Loss will be reclassified into earnings, along with the earnings effects of related forecasted transactions, within the next 12 months. 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 March 31, 2021 and June 30, 2020.

See Note 7 - Fair Value of Notes to Condensed Consolidated Financial Statements for further information regarding the fair value of derivative assets and liabilities and Note 4 - Accumulated Other Comprehensive Income (Loss) of Notes to Condensed Consolidated Financial Statements for the changes in deferred derivative gains and losses. Information on the location and amounts of derivative fair values in the Condensed Consolidated Balance Sheets and derivative gains and losses in the Condensed Consolidated Statements of Income are presented below.

Fair Value of Derivative Instruments on the Condensed Consolidated Balance Sheets

	Asset Derivatives			Liability Derivatives		
		Fair Value As of			Fair Value As of	
(Amounts in Thousands)	**Balance Sheet Location**	**March 31, 2021**	**June 30, 2020**	**Balance Sheet Location**	**March 31, 2021**	**June 30, 2020**
Derivatives Designated as Hedging Instruments:						
Foreign exchange contracts	Prepaid expenses and other current assets	$ 1,429	$ 517	Accrued expenses	$ 2,189	$ 2,054
Derivatives Not Designated as Hedging Instruments:						
Foreign exchange contracts	Prepaid expenses and other current assets	474	224	Accrued expenses	174	80
Total derivatives		$ 1,903	$ 741		$ 2,363	$ 2,134

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

	Three Months Ended March 31		Nine Months Ended March 31	
(Amounts in Thousands)	**2021**	**2020**	**2021**	**2020**
Amount of Pre-Tax Gain or (Loss) Recognized in Other Comprehensive Income (Loss) (OCI) on Derivatives:				
Foreign exchange contracts	$ (1,108)	$ (5,171)	$ (230)	$ (3,592)

The Effect of Derivative Instruments on Condensed Consolidated Statements of Income

(Amounts in Thousands)		Three Months Ended March 31		Nine Months Ended March 31	
Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss)**	**2021**	**2020**	**2021**	**2020**
Amount of Pre-Tax Gain or (Loss) Reclassified from Accumulated OCI into Income:					
Foreign exchange contracts	Cost of Sales	$ (5)	$ 124	$ (1,047)	$ 1,434
Derivatives Not Designated as Hedging Instruments					
Amount of Pre-Tax Gain or (Loss) Recognized in Income on Derivatives:					
Foreign exchange contracts	Non-operating income (expense)	$ 1,403	$ 972	$ (1,137)	$ 2,032
Total Derivative Pre-Tax Gain (Loss) Recognized in Income		$ 1,398	$ 1,096	$ (2,184)	$ 3,466

Note 9. Investments

The Company maintains a self-directed supplemental employee retirement plan ("SERP") for executive 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. The Company recognizes 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 Other income (expense), net on our Condensed 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 increase/(decrease) in net unrealized holding gains for the nine months ended March 31, 2021 and 2020 was approximately $0.9 million and $(0.6) million, respectively.

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

(Amounts in Thousands)	**March 31, 2021**	**June 30, 2020**
SERP investments - current asset	$ 2,552	$ 1,972
SERP investments - other long-term asset	9,504	8,505
Total SERP investments	$ 12,056	$ 10,477
SERP obligation - current liability	$ 2,552	$ 1,972
SERP obligation - other long-term liability	9,504	8,505
Total SERP obligation	$ 12,056	$ 10,477

Note 10. Employee Benefit Plans

The Company maintains a trusteed defined contribution retirement plan which is in effect for substantially all domestic employees meeting the eligibility requirements. 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.

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 us 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. Net periodic benefit costs were not material for the nine months ended March 31, 2021 and 2020.

Note 11. 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. For more information on the Plan and the Deferral Plan, refer to our Annual Report on Form 10-K for the year ended June 30, 2020.

During the first nine months of fiscal year 2021, the following stock compensation was awarded under the Plan and the Deferral Plan.

Stock Compensation Awarded	Quarter Awarded	Shares/Units	Grant Date Fair Value (2)
Long-Term Performance Shares (1)	1st Quarter	250,837	$13.67
Unrestricted shares (3)	2nd Quarter	4,235	$15.35
Deferred share units (4)	2nd Quarter	37,132	$15.35
Restricted share units (5)	3rd Quarter	3,322	$19.63

(1) Long-term performance shares were awarded to officers and other key employees. Payouts will be based upon the attainment of the applicable bonus percentage calculated under the Company's profit-sharing incentive bonus plan as applied to a potential share award made and approved by the Compensation and Governance Committee of the Board. Under these awards granted, a number of shares will be issued to each participant based upon a combination of the bonus attainment percentage component above, adjusted to a three-year average bonus percentage, and a growth attainment component, which is the Company's growth in sales revenue based on comparison of its three-year compounded annual growth rate ("CAGR") with the Electronics Manufacturing Services Industry's three-year CAGR. The long-term performance shares awarded are based on three successive annual performance measurement periods, with each annual tranche having a grant date when economic profit tiers are established and approved by the Compensation and Governance Committee of the Board near the beginning of the applicable fiscal year and a vesting date shortly after the end of each annual period. The number of shares issued will be less than the maximum shares issuable if one or both of the above-mentioned incentive metric maximum thresholds are not obtained.

(2) The grant date fair value is based on the stock price at the date of the award and for long-term performance shares is applicable to the first tranche only.

(3) Unrestricted shares were awarded to a non-employee member of the Board as compensation for the portion of director's annual retainer fees resulting from their election to receive unrestricted shares in lieu of cash payment or deferred share units. Director's fees are expensed over the period that directors earn the compensation. Unrestricted shares do not have vesting periods, holding periods, restrictions on sales, or other restrictions.

(4) Deferred share units were awarded to non-employee members of the Board as compensation for the portion of director's annual retainer fees resulting from their elections 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.

(5) Restricted share units ("RSUs") were awarded to new key employees. The contractual life of the RSUs is one year or less, from date of hire. 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.

Note 12. Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

(Amounts in Thousands)	March 31, 2021	June 30, 2020
Goodwill	$ 32,762	$ 32,762
Accumulated impairment	(20,751)	(20,751)
Goodwill, net	$ 12,011	$ 12,011

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

	March 31, 2021			June 30, 2020		
(Amounts in Thousands)	**Cost**	**Accumulated Amortization**	**Net Value**	**Cost**	**Accumulated Amortization**	**Net Value**
Capitalized Software	$ 32,726	$ 28,660	$ 4,066	$ 32,052	$ 27,851	$ 4,201
Customer Relationships	8,618	2,394	6,224	8,618	2,014	6,604
Technology	5,060	2,537	2,523	5,060	1,777	3,283
Trade Name	6,369	1,592	4,777	6,369	1,114	5,255
Other Intangible Assets	$ 52,773	$ 35,183	$ 17,590	$ 52,099	$ 32,756	$ 19,343

During the three months ended March 31, 2021 and 2020, amortization expense of other intangible assets was $0.9 million and $0.8 million, respectively. During the nine months ended March 31, 2021 and 2020, amortization expense of other intangible assets was $2.5 million and $2.4 million, respectively.

The estimated useful life of internal-use software ranges from 3 years 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.

Note 13. Share Owners' Equity

On October 21, 2015, 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 the nine months ended March 31, 2021, the Company repurchased $3.0 million of common stock under the Plan at an average price of $15.51, which was recorded as Treasury stock, at cost in the Condensed Consolidated Balance Sheets. Since the inception of the Plan, the Company has repurchased $79.7 million of common stock at an average cost of $14.95 per share.

Note 14. Earnings Per Share

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

	Three Months Ended March 31		Nine Months Ended March 31	
(Amounts in thousands, except per share data)	**2021**	**2020**	**2021**	**2020**
Basic and Diluted Earnings Per Share:				
Net Income	$ 10,472	$ 6,259	$ 42,345	$ 19,469
Less: Net Income allocated to participating securities	17	8	61	25
Net Income allocated to common Share Owners	$ 10,455	$ 6,251	$ 42,284	$ 19,444
Basic weighted average common shares outstanding	25,049	25,181	25,101	25,308
Dilutive effect of average outstanding stock compensation awards	168	106	187	158
Dilutive weighted average shares outstanding	25,217	25,287	25,288	25,466
Earnings Per Share of Common Stock:				
Basic	$ 0.42	$ 0.25	$ 1.68	$ 0.77
Diluted	$ 0.41	$ 0.25	$ 1.67	$ 0.76

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements contained within this document are considered forward-looking under the Private Securities Litigation Reform Act of 1995. The statements may be identified by the use of words such as "believes," "anticipates," "expects," "intends," "plans," "projects," "estimates," "forecasts," "likely," "future," "may," "should," "would," "could," "will," "potentially," and similar expressions. These forward-looking statements are subject to risks and uncertainties including, but not limited to, global economic conditions, geopolitical environment, global health emergencies including the COVID-19 pandemic, availability or cost of raw materials and components, foreign exchange fluctuations, and our ability to convert new business opportunities into customers and revenue. Additional cautionary statements regarding other risk factors that could have an effect on the future performance of Kimball Electronics are contained in our Annual Report on Form 10-K for the year ended June 30, 2020.

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 disposables, 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 consistently recognized by our customers and the industry for our excellent quality, reliability, and innovative service. For the third time in four years, we were recognized in 2021 for achieving the Highest Overall Customer Rating in CIRCUITS ASSEMBLY's 2021 Service Excellence Awards. CIRCUITS ASSEMBLY is a leading brand and technical publication for electronics manufacturers worldwide.

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 June 2020 edition of Manufacturing Market Insider published by NVR highlighted some key findings published in its annual report on the worldwide EMS industry, *The Worldwide Electronics Manufacturing Services - 2020 Edition.* NVR projects the worldwide assembly market for electronics products to grow at a compound annual growth rate ("CAGR") of 1.9% over the next five years, calendar years 2020 through 2024, with the EMS industry projected to grow at a CAGR of 5.6%.

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 primary focus, and we are following current guidelines suggested by applicable authorities, including utilizing protective shields, face masks, body temperature scanning, social distancing, and proper hygiene. 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. Because of the variety of critical medical device assemblies we manufacture around the world, our facilities were classified as "essential businesses" or otherwise had been permitted to operate under shelter in place orders or other similar orders but have been affected to varying degrees by COVID-19. 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 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 results cannot be reasonably estimated but could be material.

The EMS industry is currently experiencing component shortages and component allocations, particularly with semiconductors driven by the strong demand in consumer electronics. Component shortages or allocations could 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, particularly the automotive industry, leading to automakers temporarily suspending production in recent months. We have taken various actions 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; however, the duration or severity of the semiconductor shortage is unknown, and its financial impact on our results cannot be reasonably estimated but could be material.

Sales to customers in the automotive market are gaining momentum, after recently being adversely impacted by COVID-19, as we experienced a record sales quarter in our automotive vertical in the second quarter of fiscal year 2021 and growth in the third quarter of fiscal year 2021 over the prior third quarter. We anticipate demand from customers in the automotive market to remain strong throughout the rest of fiscal year 2021 and into fiscal year 2022. We are monitoring, however, the current shortage of semiconductors and the continuing impact on global automobile production. Component shortages or allocations could increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. In the medical market, sales returned to the pre-COVID-19 pandemic levels in the second and third quarters of fiscal year 2021 after we experienced a record sales quarter in the first quarter of fiscal year 2021 due to the significant increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products, as a direct result of COVID-19. In the industrial market, our growth in the third quarter of fiscal year 2021 over the prior year third quarter was driven in large part due to improved sales of automation, test, and inspection equipment, partially offset by lower demand for smart metering products. Sales to customers in the public safety market improved in the third quarter of fiscal year 2021 over the prior year third quarter due to the ramp-up of new programs.

We have a strong focus on cost control and closely monitor market changes and our liquidity in order to proactively adjust our operating costs and discretionary capital spending as needed. 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. 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, which included a current ratio of 2.0, a debt-to-equity ratio of 0.1, and Share Owners' equity of $425 million at March 31, 2021. 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 $226 million at March 31, 2021.

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 services 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. 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. As such, our ability to continue contractual relationships with our customers, including our principal customers, is not certain. New customers and program start-ups generally cause margin dilution early in the life of a program, which is 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, customer order delays, global health emergencies including the COVID-19 pandemic, component availability, 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 large 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 the "Risk Factors" section of our Annual Report on Form 10-K for the year ended June 30, 2020.

	Nine Months Ended March 31	
Customer Service Years	**2021**	**2020**
More than 10 Years		
% of Net Sales	80 %	77 %
# of Customers	30	39
5 to 10 Years		
% of Net Sales	16 %	10 %
# of Customers	22	18
Less than 5 Years		
% of Net Sales	4 %	13 %
# of Customers	19	20
Total		
% of Net Sales	100 %	100 %
# of Customers	71	77

Financial Overview

	At or for the Three Months Ended March 31				
(Amounts in Millions, Except for Per Share Data)	**2021**	**as a % of Net Sales**	**2020**	**as a % of Net Sales**	**% Change**
Net Sales	$ 310.3		$ 293.9		6 %
Gross Profit	$ 26.0	8.4 %	$ 20.2	6.9 %	29 %
Selling and Administrative Expenses	$ 11.7	3.8 %	$ 9.6	3.3 %	22 %
Other General Income	$ 0.4		$ —		
Operating Income	$ 14.6	4.7 %	$ 10.6	3.6 %	38 %
Net Income	$ 10.5		$ 6.3		67 %
Diluted Earnings per Share	$ 0.41		$ 0.25		64 %
Open Orders	$ 649.1		$ 511.0		27 %

	For the Nine Months Ended March 31				
(Amounts in Millions, Except for Per Share Data)	**2021**	**as a % of Net Sales**	**2020**	**as a % of Net Sales**	**% Change**
Net Sales	$ 962.7		$ 914.4		5 %
Gross Profit	$ 86.3	9.0 %	$ 62.9	6.9 %	37 %
Selling and Administrative Expenses	$ 38.3	4.0 %	$ 32.5	3.6 %	18 %
Other General Income	$ 0.7		$ —		
Operating Income	$ 48.6	5.1 %	$ 30.4	3.3 %	60 %
Net Income	$ 42.3		$ 19.5		117 %
Diluted Earnings per Share	$ 1.67		$ 0.76		120 %

Net Sales by Vertical Market	**Three Months Ended March 31**			**Nine Months Ended March 31**		
(Amounts in Millions)	**2021**	**2020**	**% Change**	**2021**	**2020**	**% Change**
Automotive	$ 139.6	$ 124.4	12 %	$ 409.7	$ 383.7	7 %
Medical	85.4	87.1	(2)%	299.7	274.1	9 %
Industrial	69.2	65.6	5 %	207.0	196.7	5 %
Public Safety	13.5	12.5	9 %	37.3	44.2	(16)%
Other	2.6	4.3	(41)%	9.0	15.7	(43)%
Total Net Sales	$ 310.3	$ 293.9	6 %	$ 962.7	$ 914.4	5 %

Third quarter and year-to-date fiscal year 2021 consolidated net sales increased compared to the third quarter and year-to-date period of fiscal year 2020. Foreign currency fluctuations had a favorable impact of 3% on net sales in both the current quarter and the current-year-to-date period compared to the third quarter and year-to-date period of fiscal year 2020. By end market vertical, sales fluctuated as follows:

- Sales to customers in the automotive market during the third quarter of fiscal year 2021 increased 12% compared to the third quarter of fiscal year 2020. This double-digit increase is largely due to the ramp-up of certain programs, including programs for fully electric vehicles, continued industry recovery from COVID-19 shut downs, and favorable foreign currency fluctuations. Sales to customers in the automotive market in the year-to-date period of fiscal year 2021 also increased, but by a smaller percentage when compared to the year-to-date period of fiscal year 2020, as the COVID-19 pandemic had a negative impact on the first quarter of the current fiscal year.
- Sales to customers in the medical market declined slightly in the third quarter of fiscal year 2021 when compared to the third quarter of fiscal year 2020. However, sales to customers in the medical market increased 9% in the year-to-date period of fiscal year 2021 when compared to the year-to-date period of fiscal year 2020, driven by the increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products. Partially offsetting this year-over-year increase is lower demand for non-critical medical products.
- Sales to customers in the industrial market increased in the third quarter and year-to-date period of the current fiscal year when compared to the third quarter and year-to-date period of the prior fiscal year, primarily due to improved sales of automation, test, and inspection equipment as our recent acquisition is gaining traction, higher end market demand for climate control products, and favorable foreign currency fluctuations, which were partially offset by decreased demand for smart metering products.
- Sales to customers in the public safety market improved in the third quarter of fiscal year 2021 compared to the third quarter of fiscal year 2020 due to the ramp-up of new programs, but sales to customers in the public safety market decreased in the year-to-date period of fiscal year 2021 compared to the year-to-date period of fiscal year 2020 primarily due to the phase out of certain programs.

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

	Three Months Ended March 31		**Nine Months Ended March 31**	
	2021	**2020**	**2021**	**2020**
Nexteer Automotive	18%	16%	17%	15%
Philips	13%	14%	17%	14%

Open orders were up 27% as of March 31, 2021 compared to March 31, 2020, primarily from an increase in the automotive vertical. The increase in open orders in the automotive market is driven by the overall increase in demand coupled with the global semiconductor shortage, 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. Substantially all of the open orders as of March 31, 2021 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. Additionally, COVID-19 and the semiconductor shortage could impact the timing and certainty of fulfillment of open orders.

Gross profit as a percent of net sales in the third quarter and the year-to-date period of fiscal year 2021 improved when compared to the third quarter and the year-to-date period of fiscal year 2020 primarily due to improved operating execution, favorable product mix within our automotive vertical driven by a shift to more mature and larger programs, and favorable foreign currency fluctuations, which were partially offset by higher profit-sharing incentive bonus expense.

Selling and administrative expenses increased as a percent of net sales and in absolute dollars in the third quarter and the year-to-date period of fiscal year 2021 when compared to the third quarter and the year-to-date period of fiscal year 2020. The selling and administrative expenses increased primarily from an increase in profit-sharing incentive bonus expense, the increase in the fair value of the liability for the supplemental employee retirement plan (“SERP”), and higher salary and related payroll costs.

Other General Income in the three and nine months ended March 31, 2021 included $0.4 million and $0.7 million, respectively, of pre-tax income resulting from payments received related to the settlement of a class action lawsuit in which Kimball Electronics was a class member. No Other General Income was recorded during the three and nine months ended March 31, 2020.

Other Income (Expense) consisted of the following:

	Three Months Ended March 31		Nine Months Ended March 31	
(Amounts in Thousands)	**2021**	**2020**	**2021**	**2020**
Interest income	$ 38	$ 18	$ 71	$ 43
Interest expense	(370)	(1,166)	(1,809)	(3,523)
Foreign currency/derivative gain (loss)	(637)	200	4,330	(143)
Gain (loss) on SERP investments	164	(914)	1,525	(434)
Adjustments after measurement period of GES acquisition	335	—	53	—
Other	(171)	(31)	(265)	(95)
Other income (expense), net	$ (641)	$ (1,893)	$ 3,905	$ (4,152)

Interest expense has decreased in the three and nine months ended March 31, 2021 compared to the three and nine months ended March 31, 2020 due to lower interest rates and lower borrowings on credit facilities. The foreign currency/derivative gain (loss) resulted from net foreign currency exchange rate movements during the period. The revaluation to fair value of the 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.

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

	For the Nine Months Ended			
	March 31, 2021		March 31, 2020	
(Amounts in Thousands)	**Income Before Taxes**	**Effective Tax Rate**	**Income Before Taxes**	**Effective Tax Rate**
United States	$ 11,064	14.9 %	$ 1,858	49.8 %
Foreign	41,465	20.6 %	24,377	24.0 %
Total	$ 52,529	19.4 %	$ 26,235	25.8 %

When compared to the statutory rate, the domestic effective tax rate for the first nine months of fiscal year 2021 was favorably impacted by research and development credits and a discrete income tax adjustment related to the reduction in our state tax valuation allowance for research and development credit carryforwards. The consolidated effective tax rate was favorably impacted by the mix of taxable earnings within our various tax jurisdictions, including foreign exchange rate movements.

When compared to the statutory rate, the domestic effective tax rate for the first nine months of fiscal year 2020 was substantially higher as the relatively low profit before tax magnified the impact of certain discrete adjustments and tax expense due to the global intangible low-taxed income provisions of Tax Reform.

Comparing the balance sheet as of March 31, 2021 to June 30, 2020, Receivables increased $17.6 million largely due to increased sales volumes and customer sales mix. Contract assets decreased $17.2 million as a result of our lower inventory balance and the related impact of timing of shipments and related billings to our customers. Our inventory balance decreased $37.9 million primarily due to the consumption of the inventory build at the end of the prior fiscal year to support the increased demand for medical assemblies and changes in customers' forecasts as a result of COVID-19. Also contributing to the inventory balance decrease was 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. Borrowings under credit facilities decreased $57.6 million largely due to payments on the U.S. primary credit facility.

Liquidity and Capital Resources

Working capital at March 31, 2021 was $274.9 million compared to working capital of $285.8 million at June 30, 2020. The current ratio was 2.0 at both March 31, 2021 and June 30, 2020. The debt-to-equity ratio was 0.1 at March 31, 2021 and 0.3 at June 30, 2020. 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 $225.6 million at March 31, 2021 and $142.5 million at June 30, 2020.

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.

	Three Months Ended		
	March 31, 2021	**June 30, 2020**	**March 31, 2020**
DSO	57	50	55
CAD	17	22	21
PDSOH	56	76	67
APD	64	67	62
CCD	66	81	81

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.

Cash Flows

The following table reflects the major categories of cash flows for the first nine months of fiscal years 2021 and 2020.

	Nine Months Ended March 31	
(Amounts in millions)	**2021**	**2020**
Net cash provided by operating activities	$ 103.8	$ 51.3
Net cash used for investing activities	$ (23.0)	$ (27.6)
Net cash used for financing activities	$ (58.7)	$ (13.5)

Cash Flows from Operating Activities

Net cash provided by operating activities for the first nine months of fiscal year 2021 was driven both by net income adjusted for non-cash items and changes in operating assets and liabilities. Net cash provided by operating activities in the first nine months of the prior year was largely driven by net income adjusted for non-cash items. Additionally, changes in operating assets and liabilities provided $37.4 million of cash in the first nine months of fiscal year 2021 and provided $5.7 million of cash in the first nine months of the prior year.

The cash provided of $37.4 million from changes in operating assets and liabilities in the first nine months of fiscal year 2021 is largely due to a decrease in inventory, which provided cash of $37.6 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 decrease in contract assets, which provided cash of $17.2 million as a result of our lower inventory balance and the related impact of timing of shipments and related billings to our customers. Partially offsetting cash provided by inventory and contract assets was an increase in accounts receivable, which used cash of $23.0 million primarily resulting from increased sales volumes and customer sales mix.

The cash provided of $5.7 million from changes in operating assets and liabilities in the first nine months of fiscal year 2020 was primarily due to a decrease in accounts receivable, which provided cash of $33.6 million primarily due to the increased utilization of accounts receivable factoring arrangements. Partially offsetting cash provided by accounts receivable was an increase in contract assets, which used cash of $17.5 million as a result of the timing of shipments and related billings, increased production volumes, and certain contracts with customers beginning to meet the criteria to recognize revenue over time during the current fiscal year, and cash used of $8.1 million as accrued expenses and taxes payable decreased, driven largely by a significant portion of accrued incentive compensation being paid during the first nine months of fiscal year 2020 and the reduction of advance payments from customers recognized as contract liabilities as the performance obligations were completed.

Cash Flows from Investing Activities

For the first nine months of fiscal years 2021 and 2020, net cash used for investing activities was $23.0 million and $27.6 million, respectively. During the first nine months of fiscal year 2021, we invested $23.4 million into capital expenditures for capacity purposes, to support new business awards, and replacement of older machinery and equipment. During the first nine months of fiscal year 2020, we invested $27.8 million into capital expenditures for the future primarily for machinery and equipment for capacity purposes and to support new business awards.

Cash Flows from Financing Activities

For the first nine months of fiscal year 2021, net cash used by financing activities of $58.7 million resulted largely from net payments on our credit facilities of $57.9 million and the repurchases of our common stock under an authorized stock repurchase plan, partially offset by the receipt of $3.0 million for the final net working capital adjustment from the GES acquisition. For the first nine months of fiscal year 2020, net cash used by financing activities of $13.5 million resulted from net payments on our primary credit facility of $7.0 million, repurchases of our common stock under an authorized stock repurchase plan, and the remittance of tax withholdings on share-based payments, which were only partially offset by additional borrowings of $3.3 million on our Netherlands credit facility.

Credit Facilities

The Company maintains a U.S. primary credit facility (the “primary credit facility”) among the Company, the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Documentation Agent, scheduled to mature July 27, 2023. The primary credit facility provides for $150 million in borrowings, with an option to increase the amount available for borrowing to $225 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 including capital expenditures and potential acquisitions. A portion of the credit facility, not to exceed $15 million of the principal amount, will be available for the issuance of letters of credit. A commitment fee on the unused portion of the principal amount of the credit facility is payable at a rate that ranges from 20.0 to 25.0 basis points per annum as determined by the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

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

- the London Interbank Offered Rate (“LIBOR”) in effect two business days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined in the agreement, plus the Eurocurrency Loans spread which can range from 125.0 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. JPMorgan’s prime rate;

  b. 1% per annum above the Adjusted LIBO Rate (as defined under the primary credit facility); or

  c. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the primary credit facility);

  plus the ABR Loans spread which can range from 25.0 to 75.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA.

At March 31, 2021, we had $57.0 million in borrowings under the primary credit facility and $0.4 million in letters of credit against the primary credit facility. Borrowings under the primary credit facility were used as the primary source of funding for the GES acquisition as well as for domestic cash needs. At March 31, 2021, $40.0 million of the borrowings were classified as long-term as the Company intends, and has the ability, to refinance for a period longer than twelve months. We are not contractually obligated to repay the short-term borrowings under the primary credit facility during the next twelve months. At June 30, 2020, we had $111.4 million in borrowings under the primary facility and $0.4 million in letters of credit against the primary facility. Our debt classified as long-term at March 31, 2021 declined $51.5 million from June 30, 2020 as we remitted payment of $34.5 million for borrowings under the primary credit facility and reclassified $17.0 million of the borrowings under the primary credit facility to short term as we have the intent and the ability to repay within twelve months.

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, and
- a fixed charge coverage ratio, determined as of the end of each of its fiscal quarters for the then most recently ended four fiscal quarters, to not be less than 1.1 to 1.0.

We were in compliance with the financial covenants during the nine-month period ended March 31, 2021.

The Company also maintains a 364-day multi-currency revolving credit facility (the "secondary credit facility") among the Company, as borrower, certain subsidiaries of the Company as guarantors, the lenders party thereto, JPMorgan Chase Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Documentation Agent, which allows for borrowings of up to $30.0 million and has a maturity date of May 18, 2021. This secondary credit facility is to be used for working capital and general corporate purposes, and it is intended to provide additional domestic liquidity at the enterprise level to help support the increased demand in medical assemblies that is attributable to the COVID-19 pandemic. A commitment fee on the unused portion of principal amount of this secondary credit facility is payable at 50.0 basis points per annum. We had no borrowings under this secondary credit facility as of March 31, 2021 or June 30, 2020.

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 March 31, 2021, 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 March 31, 2021 exchange rates). We had no borrowings under this foreign credit facility as of March 31, 2021 or June 30, 2020.
- An uncommitted revolving credit facility for our Netherlands subsidiary, which allows for borrowings of up to 9.2 million Euro (approximately $10.8 million at March 31, 2021 exchange rates) that can be drawn in Euro, U.S. dollars, or other optional currency. We had $3.5 million in borrowings outstanding under this Netherlands revolving credit facility as of March 31, 2021 and $6.7 million as of June 30, 2020.
- An uncommitted revolving credit facility for our Poland operation, which allows for borrowings of up to 5 million Euro (approximately $5.9 million at March 31, 2021 exchange rates) that can be drawn in Euro, U.S. dollars, or Polish Zloty. We had no borrowings under this foreign credit facility as of March 31, 2021 or June 30, 2020.

Factoring Arrangements

The Company utilizes factoring arrangements for certain of our accounts receivables 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. In the nine months ended March 31, 2021 and 2020, we sold, without recourse, $246.3 million and $202.0 million of accounts receivable, respectively. Factoring fees were $0.2 million and $0.4 million for the three months ended March 31, 2021 and 2020, respectively, and $1.0 million and $1.5 million during the nine months ended March 31, 2021 and 2020, respectively. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Condensed 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 $135.9 million at March 31, 2021. We expect to continue to invest in capital expenditures prudently, including for capacity expansions and potential acquisitions, that would help us continue our growth and development as a multifaceted manufacturing solutions company. In fiscal year 2021, we have approved capacity expansions at our Thailand and Mexico facilities. 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 the impact to certain markets, the supply chain, and to global macroeconomic conditions.

At March 31, 2021, our capital expenditure commitments were approximately $10 million, consisting primarily of commitments for the expansion of our Thailand facility, capital related to new program wins, and productivity improvements including automation. We anticipate our available liquidity will be sufficient to fund these capital expenditures.

At March 31, 2021, our foreign entities held cash totaling $87.9 million. In December 2017, the U.S. Tax Cuts and Jobs Act ("Tax Reform") was enacted into law by the United States. Tax Reform imposed a one-time deemed repatriation tax on accumulated unremitted foreign earnings. The Company has made reasonable estimates of certain effects, and therefore, has recorded provisions for net deferred tax assets at the new applicable rate and the one-time deemed repatriation tax on accumulated unremitted foreign earnings. As of March 31, 2021, the remaining provision recorded for the one-time deemed repatriation tax was $9.8 million, of which $8.9 million was recorded in Long-term income taxes payable on the Consolidated Balance Sheet, and is payable through fiscal year 2026. Most of these accumulated unremitted foreign earnings have been invested in active non-U.S. business operations, and we expect we may only repatriate a minor amount of these earnings to the United States in a tax-efficient manner. 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.

In March 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law making several changes to the Internal Revenue Code. The changes include, but are not limited to, increasing the limitation on the amount of deductible interest expense, allowing companies to carryback certain net operating losses, and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income, in addition to allowing companies to defer the payment of certain employer payroll taxes. At March 31, 2021, we have deferred payment of $3.3 million of employer payroll taxes under the CARES Act, of which approximately half is payable in December 2021 and the remaining deferred amount is payable in December 2022.

On October 21, 2015, the Company's Board of Directors approved a resolution to authorize an 18-month stock repurchase plan (the "Plan") to allow the repurchase of up to $20 million 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. The Plan 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 $79.7 million of common stock under the Plan through March 31, 2021.

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.

Fair Value

During the third quarter of fiscal year 2021, 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 7 - Fair Value of Notes to Condensed Consolidated Financial Statements for additional information.

Contractual Obligations

There have been no material changes outside the ordinary course of business to Kimball Electronics' summary of contractual obligations under the caption, "Contractual Obligations" in the section entitled "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, 2020.

Off-Balance Sheet Arrangements

In limited circumstances, we receive banker's acceptance drafts from customers to one of our China operations. In turn, we may transfer the acceptance drafts to a supplier 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, and if exercised, our China operation would be required to satisfy the obligation with the transferee as the draft would revert back to our China operation. No transferee has exercised their recourse rights against us. We also have standby letters of credit entered into in the normal course of business.

These arrangements do not have a material current effect and are not reasonably likely to have a material future effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources. See Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements for more information on the banker's acceptance drafts. We do not have material exposures to trading activities of non-exchange traded contracts.

Critical Accounting Policies

Kimball Electronics' Condensed 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 Condensed 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.

There have been no material changes to our critical accounting policies since our Annual Report on Form 10-K for the year ended June 30, 2020. For further information regarding our critical accounting policies, refer to "Note 1 - Business Description and Summary of Significant Accounting Policies" of Notes to Consolidated Financial Statements and "Critical Accounting Policies" in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2020.

New Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in our exposure to market risks for changes in foreign currency exchange rates and interest rates as compared to the fiscal year ended June 30, 2020. The interest rate on certain borrowings under our credit facilities, including our primary credit facility, are based on LIBOR. The United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR. In March 2021, the administrator of LIBOR, the ICE Benchmark Administration, publicly announced that it will cease publication of LIBOR settings, either on December 31, 2021 or June 30, 2023, subject to the LIBOR settings. As LIBOR is discontinued and we transition to a new rate, interest rates on our current or future indebtedness may be adversely affected. The Company is monitoring these developments.

Comprehensive disclosures of quantitative and qualitative market risk can be found in our Annual Report on Form 10-K for the year ended June 30, 2020.

Item 4. 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 management, including the 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 the disclosure controls and procedures were effective as of March 31, 2021.

(b) 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 March 31, 2021 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We and our subsidiaries are not parties to any pending legal proceedings, other than ordinary routine litigation incidental to the business. While the outcome of pending legal proceedings cannot be predicted with certainty, we believe that no such matter is reasonably likely to have a material adverse impact, individually and in the aggregate, on our financial position or results of operations.

Item 1A. Risk Factors

We are subject to various risks and uncertainties in the course of our business. A comprehensive disclosure of risk factors related to Kimball Electronics can be found in our Annual Report on Form 10-K for the year ended June 30, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 21, 2015, our Board of Directors (the “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 the three months ended March 31, 2021, the Company did not purchase any common stock. The Company’s maximum value of remaining shares that may be purchased under the Plan was $20.3 million at March 31, 2021.

Item 6. Exhibits

Exhibits (numbered in accordance with Item 601 of Regulation S-K)

3.1	Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed February 18, 2021, File No. 001-36454)
3.2	Amended and Restated By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed February 18, 2021, File No. 001-36454)
31.1[a]	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
31.2[a]	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
32.1[a][b]	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
32.2[a][b]	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
101.INS[a]	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
101.SCH[a]	Inline XBRL Taxonomy Extension Schema Document
101.CAL[a]	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF[a]	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB[a]	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE[a]	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

[a] Filed herewith

[b] 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.

SIGNATURES

Pursuant to the requirements 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/ DONALD D. CHARRON

Donald D. Charron
Chairman of the Board,
Chief Executive Officer
May 6, 2021

By: /s/ MICHAEL K. SERGESKETTER

Michael K. Sergesketter
Vice President,
Chief Financial Officer
May 6, 2021

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 Quarterly Report on Form 10-Q 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: May 6, 2021

/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, Michael K. Sergesketter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: May 6, 2021

/s/ MICHAEL K. SERGESKETTER

MICHAEL K. SERGESKETTER
Vice President,
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 Quarterly Report of Kimball Electronics, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2021 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: May 6, 2021

/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 Quarterly Report of Kimball Electronics, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael K. Sergesketter, 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: May 6, 2021

/s/ MICHAEL K. SERGESKETTER

MICHAEL K. SERGESKETTER
Vice President,
Chief Financial Officer