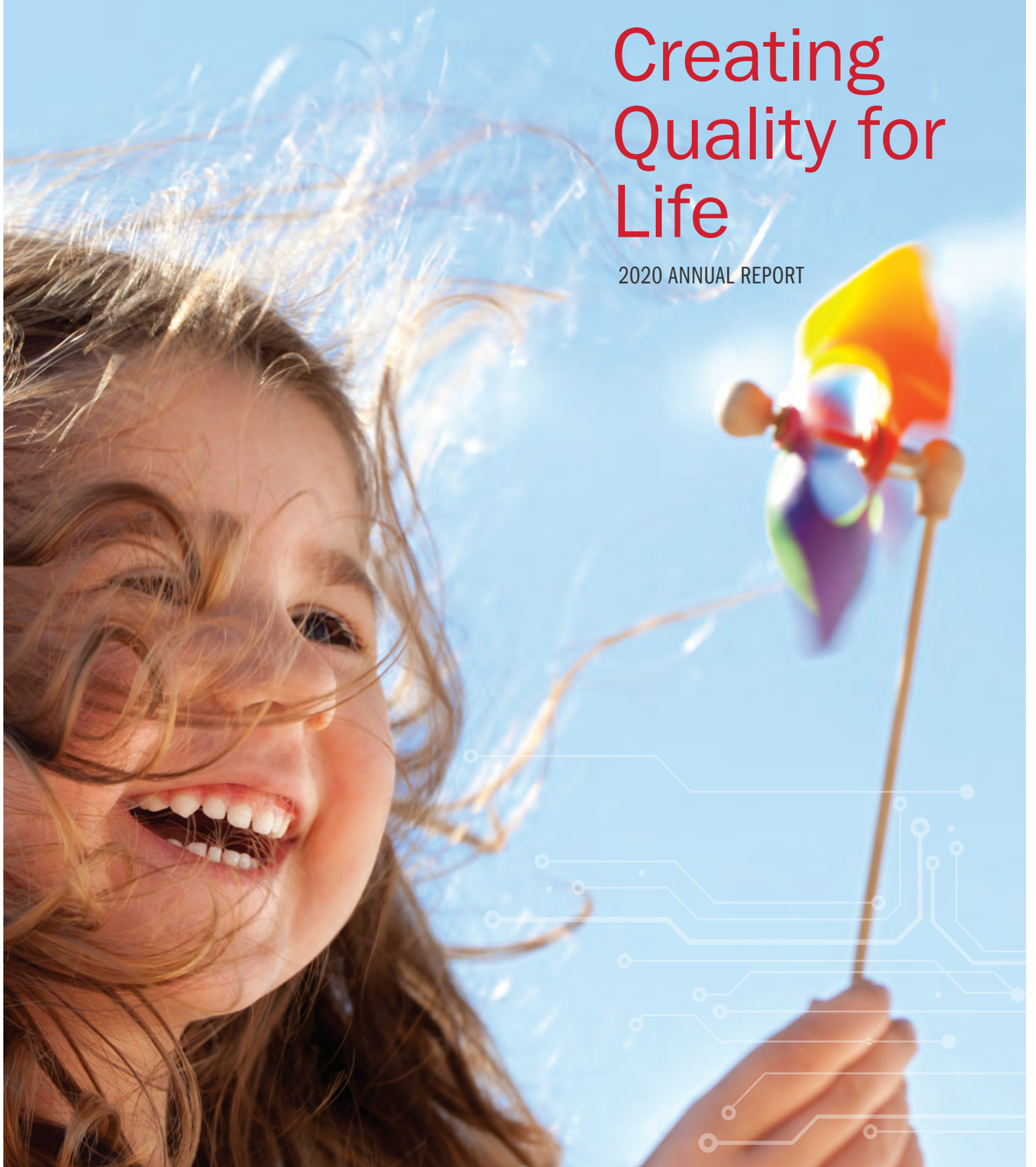


# Creating Quality for Life

2020 ANNUAL REPORT



WHO WE ARE AND WHAT WE DO

Kimball Electronics was founded in 1961. 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. We offer a package of value that begins with our core competency of producing “durable electronics” and have expanded into diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and production automation, test, and inspection equipment. This package of value 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 believe our customers appreciate our body of knowledge as it relates to the design and manufacture of their products that require durability, reliability, the highest levels of quality control, and regulatory compliance. We deliver award-winning service from our highly integrated global footprint which is enabled by a largely common operating system, a standardization strategy, global procedures, and teamwork. Our Customer Relationship Management (“CRM”) model is key to providing our customers convenient access to our global footprint and all of our services throughout the entire product life cycle. Because our customers are in businesses where engineering changes must be tightly controlled and long product life cycles are common, our track record of quality, financial stability, social responsibility, and commitment to long-term relationships is important to them.

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

- Design services and support
  - Supply chain services and support
  - Rapid prototyping and new product introduction support
  - Product design and process validation and qualification
  - Industrialization and automation of manufacturing processes
  - Reliability testing (testing of products under a series of extreme environmental conditions)
- Production and testing of printed circuit board assemblies (PCBAs)
  - Assembly, production, and packaging of medical disposables and other non-electronic products
  - Design engineering and manufacturing of automation, test, and inspection equipment
  - Design engineering and production of precision molded plastics
  - Software design capabilities
  - Complete product life cycle management



OUR GLOBAL PRESENCE

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

NORTH AMERICA

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

EUROPE

Poznan, Poland  
Timisoara, Romania

ASIA

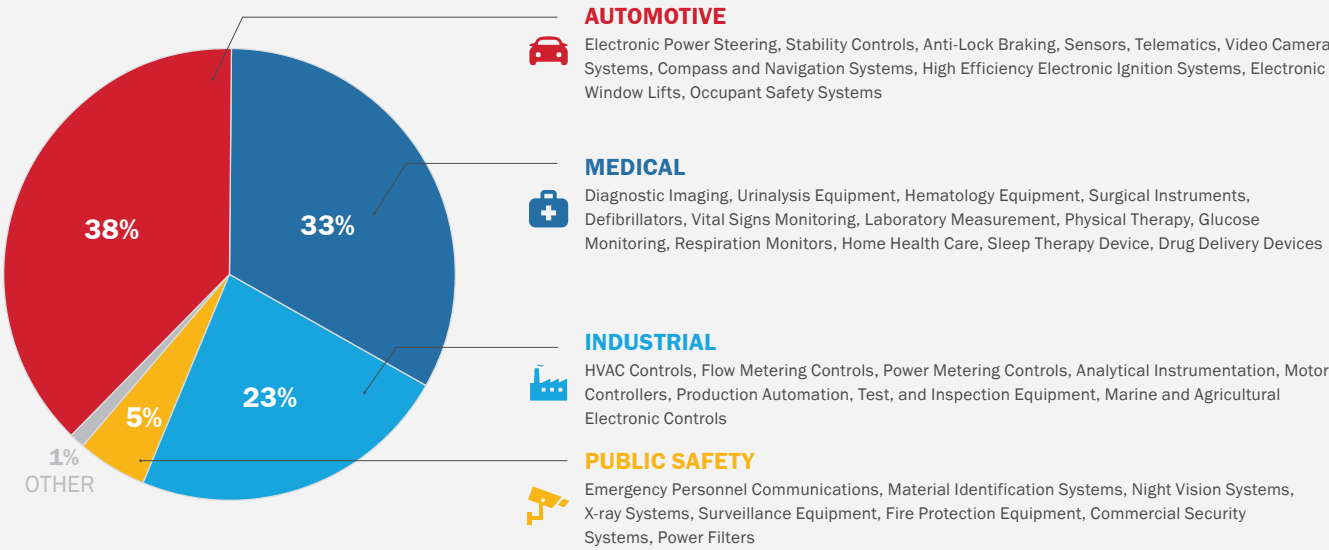
Nanjing, China  
Suzhou, China  
Trivandrum, India  
Chiba, Japan  
Laem Chabang, Thailand  
Ho Chi Minh City, Vietnam

Financial Highlights

(Amounts in thousands, except per share data)

	Fiscal Year Ended June 30,		
	2020	2019	% Change
Net Sales	\$ 1,200,550	\$ 1,181,844	2%
Operating Income, as reported (GAAP)	\$ 31,996	\$ 42,060	-24%
Goodwill Impairment	7,925	—	
Pre-tax Settlement Proceeds from Lawsuits	—	(307)	
Adjusted Operating Income (non-GAAP)	\$ 39,921	\$ 41,753	-4%
Net Income, as reported (GAAP)	\$ 18,196	\$ 31,558	-42%
After-tax Goodwill Impairment	6,947	—	
After-tax Net Working Capital Adjustment on GES Acquisition	2,871	—	
Tax Adjustments Resulting from Tax Reform	—	(251)	
After-tax Settlement Proceeds from Lawsuits	—	(233)	
Adjusted Net Income (non-GAAP)	\$ 28,014	\$ 31,074	-10%
Diluted Earnings per Share, as reported (GAAP)	\$ 0.71	\$ 1.21	-41%
Impact of Goodwill Impairment	0.28		
Impact of Net Working Capital Adjustment on GES Acquisition	0.11	—	
Tax Adjustments Resulting from Tax Reform	—	(0.01)	
Impact of Settlement Proceeds from Lawsuits	—	(0.01)	
Adjusted Diluted Earnings per Share (non-GAAP)	\$ 1.10	\$ 1.19	-8%
Return on Invested Capital	6.9%	8.7%	-21%
Cash Flow from Operations	\$ 72,808	\$ (6,748)	1179%
Capital Expenditures	\$ 38,749	\$ 25,843	50%
Share Owners' Equity	\$ 379,365	\$ 369,854	3%

Diversified Portfolio of End Markets and Market Services







To Our Share Owners

Fiscal year 2020 was another record-breaking year for our company, as we reached a new high in net sales despite the global interruptions and challenges caused by the COVID-19 pandemic. From the very beginning of the outbreak, the health and safety of our employees has been our number one priority.

We continue to make every effort to keep our facilities safe, utilizing protective shields, face masks, body temperature scanning, social distancing, and proper hygiene. Of our 6,400 employees around the world, approximately 1% have tested positive for the virus. For each positive case, we followed established protocols: we communicated to employees; we performed contact tracing; we mandated self-quarantining and testing practices; and we sanitized the affected work areas. Because of the disciplined response and extraordinary effort of our people around the world, we were able to perform our mission as an “Essential Business” and, amongst many things, support the significant increases from our medical customers for their respiratory care and patient monitoring products. I feel honored and privileged that our company can play such an important role to help in the recovery of those infected by the virus. I am so proud of our people around the world and our collective response to the COVID-19 pandemic. Our strong company culture and core values have and will continue to help us get through this together. Our number one priority will continue to be keeping our employees healthy and safe. We will continue to deliver on our promises to our customers. With our strong cash flow and balance sheet, the company is in a solid position, and we are committed to creating greater value for you as a Share Owner.

We continued to execute on our strategies to drive profitable growth and value creation. Our strong company culture continues to serve as the cornerstone of our strategic plan. Formed and shaped by our Guiding Principles, our company culture and core values derive from our basic, but very important, beliefs:

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

Living our Guiding Principles gives us a strong sense of purpose to build success for our stakeholders and to always “do the right thing.” Our purpose statement, “Creating Quality for Life,” could be seen in the passionate responses of our associates around the world as we helped those in need and carried out our mission as an “Essential Business” by manufacturing assemblies for several of our customers’ products which were also deemed “essential.” Evidence of our strong sense of purpose can also be seen in both the high employee satisfaction scores from our Guiding Principles survey and in our customer loyalty metrics. Sales from customers we have been doing business with for over 10 years were 76% of our total sales in fiscal year 2020. We received recognition awards from several customers as testimonials to our service excellence. It’s extremely gratifying that, based upon an independent survey of many of our customers, we were again recognized by CIRCUITS ASSEMBLY magazine as being one of the best in our industry in customer satisfaction for calendar year 2019, another indication of our continued progress in service excellence.

During our sixth year as a stand-alone public company, we continued to make investments that will increase customer engagement and drive future growth in sales and profits. We deployed capital to support our new business awards and added capacity in our facilities to support growth in existing business.

We published our first Environmental, Social, and Governance (ESG) report in December 2019. Our employees around the world are doing their part to protect the environment and to give back in meaningful ways to the communities where we live and work. Our Board remains active in the review and update of our Governance Principles. We hope that our initial and future reports provide you with insightful information and give you a greater appreciation for the goodness of our company.

OUR RESULTS

Consolidated net sales for fiscal year 2020 were \$1,200,550,000, a 2% increase when compared to net sales last fiscal year. Sales in our Automotive end market vertical were down 4% in fiscal year 2020, mainly due to COVID-19-related plant shutdowns in the fourth quarter of our fiscal year, causing sales in our automotive vertical to be down 43% in the fourth quarter of fiscal year 2020 compared to the fourth quarter of fiscal year 2019. Our Medical end market vertical sales, boosted by the COVID-19-related increases in respiratory care and patient monitoring products in our fourth quarter, were up 8% for fiscal year 2020. Helped by the Global Equipment Services (GES) acquisition during calendar year 2018, sales in our Industrial end market vertical were up a solid 6% in fiscal year 2020. Sales in our Public Safety end market vertical were down 15% in fiscal year 2020 when compared to fiscal year 2019 due to certain legacy programs reaching end-of-life phasing.

Our adjusted operating income decreased from 3.5% in fiscal year 2019 to 3.3% in fiscal year 2020, which was below our goal of 4.5%. While we were disappointed to finish the year below our goal, we were pleased with our efforts to minimize the financial impact of the pandemic. Consolidated adjusted net income decreased from \$31.1 million, or \$1.19 per diluted share, in fiscal year 2019 to \$28.0 million, or \$1.10 per diluted share, in fiscal year 2020. Return on invested capital was 6.9% in fiscal year 2020, down from 8.7% in fiscal year 2019, which was below our long-term goal of 12.5%. Margin improvement and capital efficiency will continue to be priorities of focus for us in fiscal year 2021.

During the year, we invested \$38.7 million in capital expenditures, and we returned another \$8.8 million to our Share Owners through the stock repurchase program. We have a rock-solid balance sheet, and we ended fiscal year 2020 with \$143 million in available liquidity.

MANAGING THROUGH THE PANDEMIC AND STAYING FOCUSED ON EXECUTING OUR STRATEGY

We are uniquely positioned and qualified to take full advantage of the growth opportunities that will emerge once the COVID-19 pandemic subsides. We are proven experts and leaders when it comes to the design, manufacturing, and testing of electronic assemblies that require the highest level of quality and reliability. Our global footprint and capabilities are precisely aligned with the preferences and requirements of our customers. We are positioned to support their growth initiatives, when they need us and where they need us. Within our growing Diversified Contract Manufacturing Services (“DCMS”) capabilities, we are establishing strategic inroads by developing innovative plastic injection molding solutions for our medical customers. Utilizing our GES capabilities, we are making investments in automation, test, and measurement that are increasing customer engagement and adding capabilities for us to continue our expansion into a multifaceted manufacturing solutions company.

We remained very active in the implementation of our people strategy as we look to develop a new talent management framework that will further develop the talent we have and ensure that we have the vitality in our talent pipeline to successfully execute our strategic plans. We believe by connecting our people to our purpose and building human-centered talent systems, we will continue to leverage our employees’ discretionary effort, resulting in the creation of impactful careers while executing our business strategies.

When we hire someone, we are essentially inviting them to help us become an even better company. Each teammate is directly linked to how we embrace and execute our company’s strategies. I continue to be proud of the global team of Kimball Electronics employees for remaining true to our time-proven Guiding Principles and core values that ensure our future success.

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

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

Donald D. Charron  
Chairman and Chief Executive Officer



Creating Quality for Life

- **Through the many life-saving and life-improving products and services we provide for our customers and their end users**
- **For our people by supporting meaningful work and through a respectful and rewarding company culture that keeps their best interests in mind**
- **For our communities through our positive societal and environmental impacts**
- **For our suppliers by building substantive partnerships critical to achieving a sustainable, efficient, and reliable supply chain**
- **For our Share Owners by providing a positive financial return and a sound financial investment**



COVID-19

Our long-held belief in business continuity planning and crisis response planning prepare us for challenging times.

OUR RESPONSE TO COVID-19

Since inception, Kimball Electronics has established a unique rapport with our wide range of stakeholders, including customers, suppliers, communities, Share Owners, and employees. Our Guiding Principles have formed a cultural foundation that has helped us meet, head-on, the challenges COVID-19 has presented. To maintain the health and safety of our people, we have instituted strict mandatory face covering and social distancing measures within all essential facilities and a work-from-home approach whenever possible. Operationally, we've achieved amazing results, given the circumstances, particularly as it relates to our production of critical medical goods helping to fight the global pandemic. The mutual respect Kimball Electronics and its stakeholders share remains integral as we continue to strategically navigate our way through these difficult times.

MEASURES WE TOOK



MANDATORY FACE MASKS IN ALL FACILITIES AND UTILIZATION OF PROTECTION SHIELDS



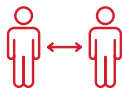
PROPER HYGIENE PRACTICES AND SANITIZATION OF FACILITIES



WORK-FROM-HOME AND REMOTE WORK APPROACH WHERE POSSIBLE



BODY TEMPERATURE SCANNING



SOCIAL DISTANCING PRACTICES

87 MILLION+

ESSENTIAL ASSEMBLIES MANUFACTURED AND SHIPPED DURING THE PANDEMIC IN FY20

COVID-19 RESPONSE ACROSS OUR WORLDWIDE LOCATIONS



**March**  
Facilities in Asia, North America, and Europe affected to varying degrees by government measures restricting the movement of citizens and operation of businesses. Facilities in United States deemed “Essential Businesses” due to our production and supply of medical assemblies.

**May**  
Continued working closely with our customers and suppliers to support worldwide critical public health needs.



**February**  
COVID-19 disrupted global operations during initial outbreak. Our suppliers and our facilities in China were initially adversely impacted.

**April**  
Facilities in China resumed normal operations with additional precautions and safety measures.



**June**  
All Global Facilities: Gradual phased approach to normal operations with additional precautions and safety measures in accordance with recommended protocols established by government authorities and country-specific federal, state, and local public health organizations.

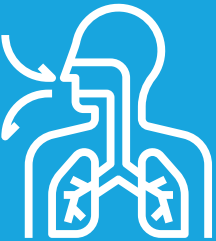
Operating as an “Essential Business”



OUR CUSTOMERS

Helping advance the manufacture and accessibility of life-saving medical devices across the globe.

Kimball Electronics’ continued drive for success stems from the positive societal impacts our products create in areas such as the healthcare field. Our fast-growing Medical market vertical is proof of our commitment to support innovative customers in the development and production of quality EMS and DCMS solutions across the continuum of care.



MEDICAL MARKET SUCCESS STORY

Perhaps it has never been more apparent than during the COVID-19 pandemic that our team is truly creating quality for life. Because of the disciplined response and extraordinary effort of our people around the world, we were able to perform our mission as an “Essential Business” and support the significant increases from our medical customers for their respiratory care and patient monitoring products. Kimball Electronics manufactures printed circuit assemblies (PCA), upper level assemblies, and system level devices for products that support the patient continuum of care. Our customer relationships continued to deepen and grow despite the global interruptions and challenges caused by the COVID-19 pandemic. Assemblies for respiratory care and patient monitoring products are now produced in five of Kimball Electronics’ worldwide facilities, shipping to multiple customer locations around the world. Kimball Electronics continues to be a preferred global Electronics Manufacturing Services (EMS) provider for our medical customers. We are proud of our contribution as our customers continue to be innovative, connected, and patient focused while providing life-saving products.

43 MILLION+ LIVES WERE POSITIVELY IMPACTED BY HEALTHCARE PRODUCTS MANUFACTURED BY KIMBALL ELECTRONICS THIS YEAR



MEDICAL CERTIFICATIONS AND REGISTRATIONS:

- ISO13485 Certified Facilities
- FDA Registered Facilities  
*Including FDA DHR and FDA 21 CFR Parts 820, 210, 211, 4, 11 and 901*
- MedAccred Certified





# Developing EMS, DCMS, Automation, Test, and Measurement solutions that improve people’s health, safety, productivity, and comfort.



We are using data and Industry 4.0 solutions to set the standard for operational excellence, quality, reliability, and customer service to improve overall value.

## ENABLING SECURE ELECTRONIC ACCESS CONTROL

In FY20, our Public Safety team had continued success with customers in the smart security and electronic access and monitoring market. Kimball Electronics supports a top customer in the access control and security market. The assemblies Kimball Electronics manufactures contain built-in Bluetooth® that enables electronic wireless locks to connect directly to smart phones and tablets with no need for a proprietary handheld device for set-up and configuration. And with built-in Wi-Fi, locks can connect directly to an existing Wi-Fi network, enabling automatic updates to lock configuration and user access.



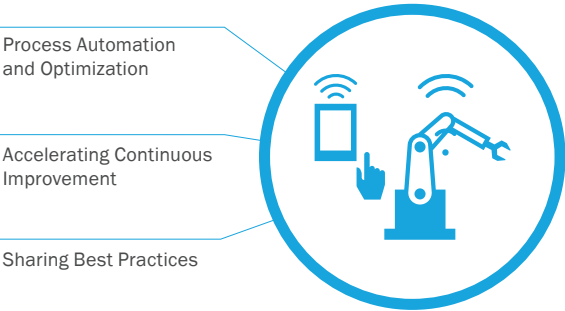
**We understand each customer has a different set of standards for their products, so our capabilities are uniquely tailored to meet each one. By leveraging our focused market core competencies, customer-aligned global footprint, disciplined culture, Industry 4.0 experience, and commitment to lasting relationships, Kimball Electronics finds solutions where others can't.**

Industry 4.0 isn’t possible without critical human analysis and insights to better leverage data and technology. At Kimball Electronics, our people drive Industry 4.0 strategies to create better solutions through technologies for our company and for our customers. The advancements in automation, technology, and improved solutions are not happening to our people, they are happening because of our people.

## OUR INDUSTRY 4.0 STRATEGY FOR SUCCESS

Our Industry 4.0 strategy is to leverage a digital framework focused on meeting customer requirements and enhancing competitiveness by accelerating continuous improvement, sharing best practices, and process automation and optimization.

We are using data and Industry 4.0 advancements to improve our operational excellence in our smart factories to impact the journey forward, especially in the areas of quality, reliability, and customer service. Furthermore, we are leveraging data and Industry 4.0 solutions to solve and anticipate business problems for our customers and to drive decision making and actionable insights. We are focused on providing a high quality and stable workforce, striving for perfect quality, and providing the best customer experience to benefit our customers. This results in fulfilling customer requirements and enhancing competitiveness by accelerating continuous improvement, sharing best practices, and process automation and optimization.

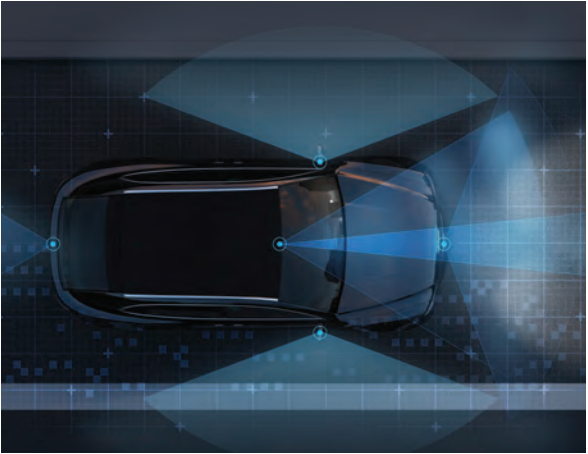


## INDUSTRY 4.0 PARTNERSHIP

For our customers’ safety-critical, durable products, automation provides repeatable production processes for the creation of highly reliable assemblies. Automation of Kimball Electronics production lines includes some of the most advanced technologies for process and quality control. Our EMS teams are partnering with our automation, test, and measurement teams to implement EMTab, a product of GES, a Kimball Electronics Company. EMTab is an AI-driven, active, web-based, data-gathering and analysis-management system facilitating Industry 4.0 transformation in all of our EMS facilities.

**48 MILLION+**  
**INDUSTRIAL ASSEMBLIES**  
**MANUFACTURED IN FY20**

## HELPING TO ADVANCE THE ELECTRIFICATION OF VEHICLES



Autonomous vehicles have the potential to revolutionize automotive safety. As Advanced Driver Assistance Systems (ADAS) become more widely adopted and consumer trust continues to increase, Kimball Electronics is poised to continue its position as a leading EMS provider for the Automotive market. Kimball Electronics supports our customers in the manufacturing of key electronic assemblies that will enable further advances in ADAS such as: battery management, electronic steering control units, electronic motor control units, diesel engine electronic control units, ignition control units, vehicle electrification, and safety control units. Safety has long been a differentiator for automotive manufacturers, and Kimball Electronics has over 35 years of experience producing the highest quality electronic assemblies that meet the most stringent regulatory requirements of the automotive industry.



**84 MILLION+** AUTOMOTIVE ASSEMBLIES  
PRODUCED IN FY20 TO SUPPORT THE  
ELECTRIFICATION OF VEHICLES



**...THAT'S HOW  
WE'RE CREATING  
QUALITY FOR LIFE**



OUR PEOPLE

Connecting our people to a shared purpose and human-centered talent systems to develop a culture of mutual respect, recognition, opportunity, and success.



6,400+  
EMPLOYEES WORLDWIDE

40,529  
TOTAL YEARS OF EMPLOYEE  
SERVICE AND EXPERIENCE

HOW OUR CULTURE INFORMS EVERY DECISION

Kimball Electronics recognizes that diverse, talented, and engaged employees are a key competitive advantage. We are committed to building a workforce that consists of the characteristics and attributes that best serve our markets and the communities in which we do business. The varied experiences, skills, and qualifications of our people enhance our company's overall effectiveness. We promote an environment where each employee is valued, respected, and treated with dignity. We believe a wide array of perspectives, resulting from a diverse culture, promote innovation and build success. Our people get it! They take pride knowing that their work, through the quality they contribute to our customers' products, and the decisions they make, helps save lives and keep people safe.

OUR PEOPLE CREATE QUALITY FOR LIFE



CUSTOMER CARE

"Our customers value our expertise in building safety-critical electronics. We provide the market with world-class facilities, equipment, processes, and teams, along with our ability to execute and offer true transparent collaboration. We live by our commitment on building long-term customer relationships, and I am proud to be part of Kimball Electronics."

— BRIGHT ZHU, PROGRAM DEPARTMENT MANAGER



TALENT DEVELOPMENT

"I'm grateful for the value our leadership team puts on partnership and collaboration. We are a team and in this together to serve our customers, employees, suppliers, share owners, and communities! The values and purpose of the organization fit closely with my own personal mission statement to increase the quality of others' lives. The strong employee value proposition of flexibility, development, and sharing in the success of the company was a large influence of my acceptance of an invitation to join the company."

— JESSICA DELORENZO, VP, HUMAN RESOURCES

8 out of 10

THE COLLECTIVE SCORE BY KIMBALL  
ELECTRONICS EMPLOYEES IN OUR GUIDING  
PRINCIPLES SURVEY



CODE OF CONDUCT

"The Kimball Electronics Code of Conduct demonstrates the high value we place on ethical standards related to the treatment of our people, the belief in and provision of safe and healthy working conditions, the treatment of our environment, and our overall business ethics.

The high standards set forth in our Code of Conduct guide us to make the right decisions enabling us to maintain our recognized standing as a good global citizen. At the core of our Code of Conduct are our Guiding Principles, which serve as our moral compass.

Kimball Electronics strives to adhere to the highest standards of legal and ethical conduct in **all** of our locations around the world.

It's simple: we do the right thing."

— DON CHARRON, CHAIRMAN OF THE BOARD/CEO

DIVERSITY & INCLUSION

As a global company, Kimball Electronics recognizes the benefits of a diverse and inclusive workforce. By developing a talent pipeline that truly reflects our broad customer base, we are better able to meet the unique needs of each partnership.

"To us, it's all about creating the best environment for everyone to succeed."

— DESIREE CASTILLEJOS, VP, CORPORATE  
DEVELOPMENT AND M&A, AND CHIEF  
STRATEGY OFFICER



As part of Kimball Electronics' celebration of International Women's Day, Miss Indiana USA 2020, Alexis Lete, visited Kimball Electronics-Indianapolis to inspire others through three presentations. She shared her personal story, stressed the importance of women breaking the mold, and explained what she does to support other women. Employees enjoyed her message and the opportunity to get photos with Alexis.



...THAT'S HOW  
WE'RE CREATING  
QUALITY FOR LIFE



## OUR COMMUNITY

# Making our communities better through a people-centered culture and a commitment to responsible operations.



### HELPING TO ENSURE A BETTER TOMORROW

Worldwide, we encourage our people to strive to make the communities in which we operate be great places to work and live. By minimizing our environmental impacts with responsible manufacturing practices and by supporting local causes that improve the livelihoods of our neighbors, we help ensure a better tomorrow.



### DOING OUR PART TO FIGHT COVID-19

In April, nearly 4,000 unused N95 face masks were donated to front-line medical workers in Jasper, Indianapolis, and Tampa. The masks were originally sent to our manufacturing facility in Nanjing, China during January for use in the early stages of the outbreak. When the masks were no longer needed, our China facility returned the unused masks, and we donated them to be used by professionals directly involved in fighting COVID-19.

### SUPPORTING HIGHER EDUCATION

Global Equipment Services (GES) India represented Kimball Electronics at a competition between students challenged to come up with cost-cutting solutions involving real issues faced by governmental departments. Called Reboot Kerala Hackathon 2020, the event was sponsored by the Government of Kerala's Department of Higher Education and the Federal Institute of Science and Technology's Additional Skill Acquisition Program.

### SUPPORTING OUR CORPORATE CITIZENSHIP BELIEFS AROUND THE WORLD

We are committed to engaging in meaningful ways to support our corporate citizenship beliefs around the world. To us, it's simply doing the right thing.

Kimball Electronics supports and encourages the efforts of our employees as they give of their time, talent, and treasure to support worthy causes that impact youth, education, and our communities. In September, many employees and groups of employees observed Making a Difference Month by choosing to take a day of their time and using it to volunteer. As we continue our pursuit of continuous improvement, we are committed to supporting and encouraging our employees to be involved, to make a difference in the world, and to continue living our vision.



### VOLUNTEERING IN THAILAND

Kimball Electronics Thailand (KETL) employees volunteered to clean a local Buddhist temple as part of a social responsibility project. They took part in cleaning restrooms, sweeping the courtyard, and removing dust around the temple. This activity encouraged our employees to think about our Guiding Principles regarding citizenship and taught us about the value of volunteering.

### 2019 ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

To learn more about our Environmental, Social, and Governance efforts, please view our full ESG report on our website at [www.kimballelectronics.com](http://www.kimballelectronics.com)



...THAT'S HOW WE'RE CREATING QUALITY FOR LIFE



OVERALL, WE RECYCLED 94.3% OF OUR WASTE

### ENVIRONMENTAL SUCCESS

Our impact on global climate is real. We strive to reduce our energy usage and greenhouse gas footprint, and that starts with our local environment, health and safety team, and the subsequent sharing of best practices globally.



10%

REDUCTION IN WASTE GENERATION



23%

REDUCTION IN AIR EMISSIONS



40%

REDUCTION IN WATER USAGE



57%

REDUCTION IN GREENHOUSE GAS



52%

REDUCTION IN HAZARDOUS WASTE

\*From December 31, 2014 through December 31, 2019



OUR SUPPLIERS

Meeting and exceeding customer expectations through diligent supply chain management helps differentiate Kimball Electronics from the competition.

COVID-19 SUPPLY CHAIN SUCCESS

Kimball Electronics has been impacted by the surge in demand for medical equipment during the coronavirus pandemic. We experienced increased demand from medical customers, specifically for those related to respiratory care and patient monitoring products. Additionally, the pandemic presented sourcing challenges that usually don't occur during stable market conditions. During the pandemic, there were short-term spikes in demand for some components used in medical equipment to treat COVID-19 patients. The surges in demand created many challenges from a supply chain perspective in the overall market, and these surges are predicted to continue into the next year. Kimball Electronics leveraged our supply relationships with our component partners, our tools and processes, as well as the expertise of our internal teams, to actively work flexible solutions that fulfill our customers' needs.

ENGINEERING FUTURE SUPPLY CHAIN SOLUTIONS

The lifecycles for products containing our durable electronics are long. We support products that could be in use for 10+ years. Most customers require EMS providers to support components for up to five years post production of the product. As an EMS provider, that same requirement flows from Kimball Electronics through our supply chain to the component manufacturers. Kimball Electronics works with our customers to expand the Approved Vendor List (AVL) to ensure there are no single sources for components. We offer supply chain services and engineering services where alternate components are recommended for specification. We provide customers with solutions that considered cost, quality, risk, longevity of supply, and lead time of components. By optimizing the bills of materials with multiple sources for each component, we reduce the need for future re-validation in case of component obsolescence before the end of the customer's product lifecycle.



Building substantive supplier partnerships, those which benefit both parties, is critical to achieving a sustainable, efficient, and reliable supply chain. By establishing relationships built on trust, accountability, and open lines of communication – values embedded in our Guiding Principles – our suppliers help us realize our goals for growth across the globe.



TRUST



ACCOUNTABILITY



TRANSPARENCY



...THAT'S HOW  
WE'RE CREATING  
QUALITY FOR LIFE

DURABLE SUPPLY

Our customers require the highest quality and reliability from Kimball Electronics. Regulatory compliance and experience are expected at the highest level. Depending upon the end product, there may be more rigorous qualifications for components. In many instances our customers specify the most stringent and highest-grade components because of the rigidity of the testing requirements. Kimball Electronics partners with suppliers that can support these stringent and precise industry standards for our customers.



**“We leveraged our supply relationships with our component partners, our tools and processes, as well as our internal teams, to actively work solutions that fulfill our medical customers' needs.”**

– TOM FERRIS, DIRECTOR OF MEDICAL MARKET



## OUR SHARE OWNERS

### Ample Liquidity for Growth

**\$65M**

CASH & CASH EQUIVALENTS

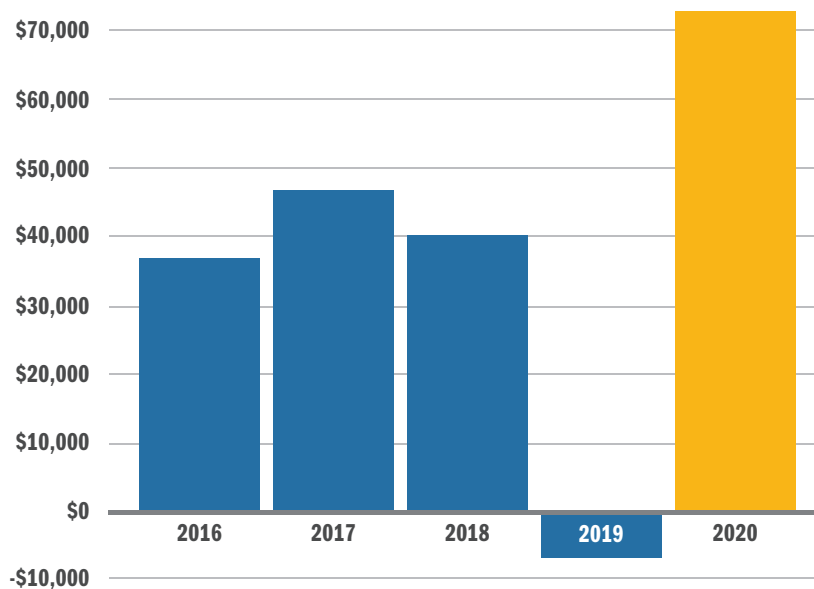
**73-81 DAYS**

CASH CONVERGENCE CYCLE

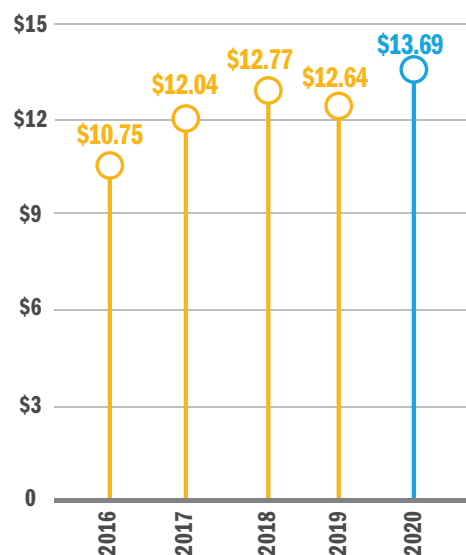
**\$143M**

IN TOTAL LIQUIDITY

CASH FLOWS FROM OPERATING ACTIVITIES



TANGIBLE BOOK VALUE PER SHARE



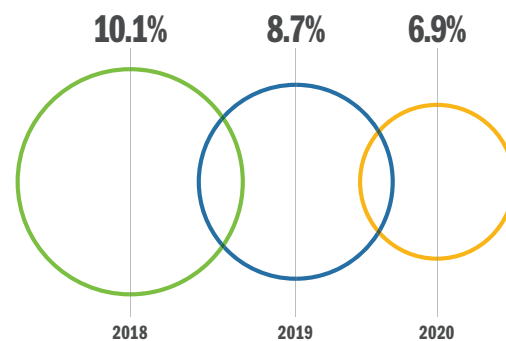
SHARE OWNERS' EQUITY (AS OF 6/30/20)

**\$379.4M**

SHARE REPURCHASES IN FY20

**\$8.8M**

RETURN ON INVESTED CAPITAL



...THAT'S HOW  
WE'RE CREATING  
QUALITY FOR LIFE



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

(Mark One)

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

For the fiscal year ended June 30, 2020

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36454



**Kimball® Electronics**

**KIMBALL ELECTRONICS, INC.**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of  
incorporation or organization)

**1205 Kimball Boulevard, Jasper, Indiana**

(Address of principal executive offices)

**35-2047713**

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

**47546**

(Zip Code)

**(812) 634-4000**

Registrant's telephone number, including area code

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

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

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

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Emerging growth company ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

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

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

The aggregate market value of the common stock held by non-affiliates, as of December 31, 2019 (the last business day of the Registrant's most recently completed second fiscal quarter), was \$419.8 million based on 95.8% of common stock held by non-affiliates.

The number of shares outstanding of the Registrant's common stock as of August 13, 2020 was 24,987,321 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Share Owners to be held on November 10, 2020, are incorporated by reference into Part III.



**KIMBALL ELECTRONICS, INC.**

**FORM 10-K INDEX**

**Page No.**

**PART I**

Item 1.	Business . . . . .	3
Item 1A.	Risk Factors . . . . .	9
Item 1B.	Unresolved Staff Comments . . . . .	17
Item 2.	Properties . . . . .	17
Item 3.	Legal Proceedings . . . . .	17
Item 4.	Mine Safety Disclosures . . . . .	17
	Information about Our Executive Officers . . . . .	18

**PART II**

Item 5.	Market for Registrant’s Common Equity, Related Share Owner Matters and Issuer Purchases of Equity Securities . . . . .	19
Item 6.	Selected Financial Data . . . . .	21
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations . . . . .	21
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk . . . . .	33
Item 8.	Financial Statements and Supplementary Data . . . . .	34
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure . . . . .	69
Item 9A.	Controls and Procedures . . . . .	69
Item 9B.	Other Information . . . . .	69

**PART III**

Item 10.	Directors, Executive Officers and Corporate Governance . . . . .	70
Item 11.	Executive Compensation . . . . .	70
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters . . . . .	70
Item 13.	Certain Relationships and Related Transactions, and Director Independence . . . . .	71
Item 14.	Principal Accounting Fees and Services . . . . .	71

**PART IV**

Item 15.	Exhibits, Financial Statement Schedules . . . . .	72
Item 16.	Form 10-K Summary . . . . .	72
	SIGNATURES . . . . .	75



## PART I

### Item 1 - *Business*

#### General

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

#### Forward-Looking Statements

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

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

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

#### Overview

Kimball Electronics was founded in 1961 and was incorporated in 1998. 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. We offer a package of value that begins with our core competency of producing “durable electronics” and have expanded into diversified contract manufacturing services for non-electronic components, medical disposables, precision molded plastics, and production automation, test, and inspection equipment. This package of value 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 believe our customers appreciate our body of knowledge as it relates to the design and manufacture of their products that require durability, reliability, the highest levels of quality control, and regulatory compliance. We deliver award-winning service from our highly integrated global footprint which is enabled by a largely common operating system, a standardization strategy, global procedures, and teamwork. Our Customer Relationship Management (“CRM”) model is key to providing our customers convenient access to our global footprint and all of our services throughout the entire product life cycle. Because our customers are in businesses where engineering changes must be tightly controlled and long product life cycles are common, our track record of quality, financial stability, social responsibility, and commitment to long-term relationships is important to them.

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



our operations so we can cost-effectively manufacture electronic and non-electronic products in the same production facility for customers from all four of our end market verticals.

Many of our customers are multinational companies that sell their products in multiple regions of the world. For these customers, it is important for them to be able to leverage their investment in their supply partner relationships such that the same partner provides them with engineering, manufacturing, and supply chain support in multiple regions of the world. It is common for us to manufacture the same product for the same customer in multiple locations. Our strategy for expanding our global footprint has aligned us with the preferences of the customers in our four end market verticals and has positioned us well to support their global growth initiatives. Our global systems, procedures, processes, and teamwork combined with our CRM model have allowed us to accomplish this goal for many of our largest customers.

Our global processes and central functions that support component sourcing, procurement, quoting, and customer pricing provide commonality and consistency among the various regions in which we operate. We have a central, global sourcing organization that utilizes procurement processes and practices to help secure sources from around the world and to ensure sufficient availability of components and a uniform approach to pricing while leveraging the purchase volume of the entire organization. Customer pricing for the products we produce is primarily managed centrally utilizing a standardized quoting model regardless of where our customers request their products to be produced.

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

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

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

- Design services and support;
- Supply chain services and support;
- Rapid prototyping and new product introduction support;
- Product design and process validation and qualification;
- Industrialization and automation of manufacturing processes;
- Reliability testing (testing of products under a series of extreme environmental conditions);
- Production and testing of printed circuit board assemblies (PCBAs);
- Assembly, production, and packaging of medical disposables and other non-electronic products;
- Design engineering and manufacturing of automation, test, and inspection equipment;
- Design engineering and production of precision molded plastics;
- Software design capabilities; and
- Complete product life cycle management.

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

## **Reporting Segment**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Each of our business units qualifies as an operating segment with its results regularly reviewed by our chief operating decision maker. Our chief operating decision maker is our Chief Executive Officer. Our operating segments meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2020, all of our business units provide contract manufacturing services for electronic and other assemblies or components primarily in



automotive, medical, industrial, and public safety applications, all to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products, all have similar characteristics. Each of our business units service customers in multiple markets and many of our customers' programs are manufactured and serviced by multiple business units. We leverage global processes such as component procurement and customer pricing that provide commonality and consistency among the various regions in which we operate. All of our operating segments have similar long-term economic characteristics and, as such, have been aggregated into one reportable segment.

### **Our Business Strategy**

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

- Leveraging Our Global Footprint – continue our strategy of utilizing our presence in key global regions, including new potential country locations and/or facility expansion as our customer demands dictate;
- Expanding Our Package of Value – enhance our core strengths and expand upon our package of value through diversified contract manufacturing services in areas such as complex system assembly, specialized processes, precision molded plastics; and
- Expanding Our Markets – explore opportunities that will broaden existing or establish new markets, capabilities, or technologies such as automation, test, and inspection equipment for industrial applications.

We expect to make investments that will strengthen or add new capabilities to our package of value as a multifaceted manufacturing solutions company, including through acquisitions. As part of this strategy, in fiscal year 2019, we acquired GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as “GES”). GES specializes in design, production, and servicing of automation, test, and inspection equipment for industrial applications in the semiconductor, electronics, and life sciences industries. See Item 1A - Risk Factors for risks associated with this acquisition and Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition.

### **Our Business Offerings**

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

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

### **Marketing Channels**

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

### **Major Competitive Factors**

Key competitive factors in the markets we serve include competitive pricing, quality and reliability, engineering design services, production flexibility, on-time delivery, customer lead time, test capability, and global presence. Numerous contract manufacturing service providers compete globally for business from existing and potential customers. We also face competition from our customers' own capacity and capabilities to in-source production. Growth in the EMS industry is created through the proliferation of electronic components in today's advanced products and the continuing trend of original equipment



manufacturers in the electronics industry subcontracting the assembly process to companies with a core competency in this area. The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. New customer and program start-ups generally cause losses early in the life of a program, which are generally recovered as the program becomes established and matures. Our continuing success depends upon our ability to replace expiring customers/programs with new customers/programs.

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

### **Our Competitive Strengths**

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

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

### **Competitors**

The EMS industry is very competitive as numerous manufacturers compete for business from existing and potential customers. Our competition includes EMS companies such as Benchmark Electronics, Inc., Jabil Inc., and Plexus Corp. We do not have a significant share of the EMS market and were ranked the 19<sup>th</sup> largest global EMS provider for calendar year 2019 by *Manufacturing Market Insider* in the March 2020 edition published by New Venture Research.

### **Locations**

As of June 30, 2020, we have eleven manufacturing facilities with two located in Indiana, two in China, and one located in each of California, Florida, Mexico, Poland, Romania, Thailand, and Vietnam. We continually assess our capacity needs and evaluate our operations to optimize our service levels for supporting our customers' needs around the globe. During fiscal year 2019, we acquired GES which has manufacturing facilities in California, China, and Vietnam. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations and acquisitions.

### **Seasonality**

Consolidated sales revenue is generally not affected by seasonality.

### **Customers**

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

Sales by industry as a percent of net sales for each of the three years in the period ended June 30, 2020 were as follows:

	Year Ended June 30		
	2020	2019	2018
Automotive . . . . .	38%	40%	44%
Medical . . . . .	33%	31%	29%
Industrial . . . . .	23%	22%	20%
Public Safety . . . . .	5%	6%	6%
Other . . . . .	1%	1%	1%
Total . . . . .	100%	100%	100%

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

	Year Ended June 30		
	2020	2019	2018
Philips . . . . .	16%	14%	13%
ZF . . . . .	*	12%	15%
Nexteer Automotive . . . . .	14%	12%	13%

\* amount is less than 10% of total

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

## Backlog

The aggregate sales price of production pursuant to unfulfilled customer orders, which in certain cases may be delayed or canceled by the customer subject to contractual termination provisions, was \$421.0 million and \$417.8 million as of June 30, 2020 and 2019, respectively. Substantially all of the open orders as of June 30, 2020 are expected to be filled within the next fiscal year. Open orders may not be indicative of future sales trends due to the contract nature of our business and the short-term nature of customer orders.

## Raw Materials

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

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



## **Intellectual Property**

Our primary intellectual property is our proprietary manufacturing technology and processes which allow us to provide competitive contract manufacturing services to our customers. As such, this intellectual property is complex and normally contained within our facilities. The nature of this know-how does not lend itself well to traditional patent protection. In addition, we feel the best protection strategy involves maintaining our intellectual property as trade secrets because there is no disclosure of the information to outside parties, and there is no expiration on the length of protection. For these reasons, we do not at this time own any patents that we consider significant to our business but do have some designs on which we are currently exploring patent protection. Our registered trademarks consist of the “Kimball Electronics” name and “Ball Logo” as registered in certain categories relating to our electronics manufacturing and design services, and the “GES and Design” trademark acquired through the GES acquisition.

## **Corporate Social Responsibility**

We are committed to our environmental, social, and governance philosophies and practices, which have been a part of who we are since our founding in 1961. To showcase how our employees around the world share a strong sense of responsibility to protect the environment, sustain a safety focus at our facilities, and give back in meaningful ways to the communities where we live and work, we issued our first Environmental, Social & Governance Report (“ESG Report”) in December 2019. The ESG Report highlights the long-term environmental, social and governance principles, and practices designed to support the Company’s commitment to sustaining “lasting relationships” and achieving “global success” with its stakeholders wherever Kimball Electronics’ touch is felt throughout the world. The ESG Report reflects several long-standing Guiding Principles of the Company: Our customer is our business; our people are the company; the environment is our home; we strive to help our communities be great places to live; profitability and financial resources give us the freedom to shape our future and achieve our vision. The ESG Report is posted on our website.

## **Environment and Energy Matters**

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

We are dedicated to excellence, leadership, and stewardship in protecting the environment and communities in which we have operations. We believe that continued compliance with foreign, federal, state, and local laws and regulations which have been enacted relating to the protection of the environment will not have a material effect on our capital expenditures, earnings, or competitive position. Management believes capital expenditures for environmental control equipment during the two fiscal years ending June 30, 2022 will not represent a material portion of total capital expenditures during those years.

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

## **Employees**

As of June 30, 2020, Kimball Electronics employed approximately 6,400 people worldwide, with approximately 1,400 located in the United States and approximately 5,000 located in foreign countries. Our U.S. operations are not subject to collective bargaining arrangements. Certain foreign operations are subject to collective bargaining arrangements, many mandated by government regulation or customs of the particular countries. We believe that our employee relations are good.

## **Available Information**

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

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

The following important risk factors, among others, could affect future results and events, causing results and events to differ materially from those expressed or implied in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on our business, financial condition, and results of operations and should be carefully considered. Many of the risk factors could be exacerbated by the COVID-19 pandemic and any worsening of the global business and economic environment as a result. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial, or we have not predicted may also affect our business, financial condition, or results of operations. Because of these and other factors, past performance should not be considered an indication of future performance.

### **Risks Relating to Our Business**

#### ***Uncertain macroeconomic and industry conditions could adversely impact demand for our products and services and adversely affect operating results.***

Market demand for our products and services, which impacts revenues and gross profit, is influenced by a variety of economic and industry factors such as:

- instability of the global financial markets;
- uncertainty of worldwide economic conditions;
- tariffs and international trade relations;
- volatile energy costs;
- erosion of global consumer confidence;
- general corporate profitability of our end markets;
- credit availability to our customers and our customers' end markets;
- demand fluctuations in the industries we currently serve, including automotive, medical, industrial, and public safety;
- demand for end-user products that contain assemblies or components produced by us; and
- changes in customer order patterns, including changes in product quantities, delays in orders, or cancellation of orders.

We must make decisions based on order volumes in order to achieve efficiency in manufacturing capacities. These decisions include determining what level of additional business to accept, production schedules, component procurement commitments, and personnel requirements, among various other considerations. We must constantly monitor the changing economic landscape and may modify our strategic direction based upon the changing business environment. If we do not react quickly enough to the changes in market or economic conditions, it could result in lost customers, decreased market share, and increased operating costs.

The COVID-19 pandemic has adversely impacted the global economy, disrupted global supply chains and workforce participation, and created significant volatility and disruption of financial markets. The economic expansion of recent years has been interrupted as a result of the COVID-19 pandemic and recessionary conditions may occur, which could result in our customers or potential customers reducing or delaying orders as well as a number of other negative effects on our business, such as increased pricing pressures, the insolvency of suppliers, which could cause production delays, the inability of customers to obtain credit, or the insolvency of customers. In addition, the uncertainties of the market and economic conditions caused by strained international trade relations, such as the relations between the United States and China and the United Kingdom's exit from the European Union, could have an adverse effect on our business and results of operations.

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

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

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

Losses of key customers within specific industries or significant volume reductions from key customers are both risks. If one of our current customers merges with or is acquired by a party that currently is aligned with a competitor, or the combination creates excess capacity, we could lose future revenues. Our continuing success is dependent upon replacing expiring contract customers/programs with new customers/programs. See "Customers" in Item 1 - Business for disclosure of the net sales as a percentage of consolidated net sales for each of our significant customers during fiscal years 2020, 2019, and 2018. Regardless of whether our agreements with our customers, including our significant customers, have a definite term, our customers typically do not have an obligation to purchase a minimum quantity of products or services as individual purchase orders or other product or project specific documentation are typically entered into from time to time. Our customers generally have the right to cancel a particular product, subject to contractual provisions governing the final product runs, excess or obsolete inventory, and end-of-life pricing. As such, our ability to continue the relationships with such customers is uncertain.



Significant declines in the level of purchases by key customers or the loss of a significant number of customers could have a material adverse effect on our business. In addition, the nature of the contract manufacturing industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently, and new customer and program start-ups generally cause losses early in the life of a program. We can provide no assurance that we will be able to fully replace any lost sales, which could have an adverse effect on our financial position, results of operations, or cash flows.

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

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

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

***We may be unable to purchase a sufficient amount of materials, parts, and components for use in our products at competitive prices, in a timely manner, or at all.***

We depend on suppliers globally to provide timely delivery of materials, parts, and components for use in our products. The financial stability of suppliers is monitored by us when feasible as the loss of a significant supplier could have an adverse impact on our operations. Suppliers adjust their capacity as demand fluctuates, and component shortages and/or component allocations could occur in addition to longer lead times. Certain components purchased by us are primarily manufactured in select regions of the world and issues in those regions could cause manufacturing delays. Maintaining strong relationships with key suppliers of components critical to the manufacturing process is essential. Price increases of commodity components, including increased tariffs, could have an adverse impact on our profitability if we cannot offset such increases with other cost reductions or by price increases to customers. Materials utilized in our manufacturing process are generally available, but future availability is unknown and could impact our ability to meet customer order requirements. Recently, the COVID-19 pandemic has increased the demand for certain medical components. If suppliers fail to meet commitments to us in terms of price, delivery, or quality, or if the supply chain is unable to react timely to increases in demand, it could interrupt our operations and negatively impact our ability to meet commitments to customers.

***Our operating results could be adversely affected by increases in the cost of fuel and other energy sources.***

The cost of energy is a critical component of freight expense and the cost of operating manufacturing facilities. Increases in the cost of energy could reduce our profitability.

***We are subject to manufacturing inefficiencies due to start-up of new programs, transfer of production, and other factors.***

At times, we may experience labor or other manufacturing inefficiencies due to factors such as start-up of new programs, transfers of production among our manufacturing facilities, a sudden decline in sales, a new operating system, or turnover in personnel. Manufacturing inefficiencies could have an adverse impact on our financial position, results of operations, or cash flows.

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

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

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

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

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

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

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

***We may not be successful in launching start-up operations.***

We are committed to growing our business, and therefore, from time to time, we may determine that it would be in our best interest to start up a new operation. Start-up operations involve a number of risks and uncertainties, such as funding the capital expenditures related to the start-up operation, developing a management team for the new operation, diversion of management focus away from current operations, and creation of excess capacity. Any of these risks could have a material adverse effect on our financial position, results of operations, or cash flows.

***If efforts to start-up new programs are not successful, this could limit sales growth or cause sales to decline.***

As we depend on industries that utilize technologically advanced electronic components which often have short life cycles, we must continue to invest in advanced equipment and product development to remain competitive in this area. The start-up of new programs requires the coordination of the design and manufacturing processes. The design and engineering required for certain new programs can take an extended period of time, and further time may be required to achieve customer acceptance. Accordingly, the launch of any particular program may be delayed, less successful than we originally anticipated, or not successful at all. Difficulties or delays in starting up new programs or lack of customer acceptance of such programs could limit sales growth or cause sales to decline and adversely impact our operating results.

***Our international operations involve financial and operational risks.***

We have operations outside the United States, primarily in China, Mexico, Poland, Romania, Thailand, and Vietnam. Our international operations are subject to a number of risks, which may include the following:

- economic and political instability, including the uncertainties caused by the United Kingdom's exit from the European Union;
- foreign governments' measures taken in response to the COVID-19 pandemic;
- warfare, riots, terrorism, and other forms of violence or geopolitical disruption;
- compliance with laws, such as the Foreign Corrupt Practices Act, applicable to U.S. companies doing business outside the United States;
- changes in U.S. or foreign policies, regulatory requirements, and laws;
- tariffs and other trade barriers, including tariffs imposed by the United States as well as responsive tariffs imposed by China, the European Union, or Mexico;
- potentially adverse tax consequences, including changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries; and
- foreign labor practices.

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



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

***If customers do not perceive our engineering and manufacturing services to be innovative and of high quality, our reputation could suffer.***

We believe that establishing and maintaining a good reputation is critical to our business. Promotion and enhancement of our name will depend on the effectiveness of marketing and advertising efforts and on successfully providing innovative and high-quality engineering and manufacturing services. If customers do not perceive our services to be innovative and of high quality, our reputation could suffer, which could have a material adverse effect on our business.

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

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

***We may not be able to achieve maximum utilization of our manufacturing capacity.***

Most of our customers do not commit to long-term production schedules, and we are unable to forecast the level of customer orders with certainty over a given period of time. As a result, at times it can be difficult for us to schedule production and maximize utilization of our manufacturing capacity. Fluctuations and deferrals of customer orders may have a material adverse effect on our ability to utilize our fixed capacity and thus negatively impact our operating margins.

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

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

As a result of an impairment test we conducted as of June 30, 2020, we recorded a \$7.9 million impairment charge associated with the goodwill of our GES reporting unit. See Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for further discussion of the impairment test and associated charge.

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

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

Several countries where we operate provide tax incentives to attract and retain business. We have obtained incentives where available and practicable. Our taxes could increase if: certain incentives were retracted, they were not renewed upon expiration, we no longer qualify for such programs, or tax rates applicable to us in such jurisdictions were otherwise increased. In addition, further acquisitions may cause our effective tax rate to increase. Given the scope of our international operations and our international tax arrangements, changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries could have a material impact on our financial results and competitiveness. For example, on December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("Tax Reform"), which includes a number of significant changes to previous U.S. tax laws that impact us, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings and a reduction in the corporate tax rate from 35% to 21%, among other changes. Tax Reform also transitions U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings.

Certain of our subsidiaries provide financing, products, and services to, and may undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which we operate have tax laws with detailed

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

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

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

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

Our primary credit facility and the 364-day revolving credit facility established in May 2020 require us to comply with certain financial covenants. We believe the most significant covenants under these credit facilities are the ratio of consolidated total indebtedness minus unencumbered U.S. cash on hand in the United States in excess of \$15 million to adjusted consolidated EBITDA, as defined in the credit facilities, and the fixed charge coverage ratio. More detail on these financial covenants is discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. As of June 30, 2020, we had \$111.4 million in borrowings under these credit facilities and had total cash and cash equivalents of \$65.0 million. In the future, a default on the financial covenants under our credit facilities could cause an increase in the borrowing rates or make it more difficult for us to secure future financing, which could adversely affect our financial condition.

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

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

In addition, the United Kingdom's Financial Conduct Authority has announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR, and it is unclear whether the banks currently reporting information used to set LIBOR will stop doing so after 2021. If LIBOR is discontinued or if the method of calculating LIBOR changes from its current form, interest rates on our current or future indebtedness may be adversely affected.

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

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

Implementation delays, poor execution, or a breach of information technology systems could disrupt our operations, damage our reputation, or increase costs related to the mitigation of, response to, or litigation arising from any such issue. Similar risks exist with our third-party vendors. Any problems caused by these third parties, including those resulting from disruption in



communications services, cyber attacks, or security breaches, have the potential to hinder our ability to conduct business. In addition, data privacy laws and regulations, such as the European Union General Data Protection Regulation and similar legislation in jurisdictions in which we operate, pose increasingly complex compliance challenges and potentially elevate costs, and any failure to comply with these laws and regulations could result in significant penalties.

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

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

***We may be sued by third parties for alleged infringement of their intellectual property rights and incur substantial litigation or other costs.***

We may be sued by third parties who allege that our products or services infringe their intellectual property rights. Such claims, regardless of their merits, could result in substantial costs and diversion of resources in the defense or settlement of such claims. In the event of a claim upheld against us, we may be required to spend a significant amount of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining or maintaining such licenses on reasonable terms or at all, which could have a material adverse effect on our results of operations, financial position, or cash flows.

***Our insurance may not adequately protect us from liabilities related to product defects.***

We maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices. However, our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from liabilities related to product defects, particularly if we have a large number of defective products or if the root cause is disputed.

***Our failure to maintain Food and Drug Administration (FDA) registration of one or more of our registered manufacturing facilities could negatively impact our ability to produce products for our customers in the medical industry.***

To maintain FDA registration, Kimball Electronics is subject to FDA audits of the manufacturing process. FDA audit failure could result in a partial or total suspension of production, fines, or criminal prosecution. Failure or noncompliance could have an adverse effect on our reputation in addition to an adverse impact on our financial position, results of operations, or cash flows.

***We are subject to extensive environmental regulation and significant potential environmental liabilities.***

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

***Our failure to retain the existing management team, maintain our engineering, technical, and manufacturing process expertise, or continue to attract qualified personnel could adversely affect our business.***

We depend significantly on our executive officers and other key personnel. The unexpected loss of the services of any one of these executive officers or other key personnel may have an adverse effect on us.

Our success also depends on keeping pace with technological advancements, including Industry 4.0, and adapting services to provide manufacturing capabilities which meet customers' changing needs. Therefore, we must retain our qualified engineering and technical personnel and successfully anticipate and respond to technological changes in a cost effective and timely manner. Our culture and guiding principles focus on continuous training, motivating, and development of employees, and we strive to attract, motivate, and retain qualified personnel. Failure to retain and attract qualified personnel could adversely affect our business.

***Availability of manufacturing labor and turnover in personnel could cause manufacturing inefficiencies and increase operating costs.***

The demand for manufacturing labor in certain geographic areas in which we operate make recruiting new production employees and retaining experienced production employees difficult. Shortage of production workers could adversely impact our ability to complete our customers' orders on a timely basis, which could adversely affect our relations with customers, potentially resulting in reduction in orders from customers or loss of customers. Turnover in personnel could result in additional training and inefficiencies that could adversely impact our operating results.

***The cost of providing employee healthcare benefits could increase and reduce our profitability.***

We are self-insured up to certain limits for certain domestic employee health benefits. For these self-insured health plans, we incur the cost of claims, which may include catastrophic claims, with the employees bearing a limited portion of the cost through insurance premiums and deductibles. The cost of providing employee healthcare benefits may increase, including as a result of the high costs associated with rare-disease drug prescriptions, and could have an adverse effect on our profitability.

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

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

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



***Imposition of government regulations may significantly increase our operating costs in the United States and abroad.***

Legislative and regulatory reforms by the U.S. federal and foreign governments could significantly impact the profitability of Kimball Electronics by burdening us with forced cost choices that cannot be recovered by increased pricing or, if we increase our pricing, this could negatively impact demand for our products. For example:

- Foreign regulations are increasing in many areas such as data privacy, hazardous waste disposal, labor relations, and employment practices.
- Changes in policies by the U.S. or other governments could negatively affect our operating results due to changes in duties, tariffs or taxes, or limitations on currency or fund transfers, as well as government-imposed restrictions on producing certain products in, or shipping them to, specific countries. For example, our facility in Mexico operates under the Mexican Maquiladora (“IMMEX”) program. This program provides for reduced tariffs and eased import regulations. We could be adversely affected by changes in the IMMEX program or our failure to comply with its requirements. As another example, the U.S. government has imposed tariffs on certain products imported from China as well as steel and aluminum imported from the European Union. China and the European Union have imposed tariffs on certain U.S. products in retaliation. These tariffs could force our customers or us to consider various strategic options including, but not limited to, looking for different suppliers, shifting production to facilities in different geographic regions, absorbing the additional costs, or passing the cost on to customers. Ultimately, these tariffs could adversely affect the competitiveness of our domestic operations, which could lead to the reduction or exit of certain U.S. manufacturing capacity. The U.S. government may impose additional tariffs on automotive imports from the European Union. Depending on the types of changes made, demand for our foreign manufacturing facilities could be reduced, or operating costs in our manufacturing facilities could be increased, which could negatively impact our financial performance. Moreover, any retaliatory actions by other countries where we operate could also negatively impact our financial performance.

***SEC “Conflict Minerals” regulation may increase our costs and reduce our sales levels.***

As a result of the Dodd-Frank Act, the SEC adopted rules establishing due diligence, disclosure, and reporting requirements for public companies which manufacture products that include components containing certain minerals referred to as “conflict minerals.” Since certain products we manufacture for our customers contain such minerals, we are required to determine, disclose, and report whether or not such minerals in our products originate from the Democratic Republic of Congo (“DRC”) and adjoining countries. Such regulations could decrease the availability and increase the prices of components used in our products, particularly if we choose (or are required by our customers) to source such components from different suppliers. In addition, as our supply chain is complex and the process to comply with the SEC rules is cumbersome, the ongoing compliance process is both time consuming and costly. We may face reduced sales if we are unable to timely verify the origins of minerals contained in the components included in our products, or supply disruptions if our due diligence process reveals that materials we source contain minerals that originated in the DRC or adjoining countries.

***Risks Relating to Our Common Stock***

***Our stock price may fluctuate significantly.***

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- wins and losses on contract competitions and new business pursuits;
- success or failure of our business strategy;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- successful integration of acquisitions or greenfield start-ups;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- the changes in customer requirements for our products and services;
- natural disasters or other catastrophic events, such as the COVID-19 pandemic, that investors believe may affect us;
- overall market fluctuations;
- results from any material litigation or government investigation;
- changes in laws and regulations affecting our business; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations, coupled with changes in results of operations and general economic, political, and market conditions, could adversely affect the trading price of our common stock.

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

We have adopted Amended and Restated Articles of Incorporation and Amended and Restated Bylaws. Certain provisions of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws may delay or prevent a merger or acquisition that a Share Owner may consider favorable. For example, the Amended and Restated Articles of Incorporation authorizes our Board of Directors to issue one or more series of preferred stock, prevents Share Owners from acting by written consent, and requires a supermajority Share Owner approval for certain business combinations with related persons. These provisions may discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Indiana law also imposes some restrictions on potential acquirers.

***We cannot assure you that we will pay dividends on our stock in the future.***

We have not paid any dividends on our common stock. The timing, declaration, amount, and payment of future dividends to our Share Owners will fall within the discretion of our Board of Directors and will depend on many factors, including our financial condition, results of operations and capital requirements, industry practice, and other business considerations that our Board of Directors considers relevant from time to time. In addition, our ability to declare or the amount of any future dividends may be restricted by the provisions of Indiana law and covenants in our primary credit facility. We do not have a plan to pay future dividends at this time. There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence the payment of dividends. To the extent that expectations by market participants regarding the potential payment, or amount, of any dividend prove to be incorrect, the price of our common stock may be materially and negatively affected, and investors that bought shares of our common stock based on those expectations may suffer a loss on their investment.

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

None.

***Item 2 - Properties***

As of June 30, 2020, we had eleven manufacturing facilities with two located in Indiana, two in China, and one located in each of California, Florida, Mexico, Poland, Romania, Thailand, and Vietnam. These facilities occupy approximately 1,358,000 square feet in aggregate, substantially all of which are owned. In addition, we own a 42,000 square-foot building to house our headquarters located in Jasper, Indiana.

Generally, our manufacturing facilities are utilized at normal capacity levels on a multiple shift basis. At times, certain facilities utilize reduced shifts. Due to sales fluctuations caused by changes in demand and the impacts of COVID-19, not all facilities were utilized at normal capacity during fiscal year 2020. We continually assess our capacity needs and evaluate our operations to optimize our service levels by geographic region. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations.

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

The Company holds land leases for our facilities in China, Thailand, and Vietnam with these leases expiring from fiscal year 2030 to 2057. See Note 20 - Leases of Notes to Consolidated Financial Statements for additional information concerning leases. In addition, we own approximately 97 acres of land which includes land where our facilities reside.

***Item 3 - Legal Proceedings***

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

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

Not applicable.



## Information about Our Executive Officers

Our executive officers as of August 27, 2020 are as follows:

(Age as of August 27, 2020)

Name	Age	Office and Area of Responsibility
Donald D. Charron . . . . .	56	Chairman of the Board and Chief Executive Officer
Desiree L. Castillejos . . . . .	49	Vice President, Corporate Development and M&A, and Chief Strategy Officer
Jessica L. DeLorenzo . . . . .	35	Vice President, Human Resources
John H. Kahle . . . . .	63	Vice President, General Counsel, Chief Compliance Officer, and Secretary
LeRoy W. Kemper . . . . .	49	Vice President, Diversified Contract Manufacturing Services
Steven T. Korn . . . . .	56	President, Global Electronics Manufacturing Services Operations
Michael K. Sergesketter . . . . .	60	Vice President, Chief Financial Officer
Sandy A. Smith . . . . .	57	Vice President, Information Technology
Kathy R. Thomson . . . . .	51	Vice President, Global Business Development and Design Services
Christopher J. Thyen . . . . .	57	Vice President, New Platforms

Executive officers are appointed annually by the Board of Directors. The following is a brief description of the business experience during the past five or more years of each of our executive officers. Prior to becoming a stand-alone public company on October 31, 2014, the Company was a wholly-owned subsidiary of Kimball International, Inc. (“former Parent”).

Mr. Charron is our Chairman of the Board and Chief Executive Officer. Mr. Charron has served in this role since October 2014. Previously, he served as an Executive Vice President of former Parent, a member of the Board of Directors of former Parent, and the President of the Kimball Electronics Group that now comprises Kimball Electronics. Mr. Charron had led the EMS segment of former Parent since joining former Parent in 1999.

Ms. Castillejos was appointed Vice President, Corporate Development and M&A, and Chief Strategy Officer in August 2018. Prior to joining Kimball Electronics, she held the position of Vice President, Corporate Development for Nokia Technology since 2016. Prior to Nokia Technology, she served as the Vice President, Corporate Development for Persistent Systems since 2010.

Ms. DeLorenzo was appointed Vice President, Human Resources in June 2018. Ms. DeLorenzo joined Kimball Electronics in 2015 in the position of Director, Organizational Development. Before joining Kimball Electronics, she held the position of Director, Student Services at Vincennes University since 2011.

Mr. Kahle is our Vice President, General Counsel, Chief Compliance Officer, and Secretary. Mr. Kahle has served as our Vice President, General Counsel, and Secretary since October 2014 and was appointed Chief Compliance Officer in April 2016. Previously, he served as Executive Vice President, General Counsel and Secretary of former Parent and had served in this role with former Parent since 2001.

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

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

Mr. Sergesketter is our Vice President, Chief Financial Officer. Mr. Sergesketter has served in this role since October 2014. Previously, he served as Vice President, Chief Financial Officer for Kimball Electronics Group that now comprises Kimball Electronics. Mr. Sergesketter had served in this role with former Parent since 1996.

Ms. Smith is our Vice President, Information Technology and has served in this role since 2004.

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

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

## **PART II**

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

#### **Market Information**

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

#### **Dividends**

We have not paid any dividends on our common stock since we became a stand-alone public company on October 31, 2014. We do not have a plan at this time to pay dividends in the future.

#### **Share Owners**

On August 13, 2020, the Company's common stock was owned by approximately 1,205 Share Owners of record.

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

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

#### **Issuer Purchases of Equity Securities**

On October 21, 2015, our Board 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, and November 8, 2018, 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 \$80 million.

During the three months ended June 30, 2020, the Company did not repurchase any common stock. During fiscal year 2020, the Company has repurchased \$8.8 million of common stock under the Plan. The Company's maximum value of remaining shares that may be purchased under the Plan was \$3.3 million at June 30, 2020. On March 30, 2020, the Plan was temporarily suspended as a result of the COVID-19 environment.



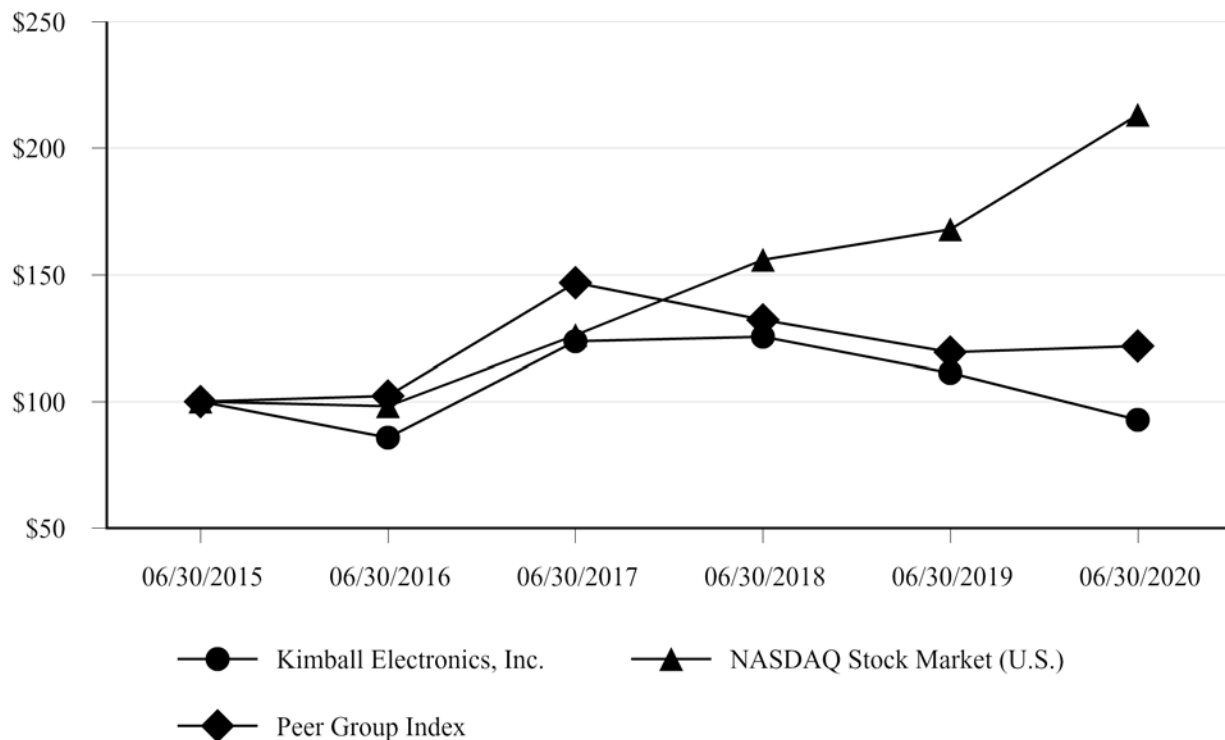
## Performance Graph

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

The graph below compares the cumulative total return to Share Owners of the Company’s common stock for the five-year period commencing June 30, 2015 and ending June 30, 2020 to the cumulative total return of the NASDAQ Stock Market (U.S.) and a peer group index for the same period of time. The peer group index is comprised of publicly traded companies in the EMS industry and includes: Benchmark Electronics, Inc., Flex Ltd., Jabil Inc., Plexus Corp., and Sanmina Corporation. The public companies included in the peer group each have a larger revenue base than we do.

The graph assumes \$100 is invested in the Company’s stock and each of the two indexes at the closing market quotations on June 30, 2015 and that dividends, if any, are reinvested. The performances shown on the graph are not necessarily indicative of future price performance.

### Comparison of Cumulative Total Return



	06/30/2015	06/30/2016	06/30/2017	06/30/2018	06/30/2019	06/30/2020
Kimball Electronics, Inc.....	\$ 100.00	\$ 85.83	\$ 123.71	\$ 125.43	\$ 111.31	\$ 92.80
NASDAQ Stock Market (U.S.) . . .	\$ 100.00	\$ 98.26	\$ 126.07	\$ 155.85	\$ 167.93	\$ 213.18
Peer Group Index. ....	\$ 100.00	\$ 102.20	\$ 146.73	\$ 132.06	\$ 119.36	\$ 121.80

## Item 6 - Selected Financial Data

This information should be read in conjunction with Item 8 - Financial Statements and Supplementary Data and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. Effective for fiscal year ended June 30, 2019, the Company adopted the new accounting standard on Revenue from Contracts with Customers on a modified retrospective basis, and the prior periods were not restated and continue to be reported under the accounting standards in effect for those periods.

(Amounts in Thousands, Except for Per Share Data)	Year Ended June 30				
	2020	2019	2018	2017	2016
<b>Consolidated Statements of Income Data:</b>					
Net Sales	\$ 1,200,550	\$ 1,181,844	\$ 1,072,061	\$ 930,914	\$ 842,060
Net Income <sup>(1)</sup>	\$ 18,196	\$ 31,558	\$ 16,752	\$ 34,179	\$ 22,287
Earnings Per Share:					
Basic	\$ 0.72	\$ 1.22	\$ 0.63	\$ 1.25	\$ 0.77
Diluted	\$ 0.71	\$ 1.21	\$ 0.62	\$ 1.24	\$ 0.76

(Amounts in Thousands)	As of June 30				
	2020	2019	2018	2017	2016
<b>Consolidated Balance Sheet Data:</b>					
Total Assets	\$ 774,829	\$ 764,111	\$ 608,758	\$ 554,944	\$ 510,565
Long-Term Debt, Less Current Maturities	\$ 91,500	\$ 91,500	\$ —	\$ —	\$ —

- (1) Fiscal year 2020 net income included \$6.9 million (\$0.28 per diluted share) of after-tax expense related to goodwill impairment of the GES reporting unit and after-tax expense of \$2.9 million (\$0.11 per diluted share) from the final net working capital adjustment recorded after the measurement period of the GES acquisition.

Fiscal year 2018 net income included income tax expense of \$17.9 million (\$0.66 per diluted share) due to the U.S. Tax Cuts and Jobs Act ("Tax Reform") that was enacted into law in December 2017 and relates to the deemed repatriation of unremitted foreign earnings and the revaluation of net deferred tax assets.

Fiscal year 2017 net income included \$2.5 million (\$0.09 per diluted share) of after-tax income resulting from settlements received related to an antitrust class action lawsuit in which the Company was a member and \$0.9 million (\$0.03 per diluted share) of after-tax income resulting from the bargain purchase gain recognized in the acquisition of Aircom Manufacturing, Inc.

Fiscal year 2016 net income included a foreign income tax benefit of \$1.8 million (\$0.06 per diluted share) as a result of a favorable tax ruling related to the fiscal year 2015 capitalization of the Company's Romania subsidiary.

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

### Business Overview

We are a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services ("EMS") and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. Our core competency is producing durable electronics, and we further offer diversified contract manufacturing services for non-electronic components, medical 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 well recognized by our customers and the industry for our excellent quality, reliability, and innovative service. For the third time in six years, we were recognized in 2020 for achieving the Highest Overall Customer Rating in CIRCUITS ASSEMBLY's 2020 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*. It was noted that the worldwide contract manufacturing market experienced revenue growth of 2.5% during calendar year 2019. During calendar year 2019, we experienced growth of approximately 13%. In addition, 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. We are actively monitoring the global COVID-19 pandemic and its impact on all our operations, including the effect on customers, the supply chain, the availability of critical components, and the health and availability of our workforce. Our primary focus is the well-being and safety of our employees, 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 are classified as “essential businesses” or otherwise have been permitted to operate under shelter in place orders or other similar orders but have been affected to varying degrees by COVID-19. We are maintaining 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. Significant uncertainties and risks 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 COVID-19 pandemic has adversely impacted the automotive industry by disrupting the supply chain from China and leading to automakers in the U.S. and Europe temporarily suspending production during April and May. Although we experienced growth in the automotive market in the first nine months of fiscal year 2020 when compared to the nine-month period of the prior fiscal year, led by the continued ramp-up of new programs including programs for fully electric vehicles, we experienced a 43% decline in sales in the automotive market in the last quarter of fiscal year 2020 when compared to the fourth quarter of the prior fiscal year due to the impact of COVID-19. We anticipate sales to customers in the automotive market to return to pre-COVID-19 levels by the middle of fiscal year 2021. In the medical market, we experienced year-over-year sales growth, with a 23% increase in the fourth quarter of fiscal year 2020 when compared to the fourth quarter of the prior fiscal year 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. We expect growth to continue in the medical market in the upcoming quarters. In the industrial market, growth was driven in large part due to increased demand for smart metering products and improved sales at our GES reporting unit.

The EMS industry previously experienced certain component shortages and component allocations. Component shortages or allocations could increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. We have taken various actions to mitigate the risk and minimize the adverse effect the component shortages or allocations could have on our results and the impact to our customers. In addition, the impact from tariffs and additional proposed tariffs on components we utilize in our domestic manufacturing process, of which many currently can only be sourced from China, may adversely affect the competitiveness of our domestic operations.

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. In fiscal year 2019, we acquired GES, which specializes in design, production, and servicing of automation, test, and inspection equipment for industrial applications in the semiconductor, electronics, and life sciences industries. See Item 1A - Risk Factors for risks associated with this acquisition and Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition.

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. Managing working capital in conjunction with fluctuating demand levels is likewise key. In an effort to meet the increased demand for medical assemblies in the short term, we increased our liquidity by entering into a secondary domestic credit facility in May 2020. See the “Liquidity and Capital Resources” section for more discussion on this new credit facility. In addition, a long-standing component of our profit sharing incentive bonus plan is that it is linked to our financial performance which results in varying amounts of compensation expense as profits change.



We continue to maintain a strong balance sheet as of the end of fiscal year 2020, which included a current ratio of 2.0, a debt-to-equity ratio of 0.3, and Share Owners' equity of \$379 million. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, some of which are uncommitted, totaled \$142.5 million at June 30, 2020.

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:

- Due to the contract and project nature of the contract manufacturing industry, fluctuation in the demand for our products and variation in the gross margin on those programs is inherent to our business. Effective management of manufacturing capacity is, and will continue to be, critical to our success.
- The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. 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 losses early in the life of a program, which are generally recovered as the program becomes established and matures.
- Risk factors within our business include, but are not limited to, general economic and market conditions, customer order delays, globalization, global health emergencies including the COVID-19 pandemic, impact related to tariffs and other trade barriers, foreign currency exchange rate fluctuations, rapid technological changes, component availability, 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 Item 1A - Risk Factors.

Customer Service Years	Year End		
	2020	2019	2018
<b>More than 10 Years</b>			
% of Net Sales . . . . .	76%	78%	61%
# of Customers . . . . .	38	37	28
<b>5 to 10 Years</b>			
% of Net Sales . . . . .	11%	11%	28%
# of Customers . . . . .	19	17	18
<b>Less than 5 Years</b>			
% of Net Sales . . . . .	13%	11%	11%
# of Customers . . . . .	21	21	30
<b>Total</b>			
% of Net Sales . . . . .	100%	100%	100%
# of Customers . . . . .	78	75	76

- 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.

Certain preceding statements could be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995 and are subject to certain risks and uncertainties including, but not limited to, successful integration of acquisitions and new operations, adverse changes in the global economic conditions, the geopolitical environment, global health emergencies including the COVID-19 pandemic, loss of key customers or suppliers, or similar unforeseen events. Additional risk factors that could have an effect on our performance are located within Item 1A - Risk Factors.

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

A discussion regarding our financial condition and results of operations for fiscal year 2020 compared to fiscal year 2019 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2019 compared to fiscal year 2018 can be found under captions entitled “Results of Operations - Fiscal Year 2019 Compared with Fiscal Year 2018” and “Liquidity and Capital Resources” in the section entitled “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2019 filed with the SEC on August 27, 2019, which is available free of charge through the SEC’s website at <http://www.sec.gov> or the Company’s website, <http://investors.kimballelectronics.com>. The Company’s website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.

### Results of Operations - Fiscal Year 2020 Compared with Fiscal Year 2019

	At or For the Year Ended June 30				
(Amounts in Millions, Except for Per Share Data)	2020	as a % of Net Sales	2019	as a % of Net Sales	% Change
Net Sales . . . . .	\$ 1,200.6		\$ 1,181.8		2%
Gross Profit . . . . .	\$ 83.8	7.0%	\$ 88.4	7.5%	(5)%
Selling and Administrative Expenses . . . . .	\$ 43.9	3.7%	\$ 46.7	3.9%	(6)%
Goodwill Impairment . . . . .	\$ 7.9	0.6%	\$ —	—%	
Operating Income . . . . .	\$ 32.0	2.7%	\$ 42.1	3.6%	(24)%
Net Income . . . . .	\$ 18.2		\$ 31.6		(42)%
Diluted Earnings per Share . . . . .	\$ 0.71		\$ 1.21		
Open Orders. . . . .	\$ 421.0		\$ 417.8		1%

Net Sales by Vertical Market	For the Year Ended June 30		
(Amounts in Millions)	2020	2019	% Change
Automotive . . . . .	\$ 457.4	\$ 474.3	(4)%
Medical . . . . .	397.8	367.5	8%
Industrial . . . . .	271.0	255.9	6%
Public Safety . . . . .	56.2	66.2	(15)%
Other . . . . .	18.2	17.9	1%
Total Net Sales. . . . .	<u>\$ 1,200.6</u>	<u>\$ 1,181.8</u>	2%

Net sales in fiscal year 2020 increased by 2% compared to net sales in fiscal year 2019 and were unfavorably impacted by 1% from foreign exchange fluctuations. By end market vertical, our market verticals fluctuated as follows:

- Sales to customers in the automotive market during the current fiscal year decreased slightly from the prior fiscal year due to the negative impact the COVID-19 pandemic had on the automotive industry, leading to automakers in the U.S. and Europe temporarily suspending production during April and part of May 2020, which in turn unfavorably impacted our current fiscal year fourth quarter demand from customers in the automotive market. The unfavorable impact from the COVID-19 pandemic was partially offset by the ramp-up of certain programs, including programs for fully electric vehicles.
- Sales to customers in the medical market experienced record sales during the current fiscal year, largely driven by the increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products as a direct result of the COVID-19 pandemic and related global shortage of respiratory equipment.
- Sales to customers in the industrial market also experienced record sales during the current fiscal year, primarily due to increased demand for smart metering products and improved sales of automation, test, and inspection equipment, which were partially offset by lower end market demand for climate control products and the phase out of certain programs.
- Sales to customers in the public safety market decreased in the current fiscal year when compared to the prior fiscal year due to the phase out of certain programs and lower overall demand.

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

	<b>Year Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Philips .....	16%	14%
Nexteer Automotive. ....	14%	12%
ZF .....	*	12%

\* amount is less than 10% of total

Open orders were up 1% as of June 30, 2020 compared to June 30, 2019 as the significant increase in open orders in the medical market was primarily offset by a large decrease in open orders in the automotive market. The increase in open orders in the medical market is a direct result of the COVID-19 pandemic as we have experienced an increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products. The decrease in open orders in the automotive market is driven by the severe impact of the COVID-19 pandemic on the automotive industry. Open orders are the aggregate sales price of production pursuant to unfulfilled customer orders, which may be canceled by the customer subject to contractual termination provisions. Substantially all of the open orders as of June 30, 2020 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 could impact the timing of fulfillment of open orders.

Gross profit as a percent of net sales declined to 7.0% in fiscal year 2020 from 7.5% in fiscal year 2019 primarily due to unfavorable product mix, higher depreciation expense largely to support new programs, and additional costs incurred as a result of the COVID-19 pandemic, which were partially offset by lower profit-sharing bonus expense, governmental benefits in certain countries to assist with payroll expenses during the COVID-19 pandemic, and lower travel expense as a result of the COVID-19 pandemic restrictions.

For fiscal year 2020, selling and administrative expenses decreased both as a percent of net sales and in absolute dollars compared to fiscal year 2019. The current fiscal year selling and administrative expenses decreased in absolute dollars from the prior fiscal year primarily due to lower incentive-based compensation, lower travel expense due to the COVID-19 pandemic restrictions, and reduced warranty expense, which were partially offset by the increase in the fair value of the liability for the supplemental employee retirement plan ("SERP") and higher salary costs.

Other General Income in fiscal year 2019 of \$0.3 million resulted from payments received related to the settlement of class action lawsuits in which Kimball Electronics was a class member. No Other General Income was recorded during fiscal year 2020.

We recorded a non-cash pre-tax goodwill impairment charge of \$7.9 million during fiscal year 2020 related to our GES reporting unit. See Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for more information on goodwill impairment.

Other Income (Expense) consisted of the following:

<b>(Amounts in Thousands)</b>	<b>Year Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Interest Income .....	\$ 60	\$ 62
Interest Expense .....	(4,421)	(4,069)
Foreign Currency/Derivative Gain (Loss) .....	420	(376)
Gain on SERP Investments .....	848	327
Foreign Government Subsidies .....	341	580
Net Working Capital Adjustment on GES Acquisition .....	(3,785)	—
Other .....	(302)	(99)
Other Income (Expense), net .....	<u>\$ (6,839)</u>	<u>\$ (3,575)</u>

The Foreign Currency/Derivative Gain (Loss) resulted from net foreign currency exchange rate movements during the period. The revaluation of the fair value of the supplemental employee retirement plan ("SERP") investments recorded in Other Income (Expense) is offset by the revaluation of the SERP liability recorded in Selling and Administrative Expenses, and thus there is no effect on net income. The Net Working Capital Adjustment on GES Acquisition is the final adjustment as determined by the dispute resolution procedure provided for under the terms of the asset purchase agreement. The twelve-month measurement period ended on September 30, 2019. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition and the net working capital adjustment.



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

(Amounts in Thousands)	Year Ended June 30, 2020		Year Ended June 30, 2019	
	Income Before Taxes	Effective Tax Rate	Income Before Taxes	Effective Tax Rate
United States .....	\$ (6,117)	28.7%	\$ 11,191	4.7%
Foreign .....	\$ 31,274	27.9%	\$ 27,294	23.5%
Total .....	<u>\$ 25,157</u>	27.7%	<u>\$ 38,485</u>	18.0%

The domestic effective tax rate and the consolidated effective tax rate for fiscal year 2020 were unfavorably impacted by tax expense due to the global intangible low-taxed income tax provisions of the Tax Cuts and Jobs Act (“Tax Reform”) and the valuation allowance recorded related to state tax credits, partially offset by favorable tax credits.

When compared to the statutory rate, the domestic effective tax rate and the consolidated effective tax rate for fiscal year 2019 were favorably impacted by domestic tax credits, adjustments to provisions related to the Tax Reform prior to the end of the measurement period, provision to return adjustments, and the excess tax benefit on stock-based compensation granted during the period.

Our overall effective tax rate will fluctuate depending on the geographic distribution of our worldwide earnings. See Note 11 - Income Taxes of Notes to Consolidated Financial Statements for more information, including additional information on Tax Reform.

We recorded net income of \$18.2 million in fiscal year 2020, or \$0.71 per diluted share, a decrease of 42% from fiscal year 2019 net income of \$31.6 million, or \$1.21 per diluted share. Fiscal year 2020 results include the following non-recurring charges previously discussed: a \$6.9 million after-tax non-cash goodwill impairment charge, or \$0.28 per diluted share, and the \$2.9 million after-tax net working capital adjustment on the GES acquisition, or \$0.11 per diluted share.

Comparing the balance sheet as of June 30, 2020 to June 30, 2019, Receivables decreased \$45.4 million largely due to increased utilization of our accounts receivable factoring arrangements and lower sales volumes in the last quarter of the fiscal year. Contract assets, which reflect the unbilled accounts receivable that occur when we recognize revenue over time, increased \$18.4 million to support the increased demand for medical assemblies in addition to certain contracts with customers beginning to meet the criteria to recognize revenue over time during the current fiscal year. Our inventory balance increased \$15.2 million due to changes in customers’ forecasts as a result of the COVID-19 pandemic and to support the increased demand for medical assemblies. Property and equipment, net, increased \$10.9 million primarily due to capital expenditures for capacity purposes and to support new business awards. Goodwill has decreased \$6.1 million due to the increase of \$1.8 million from the purchase accounting adjustment and the decrease of \$7.9 million from the goodwill impairment charge, all related to the GES acquisition. Borrowings under credit facilities decreased \$8.1 million largely due to payments on the U.S. primary credit facility. See Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for further discussion of goodwill.

## Liquidity and Capital Resources

Working capital at June 30, 2020 was \$285.8 million compared to working capital of \$280.4 million at June 30, 2019. The current ratio was 2.0 at both June 30, 2020 and June 30, 2019. The debt-to-equity ratio was 0.3 at both June 30, 2020 and June 30, 2019. 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 \$142.5 million at June 30, 2020 and \$110.7 million at June 30, 2019.

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				
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
DSO .....	50	55	54	50	59
CAD .....	22	21	18	16	15
PDSOH .....	76	67	66	65	64
APD .....	67	62	62	58	61
CCD .....	81	81	76	73	77

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 fiscal years ended June 30, 2020 and 2019.

(Amounts in Millions)	Year Ended June 30	
	2020	2019
Net cash provided by (used for) operating activities .....	\$ 72.8	\$ (6.7)
Net cash used for investing activities .....	\$ (38.5)	\$ (68.7)
Net cash (used for) provided by financing activities .....	\$ (17.9)	\$ 79.4

### Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year ended June 30, 2020 was primarily driven by net income adjusted for non-cash items. Net cash used for operating activities for the fiscal year ended June 30, 2019 was primarily driven by cash used from changes in operating assets and liabilities which more than offset the cash provided by net income adjusted for non-cash items. Changes in operating assets and liabilities provided \$7.9 million of cash and used \$71.8 million of cash for the fiscal years ended June 30, 2020 and 2019, respectively.

The cash provided of \$7.9 million from changes in operating assets and liabilities in fiscal year 2020 was primarily due to a decrease in accounts receivable, which provided cash of \$41.9 million largely due to the increased utilization of accounts receivable factoring arrangements. Partially offsetting cash provided by the decrease in accounts receivable was an increase in contract assets, which used cash of \$18.4 million to support the increased demand for medical assemblies in addition to certain contracts with customers beginning to meet the criteria to recognize revenue over time during the current fiscal year, and an increase in inventory, which used cash of \$15.1 million primarily to support the increased demand for medical assemblies.

The \$71.8 million usage of cash from changes in operating assets and liabilities in fiscal year 2019 was largely due to an increase in accounts receivable, which used cash of \$36.5 million primarily due to increased sales volumes, and an increase in inventory, which used cash of \$35.1 million primarily to support increased production volumes and for increased purchases to mitigate the potential impact of component shortages.

### Cash Flows from Investing Activities

Net cash used for investing activities during fiscal year 2020 includes \$38.7 million cash used for capital investments. The capital investments were primarily for machinery and equipment for capacity purposes and to support new business awards.

During fiscal year 2019, net cash used for investing activities includes cash used of \$43.9 million, net of cash acquired, for the GES acquisition and \$25.8 million cash used for capital investments. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on cash paid, net of cash acquired, and the purchase price allocation to assets acquired and liabilities assumed for this acquisition. The capital investments were primarily for machinery and equipment for capacity purposes to support new business awards, replacement of older machinery and equipment, and improvements to our facilities.

#### Cash Flows from Financing Activities

Net cash used by financing activities for the fiscal year ended June 30, 2020 resulted largely from net payments on our primary credit facility of \$11.4 million, repurchases of our common stock under an authorized stock repurchase plan, and the remittance of tax withholdings on share-based payments, which were partially offset by borrowings of \$3.3 million on our Netherlands facility.

Net cash provided by financing activities for the fiscal year ended June 30, 2019 resulted from net borrowings on our primary credit facility of \$116.8 million and borrowings of \$1.1 million on our Netherlands facility, partially offset by repurchases of our common stock under an authorized stock repurchase plan. The borrowings on our primary credit facility in fiscal year 2019 were used to primarily fund the GES acquisition that occurred on October 1, 2018 in addition to other domestic cash needs. Also included in the financing activities for fiscal year 2019 were \$12.8 million of payments on the Vietnam credit facility that was assumed with the GES acquisition. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on the GES acquisition.

#### 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 acquisitions. A portion of the credit facility, not to exceed \$15 million of the principal amount, was available for the issuance of letters of credit. A commitment fee on the unused portion of the principal amount of the credit facility was payable at a rate that ranged from 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 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 under the primary credit facility, 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 June 30, 2020, we had \$111.4 million in borrowings under the primary credit facility and \$0.4 million in letters of credit against the primary credit facility. The 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 June 30, 2020 and June 30, 2019, \$91.5 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. At June 30, 2019, we had \$122.8 million in short-term borrowings under the primary credit facility and \$0.4 million in letters of credit against the primary credit facility.

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 1.10 to 1.00.

We were in compliance with the financial covenants during the fiscal year ended June 30, 2020.

During the current fiscal year, the Company established 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.

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

- the LIBOR in effect two business days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined under the secondary credit facility, plus the Eurocurrency Loans spread of 2.125%; or
- the ABR, which is defined as the highest of the fluctuating rate per annum equal to the higher of
  - a. JPMorgan's prime rate;
  - b. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the secondary credit facility); or
  - c. 1% per annum above the Adjusted LIBO Rate (as defined under the secondary credit facility);plus the ABR Loans spread of 1.125%.

The Company's financial covenants under this secondary credit facility are the same as the financial covenants listed above for its primary credit facility.

Kimball Electronics has foreign credit facilities available to satisfy short-term cash needs at specific foreign locations rather than funding from intercompany sources. These foreign credit facilities can be canceled at any time by either the bank or us. As of June 30, 2020, we maintained the following foreign credit facilities:

- A Thailand overdraft credit facility which allows for borrowings up to 2.4 million Thai Baht (approximately \$0.1 million at June 30, 2020 exchange rates). We had no borrowings outstanding under this foreign credit facility as of June 30, 2020 or June 30, 2019. During the current fiscal year, we reduced the allowed maximum borrowings from 90 million Thai Baht to 2.4 million Thai Baht.
- An uncommitted revolving credit facility for our Netherlands subsidiary, which allows for borrowings of up to 9.2 million Euro (approximately \$10.3 million at June 30, 2020 exchange rates) that can be drawn in Euro, U.S. dollars, or other optional currency. At June 30, 2020, we had \$6.7 million in borrowings under this facility, and we had \$3.4 million borrowings outstanding under this foreign credit facility as of June 30, 2019. The facility matures on June 22, 2021.
- An uncommitted revolving credit facility for our Poland operation, which allows for borrowings up to 5 million Euro (approximately \$5.6 million at June 30, 2020 exchange rates) that can be drawn in Euro, U.S. dollars, or Polish Zloty. We had no borrowings outstanding under this foreign credit facility as of June 30, 2020. The facility matures on December 20, 2020. During the current fiscal year, we reduced the allowed maximum borrowings from 15 million Euro to 5 million Euro.

During the current fiscal year, we eliminated the uncommitted credit facility for one of our China operations, which allowed for borrowings up to \$7.5 million. The elimination of the China uncommitted credit facility and the reductions in the borrowings allowed for the Thailand overdraft credit facility and the Poland uncommitted revolving credit facility was a result of entering into the secondary credit facility.

### **Factoring Arrangements**

The Company may utilize accounts receivable factoring arrangements with third-party financial institutions in order to extend terms for the customer without negatively impacting our cash flow. These arrangements in all cases do not contain recourse provisions which would obligate us in the event of our customers' failure to pay. Receivables are considered sold when they are transferred beyond the reach of Kimball Electronics and its creditors, the purchaser has the right to pledge or exchange the



receivables, and we have surrendered control over the transferred receivables. During the fiscal years ended June 30, 2020 and 2019, we sold, without recourse, \$280.7 million and \$261.2 million of accounts receivable, respectively. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information regarding the factoring arrangements.

### **Future Liquidity**

Due to the COVID-19 pandemic, we are anticipating growth in sales to customers in the medical market in the upcoming quarters as we are currently experiencing a significant increase in demand for medical assemblies, specifically those related to respiratory care and patient monitoring products. The new secondary credit facility will provide us with liquidity at the enterprise level instead of the subsidiary level, and it will be available to support the increased demand in medical components attributable to COVID-19. We are also hiring additional employees in certain locations to support the increased demand. We are in a solid financial position to be able to meet the increased demand and weather the 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.

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 \$77.5 million at June 30, 2020. We expect to continue to invest in capital expenditures prudently, particularly for projects, including potential acquisitions, that would help us continue our development as a multifaceted manufacturing solutions company.

At June 30, 2020, our foreign operations held cash totaling \$63.8 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 June 30, 2020, the remaining provision recorded for the one-time deemed repatriation tax was \$9.8 million, which 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 it is not anticipated such earnings will be remitted to the United States. Our intent is to permanently reinvest these funds outside of the United States. However, if such funds were repatriated, a portion of the funds remitted would be subject to applicable non-U.S. income and withholding taxes. See Note 11 - Income Taxes of Notes to Consolidated Financial Statements for additional information on the deemed repatriation tax and Tax Reform.

At June 30, 2020, our capital expenditure commitments were approximately \$2 million, consisting primarily of commitments for capacity purposes in anticipation of future growth, including new program wins. We anticipate our available liquidity will be sufficient to fund these capital expenditures. As a result of COVID-19, we expect to increase our capital investments in the upcoming quarters to expand capacities to meet the increased demand for medical assemblies.

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, and November 8, 2018, 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 \$80 million. The Plan may be suspended or discontinued at any time and has been temporarily suspended as a result of the COVID-19 environment. 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 \$76.7 million of common stock under the Plan through June 30, 2020.

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. The tax law changes in the Act did not have a material impact on the Company's financial results for the fiscal year ended June 30, 2020, and we do not expect the changes to have a material impact on our short or long-term liquidity.

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, the ability of Kimball Electronics to generate profits, the duration and severity of the COVID-19 pandemic and the related

uncertainties around the financial impact, global health emergencies, and other unforeseen circumstances. In particular, should demand for our customers' products and, in turn, our services decrease significantly over the next 12 months, the available cash provided by operations could be adversely impacted.

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

## Fair Value

During fiscal year 2020, 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 13 - Fair Value of Notes to Consolidated Financial Statements for more information.

## Contractual Obligations

The following table summarizes the Company's contractual obligations as of June 30, 2020.

(Amounts in Millions)	Payments Due During Fiscal Years Ending June 30				
	Total	2021	2022-2023	2024-2025	Thereafter
Recorded Contractual Obligations: <sup>(a)</sup>					
Long-Term Debt Obligations <sup>(b)</sup>	\$ 118.8	\$ 27.3	\$ —	\$ 91.5	\$ —
Long-Term Income Taxes Payable <sup>(c)</sup>	9.8	—	1.9	4.6	3.3
Other Long-Term Liabilities Reflected on the Balance Sheet <sup>(d)(e)(f)</sup>	17.0	2.9	2.8	1.2	10.1
Operating Leases <sup>(g)</sup>	2.2	0.8	0.8	0.2	0.4
Unrecorded Purchase Obligations:					
Purchase Obligations <sup>(h)</sup>	452.9	441.2	11.6	0.1	—
Total	<u>\$ 600.7</u>	<u>\$ 472.2</u>	<u>\$ 17.1</u>	<u>\$ 97.6</u>	<u>\$ 13.8</u>

- (a) As of June 30, 2020, we had no material Capital Lease Obligations.
- (b) Long-Term Debt Obligations include amounts outstanding on our credit facilities and the accrued interest for these amounts. Refer to Note 8 - Credit Facilities of Notes to Consolidated Financial Statements for more information regarding our credit facilities. The fiscal year 2021 amount was recorded as a current liability.
- (c) U.S. federal income taxes payable for the one-time deemed repatriation tax on certain unremitted earnings of foreign subsidiaries. Refer to Note 11 - Income Taxes of Notes to Consolidated Financial Statements for more information regarding the deemed repatriation tax.
- (d) The timing of payments of certain items included on the Other Long-Term Liabilities Reflected on the Balance Sheet line above is estimated based on the following assumptions:
- The timing of SERP payments is estimated based on an assumed retirement age of 62 with payout based on the prior distribution elections of participants. The fiscal year 2021 amount includes \$2.0 million for SERP payments recorded as current liabilities.
  - The timing of severance plan payments is estimated based on the average remaining service life of employees. The fiscal year 2021 amount includes \$0.6 million for severance payments recorded as a current liability.
  - The timing of warranty payments is estimated based on historical data. The fiscal year 2021 amount includes \$0.2 million for short-term warranty payments recorded as a current liability.
- (e) Excludes \$6.2 million of deferred tax and other liabilities related to long-term unrecognized tax benefits which are not tied to a contractual obligation and for which we cannot make a reasonably reliable estimate of the period of future payments.
- (f) Refer to Note 7 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements for more information regarding certain Other Long-Term Liabilities.

- (g) Refer to Note 20 - Leases of Notes to Consolidated Financial Statements for more information regarding Operating Leases and certain Other Long-Term Liabilities.
- (h) Purchase Obligations are defined as agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms. The amounts listed above for purchase obligations include contractual commitments for items such as raw materials, supplies, capital expenditures, services, and software acquisitions/license commitments. Cancellable purchase obligations that we intend to fulfill are also included in the purchase obligations amount listed. In certain instances, such as when lead times dictate, we enter into contractual agreements for material in excess of the levels required to fulfill customer orders. Purchase obligations as of June 30, 2020 include the placement of orders to help mitigate the potential impact related to component shortages, which requires longer lead times. In turn, material authorization agreements with customers cover a portion of the exposure for material which is purchased prior to having a firm order.

### **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. At June 30, 2020, the drafts transferred and outstanding totaled \$0.4 million. 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 Consolidated Financial Statements for more information on the banker's acceptance drafts and Note 7 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements for more information on standby letters of credit. We do not have material exposures to trading activities of non-exchange traded contracts.

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

### **Critical Accounting Policies**

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

*Revenue recognition* - Kimball Electronics recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services and products. The majority of our revenue is recognized over time as manufacturing services are performed where we manufacture a product with no alternative use and have an enforceable right to payment for performance completed to date. The remaining revenue is recognized when the customer obtains control of the manufactured product. We have elected to account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, we record customer payments of shipping and handling costs as a component of net sales and classify such costs as a component of cost of sales. We recognize sales net of applicable sales or value add taxes. Based on estimated product returns and price concessions, a reserve for returns and allowances is recorded at the time revenue is recognized, resulting in a reduction of revenue.

*Goodwill and Other Intangible Assets* - Goodwill, \$12.0 million and \$18.1 million as of June 30, 2020 and June 30, 2019, respectively, represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, goodwill is tested at the reporting unit level. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is written down to its estimated fair value. No impairment charges were recorded in fiscal year 2020 resulting from our annual

impairment tests for all reporting units. As a result of impairment indicators that arose during the fourth quarter of fiscal year 2020 at our GES reporting unit, we performed an additional impairment test as of June 30, 2020, which resulted in goodwill impairment of \$7.9 million, pre-tax.

Other Intangible Assets, \$19.3 million and \$22.2 million as of June 30, 2020 and June 30, 2019, respectively, are reported on the Consolidated Balance Sheets and consist of capitalized software, customer relationships, technology, and trade name. Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets.

See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for further discussion of the Company's goodwill and intangible asset accounting policies and the adoption of accounting guidance for simplifying the test for goodwill impairment, along with Note 6 - Goodwill and Other Intangibles for further discussion of the calculated impairment charge in fiscal year 2020.

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

We operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. However, we believe we have made adequate provision for income and other taxes for all years that are subject to audit. As tax positions are effectively settled, the tax provision will be adjusted accordingly. The liability for uncertain income tax and other tax positions, including accrued interest and penalties on those positions, was \$4.5 million and \$4.3 million at June 30, 2020 and June 30, 2019, respectively.

## **New Accounting Standards**

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

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

*Foreign Exchange Rate Risk:* Kimball Electronics operates internationally and thus is subject to potentially adverse movements in foreign currency rate changes. Our risk management strategy includes the use of derivative financial instruments to hedge certain foreign currency exposures. Derivatives are used only to manage underlying exposures and are not used in a speculative manner. Further information on derivative financial instruments is provided in Note 14 - Derivative Instruments of Notes to Consolidated Financial Statements. We estimate that a hypothetical 10% adverse change in foreign currency exchange rates from levels at June 30, 2020 relative to non-functional currency balances of monetary instruments, to the extent not hedged by derivative instruments, would not have a material impact on profitability in an annual period.

*Interest Rate Risk:* Our primary exposure to market risk for changes in interest rates relates to our primary credit facility, described further in Note 8 - Credit Facilities of Notes to Consolidated Financial Statements, as the interest rates paid for borrowings are determined at the time of borrowing based on market indices. Therefore, although we can elect to fix the interest rate at the time of borrowing, the facility does expose us to market risk for changes in interest rates. We estimate that a hypothetical 10% change in interest rates on borrowing levels at June 30, 2020 would not have a material impact of profitability in an annual period. The interest rate on certain borrowings under our credit facilities, including our primary credit facility, are based on 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, and it is unclear whether the banks currently reporting information used to set LIBOR will stop doing so after 2021. If LIBOR is discontinued or if the method of calculating LIBOR changes from its current form, interest rates on our current or future indebtedness may be adversely affected. The Company is monitoring these developments.



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

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b><u>Page No.</u></b>
Management's Report on Internal Control Over Financial Reporting .....	35
Report of Independent Registered Public Accounting Firm. ....	36
Consolidated Balance Sheets as of June 30, 2020 and 2019 .....	38
Consolidated Statements of Income for Each of the Three Years in the Period Ended June 30, 2020 .....	39
Consolidated Statements of Comprehensive Income for Each of the Three Years in the Period Ended June 30, 2020 .....	40
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended June 30, 2020 .....	41
Consolidated Statements of Share Owners' Equity for Each of the Three Years in the Period Ended June 30, 2020 ..	42
Notes to Consolidated Financial Statements .....	43

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

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

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

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

These consolidated financial statements are subject to an evaluation of internal control over financial reporting conducted under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, conducted under the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that our internal control over financial reporting was effective as of June 30, 2020.

/s/ DONALD D. CHARRON

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Donald D. Charron  
*Chairman of the Board,*  
*Chief Executive Officer*  
August 27, 2020

/s/ MICHAEL K. SERGESKETTER

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Michael K. Sergesketter  
*Vice President,*  
*Chief Financial Officer*  
August 27, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We have audited the accompanying consolidated balance sheets of Kimball Electronics, Inc. and subsidiaries (the “Company”) as of June 30, 2020 and 2019, the related consolidated statements of income, comprehensive income, share owners’ equity, and cash flows, for each of the three years in the period ended June 30, 2020, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

### Basis for Opinions

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

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

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

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

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

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

/s/ Deloitte & Touche LLP

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DELOITTE & TOUCHE LLP

Indianapolis, Indiana

August 27, 2020

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



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

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents . . . . .	\$ 64,990	\$ 49,276
Receivables, net of allowances of \$523 and \$270, respectively . . . . .	180,133	225,555
Contract Assets . . . . .	70,350	51,929
Inventories . . . . .	219,043	203,840
Prepaid expenses and other current assets . . . . .	23,891	24,713
Total current assets . . . . .	<u>558,407</u>	<u>555,313</u>
Property and Equipment, net of accumulated depreciation of \$236,373 and \$216,955, respectively . . . . .	154,529	143,629
Goodwill . . . . .	12,011	18,104
Other Intangible Assets, net of accumulated amortization of \$32,756 and \$29,874, respectively . . . . .	19,343	22,188
Other Assets . . . . .	30,539	24,877
Total Assets . . . . .	<u>\$ 774,829</u>	<u>\$ 764,111</u>
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>		
Current Liabilities:		
Current portion of borrowings under credit facilities . . . . .	\$ 26,638	\$ 34,713
Accounts payable . . . . .	203,703	197,001
Accrued expenses . . . . .	42,264	43,196
Total current liabilities . . . . .	<u>272,605</u>	<u>274,910</u>
Other Liabilities:		
Long-term debt under credit facilities, less current portion . . . . .	91,500	91,500
Long-term income taxes payable . . . . .	9,765	9,765
Other long-term liabilities . . . . .	21,594	18,082
Total other liabilities . . . . .	<u>122,859</u>	<u>119,347</u>
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 . . . . .	306,808	305,917
Retained earnings . . . . .	152,178	133,982
Accumulated other comprehensive loss . . . . .	(10,551)	(7,628)
Treasury stock, at cost:		
Shares: 4,443,000 and 4,011,000, respectively . . . . .	(69,070)	(62,417)
Total Share Owners' Equity . . . . .	<u>379,365</u>	<u>369,854</u>
Total Liabilities and Share Owners' Equity . . . . .	<u>\$ 774,829</u>	<u>\$ 764,111</u>

See Notes to Consolidated Financial Statements

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

	<b>Year Ended June 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net Sales . . . . .	\$ 1,200,550	\$ 1,181,844	\$ 1,072,061
Cost of Sales . . . . .	1,116,709	1,093,438	986,031
Gross Profit . . . . .	83,841	88,406	86,030
Selling and Administrative Expenses . . . . .	43,920	46,653	43,992
Other General Income . . . . .	—	(307)	—
Goodwill Impairment . . . . .	7,925	—	—
Operating Income . . . . .	31,996	42,060	42,038
Other Income (Expense):			
Interest income . . . . .	60	62	73
Interest expense . . . . .	(4,421)	(4,069)	(527)
Non-operating income . . . . .	2,103	1,483	3,647
Non-operating expense . . . . .	(4,581)	(1,051)	(456)
Other income (expense), net . . . . .	(6,839)	(3,575)	2,737
Income Before Taxes on Income. . . . .	25,157	38,485	44,775
Provision for Income Taxes. . . . .	6,961	6,927	28,023
Net Income . . . . .	<u>\$ 18,196</u>	<u>\$ 31,558</u>	<u>\$ 16,752</u>
Earnings Per Share of Common Stock:			
Basic . . . . .	\$ 0.72	\$ 1.22	\$ 0.63
Diluted . . . . .	\$ 0.71	\$ 1.21	\$ 0.62
Average Number of Shares Outstanding:			
Basic . . . . .	25,243	25,857	26,745
Diluted . . . . .	25,428	26,082	27,007

See Notes to Consolidated Financial Statements

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

	Year Ended June 30, 2020			Year Ended June 30, 2019			Year Ended June 30, 2018		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Net Income .....			\$ 18,196			\$ 31,558			\$ 16,752
Other Comprehensive Income (Loss):									
Foreign currency translation adjustments . . . .	\$ (1,046)	\$ —	\$ (1,046)	\$ (2,491)	\$ —	\$ (2,491)	\$ 2,519	\$ —	\$ 2,519
Postemployment severance actuarial change . .	122	(35)	87	447	(108)	339	533	(188)	345
Derivative gain (loss) .....	(2,079)	509	(1,570)	3,337	(699)	2,638	(2,669)	704	(1,965)
Reclassification to (earnings) loss:									
Derivatives .....	(64)	(22)	(86)	(1,066)	209	(857)	1,668	(213)	1,455
Amortization of actuarial change .....	(406)	98	(308)	(472)	114	(358)	(358)	140	(218)
Other Comprehensive Income (Loss) .....	<u>\$ (3,473)</u>	<u>\$ 550</u>	<u>\$ (2,923)</u>	<u>\$ (245)</u>	<u>\$ (484)</u>	<u>\$ (729)</u>	<u>\$ 1,693</u>	<u>\$ 443</u>	<u>\$ 2,136</u>
Total Comprehensive Income .....			<u>\$ 15,273</u>			<u>\$ 30,829</u>			<u>\$ 18,888</u>

See Notes to Consolidated Financial Statements

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

	Year Ended June 30		
	2020	2019	2018
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 18,196	\$ 31,558	\$ 16,752
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization	30,872	28,873	26,376
(Gain) loss on sales of assets	69	(4)	(7)
Deferred income tax and other deferred charges	(1,070)	(1,541)	1,213
Deferred tax valuation allowance	979	20	(638)
Goodwill impairment	7,925	—	—
Stock-based compensation	4,039	5,678	5,299
Net working capital adjustment on acquisition	3,785	—	—
Other, net	159	431	487
Change in operating assets and liabilities:			
Receivables	41,928	(36,535)	(2,876)
Contract assets	(18,421)	(8,688)	—
Inventories	(15,053)	(35,094)	(55,769)
Prepaid expenses and other assets	(1,519)	(6,284)	5,092
Accounts payable	3,622	8,001	33,272
Accrued expenses and taxes payable	(2,703)	6,837	10,999
Net cash provided by (used for) operating activities	72,808	(6,748)	40,200
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(38,364)	(24,665)	(25,876)
Proceeds from sales of assets	158	1,036	261
Payments for acquisitions, net of cash acquired	—	(43,889)	—
Purchases of capitalized software	(385)	(1,178)	(643)
Other, net	109	(13)	44
Net cash used for investing activities	(38,482)	(68,709)	(26,214)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from credit facilities	—	91,500	—
Payments on credit facilities	—	(12,843)	—
Additional net change in revolving credit facilities	(8,083)	26,415	(1,542)
Repurchases of common stock	(8,794)	(23,431)	(9,553)
Payments related to tax withholding for stock-based compensation	(1,012)	(1,766)	(1,508)
Debt issuance costs	(45)	(445)	—
Net cash (used for) provided by financing activities	(17,934)	79,430	(12,603)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(678)	(1,125)	490
<b>Net Increase in Cash and Cash Equivalents</b>	15,714	2,848	1,873
Cash and Cash Equivalents at Beginning of Year	49,276	46,428	44,555
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 64,990</u>	<u>\$ 49,276</u>	<u>\$ 46,428</u>

See Notes to Consolidated Financial Statements

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

	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Share Owners' Equity
<b>Amounts at June 30, 2017</b>	\$ 302,483	\$ 82,671	\$ (9,084)	\$ (33,798)	\$ 342,272
Net income		16,752			16,752
Other comprehensive income (loss)			2,136		2,136
Tax Reform impact		(49)	49		—
Issuance of non-restricted stock (8,000 shares)	65			90	155
Compensation expense related to stock compensation plans	5,138				5,138
Performance share issuance (174,000 shares)	(3,471)			1,963	(1,508)
Repurchase of Common Stock (488,000 shares)				(9,418)	(9,418)
<b>Amounts at June 30, 2018</b>	\$ 304,215	\$ 99,374	\$ (6,899)	\$ (41,163)	\$ 355,527
Net income		31,558			31,558
Other comprehensive income (loss)			(729)		(729)
Cumulative effect of accounting change		3,050			3,050
Issuance of non-restricted stock (4,000 shares)	28			44	72
Compensation expense related to stock compensation plans	5,569				5,569
Performance share issuance (203,000 shares)	(3,895)			2,133	(1,762)
Repurchase of Common Stock (1,320,000 shares)				(23,431)	(23,431)
<b>Amounts at June 30, 2019</b>	\$ 305,917	\$ 133,982	\$ (7,628)	\$ (62,417)	\$ 369,854
Net income		18,196			18,196
Other comprehensive income (loss)			(2,923)		(2,923)
Issuance of non-restricted stock (4,000 shares)	22			48	70
Compensation expense related to stock compensation plans	3,948				3,948
Performance share issuance (184,000 shares)	(3,047)			2,061	(986)
Deferred share issuance (3,000 shares)	(32)			32	—
Repurchase of Common Stock (623,000 shares)				(8,794)	(8,794)
<b>Amounts at June 30, 2020</b>	\$ 306,808	\$ 152,178	\$ (10,551)	\$ (69,070)	\$ 379,365

See Notes to Consolidated Financial Statements



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

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

***Business Description:***

Kimball Electronics, Inc. (also referred to herein as “Kimball Electronics,” the “Company,” “we,” “us,” or “our”) is a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We 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 well recognized by customers and industry trade publications for our excellent quality, reliability, and innovative service.

The Company acquired GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as “GES”) on October 1, 2018, which specialize in design, production, and servicing of automation, test, and inspection equipment for industrial applications in the semiconductor, electronics, and life sciences industries.

***Principles of Consolidation:***

The Consolidated Financial Statements include the accounts of all domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation. The operating results of the GES acquisition are included in the Consolidated Financial Statements beginning as of the acquisition date of October 1, 2018.

***Use of Estimates:***

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

***Segment Information:***

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

Our operating segments meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2020, all of our operating segments provide contract manufacturing services, including engineering and supply chain support, for the production of electronic assemblies and other products including medical disposables, precision molded plastics, and automation, test, and inspection equipment primarily in automotive, medical, industrial, and public safety applications, to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products have similar characteristics. Each of our operating segments service customers in multiple markets, and many of our customers’ programs are manufactured and serviced by multiple operating segments. We leverage global processes such as component procurement and customer pricing that provide commonality and consistency among the various regions in which we operate. All of our operating segments have similar long-term economic characteristics, and as such, have been aggregated into one reportable segment.

***Revenue Recognition:***

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

The majority of our revenue is recognized over time as manufacturing services are performed as we manufacture a product to customer specifications with no alternative use and we have an enforceable right to payment for performance completed to date. The remaining revenue for manufacturing services is recognized when the customer obtains control of the product, typically either upon shipment or delivery of the product dependent on the terms of the contract, and the customer is able to direct the use of and obtain substantially all of the remaining benefits from the asset. We generally recognize revenue over time using costs based input methods, in which judgment is required to evaluate assumptions including 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.

On July 1, 2018, we adopted the New Revenue Guidance for all contracts using the modified retrospective transition method. Prior to fiscal year 2019, we recognized revenue when persuasive evidence of an arrangement existed, delivery occurred, the sales price was fixed or determinable, and collectability was reasonably assured. Delivery was not considered to have occurred until the title and the risk of loss passed to the customer according to the terms of the contract. Title and risk of loss were considered transferred upon shipment to or receipt at our customers’ locations, or in limited circumstances, as determined by other specific sales terms of the transaction.

***Cash and Cash Equivalents:***

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

***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 determine the final allowance for 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. Our limited amount of notes receivable allows management to monitor the risks, credit quality indicators, collectability, and probability of impairment on an individual basis. Adjustments to the allowance for credit losses are recorded in selling and administrative expenses.

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 may utilize accounts receivable factoring arrangements with third-party financial institutions in order to extend terms for the customer without negatively impacting our cash flow. These arrangements in all cases do not contain recourse provisions which would obligate us in the event of our customers' failure to pay. Receivables are considered sold when they are transferred beyond the reach of Kimball Electronics and its creditors, the purchaser has the right to pledge or exchange the receivables, and we have surrendered control over the transferred receivables. During fiscal years 2020, 2019, and 2018, we sold, without recourse, \$280.7 million, \$261.2 million, and \$181.5 million of accounts receivable, respectively. Factoring fees were \$1.9 million, \$1.7 million, and \$1.1 million during fiscal years 2020, 2019, and 2018, respectively, and were included in Selling and Administrative Expense on the Consolidated Statements of Income.

One of our China operations, in limited circumstances, may receive banker's acceptance drafts from customers as payment on account. The banker's acceptance drafts are non-interest bearing and primarily mature within six months from the origination date. The Company has the ability to sell the drafts at a discount or transfer the drafts in settlement of current accounts payable prior to the scheduled maturity date. These drafts, which totaled \$7.1 million and \$4.2 million at June 30, 2020 and 2019, respectively, are reflected in Receivables on the Consolidated Balance Sheets until the banker's drafts are sold at a discount, transferred in settlement of current accounts payable, or cash is received at maturity. Banker's acceptance drafts sold at a discount or transferred in settlement of current accounts payable during fiscal years 2020, 2019, and 2018 were \$6.8 million, \$2.7 million, and \$5.5 million, respectively. See Note 7 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements for more information on banker's acceptance drafts.

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

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

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

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful life of the assets using the straight-line method for financial reporting purposes. Major maintenance activities and improvements are capitalized; other maintenance and repairs are expensed. Depreciation and expenses for maintenance and repairs are included in both Cost of Sales and Selling and Administrative Expense on the Consolidated Statements of Income.

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

We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair market value less cost to sell at the date management commits to a plan of disposal. Impairment of long-lived assets was not material during fiscal years 2020, 2019, and 2018.

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

Goodwill represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, goodwill is assessed or tested at the reporting unit level. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is written down to its estimated fair value. See section entitled "New Accounting Standards" below for more information on the adoption of accounting guidance for simplifying the test for goodwill impairment.

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

rates are developed using a weighted average cost of capital (“WACC”) methodology. The WACC represents the blended average required rate of return for equity and debt capital based on observed market return data and company specific risk factors. In the Market Approach, fair value is determined using transactional evidence for similar publicly traded equity. See Note 6 - Goodwill and Other Intangible Assets for more information on the June 30, 2020 GES goodwill impairment test.

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

Other Intangible Assets reported on the Consolidated Balance Sheets consist of capitalized software, customer relationships, technology, and trade name. Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Internal-use software is stated at cost less accumulated amortization and is amortized using the straight-line method. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, and could include internal payroll and payroll-related costs for employees who are directly associated with a software project. Upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion, and business process reengineering costs are expensed in the period in which they are incurred. We have not recognized impairment on intangible assets during fiscal years 2020, 2019, or 2018.

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

The costs of research and development are expensed as incurred. Research and development costs were approximately, in millions, \$17, \$15, and \$11 in fiscal years 2020, 2019, and 2018, respectively.

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

We are self-insured up to certain limits for general liability, workers’ compensation, and certain domestic employee health benefits including medical, short-term disability, and dental, with the related liabilities included in the accompanying financial statements. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims, and other analyses, which are based on historical information along with certain assumptions about future events. Approximately 20% of the workforce is covered under self-insured medical and short-term disability plans. At June 30, 2020 and 2019, accrued liabilities for self-insurance exposure were \$1.6 million and \$1.7 million, respectively.

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

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

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

We operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex uncertain tax positions, which may require an extended period of time to resolve. A tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. We maintain a liability for uncertain income tax and other tax positions, including accrued interest and penalties on those positions. As tax positions are effectively settled, the tax liability is adjusted accordingly. We recognize interest and penalties related to unrecognized tax benefits in Provision for Income Taxes on the Consolidated Statements of Income.

#### ***Concentrations of Credit Risk:***

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

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

	Net Sales Year Ended June 30			Trade Receivables As of June 30	
	2020	2019	2018	2020	2019
Philips . . . . .	16%	14%	13%	*	*
ZF . . . . .	*	12%	15%	*	14%
Nexteer Automotive . . . . .	14%	12%	13%	17%	16%
Regal Beloit Corporation . . . . .	*	*	*	*	10%

\* amount is less than 10% of total

***Off-Balance Sheet Risk:***

Off-balance sheet arrangements are limited to banker's acceptance drafts transferred with recourse provisions at one of the Company's China operations and standby letters of credit entered into in the normal course of business as described in Note 7 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements.

***Other General Income:***

Other General Income in fiscal year 2019 consisted of \$0.3 million resulting from payments received related to class action lawsuits in which Kimball Electronics was a class member. We recorded no Other General Income during fiscal years 2020 and 2018.

***Non-operating Income and Expense:***

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

***Foreign Currency Translation:***

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

For business units whose functional currency is other than the U.S. dollar, the translation of functional currency statements to U.S. dollar statements uses end-of-period exchange rates for assets and liabilities, weighted average exchange rates for revenue and expenses, and historical rates for equity. The resulting currency translation adjustment is recorded in Accumulated Other Comprehensive Income (Loss), as a component of Share Owners' Equity.

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

Derivative financial instruments are recognized on the balance sheet as assets and liabilities and are measured at fair value. Changes in the fair value of derivatives are recorded each period in earnings or Accumulated Other Comprehensive Income (Loss), depending on whether a derivative is designated and effective as part of a hedge transaction, and if it is, the type of hedge transaction. Hedge accounting is utilized when a derivative is expected to be highly effective upon execution and continues to be highly effective over the duration of the hedge transaction. Hedge accounting permits gains and losses on derivative instruments to be deferred in Accumulated Other Comprehensive Income (Loss) and subsequently included in earnings in the periods in which earnings are affected by the hedged item, or when the derivative is determined to be ineffective. We use derivatives primarily for forward purchases of foreign currency to manage exposure to the variability of cash flows, primarily related to the foreign exchange rate risks inherent in forecasted transactions denominated in foreign



currency. Cash receipts and cash payments related to derivative instruments are recorded in the same category as the cash flows from the items being hedged on the Consolidated Statements of Cash Flows. See section entitled “New Accounting Standards” below for information on the adoption of new derivative guidance and Note 14 - Derivative Instruments of Notes to Consolidated Financial Statements for more information on derivative instruments and hedging activities.

### ***Stock-Based Compensation:***

As described in Note 10 - Stock Compensation Plans of Notes to Consolidated Financial Statements, the Company maintains the 2014 Stock Option and Incentive Plan, which allows for the issuance of incentive stock options, stock appreciation rights, restricted shares, unrestricted shares, restricted share units, or performance shares and performance units for grant to officers and other key employees, and to members of the Board of Directors who are not employees. The Company also maintains the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (the “Deferral Plan”), which allows Non-Employee Directors to elect to defer all, or a portion of, their retainer fees in stock. We recognize the cost resulting from share-based payment transactions using a fair-value-based method. The estimated fair value of outstanding performance shares is based on the stock price at the date of the grant. Stock-based compensation expense is recognized for the portion of the award for which performance targets have been established and is expected to vest. The Company has elected to account for forfeitures by reversing the compensation costs at the time a forfeiture occurs.

### ***New Accounting Standards:***

#### ***Adopted in Fiscal Year 2020:***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued guidance on leases with subsequent amendments to this new guidance in January 2018, July 2018, and December 2018. The new guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by those leases and requires additional qualitative and quantitative disclosures. Under previous guidance, only capital leases were recognized on the balance sheet. We adopted this standard on July 1, 2019, the beginning of our first quarter of fiscal year 2020, under the modified retrospective method. As allowed by the July 2018 amendment, the Company has not recast the comparative periods.

We elected the “package of practical expedients,” which permits us not to reassess under the new standard our prior conclusions about lease identification, classification, and initial direct costs. We also elected the short-term lease recognition exemption, permitting us not to recognize right-of-use assets and lease liabilities for leases with a term of 12 months or less and do not include a purchase option whose exercise is reasonably certain.

Lease assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using our estimated incremental borrowing rate, unless the implicit rate is readily determinable. The estimated incremental borrowing rate is the rate of interest we would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised.

The adoption resulted in the recognition of \$2.6 million of right-of-use assets and lease liabilities on our Condensed Consolidated Balance Sheet, primarily for our real estate operating leases, on the adoption date. The adoption did not have a material effect on our results of operations or cash flows. There was no cumulative-effect adjustment to equity. See Note 20 - Leases of Notes to Consolidated Financial Statements for more information on leases.

In August 2017, the FASB issued guidance on Derivatives and Hedging. The pronouncement expands and refines hedge accounting, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company adopted this during the first quarter of fiscal year 2020 with an immaterial effect on our Consolidated Financial Statements.

In January 2017, the FASB issued guidance for Intangibles - Goodwill and Other, which simplifies the goodwill impairment test by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. An entity should perform its goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption allowed and should be applied on a prospective basis. The Company elected to early adopt this guidance beginning in the fourth quarter of fiscal year 2020, and applied to its fourth quarter goodwill impairment tests discussed in Note 6 - Goodwill and Other Intangible Assets.

### *Not Yet Adopted:*

In June 2016, the 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 inform credit loss estimates. The guidance is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. We will adopt this standard effective July 1, 2020, and the adoption will not have a material effect on our 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. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The guidance is to be adopted either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We plan to adopt prospectively effective July 1, 2020, and the adoption of this standard will not have a material effect on our consolidated financial statements.

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. Early adoption is permitted. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

## **Note 2 Acquisitions**

On October 1, 2018, the Company completed the acquisition of GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as "GES"). The acquisition included purchasing substantially all of the assets and assuming certain liabilities of GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., GES Infotek Pvt. Ltd., (India), GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., (China), Suzhou Global Equipment Services and Trading Co., Ltd. (China), and acquiring 100% of the capital stock of Global Equipment Services & Manufacturing Vietnam Company Limited.

This acquisition supported the Company's strategy for growth and diversification into a multifaceted manufacturing solutions company. GES specializes in design, production, and servicing of automation, test, and inspection equipment for industrial applications in the semiconductor, electronics, and life sciences industries.

Incremental costs expensed as incurred directly related to the acquisition has totaled \$2.2 million, of which \$0.8 million, \$0.5 million, and \$0.9 million were expensed during the fiscal years ended June 30, 2020, 2019, and 2018, respectively. These costs were recorded in Selling and Administrative Expenses on our Consolidated Statements of Income. The operating results of this acquisition are included in the Company's consolidated financial statements beginning on the acquisition date of October 1, 2018. The acquisition was primarily funded with the Company's primary credit facility.

The GES acquisition was accounted for as a business combination. The Company recorded a net adjusted purchase price of \$42.4 million which included a reduction for a net working capital adjustment of \$7.6 million. The net working capital adjustment was disputed by the sellers, and in July 2020, it was determined, through the dispute resolution procedure provided for under the terms of the asset purchase agreement, the final net working capital adjustment to be \$3.8 million. As a result, for fiscal year 2020, after the end of the twelve-month measurement period, the Company recorded a \$3.8 million pre-tax charge in the Non-operating expense line on the Consolidated Statements of Income. The twelve-month measurement period ended on September 30, 2019.

The following table summarizes the final purchase price allocation to assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess allocated to goodwill. Measurement period adjustments during the first quarter of fiscal year 2020 included a reduction of \$2.0 million to Property and Equipment as a result of additional information obtained related to the valuation of certain equipment as of the acquisition date and a \$0.2 million reduction in Other long-term liabilities to adjust deferred tax liabilities on the equipment. These measurement period adjustments to the purchase price allocation in the first quarter of fiscal year 2020 increased Goodwill by \$1.8 million. For tax purposes, \$8.9 million of the goodwill in the following table is expected to be deductible. See Note 1 – Business Description and Summary of Significant Accounting Policies and Note 6 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements for information on subsequent testing and measurement of Goodwill.

(Amounts in Thousands)	<b>October 1, 2018</b>
Cash .....	\$ 2,257
Receivables .....	15,656
Inventories .....	6,454
Prepaid expenses and other current assets .....	1,424
Property and Equipment .....	7,037
Other Intangible Assets .....	19,259
Other Assets .....	498
Goodwill .....	13,745
Total assets acquired .....	<u>\$ 66,330</u>
 Borrowings under Credit Facilities .....	 \$ 12,843
Accounts payable .....	4,113
Accrued expenses .....	1,340
Other long-term liabilities .....	5,653
Total liabilities assumed .....	<u>\$ 23,949</u>
Net assets acquired .....	<u><u>\$ 42,381</u></u>

Income tax liabilities, indirect tax liabilities, and liabilities for unrecognized tax benefits, including interest and penalties, of \$4.2 million were recorded as of October 1, 2018 related to pre-closing tax periods of Global Equipment Services & Manufacturing Vietnam Company Limited of which \$3.9 million was recorded in Other long-term liabilities and \$0.3 million was included in Accrued expenses. This reflects management's best assessment of the estimated taxes, interest, and penalties as of the acquisition date that are more likely than not to be paid, or for indirect taxes the probable amounts due to the tax authorities, including interest and penalties, under the applicable laws in the various jurisdictions. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is significantly different from our current estimate of the tax liabilities. Included in the Receivables line above is a related indemnification asset of \$4.2 million for these estimated tax liabilities. The seller has agreed to indemnify the buyer in the purchase agreements for all taxes allocable to all pre-closing tax periods.

Other Intangible Assets include the estimated fair values for finite-lived intangible assets acquired and are listed in the table below along with their estimated useful lives which are being amortized on a straight-line basis.

(Amounts in Thousands)	<b>Estimated Fair Value</b>	<b>Estimated useful life (years)</b>
Software .....	\$ 379	3 to 7
Technology .....	5,060	5
Trade name .....	6,369	10
Customer relationships .....	7,451	15
Total other intangible assets .....	<u>\$ 19,259</u>	

### Note 3 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 fiscal years 2020 and 2019:

(Amounts in Millions)	Year Ended	
	2020	2019
<b>Vertical Markets:</b>		
Automotive . . . . .	\$ 457.4	\$ 474.3
Medical . . . . .	397.8	367.5
Industrial . . . . .	271.0	255.9
Public Safety . . . . .	56.2	66.2
Other . . . . .	18.2	17.9
Total net sales . . . . .	<u>\$ 1,200.6</u>	<u>\$ 1,181.8</u>

For fiscal years 2020 and 2019, approximately 78% and 70% 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. The remaining sales revenues were primarily recognized at a point in time when the customer obtained control of the manufactured product. Revenue recognized for tooling, excess inventory, and other services was not material for fiscal year 2020 and 2019.

The timing differences of revenue recognition, billings to our customers, and cash collections from our customers result in billed accounts receivable and unbilled accounts receivable. Contract assets on the Consolidated Balance Sheets relate to unbilled accounts receivable and occur when revenue is recognized over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date, which are generally transferred to receivables in the next fiscal quarter due to the short-term nature of the manufacturing cycle. Contract assets were \$70.4 million and \$51.9 million as of June 30, 2020 and 2019, 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 Consolidated Balance Sheets, which amounted to \$7.1 million and \$6.3 million as of June 30, 2020 and 2019, respectively.

### Note 4 Inventories

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

(Amounts in Thousands)	2020	2019
Finished products . . . . .	\$ 4,529	\$ 2,708
Work-in-process . . . . .	3,577	4,119
Raw materials . . . . .	210,937	197,013
Total inventory . . . . .	<u>\$ 219,043</u>	<u>\$ 203,840</u>

## Note 5 Property and Equipment

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

(Amounts in Thousands)	2020	2019
Land and land use rights . . . . .	\$ 11,792	\$ 11,836
Buildings and improvements . . . . .	80,606	78,508
Machinery and equipment . . . . .	278,858	255,978
Construction-in-progress . . . . .	19,646	14,262
Total . . . . .	\$ 390,902	\$ 360,584
Less: Accumulated depreciation . . . . .	(236,373)	(216,955)
Property and equipment, net . . . . .	<u>\$ 154,529</u>	<u>\$ 143,629</u>

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

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

Depreciation of property and equipment totaled, in millions, \$27.7 for fiscal year 2020, \$26.3 for fiscal year 2019, and \$25.5 for fiscal year 2018.

## Note 6 Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

(Amounts in Thousands)

### Balance as of June 30, 2018

Goodwill . . . . .	\$ 19,017
Accumulated impairment . . . . .	(12,826)
Goodwill, net . . . . .	<u>6,191</u>
Goodwill Acquired . . . . .	<u>11,913</u>

### Balance as of June 30, 2019

Goodwill . . . . .	30,930
Accumulated impairment . . . . .	(12,826)
Goodwill, net . . . . .	<u>18,104</u>
Purchase Accounting Adjustments . . . . .	1,832
Impairment . . . . .	<u>(7,925)</u>

### Balance as of June 30, 2020

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

We acquired \$13.7 million in goodwill resulting from the GES acquisition, with \$11.9 million reported in fiscal year 2019 and \$1.8 million added in fiscal year 2020 as a result of fair value measurement period adjustments. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition. During fiscal year 2020, \$7.9 million of goodwill impairment was recognized at the GES reporting unit. During fiscal years 2019 and 2018, no goodwill impairment was recognized.

GES's annual goodwill impairment test date is April 30th. Subsequent to our annual test date, we identified an indicator of impairment related to future anticipated revenues, which triggered an additional impairment test as of June 30, 2020. The June 30, 2020 test (the "GES impairment test") resulted in a \$7.9 million goodwill impairment charge, partially offset by a \$1.0 million reduction in income tax expense associated with the deferred tax asset established for the deductible portion of the impaired goodwill.



For the GES impairment test, we used an independent, third-party valuation specialist to assist in the determination of fair value for the GES reporting unit. We used a combination of the Income Approach, using a discounted cash flow model, and the Market Approach, based on projected fiscal year 2021 results. Significant assumptions include:

- Income Approach and Market Approach each weighted at 50%
- Weighted average cost of capital (“WACC”) of 20%, based on observed market return data and size and company-specific risk premiums; a change of 100 basis points in the determined WACC has an approximate \$1.7 million impact on the calculated fair value
- Forecasted revenue growth rates ranging from 20% to 50% in fiscal years 2021 through 2023, and ranging from 3% to 12% thereafter
- Terminal growth rate of 3%
- Improved operating margins driven by revenue growth and product mix

The forecast assumptions are considered management’s best projections for the outlook of this business but are uncertain, and potential events or circumstances, such as not receiving the award of certain identified new business programs in fiscal year 2021 and beyond, not realizing revenue growth projections from new and existing customers and markets, and not achieving forecasted operating margins, could have a negative effect on GES’s estimated fair value and result in additional impairment charges that could be material to the Consolidated Financial Statements. Other macroeconomic events or circumstances, such as a sustained downturn in global economies or the industries GES serves, also could negatively affect estimated fair values.

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

(Amounts in Thousands)	June 30, 2020			June 30, 2019		
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Capitalized Software . . . . .	\$ 32,052	\$ 27,851	\$ 4,201	\$ 32,015	\$ 27,124	\$ 4,891
Customer Relationships . . . . .	8,618	2,014	6,604	8,618	1,506	7,112
Technology . . . . .	5,060	1,777	3,283	5,060	766	4,294
Trade Name . . . . .	6,369	1,114	5,255	6,369	478	5,891
Other Intangible Assets . . . . .	<u>\$ 52,099</u>	<u>\$ 32,756</u>	<u>\$ 19,343</u>	<u>\$ 52,062</u>	<u>\$ 29,874</u>	<u>\$ 22,188</u>

During fiscal years 2020, 2019, and 2018, amortization expense of other intangible assets was, in millions, \$3.2, \$2.6, and \$0.9, respectively. Amortization expense in future periods is expected to be, in millions, \$3.1, \$3.0, \$2.9, \$2.1, and \$1.6 in the five years ending June 30, 2025, and \$6.6 thereafter. The estimated useful life of internal-use software ranges from 3 to 10 years. The amortization period for the customer relationships, technology, and trade name intangible assets is 15 years, 5 years, and 10 years, respectively. We have no intangible assets with indefinite useful lives which are not subject to amortization.

Substantially all the customer relationships, technology, and trade name intangible assets were acquired in fiscal year 2019 as a result of the GES acquisition. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition. No customer relationships, technology, and trade name intangible assets were acquired in fiscal year 2020.

Intangible assets are reviewed for impairment, and their remaining useful lives evaluated for revision, when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. During the fourth quarter of fiscal year 2020, as a result of the indicator of impairment that led to goodwill impairment, we determined that the carrying amount of the GES long-lived asset group, including their other intangible assets, may not be recoverable. As a result, we tested the GES long-lived asset group for recoverability as of June 30, 2020. The test resulted in no impairment as the undiscounted cash flows of the GES long-lived asset group exceeded the carrying amount.

Significant judgment was used in performing the impairment test, including the use of customer relationships as the primary asset to determine the remaining useful life of the asset group, and the assumptions around the undiscounted cash flows of the asset group. If the estimated undiscounted cash flows related to GES’s long-lived assets are not realized, an impairment charge may result, which could be material to the Consolidated Financial Statements.

## Note 7 Commitments and Contingent Liabilities

### Guarantees:

As of June 30, 2020 and 2019, we had no guarantees issued which were contingent on the future performance of another entity. Standby letters of credit may be issued to third-party suppliers and insurance institutions and can only be drawn upon in the event of the Company's failure to pay its obligations to the beneficiary. We had a maximum financial exposure from unused standby letters of credit totaling \$0.4 million as of both June 30, 2020 and 2019. We do not expect circumstances to arise that would require us to perform under any of these arrangements and believe that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect our consolidated financial statements. Accordingly, no liability has been recorded as of June 30, 2020 and 2019 with respect to the standby letters of credit. We also may enter into commercial letters of credit to facilitate payments to vendors and from customers.

### Banker's Acceptance Drafts:

One of the Company's China operations, in limited circumstances, receives banker's acceptance drafts from customers as settlement for their trade accounts receivable. We in turn may transfer the acceptance drafts to a supplier of ours in settlement of current accounts payable. These drafts contain certain recourse provisions afforded to the transferee under laws of The People's Republic of China. If a transferee were to exercise its available recourse rights, the draft would revert back to our China operation and we would be required to satisfy the obligation with the transferee. At June 30, 2020 and 2019, the drafts transferred and outstanding totaled \$0.4 million and \$0.9 million, respectively. No transferee has exercised their recourse rights against us. For additional information on banker's acceptance drafts, see Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements.

### Product Warranties:

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

Changes in the product warranty accrual during fiscal years 2020, 2019, and 2018 were as follows:

(Amounts in Thousands)	2020	2019	2018
Product Warranty Liability at the beginning of the year	\$ 958	\$ 656	\$ 593
Additions to warranty accrual (including changes in estimates)	(271)	361	346
Settlements made (in cash or in kind)	(40)	(59)	(283)
Product Warranty Liability at the end of the year	<u>\$ 647</u>	<u>\$ 958</u>	<u>\$ 656</u>

## Note 8 Credit Facilities

Credit facilities consisted of the following:

(Amounts in Millions, in U.S Dollar Equivalents)	Unused Borrowings at June 30, 2020	Borrowings Outstanding at June 30, 2020	Borrowings Outstanding at June 30, 2019
Primary credit facility <sup>(1)</sup>	\$ 38.2	\$ 111.4	\$ 122.8
Secondary credit facility <sup>(2)</sup>	30.0	—	—
Thailand overdraft credit facility <sup>(3)</sup>	0.1	—	—
Netherlands revolving credit facility <sup>(4)</sup>	3.6	6.7	3.4
Poland revolving credit facility <sup>(5)</sup>	5.6	—	—
Total credit facilities	<u>\$ 77.5</u>	<u>118.1</u>	<u>126.2</u>
Less: current portion		(26.6)	(34.7)
Long-term debt under credit facilities, less current portion <sup>(6)</sup>		<u>\$ 91.5</u>	<u>\$ 91.5</u>

- (1) 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. This facility is maintained for working capital and general corporate purposes of the Company including capital expenditures and acquisitions. A commitment fee is payable on the unused portion of the credit facility which was immaterial to our operating results in fiscal years 2020, 2019, and 2018. The commitment fee on the unused portion of 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, 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 under the primary credit facility, 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 1.10 to 1.00.

The Company had \$0.4 million in letters of credit contingently committed against the primary credit facility at both June 30, 2020 and 2019.

- (2) During the current fiscal year, the Company established 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.

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

- the LIBOR in effect two business days prior to the advance (adjusted upwards to reflect bank reserve costs) for such interest period as defined under the secondary credit facility, plus the Eurocurrency Loans spread of 2.125%; or
- the ABR, which is defined as the highest of the fluctuating rate per annum equal to the higher of
  - a. JPMorgan’s prime rate;
  - b. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined under the secondary credit facility); or
  - c. 1% per annum above the Adjusted LIBO Rate (as defined under the secondary credit facility);plus the ABR Loans spread of 1.125%.

The Company’s financial covenants under this secondary credit facility are the same as the financial covenants listed above for its primary credit facility.

- (3) The Company also maintains a foreign credit facility for its operation in Thailand which allows for borrowings of up to 2.4 million Thai Baht (approximately \$0.1 million at June 30, 2020 exchange rates). This credit facility can be terminated at any time by either the Company or the bank by giving prior written notice of at least 15 days to the other party. Interest on borrowing under this facility is charged at a rate of interest determined by the bank in accordance with relevant laws and regulations for charging interest on an overdraft facility.
- (4) The Company also maintains an uncommitted revolving credit facility for our Netherlands subsidiary. The Netherlands credit facility allows for borrowings of up to 9.2 million Euro (approximately \$10.3 million at June 30, 2020 exchange rates), which borrowings can be made in Euro, U.S. dollars, or other optional currency. The availability of funds under this facility is at the sole discretion of the bank. Proceeds from the facility are to be used for general corporate purposes. Interest on borrowing under this facility is charged at a rate of interest dependent on the denomination of the currency borrowed. The facility matures on June 22, 2021.
- (5) The Company also maintains an uncommitted revolving credit facility for our Poland operation, which allows for borrowings up to 5 million Euro (approximately \$5.6 million at June 30, 2020 exchange rates) that can be drawn in Euro, U.S. dollars, or Polish Zloty. The availability of funds under this uncommitted facility is at the sole discretion of the bank. Proceeds from the facility are to be used for general working capital purposes. Interest on borrowing under this facility is charged at a rate of interest dependent on the denomination of the currency borrowed. The facility matures on December 20, 2020.
- (6) The amount of Long-term debt under credit facilities, less current maturities reflects the borrowings on the primary credit facility that the Company intends, and has the ability, to refinance for a period longer than twelve months. The primary credit facility matures on July 27, 2023.

The weighted-average interest rate on borrowings outstanding under the credit facilities at June 30, 2020 and June 30, 2019 were 2.5% and 4.5%, respectively. Cash payments for interest on borrowings in fiscal years 2020, 2019, and 2018 were, in millions, \$4.9, \$3.0, and \$0.4, respectively. Capitalized interest expense was immaterial during fiscal years 2020, 2019, and 2018.

## **Note 9 Employee Benefit Plans**

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

The Company maintains a trustee defined contribution retirement plan which is in effect for substantially all domestic employees meeting the eligibility requirements. 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 discretionary employer contribution for domestic employees is determined annually by the Compensation and Governance Committee of the Company's Board of Directors. Total expense related to employer contributions to the domestic retirement plans was, in millions, \$2.4, \$2.1, and \$2.0 for fiscal years 2020, 2019, and 2018, respectively.

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

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

As of June 30, 2020 and 2019, total obligations under these plans were \$4.2 million and \$3.4 million, respectively, of which \$3.6 million and \$3.1 million were long term and \$0.6 million and \$0.3 million were short term. Of the total obligation at June 30, 2020 and 2019, domestic plans were \$1.1 million and \$1.5 million and foreign plans were \$3.1 million and \$1.9 million, respectively. Actuarial (gain) loss is recorded in Accumulated Other Comprehensive (Income) Loss and amortized into net period benefit cost on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans. Net periodic benefit cost recognized for these plans in fiscal years 2020, 2019, and 2018 were \$0.3 million, \$0.8 million, and \$0.3 million, respectively.

## Note 10 Stock Compensation Plans

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

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

Pre-tax stock compensation charged against income in fiscal years 2020, 2019, and 2018 was \$4.0 million, \$5.7 million, and \$5.3 million, respectively. These costs are included in Selling and Administrative Expenses.

### *Performance Shares:*

The Company awards performance shares to officers and other key employees. Under these awards granted prior to fiscal year 2016, a number of shares will be issued to each participant based upon the attainment of the applicable bonus percentage calculated under the Company's profit sharing incentive bonus plan as applied to a total potential share award made and approved by the Compensation and Governance Committee of the Board. Under these awards granted in and subsequent to fiscal year 2016, a number of shares will be issued to each participant based upon a combination of the bonus percentage attainment 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.

Performance shares are vested when shares of the Company's Common Stock are issued shortly after the end of the fiscal year in which the performance measurement period is complete. Certain outstanding performance shares are applicable to performance measurement periods in future fiscal years and will be measured at fair value when the performance targets are established in future fiscal years. The contractual life of performance shares ranges from one year to five years. If a participant is not employed on the date shares are issued, the performance share award is forfeited, except in the case of death, retirement at age 62 or older, total permanent disability, or certain other circumstances described in the Plan.

A summary of the Company's performance share activity during fiscal year 2020 is presented below:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Performance shares outstanding at July 1, 2019 . . . . .	447,260	\$ 17.16
Granted . . . . .	252,878	\$ 14.39
Vested . . . . .	(253,483)	\$ 15.47
Forfeited . . . . .	(3,119)	\$ 11.87
Performance shares outstanding at June 30, 2020 . . . . .	<u>443,536</u>	\$ 16.58

As of June 30, 2020, there was approximately \$4.3 million of unrecognized compensation cost related to performance shares, based on the latest estimated attainment of performance goals. That cost is expected to be recognized over annual performance periods ending August 2020 through August 2022, with a weighted average vesting period of ten months. The fair value of performance shares is based on the stock price at the date of grant. During fiscal years 2020, 2019, and 2018, respectively, 253,483, 292,175, and 255,757 performance shares vested at a fair value of \$3.9 million, \$3.9 million, and \$2.9 million. The performance shares vested represent the total number of shares vested prior to the reduction of shares withheld to satisfy tax withholding obligations. The number of shares presented in the above table, the amounts of unrecognized compensation, and the weighted average period include performance shares awarded that are applicable to future performance measurement periods and will be measured at fair value when the performance targets are established in future fiscal years.

### ***Unrestricted Share Grants:***

Unrestricted shares may be granted to employees and members of the Board as consideration for services rendered. Unrestricted share grants do not have vesting periods, holding periods, restrictions on sale, or other restrictions. The fair value of unrestricted shares is based on the stock price at the date of the award. During fiscal years 2020, 2019, and 2018, respectively, the Company granted a total of 4,258, 4,236, and 7,694 unrestricted shares at an average grant date fair value of \$16.99, \$17.69, and \$20.15 for a total fair value of \$0.1 million, \$0.1 million, and \$0.2 million. Unrestricted shares were awarded to non-employee members of the Board as compensation for director's fees, including directors' elections to receive unrestricted shares in lieu of cash payment. Director's fees are expensed over the period that directors earn the compensation. Unrestricted shares were also awarded to a key employee which were expensed immediately.

### ***Deferred Share Units:***

Deferred share units may be granted to non-employee members of the Board under the Deferral Plan as compensation for the portion of their annual retainer fees resulting from their election to receive deferred share units in lieu of cash payment or unrestricted shares. Director's fees are expensed over the period that directors earn the compensation. Deferred share units are participating securities and are payable in common stock in a lump sum or installments in accordance with deferral elections upon a director's retirement or termination from the Board or death. During fiscal years 2020, 2019, and 2018, respectively, 32,950, 32,758, and 12,159 deferred share units were granted to non-employee members of the Board at an average grant date fair value of \$17.30, \$17.40, and \$20.15 for a total fair value of \$0.6 million, \$0.6 million, and \$0.2 million. During fiscal year 2020, 2,754 shares of common stock were issued under the Deferral Plan to a former non-employee member of the Board in accordance with their deferral election at an average fair value of \$17.51.

## **Note 11 Income Taxes**

The U.S. Tax Cuts and Jobs Act ("Tax Reform") was enacted into law on December 22, 2017. Tax Reform makes 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. Tax Reform reduces the U.S. corporate statutory tax rate from 35% to 21%. For our fiscal year ended June 30, 2018, we had a blended U.S. corporate tax rate of 28.1%, which was based on the applicable tax rates before and after Tax Reform and the number of days in the fiscal year. The aggregate unremitted earnings of the Company's foreign subsidiaries were approximately \$270 million as of June 30, 2020. Most of these accumulated unremitted foreign earnings have been invested in active non-U.S. business operations, and it is not anticipated such earnings will be remitted to the United States. Our intent is to permanently reinvest these funds outside of the United States. However, if such funds were repatriated, a portion of the funds remitted may be subject to applicable non-U.S. income and withholding taxes.

Accounting guidance provided a measurement period of one year from the Tax Reform enactment date, during which a company could complete the accounting for the impacts of Tax Reform. In accordance with the accounting guidance, the Company recorded provisional tax expense of \$17.8 million related to Tax Reform for fiscal year 2018, including \$4.4 million for the revaluation of the net deferred tax assets and \$13.4 million for the deemed repatriation tax.

In accordance with the expiration of the one-year measurement period, the Company completed the assessment of the income tax effects of Tax Reform in fiscal year 2019. In finalizing the tax expense resulting from Tax Reform, the Company reversed \$0.4 million of previous tax expense for the deemed repatriation tax. At June 30, 2020, \$9.8 million is recorded in Long-term income taxes payable on the Consolidated Balance Sheet for the deemed repatriation tax.

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



The components of the deferred tax assets and liabilities as of June 30, 2020 and 2019, were as follows:

(Amounts in Thousands)	2020	2019
Deferred Tax Assets:		
Receivables . . . . .	\$ 145	\$ 105
Inventory . . . . .	1,894	1,914
Employee benefits . . . . .	224	193
Deferred compensation . . . . .	5,338	6,149
Other current liabilities . . . . .	265	1,275
Tax credit carryforwards . . . . .	2,445	1,638
Goodwill . . . . .	1,608	268
Net operating loss carryforward . . . . .	2,398	2,339
Net foreign currency losses . . . . .	—	11
Miscellaneous . . . . .	4,020	2,970
Valuation Allowance . . . . .	(1,637)	(658)
Total asset . . . . .	<u>\$ 16,700</u>	<u>\$ 16,204</u>
Deferred Tax Liabilities:		
Other intangible assets . . . . .	\$ 1,313	\$ 1,412
Property and equipment . . . . .	1,211	1,116
Net foreign currency gains . . . . .	22	—
Miscellaneous . . . . .	581	477
Total liability . . . . .	<u>\$ 3,127</u>	<u>\$ 3,005</u>
Net Deferred Income Taxes . . . . .	<u>\$ 13,573</u>	<u>\$ 13,199</u>

Income tax benefits associated with the net operating loss carryforwards expire from fiscal year 2023 to 2040. Income tax benefits associated with tax credit carryforwards primarily expire from fiscal year 2021 to 2029. A valuation allowance was provided as of June 30, 2020 and 2019 for deferred tax assets related to certain state credits of, in millions, \$1.6 and \$0.7, respectively. Except as reserved for in the valuation allowance, we believe our tax credit and net operating loss carryforwards are more likely than not to be realized in the future.

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

(Amounts in Thousands)	Year Ended June 30		
	2020	2019	2018
United States . . . . .	\$ (6,117)	\$ 11,191	\$ 5,609
Foreign . . . . .	31,274	27,294	39,166
Total income before taxes on income . . . . .	<u>\$ 25,157</u>	<u>\$ 38,485</u>	<u>\$ 44,775</u>

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

(Amounts in Thousands)	Year Ended June 30		
	2020	2019	2018
Current Taxes:			
Federal . . . . .	\$ (1,666)	\$ 872	\$ 13,132
Foreign . . . . .	8,479	7,545	11,982
State . . . . .	(29)	203	459
Total payable . . . . .	<u>\$ 6,784</u>	<u>\$ 8,620</u>	<u>\$ 25,573</u>
Deferred Taxes:			
Federal . . . . .	\$ 99	\$ 67	\$ 5,015
Foreign . . . . .	237	(1,177)	(2,427)
State . . . . .	(1,138)	(603)	(776)
Valuation allowance . . . . .	979	20	638
Total deferred . . . . .	<u>\$ 177</u>	<u>\$ (1,693)</u>	<u>\$ 2,450</u>
Total provision for income taxes . . . . .	<u><u>\$ 6,961</u></u>	<u><u>\$ 6,927</u></u>	<u><u>\$ 28,023</u></u>

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

(Amounts in Thousands)	Year Ended June 30					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Tax computed at U.S. federal statutory rate. . . . .	\$ 5,283	21.0%	\$ 8,082	21.0%	\$ 12,582	28.1%
State income taxes, net of federal income tax benefit . . . . .	(1,128)	(4.5)	(320)	(0.8)	(408)	(0.9)
Foreign tax rate differential . . . . .	714	2.8	313	0.8	(1,615)	(3.6)
Impact of foreign exchange rates on foreign income taxes . . . . .	867	3.4	156	0.4	180	0.4
Non-deductible goodwill impairment . . . . .	388	1.5	—	—	—	—
Valuation allowance . . . . .	979	3.9	20	0.1	638	1.4
Research credit . . . . .	(1,056)	(4.2)	(627)	(1.6)	(378)	(0.8)
Deemed repatriation . . . . .	—	—	(416)	(1.1)	13,436	30.0
Revaluation of net deferred tax assets . . . . .	—	—	(10)	—	4,357	9.7
Global intangible low tax income . . . . .	607	2.4	—	—	—	—
Other - net . . . . .	307	1.4	(271)	(0.8)	(769)	(1.7)
Total provision for income taxes . . . . .	<u><u>\$ 6,961</u></u>	<u><u>27.7%</u></u>	<u><u>\$ 6,927</u></u>	<u><u>18.0%</u></u>	<u><u>\$ 28,023</u></u>	<u><u>62.6%</u></u>

Net cash payments for income taxes were, in thousands, \$9,096, \$10,172 and \$14,724 in fiscal years 2020, 2019, and 2018, respectively.

Changes in the unrecognized tax benefit, excluding accrued interest and penalties, during fiscal years 2020, 2019, and 2018 were as follows:

(Amounts in Thousands)	2020	2019	2018
Beginning balance - July 1	\$ 904	\$ 160	\$ 102
Tax positions related to prior fiscal years:			
Additions	116	758	78
Reductions	—	—	(20)
Tax positions related to current fiscal year:			
Additions	—	—	—
Reductions	—	—	—
Settlements	—	—	—
Lapses in statute of limitations	(66)	(14)	—
Ending balance - June 30	<u>\$ 954</u>	<u>\$ 904</u>	<u>\$ 160</u>
Portion that, if recognized, would reduce tax expense and effective tax rate	<u>\$ 262</u>	<u>\$ 214</u>	<u>\$ 137</u>

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

Interest and penalties accrued for unrecognized tax benefits as of both June 30, 2020 and 2019 was \$1.6 million. Interest and penalties accrued for unrecognized tax benefits as of June 30, 2018 and expenses related to interest and penalties in fiscal years 2020, 2019, and 2018 were not material.

Liabilities for unrecognized tax benefits, including interest and penalties, have been recorded as a result of the GES acquisition related to pre-closing tax periods of Global Equipment Services & Manufacturing Vietnam Company Limited. This reflects management's best assessment of the estimated taxes, interest, and penalties that are more likely than not to be paid under the applicable laws in the various jurisdictions. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information related to the GES acquisition.

The Company or its wholly-owned subsidiaries file U.S. federal income tax returns and income tax returns in various state, local, and foreign jurisdictions. We are no longer subject to any significant U.S. federal tax examinations by tax authorities for years before fiscal year 2017. We are subject to various state and local income tax examinations by tax authorities for years after June 30, 2015, and various foreign jurisdictions for years after June 30, 2015.

Global Equipment Services & Manufacturing Vietnam Company Limited is subject to U.S. federal tax examinations and various state and local jurisdictions by tax authorities for years after December 31, 2007 and for various foreign jurisdictions for years after December 31, 2009 relating to periods prior to the acquisition date.

## Note 12 Share Owners' Equity

On October 21, 2015, the Company's Board of Directors (the "Board") authorized an 18-month stock repurchase plan (the "Plan") allowing a repurchase of up to \$20 million worth of common stock. Then, separately on each of September 29, 2016, August 23, 2017, and November 8, 2018, 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 \$80 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, and as of June 30, 2020, the Plan is temporarily suspended as a result of the COVID-19 environment.

During fiscal year 2020, the Company repurchased \$8.8 million of common stock under the Plan at an average price of \$14.12 per share, which was recorded as Treasury stock, at cost in the Consolidated Balance Sheet. Since the inception of the Plan, the Company has repurchased \$76.7 million of common stock under that Plan at an average cost of \$14.93 per share.

### Note 13 Fair Value

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

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

There were no changes in the inputs or valuation techniques used to measure fair values during fiscal year 2020.

#### *Financial Instruments Recognized at Fair Value:*

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

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

#### *Recurring Fair Value Measurements:*

As of June 30, 2020 and 2019, 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:

		June 30, 2020		
		Level 1	Level 2	Total
(Amounts in Thousands)				
<b>Assets</b>				
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		<u>\$ 11,617</u>	<u>\$ 741</u>	<u>\$ 12,358</u>
<b>Liabilities</b>				
Derivatives: foreign exchange contracts		\$ —	\$ 2,134	\$ 2,134
Total liabilities at fair value		<u>\$ —</u>	<u>\$ 2,134</u>	<u>\$ 2,134</u>
		June 30, 2019		
		Level 1	Level 2	Total
(Amounts in Thousands)				
<b>Assets</b>				
Cash equivalents		\$ 1,123	\$ —	\$ 1,123
Derivatives: foreign exchange contracts		—	1,832	1,832
Trading securities: mutual funds held in nonqualified SERP		9,268	—	9,268
Total assets at fair value		<u>\$ 10,391</u>	<u>\$ 1,832</u>	<u>\$ 12,223</u>
<b>Liabilities</b>				
Derivatives: foreign exchange contracts		\$ —	\$ 299	\$ 299
Total liabilities at fair value		<u>\$ —</u>	<u>\$ 299</u>	<u>\$ 299</u>

We had no Level 3 assets or liabilities during fiscal years 2020 and 2019.

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

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

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

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

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

**Note 14 Derivative Instruments**

***Foreign Exchange Contracts:***

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

We use forward contracts designated as cash flow hedges to protect against foreign currency exchange rate risks inherent in forecasted transactions denominated in a foreign currency. 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 June 30, 2020, we had outstanding foreign exchange contracts to hedge currencies against the U.S. dollar in the aggregate notional amount of \$32.3 million and to hedge currencies against the Euro in the aggregate notional amount of 62.5 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 effective portions of the gain or loss on the derivative instrument are initially recorded net of related tax effect in Accumulated Other Comprehensive Income (Loss), a component of Share Owners’ Equity, and are subsequently reclassified into earnings in the period or periods during which the hedged transaction is recognized in earnings. The gain or loss associated with derivative instruments that are not designated as hedging instruments or that cease to meet the criteria for hedging under FASB guidance is reported immediately in Non-operating income or expense on the Consolidated Statements of Income.

Based on fair values as of June 30, 2020, we estimate that approximately \$1.7 million of pre-tax derivative loss deferred in Accumulated Other Comprehensive Income (Loss) will be reclassified into earnings, along with the earnings effects of related forecasted transactions, within the fiscal year ending June 30, 2021. Losses on foreign exchange contracts are generally offset

by gains in operating costs in the income statement when the underlying hedged transaction is recognized in earnings. Because gains or losses on foreign exchange contracts fluctuate partially based on currency spot rates, the future effect on earnings of the cash flow hedges alone is not determinable, but in conjunction with the underlying hedged transactions, the result is expected to be a decline in currency risk. The maximum length of time we had hedged our exposure to the variability in future cash flows was 12 months as of both June 30, 2020 and June 30, 2019.

See Note 13 - Fair Value of Notes to Consolidated Financial Statements for further information regarding the fair value of derivative assets and liabilities and Note 19 - Accumulated Other Comprehensive Income (Loss) of Notes to Consolidated Financial Statements for the amount and changes in derivative gains and losses deferred in Accumulated Other Comprehensive Income (Loss).

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

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

(Amounts in Thousands)	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value As of		Balance Sheet Location	Fair Value As of	
		June 30 2020	June 30 2019		June 30 2020	June 30 2019
Derivatives Designated as Hedging Instruments:						
Foreign exchange contracts . . .	Prepaid expenses and other current assets . . . . .	\$ 517	\$ 1,136	Accrued expenses . .	\$ 2,054	\$ 278
Derivatives Not Designated as Hedging Instruments:						
Foreign exchange contracts . . .	Prepaid expenses and other current assets . . . . .	224	696	Accrued expenses . .	80	21
Total derivatives . . . . .		\$ 741	\$ 1,832		\$ 2,134	\$ 299

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

(Amounts in Thousands)	June 30		
	2020	2019	2018
<b>Amount of Pre-Tax Gain or (Loss) Recognized in Other Comprehensive Income (Loss) (OCI) on Derivatives:</b>			
Foreign exchange contracts . . . . .	<u>\$ (2,079)</u>	<u>\$ 3,337</u>	<u>\$ (2,669)</u>

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

(Amounts in Thousands)		Year Ended June 30		
Derivatives in Cash Flow Hedging Relationships	Location of Gain or (Loss)	2020	2019	2018
Amount of Pre-Tax Gain or (Loss) Reclassified from Accumulated OCI into Income:				
Foreign exchange contracts .....	Cost of Sales .....	\$ 64	\$ 1,061	\$ (1,648)
Foreign exchange contracts .....	Non-operating income (expense) .....	—	5	(20)
Total .....		\$ 64	\$ 1,066	\$ (1,668)
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) .....	\$ 1,558	\$ 2,766	\$ 796
Total Derivative Pre-Tax Gain (Loss) Recognized in Income .....		\$ 1,622	\$ 3,832	\$ (872)



## Note 15 Investments

### *Supplemental Employee Retirement Plan 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. We recognize SERP investment assets on the balance sheet at current fair value. A SERP liability of the same amount is recorded on the balance sheet representing an obligation to distribute SERP funds to participants. The SERP investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized in income in the Other Income (Expense) category. Adjustments made to revalue the SERP liability are also recognized in income as selling and administrative expenses and offset valuation adjustments on SERP investment assets. The change in net unrealized holding gains for the fiscal years ended June 30, 2020, 2019, and 2018 was, in thousands, \$385, \$35, and \$552, respectively.

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

(Amounts in Thousands)	June 30	
	2020	2019
SERP investments - current asset	\$ 1,972	\$ 1,728
SERP investments - other long-term asset	8,505	7,540
Total SERP investments	<u>\$ 10,477</u>	<u>\$ 9,268</u>
SERP obligation - current liability	\$ 1,972	\$ 1,728
SERP obligation - other long-term liability	8,505	7,540
Total SERP obligation	<u>\$ 10,477</u>	<u>\$ 9,268</u>

## Note 16 Accrued Expenses

Accrued expenses consisted of:

(Amounts in Thousands)	June 30	
	2020	2019
Taxes	\$ 5,135	\$ 5,760
Compensation	16,839	19,046
Customer advance payments	7,145	6,345
Retirement plan	2,337	1,959
Insurance	1,618	1,675
Other expenses	9,190	8,411
Total accrued expenses	<u>\$ 42,264</u>	<u>\$ 43,196</u>

**Note 17 Geographic Information**

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

(Amounts in Thousands)	At or For the Year Ended June 30		
	2020	2019	2018
Net Sales:			
United States . . . . .	\$ 346,376	\$ 321,805	\$ 224,834
Mexico . . . . .	232,135	282,400	256,537
Poland . . . . .	244,107	251,635	282,847
China . . . . .	159,746	146,332	177,930
Thailand . . . . .	124,415	113,276	87,513
Other Foreign . . . . .	93,771	66,396	42,400
Total net sales . . . . .	<u>\$ 1,200,550</u>	<u>\$ 1,181,844</u>	<u>\$ 1,072,061</u>
Long-Lived Assets:			
United States . . . . .	\$ 48,190	\$ 43,887	\$ 39,465
Mexico . . . . .	36,548	31,238	30,733
Poland . . . . .	32,670	29,736	33,629
Romania . . . . .	17,707	19,546	19,394
China . . . . .	10,405	12,138	14,546
Other Foreign . . . . .	13,210	11,975	3,773
Total long-lived assets . . . . .	<u>\$ 158,730</u>	<u>\$ 148,520</u>	<u>\$ 141,540</u>

**Note 18 Earnings Per Share**

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

(Amounts in thousands, except per share data)	Year Ended June 30		
	2020	2019	2018
Basic and Diluted Earnings Per Share:			
Net Income . . . . .	\$ 18,196	\$ 31,558	\$ 16,752
Less: Net Income allocated to participating securities . . . . .	24	32	9
Net Income allocated to common Share Owners . . . . .	<u>\$ 18,172</u>	<u>\$ 31,526</u>	<u>\$ 16,743</u>
Basic weighted average common shares outstanding . . . . .	25,243	25,857	26,745
Dilutive effect of average outstanding performance shares . . . . .	165	200	255
Dilutive effect of average outstanding deferred stock units . . . . .	20	25	7
Dilutive weighted average shares outstanding . . . . .	<u>25,428</u>	<u>26,082</u>	<u>27,007</u>
Earnings Per Share of Common Stock:			
Basic . . . . .	\$ 0.72	\$ 1.22	\$ 0.63
Diluted . . . . .	\$ 0.71	\$ 1.21	\$ 0.62

**Note 19 Accumulated Other Comprehensive Income (Loss)**

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

(Amounts in Thousands)	Foreign Currency Translation Adjustments	Derivative Gain (Loss)	Postemployment Benefits Net Actuarial Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2018. ....	\$ (4,357)	\$ (3,379)	\$ 837	\$ (6,899)
Other comprehensive income (loss) before reclassifications. ....	(2,491)	2,638	339	486
Reclassification to (earnings) loss. ....	—	(857)	(358)	(1,215)
Net current-period other comprehensive income (loss). ....	\$ (2,491)	\$ 1,781	\$ (19)	\$ (729)
Balance at June 30, 2019. ....	\$ (6,848)	\$ (1,598)	\$ 818	\$ (7,628)
Other comprehensive income (loss) before reclassifications. ....	(1,046)	(1,570)	87	(2,529)
Reclassification to (earnings) loss. ....	—	(86)	(308)	(394)
Net current-period other comprehensive income (loss). ....	(1,046)	(1,656)	(221)	(2,923)
Balance at June 30, 2020. ....	\$ (7,894)	\$ (3,254)	\$ 597	\$ (10,551)

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

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

(Amounts in Thousands)	Year Ended June 30		Affected Line Item in the
	2020	2019	Consolidated Statements of Income
Derivative Gain (Loss) <sup>(1)</sup>	\$ 64	\$ 1,061	Cost of Sales
	—	5	Non-operating income (expense), net
	22	(209)	Benefit (Provision) for Income Taxes
	\$ 86	\$ 857	Net of Tax
Postemployment Benefits:			
Amortization of Actuarial Gain (Loss) <sup>(2)</sup>	\$ 406	\$ 472	Non-operating income
	(98)	(114)	Benefit (Provision) for Income Taxes
	\$ 308	\$ 358	Net of Tax
Total Reclassifications for the Period	\$ 394	\$ 1,215	Net of Tax

Amounts in parentheses indicate reductions to income.

(1) See Note 14 - Derivative Instruments of Notes to Consolidated Financial Statements for further information on derivative instruments.

(2) See Note 9 - Employee Benefit Plans of Notes to Consolidated Financial Statements for further information on postemployment benefit plans.

**Note 20 Leases**

The Company determines if a contract is or contains a lease at inception. The Company leases certain office, manufacturing, and warehouse facilities under operating leases, in addition to land on which certain office and manufacturing facilities reside. These operating leases expire from fiscal year 2020 to 2057. The Company has a minimal number of finance leases with an immaterial impact on its Consolidated Financial Statements.

Operating lease costs in fiscal year 2020 were \$1.2 million, including short-term and variable lease costs. Cash payments for operating leases included in the measurement of lease liabilities in fiscal year 2020 were \$0.8 million, which is included in Cash Flows from Operating Activities in the Consolidated Statement of Cash Flows.

The lease assets and liabilities, which exclude leases with terms of 12 months or less, as of June 30, 2020, were as follows:

**(Amounts in Thousands)**

Operating lease right-of-use assets (included in Other Assets) . . . . .	\$ 2,025
Operating lease liability, current (included in Accrued expenses) . . . . .	\$ 817
Operating lease liability, noncurrent (included in Other long-term liabilities) . . . . .	\$ 1,208
Weighted average remaining lease term in years - operating leases . . . . .	4.7
Weighted average discount rate - operating leases . . . . .	3.3%

Future lease payments as of June 30, 2020 are as follows:

**(Amounts in Thousands)**

2021 . . . . .	\$ 832
2022 . . . . .	655
2023 . . . . .	95
2024 . . . . .	95
2025 . . . . .	95
Thereafter . . . . .	380
Total undiscounted lease payments . . . . .	\$ 2,152
Less: imputed interest . . . . .	127
Total lease liabilities . . . . .	<u>\$ 2,025</u>

As reported under the previous lease accounting standard, the total rental expense amounted to \$1.1 million and \$0.7 million in fiscal years 2019 and 2018, respectively, and the aggregate future minimum rental payments on our operating leases, as of June 30, 2019, were, in millions, \$0.8, \$0.7, \$0.6, \$0.1, and \$0.1 for the five years ending June 30, 2024, respectively, and \$0.5 million thereafter. As of June 30, 2019, capital leases were immaterial.

**Note 21 Quarterly Financial Information (Unaudited)**

<b>(Amounts in Thousands, Except for Per Share Data)</b>	<b>Three Months Ended</b>			
	<b>September 30</b>	<b>December 31</b>	<b>March 31</b>	<b>June 30</b>
<b>Fiscal Year 2020:</b>				
Net Sales . . . . .	\$ 313,385	\$ 307,084	\$ 293,925	\$ 286,156
Gross Profit . . . . .	22,193	20,511	20,212	20,925
Goodwill Impairment . . . . .	—	—	—	7,925
Operating Income . . . . .	11,115	8,684	10,588	1,609
Net Income (Loss) . . . . .	6,598	6,612	6,259	(1,273)
Basic Earnings (Loss) Per Share . . . . .	\$ 0.26	\$ 0.26	\$ 0.25	\$ (0.05)
Diluted Earnings (Loss) Per Share . . . . .	\$ 0.26	\$ 0.26	\$ 0.25	\$ (0.05)
<b>Fiscal Year 2019:</b>				
Net Sales . . . . .	\$ 265,620	\$ 284,149	\$ 313,454	\$ 318,621
Gross Profit . . . . .	18,186	20,444	26,554	23,222
Operating Income . . . . .	7,032	10,212	14,497	10,319
Net Income . . . . .	5,069	7,115	11,849	7,525
Basic Earnings Per Share . . . . .	\$ 0.19	\$ 0.27	\$ 0.46	\$ 0.30
Diluted Earnings Per Share . . . . .	\$ 0.19	\$ 0.27	\$ 0.46	\$ 0.29

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

None.

**Item 9A - Controls and Procedures**

- (a) Evaluation of disclosure controls and procedures.

Kimball Electronics maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation of those controls and procedures performed, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective as of June 30, 2020.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations adopted pursuant thereto, the Company included a report of management's assessment of the effectiveness of its internal control over financial reporting as part of this report. The effectiveness of the Company's internal control over financial reporting as of June 30, 2020 has been audited by the Company's independent registered public accounting firm. Management's report and the independent registered public accounting firm's attestation report are included in the Company's Consolidated Financial Statements under the caption entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

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

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2020 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B - Other Information**

None.

## **PART III**

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

#### **Directors**

The information required by this item with respect to Directors is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Election of Directors."

#### **Committees**

The information required by this item with respect to the Audit Committee and its financial expert and with respect to the Compensation and Governance Committee's responsibility for establishing procedures by which Share Owners may recommend nominees to the Board of Directors is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Corporate Governance at Kimball Electronics."

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

The information required by this item with respect to Executive Officers of the Registrant is included at the end of Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

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

The information required by this item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Delinquent Section 16(a) Reports."

#### **Code of Ethics**

Kimball Electronics has a code of ethics that applies to all of its employees, including the Chief Executive Officer, the Chief Financial Officer, and the Corporate Controller (functioning as Principal Accounting Officer). The code of ethics is posted on the Company's website at [investors.kimballectronics.com](http://investors.kimballectronics.com). It is our intention to disclose any amendments to the code of ethics on this website. In addition, any waivers of the code of ethics for directors or executive officers of the Company will be disclosed in a Current Report on Form 8-K.

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

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the captions "Corporate Governance at Kimball Electronics" and "Executive Compensation."

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

#### **Security Ownership**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Share Ownership Information."

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

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the captions "Equity Compensation Plans Information" and "Share Ownership Information."



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

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

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Review and Approval of Transactions with Related Persons."

#### **Director Independence**

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Corporate Governance at Kimball Electronics."

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

The information required by this item is incorporated by reference to the material contained in the Company's Proxy Statement for its annual meeting of Share Owners to be held November 10, 2020 under the caption "Selection of Independent Registered Public Accounting Firm" and "Appendix A — Approval Process for Services Performed by the Independent Registered Public Accounting Firm."

## PART IV

### Item 15 - Exhibits, Financial Statement Schedules

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

(1) Financial Statements:

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

Management's Report on Internal Control Over Financial Reporting. . . . .	35
Report of Independent Registered Public Accounting Firm . . . . .	36
Consolidated Balance Sheets as of June 30, 2020 and 2019 . . . . .	38
Consolidated Statements of Income for Each of the Three Years in the Period Ended June 30, 2020 . .	39
Consolidated Statements of Comprehensive Income for Each of the Three Years in the Period Ended June 30, 2020 . . . . .	40
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended June 30, 2020 . . . . .	41
Consolidated Statements of Share Owners' Equity for Each of the Three Years in the Period Ended June 30, 2020 . . . . .	42
Notes to Consolidated Financial Statements . . . . .	43

(2) Financial Statement Schedules:

II. Valuation and Qualifying Accounts for Each of the Three Years in the Period Ended June 30, 2020 . . . . .	77
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Schedules other than those listed above are omitted because they are either not required or not applicable, or the required information is presented in the Consolidated Financial Statements.

(3) Exhibits

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

### Item 16 - Form 10-K Summary

None.

**KIMBALL ELECTRONICS, INC.**  
**INDEX OF EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Separation and Distribution Agreement by and between Kimball International, Inc. and Kimball Electronics, Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed November 3, 2014, File No. 001-36454)
2.2 <sup>(d)(e)</sup>	Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of May 11, 2018 (Incorporated by reference to Exhibit 2.2 to the Company's Form 10-K for the year ended June 30, 2018, File No. 001-36454)
2.3	Amendment Number One to Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of July 12, 2018 (Incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q for the quarter ended December 31, 2018, File No. 001-36454)
2.4 <sup>(d)</sup>	Amendment Number Two to Asset Purchase Agreement by and among Kimball Electronics Indiana, Inc., as Buyer; GES Holdings, Inc., Global Equipment Services and Manufacturing Inc., GES Infotek Pvt. Ltd., GES Japan KK, Global Equipment Services and Manufacturing (Suzhou) Co., Ltd., and Suzhou Global Equipment Services and Trading Co., Ltd., as Sellers; and GES Holdings, Inc., as the Sellers' Representative, dated as of September 14, 2018 (Incorporated by reference to Exhibit 2.2 to the Company's Form 10-Q for the quarter ended December 31, 2018, File No. 001-36454)
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 November 12, 2019, 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 November 12, 2019, File No. 001-36454)
4.1 <sup>(b)</sup>	Description of the Company's Registered Securities
10.1 <sup>(a)</sup>	Form of Employment Agreement (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed June 30, 2017, File No. 001-36454)
10.2 <sup>(a)</sup>	Form of Annual and/or Long-Term Performance Share Award Amendment (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 3, 2014, File No. 001-36454)
10.3 <sup>(a)</sup>	2014 Stock Option and Incentive Plan (Incorporated by reference to Exhibit 4.3 to the Company's Form S-8 for the Company's 2014 Stock Option and Incentive Plan filed on October 30, 2014, File No. 333-199728)
10.4 <sup>(a)</sup>	Form of Long-Term Performance Share Award Agreement, to be used for Long-Term Performance Share Awards granted prior to June 29, 2015 (Incorporated by reference to Exhibit 10.3 of Amendment 3 to the Company's Form 10 filed on September 4, 2014, File No. 001-36454)
10.5	Tax Matters Agreement by and among Kimball International, Inc. and Kimball Electronics, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed November 3, 2014, File No. 001-36454)
10.6	Employee Matters Agreement by and between Kimball International, Inc. and Kimball Electronics, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed November 3, 2014, File No. 001-36454)
10.7	Transition Services Agreement by and between Kimball International, Inc. and Kimball Electronics, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed November 3, 2014, File No. 001-36454)
10.8 <sup>(a)</sup>	Description of the Kimball Electronics, Inc. 2019 Profit Sharing Incentive Bonus Plan (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 12, 2019, File No. 001-36454)
10.9 <sup>(a)</sup>	Kimball Electronics, Inc. Supplemental Employee Retirement Plan ("SERP") (Incorporated by reference to Exhibit 10.8 of Amendment 3 to the Company's Form 10 filed on September 4, 2014, File No. 001-36454)

10.10 <sup>(a)</sup>	Form of Long-Term Performance Share Award Agreement, as amended June 29, 2016, to be used for Long-Term Performance Share Awards granted on or subsequent to June 29, 2016 (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed June 27, 2016, File No. 001-36454)
10.11 <sup>(a)</sup>	Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed October 25, 2016, File No. 001-36454)
10.12 <sup>(a)</sup>	Form of Fee Deferral Election Agreement under the Kimball Electronics, Inc. Non-Employee Directors Stock Compensation Deferral Plan (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed October 25, 2016, File No. 001-36454)
10.13	Amended and Restated Credit Agreement among Kimball Electronics, Inc., the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent and Bank of America, N.A., as Documentation Agent (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed August 1, 2018, File No. 001-36454)
10.14 <sup>(d)</sup>	Credit Agreement among Kimball Electronics, Inc., the lenders party thereto, and JPMorgan Chase Bank, National Association, as Administrative Agent and Bank of America, N.A., as Documentation Agent (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed May 21, 2020, File No. 001-36454)
21 <sup>(b)</sup>	Subsidiaries of the Registrant
23 <sup>(b)</sup>	Consent of Independent Registered Public Accounting Firm
24 <sup>(b)</sup>	Power of Attorney
31.1 <sup>(b)</sup>	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 <sup>(b)</sup>	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 <sup>(b)(c)</sup>	Certification furnished by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 <sup>(b)(c)</sup>	Certification furnished by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS <sup>(b)</sup>	XBRL Instance Document
101.SCH <sup>(b)</sup>	XBRL Taxonomy Extension Schema Document
101.CAL <sup>(b)</sup>	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF <sup>(b)</sup>	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB <sup>(b)</sup>	XBRL Taxonomy Extension Label Linkbase Document
101.PRE <sup>(b)</sup>	XBRL Taxonomy Extension Presentation Linkbase Document

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

<sup>(b)</sup> Filed herewith

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

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

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

## SIGNATURES

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

KIMBALL ELECTRONICS, INC.

By: /s/ MICHAEL K. SERGESKETTER

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Michael K. Sergesketter  
*Vice President,*  
*Chief Financial Officer*  
August 27, 2020

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

/s/ DONALD D. CHARRON

---

Donald D. Charron  
*Chairman of the Board,*  
*Chief Executive Officer*  
August 27, 2020

/s/ MICHAEL K. SERGESKETTER

---

Michael K. Sergesketter  
*Vice President,*  
*Chief Financial Officer*  
August 27, 2020

/s/ MARK D. HODELL

---

Mark D. Hodell  
*Corporate Controller,*  
*(functioning as Principal Accounting Officer)*  
August 27, 2020

**Signature**

GREGORY J. LAMPERT \*

\_\_\_\_\_  
Gregory J. Lampert

*Director*

ROBERT J. PHILLIPPY \*

\_\_\_\_\_  
Robert J. Phillippy

*Director*

HOLLY A. VAN DEURSEN \*

\_\_\_\_\_  
Holly A. Van Deursen

*Director*

**Signature**

COLLEEN C. REPPLIER \*

\_\_\_\_\_  
Colleen C. Repplier

*Director*

GREGORY A. THAXTON \*

\_\_\_\_\_  
Gregory A. Thaxton

*Director*

MICHELE M. HOLCOMB, PhD \*

\_\_\_\_\_  
Michele M. Holcomb, PhD

*Director*

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

**Date**

August 27, 2020

/s/ DONALD D. CHARRON

\_\_\_\_\_  
Donald D. Charron

*As Attorney-In-Fact*

**KIMBALL ELECTRONICS, INC.**

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

<b>Description</b>	<b>Balance at Beginning of Year</b>	<b>Additions (Reductions) to Expense</b>	<b>Adjustments to Other Accounts</b>	<b>Write-offs and Recoveries</b>	<b>Balance at End of Year</b>
<b>(Amounts in Thousands)</b>					
Year Ended June 30, 2020					
Valuation Allowances:					
Receivables . . . . .	\$ 270	\$ 265	\$ (5)	\$ (7)	\$ 523
Deferred Tax Asset . . . . .	\$ 658	\$ 979	\$ —	\$ —	\$ 1,637
Year Ended June 30, 2019					
Valuation Allowances:					
Receivables . . . . .	\$ 482	\$ 184	\$ 14	\$ (410)	\$ 270
Deferred Tax Asset . . . . .	\$ 638	\$ 20	\$ —	\$ —	\$ 658
Year Ended June 30, 2018					
Valuation Allowances:					
Receivables . . . . .	\$ 284	\$ 259	\$ (51)	\$ (10)	\$ 482
Deferred Tax Asset . . . . .	\$ —	\$ 638	\$ —	\$ —	\$ 638



**Exhibit 31.1**

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

I, Donald D. Charron, certify that:

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

Date: August 27, 2020

/s/ DONALD D. CHARRON

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

Date: August 27, 2020

/s/ MICHAEL K. SERGESKETTER

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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 Annual Report of Kimball Electronics, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald D. Charron, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 27, 2020

/s/ DONALD D. CHARRON

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

**Exhibit 32.2**

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

In connection with the Annual Report of Kimball Electronics, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2020 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: August 27, 2020

/s/ MICHAEL K. SERGESKETTER

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MICHAEL K. SERGESKETTER

Vice President,  
Chief Financial Officer

#### BOARD OF DIRECTORS

**Donald D. Charron**  
Chairman of the Board

**Michele M. Holcomb, PhD**  
Director

**Gregory J. Lampert**  
Director

**Robert J. Phillippy**  
Director

**Colleen C. Repplier**  
Director

**Gregory A. Thaxton**  
Director

**Holly A. Van Deursen**  
Director

#### LEADERSHIP TEAM

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

**Desiree L. Castillejos**  
VP, Corporate Development and M&A, and Chief Strategy Officer

**Jessica L. DeLorenzo**  
VP, Human Resources

**John H. Kahle**  
VP, General Counsel, Chief Compliance Officer, and Secretary

**LeRoy W. Kemper**  
VP, Diversified Contract Manufacturing Services

**Steven T. Korn**  
President, Global Electronics Manufacturing Services Operations

**Michael K. Sergesketter**  
VP, Chief Financial Officer

**Sandy A. Smith**  
VP, Information Technology

**Kathy R. Thomson**  
VP, Global Business Development and Design Services

**Christopher J. Thyen**  
VP, New Platforms

#### RETIRED LEADERSHIP

**Roger Chang (Chang Shang Yu)\***  
Chang joined the Company 16 years ago as Director of China Initiatives. He became Vice President, Asian Operations in 2005.

**Janusz F. Kasprzyk\***  
Kasprzyk joined the Company as Operations Manager 20 years ago. He was appointed General Manager of the Kimball Electronics Poland facility in 2005 and then Vice President, European Operations in 2014.

\*Retired June 30, 2020

#### CORPORATE INFORMATION

##### Form 10-K Report

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

##### Transfer Agent and Registrar of the Common Stock

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

##### Mail

Computershare  
P.O. BOX 30170  
College Station, TX 77842-3170  
US/Toll Free: 1-877-373-6374  
Non-US: 1-781-575-2879

##### Investor Centre™ website

[www.computershare.com/investor](http://www.computershare.com/investor)

##### World Headquarters

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



**Kimball**® Electronics  
Lasting relationships. Global success.

**World Headquarters**

Kimball Electronics, Inc.  
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Jasper, IN 47546

[www.kimballelectronics.com](http://www.kimballelectronics.com)

