



# Lasting Relationships. Global Success.

For Our Customers, Employees, Suppliers, and Share Owners



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, and precision molded plastics. 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  
*(1 Manufacturing Facility, World Headquarters)*  
Indianapolis, Indiana  
Tampa, Florida  
San Jose, California  
Reynosa, Mexico

Europe

Poznan, Poland  
Timisoara, Romania

Asia

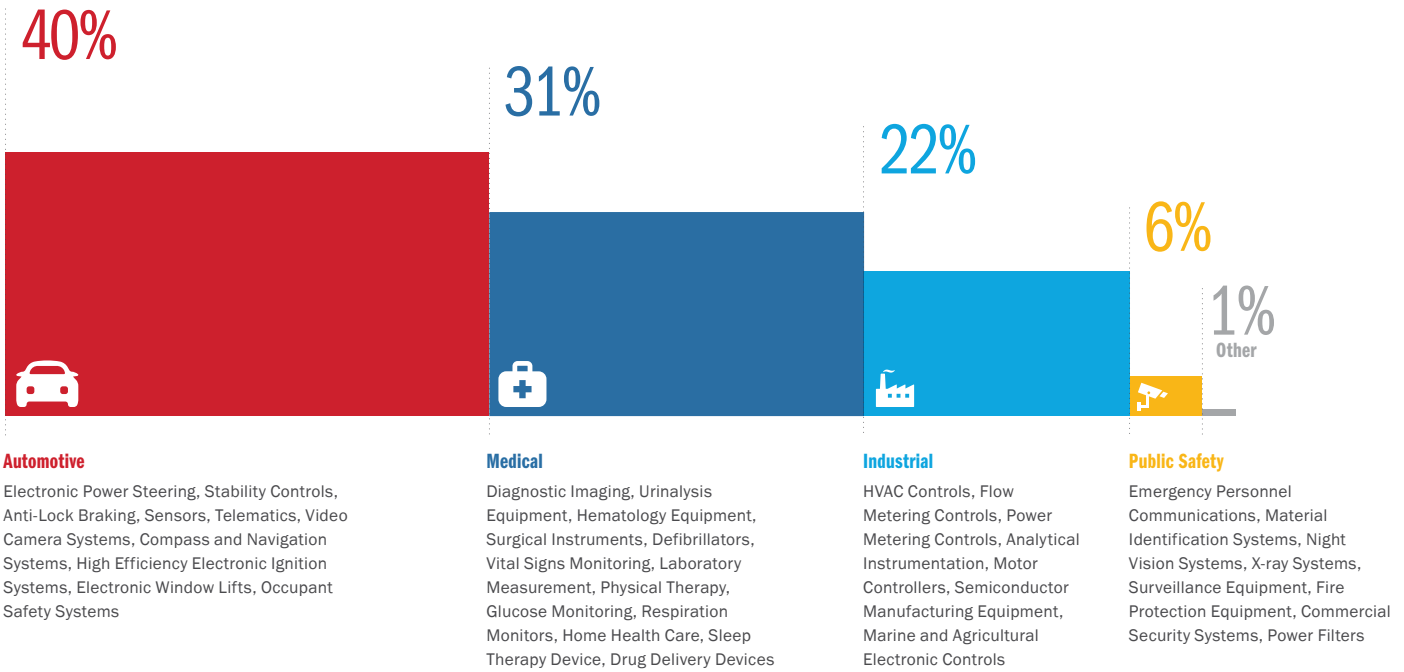
Nanjing, China  
Suzhou, China  
Trivandrum, India  
Chiba, Japan  
Laem Chabang, Thailand  
Ho Chi Minh City, Vietnam

Financial Highlights

	Fiscal Year Ended June 30,		
	2019 <sup>1</sup>	2018	% Change
Net Sales	\$ 1,181,844	\$ 1,072,061	10%
Operating Income, as reported (GAAP) <sup>2</sup>	\$ 42,060	\$ 42,038	0%
Pre-tax Settlement Proceeds from Lawsuits	(307)	—	
Adjusted Operating Income (non-GAAP) <sup>2</sup>	\$ 41,753	\$ 42,038	-1%
Net Income, as reported (GAAP)	\$ 31,558	\$ 16,752	88%
Tax Adjustments Resulting from Tax Reform	(251)	17,859	
After-tax Settlement Proceeds from Lawsuits	(233)	—	
Adjusted Net Income (non-GAAP)	\$ 31,074	\$ 34,611	-10%
Diluted Earnings per Share, as reported (GAAP)	\$ 1.21	\$ 0.62	95%
Tax Adjustments Resulting from Tax Reform	(0.01)	0.66	
Impact of Settlement Proceeds from Lawsuits	(0.01)	—	
Adjusted Diluted Earnings per Share (non-GAAP)	\$ 1.19	\$ 1.28	-7%
Return on Invested Capital	8.7%	10.1%	-14%
Cash Flow from Operations	\$ (6,748)	\$ 40,200	-117%
Capital Expenditures	\$ 25,843	\$ 26,519	-3%
Share Owners’ Equity	\$ 369,854	\$ 355,527	4%

<sup>1</sup> As of the beginning of fiscal year 2019, the Company adopted the new accounting standard on Revenue from Contracts with Customers on a modified retrospective basis. The adoption increased Net Sales \$8.7 million, increased Net Income \$0.8 million, and Diluted EPS increased \$0.03. The prior period was not restated.  
<sup>2</sup> Prior period amounts have been restated to reflect the retrospective adoption of new accounting guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost.

Diversified Portfolio of End Markets and Market Services





## To Our Share Owners

**Fiscal year 2019 was another record-breaking year for our company, as we reached a new high in net sales. We achieved double-digit sales growth for the fourth time in the past five years. Since fiscal year 2015, our first year as a stand-alone public company, our net sales have increased 44%.**

While we are pleased with the success that we have attained in pursuing our growth ambitions, we recognize that there is still work to do to achieve our operating margin and return on invested capital goals. While we faced several challenges during the year, including industry-wide component shortages, impacts of the U.S. and China tariffs, and slow start of our new acquisition, I am proud of the global teamwork that helped us successfully navigate the disruptions and maintain the continuity of supply. With the ongoing dedication and commitment of our associates around the world, we will continue our relentless pursuit to achieve our operating margin and return on invested capital goals and create 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.” In our tag line, when we say “Lasting Relationships,” we are speaking about the healthy long-term intent we have when initiating the relationships with all the stakeholders in our business: our customers, employees, suppliers, communities, and Share Owners. In the second part of our tag line, “Global Success,” we are referring to our promise to help achieve success with those relationships wherever we go in the world. Progress in this area can be seen in both the high employee

satisfaction scores from our Guiding Principles survey and in our customer loyalty metrics. Once again, we increased the sales from customers we have been doing business with for over 10 years from 61% of our total sales in fiscal year 2018 to 78% in fiscal year 2019. We received several customer recognition awards this year based upon our service.

It’s also encouraging 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 2018, another indication of our continued progress in service excellence.

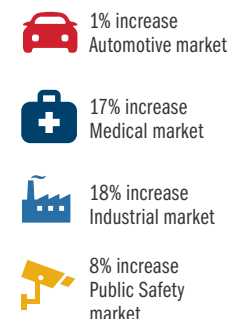
During our fifth year as a stand-alone public company, we continued to make investments that will increase customer engagement and drive future growth in sales and profits. We deployed capital to support our new business awards and to add capacity in our existing facilities to support growth in existing business. We funded our acquisition of Global Equipment Services (GES), which was a significant step taken in our strategy to become a multifaceted manufacturing solutions company.

We plan to publish our first Environmental, Social, and Governance (ESG) report by the end of this calendar year. Our employees around the world feel a strong sense of responsibility to protect the environment and to give back in meaningful ways to the communities where we live and work. Our Board has been active in the review and update of our Governance Principles. We hope that the report will 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 2019 were \$1,181,844,000, a 10% increase when compared to net sales last fiscal year. Sales in our Automotive end

**↑10%**  
increase in net sales



market vertical were up just 1% in fiscal year 2019, mainly due to a double-digit decline in sales to China that offset most of the strong growth in North America. Sales in our Medical end market vertical, boosted by the ramp-up of several new programs, were up 17%. Helped by our GES acquisition, sales in our Industrial end market vertical were up a solid 18% in fiscal year 2019. Sales in our Public Safety end market vertical rebounded nicely and were up 8% in fiscal year 2019 when compared to fiscal year 2018.

Largely as a result of the decrease in demand in the automotive market in China and the slow start with our GES acquisition, our adjusted operating income decreased from 3.9% in fiscal year 2018 to 3.5% in fiscal year 2019, which was below our goal of 4.5%. While we were disappointed to finish the year below our goal, we were pleased with our progress in Romania and the operating margin improvement in several of our other business units. Consolidated adjusted net income decreased from \$34.6 million, or \$1.28 per diluted share, in fiscal year 2018 to \$31.1 million, or \$1.19 per diluted share, in fiscal year 2019. Return on invested capital was 8.7% in fiscal year 2019, down from 10.1% in fiscal year 2018 and 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 2020.

We used a portion of our available liquidity to fund the GES acquisition and grow our existing business. During the year, we invested \$25.8 million in capital expenditures and returned another \$23.4 million to our Share Owners through the stock repurchase program. Even with these significant capital outlays, we still ended fiscal year 2019 with \$111 million in available liquidity.

### Staying Focused on Executing our Strategy

Because our package of value begins with our core competency of producing durable electronics, we are uniquely positioned and qualified to take full advantage of the strong growth opportunities in the Automotive, Medical, Industrial, and Public Safety end markets. 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 capabilities, we are establishing strategic inroads by developing innovative plastic injection molding solutions for our medical customers. With our GES acquisition, we are making investments in automation, test, and inspection equipment that are increasing customer engagement and adding capabilities for expansion as a multifaceted manufacturing solutions company.

We remained very active in the implementation of our people strategy as we initiate 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 Kimball Electronics’ global team 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





208 MILLION+

lives touched by a product  
manufactured by Kimball  
Electronics this year.

Lasting Relationships. Global Success.  
**FOR OUR CUSTOMERS**

Our success is directly linked to the lasting relationships we’ve cultivated with our customers, treating their businesses like they are our business. Our team focuses on a long-term outlook of the strategic customer partnership that is mutually beneficial and rooted in hard work and dedication.

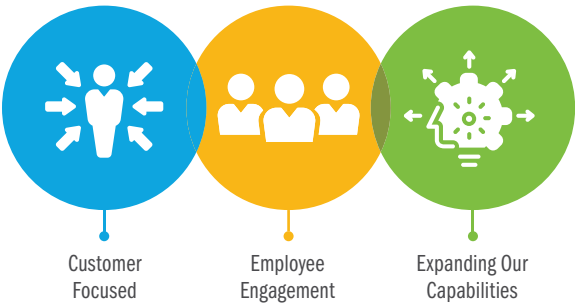


**Building Global Success for Our Customers: What it Means to Us**

Our customer is our business. We state it in our Guiding Principles, and you can see it exhibited by each of our employees. At Kimball Electronics, we realize that the products we produce for our customers make a difference in the world, and we love being a part of making that difference. We have an established business model tailored to fit the customer and their team. A Kimball Electronics Business Manager is assigned to serve as a single point of contact for our customers and to lead our global, customer-focused team. This team is in place to focus on the long-term outlook of the strategic relationship and expand our capabilities if needed.

**How We Succeed**

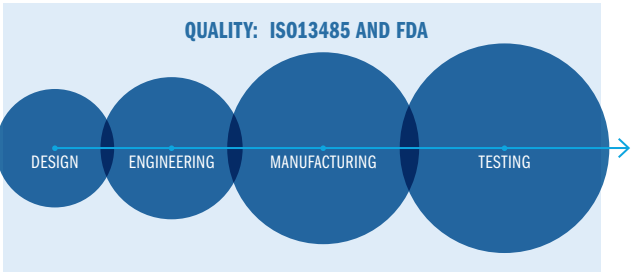
The Business Manager’s role is to guide the customer relationship, from customer preferences to manufacturing solutions and everything in between. Each customer is also assigned a Program Manager at each manufacturing location who leads a customer-focused team at that facility and oversees the daily operations to meet the needs of the customer. The Kimball Electronics customer-focused team members collaborate with members of the customers’ team: engineers, quality managers, and others involved with production. This direct employee engagement allows us to stay connected, treating their businesses as if they are our business.



**Collaborating Successfully**

A Medical customer came to Kimball Electronics with a product designed to combine an established drug with an innovative delivery platform. Our customer’s goal of achieving superiority over the current standard of care and a dedication to building an innovative solution for serious and life-threatening medical conditions was a perfect fit for Kimball Electronics. The result is a drug delivery device with innovative functionality derived from patient-inspired design and produced through a state-of-the-art manufacturing process at Kimball Electronics that includes the plastics, the electronics production, and a fully automated assembly line. Through a truly collaborative partnership between the experts at our customer and customer-focused team, over 4.5 million lives were touched last year by this life-saving drug delivery device.

WE COMMIT TO CONSISTENTLY MEET  
OUR CUSTOMERS’ NEEDS IN DESIGN,  
MANUFACTURING, AND TESTING.





## Medical Manufacturing at Kimball Electronics: A Story of a Lasting Relationship and Global Success

A shining example of a customer relationship in our Medical end market is one that has lasted for nearly 15 years. In 2005, a partnership began with a small medical device manufacturer, and after a larger company purchased them in 2007, the relationship continued to grow. Over the years, Kimball Electronics has manufactured printed circuit assemblies (PCAs), upper level assemblies, and system level devices for many business groups within the customer’s organization. Products for this customer are now produced in five of Kimball Electronics’ worldwide facilities and are shipped to multiple customer locations around the world. Today, Kimball Electronics is a preferred global Electronics Manufacturing Services (EMS) provider for this medical customer and has received two Supplier Excellence awards from them. Kimball Electronics is proud to be a part of their success and continues to partner with them to create innovative and connected solutions across the entire patient care journey.



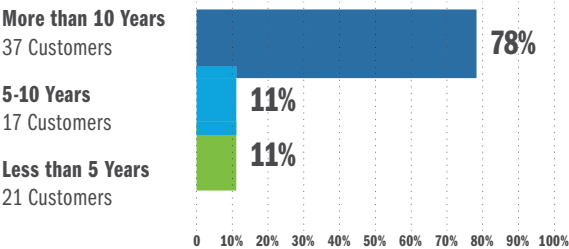
**8 MILLION+**  
lives were positively impacted  
by this relationship last year.



## Sustainable Long-Term Customer Relationships

The continued success of our business is dependent upon our ability to service our customers and their current and next generation products. We know that their continued success is our continued success as they replace expiring programs and products with new programs and products. We monitor our success in this area by tracking customer longevity and percent of our net sales by the years of customer loyalty. We believe long-term customers are more important than short-term results.

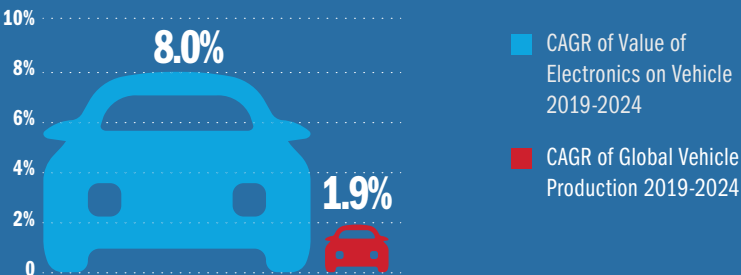
PERCENT OF FY19 NET SALES BY LENGTH OF CUSTOMER RELATIONSHIP



## Meeting the Vehicle Electronics Needs of Tomorrow

Over the next five years the compound annual growth rate for global vehicle production is projected to be 1.9%, however the value of electronics on those vehicles is widely predicted to have a compound annual growth rate of around 8%. The innovations and initiatives propelling the development of autonomous vehicles and the electrification of tomorrow’s cars are a significant driver of this growth, as is the quest for a more comfortable ride and the need for improved safety. Kimball Electronics is actively manufacturing products for our customers in all of these emerging areas with solutions such as redundant and duplicate circuits on traditional steering and braking systems. Our longest customer relationships include some of the world’s top manufacturers of steering and braking systems and the pioneers leading the way in developing the vehicles of tomorrow.

MARKET GROWTH



Source:  
“Automotive Electronics Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2019-2024”  
from Research & Markets  
2019 IHS Markit Spring Automotive Briefing



## Collaborating with Our Customers: Industry 4.0

In our Industrial market, we support engineering, design management, and manufacturing for some of the most complex assemblies supporting customer advancements in robotics, motor controls, test and measurement, smart meters, clean energy, and charging systems. We recognize and respond quickly and creatively to the ideas of our customers in the dynamic and evolving Industrial market. Our customers are globally recognized leaders in their markets, and our commitment to early stage involvement, partnership, and lasting relationships is what separates us from the competition.





Lasting Relationships. Global Success.

## FOR OUR EMPLOYEES

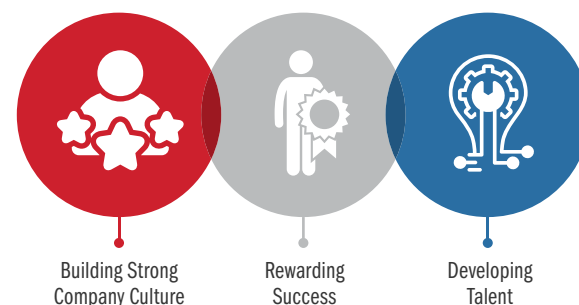
Our people are the company. We recognize that our employees are our biggest asset and their efforts are essential to meeting our goals. We promote a culture that ensures the development of our long-term talent pipeline for the next 100 years.

### Success for Our Employees: What it Means to Us

We want employees to share in the company's success, both financially and through personal growth and fulfillment. We're so passionate about how our people grow that we kicked off a major initiative, "Leading, The Kimball Way," to create an enduring foundation that fosters leadership and talent development to carry the company into the next century.

### How We Succeed

We rely on our employees' creativity, knowledge, and skills. The "Leading, The Kimball Way" journey began with the involvement of our extended leadership team members to ensure all aspects of our business were included. This structured, high-impact leadership development experience is designed to strengthen the talent pipeline throughout the company, to help execute our business strategy, and to enhance our already strong customer scorecard performances that demonstrate our solid reputation for Global Success in our markets.



### Leadership Story

The five pillars of "Leading, The Kimball Way" challenges our leaders to (1) be a catalyst for growth, (2) have an enterprise mindset, (3) cultivate talent, (4) show courage, and (5) build followership. It inspires introspection, asking each of them to consider the legacy they hope to leave behind as leaders, so that our company can continue and enhance our lasting relationships with customers, employees, suppliers, communities, and Share Owners for the next 100 years.



"What will be your leadership legacy that carries Kimball Electronics into the next century?"

DON CHARRON, CEO



## 6,300+ Employees Worldwide

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.



Our people get it! They take pride knowing that their work, through the quality they contribute to our customers' products, helps save lives and keeps people safe. They also take pride in helping make our communities great places to live. Their personal touch is felt throughout daily life – on and off the job.

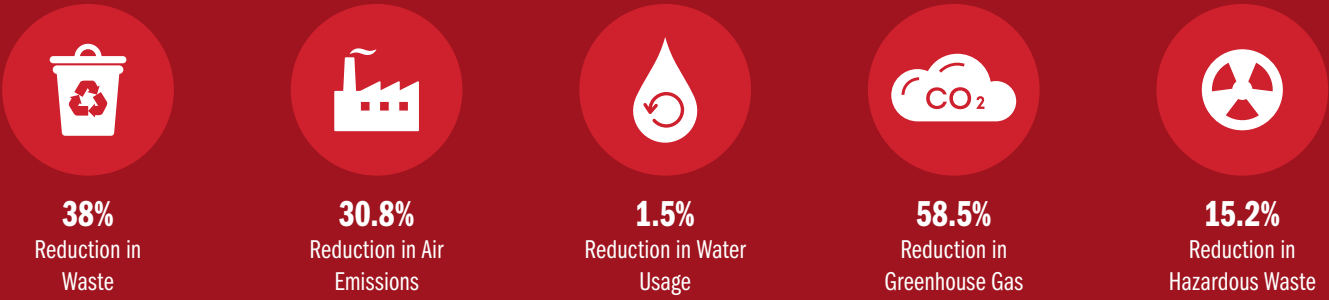
Employee Satisfaction

For many years, we have encouraged all employees to participate in our annual Guiding Principles survey that measures how well we as a company live up to the philosophies we have historically revered. Their feedback makes us an even better place to work.

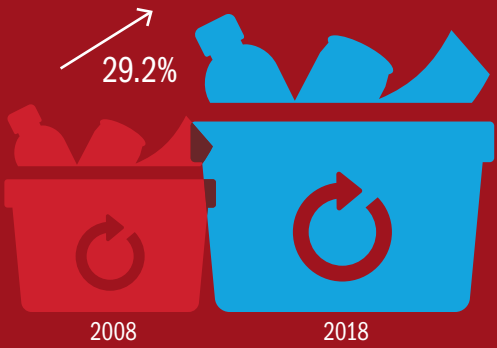
81% of our employees recommend Kimball Electronics as an employer of choice to others.

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 teams and the subsequent sharing of best practices globally.



We recycled 96.3% of our waste in 2018, representing a 29.2% increase in recycling over the past 10 years.



Diversity and Inclusion

Our facilities across the globe recognize International Women's Day (IWD). At our headquarters we held our first-ever panel discussion with our top female leaders, moderated by our CEO, Don Charron, and streamed live with our global locations. Great discussion about work-life balance has resulted. To us, it's all about creating the best environment for everyone to succeed.

68% of our corporate workforce is led by female officers whose decisions drive our global success.



72,000 potential lives impacted by our Indianapolis team producing 12,000 bags of food for Million Meal Movement.





Lasting Relationships. Global Success.  
FOR OUR SUPPLIERS

Supply chain management is critical to the success of our customers and to us as a company. Our team employs a rigorous, yet agile, continuous improvement process to maintain the flexibility, risk-mitigation focus, and transparency our customers demand.

Success for Our Suppliers: What it Means to Us

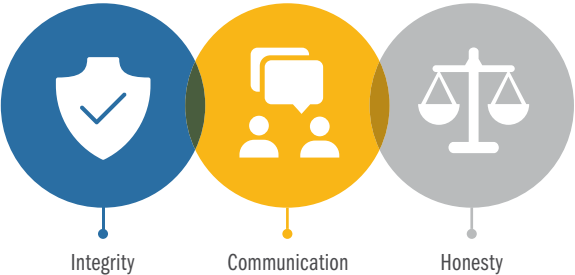
Many factors go into building a successful partnership with our suppliers: integrity, open communication, and honesty, are a few that stand out. These characteristics are a significant part of our vision and guiding principles and they help guide those relationships with our suppliers. We value the partnerships we've built with our strategic suppliers as a critical component of our total supply chain. As a material organization, we benefit from relationships with successful supply partners, and their sustainability helps us continue to grow our business in each of our vertical markets.

How We Succeed

Having the right material, at the right time and at the best cost, allows us to successfully execute our customers' requirements. Establishing and maintaining a high-quality, cost-effective, and consistent supply of materials is critical to our success, as well as the success of our customers.

Supply Chain Management

The management of the flow of goods and services and the processes required to transform component materials into our customers' final products is the heartbeat of our supply chain services. Our focus is streamlining our materials activities to maximize customer value and deliver a competitive advantage.



As we continue to see pressures across the supply chain through 2019 and beyond, our materials teams have worked hard to foster relationship growth and partnerships with our suppliers to offset those potential challenges.

Success Story

In 2019, our industry encountered many challenges relative to component availability. While facing a severely limited market for such items as multi-layer ceramic capacitors and power discrete components, we were able to leverage the strength of our supplier relationships and our supply chain teams to maintain a virtually uninterrupted supply of finished goods to our customers. Our supply chain management processes, the dedication of our materials management teams, and the flexibility of our supply partners and customers continue to be critical to our success.

“The true test of a partnership is best measured when the market is out of balance. Relationship management is not a tool to be used only when convenient or when a need arises, but it should be developed as a core tenet of any successful supply chain management philosophy. The bottom line is this: we must communicate often and thoroughly to ensure our customers’ needs and suppliers’ constraints are fully understood and acknowledged.”

JAMEY MANN, DIRECTOR OF GLOBAL PROCUREMENT

LEVERAGING GLOBAL MATERIALS SPEND



Global Procurement Director



Kimball Electronics Materials Council

NEGOTIATED PRICING FOR TOP SUPPLIERS PASSED ALONG TO MATERIALS MANAGERS AT EACH FACILITY FOR IMPLEMENTATION FOR OUR CUSTOMERS.



## Lasting Relationships. Global Success. FOR OUR SHARE OWNERS

The culmination of our efforts to nurture and grow the relationships with our customers, employees, and suppliers is, ultimately, increased value for our Share Owners.

# 125%

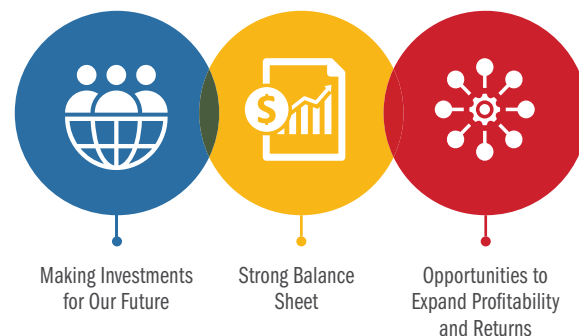
Since we became a stand-alone public company, our Total Shareholder Return has increased by 125% as of June 30, 2019.

### Success for our Share Owners: What it Means to Us

We want our Share Owners to benefit from our company's success, and we believe profits are the ultimate measure of how efficiently and effectively we manage the company's deployed capital. Since we became a stand-alone public company, our Total Shareholder Return has increased by 125% as of June 30, 2019, and has outpaced the NASDAQ market by 24%. We continue to share our financial success via our stock repurchase program, returning \$23.4 million in fiscal year 2019.

### How We Succeed

Our global workforce is financially incentivized to create shareholder value by achieving a return on invested capital that is higher than our weighted average cost of capital. We continue our relentless pursuit of improving capital efficiency, giving us the financial resources and freedom to achieve our long-term strategic goals.



### Sustainable Competitive Advantage

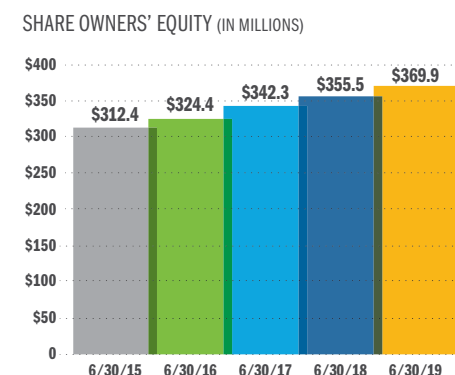
We continue to focus on providing customer solutions that require complexity, regulatory approval, and durable electronics while creating sustainable long-term customer relationships.



Our global manufacturing facilities meet the regulatory, compliance, and quality-control standards required by the markets' exacting needs that each facility serves.

### Opportunities to Expand Profitability and Returns

We continue to make investments that increase customer engagement and drive future growth in sales and profits. We carefully plan to deploy capital to support new business awards, and where needed, to add capacity to support growth in our existing business. We continue our development into a multifaceted manufacturing solutions company, by expanding our manufacturing capabilities and creating enhanced margin opportunities.



### Strong Balance Sheet – Ample Liquidity for Growth

CASH

# \$49 MILLION

TOTAL LIQUIDITY

# \$111 MILLION



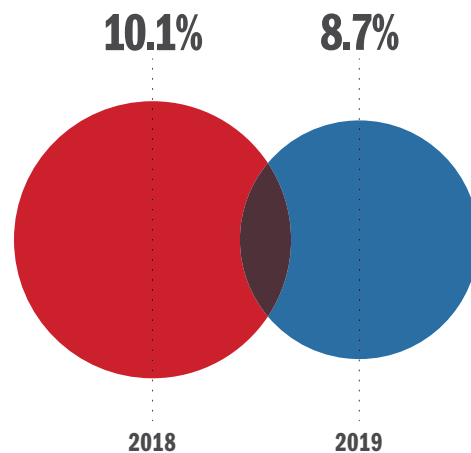
SHARE OWNERS' EQUITY (AS OF 6/30/19)

**\$369.9M**

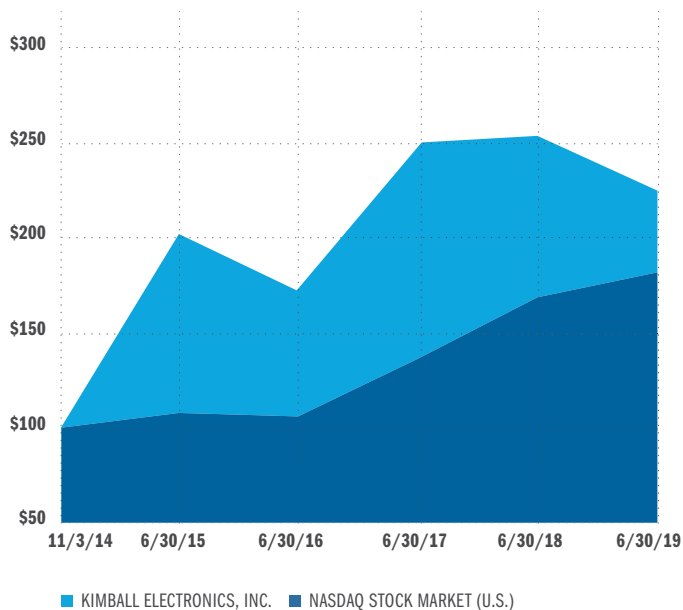
SHARE REPURCHASES IN FY19

**\$23.4M**

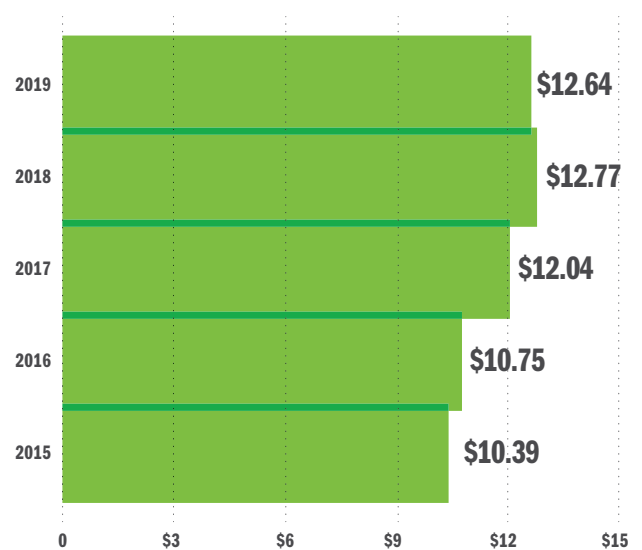
RETURN ON INVESTED CAPITAL



TOTAL CUMULATIVE RETURN



TANGIBLE BOOK VALUE PER SHARE





**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, 2019

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 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, 2018 (the last business day of the Registrant's most recently completed second fiscal quarter), was \$380.4 million based on 96.0% of common stock held by non-affiliates.

The number of shares outstanding of the Registrant's common stock as of August 13, 2019 was 25,418,807 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Share Owners to be held on November 7, 2019, are incorporated by reference into Part III.



**KIMBALL ELECTRONICS, INC.**

**FORM 10-K INDEX**

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## **PART I**

### **Item 1 - Business**

#### **General**

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

#### **Forward-Looking Statements**

This document contains certain forward-looking statements. These are statements made by management, using their best business judgment based upon facts known at the time of the statements or reasonable estimates, about future results, plans, or future performance and business of the Company. Such statements involve risk and uncertainty, and their ultimate validity is affected by a number of factors, both specific and general. They should not be construed as a guarantee that such results or events will, in fact, occur or be realized as actual results may differ materially from those expressed in these forward-looking statements. The statements may be identified by the use of words such as “believes,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “estimates,” “forecasts,” “seeks,” “likely,” “future,” “may,” “might,” “should,” “would,” “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, and precision molded plastics. 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.

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.

We have been producing safety critical electronic assemblies for our automotive customers for over 30 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 now provided through GES, 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.

## **Spin-Off**

Kimball Electronics, Inc. was a wholly owned subsidiary of Kimball International, Inc. (“former Parent” or “Kimball International”) and on October 31, 2014 became a stand-alone public company upon the completion of a spin-off from former Parent. In conjunction with the spin-off, on October 31, 2014, Kimball International distributed 29.1 million shares of Kimball Electronics common stock to Kimball International Share Owners. Holders of Kimball International common stock received three shares of Kimball Electronics common stock for every four shares of Kimball International common stock held on October 22, 2014. Kimball International structured the distribution to be tax free to its U.S. Share Owners for U.S. federal income tax purposes.

## **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, 2019, 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, we acquired GES on October 1, 2018. 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, and 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 quality and reliability expectations in the electronics manufacturing industry.



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 over the past 50 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 30 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 2018 by *Manufacturing Market Insider* in the March 2019 edition published by New Venture Research.

### **Locations**

As of June 30, 2019, 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, 2019 were as follows:

	Year Ended June 30		
	2019	2018	2017
Automotive .....	40%	44%	41%
Medical .....	31%	29%	28%
Industrial .....	22%	20%	22%
Public Safety .....	6%	6%	7%
Other .....	1%	1%	2%
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		
	2019	2018	2017
Philips .....	14%	13%	14%
ZF .....	12%	15%	12%
Nexteer Automotive .....	12%	13%	12%

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 canceled by the customer subject to contractual termination provisions, was \$417.8 million and \$293.1 million as of June 30, 2019 and 2018, respectively. Open orders have increased partly as a result of certain key customers placing orders with increased lead times. Substantially all of the open orders as of June 30, 2019 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.

## 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 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 own any patents that we consider significant to our business. Our registered trademarks consist of the “Kimball” name as registered in certain categories relating to our electronics manufacturing and design services, which was assigned to us by former Parent, and the “GES and Design” trademark acquired through the GES acquisition.

## **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, 2021 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, 2019, Kimball Electronics employed approximately 6,300 people worldwide, with approximately 1,300 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. 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.

Many countries, including certain of those in North America, Europe, and Asia in which we operate, have in the recent past experienced economic uncertainty, slow economic growth, or recession. The economic expansion of recent years may slow and recessionary conditions may return, 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 pending 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 2019, 2018, and 2017. 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. If suppliers fail to meet commitments to us in terms of price, delivery, or quality, 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;
- 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 pending exit from the European Union;
- 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;
- renegotiation of the North American Free Trade Agreement ("NAFTA") to the new United States-Mexico-Canada Agreement ("USMCA");
- 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.

***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. For example, as of July 1, 2018, we adopted the new accounting guidance for Revenue from Contracts with Customers, which changed our revenue recognition pattern as a majority of our sales are now recognized over time as manufacturing services are performed. This is a change from our previous revenue recognition pattern as revenue was historically recognized at a point in time when title and risk of loss passed to the customer. See Note 1 - Business Description and Summary of Significant Accounting Policies and Note 3 - Revenue from Contracts with Customers of Notes to Consolidated Financial Statements for more information on the adoption of the new revenue guidance.

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

Our primary credit facility requires us to comply with certain financial covenants. We believe the most significant covenants under this credit facility 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 facility, 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, 2019, we had \$122.8 million in borrowings under this credit facility and had total cash and cash equivalents of \$49.3 million. In the future, a default on the financial covenants under our credit facility 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.

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

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

Implementation delays, poor execution, or a breach of information technology systems could disrupt our operations, damage our reputation, or increase costs related to the mitigation of, response to, or litigation arising from any such issue. Similar risks exist with our third-party vendors. Any problems caused by these third parties, including those resulting from disruption in communications services, cyber attacks, or security breaches, have the potential to hinder our ability to conduct business. In addition, data privacy laws and regulations, such as the European Union General Data Protection Regulation ("GDPR"), 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 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 and the low unemployment rate 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.

***Natural disasters or other catastrophic events may impact our production schedules and, in turn, negatively impact profitability.***

Natural disasters or other catastrophic events, including severe weather, terrorist attacks, power interruptions, and fires, 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 delayed or lost revenue for our services. In addition, 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.

***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:

- International Traffic in Arms Regulations (ITAR) must be followed when producing defense related products for the U.S. government. A breach of these regulations could have an adverse impact on our financial condition, results of operations, or cash flows.
- 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, potential changes in NAFTA, including as a result of USMCA, could adversely affect our operations in Mexico. Also, 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 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 the Spin-Off**

***If the distribution pursuant to the spin-off does not qualify as a tax-free transaction, tax could be imposed on the Share Owners and former Parent, and we may be required to indemnify former Parent for its tax.***

In connection with the spin-off, former Parent received (i) a ruling from the Internal Revenue Service (the “IRS”) that the Parent stock unification will not cause Parent to recognize income or gain as a result of the distribution; and (ii) an opinion of Squire Patton Boggs (US) LLP to the effect that the distribution satisfies the requirements to qualify as a tax-free transaction for U.S. federal income tax purposes under Section 355 of the Code. However, the validity of both the IRS ruling and the tax opinion is subject to the accuracy of factual representations and assumptions provided by former Parent and us in connection with obtaining the IRS ruling and the tax opinion, including with respect to post-spin-off operations and conduct of the parties. Neither former Parent nor we are aware of any facts or circumstances that would cause these statements or representations to be incomplete or untrue or cause the facts on which the opinion is based to be materially different from the facts at the time of the spin-off. However, if these representations and assumptions are inaccurate or incomplete in any material respect, including those relating to the past and future conduct of the business, then we will not be able to rely on the IRS ruling or the tax opinion.

Furthermore, the tax opinion is not binding on the Internal Revenue Service or the courts. Accordingly, the IRS or the courts may reach conclusions with respect to the spin-off that are different from the conclusions reached in the opinion. If, notwithstanding our receipt of the tax opinion, the spin-off is determined to be taxable, then (i) former Parent would be subject to tax as if it sold the Kimball Electronics common stock in a taxable sale for its fair market value; and (ii) each Share Owner who received Kimball Electronics common stock would be treated as receiving a distribution of property in an amount equal to the fair market value of the Kimball Electronics common stock that would generally result in varied tax liabilities for each Share Owner depending on the facts and circumstances.

Pursuant to the Tax Matters Agreement entered into in connection with the spin-off, (i) we agreed (a) not to enter into any transaction that could cause any portion of the spin-off to be taxable to former Parent, including under Section 355(e) of the Code; and (b) to indemnify former Parent for any tax liabilities resulting from such transactions; and (ii) former Parent agreed to indemnify us for any tax liabilities resulting from such transactions entered into by former Parent. In addition, under U.S. Treasury regulations, each member of former Parent’s consolidated group at the time of the spin-off (including us and our subsidiaries) is jointly and severally liable for the resulting U.S. federal income tax liability if all or a portion of the spin-off does not qualify as a tax-free transaction, and we have agreed to indemnify former Parent for a portion of certain tax liabilities incurred in connection with the spin-off under certain circumstances. These obligations may discourage, delay, or prevent a change of control of our company.

***We share directors with former Parent, which means the overlap may give rise to conflicts.***

Certain members of our Board of Directors serve, or have served, as directors of former Parent, but the overlapping directors do not constitute a majority of our Board members. These directors may have actual or apparent conflicts of interest with respect to matters involving or affecting us or former Parent. For example, there could be the potential for a conflict of interest when we or former Parent look at acquisitions and other corporate opportunities that may be suitable for both companies. Also, conflicts may arise if there are issues or disputes under the commercial arrangements that may exist between former Parent and us. Our Board of Directors and the Board of Directors of former Parent will review and address any potential conflict of interests that may arise between former Parent and us. Although no specific measures to resolve such conflicts of interest have been formulated, our Board of Directors and the Board of Directors of former Parent have a fiduciary obligation to deal fairly and in good faith. Our Board of Directors exercises reasonable judgment and takes such steps as they deem necessary under all of the circumstances in resolving any specific conflict of interest which may occur and will determine what, if any, specific measures, such as retention of an independent advisor, independent counsel, or special committee, may be necessary or appropriate. Any such conflict could have a material adverse effect on our business.



## **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 or environmental disasters 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, the Tax Matters Agreement, and Indiana law could delay or prevent a change in control.***

We have adopted the Amended and Restated Articles of Incorporation and the 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.

Under the Tax Matters Agreement entered into in connection with the spin-off, we have agreed not to enter into any transaction involving an acquisition (including issuance) of our common stock or any other transaction (or, to the extent we have the right to prohibit it, to permit any such transaction) that could cause the distribution pursuant to the spin-off to be taxable to former Parent. We have also agreed to indemnify former Parent for any tax resulting from any such transactions. Generally, former Parent will recognize taxable gain on the distribution if there are one or more acquisitions (including issuances) of our capital stock, directly or indirectly, representing 50% or more, measured by vote or value, of our then-outstanding capital stock, and the acquisitions or issuances are deemed to be part of a plan or series of related transactions that include the distribution. As a result, our obligations may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize our business and might discourage, delay, or prevent a change of control of our company.

### ***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 since the spin-off. 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, 2019, 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 demand and sales fluctuations, not all facilities were utilized at normal capacity during fiscal year 2019. 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 7 - Commitments and Contingent Liabilities 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, 2019 are as follows:

(Age as of August 27, 2019)

Name	Age	Office and Area of Responsibility
Donald D. Charron . . . . .	55	Chairman of the Board and Chief Executive Officer
Desiree L. Castillejos . . . . .	48	Vice President, Corporate Development and M&A, and Chief Strategy Officer
Roger Chang (Chang Shang Yu). . .	62	Vice President, Asian Operations
Jessica L. DeLorenzo . . . . .	34	Vice President, Human Resources
John H. Kahle . . . . .	62	Vice President, General Counsel, Chief Compliance Officer, and Secretary
Janusz F. Kasprzyk . . . . .	59	Vice President, European Operations
Steven T. Korn . . . . .	55	Vice President, North American Operations
Michael K. Sergesketter . . . . .	59	Vice President, Chief Financial Officer
Sandy A. Smith. . . . .	56	Vice President, Information Technology
Kathy R. Thomson . . . . .	50	Vice President, Global Business Development and Design Services
Christopher J. Thyen. . . . .	56	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.

Mr. Charron is our Chairman of the Board and Chief Executive Officer. Prior to the spin-off, 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 following the spin-off. Mr. Charron had led the EMS segment of former Parent since joining former Parent in 1999. Mr. Charron's extensive contract electronics industry experience prior to joining former Parent, as well as his intimate knowledge of former Parent's EMS operations, provides valuable operational, strategic, and global market insights.

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.

Mr. Chang is our Vice President, Asian Operations and has served in this role since 2004.

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 was appointed Chief Compliance Officer in April 2016 in addition to his Vice President, General Counsel, and Secretary role. Prior to the spin-off, 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. Kasprzyk is our Vice President, European Operations and has served in this role since 2008.

Mr. Korn is our Vice President, North American Operations and has served in this role since 2007.

Mr. Sergesketter is our Vice President, Chief Financial Officer. Prior to the spin-off, he served as Vice President, Chief Financial Officer for Kimball Electronics Group that now comprises Kimball Electronics following the spin-off. 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 the spin-off. We do not have a plan to pay future dividends at this time.

#### **Share Owners**

On August 13, 2019, the Company's common stock was owned by approximately 1,234 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, 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, 2019, the Company did not repurchase any common stock. During fiscal year 2019, the Company has repurchased \$23.4 million of common stock under the Plan. The Company's maximum value of remaining shares that may be purchased under the Plan was \$12.1 million at June 30, 2019.

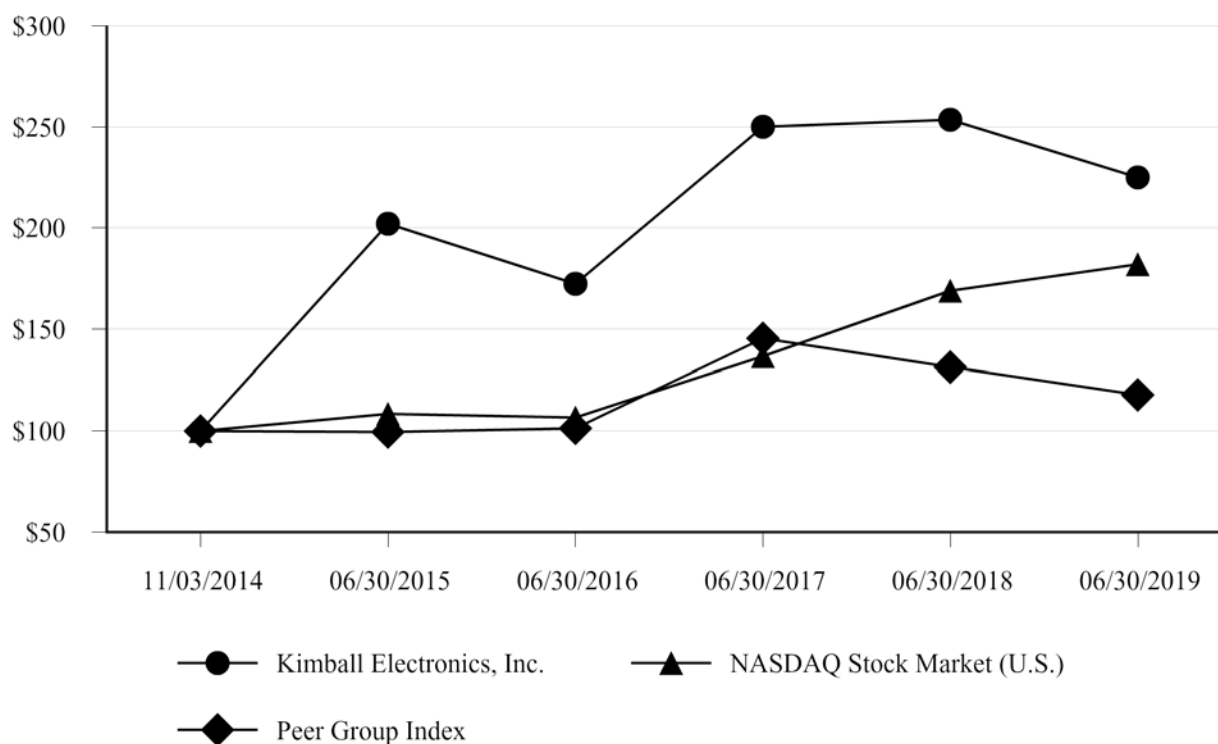
## Performance Graph

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 from November 3, 2014, the first day of trading in the Company’s common stock, through June 30, 2019, the last business day of the fiscal year, 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 November 3, 2014, the first day of trading in Kimball Electronics common stock, 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



	11/03/2014	06/30/2015	06/30/2016	06/30/2017	06/30/2018	06/30/2019
Kimball Electronics, Inc.....	\$ 100.00	\$ 202.08	\$ 172.44	\$ 250.00	\$ 253.46	\$ 224.93
NASDAQ Stock Market (U.S.) . . .	\$ 100.00	\$ 108.38	\$ 106.56	\$ 136.71	\$ 168.97	\$ 182.12
Peer Group Index.....	\$ 100.00	\$ 99.49	\$ 101.38	\$ 145.51	\$ 131.39	\$ 117.82

## 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. The Consolidated Financial Statements for the fiscal year ended June 30, 2015 include results prior to the spin-off on October 31, 2014, which were derived from the accounting records of former Parent as if we operated on a stand-alone basis. 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. See Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information related to the impact of the adoption of this new accounting standard.

(Amounts in Thousands, Except for Per Share Data)	Year Ended June 30				
	2019	2018	2017	2016	2015
<b>Consolidated Statements of Income Data:</b>					
Net Sales .....	\$ 1,181,844	\$ 1,072,061	\$ 930,914	\$ 842,060	\$ 819,350
Net Income <sup>(1)</sup> .....	\$ 31,558	\$ 16,752	\$ 34,179	\$ 22,287	\$ 26,205
Earnings Per Share:					
Basic .....	\$ 1.22	\$ 0.63	\$ 1.25	\$ 0.77	\$ 0.90
Diluted .....	\$ 1.21	\$ 0.62	\$ 1.24	\$ 0.76	\$ 0.89

(Amounts in Thousands)	As of June 30				
	2019	2018	2017	2016	2015
<b>Consolidated Balance Sheet Data:</b>					
Total Assets .....	\$ 764,111	\$ 608,758	\$ 554,944	\$ 510,565	\$ 483,257
Long-Term Debt, Less Current Maturities. ....	\$ 91,500	\$ —	\$ —	\$ —	\$ —

- (1) 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. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information regarding the acquisition and bargain purchase gain.

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.

Fiscal year 2015 net income included \$2.4 million (\$0.08 per diluted share) of after-tax expense related to the spin-off.



## **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. In 2018, we were recognized for achieving the Highest Overall Customer Rating in CIRCUITS ASSEMBLY's 2018 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.

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. One such trend that the EMS industry has recently experienced is 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.

The March 2019 edition of Manufacturing Market Insider published by NVR indicated that the group of leading EMS companies that comprise its annual list of the 50 largest EMS providers for 2018, of which we are a member, experienced revenue growth of 10.9% in calendar year 2018. During calendar year 2018, we experienced growth of approximately 13%.

Our overall expectation for the contract manufacturing services market is moderate growth with mixed demand. Our focus is on the four key vertical markets of automotive, medical, industrial, and public safety. Our current goal is to grow at an 8% annual organic growth rate.

The automotive end market continues to benefit from the trend of increasing electronic content that is placed in automobiles. The China automotive market has experienced a slowdown when compared to the past several years, partly related to tighter credit from increased government regulation on consumer lending practices in China in addition to the continued trade tensions between the United States and China. In the industrial market, growth was driven in large part from the sales of our recent acquisition completed on October 1, 2018, discussed in further detail below, in addition to increased end market demand for climate control products. Overall, we have experienced mixed demand in the public safety market. In the medical market, growth was driven largely from an overall strengthening of the market in addition to continued ramp-up of certain new program launches. We continue to monitor the current economic environment and its potential impact on our customers.

We expect to make investments that will help us continue our development into a multifaceted manufacturing solutions company, including through acquisitions. For example, the acquisitions of Medivative Technologies, LLC ("Medivative") and Aircom Manufacturing, Inc. ("Aircom") in fiscal years 2016 and 2017, respectively, provide capabilities that enhanced our package of value and grew our medical end market vertical. As discussed in Item 1 - Business, we acquired GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as "GES") on October 1, 2018. 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 acquisitions.

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 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 2019, which included a current ratio of 2.0, a debt-to-equity ratio of 0.3, and Share Owners' equity of \$370 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 \$110.7 million at June 30, 2019.

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, 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 award 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.

	Year End		
	2019	2018	2017
<b>Customer Service Years</b>			
<b>More than 10 Years</b>			
% of Net Sales . . . . .	78%	61%	56%
# of Customers . . . . .	37	28	28
<b>5 to 10 Years</b>			
% of Net Sales . . . . .	11%	28%	36%
# of Customers . . . . .	17	18	22
<b>Less than 5 Years</b>			
% of Net Sales . . . . .	11%	11%	8%
# of Customers . . . . .	21	30	32
<b>Total</b>			
% of Net Sales . . . . .	100%	100%	100%
# of Customers . . . . .	75	76	82

- 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, 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 2019 compared to fiscal year 2018 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2018 compared to fiscal year 2017 can be found under captions entitled “Results of Operations - Fiscal Year 2018 Compared with Fiscal Year 2017” 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, 2018 filed with the SEC on August 28, 2018, 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 2019 Compared with Fiscal Year 2018

	At or For the Year Ended June 30				
(Amounts in Millions, Except for Per Share Data)	2019 <sup>(1)</sup>	as a % of Net Sales	2018	as a % of Net Sales	% Change
Net Sales . . . . .	\$ 1,181.8		\$ 1,072.1		10%
Gross Profit <sup>(2)</sup> . . . . .	\$ 88.4	7.5%	\$ 86.0	8.0%	3%
Selling and Administrative Expenses <sup>(2)</sup> . . .	\$ 46.7	3.9%	\$ 44.0	4.1%	6%
Other General Income . . . . .	\$ 0.3		\$ —		
Operating Income <sup>(2)</sup> . . . . .	\$ 42.1	3.6%	\$ 42.0	3.9%	— %
Provision for Income Taxes . . . . .	\$ 6.9		\$ 28.0		(75)%
Net Income . . . . .	\$ 31.6		\$ 16.8		88%
Diluted Earnings per Share . . . . .	\$ 1.21		\$ 0.62		
Open Orders . . . . .	\$ 417.8		\$ 293.1		43%

(1) As of July 1, 2018, the Company adopted the new accounting standard on Revenue from Contracts with Customers on a modified retrospective basis. The prior periods were not restated. See Note 1 – Business Description and Summary of Significant Accounting Policies for impacts of adoption on 2019 results of operations.

(2) Prior period has been restated to reflect the retrospective adoption of new accounting guidance issued by the FASB on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for further information on the restatement of the prior period presentation. There was no effect to Net Income or Diluted Earnings per Share.

#### Net Sales by Vertical Market

Net Sales by Vertical Market	For the Year Ended June 30		
(Amounts in Millions)	2019	2018	% Change
Automotive . . . . .	\$ 474.3	\$ 469.3	1%
Medical . . . . .	367.5	313.3	17%
Industrial . . . . .	255.9	217.0	18%
Public Safety . . . . .	66.2	61.3	8%
Other . . . . .	17.9	11.2	61%
Total Net Sales . . . . .	\$ 1,181.8	\$ 1,072.1	10%

Net sales in fiscal year 2019 increased 10% compared to net sales in fiscal year 2018 primarily due to the continued ramp-up of certain programs, new product introductions, and an overall increase in demand. Sales generated from the GES acquisition favorably impacted sales by 2%, and sales were unfavorably impacted by 2% from foreign exchange fluctuations. Sales generated from the GES acquisition are primarily included in the industrial end market vertical. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on the GES acquisition.

By end market vertical, all four of our market verticals experienced an increase in net sales, including double-digit sales growth to customers in the medical and industrial markets. Sales to customers in the automotive, medical, and industrial markets all experienced record sales in the current fiscal year.

Sales to customers in the automotive market were up slightly compared to the prior fiscal year as stronger demand in North America was higher than the declines in China, and to a lesser extent, Europe. Sales to customers in the medical market increased compared to the prior year primarily due to the continued ramp-up of certain product launches and increased demand for existing products. Sales to customers in the industrial market improved over the prior year largely due to sales generated through the recent GES acquisition and increased end market demand for climate control products. Sales to customers in the public safety market increased in the current year when compared to the prior year due to new program launches and increased demand for existing products.

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

	<b>Year Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Philips .....	14%	13%
ZF .....	12%	15%
Nexteer Automotive .....	12%	13%

Open orders were up 43% as of June 30, 2019 compared to June 30, 2018 as open orders in the automotive market significantly increased, which in part is due to new product introductions and certain key customers placing orders with increased lead times. 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, 2019 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.

Gross profit as a percent of net sales declined to 7.5% in fiscal year 2019 from 8.0% in fiscal year 2018 primarily due to unfavorable product mix, higher material costs largely as a result of component shortages, and the unfavorable impact on gross profit as a result of our recent acquisition, which were partially offset by the positive impact from leverage gained on higher revenue.

For fiscal year 2019, selling and administrative expenses decreased slightly as a percent of net sales and increased in absolute dollars compared to fiscal year 2018. The current fiscal year selling and administrative expenses increased in absolute dollars from the prior fiscal year primarily due to higher amortization expense directly resulting from the finite-lived intangible assets acquired from the GES acquisition and higher salary and related payroll costs, which were partially offset by the lower incentive-based bonus expense. During fiscal years 2019 and 2018, we incurred \$0.5 million and \$0.9 million, respectively, of incremental costs directly related to the GES acquisition.

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 2018.

Other Income (Expense) consisted of the following:

<b>Other Income (Expense)</b>	<b>Year Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
(Amounts in Thousands)		
Interest Income .....	\$ 62	\$ 73
Interest Expense .....	(4,069)	(527)
Foreign Currency/Derivative Gain (Loss) .....	(376)	2,358
Gain on Supplemental Employee Retirement Plan Investment .....	327	712
Foreign Government Subsidies .....	580	188
Other .....	(99)	(67)
Other Income (Expense), net .....	<u>\$ (3,575)</u>	<u>\$ 2,737</u>

Interest expense has increased in the current fiscal year due to increased borrowings on the credit facilities. The Foreign Currency/Derivative Gain (Loss) resulted from net foreign currency exchange rate movements during the period. The prior period presentation in the table above has been restated due to the adoption of new guidance by the FASB on net periodic pension cost and net periodic postretirement benefit cost.



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, 2019		Year Ended June 30, 2018	
	Income Before Taxes	Effective Tax Rate	Income Before Taxes	Effective Tax Rate
United States .....	\$ 11,191	4.7%	\$ 5,609	329.2%
Foreign .....	\$ 27,294	23.5%	\$ 39,166	24.4%
Total .....	<u>\$ 38,485</u>	<u>18.0%</u>	<u>\$ 44,775</u>	<u>62.6%</u>

In December 2017, the United States enacted the Tax Cuts and Jobs Act (“Tax Reform”), which lowered the U.S. corporate statutory tax rate from 35% to 21%. 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 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.

The consolidated effective tax rate for fiscal year 2018 of 62.6% and the domestic effective tax rate were unfavorably impacted by Tax Reform, primarily driven by income tax expense of approximately \$13.4 million for the deemed repatriation tax and approximately \$4.4 million for the revaluation of our net deferred tax assets, which were both treated as provisional tax adjustments and recognized in Provision for Income Taxes on the Consolidated Statements of Income for fiscal year 2018. Items partially offsetting the unfavorable impact from Tax Reform on the effective tax rate included the income tax adjustment related to the excess tax benefit on stock-based compensation granted during fiscal year 2018, the high mix of earnings in foreign jurisdictions that had generally lower statutory rates than the United States, and the U.S. research and development tax credit.

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 \$31.6 million in fiscal year 2019, or \$1.21 per diluted share, an increase of 88% from fiscal year 2018 net income of \$16.8 million, or \$0.62 per diluted share, due to the reasons previously discussed.

Comparing the balance sheet as of June 30, 2019 to June 30, 2018, the adoption of the New Revenue Guidance on July 1, 2018 and the GES acquisition impacted several balances. Receivables increased \$52.0 million primarily due to increased sales volumes and the GES acquisition. Contract assets, which have a balance of \$51.9 million at June 30, 2019, reflect the unbilled accounts receivable that occur when we recognize revenue over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date. Goodwill has increased \$11.9 million due to the GES acquisition, and the Other Intangibles, net have increased \$17.8 million primarily from the finite-lived intangibles acquired in the GES acquisition. As of June 30, 2019, the purchase price of GES is considered preliminary, and therefore, the valuation of goodwill and other intangibles is not final. Borrowings under credit facilities increased \$117.9 million largely from borrowings under the U.S. primary credit facility, which were used to finance the GES acquisition in addition to domestic cash needs. At June 30, 2019, Long-term debt under credit facilities, less current portion reflects the borrowings on the primary facility that the Company intends, and has the ability, to refinance on a long-term basis. Treasury stock, at cost increased \$21.3 million primarily due to stock repurchases under an authorized stock repurchase plan. The increase in Retained earnings included an increase of \$3.1 million from the cumulative effect of adoption of the New Revenue Guidance. See Note 1 - Business Description and Summary of Significant Accounting Policies and Note 3 - Revenue from Contracts with Customers of Notes to Consolidated Financial Statements for more information on the adoption of the New Revenue Guidance and Note 2 - Acquisitions for more detail on the GES acquisition.

### Liquidity and Capital Resources

Working capital at June 30, 2019 was \$280.4 million compared to working capital of \$208.4 million at June 30, 2018. The current ratio was 2.0 and 1.9 at June 30, 2019 and June 30, 2018, respectively. The debt-to-equity ratio was 0.3 at June 30, 2019 and was less than 0.1 at June 30, 2018. 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 \$110.7 million at June 30, 2019 and \$108.7 million at June 30, 2018.

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 is a metric used to measure the efficiency of managing working capital. CCD for the quarter ended June 30, 2019 was 77 days, which increased from 63 days for the quarter ended June 30, 2018. The following table summarizes our CCD for the quarterly periods indicated.

	Three Months Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
DSO .....	59	56	58	55	57
CAD .....	15	15	14	15	—
PDSOH .....	64	68	72	67	72
APD .....	61	64	68	69	66
CCD .....	77	75	76	68	63

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. Our CCD trend has increased during fiscal year 2019 in large part due to additional purchases to help mitigate the potential impact from component shortages.

The CAD metric is included in the calculation of the CCD metric beginning in fiscal year 2019 due to the adoption of the New Revenue Guidance on July 1, 2018. Contract assets reflect the unbilled accounts receivable that occur when we recognize revenue over time as manufacturing services are provided and the billing to the customer has not yet occurred as of the balance sheet date. See Note 1 – Business Description and Summary of Significant Accounting Policies and Note 3 - Revenue from Contracts with Customers of Notes to Consolidated Financial Statements for more information on the adoption of the New Revenue Guidance and contract assets.

### **Cash Flows**

The following table reflects the major categories of cash flows for the fiscal years ended June 30, 2019 and 2018.

(Amounts in Millions)	Year Ended June 30	
	2019	2018
Net cash (used for) provided by operating activities .....	\$ (6.7)	\$ 40.2
Net cash used for investing activities .....	\$ (68.7)	\$ (26.2)
Net cash provided by (used for) financing activities .....	\$ 79.4	\$ (12.6)

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

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. Net cash provided by operating activities for the fiscal year ended June 30, 2018 was primarily driven by net income adjusted for non-cash items. Cash provided by operating activities for the fiscal year ended June 30, 2018 included the adjustment for income tax expense resulting from Tax Reform reflected in Deferred income tax and other deferred charges and Accrued expenses and taxes payable. Changes in operating assets and liabilities used \$71.8 million and \$9.3 million of cash for the fiscal years ended June 30, 2019 and 2018, respectively.

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.

The \$9.3 million usage of cash from changes in working capital balances in fiscal year 2018 was largely due to an increase in inventory, which used cash of \$55.8 million primarily to support increased open orders and production volumes, the implementation of an inventory management program for one of our largest customers in the medical market, and additional purchases to help mitigate the potential impact from component shortages. Partially offsetting these usages was an increase in accounts payable which provided cash of \$33.3 million, largely resulting from the increased inventory purchases. In addition, an increase in accrued expenses and taxes payable provided cash of \$11.0 million primarily from the increase in income taxes payable related to the deemed repatriation tax net of income taxes paid, which was partially offset by a reduction in other accrued expenses.

#### Cash Flows from Investing Activities

Net cash used for investing activities during fiscal year 2019 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 preliminary 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.

During fiscal year 2018, we reinvested \$26.5 million, respectively, into capital investments for the future with the largest expenditures for machinery and equipment for capacity purposes and to support new business awards.

#### Cash Flows from Financing Activities

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. As of June 30, 2019, this Vietnam credit facility has been paid in full. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on the GES acquisition.

Net cash used for financing activities for the fiscal year ended June 30, 2018 resulted from repurchases of our common stock under an authorized stock repurchase plan, net payments on our revolving credit facilities, and the remittance of tax withholdings on share-based payments.

#### Credit Facilities

The Company maintains a U.S. primary credit facility (the “primary facility”). On July 27, 2018, the Company entered into an amended and restated credit agreement 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. The credit agreement amends and restates the Company’s primary credit facility, which was scheduled to mature on October 31, 2019. The credit agreement has a maturity date of July 27, 2023 and allows 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 in the agreement, plus the Eurocurrency Loans spread which can range from 125.0 to 175.0 basis points based on the Company’s ratio of consolidated total indebtedness to adjusted consolidated EBITDA; or
- the Alternate Base Rate (“ABR”), which is defined as the highest of the fluctuating rate per annum equal to the higher of
  - a. JPMorgan’s prime rate;
  - b. 1% per annum above the Adjusted LIBOR Rate (as defined in the Credit Agreement); or
  - c. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined in the Credit Agreement);

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, 2019, we had \$122.8 million in borrowings under the primary facility and \$0.4 million in letters of credit against the primary facility. The borrowings under the primary facility were used as the primary source of funding for the GES acquisition as well as for domestic cash needs. At 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, 2018, we had \$6.0 million in short-term borrowings under the primary 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, 2019.

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, 2019, we maintained the following foreign credit facilities:

- A Thailand overdraft credit facility which allows for borrowings up to 90 million Thai Baht (approximately \$2.9 million at June 30, 2019 exchange rates). We had no borrowings outstanding under this foreign credit facility as of June 30, 2019 or June 30, 2018.
- An uncommitted credit facility for one of our China operations, which allows for borrowings up to \$7.5 million that can be drawn in either U.S. dollars or China Renminbi. We had no borrowings outstanding under this foreign credit facility as of June 30, 2019 or June 30, 2018. The facility matures on May 31, 2020.
- An uncommitted revolving credit facility for our Netherlands subsidiary, which allows for borrowings of up to 9.2 million Euro (approximately \$10.5 million at June 30, 2019 exchange rates) that can be drawn in Euro, U.S. dollars, or other optional currency. At June 30, 2019, we had \$3.4 million in borrowings under this facility, and we had \$2.3 million borrowings outstanding under this foreign credit facility as of June 30, 2018. The facility matures on June 21, 2020.
- During the current fiscal year, the Company established an uncommitted revolving credit facility for our Poland operation, which allows for borrowings up to 15 million Euro (approximately \$17.1 million at June 30, 2019 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, 2019. The facility matures on December 20, 2019.

### **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, 2019 and 2018, we sold, without recourse, \$261.2 million and \$181.5 million of accounts receivable, respectively. See Note 1 - Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information regarding the factoring arrangements.

### **Future Liquidity**

We believe our principal sources of liquidity from available funds on hand, cash generated from operations, and the availability of borrowing under our credit facilities, will be sufficient to meet our working capital and other operating needs for at least the next 12 months. The unused borrowings in USD equivalent under all of our credit facilities totaled \$61.4 million at June 30, 2019. 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.

The GES acquisition was accounted for as a business combination. As of June 30, 2019, the Company has recorded a net adjusted purchase price of \$42.4 million, which includes a reduction for an estimated net working capital adjustment of \$7.6 million. We have paid cash, net of the cash acquired, of \$43.9 million, and a net receivable has been recognized for \$3.8 million. The net working capital adjustment has not been agreed upon by the sellers of GES, and therefore, the purchase price is not final.



At June 30, 2019, 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.

At June 30, 2019, our foreign operations held cash totaling \$47 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, 2019, 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. The Company expects to pay this tax payable with available liquidity. 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.

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. 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 \$67.9 million of common stock under the Plan through June 30, 2019.

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, 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 2019, 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, 2019.

(Amounts in Millions)	Payments Due During Fiscal Years Ending June 30				
	Total	2020	2021-2022	2023-2024	Thereafter
Recorded Contractual Obligations: <sup>(a)</sup>					
Long-Term Debt Obligations <sup>(b)</sup>	\$ 127.3	\$ 35.8	\$ —	\$ 91.5	\$ —
Long-Term Income Taxes Payable <sup>(c)</sup>	9.8	—	0.9	3.0	5.9
Other Long-Term Liabilities Reflected on the Balance Sheet <sup>(d) (e) (f)</sup>	14.3	2.5	1.3	1.3	9.2
Unrecorded Contractual Obligations:					
Operating Leases <sup>(f)</sup>	2.8	0.8	1.3	0.2	0.5
Purchase Obligations <sup>(g)</sup>	621.6	606.2	15.4	—	—
Total	<u>\$ 775.8</u>	<u>\$ 645.3</u>	<u>\$ 18.9</u>	<u>\$ 96.0</u>	<u>\$ 15.6</u>

- (a) As of June 30, 2019, 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 2020 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 2020 amount includes \$1.7 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 2020 amount includes \$0.3 million for severance payments recorded as a current liability.
  - The timing of warranty payments is estimated based on historical data. The fiscal year 2020 amount includes \$0.4 million for short-term warranty payments recorded as a current liability.
- (e) Excludes \$6.3 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 Operating Leases and certain Other Long-Term Liabilities.
- (g) 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, 2019 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, 2019, the drafts transferred and outstanding totaled \$0.9 million. No transferee has exercised their recourse rights against us.

We also have standby letters of credit and operating leases 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. 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 Revenue Guidance and our Annual Report on Form 10-K for the year ended June 30, 2018 for revenue recognition policies for periods prior to fiscal year 2019.

*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 \$4.3 million and \$0.2 million at June 30, 2019 and June 30, 2018.

The increase from June 30, 2018 is primarily from income tax liabilities, indirect tax liabilities, and unrecognized tax benefits, including interest and penalties, that have been recorded 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, 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 materially different from our current estimate of the tax liabilities. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition.

### **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, 2019 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, 2019 would not have a material impact of profitability in an annual period.



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

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

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

Management's assessment of the effectiveness of internal control over financial reporting excluded GES, an acquisition completed in October 2018 which 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 represented approximately 9% and 2% of consolidated total assets and consolidated net sales, respectively, of the Company as of and for the year ended June 30, 2019. Under guidelines established by the Securities and Exchange Commission, companies are permitted to exclude acquisitions from their first assessment of internal control over financial reporting within one year of the date of the acquisition.

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, 2019.

/s/ DONALD D. CHARRON

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Donald D. Charron  
*Chairman of the Board,*  
*Chief Executive Officer*  
August 27, 2019

/s/ MICHAEL K. SERGESKETTER

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Michael K. Sergesketter  
*Vice President,*  
*Chief Financial Officer*  
August 27, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Share Owners 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, 2019 and 2018, 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, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, 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, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as "GES") which was acquired on October 1, 2018, and whose financial statements constitute 2% of net sales, and 9% of total assets of the consolidated financial statement amounts as of and for the year ended June 30, 2019. Accordingly, our audit did not include the internal control over financial reporting at GES.

### Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for revenue recognition in fiscal year 2019 due to the adoption of Accounting Standard Codification 606, *Revenue from Contracts with Customers*.

### 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, 2019

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, 2019</u>	<u>June 30, 2018</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents . . . . .	\$ 49,276	\$ 46,428
Receivables, net of allowances of \$270 and \$482, respectively . . . . .	225,555	173,559
Contract Assets . . . . .	51,929	—
Inventories . . . . .	203,840	201,596
Prepaid expenses and other current assets . . . . .	24,713	15,405
Total current assets . . . . .	<u>555,313</u>	<u>436,988</u>
Property and Equipment, net of accumulated depreciation of \$216,955 and \$198,672, respectively . . . . .	143,629	137,210
Goodwill . . . . .	18,104	6,191
Other Intangible Assets, net of accumulated amortization of \$29,874 and \$27,276 respectively . . . . .	22,188	4,375
Other Assets . . . . .	24,877	23,994
Total Assets . . . . .	<u>\$ 764,111</u>	<u>\$ 608,758</u>
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>		
Current Liabilities:		
Current portion of borrowings under credit facilities . . . . .	\$ 34,713	\$ 8,337
Accounts payable . . . . .	197,001	187,788
Accrued expenses . . . . .	43,196	32,446
Total current liabilities . . . . .	<u>274,910</u>	<u>228,571</u>
Other Liabilities:		
Long-term debt under credit facilities, less current portion . . . . .	91,500	—
Long-term income taxes payable . . . . .	9,765	12,361
Other long-term liabilities . . . . .	18,082	12,299
Total other liabilities . . . . .	<u>119,347</u>	<u>24,660</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 . . . . .	305,917	304,215
Retained earnings . . . . .	133,982	99,374
Accumulated other comprehensive loss . . . . .	(7,628)	(6,899)
Treasury stock, at cost:		
Shares: 4,011,000 and 2,898,000, respectively . . . . .	(62,417)	(41,163)
Total Share Owners' Equity . . . . .	<u>369,854</u>	<u>355,527</u>
Total Liabilities and Share Owners' Equity . . . . .	<u>\$ 764,111</u>	<u>\$ 608,758</u>

See Notes to Consolidated Financial Statements

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

	Year Ended June 30		
	2019	2018	2017
Net Sales . . . . .	\$ 1,181,844	\$ 1,072,061	\$ 930,914
Cost of Sales . . . . .	1,093,438	986,031	855,479
Gross Profit . . . . .	88,406	86,030	75,435
Selling and Administrative Expenses . . . . .	46,653	43,992	36,660
Other General Income . . . . .	(307)	—	(4,005)
Operating Income . . . . .	42,060	42,038	42,780
Other Income (Expense):			
Interest income . . . . .	62	73	64
Interest expense . . . . .	(4,069)	(527)	(271)
Non-operating income . . . . .	1,483	3,647	2,596
Non-operating expense . . . . .	(1,051)	(456)	(914)
Other income (expense), net . . . . .	(3,575)	2,737	1,475
Income Before Taxes on Income . . . . .	38,485	44,775	44,255
Provision for Income Taxes . . . . .	6,927	28,023	10,076
Net Income . . . . .	<u>\$ 31,558</u>	<u>\$ 16,752</u>	<u>\$ 34,179</u>
Earnings Per Share of Common Stock:			
Basic . . . . .	\$ 1.22	\$ 0.63	\$ 1.25
Diluted . . . . .	\$ 1.21	\$ 0.62	\$ 1.24
Average Number of Shares Outstanding:			
Basic . . . . .	25,857	26,745	27,413
Diluted . . . . .	26,082	27,007	27,530

See Notes to Consolidated Financial Statements

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

	Year Ended June 30, 2019			Year Ended June 30, 2018			Year Ended June 30, 2017		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Net Income .....			\$ 31,558			\$ 16,752			\$ 34,179
Other Comprehensive Income (Loss):									
Foreign currency translation adjustments . . . .	\$ (2,491)	\$ —	\$ (2,491)	\$ 2,519	\$ —	\$ 2,519	\$ 2,777	\$ —	\$ 2,777
Postemployment severance actuarial change . .	447	(108)	339	533	(188)	345	285	(107)	178
Derivative gain (loss) .....	3,337	(699)	2,638	(2,669)	704	(1,965)	779	(256)	523
Reclassification to (earnings) loss:									
Derivatives .....	(1,066)	209	(857)	1,668	(213)	1,455	(13)	(161)	(174)
Amortization of actuarial change .....	(472)	114	(358)	(358)	140	(218)	(317)	119	(198)
Other Comprehensive Income (Loss) .....	\$ (245)	\$ (484)	\$ (729)	\$ 1,693	\$ 443	\$ 2,136	\$ 3,511	\$ (405)	\$ 3,106
Total Comprehensive Income .....			<u>\$ 30,829</u>			<u>\$ 18,888</u>			<u>\$ 37,285</u>

See Notes to Consolidated Financial Statements

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

	Year Ended June 30		
	2019	2018	2017
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 31,558	\$ 16,752	\$ 34,179
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Depreciation and amortization	28,873	26,376	23,904
Gain on sales of assets	(4)	(7)	(33)
Deferred income tax and other deferred charges	(1,541)	1,213	(115)
Deferred tax valuation allowance	20	(638)	—
Stock-based compensation	5,678	5,299	3,484
Bargain purchase gain	—	—	(925)
Other, net	431	487	359
Change in operating assets and liabilities:			
Receivables	(36,535)	(2,876)	(19,267)
Contract assets	(8,688)	—	—
Inventories	(35,094)	(55,769)	(8,549)
Prepaid expenses and other current assets	(6,284)	5,092	(3,976)
Accounts payable	8,001	33,272	9,486
Accrued expenses and taxes payable	6,837	10,999	8,207
Net cash (used for) provided by operating activities	(6,748)	40,200	46,754
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(24,665)	(25,876)	(33,254)
Proceeds from sales of assets	1,036	261	490
Payments for acquisitions, net of cash acquired	(43,889)	—	(2,138)
Purchases of capitalized software	(1,178)	(643)	(1,018)
Other, net	(13)	44	211
Net cash used for investing activities	(68,709)	(26,214)	(35,709)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from credit facilities	91,500	—	4,000
Payments on credit facilities	(12,843)	—	(13,000)
Additional net change in revolving credit facilities	26,415	(1,542)	10,000
Repurchases of common stock	(23,431)	(9,553)	(22,325)
Payments related to tax withholding for stock-based compensation	(1,766)	(1,508)	(709)
Debt issuance costs	(445)	—	—
Net cash provided by (used for) financing activities	79,430	(12,603)	(22,034)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(1,125)	490	806
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,848</b>	<b>1,873</b>	<b>(10,183)</b>
Cash and Cash Equivalents at Beginning of Year	46,428	44,555	54,738
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 49,276</b>	<b>\$ 46,428</b>	<b>\$ 44,555</b>

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, 2016</b> .....	\$ 301,581	\$ 48,492	\$ (12,190)	\$ (13,514)	\$ 324,369
Net income .....		34,179			34,179
Other comprehensive income .....			3,106		3,106
Issuance of non-restricted stock (10,000 shares) .....	46			119	165
Compensation expense related to stock compensation plans .....	3,246				3,246
Performance share issuance (136,000 shares) ....	(2,390)			1,502	(888)
Repurchase of Common Stock (1,528,000 shares) .....				(21,905)	(21,905)
<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 .....			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 .....			(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> .....	<u>\$ 305,917</u>	<u>\$ 133,982</u>	<u>\$ (7,628)</u>	<u>\$ (62,417)</u>	<u>\$ 369,854</u>

See Notes to Consolidated Financial Statements



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

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

***Business Description:***

Kimball Electronics, Inc. (also referred to herein as “Kimball Electronics,” the “Company,” “we,” “us,” or “our”) is a global, multifaceted manufacturing solutions provider. We provide contract electronics manufacturing services (“EMS”) and diversified manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We 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, and precision molded plastics. 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.

Kimball Electronics was a wholly owned subsidiary of Kimball International, Inc. (“former Parent” or “Kimball International”) and on October 31, 2014 became a stand-alone public company upon the completion of a spin-off from former Parent.

***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 Company’s 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.

***Segment Information:***

As of June 30, 2018, Kimball Electronics had business units located in the United States, China, Mexico, Poland, Romania, and Thailand, and each of our business units qualified as an operating segment and met the aggregation criteria to be aggregated into one reportable segment. On October 1, 2018, we completed the GES acquisition, which 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. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition.

Our operating segments meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2019, 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 new 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 once specific volume thresholds have been met; in these cases, the rebates 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.

See section entitled “New Accounting Standards” below for information on the adoption of the New Revenue Guidance.

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. 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 the fiscal years ended June 30, 2019 and 2018, we sold, without recourse, \$261.2 million and \$181.5 million of accounts receivable, respectively. Factoring fees were \$1.7 million and \$1.1 million during fiscal years 2019 and 2018, respectively, and were included in Selling and Administrative Expense on the Consolidated Statements of Income. Factoring fees were not material in fiscal year 2017.

One of the Company's China operations, in limited circumstances, may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. 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 \$4.2 million and \$3.8 million at June 30, 2019 and 2018, 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 2019 and 2018 were \$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 2019, 2018, and 2017.

### ***Goodwill and Other Intangible Assets:***

Goodwill represents the difference between the purchase price and the related underlying tangible and intangible net asset fair values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, we may assess qualitative factors to determine if it is more likely than not that the fair value is less than its carrying amount and if it is necessary to perform the quantitative two-step goodwill impairment test. We also have the option to bypass the qualitative assessment and proceed directly to performing the first step of the quantitative goodwill impairment test. If the first step is determined to be necessary, we compare the carrying value of the reporting unit to an estimate of the reporting unit's fair value to identify potential impairment. If the estimated fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of potential goodwill impairment. If impaired, goodwill is written down to its estimated implied fair value. Goodwill is assigned to and the fair value is tested at the reporting unit level. The fair value is established primarily using a discounted cash flow analysis and secondarily a market approach utilizing current industry information. The calculation of the fair value of the reporting units considers current market conditions existing at the assessment date. In addition to performing the required annual testing, we will continue to monitor circumstances and events in future periods to determine whether additional goodwill impairment testing is warranted on an interim basis.

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 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 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 2019, 2018, or 2017.

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

The costs of research and development are expensed as incurred. Research and development costs were approximately, in millions, \$15, \$11, and \$10 in fiscal years 2019, 2018, and 2017, respectively.

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

We are self-insured up to certain limits for general liability, workers' compensation, and certain 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, 2019 and 2018, accrued liabilities for self-insurance exposure were \$1.7 million and \$1.4 million, respectively.

We carry external medical and disability insurance coverage for the remainder of our eligible workforce not covered by self-insured 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.

The Company entered into a Tax Matters Agreement with former Parent that governs the Company's rights and obligations after the spin-off with respect to tax liabilities and benefits, tax attributes, tax contests, and other tax sharing regarding income taxes, other tax matters, and related tax returns. The Company will continue to have joint and several liabilities with former Parent with the IRS and certain U.S. state tax authorities for U.S. federal income and state taxes for the taxable periods in which the Company was a part of former Parent's consolidated group. The tax matters agreement specifies the portion, if any, of this liability for which the Company bears responsibility, and former Parent has agreed to indemnify the Company against any amounts for which the Company is not responsible. As of June 30, 2019 and 2018, the Company has a receivable from Kimball International recorded for \$0.4 million and \$0.5 million, respectively, relating to benefits from domestic research and development tax credits. As of June 30, 2019 and 2018, \$0.3 million and \$0.4 million, respectively, of the receivable is long-term and was recorded in Other Assets on the Consolidated Balance Sheets.

### ***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:

	<b>At or For the Year Ended June 30, 2019</b>		<b>At or For the Year Ended June 30, 2018</b>	
	<b>Net Sales</b>	<b>Trade Receivables</b>	<b>Net Sales</b>	<b>Trade Receivables</b>
Philips .....	14%	*	13%	*
ZF .....	12%	14%	15%	17%
Nexter Automotive .....	12%	16%	13%	16%
Regal Beloit Corporation .....	*	10%	*	11%

\* amount is less than 10% of total

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

Off-balance sheet arrangements are limited to banker's acceptance drafts transferred with recourse provisions at one of the Company's China operations, standby letters of credit, and operating leases 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 years 2019 and 2017 consisted of \$0.3 million and \$4.0 million, respectively, 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 year 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, bargain purchase gain on acquisition, 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.

### ***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 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 2019:***

In August 2018, the FASB issued guidance on changes to the disclosure requirements for fair value measurement. The new guidance modifies the disclosure requirements on fair value measurement which includes among other changes eliminating the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, eliminating the requirement to disclose the policy for timing of transfers between levels, and added a requirement to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period. We adopted this guidance early, as permitted, in fiscal year 2019. As this guidance only impacts disclosures related to fair value measurement, the adoption did not impact our consolidated financial position, results of operations, or cash flows.

In March 2017, the FASB issued guidance on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance changes how employers that sponsor defined benefit pension plans and other postretirement plans present net periodic benefit costs in the income statement. An employer is required to report the service cost component in the same line item as other compensation costs arising from services rendered by the affected employees during the period. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of income from operations. The update also allows only the service cost component to be eligible for capitalization, when applicable. The amendments in this guidance were to be applied retrospectively for the



presentation of the service cost component and the other components of the net benefit cost in the income statement, and prospectively for the capitalization of the service cost component in assets. We adopted this guidance in fiscal year 2019 on a retrospective basis for the presentation of the service cost component and the other components of the net benefit cost in the income statement. The prior period presentation has been restated. The retrospective adoption for the presentation of the service cost component and the other components of the net benefit cost in the income statement decreased our Operating income and increased our Non-operating income (expense), net by the same amount on our Consolidated Statements of Income of \$0.4 million, \$0.3 million, \$0.3 million and for fiscal years ended 2019, 2018, and 2017, respectively. There was no effect to Net income or Earnings per share for the retrospective adoption for the presentation of the service cost component and the other components of the net benefit cost. The impact from the prospective adoption for the capitalization of only the service cost component in assets was not material.

In May 2014, the FASB issued guidance on the recognition of Revenue from Contracts with Customers. The core principle of the guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which the company expects to receive in exchange for those goods or services. To achieve this core principle, the guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance addresses several areas including transfer of control, contracts with multiple performance obligations, and costs to obtain and fulfill contracts. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

The Company adopted the New Revenue Guidance for all contracts using the modified retrospective transition method. We recognized the net cumulative effect of initially applying the New Revenue Guidance as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

A majority of our sales revenue under the New Revenue Guidance is recognized over time as manufacturing services are performed. This represents a change from our previous revenue recognition pattern as revenue was historically recognized at a point in time when title and risk of loss passed to the customer according to the terms of the contract. The remaining sales revenue for manufactured products will be recognized at a point in time when the customer obtains control of the product if the criteria to recognize revenue over time is not met for a specific contract.

The effect of the adoption of the New Revenue Guidance on our Consolidated Balance Sheet as of July 1, 2018, our Consolidated Statements of Income for the year ended June 30, 2019, and our Consolidated Balance Sheet as of June 30, 2019, resulting primarily from the change to recognize a majority of our revenue over time as manufacturing services are performed, were as follows:

(Amounts in Thousands)	Balance at June 30, 2018	Adjustments from Adoption of New Revenue Guidance	Balance at July 1, 2018
<b>ASSETS</b>			
Contract assets . . . . .	\$ —	\$ 43,241	\$ 43,241
Inventories . . . . .	201,596	(39,169)	162,427
Other Assets . . . . .	23,994	(871)	23,123
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>			
Accrued expenses . . . . .	32,446	151	32,597
Retained earnings . . . . .	99,374	3,050	102,424

**At or For the Year Ended**

**June 30, 2019**

(Amounts in Thousands)

	<b>As Reported</b>	<b>Amounts Excluding Changes Related to New Revenue Guidance</b>	<b>Effect of Change</b>
<b>Income Statement</b>			
Net Sales . . . . .	\$ 1,181,844	\$ 1,173,156	\$ 8,688
Cost of Sales . . . . .	1,093,438	1,085,824	7,614
Gross Profit . . . . .	88,406	87,332	1,074
Operating Income . . . . .	42,060	40,986	1,074
Income Before Taxes on Income . . . . .	38,485	37,411	1,074
Provision for Income Taxes . . . . .	6,927	6,702	225
Net Income . . . . .	\$ 31,558	\$ 30,709	\$ 849
<b>Earnings Per Share of Common Stock</b>			
Basic . . . . .	\$ 1.22	\$ 1.19	\$ 0.03
Diluted . . . . .	\$ 1.21	\$ 1.18	\$ 0.03
<b>Balance Sheet</b>			
<b>ASSETS</b>			
Contract assets . . . . .	\$ 51,929	\$ —	\$ 51,929
Inventories . . . . .	203,840	250,651	(46,811)
Other Assets . . . . .	24,877	24,877	—
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>			
Accrued expenses . . . . .	\$ 43,196	\$ 41,978	\$ 1,218
Retained earnings . . . . .	\$ 133,982	\$ 130,083	\$ 3,899

*Not Yet Adopted:*

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 are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

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 guidance is effective for the Company beginning in the first quarter of fiscal year 2020. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In February 2016, the 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 the current guidance, only capital leases are recognized on the balance sheet.

The guidance is effective for us as of July 1, 2019, the beginning of our first quarter of fiscal year 2020. As allowed by the July 2018 amendment, the Company will elect not to recast the comparative periods when transitioning to the new guidance, and if applicable, recognize a cumulative effect adjustment to the beginning balance of retained earnings in fiscal year 2020.

We have completed our preliminary assessment of adopting the standard. We expect the effects of adoption will include the recognition of less than \$5 million of new right-of-use assets and lease liabilities on our balance sheet, primarily for our real estate operating leases, and new disclosures about our leasing activities beginning with the Quarterly Report on Form 10-Q for the first quarter of fiscal year 2020. It is not expected to have a material effect on our financial position, results of operations, or cash flows. We expect no retained earnings adjustment.

The standard provides a number of optional practical expedients and accounting elections for an entity's transition and ongoing accounting. We have 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 expect to elect 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.

## **Note 2 Acquisitions**

### ***Fiscal Year 2019 Acquisition:***

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 \$1.4 million, of which \$0.5 million and \$0.9 million were expensed during the fiscal years ended June 30, 2019 and June 30, 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 GES acquisition was accounted for as a business combination. As of June 30, 2019, the Company has recorded a net adjusted purchase price of \$42.4 million which includes a reduction for an estimated net working capital adjustment of \$7.6 million. Cash paid, net of cash acquired, is \$43.9 million, and a net receivable due from the seller has been recognized for \$3.8 million. The net working capital adjustment has been disputed by the sellers of GES and is currently being resolved through the dispute resolution procedure provided for under the terms of the asset purchase agreement, and therefore, as of June 30, 2019, the purchase price is not final. The acquisition was primarily funded with the Company's primary credit facility. The Company has determined this acquisition is not a significant subsidiary.

The following table summarizes the preliminary 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. For tax purposes, \$3.9 million of the goodwill recorded as of June 30, 2019 is expected to be deductible. The fair values of the assets acquired and the liabilities assumed presented in these financial statements are preliminary and may differ from the final purchase price allocation for changes associated with the net working capital adjustment, certain tax estimates, and additional information the Company may obtain during the measurement period, which will end no later than one year from the acquisition date.

(Amounts in Thousands)	October 1, 2018
Cash .....	\$ 2,257
Receivables .....	15,656
Inventories .....	6,454
Prepaid expenses and other current assets .....	1,424
Property and Equipment .....	9,100
Other Intangible Assets .....	19,259
Other Assets .....	498
Goodwill .....	11,913
Total assets acquired .....	<u>\$ 66,561</u>
 Borrowings under Credit Facilities .....	 \$ 12,843
Accounts payable .....	4,113
Accrued expenses .....	1,340
Other long-term liabilities .....	5,884
Total liabilities assumed .....	<u>\$ 24,180</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 have been recorded related to pre-closing tax periods of Global Equipment Services & Manufacturing Vietnam Company Limited of which \$3.9 million is in Other long-term liabilities and \$0.3 million is included in Accrued expenses. This reflects management's best assessment of the estimated taxes, interest, and penalties 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 Receivables 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)	Estimated Fair Value	Estimated useful life (years)
Software .....	\$ 379	3 to 7
Technology .....	5,060	5
Trade name .....	6,369	10
Customer relationships .....	7,451	15
Total other intangible assets .....	<u><u>\$ 19,259</u></u>	

### ***Fiscal Year 2017 Acquisition:***

On July 18, 2016, the Company acquired certain assets and assumed certain liabilities of Aircom Manufacturing, Inc. ("Aircom"), located in Indianapolis, Indiana, for consideration of \$3.5 million, which consisted of \$2.5 million in cash payments and the settlement of a \$1.0 million receivable. The Aircom acquisition was accounted for as a business combination and included assets acquired of \$6.4 million and liabilities assumed of \$1.4 million based on their estimated fair values as of the acquisition date.

Consideration paid for Aircom was less than the estimated fair values of the assets acquired and liabilities assumed, which resulted in a bargain purchase gain of \$0.9 million and was recorded in Non-operating income on the Consolidated Statements of Income. The bargain purchase gain resulted from the financial distress of Aircom as they were unable to secure sufficient capital to continue operations and service their existing debt.

The Aircom acquisition added expertise in the manufacturing of precision molded plastics to our package of value. Operating results are included in the Company's consolidated financial statements beginning from the date of acquisition. Direct transaction costs of the Aircom acquisition were not material and were expensed as incurred.

### **Note 3 Revenue from Contracts with Customers**

We recognize revenue in accordance with the New Revenue Guidance. See Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information regarding our revenue recognition policies and on the adoption of the New Revenue Guidance, including the impact on our Consolidated Balance Sheet and Consolidated Statement of Income.

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

The following table disaggregates our revenue by end market vertical for the fiscal year ended June 30, 2019.

<b>(Amounts in Millions)</b>		<b>Fiscal Year Ended</b>
<b>Vertical Markets:</b>		<b>June 30, 2019</b>
Automotive . . . . .	\$	474.3
Medical . . . . .		367.5
Industrial . . . . .		255.9
Public Safety . . . . .		66.2
Other . . . . .		17.9
Total net sales . . . . .	\$	<u>1,181.8</u>

Approximately 70% of our net sales were recognized over time under the New Revenue Guidance for fiscal year 2019 as manufacturing services were performed. The remaining net sales were primarily recognized when the customer obtained control of the manufactured product under the New Revenue Guidance if the criteria to recognize revenue over time was not met for a specific contract. Revenue recognized for tooling, excess inventory, and other services was not material for fiscal year 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 Sheet 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. The Contract assets as of June 30, 2019 of \$51.9 million increased from the Contract assets recognized as of the initial adoption of the New Revenue Guidance on July 1, 2018 of \$43.2 million as a result of increased production volumes.

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 \$6.3 million and \$1.7 million as of June 30, 2019 and June 30, 2018, respectively.

#### Note 4 Inventories

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

(Amounts in Thousands)	2019	2018
Finished products . . . . .	\$ 2,708	\$ 25,552
Work-in-process . . . . .	4,119	17,254
Raw materials . . . . .	197,013	158,790
Total inventory . . . . .	<u>\$ 203,840</u>	<u>\$ 201,596</u>

As a result of the adoption of the New Revenue Guidance, inventories as of June 30, 2019 have been reduced for the contracts which have been recognized in revenue over time as manufacturing services are performed. Total inventory as of June 30, 2019 is \$46.8 million lower than it would have been if we had not adopted the New Revenue Guidance. Inventories as of June 30, 2018 have not been restated and continue to be reported under the accounting guidance in effect at that time. See Note 1 - Business Description and Summary of Significant Accounting Policies and Note 3 - Revenue from Contracts with Customers for further information on adoption of the New Revenue Guidance.

#### Note 5 Property and Equipment

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

(Amounts in Thousands)	2019	2018
Land and land use rights . . . . .	\$ 11,836	\$ 10,321
Buildings and improvements . . . . .	78,508	71,385
Machinery and equipment . . . . .	255,978	246,758
Construction-in-progress . . . . .	14,262	7,418
Total . . . . .	<u>\$ 360,584</u>	<u>\$ 335,882</u>
Less: Accumulated depreciation . . . . .	(216,955)	(198,672)
Property and equipment, net . . . . .	<u>\$ 143,629</u>	<u>\$ 137,210</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, \$26.3 for fiscal year 2019, \$25.5 for fiscal year 2018, and \$23.0 for fiscal year 2017.

## Note 6 Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

(Amounts in Thousands)

### Balance as of June 30, 2017

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

### 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><u>18,104</u></u>

During fiscal year 2019, we acquired \$11.9 million in goodwill resulting from the GES acquisition. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this acquisition. We had no acquired goodwill in fiscal year 2018. During fiscal years 2019, 2018, and 2017, no goodwill impairment was recognized.

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

(Amounts in Thousands)	June 30, 2019			June 30, 2018		
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Capitalized Software	\$ 32,015	\$ 27,124	\$ 4,891	\$ 30,484	\$ 26,154	\$ 4,330
Customer Relationships	8,618	1,506	7,112	1,167	1,122	45
Technology	5,060	766	4,294	—	—	—
Trade Name	6,369	478	5,891	—	—	—
Other Intangible Assets	<u>\$ 52,062</u>	<u>\$ 29,874</u>	<u>\$ 22,188</u>	<u>\$ 31,651</u>	<u>\$ 27,276</u>	<u>\$ 4,375</u>

During fiscal years 2019, 2018, and 2017, amortization expense of other intangible assets was, in millions, \$2.6, \$0.9, and \$0.9, respectively. Amortization expense in future periods is expected to be, in millions, \$3.1, \$3.1, \$2.9, \$2.9, and \$2.1 in the five years ending June 30, 2024, and \$8.1 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.

Software, 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 2018.

## Note 7 Commitments and Contingent Liabilities

### Leases:

The Company leases certain office, manufacturing, and warehouse facilities under operating leases, in addition to land on which certain office and manufacturing facilities reside. These operating leases expire from fiscal year 2020 to 2057 and contain minimum lease payments, in millions, of \$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. We are obligated under certain real estate leases to maintain the properties and pay real estate taxes. Certain leases include renewal options and escalation clauses. Total rental expense amounted to, in millions, \$1.1, \$0.7, and \$0.7 in fiscal years 2019, 2018, and 2017, respectively.

As of June 30, 2019, capital leases were immaterial. As of June 30, 2018, the Company had no capital leases.



### **Guarantees:**

As of June 30, 2019 and 2018, 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, 2019 and 2018. We don't 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, 2019 and 2018 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, 2019 and 2018, the drafts transferred and outstanding totaled \$0.9 million and \$2.0 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 2019, 2018, and 2017 were as follows:

(Amounts in Thousands)	2019	2018	2017
Product Warranty Liability at the beginning of the year . . . . .	\$ 656	\$ 593	\$ 605
Additions to warranty accrual (including changes in estimates) . . . . .	361	346	415
Settlements made (in cash or in kind) . . . . .	(59)	(283)	(427)
Product Warranty Liability at the end of the year . . . . .	<u>\$ 958</u>	<u>\$ 656</u>	<u>\$ 593</u>

### **Note 8 Credit Facilities**

Credit facilities consisted of the following:

(Amounts in Millions, in U.S Dollar Equivalents)	Unused Borrowings at June 30, 2019	Borrowings Outstanding at June 30, 2019	Borrowings Outstanding at June 30, 2018
Primary credit facility <sup>(1)</sup> . . . . .	\$ 26.8	\$ 122.8	\$ 6.0
Thailand overdraft credit facility <sup>(2)</sup> . . . . .	2.9	—	—
China revolving credit facility <sup>(3)</sup> . . . . .	7.5	—	—
Netherlands revolving credit facility <sup>(4)</sup> . . . . .	7.1	3.4	2.3
Poland revolving credit facility <sup>(5)</sup> . . . . .	17.1	—	—
Total credit facilities . . . . .	<u>\$ 61.4</u>	<u>126.2</u>	<u>8.3</u>
Less: current portion . . . . .		(34.7)	(8.3)
Long-term debt under credit facilities, less current portion <sup>(6)</sup> . . . . .		<u>\$ 91.5</u>	<u>\$ —</u>

- (1) At June 30, 2019, the Company maintained a U.S. primary credit facility (the "primary facility"). On July 27, 2018, the Company entered into an amended and restated credit agreement 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. The credit agreement amends and restates the Company's primary credit facility, which was scheduled to mature on October 31, 2019. The credit agreement has a maturity date of July 27, 2023 and allows 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 Company incurred \$0.4 million of debt issuance costs associated with the amended and restated credit agreement. 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 2019, 2018, and 2017. 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 in the agreement, plus the Eurocurrency Loans spread which can range from 125.0 to 175.0 basis points based on the Company's ratio of consolidated total indebtedness to adjusted consolidated EBITDA; or
- the Alternate Base Rate ("ABR"), which is defined as the highest of the fluctuating rate per annum equal to the higher of
  - a. JPMorgan's prime rate;
  - b. 1% per annum above the Adjusted LIBOR Rate (as defined in the Credit Agreement); or
  - c. 1/2 of 1% per annum above the Federal Funds Effective Rate (as defined in the Credit Agreement);

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 credit facility at both June 30, 2019 and 2018.

- (2) The Company also maintains a foreign credit facility for its operation in Thailand which allows for borrowings of up to 90.0 million Thai Baht (approximately \$2.9 million at June 30, 2019 exchange rates). This credit facility can be terminated at any time by either the Company or the bank by giving prior written notice of at least 15 days to the other party. Interest on borrowing under this facility is charged at a rate of interest determined by the bank in accordance with relevant laws and regulations for charging interest on an overdraft facility.
- (3) The Company also maintains a foreign revolving credit facility for one of its China operations. The China credit facility allows for borrowings of up to \$7.5 million, which borrowings can be made in either Chinese Renminbi (RMB) or U.S. dollars. The availability of this uncommitted facility is at the sole discretion of the bank and is subject to the availability of funds and other relevant conditions. The bank may, at its sole discretion, agree to provide the facility on such terms and conditions as the bank deems appropriate. Further, the availability of the facility is also subject to the determination by the bank of the borrower's actual need for such facility. 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 determined by the bank and is dependent on the denomination of the currency borrowed. The facility matures on May 31, 2020.
- (4) The Company established an uncommitted revolving credit facility in fiscal year 2017 for our Netherlands subsidiary. The Netherlands credit facility allows for borrowings of up to 9.2 million Euro (approximately \$10.5 million at June 30, 2019 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 21, 2020.
- (5) During the current fiscal year, the Company established an uncommitted revolving credit facility for our Poland operation, which allows for borrowings up to 15 million Euro (approximately \$17.1 million at June 30, 2019 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, 2019.
- (6) The amount of Long-term debt under credit facilities, less current maturities at June 30, 2019 reflects the borrowings on the primary facility that the Company intends, and has the ability, to refinance for a period longer than twelve months.

The weighted-average interest rate on short-term borrowings outstanding under the credit facilities at June 30, 2019 and June 30, 2018 were 4.5% and 2.7%, respectively. Cash payments for interest on borrowings in fiscal years 2019, 2018, and 2017 were, in millions, \$3.0, \$0.4, and \$0.3, respectively. Capitalized interest expense was immaterial during fiscal years 2019, 2018, and 2017.

## **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, \$2.1, \$2.0, and \$1.7 for fiscal years 2019, 2018, and 2017, 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.

#### ***Domestic:***

The domestic severance plans provide severance benefits to eligible employees meeting the plans’ qualifications, primarily involuntary termination without cause. Benefits are based upon an employee’s years of service and accumulate up to certain limits specified in the plans and include both salary and an allowance for medical benefits.

The components and changes in the Benefit Obligation, Accumulated Other Comprehensive Income (Loss), and Net Periodic Benefit Cost, for the domestic severance plans, are as follows:

(Amounts in Thousands)	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Changes and Components of Benefit Obligation:</b>		
Benefit obligation at beginning of year . . . . .	\$ 1,658	\$ 1,808
Service cost. . . . .	318	364
Interest cost. . . . .	42	49
Actuarial gain for the period. . . . .	(447)	(533)
Benefits paid. . . . .	(122)	(30)
Benefit obligation at end of year . . . . .	<u>\$ 1,449</u>	<u>\$ 1,658</u>
Balance in current liabilities . . . . .	\$ 308	\$ 353
Balance in noncurrent liabilities . . . . .	1,141	1,305
Total benefit obligation recognized in the Consolidated Balance Sheets . . . . .	<u>\$ 1,449</u>	<u>\$ 1,658</u>

(Amounts in Thousands)	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Changes and Components in Accumulated Other Comprehensive Income (Loss) (before tax):</b>		
Accumulated Other Comprehensive Income (Loss) at beginning of year . . . . .	\$ (1,104)	\$ (929)
Net change in unrecognized actuarial (gain) loss. . . . .	25	(175)
Accumulated Other Comprehensive Income (Loss) at end of year. . . . .	<u>\$ (1,079)</u>	<u>\$ (1,104)</u>

(Amounts in Thousands)

	Year Ended June 30		
	2019	2018	2017
<b>Components of Net Periodic Benefit Cost (before tax):</b>			
Service cost.....	\$ 318	\$ 364	\$ 302
Interest cost.....	42	49	39
Amortization of actuarial (gain) loss.....	(472)	(358)	(317)
Net periodic benefit cost recognized in the Consolidated Statements of Income.....	<u>\$ (112)</u>	<u>\$ 55</u>	<u>\$ 24</u>

The benefit cost in the above table includes only normal recurring levels of severance activity, as estimated using an actuarial method. Unusual or non-recurring severance actions are not estimable using actuarial methods and are expensed in accordance with other applicable U.S. GAAP.

Actuarial (gain) loss is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. The estimated actuarial net (gain) loss for the severance plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year is \$(436) thousand.

Assumptions used to determine fiscal year end benefit obligations for both fiscal year 2019 and 2018 included a discount rate of 2.8% and a compensation growth rate of 3.0%. Weighted average assumptions used to determine fiscal year net periodic benefit costs included a discount rate of 2.8%, 2.8%, and 2.4% for fiscal years 2019, 2018, and 2017, respectively, and a compensation growth rate of 3.0% for each of the fiscal years 2019, 2018, and 2017.

*Foreign:*

The foreign postemployment plans include local pension, retirement, or severance plans. The components and changes in the Benefit Obligation and Net Periodic Benefit Cost, for the foreign postemployment plans, are as follows:

(Amounts in Thousands)	June 30	
	2019	2018
<b>Changes and Components of Benefit Obligation:</b>		
Benefit obligation at beginning of year.....	\$ 1,235	\$ 1,136
Service cost.....	350	212
Interest cost.....	87	56
Actuarial loss (gain) for the period.....	479	(72)
Benefits paid.....	(246)	(97)
Benefit obligation at end of year.....	<u>\$ 1,905</u>	<u>\$ 1,235</u>

The benefit obligation is recorded in Other long-term liabilities in the Consolidated Balance Sheets.

(Amounts in Thousands)

	Year Ended June 30		
	2019	2018	2017
<b>Components of Net Periodic Benefit Cost (before tax):</b>			
Service cost.....	\$ 350	\$ 212	\$ 106
Interest cost.....	87	56	46
Recognition of actuarial (gain) loss.....	479	(72)	219
Net periodic benefit cost recognized in the Consolidated Statements of Income.....	<u>\$ 916</u>	<u>\$ 196</u>	<u>\$ 371</u>

The benefit cost in the above table includes only normal recurring levels of severance activity, as estimated using an actuarial method. Unusual or non-recurring severance actions are not estimable using actuarial methods and are expensed in accordance with other applicable U.S. GAAP.

No estimated actuarial net (gain) losses for the severance plans will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year.

Assumptions used to determine fiscal year end benefit obligations for both fiscal year 2019 and 2018 included a discount rate of 4.8% and 4.7%, respectively, and a compensation growth rate of 4.5% for each fiscal year. Weighted average assumptions used to determine fiscal year net periodic benefit costs included a discount rate of 4.8%, 4.7%, and 6.1% for fiscal years 2019, 2018, and 2017, respectively, and a compensation growth rate of 4.5% for each of the fiscal years 2019, 2018, and 2017.

## **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.

Prior to the spin-off, former Parent maintained stock compensation plans in which our executives and certain key employees participated. All awards granted under the former Parent plans were based on former Parent's Common Stock. Performance share awards issued and outstanding to Kimball Electronics employees under the former Parent plans as of the spin-off date were amended, in accordance with the terms of the plans, to provide an equitable adjustment as a result of the spin-off.

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 2019, 2018, and 2017 was \$5.7 million, \$5.3 million, and \$3.5 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.

On December 2, 2014, Performance Share Awards issued and outstanding to Kimball Electronics employees under the former Parent plans were amended, in accordance with the terms of the plans, to provide an equitable adjustment as a result of the spin-off. The awards have been or will be granted in shares of the Company's Common Stock, instead of Kimball International, Inc. shares, under the Kimball Electronics Plan. The amended awards retained the same terms and conditions, vesting schedule, issuance dates, and expiration dates of the original Kimball International awards.

A summary of the Company's performance share activity during fiscal year 2019 is presented below:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Performance shares outstanding at July 1, 2018 . . . . .	556,428	\$ 14.11
Granted . . . . .	198,868	\$ 20.03
Vested . . . . .	(292,175)	\$ 13.30
Forfeited . . . . .	(15,861)	\$ 17.08
Performance shares outstanding at June 30, 2019 . . . . .	<u>447,260</u>	<u>\$ 17.16</u>

As of June 30, 2019, there was approximately \$4.4 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 2019 through August 2021, with a weighted average vesting period of nine months. The fair value of performance shares is based on the stock price at the date of grant. During fiscal years 2019, 2018, and 2017, respectively, 292,175, 255,757, and 194,624 performance shares vested at a fair value of \$3.9 million, \$2.9 million, and \$2.0 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 2019, 2018, and 2017, respectively, the Company granted a total of 4,236, 7,694, and 10,477 unrestricted shares at an average grant date fair value of \$17.69, \$20.15, and \$15.75 for a total fair value of \$0.1 million, \$0.2 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 upon a director's retirement or termination from the Board or death. During fiscal years 2019, 2018, and 2017, respectively, 32,758, 12,159, and 19,207 deferred share units were granted to non-employee members of the Board at an average grant date fair value of \$17.40, \$20.15, and \$15.79 for a total fair value of \$0.6 million, \$0.2 million, and \$0.3 million.

**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.

Accounting guidance provides 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 the second quarter of 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, 2019, \$9.8 million was 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, 2019 and 2018, were as follows:

(Amounts in Thousands)	2019	2018
Deferred Tax Assets:		
Receivables . . . . .	\$ 105	\$ 158
Inventory . . . . .	1,914	1,153
Employee benefits . . . . .	193	194
Deferred compensation . . . . .	6,149	6,496
Other current liabilities . . . . .	1,275	830
Tax credit carryforwards . . . . .	1,638	1,251
Goodwill . . . . .	268	655
Net operating loss carryforward . . . . .	2,339	2,376
Net foreign currency losses . . . . .	11	—
Miscellaneous . . . . .	2,970	2,394
Valuation Allowance . . . . .	(658)	(638)
Total asset . . . . .	<u>\$ 16,204</u>	<u>\$ 14,869</u>
Deferred Tax Liabilities:		
Other intangible assets . . . . .	\$ 1,412	\$ —
Property and equipment . . . . .	1,116	565
Net foreign currency gains . . . . .	—	12
Miscellaneous . . . . .	477	300
Total liability . . . . .	<u>\$ 3,005</u>	<u>\$ 877</u>
Net Deferred Income Taxes . . . . .	<u>\$ 13,199</u>	<u>\$ 13,992</u>

Income tax benefits associated with the net operating loss carryforwards expire from fiscal year 2023 to 2039. Income tax benefits associated with tax credit carryforwards primarily expire from fiscal year 2020 to 2028. A valuation allowance was provided as of June 30, 2019 and 2018 for deferred tax assets related to certain state credits of, in thousands, \$658 and \$638. 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		
	2019	2018	2017
United States . . . . .	\$ 11,191	\$ 5,609	\$ 10,051
Foreign . . . . .	27,294	39,166	34,204
Total income before taxes on income . . . . .	<u>\$ 38,485</u>	<u>\$ 44,775</u>	<u>\$ 44,255</u>

Tax Reform changes included, but were not limited to, (i) requiring a one-time transition tax on certain unremitted earnings of foreign subsidiaries that is payable over an eight-year period, and (ii) eliminating U.S. federal income taxes on dividends from foreign subsidiaries. The aggregate unremitted earnings of the Company's foreign subsidiaries were approximately \$240 million as of June 30, 2019. 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.



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

(Amounts in Thousands)	Year Ended June 30		
	2019	2018	2017
Current Taxes:			
Federal .....	\$ 872	\$ 13,132	\$ 2,696
Foreign .....	7,545	11,982	8,130
State .....	203	459	134
Total payable .....	<u>\$ 8,620</u>	<u>\$ 25,573</u>	<u>\$ 10,960</u>
Deferred Taxes:			
Federal .....	\$ 67	\$ 5,015	\$ 6
Foreign .....	(1,177)	(2,427)	(631)
State .....	(603)	(776)	(259)
Valuation allowance .....	20	638	—
Total deferred .....	<u>\$ (1,693)</u>	<u>\$ 2,450</u>	<u>\$ (884)</u>
Total provision for income taxes .....	<u><u>\$ 6,927</u></u>	<u><u>\$ 28,023</u></u>	<u><u>\$ 10,076</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					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Tax computed at U.S. federal statutory rate .....	\$ 8,082	21.0%	\$ 12,582	28.1%	\$ 15,489	35.0%
State income taxes, net of federal income tax benefit .....	(320)	(0.8)	(408)	(0.9)	(81)	(0.2)
Foreign tax rate differential .....	313	0.8	(1,615)	(3.6)	(3,832)	(8.7)
Impact of foreign exchange rates on foreign income taxes .....	156	0.4	180	0.4	(613)	(1.4)
Valuation allowance .....	20	0.1	638	1.4	—	—
Research credit .....	(627)	(1.6)	(378)	(0.8)	(348)	(0.8)
Deemed repatriation .....	(416)	(1.1)	13,436	30.0	—	—
Revaluation of net deferred tax assets .....	(10)	—	4,357	9.7	—	—
Other - net .....	(271)	(0.8)	(769)	(1.7)	(539)	(1.1)
Total provision for income taxes .....	<u><u>\$ 6,927</u></u>	<u><u>18.0%</u></u>	<u><u>\$ 28,023</u></u>	<u><u>62.6%</u></u>	<u><u>\$ 10,076</u></u>	<u><u>22.8%</u></u>

Net cash payments for income taxes were, in thousands, \$10,172, \$14,724 and \$5,896 in fiscal years 2019, 2018, and 2017, respectively.

Changes in the unrecognized tax benefit, excluding accrued interest and penalties, during fiscal years 2019, 2018, and 2017 were as follows:

(Amounts in Thousands)	2019	2018	2017
Beginning balance - July 1	\$ 160	\$ 102	\$ 46
Tax positions related to prior fiscal years:			
Additions	758	78	56
Reductions	—	(20)	—
Tax positions related to current fiscal year:			
Additions	—	—	—
Reductions	—	—	—
Settlements	—	—	—
Lapses in statute of limitations	(14)	—	—
Ending balance - June 30	<u>\$ 904</u>	<u>\$ 160</u>	<u>\$ 102</u>
Portion that, if recognized, would reduce tax expense and effective tax rate	<u>\$ 214</u>	<u>\$ 137</u>	<u>\$ 85</u>

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

Interest and penalties accrued for unrecognized tax benefits as of June 30, 2019 was \$1.6 million. Interest and penalties accrued for unrecognized tax benefits as of June 30, 2018 and 2017 and expenses related to interest and penalties in fiscal years 2019, 2018, and 2017 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.

In connection with the spin-off, the Company entered into a Tax Matters Agreement with former Parent that governs the Company's rights and obligations after the spin-off with respect to tax liabilities and benefits, tax attributes, tax contests, and other tax sharing regarding income taxes, other tax matters, and related tax returns. The Company will continue to have joint and several liabilities with former Parent with the IRS and certain U.S. state tax authorities for U.S. federal income and state taxes for the taxable periods in which the Company was a part of former Parent's consolidated group. For additional information, see Note 1 – Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements. Former Parent is no longer subject to any significant U.S. federal tax examinations by tax authorities for years which the Company was part of former Parent's consolidated group. Former Parent is subject to various state and local income tax examinations by tax authorities for years after June 30, 2014.

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 2016. We are subject to various state and local income tax examinations by tax authorities for years after June 30, 2014, and various foreign jurisdictions for years after June 30, 2013.

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, 2008 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.

During fiscal year 2019, the Company repurchased \$23.4 million of common stock under the Plan at an average price of \$17.75 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 \$67.9 million of common stock under that Plan at an average cost of \$15.04 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 2019.

### *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, 2019 and 2018, the fair values of financial assets and liabilities that are measured at fair value on a recurring basis using the market approach are categorized as follows:

		<b>June 30, 2019</b>		
<b>(Amounts in Thousands)</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<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>

		<b>June 30, 2018</b>		
<b>(Amounts in Thousands)</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>				
Cash equivalents . . . . .	\$	1,099	\$ —	\$ 1,099
Derivatives: foreign exchange contracts . . . . .		—	1,713	1,713
Trading securities: mutual funds held in nonqualified SERP . . . . .		8,769	—	8,769
Total assets at fair value . . . . .	\$	<u>9,868</u>	<u>\$ 1,713</u>	<u>\$ 11,581</u>
<b>Liabilities</b>				
Derivatives: foreign exchange contracts . . . . .	\$	—	\$ 1,867	\$ 1,867
Total liabilities at fair value . . . . .	\$	<u>—</u>	<u>\$ 1,867</u>	<u>\$ 1,867</u>

We had no Level 3 assets or liabilities during fiscal years 2019 and 2018.

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, 2019, 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 75.4 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 ineffective portion of the derivative gain or loss is reported in Non-operating income or expense on the Consolidated Statements of Income immediately. 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 also reported in Non-operating income or expense on the Consolidated Statements of Income immediately.

Based on fair values as of June 30, 2019, we estimate that approximately \$0.6 million of pre-tax derivative gain 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, 2020. Gains on foreign exchange contracts are generally offset by losses 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, 2019 and June 30, 2018.

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 2019	June 30 2018		June 30 2019	June 30 2018
Derivatives Designated as Hedging Instruments:						
Foreign exchange contracts . . .	Prepaid expenses and other current assets . . . . .	\$ 1,136	\$ 758	Accrued expenses . .	\$ 278	\$ 1,857
Derivatives Not Designated as Hedging Instruments:						
Foreign exchange contracts . . .	Prepaid expenses and other current assets . . . . .	696	955	Accrued expenses . .	21	10
Total derivatives . . . . .		\$ 1,832	\$ 1,713		\$ 299	\$ 1,867

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

(Amounts in Thousands)	June 30		
	2019	2018	2017
<b>Amount of Pre-Tax Gain or (Loss) Recognized in Other Comprehensive Income (Loss) (OCI) on Derivatives (Effective Portion):</b>			
Foreign exchange contracts . . . . .	\$ 3,337	\$ (2,669)	\$ 779

### 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)	2019	2018	2017
Amount of Pre-Tax Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion):				
Foreign exchange contracts .....	Cost of Sales .....	\$ 1,061	\$ (1,648)	\$ 18
Foreign exchange contracts .....	Non-operating income (expense) .....	—	(11)	(5)
Total .....		\$ 1,061	\$ (1,659)	\$ 13
Amount of Pre-Tax Gain or (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion):				
Foreign exchange contracts .....	Non-operating income (expense) .....	\$ 5	\$ (9)	\$ —
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) .....	\$ 2,766	\$ 796	\$ (42)
Total Derivative Pre-Tax Gain (Loss) Recognized in Income .....		\$ 3,832	\$ (872)	\$ (29)

## 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 (losses) for the fiscal years ended June 30, 2019, 2018, and 2017 was, in thousands, \$35, \$552, and \$789, respectively.

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

(Amounts in Thousands)	June 30	
	2019	2018
SERP investments - current asset	\$ 1,728	\$ 294
SERP investments - other long-term asset	7,540	8,475
Total SERP investments	<u>\$ 9,268</u>	<u>\$ 8,769</u>
SERP obligation - current liability	\$ 1,728	\$ 294
SERP obligation - other long-term liability	7,540	8,475
Total SERP obligation	<u>\$ 9,268</u>	<u>\$ 8,769</u>

## Note 16 Accrued Expenses

Accrued expenses consisted of:

(Amounts in Thousands)	June 30	
	2019	2018
Taxes	\$ 5,760	\$ 2,803
Compensation	19,046	18,008
Customer advance payments	6,345	1,729
Retirement plan	1,959	1,791
Insurance	1,675	1,375
Other expenses	8,411	6,740
Total accrued expenses	<u>\$ 43,196</u>	<u>\$ 32,446</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. In fiscal year 2019, the Company changed its presentation of net sales by country, which were previously disclosed based on the destination of the product shipped. The change to disclose net sales by country based on the business unit location is to better reflect where the performance obligations are performed and the revenue is earned. Long-lived assets include property and equipment and capitalized software. Prior year periods have been restated to conform to the current year presentation.

(Amounts in Thousands)	At or For the Year Ended June 30		
	2019	2018	2017
Net Sales:			
United States . . . . .	\$ 321,805	\$ 224,834	\$ 189,184
Mexico . . . . .	282,400	256,537	219,585
Poland . . . . .	251,635	282,847	254,448
China . . . . .	146,332	177,930	172,117
Other Foreign . . . . .	179,672	129,913	95,580
Total net sales . . . . .	<u>\$ 1,181,844</u>	<u>\$ 1,072,061</u>	<u>\$ 930,914</u>
Long-Lived Assets:			
United States . . . . .	\$ 43,887	\$ 39,465	\$ 41,308
Mexico . . . . .	31,238	30,733	30,235
Poland . . . . .	29,736	33,629	32,315
Romania . . . . .	19,546	19,394	16,468
China . . . . .	12,138	14,546	17,106
Other Foreign . . . . .	11,975	3,773	4,629
Total long-lived assets . . . . .	<u>\$ 148,520</u>	<u>\$ 141,540</u>	<u>\$ 142,061</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		
	2019	2018	2017
Basic and Diluted Earnings Per Share:			
Net Income . . . . .	\$ 31,558	\$ 16,752	\$ 34,179
Less: Net Income allocated to participating securities . . . . .	32	9	15
Net Income allocated to common Share Owners . . . . .	<u>\$ 31,526</u>	<u>\$ 16,743</u>	<u>\$ 34,164</u>
Basic weighted average common shares outstanding . . . . .	25,857	26,745	27,413
Dilutive effect of average outstanding performance shares . . . . .	200	255	110
Dilutive effect of average outstanding deferred stock units . . . . .	25	7	7
Dilutive weighted average shares outstanding . . . . .	<u>26,082</u>	<u>27,007</u>	<u>27,530</u>
Earnings Per Share of Common Stock:			
Basic . . . . .	\$ 1.22	\$ 0.63	\$ 1.25
Diluted . . . . .	\$ 1.21	\$ 0.62	\$ 1.24

## 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, 2017. ....	\$ (6,876)	\$ (2,788)	\$ 580	\$ (9,084)
Other comprehensive income (loss) before reclassifications. ....	2,519	(1,965)	345	899
Reclassification to (earnings) loss. ....	—	1,455	(218)	1,237
Net current-period other comprehensive income (loss). ....	\$ 2,519	\$ (510)	\$ 127	\$ 2,136
Tax Reform impact <sup>(1)</sup> .....	—	(81)	130	49
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)

(1) During fiscal year 2018, the Company adopted a new accounting standard on accounting for the reclassification of certain tax effects from accumulated other comprehensive income related to Tax Reform.

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
	2019	2018	Consolidated Statements of Income
Derivative Gain (Loss) <sup>(1)</sup>	\$ 1,061	\$ (1,648)	Cost of Sales
	5	(20)	Non-operating income (expense), net
	(209)	213	Benefit (Provision) for Income Taxes
	\$ 857	\$ (1,455)	Net of Tax
Postemployment Benefits:			
Amortization of Actuarial Gain (Loss) <sup>(2)</sup>	\$ 472	\$ 358	Non-operating income
	(114)	(140)	Benefit (Provision) for Income Taxes
	\$ 358	\$ 218	Net of Tax
Total Reclassifications for the Period	\$ 1,215	\$ (1,237)	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. See Note 1 - Business Description and Summary of Significant Accounting Policies for further information on the restatement of the prior period presentation in the table above due to the adoption of new guidance issued by the FASB.

**Note 20 Quarterly Financial Information (Unaudited)**

(Amounts in Thousands, Except for Per Share Data)	Three Months Ended			
	September 30	December 31	March 31	June 30
<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
<b>Fiscal Year 2018:</b>				
Net Sales .....	\$ 253,204	\$ 258,151	\$ 283,938	\$ 276,768
Gross Profit <sup>(1)</sup> .....	19,453	20,921	22,881	22,775
Operating Income <sup>(1)</sup> .....	9,523	10,119	11,130	11,266
Net Income <sup>(2)</sup> .....	8,480	(8,347)	10,835	5,784
Basic Earnings Per Share .....	\$ 0.32	\$ (0.31)	\$ 0.41	\$ 0.22
Diluted Earnings Per Share .....	\$ 0.31	\$ (0.31)	\$ 0.40	\$ 0.22

- (1) Prior period has been restated to reflect the retrospective adoption of new accounting guidance issued by the FASB on improving the presentation of net periodic pension cost and net periodic postretirement benefit cost. See Note 1 - Business Description and Summary of Significant Accounting Policies for further information on the restatement of the prior period presentation. There was no effect to Net Income or Diluted Earnings per Share.
- (2) Net income for the quarter ended December 31, 2017 included income tax expense of \$16.6 million (\$0.62 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.

**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, 2019.

- (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, 2019 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, 2019 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 7, 2019 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 7, 2019 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 7, 2019 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.kimballelectronics.com](http://investors.kimballelectronics.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 7, 2019 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 7, 2019 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 7, 2019 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 7, 2019 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 7, 2019 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 7, 2019 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. . . . .	36
Report of Independent Registered Public Accounting Firm . . . . .	37
Consolidated Balance Sheets as of June 30, 2019 and 2018 . . . . .	39
Consolidated Statements of Income for Each of the Three Years in the Period Ended June 30, 2019 . .	40
Consolidated Statements of Comprehensive Income for Each of the Three Years in the Period Ended June 30, 2019 . . . . .	41
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended June 30, 2019 . . . . .	42
Consolidated Statements of Share Owners' Equity for Each of the Three Years in the Period Ended June 30, 2019 . . . . .	43
Notes to Consolidated Financial Statements . . . . .	44

(2) Financial Statement Schedules:

II. Valuation and Qualifying Accounts for Each of the Three Years in the Period Ended June 30, 2019 . . . . .	81
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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/A filed October 23, 2014, 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 13, 2017, File No. 001-36454)
4.1 <sup>(b)</sup>	Description of the Company's Registered Securities
10.1 <sup>(a)(b)</sup>	Summary of Director and Named Executive Officer Compensation
10.2 <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)
10.3 <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)
10.4 <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)
10.5 <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)
10.6	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)
10.7	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)
10.8	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)
10.9 <sup>(a)</sup>	Form of Long-Term Performance Share Award Agreement, as amended June 29, 2015, to be used for Long-Term Performance Share Awards granted on or subsequent to June 29, 2015 but prior to June 29, 2016 (Incorporated by reference to Exhibit 10.11 to the Company's Form 10-K filed on August 28, 2015, File No. 001-36454)
10.10 <sup>(a)</sup>	Description of the Kimball Electronics, Inc. 2014 Profit Sharing Incentive Bonus Plan (Incorporated by reference to Exhibit 10.10 of Amendment 4 to the Company's Form 10 filed on September 30, 2014, File No. 001-36454)

10.11 <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)
10.12 <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)
10.13 <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)
10.14 <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)
10.15	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)
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, 2019

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, 2019

/s/ MICHAEL K. SERGESKETTER

---

Michael K. Sergesketter  
*Vice President,*  
*Chief Financial Officer*  
August 27, 2019

/s/ MARK D. HODELL

---

Mark D. Hodell  
*Corporate Controller,*  
*(functioning as Principal Accounting Officer)*  
August 27, 2019

**Signature**

GREGORY J. LAMPERT \*

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

*Director*

ROBERT J. PHILLIPPY \*

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

*Director*

THOMAS J. TISCHHAUSER \*

\_\_\_\_\_  
Thomas J. Tischhauser

*Director*

**Signature**

COLLEEN C. REPPLIER \*

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

*Director*

GREGORY A. THAXTON \*

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

*Director*

CHRISTINE M. VUJOVICH \*

\_\_\_\_\_  
Christine M. Vujovich

*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, 2019

/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, 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
Year Ended June 30, 2017					
Valuation Allowances:					
Receivables . . . . .	\$ 192	\$ 129	\$ (37)	\$ —	\$ 284

**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, 2019

/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, 2019

/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, 2019 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, 2019

/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, 2019 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, 2019

/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

**Gregory J. Lampert**  
Director

**Robert J. Phillippy**  
Director

**Colleen C. Repplier**  
Director

**Gregory A. Thaxton**  
Director

**Thomas J. Tischhauser**  
Director

**Christine M. Vujovich**  
Director

## Leadership Team

**Donald D. Charron**  
Chief Executive Officer

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

**Roger Chang (Chang Shang Yu)**  
VP, Asian Operations

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

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

**Janusz F. Kasprzyk**  
VP, European Operations

**Steven T. Korn**  
VP, North American 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

## 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





**World Headquarters**

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

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

