

Kimball Electronics
4th Quarter and Fiscal Year 2024 Results
August 14, 2024

Presenters

Andrew Regrut, Treasurer and Investor Relations Officer
Richard Phillips, Chief Executive Officer
Jana Croom, Chief Financial Officer

Q&A Participants

Michael Crawford - B. Riley Securities
Jaeson Schmidt - Lake Street
Derek Soderberg - Cantor Fitzgerald
Anja Soderstrom - Sidoti & Company
Hendi Susanto - Gabelli Funds

Operator

Good morning, ladies and gentlemen, and welcome to the Kimball Electronics Fourth Quarter Fiscal 2024 Earnings Conference Call. My name is Cheri, and I will be the facilitator for today's call. All lines have been placed in a listen-only mode to prevent any background noise. After the completion of the prepared remarks from Kimball Electronics' leadership team, there will be a question-and-answer session period. To ask a question, simply press Star and 1 on your telephone keypad.

Today's call, August 14, 2024, is being recorded. A replay of the call will be available on the Investor Relations page of Kimball Electronics' website.

At this time, I would now like to turn the call over to Andy Regrut, Treasurer and Investor Relations Officer. Thank you. Mr. Regrut, you may begin.

Andrew Regrut

Thank you, Cheri, and good morning, everyone. Welcome to our fourth quarter conference call. With me here today is Ric Phillips, our Chief Executive Officer, and Jana Croom, Chief Financial Officer.

We issued a press release yesterday with our results for the fourth quarter and full fiscal year ended June 30, 2024. To accompany today's call, a presentation has been posted to the Investor Relations page on our company website.

Before we get started, I'd like to remind you that we will be making forward-looking statements that involve risk and uncertainty and are subject to our safe harbor provisions as stated in our

press release and SEC filings, and that actual results can differ materially from the forward-looking statements.

Our commentary today will be focused on adjusted non-GAAP results. Reconciliations of GAAP to non-GAAP amounts are available in our press release.

This morning, Ric will start the call with a few opening comments. Jana will review the financial results for the quarter and guidance for fiscal 2025. And Ric will complete our prepared remarks before taking your questions.

I'll now turn the call over to Ric.

Richard Phillips

Thanks, Andy, and good morning, everyone. Before I get into Q4 results, I want to briefly touch on the divestiture of the automation, test and measurement business. As announced earlier this month, the transaction was finalized on July 31. While we made significant strides enhancing capabilities in AT&M since the acquisition of GES in 2018, it was not a good fit for Kimball, and we determined that focusing on core EMS operations aligns best with our strategic priorities and longer-term growth opportunities for the company. AT&M will be well positioned under its new ownership. I would like to thank the AT&M team for their contributions and wish them success moving forward.

Closure on the sale also represented a significant milestone for our company and another important step towards sharpening our strategic focus and returning to profitable growth and stronger performance. The divestiture was not a small undertaking with many resources invested over the last year.

I'd also like to thank the entire Kimball team for the extra effort required in closing the deal and in ensuring a smooth transition. Your contributions are greatly appreciated. The proceeds from the sale of AT&M, combined with the recent improvements in working capital management, have strengthened our balance sheet in the form of increased liquidity and financial flexibility.

As part of sharpening our strategic focus, we are actively evaluating our mix of revenue and verticals in spite of the recent economic conditions. Present at the forefront is the long-term strategic growth of the company and need for a balanced portfolio, which is not overly weighted to any particular vertical. We have had significant success in bringing on new medical wins and continue to focus our front-end efforts on this space.

Additionally, we continue to be open to acquisition targets such as customer divestitures in the medical space and opportunities to expand into geographies or capabilities Kimball does not currently have.

Now on to Q4, which was another quarter focused on controlling what we can control. The operating environment for the EMS industry remains challenged, and many contract manufacturing organizations, Kimball included, have adjusted expectations based on continued weakness in end market demand.

In the verticals we serve, the pullback has been more significant than originally anticipated and we continue to maintain competitiveness by appropriately adjusting our cost structure to stabilize operating margins and purposefully drive inventory levels lower to generate positive free cash flow. Our long-term customer funnel remains strong for the future.

Net sales in the fourth quarter totaled \$430 million. While this was in line with our expectations and represents a \$5 million or 1% increase sequentially over Q3, it was a 13% decrease compared to the same period last year. As a reminder, Q4 last year was a record for the company as we grew 33%. So, the year-over-year comparison was steep. The decline this year occurred in all verticals and in each region of our global footprint.

Starting with automotive, our largest business, net sales were \$212 million, a 7% decrease compared to Q4 last year, and 49% of total company sales. The decline was in line with the softness we outlined in May and contributed to a 2% decrease in revenue in this vertical for the full year.

As we have stated many times, our focus in automotive is heavily concentrated on chassis control applications. That is steering, braking and suspension ECUs. Electronic braking is a relatively new growth opportunity. We started manufacturing these systems in Reynosa, Mexico a few years ago. Unfortunately, in late Q4, this program experienced a setback. We learned that the Tier 1 customer is no longer going to produce the system for the OEM. While this development did not directly impact our financial results in the quarter and it did not occur due to a Kimball related issue such as workmanship quality or our ability to produce the product, it does affect our outlook for the automotive vertical in fiscal '25.

Our relationship with this customer has never been better. In fact, we will launch a new braking program for them in January 2025 in Romania. We are also collaborating on additional opportunities to backfill the lost volumes.

Turning to medical, where net sales in Q4 totaled \$102 million, a 17% decrease compared to the same period last year and 24% of the total company. Once again, the decline was primarily driven by the lost revenue associated with our customer involved in an FDA recall.

As a reminder, our annual guidance assumed a net \$50 million reduction in medical sales were down 10% compared to the prior year. This consisted of a \$100 million decrease from the recall, partially offset by \$50 million of growth from new and existing programs. The final result for the medical vertical in fiscal 2024 was a decline of 15%.

As we look forward, we're very encouraged by the growth prospects in this vertical market with our focus on higher-level assemblies and finished medical device opportunities. As an example, we were recently awarded the transfer of work as the sole supplier of respiratory care final assembly in HLA business for our largest medical customer. This transfer is expected to commence in calendar 2025, with production impacting our fiscal 2026 results.

In addition, we see our expertise in manufacturing selected drug devices such as auto-injectors as a differentiator in an overall very attractive market. We continue to focus significant business development resources in this space and are very encouraged about future customer opportunities as a result of those efforts.

Finally, industrial with net sales of \$116 million, down 19% compared to the fourth quarter last year and 27% of total company sales. Results for the AT&M business are included in this vertical and approximately 1/2 of the decline in sales in industrial resulted from year-over-year weakness in the AT&M business, with the balance driven by lower demand for internal climate control systems and smart meters in Europe, which have been commoditizing.

For fiscal 2024 in total, the industrial vertical declined 3%, which was in line with our estimates. Longer term, we see a return to growth coming from a market rebound for climate control products and diversification into other subverticals within the industrial space. This may include increased demand for factory automation and green energy resulting from the megatrend of raising consumer awareness on consumption of natural resources. We are also in the early stages of exploring the off-highway equipment market.

In closing, I'm proud of the resilience demonstrated by our team in the fourth quarter and fiscal 2024. We believe we're uniquely positioned to capitalize on the various opportunities within the EMS space and that our sharpened strategic focus is setting us up for longer-term growth, particularly as the operating environment normalizes.

I'll now turn the call over to Jana to review Q4 in more detail and outline our guidance for fiscal 2025. Jana?

Jana Croom

Thank you, and good morning, everyone. As Ric mentioned, net sales in the fourth quarter were \$430.2 million, a 13% decrease compared to Q4 last year. Foreign exchange had less than a 1% impact on sales in the quarter.

The gross margin rate in Q4 was 8.5%, a 150-basis point decline compared to the fourth quarter of fiscal 2023, with the decrease coming from lower absorption in our EMS manufacturing facilities and weaker performance in AT&M, which was up against a very difficult comparison from the prior year. Both of these were the result of declining sales.

Adjusted selling and administrative expense in the fourth quarter were \$15.8 million compared to \$18.2 million in Q4 last year, with the decrease driven by efforts to manage cost in a period of declining sales. When measured as a percentage of sales, adjusted selling and administrative expenses were 3.6%, a 10-basis point improvement compared to Q4 last year.

Adjusted operating income for the fourth quarter was \$20.9 million or 4.9% of net sales, which compares to last year's adjusted results of \$31.5 million or 6.3% of net sales, which was a record for the company, so a very difficult comparison.

Other income and expense was expense of \$6.1 million compared to expense of \$4.9 million last year, with the increase resulting from impacts from foreign currency translation. Interest expense was down slightly.

The effective tax rate was 44% in the fourth quarter compared to 27.6% in Q4 last year. The higher tax rate was the result of a domestic valuation allowance recorded in the quarter. The full year effective tax rate of 18.6% was driven lower by the impairment taken due to the sale of GES, partially offset by the valuation allowance. We expect to resume a normalized tax rate in the mid-20s going forward.

Adjusted net income for the fourth quarter of fiscal 2024 was \$8.4 million or \$0.33 per diluted share compared to adjusted net income in Q4 last year of \$19 million or \$0.76 per diluted share.

Turning now to the balance sheet. Cash and cash equivalents at June 30, 2024, were \$78 million, and cash flows generated by operating activities in the quarter was \$48.5 million.

Cash conversion days were 100 days compared to 94 days in the fourth quarter last year and 110 days in Q3. We are continuing to focus on improving cash conversion days by aggressively and actively managing the components.

Inventory ended the quarter at \$338.1 million, which represents a \$112 million or 25% reduction compared to Q4 last year and \$58 million lower than Q3. We are very pleased with our progress in bringing down inventory levels and expect this to continue as we work with our customers to right-size the current demand outlook.

Capital expenditures in the fourth quarter were \$9.1 million and \$47 million for the full fiscal year, which was below our guidance range. The reduction in CapEx was the result of a balanced approach to the long-term needs of the company and the current economic outlook.

Borrowings on our credit facility at June 30, 2024, were \$294.8 million compared to \$281 million a year ago, and \$319.6 million at the end of Q3. Our short-term liquidity available represented as cash and cash equivalents plus the unused portion of our credit facility totaled \$220.1 million at the end of the fourth quarter.

In Q4, we invested \$3 million to repurchase 136,000 shares. Since October 2015 under our Board-authorized share repurchase program, a total of \$91.8 million has been returned for our shareholders by purchasing 6 million shares of common stock. We have \$8.2 million remaining on the repurchase program.

In total, fiscal 2024 was a year with net sales totaling \$1.715 billion, the second highest year in company history, adjusted operating income of 4.3% of net sales, inventory down 25% year-over-year and cash flow from operating activities of approximately \$73 million.

Now turning to guidance for fiscal year 2025. We expect net sales to be in the range of \$1.440 billion to \$1.540 billion, an 8% to 14% decrease compared to fiscal 2024, excluding AT&M. Adjusted operating income of 4% to 4.5% of net sales. Starting in fiscal 2025, we will be conforming with the industry practice of excluding stock compensation from the calculation on this metric. Under this new method, fiscal 2024 would have been 4.8%.

Capital expenditures of \$40 million to \$50 million roughly split between growth and maintenance requirements. We expect operating income margin to build over the course of the fiscal year as we continue cost containment efforts with Q1 likely below our fiscal year guidance range.

As to the mix of revenue, we expect the trends from Q4 to continue into Q1 for automotive and industrial. The forecasted declines in medical, however, will be more modest as we anniversary the impact of the FDA recall, which began in the first quarter of fiscal 2024. If you recall, Q1 2024 was the best first quarter in the company's history, driven by strong growth in industrial and automotive. We will continue to provide updates as the year progresses.

I'll now turn the call back over to Ric.

Richard Phillips

Thanks, Jana. Fiscal '25 is going to be another year of controlling what we can control. And in the short term, this means our cost structure, margin levels, working capital management and investments and capital expenditures.

Over a longer period of time, however, controlling what we can control is extending beyond these measures and focused on growing the top line. As I mentioned in my opening comments, the recent pressure on demand trends in the three vertical markets we support has been more significant than originally anticipated with a deeper and longer impact.

Our company has been in operation for over 60 years, ten of them listed on the NASDAQ, and we have weathered many storms. But we have also recognized when to cast a net a little wider by moving more deeply into new markets where our core manufacturing capabilities support emerging technology. Our work today in driving to new opportunities in medical high-level assemblies and drug device combinations are examples of these efforts.

With our strategic focus on EMS operations and a strong balance sheet that now supports different avenues of growth, we will be looking through a new lens on where and how to profitably increase the top line. The recent announcement by our largest medical customer, making Kimball the sole supplier on the respiratory care final assembly and HLA business is a great example of how we see the growth potential.

Throughout this journey, we will stay true to our guiding principles and continue to be collaborative and team oriented, set high long-term aspirations, not unrealistic goals but attainable targets that require stretching, communicate openly and proactively and remain accountable to our company, to our customers, to each other and to our shareholders. I am excited for the future of the company and thank you for your support.

Cheri, we would now like to open the lines for questions.

Operator

Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press Star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press Star 2 if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the Star keys. One moment while we poll for questions. Our first question is from Mike Crawford with B. Riley Securities.

Michael Crawford

Thank you. So, that one braking program aside, one of your customers next year just reported and talked about completing product line relocation from U.S. to Mexico next year, (inaudible), a new site being fully operational in early '25, and also this continued shift towards steer-by-wire technology. And how do any of those events affect Kimball?

Jana Croom

Hey, Mike. Good morning. So, as we think about steer-by-wire, that's something that we have been actively in with our customers. And so, remember, the life cycle of bringing these products to market is typically 18 months to 24 before you start producing, and the conversations even extend further back than that. And so, our participation in that Nexteer is one of our largest customers. We disclosed that in the 10-K. So, you should assume that we are actively in that supply chain with them.

The other thing that I will say is the conversations around their expansion in China. They're move to Mexico for things that the company had likely contemplated for a while and their supply chain was aware of.

So, as we look to the long-term future of Kimball as it relates to partnership with Nexteer, who's a great partner and customer of ours, I expect that we would be ready to serve in those

geographies. As we also -- and I think you know the significant available capacity in Mexico is being ready and willing to serve as well as in our China facility.

Michael Crawford

Okay. Thank you. And then, if Kimball's revenue in fiscal '25 comes in at the midpoint of that guidance range, roughly what percent would you expect for each of the verticals?

Jana Croom

So, I'm trying not to be too terribly prescriptive right now. And the reason is we're not exactly sure how the verticals are going to shake out. I have at least five different scenarios in my head as we contemplated the guidance that we were going to give.

What I would say is the impact in medical is going to be the most modest, right? And that's because you've got the FDA impact that's going to be fully reflected in the comps that we've got for FY '24. Where I'm sort of waiting to see, and we're getting insights daily from our CTO and our Chief Operating Officer is North American Auto, Chinese Auto, and we expect industrial in Europe to be very weak, but it could be stronger than anticipated.

Michael Crawford

Okay. Thank you. And then maybe a final question for me is just on industrial, given commoditization of smart meters, what is going to make up the stock? Is it going to be electrification of the grid? Or are you going to try to get into some other emerging solutions where you can make a difference?

Richard Phillips

Yes. No, great question. I would point to a few things, Mike. I think the return of climate control, where we haven't necessarily seen the commoditization that we've seen in smart metering. We've seen economic impacts there that we would expect to come back to growth, and we feel very well positioned.

We think factory automation is a place where we're active today that we expect to accelerate over time. And as mentioned, we're in the early stages of discussions with future customers around off-highway equipment. So, those are some of the areas as we look forward at industrial and returning to growth that we would expect to help us drive it.

Jana Croom

So, we're also (inaudible), as you suggest, Mike, that is an area we're also actively pursuing.

Michael Crawford

All right. Thank you, Jana.

Operator

Our next question is from Jaeson Schmidt with Lake Street. Please proceed.

Jaeson Schmidt

Hey, guys. Thanks for taking my questions. Understanding sort of the demand profile is a little softer here in the near term. Just curious if you could comment if this is really being due to programs getting canceled or simply pushed to the right?

Richard Phillips

Yes, there, I mean, with the exception of the unusual events that you're aware of that we spoke to, the medical FDA situation and the more recent braking, which was a situation where our Tier 1 customer is unfortunately no longer supporting the OEM on that program. This is demand push out. This is -- we won a program. We got an estimate of demand, and the updated estimate of demand is lower.

So, we continue to see -- we're asked a lot, and we ask our customers a lot, "When do you see a normalization of the demand patterns?" Of course, none of us know. I would say that probably the most frequent comment we hear back from customers is we know we have got to get past this U.S. election cycle where there's a lot of wait and see. But you could see second half of calendar '25 as a viewpoint of several of our customers of when we see a stabilizing of normal demand levels.

But with those two exceptions that you're aware of, we're not losing programs. Our win rates are good. Our customer relationships are really strong, even those situations where programs had significant impact, as you're already aware of, those relationships remain as strong as ever and we're working actively with those customers to replace those volumes over time.

Jaeson Schmidt

Okay. That's helpful. And then just as a follow-up on that braking program. Sorry, if I missed this, but did you quantify what sort of a revenue hole that's creating for fiscal '25?

Jana Croom

We didn't quantify it. But you should think about it along the same scale of the FDA recall in terms of size of revenue.

Jaeson Schmidt

Got you. All right, thanks a lot guys.

Operator

Our next question is from Derek Soderberg with Cantor Fitzgerald. Please proceed.

Derek Soderberg

Yes. Hey, thanks for taking my questions. Just curious if you can comment on some of the electric vehicle tariffs, some news there. I know you guys have some growth plans for electric

vehicles in China or at least that's what I believe. Can you just talk about any impact there on your plans? Thanks.

Richard Phillips

Yes. I mean, overall, as you know, I think the softening has been well documented overall in the EV uptake. We still -- as we talk to customers, it's still a question of when. This is going to have increased penetration over time. We certainly believe, and our customers tell us that.

One reminder for China is that our business there is China for China, as you know. So, we look at that differently because it's not an export market for us. And the trends, depending on the time and the economy around the world, can be different in China, certainly relative to Europe or North America.

Derek Soderberg

Yes. Got it. And then one quick one on share repurchases. Good to see some purchases there. What -- obviously, plans have kind of changed maybe here with some of these programs getting pushed out. Does that change at all? Any plans on share repurchases, Jana?

Jana Croom

It does not. So, what we always endeavor to do is have a share repurchase program that's at least equal to our LTIP that we're putting out into the market. We do that so that we keep our EPS in line with the actual growth of the company. We'll certainly examine beyond that.

The thing to remember is even with declining revenue, which is really hard, we've had significant cash flow improvement as we've been able to balance out working cap. And so, our balance sheet is actually in very good shape now relative to where it was a year ago. And so, the capital allocation strategy is going to be return value to shareholders in as many ways as we possibly can.

Derek Soderberg

Got it. Thanks.

Operator

As a reminder, it is Star 1 on your telephone keypad if you would like to ask a question. Our next question is from Anja Soderstrom with Sidoti & Company. Please proceed.

Anja Soderstrom

Hi, thank you for taking my question. So, I'm just curious, with the climate control that are a bit weaker in Europe. Is there any risk there that those are also going to be commoditized? Or are you pretty certain they're going to come back once Europe picks up?

Jana Croom

So hey, Anja, the climate control piece is much more North America than it is Europe. We do have some exposure to climate control in Europe, but primarily that revenue derived from North America, where it is not commoditizing. So, the softness that we saw in climate control was more related to just general economic malaise, not so much commoditization like we saw for smart metering in Europe as we saw Chinese product coming in.

Anja Soderstrom

Okay. Thank you. And in terms of the (inaudible) cadence for next year, how should we think about that?

Jana Croom

So, there was a significant debate within Kimball over whether or not we wanted to give annual guidance or whether we wanted to give quarterly guidance. What we decided we were going to do is stick with the annual guidance that we provide to the Street, but give you quarterly updates to help you with the modeling and where we're seeing.

And so, we did that with Q1 for where we expect it to shake out, which is very much in line with Q4 in terms of what we saw for automotive and industrial, except for the lap of medical with the FDA recall. We will continue on a quarterly basis to help you refine that.

Again, as I said to Mike, we expect softness in North American autos, and European industrial. We're watching China for the automotive market, but we'll see how it shakes out over the course of the year, and we will provide to you as much detail as we can on the quarterly calls.

Anja Soderstrom

Okay. Thank you. And when you announced that Andy has been elevated to a Treasurer for the company, you know that he's going to look at the refinement of the capital structure. Can you elaborate on that?

Jana Croom

The refinement of the capital structure? So basically, what I would say is as we -- as working capital improves and we generate cash, the big focus right now is on debt management and getting our balance sheet in great shape.

I would expect that our CapEx in FY '26 is going to have to grow because we've really ratcheted it to the point where we are real time, just in time, taking care of all of the growth and maintenance needs of the company, but we all know that that's not sustainable. It's just good stewardship for where we're at right now.

We also want to have dry powder so to the extent a really great opportunity comes available to us, either a customer wants us to take over a portion of their business, as we had indicated, or there are some attractive M&A activity that diversifies us in a really great way, we're able to

take advantage of that. And so, that's really our focus is balance sheet hygiene that enables future growth.

Anja Soderstrom

Okay. Thank you. That was all for me.

Operator

Our next question is from Hendi Susanto with Gabelli Funds.

Hendi Susanto

Good morning, Ric. Good morning, Jana. My first question is about inventory digestion. What does inventory digestion look like across the three major verticals now?

Jana Croom

Yes. We made really great progress in FY '24, and it was very much in line with what we indicated. So, I think I've consistently said we needed to pull about \$100 million of inventory off the balance sheet. We pulled \$112 million out.

I would expect similar declines that we're going to see in FY '25 in terms of order of magnitude. And if you're modeling cash flow, I would -- so, our CapEx guide for the year has been \$40 million to \$50 million. We spent \$47 million of CapEx last year. And so, I also expect free cash flow generation to be order of magnitude of what we did in FY '24.

Hendi Susanto

And Jana, if I may clarify, what does inventory digestion look like among your customers? Are they significantly like leaner? Or there's still some excess inventories?

Jana Croom

Yes. I apologize, Hendi, and thank you for clarifying.

Hendi Susanto

No problem. I think you did -- Kimball Electronics did a great job. I'm wondering what the outlook, like what you are seeing among your major customers?

Jana Croom

So, the backlog of inventory that our customers have built up in FY '22 and FY '23, that caused the base business to slow in FY '24. I don't know that it's so much the backlog of inventory that still persists that we're working through as much as it is a consumer stance of wait and see.

So, I don't think that it's that our consumers have a tremendous amount of backlog. Certainly, it differs by vertical. Arguably, automotive still has some that they're working through, not so much on industrial and medical. It's more driven by, again, just global economic posturing as we are waiting for some signals to come through from political outcomes, fed movements and

things in other geographies. But I don't think it's so much inventories. Some in autos, let me be clear about that, but not so much in industrial and medical.

Hendi Susanto

Okay. I see. And Jana, for CapEx in fiscal year 2025, where will Kimball Electronics span on the growth CapEx?

Jana Croom

So, the bulk of it, we say it's evenly split between growth and maintenance CapEx. We've got some fairly big programs that are going to be starting in FY '26. And so, there's a fair amount of growth capital that we must spend. And so, that's going to be sort of the front-end loaded spend of CapEx with maintenance rounding it out for the full year.

Hendi Susanto

Would you be able to indicate whether it will be in medical, industrial, automotive or all over those three?

Jana Croom

It's going to be in automotive and medical. Some in industrial. Industrial is just not as capital intensive as what we've got in the funnel for automotive and medical, right, as it sits today, and you know that, that flexes from year-to-year depending on what programs we're launching and the type of business.

Hendi Susanto

Okay. And then I also would like to ask about the challenge of a Tier 1 customer no longer producing system for OEM? I may have missed this. What was the main reason?

Jana Croom

A commercial agreement between the OEM and another provider. And we try not to get into those weeds. The only reason that I am framing it in that way is to help everyone understand it was not at all related to the quality or workmanship of the product that we or the Tier 1 were producing. It was also not related to price.

And so normally, we don't even comment because we don't necessarily think it's appropriate, but it is important to know that both we and the Tier 1 customer, we're providing excellent product at a fair and reasonable price. And so, the movement has nothing to do with either of those, which is typically why you would see movement. And so, we just want to be very clear and (inaudible).

Richard Phillips

And in fact, Hendi, we're working with that Tier 1 customer very closely over time to see how we backfill those volumes, working on launching new programs together. So, that relationship remains very strong.

Hendi Susanto

Okay. And then Ric, when -- okay, for the customers to backfill the order in the near future, what does it depend on? Will it depend on new programs, reallocation or anything else?

Richard Phillips

It could be all of the above. We're in very regular conversations about new programs, and we've had a good successful relationship. I think the -- our ability to work (inaudible) with that customer to provide high-quality product consistently to have really strong commercial agreements that we're aligned on is there. But we certainly also talk to them and stand ready to support them on existing programs that could shift.

Hendi Susanto

Okay. And then last question for me. I think this is a Kimball Electronic talks about its interest in strategic M&A more than usual. Would you be able to indicate the size of potential M&A, what potential deal size that Kimball can digest with a stronger balance sheet?

Jana Croom

I don't think it's so much the size of what we could digest but what would make a good strategic fit. God bless the banks, they stand ready to be great partners, and they're always willing to help you figure out how to digest something of size. What it really boils down to is what is a good long-term strategic option for Kimball and what balances out the portfolio in a really practical and thoughtful strategic way for the company?

I want to be real clear, though, the organic growth with -- this is a different space than I think we had hoped to be in two years ago and certainly than we were expecting. But our funnel is still incredibly strong.

Our organic opportunities for growth are still rock solid. But as Ric indicated, in the cast a wider net, when you're looking at preserving and growing the top line profitably, it's incumbent upon the leadership team always to look at everything.

Hendi Susanto

Thank you, Ric. Thank you, Jana.

Operator

With no further questions at this time, this will conclude today's conference. A replay will be available in approximately three hours after the conference by dialing into (877) 660-6853. The access ID is 13747697. You may now disconnect your lines at this time, and thank you for your participation.