Risk Factors Comparison 2023-08-24 to 2022-08-30 Form: 10-K

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The long- term effects of climate change on the global economy and our industry in particular are unclear. Changes in climate where we, our customers, and our supply chain operate could have a long- term adverse impact on our business, results of operations, and financial condition. In addition, we have committed to cut our greenhouse gas emissions, water usage, electrical usage, and air emissions significantly by 2025 as part of our long- term sustainability strategy, and we may take additional voluntary steps to mitigate our impact on the environment **. Climate transition risks related to shifts to a low- carbon economy and the associated costs of retrofitting or constructing facilities with green technology, in addition to investments in renewable energy and energy efficiency could involve material costs or otherwise impact our customers and their demand for our services** . Environmental regulations or changes in the supply, demand, or available sources of energy, water, or other resources may affect the availability or cost of goods and services, including natural resources, necessary to run our business. The cost of energy is a critical component of freight expense and the cost of operating manufacturing facilities. Increases in the cost of energy in particular could reduce our profitability. Given the political significance and uncertainty around these issues, we cannot predict how climate change, and the legal and regulatory initiatives related to climate change, will affect our operations and financial condition. Compliance with government legislation and regulations may significantly increase our operating costs in the United States and abroad. Legislation and regulations promulgated by the U. S. federal and foreign governments could significantly impact our profitability by burdening us with forced cost choices that either cannot be recovered by increased pricing or, if we increase our pricing, could negatively impact demand for our products. For example: • Changes in policies by the U. S. or other governments could negatively affect our operating results due to changes in duties, tariffs or taxes, or limitations on currency or fund transfers, as well as government- imposed restrictions on producing certain products in, or shipping them to, specific countries. For example, our facility in Mexico operates under the Mexican Maquiladora (" IMMEX ") program. This program provides for reduced tariffs and eased import regulations. We could be adversely affected by changes in the IMMEX program or our failure to comply with its requirements. As another example, the U. S. government has imposed tariffs on certain products imported from China. China has imposed tariffs on certain U. S. products in retaliation. These tariffs could force our customers or us to consider various strategic options including, but not limited to, looking for different suppliers, shifting production to facilities in different geographic regions, absorbing the additional costs, or passing the cost on to customers. Ultimately, these tariffs could adversely affect the competitiveness of our domestic operations, which could lead to the reduction or exit of certain U. S. manufacturing capacity. 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. • The Dodd- Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as " conflict minerals, " originating from the Democratic Republic of Congo (" DRC ") and adjoining countries. These rules could adversely affect the sourcing, supply, and pricing of materials used in our products, as the number of suppliers who provide conflict- free minerals may be limited. We may also suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict- free or if we are unable to modify our products to avoid the use of such materials. We may also face challenges in satisfying customers who may require that our products be certified as containing conflict- free minerals or that we adopt more stringent guidelines like those fostered by the Responsible Materials Initiative (" RMI "). • We are subject to a variety of federal, state, local and foreign environmental, health and safety, product stewardship and producer responsibility laws and regulations, including those arising from global pandemics or relating to the use, generation, storage, discharge and disposal of hazardous chemicals used during our manufacturing process, those governing worker health and safety, those requiring design changes, supply chain investigation or conformity assessments, and those relating to the recycling or reuse of products we manufacture. These include EU regulations and directives, such as the Restrictions on Hazardous Substances (" RoHS "), the Waste Electrical and Electronic Equipment (" WEEE ") directives, and the Registration, Evaluation, Authorization, and Restriction of Chemicals (" REACH ") regulation, and similar regulations in China (the Management Methods for Controlling Pollution for Electronic Information Products or " China RoHS "). In addition, new technical classifications of e- Waste being discussed in the Basel Convention technical working group could affect both our customers' abilities and obligations in electronics repair and refurbishment. If we fail to comply with any present or future regulations or timely obtain any needed permits, we could become subject to liabilities, and we could face fines or penalties, the suspension of production, or prohibitions on sales of products we manufacture. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses, including expenses associated with the recall of any non- compliant product or with changes in our operational, procurement and inventory management activities. ~~In addition, there is an increasing governmental focus around the world on climate change and environmental impact issues, which may result in new environmental, health, and safety regulations that may affect us, our suppliers and our customers. This could cause us to incur additional direct costs for compliance, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that are passed on to us. These costs may adversely impact our operations and financial condition.~~ ESG issues, including those related to climate change and sustainability, may increase our costs and impose difficult and expensive compliance requirements. Customers, consumers, investors, and other stakeholders, particularly in the EMS industry, are increasingly focusing on environmental issues, including climate change, water use, deforestation, waste, and other sustainability concerns. Along with our stakeholders and our broader industry, we have increased our focus on sustainability and measurement of our progress against ~~Environmental, Social, and Governance ("~~ ESG ~~")~~ criteria ~~. We have established sustainability and ESG programs aligned with sound environmental~~ , **but** ~~social and governance principles. These programs reflect our current initiatives and~~ we cannot guarantee that we will be able to achieve ~~the planned results~~ **relevant criteria with our current focus** . Our ability to successfully execute ~~these~~ **relevant** initiatives and accurately report our progress presents numerous operational, financial, legal, reputational and other risks, many of which are outside our control, and all of which could have a material negative impact on our business. ~~Additionally~~ **New disclosures** , **along with** ~~the implementation of these~~ -- **the** ~~initiatives imposes additional~~ **evolving global ESG regulatory landscape, may present increased compliance** costs ~~on us~~ **and regulatory or enforcement risks, as well as increased competition from market participants who may adopt more robust ESG reporting and sustainable business practices** . If our ESG initiatives fail to satisfy investors, current or potential customers, consumers, and our other stakeholders, our reputation, our ability to sell products and services to customers, our ability to attract or retain employees, and our attractiveness as an investment or business partner could be negatively impacted. Similarly, our failure or perceived failure to pursue or fulfill our goals, targets, and objectives, or to satisfy various reporting standards within the timelines we announce, or at all, could also have similar negative impacts and expose us to government enforcement actions and private litigation. In addition, our customers have adopted, and may continue to adopt, procurement policies that require us to comply with **governance,** social, and environmental responsibility provisions. ~~An~~ **Our customers have also adopted, and may continue to adopt, goals and policies that serve to increase their demand for goods or services that do not produce significant greenhouse gas emissions and are not related to carbon- based energy sources. Furthermore, an** increasing number of investors have adopted, and may continue to adopt, ESG policies for their portfolio companies, and various voluntarily sustainability initiatives and organizations have promulgated different social and environmental responsibility and sustainability guidelines. These practices, policies, provisions, and initiatives are under active development, subject to change, can be unpredictable and conflicting, and may prove difficult and expensive for us to comply with and could negatively affect our reputation, business, or financial condition. Financial Risks 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. 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 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~~ **our growth** may cause our effective tax rate to increase **, depending on the jurisdictions in which we expand our business or acquire operations** . 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. 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. **In addition,** ~~Risks associated with transfer pricing adjustments are further highlighted by the global initiative from~~ the Organization for Economic Cooperation and Development **continues to issue guidelines** ~~(" OECD ") known as the Base Erosion~~ and **proposals related to transfer pricing and** ~~Profit~~ **profit** ~~Shifting~~ **shifting that may result in legislative changes that could reshape** ~~(" BEPS ") project. The BEPS project is challenging longstanding~~ international tax **rules** ~~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 **numerous countries and negatively impact our effective** tax **rate** ~~laws would impact our income tax expense~~. We are exposed to foreign currency risk **. In 2022, the relative value of the U. S. dollar reached its highest levels since 2000 and has appreciated sharply against many foreign currencies** . 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. A failure to comply with the financial covenants under our credit facilities could adversely impact us. Our primary credit facility requires us to comply with certain financial covenants. We believe the most significant covenants under our credit facilities are the ratio of consolidated total indebtedness minus unencumbered U. S. cash on hand in the United States in excess of $ 15 million to adjusted consolidated EBITDA, as defined in our primary credit facility, and the interest 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, ~~2022~~ **2023** , we had $ ~~180~~ **281** . ~~6~~ **5** million in borrowings under our credit facilities and had total cash and cash equivalents of $ ~~49~~ **43** . ~~9~~ **0** million. In the future, a default on the financial covenants under our credit facilities could cause an increase in the borrowing rates or make it more difficult for us to secure future financing, which could adversely affect our financial condition. We are exposed to **inflation,** interest rate **, and other banking and capital market** ~~risk~~ **risks** ~~on~~ **. High levels of inflation in the U. S. and other countries where we operate have and may continue to increase** our ~~borrowings~~ **costs and may impact pricing and customer demand, both of which may impact our revenues and earnings** . We have exposure to interest rate risk on our borrowings under our credit facilities. The interest rates of these borrowings are based on a spread plus applicable base rate, including the Secured Overnight Financing Rate (" SOFR "), the Euro Interbank Offered Rate (" EURIBOR "), the prime rate of a reference bank, or the federal funds rate. An adverse change in the base rates upon which our interest rates are determined could have a material adverse effect on our financial position, results of operations, or cash flows. **Rising interest rates have increased our costs of borrowing. Additionally, volatility in capital markets could present challenges to us if we need to raise funds in the equity market. This, in turn, may cause us to adopt strategies that may be less capital- intensive. Volatility in the credit markets, including due to the recent bank failures as well as the U. S. Federal Reserve Bank' s actions and pace of interest rate increases to combat inflation in the U. S., may have an adverse effect on our ability to obtain debt financing.** General Risk Factors We will face risks **associated** ~~commonly encountered~~ with **the organic and inorganic** growth **of our business and we may neither be able to continue that growth nor have the necessary resources to dedicate to that growth. We plan to expand our business to new customers, new commercial applications, and new commercial markets, including those where we may have limited operating experience, through organic growth and acquisitions. Accordingly, we may be subject to increased business, technology, and economic risks that could materially affect our business. In recent periods, we have increased our focus on organic growth and customer acquisition. In the future, we may increasingly focus on this organic growth, and we may identify inorganic growth opportunities** through acquisitions **and customer divestitures** . ~~Our~~ **Expanding in the verticals in which we are already operating will continue to require significant resources and there is no guarantee that such efforts will be successful or beneficial to us. Historically,** sales **to new customers have often led to additional sales to the same customers or similarly situated customers. As we expand into and within new and emerging markets for our services, we will likely face additional regulatory scrutiny, risks, and business challenges from our customers, governments, and other stakeholders in those markets. While this approach to** growth ~~plans may occur through both~~ **within new and existing commercial markets and verticals has proven successful in the past, it is uncertain we will achieve the same penetration and** organic growth **or** ~~and acquisitions. Acquisitions involve many risks, including: • difficulties in identifying~~ --- **identify** suitable ~~acquisition candidates and~~ **inorganic growth opportunities** in ~~negotiating and consummating acquisitions on terms attractive to us; • difficulties in~~ the **future** ~~assimilation of the personnel, processes,~~ and **our reputation, business, financial condition, and results of** operations ~~of the acquired company; • difficulties in bringing internal control over financial reporting into compliance with the requirements of Section 404 of the Sarbanes- Oxley Act of 2002 in a timely manner; • the diversion of resources, including diverting management' s attention from our current operations; • risks of entering new geographic or product markets in which we have limited or no direct prior experience; • the potential loss of key customers of the acquired company; • the potential loss of key employees of the acquired company; • the potential incurrence of indebtedness to fund the acquisition; • the potential issuance of common stock for some or all of the purchase price, which~~ could ~~dilute ownership interests of our current Share Owners; • the acquired business not achieving anticipated revenues, earnings, cash flow, or market share; • excess capacity; • the assumption of undisclosed liabilities; • potential adverse tax effects; and • dilution of earnings. We may implement future restructuring efforts and those efforts may not~~ be **negatively impacted** ~~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~~ . Changes in financial accounting standards or policies have affected, and in the future may affect, our reported financial condition or results of operations. We prepare our financial statements in conformity with U. S. GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (" FASB "), the American Institute of Certified Public Accountants, the SEC, and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results and may affect our reporting of transactions that are completed before a change is announced. Changes to those rules or questions as to how we interpret or implement them may have a material adverse effect on our reported financial results or on the way we conduct business. See Note 1- Business Description and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for more information on the adoption of the new accounting guidance. **Litigation** ~~A change in our~~ - **or legal**

proceedings ~~sales mix among various products~~ could **expose us to significant liabilities and** have a negative impact on our **reputation** ~~gross profit margin~~ . ~~Changes~~ **We are or may become party to various claims and legal proceedings** in **the ordinary course of our business. These claims and legal proceedings may include lawsuits or claims relating to contracts, intellectual property,** product **recalls,** ~~sales mix could negatively impact our gross margin as margins of different products~~ - **product** ~~vary. We strive to improve~~ **liability, employment matters, environmental matters, regulatory compliance, or** ~~the~~ **other** ~~margins~~ **aspects** of ~~all products~~ **our business. Even when not merited** , ~~but certain products~~ **the defense of these claims and legal proceedings may divert our management' s attention, and we may incur significant expenses in defending these claims and proceedings. In addition, we may be required to pay damage awards or settlements or become subject to injunctions or other equitable remedies, which could** have ~~lower margins in order to price the product competitively or in connection with the start- up of~~ a **material** ~~new program. An increase in the proportion of sales of products with lower margins could have an~~ adverse ~~impact~~ **effect** on our financial position, ~~results of operations, or~~ cash flows **, or results of operations. The outcome of litigation is often difficult to predict, and the outcome of pending or future claims and legal proceedings may have a material adverse effect on our financial position, cash flows, or results of operations. We evaluate these claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our current assessments and estimates. If actual outcomes or losses differ materially from our current assessments and estimates or additional claims or legal proceedings are initiated, we could be exposed to significant liabilities** . Natural disasters **, pandemics,** or other catastrophic events ~~such as the COVID- 19 pandemic~~ may impact our production schedules and, in turn, negatively impact profitability. Natural disasters **, pandemics,** or other catastrophic events, including severe weather (including cyclones, hurricanes, and floods) as well as terrorist attacks, power interruptions, fires, and pandemics, could disrupt operations and likewise our ability to produce or deliver products. Our manufacturing operations require significant amounts of energy, including natural gas and oil, and governmental regulations may control the allocation of such fuels to Kimball Electronics. Employees are an integral part of our business, and events such as a pandemic could reduce the availability of employees reporting for work. In the event we experience a temporary or permanent interruption in our ability to produce or deliver product, revenues could be reduced, and business could be materially adversely affected. In addition, catastrophic events, or the threat thereof, can adversely affect U. S. and world economies, and could result in reduced demand for our customers' products and delayed or lost revenue for our services. Further, any disruption in our IT 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 it may not be sufficient or paid in a timely manner to us in the event of such an interruption. ~~For example, the COVID- 19 pandemic poses the risk that we or our employees, suppliers, customers, and others may be restricted or prevented from conducting business activities as normal for indefinite or intermittent periods of time, which has impacted and will continue to impact our global operations. All of our operations have been, and will continue to be, impacted to varying degrees by government measures worldwide to contain or mitigate the spread of the virus, including travel restrictions, restrictions on operation of businesses, shelter in place orders, and mandatory closures of schools and child- care facilities, which in turn can have adverse impacts on the availability of critical components, our supply chain, capacity utilization at our facilities, and the ability of certain employees to return to work. We have modified our business practices for the continued health and safety of our employees and may take further actions, or be required to take further actions, that are in the best interests of our employees. Our suppliers and customers have also implemented, or may implement, similar practices in response to the pandemic. The implementation of health and safety practices by us or our suppliers or customers could adversely impact deliveries and productivity and increase costs. In addition, responding to the continuing pandemic could divert management' s attention from our key strategic priorities or cause us to divert or delay the application of our resources toward initiatives that may otherwise increase our long- term value. We cannot reasonably predict the full extent to which the COVID- 19 pandemic will impact our financial position, results of operations, and cash flows, which will depend on future developments that are highly uncertain and continuously evolving, including, the duration of the COVID- 19 pandemic and its severity, new medical and other information that may emerge concerning COVID- 19, further actions by governmental entities or others in response to the pandemic, and how quickly and to what extent normal economic and operating conditions can resume.~~