

**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 April 29, 2023

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 001-33731

METHODE ELECTRONICS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-2090085

(IRS Employer
Identification No.)

8750 West Bryn Mawr Avenue, Suite 1000

Chicago, Illinois

(Address of Principal Executive Offices)

60631-3518

(Zip Code)

Registrant's telephone number (including area code): (708) 867-6777

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

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.50 Par Value	MEI	New York Stock Exchange

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 Section 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 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 ☒

Non-accelerated filer ☐

Emerging Growth Company ☐

Accelerated filer ☐

Smaller reporting company ☐

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of common stock held by non-affiliates of the Registrant on October 28, 2022, based upon the closing price on that date as reported by the New York Stock Exchange, was \$1.0 billion.

Registrant had 37,339,352 shares of its common stock outstanding as of June 15, 2023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2023 annual shareholders' meeting to be held on September 13, 2023 are incorporated by reference into Part III of this Form 10-K.

METHODE ELECTRONICS, INC.
FORM 10-K

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PART I

As used herein, “we,” “us,” “our,” the “Company” or “Methode” means Methode Electronics, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“this Annual Report”) includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect, when made, our current views with respect to current events and financial performance. Such forward-looking statements are subject to many risks, uncertainties and factors relating to our operations and business environment, which may cause our actual results to be materially different from any future results, expressed or implied, by such forward-looking statements. All statements that address future operating, financial or business performance or our strategies or expectations are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “projects,” “potential,” “outlook” or “continue,” and other comparable terminology. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following:

- Dependence on our supply chain, including semiconductor suppliers;
- Impact from pandemics, such as the COVID-19 pandemic;
- Dependence on the automotive and commercial vehicle industries;
- Impact from inflation;
- Dependence on a small number of large customers, including one large automotive customer;
- Risks relating to our use of requirements contracts;
- Failure to attract and retain qualified personnel;
- Risks related to conducting global operations;
- Potential work stoppages;
- Dependence on the availability and price of materials;
- Timing, quality and cost of new program launches;
- Ability to compete effectively;
- Ability to withstand pricing pressures, including price reductions;
- Our lengthy sales cycle;
- Ability to successfully benefit from acquisitions and divestitures;
- Impact from production delays or cancelled orders;
- Investment in programs prior to the recognition of revenue;
- Electric vehicle (“EV”) adoption rates;
- Ability to withstand business interruptions;
- Breaches to our information technology systems or service interruptions;
- Ability to keep pace with rapid technological changes;
- Ability to protect our intellectual property;
- Costs associated with environmental, health and safety regulations;
- International trade disputes resulting in tariffs and our ability to mitigate tariffs;
- Impact from climate change and related regulations;
- Ability to avoid design or manufacturing defects;
- Ability to remediate a material weakness in our internal control over financial reporting;
- Recognition of goodwill and other intangible asset impairment charges;
- Ability to manage our debt levels and any restrictions thereunder;
- Interest rate changes and variable rate instruments;
- Currency fluctuations;
- Adjustments to compensation expense for performance-based awards;
- Timing and magnitude of costs associated with restructuring activities;
- Income tax rate fluctuations; and
- Judgments related to accounting for tax positions.

Additional details and factors are discussed under the caption “Risk Factors” in this Annual Report. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. Any forward-looking statements made by us speak only as of the date on which they are made. We are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise.

Item 1. Business

Description of Business

We are a leading global supplier of custom engineered solutions with sales, engineering and manufacturing locations in North America, Europe, Middle East and Asia. We design, engineer and produce mechatronic products for Original Equipment Manufacturers (“OEMs”) utilizing our broad range of technologies for user interface, light-emitting diode (“LED”) lighting system, power distribution and sensor applications.

Our solutions are found in the end markets of transportation (including automotive, commercial vehicle, e-bike, aerospace, bus and rail), cloud computing infrastructure, construction equipment, consumer appliance and medical devices.

Acquisition of Nordic Lights Group Corporation

On April 20, 2023, we acquired 92.2% of the outstanding shares in Nordic Lights Group Corporation (“Nordic Lights”) for €121.8 million (\$134.2 million) in cash. Nordic Lights is a premium provider of high-quality lighting solutions for heavy duty equipment and a public limited liability company incorporated in Finland with its shares admitted to trading on Nasdaq First North. The acquisition complements our own existing LED lighting solutions. In addition, the business aligns well with our inorganic growth framework given its focus on engineered solutions for OEMs, its industrial and non-auto transportation market exposure, and its customer and geographic diversity.

From May 1, 2023 to June 16, 2023, we acquired an additional 7.2% of the outstanding shares of Nordic Lights for €9.3 million (\$10.2 million) resulting in a current ownership of 99.4%. In May 2023, we initiated compulsory redemption proceedings for all remaining shares in Nordic Lights in accordance with Chapter 18 of the Finnish Companies Act. We expect the redemption proceedings to be completed by October 31, 2023. See Note 3, “Acquisition” to our consolidated financial statements in this Annual Report for further information.

Fiscal Year

We maintain our financial records on the basis of a 52 or 53-week fiscal year ending on the Saturday closest to April 30. Fiscal 2023 ended on April 29, 2023, fiscal 2022 ended on April 30, 2022 and fiscal 2021 ended on May 1, 2021, and each represented 52 weeks of results.

Operating Segments

Our business is managed, and our financial results are reported, based on the following four segments: Automotive, Industrial, Interface and Medical. See Note 15, “Segment Information and Geographic Area Information” to our consolidated financial statements in this Annual Report for further information.

The Automotive segment supplies electronic and electro-mechanical devices and related products to automobile OEMs, either directly or through their tiered suppliers. Our products include integrated center consoles, hidden switches, ergonomic switches, transmission lead-frames, complex insert molded solutions, LED-based lighting solutions, and sensors which incorporate magneto-elastic sensing, eddy current or other sensing technologies that monitor the operation or status of a component or system.

The Industrial segment manufactures external lighting solutions, including driving, work, and signal lights, industrial safety radio remote controls, braided flexible cables, current-carrying laminated and powder-coated busbars, high-voltage high current connector and contracts, custom power-product assemblies, such as our PowerRail® solution, high-current low-voltage flexible power cabling systems that are used in various markets and applications, including aerospace, cloud computing, commercial vehicles, construction equipment, industrial, military, power conversion and transportation.

The Interface segment provides a variety of copper-based transceivers and related accessories for the cloud computing hardware equipment and telecommunications broadband equipment markets, user interface solutions for the appliance, commercial food service, and point-of-sale equipment markets, and fluid-level sensors for the marine/recreational vehicle and sump pump markets.

The Medical segment is made up of our medical device business, Dabir Surfaces, Inc. (“Dabir Surfaces”), our surface support technology aimed at pressure injury prevention. Dabir Surfaces has developed the technology for use by patients who are immobilized or otherwise at risk for pressure injuries, including patients undergoing long-duration surgical procedures.

The following table reflects the percentage of net sales by segment for the last three fiscal years.

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Automotive	62.4%	67.2%	69.4%
Industrial	32.6%	27.3%	24.6%
Interface	4.7%	5.1%	5.7%
Medical	0.3%	0.4%	0.3%

Sales and Marketing

The majority of our sales activities are directed by sales managers who are supported by field application engineers and other technical personnel who work with customers to design our products into their systems. Our field application engineers also help us identify emerging markets and new products. Our products are primarily sold through our in-house sales staff. We also utilize independent manufacturers' and sales representatives with offices throughout the world. Information about our sales and operations in different geographic regions is summarized in Note 15, "Segment Information and Geographic Area Information" to our consolidated financial statements in this Annual Report. Sales are made primarily to OEMs, either directly or through their tiered suppliers, as well as to selling partners and distributors.

Sources and Availability of Materials

The principal materials that we purchase include application-specific integrated circuits, coil and bar stock, ferrous and copper alloy sheets, glass, LED displays, plastic molding resins, capacitors and resistors, precious metals, and silicon die castings. All of these items are available from several suppliers and we generally rely on more than one supplier for each item.

Refer to Item 1A. "Risk Factors" in this Annual Report for risks related to supply chain issues, including the worldwide semiconductor supply shortage.

Intellectual Property

We generally rely on patents, trade secrets, trademarks, licenses, and non-disclosure agreements to protect our intellectual property and proprietary products. We have been granted a number of patents in the U.S., Europe and Asia and have additional domestic and international patent applications pending related to our products. Our existing patents expire on various dates between 2023 and 2043. We seek patents in order to protect our interest in unique and critical products and technologies, including our magneto-elastic torque/force sensing, current sensing, displacement sensing, medical devices and radio-type products. We do not believe any single patent is material to our business, nor would the expiration or invalidity of any patent have a material adverse effect on our business or our ability to compete.

Seasonality

A significant portion of our business is dependent upon the automotive and commercial vehicle industries. Consequently, our Automotive and Industrial segments may experience seasonal fluctuations based on the sales and the production schedules of our customers.

Major Customers

During fiscal 2023, our five largest customers accounted for approximately 49% of our consolidated net sales. Two customers in the Automotive segment represented more than 10% of our consolidated net sales at 18.7% and 10.8%. In general, these sales were for component parts used in particular vehicle models. Typically, our supply arrangement for each component part includes a blanket purchase order and production releases. In general, a blanket purchase order is issued for each part as identified by the customer part number. Each blanket purchase order includes standard terms and conditions, including price. In certain circumstances, we supply the requirements for a particular customer vehicle model for the life of the model, which can vary from three to seven years. Our customers order parts using production releases approved under the relevant blanket purchase order. The production releases include information regarding part quantities and delivery specifications.

Backlog

We manufacture products based on a combination of specific order requirements and forecasts of our customers' demand. For many of our OEM customers, especially in the automotive and commercial vehicle markets, we have long-term supply arrangements where there is an expectation that we will supply products in future periods. However, these arrangements do not necessarily constitute firm orders and these OEM customers are not required to purchase any minimum amount of products from us and can sunset a program at any time. Firm orders are generally limited to authorized customer purchase orders which are typically based on customer release schedules. We fulfill these purchase orders as promptly as possible. We do not consider the dollar amount of such purchase order releases on hand and not processed at any point in time to be significant based upon the time frame involved. Accordingly, backlog at any given time might not be a meaningful indicator of future revenue.

Competition

The markets in which we operate are highly competitive and characterized by rapid changes due to technological improvements and developments. We compete with a large number of other manufacturers in each of our product areas and many of these competitors have greater resources and sales. Price, service and product performance are significant elements of competition in the sale of our products.

Research and Development

We maintain a research and development program involving a number of professional employees who devote a majority of their time to the enhancement of existing products and to the development of new products and processes. Research and development costs primarily relate to product engineering and design and development expenses and are classified as a component of costs of products sold on our consolidated statements of income. Expenditures for such activities amounted to \$35.0 million for fiscal 2023, \$35.7 million for fiscal 2022 and \$37.1 million for fiscal 2021.

Government Regulations

Our worldwide business activities are subject to various laws, rules, and regulations of the United States as well as of foreign governments. Compliance with these laws, rules, and regulations has not had a material effect upon our capital expenditures, results of operations, or competitive position, and we do not currently anticipate material capital expenditures for environmental control facilities. Nevertheless, compliance with existing or future governmental regulations, including, but not limited to, those pertaining to international operations, environmental matters (including climate change), export controls, business acquisitions, consumer and data protection, employee health and safety, and regional quarantine requirements, could have a material impact on our business in subsequent periods. Refer to Item 1A. “Risk Factors” in this Annual Report for a discussion of these potential impacts.

Human Capital

The Human Resources function at Methode is an active and visible partner to the business at all levels. Our Chief Human Resources Officer reports directly to the Chief Executive Officer and interacts frequently with our Board of Directors. In fiscal 2024, our human capital focus will continue to be on talent acquisition and development, diversity and inclusion and employee health and safety.

As of April 29, 2023, we employed approximately 6,700 employees worldwide, substantially all of whom were employed full time with approximately 94% of these employees located outside the U.S. Our U.S. employees are not subject to any collective bargaining agreements although certain international employees are covered by national or local labor agreements.

Our corporate culture is committed to doing business with integrity, teamwork, and performance excellence. Our management team and all our employees are expected to exhibit the principles of fairness, honesty, and integrity in the actions we undertake. Our employees must adhere to our Code of Conduct that addresses topics such as anti-corruption, discrimination, harassment, privacy, appropriate use of company assets and protecting confidential information. Our employees participate in annual training on preventing, identifying, reporting, and stopping any type of unlawful discrimination or unethical actions.

Talent Acquisition, Development and Succession Planning

We strive to build a diverse and inclusive workforce through investments in talent development and retention strategies. Methode is an Equal Opportunity Employer and offers opportunities to all qualified job seekers. We focus significant attention on attracting and retaining talented and experienced individuals to manage and support our operations. When we hire new employees, we focus not just on the skills required for current positions, but the ever-changing complex skills and competencies that will be required as we move forward.

We have a global talent review and succession planning process designed to align our talent plans with the current and future strategies of the business. This includes the identification of key positions, assessment of internal talent and potential successors and plans for talent development. Our teams meet with leaders and team members across the company to develop action plans and goals focused on both personal and professional development.

Diversity and Inclusion

At Methode Electronics, we strive to maintain a diverse and inclusive workforce that reflects our global customer base and the communities that we serve. We value every member of our workforce and want everyone to feel safe voicing their opinions and concerns. Our diversity goals apply to our entire organization, including leadership positions. We have diverse representation on our executive team and Board of Directors, with three out of twelve Board members being women.

As highlighted in our Diversity & Inclusion Statement (available on our corporate website), diversity and inclusion are business imperatives that will enable us to build and empower our future workforce. We embrace the diversity of our employees, including their unique backgrounds, experiences, thoughts, and talents. We also strive for diversity in leadership, which has the power to drive innovation and to encompass a wide variety of perspectives in company decision-making. We believe that an increased focus on diversity and inclusion will make us a more desirable workplace and will lead to improved business performance.

Health and Safety

The success of our business is connected to the well-being of our employees. We strive to maintain a work environment with a safety culture grounded on the premise of eliminating workplace incidents, risks, and hazards. We have processes to help eliminate safety events and to reduce their frequency and severity. The safety of our employees is a top priority and vital to our success and our employees are trained on safety-related topics.

As a global business, the communication on Environmental, Health and Safety (“EHS”) matters is conducted at the local level and in the local language. All our manufacturing locations structure compliance initiatives to adhere to their local environmental health and safety requirements. Site personnel provide new employee orientation and typically contractor induction training where relevant. Thereafter, relevant job-specific training is provided. Our site EHS personnel are also involved in the development of global EHS procedures and standards.

Benefits and Compensation

As part of our efforts to attract and motivate our employees, we offer competitive compensation and benefits that may vary by region and employee-type. We provide compensation packages that include base salary/wages, and short and long-term incentives. We also provide employee benefits such as life, disability, and health (medical, dental, and vision) insurance, a 401(k) plan with a company match, paid time off, tuition reimbursement, military leave, and holiday pay. We believe those benefits are competitive within our industry.

Available Information

Through our internet website at www.methode.com, we make available, free of charge, copies of our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports, and other filings with the Securities and Exchange Commission (“SEC”), as soon as reasonably practicable after they are filed or furnished to the SEC. Our filings are also available on the SEC’s website at www.sec.gov. Also posted on our website, among other documents, are our Corporate Governance Guidelines, Code of Business Conduct, Anti-Corruption Policy, Insider Trading Policy, Conflict Minerals Policy, Supplier Code of Conduct and other governance policies, and the charters of the Audit Committee, Compensation Committee, Medical Products Committee, Nominating and Governance Committee and Technology Committee. Copies of these documents are also available free of charge by sending a request to Methode Electronics, Inc., 8750 West Bryn Mawr Avenue, Suite 1000, Chicago, Illinois 60631, Attention: Investor Relations Department. The references in this Annual Report to our website address or any third party’s website address, including but not limited to the SEC’s website, do not constitute incorporation by reference of the information contained in those websites and should not be considered part of this document unless otherwise expressly stated.

Item 1A. Risk Factors

Our business, financial condition and results of operations are subject to various risks, including, but not limited to, those set forth below, which could cause actual results to vary materially from recent results or from anticipated future results. These risk factors should be considered together with information included elsewhere in this Annual Report.

Operational and Industry Risks

The inability of our supply chain, or the supply chain of our customers, to deliver key components, such as semiconductors, could materially adversely affect our business, financial condition and results of operations and cause us to incur significant cost increases.

Our products contain a significant number of components that we source globally. If our supply chain fails to deliver products to us, or to our customers, in sufficient quality and quantity on a timely basis, we will be challenged to meet our production schedules or could incur significant additional expenses for expedited freight and other related costs. Similarly, many of our customers are dependent on an ever-greater number of global suppliers to manufacture their products. These global supply chains have been, and may continue to be, adversely impacted by events outside of our control, including macroeconomic events, trade restrictions, economic recessions, energy prices and availability, political crises, labor relations issues, liquidity constraints, or natural occurrences. Any significant disruptions to such supply chains could materially adversely affect our business, financial condition and results of operations.

Many of the industries we supply, including the automotive and commercial vehicle industries, are reliant on semiconductors. Globally, there is still some disruption in procuring certain semiconductors. The semiconductor supply chain is complex, with capacity constraints occurring throughout. There is significant competition within the automotive and commercial vehicle supply chains and with other industries to satisfy current and near-term requirements for semiconductors. We have worked and will continue to work closely with our suppliers and customers to minimize any potential adverse impacts of the semiconductor supply shortage and monitor the availability of semiconductor microchips and other component parts and raw materials, customer production schedules and any other supply chain inefficiencies that may arise. However, if we are not able to mitigate the semiconductor shortage impact, any direct or indirect supply chain disruptions may have a material adverse impact on our business, financial condition and results of operations.

We have experienced and may in the future experience supplier price increases that could negatively affect our business, financial condition and results of operations. The price increases are often driven by raw material pricing and availability, component or part availability, manufacturing capacity, industry allocations, logistics capacity, military conflicts, natural disasters or pandemics, and significant changes in the financial or business condition of our suppliers.

The COVID-19 pandemic has adversely affected, and may continue to adversely affect, our business, financial condition and results of operations. The extent of the effects of the COVID-19 pandemic or another future pandemic on our business depends on future events that continue to be highly uncertain and beyond our control.

The COVID-19 pandemic has had, and another pandemic in the future could have, a significant impact on our business, financial condition and results of operations. The COVID-19 pandemic, which began during our 2020 fiscal year, negatively impacted the global economy, disrupted consumer and customer demand and global supply chains, and created significant volatility and disruption of financial markets. In response, many governmental authorities throughout the world implemented numerous measures aimed at containing and mitigating the effects of the COVID-19 pandemic, including travel bans and restrictions, quarantines, social distancing orders, “lock-down” orders and shutdowns of non-essential activities. Although most of these measures have been lifted, they may be reinstated in the future in response to COVID-19 or future pandemics, endemics, or health emergencies. In fiscal 2023, COVID-19 outbreaks in China resulted in local or regional government-imposed lockdowns and restrictions, which impacted our manufacturing operations, customer production schedules and supply chains.

While much of our customer demand and shipments have recovered from the impact of the COVID-19 pandemic, the extent to which any resurgence of the pandemic or other public health emergencies in the future impact our business will depend on a number of evolving factors, all of which are highly uncertain and cannot be predicted, including actions taken by governmental authorities to restrict business operations and social activity and impose travel restrictions, shifting consumer demand, the ability of our supply chain to deliver in a timely and cost-effective manner, the ability of our employees and manufacturing facilities to operate efficiently and effectively, the continued viability and financial stability of our customers and suppliers and future access to capital.

The COVID-19 pandemic and measures to reduce its spread may also impact many of our other risk factors discussed in this Annual Report, including customer demand, supply chain disruptions, availability of financing sources and risks of international operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business, financial condition and results of operations.

We are susceptible to trends and factors affecting the automotive and commercial vehicle industries.

We derive a substantial portion of our revenues from customers in the automotive and commercial vehicle industries. Factors negatively affecting these industries also negatively affect our business, financial condition and results of operations. Automotive sales and production are highly cyclical and, in addition to general economic conditions, also depend on other factors, such as consumer confidence and consumer preferences. Any adverse occurrence, including industry slowdowns, recession, rising interest rates, rising fuel costs, political instability, costly or constraining regulations, armed hostilities, terrorism, excessive inflation, prolonged disruptions in one or more of our customers’ production schedules or labor disturbances or work stoppages, that results in a significant decline in sales volumes in these industries, or in an overall downturn in the business and operations of our customers in these industries, could materially adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations may be adversely impacted by the effects of inflation.

Inflation has the potential to adversely affect our business, financial condition and results of operations by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. There have been recent significant inflationary trends in the cost of components, materials, labor, freight costs and other expenses. These inflationary pressures could affect wages, the cost and availability of components and materials, and our ability to meet customer demand. Inflation may further exacerbate other risk factors discussed in this Annual Report, including customer demand, supply chain disruptions, availability of financing sources, and risks of international operations and the recruitment and retention of talent.

The loss or insolvency of our major customers, or a significant decline in the volume of products purchased by these customers, would adversely affect our future results.

Our five largest customers accounted for approximately 49% of our consolidated net sales in fiscal 2023. Two customers in the Automotive segment represented more than 10% of our consolidated net sales at 18.7% and 10.8%. In certain cases, the sales to these customers are concentrated in a single product. The arrangements with our major customers generally provide for supplying their requirements for particular models, rather than for manufacturing a specific quantity of products. Such supply arrangements cover a period from one year to the life of the model, which is generally three to seven years. The loss of our major customers, or a decline in the production levels of these customers or particular models, could reduce our sales and thereby adversely affect our financial condition, operating results and cash flows. We also compete to supply products for successor models for our major customers and are subject to the risk that the customer will not select us to produce products on any such successor model, which could have a material adverse impact on our financial condition, operating results and cash flows. For example, we expect a significant program for a major EV customer to sunset in fiscal 2024.

Our supply agreements with our OEM customers are generally requirements contracts, and a decline in the production requirements of any of our customers, and in particular our largest customers, could adversely impact our revenues and profitability.

We receive OEM purchase orders for specific components supplied for particular vehicles. In most instances our OEM customers agree to purchase their requirements for specific products but are not required to purchase any minimum amount of products from us. The contracts we have entered into with most of our customers have terms ranging from one year to the life of the model (usually three to seven years), although customers often reserve the right to terminate for convenience. Therefore, a significant decrease in demand for certain key models or group of related models sold by any of our major customers or the ability of a manufacturer to re-source and discontinue purchasing from us, for a particular model or group of models, could have a material adverse effect on us. For example, we expect a significant program for a major EV customer to sunset in fiscal 2024. To the extent that we do not maintain our existing level of business with our largest customers because of a decline in their production requirements or because the contracts expire or are terminated for convenience, we will need to attract new customers or win new business with existing customers, or our results of operations and financial condition will be adversely affected.

Our inability to attract or retain key employees and a highly skilled workforce may have an adverse effect on our business, financial condition and results of operations.

Our success depends upon the continued contributions of our executive officers and other key employees, many of whom have many years of experience with us and would be extremely difficult to replace. We must also attract and retain experienced and highly skilled engineering, sales and marketing and managerial personnel. Competition for qualified personnel is intense in our industries, and we may not be successful in hiring and retaining these people. If we lost the services of our executive officers or our other highly qualified and experienced employees or cannot attract and retain other qualified personnel, our business could suffer due to less effective management or less successful products due to a reduced ability to design, manufacture and market our products.

Part of our workforce is unionized which could subject us to work stoppages.

A portion of our workforce is unionized, primarily in Mexico and Finland. A prolonged work stoppage or strike at any facility with unionized employees could increase costs and prevent us from supplying customers. In addition, upon the expiration of existing collective bargaining agreements, we may not reach new agreements without union or works council action in certain jurisdictions, and any such new agreements may not be on terms satisfactory to us. If we are unable to negotiate acceptable collective bargaining agreements, we may become subject to union-initiated work stoppages, including strikes. Moreover, additional groups of currently non-unionized employees may seek union or works council representation in the future.

The global nature of our operations subjects us to political, economic and social risks that could adversely affect our business, financial condition and results of operations.

Sales to customers outside of the U.S. represented a substantial portion of our fiscal 2023 net sales. We expect our net sales in international markets to continue to represent a significant portion of our consolidated net sales. In addition, we have significant personnel, property, equipment and operations in a number of countries outside of the U.S., including Belgium, Canada, China, Egypt, Finland, India, Malta, Mexico and the United Kingdom. As of April 29, 2023, approximately 94% of our employees were located outside of the U.S. Our international operations subject us to a variety of political, economic, social and other risks, including:

- differing labor regulations and practices, including various minimum wage regulations;
- changes in government policies, regulatory requirements and laws, including taxes, impacting our ability to manufacture, purchase or sell our products;
- fluctuations in currency exchange rates;
- political and economic instability (including changes in leadership and acts of terrorism and outbreaks of war);
- longer customer payment cycles and difficulty collecting accounts receivable;
- export duties, import controls, tariffs, and trade barriers (including quotas, sanctions and border taxes);
- governmental restrictions on the transfer of funds, including U.S. restrictions on the amount of cash that can be transferred to the U.S. without taxes or penalties;
- differing protections for our intellectual property;
- differing requirements under the various anti-bribery and anti-corruption regulations, including to the U.S. Foreign Corrupt Practices Act, the United Kingdom Bribery Act and the China Anti-Unfair Competition Law;
- coordinating communications and logistics across geographic distances and multiple time zones; and
- risk of governmental expropriation of our property.

Many of the laws and regulations listed above are complex and often difficult to interpret and violations could result in significant criminal penalties or sanctions. Any of these factors may have an adverse effect on our international operations which could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on the availability and price of raw materials.

We require substantial amounts of materials, including application-specific integrated circuits, coil and bar stock, ferrous and copper alloy sheets, extrusions, glass, LED displays, plastic molding resins, precious metals, silicon die castings and wire. The availability and prices of materials may be subject to curtailment or change due to, among other things, inflation, new laws or regulations, suppliers' allocations to other purchasers, supply chain disruptions, changes in exchange rates and worldwide price levels. Any change in the availability of, lead times for, or price for, these materials could materially adversely affect our business, financial condition and results of operations.

Our inability, or our customers' inability, to effectively manage the timing, quality and cost of new program launches could adversely affect our financial performance.

In connection with the awarding of new business, we obligate ourselves to deliver new products that are subject to our customers' timing, performance and quality demands. Additionally, we must effectively coordinate the activities of numerous suppliers and our customers' personnel in order for the program launches of certain of our products to be successful. Given the complexity of new program launches, we may experience difficulties managing product quality, timeliness and associated costs. In addition, new program launches require a significant ramp up of costs; however, our sales related to these new programs generally are dependent upon the timing and success of our customers' introduction of new products. Our inability, or our customers' inability, to effectively manage the timing, quality and costs of these new program launches could adversely affect our financial condition and results of operations.

Over the last several fiscal years, we have booked many EV-related programs. If we are unable to launch new products in a timely and cost-effective manner, our business, financial condition and results of operations could be materially adversely affected.

Our businesses and the markets in which we operate are highly competitive and constantly evolving. If we are unable to compete effectively, our sales and profitability could decline.

The markets in which we operate are highly competitive. We compete with a large number of other manufacturers in each of our product areas and many of these competitors have greater resources and sales. Price, service and product performance are significant elements of competition in the sale of our products. Competition may intensify further if more companies enter the markets in which we operate. Our failure to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

The global transportation industry is increasingly focused on the development of more fuel-efficient solutions, including electrification, to meet demands from consumers and governments worldwide to address climate change and an increased desire for environmentally sustainable solutions. If we do not respond appropriately, the evolution toward electrification and other energy sources could adversely affect our business. The evolution of the industry toward electrification has also attracted increased competition from entrants outside of the traditional automotive and commercial vehicle industries, some of whom may seek to provide products which compete with ours. Failure to innovate and to develop or acquire new and compelling products that capitalize upon new technologies in response to these evolving consumer preferences and demands could adversely affect our financial condition, operating results and cash flows.

Future price reductions and increased quality standards may reduce our profitability and have a material adverse effect on our business, financial condition and results of operations.

Our supply arrangements with our customers typically require us to provide our products at predetermined prices. In some cases, these prices decline over the course of the arrangement and may require us to meet certain productivity and cost reduction targets. In addition, our customers may require us to share productivity savings in excess of our cost reduction targets. The costs that we incur in fulfilling these orders may vary substantially from our initial estimates. Unanticipated cost increases or the inability to meet certain cost reduction targets may occur as a result of several factors, including increases in the costs of labor, components or materials. In some cases, we are permitted to pass on to our customers the cost increases associated with specific materials. However, cost overruns that we cannot pass on to our customers could adversely affect our business, financial condition and results of operations. Certain of our customers have exerted and continue to exert considerable pressure on us to reduce prices and costs, improve quality and provide additional design and engineering capabilities. We may be unable to generate sufficient production cost savings in the future to offset required price reductions. Future price reductions, increased quality standards and the cost of adding additional engineering capabilities may reduce our profitability and have a material adverse effect on our business, financial condition and results of operations.

Our ability to market our automotive and commercial vehicle products is subject to a lengthy sales cycle, which requires significant investment prior to reporting significant sales revenues, and there is no assurance that our products will be implemented in any particular vehicle.

The sales cycles for our automotive and commercial vehicle products are lengthy because the manufacturers must develop high degrees of assurance that the products they buy will meet their needs, interface correctly with the other parts of a vehicle and with the manufacturer's production and assembly process, and have minimal warranty, safety and service problems. While we currently have active development programs with various OEMs for a variety of our products, no assurance can be given that our products will be implemented in any particular vehicles. If our products are not selected after a lengthy development process, our business, financial condition and results of operations could be adversely affected.

Our inability to capitalize on prior or future acquisitions or any decision to strategically divest one or more current businesses may adversely affect our business, financial condition and results of operations.

We have completed acquisitions and divestitures in the past, including most recently the acquisition of Nordic Lights in April 2023. We intend to continue to seek acquisitions to grow our businesses and may divest operations to focus on our core businesses. We may fail to derive significant benefits from such transactions. Also, if we fail to achieve sufficient financial performance from an acquisition, certain long-lived assets, such as property, plant and equipment and intangible assets, could become impaired and result in the recognition of an impairment loss.

The success of our acquisitions depends on our ability to:

- execute the integration or consolidation of the acquired operations into our existing businesses;
- develop or modify the financial reporting and information systems of the acquired entity to ensure overall financial integrity and adequacy of internal control procedures;
- retain key personnel and key customers;
- identify and take advantage of cost reduction opportunities; and
- further penetrate new and existing markets with the product capabilities we may acquire.

Integration of acquisitions may take longer than we expect and may never be achieved to the extent originally anticipated. Acquisitions may also increase our debt levels. This could result in lower than expected business growth or higher than anticipated costs. In addition, acquisitions or strategic divestitures may:

- cause a disruption in our ongoing business;
- cause dilution of our common stock;
- distract our management from other ongoing business concerns; or
- unduly burden other resources in our company.

Our profitability will suffer if we are unable to successfully integrate an acquisition, if the acquisition does not further our business strategy as we expected or if we do not achieve sufficient revenue to offset the increased expenses associated with any acquisition. We may overpay for, or otherwise not realize the expected return on, our investments, which could adversely affect our operating results and potentially cause impairments to assets that we record as a part of an acquisition including intangible assets and goodwill.

Our customers may cancel their orders, change production quantities or locations or delay production.

We generally receive volume estimates, but not firm volume commitments from our customers, and may experience reduced or extended lead times in customer orders. Customers may cancel orders, change production quantities and delay production for a number of reasons. Cancellations, reductions or delays by a significant customer or by a number of customers may harm our results of operations by reducing the volumes of products we manufacture and sell, as well as by causing a delay in the recovery of our expenditures for inventory in preparation for customer orders, or by reducing our asset utilization, resulting in lower profitability.

In addition, we make key decisions based on our estimates of customer requirements, including determining the levels of orders that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements. Changes in demand for our customers' products may reduce our ability to estimate future customer requirements accurately. This may make it difficult to schedule production and maximize utilization of our manufacturing capacity. Anticipated orders may not materialize and delivery schedules may be deferred as a result of changes in demand for our products or our customers' products. We often increase staffing and capacity and incur other expenses to meet the anticipated demand of our customers. On occasion, customers may require rapid increases in production, which may stress our resources. Any significant decrease or delay in customer orders could have a material adverse effect on our business, financial condition and results of operations.

We manage our business based on projected future sales volume, which is highly dependent on information received from customers and general market data, and any inaccuracies or changes in such information could adversely affect our business, results of operations and financial condition.

We manage our business based upon projected future sales volumes, which are based upon many factors, including awarded business and assumptions of conversion rates thereof, customers' forecasts and general macroeconomic and industry market data. Our product revenues generally are based upon purchase orders issued by our customers, with updated production schedules for volume adjustments, and our customers generally do not guarantee sales volumes. As such, we typically do not have a backlog of firm orders at any point in time. In addition, awarded business may include business under arrangements that our customers have the right to terminate without penalty at any time. Further, our customers' forecasts are subject to numerous assumptions, and such forecasts often are changed rapidly with limited notice. Therefore, our actual sales volumes, and thus the ultimate amount of revenue that we derive from such sales, are not committed. We also must incur costs and make commitments well in advance of the receipt of orders and resulting revenues from customers. If actual production orders from our customers are not consistent with our projected future sales volumes, we could realize substantially less revenue and incur greater expenses over the life of vehicle programs. The receipt of orders and resulting revenues from customers is significantly affected by global automotive production levels.

The rate of adoption of EV's will have a significant impact on our business and the adoption cadence will inject additional variability to our forecasts

Over the last several fiscal years, we have booked many EV-related programs, many of which will launch over our next three fiscal years. The accuracy of our forecasts will be impacted by the EV adoption rates in general and the take rate experienced by each of our OEM customers. Any significant variation in the adoption or take rates at our customers could impact the accuracy of our forecasts and could have a material adverse effect on our business, financial condition and results of operations.

Certain of our EV customers are start-up or emerging companies which may present additional and different risks than with our more established customers. These customers do not have an extensive product history. As a result, there is less demonstration of market acceptance of their products, making it more difficult for us to forecast needs and requirements than with established customers. In addition, funding for such companies may be more difficult to obtain and these customer relationships may not continue or materialize to the extent we plan or previously experienced. This tightening of financing for start-up customers, together with many start-up customers' lack of prior operations and unproven product markets increase our credit risk, especially in trade accounts receivable and inventories. Although we perform ongoing credit evaluations of our customers and adjust our allowance for doubtful accounts receivable for all customers, including start-up customers and emerging companies, based on the information available, these allowances may not be adequate.

A catastrophic event or other significant business interruption at any of our facilities could adversely affect our business, financial condition and results of operations.

Weather conditions, natural disasters or other catastrophic events could cause significant disruptions at our manufacturing facilities or those of our major suppliers or customers. In such event, losses could be incurred and significant recovery time could be required to resume operations and our business, financial condition and results of operations could be materially adversely affected.

War, terrorism, geopolitical uncertainties (including the current military conflict between Russia and Ukraine), public health issues (such as the COVID-19 pandemic), and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a strong negative effect on us, our suppliers, logistics providers, and customers. Our business operations could be subject to interruption by power shortages, terrorist attacks and other hostile acts, labor disputes, population lockdowns and other events beyond our control. Such events could decrease demand for our products or make it difficult or impossible for us to produce and deliver products to our customers, or to receive components from our suppliers. Should major public health issues, including pandemics, arise, we could be negatively affected by shutdowns, shelter in place orders, more stringent travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, and disruptions in the operations of our manufacturing partners and component suppliers. Any such business interruptions could materially affect our business, financial condition and results of operations.

Russia's invasion of Ukraine and the resulting economic sanctions imposed by the international community have impacted the global economy and given rise to potential global security issues that may adversely affect international business and economic conditions. Although we have no operations in Russia or Ukraine, certain of our customers and suppliers have been negatively impacted by these events, which in turn has impacted markets where we do business, including Europe and Asia. These events have caused additional disruption in the supply chains, which were already experiencing disruption due to the impacts of the COVID-19 pandemic and may continue to impact demand for our products. The continuation of the military conflict between Russia and Ukraine could lead to other supply chain disruptions, increased inflationary pressures, and volatility in global markets and industries that could negatively impact our operations.

Technology and Intellectual Property Risks

Our operations could be negatively impacted by IT service interruptions, data corruption or misuse, cyber-based attacks, or network security breaches.

We face certain security threats relating to the confidentiality and integrity of our information technology (“IT”) systems. Despite implementation of security measures, our IT systems may be vulnerable to damage from computer viruses, cyber-attacks and other unauthorized access, and these security breaches could result in a disruption to our operations. A material network breach of our IT systems could involve the theft of our and our customers' intellectual property or trade secrets which may be used by competitors to develop competing products. To the extent that any security breach results in a loss or damage to data, or inappropriate disclosure of confidential or proprietary information, it could cause significant damage to our reputation, affect our customer relations, lead to claims against us, increase our costs to protect against future damage and could result in a material adverse effect on our business, financial condition and results of operations.

Any such disruption or security breach, as well as any action by us or our employees or contractors that might be inconsistent with the rapidly evolving data privacy and security laws and regulations applicable within the U.S. and elsewhere where we conduct business, could result in enforcement actions by U.S. states, the U.S. Federal government or foreign governments, liability or sanctions under data privacy laws that protect personally identifiable information, regulatory penalties, other legal proceedings such as but not limited to private litigation, the incurrence of significant remediation costs, disruptions to our development programs, business operations and collaborations, diversion of management efforts and damage to our reputation, which could harm our business and operations. Because of the rapidly changing nature of technology and the increasing sophistication of cybersecurity threats, our measures to prevent, respond to and minimize such risks may be unsuccessful. While we have secured cyber insurance to potentially cover certain risks associated with cyber incidents, there can be no assurance it will be sufficient to cover any such liability.

In particular, the General Data Privacy Regulation (“GDPR”) of the European Union creates a range of compliance obligations applicable to the collection, use, retention, security, processing and transfer of personal data in the European Union. The GDPR, which is wide-ranging in scope, imposes several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, the security and confidentiality of the personal data, data breach notification and the use of third-party processors in connection with the processing of the personal data. The GDPR also imposes strict rules on the transfer of personal data out of the European Union to countries such as the U.S., enhances enforcement authority and imposes large penalties for noncompliance.

We may be unable to keep pace with rapid technological changes, which could adversely affect our business, financial condition and results of operations.

The technologies relating to some of our products have undergone, and are continuing to undergo, rapid and significant changes. Specifically, end-markets for electronic components and assemblies are characterized by technological change, frequent new product introductions and enhancements, changes in customer requirements and emerging industry standards. These changes could render our existing products unmarketable before we can recover any or all of our research, development and other expenses. Furthermore, the life cycles of our products vary, may change and are sometimes difficult to estimate. If we are unable, for technological or other reasons, to develop and market new products or product enhancements in a timely and cost-effective manner, our business, financial condition and results of operations could be materially adversely affected.

If we are unable to protect our intellectual property or we infringe, or are alleged to infringe, on another person’s intellectual property, our competitive position and results of operations may be adversely impacted.

We have numerous U.S. and foreign patents, trade secrets and license agreements covering certain of our products and manufacturing processes. Our ability to compete effectively with other companies depends, in part, on our ability to maintain the proprietary nature of our technology. Although we have been awarded, have filed applications for, or have been licensed under numerous patents in the U.S. and other countries, there can be no assurance concerning the degree of protection afforded by these patents or the likelihood that pending patents will be issued. The loss of certain patents and trade secrets could adversely affect our sales, margins or profitability.

We have and may become involved in litigation in the future to protect our intellectual property or because others may allege that we infringe on their intellectual property. These claims and any resulting lawsuit could subject us to liability for damages and invalidate our intellectual property rights. If an infringement claim is successfully asserted by a holder of intellectual property rights, we may be required to cease marketing or selling certain products, pay a penalty for past infringement and spend significant time and money to develop a non-infringing product or process or to obtain licenses for the technology, process or information from the holder. We may not be successful in the development of a non-infringing alternative, or licenses may not be available on commercially acceptable terms, if at all, in which case we may lose sales and profits. In addition, any litigation could be lengthy and costly and could materially adversely affect us even if we are successful in the litigation.

Legal, Regulatory and Compliance Risks

We are subject to government regulations, including environmental, health, and safety laws and regulations, that expose us to potential financial liability.

Our operations are regulated by a number of federal, state, local and international government regulations, including those pertaining to EHS that govern, among other things, air and water emissions, worker protection, and the handling, storage and disposal of hazardous materials. If we violate EHS laws and regulations, we could be liable for substantial fines, penalties, and costs of mandated remedial actions. Our environmental permits could also be revoked or modified, which could require us to cease or limit production at one or more of our facilities, thereby materially adversely affecting our business, financial condition and results of operations. EHS laws and regulations have generally become more stringent over time and could continue to do so, particularly in response to climate change concerns, imposing greater compliance costs and increasing risks and penalties associated with any violation, which also could materially adversely affect our business, financial condition and results of operations.

We operate our business on a global basis and changes to trade policy, including tariffs and customs regulations, could have a material and adverse effect on our business.

We manufacture and sell our products globally and rely on a global supply chain to deliver the required raw materials, components, and parts, as well as the final products to our customers. Existing free trade laws and regulations, such as the United States-Mexico-Canada Agreement, provide certain duties and tariffs for qualifying imports and exports, subject to compliance with the applicable classification and other requirements. Changes in laws or policies governing the terms of foreign trade, and in particular increased trade restrictions, tariffs or taxes on imports from countries where we manufacture products, such as China, Egypt and Mexico, could have a material adverse effect on our business, financial condition and operating results. For instance, beginning in 2018, the U.S. and Chinese governments have imposed a series of significant incremental retaliatory tariffs to certain imported products. Most notably with respect to the automotive and commercial vehicle industries, the U.S. imposed tariffs on imports of certain steel, aluminum and automotive components, and China imposed retaliatory tariffs on imports of U.S. vehicles and certain automotive components. Depending upon their duration and implementation, as well as our ability to mitigate their impact, these tariffs and other regulatory actions could materially affect our business, including in the form of an increase in cost of goods sold, decreased margins, increased pricing for customers, and reduced sales.

An emphasis on global climate change and other Environmental, Social and Governance (“ESG”) matters by various stakeholders could adversely impact our business and results of operations.

Increased public awareness and concern regarding environmental risks, including global climate change, may result in more international, regional and/or federal requirements, customer requirements, or industry standards to reduce or mitigate global warming and other environmental risks. These requirements, regulations or standards could mandate more restrictive requirements, such as stricter limits on greenhouse gas emissions and production of single use plastics and could increase costs relating to monitoring and reporting emissions data. In addition, the risks of climate change may impact manufacturing, product demand, the availability and cost of materials and natural resources, and sources and supply of energy, and could increase insurance and other operating costs. If environmental laws or regulations or industry standards are either changed or adopted and impose significant operational restrictions and compliance requirements upon us, our operations, our products or our customers, or if our operations are disrupted due to physical impacts of climate change, our business, financial condition and results of operations could be materially adversely affected.

Products we manufacture may contain design or manufacturing defects that could result in reduced demand for our products or services and liability claims against us.

Despite our quality control and quality assurance efforts, defects may occur in the products we manufacture due to a variety of factors, including design or manufacturing errors, component failure or counterfeit parts. Product defects may result in delayed shipments and reduced demand for our products. We may be subject to increased costs due to warranty claims on defective products. Product defects may result in product liability claims against us where defects cause, or are alleged to cause, property damage, bodily injury or death. We may be required to participate in a recall involving products that are, or are alleged to be, defective. We carry insurance for certain legal matters involving product liability, however, we do not have coverage for all costs related to product defects or recalls and the costs of such claims, including costs of defense and settlement, may exceed our available coverage. Any such product defects or product liability claims could materially adversely affect our business, financial condition and results of operations.

Financial Risks

We have identified a material weakness in our internal control over financial reporting, and if we are unable to improve our internal controls, our financial results may not be accurately reported.

As disclosed in Item 9A, “Controls and Procedures,” we identified a material weakness in our internal control over financial reporting related to revenue at one of our business units. The material weakness did not result in any material identified misstatements to the consolidated financial statements, and there were no changes to previously issued financial results. We are actively developing a remediation plan designed to address this material weakness, however, we cannot guarantee that these steps will be sufficient or that we will not have a material weakness in the future. This material weakness, or difficulties encountered in implementing new or improved controls or remediation, could prevent us from accurately reporting our financial results, result in material misstatements in our financial statements or cause us to fail to meet our reporting obligations. Failure to comply with Section 404 of the Sarbanes-Oxley Act of 2002 could negatively affect our business, financial condition and results of operations.

We have significant goodwill and other intangible assets, and future impairment of these assets could have a material adverse impact on our financial condition and results of operations.

A significant portion of our long-term assets consists of goodwill and other intangible assets recorded as a result of past acquisitions. We do not amortize goodwill and indefinite-lived intangible assets, but rather review them for impairment on an annual basis or more frequently whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The process of evaluating the potential impairment of goodwill and other intangible assets requires significant judgement. Negative industry or economic trends, including reduced estimates of future cash flows, disruptions to our business, slower growth rates, or lack of growth in our relevant business units, could lead to impairment charges against our goodwill and other intangible assets. In the event that we determine that our goodwill or other intangible assets are impaired, we may be required to record a significant charge to earnings that could adversely affect our financial condition and results of operations.

We have incurred indebtedness and our level of indebtedness and restrictions under our indebtedness could adversely affect our operations and liquidity.

Our primary sources of liquidity are cash generated from operations and availability under our \$750.0 million revolving credit facility. As of April 29, 2023, \$305.4 million was outstanding under the revolving credit facility. Our senior unsecured credit agreement provides for variable rates of interest based on the currency of the borrowing and our leverage ratio and contains customary representations and warranties, financial covenants, restrictive covenants and events of default.

Our senior unsecured credit agreement provides an option to increase the size of our revolving credit facility by an additional \$250.0 million, subject to customary conditions and approval of the lenders providing the new commitments. There can be no assurance that lenders will approve additional commitments under current circumstances.

Our senior unsecured credit agreement imposes various restrictions and covenants regarding the operation of our business, including covenants that require us to obtain the lenders’ consent before we can, among other things and subject to certain exceptions: (i) incur additional indebtedness or additional liens on our property; (ii) consummate certain acquisitions, dispositions, mergers or consolidations; (iii) make any material change in the nature of our business; (iv) enter into certain transactions with our affiliates; or (v) repurchase or redeem any outstanding shares of our common stock or pay cash dividends to our stockholders when a default exists or certain financial covenants are not maintained.

The amount of our outstanding indebtedness could have an adverse effect on our operations and liquidity, including by, among other things: (i) making it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions, because we may not have sufficient cash flows to make our scheduled debt payments; (ii) causing us to use a larger portion of our cash flows to fund interest and principal payments, thereby reducing the availability of cash to fund working capital, product development, capital expenditures and other business activities; (iii) making it more difficult for us to take advantage of significant business opportunities, such as acquisition opportunities or other strategic transactions, and to react to changes in market or industry conditions; and (iv) limiting our ability to borrow additional monies in the future to fund the activities and expenditures described above and for other general corporate purposes as and when needed, which could force us to suspend, delay or curtail business prospects, strategies or operations.

Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase.

Borrowings under our senior unsecured credit agreement are at variable rates of interest and expose us to interest rate risk. If interest rates continue to increase, our debt service obligations on any variable rate indebtedness could increase even though the amount borrowed remained the same, which could adversely impact our results of operations. In order to manage our exposure to interest rate risk, we have entered into, and may continue to enter into, derivative financial instruments, typically interest rate swaps, involving the exchange of floating for fixed rate interest payments. If we are unable to enter into interest rate swaps, it may adversely impact our results of operations, and, even if we use these instruments to selectively manage risks, there can be no assurance that we will be fully protected against material interest rate fluctuations.

A significant fluctuation between the U.S. dollar and other currencies could adversely impact our business, results of operations and financial condition.

We transact business in various foreign countries. We present our consolidated financial statements in U.S. dollars, but a portion of our revenues and expenditures are transacted in other currencies. As a result, we are exposed to fluctuations in foreign currencies. Additionally, we have currency fluctuation exposure arising from funds held in local currencies in foreign countries. Volatility in the exchange rates between the foreign currencies and the U.S. dollar could have an adverse effect on our business, financial condition and results of operations.

Performance-based awards under our long-term incentive plan may require significant adjustments to compensation expense which could have a material adverse impact on our results of operations.

Compensation expense for the performance-based restricted stock awards (“RSAs”) and performance units (“Performance Units”) awarded under our five-year long-term incentive program will be recognized over the vesting period based on the projected probability of achieving the relevant performance goals for fiscal 2025. As of April 29, 2023, we have not recorded any compensation expense for the RSAs or the Performance Units based on the probability assessment required under the accounting rules and regulations. At the threshold level of performance, the unrecorded amortization expense was \$20.1 million. At the target level of performance, the unrecorded amortization expense was \$26.8 million. Each quarter, we will continue assessing the probability of vesting for the RSAs and the Performance Units and will adjust the compensation expense as necessary. At such time, we may be required to record compensation expense relating to prior periods, and such compensation expense adjustment could be material to our results of operations.

Restructuring activities may lead to additional costs and material adverse effects.

In the past, we have taken actions to restructure and optimize our production and manufacturing capabilities and efficiencies through relocations, consolidations, facility closings or asset sales. In the future, we may take additional restructuring actions including the consolidating or closing of facilities and the movement of production from one geographic region to another. These actions could result in impairment charges and various charges for such items as idle capacity, disposition costs and severance costs, in addition to normal or attendant risks and uncertainties. We may be unsuccessful in any of our current or future efforts to restructure or consolidate our business. Plans to minimize or eliminate any loss of revenues during restructuring or consolidation may not be achieved. These activities may have a material adverse effect on our business, financial condition and results of operations.

Changes in our effective tax rate may adversely impact our results of operations.

A number of factors may increase our effective tax rate, which could reduce our net income, including:

- the adoption of Organization for Economic Cooperation and Development (“OECD”) Pillar Two framework, which sets out global minimum tax rules designed to ensure that large multinational businesses pay a minimum effective rate of tax of 15% on profits in all countries;
- the jurisdictions in which profits are earned and taxed;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to income taxes upon finalization of tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairments of goodwill and long-lived assets;
- changes in available tax credits;
- changes in tax laws or interpretation, including changes in the U.S. to the taxation of non-U.S. income and expenses; and
- changes in U.S. generally accepted accounting principles (“GAAP”).

Our judgments regarding the accounting for tax positions and the resolution of tax disputes may impact our results of operations and financial condition.

Significant judgment is required to determine our effective tax rate and evaluate our tax positions. We provide for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement criteria prescribed by applicable accounting standards. Fluctuations in federal, state and foreign taxes or a change to uncertain tax positions, including related interest and penalties, may impact our effective tax rate and results of operations. Additionally, we are subject to audits in the various taxing jurisdictions in which we conduct business. Based on the status of these audits and the protocol of finalizing audits by the relevant tax authorities, it is not possible to estimate the impact of changes, if any, to previously recorded uncertain tax positions. Any negative or unexpected outcomes of these examinations and audits could have a material adverse impact on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Chicago, Illinois. As of April 29, 2023, we leased or owned 37 operating facilities. We believe our space is in good condition and adequate to meet our current and reasonably anticipated future needs. The following table provides details regarding our significant properties as of April 29, 2023:

Location	Segment(s)	Use	Owned/ Leased	Approximate Square Footage
Lontzen, Belgium	Automotive	Manufacturing and Warehousing	Owned	108,500
Dongguan, China	Automotive and Industrial	Manufacturing	Leased	197,000
Shanghai, China	Automotive and Industrial	Manufacturing	Leased	85,000
Suzhou, China	Automotive and Industrial	Manufacturing	Leased	358,000
Cairo, Egypt	Automotive and Industrial	Manufacturing	Leased	277,000
Chicago, Illinois	Other	Corporate Headquarters	Leased	24,000
Chicago, Illinois	Interface and Medical	Manufacturing	Owned	118,000
McAllen, Texas	Automotive, Industrial and Interface	Manufacturing	Leased	230,000
Mriehel, Malta	Automotive and Industrial	Manufacturing	Leased	383,000
Monterrey, Mexico	Automotive, Industrial and Interface	Manufacturing	Leased	379,000
Santa Catarina Nuevo León, Mexico	Automotive	Manufacturing	Leased	158,000

Item 3. Legal Proceedings

From time to time, we have and may become involved in various litigation matters, including administrative proceedings, regulatory proceedings, environmental matters, and commercial disputes. The impact and outcome of litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that could harm our business. We are not currently aware of any legal proceedings or claims to which we are a party or to which our property is subject that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

Supplementary Item: Information about our Executive Officers

Name	Age	Offices and Positions Held and Length of Service as Officer
Donald W. Duda	67	Chief Executive Officer since 2004 and President and Director since 2001.
Ronald L.G. Tsoumas	62	Chief Financial Officer of the Company since 2018; prior thereto, served as Controller of the Company from 2007 to 2018.
Andrea J. Barry	60	Chief Administrative Officer of the Company since January 2022 and Chief Human Resources Officer of the Company since 2017; served as CHRO for Wirtz Beverage Group from 2013 to 2016.
Timothy R. Glandon	59	Vice President since 2006; General Manager, North American Automotive, from 2006 to 2015.
Joseph E. Khoury	59	Chief Operating Officer of the Company since 2018; prior thereto, served as Senior Vice President since 2015, and as Vice President and General Manager of European Operations from 2004 to 2015.
Kevin M. Martin	57	Vice President, North America since 2020; prior thereto, Vice President and General Manager, North America Automotive, from 2019 to 2020, General Manager, North America Automotive in 2018, and Director of Sales, North America Automotive from 2014 to 2017.
Anil V. Shetty	57	President, Dabir Surfaces since 2018; prior thereto, Vice President and General Manager, Asia, from 2015, and Executive Managing Director, Asia from 2011 to 2015.
Kerry A. Vyverberg	54	General Counsel of the Company since June 2022 and previously Vice President Legal Affairs of the Company since February 2021; prior thereto, Of Counsel to the law firm Locke Lord LLP.

All executive officers are elected by the Board of Directors and serve a term of one year or until their successors are duly elected and qualified.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "MEI". As of June 15, 2023, we had 358 holders of record of our common stock. This does not include persons whose stock is in nominee or "street name" accounts held by banks, brokers and other nominees.

Dividends

While we currently expect that quarterly cash dividends will continue to be paid in the future, such payments are at the discretion of our Board of Directors and will depend upon many factors, including our results of operations, liquidity position and compliance with debt covenants.

Issuer Purchases of Equity Securities

On March 31, 2021, the Board of Directors authorized the purchase of up to \$100.0 million of our outstanding common stock through March 31, 2023. On June 16, 2022, the Board of Directors authorized an increase in the share buyback program of an additional \$100.0 million, and extended the expiration of the program to June 14, 2024. Purchases under this program may be made on the open market, in private transactions or pursuant to purchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934. As of April 29, 2023, we had purchased and retired \$119.3 million of common stock since the commencement of the share buyback program.

The following table provides information about our purchases of equity securities during the three months ended April 29, 2023:

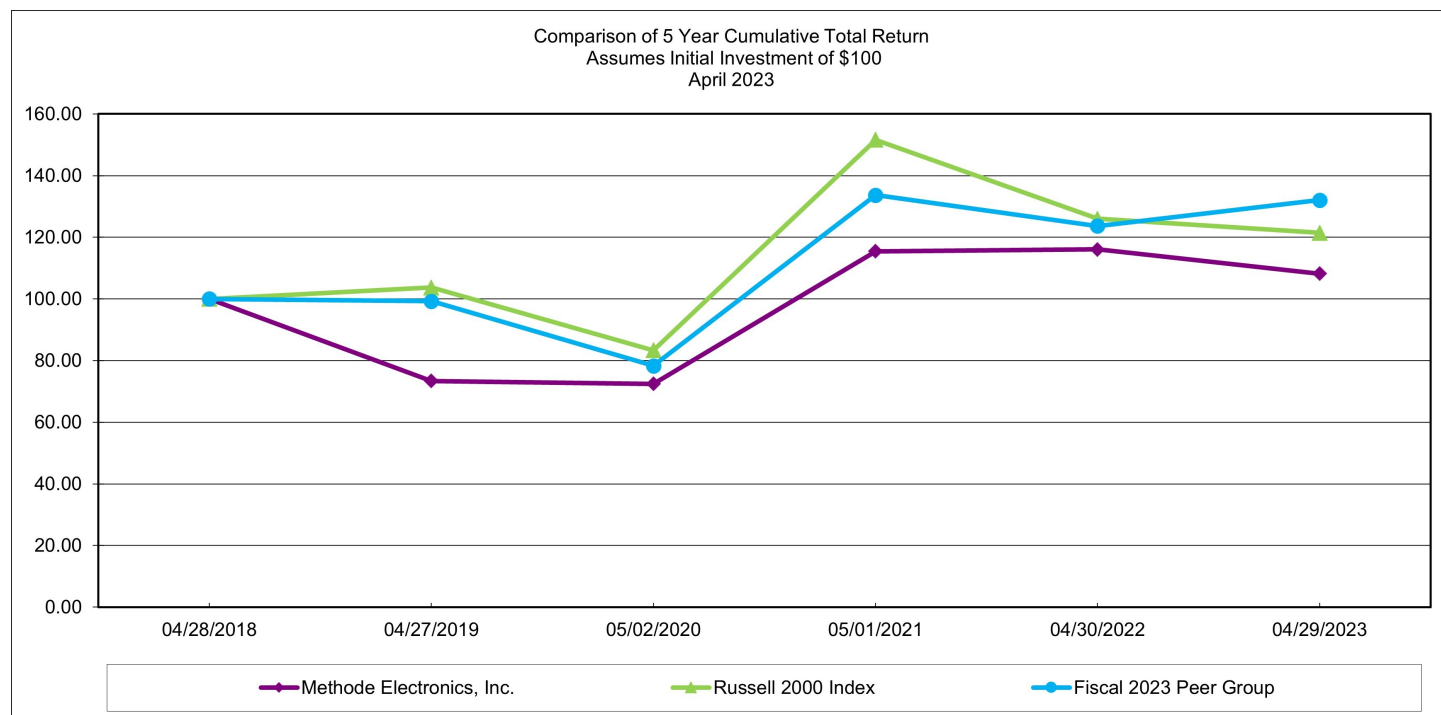
Fiscal Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of the publicly announced plan	Approximate dollar value of shares that may yet be purchased under the program (in millions)
January 29, 2023 through February 25, 2023	32,270	\$ 48.40	32,270	\$ 87.6
February 26, 2023 through April 1, 2023	100,491	\$ 44.07	100,491	\$ 83.2
April 2, 2023 through April 29, 2023	58,961	\$ 42.63	58,961	\$ 80.7
Total	<u>191,722</u>		<u>191,722</u>	

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this Annual Report for certain information relating to our equity compensation plans.

Stock Performance

The following graph shows the cumulative total stockholder return on our common stock over the period spanning April 28, 2018 to April 29, 2023, as compared with that of the Russell 2000 Index, and our Fiscal 2023 Peer Group. We have assumed that dividends have been reinvested and that \$100 was invested on April 28, 2018. The stock price performance included in this graph is historical and not necessarily indicative of future stock price performance.



Company/Index	April 28, 2018	April 27, 2019	May 2, 2020	May 1, 2021	April 30, 2022	April 29, 2023
Methode Electronics, Inc.	\$ 100.00	\$ 73.39	\$ 72.42	\$ 115.48	\$ 116.08	\$ 108.17
Russell 2000 Index	100.00	103.68	83.35	151.58	126.01	121.42
Fiscal 2023 Peer Group	100.00	99.27	78.27	133.66	123.62	132.06

The Fiscal 2023 Peer Group consists of the following fifteen public companies:

Belden Corporation	Franklin Electric Company, Inc.	Patrick Industries, Inc.
Benchmark Electronics, Inc.	Gentherm Incorporated	Rogers Corporation
Cooper-Standard Holdings Inc	LCI Industries	Stoneridge, Inc.
CTS Corporation	Littelfuse, Inc.	TTM Technologies, Inc.
Fabrinet	OSI Systems, Inc.	Visteon Corporation

The Compensation Committee of the Board of Directors reviews the peer group annually and from time to time changes the composition of the peer group where changes are appropriate. No changes were made in fiscal 2023.

Item 6. [Reserved]

Not applicable.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included in this Annual Report. This discussion and analysis of our financial condition and results of operations also contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements because of a variety of factors, including those set forth under Item 1A. "Risk Factors" of this Annual Report. We undertake no duty to update any such forward-looking statements to conform to actual results or changes in our expectations.

Overview

We are a leading global supplier of custom engineered solutions with sales, engineering and manufacturing locations in North America, Europe, Middle East and Asia. We design, engineer and produce mechatronic products for OEMs utilizing our broad range of technologies for user interface, LED lighting system, power distribution and sensor applications.

Our solutions are found in the end markets of transportation (including automotive, commercial vehicle, e-bike, aerospace, bus and rail), cloud computing infrastructure, construction equipment, consumer appliance and medical devices. Our business is managed on a segment basis, with our four segments being Automotive, Industrial, Interface and Medical. For more information regarding the business and products of these segments, see Item 1. "Business" of this Annual Report.

Impacts of Macroeconomic and Geopolitical Conditions

Adverse macroeconomic conditions, including but not limited to inflation, slower growth or recession, changes to fiscal and monetary policy, higher interest rates, wage and commodity inflation, currency fluctuations and new or increased tariffs, could adversely affect demand for our products. In addition, the Russia/Ukraine conflict has resulted in, among other things, economic sanctions imposed by the international community which have impacted the global economy and given rise to potential global security issues that may adversely affect international business and economic conditions. Although we have no operations in Russia or Ukraine, certain of our customers and suppliers have been negatively impacted by these events, which in turn has impacted markets where we do business, including Europe and Asia. The economic sanctions imposed on Russia have further increased existing global supply chain, logistics, and inflationary challenges.

Update on the Impact of COVID-19

COVID-19 has continued to evolve since it was declared a global pandemic by the World Health Organization in March 2020. We continue to evaluate the nature and extent of the ongoing impacts of COVID-19 on our business, operations, and financial results. Beginning late in the fourth quarter of fiscal 2022 and continuing into fiscal 2023, various regions in China, including regions where we and our customers have operations, were subjected to lockdowns imposed by governmental authorities to mitigate the spread of COVID-19 in those areas. The resulting industry-wide production interruptions adversely impacted our results of operations in fiscal 2023.

Global Supply Chain Disruptions

Certain direct and indirect adverse impacts of the COVID-19 pandemic have continued to date and are expected to continue in fiscal 2024, including the worldwide semiconductor supply shortage and global supply chain disruptions. In addition, we have experienced, and may continue to experience, business interruptions, including customer shutdowns and increased material and logistics costs and labor shortages. The semiconductor supply shortage is due, in part, to increased demand across multiple industries, including the automotive industry, resulting in a slowdown in their production schedules. The semiconductor supply shortage is also impacting our supply chain and our ability to meet demand at some of our non-automotive customers. We expect this semiconductor shortage to have a continued impact on our operating results and financial condition in fiscal 2024.

Acquisition of Nordic Lights

As noted in Part I, Item 1 of this Annual Report, we acquired 92.2% of the outstanding shares of Nordic Lights on April 20, 2023. The results of operations of Nordic Lights are reported within the Industrial segment from the date of acquisition and were immaterial for fiscal 2023. See Note 3, "Acquisition" to our consolidated financial statements in this Annual Report for further information.

Restructuring Actions

In fiscal 2023, we incurred restructuring costs of \$1.0 million primarily related to asset impairment charges and severance. In fiscal 2022, we initiated a restructuring plan to consolidate one of our operations within the Industrial segment in response to logistics issues and tariffs. This action resulted in a facility shutdown and consolidation of activities into an existing location and the recognition of \$3.6 million of restructuring costs. We may take additional restructuring actions in future periods based upon market conditions and industry trends.

Outlook

Our current expectations for fiscal 2024 are for net sales to be relatively flat compared to fiscal 2023 and lower net income. Fiscal 2024 sales estimates reflect the full-year inclusion of Nordic Lights and the roll-off of significant programs in the Automotive segment. We expect fiscal 2024 net income to be impacted by additional costs to support new program launches, market headwinds in the higher-margin Industrial segment, higher interest expense and less government assistance.

Consolidated Results of Operations

A detailed comparison of our results of operations between fiscal 2022 and fiscal 2021 can be found in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our fiscal 2022 Annual Report on Form 10-K filed with the SEC on June 23, 2022.

The table below compares our results of operations between fiscal 2023 and fiscal 2022:

(in millions)	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Net sales	\$ 1,179.6	\$ 1,163.6
Cost of products sold	915.5	898.7
Gross profit	264.1	264.9
Selling and administrative expenses	154.9	134.1
Amortization of intangibles	18.8	19.1
Interest expense, net	2.7	3.5
Other income, net	(2.4)	(10.3)
Income tax expense	13.0	16.3
Net income	\$ 77.1	\$ 102.2

Net sales

Net sales increased \$16.0 million, or 1.4%, to \$1,179.6 million in fiscal 2023, compared to \$1,163.6 million in fiscal 2022. The increase was primarily due to higher sales in the Industrial segment, partially offset by lower sales in the Automotive segment. Net sales were unfavorably impacted by foreign currency translation of \$57.3 million, primarily due to the strengthening of the U.S. dollar relative to the euro and Chinese renminbi. Net sales included customer cost recoveries from spot buys of materials and premium freight costs of \$20.9 million in fiscal 2023, compared to \$22.1 million in fiscal 2022. Excluding the impact of foreign currency translation and customer cost recoveries, net sales increased \$74.5 million, or 6.5%.

Cost of products sold

Cost of products sold increased \$16.8 million, or 1.9%, to \$915.5 million (77.6% of net sales) in fiscal 2023, compared to \$898.7 million (77.2% of net sales) in fiscal 2022. Excluding foreign currency translation, cost of products sold increased \$59.4 million. The increase was primarily due to higher material costs, as a result of an increase in sales volumes and material cost inflation, and higher salary and operating expenses, partially offset by lower restructuring costs. Restructuring costs included within cost of products sold were \$0.4 million in fiscal 2023, compared to \$1.3 million in fiscal 2022.

Gross profit margin

Gross profit margin was 22.4% of net sales in fiscal 2023, compared to 22.8% of net sales in fiscal 2022. The decrease was due to inflationary pressures on material and other manufacturing costs, partially offset by higher sales volumes.

Selling and administrative expenses

Selling and administrative expenses increased \$20.8 million, or 15.5%, to \$154.9 million (13.1% of net sales) in fiscal 2023, compared to \$134.1 million (11.5% of net sales) in fiscal 2022. Excluding foreign currency translation, selling and administrative expenses increased \$24.6 million. The increase was primarily due to \$6.8 million of acquisition costs related to Nordic Lights, higher compensation expense, professional fees and travel expense, partially offset by lower restructuring costs. Restructuring costs included within selling and administrative expenses were \$0.5 million in fiscal 2023, compared to \$2.3 million in fiscal 2022.

Amortization of intangibles

Amortization of intangibles decreased \$0.3 million, or 1.6%, to \$18.8 million in fiscal 2023, compared to \$19.1 million in fiscal 2022.

Interest expense, net

Interest expense, net was \$2.7 million in fiscal 2023, compared to \$3.5 million in fiscal 2022. The decrease was due to higher interest income of \$3.2 million, partially offset by higher interest expense of \$2.4 million. Interest income and interest expense increased due to higher interest rates.

Other income, net

Other income, net decreased \$7.9 million to \$2.4 million in fiscal 2023, compared to \$10.3 million in fiscal 2022. Net foreign exchange losses were \$7.1 million in fiscal 2023, compared to \$1.9 million in fiscal 2022. Net foreign exchange losses were higher in fiscal 2023 due to lower efficiency in our foreign currency balance sheet remeasurement hedging program. In addition, net foreign exchange loss in fiscal 2023 included the recognition of \$2.1 million of foreign exchange loss reclassified from accumulated other comprehensive income as the result of a reorganization of a foreign owned subsidiary.

In fiscal 2023, we received \$9.7 million of government grants at certain of our international locations, compared to \$11.1 million in fiscal 2022. Fiscal 2023 government grants include \$6.3 million related to the COVID-19 pandemic and \$3.4 million related to maintaining certain employment levels. Fiscal 2022 government grants primarily related to COVID-19 assistance.

Income tax expense

Income tax expense decreased \$3.3 million, or 20.2%, to \$13.0 million in fiscal 2023, compared to \$16.3 million in fiscal 2022. Our effective tax rate increased to 14.4% in fiscal 2023, compared to 13.8% in fiscal 2022. In fiscal 2023, the effective income tax rate was favorably impacted by the amount of income earned in foreign jurisdictions with lower tax rates and a tax benefit of \$7.3 million associated with the reorganization of a foreign owned subsidiary, partially offset by a reduction in foreign investment tax credits of \$5.0 million and non-deductible acquisition costs of \$1.4 million. In fiscal 2022, the effective income tax rate was favorably impacted by the amount of income earned in foreign jurisdictions with lower tax rates, the release of a valuation allowance of approximately \$2.0 million due to a tax law change, and less U.S. tax on foreign income of \$1.7 million attributable to lower earnings in non-U.S. jurisdictions, partially offset with non-deductible compensation of \$2.1 million.

Net income

Net income decreased \$25.1 million, or 24.6%, to \$77.1 million in fiscal 2023, compared to \$102.2 million in fiscal 2022. The impact of foreign currency translation decreased net income in fiscal 2023 by \$10.3 million. Excluding foreign currency translation, net income decreased \$14.8 million as a result of the reasons described above.

Operating Segments

Automotive

(in millions)	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Net sales		
North America	\$ 349.0	\$ 400.9
Europe, the Middle East & Africa ("EMEA")	231.2	216.5
Asia	156.0	164.1
Net sales	736.2	781.5
Gross profit	\$ 126.2	\$ 150.0
As a percent of net sales	17.1%	19.2%
Income from operations	\$ 67.0	\$ 92.6
As a percent of net sales	9.1%	11.8%
Customer cost recoveries:		
North America	\$ 9.7	\$ 10.1
EMEA	3.7	2.6
Asia	0.6	0.5
Total	<u>\$ 14.0</u>	<u>\$ 13.2</u>

Net sales

Automotive segment net sales decreased \$45.3 million, or 5.8%, to \$736.2 million in fiscal 2023, compared to \$781.5 million in fiscal 2022. Net sales were unfavorably impacted by foreign currency translation of \$35.4 million and the roll-off of a major program in North America. Excluding foreign currency translation and customer cost recoveries, net sales decreased \$10.7 million, or 1.4%.

Net sales in North America decreased \$51.9 million, or 12.9%, to \$349.0 million in fiscal 2023, compared to \$400.9 million in fiscal 2022. Excluding customer cost recoveries, net sales decreased \$51.5 million primarily due to lower sales volumes from a major program roll-off. Net sales in EMEA increased \$14.7 million, or 6.8%, to \$231.2 million in fiscal 2023, compared to \$216.5 million in fiscal 2022. The weaker euro, relative to the U.S. dollar, decreased net sales in EMEA by \$23.3 million. Excluding foreign currency translation and customer cost recoveries, net sales in EMEA increased \$36.9 million primarily due to higher sales volumes of user interface and switch products. Net sales in Asia decreased \$8.1 million, or 4.9%, to \$156.0 million in fiscal 2023, compared to \$164.1 million in fiscal 2022. The weaker Chinese renminbi, relative to the U.S. dollar, decreased net sales in Asia by \$12.1 million. Excluding foreign currency translation and customer cost recoveries, net sales in Asia increased \$3.9 million primarily due to higher electric vehicle product sales volumes, partially offset by lower overhead console sales volumes.

Gross profit

Automotive segment gross profit decreased \$23.8 million, or 15.9%, to \$126.2 million in fiscal 2023, compared to \$150.0 million in fiscal 2022. Excluding the impact of foreign currency translation, gross profit decreased \$16.4 million. Gross profit margins decreased to 17.1% in fiscal 2023, from 19.2% in fiscal 2022. The decrease in gross profit margins was due to lower sales volumes and inflationary pressures on material and other manufacturing costs.

Income from operations

Automotive segment income from operations decreased \$25.6 million, or 27.6%, to \$67.0 million in fiscal 2023, compared to \$92.6 million in fiscal 2022. Excluding the impact of foreign currency translation, income from operations decreased \$21.2 million. The decrease was primarily due to lower gross profit and higher selling and administrative expenses. Selling and administrative expenses increased due to higher compensation expense, professional fees and travel expense.

Industrial

(in millions)	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Net sales	\$ 384.9	\$ 318.1
Gross profit	\$ 127.8	\$ 101.5
As a percent of net sales	33.2%	31.9%
Income from operations	\$ 93.1	\$ 67.1
As a percent of net sales	24.2%	21.1%
Customer cost recoveries	\$ 4.7	\$ 7.6

Net sales

Industrial segment net sales increased \$66.8 million, or 21.0%, to \$384.9 million in fiscal 2023, compared to \$318.1 million in fiscal 2022. Net sales were unfavorably impacted by foreign currency translation of \$21.9 million. Excluding the impact of foreign currency translation and customer cost recoveries, net sales increased \$91.6 million, or 29.5%, primarily due to higher sales volumes of power distribution solutions for data centers and of commercial vehicle lighting solutions products.

Gross profit

Industrial segment gross profit increased \$26.3 million, or 25.9%, to \$127.8 million in fiscal 2023, compared to \$101.5 million in fiscal 2022. Excluding the impact of foreign currency translation, gross profit increased \$33.6 million. Gross profit margin increased to 33.2% in fiscal 2023, from 31.9% in fiscal 2022. The increase in gross profit margins was due to higher sales volumes and lower restructuring costs. Gross profit in fiscal 2022 included restructuring costs of \$1.2 million, compared to \$0.1 million in fiscal 2023.

Income from operations

Industrial segment income from operations increased \$26.0 million, or 38.7%, to \$93.1 million in fiscal 2023, compared to \$67.1 million in fiscal 2022. Excluding the impact of foreign currency translation, income from operations increased \$32.1 million. The increase was primarily due to higher gross profit, partially offset by an increase in selling and administrative expenses. Selling and administrative expenses in fiscal 2022 included restructuring costs of \$2.2 million, compared to \$0.4 million in fiscal 2023.

Interface

(in millions)	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Net sales	\$ 54.9	\$ 59.8
Gross profit	\$ 9.3	\$ 12.6
As a percent of net sales	16.9%	21.1%
Income from operations	\$ 5.5	\$ 9.9
As a percent of net sales	10.0%	16.6%
Customer cost recoveries	\$ 2.2	\$ 1.3

Net sales

Interface segment net sales decreased \$4.9 million, or 8.2%, to \$54.9 million in fiscal 2023, compared to \$59.8 million in fiscal 2022. Excluding customer cost recoveries, net sales decreased \$5.8 million, or 9.9%. The decrease was primarily due to lower sales volumes of appliance products which were negatively impacted by consumer demand, partially offset by higher sales volumes of digital data products.

Gross profit

Interface segment gross profit decreased \$3.3 million, or 26.2%, to \$9.3 million in fiscal 2023, compared to \$12.6 million in fiscal 2022. Gross profit margin decreased to 16.9% in fiscal 2023, from 21.1% in fiscal 2022. The decrease in gross profit margins was primarily due to lower sales volumes of appliance products.

Income from operations

Interface segment income from operations decreased \$4.4 million, or 44.4%, to \$5.5 million in fiscal 2023, compared to \$9.9 million in fiscal 2022. The decrease was due to lower gross profit and higher selling and administrative expenses, primarily compensation expense and professional fees.

Medical

(in millions)	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Net sales	\$ 3.6	\$ 4.2
Gross profit	\$ (0.5)	\$ (0.4)
Loss from operations	\$ (6.1)	\$ (5.5)

Net sales

Medical segment net sales decreased \$0.6 million, or 14.3%, to \$3.6 million in fiscal 2023, compared to \$4.2 million in fiscal 2022. The decrease was due to lower product demand.

Gross profit

Medical segment gross profit was a loss of \$0.5 million in fiscal 2023, compared to a loss of \$0.4 million in fiscal 2022. Gross profit decreased due to lower net sales.

Loss from operations

Medical segment loss from operations increased \$0.6 million, or 10.9%, to \$6.1 million in fiscal 2023, compared to \$5.5 million in fiscal 2022. The increase in the loss was due to higher selling and administrative expenses, primarily higher marketing expenses.

Financial Condition, Liquidity and Capital Resources

Our liquidity requirements are primarily to fund our business operations, including capital expenditures and working capital requirements, as well as to fund debt service requirements, dividends and stock repurchases. Our primary sources of liquidity are cash flows from operations, existing cash balances and borrowings under our senior unsecured credit agreement. We believe our liquidity position will be sufficient to fund our existing operations and current commitments for at least the next twelve months. However, if economic conditions remain impacted for longer than we expect due to inflationary pressure, supply chain disruptions, the COVID-19 pandemic, or other geopolitical risks, including the Russia-Ukraine war, our liquidity position could be severely impacted.

At April 29, 2023, we had \$157.0 million of cash and cash equivalents, of which \$146.3 million was held in subsidiaries outside the U.S. Cash held by these subsidiaries is used to fund operational activities and can be repatriated, primarily through the payment of dividends and the repayment of intercompany loans, without creating material additional income tax expense.

Share Buyback Program

On March 31, 2021, the Board of Directors authorized the purchase of up to \$100.0 million of our common stock. On June 16, 2022, the Board of Directors authorized an increase in the existing share buyback program of an additional \$100.0 million, and extended the expiration of the program to June 14, 2024. Purchases may be made on the open market, in private transactions or pursuant to purchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934. As of April 29, 2023, a total of 2,790,375 shares had been purchased at a total cost of \$119.3 million since the commencement of the share buyback program. As of April 29, 2023, the dollar value of shares that remained available to be purchased under this share buyback program was approximately \$80.7 million.

Credit Agreement

On October 31, 2022, we entered into a Second Amended and Restated Credit Agreement (the “Credit Agreement”) with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders and other parties named therein. The Credit Agreement amends and restates the Amended and Restated Credit Agreement, dated September 12, 2018 and as previously amended (the “Prior Credit Agreement”), with Bank of America, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer, Wells Fargo Bank, National Association, as L/C Issuer, and the Lenders named therein. Among other things, the Credit Agreement (i) increased the multicurrency revolving credit commitments under the Prior Credit Agreement to \$750,000,000, (ii) refinanced in full and terminated the term loan facility under the Prior Credit Agreement, and (iii) made certain other changes to the covenants, terms, and conditions under the Prior Credit Agreement. In addition, the Credit Agreement permits us to increase the revolving commitments and/or add one or more tranches of term loans under the Credit Agreement from time to time by up to an amount equal to (i) \$250,000,000 plus (ii) an additional amount so long as the leverage ratio would not exceed 3.00:1.00 on a pro forma basis, subject to, among other things, the receipt of additional commitments from existing and/or new lenders. The Credit Agreement matures on October 31, 2027.

As of April 29, 2023, \$305.4 million was outstanding under the revolving credit facility. We were in compliance with all covenants under the Credit Agreement as of April 29, 2023. For further information, see Note 10, “Debt” to the consolidated financial statements included in this Annual Report.

Cash Flows

(in millions)	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Operating activities:		
Net income	\$ 77.1	\$ 102.2
Non-cash items	59.2	66.4
Changes in operating assets and liabilities	(3.5)	(69.8)
Net cash provided by operating activities	132.8	98.8
Net cash used in investing activities	(153.1)	(37.4)
Net cash provided by (used in) financing activities	3.2	(114.6)
Effect of foreign currency exchange rate changes on cash and cash equivalents	2.1	(8.0)
Decrease in cash and cash equivalents	(15.0)	(61.2)
Cash and cash equivalents at beginning of the period	172.0	233.2
Cash and cash equivalents at end of the period	<u>\$ 157.0</u>	<u>\$ 172.0</u>

Operating activities

Net cash provided by operating activities increased \$34.0 million to \$132.8 million in fiscal 2023, compared to \$98.8 million in fiscal 2022. The increase was due to lower cash outflows related to changes in operating assets and liabilities, partially offset by lower net income adjusted for non-cash items. The \$3.5 million of cash outflows for operating assets and liabilities in fiscal 2023 was primarily due to higher accounts receivable, prepaid expenses and other assets, partially offset by lower inventory, and higher accounts payable and other liabilities.

Investing activities

Net cash used in investing activities was \$153.1 million in fiscal 2023, compared to \$37.4 million in fiscal 2022. In fiscal 2023, we paid \$114.6 million of cash, net of cash acquired, for the acquisition of Nordic Lights. Capital expenditures in fiscal 2023 were \$42.0 million, compared to \$38.0 million in fiscal 2022. We received \$3.5 million of cash from the sale of property, plant and equipment in fiscal 2023.

Financing activities

Net cash provided by financing activities was \$3.2 million in fiscal 2023, compared to net cash used in financing activities of \$114.6 million in fiscal 2022. In fiscal 2023, we paid \$48.1 million of cash for the repurchase of our shares under our share buyback program, compared to \$64.5 million in fiscal 2022. We paid cash dividends of \$19.8 million in fiscal 2023, compared to \$20.4 million in fiscal 2022. In fiscal 2023, we had net borrowings of \$73.7 million primarily to fund the acquisition of Nordic Lights. In fiscal 2022, we had net repayments on our borrowings of \$29.2 million. In connection with our Credit Agreement, we paid debt issuance costs of \$3.2 million.

Contractual Obligations

The following table summarizes our significant known contractual cash obligations and commercial commitments as of April 29, 2023:

(in millions)	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Finance leases	\$ 0.6	\$ 0.2	\$ 0.3	\$ 0.1	\$ —
Operating leases	33.1	7.8	11.2	8.3	5.8
Debt (1)	310.1	3.2	0.4	305.8	0.7
Estimated interest on debt (2)	73.4	15.1	33.3	25.0	—
Deferred compensation	9.5	2.0	2.8	2.4	2.3
Total	<u>\$ 426.7</u>	<u>\$ 28.3</u>	<u>\$ 48.0</u>	<u>\$ 341.6</u>	<u>\$ 8.8</u>

(1) Assumes the outstanding borrowings under the revolving credit facility will be repaid upon maturity of the credit agreement in October 2027.

(2) Based on interest rates in effect as of April 29, 2023 (including the impact of interest rate swaps).

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined under SEC rules.

Legal Matters

For several years, Hetronic Germany-GmbH and Hydronic-Steuersysteme-GmbH (the “Fuchs companies”) served as our distributors for Germany, Austria and other central and eastern European countries pursuant to their respective intellectual property licenses and distribution and assembly agreements. We became aware that the Fuchs companies and their managing director, Albert Fuchs, had materially violated those agreements. As a result, we terminated all of our agreements with the Fuchs companies. On June 20, 2014, we filed a lawsuit against the Fuchs companies in the Federal District Court for the Western District of Oklahoma alleging material breaches of the distribution and assembly agreements and seeking damages, as well as various forms of injunctive relief. The defendants filed counterclaims alleging breach of contract, interference with business relations and business slander. On April 2, 2015, we amended our complaint against the Fuchs companies to add additional unfair competition and Lanham Act claims and to add additional affiliated parties.

A trial with respect to the matter began in February 2020. During the trial, the defendants dismissed their one remaining counterclaim with prejudice. On March 2, 2020, the jury returned a verdict in favor of the Company. The verdict included approximately \$102 million in compensatory damages and \$11 million in punitive damages. On April 22, 2020, the Court entered a permanent injunction barring defendants from selling infringing products and ordering them to return Hetronic’s confidential information. Defendants appealed entry of the permanent injunction. On May 29, 2020, the Court held defendants in contempt for violating the permanent injunction and entered the final judgment. Defendants appealed entry of the final monetary judgment as well. The appeal of the permanent injunction and the appeal of the final judgment were consolidated into a single appeal before the U.S. Court of Appeals for the Tenth Circuit. On August 24, 2021, the Tenth Circuit issued a decision affirming the lower court’s ruling with the exception that it instructed the District Court to modify the injunction from the entire world to all of the countries in which Hetronic sells its products. On April 20 and 21, 2022, the District Court held a hearing related to modifying the injunction pursuant to the Tenth Circuit’s opinion, and the parties have filed post-hearing briefs. The defendants also filed a petition for certiorari with the United States Supreme Court seeking to further appeal the extraterritorial application of the Lanham Act in this case. We opposed that petition. The Supreme Court requested the views of the Solicitor General on the petition for certiorari, and the Solicitor General recommended granting the petition. On November 4, 2022, the Supreme Court granted the petition. The Supreme Court heard arguments in this matter on March 21, 2023. At the conclusion of the hearing, the Supreme Court took the matter under advisement. Like any judgment, particularly a judgment involving defendants outside of the United States, there is no guarantee that we will be able to collect all or any portion of the judgment.

We incurred legal fees of \$3.9 million, \$3.3 million and \$5.7 million in fiscal 2023, fiscal 2022 and fiscal 2021, respectively, related to the lawsuits. These amounts are included in the selling and administrative expenses and as part of the Industrial segment.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that can affect amounts reported in the consolidated financial statements and notes. In preparing our consolidated financial statements, we have made our best estimates and judgments of certain amounts included in the consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. To the extent that there are differences between these estimates and actual results, our consolidated financial statements may be materially affected. Below are the estimates that we believe are critical to the understanding of our results of operations and financial condition. Other accounting policies are described in Note 1, “Description of Business and Summary of Significant Accounting Policies” to the consolidated financial statements included in this Annual Report.

Revenue recognition. Most of our revenue is recognized at a point in time. We have determined that the most definitive demonstration that control has transferred to a customer is physical shipment or delivery, depending on the contractual shipping terms, except for consignment transactions. Consignment transactions are arrangements where we transfer products to a customer location but retain ownership and control of such product until it is used by the customer. Revenue for consignment arrangements is recognized upon the customer’s usage.

Revenue associated with products which we believe have no alternative use, and where we have an enforceable right to payment, are recognized on an over time basis. Revenue is recognized based on progress to date, which is typically even over the production process through transfer of control to the customer.

In addition, from time to time, customers may negotiate annual price downs. Management has evaluated these price downs and determined that in some instances, these price downs give rise to a material right. In instances that a material right exists, a portion of the transaction price is allocated to the material right and recognized over the life of the contract.

Goodwill. Goodwill is not amortized but is tested for impairment on at least an annual basis. Goodwill is evaluated at the reporting unit level by comparing the fair value of the reporting unit to its carrying amount including goodwill. An impairment of goodwill exists if the carrying amount of the reporting unit exceeds its fair value. The impairment loss is the amount by which the carrying amount exceeds the reporting unit’s fair value, limited to the total amount of goodwill allocated to that reporting unit. In performing the goodwill impairment test, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount.

Qualitative factors include, but are not limited to, the results of prior year fair value calculations, the movement of our share price and market capitalization, the reporting unit and overall financial performance, and macroeconomic and industry conditions. We consider the qualitative factors and weight of the evidence obtained to determine if it is more likely than not that a reporting unit’s fair value is less than the carrying amount. If, after assessing the qualitative factors, we were to determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then a quantitative assessment is performed. We may also elect to proceed directly to the quantitative assessment without considering such qualitative factors.

For the quantitative assessment, we utilize either, or a combination of, the income approach and market approach to estimate the fair value of the reporting unit. The income approach uses a discounted cash flow method and the market approach uses appropriate valuation multiples observed for the reporting unit’s guideline public companies. The determination of discounted cash flows are based on management’s estimates of revenue growth rates and earnings before interest, taxes, depreciation and amortization (“EBITDA”) margins, taking into consideration business and market conditions for the countries and markets in which the reporting unit operates. We calculate the discount rate based on a market-participant, risk-adjusted weighted average cost of capital, which considers industry specific rates of return on debt and equity capital for a target industry capital structure, adjusted for risks associated with business size, geography and other factors specific to the reporting unit. Long-range forecasting involves uncertainty which increases with each successive period. Revenue growth rates and profitability assumptions, especially in the outer years, involve a greater degree of uncertainty.

Impairment of long-lived assets. We evaluate whether events and circumstances have occurred which indicate that the remaining estimated useful lives of our intangible assets, excluding goodwill, and other long-lived assets, may warrant revision or that the remaining balance of such assets may not be recoverable. If impairment indicators exist, we perform an impairment analysis by comparing the undiscounted cash flows resulting from the use of the asset group to the carrying amount. If the carrying amount exceeds the undiscounted cash flows, an impairment loss is recognized based on the excess of the asset’s carrying amount over its fair value.

Income taxes. Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. We use a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured and tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

Our deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. We adjust these amounts to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We evaluate our ability to realize the tax benefits associated with deferred tax assets by assessing the adequacy of future expected taxable income, including the reversal of existing temporary differences, historical and projected operating results, and the availability of prudent and feasible tax planning strategies. The realization of tax benefits is evaluated by jurisdiction and the realizability of these assets can vary based on the character of the tax attribute and the carryforward periods specific to each jurisdiction. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would decrease income tax expense in the period a determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be recorded to income tax expense in the period such determination was made.

We provide for taxes that may be payable if undistributed earnings of overseas subsidiaries were to be remitted to the U.S., except for those earnings that we consider to be permanently reinvested. Future sales of foreign subsidiaries are not exempt from capital gains tax in the U.S. We have no plans to dispose of any of our foreign subsidiaries and are not recording deferred taxes on outside basis differences in foreign subsidiaries for the sale of a foreign subsidiary.

Business combinations. We account for business combinations using the acquisition method of accounting whereby the identifiable assets and liabilities of the acquired business, as well as any noncontrolling interest in the acquired business, are recorded at their estimated fair values as of the date that we obtain control of the acquired business. Any purchase consideration in excess of the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses are expensed as incurred.

Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, and market multiples, among other items. We determine the fair values of intangible assets acquired generally in consultation with third-party valuation advisors. The valuation of assets acquired, and liabilities assumed requires a number of judgments and is subject to revision as additional information about the fair values becomes available. We recognize any adjustments to provisional amounts that are identified during the period not to exceed twelve months from the acquisition date in which the adjustments are determined. The results of operations of businesses acquired are included in the consolidated financial statements from their dates of acquisition.

Contingencies. We are subject to various investigations, claims and legal and administrative proceedings covering a wide range of matters that arise in the ordinary course of business activities. A significant amount of judgment and use of estimates is required to quantify our ultimate exposure in these matters. For those matters that we can estimate a range of loss, we have established reserves at levels within that range to provide for the most likely scenario based upon available information. The valuation of reserves for contingencies is reviewed on a quarterly basis to ensure that we are properly reserved. Reserve balances are adjusted to account for changes in circumstances for ongoing issues and the establishment of additional reserves for emerging issues. While we believe that the current level of reserves is adequate, changes in the future could impact these determinations.

New Accounting Pronouncements

For more information regarding new applicable accounting pronouncements, see Note 1, "Description of Business and Summary of Significant Accounting Policies" to the consolidated financial statements included in this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks from foreign currency exchange, interest rates, and commodity prices, which could affect our operating results, financial position and cash flows. We manage a portion of these risks through use of derivative financial instruments in accordance with our policies. We do not enter into derivative financial instruments for speculative or trading purposes.

Foreign currency risk

We are exposed to foreign currency risk on sales, costs and assets and liabilities denominated in currencies other than the U.S. dollar. We seek to manage our foreign exchange risk largely through operational means, including matching revenue with same-currency costs and assets with same-currency liabilities. We currently transact business in eight primary currencies worldwide, of which the most significant are the U.S. dollar, the euro, the Chinese renminbi and the Mexican peso.

A portion of our balance sheet is exposed to foreign currency exchange rate fluctuations, which may result in non-operating foreign currency exchange gains or losses upon remeasurement. We use foreign currency forward contracts to provide an economic hedge against balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary. The forward contracts have a maturity of less than three months and are not designated as hedging instruments. As of April 29, 2023, the notional value of these outstanding contracts was \$59.9 million. These hedges are intended to reduce, but may not entirely eliminate, foreign currency exchange risk. The impact of a change in the foreign currency exchange rates on our foreign currency forward contracts will generally be offset against the gain or loss from the re-measurement of the underlying balance sheet exposure.

The translation of the assets and liabilities of our international subsidiaries is made using the foreign currency exchange rates as of the end of the reporting period. Translation adjustments are not included in determining net income but are included in accumulated other comprehensive income (loss) within shareholders' equity on the consolidated balance sheets until a sale or substantially complete liquidation of the net investment in the international subsidiary takes place. As of April 29, 2023, the cumulative net currency translation adjustments decreased shareholders' equity by \$19.8 million. As described in Note 8, "Derivative Financial Instruments and Hedging Activities" to our consolidated financial statements included in this Annual Report, in order to manage certain translational exposure to the euro, we have designated euro-denominated borrowings of \$145.4 million as a net investment hedge in our euro-denominated subsidiaries. We have also entered into a euro-denominated cross-currency swap which is designated as a net investment hedge in our euro-denominated subsidiaries. The effective portion of the gains or losses designated as net investment hedges are recognized within the cumulative translation adjustment component in the consolidated statements of comprehensive income to offset changes in the value of the net investment in these foreign currency-denominated operations.

Interest rate risk

We are exposed to interest rate risk on borrowings under our Credit Agreement which are based on variable rates. As of April 29, 2023, we had \$305.4 million of borrowings under our Credit Agreement. We manage our interest rate exposures through the use of interest rate swaps to effectively convert a portion of our variable-rate debt to a fixed rate. The notional amount of our interest rate swaps was \$100.0 million as of April 29, 2023. Based on borrowings outstanding under our Credit Agreement at April 29, 2023, net of the interest rate swaps, we estimate that a 1% increase in interest rates would result in increased annual interest expense of \$3.1 million.

Commodity price risk

We are exposed to commodity price risk primarily on our raw material purchases. These raw materials are not rare or unique to our industry. The cost of copper, resins, and other commodities, such as fuel and energy, has fluctuated in recent years due to changes in global supply and demand. Our gross margins could be affected if these types of costs continue to fluctuate. We actively manage these raw material costs through global sourcing initiatives and price increases on our products where possible. However, in the short-term, further increases in raw material costs can be very difficult to fully offset with price increases because of contractual agreements with our customers, which would unfavorably impact our gross margins.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and supplementary data are filed within this Annual Report under Item 15, "Exhibits, Financial Statement Schedules."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 29, 2023. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and procedures designed to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's applicable rules and forms. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of April 29, 2023 due to a material weakness in internal control over financial reporting, as described below.

Notwithstanding the ineffectiveness of our disclosure controls and procedures as well as the material weakness in our internal control over financial reporting as of April 29, 2023, we believe there are no material inaccuracies or omissions of material fact in this Form 10-K and, to the best of our knowledge, we believe that the consolidated financial statements in this Form 10-K fairly present in all material aspects our financial condition, results of operations and cash flows in conformity with GAAP.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision of our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of April 29, 2023 based on the guidelines established in *Internal Control — Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of April 29, 2023 excludes the internal control over financial reporting for Nordic Lights which is included in our consolidated financial statements for the year ending April 29, 2023, and was acquired on April 20, 2023. Nordic Lights' total assets and net assets (excluding goodwill and intangibles) represented 4.2% and 2.9% of our consolidated total assets and consolidated net assets, respectively, as of April 29, 2023. Companies are permitted to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the Securities and Exchange Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified a material weakness in its control environment related to revenue at a business unit in our Automotive segment. Specifically, we did not maintain effective review, approval and validation controls over pricing data entered into the business unit's financial system and non-standard contract terms. This control deficiency did not result in a material misstatement to our consolidated financial statements as of and for the year ended April 29, 2023. However, this control deficiency could have resulted in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Because of this material weakness, management concluded that we did not maintain effective internal control over financial reporting as of April 29, 2023. Management reviewed the results of its assessment with the Audit Committee. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on our internal control over financial reporting. This report is included on page F-4 of this Annual Report.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

We and our Board of Directors treat the controls surrounding, and the integrity of, our financial statements with the utmost priority. Management is committed to the planning and implementation of remediation efforts to address control deficiencies and any other identified areas of risk. These remediation efforts are intended to both address the identified material weakness and to enhance our overall financial control environment. We will not consider the material weakness remediated until the enhanced controls are operational for a sufficient period of time and tested, enabling us to conclude that the enhanced controls are operating effectively.

We are committed to maintaining a strong internal control environment. Our remediation efforts will include, among other items, (1) enhancing the design and operating effectiveness of internal controls over the review, approval and validation of customer pricing data and non-standard contract terms; and (2) developing and deploying additional training programs around the operation and importance of internal controls. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to strengthen controls or to modify the remediation plan described above.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by a management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item regarding our directors and corporate governance matters is incorporated by reference herein to the definitive proxy statement for our 2023 annual meeting under the captions “Proposal One Election of Directors” and “Corporate Governance.” The information required by this item regarding our executive officers appears as a supplementary item following Item 4 under Part I of this Annual Report. The information required by this item regarding compliance with Section 16(a) of the Exchange Act and information regarding our Audit Committee is incorporated by reference herein to the definitive proxy statement for our 2023 annual meeting under the captions “Delinquent Section 16(a) Reports” and “Audit Committee Matters,” respectively.

We have adopted a Code of Business Conduct (the “Code”) that applies to our directors, our principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions, as well as other employees. The Code is publicly available on our website at www.methode.com. If we make any substantive amendments to the Code or grant any waiver, including any implicit waiver, from a provision of the Code to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K in accordance with applicable rules and regulations. The information contained on our website is not incorporated by reference into this Annual Report.

Item 11. Executive Compensation

The information required by this item is incorporated by reference herein to the definitive proxy statement for our 2023 annual meeting under the captions “Compensation Discussion and Analysis”, “Compensation Committee Report”, “Executive Compensation Tables”, “CEO Pay Ratio”, and “Director Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference herein to the definitive proxy statement for our 2023 annual meeting under the caption “Security Ownership.”

Equity Compensation Plan Information

The following table provides information about our equity compensation plans as of April 29, 2023. All outstanding awards relate to our common stock. Shares issued under all of the following plans may be from our treasury, newly issued or both.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,726,891	37.01(1)	5,189,956
Equity compensation plans not approved by security holders	—	—	—
Total	1,726,891	\$ 37.01	5,189,956

- (1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock awards and restricted stock units, since recipients are not required to pay an exercise price to receive the shares subject to these awards.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference herein to the definitive proxy statement for our 2023 annual meeting under the caption “Corporate Governance.”

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference herein to the definitive proxy statement for our 2023 annual meeting under the caption “Audit Committee Matters.”

PART IV

Item 15. Exhibit and Financial Statement Schedules

(a) (1) Consolidated Financial Statements.

Reference is made to the Index to Consolidated Financial Statements on Page F-1.

(2) Consolidated Financial Statement Schedule.

Reference is made to the Index to Financial Statement Schedule on Page F-1.

(3) Exhibits.

EXHIBIT INDEX

Exhibit Number	Description
3.1	<u>Certificate of Incorporation of Registrant, as amended and currently in effect (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 9, 2004).</u>
3.2	<u>Bylaws of Registrant, as amended and currently in effect (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 19, 2020).</u>
4.1	<u>Article Fourth of Certificate of Incorporation of Registrant, as amended and currently in effect (included in Exhibit 3.1).</u>
4.2	<u>Description of Capital Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on June 20, 2019).</u>
10.1*	<u>Methode Electronics, Inc. 2004 Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 7, 2004).</u>
10.2*	<u>Change in Control Agreement dated September 1, 2006 between Methode Electronics, Inc. and Donald W. Duda (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 6, 2006).</u>
10.3*	<u>Change in Control Agreement dated September 14, 2006 between Methode Electronics, Inc. and Timothy R. Glandon (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 18, 2006).</u>
10.4*	<u>Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Performance Based) effective as of June 18, 2004 between Methode Electronics, Inc. and Donald W. Duda (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on March 2, 2007).</u>
10.5*	<u>Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Cliff Vesting) effective as of June 18, 2004 between Methode Electronics, Inc. and Donald W. Duda (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on March 2, 2007).</u>
10.6*	<u>Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Performance Based) effective as of June 15, 2005 between Methode Electronics, Inc. and Donald W. Duda (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 6, 2007).</u>
10.7*	<u>Amended and Restated Restricted Stock Unit Award Agreement (Executive Award/Performance Based) effective as of August 7, 2006 between Methode Electronics, Inc. and Donald W. Duda (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 6, 2007).</u>
10.8*	<u>Change in Control Agreement dated July 15, 2008 between Methode Electronics, Inc. and Ronald L.G. Tsoumas (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on July 17, 2008).</u>
10.9*	<u>Methode Electronics, Inc. 2010 Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 20, 2010).</u>
10.10*	<u>Form of Methode Electronics, Inc. Non-Qualified Stock Option Form Award Agreement under the 2010 Stock Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 20, 2010).</u>
10.11*	<u>Methode Electronics, Inc. 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 22, 2014).</u>
10.12*	<u>Form of Amendment to Change in Control Agreement dated November 8, 2010 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on December 10, 2015).</u>
10.13*	<u>Change in Control Agreement dated June 14, 2017 between Methode Electronics, Inc. and Andrea Barry (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on June 21, 2018).</u>
10.14*	<u>Change in Control Agreement dated as of December 7, 2018 between the Company and Anil Shetty (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on March 7, 2019).</u>
10.15*	<u>Change in Control Agreement dated as of June 26, 2020 between the Company and Joseph Khoury (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on June 30, 2020).</u>

10.16*	Form of Transition Award Agreement (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on June 30, 2020).
10.17*	Form of 2020 Long-Term Performance-Based Award Agreement (CEO) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 29, 2020).
10.18*	Form of 2020 Long-Term Performance-Based Award Agreement (COO, CFO and CHRO) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 29, 2020).
10.19*	Form of 2020 Long-Term Performance-Based Award Agreement (Dabir) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 29, 2020).
10.20*	Form of 2020 Long-Term Time-Based Award Agreement (CEO) (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 29, 2020).
10.21*	Form of 2020 Long-Term Time-Based Award Agreement (COO, CFO and CHRO) (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 29, 2020).
10.22*	Form of 2020 Long-Term Time-Based Award Agreement (Dabir) (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on September 29, 2020).
10.23*	Methode Electronics, Inc. Deferred Compensation Plan, as amended and restated as of November 12, 2020 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 13, 2020).
10.24*	Long-Term Performance-Based Award Agreement dated as of September 29, 2020 between the Company and Kevin Martin (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on June 23, 2022).
10.25*	Long-Term Time-Based Award Agreement dated as of September 29, 2020 between the Company and Kevin Martin (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on June 23, 2022).
10.26*	Methode Electronics, Inc. 2022 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 14, 2022).
10.27	Second Amended and Restated Credit Agreement, entered into as of October 31, 2022, among Methode Electronics, Inc., each Lender party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer and the other parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 1, 2022).
10.28*	Amendment to Change in Control Agreement dated December 14, 2022 (CEO) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 19, 2022).
10.29*	Amendment to Change in Control Agreement dated December 14, 2022 (NEOs other than CEO) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 19, 2022).
10.30*	Change in Control Agreement dated as of March 15, 2023 between Methode Electronics, Inc. and Kevin Martin (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 29, 2023).
21	Subsidiaries of Methode Electronics, Inc.
23	Consent of Ernst & Young LLP.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32**	Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document)

* Management Compensatory Plan

** Indicates that the exhibit is being furnished with this report and not filed as part of it.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

METHODE ELECTRONICS, INC.
(Registrant)

By: /s/ RONALD L.G. TSOUMAS
Ronald L.G. Tsoumas
Chief Financial Officer
(Principal Financial Officer)

Dated: June 27, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WALTER J. ASPATORE</u> Walter J. Aspatore	Chairman of the Board	June 27, 2023
<u>/s/ LAWRENCE B. SKATOFF</u> Lawrence B. Skatoff	Vice Chairman of the Board	June 27, 2023
<u>/s/ DONALD W. DUDA</u> Donald W. Duda	Chief Executive Officer, President & Director (Principal Executive Officer)	June 27, 2023
<u>/s/ RONALD L.G. TSOUMAS</u> Ronald L.G. Tsoumas	Chief Financial Officer (Principal Financial Officer)	June 27, 2023
<u>/s/ AMIT N. PATEL</u> Amit N. Patel	Chief Accounting Officer (Principal Accounting Officer)	June 27, 2023
<u>/s/ DAVID P. BLOM</u> David P. Blom	Director	June 27, 2023
<u>/s/ THERESE M. BOBEK</u> Therese M. Bobek	Director	June 27, 2023
<u>/s/ BRIAN J. CADWALLADER</u> Brian J. Cadwallader	Director	June 27, 2023
<u>/s/ BRUCE K. CROWTHER</u> Bruce K. Crowther	Director	June 27, 2023
<u>/s/ DARREN M. DAWSON</u> Darren M. Dawson	Director	June 27, 2023
<u>/s/ JANIE GODDARD</u> Janie Goddard	Director	June 27, 2023
<u>/s/ MARY A. LINDSEY</u> Mary A. Lindsey	Director	June 27, 2023
<u>/s/ ANGELO V. PANTALEO</u> Angelo V. Pantaleo	Director	June 27, 2023
<u>/s/ MARK D. SCHWABERO</u> Mark D. Schwabero	Director	June 27, 2023

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

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AND FINANCIAL STATEMENT SCHEDULE

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All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are immaterial and, therefore, have been omitted.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Methode Electronics, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Methode Electronics, Inc. and subsidiaries (the Company) as of April 29, 2023 and April 30, 2022, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended April 29, 2023, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 29, 2023 and April 30, 2022, and the results of its operations and its cash flows for each of the three years in the period ended April 29, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of April 29, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 27, 2023 expressed an adverse opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of Reporting Units Goodwill

Description of the Matter

At April 29, 2023, the balance of the Company's goodwill was \$301.9 million. As discussed in Note 7 to the consolidated financial statements, goodwill is tested for impairment at least annually or when impairment indicators are present at the reporting unit.

Auditing management's assessment of the fair value of its reporting units is complex because it involves making assumptions about the timing and amount of the forecasted future net cash flows of the reporting units. The fair value estimate can be sensitive to significant assumptions such as revenue growth rates and gross profit. These significant assumptions are forward looking and could be impacted by future economic conditions. The estimate is also sensitive to the selected discount rate, which is based on a risk-adjusted weighted average cost of capital.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment assessment process. This included testing controls over management's assessment of the prospective financial information and discount rate used in the valuation model.

To test the fair value of the reporting units, our audit procedures included, among others, evaluating the Company's use of the income approach, testing the significant assumptions described above used to develop the prospective financial information, and testing the completeness and accuracy of the underlying data. For example, we compared significant assumptions to historical performance, and other guideline companies within the same industry. We performed a sensitivity analysis of the significant assumptions when necessary to evaluate the change in the fair value of the reporting units resulting from changes in the assumptions. We also assessed the historical accuracy of management's forecasting process and involved our valuation specialists to assist in testing certain significant assumptions in the fair value estimate.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1966.

Chicago, Illinois

June 27, 2023

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Methode Electronics, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Methode Electronics, Inc. and subsidiaries' internal control over financial reporting as of April 29, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Methode Electronics, Inc. and Subsidiaries (the Company) has not maintained effective internal control over financial reporting as of April 29, 2023, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to revenue at a business unit in the Automotive segment.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Nordic Lights Group Corporation, which is included in the 2023 consolidated financial statements of the Company and constituted 4.2% and 2.9% of total assets and net assets, respectively, excluding goodwill and intangibles, as of April 29, 2023. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Nordic Lights Group Corporation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2023 consolidated financial statements of the Company. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2023 consolidated financial statements, and this report does not affect our report dated June 27, 2023, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible 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 the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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/ Ernst & Young LLP

Chicago, Illinois

June 27, 2023

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)

	April 29, 2023	April 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 157.0	\$ 172.0
Accounts receivable, net	314.3	273.3
Inventories	159.7	158.5
Income tax receivable	12.9	8.3
Prepaid expenses and other current assets	20.5	16.9
Total current assets	664.4	629.0
Long-term assets:		
Property, plant and equipment, net	220.3	197.0
Goodwill	301.9	233.0
Other intangible assets, net	256.7	207.7
Operating lease right-of-use assets, net	28.4	20.0
Deferred tax assets	33.6	36.8
Pre-production costs	36.1	27.2
Other long-term assets	37.7	38.4
Total long-term assets	914.7	760.1
Total assets	\$ 1,579.1	\$ 1,389.1
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 138.7	\$ 108.5
Accrued employee liabilities	36.7	30.0
Other accrued liabilities	34.5	24.5
Short-term operating lease liabilities	6.8	6.0
Short-term debt	3.2	13.0
Income tax payable	8.1	6.6
Total current liabilities	228.0	188.6
Long-term liabilities:		
Long-term debt	303.6	197.5
Long-term operating lease liabilities	21.8	14.8
Long-term income tax payable	16.7	22.1
Other long-term liabilities	14.3	14.0
Deferred tax liabilities	41.8	38.3
Total long-term liabilities	398.2	286.7
Total liabilities	626.2	475.3
Redeemable noncontrolling interest	11.1	—
Shareholders' equity:		
Common stock, \$0.50 par value, 100,000,000 shares authorized, 37,167,375 shares and 38,276,968 shares issued as of April 29, 2023 and April 30, 2022, respectively	18.6	19.2
Additional paid-in capital	181.0	169.0
Accumulated other comprehensive loss	(19.0)	(26.8)
Treasury stock, 1,346,624 shares as of April 29, 2023 and April 30, 2022	(11.5)	(11.5)
Retained earnings	772.7	763.9
Total shareholders' equity	941.8	913.8
Total liabilities, redeemable noncontrolling interest and shareholders' equity	\$ 1,579.1	\$ 1,389.1

See notes to consolidated financial statements.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Net sales	\$ 1,179.6	\$ 1,163.6	\$ 1,088.0
Cost of products sold	915.5	898.7	813.9
Gross profit	264.1	264.9	274.1
Selling and administrative expenses	154.9	134.1	126.9
Amortization of intangibles	18.8	19.1	19.3
Income from operations	90.4	111.7	127.9
Interest expense, net	2.7	3.5	5.2
Other income, net	(2.4)	(10.3)	(12.2)
Pre-tax income	90.1	118.5	134.9
Income tax expense	13.0	16.3	12.6
Net income	77.1	102.2	122.3
Net income attributable to redeemable noncontrolling interest	—	—	—
Net income attributable to Methode	<u>\$ 77.1</u>	<u>\$ 102.2</u>	<u>\$ 122.3</u>
Basic and diluted income per share attributable to Methode:			
Basic	\$ 2.14	\$ 2.74	\$ 3.22
Diluted	\$ 2.10	\$ 2.70	\$ 3.19
Cash dividends per share	\$ 0.56	\$ 0.56	\$ 0.44

See notes to consolidated financial statements.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Net income	\$ 77.1	\$ 102.2	\$ 122.3
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	10.7	(42.0)	37.4
Derivative financial instruments	(2.9)	9.1	(4.4)
Other comprehensive income (loss):	7.8	(32.9)	33.0
Comprehensive income (loss)	84.9	69.3	155.3
Comprehensive income attributable to redeemable noncontrolling interest	—	—	—
Total comprehensive income attributable to Methode	<u>\$ 84.9</u>	<u>\$ 69.3</u>	<u>\$ 155.3</u>

See notes to consolidated financial statements.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions, except share data)

	Redeemable noncontrolling interest	Common stock shares	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Treasury stock	Retained earnings	Total shareholders' equity
Balance as of May 2, 2020	\$ —	38,438,111	\$ 19.2	\$ 150.7	\$ (26.9)	\$ (11.5)	\$ 651.9	\$ 783.4
Issuance of restricted stock, net of tax withholding	—	1,350,251	0.7	(0.7)	—	—	(3.9)	(3.9)
Stock-based compensation expense	—	—	—	6.8	—	—	—	6.8
Exercise of stock options	—	24,500	—	0.8	—	—	—	0.8
Purchases of common stock	—	(167,949)	(0.1)	—	—	—	(7.4)	(7.5)
Other comprehensive income	—	—	—	—	33.0	—	—	33.0
Net income	—	—	—	—	—	—	122.3	122.3
Dividends on common stock	—	—	—	—	—	—	(16.9)	(16.9)
Balance as of May 1, 2021	—	39,644,913	19.8	157.6	6.1	(11.5)	746.0	918.0
Issuance of restricted stock, net of tax withholding	—	44,245	0.1	(0.1)	—	—	(0.3)	(0.3)
Stock-based compensation expense	—	—	—	11.0	—	—	—	11.0
Exercise of stock options	—	13,000	—	0.5	—	—	—	0.5
Purchases of common stock	—	(1,425,190)	(0.7)	—	—	—	(63.0)	(63.7)
Other comprehensive loss	—	—	—	—	(32.9)	—	—	(32.9)
Net income	—	—	—	—	—	—	102.2	102.2
Dividends on common stock	—	—	—	—	—	—	(21.0)	(21.0)
Balance as of April 30, 2022	—	38,276,968	19.2	169.0	(26.8)	(11.5)	763.9	913.8
Issuance of restricted stock, net of tax withholding	—	47,643	—	—	—	—	(0.5)	(0.5)
Stock-based compensation expense	—	—	—	10.5	—	—	—	10.5
Exercise of stock options	—	40,000	—	1.5	—	—	—	1.5
Purchases of common stock	—	(1,197,236)	(0.6)	—	—	—	(47.5)	(48.1)
Acquired redeemable noncontrolling interest	11.3	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	7.8	—	—	7.8
Net income	—	—	—	—	—	—	77.1	77.1
Dividend declared to noncontrolling interest	(0.2)	—	—	—	—	—	—	—
Dividends on common stock	—	—	—	—	—	—	(20.3)	(20.3)
Balance as of April 29, 2023	<u>\$ 11.1</u>	<u>37,167,375</u>	<u>\$ 18.6</u>	<u>\$ 181.0</u>	<u>\$ (19.0)</u>	<u>\$ (11.5)</u>	<u>\$ 772.7</u>	<u>\$ 941.8</u>

See notes to consolidated financial statements.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Operating activities:			
Net income	\$ 77.1	\$ 102.2	\$ 122.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	49.5	52.6	51.5
Stock-based compensation expense	11.5	11.8	6.8
Change in cash surrender value of life insurance	0.3	0.1	(2.0)
Amortization of debt issuance costs	0.7	0.7	0.7
Loss (gain) on sale of property, plant and equipment	0.6	(0.3)	1.3
Impairment of long-lived assets	0.7	3.1	0.6
Change in deferred income taxes	(4.6)	(2.1)	(9.6)
Other	0.5	0.5	1.4
Changes in operating assets and liabilities:			
Accounts receivable	(21.0)	(2.0)	(81.9)
Inventories	8.9	(39.3)	11.3
Prepaid expenses and other assets	(25.4)	1.5	17.9
Accounts payable	19.8	(8.7)	44.0
Other liabilities	14.2	(21.3)	15.5
Net cash provided by operating activities	132.8	98.8	179.8
Investing activities:			
Purchases of property, plant and equipment	(42.0)	(38.0)	(24.9)
Acquisition of business, net of cash acquired	(114.6)	—	—
Proceeds from disposition of property, plant and equipment	3.5	0.6	0.1
Net cash used in investing activities	(153.1)	(37.4)	(24.8)
Financing activities:			
Taxes paid related to net share settlement of equity awards	(0.5)	(0.3)	(3.9)
Repayments of finance leases	(0.4)	(0.7)	(0.5)
Debt issuance costs	(3.2)	—	—
Proceeds from exercise of stock options	1.5	0.5	0.8
Purchases of common stock	(48.1)	(64.5)	(6.7)
Cash dividends	(19.8)	(20.4)	(17.4)
Proceeds from borrowings	344.7	—	1.5
Repayments of borrowings	(271.0)	(29.2)	(116.7)
Net cash provided by (used in) financing activities	3.2	(114.6)	(142.9)
Effect of foreign currency exchange rate changes on cash and cash equivalents	2.1	(8.0)	3.8
(Decrease) increase in cash and cash equivalents	(15.0)	(61.2)	15.9
Cash and cash equivalents at beginning of the year	172.0	233.2	217.3
Cash and cash equivalents at end of the year	\$ 157.0	\$ 172.0	\$ 233.2
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	\$ 5.6	\$ 3.6	\$ 5.3
Income taxes, net of refunds	\$ 25.6	\$ 32.3	\$ 16.0

See notes to consolidated financial statements.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Methode Electronics, Inc. (the “Company” or “Methode”) is a leading global supplier of custom engineered solutions with sales, engineering and manufacturing locations in North America, Europe, Middle East and Asia. The Company designs, engineers and produces mechatronic products for Original Equipment Manufacturers (“OEMs”) utilizing its broad range of technologies for user interface, light-emitting diode (“LED”) lighting system, power distribution and sensor applications.

The Company’s solutions are found in the end markets of transportation (including automotive, commercial vehicle, e-bike, aerospace, bus and rail), cloud computing infrastructure, construction equipment, consumer appliance and medical devices.

Financial reporting periods. The Company maintains its financial records on the basis of a 52 or 53-week fiscal year ending on the Saturday closest to April 30. Fiscal 2023 ended on April 29, 2023, fiscal 2022 ended on April 30, 2022 and fiscal 2021 ended on May 1, 2021, and each represented 52 weeks of results.

Basis of presentation. The Company’s consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The consolidated financial statements include the accounts and operations of the Company and its wholly and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Impact of global supply chain disruptions, geopolitical conditions and the COVID-19 pandemic. Fiscal 2023 was marked by global economic uncertainty, supply chain interruptions, which have been impacted by inflationary cost pressures, ongoing recovery from the COVID-19 pandemic, and geopolitical instability due to the military conflict between Russia and Ukraine. The Company experienced increased inflationary cost pressures in fiscal 2023 resulting from global supply chain disruptions impacting the availability and price of materials (primarily semiconductors) and logistics costs. Geopolitical instability exacerbated inflationary cost pressures, which the Company expects to continue for the foreseeable future. The Company has not experienced significant direct impacts from the Russia-Ukraine conflict, as it does not have operations nor sales in either Russia or Ukraine.

While much of the Company's customer demand and shipments have recovered from the impact of the COVID-19 pandemic, the Company cannot predict the overall extent of the impact of any resurgence of COVID-19, its variants or any future pandemic on its operating results, cash flows, liquidity, and financial condition, which will depend on certain developments, including the duration and spread of such outbreak and its impact on the Company's customers, employees, suppliers, and other partners.

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Due to impacts from the worldwide semiconductor shortage, geopolitical conflicts (including the Russian invasion of Ukraine) and the COVID-19 pandemic, there has been and will continue to be uncertainty and disruption in the global economy and financial markets. The Company has made estimates and assumptions taking into consideration certain possible impacts due to the COVID-19 pandemic and the Russian invasion of Ukraine. These estimates may change, as new events occur, and additional information is obtained. Actual results may differ from previously estimated amounts, and such differences may be material to the consolidated financial statements. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period they occur.

Cash and cash equivalents. Cash and cash equivalents consist of cash and highly liquid investments with a maturity of three months or less. Highly liquid investments include money market funds which are classified within Level 1 of the fair value hierarchy. As of April 29, 2023 and April 30, 2022, the Company had a balance of \$1.3 million and \$40.0 million, respectively, in money market accounts.

Accounts receivable and allowance for doubtful accounts. Accounts receivable are customer obligations due under normal trade terms and are presented net of an allowance for doubtful accounts. The Company establishes an allowance for doubtful accounts based on the current expected credit loss impairment model. The Company applies a historical loss rate based on historic write-offs to aging categories. The historical loss rate is adjusted for current conditions and reasonable and supportable forecasts of future losses as necessary. The Company may also record a specific reserve for individual accounts when it becomes aware of specific customer circumstances, such as in the case of a bankruptcy filing or deterioration in the customer’s operating results or financial position. The allowance for doubtful accounts balance was \$1.3 million and \$1.0 million as of April 29, 2023 and April 30, 2022, respectively.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of credit risk. Financial assets that subject the Company to concentration of credit risk consist primarily of cash equivalents, derivative contracts, and accounts receivable. The Company's counterparties for cash equivalents and derivative contracts are banks and financial institutions that meet the Company's requirement of high credit standing. However, the balances with U.S. financial institutions often exceed the amount of insurance provided on such accounts by the Federal Deposit Insurance Corporation.

For accounts receivable, the Company is exposed to credit risk in the event of nonpayment by customers. The Company generally does not require collateral, but rather performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customers' current credit worthiness. The following customers in the Automotive segment accounted for more than 10% of net sales:

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Customer A	18.7%	23.3%	27.5%
Customer B	10.8%	*	*

* less than 10%

At April 29, 2023, no customer accounted for greater than 10% of the Company's accounts receivable. At April 30, 2022, Customer A accounted for approximately 15.4% of the Company's accounts receivable.

Inventories. Inventories are stated at the lower-of-cost or net realizable value. Cost is determined using the first-in, first-out method. Finished products and work-in-process inventories include direct material costs and direct and indirect manufacturing costs. The Company records reserves for inventory that may be obsolete or in excess of current and future market demand. See Note 5, "Inventory" for additional information.

Property, plant and equipment. Property, plant and equipment are recorded at cost less accumulated depreciation, with the exception of assets acquired through acquisitions, which are initially recorded at fair value. Equipment acquired under a finance lease is recorded at the present value of the future minimum lease payments. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 40 years for buildings and building improvements and 3 to 15 years for machinery and equipment. Costs of additions and major improvements are capitalized, whereas maintenance and repairs that do not improve or extend the life of the asset are charged to expense as incurred. See Note 6, "Property, Plant and Equipment" for additional information.

Business combinations. The Company accounts for business combinations using the acquisition method. The purchase price of an acquired business is allocated to its identifiable assets and liabilities based on estimated fair values. Determining the fair values of assets acquired and liabilities assumed requires management's judgment, the utilization of independent appraisal firms and often involves the use of significant estimates and assumptions with respect to the timing and amount of future cash flows, market rate assumptions, actuarial assumptions, and appropriate discount rates, among other items. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets. Identifiable intangible assets with finite lives are amortized over their useful lives. Acquisition-related costs are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date. See Note 3, "Acquisition" for additional information.

Goodwill. Goodwill is not amortized but is tested for impairment on at least an annual basis. Goodwill is evaluated at the reporting unit level by comparing the fair value of the reporting unit with its carrying amount including goodwill. An impairment of goodwill exists if the carrying amount of the reporting unit exceeds its fair value. The impairment loss is the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the total amount of goodwill allocated to that reporting unit.

In performing the goodwill impairment test, the Company may first assess qualitative factors to determine whether it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then compares the fair value of the reporting unit to the related net book value. See Note 7, "Goodwill and Other Intangible Assets" for additional information regarding the Company's goodwill impairment assessment for fiscal 2023.

Amortizable intangible assets. Amortizable intangible assets consist primarily of fair values assigned to customer relationships and trade names. Amortization is recognized over the useful lives of the intangible assets, generally up to 20 years, using the straight-line method. See Note 7, "Goodwill and Other Intangible Assets" for additional information.

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Impairment of long-lived assets. The Company evaluates whether events and circumstances have occurred which indicate that the remaining estimated useful lives of its intangible assets, excluding goodwill, and other long-lived assets, may warrant revision or that the remaining balance of such assets may not be recoverable. If impairment indicators exist, the Company performs an impairment analysis by comparing the undiscounted cash flows resulting from the use of the asset group to the carrying amount. If the carrying amount exceeds the undiscounted cash flows, an impairment loss is recognized based on the excess of the asset's carrying amount over its fair value.

Pre-production costs related to long-term supply arrangements. The Company incurs pre-production tooling costs related to products produced for its customers under long-term supply arrangements. Engineering, testing and other costs incurred in the design and development of production parts are expensed as incurred, unless the costs are reimbursable by the customer. As of April 29, 2023 and April 30, 2022, the Company had \$36.1 million and \$27.2 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling.

Costs for molds, dies and other tools used in products produced for its customers under long-term supply arrangements for which the Company has title are capitalized in property, plant and equipment and amortized over the shorter of the life of the arrangement or over the estimated useful life of the assets. Company owned tooling was \$12.2 million and \$14.6 million as of April 29, 2023 and April 30, 2022, respectively.

Leases. The Company determines if an arrangement is a lease at inception. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company estimates the incremental borrowing rate to discount the lease payments based on information available at lease commencement. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. The Company utilizes certain practical expedients, including the election not to reassess its prior conclusions about lease identification, lease classification and initial direct costs, as well as the election not to separate lease and non-lease components for arrangements where the Company is a lessee. The Company elects to recognize a right-of-use asset and related lease liability for leases with a lease term of 12 months or less for all classes of underlying assets. Lease expense is recognized on a straight-line basis over the lease term. See Note 16, "Leases" for additional information.

Derivative financial instruments. The Company uses derivative financial instruments, including swaps and forward contracts, to manage exposures to changes in currency exchange rates and interest rates. The Company does not enter into or hold derivative financial instruments for trading or speculative purposes. See Note 8, "Derivative Financial Instruments and Hedging Activities" for additional information.

Redeemable noncontrolling interest. The Company reports noncontrolling interests in the mezzanine ("temporary equity") section, between liabilities and equity, of the consolidated balance sheets, to the extent that such noncontrolling interests have redemption features that are not solely within the control of the Company. The carrying amount of the redeemable noncontrolling interest, initially valued at fair value as part of acquisition accounting, is adjusted each reporting period to equal the greater of the (i) redemption value or (ii) carrying value of the noncontrolling interest, adjusted each reporting period for income or loss attributable to the noncontrolling interest and any distributions made to date. Refer to Note 3, "Acquisition" for additional information.

Income taxes. Income taxes are calculated using the asset and liability method, under which deferred tax assets and liabilities are determined based on temporary differences between the financial statement amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income. In determining whether an uncertain tax position exists, the Company determines, based solely on its technical merits, whether the tax position is more likely than not to be sustained upon examination, and if so, a tax benefit is measured on a cumulative probability basis that is more likely than not to be realized upon the ultimate settlement. In determining the provision for income taxes for financial statement purposes, the Company makes certain estimates and judgments which affect its evaluation of the carrying value of its deferred tax assets, as well as its calculation of certain tax liabilities. See Note 11, "Income Taxes" for additional information.

Revenue recognition. Revenue is recognized in accordance with Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers." Revenue is measured based on consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. From time to time, customers may negotiate annual price downs. Management has evaluated these price downs and determined that in some instances, these price downs give rise to a material right. In instances that a material right exists, a portion of the transaction price is allocated to the material right and recognized over the life of the contract.

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Across all products, the amount of revenue recognized corresponds to the related purchase order and is adjusted for variable consideration (such as discounts). Sales and other taxes collected concurrent with revenue-producing activities are excluded from revenue.

The Company's performance obligations are typically short-term in nature. As a result, the Company has elected the practical expedient that provides an exemption from the disclosure requirements regarding information about remaining performance obligations on contracts that have original expected durations of one year or less. See Note 2, "Revenue" for further information.

Shipping and handling fees and costs. Shipping and handling fees billed to customers are included in net sales, and the related costs are included in cost of products sold.

Restructuring expense. Restructuring expense includes costs directly associated with exit or disposal activities. Such costs include employee severance and termination benefits, asset impairment charges, contract termination fees, and other exit or disposal costs. Employee termination benefits are accrued upon the commitment to a termination plan and when the benefit arrangement is communicated to affected employees, or when liabilities are determined to be probable and estimable. Asset impairment charges relate to the impairment of ROU lease assets and equipment. Contract termination costs are recorded when notification of termination is given to the other party. See Note 4, "Restructuring" for additional information.

Foreign currency translation. The functional currencies of the majority of the Company's foreign subsidiaries are their local currencies. The results of operations of these foreign subsidiaries are translated into U.S. dollars using average monthly rates, while the assets and liabilities are translated using period-end exchange rates. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains and losses arising from transactions denominated in a currency other than the functional currency, except certain long-term intercompany transactions, are included in the consolidated statements of income in other income, net.

Government incentives and grants. From time to time, the Company receives government grants in the form of cash grants and other incentives in return for past or future compliance with certain conditions. The Company accounts for funds received from government grants by analogy to International Accounting Standards 20, "Accounting for Government Grants and Disclosure of Government Assistance." Accordingly, the Company recognizes government grants in the consolidated statement of income when there is reasonable assurance that it will comply with the conditions associated with the grant and the grants will be received.

Government grants are recorded in the consolidated financial statements in accordance with their purpose as a reduction of expenses, a reduction of asset costs, or other income. Incentives related to specific operating activities are offset against the related expense in the period the expense is incurred. The Company recorded \$9.7 million of government grants as other income, net in fiscal 2023. The Company recorded \$0.6 million of government grants as a reduction of cost of goods sold and selling and administrative expense in fiscal 2023.

Some government grants are paid over a period of years and are recorded at amortized cost on the Company's consolidated balance sheets. As of April 29, 2023 and April 30, 2022, grant receivables outstanding were \$17.8 million and \$12.7 million, respectively. The short-term and long-term portion of grant receivables are recorded on the consolidated balance sheets within accounts receivable, net and other long-term assets, respectively.

Research and development costs. Costs associated with the enhancement of existing products and the development of new products are charged to expense when incurred. Research and development expenses primarily relate to product engineering and design and development expenses and are classified as a component of cost of goods sold on the consolidated statements of income. Research and development costs were \$35.0 million, \$35.7 million and \$37.1 million for fiscal 2023, fiscal 2022 and fiscal 2021, respectively.

Stock-based compensation. The Company recognizes compensation expense for the cost of awards of equity compensation using a fair value method in accordance with ASC 718, "Stock-based Compensation." See Note 13, "Shareholders' Equity" for additional information.

Product warranty. The Company's warranties are standard, assurance-type warranties only. The Company does not offer any additional service or extended term warranties to its customers. As such, warranty obligations are accrued when it is probable that a liability has been incurred and the related amounts are reasonably estimable.

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Fair value measurement. ASC 820, “Fair Value Measurement,” provides a framework for measuring fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy under ASC 820 requires an entity to maximize the use of observable inputs. The Company groups assets and liabilities at fair value in three levels as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;
- Level 2 - Observable inputs for similar assets or liabilities adjusted for terms specific to the asset or liability;
- Level 3 - Unobservable inputs in which little or no market activity exists, requiring the Company to develop its own assumptions that market participants would use to value the asset or liability.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The carrying values of the Company’s short-term financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values because of the short maturity of these instruments.

Recently Adopted Accounting Pronouncements

In November 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2021-10, “Government Assistance (Topic 832),” which requires annual disclosures when an entity has received government assistance. This guidance is intended to improve the transparency of government assistance received by requiring disclosure of: (1) the types of government assistance received; (2) the accounting for such assistance; and (3) the effect of the assistance on the registrant’s financial statements. The Company adopted this standard effective April 29, 2023 on a prospective basis. See related policy discussion above.

New Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU No. 2021-08, “Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers,” which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured at the acquisition date in accordance with ASC 606, as if the acquirer had originated the contracts. Prior to the issuance of this ASU, contract assets and liabilities were recognized at fair value on the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within that fiscal year, with early adoption permitted, and should be applied on a prospective basis. This ASU will be effective for the Company in the first quarter of fiscal 2024. The Company believes the adoption of this ASU will not have a material impact on its consolidated financial statements.

Note 2. Revenue

The Company generates revenue from manufacturing of products for customers in diversified global markets. The majority of the Company’s revenue is recognized at a point in time. The Company has determined that the most definitive demonstration that control has transferred to a customer is physical shipment or delivery, depending on the contractual shipping terms, except for consignment transactions. Consignment transactions are arrangements where the Company transfers product to a customer location but retains ownership and control of such product until it is used by the customer. Revenue for consignment arrangements is recognized upon the customer’s usage.

Revenue associated with products which the Company believes have no alternative use (such as highly customized parts), and where the Company has an enforceable right to payment, are recognized on an over time basis. Revenue is recognized based on progress to date, which is typically even over the production process through transfer of control to the customer.

Estimating total contract revenue may require judgment as certain contracts contain pricing discount structures, early payment discounts or other provisions that can impact the transaction price. The Company generally estimates variable consideration utilizing the most likely amount to which it expects to be entitled. When the contract provides the customer with the right to return eligible products, the Company reduces revenue at the point of sale using current facts and historical experience by using an estimate for expected product returns. The Company adjusts these estimates at the earlier of when the most likely amount of consideration that is expected to be received changes or when the consideration becomes fixed. Accordingly, an increase or decrease to revenue is recognized at that time. The Company’s payment terms with its customers are typically 30-45 days from the time control transfers. As the Company’s standard payment terms are less than one year, the Company has elected the practical expedient under ASC 606 to not assess whether a contract has a significant financing component.

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Costs to fulfill/obtain a contract

The Company incurs pre-production tooling costs related to products produced for customers under long-term supply arrangements. These costs are capitalized and recognized into income upon acceptance. The Company concluded that pre-production tooling and engineering costs do not represent a promised good or service under ASC 606, and as such, reimbursements received are accounted for as a reimbursement of the expense, not revenue.

The Company has not historically incurred material costs to obtain a contract. In the instances that costs to obtain contracts are incurred, the Company will capitalize and amortize those over the life of the contract.

Contract balances

The Company receives payment from customers based on the contractual billing schedule and specific performance requirements established in the contract. Billings are recorded as accounts receivable when an unconditional right to the contractual consideration exists. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. A contract liability exists when the Company has received consideration, or the amount is due from the customer in advance of revenue recognition. Contract assets and contract liabilities are recognized in other current assets and other liabilities, respectively, in the Company's consolidated balance sheets.

Unbilled receivables (contract assets) - Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized over time. Unbilled receivables were \$0.5 million and \$0.4 million as of April 29, 2023 and April 30, 2022, respectively. During fiscal 2023, \$0.4 million of previously unbilled receivables were recorded into accounts receivable. There were no impairments of contract assets as of April 29, 2023 or April 30, 2022.

Deferred revenue (contract liabilities) - For certain of the price reductions offered by the Company, the amount of the reduction cannot be attributed entirely to production efficiencies gained. In these cases, the annual price-downs are considered to be material rights as the customer, as part of their current contract, are purchasing an option that they would not have received without the contract to purchase future product. When a contract contains a material right, a portion of the transaction price is allocated to the material right for which revenue recognition is deferred until the customer exercises its option. Deferred revenue was \$0.1 million and \$0.2 million as of April 29, 2023 and April 30, 2022, respectively. Previously deferred revenue of \$0.1 million was recorded into revenue during fiscal 2023.

Disaggregated revenue information

The following table represents a disaggregation of revenue from contracts with customers by segment and geographical location. Net sales are attributed to regions based on the location of production. Though revenue recognition patterns and contracts are generally consistent, the amount, timing and uncertainty of revenue and cash flows may vary in each reportable segment due to geographic and economic factors.

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Fiscal Year Ended April 29, 2023					
(in millions)	Automotive	Industrial	Interface	Medical	Total
Geographic net sales:					
North America	\$ 349.0	\$ 160.5	\$ 54.7	\$ 3.6	\$ 567.8
Europe, the Middle East & Africa ("EMEA")	231.2	139.9	—	—	371.1
Asia	156.0	84.5	0.2	—	240.7
Total net sales	<u>\$ 736.2</u>	<u>\$ 384.9</u>	<u>\$ 54.9</u>	<u>\$ 3.6</u>	<u>\$ 1,179.6</u>
Timing of revenue recognition:					
Goods transferred at a point in time	\$ 717.4	\$ 384.9	\$ 54.9	\$ 3.6	\$ 1,160.8
Goods transferred over time	18.8	—	—	—	18.8
Total net sales	<u>\$ 736.2</u>	<u>\$ 384.9</u>	<u>\$ 54.9</u>	<u>\$ 3.6</u>	<u>\$ 1,179.6</u>

Fiscal Year Ended April 30, 2022					
(in millions)	Automotive	Industrial	Interface	Medical	Total
Geographic net sales:					
North America	\$ 400.9	\$ 177.2	\$ 59.3	\$ 4.1	\$ 641.5
EMEA	216.5	80.8	—	—	297.3
Asia	164.1	60.1	0.5	0.1	224.8
Total net sales	<u>\$ 781.5</u>	<u>\$ 318.1</u>	<u>\$ 59.8</u>	<u>\$ 4.2</u>	<u>\$ 1,163.6</u>
Timing of revenue recognition:					
Goods transferred at a point in time	\$ 758.4	\$ 318.1	\$ 59.8	\$ 4.2	\$ 1,140.5
Goods transferred over time	23.1	—	—	—	23.1
Total net sales	<u>\$ 781.5</u>	<u>\$ 318.1</u>	<u>\$ 59.8</u>	<u>\$ 4.2</u>	<u>\$ 1,163.6</u>

Fiscal Year Ended May 1, 2021					
(in millions)	Automotive	Industrial	Interface	Medical	Total
Geographic net sales:					
North America	\$ 406.4	\$ 142.9	\$ 61.0	\$ 2.7	\$ 613.0
EMEA	212.3	68.2	—	—	280.5
Asia	137.0	56.8	0.6	0.1	194.5
Total net sales	<u>\$ 755.7</u>	<u>\$ 267.9</u>	<u>\$ 61.6</u>	<u>\$ 2.8</u>	<u>\$ 1,088.0</u>
Timing of revenue recognition:					
Goods transferred at a point in time	\$ 722.1	\$ 267.9	\$ 61.6	\$ 2.8	\$ 1,054.4
Goods transferred over time	33.6	—	—	—	33.6
Total net sales	<u>\$ 755.7</u>	<u>\$ 267.9</u>	<u>\$ 61.6</u>	<u>\$ 2.8</u>	<u>\$ 1,088.0</u>

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Note 3. Acquisition

On April 20, 2023, the Company acquired 92.2% of the outstanding shares in Nordic Lights Group Corporation (“Nordic Lights”), a premium provider of high-quality lighting solutions for heavy duty equipment headquartered in Finland, for €121.8 million (\$134.2 million) in cash. The acquisition of Nordic Lights complements the Company’s existing LED lighting solution offerings.

The acquisition was funded through a combination of borrowings under the Company's revolving credit facility and cash on hand. The results of the operations of Nordic Lights are reported within the Industrial segment from the date of acquisition. The acquisition was accounted for as a business combination. The provisional estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed, including a reconciliation to the total purchase price, were as follows:

(in millions)		
Cash and cash equivalents	\$	19.6
Accounts receivable		17.1
Inventories		9.6
Property, plant and equipment		12.9
Identifiable intangible assets		68.1
Accounts payable		(10.8)
Long-term debt		(24.4)
Other assets and liabilities, net		(2.8)
Deferred tax liabilities		(13.4)
Total identifiable net assets acquired		75.9
Goodwill		69.6
Total fair value of net assets acquired		145.5
Less: redeemable noncontrolling interest		(11.3)
Total purchase price	\$	<u>134.2</u>

The noncontrolling interest was recognized at fair value, which was determined to be the noncontrolling interest’s proportionate share of the fair value of net assets acquired, as of the acquisition date. The noncontrolling interest is classified as a redeemable noncontrolling interest on the consolidated balance sheets as minority shareholders owning less than 10% of the outstanding shares in a company in Finland have the right to require the Company to redeem their shares.

As of April 29, 2023, the Company considered these amounts to be provisional because it is still in the process of gathering and reviewing information to support the valuations of the assets acquired, liabilities assumed and related tax positions. Goodwill arising from the acquisition was included in the Industrial segment as of April 29, 2023 and was attributable to potential synergies and an assembled workforce. The Company does not expect any recognized goodwill from this acquisition to be deductible for income tax purposes.

Intangible assets primarily include customer relationships, technology licenses and trademarks. The weighted average amortization period for the acquired intangible assets is approximately 16.4 years. On April 24, 2023, the Company paid off the long-term debt acquired from Nordic Lights utilizing borrowings under the Company's revolving credit facility and cash on hand.

The results of operations for Nordic Lights from the acquisition date through April 29, 2023 were not material. The pro-forma effects of this acquisition would not materially impact the Company’s operating results for any period presented, and as a result no pro-forma financial statements were presented. Acquisition costs of \$6.8 million were incurred in relation to the acquisition of Nordic Lights and were reported in selling and administrative expenses.

From May 1, 2023 to June 16, 2023, the Company acquired an additional 7.2% of the outstanding shares of Nordic Lights for €9.3 million (\$10.2 million) increasing the Company’s ownership to 99.4%. The Company has commenced redemption proceedings in order to obtain ownership of all the issued and outstanding shares in Nordic Lights. The Company expects the redemption proceedings to be completed by October 31, 2023.

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Note 4. Restructuring

The Company continually monitors market factors and industry trends and takes restructuring actions to reduce overall costs and improve future operational profitability as appropriate. Restructuring actions generally result in charges for employee termination benefits, plant closures, asset impairments and contract termination costs.

Asset impairment charges recognized in fiscal 2023 primarily related to a facility shutdown and consolidation into an existing location in the Industrial segment. In fiscal 2022, the Company initiated a restructuring plan to consolidate one of its operations within the Industrial segment in response to logistics and tariff issues. This action resulted in a facility shutdown and consolidation of activities into an existing location. In fiscal 2021, the Company initiated certain restructuring actions in response to the adverse impacts from the COVID-19 pandemic. These actions included plant consolidations and workforce reductions in the Automotive, Industrial and Interface segments.

Employee termination benefits are accrued upon the commitment to a termination plan and when the benefit arrangement is communicated to affected employees, or when liabilities are determined to be probable and estimable. Asset impairment charges relate to the impairment of ROU lease assets and equipment. Contract termination costs are recorded when notification of termination is given to the other party. Components of restructuring costs were as follows:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Employee termination benefits	\$ 0.3	\$ 0.4	\$ 7.1
Asset impairment charges	0.7	3.1	0.6
Contract termination charges	—	0.1	0.5
Total restructuring costs	<u>\$ 1.0</u>	<u>\$ 3.6</u>	<u>\$ 8.2</u>

The table below presents restructuring costs by reportable segment:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Automotive	\$ 0.4	\$ 0.2	\$ 6.2
Industrial	0.5	3.4	1.0
Interface	—	—	0.7
Medical	—	—	—
Eliminations/Corporate	0.1	—	0.3
Total restructuring costs	<u>\$ 1.0</u>	<u>\$ 3.6</u>	<u>\$ 8.2</u>
Recognized in:			
Cost of products sold	\$ 0.5	\$ 1.3	\$ 4.8
Selling and administrative expenses	0.5	2.3	3.4
	<u>\$ 1.0</u>	<u>\$ 3.6</u>	<u>\$ 8.2</u>

The Company's restructuring liability was \$0.0 million and \$0.1 million as of April 29, 2023 and April 30, 2022, respectively. Estimates of restructuring costs are based on information available at the time such charges are recorded. Due to the inherent uncertainty involved in estimating restructuring costs, actual amounts paid for such activities may differ from amounts initially recorded. Accordingly, the Company may record revisions of previous estimates by adjusting previously established accruals. The Company may take additional restructuring actions in future periods based upon market conditions and industry trends.

Note 5. Inventory

A summary of inventories is shown below:

(in millions)	April 29, 2023	April 30, 2022
Finished products	\$ 36.6	\$ 31.8
Work in process	14.4	12.9
Raw materials	108.7	113.8
Total inventories	<u>\$ 159.7</u>	<u>\$ 158.5</u>

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Note 6. Property, Plant and Equipment

A summary of property, plant and equipment is shown below:

(in millions)	April 29, 2023	April 30, 2022
Land	\$ 3.0	\$ 3.3
Buildings and building improvements	98.8	89.2
Machinery and equipment	414.3	407.5
Construction in progress	40.6	21.5
Total property, plant and equipment, gross	556.7	521.5
Less: accumulated depreciation	(336.4)	(324.5)
Property, plant and equipment, net	<u>\$ 220.3</u>	<u>\$ 197.0</u>

Depreciation expense was \$30.7 million, \$33.5 million and \$32.2 million in fiscal 2023, fiscal 2022 and fiscal 2021, respectively. As of April 29, 2023, April 30, 2022 and May 1, 2021, capital expenditures recorded in accounts payable totaled \$4.5 million, \$4.4 million and \$5.5 million, respectively.

Note 7. Goodwill and Other Intangible Assets

Goodwill

The Company tests goodwill for impairment on an annual basis as of the beginning of the fourth quarter each year, or more frequently if indicators of potential impairment exist. Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a reporting unit), for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

At the beginning of the fourth quarter of fiscal 2023, the annual goodwill impairment assessment was completed. The Company performed a qualitative assessment for two reporting units within the Industrial segment and a quantitative assessment for one reporting unit within the Industrial segment and two reporting units within the Automotive segment. The qualitative assessments indicated that it was more likely than not that the fair value of each reporting unit exceeded its respective carrying value.

For the quantitative assessment, the Company utilized the income approach to estimate the fair value of the reporting units. Cash flow projections were based on management's estimates of revenue growth rates and earnings before interest, taxes, depreciation and amortization ("EBITDA") margins, taking into consideration business and market conditions for the countries and markets in which the reporting unit operates. The Company calculates the discount rate based on a market-participant, risk-adjusted weighted average cost of capital, which considers industry specific rates of return on debt and equity capital for a target industry capital structure, adjusted for risks associated with business size, geography and other factors specific to the reporting unit.

The quantitative assessment of the reporting units indicated that the fair value exceeded the carrying value. The Company will continue to assess its goodwill for impairment as events and circumstances change. Any deterioration in the Company's forecasted revenue and EBITDA margins, could result in an impairment of a portion or all of its goodwill. The amount of such impairment would be recognized as an expense in the period the goodwill is impaired.

A summary of the changes in goodwill by reportable segment is as follows:

(in millions)	Automotive	Industrial	Total
Balance as of May 2, 2020	\$ 106.2	\$ 125.4	\$ 231.6
Foreign currency translation	0.5	3.5	4.0
Balance as of May 1, 2021	106.7	128.9	235.6
Foreign currency translation	(0.8)	(1.8)	(2.6)
Balance as of April 30, 2022	105.9	127.1	233.0
Acquisitions	—	69.6	69.6
Foreign currency translation	0.3	(1.0)	(0.7)
Balance as of April 29, 2023	<u>\$ 106.2</u>	<u>\$ 195.7</u>	<u>\$ 301.9</u>

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A summary of goodwill by reporting unit is as follows:

(in millions)	April 29, 2023	April 30, 2022
Grakon Industrial	\$ 124.5	\$ 125.5
North American Automotive	99.8	99.8
Nordic Lights	69.6	—
European Automotive	6.4	6.1
Other	1.6	1.6
Total	<u>\$ 301.9</u>	<u>\$ 233.0</u>

Other intangible assets, net

Details of identifiable intangible assets are shown below:

	As of April 29, 2023			
(in millions)	Gross	Accumulated amortization	Net	Weighted average remaining useful life (years)
Amortized intangible assets:				
Customer relationships and agreements	\$ 286.7	\$ (68.2)	\$ 218.5	14.8
Trade names, patents and technology licenses	71.6	(35.2)	36.4	6.0
Total amortized intangible assets	358.3	(103.4)	254.9	
Unamortized trade name	1.8	—	1.8	
Total other intangible assets	<u>\$ 360.1</u>	<u>\$ (103.4)</u>	<u>\$ 256.7</u>	
	As of April 30, 2022			
(in millions)	Gross	Accumulated amortization	Net	Weighted average remaining useful life (years)
Amortized intangible assets:				
Customer relationships and agreements	\$ 232.3	\$ (55.1)	\$ 177.2	14.7
Trade names, patents and technology licenses	58.0	(29.3)	28.7	6.2
Total amortized intangible assets	290.3	(84.4)	205.9	
Unamortized trade name	1.8	—	1.8	
Total other intangible assets	<u>\$ 292.1</u>	<u>\$ (84.4)</u>	<u>\$ 207.7</u>	

The Company performed an impairment test for its indefinite-lived trade name intangible asset and determined that no impairment existed as of April 29, 2023. Based on the current amount of intangible assets subject to amortization, the estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

(in millions)	
Fiscal Year:	
2024	\$ 23.0
2025	22.4
2026	21.6
2027	20.9
2028	18.6
Thereafter	148.4
Total	<u>\$ 254.9</u>

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
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Note 8. Derivative Financial Instruments and Hedging Activities

In the normal course of business, the Company is exposed to various market risks including, but not limited to, foreign currency exchange rates and market interest rates. The Company strives to control its exposure to these risks through our normal operating activities and, where appropriate, through the use of derivative financial instruments. Derivative financial instruments are measured at fair value on a recurring basis.

For a designated cash flow hedge, the effective portion of the change in the fair value of the derivative financial instrument is recorded in AOCI in the consolidated balance sheets. When the underlying hedged transaction is realized, the gain or loss previously included in AOCI is recorded in earnings and reflected in the consolidated statements of income on the same line as the gain or loss on the hedged item attributable to the hedged risk. The gain or loss associated with changes in the fair value of derivatives not designated as hedges are recorded immediately in the consolidated statements of income on the same line as the associated risk. For designated net investment hedges, the effective portion of the change in the fair value is recorded as a cumulative translation adjustment in AOCI in the consolidated balance sheets. Gains and losses reported in AOCI are reclassified to earnings only when the related currency translation adjustments are required to be reclassified, usually upon sale or liquidation of the investment.

Net investment hedges

The Company is exposed to the risk that adverse changes in foreign currency exchange rates could impact its net investment in non-U.S. subsidiaries. To manage this risk, the Company designates certain qualifying derivative and non-derivative instruments, including cross-currency swaps and foreign currency-denominated debt, as net investment hedges of certain non-U.S. subsidiaries.

The Company has a variable-rate, cross-currency swap, maturing on August 31, 2023, with a notional value of \$60.0 million (€54.8 million). The cross-currency swap is designated as a hedge of the Company's net investment in its euro-denominated subsidiaries.

Hedge effectiveness is assessed at the inception of the hedging relationship and quarterly thereafter, under the spot-to-spot method. The Company recognizes the impact of all other changes in fair value of the derivative, which represents the interest rate differential of the cross-currency swap, through interest expense. For fiscal 2023 and fiscal 2022, the Company recorded gains of \$1.3 million and \$0.2 million, respectively, in interest expense, net in the consolidated statements of income.

The Company has also designated its euro-denominated long-term borrowings of \$145.4 million under the Credit Agreement as a hedge of the Company's investment in its euro-denominated subsidiaries. The objective of the hedge is to protect the net investment in the foreign operation against adverse changes in the euro exchange rate. The change in the value of the euro-denominated long-term borrowings, which is due to changes in foreign exchange rates, is recorded in the currency translation section of AOCI, net of tax. For the year ended April 29, 2023, the transaction loss associated with the net investment hedge reported in AOCI was \$0.6 million.

Interest rate swaps

The Company has interest rate swaps, maturing on August 31, 2023, with a notional value of \$100.0 million, to manage its exposure to, and to mitigate the impact of, interest rate variability. The interest rate swaps are designated as cash flow hedges.

Hedge effectiveness is assessed at the inception of the hedging relationship and quarterly thereafter. The effective portion of the periodic changes in fair value is recognized in AOCI. Subsequently, the accumulated gains and losses recorded in AOCI are reclassified to income in the period during which the hedged cash flow impacts earnings, which are expected to be immaterial over the next 12 months. No ineffectiveness was recognized in fiscal 2023 or fiscal 2022.

Derivatives not designated as hedges

The Company uses short-term foreign currency forward contracts to reduce the earnings impact that exchange rate fluctuations have on non-functional currency balance sheet exposures. These forward contracts are not designated as hedging instruments. Gains and losses on these forward contracts are recognized in other income, net, along with the foreign currency gains and losses on monetary assets and liabilities in the consolidated statements of income.

As of April 29, 2023 and April 30, 2022, the Company held foreign currency forward contracts with a notional value of \$59.9 million and \$38.6 million, respectively. In fiscal 2023 and fiscal 2022, the Company recognized a loss of \$4.1 million and a gain of \$0.1 million, respectively, related to foreign currency forward contracts in the consolidated statements of income.

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Fair value of derivative instruments on the balance sheet

The fair value of derivative instruments are classified as Level 2 within the fair value hierarchy and are recorded in the balance sheets as follows:

(in millions)	Financial Statement Caption	Asset/(Liability)	
		April 29, 2023	April 30, 2022
Derivatives designated as hedging instruments:			
Net investment hedges	Other accrued liabilities	\$ (0.5)	\$ —
Net investment hedges	Other long-term assets	\$ —	\$ 1.9
Interest rate swaps	Prepaid expenses and other current assets	\$ 1.6	\$ —
Interest rate swaps	Other long-term assets	\$ —	\$ 3.0
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 0.1	\$ —
Foreign currency forward contracts	Other accrued liabilities	\$ (0.1)	\$ (0.2)

Effect of derivative instruments on comprehensive income (loss)

Gross amounts recorded in other comprehensive income (loss) were as follows:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Net investment hedges	\$ (2.4)	\$ 8.7	\$ (5.5)
Interest rate swaps	(1.4)	3.2	(0.2)
Total	<u>\$ (3.8)</u>	<u>\$ 11.9</u>	<u>\$ (5.7)</u>

Note 9. Retirement Benefits

Defined contribution plans

The Company has an employee 401(k) Savings Plan covering substantially all U.S. employees to which it makes contributions equal to 3% of eligible compensation. In addition, certain of the Company's foreign subsidiaries also have defined contribution savings plans. Company contributions to these plans were \$1.2 million, \$1.2 million and \$1.2 million in fiscal 2023, fiscal 2022 and fiscal 2021, respectively.

Non-qualified deferred compensation plan

The Company maintains a non-qualified deferred compensation plan ("NQDC Plan") for certain eligible employees and members of the Board of Directors. Under the NQDC Plan, employees may elect to defer up to 75% of their annual base salary and 100% of their annual cash incentive compensation, with an aggregate minimum deferral of \$3,000. Directors may defer all or a portion of their annual directors' fees or annual stock awards. The minimum period of deferral is three years. Participants are immediately 100% vested. The Company does not make any contributions to the NQDC Plan.

The deferred compensation liability for the NDQC Plan was \$9.4 million and \$7.6 million as of April 29, 2023 and April 30, 2022, respectively. The Company has purchased life insurance policies on certain employees, which are held in a Rabbi trust, to potentially offset these unsecured obligations. These life insurance policies are recorded at their cash surrender value of \$7.7 million and \$7.8 million as of April 29, 2023 and April 30, 2022, respectively, and are included in other long-term assets in the consolidated balance sheets.

The Company also owns and is the beneficiary of a number of life insurance policies on the lives of former key executives that are unrestricted as to use. These life insurance policies are recorded at their cash surrender value of \$10.4 million and \$9.9 million as of April 29, 2023 and April 30, 2022, respectively, and are included in other long-term assets in the consolidated balance sheets.

The cash surrender value of the life insurance policies approximates its fair value and is classified within Level 2 of the fair value hierarchy.

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Note 10. Debt

A summary of debt is shown below:

(in millions)	April 29, 2023	April 30, 2022
Revolving credit facility	\$ 305.4	\$ —
Term loan	—	206.3
Other debt	4.7	5.1
Unamortized debt issuance costs	(3.3)	(0.9)
Total debt	306.8	210.5
Less: current maturities	(3.2)	(13.0)
Total long-term debt	<u>\$ 303.6</u>	<u>\$ 197.5</u>

Revolving credit facility/term loan

On October 31, 2022, the Company entered into a Second Amended and Restated Credit Agreement (the “Credit Agreement”) among the Company, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders and other parties named therein. The Credit Agreement amends and restates the Amended and Restated Credit Agreement, dated September 12, 2018 and as previously amended (the “Prior Credit Agreement”), among the Company, Bank of America, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer, Wells Fargo Bank, National Association, as L/C Issuer, and the Lenders named therein. Among other things, the Credit Agreement (i) increased the multicurrency revolving credit commitments under the Prior Credit Agreement to \$750,000,000, (ii) refinanced in full and terminated the term loan facility under the Prior Credit Agreement, and (iii) made certain other changes to the covenants, terms, and conditions under the Prior Credit Agreement. In addition, the Credit Agreement permits the Company to increase the revolving commitments and/or add one or more tranches of term loans under the Credit Agreement from time to time by up to an amount equal to (i) \$250,000,000 plus (ii) an additional amount so long as the leverage ratio would not exceed 3.00:1.00 on a pro forma basis, subject to, among other things, the receipt of additional commitments from existing and/or new lenders. The Credit Agreement matures on October 31, 2027.

Loans denominated in US dollars under the Credit Agreement bear interest at either (a) an adjusted base rate or (b) an adjusted term Secured Overnight Financing Rate (“SOFR”) rate or term SOFR daily floating rate (in each case, as determined in accordance with the provisions of the Credit Agreement) in each case plus an applicable rate (the “Applicable Rate”) ranging between 0.375% and 1.25%, in the case of adjusted base rate loans, and between 1.375% and 2.25%, in the case of adjusted term SOFR rate loans and term SOFR daily floating rate loans. Loans denominated in Euros will bear interest at the Euro Interbank Offered Rate plus an Applicable Rate ranging between 1.375% and 2.25%. The Applicable Rate is set based on the Company’s consolidated leverage ratio.

As of April 29, 2023, the outstanding balance under the revolving credit facility includes \$145.4 million of euro-denominated borrowings which was primarily used to fund the Company's acquisition of Nordic Lights. The Company has designated the euro-denominated borrowings as a net investment hedge of the foreign currency exposure of its investments in euro-denominated subsidiaries. Refer to Note 8, “Derivative Financial Instruments and Hedging Activities” for further information.

In connection with the Credit Agreement, the Company paid debt issuance costs of approximately \$3.2 million which was capitalized and, along with the previous unamortized debt issuance costs of \$0.6 million, is amortized into interest expense over the term of the Credit Agreement.

The weighted-average interest rate on outstanding borrowings under the Credit Agreement was approximately 5.4% as of April 29, 2023. The Credit Agreement contains customary representations and warranties, financial covenants, restrictive covenants and events of default. As of April 29, 2023, the Company was in compliance with all the covenants in the Credit Agreement. The fair value of borrowings under the Credit Agreement approximates book value because the interest rate is variable.

Other debt

One of the Company’s European subsidiaries has debt that consists of three notes with maturities ranging from 2023 to 2031. The weighted-average interest rate was approximately 1.4% as of April 29, 2023 and \$3.2 million of the debt was classified as short-term. The fair value of other debt was \$4.5 million at April 29, 2023 and was based on Level 2 inputs on a non-recurring basis.

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Scheduled maturities

As of April 29, 2023, scheduled principal payments of debt are as follows:

(in millions)

Fiscal Year:	
2024	\$ 3.2
2025	0.2
2026	0.2
2027	0.2
2028	305.6
Thereafter	0.7
Total	<u>\$ 310.1</u>

Note 11. Income Taxes

Income tax provision

The U.S. and foreign components of income before income taxes and the provision for income taxes are as follows:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Pre-tax income:			
U.S.	\$ (3.6)	\$ 31.2	\$ 28.3
Foreign	93.7	87.3	106.6
Total pre-tax income	<u>\$ 90.1</u>	<u>\$ 118.5</u>	<u>\$ 134.9</u>
Income tax expense:			
Current:			
U.S. (federal and state)	\$ 0.1	\$ 5.2	\$ 5.8
Foreign	16.9	13.5	15.9
Total current expense	<u>17.0</u>	<u>18.7</u>	<u>21.7</u>
Deferred:			
U.S. (federal and state)	(5.7)	0.2	1.3
Foreign	1.7	(2.6)	(10.4)
Total deferred benefit	<u>(4.0)</u>	<u>(2.4)</u>	<u>(9.1)</u>
Total income tax expense	<u>\$ 13.0</u>	<u>\$ 16.3</u>	<u>\$ 12.6</u>

A reconciliation of income tax expense to the U.S. statutory federal income tax rate of 21% is as follows:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Income tax at statutory rate	\$ 18.9	\$ 24.9	\$ 28.3
Effect of:			
State income taxes, net of federal benefit	—	0.6	0.1
Reorganization of a foreign owned subsidiary	(7.3)	—	—
Acquisition costs	1.4	—	—
Withholding taxes	3.4	2.5	2.7
Non-deductible compensation	1.6	2.1	0.5
Foreign tax differential	(11.6)	(8.1)	(10.8)
U.S. tax on foreign income	2.9	(1.7)	2.8
Foreign investment tax credit	5.0	—	(7.2)
Research and development	(1.5)	(2.6)	(2.2)
Change in tax reserve	(0.6)	(0.1)	0.1
Change in valuation allowance	—	(2.0)	1.8
Tax rate change, foreign	0.2	0.1	(0.1)
Other, net	0.6	0.6	(3.4)
Income tax expense	<u>\$ 13.0</u>	<u>\$ 16.3</u>	<u>\$ 12.6</u>
Effective income tax rate	14.4%	13.8%	9.3%

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In fiscal 2023, the effective income tax rate was favorably impacted by the amount of income earned in foreign jurisdictions with lower tax rates. In addition, the Company received a benefit of approximately \$7.3 million related to the reorganization of a foreign owned subsidiary. These benefits were partially offset by a reduction in foreign investment tax credits of \$5.0 million and non-deductible acquisition costs of \$1.4 million.

In fiscal 2022, the effective income tax rate was favorably impacted by the amount of income earned in foreign jurisdictions with lower tax rates and the release of a valuation allowance of \$2.0 million due to a tax law change. In addition, the Company benefited from less U.S. tax on foreign income of \$1.7 million attributable to lower earnings in non-U.S. jurisdictions which was partially offset with non-deductible compensation of \$2.1 million.

In fiscal 2021, the effective income tax rate was favorably impacted by the amount of income earned in foreign jurisdictions with lower tax rates, tax credits and various deductions allowed in foreign jurisdictions. The Company received a benefit of approximately \$7.2 million related to a favorable tax ruling in a foreign jurisdiction.

Deferred income taxes and valuation allowances

Significant components of the Company's deferred income tax assets and liabilities were as follows:

(in millions)	April 29, 2023	April 30, 2022
Deferred tax liabilities:		
Fixed assets	\$ (2.7)	\$ (4.3)
Amortization	(55.4)	(48.1)
Foreign tax	(4.5)	(3.1)
Lease assets	(6.8)	(4.5)
Derivative financial instruments	(0.6)	(1.1)
Other liabilities	—	(0.6)
Deferred tax liabilities, gross	(70.0)	(61.7)
Deferred tax assets:		
Deferred compensation and stock award amortization	7.9	6.9
Inventory	5.1	3.5
Lease liabilities	6.8	4.7
Foreign investment tax credit	25.2	29.8
Research expenditures	2.4	—
Net operating loss carryforwards	13.5	17.4
Foreign tax credits	1.2	1.3
Unrealized foreign exchange gain/loss	0.8	—
Interest carryforwards	2.5	—
Other	3.2	3.4
Deferred tax assets, gross	68.6	67.0
Less valuation allowance	(6.8)	(6.8)
Deferred tax assets, net of valuation allowance	61.8	60.2
Net deferred tax liability	<u>\$ (8.2)</u>	<u>\$ (1.5)</u>
Balance sheet classification:		
Long-term asset	\$ 33.6	\$ 36.8
Long-term liability	(41.8)	(38.3)
Net deferred tax liability	<u>\$ (8.2)</u>	<u>\$ (1.5)</u>

The Company recorded a net deferred tax liability for U.S. and foreign income taxes of \$8.2 million and \$1.5 million for fiscal 2023 and 2022, respectively. In assessing the realizability of the deferred tax assets, the Company considers whether it is more likely than not that some portion or the entire deferred tax asset will be realized. Ultimately, the realization of the deferred tax asset is dependent upon the generation of sufficient earnings in future periods in which these temporary items can be utilized. In that regard, the Company has a valuation allowance of \$6.8 million related to federal, state, and foreign net operating loss carryovers and other credits and determined that these deferred tax assets did not reach the more likely than not realizable standard.

As noted in Note 3, "Acquisition," in fiscal 2023, the Company acquired Nordic Lights, which increased the overall amount of deferred tax assets and liabilities. This included an increase in the deferred tax liabilities of intangible assets and fixed assets, and a deferred tax asset for inventory and interest carryforwards.

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As of April 29, 2023, the Company had available \$35.1 million of federal, \$71.8 million of state and \$0.3 million of foreign gross operating loss carryforwards with a valuation allowance of \$24.2 million for federal, \$26.1 million for state and \$0.0 million for foreign. The U.S. federal net operating loss carryforwards will substantially start to expire in 2026 and beyond. The state net operating loss carryforwards will substantially start to expire in 2036 and beyond.

Total unused credits are \$25.2 million as of April 29, 2023, the majority of which can be carried forward indefinitely.

Indefinite reinvestment

The Company has not provided for deferred income taxes on the undistributed earnings of foreign subsidiaries except for certain identified amounts. The amount the Company expects to repatriate is based on a variety of factors including current year earnings of the foreign subsidiaries, foreign investment needs, and U.S. cash flow considerations. The Company considers the remaining undistributed foreign earnings that are not specifically identified to be indefinitely reinvested of \$330.6 million. It is not practicable to determine the amount of deferred tax liability on such foreign earnings as the actual tax liability is dependent on circumstances that exist when the remittance occurs.

Unrecognized tax benefits

The Company operates in multiple jurisdictions throughout the world and the income tax returns of its subsidiaries in various jurisdictions are subject to periodic examination by the tax authorities. The Company regularly assesses the status of these examinations and the various outcomes to determine the adequacy of its provision for income taxes. The amount of gross unrecognized tax benefits totaled \$4.5 million and \$5.1 million as of April 29, 2023 and April 30, 2022, respectively. These amounts represent the amount of unrecognized benefits that, if recognized, would favorably impact the effective tax rate if resolved in the Company's favor. The Company recognizes interest and penalties related to income tax uncertainties in income tax expense. Accrued interest and penalties were \$0.2 million at both April 29, 2023 and April 30, 2022.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

(in millions)	April 29, 2023	April 30, 2022
Balance at beginning of period	\$ 5.1	\$ 5.3
Increases for positions related to the current year	0.3	—
Lapsing of statutes of limitations	(0.9)	(0.2)
Balance at end of period	<u>\$ 4.5</u>	<u>\$ 5.1</u>

At April 29, 2023, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits in the next twelve months.

The U.S. federal statute of limitations remains open for fiscal years ended on or after 2020 and for state tax purposes on or after fiscal year 2013. Tax authorities may have the ability to review and adjust net operating losses or tax credits that were generated prior to these fiscal years. In the major foreign jurisdictions, fiscal 2016 and subsequent periods remain open and subject to examination by taxing authorities.

Note 12. Commitments and Contingencies

Environmental matters

The Company is not aware of any potential unasserted environmental claims that may be brought against us. The Company is involved in environmental investigations and/or remediation at two of its United States plant sites no longer used for operations and one currently operating site in Mexico. The Company uses environmental consultants to assist us in evaluating its environmental liabilities in order to establish appropriate accruals in its consolidated financial statements. Accruals are recorded when environmental remediation is probable and the costs can be reasonably estimated. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of remediation technology. Considering these factors, the Company has estimated (without discounting) the costs of remediation, which will be incurred over a period of several years. Recovery from insurance or other third parties is not anticipated. The Company is not yet able to determine when such remediation activity will be complete, but estimates for certain remediation efforts are projected through fiscal 2024.

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As of April 29, 2023 and April 30, 2022, the Company had accruals, primarily based upon independent estimates, for environmental matters of \$1.1 million and \$1.0 million, respectively. The accrual as of April 29, 2023 consists of \$0.8 million classified in other accrued expenses and the remainder was included in other long-term liabilities on the consolidated balance sheet. The accrual as of April 30, 2022 consists of \$0.7 million classified in other accrued expenses and the remainder was included in other long-term liabilities on the consolidated balance sheet. The Company believes the provisions made for environmental matters are adequate to satisfy liabilities relating to such matters, however it is reasonably possible that costs could exceed accrued amounts if the selected methods of remediation do not reduce the contaminants at the sites to levels acceptable to federal and state regulatory agencies.

In fiscal 2023, fiscal 2022 and fiscal 2021, the Company spent \$1.1 million, \$0.5 million, and \$0.5 million, respectively, on remediation cleanups and related studies. The costs associated with environmental matters as they relate to day-to-day activities were not material in fiscal 2023, fiscal 2022 or fiscal 2021.

Litigation

The Company, from time to time, is subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, breach of contracts, patent infringement claims, employment-related matters and environmental matters. The Company considers insurance coverage and third-party indemnification when determining required accruals for pending litigation and claims. Although the outcome of potential legal actions and claims cannot be determined, it is the opinion of the Company's management, based on the information available, that the Company has adequate reserves for these liabilities and that the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial statements.

Hetronic Germany-GmbH Matters

For several years, Hetronic Germany-GmbH and Hydronic-Steuersysteme-GmbH (the "Fuchs companies") served as our distributors for Germany, Austria and other central and eastern European countries pursuant to their respective intellectual property licenses and distribution and assembly agreements. The Company became aware that the Fuchs companies and their managing director, Albert Fuchs, had materially violated those agreements. As a result, the Company terminated all of its agreements with the Fuchs companies. On June 20, 2014, the Company filed a lawsuit against the Fuchs companies in the Federal District Court for the Western District of Oklahoma alleging material breaches of the distribution and assembly agreements and seeking damages, as well as various forms of injunctive relief. The defendants filed counterclaims alleging breach of contract, interference with business relations and business slander. On April 2, 2015, the Company amended its complaint against the Fuchs companies to add additional unfair competition and Lanham Act claims and to add additional affiliated parties.

A trial with respect to the matter began in February 2020. During the trial, the defendants dismissed their one remaining counterclaim with prejudice. On March 2, 2020, the jury returned a verdict in favor of the Company. The verdict included approximately \$102 million in compensatory damages and \$11 million in punitive damages. On April 22, 2020, the District Court entered a permanent injunction barring defendants from selling infringing products and ordering them to return Hetronic's confidential information. Defendants appealed entry of the permanent injunction. On May 29, 2020, the District Court held defendants in contempt for violating the permanent injunction and entered the final judgment. Defendants appealed entry of the final monetary judgment as well. The appeal of the permanent injunction and the appeal of the final judgment were consolidated into a single appeal before the U.S. Court of Appeals for the Tenth Circuit. On August 24, 2021, the Tenth Circuit issued a decision affirming the lower court's ruling with the exception that it instructed the District Court to modify the injunction from the entire world to all of the countries in which Hetronic sells its products. On April 20 and 21, 2022, the District Court held a hearing related to modifying the injunction pursuant to the Tenth Circuit's opinion, and the parties have filed post-hearing briefs. The defendants also filed a petition for certiorari with the United States Supreme Court seeking to further appeal the extraterritorial application of the Lanham Act in this case. The Company opposed that petition. The Supreme Court requested the views of the Solicitor General on the petition for certiorari, and the Solicitor General recommended granting the petition. On November 4, 2022, the Supreme Court granted the petition. The Supreme Court heard arguments in this matter on March 21, 2023. At the conclusion of the hearing, the Supreme Court took the matter under advisement. Like any judgment, particularly a judgment involving defendants outside of the United States, there is no guarantee that the Company will be able to collect all or any portion of the judgment.

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Note 13. Shareholders' Equity

Share buyback program

On March 31, 2021, the Board of Directors authorized the purchase of up to \$100.0 million of the Company's outstanding common stock through March 31, 2023. On June 16, 2022, the Board of Directors authorized an increase in the share buyback program of an additional \$100.0 million, and extended the expiration of the program to June 14, 2024. Purchases may be made in private transactions or on the open market, including pursuant to purchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934.

The following table summarizes the Company's stock buyback activity under this share buyback program:

	Fiscal Year Ended	
	April 29, 2023	April 30, 2022
Shares purchased	1,197,236	1,425,190
Average price per share	\$ 40.14	\$ 44.73
Total cost (in millions)	\$ 48.1	\$ 63.7

As of April 29, 2023, a total of 2,790,375 shares have been purchased at a total cost of \$119.3 million since the commencement of the share buyback program. All purchased shares were retired and are reflected as a reduction of common stock for the par value of shares, with the excess applied as a reduction to retained earnings. As of April 29, 2023, the dollar value of shares that remained available to be purchased by the Company under this share buyback program was approximately \$80.7 million.

Dividends

The Company paid dividends totaling \$19.8 million in fiscal 2023, \$20.4 million in fiscal 2022 and \$17.4 million in fiscal 2021. Dividends paid in fiscal 2021 includes \$0.9 million of dividends on restricted stock that vested during the period. The Company increased its quarterly dividend from \$0.11 per share to \$0.14 per share beginning in fiscal 2022.

Accumulated other comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. A summary of changes in accumulated other comprehensive income (loss), net of tax is shown below:

(in millions)	Currency translation adjustments	Derivative instruments	Total
Balance as of May 2, 2020	\$ (25.9)	\$ (1.0)	\$ (26.9)
Other comprehensive income (loss)	38.6	(5.7)	32.9
Tax benefit (expense)	(1.2)	1.3	0.1
Net current period other comprehensive income (loss)	37.4	(4.4)	33.0
Balance as of May 1, 2021	11.5	(5.4)	6.1
Other comprehensive income (loss)	(42.4)	11.9	(30.5)
Tax benefit (expense)	0.4	(2.8)	(2.4)
Net current period other comprehensive income (loss)	(42.0)	9.1	(32.9)
Balance as of April 30, 2022	(30.5)	3.7	(26.8)
Other comprehensive income (loss) before reclassifications	12.9	(3.8)	9.1
Amounts reclassified from accumulated other comprehensive income (loss)	(2.1)	—	(2.1)
Tax (expense) benefit	(0.1)	0.9	0.8
Net current period other comprehensive income (loss)	10.7	(2.9)	7.8
Balance as of April 29, 2023	<u>\$ (19.8)</u>	<u>\$ 0.8</u>	<u>\$ (19.0)</u>

Stock-based compensation

The Company has granted stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance units ("PUs") and stock awards to employees and non-employee directors under the Methode Electronics, Inc. 2022 Omnibus Incentive Plan ("2022 Plan"), the Methode Electronics, Inc. 2014 Omnibus Incentive Plan ("2014 Plan"), the Methode Electronics, Inc. 2010 Stock Plan ("2010 Plan") and the Methode Electronics, Inc. 2004 Stock Plan ("2004 Plan"). The Company's stockholders approved the 2022 Plan on September 14, 2022. The Company can no longer make grants under the 2014 Plan, 2010 Plan and 2004 Plan.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subject to adjustment as provided in the 2022 Plan and the 2022 Plan's share counting provisions, the number of shares of the Company's common stock that will be available for all awards under the 2022 Plan is 5,550,000, less one share for every one share of common stock subject to an option or SAR award granted after April 30, 2022 under the 2014 Plan and 2.28 shares for every one share that was subject to an award other than an option or SAR granted after April 30, 2022 under the 2014 Plan. As of April 29, 2023, there were 5,189,956 shares available for award under the 2022 Plan.

Stock-based compensation expense

All stock-based payments to employees and directors are recognized in selling and administrative expenses on the consolidated statements of income. Awards subject to graded vesting are recognized using the accelerated recognition method over the requisite service period. The table below summarizes the stock-based compensation expense related to the equity awards:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
RSUs	\$ 9.9	\$ 10.3	\$ 5.9
Deferred non-employee director awards	1.0	0.8	—
Non-employee director awards	0.6	0.7	0.9
Total stock-based compensation expense	<u>\$ 11.5</u>	<u>\$ 11.8</u>	<u>\$ 6.8</u>

Restricted stock awards and performance units

As of April 29, 2023, the Company had 933,674 RSAs outstanding which will be earned based on the achievement of an EBITDA measure for fiscal 2025. The RSAs will vest ranging from 0% (for performance below threshold) to 100% (target performance) based on the achievement of the EBITDA performance measure and continued employment. In addition, if the target performance is exceeded, up to an additional 466,837 PUs can be earned that will be settled in cash. At the discretion of the Compensation Committee, the PUs may be settled in shares of common stock

The fair value of the RSAs was based on the closing stock price on the date of grant and the RSAs earn dividend equivalents during the vesting period, which are forfeitable if the RSAs do not vest. Compensation expense for the RSAs is recognized when it is probable the minimum threshold performance criteria will be achieved. Compensation expense for the PUs is recognized when it is probable that the target performance criteria will be exceeded. The Company assesses the probability of vesting at each balance sheet date and adjusts compensation costs based on the probability assessment. The cash-settled PUs represent a non-equity unit with a conversion value equal to the fair market value of a share of the Company's common stock on the vesting date. The PUs are classified as liability awards due to the cash settlement feature and are re-measured at each balance sheet date. In accordance with ASC 718, based on projections of the Company's current business portfolio, no compensation expense has been recognized for the RSAs or PUs to date, as the performance conditions are not probable of being met. Unrecognized stock-based compensation expense for RSAs at target level of performance is \$26.8 million as of April 29, 2023. The following table summarizes the RSA activity:

	Restricted stock awards	Weighted average grant date fair value
Non-vested at May 2, 2020	—	\$ —
Awarded	928,412	\$ 28.50
Vested	—	\$ —
Forfeited	—	\$ —
Non-vested at May 1, 2021	928,412	\$ 28.50
Awarded	—	\$ —
Vested	—	\$ —
Forfeited	—	\$ —
Non-vested at April 30, 2022	928,412	\$ 28.50
Awarded	21,262	\$ 38.41
Vested	—	\$ —
Forfeited	(16,000)	\$ 28.28
Non-vested at April 29, 2023	<u>933,674</u>	<u>\$ 28.73</u>

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted stock units

RSUs granted vest over a pre-determined period of time, up to five years from the date of grant. The fair value of the RSUs granted are based on the closing stock price on the date of grant and earn dividend equivalents during the vesting periods, which are forfeitable if the RSUs don't vest. The following table summarizes RSU activity:

	Restricted stock units	Weighted average grant date fair value
Non-vested at May 2, 2020	3,100	\$ 41.20
Awarded	949,712	\$ 28.49
Vested	(25,201)	\$ 29.87
Forfeited	—	\$ —
Non-vested at May 1, 2021	927,611	\$ 28.50
Awarded	46,300	\$ 48.41
Vested	(37,520)	\$ 36.55
Forfeited	—	\$ —
Non-vested at April 30, 2022	936,391	\$ 29.16
Awarded	127,277	\$ 40.11
Vested	(307,333)	\$ 29.88
Forfeited	(28,868)	\$ 33.53
Non-vested at April 29, 2023	<u>727,467</u>	\$ 30.60

As of April 29, 2023, there were 264,133 RSUs that were vested for which shares were issued in the first quarter of fiscal 2024. As of April 29, 2023, unrecognized share-based compensation expense for RSUs was \$7.4 million which will be recognized over a weighted-average amortization period of 1.9 years.

Non-employee director stock awards

The Company grants stock awards to its non-employee directors as a component of their compensation. The stock awards vest immediately upon grant. Non-employee directors may elect to defer receipt of their shares under the Company's non-qualified deferred compensation plan. The following table summarizes awards granted to non-employee directors:

	Non-employee director awards	Deferred non- employee director awards	Total	Weighted average grant date fair value
Outstanding at May 2, 2020	—	—	—	\$ —
Awarded	33,000	—	33,000	\$ 28.76
Issued	(33,000)	—	(33,000)	\$ 28.76
Outstanding at May 1, 2021	—	—	—	\$ —
Awarded	14,775	17,956	32,731	\$ 47.37
Issued	(14,775)	—	(14,775)	\$ 47.39
Outstanding at April 30, 2022	—	17,956	17,956	\$ 47.35
Awarded	15,540	27,794	43,334	\$ 36.13
Issued	(15,540)	—	(15,540)	\$ 36.04
Outstanding at April 29, 2023	<u>—</u>	<u>45,750</u>	<u>45,750</u>	\$ 40.56

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock options

The following table summarizes stock option activity:

	Stock options	Weighted average exercise price	Weighted- average life (years)	Aggregate intrinsic value (in millions)
Outstanding and exercisable at May 2, 2020	106,668	\$ 35.76	4.0	\$ 0.1
Exercised	(24,500)	\$ 31.61		
Forfeited	(9,168)	\$ 37.01		
Outstanding and exercisable at May 1, 2021	73,000	\$ 37.01	3.2	\$ 0.6
Exercised	(13,000)	\$ 37.01		
Forfeited	—	\$ —		
Outstanding and exercisable at April 30, 2022	60,000	\$ 37.01	2.2	\$ 0.5
Exercised	(40,000)	\$ 37.01		
Forfeited	—	\$ —		
Outstanding and exercisable at April 29, 2023	<u>20,000</u>	\$ 37.01	1.2	\$ 0.1

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on that date. The total intrinsic value of options exercised in fiscal 2023 was \$0.4 million.

Deferred RSUs

Under the 2014 Plan and 2010 Plan, RSUs that have vested for certain executives, including the Company's CEO, will not be delivered in common stock until after the executive terminates employment from the Company or upon a change of control. As of April 29, 2023, shares to be delivered to these executives were 202,000 shares under the 2014 Plan and 180,000 shares under the 2010 Plan.

Under the 2004 Plan, 225,000 shares of common stock subject to performance based RSAs granted to the Company's CEO in fiscal 2006 and 2007 were converted to RSUs. The shares of common stock underlying the RSUs will not be issued and delivered until the earlier of: (1) thirty days after the CEO's date of termination of employment with the Company and all of its subsidiaries and affiliates; or (2) the last day of the Company's fiscal year in which the payment of common stock in satisfaction of the RSUs becomes deductible to the Company under Section 162(m) of the Code. As of April 29, 2023, 29,945 shares have been delivered in connection with these RSUs with a remaining balance to be delivered of 195,055 shares.

The RSUs are not entitled to voting rights or dividends, however a bonus in lieu of dividends is paid. The vested deferred RSUs are considered outstanding for earnings per share calculations.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Income Per Share

Basic income per share attributable to Methode is calculated by dividing net income attributable to Methode, by the number of weighted average common shares outstanding for the applicable period. The weighted average number of common shares used in the diluted income per share calculation is determined using the treasury stock method which includes the effect of all potential dilutive common shares outstanding during the period.

The following table sets forth the computation of basic and diluted income per share:

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Numerator:			
Net income attributable to Methode (in millions)	\$ 77.1	\$ 102.2	\$ 122.3
Denominator:			
Denominator for basic income per share - weighted average shares outstanding and vested/unissued RSUs	36,016,686	37,234,086	38,038,615
Dilutive potential common shares - stock options, RSAs and RSUs	758,749	583,360	267,671
Denominator for diluted income per share	<u>36,775,435</u>	<u>37,817,446</u>	<u>38,306,286</u>
Basic and diluted income per share attributable to Methode:			
Basic income per share	\$ 2.14	\$ 2.74	\$ 3.22
Diluted income per share	\$ 2.10	\$ 2.70	\$ 3.19
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding			
	938,281	928,412	738,167

Note 15. Segment Information and Geographic Area Information

An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources. The CODM is the Company’s President and Chief Executive Officer (“CEO”).

The Automotive segment supplies electronic and electro-mechanical devices and related products to automobile OEMs, either directly or through their tiered suppliers. The Company's products include integrated center consoles, hidden switches, ergonomic switches, transmission lead-frames, complex insert molded solutions, LED-based lighting solutions, and sensors which incorporate magneto-elastic sensing, eddy current or other sensing technologies that monitor the operation or status of a component or system.

The Industrial segment manufactures external lighting solutions, including driving, work, and signal lights, industrial safety radio remote controls, braided flexible cables, current-carrying laminated and powder-coated busbars, high-voltage high current connector and contracts, custom power-product assemblies, such as its PowerRail® solution, high-current low-voltage flexible power cabling systems that are used in various markets and applications, including aerospace, cloud computing, commercial vehicles, construction equipment, industrial, military, power conversion and transportation.

The Interface segment provides a variety of copper-based transceivers and related accessories for the cloud computing hardware equipment and telecommunications broadband equipment markets, user interface solutions for the appliance, commercial food service, and point-of-sale equipment markets, and fluid-level sensors for the marine/recreational vehicle and sump pump markets.

The Medical segment is made up of the Company’s medical device business, Dabir Surfaces, with its surface support technology aimed at pressure injury prevention. Methode has developed the technology for use by patients who are immobilized or otherwise at risk for pressure injuries, including patients undergoing long-duration surgical procedures.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1, “Description of Business and Summary of Significant Accounting Policies.” The CODM allocates resources to and evaluates the performance of each operating segments based on operating income. Transfers between segments are recorded using internal transfer prices set by the Company.

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tables below present information about the Company's reportable segments.

	Fiscal Year Ended April 29, 2023					
(in millions)	Automotive	Industrial	Interface	Medical	Eliminations/ Corporate	Consolidated
Net sales	\$ 742.1	\$ 403.2	\$ 55.1	\$ 3.6	\$ (24.4)	\$ 1,179.6
Transfers between segments	(5.9)	(18.3)	(0.2)	—	24.4	—
Net sales to unaffiliated customers	<u>\$ 736.2</u>	<u>\$ 384.9</u>	<u>\$ 54.9</u>	<u>\$ 3.6</u>	<u>\$ —</u>	<u>\$ 1,179.6</u>
Income (loss) from operations	\$ 67.0	\$ 93.1	\$ 5.5	\$ (6.1)	\$ (69.1)	\$ 90.4
Interest expense, net						2.7
Other income, net						(2.4)
Pre-tax income						<u>\$ 90.1</u>
Purchases of property, plant and equipment	<u>\$ 31.8</u>	<u>\$ 7.7</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 2.3</u>	<u>\$ 42.0</u>
Depreciation and amortization	<u>\$ 31.7</u>	<u>\$ 14.5</u>	<u>\$ 0.2</u>	<u>\$ 1.0</u>	<u>\$ 2.1</u>	<u>\$ 49.5</u>
Identifiable assets	<u>\$ 700.2</u>	<u>\$ 672.3</u>	<u>\$ 127.2</u>	<u>\$ 6.2</u>	<u>\$ 73.2</u>	<u>\$ 1,579.1</u>
	Fiscal Year Ended April 30, 2022					
(in millions)	Automotive	Industrial	Interface	Medical	Eliminations/ Corporate	Consolidated
Net sales	\$ 786.3	\$ 325.7	\$ 59.8	\$ 4.2	\$ (12.4)	\$ 1,163.6
Transfers between segments	(4.8)	(7.6)	—	—	12.4	—
Net sales to unaffiliated customers	<u>\$ 781.5</u>	<u>\$ 318.1</u>	<u>\$ 59.8</u>	<u>\$ 4.2</u>	<u>\$ —</u>	<u>\$ 1,163.6</u>
Income (loss) from operations	\$ 92.6	\$ 67.1	\$ 9.9	\$ (5.5)	\$ (52.4)	\$ 111.7
Interest expense, net						3.5
Other income, net						(10.3)
Pre-tax income						<u>\$ 118.5</u>
Purchases of property, plant and equipment	<u>\$ 27.4</u>	<u>\$ 2.4</u>	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 8.0</u>	<u>\$ 38.0</u>
Depreciation and amortization	<u>\$ 34.4</u>	<u>\$ 14.9</u>	<u>\$ 0.2</u>	<u>\$ 1.0</u>	<u>\$ 2.1</u>	<u>\$ 52.6</u>
Identifiable assets	<u>\$ 689.8</u>	<u>\$ 455.3</u>	<u>\$ 108.1</u>	<u>\$ 7.9</u>	<u>\$ 128.0</u>	<u>\$ 1,389.1</u>

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Year Ended May 1, 2021

(in millions)	Automotive	Industrial	Interface	Medical	Eliminations/ Corporate	Consolidated
Net sales	\$ 761.8	\$ 273.2	\$ 61.6	\$ 2.8	\$ (11.4)	\$ 1,088.0
Transfers between segments	(6.1)	(5.3)	—	—	11.4	—
Net sales to unaffiliated customers	<u>\$ 755.7</u>	<u>\$ 267.9</u>	<u>\$ 61.6</u>	<u>\$ 2.8</u>	<u>\$ —</u>	<u>\$ 1,088.0</u>
Income (loss) from operations	\$ 107.6	\$ 64.3	\$ 8.9	\$ (4.6)	\$ (48.3)	\$ 127.9
Interest expense, net						5.2
Other income, net						(12.2)
Pre-tax income						<u>\$ 134.9</u>
Purchases of property, plant and equipment	<u>\$ 22.5</u>	<u>\$ 2.1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.3</u>	<u>\$ 24.9</u>
Depreciation and amortization	<u>\$ 34.3</u>	<u>\$ 14.3</u>	<u>\$ 0.3</u>	<u>\$ 0.9</u>	<u>\$ 1.7</u>	<u>\$ 51.5</u>
Identifiable assets	<u>\$ 739.5</u>	<u>\$ 461.6</u>	<u>\$ 90.4</u>	<u>\$ 7.6</u>	<u>\$ 167.9</u>	<u>\$ 1,467.0</u>

The following tables set forth net sales and tangible long-lived assets by geographic area where the Company operates. Tangible long-lived assets include property, plant and equipment and operating lease assets.

(in millions)	April 29, 2023	April 30, 2022	May 1, 2021
Net sales:			
U.S.	\$ 472.6	\$ 547.4	\$ 510.8
China	239.9	224.3	193.7
Malta	201.2	178.4	173.5
Mexico	78.8	76.2	87.4
Egypt	72.6	67.2	58.4
Other	114.5	70.1	64.2
Total net sales	<u>\$ 1,179.6</u>	<u>\$ 1,163.6</u>	<u>\$ 1,088.0</u>

(in millions)	April 29, 2023	April 30, 2022
Tangible long-lived assets, net:		
U.S.	\$ 75.9	\$ 74.2
Malta	42.1	38.6
Egypt	38.7	22.8
China	27.5	30.1
Mexico	21.7	21.0
Belgium	21.0	20.2
Other	21.8	10.1
Total tangible long-lived assets, net	<u>\$ 248.7</u>	<u>\$ 217.0</u>

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Leases

The Company leases real estate, automobiles and certain equipment under both operating and finance leases. The Company does not have any significant arrangements where it is the lessor. The majority of the Company's global lease portfolio represents leases of real estate, such as manufacturing facilities, warehouses and buildings. As of April 29, 2023, the Company's leases have remaining lease terms of up to 23.5 years, some of which include optional renewals or terminations, which are considered in the Company's assessments when such options are reasonably certain to be exercised. Any variable payments related to the lease will be recorded as lease expense when and as incurred. The Company's lease payments are largely fixed. As of April 29, 2023, the operating leases that the Company has signed but have not yet commenced are immaterial.

In addition to the operating lease assets presented on the consolidated balance sheets, assets under finance leases of \$0.6 million and \$0.7 million are included in property, plant and equipment, net on the consolidated balance sheets as of April 29, 2023 and April 30, 2022, respectively. Finance lease obligations were \$0.6 million and \$0.8 million as of April 29, 2023 and April 30, 2022, respectively, and are split between other accrued expenses for the short-term portion and other long-term liabilities for the long-term portion on the consolidated balance sheets. The Company had an immaterial amount of finance lease expense in the years ended April 29, 2023 and April 30, 2022.

The components of lease expense were as follows:

(in millions)	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Lease cost:			
Operating lease cost	\$ 9.5	\$ 8.9	\$ 8.4
Variable lease cost	0.7	1.6	1.6
Total lease cost	<u>\$ 10.2</u>	<u>\$ 10.5</u>	<u>\$ 10.0</u>

Supplemental cash flow and other information related to operating leases was as follows:

	Fiscal Year Ended		
	April 29, 2023	April 30, 2022	May 1, 2021
Operating cash flows:			
Cash paid related to operating lease obligations, including lease termination payment (in millions)	\$ 8.8	\$ 10.8	\$ 9.3
Non-cash activity:			
Right-of-use assets obtained in exchange for lease obligations (in millions)	\$ 11.7	\$ 7.7	\$ 5.7
Weighted-average remaining lease term (years)	5.1	5.3	5.0
Weighted-average discount rate	5.2%	4.4%	4.6%

Maturities of operating lease liabilities as of April 29, 2023, are shown below:

(in millions)	
Fiscal Year:	
2024	\$ 7.8
2025	6.0
2026	5.2
2027	5.0
2028	3.3
Thereafter	5.8
Total lease payments	33.1
Less: imputed interest	(4.5)
Present value of lease liabilities	<u>\$ 28.6</u>

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

METHODE ELECTRONICS, INC. AND SUBSIDIARIES

(in millions)

Description	Balance at beginning of period	(Benefits)/ charges to income	Deductions	Other	Balance at end of period
Fiscal Year Ended April 29, 2023					
Allowance for uncollectible accounts	\$ 1.0	\$ 0.3	\$ —	\$ —	\$ 1.3
Deferred tax valuation allowance	\$ 6.8	\$ —	\$ —	\$ —	\$ 6.8
Fiscal Year Ended April 30, 2022					
Allowance for uncollectible accounts	\$ 0.7	\$ 0.3	\$ —	\$ —	\$ 1.0
Deferred tax valuation allowance	\$ 9.3	\$ (2.5)	\$ —	\$ —	\$ 6.8
Fiscal Year Ended May 1, 2021					
Allowance for uncollectible accounts	\$ 0.7	\$ —	\$ —	\$ —	\$ 0.7
Deferred tax valuation allowance	\$ 7.5	\$ 1.8	\$ —	\$ —	\$ 9.3

SUBSIDIARIES OF METHODE ELECTRONICS, INC.

Subsidiary ⁽¹⁾	Jurisdiction of Incorporation
ABAS, Inc.	Delaware
Active Energy Solutions, Inc.	Delaware
Advanced Molding and Decoration S.A. de C.V.	Mexico
Alsentis LLC	Michigan
BMAC Limited	United Kingdom
Dabir Surfaces, Inc.	Delaware
Floduval S.A.	Belgium
Grakon Parent, Inc.	Delaware
Grakon Intermediate Holdings, LLC	Delaware
Grakon, LLC	Delaware
Grakon Holdings, LLC	Delaware
Grakon Europe B.V.	Netherlands
Grakon International (Hong Kong), Ltd.	Hong Kong
Grakon Hamsar Holdings, Ltd.	Canada
Grakon Vehicle Components (Donggaun) Co., Ltd.	China
Grakon Components Design (Shenzen) Co., Ltd.	China
Grakon BMAC Holdings, Limited	United Kingdom
Hermans Nordic Lights GmbH	Germany
Hetronic International, Inc.	Delaware
Hetronic Italy S.R.L.	Italy
Hetronic Swiss AG	Switzerland
Hetronic USA, Inc.	Delaware
IRU Resources S.A. De C.V.	Mexico
KBA, Inc.	Delaware
M Aviation LLC	Delaware
M Aviation Real Estate LLC	Delaware
M Real Estate, LLC	Delaware
Magna-Lastic Devices, Inc.	Delaware
Methode Development Company	Delaware
Methode Data Solutions Group Europe, Ltd	Malta
Methode Electronics Asia Pte, Ltd.	Singapore
Methode Electronics Far East Pte., Ltd.	Singapore
Methode Electronics India, Private Ltd.	India
Methode Electronics International GmbH	Germany
Methode Electronics Malta Holdings Ltd.	Malta
Methode Electronics Malta Ltd.	Malta
Methode Electronics Malta Mriehel Limited	Malta
Methode Electronics Mediterranean Company Ltd.	Malta
Methode Electronics (Suzhou) Co. Ltd.	China
Methode Electronics (Shanghai) Co. Ltd.	China
Methode Electronics U.K. Ltd.	United Kingdom
Methode Mexico, S.A. de C.V.	Mexico
Methode Surface Treatment (Zhenjiang), Co., Ltd.	China
Montana Bidco Oy	Finland
Nordic Lights APAC Pte, Ltd.	Singapore
Nordic Lights Group Oyj	Finland
Nordic Lights Inc.	Delaware
Nordic Lights Oy	Finland

Nordic Lights (Suzhou) Co., Ltd.	China
Pacific Insight Electronics Corp.	Canada
Pacific Insight Electronics USA Corp.	Michigan
Pacific Insight Mexico S.A. de C.V.	Mexico
Procoplast S.A.	Belgium
Proco-Immo S.A.	Belgium
Samaya Electronics Egypt, Ltd.	Egypt
Sandsund Lights Oy	Finland
Sponbeam Oy	Finland
TouchSensor Technologies, L.L.C.	Delaware
Translec Limited	United Kingdom
Universal Resources de Mexico, S.A. de C.V.	Mexico

- (1) All subsidiaries are 100% owned, except Alsentis LLC which is 11.5% owned, and Nordic Lights APAC Pte, Ltd., Nordic Lights Group Oyj, Nordic Lights Inc., Nordic Lights Oy, and Nordic Lights (Suzhou) Co., Ltd. which are each currently 99.4% owned, directly or indirectly..

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-267460) pertaining to the Methode Electronics, Inc. 2022 Omnibus Incentive Plan,
2. Registration Statement (Form S-8 No. 333-200846) pertaining to the Methode Electronics, Inc. 2014 Omnibus Incentive Plan,
3. Registration Statement (Form S-8 No. 333-170959) pertaining to the Methode Electronics, Inc. 2010 Stock Plan,
4. Registration Statement (Form S-8 No. 333-121090) pertaining to the Methode Electronics, Inc. 2004 Stock Plan,
5. Registration Statement (Form S-8 No. 333-48356) pertaining to the Methode Electronics, Inc. 401(k) Savings Plan,

of our reports dated June 27, 2023, with respect to the consolidated financial statements of Methode Electronics, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Methode Electronics, Inc. and subsidiaries included in this Annual Report (Form 10-K) of Methode Electronics, Inc. for the year ended April 29, 2023.

/s/ Ernst & Young LLP

Chicago, Illinois

June 27, 2023

CERTIFICATION

I, Donald W. Duda, certify that:

1. I have reviewed this report on Form 10-K of Methode 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(s) 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(s) 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: June 27, 2023

By: /s/ Donald W. Duda
Donald W. Duda
Chief Executive Officer

CERTIFICATION

I, Ronald L.G. Tsoumas, certify that:

1. I have reviewed this report on Form 10-K of Methode 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(s) 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(s) 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: June 27, 2023

By: /s/ Ronald L.G. Tsoumas
Ronald L.G. Tsoumas
Chief Financial Officer

**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 Methode Electronics, Inc. (the “Company”) on Form 10-K for the period ending April 29, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, 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 result of operations of the Company.

Date: June 27, 2023

By: /s/ Donald W. Duda
Donald W. Duda
Chief Executive Officer

Date: June 27, 2023

By: /s/ Ronald L.G. Tsoumas
Ronald L.G. Tsoumas
Chief Financial Officer