



Digi International Reports Third Fiscal Quarter 2019 Results

August 8, 2019

IoT Solutions Surpasses 61,000 Sites; IoT Products & Services Awarded an Expected \$20 Million Project

MINNEAPOLIS--(BUSINESS WIRE)--Aug. 8, 2019-- Digi International[®] Inc. (NASDAQ: DGII), today announced its financial results for the third fiscal quarter ended June 30, 2019. We reported revenue of \$61.2 million for the third fiscal quarter of 2019 compared to our guidance range of \$60.0 million to \$64.0 million. In the third fiscal quarter of 2018, our revenue was \$62.3 million.

Adjusted EBITDA in the third fiscal quarter of 2019 was \$6.1 million, or 10.0% of total revenue, compared to our guidance range of \$4.5 million to \$6.5 million. In the third fiscal quarter of 2018, our adjusted EBITDA was \$7.9 million, or 12.6% of total revenue.

Net income for the third fiscal quarter of 2019 was \$1.6 million, or \$0.06 per diluted share, compared to our guidance range of \$0.02 per diluted share to \$0.06 per diluted share. In the third fiscal quarter of 2018, our net income was \$2.9 million, or \$0.10 per diluted share.

"We are excited our team's business transformation is leading to clear results," said Ron Konezny, President and Chief Executive Officer. "In June, our IoT Products & Services team was awarded a large scale project that could deliver over \$20 million of revenue including approximately \$1 million of annual recurring revenue. This win was based on new products, strong direct sales, and a solutions approach. In addition, our IoT Solutions business achieved record quarterly revenue of \$10.7 million. We generated \$22.5 million of cash from operations for the current fiscal year, raising our cash balance to \$86.3 million as of June 30, 2019."

Reconciliations of GAAP and non-GAAP financial measures appear at the end of this release.

Financial Results

GAAP Results

| (in thousands, except per share data) | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|------------------------|----------------------------|------------------------|
| | 2019 | 2018 (as adjusted)* | 2019 | 2018 (as adjusted)* |
| Total Revenue | \$ 61,166 | \$ 62,272 | \$ 189,243 | \$ 161,775 |
| Gross Profit | \$ 28,328 | \$ 29,648 | \$ 88,440 | \$ 78,441 |
| Gross Margin | 46.3 % | 47.6 % | 46.7 % | 48.5 % |
| Operating Income** | \$ 1,621 | \$ 2,424 | \$ 7,964 | \$ 1,243 |
| Operating Income as % of Total Revenue | 2.7 % | 3.9 % | 4.2 % | 0.8 % |
| Net Income (Loss) ** | \$ 1,648 | \$ 2,904 | \$ 7,672 | \$ (1,709) |
| Net Income (Loss) per Diluted Share | \$ 0.06 | \$ 0.10 | \$ 0.27 | \$ (0.06) |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

** The nine months ended June 30, 2019 includes a gain of \$4.4 million (\$3.4 million net of tax) on the sale of our corporate headquarters reported in general and administrative expense on the Condensed Consolidated Statements of Operations.

Non-GAAP Results**

| (in thousands, except per share data) | Three months ended June 30, | | | | Nine months ended June 30, | | | |
|---------------------------------------|-----------------------------|------------------------|------|---|----------------------------|------------------------|-----|---|
| | 2019 | 2018 (as adjusted)* | | | 2019 | 2018 (as adjusted)* | | |
| Adjusted EBITDA | 6,140 | 7,855 | | | \$ 18,849 | \$ 16,063 | | |
| Adjusted EBITDA as % of Total Revenue | 10.0 | % | 12.6 | % | 10.0 | % | 9.9 | % |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

** A reconciliation of GAAP to non-GAAP financial measures appears at the end of this release.

Business Results for the Three Months Ended June 30, 2019 and 2018

Revenue Detail

| (in thousands) | Three months ended June 30, | | | |
|----------------|-----------------------------|------------------------|------------|----------|
| | 2019 | 2018 (as adjusted)* | Change | % Change |
| Product | \$ 47,136 | \$ 51,691 | \$ (4,555) | (8.8)% |
| Services | 3,374 | 2,715 | 659 | 24.3% |
| Solutions | 10,656 | 7,866 | 2,790 | 35.5% |
| Total revenue | \$ 61,166 | \$ 62,272 | \$ (1,106) | (1.8)% |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

Total revenue decreased 1.8% to \$61.2 million in the third fiscal quarter of 2019 from \$62.3 million in the third fiscal quarter of 2018.

Product

Product revenue decreased by \$4.6 million, or 8.8%, in the third fiscal quarter of 2019 compared to the third fiscal quarter of 2018. This decrease was primarily a result of lower sales of terminal servers in our network product category to a significant customer. Partially offsetting this decrease were increases in sales of RF products to a significant customer as well as increased sales of embedded products.

Services

Services revenue increased by \$0.7 million, or 24.3%, in the third fiscal quarter of 2019 compared to the third fiscal quarter of 2018. The increase was related to revenues from our Digi Remote Manager[®] and support services, partially offset by a decline in our wireless design services revenues.

Solutions

Solutions revenue increased by \$2.8 million, or 35.5%, in the third fiscal quarter of 2019 compared to the third fiscal quarter of 2018. This increase was driven by new customer deployments, additional purchases and an increase in our recurring revenue base. We are serving just over 61,000 sites as of June 30, 2019, compared to nearly 48,000 sites a year ago and just over 57,000 sites as of March 31, 2019.

Gross profit was \$28.3 million, or 46.3% of revenue in the third fiscal quarter of 2019 compared to \$29.6 million, or 47.6% of revenue for the third fiscal quarter of 2018, a decrease of \$1.3 million. This decrease in gross profit was primarily due to product and customer mix driven by lower sales of network products, which typically have higher gross margins. This was partially offset by increased sales from our IoT Solutions segment, which typically has higher gross margins.

Operating income was \$1.6 million, or 2.7% of revenue for the third fiscal quarter of 2019 and \$2.4 million, or 3.9% of revenue, for the third fiscal quarter of 2018. The decrease in operating income was driven by a \$1.3 million gross profit decrease, partially offset by a decrease in operating expenses of \$0.5 million.

Net income was \$1.6 million in the third fiscal quarter of 2019, or \$0.06 per diluted share, compared to \$2.9 million, or \$0.10 per diluted share, in the third fiscal quarter of 2018.

Adjusted EBITDA in the third fiscal quarter of 2019 was \$6.1 million, or 10.0% of total revenue, compared to \$7.9 million, or 12.6% of total revenue, in the third fiscal quarter of 2018.

Business Results for the Nine Months Ended June 30, 2019 and 2018

Revenue Detail

| (in thousands) | Nine months ended June 30, | | Change | % Change | |
|----------------|----------------------------|------------------------|-----------|----------|---|
| | 2019 | 2018 (as adjusted)* | | | |
| Product | \$ 150,045 | \$ 137,733 | \$ 12,312 | 8.9 | % |
| Services | 9,798 | 7,378 | 2,420 | 32.8 | % |
| Solutions | 29,400 | 16,664 | 12,736 | 76.4 | % |
| Total revenue | \$ 189,243 | \$ 161,775 | \$ 27,468 | 17.0 | % |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

Total revenue increased 17.0% to \$189.2 million in the first nine months of fiscal 2019 from \$161.8 million in the first nine months of fiscal 2018.

Product

Product revenue increased by \$12.3 million, or 8.9%, in the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018. This increase included \$5.4 million of incremental revenue from Accelerated Concepts, Inc. ("Accelerated"), a provider of cellular (LTE) networking equipment, since the acquisition in January 2018. This increase also included increased sales within our industrial cellular, RF and embedded products due to increased customer demand, significant new customers and new product introductions. This was partially offset by lower sales of terminal servers in our network category to a significant customer.

Services

Services revenue increased by \$2.4 million, or 32.8%, in the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018, related to increased revenues from our Digi Remote Manager and support services.

Solutions

Solutions revenue increased by \$12.7 million, or 76.4%, in the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018. This increase was driven by new customer deployments, additional purchases and an increase in our recurring revenue base. In addition, we experienced Solutions revenue equipment upgrades from existing customers. The equipment updates that have taken place have occurred almost entirely during the second quarter of fiscal 2019. We are serving just over 61,000 sites as of June 30, 2019, compared to nearly 48,000 sites a year ago and just over 57,000 sites as of March 31, 2019.

Gross profit was \$88.4 million, or 46.7% of revenue in the first nine months of fiscal 2019 compared to \$78.4 million, or 48.5% of revenue for the first nine months of fiscal 2018.

Operating income for the first nine months of fiscal 2019 was \$7.9 million, or 4.2% of revenue, as compared to \$1.2 million, or 0.8% of revenue, for the first nine months of fiscal 2018, an increase of \$6.7 million.

Net income was \$7.7 million in the first nine months of fiscal 2019, or \$0.27 per diluted share, compared to a net loss of \$1.7 million, or \$0.06 loss per diluted share, in the first nine months of fiscal 2018.

Adjusted EBITDA in the first nine months of fiscal 2019 was \$18.9 million, or 10.0% of total revenue, compared to \$16.1 million, or 9.9% of total revenue, in the first nine months of fiscal 2018.

Balance Sheet, Liquidity and Capital Structure

Digi continues to maintain a strong balance sheet with no debt. As of June 30, 2019, Digi had:

- Cash and cash equivalents and marketable securities balance of \$86.3 million, an increase of \$23.6 million from the end of fiscal 2018. The increase includes \$10.0 million of proceeds received in the first fiscal quarter of 2019 for the sale of our corporate headquarters.
- Current contingent consideration liabilities of \$5.4 million.
- Cash provided by operations is \$22.5 million.

Customer Highlights

IoT PRODUCTS & SERVICES

- An enterprise customer selected Digi to deliver an expected \$20 million of cellular routers and services to assist in the implementation of a project for a large governmental agency. The project will utilize Digi's Remote Manager® platform, expert technical support services and application development services to deliver a comprehensive solution to the customer.
- Digi won a project for a large Midwest based railroad using the Digi TransPort® WR21 enterprise router for a project that monitors train activity, safety operations and can predict maintenance requirements.
- A Midwest based managed service provider has selected several Digi products as part of their solution for business continuity with a focus on the hospitality and restaurant vertical segments.
- One of the leading transportation suppliers providing rail-based services has chosen Digi for their fleet management initiatives, leveraging the new Digi TransPort® WR44 R industrial router. They selected the new WR44 R due to its advanced routing and VPN features, designed specifically for use in rugged environments.

IoT SOLUTIONS

- A large retail grocer in St. Louis has chosen SmartSense to deploy in 115 grocery locations. The SmartSense solution will use both task management and sensor monitoring to protect critical food assets.
- A leading provider of physician office-based infusion services chose Digi to monitor 117 hospital and clinic locations. The SmartSense solution will provide real time alerting for any temperature excursion or power failure within these facilities and will be monitoring refrigeration, along with room temperature, relative humidity and air pressure differential.
- A large regional health system chose Digi to monitor medication, lab samples, environmental room temperature/humidity, along with patient nourishment and will provide real time alerting for any temperature excursion or power failure within these facilities.
- A school district in Texas, with over 54,000 students and 69 locations, chose Digi to monitor kitchen refrigeration equipment throughout its locations. The SmartSense solution will provide real time alerting for any temperature excursion or power failure for each school within in the district.

Fiscal 2019 Guidance

For the fourth fiscal quarter of 2019, Digi projects revenue to be in a range of \$60 million to \$64 million. Adjusted EBITDA is projected to be in a range of \$6.5 million and \$7.5 million. EPS is projected to be in a range of \$0.04 per diluted share to \$0.07 per diluted share.

For the full fiscal year 2019, Digi projects revenue to be in a range of \$249 million to \$253 million. Adjusted EBITDA is projected to be in a range of \$25.5 million to \$26.5 million. EPS is projected to be in a range of \$0.31 per diluted share to \$0.34 per diluted share.

Third Fiscal Quarter 2019 Conference Call Details

As announced on July 3, 2019, Digi will discuss its third fiscal quarter 2019 results on a conference call on Thursday, August 8, 2019 after market close at 5:00 p.m. ET (4:00 p.m. CT). The call will be hosted by Ron Konezny, President and Chief Executive Officer and Jamie Loch, Chief Financial Officer.

Digi invites all those interested in hearing management's discussion of its quarter to access a live webcast of the conference call through the investor relations section of Digi's website at www.digi.com. Participants may also join the call directly by dialing (855) 638-5675 and entering passcode 5279656. International participants may access the call by dialing (262) 912-4765 and entering passcode 5279656. A replay will be available within approximately three hours after the completion of the call, and for one week following the call, by dialing (855) 859-2056 for domestic participants or (404) 537-3406 for international participants and entering access code 5279656 when prompted. A replay of the webcast will be available for one week through Digi's website.

A copy of this earnings release can be accessed through the financial releases page of the investor relations section of Digi's website at www.digi.com.

For more news and information on us, please visit www.digi.com/aboutus/investorrelations.

About Digi International

Digi International (NASDAQ: DGII) is a leading global provider of Internet of Things ("IoT") connectivity products, services and solutions. We help our customers create next-generation connected products and deploy and manage critical communications infrastructures in demanding environments with high levels of security and reliability. Founded in 1985, we've helped our customers connect over 100 million things, and growing. For more information, visit Digi's website at www.digi.com, or call 877-912-3444 (U.S.) or 952-912-3444 (International).

Forward-Looking Statements

This press release contains forward-looking statements that are based on management's current expectations and assumptions. These statements often can be identified by the use of forward-looking terminology such as "anticipate," "believe," "estimate," "looking forward," "may," "will," "expect," "plan," "project," "should," or "continue" or the negative thereof or other variations thereon or similar terminology. Among other items, these statements relate to expectations of the business environment in which the company operates, projections of future performance, perceived marketplace opportunities and statements regarding our mission and vision. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions. Among others, these include risks related to the highly competitive market in which our company operates, rapid changes in technologies that may displace products sold by us, declining prices of networking products, our reliance on distributors and other third

parties to sell our products, the potential for significant purchase orders to be canceled or changed, delays in product development efforts, uncertainty in user acceptance of our products, the ability to integrate our products and services with those of other parties in a commercially accepted manner, potential liabilities that can arise if any of our products have design or manufacturing defects, our ability to defend or settle satisfactorily any litigation, uncertainty in global economic conditions and economic conditions within particular regions of the world which could negatively affect product demand and the financial solvency of customers and suppliers, the impact of natural disasters and other events beyond our control that could negatively impact our supply chain and customers, potential unintended consequences associated with restructuring or other similar business initiatives that may impact our ability to retain important employees, the ability to achieve the anticipated benefits and synergies associated with acquisitions or divestitures, and changes in our level of revenue or profitability which can fluctuate for many reasons beyond our control. These and other risks, uncertainties and assumptions identified from time to time in our filings with the United States Securities and Exchange Commission, including without limitation, our annual report on Form 10-K for the year ended September 30, 2018 and subsequent quarterly reports on Form 10-Q and other filings, could cause the company's future results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. Many of such factors are beyond our ability to control or predict. These forward-looking statements speak only as of the date for which they are made. We disclaim any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Presentation of Non-GAAP Financial Measures

This release includes adjusted net income, adjusted net income per diluted share and adjusted earnings before interest, taxes and amortization ("adjusted EBITDA"), each of which is a non-GAAP measure.

We understand that there are material limitations on the use of non-GAAP measures. Non-GAAP measures are not substitutes for GAAP measures, such as net income, for the purpose of analyzing financial performance. The disclosure of these measures does not reflect all charges and gains that were actually recognized by the company. These non-GAAP measures are not in accordance with, or an alternative for measures prepared in accordance with, generally accepted accounting principles and may be different from non-GAAP measures used by other companies or presented by us in prior reports. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. We believe that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures. Additionally, Adjusted EBITDA does not reflect our cash expenditures, the cash requirements for the replacement of depreciated and amortized assets, or changes in or cash requirements for our working capital needs.

We believe that providing historical and adjusted income and income per diluted share, respectively, exclusive of such items as reversals of tax reserves, discrete tax benefits and restructuring permits investors to compare results with prior periods that did not include these items. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. In addition, certain of our stockholders have expressed an interest in seeing financial performance measures exclusive of the impact of matters such as the impact of decisions related to taxes and restructuring, which while important, are not central to the core operations of our business. Management believes that Adjusted EBITDA, defined as EBITDA adjusted for stock-based compensation expense, acquisition-related expenses, restructuring charges and recoveries, and gains from the disposition of our former corporate headquarters is useful to investors to evaluate the Company's core operating results and financial performance because it excludes items that are significant non-cash or non-recurring expenses reflected in the Condensed Consolidated Statements of Operations. We believe that the presentation of Adjusted EBITDA as a percentage of revenue is useful because it provides a reliable and consistent approach to measuring our performance from year to year and in assessing our performance against that of other companies. We believe this information helps compare operating results and corporate performance exclusive of the impact of our capital structure and the method by which assets were acquired.

For more information, visit Digi's website at www.digi.com, or call 877-912-3444 (U.S.) or 952-912-3444 (International).

Digi International Inc. Condensed Consolidated Statements of Operations (In thousands, except per share amounts) (Unaudited)

| | Three months ended June 30, | | Nine months ended June 30, | |
|------------------------|--------------------------------|------------------------|-------------------------------|------------------------|
| | 2019 | 2018 (as adjusted)* | 2019 | 2018 (as adjusted)* |
| Revenue: | | | | |
| Product | \$ 47,136 | \$ 51,691 | \$ 150,045 | \$ 137,733 |
| Services and solutions | 14,030 | 10,581 | 39,198 | 24,042 |
| Total revenue | 61,166 | 62,272 | 189,243 | 161,775 |
| Cost of sales: | | | | |

| | | | | |
|-------------------------------------|----------|----------|----------|-------------|
| Cost of product | 25,982 | 26,639 | 80,291 | 68,929 |
| Cost of services and solutions | 6,137 | 5,244 | 18,328 | 12,287 |
| Amortization of intangibles | 719 | 741 | 2,184 | 2,118 |
| Total cost of sales | 32,838 | 32,624 | 100,803 | 83,334 |
| Gross profit | 28,328 | 29,648 | 88,440 | 78,441 |
| Operating expenses: | | | | |
| Sales and marketing | 11,392 | 11,595 | 34,583 | 32,530 |
| Research and development | 8,584 | 8,205 | 27,671 | 24,573 |
| General and administrative | 6,751 | 7,234 | 18,309 | 19,905 |
| Restructuring (reversal) charge | (20) | 190 | (87) | 190 |
| Total operating expenses | 26,707 | 27,224 | 80,476 | 77,198 |
| Operating income | 1,621 | 2,424 | 7,964 | 1,243 |
| Other income, net: | | | | |
| Interest income, net | 205 | 92 | 463 | 331 |
| Other (expense) income, net | (174) | 535 | 131 | (37) |
| Total other income, net | 31 | 627 | 594 | 294 |
| Income before income taxes | 1,652 | 3,051 | 8,558 | 1,537 |
| Income tax expense | 4 | 147 | 886 | 3,246 |
| Net income (loss) | \$ 1,648 | \$ 2,904 | \$ 7,672 | \$ (1,709) |
| Net income (loss) per common share: | | | | |
| Basic | \$ 0.06 | \$ 0.11 | \$ 0.28 | \$ (0.06) |
| Diluted | \$ 0.06 | \$ 0.10 | \$ 0.27 | \$ (0.06) |
| Weighted average common shares: | | | | |
| Basic | 28,072 | 27,177 | 27,816 | 27,002 |
| Diluted | 28,589 | 27,764 | 28,414 | 27,002 |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

Digi International Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|------------------------|----------------------------|------------------------|
| | 2019 | 2018 (as adjusted)* | 2019 | 2018 (as adjusted)* |
| Net income (loss) | \$ 1,648 | \$ 2,904 | \$ 7,672 | \$ (1,709) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment | 532 | (3,116) | (1,120) | (1,058) |
| Change in net unrealized gain (loss) on investments | 4 | (1) | 18 | (41) |
| Less income tax (expense) benefit | (1) | 1 | (5) | 9 |
| Reclassification of realized loss on investments included in net income ⁽¹⁾ | — | — | — | 31 |
| Less income tax benefit ⁽²⁾ | — | — | — | (8) |
| Other comprehensive income (loss), net of tax | 535 | (3,116) | (1,107) | (1,067) |
| Comprehensive income (loss) | \$ 2,183 | \$ (212) | \$ 6,565 | \$ (2,776) |

(1) Recorded in Other (expense) income, net in our Condensed Consolidated Statements of Operations.

(2) Recorded in Income tax expense in our Condensed Consolidated Statements of Operations.

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

Digi International Inc.
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

| | June 30, 2019 | September 30, 2018 (as adjusted)* |
|---------------------------|------------------|--------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 84,094 | \$ 58,014 |
| Marketable securities | 2,254 | 4,736 |
| Accounts receivable, net | 44,721 | 49,819 |

| | | |
|--|------------|------------|
| Inventories | 41,796 | 41,644 |
| Other current assets | 5,057 | 2,613 |
| Assets held for sale | — | 5,220 |
| Total current assets | 177,922 | 162,046 |
| Property, equipment and improvements, net | 14,417 | 8,354 |
| Intangible assets, net | 32,791 | 39,320 |
| Goodwill | 153,952 | 154,535 |
| Deferred tax assets | 5,343 | 6,600 |
| Other non-current assets | 821 | 1,291 |
| Total assets | \$ 385,246 | \$ 372,146 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,460 | \$ 12,911 |
| Accrued compensation | 5,105 | 8,190 |
| Unearned revenue | 5,031 | 3,177 |
| Contingent consideration on acquired businesses | 5,405 | 5,890 |
| Other current liabilities | 4,020 | 5,405 |
| Total current liabilities | 35,021 | 35,573 |
| Income taxes payable | 684 | 851 |
| Deferred tax liabilities | 273 | 334 |
| Contingent consideration on acquired businesses | — | 4,175 |
| Other non-current liabilities | 4,192 | 720 |
| Total liabilities | 40,170 | 41,653 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued and outstanding | — | — |
| Common stock, \$.01 par value; 60,000,000 shares authorized; 34,510,607 and 33,812,838 shares issued | 345 | 338 |
| Additional paid-in capital | 264,225 | 255,936 |

| | | |
|---|------------|------------|
| Retained earnings | 159,633 | 151,961 |
| Accumulated other comprehensive loss | (24,633) | (23,526) |
| Treasury stock, at cost, 6,386,324 and 6,385,336 shares | (54,494) | (54,216) |
| Total stockholders' equity | 345,076 | 330,493 |
| Total liabilities and stockholders' equity | \$ 385,246 | \$ 372,146 |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

Digi International Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Nine months ended June 30, | |
|--|----------------------------|------------------------|
| | 2019 | 2018 (as adjusted)* |
| Operating activities: | | |
| Net income (loss) | \$ 7,672 | \$ (1,709) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation of property, equipment and improvements | 3,343 | 2,440 |
| Amortization of intangible assets | 6,669 | 6,866 |
| Stock-based compensation | 4,180 | 3,598 |
| Deferred income tax provision | 1,189 | 2,781 |
| Gain on sale of property, equipment and improvements | (4,458) | (8) |
| Change in fair value of contingent consideration | 1,188 | 333 |
| Provision for bad debt and product returns | 594 | 404 |
| Provision for inventory obsolescence | 1,350 | 1,550 |
| Restructuring (reversal) charge | (87) | 190 |
| Other | 131 | (58) |
| Changes in operating assets and liabilities (net of acquisitions) | 757 | (25,231) |
| Net cash provided by (used in) operating activities | 22,528 | (8,844) |

Investing activities:

| | | | |
|---|--------|---------|---|
| Proceeds from maturities and sales of marketable securities | 2,500 | 29,752 | |
| Proceeds from sale of business | — | 2,000 | |
| Acquisition of businesses, net of cash acquired | — | (56,588 |) |
| Proceeds from sale of property and equipment | 10,047 | — | |
| Purchase of property, equipment, improvements and certain other intangible assets | (8,600 |) (963 |) |
| Net cash provided by (used in) investing activities | 3,947 | (25,799 |) |

Financing activities:

| | | | |
|--|-----------|-----------|---|
| Acquisition earn-out payments | (3,748 |) — | |
| Proceeds from stock option plan transactions | 4,054 | 3,871 | |
| Proceeds from employee stock purchase plan transactions | 835 | 892 | |
| Purchases of common stock | (1,051 |) (730 |) |
| Net cash provided by financing activities | 90 | 4,033 | |
| Effect of exchange rate changes on cash and cash equivalents | (485 |) 82 | |
| Net increase (decrease) in cash and cash equivalents | 26,080 | (30,528 |) |
| Cash and cash equivalents, beginning of period | 58,014 | 78,222 | |
| Cash and cash equivalents, end of period | \$ 84,094 | \$ 47,694 | |

Supplemental schedule of non-cash investing and financing activities:

| | | | |
|---|---------|-------------|---|
| Transfer of inventory to property, equipment and improvements | \$ (921 |) \$ (1,750 |) |
| Accrual for purchase of property, equipment, improvements and certain other intangible assets | \$ (7 |) \$ — | |
| Liability related to acquisition of business | \$ — | \$ (2,300 |) |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

Accumulated

| (in thousands) | Common Stock | | Treasury Stock | | Additional | Retained | Other | Total |
|---|--------------|-----------|----------------|--------------|-----------------|------------|--------------------|----------------------|
| | Shares | Par Value | Shares | Value | Paid-In Capital | Earnings* | Comprehensive Loss | Stockholders' Equity |
| Balances, September 30, 2017 | 33,008 | \$ 330 | 6,437 | \$ (54,533) | \$ 245,528 | \$ 150,363 | \$ (22,659) | \$ 319,029 |
| Cumulative-effect adjustment from adoption of ASU 2016-09 | | | | | 52 | (33) | | 19 |
| Net loss | | | | | | (1,709) | | (1,709) |
| Other comprehensive income | | | | | | | (1,067) | (1,067) |
| Employee stock purchase plan issuances | | | (106) | 897 | (5) | | | 892 |
| Repurchase of common stock | | | 73 | (730) | | | | (730) |
| Issuance of stock under stock award plans | 638 | 7 | | | 3,864 | | | 3,871 |
| Stock-based compensation expense | | | | | 3,598 | | | 3,598 |
| Balances, June 30, 2018 | 33,646 | \$ 337 | 6,404 | \$ (54,366) | \$ 253,037 | \$ 148,621 | \$ (23,726) | \$ 323,903 |
| Balances, September 30, 2018 | 33,813 | \$ 338 | 6,385 | \$ (54,216) | \$ 255,936 | \$ 151,961 | \$ (23,526) | \$ 330,493 |
| Net income | | | | | | 7,672 | | 7,672 |
| Other comprehensive loss | | | | | | | (1,107) | (1,107) |
| Employee stock purchase plan issuances | | | (91) | 773 | 62 | | | 835 |
| Repurchase of common stock | | | 92 | (1,051) | | | | (1,051) |
| Issuance of stock under stock award plans | 698 | 7 | | | 4,047 | | | 4,054 |
| Stock-based compensation expense | | | | | 4,180 | | | 4,180 |
| Balances, June 30, 2019 | 34,511 | \$ 345 | 6,386 | \$ (54,494) | \$ 264,225 | \$ 159,633 | \$ (24,633) | \$ 345,076 |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

Non-GAAP Financial Measures

TABLE 1

Reconciliation of Net Income to Adjusted EBITDA

(In thousands)

| | Three months ended June 30, | | | | Nine months ended June 30, | | | | |
|---------------------------------|-----------------------------|--------------------------|-----------|--------------------------|----------------------------|--------------------------|-------------|--------------------------|--|
| | 2019 | 2018 (as adjusted)* | | 2019 | 2018 (as adjusted)* | | 2019 | 2018 (as adjusted)* | |
| | | % of total revenue | | % of total revenue | | % of total revenue | | % of total revenue | |
| Total revenue | \$ 61,166 | 100.0 % | \$ 62,272 | 100.0 % | \$ 189,243 | 100.0 % | \$ 161,775 | 100.0 % | |
| Net income (loss) | \$ 1,648 | | \$ 2,904 | | \$ 7,672 | | \$ (1,709) | | |
| Interest income, net | (205) | | (92) | | (463) | | (331) | | |
| Income tax (benefit) expense | 4 | | 147 | | 886 | | 3,246 | | |
| Depreciation and amortization | 3,186 | | 3,473 | | 10,012 | | 9,306 | | |
| Stock-based compensation | 1,473 | | 1,220 | | 4,180 | | 3,598 | | |
| Gain on sale of building | — | | — | | (4,396) | | — | | |
| Restructuring (reversal) charge | (20) | | 190 | | (87) | | 190 | | |
| Acquisition expense | 54 | | 13 | | 1,045 | | 1,763 | | |
| Adjusted EBITDA | \$ 6,140 | 10.0 % | \$ 7,855 | 12.6 % | \$ 18,849 | 10.0 % | \$ 16,063 | 9.9 % | |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

TABLE 2

Reconciliation of Net Income (Loss) and Net Income (Loss) per Diluted Share to Adjusted Net Income and Adjusted Net Income per Diluted Share
(In thousands, except per share amounts)

| | Three months ended June 30, | | | | Nine months ended June 30, | | | | |
|---|-----------------------------|------------------------|----------|---------|----------------------------|---------|-------------|------------------------|--|
| | 2019 | 2018 (as adjusted)* | | 2019 | 2018 (as adjusted)* | | 2019 | 2018 (as adjusted)* | |
| Net income (loss) and net income (loss) per diluted share | \$ 1,648 | \$ 0.06 | \$ 2,904 | \$ 0.10 | \$ 7,672 | \$ 0.27 | \$ (1,709) | \$ (0.06) | |
| Restructuring (reversal) charge | (20) | — | 190 | 0.01 | (87) | — | 190 | 0.01 | |
| Gain on sale of building | — | — | — | — | (4,396) | (0.15) | — | — | |
| Tax effect from restructuring reversal and gain on sale of building | 5 | — | (51) | — | 1,051 | 0.04 | (51) | — | |

| | | | | | | | | |
|--|----------|---------|----------|---------|----------|---------|----------|---------|
| Discrete tax (benefits) expense ⁽¹⁾ | (272) | (0.01) | 71 | — | (580) | (0.02) | 3,027 | 0.11 |
| Adjusted net income and adjusted net income per diluted share ⁽²⁾ | \$ 1,361 | \$ 0.05 | \$ 3,114 | \$ 0.11 | \$ 3,660 | \$ 0.13 | \$ 1,457 | \$ 0.05 |
| Diluted weighted average common shares | | 28,589 | | 27,764 | | 28,414 | | 27,002 |

*Prior period information has been restated for the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which we adopted on October 1, 2018.

(1) For the three and nine months ended June 30, 2019, discrete tax expense primarily includes reversals of tax reserves due to the expiration of statutes of limitation. For the three and nine months ended June 30, 2018, discrete tax expense primarily includes one-time adjustments for the re-measurement of deferred tax assets and the impact of ASU 2016-09 relating to the accounting for the tax effects of stock compensation. This was partially offset by reversals of tax reserves due to the expiration of statutes of limitation.

(2) Adjusted net income per diluted share may not add due to the use of rounded numbers.

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