

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

May 4, 2023

Date of report (date of earliest event reported)

Digi International Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

1-34033

(Commission file number)

41-1532464

(I.R.S. Employer Identification No.)

**9350 Excelsior Blvd. Suite 700
Hopkins Minnesota**

(Address of principal executive offices)

55343

(Zip Code)

(952) 912-3444

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$.01 per share	DGII	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth 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.

Item 2.02 Results of Operations and Financial Condition.

On May 4, 2023, Digi International Inc. (“Digi”) issued a press release and shareholder letter regarding Digi’s financial results for its second fiscal quarter ended March 31, 2023. A copy of Digi’s press release is attached hereto as Exhibit 99.1 and a copy of Digi’s shareholder letter as Exhibit 99.2.

The information contained in this Current Report shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

<u>No.</u>	<u>Exhibit</u>	<u>Manner of Filing</u>
99.1	Press Release dated May 4, 2023, announcing financial results for the second fiscal quarter ended March 31, 2023	Furnished Electronically
99.2	Shareholder Letter dated May 4, 2023, discussing financial results for the second fiscal quarter ended March 31, 2023	Furnished Electronically
104	The cover page from the Current Report on Form 8-K formatted in Inline XBRL	Filed Electronically



**Digi International Reports Second Fiscal Quarter 2023 results
Record Quarterly Revenue of \$111M, End of Quarter ARR of \$99M
EPS of \$0.16, Adjusted EPS of \$0.50**

(Minneapolis, MN, May 4, 2023) - Digi International[®] Inc. (Nasdaq: DGII), a leading global provider of business and mission critical Internet of Things ("IoT") products, services and solutions, today announced its financial results for its second fiscal quarter ended March 31, 2023.

Second Fiscal Quarter 2023 Results Compared to Second Fiscal Quarter 2022 Results

- Revenue was \$111 million, an increase of 17%.
- Gross profit margin was 56.6% versus 54.9%. Gross profit margin excluding amortization was 57.4% compared to 56.3%.
- Net income per diluted share was \$0.16, up from \$0.08, an increase of 100%.
- Adjusted EPS was \$0.50 per diluted share, an increase of 22%.
- Adjusted EBITDA was \$24 million, an increase of 22%.
- Annualized Recurring Revenue (ARR) was \$99 million at quarter end, an increase of 10%.

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

“Digi posted our ninth consecutive record quarter,” said Ron Konezny, President and Chief Executive Officer. “Our fiscal second quarter saw strength across all our business units and geographies. We are nearing the second of our “100” objectives, with Annualized Recurring Revenues likely to be the next achievement. A heartfelt thank you to our customers, partners and teammates in helping us all succeed.”

Segment Results

IoT Product & Services

The segment's second fiscal quarter 2023 revenues of \$86 million increased 20% from the same period in the prior fiscal year. This increase is attributable to growth in each of our product lines. ARR as of the end of the second fiscal quarter was \$17 million, an increase of 21%. Gross profit margin increased 100 basis points to 54.9% of revenues for the second fiscal quarter of 2023, due to product and customer mix.

IoT Solutions

The segment's second fiscal quarter 2023 revenues of \$25 million increased 8% from the same period in the prior fiscal year. This increase was a result of increased sales of both SmartSense and Ventus offerings. ARR as of the end of the second fiscal quarter was over \$82 million, an increase of 8%. Gross profit margin increased 450 basis points to 62.4%, due to product and customer mix in the second fiscal quarter of 2023.

Third Fiscal Quarter 2023 and Full-Year 2023 Guidance

With consideration to the supply chain and the other challenging macro conditions, we are providing the following guidance for our third quarter and full-year fiscal 2023:

We expect to see revenue of \$107 million to \$111 million, with Adjusted EBITDA between \$23.0 million and \$24.0 million. Using a diluted share count of 37.3 million shares outstanding, we project our Adjusted EPS to be \$0.47 to \$0.49 per diluted share. We provide earnings guidance on a non-GAAP basis as it is difficult to predict with reasonable certainty items including but not limited to the impact of foreign exchange translation, restructuring, interest and certain tax related events. Given the uncertainty, any of these items could have a significant impact on U.S. GAAP results.

Based on our fiscal Q2 performance, and our fiscal Q3 guidance, we have stronger confidence in our annual projections for full year 2023. We now expect to grow annual revenues at least 12% as the supply chain continues to ease and demand remains strong. We expect ARR and Adjusted EBITDA to grow faster than our revenue growth.

Second Fiscal Quarter 2023 Conference Call Details

As announced on April 12, 2023, Digi will discuss its second fiscal quarter results on a conference call on Thursday, May 4, 2023 at 10:00 a.m. ET (9:00 a.m. CT). The call will be hosted by Ron Konezny, President and Chief Executive Officer and Jamie Loch, Chief Financial Officer.

Participants may register for the conference call at: <https://register.vevent.com/register/BI818797db6f104a7b9c255b954261836e>. Once registration is completed, participants will be provided a dial-in number and passcode to access the call. All participants are asked to dial-in 15 minutes prior to the start time.

Participants may access a live webcast of the conference call through the investor relations section of Digi's website, <https://digi.gcs-web.com/> or the hosting website at: <https://edge.media-server.com/mmc/p/29tanhzz>.

A replay will be available within approximately two hours after the completion of the call for approximately one year. You may access the replay via webcast through the investor relations section of Digi's website.

A copy of this earnings release, as well as a shareholder letter relating to our second fiscal quarter results 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 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.

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 "assume," "believe," "anticipate," "intend," "estimate," "target," "may," "will," "expect," "plan," "potential," "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 Digi 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 ongoing supply chain and transportation challenges impacting businesses globally, the ongoing COVID-19 pandemic and efforts to mitigate the same, risks related to ongoing inflationary pressures and the monetary policies of governments globally as well as present concerns about a potential recession and the ability of companies like us to operate a global business in such conditions, risks arising from the present war in Ukraine, 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 integrate and realize the expected benefits of acquisitions, 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, reorganizations or other similar business initiatives that may impact our ability to retain important employees or otherwise impact our operations in unintended and adverse ways, 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, 2022, could cause our actual 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 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 Digi. 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. We believe 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 net income and adjusted net income per diluted share, respectively, exclusive of such items as reversals of tax reserves, discrete tax benefits, restructuring charges and reversals, intangible amortization, stock-based compensation, other non-operating income/expense, changes in fair value of contingent consideration, acquisition-related expenses and interest expense related to acquisitions 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 these matters, 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 reversals, and changes in fair value of contingent consideration is useful to investors to evaluate our core operating results and financial performance because it excludes items that are significant non-cash or non-recurring items 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.

Investor Contact:

Rob Bennett
Investor Relations
Digi International
952-912-3524
Email: rob.bennett@digi.com

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

	Three months ended March 31,		Six months ended March 31,	
	2023	2022	2023	2022
Revenue	\$ 111,144	\$ 94,713	\$ 220,450	\$ 178,970
Cost of sales	48,272	42,729	96,057	79,105
Gross profit	62,872	51,984	124,393	99,865
Operating expenses:				
Sales and marketing	20,341	17,776	39,447	33,095
Research and development	15,155	13,819	29,249	27,231
General and administrative	15,201	12,825	31,559	28,176
Operating expenses	50,697	44,420	100,255	88,502
Operating income	12,175	7,564	24,138	11,363
Other income, net:				
Other expense, net	(6,346)	(4,324)	(12,300)	(9,324)
Income before income taxes	5,829	3,240	11,838	2,039
Income tax (benefit) provision	(70)	393	160	(1,995)
Net income	\$ 5,899	\$ 2,847	\$ 11,678	\$ 4,034
Net income per common share:				
Basic	\$ 0.16	\$ 0.08	\$ 0.33	\$ 0.12
Diluted	\$ 0.16	\$ 0.08	\$ 0.32	\$ 0.11
Weighted average common shares:				
Basic	35,791	35,015	35,698	34,785
Diluted	36,730	35,608	36,821	35,710

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

	March 31, 2023	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,660	\$ 34,900
Accounts receivable, net	44,900	50,450
Inventories	83,065	73,223
Income taxes receivable	4,778	3,764
Other current assets	4,663	3,871
Total current assets	169,066	166,208
Non-current assets	678,682	687,687
Total assets	\$ 847,748	\$ 853,895
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 15,523	\$ 15,523
Accounts payable	20,725	32,373
Other current liabilities	47,521	48,611
Total current liabilities	83,769	96,507
Long-term debt	214,062	222,448
Other non-current liabilities	29,738	33,427
Non-current liabilities	243,800	255,875
Total liabilities	327,569	352,382
Total stockholders' equity	520,179	501,513
Total liabilities and stockholders' equity	\$ 847,748	\$ 853,895

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

	Six months ended March 31,	
	2023	2022
		(Restated) (1)
Net cash provided by operating activities	\$ 9,607	\$ 11,758
Net cash used in investing activities	(2,855)	(349,186)
Net cash (used in) provided by financing activities	(10,187)	227,048
Effect of exchange rate changes on cash and cash equivalents	195	(666)
Net decrease in cash and cash equivalents	(3,240)	(111,046)
Cash and cash equivalents, beginning of period	34,900	152,432
Cash and cash equivalents, end of period	\$ 31,660	\$ 41,386

(1) We have restated the condensed consolidated statement of cash flows for the six months ended March 31, 2022. We corrected \$13.4 million of debt issuance costs previously recorded within operating activities and correctly presented the cash outflows within financing activities. We also corrected \$2.3 million of amortization of debt issuance costs previously included within financing activities moving these to operating activities.

Non-GAAP Financial Measures

TABLE 1

Reconciliation of Net Income to Adjusted EBITDA
(In thousands)

	Three months ended March 31,				Six months ended March 31,			
	2023		2022		2023		2022	
		% of total revenue		% of total revenue		% of total revenue		% of total revenue
Total revenue	\$ 111,144	100.0 %	\$ 94,713	100.0 %	\$ 220,450	100.0 %	\$ 178,970	100.0 %
Net income	\$ 5,899		\$ 2,847		\$ 11,678		\$ 4,034	
Interest expense, net	6,393		4,463		12,364		9,361	
Income tax expense (benefit)	(70)		393		160		(1,995)	
Depreciation and amortization	7,846		8,784		15,958		16,646	
Stock-based compensation	3,465		2,242		6,333		4,259	
Restructuring charge	23		—		46		109	
Acquisition expense	307		796		688		4,081	
Adjusted EBITDA	\$ 23,863	21.5 %	\$ 19,525	20.6 %	\$ 47,227	21.4 %	\$ 36,495	20.4 %

TABLE 2

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

	Three months ended March 31,				Six months ended March 31,			
	2023		2022		2023		2022	
Net income and net income per diluted share	\$ 5,899	\$ 0.16	\$ 2,847	\$ 0.08	\$ 11,678	\$ 0.32	\$ 4,034	\$ 0.11
Amortization	6,251	0.17	7,045	0.20	12,714	0.35	13,354	0.37
Stock-based compensation	3,465	0.09	2,242	0.06	6,333	0.17	4,259	0.12
Other non-operating income	(47)	—	(139)	—	(64)	—	(37)	—
Acquisition expense	307	0.01	796	0.02	688	0.02	4,081	0.11
Restructuring charge	23	—	—	—	46	—	109	—
Interest expense, net	6,393	0.17	4,463	0.13	12,364	0.34	9,361	0.26
Tax effect from the above adjustments ⁽¹⁾	(4,626)	(0.12)	(2,760)	(0.08)	(9,495)	(0.27)	(5,766)	(0.16)
Discrete tax expenses (benefits) ⁽²⁾	557	0.02	(15)	—	1,749	0.05	(2,190)	(0.05)
Adjusted net income and adjusted net income per diluted share	\$ 18,222	\$ 0.50	\$ 14,479	\$ 0.41	\$ 36,013	\$ 0.98	\$ 27,205	\$ 0.76
Diluted weighted average common shares		36,730		35,608		36,821		35,710

(1) The tax effect from the above adjustments assumes an estimated effective tax rate of 18.0% for fiscal 2023 and 2022 based on adjusted net income.

(2) For the three and six months ended March 31, 2023 and 2022 discrete tax expenses (benefits) primarily are a result of changes in excess tax benefits recognized on stock compensation.

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



May 4, 2023

Dear Fellow Stockholders:

We are pleased to report our ninth consecutive quarter of record results. We continue to build on our strong foundation, delivering strong financial performance while investing in our future. We are consistently hitting our goal of \$100 million in quarterly revenue, and we are edging closer to our goals of \$100 million in annualized recurring revenue (ARR) and \$100 million in annualized adjusted EBITDA.

We transform our customers' work by enabling their teams to monitor and manage their remote assets. This mission is realized through our results. Our Industrial IoT solutions have tremendous longevity and generate compelling Return on Investment for our customers, strengthening our relationships over time. The Digi team is performing at a high level, backed by favorable long-term IoT trends targeting the benefits of process automation within arm's reach and in remote locations. When input costs are elevated and the labor market is tight, automation becomes imperative. And once automation is deployed by one party who realizes its efficiencies, competitors are pressured to follow this example. Digi is exceptionally well positioned to capture this opportunity.

For the second quarter in a row, Digi saw growth from all product lines. We are thrilled with this performance as it confirms the overall strategy of the company and shows Digi's resiliency in the face of uncertain market conditions. We are excited to have customers looking for more from Digi, customers who trust Digi's products are looking for service contracts and software to assist how they manage their remote assets more efficiently.

(Another) Record-Setting Quarter

Despite an improving but still challenging supply chain environment, we delivered record quarterly revenue of \$111 million. Digi also hit new records in ARR (\$99 million), A-EBITDA (\$24 million) and A-EBITDA margin (21.5%) during the quarter. Once again, profitability growth outpaced revenue growth, demonstrating the scalability of Digi's business model. In the fiscal second quarter, we posted EPS of \$0.16 and a record adjusted EPS of \$0.50, which represents year-over-year growth of 100% and 22% respectively.

We also set quarterly records in each of our reporting segments. In IoT Products and Services, we delivered revenue of \$86 million and ARR of \$17 million with sequential growth contributions coming from all product lines. IoT Solutions contributed revenues nearly \$25 million and ARR of more than \$82 million for the quarter, with both our SmartSense and Ventus offerings experiencing sequential growth.

Annual Recurring Revenue (ARR) Transition Continues

We are executing against our plan focused on hardware-enabled software and services. The transition has complexities, however the opportunity reaffirms the transition provides higher value for our customers, channel relationships, and our stockholders. Swirling macro-economic conditions only increase our urgency, as our predictability and profitability increases as we grow our recurring revenue.

ARR grew 10% year-over-year. We reiterate our expectation that ARR growth will outpace revenue growth for fiscal 2023. Digi's strong recurring revenue pipeline, our high customer retention, and our investments in internal process and automation give us confidence in our ARR growth objective.

As we grow closer to our \$100 million ARR goal, we are excited to see the strong ARR growth in our Product and Services segment. The hard work from the team started showing up in this second fiscal quarter. In our Solutions segment, we have a robust pipeline, but enterprise opportunities are taking a bit longer to close than anticipated. We expect improved ARR performance in the back half of the fiscal year.

Strategic Inventory Management

Capital allocation priorities for fiscal 2023 have not changed. We are focused on the integration of Ventus and remain heads down on execution. Digi continues to support its backlog with component purchases as they become available. Inventory in the quarter ended at \$83M million, up 2% sequentially. The Digi team is strategically managing inventory levels and component purchases, matching orders to our backlog. We are procuring some "golden screw" components, but still have critical shortages that we work closely with our contract manufacturers to procure.

In fiscal Q2 we saw meaningful improvement in the number of critical component shortages. The supply chain is clearly improving but is still materially hindered. We diligently monitor and manage the supply chain to deliver the best possible customer experience. While inventory increased modestly in the quarter, we expect our investment in components to deliver cash dividends for Digi.

Other Notable Second Fiscal Quarter 2023 Financial Results

Adding to our fiscal Q2 commentary, and as announced in our earnings release today, a few other highlights:

- Gross margins were 56.6%, up 170 bps year-over-year, emphasizing our balanced approach to pricing and input costs.
- Cash flow from operations was \$7 million, compared to \$6 million a year ago. We saw strong cash collections as we otherwise invested in inventory. We expect cash flow from operations to improve and remain positive throughout fiscal 2023.

- At the end of fiscal Q2, Digi had cash of \$32 million, gross debt of \$241 million, or a net debt balance of \$209 million. This represents trailing twelve-month gross leverage of 2.7, and a net leverage of 2.3.
- Channel inventory ended fiscal Q2 at \$29 million, up sequentially from \$27 million in fiscal Q1, which represents normalized levels. We monitor our inventory levels in the channel regularly.

Additional information related to the performance of IoT Products and Services includes:

- Revenue growth of 20% year-over-year. The second consecutive quarter of growth driven by all four major product lines in the segment.
- ARR of \$17 million, up 21% year-over-year. Like revenue growth, all business lines saw sequential growth in the quarter.
- Gross Profit margins of 54.9%, up 100 bps year-over-year. Volume, price, and mix all helped push margin higher.
- Operating income was \$13 million, up 43% over prior year

Additional information related to the performance of IoT Solutions includes:

- Revenue growth of 8% year-over-year. Growth was again driven by both product offerings in the segment.
- ARR of over \$82 million, up 8% year-over-year. ARR growth was also driven by both product offerings in the segment.
- Gross Profit margins were 62.4%, up 450bps year-over-year. Increase driven by growth in recurring revenue across both business lines.
- Operating loss was \$0.8 million, compared to \$1.5 million a year ago.

Third Fiscal Quarter 2023 and Fiscal Full-Year 2023 Guidance

Uncertainty and delay seem to be common themes in 2023. We routinely comment on Digi's history of resiliency in difficult markets. The company is certainly not recession proof, but history shows we have consistently delivered in difficult macro conditions. We serve a broad array of end markets, many of which are essential, diversifying our exposure. We see strong demand for our solutions, and we can meet more of our customers' expectations as the supply chain continues to improve.

For the third fiscal quarter of 2023, we expect revenue of \$107 million to \$111 million, or growth of 3% to 7% year-over-year. Adjusted EBITDA is expected to be between \$23.0 million and \$24.0 million. Adjusted EPS is expected to be \$0.47 to \$0.49 per diluted share, assuming a weighted average share count of 37.3 million shares.

Based on our fiscal Q2 performance, and our fiscal Q3 guidance, we have stronger confidence in our annual projections for FY23. We now expect to grow annual revenues at least 12% as the supply chain continues to ease and demand remains strong. We expect ARR and A-EBITDA to grow faster than our revenue growth.

We provide earnings guidance on a non-GAAP basis as it is difficult to predict with reasonable certainty various items including but not limited to the impact of foreign exchange translation, interest and certain tax related events. Given the uncertainty, any of these or other items could have a significant impact on U.S. GAAP results.

On behalf of the entire Digi team, we want to thank you for your continued support and confidence in our company. We are excited about the opportunities in front of Digi and look forward to delivering strong results and creating value for stockholders. A special thank you to the Digi team for their diligent efforts executing at a best-in-class level.

A copy of our first fiscal quarter earnings release, which includes reconciliations of GAAP and non-GAAP financial measures in this letter, is included with this letter as [Schedule 1](#) for your convenience.

About Digi International

Digi International (Nasdaq: DGII) is a leading global provider of 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.

Forward-Looking Statements

This letter 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 "assume," "believe," "anticipate," "intend," "estimate," "target," "may," "will," "expect," "plan," "potential," "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 Digi 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 ongoing supply chain and transportation challenges impacting businesses globally, the ongoing COVID-19 pandemic and efforts to mitigate the same, risks related to ongoing inflationary pressures and the monetary policies of governments globally as well as present concerns about a potential recession and the ability of companies like us to operate a global business in such conditions, risks arising from the present war in Ukraine, 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 integrate and realize the expected benefits of acquisitions, 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, reorganizations or other similar business initiatives that may impact our ability to retain important employees or otherwise impact our operations in unintended and adverse ways, 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, 2022, could cause our actual 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 letter includes adjusted net income, adjusted net income per diluted share and 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 Digi. 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. We believe 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 net income and adjusted net income per diluted share, respectively, exclusive of such items as reversals of tax reserves, discrete tax benefits, restructuring charges and reversals, intangible amortization, stock-based compensation, other non-operating income/expense, changes in fair value of contingent consideration, acquisition-related expenses and interest expense related to acquisitions 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 these matters, 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 reversals, and changes in fair value of contingent consideration is useful to investors to evaluate our core operating results and financial performance because it excludes items that are significant non-cash or non-recurring items 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.