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

November 10, 2022
Date of report (date of earliest event reported)

Digi International Inc.
(Exact name of registrant as specified in its charter)

Delaware	1-34033	41-1532464
(State of Incorporation)	(Commission file number)	(I.R.S. Employer Identification No.)

9350 Excelsior Blvd. Suite 700 Hopkins Minnesota	55343
(Address of principal executive offices)	(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 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 November 10, 2022, Digi International Inc. ("Digi") issued a press release and shareholder letter regarding Digi's financial results for its fourth fiscal quarter and fiscal year ended September 30, 2022. 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.

No.	Exhibit	Manner of Filing
99.1	Press Release dated November 10, 2022, announcing financial results for the fourth fiscal quarter and fiscal year ended September 30, 2022	Furnished Electronically
99.2	Shareholder Letter dated November 10, 2022, discussing financial results for the fourth fiscal quarter and fiscal year ended September 30, 2022	Furnished Electronically
104	The cover page from the Current Report on Form 8-K formatted in Inline XBRL	Filed Electronically

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

Date: November 10, 2022

DIGI INTERNATIONAL INC.

By: /s/ James J. Loch

James J. Loch

Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 99.1

Digi International Reports Fourth Fiscal Quarter and Full Fiscal 2022 results
Record Annual Revenue of $388M, End of Quarter ARR of Over $94M
Full Year EPS of $0.54, Adjusted EPS of $1.66

(Minneapolis, MN, November 10, 2022) - 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 fourth fiscal quarter ended September 30, 2022.

Fourth Fiscal Quarter 2022 Results Compared to Fourth Fiscal Quarter 2021 Results[1]

- Revenue was $106 million, an increase of 34%.
- Gross profit margin was 55.8% versus 53.9%. Gross profit margin excluding amortization was 57.0% compared to 55.4%.
- Net income per diluted share was $0.31 from $0.13, an increase of 138%.
- Adjusted EPS was $0.45 per diluted share, an increase of 80%.
- Adjusted EBITDA was $22 million, an increase of 82%.
- Annualized Recurring Revenue (ARR) was over $94 million at quarter end, an increase of 149%.

Full Year Fiscal 2022 Results Compared to Full Year Fiscal 2021 Results[1]

- Revenue was $388 million, an increase of 26%.
- Gross profit margin was 55.7% versus 54.0%. Gross profit margin excluding amortization was 57.1% compared to 55.5%.
- Net income per diluted share was $0.54 from $0.31, an increase of 74%.
- Adjusted EPS was $1.66 per diluted share, an increase of 54%.
- Adjusted EBITDA was $79 million , an increase of 65%.

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[1] Fourth Fiscal Quarter 2022 and Full Year Fiscal 2022 results include the results of Ventus, which was acquired during our first fiscal quarter of 2022.

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

“The Digi team delivered a remarkable fiscal year for the company,” said Ron Konezny, President and Chief Executive Officer. “We set new records for revenue, ARR, Adjusted EBITDA and Adjusted EPS throughout the year. We hit the first of our “100” goals with consecutive $100 million revenue quarters. We remain committed to our remaining goals of $100 million in ARR and $100 million in annualized Adjusted EBITDA. I’m so proud of our teammates for their resilience, determination and customer focus in the face of dynamically challenging business conditions.”

Segment Results

IoT Product & Services

The segment's fourth fiscal quarter 2022 revenues of $81 million increased 15% from the same period in the prior fiscal year. This increase is attributable primarily to revenue growth from our OEM and console server business units. ARR as of the end of the fourth fiscal quarter was over $14 million. Gross profit margin was flat year over year at 53.7% of revenues for the fourth fiscal quarter of 2022, due to product and customer mix, as well as, overcoming supply chain and inflationary challenges.

Full fiscal 2022 revenues of $298 million were a record for this segment, increasing 13% from the prior fiscal year. This increase is attributable primarily to revenue from our console server and cellular products. Gross profit margin decreased 90 basis points to 53.8% of revenues for full fiscal 2021, due to product and customer mix, as well as, supply chain and inflationary challenges.

IoT Solutions

The segment's fourth fiscal quarter 2022 revenues of $25 million increased 173% from the same period in the prior fiscal year. This increase was primarily driven by Ventus. ARR as of the end of the fourth fiscal quarter was $80 million. Gross profit margin increased 710 basis points to 62.7%, due to growth of subscription revenue in the fourth quarter of fiscal year 2022. This also demonstrates the value of our high margin recurring revenue business model.

Full fiscal 2022 revenues of $91 million increased 104% from the prior fiscal year. This increase primarily was driven by Ventus. Gross profit margin increased 1,210 basis points to 62.0% as a result of a greater mix of recurring revenue compared to the prior fiscal year.

First Fiscal Quarter and Fiscal 2023 Guidance

With consideration to the supply chain and the other challenging macro conditions, we are providing the following guidance for our first quarter of fiscal 2023:

Revenues are estimated to be $101 million to $105 million, or 20% to 25% growth year over year. 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. Adjusted EBITDA is estimated to be $20.2 million to $21.7 million. Adjusted EPS is anticipated to be $0.41 to $0.44 per diluted share, assuming a weighted average diluted share count of 36.7 million shares.

For our fiscal year of 2023, we believe our projected revenue growth of 10% reflects continued supply chain constraints, with risks on macro economic conditions globally. Our projected revenue growth is not indicative of the demand we are seeing, but rather is continued to be constrained by tight supply chain challenges across the globe. We expect our ARR and Adjusted EBITDA to grow faster than our revenue growth.

Fourth Fiscal Quarter 2022 Conference Call Details

As announced on October 10, 2022, Digi will discuss its fourth fiscal quarter and full year 2022 results on a conference call on Thursday, November 10, 2022, before market open, 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/BIa782af9ec94d4a43bc236e081a39b72f. 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/x6hizwix.

A replay will be available within approximately two hours after the completion of the call. 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 and supplemental investor presentation relating to our third 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 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 such as our recently completed acquisition of Ventus, 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, 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, 2021 and other subsequent filings, 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:

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

	Three months ended September 30,		Year ended September 30,	
	2022	2021	2022	2021
Revenue	$ 105,738	$ 79,106	$ 388,225	$ 308,632
Cost of sales	46,743	36,480	171,939	141,975
Gross profit	58,995	42,626	216,286	166,657
Operating expenses:				
Sales and marketing	19,041	15,638	70,366	61,909
Research and development	13,899	11,801	55,098	46,623
General and administrative	15,311	11,901	58,527	40,830
Change in fair value of contingent consideration	(6,200)	—	(6,200)	5,772
Restructuring charge	61	—	275	995
Operating expenses	42,112	39,340	178,066	156,129
Operating income	16,883	3,286	38,220	10,528
Other expense, net	(4,876)	(285)	(19,592)	(1,529)
Income before income taxes	12,007	3,001	18,628	8,999
Income tax expense (benefit)	784	(1,587)	(755)	(1,367)
Net income	$ 11,223	$ 4,588	$ 19,383	$ 10,366
Net income per common share:				
Basic	$ 0.32	$ 0.13	$ 0.55	$ 0.32
Diluted	$ 0.31	$ 0.13	$ 0.54	$ 0.31
Weighted average common shares:				
Basic	35,378	34,161	35,031	32,111
Diluted	36,455	35,421	35,995	33,394

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

	September 30, 2022	September 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,900	$ 152,432
Accounts receivable, net	50,450	43,738
Inventories	73,223	43,921
Income taxes receivable	3,764	2,698
Other current assets	3,871	3,869
Total current assets	166,208	246,658
Non-current assets	687,687	372,873
Total assets	$ 853,895	$ 619,531
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 15,523	$ —
Accounts payable	32,373	22,586
Other current liabilities	48,611	36,355
Total current liabilities	96,507	58,941
Non-current liabilities	255,875	88,073
Total liabilities	352,382	147,014
Total stockholders’ equity	501,513	472,517
Total liabilities and stockholders’ equity	$ 853,895	$ 619,531

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

	Year ended September 30,	
	2022	2021
Net cash provided by operating activities	$ 37,740	$ 57,723
Net cash used in investing activities	(349,528)	(21,365)
Net cash provided by financing activities	192,782	62,242
Effect of exchange rate changes on cash and cash equivalents	1,474	(297)
Net (decrease) increase in cash and cash equivalents	(117,532)	98,303
Cash and cash equivalents, beginning of period	152,432	54,129
Cash and cash equivalents, end of period	$ 34,900	$ 152,432

Non-GAAP Financial Measures

TABLE 1

Reconciliation of Net Income to Adjusted EBITDA
(In thousands)

	Three months ended September 30,				Year ended September 30,			
	2022		2021		2022		2021	
		% of total revenue		% of total revenue		% of total revenue		% of total revenue
Total revenue	$ 105,738	100.0 %	$ 79,106	100.0 %	$ 388,225	100.0 %	$ 308,632	100.0 %
Net income	$ 11,223		$ 4,588		$ 19,383		$ 10,366	
Interest expense, net	5,033		371		19,690		1,385	
Income tax expense (benefit)	784		(1,587)		(755)		(1,367)	
Depreciation and amortization	8,446		5,677		33,839		20,877	
Stock-based compensation	2,176		1,804		8,578		8,135	
Changes in fair value of contingent consideration	(6,200)		—		(6,200)		5,772	
Restructuring charge	61		—		275		995	
Acquisition expense	349		1,161		4,605		2,098	
Adjusted EBITDA[1]	$ 21,872	20.7 %	$ 12,014	15.2 %	$ 79,415	20.5 %	$ 48,261	15.6 %

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 September 30,				Year ended September 30,			
	2022		2021		2022		2021	
Net income and net income per diluted share	$ 11,223	$ 0.31	$ 4,588	$ 0.13	$ 19,383	$ 0.54	$ 10,366	$ 0.31
Amortization	6,795	0.19	4,545	0.13	27,195	0.76	16,534	0.50
Stock-based compensation	2,176	0.06	1,804	0.05	8,578	0.24	8,135	0.24
Other non-operating income	(157)	—	(85)	—	(98)	—	144	—
Acquisition expense	349	0.01	1,161	0.03	4,605	0.13	2,098	0.06
Changes in fair value of contingent consideration	(6,200)	(0.17)	—	—	(6,200)	(0.17)	5,772	0.17
Restructuring charge	61	—	—	—	275	0.01	995	0.03
Interest expense, net	5,033	0.13	376	0.01	19,690	0.54	1,404	0.04
Tax effect from the above adjustments [1]	(1,638)	(0.05)	(2,133)	(0.06)	(9,901)	(0.28)	(6,627)	(0.20)
Discrete tax benefits [2]	(1,187)	(0.03)	(1,398)	(0.04)	(3,933)	(0.11)	(2,674)	(0.07)
Adjusted net income and adjusted net income per diluted share [3]	$ 16,455	$ 0.45	$ 8,858	$ 0.25	$ 59,594	$ 1.66	$ 36,147	$ 1.08
Diluted weighted average common shares		36,455		35,421		35,995		33,394

(1) The tax effect from the above adjustments assumes an estimated effective tax rate of 18.0% for fiscal 2022 and 2021 based on adjusted net income.
(2) For the three months and years ended September 30, 2022 and 2021 discrete tax benefits primarily are a result of excess tax benefits recognized on stock compensation.
(3) Adjusted net income per diluted share may not add due to the use of rounded numbers.

November 10, 2022

Dear Fellow Shareholders:

Digi's mission is to transform our customers' work by connecting their people and machines. Digi's expertise, quality, and secure products help solve mission and business critical machine communications challenges in the most demanding environments.

A record fourth fiscal quarter caps a breakout fiscal year. We are better positioned than ever as an IIoT (Industrial Internet of Things) leader. Digi's strong team, growth of subscription-based offerings, our diversified customer base, our focus on the industrial marketplace, and the accelerating digital transformation have contributed to our success. Remote presence and heightened automation are lasting priorities for our customers, and Digi will play a crucial role in meeting these needs.

FQ4 2022 Results

We continue to push towards our remaining "100 goals". We exceeded our $100 million in quarterly revenue goal for the second quarter in a row. We are advancing towards our goals of $100 million in annualized recurring revenue (ARR) and $100 million in annual adjusted EBITDA. ARR as of the end of the quarter on September 30, 2022 set another record at over $94 million, up 149% year-over-year. Growing ARR is a top strategic priority for Digi as it indicates stronger customer value, while providing a ballast of performance predictability. With the acquisition of Ventus a little over a year ago, we jumpstarted our transition as an IIoT solution provider, bolstering ARR and the quality of our quarterly revenue. Our integration of Ventus has gone well with realized cost savings and strong growth potential.

Revenue was a record $106 million, an increase of 34% year-over-year, with contributions from nearly every product line.

Despite ongoing supply chain complications, our operations team helped deliver gross profit margins of 55.8%, an increase of 190 bps year-over-year. Gross profit margin excluding amortization was 57.0% vs. 55.4% a year ago. Inflation remains a headwind, and we are balancing select pricing changes while serving our customers' interests first to strengthen our long-term relationships.

The combination of record quarterly revenue and strategic expense management generated record quarterly adjusted EBITDA of $22 million, up 82% year-over-year. Adjusted EBITDA margin was 20.7%, an increase of 550 bps year-over-year.

As revenue and margins improve, led by our ARR growth, our earnings per share also improve. In FQ4 2022 we delivered GAAP EPS of $0.31, up 138% year-over-year. On a non-GAAP basis, adjusted EPS was $0.45, up 80% over a year ago.

IoT Products and Services delivered a record $81 million in revenue, up 15% year-over-year. Growth was driven by OEM, Cellular, as well as another consistent quarter of growth from Console Server offerings. ARR was over $14 million, up 8% year-over-year driven by Console Server and Cellular offerings. Gross profit margin was 53.7%, flat year-over-year. Product and customer mix neutralized the effect of the continued supply chain and inflationary headwinds. Operating income grew 180% year-over-year to $18 million, up 61% sequentially.

IoT Solutions posted record revenue of $25 million, up 173% over the prior year. Driven by our acquisition of Ventus, ARR grew to a record $80 million, up 228% year-over-year. Gross profit margin expanded 710 bps year-over-year to 62.7%. Operating loss was $0.6 million, an improvement from $3.0 million a year ago.

Fiscal Full-Year 2022 Results

This was a transformative year for Digi. Ventus was our largest acquisition in company history and further shifted our business model towards a full IIoT solution provider. Digi made strides in automation and scalability through several process improvement initiatives that enhance customer experience. The team executed well, resulting in several record fiscal full-year results.

Digi delivered record revenue of $388 million, an increase of 26% year-over-year.

Throughout the fiscal year, Digi performed well amid the ever-changing supply chain constraints, advocating for part allocations and modifying SKUs to meet customer demand. Gross profit margin for the full-year was 55.7%, an increase of 170 bps over fiscal 2021. Gross profit margin excluding amortization was 57.1% compared to 55.5% in the prior year. While we continue to experience supply challenges, we are seeing some relief on freight charges and more availability of certain components. We have not seen customer demand soften.

As our margin profile improves, so does our profitability. Adjusted EBITDA was a record $79 million, growing 65% over prior year. Adjusted EBITDA margin hit another record at 20.5% for the fiscal year, an increase of 490 bps year-over-year.

Fiscal full-year GAAP EPS was $0.54, up 74% over fiscal 2021. On a non-GAAP basis, adjusted EPS was $1.66. That performance represents an increase of 54% year-over-year.

Both operating segments had strong fiscal years. IoT Products and Services delivered a record $298 million in revenue, an increase of 13% over the prior year driven primarily by our Console Server, Cellular, and OEM offerings. Gross profit margin was 53.8%, down 90 bps year-over-year. This decline was driven by supply chain challenges including higher part prices and increased transportation costs.

Operating income was $42 million, which represents growth of 128% year-over-year driven by higher revenue and disciplined operating expense management.

IoT Solutions posted record revenue of $91 million, an increase of 104% over the prior year. The year-over-year growth largely was driven by the Ventus acquisition completed in November 2021. Gross profit margin was 62.0%, an increase of 1,210 bps over the prior year also attributable to the Ventus acquisition and strong recurring revenue margins. Operating loss in Solutions was $3 million, an improvement from a loss of $8 million a year ago.

Capital Allocation and Balance Sheet Commentary

During fiscal 2022, we paid down $100 million of debt with a $19 million payment in our fiscal fourth quarter. With $35 million in cash and gross debt of $250 million, we had net debt of $215 million as of September 30, 2022.

Cash from operations in fiscal 2022 was $38 million, down 35% year-over-year. This decline was driven by strategic inventory purchases throughout the year. Balance sheet inventory increased significantly and intentionally. Starved for certain components throughout fiscal 2022, Digi was unable to fully capture the record demand we experienced and are still experiencing. Digi has been strategically purchasing components to ensure meeting our customers' needs. Inventory finished the year at $73 million, up from $62 million at the end of fiscal Q3 2022. Of the inventory on-hand, 46% is components and 54% is finished product. Channel inventory sits at $21.0 million, up sequentially from $20.8 million in fiscal Q3 2022. We feel confident in our ability to deploy our inventory, as backlog now exceeds a record $300 million, up from $250 million at the end of calendar 2021.

Our top capital allocation priority is inventory management, efficiently delivering our products and solutions to our customers. Our second priority is strategic investments to grow our position as a leader in our respective markets. Our third priority is debt reduction given the ongoing uncertainties in the macro environment.

Full IIoT Solution Provider

In this historically tight labor market, companies are looking for new ways to get things done. The days of “set and forget” IIoT are over. Machine security, uptime and connectivity now requires daily, hourly, even by the minute monitoring, for some applications. Digi hardware enabled software solutions reduce the need for some challenging to find labor with automated processes and monitoring. The cost savings and efficiency gained from a Digi solution provide clear return on investment for our customers.

We offer subscription solutions not only in our Solutions segment, but also in Product and Services. Our Cellular offering includes Digi Remote Manager, and our Console Server offering includes Lighthouse Management Software. While the software attach rate in these offerings is relatively low today, there is potential for significantly higher attach rates over the next several years. Our best sales lead in IoT Products and Services is when a customer tries to solve their IIoT requirements on their own, facing challenges with the ongoing monitoring needed to deliver results. Many companies, large and small, do not have a team dedicated to IIoT, but have a clear need for IIoT solutions. We assist customers with what’s becoming a highly desired and necessary solution. We bundle it all with resilient hardware, subscription software and service for reliable and secure connectivity with 24 / 7 monitoring.

Fiscal Q1 2023 and Full-Year 2023 Guidance

We take pride in doing what we say we will do. We have been clear about our growth potential while improving profitability and cash generation. Our guidance assumes continued supply chain constraints and restraining fiscal policies, not a lack of demand. While no company is truly recession proof, past results indicate Digi has a history of being recession resilient.

For the first fiscal quarter of 2023, we expect revenue to be $101 million to $105 million, or growth of 20% to 25% year-over-year. Adjusted EBITDA is expected to be between $20.2 million and $21.7 million. Adjusted EPS is expected to be $0.41 to $0.44 per diluted share, assuming a weighted average share count of 36.7 million shares.

For the full fiscal year 2023, our projected revenue growth is 10%. This reflects continued supply chain constraints and risks of macro-economic conditions globally. Our projected revenue growth is not indicative of the demand we are seeing. Rather our ability to meet demand continues to be constrained by supply chain challenges across the globe. We expect our ARR and adjusted 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, restructuring, 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.

Digi has a unique combination of a large and growing market and an increasingly subscription-based solution that is in high demand. Digi customers save money on fuel and labor by accelerating their automation.

A deeply grateful thank you to the Digi team, our partners, our customers, and our shareholders that have placed their trust in our company. We can do great things as individuals, but we can change the world as a team.

A copy of our third 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, or call 877–912–3444 (U.S.) or 952–912–3444 (International).

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 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 such as our recently completed acquisition of Ventus, 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, 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, 2021 and other subsequent filings, 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 shareholders 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.