

Digi International Inc. (Nasdaq: DGII)

Rating: Buy

Price Target: \$45.00

Share Price: \$28.95

Greg Mesniaeff
gmesniaeff@kingswoodus.com
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Company Data

Average Daily Volume (M)	0.237
52-Week Range	20.17-37.07
Shares Outstanding (M)	36.90
Market Cap (M)	1,068.2
Enterprise Value (M)	1,150.9
Total Cash (M), mrq	25.94
Total Debt (M)	108.59
Total Debt to Cap	15.5%

Estimates

FYE: Dec		2025E	2026E
EPS	Q1	\$0.50	N/A
	Q2	\$0.49	N/A
	Q3	\$0.50	N/A
	Q4	\$0.51	N/A
	FY	\$2.00	\$2.13
P/E		14.5x	13.6x
Rev	Q1	\$103.87	N/A
	Q2	\$104.54	N/A
	Q3	\$106.76	N/A
	Q4	\$108.46	N/A
	FY	\$423.63	\$443.30
EV/Sales		2.7x	2.6x

One-Year Performance Chart



As of March 6, 2025. Source: E-Trade.

IoT Connectivity Leader Transitioning to a Recurring, High-Margin Subscription Model

Initiating coverage with a Buy rating and \$45 price target

Summary

We are initiating coverage of Digi International Inc. with a Buy rating and a \$45 12-month price target. For nearly four decades, Digi has been a pioneer in providing business and mission-critical IoT connectivity products, services, and solutions tailored to various industries, including healthcare, transportation, and smart cities. Driven by the rapidly growing IoT market, the company's revenue nearly doubled, from ~\$250 million in 2019 to ~\$445 million in 2023. Although revenue growth has been sluggish since 2023, the transition towards a recurring revenue subscription model following the acquisition of Ventus in 2022 has improved gross and adjusted margins to industry-leading levels. We believe this transition, coupled with the introduction of new products and services and including the possibility of inorganic expansion, places the company in a dominant position to capture a slice of the large and growing IoT market over the coming years.

- Digi's comprehensive IoT connectivity portfolio powers diverse industries.** Digi has been a pioneer in providing business and mission-critical IoT connectivity products, services and solutions to various industries, including healthcare, transportation, and smart cities. The company provides a full suite of tools that enable seamless connectivity from the devices to the cloud. This includes hardware (modems, routers and gateways), along with cloud services for device management, ensuring a unified approach to IoT deployments.

- **Digi's total addressable market (TAM) for IoT connectivity and condition monitoring markets is ~\$20 billion.** According to various market research organizations, the IoT connectivity market is estimated at \$10 billion in 2024 and is projected to grow at a CAGR of 20% through 2030. IoT condition monitoring and asset tracking services is estimated at \$12 billion currently with a CAGR of 15% through 2030. The larger IoT supply chain management market comprising Asset Tracking and Monitoring, Inventory Management, Cold Chain Monitoring, Fleet Management, and Predictive Maintenance is estimated at \$21 billion in 2023 and is projected to reach \$57 billion by 2032, as per Zion Market Research. Digi is well positioned to capture an increasing share of this large and growing market with its comprehensive product and service portfolio.
- **Subscription model fuels recurring revenue, targeting \$200mn annualized recurring revenue (ARR) by FY28.** Digi continues to transition towards a subscription model for services including software updates and device management, creating a steady revenue stream and fostering long-term customer relationships. Consequently, the company has seen its ARR grow from 4% to 27% of total revenue over the last six years. ARR further increased to ~28% of total revenue, or a record \$120 million, outpacing the topline revenue of \$104 million, in 1Q25. Management expects this percentage to continue growing as the company shifts toward a more software-centric business model. By FY28, the company expects to have \$200 million in ARR, nearly double the current \$120 million (as of 1Q25).
- **Gross and adjusted EBITDA margins improving despite sluggish revenue growth.** Despite revenue falling 5% in FY24 due to a weak global economy and chip set supply issues, gross margins improved 220 basis points (bps) to 58.9% while adjusted EBITDA margins improved 140 bps to 23.1%. By segment, gross margins in IoT Products & Services improved 24bps to 54.6% in FY24 after increasing by 58bps to 54.4% in FY23, driven by an increase in recurring revenue at high margins and a reduction in inventory adjustments. IoT Solutions gross margins increased by a whopping 820 bps in FY24 (FY23: +277 bps) driven by growth in higher margin ARR subscription revenue, favorable mix within one time volume and a reduction in inventory adjustments.
- **Digi shares remain undervalued, we believe.** Shares are currently trading at 13-14x our FY26 non-GAAP EPS estimate of \$2.13, versus the peer average of 33.4x (see Table on page 14). Our \$45 price target assumes a full valuation P/E multiple of 21x our FY26 estimate, which is still below the current peer group average forward P/E multiple.

Company Overview

Digi International is a leading provider of Internet of Things (IoT) connectivity hardware and software solutions. Founded in 1985, the company has a long history of innovation in wireless communication and embedded systems. Headquartered in Hopkins, Minnesota, Digi serves OEMs, enterprises and government clients worldwide. The company operates through two segments: IoT Products & Services, providing embedded modules, routers and device management platforms; and IoT Solutions, encompassing SmartSense (condition-based monitoring) and Managed Network-as-a-Service (MNaaS) through the Ventus acquisition. Digi's solutions are used in a variety of industries, including industrial for connecting machines and equipment for automation and monitoring; transportation for enabling fleet tracking, vehicle diagnostics, and connected infrastructure; healthcare for supporting remote patient monitoring, telehealth, and connected medical devices; and retail for powering point-of-sale systems, digital signage, and inventory management. Digi is committed to providing reliable, secure, and scalable connectivity solutions that help businesses and organizations connect their devices and improve their operations.

Digi's Products and Services

The IoT Products & Services Segment at Digi International offers a range of hardware products and services designed to enable and support IoT solutions across various industries.

Hardware Products

Cellular Products: Digi provides a comprehensive line of cellular-enabled devices leveraging LTE, LTE Advanced Pro, and 5G wireless technologies. These products cater to a wide range of applications and are trusted by industry leaders in sectors like agriculture, energy, medical, lighting, digital signage, gaming, electric charging, transportation, and other industrial and enterprise markets. Key offerings include:

- **Cellular Routers:** These routers are designed for mission-critical wireless connectivity in challenging, remote, and mobile environments. They serve enterprise, government, industrial, transportation, and OEM customers, providing reliable communication for essential operations.
- **Cellular Modules:** These are compact electronic components designed to be embedded within other manufacturers' products (OEMs). By incorporating Digi's cellular modules, OEMs can easily add cellular communication capabilities to their devices. This simplifies the development process, reduces costs and risks, and accelerates time-to-market.
- **Console Servers:** These servers provide secure, remote access to network equipment located in data centers and edge locations. They are software-manageable and primarily used by IT organizations in large enterprises.

Radio-Frequency (RF) Products (Digi XBee): Marketed under the Digi XBee brand, these products offer a variety of wireless connectivity solutions. They include embedded wireless modules, as well as ready-

to-use gateways, modems, and adapters. Digi XBee products support a broad spectrum of wireless protocols, both industry-standard and proprietary, such as Zigbee, Cellular, Sub-1 GHz, LPWA (Low-Power Wide-Area), Wi-Fi, and Bluetooth. This diverse protocol support allows customers to choose the optimal connectivity technology for their specific application needs, whether it requires low power consumption, long range, high bandwidth, or a combination of factors.

Embedded System Products (Digi Connect, ConnectCore, Rabbit): Digi offers embedded system solutions under the Digi Connect, ConnectCore, and Rabbit brands. These products include System-on-Modules (SOMs) and single-board computers. They are designed to be embedded within customer products across diverse industries and applications. These embedded systems provide highly integrated computing platforms with scalable performance, flexible wired and wireless connectivity options, and comprehensive software platforms. The latest ConnectCore products feature advanced capabilities like multi-core processing for demanding applications, enhanced security features, multimedia support, human-machine interface (HMI) capabilities, and integration with emerging technologies such as machine learning.

Infrastructure Management Products: This category comprises serial and USB solutions. Serial servers provide secure and reliable integration of devices with serial ports into wired Ethernet networks. Digi's USB solutions allow multiple USB devices to be connected and accessed over a wired or wireless network without requiring each device to be directly connected to a host computer. This enables centralized management and sharing of USB devices, improving efficiency and resource utilization.

Services

Digi Remote Manager: A cloud-based service for managing connected devices throughout their lifecycle, enabling activation, monitoring, diagnostics, updates, and more from a single platform.

Lighthouse Management Software: A cloud-based service providing secure remote access and centralized management of network devices.

Technical Services: Professional services (planning, implementation, training), data plan subscriptions for cellular connectivity, and enhanced technical support. These services aim to help customers succeed with their Digi solutions.

Digi International's **IoT Solutions** segment provides complete, industry-specific solutions:

SmartSense by Digi: An end-to-end system using sensors, gateways, and cloud applications to monitor temperature (food, perishables), track tasks (facilities, pharmacies), and provide supply chain visibility. It is transitioning from a hardware + subscription model to a comprehensive sensing-as-a-service offering.

Ventus: A provider of Managed Network-as-a-Service (MNaaS) solutions, simplifying wireless and fixed-line wide area network (WAN) connectivity with end-to-end security. It serves various sectors (banking,

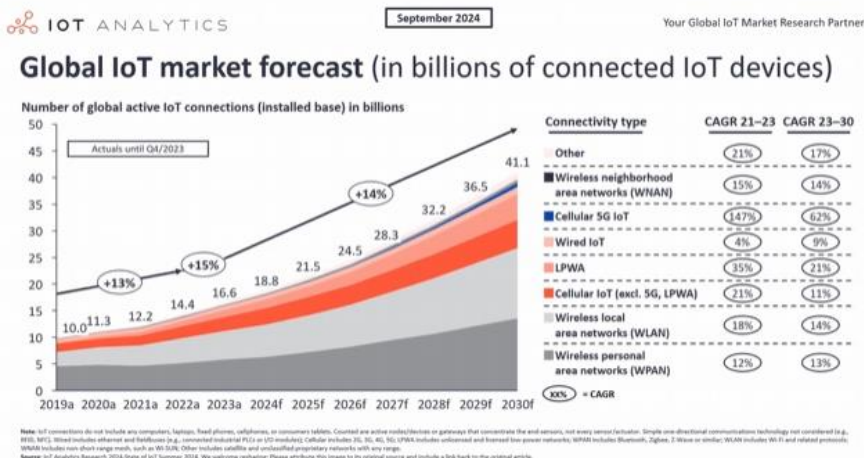
healthcare, retail, etc.) and supports applications like ATMs, point-of-sale, and digital signage, offering customized long-term solutions.

Key Investment Considerations

The Rise of IoT: From Smart Devices to Smart Cities, a Trillion Dollar Market Opportunity. Defined as a network of internet-enabled physical devices by market intelligence firm IoT Analytics, the Internet of Things (IoT) market continues to witness rapid growth, driven by digital transformation in manufacturing (Industry 4.0 - smart machines, autonomous robots, cloud computing, etc.), smart cities and homes, 5G connectivity, and, more recently, Artificial Intelligence. Key market trends include maturing IoT implementations owing to a rapid increase in IoT use case adoption, reduced spending on hardware, and a shift toward increased spending on software and services.

Maturing IoT implementations bode well. Driven by rapid use-case adoptions across verticals and regions, high success rates/ROI in IoT projects and gradual reduction in complexity have drastically improved IoT implementations over the past few years. According to market surveys by IoT Analytics, IoT use case adoption rollouts across operations, supply chains, and connected products increased to 40% in 2024 from 25% in 2021, implying a 60% jump within three years. The surveys also show that ROI on IoT projects rose to nearly 90% in 2024 from 79% in 2021 while complexity has gradually reduced, leading to more IoT adoptions among end users.

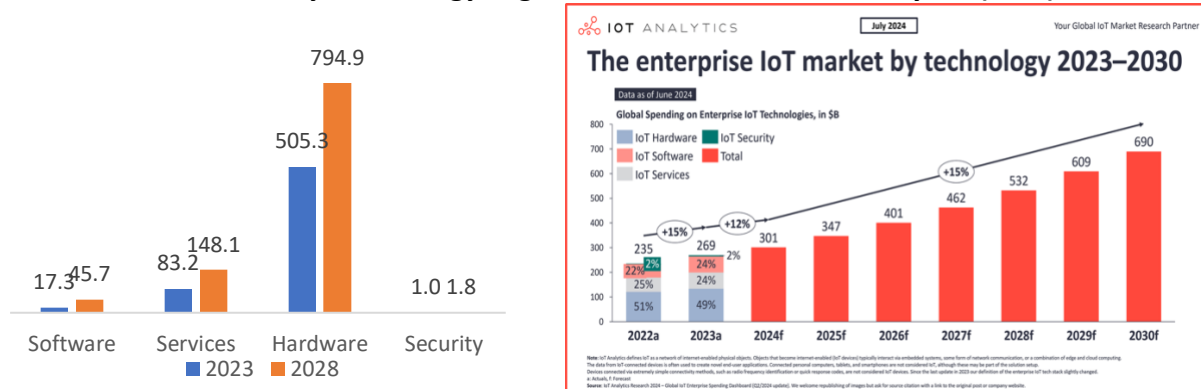
20 billion connected devices in 2025. As per the State of IoT Summer 2024 report published by IoT Analytics, the number of IoT connected devices surged 15% to 16.6 billion in 2023, from 14.4 billion in 2022. The research firm expects the growth to slow down to 13% in 2024 to 18.8 billion devices, owing to inflation and chip set supply concerns. However, IoT Analytics expects growth to re-accelerate in 2025 and forecasts a CAGR of 14% through 2030, driving the number of connected devices to over 40 billion. Currently, the majority of connections use Wi-Fi technology (WLAN and WPAN), and this is expected to continue through 2030. However, widespread use of 5G technology is expected to accelerate in connections with a CAGR of 62% over 2023-2030.



Source: IoT Analytics

IoT market size estimates vary widely – from \$400 billion to over \$1.0 trillion in 2025. Owing to disparate research methodologies and inconsistent definitions of the IoT market, the total IoT market size figures vary widely – from \$400 billion to over \$1.0 trillion, in 2025. As per IoT Analytics, the total enterprise spending on IoT is estimated at ~\$350 billion in 2023 and is projected to reach \$690 billion by 2030. Gartner, another leading firm focused on technology research, projects the total IoT market to reach \$991 billion by 2028 from ~\$607 billion in 2023. Market size estimates of IoT from non-technology-focused research firms include \$65 billion (2024, MarketsandMarkets), \$1.0 trillion (2025, Statista), and \$1.35 trillion (2025, Mordor Intelligence). We believe the fair market estimates for the global IoT market at ~\$500 billion in 2025, roughly the average of IoT Analytics and Gartner estimates.

IoT Market by Technology Segment – Gartner and IoT Analytics (\$ Bn)

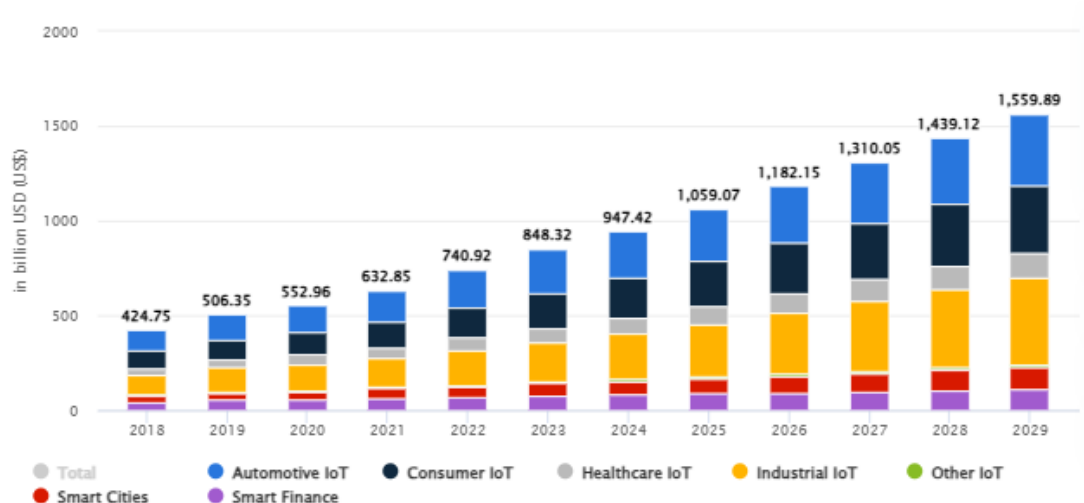


Source: Gartner Group

Source: IoT Analytics

Hardware segment accounts for bulk of IoT revenue but witnessing growth slowdown; smaller segments - software and services - showing rapid growth. While the total IoT market estimates vary widely, segmental share and growth rates by segment are largely similar in IoT Analytics and Gartner reports. Both these research firms estimate Hardware as the largest segment. As per IoT Analytics, the hardware segment accounted for 50% of IoT revenue in 2023. As per Gartner, hardware (Endpoint Electronics) accounted for a whopping 83% in 2023. In terms of growth rates, however, software and services lead. Per Gartner, both software and services are expected to grow at over 20% over 2023-2028 while hardware growth is forecast at less than 10% over the same period. Within software, Gartner believes application software related to platforms and CRM will grow at over 27% through 2025, outpacing other software categories such as enterprise resource planning (ERP) and supply chain management (SCM).

Industrial IoT and Automotive IoT lead verticals. Industrial IoT and Automotive are the two major verticals, accounting for over a quarter each of the overall IoT market, as per research from Statista. Industrial IoT will dominate and strengthen its position through 2029, increasing its share to 29% by 2029. The segment is being driven by Industry 4.0, or the fourth industrial revolution characterized by the convergence of smart machines, autonomous robots, cloud and edge computing, and big data. Automotive IoT is being driven by a rapid transition towards electric vehicles, autonomous driving, and software-defined vehicles.



Source: Statista

Digi's TAM – IoT connectivity and condition monitoring market is ~\$20 billion. Since Digi's operations are primarily targeted at IoT connectivity (modems, routers and related services) through its IoT Products and Services segment, and IoT condition monitoring and asset tracking services through its Solutions segment, the size of these two segments within the larger IoT market comprises the relevant total addressable market for the company. According to various market research organizations, the IoT connectivity market comprising communication platform and network infrastructure for connecting IoT devices is estimated at \$10 billion in 2024 and is projected to grow at a CAGR of 20% through 2030. The IoT condition monitoring and asset tracking services market is estimated at \$12 billion currently with a CAGR of 15% through 2030. The larger IoT supply chain management market comprising Asset Tracking and Monitoring, Inventory Management, Cold Chain Monitoring, Fleet Management, and Predictive Maintenance is estimated at \$21 billion in 2023 and is projected to reach \$57 billion by 2032, according to Zion Market Research.

Another way of analyzing TAM for Digi is the total number of connected devices, which as mentioned earlier is estimated at 20 billion currently and is expected to double to 40 billion by 2030, as per research from IoT Analytics.

5G connectivity, cloud computing and AI are key technologies accelerating market growth. The rollout and the expansion of 5G networks globally is a significant driver, providing faster and more reliable connections for IoT devices. This is particularly relevant for Digi as its key focus is connectivity that uses various wireless and wireline technologies, including 5G. This technology supports enhanced data rates and reduced latency, enabling more complex applications and a higher number of connected devices. As 5G connectivity becomes more widespread, IoT adoption is expected to accelerate in different regions and/or end-use verticals. As per IoT Analytics, connections using cellular 5G are expected to witness a 62% CAGR over 2023-30, after a whopping 150% CAGR experienced over 2021-2023. Gartner predicts pervasive adoption of 5G technology will drive the next phase of IoT market growth between 2025 and 2028.

The integration of AI and Machine Learning into IoT systems is transforming data handling and decision-making processes. AIoT (AI + IoT) allows for intelligent apps and solutions that can analyze vast amounts of data in real-time, driving efficiency and automation across industries. Over 48% of enterprises are prioritizing AI/ML integration in their IoT deployments. As per Gartner, over 95% of new industrial IoT deployments will include analytics and AI-edge inference capabilities by 2025, up from less than 30% in 2022.

Another technology that has significantly contributed to IoT market growth and will likely continue to drive future market growth is the emergence of cloud computing. The technology offers scalable and cost-effective infrastructure for managing and analyzing the vast amounts of data that IoT devices generate. Cloud service providers also incorporate advanced analytical tools including AI that will help IoT solutions transform raw data into actionable insights, facilitating improved decision-making and operational efficiency.

Digi's Comprehensive IoT Connectivity Portfolio Powers Diverse Industries

For nearly forty years, Digi has been a pioneer in providing business and mission-critical IoT connectivity products, services and solutions tailored to various industries, including healthcare, transportation, and smart cities. Digi provides a full suite of tools that enable seamless connectivity from the devices to the cloud. This includes hardware like routers and gateways, along with cloud services for device management, ensuring a unified approach to IoT deployments. Digi's products are designed to withstand harsh environmental conditions, making them ideal for industrial applications. The company's rugged cellular routers and embedded systems cater specifically to the needs of industries like manufacturing and utilities. With increasing cybersecurity threats, Digi emphasizes robust security features across its product lineup, which is crucial for gaining customer trust.

Digi's IoT Products and Services segment (75% of total revenue) provides solutions that assist original equipment manufacturers (OEMs), enterprises, and government entities in developing, deploying, and securing IoT connectivity. Key products offered include embedded and wireless modules, console servers, enterprise and industrial routers, while services comprise device management platform services and other professional services to enable customers to capture and manage data from devices connected to networks. These products are sold through a global network of distributors, systems integrators, value-added resellers, and Digi's own sales team.



Source: Digi International

This segment's revenue has traditionally come from one-time product sales. However, the focus has now shifted towards subscription-based offerings. Recent examples of this shift include the launch of

the Digi Life Cycle Assurance subscription in 2024 and the recently announced Digi 360 subscription. The IoT Products and Services segment is the largest contributor to the company's revenue, representing 74.9% of revenue as of 1Q25. Gross margins for this segment have been stable at 53-55% over the past three years. 1Q25 saw gross margin for the segment increase to 58.6% driven by favorable product mix. ARR of this segment has gone up to \$27 million in 1Q25 from \$24 million as of FY24 end.

Digi's **IoT Solutions segment** (25% of total revenue) provides software-based services facilitated by connected devices using cellular communications and consists of two sub-segments: SmartSense by Digi (acquired in 2018) and Ventus (acquired in 2021). SmartSense provides perishable goods condition monitoring services and employee task management services primarily to the food service, healthcare and logistics verticals. Ventus provides Managed Network—as-a-Service (MNaaS) solutions for cellular wireless and fixed line WAN operations to a variety of verticals, including banking, healthcare, retail, hospitality, and gaming.



Source: Digi International

Unlike the IoT Products and Services segment which uses distributors as the primary sales channel, the IoT Solutions segment derives its sales primarily through dedicated sales teams. The segment primarily uses a subscription model, generating a stable base of recurring revenue with gross margins of 72-73%. The ARR for this segment stands at \$93 million as of 1Q25, up from \$92 million at FY24 end.

Uniquely positioned compared to competition. We believe Digi has differentiated end-to-end product and service offerings that can be bundled as a complete subscription-based solution. On the other hand, most product competitors focus on providing individual hardware component building blocks for their IoT communications solutions.

Management contemplating inorganic expansion. Historically, acquisitions have significantly expanded Digi's offerings in both segments. Management is focused on future acquisitions with opportunities of scale and the potential to enhance subscription-based recurring revenue. The last acquisition was Ventus in 2021 for \$347 million.

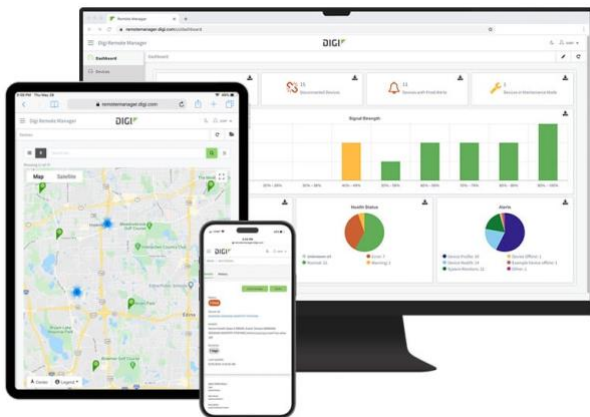
Key IoT Portfolio: Digi 360 Solution

This comprehensive offering combines cellular routers, the Digi Remote Manager platform, and customer support into a single package. It aims to simplify IoT deployments by providing a reliable and

secure solution with a limited lifetime warranty. This all-in-one approach simplifies the deployment and management of IoT projects, allowing customers to focus on their core business rather than managing multiple vendors and solutions. By subscribing to Digi 360, customers can avoid large upfront costs associated with purchasing devices and software outright. The subscription model allows for predictable budgeting and cash flow management while providing access to the latest technology. This future-proofing helps businesses stay competitive without needing constant reinvestment in new hardware or software.

Digi Remote Manager®

This platform allows for remote monitoring and management of devices, enabling over-the-air (OTA) updates and real-time alerts. It simplifies device management across large networks, ensuring security and operational efficiency. Subscribers benefit from Digi Remote Manager, which provides centralized control, monitoring and troubleshooting capabilities. This feature enables remote diagnostics and repairs, reducing downtime and the need for on-site visits. Additionally, customer support is available 24/7, ensuring quick resolution of issues.



Digi TrustFence®

Digi emphasizes security with its TrustFence® framework, which includes built-in security measures such as encryption and secure boot processes. This focus on security helps protect devices from cyber threats throughout their lifecycle.

Recent launches: On January 7, 2025, the company released Digi X-ON™, which is a breakthrough edge-to-cloud IoT solution that provides the components needed for IoT systems from one trusted and reliable supplier. Digi X-ON™ offers secure, reliable, and scalable edge-to-cloud IoT solutions to drive fast, measurable results and ROI for customers.

On January 9, 2025, SmartSense by Digi®, introduced SmartSense VOYAGE™, a solution that offers real-time visibility, control, and tracking of moving assets throughout the entire supply chain. The new IoT offering empowers organizations with real-time tracking and condition monitoring of moving assets.

VOYAGE™ can also be employed to solve supply chain challenges. The new-age platform is capable of addressing critical needs for retail, pharmaceutical, healthcare, and food service industries by delivering continuous monitoring of both location and environmental conditions.

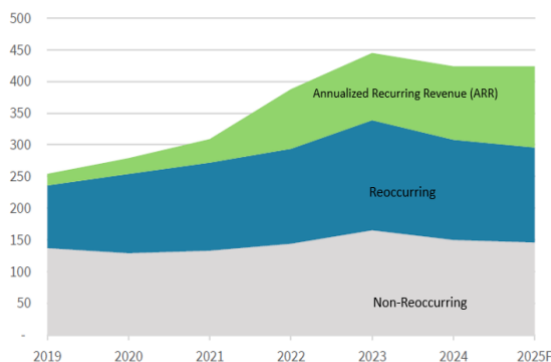
Continued transition to subscription model fueling ARR and improving profitability. Digi continues to shift towards a subscription model for ongoing services like software updates and device management, creating a steady revenue stream and fostering long-term customer relationships. The subscription model allows customers to easily scale their IoT deployments as their needs grow. Subscriptions can be adjusted to include additional services or devices as required, providing adaptability in a rapidly changing technological landscape. Annualized recurring revenue (ARR) that represents the annualized monthly value of all billable subscription contracts, at the end of a fiscal period, is the metric Digi uses to measure the scale of its subscription revenue business. ARR is less subject to seasonality and contract term changes than other metrics, and has higher margins.

Focus on complete solutions to drive subscriptions in the Products and Services segment. Digi's IoT Solutions segment primarily derives revenue from subscriptions. To increase subscriptions in the IoT Products and Services segment, the company continues to focus on offering complete solutions with software and service offerings included with products. Recent examples of this shift include the launch of the Digi LifeCycle Assurance and the Digi 360 subscriptions in 2024. Digi's cloud-based software solutions, such as Digi Remote Manager®, generate recurring revenue through subscription fees. This software-as-a-service (SaaS) model enhances customer retention and provides a steady stream of high-margin revenue.

The acquisition of Ventus Holdings (part of Digi's IoT Solutions segment) in 2022 significantly expanded Digi's recurring revenue base. Ventus specializes in cellular networking solutions for enterprise customers, and its subscription-based business model aligns well with Digi's strategy.

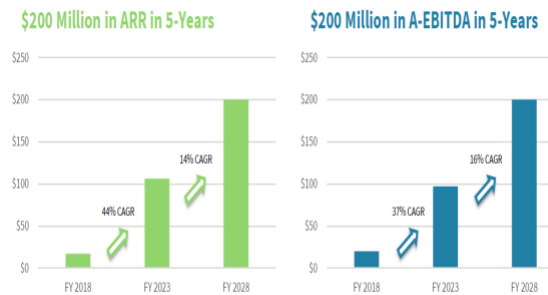
ARR share in overall revenue continues to increase; management targeting doubling of ARR and Adjusted EBITDA by FY28. The company has seen its ARR grow from 4% to 27% of total revenue over the last six years. This further increased to ~28% of total revenue in 1Q25. Management expects this percentage to continue growing as the company shifts toward a more software-centric business model. By FY28, the company expects to have \$200 million in ARR, nearly double the current \$120 million (as of 1Q25). This target is expected to be achieved primarily through the IoT Solutions segment, which currently contributes the bulk (78%) of total ARR. At the same time, product bundles and warranty offerings from the IoT Products and Services segment are expected to further enhance ARR by FY28. Digi also expects to double its adjusted EBITDA to \$200 million on improving EBITDA margins from the increasing share of subscription revenue.

Revenue by type

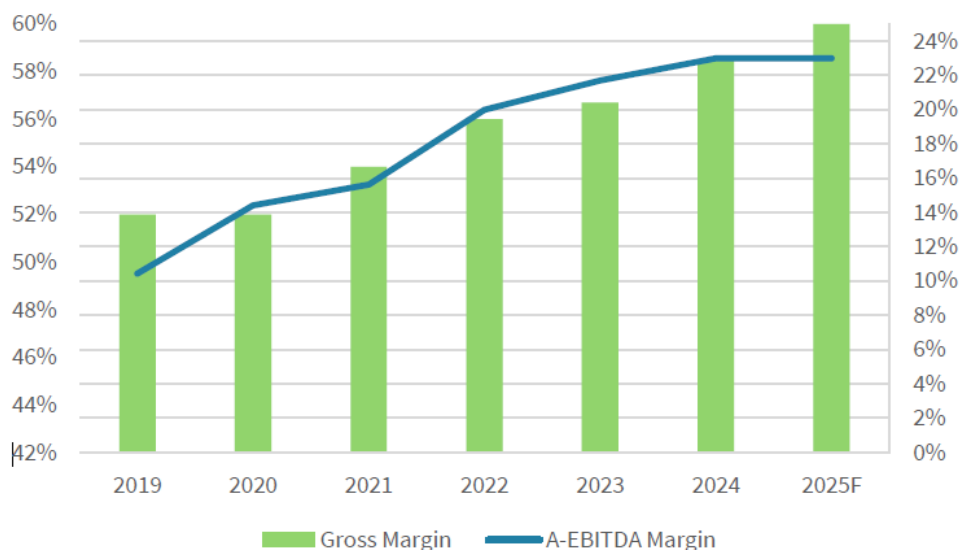


Source: Company presentation

ARR and A-EBITDA to hit \$200 million by 2028



Growing share of ARR drives gross and adjusted EBITDA margin improvements. Growing share of ARR in overall revenue, as discussed above, continues to drive margins. While gross margins saw an 800 bp improvement since 2019, to almost 60% (FY24), adjusted EBITDA margins saw a whopping 1,300 bp improvement to 23% (FY24). Despite revenue falling 5% in FY24, gross margins improved 220 bps to 58.9% while adjusted EBITDA margins improved 140 bps to 23.1%. By segment, gross margins in IoT Products & Services improved 24 bps to 54.6% in FY24 after increasing by 58 bps to 54.4% in FY23, driven by an increase in recurring revenue at high margins and a reduction in inventory adjustments. IoT Solutions gross margins increased by a whopping 820 bps in FY24 (FY23: +277 bps) driven by growth in higher margin ARR subscription revenue, favorable mix within one-time volume, and a reduction in inventory adjustments. Prior to the acquisition of Ventus in FY22, gross margin for the Solutions segment was similar to the Product & Services segment. Acquisition of Ventus improved the Solutions segment's gross margin to 70% due to higher ARR subscription revenue.



Source: Company Presentation

1Q25 Results and 2025 Guidance

Digi's December 2024 (1Q25) quarterly results confirm our positive outlook on the company's ability to capitalize on the growing IoT market by transitioning to a recurring revenue model focused on key verticals. Revenue for the quarter was \$103.9 million, a decrease of 2%, while gross margins improved by 441 bps to 62.0% from 57.6%. Within the IoT Product & Services segment, Digi reported 1Q revenue of \$77.8 million, down 5.1% YoY. The decrease was driven by decline in one-time sales of \$4.7 million partially offset by a \$0.5 million increase in recurring revenue growth. As the company transitions to a recurring revenue model, management expects to see one-time sales converting to subscription model. ARR as of 1Q25 was \$27 million, an increase of 17% driven by a larger subscription base across extended warranty offerings and remote management platforms. Gross profit margin increased 510 bps to 58.6% on improving customer mix. In the IoT Solutions segment, 1Q25 revenue saw an increase of 8.2% YoY to \$26.0 million. This increase was a result of increased sales of both SmartSense and Ventus offerings. First quarter ARR was over \$93 million, up 9% YoY. Gross profit margin increased 60 bps to 72.2%, driven by higher margin ARR revenue. Adjusted, non-GAAP EPS was \$0.50 vs. \$0.48 last year. Adjusted EBITDA in 1Q25 was \$25.6 million compared to \$23.3 million a year ago.

Guidance: The company is expecting revenue and adjusted EBITDA to be flat in FY25 compared to FY24 and to see growth in the following years, with ARR increasing to \$200 million by FY28. For 2Q25, the company expects revenue to be between \$102-106 million, with adjusted EBITDA between \$24.0-25.5 million. Assuming a diluted share count of 37.8 million shares outstanding, management's guidance for adjusted EPS is \$0.46 to \$0.50 per diluted share.

Management Overview

Ron Konezny has been Digi International's President and CEO since December 2014. He has a strong background in the wireless M2M and telematics industries. Before Digi, he was a Vice President at Trimble Navigation, following Trimble's acquisition of PeopleNet, a telematics company he co-founded and led as CEO. Konezny held various executive roles at PeopleNet, including CTO, CFO, COO, and CEO. He brings extensive experience in strategy, manufacturing, operations, technology, finance, and business development to Digi and was the 2009 Ernst & Young Entrepreneur of the Year in the Technology category.

Jamie Loch is Digi International's Executive Vice President, CFO, and Treasurer, joining the company in May 2019. He has a track record of driving business growth and building strong teams. Prior to Digi, he was CFO of Nilfisk, Inc., and held various executive roles at Honeywell for over 12 years, including VP of Sales and CFO for Honeywell Building Solutions America. He is a CPA (inactive) and holds a BA in economics from Carleton College.

David Sampsell is Digi International's Executive Vice President, General Counsel, and Corporate Secretary, joining the company in April 2011. His responsibilities expanded in 2014 to include oversight of Corporate Development. Prior to Digi, he was Associate General Counsel at ADC

Telecommunications, overseeing corporate transactions and securities law compliance. He also worked in private practice as an attorney from 1993 to 1999.

Valuation

We believe Digi International (DGII), a communications equipment company, warrants a premium valuation due to its focus on the rapidly expanding IoT connectivity market and its successful transition to a blended hardware/software and recurring revenue (ARR) business model. We anticipate DGII becoming a leading benchmark for the IoT communications market as IoT solidifies its position as a distinct sub-sector within networking technology. Additionally, with the company's ambitious target of \$200 million in ARR by FY28, we expect its gross margins, which are already above 62%, to see further improvement, delivering operating leverage that we believe will translate into a higher bottom-line.

We believe that DGII shares are currently undervalued at 13-14x our FY'26 estimates versus the peer group average of ~33x, and an EV/FY'26 Revenue multiple of 2.6x. Assuming a reasonable peer-group adjusted P/E multiple of 21x our FY26 non-GAAP EPS estimate, we arrive at a target price of \$45.

IoT Networking Technology Enablers

					Revenue (M)		EPS (non-GAAP)		Forward P/E		EV / Revenue		Price / Book	ROE (TTM)
		Price	Mkt. Cap.	EV (M)										
(\$ in Millions, except per share)					2025E	2026E	2025E	2026E	2025E	2026E	2025E	2026E		
Cambium Networks Corp.	CMBM	\$ 0.65	\$18	\$49	\$175.01	\$204.43	(\$0.99)	(\$0.14)	NM	NM	0.3x	0.2x	0.4	-112.90%
Digi International, Inc.	DGII	\$ 28.95	\$1,068	\$1,151	\$424	\$443	\$2.00	\$2.13	14.5x	13.6x	2.7x	2.6x	1.8	6.29%
Element Fleet Management	EFN:TO	\$ 28.04	\$11,310	\$19,663	\$1,690	\$1,850	\$1.77	\$1.99	15.8x	14.1x	11.6x	10.6x	4.1	13.54%
Extreme Networks, Inc.	EXTR	\$ 14.66	\$1,946	\$2,007	\$1,130	\$1,220	\$0.79	\$1.01	18.6x	14.5x	1.8x	1.6x	37.6	61.10%
Cisco Systems, Inc.	CSCO	\$ 63.41	\$252,372	\$267,152	\$56,410	\$59,270	\$3.72	\$4.01	17.0x	15.8x	4.7x	4.5x	5.5	20.02%
Lantronix, Inc.	LTRX	\$ 2.74	\$106	\$112	\$125	\$139	\$0.18	\$0.37	15.2x	7.4x	0.9x	0.8x	1.4	-6.35%
NETGEAR, Inc.	NTGR	\$ 23.80	\$687	\$309	\$681	\$714	(\$0.78)	(\$0.18)	NM	NM	0.5x	0.4x	1.3	2.30%
Semtech Corp.	SMTX	\$ 32.33	\$2,786	\$3,854	\$907	\$1,070	\$0.77	\$1.69	42.0x	19.1x	4.2x	3.6x	-17.5	-866.11%
Samsara, Inc.	IOT	\$ 41.88	\$11,282	\$10,697	\$1,240	\$1,530	\$0.22	\$0.28	190.4x	149.6x	8.6x	7.0x	23.5	-26.37%
AVERAGE									44.8x	33.4x	3.9x	3.5x	6.5	-100.94%

Source: Factset, CapitalIQ, Kingswood Capital Partners Estimates

All figures in millions of U.S. Dollars except % and per share items

Digi International Inc. (DGII-NASDAQ)																		
	Sep'22 FY	Dec'22 Q1	Mar'23 Q2	Jun'23 Q3	Sep'23 Q4	Sep'23 FY	Dec'23 Q1	Mar'24 Q2	Jun'24 Q3	Sep'24 Q4	Sep'24 FY	Dec'24 Q1	Apr'25 E Q2	Jun'25 E Q3	Sep'25 E Q4	Sep'25 E FYE	Sep'26 E FY	Sep'27 E FYE
Sales	388.23	109.31	111.14	112.24	112.16	444.85	106.09	107.70	105.20	105.05	424.05	103.87	104.54	106.76	108.46	423.6	443.3	467.2
Product	297.65	84.34	85.89	87.36	88.09	345.68	82.02	83.39	80.00	79.03	324.44	77.82	80.47	80.80	81.40	320.50	338.12	356.72
Service	90.58	24.96	25.25	24.88	24.08	99.17	24.07	24.31	25.20	26.02	99.60	26.04	24.07	25.96	27.06	103.13	105.20	110.46
Revenue Growth (%):																		
Year/Year	25.8%	NA	NA	NA	NA	14.6%	-2.9%	-3.1%	-6.3%	-6.3%	-4.7%	-2.1%	-2.9%	1.5%	3.2%	-0.1%	4.6%	5.4%
Quarter/Quarter	NA	NA	1.7%	1.0%	-0.1%	296.6%	-5.4%	1.5%	-2.3%	-0.1%		-1.1%	0.6%	2.1%	1.6%	NA	NA	NA
Cost of Goods Sold	171.94	47.79	48.27	48.42	48.17	192.65	44.99	45.38	42.95	40.82	174.14	39.47	41.46	42.14	42.72	165.79	173.16	182.53
Product	137.53	38.32	38.78	40.13	40.50	157.72	38.16	38.33	36.50	34.25	147.24	32.22	34.60	34.75	35.00	136.57	143.70	151.61
Service	34.41	9.46	9.50	8.29	7.68	34.92	6.83	7.06	6.44	6.57	26.90	7.25	6.86	7.40	7.71	29.22	29.45	30.93
Gross Profit	216.29	61.52	62.872	63.82	63.99	252.20	61.10	62.32	62.26	64.23	249.91	64.40	63.08	64.62	65.75	257.84	270.16	284.64
Gross Margin:	55.7%	56.3%	56.6%	56.9%	57.1%	56.7%	57.6%	57.9%	59.2%	61.1%	58.9%	62.0%	60.3%	60.5%	60.6%	60.9%	60.9%	60.9%
SG&A	129.17	35.46	35.54	36.40	36.06	143.46	34.33	35.58	34.22	33.85	141.53	36.01	34.56	34.81	34.72	140.11	147.87	152.85
Sales and marketing	70.37	19.11	20.34	20.97	21.26	81.68	19.65	20.54	21.50	21.59	83.28	21.76	21.85	21.89	21.69	87.18	93.10	95.77
Pct of Sales	18.1%	17.5%	18.3%	18.7%	19.0%	18.4%	18.5%	19.1%	20.4%	20.6%	19.6%	20.9%	20.9%	20.5%	20.0%	20.6%	21.0%	20.5%
General and administrative	58.80	16.36	15.20	15.42	14.80	61.78	14.69	15.04	12.72	12.26	58.25	14.26	12.71	12.93	13.02	52.92	54.78	57.08
Pct of Sales	15.1%	15.0%	13.7%	13.7%	13.2%	13.9%	13.8%	14.0%	12.1%	11.7%	13.7%	13.7%	12.2%	12.1%	12.0%	12.5%	12.4%	12.2%
Change in fair value of contingent	(6.20)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & Development	55.10	14.09	15.16	14.95	14.45	58.65	14.63	18.58	15.13	15.48	60.29	15.03	14.64	15.27	15.62	60.55	64.28	66.81
Pct of Sales	14.2%	12.9%	13.6%	13.3%	12.9%	13.2%	13.8%	17.3%	14.4%	14.7%	14.2%	14.5%	14.0%	14.3%	14.4%	14.3%	14.5%	14.3%
EBIT (Operating Income - GAAP)	38.22	11.96	12.18	12.48	13.48	50.10	12.13	8.15	12.91	14.90	48.09	13.36	13.88	14.54	15.41	57.19	58.01	64.99
Non-operating Income (Net)	0.10	0.02	0.05	0.02	(0.02)	0.06	(0.03)	(0.03)	(0.01)	0.07	-	0.03	-	-	-	0.03	-	-
Non-operating Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in Earnings of Affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Income (Expenses)	0.10	0.02	0.05	0.02	(0.02)	0.06	(0.03)	(0.03)	(0.01)	0.07	-	0.03	-	-	-	0.03	-	-
Interest Expense	19.69	5.97	6.39	6.60	6.27	25.24	15.38	3.70	3.23	2.82	25.14	2.29	2.29	2.29	1.74	8.62	5.00	2.00
Gross Interest Expense	19.69	5.97	6.39	6.60	6.27	25.24	5.66	3.70	3.23	2.82	15.42	2.29	2.29	2.29	1.74	8.62	5.00	2.00
Debt issuance cost write off	-	-	-	-	-	-	9.72	-	-	-	9.72	-	-	-	-	-	-	-
Other (expense) income, net	-	-	-	-	-	-	-	-	-	0.09	0.09	-	-	-	-	-	-	-
Extraordinary Expenses - Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exclpl Chrgs - Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructing of Debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	18.63	6.01	5.83	5.89	7.19	24.92	(3.276)	4.42	9.66	12.05	22.86	11.10	11.58	12.24	13.68	48.60	53.01	62.99
Income Taxes	(0.76)	0.23	(0.07)	(0.84)	0.83	0.15	(0.22)	0.43	(0.04)	0.19	0.35	1.01	1.00	2.00	3.00	7.01	12.00	19.00
Tax %	3.9%	3.8%	NA	NA	11.5%	-0.6%	NA	9.7%	NA	1.6%	-1.6%	9.1%	8.6%	16.3%	21.9%	14.4%	22.6%	30.2%
Equity in Earnings of Affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	19.38	5.78	5.90	6.73	6.36	24.77	(3.05)	3.99	9.70	11.86	22.51	10.08	10.58	10.24	10.68	41.58	41.01	43.99
Non-GAAP Adjustments	40.21	12.01	12.32	11.78	12.66	48.77	20.70	13.95	8.78	7.60	51.04	8.65	8.00	8.50	8.50	33.65	41.00	45.00
Net Income (Non-GAAP)	59.59	17.79	18.22	18.50	19.03	73.54	17.65	17.95	18.49	19.47	73.55	18.73	18.58	18.74	19.18	75.23	82.01	88.99
Per Share																		
EPS (GAAP)	0.54	0.16	0.16	0.18	0.17	0.67	(0.08)	0.11	0.26	0.32	0.61	0.27	0.28	0.27	0.28	1.10	1.94	3.60
EPS (Non-GAAP)	1.66	0.48	0.50	0.50	0.52	1.99	0.49	0.49	0.50	0.52	1.99	0.50	0.49	0.50	0.51	2.00	2.13	2.27
Diluted Shares Outstanding	35,995	36,859	36,730	36,817	36,931	36,931	36,129	36,974	37,026	37,134	36,984	37,483	37,583	37,683	37,783	37,633	38,433	39,233
Adjusted EBITDA	79.42	23.36	23.86	24.33	24.94	96.50	23.31	23.83	24.73	26.25	98.11	25.61	23.95	24.70	25.68	99.85	107.71	114.69

Source: Company reports, Kingswood Capital Partners estimates.

Risks to Price Target

Company-specific risks to the target price include:

Digi's proprietary hardware and software may be difficult and expensive to service, upgrade or replace. Some of the hardware and software that Digi International uses to operate its IoT infrastructure is significantly customized and tailored to meet its network's requirements and specifications and could be difficult and expensive to service, upgrade or replace.

Rapid and significant technological changes in the industrial connectivity industry could negatively impact Digi's competitive position and may require significant additional capital expenditures to address. The industrial communications industry is subject to rapid advances and innovations in technology. The company could face competition in the future from companies using new technologies and new connectivity systems, including new entrants who are developing or have announced alternative technologies, some of which would compete directly with one or more of Digi's existing or planned products and services.

Digi's gross margins may be subject to decline. The company's gross margins may be subject to decline, which could decrease its overall profitability and impact its financial performance adversely. Some of Digi's legacy hardware products are approaching the end of their product life cycles. These mature hardware products have sold historically at higher gross margins than some other product and service offerings. Management expects this general trend of declining sales for many of its mature products to continue, and the pace of the decline may accelerate. In addition, rising prices for goods and services due to inflation along with ongoing cost pressures in the industry create pricing pressure on hardware products. Management has indicated that it is willing to realize lower gross margins in return for longer-term, binding purchase commitments. This could apply downward pressure on corporate gross margins. Part of Digi's strategy is to sell software applications and IoT solutions like SmartSense by Digi, Ventus offerings and hardware bundled with services on a subscription basis. These sales may provide recurring revenue at relatively high gross margins, but these types of offerings are still in the earlier stages of adoption by customers. As such, their sales growth is not necessarily predictable or assured. The company's gross margins therefore may be subject to decline unless Digi can implement cost reduction initiatives effectively to offset the impact of these factors.

The company's revenue may be subject to fluctuations based on the level of significant large project-based purchases. No single customer has represented more than 10% of Digi's revenue in any of the last three fiscal years. However, many customers make significant one-time hardware purchases for large projects that are not repeated. As a result, the company's revenue may be subject to significant fluctuations. In addition, certain customers in the SmartSense by Digi and Ventus businesses have outsized deployments relative to other customers, and it is therefore possible that the company will see revenue fluctuations in these businesses. Digi's failure to complete one or a series of significant sales opportunities in a particular fiscal period could have a material adverse effect on revenue for that period.

Some of Digi's products are sold into mature markets, which could limit its ability to continue to generate revenue from these products. Some of the company's hardware products are sold into mature markets that are characterized by a trend of declining demand. Management has made targeted investments to provide enhanced and new products into these mature markets and believes this could potentially offset declining demand. However, over the longer term, the overall market for these hardware products is expected to decrease due to the adoption of new technologies. As such, management expects that Digi's revenue from these products will continue to decline over time. As a result, the company's prospects depend in part on its ability to acquire or develop and successfully market additional products that address growth markets.

Digi's cloud-based networks and those of third-party service providers may be vulnerable to cybersecurity risks. The secure transmission of confidential information over public networks continues to be a critical element of the company's ability to compete for business, manage risks, and protect its customers and reputation. Digi's network, including third-party service providers and their customers, may be vulnerable to unauthorized access, computer attacks, viruses and other security problems. The company may be required to expend significant resources to respond to, contain, remediate, and protect against these attacks and threats, including compliance with applicable data breach and security laws and regulations, and to alleviate problems, including reputational harm and litigation, caused by such security incidents.

Digi's failure to effectively manage the expansion of its portfolio of products and services could impede the company's ability to execute its business plan. To achieve its anticipated future revenue growth, Digi International must develop and market new products and services. These efforts currently face a variety of challenges, including maintaining the infrastructure and systems necessary to manage the growth of its business. As Digi's product and service portfolio continues to expand, the responsibilities of the management team and demands on company resources also increase. This may further strain management and other company resources with the increased complexities and administrative burdens associated with a larger, more complex portfolio of products and services.

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The Research Analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple Research Analysts are primarily responsible for this report, the Research Analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the Research Analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect the Research Analyst’s personal views about any and all of the subject securities or issuers; and (2) no part of any of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this report.

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Investment Banking Services/Past 12 Months				
Rating	Count	Percent	Count	Percent
BUY	4	80.00	1	25.00
HOLD	0	0.00	0	0.00
SELL	0	0.00	0	0.00
NOT RATED	1	20.00	1	100.00

As of February 2025.

Digi International Inc. Rating History as of March 6, 2025



Source: E-Trade.

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