

W U T I S



Equity Research Division

Digi International Inc.

A comprehensive IoT hardware & software solutions provider

Target Price: \$ 49.11

Current Price: \$ 38.00

Upside Potential: +29.23%

Recommendation: BUY

Investment Horizon: 3 Years

Vienna, 23 June 2023

Team Overview

Equity Research



**Maria
Doppler**

Head

- Task distribution
- Storyline



- BSc. (WU) – 6th Sem.



**Vinicius
Wolff**

Associate

- Industry analysis
- Valuation



- BSc. (WU) – 6th Sem.



**Zeno
Eule**

Analyst

- Strategy analysis



- BSc. (TU) – finished



**Paula
Wohlers**

Analyst

- Business model



- BSc. (WU) – 4th Sem.



**Stefan
Hauer**

Analyst

- Industry analysis
- Competitor analysis



- BSc. (WU) – 4th Sem.



**Tamara
Heinzle**

Analyst

- Competitor analysis
- Valuation



- MSc (WU) – 4th Sem.
- BSc (WU)

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Share Price Performance

Digi's share price is highly influenced by product launches and financial performance



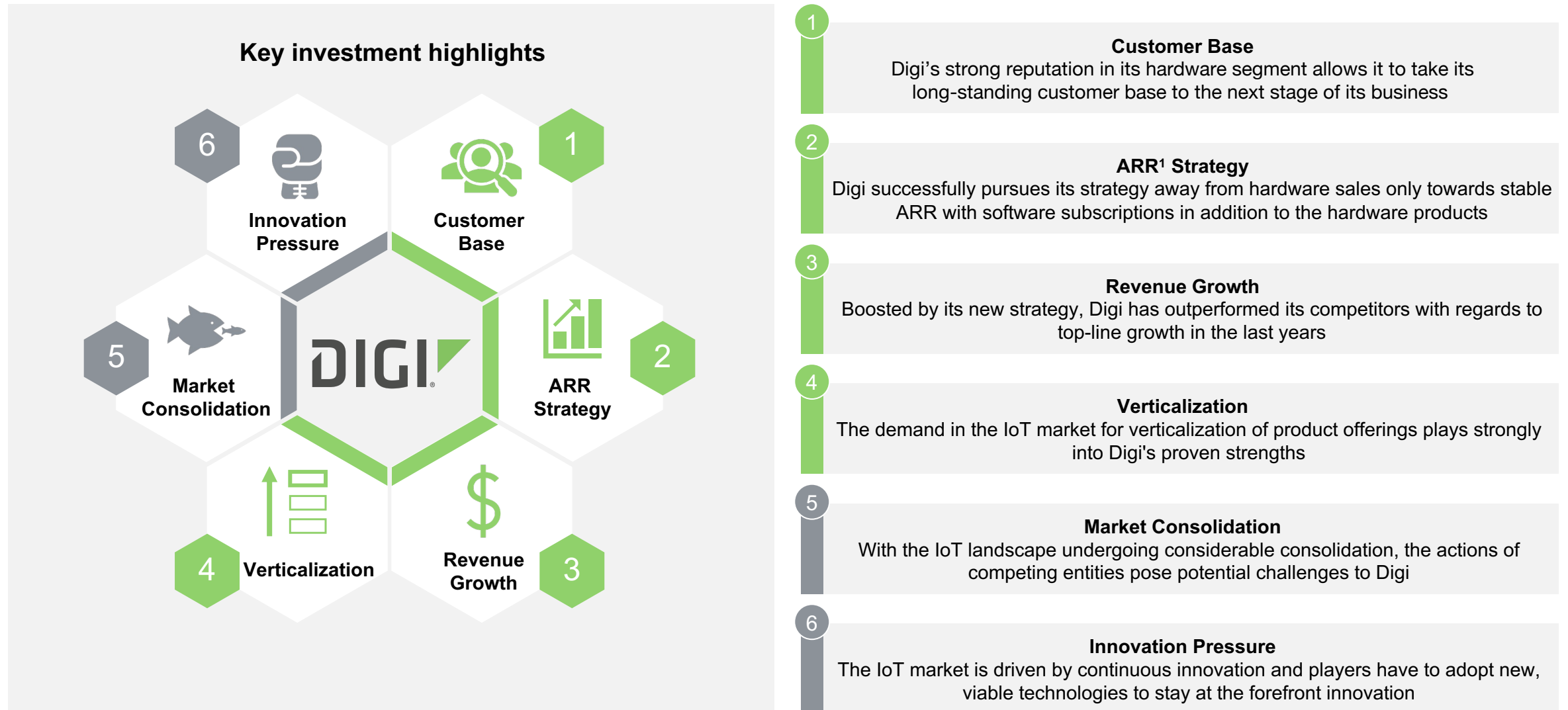
Share Price – Major Events

- [1] 07/11/2019-21/11/2019 (+30%) – Digi announces and closes **acquisition of Opengear** for \$ 140 mn
- [2] 06/03/2020-20/03/2020 (-53%) – Market reaction to the **Covid-outbreak and economic shutdown**
- [3] 02/11/2021-15/11/2021 (+11%) – Digi announces and closes **acquisition of Ventus** for ~\$ 350 mn
- [4] 01/07/2022-01/10/2022 (+45%) – Digi unveils new Digi Xbee LR Module followed by **strong quarterly revenues and end of quarter ARR performance**
- [5] 04/05/2023 (+11%) – Q1 2023 **earnings call**: Digi's **quarterly results** exceeded investors' expectations

Key Stats

- **IPO**: 06/10/1989
- **Ticker**: DGII
- **52-week range**: \$ 22.10 - \$ 43.68
- **Market cap**: \$ 1.36 bn

Digi's hardware legacy is paving the way towards software success



An aerial night view of a city skyline, likely San Francisco, with prominent skyscrapers like the Transamerica Pyramid. The image is overlaid with numerous vertical and horizontal streaks of light, resembling digital data or fiber optic connections, creating a high-tech, futuristic atmosphere. A semi-transparent green banner is positioned across the middle of the image.

Company Overview & Business Model

Company Overview

A mid-sized player in the IoT market with solid finances and an experienced management team

Company Description

Digi International Inc. is a global **provider of Internet of Things (IoT) solutions**, helping businesses to **connect & manage their devices & data**, enabling them to optimize operations, reduce costs, and improve customer experience.



Headquarters
Hopkins, USA



Foundation
1985



Employees
500+



Customers
35k+



Patents
160+

Financials

In \$ mn	2018*	2019*	2020*	2021*	2022*
Revenue	226.89	254.20	279.27	308.63	388.23
YoY growth	25.1%	12.0%	9.9%	10.5%	25.8%
Net Income	1.63	9.96	8.41	10.37	19.38
Net Income margin	0.7%	3.9%	3.0%	3.4%	5.0%
Total Assets	372.15	398.70	528.68	619.53	853.89
Equity ratio	88.8%	87.5%	70.3%	76.3%	58.7%

*End of fiscal year: 30. September
Source: Annual Report, Bloomberg, Company Website

Management



Ron Konezny
President & CEO,
Joined Digi 2014



Jamie Loch
CFO & Treasurer,
joined Digi 2019



Radha Chavali
Senior VP & CIO,
joined Digi 2022



David Sampsell
Executive VP & Development,
joined Digi 2011

➤ **Broad and long-term experience** in IT, Operations and Management

Shareholder Structure



■ Blackrock Inc.

■ Vanguard Group, Inc. (The)

■ Bank of America Corporation

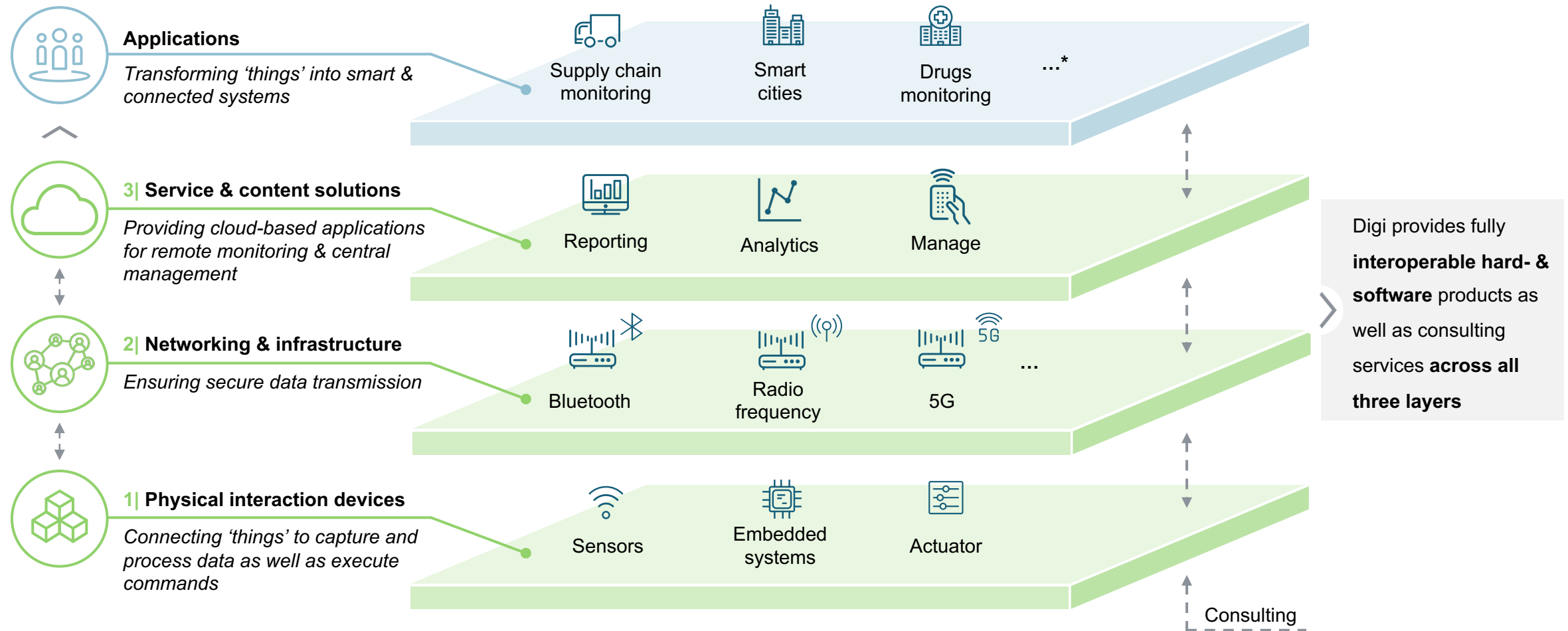
■ Dimensional Fund Advisors LP

■ FMR, LLC

■ Other

➤ **95% are held by institutional investors**, mainly traditional investment firms

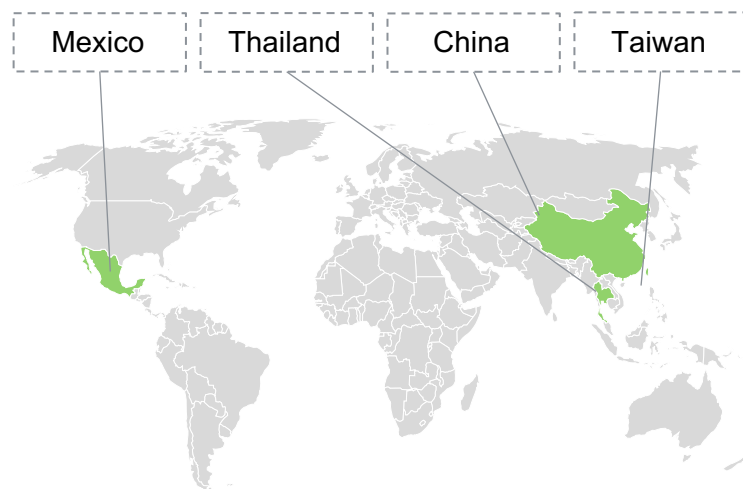
Connected solutions: Digi's approach to linking the interdependent layers of IoT architecture



Business Model II

Digi is an IoT company with a broad customer base

Suppliers



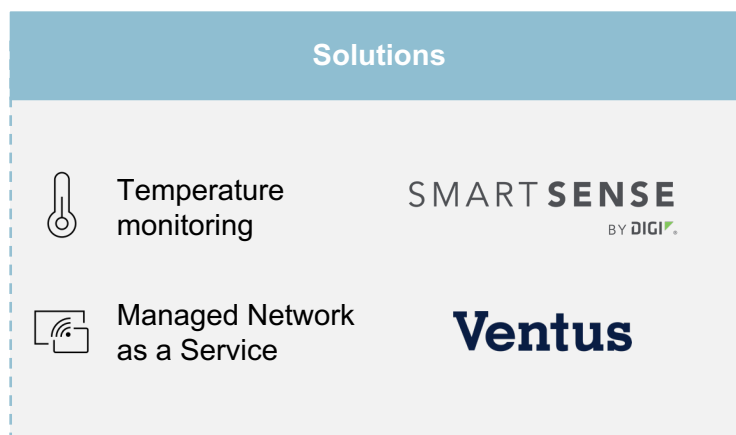
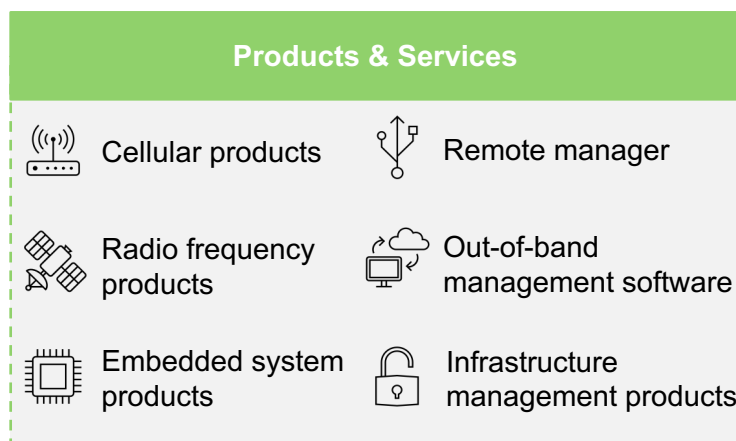
Key input resources

Semiconductors, sensors, memory chips, cabling, printed circuit boards, ...

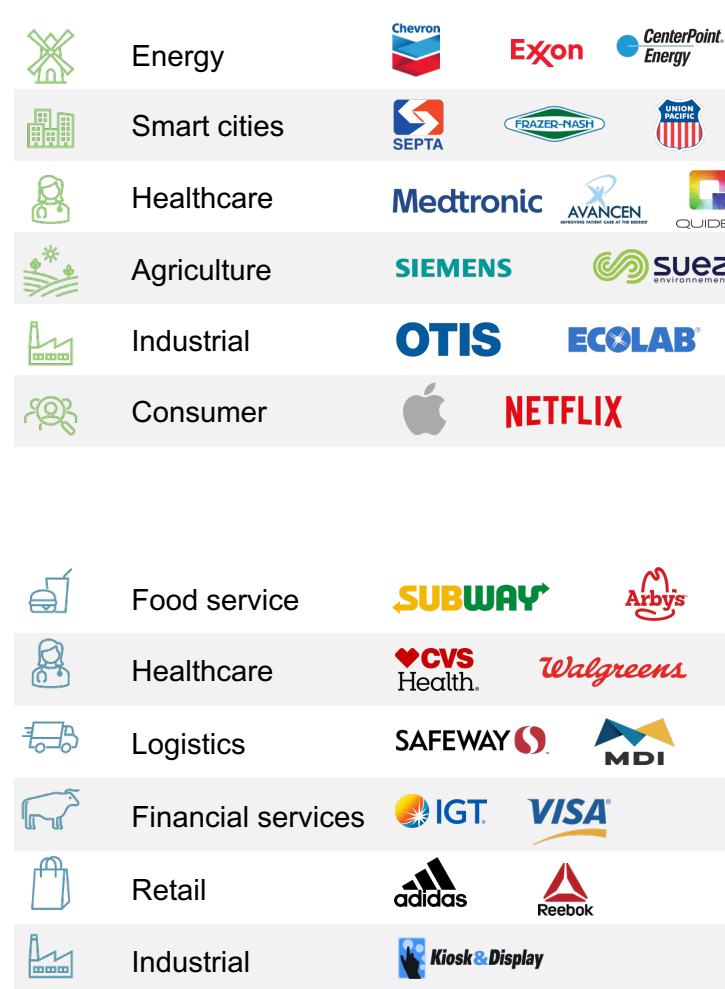
Commitment to exit China until 2024

Reallocation of orders to Mexico, Thailand, and other countries in Southeast Asia

Reported Business Segments



Customers





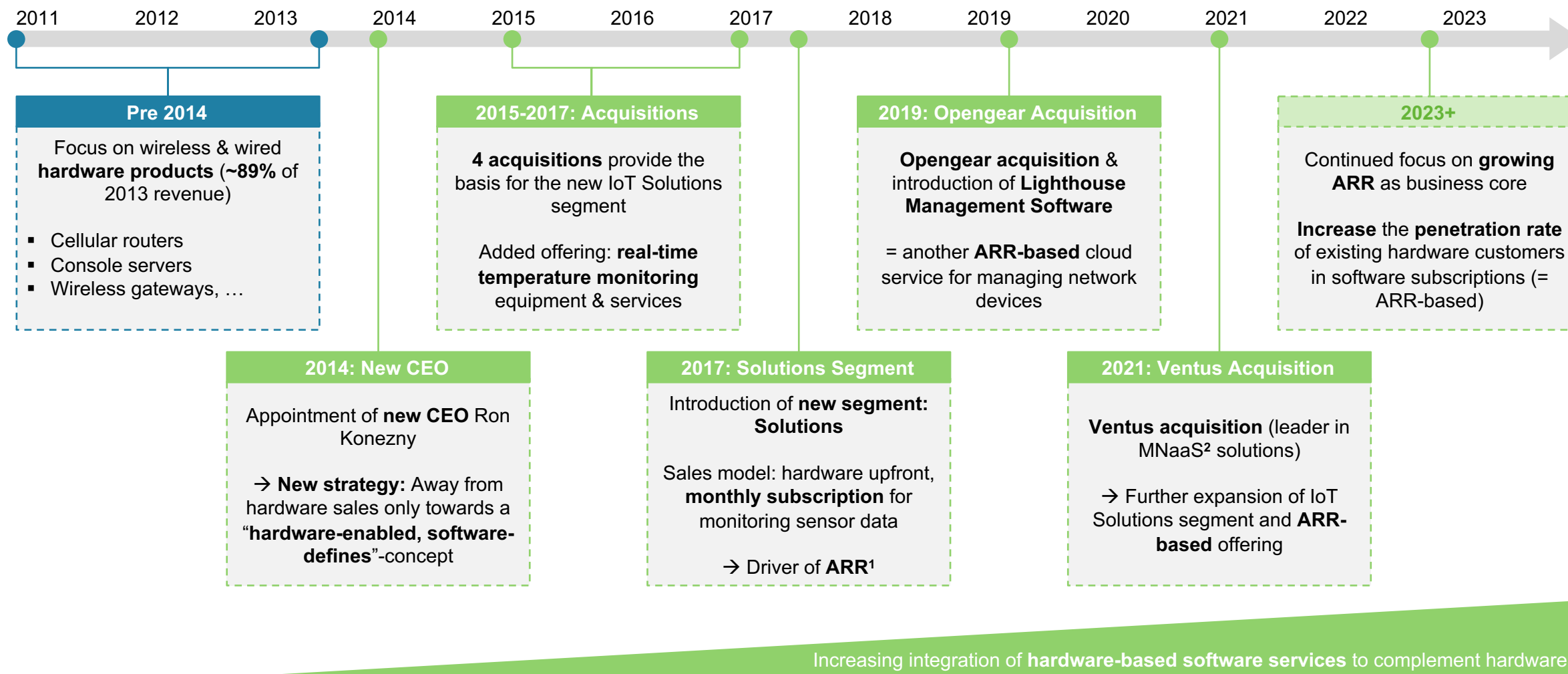
The background image is a grayscale composition of medical and technological items. In the top left, a portion of a laptop keyboard is visible, showing keys like 'Z', 'X', 'C', 'option', and 'command'. Below the keyboard is a trackpad. A tablet is positioned diagonally across the center, displaying a medical interface with a human silhouette, various charts (line graphs, bar graphs, and a scatter plot), and a large heart rate monitor graphic showing '123'. To the right of the tablet is a 'MEDICAL HISTORY' form. It includes sections for 'Physical examination', 'Your estimate of your general health?' (with 'Excellent', 'Fair', 'Poor' options), and 'DO YOU HAVE OR HAVE YOU EVER HAD:' followed by a list of conditions (e.g., heart disease, diabetes, asthma, etc.) with 'YES' and 'NO' checkboxes. A silver pen lies on the form. In the bottom left, a stethoscope is coiled. A green semi-transparent banner is overlaid on the left side of the image, containing the text 'Strategy & Product Ecosystem'.

Strategy & Product Ecosystem

History

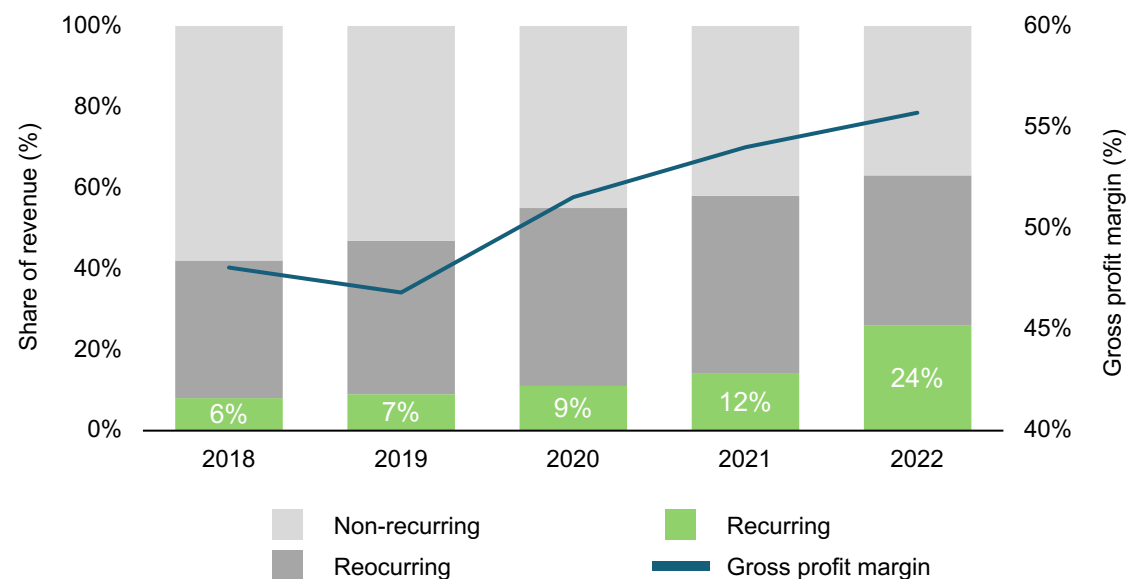
A hardware story turning into a software story

Milestones that have shaped Digi's future...

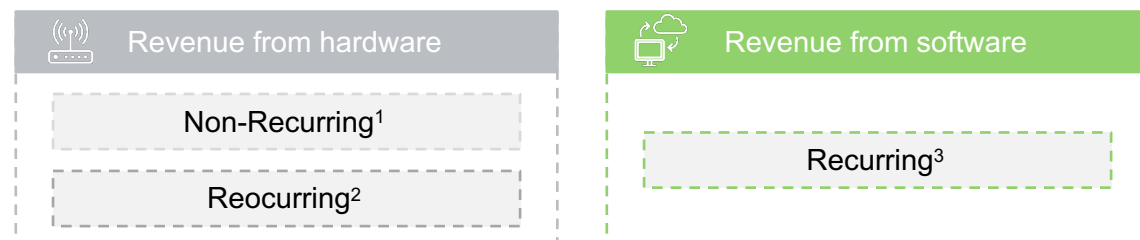


Driving sales in software-based recurring revenue to boost visibility & margins

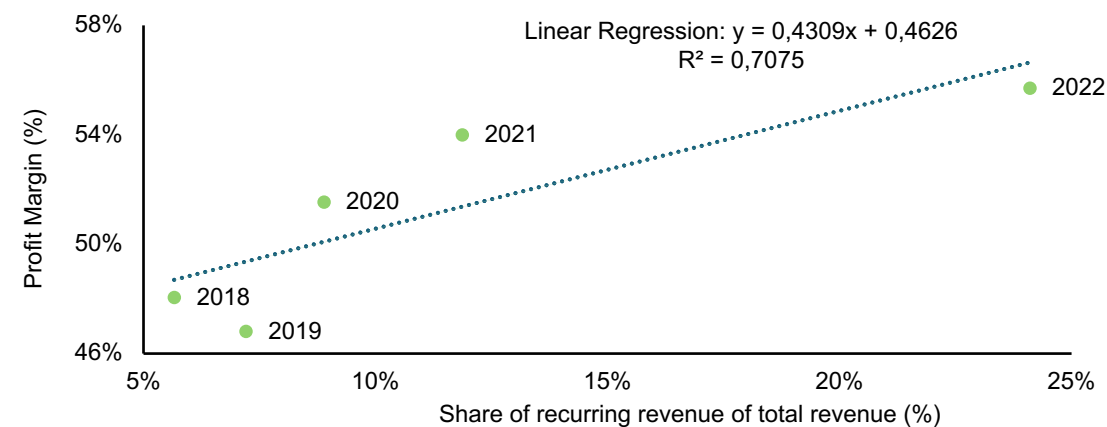
Revenue Split Development



Towards more hardware-enabled recurring revenue from software subscription



Margin Development [1]



Benefits & Opportunities



Higher software sales from recurring subscription revenue result in **higher margins** [1]



Greater cash flow visibility through the increased predictability and stability of revenues









Significant **unused upselling potential** of software subscriptions with **70% hardware customers** who are **not yet software** customers

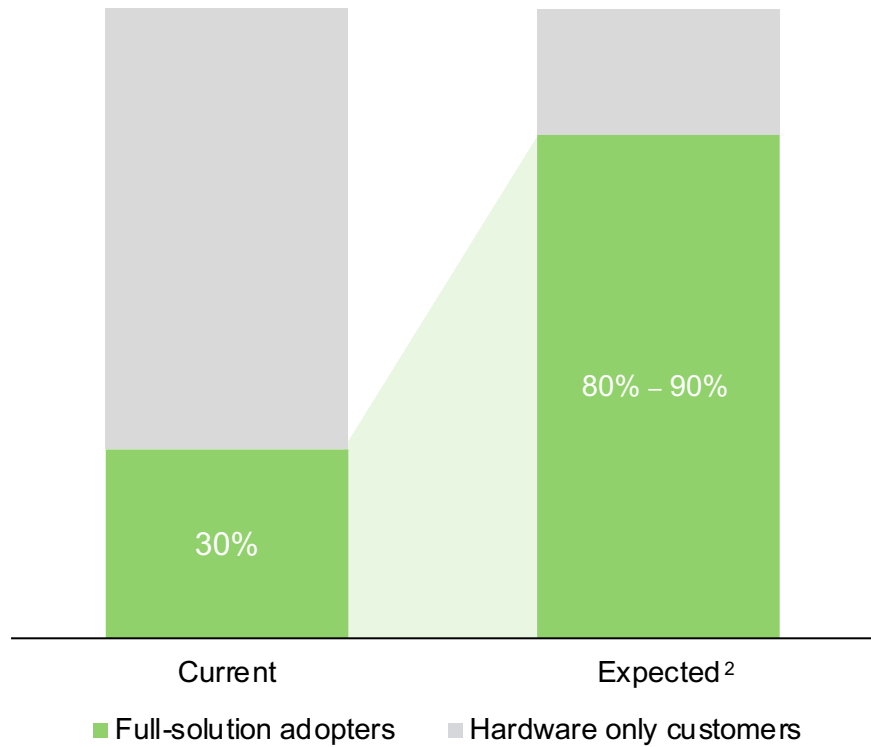
Ecosystem Building


Significant potential to convert long-standing hardware customers into full-solution adopters


Examples of Ecosystems Combining Hardware and Software

	 Production	 Transportation	 Sales
Problem	Manual water & soil measurements for large-scale farming are time-consuming, imprecise , and pose safety risks	Consistent & accurate temperature monitoring of the entire transport chain is required by the FSMA ¹	Branch networks may lack reliable backup connectivity , risking storefront operations
Solution	 Sensors, Controllers + Digi SkyCloud	 Sensors, Gateways + Cloud Dashboard	 Routers + Digi Remote Manager

Share of Hardware Customers Using Full Solution



 Strong **existing** customer **relationships**

 **Comprehensive, scalable & easy-to-implement** solutions

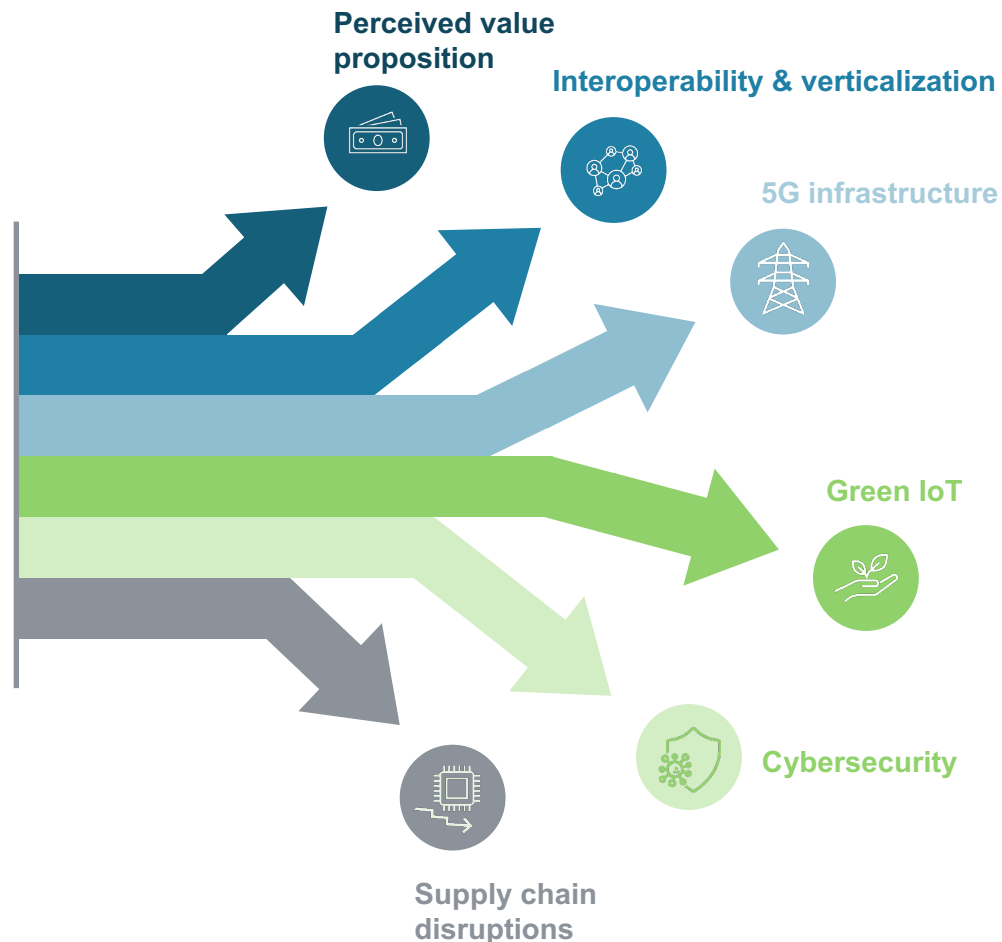


Market & Industry Overview

Market Overview I

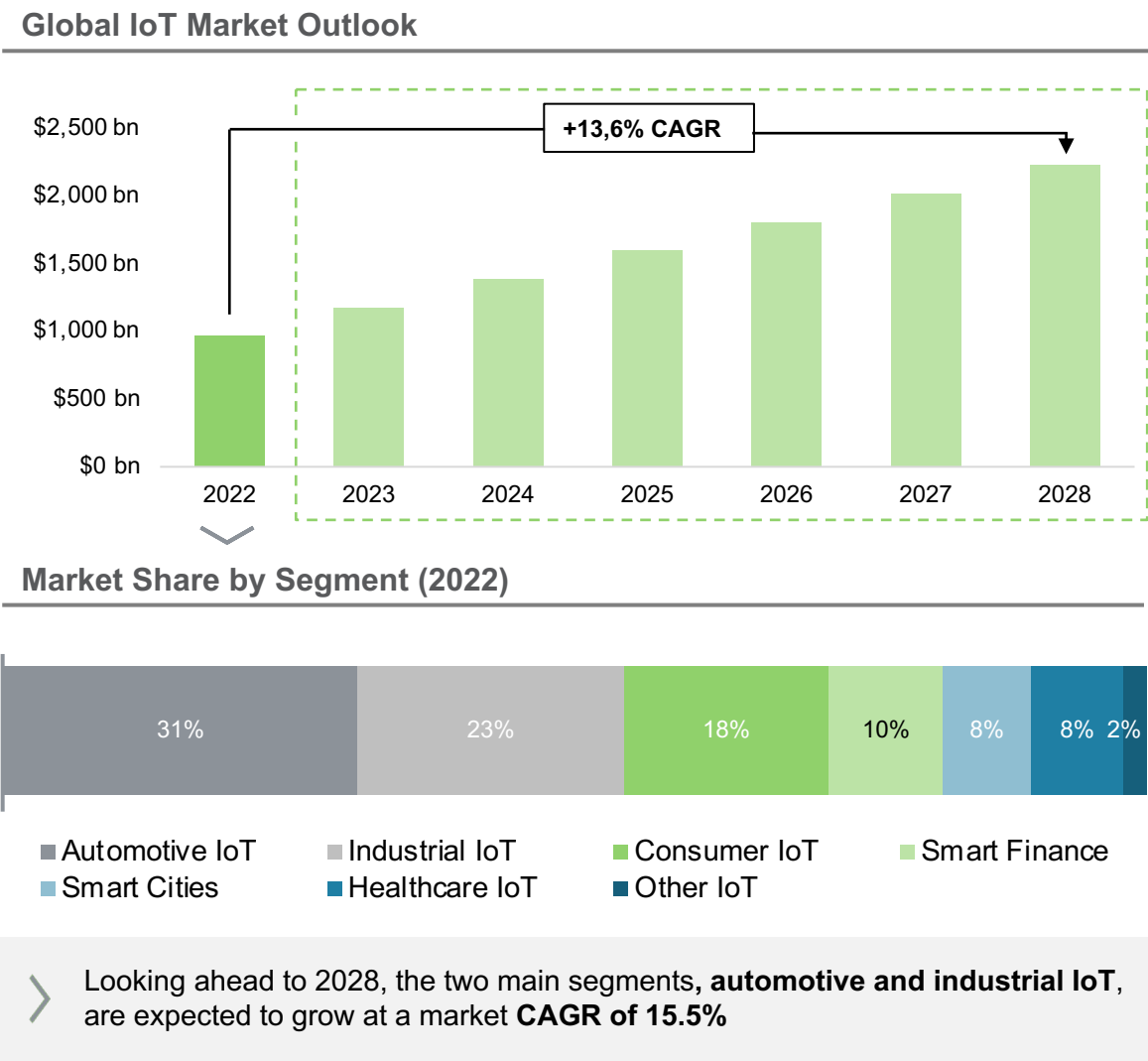
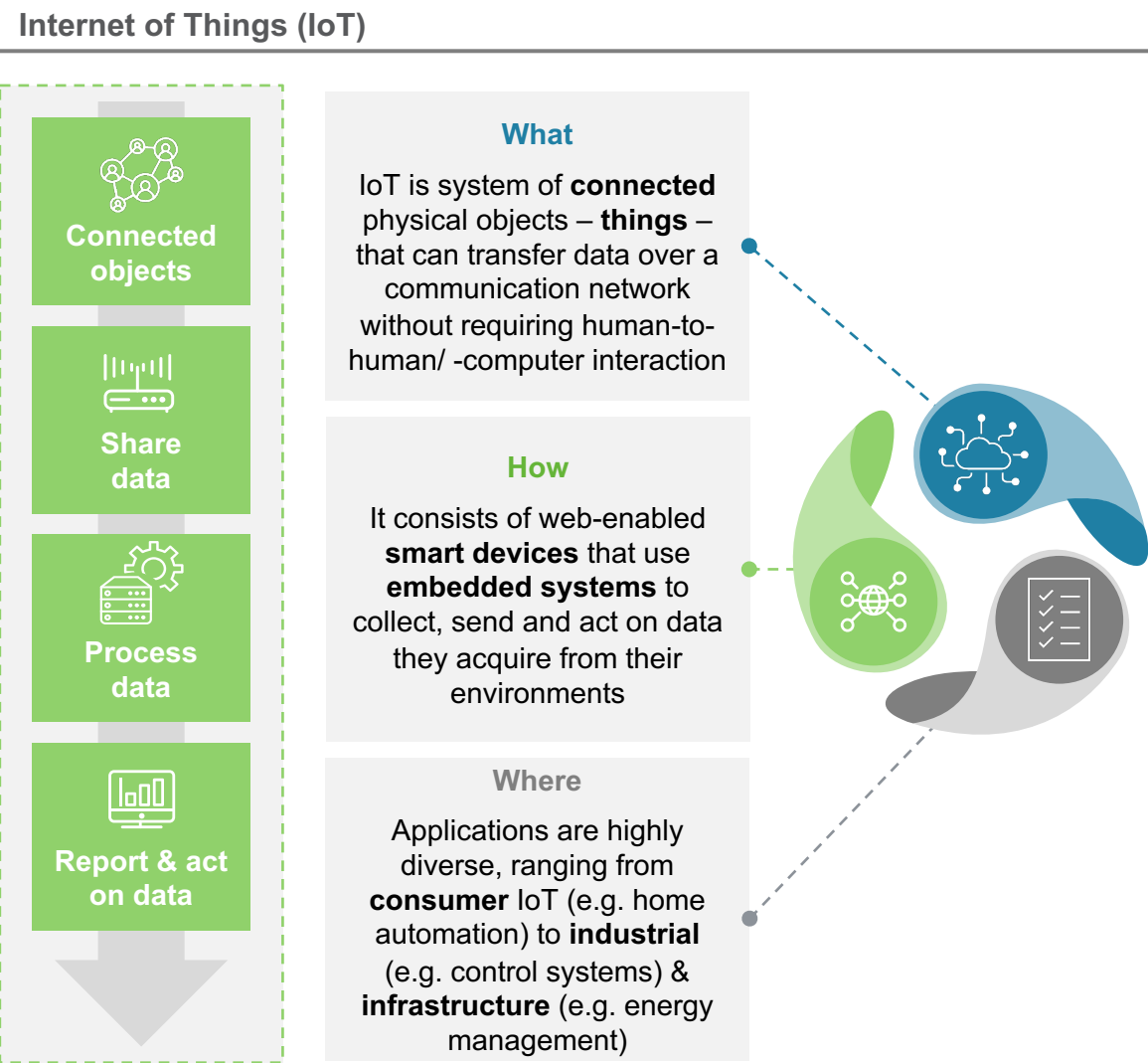
A variety of factors propel industry growth

Current Market Trends Driving Industry Growth



[1] As of Q3 2021 ~64% of cellular IoT Module Production comes from Chinese vendors
Source: Team Research, McKinsey, Financial Times

Green IoT and Industry 4.0 are accelerating IoT market growth

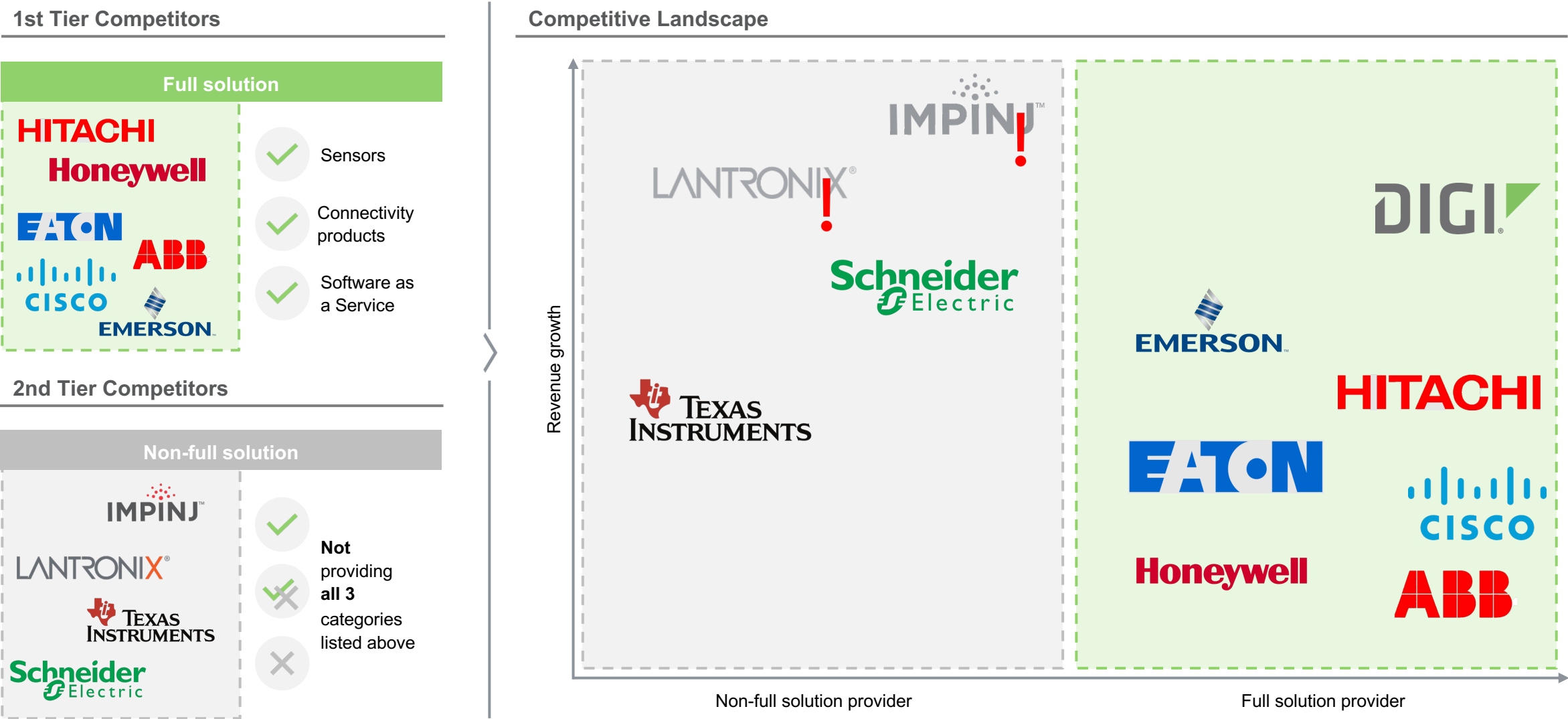


A black and white photograph of a city skyline at night. Several tall skyscrapers are visible, with many windows illuminated. In the foreground, there are light trails from moving vehicles, suggesting a busy urban environment. A green horizontal band is overlaid across the middle of the image, containing the text "Analysis of Competition".

Analysis of Competition

Competition

In the fragmented IoT market, Digi tops the list of high-growth profitable companies



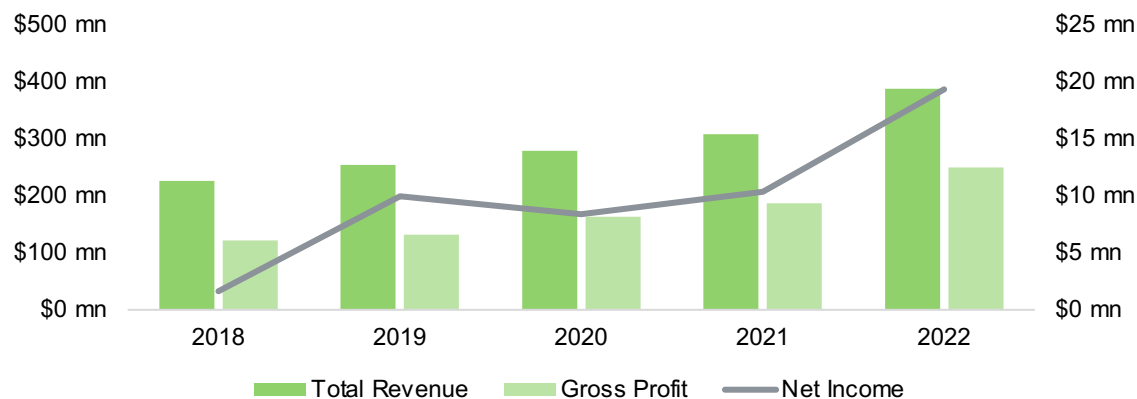
A black and white photograph of a man in a suit holding a tablet displaying financial data, with a robotic arm in the background.

Financials & Valuation

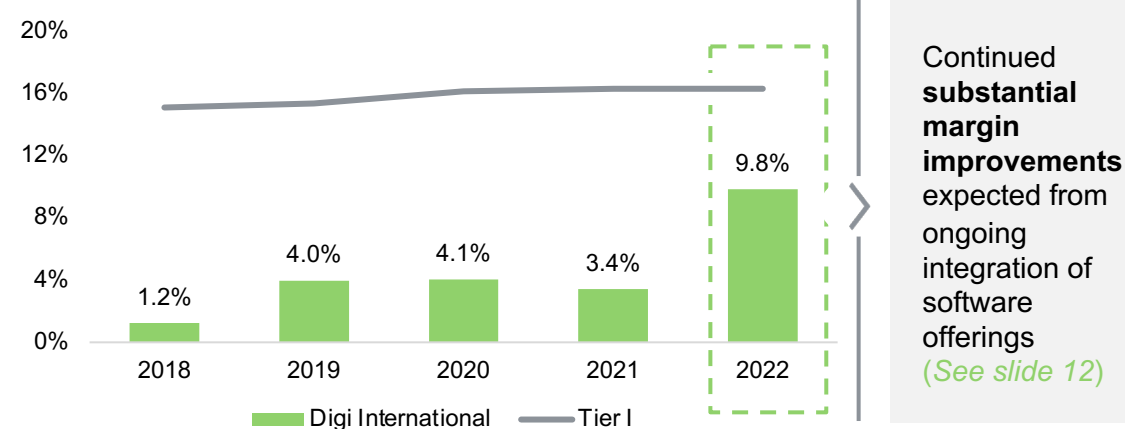
Financial Analysis

Digi is leading industry growth and improving it's profitability alongside its peers

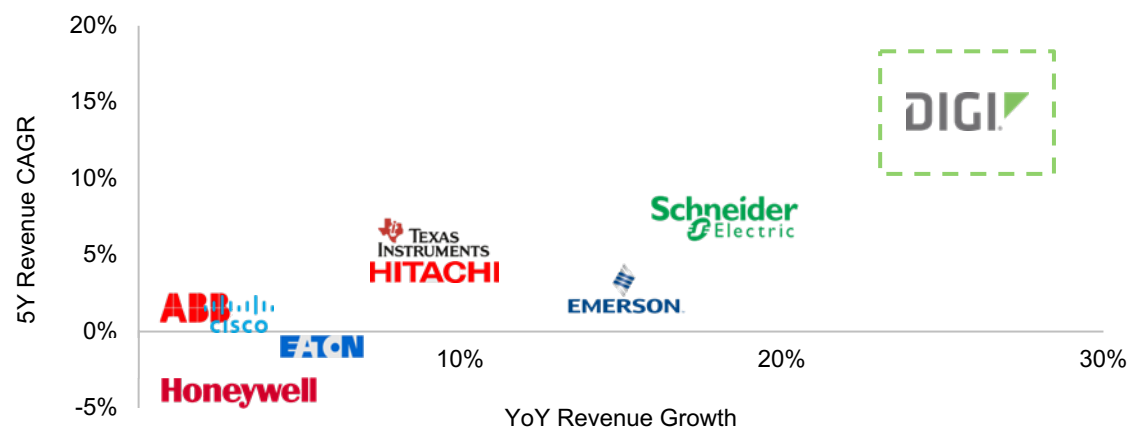
Revenue, Gross Profit and Net Income Development



EBIT Margin Development



Short Term & Long Term Revenue Growth



Revenue
Digi outperformed its competitors in YoY and 5Y CAGR growth driven by acquisitions and impressive organic growth

EBIT Margin
Digi's ARR strategy drives operational efficiency towards industry benchmark, capturing still untapped profitability

Net Income
Digi's net profit margin surged from 1% (2018) to 5% (2022)

Valuation I - DCF

Digi's future success relies on synergizing a thriving hardware business with software sales

Key Valuation Drivers



Growth in subscription ARR

Digi's revenue growth is mainly fueled by its growing subscription businesses and thus recurring revenues (ARR)



Increase of % of hardware customers using software

The share of existing hardware customers that tie a subscription service alongside a hardware purchase is expected to be **70%-90%**



High retention rates in Solutions segment

In line with historic levels, the main company in the Solutions segment, SmartSense, exhibits outstanding retention rates of **>95%**



Yearly market growth rate of 13.6%

The IoT market is to continue its impressive growth, acting as a tailwind for Digi's success



Continuation of acquisitions

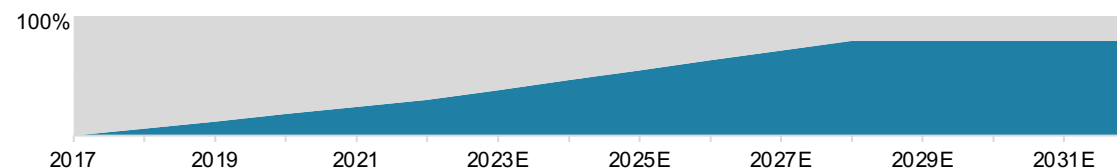
Due to the innovative nature of IoT and the transition to software, Digi is to continue pursuing acquisitions in the coming years



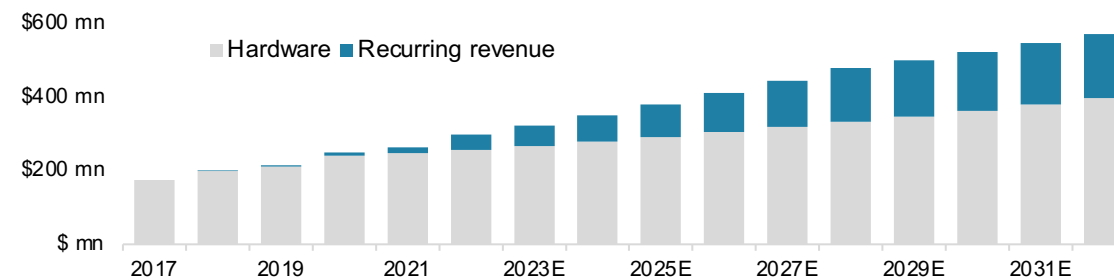
Supply chain deterioration and recovery

Digi is expected to encounter fewer supply chain issues, a slight increase in inventory levels in 2023, followed by normalization in 2024

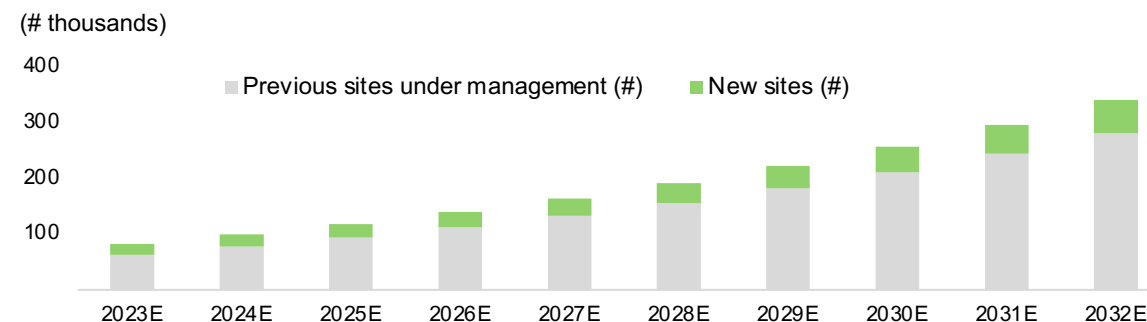
Share of Hardware Customers using Full Solution



Products & Services Revenue



Smartsense Sites under Management



Valuation III - Summary

Our conservative valuation showcases the upside potential even in pessimistic scenarios

Scenario Analysis

Optimistic Scenario



- Retention rate of **97%**
- % of hardware customers using software in TY of **90%**
- Market CAGR of **15.6%**
- No** further deterioration of supply chain



+44.36%

\$ 54.86

Base Scenario



- Retention rate of **95%**
- % of hardware customers using software in TY of **80%**
- Market CAGR of **13.6%**
- Persistence of supply chain issues and **recovery in 2024**



+29.23%

\$ 49.11

Pessimistic Scenario



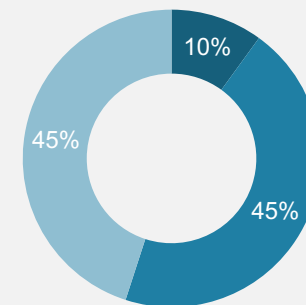
- Retention rate of **90%**
- % of hardware customers using software in TY of **70%**
- Market CAGR of **11.6%**
- Persistence of supply chain issues and **recovery in 2024**



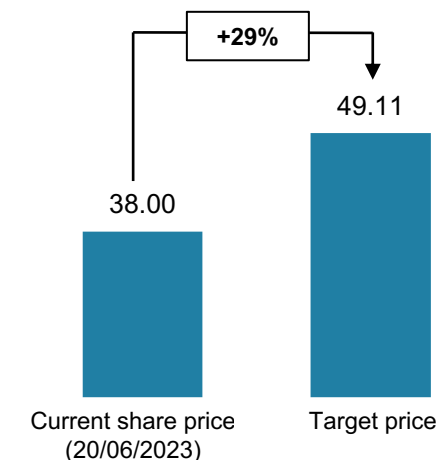
+14.34%

\$ 43.45

Valuation Methods



■ DCF (exit multiples) ■ DCF (perpetuity) ■ CCA



Perpetuity Approach Sensitivity Analysis (Share Price in USD)

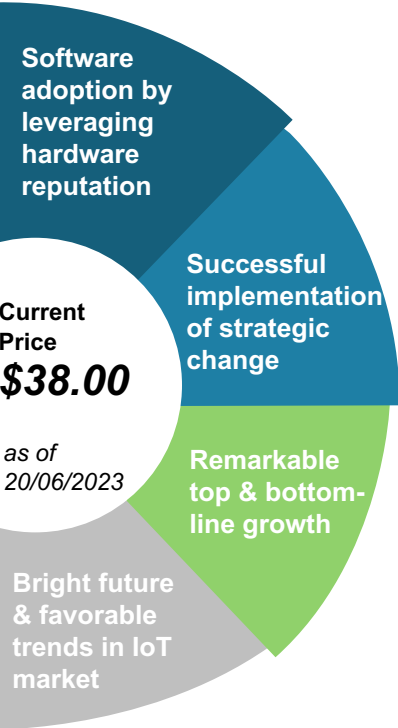
		Growth Rate				
		1.8%	1.9%	2.0%	2.1%	2.2%
WACC	7.7%	49.13	49.85	50.59	51.35	52.15
	7.8%	48.10	48.78	49.49	50.23	50.99
	7.9%	47.10	47.76	48.44	49.14	49.87
	8.0%	46.13	46.77	47.42	48.10	48.79
	8.1%	45.20	45.81	46.44	47.08	47.75



Conclusion

Conclusion

Digi utilizes its reputation, strategy, and financial health to thrive in a growing market



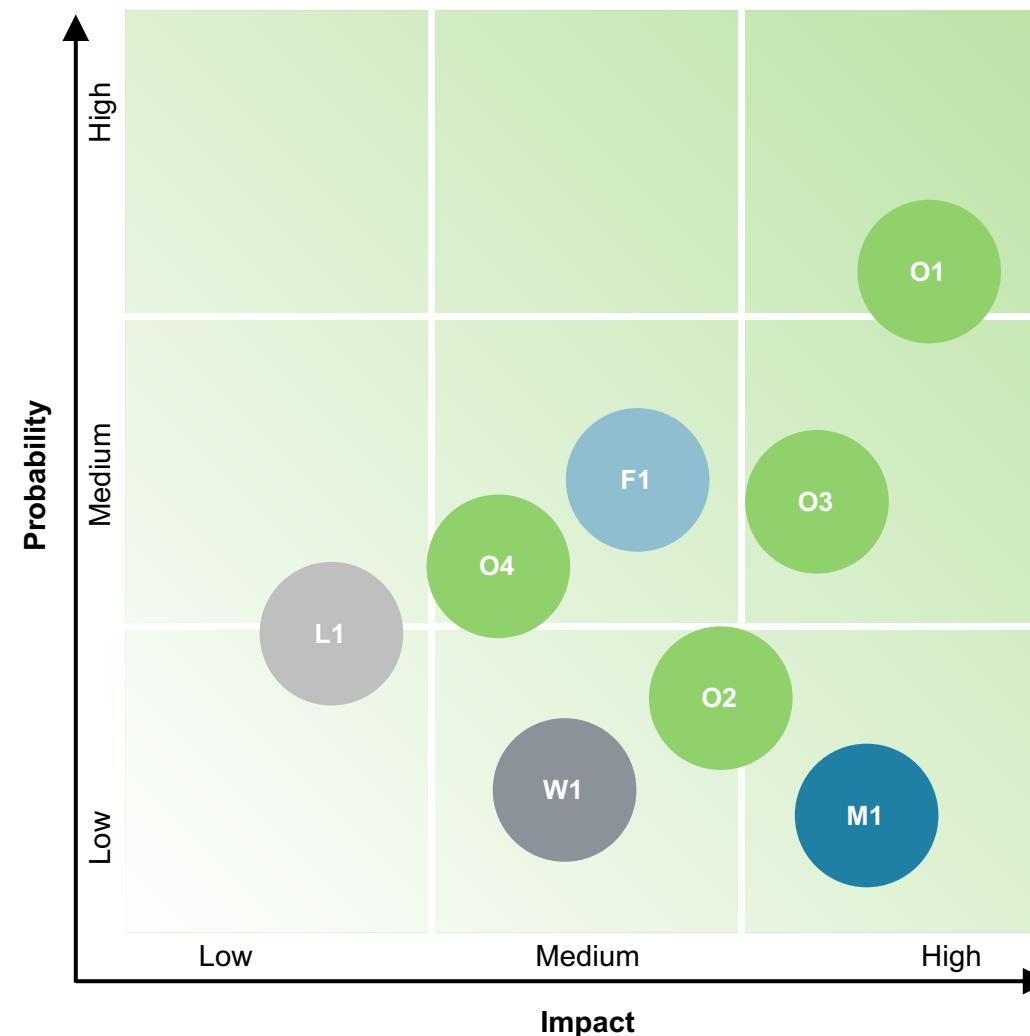
I	Appendix I: Risks & Catalysts	25
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Appendix I: Risks

Digi's key risks are the same as those faced by the entire IoT industry











- O1** **Global supply chain and freight transportation disruptions** can cause shortage of semiconductors and other components from suppliers
- O2** Digi might not be able to adapt fast enough to the **increasing number of innovations** in the IoT industry
- O3** Digi is dependent on **China and Taiwan as its main suppliers**. Any conflicts between these countries could have a negative impact on Digi's supply chain
- O4** IoT devices collect and transmit sensitive data, therefore can be **vulnerable to hacking**, leading to data breaches and privacy violations
- M1** With the IoT landscape undergoing **considerable consolidation**, the actions of competing entities pose potential risks to Digi
- F1** Digi's acquisitions strategy might be endangered by changing economic conditions and unstable macroeconomic environment resulting in **higher interest rates**
- L1** Digi must navigate **complex regulations related to data protection and product standards**. Failure to comply with these regulations can result in legal penalties
- W1** The industry is facing a **talent shortage** that is a negative sign for the future and imposes risks

Operations (O) – Market (M) – Financial (F) – Legislation (L) – Workforce (W)



Appendix I: Catalysts

Catalysts primarily signify a potential thrust in the company's share price

Catalyst	Type	Influenced factor	Estimated impact on share price
 Advent of 5G technology	Soft	Revenue Cost of sales	<ul style="list-style-type: none"> The deployment of 5G networks create new opportunities for Digi to grow and to offer innovative IoT solutions to its customers. 
 GloT¹ & Sustainability goals	Soft	Revenue	<ul style="list-style-type: none"> Achieving net zero and supply chain laws may drive additional investments in IoT industry. IoT is considered to accelerate action to stabilize global temperature increases. 
 Future Acquisitions	Hard	Growth Revenue	<ul style="list-style-type: none"> Acquiring further businesses with complementary technology can strengthen Digi's product portfolio and secure its market position. 
 Security & Data Breaches	Soft	Market share Growth	<ul style="list-style-type: none"> Any breach could have significant negative consequences. 
 Sustainability reporting	Soft	Reputation Cost of sales	<ul style="list-style-type: none"> Lack of sustainability reports may raise concerns about potential future negative impacts or underwhelming figures if reports are published. 

Appendix II: Sample Products & Prices

Digi offers a broad product portfolio, solving different problems

Cellular Gateway



Digi Connect Sensor+

- Fully integrated, battery powered cellular gateway with I/O¹ for **connecting** to a wide range of **external sensors**
- **Application examples:** Threshold and delta alarms, Flow monitoring, Level monitoring, Remote diagnostics, Temperature monitoring

\$ 549

Industrial Cellular Router



Digi IX30

- Intelligent 4G LTE router designed for critical infrastructure and industrial applications
- **Application examples:** industrial automation, flow meters, sensing equipment

\$ 912

Console Server

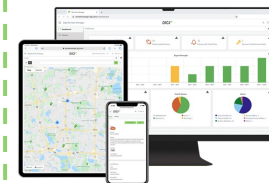


Digi Connect IT 16

- Centrally manage routers, firewalls, servers and other critical IT infrastructure over LTE or enterprise WAN
- **Application examples:** helps finance, healthcare, global commerce and managed service companies to deliver the highest levels of reliability in support of their critical businesses

\$ 2,865

Remote Manager



Digi Remote Manager Premier

- Activate, monitor and diagnose your mission-critical devices from a **single point of command and control** — on your desktop or mobile app
- **5-year subscription** of the Premium edition of Digi Remote Manager

\$ 210

¹ I/O = Input/ Output
Source: Team Analysis, Company Website

Appendix II: Network Systems

Understanding IoT networks with different hardware components

Sample Components Network Systems



Internet

- Where all online resources are located
- **Global network of networks**, consisting of millions of public, private, business, and government networks, ranging from local to global scale



Gateway + Router

- From the internet, data first reaches the gateway
- Modem **modulates and demodulates signals**, converting between digital data in the local network and the internet
- Router **routes this data** to the correct device on the local network using IP addresses



Core Switch

- Router part of the gateway is connected to a core switch
- **Connects multiple devices within the network** together and can forward data to the correct device



Controller

- Switch is connected to an AC Controller. The AC controller **manages** multiple **Access Points** (APs), providing centralized management and configuration
- Access points provide wireless access to the network for devices such as laptops, tablets, and smartphones



End Devices

- **Connect to the network** either through a wired connection to the switch (in the case of a desktop PC) or wirelessly via an AP (in the case of smartphones, laptops, etc.)
- Use the network to access resources on the internet

Appendix III: Acquisitions from 2015-2021

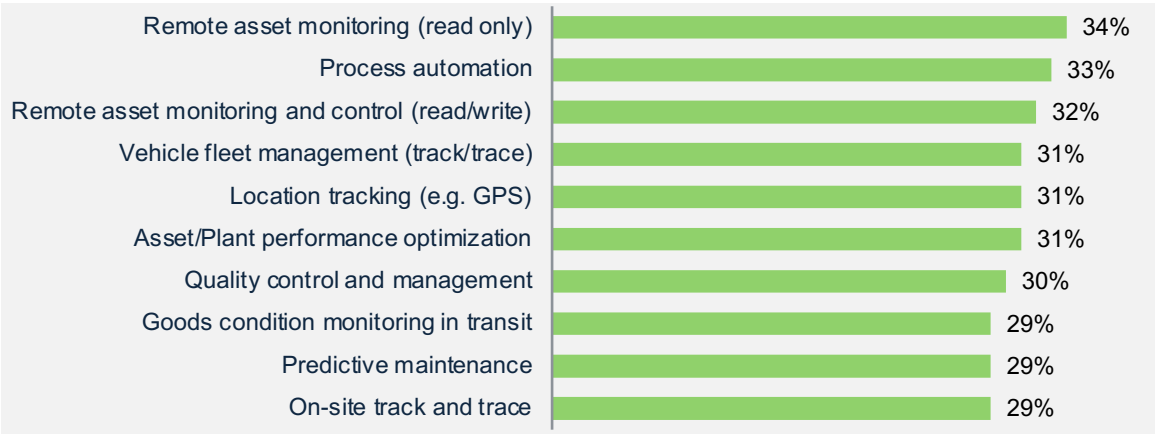
Digi shows a strong track record of acquisitions

Acquisition	Year	Segments	
 *	2015	 Temperature Monitoring	 Wireless Sensors
	2016	 Temperature Monitoring	 Real Time Task Tracking
 *	2017	 Temperature Monitoring	 Temperature Management
 *	2017	 Temperature Monitoring	 Task Management
	2018	 Secure (LTE) Networking Equipment	 Backup Connectivity Applications
	2019	 Secure IT Infrastructure Products	 Secure IT Infrastructure Software
	2021	 Low Power Wide Area ("LPWA") Wireless Technology	
	2021	 Remote Monitoring	 Industrial Controls
	2022	 MNaaS Solutions	

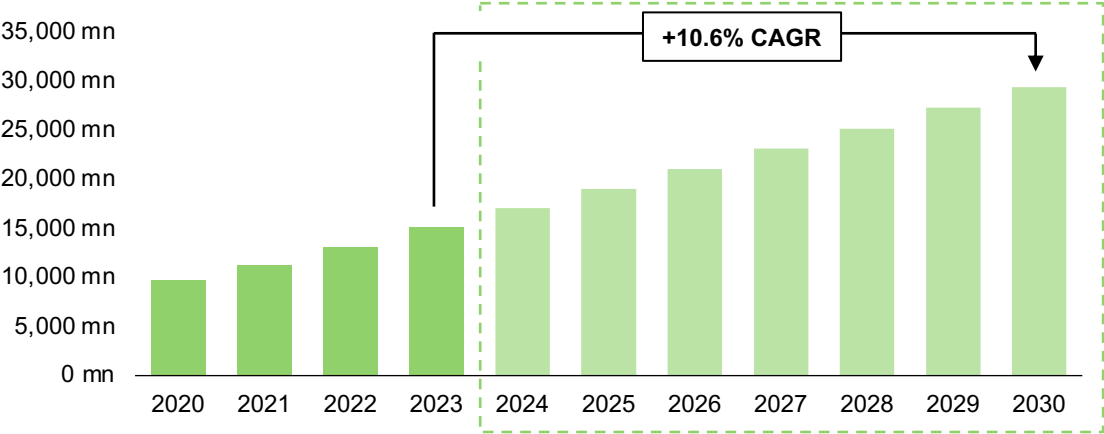
Appendix IV: Market Overview III

The IoT segment shows huge potential across various industries in the future

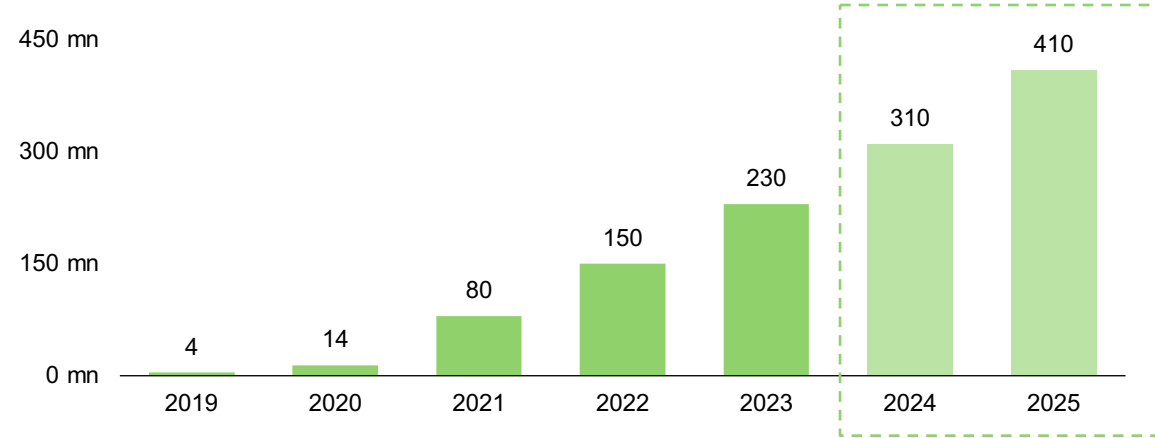
Leading IoT Adoption Rate Worldwide (2021)



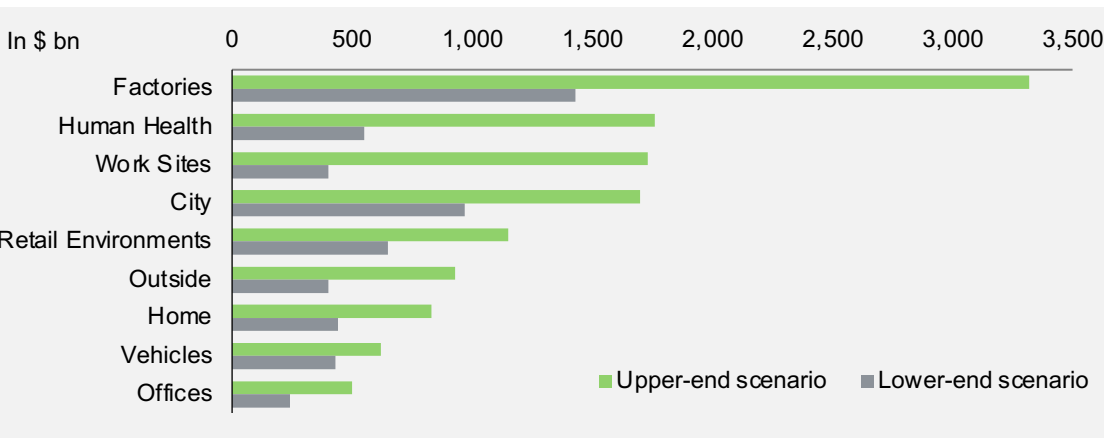
Number of IoT Connected Devices Worldwide



5G Connections in North America

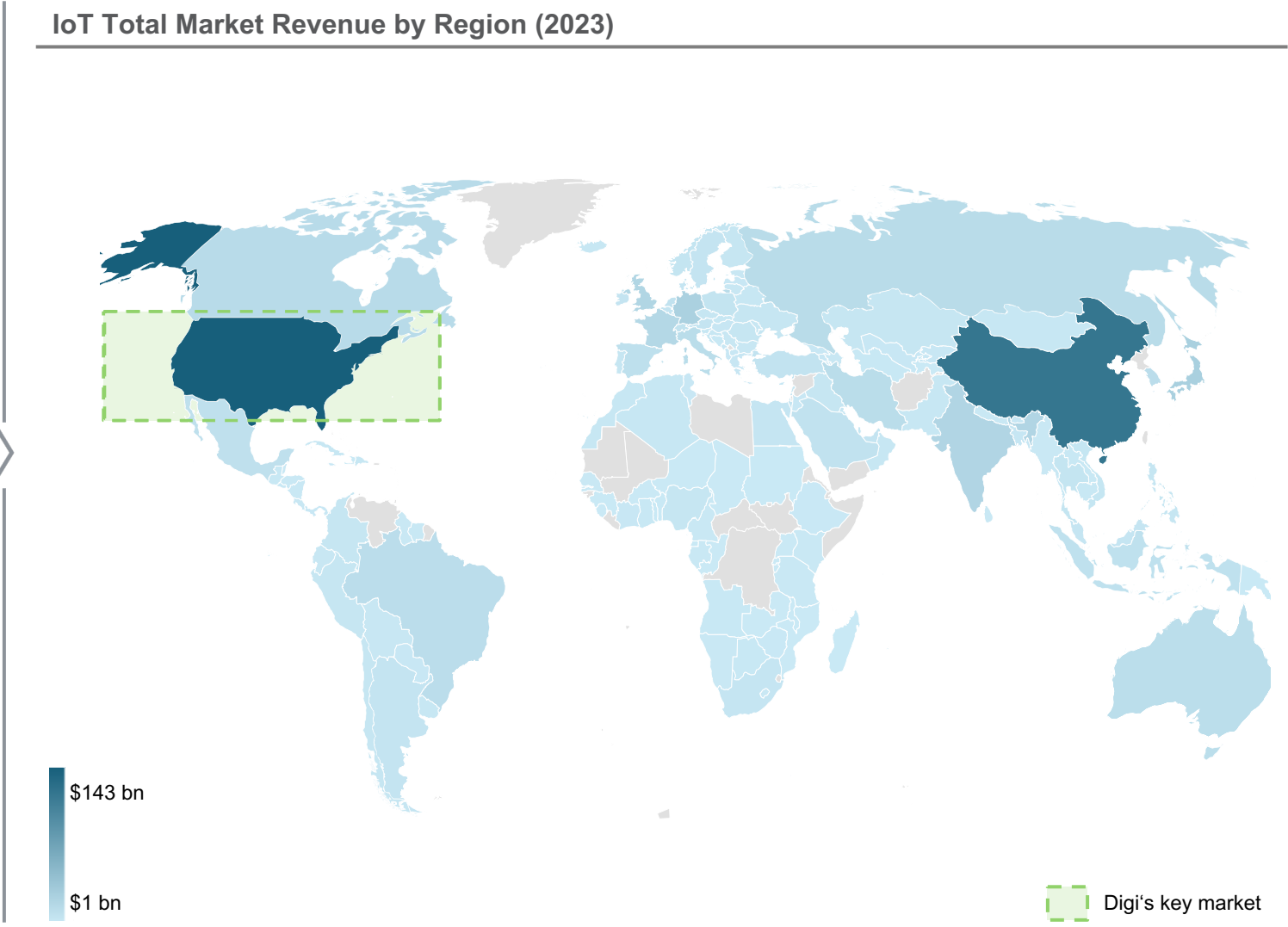
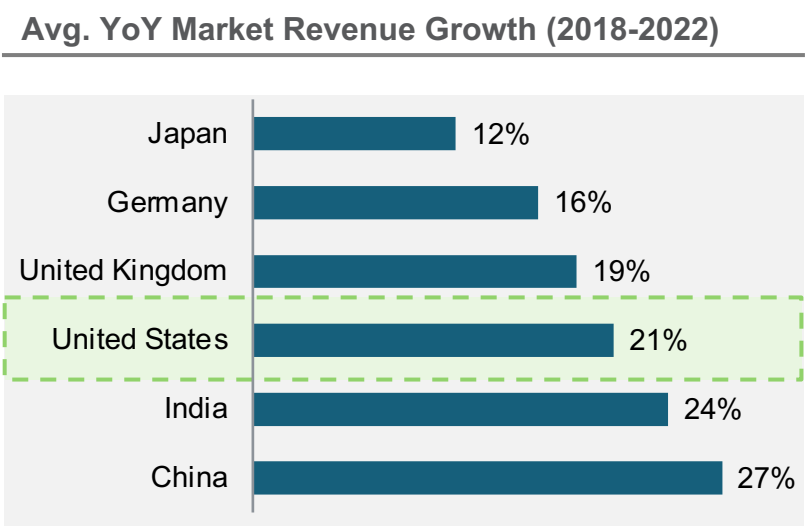
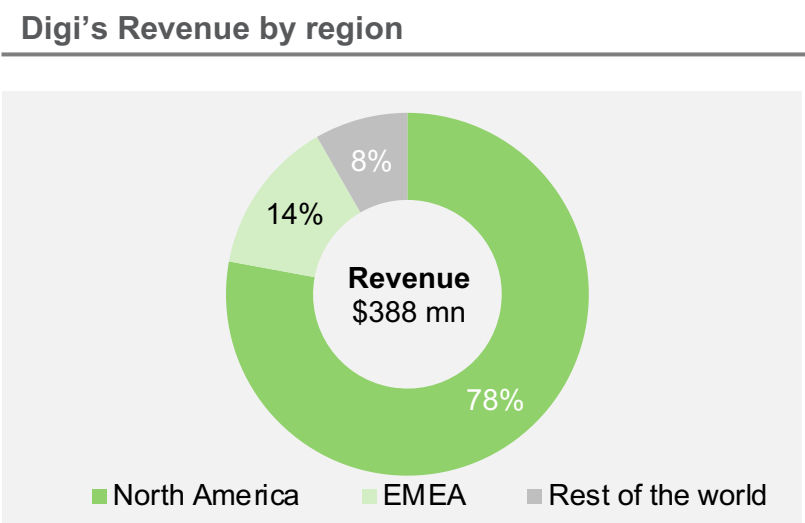


Potential economic Value from IoT worldwide in 2030











Appendix IV: Geographic Market Overview

Digi is operating in a high growth market



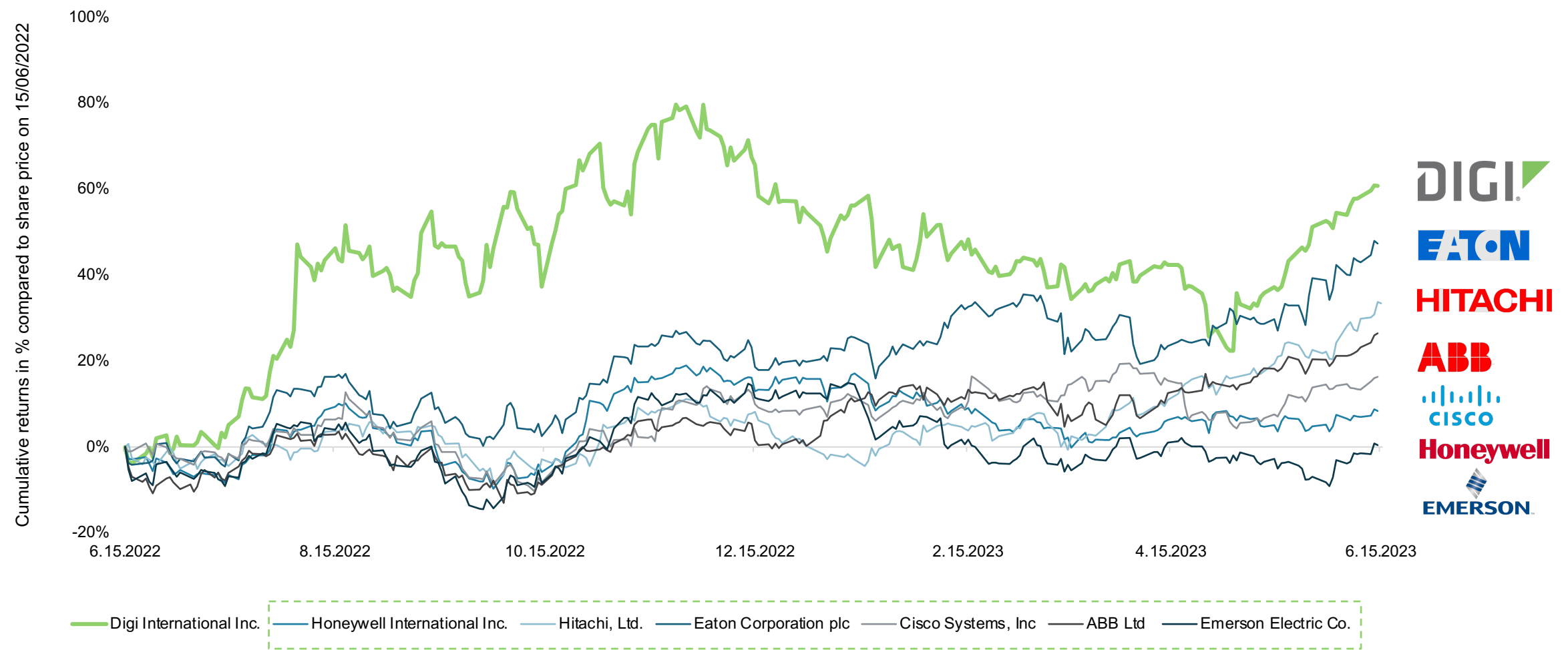
Appendix IV: Competitor Comparison

Digi is offering a comprehensive IoT product portfolio, that enables cross-selling and customer satisfaction

		DIGI	HITACHI	CISCO	Honeywell	ABB	EATON	EMERSON
	Cellular products	✓	✓	✓	✓	✗	✓	✓
	Radio frequency	✓	✓	✓	✓	✓	✓	✓
	Embedded system products	✓	✓	✓	✗	✓	✓	✓
	Infrastructure management products	✓	✓	✓	✓	✓	✓	✓
	Remote manager	✓	✓	✓	✓	✓	✓	✗
	Out-of band management software	✓	✓	✗	✗	✗	✗	✓
	Temperature monitoring	✓	✓	✓	✓	✓	✓	✓
	Managed Network as a Service (MNaaS)	✓	✗	✓	✓	✗	✗	✓

Appendix IV: Relative Share Price Performance

Comparison of Digi and tier I competitors



Appendix V: Sustainability

The Internet of Things could be a game-changer for sustainability

Environmental Sustainability & Circular Economy (CE)



Advancing Circular Models [1]

IoT propels CE, extends product lifetimes & reduces impacts



Smart Infrastructure Management [2]

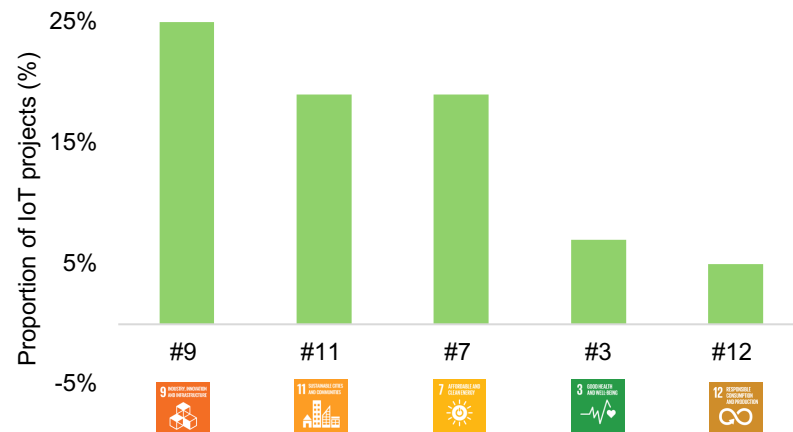
IoT refines urban infrastructure for enhanced efficiency & sustainability



Precision Agriculture [3]

IoT cleantech for water conservation and targeted pesticide use

SDGs Addressed by IoT Projects



75% of all IoT projects focus on **at least 5 SDGs**

Digi's Solutions & Contributions to SDGs



Digi Connect Sensor+ [1]

- Remote monitoring is crucial in tracking the health of devices or systems, predicting maintenance needs, and preventing early disposal



Digi WR31 [2]

- Digi's TransPort WR31 routers support smart transportation systems by providing real-time traffic data, reducing congestion and emissions



Digi XBEE Module [3]

- By enabling real-time monitoring and precision control of pivot sprinklers it helps conserving water and improving efficiency



Appendix VI: SWOT Analysis

Digi's strengths and opportunities outweigh weaknesses and threats

STRENGTHS

- **Conversion of hardware customers** into long-term subscribers of software services and solutions
- **Strategic acquisitions** of other companies to complement the existing product portfolio and eliminate competition
- Digi has shown a **very solid financial performance over the last 5 years**, with stable growth and profits every single year

OPPORTUNITIES

- Opportunity to use significant **unused upselling potential** of software subscriptions with **70% hardware customers who are not yet software customers**
- Digi's two main segments, **automotive and industrial IoT**, are expected to grow at a market **CAGR of 13.6%** until 2028



- Digi is **not very geographically diversified**, 78% of revenue in 2022 came from North America
- Being a mid-size company, Digi might not be able to outbid blue-chip companies which have access to more **financial resources**

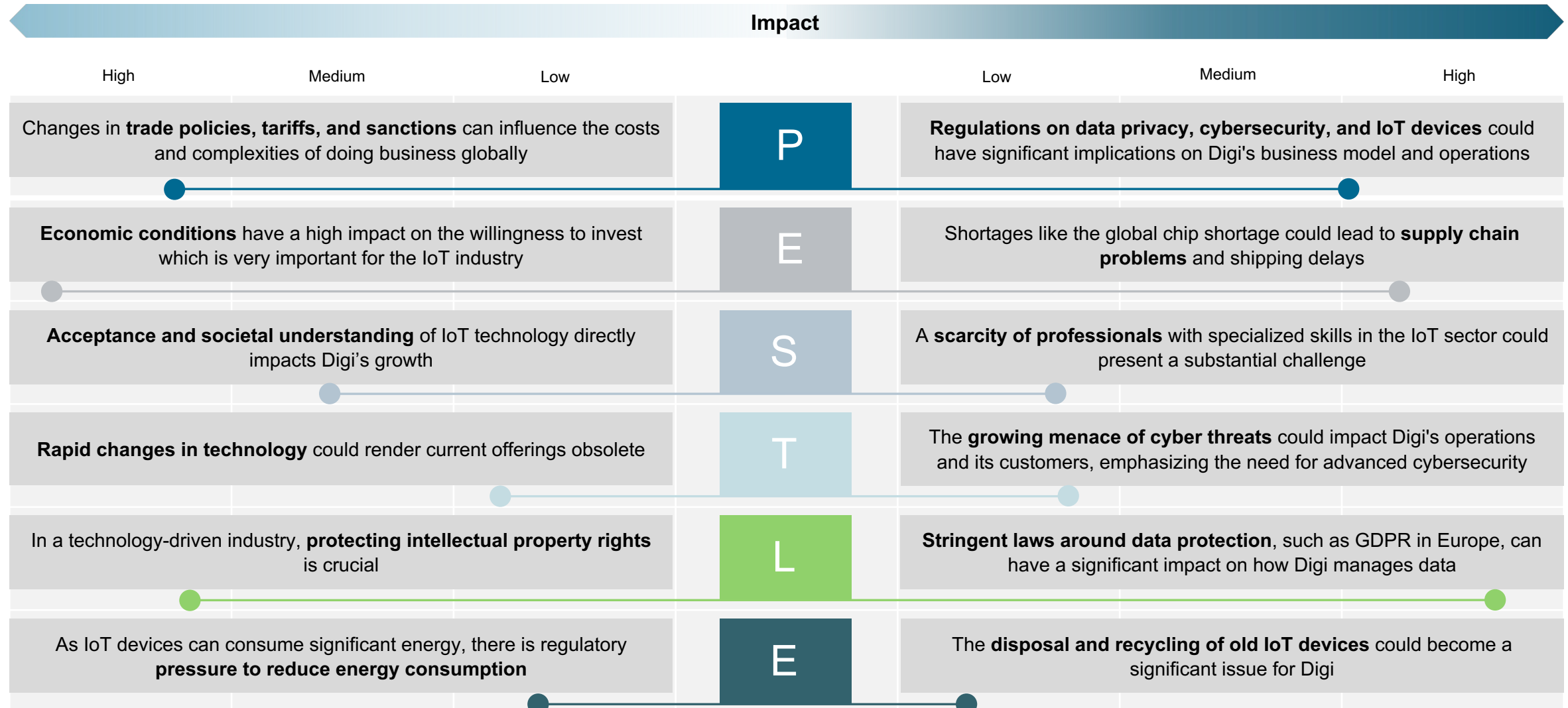
WEAKNESSES

- The **fluctuation in interest rates** provides a volatile financial and economic environment
- **Semiconductor shortages** could cause further supply chain disruptions

THREATS

Appendix VI: PESTLE Analysis

The IoT market is depended on continuous innovation and constantly changing regulations



Appendix VI: Porter's Five Forces

Digi's competitive advantage arises from its unique value proposition

- (+) High **product differentiation**
- (-) Many **competitors**
- (-) High industry **growth rate**

Industry rivalry – MEDIUM

Threat of substitutes – LOW

- Unique value proposition of Digi (+)
- High **switching costs** (+)
- Low availability of **substitutes** (+)

Bargaining power of suppliers – MEDIUM

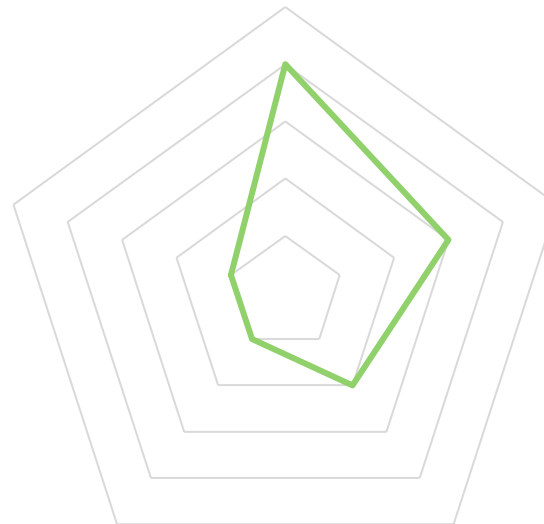
- (+) mostly **standardized components**
- (-) **moderate to high** costs for **switching** suppliers
- (-) **limited** number of **suppliers**

Bargaining power of buyers – LOW

- Large and diverse **customer base** (+)
- Offers are **hard to compare** and not transparent, therefore low **price sensitivity** (+)
- High switching costs due to **differentiation** (+)

Threat of new entrants – LOW

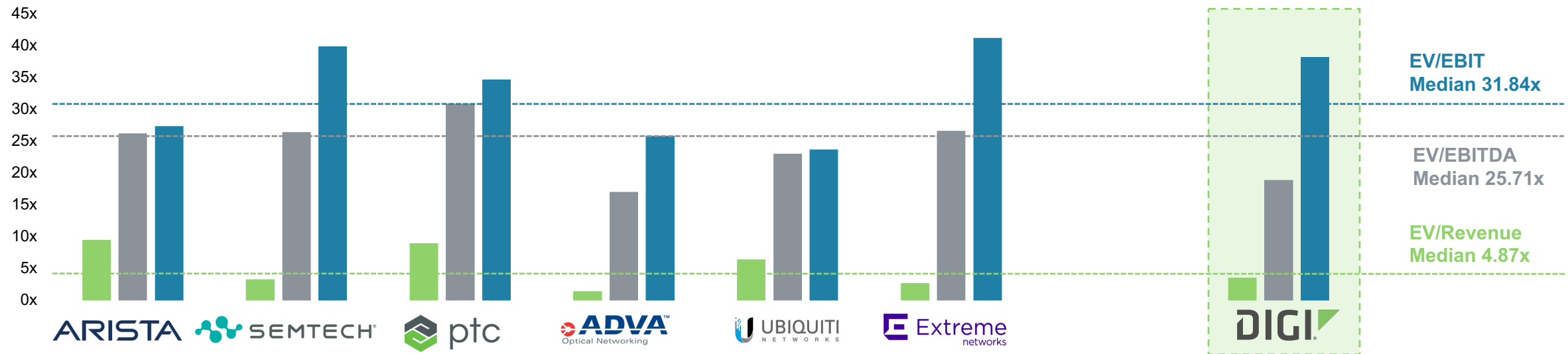
- (+) Highly **specialized field** with need for specific knowledge
- (+) High **capital requirements**
- (+) High **economies of scale**
- (-) A lot of room for **innovation**



Appendix VII: CCA

Trading multiples show that Digi is undervalued

Company Comparables



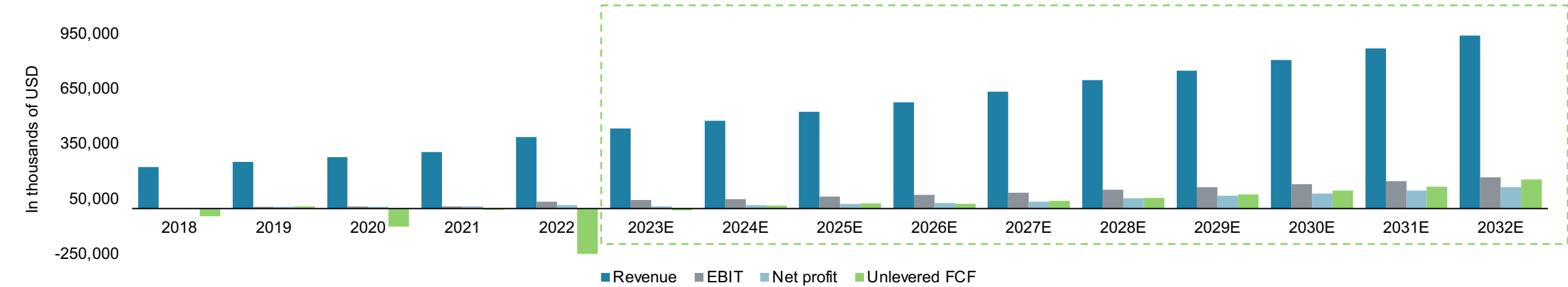
Valuation Multiples

	Arista Networks	Semtech Corporation	PTC	ADVA Optical Networking	Ubiquiti	Extreme Networks	DIGI	Median
EV/Revenue	10.02x	3.20x	8.58x	1.52x	6.54x	2.64x	3.61x	4.87x
EV/EBITDA	27.60x	25.42x	29.59x	17.41x	23.25x	25.99x	18.88x	25.71x
EV/EBIT	28.74x	38.41x	33.27x	26.42x	23.94x	40.23x	38.22x	31.84x


Appendix VIII: DCF Valuation


Digi’s cash flows are projected to increase in the upcoming years


Key Forecasted Financials




Key Valuation Assumptions

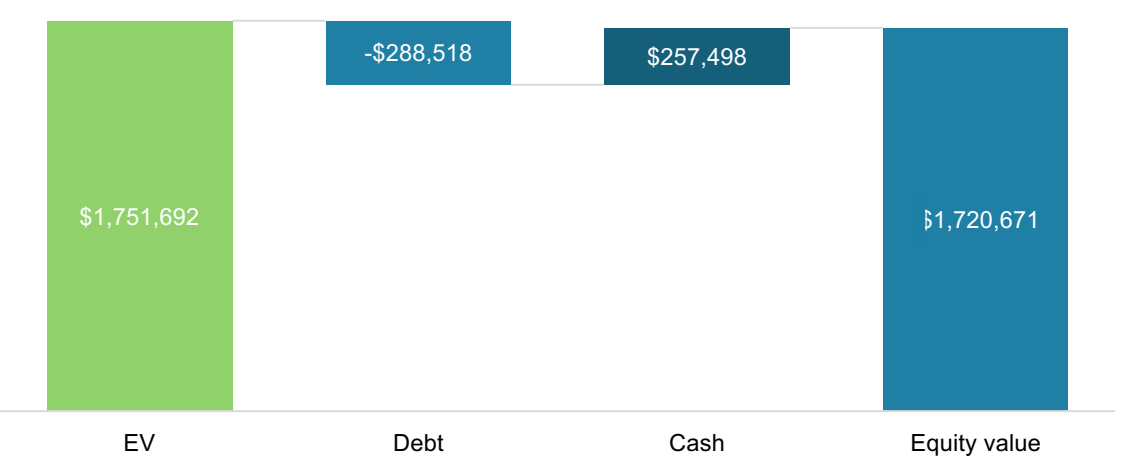
**7.88%**
WACC

**1.34**
Beta based on 5-yr OLS regression of Digi’s returns with the S&P 500

**2.00%**
Perpetuity growth rate (long-term inflation)


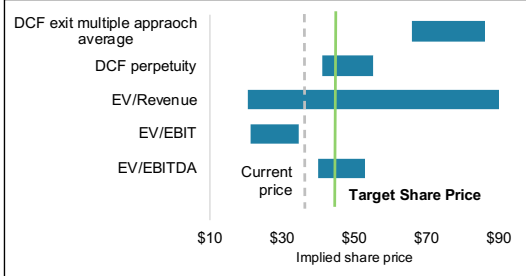
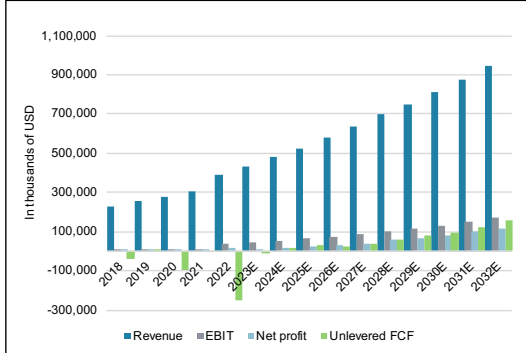
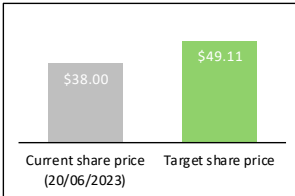
**24.88x**
EBITDA exit multiple based on peer group mean

Equity Bridge



Appendix VIII: Valuation

Valuation Overview

Digi International - WUTIS SS 2023 Final Pitch																							
Company Overview																							
Logo																							
Name	DIGI INTERNATIONAL INC. (XNAS:DGII)																						
Industry	Communications & Networking																						
HQ	9350 Excelsior Blvd Ste 700, 11001 BREN ROAD EAST, MINNETONKA, MN, 55343 US																						
Employee count	790																						
Current share price (20/06/2023)	\$	38.00																					
Market cap	\$	1,388,548,216																					
Ticker	DGII																						
Stock market	Nasdaq Stock Market																						
IPO	1989																						
Table of Contents																							
1. Valuation					2. Calculations					3. Input													
DCF					Revenue Forecast					Historical Financials													
Assumptions					Schedules					Supplementary Data													
Operating Model					WACC																		
CCA					Beta																		
Color Coding																							
Numbers given in										In thousands of USD													
(Unless stated otherwise)																							
Hard-copied input										Dark blue													
Formulas and links										Black													
% rates/ shares										In italics & grey													
Forecasts										Highlighted light green													
Team																							
Maria Doppler					Head																		
Vinicius Wolff					Associate																		
Stefan Hauer					Analyst																		
Paula Wohlers					Analyst																		
Zeno Eule					Analyst																		
Tamara Heinzle					Analyst																		
Key Visualizations																							
																							
																							
Financials & Valuation																							
Scenario selection:																							
Base Case																							
Scenario Valuation Summary																							
Target share price		\$	49.11																				
Upside potential & Recommendation			29.23% BUY																				
Key Valuation Assumptions																							
WACC					7.88%																		
Terminal growth rate					2.00%																		
EV/EBITDA exit multiple					24.88x																		
EV/EBIT exit multiple					31.84x																		
EV/Revenue exit multiple					5.42x																		
Share Prices by to Valuation Approach																							
DCF perpetuity					Weights	Target																	
					45%	\$ 48.44																	
DCF average exit mu					10%	\$ 86.38																	
CCA					45%	\$ 41.49																	
																							
Financials																							
Revenue	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E								
Revenue	226,893	254,203	279,271	308,632	388,225	435,130	479,055	526,970	579,284	636,452	698,981	751,559	809,274	872,741	942,651								
EBIT	2,782	10,072	11,317	10,528	38,220	46,203	51,753	64,121	73,725	87,258	102,822	116,148	131,732	149,785	170,604								
EBIT margin %	1.23%	3.96%	4.05%	3.41%	9.84%	10.62%	10.80%	12.17%	12.73%	13.71%	14.71%	15.45%	16.28%	17.16%	18.10%								
Net profit	1,631	9,958	8,411	10,366	19,383	11,783	18,220	24,673	29,152	36,981	56,601	68,735	82,548	98,214	115,973								
Profit margin %	0.72%	3.92%	3.01%	3.36%	4.99%	2.71%	3.80%	4.68%	5.03%	5.81%	8.10%	9.15%	10.20%	11.25%	12.30%								
Unlevered FCF	-42,534	10,579	-98,651	-7,615	-247,509	-10,165	15,320	27,975	26,309	40,885	57,868	77,510	97,241	119,797	157,368								

Appendix VIII: Valuation

Income Statement

Digi International - Operating Model		2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<i>In thousands of USD</i>																
Pro Forma Income Statement																
Revenue:																
Products & Services		201,506	215,287	249,530	264,173	297,645	323,208	350,467	379,522	410,478	443,450	478,554	500,036	522,481	545,935	570,441
	% of total revenue	88.81%	84.69%	89.35%	85.59%	76.67%	74.28%	73.16%	72.02%	70.86%	69.68%	68.46%	66.53%	64.56%	62.55%	60.51%
IoT Solutions		25,387	38,916	29,741	44,459	90,580	111,921	128,588	147,448	168,805	193,002	220,427	251,523	286,793	326,806	372,210
	% of total revenue	11.19%	15.31%	10.65%	14.41%	23.33%	25.72%	26.84%	27.98%	29.14%	30.32%	31.54%	33.47%	35.44%	37.45%	39.49%
Total revenue		226,893	254,203	279,271	308,632	388,225	435,130	479,055	526,970	579,284	636,452	698,981	751,559	809,274	872,741	942,651
	YoY Growth		12.04%	9.86%	10.51%	25.79%	12.08%	10.09%	10.00%	9.93%	9.87%	9.82%	7.52%	7.68%	7.84%	8.01%
Cost of sales:																
Products & Services		97,571	108,663	108,660	106,592	123,554	137,214	146,757	156,881	167,618	179,002	191,071	199,648	208,610	217,974	227,759
	% of revenue	48.42%	50.47%	43.55%	40.35%	41.51%	42.45%	41.87%	41.34%	40.83%	40.37%	39.93%	39.93%	39.93%	39.93%	39.93%
IoT Solutions		7,484	13,109	7,340	14,506	14,546	17,973	20,650	23,678	27,108	30,994	35,398	40,391	46,055	52,481	59,772
	% of revenue	29.48%	33.69%	24.68%	32.63%	16.06%	16.06%	16.06%	16.06%	16.06%	16.06%	16.06%	16.06%	16.06%	16.06%	16.06%
Total cost of sales		105,055	121,772	116,000	121,098	138,100	155,187	167,407	180,559	194,726	209,996	226,469	240,039	254,665	270,455	287,531
Gross profit		121,838	132,431	163,271	187,534	250,125	279,942	311,648	346,410	384,558	426,456	472,512	511,519	554,609	602,286	655,120
Cost of sales:																
Operating expenses:																
D&A		12,784	13,396	19,299	20,877	33,839	31,656	37,431	37,597	41,874	43,722	45,214	46,519	47,270	47,473	47,123
Other D&A		0	0	0	0	3,733	0	0	0	0	0	0	0	0	0	0
Sales and marketing		44,517	45,801	52,761	61,909	66,633	81,589	89,825	98,810	108,619	119,338	131,063	140,922	151,743	163,644	176,752
Research and development		33,178	37,564	43,765	46,623	55,098	64,721	71,254	78,381	86,162	94,665	103,966	111,786	120,371	129,811	140,209
General and administrative		28,276	25,685	36,140	40,830	58,527	55,533	61,139	67,254	73,931	81,227	89,207	95,917	103,283	111,383	120,305
Change in fair value of contingent consideration		0	0	-128	5,772	-6,200	0	0	0	0	0	0	0	0	0	0
Restructuring charge		301	-87	117	995	275	241	245	247	248	245	240	227	210	190	127
Total operating expenses		119,056	122,359	151,954	177,006	211,905	233,740	259,895	282,289	310,833	339,198	369,690	395,371	422,877	452,501	484,516
Operating income		2,782	10,072	11,317	10,528	38,220	46,203	51,753	64,121	73,725	87,258	102,822	116,148	131,732	149,785	170,604
Cost of sales:																
Other expense, net:																
Interest income		445	733	304	10	11	0	0	0	0	0	0	0	0	0	0
Interest expense		-25	-102	-3,592	-1,395	-19,701	-31,288	-28,690	-32,890	-36,824	-40,447	-31,175	-29,142	-27,241	-25,464	-23,803
Other income (expense), net		48	442	-566	-144	98	0	0	0	0	0	0	0	0	0	0
Total other expense, net		468	1,073	-3,854	-1,529	-19,592	-31,288	-28,690	-32,890	-36,824	-40,447	-31,175	-29,142	-27,241	-25,464	-23,803
Income before income taxes		3,250	11,145	7,463	8,999	18,628	14,915	23,063	31,231	36,901	46,811	71,647	87,007	104,491	124,321	146,801
Cost of sales:																
Income tax provision		1,619	1,187	-948	-1,367	-755	3,132	4,843	6,559	7,749	9,830	15,046	18,271	21,943	26,107	30,828
Net income		1,631	9,958	8,411	10,366	19,383	11,783	18,220	24,673	29,152	36,981	56,601	68,735	82,548	98,214	115,973

Appendix VIII: Valuation

Assets

Digi International - Operating Model						2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<i>In thousands of USD</i>																				
Balance Sheet																				
ASSETS																				
Cash and cash equivalents		58,014	92,792	54,129	152,432	34,900	47,522	84,048	124,631	155,295	191,181	91,936	98,636	125,028	173,228	257,498				
	% of total assets	15.59%	23.27%	10.24%	24.60%	4.09%	5.11%	8.34%	11.43%	13.22%	15.13%	7.56%	7.78%	9.36%	12.19%	16.87%				
Accounts receivable, net		49,819	56,417	59,227	43,738	50,450	56,545	62,253	68,480	75,278	82,707	90,833	97,665	105,166	113,413	122,498				
Inventories		41,644	39,764	51,568	43,921	73,223	82,283	74,638	65,267	70,388	75,908	81,862	86,768	92,055	97,762	103,935				
Assets held for sale		5,220	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Marketable securities		4,736	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Deferred tax assets		0	0	0	2,698	3,764	3,764	3,764	3,764	3,764	3,764	3,764	3,764	3,764	3,764	3,764				
Other current assets		2,613	3,574	5,134	3,869	3,871	4,339	4,777	5,254	5,776	6,346	6,970	7,494	8,069	8,702	9,399				
Total current assets		162,046	192,547	170,058	246,658	166,208	194,453	229,480	267,396	310,502	359,906	275,364	294,327	334,081	396,869	497,094				
Property, equipment and improvements, net		8,354	13,857	11,507	12,132	27,594	31,708	35,418	40,955	46,144	51,772	57,839	64,059	70,462	77,077	83,140				
Deferred income taxes		6,600	7,330	389	0	0	0	0	0	0	0	0	0	0	0	0				
Identifiable intangible assets, net		39,320	30,667	121,248	118,029	302,064	316,487	326,862	336,278	342,453	346,620	348,650	347,359	342,759	334,771	316,641				
Goodwill		154,535	153,422	210,135	225,522	340,477	367,158	394,308	421,728	449,182	476,391	503,029	528,182	551,511	572,619	586,667				
Operating lease right-of-use assets		0	0	14,334	15,684	15,299	17,147	18,878	20,767	22,828	25,081	27,545	29,617	31,892	34,393	37,148				
Other non-current assets		1,291	875	1,011	1,506	2,253	2,525	2,780	3,058	3,362	3,694	4,056	4,362	4,696	5,065	5,471				
Total non-current assets		210,100	206,151	358,624	372,873	687,687	735,026	778,247	822,786	863,969	903,557	941,120	973,579	1,001,320	1,023,924	1,029,066				
Total assets		372,146	398,698	528,682	619,531	853,895	929,479	1,007,726	1,090,182	1,174,471	1,263,463	1,216,484	1,267,906	1,335,402	1,420,793	1,526,160				

Appendix VIII: Valuation

Liabilities & Equity

Digi International - Operating Model	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<i>In thousands of USD</i>															
Balance Sheet															
LIABILITIES AND STOCKHOLDERS' EQUITY															
Current portion of long-term debt	0	0	1,972	0	15,523	19,182	22,684	26,005	29,116	183,880	24,649	23,042	21,539	20,134	18,820
Accounts payable	12,911	21,183	28,067	22,586	32,373	36,379	39,243	42,326	45,647	49,227	53,088	56,269	59,698	63,399	67,402
Accrued compensation	0	0	0	12,934	14,576	14,576	14,576	14,576	14,576	14,576	14,576	14,576	14,576	14,576	14,576
Deferred revenue	3,177	5,025	7,691	13,589	19,803	19,803	19,803	19,803	19,803	19,803	19,803	19,803	19,803	19,803	19,803
Current portion of operating lease liabilities	0	0	2,527	2,633	3,196	3,196	3,196	3,196	3,196	3,196	3,196	3,196	3,196	3,196	3,196
Other current liabilities	5,405	4,110	7,373	7,199	11,036	12,369	13,618	14,980	16,467	18,092	19,870	21,364	23,005	24,809	26,797
Total current liabilities	35,573	44,458	61,230	58,941	96,507	105,505	113,120	120,887	128,805	288,774	135,182	138,250	141,816	145,917	150,594
Income taxes payable	851	1,192	1,958	2,334	2,441	2,441	2,441	2,441	2,441	2,441	2,441	2,441	2,441	2,441	2,441
Deferred tax liabilities	334	261	17,171	13,493	9,666	9,666	9,666	9,666	9,666	9,666	9,666	9,666	9,666	9,666	9,666
Long-term debt	0	0	58,980	45,799	222,448	274,879	325,069	372,661	417,233	306,383	353,232	330,190	308,652	288,518	269,698
Operating lease liabilities	0	0	16,193	18,368	16,978	18,826	20,557	22,446	24,507	26,760	29,224	31,296	33,571	36,072	38,827
Other non-current liabilities	720	3,809	1,650	8,079	4,342	4,867	5,358	5,894	6,479	7,118	7,818	8,406	9,051	9,761	10,543
Total non-current liabilities	1,905	5,262	95,952	88,073	255,875	310,679	363,091	413,107	460,326	352,369	402,381	381,999	363,380	346,458	331,174
Total liabilities	37,478	49,720	157,182	147,014	352,382	416,184	476,211	533,994	589,131	641,143	537,563	520,249	505,197	492,375	481,768
Common stock	338	346	355	407	420	420	420	420	420	420	420	420	420	420	420
Additional paid-in capital	255,936	266,567	279,741	370,699	385,244	385,244	385,244	385,244	385,244	385,244	385,244	385,244	385,244	385,244	385,244
Retained earnings	151,961	161,919	170,330	180,692	200,075	211,858	230,077	254,750	283,902	320,882	377,483	446,219	528,767	626,980	742,953
Accumulated other comprehensive loss	-23,526	-25,515	-23,817	-22,746	-26,054	-26,054	-26,054	-26,054	-26,054	-26,054	-26,054	-26,054	-26,054	-26,054	-26,054
Treasury stock	-54,216	-54,339	-55,109	-56,535	-58,172	-58,172	-58,172	-58,172	-58,172	-58,172	-58,172	-58,172	-58,172	-58,172	-58,172
Total equity	330,493	348,978	371,500	472,517	501,513	513,296	531,515	556,188	585,340	622,320	678,921	747,657	830,205	928,418	1,044,391
Total liabilities and stockholders' equity	372,146	398,698	528,682	619,531	853,895	929,479	1,007,726	1,090,182	1,174,471	1,263,463	1,216,484	1,267,906	1,335,402	1,420,793	1,526,160

Appendix VIII: Valuation

Cash Flow Statement

Digi International - Operating Model	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<i>In thousands of USD</i>															
Statement Of Cash Flows															
Operating Activities															
Net Income	1,631	9,958	8,411	10,366	19,383	11,783	18,220	24,673	29,152	36,981	56,601	68,735	82,548	98,214	115,973
Depreciation of PPE	3,349	4,578	4,545	4,343	6,644	5,964	6,984	5,786	6,771	6,981	7,193	7,409	7,594	7,749	7,871
Amortization	9,435	8,818	14,754	16,534	30,928	25,692	30,447	31,811	35,103	36,742	38,021	39,110	39,675	39,724	39,251
Gain/loss on Sale of PPE and Improvements	-622	-4,392	0	89	4	0	0	0	0	0	0	0	0	0	0
Stock based Compensation	4,854	5,655	7,237	8,135	8,578	0	0	0	0	0	0	0	0	0	0
Provision (Bad Debt and Product Return (recoveries)	1,120	635	2,135	2,290	427	0	0	0	0	0	0	0	0	0	0
(Benefit) Provision for Inventory Obsolescence	2,056	1,874	2,630	1,200	6,901	0	0	0	0	0	0	0	0	0	0
Deferred Income Taxes	-376	-799	-3,357	-4,598	-3,387	0	0	0	0	0	0	0	0	0	0
Other Net	368	-156	366	42	-192	1,858	1,740	1,898	2,072	2,264	2,477	2,083	2,286	2,514	2,769
Change in Fair Value of Contingent Consideration	1,377	1,190	-128	5,772	-6,200	0	0	0	0	0	0	0	0	0	0
Changes in Accounts Receivables	-16,004	-6,589	5,539	11,467	-541	-6,095	-5,708	-6,227	-6,798	-7,429	-8,126	-6,833	-7,500	-8,247	-9,085
Changes in Inventories	-11,344	-1,062	-11,133	4,679	-41,369	-9,060	7,645	9,370	-5,121	-5,520	-5,955	-4,905	-5,287	-5,708	-6,172
Change in Accounts Payable	2,728	8,232	3,205	-5,578	7,281	4,006	2,864	3,083	3,321	3,580	3,862	3,181	3,429	3,701	4,003
Income Taxes Receivable/payable	697	-103	-1,100	165	-1,305	0	0	0	0	0	0	0	0	0	0
Changes in Assets and Liabilities: Accrued Expenses	-635	1,991	2,078	4,474	11,133	0	0	0	0	0	0	0	0	0	0
Changes in Assets and Liabilities: Other Assets	-1,412	-866	-704	-1,657	-545	-740	-693	-756	-825	-902	-986	-829	-910	-1,001	-1,103
Cash Flow from Operating Activities	-2,778	28,964	34,478	57,723	37,740	33,407	61,500	69,639	63,674	72,697	93,087	107,951	121,835	136,946	153,508
Investing Activities															
Purchase of PPE and Other Intangible Assets	-1,842	-9,335	-899	-2,257	-1,974	-5,261	-5,793	-6,372	-7,004	-7,696	-8,452	-9,088	-9,785	-10,553	-11,398
Proceeds from Sale of PPE and Improvements	731	10,096	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisition of Businesses, Net of Cash Acquired	-56,258	0	-136,098	-19,108	-347,554	-71,613	-72,874	-73,598	-73,687	-73,031	-71,498	-67,513	-62,616	-56,654	-37,706
Proceeds from Sale of Business	2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from maturities of marketable securities	32,032	4,750	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Flow from Investing Activities	-23,337	5,511	-136,997	-21,365	-349,528	-76,874	-78,666	-79,970	-80,692	-80,726	-79,950	-76,601	-72,402	-67,207	-49,104
Financing Activities															
Principal Payments on Long-term Debt	0	0	-55,893	-15,624	-148,118	-15,523	-19,182	-22,684	-26,005	-29,116	-183,880	-24,649	-23,042	-21,539	-20,134
Proceeds from Long-term Debts	0	0	119,018	617	350,000	71,613	72,874	73,598	73,687	73,031	71,498	0	0	0	0
Proceeds from Issuance of Stock, Net of offering Expenses	0	0	0	73,830	0	0	0	0	0	0	0	0	0	0	0
Proceeds from Employee Stock Purchase Plan Transactions	1,115	1,058	1,065	1,214	1,500	0	0	0	0	0	0	0	0	0	0
Proceeds from Stock Option Plan Transactions	5,460	4,874	5,902	8,525	9,505	0	0	0	0	0	0	0	0	0	0
Taxes Paid for Net Share Settlement of Share-based Payment Awards	-748	-1,071	-1,791	-2,120	-6,662	0	0	0	0	0	0	0	0	0	0
Payments of Debt Issuance Costs	0	0	0	0	-13,443	0	0	0	0	0	0	0	0	0	0
Payments for Contingent Consideration	0	-3,748	-4,698	-4,200	0	0	0	0	0	0	0	0	0	0	0
Cash Flow from Financing Activities	5,827	1,113	63,603	62,242	192,782	56,090	53,692	50,914	47,682	43,915	-112,382	-24,649	-23,042	-21,539	-20,134
Other Adjustments															
Foreign Exchange Rate Effect on Cash and Cash Equivalents	80	-810	253	-297	1,474	0	0	0	0	0	0	0	0	0	0
Cash Flow Net Changes in Cash	-20,208	34,778	-38,663	98,303	-117,532	12,622	36,526	40,583	30,665	35,885	-99,245	6,701	26,392	48,200	84,270

Appendix VIII: Valuation

WACC

Digi International - WACC Calculation

ERP calculation

Region	% of Revenue	ERP
USA	100%	5.94%
Western Europe	0.00%	7.54%

DGII ERP 5.94%

Cost of Equity

Beta 1.34

Cost of Equity 7.98%

Cost of Debt

CDS-Spread B+	5.85%
10 year US treasury rate	3.64%
Cost of debt pre tax	9.49%

Total Debt	269,698
Debt ratio	21%
Total Equity	1,044,391
Equity Ratio	79%

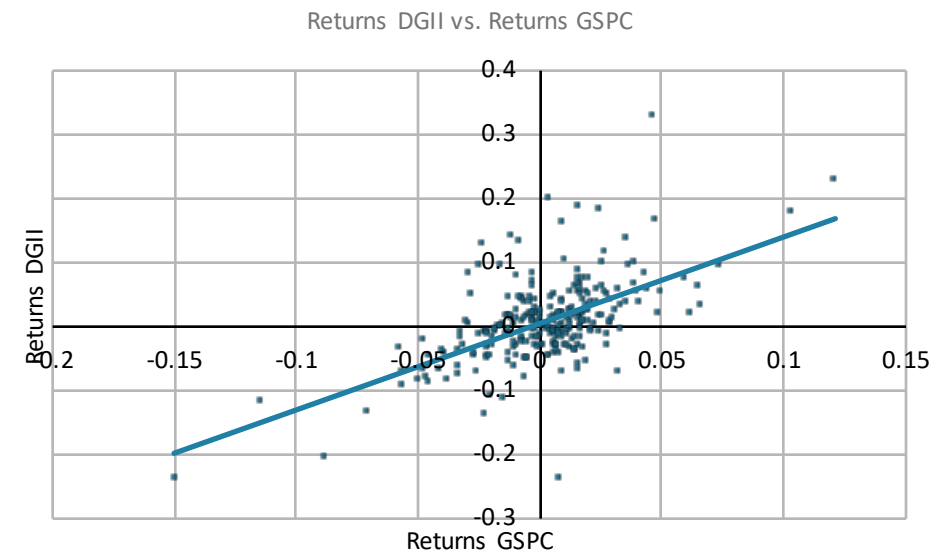
Tax Rate 21%

WACC

DGII WACC 7.88%

OLS Beta Calculation

5-year beta	1.34
R squared	0.34



Appendix VIII: Valuation

DCF Stage 1

Digi International - DCF (Base Case)

In thousands of USD

Key DCF Assumptions

WACC	7.88%
Long-term growth rate	2.00%
EV/EBITDA exit multiple	24.88x
EV/EBIT exit multiple	31.84x
EV/Revenue exit multiple	5.42x
Retention rates	95%
Terminal % of customers using software	80%
Market CAGR	13.60%

Summary

Implied share price perpetual growth	48.44
Implied share price EV/EBITDA exit multiple	86.28
Implied share price EV/EBIT exit multiple	86.49
Implied share price EV/Revenue exit multiples	81.90

Digi International - DCF Summary	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Operating income	2,782	10,072	11,317	10,528	38,220	46,203	51,753	64,121	73,725	87,258	102,822	116,148	131,732	149,785	170,604
D&A	12,784	13,396	19,299	20,877	37,572	31,656	37,431	37,597	41,874	43,722	45,214	46,519	47,270	47,473	47,123
Change in NWC	0	-3,554	7,730	-17,655	26,227	-11,150	4,802	6,227	-8,598	-9,369	-10,219	-8,557	-9,358	-10,254	-11,255
Acquisitions of businesses	-56,258	0	-136,098	-19,108	-347,554	-71,613	-72,874	-73,598	-73,687	-73,031	-71,498	-67,513	-62,616	-56,654	-37,706
Capex	-1,842	-9,335	-899	-2,257	-1,974	-5,261	-5,793	-6,372	-7,004	-7,696	-8,452	-9,088	-9,785	-10,553	-11,398
FCF with acquisitions	-42,534	10,579	-98,651	-7,615	-247,509	-10,165	15,320	27,975	26,309	40,885	57,868	77,510	97,241	119,797	157,368

Appendix VIII: Valuation

DCF Stage 2

Perpetual Growth Approach		Exit Multiple Approach			
Perpetual Growth Approach		Exit Multiples Approach			
WACC	7.8790%		EV/EBITDA	EV/Revenue	EV/EBIT
Long-term growth rate	2.00%	Exit multiple	24.88x	5.42x	31.84x
Terminal value	2,730,304	Terminal value	5,416,365	5,105,683	5,431,299
PV of TV	1,379,678		2,736,999	2,580,005	2,744,545
Equity Bridge:		Equity Bridge:			
EV	1,749,685	EV	3,107,006	2,950,012	3,114,552
Debt	-269,698	Debt	269,698	269,698	269,698
Cash	257,498	Cash	257,498	257,498	257,498
Equity value	1,737,484	Equity value	3,094,806	2,937,812	3,102,352
Shares outstanding	35,870	Shares outstanding	35,870	35,870	35,870
Implied share price	48.44	Implied share price	86.28	81.90	86.49

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