



# Earnings Release Presentation First Quarter 2016

August 11, 2016



# SAFE HARBOR

- » Certain matters disclosed that are not statements of historical fact constitute forward-looking statements relating to current or future financial performance, management's plans and objectives for future operations, product plans and performance, management's assessment of market factors, and statements regarding the strategy and plans of the Company. Such forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of Itron's future performance. Viewers are cautioned that all forward-looking statements are subject to a number of risks and uncertainties that could cause the Company's actual results in the future to differ materially from these forward-looking statements. These risks and uncertainties are detailed in the Company's filings with the Securities and Exchange Commission, including its 10-K filed on June 30, 2016, copies of which may be accessed through the SEC's website at <http://www.sec.gov>.
- » Current data and other statistical information used throughout this presentation are based on independent industry publications, government publications, and reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources listed above. We believe that these sources are reliable.

# Q1'16 FINANCIAL HIGHLIGHTS

- » +15.5% Q1'16 revenue growth excluding foreign currency impacts
- » Substantial improvement in gross margin of 180 basis points to 32.8%
  - Accelerated smart volumes across all segments
  - Intentional mix shift to more profitable product lines
  - Lower warranty costs, manufacturing efficiencies & restructuring benefits
- » Increased Non-GAAP EBITDA to 8.1%
  - Strong revenue growth of higher value/higher margin product lines
  - Operational focus taking hold - fewer surprises & unplanned expenses
  - Top line growth, favorable mix, operational improvements offset temporary elevated G&A
  - Making focused R&D investment in strategic platforms to drive organic growth
- » Significant GAAP and non-GAAP EPS improvement
  - Growth and gross margin benefit to bottom line
  - Operational focus & restructuring benefits
  - Lower effective tax rate

# CONSOLIDATED GAAP RESULTS – Q1 2016

	Q1 2016	Q1 2015	Change
Revenue	\$497.6	\$446.7	+11.4%
<i>Growth in constant currency</i>			<i>+15.5%</i>
Gross margin	32.8%	31.0%	+180 bps
Operating income	\$23.6	\$13.5	+74.8%
Net income	\$10.1	\$5.4	+87.0%
Earnings per share - diluted	\$0.26	\$0.14	+\$0.12
Net cash from operating activities	\$33.8	-\$4.0	

*\$ in millions (except per share amounts)*

- » Strong revenue growth in all segments driven by global smart meter projects
- » Gross margin increased 180 bps due to favorable product mix, benefits from increased volumes and efficiencies, and decreased warranty costs
- » Operating income & net earnings per share improved due to higher gross profit offsetting increased non-GAAP operating expenses driven by R&D investments, increased professional services and litigation in G&A, and restructuring

Reconciliation of GAAP to Non-GAAP results in Appendix and also available on our website

# CONSOLIDATED NON-GAAP RESULTS – Q1 2016

	Q1 2016	Q1 2015	Change
Non-GAAP operating income	\$32.0	\$18.6	+72.1%
Non-GAAP operating margin	6.4%	4.2%	+220 bps
Adjusted EBITDA	\$40.3	\$29.6	+36.1%
Adjusted EBITDA margin	8.1%	6.6%	+150 bps
Non-GAAP net income	\$16.8	\$8.5	+97.6%
Non-GAAP diluted EPS	\$0.44	\$0.22	+\$0.22
Free cash flow	\$25.0	(\$13.4)	+\$38.4

*\$ in millions (except per share amounts)*

- » Improved non-GAAP operating income & adjusted EBITDA driven by higher gross profit, offsetting increased non-GAAP operating expenses driven by R&D investments and increased professional services and litigation in G&A
- » Increased free cash flow driven by lower cash payments related to taxes, a legal matter settled in the prior year and lower variable compensation disbursements in 2016

Reconciliation of GAAP to Non-GAAP results in Appendix and also available on our website

# Q1 2016 REVENUE YEAR-OVER-YEAR BRIDGE

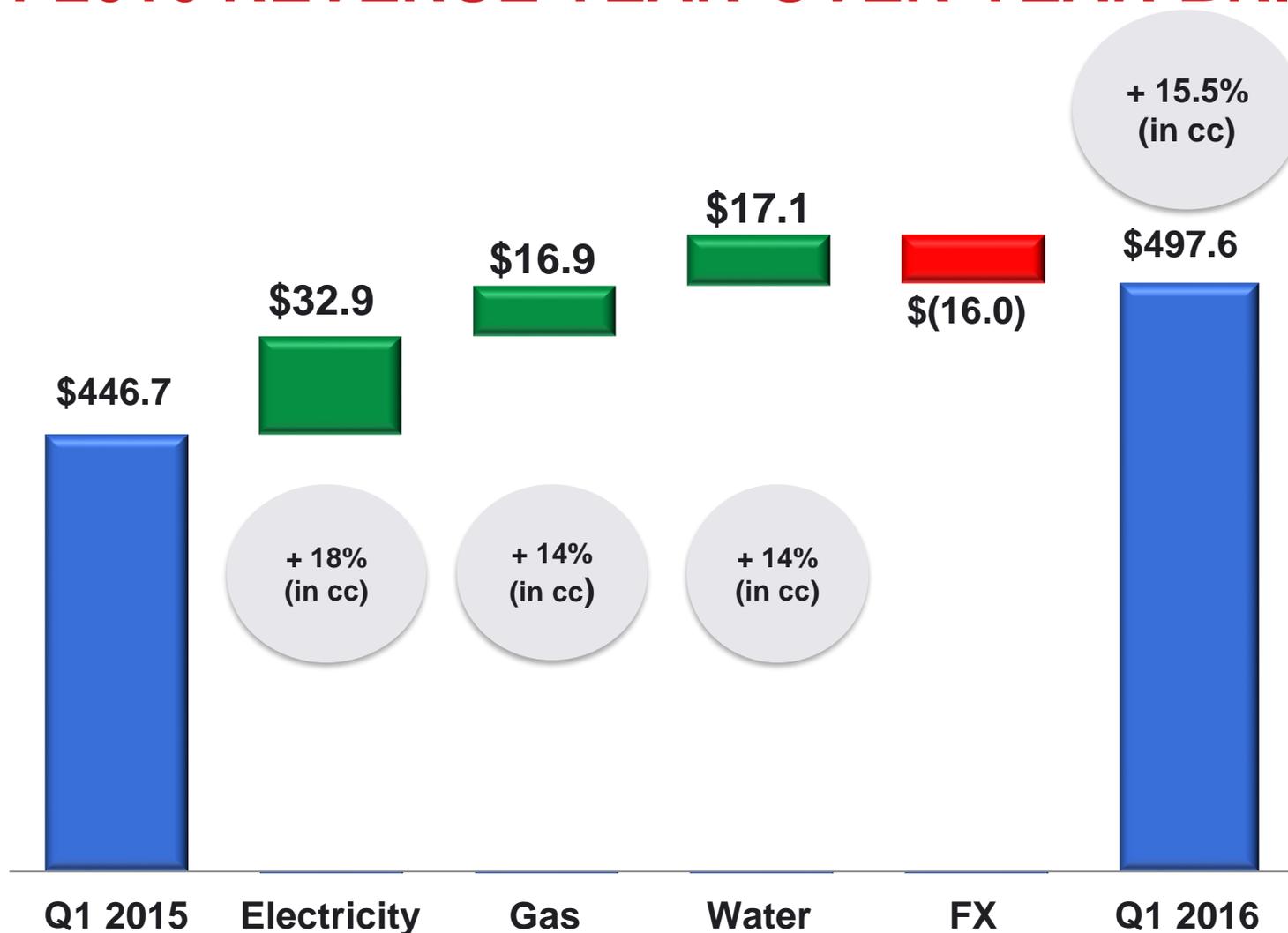
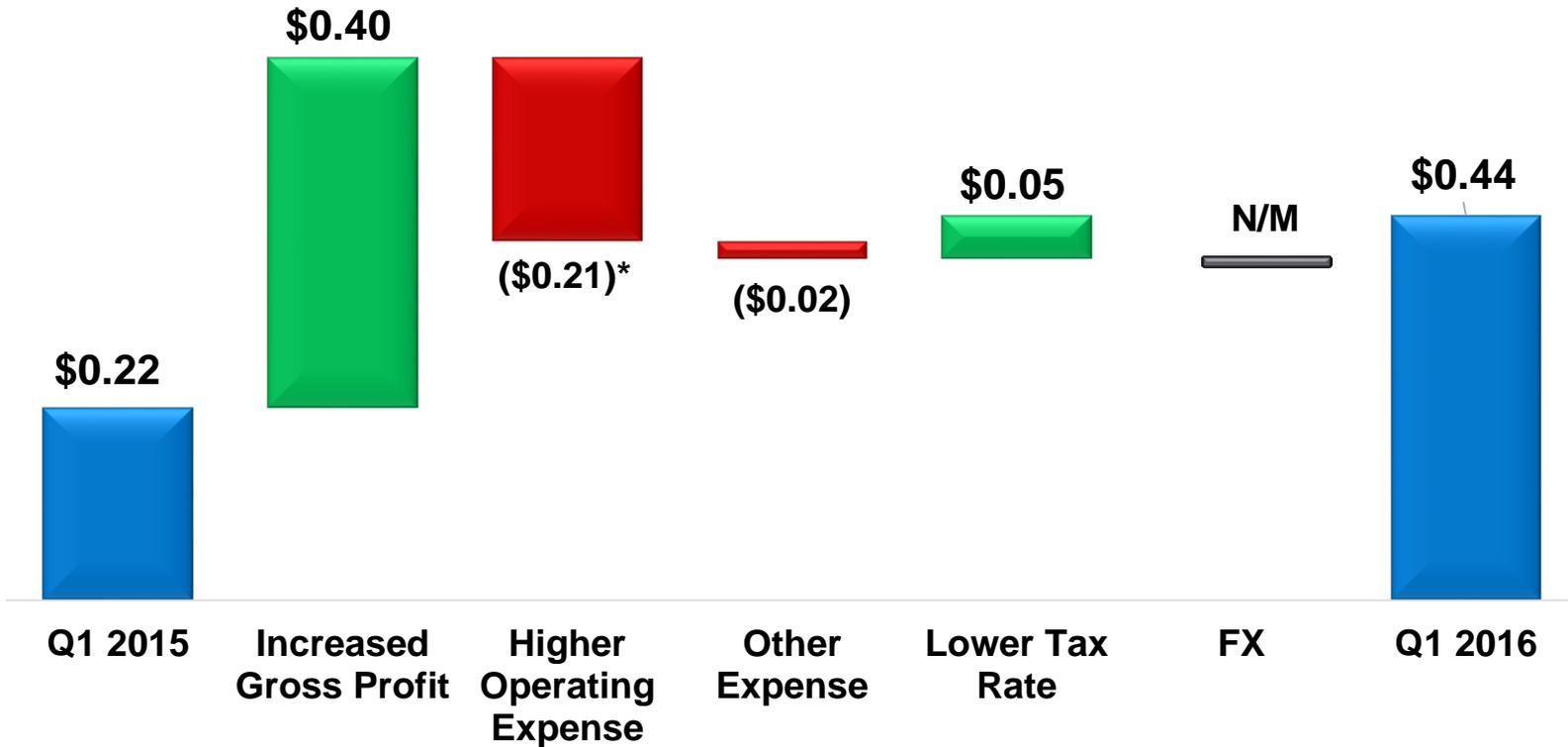


Chart in Millions, actual currency rates

# Q1 2016 NON-GAAP EPS YEAR-OVER-YEAR BRIDGE



\*Opex Key Drivers:

(\$0.13) G&A - Legal settlement & audit fees

(\$0.06) R&D - strategic platform investment

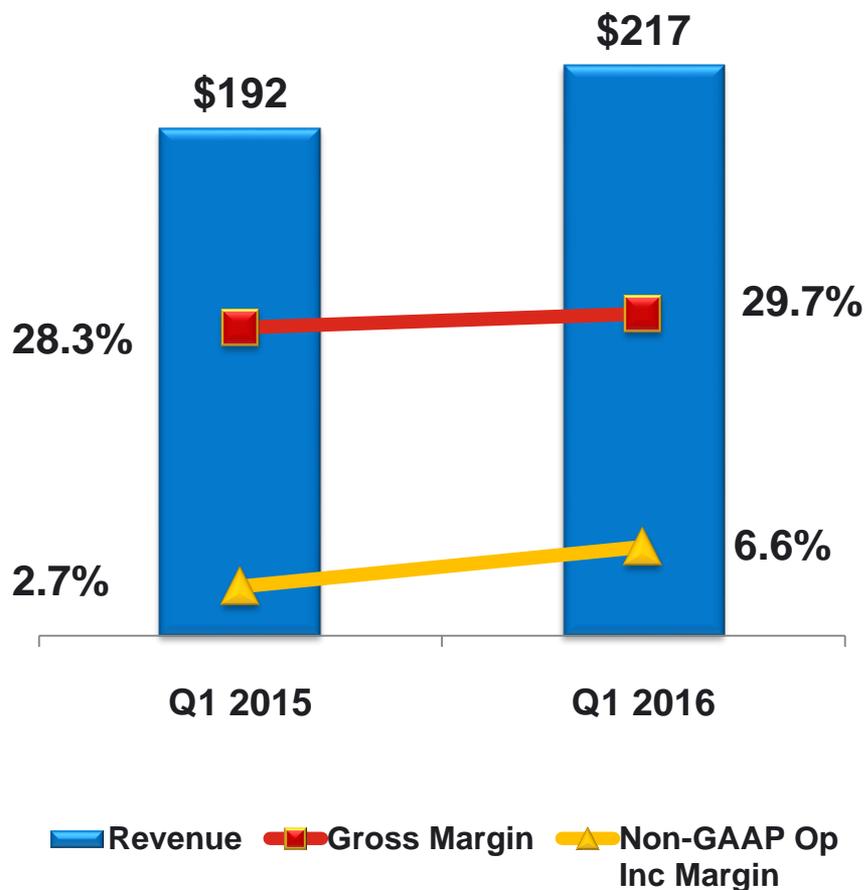
(\$0.02) Sales & marketing – revenue driven

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# ELECTRICITY SEGMENT

## REVENUE, GROSS MARGIN AND NON-GAAP OPERATING MARGIN

Actual currency



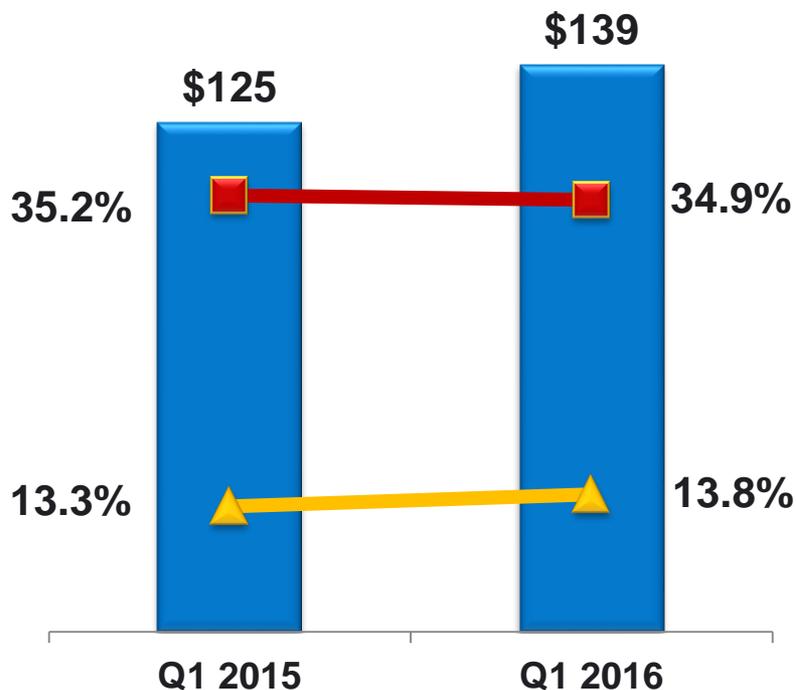
- » Revenue growth +13% and +18% in constant currency
  - Increased global smart metering
  - Planned reduction in lower-margin standard metering business
- » Gross margin +140 basis points
  - Favorable smart vs standard mix
  - Restructuring benefits and manufacturing efficiencies
- » Non-GAAP operating margin +390 basis points
  - Increased gross profit
  - Restructuring & efficiency benefits

Reconciliation of GAAP to Non-GAAP results in Appendix and also available on our website

# GAS SEGMENT

## REVENUE, GROSS MARGIN AND NON-GAAP OPERATING MARGIN

Actual currency



- » **Revenue growth +11% and +14% in constant currency**
  - Double-digit growth in every region (as reported and in constant currency)
  - Record level of smart meter shipments
- » **Gross margin -30 basis points**
  - Higher volumes and efficiencies offset by first generation smart meter in EMEA
- » **Non-GAAP operating margin +50 basis points**
  - Strong revenue and volumes offset increased R&D investment

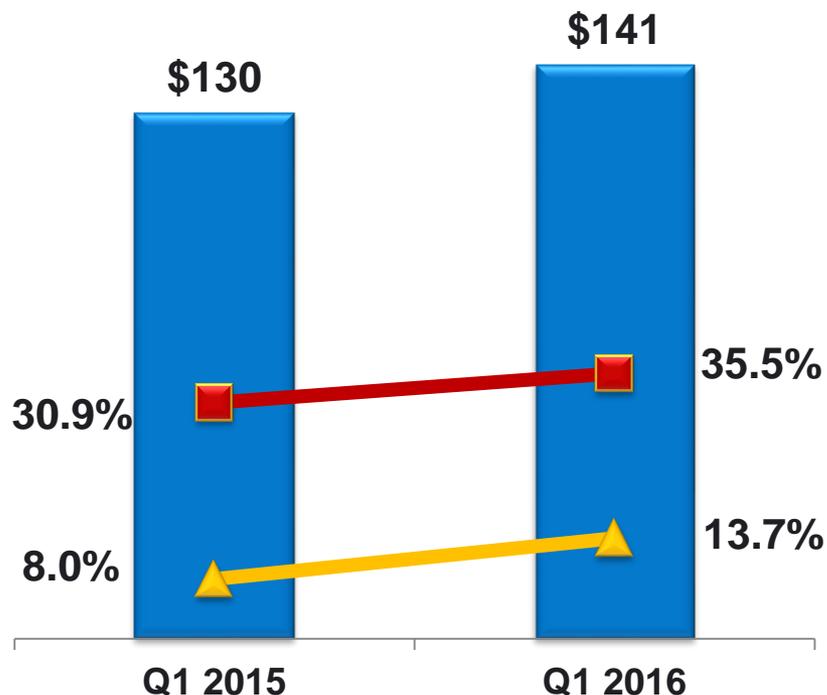
Revenue Gross Margin Non-GAAP Op Inc Margin

Reconciliation of GAAP to Non-GAAP results in Appendix and also available on our website

# WATER SEGMENT

## REVENUE, GROSS MARGIN AND NON-GAAP MARGIN OPERATING

Actual currency



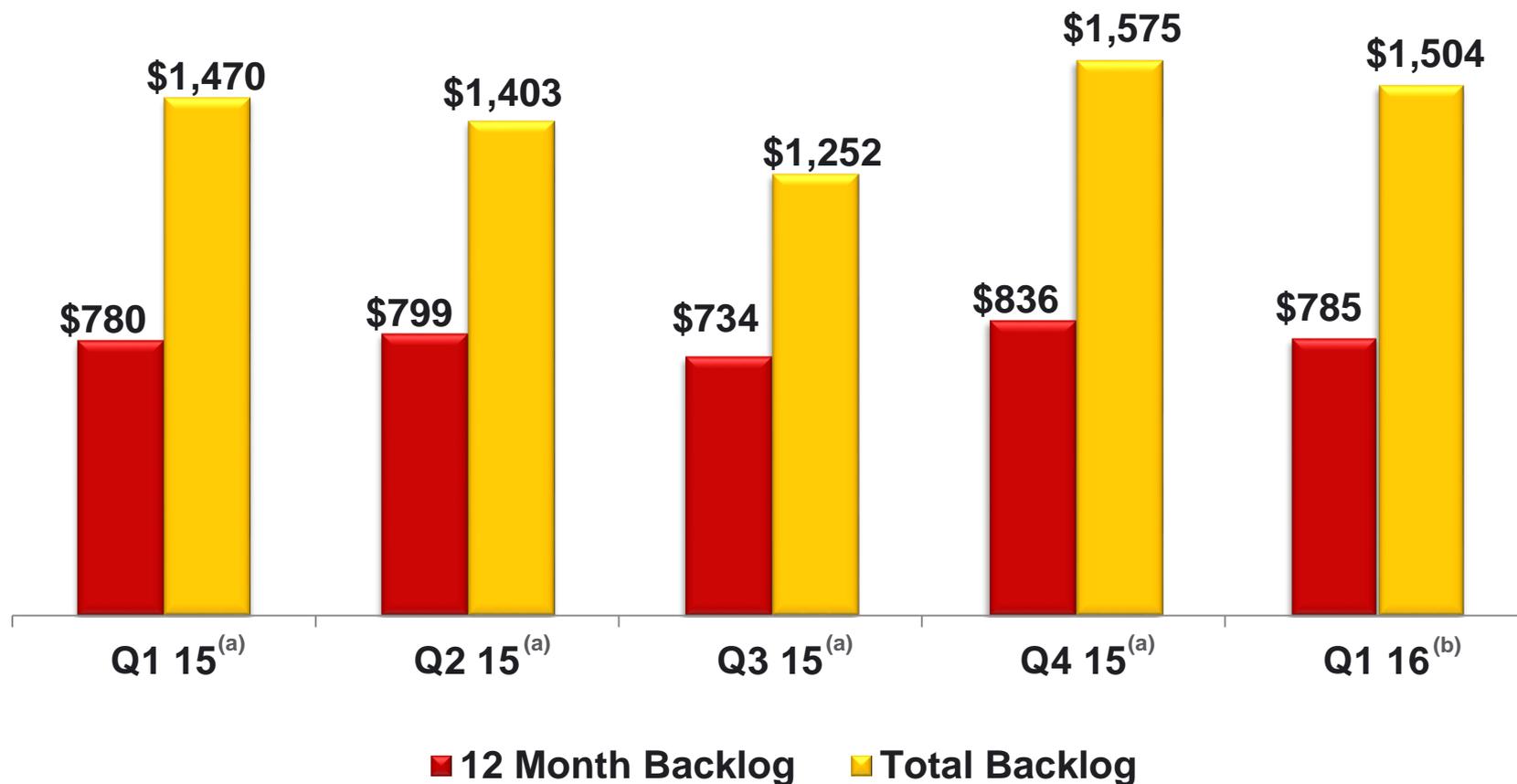
■ Revenue  
■ Gross Margin  
▲ Non-GAAP Op Inc Margin

- » Revenue growth +9% and +14% in constant currency
  - Increased smart metering projects in North America & EMEA
- » Gross margin +460 basis points
  - Benefits from higher volumes and improved efficiencies
  - Lower warranty costs
- » Non-GAAP operating margin +570 basis points
  - Increased gross profit
  - Expense efficiencies

Reconciliation of GAAP to Non-GAAP results in Appendix and also available on our website

# Q1 2016 QUARTERLY BACKLOG

Chart in Millions, actual currency rates



(a) 2015 quarterly backlog balances have been revised to reflect the impact of prior period accounting revisions.

(b) Q1'16 ending backlog was adjusted upward by approximately \$29 million for an error as the prior periods' revised backlog did not reflect the deferral of 2011 and 2012 revenues as disclosed in our 2015 Form 10-K. The deferral of 2011 and 2012 revenue was properly recorded as a beginning retained earnings balance adjustment for the year ended December 31, 2013 in the 2015 Form 10-K.

# APPENDIX

- » GAAP to Non-GAAP Reconciliations
- » FX impact summary

# NON-GAAP FINANCIAL MEASURES

To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures, including non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted EPS, adjusted EBITDA and free cash flow. We provide these non-GAAP financial measures because we believe they provide greater transparency and represent supplemental information used by management in its financial and operational decision making. Specifically, these non-GAAP financial measures are provided to enhance investors' overall understanding of our current financial performance and our future anticipated performance by excluding infrequent or non-cash costs, particularly those associated with restructuring and acquisitions. We exclude certain costs in our non-GAAP financial measures as we believe the net result is a measure of our core business. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. Our non-GAAP financial measures may be different from those reported by other companies. A more detailed discussion of why we use non-GAAP financial measures, the limitations of using such measures, and reconciliations between non-GAAP and the nearest GAAP financial measures are included in the quarterly earnings press release.

# GAAP TO NON-GAAP RECONCILIATIONS

## TOTAL COMPANY RECONCILIATIONS

Three Months Ended March 31,

(Unaudited, in thousands, except per share data)

2016 2015

### NON-GAAP NET INCOME & DILUTED EPS

GAAP net income attributable to Itron, Inc.	\$	10,089	\$	5,398
Amortization of intangible assets		6,210		7,973
Amortization of debt placement fees		247		365
Restructuring		2,237		(5,181)
Acquisition related expenses		3		2,324
Income tax effect of non-GAAP adjustments		(1,955)		(2,330)
Non-GAAP net income attributable to Itron, Inc.	\$	16,831	\$	8,549

Non-GAAP diluted EPS	\$	0.44	\$	0.22
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Weighted average common shares outstanding - Diluted		38,376		38,758
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### ADJUSTED EBITDA

GAAP net income attributable to Itron, Inc.	\$	10,089	\$	5,398
Interest income		(271)		(48)
Interest expense		2,918		2,682
Income tax provision		8,626		5,030
Depreciation and amortization		16,674		19,355
Restructuring		2,237		(5,181)
Acquisition related expenses		3		2,324
Adjusted EBITDA	\$	40,276	\$	29,560

# GAAP TO NON-GAAP RECONCILIATIONS

## TOTAL COMPANY RECONCILIATIONS

(Unaudited, in thousands, except per share data)

Three Months Ended March 31,

2016

2015

### FREE CASH FLOW

Net cash provided by operating activities	\$ 33,805	\$ (3,955)
Acquisitions of property, plant, and equipment	(8,791)	(9,472)
Free Cash Flow	\$ 25,014	\$ (13,427)

### NON-GAAP OPERATING INCOME

GAAP operating income	\$ 23,574	\$ 13,496
Amortization of intangible assets	6,210	7,973
Restructuring	2,237	(5,181)
Acquisition related expenses	3	2,324
Non-GAAP operating income	\$ 32,024	\$ 18,612

### NON-GAAP OPERATING EXPENSE

GAAP operating expense	\$ 139,629	\$ 124,926
Amortization of intangible assets	(6,210)	(7,973)
Restructuring	(2,237)	5,181
Acquisition related expenses	(3)	(2,324)
Non-GAAP operating expense	\$ 131,179	\$ 119,810

# GAAP TO NON-GAAP RECONCILIATIONS

## SEGMENT RECONCILIATIONS

(Unaudited, in thousands, except per share data)

Three Months Ended March 31,

	2016		2015	
<b>NON-GAAP OPERATING INCOME - ELECTRICITY</b>				
Electricity - GAAP operating income	\$	10,632	\$	1,114
Amortization of intangible assets		3,250		4,455
Restructuring		528		(2,762)
Acquisition related expenses		3		2,324
Electricity - Non-GAAP operating income	\$	14,413	\$	5,131
<b>NON-GAAP OPERATING INCOME - GAS</b>				
Gas - GAAP operating income	\$	16,299	\$	14,491
Amortization of intangible assets		1,619		1,970
Restructuring		1,264		125
Gas - Non-GAAP operating income	\$	19,182	\$	16,586
<b>NON-GAAP OPERATING INCOME - WATER</b>				
Water - GAAP operating income	\$	18,076	\$	8,715
Amortization of intangible assets		1,341		1,548
Restructuring		(64)		117
Water - Non-GAAP operating income	\$	19,353	\$	10,380
<b>NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED</b>				
Corporate unallocated - GAAP operating loss	\$	(21,433)	\$	(10,824)
Restructuring		509		(2,661)
Corporate unallocated - Non-GAAP operating loss	\$	(20,924)	\$	(13,485)

# FX IMPACT SUMMARY

Average Euro/USD:

\$1.10 Q1'16 vs \$1.13 Q1'15

Revenue	Q1 2016	YoY Change	YoY Change Excluding FX
Electricity	\$ 217.3	13.3%	17.8%
Water	141.0	8.6%	13.8%
Gas	139.3	11.3%	13.8%
Total	\$ 497.6	11.4%	15.5%

**INVESTOR RELATIONS CONTACTS:**

**Barbara Doyle**

Vice President, Investor Relations

509-891-3443

[barbara.doyle@itron.com](mailto:barbara.doyle@itron.com)

**Marni Pilcher**

Director, Investor Relations

509-891-3847

[marni.pilcher@itron.com](mailto:marni.pilcher@itron.com)

**THANK YOU**

