

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

August 3, 2023

Date of Report (Date of Earliest Event Reported)

ITRON, INC.

(Exact Name of Registrant as Specified in its Charter)

Washington

(State or Other Jurisdiction
of Incorporation)

000-22418

(Commission
File Number)

91-1011792

(IRS Employer
Identification No.)

2111 N. Molter Road, Liberty Lake, Washington 99019

(Address of Principal Executive Offices, Zip Code)

(509) 924-9900

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	ITRI	NASDAQ Global Select Market

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On August 3, 2023, Itron, Inc. issued a press release announcing its financial results for the three and six months ended June 30, 2023. A copy of this press release and accompanying financial statements are attached as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit

Number Description

[99.1](#) [Press Release Dated August 3, 2023](#)*

104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

*This exhibit is intended to be furnished and shall not be deemed "filed" for purposes of the Exchange Act.

Forward Looking Statements

This release contains, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical factors nor assurances of future performance. These statements are based on our expectations about, among others, revenues, operations, financial performance, earnings, liquidity, earnings per share, cash flows and restructuring activities including headcount reductions and other cost savings initiatives. This document reflects our current strategy, plans and expectations and is based on information currently available as of the date of this release. When we use words such as "expect", "intend", "anticipate", "believe", "plan", "goal", "seek", "project", "estimate", "future", "strategy", "objective", "may", "likely", "should", "will", "will continue", and similar expressions, including related to future periods, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. Although we believe the estimates and assumptions upon which these forward-looking statements are based are reasonable, any of these estimates or assumptions could prove to be inaccurate and the forward-looking statements based on these estimates and assumptions could be incorrect. Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors. Therefore, you should not rely on any of these forward-looking statements. Some of the factors that we believe could affect our results include our ability to execute on our restructuring plans, our ability to achieve estimated cost savings, the rate and timing of customer demand for our products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, adverse impacts of litigation, changes in laws and regulations, our dependence on new product development and intellectual property, future acquisitions, changes in estimates for stock-based and bonus compensation, increasing volatility in foreign exchange rates, international business risks, uncertainties caused by adverse economic conditions, including without limitation those resulting from extraordinary events or circumstances and other factors that are more fully described in Part I, Item 1A: Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2022 and other reports on file with the Securities and Exchange Commission. Itron undertakes no obligation to update or revise any information in this press release.

Itron Announces Second Quarter 2023 Financial Results

LIBERTY LAKE, Wash.--(BUSINESS WIRE)--August 3, 2023--Itron, Inc. (NASDAQ: ITRI), which is innovating the way utilities and cities manage energy and water, announced today financial results for its second quarter ended June 30, 2023. Key results for the quarter include (compared with the second quarter of 2022):

- Revenue of \$541 million, increased 25%;
- Gross profit of \$174 million, increased 38%;
- GAAP net income of \$24 million, increased \$61 million;
- GAAP diluted earnings per share of \$0.53, increased \$1.35 per share;
- Non-GAAP diluted EPS of \$0.65, increased \$0.58 per share;
- Adjusted EBITDA of \$49 million, increased 182%;
- Free cash flow of \$36 million, increased \$26 million; and
- Total backlog of \$4.5 billion increased 11%.

“Second quarter 2023 results highlight the execution capability of the team as we capitalized on our strong backlog position, improved asset utilization, and improved component availability. The Company’s financial performance demonstrates the opportunity for value creation available through improving the resiliency, reliability, and agility of the global grid,” said Tom Deitrich, Itron’s president and CEO.

“It is evident that the urgency to invest in energy and water infrastructure for accelerating rates of electrification, increased adoption of distributed energy resources, and the impact of climate change is growing rapidly. Itron will continue to innovate and help our customers address extremely complex challenges, and we believe that we are positioned to maintain operational momentum throughout the second half of the year.”

Summary of Second Quarter Consolidated Financial Results

(All comparisons made are against the prior year period unless otherwise noted)

Revenue

Total second quarter revenue increased 25%, to \$541 million. The increase was due to improving supply chain conditions and strong operational execution.

Device Solutions revenue increased 8%, or 7% in constant currency, due primarily to growth in the Water vertical.

Networked Solutions revenue increased 34%, due to improving supply chain conditions.

Outcomes revenue increased 16%, or 17% in constant currency, due to higher software license sales and recurring services.

Gross Margin

Consolidated company gross margin of 32.1% increased 290 basis points from the prior year due to favorable mix and operational efficiencies.

Operating Expenses and Operating Income (Loss)

GAAP operating expenses of \$139 million decreased \$21 million from the prior year due to a goodwill impairment in the prior year related to our Device Solutions segment, partially offset by increased labor costs, including variable compensation. Non-GAAP operating expenses of \$133 million increased \$16 million from the prior year due to increased labor costs, including variable compensation.

GAAP operating income of \$35 million was \$69 million higher than the prior year due to higher gross profit and lower operating expenses. Non-GAAP operating income of \$41 million was \$32 million higher than the prior year due to higher gross profit, partially offset by higher operating expenses.

Net Income (Loss) and Earnings (Loss) per Share

Net income attributable to Itron, Inc. for the quarter was \$24 million, or \$0.53 per diluted share, compared with a net loss of \$(37) million, or \$(0.82) per share in 2022. The increase was driven by higher GAAP operating income.

Non-GAAP net income, which excludes the expenses associated with amortization of intangible assets, amortization of debt placement fees, restructuring, loss on sale of business, strategic initiative expenses, goodwill impairment, acquisition and integration, and the tax effect of excluding these expenses, was \$30 million, or \$0.65 per diluted share, compared with \$3 million, or \$0.07 per diluted share, in 2022. The increase was due to higher non-GAAP operating income and favorable tax impact.

Cash Flow

Net cash provided by operating activities was \$42 million in the second quarter compared with \$15 million in the prior year. Free cash flow was \$36 million in the second quarter compared with \$10 million in the prior year. The increase in cash flow was due to higher earnings, partially offset by change in working capital.

Other Measures

Total backlog at quarter end was \$4.5 billion compared with \$4.1 billion in the prior year. Bookings in the quarter totaled \$475 million.

Q3 2023 Outlook and Full Year 2023 Guidance Update

Outlook for the third quarter of 2023 is as follows:

- Revenue between \$535 and \$545 million
- Non-GAAP diluted EPS between \$0.44 and \$0.56

Itron's guidance for the full year 2023 has been updated as follows:

- Revenue between \$2.11 to \$2.14 billion vs. previous guidance of \$1.85 to \$1.95 billion
- Non-GAAP diluted EPS between \$2.03 to \$2.28 vs. previous guidance of \$0.70 to \$1.10

Earnings Conference Call

Itron will host a conference call to discuss the financial results contained in this release at 10 a.m. EDT on August 3, 2023. Interested parties may listen to the conference call on a live webcast. The webcast, along with a supplemental presentation, may be accessed from the company's website at <https://investors.itron.com/events.cfm>. Participants should access the webcast 10 minutes prior to the start of the call. A webcast replay of the conference call will be available through August 9, 2023 and may be accessed on the company's website at <http://investors.itron.com/events.cfm>.

About Itron

Itron enables utilities and cities to safely, securely and reliably deliver critical infrastructure solutions to communities in more than 100 countries. Our portfolio of smart networks, software, services, meters and sensors helps our customers better manage electricity, gas and water resources for the people they serve. By working with our customers to ensure their success, we help improve the quality of life, ensure the safety and promote the well-being of millions of people around the globe. Itron is dedicated to creating a more resourceful world. Join us: www.itron.com.

Itron® is a registered trademark of Itron, Inc. All third-party trademarks are property of their respective owners and any usage herein does not suggest or imply any relationship between Itron and the third party unless expressly stated.

Cautionary Note Regarding Forward Looking Statements

This release contains, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical factors nor assurances of future performance. These statements are based on our expectations about, among others, revenues, operations, financial performance, earnings, liquidity, earnings per share, cash flows and restructuring activities including headcount reductions and other cost savings initiatives. This document reflects our current strategy, plans and expectations and is based on information currently available as of the date of this release. When we use words such as "expect", "intend", "anticipate", "believe", "plan", "goal", "seek", "project", "estimate", "future", "strategy", "objective", "may", "likely", "should", "will", "will continue", and similar expressions, including related to future periods, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. Although we believe the estimates and assumptions upon which these forward-looking statements are based are reasonable, any of these estimates or assumptions could prove to be inaccurate and the forward-looking statements based on these estimates and assumptions could be incorrect. Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors. Therefore, you should not rely on any of these forward-looking statements. Some of the factors that we believe could affect our results include our ability to execute on our restructuring plans, our ability to achieve estimated cost savings, the rate and timing of customer demand for our products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, adverse impacts of litigation, changes in laws and regulations, our dependence on new product development and intellectual property, future acquisitions, changes in estimates for stock-based and bonus compensation, increasing volatility in foreign exchange rates, international business risks, uncertainties caused by adverse economic conditions, including without limitation those resulting from extraordinary events or circumstances and other factors that are more fully described in Part I, Item 1A: Risk Factors included in our Annual Report on Form 10-K for the year ended Dec. 31, 2022 and other reports on file with the Securities and Exchange Commission. Itron undertakes no obligation to update or revise any information in this press release.

Non-GAAP Financial Information

To supplement our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States (GAAP), we use certain adjusted or non-GAAP financial measures, including non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted earnings per share (EPS), adjusted EBITDA, free cash flow, and constant currency. 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. We exclude certain costs in our non-GAAP financial measures as we believe the net result is a measure of our core business. We believe these measures facilitate operating performance comparisons from period to period by eliminating potential differences caused by the existence and timing of certain expense items that would not otherwise be apparent on a GAAP basis. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Our non-GAAP financial measures may be different from those reported by other companies. When providing future outlooks and/or earnings guidance, a reconciliation of forward-looking non-GAAP diluted EPS to the GAAP diluted EPS has not been provided because we are unable to predict with reasonable certainty the potential amount or timing of restructuring related expenses and their related tax effects without unreasonable effort. These costs are uncertain, depend on various factors and could have a material impact on GAAP results for the guidance period. 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 this press release.

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues				
Product revenues	\$ 464,803	\$ 359,898	\$ 881,127	\$ 759,708
Service revenues	76,267	71,984	154,561	147,505
Total revenues	541,070	431,882	1,035,688	907,213
Cost of revenues				
Product cost of revenues	322,288	265,278	619,631	560,098
Service cost of revenues	44,835	40,499	85,742	85,786
Total cost of revenues	367,123	305,777	705,373	645,884
Gross profit	173,947	126,105	330,315	261,329
Operating expenses				
Sales, general and administrative	79,079	72,877	154,600	149,278
Research and development	53,560	45,055	103,125	94,651
Amortization of intangible assets	4,722	6,485	9,770	13,038
Restructuring	874	(3,459)	37,483	(9,825)
Loss on sale of business	612	194	630	2,415
Goodwill impairment	—	38,480	—	38,480
Total operating expenses	138,847	159,632	305,608	288,037
Operating income (loss)	35,100	(33,527)	24,707	(26,708)
Other income (expense)				
Interest income	1,508	349	3,326	566
Interest expense	(1,977)	(1,660)	(4,034)	(3,252)
Other income (expense), net	(333)	(1,386)	(1,808)	(2,075)
Total other income (expense)	(802)	(2,697)	(2,516)	(4,761)
Income (loss) before income taxes	34,298	(36,224)	22,191	(31,469)
Income tax provision	(9,195)	(641)	(9,125)	(4,500)
Net income (loss)	25,103	(36,865)	13,066	(35,969)
Net income attributable to noncontrolling interests	902	102	701	92
Net income (loss) attributable to Itron, Inc.	\$ 24,201	\$ (36,967)	\$ 12,365	\$ (36,061)
Net income (loss) per common share - Basic	\$ 0.53	\$ (0.82)	\$ 0.27	\$ (0.80)
Net income (loss) per common share - Diluted	\$ 0.53	\$ (0.82)	\$ 0.27	\$ (0.80)
Weighted average common shares outstanding - Basic	45,435	45,066	45,358	45,042
Weighted average common shares outstanding - Diluted	45,781	45,066	45,677	45,042

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Product revenues				
Device Solutions	\$ 112,509	\$ 103,433	\$ 229,960	\$ 241,319
Networked Solutions	330,668	241,592	612,138	490,860
Outcomes	21,626	14,873	39,029	27,529
Total Company	\$ 464,803	\$ 359,898	\$ 881,127	\$ 759,708
Service revenues				
Device Solutions	\$ 651	\$ 1,377	\$ 1,454	\$ 3,056
Networked Solutions	30,262	27,870	62,260	57,422
Outcomes	45,354	42,737	90,847	87,027
Total Company	\$ 76,267	\$ 71,984	\$ 154,561	\$ 147,505
Total revenues				
Device Solutions	\$ 113,160	\$ 104,810	\$ 231,414	\$ 244,375
Networked Solutions	360,930	269,462	674,398	548,282
Outcomes	66,980	57,610	129,876	114,556
Total Company	\$ 541,070	\$ 431,882	\$ 1,035,688	\$ 907,213
Gross profit				
Device Solutions	\$ 24,719	\$ 13,878	\$ 48,432	\$ 35,684
Networked Solutions	121,873	89,909	227,649	181,260
Outcomes	27,355	22,318	54,234	44,385
Total Company	\$ 173,947	\$ 126,105	\$ 330,315	\$ 261,329
Operating income (loss)				
Device Solutions	\$ 14,084	\$ 5,459	\$ 28,162	\$ 17,037
Networked Solutions	88,593	62,282	163,549	123,289
Outcomes	12,676	9,109	25,587	17,450
Corporate unallocated	(80,253)	(110,377)	(192,591)	(184,484)
Total Company	\$ 35,100	\$ (33,527)	\$ 24,707	\$ (26,708)
Total Gross Margin	32.1%	29.2%	31.9%	28.8%

ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 232,787	\$ 202,007
Accounts receivable, net	318,809	280,435
Inventories	267,042	228,701
Other current assets	151,349	118,441
Total current assets	<u>969,987</u>	<u>829,584</u>
Property, plant, and equipment, net	132,648	140,123
Deferred tax assets, net	213,777	211,982
Other long-term assets	35,447	39,901
Operating lease right-of-use assets, net	44,642	52,826
Intangible assets, net	55,378	64,941
Goodwill	1,046,759	1,038,721
Total assets	<u>\$ 2,498,638</u>	<u>\$ 2,378,078</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 234,928	\$ 237,178
Other current liabilities	52,834	42,869
Wages and benefits payable	99,611	89,431
Taxes payable	14,365	15,324
Current portion of warranty	17,847	18,203
Unearned revenue	140,335	95,567
Total current liabilities	<u>559,920</u>	<u>498,572</u>
Long-term debt, net	453,667	452,526
Long-term warranty	7,639	7,495
Pension benefit obligation	59,739	57,839
Deferred tax liabilities, net	853	833
Operating lease liabilities	35,944	44,370
Other long-term obligations	151,989	124,887
Total liabilities	<u>1,269,751</u>	<u>1,186,522</u>
Equity		
Common stock	1,803,813	1,788,479
Accumulated other comprehensive loss, net	(85,722)	(94,674)
Accumulated deficit	(512,967)	(525,332)
Total Itron, Inc. shareholders' equity	<u>1,205,124</u>	<u>1,168,473</u>
Noncontrolling interests	23,763	23,083
Total equity	<u>1,228,887</u>	<u>1,191,556</u>
Total liabilities and equity	<u>\$ 2,498,638</u>	<u>\$ 2,378,078</u>

ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2023	2022
Operating activities		
Net income (loss)	\$ 13,066	\$ (35,969)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	28,368	33,251
Non-cash operating lease expense	8,141	8,234
Stock-based compensation	13,694	12,532
Amortization of prepaid debt fees	1,820	1,720
Deferred taxes, net	(2,509)	(4,061)
Loss on sale of business	630	2,415
Goodwill impairment	—	38,480
Restructuring, non-cash	922	(817)
Other adjustments, net	(199)	194
Changes in operating assets and liabilities, net of acquisition and sale of business:		
Accounts receivable	(34,681)	28,924
Inventories	(36,466)	(13,592)
Other current assets	(33,554)	(10,688)
Other long-term assets	5,595	(3,134)
Accounts payable, other current liabilities, and taxes payable	4,670	(16,611)
Wages and benefits payable	9,040	(22,264)
Unearned revenue	42,919	36,093
Warranty	(440)	(2,501)
Restructuring	31,181	(23,448)
Other operating, net	(9,208)	(6,102)
Net cash provided by operating activities	<u>42,989</u>	<u>22,656</u>
Investing activities		
Net proceeds (payments) related to the sale of business	(772)	55,933
Acquisitions of property, plant, and equipment	(12,498)	(10,663)
Business acquisitions, net of cash and cash equivalents acquired	—	23
Other investing, net	50	1,722
Net cash provided by (used in) investing activities	<u>(13,220)</u>	<u>47,015</u>
Financing activities		
Issuance of common stock	1,641	1,797
Repurchase of common stock	—	(16,972)
Prepaid debt fees	(517)	(695)
Other financing, net	(354)	(4,206)
Net cash provided by (used in) financing activities	<u>770</u>	<u>(20,076)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	241	(3,674)
Increase in cash and cash equivalents	<u>30,780</u>	<u>45,921</u>
Cash and cash equivalents at beginning of period	202,007	162,579
Cash and cash equivalents at end of period	<u>\$ 232,787</u>	<u>\$ 208,500</u>

About Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared 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, free cash flow, and constant currency. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and other companies may define such measures differently. For a reconciliation of each non-GAAP measure to the most comparable financial measure prepared and presented in accordance with GAAP, please see the table captioned Reconciliations of Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures.

We use these non-GAAP financial measures for financial and operational decision making and/or as a means for determining executive compensation. Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and ability to service debt by excluding certain expenses that may not be indicative of our recurring core operating results. These non-GAAP financial measures facilitate management's internal comparisons to our historical performance, as well as comparisons to our competitors' operating results. Our executive compensation plans exclude non-cash charges related to amortization of intangibles and certain discrete cash and non-cash charges, such as restructuring, loss on sale of business, strategic initiative expenses, goodwill impairment, or acquisition and integration related expenses. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they provide greater transparency with respect to key metrics used by management in its financial and operational decision making and because they are used by our institutional investors and the analyst community to analyze the health of our business.

Non-GAAP operating expenses and non-GAAP operating income – We define non-GAAP operating expenses as operating expenses excluding certain expenses related to the amortization of intangible assets, restructuring, loss on sale of business, strategic initiative expenses, goodwill impairment, and acquisition and integration. We define non-GAAP operating income as operating income (loss) excluding the expenses related to the amortization of intangible assets, restructuring, loss on sale of business, strategic initiative expenses, goodwill impairment, and acquisition and integration. Acquisition and integration related expenses include costs, which are incurred to affect and integrate business combinations, such as professional fees, certain employee retention and salaries related to integration, severances, contract terminations, travel costs related to knowledge transfer, system conversion costs, and asset impairment charges. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are not related to our core operating results. By excluding these expenses, we believe that it is easier for management and investors to compare our financial results over multiple periods and analyze trends in our operations. For example, in certain periods, expenses related to amortization of intangible assets may decrease, which would improve GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense is not necessarily reflective of an improvement in our core business. There are some limitations related to the use of non-GAAP operating expenses and non-GAAP operating income versus operating expenses and operating income calculated in accordance with GAAP. We compensate for these limitations by providing specific information about the GAAP amounts excluded from non-GAAP operating expense and non-GAAP operating income and evaluating non-GAAP operating expense and non-GAAP operating income together with GAAP operating expense and operating income.

Non-GAAP net income and non-GAAP diluted EPS – We define non-GAAP net income as net income (loss) attributable to Itron, Inc. excluding the expenses associated with amortization of intangible assets, amortization of debt placement fees, restructuring, loss on sale of business, strategic initiative expenses, goodwill impairment, acquisition and integration, and the tax effect of excluding these expenses. We define non-GAAP diluted EPS as non-GAAP net income divided by diluted weighted-average shares outstanding during the period calculated on a GAAP basis and then reduced to reflect the anti-dilutive impact of the convertible note hedge transactions entered into in connection with the 0% convertible notes due 2026 issued in March 2021. We consider these financial measures to be useful metrics for management and investors for the same reasons that we use non-GAAP operating income. The same limitations described above regarding our use of non-GAAP operating income apply to our use of non-GAAP net income and non-GAAP diluted EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP measures and evaluating non-GAAP net income and non-GAAP diluted EPS together with GAAP net income attributable to Itron, Inc. and GAAP diluted EPS.

For interim periods the budgeted annual effective tax rate (AETR) is used, adjusted for any discrete items, as defined in Accounting Standards Codification (ASC) 740 - Income Taxes. The budgeted AETR is determined at the beginning of the fiscal year. The AETR is revised throughout the year based on changes to our full-year forecast. If the revised AETR increases or decreases by 200 basis points or more from the budgeted AETR due to changes in the full-year forecast during the year, the revised AETR is used in place of the budgeted AETR beginning with the quarter the 200 basis point threshold is exceeded and going forward for all subsequent interim quarters in the year. We continue to assess the AETR based on latest forecast throughout the year and use the most recent AETR anytime it increases or decreases by 200 basis points or more from the prior interim period.

Adjusted EBITDA – We define adjusted EBITDA as net income (loss) (a) minus interest income, (b) plus interest expense, depreciation and amortization, restructuring, loss on sale of business, strategic initiative expenses, goodwill impairment, acquisition and integration, and (c) excluding income tax provision or benefit. Management uses adjusted EBITDA as a performance measure for executive compensation. A limitation to using adjusted EBITDA is that it does not represent the total increase or decrease in the cash balance for the period and the measure includes some non-cash items and excludes other non-cash items. Additionally, the items that we exclude in our calculation of adjusted EBITDA may differ from the items that our peer companies exclude when they report their results. We compensate for these limitations by providing a reconciliation of this measure to GAAP net income (loss).

Free cash flow – We define free cash flow as net cash provided by operating activities less cash used for acquisitions of property, plant and equipment. We believe free cash flow provides investors with a relevant measure of liquidity and a useful basis for assessing our ability to fund our operations and repay our debt. The same limitations described above regarding our use of adjusted EBITDA apply to our use of free cash flow. We compensate for these limitations by providing specific information regarding the GAAP amounts in the reconciliation.

Constant currency – We refer to the impact of foreign currency exchange rate fluctuations in our discussions of financial results, which references the differences between the foreign currency exchange rates used to translate operating results from the entity's functional currency into U.S. dollars for financial reporting purposes. We also use the term "constant currency", which represents financial results adjusted to exclude changes in foreign currency exchange rates as compared with the rates in the comparable prior year period. We calculate the constant currency change as the difference between the current period results and the comparable prior period's results restated using current period foreign currency exchange rates.

The tables below reconcile the non-GAAP financial measures of operating expenses, operating income, net income, diluted EPS, adjusted EBITDA, and free cash flow with the most directly comparable GAAP financial measures.

ITRON, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
TO THE MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

(Unaudited, in thousands, except per share data)

TOTAL COMPANY RECONCILIATIONS	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
NON-GAAP OPERATING EXPENSES				
GAAP operating expenses	\$ 138,847	\$ 159,632	\$ 305,608	\$ 288,037
Amortization of intangible assets	(4,722)	(6,485)	(9,770)	(13,038)
Restructuring	(874)	3,459	(37,483)	9,825
Loss on sale of business	(612)	(194)	(630)	(2,415)
Strategic initiative	—	(710)	—	(710)
Goodwill impairment	—	(38,480)	—	(38,480)
Acquisition and integration	(44)	(154)	(89)	(216)
Non-GAAP operating expenses	<u>\$ 132,595</u>	<u>\$ 117,068</u>	<u>\$ 257,636</u>	<u>\$ 243,003</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ 35,100	\$ (33,527)	\$ 24,707	\$ (26,708)
Amortization of intangible assets	4,722	6,485	9,770	13,038
Restructuring	874	(3,459)	37,483	(9,825)
Loss on sale of business	612	194	630	2,415
Strategic initiative	—	710	—	710
Goodwill impairment	—	38,480	—	38,480
Acquisition and integration	44	154	89	216
Non-GAAP operating income	<u>\$ 41,352</u>	<u>\$ 9,037</u>	<u>\$ 72,679</u>	<u>\$ 18,326</u>
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss) attributable to Itron, Inc.	\$ 24,201	\$ (36,967)	\$ 12,365	\$ (36,061)
Amortization of intangible assets	4,722	6,485	9,770	13,038
Amortization of debt placement fees	887	836	1,732	1,632
Restructuring	874	(3,459)	37,483	(9,825)
Loss on sale of business	612	194	630	2,415
Strategic initiative	—	710	—	710
Goodwill impairment	—	38,480	—	38,480
Acquisition and integration	44	154	89	216
Income tax effect of non-GAAP adjustments	(1,516)	(3,300)	(9,863)	(2,301)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 29,824</u>	<u>\$ 3,133</u>	<u>\$ 52,206</u>	<u>\$ 8,304</u>
Non-GAAP diluted EPS	<u>\$ 0.65</u>	<u>\$ 0.07</u>	<u>\$ 1.14</u>	<u>\$ 0.18</u>
Non-GAAP weighted average common shares outstanding - Diluted	<u>45,781</u>	<u>45,228</u>	<u>45,677</u>	<u>45,234</u>
ADJUSTED EBITDA				
GAAP net income (loss) attributable to Itron, Inc.	\$ 24,201	\$ (36,967)	\$ 12,365	\$ (36,061)
Interest income	(1,508)	(349)	(3,326)	(566)
Interest expense	1,977	1,660	4,034	3,252
Income tax provision	9,195	641	9,125	4,500
Depreciation and amortization	13,905	16,414	28,368	33,251
Restructuring	874	(3,459)	37,483	(9,825)
Loss on sale of business	612	194	630	2,415
Strategic initiative	—	710	—	710
Goodwill impairment	—	38,480	—	38,480
Acquisition and integration	44	154	89	216
Adjusted EBITDA	<u>\$ 49,300</u>	<u>\$ 17,478</u>	<u>\$ 88,768</u>	<u>\$ 36,372</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 41,560	\$ 15,065	\$ 42,989	\$ 22,656
Acquisitions of property, plant, and equipment	(5,596)	(5,294)	(12,498)	(10,663)
Free Cash Flow	<u>\$ 35,964</u>	<u>\$ 9,771</u>	<u>\$ 30,491</u>	<u>\$ 11,993</u>

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