



Itron Announces First Quarter 2022 Financial Results

May 2, 2022

LIBERTY LAKE, Wash.--(BUSINESS WIRE)--May 2, 2022-- Itron, Inc. (NASDAQ:ITRI) announced today financial results for its first quarter ended March 31, 2022. Key results for the quarter include (compared with the first quarter of 2021):

- Revenue of \$475 million, compared with \$520 million;
- Gross margin of 28.4%; compared with 32.2%;
- GAAP net income of \$1 million, compared with \$13 million;
- GAAP diluted earnings per share (EPS) of \$0.02, compared with \$0.30;
- Non-GAAP diluted EPS of \$0.11, compared with \$0.52;
- Adjusted EBITDA of \$19 million, compared with \$50 million;
- Free cash flow of \$2 million compared with \$39 million; and
- Total backlog of \$3.9 billion, compared with \$3.4 billion.

"In the first quarter of 2022, customer demand remained strong with a focus on our Networked Solutions and Outcomes offerings. While we continue to be impacted by the current supply constraints and an inflationary environment, we remain focused on driving our strategy forward," said Tom Deitrich, Itron's president and chief executive officer.

Summary of First Quarter Consolidated Financial Results

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

Revenue

Total first quarter revenue decreased 9% to \$475 million, or 6%, excluding the impact of changes in foreign currency exchange rates. The decrease was due to the impact of component constraints limiting our ability to meet customer demand.

Device Solutions revenue declined 19%, and Networked Solutions and Outcomes revenue each decreased 3%.

Gross Margin

Consolidated company gross margin of 28.4% decreased 380 basis points from the prior year, primarily due to higher component costs and manufacturing inefficiencies related to component shortages.

Operating Expenses and Operating Income

GAAP operating expenses of \$128 million decreased \$8 million from the prior year, primarily due to lower restructuring, amortization and product development expenses. Non-GAAP operating expenses of \$126 million decreased \$2 million from the prior year primarily due to lower product development expenses.

GAAP operating income of \$7 million was \$24 million lower than the prior year and non-GAAP operating income of \$9 million was \$30 million lower than last year. The decreases were due to lower gross profit.

Net Income and Earnings per Share

Net income attributable to Itron, Inc. for the quarter was \$1 million, or \$0.02 per diluted share, compared with \$13 million, or \$0.30 per diluted share in 2021. The decrease was driven by lower GAAP operating income.

Non-GAAP net income, which excludes certain charges including amortization of intangible assets, amortization of debt placement fees, debt extinguishment, restructuring, loss on sale of business, acquisition and integration, and the income tax effect of those adjustments, was \$5 million, or \$0.11 per diluted share, compared with \$22 million, or \$0.52 per diluted share, in 2021. The lower year over year results were primarily due to lower non-GAAP operating income.

Cash Flow

Net cash provided by operating activities was \$8 million in the first quarter compared with \$50 million in the same quarter of 2021. Free cash flow was \$2 million in the first quarter compared with \$39 million in the prior year. The year over year decrease in cash flow was primarily due to higher variable compensation payments in the current period.

Other Measures

Total backlog was \$3.9 billion and 12-month backlog was \$1.6 billion, compared with \$3.4 billion and \$1.3 billion, respectively, in the prior year. Bookings in the quarter totaled \$417 million.

Earnings Conference Call

Itron will host a conference call to discuss the financial results and guidance contained in this release at 10 a.m. EDT on May 2, 2022. The call will be webcast in a listen-only mode. Webcast information and conference call materials will be made available 10 minutes before the start of the call and will be accessible on Itron's website at <http://investors.itron.com/events.cfm>. A replay of the audio webcast will be made available at <http://investors.itron.com/events.cfm>. A telephone replay of the conference call will be available through May 7, 2022. To access the telephone replay, dial 888-203-1112 or 719-457-0820 and enter passcode **3063181**.

About Itron

Itron® enables utilities and cities to safely, securely and reliably deliver critical infrastructure services 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.

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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 such as the COVID-19 pandemic and other factors that are more fully described in Part I, Item 1A: Risk Factors included in our 2021 Annual Report and other reports on file with the SEC. We undertake no obligation to update or revise any forward-looking statement, whether written or oral.

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, adjusted EBITDA margin, constant currency, 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. 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.

ITRON, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2022	2021
Revenues		
Product revenues	\$ 399,810	\$ 442,804
Service revenues	75,521	76,770
Total revenues	475,331	519,574
Cost of revenues		
Product cost of revenues	294,820	307,691
Service cost of revenues	45,287	44,839
Total cost of revenues	340,107	352,530
Gross profit	135,224	167,044
Operating expenses		
Sales, general and administrative	76,401	75,992
Research and development	49,596	51,727
Amortization of intangible assets	6,553	8,973
Restructuring	(6,366)	(1,980)
Loss on sale of business	2,221	1,392
Total operating expenses	128,405	136,104

Operating income	6,819	30,940
Other income (expense)		
Interest income	217	542
Interest expense	(1,592)	(10,475)
Other income (expense), net	(689)	(2,766)
Total other income (expense)	<u>(2,064)</u>	<u>(12,699)</u>
Income before income taxes	4,755	18,241
Income tax provision	<u>(3,859)</u>	<u>(4,661)</u>
Net income	896	13,580
Net income (loss) attributable to noncontrolling interests	(10)	977
Net income attributable to Itron, Inc.	<u>\$ 906</u>	<u>\$ 12,603</u>
Net income per common share - Basic	<u>\$ 0.02</u>	<u>\$ 0.30</u>
Net income per common share - Diluted	<u>\$ 0.02</u>	<u>\$ 0.30</u>
Weighted average common shares outstanding - Basic	45,018	41,526
Weighted average common shares outstanding - Diluted	45,240	41,964

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2022	2021
Product revenues		
Device Solutions	\$ 137,886	\$ 170,331
Networked Solutions	249,268	258,703
Outcomes	12,656	13,770
Total Company	<u>\$ 399,810</u>	<u>\$ 442,804</u>
Service revenues		
Device Solutions	\$ 1,679	\$ 2,450
Networked Solutions	29,552	29,611
Outcomes	44,290	44,709
Total Company	<u>\$ 75,521</u>	<u>\$ 76,770</u>
Total revenues		
Device Solutions	\$ 139,565	\$ 172,781
Networked Solutions	278,820	288,314
Outcomes	56,946	58,479
Total Company	<u>\$ 475,331</u>	<u>\$ 519,574</u>
Gross profit		
Device Solutions	\$ 21,806	\$ 32,296
Networked Solutions	91,351	112,759
Outcomes	22,067	21,989
Total Company	<u>\$ 135,224</u>	<u>\$ 167,044</u>
Operating income (loss)		
Device Solutions	\$ 11,578	\$ 21,701
Networked Solutions	61,007	79,291
Outcomes	8,341	10,336
Corporate unallocated	(74,107)	(80,388)
Total Company	<u>\$ 6,819</u>	<u>\$ 30,940</u>

ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands) **March 31, 2022** **December 31, 2021**

ASSETS

Current assets		
Cash and cash equivalents	\$ 203,997	\$ 162,579
Accounts receivable, net	303,250	298,459
Inventories	171,259	165,799
Other current assets	114,021	123,092
Total current assets	<u>792,527</u>	<u>749,929</u>
Property, plant, and equipment, net	157,244	163,184
Deferred tax assets, net	186,133	181,472
Other long-term assets	43,883	42,178
Operating lease right-of-use assets, net	62,627	65,523
Intangible assets, net	85,514	92,529
Goodwill	1,091,888	1,098,975
Total assets	<u>\$ 2,419,816</u>	<u>\$ 2,393,790</u>

LIABILITIES AND EQUITY

Current liabilities		
Accounts payable	\$ 203,475	\$ 193,129
Other current liabilities	56,409	81,253
Wages and benefits payable	86,650	113,532
Taxes payable	18,576	12,208
Current portion of warranty	17,651	18,406
Unearned revenue	118,807	82,816
Total current liabilities	<u>501,568</u>	<u>501,344</u>
Long-term debt, net	450,795	450,228
Long-term warranty	13,184	13,616
Pension benefit obligation	81,932	87,863
Deferred tax liabilities, net	1,956	2,000
Operating lease liabilities	54,333	57,314
Other long-term obligations	129,296	138,666
Total liabilities	<u>1,233,064</u>	<u>1,251,031</u>
Equity		
Common stock	1,770,057	1,779,775
Accumulated other comprehensive loss, net	(95,283)	(148,098)
Accumulated deficit	(514,694)	(515,600)
Total Itron, Inc. shareholders' equity	<u>1,160,080</u>	<u>1,116,077</u>
Noncontrolling interests	26,672	26,682
Total equity	<u>1,186,752</u>	<u>1,142,759</u>
Total liabilities and equity	<u>\$ 2,419,816</u>	<u>\$ 2,393,790</u>

ITRON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands) **Three Months Ended March 31,**

	2022	2021
Operating activities		
Net income	\$ 896	\$ 13,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	16,837	21,810
Non-cash operating lease expense	4,113	4,330
Stock-based compensation	6,127	6,498
Amortization of prepaid debt fees	839	2,695
Deferred taxes, net	(4,362)	2,109
Loss on sale of business	2,221	1,392
Restructuring, non-cash	390	(45)
Other adjustments, net	137	391

Changes in operating assets and liabilities, net of acquisition and sale of business:

Accounts receivable	(8,816)	(2,078)
Inventories	(6,345)	9,008
Other current assets	(11,899)	15,692
Other long-term assets	(2,887)	(7,627)
Accounts payable, other current liabilities, and taxes payable	14,065	(26,978)
Wages and benefits payable	(26,185)	5,458
Unearned revenue	35,320	18,050
Warranty	(928)	(1,382)
Other operating, net	(11,932)	(12,948)
Net cash provided by operating activities	7,591	49,955
Investing activities		
Net proceeds related to the sale of business	55,933	2,842
Acquisitions of property, plant, and equipment	(5,369)	(11,412)
Business acquisitions, net of cash and cash equivalents acquired	23	—
Other investing, net	362	2,764
Net cash provided (used) in investing activities	50,949	(5,806)
Financing activities		
Proceeds from borrowings	—	460,000
Payments on debt	—	(475,000)
Issuance of common stock	784	2,238
Proceeds from common stock offering	—	389,419
Proceeds from sale of warrants	—	45,349
Purchases of convertible note hedge contracts	—	(84,139)
Repurchase of common stock	(16,972)	—
Prepaid debt fees	(695)	(11,722)
Other financing, net	(222)	(1,564)
Net cash (used in) provided by financing activities	(17,105)	324,581
Effect of foreign exchange rate changes on cash and cash equivalents	(17)	(1,071)
Increase in cash and cash equivalents	41,418	367,659
Cash and cash equivalents at beginning of period	162,579	206,933
Cash and cash equivalents at end of period	\$ 203,997	\$ 574,592

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 acquisition and integration related expenses, loss on sale of business, or restructuring charges. 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, and acquisition and integration. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, loss on sale of business, 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 related to acquisitions and restructuring projects. 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, debt extinguishment, restructuring, loss on sale of business, 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 transaction 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, debt extinguishment, restructuring, loss on sale of business, 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 and reconciling to free cash flow.

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 March 31,	
	2022	2021
NON-GAAP OPERATING EXPENSES		
GAAP operating expenses	\$ 128,405	\$ 136,104
Amortization of intangible assets	(6,553)	(8,973)
Restructuring	6,366	1,980
Loss on sale of business	(2,221)	(1,392)
Acquisition and integration	(62)	377
Non-GAAP operating expenses	<u>\$ 125,935</u>	<u>\$ 128,096</u>
NON-GAAP OPERATING INCOME		
GAAP operating income	\$ 6,819	\$ 30,940
Amortization of intangible assets	6,553	8,973
Restructuring	(6,366)	(1,980)
Loss on sale of business	2,221	1,392
Acquisition and integration	62	(377)
Non-GAAP operating income	<u>\$ 9,289</u>	<u>\$ 38,948</u>
NON-GAAP NET INCOME & DILUTED EPS		
GAAP net income attributable to Itron, Inc.	\$ 906	\$ 12,603

Amortization of intangible assets	6,553	8,973
Amortization of debt placement fees	796	2,652
Debt extinguishment	—	1,681
Restructuring	(6,366)	(1,980)
Loss on sale of business	2,221	1,392
Acquisition and integration	62	(377)
Income tax effect of non-GAAP adjustments	999	(2,997)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 5,171</u>	<u>\$ 21,947</u>
Non-GAAP diluted EPS	<u>\$ 0.11</u>	<u>\$ 0.52</u>
Non-GAAP weighted average common shares outstanding - Diluted	<u>45,240</u>	<u>41,964</u>

ADJUSTED EBITDA

GAAP net income attributable to Itron, Inc.	\$ 906	\$ 12,603
Interest income	(217)	(542)
Interest expense	1,592	10,475
Income tax provision	3,859	4,661
Debt extinguishment	—	1,681
Depreciation and amortization	16,837	21,810
Restructuring	(6,366)	(1,980)
Loss on sale of business	2,221	1,392
Acquisition and integration	62	(377)
Adjusted EBITDA	<u>\$ 18,894</u>	<u>\$ 49,723</u>

FREE CASH FLOW

Net cash provided by operating activities	\$ 7,591	\$ 49,955
Acquisitions of property, plant, and equipment	(5,369)	(11,412)
Free Cash Flow	<u>\$ 2,222</u>	<u>\$ 38,543</u>

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