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Friday, May 22, 2009

Digi shifting to fast-selling wireless ware

Minneapolis / St. Paul Business Journal - by [Kathy Grayson](#) Staff writer

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Joe Dunsmore is ready to cut the cord on **Digi International Inc.**'s product lines.

The CEO of Minnetonka-based Digi wants to expand the company's focus on its wireless technology, already the firm's fastest-growing source of revenue, as part of a strategy to

grow in a recession-battered industry.

Digi has long made products that help electronic devices communicate with one another. Historically, it has used wire-based technology, such as USB and ethernet cables. In recent years, however, the company has pushed into wireless, marketing devices that communicate over Wi-Fi and cellular technology.

Its products are used for a wide range of tasks, from connecting digital signage remotely to monitoring gas pipelines.

Dunsmore's wireless push already has paid off. In the second quarter, more than a third of



Joe Dunsmore, CEO of Digi International, is counting on the firm's wireless products, which allow electronic devices to talk to each other, to fire up growth. The federal stimulus bill may help, too.

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Digi's \$40 million in revenue came from wireless products, up 49 percent from the year-ago period. Dunsmore would ultimately like to see all of the company's revenue come from wireless. For now, he's set a short-term goal of 60 percent over the next three to five years.

Despite its early wireless success, Digi has suffered during the recession. In the second quarter, overall sales fell 6.9 percent to \$40.1 million, and while it remained profitable, its earnings fell to \$715,000 from about \$3.1 million in the same period last year.

The pivot to wireless has not come without some pain. Digi undertook a restructuring last month, which calls for shuttering a facility in Long Beach, Calif., and moving some operations from Davis, Calif., to Minnesota. Digi cut 13 percent of its staff, or 87 positions. (About a dozen Minnesota jobs were affected by the move.)

Digi's stock price also has declined, closing at \$7.82 on May 19, down from \$8.86 on the same date last year.

The company has a strong balance sheet with no debt, Dunsmore said. That will allow acquisitions in the future. In fact, it already has done some in the wireless arena, buying companies such as Ilkley, England-based Sarian Systems, which makes wireless routers for banking, retail and other businesses.

Dunsmore also expects the wireless strategy to help distinguish the company from its competitors. To do that, he's marketing software and services in addition to hardware.

Both those approaches should make Digi more competitive, said Jay Meier, an analyst with Minneapolis-based Feltl and Co. Inc.

Many wired products are subject to standards that make it easy for companies to release and market similar devices. "Standardized means competition," Meier said.

In addition to the wireless shift, Dunsmore is betting his company will benefit from the federal stimulus package. Digi recently launched a product dubbed iDigi, which would help utilities monitor energy use in a customer's home and automatically adjust the temperature during peak times. The product could factor into energy companies' plans for smart-grid projects, which the stimulus will fund. Digi has partnered with systems integrators to help market its products.

"We believe this is going to be a real hot application that's going to benefit from a government push," Dunsmore said.

Many utilities have submitted smart-grid proposals to the U.S. Department of Energy, but Dunsmore doesn't expect such sales for Digi to ramp up until late summer or early fall.

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