Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from_____to

Commission File No. 001-06706

BADGER METER, INC.

(Exact name of registrant as specified in its charter)

Wisconsin	**39-0143280**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4545 W. Brown Deer Road Milwaukee, Wisconsin	**53233**
(Address of principal executive offices)	(Zip code)

(414) 355-0400

(Registrant's telephone number, including area code)

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	BMI	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Smaller reporting company	☐
Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐		

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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 9, 2024 there were 29,393,730 shares of Common stock outstanding with a par value of $1 per share.

BADGER METER, INC.

Quarterly Report on Form 10-Q for the Period Ended March 31, 2024

Index

		Page No.
Part I. Financial Information:		
Item 1	Financial Statements (unaudited):	4
	Consolidated Condensed Balance Sheets - March 31, 2024 and December 31, 2023	4
	Consolidated Condensed Statements of Operations - Three Months Ended March 31, 2024 and 2023	5
	Consolidated Condensed Statements of Comprehensive Income - Three Months Ended March 31, 2024 and 2023	6
	Consolidated Condensed Statements of Cash Flows - Three Months Ended March 31, 2024 and 2023	7
	Consolidated Condensed Statements of Shareholders' Equity – Three Months Ended March 31, 2024 and 2023	8
	Notes to Unaudited Consolidated Condensed Financial Statements	9
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3	Quantitative and Qualitative Disclosures about Market Risk	19
Item 4	Controls and Procedures	19
Part II. Other Information:		
Item 1A	Risk Factors	20
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 5	Other Information	20
Item 6	Exhibits	20
Signatures		21

Special Note Regarding Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, as well as other information provided from time to time by Badger Meter, Inc. (the "Company" or "Badger Meter") or its employees, may contain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those statements. The words "anticipate," "believe," "estimate," "expect," "think," "should," "could" and "objective" or similar expressions are intended to identify forward looking statements. All such forward looking statements are based on the Company's then current views and assumptions and involve risks and uncertainties. See Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2023 for further information regarding risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward looking statements. The Company disclaims any obligation to publicly update or revise any forward-looking statements as a result of new information, future events or any other reason.

Part I – Financial Information

Item 1 Financial Statements

BADGER METER, INC.

Consolidated Condensed Balance Sheets

	March 31, 2024 (Unaudited)	December 31, 2023
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 199,310	$ 191,782
Receivables	92,287	83,507
Inventories:		
Finished goods	37,414	34,764
Work in process	41,178	41,261
Raw materials	81,852	77,649
Total inventories	160,444	153,674
Prepaid expenses and other current assets	18,557	13,214
Total current assets	470,598	442,177
Property, plant and equipment, at cost	227,043	225,988
Less accumulated depreciation	(154,109)	(152,110)
Net property, plant and equipment	72,934	73,878
Intangible assets, at cost less accumulated amortization	52,471	53,737
Other assets	11,293	11,249
Deferred income taxes	22,704	22,715
Goodwill	113,474	113,163
Total assets	$ 743,474	$ 716,919
Liabilities and shareholders' equity		
Current liabilities:		
Payables	$ 90,617	$ 81,807
Accrued compensation and employee benefits	15,588	29,871
Warranty and after-sale costs	12,425	11,102
Other current liabilities	16,464	9,168
Total current liabilities	135,094	131,948
Long-term deferred revenue	54,181	49,763
Deferred income taxes	4,894	5,061
Accrued non-pension postretirement benefits	3,831	3,614
Other accrued employee benefits	5,404	5,293
Other long-term liabilities	4,503	4,758
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Common stock, $1 par, authorized 80,000,000, issued 37,221,098 shares in 2024 and 2023	37,221	37,221
Capital in excess of par value	60,468	59,185
Reinvested earnings	479,925	458,719
Accumulated other comprehensive loss	(5,268)	(1,646)
Less: Treasury stock, at cost, 7,827,368 shares in 2024 and 7,873,781 in 2023	(36,779)	(36,997)
Total shareholders' equity	535,567	516,482
Total liabilities and shareholders' equity	$ 743,474	$ 716,919

See accompanying notes to unaudited consolidated condensed financial statements.

BADGER METER, INC.

Consolidated Condensed Statements of Operations

	Three Months Ended March 31, (Unaudited) (In thousands except share and per share amounts)	
	2024	**2023**
Net sales	$ 196,280	$ 159,101
Cost of sales	119,102	96,285
Gross margin	77,178	62,816
Selling, engineering and administration	40,600	37,770
Operating earnings	36,578	25,046
Interest income, net	(1,526)	(622)
Other pension and postretirement costs	12	32
Earnings before income taxes	38,092	25,636
Provision for income taxes	8,961	6,221
Net earnings	$ 29,131	$ 19,415
Earnings per share:		
Basic	$ 0.99	$ 0.66
Diluted	$ 0.99	$ 0.66
Dividends declared per common share	$ 0.27	$ 0.23
Shares used in computation of earnings per share:		
Basic	29,320,483	29,255,184
Impact of dilutive securities	174,005	165,770
Diluted	29,494,488	29,420,954

See accompanying notes to unaudited consolidated condensed financial statements.

BADGER METER, INC.

Consolidated Condensed Statements of Comprehensive Income

	Three Months Ended March 31, (Unaudited) (In thousands)	
	2024	**2023**
Net earnings	$ 29,131	$ 19,415
Other comprehensive loss:		
Foreign currency translation adjustments	(3,590)	1,758
Pension and postretirement benefits, net of tax	(32)	(33)
Comprehensive income	$ 25,509	$ 21,140

See accompanying notes to unaudited consolidated condensed financial statements.

BADGER METER, INC.

Consolidated Condensed Statements of Cash Flows

	Three Months Ended March 31, (Unaudited) (In thousands)	
	2024	**2023**
Operating activities:		
Net earnings	$ 29,131	$ 19,415
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation	2,892	2,663
Amortization	5,118	4,284
Deferred income taxes	-	(10)
Noncurrent employee benefits	1	(37)
Stock-based compensation expense	1,271	1,006
Changes in:		
Receivables	(9,164)	(6,843)
Inventories	(6,405)	(11,439)
Payables	7,960	6,959
Prepaid expenses and other assets	(8,065)	(2,133)
Other liabilities	(1,279)	4,105
Total adjustments	(7,671)	(1,445)
Net cash provided by operations	21,460	17,970
Investing activities:		
Property, plant and equipment expenditures	(2,676)	(4,271)
Acquisitions, net of cash acquired	(3,000)	(17,052)
Net cash used for investing activities	(5,676)	(21,323)
Financing activities:		
Dividends paid	(7,942)	(6,626)
Proceeds from exercise of stock options	230	58
Net cash used for financing activities	(7,712)	(6,568)
Effect of foreign exchange rates on cash	(544)	230
Increase (decrease) in cash and cash equivalents	7,528	(9,691)
Cash and cash equivalents – beginning of period	191,782	138,052
Cash and cash equivalents – end of period	$ 199,310	$ 128,361

See accompanying notes to unaudited consolidated condensed financial statements.

BADGER METER, INC.

Consolidated Condensed Statements of Shareholders' Equity

	Quarter ended March 31,					
	Common Stock at $1 par value*	Capital in excess of par value	Reinvested earnings	Accumulated other comprehensive income (loss)	Treasury stock (at cost)	Total
	(Unaudited)					
	(In thousands except share and per share amounts)					
Balance, December 31, 2022	$ 37,221	$ 53,282	$ 395,155	$ (5,983)	$ (37,253)	$ 442,422
Net earnings	-	-	19,415	-	-	19,415
Pension and postretirement benefits (net of $10 tax effect)	-	-	-	(33)	-	(33)
Foreign currency translation	-	-	-	1,758	-	1,758
Cash dividends of $0.23 per share	-	-	(6,591)	-	-	(6,591)
Stock options exercised	-	50	-	-	8	58
Stock-based compensation	-	1,006	-	-	-	1,006
Issuance of treasury stock (20 shares)	-	(93)	-	-	95	2
Balance, March 31, 2023	$ 37,221	$ 54,245	$ 407,979	$ (4,258)	$ (37,150)	$ 458,037
Balance, December 31, 2023	$ 37,221	$ 59,185	$ 458,719	$ (1,646)	$ (36,997)	$ 516,482
Net earnings	-	-	29,131	-	-	29,131
Pension and postretirement benefits (net of $10 tax effect)	-	-	-	(32)	-	(32)
Foreign currency translation	-	-	-	(3,590)	-	(3,590)
Cash dividends of $0.27 per share	-	-	(7,925)	-	-	(7,925)
Stock options exercised	-	196	-	-	34	230
Stock-based compensation	-	1,271	-	-	-	1,271
Issuance of treasury stock (46 shares)	-	(184)	-	-	184	-
Balance, March 31, 2024	$ 37,221	$ 60,468	$ 479,925	$ (5,268)	$ (36,779)	$ 535,567

* Each common share of stock equals $1 par value; therefore, the number of common shares is the same as the dollar value.

See accompanying notes to unaudited consolidated condensed financial statements.

BADGER METER, INC.

Notes to Unaudited Consolidated Condensed Financial Statements

Note 1 Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated condensed financial statements of Badger Meter contain all adjustments (consisting only of normal recurring accruals except as otherwise discussed) necessary to present fairly the Company's consolidated condensed financial position at March 31, 2024 and December 31, 2023, results of operations, comprehensive income, cash flows and statements of shareholders' equity for the three-month periods ended March 31, 2024 and 2023. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 Additional Financial Information Disclosures

The consolidated condensed balance sheet at December 31, 2023 was derived from amounts included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. Refer to the notes to consolidated financial statements included in that report for a description of the Company's accounting policies and for additional details of the Company's financial condition. The details in those notes have not changed except as discussed below and as a result of normal adjustments in the interim.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of ninety days or less to be cash equivalents.

Warranty and After-Sale Costs

The Company estimates and records provisions for warranties and other after-sale costs in the period in which the sale is recorded, based on a lag factor and historical warranty claim experience. After-sale costs represent a variety of activities outside of the written warranty policy, such as investigation of unanticipated problems after the customer has installed the product, or analysis of water quality issues. Changes in the Company's warranty and after-sale costs reserve are as follows:

	Three months ended March 31,	
(In thousands)	2024	2023
Balance at beginning of period	$ 11,102	$ 9,606
Net additions charged to earnings	3,239	1,411
Costs incurred	(1,916)	(1,448)
Balance at end of period	$ 12,425	$ 9,569

Note 3 Accumulated Other Comprehensive Loss

Components of and changes in accumulated other comprehensive loss at March 31, 2024 are as follows:

(In thousands)	Unrecognized pension and postretirement benefits	Foreign currency	Total
Balance at beginning of period	$ 920	$ (2,566)	$ (1,646)
Other comprehensive loss before reclassifications	-	(3,590)	(3,590)
Amounts reclassified from accumulated other comprehensive loss, net of tax of $10	(32)	-	(32)
Net current period other comprehensive loss, net of tax	(32)	(3,590)	(3,622)
Accumulated other comprehensive loss	$ 888	$ (6,156)	$ (5,268)

Components of and changes in accumulated other comprehensive loss at March 31, 2023 are as follows:

(In thousands)	Unrecognized pension and postretirement benefits	Foreign currency	Total
Balance at beginning of period	$ 994	$ (6,977)	$ (5,983)
Other comprehensive income before reclassifications	-	1,758	1,758
Amounts reclassified from accumulated other comprehensive loss, net of tax of $10	(33)	-	(33)
Net current period other comprehensive income, net of tax	(33)	1,758	1,725
Accumulated other comprehensive loss	$ 961	$ (5,219)	$ (4,258)

Details of reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2024 and 2023 are immaterial.

Note 4 Acquisitions

Acquisitions are accounted for under the purchase method, and accordingly, the results of operations were included in the Company's financial statements from the date of acquisition. The acquisitions did not have a material impact on the Company's consolidated financial statements or the notes thereto.

Effective January 1, 2024, the Company acquired select remote water monitoring hardware and software, inclusive of the Telog® product line and Unity Remote Monitoring software as a service (the "Telog/Unity Assets"). The total purchase consideration for the Telog/Unity Assets was $3.0 million in cash.

The preliminary allocation of purchase price to the assets acquired was based upon the estimated fair values at the date of acquisition. As of March 31, 2024, the Company has not completed its analysis for estimating the fair value of the assets acquired.

Effective January 1, 2023, the Company acquired 100% of the outstanding stock of Syrinix Ltd. ("Syrinix"), headquartered in the United Kingdom, a provider of high-frequency pressure monitoring and leak detection solutions.

The total purchase consideration for Syrinix, net of cash acquired, was $17.1 million. The Company's allocation of the purchase price at December 31, 2023 included $0.6 million of receivables, $0.7 million of inventories, $2.1 million of other assets, $7.7 million of intangible assets and $10.3 million of goodwill. The intangible assets acquired were primarily developed technology, customer relationships and trademarks with estimated average useful lives of 13 to 15 years. The Company also assumed $1.9 million of payables, $2.0 million of deferred income taxes and $0.4 million of other liabilities as part of the acquisition. As of December 31, 2023, the Company had completed its analysis for estimating the fair value of the assets acquired.

Note 5 Contingencies, Litigation and Commitments

In the normal course of business, the Company is named in legal proceedings. There are currently no material legal proceedings pending with respect to the Company.

The Company is subject to contingencies related to environmental laws and regulations. A future change in circumstances with respect to specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2023 and the first quarter of 2024 were not material.

The Company relies on single suppliers for most brass castings and certain resin and electronic subassemblies in several of its product lines. The Company believes these items would be available from other sources, but that the loss of certain suppliers could result in a higher cost of materials, delivery delays, short-term increases in inventory and higher quality control costs in the short term. The Company attempts to mitigate these risks by working closely with key suppliers, purchasing minimal amounts from alternative suppliers and by purchasing business interruption insurance where appropriate.

The Company reevaluates its exposures on a periodic basis and makes adjustments to reserves as appropriate.

Note 6 Income Taxes

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. The Company's income tax positions are based on interpretations of income tax laws and rulings in each of the jurisdictions that the Company operates. Significant judgment is required in determining the worldwide provision for income taxes and recording the related deferred tax assets and liabilities. The Company's deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income for the years in which the assets or liabilities are expected to be realized or settled. Interim provisions are tied to an estimate of the overall annual rate which can vary due to the relationship of foreign and domestic earnings, state taxes and available deductions, credits and discrete items.

The Company's earnings before incomes taxes, provision for income taxes, and effective income tax rate are as follows:

	Three months ended March 31,	
(In thousands)	2024	2023
Earnings before income taxes	$ 38,092	$ 25,636
Provision for income taxes	8,961	6,221
Effective income tax rate	23.5%	24.3%

Note 7 Fair Value Measurements of Financial Instruments

The Company applies the accounting standards for fair value measurements and disclosures for its financial assets and financial liabilities. The carrying amounts of cash and cash equivalents, receivables and payables in the financial statements approximate their fair values due to the short-term nature of these financial instruments. Included in other assets are insurance policies on various individuals who were previously employed by the Company. The carrying amounts of these insurance policies approximate their fair value.

Note 8 Subsequent Events

The Company evaluates subsequent events at the date of the balance sheet as well as conditions that arise after the balance sheet date but before the financial statements are issued. The effects of conditions that existed at the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, if any, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying consolidated financial statements and the notes to these financial statements, the Company evaluated subsequent events through the date that the accompanying financial statements were issued, and has determined that no material subsequent events exist through the date of this filing.

Note 9 Revenue Recognition

Revenue for sales of products and services is derived from contracts with customers. The products and services promised in contracts include the sale of measurement hardware, communication devices, data and analytics software and other ancillary services. Contracts generally state the terms of sale, including the description, quantity and price of each product or service. Since the customer typically agrees to a stated rate and price in the contract that does not vary over the life of the contract, the majority of the Company's contracts do not contain variable consideration. The Company establishes a provision for estimated warranty and returns as well as certain after sale costs as discussed in Note 2 "Additional Financial Information Disclosures" in the Notes to Unaudited Consolidated Condensed Financial Statements.

The Company disaggregates revenue from contracts with customers into geographical regions and by the timing of when goods and services are transferred. The Company determined that disaggregating revenue into these categories depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by regional economic factors.

Information regarding revenues disaggregated by geographic area is as follows:

(In thousands)	Three months ended March 31, 2024	2023
Revenues:		
United States	$ 177,190	$ 138,586
Foreign:		
Asia	2,913	3,192
Canada	2,178	3,482
Europe	9,409	9,532
Mexico	621	1,035
Middle East	3,611	2,678
Other	358	596
Total	$ 196,280	$ 159,101

Information regarding revenues disaggregated by the timing of when goods and services are transferred is as follows:

(In thousands)	Three months ended March 31, 2024		2023	
Revenue recognized over time	$ 12,733	6.5%	$ 9,738	6.1%
Revenue recognized at a point in time	183,547	93.5%	149,363	93.9%
Total	$ 196,280	100.0%	$ 159,101	100.0%

The majority of the Company's revenue that is recognized over time relates to the BEACON® software as a service ("SaaS"), but also includes training, certain installation and other revenues. The majority of the Company's revenue recognized at a point in time is for the sale of utility and flow instrumentation products. Revenue from these contracts is recognized when the customer is able to direct the use of and obtain substantially all of the benefits from the product which generally coincides with title transfer during shipping.

The Company performs its obligations under a contract by shipping products or performing services in exchange for consideration. The Company typically invoices its customers as soon as control of an asset is transferred and a receivable to the Company is established. The Company, however, recognizes a contract liability when a customer prepays for goods or services and the Company has not transferred control of the goods or services.

The Company's receivables and contract liabilities are as follows:

(In thousands)	March 31, 2024	December 31, 2023
Receivables	$ 92,287	$ 83,507
Contract liabilities	65,712	59,970

Contract liabilities are included in payables and long-term deferred revenue on the Company's Consolidated Condensed Balance Sheets. The balance of contract assets was immaterial as the Company did not have a significant amount of uninvoiced receivables as of March 31, 2024 and December 31, 2023.

A performance obligation is a promise to transfer a distinct good or service to the customer. At contract inception, the Company assesses the products and services promised in its contracts with customers. The Company then identifies performance obligations to transfer distinct products or services to the customer. In order to identify performance obligations, the Company considers all of the products or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices.

The Company's performance obligations are satisfied at a point in time or over time as work progresses. The majority of the Company's revenue recognized at a point in time is for the sale of utility and flow instrumentation products. Revenue from these contracts is recognized when the customer is able to direct the use of and obtain substantially all of the benefits from the product which generally coincides with title transfer during the shipping process. The majority of the Company's revenue that is recognized over time relates to the BEACON SaaS.

As of March 31, 2024, the Company had certain contracts with unsatisfied performance obligations. For contracts recorded as contract liabilities, $65.7 million was the aggregate amount of the transaction price allocated to performance obligations that were unsatisfied or partially unsatisfied as of the end of the reporting period. The Company estimates that revenue recognized from satisfying those performance obligations will be approximately $9.8 million in 2024, $7.3 million in 2025, $6.3 million in 2026, $5.5 million in 2027, $4.7 million in 2028, $4.0 million in 2029 and $28.1 million thereafter.

Note 10 Leases

The Company rents facilities, equipment and vehicles under operating leases, some of which contain renewal options. Upon inception of a rent agreement, the Company determines whether the arrangement contains a lease based on the unique conditions present. Leases that have a term over a year are recognized on the balance sheet as right-of-use assets and lease liabilities. Right-of-use assets are included in other assets on the Company's Consolidated Condensed Balance Sheets. Lease liabilities are included in other current liabilities and other long-term liabilities on the Company's Consolidated Condensed Balance Sheets. Information regarding the Company's right-of-use assets and the corresponding lease liabilities are as follows:

(In thousands)	March 31, 2024	December 31, 2023
Right-of-use assets	$ 5,120	$ 5,522
Lease liabilities	5,335	5,758

The Company's operating lease agreements have lease and non-lease components that require payments for common area maintenance, property taxes and insurance. The Company has elected to account for both lease and non-lease components as one lease component. The fixed and in-substance fixed consideration in the Company's rent agreements constitute operating lease expense that is included in the capitalized right-of-use assets and lease liabilities. The variable and short-term lease expense payments are not included in the present value of the right-of use-assets and lease liabilities on the Consolidated Condensed Balance Sheets. The Company's rent expense is as follows:

	Three months ended March 31,	
(In thousands)	2024	2023
Operating lease expense	$ 858	$ 833
Variable and short-term lease expense	75	45
Rent expense	$ 933	$ 878

The Company records right-of-use assets and lease liabilities based upon the present value of lease payments over the expected lease term. The Company's lease agreements typically do not have implicit interest rates that are readily determinable. As a result, the Company utilizes an incremental borrowing rate that would be incurred to borrow on a collateralized basis over a similar term in a comparable economic environment. As of March 31, 2024 and December 31, 2023, the remaining lease term on the Company's leases was 5.2 years and 5.3 years, respectively. As of March 31, 2024 and December 31, 2023, the discount rate was 5.0%. The future minimum lease payments to be paid under operating leases are as follows:

(In thousands)	March 31, 2024
2024 (remaining nine months)	$ 1,956
2025	2,037
2026	900
2027	223
2028	127
Thereafter	895
Total future lease payments	6,138
Present value adjustment	(803)
Present value of future lease payments	$ 5,335

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS DESCRIPTION AND OVERVIEW

With more than a century of water technology innovation, Badger Meter is a global provider of industry leading water management solutions, with nearly 95% of net sales derived from water-related applications. These tailorable solutions encompass smart measurement hardware, reliable communications, data and analytics software as well as ongoing support and expertise essential to optimize customers' operations and contribute to the sustainable use and protection of the world's most precious resource.

The Company's smart measurement hardware is primarily comprised of the following product families:

- meters that measure the flow of water and other fluids and are known for accuracy, long-lasting durability and for providing valuable and timely flow measurement data.

- water quality monitoring solutions, including optical sensing and electrochemical instruments that provide real-time, on-demand data parameters.

- high frequency pressure and acoustic leak detection hardware that provides real-time monitoring data.

The Company's broad range of communication solutions include the ORION® branded family of radio endpoints, providing customers with a choice of industry-leading options for communicating data from hardware into usable applications.

The Company's hardware-enabled software provides the insights and analytics critical to the holistic management of our customers' water systems. These digital solutions increase visibility, empowering customers to monitor system performance and make decisions aiding efficiency, resiliency, and sustainability.

The Company also provides training, project management, technical support and other collaborative services for customers.

The Company's solutions fall into two product lines: sales of meters, water quality sensors and other hardware, communication, and software and related technologies, to water utilities (utility water) and sales of meters, other sensing instruments, valves, software and other solutions to commercial and industrial customers, including water related applications (flow instrumentation).

Utility Water Product Line (approximately 85% of Net Sales in fiscal 2023)

Utility water smart metering solutions are comprised of water meters along with the related radio and software technologies and services used by water utilities as the basis for generating their water and wastewater revenues, enabling operating efficiencies and engaging with their end consumers. This product line further comprises other instruments and sensors used in the water distribution system to ensure the safe and efficient delivery of clean water. These sensors are used to detect leaks and to monitor various water quality parameters throughout the distribution system. The largest geographic market in which the Company operates is North America, primarily the United States. The majority of water meters sold are mechanical in nature, with increasing adoption over time of ultrasonic (static) metering technology due to a variety of attributes, including their ability to maintain measurement accuracy over their useful life.

Utility water meters (both residential and commercial sizes) are generally classified as either manually read meters or remotely read meters via radio technology. A manually read meter consists of a water meter and a register that provides a visual totalized meter reading. Meters equipped with radio technology (endpoints) receive flow measurement data from battery-powered encoder registers attached to the water meter, which is encrypted and transmitted via radio frequency to a receiver that collects and formats the data appropriately for water utility usage and billing systems. These remotely read systems are classified as either automatic meter reading (AMR) systems, where a vehicle equipped for meter reading purposes collects the data from the utilities' meters, or advanced metering infrastructure (AMI) systems, where data is gathered utilizing a network (either fixed or cellular) of data collectors or gateway receivers that are able to receive radio data transmission from the utilities' meters. Among other benefits, AMI systems eliminate the need for utility personnel to drive through service territories to collect data from the meters and provide utilities with more frequent and diverse data from their meters at specified intervals.

The ORION® family of endpoints offers water utilities a choice of industry-leading options for communicating meter reading and event data. ORION Cellular endpoints power our Network as a Service (NaaS) approach to AMI, eliminating the

need for the utility to install or maintain infrastructure, enabling rapid or gradual deployment, and enhancing network reliability. ORION mobile read endpoints support customers looking to deploy an AMR solution.

Information and analytics are critical to the smart water ecosystem. The Company's BEACON® SaaS, amongst others, improves utility visibility to their water and water usage. BEACON is a secure, cloud-hosted software suite that includes a customizable dashboard and has the ability to establish alerts for specific conditions. It also allows for consumer engagement tools that permit end water users (such as homeowners) to view and manage their water usage activity. Benefits to the utility include improved customer service, increased visibility through faster leak detection, the ability to promote and quantify the effects of its water conservation efforts, and easier compliance reporting.

Water meter replacement and the adoption and deployment of new technologies comprise the majority of smart water product sales, including radio products. To a much lesser extent, housing starts also contribute to sales annually. The industry continues to undergo a conversion from manually read water meters to meters with radio technology, and for AMR systems to be upgraded to digital AMI solutions. The Company estimates that approximately one-third of water meters installed in the United States have been converted to AMI systems.

In addition, the Company provides various other hardware, instruments and sensors, and related software, to enhance the scope and breadth of connected data valuable to a water utility's operation. This includes water quality monitoring solutions utilizing optical sensors and electrochemical instruments that measure a variety of parameters including turbidity, pH, chlorine, nitrates and approximately 40 others. Utilizing these solutions, water quality can be monitored continually or periodically throughout the network from its original source to the point in which it is recycled and returned. Real-time water quality parameters enhance the scope of actionable data for water utilities to improve operational security, awareness and efficiency. It also includes high frequency pressure and leak detection sensors that provide real-time alarms and event location triangulation to aid operators in responding to burst pipe and other leak events quickly, reducing water loss and system downtime. The data and insights collected from these additional operational sensors are often conveyed by cellular networks and can be leveraged alongside of the metering data within BEACON to unlock powerful insights about the operations of a customer's distribution network.

The Company's net sales and corresponding net earnings depend on unit volume and product mix, with the Company generally earning higher average selling prices and margins on meters coupled with radio technology, software, water quality monitoring and on ultrasonic compared to mechanical meters.

Flow Instrumentation Product Line (approximately 15% of Net Sales in fiscal 2023)

The flow instrumentation product line primarily serves water applications throughout the broader industrial market, with both standard and customized solutions. These solutions include meters, valves and other sensing instruments sold worldwide to measure and control the quantity of fluids, including water, air, steam, and other liquids and gases. These products, oftentimes leveraging the same technologies used in utility water, are used in a variety of industries and applications, with the Company's primary market focus being water/wastewater, heating, ventilating and air conditioning (HVAC) and corporate sustainability. Flow instrumentation products are generally sold through manufacturers' representatives and original equipment manufacturers as the primary flow measurement device within a product or system. Specialized communication protocols that control the entire flow measurement process and mandatory certifications drive these markets.

The industries served by the Company's flow instrumentation products face accelerating demands to contain costs, reduce product variability, and meet ever-changing safety, regulatory and sustainability requirements. To address these challenges, customers must reap more value from every component in their systems. This system-wide scrutiny has heightened the focus on flow instrumentation and water quality monitoring in wastewater treatment, industrial process, building automation and precision engineering applications where flow measurement, quality and control are critical.

The Company offers one of the broadest flow measurement, control and communication portfolios in the market. Customers rely on the Company for application-specific solutions that deliver accurate, timely and dependable flow data and control essential for product quality, cost control, safer operations, regulatory compliance and more sustainable operations.

Long Term Business Trends

Across the globe significant infrastructure investment needs, aging workforce, increasing regulations and a focus on climate-change and sustainability are driving companies and utilities to better manage critical resources like water. Some customers measure fluids to identify leaks and/or misappropriation for cost control or add measurement points to help automate manufacturing. Other customers employ measurement to comply with government mandates and laws including those

associated with process and discharge water quality monitoring. The Company provides flow measurement technology critical to providing baseline usage data and to quantify reductions as customers attempt to reduce consumption. For example, once water usage metrics are better understood, a strategy for water-use reduction can be developed with specific water-reduction initiatives targeted to those areas where it is most viable. With the Company's technology, customers have found costly leaks, pinpointed equipment in need of repair, and identified areas for process improvements.

Increasingly, customers in the utility water market are interested in more frequent and diverse data collection and the use of water metering, pressure and quality analytics to evaluate water distribution activity. Specifically, AMI technology enables water utilities to capture readings from each meter at more frequent and variable intervals. There are more than 50,000 water utilities in the United States and the Company estimates that approximately one-third of their respective connections have converted to an AMI radio solution. The Company believes it is well positioned to meet the continuing conversion trends to AMI with its comprehensive radio and software solutions.

In addition, certain water utilities are converting from mechanical to static meters. Ultrasonic water metering maintains a high level of measurement accuracy over the life of the meter, reducing a utility's non-revenue water. The Company has over a decade of proven reliability in the market with its ultrasonic meters.

As noted above, customers are increasingly looking for more frequent and diverse data to holistically manage their water networks. As a leading provider of water quality and pressure management monitoring solutions, we are able to meet these needs and enhance the scope of actionable data for customers to help measure, conserve and protect water.

Together, our tailorable smart water solutions provide actionable information through data analytics derived from an interconnected and interoperable network of sensors and devices that help people and organizations efficiently use and conserve water. Badger Meter is well positioned to benefit from the adoption of smart water solutions. With strong relationships with telecommunication providers such as AT&T and Verizon (among others), we stay abreast of emerging cellular technology changes to provide the premier infrastructure-free AMI solution.

Acquisitions

Effective January 1, 2024, the Company acquired select remote water monitoring hardware and software, inclusive of the Telog® product line and Unity Remote Monitoring software as a service (the "Telog/Unity Assets). The total purchase consideration for the Telog/Unity Assets was $3.0 million in cash.

Effective January 1, 2023, the Company acquired 100% of the outstanding stock of Syrinix Ltd. ("Syrinix"), headquartered in the United Kingdom, a provider of high-frequency pressure monitoring and leak detection solutions.

The total purchase consideration for Syrinix, net of cash acquired, was $17.1 million. The Company's allocation of the purchase price at December 31, 2023 included $0.6 million of receivables, $0.7 million of inventories, $2.1 million of other assets, $7.7 million of intangible assets and $10.3 million of goodwill. The intangible assets acquired were primarily developed technology, customer relationships and trademarks with estimated average useful lives of 13 to 15 years. The Company also assumed $1.9 million of payables, $2.0 million of deferred income taxes and $0.4 million of other liabilities as part of the acquisition.

Revenue and Product Mix

As the industry continues to evolve, the Company has been at the forefront of innovation across measurement hardware (metering, water quality, pressure sensors, etc.), radio and software technologies in order to meet its customers' increasing expectations for accurate and actionable data and insights. As technologies such as ORION Cellular and BEACON digital solutions have become more widely adopted, the Company's revenue from SaaS has increased significantly, and is margin accretive.

The Company also seeks opportunities for additional revenue enhancement. For instance, the Company has made inroads into select regional markets outside the US such as the Middle East, UK and others with its tailorable smart water solutions portfolio. The Company is periodically asked to oversee and supervise field installation of its products and provide training and other services for certain customers. Strategic mergers and acquisitions are another avenue for profitable sales growth.

Results of Operations - Three Months Ended March 31, 2024

Net Sales

The Company's net sales for the three months ended March 31, 2024 were $196.3 million compared to $159.1 million during the same period in 2023. Net sales into the utility water market were $170.1 million, an increase of 28.7% from the prior year's $132.2 million. Utility water net sales grew as a result of increased ultrasonic meter and ORION® Cellular endpoint sales as well as increased BEACON® SaaS revenue. Sales of products into the global flow instrumentation end markets were $26.2 million compared to the prior year's $26.9 million, a decrease of 2.7%, largely the result of to a difficult prior year comparison which included the benefit of backlog conversion and improved supply chain availability that did not reoccur.

Earnings

Total operating earnings for the three months ended March 31, 2024 were $36.6 million, or 18.6% of sales, compared to $25.0 million, or 15.7% of sales, in the comparable prior year quarter. Gross margin dollars increased $14.4 million, with gross margin as a percent of sales of 39.3%, a decrease from 39.5% in the prior year comparable quarter. Gross margin in the current quarter benefited from increased sales volumes and favorable sales mix offset by inflationary cost increases. Selling, engineering and administration ("SEA") expenses were $40.6 million or 20.7% of sales in the first quarter of 2024 compared to $37.8 million or 23.7% of sales in the comparable prior year quarter. While the Company made investments in growth-related spending including higher headcount and R&D, the year-over-year improvement in SEA expense as a percent of sales is the result of effective spending controls and higher sales.

The provision for income taxes as a percentage of earnings before income taxes for the quarter ended March 31, 2024 was 23.5% compared to 24.3% for the comparable prior year period. Interim provisions are based on an estimate of the overall annual rate that can vary due to state taxes, the relationship of foreign and domestic earnings, other credits, allowances and discrete items.

As a result of the above-mentioned items, net earnings for the three months ended March 31, 2024 were $29.1 million, or $0.99 per diluted share, compared to $19.4 million, or $0.66 per diluted share, for the same period in 2023.

LIQUIDITY AND CAPITAL RESOURCES

The main sources of liquidity for the Company are cash from operations and borrowing capacity. In addition, depending on market conditions, the Company may access the capital markets to strengthen its capital position and to provide additional liquidity for general corporate purposes.

Primary Working Capital

The Company uses primary working capital ("PWC") as a percentage of sales as a key metric for working capital efficiency. The Company defines this metric as the sum of Receivables and Inventories less Payables, divided by trailing twelve month Net sales. The following table shows the components of our PWC:

	March 31, 2024		December 31, 2023	
(In thousands)	$	PWC%	$	PWC%
Receivables	$ 92,287	12.4%	$ 83,507	11.9%
Inventories	160,444	21.7%	153,674	21.8%
Payables	(90,617)	-12.2%	(81,807)	-11.6%
Primary Working Capital	$ 162,114	21.9%	$ 155,374	22.1%

Overall, PWC increased $6.7 million compared to the previous year-end. Receivables at March 31, 2024 increased $8.8 million due to higher sales activity in the first quarter of 2024. Inventories increased $6.8 million due to component cost inflation, higher safety stock levels and increased sales activity. Payables as of March 31, 2024 were $8.8 million higher than the prior year-end due to timing of payments and increased inventory levels.

Cash Provided by Operations

Cash provided by operations in the first three months of 2024 was $21.5 million compared to $18.0 million in the same period of 2023. Higher net earnings, offset by higher incentive compensation payments in 2024 versus 2023, contributed to the increase in cash provided by operations compared to the same quarter in 2023.

Property, plant and equipment expenditures for the first three months of 2024 were $2.7 million compared to $4.3 million in the comparable prior year period.

Cash and cash equivalents at March 31, 2024 increased to $199.3 million from $191.8 million at December 31, 2023, the result of the $21.5 million of cash provided by operations, offset by $3.0 million deployed to acquire the Telog net assets and payment of the quarterly dividend.

The Company's credit facility includes a $150.0 million multi-currency line of credit that supports commercial paper (up to $100.0 million). The facility includes several features that enhance the Company's financial flexibility including an increase feature, acquisition holiday, and favorable financial covenants. The Company was in compliance with all covenants as of March 31, 2024. The Company believes that its operating cash flows, available borrowing capacity, and its ability to raise capital provide adequate resources to fund ongoing operating requirements, future capital expenditures and the development of new products. The Company had $154.3 million of unused credit lines available at March 31, 2024.

Other Matters

On March 6, 2024, the SEC adopted final rules to enhance disclosures pertaining to climate related risks and associated board and management governance of such risks. Disclosures will be made prospectively, with phased-in effective dates starting with fiscal years beginning on or after January 1, 2025, subject to any regulatory or judicial delays. Other governing bodies have passed or are considering passing related legislature requiring certain environmental, social and governance disclosures. The Company is currently assessing the impact of these changes to its consolidated financial statements.

The Company is subject to contingencies related to environmental laws and regulations. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2023 and the first quarter of 2024 were not material.

See the “Special Note Regarding Forward Looking Statements” at the front of this Quarterly Report on Form 10-Q and Part I, Item 1A “Risk Factors” in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 and Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q for a discussion of risks and uncertainties that could impact the Company's financial performance and results of operations.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company's off-balance sheet arrangements and contractual obligations are discussed in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Off-Balance Sheet Arrangements” and “Contractual Obligations” in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 and have not materially changed since that report was filed unless otherwise indicated in this Quarterly Report on Form 10-Q.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Company's quantitative and qualitative disclosures about market risk are included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Market Risks" in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 and have not materially changed since that report was filed.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management evaluated, with the participation of the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President - Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the quarter ended March 31, 2024. Based upon their evaluation of these disclosure controls and procedures, the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President – Chief Financial Officer concluded that, as of the date of such evaluation, the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2024 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1A Risk Factors

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

In February 2023, the Board authorized the repurchase of up to 200,000 shares of the Company's Common Stock through February 2026. The following table provides information about the Company's purchases under this repurchase program during the quarter ended March 31, 2024 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program	Maximum number of shares that may yet be purchased under the program
January 1, 2024 - January 31, 2024	-	$ -	-	200,000
February 1, 2024 - February 29, 2024	-	$ -	-	200,000
March 1, 2024 - March 31, 2024	-	$ -	-	200,000
Total as of March 31, 2024	-		-	200,000

Item 5 Other Information

During the first quarter of 2024, none of our directors or executive officers adopted or terminated any "Rule 10b5-1 trading arrangement" or non-Rule 10b-1 trading arrangement (as each term is defined in Item 408(a) of Regulation S-K).

Item 6 Exhibits

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, (v) the Consolidated Condensed Statements of Shareholders' Equity, (vi) Notes to Unaudited Consolidated Condensed Financial Statements, tagged as blocks of text and including detailed tags and (vii) the information in Part II, Item 5 Other Information.
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BADGER METER, INC.

Dated: April 19, 2024

By /s/ Kenneth C. Bockhorst
Kenneth C. Bockhorst
Chairman, President and Chief Executive Officer

By /s/ Robert A. Wrocklage
Robert A. Wrocklage
Senior Vice President – Chief Financial Officer

By /s/ Daniel R. Weltzien
Daniel R. Weltzien
Vice President – Controller