

Genesee County Employees' Retirement System v. Kornit Digital Ltd.

COURT: United States District Court for the District of New Jersey
CASE NUMBER: 23-cv-888
CLASS PERIOD: 02/17/2021 - 07/05/2022
CASE LEADERS: Hannah Ross, Avi Josefson, James A. Harrod
CASE TEAM: Alec Coquin, Mathews R. de Carvalho

On February 15, 2023, Bernstein Litowitz Berger & Grossmann LLP (“BLB&G”) filed a class action lawsuit in the U.S. District Court for the District of New Jersey alleging violations of the federal securities laws by Kornit Digital Ltd. (“Kornit” or the “Company”), certain of the Company’s current and former senior executives and directors, and certain underwriters of a secondary offering conducted by Kornit (collectively, “Defendants”).

On August 30, 2023, the Honorable Madeline Cox Arleo appointed Genesee County Employees’ Retirement System, Kranot Hishtalmut Le Morim Tichoniim Havera Menachelet LTD, Kranot Hishtalmut Le Morim Ve Ganant Havera Menachelet LTD, and Hachshara Insurance Company Ltd. as Lead Plaintiffs and BLB&G as Lead Counsel for the potential class of investors who were harmed by Defendants’ fraud.

On October 27, 2023, Lead Plaintiffs filed a Consolidated Complaint in the action. The action is brought on behalf all persons or entities that purchased or otherwise acquired Kornit ordinary shares between February 17, 2021 and July 5, 2022, inclusive (the “Class Period”). To view the complaint, see the Case Documents section of this page.

Kornit’s Alleged Fraud

Kornit designs and manufactures industrial digital printing solutions for the garment, apparel, and textile industries. The Company generates revenue from sales of its printing systems as well as textile inks and other consumable products for use in its digital printers. Kornit also provides customer assistance and equipment services to end-users of its printers through customer support contracts, including technical support, maintenance, and repair. In addition, during the Class Period, Kornit expanded its business and began offering software services to its customers, including a suite of end-to-end fulfillment and production solutions called KornitX, through which the Company provides, among other things, automated production systems and workflow and inventory management.

Kornit’s largest customer is e-commerce company, Amazon.com, Inc. The Company’s other large customers during the Class Period included apparel and activewear brand, Delta Apparel, Inc. (“Delta Apparel”), as well as Fanatics, Inc. (“Fanatics”), a provider of licensed sports merchandise. Kornit generates more than 60% of its revenues from its ten largest customers. Because such a significant portion of Kornit’s revenues is concentrated among its largest customers, it was crucial that the Company maintain those major customers and continue to expand its customer base in order to achieve Kornit’s ambitious goal of generating \$1 billion in revenue by 2026.

The complaint alleges that throughout the Class Period, Defendants made numerous materially false and misleading statements and omissions concerning Kornit’s business and operations. Specifically, Defendants repeatedly touted the competitive advantages provided by Kornit’s technology and assured investors that the Company faced virtually no meaningful competition in the “direct-to-garment” printing market. Defendants also assured investors that there was strong demand for Kornit’s digital printing systems, KornitX software and

consumable products, such as textile inks, as well as for the services the Company provides customers to maintain and manage its digital printers, and to manage customer workflow. Defendants further assured investors that the strong demand for the Company's products and services would enable Kornit to maintain its existing customer base and attract new customers that would limit the risks associated with a substantial portion of its revenues being concentrated among a small number of large customers.

In truth, Defendants knew, or at a minimum, recklessly disregarded, that the Company's digital printing business was plagued by serious competition, severe quality control problems and customer service deficiencies. Those problems and deficiencies caused Kornit to cede market share to competitors, which, in turn, led to a decrease in the Company's revenue as customers went elsewhere for their digital printing needs. As a result of Defendants' misrepresentations, Kornit ordinary shares traded at artificially inflated prices throughout the Class Period.

On March 28, 2022, Delta Apparel and Fanatics—two of Kornit's major customers—announced that they had collaborated with one of Kornit's principal competitors to develop a new digital printing technology that directly competed with Kornit's products and services.

On May 11, 2022, despite reporting revenues that exceeded expectations, Kornit reported a net loss of \$5.2 million for the first quarter of 2022, compared to a profit of \$5.1 million in the prior year period. The Company also issued revenue guidance for the second quarter of 2022 that was significantly below analysts' expectations. Kornit attributed its disappointing guidance to a slowdown in orders from customers in the e-commerce market. In addition, the Company admitted that, for at least the previous two quarters, Kornit knew that Delta Apparel had acquired digital printing systems from a Kornit competitor. These disclosures caused the price of Kornit shares to decline by \$18.78 per share, or 33%.

Then, on July 5, 2022, Kornit announced that it would report a significant revenue shortfall for the second quarter of 2022. Specifically, Kornit expected revenue for the second quarter to be in the range of \$56.4 million to \$59.4 million, well below the previous revenue guidance of between \$85 million and \$95 million that the Company provided less than two months earlier. Kornit attributed the substantial revenue miss to "a significantly slower pace of direct-to-garment (DTG) systems orders in the second quarter as compared to our prior expectations." These disclosures caused the price of Kornit shares to decline by an additional \$8.10 per share, or 25.7%.

Defendants filed their motion to dismiss the case on December 21, 2023. Lead Plaintiffs' opposition to that motion was filed on February 16, 2024, and Defendants' reply brief is due on April 1, 2024.

Case Documents

- November 8, 2024 - Second Amended Class Action Complaint
- October 27, 2023 - Consolidated Class Action Complaint
- February 15, 2023 - Initial Complaint
- February 15, 2023 - PSLRA Notice