

## **iRobot Third-quarter 2016 Conference Call Script**

### **Operator:**

Good day everyone and welcome to the iRobot third-quarter 2016 financial results conference call. This call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Elise Caffrey of iRobot Investor Relations. Please go ahead.

### **Elise:**

Thank you and good morning. Before I introduce the iRobot management team, I would like to note that statements made on today's call that are not based on historical information are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

This conference call may contain express or implied forward-looking statements relating to: the company's financial results, operations and performance for fiscal 2016 and the fourth quarter ending December 31, 2016; the growth, performance, revenue impact and prospects of our business, including outside of the United States; our expectations regarding seasonality and predictability of our business; our expectations regarding profitability; our expectations regarding revenue, the rate of revenue growth, net income, Adjusted EBITDA, gross margins, operating expenses, marketing expenses, research and development expenses, general and administrative expenses, restructuring charges, stock compensation expenses, depreciation and amortization expenses, inventory, and earnings per share; our intent to make, and the impact on our financial results of, strategic investments; the impact of our continued sales and marketing investments; the impact of our continued investments in R&D and technology; domestic and international demand for our robots; demand for, availability of and revenue opportunities associated with our Braava family of wet floor care robots; our ability to support connected robots and develop connected robot technologies; our plans for expansion; our introduction and delivery of

new products and product capabilities and functionality, and the timing thereof; our competitive position; our market share and opportunity; and business conditions.

These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in the forward-looking statements. In particular, the risks and uncertainties include those contained in our public filings with the Securities and Exchange Commission. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. iRobot undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or circumstances or otherwise.

During this conference call, we will also disclose non-GAAP financial measures as defined by SEC Regulation G, including Adjusted EBITDA, which we define as earnings before interest, taxes, depreciation, amortization, merger, acquisition and divestiture expense, restructuring expense, net intellectual property litigation expense and non-cash stock compensation expense. A reconciliation between Adjusted EBITDA and net income – the GAAP measure most directly comparable to Adjusted EBITDA - is provided in the financial tables at the end of the Q3 2016 earnings press release issued last evening, which is available on our website

<http://investor.irobot.com/phoenix.zhtml?c=193096&p=irol-news&nyo=0>. A live audio broadcast of this conference call is also available on the Investor Relations page of our website and an archived version of the broadcast will be available on the same Web page following the call. In addition, a replay of this conference call will be available through November 3, 2016 and can be accessed by dialing **630-652-3042**, access code **40924300#**.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the third quarter of 2016 as well as our outlook on the business for 2016; Alison Dean, Chief Financial Officer, will review our

financial results for the third quarter of 2016; and, Colin and Alison will also provide our financial expectations for the fourth quarter ending December 31, 2016 and fiscal 2016. Then we'll open the call for questions.

At this point I'll turn the call over to Colin Angle.

**Colin:**

Good morning and thank you for joining us.

I am happy to report that we had an outstanding third quarter delivering revenue and profitability far exceeding our expectations. As a result, our expectations for full-year revenue and earnings have increased. We now expect fiscal 2016 revenue of **\$650 to \$655** million, Net Income of **\$38** million to **\$41** million, or roughly **6%** of revenue, EPS of between **\$1.36** and **\$1.44**, and Adjusted EBITDA of **\$88 to \$92** million, or roughly **14%** of revenue.

These expectations reflect our confidence that 2016 growth in U.S. consumer revenue of more than **25%** will drive total consumer revenue growth of approximately **15%** for the full year.

We are very excited about our results year-to-date and the outlook for the fourth quarter. Our successful marketing programs continue to drive demand generation in the U.S. and overseas. To further capitalize on the momentum our marketing programs have created and to better position ourselves for our growth in 2017 and 2018, we are reinvesting a portion of the 2016 incremental profitability, while increasing our EPS and Adjusted EBITDA expectations. We are extremely pleased to provide full-year expectations for EPS and Adjusted EBITDA well above those we provided in February.

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**During Q3:**

- We delivered year-over-year consumer quarterly revenue growth of **23%** driven by APAC following a very successful launch of Braava jet in that region;
- Domestic revenue grew **13%** over Q3 last year and orders-in-hand plus anticipated Q4 orders support our expectation of substantial fourth quarter growth; and,
- We introduced the Roomba 960 and connectivity for Braava jet expanding our suite of connected products for the home.

In Q3, for the fourth consecutive quarter, revenue in Japan increased year-over-year, due to the use of iRobot created marketing programs initially implemented late last year in that market and the launch of Braava jet during the quarter. Our latest product was so well-received by Japanese consumers that our distributor sold out of product. At the end of Q3, after only **2** months in market, Braava jet is currently the number one selling SKU in Japan.

As in Japan, there was significant enthusiasm for Braava jet in China. We have previously said that our wet floor care products are tailor made for the Asian market and our experience with the launch of Braava jet confirms that. In fact, our new partner in China requested Q3 delivery of some Braava jet and Roomba orders that we were expecting to ship in Q4. China sell through was up **70%** in the third quarter over last year and quarterly revenue more than doubled as we completed the first quarter under our new distribution model in that market.

Revenue in EMEA was up roughly **5%**, year-over-year in Q3 2016 as anticipated. We continue to expect full-year growth of mid-single digits over 2015 in EMEA.

International consumer revenue increased **30%** in the third quarter from last year, due to the timing of orders to China as I mentioned.

In the U.S., revenue growth was driven by strong sales of Roomba 900, including the newly launched 960, and Roomba 800, partially driven by Costco transitioning from the 600 to the 800 series. Following the successful introduction of Braava jet in Q1, we also saw an increase in demand for Braava, our larger format floor mopping robot. The launch served to increase awareness of the category and drive demand for both products.

Perhaps the most important events of the quarter were the launch of Roomba 960 and the iRobot HOME App support for Braava jet. Our second 900 Series Roomba extends

mapping, visual navigation and cloud connectivity to a wider range of consumers. The iRobot HOME App helps users get the most out of their experience by allowing them increased usability, customizable cleaning settings and over-the-air software updates.

These were significant milestones as we are now able to offer more robots with mapping capabilities and cloud connectivity at more accessible price points. iRobot will continue to build upon its connected robot technologies moving forward, allowing for an enhanced customer experience and for our products to play a larger role within the smart home.

Our relentless pursuit of product leadership, through targeted investment in key technologies and capabilities, coupled with our investments in furthering our global brand and targeted marketing initiatives, allows us to continue to maintain our significant market-leading position despite increasing competition.

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In summary, we continued to execute successfully against our plan, delivering outstanding third quarter performance. Those results, coupled with continuing global momentum enable us to increase our revenue and profit expectations for the full year while continuing to make disciplined incremental investments.

- In the third quarter, we continued to see the positive impact of our targeted marketing programs as consumer revenue grew more than **20%** year-over-year;
- We began to capitalize on the large and growing ecommerce opportunity in China, following our distributor transition, by delivering **70%** year-over-year sell through in that market; and,
- With the launch of Roomba 960 and Braava jet connectivity, we took another strategically important step towards driving our installed base of mapping, connected robots and thereby positioning ourselves as an emerging player within the smart home.

I will now turn the call over to Alison to review our third quarter results in more detail.

**Alison**

We delivered third quarter results well ahead of our expectations, due to timing of orders and operating expenses. As we have consistently said, predicting the exact Q3/Q4 timing of orders for the holiday season is very difficult and this year we saw orders pulled in by our new China distributor in the third quarter.

Consumer revenue of **\$168** million increased **23%** over Q3 last year. Third quarter 2016 revenue includes negligible return reserve adjustments compared with **\$1.3** million in 2015.

As a reminder, total company revenue of **\$144** million for the third quarter 2015 included **\$6** million of D&S revenue compared with zero in Q3 2016, following the divestiture of that business earlier this year at the end of Q1. Net Income was **\$19.5** million in Q3 vs **\$12.8** million in 2015. EPS was **\$0.70** for the third quarter compared with **\$0.42** for the same period last year, and Q3 2016 Adjusted EBITDA was **\$36** million compared with **\$26** million in Q3 last year.

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As Colin discussed, international revenue grew **30%** in Q3 over last year as we received orders from our new Chinese distributor in Q3 that we were expecting in Q4. Domestic revenue growth in the third quarter of **13%** was driven primarily by strong demand for our high-end Roombas. With this, we now expect full-year revenue growth in the U.S. to exceed **25%**, up from our previous expectation of **20%**. APAC and EMEA are expected to grow in the mid-to-high single digits over 2015.

Gross margin was **48.1%** for the third quarter 2016, down slightly from the same quarter last year. This decline was driven by the lower return reserve adjustments mentioned above, along with additional warranty and other product costs versus last year.

Q3 operating expenses were **32%** of revenue, down from **36%** in Q3 last year. This year-over-year reduction was driven by Defense and Security and Remote Presence expenses incurred last year that were not incurred in Q3 this year, slightly offset by increases in

consumer-related operating expenses, primarily R&D and to a lesser extent G&A driven by headcount additions and related costs

We ended the quarter with **\$203** million in cash and investments. We completed the **\$85** million Accelerated Stock Repurchase program we announced in April, repurchasing approximately **2.3** million shares. During 2016 we have returned **\$97** million of cash to shareholders, while investing to grow the business to create shareholder value.

Total company DII of **64** days was consistent with our typical Q3 level. We anticipate lower inventory levels at the end of Q4 following shipment of product to U.S. retailers for the holiday season.

Now I'd like to provide you with additional detail for our Q4 financial expectations. Keep in mind that these expectations and growth rates are based only on our consumer business. As a reminder, we provided a table in our Q1 2016 press release showing a view of our former D&S business by quarter and for the full year 2015 for comparative analysis.

We expect fourth quarter consumer revenue of **\$202** to **\$207** million, an increase of **15%** to **18%** over Q4 last year driven by sales in the U.S. In Q4, total company revenue is expected to be relatively flat, year-over-year, as we reported **\$31** million of D&S revenue in Q4 2015.

For the fourth quarter, Net Income is expected to be **\$10** million to **\$13** million, or roughly **5%** to **7%** of revenue, EPS is anticipated to be between **\$0.36** to **\$0.44**, and Adjusted EBITDA of between **\$22** and **\$26** million, or **12-13%** of revenue. For the full year we expect operating expenses to total roughly **40%** of revenues. With our increased expectations for full-year revenue, and our expectation for full-year gross margin at the high end of our **47- 48%** range, we plan to invest a portion of the incremental profitability to capitalize on the strong momentum we are seeing driving our business strategy, while



returning additional profit to shareholders, and setting a strong foundation for 2017 and 2018.

As a reminder, the full-year impact of the D&S divestiture on net income, EPS and EBITDA is expected to be negative **(\$3 million)**, **(\$0.10)** and **(\$2.7 million)**, respectively. In addition, our full year revenue guidance includes only the **\$3 million** of D&S revenue we recognized in Q1.

I'll now turn the call back to Colin.

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**Colin**

We are coming into the home stretch of 2016 more excited about our opportunities than at any other time this year. We have faced increasing competition and continue to maintain our position as the world's leading consumer robotics technology company. Our investments have enabled us to drive further adoption of Roomba, expand the wet floor care category and put a meaningful stake down in the China market as well as to begin to lay the foundation for our connected products strategy. We have excellent momentum going into the holiday season and confidence in meeting our increased full-year financial expectations.

With that we'll take your questions.

**Following Q&A****Colin**

That concludes our third quarter 2016 earnings call. We appreciate your support and look forward to talking with you again in February to discuss our Q4 and full-year results.

**Operator** Participants may now disconnect.