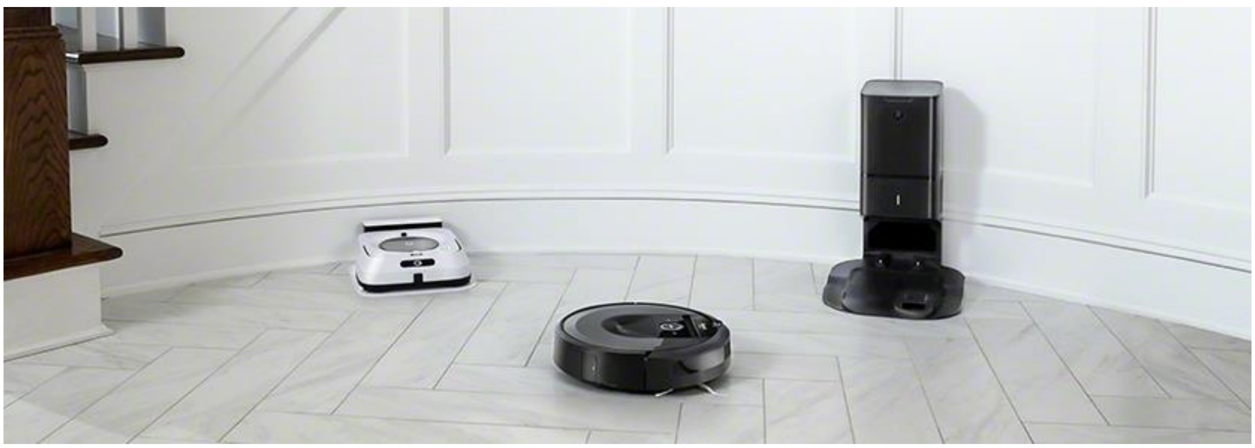
iRobot Q120 Financial Results Conference Call Prepared Remarks



April 29, 2020

iRobot First-Quarter 2020 Financial Results Conference Call

Operator:

Good day everyone and welcome to the iRobot first-quarter 2020 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 Andrew Kramer of iRobot Investor Relations. Please go ahead.

Andrew:

Thank you operator, and good morning everybody. Joining me on today's are iRobot Chairman & CEO Colin Angle; Executive Vice President and CFO Alison Dean; and Julie Zeiler, Vice President of Finance, who has been named to succeed Alison as CFO later this spring.

Before I set the agenda for today's call, 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; expectations regarding market conditions; the expected impact of the adjustments to our 2020 plans; the three strategic pillars of our business plan; the impact of COVID-19 on our business; the effect of the uncertain economic environment on consumer behavior; expected revenue impact of supply chain challenges; plans relating to cost reduction initiatives, including relating to employees and hiring plans, and the expected financial impact thereof; our expectations regarding profitability; product launch pans and the timing thereof; expectations regarding e-commerce growth as a percentage of revenue; our expectations regarding revenue, non-GAAP gross margins, non-GAAP operating loss, non-GAAP operating expenses, non-GAAP operating margin, sales & marketing expenses, research and development expenses, general and administrative expenses, restructuring charges, capital spending, inventory, DII, DSO, other income, non-GAAP tax rate, , cash and cash flow; our expectations regarding the impact, amount and timing of the refund of tariffs on goods imported into the United States from China as a result of the recently-granted tariff exclusion; expectations regarding accessing our credit facility and the length of any borrowings; expectations regarding order levels during 2020; new digital capabilities and product features; progress with smart home partnerships; our efforts to scale our direct-to-consumer sales and the expected impact thereof; our intent to diversify our supply chain and manufacturing capabilities, and the timing of our manufacturing diversification efforts and impacts of COVID-19 thereon; our market 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.

Related to our financial disclosures, as a reminder, we transitioned last quarter to focus on our non-GAAP financial performance and outlook, which we believe helps provide additional transparency into iRobot's underlying operating performance and potential. Accordingly, during this conference call, we will review and discuss non-GAAP financial measures as defined by SEC Regulation G, including non-GAAP gross profit and non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income (loss) and non-GAAP operating income (loss) margin, non-GAAP income tax expense (benefit), and non-GAAP earnings (loss) per share. Our definitions of these non-GAAP financial measures, and reconciliations of each of these non-GAAP financial measures to the most directly comparable GAAP measure along with a reconciliation between our non-GAAP and GAAP guidance, are provided in the financial tables at the end of the first-quarter

2020 results press release that we issued last evening, which is available on our website: https://investor.irobot.com/news-releases and at the end of these prepared remarks.

As a reminder, 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 the telephone conference call will be available for one week through May 6, and can be accessed by dialing 404-537-3406, passcode 4191017.

In terms of the agenda for today's call, Colin will briefly review the company's first-quarter results, discuss current market conditions, and outline our plans to navigate our business through these unprecedented times. Alison will detail our financial results for the first quarter, and share additional insights about our plans going forward. Colin will wrap up our prepared remarks with some final observations. 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.

The past two months since COVID-19 began its global spread have been marked by unprecedented change. The measures taken by governments at all levels around the world to save lives from this pandemic are far reaching and have altered how we work, communicate and socialize. For iRobot, the health and safety of our global workforce is our top priority and we have continued to take actions that will support this. The pandemic has injected significant operational challenges into our business, and I've been awed by the collective tenacity and commitment of our teams to move our company forward while proactively donating time, resources and technology to support our healthcare workers on the front lines. Although clear challenges lie ahead, we received very important and positive news last week when our tariff exclusion was granted, and we'll provide more information about this later on the call.

Q120 Results
In terms of our Q1 performance, we issued an announcement in late March that provided initial details on the impact of COVID-19 on our business including our view that we would fall short of our original Q1 revenue expectations and that we had withdrawn full-year guidance. First-quarter revenue of $193 million declined 19% from the prior year. Our Q1 operating loss of $14.4 million was aided by better-than-expected gross margins, combined with lower-than-anticipated spending. We reported a net loss per share of 32 cents.

For some context into our Q1 top-line performance, through the first two months of the year, our quarterly revenue was trending toward the low end of our original targets that ranged from $210 to $220 million. Although sell-through started the year sluggishly in the U.S. and Japan, we were pleased to see our U.S. sell-through accelerate in February. However, the disruption from COVID-19 affected our sales and supply chain activities in March. The largest factor associated with the shortfall was our inability to completely fulfill first-quarter demand for our i7+ and s9+ products due to design-driven engineering and supply chain challenges that were unexpectedly complicated by the impact of COVID-19 on our organization, our contract manufacturers and some suppliers. Our revenue was also affected by suboptimal Q1 manufacturing volumes in China as our contract manufacturers did not ramp back up to full capacity until late March as well as some order reductions, delays and cancelations for our products by retailers. Overall, revenue declined by 28% in the U.S., 11% in EMEA and 14% in Japan.

Market Conditions

As the pandemic forces large populations to remain in their homes, cleaning products are increasingly top of mind with consumers, which is a potentially very favorable trend. However, an uncertain economic environment is likely to weigh heavily on when, where and whether consumers will buy a new Roomba or Braava robot. In addition, retailers are facing major challenges as they strive to carefully manage inventory and prioritize demand for essential products while reducing operating hours, limiting foot traffic and temporarily closing stores. Although market conditions are expected to improve over the coming quarters, the timing and velocity of an economic recovery remains uncertain, which further impairs our visibility into order activity over the coming quarters. At the same time, COVID-19 has created pragmatic operational challenges that impact every part of our business and we are marshalling our resources to address them.

Strategy Update

Against this backdrop, we have reassessed our 2020 plans and are adjusting them in ways that we believe will enable us to emerge from this downturn as a stronger company better positioned to fortify category leadership and deliver sustained, profitable growth. To do this, we are focused on further differentiating our offerings, building enduring relationships directly with our customers and nurturing the value of those relationships. I'd like to expand a bit on each of these areas, which form the strategic pillars for moving our business forward.

- The first strategic pillar involves differentiating Roomba by providing consumers with an exceptional experience in which the combination of cleaning performance and high-value digital features enables Roomba to better adapt to and support our customers' lifestyles. In addition to enhancing the cleaning efficacy of our robots and then cost-optimizing and cascading those innovations across our platforms, we are elevating the cleaning experience through digital capabilities that enable users to customize how, when and where our robots clean. As we deliver on our product and digital roadmaps over the coming quarters, we expect to bring new capabilities to the marketplace that will delight consumers and build our position as a trusted, reliable cleaning partner.

- The second pillar of our strategy involves building an enduring relationship with the consumer. We ended 2019 with an engaged user community of over 4 million owners who've opted-in to our digital communications through email and our app. That grew by 18% sequentially to over 5.1 million users at the end of Q1. As we move forward, our ability to use the combination of our advanced navigation and mapping, innovative digital features, home understanding and smart home integrations is enabling us to deeply embed Roomba into the user's life. And as that happens, it further solidifies our relationship with the customer.

- With increased loyalty comes increased opportunity and that's where the third pillar in our strategy comes into play – nurturing the lifetime value of our customers. Every year, we sell millions of robots to both new and existing customers, which will enable us to continue expanding our base of over 5 million connected customers. We see exciting potential for us to make a broader range of products and services available to our user community and generate highly profitable, recurring revenue streams in the process.

Cost-Reduction Initiatives

To help accelerate our progress in these areas, we have also made difficult but necessary decisions to implement a series of cost-reduction actions that are intended to realign and reprioritize our resources. To accomplish this, we have adjusted the size and complexion of our workforce through targeted headcount reductions of approximately 5% of our workforce, select furloughs and changes to our 2020 hiring plans while also paring back spending in other areas. We expect that these cost-savings actions will reduce 2020 spending by approximately $30 million. Alison will provide additional details on this in a few moments.

The actions taken around our workforce allow us to further shift R&D engineering talent from hardware to software while enabling us to accelerate certain strategic initiatives, including those focused on enabling a robust online buying experience and deeper direct customer relationships. In conjunction with these cost-savings plans, we have suspended our go-to-market plans associated with our Terra robot mower. Although we believe there is substantial long-term opportunity in the robot lawncare market, our decision to take our foot off the gas for Terra was based largely on the likelihood of significant delays to our 2020 commercial plans for Terra caused by COVID-19 combined with the overall intensity of ongoing technology investment that would be required over the coming quarters to continue advancing the product. It is simply the wrong time to launch this product. All other product development and digital roadmaps are funded and on track, including plans to launch a new Roomba model later this year.

In addition to those actions, we are working diligently to drive gross margin improvement. We achieved an important milestone on this front when our request for an exclusion from Section 301 List 3 tariffs was granted last week. Not only does this exclusion temporarily eliminate the 25% tariff that was placed on Roomba going forward, but it also entitles us to a refund on all of the Section 301 tariffs that we've paid on Roomba imports since they went into effect. Even with tariff exclusion in our favor, we are actively advancing plans to drive greater efficiency and flexibility across our manufacturing supply chain by expanding our manufacturing in Malaysia, although COVID-19 has slowed our progress.

2020 Insights

We are excited about each element of our strategy to drive our business forward. And while we are enthusiastic about our strategic direction, the uncertainty associated with COVID-19, including its duration and macroeconomic impact, has impaired our visibility into the timing and magnitude of orders. As a result, we are not yet able to share updated full-year financial targets. Nevertheless, we would like to share our perspective on the dynamics that are currently shaping our business.

Given the substantial near-term challenges facing our retail partners and consumers, we currently anticipate soft second-quarter revenue modestly below Q1 levels, which would represent the low point for quarterly revenue in 2020. This would drive a sizeable second-quarter loss from operations. Nevertheless, we remain optimistic that the trajectory of our revenue will show meaningful improvement in the second half of the year.

Our sales, finance and operations teams have worked hard to understand how the potential resumption of economic activity in different parts of the world can positively impact demand levels. Although near-term revenue has been impacted, there are some bright points as evidenced in the following sell-through trends:

- Through week 16, our year-to-date sell-through growth on a unit basis has remained positive in both the U.S. and EMEA;
- We're particularly pleased with the i7, s9 and m6 unit growth in all major geographic regions over the past several weeks. Our investments to deliver differentiated performance in our higher-end Roomba and Braava models are working as our product mix shifts up;
- We've seen robust unit growth on iRobot.com in recent weeks, building on the strong revenue growth we delivered on our website last year and complementing strong unit growth at pure-play e-commerce platforms; and

- We've fared modestly better than we anticipated with U.S. retailers with extensive brick and mortar footprints in part because many of our largest retailers have kept their stores open and are also offering a strong digital buying experience.

And while all of the various scenarios that we've modeled currently anticipate that 2020 revenue will decline from 2019, the bright spots I just reviewed are combining to create a situation where we can move into the second half of the year with low channel inventory and the highest demand for our premium product offerings. This helps underpin our potential for substantially stronger second-half revenue versus the first half. A better top-line, aided by our cost-reduction activities and an extension of our tariff exclusion, would help us return to operating profitability in the second half of the year. Given these dynamics, we believe we can exit this year well positioned to fortify our category leadership, build on our momentum to generate sustainable and profitable top-line growth, and drive long-term value creation for our stakeholders.

At this point, I'll turn the call over to Alison and return after her remarks to offer some additional closing thoughts. Alison …

Alison:

Thank you Colin. As Andy mentioned earlier, my review of our first-quarter financial results will be done on a non-GAAP basis and all comparisons will be against the first quarter of 2019 unless otherwise noted. My comments about our outlook will also reference certain non-GAAP metrics including gross margin, operating expenses, operating loss and profit, and effective tax rate.

As Colin noted, our first-quarter financial performance was affected both directly and indirectly by the challenges associated with COVID-19. Quarterly revenue decreased 19% to $193 million. Geographically, revenue declined by 28% in the U.S., 11% in EMEA and 14% in Japan. Roomba represented approximately 88% of our mix with Braava making up the remainder. Within the Roomba mix, we've continued to generate most of our quarterly revenue from robots where price points are $500 and up.

Gross margin of 41% fared slightly better than anticipated primarily due to favorable product mix. Tariff costs of $7 million had a 3% impact to our Q2 gross margin. Gross margins declined 10.9 percentage points from last year due primarily to lower pricing and higher promotional expenses, and, to a lesser extent, higher tariff costs.

Q1 operating expenses of $93 million increased by 4% and represented 48% of revenue. As the COVID-19 situation evolved during the final month of the quarter, we increased our bad debt reserve by over $4 million to reflect the financial challenges facing retailers. However, the combination of better-than-anticipated gross margins, adjustments in short-term incentive compensation, delayed implementation of certain marketing activities and shifts in the timing of certain R&D programs helped soften the impact of lower-than-expected revenue and the booking of these reserves. Our Q1 operating loss was $14.4 million, which was at the low end of our original targets.

Our Q1 2020 effective tax rate was 37%, which was significantly higher than we expected due primarily to the expected reduction in full-year profitability and the impact of our R&D tax credit. Our net loss per share was $0.32 for the quarter.

Last year, our Board authorized a $200 million stock repurchase program. During the first quarter, we repurchased approximately 664 thousand shares of common stock at an average price of $37.65 per share for a total of approximately $25 million. We do not intend to repurchase more shares under the program in 2020 at this time.

We ended Q1 with $264 million in cash and investments, an increase of approximately $8 million since the end of 2019. We generated healthy cash flow from operations of $41 million, which more than offset the $25 million for share repurchases and capital spending of $7 million. Q1 DSOs were very healthy at 18 days. Q1 ending inventory was $147 million, or 118 days, compared with $181 million, or 144 days, at the same time last year.

Outlook

As we've articulated, we are currently navigating a very fluid marketplace and assumptions about consumer confidence and the speed at which the global economy and various regional economies recover continue to evolve. Those assumptions continue to be informed by our ongoing dialogue with retailers worldwide. We withdrew our expectations for 2020 in late March and we are not yet in a position to provide the same level of detailed, quantitative guidance that we have historically provided as our visibility remains limited. We would, however, like to share our insight into the coming quarters.

Q2 2020

In terms of the second quarter, our revenue will be heavily influenced by the steps that our retailers continue to take to manage their businesses during this pandemic. At present, we believe Q2 revenue will decline modestly from Q1 and presumably will be the quarterly low point upon which we will drive improvement in the second half of the year.

The tariff exclusion we just received will help mitigate gross margin pressure resulting from the combination of lower revenue, lower pricing and increased promotional actions associated with Mother's Day, costs associated with finishing our design change on the Clean Base units for our i7+ and s9+ robots, and tooling and other asset write-down costs associated with Terra.

We currently expect a Q2 operating loss that would reflect the combination of relatively soft anticipated revenue and operating costs that are expected to nominally increase over Q2 2019 levels. In terms of other Q2 modeling assumptions, we anticipate negligible other income and just under 28 million shares outstanding. Our tax rate for Q2 and the full year could fluctuate significantly in large part because even small shifts in the jurisdictional mix of profits and anticipated pre-tax income levels can drive meaningful changes to our tax rate.

FY20

For the full year, we have limited visibility into second-half demand. Colin previously offered his insight on the second half of the year and I'd like to detail some of the factors that could contribute to that.

Gross Margin

We are thrilled with our recent tariff exclusion, which was granted on a temporary basis consistent with all other tariff exclusions for Lists 1, 2 and 3. Like all other List 3 exclusions, our exclusion will expire in early August unless the exclusion is extended. We track all Section 301 tariff developments diligently and have observed that many of the companies who received exclusions from List 1 tariffs were able to successfully extend their exclusions for up to another year. We assume that there will be a similar process for List 3 and if so, we'll seek an extension in due course.

In terms of our 2020 gross margin profile, extending the tariff exclusion through all of 2020 will drive meaningful improvement over the coming quarters versus our prior plans. We expect that our Q2 gross profit will benefit from $6.6 million for tariffs paid in Q1 2020 plus the elimination of tariffs for the quarter itself. Our second-quarter GAAP gross margins, however, will reflect the benefit of the full $47 million in tariffs paid since 2018 that we expect will be refunded.

Operating Costs

In terms of our operating costs, we have completed a set of cost-reduction actions that include a reduction in force of approximately 5%, furloughs and scaling back on our hiring plans. In addition, we are reducing short-term incentive compensation, curtailing working media spend to better align it with lower revenue expectations and factoring in significantly reduced travel expenditures.

These actions are expected to generate approximately $30 million in net savings over the next three quarters of 2020. As a result, we anticipate that 2020 operating costs will be generally unchanged from 2019 levels with slightly lower sales and marketing costs offset by slightly higher general and administrative expenses. With that said, certain costs are subject to change based on revenue and overall market conditions. Just as important, many of these measures are structural in nature rather than one-time actions, which will help us move into 2021 better positioned to deliver meaningful improvement in our operating profitability. In conjunction with these actions, iRobot expects to record a restructuring charge of approximately $2 million in the second quarter primarily for severance costs associated with the workforce reduction. Restructuring charges are among the items excluded from our non-GAAP costs.

With $264 million in cash and investments at the end of Q1, no debt and access to a $150 million credit facility, we believe we have the requisite financial strength to navigate through these challenging times. Our cash position will be further fortified by the anticipated refund of approximately $57 million in tariff expense, of which $47 million is reflected in our prior period P&Ls and $10 million is for products currently in inventory. We expect to receive these proceeds within the next 12 months, which is subject to the timing of releases from U.S. Customs and is likely to be distributed in multiple payments over the coming months.

In terms of anticipated cash flow activity, we historically experience cash outflows during the second and third quarters, and our cash burn will likely be exacerbated over the next two quarters given our anticipated near-term fundamentals and the need to build inventory in advance of the holiday sales season. While this is likely to require tapping into our revolving line of credit, we expect that any borrowing will be short-term in nature as order levels recover during the second half of the year.

As we work closely with our retailers globally to understand and support their needs, DSOs may increase above historical levels over the coming quarters. At the same time, our operations teams are focused on aggressively managing our own inventory levels to ensure optimal flexibility to accommodate demand over the coming months. Despite limited visibility, our best view is that DII will follow historical trends with a peak in Q3 before returning to more normalized levels.

In summary, 2020 has ushered in unprecedented challenges and iRobot remains committed to taking the necessary actions that we believe will enable the company to navigate through the headwinds that will persist over the coming months. We are optimistic that we can deliver a stronger performance in the second half of this year and exit the year well positioned to drive long-term value creation for all stakeholders.

I'll now turn the call back to Colin for his summary.

Colin:

CFO Transition

Thanks Alison. Before I offer my closing thoughts, I'd be remiss if I didn't point out that this is Alison's final investor call with iRobot. Alison's contributions to iRobot's success over the years have been extensive and her focus and commitment to help move our business forward has never wavered, even as her tenure nears its end. Alison and our incoming CFO Julie Zeiler have worked closely over the past several months to ensure a seamless transition. Julie's outstanding work in leading our recent planning activities further reinforces our view that she will make a great successor to Alison as iRobot's next financial leader.

Closing Thoughts

As iRobot moves forward, we remain excited about the long-term potential of our business. The investments we are making to deliver a differentiated cleaning experience are intended to put further distance between our robots and the competition, especially in the core and premium segments of the market. Over the coming quarters, you'll see this manifest in new digital capabilities, continued progress with our smart home partnerships, a redesigned home app and other exciting advances that will enable our robots to build more personalized, trusted partnerships with their owners.

At the same time, we are seeing that the steps taken to protect public health from COVID-19 are accelerating shifts in consumer buying that are well aligned with the other elements of our strategy. To that end, we are moving aggressively to scale our direct-to-consumer sales channel by enhancing our digital marketing capabilities, evolving our order management platform, driving greater efficiency in our fulfillment processes and ensuring that our financial systems keep pace. Those investments will also enable us to create new high-margin, recurring revenue streams as we provide customers with new options for purchasing our products and accessories such as subscriptions and leasing programs.

Finally, we move forward having made important progress over the past several quarters to expand our leadership team by adding talented executives and promoting leaders into new roles. I'd like to close by offering my sincere thanks to my colleagues around the world for their outstanding efforts and sacrifices over the past several months. I am confident that they will continue to rise to the challenges ahead.

That concludes our comments. Operator, we will take questions now.

iRobot Corporation
Explanation of Non-GAAP Measures

In addition to disclosing financial results in accordance with U.S. GAAP, this earnings release contains references to the non-GAAP financial measures described below. We use non-GAAP measures to internally evaluate and analyze financial results. We believe these non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable comparison of financial results between periods where certain items may vary independent of business performance, and enable comparison of our financial results with other public companies, many of which present similar non-GAAP financial measures.

Our non-GAAP financial measures reflect adjustments based on the following items. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results should be carefully evaluated.

Amortization of acquired intangible assets: Amortization of acquired intangible assets consists of amortization of intangible assets including completed technology, customer relationships, and reacquired distribution rights acquired in connection with business combinations. Amortization charges for our acquisition-related intangible assets are inconsistent in size and are significantly impacted by the timing and valuation of our acquisitions. We exclude these charges from our non-GAAP measures to facilitate an evaluation of our current operating performance and comparisons to our past operating performance.

Net Merger, Acquisition and Divestiture (Income) Expense: Net merger, acquisition and divestiture (income) expense primarily consists of transaction fees, professional fees, and transition and integration costs directly associated with mergers, acquisitions and divestitures. It also includes business combination adjustments including adjustments after the measurement period has ended. The occurrence and amount of these costs will vary depending on the timing and size of these transactions. We exclude these charges from our non-GAAP measures to facilitate an evaluation of our current operating performance and comparisons to our past operating performance.

Stock-Based Compensation: Stock-based compensation is a non-cash charge relating to stock-based awards. We exclude this expense as it is a non-cash expense, and we assess our internal operations excluding this expense and believe it facilitates comparisons to the performance of other companies.

IP Litigation Expense, Net: IP litigation expense, net relates to legal costs incurred to litigate patent, trademark, copyright and false advertising infringements, or to oppose or defend against interparty actions related to intellectual property. Any settlement payment or proceeds resulting from these infringements are included or netted against the costs. We exclude these costs from our non-GAAP measures as we do not believe these costs have a direct correlation to the operations of our business and may vary in size depending on the timing and results of such litigations and settlements.

Gain/Loss on Strategic Investments: Gain/loss on strategic investments includes fair value adjustments, realized gains and losses on the sales of these investments and losses on the impairment of these investments. We exclude these items from our non-GAAP measures because we do not believe they correlate to the performance of our core business and may vary in size based on market conditions and events. We believe that the exclusion of these gains or losses provides investors with a supplemental view of our operational performance.

Income tax adjustments: Income tax adjustments include the tax effect of the non-GAAP adjustments, calculated using the appropriate statutory tax rate for each adjustment. We reassess the need for any valuation allowance recorded based on the non-GAAP profitability and have eliminated the effect of the valuation allowance recorded in the U.S. jurisdiction. We also exclude certain tax items that are not reflective of income tax expense incurred as a result of current period earnings. These certain tax items include, among other non-recurring tax items, impacts from the Tax Cuts and Jobs Act of 2017 and stock-based compensation windfalls/shortfalls. We believe disclosure of the income tax provision before the effect of such tax items is important to permit investors' consistent earnings comparison between periods.

iRobot Corporation
Supplemental Reconciliation of GAAP Actuals to Non-GAAP Actuals
(in thousands, except per share amounts)
(unaudited)

	For the three months ended	
	March 28, 2020	March 30, 2019
GAAP Revenue	$ 192,535	$ 237,661
GAAP Gross Profit	$ 77,955	$ 119,546
Amortization of acquired intangible assets	285	3,077
Stock-based compensation	527	378
Non-GAAP Gross Profit	$ 78,767	$ 123,001
Non-GAAP Gross Profit Margin	40.9 %	51.8 %
GAAP Operating Expenses	$ 98,180	$ 97,283
Amortization of acquired intangible assets	(254)	(271)
Stock-based compensation	(4,664)	(6,486)
Net merger, acquisition and divestiture (income) expense	500	(152)
IP litigation expense, net	(615)	(469)
Non-GAAP Operating Expenses	$ 93,147	$ 89,905
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	48.4 %	37.8 %
GAAP Operating (Loss) Income	$ (20,225)	$ 22,263
Amortization of acquired intangible assets	539	3,348
Stock-based compensation	5,191	6,864
Net merger, acquisition and divestiture (income) expense	(500)	152
IP litigation expense, net	615	469
Non-GAAP Operating (Loss) Income	$ (14,380)	$ 33,096
Non-GAAP Operating Margin	(7.5)%	13.9 %
GAAP Income Tax (Benefit) Expense	$ (2,109)	$ 1,023
Tax effect of non-GAAP adjustments	(1,831)	1,824
Other tax adjustments	(1,384)	4,067
Non-GAAP Income Tax (Benefit) Expense	$ (5,324)	$ 6,914
GAAP Net (Loss) Income	$ (18,135)	$ 22,520
Amortization of acquired intangible assets	539	3,348
Stock-based compensation	5,191	6,864
Net merger, acquisition and divestiture (income) expense	(500)	152
IP litigation expense, net	615	469
(Gain) loss on strategic investments	(87)	57
Income tax effect	3,215	(5,891)
Non-GAAP Net (Loss) Income	$ (9,162)	$ 27,519
GAAP Net (Loss) Income Per Diluted Share	$ (0.64)	$ 0.78
Amortization of acquired intangible assets	0.02	0.12
Stock-based compensation	0.19	0.24
Net merger, acquisition and divestiture (income) expense	(0.02)	-
IP litigation expense, net	0.02	0.02
(Gain) loss on strategic investments	-	-
Income tax effect	0.11	(0.20)
Non-GAAP Net (Loss) Income Per Diluted Share	$ (0.32)	$ 0.96
Number of shares used in diluted per share calculation	28,297	28,763
Section 301 Tariff Costs		
Section 301 tariff costs	$ 6,609	$ 3,518
Impact of Section 301 tariff costs to gross and operating margin (GAAP & non-GAAP)	(3.4)%	(1.5)%
Impact of Section 301 tariff costs to net (loss) income per diluted share (GAAP & non-GAAP)	$ (0.23)	$ (0.12)
Supplemental Information		
Days sales outstanding	18	21
Days in inventory	118	144