iRobot Q221 Financial Results Conference Call Prepared Remarks

July 29, 2021

iRobot Second-Quarter 2021 Financial Results Conference Call

Operator:

Good day everyone and welcome to the iRobot second-quarter 2021 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 call are iRobot Chairman & CEO Colin Angle and Executive Vice President and CFO Julie Zeiler.

Before I set the agenda for today's call, I will 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 expressed or implied forward-looking statements relating to the company's financial results, operations and performance, including; expectations regarding market conditions; the introduction of new products or new capabilities and features to our products; our expectations regarding profitability; our expectations regarding revenue, non-GAAP EPS, non-GAAP gross margin, non-GAAP operating income and margin, non-GAAP operating expenses, sales & marketing expenses, inventory, non-GAAP tax rate, other expenses, capital expenditures, diluted share count and cash flow; expectations regarding the growth of our direct-to-consumer channel; tariff costs; our expectations regarding expected relief from tariffs on goods imported into the United States from China and expected impact thereof, the impact of supply chain limitations due to the global semiconductor chip shortage, and our efforts to expand access to semiconductor componentry; our efforts to preserve supply chain resiliency and potential impacts thereof; our expectations regarding costs for raw materials, air and ocean freight and transportation; the impact of our investments; our manufacturing, fulfillment and supply chain diversification and efficiency efforts and the impact of the costs thereof; our plans regarding stock repurchases; our plans to minimize the impact of higher costs; our strategy and the impact thereof; 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 during this conference call, we will reference certain non-GAAP financial measures as defined by SEC Regulation G, including non-GAAP gross margin, non-GAAP operating expense, non-GAAP operating income, profit and margin, non-GAAP effective tax rate, and non-GAAP net income per share. We believe that our non-GAAP financial results help provide additional transparency into iRobot's underlying operating performance and potential. 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, are provided at the end of these prepared remarks and in the financial tables at the end of the second-quarter 2021 financial results press release we issued last evening, which is available on our website at www.irobot.com. Also, unless stated otherwise, our second-quarter 2021 financial metrics, as well as financial metrics provided in our outlook, that will be discussed on today's conference call will be on a non-GAAP basis only and all historical comparisons are with the second quarter of 2020.

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, replay of the telephone conference call will be available through August 5, and can be accessed by dialing 404-537-3406, passcode 1444896.

For today's call, our agenda will be as follows. Colin will briefly cover the company's quarterly financial results and then share his perspective on the primary issues shaping our revised outlook for 2021. Julie will review our second-quarter financial results, and offer additional insight into our expectations going forward. Colin will conclude our commentary with some closing remarks. After that, 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. We delivered solid second-quarter results that were generally in line with the targets that we outlined for you in early May as we navigated an increasingly challenging supply chain environment. We generated second-quarter revenue of $366 million, an increase of 31% over the prior year. Our revenue growth was primarily driven by healthy demand from retailers in North America and from our retail and distribution partners in EMEA. We were pleased with this performance considering a COVID-related disruption to shipping activities in Southern China left us unable to fulfill $17 million in orders at the end of the quarter. We converted our top-line performance into operating income of $9 million, an operating profit margin of 2%, and EPS of $0.27.

Our first-half performance tells a very positive story particularly as it relates to strong consumer demand for our products as well as increased customer engagement.

- Roomba robots occupied 8 of the top 10 best-selling RVC models in the U.S., 6 of the top 10 in EMEA and 9 of the top 10 in Japan.
- For the seventh straight year, we participated in Amazon's Prime Day event. Once again, Amazon cited Roomba as one of its best-selling items.
- We generated solid 42% growth from the mid and premium tiers of our portfolio, which we believe demonstrates the appeal of our floor-cleaning robots that provide their owners with personalized control over when, where and how the robot cleans. We also continued to expand our direct-to-consumer sales as reopening activities in the U.S. and rising online advertising costs moderated this growth.
- Overall, we saw solid growth in the number of robots shipped and ASP in our second quarter versus the same period last year.
- We finished Q2 with over 11.6 million connected customers, an increase of 67% from the same period last year.
- Customers are increasingly using our newest features like directed room cleaning. They are also increasingly using our AI-powered recommendations to

clean by objects and adopting our new clean-while-I'm-away capability using the geolocation services on their smartphones.

As we moved through the second quarter, our commercial teams, retailers and distributor partners were increasingly bullish about the second half of the year especially given our plans to introduce two new Roomba robots and deliver another major upgrade to our Genius Home Intelligence Platform. Our new e-commerce and martech systems will soon start moving into production, giving us the capabilities to expand existing customer revenue effectively and efficiently. Even after raising our top-line outlook in early May, we saw opportunity to exceed those targets.

Unfortunately, the reality of the current supply chain environment is forcing us to tell a different story for the second half of the year. Quite simply, the supply side of our business is not currently able to keep pace with demand for our products. Since our call in May, we have seen further deterioration in our ability to source the requisite volume of semiconductor chips used to manufacture our floor cleaning robots. We are not alone in feeling the pain of the semiconductor chip shortage as it impacts a range of industries – from automobiles and medical devices to TVs, smartphones and many other consumer electronics.

Our robots rely on a wide range of integrated circuits – from lower cost, commodity like devices to very sophisticated, powerful processors. While there is tightness across the board, we have recently fielded calls from multiple chip suppliers who are now unlikely to fulfill their commitments to us, either in volume, timing or both. These decommitments and pushouts will constrain our ability to fulfill all the orders we anticipated during the second half of this year. Accordingly, based primarily on the assumption of lowered unit volumes, we have reduced our 2021 revenue target to $1.55 billion to $1.62 billion, which still represents 8% to 13% growth over the prior year. This range is wider than usual, reflecting limited short-term visibility into the availability of certain semiconductor componentry.

The impact of lower revenue on our anticipated profitability is compounded by having to increasingly source more semiconductor componentry in the aftermarket at a much higher price as well as grapple with rising raw material and transportation costs. Against this backdrop, we are working diligently to carefully manage channel and product mix, adjust promotional activities, qualify new alternative suppliers and optimize inventory levels. More specifically, with limited supply, we are working collaboratively with our strategic retailers in countries where our brand is strongest to support them while we also take steps to optimize our second-half promotional activities and direct-to-consumer (DTC) sales. Additionally, we are evaluating potential price increases. We know consumers are excited about the way we continue to innovate and with that in mind, we intend to defend our leadership position in the premium segment while also investing in the marketing activities to help us bring our next generation of Roomba robots to market later this year. We will also remain disciplined with our second-half spending plans by recalibrating hiring activities and other discretionary programs.

At the same time, we move forward committed to advancing our strategy by continuing to fund the initiatives we believe are necessary to emerge from this short-term turbulence as an even stronger category leader. As we balance cost austerity with investing in our future as a technology and category leader, we expect that our second-half profitability will be aided by tariff relief. Between recently passed legislation in the U.S. Senate and bipartisan urging from representatives about the reinstatement of the tariff exclusion process, we now believe that it is more likely than not that iRobot will receive a tariff exemption. As a result, we’ve incorporated this likely development into our updated 2021 outlook.

With that said, it is inherently difficult to forecast precisely when, or even if, the USTR would reinstate exclusions to the China Section 301 tariffs and establish a new process for importers to apply for exclusions since those actions are likely to be linked to the Biden Administration’s ongoing reassessment of its overall policy toward China. Based on our ongoing dialogue with policy makers and elected officials, we anticipate that an exclusion, if reinstated, will cover all of 2021 at a minimum and could extend through the end of 2022. Julie will share more details on the specific financial impact of tariff relief in a moment. Regardless of this potential positive development, diversifying our manufacturing footprint into Malaysia remains strategically important and we are making good progress on this front. We are now producing nearly half of our U.S.-bound product out of Malaysia and remain on track to have Malaysia manufacturing at scale by the end of this year.

Taking all of these factors into account, we have also revised our operating income and EPS expectations. We now expect our 2021 operating income to range from $80 million to $110 million, or 5% to 7% of revenue, with an EPS range of $2.25 to $3.15, which also factors in our recent and planned stock repurchase activities.

While the changes to our full-year outlook are nonetheless disappointing, it is important to again emphasize that we believe these supply chain constraints and cost headwinds are temporary. Our operations teams are working diligently to preserve our supply chain resiliency. As a high-priority, strategic customer to our many of our long-standing chip suppliers, we continue to put longer-term supply agreements in place that not only support our revised near-term volume requirements but also position us to be at the front of the line when our partners begin increasing their output, which we expect will happen during the first half of next year. Just as important, although qualifying new suppliers is time consuming, we expect that these ongoing efforts will also help further increase our supply during this period. Although visibility is limited right now, we believe these activities will help lead to improved availability of components starting in the beginning of next year and steadily strengthen as we move into the second half of 2022.

While our performance in 2021 is now expected to fall short of our ambitious targets, we remain optimistic about our revenue and EPS growth potential for next year. I'll share some additional thoughts on how we see 2022 evolving in just a few minutes but at this point, I'd like to turn over to Julie for her financial review.

Julie:

Thank you Colin. As Andy mentioned earlier, my review of our financial results and outlook will be done on a non-GAAP basis, so unless stated otherwise, each mention of gross margin, operating expense, operating income and operating profit margin, effective tax rate and net income per share will mean the corresponding non-GAAP metric. All quarterly comparisons are against the second quarter of 2020 unless otherwise noted.

We reported a solid Q2 performance. Total second-quarter revenue grew 31% to $366 million due primarily to strong retail and distributor orders in the U.S. and EMEA. A COVID-related shutdown of the shipping ports in southern China in late June prevented us from fulfilling $17 million in orders. Most of those orders have since shipped and we expect to complete this activity over the next couple of weeks.

- Geographically, revenue grew 40% in the U.S., 29% growth in EMEA and 7% increase in Japan.
- From a product mix perspective, Roomba robots and accessories represented 88% of our Q2 revenue mix with Braava making up the remainder.
- We estimate that approximately two-thirds of total second-quarter revenue came from e-commerce, which comprises our own website and app, dedicated e-commerce websites and the online arms of traditional brick and mortar retailers.
- Our DTC revenue grew 36% to $45 million, or 12% of total revenue. Although we saw very strong DTC growth in EMEA and Japan, sales in the U.S. moderated due to the more limited traffic arising from higher advertising fees and reopening events that diverted consumer spending into other categories. Given these dynamics along with our supply constraints, we now expect DTC sales to represent approximately 13% of total full-year revenue in 2021.

Our gross margin of 38% in Q2 was slightly below plan as favorable changes in promotional activity were more than offset by higher warranty costs and timing shifts associated with the purchase of certain componentry. Tariffs were the single biggest factor for the 12-point decline in gross margin from the second quarter of 2020. As you may recall, we received our tariff exclusion in the second quarter of 2020, which not only eliminated any quarterly tariff expense but also resulted in a reversal of tariff costs of approximately $7 million from Q120. In this year's second quarter, we paid tariffs of approximately $12 million. The net impact from tariffs from both periods was approximately $18 million, which represents about nearly half of the decline. The remainder of the decline was split relatively evenly between pricing and promotional activity, supply chain headwinds, higher warranty expense, and unfavorable channel and product mix shifts. I would also note that the company's second-quarter 2020 GAAP gross profit reflected the reversal of the full $47 million in tariffs that had been paid since they went into effect.

Second-quarter 2021 operating costs of $131 million increased by 32% and represented 36% of revenue. The increase reflected higher working media to drive sales growth, increased personnel-related expenses primarily tied to headcount and higher R&D spending. Our Q2 2021 operating income was $9 million, or 2% of revenue. The impact of the delayed shipping of $17 million in orders to our operating income was approximately $7 million.

Our Q2 2021 effective tax rate was approximately 12%, which reflects changes in our full-year tax rate assumptions primarily associated with lower expected full-year operating income. Our net income per share was $0.27.

We ended the second quarter with $416 million in cash and short-term investments, a decline of $85 million from the end of Q1. The decrease primarily reflects share repurchases totaling $50 million and $27 million in operating cash outflows mostly driven by changes in our inventory.

Second-quarter DSOs were 19 days, a 23-day decrease against the same period one year ago. The decrease reflects the timing of orders that were more weighted to the first half of the quarter versus last year when the pandemic resulted in most orders being shifted into the last half of that same quarter. Q2 ending inventory was $277 million, or 112 days, compared with $133 million, or 86 days, at the same time last year. The increase in inventory reflects the combination of our efforts to support our second-half volume requirements as well as the impact of tariffs and the units that were stuck at port at the end of the quarter.

Outlook

With the quarterly review complete, let's move on to our 2021 outlook. As Colin detailed, the semiconductor chip shortage will significantly reduce the number of robots we had expected to ship in 2021.

2021 Revenue

We now expect 2021 revenue in the range of $1.55 billion to $1.62 billion, which implies 57% to 59% of our anticipated revenue coming in the second half of the year and a 1% to 8% decline in our second-half revenue versus the same period last year. While it is very challenging to forecast the timing of holiday orders between the third and fourth quarters, we currently expect low single-digit revenue growth in the third quarter. As a reminder, our revenue expectations contemplate Yen and Euro exchange rates roughly in line with current rates, plus or minus 5%.

2021 Gross Margin

In terms of our gross profit margin, earlier on the call, Colin shared our rationale for why we expect an exclusion from Section 301 tariffs for 2021. We have factored this anticipated development into our updated outlook and removed $35 to $37 million from our anticipated full-year cost of goods sold. Without the burden of tariffs, we expect a full-year gross margin range of 39% to 40%. If a tariff exclusion is not granted, our full-year 2021 gross margin will be 2 percentage points lower. Assuming the exclusion is granted in the fourth quarter, we anticipate a third-quarter gross margin of approximately 35% that will reflect anticipated tariff costs of $11 to $13 million as well as many of the same factors that also affected our second-quarter gross margin in a more prominent way. This implies an expected, tariff-free, fourth-quarter gross margin of around 44%, which would include a reversal of all tariffs paid from the prior three quarters.

2021 Operating Costs & Operating Profitability

In terms of our 2021 operating costs, we expect full-year operating costs in the range of $532 and $535 million, or 33% to $34% of sales. Within that spend, we anticipate that our sales and marketing will range between 18% to 19% of total revenue as we begin moving our new e-commerce and digital marketing systems and tools into production and we direct our working media toward supporting our new product launches and strong sell-through during the holiday season. As a result, we expect an operating profit margin between 5% and 7% with anticipated operating income between $80 and $110 million.

As we adjust our spending plans, we expect third-quarter operating costs to be 28% to 29% of total revenue with sales and marketing costs moderating from Q2 levels. We expect Q3 operating income margin in the mid-single digits.

Other Assumptions & EPS

In terms of other major modeling assumptions for 2021, we still expect other expense to be between $2 and $3 million. We are now anticipating an effective tax rate between 16% and 17%. As a result, we anticipate a full-year EPS range from $2.25 to $3.15 with an anticipated diluted share count of approximately 28.5 million shares. We estimate that the tariff exclusion will contribute approximately $1.05 to our 2021 EPS on an after-tax basis. We anticipate third-quarter EPS in the range of $0.70 to $0.90.

We continue to expect our 2021 capital spending will be in the low $50 million range. On the use of capital front, as detailed in our earnings press release, we plan to execute an accelerated share repurchase (ASR) agreement to repurchase an aggregate of $100 million of iRobot common stock, subject to the terms of the ASR agreement. We expect to fund the ASR from cash on hand. We will share additional details via an 8-K when the ASR is executed. Our EPS outlook incorporates the effect of the upcoming ASR. We still expect that inventory, both in terms of absolute dollars and DII, will fluctuate meaningfully from quarter to quarter as we continue navigating a challenging and fluid supply chain environment.

In summary, despite solid results over the past two quarters, our full-year outlook has eroded as the shortage in semiconductor chips will leave us unable to completely fulfill anticipated second-half demand. Despite this disappointing development, it does not diminish the tangible progress we are making to advance our strategy and position our business for substantially better performance next year as those constraints ease. Our upcoming share repurchase activity further demonstrates our confidence in our ability to capitalize on the opportunities that lie ahead. With that said, I will turn the call back to Colin.

Colin:
Thank you Julie.

On our most recent quarterly conference calls, we've detailed our strategy to build a more defensible, profitable enterprise with a compelling value proposition that resonates across a growing, global base of loyal connected customers. By innovating to differentiate the iRobot experience, we plan to continue winning more customers and keep them delighted at every turn – to the point that they will buy more products and services directly from us over the lifetime of their ownership. We are optimistic that executing on our plans will drive substantial value creation over the long term.

We've also shared our preliminary view that further progress on this path in 2021 would support continued top-line expansion that we can convert into substantially improved operating profitability and EPS expansion in 2022. Although the impact of constrained supply will make it more challenging to achieve our preliminary 2022 target of returning the business to our 2020 operating profit margin levels, we are confident that we can make up considerable ground next year.

In terms of our 2022 top-line assumptions, we anticipate more modest revenue growth in the first half of the year as we take proactive steps to increase our access to semiconductor componentry amid fundamentally healthy demand signals from retailers and consumers. Assuming our chip suppliers steadily ramp their production, as expected, we look forward to accelerating revenue during the second half of 2022, anchored by substantial restocking orders from retailers who will carry very lean channel inventory over the next several quarters. In addition to executing on our product roadmaps and leveraging our unique home understanding, we are also excited about the potential of our iRobot Select service, which we expect will begin to scale later this year as a growing, recurring revenue stream. We also look forward to seeing the impact of our DTC infrastructure investments on growing existing customer revenue as we further personalize the online buying experience on our website and Home App, and focus on delivering the right promotions to the right customers at the right time.

As we plan for next year, we anticipate that other transitory costs that have spiked in 2021, namely raw materials, oceanic transport and air freight, should eventually revert back to more normalized levels at some point in 2022. These potential tailwinds, combined with expected tariff relief, Malaysia manufacturing at scale and our ongoing efforts to optimize our production and fulfillment costs, will leave us well positioned to drive gross margin improvement next year. By remaining very disciplined with our spending, we believe that we will convert our top-line expansion into strong operating profitability gains and significant EPS growth next year.

As we move forward, we believe there is a lot of opportunity in front of us. Household penetration remains low; we have an expansive and growing global connected customer base; and there are exciting new growth initiatives now underway or in the advanced planning stages. As a result, we believe that our exit trajectory for the second half of 2022 in combination with continued strategic progress will set the stage for sustaining solid annual top-line expansion that can be converted into improving double-digit operating profit margins, substantial EPS growth and robust operating cash flow generation.

Our confidence in our strategic direction and in our ability to achieve our ambitions over the next several years is underscored by our upcoming plans to execute a $100 million Accelerated Share Repurchase agreement. We will share greater insight into our business later this year when we host a virtual investor day event. In addition to highlighting our vision and strategy, our leadership team plans to share greater insight into the many exciting initiatives that will underpin an updated set of long-term financial targets. Stay tuned for more details on this event.

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, including impact from stock-based compensation windfalls/shortfalls, that are not reflective of income tax expense incurred as a result of current period earnings. 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		For the six months ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
GAAP Revenue	$ 365,596	$ 279,883	$ 668,857	$ 472,418
GAAP Gross Profit	$ 138,976	$ 178,012	$ 261,920	$ 255,967
Amortization of acquired intangible assets	225	1,185	450	1,470
Stock-based compensation	283	292	646	819
Tariff refunds	-	(40,017)	-	(40,017)
Non-GAAP Gross Profit	$ 139,484	$ 139,472	$ 263,016	$ 218,239
Non-GAAP Gross Margin	38.2 %	49.8 %	39.3 %	46.2 %
GAAP Operating Expenses	$ 142,018	$ 107,729	$ 258,573	$ 205,909
Amortization of acquired intangible assets	(205)	(254)	(409)	(508)
Stock-based compensation	(7,057)	(5,578)	(13,476)	(10,242)
Net merger, acquisition and divestiture (expense) income	(640)	66	(640)	566
IP litigation expense, net	(3,583)	(1,137)	(4,724)	(1,753)
Restructuring and other	-	(1,863)	(213)	(1,863)
Non-GAAP Operating Expenses	$ 130,533	$ 98,963	$ 239,111	$ 192,109
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	35.7 %	35.4 %	35.7 %	40.7 %
GAAP Operating (Loss) Income	$ (3,042)	$ 70,283	$ 3,347	$ 50,058
Amortization of acquired intangible assets	430	1,439	859	1,978
Stock-based compensation	7,340	5,870	14,122	11,061
Tariff refunds	-	(40,017)	-	(40,017)
Net merger, acquisition and divestiture expense (income)	640	(66)	640	(566)
IP litigation expense, net	3,583	1,137	4,724	1,753
Restructuring and other	-	1,863	213	1,863
Non-GAAP Operating Income	$ 8,951	$ 40,509	$ 23,905	$ 26,130
Non-GAAP Operating Margin	2.4 %	14.5 %	3.6 %	5.5 %

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

	For the three months ended		For the six months ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
GAAP Income Tax (Benefit) Expense	$ (570)	$ 11,283	$ (1,784)	$ 9,174
Tax effect of non-GAAP adjustments	1,512	(1,892)	2,910	(3,723)
Other tax adjustments	120	206	2,773	(1,178)
Non-GAAP Income Tax Expense	$ 1,062	$ 9,597	$ 3,899	$ 4,273
GAAP Net (Loss) Income	$ (2,758)	$ 58,616	$ 4,685	$ 40,481
Amortization of acquired intangible assets	430	1,439	859	1,978
Stock-based compensation	7,340	5,870	14,122	11,061
Tariff refunds	-	(40,017)	-	(40,017)
Net merger, acquisition and divestiture expense (income)	640	(741)	640	(1,241)
IP litigation expense, net	3,583	1,137	4,724	1,753
Restructuring and other	-	1,863	213	1,863
Loss (gain) on strategic investments	250	-	212	(87)
Income tax effect	(1,632)	1,686	(5,683)	4,901
Non-GAAP Net Income	$ 7,853	$ 29,853	$ 19,772	$ 20,692
GAAP Net (Loss) Income Per Diluted Share	$ (0.10)	$ 2.07	$ 0.16	$ 1.42
Amortization of acquired intangible assets	0.01	0.05	0.03	0.07
Stock-based compensation	0.26	0.21	0.49	0.39
Tariff refunds	-	(1.41)	-	(1.41)
Net merger, acquisition and divestiture expense (income)	0.02	(0.03)	0.02	(0.04)
IP litigation expense, net	0.13	0.04	0.16	0.06
Restructuring and other	-	0.07	0.01	0.07
Loss (gain) on strategic investments	0.01	-	0.01	-
Income tax effect	(0.06)	0.06	(0.20)	0.17
Non-GAAP Net Income Per Diluted Share	$ 0.27	$ 1.06	$ 0.68	$ 0.73
Number of shares used in diluted per share calculation	28,700	28,280	28,908	28,414
Section 301 Tariff Costs				
Section 301 tariff costs	$ 11,622	$ (6,609)	$ 15,005	$ -
Impact of Section 301 tariff costs to gross and operating margin (GAAP & non-GAAP)	(3.2)%	2.4 %	(2.2)%	- %
Impact of Section 301 tariff costs to net (loss) income per diluted share (GAAP & non-GAAP)	$ (0.40)	$ 0.23	$ (0.52)	$ -
Supplemental Information				
Days sales outstanding	19	42		
Days in inventory	112	86		

iRobot Corporation
Supplemental Reconciliation of Fiscal Year 2021 GAAP to Non-GAAP Guidance
(unaudited)

	FY-21
GAAP Gross Profit	$609 - $642 million
Amortization of acquired intangible assets	~$1 million
Stock-based compensation	~$2 million
Total adjustments	~$3 million
Non-GAAP Gross Profit	$612 - $645 million

	FY-21
GAAP Operating Income	$37 - $67 million
Amortization of acquired intangible assets	~$1.5 million
Stock-based compensation	~$30.8 million
Net merger, acquisition and divestiture expense (income)	~$1.0 million
IP litigation expense, net	~$9.5 million
Restructuring and other	~$0.2 million
Loss on strategic investments	~$0.2 million
Total adjustments	~$43 million
Non-GAAP Operating Income	$80 - $110 million

	FY-21
GAAP Net Income Per Diluted Share	$1.02 - $1.89
Amortization of acquired intangible assets	~ $0.05
Stock-based compensation	~ $1.08
Net merger, acquisition and divestiture expense (income)	~ $0.04
IP litigation expense, net	~ $0.33
Restructuring and other	~ $0.01
Loss on strategic investments	~ $0.01
Income tax effect	~ ($0.29) - ($0.26)
Total adjustments	~ $1.23 - $1.26
Non-GAAP Net Income Per Diluted Share	$2.25 - $3.15
Number of shares used in diluted per share calculations	~ 28.5 million