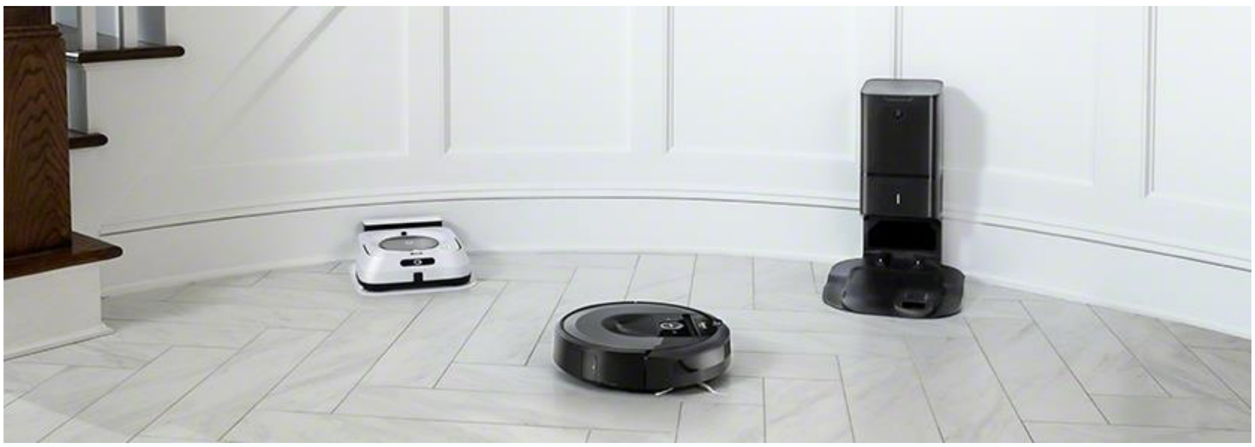
iRobot Q220 Financial Results Conference Call
Prepared Remarks



July 22, 2020

iRobot Second-Quarter 2020 Financial Results Conference Call

Operator:

Good day everyone and welcome to the iRobot second-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 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 express or implied forward-looking statements relating to the company's financial results, operations and performance; expectations regarding market conditions; the introduction of new capabilities and features to our products; the impact of COVID-19 on our business; our expectations regarding profitability; product launch plans and the timing thereof including pilots related to new subscription-related services; our expectations regarding revenue, non-GAAP gross margin, non-GAAP operating profit, non-GAAP operating expenses, non-GAAP operating income, sales & marketing expenses, research and development expenses, general and administrative expenses, inventory, DII, DSO, non-GAAP tax rate, 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 April 2020 tariff exclusion; our expectations regarding our request to extend the tariff exclusion and the impact on our financial results if the extension is denied; the impact of tariffs on gross margin; expectations regarding the shift in our product mix toward our premium products; our intent to diversify our supply chain and manufacturing capabilities, and the timing of our manufacturing diversification efforts and impacts of COVID-19 thereon, including on production costs, gross margin and profitability; 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 profit, non-GAAP operating expense, non-GAAP operating income, non-GAAP income tax expense, non-GAAP net income 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 2020 financial results press release we issued last evening, which is available on our website at www.irobot.com. Also, unless stated otherwise, the second-quarter 2020 financial metrics discussed on today's conference call will be on a non-GAAP basis only and all comparisons are with the second quarter of 2019.

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 July 29, and can be accessed by dialing 404-537-3406, passcode 2875976.

In terms of the agenda for today's call, Colin will briefly review the company's second-quarter results, discuss current market conditions and key highlights and share his perspective on our outlook. Julie will detail our financial results for the second 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. We entered the second quarter focused on navigating major challenges primarily associated with the COVID-19 global pandemic. We have been largely successful thus far thanks to strong market demand and the commitment, focus and resiliency of our global team. As a result, we delivered stronger-than-expected Q2 results and continued advancing key elements of our strategy.

Q220 Results

In terms of our performance, we reported Q2 revenue of $280 million, which was 8% higher than Q219 and well ahead of our target entering the quarter. Our revenue exceeded our mid-June update due to unanticipated additional orders in the last two weeks of the quarter. We posted a Q2 operating profit of $41 million, which benefited from the higher revenue, a notable improvement in our gross margin and disciplined expense management. This translated into Q2 EPS of $1.06 [one dollar and six cents].

In terms of our Q2 top-line performance, the bright points that we saw emerging in late March through mid-April continued to strengthen as maintaining a clean home has taken on greater prominence during the pandemic. Revenue in each major geography exceeded our April expectations with the U.S. and Japan growing 13% and 43%, respectively, which more than offset a 14% decline in EMEA.

With stay-at-home mandates limiting traditional in-store retail activity for much of the quarter, we adjusted our go-to-market strategy and promotional campaigns to support e-commerce, which includes our own website and app, pure-play online retailers like Amazon.com and the websites of our traditional retail partners. Overall, we estimate that our e-commerce-related revenue grew by approximately 50% in Q2 and represented over 70% of total quarterly revenue. Our direct-to-consumer business thrived in Q2, growing nearly 160% even as we are only just starting to implement initiatives aimed at enhancing the buying experience on irobot.com and our app, and building stronger ties with our customers.

Market Conditions

As we detailed on last quarter's call, the global pandemic has created operational challenges that have impacted all parts of our business. Fluctuating demand signals and the steps taken in China and Malaysia to limit COVID-19's spread continue to test the agility of our operations and manufacturing supply chain partners. While consumer spending has declined on a vast array of goods and services, it has been resilient for robotic vacuum cleaners. We saw sell-through momentum build globally over the past several months, which underpinned the notable improvement in Q2 orders.

Q2 Accomplishments & Progress

During the second quarter, we made important progress executing on key elements of our strategy and I'll weave in aspects of our Q2 performance that help illustrate this.

- Differentiating our floor cleaning robots by providing consumers with an exceptional experience is a critical aspect of our strategy that guides our development roadmaps and supports our investment in AI, home understanding and computervision technologies. In particular, our premium robots – namely the Roomba i7 and s9 series and the Braava jet m6 – combine top-notch cleaning efficacy with compelling digital features that leverage autonomy and thoughtful intelligence to better adapt to and support our customers' lifestyles. These products are resonating in the marketplace, which is reflected in a growing list of impressive awards and favorable reviews and strong consumer demand. In Q2, revenue from premium robots priced at $500 and up[1] grew by 43% and represented nearly 60% of total revenue. The success of these products also underscores why Roomba models occupied 9 of the 10 best-selling RVC spots in the U.S., 7 of the top 10 in Europe and 8 of the top 10 in Japan.

  Moving forward, we expect to introduce new AI-driven capabilities and digital features that enhance performance and further elevate the cleaning experience.

[1] Products included in this pricing tier are the Roomba s9 Series, i7 Series and 900 Series, and the Braava Jet m6.

These innovations will give customers more control over where, when and how our robots clean, support new smart home advances and offer new insights into our robots' performance and mission status. We are also looking forward to the launch of a new Roomba later this year. This project has progressed on schedule, even with a substantial majority of our R&D teams working from home.

- We are also accelerating investments aimed at building enduring relationships with consumers worldwide. We've continued to make excellent progress on this front. We ended Q2 with approximately 6.9 million connected customers[2] who've opted-in to our digital communications. This metric, which encompasses all iRobot product owners who have opted in to receive in-app messaging or email or both, grew 13% from Q1. We believe that tightly embedding Roomba and Braava into the lives of their owners will further increase customer loyalty and make it more likely that the next robot they buy will be one of ours.

- Nurturing the lifetime value of our customers is another strategic priority. This multi-year initiative is focused on optimizing our marketing campaigns, enhancing iRobot.com and our Home App, and providing our customers with greater flexibility in how they purchase our robots and accessories, including potential new subscription-like services. Over the coming quarters, we plan to launch new pilots that can help us gauge consumer interest in potential new service offerings and inform our efforts to build recurring revenue streams in 2021.

- Improving our gross margin continues to represent an important element in our plan to deliver sustainable, profitable growth. Our success at the end of April in receiving a temporary exclusion from the Section 301 List 3 tariffs that apply to Roomba was a step in the right direction. The exclusion and related benefit contributed to our strong Q2 gross margin. With that said, the exclusion will expire next month unless it is extended. We expect to learn whether an extension will be granted soon although the recent public testimony of the USTR leadership

[2] See appendix (page 20) for historical data on connected customers.

indicates that any extension granted at this point would only apply until the end of 2020.

- To reduce our China exposure and help combat 25% tariffs that will return either next month or on January 1, 2021, we remain focused on manufacturing diversification. As noted last quarter, COVID-19 has disrupted our manufacturing expansion in Malaysia. Given these delays, we expect to incur higher-than-optimal production costs in Malaysia during 2021. These costs are only moderately improved next year versus the cost of manufacturing with 25% tariffs in China because of the time it takes to qualify a second contract manufacturer, add new lines and ramp volume. The reinstatement of tariffs and a higher 2021 Malaysia premium are looming as a material headwind to our gross margin in 2021. As a reminder, $38 million in tariff costs were a three-percentage point headwind to our 2019 gross margin as tariffs increased to 25% midway through the year and nearly all of the volume came from China. Depending on the growth assumptions for our U.S. revenue this year and next, our 2021 gross margin could face a similar contraction. We believe that by the end of 2021, we will be manufacturing broadly and at scale in Malaysia, which will enable us to reduce our production costs in that country, thereby supporting an efficient, geographically diversified supply chain decoupled from US-China trade policy.

2020 Outlook

As we look ahead, we move into the second half of our year with improved momentum. Sell-through growth in units has strengthened in each of our major geographies due largely to healthy demand for our premium robots. In the U.S., we've seen our year-to-date sell-through growth rate more than double since our Q1 conference call. Robust online growth and the gradual reopening of brick-and-mortar retail stores in various countries has accelerated EMEA sell-through growth into low double-digit territory while Japan has returned to positive sell-through growth thanks to a strong early summer campaign. At the same time, inventory levels with retailers are relatively low.

As a result, we are incrementally more optimistic about our second-half revenue prospects than we were in mid-June when we shared our business update. We now anticipate full-year 2020 revenue to be relatively flat to slightly higher than 2019's $1.214 billion as we expect solid revenue growth during the second half of 2020. With that said, there is significant uncertainty about second-half demand as economic recovery around the world proceeds at different paces, government stimulus programs subside, competition remains aggressive and retailers continue to carefully manage inventory, all of which limits our visibility into the timing and magnitude of orders. Just as notable, the meaningful improvement in demand that we've seen recently will test our ability to cost-effectively source the raw materials and components as our supply chain remains challenged by COVID-19.

From a profitability standpoint, while our first-half performance reflects the benefit of our tariff exclusion, our operating profitability will be impacted if the exclusion is not extended through the second half of the year. Nevertheless, we are focused on converting our second-half top-line results and prudent spending into solid operating profitability and EPS performance. Julie will provide additional details about our outlook in just a moment.

Clearly, 2020 is shaping up to be a year of unprecedented change and resilience. We are increasingly optimistic that we will exit this year well positioned to fortify our category leadership, execute on our strategy to drive profitable growth over the long term and reward shareholders for their confidence. At this point, I'll turn the call over to Julie. After her remarks, I will return to offer some additional closing thoughts. Julie …

Julie:

Thanks Colin. As Andy mentioned earlier, my review of our second-quarter financial results as well as my comments about our outlook will be done on a non-GAAP basis, so unless stated otherwise, each mention of gross margin, operating expense, operating profit, effective tax rate and net income per share will mean the corresponding non-GAAP metric. All comparisons are against the second quarter of 2019 unless otherwise noted.

Our second-quarter 2020 financial performance was driven by substantially better-than-expected revenue. Total revenue grew 8% to $280 million in large part due to strong 43% growth in our premium floor cleaning robots priced at $500 and up. Geographically, all regions outperformed their targets entering the quarter. Revenue grew 13% in the U.S. with international revenue up 3%. Outside of the U.S., 43% growth in Japan and mild expansion in other markets were mostly offset by a 14% decline in EMEA. Roomba represented 90% of our mix with Braava making up the remainder. Braava revenue grew by 26% as strong growth in the m6 was partially offset by softer orders for other models. One of the key drivers behind the strong growth in e-commerce-related revenue was robust expansion at Amazon, which represented 35% of Q2 revenue. Quarterly revenue from Amazon grew 36% thanks to the lead up into Q2 events like Mother’s Day and Father’s Day as well as from orders to support their second-half needs.

Our gross margin of 50% was well ahead of our plans due to a combination of higher revenue, favorable product and channel mix shifts, lower-than-planned write-down charges associated with Terra components and the timing of other supply chain-related activities. Gross margin was 3 percentage points higher than Q219, primarily reflecting the benefit of nearly $7 million associated with first-quarter tariff costs and no tariffs in the second quarter versus tariff costs of $5 million in the prior year’s second quarter. Our Q2 GAAP gross margin reflected the refund of $47 million in tariff costs that had impacted our P&L since the tariff went into effect in September 2018.

Q2 operating expenses of $99 million decreased by 7% and represented 35% of revenue. During Q2, we completed actions to realign and reprioritize resources across the organization, which helped us lower operating costs while also enabling us to redirect spending into areas critical to long-term success. In particular, our second-quarter R&D and G&A costs stayed relatively flat while sales and marketing expenses declined by $7 million due primarily to shifts in timing of certain campaigns and promotions. Given the state of our accounts receivable, we did not make any meaningful adjustments to our bad debt reserve during the second quarter. Our Q2 operating income was $41 million, or 14% of revenue.

Our Q2 2020 effective tax rate was nearly 24%, which was lower than we expected primarily due to the changes in pre-tax profits and the tax-related impact of the tariff refund. Our net income per share was $1.06.

We ended Q2 with $242 million in cash and investments, a decline of $21 million from Q1 levels. The decline primarily reflects changes in working capital and our capital spending activity. Q2 DSOs were 42 days versus 32 one year ago, which primarily reflects the timing of orders and shipments during the latter half of the quarter. Q2 ending inventory was $133 million, or 86 days, compared with $192 million, or 127 days, at the same time last year. The decline in inventory reflects the combination of the removal of tariff-related costs and stronger-than-expected demand throughout the quarter. In terms of inventory at our retailers, as Colin noted, we ended the quarter in good shape overall, having made solid progress to reduce excess entry-level inventory.

Outlook

As Colin noted earlier, our view into our 2020 performance has continued to improve. With that said, we remain cautious about our near-term outlook due to a number of factors that are beyond our control and difficult to forecast including the sustainability of recent sell-through trends, prospective consumer spending activity, competitor actions and whether we receive an extension to our tariff exclusion. As a result, we aren’t yet able to offer explicit financial targets like we have done previously. However, we’d like to share as much color as possible to help manage expectations around our 2020 outlook.

Revenue

Starting with revenue, a little over a month ago we issued our business update and reiterated our view that we expected an annual revenue decline. We now believe that our 2020 revenue will range from relatively unchanged to potentially low-single digit growth over 2019 revenue of $1.214 billion. For further context, our first-half revenue was down 5%. Our current full-year expectation implies second-half revenue growth in the mid-single digit range on a percentage change basis. Geographically, we expect solid growth in the U.S. and Japan with a modest second-half improvement in EMEA. We currently anticipate a stronger third-quarter revenue growth rate than in the fourth quarter. With that said, forecasting the revenue mix between the third and fourth quarters is challenging in any given year and it is inherently more difficult to assess now given current market conditions.

Gross Margin

In terms of gross margin expectations, as Colin said, we don't know whether an extension to our tariff exclusion will be granted. While we are hopeful, the vast majority of Section 301 extension requests have been denied thus far. Whereas our first-half gross margin was 46%, we expect second-half gross margin, on both a GAAP and non-GAAP basis, to be in the 39% to 40% range. That is slightly above our original full-year 2020 target and assumes the reinstatement of the 25% tariff next month. This would imply a full-year gross margin in the low 40% range. We expect our third-quarter gross margin to be better than our second-half average as we benefit from inventory not subject to Section 301 tariffs and execute various Q4 holiday promotions consistent with historical practices.

Operating Costs & Operating Profitability

Looking closer into our operating costs, we currently anticipate a modest increase in 2020 operating expenses due to certain costs that have shifted from the first half of the year and we invest in working media to drive top-line growth. With that said, certain costs are subject to change based on revenue and overall market conditions. We anticipate Q3 operating expenses will be moderately higher compared with Q2 levels followed by an uplift in Q4 consistent with historical trends as we invest in advertising and marketing campaigns for the December holidays.

We are targeting 2020 income from operations to be in the mid-single digits as a percentage of revenue. We anticipate a higher third-quarter operating profit margin than in the fourth quarter. Ultimately, our full-year operating income performance will reflect how our second half unfolds from a revenue and tariff perspective. As we execute on a wide range of supply chain, go-to-market, R&D and other programs and projects to successfully close out 2020, those efforts will provide the clarity required to set our targets for 2021 and beyond.

Other Assumptions

In terms of other notable modeling assumptions for 2020, our improved profit profile in both the U.S. and abroad will help produce an effective tax rate in the high teens, which is actually in line with our plans at the start of the year. We anticipate a diluted share count of more than 28 million shares.

As it relates to our cash position going forward, I would like to note that we recently started to receive cash payments associated with our tariff refunds from the U.S. government. We anticipate receiving the $57 million in tariff-related refunds owed to us over the next 12 months with over 40% of that expected within the next two quarters. I should note that the timing of these refunds is at the discretion of U.S. Customs.

We plan to continue working closely with our retailers globally to understand and support their needs. Accordingly, DSOs may stay elevated above historical levels over the coming quarters. At the same time, we continue to prioritize inventory flexibility to ensure we can mobilize quickly to accommodate shifts in demand over the coming months. We anticipate a peak in DII in Q3 before a potential return to more normalized levels.

In summary, we've seen our business build steady momentum over the past three months. As a result, we move forward with improved confidence that our second-half

2020 revenue will grow meaningfully over first-half levels. We plan to stay focused on converting our second-half revenue expansion and prudent spending into solid operating profitability and EPS performance. With that said, we remain cautious given the relatively fragile state of the global macroeconomic environment. We remain committed to managing the business in ways designed to enable us to emerge from these difficult market conditions as a stronger company. At this point, I'll now turn the call back to Colin for his closing thoughts.

Colin:

Closing Thoughts

Thank you Julie. As iRobot moves forward, we remain excited about the long-term potential of our business. We are seeing that our strategy to differentiate the cleaning experience is helping support the continued shift in our product mix toward our premium products as we accelerate investments to leverage our growing base of 6 million connected customers. As we look to finish 2020 with a strong second-half performance, we are advancing our planning processes for 2021 and beyond.

Finally, I think it's timely to close my commentary by noting that iRobot's success over the past 30 years has been fueled by hiring the best and brightest in our industry – talented individuals who bring a unique set of skills, experiences and passion to our company along with diverse perspectives, beliefs and backgrounds. We are continuing to support and develop diversity within our global workforce. These efforts extend well beyond the CEO Action for Diversity and Inclusion Pledge that I signed last month. It's reflected in our hiring practices, training programs and continued efforts to extend our STEM-based educational resources, curriculum and Root programing robots to students in underserved communities. Strengthening diversity and inclusion within our global workforce will remain important to us as we work together to invent a future that seamlessly fits the unique, personal and diverse needs of our global consumer base. Last month, we updated our website with a new Corporate Social Responsibility section that details our efforts to advance racial, ethnic and gender diversity and inclusion along with a range of relevant, timely information about our people, products, production and philanthropy.

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.

Tariff Refunds: iRobot was granted a Section 301 List 3 Tariff Exclusion in April 2020, which temporarily eliminates tariffs on the Company's products imported from China until August 7, 2020 and entitles the Company to a refund of all related tariffs previously paid since September 2018. We exclude the refunds for tariffs paid in 2018 and 2019 from our 2020 second-quarter and year-to-date non-GAAP measures because those tariff refunds associated with tariff costs incurred in the past have no impact to our current period earnings.

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.

Restructuring and Other: Restructuring charges are related to one-time actions associated with workforce reductions, including severance costs, certain professional fees and other costs directly associated with resource realignments tied to strategic initiatives or changes in business conditions. We exclude this item from our non-GAAP measures when evaluating our recent and prospective business performance as such items vary significantly based on the magnitude of the action and do not reflect anticipated future operating costs. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of our business.

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		For the six months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
GAAP Revenue	$ 279,883	$ 260,172	$ 472,418	$ 497,833
GAAP Gross Profit	$ 178,012	$ 118,170	$ 255,967	$ 237,716
Amortization of acquired intangible assets	1,185	3,111	1,470	6,188
Stock-based compensation	292	405	819	783
Tariff refunds	(40,017)	-	(40,017)	-
Non-GAAP Gross Profit	$ 139,472	$ 121,686	$ 218,239	$ 244,687
Non-GAAP Gross Profit Margin	49.8 %	46.8 %	46.2 %	49.2 %
GAAP Operating Expenses	$ 107,729	$ 112,920	$ 205,909	$ 210,203
Amortization of acquired intangible assets	(254)	(269)	(508)	(540)
Stock-based compensation	(5,578)	(7,189)	(10,242)	(13,675)
Net merger, acquisition and divestiture income (expense)	66	(143)	566	(295)
IP litigation expense, net	(1,137)	676	(1,753)	207
Restructuring and other	(1,863)	-	(1,863)	-
Non-GAAP Operating Expenses	$ 98,963	$ 105,995	$ 192,109	$ 195,900
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	35.4 %	40.7 %	40.7 %	39.4 %
GAAP Operating Income	$ 70,283	$ 5,250	$ 50,058	$ 27,513
Amortization of acquired intangible assets	1,439	3,380	1,978	6,728
Stock-based compensation	5,870	7,594	11,061	14,458
Tariff refunds	(40,017)	-	(40,017)	-
Net merger, acquisition and divestiture (income) expense	(66)	143	(566)	295
IP litigation expense, net	1,137	(676)	1,753	(207)
Restructuring and other	1,863	-	1,863	-
Non-GAAP Operating Income	$ 40,509	$ 15,691	$ 26,130	$ 48,787
Non-GAAP Operating Margin	14.5 %	6.0 %	5.5 %	9.8 %
GAAP Income Tax Expense (Benefit)	$ 11,283	$ (424)	$ 9,174	$ 599
Tax effect of non-GAAP adjustments	(1,892)	1,797	(3,723)	3,622
Other tax adjustments	206	1,461	(1,178)	5,527
Non-GAAP Income Tax Expense	$ 9,597	$ 2,834	$ 4,273	$ 9,748
GAAP Net Income	$ 58,616	$ 7,207	$ 40,481	$ 29,727
Amortization of acquired intangible assets	1,439	3,380	1,978	6,728
Stock-based compensation	5,870	7,594	11,061	14,458
Tariff refunds	(40,017)	-	(40,017)	-
Net merger, acquisition and divestiture (income) expense	(741)	143	(1,241)	295
IP litigation expense, net	1,137	(676)	1,753	(207)
Restructuring and other	1,863	-	1,863	-
(Gain) loss on strategic investments	-	(629)	(87)	(572)
Income tax effect	1,686	(3,258)	4,901	(9,149)
Non-GAAP Net Income	$ 29,853	$ 13,761	$ 20,692	$ 41,280

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	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
GAAP Net Income Per Diluted Share	$ 2.07	$ 0.25	$ 1.42	$ 1.03
Amortization of acquired intangible assets	0.05	0.12	0.07	0.24
Stock-based compensation	0.21	0.26	0.39	0.50
Tariff refunds	(1.41)	-	(1.41)	-
Net merger, acquisition and divestiture (income) expense	(0.03)	-	(0.04)	0.01
IP litigation expense, net	0.04	(0.02)	0.06	(0.01)
Restructuring and other	0.07	-	0.07	-
(Gain) loss on strategic investments	-	(0.02)	-	(0.02)
Income tax effect	0.06	(0.11)	0.17	(0.32)
Non-GAAP Net Income Per Diluted Share	$ 1.06	$ 0.48	$ 0.73	$ 1.43
Number of shares used in diluted per share calculation	28,280	28,763	28,414	28,779
Section 301 Tariff Costs				
Section 301 tariff costs	$ (6,609)	$ 4,982	$ -	$ 8,500
Impact of Section 301 tariff costs to gross and operating margin (GAAP & non-GAAP)	2.4 %	(1.9)%	—%	(1.7)%
Impact of Section 301 tariff costs to net (loss) income per diluted share (GAAP & non-GAAP)	$ 0.23	$ (0.17)	$ -	$ (0.30)
Supplemental Information				
Days sales outstanding	42	32		
Days in inventory	86	127		

iRobot Corporation
Connected Customers
(in millions)

	2017	2018	2019	Q120	Q220
Connected Customers	0.6	2.3	5.3	6.1	6.9

Connected customers defined as robot owners who have registered to receive digital communications (in-app messaging, email or both). Prior figures reflected robot owners who subscribed to in-app messaging.