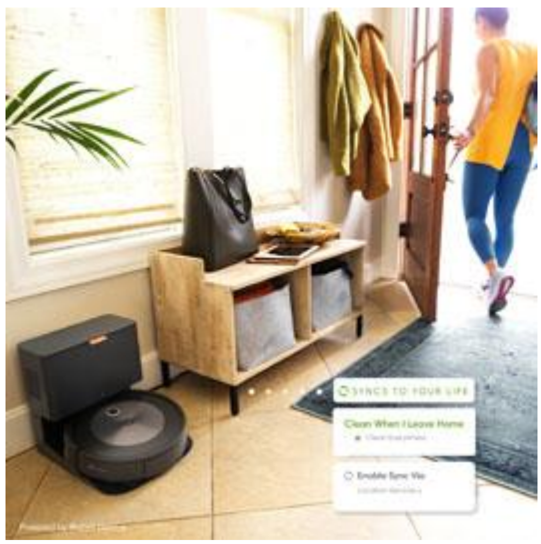
iRobot Q321 Financial Results Conference Call Prepared Remarks



October 28, 2021

iRobot Third-Quarter 2021 Financial Results Conference Call

Operator:

Good day everyone and welcome to the iRobot third-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 profit, income and margin, non-GAAP operating expenses, sales & marketing expenses, general & administrative expenses, inventory and DII, 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 the continued application of tariffs on goods imported into the United States from China and expected impact thereof; our expectations regarding the likelihood and timing of tariff exclusions, including related to the current proposal under consideration,; the impact of supply chain limitations; our efforts to preserve supply chain resiliency and potential impacts thereof; our expectations regarding costs for raw materials and semiconductor chips, air and ocean freight and transportation and the impact thereof; the impact of our investments; the impact of our new CRM and related digital marketing tools and technology; the impact of our Genius platform; our plans and ability to minimize the impact of higher costs; our strategy and the impact thereof; our subscription offerings and annualized recurring revenue derived therefrom; 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 third-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 third-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 third 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 November 4, and can be accessed by dialing 404-537-3406, passcode 7455266.

For today's call, our agenda will be as follows. Colin will briefly cover the company's quarterly financial results, review important strategic milestones and outline our expectations for the remainder of 2021. Julie will review our third-quarter financial results in detail, and offer additional insight into our 2021 guidance. 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 enjoyed a strong third-quarter performance while executing on our plans and navigating a stressed and fragile supply chain environment. We generated third-quarter revenue of $441 million, an increase of 7% over the prior year and ahead of our plans entering the quarter. Our revenue performance benefited from the timing of orders that shifted from Q4 into Q3. The combination of higher-than-anticipated revenue, modestly better gross margin and prudent spending enabled us to deliver third-quarter operating profitability of $48 million and EPS of $1.67.

We've been pleased to see that demand for Roomba has remained heathy.

- Revenue grew in each of our major geographies, led by 15% expansion in EMEA, 5% in the U.S. and 2% in Japan.
- Roomba robots occupied 8 of the top 10 best-selling RVC models in the U.S., 6 of the top 10 in EMEA and 7 of the top 10 in Japan.
- The excellent reception from retailers and consumers to our newest robots underpinned solid 14% growth from the mid and premium[1] tiers of our portfolio.
- Direct-to-Consumer (DTC) revenue grew 13%.
- We are seeing existing connected customer revenue trend very favorably, both in absolute dollars and as a percentage of our total revenue.
- Overall, gross robot ASPs grew 3% versus the same period last year while units shipped were relatively unchanged.
- We finished Q3 with over 12.5 million connected customers, an increase of 60% from the same period last year.

Over the past several months, we made important progress executing on our strategy to drive innovation and differentiate our products, build stronger relationships with our customers around the world and nurture value with them.

[1] iRobot defines mid-tier robots as priced at retail between $300 and $500 with premium robots priced at retail at over $500.

- In September, we introduced the latest upgrade to our Genius Home Intelligence Platform along with the Roomba j7+, our first robot designed with Genius from inception. I'll spend more time on this milestone in a moment.
- In October, we expanded our iRobot Select subscription service to include the Roomba j7+. iRobot Select is now scaling quickly in the U.S. while its counterpart in Japan, the iRobot Smart Plan, is also enjoying strong growth. Overall, we ended Q3 with nearly 50,000 global subscribers with approximately 40% of those customers in the U.S. Since launching iRobot Select a year ago, we have accelerated the pace of adding new subscribers from dozens per week to hundreds per week to over 1,000 customers per week.
- Last week, we announced a new partnership with Bona to sell their hardwood and hard surface floor cleaning solutions alongside our Braava jet m6 robot mop. This relationship underscores our ongoing commitment to provide our customers with high-value accessories and highlights the opportunity to further expand overall accessory sales, which are up 33% for the first nine months of the year.
- We also continued to make good progress in moving our new CRM and related digital marketing tools and technology into production. With the implementation of new systems for our customer care teams, we are increasing call center productivity and effectiveness, which in turn is enabling us to optimize costs and raise overall customer satisfaction.

Looking ahead, our long-term success will be anchored around our ability to elevate our value proposition to consumers around the globe and further differentiate our robots in a competitive marketplace. Accordingly, I would like to spend a moment outlining why the innovation within Genius 3.0 and the j7+ is so critical.

- We see consumer robotics following a similar path to PCs and cell phones in which the software that powers those products became the primary driver of consumer buying behavior. Genius is critical to our ability to extend our technology leadership and ensure that Roomba and Braava remain the top floor cleaning robots with consumers worldwide.

- With the newest version of our Genius platform, we have taken a major leap forward in how we apply AI, machine vision and home understanding. Powered by Genius, the Roomba j7+ takes the time to understand your cleaning preferences, learn your cleaning rules, ask for and respond to feedback, and remember how to react in the future. It even recognizes and avoids cords and pet waste. We believed so strongly in our Precision Vision Navigation technology to identify and avoid solid pet waste that we will replace any Roomba j7+ that fails to live up to our Pet Owners Official Promise. It is exciting to see that the superior intelligence of our robots is starting to emerge as a key differentiator in the marketplace.
- As we move forward, we plan to continue enhancing Genius in ways that are aimed at enabling our customers to precisely direct where, when and how our floor care robots clean while seamlessly integrating our products into their lifestyles. Many of the newest features and functionality within Genius are unique in the marketplace, thereby enabling us to deliver a very satisfying cleaning experience that we believe will increase the likelihood that our customers will remain loyal to iRobot over the long term.
- Genius is more than a robot intelligence system – it is a home intelligence platform. We explicitly refer to it that way because our vision for iRobot extends beyond robotic floor care. Over time, we expect that Genius will support our ability to build out a larger ecosystem by entering new, adjacent robotic and smart home categories.

2021 Outlook

Before we discuss our outlook for 2021, it is important to remember the wide range of challenges we have been navigating and the impact they've collectively had on our anticipated financial performance. More specifically, at the time of our Q2 call, we called out the following developments:

- The semiconductor chip shortage left us unable to fulfill a significant level of anticipated orders in the second half of 2021 and we adjusted our top-line outlook accordingly.

- In addition to scaling back our top-line ambitions, we also began implementing a range of cost austerity actions to mitigate approximately $55 million in higher-than-expected costs associated with sourcing raw materials, procuring the integrated circuit componentry necessary to produce our robots and shipping our products.

Since our Q2 call at the end of July, we have continued to manage through component availability challenges. We are also contending with longer shipping timeframes, delays in shipping and other related logistical issues that further threaten our ability to expeditiously fulfill anticipated Q4 orders. Given these dynamics, we have refined our FY21 revenue outlook to range from $1.555 billion to $1.59 billion.

Our FY21 expectations for operating income and EPS outlook have changed meaningfully since our Q2 call in late July. Beginning in early August and continuing through September, oceanic transportation and air freight costs escalated beyond what we had contemplated in July for the second half of the year by approximately $13 million. We are taking steps to limit the impact of these higher costs by further optimizing our second-half channel activities, thoughtfully adjusting our hiring plans, refining our working media and limiting other discretionary spending.

In addition to incrementally higher shipping costs, our updated 2021 outlook factors in recent developments on the tariff front. Up until earlier this month, we were optimistic that we would be granted Section 301 tariff relief at some point during the second half of this year. This view was based on bipartisan activities to restore the tariff exclusion process, including legislation that was passed by the U.S. Senate in June to reinstate tariff exclusions and extend a retroactive refund for any tariffs paid this year. While we were pleased that the U.S. Trade Representative recently restarted a targeted tariff exclusion process for Section 301 duties, the current process is unlikely to be finalized and implemented before the end of this calendar year. Additionally, while we believe we have a compelling case to have our exclusion reinstated, any exclusion granted under the current rulemaking would only refund tariffs paid since October 12, 2021, rather than from the start of 2021. We remain actively engaged with key stakeholders in Washington to advance our position.

With a tariff exclusion no longer likely for this year, our full-year outlook adds $42 to $43 million back into our cost structure. As a result, we now expect 2021 operating income in the range of $36 to $55 million with EPS ranging from $1.15 to $1.74. Had the tariff exclusion been granted for this year retroactive to January 1, our EPS performance would have been $1.24 to $1.27 higher and within the expectations we set at the end of July. Although this development further depresses our 2021 earnings performance, we believe that taking any additional material cost-reduction actions would substantially impair our ability to execute on our strategy over the coming quarters and derail our ambitions to drive long-term value creation.

We move forward focused on successfully closing out 2021 while also advancing our plans for 2022 and beyond. We are very excited about the opportunities that lie ahead and I will share some additional perspective on 2022 in just a few minutes but, at this point, I will turn the call 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 third quarter of 2020 unless otherwise noted.

We reported Q3 results that were generally better than we had expected at the start of the quarter. Total third-quarter revenue grew 7% to $441 million with the strong performance against our plans due largely to the timing of orders.

- Geographically, revenue grew 5% in the U.S. and 8% internationally as EMEA and Japan increased 15% and 2%, respectively.
- From a product mix perspective, Roomba robots and accessory revenue represented 90% of our Q3 revenue with the remainder being Braava robot and accessory sales.
- We estimate that approximately 60% of total third-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 13% to $40 million, or 9% of total revenue. Strong DTC growth in EMEA and Japan more than offset a modest decline in the U.S. We expect full-year DTC sales will represent 12% to 13% of total full-year revenue in 2021.

Our gross margin of 37% in Q3 was better than expected by approximately 200 basis points due primarily to favorable changes in promotional activity, timing of certain air freight costs that will now impact Q4, leverage on our fixed costs and lower return rates. Compared with last year's third quarter, our gross margin declined by 11 percentage points. More than 60% of the decrease was due to tariff costs of $14 million and supply chain headwinds. The remainder was split between pricing and promotional activity, higher warranty expense, and unfavorable channel and product mix shifts.

Third-quarter 2021 operating costs of $115 million increased 8% and represented 26% of revenue. While we continued to fund key initiatives, we remained disciplined with our spending as we moderated working media, adjusted the timing of new hires and other personnel-related actions, and carefully managed discretionary spending. Our Q3 2021 operating income was $48 million, or 11% of revenue.

Our third-quarter tax rate was approximately 2%, 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 $1.67.

We ended the third quarter with $248 million in cash and short-term investments, a decline of $168 million from the end of Q2. The sequential decrease primarily reflects the $100 million Accelerated Share Repurchase program and cash outflows associated with changes in working capital, most notably accounts receivable and inventory. It is worth noting that our cash and short-term investments include a $30 million position in Matterport, which became a publicly traded company this summer. This event resulted in a $27 million gain on our Matterport investment and is reflected in other income in our third-quarter GAAP income statement. Our Matterport shares were classified as a short-term investment and they remain subject to a lock up provision until early next year. The value of those shares will be marked to market each month until the investment is sold.

Third-quarter DSOs were 50 days, a 10-day increase against the same period one year ago but slightly below the third quarter of 2019. The increase reflects shifts in the timing of orders toward the back half of the quarter and a mix shift among our retail partners. Q3 ending inventory was $354 million, or 116 days, compared with $218 million, or 93 days, at the same time last year. As expected, inventory remained elevated in the third quarter, which primarily reflects higher in-transit inventory as global supply chain issues extend shipping times across all primary modes of transportation. We expect inventory and DII will revert back to more normalized, historical levels in the fourth quarter.

Outlook

With the quarterly review complete, let's move on to our fourth-quarter and full-year 2021 outlook. As Colin noted, we have been managing through a range of issues that have impacted our revenue and profitability expectations.

Q421 & FY21 Revenue

In terms of our top line, we have refined our 2021 revenue outlook within the prior range due to the combination of component availability and shipping-related issues. We now expect 2021 revenue in the range of $1.555 billion to $1.59 billion, which would result in annual growth of 9% to 11%. Our updated full-year revenue outlook implies fourth-quarter revenue in the range of $445 to $480 million. As a reminder, our revenue expectations contemplate Yen and Euro exchange rates roughly in line with current rates, plus or minus 5%.

Q421 & FY21 Gross Margin

In terms of our gross profit margin, earlier on the call, Colin outlined the incremental transportation and tariff headwinds that will further pressure gross margin. For the full year, we now expect gross margin of approximately 36%. This updated view reflects anticipated 2021 tariff costs between $42 million and $43 million. Had the tariff exclusion been granted this year and applied retroactively to January 1, our FY21 gross margin would have been approximately 39%. We expect a Q4 gross margin between 30% and 32%, which includes anticipated tariff costs of around $13 to $14 million. Approximately half of the decline in our anticipated Q421 gross margin versus the fourth quarter of 2020 will be driven by higher supply chain costs followed by tariffs, changes in pricing between this year and last, and shifts in product and channel mix.

Q421 & FY21 Operating Costs & Operating Profitability

In terms of our fourth-quarter and full-year operating costs, we expect a meaningful sequential increase in our sales and marketing costs as we invest in working media to drive holiday season purchasing. Based on planned Q4 spending of the high $160 million range, we are targeting full-year 2021 operating costs of approximately $523 million, or 33% to $34% of total revenue.

Within our full-year 2021 spend, we still anticipate that our sales and marketing costs will range between 18% and 19% of total revenue with research and development expense targeted at around 10% and general and administrative costs of approximately 5%. As a result, we expect a 2021 operating profit between $36 million and $55 million, which implies an operating profit margin between 2% and 3%. These expectations imply a Q4 operating loss in the range of $17 million to $36 million.

Other Assumptions & EPS

In terms of other major modeling assumptions for 2021, we expect other expense of around $2 million. We are now anticipating an effective tax rate between 5% and 7%, which primarily reflects lower operating income. As a result, we anticipate a full-year EPS range from $1.15 to $1.74 with an anticipated diluted share count of approximately 28 million shares. Had a tariff exclusion been granted in the fourth quarter retroactively to January 1, we estimate that our 2021 EPS would have been $1.24 to $1.27 higher on an after-tax basis using a higher tax rate of 17% on the assumption of higher operating income. We anticipate a fourth-quarter net loss per share in the range of negative $0.63 to negative $1.24. We continue to expect our 2021 capital spending will be in the low $50 million range and anticipate a strong quarter of cash generation in Q4, which will enable us to begin rebuilding our cash position.

In summary, to echo some of Colin’s earlier comments, 2021 presented us with a number of unexpected challenges. While we will fall short of achieving our targets this year, we would frame 2021 as another year of solid revenue growth, outstanding collaboration across the organization to limit the impact of rising costs and component supply constraints, and excellent execution to advance our strategy and position for us for long-term prosperity. I’d like to turn the call back to Colin for some final thoughts.

Colin:

Thank you Julie.

We are understandably very excited about our strategic direction and the potential we see to create substantially greater shareholder value. By advancing innovation to differentiate the iRobot experience, we expect continued success in expanding our connected customer base. We intend to delight those customers from the moment they purchase our products and begin using them. We believe that a happy iRobot customer will increasingly buy more products and services directly from us over the lifetime of their ownership. Our highest priority R&D, commercial, marketing and operations initiatives are geared around supporting this simple, overarching strategy.

We are confident that continued execution will enable us to expand our business and create significant value over the long term. As we work to refine our planning for 2022, we currently expect that:

- Our actions to improve supply chain resiliency will help us move beyond our product supply constraints in the second half of next year.
- We expect a higher revenue growth rate in 2022 than 2021 as we anticipate that improved supply will translate into a much stronger top-line performance in the second half of next year.
- We are pleased with the trajectory of existing connected customer revenue this year and look forward to moving into production with a range of new CRM capabilities over the next quarter or two. We believe that these new tools will play an important role in our efforts to further accelerate the growth of our existing customer revenue.
- We are bullish about the potential of our iRobot Select service and other similar subscription offerings outside of the U.S. These offerings represent new ways for us to increase existing customer revenue while also appealing to price-sensitive customers who might otherwise opt for a less expensive robot from the competition. As we continue adding thousands of new subscribers each quarter, we expect to exit 2022 with a growing base of annualized recurring revenue.

- A major cost headwind next year will be higher transportation costs, which we expect will remain elevated through the first three quarters of next year.
- Tariffs remain a wildcard. While we believe an exclusion is likely, it remains to be seen how quickly it can be granted. If tariffs remain in place next year, we expect that our 2022 tariff costs will decline meaningfully from 2021 levels. Our initiative to achieve scale with our production in Malaysia by the end of this year remains on schedule although there is more work for us to do as we finalize our product roadmaps and production plans for next year.

We believe that 2022 will represent a major turning point in our efforts to transform iRobot into a more defensible, profitable enterprise with a compelling value proposition that resonates across a growing, global base of loyal connected customers. As we execute on our plans to expand our business and grow the lifetime value of each iRobot customer, we plan to remain disciplined with our spending. As a result, our assumptions for next year include an expectation that our second half revenue, operating profit and EPS performance will be meaningfully better than the first half. We are excited about what's in store for our company and our shareholders. We look forward to offering a deeper dive into key areas of our business and reintroducing our long-term financial model when we hold our Investor Day on Thursday, December 9, 2021.

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 nine months ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
GAAP Revenue	$ 440,682	$ 413,145	$ 1,109,539	$ 885,563
GAAP Gross Profit	$ 162,754	$ 198,841	$ 424,674	$ 454,808
Amortization of acquired intangible assets	225	225	675	1,695
Stock-based compensation	284	331	929	1,150
Tariff refunds	(270)	-	(270)	(40,017)
Non-GAAP Gross Profit	$ 162,993	$ 199,397	$ 426,008	$ 417,636
Non-GAAP Gross Margin	37.0 %	48.3 %	38.4 %	47.2 %
GAAP Operating Expenses	$ 122,256	$ 117,847	$ 380,829	$ 323,756
Amortization of acquired intangible assets	(251)	(256)	(661)	(764)
Stock-based compensation	(1,789)	(9,512)	(15,266)	(19,754)
Net merger, acquisition and divestiture (expense) income	(635)	-	(1,274)	566
IP litigation expense, net	(4,569)	(1,607)	(9,292)	(3,360)
Restructuring and other	-	(200)	(213)	(2,063)
Non-GAAP Operating Expenses	$ 115,012	$ 106,272	$ 354,123	$ 298,381
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	26.1 %	25.7 %	31.9 %	33.7 %
GAAP Operating Income	$ 40,498	$ 80,994	$ 43,845	$ 131,052
Amortization of acquired intangible assets	476	481	1,336	2,459
Stock-based compensation	2,073	9,843	16,195	20,904
Tariff refunds	(270)	-	(270)	(40,017)
Net merger, acquisition and divestiture expense (income)	635	-	1,274	(566)
IP litigation expense, net	4,569	1,607	9,292	3,360
Restructuring and other	-	200	213	2,063
Non-GAAP Operating Income	$ 47,981	$ 93,125	$ 71,885	$ 119,255
Non-GAAP Operating Margin	10.9 %	22.5 %	6.5 %	13.5 %

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 nine months ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
GAAP Income Tax Expense	$ 9,867	$ 29,982	$ 8,083	$ 39,156
Tax effect of non-GAAP adjustments	(8,905)	(12,119)	(5,995)	(15,842)
Other tax adjustments	156	290	2,929	(888)
Non-GAAP Income Tax Expense	$ 1,118	$ 18,153	$ 5,017	$ 22,426
GAAP Net Income	$ 57,216	$ 93,252	$ 61,901	$ 133,733
Amortization of acquired intangible assets	476	481	1,336	2,459
Stock-based compensation	2,073	9,843	16,195	20,904
Tariff refunds	(270)	-	(270)	(40,017)
Net merger, acquisition and divestiture expense (income)	635	-	1,274	(1,241)
IP litigation expense, net	4,569	1,607	9,292	3,360
Restructuring and other	-	200	213	2,063
Gain on strategic investments	(27,141)	(43,480)	(26,929)	(43,567)
Income tax effect	8,749	11,829	3,066	16,730
Non-GAAP Net Income	$ 46,307	$ 73,732	$ 66,078	$ 94,424
GAAP Net Income Per Diluted Share	$ 2.06	$ 3.27	$ 2.17	$ 4.69
Amortization of acquired intangible assets	0.02	0.02	0.05	0.08
Stock-based compensation	0.08	0.34	0.57	0.73
Tariff refunds	(0.01)	-	(0.01)	(1.40)
Net merger, acquisition and divestiture expense (income)	0.02	-	0.04	(0.04)
IP litigation expense, net	0.16	0.06	0.33	0.12
Restructuring and other	-	-	0.01	0.07
Gain on strategic investments	(0.98)	(1.52)	(0.95)	(1.53)
Income tax effect	0.32	0.41	0.11	0.59
Non-GAAP Net Income Per Diluted Share	$ 1.67	$ 2.58	$ 2.32	$ 3.31
Number of shares used in diluted per share calculation	27,803	28,539	28,475	28,502
Supplemental Information				
Days sales outstanding	50	40		
Days in inventory	116	93		

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

	FY-21
GAAP Gross Profit	$556 - $576 million
Amortization of acquired intangible assets	~$1 million
Stock-based compensation	~$1 million
Total adjustments	~$2 million
Non-GAAP Gross Profit	$558 - $578 million

	FY-21
GAAP Operating (Loss) Income	($1) - $17 million
Amortization of acquired intangible assets	~$1.7 million
Stock-based compensation	~$23.6 million
Net merger, acquisition and divestiture expense (income)	~$1.3 million
IP litigation expense, net	~$11.2 million
Restructuring and other	~($0.1) million
Total adjustments	~$37.7 million
Non-GAAP Operating Income	$36 - $55 million

	FY-21
GAAP Net Income Per Diluted Share	$0.81 - $1.37
Amortization of acquired intangible assets	~$0.06
Stock-based compensation	~$0.84
Net merger, acquisition and divestiture expense (income)	~$0.04
IP litigation expense, net	~$0.39
Restructuring and other	-
Gain on strategic investments	~($0.95)
Income tax effect	($0.04) - ($0.01)
Total adjustments	$0.34 - $0.37
Non-GAAP Net Income Per Diluted Share	$1.15 - $1.74
Number of shares used in diluted per share calculations	~28.2 million

iRobot Corporation
Supplemental Detail on Impact of Section 301 Tariffs and Other Changes on the Company's Updated Outlook
(unaudited)

Metric	July Guidance Non-GAAP	Section 301 Tariffs	Other Changes	October Guidance Non-GAAP
Revenue	$1.55 - $1.62 billion	-	$5 - ($30) million	$1.555 - $1.590 billion
Gross Profit	$612 - $645 million	($42) - ($43) million	($12) - ($24) million	$558 - $578 million
Operating Income	$80 - $110 million	($42) - ($43) million	($2) - ($12) million	$36 - $55 million
Tax Rate	16% - 17%	-	(11)% - (10)%	5% - 7%
Earnings Per Share	$2.25 - $3.15	($1.24) - ($1.27)	$0.14 - ($0.14)*	$1.15 - $1.74

* The earnings per share impact of $0.14 – ($0.14) from other changes is based on the updated effective tax rate of 5% - 7% arising from the revised outlook for revenue and operating income.