iRobot Q421 and FY21 Financial Results Conference Call Prepared Remarks

February 10, 2021

iRobot Fourth-Quarter & Full-Year 2021 Financial Results Conference Call

Operator:

Good day everyone and welcome to the iRobot fourth-quarter and full-year 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, and timing and impact thereof; 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 and retail channels; our expectations regarding the continued application of tariffs on goods imported into the United States from China and expected impact thereof; 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; our expectation regarding the availability of semiconductor chips; the impact of our investments; the impact of our digital marketing tools and technology; the impact of our Genius platform and the timing of planned updates thereto; our plans and expectations regarding our air purification products; expectations regarding customer satisfaction and increases in our connected customer base; our plans and ability to minimize the impact of higher costs including expected manufacturing production in different geographies; 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 and loss; non-GAAP operating profit and loss margin, non-GAAP effective tax rate, and non-GAAP net income and loss 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 fourth-quarter 2021 and full-year 2021 financial results press release we issued last evening, which is available on our website at www.irobot.com. Also, unless stated otherwise, our fourth-quarter and full-year 2021 financial metrics, as well as the 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 fourth quarter of 2020 and full year 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 February 17, and can be accessed by dialing 404-537-3406, passcode 3997756.

For today's call, our agenda will be as follows. Colin will briefly cover the company's quarterly and annual financial results, review important strategic milestones and outline our expectations for 2022. Julie will review our financial results in detail, and offer additional insight into our 2022 guidance. Colin will conclude our commentary with some closing remarks about our bright prospects over the longer term. 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. Despite a myriad of supply chain challenges, we delivered fourth-quarter financial results within the parameters we outlined in October. We generated fourth-quarter revenue of $455 million even as shipping delays prevented us from fulfilling over $35 million in fourth-quarter orders. Although our gross margin was lower than expected, we managed our costs carefully to report an operating loss of $34 million and a net loss per share of $1.05.

For the full year, we grew revenue by 9% to $1.565 billion with an operating profit of 2% and EPS of $1.34. Our 2021 performance can be best described as a tale of two halves with outstanding first-half revenue growth and profitability followed by a second half that was shaped by ongoing supply chain challenges that impacted our top and bottom lines. More specifically, semiconductor chip shortages constrained our ability to keep pace with demand, especially for some of our most popular premium Roomba models. In addition, our top-line performance was also hampered by shipping delays. Our 2021 profitability reflected the combination of lower revenue and higher component costs, increased transportation costs, raw materials inflation and tariffs.

We made considerable progress during 2021 to execute our “INNOVATE, GET, KEEP, GROW.” strategy, which we detailed during our recent Investor Day. I’d like to recap our 2021 accomplishments and review key 2022 goals against the backdrop of this strategy:

INNOVATE

On the innovation front, consumer robotics is following PCs, cell phones and other sectors with software – not hardware – as the primary factor for consumer purchasing decisions. iRobot's product strategy is to win with consumers by delivering high-performance, beautifully designed products that are differentiated by the superior software intelligence of our Genius Home Intelligence platform. Genius took center stage as a sustainable competitive advantage for our floor care robots during 2021.

- Our September upgrade of Genius helped make the Roomba j7 Series our most successful new Roomba launch in recent years. With only four months of sales, the j7 became a top 5 selling RVC in the U.S. for all of 2021. The primary difference between the j7 and its predecessor robot, the i7, is its software.

- Our product strategy is paying off. Genius' highest value capabilities are showcased in our premium and mid-tier Roomba and Braava robots[1]. Sales of these robots grew 15% in 2021 and represented approximately 83% of our 2021 robot revenue.
- With Genius as a key differentiator, Roomba has remained the category's technology and share leader globally and in each primary geographic region.
- I am excited for what's in store for 2022. We plan to deliver two major Genius updates this year aimed at bringing greater intelligence, thoughtfulness and personalization to our robots and more insights to our customers. To fortify our mid-tier leadership, we plan to cascade certain premium digital features down into our portfolio.
- In terms of new robots, we plan to introduce one new Roomba model in 2022 and complete the global rollouts of the j7 Series and i1 Series that began last year.
- We are also excited about our plans for the Aeris air purifier products we acquired this past November. We anticipate rebranding the Aeris portfolio in the second half of 2022, followed by the introduction of at least one new air purifier along with initial integration of certain Genius-related capabilities across this product line.

GET

Even as the RVC category has continued to grow, overall household penetration is still relatively low. As a result, bringing new customers into our franchise – the GET component of our strategy – remains central to our success.

- During 2021, we continued to expand our base of connected customers who have opted into our digital communications by 44% to 14.0 million.
- Retail continues to be a proven, scaled and profitable channel for new customer acquisition. Retailer and distributor revenue grew 8% in 2021.
- We move into 2022 with a great opportunity to continue bringing new connected customers into our franchise at all price points.
    - Genius is fundamental to capitalizing on this opportunity because Genius enables features and functionality that are unique to our products. Since launch, the j7 has identified and avoided millions of cords, socks and shoes, and thousands of pet accidents. By sharing images with the owner, the j7 gets smarter after every mission. As a result, the j7's mission completion rates are the highest in our fleet. With our

[1] Defined as floor cleaning robots with an MSRP of $300 and higher.

November Genius upgrade, owners can copy their existing maps to new robot – 70% of users took advantage of this feature when prompted. We believe that this will help retain more users when they opt to replace their robot or add a new one into the house -- like when smart phone users transfer data and apps to a new phone.
   - We expect that the global roll out of the Roomba i1 Series during 2022 will enable us to strengthen our position in the entry-level segment.
   - Having closed last year with approximately 74,000 subscribers worldwide, a key initiative for us in 2022 will be to continue scaling our robot-as-a-service subscription offerings globally.

KEEP

After a customer buys our floor care robot, our goal is to make sure they love it and use it often. That was the case in 2021 and we expect it to continue this year.

- Quarterly utilization[2] was consistent in 2021 at just over 90%. We expect to maintain consistently high utilization levels and strong NPS and CSAT scores in 2022.
- As we cascade certain premium Genius features further down into our robot family, we believe that will further increase our stickiness with these owners.

GROW

A major driver behind our long-term growth ambitions lies in our conviction that a happy iRobot customer will purchase more products and services directly from us over the course of their ownership. We made tangible progress on this front in 2021.

- We saw excellent growth in sales to our existing customers who we estimate make up nearly a third of our revenue. In particular, we estimate that connected customer revenue grew 10% in 2021 and represented 21% of total revenue.[3]
- Direct-to-consumer (DTC) revenue increased 24% in 2021 and represented 12% of total revenue. Our 2022 target is to accelerate DTC sales into the mid to high teens as a percentage of our total annual revenue as we drive more transactional activity from more connected customers.

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[2] Defined as percentage of robots running missions from one quarter to the next quarter.

[3] Existing customer revenue is estimated using annual survey data. iRobot's connected customer revenue estimate includes accessory and adjacent product purchases as well as new robots added to a connected customer's Home App. iRobot's non-connected customer revenue is calculated by subtracting connected customer revenue from the annual survey data.

- Accessory sales grew 24% in 2021 and represented approximately 4% of total revenue. We expect continued growth on this front in 2022 especially as we roll out new insights from Genius that help owners properly maintain their robots.
- In 2021, we made good progress with the implementation of new marketing technology systems and tools. Moving into 2022, one of our highest priority "GROW" initiatives is to move our entire marketing technology stack into production. This investment is designed to enhance the online buying experience on our website and app, and enable personalized digital marketing at scale to deliver the right promotions to the right customers at the right times.
- Product diversification is intrinsically important to our efforts to further fuel existing customer revenue growth.
    - Our November 2021 acquisition of Aeris expands our total addressable market and supports our ability to provide consumers with premium products that will keep their homes both cleaner and healthier. Aeris contributed just under $3 million to our fourth-quarter revenue. The integration of Aeris into our organization is progressing. Overall, we expect air purification products to generate over $40 million in 2022 revenue.

2022 Outlook

Looking ahead, we expect that our anticipated 2022 performance will resemble 2021 as a tale of two halves with top-line strength in the second half of year. Our 2022 revenue guidance ranges from $1.75 billion to $1.85 billion, which represents 12% to 18% growth over 2021. We currently expect that approximately 65% of full-year revenue will be generated in the second half of the year. We are optimistic about our potential to achieve these targets for a couple of important reasons.

First, iRobot's 2022 annual revenue targets are based on maintaining our leadership in a growth-oriented category[4] with a bright future. Thanks to low double-digit growth in the mid and premium price tiers, the RVC category grew 7% in 2021 despite lapping a very strong 2020. The category averaged 17% growth during the past two years, which is in line with its

[4] Category defined as RVCs with an MSRP of $200 or higher sold globally (except China). Category growth based on third-party market data and iRobot internal estimates including normalization of 52-week calendar year in 2020, updates to certain data sources and other changes.

CAGR since 2017. Just as important, there's considerable upside for further household penetration of these products around the world. Looking closer into our targets, we are assuming high single-digit to mid-teens organic expansion – augmented by several points of inorganic growth from air purifier sales. Our organic revenue growth outlook at the mid-point is in line with iRobot's revenue CAGR over the past two years.

Second, we are increasingly confident that our access to semiconductor componentry will improve over the coming quarters. Our improved visibility reflects ongoing dialogue with our largest and most strategic chip suppliers, and meaningful progress in qualifying new components from both existing and new suppliers.

In terms of our 2022 profitability targets, we expect modest non-GAAP gross margin improvement this year and full-year 2022 operating income between $44 million and $60 million. Based on these dynamics, our 2022 non-GAAP EPS targets range from $1.50 to $2.00, which would represent 12% to 49% growth over 2021.

Overall, we are extremely excited about our strategic direction. We believe that the second half of this year will represent a major turning point in our performance that will provide us with significant momentum going forward. I'll plan to spend a few minutes on our long-term financial targets but before I do, I'd like to turn the call over to Julie for her review of our 2021 results and greater insight into our 2022 guidance.

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 loss, operating profit margin, effective tax rate and net income and loss per share will mean the corresponding non-GAAP metric. All quarterly comparisons are against the fourth quarter of 2020 and all full-year comparisons are against 2020 unless otherwise noted.

iRobot's fourth-quarter 2021 financial results were within the ranges we outlined on the Q3 call in October. Total Q4 revenue of $455 million declined 16%. In addition to semiconductor chip constraints that impacted second-half 2021 production levels, we were unable to recognize more than $35 million in fourth-quarter orders due to shipping delays. These delays resulted primarily from a combination of port congestion, labor shortages at warehouses and a major snowstorm in the Pacific Northwest during the last week of the quarter. The delays caused many of those orders to miss key promotional windows, although some were fulfilled in the first quarter of 2022. Our commercial teams are working closely with retailers to sell that inventory over the coming quarters as they refine their 2022 promotional activities.

Geographically, strong 19% growth in Japan in the fourth quarter was offset by a 29% decrease in the U.S. and a 2% decrease in EMEA. From a product mix perspective, Roomba represented 90% of our Q4 revenue mix with Braava making up the remainder. Our fourth-quarter DTC sales declined slightly as strong growth in EMEA and Japan was offset by lower sales in the Americas as we lapped an exceptionally strong quarter.

Our gross margin of 27.8% in Q4 declined 13 percentage points from the prior year and was below our target. The year-over-year decrease primarily reflected 5 percentage points associated with higher air and oceanic transportation, 4 percentage points associated with tariffs with the bulk of the remainder split between changes in pricing and promotion, higher component costs, unfavorable product mix and suboptimal absorption of fixed operational costs. The lower-than-anticipated quarterly gross margin performance was largely due to higher-than-forecasted tariff expense arising from the combination of higher component costs and changes in geographic production, as well as certain pricing and promotional activities.

Fourth-quarter 2021 operating expenses of $160 million declined by 15% and represented 35% of revenue. The decrease primarily reflected disciplined spending during the quarter across the board with the biggest drivers being adjustments to our working media and to a much lesser extent, lower program spend on certain R&D projects in the fourth quarter of 2020. Our Q4 operating loss was $34 million.

We had a tax benefit in the fourth quarter from adjustments to our full-year tax rate driven by lower operating income combined with favorable FDII (foreign derived intangible income) deduction. Our fourth-quarter net loss per share was $1.05.

From a full-year perspective, 2021 revenue grew 9% to $1.565 billion. Geographically, we generated 48% of our revenue in the U.S., which grew by 1%. International revenue grew by 18% highlighted by EMEA's 22% growth and Japan's 15% growth.

2021 gross margin of 35.3% declined 9 percentage points from 2020. Two-thirds of the decline was split relatively evenly between tariffs and higher air and ocean transportation costs. The remainder was primarily attributable to product mix associated with shifts toward new products that have not yet achieved sufficient scale, higher component costs, increased warranty expense, and pricing and promotion.

Full-year operating expenses of $514 million grew by 6% due to the combination of higher personnel expenses associated with headcount, increased consulting to support certain R&D initiatives and the investments associated with our DTC and marketing technology initiatives. Operating income in 2021 was $38 million and our operating margin was 2%.

Our full year 2021 effective tax rate benefit was 0.4%. We reported 2021 EPS of $1.34.

We ended 2021 with $235 million in cash and short-term investments, a decline of $13 million from the end of Q3. The decrease primarily reflects our acquisition of Aeris netted against our cash flow from operations in the fourth quarter.

Fourth-quarter DSOs were 32 days, an increase of 1 day from the same period one year ago.[5] Our year-end inventory balance was $333 million, or 92 days. In 2020, the year-end inventory was $182 million, or 55 days.

I'd like to spend a moment on this topic because the inventory balance is higher than historical norms. As I mentioned earlier, Q4 was particularly difficult due to both extended shipping timeframes and supply constraints. Our year-end 2021 inventory balance and DII increase was primarily driven by a meaningful increase in in-transit inventory, which added 22 days to our DII. We also put our balance sheet to work as we carried higher inventory balances to maximize Q4 capacity utilization at our contract manufacturers and support end-of-life programs for certain products. Work is underway to optimize our inventory, although we expect inventory, measured in dollars and days, will stay elevated over the next couple of quarters. We believe improvement on this front in 2022 will be somewhat limited due primarily to elongated shipping timeframes. As a result, we are targeting year-end 2022 DII levels in the low 70-day range.

Outlook

With that said, let's take a deeper dive into our 2022 outlook.

2022 Revenue

As Colin noted, we anticipate 2022 revenue will grow in the range of 12% to 18% to $1.75 billion to $1.85 billion. We anticipate approximately 65% of our full-year revenue coming in the second half with an expected first-half revenue decline of 3 to 8 percent and an anticipated second-half growth of 26 to 34 percent. As we compare against a very unusual 2021, we expect 2022's first-half/second-half mix will resemble the way 2020 came together when 67% of our revenue was generated in the second half. Overall, our 2022 revenue outlook assumes higher unit volume for robots complemented by higher gross robot ASPs along with $40-plus million from our newly acquired air purification products. We expect that between 70% and 75% of our air purifier revenue will come in the second half of the year following the completion of our rebranding work.

[5] DSO and DII calculations based on 91 days in Q421 versus 98 days in Q420.

As a reminder – and we say this every year – we manage our business on a full-year basis and encourage investors to focus on our annual targets since the timing of orders is challenging to forecast even under ideal conditions and large orders that shift from one quarter to the next can cause material fluctuations in our quarterly growth rates. Additionally, our revenue expectations contemplate Yen and Euro exchange rates roughly in line with current rates, plus or minus 5%.

2022 Gross Margin

We anticipate that our 2022 gross margin will improve modestly to between 36% and 37%. There are a lot of moving parts but at a high level we expect that the combination of COGs productivity initiatives, decreased air freight and reductions in warranty expense will be partially offset by higher pricing and promotional activity, and increased ocean transport costs. In terms of tariffs, we currently anticipate $42 to $44 million in full-year 2022 tariff costs. This is higher than our expectations in early December and it reflects our overarching focus on optimizing total landed costs across labor, materials, components and tariffs as we finalized our 2022 commercial plans, product roadmaps and negotiations with our contract manufacturers in both China and Malaysia. We now expect that up to 75% of all Roomba robots produced for North America in 2022 will be made in Malaysia. As we expand the range of robots produced in Malaysia and increase overall volume in the second half of the year, we expect our tariff costs will decline as we exit 2022 and deliver meaningful savings in 2023.

2022 Operating Costs & Operating Profitability

We are targeting 2022 operating costs in the range of $578 to $621 million, or approximately 33% to 34% of sales. The anticipated increase over 2021 primarily reflects higher personnel costs associated with planned new hires this year and returning our incentive compensation to historical norms, increased working marketing and incremental spend on new R&D programs. While G&A and R&D are expected to trend near 2021 levels as a percentage of revenue, we anticipate sales and marketing will be slightly higher than 2021 as a percentage of revenue. This reflects working marketing returning to more historical levels to support our anticipated top-line growth, the build out of our martech stack and adding the talent necessary to operate it. Given our top-line guidance and spending plans, we currently expect an operating profit margin of approximately 3%.

Other Assumptions & EPS

In terms of other notable modeling assumptions for 2022, we anticipate other expense of around $2 million and an effective tax rate of approximately 3%. At these profitability levels, relatively small dollar changes in pre-tax income along with the jurisdictional mix of those profits can cause meaningful changes in the effective tax rate. We anticipate a diluted share count of approximately 28 million shares. As a result, we expect our full-year EPS to range from $1.50 to $2.00. One quick note on our GAAP EPS assumptions. We recently sold our stock in Matterport at the end of the lock up period. Due to the decline in the value of this investment since the end of 2021, we will recognize an approximately $17 million loss in our first-quarter 2022 GAAP results as other income/loss. Overall, our strategic investment in Matterport delivered an outstanding return with a significant gain in our GAAP results over our initial investment.

In terms of other 2022 financial guideposts, our business remains minimally capital intensive. Overall, we expect 2022 capital spending to be in the low-to-mid $30 million range, or approximately 2% of anticipated 2022 revenue. We anticipate that our cash flow from operations in 2022 will improve modestly from 2021 levels given our expected fundamental performance.

Q122

In terms of some quick, additional Q1 color, we currently anticipate Q1 revenue between $293 and $313 million, which would range from a 3% decline to 3% growth. We currently anticipate a Q1 gross margin in the low 30% range and tariff costs of approximately $8 million. We expect operating costs to range in the mid-40% range. As a result, we expect our operating loss will range from $37 million to $44 million. Our net loss per share for Q1 is anticipated to be between $1.35 and $1.60.

In summary, we managed through a very challenging second half of 2021 as component shortages hamstrung our ability to meet demand and made it difficult to absorb a range of higher-than-expected supply chain costs. Nevertheless, we delivered Q4 results within our prior expectations and made important strategic progress during 2021 that we believe will help us further expand our business, drive profit improvement and fuel EPS growth in 2022 and beyond. That concludes my commentary. I'll now turn the call back to Colin for some additional color on the coming year.

Colin:

Thank you Julie. As we've outlined, achieving our 2022 outlook is primarily based on improving our access to critical semiconductor devices and accelerating production in the second half of the year to fulfill the demand that we've been unable to satisfy. We believe that our second-half 2022 performance will serve as a springboard to achieve the long-term financial model that we unveiled at our Investor Day two months ago. More specifically, by 2024, we expect to grow our revenue to between $2.4 and $2.6 billion, increase gross margin into the low to mid-40% range, deliver an operating profit margin between 12% to 13% and expand our EPS to between $7.50 and $9.25.

The underlying assumptions behind this long-term financial model are fundamentally sound and relatively easy to understand. We expect to more than double the size of our connected customer base over the next three years as more consumers increasingly choose Roomba and Braava largely because of the way Genius delivers a new level of performance and collaboration between our robots and the people who own them. We anticipate reasonable growth at retail with much faster growth in our DTC channel as an expansive, growing base of loyal iRobot customers spends more money directly with us. We believe that our existing customers will buy more robots, accessories and other products like air purifiers directly from us. We expect significant growth in our air purifier sales over the next few years – candidly, we'll be disappointed if this isn't a $150 million-plus product category for us by the end of 2024.

We are committed to significant gross margin improvement. We anticipate that our tariff costs will shrink meaningfully in 2023 as we anticipate that the vast majority of our North America volume will be produced in Malaysia. We also expect our gross margin will further benefit from easing supply chain cost headwinds, ongoing DTC expansion and a relentless effort to achieve greater scale and efficiency across our operations. In terms of our operating costs, as we exit out of 2022, we plan to carefully calibrate our spending in ways that will enable us to fund our most promising growth initiatives while generating a point or more of operating leverage each year. Those dynamics underpin our expectation for material improvement in our operating profitability and accelerated EPS performance. We believe that our targets are both compelling and achievable.

I know the entire team at iRobot has worked incredibly hard over the past year to help move our company forward. All of us are motivated by the opportunity that lies ahead as we build the future. It is exciting to see how our products are intelligently partnering with their owners to help make their lives better. We believe that our success in achieving the long-term financial targets that we've outlined will create substantial value for our shareholders, our employees and our customers.

That concludes our remarks. Operator, we are ready to 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 eliminated tariffs on the Company's products imported from China until December 31, 2020 and entitled the Company to a refund of all related tariffs previously paid since September 2018. We excluded 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 had no impact to our fiscal year 2020 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, 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.

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

	For the three months ended		For the twelve months ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
GAAP Revenue	$ 455,448	$ 544,827	$ 1,564,987	$ 1,430,390
GAAP Gross Profit	$ 125,625	$ 215,421	$ 550,299	$ 670,229
Amortization of acquired intangible assets	548	225	1,223	1,920
Stock-based compensation	392	362	1,321	1,511
Tariff refunds	-	3,531	(270)	(36,486)
Non-GAAP Gross Profit	$ 126,565	$ 219,539	$ 552,573	$ 637,174
Non-GAAP Gross Margin	27.8%	40.3%	35.3%	44.5%
GAAP Operating Expenses	$ 170,570	$ 200,151	$ 551,399	$ 523,907
Amortization of acquired intangible assets	(369)	(228)	(1,030)	(992)
Stock-based compensation	(5,107)	(8,709)	(20,373)	(28,464)
Net merger, acquisition and divestiture (expense) income	(784)	-	(2,059)	566
IP litigation expense, net	(4,173)	(2,084)	(13,464)	(5,444)
Restructuring and other	58	(10)	(156)	(2,073)
Non-GAAP Operating Expenses	$ 160,195	$ 189,120	$ 514,317	$ 487,500
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	35.2%	34.7%	32.9%	34.1%
GAAP Operating (Loss) Income	$ (44,945)	$ 15,270	$ (1,100)	$ 146,322
Amortization of acquired intangible assets	917	453	2,253	2,912
Stock-based compensation	5,499	9,071	21,694	29,975
Tariff refunds	-	3,531	(270)	(36,486)
Net merger, acquisition and divestiture expense (income)	784	-	2,059	(566)
IP litigation expense, net	4,173	2,084	13,464	5,444
Restructuring and other	(58)	10	156	2,073
Non-GAAP Operating (Loss) Income	$ (33,630)	$ 30,419	$ 38,256	$ 149,674
Non-GAAP Operating Margin	(7.4)%	5.6 %	2.4 %	10.5 %

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 twelve months ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
GAAP Income Tax (Benefit) Expense	$ (10,188)	$ 1,691	$ (2,106)	$ 40,847
Tax effect of non-GAAP adjustments	3,061	3,826	(2,933)	(12,016)
Other tax adjustments	1,973	253	4,902	(635)
Non-GAAP Income Tax (Benefit) Expense	$ (5,154)	$ 5,770	$ (137)	$ 28,196
GAAP Net (Loss) Income	$ (31,511)	$ 13,335	$ 30,390	$ 147,068
Amortization of acquired intangible assets	917	453	2,253	2,912
Stock-based compensation	5,499	9,071	21,694	29,975
Tariff refunds	-	3,531	(270)	(36,486)
Net merger, acquisition and divestiture expense (income)	784	-	2,059	(1,241)
IP litigation expense, net	4,173	2,084	13,464	5,444
Restructuring and other	(58)	10	156	2,073
Gain on strategic investments	(3,135)	(250)	(30,063)	(43,817)
Income tax effect	(5,034)	(4,079)	(1,969)	12,651
Non-GAAP Net (Loss) Income	$ (28,365)	$ 24,155	$ 37,714	$ 118,579
GAAP Net (Loss) Income Per Diluted Share	$ (1.17)	$ 0.46	$ 1.08	$ 5.14
Amortization of acquired intangible assets	0.03	0.02	0.08	0.10
Stock-based compensation	0.20	0.32	0.77	1.05
Tariff refunds	-	0.12	(0.01)	(1.28)
Net merger, acquisition and divestiture expense (income)	0.03	-	0.07	(0.04)
IP litigation expense, net	0.16	0.07	0.48	0.19
Restructuring and other	-	-	0.01	0.07
Gain on strategic investments	(0.11)	(0.01)	(1.07)	(1.53)
Income tax effect	(0.19)	(0.14)	(0.07)	0.44
Non-GAAP Net (Loss) Income Per Diluted Share	$ (1.05)	$ 0.84	$ 1.34	$ 4.14
Number of shares used in diluted per share calculation	26,978	28,763	28,162	28,618
Supplemental Information				
Days sales outstanding	32	31		
Days in inventory	92	55		

iRobot Corporation
Supplemental Reconciliation of Fiscal Year 2022 GAAP to Non-GAAP Guidance
(unaudited)

	FY-22
GAAP Gross Profit	$617 - $676 million
Amortization of acquired intangible assets	~$3 million
Stock-based compensation	~$2 million
Total adjustments	~$5 million
Non-GAAP Gross Profit	$622 - $681 million

	FY-22
GAAP Operating Income	$1.3 - $17.3 million
Amortization of acquired intangible assets	~$5 million
Stock-based compensation	~$34.5 million
IP litigation expense, net	~$3.2 million
Total adjustments	~$42.7 million
Non-GAAP Operating Income	$44 - $60 million

	FY-22
GAAP Net (Loss) Income Per Diluted Share	($0.23) - $0.27
Amortization of acquired intangible assets	~$0.18
Stock-based compensation	~$1.25
IP litigation expense, net	~$0.12
Loss on strategic investments	~$0.61
Income tax effect	~($0.43)
Total adjustments	~$1.73
Non-GAAP Net Income Per Diluted Share	$1.50 - $2.00
Number of shares used in diluted per share calculations	~27.6 million

iRobot Corporation
Supplemental Reconciliation of Fiscal Year 2024 Long-Term Financial Model
GAAP to Non-GAAP
(unaudited)

	FY-24
Revenue	$2.425-$2.600 billion
GAAP Gross Profit	$1.033 - $1.113 billion
Amortization of acquired intangible assets	-
Stock-based compensation	~$2 million
Tariff refunds	
Total adjustments	~$2 million
Non-GAAP Gross Profit	$1.035 - $1.115 billion

	FY-24
GAAP Operating Expenses	~$804 - $834 million
Amortization of acquired intangible assets	~$4 million
Stock-based compensation	~$43 million
Net merger, acquisition and divestiture expense (income)	-
IP litigation expense, net	~$7 million
Restructuring and other	-
Non-GAAP Operating Expense	$750 - 780 million

iRobot Corporation
Supplemental Reconciliation of Fiscal Year 2024 Long-Term Financial Model
GAAP to Non-GAAP (Continued)
(unaudited)

	FY-24
GAAP Operating (Loss) Income	~$229 - $279 million
Amortization of acquired intangible assets	~$4 million
Stock-based compensation	~$45 million
Tariff refunds	
Net merger, acquisition and divestiture expense (income)	-
IP litigation expense, net	~$7 million
Restructuring and other	-
Total adjustments	~$56 million
Non-GAAP Operating Income	$285 - $335 million

	FY-24
GAAP Net Income Per Diluted Share	$5.87 - $7.60
Amortization of acquired intangible assets	~$0.14
Stock-based compensation	~$1.54
Net merger, acquisition and divestiture expense (income)	-
IP litigation expense, net	~$0.24
Restructuring and other	-
Gain on strategic investments	-
Income tax effect	($0.29) - ($0.27)
Total adjustments	$1.63 - $1.65
Non-GAAP Net Income Per Diluted Share	$7.50 to $9.25
Number of shares used in diluted per share calculations	~29.2 million