iRobot First-Quarter 2010 Conference Call Script

April 28, 2010

Operator:

Good day everyone and welcome to the iRobot first-quarter 2010 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 Elise Caffrey of iRobot Investor Relations. Please go ahead.

Elise:

Thank you and good morning. Before I introduce the iRobot management team, I would like to note that statements made on today's call that are not based on historical information are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

This conference call may contain express or implied forward-looking statements relating to the company's financial results, operations and tax rate for fiscal 2010, the second quarter ending July 2, 2010, third quarter ending October 2, 2010, and the fourth quarter ending January 1, 2011, demand for the company's products and services, the timing of funding and contract awards under the FCS Program (now referred to as the Brigade Combat Team Modernization program), our plans for expansion and new product development, backlog and demand for our Government and Industrial robots and related parts and services, demand for our home robots, mix of product revenue 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.

During this conference call, we will also disclose various non-GAAP financial measures as defined by SEC Regulation G, including Adjusted EBITDA, which we define as Earnings Before Interest, Taxes, Depreciation, Amortization, merger and acquisition expenses and non-cash stock compensation expense. A reconciliation between net income– the GAAP measure most directly comparable to Adjusted EBITDA - and Adjusted EBITDA is provided in the financial tables at the end of the Q1 2010 earnings press release issued last evening, which is available on our website http://investor.irobot.com/phoenix.zhtml?c=193096&p=irol-irhome. 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 this conference call will be available through May 6, 2010 and can be accessed by dialing 617-801-6888, access code 78238271.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the first quarter of 2010 as well as our financial expectations and outlook for the business for the rest of 2010; and John Leahy, Chief Financial Officer, will review our financial results for the first quarter of 2010 and provide additional detail on our 2010 financial expectations. 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.

I am very excited to report that we delivered revenue of **$95** million for the first quarter, well in excess of our expectations, and **67%** greater than Q1 revenue in 2009. Adjusted EBITDA and EPS of **$14** million and **$0.24** respectively, also far exceeded expectations.

As a result of outstanding performance by both divisions in the first quarter and good visibility on the rest of 2010, we are increasing our full year financial expectations substantially. We now expect full year 2010 revenue of between **$375** and **$385** million, an increase of more than **25%** over 2009, Adjusted EBITDA of **$30** to **$34** million**,** an increase of more than **40%** year over year and EPS of **$0.35** to **$0.40,** which is more than double our 2009 EPS.

The profitable growth was driven by both divisions. Most of the home robot revenue increase was due to strong sell through in the European markets driving greater demand as well as acceleration of orders from out quarters into Q1 and increased contribution from U.S. domestic channels. G&I's growth resulted from shipments of more FasTacs and spare parts than a year ago as well as the sale of Small Unmanned Ground Vehicles and Seagliders, both new products since Q1 2009. Our Q1 performance, coupled with a solid backlog in our government division, will result in a stronger Q2 and full year 2010 than we had anticipated in February.

Our continued focus on strengthening the balance sheet resulted in quarter-end cash and investments of **$85** million, up significantly from **$55** million a year ago. A critical component of improving our financial position over the past year has been driving Adjusted EBITDA and operating cash flow. Adjusted EBITDA was **$14 million,** or **14%** of revenue, compared with a loss in Q1 2009, and we generated **$11** million of operating cash flow in the quarter.

We commemorated the 20th anniversary of the company's founding in March and I can't think of a better way to celebrate it than by delivering our first profitable Q1. Demand for our products worldwide continues to grow and we demonstrated our ability to achieve a mid-teen Adjusted EBITDA margin consistent with our three-year financial plan.

The US economy is slowly recovering, and we are seeing growth in home robot domestic markets, while demand overseas continues to fuel total divisional growth.

In the military business, other government contractors are experiencing program delays but continued demand for our robots from the soldiers in theater is driving the military leaders in Washington to place orders with us through a variety of contracts and programs.

These dynamics position us well to deliver an even better year than we had anticipated in February.

In Home Robots, strong demand for our Roomba 500 robots in international markets continued to fuel Home Robot growth. Home Robot revenue overseas more than doubled in Q1 versus the prior year. Very low inventory levels at year end coupled with strong sell through have encouraged much more aggressive buying habits in our existing customer base. We have begun selective expansion into Eastern European countries and are on track to enter the Latin and South American markets for the year-end holiday season.

In the United States, we met our modest growth expectations but more importantly, we improved our domestic profit margins through more strategic placement of product in select channels. As the marketplace matures and Roomba becomes better known and more widely accepted, customers value, and are more willing to pay for, our more fully featured higher end, higher margin robots. Consequently, we have pulled back from the more discount-oriented channels. Tremendous growth in our international business has afforded us the opportunity to pursue a strategy of profitable growth in the U.S.

In March, we entered into a manufacturing agreement with Jabil Circuit, Inc. under which they will produce our Roomba 500 series robots. The addition of a third home robot manufacturing partner will provide iRobot with numerous benefits including diversifying key elements of our supply chain, providing flexibility and expansion of overall capacity. Jabil has been supplying our G&I division with circuit boards for our PackBot robots since 2006 and will now provide reliable and cost-effective solutions for iRobot's consumer products.

We are often asked about the competitive landscape and how we view the competition. There has been considerable press about several Korean competitors entering the European market. We actually view this as healthy for the category since overall penetration and awareness are still quite low. We will continue to focus our energy on designing and producing the high quality robots on which we have built our worldwide brand, while making sure that we have the right mix of pricing, channels and distributors to support our leadership position.

We also have a robust patent portfolio. By innovating, and carefully monitoring competition trends, we continue to invest in additional patent assets that we believe provide a competitive advantage for our growing business.

I am very excited about our opportunity for home robots. Our strong Q1 results are especially significant in this highly seasonal business and could represent a shift in the model as international demand for consumer electronics tends to be less seasonal. We are confident about our increased full year expectations despite continuing concerns over recession in Western Europe.

Our Government & Industrial division’s results were also very strong for the quarter as we delivered **154** PackBot FasTac robots, ordered under contracts we received in Q3 last year from the Robotics Joint Program Office. In addition we shipped **69** Small Unmanned Ground Vehicles, or SUGVs, primarily SUGV 310s, under existing contracts and we anticipate additional orders this year.

At this point we have greater than **50%** visibility of G&I's annual revenue contemplated by our full year guidance. This compares favorably to **40%** at the same point last year. Visibility is defined as shipped products, services rendered, executed contracts to be performed, and funded product backlog expected to ship this year.

Because the landscape in Washington continues to change I'd like to take a minute to provide you with our view of it and our current expectations for robot orders in 2010 beginning with the Army Brigade Combat Team Modernization (ABCTM) program.

The Department of Defense 2011 procurement budget, increased over last year's and the Joint IED Defeat Organization, a major funding source for robot development and procurement, was one of the winners.

Specifically, the Army's Procurement Budget increased by ~ **$3.5** billion in 2011 to **$33.7** billion. First on the list of Army development priorities is the restructured FCS/ABCTM program with funded development of **$1.6** billion. The program has **2** increments. The first increment is for **3** early Infantry Brigade Combat Teams and will involve **124** SUGVs. The second increment will field equipment for additional Brigade Combat Teams. We have been given an "authorization to proceed" for a Low Rate Initial Production (LRIP) contract to support the first increment and will deliver **45** LRIP robots in 2010.

The procurement budgets for our other two prime customers, the Navy and the Marine Corps are also up year over year. It is difficult to find the specifics on robot funding within the publically available DOD budget – but, the macro trends are positive. Even more encouraging, the informal planning guidance we are receiving from our customers is positive and reflects the utility of our smaller, lighter robots operating in Afghanistan.

I should also note an important "sea change" in our government procurements. With the beginning of the LRIP, we are seeing a change in the source of our procurement funding from the wartime supplemental to "program of record" funding. Programs of Record are much more sustainable over the long haul and this reflects the priority the U.S. Government is placing on unmanned systems.

This view is consistent with our outlook in February and we continue to expect roughly equal revenue contributions from SUGV and PackBot for the full year, with the vast majority of the SUGV revenue to come from the sale of the 310 robot.

A key component and growth driver of our government business is product lifecycle revenue or PLR. Our rapidly growing installed base of robots requires spare parts, support, maintenance and training. PLR, which is difficult to predict quarter to quarter given the uncertain timing of government orders, grew **82%** year over year in the first quarter. Providing software enabled solutions through upgrades to robots in the field is an emerging opportunity and we are expecting a significant opportunity to provide upgrades in the second half of the year.

Beyond supplying robots to the U.S. Government, we continue to make inroads in international markets. International revenue in the first quarter increased **88%** over the same quarter last year. We are now doing business in more than **2**0 countries, **10** of which we've added as customers in the past year.

In summary, both of our businesses are performing well in an uncertain environment while we continue to invest in and build upon our robot technology base and future products. I am cautiously optimistic about a slow but steady recovery of the US economy that will support our home robot strategic initiatives to improve domestic margins. Our international growth will be fueled by demand from existing customers and expansion into new markets. An urgent need for our government robots in theater is fueling near term demand while their successful use in Iraq and Afghanistan has changed military doctrine, a positive indicator for the longer term.

Because of our confidence in delivering better results than we discussed in February, we are increasing our financial expectations for the full year.

We expect revenue to be between **$375** and **$385** million, roughly **25%** growth over 2009. For full year 2010 we expect EPS to be between **$0.35** and **$0.40**, and Adjusted EBITDA to be between **$30** and **$34** million.

In the second quarter of 2010, which will be stronger than we anticipated in February, we expect revenue of **$90** to **$95** million, EPS of **$0.06** to **$0.08** and Adjusted EBITDA of **$6** to **$8** million.

I will now turn the call over to John to review our first quarter results in more detail.

John

Thanks Colin.

Our performance in the first quarter was outstanding, with our first profitable Q1 on record and revenue at the highest Q1 level in our history. Revenue, earnings per share and Adjusted EBITDA all exceeded expectations. Revenue of **$95** million was up **67%** year over year**.** Growth in our international Home Robot business continued to be robust, more than doubling for the quarter year over year. Likewise, our government business was up **76%** for the quarter and had a **$35** million backlog coming into the second quarter. As a reminder, this follows a very strong Q4 in which quarterly revenue was the highest in the company's history.

Earnings per share for the quarter were **$0.24** compared with a loss of (**$0.07)** in Q1 2009. Adjusted EBITDA for Q1 was **$14** million, up from a small loss last year. Operating cash flow of **$11** million has driven our cash and investments position to **$85** million, up **$30** million from Q1 last year.

Our focus on driving Adjusted EBITDA and cash flow has clearly produced strong results.

In the Home Robot division, shipments of **287** thousand units generated **$53** million in revenue during Q1, compared to **183** thousand units and **$33** million in revenue a year ago. International revenue increased **108%** in the quarter year over year and comprised **69%** of Home Robot revenue. Improvements in Home Robot gross margins were partly due to this increase in international as a percent of total revenue, and to more strategic placement of product in domestic channels as Colin discussed.

In the G&I Division, total revenue was **$42** million in the quarter compared with **$24** million a year ago. This increase was due to higher product shipments, primarily PackBot FasTacs, and higher contract revenue generated under the FCS development program. Contract revenue comprised **21%** of G&I revenue for the quarter compared with **30%** last year, and was up **22%** year over year.

G&I product revenue was **$34** million in the first quarter, compared with **$17** million last year. Product lifecycle revenue was **$8** million or **24%** of G&I product revenue, up from **$4** million in 2009. We expect PLR to average **25 – 30%** of G&I product revenue annually, although it can vary significantly quarter to quarter.

Product backlog at the end of the quarter was **$35** million, compared with **$12** million at the end of Q1 2009. This backlog position, coupled with our strong performance in Q1, gives us the opportunity to deliver a very strong first half and mitigate the historical seasonality in the back half of the year.

For the total company, gross margin for the quarter was **34.5%** compared with **28.5%** last year. The year over year increase was driven primarily by the improved home robot mix I mentioned earlier, and overhead leverage in G&I.

Operating expenses improved as a percentage of revenue to **24%** this year from **35%** in Q1 last year. The improvement resulted primarily from operating expense leverage and the deferral of some marketing expenditures until later in the year.

Q1 operating cash flow was nearly **$11** million compared with **$14** million last year.

Inventory was **$30** million at quarter end, relatively flat from a year ago, and DII improved significantly. Accounts receivable continue to be well managed, as evidenced by our DSO of **28** days compared with **42** days a year ago.

Over the past several quarters we have delivered significant improvements in operating cash flow resulting from our focus on managing working capital and in particular, improvements in inventory levels. Operating cash flow in 2010 and beyond will be much more dependent, however, on improved Adjusted EBITDA rather than working capital gains.

At the end of Q1, we had cash, including investments, totaling **$85** million compared with **$55** million a year ago.

Now I'd like to provide you with additional detail for the financial expectations Colin discussed, as well as color on how we see the rest of the year unfolding.

For the full, year our expectations for Home Robot revenue have improved due to the strength of international, and we now anticipate a range of **$205** to **$215** million. G&I revenue expectations are unchanged at **$165** to **$175** million. We expect roughly equal revenue contributions from SUGV and PackBot, with most of the SUGV revenue to come from the sale of the 310 robot.

We expect Q2 to be another strong quarter, and stronger than we forecast in February, fueled by greater than anticipated demand for home robots overseas and accelerated orders in G&I. We anticipate revenue in the range of **$90** to **$95** million, EPS of **$0.06** to **$0.08** and Adjusted EBITDA of between **$6** million and **$8** million.

Our expectations for the second half of the year are for revenue to be relatively flat sequentially from Q2 to Q3. Q4 revenues should be slightly higher than Q3 but lower than our record-setting fourth quarter last year. The more even distribution of revenue between the first and second halves of the year greatly improves the probability of meeting our financial expectations.

We now expect improved full year gross margins of **33-34%** as a result of favorable mix management and savings in product costs realized through supply chain management in home robots, and through overhead expense leverage in G&I.

We expect sales and marketing expense to increase between **$4** and **$5** million in each of the third and fourth quarters, over last year's spending, to support the holiday season. As a result, Adjusted EBITDA and EPS will be lower year over year and sequentially when compared to our very strong first half this year.

Finally, we expect our increased full year earnings to translate into stronger operating cash flow. For the full year, operating cash flow will be roughly **$25** million and our cash and investments will be more than **$90** million at year-end.

I'll now turn the call back to Colin.

Colin

I am very excited to be talking to you today, following great first quarter results, with the confidence to increase our full year financial expectations for both revenue and profitability. Just to reiterate those expectations, we anticipate:

- Revenue of **$375-$385** million, a year over year increase of roughly **25%-30%;**
- EPS of **$0.35-$0.40**, nearly triple over 2009 and;
- Adjusted EBITDA of **$30-$34** million, up approximately **45%-65%** from last year.

We have weathered the worst of the storm but must continue to make robust and long term investments in building for our future and maintaining our market-leading position.

With that we'll take your questions.

Following Q&A

Colin

That concludes our first quarter earnings call. We appreciate your support and look forward to talking with you again in July to discuss Q2 results.

Operator

That concludes the call. Participants may now disconnect.