iRobot Q420 & FY20 Financial Results Conference Call Prepared Remarks

February 11, 2021

iRobot Fourth-Quarter and Full-Year 2020 Conference Call

Operator:

Good day everyone and welcome to the iRobot fourth-quarter and full-year 2020 financial results conference call. This call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Andrew Kramer of iRobot Investor Relations. Please go ahead.

Andrew:

Thank you operator, and good morning everybody. Joining me on today's are iRobot Chairman & CEO Colin Angle and Executive Vice President and CFO Julie Zeiler.

Before I set the agenda for today's call, I will note that statements made on today's call that are not based on historical information are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

This conference call may contain express or implied forward-looking statements relating to the company's financial results, operations and performance, including; expectations regarding market conditions; the introduction of new capabilities and features to our products; our expectations regarding profitability; product launch plans and the timing thereof including pilots related to new services; our expectations regarding revenue, EPS, non-GAAP gross margin, non-GAAP operating profit and margin, non-GAAP operating expenses, non-GAAP operating income, sales & marketing expenses, inventory, non-GAAP tax rate, other expenses, diluted share count and cash flow; expectations regarding the growth of our direct-to-consumer channel; our plans to accelerate investment in certain areas; our expectations regarding the amount and impact of tariffs on goods imported into the United States from China as a result of the reinstatement of those tariffs in 2021; the impact of tariffs on expenses and gross margin; the impact of our investments; our manufacturing, fulfillment and supply chain diversification and efficiency efforts and the impact of the costs thereof; travel restrictions and the potential impact on expenses; our plans regarding stock repurchases; our plans to minimize the impact of higher costs; 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 fourth-quarter 2020 financial results press release we issued last evening, which is available on our website at www.irobot.com. Also, unless stated otherwise, the fourth-quarter 2020 and full-year 2020 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 fourth quarter of 2019 and full-year 2019, respectively.

As a reminder, a live audio broadcast of this conference call is also available on the Investor Relations page of our website and an archived version of the broadcast will be available on the same Web page following the call. In addition, a replay of the telephone conference call will be available for one week through February 18, and can be accessed by dialing 404-537-3406, passcode 7389646.

In terms of the agenda for today's call, Colin will briefly review the company's quarterly and annual financial results, discuss major accomplishments and share his perspective on our outlook into 2021 and beyond. Julie will detail our financial results for the fourth quarter and full year, and share additional insights about our expectations going forward. Colin will conclude our commentary with some closing remarks. After that, we'll open the call for questions.

At this point, I'll turn the call over to Colin Angle.

Colin:

Good morning and thank you for joining us. We closed out 2020 on a very strong note with revenue, operating income and EPS that surpassed the expectations we shared at the end of October. Strong demand combined with outstanding collaboration and execution among our sales, marketing and operations teams, and our broader supply chain underpinned an excellent revenue performance. More specifically, fourth-quarter revenue of $545 million grew 28% year-over-year with significant growth in all major regions worldwide. Our top-line expansion resulted in an operating income margin of 6% and EPS of 84 cents.

For the full year, we reported revenue of $1.43 billion, an operating profit margin of 10% and EPS of $4.14, all of which surpassed our original targets at the start of 2020. Just as important, we believe that the steps we took during 2020 are putting iRobot on a very exciting path to drive substantial value creation over the coming years.

Q420 and FY20 Strategic Accomplishments and Highlights

With that in mind, I'd like to briefly review the notable progress we've made to execute on our strategy, which – at a high level – is focused on increasing the customer's engagement with our products, thereby creating a broader range of opportunities for our customers to transact directly with us.

Differentiate the Cleaning Experience:

The first component of our strategy is focused on differentiating the cleaning experience and we are proud of our 2020 accomplishments in this area. The pandemic forced us to make tough choices about where and how we would invest. We prioritized investment in software across our AI, home understanding and machine vision technologies to ensure that Roomba and Braava robots can be tightly integrated into the customer's lifestyle and deliver unprecedented levels of thoughtfulness, reliability, control and support. Those investments are already resulting in new features and capabilities that are delighting customers.

- In August, we introduced version 1.0 of our state-of-the-art robot AI platform, iRobot Genius Home Intelligence. Genius is extensible across our entire portfolio of WiFi-connected robots, unlocking a range of new features and functionality that give users greater control over where, when and how our robots clean.
- We expanded our lineup of intelligent, self-emptying robot vacuum cleaners in September 2020 when we launched the Roomba i3 Series in the U.S. We've been very pleased with consumer demand for this product, which was introduced in EMEA last month. During the fourth quarter, we introduced the Roomba Combo, our first 2-in-1 floor cleaning robot that consolidates vacuuming and mopping functionality. The product is now available in certain markets in Europe where this capability appeals to value-seeking consumers looking for a convenient solution to help with their everyday floor care needs.
- As we move into 2021, our innovation engine shows no signs of slowing. We expect to introduce two new Roomba robots this year along with a wide range of exciting new digital features through updated versions of our Genius platform. We also took steps to aggressively defend our IP as we recently filed a new patent infringement action against SharkNinja.
- Our success in differentiating the cleaning experience has enabled us to expand our premium robot sales over the past several years. Revenue for premium robots[1] grew by nearly 50% in 2020 and represented 60% of total robot sales while our average gross selling price has continued to trend upward.
- Just as notable, in a year when overall adoption of robotic vacuum cleaners accelerated, we maintained our global leadership position in the RVC category[2]. For the full year, we finished with 8 of the top 10 best-selling RVCs in the U.S., 6 of the top 10 in EMEA and 7 of the top 10 in Japan.

Build Stronger, Enduring Relationships with Consumers Worldwide

The second element of our strategy is focused on building stronger, more enduring relationships with the consumer. We ended 2020 with nearly 10 million connected

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[1] Defined as floor cleaning robots with an MSRP of $500 and higher (the Roomba i3+, 900 Series, i7 Series and s9 Series, and the Braava Jet m Series).

[2] Category defined as RVCs priced at $200 or higher.

customers who have opted-in to our digital communications, up more than 80% over 2019. Having a substantial portion of our connected customer base elect to receive in-app notifications and emails speaks volumes about the tangible value provided by our floor cleaning robots. The ever-expanding range of digital features within our Genius platform is helping to ensure that customers get great value from our products. For example, we are seeing consistently high levels of utilization by our connected customers each month and robust engagement around new capabilities like directed room cleaning and creating a favorite cleaning routine.

Nurturing Value

The third strategic pillar is oriented around nurturing the lifetime value of our customer relationships by accelerating the replacement cycle, promoting upsell and cross-sale deals and adding new purchasing options that will ultimately lead to recurring revenue and higher margins. We believe that executing on this strategy will support greater revenue predictability and growth, and improve our profitability.

While it is still early days, we made considerable progress in this area over the past several quarters:

- We have continued to invest in making our website a desired destination for current and prospective customers. For example, during the fourth quarter, we enjoyed strong sales of an exclusive Roomba-Braava bundle, added a financing option for our European customers, successfully scaled to support the busiest online shopping days of the holiday season and gained valuable experience in moving with agility and creativity to increase traffic and drive conversion.
- As a result, our direct-to-consumer[3] sales more than doubled in the fourth quarter and generated 11% of total 2020 revenue, up from just 6% in 2019. We view our DTC channel as a powerful complement to our strong retail partners. We expect that this higher-margin channel will grow to at least 15% of total revenue in 2021 and are optimistic that DTC revenue will exceed 20% of total

[3] Refers to transactions made on irobot.com, the iRobot Home App and on certain third-party websites outside the U.S. in which iRobot is directly involved in order management and fulfilment.

revenue by the end of 2023 even as we continue to enjoy growth with our retail partners.

- As we move forward, we believe that there are a number of attractive opportunities to increase existing customer revenue and amplify the benefits of growing our connected customer base. During the fourth quarter, we began conducting tests of new services that span extended warranties, a robot-as-a-service membership program, and a premium care and maintenance offering. The results thus far have been promising and we are optimistic that we will begin commercializing these services over the course of 2021. We plan to test other offerings in 2021 that can further increase existing customer revenue and contribute to building a high-margin, recurring revenue stream.
- To effectively and efficiently grow existing customer revenue, we plan to accelerate investments that further enhance the buying experience on our digital properties and upgrade our digital marketing capabilities. We have selected our implementation partner and will continue to onboard the marketing and IT talent necessary to maximize the power of these platforms and tools. As we've discussed previously, we believe that these investments are critical for driving traffic, improving conversion rates and increasing transactional velocity. We also believe that these investments, in combination with our trusted position inside the consumer's home, will enable us to further expand existing customer revenue opportunities.

Outlook

Market Conditions

While 2020 sell-through of RVCs accelerated well above prior year levels, overall household penetration remains relatively low. We believe that the fluid, often frenetic pace of day-to-day life continues to elevate our value proposition and product differentiation. As the benefits of robotic floor cleaning become more widely appreciated and the home remains a central hub for everyday life, we plan to continue capitalizing on the many opportunities arising from the continued growth of our marketplace.

2021 Expectations

In terms of our 2021 outlook, as outlined in our press release, we anticipate 2021 revenue growth ranging from 14% to 17%. We expect strong revenue growth to start the year, especially since we ended 2020 with retail inventory in a very healthy position. We believe that our success in continuing to drive solid top-line expansion in 2021 will also help us fund investments into key areas of our business and mitigate the impact of higher anticipated incremental costs on our 2021 profitability.

More specifically, we expect that the reinstatement of tariffs will add approximately $41 to $43 million in incremental costs while we also absorb higher initial costs as we expand production in Malaysia. Additionally, our sales and marketing spend will increase by an incremental 20-plus million dollars as we build out our direct-to-consumer infrastructure and bring on the additional headcount needed to operate it. As a result, we are targeting an operating profit margin of approximately 7% with EPS in the range of $3.00 to $3.25.

A Preliminary View into 2022

Looking ahead, we are increasingly optimistic about our longer-term prospects. We believe that our 2020 progress, combined with executing on our plans in 2021, will set the stage for substantially stronger performance in 2022. We expect that the progress we make in 2021 to execute on our plans will enable us to move into 2022 with a more defensible business that is well positioned to sustain mid to high teens top-line growth. At the same time, we believe that the gross margins headwinds of 2021 will turn into tailwinds in 2022 as we achieve scale in Malaysia, minimize our tariff exposure, continue growing higher-margin DTC sales, and increase fulfillment and supply chain efficiency. As we calibrate our spending to drive further operating leverage, we expect to drive 2022 operating profit margin above 2020 levels, which would in turn yield a substantially stronger EPS performance.

At this point, I'll turn the call over to Julie. After her remarks, I will return to offer some additional closing thoughts. Julie …

Julie:

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 fourth quarter of 2019 and all full-year comparisons are against 2019 unless otherwise noted.

We delivered a very strong quarterly performance that again exceeded our plans. Total Q4 revenue grew 28% to $545 million due to the stronger-than-expected orders from retailers and outstanding growth in our direct-to-consumer sales. Geographically, revenue grew 28% in the U.S. with international revenue up 27% due primarily to 39% growth in Japan and a 26% increase in EMEA. From a product mix perspective, Roomba represented 89% of our Q4 revenue mix with Braava making up the remainder. Braava revenue grew by 56% due to robust growth in the m6. Roomba-Braava bundles performed exceptionally well over the holidays.

Our gross margin of 40.3% in Q4 was essentially unchanged with the prior year. The lack of tariff expense and, to a lesser extent, favorable channel mix was primarily offset by changes in pricing and promotion, and higher warranty expense.

Fourth-quarter 2020 operating expenses of $189 million increased by 30% and represented 35% of revenue. The increase primarily reflects higher working media spending and DTC investments, as well as higher personnel costs tied to headcount and short-term incentive compensation. Our Q4 operating income was $30 million, or 6% of revenue.

Our Q4 2020 effective tax rate was 19%, which was in line with our plans. Our net income per share was $0.84.

From a full-year perspective, 2020 revenue grew 18% to $1.43 billion. Geographically, we generated 52% of our revenue in the U.S., which grew by 23%. Outside of the U.S., international revenue grew by 12% with Japan having another stellar year of 20% growth while EMEA increased by 8%.

2020 gross margin of 44.5% was slightly lower than the prior year as the impact of price reductions, promotional activity and higher warranty expense was mostly offset by the benefit of our tariff exclusion, leverage from higher revenue and favorable channel mix shifts. Full-year operating expenses of $488 million grew by 13% driven primarily by the same factors influencing the increase in fourth-quarter spending, namely increased personnel costs, working media and investment in key programs and projects including our DTC initiatives. Operating income in 2020 was $150 million and our operating margin was 10%.

Our full year 2020 effective tax rate was 19%, essentially unchanged from the prior year. 2020 EPS was $4.14 versus $3.62 in 2019.

We ended 2020 with $484 million in cash and short-term investments, an increase of $126 million from the end of September. The increase primarily reflects a good quarter of cash flow from operations.

Fourth-quarter DSOs were 31 days, unchanged against the same period one year ago. Q4 ending inventory was $182 million, or 55 days, compared with $157 million, or 56 days, at the same time last year.[4]

Outlook

Let's turn to our outlook for 2021. Although visibility is less than optimal, we move into 2021 with good momentum in the category and generally favorable channel inventory positions. At the same time, the global macroeconomic landscape remains uncertain due in large part to the fluidity of the pandemic.

[4] DSO and DII calculations based on 98 days in Q420 versus 92 days in Q419

2021 Revenue

As Colin noted, we anticipate 2021 revenue in the range of $1.635 billion to $1.675 billion, which equates to 14% to 17% growth over 2020. In recent years, approximately 60% of our revenue is generated in the second half of the year, although 67% of 2020 revenue came in the second half. We expect our 2021 revenue mix between the first and second halves to move a bit closer to historical norms. With that said, we manage the 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. As a reminder, our revenue expectations contemplate Yen and Euro exchange rates roughly in line with current rates, plus or minus 5%.

2021 Gross Margin

We anticipate that our 2021 gross margin will decline to the low 40% range. As you know, a 25% tariff on Roombas imported from China was reinstated at the start of 2021 and we anticipate that this will add between $41 million to $43 million in incremental full-year costs. In addition to anticipated tariff expense, we expect that our 2021 gross margin will also be impacted to a lesser extent by higher initial costs associated with our Malaysia manufacturing along with recent and anticipated pricing and promotional activity. We believe those factors will be partially offset by favorable channel mix shifts and certain one-time items in 2020 that are not expected to recur in 2021.

Our plan is to substantially increase our production in Malaysia over the course of this year. To facilitate this, we plan to qualify additional contract manufacturers and add new lines. By the end of 2021, we estimate that Malaysia manufacturing will have sufficient capacity in place to support the vast majority of our 2022 North American volume requirements. This will provide three important benefits. First, it will substantially reduce our tariff expense in 2022. Second, it will enable us to bring our Malaysian cost structure much closer to parity with China. Third, managing a geographically diverse manufacturing footprint at scale is simply prudent from a risk management perspective.

Our current gross margins assumptions also reflect current travel restrictions into and within Malaysia. Should those restrictions tighten further, it may require us to shift more volume into China and incur additional tariff expense.

In addition to our Malaysia manufacturing initiative, our operations teams continue to diligently grapple with a range of other supply chain challenges from rising freight and raw material costs to tighter availability of key components. Our outlook takes these variables into account although any substantial improvement or deterioration in the supply chain may require us to revisit these assumptions.

2021 Operating Costs & Operating Profitability

We are targeting 2021 operating costs in the range of $555 million to $575 million, or approximately 34% of sales. While we anticipate that G&A and R&D will trend a bit below historical levels as a percentage of revenue, sales and marketing is currently expected to be around 19% of total revenue. This primarily reflects incremental spending of over $20 million to support continued growth of our direct-to-consumer channel, as well as higher working media investment. Given our top-line guidance and spending plans, we currently expect an operating profit margin of approximately 7%.

In terms of some additional Q1 color, we expect a strong start to the year with Q1 revenue growth of 35% or more. We currently expect Q1 gross margin in line with our annual target with Q1 tariff costs in the ballpark of $3 million. We expect operating costs to range from the high 30s to 40% of total sales driven largely by the accelerated sales and marketing investment. As a result, we expect operating profitability to range from essentially breakeven at the low end up to a 3% operating profit at the high end. As revenue grows over the course the year, we expect our profitability will improve especially in the second half of the year.

Other Assumptions & EPS

In terms of other notable modeling assumptions for 2021, we anticipate other expense between $3 to $4 million and an effective tax rate ranging from 18% to 19% due primarily to the jurisdictional mix of profits combined with the effect of lower anticipated worldwide pre-tax income. We anticipate a diluted share count of approximately 29 million shares. As a result, we expect our full-year EPS to range from $3.00 to $3.25.

In terms of other 2021 guideposts, our business continues to be minimally capital intensive. Overall, we expect that capital spending is expected to be in the low $50 million range, or approximately 3% of anticipated 2021 revenue, which is generally consistent with historical trends. The increase over 2020 levels reflects in part the shifting of certain investments in new tooling to increase production in Malaysia from last year into this year, as well as spending to support new product introductions. We anticipate that our cash flow from operations in 2021 will remain healthy even as it declines from 2020 levels given our expected fundamental performance.

We move forward with good fiscal flexibility as it relates to use of capital. Our previously authorized $200 million stock repurchase plan remains largely intact as last year's buybacks were limited to repurchasing $25 million of our stock in the first quarter. We will continue to evaluate the merits of deploying cash to repurchase stock, particularly as it relates to neutralizing the dilutive effect of our equity programs. With that said, our 2021 expectations do not assume any repurchase activity.

On the inventory front, we expect that inventory, both in terms of absolute dollars and DII, will increase in the first quarter and remain elevated thereafter until they return to normalized levels at the end of the year.

2022 Color

While our profitability and EPS are expected to take a step back in 2021, we believe that we are taking the necessary actions to sustain our top-line growth rate in 2022. Just as important, we believe that the tailwinds arising from our Malaysia manufacturing, higher-margin direct sales growth and other initiatives to increase efficiency and productivity will enable us to deliver a meaningful improvement in our 2022 operating income with an operating profit margin above 2020 levels – all of which will underpin strong EPS expansion in 2022.

In summary, our fourth-quarter results were a very satisfying way to end the year. While we know 2021 will bring its fair share of challenges, we are incredibly excited about our prospects to continue expanding our business and drive long-term value creation in the process. That concludes my commentary. I'll now turn the call back to Colin for some additional color on the coming year.

Colin:

Closing Thoughts

Thank you Julie. I'd like to close by extending my sincere thanks to my colleagues around the globe. The hard work, resilience and commitment of our team helped iRobot to deliver record results and exceed the ambitious targets we set for ourselves.

It is an exciting time to be at iRobot. We created the RVC industry 18 years ago and have led it ever since. But we believe our best days are ahead of us. We have an expansive, growing installed base of nearly 10 million connected customers who want to engage with us. We're optimistic that the trust that our customers have placed in our products will unlock more opportunity for us going forward – especially as they look directly to us to help them maintain their robots, replace their robots, add new robots and potentially purchase other new services and products from us that complement our current role in helping them keep homes clean.

On today's call, we've shared not only our outlook for 2021 but the opportunity to convert strong growth into higher profitability and faster EPS and free cash flow expansion in 2022. As our business grows and evolves, and as our relationship with the consumer deepens, we will remain committed to helping current and prospective analysts and investors better appreciate the opportunities we see, the strategies and initiatives that will help us capitalize on them and the metrics and KPIs that will best reflect our success and create value for our business.

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 conference call script contains references to the non-GAAP financial measures described below. We use non-GAAP measures to internally evaluate and analyze financial results. We believe these non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable comparison of financial results between periods where certain items may vary independent of business performance, and enable comparison of our financial results with other public companies, many of which present similar non-GAAP financial measures.

Our non-GAAP financial measures reflect adjustments based on the following items. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results should be carefully evaluated.

Amortization of acquired intangible assets: Amortization of acquired intangible assets consists of amortization of intangible assets including completed technology, customer relationships, and reacquired distribution rights acquired in connection with business combinations. Amortization charges for our acquisition-related intangible assets are inconsistent in size and are significantly impacted by the timing and valuation of our acquisitions. We exclude these charges from our non-GAAP measures to facilitate an evaluation of our current operating performance and comparisons to our past operating performance.

Tariff Refunds: iRobot was granted a Section 301 List 3 Tariff Exclusion in April 2020, which temporarily eliminates tariffs on the Company's products imported from China until December 31, 2020 and entitles the Company to a refund of all related tariffs previously paid since September 2018. We exclude the refunds for tariffs paid in 2018 and 2019 from our 2020 second-quarter and year-to-date non-GAAP measures because those tariff refunds associated with tariff costs incurred in the past have no impact to our current period earnings.

Net Merger, Acquisition and Divestiture (Income) Expense: Net merger, acquisition and divestiture (income) expense primarily consists of transaction fees, professional fees, and transition and integration costs directly associated with mergers, acquisitions and divestitures. It also includes business combination adjustments including adjustments after the measurement period has ended. The occurrence and amount of these costs will vary depending on the timing and size of these transactions. We exclude these charges from our non-GAAP measures to facilitate an evaluation of our current operating performance and comparisons to our past operating performance.

Stock-Based Compensation: Stock-based compensation is a non-cash charge relating to stock-based awards. We exclude this expense as it is a non-cash expense, and we assess our internal operations excluding this expense and believe it facilitates comparisons to the performance of other companies.

IP Litigation Expense, Net: IP litigation expense, net relates to legal costs incurred to litigate patent, trademark, copyright and false advertising infringements, or to oppose or defend against interparty actions related to intellectual property. Any settlement payment or proceeds resulting from these infringements are included or netted against the costs. We exclude these costs from our non-GAAP measures as we do not believe these costs have a direct correlation to the operations of our business and may vary in size depending on the timing and results of such litigations and settlements.

Gain/Loss on Strategic Investments: Gain/loss on strategic investments includes fair value adjustments, realized gains and losses on the sales of these investments and losses on the impairment of these investments. We exclude these items from our non-GAAP measures because we do not believe they correlate to the performance of our core business and may vary in size based on market conditions and events. We believe that the exclusion of these gains or losses provides investors with a supplemental view of our operational performance.

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

Income tax adjustments: Income tax adjustments include the tax effect of the non-GAAP adjustments, calculated using the appropriate statutory tax rate for each adjustment. We reassess the need for any valuation allowance recorded based on the non-GAAP profitability and have eliminated the effect of the valuation allowance recorded in the U.S. jurisdiction. We also exclude certain tax items that are not reflective of income tax expense incurred as a result of current period earnings. These certain tax items include, among other non-recurring tax items, impacts from the Tax Cuts and Jobs Act of 2017 and stock-based compensation windfalls/shortfalls. We believe disclosure of the income tax provision before the effect of such tax items is important to permit investors' consistent earnings comparison between periods.

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

	For the three months ended		For the twelve months ended	
	January 2, 2021	December 28, 2019	January 2, 2021	December 28, 2019
GAAP Revenue	$ 544,827	$ 426,778	$ 1,430,390	$ 1,214,010
GAAP Gross Profit	$ 215,421	$ 169,370	$ 670,229	$ 543,927
Amortization of acquired intangible assets	225	2,438	1,920	11,721
Stock-based compensation	362	366	1,511	1,486
Tariff refunds	3,531	-	(36,486)	-
Non-GAAP Gross Profit	$ 219,539	$ 172,174	$ 637,174	$ 557,134
Non-GAAP Gross Margin	40.3%	40.3%	44.5%	45.9%
GAAP Operating Expenses	$ 200,151	$ 152,820	$ 523,907	$ 457,309
Amortization of acquired intangible assets	(228)	(255)	(992)	(1,051)
Stock-based compensation	(8,709)	(4,635)	(28,464)	(22,258)
Net merger, acquisition and divestiture (expense) income	-	(138)	566	(466)
IP litigation expense, net	(2,084)	(2,582)	(5,444)	(2,218)
Restructuring and other	(10)	-	(2,073)	-
Non-GAAP Operating Expenses	$ 189,120	$ 145,210	$ 487,500	$ 431,316
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	34.7%	34.0%	34.1%	35.5%
GAAP Operating Income	$ 15,270	$ 16,550	$ 146,322	$ 86,618
Amortization of acquired intangible assets	453	2,693	2,912	12,772
Stock-based compensation	9,071	5,001	29,975	23,744
Tariff refunds	3,531	-	(36,486)	-
Net merger, acquisition and divestiture expense (income)	-	138	(566)	466
IP litigation expense, net	2,084	2,582	5,444	2,218
Restructuring and other	10	-	2,073	-
Non-GAAP Operating Income	$ 30,419	$ 26,964	$ 149,674	$ 125,818
Non-GAAP Operating Margin	5.6%	6.3%	10.5%	10.4%

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 2, 2021	December 28, 2019	January 2, 2021	December 28, 2019
GAAP Income Tax Expense	$ 1,691	$ 5,011	$ 40,847	$ 13,533
Tax effect of non-GAAP adjustments	3,826	1,159	(12,016)	4,648
Other tax adjustments	253	1,267	(635)	6,928
Non-GAAP Income Tax Expense	$ 5,770	$ 7,437	$ 28,196	$ 25,109
GAAP Net Income	$ 13,335	$ 20,041	$ 147,068	$ 85,300
Amortization of acquired intangible assets	453	2,693	2,912	12,772
Stock-based compensation	9,071	5,001	29,975	23,744
Tariff refunds	3,531	-	(36,486)	-
Net merger, acquisition and divestiture expense (income)	-	138	(1,241)	466
IP litigation expense, net	2,084	2,582	5,444	2,218
Restructuring and other	10	-	2,073	-
Gain on strategic investments	(250)	(8,332)	(43,817)	(8,904)
Income tax effect	(4,079)	(2,426)	12,651	(11,576)
Non-GAAP Net Income	$ 24,155	$ 19,697	$ 118,579	$ 104,020
GAAP Net Income Per Diluted Share	$ 0.46	$ 0.70	$ 5.14	$ 2.97
Amortization of acquired intangible assets	0.02	0.09	0.10	0.44
Stock-based compensation	0.32	0.18	1.05	0.83
Tariff refunds	0.12	-	(1.28)	-
Net merger, acquisition and divestiture expense (income)	-	-	(0.04)	0.01
IP litigation expense, net	0.07	0.09	0.19	0.08
Restructuring and other	-	-	0.07	-
Gain on strategic investments	(0.01)	(0.29)	(1.53)	(0.31)
Income tax effect	(0.14)	(0.08)	0.44	(0.40)
Non-GAAP Net Income Per Diluted Share	$ 0.84	$ 0.69	$ 4.14	$ 3.62
Number of shares used in diluted per share calculation	28,763	28,563	28,618	28,735
Section 301 Tariff Costs				
Section 301 tariff costs	$ -	$ 21,896	$ -	$ 37,862
Impact of Section 301 tariff costs to gross and operating margin (GAAP & non-GAAP)	- %	(5.1)%	- %	(3.1)%
Impact of Section 301 tariff costs to net (loss) income per diluted share (GAAP & non-GAAP)	$ -	$ (0.77)	$ -	$ (1.32)
Supplemental Information				
Days sales outstanding	31	31		
Days in inventory	55	56		

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

	FY-21
GAAP Gross Profit	$662 - $692 million
Amortization of acquired intangible assets	~$1 million
Stock-based compensation	~$2 million
Total adjustments	~$3 million
Non-GAAP Gross Profit	$665 - $695 million

	FY-21
GAAP Operating Income	$69 - $79 million
Amortization of acquired intangible assets	~$1 million
Stock-based compensation	~$32 million
IP litigation expense, net	~$8 million
Total adjustments	~$41 million
Non-GAAP Operating Income	$110 - $120 million

	FY-21
GAAP Net Income Per Diluted Share	$1.85 - $2.10
Amortization of acquired intangible assets	~$0.03
Stock-based compensation	~$1.10
IP litigation expense, net	~ $0.27
Income tax effect	~($0.25)
Total adjustments	~$1.15
Non-GAAP Net Income Per Diluted Share	$3.00 - $3.25
Number of shares used in diluted per share calculations	~29.1 million