

iRobot Third-Quarter 2013 Conference Call Script**October 22, 2013****Operator:**

Good day everyone and welcome to the iRobot third-quarter 2013 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:

This conference call may contain express or implied forward-looking statements relating to the company's financial results and operations for full year 2013, the fourth quarter ending December 28, 2013 and full year 2014, the growth and revenue impact of our businesses, our expectations regarding revenue, Adjusted EBITDA, operating cash flow, operating expenses, gross margins, tax rates, profitability and earnings per share, our expectations regarding domestic and international demand for our robots, our expectations regarding domestic, international and total revenue from each of our businesses, the impact of our Mint/Braava robot, the impact of our marketing campaigns and the timing and impact of related investments, the timing and impact of new product introductions and new product capabilities and functionality, the timing and impact of our achievement of product development milestones, our plans for expansion, the timing and impact of expanded product distribution and placement, the impact of our acquisition of Evolution Robotics on our financial results, the timing and fulfillment of government contracts and orders, demand for our Defense and Security robots and related parts and services, orders for and sales and deliveries of our PackBot, SUGV and FirstLook[®] robots, our Defense and Security contract, product lifecycle and recurring revenue, the mix of product revenue and impact on operating margins, the financial performance of our Remote Presence business and the impact thereof on our financial results, our competitive position, our market share, 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 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, restructuring expenses, net intellectual property litigation expenses and non-cash stock compensation.. A reconciliation between Adjusted EBITDA and net income – the GAAP measure most directly comparable to Adjusted EBITDA -- is provided in the financial tables at the end of the third quarter 2013 earnings press release issued last evening, which is available on our website <http://investor.irobot.com/phoenix.zhtml?c=193096&p=irol-news&nyo=0>. 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 October 30, 2013 and can be accessed by dialing 630-652-3000, access code 34160574#.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the third quarter of 2013 as well as our business outlook for the rest of 2013; and Alison Dean, iRobot Chief Financial Officer, will review our financial results for the third quarter and provide our financial expectations for the fourth quarter and full year 2013 ending December 28, 2013. 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 pleased to report that we delivered Q3 results in line with our expectations. We saw strong growth in our Home Robot business, and are excited to announce a major new Roomba robot for the fourth quarter. Overseas, strong demand in Asia continued and we are seeing signs of recovery in Europe. We shipped additional RP-VITA robots to InTouch Health, while our Remote Presence unit gained further traction in the video collaboration market. And, our Defense & Security business performed as expected.

Our businesses continue to perform in line with the expectations we laid out in Q1. Accordingly we are narrowing our full year 2013 expectation ranges to: revenue of between **\$485** and **\$490** million, EPS of **\$0.90** to **\$0.95** and Adjusted EBITDA of **\$58** to **\$61** million.

Based on our robust product pipeline and expectations over the next 3 years, we continue to expect to achieve by 2016:

- Mid-high teen revenue CAGR,
- High teen Adjusted EBITDA margin and,
- High single digit Operating Cash Flow margin

For 2014, our preliminary revenue expectations are for mid to high teen growth, consistent with these financial targets.

Now, I'll take you through some of the details of the third quarter and our expectations for the rest of 2013.

Total Q3 revenue of **\$125** million and Adjusted EBITDA of **\$17** million were consistent with our expectations while EPS of **\$0.26** slightly exceeded our expectations.

Domestic revenue growth of **8%** coupled with international growth of **19%** fueled a **16%** year-over-year increase in Home Robot revenue in Q3. Shipments of floorcare robots increased **27%**, while revenue grew at the lower **16%**, due to the positive impact of a large return rate adjustment in Q3 of last year. The broadened availability of Braava overseas and strong demand in Japan for our premium Roomba 700 robots drove international Home Robot revenue growth.

Last quarter I mentioned that we began running our advertising campaign, “iRobot Do You?” to a limited degree in select European markets to test its effectiveness, and we are starting to see some positive results. Overall revenue for EMEA was down slightly for the quarter compared with Q3 2012. However, during recent discussions I had with a number of distributors, they reported improving demand in Germany, the U.K., Spain, Israel and Russia, and we are optimistic about the region’s turnaround and contribution to 2014 growth. Braava was introduced in late Q2/early Q3 and we are seeing strong demand and sell through. It’s currently being sold in **10** countries and we will continue to roll it out across most of EMEA in 2014; and to China in December this year.

Demand in Japan continues to be very strong. Revenue in Q3 more than doubled from Q3 2012 and Japan is on track to grow more than **30%** for the full year over last year. China’s growth was consistent with our expectations and, for perspective; overall revenue contribution is expected to be less than **\$10** million.

In Latin America, our initial shipment of product to Brazil is being sold through ecommerce and we are expecting placement in-store with a number of retailers over the next couple of quarters.

I am pleased to report that a year after our acquisition of Evolution Robotics (ER), integration is complete. We successfully re-launched the Mint robot as Braava in EMEA and the United States and will expand its distribution across those markets as well as in APAC next year. We have transitioned the supply chain management and manufacturing to iRobot and have achieved the 2013 exit margin improvement we planned, ahead of schedule. We are currently producing Braava robots at

approximately a **40%** gross margin compared with a roughly **30%** margin when we acquired ER.

In Q4, we will launch our next generation of Roomba. In keeping with our tiered launch strategy, the new product will be sold exclusively on our website through year-end. In Q1 2014, consistent with our other new product introductions, we will broaden distribution through a limited number of domestic retailers and international channels. No additional details regarding the product will be available until its launch later this quarter.

Turning now to our Defense & Security business, Q3 results were in line with our expectations and consisted equally of robot units, primarily PackBots robots, and spares. During the quarter we fulfilled most of the **\$7.2** million in orders we received from the Brazilian government. While the U.S. government shutdown hampered our efforts in both the domestic and international markets we continue to expect to deliver full year Defense & Security revenue of roughly **\$50** million.

In 2014, we will continue to focus on international and first responder markets as the primary sources of growth. In addition, we continue to see upgrade and support requirements for the 5,000 iRobot unmanned ground vehicles we've sold over the past 10 years.

Switching now to our Remote Presence business unit, we shipped an additional **15** RP-VITA units in Q3 bringing our total units shipped to date to approximately **60**. Based on positive feedback from the early users in the U.S. and Mexico, we are optimistic about the opportunity with InTouch Health. I want to reiterate that while we are excited about our progress in this healthcare segment it will **NOT** generate meaningful revenue in 2013. Overall, this business unit continues to be in investment mode and we expect it to continue as such in 2014. As we look to 2015 and beyond we expect significant opportunities in both the telemedicine and video collaboration markets.

In 2014, we expect revenue from Remote Presence to grow substantially and account for less than **3%** of total company revenue.

In Q2 we announced a joint marketing agreement with Cisco to bring the enterprise-grade Ava500 Video Collaboration Robot to market and we are in discussions to sign our first Cisco distributor. The internal pilot we are currently running at iRobot is going extremely well. Ava500 is going into beta by year end with early beta starting this month. Our beta customers include at least five global 2000 companies from various industries. If all goes according to plan we are anticipating a product launch in the first half of 2014.

Before turning the call over to Alison, I wanted to provide an update to the patent protection initiatives we discussed last quarter. In September, we obtained preliminary injunctions against the two Chinese companies. The German court, where we filed the suit, granted the preliminary injunctions confirming that their vacuum cleaner robots infringe all four asserted patents. We have demonstrated our willingness to rigorously defend our significant IP portfolio in the past and we will continue to do so.

With that I'll turn the call over to Alison.

Alison

Thanks Colin.

Revenue in the third quarter was **\$125** million compared with last year's revenue of **\$126** million. Adjusted EBITDA for Q3 was **\$17.2** million compared with **\$29.2** million last year. Earnings per share for the quarter were **\$0.26** versus **\$0.54** last year. As a reminder, Q3 2012 included adjustments which positively impacted revenue by **\$7.7** million, EPS by **\$0.10** and Adjusted EBITDA by **\$5.2** million.

In Q3, Home Robot units grew **27%** while revenue of **\$111** million increased **16%** from a year ago. The impact of the **\$7.7** million positive revenue adjustment in Q3 2012 accounted for the difference in unit growth versus increased revenue. Total domestic revenues were up **8%** in Q3 YOY, due to expanded distribution of Roomba 600 and 700 robots and the inclusion of Mint/Braava. Importantly, sell through, at our top **5** domestic

customers, was up more than **30%** year-over-year reflecting consumer demand and the impact of our marketing programs. Based on current indications from our U.S. retailers, we anticipate our domestic Home revenue to increase more than **40%** in Q4 year over year.

International Home Robot revenue grew **19%** in Q3 over last year and comprised approximately **68%** of Home Robot revenue. We expect Q4 revenue overseas to grow roughly **20%** year over year driven by Japan.

Defense & Security revenue of **\$10** million was consistent with our expectations. Product Lifecycle Revenue (PLR) for the quarter was roughly half of the revenue.

Q3 gross margin was **43.4%** for the company compared with **46.3%** last year. The decrease in gross margin this year was due to lower D&S revenue, the positive impact of the adjustment in Home Robots last year, and the inclusion of lower margin Braava sales. OPEX was **35%** of revenue compared with **28%** last year. The increase in OPEX YOY was driven by the addition of Evolution Robotics for 2013 as well as higher Selling & Marketing expense partially associated with preparing to launch the new Roomba product.

Our balance sheet continues to be very strong. At the end of Q3, we had cash, including investments, totaling **\$157** million compared with **\$190** million last Q3, prior to the outlay for Evolution Robotics. Operating cash flow was roughly **\$3** million this quarter compared with **\$12** million last year. Inventory increased to **\$49 million**, or 64 Days of Inventory, at the end of Q3 largely to support Q4 consumer domestic revenue. While most of our international consumer distributors take container shipments directly from our contract manufacturers, thereby not typically impacting inventory levels, domestic revenue for a given quarter is supported by inventory produced largely in the quarter before. We ideally like to operate around 60 days of inventory, but this as with other aspects of our business can fluctuate a bit on a quarter by quarter basis.

In Q4, we expect revenue of **\$124-\$129** million. We expect EPS between **\$0.06** and **\$0.11** and Adjusted EBITDA of **\$9-\$12** million. We are narrowing our full year expectations and now anticipate **\$485** to **\$490** million in revenue, driven by **20%** growth

in Home Robots year over year, EPS of **\$0.90** to **\$0.95** and Adjusted EBITDA between **\$58** and **\$61** million.

As we begin our 2014 planning, we expect mid-high teen revenue growth, with home continuing to be the main driver. We will discuss 2014 expectations in more detail during our February call.

I'll now turn the call back to Colin.

Colin

Our third quarter results, coupled with our outlook for all three business units, give us the confidence to achieve our narrower full year expectations. We saw strong growth in our Home Robot business, and we are very excited about a major new Roomba robot we are launching in the fourth quarter.

Based on our robust product pipeline and expectations over the next 3 years, we continue to expect to achieve by 2016:

- Mid-high teen revenue CAGR,
- High teen Adjusted EBITDA margin and,
- High single digit Operating Cash Flow margin

As we look to 2014, we expect strong growth in our Home Robot business will drive the company's top and bottom line fueled by new products. We believe D&S has hit the inflection point in 2013 and expect continued focus on international and first responder markets along with supporting the existing fleet of unmanned ground vehicles will enable us to begin growing this business again. And, we remain excited about the potential for our Remote Presence robots in both the health care and video collaboration markets.

With that we'll take your questions.

Following Q&A

Colin

That concludes our third quarter earnings call. We appreciate your support and look forward to talking with you again in February to discuss our Q4 and full year results.

Operator -That concludes the call. Participants may now disconnect.