iRobot Q320 Financial Results Conference Call Prepared Remarks

October 21, 2020

iRobot Third-Quarter 2020 Financial Results Conference Call

Operator:

Good day everyone and welcome to the iRobot third-quarter 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, sell-through and inventory, non-GAAP tax rate, diluted share count and cash flow; our expectations regarding the impact, amount and timing of the refund of tariffs on goods imported into the United States from China as a result of the April 2020 tariff exclusion and subsequent extension; the impact of tariffs on gross margin; expectations regarding the shift in our product mix toward our premium products; the impact of our investments, our manufacturing and supply chain diversification efforts; our expectations regarding travel costs,; our plans to minimize the impact of higher costs; our plans with respect to our Terra robot mower; our market opportunity; and business conditions.

These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in the forward-looking statements. In particular, the risks and uncertainties include those contained in our public filings with the Securities and Exchange Commission. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. iRobot undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or circumstances or otherwise.

Related to our financial disclosures during this conference call, we will reference certain non-GAAP financial measures as defined by SEC Regulation G, including non-GAAP gross margin, non-GAAP operating expense, non-GAAP operating income, profit and margin, non-GAAP effective tax rate, and non-GAAP net income per share. We believe that our non-GAAP financial results help provide additional transparency into iRobot's underlying operating performance and potential. Our definitions of these non-GAAP financial measures, and reconciliations of each of these non-GAAP financial measures to the most directly comparable GAAP measure, are provided at the end of these prepared remarks and in the financial tables at the end of the third-quarter 2020 financial results press release we issued last evening, which is available on our website at www.irobot.com. Also, unless stated otherwise, the third-quarter 2020 financial metrics discussed on today's conference call will be on a non-GAAP basis only and all comparisons are with the third quarter of 2019.

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 October 28, 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 third-quarter results, discuss major accomplishments and share his perspective on our outlook. Julie will detail our financial results for the third quarter, and share additional insights about our full-year expectations. Colin will wrap up our prepared remarks with some observations about our plans for 2021. 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. In the third quarter, we delivered exceptional financial performance and executed well across our global organization to achieve a number of important strategic milestones. As a result of the excellent progress we made this past quarter and growing confidence in the strength of expected fourth-quarter orders from our retail partners, our outlook has materially improved from our last update in late July. While there is still a lot of hard work ahead, it is important to acknowledge that our bright prospects would not be possible without the collective focus, efforts and tenacity of my colleagues around the world.

Q320 Results

In terms of our performance, we reported Q3 revenue of $413 million with 43% growth over Q319 that far exceeded our plans entering the quarter. The strength in third-quarter 2020 revenue reflected another quarter of substantially stronger-than-expected orders from retailers tied to favorable sell-through trends, anticipated demand for the upcoming holiday season and incremental orders to support certain customer events, as well as robust direct-to-consumer sales growth. The exceptional top-line strength, combined with extension of our tariff exclusion and prudent spending enabled us to deliver a Q3 operating profit of $93 million and EPS of $2.58.

In terms of our top-line trends, we were thrilled that each major geographic region exceeded its quarterly target with the U.S. generating 75% revenue growth, EMEA 22% and Japan 12%. We’ve continued to see strong demand to support online, which includes pure play e-commerce sites, our own website and Home App, and the online arms of our retail partners. We estimate that online-related revenue grew by approximately 70% year-over-year and represented approximately 60% of total revenue.

Market Conditions

Overall, the pandemic has impacted individuals and families in profound ways with the home becoming a primary hub for work, education, exercise, entertainment and more.

The value of Roomba and Braava continues to resonate with consumers worldwide because these products fit seamlessly into their lifestyles, helping them keep their floors clean while freeing them to redirect their time and energy elsewhere. These dynamics are helping drive higher interest in the category and accelerated market penetration. Along those lines, we recently participated in our 6th consecutive Prime Day event. Despite the change in Prime Day from its usual timing in early July, it was a solid event for us with Roomba being highlighted by Amazon as one of its top-selling deals.

Q3 Accomplishments & Progress

We made tangible progress against our strategic priorities during the third quarter. I'd like to highlight a few important developments.

- As we've discussed in recent quarters, an important element of our strategy is to differentiate the cleaning experience. We upped the ante in this area with the introduction of our iRobot Genius Home Intelligence Platform, which gives users greater control of where, when and how their robots clean. Our Genius platform leverages our substantial investment across AI, home understanding and computer vision technology and supports a redesigned Home App. As a result, new features and functionality are made available across our portfolio of connected floor cleaning robots. We also introduced the Roomba i3+, which expands our lineup of intelligent, self-emptying robot vacuum cleaners. We believe that the i3 and i3+ will play an important role in continuing to help shift our product mix up into the mid and premium tiers. Quarterly revenue from premium robots, which are priced at $500 and up[1], grew by 86% and represented over 60% of our Q3 revenue.

- The second element in our strategy is to build stronger, enduring relationships with consumers worldwide. We ended the third quarter with 7.8 million connected customers who have opted into our digital communications, a sequential increase

[1] Products included in this pricing tier are the Roomba s9 Series, i7 Series, i3+ and 900 Series, and the Braava Jet m6. Pricing is based on the Manufacturer Suggested Retail Price.

of 12% and a 45% gain since the start of the year. The introduction of our Genius platform also helps us advance this part of our strategy since Genius gives owners an unmatched level of personalization and control over their cleaning robots. We're already seeing the collaborative intelligence of Genius drive greater engagement. Mission completion rates continue to increase; i7, s9 and m6 owners are increasingly creating multiple favorite cleaning routines; and utilization of new features like directed room cleaning is on the rise.

- Nurturing the lifetime value of our customers is another strategic priority that we believe will support continued growth of our direct-to-consumer sales channel, the development of new recurring revenue streams and improved profitability. Our direct-to-consumer sales grew approximately 155% to $35 million in the third quarter as we are starting to see early returns on some of the initial investments that we've made to improve the buying experience on our digital properties. For example, we've recently added support for a broader range of payment types, optimized the design of the homepage and elsewhere on irobot.com to increase conversion, personalized various promotional programs and added a new Roomba Restore program that promotes the sale of refurbished Roomba robots. Earlier this month, we began conducting smaller scale pilots of new services that we expect to refine and scale during 2021.

2020 Outlook

As we look ahead, our business has fared far better in 2020 than we could have possibly anticipated just six months ago. We've seen our global year-to-date sell-through[2] growth rate accelerate further from Q2 levels primarily as a result of exceptionally strong demand in the U.S. Outside of the U.S., Europe's year-to-date sell-through growth rate has improved modestly from Q2 levels while Japan turned slightly negative due largely to a tough comp against September 2019, which benefited from very strong sell-through in

[2] As measured in units through week 40 using third-party market data and iRobot internal estimates. Comparison with 2019 sell-through levels exclude 2019 Prime Day units.

advance of an increase in that country's consumption tax. Looking ahead, we remain confident that we'll once again end the year as the undisputed global category leader[3] even as the competition intensifies and considerable uncertainty about consumer spending into the holiday season persists.

As we move into the final quarter of the year, our operations teams are working closely with our contract manufacturers and broader supply chain to fulfill anticipated orders and close our year on a very strong note. Based on orders in hand and those expected over the coming weeks, we currently anticipate full-year 2020 revenue in the range of $1.365 to $1.375 billion. This implies fourth-quarter revenue of $480 million to $490 million. We expect 2020 EPS in the range of $3.43 to $3.53. While we enjoyed a very strong EPS performance in the third quarter, we expect that our anticipated fourth-quarter EPS will moderate as we implement a range of promotional activities and activate substantial working media plans, including the recent kick-off of television advertising. Julie will provide additional details about our outlook in just a moment.

In closing, I am very proud of the way our teams have risen to the unprecedented challenges that we've faced thus far in 2020. As a result, we are well positioned to deliver annual revenue, gross margin, operating profitability and EPS that we expect will exceed our original 2020 targets. The progress we've made over the past several quarters further validates our strategic direction and we are incredibly excited about the opportunities we see to move into the next phase of our growth and maturation. At this point, I'll turn the call over to Julie. After her remarks, I will return to offer some additional closing thoughts. Julie …

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

Julie:

Thanks Colin. As Andy mentioned earlier, my review of our third-quarter financial results as well as my comments about our outlook will be done on a non-GAAP basis, so unless stated otherwise, each mention of gross margin, operating expense, operating profit, effective tax rate and net income per share will mean the corresponding non-GAAP metric. All comparisons are against the third quarter of 2019 unless otherwise noted.

For the second straight quarter, we outperformed our expectations. Total revenue grew 43% to $413 million due to substantially stronger-than-expected orders from retailers and direct-to-consumer sales. Geographically, all regions exceeded their revenue plans at the start of the quarter. Revenue grew 75% in the U.S. with international revenue up 21%. Outside of the U.S., the growth was highlighted by 22% expansion in EMEA while revenue in Japan increased 12%. Roomba represented 89% of our mix with Braava making up the remainder. Braava revenue grew by 38% due to robust growth in the m6.

Our gross margin of 48% was well ahead of our plans primarily due to a combination of the higher revenue, favorable changes in foreign exchange rates, a favorable channel mix shift, and the timing of other supply chain-related activities. Gross margin was essentially unchanged with the prior year. The leverage associated with higher revenue and the lack of tariff expense was primarily offset by changes in pricing and promotion.

Third-quarter 2020 operating expenses of $106 million increased by 18% and represented 26% of revenue. The increase primarily reflects higher short-term incentive compensation based on our expectations for a substantially stronger full-year performance, and the intensity of certain sales and marketing programs to support revenue and build our direct-to-consumer sales channel. Our Q3 operating income was $93 million, or 23% of revenue.

Our Q3 2020 effective tax rate was 20%, which was slightly higher than our plan due to the discrete impact of the 2020 tariff refund. Our net income per share was $2.58.

We ended the third quarter with $357.3 million in cash and short-term investments, a sequential increase of $115 million. The increase primarily reflects strong fundamental performance in addition to receiving approximately $35 million in tariff-related refunds and approximately $52 million in Teladoc stock that the company received in the third quarter when Teladoc acquired the company's stake in InTouch Health. The gain associated with our InTouch investment is reflected in other income in our GAAP income statement.

Third-quarter DSOs were 40 days versus 53 one year ago, which primarily reflects the timing of third-quarter 2020 orders. Q3 ending inventory was $218 million, or 93 days, compared with $248 million, or 152 days[4], at the same time last year. The decline in absolute inventory dollars primarily reflects the impact of tariffs on the Q319 inventory levels while DII benefited from our efforts to deliver against substantially higher-than-expected orders. In terms of inventory at our retailers, we ended the quarter in good shape.

Outlook

Let's turn to our outlook for 2020. As Colin noted earlier, we now expect a much better 2020 performance. With that said, there is a lot of work outstanding to finish Q4. Overall, we are cautiously optimistic for a strong fourth quarter although it remains to be seen how the pandemic, an uncertain economic environment and the shifting of an event like Prime Day from July to mid-October will influence the holiday gift-giving season.

Q4 & 2020 Revenue

Since late April, our expectations for 2020 have steadily improved. We now expect 2020 revenue in the range of $1.365 billion to $1.375 billion. This would represent growth over 2019 of 12 to 13 percent – which exceeds our top-line growth expectations at the start of the year. Our full-year 2020 expectations imply Q4 revenue ranging from $480 million to $490 million, or 12% to 15% higher than the fourth quarter of 2019.

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[4] Non-GAAP

Geographically, we expect double-digit growth in the U.S., EMEA and Japan for the fourth quarter.

Q4 & 2020 Gross Margin

We currently anticipate finishing 2020 with a gross margin of approximately 45%, which implies Q4 gross margin in the low-40% range as we support our retailers with promotional programs to drive sell through during the holiday season.

Q4 & 2020 Operating Costs & Operating Profitability

Looking closer into our operating costs, we currently anticipate a meaningful uplift in spending in the fourth quarter as we activate a range of advertising and marketing programs, incur higher short-term incentive compensation and continue to advance strategic initiatives primarily related to building stronger customer relationships and increasing our software capabilities. Based on planned Q4 spending in the range of $190 to $194 million, we are targeting full-year 2020 operating costs between $488 and $492 million.

Given our spending profile, we anticipate our 2020 operating profit margin to be approximately 9%. Given the anticipated decline in Q4 gross margin, we expect a fourth-quarter operating profit margin in the low single-digit range.

Other Assumptions & EPS

In terms of other notable modeling assumptions for 2020, we expect an effective tax rate of approximately 19%. We anticipate a diluted share count of approximately 28.6 million shares. As a result, we expect our full-year EPS to range from $3.43 to $3.53 with Q4 EPS between $0.12 and $0.22.

As it relates to our cash position going forward, we are expecting Q4 to be a solid quarter of cash generation. It is worth noting that we received approximately 60% of the $60 million in tariff-related refunds owed to us by the end of Q3. We expect to receive the balance over the next three quarters. As a reminder, the timing of these refunds is at the discretion of U.S. Customs.

In summary, we're very pleased with our third-quarter performance and our visibility into the fourth quarter leaves us confident that we'll enjoy a strong finish to the year. To be clear, there is a lot to be excited about as we continue to successfully navigate the challenges primarily tied to the global pandemic. 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. We are understandably proud of our performance and achievements thus far into 2020 in part because we believe that our progress this year will help set the stage for continued growth and success in 2021 and beyond. With that said, we are still advancing our planning processes for next year and as a result, it would be premature to share specific guidance for 2021. Nevertheless, I'd like to offer some preliminary thoughts on the opportunities and challenges that lie ahead for us next year.

Assuming our fourth quarter unfolds as expected, we plan to exit this year with healthy sell-through activity and relatively normal inventory levels at retailers. We believe that this will help create a foundation to sustain strong growth in 2021. Consistent with this view, we believe our investments to deliver a highly differentiated cleaning experience, further expand our direct-to-consumer sales channel and scale new service offerings will increase our competitive moat and support long-term value creation.

As the adoption of RVCs in general and Roomba more specifically continues into next year, we also are focused on a range of initiatives to address profitability headwinds that loom on the horizon. On last quarter's call, we discussed the gross margin challenges we see in 2021 due to the reinstatement of Section 301 tariffs and the investment to scale production in Malaysia. During that same call, we also noted that tariffs represented a three-point gross margin headwind in 2019. At a high level, nothing has changed on this front. As we geographically diversify our manufacturing capabilities, we will continue to carefully manage our supply chain to expand our access to the key components and raw materials necessary to keep pace with demand.

Additionally, moving into 2021, we plan to further build out the infrastructure necessary to scale new service offerings and continue growing direct-to-consumer sales. While our 2020 profitability has benefited modestly from lower travel costs, we expect those gains will subside with a return to a more traditional working environment at some point next year.

To minimize the impact of higher costs in these areas, we plan to ramp production in Malaysia into the second half of 2021, expand our direct-to-consumer sales and carefully manage our spending. Just as important, we believe that our progress on these fronts next year will leave us well positioned to enjoy gross margin and operating profitability tailwinds in 2022 and beyond.

Strategically, we move forward with a laser-focus on the consumer and on making sure that our customers never look to leave our franchise. A happy Roomba owner is an incredibly valuable asset and that loyalty will create meaningful opportunities for us to expand the scope of our relationships with our customers worldwide. To that end, we remain committed to product diversification. A top priority for us over the next several years will be to further build out our direct-to-consumer capabilities. We believe that progress on this front will increase the likelihood that we can successfully and efficiently enter new product categories. Based on this approach, our go-to-market plans to enter the robot mower market with Terra will remain on hold for the foreseeable future. To the extent we restart our efforts in this area, we will do so in stealth mode and will not be providing updates on a quarterly basis.

In summary, we are very pleased with our results to date and we are optimistic about our prospects for the fourth quarter. As we continue to execute on our plans, we remain enthusiastic that we can navigate the challenges that await us next year and reward our shareholders for their continued confidence.

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 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 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 nine months ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
GAAP Revenue	$ 413,145	$ 289,399	$ 885,563	$ 787,232
GAAP Gross Profit	$ 198,841	$ 136,841	$ 454,808	$ 374,557
Amortization of acquired intangible assets	225	3,095	1,695	9,283
Stock-based compensation	331	337	1,150	1,120
Tariff refunds	-	-	(40,017)	-
Non-GAAP Gross Profit	$ 199,397	$ 140,273	$ 417,636	$ 384,960
Non-GAAP Gross Profit Margin	48.3 %	48.5 %	47.2 %	48.9 %
GAAP Operating Expenses	$ 117,847	$ 94,286	$ 323,756	$ 304,489
Amortization of acquired intangible assets	(256)	(256)	(764)	(796)
Stock-based compensation	(9,512)	(3,947)	(19,754)	(17,622)
Net merger, acquisition and divestiture (expense) income	-	(32)	566	(328)
IP litigation expense, net	(1,607)	157	(3,360)	365
Restructuring and other	(200)	-	(2,063)	-
Non-GAAP Operating Expenses	$ 106,272	$ 90,208	$ 298,381	$ 286,108
Non-GAAP Operating Expenses as a % of Non-GAAP Revenue	25.7 %	31.2 %	33.7 %	36.3 %
GAAP Operating Income	$ 80,994	$ 42,555	$ 131,052	$ 70,068
Amortization of acquired intangible assets	481	3,351	2,459	10,079
Stock-based compensation	9,843	4,284	20,904	18,742
Tariff refunds	-	-	(40,017)	-
Net merger, acquisition and divestiture expense (income)	-	32	(566)	328
IP litigation expense, net	1,607	(157)	3,360	(365)
Restructuring and other	200	-	2,063	-
Non-GAAP Operating Income	$ 93,125	$ 50,065	$ 119,255	$ 98,852
Non-GAAP Operating Margin	22.5 %	17.3 %	13.5 %	12.6 %
GAAP Income Tax Expense	$ 29,982	$ 7,923	$ 39,156	$ 8,522
Tax effect of non-GAAP adjustments	(12,119)	(132)	(15,842)	3,490
Other tax adjustments	290	133	(888)	5,660
Non-GAAP Income Tax Expense	$ 18,153	$ 7,924	$ 22,426	$ 17,672

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

	For the three months ended		For the nine months ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
GAAP Net Income	$ 93,252	$ 35,532	$ 133,733	$ 65,259
Amortization of acquired intangible assets	481	3,351	2,459	10,079
Stock-based compensation	9,843	4,284	20,904	18,742
Tariff refunds	-	-	(40,017)	-
Net merger, acquisition and divestiture expense (income)	-	32	(1,241)	328
IP litigation expense, net	1,607	(157)	3,360	(365)
Restructuring and other	200	-	2,063	-
Gain on strategic investments	(43,480)	-	(43,567)	(572)
Income tax effect	11,829	(1)	16,730	(9,150)
Non-GAAP Net Income	$ 73,732	$ 43,041	$ 94,424	$ 84,321
GAAP Net Income Per Diluted Share	$ 3.27	$ 1.24	$ 4.69	$ 2.27
Amortization of acquired intangible assets	0.02	0.12	0.08	0.35
Stock-based compensation	0.34	0.15	0.73	0.65
Tariff refunds	-	-	(1.40)	-
Net merger, acquisition and divestiture expense (income)	-	-	(0.04)	0.01
IP litigation expense, net	0.06	(0.01)	0.12	(0.01)
Restructuring and other	-	-	0.07	-
Gain on strategic investments	(1.52)	-	(1.53)	(0.02)
Income tax effect	0.41	-	0.59	(0.32)
Non-GAAP Net Income Per Diluted Share	$ 2.58	$ 1.50	$ 3.31	$ 2.93
Number of shares used in diluted per share calculation	28,539	28,650	28,502	28,759
Section 301 Tariff Costs				
Section 301 tariff costs	$ -	$ 7,466	$ -	$ 15,966
Impact of Section 301 tariff costs to gross and operating margin (GAAP & non-GAAP)	- %	(2.6)%	- %	(2.0)%
Impact of Section 301 tariff costs to net (loss) income per diluted share (GAAP & non-GAAP)	$ -	$ (0.26)	$ -	$ (0.56)
Supplemental Information				
Days sales outstanding	40	53		
Days in inventory	93	152		

iRobot Corporation
Supplemental Reconciliation of Fiscal Year 2020 GAAP to Non-GAAP Guidance
(unaudited)

	FY-20
GAAP Gross Profit	$649 - $657 million
Amortization of acquired intangible assets	~$2 million
Stock-based compensation	~$2 million
Tariff refunds	~($40 million)
Total adjustments	~($36 million)
Non-GAAP Gross Profit	$613 - $621 million

	FY-20
GAAP Operating Income	$127 - $132 million
Amortization of acquired intangible assets	~$3 million
Stock-based compensation	~$28 million
Tariff refunds	~($40 million)
Net merger, acquisition and divestiture expense (income)	~($1 million)
IP litigation expense, net	~$6 million
Restructuring and other	~$2 million
Total adjustments	~($2 million)
Non-GAAP Operating Income	$125 - $130 million

	FY-20
GAAP Net Income Per Diluted Share	$4.52 - $4.62
Amortization of acquired intangible assets	~$0.10
Stock-based compensation	~$0.98
Tariff refunds	~($1.40)
Net merger, acquisition and divestiture expense (income)	~($0.04)
IP litigation expense, net	~$0.21
Restructuring and other	~$0.07
Gain on strategic investments	~($1.52)
Income tax effect	~$0.51
Total adjustments	~($1.09)
Non-GAAP Net Income Per Diluted Share	$3.43 - $3.53
Number of shares used in diluted per share calculations	~28.6 million