

iRobot Corporation (IRBT)

\$52.48 (As of 02/11/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: F

Summary

In the last six months, iRobot's shares underperformed the industry. In fourth-quarter 2019, the company's earnings surpassed estimates by 66.67%. Gross margin declined 950 basis points (bps), while operating margin was down 450 bps year over year. For first-quarter 2020, it expects a revenue decline of 8-12% due to uncertainty over order timings. This along with woes related to promotional activities, pricing and tariffs will likely induce an operating loss of \$7-\$14 million in the quarter. Adjusted loss per share is anticipated to be 15-40 cents. Tariff costs are predicted to be \$6-\$8 million for the quarter, with \$47-\$50 million expected for 2020. Gross margin is expected to be 38-39% for 2020, suggesting a decline from 46% reported in 2019. In the past seven days, earnings estimates have been lowered for the first quarter of 2020.

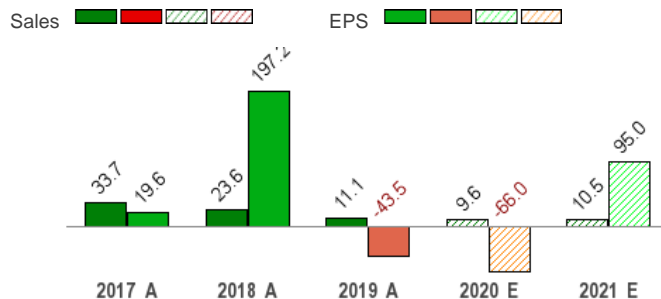
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$132.88 - \$42.41
20 Day Average Volume (sh)	1,722,881
Market Cap	\$1.5 B
YTD Price Change	3.7%
Beta	1.47
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Bottom 13% (220 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	66.7%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	-25.5%
Expected Report Date	04/28/2020
Earnings ESP	-66.4%
P/E TTM	16.7
P/E F1	52.0
PEG F1	3.5
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	260 E	321 E	354 E	547 E	1,471 E
2020	221 E	293 E	320 E	485 E	1,331 E
2019	238 A	260 A	289 A	427 A	1,214 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.16 E	\$0.12 E	\$0.47 E	\$1.05 E	\$1.97 E
2020	-\$0.26 E	\$0.07 E	\$0.48 E	\$0.68 E	\$1.01 E
2019	\$0.96 A	\$0.25 A	\$1.24 A	\$0.70 A	\$2.97 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

Overview

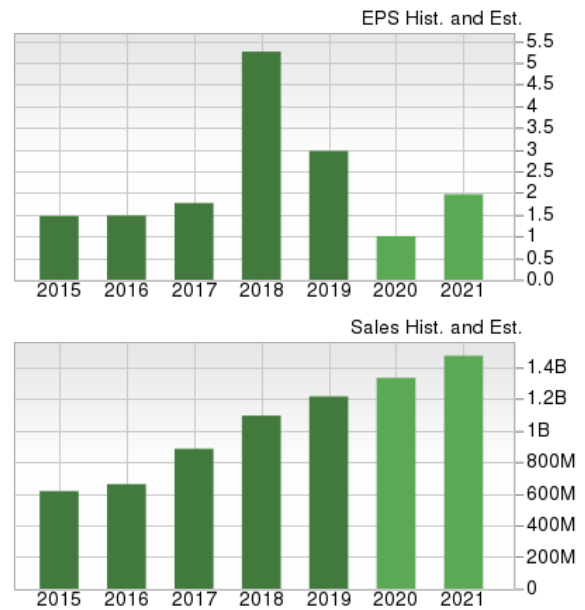
iRobot Corporation is one of the leading manufacturers of robots worldwide. The company is a leader not only in the domestic arena but also excels in the field of commercial usage. Notably, the company was founded in 1990 and is headquartered in Bedford, MA. In 2019, it generated around \$1.21 billion in revenues.

In second-quarter 2016, iRobot divested its Defense & Security business. Thereafter, it started generating the majority of revenues from the Consumer business. The company further strengthened its businesses through acquisitions of two distributors — Japan-based Sales On Demand Corporation and Europe-based Robopolis SAS — in 2017. These buyouts fortified iRobot presence in Spain, Germany, Belgium, Portugal, Austria, France, Japan and the Netherlands.

It is worth mentioning here that iRobot's Consumer business is related to the manufacturing of mobile robots. The company owns premium robotic brands such as Roomba, Braava, Mirra and Looj.

The above-mentioned robots feature proprietary technologies and help in domestic chores like vacuuming, floor scrubbing and mopping, pool cleaning, and gutter cleaning. The products are primarily sold via several distribution channels, which include chain stores, national retailers and online through iRobot's website as well as value-added distributors and resellers.

In addition to vacuuming and mopping products, the company entered the lawn care market as it unveiled Terra — a robot mower — in January 2019. Terra features state-of-the-art mapping and navigation technologies, high-quality mowing, and easy installation capabilities.



Reasons To Sell:

- ▼ In the past six months, iRobot's shares have decreased 20.7% against the industry's growth of 26%. In fourth-quarter 2019, the company's earnings surpassed estimates by 66.67%, while declined 40% from the year-ago reported figure on weak margins. iRobot provided weak projections for the first quarter of 2020 (as detailed below). This seems to have created bearish sentiments for the stock, evident from lowered earnings estimates over the past seven days. The Zacks Consensus Estimate has been revised from earnings per share of 20 cents to loss of 26 cents for the first quarter. This makes us cautious about the stock.
- ▼ iRobot noted that roughly 40% of the projected annual revenues of \$1.32-\$1.35 billion will be generated in the first half of 2020. This is one percentage point below the year-ago reported figure. In the first quarter of 2020, the company expects revenues to decline 8-12% year over year due to uncertainty over order timings. For the bottom line, it expects to incur a loss of 15-40 cents per share on weak revenues and poor operating results.
- ▼ The global industrial robotics market is facing headwinds from the imposition of trade tariffs for robotic vacuums. The Republic-lead administration's 25% tariffs over China imports (implemented in May 2019 on various products, including robotic vacuum cleaners manufactured in Beijing) are higher than 10% implemented in September 2018. Higher tariffs on China imports might put cost pressure on iRobot and in turn weigh on revenues and margins going forward. In fourth-quarter 2019, tariff costs had a negative impact of \$21.9 million on the company's operating income. It expects to incur \$47-\$50 million of tariff costs (including \$6-\$8 million for the first quarter) related to Section 301 in 2020.
- ▼ iRobot conducts business in a highly competitive market. Increased marketing investment or product launch by any major industry rival might adversely impact the company's financial. In the fourth quarter of 2019, its gross margin was adversely impacted by tariffs and pricing activities. The company believes that promotional activities, pricing and tariff woes will continue hurting its operating income and earnings in 2020, primarily in the first half of the year. Gross margin is expected to be 38-39% in 2020, down from 46% in 2019, while adjusted operating margin is projected to be 4-6%, down from 10.4% in 2019. The company noted that revenue decline and depressed gross margin will likely induce an operating loss of \$7-\$14 million in the first quarter.

Uncertainty over order timing and spending on promotional activities as well as pricing and tariff woes are likely to dent iRobot's revenues and profitability in the first quarter.

Risks

- In the fourth quarter of 2019, iRobot's revenues grew 10.9% year over year, driven mainly by healthy performance in the United States. Internationally, the company performed well in the EMEA region. Total product units shipped in the quarter grew 13.5% year over year, while average selling prices grew 4.3%. The company believes that solid footprint in the international arena as well as efforts to expand manufacturing capabilities outside China will be beneficial in the quarters ahead. Also, the business in the United States is predicted to benefit from growth investments and cost-control measures in the long term. For 2020, the company anticipates revenues of \$1.32-\$1.35 billion, suggesting growth of 9-11% from the year-ago reported figure.
 - iRobot's diversified product portfolio and innovative capabilities have been benefiting it over time. Highly advanced products — Roomba Vacuums, Braava Mops and Terra Mows — increase the company's competitive advantage, enabling to leverage the rising use of robotic technologies for vacuuming, mopping and mowing across the globe. Notably, the company successfully launched Braava jet m6 mop and Roomba s9 vacuum in Europe, while launched Roomba s9 vacuum in Japan in 2019. It noted that its new products (including Roomba i7+, Roomba s9+ and Braava jet m6) constituted 17% of revenues in 2019. Especially, the sale of Braava products generated revenues of \$100 million in 2019. Further, the company strengthened the global household adoption rates of its Roomba and Braava products through several marketing programs. For instance, its television advertising campaign for Braava products in the United States has been instrumental in boosting demand for Braava products. Also, the availability of Terra lawnmowers in Germany through online platforms in 2020 will likely aid. Further, the company expects to witness limited online Terra product sales in the United States in 2020. In the years ahead, it will continue to invest in building brand awareness. We believe that such marketing investments will continue to drive top-line growth for the company in the quarters ahead.
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Last Earnings Report

iRobot Q4 Earnings Surpass Estimates, Q1 View Bleak

iRobot delivered better-than-expected results for the fourth quarter of 2019. Its earnings surpassed estimates by 66.67% while sales beat the same by 3%.

The company reported earnings of 70 cents per share in the quarter, outpacing the Zacks Consensus Estimate of 42 cents. Earnings, adjusted for one-time items, were 69 cents per share, representing a 40% drop from the year-ago figure of \$1.15. The results were affected by weak margins.

For 2019, the company's earnings were \$2.97, above the Zacks Consensus Estimate of \$2.68. Earnings, adjusted for one-time items, were \$3.62 per share, decreasing 15.4% year over year.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	3.02%
EPS Surprise	66.67%
Quarterly EPS	0.70
Annual EPS (TTM)	3.15

Segmental Revenues

In the quarter under review, the company's revenues of \$426.8 million exceeded its projection of \$413-\$423 million. On a year-over-year basis, the quarterly top line improved 10.9%, benefiting from a healthy performance in the United States.

Also, the company's revenues surpassed the Zacks Consensus Estimate of \$414.3 million.

Total product units of 1,909 shipped in the quarter increased 13.5% year over year while average selling prices grew 4.3%. Notably, revenues from vacuum products grew 7.5% year over year to \$388 million. Units shipped were 1,730 thousand, up from 1,520 thousand in the year-ago quarter. Further, revenues from mopping products soared 62.5% to \$39 million. Units shipped were 179 thousand, up from 162 thousand in the fourth quarter of 2018.

On a geographical basis, the company sourced 57.9% of revenues from domestic operations, the rest came from the international arena. Domestic revenues totaled \$247.2 million, suggesting a 14.8% increase from the year-ago quarter. International revenues grew 6.1% to \$179.6 million. International operations benefited from a healthy sales generation in the EMEA region, partially offset by weakness in Japan.

For 2019, the company's revenues of \$1.21 billion increased 11.1% from the previous year. Also, full-year revenues surpassed the Zacks Consensus Estimate of \$1.20 billion. Product demand, especially for Roomba i7, Roomba s9 and Braava jet m6, were solid in the year. Also, revenues from the sales of Braava products exceeded \$100 million.

Margin Profile

In the quarter under review, iRobot's adjusted costs of revenues surged 31.7% year over year to \$254.6 million, representing 59.7% of revenues compared with 50.2% in the year-ago quarter. Adjusted gross profit in the quarter decreased 10% year over year to \$172.2 million while adjusted gross margin shrank 950 basis points (bps) to 40.3%. The margin took a hit from adverse impacts of tariffs and pricing activities.

Research and development expenses were \$37.3 million, down 0.4% year over year. This accounted for 8.7% of revenues compared with 9.7% in the year-ago quarter. Selling and marketing expenses slipped 0.1% to \$94 million. As a percentage of revenues, it reflected 22% of the top line compared with 24.5% in the prior year. General and administrative expenses were \$21.2 million, down 14.6% year over year. The figure mirrored 5% of the total revenue base compared with 6.5% in the year-earlier quarter.

Adjusted operating income in the quarter under review plunged 35.1% year over year to \$27 million. Adjusted operating margin contracted 450 bps to 6.3% in the reported quarter. Tariff costs had a negative impact of \$21.9 million on the quarter's operating income.

Balance Sheet and Cash Flow

iRobot exited the fourth quarter with cash and cash equivalents of \$239.4 million, soaring from \$70.5 million recorded at the end of the last reported quarter. Total long-term liabilities were \$66.2 million, down from \$67 million sequentially.

In 2019, the company generated net cash of \$130.5 million from its operating activities, reflecting growth of 82.1% from the previous year. Capital used for purchasing property and equipment totaled \$35.3 million compared with \$32.4 million in the preceding year.

Outlook

In the quarters ahead, iRobot anticipates gaining from solid consumer demand for robotic vacuum cleaning products. For 2020, the company predicts revenues to be \$1.32-\$1.35 billion, suggesting growth of 9-11% from the year-ago reported figure.

Adjusted gross profit in the year will likely be \$510-\$523 million while gross margin is expected to be 38-39% compared with 46% in 2019. The reduction in gross margin hints at the unfavorable impacts of pricing activities, promotional actions and tariff woes (related to Section 301 amounting to \$47-\$50 million for the full year).

Adjusted operating income is anticipated to be within \$55-\$75 million while margin is projected to be 4-6%. Adjusted earnings per share are predicted to be \$1.70-\$2.30. The company noted that tariff costs, pricing and promotional actions might hurt the operating income and earnings.

The company noted that roughly 40% of the projected revenues will be generated in the first half of 2020. Revenues in the first quarter are forecast to decline 8-12% year over year while that in the second, third and fourth quarters might grow in low- to mid- teens.

Lower revenues along with a depressed gross margin will likely induce an operating loss of \$7-\$14 million in the first quarter. Adjusted loss per share is assumed to be 15-40 cents. Tariff costs in the quarter are estimated at \$6-\$8 million.

Recent News

On **Jan 7, 2020**, iRobot announced that it has entered into a collaboration with the major integration and discovery platform — IFTTT.

Notably, iRobot and IFTTT will work on integrating various smart devices and services within the iRobot HOME App. The collaboration will involve iRobot to leverage IFTTT's Connect product and create in-app integrations. This will enable the company to enhance customer experience by facilitating easy integration of its devices with other products.

On **Nov 21, 2019**, iRobot announced that it started manufacturing in Malaysia earlier than expected. The move is in sync with the company's efforts to expand manufacturing capabilities outside China.

Valuation

iRobot's shares are up 3.7% and down 54.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 0.4% and down 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 3.2% and 8.3%, respectively.

The S&P 500 index is up 4.1% in the year-to-date period and 20.8% in the past year.

The stock is currently trading at 54.86x forward 12-month earnings per share, which compares to 21.02x for the Zacks sub-industry, 18.27x for the Zacks sector and 19.27x for the S&P 500 index.

Over the past five years, the stock has traded as high as 58.26x and as low as 17.23x, with a 5-year median of 26.82x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$45 price target reflects 46.63x forward 12-month earnings per share.

The table below shows summary valuation data for IRBT.

Valuation Multiples - IRBT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	54.86	21.02	18.27	19.27
	5-Year High	58.26	25.64	19.89	19.34
	5-Year Low	17.23	14.13	12.6	15.18
	5-Year Median	26.82	18.88	16.62	17.47
EV/EBITDA F12M	Current	11.05	12.22	17.81	12.66
	5-Year High	21.23	13.34	18.2	12.66
	5-Year Low	6.35	5.19	10.68	9.08
	5-Year Median	11.19	10.28	14.03	10.79
EV/Sales F12M	Current	1.01	2.65	3.14	3.26
	5-Year High	2.98	2.97	3.14	3.37
	5-Year Low	0.92	1.15	1.76	2.3
	5-Year Median	1.56	2.36	2.28	2.79

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 254)



Top Peers

Sony Corporation (SNE)	Outperform
Teradyne, Inc. (TER)	Outperform
ABB Ltd (ABB)	Neutral
A. O. Smith Corporation (AOS)	Neutral
Barnes Group, Inc. (B)	Neutral
Hollysys Automation Technologies, Ltd. (HOLI)	Neutral
Koninklijke Philips N.V. (PHG)	Neutral
Rockwell Automation, Inc. (ROK)	Neutral

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	IRBT Underperform	X Industry	S&P 500	ABB Neutral	HOLI Neutral	TER Outperform
VGM Score	A	-	-	C	A	B
Market Cap	1.48 B	1.48 B	24.31 B	52.68 B	915.36 M	12.13 B
# of Analysts	4	4	13	2	2	8
Dividend Yield	0.00%	0.57%	1.78%	1.99%	1.38%	0.50%
Value Score	C	-	-	B	A	C
Cash/Price	0.17	0.15	0.04	0.08	0.41	0.08
EV/EBITDA	8.83	7.77	13.97	18.45	3.37	19.00
PEG Ratio	3.48	3.54	2.06	3.93	NA	1.67
Price/Book (P/B)	2.28	2.28	3.24	3.77	0.98	8.30
Price/Cash Flow (P/CF)	12.11	12.81	13.65	14.61	5.80	23.10
P/E (F1)	52.15	36.39	19.12	24.40	6.41	22.07
Price/Sales (P/S)	1.22	1.65	2.67	1.88	1.65	5.29
Earnings Yield	1.92%	3.19%	5.23%	4.10%	15.62%	4.53%
Debt/Equity	0.08	0.04	0.70	0.54	0.01	0.30
Cash Flow (\$/share)	4.33	2.79	6.94	1.69	2.62	3.13
Growth Score	A	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	26.24%	8.79%	10.85%	3.57%	4.68%	21.08%
Proj. EPS Growth (F1/F0)	-66.08%	-20.08%	7.30%	-18.55%	4.65%	14.73%
Curr. Cash Flow Growth	-24.12%	-11.13%	8.92%	-3.96%	33.57%	-2.68%
Hist. Cash Flow Growth (3-5 yrs)	20.21%	7.45%	8.36%	-2.99%	10.26%	8.94%
Current Ratio	2.93	2.23	1.22	1.31	3.39	3.35
Debt/Capital	7.77%	6.29%	42.90%	34.88%	0.98%	22.80%
Net Margin	7.03%	13.75%	11.81%	5.14%	22.90%	20.88%
Return on Equity	14.42%	14.42%	16.98%	18.71%	15.00%	33.43%
Sales/Assets	1.44	0.92	0.54	0.62	0.43	0.86
Proj. Sales Growth (F1/F0)	8.72%	6.47%	3.90%	-1.98%	19.26%	13.09%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	1.33%	0.07%	0.65%	0.98%	0.86%	2.62%
1 Week Price Chg	16.39%	3.46%	2.47%	4.75%	0.94%	5.24%
4 Week Price Chg	0.57%	-0.29%	1.35%	3.18%	-12.46%	3.03%
12 Week Price Chg	13.08%	-0.20%	5.63%	12.46%	-0.20%	12.84%
52 Week Price Chg	-54.17%	11.25%	16.19%	28.33%	-26.54%	86.07%
20 Day Average Volume	1,722,881	39,853	1,995,746	1,930,706	160,035	2,918,366
(F1) EPS Est 1 week change	-4.71%	0.00%	0.00%	-1.94%	0.00%	0.00%
(F1) EPS Est 4 week change	-25.46%	0.07%	0.00%	-2.42%	0.00%	2.70%
(F1) EPS Est 12 week change	-35.79%	-0.70%	-0.19%	-3.50%	-1.46%	2.70%
(Q1) EPS Est Mthly Chg	-185.60%	-0.97%	0.00%	NA	0.00%	48.99%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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