

iRobot Corporation (IRBT)

\$55.88 (As of 01/16/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: D

Summary

iRobot believes that its 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 likely to benefit from growth investments and cost-control measures in the long term. Notably, it believes that its new products will constitute more than 15% of revenues in 2019 (results are awaited). However, in the past six months, iRobot's shares underperformed the industry. The company is wary about the trade tiff between the United States and China, and its possible impacts on financial results. Sales projections for 2019 have been lowered to \$1.2-\$1.25 billion from the previously mentioned estimated \$1.28-\$1.31 billion. Analysts have become increasingly bearish about the company over the past 60 days.

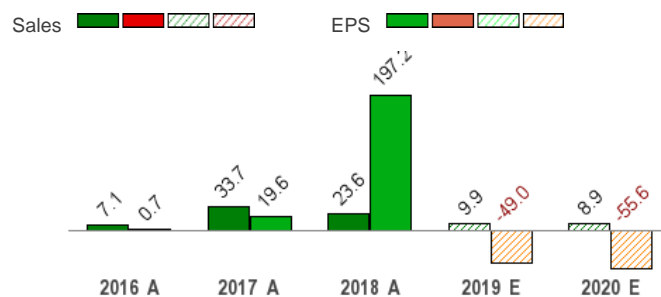
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$132.88 - \$42.41
20 Day Average Volume (sh)	1,048,650
Market Cap	\$1.6 B
YTD Price Change	10.4%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	129.6%
Last Sales Surprise	11.7%
EPS F1 Est- 4 week change	-7.3%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	17.0
P/E F1	47.0
PEG F1	3.1
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	259 E	282 E	303 E	465 E	1,308 E
2019	238 A	260 A	289 A	414 E	1,201 E
2018	217 A	226 A	265 A	385 A	1,093 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.31 E	\$0.17 E	\$0.53 E	\$0.44 E	\$1.19 E
2019	\$0.96 A	\$0.25 A	\$1.24 A	\$0.40 E	\$2.68 E
2018	\$0.66 A	\$0.37 A	\$1.12 A	\$0.84 A	\$5.26 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 01/16/2020. The reports text is as of 01/17/2020.

Overview

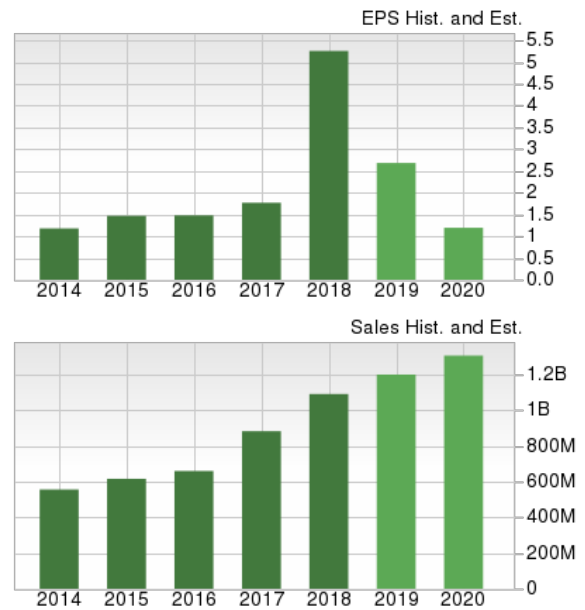
iRobot Corporation is one of the leading manufacturers of robots worldwide. The company is a leader not only in the domestic arena but also excels in the field of commercial usage. Notably, the company was founded in 1990 and is headquartered in Bedford, MA. In 2018, it generated around \$1.09 billion in revenues and employed 1,032 people.

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 Buy:

▲ In the third quarter of 2019, iRobot's revenues grew 9.4% year over year primarily on huge shipment to a U.S. retailer and solid international business. Internationally, the company performed well in Japan — with sales increasing in excess of 40%, and the EMEA region — registering sales growth of 27%. Total product units shipped in the quarter grew 4% year over year while average selling prices grew 10.5%. 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. In the fourth quarter of 2019, the company's revenues are predicted to be 10% above the year-ago quarter.

Robust demand for innovative robotic products, expanding international presence and strategic marketing campaigns are likely to boost iRobot's near-term results.

▲ iRobot's diversified product portfolio and innovative capabilities have been benefiting it over time, and it anticipates that these will continue to do so in the quarters ahead. 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 the third quarter of 2019. These two products were added to iRobot's portfolio in the second quarter of 2019. While Roomba s9+ robot vacuum is equipped with PerfectEdge, iAdapt Navigation with Imprint Smart Mapping and Clean Base Automatic Dirt Disposal technologies; Braava jet m6 robot mop has Imprint Smart Mapping and iAdapt Navigation, with vSLAM technologies. The company believes that its new products (including Roomba i7+, Roomba s9+, Terra and Braava jet m6) will constitute more than 15% of revenues in 2019. Especially, the sale of Braava products will likely be more than 20%.

▲ iRobot strengthened the global household adoption rates of its Roomba and Braava products through several marketing programs. For instance, the company's television advertising campaign for Braava products in the United States, carried out in 2017, has been instrumental in boosting demand for Braava products. Also, iRobot will start selling its Terra lawnmowers in Germany through online platforms in 2020. 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 through investments in trade shows, national advertising and other means. We believe that such marketing investments will continue to drive the company's top-line growth in the quarters ahead.

Reasons To Sell:

- ▼ In the past six months, iRobot's shares have declined 39.1%, against the industry's growth of 17.1%. The company is wary about the ongoing trade tiff between the United States and China, and the possible impact of higher tariff rates on robotic products on the results for 2019. It revised projections for 2019. Earnings are now anticipated to be \$2.60-\$2.80 versus the previously mentioned \$2.40-\$3.15. The mid-point of the revised guidance is \$2.70, down from earlier \$2.78. Revenues are now predicted to be \$1.2-\$1.21 billion, down from previously mentioned \$1.2-\$1.25 billion. In addition, analysts have become increasingly bearish about the company over the past couple of months. The Zacks Consensus Estimate has been revised downward by 14.4% to \$1.19 for 2020 in the past 60 days. This makes us cautious about the stock.
- ▼ 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 additional cost pressure on iRobot and in turn weigh on revenues and margins going forward. For 2019, the company expects to incur \$35-\$40 million of tariff-related costs.
- ▼ 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 third quarter of 2019, its gross margin was adversely impacted by promotional activities as well as tariffs and pricing activities. The company believes that these headwinds will continue hurting gross margin (likely to be roughly 40%) in the fourth quarter of 2019 as well. Also, the year's gross margin is expected to be 45%, at the low-end of previously mentioned 45-46%. Operating income is predicted to be \$75-\$80 million, down from \$75-\$100 million mentioned earlier.

Higher spending on promotional activities as well as trade tiffs with China over tariff imposition might continue to pressure iRobot's margins in the quarters ahead.

Last Earnings Report

iRobot Beats Q3 Earnings Estimates, Lowers View

iRobot kept its earnings beat streak alive in the third quarter of 2019. Its earnings surpassed estimates by a whopping 128.78% while sales beat the same by 11.71%.

The company reported earnings of \$1.24 per share in the quarter, surpassing the Zacks Consensus Estimate of 54 cents. Earnings, adjusted for one-time items, were \$1.50 per share, representing growth of 11.9% from the year-ago figure of \$1.34. The results benefitted from healthy demand for products and rise in other income, partially offset by weak margins.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	11.71%
EPS Surprise	129.63%
Quarterly EPS	1.24
Annual EPS (TTM)	3.29

Revenues Rise on Solid Demand

In the quarter under review, the company's net sales were \$289.4 million, improving 9.4% from the year-ago quarter figure. Results benefitted from huge shipment to a U.S. retailer and solid international business. Also, the company's revenues surpassed the Zacks Consensus Estimate of \$259.1 million.

Total product units shipped in the quarter increased 4% year over year while average selling prices grew 10.5%. As noted, its revenues from vacuum products grew 6.2% year over year to \$257 million. Units shipped were 975 thousand, up from 942 thousand in the year-ago quarter. Further, revenues from mopping products rose 39.1% to \$32 million. Units shipped were 156 thousand, up from 145 thousand in the third quarter of 2018.

On a geographical basis, the company sourced roughly 40.8% of revenues from domestic operations, the rest came from the international arena. Domestic sales totaled \$117.9 million, suggesting a 7.3% decline from the year-ago quarter. International sales grew 24.9% to \$171.5 million. International operations benefitted from healthy product demand in Japan and EMEA.

Margins Fall Y/Y

In the quarter under review, iRobot's adjusted costs of revenues rose 19.9% year over year to approximately \$149.1 million. It represented 51.5% of net revenues compared with 47% in the year-ago quarter. Adjusted gross profit in the quarter increased 0.1% year over year to \$140.3 million while adjusted gross margin declined 450 basis points (bps) to 48.5%. The margin suffered from tariffs as well as promotional and pricing activities.

Research and development expenses were \$33.4 million, down 5.4% year over year. It represented 11.5% of net sales versus 13.4% in the year-ago quarter. Selling and marketing expenses of \$42.3 million reflected a year-over-year increase of 8.3%. As a percentage of net sales, it represented 14.6% versus 14.8% in the year-ago quarter. General and administrative expenses were \$18.4 million, down 21.2% year over year. It represented 6.4% of net sales versus 8.8% in the year-ago quarter.

Adjusted operating income in the quarter under review rose 2.4% year over year to \$50.1 million. Adjusted operating margin declined 120 bps to 17.3% in the reported quarter.

Balance Sheet and Cash Flow

Exiting the third quarter, iRobot had cash and cash equivalents of \$70.5 million, down roughly 46.9% from \$132.8 million recorded at the end of the last reported quarter. Total long-term liabilities were \$67 million, down from \$68.9 million in the previous quarter.

In the first three quarters of 2019, the company used net cash of \$31.6 million for operating activities against net cash of \$40.3 million generated in the year-ago comparable period. Capital used for purchasing property and equipment totaled \$27.1 million versus \$25.3 million in the year-ago period.

Outlook

In the quarters ahead, iRobot anticipates gaining from diversified product portfolio, innovation investments and growing global presence. Also, it believes that efforts to diversify manufacturing capabilities will be boon. It is worth noting here that the company successfully launched Braava jet m6 mop and Roomba s9 vacuum in Europe while launched Roomba s9 vacuum in Japan in the third quarter of 2019.

However, iRobot is wary about the ongoing trade tiff between the United States and China, and the possible impact of higher tariff rates on robotic products on its results.

For 2019, the company revised down revenue projection to \$1.2-\$1.21 billion from previously mentioned \$1.2-\$1.25 billion. The new projection suggests growth of 10-11% (versus the previously mentioned 10-14%) from the previous year's reported figure.

Gross margin in the year will likely be 45%, at the low-end of previously mentioned 45-46%. Operating income is predicted to be \$75-\$80 million, down from \$75-\$100 million mentioned earlier. Earnings projection has been declined from \$2.40-\$3.15 to \$2.60-\$2.80.

For the fourth quarter of 2019, the company predicts revenues of \$413-\$423 million, suggesting year-over-year growth of 10%. Sales in the United States and international arena are expected to grow in high-single digits.

Also, gross margin for the fourth quarter will likely be roughly 40%. The company believes that margin will suffer from tariff costs, promotional activities and reduced prices of products. Earnings will likely be 33-53 cents per share.

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 down 37.6% over the past year. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 12.4% and 13.9% in the past 12 months.

The S&P 500 index is up 22.2% in the past year.

The stock is currently trading at 45.33x forward 12-month earnings per share, which compares to 21.03x for the Zacks sub-industry, 18.17x for the Zacks sector and 18.96x for the S&P 500 index.

Over the past five years, the stock has traded as high as 50.99x and as low as 17.23x, with a 5-year median of 26.42x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$59 price target reflects 47.60x 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	45.33	21.03	18.17	18.96
	5-Year High	50.99	25.64	19.9	19.34
	5-Year Low	17.23	14.13	12.59	15.17
	5-Year Median	26.42	18.87	16.54	17.44
EV/EBITDA F12M	Current	12.41	12.22	17.8	12.66
	5-Year High	21.29	13.34	18.2	12.66
	5-Year Low	6.31	5.19	10.68	9.08
	5-Year Median	11.21	10.27	14.01	10.78
EV/Sales F12M	Current	1.03	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	1.55	2.35	2.28	2.79

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Top Peers

Sony Corporation (SNE)	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
Teradyne, Inc. (TER)	Neutral

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	IRBT Neutral	X Industry	S&P 500	ABB Neutral	HOLI Neutral	TER Neutral
VGM Score	F	-	-	C	B	C
Market Cap	1.58 B	1.58 B	24.61 B	51.27 B	1.04 B	11.81 B
# of Analysts	5	5	13	1	2	8
Dividend Yield	0.00%	0.50%	1.74%	2.05%	1.22%	0.51%
Value Score	C	-	-	C	B	C
Cash/Price	0.07	0.07	0.04	0.06	0.36	0.08
EV/EBITDA	10.64	10.64	14.24	17.18	4.13	18.48
PEG Ratio	3.09	2.95	2.07	3.74	NA	1.57
Price/Book (P/B)	2.54	2.54	3.38	3.74	1.12	8.08
Price/Cash Flow (P/CF)	9.59	14.54	13.75	13.66	6.59	22.49
P/E (F1)	46.39	34.90	19.09	23.17	7.29	22.07
Price/Sales (P/S)	1.35	1.87	2.68	1.81	1.87	5.47
Earnings Yield	2.13%	3.24%	5.24%	4.30%	13.76%	4.52%
Debt/Equity	0.09	0.01	0.72	0.62	0.01	0.30
Cash Flow (\$/share)	5.83	2.79	6.94	1.76	2.62	3.13
Growth Score	F	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	26.18%	11.62%	10.56%	3.70%	4.68%	20.49%
Proj. EPS Growth (F1/F0)	-55.51%	-24.93%	7.57%	13.74%	4.65%	16.13%
Curr. Cash Flow Growth	111.10%	3.16%	14.73%	7.17%	33.57%	-2.68%
Hist. Cash Flow Growth (3-5 yrs)	33.72%	7.45%	9.00%	-1.95%	10.26%	8.94%
Current Ratio	2.98	2.98	1.24	1.36	3.39	3.35
Debt/Capital	8.29%	4.64%	42.99%	38.35%	0.98%	22.80%
Net Margin	7.72%	15.35%	11.14%	5.06%	22.90%	22.51%
Return on Equity	15.85%	15.43%	17.16%	19.16%	15.00%	30.51%
Sales/Assets	1.46	0.76	0.55	0.63	0.43	0.81
Proj. Sales Growth (F1/F0)	8.87%	6.19%	4.16%	-0.65%	19.26%	11.47%
Momentum Score	D	-	-	A	F	C
Daily Price Chg	4.64%	0.00%	0.89%	0.55%	-0.86%	1.95%
1 Week Price Chg	0.06%	0.02%	0.39%	-0.87%	-0.77%	-0.44%
4 Week Price Chg	10.02%	10.02%	2.65%	-0.42%	0.94%	2.83%
12 Week Price Chg	17.40%	17.40%	7.55%	15.34%	20.66%	11.71%
52 Week Price Chg	-36.51%	12.85%	22.12%	25.22%	-14.58%	119.56%
20 Day Average Volume	1,048,650	12,773	1,536,375	1,365,577	203,354	1,337,759
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.30%	-3.74%	0.00%	0.98%	0.00%	0.00%
(F1) EPS Est 12 week change	-57.45%	-13.23%	-0.40%	1.14%	-1.46%	5.36%
(Q1) EPS Est Mthly Chg	-4.17%	-0.48%	0.00%	NA	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Momentum Score	D
VGM Score	F

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.

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