

iRobot Corporation (IRBT)

\$79.35 (As of 07/22/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 07/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: B

Summary

In the past three months, iRobot's shares have outperformed the industry. The company is well-poised to gain from solid product offerings, focus on innovation and manufacturing diversification in the years ahead. In second-quarter 2020, its earnings and revenues surpassed estimates by 404.76% and 5.82%, respectively. For the second half of 2020, it anticipates gaining from healthy demand for Roomba and Braava products, strengthening sell-through and spur in the e-commerce business. Revenues are expected to grow in mid-single digits. Based on this, the company now anticipates 2020 revenues to remain flat to grow in low-single digits on a year-over-year basis. Notably, it earlier expected a year-over-year decline in revenues for 2020. In addition, the company's effective marketing strategies and cost-saving measures might be beneficial.

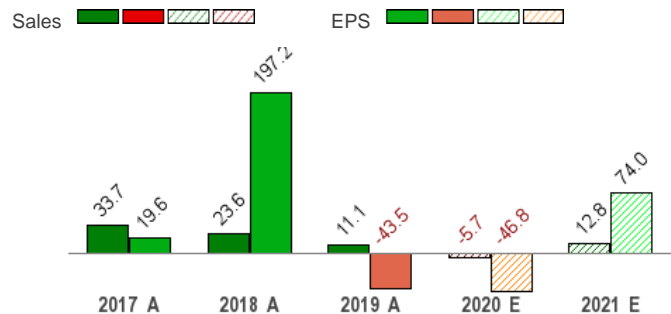
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.73 - \$32.79
20 Day Average Volume (sh)	698,479
Market Cap	\$2.2 B
YTD Price Change	56.7%
Beta	1.74
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Top 3% (7 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	404.8%
Last Sales Surprise	5.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	33.6
P/E F1	50.2
PEG F1	3.4
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	226 E	281 E	318 E	439 E	1,292 E
2020	193 A	280 A	263 E	409 E	1,145 E
2019	238 A	260 A	289 A	427 A	1,214 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.18 E	\$0.16 E	\$0.68 E	\$1.05 E	\$2.75 E
2020	-\$0.64 A	\$1.06 A	\$0.56 E	\$0.83 E	\$1.58 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, except sales and EPS estimates, is as of 07/22/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/23/2020.

Overview

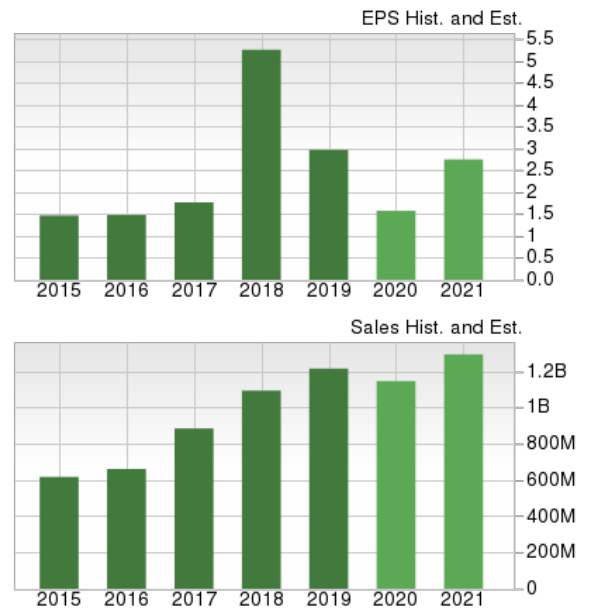
iRobot Corporation is one of the leading manufacturers of robots worldwide. The company is a leader not only in the domestic arena but also excels in the field of commercial usage. Notably, the company was founded in 1990 and is headquartered in Bedford, MA. In 2019, it generated around \$1.21 billion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

- ▲ In the past three months, iRobot's shares have gained 44% compared with the industry's growth of 29.4%. In the second quarter of 2020, the company's earnings and revenues surpassed estimates by 404.76% and 5.82%, respectively. On a year-over-year basis, earnings expanded 120.8%, driven by healthy sales generation and improvement in margins. In the quarters ahead, the fulfillment of customer demand, workers' safety and maintaining business strength remain its priorities. Also, it is working on reducing costs through workforce reduction, the suspension of certain marketing actions for Terra and others. These measures might help in boosting margins. Also, the exclusion of Roomba products from tariffs imposed under section 301 aided gross margin in the second quarter of 2020. Extension of this permission, if granted, might continue to positively impact the company's margins. For the second half of 2020, gross margin is expected to be 39-40%, while that for the year will likely be in low-40s.
- ▲ iRobot's diversified product portfolio have been benefiting it over time. In second-quarter 2020, revenues derived from premium robots — products having \$500 or more as list price — increased by 43% year over year. Also, its innovation capabilities and manufacturing diversification might be beneficial in the quarter ahead. Notably, the company intends on bringing new capabilities in the Roomba products in the quarters ahead, while is also working diligently to limit its manufacturing exposure in China. In the second half of 2020, the company anticipates benefiting from healthy demand for advanced products — Roomba i7, Roomba s9 and Braava jet m6 — as well as strengthening sell-through and spur in the e-commerce business. Revenue growth in the second half is anticipated to be in mid-single digits. For 2020, the company now anticipates revenues to remain flat to grow in low-single digit from the 2019 level. Notably, the company earlier expected a year-over-year decline in revenues for 2020.
- ▲ iRobot 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. Going forward, investments in building brand awareness — via campaigning through traditional retail partners, in own app and website and online-retailers — might play a significant role in boosting demand for products.

Robust demand for existing Roomba and Braava products, strengthening sell-through and spur in e-commerce business are likely to aid iRobot's performances in the second half of 2020.

Risks

- Despite all the prevailing tailwinds for iRobot, the uncertainties related to the pandemic cannot be completely ignored. Challenges related to stiff competition, inventory-management by retailers, uneven demand trend across the globe and lower stimulus program by the government might be worrying. These along with efficient management of supply-chain and raw material sourcing might influence the company's orders in the second half of 2020.
 - iRobot conducts business in a highly competitive market and so to stay in business, it has to invest in development and marketing of products. These expenses, if uncontrolled, can be a serious threat to the company's margin profile. For 2020, the company expects operating expenses — including research and development expenses, selling and marketing expenses, and others — to increase modestly from the 2019 level. Also, operating expenses are expected to increase slightly (on a sequential basis) in the third quarter of 2020. Further increases in expenses — due to investment in marketing campaigns for the holiday season — are predicted for the fourth quarter.
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Last Earnings Report

iRobot Beats on Q2 Earnings, Hikes View for 2020

iRobot kept its earnings streak alive in the second quarter of 2020, beating estimates by an outstanding 404.76%. Also, its sales surpassed estimates by 5.82%. Notably, the results also fared well compared with the year-ago quarter.

The company reported earnings of \$1.06 per share in the quarter, whereas the Zacks Consensus Estimate was pegged at earnings of 21 cents. Notably, the year-ago quarter's earnings were 48 cents. Healthy sales growth and improved margins aided the year-over-year rise of 120.8%.

Quarter Ending **06/2020**

Report Date	Jul 21, 2020
Sales Surprise	5.82%
EPS Surprise	404.76%
Quarterly EPS	1.06
Annual EPS (TTM)	2.36

Revenue Details

The company generated revenues of \$279.9 million in the quarter, exceeding the revised projection (provided in June) of \$260-\$270 million. Also, the metric surpassed the Zacks Consensus Estimate of \$264.5 million.

On a year-over-year basis, the quarterly revenues increased 7.6%, driven by healthy demand for Roomba i7 Series and s9 Series; and Braava jet m Series. Notably, revenues derived from premium robots — products having \$500 or more as list price — expanded 43%.

Total product units of 1,044 shipped in the quarter decreased 2.8% year over year, while average selling prices increased 3.7%. For vacuum products, revenues of \$251 million reflected growth of 5.9% from the year-ago quarter. Units shipped were 930 thousand, down 0.5% from the year-ago quarter. Further, revenues from mopping products increased 26.1% to \$29 million. Units shipped were 114 thousand, down from 139 thousand recorded in the second quarter of 2019.

On a geographical basis, the company sourced 50.1% of revenues from domestic operations, the rest came from the international arena. Domestic revenues totaled \$140.2 million, reflecting a 12.6% increase from the year-ago quarter. International revenues rose 3% to \$139.7 million. International operations gained from a 43% increase in revenues in Japan, while suffering from a 14% fall in EMEA sales.

Margin Profile

In the quarter under review, iRobot's adjusted costs of revenues increased 1.4% year over year to \$140.4 million, representing 49.8% of revenues compared with 53.2% in the year-ago quarter. Adjusted gross profit in the quarter grew 14.6% year over year to \$139.5 million, while adjusted gross margin expanded 300 basis points (bps) to 49.8%. The margin improvement reflects the benefits derived from the exclusion of Roomba from Section 301 tariffs.

Research and development expenses were \$36.6 million, up 2.5% year over year. This accounted for 13.1% of revenues compared with 13.7% in the year-ago quarter. Selling and marketing expenses decreased 13% to \$49.1 million. As a percentage of revenues, it reflected 17.5% of revenues compared with 21.7% in the prior-year quarter. General and administrative expenses were \$21.9 million, up 6.1% year over year. The figure mirrored 7.8% of the total revenue base compared with 7.9% in the year-earlier quarter.

In the quarter, the company recorded adjusted operating earnings of \$40.5 million, reflecting an increase of 158.2% from the year-ago quarter. Adjusted operating margin was 14.5%, higher than 6% in the year-ago quarter.

Balance Sheet and Cash Flow

iRobot exited the second quarter with cash and cash equivalents of \$230.7 million, decreasing 7.3% from \$248.8 million recorded at the end of the last reported quarter. Total long-term liabilities were \$65.9 million, up sequentially from \$65.2 million.

In the first half of 2020, the company generated net cash of \$28.2 million from its operating activities, reflecting an increase of 32.2% from the year-ago comparable period. Capital used for purchasing property and equipment totaled \$19 million compared with \$14.7 million in the first half of 2020.

During the first six months of 2020, the company repurchased 0.7 million shares for \$25 million consideration. Notably, no shares were repurchased in the second quarter of this year.

Outlook

A solid customer base, spur in the e-commerce business, strengthening sell-through and low inventory level with retailers will likely benefit the company in the second half of 2020. Also, product innovations will be a key tailwind.

Being more optimistic about revenue prospects in the second half, iRobot anticipates 2020 revenues to remain flat to grow slightly from the 2019 level. The new projection reflects an improvement from the company's previous expectation of a year-over-year decline.

Also, revenue growth in the third quarter of 2020 is predicted to be more than that reported in the fourth quarter.

Valuation

iRobot's shares are up 56.7% and 6.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are up 12.9% and that in the Zacks Industrial Products sector are down 6.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 28.2% and down 0.3%, respectively.

The S&P 500 index has moved up 1.4% year to date and increased 8.7% in the past year.

The stock is currently trading at 35.53x forward 12-month earnings per share, which compares to 27.61x for the Zacks sub-industry, 22.06x for the Zacks sector and 23.06x for the S&P 500 index.

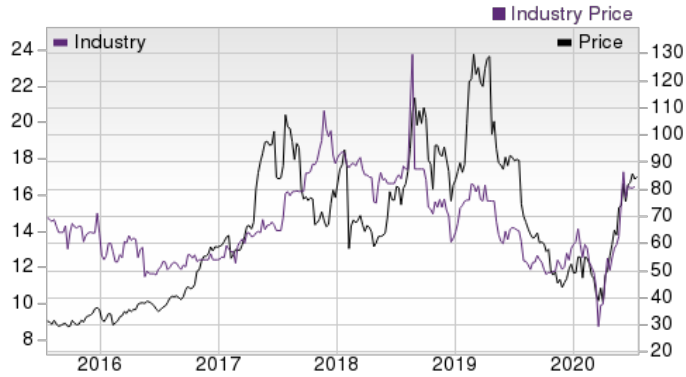
Over the past five years, the stock has traded as high as 917.3x and as low as 17.23x, with a 5-year median of 29.25x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$91 price target reflects 40.86x forward 12-month earnings per share.

The table below shows summary valuation data for IRBT.

Valuation Multiples - IRBT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.53	27.61	22.06	23.06
	5-Year High	917.3	27.74	22.06	23.06
	5-Year Low	17.23	14.13	12.55	15.25
	5-Year Median	29.25	19.09	16.81	17.52
P/S F12M	Current	1.81	3.12	2.85	3.61
	5-Year High	3.44	3.12	2.85	3.61
	5-Year Low	0.71	1.24	1.52	2.53
	5-Year Median	1.8	2.41	2.01	3.02

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Top 3% (7 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
ABB Ltd (ABB)	Neutral	3
A. O. Smith Corporation (AOS)	Neutral	2
Barnes Group, Inc. (B)	Neutral	3
Hollysys Automation Technologies, Ltd. (HOLI)	Neutral	3
Koninklijke Philips N.V. (PHG)	Neutral	1
Rockwell Automation, Inc. (ROK)	Neutral	2
Sony Corporation (SNE)	Neutral	3
Teradyne, Inc. (TER)	Neutral	3

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	IRBT	X Industry	S&P 500	ABB	HOLI	TER
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	C	-	-	D	B	B
Market Cap	2.21 B	1.76 B	22.74 B	56.81 B	746.41 M	14.83 B
# of Analysts	5	2	14	3	2	8
Dividend Yield	0.00%	0.24%	1.81%	1.97%	1.70%	0.45%
Value Score	F	-	-	D	A	D
Cash/Price	0.11	0.12	0.06	0.12	0.46	0.06
EV/EBITDA	14.72	5.46	13.19	19.02	2.38	21.62
PEG Ratio	3.35	3.69	3.05	5.84	NA	3.01
Price/Book (P/B)	3.24	3.01	3.14	4.72	0.76	8.50
Price/Cash Flow (P/CF)	18.32	18.32	12.31	15.54	4.73	24.42
P/E (F1)	50.22	40.67	22.34	36.22	5.57	28.74
Price/Sales (P/S)	1.86	1.86	2.40	2.16	1.41	5.34
Earnings Yield	1.99%	2.61%	4.27%	2.75%	17.95%	3.48%
Debt/Equity	0.08	0.07	0.75	0.62	0.00	0.26
Cash Flow (\$/share)	4.33	3.29	6.94	1.69	2.62	3.66
Growth Score	B	-	-	F	D	B
Hist. EPS Growth (3-5 yrs)	20.74%	5.84%	10.82%	3.42%	5.84%	22.47%
Proj. EPS Growth (F1/F0)	-46.94%	-21.46%	-9.08%	-41.67%	24.72%	8.87%
Curr. Cash Flow Growth	-24.13%	1.05%	5.51%	-3.96%	33.57%	9.31%
Hist. Cash Flow Growth (3-5 yrs)	20.21%	3.50%	8.55%	-2.99%	10.26%	3.50%
Current Ratio	3.45	2.51	1.30	1.18	3.61	2.86
Debt/Capital	7.19%	7.08%	44.41%	38.38%	0.46%	20.36%
Net Margin	8.08%	10.54%	10.46%	5.83%	19.37%	22.94%
Return on Equity	9.55%	9.55%	15.29%	18.22%	11.99%	43.96%
Sales/Assets	1.34	0.88	0.54	0.57	0.40	0.96
Proj. Sales Growth (F1/F0)	-6.99%	-5.82%	-2.27%	-12.38%	18.29%	14.15%
Momentum Score	B	-	-	A	B	A
Daily Price Chg	-7.49%	-0.10%	0.60%	5.43%	-2.60%	-0.26%
1 Week Price Chg	1.07%	0.00%	3.82%	1.10%	-2.42%	-1.10%
4 Week Price Chg	-0.59%	-0.59%	7.55%	20.46%	-9.04%	9.99%
12 Week Price Chg	31.61%	16.67%	7.51%	36.67%	-14.98%	32.93%
52 Week Price Chg	6.50%	6.50%	-3.37%	35.61%	-31.01%	54.45%
20 Day Average Volume	698,479	12,619	2,037,153	2,654,165	186,335	1,897,822
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.94%	0.14%	3.83%	0.00%	1.14%
(F1) EPS Est 12 week change	920.00%	-5.54%	-3.51%	13.61%	-12.60%	1.14%
(Q1) EPS Est Mthly Chg	0.00%	3.45%	0.00%	NA	NA	14.52%

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	F
Growth Score	B
Momentum Score	B
VGM Score	C

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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