

iRobot Corporation (IRBT)

\$83.74 (As of 06/23/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

In the past three months, iRobot's shares have outperformed the industry. The company expects second-quarter sales to be \$260-\$270 million on the back of strengthening demand for its products. This estimate suggests a rise from \$193 million generated in first-quarter and exhibits sequential growth from a modest decline mentioned earlier. Also, iRobot continues to believe that revenues in the second half of 2020 will be better than the first half. Cost-saving actions and the exclusion of Roomba from Section 301 tariffs might aid results. However, the pandemic-related challenges are predicted to persist going forward, with revenues in 2020 expected to come in below the 2019 level. Also, tariffs and high promotional investments might play spoilsport. In the past 60 days, the company's earnings estimates have been raised for both 2020 and 2021.

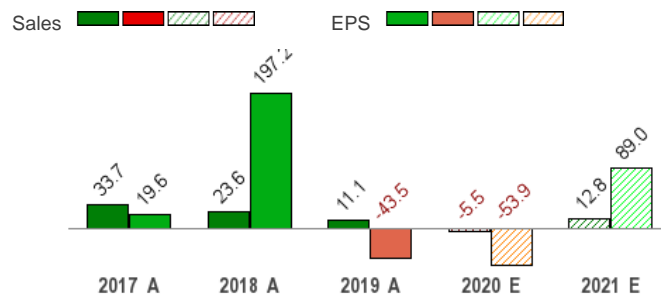
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.10 - \$32.79
20 Day Average Volume (sh)	1,019,406
Market Cap	\$2.3 B
YTD Price Change	65.4%
Beta	1.72
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Bottom 13% (219 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.5%
Last Sales Surprise	7.0%
EPS F1 Est- 4 week change	178.5%
Expected Report Date	07/28/2020
Earnings ESP	416.5%
P/E TTM	54.0
P/E F1	61.1
PEG F1	4.1
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	228 E	279 E	310 E	460 E	1,294 E
2020	193 A	265 E	267 E	422 E	1,147 E
2019	238 A	260 A	289 A	427 A	1,214 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.17 E	\$0.13 E	\$0.68 E	\$1.29 E	\$2.59 E
2020	-\$0.64 A	\$0.04 E	\$0.60 E	\$1.03 E	\$1.37 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 06/23/2020. The reports text is as of 06/24/2020.

Overview

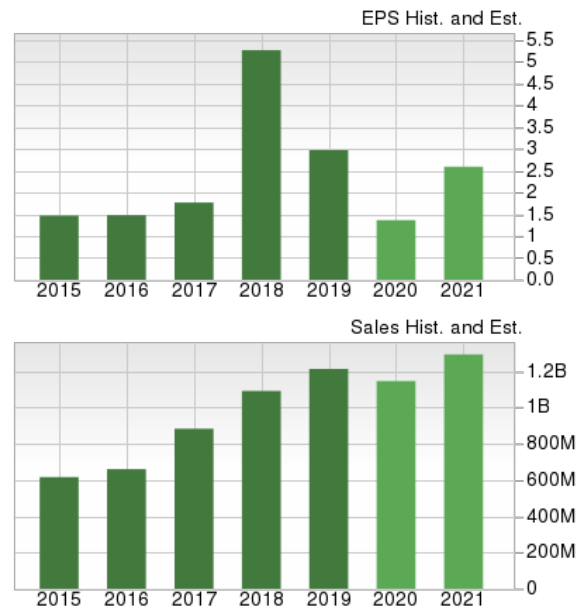
iRobot Corporation is one of the leading manufacturers of robots worldwide. The company is a leader not only in the domestic arena but also excels in the field of commercial usage. Notably, the company was founded in 1990 and is headquartered in Bedford, MA. In 2019, it generated around \$1.21 billion 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 85.4% compared with the industry's growth of 37.4%. In the first quarter of 2020, the company's earnings and revenues surpassed estimates by 4.5% and 7%, respectively. In the wake of the coronavirus pandemic, the company is working aggressively to handle costs through workforce reduction, the suspension of certain marketing actions for Terra and others. Also, the fulfillment of customer demand, workers' safety and maintaining business strength remain its priorities. Recently, the company reiterated its expectation of delivering better results in the second half of 2020 as compared with the first half on the back of healthy sell-through noticed in various geographies. Also, its cost-reduction efforts are likely to yield \$30 million savings in 2020. The tailwinds for the second half of the year might help it generate operating profits. In the past 60 days, the company's earnings estimates increased 124.6% for 2020 and 40.8% for 2021.
- ▲ iRobot's diversified product portfolio and innovative capabilities have been benefiting it over time. Increase demand for advanced products — Roomba i7, Roomba s9 and Braava jet m6 — as well as healthy sales in retail stores, and spur in the e-commerce business will likely benefit, going forward. The company also intends on bringing new capabilities in the Roomba products in the quarters ahead. Also, the exclusion of Roomba products from tariffs imposed under section 301 — permission granted by the United States Trade Representative and effective Aug 7, 2020 — will help it in effectively dealing with the prevailing macro headwinds. It expects tariffs-related refunds to positively impact its gross margin in the quarters ahead. For the second quarter, the company anticipates generating revenues of \$260-\$270 million, higher than the first quarter's figure of \$193 million. Also, the expectation of sequential growth is way better than the previously mentioned modest decline.
- ▲ 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. In the years ahead, investments in building brand awareness might help drive the top line of the company. Also, a healthy balance sheet places the company well against peers. Its long-term debt-to-capital at 7.9% is lower than the industry's 54.4%. At the end of first-quarter 2020, the company's total long-term liabilities stood at \$65.2 million, reflecting a decline of 1.5% from the previous quarter. Also, its cash and cash equivalents increased 3.9% sequentially to \$248.8 million.

Robust demand for innovative robotic products, cost-saving actions and the exclusion of Roomba from Section 301 tariffs are likely to aid iRobot's performances in the second half of 2020.

Reasons To Sell:

- ▼ In first-quarter 2020, iRobot's revenues decreased 19% year over year as the pandemic adversely impacted its sales activities and manufacturing supply chain. Total product units shipped fell 17.7% 17.7% year over year, while average selling prices declined 1.9%. Geographically, sales declined 28.1% year over year in domestic regions and fell 10.5% internationally. The company believes that revenue challenges due to the pandemic will persist, going forward. It still believes that revenues in 2020 will be lower than the 2019 level.
- ▼ The global industrial robotics market is facing headwinds from the imposition of trade tariffs for robotic vacuums. In first-quarter 2020, the company noted that Section 301-related tariff costs amounted to \$6.6 million, reflecting an increase of 87.9% from the year-ago quarter. The tariffs adversely impacted first-quarter earnings by 23 cents (versus 12 cents in the year-ago quarter) and margins by 3.4%. However, the exclusion of Roomba products from the tariff might help the company to better deal with the prevailing macro headwinds.
- ▼ 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 financials. Apart from tariffs, its gross margin in the first quarter was adversely impacted by lower pricing and high expenses related to promotional activities. Persistence of these headwinds might hurt iRobot's performances.

iRobot is exposed to challenges resulting from the coronavirus outbreak. It expects revenues to decline year over year in 2020. Also, promotional activities and tariff woes might be dragging.

Last Earnings Report

iRobot Q1 Earnings and Revenues Surpass Estimates

iRobot delivered better-than-expected results for the first quarter of 2020. Compared with the year-ago quarter, the results suffered from disruptions caused by the coronavirus outbreak.

The company reported a loss of 32 cents per share in the quarter, whereas its GAAP loss in the quarter was 64 cents per share. The Zacks Consensus Estimate for the quarter was loss per share of 67 cents. However, in the year-ago quarter, it reported earnings of 96 cents per share.

It is worth mentioning here that Section 301 tariff costs had adversely impacted earnings by 23 cents, higher than 12 cents in the year-ago quarter.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	6.96%
EPS Surprise	4.48%
Quarterly EPS	-0.64
Annual EPS (TTM)	1.55

Revenue Details

In the quarter under review, the company's revenues of \$192.5 million exceeded its projection of \$175-\$185 million. Also, the metric surpassed the Zacks Consensus Estimate of \$180 million by 7%.

However, the quarterly top line decreased 19% year over year as the pandemic adversely impacted sales activities and manufacturing supply chain.

Total product units of 721 shipped in the quarter decreased 17.7% year over year, while average selling prices fell 1.9%. Notably, revenues from vacuum products declined 23.1% year over year to \$170 million. Units shipped were 625 thousand, down from 764 thousand in the year-ago quarter. Further, revenues from mopping products soared 35.3% to \$23 million. Units shipped were 96 thousand, down from 112 thousand in the first quarter of 2019.

On a geographical basis, the company sourced 42.6% of revenues from domestic operations, the rest came from the international arena. Domestic revenues totaled \$82 million, reflecting a 28.1% decrease from the year-ago quarter. International revenues declined 10.5% to \$110.6 million. International operations suffered from a 14% fall in revenues in Japan and an 11% decline in EMEA.

Margin Profile

In the quarter under review, iRobot's adjusted costs of revenues decreased 0.8% year over year to \$113.8 million, representing 59.1% of revenues compared with 48.3% in the year-ago quarter. Adjusted gross profit in the quarter decreased 36% year over year to \$78.8 million, while adjusted gross margin contracted 1090 basis points (bps) to 40.9%.

Research and development expenses were \$36.8 million, up 4.2% year over year. This accounted for 19.1% of revenues compared with 14.8% in the year-ago quarter. Selling and marketing expenses decreased 5.8% to \$36.6 million. As a percentage of revenues, it reflected 19% of the top line compared with 16.3% in the prior year. General and administrative expenses were \$24.6 million, up 7.3% year over year. The figure mirrored 12.8% of the total revenue base compared with 9.6% in the year-earlier quarter.

In the quarter, the company recorded an adjusted operating loss of \$14.4 million against operating income of \$33.1 million in the year-ago quarter. Adjusted operating margin was (7.5%) versus 13.9% in the first quarter of 2020.

Tariff costs related to Section 301 amounted to \$6.6 million in the quarter, increasing 87.9% from the year-ago quarter. The metric adversely impacted margins by 3.4% in the quarter.

Balance Sheet and Cash Flow

iRobot exited the first quarter with cash and cash equivalents of \$248.8 million, increasing 3.9% from \$239.4 million recorded at the end of the last reported quarter. Total long-term liabilities were \$65.2 million, down sequentially from \$66.2 million.

In the quarter, the company generated net cash of \$40.7 million from its operating activities, reflecting a decline of 22.7% from the year-ago quarter. Capital used for purchasing property and equipment totaled \$7.3 million compared with \$6 million in the first quarter of 2019.

During the quarter, the company repurchased 0.7 million shares for \$25 million consideration.

Outlook

In the present uncertain environment, iRobot is focused on handling costs (through workforce reduction, suspension of certain marketing actions for Terra and others), workers' safety, fulfillment of customer demand and maintaining business strength.

It believes that revenue challenges will persist in the near term. Also, restructuring charges of \$2 million will be recorded in the second quarter.

However, healthy demand for Roomba i7, Roomba s9 and Braava jet m6 products, healthy sales in retail stores, and spur in the e-commerce business will likely benefit. Also, it noted that the exclusion of Roomba products from tariffs imposed under section 301 — permission granted by the United States Trade Representative and effective Aug 7, 2020 — will help in effectively dealing with the prevailing macro headwinds.

In the second half of 2020, the company anticipates improved results as compared with the first half of the year. It believes that cost-saving measures will yield savings of \$30 million in 2020.

Recent News

iRobot Hikes Q2 Sales and Operating View

On **Jun 15, 2020**, iRobot provided an update on its second-quarter revenues and operating performance. Also, it highlighted its expectations for 2020.

The company noted that the demand for its robot vacuums — the Roomba i7 Series and s9 Series — and robot mops — Braava jet m Series — has been going strong in the second quarter of 2020.

It believes that the top line in the second quarter will benefit from solid orders for Roomba and Braava products, and will likely be \$260-\$270 million. The top-line projection is way better than a modest sequential decline mentioned earlier. Notably, revenues in first-quarter 2020 were \$193 million.

Geographically, the company anticipates sales in the United States to grow in mid-single digits on a year-over-year basis. Internationally, sales will likely exhibit a modest year-over-year decline, largely impacted by the soft business in Europe. However, growth in Japan will likely provide relief.

In addition, iRobot now anticipates generating operating profits in the second quarter as compared to operating loss mentioned previously. The results will likely benefit from higher revenues, better management of gross margin and cost-saving moves.

The company also noted that strengthening sell-through in the United States from the beginning of the year until May and positive sell-through in the EMEA region are healthy signs. Also, sell-through in Japan shows impressive growth in the past four weeks. Based on the tailwinds, the company reiterated its expectation of better performances in the second half of 2020 compared with the first half.

Further, it maintained that uncertainties related to the pandemic are still concerning and so continued to expect 2020 revenues to be lower than the 2019 level.

Valuation

iRobot's shares are up 65.4% and down 7.6% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are up 5.5% and that in the Zacks Industrial Products sector are down 12.6% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 21.7% and down 8.2%, respectively.

The S&P 500 index has moved down 2.7% year to date and increased 7.5% in the past year.

The stock is currently trading at 106.9x forward 12-month earnings per share, which compares to 26.63x for the Zacks sub-industry, 21.58x for the Zacks sector and 22.47x 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 28.95x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$88 price target reflects 112.26x 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	106.9	26.63	21.58	22.47
	5-Year High	917.3	27.2	21.58	22.47
	5-Year Low	17.23	14.13	12.55	15.23
	5-Year Median	28.95	19.07	16.66	17.49
EV/EBITDA F12M	Current	20.78	16.02	19.33	13.65
	5-Year High	27.62	17.35	20.66	14.17
	5-Year Low	6.31	5.19	10.6	9.01
	5-Year Median	12.12	10.62	14.16	10.96
EV/Sales F12M	Current	1.69	3.16	3.19	3.27
	5-Year High	2.98	3.41	3.4	3.51
	5-Year Low	0.65	1.15	1.76	2.28
	5-Year Median	1.57	2.39	2.32	2.83

As of 06/23/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (219 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ABB Ltd (ABB)	Neutral	2
A. O. Smith Corporation (AOS)	Neutral	3
Koninklijke Philips N.V. (PHG)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3
Sony Corporation (SNE)	Neutral	3
Teradyne, Inc. (TER)	Neutral	3
Barnes Group, Inc. (B)	Underperform	4
Hollysys Automation Technologies, Ltd. (HOLI)	Underperform	5

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	IRBT	X Industry	S&P 500	ABB	HOLI	TER
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	5	3
VGM Score	D	-	-	D	C	B
Market Cap	2.34 B	1.71 B	21.86 B	47.66 B	794.07 M	13.88 B
# of Analysts	6	6	14	3	2	8
Dividend Yield	0.00%	0.23%	1.92%	2.35%	1.60%	0.48%
Value Score	D	-	-	D	B	D
Cash/Price	0.12	0.13	0.07	0.14	0.45	0.06
EV/EBITDA	15.62	7.99	12.65	16.01	2.67	20.19
PEG Ratio	4.05	4.72	2.90	5.09	NA	2.85
Price/Book (P/B)	3.79	2.82	2.99	3.96	0.81	8.95
Price/Cash Flow (P/CF)	19.33	19.33	11.61	13.03	5.03	22.85
P/E (F1)	60.71	45.22	21.08	31.55	7.39	27.20
Price/Sales (P/S)	2.00	2.00	2.25	1.74	1.50	5.54
Earnings Yield	1.64%	2.54%	4.42%	3.18%	13.53%	3.68%
Debt/Equity	0.09	0.07	0.77	0.62	0.00	0.29
Cash Flow (\$/share)	4.33	2.79	7.01	1.69	2.62	3.66
Growth Score	C	-	-	F	D	B
Hist. EPS Growth (3-5 yrs)	20.74%	7.72%	10.84%	3.42%	5.84%	22.47%
Proj. EPS Growth (F1/F0)	-54.04%	-24.04%	-10.80%	-43.82%	-21.24%	7.65%
Curr. Cash Flow Growth	-24.13%	-11.13%	5.46%	-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	3.54	2.56	1.29	1.18	3.61	3.31
Debt/Capital	7.92%	7.11%	45.14%	38.38%	0.46%	22.29%
Net Margin	3.82%	10.54%	10.53%	4.68%	19.37%	21.80%
Return on Equity	7.23%	8.72%	16.06%	19.64%	11.99%	38.16%
Sales/Assets	1.37	0.92	0.55	0.59	0.40	0.91
Proj. Sales Growth (F1/F0)	-5.53%	-6.91%	-2.66%	-14.36%	-8.25%	13.09%
Momentum Score	B	-	-	B	B	B
Daily Price Chg	0.83%	0.00%	0.04%	0.50%	-2.37%	-0.13%
1 Week Price Chg	8.24%	0.00%	0.92%	2.16%	-3.07%	15.33%
4 Week Price Chg	8.36%	2.13%	2.71%	13.18%	1.23%	29.13%
12 Week Price Chg	104.74%	38.29%	19.78%	27.35%	2.02%	54.59%
52 Week Price Chg	-7.55%	-0.35%	-6.05%	11.35%	-28.60%	84.25%
20 Day Average Volume	1,019,406	87,868	2,819,961	2,171,839	289,417	2,502,600
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	178.46%	0.00%	0.00%	9.71%	0.00%	0.00%
(F1) EPS Est 12 week change	-10.53%	-17.31%	-12.72%	-14.69%	-22.27%	-1.48%
(Q1) EPS Est Mthly Chg	91.87%	0.00%	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	D
Growth Score	C
Momentum Score	B
VGM Score	D

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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