



Undergraduate Student Managed Fund

February 4, 2022

iRobot (NYSE: IRBT)

Target Price: \$82.21

Current Price: \$65.00

52 Week High/Low: \$137.79- \$58.44

Market Cap (\$B): \$1.75

Dividend Yield: 0%

Beta: 1.19

P/E Ratio: 15.62

EPS Q3: \$1.67

Market-to-Book: 2.86

Company Overview

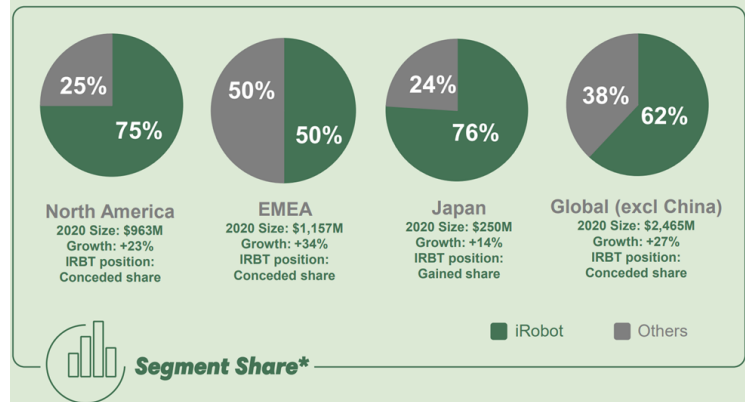
iRobot is a consumer robot company based in Massachusetts, U.S. that focuses on developing robots that allow people to do more in their homes by helping them find faster and smarter ways to clean. The company was founded by CEO and founder Colin M. Angle who has stayed with the company since. IRBT has expanded their product line to include variations of robotic vacuums and mops, premium air purifiers, and a handheld vacuum. Through a cloud system and their app, iRobot Genius, the company provides consumers with an integrated software to manage their robotic devices. Geographically, 52% of iRobot's revenue is generated in the Americas, 27% in Europe and the Middle East, 16% in Asia Pacific and 10% in the rest of the world. As a trailblazer in the RVC market, iRobot also has a dominant market share at 62% globally.

Industry Outlook

iRobot operates in the RVC (robotic vacuum cleaner) industry which was valued at \$11.97 billion in 2021. The industry is forecasted to grow at a CAGR of 24.4% to reach a value of \$46.75 billion by 2027. RVCs include vacuums with intelligent software programming, smart navigation systems, adjustable suction power and scheduling mechanisms. Adoption of RVCs is expected to increase because of their cost effectiveness. Key drivers also include sanitization technology in the current post-pandemic environment, integration of air filters in RVCs for consumers with allergies, and automated products and artificial intelligence integration. Increased female employment in the industry is also a driver moving forward. This shows a positive industry outlook in the future.

Investment Thesis

iRobot inc is the market leader in the robotic vacuum cleaner segment. With 62% market share and a majority share across the world for over 10 years, IRBT is poised to continue to grow and innovate their operations. Recently, they acquired Aeris to broaden their product mix, expected to boost their topline by 10% per guidance. IRBT is also mitigating its political risk from operating in China as they have invested in expanding their manufacturing operations in Malaysia to improve margins. IRBT is favorably positioned to adapt to recent supply chain disruptions, proven by their development of new products and expanded operations. The company seldom holds debt which enables them to reinvest capital and perform stock buybacks, improving their business model and shareholder value. Statistically, their revenue growth is enjoying double digits, at about a 15% CAGR, and is poised to increase its operating margins past the 9% historical average.



Financial Performance

IRBT In Millions	Historical						Assumptions					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	661	884	1,093	1,214	1,430	1,594	1,761	1,920	2,083	2,229	2,340	2,434
% Change YoY	-	34%	24%	11%	18%	11%	10%	9%	9%	7%	5%	4%
Cost of Goods Sold	337.83	438.11	518.61	658.36	758.24	1013.37	1,092	1,076	1,203	1,303	1,394	1,430
% of Revenue	51%	50%	47%	54%	53%	64%	62%	56%	58%	58%	60%	59%
Gross Profit	323	446	574	556	672	581	669	844	880	925	946	1,003
% Change YoY	-	38%	29%	-3%	21%	-14%	15%	26%	4%	5%	2%	6%
% Gross Margins	49%	50%	53%	46%	47%	36%	38%	44%	42%	42%	40%	41%
Selling General & Admin Expenses	182	247	304	312	361	356	393	428	465	497	522	543
R&D Expenses	80	113	141	142	157	166	183	199	216	231	243	253
Amort. of Goodwill & Intangibles	3	13	20	13	3	2	2	2	2	3	3	3
Total Operating Expenses	265	373	465	467	520	523	578	630	683	731	768	798
% of Revenue	40%	42%	43%	38%	36%	33%	33%	33%	33%	33%	33%	33%
Operating Income	58	73	109	89	152	58	92	214	196	194	178	205
% Operating Margins	9%	8%	10%	7%	11%	4%	5%	11%	9%	9%	8%	8%
Non Operating Income (Expenses)	4	1	3	4	(2)	(1)	-	-	-	-	-	-
% of Revenue	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Non-Recurring Income (Expenses)	-	2	(4)	6	38	16	-	-	-	-	-	-
EBT	61	76	109	99	188	73	92	214	196	194	178	205
Income Tax Expense	19	25	21	14	41	10	20	44	36	36	34	38
Tax Rate	32%	33%	19%	14%	22%	13%	22%	21%	18%	18%	19%	19%
NOPLAT	42	51	88	85	147	63	71	170	160	159	144	167
% Growth YoY	-	22%	73%	-3%	72%	-57%	14%	138%	-6%	-1%	-9%	15%
D&A	13	24	35	36	33	31	18	38	42	45	47	49
% of Revenue	2%	3%	3%	3%	2%	2%	1%	2%	2%	2%	2%	2%
CAPEX & Acquis.	11	23	32	35	32	102	30	39	42	45	47	49
% of Revenue	2%	3%	3%	3%	2%	6%	2%	2%	2%	2%	2%	2%
NWC	-	34	(64)	(91)	(182)	86	10	10	10	10	10	10
FCF	44	18	155	177	330	(95)	49	160	150	148	134	156

In terms of financial performance, we are excited by the growth in cash over the past few years on the balance sheet as well as the relatively small amount of debt.

Investment Risks

1. Competition: Intense competition from other RVC providers could stifle results of operations and cause IRBT's market share to decline. IRBT's

Resolution: focus on product innovation, IP protection strategy, operations optimization

2. Foreign Policy: Instability in U.S. trade policies will have a substantial effect on IRBT's business affairs, financial conditions, and operations results. IRBT's

Resolution: Tariff exclusions and market diversification

3. Manufacturers: Dependence on a limited number of manufacturers puts brand and operations in danger if they fail to meet requirements. IRBT's

Resolution: Supply chain diversification in Malaysia

• ESG Considerations

iRobot has remained committed to operating their business responsibly. While pushing the boundaries of what robots can do, they set high standards from their manufacturers and team to drive productivity and efficiency while supporting productivity, health, and safety of their workforce. They are also mindful of their environmental impact and continue to retain long-standing philanthropic commitments to inspire the next generation of innovators.