# iRobot First-Quarter 2011 Conference Call Script

**April 26, 2011**

**Operator:**

Good day everyone and welcome to the iRobot first-quarter 2011 financial results conference call. This call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Elise Caffrey of iRobot Investor Relations. Please go ahead.

**Elise:**

Thank you and good morning. Before I introduce the iRobot management team, I would like to note that statements made on today's call that are not based on historical information are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

This conference call may contain express or implied forward-looking statements relating to the company's financial results and operations for fiscal 2011 and the second quarter ending July 2, 2011, our expected quarterly financial performance, seasonality, the timing of expenses, orders and order fulfillment, our expectations regarding revenue growth, Adjustment EBITDA margin, operating cash flow, operating expenses and gross margins, our plans for expansion, our introduction and delivery of new products and new product capabilities and functionality, the availability of new technology, backlog and demand for and adoption of our Government and Industrial robots and related parts and services, including the timing of government contracts and orders, international demand and mix of product revenue, orders for our PackBot and SUGV robots, product lifecycle and recurring revenue, demand for our home robots, international home robot revenue, mix of product revenue and impact on operating margins, our competitive position, our market share, and business conditions. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in the forward-looking statements. In particular, the risks and uncertainties include those contained in our public filings with the Securities and Exchange Commission. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. iRobot undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or circumstances or otherwise.

During this conference call, we will also disclose non-GAAP financial measures as defined by SEC Regulation G, including Adjusted EBITDA, which we define as Earnings Before Interest, Taxes, Depreciation, Amortization, merger and acquisition expenses and non-cash stock compensation expense. A reconciliation between Adjusted EBITDA and net income – the GAAP measure most directly comparable to Adjusted EBITDA -- are provided in the financial tables at the end of the first quarter 2011 earnings press release issued last evening, which is available on our website http://investor.irobot.com/phoenix.zhtml?c=193096&p=irol-irhome. A live audio broadcast of this conference call is also available on the Investor Relations page of our website and an archived version of the broadcast will be available on the same Web page following the call. In addition, a replay of this conference call will be available through May 5, 2011 and can be accessed by dialing 630-652-3042, access code 29575658#.

On today's call, iRobot Chairman & CEO Colin Angle will provide a review of the company's operations and achievements for the first quarter of 2011 as well as our outlook on the business for the rest of 2011; and John Leahy, Chief Financial Officer, will review our financial results for the first quarter and provide our outlook for financial expectations for the second quarter ending July 2, 2011. Then we'll open the call for questions.

At this point I'll turn the call over to Colin Angle.

**Colin:**

Good morning, and thank you for joining us.

We kicked off 2011 with another outstanding quarter. Our financial results are especially impressive given the strength of Q1 last year.

- Gross margin was **41%** for the quarter, up **700** basis points from last year, driven by margin improvements in home robots,
- International home robot revenue increased **37%** largely due to demand from existing customers in established markets,
- Home robot revenue in the U.S. increased **12%** in Q1 year-over-year, and;
- We received several important contracts in our G&I business that provide us with improved visibility for the rest of the year.

Total revenue in Q1 increased **12%** to **$106** million, Adjusted EBITDA in Q1 increased to $15.1 million and Adjusted EBITDA margin increased to approximately **15%** of revenue. EPS of **$0.27** for the quarter, increased by **$0.03,** and exceeded expectations.

Our exceptional results reflect the increasing diversification of the company. We are successfully meeting the challenges of international economic uncertainty, political unrest overseas, devastating natural disasters and continuing unresolved U.S. budget issues by delivering multiple products into multi-billion dollar automated home maintenance and remote presence global markets.

Based on our view of the rest of the year, we are reaffirming the financial expectations we shared in February to deliver full year 2011 revenue of **$450 to$465** million, EPS between **$0.90 and $1.00** and Adjusted EBITDA of **$58-$62** million.

In the second quarter, we expect international demand to drive revenue growth in home robots. The government contracts we recently announced for PackBot® and SUGV robots should begin to generate revenue towards the end of the second quarter and will fuel second half growth in this division, as we discussed earlier this year. In Q2, Adjusted EBITDA will be slightly lower sequentially as anticipated and discussed on our Q4 call, due to lower revenue caused by the inherent lumpiness of our G&I business.

For the second quarter we anticipate revenue of **$102-$106 million,** EPS between **$0.18** and **$0.22** and Adjusted EBITDA of **$12-$14** million.

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Now, I'd like to take you through some of the details of the first quarter and our expectations for the rest of 2011.

In the Home Robot division, strong demand overseas, particularly in long-time markets, continued to fuel Home Robot revenue growth. International home robot revenue increased **37%** year-over-year, and we expect overseas demand to continue to be the driving force for Home Robot revenue growth for the remainder of 2011.

In our domestic business, Q1 results grew **12%** over last year largely due to increased sales to retail stores. Our U.S. retailers are reporting stronger sell through, in part reflecting pent up demand created by limited product availability at the end of last year as well as the impact of our marketing investments. However, our outlook remains cautious in the U.S. given the macroeconomic environment but early indicators are certainly positive.

We began producing the Scooba 230, our new floor washing robot, in limited quantities and sold them to select customers directly through our website. The response was overwhelming and we have now made the product fully available online. We have just initiated a similar limited launch of the new Roomba 700. We will expand distribution of both products throughout the rest of the year and to select U.S. retail stores next year.

Our continuing efforts to eliminate lower margin products, customers and channels helped us to achieve gross margin of more than **45%** in the Home Robot division, more than seven percentage points higher than in Q1 last year. Sales of the Roomba® 700 and Scooba® 230 robots should further enhance the division's margins.

In 2010, we planned our entrée into Latin America and our expansion in that region is on track. Based upon the successful blueprint we developed for entering and building markets in Europe, Japan, and Latin America, we have begun to execute our strategic plan for expansion into China next year.

The tier 1 contract manufacturer that began producing for us in Q4 of 2010 is fully operational and we expect to meet our 2011 product demand.

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Turning now to our G&I division, we continue to see demand for our tactical ground robots from warfighters in theater and the military leadership in Washington.

The U.S. budget negotiations, and operating under a continuing resolution, have delayed contract awards this year as we anticipated they would. These delays will impact Q2 revenue as well and we have reflected that impact in our expectations. Now that a DoD budget is in place, we expect orders to start flowing and we are on track to deliver G&I results consistent with the expectations we set last quarter. We continue to expect roughly **60%** of G&I revenues to be generated in the second half. International revenues, which increased **12%** to a total of **21%** of G&I product revenue, partially offset the impact from the DoD.

Recently we received several significant contracts, further indicating the underlying demand for both PackBot and SUGV robots.

NAVSEA awarded us a **$230** million Indefinite Delivery/Indefinite Quantity (IDIQ) contract for the delivery of up to **671** PackBot 510 robots over a 4-year period. These robots are currently being used in Iraq and Afghanistan to identify and neutralize explosive devices, perform reconnaissance and clear routes for warfighters on the move. The **$230** million contract ceiling reflects NAVSEA's estimate of the amount they will spend over that time period. When we provided our financial expectations last quarter, we estimated that approximately **50%** of G&I revenue derived from robot units would be sales of PackBot systems. This contract, which we had expected, provides the vehicle for the government's purchase of those units. We anticipate receiving our first order under this contract in the second quarter.

Additionally we received **2** orders totaling **$7.6** million for SUGV 310s. The robots will be used by the marines and the combat engineers. This is important for several reasons. First, these SUGVs are being ordered outside the Brigade Combat Team Modernization Program (BCTM), and secondly, they will go to two separate branches of the military, further supporting our position that there is demand for SUGV beyond the Army. While SUGV 310s have been used in theater primarily by explosive ordnance disposal teams, as a result of ongoing positive user feedback and their success on the battlefield, they will now be used to perform an even wider variety of missions.

We completed delivery of **45** SUGV 320s under the first Low Rate Initial Production (LRIP) order of the BCTM program in Q1. As we said on last quarter's call, we expect to fill orders for **2** additional LRIP brigade sets of SUGV later this year.

During the quarter we also completed delivery of the AWARE® 2 software upgrade to **1,500** PackBot FasTac™ robots in theater, which contributed to a **59%** increase in product lifecycle revenue year over year. We anticipate delivery of a second round of software upgrades, which will provide the robots with increased autonomous capabilities, to begin later this year.

On the new product front, we unveiled prototypes of the iRobot® 110 FirstLook™ earlier this month. A small, light and throwable robot, FirstLook provides immediate situational awareness, performs persistent observation and investigates confined spaces. The robot weighs less than five pounds and is 10 inches long, making it ideal for building clearing, raids and other close-in scenarios. Given its small size, ruggedness and stateof-the-art capabilities, the robot is ideal for a range of infantry missions and special operations.

With four built-in cameras and two-way audio communication, FirstLook provides multi-direction situational awareness. It also has digital mesh networking capabilities, allowing multiple robots to relay radio communications over greater distances. Over the next several months, we will demonstrate FirstLook for military and law enforcement personnel and we expect it to be available for delivery to customers in 2012.

As with our home robot market, the opportunity for our government robots is significant. We have delivered more than **4,000** unmanned ground vehicles over the past few years, primarily from the U.S. military, principally for use by bomb disposal teams. We have a majority of the current market for this size robot and have proven the defensibility of our intellectual property in this sector. Expanding the fleet of robots provides not only current revenue but a stream of recurring revenue, through product lifecycle revenue such as the software block upgrades I described.

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We continue to successfully navigate through the dynamic and challenging global marketplace in which we operate. We're making significant progress towards our 3-year financial targets while making ongoing investments in building for our future and maintaining our market-leading position.

We will further widen our competitive moat by delivering robots that make a difference, built on common platforms, using highly integrated iRobot-developed technology that incorporates artificial intelligence with advanced concepts in navigation, autonomy, sensing and manipulation. Further, by leveraging technology developed by third parties, we will develop high quality robots for multi-billion dollar automated home maintenance and remote presence markets.

In summary, we had a strong first quarter and are on track to meet expectations for the rest of the year.

I will now turn the call over to John to review our first quarter results and Q2 expectations in more detail.

**John**

Thanks Colin.

Our performance in the first quarter was once again very strong with revenue growing **12%** over last year's record first quarter driven by our international home robot business. Earnings per share and Adjusted EBITDA both exceeded expectations.

Earnings per share for the quarter were **$0.27,** growing **13%** over Q1 last year. Adjusted EBITDA for Q1 was **$15.1** million, compared with **$13.7** million in Q1 last year.

Our focus on driving Adjusted EBITDA continues to produce great results.

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In the Home Robot division, shipments grew **22%** while revenue of **$68** million increased **29%** from a year ago. International revenue increased **37%** in the quarter to **$50** million and comprised **73%** of Home Robot revenue. Total domestic revenues were up **12%** in Q1. More importantly, sell through at our top **5** retailers was up more than **40%** year over year reflecting improved consumer sentiment and the impact of our marketing programs. With our tier 1 contract manufacturer in full production mode, we will be able to meet demand for 2011. Home Robot gross margin improvement of more than **750** basis points for the quarter was due to an increase in international as a percent of total revenue, improved product costs, and channel mix.

G&I's revenue of **$38** million decreased from a year ago due to the timing of product shipments. Gross margins in the division improved nearly **300** basis points in Q1 over last year due to favorable mix.

G&I product revenue was **$29** million in the first quarter, compared with **$34** million last year. Product lifecycle revenue was **$13** million, up from **$8** million in 2010.

For the total company, gross margin was **41%** for the quarter, up **700** basis points from last year. The improvement, which is consistent with our expectation for an increase in full year gross margins of **200** basis points**,** was driven primarily by improved home robot mix and product costs.

Operating expenses increased as a percentage of revenue to **30%** in Q1 from **24%** last year, due to the higher spend in R&D and marketing we discussed on last quarter's call.

Inventory was **$35** million at quarter end, compared with **$30** million a year ago as we rebuilt our low year-end inventory stock.

At the end of Q1, we had cash, including investments, totaling **$124** million compared with **$85** million a year ago. Operating cash flow was break-even due to the inventory build.

Now I'd like to provide you with additional detail and some of the underlying assumptions for the second quarter financial expectations Colin discussed.

As we said last quarter, we are lapping a very strong first half of 2010 in which revenue grew **63%** over 2009. Therefore year over year 2011 growth will be stronger in the second half than the first half.

In Q2 we expect revenue of **$102-$106**, a slight increase over Q2 2010, to be driven by growth in Home Robots. G&I revenue will be lower, as anticipated, due to delays in the contract awards Colin discussed. We expect EPS in the range of **$0.18** to **$0.22** and Adjusted EBITDA of **$12-$14M**.

Improving domestic sales, the introduction of new products, further penetration into long term international markets and acceleration of selling into Latin America will drive the Home Robot business in the second half. Orders under the IDIQ contracts received from the US military, sales to foreign countries and block software upgrades of G&I robots in theater will drive our G&I business in the second half.

These factors provide us with the confidence to confirm the full year financial expectations we shared in February.

I'll now turn the call back to Colin.

**Colin**

Our results in the first quarter were great, and I am bullish about the balance of 2011 despite macro challenges.

As we look at the rest of the year, we will diligently balance our investment in technology and the iRobot brand to maintain our market-leading position, with our commitment to deliver profitable growth. This year we are launching new products and entering new geographic markets enabled by our investments. Beyond this year, we are exploring opportunities to leverage and integrate technology developed by others to accelerate our development of high quality robots for the multi-billion dollar automated home maintenance and remote presence markets.

With that we'll take your questions.

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**Following Q&A**

**Colin**

That concludes our first quarter earnings call. We appreciate your support and look forward to talking with you again in July to discuss our Q2 results.

**Operator -**That concludes the call. Participants may now disconnect.