

# IROBOT CONTINUES TO PAVE THE WAY IN THE SMART HOME INDUSTRY

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iRobot is the world's leading consumer robot company and a bellwether member of the ROBO Global Robotics & Automation Index. Founded in 1990 by MIT roboticists, iRobot pioneered the smart home robot category with the introduction of its Roomba robot vacuum in 2002. Since then, the company has sold more than 20 million robots—a phenomenal success that drove remarkable shareholder returns. In the ten years prior to 2017, iRobot's Nasdaq-listed stock returned a total 351% to shareholders, compared with 135% for the S&P 500. In the past two years, it returned a total 126%, compared with 36% for the S&P 500<sup>1</sup>.



ROBO Global attended iRobot's investor event last month, where Chairman, CEO and Founder Colin Angle and his team spent the day outlining the company's market potential and near-term strategy with product demos and investor-focused presentations. We also had the opportunity to learn more about the company's new marketing initiative and distribution strategy with Jennifer Lichtenheim, iRobot's Vice President of Sales of Americas, and Christian Cerda, iRobot's Chief Operating Officer. We returned from the event with greater conviction in iRobot's technology differentiation, market leadership, and future growth potential.

## TECHNOLOGY INNOVATION IS DRIVING NEW REVENUE

For more than a decade, iRobot has been at the forefront of technology, single-handedly creating the fast-growing category of Robotic Vacuum Cleaners (RVC). At the crossroads of some of the most powerful trends in robotics, automation and AI, the company's Roombas are used in more than 20 million homes worldwide. And yet global household penetration remains in the single digits. As consumer sentiment toward RVCs continues to trend positive, iRobot expects to cross the billion-dollar revenue threshold in 2018. Current projections are \$1.05 to \$1.08 billion in revenue, which is year-over-year growth of 19% to 22%, operating income of \$86 to \$96 million, and EPS of \$2.10 to \$2.35.

Much more than a simple vacuum, the Roomba exemplifies the 'smart home' in action. In 2016, iRobot made the strategic choice to divest its military business and focus fully on its fast-growing consumer robotics business. As a result, the company was able to significantly increase investments in advanced mapping, UI features, and other proprietary technologies for the connected home. iRobot focuses on behavior-based AI systems developed to meet multiple market segments with its Roomba (vacuum cleaners), Braava (wet floor cleaners) and Mirra (pool care robots) products.

<sup>1</sup> As of 27 March 2018

These investments have delivered impressive results. iRobot's revolutionary patented vSLAM (virtual simultaneous localization and mapping) technology was introduced in 2015. vSLAM allows iRobot's flagship Roomba vacuums to create real-time maps of the home; sense its surroundings and the amount of dirt on the floor to determine what areas require the most cleaning; learn and dynamically adjust to changes; and even beam up this complex data into the Cloud. Last year, iRobot made the Roomba even smarter by adding software connectivity to AI assistants such as Google's Assistant and Amazon's Alexa. We expect vSLAM to be fully implemented across the company's product suite by 2019. iRobot's key technology differentiation is its continued investment in software development to deliver product reliability and connectivity, as well as advanced AI capabilities that make Roomba a highly reliable household tool.

## CONTINUED GROWTH IS ROOTED IN CATEGORY LEADERSHIP

In 2018, iRobot achieved record growth while maintaining unambiguous global product and brand leadership in the RVC category. The company's track record of profitable growth is impressive, with compounded average revenue growth of 15% in the past five years, including 34% growth in 2017.

While iRobot competes in consumer electronics and home appliance markets, its margins remain miles ahead of the competition, reflecting the company's strong competitive advantages in technology and its market leadership. We expect the company's acquisition of distributors in Europe and Japan in the past year to drive expansion of its gross margins, which today are sitting at 50%. Japan, iRobot's largest market in Asia, accounts for 15% of company revenue, while its European distributor accounts for 50% of its revenue in the region. Altogether, iRobot now directly controls 75% of its total revenues. This should allow healthy gross margin expansion over the coming years.

iRobot remains an accelerating growth story. We expect the company to generate revenue and earnings growth rates in excess of 20%, as it continues to meet rapidly increasing demand for autonomous robot products for the smart home revolution.

## A LEADER IN THE COMPETITIVE LANDSCAPE

As the RVC landscape has grown hotter, competition has intensified with well-established brands. Dyson and Ecovacs target the higher end of the market, and Xiaomi targets the lower end of the market. However, iRobot has successfully maintained a strong revenue market share position of 62% in the past several years. We believe that iRobot's future growth will come from continued market adoption of smart home appliances and penetration in the category from overall product awareness as the market for robotic vacuums remains meaningfully under-penetrated. Today, robotic vacuums represent just 20% of the \$7.5B high-end vacuum market worldwide. iRobot estimates that the category could more than triple before nearing saturation. In addition, less than 10% of US households own a robot vacuum cleaner; in China and Japan, that number is just 1-4%. This lack of penetration and the far-reaching market opportunity give us strong confidence that iRobot will remain a key enabler of the smart home revolution.

## IROBOT IS DELIVERING TOMORROW'S SMART HOME

In an interview with the MIT Technology Review in late 2017, Colin Angle introduced Roomba's ability to provide a "unifying intelligence [that ties everything together]" and serve as the "building blocks of the smart home." At last month's event, he reiterated this potential: that Roomba can now build a map of your home, place all your connected devices within that map, and share that information with the other devices for the true connectivity that defines the smart home. As iRobot amasses a treasure trove of data from its fast-growing fleet of connected Roombas around the world, we think the company is looking increasingly valuable in the eyes of large tech companies—Amazon, Google, Apple, Samsung, and more—that are focused on the rapidly growing smart home market. In this new era of AI and machine learning, data is the new gold, and the kind of data that iRobot is gathering today is precisely what will help it maintain a significant edge in the years ahead.