



Bears Pile into I-Robot Puts on Mounting Headwinds

Ticker/Price: IRBT (\$57.40)

Analysis:

I-Robot (IRBT) with another 2000 November \$65 puts bought yesterday for \$1.9M adding to the 4,276 already in open interest with buys on 9/19 and 9/26 amounting to around \$3M. IRBT also has 1,650 October \$60 puts in open interest from buys of 9/11 though has seen puts sold to open in December strike from trades back in July that are underwater. IRBT shares have fallen more than 50% from highs earlier this year and sit back near support from 2018, a move under \$55 can start a leg back to \$40. The \$1.6B maker of robotic consumer appliances is now trading 18.6X Earnings, 1.4X Sales and 47.3X FCF with a clean balance sheet. Forecasts are looking for IRBT revenue growth to sustain 10-12% annually with EPS growth seen at 16.7% in FY20 after contracting by 13.7% in FY19. IRBT has been expanding its portfolio beyond vacuuming to mopping and mowing. It has a lot of exposure to China trade concerns with it being its manufacturing source and has been trying to rebalance manufacturing. The RVC market of vacuum cleaners now represents 24%, up from 13% in 2012, a \$10B market growing at a 25% CAGR while non-RVC grows at 10%. It sees its current installed base of 14.2M households as low penetration to the longer-term opportunity of 86M. IRBT dominates the market share in North America at 82% with Shark its closest competitor while in EMEA and Japan faces more competition from Cecotec and Panasonic. IRBT's multiple has been contracting partly due to slowing growth but mainly due to contracting margins. Analysts have an average target of \$80 on shares and short interest very high at 31% of the float. On 9/27 BAML started shares at Buy with a \$70 target seeing attractive valuation amid negative investor sentiment, though notes estimates are likely to come lower and notes the tariff situation is being closely monitored. Sidoti upgraded to Buy on 8/29 with an \$83 target on attractive valuation with tariff and competition concerns seen as overdone and sees the company moving some manufacturing to Malaysia and sees the aggressive R&D and marketing spend alleviating competitive concerns. Raymond James is out negative today downgrading shares to Underperform. Hedge Fund ownership rose 13% in Q2 filings, though a name lacking any concentrated holders. Spruce Point has been notable negative on IRBT highlighting impending competitive pressures and defensive distributor acquisitions designed to forestall revenue growth contraction and margin compression. It notes "We have evidence that the competitive forces which we foresaw are materializing, resulting in significant ASP declines, market share losses, and cash flow contraction. With the uplift benefit from distributor acquisitions set to lapse, and with punitive Chinese tariffs set to expand from 10% to 25% in 2019, we believe that iRobot's is set up for significant revenue growth deceleration, margin contraction, and earnings headwinds next year." It goes on to note that Amazon, a 25%+ sales channel for IRBT, has been aggressively promoting competitive brands.

Hawk Vision:



Hawk's Perspective: IRBT remains one of the more compelling shorts despite valuation now more attractive, further downside seems likely to \$40.

Confidence Ranking: \$\$