

# I Robot Puts Accumulate into Strength

Date: 2/21/19



I Robot (IRBT) shares have rallied strong following earnings in February but hitting channel resistance this week with RSI forming a bearish divergence against the August highs. A move lower targets \$107.50 first, a big volume shelf, and then \$100 which is the mid-point of the more than 1-year range. Put buyers have been active into recent strength with 2,325 May \$120 puts bought on 2/21 for \$12.70, 2,000 May \$115 puts from 2/12 and 2/13, and 1,000 March \$115 puts. The May \$110 puts are in OI 1,000X from 2/8.

Date	Description	Volume	Open.Int	Price	%Change	Delta	Impl Vol	Prob.ITM	Premium Paic
2/21/2019	IRBT 100 17 MAY 19 120 PUT	2,328	3	\$12.70	2.75%	-0.43	58.65%	53.85%	\$3,026,400
2/13/2019	IRBT 100 17 MAY 19 115 PUT	1,000	1,000	\$12.80	-2.74%	-0.44	55.61%	54.92%	\$1,280,000
2/13/2019	IRBT 100 15 MAR 19 115 PUT	1,090	61	\$5.60	-19.66%	-0.47	43.52%	52.20%	\$610,400
2/12/2019	IRBT 100 17 MAY 19 115 PUT	1,000	0	\$13.16	N/A	-0.45	53.02%	55.17%	\$1,316,000
2/8/2019	IRBT 100 17 MAY 19 110 PUT	1,014	0	\$14.40	N/A	-0.49	54.14%	59.54%	\$1,460,160
1/22/2019	IRBT 100 15 FEB 19 79 CALL	300	0	\$11.00	N/A	0.7	82.65%	61.58%	\$330,000
1/18/2019	IRBT 100 15 FEB 19 90 PUT	3,523	12	\$8.00	-13.79%	-0.46	77.52%	54.93%	\$2,818,400
1/18/2019	IRBT 100 15 MAR 19 90 PUT	2,000	126	\$9.55	-20.42%	-0.43	67.01%	53.74%	\$1,910,000
1/14/2019	IRBT 100 15 MAR 19 77.5 CALL	200	11	\$13.30	19.28%	0.67	70.53%	56.45%	\$266,000
12/31/2018	IRBT 100 15 FEB 19 85 PUT	504	20	\$11.97	-1.89%	-0.45	85.18%	57.62%	\$603,288
12/20/2018	IRBT 100 15 FEB 19 77.5 PUT	2,000	0	\$9.57	N/A	-0.42	78.75%	54.67%	\$1,914,000
12/18/2018	IRBT 100 15 FEB 19 82.5 PUT	2,451	33	\$10.30	24.10%	-0.44	74.96%	55.56%	\$2,524,530
12/11/2018	IRBT 100 21 JUN 19 80 PUT	319	10	\$13.00	7.97%	-0.32	72.72%	52.01%	\$414,700
8/27/2018	IRBT 100 17 JAN 20 120 CALL	154	32	\$20.30	30.97%	0.57	40.15%	37.88%	\$312,620
2/8/2018	IRBT 100 17 JAN 20 60 PUT	545	49	\$11.00	42.86%	-0.36	42.20%	58.36%	\$599,500

The \$3.31B company trades 30.65X earnings, 3X sales, and 20.4X cash. IRBT expects EPS growth of 4.7% in 2019 with 18.7% revenue growth. Shares have rallied post-earnings with 24% revenue growth. IRBT has absorbed tariffs well and sees mid-teens growth inclusive of the impact in 2019. The company has done nearly all of their manufacturing in China since 2002 but likely to shift away if the levies remain. IRBT faces challenges in 2019 with adoption of their new lawnmower product, rising labor costs, and competition from peers as new entrants add lower-cost, high-efficiency machines. The company continues to rely heavily on their legacy products (Braava is just 8% of the mix after launching in 2013), so the impact of Terra is likely more hype than a financial tailwind in the near-term.



Analysts have an average target for shares of \$97 with 1 buy rating and 6 hold ratings. Sidoti downgraded shares to Neutral on 2/21 while Canaccord downgraded shares to Neutral on 2/19. The latter firm thinks valuation is too stretched given most of the move is due to high short interest and the announcement of Terra which was known. Piper thinks limited availability in 2019 will limit the impact of Terra. Spruce Point has been a notable short in the name on competition, cash flow concerns, and tariff worries.

Institutional ownership rose 4.62% and hedge fund ownership up 33.7%. Maplelane Capital a buyer of put options equating to nearly 1M shares. Short interest is 31.3% and rising since November when it was 26.5%. It is down from 42% in mid-2018.

**Trade to Consider:** Long the IRBT May \$110 Puts for \$10 or Better