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## *Spruce Point Reiterates Strong Sell on IRBT, 20%-50% Risk Following Shark Ninja's Ion Robot Release*

SharkNinja has entered the robotic vacuum market with a “*functionality at a reasonable price*” strategy to compete directly with the Roomba. The RV700 series has similar, and in many cases near identical product functionality, channel distribution and marketing as the Roomba. Given Shark's historical success, we assume that their entry into the market will translate into sales and margin pressure for iRobot beginning with Q4 2017.

Spruce Point's [June report](#) predicted that SharkNinja would enter the US robotics market by holiday season. In fact, on 9/12/17 Shark introduced a robotic vacuum to compete directly with iRobot's Roomba

- **Product Offering:** Shark will offer three different versions of their robotic vacuums (RV750, RV720, RV700). The RV750 is WIFI-enabled with app compatibility, voice controlled through the Google Assistant and Shark Skill for Alexa, and possesses many of the same functionality as the iRobot Roomba 890. The RV720 and RV700 are remote controlled and lack voice control, but seem to carry all of the other functionality of the RV750.
- **Pricing:** The RV750 has a MSRP of \$350, a significant discount to the Roomba 890 and comparable to the lower functioning Roomba 690. It appears clear to Spruce Point that Shark will compete with iRobot by offering comparable functionality at a lower price point. Pricing has yet to be released on the RV720 and RV700, but we anticipate them to be at lower price points given lack of connectivity and each vacuum's identified distribution partners.
- **Distribution Strategy:** The Shark RV series has independently aligned each of their product offerings against different brick and mortar retailers in an attempt to optimize pricing and avoid consumers trading down. Given SharkNinja's existing dominance in the traditional vacuum space, they have already secured shelf space at 10 traditional retailers and Amazon to compete directly with the Roomba.
- **Marketing:** In addition to the RV700 series looking very similar to the Roomba, Shark has also adopted an extremely similar marketing strategy to iRobot. Shark promotes the RV series features in a similar manner, uses near identical imagery and has similar taglines. The selection of the 700 series name is another astute branding tactic to attack the core Roomba 600 series offering. The timing of the Shark RV launch also positions the Company to compete directly with Roomba during the critical holiday season.



## Recap of Shark and Recent Events

**As discussed in our June 27<sup>th</sup> update, SharkNinja is a fierce and capable competitor. iRobot controls an estimated 88% of the US robotic vacuum market. We believe it is inevitable that iRobot will lose share and see margin compression**

- We believe SharkNinja strives to be the #1 or #2 leader in markets it enters. Based on its track record in traditional vacuums and blenders, we believe SharkNinja is a credible threat to iRobot
- SharkNinja's displacement of Dyson in vacuums was a result of a laser-like focus on the consumer, and its ability to engineer a superior product at a value price point. As an organization, LinkedIn data shows that SharkNinja employs more engineers than sales or marketing people
- We believe Dyson failed to gain traction with its robotic vacuum because its price point of >\$1,000 was simply too high, and it did not deliver meaningful performance advantage to the customer. Simply stated, Dyson could not offer a compelling value proposition while SharkNinja appears well positioned to do so
- Given SharkNinja's marketing prowess stated to be \$130m annually (2014 figures), we wouldn't be surprised to see it spend at least 10% or more of this annual budget to ensure the success of its debut robotic vacuum series

**Post the release of our June 27<sup>th</sup> report highlighting the Shark risk, we note that:**

- iRobot declined to directly comment on the Shark entry risk, but instead tried to spin a positive tune:  
*"Other companies are realizing what iRobot has known all along — that some jobs, like vacuuming and mopping, are best suited for a robot"* (source: [NY Post](#))
- What will iRobot say now that it is clear that Shark is going directly against it with an offering of superior value?
- iRobot then acquired its European distributor for an expensive price. Our [August 18<sup>th</sup> report](#) provided irrefutable evidence to suggest financial anomalies from the margins implied from iRobot's guidance; iRobot remained silent
- It seems clear now that Shark is entering the US market that iRobot's distributor acquisitions appear to be defensive moves meant to temporarily deflect margin pressure
- The only action we've seen is iRobot's Director sell a meaningful % of this stock – 10,000 shares at \$92.71 ([form 4](#))

# *SharkNinja's Complete Product Suite*

Shark's robotic vacuum will be available at Amazon, Best Buy, Home Depot, Bed Bath and Beyond and Walmart

## Product Suite



model #RV750

**Shark ION ROBOT 750  
Connected Robotic Vacuum**



model #RV720

**Shark ION ROBOT 720  
Robotic Vacuum**



model #RV700

**Shark ION ROBOT 700  
Robotic Vacuum**

## Distribution Partner

Purchase at these locations:

Shark ION ROBOT 750 Connected Robotic Vacuum  
Model #: RV750



Purchase at these locations:

Shark ION ROBOT 720 Robotic Vacuum  
Model #: RV720



Purchase at these locations:

Shark ION ROBOT 700 Robotic Vacuum  
Model #: RV700





# A Closer Look At Shark's Core Product vs. Roomba Offerings

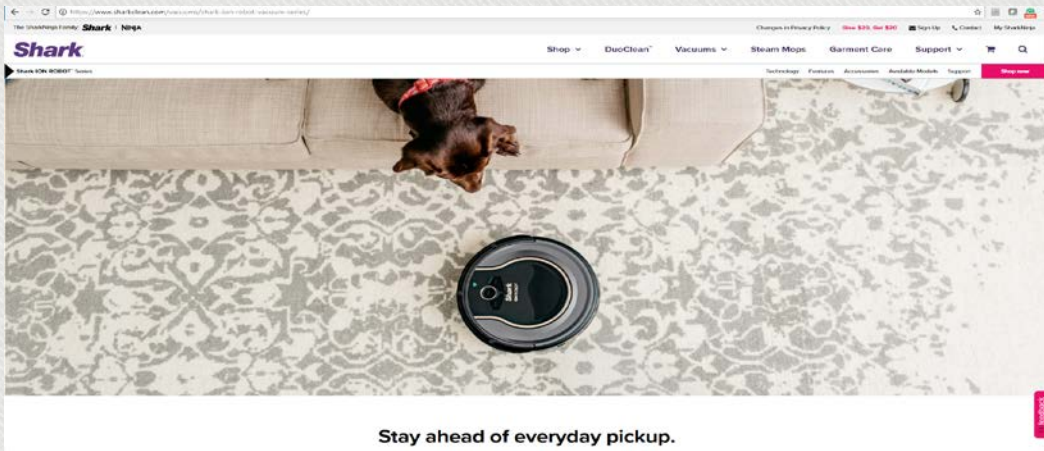
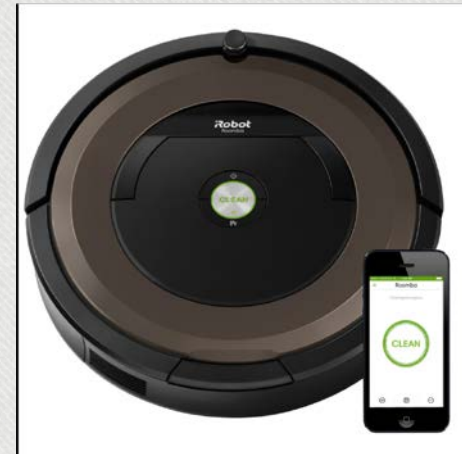
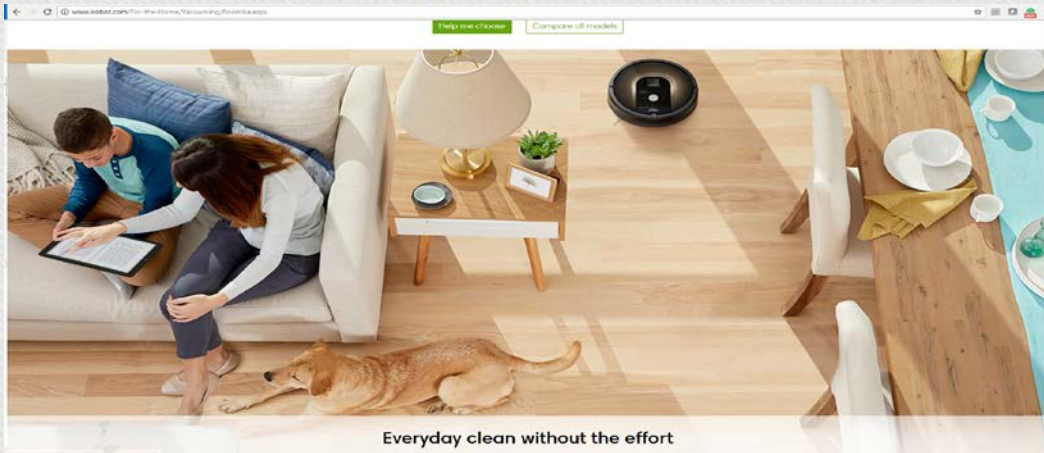
**RV750 has the features of the Roomba 890 at the price point of the Roomba 690**  
**In other words, in our view Shark delivers a better value to the customer at a cheaper price**

	Shark RV750	New Roomba 890	New Roomba 690
Size / Weight	12.6 x 2.6 / 5.5 lbs	13 x 3.6 / 8.4 lbs	12.6 x 2.6 / 7.8 lbs
Mobile App Compatible	✓	✓	✓
Run Time / Scheduling	60 minutes / Yes	60 minutes / Yes	60 minutes / Yes
Compatible with Google Home and Alexa	✓	✓	✓
Multi-Room	✓		
Tangle Free Brushes	✓	✓	
Dirt Detection		Optical / Acoustic	Acoustic
Filters	Allergens, Pollen, Hair, Lint, Fuzz	Allergens, Pollen, Micro Particles, Hair, Lint, Fuzz	Hair, Lint, Fuzz
Price	MSRP \$350	\$594	\$375

Source: [www.irobot.com](http://www.irobot.com), [www.sharkclean.com](http://www.sharkclean.com), [www.amazon.com](http://www.amazon.com), [top product comparisons](#)

Note: We believe Shark offers multi-room cleaning, but are awaiting confirmation

# *Shark Ninja Appears to Be Taking a Page Directly From iRobot's Marketing*





# IRBT At Irrational Premium To Price Targets, No Brokers Say Buy

iRobot is trading at 13% above the average analyst price target despite an intensifying competitive environment and margins that are bound to compress.  
What do current investors know that its seasoned analysts don't?

There is only 1 Greater FOOL That Says Buy: "3 Reasons iRobot Stock Could Sweep In Huge Returns"

Broker	Recommendation	Target
Canaccord Genuity	Hold	\$95.00
Sidoti	Neutral	\$90.00
Dougherty	Neutral	--
Piper Jaffray	Neutral	\$92.00
JP Morgan	Underweight	\$79.00
	<i>Average Price Target</i> <i>% Downside From Current (1)</i>	<i>\$89.00</i> <i>-13%</i>

1) Based on \$101 share price

## Normalized Price Target For IRBT's Shares

\$ in millions, except per share amounts

Valuation	Low Price	High Price	Note
<b>Revenue Multiple</b> <b>IRBT Sales Guidance</b> <b>US Robot Vacuum Market Size</b> <b>% Claimed by Shark</b> <b><u>Spruce Point 2017E IRBT Sales</u></b> <b>Enterprise Value</b> <b>Plus: Cash (1)</b> <b>Less: Debt</b> <b><u>Dil. Shares</u></b> <b>Price Tgt.</b> <b>% Downside</b>	1.5x \$840 \$440 6% <u>\$813.0</u> \$1,220 \$79.2 (\$0) <u>28.5</u> \$45.60/sh -49%	2.5x \$860 \$440 10% <u>\$816.0</u> \$2,040 \$79.2 (\$0) <u>28.5</u> \$74.36/sh -21%	Sales is the cleanest metric to value IRBT given our various concerns about earnings quality. iRobot is guiding 2017E sales to \$840-\$860m. SharkNinja aims to be at least #2 in the US market, which we estimate it can claim 6%-10% share at the expense of iRobot with an aggressive holiday marketing campaign. IRBT trades at 3x 2017E sales but we believe the multiple should compress now that the competitive dynamics have changed and margins will be under pressure
<b>Multiple of Earnings</b> <b>IRBT EPS guidance</b> <b><u>Spruce Pt 2017E EPS</u></b> <b>Price Tgt.</b> <b>% Downside</b>	20x \$1.35 \$1.15 \$23.00/sh -77%	33x \$1.70 \$1.45 \$47.90/sh -53%	IRBT trades currently at a preposterous 64x P/E ratio for an increasingly commodity vacuum hardware provider. Its valuation multiple could easily be cut in half given the new competitive threats and margin / share loss we expect.

1) Pro forma for \$141m Robopolis acquisition