



Logitech Q2 FY25 Earnings Results | October 22, 2024

Company Participants

- **Hanneke Faber**, Chief Executive Officer
- **Matteo Anversa**, Chief Financial Officer
- **Nathan Melihercik**, Head of Investor Relations

Conference Call Participants

- **Asiya Merchant**, Citigroup
- **Samik Chatterjee**, J.P. Morgan
- **George Wang**: Bank of America
- **Erik Woodring**: Morgan Stanley
- **George Brown**: Deutsche Bank
- **Ananda Baruah**: Loop Capital
- **Joern Iffert**: UBS
- **Michael Foeth**: Vontobel

Presentation

Nathan Melihercik:

Good morning and good afternoon. Welcome to Logitech's video call to discuss our financial results for the second quarter of fiscal year 2025. Joining us today are Hanneke Faber, our CEO and Matteo Anversa, our CFO. During this call, we will make forward-looking statements including with respect to future operating results under the safe harbor of the Private Securities Litigation Reform Act of 1995. We're making these statements based on our views only as of today and our actual results could differ materially. We undertake no obligation to update or revise any of these statements.

We will also discuss non-GAAP financial results and you can find a reconciliation between GAAP and non-GAAP results and information about our use of non-GAAP measures and factors that could impact our financial results and forward-looking statements in our press release and in our filings with the SEC. These materials as well as the shareholder letter and a webcast of this call are all available at the investor relations page of our website. We encourage you to review these materials carefully. Unless noted otherwise, comparisons between periods are year over year and in constant currency and net sales. This call is being recorded and will be available for a replay on our website. I will now turn the call over to Hanneke. Hanneke.

Hanneke Faber:

Thanks Nate and welcome everyone to our second quarter earnings call. First it is my pleasure to introduce you to our new Chief Financial Officer, Matteo Anversa. As a seasoned public company, CFO Matteo brings skills and experience really well suited to Logitech. His background in engineering and industrial technology, his diverse B2B experiences and his global perspective as an Italian American who has lived and worked around the world, make him a terrific addition to our leadership team. Matteo, welcome to your first Logitech earnings call.

Now to the quarter. This quarter we said we did what we said we would do, we closed out the first half of our 2025 fiscal with strong results, which give us confidence looking forward. Let me touch on three highlights.

First, we delivered high quality growth. This growth was driven by demand and it was very profitable above our long-term operating model for both gross and operating margins. The growth was broad based across product categories and regions, including another stand-out quarter from EMEA. And we grew the business responsibly and with operational discipline. Channel inventories remained well within the healthy range in which we've operated for the last several quarters.

Second, we achieved these results as we executed effectively against our strategic priorities. We're doubling down on B2B. In Q2, enterprise demand modestly outpaced consumer demand. Video Collaboration showed sustained and profitable growth, and we saw strong growth of our Personal Workspace products in the enterprise channel. We continued to build the Logitech brand, and we were delighted that our brand building efforts were recognized by Time Magazine who named Logitech one of the 'World's Best Brands of 2024' just last week. And most importantly, Q2 was an excellent quarter for innovation. Innovation is at the very heart of what Logitech does, and we launched a terrific series of new products ahead of the holidays.

In gaming, we introduced 18 new products including the PRO X SUPERLIGHT 2 Mouse, the PRO X TKL RAPID Gaming Keyboard, the G915 Gaming Keyboard, an all new Racing Simulation Series and exciting collaborations with GenShin Impact and Momo. In Video Conferencing, we launched a software-enabled

solution called Smart Switching, which utilizes AI to choose the best view between the Sight camera on the table and the Rally Bar camera in front of the room.

In Personal Workspace, we continued to drive the successful Combo Touch for the new iPad, a very strategic category, and to help users work more efficiently. We launched two products in two entirely new categories. MX Ink is the first Mixed Reality stylus for the Meta Quest headset, and the MX Creative Console integrates with popular Adobe applications to streamline creative workflows.

To drive awareness and generate momentum for all of these products, heading into the holiday season, we held global Logi PLAY and Logi WORK events for the first time ever last month.

These events were hosted live from Paris, Shanghai, and over 20 other global locations. Logi PLAY also streamed for over four hours on Twitch. These events served as a celebration of gaming and of new ways of working. They were a fantastic launch pad for new products and partnerships. They facilitated great interaction with customers, partners, and influencers, and they were followed by a period of impactful in-store activation. The excitement was palpable around the world, and it's part of why I am so excited for the future of Logitech. In a few minutes, we'll share a short video for you to experience Logi PLAY for yourself.

And finally, while results and strategy are really important, great people and culture are critical for the execution of any strategy. That is why in addition to these high-quality results, I am especially proud of the culture here at Logitech. It's something we actively nurture and it's gratifying to see that we were recognized by Forbes last week as one of the 'World's Best Employers.' In a global survey of 300,000 employees of 850 global companies, we ranked 20th, a remarkable result for a company our size. So let me thank all of our employees around the world for everything they do and the culture they champion. In summary, this quarter's high quality results, our progress versus our strategy and our talented people give us confidence for the holiday quarter for the remainder of our fiscal year. With that, let me turn the call over to Matteo.

Matteo Anversa:

Thank you Hanneke, and thank you all for joining the call today. I am incredibly energized and motivated by the opportunities ahead and excited to be part of the next chapter of Logitech.

The team delivered another robust quarter, with a continued focus on driving sustained, profitable growth. The detailed financial results can be found in the press release and shareholder letter, but let me briefly share with you what I really liked about a quarter.

First, net sales were up 6% year over year, and importantly, demand accounted for roughly four points of that growth. The dynamic between selling and sell through played out as we anticipated, channel inventory levels ending the quarter well within our targeted range, positioning us very well for the holiday season. Second, as Hanneke mentioned, our growth was broad based. We grew net sales year over year across all regions in nearly all the diverse product lines and grew demand in both the consumer and the business channels.

Additionally, our growth was highly profitable. Gross margin rate was 44.1%, up 210 basis points year over year. Continuous strong execution by our operating team drove continued product cost reduction and higher demand allowed us to sell previously reserved inventory. This is the fifth consecutive quarter of year over year gross margin rate expansion, a testament to the durability of our cost reduction initiatives and commitment to overall operational excellence. Looking ahead, we expect the gross margin rate for this fiscal year to be in the range of 42 to 43%. Please keep in mind that our third quarter is typically more consumer focused with slightly higher promotional intensity and higher freight costs are expected to pressure gross margin rate in the next couple of quarters.

Second quarter operating expenses were on the higher end of our annualized range of 24 to 26% as we continue to invest in our organic growth through initiatives such as Logi PLAY and Logi WORK. And finally, our cash generation remains robust, contributing to a healthy cash position of nearly 1.4 billion. In addition, we returned 340 million back to shareholders. We repurchased 132 million of shares in the quarter as part of our ongoing \$1 billion buyback program, and additionally, our shareholders approved a 10 cent increase in Swiss francs to our dividend, which resulted in a 208 million dividend payment in

September. In summary, our second quarter results continue to demonstrate our team's ability to drive sustained profitable growth in spite of an inconsistent and often volatile global economic environment. And based on our strong results in the first half, we are raising our fiscal year 2025 outlook, both in revenue and in profit. And with that, let's take you to Logi PLAY as we prepare for the Q&A. So Nate, if you can please roll the video.

Video:

Today across the globe, we're celebrating play. Hello and welcome to Logi PLAY 2024. PRO X SUPERLIGHT 2 DEX. RS track wheel and RS round wheel. A50 Gen 5. PRO 2 LIGHTSPEED. G915 X. The RS shifter and handbrake. PRO X TKL RAPID. Aluminum G502 X Plus. Keep playing. It's ultimately you that inspires us. So as we like to say at Logitech, keep playing.

Moderator:

Asiya Merchant with Citi. You may now unmute your video and audio and ask your question. Please begin speaking when you see the Logitech team on your screen.

Asiya Merchant:

Good morning. Thank you. Just wanted to ask a little bit about gross margins. How sustainable are these going forward? And if you can just walk us through what were the key drivers that affected gross margins here sequentially? I understand that the product costs and inventory reserves are doing better and there was some higher promotional spending, but if you could walk us through sequentially what drove the higher margins, that would be great. And I think the commentary around 42 to 43% for the year, how should we think about that sustainably? If there was any makeshift that you would like to call out as well? Thank you.

Matteo Anversa:

Sure, Asiya. Let me take this one. First of all, we are extremely pleased where the gross margin came in the quarter. I have to say the team has done a fantastic job, the operating team, in continuously driving the product cost reduction through activities like value engineering and really continuing to deliver consistent strong gross margin. On a year-over-year basis, as I mentioned in the prepared remarks, we expanded about 200, 210 basis points. A couple of things, product cost reductions, so value engineering activities accounted for about 200 basis points of the expansion. I mentioned in my prepared remarks the team also has done a fantastic job in selling some previously reserved inventory, which accounted for about a hundred basis points of the margin left year-over-year. And these effects were partially offset by a slightly negative mix, a little bit more promotional activity in the quarter. And then we continue to see a little bit of higher freight cost.

I think compared to where we were expecting the gross margin to come in the prior earnings call, we came in a little better. And fundamentally the key reasons is the ability to sell this previously reserved inventory, which we were not expecting to happen to that extent, as well as a little better product cost reduction by the team. And that's also what drives the sequential increase in the margin. To the second part of your question, which is what we are expecting moving forward. We're expecting the gross margin rate for the second half to be about between 41 and 42%. And so we are expecting a slight sequential decrease in the gross margin rate. That's driven by fundamentally a couple of things. One, we are not expecting to be able to continue to sell this previously reserved inventory to the same extent that we have done in the first half of the year.

And that's about almost a hundred basis points of the sequential decrease in gross margin rate. And then we are seeing continued pressure coming from freight costs that keep creeping up a little bit on some of the lanes that we operate. And then obviously the fact that we are entering a holiday season and therefore particularly in the third quarter, the third quarter tends to be much more consumer oriented and therefore a little bit more promoted and therefore we are expecting a slight increase in promotion. That's a little bit of the dynamic that we are seeing for the rest of the year.

Asiya Merchant:

And is that reasonable to assume, I mean going forward, I understand the seasonality in the second half relative to the first half, but as we look forward to some of these cost reductions it seems like they're pretty sustainable. Outside of freight costs, which are obviously affected by other things, are gross margins sustainable at these levels, especially as you ramp up your B2B efforts? Should we be expecting a better margin profile going forward? Thank you.

Matteo Anversa:

Look, I think the way I would describe it, as I said, we are very pleased in where we are. Yes, I agree with your statement that the team has done a fantastic job and the actions that we have been taking around value engineering, taking costs out of the bill of material, is sustainable. I think it's a little premature to talk very long term, but I think for the year we are expecting gross margin rate to be between 42 and 43%, which is actually, if you look at where we closed last year is almost a hundred basis points improvement year over year when you take the total year and the cost reduction activity that the team has implemented are the key reason why the gross margin expands.

Asiya Merchant:

Great. Thank you very much for the color.

Matteo Anversa:

Thank you.

Moderator:

Our next question comes from Samik Chatterjee of J.P. Morgan. You may now unmute your video and audio and ask your question. Please begin speaking when you see the Logitech team on your screen.

Samik Chatterjee:

Sure, yeah. Thank you. And hope you can hear me and thanks for taking the questions. I guess these are a strong set of results, but this is also the second consecutive quarter we've seen sales outperform the demand that you have with some level of inventory bill. I mean, as you go into the holiday period, should we be expecting some level of reversal in terms of the inventory bill? I guess the primary question is did their retailers, did your customers start to prepare a bit earlier than normal in terms of their preparation for the holiday period? And then is the inventory bill that you have, I know you mentioned it's healthy, do we expect to see some normalization in the back half? And if at all, how does it impact Q3? And I have a follow-up.

Hanneke Faber:

Yeah, I'll let Mateo comment as well in details, but just to remind everyone, we've been saying all along, the sell in the first half would be higher than the sell out. And that will normalize to your point. You're absolutely right. That will normalize in the second half. We were running a little light on inventory towards the deep back end of last fiscal year that was leading to some stock outs. We have been selling in a bit more than selling out here in the first half. And that's positioned us really well for the holidays and we completely expect that that dynamic will reverse in the second half.

Matteo Anversa:

Samik, what I would add, we are very pleased with how the quarter came in. You can see the dynamic between sell in and sell through were actually very, very balanced and in line with what we were expecting. Sell in was maybe the demand that drove four points of the six points year over year increasing at sales. And so the two things tend to narrow themselves pretty nicely in the second quarter. And then the dynamic is expected, to your point, to reverse in the second half where we are seeing sell through higher than sell in. And that's to Anika's point, the dynamic that we have been expecting now for quite some time. In terms of split in revenue, maybe the prior years have tended to be a little bit more, 48%, 52% between the first and the second half. And as we indicated in prior calls, this year is probably going to be more around the 50/50 due to the dynamic that Anika just described.

Samik Chatterjee:

Got it. Got it. And for my follow-up, I guess it's more for Hanneke. In the shareholder letter, you outline the areas where you're gaining share. Now if I focus on just two aspects there, one, how you're thinking about getting back to gaining share in video collaboration and also similarly, what are you seeing in terms of market share in China and what actions you might be taking to plan for more share gains there as well. Thank you.

Hanneke Faber:

Yeah, great. Thank you. In VC, the market's actually fairly robust. We're happy to see that up low single digits. Our share is flattish to slightly down. That is obviously not something we want to continue, but there are a whole bunch of things that are actually really good in video conferencing. We remain number one in units in video conferencing. Our service bookings were up almost two x in the quarter, which is so important for that segment. And as I've said before, we were new to services, but that's really on a roll. The launch of smart switching into quarter takes our product superiority a step forward and we're excited about that. And then of course, there's still such big opportunities to grow to market in video conferencing. Less than 30% of global meeting rooms are video enabled, and we've only started to play in some of these new verticals beyond enterprise.

And we're seeing really good results in education, up more than 20% in the quarter, closer to 30. All of those things give us a lot of confidence going forward in VC, and it's an exciting segment for us. Highly profitable as well. China, also a few green shoots would be my headline on China. The gaming market there remains extremely robust. That's different from many other Chinese markets, but the gaming market is extremely robust. Our demand grew mid single digits in the quarter and we continue to perform very well at the premium end of our ranges in gaming mice. And our brand remains very strong in China, but the competitive environment there is intense and we can do better than those results. We've started to make some targeted R&D and marketing investments in China to strengthen the local team and our local capabilities. It's going to take some time because our share problems in China are not from yesterday, but we are starting to see some encouraging results.

The first dedicated China initiatives hit the market this past quarter, the keyboards, very well received, as well as the M96 Mouse, both of those very well received and doing well. And we're starting to see share gains in the key channel of social e-commerce. That's Douyin or TikTok, and we're starting to see share gains there. Early green shoots. It's going to take a while to turn that China's share around, but such an important gaming market where so much happens and we're very committed to that market. Happy to see the green shoots.

Samik Chatterjee:

Thank you. Thanks for taking my questions.

Moderator:

Our next question comes from George Wang with Barclays. You may now unmute your video and audio and ask your question. Please begin speaking when you see the Logitech team on your screen.

George Wang:

Just a quick question on Europe, obviously, [inaudible 00:24:07] Europe stood out in the quarter, especially growth from tablet and console gaming. Just curious, you can double click on Europe, especially this particular two category growth I kind of pointed out. And any other areas do you think could sustain growth for the next couple quarters?

Hanneke Faber:

Yeah, thanks George. Great questions. Europe, just outstanding execution across the board. The market there is flattish, but we way outperformed the market there and great execution. They inspired the whole LogiPlay and LogiWork events. They'd actually done them regionally last year. This year we took them global and again, Europe outperformed both the events themselves, but more importantly the

customer activation that happens afterwards. I was there a couple weeks ago. If you went into MediaMarkt or FNAC, the execution that our European team is delivering is just simply outstanding. And the same goes for our online customers.

The growth, by the way, in Europe was really broad based across categories, but in terms of the two you mentioned, it's probably worth pausing on for a moment. So actually both on tablets and on gaming headsets, the team has completely changed the gross margin profile of those two segments. We don't disclose the exact numbers, but think about 10 percentage points better than last year thanks to the innovation in tablets and five percentage points better on gaming headsets. Which makes those two much more attractive for us to grow.

And they are strategic, tablets, because they take us beyond the PC. A lot of our business is a PC peripheral. It's important for us to play beyond the PC as well. And tablets are well-suited to some of those new B2B verticals that are extremely strategic for us, education first and foremost.

Gaming headsets are also very strategic. Within gaming, gaming headsets are a larger segment than both gaming mice and gaming keyboards. And we've had a lower share in gaming headsets even though our technology is absolutely superior. And I'm so excited that with the A50X and now the A50, we are playing very strongly in the console gaming headset space. That just expands the market for us. Grows our share, and again, with those completely changed gross margins, these are two attractive and strategic segments for us.

George Wang:

Great. Thank you.

Moderator:

Our next question will be from Erik Woodring of Morgan Stanley. You may now unmute your video and audio and ask your question. Please begin speaking when you see the Logitech team on your screen.

Erik Woodring:

Hey, good morning. Thank you so much for taking my questions. Maybe if we just start, Hanneke, nice to see two consecutive quarters of outperformance and year-over-year growth. I believe the full year forecast is embedding about 2% year-over-year revenue declines and something like 12% operating income declines in the second half of the year. Can you maybe help us just juxtapose that kind of worsening of trends alongside some of the comments that you're making on demand being a bit better than you expected? Just help us to understand why we should expect things to maybe get worse in the second half. Is that all kind of the sell in versus sell through dynamics? Just maybe if you could double click on that, that would be super helpful and then I have a follow up. Thanks.

Hanneke Faber:

Yeah, absolutely. I know that Mateo will do the operating income side of that, but on the net sales... So indeed if you do the math, the net sales in the second half would be about flat. That is that sell in and sell out dynamic. So we're actually pretty comfortable on demand coming in about as strong as it has come in the first half. And I say that with quite a bit of confidence, but because of the inventory dynamics, net sales will be a little lower than that. Mate, you want to comment on the operating-

Matteo Anversa:

Sure. So Erik, on the operating income side, there are a couple of dynamics when we compare the second half of 2025 versus second half of 2024. First of all, let me start with the positive to the question that was asked earlier. Product cost and the work that the team has been doing will continue to, even on a year-over-year basis when you compare the second half of last year to this year, will continue to deliver gross margin expansion. However, on the other side, some of the work that we were able to continue in the first half of this year around selling previously reserved inventory, last year actually happened later in the year. So this creates a comparison challenge that's about a hundred basis points of margin reduction when you compare the second half of the two years.

And then we continue to see free cost, I talked about it and we are expecting free cost when you compare the two second halves to be higher year-over-year and then a little bit more promotional activity. So really it's a gross margin dynamic and we spend little bit more on OPEX year-over-year as we are investing like Hanikah says, on the good cholesterol. So really to grow the business, so around sales and marketing, around product development. So you'll see a little bit of that too, but it's fundamentally the gross margin that goes from about 43% in the second half of last year, which is a little elevated down to the 41 to 42% that I mentioned earlier.

Erik Woodring:

Okay, that's very helpful. Thank you Matteo for that. And obviously looking forward to working together. If I were to follow up and maybe double click on that comment that you just made in terms of OPEX, I'd love to know if there's maybe a different approach now from a management team that is finally kind of cohesive and whole in that OPEX was up 15% year-over-year in the quarter, I think as a percentage of revenue, for the September quarter, it was a ten-year high. Are you signaling maybe a change in the spending intensity of this company? Obviously you mentioned some investments in China, but we'd love to just maybe step back to the bigger picture unrelated to just the quarter. Are we seeing a change in how you guys spend to drive growth, how you spend on sales and marketing or was what we saw in the September quarter maybe one-off and not necessarily indicative of spending intensity as we go forward? Thanks so much.

Hanneke Faber:

Yeah, no. So for the full year, we'll be in the range that we've always talked about 24 to 26% OPEX. I am very intentional about shifting OPEX into that good cholesterol, which is R&D and sales and marketing. That's how we will grow the top line of this business, which is so important for our future. And this quarter is running a little high. That's okay. As you heard, we're making a few strategic investments again in R&D, in marketing, both in the West and in China. That's important. We could do it this quarter because gross margins came in a little higher than expected, so that's good. But we'll continue to operate with a lot of discipline on OPEX.

Erik Woodring:

Thanks so much guys.

Moderator:

Our next question comes from George Brown with Deutsche Bank. You may now unmute your video and audio and ask your question. Please begin speaking when you see the Logitech team on your screen.

George Brown:

Yeah, thanks for taking my questions. I just have two, if I may. Just firstly on China and the upcoming election in the U.S., how do you think about the potential impact of tariffs on your business, given that a lot of your manufacturing is currently in China? And then just a quick second question, in gaming, you mentioned that your simulation business has grown double digits for three quarters now. Can you help us understand what's driving this? Thanks guys.

Matteo Anversa:

Hey, George. Let me maybe take the first one. So I think the team has been doing a great job now for quite some time in driving the diversification of our supply chain. So today, if you look at the units that we ship out globally, about 40% get shipped from outside China. So they're not manufactured in China. And we are targeting to increase this percentage up to 50% in the near future. So this has been a really concerted effort that not only addresses, I think the tariffs concern, but most importantly makes our supply chain more resilient. Anyway, that's maybe the answer to your first question.

Hanneke Faber:

And we have very deep experience in navigating different circumstances when it comes to the supply chain, really just a great team. So we're on a multi-year journey to make our supply chain more resilient, more diversified. We'll continue to do that and we think we'll be prepared for whatever happens after

the U.S. election. Maybe on gaming, [inaudible 00:34:16], this super exciting category for us that continues to do very, very well. It's a combination of share gains and us growing that the market wouldn't underestimate that piece as well. How do we do that? Superior products, that's where it all starts. Our wheels are outstanding and then superior execution, especially in stores, and I would, again. Call out Europe here for really outstanding executions in places like MediaMarkt and FNAC, where we have our gaming rigs set up, where we organize on weekend game days, where people can come and compete against each other, families come in. That just creates a lot of engagement and it creates a lot of trials. This is a category with still relatively low penetration and a lot of upside for years to come.

George Brown:

Oh, I see. Thank you so much guys.

Matteo Anversa:

Thank you.

Moderator:

My next question comes from Ananda Baruah of Loop Capital.

Ananda Baruah:

Hey guys, how's that?

Matteo Anversa:

Hey Ananda.

Ananda Baruah:

Hey, thanks a lot. Appreciate it. Hey two, if I could. Well, I guess the first question is do you guys believe that you're seeing an improving spending environment in some of the key categories? And I guess the genesis for the question is just eyeballing some of the results for the key segments relative to the compares. And then when paired with the commentary, it seems like the numbers could be suggesting that's the case, but it's not also perfectly clear. So I wanted to just get your thoughts on that. And then I have a quick follow-

Ananda Baruah:

... Perfectly clear. So I wanted to just get your thoughts on that and then I have a quick follow up. Thanks.

Hanneke Faber:

Yeah, sure. Yeah, I think we're seeing that the global consumer is pretty resilient. If I look at the demand landscape in the last quarter and look ahead a little bit towards the holidays, we saw that the National Retail Federation in the US came out with its outlook for the holidays, and they're saying 2.5% to 3.5% growth in terms of holiday spend. I would say that's pretty in line with what we're expecting for our categories. PWS, probably a little bit less. Gaming, a little bit more. And that's not just for the US, that's globally. And what was great to see is that the US in Q2 went positive in our categories. The markets have been negative for a while, but they were positive in Q2, so pretty resilient consumer in the US and around the world.

Ananda Baruah:

That's helpful. And I guess the follow-up would actually be, for Matteo, just circling back to, well, actually both of you guys, Hanneke as well. Going back to the lean and investing conversation. As we think about, I'm thinking calendar '25, which is really your fiscal '26, any shift from the leverage part of the story that you guys have had in place? Should we think any differently about that? Any context there would be helpful.

Matteo Anversa:

You mean leverage in terms of the balance sheet?

Ananda Baruah:

Sorry, operating leverage.

Matteo Anversa:

Operating leverage?

Ananda Baruah:

Yeah. And I'm asking, because I think part of what's been going... Just the question today is there was negative operating leverage. OpEx investment was higher this quarter than rev growth, and then there's some commentary about increased OpEx investment. The good cholesterol, lean in the investment in the key categories. And so Hanneke got it loud and clear that you're still, you'll be at the high end of the OpEx envelope for fiscal year '25. But I also think that part of what folks are wondering about is calendar '25. As you begin to go through fiscal '26, does any of the leverage story, the income leverage story change on the OpEx line? Thanks.

Matteo Anversa:

I think it's a little premature for me to talk about our fiscal year '26, so I think we will talk about the expectation for the next fiscal year at the appropriate time. I think we are happy where the OpEx is overall. I think notwithstanding the increase that we had in the quarter overall, the framework that we gave in the past of 24 to 26% is a good framework. We continue to invest in things that sustain and help us grow, like product development and engineering, so MPI. You saw how many MPIs we launched, we

mentioned a few of them in the video, and then continue to support the sales and marketing and go to market. And that's how I would say it.

Hanneke Faber:

Yeah, we'll continue to operate with a lot of discipline, and where we can shift resources to that good cholesterol. First, R&D and then sales and marketing.

Ananda Baruah:

Thanks a lot.

Matteo Anversa:

You bet.

Nate Melihercik:

Thanks, Ananda. Hanneke, Matteo, I think we have one more question in the queue. Go ahead.

Operator:

Our last question comes from Joern Iffert with UBS. You may unmute.

Joern Iffert:

Great.

Thanks for taking my questions. Just two to three. The first one is please, on your growth going forward, do you expect this to be more balanced between APEC, Europe and North America in sales through going into the holiday season? And why can you not replicate the fantastic go-to-markets trade here after Europe to North America and APEC to accelerate growth? This is the first question. I would take them one by one if it's okay.

Hanneke Faber:

Yeah, sure. Thanks, Joern. The US market is now looking a little better, and as I've talked about before, I have challenged our team to do a lot better in China. So overall, I certainly would hope that we start to be a little more balanced in the future and we'll see how that plays out, but confident that that could well be the case. And indeed, one of the levers of that is to reapply some of the fantastic executional work from Europe into other places.

Joern Iffert:

And then a follow-up here on Europe on the growth, which I think half of the growth, if I am roughly correctly calculating, is coming from tablets and headsets where you have incredible growth of 50% plus, is this linked to new distribution channels or new regions?

Hanneke Faber:

It's linked to innovation. So again, the combo touch when it comes to tablets as well as the A50 X and the A50 when it comes to gaming, headsets are new, and I said it before, but what's important to remember there is that those innovations helped us completely change the gross margin profile of those two segments. So that's one big driver. The other big driver is B2B, where Europe is doing extremely well, helped by tablets and education, but also in video conferencing looking strong.

Joern Iffert:

Thanks. And the last question, if I may, circling back to your outlook on non-GAAP EBIT for the second half, which is down at the midpoint around 10% year over year, and you mentioned some promotions are likely returning or you want to invest via promotions. Is it something you are seeing already today as a hard fact or is it something where you say, look, we want to be cautious with our guy, we want to take this into account if this is potentially coming up to better read the cautiousness or not cautiousness of your guide on non-GAAP EBIT for the second half?

Matteo Anversa:

So Joern, what I would say, starting from the top for a minute, the demand, as Hanneke said, we are confident with where the demand sits end up and we continue to see strong demand from the consumer in the second of the year, very similar to what we had in the first half. But what is happening in the second half is the dynamic between selling and sell through, which were reversed themselves as we indicated in some of the prior questions. And then obviously revenue, if you look at what we are expecting in net sales, we're expecting net sales to be flat to slightly down, depending if you take the mid or the end of the range. The first couple of weeks are looking good, I would say. But that's really the assumptions that we made for the remainder of the year. So we would expect, as I indicated earlier, to have a little bit more promotional activity in the second half compared to the first half, just the nature of the consumer being fundamentally where most of the revenue will be in the second half of the year.

Hanneke Faber:

Yeah. And again, we know our promotional plans fairly well. Very well, I would say especially for the holiday quarter. In the holiday quarter, it's completely normal that you promote a little bit more to be competitive, everyone does. That quarter is a consumer quarter less than a B2B quarter. So I think our plans are pretty clear. Never say never, but it's not unexpected that there's a modest increase in promotion spending in Q3.

Joern Iffert:

So it's more quarter on quarter, not year over year, that the promotions are accelerating. Right? If I understand you correctly.

Matteo Anversa:

I think overall, it's fair. Though year over year, as I mentioned in one of the questions that were asked earlier, when you compare the gross margin rate in the second half of last year versus the second half of this year, there is a little bit more promotional activity.

Joern Iffert:

Okay. Thank you very much for this.

Operator:

We have another question from Michael Foeth of Vontobel.

Nate Melihercik:

Hey, Michael.

Michael Foeth:

All right. Hi. Just one left for me. I was just wondering, you were talking about opportunities in expanding your addressable market and you're very successful in the education markets. So I was wondering if you can make any comments on inroads that you make in other end markets to expand your opportunity or is that too early at this stage?

Hanneke Faber:

Yeah, thanks for the question. It's probably a little too early. Again, the TAM that we can play in on the work side of our business is much bigger than where we play today. And mostly in enterprise. If you take in all the other places that people work in, whether that's education or retail or healthcare or manufacturing, the TAM more than doubles. So this is more of a longer term strategic priority for us, but we'll take it step by step. Going into a new vertical requires new capabilities, certainly from a go-to market point of view. So education is the one that we're doing first. We're seeing super encouraging results. High twenties growth again in this past quarter, and maybe at AID we'll talk a little bit more about what might be next.

Michael Foeth:

Okay, sounds good. Thank you.

Hanneke Faber:

Great to see you, Michael.

Nate Melihercik:

Thanks, Michael. And Hanneke, that's our last question for today.

Hanneke Faber:

Super. Thanks, Nate. Thanks everyone for joining us. Really appreciate seeing you for your interest in Logitech, and I just want to take the opportunity to say thank you once again to the Logitech teams around the world for the excellent growth they delivered in the last quarter and for everything they do. We look forward to speaking with you next quarter. Take care everyone.