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Participants

Hanneke Faber - Chief Executive Officer & Director

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Francois-Xavier Bouvignies

Hi, everyone. Thank you. My name is Francois-Xavier Bouvignies, Head of the tech hardware and semi team at UBS in Europe, and we are very happy to have Logitech's CEO, Hanneke Faber. Thank you very much for being with us.

So let me ask you first, you joined, I mean, Logitech in 2023. And Logitech's story got a lot of momentum since then. So maybe can you summarize, what did you change to create this momentum? Because even the predecessor was a very successful person as well. So that's quite an impressive story.

Hanneke Faber

Yes. No, thank you. I'm excited about the momentum we've created in the last 2 years. Clearly, after the high of COVID, Logitech went through a few difficult years. But coming in, I think what we did well, we quickly created a strategy going forward. With a clear purpose, we're here to extend human potential in work and play. That's why we wake up every morning, it's to make people a little better. We're a tech company, but we're here to make people a little better, more productive, help you connect a little easier, win that game performance. So that's what we do.

And under that, we chose a number of strategic initiatives. And I'll mention 4. The first one, of course, is superior products and innovation. We have a very high pace of innovation. We launched about 35 new products a year. And we've continued that and there's been some really successful ones in the last couple of years. Second is doubling down on B2B, a big opportunity for us, about 40% of the business with a lot of upside. Third is China for China. We were struggling in China mildly when that came in.

We've created a China for China multifunctional team in Shanghai, and that's really growing the business. And finally, building an iconic brand. Logitech is a great brand with great awareness around the world, but it has the potential to become truly iconic and we're working on that.

So those are the things we're doing. We're trying to be pretty consistent with that through all the ups and downs and funding games this year after Liberation Day. And so far, it's working.

Francois-Xavier Bouvignies

Okay. Let's unpack maybe all of that in the next 25 minutes. So can you elaborate more on your plans in B2B to focus, not only on the corporates, but also on hospitals and education end markets. How do you do that? And what is the tangible action point supporting these inroads?

Hanneke Faber

Yes. So if I just lift that up for a moment, we're about a \$4.5 billion company. The addressable market for us is about \$25 billion. So there's a lot of room for organic growth. Within that \$25 billion, about \$14 billion is B2B. And within that, about \$9 billion is enterprise and \$5 billion is what we call these verticals of education, health care and government.

In enterprise, we're the market leader in both video conferencing and peripherals. We're #1, but there's still a lot of room to grow because we think we estimate it only, well, less than 20% of all global conference rooms are actually video conference enabled, and that will not be the same 10 years from now. So, a lot of growth there.

But in these verticals, we're almost nonexistent, even though they need the same type of products, video conferencing peripherals that enterprises need. We just haven't had the go-to-market capability necessarily to really penetrate those verticals. So that's what we're building. That's not a 1 quarter thing. This will take a number of years. But again, a \$5 billion addressable market where we can play with our products and solutions is really exciting.

Francois-Xavier Bouvignies

Certainly. And on the strategy on the B2C side, I mean PC peripherals and gaming are key contributors, obviously. But it's a B2C market in health care also something to look at and / or crowded for you?

Hanneke Faber

Yes. I would say in health care, we'll focus on B2B on medical institutions, hospitals, where again, they need our regular products; mice, keyboard webcams. But also video conferencing, remote health care is an area of great growth. There simply aren't enough doctors and nurses in the world to treat everyone in person. So you can imagine with remote health care that the need for great video conferencing equipment is high, and that's where we come in.

Francois-Xavier Bouvignies

You mentioned, of course, the brand and your strategic initiatives. So marketing is obviously very important for your business. So can you maybe elaborate what you made differently? What do you mean by that? Like again, like some concrete example as to how you manage this path.

Hanneke Faber

Yes. Maybe I'll use China as an example because I think that's where we've made the most progress on the brand-building side. First of all, brand building marketing today is wildly different from even 2 or 3 years ago. You have to market social first. You don't create most of the content creators and influencers create most of your content. So in China, we made a real shift to working with a large number of creators and influencers both in the gaming space and in the workspace that are locally relevant and that we work with to get the right content out there. So social first is really important.

Second, partnerships, great iconic brands have iconic friends. So we really drive great partnerships, McLaren is a great example. We just launched a McLaren simulation collection that we developed with McLaren that they use in their own sim racing facility. So Lando & Oscar used that during the week when they're training in the sim. And we love brand collaborations like that to drive the iconic nature of our brand.

And then finally, events are another big deal these days for brands and especially our own events. So in September, we had a global Logi PLAY, which is an event where we launch all our new products, but also where the gaming community comes together, in Shanghai, Madrid and in 16 other places, but also on a global live stream with millions and millions of people watching. That's the kind of marketing you need to do today to really penetrate the gaming community. And it was certainly a very exciting moment. So social first, partnerships, events, that's what we're focused on, and I'm excited about the progress we're making.

Francois-Xavier Bouvignies

And you mentioned a lot of potential on the organic side, given this very significant time. But what about the inorganic way as well? I mean, M&A, you sit on, if I'm not mistaken, \$1 billion net cash on your

balance sheet. So is there an appetite here through inorganic? And if you do, do you want to diversify or strengthen existing business?

Hanneke Faber

Yes. No, great question. And we actually sit on \$1.5 billion in cash and no debt. So a pretty pristine balance sheet. If you look at our capital allocation priorities, the #1 priority is organic growth because, again, we're a \$4.5 billion company. Our addressable market is \$25 billion. So organic growth is our first -- first dollar will go there.

Second priority is the dividend. We increased it by \$0.10 again this year, and we plan to do that to increase it going forward. Third priority is M&A. So I'll come to that. And then the fourth priority, if there's cash left over, and we do generate a lot of cash. We will buyback shares, and we're at the beginning of a 3-year \$2 billion share buyback program.

But in terms of M&A, it won't be transformational M&A. I am interested in tuck-ins. We hired this summer, a new head of M&A who is very busy assessing all kinds of targets. They need to be strategic in work and play. We're not going to go and do wild other things. And importantly, they need to make the boat go faster. M&A can be a real distraction for organic growth. So when we buy something, we have to be sure that it makes the boat go faster. And what I mean by that is we're now a company that's grown mid-single digits or more 7 quarters in a row with really healthy margins. When we add something to the portfolio, it needs to have the potential to do a little better than that. And in our space, there's not so many targets that would do that. So I'm being -- well, I call it disciplined or picky. And it doesn't mean we're not looking at stuff, but we'll be really disciplined at making the costs.

Francois-Xavier Bouvignies

Okay. Makes sense. And in B2C, I mean, we have tariffs obviously taking place in China, U.S. So you increased your pricing by 10%, if I'm not mistaken, in the U.S. to pass this. So do you have any intelligence or insight into what your peers have done as well to fight this tariff? I mean, is the 10% -- how do you compare with this? And how do you see the supply chain reacting to mitigate this effect?

Hanneke Faber

Yes. So we took pricing very early. I don't like taking pricing, but it was a responsible thing to do, so we went very early. We announced it on April 15 after Liberation Day on April 1. Our competitors, most of them have moved, we're seeing in the markets, but much later. So we'll see how that plays out. I'm actually glad we went early because it always takes a few months to get a price increase through with customers in B2C. And then consumers should get used to the new pricing. So I feel we're in a great space now ahead of the holiday season, actually in the middle of the holiday season with the right pricing levels in place.

In terms of the supply chain -- oh my gosh, we've done so much between April and now. So in April, 40% of our U.S. products still came from China. We committed at the time to take that down to 10% by the end of the year, and we are there now. So we've moved a lot of manufacturing from China to 1 of our 5 other manufacturing countries. And that's a ton of work. That's literally moving lines in trucks across borders. But the team has done an amazing job, and that certainly helped us maintain really strong gross margins.

Francois-Xavier Bouvignies

Interesting. So when you look at the demand side, when you increase your tariff -- the pricing, any impact on the end demand or how the demand is reacting to that pricing?

Hanneke Faber

Yes. When you -- we don't actually do line price increases very often. So we didn't have a lot of history to go by, but I think it's kind of played out the way we thought it would. So in the first 6 to 8 weeks, so for us, that was the June quarter. You have some impact on sales, but it's not consumer demand. It's actually the customer negotiation impact. So some customers stop ordering for a while because the price has gone up, et cetera. So there is some impact from that.

Then in the next quarter, which for us was the September quarter, the prices are reflected on the shelf and the consumer needs to get adjusted. So there is some impact on units in that quarter. And we also saw that and you saw that in our Q2 results in North America.

I think now we should be at a place where we're pretty clean. We should be able to start growing shares again. I think now the big question for the holiday quarter is the strength of the North America consumer market, well beyond our own performance, but the market as a whole. And if you look at our guide for the fourth quarter, the top of the guide assumes the market will be quite robust. The bottom of the guide assumes the North American market will be a little softer.

Francois-Xavier Bouvignies

Okay. And are some PC peripheral exempted from tariffs?

Hanneke Faber

Yes, yes. So although that sometimes changes and so we don't break out all the details, but some of our portfolio is exempt.

Francois-Xavier Bouvignies

Okay. Interesting. So your gross margin of 43%, I mean, it was quite strong in the last quarter. Do you see any risk? I mean, should we -- how sustainable basically it is? I mean, you have the currency as well, maybe not in your favor, promotions as well might accelerate in the tight 2026 consumer market. So how should we think about the sustainability of your gross margin?

Hanneke Faber

Yes. So we actually do believe that the gross margins are fairly sustainable. For the long term, we've said 40% plus. But for the quarter ahead, we said 42% to 43%. There's a number of things that are tailwinds that we'll continue to drive. The first one is cost savings. We have an excellent operational and procurement team who have consistently quarter-after-quarter driven cost savings in our business. So that's a help.

Second is premiumization and driving ASPs. We're very focused on driving and innovating at the top end of our ranges. The MX line in personal workspace, the MX Master 4 that we just launched this quarter is a beast, so fantastic. But also the PRO line in gaming, the ERGO line. We drive the top end of our portfolio to drive the average prices up.

And then -- so those are some other things we'll continue to do to drive gross margin. And then the last thing is mix. As we grow our video conferencing business, especially, that's higher gross margin than the average. So as that grows a little faster, it helps gross margin as well. Of course, there's headwinds as well. The main ones being tariffs, which we don't expect to go away anytime soon. And the other one is promotions. On promotions, so it's very important to do -- for us to do what's necessary. We're not going to instigate more promotions. But when competitors do, we will defend our business because when you buy one of our products, that's at least a 3- or 4-year purchase. So we're not going to lose that over \$1 more or less promotion.

Francois-Xavier Bouvignies

That makes sense. So you had the sell-through of plus 8% year-on-year in the recent quarter, which is quite strong again. But like we discussed, North America was down on volumes. So on that dynamic, and we briefly talked about it, do you see any change? You said it takes time to adjust. But any evidence or signals that this is picking up again?

Hanneke Faber

Yes. So we did see it throughout the September quarter, things got better. So the trends were improving. So I'll tell you in January on this quarter, but too early to tell right now. What we do believe is that the strong trends in Asia Pacific and in EMEA will continue.

Francois-Xavier Bouvignies

Okay. So you lost some market share before in China, but it seems to get better from what you described. So where do we stand here and what stimulated the turnaround in China? So if you can bring more details? You mentioned a few examples but if you can elaborate more would be great.

Hanneke Faber

Yes. No. So very important. When I came, the business was in a tough spot in China. We were not growing sales. We were losing market share pretty significantly. So we also made a significant intervention by putting in place a China for China strategy and team. So we reallocated resources to put a large team in Shanghai, multifunctional R&D, design, marketing, sales to do 2 things. One is to accelerate the innovation pace. China is incredibly competitive. So you just need to -- even though we launched 35 new products a year globally, we needed more in China to stay in lockstep with that market.

And the second thing is what I talked about in terms of marketing and go-to-market, our practices were just a bit outdated. So we needed to shake those up, start marketing on platforms like Douyin, TikTok, TikTok Shop as well as PDD, work with local creators and influencers, local pro gaming teams and go to 24/7 live streaming, which is a must in China. So we've done a lot things and it's exciting to see that that's working with some really great numbers in China on the top line and share stabilizing and starting to grow.

Francois-Xavier Bouvignies

And what about the profitability in China? Because obviously, it's a very competitive market like you described. I mean we can go do analogy even across sectors and everything. You can always see a potential dilution from the China business because price pressure is quite common in that region. So how should we think about the mix and kind of the link to the gross margin element that I highlighted, if your China business gets back, is there any impact on your profitability?

Hanneke Faber

We don't believe it will be material because on a product group to product group basis. So if you look at gaming or personal workspace, our margins in China are actually very similar to the rest of the world. The dynamic of growing ASPs and focusing on the high end of the portfolio for us is a very similar in China. The fastest-growing parts of our business in China are MX, ERGO and PRO in gaming. So those are expensive just like they are in the rest of the world.

What makes our overall margin in China, a little lower than the global average is the fact that we don't have much of a video conferencing business in China. Video conferencing in general, tends to lift gross margins. And that's a priority call. We have so much opportunity in video conferencing around the world that China isn't high on my priority list for video conferencing at the moment. But again, on an

apples-to-apples basis, personal workspace and gaming, the margins are very similar in China for us as they are in the rest of the world.

Francois-Xavier Bouvignies

And who are your competitors in China? I mean is it like mostly a lot that I can tell, but is it mostly like local or Western, I mean...

Hanneke Faber

Local, local. But there's more than 500 manufacturers of mice and keyboards in China, and there's less than 10 in the entire rest of the world. So it is a really intense competitive environment. But honestly, we love it. It makes us better. You've got to move faster, you've got to be better. So it's very good for us to compete in China.

I heard someone from Volkswagen quoted the other day saying China is like a gym for them. Yes, that's very true. It's like a fitness center. And if you can win in China, in our industry, you can win anywhere.

Francois-Xavier Bouvignies

Makes sense. Thank you. Moving to Europe. I mean, don't you see the risk in market will be flooded with this Chinese product because obviously, they can also go outside China as the U.S. access of these players are limited. So they will double down and they do that very well. So how do you see this threat?

Hanneke Faber

Yes. No, well said, and it's not a risk, it's a reality. So clearly, U.S. market access has become more difficult for many of the Chinese players. So they've doubled down on Europe, especially on online in Europe, Amazon and other players. This is where we always have to walk and chew gum at the same time. We're focused on the high end of our portfolio to drive those ASPs and drive really great experiences for advanced users and advanced gamers. But at the same time, we're defending the entry level like there's no tomorrow. And so that is critical.

Then we -- every day, every hour, we're looking at, are we having the price level -- right price levels at the lower end of our portfolio. Unfortunately, we have the brand architecture to do that. We have -- if I use gaming as an example, we have a 3 series, a 5 series and 9 series and a PRO series with pricing that ranges across and we make sure we defend with the 3 into 5.

Francois-Xavier Bouvignies

So finally, China is driving a lot of innovation across the board, basically. On the technology front, I mean, do you see anything headwind or tailwind currently? And for example, I would take the playing games via

VR glasses might require no mice, no keyboards, so that would be a drag, but there may be some offset. So how do you see like maybe the technology threats and opportunities from here? I would say even like short term and long term.

Hanneke Faber

Yes. So I'll take history as a guide here. The arbitrary for mice has been written many times. So when the first computers became the first laptops, people said, oh, no, the mouse is dead. When the laptops became mobile phones, people said, oh, now the mouse is dead. When there were iPads, the mouse is dead. What actually happened is they've been additive, and we've been able to innovate and create peripherals for each new generation.

I think that will be true for the new generation of computes as well. So whether that's the Quest, Meta Quest had said, Apple Vision Pro or Meta's glasses. We've already started to work with these players to create products that connect consumers using the headsets to that human. So we launched with Apple, a stylist for the Apple Vision Pro called the Muse. We've launched with Meta, a stylist for the Quest called the MX Ink. And while I can't tell you what's going to happen in the future, trust us, we'll -- we're very close to these developments, and I think they'll be additive to what we already have.

Francois-Xavier Bouvignies

How do your team works with these companies in terms of visibility, road map and basically developing the products. I mean they work on what, on a 2, 3 years' view? I mean, what's your lead times on the innovation process when it comes to technology?

Hanneke Faber

Yes. It really depends on the kind of project. But we're proud and honored that we worked with 6 of the Magnificent Seven on products and the fact that they trust us to be basically what they now call physical AI, I call it hardware -- yes, software enabled hardware. But the fact that they trust us to have close software integration and really making our products work with theirs is a real honor for us. And sometimes, it takes a number of years, the next generation of video conferencing with Microsoft, Zoom and Google, that takes a couple of years to get that really in place. Whereas maybe the next tablet keyboard for Apple that we did for the new iPads last year, it might be a little shorter, it might be 1 year or 1.5 years, so it depends.

Francois-Xavier Bouvignies

And if I have to ask you what is the next big thing from Logitech, what would that be?

Hanneke Faber

I could tell you, but I have to kill you.

Francois-Xavier Bouvignies

I don't plan to give me your top 10, I'm asking like maybe 2, if you want, but...

Hanneke Faber

So, of course, I can't tell you what we haven't announced. But the next big thing that we have announced, but will only ship in January is the PRO Mouse Superstrike. It is a gaming mouse. Think of us what Adidas and Nike are to running, we are to gaming, absolutely. And this new PRO mouse, the Superstrike is incredible. So if you play any first-person shooter games, we developed it with PRO gamers. Some of them have said to us, this is like cheating. It is so fast, the haptic feedback is so amazing and so novel. This is going to be a hit.

Francois-Xavier Bouvignies

Good. On AI, I mean, you mentioned a bit of some opportunities for your customers, how it can play out. But a lot of discussion about internal as well. How do you use the AI in your company? Like how -- what's a tangible benefit you can get from? Is there any things standing out in terms of cost savings, in terms of anything can flag and how you can deliver it?

Hanneke Faber

It's definitely -- I think the most tangible thing is our OpEx in Q2, which was down 200 basis points. AI played a big role in that. So since January, we've internally created more than 1,000 AI agents to help us across the company, and we're a company of engineers. So we're building these ourselves. And they're helping us really across the company from legal, finance, HR, into engineering and marketing. None of them have transformational productivity benefits. But 1,000 of them with an incremental benefit each are helping, and you're seeing that in our OpEx numbers, especially in our G&A. So I'm a big fan of AI agents, helping our people be more productive. And the way I hope it will play out for us is that we will grow faster with the same or slightly fewer people, not grow the same with a much less...

Francois-Xavier Bouvignies

Operating leverage a bit more.

Hanneke Faber

Yes, yes.

Francois-Xavier Bouvignies

Okay. Thank you very much. I think that's it for me. That's all the question I have for you. So thank you very much for your time.

Hanneke Faber

Thank you. It's a pleasure. Thank you.