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CORPORATE PARTICIPANTS

Matteo Anversa Logitech International SA - Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Asiya Merchant Citi - Analyst

Asiya Merchant:

Here is Matteo. We also have members of the IR team meet here in the audience. I'm going to kick it off with a few questions. However, if you do have any, I'm going to allow some time for the audience as well. So, if you do have any questions, I request that you please raise your hand, so we can bring the mic to you. So, Matteo, welcome.

I'm just going to kick it off with a few questions. Just on demand. I mean, you guys have done really strong consistent growth, right? Sales up 5% year-on-year on a constant currency basis, your sell-through is tracking a little bit ahead of that. Video conferencing spend seems to be doing a little bit better. Just as you sit here today, how would you characterize the demand environment? Let's say, relative to a few months ago when it seemed like the world was falling apart.

Matteo Anversa:

Well, Asiya, first of all, thank you so much for hosting us today. It's my first time here with you guys, so it's great to be here. The -- so demand, actually, -- if I have to pick one word, I would call it resilient. If I look at the numbers that we printed in our first quarter, which is the June ending quarter for us, we saw demand strong, broad-based.

Overall, it was up year-over-year in the high single digit, primarily driven by the B2B area, but also consumers were relatively strong. When you dissect a little bit the numbers from a regional standpoint, if I look at B2B, really strong performance in North America, particularly in the US. Europe was also

high single digit.

On the consumer side, I would say -- and I'm sure we'll talk about it later. We worked on some price increases with the customers as a follow-up to the tariff situation. And so, on the consumer side, in North America, the timing of the price increases impacted a little bit the demand.

But other than that, we saw very good strong demand in Europe and China. Particularly gaming has been really, really a strong bright spot for us, really double-digit growth. So overall, I really say resilient. We look at all the product lines growing in either double digit or high single digit. So, we're pretty pleased with where both the consumer and the B2B customers have been.

Asiya Merchant:

Okay. And then you've done these price increases that you've well telegraphed as part of your mitigation, but when you talk about price increases, generally when it comes to consumers, people always think about demand elasticity that may be dampening the demand, even though one would argue that peripherals are not that expensive a product. But nonetheless, just how have customers responded both on the B2C side, and I know you have a very strong B2B effort as well going through the organization.

Matteo Anversa:

Yeah. So let me maybe start taking a step back with the approach that we took to price because that impacts also the second part of your question.

So, -- we started this work very proactively. We pride ourselves on the fact that we are a very agile company.

So right around the end of the last calendar year, we started to work on scenarios on price increases if tariffs were going to be enacted. So instead of using one approach that fits all, we really did a very meticulous work SKU by SKU, product by product, and looked at different price points to see where we could increase price and what we thought could be swallowed by the customers.

And that's why when -- after the Liberation Day occurred, a few -- a couple of weeks later, we communicated the price increase to our customers.

And to look at the impact of the price increase, you really need to split B2B to B2C.

So B2B for those of you that don't know us, it's about 40% of our business. And that price increase was communicated to the customer at the beginning of -- so mid-April. And on average, was about 10% of price increase in the US. And the price has been implemented.

And quite frankly, the demand was very good. The B2B demand that we saw in the June ending quarter was up mid to high single digit. So that one is pretty clear, I think. On the consumer side, as you can imagine, the discussion took a little longer, right? It requires some time to negotiate with the different e-tailers and retailers.

And then once all the negotiation occurs, since we went to different price points by each SKU, it took a little time to get the price point implemented into the system and reflected on the shelves. So, this took us through almost the end of June.

So, to answer your question on the consumer side, it's a little early for me to comment on the elasticity on the consumer side. I think we'll probably have a better idea on that by the time we have the next earnings call, which is going to be at the end of October.

But overall, if you look at what happened in prior history when we implemented price increases in some of the other regions, you generally have a first reaction in the first four to eight weeks when you tend to see a volume decline and then volume pick back up.

So, -- that's kind of what we are expecting, but we'll provide a better, I think, idea when we are at the end of October and by that time, we'll have a full quarter, and I think we'll know exactly what the impact will be.

Asiya Merchant:

All right. So, when it comes to the reported quarter, there was an impact, which should not reoccur as it relates to these pricing discussions that affected the North American market?

Matteo Anversa:

That is correct. So, as you can imagine, as I said, this discussion took a little bit of time. So, we had a period of time when we were trying to implement the price increases. Price increases were not reflected in the system. And that created a few shortages on the inventory on the shelf of a couple of our e-tailers and retailers. So that impacted the demand, but that has been fully resolved. So, I think that's passed.

Asiya Merchant:

Okay. And then on the flip side, there's always this fear that there was a little bit of pull forward of demand because people were expecting these tariffs to come through and you guys obviously also are impacted a little bit by tariffs. You have some mitigation there. But as it relates to your end customers, is there any indication of how much do you think was pulled forward?

Matteo Anversa:

We saw a bit of pull-in happening on the B2B side, particularly in the US, where at the beginning of the June ending quarter, some of the customers on the B2B side accelerated, some of the purchases ahead of tariffs being implemented, but it wasn't that material. On the B2C side, we have not seen that.

Asiya Merchant:

Okay. And so, you guys have a pretty aggressive tariff mitigation plan that you've outlined. So just help us understand, okay, what that is? How does it affect your margins? What could have been the case had you not done this? And how are some of your other peers? Is everybody in the same boat and how they're trying to mitigate it? Or do you guys actually have an advantage here just given your production strategies?

Matteo Anversa:

Great question, Asiya. So let me unpack this for you. So, tariff has been a moving feast, right? And it's actually pretty complicated. But just to bring some things into perspective, if you look at the total revenue of the company, the US is about a third. So, two-thirds of the revenue of the company is not impacted by tariffs, right?

In addition to that, we started in a, I would say, advantaged situation, I think, compared to some of the competition because the diversification effort really started years ago and quite frankly, by our predecessors that here deserves the credit. If I look back to 2018, right, of all the things that we were importing into the United States were coming 100% from China, right?

Today, we're about 40%. 40% of the products that get imported into the US come from China, and we have a plan to accelerate the diversification, and move this number to no more than 10% by the end of calendar year 2025. So that's just to bring some perspective. The total impact of tariffs for us in the first quarter, net of all the mitigation actions and price was about 50 basis points.

And what we indicated in our last earnings call is that for the second quarter, when you consider the impact of tariffs, net of mitigation strategy on the supply chain, net of the price increase that we announced in April, which will be -- is going to be fully reflected in the second quarter, so the September ending quarter, net-net, we are talking about an impact between zero and a negative 100 basis points.

So, something -- tariff has been painful, but overall, not the end of the world, right? It's something that I think the team managed very, very well. And the reason why we have this range is because really -- it's difficult to pinpoint a number because the number of how much you pay for tariffs is impacted by the tariff landscape, which tends to be volatile, is impacted by the product and regional mix, so which product we sell in which country, what is the origin of this product. And then obviously, the continued work on diversification action. In addition to that, we leveraged the strength of our balance sheet, and we moved promptly. So, we pulled in some of the inventory on our own in advance of tariffs being put in place. So that also helped us mitigate some of the impact.

But overall, in terms of approach, it really goes down to remain agile, so be on top of what's happening and be able to move the origin of the products across all the different areas where we have -- we are sourcing the products today, which is really China plus five. Continuing to be maniacal on cost. Here is both on production cost. We will continue to work on value engineering and try to reduce the cost of our bill of material, but also on OpEx. You have seen in the first quarter, OpEx was down quite substantially. And the focus primarily has been on G&A. That's where all the cost control actions have been.

But at the same time, we continue to be offensive and play offense. And for us that means: R&D is critical. So, we will not cut costs in R&D. We will not cut costs in sales and marketing, but really the focus on efficiency has been on the G&A.

And really keep up with the news and continue to be agile and move according to what the tariff landscape is going to be. But as I said, for the second quarter, with the current tariff environment, it's a 0 to 100 basis points negative. And if tariffs don't change, that should be a relatively fair proxy also for the remainder of the year.

Asiya Merchant:

Okay. And then I know last year, you guys had some unwind of inventory reserves, et cetera, that probably benefited you guys. Just where are we on that for the remainder when you look at it on a year-on-year comparison for the back half of this fiscal year?

Matteo Anversa:

Yeah. Look, -- that was the result of inventory really coming down, both -- it was a little bit of a flush through the inventory hangover that we had post-COVID that completely finished. It's gone. So, we still

have a couple of quarters where the comparison when you do the year-over-year comparison on gross margin is impacted.

So, for example, in the second quarter here, the one that will end in September, our gross margin rate outlook that we provided to the Street is between 41% and 42%. Last year, the gross margin rate in the second quarter was 44%.

100 basis point of this 44% was driven by inventory reserves that were released, which won't happen again. So, you have a little bit of a comp in the second quarter, a little bit probably in the third, but then —...

Asiya Merchant:

It goes away.

Matteo Anversa:

It goes away.

Asiya Merchant:

In the fourth quarter, all right. Let's dig into the segments. So, I'll start with the highest profitable one, which is your video conferencing one. What are the drivers there? This was a market that was sort of back to growth pretty healthily.

Where are we now with the growth in this business? I understand there's still obviously lots of room for penetration here, lots of rooms which don't have video contracting. But what's the algorithm for growth that you're seeing for this business?

Matteo Anversa:

Look, I think the business performed very well in the first quarter. Actually, videoconferencing net sales were up double digits. I don't expect that every quarter, there were a few things that helped us in the first quarter. But overall, I think the dynamic that we are seeing in the market and for our product is very positive. Let me pinpoint a couple of things for you.

One, I think it's a natural tailwind where videoconferencing is worldwide. We have about only a fourth of the conference rooms worldwide that are video enabled. So that provides a natural tailwind to our business, both for us and for our competitors.

Second, tariff in a way helps, right? Because many companies like us are cutting travel. That's one of the reasons why you saw G&A being down in the first quarter. So, for me, it's critical being the CFO. So, companies are reacting all in the same way, while cutting travels, videoconferencing is perfect. It's a very efficient, cheap and productive way of having a meeting. So that's another tailwind that we are seeing.

The second item I would pinpoint is the product. We pride ourselves on the products that we have, which are simple, smarter and more sustainable.

So, our products are simple, meaning you don't need big IT departments to install them. They're relatively easy to install.

Smarter, that's where really edge AI comes into play. So, some of the new products that we have been launching - "Sight video conferencing" is an example - uses AI to upgrade the type of software that you have on the product.

So, "Sight" is a great product. It complements the normal Rally Bar that you have in your conference room, and particularly if you have a large conference room, and if you've been at home, and the conference room is more than 15 people, the people are on the other side of the table, you basically don't even see them, right? It's a horrible experience.

"Sight", you put one of these tools' products in the middle of the table, one or two depending on the size of the room and it adds like your own producer. So, it detects who's talking, focuses the camera on the speaker, is able to distinguish if you are talking and a part of the conversation versus, you're just opening a bag of chips, and it's a completely different experience, basically. So, launching these types of products, I think, has also been a catalyst for us.

And then the third thing I would mention is our focus on some of the verticals and adjacencies that we talked at Investor Day, right? So, – since Hanneke joined the company, we made a concerted effort to double down on B2B.

And for us, this means entering some of the verticals where we have not been playing a lot, like healthcare, education and the public sector. When you combine them, we are talking about \$5 billion verticals that are growing fast in the mid-teens CAGR, where our products already have relevance, but has not been a great focus for the company.

And with really minimal investment both on the product, a little bit on people. It's a great, great opportunity. And in the first quarter, actually, verticals grew double digit. So that to me are the three key things that I would pinpoint on video conference. So, the tailwind in the market, our product capability, simpler, smarter, more sustainable and our focus on the three verticals.

Asiya Merchant:

Okay. All right. And then obviously, you talked a little bit about gaming. You've seen some strength in there in China market. Do you continue to see that as a sustainable demand driver as we look through the back half? Was there something that was particular about the strength you observed, I don't know if it relates to gaming titles or new gaming cards that were launched? Or how sustainable is that gaming strength?

Matteo Anversa:

I think we have great demographics for gaming right now that play in our favor. So let me unpack a little bit. The demand for gaming was very, very strong in the last quarter, in the mid to high single digit, year-over-year growth. And you're absolutely right. When you look -- when you dissect it by region, Asia Pac is the biggest region.

We don't break down revenue by countries. But when I say Asia Pac grows double digit, well, China is big. So, your comment is spot on. China has been fantastic for us in the sense that the gaming market is booming.

We launched an initiative called China for China exactly a year ago, right when I joined the company, basically creating a cross-functional team that is entirely focused on developing products for China in China at the China speed.

And we launched several new products. We changed the way we go to market, much more geared towards the media and the digital media compared to the past. And that really has been a great catalyst for us. "618" was very successful. We grew double digits.

So really, really great focus on China and gaming has been really booming over there. How sustainable is this in China? Well, there have been, for sure, some government incentives, right, that have been all across the spectrum, not only in gaming. And so, we'll have to see. But we are very bullish, and we are expecting this to continue to grow.

As far as the rest of the world is concerned, gaming -- back to the demographic comments that I made earlier, we're starting to see also in the US more and more people age of 50 or below, spending more time gaming versus going to the movies -- or watching TV because fundamentally, gaming is a relatively cheap form of entertainment.

So, when the economy is bumpy, like we've seen in China for quite some time, people spend more time gaming. And so that's a sweet spot for us. Then the last thing I would mention and the reason why we are bullish about gaming, then I stop is how we approached -- how the gaming team approached the market and the different titles that you said.

So, number one, we have great gear for any type of gamers from casual gamers like you and I to the higher professional gamers and where we partner with professional gamers to develop some of the products that we launched.

We really leverage partnership. We launched through -- with the help of NVIDIA -- this AI agent that helps people gaming, streaming their game real time while they're gaming, which is difficult when you play the game, actually streaming your videos. So, we developed this agent AI that has been fantastic for us.

So, partnership with all these companies has been great. And then we created our own gaming family, our gaming group. And so, we are really agnostic about the titles back to the last part of your question. We created family gaming days with families in conjunction with big events, sport events like Formula 1, Grand Prix that had been really successful and allowed us to build a gaming community that really makes the company agnostic about whatever game gets launched. Generally, launching gaming -- new games coming out is good, but we don't count on that.

Asiya Merchant:

Okay. It's all the other events and marketing events that you've worked on. Okay. That's good to hear. On the peripherals then, so we've talked about video conferencing. We've talked about gaming peripherals and now sort of the productivity or workspace peripherals that you have, which is still a large part of your market -- of your business.

Where are you? Are you guys have a leading market share position on that? What's the competitive landscape looking like there? And what are some of the demand drivers there? Is it the PC refresh cycle that we're seeing, to some extent, but is AI a kicker in there for you? I mean does AI PCs lend itself to more peripherals, less peripherals? Can you walk us through that?

Matteo Anversa:

We got several times this question today as you can imagine. I think -- so the personal workspace, the portion that you're talking about. I think -- our biggest competitive advantage is the customer centricity.

So, we are very close to the customer, and we have products that are tailored to all the different types of needs.

From the MX line, which is the one that probably you and I use, right, the peripheral for finance people. You can customize your buttons on your mouse, on your keyboard, it makes you extremely more efficient.

Asiya Merchant:

And comfortable.

Matteo Anversa:

And comfortable. With the Ergo line, which is for the customers that are more focused on the ergonomics, to the Alto keys, which is more tailored to the younger generation. So, all these mice and keyboards will come -- which come with replaceable, removable keys and with a nice bright color that my kids love. So, you really have all the spectrum for whatever type of customer you are.

And that's really done through the continuous focus on innovation that I mentioned earlier. We have a great global engineering team that continues to launch new products, new AI-driven software enabled hardware, and that to me is the biggest competitive advantage of the personal workspace team.

Now -- we are maniacal about competition, right? So, competition is there. But I think that's what really allows us to stand out compared to competition.

In terms of -- sorry, the second part of your question, I can't remember.

Asiya Merchant - Citi - Analyst

So, we talked about competition. We talked about how sustainable that is. And then what are some of the growth drivers like AI? Is that AI, a kicker or --

Matteo Anversa:

For me, AI is a big tailwind for the company. The -- even Asiya, if you think about how the company was formed, right? The company historically has been a company that allows humans to interact with technology, right? That's how the mouse actually started. The mouse was this tool that we used as humans to have access to the PC.

Today, the same thing is in AI, right? And for us, AI is a few things. One is edge AI, so AI in the product. I gave you a couple of examples before on the video conferencing side is agentic AI, so AI agents -- as I mentioned, with the streaming agent in the gaming that I mentioned earlier. And then is AI, meaning a more fluid access to any type of LLM that our customers want to use.

So, we have the Options+ portal. We developed a Logi AI portal in China, where people can just customize each of the buttons that they have in their keyboards, on their mouse and have a much more fluid, fast and flawless access to whatever type of AI model the customer wants to use. So that's what we do for our customers.

Then there is the AI inside of the company, which we are all now using AI. We developed our own kind of internal version of ChatGPT - called LogiQ - which is a very safe, protected -- firewall-protected -- system where people can upload their documents. It's safe, it's confidential. And more and more

employees are using this. I use it, too. To be honest, I started my earnings script with -- before I passed it over to Nate -- with LogiQ and it really makes us much more efficient.

The key area where we are starting to use it is product development. So, engineers now have four decades of information on how we developed the products in the past, they can immediately access, and they don't have to start from scratch or they re-create the wheel. That cut significant time on product development.

We use, obviously, customer feedback and consumer feedback when we start launching new products. And now you can -- instead of having a human looking at the video and how the customer reacts with a mouse or a keyboard, you have AI do it.

And actually, they do it much faster, quite frankly, almost even better, right? Because they can see not only how the customer uses the product, but also the facial expression. So, for us, AI is a big, I think, a catalyst, a tailwind for the company.

Asiya Merchant:

Great. Let me just ask the audience if there's any questions. Yes, no. Okay. All right. We can talk a little bit about maybe inventory because that's always a delicate subject and you have sell-in, sell-outs, you have talked about seasonality.

I get a question from investors, the September quarter, why have you guided it subseasonal. Just walk us through how you guys are thinking about inventory in the channel just given the macro environment and how that factors into your guide for the third quarter or calendar third quarter.

Matteo Anversa:

So, I think -- so overall, we ended fiscal year '25, so our March 31 ending year with a very good position on channel inventory. And I think we corrected some of the maybe mistakes that we made in the prior year, right, where the channel inventory was a little too low, and that created a lot of variability, if you remember, between sell-in and sell-through during fiscal year '25.

For our current fiscal year, we are expecting sell-in to mirror sell-through pretty closely. You saw it in the first quarter. We're pretty much the same number. And the same, I would expect for the rest of the year. So, we are very happy over the status of the health of the inventory on the channel.

Our own inventory, what we proactively did, and this goes back to the tariff aspect, we decided to use the strength of our balance sheet and play offense and try to get as much inventory as possible before new tariffs were enacted.

And that's why you saw -- if you look at the balance sheet, inventory level at the end of the first quarter was a little elevated compared to what we had in the prior year. But that's the beauty of having flexibility in the balance sheet. That when you can, you use it to protect yourself and your customers, and we'll continue to do that. But overall, we are very pleased with the inventory level on the channel right now.

Asiya Merchant:

Okay. And then the macro tariff environment resulted in you withdrawing your fiscal year guidance. You guys are always under promised and overdelivered for as long as I can remember. And I understand the macro environment created that level of uncertainty where you didn't want to put something out.

But where are we right now? It seems like demand is still hanging in there, like you said, resilient. You guys are obviously managing the inventory really well. At what point do you feel comfortable kind of talking about fiscal year guides again?

Matteo Anversa:

I think we'll need a modicum of stability in the external environment. That's fundamentally the big question, right? And how the tariff environment, if and how things will change. And I think that's fundamentally the things that we're waiting for the most.

Asiya Merchant:

Okay. All right. A little bit on capital allocation. Very, very strong balance sheet. Like you talked about no debt, pretty significant amount of net cash per share. I know you don't want to do acquisitions for the sake of acquisitions. Just help us understand what are some of the drivers that you could use that cash for? What does the board feel comfortable using the cash?

Matteo Anversa:

Yeah. Cash flow from the company, cash generation has been fantastic. I'm very pleased with the work that the team has done. So, I would go back to some of the priorities that we talked about at Investor Day. So, number one, we would like to reinvest the cash organically into the business. Our return on investment capital is greater than 25%.

So that's money very well spent. And that's why we keep saying, notwithstanding the austerity measures that we are implementing for tariffs, R&D is non-negotiable. We will continue to be between 6% and 7% organic. So that's priority number one.

Number two, we want to continue to increase the dividends. We are actually on our way to our shareowners' meeting next week. So, we are asking the shareowners to approve of that. So that's priority number two.

Third is M&A. And here, we made it clear that we are very comfortable with the organic growth trajectory of the company. So, we are not looking for big transformational acquisition, but really more tuck-ins and bolt-ons that can help us complement and expand some of the product categories that we are playing in today, but still always religiously in the areas of work and play.

And then fourth is share buybacks. We announced at the Investor Day an acceleration of the share buybacks to \$2 billion in three years, and that's what we are focused on. So, I think these are the capital allocation priorities of the company.

Asiya Merchant:

Okay. As we wrap it up here, Matteo, like just can you remind investors again when you look at your long-term target model, where are we with that? You guys laid it out really well at the Investor Day with and without acquisitions, sort of how you think about the company's growth trajectory.

And what are investors maybe not fully comprehending about the Logitech story?

Matteo Anversa:

I think -- look, I think based on the feedback that we also got today, there is a good understanding of the story. And the beauty of it is because the story is actually pretty simple, right? We are a \$4.5 billion, \$5 billion company that plays in a \$20 billion-plus market.

So, the opportunity to grow even organically is tremendous. We are the market leader in the products that we play in, and we have a credible path to continue to be that through the continued focus on innovation that I mentioned earlier. And AI is a big catalyst for that, as we mentioned.

Obviously, we are not immune to the challenging geopolitical and tariffs environment. But when times are tough, that's where the company thrives. And you've seen it in the first quarter, notwithstanding the tariff and the geopolitical macro environment, we posted good growth with a very strong margin increase -- margin rate increases year-over-year.

And then we have -- we're very financially conservative in a way, but at the same time, extremely shareholder-friendly in terms of capital allocation, as I mentioned earlier, with the dividends and share buyback increase. So, I think that's fundamentally the story. This is a pretty simple story.

Asiya Merchant:

Okay. All right. Well, I just wanted to say thank you again to Logitech's management for coming to our Citi's Global TMT conference.

Matteo Anversa:

Thanks for having us.

Asiya Merchant:

Good luck with the board meeting.

Matteo Anversa:

Thank you. Thanks.