

Logitech Goldman Sachs European Technology Conference Transcript

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- **Matteo Anversa**, Chief Financial Officer, Logitech

Alexander Duval: Great. Well I think we're ready to kick off. Hi, everyone. As a reminder, I'm Alex Duval, heading up the Hardware team in research at Goldman Sachs in Europe. I'm delighted to be joined on stage by Matteo Anversa, CFO of Logitech. Matteo, thank you so much for joining.

Matteo Anversa: Alex, thank you so much for having us. A great venue.

Questions And Answers

Alexander Duval: Thanks so much again. So perhaps we can kick off with fiscal year '27 demand trends. It'd be great to get your sense on the latest dynamics across your various segments? And perhaps you could touch on some puts and takes that have been salient in terms of your demand in the past year? Maybe you could help us think about how to think about the consumer and enterprise demand trending in the coming year?

Matteo Anversa: Yes. Sure. So Alex, I think it's maybe a little early for me to comment in details around our fiscal year '27, which starts, as you know, in April. But overall, what we have seen also in the last quarter is, let me start with the consumer side. I think we called it resilient, but 'choicefull', particularly in the U.S. We saw really the consumer looking for quality products but at the right price, particularly on the medium to low-end spectrum of the product portfolio.

On the other side, the premium. So for us, the Pro line, the MX, the ERGO, we continued to see very, very strong demand. They all grew double digit. Simulation was up in the high single digit. So the translated back to your consumer question, the hardcore gamers, the individuals that are focused on ergonomics, on the efficiency, they continued to spend money pretty much unchanged compared to what we have seen in the past several quarters. So the demand continues to be very, very strong.

On the enterprise side, look, we had a greater quarter, our VC sales were up about 8% year-over-year in constant currency. And we continued to see very strong demand of both us and our competitors of all the video conferencing products, and we can talk more later about the dynamics. But overall, I think we -- on the B2B side has been different from the consumer, we have a pretty clear line of sight to what the deals that are coming up, and we feel pretty bullish about the trend.

Alexander Duval: Super helpful. And Matteo. I think you won't be shocked to hear that I'd like to know about memory shortages. Specifically, maybe we could just touch on your ability to deliver products and to what degree that has an impact?

Matteo Anversa: So in a way we are lucky, right, as a company, because the vast majority of our products do not use the memory that is in shortage today. A portion of our VC product uses this type of memory. I have to say our operating team, Sree always has been doing a fantastic job. They saw this coming. So a few quarters ago, we secured supply. So we are pretty much projected through the end of the first half of fiscal year '27, and we are currently working with our sourcing partners to our supplier ecosystem to continue to improve the supply situation for us.

Obviously we are seeing memory cost increases like everybody is. And right now, we think we can probably continue to mitigate the cost through our product cost reduction activities that we always do every year. But if that's not the case, then obviously we are ready to take actions on the pricing front as we have seen starting to see some of our competitors doing. And back to our pricing experience that we had in North America as a result of tariffs, we also saw pretty limited elasticity on the VC side. So I think we have room to act on that if the cost of memory continues to be inflated.

Alexander Duval: Very helpful. Obviously the next part of the question would pertain to PC units as we see some of these third parties talk about a low single-digit to mid-single-digit decline in calendar '26. So it would be great to get a sense of what that means to your growth aspirations? I know historically, I think you've talked about the 300 the 400 basis points outperformance versus the PC unit. So some people say okay let me take that then I add that on to the high single-digit decline, and that must mean that Logitech will decline single digits. So please, can you put into context how we should think about the insurance.

Matteo Anversa: You know the company very well. So the so a couple of things, I think to put things into perspective. So first of all, in a way our attach rate on new PC sales, is about 10% to 11%. So we are kind of insulated in a way from what PC sales really does because the attach rate is pretty limited. As we outlined in the last earnings call the focus of the company historically and today is really on the installed base. Today basically, of all the notebook that have been sold, less than half have a separate mouse attached and less than a third have a separate keyboard. This represents a huge opportunity for us, and that's where the focus has really been.

So how we historically have been outpacing the trend on PC sales is really through a couple of things. So number one, we focused on the attach rate on the installed base. And if you look at the last decade, our attach rate on the installed base grew by about eight points, right? So roughly, call it, almost one point a year, a little shy of that. So that's action number one. So we have successfully proven that we can improve the attach rate on the installed base just because people realize how much more productive they can be with a separate mouse or how much better is the experience when you use a separate mouse and a keyboard versus what you buy with a lap.

Second is share, right? We have been historically gaining share a little bit every year. And when you look at mice and keyboards on the personal workspace, in the last decade, our share went from the mid-40s to above 50%, particularly in mice. So continued focus on product innovation that gave us share gain.

The third one is really the fact that through innovation, we have been focused on the premiumization of our portfolio. If you look at our average net ASP, so the average selling price of the product, net of promotion, we saw a quite dramatic increase in the last decade. Mice went up more than 20% and keyboard more than 50%. So that's really what allowed us to continuously outpace the PC sales.

I would add another aspect, the number that you quoted at 300 to 500 basis points is what you see of our performance on average. But the spread is pretty high, right? You have years where PC sales go significantly down in peripheral sales are growing low mid-single digit. The reverse is also true. So you have years where PC sales grow high single digit or double digit, but peripheral sales remain pretty consistent into the low mid-single-digit growth. So that's important to keep that in mind.

And ultimately, it's very interesting for me when I come to these conferences because if I rewind the tape a year ago, I was getting asked, okay. With the PC refresh, your peripheral sales, you go to the roof and we say well not really because they're not really correlated to the new PC sales and the same applies when PC sales go down. So it's pretty stable. That's why I'm not too concerned about what new PC sales really is going to do.

Alexander Duval: That's really helpful. And maybe just to clarify as well you talked about innovation and sort of being able to increase that attach installed base. Is there anything that's changed or anything that you're seeing which would suggest that can't be the case going forward?

Matteo Anversa: Look, we had I give you just, Alex, a couple of examples. MX Master 4, the new mouse that we launched in September, was the biggest mouse launch in the history of the company. This is for the personal workspace case. On gaming, if any of you in the room, our hardcore gamers, we launched two weeks ago, the Superstrike that has this haptic technology that is perfect for FPS type of gamers that significantly reduces the latency of in - when you press the button and we click the button on an FPS game and has been extremely successful. So the technology engine of the company is a key focus for us, and is not going to go away.

Alexander Duval: Super helpful. I guess if we also look back over the last sort of five or six years, obviously during Covid, there was a big pull forward of demand. Obviously some new TAMs are opened up and then there was a normalization period. Fast forward to now, is there also an opportunity there that you may need to do some refresh of that installed base?

Matteo Anversa: Very good question. So generally, the refresh cycle for our products it's between 4 and 5 years, depending if you look at peripheral versus the video conferencing. So we are getting really into that space, right? If you bought something new during Covid now is

due for replacement. So that's the general rule. But even more importantly, what we are seeing our customers do is they really buy peripherals almost independently from a new PC or a new game being launched. It's the new experience, it's the new feature of the product that ultimately drives the replacement. And that's why the focus on NPI and keeping always being ahead of our competition on the feature that we give into our products is not something that we negotiate is a key focus of the company.

Alexander Duval: Super helpful color, Matteo. I think one of the features of recent results has been the sort of geographical bifurcation. We obviously saw continued momentum in Asia Pacific. North America, it's been a slightly different picture. So I wondered if you could just help disaggregate the different dynamics that you're seeing?

Matteo Anversa: So you said it right, if I look at let's take the third quarter, Asia Pacific grew in the mid-teens. And for us, AP is really China, right? That's our biggest market. The dynamic in China is the momentum is terrific, particularly in gaming. Hanneke and I actually went in China a couple of weeks ago. I came home extremely energized. With a sense that really what is happening in gaming in China is unique. And I don't think there is a sign of a slowdown in the gaming market in China for quite some time.

So I would expect the tailwind to continue indeed also when we outline the outlook for the fourth quarter, we said, look, we think it's going to continue to grow in the teens. Europe has been a good market for us. We continue to grow low single digit, and we are expecting that to continue also in the fourth quarter.

North America was, I think an interesting dynamic. What we have seen particularly in the third quarter was a sizable decline of the gaming market, and we can talk more about the different reasons. And but on the other side, particularly towards the end of the third quarter, we saw an uptick, a recovery. So sequentially, our AMR results in the third quarter improved compared to the prior couple of quarters.

So we are, overall, cautiously optimistic. And when we describe the outlook for the fourth quarter, we said, look, AP is going to be in line with the third quarter. Europe is going to be in line in third quarter. The real swing factor is going to be the AMR. And at the midpoint of range, we are expecting AMR to continue to be flattish, and on the higher end of the range is AMR continued the positive momentum that we have seen in the last part of the third quarter and grow into low mid-single digits. So that's all. You'll have to wait until we post the results, but that's our assumption right now.

Alexander Duval: Very helpful. Is there a way to sort of help quantify or give confidence in terms of the visibility you have in these different regions. That would be very helpful.

Matteo Anversa: Obviously we look at different data, right? The consumer behavior, consumer sentiment, what happens to the gaming market, what we hear from our sales force on the B2B, on the enterprise channel. So that's generally how we form our opinions. And based on the

information that we collected, that's what we think the future is going to be at least for the next quarter.

Alexander Duval: Super. Then double-clicking on North America. It sounds like some of this was to do with caution, given the sort of cohorts of people who are spending on things like gaming. Is that how I should think about?

Matteo Anversa: Yes. I think if you look at North America, we go through our own product lines, we saw very strong growth in the personal workspace. Personal workspace was, I think up 7%, 8% in AMR in the quarter and for sure the launch of the MX Master 4 that I mentioned earlier, also really support the growth. Pointing devices was up significantly. And we also gained a few points of share in personal workspace across regions. VC continued to grow. The decline was gaming, share was consistent, so we basically declined in line with the market.

Our interpretation of what is happening in gaming in the U.S. is really a combination of a couple of things. Number one, as I said, the age of people that are really gamers between 25 and 40 are the age range of mostly concerned about the state of the economy and what's going to happen. The fact no big AAA titles have come out now for quite some time in the Western world. And an overall price of consoles remain pretty elevated. So that depressed demand.

But at the same time all these factors are ultimately temporary. So if there is a bright line on this thing is that we believe that gaming is not going to go away actually people continue to grow. Gamers continue to grow also in the U.S. It's just a matter of time. And as long as we remain focused on new products like the Super Strike, the Super Light that we launched a few quarters ago, I think you will continue to see growth.

Alexander Duval: Very helpful. And perhaps also focusing on China, that's been fascinating how it's gone from being a drag on growth to actually delivering mid-teens growth. If we look out over the next year, could we assume similar growth rates?

Matteo Anversa: Look, as I said, I was really impressed by two things from my trip. Number one, the market. Gaming is a social phenomenon in China. It's definitely a less mature market than what we have in the Western world. So that's one of the reasons. But the innovation is going at a very, very fast pace. There are new trends like iCafes. They're becoming a new trend where people book a room with their friends and they game. I remember when I was in China, I lived in China several years ago, KTV was the big thing. And this play is really in the sweet spot for us, right?

So as I said earlier, I think the growth in gaming will continue for quite some time. So we have a natural tailwind of the market. But then on top of it, our China-for-China strategy that we instituted about 1.5 years ago which is really centered around developing products in China for the Chinese market at China speed really helped us, not only in gaming, but also in the personal workspace. So we saw really good momentum on our share particularly on mice and keyboard, both in the personal workspace and in gaming. So that also compounded on top of the natural market growth that we are seeing in gaming.

Then also a more -- maybe a smarter way of approaching marketing, particularly in China, where I think we a couple of years ago, we missed a little bit of both. We went with a traditional Western way. China is much more social media. So we diverted our dollar more to that also, which was very helpful for us. So I'm bullish on Asia Pacific. We're bullish on China. I think we keep focused on China for China as our strategy is playing out to be correct.

Alexander Duval: Super helpful. And do you think there are sort of learnings that you could take from China and apply perhaps to some of the other developing markets and even developed markets?

Matteo Anversa: Absolutely. Even to develop exactly. So if you take the Alto keys, right, the mechanical keyboard that we launched in China because that's where really the new wave of mechanical keyboard started. This keyboard, we just started to sell it also in the U.S., in Europe is going very, very well. So that's a perfect example of how we can develop a product for the Chinese market. Then if it works, we can transfer it to also the development market.

We have still, I think headroom to do on the share side. I talked about I'm happy with the mice, keyboard. I think we have a little bit more room to grow on headsets in China. Then we have emerging markets which, for us, is still a huge opportunity where we can focus on. We had a... Hanneke and I went to Brazil in November of last year. The team is great. There are so much great opportunities for us to capitalize on. I think the experience of the modus operandi that we developed for China-for-China strategy can be really applied also to some of the other regions, and that's where we're working on. So more to come.

Alexander Duval: Very clear. You mentioned video collaboration before and how you're sort of really focused on the enterprise side of things which I think historically has been very important in terms of gross margin. Post Covid, there was some uncertainty about how put forward particularly implement back-to-office policies and so on. How do you think about the demand environment right now and there's a visibility have we sort of moved beyond that level of uncertainty? And perhaps related to that, there's so much enterprise spend that one might think will go towards AI. So how does that leave the sort of demand that you can benefit from?

Matteo Anversa: Sure. So I look, we are very pleased with the results. We had a great first three quarters of the fiscal year '26. We were up, we see 8% in constant currency last quarter. Can't expect every quarter to have a double digit or high single digit, but because B2B tends to be a little lumpy. But overall, we are very optimistic about the future of our B2B.

First both because we are building a fantastic team. And second, because there is, I think still a natural tailwind in the market. If you look at worldwide, you have a few dynamics happening. Number one, if you look at the conference rooms, still only 30% of the conference room worldwide are video enabled, right? So many companies that are going back to the office, both in Europe and in the U.S. are finding themselves with a pretty archaic and old office structure that requires an upgrade, particularly when you don't mandate which days people need to be in the office. So inevitably, you're going to have a member of your team that he's not going to be in

their view that needs to join via video. So you need – the companies need to upgrade their office space. That's we play right in the sweet spot on that, right?

There is the refresh cycle that we talked about. So VC is about 5 years, roughly. So some of the rooms that are video-enabled are due for a change. Then it's interesting. You mentioned AI. That's why B2B tends to be a little bumpy. But overall, actually, AI, I consider AI a tailwind for VC. And here's why. Because the products that we are launching today that have AI features. So really software features, right, like the site which is like a producer in the room that we talked about, right, that you use smart framing which is an AI software type of feature. The Rally Board 65 which is the portable video conferencing device that creates a cocoon, it's perfect for open spaces. So it cuts off anybody who is not part of the conversation. So all broader they use AI features make the product much better than the earlier version or the experience that people used to have with the prior version of the product.

So that's why we think so these are really the top two, three reasons. But overall, we really want to double down on B2B. Obviously speaking, being the finance person. Obviously to your point, B2B has a higher gross margin rate compared to the average, so it's also good for the margin of the company. But I think it's a great opportunity to rebalance a little bit more the split of the company from 60% consumer, 40% B2B to a more 50-50 split. That's really what we are aspiring for.

Alexander Duval: Very clear. And can you just help us think about how the premiumization sort of dovetails with this aspiration to improve ASPs? I assume it's not purely about gaining volume share at this point?

Matteo Anversa: It's really generally the product, particularly if they have software which we feel is better than what our competition has, then we drive a premium on the average selling price which then helps obviously the gross margin of the B2B team and the company.

Alexander Duval: Very clear. I think you talked about gaming and how there have been some products which may be have been a bit delayed in terms of the actual games. If we think about the consoles, there have been some news items talking about delays there. To what degree do you think that will have an impact in the next year?

Matteo Anversa: Spot on. I think what happened in the third quarter, the console pricing being a little elevated also as a result of the tariff actions that many companies took including us. That impacted demand. The good news for us, and this is I have to complement you, Jes, and the gaming team. In a way we built a gaming franchise which is completely independent from any titles being launched, right? We have our G family that we continue to evolve through our Logi PLAY events. That's our own community. And so that's why. Look, if there are new games, AAA title coming up, generally is a tailwind, but we never count on it. We learned, and this is really credit to Ujesh and the team that built our own community.

That's why combined with the continuous product innovation, I think that's all we can do, and that's what we'll continue to drive gaming growth. In spite of being the gaming market down

mid-single digit in Europe, high single digit in AMR last quarter, we still grew gaming in the low single digits. That's a testament to the work innovation and this culture of the Logi family, gaming family that the team has built.

Alexander Duval: Very clear. I think if we take a step back from a strategic perspective, you talked about doubling down on enterprise. I'd just be curious if you could talk a bit more about this strategic approach of going into new verticals. I think you talked about education, healthcare. So how do you think about the scale of the opportunity? And where are we in that journey?

Matteo Anversa: So if I go back to what we said at Investor Day right, we are expecting us expanding into these verticals to add one to two points of growth to the growth of the company, right, when we are all done with all our work. We identified these three verticals, you said it right, education, healthcare and the public sector. The reason why we focus on these three is because of two primary reasons: number one, these are areas where our products have already proved in relevance and superiority. B, these are fast-growing markets.

Now we can do other ones, right? It requires a little bit of investment from the company, not too much on the product side, but more on the sales force. We need more boots on the ground. We need new tools. So last year, we implemented, for example, CPQ in North America. That made us going much farther in answering to request for quotation and request from quotation from our customers. Did in North America last year. Now we are expanding this to Europe and the emerging markets. We're starting to build a dedicated sales force for these verticals. We have done in North America. More work to do in Europe, and we are in our infancy in emerging markets.

So that's where we are. But that's a key focus for us. Education, I'll give you an example. The demand in B2B. So the sell-through in B2B in the last quarter was up in the mid-teens. Education was the main driver of that because we already have good products, particularly in the K-12. And so that's why this is a key focus for us and the company. So one to two points of growth. That's the expectation for the future. A little bit of work to do on the product and on the sales force. But I think the initial results that we had for the last few quarters, you've seen from the numbers that we printed are very encouraging, and we are very happy where we are.

Alexander Duval: Encouraging start. Characterize it. Super. I think maybe on pricing, if we could touch again on that. Clearly, you've had to navigate through the sort of tariff situation we did, moving very significant amount of production, different geographies. And it seems like pricing and pricing power has been an important part of that. Are there any regions where sort of higher pricing has sort of created a headwind? And to what degree do you think you can maintain and perhaps even increase your pricing across the broader portfolio?

Matteo Anversa: So I think overall, I think the team did a great job. We will close the year with about 43.5%, roughly gross margin rate which is going to be flat year-over-year. So we were able to offset entirely the impact of the tariffs through exactly, as you said, the pricing actions that we took in April.

If I look back so first of all, just to remind everybody, we only increased prices in the U.S., right? And when I look at the product portfolio, we saw very limited elasticity in the B2B side and on the premium side of the product lines and a little bit more elasticity on the low end and in gaming. And that's where we used some of the promotional dollars also in the - during the holiday quarter to make sure that demand was appropriate. But very limited elasticity on the lease back where we started the conversation, that's why we feel that if memory cost stays elevated, I think we have room to take additional pricing actions on the VC side particularly. That's where the memory issue is prevalent for us. So that's our lesson learned on the pricing action post Liberation Day.

Then I think the team did a great job to your point in making our supply chain very, very flexible. So we closed the calendar year, calendar year '25 with less than 10% of the products that are sold in the U.S. coming from China. I think we are very happy where we are. So we are now in China plus five supply chain situation, and we really love the flexibility. As you've seen over the weekend, the tariff environment remains fluid. And I think having the supply chain flexibility that we created last year, it really puts us in a perfect spot.

Alexander Duval: Super helpful. In terms of the change you've seen in the past week, to what degree does that have a meaningful impact?

Matteo Anversa: Very limited, no impact for the fourth quarter. And based on what there is 10% or 15% debate as long as the exemptions remain in place which is what we have today. The impact for fiscal year '27 is immaterial.

Alexander Duval: Great. I think we're going into the last couple of minutes. I think we had a question from the room.

Unidentified Participant: Perfect. I'm just curious about what's basically changed in China because if you go a couple of years back, the Chinese government put place prospections on.

Matteo Anversa: You're absolutely right.

Unidentified Participant: Time spent, et cetera, and releases of new games, right? So what has changed?

Matteo Anversa: So maybe I don't know if let me repeat the question. The question is around what changed in China, right, in terms of the behavior of the government. It was 180 degrees. My wife is Chinese. So I remember a couple of years ago at the dinner table, all our friends, we're all talking about how they had to limit the time they had to spend on the social media on the games that they created an issue, this was completely changed.

The and for sure, that created a tailwind these iCafes I remember KTV were a big thing many years ago. Now iCafe has a big name. And also, the thing to remember, the pace of titles that are launched in China, specifically for the Chinese culture, Chinese game is a much faster pace than what we have seen in the Western world. So it's a complete change of how the teams in

China are behaving compared to 24 months ago. So for us, it's a great tailwind from the market. Exactly as you said plus the effect of our China-for-China strategy that then helped us grow.

Unidentified Participant: That they can change their minds again because I think the the starting point was that we would like to spend less time in gaming, spend more time working in studies which seems like a rational target.

Matteo Anversa: We based on what we are talking to our teams on the ground literally a couple of weeks ago. I am not, we are not seeing the growth in gaming in China being substantially reduced for the foreseeable future. Great question.

Alexander Duval: Time for one more question.

Unidentified Participant: Just in terms of thinking about the balance sheet, when you think about in terms of cash returns, we do that cash returns to growth opportunities.

Matteo Anversa: Yes. So the question is the cash on the balance sheet, so more paraphrasing capital allocation, basically. So we are very happy with the cash that we have in the balance sheet. I think it's good to have a strong balance sheet, particularly when you have this uncertain world that we are living in. Our capital allocation strategy is unchanged.

So first priority for us is to reinvest the cash that we generate into the organic growth of the company through NPI we discussed. Our return on investment capital is 25%. So that's money really well spent. Second, we want to continue to increase the dividend. So we did that now consistently for the last couple of years. The last one was in September.

Third, M&A. So we put some boundaries. We are not looking for large transformational deals because we are very confident about the organic growth of the company. But we are more looking for tuck-in, bolt-ons that can expand our product reach in the areas of work and play where we play in. Then fourth is returning cash to the shareholders in the form of share repurchases, and we are committed to the share repurchase plan that we announced last year at Investor Day which is 2 billion in 3 years. So that's really the framework.

Alexander Duval: Great. Well I think we're out of time. So Matteo, thank you so much.

Matteo Anversa: Thank you so much.

Alexander Duval: Extremely interesting discussion, and thank you all for joining.

Matteo Anversa: Thank you very much. Great question.