

Company Name: Logitech
Company Ticker: LOGN SW
Date: 2019-10-22
Event Description: S1 2020 Earnings Call

Market Cap: 6946.7688455
Current PX: 40.1300010681
YTD Change(\$): 11.0200010681
YTD Change(%): 37.856

Bloomberg Estimates - EPS
Current Quarter: 0.844
Current Year: 2.114
Bloomberg Estimates - Sales
Current Quarter: 911.875
Current Year: 2962

S1 2020 Earnings Call

Company Participants

- Ben Lu, Vice President, Investor Relations
- Bracken P. Darrell, President and Chief Executive Officer
- Nate Olmstead, Chief Financial Officer
- Guerrino De Luca, Executive Director, Former Chairman of the Board and Chief Executive Officer
- Unidentified Speaker,

Other Participants

- Asiya Merchant
- Analyst
- Joern Iffert
- Paul Chung
- Jurgen Wagner
- Ananda Baruah
- Michael Foeth
- Tom Forte
- Nehal Chokshi

Presentation

Operator

Good day and welcome to the Logitech Second Quarter Fiscal 2020 Financial Results Conference Call. At this time, all participants are in a listen-only mode. We will be conducting a question-and-answer session and instructions will follow at that time. (Operator Instructions) This call is being recorded for replay purposes and may not be reproduced in whole or in part without written authorization from Logitech.

Now, I'd like to introduce your host for today's call, Mr. Ben Lu, Head of Investor Relations.

Ben Lu, Vice President, Investor Relations

Thanks, Zach. Welcome to the Logitech conference call to discuss the company's financial results for the second quarter of fiscal year 2020. The press release, our prepared remarks and slides, as well as a live webcast of this call are available online at the Investor Relations page of our website, ir.logitech.com.

During the course of this call, we may make forward-looking statements including with respect to future operating results that are made under the Safe Harbor of the Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties and actual results could differ materially as noted in our quarterly and other filings with the SEC. The company undertake no obligation to update or revise any forward-looking statements as a result of new developments or otherwise.

Please note that today's call will include results reported on a non-GAAP basis. Non-GAAP financial results have inherent limitations and are not meant to be considered in isolation from, or as a substitute for or superior to GAAP results. Our press release and slide provide a reconciliation between GAAP and non-GAAP numbers and are posted on

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our IR website.

We encourage listeners to review these items, unless noted otherwise comparisons between periods are year-over-year and in constant currency. This call is being recorded and will be available for replay on the Logitech website.

Joining us today from California are Bracken Darrell, President and Chief Executive Officer; and Nate Olmstead, Chief Financial Officer.

I'll now turn the call over to Bracken.

Bracken P. Darrell, President and Chief Executive Officer

Thank you, Ben. And thanks all of you for joining us. We delivered a solid Q2 with strong execution and what is obviously a volatile time in the world. There are US-China trade wars, volatile currencies and Brexit. Those activities are so newsworthy and so noisy, that you can temporarily lose site of the more relevant and proportionally bigger long-term trends affecting us. The emergent of content creation as a lifestyle and a career choice by hundreds of millions of people, and maybe one day billions.

The establishment of gaming as a new super sport, virtually all over the world, that will eclipse traditional sports in most dimensions if not all. And the explosion of video communication, the large rooms to small rooms from phones to homes, we're moving from video calls as the exception to video everywhere in our lives.

We have consistently managed our business well and this quarter is no different. We delivered 6% constant currency growth, despite putting through the first widespread U.S. price increases in more than a decade. We improved our gross margins despite tariffs and currency exchange rate headwinds. In fact, we achieved record operating profits for a September quarter despite these factors. And we generated 25% more operating cash flows in the same quarter last year. Performing at this level in a mark with that much turmoil could be seen as very good. Since the trade wars began, we've managed through tens of millions of dollars of impact to our business. That's what you've come to expect from us, that's what we expect of ourselves.

Going forward, we will see the impact of new tariffs implemented in September and more projected in December. But again, these types of macroeconomic challenge is a part of why you invest in us? A recession resistant portfolio of categories and countries, and a practice of no excuses.

So, I would say it's a solid quarter where we managed our business and operations well despite the challenges. The macro environment is not getting any easier, but like we've done many times in the past, we expect we manage through all this and deliver our targets.

Now let's dig into the performance of our different categories many of which tap into these trends. Video collaboration sales grew 60% in Q2 to another record quarter. Our recent innovations Rally, a camera system for a large conference rooms, and Tap, a one touch controller that enables easy and fast access to meetings are both delivering incremental sales on top of the continued growth we're seeing from our huddle room MeetUp products.

Now because the enterprise nature of our business our quarterly sales growth can be uneven at times. But I wouldn't expect the 60% growth rate we just saw this past quarter to continue. Just like we said in prior quarter that the 28% growth rate in Q1 was unusually slow due to the sell-in versus sell-out dynamic of the business.

This past quarter strong growth is a clear testament to the tremendous market opportunity ahead of us, to a video enable all the conference rooms in the world. Such momentum puts us well on track to achieve the \$1 billion VC sales potential, that we laid out back in our Analyst Day in March.

Last quarter, we announced Sync Beta, our device management platform, we've had great momentum with close to a hundred companies testing and giving us feedback. We're headed to general availability by the end of the year, so stay tuned on that one.

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We love the video conferencing business, it's got all the things we love in it. Cloud platforms we can enable, the need for regular innovation and great design and a breathtaking market opportunity, in this case a 100 million rooms plus.

Our PC Peripherals business delivered a solid quarter of 6% growth. Pointing Devices grew 5% with contributions for both existing and new products. Our MX Vertical mouse that was released over a year ago continue to grow double-digit, while our Pebble mouse continues to have great sales in China. It's doing so well, that we're wrapping up distribution of it across the rest of Asia and even into EMEA. Our recently introduced MX Master 3 is a redesigned version of our Flagship premium mouse, that one major blog that are the major blog the verge described as making the best mouse even better. I love that line.

In fact, there was even a tear down the inner workings the MX Master something you don't see often for just a humble mouse, but something that's common for devices like the iPhone. This speaks to the technical and engineering prowess that our team has been able to achieve and put into our products.

Keyboards and Combo sales increased 7% in Q2, representing the seventh consecutive quarter of growth, and with growth from all three regions. Our new slim profile MX Keys wireless keyboard has received great reviews of PC World giving it an Editors' Choice Award and calling it easily one of the best wireless keyboards. We also saw great contributions from several other new keyboards that are more limited in their distribution.

Let me touch upon this for a moment. One of the important benefits of our diversified product portfolio and our global go-to-market capability is our ability to roll out new products in a limited way to see how they do. If they resonate well with consumers like the Pebble when it was first launched exclusively in China, then we will expand distribution to other countries. If the product doesn't do as well as expected, then we'll keep them in limited distribution. This is one of the ways we can manage the risk of our portfolio.

Turning to Gaming, Q2 sales were up only 2%, similar the trends we saw last quarter. With continued tough comparison headsets offset by double-digit growth and all our other gaming products. The headset comparisons remain top, but we do get -- but do get easier as we head into the first half of calendar 2020. So I'd expect the growth momentum in gaming to improve with more normalized compares as we exit this fiscal year.

But it's easy to miss the big picture here, and that's with the underlying gaming market is thriving and sales of several our new products are too. Pro X Headset with Blue Voice, our G815 and G915 wired and light speed wireless gaming keyboards are all off to a great start. Tablet and other accessories declined 6% this quarter. We maintain strong growth in our education channel offset by a decline in our traditional retail business.

As we'd anticipated last quarter, Mobile Speakers were down 24% in Q2, largely due to the timing of when we launched BOOM 3 and MEGABOOM 3 in Q2 of last year. While the overall mobile speaker market remains soft, continues at -- our conditions appear to be stabilizing somewhat, getting incrementally neither worse than better. This provides a more favorable environment for us to continue to innovate across new experiences and products, as well as expand into new channels. Overall, we expect our mobile speaker sales to be in line with the forecast we provided at our Analysts Day, which called for a slight decline this fiscal year. Audio and Wearables were up 12% with Blue Microphones growing double-digits and Jaybird flash in [ph] the quarter.

Now, let me turn the call over to Nate, to walk you through our financial measures.

Nate Olmstead, Chief Financial Officer

Thanks, Bracken. I'm pleased with our overall execution and the financial results we delivered. We grew sales 6% to \$720 million and non-GAAP operating profits grew 6% to \$89 million. Drilling down further, we grew sales across all regions, gained share in key segments and improved gross and operating margins, while investing in our strategic priorities.

With regards to our top-line performance in Q2, overall growth was unfavorably impacted by approximately one point as certain U.S. customers took time to adjust to our recently implemented price increases. We saw pockets of delayed

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orders in a few product categories, as a result of our relatively modest pricing actions, those increases did however help offset some of the tariff costs.

Moving to margins, our Q2 non-GAAP gross margin improved by 80 basis points to 38.4%, the highest we've achieved since Q4 fiscal '17. Favorable product mix and cost savings initiatives more than offset the unfavorable year-over-year impact from tariffs and currency exchange rates.

Now as we look into the back half of our fiscal year, we will see incremental tariff pressures on our gross margins as List 4a tariffs were just implemented on September 1st, not have a material effect on our Q2 financials. I expect about one point of margin impact sequentially in Q3 from these new tariffs net of our ongoing mitigation efforts.

Our non-GAAP operating expenses increased 7% to \$187 million, with sales and marketing up 9% and R&D spend up 6% as we continue to reinvest gross profit growth back into our business to capture long-term growth opportunities.

At the same time, we maintained our G&A spending at around \$20 million again this quarter. So with a disciplined investment strategy funded by top-line growth combined with favorable product mix, we delivered another quarter of operating margin expansion, while marching toward our long-term potential as a company.

Now let me talk briefly about our cash flows. Cash flow from operations was a \$107 million in Q2, a nice \$22 million increase versus the prior year quarter and helped by strong inventory management. Despite our typical inventory build into the holidays, our overall inventory balance declined \$20 million versus last year and our inventory turns of 5.3x improved as 4.9x a year ago.

Our full year cash flows tend to be heavily skewed toward the second half and we are still targeting full year operating cash flow to roughly equal our full year non-GAAP operating profit. In terms of capital allocation, fade out a \$124 million in the quarter for our annual dividend up roughly 10% versus last year.

And with that, I'll turn it back to Bracken.

Bracken P. Darrell, President and Chief Executive Officer

Thank you, Nate. We just wrapped up a solid first half and are optimistic about the second half of the year as we head in the holidays. So today, we're confirming sales growth of mid to high single-digits in constant currency and non-GAAP operating income of \$375 million to \$385 million. Our guidance includes the tariffs that have been implemented to date.

And with that, Nate and I are very ready for your questions.

(Question And Answer)

Operator

(Operator Instructions) Asiya Merchant with Citigroup. Your line is open.

Asiya Merchant

Hi, good morning gentlemen. And congratulations, strong quarter, given all the volatility that Bracken talked about. So, can you guys maybe talk a little bit about you know, as you look in the second half, the comps I think get easier, but then you talked about all the volatility, the recent price increases and the tariffs that are going in as well. If you could maybe hope and just give some put some take as you look in the second half, easier comp against all this macro and tariff how you guys are thinking about it. And which category do you feel most confident about as we look in the back half of the fiscal year?

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Bracken P. Darrell, President and Chief Executive Officer

Yes. I'll jump in first and let Nate out. I think in terms of our comps. I'm -- I think the comp, we have in Gaming is probably the one that's going to moderate especially as we enter next fiscal year.

How we expect to continue do you have --good performance in are VC business solid performance in are CMP business I think the Gaming business will be strong especially, when you net out the effective before Fortnite [Ph] effect from last year.

yes I think the key story is the end of the back half year is were, we can a continue to manage against the currency and tariff impacts and --we are--as you no more tariff will be showing up as we exit this fiscal year, that's not assuming yet before be tariff come through in late December, so CEO knows and currency I would not expect change so yes, I think as we go through Q3 and Q4 you--every quarter different but I don't no expect the story be dramatically different --anything you add--

Analyst

No I thing you right I mean we are continue invest VC sells force have some great new product launches this last this last quarter and gaming -- continued good performance outside of head set but you laded correctly so I think so back half of the year is really comes down again strong exultation focus on the plan that we have and deliver on those-- you hear

Asiya Merchant

And then the detail in--need on the gross margin that you can help may be clarify that more expecting one point negative impact in net that is again favorable product mix to counting in the back half?

Bracken P. Darrell, President and Chief Executive Officer

Yes if you look sequentially Q2 to Q3 I expect about one point of headwind and that sequential compare Q2 to Q3 from the so it implement in September those didn't have an impact on -- Q2 because they accrued later in the quarter so see some increase pressure there sequentially Q2 to Q3 from those September tariff we have plans obviously to try [Ph] migrate those things but I do expect to some of that pressure flow to through into the P&L in Q3.

Asiya Merchant

An I thing retailer take how there retailer responding to the price increases. They stinking or they kind of moderating and inventory and the last one for me. Thank you

Bracken P. Darrell, President and Chief Executive Officer

yes actually so far are first --price increase in the US an over a decade, you saw what you would expect some of the -- some of their retailer initially to --in more inventory that effect little bit this quarter but that in end as the market generally expect price increases those retailer thought and business is come back and that's kind of normal and rising price--

Asiya Merchant

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Yes. Thank you.

Guerrino De Luca, Executive Director, Former Chairman of the Board and Chief Executive Officer

Thank you very much Asiya.

Operator

Joern Iffert with UBS. Your line is open.

Joern Iffert

Hi. Thanks for taking my questions. And the first one is please on your guidance when the new lists on tariffs is taking place from December. It is now reflecting your guidance or do you have been to reassess your guidance risk? You see results, which will release in January. This would be the first question.

Second question is please if I look on your organic sales growth, it seems small as assessing is coming from I am be see now. Do you expect us to become more balanced and over the next 12 to 18 months and also hear more medium-term questions. If I look on your historic growth drivers like it was tablets and was mobile speaker. And then it was gaming now it's VC, but assessing slowed down at some point in times of what makes you confident you really can maintain you are high single digit organic growth guidance in the next one or two years here. Yes, and this would be the first questions, please thanks.

Bracken P. Darrell, President and Chief Executive Officer

Okay. Well, that's a good list at your. Nice job. So let me jump into the organic sales growth in the balance. I think,-- we have a we have a portfolio, we love having a kind of a broad portfolio because both of businesses and also of geographies.

So we're one of the most globally dispersed company's in the world were also, one of the most we also have a really great balanced portfolio across different regions. So when one categories had going through strong growth others will might slow down but they come back. That pattern is repeated itself, over and over again across the 7 almost 8 years I've been here. And so, yes do I think it will become more balanced over time? Yes, I do you are in I think yeah, as you go through and look quarter, after quarter, after quarter, I think you'll see more balance in our growth it will spread out. We still we had really nice growth in the CMP businesses quarter up 6% right in line with the total business and I think reflects it more that business continues to be very strong and as you said VC was super strong. Gaming's a little softer now that will come back again, especially if you go into next year when the Fortnite effect is over.

So, as you look out a little further, the tablet mobile speaker dynamic has we've seen this before. So, that we've seen different categories slow down, other categories pick up steam, we're always looking at new categories were both organic and inorganic so this is all contemplated in our long-term targets of upper single-digit growth, so do I expect to be able to continue to deliver that? Yes, I do.

In terms of the list for be tariffs that you talked about December. We never incorporate those in until they're officially confirmed, so they're not reflected down our guides. Our job is to go in and really try to figure out, how can we offset any of those things and we're certainly looking out now saying, okay take about how about we do that pricing, re-locations, straight cost reductions. So far, they're not in but we'll certainly be offered if they do get implemented.

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Unidentified Speaker,

Yes, I agree Bracken and since they're being implemented, if they were implemented as I guess currently communicated in middle of December would not have an impact really on our Q3 P&L .We may look to pull in some inventory ahead of that to try to offset costs increases so we may see a little bit of inventory build ahead of that, but otherwise really no P&L impact expected in Q3.

Joern Iffert

Okay, many things and maybe just the last question on M&A Is it likely that we maybe see a really a new cross category? You potentially will acquire, which can be a similarity to kind of VC or you are gaining in his early years.

Bracken P. Darrell, President and Chief Executive Officer

Yes. We're always looking at M&A, and we're also always working organically on new category. So, we've got five to ten seeds at a time and development internally that most of which, you don't know about and we don't share publicly and many of which don't get out the door and in a over 6 to 12 month time frame. So, there's that's why we don't share them. And then M&A, we're always looking, we've always got targets out there and I'm completely doubling your question. So there you go.

Joern Iffert

Thank you.

Unidentified Speaker,

Okay, thank you.

Operator

Paul Chung with JPMorgan.. Your line is open.

Bracken P. Darrell, President and Chief Executive Officer

Hi, Paul.

Paul Chung

Hi guys. Thanks for taking my questions. So first up on video collaboration, looks like you're seeing pretty nice return on your expanding your sales team. So, where are we are we in that kind of expansion of your salesforce and how should we think about kind of the pace about text spending there and then secondly, are you starting to see better traction for some your higher ASP products and how you kind of gaining share from your existing players there and then I have a follow-up.

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Yes obviously in terms of what's our investment in say our salesforce where are we I would say that as a work in progress. We're going to keep investing and keep building and we're certainly nowhere near finished but we have as you said we've made a lot of progress. So we feel good about the investments we're making in there and we're going to keep investing.

How to pull a point in time on that you I'd say it'd be hard to say we're certain percentage done, because we're certainly we view this as a long-term investment trend over to keep going. Now in terms of tracks, our high-raise products we could do you see Rally for example, had a really strong quarter so did Tap both of which are pretty highest ASP products. And those are medium-sized to large huddle rooms and meet up continues to do super well too.

So I'd say broadly and by the way, all those are really high ASP products for little -- Logitech who sells a lot of my so, we love the whole category and certainly within that subcategory video collaboration with the high in proxy deal well.

Unidentified Speaker,

I think, on top of that two idea, just look at some of the customer metrics that we're now able to track related to that VC business, we are seeing deeper penetration into some of our installed base accounts were able to expand and work strategically with them to add some of those higher end products and those larger solutions, so very nice favorable trends in net respect as well.

Paul Chung

Okay, great. And then, my last question is on streamlabs. So I know you mentioned so I could be material in fiscal year 20. I read somewhere the have around, 1.6 million users and 480K mobile users. But you just helped us kind of frame the opportunity here and the rationale behind that the acquisition and then, how can you kind of scale that existing user base? What's the kind of revenue potential and margin impact and then you know, what are your kind of expectations or kind of cross selling some of your existing products, and then lastly is there kind of shift in your acquisition strategy, is there a preference now to kind of find smaller software tuck-ins that are potentially more creative to gross margins. Thank you.

Bracken P. Darrell, President and Chief Executive Officer

Thanks, Paul that's a great one. Thank you for offering that question because we wanted to talk about super excited about Streamlabs, the first sizable acquisition we've done that is the really has no hardware component at all. And I think if you say how does that strategically fit into what we're doing? It's really a direct hit, if you look at what we're doing from a broadcasting and streaming perspective we make the Webcams, we now have the Microphones, we even Keyboards and mice that are used by streamers to put themselves out there and what this is the layer that sits between the streamer or between the podcaster and twitch or any of the other platforms that people are using. So it's a really, really cool addition to our business in a way of for us to expand into services. As you said, there are millions of people using this platform, so it's very -- it was really a great opportunity.

In terms of cross-selling et cetera, early days we haven't even closed the acquisition yet, I hope that happens in the next few days. So we're just about there but we'll see, I think the key is to make sure that business is successful and I think the way that business is successful, but is by enabling people to either have that lifestyle experience of streaming or to actually generate some income revenue or even a job out of it. And that's what those guys are doing today, we want to keep enabling them and their geographic dispersion continues to be an opportunity we think as does just the sure number of people doing them and even if we see other gross that growth opportunities as well, I won't get into here. So, I'm optimistic about them, excited about it's hard for us to mentionalized you mentioned it. Yes, the gross margins there are significantly higher than our core business so that's pretty cool too. And I think you'll hear more from us overtime on this business and others like it.

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Paul Chung

Okay, great.

Bracken P. Darrell, President and Chief Executive Officer

Thank you Paul.

Operator

Thanks Paul. Jurgen Wagner with Megan First Bank. Your line is open.

Guerrino De Luca, Executive Director, Former Chairman of the Board and Chief Executive Officer

Hey, you're good.

Jurgen Wagner

Yes. Hi, thank you for taking my question. And you gave us the gross margin hit from the additional tariffs. What would the gross margin impact for the remainder of this fiscal year be from FX, if the US dollar zero space where it is today preandum. And your follow-up question on M&A and organic growth. We've seen that assets with a larger focus on enterprise solutions have become a bit cheaper over the last year or so. And at what point would you consider buying into the enterprise space to re-accelerate your organic growth that's coming down currently. Thank you.

Bracken P. Darrell, President and Chief Executive Officer

Okay. Let me answer that first level we can you let nice dig into the FX question, we look at a very broad range of targets. categories were in today categories were not publicly and today, and that would include the enterprise space, we love the enterprise space as -- I mean, it's pretty clear from our results over the last couple of years that it's an area we believe in, we're investing in, and we're learning a lot from and building capability and both for a technology standpoint and also from a go-to-market standpoint. So, absolutely we would consider additional M&A in that space. But we but, we continue to be excited about the consumer business, there are more and more spaces we feel like a relevant to us and the latest when we talked about is broadcasting and streaming. So, that's a cool opportunity for us a little bit like gaming probably was a few years ago and we're excited about that too. Now, as for the FX, you want to jump into that one.

Nate Olmstead, Chief Financial Officer

Hey, was your question on gross margin.

Jurgen Wagner

Oh, yeah. Sorry.

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Nate Olmstead, Chief Financial Officer

Yes. FX is about \$10 million a quarter year-over-year impact for us at current exchange rates.

Jurgen Wagner

Okay. Thank you.

Bracken P. Darrell, President and Chief Executive Officer

Thank you, Jurgen.

Operator

Ananda Baruah with Loop Capital. Your line is open.

Bracken P. Darrell, President and Chief Executive Officer

hey Ananda

Ananda Baruah

Hey, good morning guys. Appreciate you guys.

Bracken P. Darrell, President and Chief Executive Officer

Good morning.

Ananda Baruah

-- Hey just a couple from me just from a macro perspective Bracken, you guys -- you obviously sound pretty confident about the tempo of the business. You also mentioned just open the call ongoing macro-headwinds. Have you seen or experienced you feel like you're experiencing anything incremental over the last 90 days with regards to macro impact, and just in doing the calculations it seemed that the Q over Q growth, sequential revenue growth in September wasn't as strong as the last couple of years and so is there anything to that or is our is that just sort of business, sort of mixed dynamics like that? Have a couple follow-ups to thanks.

Bracken P. Darrell, President and Chief Executive Officer

Paul, let me respond to the second one. I would say in terms of incremental back row. No, I don't think there's anything really significantly you don't know about any of those. So the tariff changes are as you are kind of what you'd expect. I don't think from macroeconomic environment, we see any real difference over the last nine days I think it's very similar. A lot of people are talking about recession, we're we view ourselves as kind of a recession resistant company, because the fact that we've either got products that are really relatively low price and they're good escapes or good to make you more productive at home or anywhere else you are or, they're actually help you avoid needing to travel so much and you can save money if you're a company. So I don't know whether there will be

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recession at some point surely there will be but we're we feel really good about our business in that context, if it were to come.

Nate Olmstead, Chief Financial Officer

Yeah, I think regarding the seasonality, you know, I think you got to combat to just think some of the product dynamics, with extremely strong gaming growth in the prior year and what that did to sort of disrupt what you might quote unquote call, typical sequential growth rates, new product introductions also get into your baseline. So you have some of those impacts. I think this quarter was roughly in line with what we expected again other than the VC probably just being a little bit stronger than what we had in our models. But again, that was somewhat just offsetting Q1 being a little bit slower just because of the timing of sale in versus sale out in that business, but I didn't see anything really sequentially that looked-- that was surprising to me.

Jurgen Wagner

Okay. That's great and helpful context. And then just don't just moving over the gaming real quick. You guys bragging just bigger picture you clearly sound, as enthusiastic have in the past about the market opportunity. Just for fiscal 20' and you sound sort of enthusiastic about the second half and the ramping in the fiscal 21'. Just for fiscal 20, do you feel that the market at the fortnight effect is having a greater impact, it's a greater headwind than you anticipated or do you think that you get back up into that forecasted range or there's at least potential to as you go through the second half of the year.

Bracken P. Darrell, President and Chief Executive Officer

Well, I think the fortnight effect was huge. I mean really was, if you look at any of our any of the quarters we've had kind of when you add the two years together, it looks like a more normalized growth rate. But it certainly was a big effect and I'd say it was strong, I mean really strong.

Yes. It's the good thing about that is that I always feel like I always love it when you have a hard compare because that means you're going to you're going to emerge from that then the compares get easier. We're pretty close to that. So I think, as we going to fiscal 2020, I'm excited about the fact that we had that compare this year and won't have it next year. And as you said, I am really optimistic and about the long-term secular growth trend here I don't see anything about that's not going to continue you know, we get calls every day or almost every day every few days either calls or letters or somebody is interested in putting their gaming program into a high school or into a university, or small college, and I think that both well just says that they're the fundamental engine here continues to grow and drive, and that young people are coming into gaming as a sport.

Jurgen Wagner

Okay, great. And I guess let me ask a bigger picture one Bracken . You feel any differently, about the gaming opportunity than you did at the start of this year.

Bracken P. Darrell, President and Chief Executive Officer

No. No, I really no, I really don't. I feel exactly the same, I think it's just a great opportunity for us and for a lot of other companies.

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Bloomberg Estimates - EPS
 Current Quarter: 0.844
 Current Year: 2.114
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Jurgen Wagner

Okay, great. I have one last bigger picture strategic question, really is sort of streamlabs is a part of fits into this and just kind of broader unified communications as a service you cast. So, as distinct from a little bit distinct from what sort of what took place of last year. Any way you could give us context around with it is the potential of the opportunity is to develop more of a service offerings aspect of the portfolio's, stream labs is a toe in the water there. But services like that could become increasingly very large unified communication -- you cast is obviously service, service kind of been oriented. What's the appetite to kind of dig into that pond as you go forward, whether it's those or others that were not aware of yet as you evolve the model?

Bracken P. Darrell, President and Chief Executive Officer

Yes, I think the -- from the Streamlabs as a consumer service opportunity. And Sync is a B2B service opportunity, that we're your part of a B2B service opportunity they're really starting now where you can actually track and monitor conference room this room equipment or and confirm activity. And we think that's a place that we can and should be playing. I don't want to over set expectations, I think we're going to do this at the right pace as we build capability both organically and in organically as you saw with streamlabs, but I do think, building and service opportunity inside of our business on the back of a very strong heart continued hardware capability is in our future and you can expect more from us there.

Ananda Baruah

Okay, great. Appreciate the context thanks a lot guys.

Bracken P. Darrell, President and Chief Executive Officer

Thank you.

Operator

Michael Foeth with Vontobel. Your line is open.

Unidentified Speaker,

Hey, Michael.

Michael Foeth

Yes, hi, good afternoon. A few question my side, the first one is regarding your VC business again. Can you have any comment on how your visibility is he is on the sales development in VC And how that differs from the rest of your portfolio?

And the second question would be maybe if you can give us a general initial comment on how you see channel inventories going into the holiday season? How is it building up? Have you already seen a lot I mean, I think that the selling and sales through that you showing is not suggesting any significant inventory building yet. And then the third and final question would be, regarding tariff mitigation measures. You have mental price increases obviously, but are there any other specific measures that you have taken during the quarter that you can comment on?

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Bracken P. Darrell, President and Chief Executive Officer

Yes, so let's go through those. I'm going to tell you that they talk about the channel inventory, but I think you're generally described it correctly. I don't think you see a big impact there. In terms of tariffs and mitigation, we missed for within the quarter, we are relocating some manufacturing, we continue to drive our costs very hard down. I mean, I'm personally impressed by and I don't usually -- ourselves on the back of public, but I'm personally impressed by her ability to manage gross margins in the context of both currency and tariff. So, I think we've done a really nice job of our team has done a really nice job, of relocating the right things and doing it quickly and doing it well, so there's no hiccup in supply. So, I think that's been good. We as I've said in July we implemented and -- end of July we implemented the first pricing we have in a decade very long time in the US. We've done pricing around different parts of the world. So, I don't want to overstate the difficulty factor though, what we're doing and we're ready to do it again as we need to.

VC visibility. VC does have a little better visibility than our core business in a way, because we use salesforce like everybody else in enterprise space, and so we have a little better picture of the activity that's coming. And so that gives us a channel or a sort of profile of the way sales are developing. And I think you'll see it, we will see that see that improve our ability to look into the future will improve over time as we spend more years in this business, but it's a little bit better and we're optimistic about that and I think the future of VC is a matter of probably said enough about that today, but the future of video inside of all companies is bright and by building salesforce, building capability and they go-to-market structure we're going to get better and better visibility into where those best opportunities aren't exactly what you expect for us quarter-over-quarter. We don't guide-quarter-quarter, but we have better visibility than we have in the past already.

Jurgen Wagner

Can you maybe just quantify how many months visibility you have?

Bracken P. Darrell, President and Chief Executive Officer

I would be hesitant to do that. We have talked about that in the past. But I'd say that, our visibility is getting better and better as you would expect with more time that the business.

Jurgen Wagner

All right.

Operator

Thomas Forte with DA Davidson.. Your line is open.

Unidentified Speaker,

Hi, Thomas.

Tom Forte

Thanks for the question. Hey, I just want to come back to the gaming business. Can you talk about the product life cycle in the gaming segment for headsets, other segments in the category and how you're anticipating the effect of the gaming segments, of the new consoles are expected to roll out in the backhalf of next year. Thank you.

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Bracken P. Darrell, President and Chief Executive Officer

Yes, so first of all, I think the product life cycle in gaming is faster than obviously is in our CMP business and we launched several good headsets. Just recently, the new pro Wireless, which is a really cool product. And I think you're going to see a lot more activity in this space and -- in -- and I would expect that to get to -- I would expect that you'll continue to see ramp and activity in the -- in all areas praise of gaming as time goes on, but particularly has its base in terms of the console cycle. I think it remains to be seen the console refresher coming in the past. The console refreshes came with no compatibility to pass products, this time that's different. So I'd say that both kind of that's a good counterweight to the normal trend, which would be that you have a lower sales rate in console, as a new console comes in. So this time though the since you've got backward compatibility, I think it may be different. So, anyway the bottom line is I think our over headset business will improve as we go through this especially in the first half of next year and our overall gaming business will improve after we escaped from those fortnight compares.

Tom Forte

Great. Appreciate it.

Bracken P. Darrell, President and Chief Executive Officer

Thank you.

Operator

[Operator Instructions]. Nehal Chokshi with Maxim Group. Your line is open.

Unidentified Speaker,

Hi, Nehal.

Nehal Chokshi

Yes. Hello, how you doing and thank you. So nice results and I was wondering of the constant currency of growth that you're seeing. How much of that was due to the price increases that you guys were able to implement successfully?

Bracken P. Darrell, President and Chief Executive Officer

I'm not sure that I would attribute anything really to the price increases for say that if you assume kind of elasticity of one-to-one, it's probably pretty flat. I'd say the constant currency growth is really just almost purely organic and not related to price increases.

Nate Olmstead, Chief Financial Officer

In fact, as I mentioned earlier. I actually saw about a 0.1 unfavorable impact just as some of our customers did to lay some purchases and sort of use their existing channel inventories in the quarter. So, I think there was actually a little bit headwind, but its tariff or as Bracken mention. And they frank the price increase, actually went about as we expected

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and it did help offset some of the cost increase.

Nehal Chokshi

Yes. So that one point impact that you saw Nate, that implies in the price of us to see less than 1.0 then.

Nate Olmstead, Chief Financial Officer

I'm varied a lot by product. I would say based on the magnitude of the price increase and by the different product, but sold by the customer,

Bracken P. Darrell, President and Chief Executive Officer

but I'll jump in -- I think what neighbors referring to with less about -- on pricing and more about channel impact. so you have customers who just don't buy, they don't like the look of the new pricing in the beginning happens every time we do this anywhere in the world, and then after a period of digestion where the markets changed the prices are starting to lift in the market then they come back in. And so it's not really in last just three questions more of a channel inventory temporary impact question, and that's largely on its way to mitigating right out.

Nate Olmstead, Chief Financial Officer

I think also to just see uncertainty sometimes around this tariffs, right that's in the news quite often as I think you have some customers who may be willing to wait a little bit and see if maybe things will turn in their favor and then they can buy again it at lower prices, so lots of dynamics.

Nehal Chokshi

Right. Understood. And presuming that the tariffs don't go away. When how long does it usually take for the customers to accept the new prices. And say okay and they go ahead in quarter.

Bracken P. Darrell, President and Chief Executive Officer

Yes. the most take that right away, there are a few that will slow down or stop buying some products and then over the 30, 60, 90 days it gets back to a normalized buying level. And I think, we're on our way there, we're not quite there yet but probably sometime in Q3 will be a 100% there.

Nehal Chokshi

Okay. And then can you actually give a little bit of color as far as what was the magnitude of the price increases to offset the tariffs?

Bracken P. Darrell, President and Chief Executive Officer

you know it's a because of the competitive environment were in I'm a little hesitant to do that and in any level but you know, we didn't fully reflect tariff pricing in here at all and but we put in level that we thought was reasonable and I'll stop at that.

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Nehal Chokshi

Understood, all right. So, gaming's been flat your viewer which is actually incredibly impressive given the really tough compares I think you guys have a pretty good view in to what does the install base actually look like in terms of growth? Could you share your perspective as far as what's the gaming accessory install base growth rate over the past six months?

Bracken P. Darrell, President and Chief Executive Officer

I'm not sure what the install base growth rate would be. I think the underlying growth rate though. If you take the headset business out, we're still growing double-digits in all three categories all the categories of gaming outside of that, so that suggests pretty strongly the installed base continues to grow around the world and I'm quite sure that it does and I imagine you can expect that to continue.

Now, the opportunity, big opportunity right now, is the fact that we sorted so many headsets and probably first time gamer headsets last year, that there's an opportunity to upgrade those headsets over the next couple of years, and that's why we launched premium headsets this year. And I think will start to see those take hold as we go into this especially in the next year. But they're doing well right out of mitigate and that's probably because there was an opportunity.

Nehal Chokshi

Right. Finally, do you see any signs that channel the inventory is elevated on the gaming site?

Nate Olmstead, Chief Financial Officer

Challenging stories are in good shape heading into the holiday, Bracken mention we had some selling from the new headset, so it was pretty modest. So everything looks clean.

Nehal Chokshi

Great. Thank you very much. Thank you so much.

Bracken P. Darrell, President and Chief Executive Officer

Thank you.

Operator

Thank you. It appears there are no further questions. At this time, I will turn the call back over to Mr. Darrell for closing remarks.

Bracken P. Darrell, President and Chief Executive Officer

Well, thanks everybody for joining us. It's an interesting time in the world and it's an exciting time at Logitech. We will see you in Q3. Thank you

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Operator

This concludes the Logitech second quarter fiscal 2020 financial results conference call. Thank you for your participation. You may now disconnect.

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