

Q1 2021 Earnings Call

Company Participants

- Ben Lu, Vice President, Investor Relations
- Bracken P. Darrell, President and Chief Executive Officer
- Nate Olmstead, Chief Financial Officer

Other Participants

- Alex Duval, Analyst
- Ananda Baruah, Analyst
- Andreas Mueller, Analyst
- Asiya Merchant, Analyst
- Joern Iffert, Analyst
- Michael Foeth, Analyst
- Paul Chung, Analyst
- Tom Forte, Analyst
- Unidentified Participant

Presentation

Ben Lu {BIO 19785128 <GO>}

Good morning. Welcome to Logitech's video call to discuss our financial results for the First Quarter of Fiscal Year 2021. Joining us today are Bracken Darrell, our President and CEO; and Nate Olmstead, our CFO.

During this call we may make forward-looking statements, including with respect to future operating results under the Safe Harbor of the Securities Litigation Reform Act of 1995. We're making these statements based on our views only as of today, July 21st. Our actual results could differ materially and we undertake no obligation to update or revise any of these statements. During today's call we will discuss non-GAAP financial results. You can find a reconciliation between GAAP and non-GAAP as well as more information about our use of non-GAAP measures and factors that could impact our financial results in our press release and our filings with the SEC including our most recent annual report and subsequent filings. These materials as well as our prepared remarks and slides and webcast of this call are all available on the Investor Relations page of our website ir.logitech.com. We encourage you to view these materials carefully. Unless noted otherwise comparisons between periods are year-over-year and in constant currency and sales or net sales. This call is being recorded and will be available for replay on our website.

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I will now turn the call over to Bracken. Bracken, your line is now open.

Bracken P. Darrell {BIO 3403495 <GO>}

Good. Thank you, Ben. And thanks to all of you for joining us. It's nice to see so many familiar faces as usual. Early in my time with Logitech, a lot of the analysts, as few of you on this call described our business as one in which we needed to continually catch the next wave like we were surfing a series of waves, like a surfer at the beach. I actually never liked that analogy. I always felt it suggested, we seek short-term trends like the fashion business, we don't. We make our investment decisions based on long-term trends, very long term trends. These long-term trends unlike a surfers waves don't subside. They enable us to travel to a completely new era.

COVID-19 and its repercussions have dramatically accelerated the path to a new era, as is if someone hit the hyper-speed button accelerating us to a point when the secular trends that we focused on for many years have a kind of fundamental part of daily lives. Video everywhere, one of our secular trends seemed like a long way off when we started to say it a few years ago, because of COVID-19 video calls now for most people have simply exploded. And where are most of them done? At home. Imagine when people return to the office.

The second trend, a big secular trend is work from anywhere, which was kind of a struggle even up to 6 months ago. We knew it was coming, most companies knew it was coming, but companies were stubbornly accepting work from home Friday's and remote workers on an exception basis. As we sit on this call right now, more than 1 billion people are working from home. And the offices they left behind will surely be reconfigured over time to be proportionately more meeting space than working space. Companies will let most of their employees work some at home and some in the office. Siemens announced just last week that it would allow 140,000 of its employees to work 2 days to 3 days a week at home at their own discretion. That's a lot of new desktops to be created, improved and upgraded.

The third trend was esports. Everyone knew esports had become a thing, a phenomenon, but who would have guessed that we'd be the -- that they'd be the only sports we could watch or play for four straight months. That's accelerated the growth of gaming in a way that not even Fortnite could have done. The World Economic Forum reported the game hours during peak hours have now increased 75% post COVID-19 compared to a 20% increase in the overall web traffic, that's a lot of gaming. And another huge phenomena, another huge secular trend, seems like it's hidden in plain sight. It's the explosion of creators online. All this time at home, so much uncertainty about things. In all of this turmoil, we need to express ourselves to entertain each other, to stay connected. This has taken the democratization of content creation to a whole new level. Musicians, magicians, makeup artists, gamers, comedians, dancers, thinkers, public speakers, podcasters accorded the June quarter -- according to the June quarter's Streamlabs & Stream Hatchet industry report, total streaming viewership almost doubled versus last year and grew 55% from just the March quarter. Online creation has taken off. And these people need tools and today they will buy them over time and more and more will join them as this network effect grows. In this moment, we're seeing an acceleration into a new

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standard, new levels for all of these trends. And while COVID shutdowns and related economic slowdown will likely create uncertainty in the quarters and perhaps even year to come, we're at the doorstep of a new era. And over the long term, this era of favors Logitech.

Before I proceed, I want to thank two groups. First, I want to thank our employees for their resilience, flexibility, and patience. As we adapt and have been adapting to this new way of working, I'm so impressed with the quality and the commitment and the ingenuity of our teams all over the world. Second, I want to thank our customers and many of you are our customers, I hope, past, present and future. At Logitech, I think we've never felt so alive with purpose and relevance. What we do matters now in ways and to a degree it's simply a rush before. These are surreal times with remote work and remote school, offices closed, brick and mortar distribution slowed, reopenings of offices slowed or delayed, Logitech was 60% to 70% brick and mortar around the world before the 1st of March.

So now let's talk about how our business did this quarter. We had a very strong quarter. Our Q1 sales grew 25% and non-GAAP operating income grew 75%. Video adoption skyrocketed. Video collaboration sales grew 81% with strong growth across conference room systems, but also in business centered webcams and headsets. Sales of some products like our \$199 BRIO webcam more than tripled. VC equipment sales grew on par with what we'd seen in the past few quarters despite the fact that the vast majority of offices were closed to employees. While we've seen cases where companies pushed out their video deployments as they rethink their office layouts, many others have accelerated video adoption as they equip rooms with more video to drive engagement and effectiveness for employees who work in the office or will be.

And with so many people working, creating, and learning from home, our PC peripherals category sales grew 19%. The only product within PC peripherals negatively impacted was not surprisingly, our presenter category where sales declined 80% as live presentations in offices and at conferences temporarily disappeared. But that presenter decline was more than offset by growth in the rest of our categories. As excluding presenters, pointing devices sales grew 9%, Keyboards & Combos grew 15% and overall PC peripherals grew 24%.

PC webcams continued the strong momentum exiting last quarter with Q1 sales more than doubling to the highest quarterly level in a decade. While we ramped our supplier webcams starting in March, we're ramping our capacity to meet demand, working to overcome component shortages as we do. We expect Q2 supply to improve, but still -- it still could remain pretty tight throughout the quarter. No doubt this underlying market tailwind will continue for some time, but we expect the pace to moderate significantly as we head into back half, particularly as we face tougher webcam sales comparisons in Q4.

Tablet and other accessories sales grew 22% with our Education channel particularly strong, with sales increasing over 50%. Schools around the world moved quickly to learn from home, but many are now adapting to a hybrid learning environment where some students will take classes in person, while others will attend virtually. We're seeing substantial demand from educators for our iPad tablet products, which offer a superior

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typing experience through a Smart Connector combined with a protective case, which is perfect for younger students.

Gaming sales grew 38% this quarter. Gaming accelerated as it became an ideal way to stay connected to friends and community. This quarter the strongest growth in gaming was actually our simulation products with our \$399 G29 Wheel as the number one seller in gaming. Streamlabs continue to do well, adding roughly 2 percentage points to overall company sales growth.

As expected recent physical retail store closures hurt Mobile Speaker sales more than other categories, with sales declining over 40% in the quarter. As we've said previously, given some of the near term headwinds and structural challenges of the Mobile Speaker market, we continue to reallocate resources toward other initiatives. Similar to Mobile Speakers, Jaybird total sales were also negatively impacted by closures of brick and mortar stores. But we continue to transition our Jaybird portfolio toward true wireless, where our Jaybird booster [ph] product had very strong double-digit growth in Q1 to become over 80% of our total Jaybird sales mix.

Two other products that benefited from stay at home orders are headsets and Blue Microphones. Collectively sales in these two categories increased 70%. We knew when we acquired Blue that we were entering a category with long-term growth potential, but we didn't expect to see 3x sell through, three times the sell through versus year ago. Supply for Blue mics will continue to be somewhat tight in Q2, but we're working to source alternatives to meet the strong demand.

Now let me turn the call over to Nate to walk you through the rest of our key financial metrics in Q1.

Nate Olmstead {BIO 21036514 <GO>}

Thanks Bracken. As Bracken just said, we had another strong quarter where performance came in better than we expected with sales up 25% and non-GAAP operating profits up 75% to \$117 million. We accomplished this despite multiple challenges that we had to overcome in the quarter, including significantly higher air freight costs, supply constraints in multiple product SKUs and continued currency headwinds. Bracken spoke at length about growth highlights, but gross margin resiliency was also particularly impressive this quarter. Non-GAAP gross margin increased 140 basis points to 39.2% despite our initial view that gross margin could fall towards the lower end of our 36% to 40% target range. We spent more on air freight this quarter than we spent in all of last year, but we were able to offset those high costs through lower promotional and marketing spending as well as favorable product mix. Our sales and operations teams did a great job managing costs to deliver these strong results.

Looking ahead to Q2, and the second half of the year, there are few factors that will likely put some downward pressure on gross margins, although we expect margins to remain in our target range. First, we expect logistics costs to remain elevated due to our higher volumes, but especially from higher air rates across the industry. We also anticipate that as

supply catches up to demand in Q2 and more retail locations reopen, our promotional and marketing spending will increase.

Finally, we are expecting strong sales of our education tablets as Bracken mentioned, which is a relatively lower margin category, and thus will be unfavorable from a mix standpoint. Nonetheless, we had great margin results in Q1 and a great recovery by our operations team from the February factory closure. Our non-GAAP operating expenses reached \$193 million, which is a 10% increase versus last year, but was notably below our net sales growth rate. While we maintained investments in our key priorities, we began the quarter cautiously as we weren't sure if the demand surge from March was sustainable. As the quarter progressed favorably, however, we accelerated our investments and expect to accelerate our spend further in Q2 and for the remainder of the year. We're prioritizing the same areas as before, but moving faster to develop our brands, increase our sales coverage and expand our hardware and software roadmaps.

Now let me move to our cash flows and balance sheet. We delivered another strong result in cash flow from operations, which ended at \$119 million, up from \$37 million in Q1 last year. This was due to profitable business growth and a significant improvement in our cash conversion cycle, which ended at a multi-year low of 27 days. Thanks primarily to faster inventory turns. We are fortunate to have a strong balance sheet and we will use this to our advantage by replenishing and increasing inventory buffers on key products in our own distribution centers. While this may increase our cash conversion cycle, it will ensure we are better prepared for future demand spikes.

Let me wrap this up by saying that our strong Q1 results, highlight the powerful combination of our multi-category growth strategy and our operational discipline and execution capabilities. And as we look out to future quarters the recent strong demand may not sustain, so we will remain nimble and be prepared for multiple scenarios. Regardless of the top line dynamics, we will continue to execute well and invest for the long term, because our goal is not to deliver a great quarter, or a great year, but to create value over the long run.

Now I'll turn the call back to Bracken for guidance and his closing remarks.

Bracken P. Darrell {BIO 3403495 <GO>}

Thanks, Nate. This morning we're raising our fiscal year '21 sales growth from mid-single digits to between 10% and 13% and our non-GAAP operating income from between \$380 million and \$40 million [ph] to between \$410 million and \$425 million. While we don't specifically guide for quarters, we're experiencing double-digit sales momentum again in Q2, which could wind up as strong as Q1. There are tailwinds and there are headwinds in Q2. The tailwind comes from our supply catching up with final end demand. While the headwind is a likely increase in promotion spending to more normalized levels, the supply and demand re-balanced.

Looking into the back half of the year, we believe we could see a moderation of demand as the current macro-economic conditions play out into the holiday quarter. That said and

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beyond -- that's said, our incredible operations team is working to increase supply in categories where we are stressed, so we can supply a range of scenarios, as they put it, including beyond our outlook. Therefore, you could say, we have one foot on the accelerator, assuming a good flow of supply. On the other hand, we are managing our business for the potential back half moderation of demand. So the other foot near the brake. Regardless the next few quarters performance, we're optimistic that the fundamental trends, I described in the beginning will continue strongly ahead in the long-term. Logitech is uniquely positioned to grow across our product categories. The trends are in our favor. We've never had such strong capabilities. It's up to us to execute and we continue to execute well as we did this quarter.

Looking ahead, ubiquitous video, work from anywhere especially home, PC gaming as the biggest collection of sports in the world and 1 billion plus creators, that era is coming. That's what we've built our portfolio of businesses for. We are on the doorstep of that Logitech era.

And with that, Nate and I are going to take your questions. Ben, let's queue them up.

Questions And Answers

A - Ben Lu {BIO 19785128 <GO>}

Thank you Bracken. Joern, your line is now open for Q&A.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hi, Joern.

Q - Joern Iffert {BIO 15374623 <GO>}

Yeah, hi, Brac and hi Nate and hi Ben. And thanks for taking my questions.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thanks for joining us.

Q - Joern Iffert {BIO 15374623 <GO>}

The first two questions more strategically, and first of all when Zoom announced to enter into hardware services, they did not announce you as a partner. What was the rationale behind this move from your side? And second question is, please, on the cash pile, you are accelerating every quarter and what is the capital allocation plan now for the next one or two years. We understand smaller competitor [ph] deals, but I mean, you would be able to pay out your full equity to cash flow still having a very strong balance sheet. So yeah, why do you really have still this high cash pile in the balance sheet and what is the strategy going forward? And the last question is, please, on the gross profit margin, I understand that you again looking for a couple of headwinds, but at the other hand, you also have very strong mix benefits. So I really have -- I struggled to understand why the gross profit margin should fall from the current (inaudible) 39% and 40%. If you can

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provide us more clarity [ph] what is the impact you're seeing over the next one or two quarters?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Of course, Joern, I'm going to let Nate, let you take that last one, but I'll take the first two. Zoom announced hardware as a service and they partnered with several companies and we were not named. The companies they named were companies that offer all in one products, and so they have a PC integrated into the product. As you probably know, we have not yet announced that. If we had that, we would have been part of the program. We are -- we partner well, very well with Zoom and with Microsoft and with Google. So we're -- in fact we enable more rooms for Zoom than anyone. But if we were to have that all in one product, I'm quite sure, we would be a partner.

On the cash pile, you're right, we just keep generating more cash and we're at record levels right now. And from a capital allocation strategy, we continue to believe we have great options from an M&A standpoint. So we are looking at small, medium and larger M&A, as you know large M&A is really difficult because the stars really have to align. But we see M&A targets out there and we're going to keep pursuing them. So that will be our top priority. Of course we are increasing our dividend right now, and we'll continue to do stock buybacks.

You want to cover the gross margin piece?

A - Nate Olmstead {BIO 21036514 <GO>}

Surely. Yeah, so I think on gross margin, Joern, yeah, gross margins were stronger than we expected this quarter just over 39%. But as Bracken mentioned and as I mentioned, we had some favorable offsets to that higher air freight costs that we were expecting. So I think looking forward, we still expect some higher air freight costs, the industry rates are pretty high right now and our volumes and we're still catching up on supply, it's forcing us to use more air freight. So we continue to see that headwind continuing into Q2. One of the tailwinds we had in Q1 was this lower promotional spend because as we were -- as supply was really short of demand, we just weren't promoting as much. And with retail locations closed down, we weren't spending as much on in-store marketing as we normally would. So as that supply starts to normalize with demand in Q2, I think the promotional spending is going to rise back to more normal levels. We'll also be spending more money on in-store marketing, which is going to be less favorable for us than it was in Q1.

So I think the combination of those things plus a little bit of that mix impact, mix as you mentioned was favorable year-over-year, probably still favorable year-over-year in Q2 as well, but much less so because we're going to see an increase in some of these education products, which is a good business for us. Good category, but it is lower margin. And so, I expect, again just some moderation of some of those favorable items in Q2. The net result is, I think there is some compression on gross margin from the nice levels we were at in Q1.

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A - Bracken P. Darrell {BIO 3403495 <GO>}

Did we cover everything, Joern?

A - Ben Lu {BIO 19785128 <GO>}

Right, thank you. Paul, your line is now open.

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A - Bracken P. Darrell {BIO 3403495 <GO>}

Hello, Paul.

Q - Paul Chung {BIO 20654199 <GO>}

Hey Bracken, how is it going? So just on Asia. What were the big drivers of the pretty outperformance there in that market. And do you see those trends kind of further accelerating in Europe and U.S. and as the retail stores opening up more. And I have a follow-up.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah, I mean, the trend as you're suggesting Asia, especially China of course is ahead of us in terms of the COVID-19 reaction and kind of when we recall this stage that we're in, so they're probably one or two or three months ahead of us. And we -- obviously we had really strong growth there. I think what you're seeing there is we had strong growth, both on personal webcam, the personal collaboration side as well as in the office. We had strong growth in our PC peripherals business, we have strong Gaming business. So really across the board, we saw very strong growth. And it's super exciting to see because they are a little ahead of us relative to rest of the world.

Do we expect that to continue? I think so, the fundamental trends that drive our business continue and we're quite optimistic about.

Q - Paul Chung {BIO 20654199 <GO>}

Okay. And then on VC, can you give us a sense for kind of the breakout between the high-end BRIO for webcam, you mentioned a triple, which is pretty impressive. If you could expand also on kind of the verticals, you're seeing some of that demand ahead of the workers kind of heading back to the office. And do you see that 40% kind of annual growth what you've seen for 5 years now kind of extending, you've got a nice start this year. And then if you could also comment on the competition, any thoughts on maybe some of the software providers kind of introducing hardware solutions? Thank you

A - Bracken P. Darrell {BIO 3403495 <GO>}

Sure. I'll try to cover that. I think overall, in terms of (inaudible), we're now seeing kind of two engines of growth in video collaboration. We have had very strong conference cam growth and then the personal collaboration growth was very limited because very few people needed a high-end webcam. Now we're seeing, as you suggested, strong growth in the product that I'm using, which is BRIO, a very -- \$199 webcam, which I mentioned triple, as well as continued growth in the conference cams. I think we're in the -- at the

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initial stages we wondered will the -- will we have the same strong conference cam, the growth that we've had or will that move strongly into webcams. We're actually seeing -- what I think is going to happen, we're going to have both because people are eventually going to go back into offices. I mentioned the Siemens announcement, which was last week where, you know, they're giving people two or three days a week for 140,000 or 350,000 employees, two or three days a week to work at home and the rest of time they can work in the office.

So they're going to need two different set ups and they are still going to need lots of -- now by the way, the other thing that's happening is, the other companies and I won't name names, are companies that were way behind in terms of video adoption, they just almost never did video calls. Now with snap of fingers we're all doing video calls all the time, and from home for god's sake. So when those employees go back to the office, they're going to expect video and companies are going to give it to them. So I think you're going to have video set ups absolutely happen throughout the offices as we do start to go back in and we already are in China. But as we start to go back in bigger numbers into the offices and I think companies will set up for that, but we'll still need video at home, which is why this BRIO such a cool product to have.

In terms of competition and sort -- in that, we have great competitors in there. We're going to have great competitors, you can't be in a good category and not have great competitors in it. It certainly makes you better and make and requires that you invest more and that you're -- and you have a great product portfolio. So I feel very good about that. In terms of the e-com software competitors, the service players, you know, you never know what they're going to do. We grew up in an environment where we always had the people we partnered with in the PC market, making the products that we sell. That was -- that's the model we're used to. We don't have that here and I think in some ways it might never happen because at the end of the day, there's such an incredibly important role to play in the service piece, and the hardware just supports that. And that's really our sweet spot, what we do best.

If we do have competition, direct competition from those players, it will look more like our PC business and we're used to that. If we don't, terrific. We'll try to do our very best to make their experience better.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Ben, if I can jump in real quick on the VC trends just a little bit for Paul as well. Bracken talked about the webcams, one of the things we sort of expected early on and we started to see is that, we started seeing some companies make sort of larger bulk orders of some of these webcams as well as Bracken said, as they're really trying to help their employees be more productive from home. So that's a nice trend that we saw, it may cause a little bit of lumpiness as some of those large deals close one quarter and not another quarter. But it's a real positive trend again that companies are looking to sort of standardize that webcam portfolio across our employee base, whereas before a lot of that may have been done through retail.

Q - Paul Chung {BIO 20654199 <GO>}

Thank you, Nate.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thanks Paul.

Operator

Asiya, your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Good morning.

Q - Asiya Merchant {BIO 20247269 <GO>}

Hi, great. Good morning. Congratulations guys.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thank you.

Q - Asiya Merchant {BIO 20247269 <GO>}

Strong -- on the strong results. Just a couple of questions. Just given all the pandemic stuff, supply constraints from some of your competitors as well as your retailers and partners adjusting to this, what are some of the commentary that you're hearing or observing in the marketplace from your competition that leads you to be a little bit more cautious in the back half of the calendar year. I know you're -- the strong 1Q would suggest to be a little bit more conservative, but just what are you observing that would suggest promo spending will ratchet up, retailers are starting to demand more promotion et cetera, and what are you observing from your competitors? Thank you again.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Well, I said we're seeing something from competitors that are causing us to look in the back half as the moderation period. It's really more just, as we look into it, there's a real uncertainty. I think we've been living in a very uncertain period for a while now and we're still in it. At some point things go one way or the other. As we look into the Q3, for example, we're going to have unemployment, that won't be doom and gloom, but we're going to have unemployment is going to drag on through Q3 at levels that we haven't seen in a long time around the world.

On the other hand, things are going to start to open up. So you'll probably have movie theaters and restaurants and things that a lot of people in many parts of the world haven't had the opportunity to do, were going to open up. So there could be a reallocation of spending in some of those other discretionary things in a way from things that are required for work. And then there might be some pull forward that's happening, especially in gaming from the holiday period into the Q1 and Q2. We look at the over all those things, our tendency is to say, gosh, we should really make sure that we view the

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future as a possible moderation period in Q3 and Q4. On the other hand, we're going to be capacitated and set up to deliver if it's -- that's not true, and we continue to have really strong growth.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay. And then just generally speaking, like what are some of the business practices that you think you have kind of adjusted or changed within Logitech as a function of this new normal. Are there any things that you can point to that would suggest sustainable margin and even margin expansion within from -- within your target range?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Well I'll let Nate kind of directly on whether he is going to suggest that we can have margin expansion. But what I would say is, in terms of some practices that we've learned and there are a lot, I would say there are a few. One is, we've got probably a better finger on the pulse -- better finger on the pulse of this business than we've ever had, and we are always pretty good at execution. But we have, for example, Nate and I have a biweekly, now we used to do this once a month, a biweekly matching of our supply and demand because it's been so uncertain. And that's given us the ability to really stay right on top of what's happening all the time. That's exciting. And I'd say that's one key change, but there are many others.

Nate I'll let you respond to the gross margin comment because I think that's probably really underneath your question as yet.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. Just jumping on top of what Bracken just mentioned, the two, you know with our strong balance sheet, like I mentioned in my prepared remarks we're really using that to our advantage here because as Bracken said, we've got to be ready for demand surges and -- but we've also got to be prepared if things slow down. So we're having to manage a little wider range, which is fine, we're good at doing that. But like Bracken said, we've had to increase the frequency of some of the things we do to check in and make sure that we're really staying on top of it.

In terms of margins, again, I'll come back to a little bit to what we mentioned earlier, the air freight rates right now in the industry with the reduction in consumer travel has taken a lot of capacity out of the industry, which has pushed up the rates and a lot of other companies are in the same situation we are in that, they were shut down in February and they're still recovering some supply. And so, they're having to use more of that air freight capacity. The long-term drivers for our margin really remain unchanged and that we're focused on mix, we're focused on bringing products to market that have higher margin contribution. We added Streamlabs, which is still relatively small, but it's a nice margin profile as well. So I think the margin drivers for us long term really remain unchanged.

If we see continued demand at the levels we've had, certainly it's going to help us sustain stronger margins. But again, that's not -- that's not the outlook by which we're using to manage our business. Let's say, on top of that though, we are going to invest

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aggressively. I think our priorities haven't changed. But we're confident that the long-term trends on which we've built our business have just continued to come into sharper focus through this period. So I think our investment decisions similarly have come into sharper focus and that's something we expect to continue doing in Q2 and into the second half.

A - Ben Lu {BIO 19785128 <GO>}

Thanks, Nate. Alex, your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hi, Alex.

Q - Alex Duval {BIO 16682293 <GO>}

Hi there and congrats on the great results. Just a couple of quick questions. First of all, just to come back to this point, you obviously beat consensus on EBIT by around \$50 million in the quarter net, you only raised consensus or rather the full-year guidance, the EBIT by around half that much. So I just wondered, if you could talk a bit more about the reasons for that. Obviously you've just alluded to macro uncertainty, that's certainly understandable, but as we go down the P&L, what are the sort of key components to bear in mind?

And secondly, just curious, you've sort of recently been moving more of your production out of China and diversifying a little bit there. I just wondered if you could comment a bit on the latest state of play in terms of your manufacturing footprint, and your latest thinking in terms of where you need (Technical Difficulty) get you there, particularly just given any logistical issues in terms of the COVID situation.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thanks, Alex. Let me respond to your second question first, I'll let Nate take the first and we'll tag team on it. In terms of our manufacturing footprint, yeah, we have established manufacturing -- significant manufacturing outside of China and we now have I would say, a more distributed network. I don't want to overstate that, we're still manufacturing a lot in China. I feel pretty good about where we are right now. I think one of the things that, one of the good things about the tariffs for us was, it really accelerated something that we felt like we needed to do anyway, which was to establish a few beachheads in Southeast Asia outside of China, which we did.

So, I think we're in a good spot now, we're going to keep looking at that all the time. And we have a really good, and one of our strengths in manufacturing is our ability to move manufacturing in and out of different locations, we've always done that with manufacturers in China into our factory and out of our factory into them. We're now doing the same thing into other parts of Asia. So I feel pretty good about our flexibility and our ability to manage that. It's not like we can do things overnight, but we can do things very, very fast now and I think the flexibility is the key.

Nate, you want to take the other question.

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A - Nate Olmstead {BIO 21036514 <GO>}

Sure. Yeah, I think -- when I think about the change in the outlook, Alex, we took up at the mid point the revenue by about \$200 million. Obviously some of that showed up in Q1, some of it shows up in Q2 through Q4. But if you just look at the changes to the outlook on the top line and the bottom line. At the midpoint again it's close to \$200 million revenue increase and we flowed that through at about 15% to the bottom line, which is kind of typical for our structure. As I just mentioned, we're going to continue to invest. We see this as the year for us to really accelerate some of the priorities we had to strengthen the hardware roadmap, to strength the software roadmap, make sure we're setting ourselves up for long-term success.

A - Ben Lu {BIO 19785128 <GO>}

Great, thank you. (inaudible), your line is now open.

Q - Unidentified Participant

Yes, thank you Ben. I hope you can hear me. I have two or three questions if I may. The first one is, you mentioned that you have seen tremendous demand in Asia, although it was in phase one of this COVID way for cycle, then we had Europe and then U.S. I'm wondering whether you can give us a little bit more color of what kind of products in each of the region has been demanding. Did COVID had a change base towards reopening, retail is reopening or totally closed or Internet. Can you give us a little bit of flavor, what we can expect also then going forward when the shops in the U.S. will reopen and what does this mean for the online channel? Because, yes, you're guiding little bit weaker margin too, not only because of transportation costs and promotion, but also due to sales mix is my impression.

A - Bracken P. Darrell {BIO 3403495 <GO>}

I wish I could give you something more of what you're looking for, there is a problem, which is that China, which is the biggest part of our Asia Pacific number actually doesn't look like the rest of the world. It's predominantly online, so it's about 70% online. So while the brick and mortar did open back up in China, I don't think it is kind of as relevant or is strong. So I don't think you can necessarily -- look if you step back though and you look at the categories, I kind of mentioned this in the first question we answered, I think the categories look very similar to the rest of the world meaning, still seeing very strong demand in conference cams and in personal and in webcams, gaming continues to be super strong. And then the PC peripherals business is good and I think could be even better.

You want to add anything else to that, Nate?

A - Nate Olmstead {BIO 21036514 <GO>}

I think you're right. I think the dynamics between the regions were similar in terms of product demand, but they have different channel structures right, somewhere like Bracken mentioned China is more heavy on e-tail than elsewhere in the world. But I think from a product standpoint surge, it was pretty consistent.

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Q - Unidentified Participant

Okay. Then probably you can help me on this promotion topic. And when I talked to the channel, then people tell me that Logitech normally has this kind of 10% to 30% of the official price. So, and now I have learned also that Amazon didn't make any promotion during the last month. So do I have to expect that the underlying growth has been 20% or 25% lower. So that means that, instead 23%, you would have been reporting 15% of gross and can I expect then these going forward that the gross will be -- will get such a hit?

A - Bracken P. Darrell {BIO 3403495 <GO>}

You want to take as well...

A - Nate Olmstead {BIO 21036514 <GO>}

Yes, sure.

A - Bracken P. Darrell {BIO 3403495 <GO>}

I don't want to (inaudible)

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, no, I mean, in general, I think your comment is right in that, as our promotions came down, our net sales grew faster than our unit sales, if you will, or sell-in revenues because we were able to hold on to more of the value of that sell-in through lower promotions. Some of that again was due to the fact whether we had supply on a product or not. And so, I mean, in some cases the sell-in as I'll call it, was hindered on places like webcams or headsets or places where we saw really sharp increase in demand, we were constrained on supply. But you're right, the net sales growth was faster than the sell-in growth in the quarter.

A - Ben Lu {BIO 19785128 <GO>}

Great. Thank you. Ananda, your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hi Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey, guys. How you're doing? Congratulations on a strong performance.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thank you.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey -- yeah, you're welcome. Just a couple if I could, on gaming and on video collaboration. What's your -- and Bracken you spoke to each of these things a little bit.

What's your best -- what's your best guess on some of what you're seeing in gaming, sort of serving as de facto pull forward ahead of the console launches at the end of the year. And then, if there isn't much pulled forward on the console launches ahead of, do you think that those can also -- that can be sort of a catalyst as we get into the holiday season and then through the beginning part of next year? And then I have a follow-up on video collaboration after that.

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A - Bracken P. Darrell {BIO 3403495 <GO>}

Okay. The ASTRO business is the primary business affected there, which is the headsets that are with console. And historically as there's been a console launch, as those things have come, actually we've had a slowdown in the console headsets because there was -- they weren't compatible with the future one. So people would slow down and wait, then they buy the new one and then later you have a delayed effect. So you have kind of this, this, more than a plateau, kind of a dip that would happen in the middle. The difference this time is that, at least in the case of Microsoft, forward compatibility is already announced. We're optimistic that that's also going to be true on the new Sony console. So we may or may not see that slow down, but we're prepared to think that's a possibility.

Q - Ananda Baruah {BIO 15320341 <GO>}

Yeah. So that sounds like you're not seeing it yet.

A - Bracken P. Darrell {BIO 3403495 <GO>}

No, we're not. I mean, in fact, we saw the console headset category is quite strong. And in fact, we couldn't meet all the demand for that category.

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A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I mean, I would just add to that, Ananda, Bracken is right, the sell-out was stronger than what we were able to sell in because we were a little short on supply again because we had made the assumption that we probably see that normal slow down going into the console refresh and that was -- we made that decision prior to COVID lockdown. And then as people were at home -- saw that demand pickup.

Q - Ananda Baruah {BIO 15320341 <GO>}

Do you think it's possible that you could see the demand -- when you get to the consoles you don't actually see the demand you typically see because there is a pull-forward because of this COVID situation?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah, I mentioned that earlier. Yeah, I think it's possible. We don't know, it's a hard one to predict, did little bit of the holiday period get pull forward and -- pulled forward into Q1 and maybe also Q2? It could be, it's just really, really hard to know where that's coming from.

Q - Ananda Baruah {BIO 15320341 <GO>}

Cool. Thanks. And then on Video Collaboration, you had mentioned Bracken sort of as folks get back into the office, there is going to be an increased demand for, call it enterprise Video Collaboration. Can you give us some more detail around some of the things that you're sort of hearing around, I don't know, sort of what CIOs or CEOs, CFOs, are telling you from an initiative perspective, just anecdotally. And does it sound to you -- my hunch is, yes, but does it sound to you that, whenever you guys were expecting like the pace and depth of that is being shifted because now people are really embracing Video Collaboration in new way.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Well, I think there is a whole series of discussions happening out there and a lot of -- anybody who is listening who is in the middle of these is going to really relate to this, around how do we come back in the office? It's already started obviously in Europe, where we have about 20 offices opened, but only moderately open. In the U.S. we have no offices opened. In China, we have all of our offices opened and the rest of Asia, most of our offices are closed. So we're really a mixed bag. And I think CIOs and IT departments that are dealing with the NCHROs [ph] were really thinking about how do we set this up going forward, are wrestling through this right now, it's a lot of discussion. And I think I'll give you the range of topics that are being discussed. There's -- gosh, when you come back to the office, do you need more video in more rooms, because you want people to be able to socially distance when they're on a call.

So you might even have two people on a video call and you actually want them in different rooms. So you might have them in two different video rooms doing calls to somebody who is not in the office. So they're all in video. That's a possibility, I don't know how much that's going to happen, it's possible. I think it's more likely and from what I'm sensing, it's more likely, you're going to -- people are going to say, gosh, you know, everybody is so used to video calling, in their home, they're doing video calling all the time, and we're going to be a mixed group where there is going to be more people at home than were in the past. And when we do a call, it's going to be video. And so, we're going to need more video enablement.

And so, I don't know exactly what that's going to do to the short-term growth rates, but I do believe that there is going to be a lot of video deployments in the offices as we start to really get serious about what's the future of work look like in the office-home combination.

A - Ben Lu {BIO 19785128 <GO>}

Great. Thank you, Ananda. Tom, your line is now open.

Q - Tom Forte {BIO 6796619 <GO>}

Great, thanks, Ben. So, one question and one follow-up. So for my -- first question, how should we think about your e-commerce sales trends on Amazon Direct and elsewhere?

A - Bracken P. Darrell {BIO 3403495 <GO>}

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Okay, well probably won't surprise you, every number, you see, that looks good. You can imagine that it looks even better if you look at the online. So we've really had and like most companies had a real strong, strong growth in e-commerce and even stronger on our own e-commerce, our own dotcom websites. So it's exciting. The gratifying thing or the more exciting part of that, is that, we were moving to our path, it started in China for us about 4 years ago, when China became mostly online, it's just almost overnight over 3 to 4 month period, it flipped from being a brick and mortar business for us kind of 10% or 15% was online to 70% online. And that gave us the model for what we're now taking into other parts of the world in terms of supporting online people like Amazon and others and our own for how to support those from a marketing standpoint. So we were already in the middle of deploying that model into Europe. And then we -- we just -- had just organized the whole world to do the same thing, so the Americas as well. So we're going to be set up pretty well as we go forward for an online world and I'm optimistic we're going to do well in that.

Q - Tom Forte {BIO 6796619 <GO>}

Great. Thanks for that.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Tom, just to add on to that one real quick though, I mean, it's not only is the pure play e-tail where we saw the growth, we actually had a lot of traditional brick and mortar partners that did a really good job of being able to move their business online at least for our products. So I think that was one of the positives in the quarter. And I'm sure that they are looking at their business and trying to determine if that's a long-term trend or it was something that they had to do in the moment

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah, I want to echo that. I'm super-impressed by how effectively a lot of these what we would think of as brick and mortar players has gone to online, they've really done well.

Q - Tom Forte {BIO 6796619 <GO>}

All right. So Nate, saw my second question then and jumped it. So the question I had there was on physical stores reopening and then re-closing, so how are you managing then, and how is that impacting your business?

A - Nate Olmstead {BIO 21036514 <GO>}

Good question. I mean, we talked about a number of scenarios that we've got to be ready for. And I think being nimble on, I mean, to me, I think that's just a good description. It's really about being nimble. I mean, when everything moves online, there probably needs to be less inventory overall in the channel because you're fulfilling out of central distribution for a lot of those orders. As things move back to retail, we've got to distribute more broadly. And so, it's a balance for us between those two things and that's one of the reasons why I'm increasing the inventory buffers, not buffers out in the channel, but in our own distribution centers, on our balance sheet, making sure that we have the inventory that's necessary to support our customers for these kind of changing market dynamics they're dealing with.

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Q - Tom Forte {BIO 6796619 <GO>}

Great. Thanks for taking my questions.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thanks, Tom.

A - Ben Lu {BIO 19785128 <GO>}

Thank you Tom. Andreas, your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hi, Andreas?

Q - Andreas Mueller {BIO 16350975 <GO>}

Yes, hello. Thank you. Thanks for taking my questions. I've got one on inventories. You know, you have been now the third, fourth, or basically being at or below 50 days of inventories, you mentioned this biweekly meeting you have, I imagine basically supply and demand. Now, I was wondering, I mean of course, it goes up probably inventory into next quarter, but is there any potential to be substantially below, kind of what you had in the last couple of years. Basically that inventory is sustainably coming down apart from fluctuation between the quarters.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Let me take that one Nate. I think -- first, the answer is, can we -- is there a potential to be substantially lowering inventory relative to last few years? I've always felt, and I've said before on these calls, I think there is. I think we should be able to operate at a lower inventory level. On the other hand, I think if you look at the short-term, you're going to see the opposite because we have such uncertainty on -- on what the demand is really going to look like out there in back half of this year that we don't want to get caught flat-footed and not have enough inventory to supply it. So short-term, I think you might see the opposite relative to where we're on a day, long-term, yeah, I think we should be able to operate at lower inventory level than we did a few years ago.

A - Nate Olmstead {BIO 21036514 <GO>}

Andreas, I think about inventory, the same way I think about operating expenses is that, we need to find efficiencies to fund our growth. So as we find efficiencies and we drive those initiatives in inventory to get more efficient or to simplify our portfolio in some way so that we can be more effective, we may take that efficiency and then reinvest it to go grow the business by having more products available, the strategic products more availability. So I think Bracken is absolutely right, we're continuing to find ways to be more efficient in our supply models, but you may not see that really show up in lower days of inventory because we may decide to buffer up more, which should help us grow the business.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay. And my next question would be on the webcams basically at home, I mean, do we have the figures or call or basically how the penetration is currently and what's, you know, the left potential going forward?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Well, you know, I hesitate to do this, because I don't want to mislead you. There are a lot of people who use a webcam that's built into the computer. So or into their -- now the reality is that, that's not the solution for a lot of people because if you a laptop, and you dock it, most screens don't have the webcam in them or if they do have a webcam, it's not good enough, especially if you're looking at yourself all day long, like we are now, having a really high quality webcam gives you a better appearance, makes you go, pad your back yourselves. So, there's a lot of reasons why webcams are attractive in general and attractive as a supplement to what -- what might be built into a computer screen. The reality is, while our webcam business has really grown a lot, you think about the number of people working from home, or the number of students studying from home, we're not talking about -- we might sell 5 million or more webcams this year than last year something like 4 million, I don't know what the number is going to be, but we're talking about 1 billion people who are going to be working from home and maybe 1 billion people who are studying at home, there is a lot of opportunity out there. Is that -- it's so big that it's kind of not helpful, right.

So I don't know what -- where this will -- where the webcam business will go exactly, but I do think there is a really big opportunity for us to just keep capitalizing or we've got to keep improving our products so they deliver extra benefits that you now need when you're on the screen so much the time.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay. Thank you.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thanks.

A - Ben Lu {BIO 19785128 <GO>}

Thanks Andreas. Michael, your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hey, Michael.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Michael, I think you're on mute. There you go.

Q - Michael Foeth {BIO 3783700 <GO>}

Hi, thanks. Hi, everybody. Thanks for taking my question. Two questions, actually first one on Streamlabs, think it's first time that you gave an indication on the revenue contribution.

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My question is, can you maybe give a little bit more color on how you're integrating Streamlabs in your overall strategy and your gaming strategy and maybe also an indication of the growth trajectory of Streamlabs at least in the past? And the second question would be on France, in your prepared remarks, you mentioned that France sales were down because the Amazon distribution center was closed temporarily. Can you give us an indication of how sales have trended after the reopening just to understand if there is -- if there was also an underlying demand problem in France or on the contrary, if there was very strong pent-up demand following the reopening?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I'll answer that real quickly (inaudible) France has improved dramatically since that reopening. So I think there is not -- I don't believe there is underlying demand problem. In terms of Streamlabs, you asked how we integrated with the Gaming business, actually we're not. We're integrating it with our streaming business. So we see that as much more than just a gaming play. We do report it as Gaming, but it's got -- and it's mostly gamers coming online to stream themselves playing games, but we're really expanding that beyond gaming right now. And it's one of the reasons we bought the business. We really thought there was an opportunity to support all kinds of streamers, not just gamers, and not just people who want to entertain gamers. So we're in the middle of that now, we're quite optimistic, they're going to make a lot of headway there. And they've got some cool things coming and cool things out there and we love the team and we love the business.

Q - Michael Foeth {BIO 3783700 <GO>}

Any insight on the sort of growth that you've seen at least in the past quarter?

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A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, it's been really strong. I think there is, we're also dealing like every business, it's more than a year or two old, you know you got a mix within that business, so you've got some things that are going down, some things that are going up. And the things that are going down we completely expected, and things are going up, we did too. But that team is very innovative and so we're seeing really strong growth exactly where we were hoping. We're bringing more and more people into their prime offering, which is you know I've been able to stream now through Streamlabs and I can sell much [ph] and make money and I pay for that prime experience and we're bringing more and more people into that. It's really fun and it's a really cool business in so many ways, it's great from a business standpoint, it's also just great from a personal standpoint that you know that you're helping people kind of start to try to live a dream which is can I create a following. Can I create a following big enough that people would actually want to wear my shirt, a shirt with my name or my symbol. And so, it's a cool business.

Q - Michael Foeth {BIO 3783700 <GO>}

All right, thanks a lot. Congrats.

A - Nate Olmstead {BIO 21036514 <GO>}

Thanks, Mike.

A - Ben Lu {BIO 19785128 <GO>}

Thank you Michael. Bracken, we have no more questions, so I will turn the call over to you for your closing remarks.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Okay. Let me wrap it up by saying, by stating the obvious, we are really navigating some extraordinary times. We're seeing a surge in the underlying secular trends that have been driving logistics growth over the past several years, it's been very consistent over the last several years. At the same time we're only 4 months into this global pandemic in the changes in how people work and learn and play. Are these going to be long-term changes? We think so, we believe that the acceleration we saw starting in March has fundamentally reshaped the trajectory of those trends in the markets we play in. At the same time it's difficult to extrapolate the next year or two based on 4 months of strong performance.

But we're prepared for the upsides, we're managing the business for potential downside as you know. That's why we're taking a more measured approach in the second half versus strong growth were likely to see in the first half. Whether you're an investor, invest in Logitech for a quarter or for 12 months or for multiple years, please measure us against that commitment, we will sustain this commitment, we will sustainably grow high single digits or better over many years. That's been true for the past 5 years, and I expect it to be true ahead. In some years we'll grow faster and others we might grow slower. But what Logitech investors have been able to count on and should appreciate in the years ahead is our dedication to consistent strong performance.

With that, I'm going to close this call and get back to work. Nate, you get back to work too and we'll see you after Q2.

A - Ben Lu {BIO 19785128 <GO>}

Thanks, everybody. And that concludes our call.

A - Nate Olmstead {BIO 21036514 <GO>}

Thanks, Ben.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thank you, Ben.

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