Y 2021 Earnings Call

Company Participants

- Ben Lu, VP of IR
- Bracken P. Darrell, President
- Nathan Olmstead, CFO

Other Participants

- Ananda Prosad Baruah, Analyst
- Asiya Merchant, Analyst
- Erik William Richard Woodring, Analyst
- Paul Chung, Analyst
- Serge Rotzer, Analyst
- Unidentified Participant, Analyst

Presentation

Ben Lu {BIO 19785128 <GO>}

Good morning. Welcome to Logitech's video call to discuss our Financial Results for the Fourth Quarter and Full Fiscal Year of 2021. Joining us today are Bracken Darrell, our President and CEO; and Nathan 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 Private Securities Litigation React of 1995. We're making these statements based on our views only as of today. Our actual results could differ materially. We undertake no obligation to update or revise any of these statements. We will also discuss non-GAAP financial results. You can find a reconciliation between non-GAAP and GAAP results and information about our use of non-GAAP measures and factors that could impact our financial results in our press release and in our filings with the SEC, including our most recent annual and quarterly reports and subsequent filings. These materials as well as our prepared remarks and slides and a webcast of this call are all available at the Investor Relations page of our website. We encourage you to review these materials carefully. Unless noted otherwise, comparisons between periods are year-over-year and in constant currency and sales are net sales. This call is being recorded and will be available for a replay on our website. I'll now turn the call over to Bracken.

Bracken P. Darrell {BIO 3403495 <GO>}

Thank you, Ben. Thanks to all of you for joining us. I want to start by saying I'm as worried about India as I could possibly be in a year or whatever it's been now, where this pandemic is raged on. I think we've had fears that have affected every person on this call and more. But in some ways, I was always so worried about India for all the reasons you can imagine. I'm afraid it's happening. But I hope and pray that they really get it back under control quickly -- and that the rest of the world continues to improve step-by-step and escape this pandemic.

Well the pandemic continues to disrupt our daily lives. And as I said, in some countries it's even getting tragically worse. It's -- we're starting to emerge from the strict shelter in place requirement here where I'm sitting today in California and actually broadly in the U.S. We've been thinking -- that's got us thinking even more -- maybe more accurately about what a return to the office might look like as the pandemic subsides.

Some of the behaviors that were formed during the pandemic are clearly going to endure. Video callings meteoric rise will not reverse. Most calls are moving permanently to video. A place in your house, having one for each person to work or to study or to be both, they're here to stay. We're all going to have places in our home. While gaming was popular long before they pandemic, people are using it more and more for social interaction. Many of us noticed this first during the Fortnite phenomenon a few years ago.

This year, gaming took on and even -- took an even bigger step toward prominence in our culture. The number of podcasts, funny videos, thank God, streamers and creators continue to grow throughout the pandemic, emboldening more and more people to think maybe they could get in that streaming act and create video for other people or audio. None of that is new for our strategy. While our long-term strategy is unchanged, our opportunities have changed. They're bigger and they're broader. On top of that, we now have a bigger, more profitable base to grow from. Let me briefly give you a few external examples that illustrate the acceleration of the secular trends that affect us. These illustrations might help you see what we see, long-term growth. Let's start with the trend of video everywhere and working from home and office. Citi group announced that most of its employees will be designated as hybrid workers who will spend at least three days of work in the office and up to two days in home.

That's just 1 of many companies that have announced similar plans. More and more will follow over the coming weeks and months. In fact, even surveys from early in the pandemics showed that companies are beginning to think then about hybrid. CBRE, 1 of the largest commercial real estate operators in the world, noted in a survey last September that 61% -- remember, this is last September, 61% of companies were already back then planning to offer a hybrid work arrangement. I suspect that number is even higher now. And 1 of the key reasons the companies are going to hybrid work is, well, it's obvious to all of you on the call now because we like it. We, who are working at home, want it. JLL, another commercial real estate operator, said in a survey that 72% of workers view work like ballots as their number1 priority post-COVID, ahead of a comfortable salary even.

I've spoken with many executives over the past year. Since the onset of COVID, most, until recently, have really had no plan for how to return to work. Now plans are starting to form. Short term, a story that's come to everyone is a few days in the office and a few days at home. They need video in their offices to keep their remote, but connected teams working well. Things go beyond hybrid work.

Last week, Apple was just the latest major company to identify podcasts as a growth platform with podcast subscriptions, which will allow creators to sell subscriptions to their podcast listeners.

On top of that, streaming is soaring. Social audio, like Clubhouse, has suddenly taken off, and there are more and more creators, making it seem like a feasible and attractive thing for even more and more would be creators to do. The network effect is so powerful. We make the tools that enable existing creators to do it better and be more effective, and for new creators to try it. In Gaming, it's bigger than it's ever been. And as I said, it's become the place to meet for more and more people socially. What does all this mean for Logitech?

More video enabled rooms, more video enabled workspaces that need to be equipped and upgraded with our growing portfolio of offerings, more streamers and more creators looking for more equipment, more gamers looking for better gear. Before I go further, let me say that you might never have another analyst call from Logitech without an update on either our quest to be environmentally sustainable are our actions in diversity, equity and inclusion. But in some cases, you're going to hear about both.

These are so central to Logitech's purpose. This quarter, we announced the availability of the previously announced carbon label products we talked about. First, we know of in the tech world. We're 1 of very few companies in the world to commit to this on every single product in an effort to reduce global carbon output by setting a new industry standard, just as calorie labels have impacted the food industry. In the process, we developed a life cycle analysis methodology to measure a product's carbon impact from its raw materials to its manufacturing and transportation to use by the customer consumer and then, finally, to the end of life. We're sharing our learnings and third-party certified methodology to any company, any competitor anywhere in the world for no price at all for free.

I encourage you to ask companies, as you're talking to them, if they're considering carbon labeling. Don't do it because we ask you to now, do it because it's part of a program that will enable the earth to keep the earth healthy for your Kids, and your grandkids.

Now let's turn to our financial results. Logitech delivered the best year in our history, with fiscal year 2021 sales up 74% and operating income more than tripling to $1.3 billion. What drove those impressive results was not just 1 category or a onetime pull forward. These results were broad-based across virtually all our categories and regions, including countries that never fully locked down and those that are furthest along with their post-COVID recovery programs. Said another way the secular trends we keep talking about are really secular and they're still secular. They will keep growing.

Our PC Peripherals categories were already growing consistently every year, but they increased over 50% in fiscal year 2021 to $1.9 billion. To be candid, we always felt there was potential to grow more in these categories than we were, but we were held back by (inaudible) awareness of some of our premium mice and keyboards, for example, MX masseter and anywhere, I'm using the MX Master right now, which participate in the premium into the category. Analysts, coders and creators should be using these products, but the awareness has always been limited.

I bet many of you on this call, don't even realize how outstanding these products are. Nate and I were talking about this again last night. It was only when hybrid work and remote learning expanded, and we began to be able to invest in awareness that demand for premium price -- of premium mice and premium keyboards began to accelerate.

We also have an even faster-growing alternative, ergonomic products for those who need comfort. WEBCAMS, needless to say have shown their highest growth -- showing the highest growth, more than tripling versus a year ago. While we've been supply-constrained through most of fiscal year 2021 and have admittedly lost some share because of it, we expect to close the gap between in market demand and our ability to fulfill it in fiscal 2022. But let me put this opportunity in perspective on WEBCAMS, CNBC WEBCAMS.

We shipped less than 20 million units in the entire year of fiscal year 2021, the 1 we're talking about today against an installed base of 500 million monitors and 1.4 billion PCs. You can see that we still have vast opportunities ahead of us to drive greater attach rates. But what excites us even more is the increase in the number of workspaces as more companies shift to hybrid work.

As we noted at our recent Analyst and Investor Day our internal survey suggests a 2x to 3x increase in the number of people who will work more than two days at home and the other day is in the office. This means more mice, keyboards, WEBCAMS, speakers, headsets, mics. You can expect us to continue to innovate across our product portfolio, like the MX line of mice and keyboards for enhanced productivity, or our mainstream license keyboards focused on lifestyle and design, or those ergonomic products I talked about. Combined with that, combine that with our increased investments in marketing, which you now know we're putting in to create greater user awareness and consideration for how something as simple as a $50 mouse or keyboard can drastically improve your PC experience, your workspace experience at home or in the office, or both.

You could start to see why we're so excited about this category for the next several years. Now let me talk about another big growth category for us, video collaboration. Sales almost tripled in fiscal year 2021 to over $1 billion for the first time. Our Q4 VC sales were more than what we did in all of last fiscal year. Our growth actually accelerated through the quarters of fiscal '21 as supply improved and more companies started to map out their return to the work -- return to the office.

That represents a clear trend toward turning on video to connect with friends, coworkers, clients and others. Triple-digit growth in this category was across both our conference room video products as well as our personal collaboration products, such as the enterprise 4K Brio Webcam or the Zoom wireless headset. We're also very excited about the opportunities for our most recently announced all-in-one devices, the Rally Bar and the Rally Bar Mini. They are just starting to roll out to great customer feedback.

Our Gaming category also had a very strong year, with fiscal 2021 sales up 77% and sales more than doubling in Q4. The growth was broad-based across all our Gaming categories, including PC gaming, simulation, console gaming and all of our regions. Not only has the gaming market expanded significantly over the past year, we've also reached our highest level ever in overall gaming market share. I'm extremely proud of all the innovation and products that we, our teams have been able to introduce despite the shelter in place mandates around the world.

Our colorful and playful G733 gaming headset, developed by Tiffany Beers and her team, has quickly become 1 of our best-selling gaming headsets. While our newest ProX Superlight gaming mice, mouse, had 1 of our fastest post-launch sales ramps since it was introduced just six months ago. These are just 2 of the many new products that supported our growth and share gains in fiscal year 2021.

Tablet and other accessories also had a tremendous year, with sales up almost 3x, while our tablet keyboards for education we're up over 7x. Schools around the world have needed new technology tools to deliver education to students remotely. And as we noted last quarter, a large onetime order from a Japanese school district drove a significant part of our tablet sales for the year. Even excluding this, our overall tablet sales growth was up triple digits, and our traditional retail tablet sales were up over 50% for the fiscal year.

Our audio and wearables sales grew 69% in fiscal 2021, led by retail headsets and blue microphones. And mobile speakers were down 22% for the full year, but that's in line with our expectations as we reallocated and prioritized our investments in other fast-growing markets. Now let me turn the call over to you, Nate, to walk through our key financial metrics.

Nathan Olmstead

Okay. Thanks, Bracken. We finished an excellent year on a high note with our Fourth Quarter sales more than doubling and with broad-based growth across all our categories and geographies. As Bracken said, fiscal 2021 sales reached $5.3 billion, up 74%, which exceeded our recently revised guidance of 63% growth. This represents over $300 million of sales upside compared to that recent guidance. And as Bracken will cover later, we are maintaining our growth rate outlook for FY '22, and therefore, effectively flowing through this FY '21 revenue upside. Our non-GAAP operating income more than tripled to over $1.27 billion, higher than our previous outlook of $1.1 billion.

Our fiscal '21 non-GAAP gross margin reached 44.8%, up over 6percentage points from last year, almost 5 points of that was due to lower promotional spending and lower retail point-of-sale activations. We do expect, however that these promotions and marketing activities will increase and return to more historical levels in fiscal '22, putting some downward pressure on gross margin in the months ahead. Product mix was favorable this year, and we expect it will remain favorable to margin again next year, somewhat offsetting the pressure I just mentioned. What all this means is that our FY '22 gross margin should land within our recently revised and increased target range of 39% to 44%. Our non-GAAP operating expenses increased 44% in fiscal '21 to $1.1 billion. As our business growth solidified and accelerated, we invested across many areas, including hardware and software innovation, go-to-market expansion and marketing. All of these investments had limited FY '21 revenue impact, but prime the business for future potential growth. In addition to conventional capabilities, we also invested more deeply in environmental sustainability in our own manufacturing and with all our supply chain partners. These are all areas of strategic importance, and where we will continue to invest in the new fiscal year.

Finally, you will notice that our G&A spending increased sequentially in Q4 due to a $30 million investment into a charitable donor advised fund to support our long-term social giving strategies for equality and environmental sustainability. The net result of these business dynamics and operating decisions was strong profit growth and operating margin expansion for both Q4 and fiscal '21 overall, and improved capabilities for the longer term.

Now let me talk briefly about our cash flow. Cash flow from operations reached nearly $1.5 billion for the full year, up from $425 million in fiscal '20, driven by profit growth and efficient working capital management. We maintain a tight linkage and alignment between our business strategies, operational decisions and financial structure. You saw this at work in fiscal 2021 as our strong profitability, balance sheet and cash flow allowed us to invest aggressively in additional manufacturing, supply and logistics. We were able to invest at a pace and level that provided us a competitive advantage as demonstrated by recent share gains in several categories.

We will continue the strategic investment approach as we head into the new fiscal year, and we navigate a dynamic supply environment, which may lead to higher component and logistics costs than we initially projected. Positively, our efforts to find second sources and increased manufacturing output have allowed us to begin the new year with owned and channel inventory at healthier levels than in recent quarters.

Our inventory is fresh and weighted toward fast-turning product categories. At the same time, longer industry lead times and tightening supply for some components will likely increase our cash conversion cycle in FY '22, but our strong balance sheet positions us well in the face of these challenges. Wrapping up uses of cash, we spent $43 million in the quarter on 3 small acquisitions, all in the content creation category. We do not expect them to be material to our fiscal '22 financial results, but we believe they will help us realize the growth potential of this fast-growing market over the longer term.

In closing, while we do not expect this past year's record sales growth rates and margins to continue, we do believe our sales volume gains are sustainable and that our long-term market opportunities have become more attractive and we plan to invest accordingly. With that, it's a good time to hand things back to Bracken, who will talk about our fiscal '22 outlook and guidance. Bracken?

Bracken P. Darrell {BIO 3403495 <GO>}

Thank, Nate, to wake me up again. It's early here in California. As they quantified for everyone earlier, we beat our most recent fiscal year 2021 sales guidance by about $300 million, which, of course we gave you back on our Analyst and Investor Day in March. With not even a month into the fiscal year, I don't think anyone would have felt that, at this point, if we had maintained the same sales dollar outlook for fiscal year 2022 that we guided just two months ago. Had we've done that, it would have meant that our fiscal year 2022 sales forecast today would be down 2% to down 11% compared to down 5% to up 5% that we guided. But we're not holding to our dollar outlook.

We are passing through that sales dollar upside, and we are keeping our down 5% to up 5% sales growth outlook for the fiscal year 2022 unchanged, essentially raising the absolute dollar value of our original sales outlook by about 7%. We feel confident and equally excited about what the new year will bring us and even more optimistic about the longer-term growth potential beyond fiscal year 2022. As we hold our top line growth guidance, we're increasing our fiscal year 2022 non-GAAP operating income guidance to $800 million to $850 million versus the prior outlook of $750 million to $800 million.

Finally, we also announced that our Board approved an increase in our share buyback authorization from $250 million to $1 billion. The Board also proposed a 10% increase in our dividend, which will be voted on by shareholders in September. The bottom line is the same underlying trends that drove our business pre-COVID, significantly accelerated during COVID and have become much more pervasive and sustainable as we look to life after the shelter-at-home period of COVID ends. We have an exciting long-term growth potential ahead from this big base. With that, Nate and I are ready to take your questions. Ben, can you queue them up?

Questions And Answers

A - Ben Lu {BIO 19785128 <GO>}

Paul from JPMorgan.

Q - Paul Chung {BIO 17875766 <GO>}

You great quarter. So on BC, you've seen this business grow annually at 40% CAGR for the past five years and then this year accelerate 180% in the sixth year. As we look ahead in the next five years, what are some of the growth levers you see today that you can pull in? And Europe was the standout this quarter, what's kind of driving the acceleration there? Then I have a follow-up.

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

Yes. I would say a couple of things. So first of all, Europe, part of the reason for the delta in our sell-in and sell-out is part of Europe, and we were fulfilling a backlog. So we had strong sales there. I would say overall, I think the key drivers over the next five years are going to be the same drivers that have gotten us here with 1 big exception, which is, I think we took a huge step-up this year and the realization that video calling is just a must.

We always said it would be video everywhere at some point, but we didn't quite realize that there would be this strong advertising program for video calling that would happen during the pandemic, and it's happened. Now it's really going to be a question of how effectively and efficiently can people video enable offices while they continue to be enable workspaces. I think that's going to happen over the next 5, 7, 10 years.

A - Nathan Olmstead

I mean Paul, I think on -- I'm just adding to that a little bit. I mean I think the growth levers there. Clearly, you've got the market conditions, Bracken's articulated, I think already. But just building out our own portfolio, you see us investing a lot in innovation. And a lot of that is focused on just increasing the types of solutions, the effectiveness of the solutions that we can offer to customers in video as well as our own go-to-market capabilities and operational capabilities. These are all things that were areas of investment for us in FY '21, and as I mentioned, we will continue to invest in FY '22 and beyond.

Q - Paul Chung {BIO 17875766 <GO>}

Okay. Great. Then just on marketing, how are you tracking that return on that dollar spend, obviously besides the revenue growth you saw in the quarter? Can you provide some feedback on the 5 logic campaign during the Super Poly? Did you see kind of an immediate lift? Then what kind of marketing campaign should we expect heading into FY '22?

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

Yes, there are different kinds of marketing. There's the kind of marketing like we did in the Super Bowl, which is really what they call top of funnel. That's kind of broad and general and not really designed to immediately sell specific product, but to create awareness and attraction for the brand itself and the categories that we're in. Then there's the very, very kind of search engine optimization, click and buy kind of marketing. So there are different kinds of metrics across those different areas. We look at them all. I would say overall, we feel very, very good about the de (inaudible) campaign. We're excited about the kind of impact it's having both -- even just anecdotally. I probably have had -- I can't even tell you how many people have reached out to me and said that they -- it really -- that they were surprised by the campaign, but somehow fell very consistent with what Logitech has always been, which is exactly what we wanted. So you can expect more of us there. And in terms of the more tactical sales oriented, we look at things like everyone else does, return on ad spend. And we try to make sure that we're investing where the returns are the highest.

A - Nathan Olmstead

Paul, I would say in terms of areas of focus, it's across the board. But as Bracken mentioned, I think awareness is 1 that I just feel so strongly about for our categories. If you read the product reviews really across the lineup, great reviews. People who try the products, love the products, and they recognize like the enhanced experience that they provide. I'll just give you an example, something like our MXkey is kind of the premium keyboard that we launched this last year, which has done so well. It's a $100 product. If you use that over two years, you're paying about $0.15 a day for something that is -- you're using constantly and really improves your experience. So I think there's a big opportunity for us around awareness, and Bracken mentioned some of the things we're doing there.

But I would expect to see more from us to drive the awareness of big categories in general.

A - Ben Lu {BIO 19785128 <GO>}

Asiya Merchant.

Q - Asiya Merchant {BIO 20247269 <GO>}

Great a congratulations on an outstanding quarter again. A couple of questions on my part. Visibility, I know you guys are kind of maintaining your growth expectations flat, plus or minus. But how much visibility now do you have into the next couple of quarters? If you can talk to it a little bit sequentially at least here into June and then maybe even to the September quarter? Then just high level new shortages that is enabling people to add on excess inventory, whether it's in the channel, whether it's sitting on the shelves. When do you expect that sell-in, sell-through to reach a more balanced environment? Is that even as you look out into the next couple of quarters? Then one for Nate on the gross margin. You talked about the promo pricing returning to a more normalized level. When do you expect that? I would assume semi-shortages and other shortages in general would suggest that pricing remains more muted or promotional price remains more muted. That's it for me.

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

Nate, why don't I jump -- I'll take the first 2, and then you can take the third 1 and I can add to what I'm saying. In terms of the balance of the inventory kind of balance of the channel inventory, et cetera, we're just about there. I mean I feel -- I think we were -- we kind of ran behind most of the pandemic year trying to fill the channel. This time, we got -- I think we finally started to catch up this last quarter. I think we're about there. We'll see. We could have a few additional spots that were a little weak. But generally, I think we're there. In terms of visibility, I think our -- I would say the visibility this quarter is good. The visibility into the next quarter, as you go further out, of course it gets less and less clear for us. But we're optimistic. We're -- I would say it's a little less visible now than it would have been in a normal year because just a particularly strong -- the real strength we've had in the last 3 or 4 quarters. But we feel very, very good about our own programs.

We have such control over what we're doing and the timing of our product launches and things. I think the tricky part of -- if there is a tricky part of that, maybe the trickiest part is just availability of parts. We've always been able to manage component availability well, and we continue to do that really well, but it is not a secret that things like chipsets and things are really hand to mouth in some of the categories we're in and in the industry broadly. So that could always take us a little bit by surprise. So we've been able to manage that very, very well, historically, and I think we'll do it in the future. You want to add anything on any of that or on gross or on my answer the gross margin?

A - Nathan Olmstead

Yes. I can cover gross margin. My Zoom Crash, mid-stream there, but back up. I think on gross margin, pricing and promotion and the retail point-of-sale marketing, those are really important parts to our business. Those are things that we have to do.

We will see an increase in those activities, I believe, in FY '22. There's a lot of forces at play though, on margin, and bracken just alluded to some of the ones around the component availability, and you asked about supply chain. I think headwinds could also persist in terms of logistics because if materials are late arriving, and we have to rush those things, those finished goods to market, we could continue to see elevated logistics costs. Also, I think just component pricing could be a challenge in certain areas in FY '22 as well.

So there's -- again competing forces, favorable, unfavorable product mix, I believe, will continue to be favorable with faster growth in places like video collaboration. But nonetheless, we think the gross margins will land within that new range that we provided AID, a new increased range that we provided at AID, but down from levels that we saw here in FY '21.

Q - Asiya Merchant {BIO 20247269 <GO>}

Any color on sequential stuff? You typically provide some color on sequential into the June, which is any color there? I up mid-single digits, yes.

A - Nathan Olmstead

Yes. I would say in general, I don't think in FY '21 sequential historical trends sort of were irrelevant. I think that, that could also be true here in FY '22. I just think we're in still an unusual environment with many economies going through transitions as hopefully, they begin to reopen to sort of pre covet normalcy. But the timing of those changes is very hard to predict. So I think our seasonality it's probably harder to predict in FY '22 as well. Certainly, I still expect the holiday quarter to probably be the biggest, but other than that, it's going to be probably important for us just to remain fast, flexible and nimble and just react to the market opportunities that we see.

A - Ben Lu {BIO 19785128 <GO>}

Michael, your line is now open.

Q - Unidentified Participant

Two questions, actually, along the same lines, visibility. Can you just explain, I mean between beginning of March when you gave your guidance for Q4 and the actual result, I mean there's a huge discrepancy a nice one, obviously. So the question is really, could you absolutely not foresee that? Or did you try to stay on the cautious side? And if I look at that big discrepancy, I'm wondering how you can be so confident for FY '22 with your guidance, if that's the discrepancy in just one month? And the second question is also along the shortage situation. You talked about electronic components and semiconductors. My question is more on the plastic side. How do you make sure -- or do you see any shortages in plastics? And how do you make sure that you have sufficient availability there?

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

Yes. I'll take a stab at both of those. Then, Nate, you can fill in on the plastic side, no, we don't have any -- at least not the LIBOR. I'm shortage is on plastics right now, but I'd say the demand has been very strong. It's every day is a new day when it comes to component supply over the last year or so. But yes, I'd say so far, we're okay on the plastic side. On the visibility side, I think that's a very fair criticism. Our constructive comment, I think how could we have been that far off. It's a good question. We're always -- we always try to make sure that what we tell you we can deliver, we deliver. This year was just stronger and stronger. We also had a chance to fill a backlog of orders, especially in video collaboration that we just -- we really couldn't completely foresee getting to. We're able to do it. But as you note, we're really strong across the board. I think we're -- our business is so strong, and our market shares continue to gain and we never completely assume that we're going to gain market share. So we probably did a little better from a market standpoint than we expected. Of course we also had a chance to refill the channel. Do you want to add anything to that, Nate?

A - Nathan Olmstead

I think I'll still come back to the environment that we're in is fast-moving, right? And changes across countries, and we have lots of customers in every country. So and we're reacting with a very nimble supply chain, operations team, to those changes. But I think we saw -- also March was going to be 1 of the tougher -- 1 of the first months, but really we're looking at a tougher year-over-year compare, where we started to see pretty strong demand a year ago. So I think there was maybe a little bit of that thinking going into the outlook we provided at AID as well. We weren't really sure if there was some significance to that first month of a tougher year-over-year compare, but as Bracken said, the demand remains strong and supply also continued to improve as we went through the quarter.

Q - Unidentified Participant

Great. Maybe just 1 last question, if I may. The -- you mentioned that you shipped around 20 million units of WEBCAMS into a 500 million monitor installed base. Do you have any -- could you give us any feel about what the actual Webcam installed basis, if you have any numbers on that ?

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

I don't think -- I know we don't have them available right now, but I'm not sure we do have good numbers on that. What I would say is, I think if you took a poll of people on this call, it would probably surprise a few of you have WEBCAMS and should. But yes, so it's a big opportunity. Let's just leave it at that, and I think we're going to go after it.

A - Ben Lu {BIO 19785128 <GO>}

Serge, your line is open.

Q - Serge Rotzer {BIO 4734915 <GO>}

I have two questions. Look, looking at your capital allocation, what drove the increase to, let's say to $1 billion, so $2 billion? Or is there any cross read to be made on your M&A ambitions? Then yes. If things continue to go very well, what is the capacity you have in place? I mean in terms of theoretical sales number on group level that you would be able to generate.

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

On the capital allocation, I wouldn't read that as any comment at all about our M&A interest or goals or capacity. I mean we're we I don't think like we've given up anything in terms of capacity to do M&A by announcing a larger buyback. We have -- we obviously have a lot of cash and a lot of cash generation capability going into the future. We're certainly no less ambitious on M&A. We're always looking at all sizes of things, and we'll continue to do that. In terms of our theoretical capacity, yes, we do have theoretical capacity well above where we are today. In most of our categories, not all, and we try to keep ourselves in that position.

A - Nathan Olmstead

I don't think I have much to add to that. I mean you saw that we did 3 small deals in the quarter. Obviously they didn't cost us a significant amount, but we're pretty active in looking at opportunities. So really no change in capital allocation priorities or processes.

A - Ben Lu {BIO 19785128 <GO>}

Eric.

Q - Erik William Richard Woodring {BIO 19492555 <GO>}

Congrats on the good quarter. I just want to touch on the sell-in and sell-through dynamics here a little bit. Just to dig in and I try to understand it correctly. That is -- obviously we've seen that gap widen over the last 3 quarters. It seems predominantly focused in the Americas and EMEA. So is that widening because you've had an opportunity to fill the channel and you're at the point now where you feel like channel inventory levels are still healthy? And the kind of secondary to that, would that then imply that if you're expecting to be, call it, flat year-over-year next year, that sell-through could potentially be 15% to 20% to have the impact from this year normalized next year? Then I have a follow-up.

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

Nate, you want to take that one? Or I'm happy to...

A - Nathan Olmstead

Yes. I mean I think we started the year -- if you go all the way back to Q4 last year, inventories got drawn down quite low. I would say we've been on a steady path to improve inventory levels both within our distribution centers as well as out in the channel. That was pretty broad-based to begin the year for the first couple of quarters and then, again slowly over the year some categories have gotten healthier. I think this category -- or this quarter, exiting this quarter, but we really have gotten to a pretty healthy position now across the board. There's still some places where we're a little bit tight. But generally speaking, I think we're now -- I think we feel good about the level that we have and the coverage that we have.

In terms of looking to next year, again hard to predict. We'll do things strategically where it makes sense just given the dynamic supply environment if we think we need to be more aggressive in securing components for availability, but I feel good right now about the state of the inventory.

Q - Erik William Richard Woodring {BIO 19492555 <GO>}

Okay. Super. Then kind of a related question. Your balance sheet inventory tripled year-over-year, days inventory 72 days, which I think is the highest in like 2.5 years. What's primarily driving that? Is it more finished goods versus raw materials? Are there any prepurchases to get ahead of component constraints? Just curious on your color there as well.

A - Nathan Olmstead

Yes. I think on the days of inventory, listen, our linearity of purchases are sort of back-end weighted. You can see that our DPO also went up as well, sort of offsetting that. So our cash conversion cycle overall, which is where I usually start, was 18 days, which was down, I believe, 26 days year-over-year, and actually, rather flat sequentially. Normally, we see an increase in our cash conversion cycle Q3 to Q4. We didn't see that this quarter.

So I think cash conversion was again strong. I do think in the first half of next year, in particular, we could see -- probably we'll see an increase in cash conversion cycle, certainly against the very low levels that we were at in FY '21. We'll see that cash conversion cycle increase in the first half just with supply chain lead times extending a bit. And again very comfortable that the balance sheet is very strong. I think it's something we'll put to work so that we can enable the availability that our business needs to support growth and market opportunities.

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

And to answer the question very specifically about what are we investing in? It's both. So we're investing in components, and we're also investing in finished goods.

Q - Erik William Richard Woodring {BIO 19492555 <GO>}

Yes. Awesome. Then maybe just one final one. It's great to see you meaningfully increase your buyback authorization. You clearly bought back a lot of stock in the March quarter. Should we interpret these dynamics as a sign that; one, you see value in your stock and buying it back today; and then two, that buybacks could potentially be more of a use of cash than they have been over the last, whatever 1, 2, 3, four years?

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

I'll jump in, Nate, and then you can add. First of all, in terms of the last part of your question, I think it is -- this is a bigger number than we've had before. On the other hand, we're a bigger company than we were before, and we have more cash than we've ever had. So I think on the 1 hand, this is just a scale up. On the other hand, we do want to be prepared. Because we've doubled the value over 2.5 years. You can almost draw a line in it for the last nine years. Since last year, we doubled the value again. We want to be in a position where we make sure that if we see a good investment here, and we do, we'll keep investing. In terms of -- you want add anything else to that, Nate?

A - Nathan Olmstead

No. Not in that. I think on the buyback versus dividend, I would just say the buyback number of $1 billion is over three years. You probably need to take the dividend number and multiply it by 3 and add some growth to it or something to sort of get something that's apples-to-apples. So I think we're still very committed, obviously to both forms of returning cash to shareholders. The stock has doubled in price, as Bracken just said, so it has become more expensive for us to buy back shares. But at the same time, our cash generation has improved a lot as well. So I think those are some of the factors that go into the higher authorization level. But yes, as Bracken said, we believe we're long-term investors in the company, and we think that we have really good long-term potential.

A - Ben Lu {BIO 19785128 <GO>}

Ananda?

Q - Ananda Prosad Baruah {BIO 15320341 <GO>}

And congrats on solid results and good execution. I guess just two quick ones for me, bracken. In video collaboration, can you just give us a little context around what you're seeing on the enterprise portion? How you're seeing the business sort of develop with companies right now as they go to well, I guess like what are you seeing with regards to sort of video enabling rooms? And what's your expectations over the next couple of quarters, anecdotally, not numbers, but just trying to get a sense of behaviorally what they're up to? Then I have a follow-up.

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

I think it's -- in terms of -- intuitively, you would say how can we all be sitting here doing this on video? Then when we go back in the office, have the same kind of setup we had before where most people had a small fraction of rooms video enabled. So intuitively, that's what I believe I've all believed from the beginning of the pandemic, and I continue to believe, and I'd say we're starting to see some of that. We're -- there's -- but it's too early to say it's about to (inaudible) something, but I think that you're going to see strong growth in video enablement of rooms. It's just inevitable. But anecdotally, I see enough signs to say that, that's true.

Q - Ananda Prosad Baruah {BIO 15320341 <GO>}

Okay. Great. And just going back to the remarks that you guys both have made about regaining some Webcam share as you've gotten greater as competitive availability has come back. Can you just -- just sort of more fully illuminate for me, for us, why when component available, begins to come back for you guys, I would assume it comes back for other people. So why is it you're more advantage to take back share as opposed to the market?

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

We have -- I mean I'll really put my neck out here and say we have better products. So we have better products. We're known for having really strong products and people wanted

Logitech Webcams. Here's a case where people really looked for the brand. They're really searching for our product, and they couldn't find it, they often bought somebody else.

A - Ben Lu {BIO 19785128 <GO>}

Bracken and Nate, I think that concludes our call. We have no more questions.

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

Well thank you, all. It's been -- FY '21 was a tremendous year, but as I used to say to my mom growing up, every day you kind of have to draw a line behind your heels and everything behind you is just to learn from. The whole world, the whole exciting world ahead of us is, right, from that line forward. I have super -- and I know Nate is, too -- we are super excited about the future. Thanks a lot for being along to this ride so far. I think it's going to continue to be exciting and fun.

A - Nathan Olmstead

Thanks, everybody.