Q2 2022 Earnings Call

Company Participants

- Bracken P. Darrell, President and Chief Executive Officer
- Nate Olmstead, Chief Financial Officer
- Nicole Noutsios, Investor Relations

Other Participants

- Ananda Baruah, Analyst
- Andreas Muller, Analyst
- Asiya Merchant, Analyst
- Erik Woodring, Analyst
- Joern Iffert, Analyst
- Jurgen Wagner, Analyst
- Paul Chung, Analyst
- Serge Rotzer, Analyst
- Tom Forte, Analyst

Presentation

Bracken P. Darrell {BIO 3403495 <GO>}

It stopped raining here in California, you'll be happy to know. If you look around, it's monsoon season. Nicole, wherever you're sitting in that virtual background of yours, that's what our new office needs to look like.

Nicole Noutsios {BIO 15087891 <GO>}

It's virtual, it's not reality.

Bracken P. Darrell {BIO 3403495 <GO>}

It's not your home?

Nicole Noutsios {BIO 15087891 <GO>}

No, it's not. (Multiple Speakers) Yeah. So, I'm going to start with the safe harbor. Hopefully, everyone is on and can hear me.

Good morning, everyone, and thank you everyone for joining Logitech's Q2 Fiscal 2022 Earnings Call. This call includes forward-looking statements, including with respect to future operating results and business outlook under the safe harbor of the Private Securities Litigation Reform Act of 1995. We're making these statements based on our views only as of today. Our actual results could differ materially due to a number of risks and uncertainties, including those mentioned in our earnings materials and SEC filings, including our most recent annual and quarterly reports. We undertake no obligation to update or revise any of these statements.

We will also discuss non-GAAP financial results. You will find a reconciliation between non-GAAP and GAAP results and information about the use of non-GAAP measures in our press release and in our SEC filings. These materials are well -- as well as our prepared remarks, slides and a webcast of this call are available on the IR 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 replay on our website.

And with that, I'll turn the call over to Bracken.

Bracken P. Darrell {BIO 3403495 <GO>}

Thank you, Nicole, and thank you for that gripping and surprising summary of the safe harbor provisions. This month, we celebrated our 40th anniversary here at Logitech. We've grown from a Swiss software startup that found a niche and computer mice to a designing company with leading market share across many categories, and we're growing share in the majority of our key product categories, including the original category of the mouse. I mentioned our 40th anniversary not really to look back, but as a prelude to looking into the future. Just as the PC growth trend supported our 30 years around the PC growth period, a collection of long-term trends will support our strong growth for many years ahead.

Gaming will grow to become the biggest collection of sports in the world one day from both a participant and a spectator standpoint. Video collaboration will almost totally replace audio-only collaboration. Almost everyone will create content as well as watch each other's content. And the mouse and the keyboard, those original categories, will keep growing as more people work, create and learn at a desk or a table, where they can move away from that tiny screen on the phone and be comfortable for hours at a time. I love Logitech's position in this landscape of long-term market trends. Gaming, video collaboration, streamers and creators, and our workspace product categories, we are ideally positioned to grow in all of them.

That's the long-term outlook, but let's look more near-term. Most organizations are settling into new ways of working, hybrid. And the evidence is overwhelming. The employees prefer working from home two to three days a week. Many employers have embraced this reality and a large share of the rest have at least accepted it. Companies across all industries are adjusting their offices, planning redesigns or relocating to accommodate this shift. Many companies including Logitech are reshaping offices to support hybrid work practices and enable more places for meeting, for collaborating and

for creating together, while still continuing to have dedicated workspaces for those who prefer or need it. The days of the simple, I work in the office and then I go home, are over for so many of us.

It used to be your workplace was the office. We've entered the next era, where your workplace is your workspace, wherever that is, traditional office desk, hot desk, home office, kitchen table, conference room, your child's room or a coffee shop, the variety of workspace is growing. And in that world, with people distributed across so many places, the video enabled spaces in the office must grow too, conference rooms, huddle rooms, collaboration spaces, all will need video and must continue to grow. What an amazing opportunity this is for Logitech. We offer solutions for all of those wherever your workspace is and most of us will need more than one.

When we are not working, we want to create and not to just play. Humanity has always had the need to create new things and connect to each other. Now most people create in a digital world. Digital creation has been growing strongly for many years. And not surprisingly, it surged during the pandemic. But that surge continues. The total number of hours watched across all streaming platforms, including Twitch, YouTube and Facebook increased 20% year-on-year this past quarter from 7.5 billion hours to almost 2 -- 9 billion hours in Q2 of 2021. That's 20% on top of the incredible growth we already saw last year.

Those trends in mind, let's examine our performance in Q2 of this year. Last year, we reported tremendous Q2 growth of 73%, accelerated by the pandemic. On top of that substantially larger base, we not only sustained that growth, we actually grew again this quarter. We delivered record sales, double-digit sell-through across all regions and grew market share across almost all of our revenue. I believe we're integrating better than anytime in the 40-year history of the company too, design, engineering and sustainability.

Our PC peripherals category has remained very strong, with double-digit sales growth in pointing devices and PC keyboards and combos. Here's one example -- or two examples of how our design-centered approach is so powerful. On the one hand this quarter, we launched MX Keys Mini and Mini for the Mac. These keyboards were designed in result of the input and requests of the creator community. The new keyboard offers the best features of popular standard size MX Keys, which is a larger keyboard that's sitting in front of me, but in a minimal wireless keyboard. I'm using it right now and it's absolutely awesome, it's right here, it will likely skew 30 or 35 and older.

On the other hand, just go look at our website and type in -- later ideally, so you don't -- you keep listening to me for now, type in pop keys in the search bar. You'll see a line of mechanical keyboards with replaceable emoji keys with very colorful, that's just launching in China. It's so fun and so cool, it's perfect for Gen Z. It will skew strongly under 30 and female.

Our gaming category had another strong quarter with market share growth in PC, console and simulation gaming, all of them. Underlying sell-through grew double-digits in this category as well. Our tablet category is more than double the size it was two years ago, and our portfolio is stronger than ever. Education and online learning are a strong and

growing opportunity, not just for K to 12, but as universities democratize learning with online courses and the adoption of numerous learning platforms grows in popularity. Remote teaching has become easier, and there is much more we can do to help educators to lead their classes both in-person and when students are at home.

As organizations worldwide continue to reestablish ways of working remote, on-premise and hybrid, people are indeed using more and more video. According to market research firm, Frost & Sullivan, out of the nearly 90 million meeting rooms worldwide, only about 8% are video-enabled. According to them, that's 1/11th of the total rooms out there. We are working to change that and help our customers evolve with the new ways of working because it's simply a must to have videos in the rooms in the future. The lack of video access creates a terrible experience for remote attendees who've experienced the benefits of face-to-face video interaction over the last year.

Every IT decision-maker is thinking about this. Thoughtful reformatting of the way companies work as they go hybrid is a watershed moment for many of these departments because for the first time the structure of offices and the technology -- offices and the technology in the rooms, the primary goal of these departments will be a driver of the cultural evolution of every company. So, it isn't surprising, company IT departments are making careful, broadly aligned and systematic steps here. We're investing in building out solutions for these IT leaders and investing deeply in this area.

Next, I want to touch on the well-discussed supply chain industry challenges that have been headline news globally. While we've managed these global supply chain challenges well throughout the pandemic, Logitech is not immune to their effects. We continue to proactively manage our supply chain, but expect ongoing headwinds from higher logistics costs and prolonged delays and challenges of component availability. We do believe our long-term supplier relationships as well as our wholly-owned production facility should help us remain competitive in the current unprecedented supply chain environment.

And before I close and hand it over to Nate, let me give a quick sustainability update. We recently raised our climate goals. We announced that we will be carbon-neutral this year and have plans to be positive in 10 years. And then at that point, we'll be taking more carbon out of the environment than we generate. These are industry-leading commitments. We're addressing our carbon footprint across the entire value chain, designing our products for sustainability using renewable energy at 92% right now at our facilities and supporting third-party certified carbon removal projects.

We're excited about the long-term trends that are driving growth in our business. These trends drove our business pre-pandemic, accelerated during the pandemic, will be a driving force for years to come. Our long-term strategy remains unchanged. The current market trends play to our strengths. And we are doubling down to become even stronger.

Now, let me turn the call over to Nate for further comments on our business performance this quarter. Nate?

Nate Olmstead {BIO 21036514 <GO>}

All right. Thanks, Bracken. We delivered a solid quarter and continue to execute well on a number of fronts. In Q2 and for the first half of the year, we grew the top line, maintained strong gross margins, gained share in most categories and returned record levels of cash to shareholders. We are confirming our full year outlook, despite unprecedented supply chain industry challenges.

Turning to the Q2 results. Our total company top line grew 2% in constant currency, with strong momentum in our pointing devices and keyboard categories, both growing double-digits. Webcam sales decreased this quarter by 9% after more than tripling last year. We gained share in all three categories and each has good long-term growth potential driven by hybrid work and greater category awareness. Q2 video collaboration sales declined 4%, but sell-through grew double-digits in all regions. Net sales for Americas and Asia Pacific grew year-over-year. And while EMEA net sales declined versus the prior year, they grew sequentially, and EMEA sales more than doubled versus two years ago.

Gaming grew 9% against 84% growth last year and delivered impressive share gains across PC gaming, simulation and console headsets. It's been an excellent first half for gaming enabled by a very strong lineup of innovative products, solid marketing execution and our position as the leader in the fastest growing categories like wireless mice and keyboards. Sales in our tablet accessories category declined 3% in Q2, but excluding Japan where we had a large education order in Q2 through Q4 last year, sales grew more than 30%. Importantly, our tablet category is still more than double the size it was two years ago and our portfolio is stronger than ever as demonstrated by 6 points of share gain in the quarter. Our music categories declined as expected in Q2, down 14% overall, including mobile speakers down 11%.

Q2 non-GAAP gross margin remained strong at 42%, although down 370 basis points versus last year's elevated levels. We anticipated that gross margins would be down for -- from last year. And as we look out to the rest of this fiscal year, I expect gross margins to be lower than current levels for three primary reasons. First, we expect our promotional spending will continue to increase, although still remain below historical levels. Second, we will continue to invest in retail point of sales marketing, which was significantly curtailed last year due to store closures and broad-based supply shortages. And lastly, while we continue to manage our supply chain, we expect to be impacted by industry-wide component and freight cost increases.

Turning to expenses, we executed our plan to strategically invest to grow our business over the long-term. Our non-GAAP operating expenses increased 52% in Q2 to $337 million. The increase was largely driven by investment in marketing, sales coverage and product development. As a percentage of sales, OpEx was higher than Q2 of last year, but still down versus Q2 two years ago, highlighting our significantly increased scale as a company. Rounding out the P&L, our Q2 operating profit decreased 40% to $211 million and operating margins were 16.2% of sales, down about 12 percentage points versus the prior year and up about 4 points versus two years ago.

Cash flow from operations was negative $63 million in Q2. We returned significant cash to shareholders with $120 million of share repurchases, paid an annual dividend of $159 million and ended the quarter with a cash balance of approximately $1.1 billion. At the end of September, our inventory was $828 million, up $433 million from last year, while our inventory turns were 3.7 times versus an unusually high 7 times in Q2 a year ago. Historically, our Q2 cash flows tend to be positive, but they were negative this quarter as inventory turns were slower due to longer transit times and our continued strategic use of the balance sheet to secure long lead time components for key product categories.

I expect to see positive cash flow generation in the second half. But given that logistics bottlenecks and supply dynamics will remain challenging for at least the rest of this year, our cash from operations will be lower than our initial outlook. This dynamic should be temporary. And as lead times and transit times improve, cash flow will rebound due to reduced working capital. Our Q2 cash conversion cycle was 69 days, up from an exceptionally low 19 days last year, and up from 43 days two years ago. The primary driver of the change in our cash conversion cycle is higher inventory days, which are up about 25 days versus pre-COVID Q2 levels.

Looking ahead, we are tracking to our plan of sustaining the increased revenue scale from last year and investing to build a larger, faster-growing and more profitable company for the long-term. We are confirming our fiscal year '22 outlook of flat sales growth in constant currency plus or minus 5% and maintaining our fiscal year '22 non-GAAP operating income outlook $800 million to $850 million. We are well positioned in the market and this outlook reflects our focus on driving long-term growth.

With that, let me hand it back to Bracken.

Bracken P. Darrell {BIO 3403495 <GO>}

Thank you, Nate. Our consistent operational execution and ability to capitalize on long-term trends like hybrid work, video everywhere, gaming and content creation continue to drive our performance. These trends that drove our performance pre-COVID and accelerated during COVID continue to position us really well for the future as well. As I said at the top of the call, we may have started 40 years ago as only a mouse company, but we far from that now. Our portfolio today is diverse. Our pipeline of upcoming products is strong. And we continue to build our capability in world-class design and sustainable innovation. Many of our employees listen to this call. And at this point, I want to thank each one of you for the hard work throughout this quarter and the last year and a half. I'm confident about this year and super-excited about the years to come.

Now, Nate and I are ready for your questions.

Questions And Answers

A - Nicole Noutsios {BIO 15087891 <GO>}

As a reminder, you can chat me if you'd like to ask a question. And with that, I will have Asiya Merchant from Citi ask the first question.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Asiya.

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

Hello, Asiya.

Q - Asiya Merchant {BIO 20247269 <GO>}

Hey. I -- for some reason, I can't start the video, seems like the host has disabled it. So, I'm just going to ask on audio. So, one for Bracken and one for Nate. So, Bracken, you're talking about long-term growth, you guys obviously had a very robust outlook. And it seems like some of your competitors, HP and Dell seem to buy into the idea that peripherals are indeed a very attractive category and should see growth. But in the face of this, we are seeing some normalization -- there -- we're seeing some normalization here with sell-in versus sell-through. Are you expecting as we exit the year and when your sell-in and sell-through kind of normalize hopefully that we should start to see growth, which is more in line with your target model? Or relative to what investors are concerned about that there will be this period of sustained low single-digit or flattish growth, given the extraordinary growth that we've seen during the pandemic. Then I have a question for Nate as well.

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

Okay. I think the reality is that I've got a chart in front of me that actually looks back over the last couple of years of growth, and the numbers aren't astonishing. But you have to remember that they really reset a base for us. So, for example, I'll just take the mouse and keyboard, and keyboard and combo -- mouse and keyboard categories, we've really now just got these multiple extra workspaces, all of us, and now they're upgradeable. Our business pre-pandemic was really just an upgrade -- mostly an upgrade business. And now, we're the upgrade businesses for multiple places, some in the office, some at home and companies want to standardize. So, yeah, I believe as we go into the next year and the year after that, and the year after that, we're going to see long-term growth in these categories. And I think it will start to, as you called it, normalize. And I'm really excited about it. I think we're in a really good position.

The other thing I'd say is, we're not sitting on our chair waiting for the market to happen. Most of our categories, we're the market leader and we're making it happen. So, we have the best innovation engine in the history of the company, I believe, right now. That's why we're gaining share in some -- in a huge percentage of our categories. So, it's -- I think we can make this happen rather than watch it happen.

Q - Asiya Merchant {BIO 20247269 <GO>}

As it relates to video collaboration, Bracken, seems like even to get to the low end of your guide, 10% to 25%, I think that was shared at the analyst event, you're going to have to see some strong growth. I know there is some sell-in, sell-through dynamics that are going on there, but should we even expect as reported video collaboration sales to be in that range, or are we still going to go through this period of sell-in, sell-through dynamics in the back half of this fiscal year for you guys?

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

Maybe from a channel inventory standpoint, we're in pretty good shape, but I think we could end up falling below that range that we gave you at the beginning of the year. I think it just depends on -- and one of the things I think we're seeing is that there is a longer period of decision-making happening in a lot of companies about how to restructure their offices, and that's probably delaying their purchases and really how they're going to set up video inside the office. So, I think that's possible. The good news, though, is we're really diverse. We've got a great strong diverse portfolio. This has been the story for us for as long as I've been here, especially the last five years. When one thing is performing a little above what we thought, the other one is sometimes low and vice versa. So, right now, if you look at our pointing device, keyboard and combo business, and gaming, all of them are performing above kind of what we thought right now. So, I'm convinced that the mix of these will continue to give us really strong growth for the year.

Q - Asiya Merchant {BIO 20247269 <GO>}

Great. And then just for Nate -- yeah, sorry. Go ahead, Nate.

A - Nate Olmstead {BIO 21036514 <GO>}

No, no, go ahead (Multiple Speakers)

Q - Asiya Merchant {BIO 20247269 <GO>}

Just for Nate about the inventory levels, significant discounting, if just demand slows, I mean, you guys do have elevated inventory at this point. I know some of that is just strategic buying, given everybody else can get the components they need. What gives you confidence that you're not going to lead to an environment where there will be significant discounting?

A - Nate Olmstead {BIO 21036514 <GO>}

Right. Let me just -- I mean, I think Bracken hit all the right points on your earlier question. I just think on the sell-through -- the sell-in and sell-through dynamic, remember last year, our sell-in was greater than sell-through on the growth rates. So, really all you're seeing is normalization of that this year with kind of the reverse taking place, totally expected, but a lot of that just has to do with sort of last year, there was really no promotion taking place, there was very little marketing taking place, MDF type marketing, retail marketing. And this year, we're doing those things as we've communicated. So, that's the primary driver that you're seeing there, Asiya, not a surprise and not a concern. Probably will normalize as we get out into the next year, but we'll see as this situation unfolds.

In terms of inventory, again, I think as we've communicated, we have -- I mean, I think our strategy is working quite well. I think if you look at our share gains, as Bracken mentioned, really across the board, we've been gaining share and that's actually something we didn't do last year. We had pockets of share loss last year in web cameras and in many areas where we were short. So, I think the best we've made on components and on finished goods and inventory replenishment have been playing out well.

The other thing I would say is on inventory, and, again, I've said this before, is that the places where we are making inventory bets are in our fastest-selling longest product lifecycle places, where we have high market share. So, we're making those bets very strategically and very thoughtfully. And again, we have number one or number two position in really most of these categories. So, I feel really good about our ability to -- I feel great actually about having this inventory available as we're in this type of environment.

Q - Asiya Merchant {BIO 20247269 <GO>}
Great. Thank you.

A - Nate Olmstead {BIO 21036514 <GO>}
Thanks.

A - Bracken P. Darrell {BIO 3403495 <GO>}
Can I add one more to that? The implication that is somehow we just -- if we have extra inventory, we just burn it off by selling everything at a rock bottom discount. We just don't do that. So, that's not been our practice in the past, I can't imagine doing that in the future.

Q - Asiya Merchant {BIO 20247269 <GO>}
Fair enough. Thank you.

A - Nicole Noutsios {BIO 15087891 <GO>}
The next question is with Paul Chung from JP Morgan.

A - Nate Olmstead {BIO 21036514 <GO>}
Hey, Paul.

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

Q - Paul Chung {BIO 20654199 <GO>}
Hey, guys. Thanks for taking my questions. So, just on VC, we're starting to see some return on the increased investments over the past year. Can you talk about the reception of some of the new products you released in VC and how those are trending tag, docks, some of the earbuds, et cetera?

A - Bracken P. Darrell {BIO 3403495 <GO>}
Yeah. I'll just jump on that. It's probably too early to really react to those. They're just brand new. The sales cycles are a little longer in VC. But overall, I'd say, I feel really good about our -- oops, my video was off for some reason. But overall, I feel really good about

our innovation engine in video collaboration in the whole business. I mean, I think we continue to just have great products coming in, Scribe is probably one of the -- our newest products. It's the whiteboard for video, and that's been really exciting, the reception has been great. Actually, Logi Bolt, which is a more secure way to -- basically a secure software-enabled service that comes with our workspace equipment has also been super well received. So, yeah, I feel really good about what we've already come up with and what's coming.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. Paul, just to add on to that too. As you heard, we had double-digit sell-through growth year-over-year in VC across all regions, which really indicates very strong demand. And I think as our installed base grows, I think the portfolio comment you made is really important. As our installed base grows, it just -- we're going to keep working with those customers, being able to help them build out their conference room solutions more holistically than just with the camera like Bracken mentioned like Scribe and other products that go in there as well. So, I think good progress on the development side, that's been an area of key investment for us if you look at the P&L and you look at the increases in R&D. A good chunk of that is going towards VC and building out that roadmap.

Q - Paul Chung {BIO 20654199 <GO>}

Got you. And speaking of regions, what kind of drove the relative strength in Asia? And what trends are you seeing emerge there? Any lead indicators for US and Europe markets as well?

A - Nate Olmstead {BIO 21036514 <GO>}

I mean, China was really the highlight there. Or Bracken, go ahead. Yeah.

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

No, it's okay. Go ahead. Go ahead, Nate.

A - Nate Olmstead {BIO 21036514 <GO>}

I was going to say, China was really the highlight in Asia, Paul. We actually had -- and this is speaking at the total company level as well actually for VC, but China was really the highlight, but we had good strength down in other parts of Asia too. I think the nice thing to see in China is, obviously, they have been in the pandemic the longest and have been out of it probably the longest too. When we get on video calls now, it's always interesting to see groups of people in conference rooms and so forth. So, I think it's positive to see that even in a large country like that, a large market like that, where they've sort of transitioned to a different stage in the pandemic, we still see very strong demand across the portfolio.

Q - Paul Chung {BIO 20654199 <GO>}

Okay. And then -- yeah, last question on guidance. So, you've generated about 54% of operating profit in the first half already. That's typically in that 40% range historically. Are

you keeping kind of a bigger cushion this year on supply chain and increase in promotions, if you could expand there? Thanks, guys.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. Yeah, you're right, Paul. I mean, I think the second half of this year, obviously, with Q3 being historically our biggest quarter of the year, I think it really is an unprecedented time. And so, I think I am making sure that we can get through this quarter. And I think -- listen, Bracken mentioned, we're not immune to supply challenges. We have good stock and supply. Our channels are at good levels, but there are some products where we're chasing components and chasing supply. And I think demand during the holiday can be rather perishable. I mean, people are buying for the holiday. And so, we need to make sure that we can fulfill all the demand that we see. And, again, with the strong double-digit sell-through, demand is pretty healthy.

Q - Paul Chung {BIO 20654199 <GO>}

Thanks, guys.

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

Thanks, Paul. Take care.

A - Nate Olmstead {BIO 21036514 <GO>}

Right. Just adding to that, Paul, I guess, the incremental margin thing that we're facing like everyone else is just incremental logistics costs, which have gone up even since Q1, they've gone up 2 to 3 times on the ocean year-over-year. So, I think some of that's what I'm factoring in as I look into the back half of the year. We will be spending more on air freight, I've already approved a lot more air freight this quarter than what our initial plans were, but we're using the P&L and we're using the balance sheet to fulfill the demand that's out there.

A - Nicole Noutsios {BIO 15087891 <GO>}

Okay. The next question is from Ananda Baruah from Loop Capital, please.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Ananda.

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

Hello, Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey. Thank -- hey. Thanks, guys. Good morning. Yeah. Good to see you guys.

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

Good morning.

Q - Ananda Baruah {BIO 15320341 <GO>}

Thanks for taking the questions. Yeah, good to see you too. Two, if I could. I guess, the first is, have you -- and I apologize if you guys spoke to this already, there's a couple of things going on this morning. But could you, Bracken -- both of you, Bracken and Nate, speak to like over the last 90 days, what you guys have seen that has been -- have been different from what you were anticipating? And just sort of the things that are germane sort of to the running of the business or the things that are germane to the key end markets or the key product areas? And then I have a follow-up as well.

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

Sure. I'll take the first one. And Nate, if I've left anything, maybe you can too. Yeah, I would say the -- nothing is really a major change, but I would say if there's a change, I think the supply chain challenges, especially in logistics, have gotten worse. I think that's probably well covered in the media and we're not immune to it as we said at the beginning of the call. I think we've managed it really well so far, but it's certainly gotten more challenged than you'd imagine.

Would you add anything else, Nate?

A - Nate Olmstead {BIO 21036514 <GO>}

I think that's probably been the biggest change, yeah.

Q - Ananda Baruah {BIO 15320341 <GO>}

Cool, cool. I mean, that's pretty good, if nothing else, if that's the only one. And then, I guess -- so then the second question is the specter of more folks coming into the spaces that you guys compete in, and quite frankly, to some extent, to what you guys have helped evangelize -- or like sort of evangelize in the mainstream sense, been part of that thrust, what is the right way -- well, what's the way that you guys would like folks in our community to think of the idea of increased competition? And I ask it that way because like at least on the surface, it seems like -- and HP is a good example from last week, but they're not the only ones. It seems like folks are kind of poking their heads around, dipping their toes in and it's hard to discern from our vantage point the context of what increased competition may look like. And so, anything you can talk to that -- talk to about that and the way that you would like us to sort of think of that and then Logi's positioning in the context of that. Thanks.

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

First, we've -- thank you, Ananda. We've always expected more competition in good categories and we play in great categories. So, we've always expected new competition. That's why we've invested. So, we've been investing in innovation. We've been investing in our go to market. We're really excited about the capabilities we're building in both. And I think -- so I feel really good about where we are. And I would, in a way, feel really awkward if we didn't have more competition because it would suggest something dark

about the future of the category. I think these categories are super and great categories to have great competitors. We love to compete.

So, do you want to add anything, Nate?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. I mean, I think one benefit of the -- of some of these competitors, Ananda, is just the awareness that they bring to the category as well. Right? As they're trying to grow their business, they're going to bring more awareness to categories where we are very strong and that we're passionate about. I think keys to our success are to continue to segment the market to identify specific customer needs and then go address those with innovation and great design. Of course -- so I think it doesn't change our strategy, it doesn't change our focus on execution. But I think to the extent it brings more awareness to some of these categories, I see that as a benefit.

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

Yeah, I'll just double down on that. I think you mentioned at the beginning, you said we've been out there kind of evangelizing this category at the beginning. It will be nice to have more people evangelizing the category. I think it will drive higher growth. And we're still at such a small fraction of rooms enabled and conference cams, for example. 1/11th of the total rooms according to Gartner are (inaudible) So, yeah, I think this is -- it's just -- it's probably an indicator of how strong this market opportunity is.

A - Nate Olmstead {BIO 21036514 <GO>}

Right.

Q - Ananda Baruah {BIO 15320341 <GO>}

And if you guys get -- if you get legitimate sort of competition coming in, whatever -- however that shows up, but sort of that feels legitimate, do you feel that you can still prosper? Is there enough room for you to still prosper in the way that you've laid out at your last Analyst Day, hit the growth goals, hit the profit goals?

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

We just --

A - Nate Olmstead {BIO 21036514 <GO>}

I just don't think -- I think all our competitors are legitimate, Ananda, though, I think it's an important place to start. Bracken, well, go ahead and let you go. Yeah.

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

Absolutely. We've had legitimate competitors in almost all our categories for as long as we've been around. We started out as an OEM maker of mice and keyboards, and we were selling directly and competing directly with those players over time. So, we're --

we've expected the competition. They'll be great competitors. They'll make us better. And we will invest in making sure that we are better.

Q - Ananda Baruah {BIO 15320341 <GO>}
That's great. Thanks, guys. I appreciate it.

A - Nate Olmstead {BIO 21036514 <GO>}
I think also to that, Ananda -- yeah. Let me just add a little too. I mean, I don't build our models here internally assuming no competition and, obviously, you're seeing an increased investment in marketing and brand from us too. I mean, that goes directly to your point, which is that we expect competition. We think these categories have gotten stronger and we will see more competition. And so, the increased investments that we're making in brand, marketing, innovation, those are all part of our strategy to compete.

Q - Ananda Baruah {BIO 15320341 <GO>}
Thanks, guys.

A - Bracken P. Darrell {BIO 3403495 <GO>}
Thank you. Thanks, Ananda.

A - Nicole Noutsios {BIO 15087891 <GO>}
The next question is from Stifel, Jurgen Wagner.

A - Nate Olmstead {BIO 21036514 <GO>}
Hey, Jurgen.

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

Q - Jurgen Wagner
Yeah, hi. Thanks for letting me on.

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

Q - Jurgen Wagner
Yeah, hi. Follow-up on the inventory questions, I'm afraid. Can you split it up between finished goods and what are those key components you mentioned in your introductory remarks? And what is the visibility you currently have on the Christmas business across your divisions?

A - Nate Olmstead {BIO 21036514 <GO>}

Sure. So, let me take on the inventory side. We are holding more components as a percentage of our mix than we have in the past. As I mentioned, I think that's a key part of the strategy. The other thing is that our in-transit inventory is higher too. So, as these port delays and shipping delays and things like that occur, more of our inventory sits in transit. So, you could think about that as finished goods, I guess, but it's not as productive because of these delays. And that's the primary driver of the increased days of inventory that I mentioned in my prepared remarks, Jurgen, is port delays. Things are taking weeks longer just in transit these days. And so, again, as that improves, and I think it's not going to happen in the near-term and that's why I made the adjustment to the cash flow outlook for this year. As those transit times improve, as the lead times for components improve, I do expect to see our days of inventory come back down to kind of more historical levels. I don't think it's going to look like it did last year. Obviously, last year was very unusual because of the strength of the demand and we were chasing supply the entire year, but I do think days of inventory will come back down to our more historical levels. But I think that's going to take some time. And probably, I don't expect it to be this year.

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

And on the visibility into the Christmas quarter, I would say Nate and I both feel like, gosh, last year, we set aside our view of the normal seasonality of the business because of the strange year of the pandemic. I think for another year, we've really set aside our normal view of seasonality and said, okay, this is another strange year, especially given the supply challenges. So, I think when you put that together, I think our visibility is probably not we'd normally love to have, but I think we've got a plan in place that we've got products, we've got -- we've made strategic investments in inventory and we feel good about where we are. And I think we've recommitted to the guidance because we feel good about that.

Q - Jurgen Wagner

And do you have certain product categories where you have a better visibility at the moment?

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

Do you want to answer that, Nate? Or how would you answer that?

A - Nate Olmstead {BIO 21036514 <GO>}

Well, I mean, I think we've always said video collaboration, you have a little bit more visibility because you can build a pipeline, you're working with enterprise customers. Certainly, for the larger deals, you have more visibility to those, but a lot of that business is more what one might call run rate as well. So, some better visibility on video collaboration, but --

Q - Jurgen Wagner

Okay.

A - Nate Olmstead {BIO 21036514 <GO>}

-- it's still less than 20% of our overall sales is video collaboration. So --

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

But I would also say, this is -- in a way that's not so different from -- the rest of our business, we've never had -- it's -- we're currently in the same visibility state we're normally in, which is you go into the holiday, it's always a little bit well. Will the shopping come? It usually does, and I think it will this year.

Q - Jurgen Wagner

Okay. Okay, thank you.

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

Okay, thank you. Thanks, Jurgen.

A - Nicole Noutsios {BIO 15087891 <GO>}

Next question is from UBS, Joern Iffert.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Joern.

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

Hello, Joern.

Q - Joern Iffert {BIO 15374623 <GO>}

Hey, there.

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

Good to see you.

Q - Joern Iffert {BIO 15374623 <GO>}

Hi, Nate. Good to see you. I hope all is well.

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

It is.

Q - Joern Iffert {BIO 15374623 <GO>}

Quickly, and two, three questions, please. The first one is on your marketing spend. Sales being up slightly, marketing spend up around 65% or 66%. If I extrapolate this for the full year, it may be around $1 billion marketing and selling line, being maybe then 80%, 90% of sales historically, about 16%, 17% pre the crisis. Does it mean your growth is becoming more capital intensive? Or is there room to streamline the marketing and selling

expansion in the second half, supporting the margin somewhat? This will be the first question, please, and I would have one or two follow-ups, please.

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

Nate, take that.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. If you want, Bracken, I can start on that one. So --

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

Yeah (Multiple Speakers)

A - Nate Olmstead {BIO 21036514 <GO>}

What we're executing right now, yeah, is the strategy of shifting -- you've seen our gross margins go up and we're reinvesting some of that gross margin expansion into sales and marketing, Joern, to try to drive up the brand and the awareness, which provide us with long-term benefits and I think long-term leverage as well, but that's the strategy we're executing. The same one that we talked about pre-pandemic as well, the shift from push to pull. And I think we were able to move more quickly on that because of the strength in the margins that we saw last year and it's put us in a great position to go execute that strategy aggressively this year.

Bracken, do you want to add something?

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

Yeah. I guess, I would just say we're -- when you look at our overall operating income, our operating margin, really keep an eye on that. And our mission is we're going to -- we view that as a constraint. We're going to deliver certain operating margins, so that we're going to invest back into marketing to the extent that we can drive longer -- stronger long-term growth and it's really -- it really performs. And marketing -- building a marketing engine really takes time, but I'm excited about where we're headed. We've got a great team in place and we're really changing our approach. And I think it will be -- we'll keep learning through it and making sure that we -- the investments make sense and delivering that operating margin, long-term operating margin we're committed to.

Q - Joern Iffert {BIO 15374623 <GO>}

And -- thank you for this. And then maybe a second and third question. The second question to follow up here on your medium-term guidance. I mean, you increased your medium-term targets to 8% to 10% from 7% to 9% before, this is reflecting confidence, of course. But now maybe somethings becoming more shaky, you mentioned video conferencing could be below your initial targets. I mean, how should we think about the base? I mean, what is the baseline from where you think you can grow 8% to 10%? Is this coming down now in the current environment? And then I would have a last technical question, please.

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

(Multiple Speakers) Sorry, go ahead, Nate. You can start, go ahead.

A - Nate Olmstead {BIO 21036514 <GO>}

Obviously -- we did, Joern, obviously confirm the outlook for this year, so there's really no change in the base. And as Bracken mentioned, there's a different mix of growth than what we initially thought at the start of this year. But, again, that's not unusual and I think it really highlights one of the benefits of our portfolio is that it's diverse and that there's good profit generation across that portfolio. So, we've been able to sustain the investment plan that we had despite the different mix of top line revenues.

Bracken, sorry.

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

The only thing I'll add to that, Nate, is that I think we talked about that 8% to 10% long-term guidance and our raise in our long-term view of our growth rate capability, that really comes from the fact that both the categories are attractive for the long term and our innovation engine is attractive for the long-term. And absolutely, nothing has changed on either one of those, I feel really, really good about them.

Q - Joern Iffert {BIO 15374623 <GO>}

All right. And thanks for this. And the last technical question. When you initiated your guidance in March and then you updated it, I think, in April on non-GAAP EBIT versus this number, I mean, what is roughly the additional freight, logistic and component costs which have exceeded your budget? Are we speaking about $50 million, $100 million? Just to have a rough idea about this, what are the additional costs you are facing right now?

A - Nate Olmstead {BIO 21036514 <GO>}

Oh, boy. I don't think I can do the math that quickly. I'll tell -- I'll give you something on that, though, Joern, which is this quarter, year-over-year, we had about a 1 point hit to gross margins from increased freight costs, mostly from ocean. So, I can tell you in the quarter, that's kind of what we had and we'll probably see that throughout this year, I think. We have actually reduced the amount of air freight we've used year-over-year, which was my expectation, but the air freight rates have gone up such that we really haven't seen a real benefit from the reduction in air freight volume. And at the same time, as we shifted things to the ocean, we've incurred some additional costs on freight there. So, it's all included in our P&L to-date and it's all included in our outlook, but it has been a headwind, I think, since March.

Q - Joern Iffert {BIO 15374623 <GO>}

All right, thank you very much.

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

Thank you, Joern. Take care.

Q - Joern Iffert {BIO 15374623 <GO>}
You too. Thank --

A - Nate Olmstead {BIO 21036514 <GO>}
You got me there, Joern. I didn't have them.

A - Nicole Noutsios {BIO 15087891 <GO>}
Okay. The next question is from ZKB from Andreas Muller.

A - Nate Olmstead {BIO 21036514 <GO>}
Hey, Andreas.

A - Bracken P. Darrell {BIO 3403495 <GO>}
Hi, Andreas. How are you?

Q - Andreas Muller {BIO 17086863 <GO>}
I'm fine. Thanks. Hope you're well too. Two questions if I may. One was, really, I was wondering, gaming, if you saw an effect in China from this gaming law that teenagers shouldn't be that long on online gaming? Have you seen an impact? I mean, China was good. That's the first question. And the second --

A - Bracken P. Darrell {BIO 3403495 <GO>}
Andreas, why don't we stop you there, and we'll answer that one and then you can ask the next one. The answer is our gaming business actually skews 18-plus. That law -- not just skews, it's -- the vast majority of it's 18-plus. So, that law is for 18 and under. So, no, we haven't really seen a big effect on our business from that.

And now you want the second one?

Q - Andreas Muller {BIO 17086863 <GO>}
Probably these Chinese people spend the same time in front of a PC doing something else than gaming, isn't it?

A - Nate Olmstead {BIO 21036514 <GO>}
But I think maybe just to add a little more color to that, I think what -- if you're going to play, you're going to buy some peripherals. So, unless you stop playing completely, you're still going to buy some gaming equipment, whatever that is, I think, under S2. So -- but just to add a little data to it, we did not have any slowdown in growth in China gaming, we actually had a very, very strong quarter. I mean, growth was similar to last quarter year-over-year.

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

Q - Andreas Muller {BIO 17086863 <GO>}
And the growth behind the pointing devices, keyboards and the combos, I mean, was that really still demand from the home office? Or was it really back to the office demand that the offices just had some sort of an investment cycle in these type of products?

A - Bracken P. Darrell {BIO 3403495 <GO>}
Well, I think it's a little bit of both. We did see strong growth in the B2B part of our business, but also in the B2C part, and that's probably people. I think we're headed into a place, where people -- we've got a bigger base now and people are upgrading. And I know -- just anecdotally, I talk to people now regularly. They told me they were not to buy an MX Master, they asked me what to buy, they had something from the pandemic. Our old business was really an upgrade business. And as I said in the beginning of the call, I'm so excited about our innovation engine in this old category -- or these old categories called the mouse and keyboard. They are really alive and exciting again. We just launched -- I do encourage you go look at pop keys on our website. We might even make this category sexy, believe it or not. So, it's -- I think the innovation engine there is part of the reason and we're going to -- and we believe we reported it all.

Q - Andreas Muller {BIO 17086863 <GO>}
Okay. Thank you very much.

A - Nate Olmstead {BIO 21036514 <GO>}
Thanks.

A - Bracken P. Darrell {BIO 3403495 <GO>}
I didn't get you excited about keyboards and mice being sexy, did I, Andreas?

A - Nicole Noutsios {BIO 15087891 <GO>}
Yeah. As a reminder, chat me if you'd like to ask a question. And the next one is from DA Davidson, Tom Forte.

A - Nate Olmstead {BIO 21036514 <GO>}
Yeah. Hey, Tom.

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

Q - Tom Forte {BIO 6796619 <GO>}
Great, thanks. So, one question and one follow-up.

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

Okay.

Q - Tom Forte {BIO 6796619 <GO>}

So, from a supply chain standpoint and a logistics standpoint, can you remind me to what extent do you have control? I think you have some owned and operated assets in the manufacturing side. So, to what extent do you have influence on your supply chain and logistics? And to what extent are you -- have less influence?

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

We have our own manufacturing in China and then we manage contract manufacturing in China and outside of China. We make about half of what we sell in that owned manufacturing. From a logistics standpoint, we really manage our logistics through the normal systems that are used broadly.

Q - Tom Forte {BIO 6796619 <GO>}

All right. So, the constraints are primarily in the components then? The constraint is not having the raw materials, it isn't that you don't have capacity or the ability. So, increasingly, it seems like in Asia, you have to make the product and then you have to deal oftentimes with plant shutdowns because they don't have electricity, then you have to store the product, then you get to ship the product. So -- sorry, Nate, you were going to chime in.

A - Nate Olmstead {BIO 21036514 <GO>}

Well, I actually was going to go where you're going too. I think this is a supply chain, right, so there's links of it. And I think what's really apparent as you look at what's happening globally across industries is just how those different links are owned by different people. Right? And so, yes, it is to our advantage, I think, right now that we have our own factory and we control the purchasing for a lot of our components. And in fact, we control the purchasing for a lot of our components even when we use a partner for manufacturing. And so, I think that is to our benefit. But you're right, I mean, throughout the supply chain, you're going to hear stories about warehouse capacity being tight, you're certainly hearing stories about trucking capacity being tight. I mean, when we look out and see these pictures of ships and container ships stuck at port, it may not be that the problem is at the port itself with the cranes and such, but it can be with trucking, it can be with warehousing. There needs to be a place for these goods to go. And I think that's why this is not a quick fix. That's why you're seeing things like President Biden jumping in and getting involved and why we describe this as unprecedented. I mean, the supply chain is bottled up now in a few places and it's going to take some time for that to work out, but it is to our advantage, I think, in this environment to have the factory -- our own factory, and, again, to manage and control a lot of the purchasing.

Q - Tom Forte {BIO 6796619 <GO>}

Excellent. So, thanks for clarifying that. For my follow-up question, I want to talk about the demand side, in particular, from gaming. So, it looks like you had very impressive growth

on top of growth and it was widespread across all your categories. Can you talk about demand for gaming? And if at all -- for example, if consumers aren't able to get their hands again on the new Xbox and PlayStations this year, does that have any input? Does that just mean we'll have a better next 12 months? How should I think about that?

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

Yeah. The demand was very broad across every segment, including simulation, which is mostly steering wheels, console gaming, which is what you just referred to, and PC gaming. The console gaming part of our business is relatively small. So, I'm not too concerned about whether or not -- what they're concerned on the console buying side. So, I think we'll probably be okay regardless, but it's exciting to see gaming so strong coming out of the pandemic, or coming out of the worst of the pandemic. And I think the console demand is just a big positive. And I think that tells you how strong gaming is in general that people are still buying those next generation of Xbox and PlayStation.

Do you want to add anything, Nate?

A - Nate Olmstead {BIO 21036514 <GO>}

I think those are all the right points. I mean, you got to be on shelf to sell. And so, I think, again, that's why that is part of our strategy and I think part of the reason is why we've gained share. It will be an interesting holiday, I think, for a lot of companies. I'm sure you've walked through your local stores or looked online, and then there's some tightness out there. I'm not speaking to Logitech, but I'm speaking across a lot of goods. And so, I think that is a big part of what people -- firms have to do during the holiday here is make sure they can get on shelf.

Q - Tom Forte {BIO 6796619 <GO>}

Yeah. I'm just hoping we're not celebrating holiday in January, but -- all right. Thanks for taking my questions.

A - Nate Olmstead {BIO 21036514 <GO>}

Gift cards. Gift cards, Tom.

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

Thank you, Tom.

A - Nate Olmstead {BIO 21036514 <GO>}

Okay.

A - Nicole Noutsios {BIO 15087891 <GO>}

The next question is from Credit Suisse, Serge.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Serge.

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

Hi, Serge.

Q - Serge Rotzer {BIO 4734915 <GO>}

Yes, hi. Good morning or good afternoon, depends where you are. Well, you can't see me, don't know why.

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

(Multiple Speakers)

Q - Serge Rotzer {BIO 4734915 <GO>}

I'm only shadow, silver shadow. So, I will start with one question, the first of several questions, but the first one is, can you give us a feeling about the preorder situations you have seen beginning of the month -- beginning of the quarter? Has this been better or worse or equal to last year or so from a consumer perspective because you should have a very good visibility now because in two months, Christmas is over? In addition, you pointed out several times investments into point of sales, more promos is -- also should lead to higher sales. Of course, you have lower margins, but this is -- has also to do with Xbox [ph] moving then at the end of the day. So, therefore -- and then in addition, the sell-through was low, so the channel inventory seems to be quite clean now. So, why you don't have more confidence going into next quarter also in relation to guidance? This would be my first question.

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

I guess, I'll start, and Nate, you can finish. I would say, we do have confidence going into the rest of the year, that's why we reconfirmed our guidance. We grew double-digit on all three of our four main categories, so we feel the underlying sell-through. So, that's a very good indicator. So, we feel really good about that.

A - Nate Olmstead {BIO 21036514 <GO>}

And I agree with you, Serge. I think the channel is at a good level right now broadly, but, again, we do have tightness in some areas and don't need to go into which ones, I think. But we have some catching up to do in some spots that are big holiday items. And like I mentioned, we're planning on using air freight to cover those, but we have a lot of work ahead of us, but we're prepared to have a good quarter.

Q - Serge Rotzer {BIO 4734915 <GO>}

But do you believe that you can match the backlog you have for the current quarter because of the longer transit and lead times?

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

(Multiple Speakers) I think we could deliver the backlog. You're saying deliver the backlog. Do you think we can fulfill the backlog we have?

Q - Serge Rotzer {BIO 4734915 <GO>}

Yes.

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

I think we're -- I think we've kind of said at the beginning, we're not immune to these supply chain challenges. That's certainly a reality that we've lived with and I think they are worse now than they were in the first half of the year. But I feel good about where we are. I mean, in terms of really delivering what we need to for Q3 and Q4 to deliver our guidance, we're in a spot where we feel good about it. But I do think there will be -- we'll continue to have supply chain challenges.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. And probably another one to video collaboration. I'm a little bit puzzled, not sure what is limiting the growth currently. Is it the demand? Is it that it takes longer with the enterprise customers? Is it that you still are missing direct sales? Is it that you're not successful with the procurement companies of this world that you come into this -- in their portfolio? And how should I read the subscribers' numbers? I see from Teams and Zooms, which are still -- show high growth in -- why I can't see this better in your numbers?

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

Well, first of all, I think we mentioned we had a little bit of destocking and we grew 22% this quarter. So, there is growth. And I think --

A - Nate Olmstead {BIO 21036514 <GO>}

On sell-through, yeah.

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

On sell-through, yeah. The real long-term question is because there's so much long-term potential growth at 8% penetration, there's so much long-term potential, I think that's just a question of how does the decision-making happen. People -- making a decision for video enabling in all of your rooms is something that we did a long time ago, but not many companies have done yet. So, there's a lot of thinking to go through there and people are also rethinking their formats and their footprints and things inside of offices, I know we are. So, I think both of those are in play.

Do you want to add anything, Nate?

A - Nate Olmstead {BIO 21036514 <GO>}

Well, I mean, I'd say Americas and Asia broadly did grow and both sell-through and net sales. And EMEA, again, was the place where net sales slowed. But if you just look at last year, and we mentioned this, this will be true in the second half as well, and one reason

why growth for the overall company and for VC, I think, will be slower in the second half is the compares on VC last year are massive. And a lot of that's in Europe, it was exceptionally strong. And I do think Europe has slowed down a bit on some of the decision-making and on some of the demand for video collaboration. But even there, we had double-digit growth in sell-through in EMEA. So, it hasn't ground to a halt and it's still strong. So -- and I think someone mentioned earlier too about new -- about competitors coming in. I mean, I think they're seeing the same things that we are is that this is a long-term growth category. And I wouldn't be -- I'm not really concerned about the changes in the demand profile from last year, I think we're in this for the long-term and we're investing as such.

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

Yeah. Just to throw a point out there if you haven't looked at it, video collaboration in Q2 of last year grew 150%, so more than doubled.

Q - Serge Rotzer {BIO 4734915 <GO>}

Don't get me wrong, I think you are doing a great job. That's not the point. But you have introduced quite many new products and you mentioned that you -- these products will be available in winter. Now, winter is quite short meanwhile with the --

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

Not only for the -- not only for the winter, though.

Q - Serge Rotzer {BIO 4734915 <GO>}

Yeah. So -- but what does this mean? Will this be an inflection point when you can ship then these new products? Do you believe that this can increase the pace then? Or is it not that important?

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

Well, I mean, we -- I think we have availability now on most of our products, so -- and we'll be -- we'll keep that up. And we are launching products now, we'll be launching products next year too. So, no, I don't think that's a particular inflection point.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. So, I hand back for the time being. Thank you so much.

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

All righty. Thank you -- thank you, Serge. Hello, Erik.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Erik.

Q - Erik Woodring {BIO 19492555 <GO>}

Hey, guys. How are you?

A - Nicole Noutsios {BIO 15087891 <GO>}

Last question comes from Erik from Morgan Stanley.

Q - Erik Woodring {BIO 19492555 <GO>}

Thank you, guys. No, so, if you go -- I'm based here in Manhattan. If you go to any local retailer, you'll see -- or at least I believe that Logitech has more shelf space than you have had historically. And you might not see as many competitors on the shelf as maybe you have historically. Is -- would you say that's an accurate comment? Have you been able to gain shelf space with some of your retailers? And then is that also what is contributing to some of the higher spending with retail point of sale? And then I have a follow-up. Thanks.

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

Yeah. Actually, I would say not -- that's probably not a good characterization. During the pandemic, we probably lost some shelf space. In web cams, for example, we lost a lot of shelf space because we just didn't have supply and e-tailers and retailers really needed to bring in other people to fulfill the demand. Now, we're back and we're gaining the share back and probably gaining some shelf space back, but I don't think we've gone above where we were pre-pandemic. You're muted, Erik.

A - Nate Olmstead {BIO 21036514 <GO>}

Unmute it.

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

(Inaudible) go.

Q - Erik Woodring {BIO 19492555 <GO>}

Thanks. Nate, this one is for you. Just as we think about -- I know we're kind of throwing seasonality out the window to some degree. But when you think about the back half of the year from an OpEx perspective, in some years you've seen a sequential decline in OpEx from the holiday quarter into March. Should we generally be thinking about OpEx this year following that same trend, or, again, kind of throw seasonality out the window and it will end up where it ends up essentially? Thanks, guys.

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

Thank you. Thanks, Erik.

A - Nate Olmstead {BIO 21036514 <GO>}

Erik, so much more of our spend is variable now than what it was before because a lot of it is marketing-oriented. So, I don't -- yeah, I kind of agree with you, I don't think there's really as much seasonality even to the spend this year, at least I'm not really looking at it

that way. We're making the investments based on long-term decisions and where we see opportunities. And so, I think that's the way I'm thinking about it.

Q - Erik Woodring {BIO 19492555 <GO>}
Okay, great. Thank you.

A - Bracken P. Darrell {BIO 3403495 <GO>}
Thank you, Erik. Thanks a lot. I think that was our last question, if I'm reading you right, Nicole.

A - Nicole Noutsios {BIO 15087891 <GO>}
It is. I think that's our last question.

A - Bracken P. Darrell {BIO 3403495 <GO>}
No, Serge is back with one. He couldn't resist before we hang up. You got to go off mute.

A - Nate Olmstead {BIO 21036514 <GO>}
But he is on mute.

A - Nicole Noutsios {BIO 15087891 <GO>}
Serge, you got to get off mute.

Q - Serge Rotzer {BIO 4734915 <GO>}
Yes. Sorry, sorry. Now, I'm back on with my cam. Now, probably quickly back to sales and marketing costs. If I keep -- if I -- remind me correctly, you mentioned that most of the incremental costs go to direct sales in video collaboration and gaming. Is this still true? Or can you give me a better feeling of where you are spending your money?

A - Bracken P. Darrell {BIO 3403495 <GO>}
Yeah. No, I don't think it goes to direct sales in gaming, it's very broad. I mean, if you -- they're marketing sales and R&D or engineering across all of our categories. So, it's pretty broad.

Q - Serge Rotzer {BIO 4734915 <GO>}
Okay. Then probably last one. Currently, the M&A market is quite hot. We have seen HyperX, we have seen Turtle Beach, we have seen Stealth series. What about you, Bracken?

A - Bracken P. Darrell {BIO 3403495 <GO>}
It's always hot for us. I mean, we're always looking at stuff. We've got things under evaluation right now and we've done things in the last year. Several -- some of them were relative -- most of them were relatively small, so we didn't talk about them. And we're

always looking. We're always in the market. It's a great strategic deployment and we're going to stay in the market in the M&A front for forever.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay, got it. Many thanks, and enjoy the Christmas quarter [ph].

A - Nate Olmstead {BIO 21036514 <GO>}

Hey. Thanks, Serge.

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

Okay. I think that brings us to a close. I want to thank all of you. It was a -- this has been quite a year this year and quite a year last year, but I'm super-excited about the years to come. I mean, I know you can feel it in our tone, but we really feel like we've got our innovation engine humming. We've got a world that's really strange and we're managing through it, I think, pretty well. And we'll keep proactively doing that. But thanks a lot for all your questions. They were great, and we'll see you again next quarter.

A - Nate Olmstead {BIO 21036514 <GO>}

Thank you.