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Y 2022 Earnings Call

Company Participants

- Bracken P. Darrell, President and Chief Executive Officer &
- Nate Melihercik, Head of Global Investor Relations
- Nathan Olmstead, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Adam Angelov
- Alex Duval
- Ananda Baruah
- Asiya Merchant
- Erik Woodring
- Joern Iffert
- Paul Chung
- Rob Sanders

Presentation

Unidentified Speaker

All right. Good morning, good afternoon everyone, and welcome to Logitech's Video Call to discuss our Financial Results for the Fourth Quarter and Full Fiscal Year of 2022. Joining us today on the call are Bracken Darrell, our President and CEO; and Nathan Olmstead, our CFO. During this call, we will make forward-looking statements including with respect to future operating results under the Safe Harbor of the Private Securities Litigation Act of 1995.

We're making these statements based on our views only as of today. Actual results could differ materially and we undertake no obligation to update or revise any of these statements. We will also discuss non-GAAP financial results. And you can find the reconciliation between these 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 do encourage you to review these materials carefully, and unless otherwise noted, comparisons between periods are year-over-year, and in constant currency, sales or net

sales. And finally, this call is being recorded and will be available for a replay on our website. With that, I will now turn the call over to Bracken. Good morning, Bracken.

Bracken P. Darrell {BIO 3403495 <GO>}

Good morning, mate. And good morning, mate -- Nate, and thanks to all of you for joining us. I am so excited about the year that Logitech has had, and our team's strong performance despite a backdrop, perhaps best defined as unpredictable and certainly challenging.

Despite of these headwinds, our teams delivered an outstanding fourth quarter and overall a tremendous fiscal year 2022. Coming off 74% net sales growth in the previous year, we challenged ourselves to continue the momentum and we did it.

We posted our ninth consecutive year of growth, delivers strong growth in key categories like C&P and Gaming. So our market share gains across our portfolio and geographies, and continued to invest in future, using our strong growth profits to invest in key strategic areas, like marketing and product development.

Nate and I will go deeper into the financial details for the fourth quarter for the fiscal year in just a minute. But I wanted to start by offering a bit of perspective on the macroeconomic environment, world events, and overall state of global business as we head into our new fiscal year.

As I talked to other CEOs, we generally agree that there's uncertainty about the U.S. and global economies will perform, but we'll leave the predictions about that out of this call. But what is the backdrop to our thinking? I see a certain set of conditions that most of you will be familiar with, inflation, war in the Ukraine, COVID lockdowns, changes to monetary policy, supply chain instructions. These challenges are not just possibilities, of course, they are happening.

No business leadership team operating globally can dismiss them. We at Logitech talk about possible impacts regularly and truth is that all businesses including ours, operate in this environment with the understanding that we can't influence the outcome of each of these challenges, but we all can adapt, change and ultimately adjust. That's exactly what we've done at Logitech through the last decade.

The dynamic nature of Logitech and we've got more dynamic as we've grown, makes me proud we've continually found ways to solve old and new challenges, by ultimately serving delighting customers. We've adjusted, adapted so many times over the past decade.

So what does the next year look like? While this may not be the most satisfying answer, the hard truth is that we just don't know exactly how and when this particular set of challenges are going to play out. But I do know we have years of experience operating in challenging environments. We change the way we source components. We've diversified our shipping strategy. We've automated our factories. We've built a very diverse portfolio. We've changed the way we price our products. We strengthened our balance sheet,

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intentionally pursuing a strategy, avoiding high levels of debt, the list goes on. All to ensure, we can operate with excellence, discipline, and a focus on the future during unpredictable times.

So, I prefer to look beyond the near term, and make sure we're operating in growing categories, staking out long-term leadership positions in those categories, and investing in product design, and engineering, the absolute lifeblood of our business. And as we discussed in our Analyst Day in March, we're doing exactly that.

But what's been true for the last few years is still true today. Hybrid work or the idea that we used to call, work from anywhere, continues to thrive. There are sales and upgrade opportunities that exist right now across more than 1 billion workspaces, all driven by hybrid working and learning. What an incredible opportunity.

Everything is moving to video, including this call. Hybrid work is here to stay and most meaningful be a mix of on-site and virtual, and video helps bring more meeting equity to all participants. Gaming will continue to expand, the long-term momentum is unstoppable. Like most long-term high-growth markets, there will be strong growth quarters and lower ones, but that shouldn't confuse anyone. Gaming is a juggernaut and it's evolving and adding new engines of growth.

Take the Metaverse, for example, the tools needed to experience and create the Metaverse expanding and evolving, but big picture, ask yourselves, what about the fundamental premise of gaming as a cultural phenomenon has changed. The answer, nothing.

And the streaming and content creation trend hasn't changed, but continues to grow rapidly. In other words, while we're very clear-eyed and measured in our approach to the near-term challenges and events, we're equally invested in and excited about the durable longer-term trends, driving our largest categories.

Our company's solid performance, reflects the broad strength of our capabilities, including the product development engine that continues to introduce new products on a global scale. And also reflects our diverse portfolio, and its leading position in growing markets. Our focus on operational execution, and the ability to adapt quickly, continues to help us navigate industry-wide supply chain challenges and disruptions. And that's why, I'm so incredibly excited about the future of Logitech.

With that, let me briefly step into our categories. Creativity and productivity. In creativity and productivity, we had a really strong year. I finished the fiscal year 2022 with good momentum. Mice and keyboards continue to drive this category with another year of creative product development, driving growth. There is no debate over the sustainability of hybrid work.

Hybrid is here for now and in the future. And C&P is set up to enhance workspaces around the globe. You've heard me say this before, but it remains true. Very few people have the optimal workspace set up, either at home or at work, even I continued to experiment all

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the time to try to find a better way. I'm excited about what you'll see in the coming quarter for this group. Gaming grew double digits in fiscal year 2022, on top of an exceptional revenue growth last year.

Gaming continues to be adopted by an increasing number of people as both a competitive esport, and is a more casual way to hang out with friends. We're in the very early inning of what the Metaverse can do to enhance the enjoyment and experience of gamers. Gaming is a market of demands' innovation, and we're doing just that with more wireless peripherals and higher performing keyboards and mice.

I'm so confident about the long-term potential in this category. In video collaboration, we continue to see pockets of increased activity with more certainty in office re-openings and hybrid work planning. But planning and purchase timing differ by region. So I said -- and so as I said earlier, there will be near-term unpredictability. And then, overall choppy environment, but long-term growth. Webcams decline versus our lofty mid pandemic peak, but the need for webcams is strong, and the demand is steady, in more than three times, what it was two years ago.

And our long-term strategy of enabling meeting space with high-quality video systems and solutions, supported by an enhanced sales and support team around the globe, remains well on track. Consistent with our mission to develop video collaboration tools that can make remote participants feel they can participate equally or even better than those gathered in person in the room.

We launched RightSight 2, an AI-based software solution, that helps bridge the gap between in-meeting participants, and those joining remotely. It's such a smart solution, and we have much more in the works.

And supporting all our products is our DEFY LOGIC marketing campaign. We're increasingly raising awareness of the brand, and bring Logitech's amazing products to the top of every consumers' consideration list. More to come in this area, but we really like the results we're seeing. Finally, it's such a fundamental part of our purpose that we focus on environmental sustainability at the core of our business.

We were just recognized by the financial times as the European climate leader, based on our carbon intensity improvement score. It's nice to be recognized like this, but the truth is that this score only covers things that happen in our offices and factories. Hardware companies like gas release more -- much more carbon beyond our four walls than in them. As we buy components and products, we transport them and consumers like us, use them. The rest of our story, so far is that we are carbon neutral in Scopes 1, 2 and 3, which includes all of those carbon impacts. And we're committed to being carbon negative or climate positive as it's called, beyond 2030.

And on top of that, earlier this quarter, we announced that we have exceeded our initial commitment to incorporate post-consumer recycled plastic into our products, reducing our carbon impact, and increasing the circularity of consumer product materials and ingredients.

During the last calendar year, one of every three Logitech product shifts, used recycled materials, and that's going up into the right. We believe this is the right thing to do for the planet. But we also believe that a growing share of businesses and consumers will favor our products, as a result of this industry-leading approach.

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

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Nathan Olmstead

Thanks, Bracken. We delivered solid financial results in Q4 and for fiscal year '22 in an environment that was often quite challenging. I'll spend a few minutes on the quarter and then provide some context and texture to our full-year results.

Q4 was our toughest compared for the year as we grew 108% one year ago. In Q4 this year, net sales were down 17% to about $1.2 billion, although impressively we saw continued growth and pointing devices, keyboards and combos, and gaming. Gross margins were essentially flat sequentially, despite ongoing cost pressures and incremental currency headwinds.

We remain disciplined with promotions, while still gaining share in many categories, and we work to reduce our reliance on air freight. Looking ahead to the first half of fiscal year '23, margins could come down further due to ongoing cost increases, unfavorable currency rates, and higher levels of air freight as we expedite to recover from these supply disruptions, due to the China COVID lockdowns.

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Profit was down for the quarter, as was cash flow from operations, both as expected. For fiscal year '22, we turned in our ninth consecutive year of growth with net sales and constant currency, up 4%. As mentioned earlier, C&P and Gaming performed particularly well over the course of the year. Overall gross margin was 41.7% within our long-term guidance of 39% to 44%.

In fiscal year '21, we experienced an unusually low level of promotional and in-store marketing investment, and as expected and planned for an increase -- and we expected and planned for an increase in such spend this year. Higher promotional and retail marketing investment and increased logistics and component costs proved out as margin headwinds. For example, the cost of ocean freight is up about 5x versus fiscal year '20.

Operating profit was $904 million, well above our annual guidance provided at the beginning of the fiscal year. We delivered this incremental profit, while continuing to invest to improve our capabilities with an emphasis on marketing, product design, and engineering. And we returned over $1.5 billion to shareholders through our share repurchase and dividends.

Moving into our categories, in creativity and productivity, keyboards and combos grew 8% in Q4, and 22% for the fiscal year. Pointing devices were up 14% for the year, as a strong

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portfolio, excellent marketing execution, and continued demand from hybrid work trends, drove strong performance in these categories.

Gaming delivered 1% growth in Q4, and 17% for fiscal year '22, delivering double-digit growth off of a record year last year, was impressive. While we experienced pressure in our console gaming, and PC gaming headset categories, we have an excellent line-up of innovative products, a leadership position and expanding categories like wireless mice and steering wheels, and are beginning to gain traction with the social gaming segment.

Q4 video collaboration sales declined 35% after growing more than 200% in Q4 last year. For the year, video collaboration was down 4% after growing more than 180% last year. Conference room cameras and systems grew double-digits for the year, and continue to lead the category performance behind a refresh and expanded product portfolio.

Sales in our tablet and other accessories category declined 39% in Q4, and 17% for the year. As a reminder, last year we saw a surge in sales for our education, iPad keyboards, driven by Japan's Government-sponsored GiGA program, which expired at the end of March 2021.

Excluding sales through the GiGA program last year, fiscal year '22 sales in this category grew double digits, and we gained more than three points of share in retail keyboards, driven by strong product launches, and in-store marketing execution. Our mobile speaker sales declined 12% in Q4 and 15% for the full year. As noted previously, we continue to reallocate our resources to faster-growing market opportunities.

Our audio and wearables sales decreased 35% in Q4 and 15% for the year as expected, despite these declines, sales were up more than 40% versus two years ago, due primarily to expanded market opportunities for retail headsets and blue microphones.

Looking regionally, for fiscal year '22, our sales were sustained or grew in all three regions, much like the diversification of our category portfolios, our geographic diversification helps us manage risk. For example, hedging against regional softness and demand, geopolitical issues or economic disruptions.

Turning to expenses. In the quarter, we executed our plan to strategically invest to grow our business over the long term. While our Q4, non-GAAP operating expenses decreased by 13% to $342 million, our fiscal year '22 non-GAAP operating expenses were up 27% to $1.4 billion dollars.

As we stated before, this is reflective of continued investment in marketing sales coverage, product development, and operational improvements. For example, we increase the level of automation in our factory by more than 50% over the last year, which helps us reduce our cost, improve quality and reduces our exposure to labor disruptions.

And finally, Q4 cash flow from operations was positive $100 million and we ended the year with the cash balance of approximately $1.3 billion. Our cash balance ended this fiscal

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year about $400 million, lower than the end of last year, as we returned $571 million to shareholders through dividends, and share repurchases, this fiscal year.

For the year, our conversion cycle -- our cash conversion cycle increased to 77 days. This increase was primarily driven by higher inventory days, due to industry-wide supply chain disruptions, and demand forecast fluctuations for some of our products.

We also continue to leverage our balance sheet to strategically purchase hard to find and long lead time components to help ensure supply availability and maintain competitive advantage.

Finally, I'll spend a minute on fiscal year '23 guidance. At our analyst day in March, we guided fiscal year '23 revenue to be up mid-single digits, and non-GAAP operating income of $900 million to $950 million. And noted that full-year revenue from Russia and Ukraine was about 2% of our net sales, and was included in our outlook.

At that time, the Russian invasion of Ukraine was in its first days. As of now, this war is ongoing with no sign of resolution in the near term, and we do not expect sales in Russia and Ukraine for the full fiscal year.

We continue to monitor the Russia-Ukraine situation, and broader potentially challenging market conditions. Given this, we now expect full-year revenue to grow between 2% and 4%, and full-year non-GAAP operating income is expected to be between $875 and $925 million.

With that, I will hand over to Bracken for some closing remarks. Bracken.

Bracken P. Darrell {BIO 3403495 <GO>}

Thank you, Nick. In closing, this year we sustained our scale, delivered record sales on top of last year's 74% of sales growth. We delivered many accomplishments and a ninth consecutive year of growth, strong growth in key categories, and market share gains across the portfolio.

We also beat our original profit target by over $100 million. Despite strong year-over-year results, our focus was on the long term. We're writing secular growth trends and hybrid work, video collaboration, e-sports, and digital content creation.

We will continue to deliver against those with agility, operational excellence and a diverse innovative portfolio. I'm super-excited for the future.

Before I open the call to Q&A, I want to thank all of our employees, and partners for continuing to deliver some terrific results, while navigating a really dynamic and at times challenging market environment. Your hard work continues to pay off, and I'm really proud of both Q4 and the entire fiscal year '22. Thanks to you all.

Nate, we can open the line for questions.

Questions And Answers

A - Unidentified Speaker

(Question And Answer)

A - Nate Melihercik {BIO 20814398 <GO>}

Great. Thanks, Bracken. Thanks, Nate. We'll start the Q&A portion of the call now. For our first question let's go with Alex Duval from Goldman Sachs. Alex, good to see you.

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

Hey Alex.

Q - Alex Duval {BIO 16682293 <GO>}

Yes, hi everyone and congrats on strong results today for the quarter. Just had a couple of quick questions. Firstly, just to clarify on your updated full-year guidance. It looks like you cited geopolitical events, meeting Europe as the reason for the change. Just wanted to clarify if that's the only reason or is there any sort of big underlying change in terms of the drivers that you're seeing, for example, if we think about the COVID situation in China and lockdowns there.

And secondly, some investors have been asking about how important the PC data is, which perhaps indicates a little bit less growth in current periods than in prior periods? And what that means for Logitech. So, for example, to what extent do you think yearly PC unit growth is actually directly relevant to your company, given that today, you sort of beat expectations on keyboards and pointing devices. How should we be thinking about that? Many thanks.

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

Let me take the second one. And then, I'll look at.

A - Nathan Olmstead

Yeah. That sounds good.

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

How relevant is PC growth. I think, we disconnected from the PC market, seven -- six or seven years ago. And so, we really stopped considering it a key driver of our business. I guess over the long-term, it would be, but we really focus on the installed base and the installed based expanded dramatically during COVID. And so we've got a lot of work spaces to upgrade and enable. So, we don't see it as particularly relevant.

A - Nathan Olmstead

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Great. Yeah, I think on the guidance, let me just highlight how I was thinking about this Alex. And I think there's always many things to consider. Some are very objective and easier to quantify, and others are probably more subjective and harder to quantify. And I think that's the case right now as well. Direct sales in Russia and the Ukraine are certainly easier to quantify, although the following effects that this conflict could have on European demand, oil prices, logistics, things like that are certainly less certain than the direct sales, which is kind of, what we talked about being about 2% of the overall company.

I think more broadly though we've got -- we have other challenges that we have to consider as well, and monitor and track just like we do every year. I mean, right now, Bracken talked about those in his prepared remarks, things like currency, logistics disruptions, cost inflation you mentioned the China COVID shutdown. And I think these are some really good examples of things that frankly are just harder to quantify. But we have to monitor and track really closely, and that's what we do, I think it's also interesting we don't know sometimes how some of these things will play out, how they're intertwined. If I use as an example of the start of COVID, little over two years ago, our initial perception of that was we have a supply challenge.

Our factory was shut down and a lot of our planning was around how do we recover from that, and quickly it turned into wow, we have a lot of demand coming in as a result of this and we had to adapt to that. So I think today's environment really is very similar to that, there are a number of factors that we consider, and like I said some are easier to quantify than others, but I think the reality is, you just have to track the business regularly, which of course we do. As Bracken said, adapt, change, and operate, and compete. So, that's kind of how I think about guidance every time. And I think this year is no different.

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Q - Alex Duval {BIO 16682293 <GO>}
Many thanks.

A - Nathan Olmstead
Thank you.

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

A - Nate Melihercik {BIO 20814398 <GO>}
Thanks, Alex. Next up Paul Chung from JP Morgan. Please. Hey, Paul.

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

Q - Paul Chung {BIO 20060486 <GO>}
Hey, guys. How's it going?

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

Great.

Q - Paul Chung {BIO 20060486 <GO>}

So I guess, first up on VC. As we look forward, after very strong 2021, now lapping a tough comp here in 1Q 2023. But should we still expect that 5, it's kind of 15% growth. And how do you see kind of product mix evolving? Are you seeing more video solutions accelerate, and are you having more success in the larger conference room? And how do you see competition evolving with HP now, kind of getting into the mix here? And then, I have a follow up.

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

Okay. Let me start it and I'll let Nate jump into the latter half of this. First of all we're still a super bullish about VC. You know, the underlying demand for conference cams was really strong. We grew double digits this year, throughout the year, and it looks good around the world. And we just love our product portfolio. We think we've got super cool things coming and we've got peripherals around that. They're also doing well and we started off for services that are super early days.

So, we feel really, really good just in general. And it's hard to imagine companies going back into a hybrid environment. I was just in one yesterday, it's hard. And they're on their way back in, it's hard to imagine those offices without upgrading and putting video, more video and different videos. So, it's coming. In terms of our growth expectations, I think we moderated our growth expectations for the year as you just saw, and that certainly has some impact on VC, but I think the thing that I would really highlight is that because of the diversity of our portfolio, it's always played with us.

We've always been lucky to have this diverse portfolio that range from consumer, direct consumer experience like gaming all the way into, and now more and more in the office, and I think whatever direction we end up taking whether it gets even stronger in VC because I think it's possible or it's a little bit weaker than the 5%, 15% you mentioned. I'm kind of confident that our portfolio will play in our favor here. Do you want to add anything Nate?

A - Nathan Olmstead

Yeah, I'd like to highlight just I guess the strength of the performance in FY 2022 in conference cam and in grew double-digit and net sales sell-through, through double-digits, it actually grew sequentially throughout the year as well. And Americas was particularly strong consistent in that sense. So like Bracken said, we're very -- you have different demand trends sometimes and the timing of those trends could be a little bit different by region, and take some time to build the pipeline and to close deals. But again, I think just looking out on a longer horizon, which is the way we think about planning the business and investing we feel very good about it.

Q - Paul Chung {BIO 20060486 <GO>}

Okay, great. And then, on free cash flow, do you still expect that one times kind of pro forma operating profit for the year? And when do you expect to see working capital investments kind of come down some more harvesting? And then your case of buybacks has accelerated this year. Should we expect kind of a similar pace in 2023? Maybe see, the bulk of free cash flow going to dividends and buybacks? And then lastly your inorganic opportunities, it's been a while since you've done quite a material acquisition? So just any thoughts there. Thanks.

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

Okay. Let me try to take those. So, I think -- that's okay. You lost me again. What was the first question, as I was the one I was starting with.

Q - Paul Chung {BIO 20060486 <GO>}

Just operating cost.

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

Oh yeah, yeah. On OCF. So, just to clarify, the 1 times is on operating cash flow, not on free cash flow, small adjustment, there you got to net out the CapEx. I still think, that's the right way to think about it. Cash, a lot of it's about timing and linearity within a quarter, and how you end the year, and things like that. But I think that's the right way to think about it this year.

Working capital, we've been very thoughtful and strategic about the use of the balance sheet in terms of supporting the business with working capital investments. And I think that's played out well for us. And we'll continue to do that because it is, it's not really the time to be managing to just-in-time inventory, there's enough uncertainty where it's helpful to be a little bit long in some areas, and that's what we've done, whether it's on the component side, as lead times have gotten longer, and there's been some shortages, or we have categories like the one you mentioned, video collaboration, strong margins, the cost of a stock out there is pretty high.

And these are products that have long life cycles and so it's made sense for us to make sure that we're invested in carrying appropriate levels of inventories, so that we can move quickly as demand changes.

You know that said there's obviously some things to that are leading to some higher levels of inventory relative to pre-pandemic, for example, port delays and just overall supply chain disruptions. And so, those things resolve themselves, I don't really see us moving quickly to reduce inventory in our distribution centers or in manufacturing, because again I think it's to our benefit just to be running a little bit higher than what we did before, but I think towards the end of the year we'd probably see working capital levels come down a bit. But like so many things right now, Paul. It's a little bit hard to see that far out. And we'll just -- we'll manage it as such. But I like our position with the inventory. I think it's a good use of the balance sheet.

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On another uses of cash, yeah, I mean, probably similar strategy that we always talked about, right? We actually do prioritize M&A, we see deals that make sense for us, and we've done several small deals, which granted may not be the news headline that you're talking about. But I think they're very strategic and important for us and whether it's the light that I'm using here at home or some of these other things that are nice additions to the portfolio, and to give you sort of the balance sheet as well. So we'll continue to prioritize M&A where it makes sense. And then, take a balanced approach, I would say, with share repurchases and dividends.

A - Nathan Olmstead

Yeah, let me add that last one. I think we're always in the market and they try, and we've done, he mentioned service modules. Another way up the web kind of thinking about it is, I think we've crossed the threshold here, where our innovation engine is really strong. We don't need to go buy new things to go to deliver our long-term targets. We can do it without it.

We do sometimes feel like we can accelerate things by buying small kind of ingredient plays that can help us really get off the ground faster, on some innovation, and thus the kind of thing we've been doing the last year and a half, two years, and you haven't seen them, but they're built into what we're doing. But we're not going to stop looking at bigger things. If we see something that we think really makes sense, we'll do it.

Q - Paul Chung {BIO 20060486 <GO>}

All right. Thanks a lot. Thank you.

A - Nathan Olmstead

Thank you. Thanks, Paul.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Paul. As a reminder, for those on the call. If you do, if you would like to ask a question, please raise your virtual hands and we'll work through that. Next up is Asiya Merchant from Citi.

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

Hi, Asiya.

Q - Asiya Merchant {BIO 20247269 <GO>}

Hey, good morning. Hey, good morning, everyone. Thank you for the opportunity, and a great results for the quarter. So I'm just going to focus on the outlook a little bit. You guys talk about the quantifiable impact from Russia and Ukraine. So just to clarify the guidance includes obviously no sales from that, kind of what gives you confidence here that, could it spread to other GOs?

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And then as a follow-up, the long term secular drivers that Bracken referred to, the confidence that the underlying demand remain solid, I mean, are there indicators that you're watching that suggests that, okay, this is kind of more GO-focused at this point, but the drivers outside of that region remain pretty strong across the portfolio, whether it's VC or gaming, or keyboards and peripherals.

And then just a clarification on gross margins. I think Nate said they would come down in the first half, air freight was mentioned as one of them, or ocean freight I should say, but there is high levels of inventory right now that you guys are holding. So, could that provide some offset to just the rise in freight costs here. Thank you.

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

Let me jump into part of that Nate, I'll let you answer the rest ones. Your question on Russia/Ukraine you know I think that's a definable problem that we feel like, obviously, the conflict itself has borders. So, that makes it very easy for us to quantify. Everything else, every year, we go into, we always have some, what will happen with dot, dot, dot. This year there are more, what will happen with dot, dot dots, the normal I would say, you've got the tailwind of several things that are caused by COVID, and then they are maybe you can link them all to, but you also got inflation and currency swings and that kind of thing.

So, I think this feels a little bit like normal year except that maybe there are more of them. But we're getting -- we're used to that, we've been doing that for 10 years. So, we're pretty good at adjusting and we're going to try to be really good at adjusting where we need to. And as Nate said, I think very appropriately. It's amazing how often things that start in one direction flipped to the other. They might start being bad news and end up being good news or start being good news, end up being bad news.

So, it's early in the year, we're super-excited about our categories. You asked about the underlying things that give us confidence. You know, it's really hard to look away, I tried to make this point in the opening. I mean, it's really hard to look away from any of our four categories and feel like there's anything, but it's very, very strong underlying dynamics long-term. Those underlying dynamics we don't see anything that's changed. And we -- and why you can't really detect that, you can't predict a really short-term change. The long-term changes feel really, really good. Your long-term trends go really, really good. And if anything, it's getting stronger. So, I guess, that's what should I say. But do you have anything Nate?

A - Nathan Olmstead

No, I think, you've covered the first part. I'll just clean up a little bit on the margin. So, I think similar to what I said today at AID. I think, the first half margins will be lower than the second half. You mentioned the inventory I mean that is part of the inventory strategy, right, is you want to buy ahead of cost increases. So, to the extent that costs have been rising, I think, holding a little bit more inventory has given us a short advantage, you can't buy a year's worth. But we're a little bit long in some areas, and we've probably avoided some cost increases or delayed some cost increases more appropriately.

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But from what we can see right now, just with a little bit of pressure here from currency and some of the inflation that we're seeing, yeah, I think the first half margins were pressured a little bit, we're obviously doing our best to adapt to that and we're probably around it, whether it's with finding new suppliers, adjusting prices, those types of things, just like Bracken said, we go into every year and some things we have some visibility to and other things will change as the year goes along and we just have to keep operating and executing, and we do a good job of that.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay. Thank you.

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

Thank you Asiya.

A - Nate Melihercik {BIO 20814398 <GO>}

Great. Next up is Erik Woodring from Morgan Stanley. Erik?

Q - Erik Woodring {BIO 19492555 <GO>}

Awesome. Good morning guys. Good, good how are you guys?

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

Good.

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Q - Erik Woodring {BIO 19492555 <GO>}

So maybe I'll start at the top, and just to clarify obviously COVID and the lockdowns impacting China, are having an impact across the board. Maybe just a clarification question when you talk about production or supply disruptions, is that your own factory? Is that just general sourcing of components? Has there been any change in April versus the March quarter? Just trying to understand the pace at which maybe production in some of those bottlenecks might be loosening or becoming a tailwind for you this quarter? And then, I have a follow-up.

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

You want to take that one, Nate, I'm happy to.

A - Nathan Olmstead

Sure. Again very dynamic, Erik. I would say, we obviously, as you know, we have our own factory there that handles good portion of our production, we use a lot of partners. I think one of the things about a supply chain, it is a chain. There are links all along and that's one of the things that makes it very challenging and very much day-to-day is, you've just got to try to keep that whole chain strong.

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So, we'll see how China plays out, that is just one of those things, we're going to have to monitor throughout the year. If this is charges in recent days that there's some signs that Beijing is maybe taking some stances towards lockdown. I have no idea what the Chinese government's long-term strategy is going to be on this, and frankly, on the short-term. I think, it's just one of those things when you're part of an operations team, you go chase supply, you work around it, there has been some things that have been to the positive recently with some reopening of some warehouses and some distribution, and it's -- I think that's all I can really say is, we're just monitoring it and closely tracking it and then trying to work our way around it, but we will have to see how that plays out.

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

Erik, if I could just add, I'm -- I probably feel like I tell our team too much, but I'm so impressed with our whole supply chain team in China. I think we really outperformed kind of a competitive set every single time, and I'd say it's a little bit of magic to me sometimes how the in the world we've done that. But they continue to do it. And so, I don't know exactly what we'll face in there. But yeah, I'm pretty optimistic about not seeing a major, major disruption of any kind. But I'm sure that we'll manage really well relative to everybody else.

Q - Erik Woodring {BIO 19492555 <GO>}

No. And I would agree with you on the outperformance versus peers. I think you see that in the data so definitely there. And then, maybe as a follow-up, how should we think about any, let's call it, potential pricing actions you might need to take in international markets, just in light of a strengthening dollar basically in order to help maintain profitability or asked maybe more broadly, how is Logitech today thinking about managing its currency risk in light of this kind of challenging asset environment?

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

Yeah, I don't know if you are following us few years ago. I can't remember what year was, it was 2015 or 2016, when we saw a major currency swing, the dollar strengthened dramatically relative to Europe, (inaudible) and we had products, and obviously, there's a delay and what you can do there, but you can -- one of the advantages we had then and we have even bigger advantage there now is that we're the market share leader in most of our categories, and our market shares have grown since then dramatically. So I really like our position from a pricing standpoint to the extent that we feel like we need to do it.

We're not going to be kind of casual about that though, market share has its costs, and both short-term and long-term, and sort of pricing has caused both short-term and long-term, you need to make sure you're always extracting the level of value that you should, and not trying to get greedy. So, I think we've already put through some pricing and I would suspect it will put through more if the dynamics here look like they're going to stay the same, and I think we're in a position to do that because of the size of our business within the categories we're in.

A - Nathan Olmstead

I'd also point out Erik to the importance of the marketing investments we've been making to, things like building up your brand, raising awareness for the value of the products goes hand-in-hand with your pricing strategies, of course, as well. So again, difficult to put a fine point and quantify that, but directionally, it's certainly helpful. And that's consistent with our long-term strategy about how we think about investment and marketing, and how we think about its relationship with our pricing.

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Q - Erik Woodring {BIO 19492555 <GO>}

All right. And maybe if I could just sneak in one last quick one with you Nate. If we think about kind of the midpoint of your revenue guide and how you guided operating income, you could get to a scenario where operating margins are down slightly year-over-year. Should we think about gross margins primarily driving that, and you still being able to invest or maybe just help me think about the trade-off of kind of gross margins versus OpEx, as you think about the next 12? And that's it from me, so thanks guys.

A - Nathan Olmstead

Well, I think there's going to be ranges on both Erik, again, we're looking out over a full-year. So, we will manage those. I mean, I don't think this will -- this won't be a year where I don't believe you'll see OpEx investment faster than revenue growth this year like you have in past couple of years or at least last year. We didn't actually two years ago. But, we'll see what happens with those pressures on the gross margin side like Bracken said where it makes sense for us to be in promotional where it doesn't. How much we should be investing in marketing? I think what's really important is, we want to sustain investment in innovation and engineering, things that are key to capturing the value of the long-term opportunities that we have.

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Q - Erik Woodring {BIO 19492555 <GO>}

Great. Thank you, guys.

A - Nate Melihercik {BIO 20814398 <GO>}

Thank you. Appreciate it, Erik, thank you. Next up Ananda, Loop Capital.

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

Hi, Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey, yes, thanks guys. Good morning. Yeah, just two -- good morning, good morning, good to get to see you guys. Just two quick ones from me if I could. Going back to fiscal 2023 outlook, what if anything with regards to the collection of macro and supply chain, and lockdowns, et cetera, would you guys consider to be incremental over the last 60 days or so since you gave your initial forecast that goes into your fiscal -- your sort of revise fiscal 2023 outlook. So just sort of what dynamics are incremental? And what thinking might be incremental from 60 days ago?

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

Nate, do you want to take that one, and I'll come afterwards.

A - Nathan Olmstead

I mean, I think the only thing that wasn't occurring 60 days ago, I guess, would be China COVID lockdowns, the threat of that I think was always out there, and it could have been in China or anywhere, and I think that's the environment we're in. I mean, frankly now that we don't know, I don't know what new variants may come out. I mean, it certainly seems like things are kind of trying to the positive, and I certainly hope that's the case, but it's just -- we just don't know. But I mean, over the last 60 days, I don't think there's been any -- we've learned more about each impact that's out there, and we've adapted to Bracken's point started to adapt as per to Bracken's point. But probably trying to cope with lockdowns, the only one that's incremental.

Q - Ananda Baruah {BIO 15320341 <GO>}

Okay, great. That's super helpful actually. So, I guess that also is to say that you still feel like everything else is dimensioned for inside of responsible bounds with regards to your initial expectations?

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

Well, I wouldn't say nothing has changed. I think that's important. I think I just want to stress this point again, there are many things to consider and we have to keep in track all of them. We're giving an outlook for a year, right So, it's just -- it's a substantially long period of time that we're going to adapt, markets are going to change, based on the information that's contained in the trends in the business today, that's kind of what we've reflected in the outlook. But we will update it as we always do, how we see things each quarter.

Q - Ananda Baruah {BIO 15320341 <GO>}

Well, that's super helpful. And I guess, quick follow-up. Nate, I think it was, I think it may have been you who talked about in the prepared remarks, gaining some traction in social gaming. And like, how incremental, how incremental, can you just give some context around that traction? And how incrementally to the segment over time, if you play it out?

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

Well, I will jump in there Nate. I think, very incremental. I think it's sort of a natural outcome of, if we went back in the United States to when the NFL was started and when football became really popular, football was a boy's sport, and immense advocationally men watched it. And I think if you roll forward to today, it's in the U.S. it's everybody's sport. There's a maybe bunch of them and there are women playing now, that's a very big fiscal support for women playing now.

Even more true in gaming. And so I think the natural evolution of what's happening in gaming is, it's becoming, regardless of your identity, it's becoming more and more popular. And probably, I don't know exactly, but I'll bet the fast-growing segment of it is the casual, I know it is for us, the casual gamer, the person really comes in to connect with

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other people, not just to go in and try to beat somebody else. And we're super-excited about that. And I think that is incremental. I wouldn't say that's something that surprises us, we expect that to happen, but it's nice to see it happening as we launch products in to, they're taking off, which means we're really in the right place.

Q - Ananda Baruah {BIO 15320341 <GO>}

And when you guys, when you going back to March back when you guys say social, I think it was social platform gaming or something. I might be getting the language wrong, but it's something like that. What's specific when you use that language, social platform gaming, like what specifically -- what specifically you are doing, what's specific, sort of that gaming applications, are you guys describing when you use that language?

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

Well, we really say social gamers and so there's a lot of platforms, they're playing out a lot of different games, they're playing on, and even things like Roblox I mean, I'm just giving an example which isn't exactly gaming, just this weekend, we had the first that -- this shows you how far away from gaming you can get the, the four gamers, we just had the first, we just created the first big awards event in the Metaverse, which was attended by over 6 million people so far.

And it's a -- that just didn't exist before and that's all occurring with performances live by Lisa, those of who know, different performers live in a video format in a cartoon-based format. So it's kind of remarkable to see how far we've come and you can only imagine how far this is going to go. So that's social experience which is happening in game. There are people really chatting, and talking, and going there to meet and playing games, and the games are completely secondary to the social experience, that's really we're referring too.

Q - Ananda Baruah {BIO 15320341 <GO>}

Appreciate that context.

A - Nathan Olmstead

Thanks, Ananda.

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

Thank you, Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Thanks, guys.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Ananda. Next up Joern from UBS. Joern, good to see you.

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

Hey, Joern.

Q - Joern Iffert {BIO 15374623 <GO>}

Hey. Hi, Bracken and hi Nate. Hi, Nate. Good to see you and thanks for taking my questions. And the first, I will be pleased on video conferencing. The year was little bit falling short of your high expectations, the recovered impact. Now you also said, maybe since the year 2023, we could be below the 5% to 15% despite the pent-up demand and COVID restriction seems to ease. And also, business lives are like becoming more expensive in Europe and Asia. The environment is becoming much better. So, why should we then grow in 3,4 years? Why should you confronting this revenue line? And it's not really growing on volumes maybe in fiscal year 2022 and 2023?

And the second question, if you allow me. In gaming, can you give us an update on the gaming mice and keyboard in the U.S. how this has developed in the last three, four, five months versus Europe? Thanks very much.

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

Yeah, let me take the first one. Nate I'll see if you can take the second one. If not, I'll come back.

A - Nathan Olmstead

Okay.

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

On the VC side, we said, yeah it could be below, it could be above, so I don't think we meant to suggest that we're suddenly pessimistic about VC at all. I feel really bad. I'm sorry if I misled you in my introductory remarks and then answering one of the questions. I think it's things thought out, I do expect to see lots of video going into offices and things around the world. I think we're more clear-eyed about what's happening to webcams. I think webcams are pretty stable, but they're not going to -- we aren't predicting a big growth, but that's a relatively, relatively smaller part of our overall VC business. But conference cam market looks strong.

A - Nathan Olmstead

Yeah. Thanks for clarifying that Bracken. I didn't mean to imply that either during I mean certainly.

Q - Joern Iffert {BIO 15374623 <GO>}

Okay. Yeah, thanks.

A - Nathan Olmstead

It's always possible to be outside that range, but I think the distribution probably mostly fits within the range of the game.

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

Yeah, and on the other questions on gaming mice in the U.S. do you have those numbers off the top of your head, Nate?

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A - Nathan Olmstead

Was it gaming mice? Or was it office mice?

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

Gaming mice, yeah.

Q - Joern Iffert {BIO 15374623 <GO>}

Gaming mice and keyboards, yeah.

A - Nathan Olmstead

Yes, and you're (Multiple Speakers).

Q - Joern Iffert {BIO 15374623 <GO>}

We can also follow-up later.

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A - Nathan Olmstead

Maybe it's easier, yeah, if we just follow up, I mean I have the data here. I don't really -- nothing jumps out at me, but we should say like I'd say the trend is still kind of stronger on the wireless side obviously than wired. I mean that's -- and that's kind of we're particularly strong is on wireless. So, I think that's our benefit from a share standpoint, but in terms of market trends, I mean, both EMEA and Americas have seen pullbacks in gaming over the last several months, that's we talked about that previously, Asia frankly remains very strong. But also consider the comps that we're talking about as well, and I think the 17% growth this year, and even growing this quarter against the year that was up 108% a year ago, I think, is great and our share performance has been really strong with some discipline promo.

Q - Joern Iffert {BIO 15374623 <GO>}

Thanks. And if you allow me one last question on the pricing. Just across many industries, average price increases we are observing right now are between 3% to 6%, some are even higher. If I try to make the math on your increased costs, maybe it's 200 basis points to 300 basis points of your total sales, this is roughly, if you fully pass it on that you should think about your price increase has a magnitude of an average of 3 percentage points to 4 percentage points in fiscal year 2023, is this a fair starting point?

A - Nathan Olmstead

Your question is, is our average price increased 3% to 4%?

Q - Joern Iffert {BIO 15374623 <GO>}

Yeah, for fiscal 2023, is it fair to assume?

A - Nathan Olmstead

I don't actually, I mean I don't really think about it that way Joern because it's really category-specific as Bracken said, we don't have sort of one number that we would apply everywhere. It's really different by category. So, I'm sorry. I don't think I can really confirm your estimate.

Q - Joern Iffert {BIO 15374623 <GO>}

Sure.

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

What we don't is, a lot of businesses and companies do this, we don't apply one price increase right across the board. We're very, very specific. We go, for example, we'll go 10% plus in some places and we'll go to straight flat in others. We tend to be pretty -- we try to stay very aggressive on the low end because that tends to be the most price-sensitive and then we'll go through more aggressively price in the high-end.

Q - Joern Iffert {BIO 15374623 <GO>}

All right. Thanks a lot.

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

Thank you. Thanks, Joern.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Joern. Next up, Rob Sanders, Deutsche Bank. Hey, Rob.

A - Nathan Olmstead

Hey, Rob.

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

Hey, Rob.

Q - Rob Sanders {BIO 19087450 <GO>}

Hey guys. My first question is on China. I just wanted to understand your factory in Suzhou, if you've had any disruption, how would that affect you if there was an extended lockdown? Given that I'd lost I remember, it was something like 50% of your manufacturing out of that facility. So. And then, I have a follow-up. Thanks.

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

Well, I'll jump in on that, Nate. So first of all, we have had disruptions from time to time, in fact very early days of COVID, I think the factory is closed for two weeks. So we obviously can't recover from those and it happens, if it happens again, we'll recover from it. It'll be a timing problem more than anything else. We may lose some sales, but not too significant.

So far we've not had a big issue there. We've had some component shortages, of components that came out of the Shanghai area. But, in terms of factory itself, it's done very, very well. We've got a fantastic factory team. We also have a very, very strong ability to move things in and out of our factory, which is not quite as dynamic, as within a two-week period. But what I would say, extraordinarily good. And so, it gives me a lot of confidence if we went into something that was more protracted. We'd find a way to manage through it with best possible outcome.

So, I feel pretty bullish about where we are from a manufacturing standpoint. Your numbers are about right, between 40% to 50% of our products are made in our own factory.

A - Nathan Olmstead

You know, I might just add a little bit of that Rob. I think it's always an -- it's a lot of little things. I mentioned in my prepared remarks, the increase in automation that we've done in our own factory. So, that's certainly not going to protect us completely, but it does reduce our exposure a little bit to labor. So, to the extent that labor gets disrupted in a situation like this, I think that we could find ourselves competitively advantaged versus someone who hasn't made that investment in automation.

So, it's kind of the reason why I wanted to call that out is, it gives you a little bit of protection. Depending on the severity of the lockdowns, the length of the lockdowns, there's different impacts that we would have. It's really around prioritizing too. We have a broad portfolio, and so, if we get into a situation where we have to make some choices, we'll make some choices, we'll prioritize certain products, maybe even certain countries with supply. We're not having to do that right now, but if we get to that point, we have some experience doing that.

Q - Rob Sanders {BIO 19087450 <GO>}

Okay. And just from my follow-up, a lot of the investor base seems to have sell-through data from GFK and ED, I just wondered if you could just give an indication how April is looking by region just so that we understand what's the starting point? Because I'm still not really clear whether you're assuming that the first half would be down, and the second half would be up or something like that, just to understand how you're thinking about the linearity of the year.0

A - Nathan Olmstead

I would say, yeah, stepping back a little bit, we often talk about typical seasonality in our business. And I've been saying for a while, if a seasonality kind of got thrown out the window, and that's kind of been true for all of the fiscal year 2021 really starting in our

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fiscal Q4 2020 when COVID began, the COVID period began. The last couple of quarters have been more typical. Our Q3 was up 25% and our Q4 was down 25% sequentially, which is more in line with typical seasonality.

So, it could be an indicator that enough things are settling down, it's still a little bouncy by category, right, not as predictable, but for diversified portfolio like ours, we're starting to see some of that seasonality reappear. So, there's lots of ways. Again, it's a full year ahead. But I think thinking about our business kind of probably returning to more typical seasonality is a good way to think about modeling it today. And then we'll see how things evolve.

One adjustment to that certainly that we all need to make is just that there's no sales in Russia and Ukraine right now, and I mentioned that earlier. So, there'll be some adjustment in Q1 to that seasonality as a result of that. But then, my assumption right now is based on current trends, the back half of the year kind of looks fairly typical with what we saw pre-COVID.

Q - Rob Sanders {BIO 19087450 <GO>}

Thanks a lot.

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

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Rob. All right. I think we've got time for one more question. Adam Angelov, Bank of America.

Q - Adam Angelov {BIO 22341766 <GO>}

Yeah, thanks guys. Well, quick one from me. So I wanted to double-check on your category assumptions for the year, you sort of touched on already, but just want to see if there's been any changes there. And then, secondly, if you could just update us on the channel inventory situation of your products?

A - Nathan Olmstead

Yeah. I would probably say no real update on the categories. All of them have some sales in Russia. So, you might think about them all being equally impacted by that from a direct sales standpoint. And then, channel inventory is, I would say, like I mentioned back at AID, I think, they're in a good healthy shape. We're always a little bit short on something and a little bit long in something, and I think that's kind of the way I would describe it now.

Areas of probably the most tightness are still on C&P, some of the mice and keyboards. We've got some component things that we're still trying to chase and clean-up, and the demand has been pretty healthy there. But we're working through those things. I'd say the channels are at typical levels.

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Q - Adam Angelov {BIO 22341766 <GO>}

Right. Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Adam. I think we're at the bottom of the hour. Bracken, Nate, appreciate the update. Bracken, any final thoughts as we wrap here?

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

No, thank you so much. Thanks for everyone's questions, the engagement has been terrific, I know you do this for a living, but it's really stimulating for us. I always say that, I've said this to Nate many times, I always learn when I go out on the road and meet with investors or with you, and I always learn something about -- either about how people think about our business or what's going on in the world.

So, anyway, thank you all for all support during the year. It was a terrific year. And we're really excited about the next year and the years after that. So, look forward to a lot more interesting and exciting calls, a lot more learning. Thanks a lot.

A - Nathan Olmstead

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, guys.

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

See you there.

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