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LOGN.S - Q4 2024 Logitech International SA Earnings Call

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PRESENTATION

Nate Melihercik

Good morning and good afternoon. Welcome to Logitech's video call to discuss our financial results for the fourth quarter and full fiscal year 2024. Joining us today are Hanneke Faber, our CEO; and Chuck Boynton, 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 Reform Act of 1995. We're making these statements based on our views only as of today. Our 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. You can find a reconciliation between GAAP and non-GAAP results and information about our use of non-GAAP measures and factors that could impact our financial results and forward-looking statements in our press release and in our filings with the SEC. These materials as well as the shareholder letter and a webcast of this call are all available at the Investor Relations page of our website. We encourage you to review these materials carefully. Unless noted otherwise, comparisons between periods are year-over-year and in constant currency in net sales. This call is being recorded and will be available for a replay on our website.

I will now turn the call over to Hanneke.

Johanna W. Faber - *Logitech International S.A. - CEO*

Thank you, Nate, and welcome, everyone. In today's call, we're going to cover 3 items, all of which are detailed in the shareholder letter that we released with our earnings materials. First, Chuck will provide the highlights of our fourth quarter and our full year results. I'll then briefly touch on my view of our current assets, the secular trends driving the business and strategic decisions that we're implementing. And I'm going to close with our financial outlook.

Let me start, though, by saying how pleased I am about the execution of our teams in the fourth quarter. We returned to top line growth. We executed at a very high level with both gross and operating margins up year-over-year. And before Chuck dives into the numbers, I want to thank

him for an impactful tenure here at Logitech. He's built a highly capable finance team, and he has helped drive the consistent progress we've seen in the business over the last year. He's going to be missed, and we wish him all the best. And now Chuck, over to you.

Charles D. Boynton - *Logitech International S.A. - CFO*

Well, thank you, Hanneke, and thank you all for joining us on the call today. I am so proud of the way our employees finished the year. In addition to further enhancing the value chain, we continued our cost reductions and promotional discipline. These factors all drove better-than-expected fourth quarter results. The detailed financial results can be found in the press release and in the shareholder letter, but I'd like to call your attention to 3 metrics.

First, we are pleased to see Q4 revenue return to growth at plus 5%. However, please note that channel inventory reduction in Q4 was lower than last year's reduction. When normalized for the change in channel inventory, net sales growth was closer to plus 3%. Second, our Q4 non-GAAP gross margin of 43.6% was better than expected due to lower product costs, lower inventory reserves and reduced promotional activities. For the year, we achieved non-GAAP gross margin of 41.8%, a tremendous accomplishment by the team and comfortably within the range of our operating model.

And finally, the business continues to generate impressive cash flow. In Q4, we delivered \$239 million of operating cash flow, totaling over \$1.1 billion for the year. We returned almost \$700 million to our shareholders and ended the year with a fortress balance sheet.

Thank you, Hanneke, and thank you, Logitech, for the opportunity to serve. It's been a real pleasure, and I will miss everyone. With that, I'll turn it back over to Hanneke. Hanneke?

Johanna W. Faber - *Logitech International S.A. - CEO*

Thanks, Chuck. So in my first 100 days, I've met with hundreds of employees, customers, partners and shareholders. And their passion and excitement about Logitech's future as well as their healthy dissatisfaction with the levels of top line growth of the last 2 years were palpable. And these interactions have been super helpful as I shape the plans for Logitech's future. Everything starts with our mission.

Logitech extends human potential in work and play. Extending human potential is exciting. It means helping people be more productive, perform better, win that game and connect more easily, all in ways that are more sustainable and more equitable. We will pursue this mission with a terrific set of existing assets that we build from. We have world-class design and engineering expertise. We have a strong brand with high levels of brand awareness and leading market share positions in key product categories. We have truly global go-to-market capabilities in more than 100 countries. And we're an operations powering house with a relentless focus on cost, inventory, quality and customer service.

Now as we look forward, we see 5 external trends that we believe will affect our business. First, new ways of working. We're splitting time between working at the office and home and on the go. It's here to stay, highlighting the need for multiple workspaces and the need for more video collaboration.

Second, gaming has gone mainstream. Nearly every age, gender and demographic is gaming today, providing an opportunity for us to provide more tools to a wider community of gamers.

Third, we're in the early innings of a major AI transformation. And Logitech will be and already is an important part of the emerging AI ecosystem.

Fourth, climate change is impacting every country, every business and every society. Logitech intends to continue to be a leader for sustainability and tech.

And the final trend is the increasing importance of trust. In a world where trust in government, the media, science and in business is at an all-time low, Logitech delivers trusted experiences. With assets like our well-established Swiss brand and high privacy and security standards, we are very well positioned.

I've come to really like this combination of strong assets and long-term secular tailwinds. To take advantage of them, we're in the process of implementing a number of new strategic decisions to accelerate profitable growth, where to play and how to win choices, if you will.

Let me share those briefly with you. First, work and play. We will continue to innovate and grow in the core categories that we compete in today, personal workspace, video collaboration and gaming. But there is more room to grow. Today, in work, we're focused on office workers. Most people in the world don't sit in offices every day. They work in retail, in education, in health care, in manufacturing and construction and other places.

And in play, we are mainly focused on PC gaming today. There are other play opportunities, console and mobile and even beyond what I call active play. Expanding our definitions of work and play significantly broadens our total addressable markets.

Second, we will create competitive advantage through a focus on design-led, software-enabled hardware. Those words are carefully chosen. We differentiate our hardware with world-class design and with advanced software insight.

Third, we will double down on the B2B, the business-to-business channel. Our B2B business is twice as big as it was in 2019, but I would still call us relatively young in this channel. Further strengthening our B2B capabilities and domain expertise offers significant opportunities for future growth.

Fourth, we will build out our already strong global presence. We will reapply best practices to drive a more consistent share of wallet across our developed markets and further extend our presence in emerging markets. Combined, these geographic opportunities represent more than \$1 billion of incremental growth.

And fifth, we will focus on building the Logitech brands and take it from good to truly iconic, that single Logitech brand. That's where to play.

Now how will we win? We will relentlessly drive product superiority through innovation. We will build on our reputation for operational excellence and discipline, and we will continue our industry-leading work to reduce carbon emissions across our value chain.

Now let me turn to the outlook and what this set of choices means for the near-term and longer-term profile of our business. Our first priority is to return the business to annualized growth in fiscal '25. We are targeting low single-digit growth with strong operating margins. Our goal in the midterm is to return organic growth to mid-single digits. Potential acquisitions would be incremental to that. We believe this growth, supported by non-GAAP gross margins in the 39% to 44% range and non-GAAP operating margins of 14% to 17%, represents an attractive investment profile.

In summary, the path ahead builds on Logitech's impressive set of strengths, takes advantage of secular trends, and makes a number of clear strategic choices going forward. With that combination, I'm confident that Logitech's future is bright and its best days are still ahead.

Thank you. Before we now move to Q&A, one final administrative comment. We spoke last quarter about our plans to host an Analyst and Investor Day in May. With Chuck moving on to a new opportunity, we thought it prudent to modify our plans. We will host a more traditional AID later in the year with the exact timing to follow. And with that, Nate, let's move to Q&A.

QUESTIONS AND ANSWERS

Nate Melihercik

(Operator Instructions) Our first question today will be from Alex Duval at Goldman Sachs.

Alexander Duval - *Goldman Sachs Group, Inc., Research Division - Head of Europe Tech Hardware, Semiconductors & Video Games Research*

Many thanks, Chuck, for everything. Greatly appreciated. My first question is just on gross margin. Obviously, you had a very strong gross margin in the quarter. I wondered if you could talk about how sustainable that is. And also, to what degree was lower promotional spend because of a stronger demand environment? In recent holiday windows, consumers prefer to shop during the promotional days. So just curious how the trend was there?

And secondly, on video collaboration, we saw slight year-on-year growth. I wondered if that really signals the start of a recovery here and troughing in the cycle, which is obviously something we've been waiting for, for a number of quarters. Curious on your view there and how sustainable the growth can be and whether you'll be investing behind that in terms of boosting the channel?

Johanna W. Faber - *Logitech International S.A. - CEO*

Why don't I take the B2B and you start off with gross margin, Chuck?

Nate Melihcick

Alex, thanks for the question. So a couple of things on the gross margin. We were about 4 points ahead of where we had talked about the quarter landing last quarter, and so those gains were equally across 4 different areas. One, we talked about potential pressure in the Suez Canal. Teams did a great job operating. There wasn't that pressure. It didn't manifest itself. So that was a tailwind.

You also mentioned promos. Promos was a part of it as well, going from the holiday quarter to the last holiday quarter, there's promotional tailwinds. Costs continue to kick in, so that would be the third of the 4. That helped. And then we had a little bit of regional mix. Europe did a little bit better, China a little bit worse. So that provided some tailwinds as well. So that kind of helps you bridge, I think, from where we thought maybe the quarter would be and where it ended. Obviously, a tremendous quarter from a gross margin perspective. Really, really happy with the performance on that front. Anything to add there, Chuck?

Charles D. Boynton - *Logitech International S.A. - CFO*

Yes. I would just add on your question, Alex. Is it sustainable? And the answer is yes. Our target operating model is 39% to 44%. We finished Q4 at the high end of that model. What a great quarter. Next year, if you look at the prepared materials, we outlined an approximate 41% target for next year. It could be a little higher, it could be a little lower. But it is sustainable and it's really driven on the heels of amazing cost reduction. Our operations team has just crushed it bringing product cost down. So thank you, Prakash, [Sari], that whole team has crushed it. And then our go-to-market team has done an amazing job of being more disciplined on channel inventory and how we promote.

So I do think that's sustainable in the long term. Some years might be above, closer to the high end of that model. Some could be a little lower. And we could talk about those factors later if you'd like. But thank you, Alex. And Hanneke, if you want to talk about B2B and video?

Johanna W. Faber - *Logitech International S.A. - CEO*

Yes. So B2B and video, obviously, really important to our future. And I was super pleased to see growth for the first time in many, many quarters in that segment in Q4. And I would say underneath that 2% growth, there's a number of other green shoots for our business. We continue to lead the market in VC, so hold the #1 share. Slightly grew that in the quarter as well. PWS also grew really well in the channel, close to double digit actually, which was great to see.

And we had record services sales. And as I said earlier, we're a little young in B2B. So services are relatively new to us, but they're growing fast. So I think our performance in the channel has been very good and will continue to improve. As we look at the market beyond our own execution, I think it hasn't picked up tremendously. And that's because office vacancies are still high because IT budgets continue to be a little stretched or

probably flat corporate IT budgets from what we can see. And within that, IT teams are having to prioritize AI spend. So the market isn't quite back. Our performance in the channel is very, very strong. When that market snaps back, we'll be really ready to take advantage of that.

Nate Melihercik

Our next question is from Asiya Merchant at Citi.

Asiya Merchant - Citigroup Inc., Research Division - VP & Analyst

Thank you again, Chuck, for a great partnership and for all the help over the last few quarters. Just a quick question, Hanneke. You outlined several great TAM opportunities to grow your expandable market. The cautious guide, I understand, perhaps, related to temporary budget spending. But given great margins here, do you think you would need to invest with higher levels of OpEx here in the near term to drive, perhaps, the organic growth a little bit higher? Or do you think the model here is rightsized?

Johanna W. Faber - Logitech International S.A. - CEO

Yes. So we -- going forward, we've guided on our midterm model. We've guided on gross margins, 39% to 44%, and on operating margins, 14% to 17%. I think OpEx won't be super far from the 25, but I think it's right to not box us in necessarily. We should always be prioritizing investment in both R&D and brand building, so you may see quarters where that's a little higher than the 25. And that's okay if we're spending it on good cholesterol that drives growth. What's important is, again, that top line, low single digits accelerating to high single digits, and then those gross margins and those operating income margins.

Asiya Merchant - Citigroup Inc., Research Division - VP & Analyst

Great. And then just if I may, near term, given all the details in the shareholder letter that you gave, it wasn't clear to me. Given the growth rates that you're guiding for this next fiscal year, if VC is growing here or declining given your flattish or plus 1% growth expectation, but then VC seems to be a little bit lower on that bar.

Johanna W. Faber - Logitech International S.A. - CEO

Yes. So what I was really pleased about in Q4 is that the growth was broad-based. So every region grew and every key segment, every key category grew, including VC. I think going forward, that's what we'll be aiming for. And we're not guiding here the exact growth rates of any of the specific categories, but I think it will and can be broad-based.

Charles D. Boynton - Logitech International S.A. - CFO

Yes. Asiya, in the shareholder letter, we outlined and ranked the kind of high margin to lower margin, higher growth to lower growth in VCs in kind of that middle range, which would indicate that our view, based on industry research, and again, the industry prognosticators are calling sort of flattish to slightly growing market. We're being cautious because of the items that Hanneke mentioned. I do think this is one that when interest rates normalize, office vacancy normalizes, this is a great category that should outsize growth for the company overall in the long term. I think next year, we're being a little cautious.

Nate Melihercik

Next up from Deutsche Bank is George Brown.

George Samuel Brown - Deutsche Bank AG, Research Division - Research Analyst

I have 2, if I may. So firstly, in terms of your sales outlook for next year, if we take the midpoint and use your expectations on seasonality, this implies growth of roughly 5% in the first half but a decline of 2% in the second half. I understand that this divergence is partly driven by improving growth trends in fiscal year '24. But is there any other reason for the decline in the second half of the year? And then secondly, I noticed on your shareholder letter that you reiterated your long-term targets on profitability, but you didn't mention anything about your long-term growth target of 8% to 10%. I'm just wondering how we should interpret this.

Charles D. Boynton - Logitech International S.A. - CFO

I'll do the first part, Hanneke, if you want to do the second part.

Johanna W. Faber - Logitech International S.A. - CEO

Yes, absolutely.

Charles D. Boynton - Logitech International S.A. - CFO

Okay. So thank you, George, for the quick math, and we wanted to provide the seasonality because it's a little different than historical. The primary driver is, we have done a really good job of leaning out channel inventory. And so now when you compare it to history, it's going to look a little different. Going forward, this should be the more normalized profile. And what that means is there's going to be a little more sell-in in Q1, at the quarter run rate now, the June quarter, then you'll see a little more sell-in in Q2, followed by more sale-out in Q3 and Q4.

And so the real kind of way to think about this is the right operating model is weeks on hand, how much channel inventory should we have from a weeks on hand. And when you compare that to last year, where we were still leaning out the channel throughout the year, the year-on-year growth is going to look really strong for Q1. So when you do the math, we're going to have a really strong Q1 compared to prior year, but it's based on the right target operating model.

Now what does that mean for the full year? Could Q3 and Q4 be higher? Of course. That's a long ways off. The December quarter is our biggest quarter. But we're -- you're going to see a pretty strong Q1, a pretty strong Q2. We've really done a good job of having the business be more linear. What we sell in each month now is more similar. And then that should translate into better margins and a new kind of seasonal model based on weeks on hand. So don't read into a lot with that seasonality other than we're running a leaner supply chain, and this is reflective of putting the right product in the channel for the weeks on hand on a forward-looking basis.

Johanna W. Faber - Logitech International S.A. - CEO

Yes. Super. And I'm glad, George, that you're asking the question on 8% to 10% because that's obviously a really important one. What we're doing here is clarifying the organic growth piece of that, which is what we can control. And I think we owe that to you guys to be a little more specific on organic. So what you've seen is our outlook for next year on organic is low single digits. Beyond that, we will accelerate as soon as we humanly can to mid-single digits. And why do I believe that is true? We believe our markets, thanks to those tailwinds of new ways of working, gaming and AI. We believe our markets will be GDP plus. If you combine that with modest share growth, you get to those mid-single-digit rates.

That's also what the company did pre-COVID. So if you look at the 7-year pre-COVID CAGR, it was 5%. If you look at the 5 years pre-COVID CAGR, it was 7%. So again, mid-single digits. It's what our track record was, and we believe we can do that going forward.

Any M&A would come on top of that, but it's harder to predict. And I would say it can be huge, it can be small. It can be a mountain or a molehill. And I would hate to artificially cap the size of M&A. I would also hate to overpromise on the size of M&A. We'll be thoughtful, we'll be deliberate and strategic on M&A. But I think it's important that we provide that clarity on the organic growth rates, which is what is our priority right now.

Nate Melihercik

Next, let's go to Bank of America, Didier Scemama.

Didier Scemama - *BofA Securities, Research Division - Director in EMEA Equity Research & Head of European IT Hardware*

A question for Hanneke. I'm a bit surprised you have lowered your long-term growth target, not because I don't understand it, but because effectively, you just told us that you're going to invest a bit more to increase your TAM by about \$1 billion. So I would have expected, at the very least, the organic growth to have been the same as it was. But now you're telling us that effectively, some of your core categories are going to decelerate, if not shrink. Is that the right way to understand it? And I've got a follow-up.

Johanna W. Faber - *Logitech International S.A. - CEO*

I wouldn't say so, Didier. I think -- well, I know the previous 8% to 10%, which has been around for a long time, always included M&A, which made it rather obtuse. Because again, M&A can be huge. It can be small. It's hard to predict when it will come. So I think it's important that we give you some guidance on what we think this business can do organically. For next year, that's low single digits. And then from there, we'll take that to mid-single digits. That's by no means a deceleration of where we've been. That's where we were pre-COVID. In the last 2 years, obviously, we were down across our categories. So we look forward to accelerating that business, and I'm very optimistic about our ability to do that.

Didier Scemama - *BofA Securities, Research Division - Director in EMEA Equity Research & Head of European IT Hardware*

Excellent. And I think your long-term gross margin model has been changed, but should we understand from your commentary that you expect to operate towards, let's say, the upper end of that range? And that you're going to invest effectively what's on top of that in R&D to accelerate our top line, maybe in the longer term?

Johanna W. Faber - *Logitech International S.A. - CEO*

Yes. So within the OpEx, definitely what I would like to do is shift more to the S rather than the G and the A, which is marketing and R&D, because that's what drives, in the end, our gross margins and our ability to premium price our products. So yes on that. On gross margins, I wouldn't -- we're guiding a range, 39% to 44%, for the longer term. For next year, we can -- we think we can be around 41%, which is great. Should that change going forward, we'll let you know. But a broad range, given the uncertainties in the environment, I think is prudent for now.

Charles D. Boynton - *Logitech International S.A. - CFO*

I would just -- I'll also add, Didier, that the -- it's an important kind of philosophy that Logitech has. And this is broader than Hanneke and I. This is kind of in the business groups and the go-to-market is we are not going to give up share in the mainstream and lower end. We will fight the margin game at the low end. Why? We make our money in mid-tier to high end. And so you will see periods where we're more aggressively promoting to defend our share of shelf at broad-scale e-comm and retail.

And so there will be periods where we're fighting more to maintain share or grow share. The long-term model, 39% to 44%, makes perfect sense. This year, as we see it today, 41% is a really good planning number. But understand that I wouldn't encourage you to go to the high end of the model permanently because competition can be fierce, and we will defend our turf.

Nate Melihercik

Let's go to George Wang at Barclays.

Dong Wang - Barclays Bank PLC, Research Division - Research Analyst

Just 2 quick ones. In the prepared remarks, you talked about some AI tailwinds. Most people don't associate necessarily large tailwinds with AI, at least in the near term. Maybe you can parse out some of the kind of drivers kind of -- and when do you think we could possibly see some tailwind on the P&L side?

Johanna W. Faber - Logitech International S.A. - CEO

Yes. Great. Thanks for the question. So Logitech already is part of that AI ecosystem, and we look at it in 3 ways. The first way, of course, is to drive in-house productivity like every other company on the planet. So I won't talk about that. The other 2 ways we look at AI is really to drive growth. First, that is in our software. And a good example of this is what we launched on April 17 a couple of weeks ago, the Logi AI Prompt Builder. That sits in -- I was going to grab my mouse, since I used to have my mouse here, but it sits in all our mice and keyboards. And it's basically a productivity enhancer.

I don't know if you guys use it, if you use ChatGPT a lot. But if you use it a lot for summarizing, for rephrasing, for translating, you have to go out of the work that you're doing, go into ChatGPT, copy, paste, come back in. One of the consumer needs we identified early on was to make that faster and more fluent. So what the software, the Logi AI Prompt Builder, that's now for free, by the way, across all our products, lets you stay in the flow. That's pretty cool. We have 0.5 million active usage occasions already in less than 2 weeks. People really like it. That's the way to make our products better. And we firmly believe when you have superior products, you will grow faster. So that's the one way, working with the ChatGPTs of the world to help people enhance their productivity.

The other way is probably even more fundamental, which is improving audio and video based on machine learning and large language models with our own data models. I talked about this a little bit on our last call, but products like the Logitech Sight video conferencing tool are outstanding. We used machine learning, fed all the data in. What happens in a big conference room, normally, there's 10 of you on one site, one of you on the other site. The person on the other site can't see who's speaking, just sees little heads. It's not a great experience. With the Logitech Sight, it recognizes who's speaking. But thanks to the AI underneath, it also not just knows who's speaking. But it knows when you're opening a packet of crisps, that it shouldn't focus on you. It's like having a really intelligent producer inside of the product. Same is true for audio, where in our headsets, we've implemented, again, the same machine learning to get perfect two-way noise cancellation.

So lots of way in which we're using machine learning and large data models to make our products more superior. And again, the more we can grow that superiority delta and delight our consumers, I think the faster we grow. That's why we see this as a tailwind.

Charles D. Boynton - Logitech International S.A. - CFO

There's one other angle too I'd just add, and that is if you're tracking Dell or Lenovo or even HP in some cases, they're talking about a pretty significant chip refresh in their fleet of PCs. And while we've talked about there's not a huge correlation between PC shipments and the sale of our gear, there is a correlation. So as you see that PC refresh cycle happening with chips, AI chips going more local in the machine, that we think will have an attach rate that will be a tailwind to us over time as you see a large PC refresh happening.

Dong Wang - Barclays Bank PLC, Research Division - Research Analyst

Got you. Just a quick follow-up, if I can. Just in terms of China, you guys called out some continued weakness in China, especially on the gaming side. You guys mentioned some competitive intensity and some potential share loss. Just curious kind of whether you see that as a more sort of

continuous sort of pressure in the next few quarters? And then maybe you can provide a little bit more color on that, especially in the gaming side in China.

Johanna W. Faber - *Logitech International S.A. - CEO*

Yes, absolutely. So there's -- the business in China on the gaming side is a little softer than I would like for it to be. It's not all bad. When you look at the premium mice, we're still doing well. We're still growing. We're still #1. And I think what's also reassuring is the brand is still very strong. It has strong awareness, a strong reputation. That continues to be super important because there's literally more than 1,000 other brands in peripherals in China. So to have the brand that is the strongest in the market is really, really key.

That said, there is intense competition, and we need to do better. So I've challenged my teams to come up with plans to compete more effectively in China. That's one of our top priorities for the months ahead, and I'm confident that we will turn that around.

Nate Melihercik

Let's go to Jörn Iffert at UBS.

Jörn Iffert - *UBS Investment Bank, Research Division - Director & Analyst*

Chuck, all the best to you in the future. Three quick questions, please. The first one would be, please, on gaming. Can you share with us how strong the growth in simulation devices was? Because I remember this can be cyclical. And also, why gaming is now dropping to the lower end of the gross profit margin range as you indicated in the shareholder letter?

Charles D. Boynton - *Logitech International S.A. - CFO*

Sure, Jörn. Thank you for the kind words. Simulation is a great business, and our team is crushing it. The results, we don't break out the detail for you. But simulation margins are good, business is up, and we feel really good about the simulation business. So I think more to come on that one, and we do feel good about that, in general.

In terms of margins dropping on gaming, I wouldn't say that they're dropping on gaming. Margins have always been challenging on gaming. If you think about our overall portfolio and in the shareholder letter, we ranked the different categories. But within gaming, which is one line, there are vastly different margins. Think of console headsets. Before our new product, the A50 X, which is awesome and great margin and a killer new product in that category, console headset margins were terrible. They're bad for our competitors. It's a very, very competitive space.

We have changed the game by offering a really unique, innovative, different product that no one else has that we think will change the margin profile on console headsets. Gaming mice, we're the market leader. Margins are quite good. Gaming keyboards, a little more competitive. Simulation margins are quite good. And there's many other categories within gaming. But overall, it's a fairly competitive business. And therefore, it's a little lower margin than our flagship products like video, mice, keyboards, the area -- the B2B ones, especially.

So all the businesses are great, and the margins in gaming are up significantly year-over-year. So I will say thank you to Ujesh, the gaming team. They've done a great job of driving cost down, holding margin, holding promo and doing great.

One word of caution, though, for the models. For Q1, there will be some margin pressure in Q1. It's the June 18 holiday, big promo window in China, and we're going to win that holiday. We want to come in strong. We'll be price competitive. It will bring margins for the company down a little bit, but we do intend to fight back. And Hanneke has challenged the team to do better, and I think we can.

Jörn Iffert - UBS Investment Bank, Research Division - Director & Analyst

Okay. And the second question please to Hanneke. Hanneke, how are you changing internal processes? How is decision-making changing? So if you can give us some insights where you have tried to improve things or change things.

Johanna W. Faber - Logitech International S.A. - CEO

Yes. Great question. Thanks. I think the first thing is setting out these clear, strategic choices because when you're unclear, things tend to swirl inside the company, and I want to avoid that at all cost going forward. So the choices of work and play, that's where we will play. We'll look at those markets in a larger way, but that's our space. The choice of design-led software-enabled hardware, again, very carefully chosen words. We are not going to do adventures in pure software that's unrelated to our hardware. We're also not going to play with plain hardware.

Our hardware has software insights and leads with design. Those are important choices to put on a piece of paper because they've led to some swirl here in the past. The choice to double down on B2B will drive some of our resource investments when it comes to capabilities. The choices on geographic opportunities and making sure that everyone performs at the very highest level, and we don't have these share of wallet differences between similar countries. And finally, the choice of one iconic brand is really important versus the multi-brand strategy of the past.

So I think making those clear choices will help people know what to expect and will help us move faster. I also believe structure follows strategy. So we'll be adjusting the organization going forward to make sure we can drive those clear choices and drive really attractive profitable growth going forward.

Jörn Iffert - UBS Investment Bank, Research Division - Director & Analyst

And the very last question, really a quick one. On the Chief Design Officer position, can you just remind me who it is right now? And if this structure has changed?

Johanna W. Faber - Logitech International S.A. - CEO

Yes. No, no. So we announced earlier in the quarter, I believe sometime in February, that Malin Leschly, who's a fabulous Swedish designer who had been with Logitech for a little while, has been appointed our new Chief Design Officer. She is off to a roaring start. We love what she's doing. The design team, just in the last couple of weeks, won 10 super prestigious Red Dot Design Awards, so the design team just keeps performing incredibly well under her leadership.

Nate Melihercik

Let's go to Ananda Baruah at Loop.

Ananda Prosad Baruah - Loop Capital Markets LLC, Research Division - MD

Chuck, it's been great working with you. It's really been value-add, and your proactive-ness actually is noticeable over the years. So really appreciate that. I guess, just a kind of clarification and then one quick question here. Hanneke, you had mentioned kind of when you were talking about mid-single digit -- returning to mid-single-digit growth in the intermediate term. My interpretation. You mentioned 5% and 7%. And so do you relate to 5% to 7% as mid-single-digit growth? Or were you just providing a for instance?

Johanna W. Faber - Logitech International S.A. - CEO

Well, those were the growth rates pre-COVID, so those were for instances. In my book, mid-single digits goes all the way from 3% to 7%, so that's the guidance we're providing.

Ananda Prosad Baruah - Loop Capital Markets LLC, Research Division - MD

Got it. And is high -- would high single digit be an aspiration longer term for the company?

Johanna W. Faber - Logitech International S.A. - CEO

Again, I think what we're guiding that mid-single digits for is organic. And we hope that with our balance sheet, we would be adding M&A to that. So then we can do the math, and we would do a little more.

Ananda Prosad Baruah - Loop Capital Markets LLC, Research Division - MD

Is it too early to say, yes, if high single-digit organic would be something that the company could go for long term?

Johanna W. Faber - Logitech International S.A. - CEO

Too early to say.

Nate Melihercik

Next up, we'll go to Morgan Stanley, Erik Woodring.

Erik William Richard Woodring - Morgan Stanley, Research Division - Executive Director & Equity Analyst

I have 2, please. Maybe just the first one. If we just double-click on the channel inventory comments, I just want to gain a little bit of clarity there because sell-through in the March quarter was flat, sell-in was up 5%. So that would imply you filled the channel. So I just want to make sure I'm thinking about that right or if I'm not, what I'm missing there.

And then beyond the March quarter, just to Chuck, to get to your comments, I understand maybe your approach to filling and draining the channel might be different. As we look forward, from my seat, I guess, it just seems as though you're filling the channel at a different time as opposed to changing the underlying maybe fundamentals or visibility of the business. And so can you maybe just help me understand how this maybe new approach to channel inventory benefits Logitech outside of just timing-related factors?

And then last question related to this, I'm sorry for the multipart question, it's just -- if sell-in is up -- flat to up 2% in fiscal '25, how should we think about sell-through expectations for fiscal '25?

Charles D. Boynton - Logitech International S.A. - CFO

Great, Erik. Thank you. I'll try to see if I can get all your questions remembered and articulated properly. So you need to follow up if I don't exactly hit the nail on the head. So first of all, sell-in was flat. It's in the shareholder letter -- or sorry, sell-through was flat year-over-year. Sell-in was up 5%. As I mentioned earlier, 2 points of that is simply comparing the channel inventory year-over-year. So a year ago, we took channel inventory down more than we -- than it came down in Q4 of this year. So really, the way to think about that is 2 points of the 5% is the channel inventory reduction this year was lower than the channel inventory reduction was a year ago. The other 3 points of growth is really promotional effectiveness. Basically,

we're selling the same number of units, but we have more profit per unit. Therefore, there's more revenue because of a higher profitability and less promotional activity. We've seen that in other quarters as well. It's a more disciplined approach to how we do promos. So that part should be fairly straightforward. If not, I can follow up if you ask another question.

On the 0 to 2%, I think your question was what should sell-through be. I would expect sell-through to also be roughly 0 to 2%. Effectively, we should be ending the year about where we started from a channel inventory standpoint. And the operating model is really, for us, it's -- have a linear business where we're selling every month, every day, every week, we're selling. That's how customers buy.

B2B can be a little different. But generally, there are customers who are buying every day, every month, every week. And we want our factories to run that way and ship that way, and that matches how customers buy. Now what's different is, for example, in China, there's a big promo window, June 18. So we took the product into the field in advance of that, and that's this forward weeks on hand operating model. So in China, we'll be shipping a lot more product in this month in May, April and May, to get ready for that promo window, and then it will come down a little bit.

As we think about Amazon Prime Days, we'll be selling in advance of those days. So all we're doing now is matching how we fill the channel in advance of the promotional windows, the big one being Black Friday, the December quarter, the holiday window. It's the biggest quarter of the year for us, the December quarter. We'll start having that fill happening in late September, October, early November. And then again, the channel will come out. So all the hard work that we've done a year ago now is going to pay fruit. And that should mean better margins and lower operating costs, which should translate into a very compelling gross margin of that 41-ish percent this year and in that range of 39% to 44% for the years to come. .

Erik William Richard Woodring - *Morgan Stanley, Research Division - Executive Director & Equity Analyst*

Okay. Very clear. And then maybe just as my follow-up, Hanneke, just in terms of -- it's felt for a few months now, you've emphasized M&A a bit more than your predecessor. Logitech hasn't really made a large acquisition in, I'd say, over a decade, at least one that would move the needle. And you have very clearly spent a lot on shareholder returns. And so I guess, big picture, are you -- is it your view you're going to lean more into what I would kind of call transformational M&A prior -- more than prior executives?

Is that kind of how the Board is thinking about this? Is this how shareholders are thinking about the future? And would that be still be incremental to your capital returns? Or would that capital, excuse me, cannibalize some of what you've been returning to shareholders? Obviously, a very strong balance sheet. But just how should we think about those different dynamics going forward?

Johanna W. Faber - *Logitech International S.A. - CEO*

Sure. Thanks, Erik. I can't speak for my predecessor. But what I'm hoping to get across here is that our priority right now is organic growth. That's why we're guiding that low single digits, growing to mid-single digits. That's what's under our control. Now on top of that, with our balance sheet, we do have opportunity for M&A. The key is that, that is thoughtful, deliberate and strategic. Size is a factor, but it's just one of many factors. What's more important is that we're really thoughtful because what I've learned over the years is doing the deal is really easy. Making it a success is much harder. So organic growth is what -- is our #1 priority at the moment. But if there's good M&A opportunities, we won't hesitate to take advantage.

Nate Melihercik

Our last question today is from Michael Foeth at Vontobel.

Michael Foeth - *Vontobel Holding AG - Head of Swiss Industrial Research*

Two questions from my side. You mentioned the expansion of your sort of mice and keyboards or work business into or outside of the office. Can you maybe be a bit more specific on what sort of applications you have in mind there and how that should significantly increase your addressable

market? And the second question is regarding your brand strategy. I was wondering how you -- how and when you plan to phase out those brands like your UE and Logitech G and, you name them, all the sub brands, if you want.

Johanna W. Faber - Logitech International S.A. - CEO

Great. Let me take that second one first because I can be quite brief. We are not phasing out Logitech G. So Logitech G is Logitech. So -- and the G stands for gaming, which makes sense. So if I insinuated that back, I was not clear. So Logitech and Logitech G are very much part of the same mother brand, and we're going to do our darndest best to make those iconic. 97% of Logitech's revenue today is in Logitech and Logitech G. So the multi-brand strategy was a big talking point. But in reality, most of it is actually Logitech and Logitech G. So that's where our focus will be.

Great question on work. So again, most people in the work world don't work in offices. So we are starting to put our toes into the water on some of these other spaces that I talked about. Education is a good example, a very large work market and one where our existing product portfolio can be curated to play quite effectively, so -- and we have started to sell into education. We saw really good growth, actually, in the fourth quarter on that business.

One example is headsets, which are important in schools. We sell headsets. We have absolutely superior headset technology. What you need in elementary schools is the smaller headsets and headsets that are more robust because kids throw their headsets around. So with relatively limited R&D adjustments, we make the very best headsets for education. We started to sell those, again, with very encouraging results and a very large TAM.

And what I personally like is some of the testing we've done with schools in America. Turns out that kids using our headsets have more peace and quiet and actually read 40% more books in class than before. So I love it when we really deliver on consumer and family needs like that and grow the business incrementally from it.

Nate Melihercik

And with that, Hanneke, that's our last question for today.

Johanna W. Faber - Logitech International S.A. - CEO

Great. Thanks, everyone. And again, yes, thanks, Chuck, his last hooray. It's been a real pleasure to work together, and I look forward to seeing you all again.

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