Transcript – Q3 FY'26 Earnings Call

Nate Melihercik | Global Head of Investor Relations

Good afternoon and good evening. Welcome to Logitech's video call to discuss our Financial Results for the Second Quarter of our Fiscal Year 2026. Joining us today are Hanneke Faber, our CEO; and Matteo Anversa, our CFO.

During this call, we will make forward-looking statements, including discussions of our outlook, strategy and guidance. We are making these statements based on our views only as of today. Our actual results could differ materially as a result of many factors. Additional information concerning those factors is available in our most recent Annual report on Form 10-K and any subsequent reports on Forms 10-Q and 8-K, which you can find on the SEC's website and the Investor Relations section of our website. We undertake no obligation to update or revise any of these forward-looking statements except as required by law.

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. And unless noted otherwise, references to net sales growth are in constant currency and comparisons between periods are year-over-year. This call is being recorded and will be available for a replay on our website.

I will now turn the call over to Hanneke.

Hanneke Faber | Chief Executive Officer

Thank you, Nate, and welcome everyone.

During the third quarter, we delivered another period of strong financial performance.

With the exception of pandemic peaks, we drove record non-GAAP operating income and earnings per share.

Very strong non-GAAP gross margins once again underscored the quality of our portfolio, the strength of our brand and innovation, and our unique operating discipline.

And topline growth of +6% in US $ and +4% in constant currency was broad-based - across regions, channels, and categories.

These strong third quarter results were driven by our strategic priorities.

First, Superior Products & Innovation.

At the end of September, we launched the *MX Master 4*, the next generation of our flagship mouse.

It is selling at record levels - it sold more units in the first month following launch than any other personal workspace mouse in Logitech history.

In Gaming, we delivered winning news across price bands. The premium *PRO X Superlight 2* mouse was a top-performing new product in the quarter. We also had strong demand for the new entry level China-for-China *G316* gaming keyboard, which helped drive market share gains in China.

And AI now plays a critical role when it comes to superior Video and Audio innovation.

We are well beyond AI proofs of concept and experiments - we are shipping AI products globally, at scale.

In Q3, those included both AI-powered devices like the Rally Board 65, Sight VC camera and the Zone 2 Wireless headsets, and AI-enabling devices like the Spot sensor.

And just last week, we announced the Rally AI camera and the Rally AI Pro, our smart new VC solutions for large rooms like Board rooms, auditoriums and class rooms.

None of these products are ‘AI for the sake of AI’.

These are products that solve real user needs. And that shows in their popularity in the market.

Our second strategic priority driving results was ‘Doubling Down on B2B’.

Logitech 4 Business demand significantly outpaced B2C demand in the third quarter, driven by strength in Video Collaboration and our Education Vertical.

Third, we executed with excellence around the world.

The December quarter was the first in Fiscal Year '26 with positive year-over-year net sales growth and increased demand across all three major geographies.

Around the world, our teams excelled with great holiday in-store execution and terrific social-first digital brand-building campaigns.

Finally, our performance underscored our unique Operational Excellence.

Product cost reductions, targeted pricing actions, and FX offset tariff headwinds and strategic promotions, and drove a strong non-GAAP gross margin of 43.5%.

Importantly, we continued to drive manufacturing diversification. As committed, we successfully reduced the percentage of U.S. products manufactured in China from 40% in April, to less than 10% by the end of December..

And we maintained strong cost discipline across the company, highlighted by non-GAAP General & Administrative expenses, which were down 7% year over year.

Looking ahead,

We live in a dynamic world, but there is still so much opportunity for Logitech to grow. One of the opportunities I am excited about lies in leveraging the existing global PC footprint to drive continued growth.

Consider that, of the 1.5B PCs in use today around the world, less than half have a mouse attached.

And less than 30% of PCs have an external keyboard.

Taken together, the PC installed base represents over 1.8B opportunities to add peripherals, and upgrade users to enjoy vastly superior productivity and comfort.

We warmly welcome the tens of millions of new PCs sold each quarter, but believe the existing base remains the far greater prize.

With that, Matteo, I'll hand it over to you to cover the financials in more detail.

Matteo Anversa | Chief Financial Officer

Thank you, Hanneke, and thank you all for joining us on the call today.

The team delivered a solid quarter, demonstrating a continued focus on profitability and growth. Non-GAAP operating income reached $312 million, reflecting a 17% year over year increase, alongside a 220 basis point expansion in profitability.

Our strong P&L performance, combined with disciplined management of working capital, resulted in exceptional cash flow generation of approximately $500 million, a 30% year over year increase.

Let me walk you through the key financial highlights of our third quarter.

Net sales were $1.4 billion, up 4% year over year in constant currency. This growth was driven by strong demand and represents our eighth quarter of consecutive topline growth.

More specifically:

Personal Workspace net sales increased 7% with 9% growth in Pointing Devices fueled by the launch of our MX Master 4 as well as double-digit growth in Tablet Accessories.

Video Collaboration net sales grew 8%, with double-digit growth in EMEA and Asia Pacific, driven by continued sales strength of our AI-enabled Rally Board 65. As we indicated in the past, the B2B nature of this business tends to be lumpy quarter to quarter but the long term trajectory of the business has strong momentum.

Gaming net sales grew 2% driven by double-digit growth in Asia Pacific, while Americas and EMEA declined single digits due to market contraction.

Geographically:

Asia Pacific led the way with 15% year over year growth, driven by double-digit growth in Gaming, Video Collaboration, and Tablet Accessories.

EMEA grew 2%, due to double-digit growth in Video Conferencing, as well as solid growth in Keyboards & Combos.

And the Americas reversed the negative trend of the past couple of quarters with the U.S. returning to modest growth, with Pointing Devices up double-digits, offset by Gaming.

On the profitability side, our non-GAAP Gross Margin rate was 43.5%, up 30 basis points from the prior year. We were able to expand the gross margin rate despite a challenging tariff environment. Similar to last quarter, the negative impact of tariffs was entirely offset by our pricing actions and continued manufacturing diversification efforts. Product cost reduction and favorable FX, more than offset increased promotional activity in the quarter.

We maintained strong Operating Expense discipline. Non-GAAP Operating Expense was $306 million, a decline of 2% year over year. This decrease was primarily driven by a reduction in G&A, as a result of the measures we implemented to mitigate the impact of tariffs. It is important to note that if we normalize for the bad debt expense we recorded in the prior year period, non-GAAP Operating Expenses would have increased approximately 2%, while delivering 70 basis points of leverage.

Finally, cash flow was extremely strong in the third quarter. We generated approx. $500 million of operating cash flow, 1.5 times operating income, thanks to efficient inventory management, strong collections and profitable growth. Our cash conversion cycle improved by 18%, down to a highly efficient 27 days. We maintained a very strong balance sheet, ending the quarter with a cash balance of $1.8 billion.

As we look ahead, we are closely monitoring external dynamics including geopolitics, tariffs and consumer confidence. While the backdrop is mixed, we believe Logitech is exceptionally well positioned, and this confidence is reflected in the outlook we are providing for the coming fiscal quarter.

Net sales in the fourth quarter are expected to grow 3% to 5% year over year in constant currency, with a gross margin rate of approximately 43% to 44%. Non-GAAP operating income is expected to be between $155 million and $165 million, up 20% at the mid-point.

As a result, we expect to close FY26 above the long-term model targets for non-GAAP gross margin and non-GAAP operating margin that we outlined at our Analyst and Investor Day last year.

Our performance underscores the durability of our model and our consistent ability to convert profit into cash and generate compelling returns on invested capital.

As we transition into this new calendar year, we remain confident in our ability to execute at a high level as the environment evolves.

I want to thank our teams for their dedication and flexibility.

With that, let’s open the call for your questions.

Q&A

David Connell | Moderator

Thank you, Matteo. Our first question comes from Asiya with Citi.

Asiya Merchant | Citi

Great. Both well, there's just so many macro factors. I mean, obviously, memory affecting PC demand. Hanneke, you talked about the installed base. Just if you can walk us through what gives you this confidence relative to your long-term target model that you guys have laid out about the growth looking ahead, not just through March, but you're now approaching the end of fiscal '26 into fiscal '27. Just some commentary that you could share on that. And one for Matteo while I can.

Just on the gross margins, I mean, they just continue to upside representing really strong execution here. Just as you think ahead, given the macro backdrop and concerns around consumer spending, how should we think about gross margins going forward?

Hanneke Faber | Chief Executive Officer

Yes. Thank you so much. Overall, it's too early to discuss fiscal '27. But I would say we're really encouraged by the momentum of the business around the world. This year, as Matteo said, we're going to deliver at the high end of our long-term model.

And we're expecting that our team will continue to deliver with excellence. This is a company for all seasons. A lot of things were thrown at us this year, we expect that we can continue to work well in the year ahead. Let's -- let us touch actually on memory and on PC potential.

So overall, what I would say is we don't believe we will be materially affected by both of those factors and let us unpeel that a little bit. In terms of memory availability, the vast majority of our portfolio is not impacted by the current tight memory availability. We simply don't use those chips in most of our portfolio.

Only our video conferencing products and only a portion of our video conferencing products are impacted by the memory availability issues. And we believe we are mitigating those impacts in fact. So from a supply point of view, we've seen this coming, and we've taken proactive steps to ensure supply.

So we don't foresee a supply impact in Q4 nor in the first half of our next fiscal year from the memory availability issues. There may be a modest cost impact. But as you've seen, we're really good at mitigating cost impacts through cost reductions and through targeted pricing if needed. So that's on memory.

On PCs, you've seen our great personal workspace results in this quarter, high single-digit growth. We grew share 120 basis points in PWS, and we believe our peripherals business, in general, continues to have excellent growth opportunities, whatever the environment. Our data shows that if you take out the 2 years of COVID, which were crazy, over a 10-year period, we grow 300 to 500 basis points ahead of PC sales. And why is that?

It's because the peripheral market is relatively immature around the world on that big installed base of 1.5 billion PCs. Plus less than half of people use a mouse, and less than 30% use an external keyboard.

And they're basically leaving productivity and comfort on the table. And so that installed base opportunity, combined with trading up, people who are in the category is a far bigger opportunity, like far bigger opportunity for us, than just attaching to new PCs, which, of course, we'll continue to do. But our growth over the years has come from penetrating that installed base of PCs.

So that's what we will continue to do, and we're confident that we can continue to grow the peripheral business as we have. Sorry, it's a bit of a lengthy answer, but I know it's on many people's minds. So thanks for asking.

Matteo Anversa | Chief Financial Officer

Maybe Asiya I will address your gross margin question. So first of all, let me say, I appreciate your comments also on behalf of the team because I really agree with you. I think the team has done a fantastic job.

If you take a step back and we use just the midpoint of the outlook that we provided today for the fourth quarter, that implies that we will close the year with a gross margin rate around 43.5%, which is pretty much flat to fiscal year '25.

And so the ability of the team to deliver this outstanding result in spite of all the tariff environment that we discussed throughout the fiscal year, I think it's pretty remarkable. And so I think the -- it's way too early to talk about fiscal year '27, but I think the foundation of this gross margin and our ability to maintain the gross margin to this level, I think the foundation is there.

And what I mean for foundation, really, I'm referring to a couple of key aspects. Number one, our fantastic brand and the pricing power that this gives us. Number two, the continuous work that the team has been doing on innovation. We'll talk a little bit in the prepared remarks, another tremendously successful launch with the MX Master 4, just as an example.

So that's really the engine of the company. And third, the continuous work that we are doing every year on product cost reduction through value engineering and supplier negotiation. So that's really, to me, the foundation of what we are doing, and that's here to stay.

Now, with that being said, obviously, we are all seeing commodity prices going up. We are seeing the cost of components going up. So we will have to factor all these components when we discuss in the next earnings call about '27, but I think the foundation and the execution of the team is there, and that's what you can count on us to deliver also next year.

David Connell | Moderator

Okay. Our next question comes from Joern from UBS.

Joern Iffert | UBS

And hello, everybody. I would ask two questions if it's okay, and then I go back in the queue. The first one is, I mean, you elaborated on your resilience and more volatile PC markets, but do you have some data for the attachment rates on mice and keyboards, where this has stood 5 to 10 years ago?

Just to compare a little bit the trend changes of rising attachment rates, which potentially was helpful for the PC unit outperformance?

And the second question would be, please, on gaming. Isn't this a little bit concerning that the U.S. and Europe are now seeing decline in gaming markets. Gaming is one of your key growth drivers. What are you doing against this strategically for the next 12 months to bring this back to growth? And also, if you see some details, was PC gaming down or was it mainly driven by simulation and headsets? Some more details here would be appreciated.

Hanneke Faber | Chief Executive Officer

Let me take the gaming question first and then maybe you take the attach question Matteo, if that's okay. So on gaming, first of all, another quarter of good global Logitech Gaming growth, 2% up. Demand was higher than that. And as you saw, that's really driven by our outstanding performance in the world's biggest gaming market, China.

We gained past-3-months share across gaming mice and keyboards in China. That's the first time since I can remember and since I've been here. So that's great. We delivered strong double-digit gaming growth there in terms of net sales.

And I think what's important, and that's important for the rest of the world as well, is we're winning at the top end with Pro and we're winning at the entry level. With the China-for-China innovation, the most important one that came out this quarter was the G316 keyboard, a mechanical keyboard for gaming. That's doing very well as well.

So it's important that we cover both ends of the market. In the U.S. and Europe, we held share in a declining market indeed in the quarter. What's good to see there is that our U.S. share stabilized after a couple of quarters where share was a little soft as we took pricing, first implementing it and then getting the consumer to get used to it. So it's good to see it stabilize.

And the other good thing there is that we're seeing great growth on the top end of our business, so both Pro and SIM are growing double digits in the U.S. and Europe. Now to your question on the gaming market, the markets in the U.S. and Europe have been pretty soft. We believe that's temporary, and we can discuss the causes, but they're probably part economics, part game release related.

And in that context, we think we've prepared ourselves really well for the year ahead. So when it comes to economics, there clearly is a bit of a K-shaped economy. When I meet gamers in the U.S. and Europe, they are a little more choiceful in terms of what they spend money on.

So what we've done for the year ahead is really thoughtfully designed our portfolio to win at the top end because there's a lot of gamers who do have money, but also to win at the entry level. Just like we've done in China already. So that is one.

And then second, in terms of gaming title releases, again, they've been a bit more muted in the West than they have been in China, and gamers in the U.S. and Europe that I speak to are saying, well, I'll just wait and see a little bit till GTA 6 and some other new releases come out. So they're sitting on their money.

But fortunately, our business, again, doesn't depend on a single game alone. And for big existing games, whether it's Call of Duty or League of Legends or Valorant, you need the best gear. So we're excited. SUPERSTRIKE is coming out, start shipping here in a couple of weeks. That is a step change in competitive performance for FPS games, existing FPS games.

And again, I think that will position us really well to continue to gain share whatever the market does in gaming. Again, sorry, a bit lengthy, but I know it's on many people's minds.

Matteo Anversa | Chief Financial Officer

So Joern, the -- so let me start. Overall, if we look at - take about 10 years' worth of data - and normalize for COVID, generally, the sale of our peripherals outpace PC sales by about 300 to 500 basis points on average.

So with that being said, though, I go back to Hanneke's point, the biggest opportunity for us is really on the installed base, where of all the PCs out there, less than half have a mouse and less than 1/3 have a keyboard.

And that's really where in a way, the focus has been. And actually, if you go back in history. The vast majority of our sales really comes from the increase in the attach rate to the installed base versus new PCs to Hanneke's point in her prepared remarks. We also like, obviously, the new PC sales, but that's where the focus is.

Hanneke Faber | Chief Executive Officer

And I think Joern you were asking, do we know attach rates to new PCs in the past. We know what they are today. They're actually fairly low, somewhere between 9% and 14% depending on the type of master keyboards.

So they're relatively low. We don't have that historical data. But given how low they are, there was an opportunity, obviously, going forward to go up, but they cannot have been that much lower in the past.

David Connell | Moderator

Okay. Our next question will come from Erik Woodring with Morgan Stanley. Erik?

Erik Woodring | Morgan Stanley

I just wanted to circle back on just a PC question, Hanneke. The 300 to 500 basis points of outperformance versus PC sales. Just a clarification, is that versus PC revenue or PC units. And the only reason I ask is, if you look at, for example, IDC forecast, the variability between PC sales may be flattish versus PC units potentially down 5% to 10%.

What makes the difference between -- again, if we use that kind of historical context – the business growing versus declining? So just a clarification on that point. And if it is attached to

PC sales, just how do we think about the attach to revenue when we think about its attach to the unit.

I just want to get a better understanding of that. And then just a quick follow-up for you Matteo.

Matteo Anversa | Chief Financial Officer

Yes, sure. Erik, it's -- what we refer to is unit sales. So that's the way we think about it. So that's all I can tell you.

Erik Woodring | Morgan Stanley

Okay. Totally fair. And then maybe Hanneke, just again, on the PC peripheral kind of attached to the PC base. So I think that makes a ton of sense. On one hand, I guess I would say, perhaps we can assume these devices might not have a peripheral for a reason. -- whatever that may be.

So how do you convince that user that's underpenetrated to get that mouse or to get that keyboard. What is it that Logitech will say or it can do, whether that's incentivization, promotions, et cetera, that gets that easier to say, you know what, I do need this. This is an awesome product I need to buy it.

Hanneke Faber | Chief Executive Officer

Yes. What a great question. And it comes down to product superiority and real benefits for the user. So let me take the MX Master 4 as an example, which again is off to a fabulous start in terms of creating both new trial and up-trading existing mouse users. Why is that?

It's very premium, it’s a $120 mouse, an expensive mouse. But consumers, including in the U.S. and Europe, where they're being more choiceful absolutely doesn't hesitate to go and buy one because, A, it clearly is superior versus what's out there in the market, the haptic feedback, the actions during the new software, the beautiful design the aesthetics, clearly superior.

It clearly answers the user's needs in terms of productivity. So -- we are -- when you use that MX Master 4, you're going to be faster, you're going to be more accurate and more productive. That's important both for users, by the way, and for B2B choosers. So the procurement people in businesses that are buying mice for their employees.

And then marketing, of course, plays an important role as well. We did up marketing in the quarter. We're measuring that very tightly. The return on investment there is excellent.

And I think we have a lot more opportunity to do more social first digital marketing for our top superior products to drive that penetration. So it all starts from the superior product that really answers the user needs in the case of MX, the user need is productivity.

In the case of gaming, it's performance, you're going to win that game. And in the case of a line like ERGO, it is comfort. You're not going to have that pain in your arm. So really important in any marketing. We're seeing really great results. There's opportunity there going forward.

David Connell | Moderator

Okay. Our next question comes from Ananda with Loop Capital.

Ananda Baruah | Loop Capital

Two, if I could. So let me just ask another, this is a PC-related one. Do you think people are obviously interested in the PC, the PC attached because of the dynamics going on with memory in the PC market and the impacts we've already begun to see there. Do you think that this is one of those years where the company could see sort of growth above the average sort of few hundred basis points range that you guys typically have.

I know in past years, when you've seen amplified growth above the PC market, there are times you've been a thought process maybe people aren't buying a PC, but they can do something to make their PC experience more enjoyable dress up their PC experience. So I just want to ask that question. And then I have a quick follow-up as well.

Hanneke Faber | Chief Executive Officer

Yes. So it's too early for me to speculate on the year ahead. But I think you're right, historically, again, this is a company for all seasons. We can win in any environment. And in an environment where I say gaming, the price of gaming PCs is definitely up.

But when I don't have money to get a faster CPU, I can buy a SUPERSTRIKE mouse and improve my gaming speed and performance that way. So we've definitely seen that in the past, and we're going to make a plan to do that going forward as well.

Matteo Anversa | Chief Financial Officer

Maybe Ananda, for whatever is worth, too early to talk about next year, but if you look at the quarter we just printed, if you look at personal workspace, actually in its totality, the growth in personal workspace in constant currency outpaced the growth of the company. So it was faster.

Ananda Baruah | Loop

Good context. And the follow-up, this might be more for Matteo. But although you guys don't have material exposure to some of the components that are -- that we're seeing the meaningful price increases in the memory chain is others as well.

Do you think you could have seen some pull-forward sales from folks who might not necessarily understand that you don't have material exposure to those components?

Matteo Anversa | Chief Financial Officer

Not, I wouldn't -- if your question, Ananda, is on the video conferencing being up 8% year-over-year in the quarter, I would not attribute that to the hoarding or anticipated by due to the memory -- due to the memory situation. I think we're all deals that the team has been tracking for quite some time.

We are building the muscles as we discussed during Investor Day. And I think through the growth that we had in videoconferencing. By the way, the fact that overall, B2B outpaced B2C in the quarter in terms of strength, thanks to the education vertical that has been doing very well for us also this quarter.

I think it's really execution by the team.

Hanneke Faber | Chief Executive Officer

Yes, I see a lot of customers. I didn't get a sense that they were hoarding ahead of any memory shortages in our video conferencing portfolio. Videoconferencing because it's 100% B2B, basically is a little choppier net sales-wise, just because there's big deals one quarter that may not necessarily be in the next one.

So I would look at that business over a little longer period than just quarter-by-quarter, but this was a really good one. But take a little bit longer perspective on VC to really look at the health of it.

David Connell | Moderator

Okay. Our next question comes from Joe Cardoso with JP Morgan.

Joseph Cardoso | JP Morgan

Maybe first one here, I just wanted to follow-up on the last comment and maybe just not specific to videoconferencing, but broad-based across the portfolio, just because we're hearing some maybe more downstream from a PC perspective, talking about pull forward of demand in the backdrop of kind of this rising memory cost environment.

Just curious as it relates to Logitech's portfolio, and once again, broad-based, maybe not specific to videoconferencing and maybe your attach here. Are you guys seeing any of the benefits from potential pull forward either this past quarter or the quarter that we're in itself? And then I have a follow-up.

Hanneke Faber | Chief Executive Officer

No. I mean, again, about 60% of our business is B2C. So the consumer is definitely not pulling things forward. But also on the B2B side, where we're kind of half personal workspace half videoconferencing, we really -- I have not seen or heard of any pull forwards in our business.

Joseph Cardoso | JP Morgan

Got it. Very clear. And then maybe just a follow-up. You talked about reaching the 10% of U.S. products originating from China or less than 10%, I think, was the exact comments, which seems a bit better than what you guys were targeting.

So now that we've reached that point, maybe can you touch on whether there's further headroom to reduce that? And as we think about the combination of ramping those other manufacturing sites, those processes potentially maturing and the pricing actions you've already taken, any new thoughts on how you're thinking about the implications to margins from those actions?

Matteo Anversa | Chief Financial Officer

Yes. So first part of your question, at this point, I think we are happy where we are. The team has done a fantastic job. Our target was to limit the import from China into the U.S. to 10% by the end of December.

And we are, as you correctly pointed out, a little better than that. At this point, I think we are happy with the current landscape. We also -- as always, want and cherish the flexibility because the tariff environment is pretty fluid. So we want to make sure that we have the appropriate flexibility to move things around, and that's the beauty of the [China Plus 5] strategy that [Sree] and the team implemented now for quite some time.

I think on the gross margin side, if we look at what we have done in the second quarter, what we've done in the third and also the outlook that we indicated today for the fourth, we are really happy where things played out.

Basically, the positive impact of the price actions that we took in April in the U.S. combined with the diversification action that you just mentioned, we're able to offset entirely the tariff impact. And I think we're in a good spot. And then we'll see, we'll talk more once we close the year.

David Connell | Moderator

And with that, our next question goes to Didier with Bank of America.

Didier Scemama | Bank of America

Yes. A couple of quick ones, if I may. So I think can you give us a sense of the components of the personal workspace organic growth. So how much of that is volume versus price? Because the reason why I'm asking is because I think the question has been asked multiple times in different ways. If you got a PC market next year, tablets down 10% because of higher memory prices, you're going to face very tough comps, effectively having raised prices this year to offset the tariff impact.

So I guess the question is if we've got a very tough PC market outlook in terms of '27 big decline in volumes, would you be happy to just take down pricing? Or would you be happy to just keep pricing to maintain your margins and potentially lose share?

Hanneke Faber | Chief Executive Officer

So we don't break out the exact units versus price versus mix for the company or for PWS. But what I am comfortable in telling you is that the great PWS growth that we saw in the quarter was a combination of all 3. So positive units, positive premiumization around the world, people trading up to the MX Master 4 and other premium products and U.S. pricing. So it was a combination of all 3.

And in terms of -- I'm never happy to lose share. So we're going to put the right plans in place to continue to grow and defend share. And I think you see that in the quarter as well. We're very intentional and strategic on when we need to promote certain parts of the portfolio and very surgical. We're not just throwing promotions and deals across the market but there's places in the quarter where we need a little more, and we do that intentionally and strategically.

Matteo Anversa | Chief Financial Officer

To this point, the -- if you look at where we closed the quarter in terms of gross margin rate versus what we were discussing 3 months ago, we are in the higher end of the range. And this is really thanks to the diligent and very surgical promotional approach that Queen and the commercial team around the world are having to Hanneke's point. So.

David Connell | Moderator

Okay. And that looks like our final question will come from Martin with BNP .

Martin Jungfleisch | BNP Paribas

Yes. On my side. Just 2 follow-up is First one is can you just walk us through what the main strength factors for the Q3 constant currency guidance to reach the high end or the low end? Is that still mainly the U.S. consumer? Is there any on the China sustainability, is it gaming or the PC market slowdown.

And then maybe attached to that, the sell-through was pretty strong, but it's a sell-in, and that was primarily in APAC and EMEA. Was that difference mainly due to promotional activity? Or was there also some in terms of restocking in the channel? Those were my two questions.

Matteo Anversa | Chief Financial Officer

So let me take them then, Hanneke, so let me start with the first one, the fourth quarter outlook. So our outlook contemplates a couple of things. So if you look at the midpoint, right, pretty much performance is in line with what we've done in the third quarter.

And this applies in totality and this applies also by the 3 different regions. So AP -- we are expecting AP to continue to grow in the mid-teens like we did in the third quarter, low single-digit growth in EMEA, and flat to low single-digit growth in AMR. So that's the midpoint.

On the high end, pretty much AP, EMEA remains the same as we did in the third quarter. So the swing factor is, to your point, AMR. We have seen during the third quarter, an acceleration of the momentum, particularly in the United States and mostly towards the end of the third quarter.

So the high end assumes that this momentum continues into the fourth and AMR grows into the mid-single digit. So that's really the difference between the two.

On your question on the sell-through, sell-in. So -- you have to keep in mind that sell-through is a gross number, right? So it does not include the impact of foreign exchange, and it does not include the impact of promotion, right?

So when you look at the total company, sell-through was up 10% year-over-year in the third quarter. We have a couple of points of foreign exchange, so call it 8% in constant currency. And then you have a couple of points coming from higher -- slightly higher promotional spend as we anticipated getting into the holiday season, which is pretty normal.

And then a slightly negative mix coming particularly from the high sales on tablet accessories, which is tied to some of the work that we have done on the education vertical. But that's your walk.

Martin Jungfleisch | BNP Paribas

Okay. Great. So there's no bigger inventory.

Matteo Anversa | Chief Financial Officer

No big selling, sell through. Yes, correct. No. We're pretty happy at…

Hanneke Faber | Chief Executive Officer

Yes, we're really happy with the inventory. So really healthy channel inventory levels as we exit the holiday season and excellent own inventory turns. So all of that looks pretty good.

David Connell | Moderator

This concludes the Q&A portion of the call. I would now like to turn things back to Hanneke for closing remarks.

Hanneke Faber | Chief Executive Officer

Great. Well, thank you all. It's great to see you. We look forward to seeing you in the follow-ups and thank you for being with us for today. Have a great week.