Transcript – Q1 FY'27 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 First Quarter of our Fiscal Year 2027. Joining us today are Hanneke Faber, our CEO; and Matteo Anversa, 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. We undertake no obligation to update or revise any of these 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.

Q1 was a strong start to the fiscal year, with net sales growing 5% in constant currency—marking our 10th consecutive quarter of growth.

The business performed well despite tight component sourcing, elevated component and shipping costs, and the ongoing conflict in the Middle East.

We were particularly pleased to see an acceleration of growth in Gaming and in North America; and continued strong growth in Video Collaboration and Pointing Devices.

Our strong operational performance was driven by our strategic priorities:

First, Superior Products and Innovation

The MX Master 4 mouse and the PRO X2 SUPERSTRIKE gaming mouse have scaled at an exceptional clip. These super premium products with unique technologies are both big hits. Just a few quarters from launch, they now both rank among the Company's absolute top-selling products, helping professionals work more productively and enabling gamers to win.

This quarter, we also added four new releases to our product portfolio: the Mobi Fold ultra-portable mouse, the G512X gaming keyboard, the Spotlight 2 advanced presenter, and a really fun limited-edition Soccer Alto Keys bundle.

Our elevated marketing efforts are supporting the success of our products. In Gaming, our partnerships with iconic brands like NASCAR, McLaren, Call of Duty and a range of top Pro-Gaming teams helped accelerate growth this quarter. And on the Work side, we are investing more in creators and social commerce, anchored by a fast-growing roster of influencers.

We will continue to deliver superior innovation at pace. And the incremental growth investments we outlined entering FY27 are now underway, laying the groundwork to fuel a unique product innovation pipeline for the years ahead.

Second, Doubling Down on B2B.

Video Collaboration net sales grew 9% in constant currency this quarter, extending momentum built over the past year.

Logitech's videoconferencing solutions are now used by more than 70% of Fortune 500 companies, putting us on a very short list of preferred suppliers as organizations refresh and expand their meeting spaces.

Third, Excellence Across Geographies.

This quarter, our geographic diversity really paid off, allowing us to balance tough spots like the Middle East with terrific demand-led growth in the Americas, as well as continued strength in China.

And in Europe, where the broader market was soft, our teams gained significant market share.

Finally, Operational Excellence.

This quarter's results once again demonstrated the power and consistency of our operational teams, even in a volatile and uncertain macroeconomic environment.

While tariff refunds positively impacted our reported numbers, we delivered excellent Operating income growth excluding the refunds too - thanks to the discipline and precision of our teams.

All in all, our Q1 results reinforce our commitment to operational rigor and our belief in our ability to execute on our strategic pillars, positioning us well for long-term success.

Now, as we look ahead, we expect the demand momentum we are creating to continue. But as you may have seen, a new, serious incident at one of our suppliers, which we are working hard to mitigate, is likely to temporarily impact our ability to fully meet demand.

Let me hand over to Matteo to provide more details on both our performance and the outlook.

Matteo, over to you.

Matteo Anversa | Chief Financial Officer

Thank you all for joining us today.

As Hanneke mentioned earlier, our teams navigated a difficult operational backdrop throughout the quarter and delivered very strong results.

In addition to delivering a strong quarter, we received $61 million in tariff refunds. As a result, non-GAAP operating income was $290 million, up 44% year-over-year.

Excluding the tariff refund, non-GAAP operating income was $229 million, up 14% year-over-year, reflecting strong execution from the team.

Let me walk you through the quarter in more detail.

Net sales were $1.2 billion, up 7% in U.S. dollars and 5% in constant currency. Pointing Devices, Video Collaboration and Gaming were the key growth drivers in the quarter.

More specifically:

- Pointing Devices net sales grew 14% year-over-year fueled by the continued success of the MX Master 4;
- Marking our 5th consecutive quarter of growth, Video Collaboration net sales increased 9% YoY as a result of sustained corporate investment in our workplace solutions.
- Gaming net sales grew 9% year-over-year driven by double digit growth in AMR.

Conversely, both webcams and headsets were down, driven by soft end markets in EMEA.

At a regional level:

- AMR led the way, up 11% , with Gaming, Pointing Devices and Keyboard and Combos all growing double digits;
- Asia Pacific grew 5%, with China ahead of the broader region.
- EMEA net sales declined 4% due to the middle east conflict, which impacted the region's net sales by 400bps. [PAUSE] It is important to note that in Europe we gained share in a subdued market.

Turning to profitability, our reported non-GAAP gross margin rate Including the $61 million tariff refunds was 49.8%. Excluding the impact of the tariff reimbursement our gross margin rate was 44.8%, expanding approximately 270 basis points year over year.

We have now posted gross margins greater than 43% in the last 4 consecutive quarters.

This year-over-year gross margin expansion was driven by favorable currency exchange rates, product mix, and product cost reduction.

Product mix played a prominent role in the quarter, as we drove double-digit growth on the premium product lines and categories, including sustained momentum in video collaboration.

The Gross Margin tailwinds were partially offset by higher promotional spend, particularly in EMEA.

Looking at operating expenses: non-GAAP OPEX was $320 million, or 26.1% of net sales, up about 150 basis points year over year. This increase was driven primarily by higher investments in Sales & Marketing, and R&D.

G&A was flat as a percentage of sales, at 2.8%, as we continue to remain diligent in our G&A spending.

As a result, excluding tariff reimbursement, non-GAAP operating income was $229 million, up 14% year-over-year. Non GAAP operating income rate was 18.7%, up 110 basis-points year-over-year.

Our profitability continues to translate into exceptional cash generation. Cash flow from operations increased more than 30% year-over-year and we ended the quarter with a cash balance of $1.75 billion while returning approximately $115M of cash back to shareholders in the form of share repurchases.

Outlook:

As we look forward, we expect the demand momentum from the first quarter to carry into the second quarter, despite geopolitical and macroeconomic challenges.

However, in late June, one of our suppliers of semiconductor components experienced a serious incident in their manufacturing facility which led to its closure. The facility remains closed today, impacting our ability to effectively meet demand. The supplier has not yet provided a definitive date for the facility to re-open. Our team is working through several mitigation plans.

In the near term, our robust balance sheet allows us to maintain sufficient levels of inventory, precisely to mitigate supply chain disruptions. As a result, we are able to significantly reduce the impact of this incident for Q2.

More specifically, we expect 2nd quarter revenue to grow +0-3% in constant currency, with a gross margin rate of approximately 44%. This outlook contemplates a net sales impact of approximately $20M due to the supplier incident.

We expect non-GAAP operating income to be between $185 million and $210 million, down year over year, driven by continued investments in R&D, and sales & marketing and prior year austerity measures.

Looking ahead for the full fiscal year 2027, absent the disruption caused by our supplier, we expect top-line momentum to continue at roughly first quarter rates throughout the remainder of the year.

However, based on our limited information to date, we are estimating the negative impact of our supplier incident to be up to $200 million in revenue in Q3. For Q4, we estimate the supplier incident to be largely resolved, which would mean little to no impact to our Q4 results.

On profitability, we expect full-year non-GAAP operating margin to continue to track near the high end of our 15–18% long-term target range, helped by strong underlying operating performance and this quarter's tariff refunds.

Now, onto Q&A,

Q & A Section

Joern Iffert | UBS

Thank you very much and good evening. Thanks for taking my question. I would start with two questions if okay, and then I go back in the queue. The first one is can you tell us a bit more about the risk of pulled forward demand? What you have potentially seen in Q1 you had a very strong sales through double digit and if you exclude the $20 million sales impact from the semi supplier issue, you would give an outlook of 1.5% to 4.5% sales growth for Q2 though quite a material slowdown. But is this pulled forward demand you're seeing Q1 or what? How do you explain the slowdown?

And the second question would be please, when we look on the full year outlook and you're still saying you're coming up at the 18% or close to 18% including this $61 million tariff refund which would be then if you exclude it around 17% it's a 200 basis points drop versus last year almost. I mean how do you explain this? This is really only SG&A as gross profit margin seems to hold up quite well? Or do you also pencil in some additional cost for the component sourcing here? Thank you very much.

Hanneke Faber | Chief Executive Officer

Yeah, Joern, let me take the first question and then I'll let Matteo answer the second question. So we think there was very little to no pull forward in the first quarter. Why do I say that? Pull forward would particularly happen in video conferencing where the memory shortages are well known. And we took pricing, but we took pricing in May. So if there was any pull forward on the absolute price increase it would have happened in April i.e., in the quarter and in fact what happens when you take price increases in B2B? You actually continue to honor the old price for a little bit because you've got deals that are in progress.

So in the quarter, the actual impact of the price increase was not very high. We'll see the positive impact of the price increase starting from the next quarter. So there was no reason for our customers to pull forward in the quarter. And certainly on the consumer side of the business, we tend to really shift to demand. So, there's not a lot of pull forward there.

So we continue to be optimistic. Exit supplier, I think your math is right on what we would have guided for the second quarter. You know, we're always looking at kind of the high end and the low end. On the high end, we need North America to continue to perform as well as it has in the high single or double digits. On the more conservative side, that might come down a little bit. So that's where the original guide came from. But your numbers are about correct.

Matteo Anversa | Chief Financial Officer

So if you adjust for the 20 million of the supplier incident as it pertains to the second quarter, the outlook would have been something between 2% to 5%. We closed the first quarter between 4.5% and 5%, so I think we are in the zone. And obviously there is, as Hanneke said, a bit of uncertainty in the macroeconomic world today. But overall the numbers are closer to what we achieved in the first quarter.

As far as the second question, so if you recall last quarter we mentioned that on the backdrop of a very strong fiscal year 2026, where we almost reached 19% of operating income rate, we wanted to take some of these outsized gains in profitability, particularly out of a very strong gross margin, and reinvest this towards the future growth of the Company. This is really what we are planning to do, and now we stand in the supplier incident that we just described, where we can talk more about it later. So that's the driver.

So I would not expect G&A to increase. It's really that the focus on investment for the future growth of the Company which would be sales and marketing and R&D. And your point on the gross margin, I think, is valid. We are very happy on where the gross margin rate has been now for several quarters, and we expect the gross margin to continue to be strong.

Joern Iffert | UBS

Thank you very much for this. If you allow me to zoom in into one thing, and when we adjust now for the $61 million tariff refund, your underlying non-GAAP EBIT would be more around 800, 850. Is this a new starting point we should look at how you can grow them in '28-'29, or is this then, okay, look, I mean, you're using the $61 million, you're reinvesting, and next year you will play down the investments again. Just have a little bit of feeling from where we can start to model the company for the mid-term?

Matteo Anversa | Chief Financial Officer

I think it's a little premature to talk about fiscal year '28 and '29, but right now, you know, we are committed to the range that we provided at Investor Day. And that's the commitment of the company, which you can expect the company to deliver.

Joern Iffert | UBS

Thank you very much.

Matteo Anversa | Chief Financial Officer

Sure.

Asiya Merchant | Citi

Great. Thank you for the opportunity here. Just if you can, you know, highlight how you guys are thinking about channel inventory here? How is that performing relative to the sell through which was obviously pretty strong here? How should we think about, perhaps some buildup of inventory, if there was any? And then if I may, just this supplier incident that you talked about seems like you have pretty good line of sight to it getting resolved in Q4 and then sort of your revenue growth rate probably accelerating back to what you saw in Q1. So just if you could peel that up a little bit, why do you feel so confident that that supplier relationship or that supplier issue could be mitigated if there's alternatives there that you're looking at? Thank you.

Hanneke Faber | Chief Executive Officer

Yeah, maybe let me start from that one and then we'll go back to inventory with Matteo. So I was expecting quite a few questions, so thanks Asiya on this incident. And I got to say, we will share transparently what we know, because we still have, I would say, limited info and we also need to protect competitively sensitive information. So I'll do my best to give you a bit more color on that.

But at the very end of June, one of our many semiconductor suppliers had a serious incident in its manufacturing site that resulted in a temporary shutdown. And that facility is still shut down. And we are now in the early stages of receiving information about the impact of the event. We are confident that the fab will reopen and will be open again certainly in the fourth quarter. But the supplier has not yet confirmed definitively when it's going to reopen.

So in the meantime, we are working very hard, obviously on a set of mitigation plans. We do have secondary suppliers for most components, including semiconductors, including this one. But as you will know better than most people, the general supply situation for semiconductors is unusually tight across the industry at the moment, which means that getting significantly more supply at a time where we need a lot ahead of the holidays is particularly challenging. So hence what we told you in Q2, you know, the midpoint of the outlook still shows growth 0% to 3%, despite the fact that we think we'll be short about $20 million because of this incident. And that's because in the quarter we can leverage some of our regular inventory that we have. And Matteo can give you a bit more detail on that.

In Q3, it gets a little trickier. And again, based on the limited info we have today, the negative impact could be up to $200 million in net sales because of the incident. And you know, it's going to depend when does the fab reopen? How much supply can we get from our secondary suppliers and other plants that we have in progress?

By Q4, we are confident that this will be resolved. And again, this is a temporary supply disruption. We're confident that the demand is going to remain strong and that we'll resolve this by Q4.

Matteo Anversa | Chief Financial Officer

So, Asiya, let me address the first question. So, yes, the sell through now going back to the first quarter was strong. You remember though that the sell-through is a gross number, so it does not include obviously it's not in constant currency, so it includes any FX movement and it does not include the promotions. So if we spend more dollars year-over-year on promotional activity. So if you take the 11% of growth in sell-through and you try to walk it back to the 5% on net sales, really you have two components.

One is the FX, which is about two points, and the second one was primarily higher promotional spend. So the channel inventory was actually in good shape. Nothing happened abnormal in the channel, but we promoted a little bit more than last year, particularly in Europe. We saw the market at the beginning of the quarter being pretty subdued, as we said in our prepared remarks. And quite frankly, we took an opportunity to gain share and we are pretty happy with the outcome because as Hanneke alluded in her prepared remarks, we gained a few points of share on the majority of the product lines in Europe.

So we are happy with the outcome. But that's how you bridge from the sell-through to the net sales in constant currency. As far as the channel, back to the impact of the second quarter on the supplier incident, the beauty is that we have a strong balance sheet and this is what allows us to maintain a healthy level of inventory of this type of components exactly to withstand this kind of situation that sometimes happens, like we are experiencing today with this supplier.

So thanks to the inventory that we have on hand and the finished products that we have in the channel, we will be able to serve our customers for the vast majority of the second quarter. And that's why, to Hanneke's point, you see that the impact on the second quarter financials is limited. We will continue to grow. It's about $20 million. Obviously, the situation for the third quarter, to Hanneke's point, is a little bit more challenging. But we are happy where the channel sits and it is healthy and in the range in terms of weeks-on-hand that we want it to be.

Alicia Reese | Wedbush

Yeah. Thanks for taking my questions today. I wanted to start with just an overall question on the impact of the supply chain incident. I assume that that impacts predominantly video conferencing, but wanted to just double-check that there is nothing within gaming and the other segments that is particularly impacted.

Hanneke Faber | Chief Executive Officer

No. So thank you for asking that, and hello. But the impact is actually on a portion of both our gaming and our PWS portfolios. So these are not memory chips.

Alicia Reese | Wedbush

Okay. All right. Thanks for elaborating on that. And you did call out share gains in the Americas and EMEA. I believe that's from the SUPERSTRIKE predominantly. If there were any other categories or products that drove some of those share gains, if you could call that out? And you did also call out that Asia Pacific growth was led by gaming, but there were no share gain callouts there. Can you talk about the overall strategy there, or if there are products that are leading that growth in China? That would be helpful.

Hanneke Faber | Chief Executive Officer

Yeah, sure. So in terms of shares, actually the biggest share growth—fantastic share growth—was in personal workspace. So we gained about 220 basis points of share in the quarter across personal workspace, which is giant. And that included gains in the Americas, in Europe and in Asia Pacific, including China there. So PWS really delivered an outstanding performance, and gaming also saw strong share gains in both the US and in Europe.

In Asia Pacific, shares were flattish overall, but on the premium end of our lineup in gaming, again thanks to what you already alluded to, the SUPERSTRIKE mouse, we also saw share gains. And then video conferencing also delivered strong share gains in the quarter. So really strong performance across the board that we're really, really pleased with.

Alicia Reese | Wedbush

Thank you.

Alek Valero | Loop Capital

Hi, thank you for taking my question. My first question is on gross margin. So your gross margin excluding the refunds was 44.8%, which is above your 43% to 44% structural range. Which piece of that is durable: the mix, FX, or cost reduction?

Matteo Anversa | Chief Financial Officer

Sure. So Alek, overall we are obviously extremely pleased with the gross margin results. Now for quite several quarters, as I alluded in my prepared remarks, we have been printing pretty good gross margins, well above 43%. If you look at the year-over-year walk: if you go from last year in the first quarter we were about 42%, so we expanded about 270 basis points excluding the tariff reimbursement.

There were a couple of drivers obviously. One is foreign exchange, when you look at the year-over-year comparison because last year the euro was pretty weak. So that accounted for about 240 to 250 basis points of the margin lift. When you look operationally, I would highlight a couple of components. One is the overall premiumization of the portfolio, so the positive mix. If you look at the high-end product lines—look at all the MX, ERGO, Pro, Simulation—they all grew double digit, and really solid double digit.

And then also video conferencing in total as you know, doubling down on B2B. So as video conferencing outpaces the growth rate of the company, that is good for mix, so it's good for margin. That was another big component. So when you combine a little bit of price and this premiumization, the positive mix is about 100 basis point lift year-over-year. And then the continuous tremendous work of cost reductions that Sree and the team continue to do, notwithstanding the environment where we are of higher commodity costs and higher freight costs in the first quarter, product cost reduction helped us about 100 basis points.

And all these positives, as I alluded in my prepared remarks, were offset partially by higher promotional spend. So of these categories that I just mentioned, if you look at at least the short term, call it the next quarter, probably the number that will be more challenged is going to be the product cost reduction. We see freight rates increasing and this is going to be a little bit less of a help when you look at the second quarter compared to the first. But overall, as you heard in the prepared remarks, we're still going to be around 44% of gross margin rate, so still a good number.

Alek Valero | Loop Capital

Got it. Thank you for that. Just a quick follow-up, just changing it up a bit. What are your B2B customers telling you about their AI budgets right now?

Hanneke Faber | Chief Executive Officer

Obviously, everyone is investing in tokens, so people are spending on tokens, but at the same time, we're seeing a really healthy market for video collaboration. Why is that? I'm sure you guys are all using either Microsoft or Google in your video or Zoom in your video conferencing meetings with their AI note takers, AI assistants, et cetera. So to use AI properly, you need to enable your people with video conferencing in all of your meeting rooms. And I've said this many times before, but globally less than 25% of meeting rooms are video conferencing enabled. So there's so much white space in that market, and you see that in the market growth. AI is a tailwind for video conferencing. And beyond the white space, video conferencing equipment tends to last between five and seven years. We're now about six years post the beginnings of COVID when many companies put in video conferencing for the first time, so that's another tailwind. So all in all, a really healthy market for video conferencing equipment that we're taking advantage of.

Alek Valero | Loop Capital

Thank you very much.

Tim Long | Barclays

Yeah, great. Maybe just to follow up on the B2B question, you covered the video conferencing side. Just curious, last quarter you talked about just the overall B2B doing better than B2C, and it's a real focus for the Company, so maybe you could just talk more broadly about that.
And then second question. At the beginning of the call, you mentioned some new releases. Just curious kind of feedback there? And how you think those will go into the portfolio, particularly on the gaming and the pointing device side?

Hanneke Faber | Chief Executive Officer

Yeah, definitely. So maybe starting from B2B. Yeah, again we continue to see a healthy B2B market also beyond video conferencing. About half of our business in the B2B channel is video conferencing, and about half is personal workspace. Robust markets, good performance in the first quarter across. And I'd say there's a number of trends. There is clearly the video conferencing trends that I just talked about, which is a lot of white space in terms of meeting rooms and a refresh now post COVID.

But hybrid work in general is also good for the rest of our business. There's a real increase in people working from anywhere. Most companies have decided on some sort of hybrid arrangement. And so for some companies that's four days a week in the office, some three, some something else. But the fact remains that versus pre-COVID people are working more often in places that are not the office. And that then makes companies want to make sure that their employees don't only have a great mouse or a great webcam in the office, but also in the other places that they're working at.

And then AI is another tailwind for our business portfolio as I just mentioned. So B2B we continue to be pretty bullish and we're going to continue to double down on a lot of growth in the years ahead in B2B.

In terms of the new products for the quarter. First of all, again the SUPERSTRIKE and the MX Master 4 are the gifts that keep on giving. It is really rare that we see new products within a couple of quarters from launch end up amongst our absolute top sellers. These two products are really big and are a huge hit. So that's great to see.

And then we have our regular pace. We launch between 30 to 40 new products every year. In the past quarter we highlighted four. Maybe I'll talk a little bit: there is the new Mobi mouse which is a foldable mouse. It's a really super cool product. It's the first time we launched something exclusively first on TikTok Shop and that was really successful, became the number one seller in the overall Electronics category on TikTok shop before we then expanded it to our full distribution. So after a really promising start, also a premium product that sells at $79. So we're excited about that.

Then we launched the G512 X new gaming keyboard. That is a fabulous gaming keyboard that really has all the bells and whistles you can imagine, and that's off to a really strong start as well. And then there were a couple of other fun things: the remote presenter for meetings that had not been refreshed in a lot of years, we've come out with a really slick new presenter which leverages haptic feedback technology which is unique to us and actually lets you breathe before your presentations, which is pretty cool. And then finally, my personal favorite for the soccer frenzy this summer, we had a special edition soccer keyboard and mousepad bundle, which sold out in 10 days.

Tim Long | Barclays

Okay, great. Thank you.

Maya Neuman | Morgan Stanley

Hi. Thank you. Maybe just to start, I think the biggest debate in the market right now is that risk associated with PC shipments declining by low double digits this year. If these projections from industry analysts are correct, mid-single-digit revenue growth for Logitech would imply like attach per PC shipment growing over 20% this year and reaching over $14 of attach. That's versus like $10 to $11 bucks for the past five years. What initiatives do you guys currently have in place that would drive such material uplift in that attach per PC shipment? And then I have a follow-up. Thank you.

Hanneke Faber | Chief Executive Officer

Yeah, sure. Thanks, Maya, good to see you. Obviously, we're well aware of the debate, and PC units, in fact, in Q1 were down about 5% in the quarter. Yet our categories and our business were tracking very well. The mice market or pointing device market was actually up 5% globally, and Logitech mice and pointing devices were up 14%. So I think that means that we continue to see that our growth is driven by the installed base, not just new PC shipments.

And in terms of initiatives, there's nothing new. We will keep doing what we've always done, which is focusing on the installed base, attaching to that because less than 50% of PC users, people who already have a PC, use a mouse and less than 30% use a keyboard. We've had a great track record over the last decade to add about a percentage point to those numbers every year. So that's number one.

Number two is, of course, driving share growth, which you've seen us do very effectively in the first quarter, and that's part of that growth algorithm. And the third one is ASP growth. Again, the SUPERSTRIKE is $100. The MX Master 4 is $130. And some of our other new innovation is also premium. That is very important in order to deliver the growth in peripherals and again, this is all about the attached base. It is not about the number of new PCs sold.

Maya Neuman | Morgan Stanley

Got it. Thank you. And then maybe just on video conferencing, could you give us a bit more detail on what's driving that strength and how sustainable it is? So how much of that is pricing actions versus refresh opportunity? And then as you think about kind of the impact of this significant inflation we're seeing across the tech portfolio, is video conferencing at risk of seeing a delayed refresh or elongated replacement cycles going forward, or I guess what are you hearing currently from customers?

Hanneke Faber | Chief Executive Officer

Yeah, so the market again in video conferencing is growing very robustly and that's driven by new offices—a lot of companies, both Fortune 500 companies, but also smaller companies, updating their workspaces for their new ways of working. So new offices is one, low category penetration is another. Again I've talked about it many times: less than 25% of global meeting rooms are VC enabled. In the age of AI, you need video conferencing in every meeting room, and then a COVID-era refresh.

So this is a really good neighborhood I think for many years to come. These are not one-off quarterly events. These are long term trends that we believe will continue to be there. Now in the quarter we also took pricing to reflect the increased cost of memory. So we took 13% in May. You don't see the effect of that yet because again we honor previous prices of deals that are in progress. But you'll start seeing it from the next quarter. But the 9% that you saw in Q1 did not have a material pricing benefit in it yet.

Matteo Anversa | Chief Financial Officer

And maybe just to add, Maya. B2B as we said sometimes tends to be lumpy, but we have been growing video conferencing pretty nicely now for a few quarters. And you alluded a little bit to memory supply. I think Sree and the team continue to do a fantastic job in securing memory components for video conferencing. At this point we are pretty much secured throughout the full fiscal year 2027.

And obviously as we just did, to mitigate the impact of the cost increase, we raised the prices as Hanneke just mentioned. So we're pretty pleased with where the VC team is right now.

Maya Neuman | Morgan Stanley

Yeah. Got it. Thank you very much.

Lucas Glemser | Berenberg

Hi, good evening. I've just got two questions. So starting with Pointing Devices, which had a very strong quarter. What drove the acceleration of growth here versus Q4? Is it essentially still all from the MX Master 4, or is it from something else? And then also looking forward over the next few quarters, how sustainable is that double-digit growth?

And then the second question is, could you talk a little bit about the partnership with Call of Duty as well as some of the others that you mentioned? What are the economics here and what is the goal in terms of how you expect that could translate into numbers? Thanks.

Hanneke Faber | Chief Executive Officer

Great. Thank you. Yeah, indeed, Pointing Devices had a very good quarter—market growth of 5% globally and we grew 14% globally. So that's very healthy. The growth is driven by premium innovation as well as marketing. Premium innovation: the MX Master 4 just continues to go from strength to strength. And then we added the Mobi that I just talked about, which is another premium product—foldable, our first foldable mouse—and that's done very well.

Marketing is supporting both those new products as well as our existing product range. And I'm super excited by what the Personal Workspace team is doing. We're really stepping up on social media and social commerce. We talked about TikTok Shop, our first ever launch that was exclusive on TikTok Shop, which went very, very well. And we're really stepping up on our roster of creators. So we now have more than 400 creators on the global roster for Personal Workspace and we're creating better content that really converts. So these are not one-quarter pieces. We'll continue to innovate and elevate our marketing quality and quantity. So that's on mice.

Partnerships are another important part of our business across all three business groups. But since you specifically referred to gaming, there are some really exciting partnerships there. NASCAR is one, US specific, but we had some great events at the San Diego NASCAR race in the quarter. McLaren is a fantastic global partnership, which of course makes a lot of sense. We are a long term partner of McLaren. Their drivers practice with our simulation gear at their facility in England. We develop products together. That is a wonderful long term partnership.

And then of course games. Call of Duty: Modern Warfare 4, we have a partnership with them as well. And I think what you'll see from us increasingly is working to make sure that we work with game developers to elevate the experience of a new game when it comes out. So that for example, in driving games with our TRUEFORCE technology, which is unique to us, you really feel it when you get into the new game—you feel those turns, you feel the skids, you feel it all. And you can think of other ways in which we offer immersion through our products in new games that you wouldn't have with someone else's products. So that's what those collaborations with games are about, and we're excited about the new Call of Duty and other things in the pipeline.

Torsten Sauter | Kepler Cheuvreux

Can I get back quickly on this supplier situation? Are you aware if this specific supplier of yours that has run into problems is also serving some of your friendly competitors in gaming and PWS? And maybe more generally speaking, can you remind me of your supply chain strategy after the implementation of this China plus five strategy? Is it getting tighter, or are you able to implement dual sourcing everywhere?

Hanneke Faber | Chief Executive Officer

I'm not going to comment on the competitive piece because that's competitively sensitive information, so unfortunately, I can't do that. In terms of China plus five, that is a little different from this incident. So this incident is at a component supplier, not at one of our China plus five manufacturing partners. We manufacture in China, and we manufacture in five other places. Our components come from all over the world, and there's hundreds of component suppliers, not just six. So this is at a component supplier, not at one of our own manufacturing sites or contract manufacturing partners.

Matteo Anversa | Chief Financial Officer

Just to reiterate a couple of comments that were made earlier. Obviously, we do have multiple sources for this type of critical components. We really consider this as a rare and unique incident because it happened at an unfortunate time. If you look at all the supply ecosystem around this type of semiconductor components, the ecosystem is very tight. So obviously, we are working on a multitude of mitigating plans, which includes parallel paths and working with our diversified supply base. But we do have a diversified supply base for this type of components.

Torsten Sauter | Kepler Cheuvreux

Thank you.

Martin Jungfleisch | BNP Paribas

Yeah. Hi. Good evening. Just two quick ones. First one was really on gaming, which was really strong. Is that sort of growth that you're seeing now steady state and sustainable? And then with GTA 6 now being released in November for the console, would you already expect some increase in demand growth maybe even potentially towards double digits as resellers and distributors are stocking up on tools? That's the first question.

Hanneke Faber | Chief Executive Officer

Yeah, you're absolutely right, Martin, it's good to see you. In gaming, the markets were strong and we outperformed the market globally, accelerating to high-single digit growth. That's faster than in previous quarters and that is before the launch of GTA 6. So we see a good trend in terms of market growth. And in the markets, we're really pleased to see the US back to mid-single digit growth, which is also a pretty significant acceleration from where that market had been. So that's all great to see.

And then what we were obviously even more pleased with is that we outperformed that strong market with 9% net sales growth, really driven by our premium innovation—the SUPERSTRIKE first and foremost, but also that new gaming keyboard, the G512 X. The growth in the North America market was a piece of news, but our growth was super broad based: demand in North America double-digit, EU high-single digit, China double-digit. So again a good neighborhood driven by premium innovation on our side. And we think there's much more of that great demand momentum to come in quarters ahead.

Martin Jungfleisch | BNP Paribas

That's great. And then just a follow up on the Middle East. I think you mentioned you expected 150 bps in the quarter. I think you said you had 400 bps now in Europe, which I think is probably equivalent to the 150 for the group. What is your expectation for calendar Q3 on the Middle East?

Matteo Anversa | Chief Financial Officer

So yes, Martin, your math is correct. So it was 400 basis points for the EMEA region, which translated to about 100 basis points for the company. Our assumption is that in the second quarter the impact will be very similar.

Martin Jungfleisch | BNP Paribas

Thank you.

Matteo Anversa | Chief Financial Officer

Thanks.

Hanneke Faber | Chief Executive Officer

Thank you, guys. Thanks for being here. I wish you a great rest of the summer, and we'll see you next quarter.