Company Name: Logitech
Company Ticker: LOGN SW
Date: 2019-01-22
Event Description: Q3 2019 Earnings Call

Market Cap: 5,831.96
Current PX: 33.69
YTD Change($): +2.77
YTD Change(%): +8.959

Bloomberg Estimates - EPS
Current Quarter: 0.337
Current Year: 1.803
Bloomberg Estimates - Sales
Current Quarter: 651.000
Current Year: 2806.769

Q3 2019 Earnings Call

Company Participants

- Benjamin Lu
- Bracken P. Darrell
- Vincent Pilette

Other Participants

- Asiya Merchant
- Joern Iffert
- Ananda Baruah
- Andreas Müller
- Michael Foeth
- Paul J. Chung
- Thomas Ferris Forte
- Nehal Sushil Chokshi

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Logitech's Third Quarter Fiscal 2019 Financial Results Conference Call. At this time, all participants are in listen-only mode. We will be conducting a question-and-answer session and instructions will follow at that time. [Operator Instructions] This call is being recorded for replay purposes and may not be reproduced in whole or in part without written authorization from Logitech.

I would like to introduce your host for today's call, Mr. Ben Lu, Head of Investor Relations.

Benjamin Lu

Thank you, Karen. Welcome to the Logitech conference call to discuss the company's financial results for the third quarter fiscal year 2019. The press release, our prepared remarks and slides, as well as the live webcast of this call are available online at the Investor Relations page of our website, ir.logitech.com.

During the course of this call, we may make forward-looking statements including with respect to future operating results that are made under the Safe Harbor of the Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties, and actual results could differ materially as noted in our quarterly and other filings with the SEC. The company undertake no obligation to update or revise any forward-looking statements as a result of new developments or otherwise.

Please note that today's call will include results reported on a non-GAAP basis except as otherwise noted. Non-GAAP reporting is provided to help you better understand our business. However, non-GAAP financial results are not meant to be considered in isolation from or as a substitute for or superior to GAAP results. Non-GAAP measures have inherent limitations, should be used only in conjunctions with

Logitech's consolidated financial statements prepared in accordance with GAAP.

Our press release and slide provide a reconciliation between GAAP and non-GAAP numbers and are posted on our IR website. We encourage listeners to view these items. Unless noted otherwise, comparisons between periods are year-over-year and in constant currency. This call is being recorded, and will be available for replay on the Investor Relations page on the Logitech website.

Joining us today from California are Bracken Darrell, President and Chief Executive Officer; and

Vincent Pilette, Chief Financial Officer.

I will now turn the call over to Bracken.

Bracken P. Darrell

Well done, Ben. Thank you, Ben, and thanks all of you for joining us. We all know that we're operating in two overlapping worlds, the long-term world and the short-term world. In the long-term world, we all know there will be global secular growth. In the short-term world, uncertainties created by economic cycles and increasingly political issues, threaten to dent the smooth trajectory of that long-term secular rise.

Logitech's strategy answers well to both the long and the short-term. Our cloud peripheral strategy clearly harnesses the long-term secular growth. We grow by riding the strong waves of new cloud services. But at the same time, the increasing number and character of our categories creates more diversity and resilience in the short-term.

Like any portfolio, in the face of short-term uncertainty, a portfolio buffers volatility. Our fortunes won't be driven by a single category of single brand, but by the aggregation of a growing number of categories and brands. For most of them, we are or we nearly are the leader. So our portfolio offers long-term growth and short-term diversity and resilience.

And our model delivers something else, both growth and strong profit. Q3 demonstrates our business model's inherent growth and profit power. Our overall Q3 sales grew 8%, our highest ever, against a really strong comparison period a year ago when we grew 18%. That growth story results from what have now become our three largest businesses on a run rate basis: Creativity & Productivity, no surprise; Gaming; and Video Collaboration. In fact those three now comprise 75% of our net sales.

While our top line growth was strong, our profitability was just as impressive. Our operating profit grew significantly better than expected 22% to $143 million. The backbone strong performance is our ability to consistently execute operationally. But the heart of our business is our innovation engine. That innovation engine drove impressive double-digit growth in all three of our largest businesses this quarter.

Let's dig into our categories a little deep. First, Video Collaboration grew 64% in Q3. Well, I don't expect the growth ahead to be that strong. We continue to be excited about our opportunity there as you know. We're expanding our product portfolio to address conference rooms of all sizes. We started this business with products that targeted huddle rooms and small-sized conference rooms, with an average price ASP of just a few hundred dollars.

Our integrated video and audio camera, MeetUp, that we launched last year or a year and a half ago quickly became our top selling Video Collaboration product, and sales have more than doubled versus last year this quarter. Now, our latest rally family of Video Collaboration products extends our award-winning audio and video solutions to mid-sized and even large-sized conference rooms. This not only expands our addressable market, but it also expands the number – the price points.

You can expect us to serially innovate and explore new products, both hardware and software, to capture the cloud-based Video Collaboration market opportunity. But great products don't get much attention without a good go-to-market approach. And here, we continue to invest in building out our direct enterprise sales force.

We've talked a lot about Gaming and it's getting more and more exciting. Sales in Gaming grew 25% with all three regions delivering double digit growth. Within our Gaming business, we have three groups: Our core PC gaming, think of it as mice and keyboards and headsets; ASTRO, which has historically been console gaming headsets, but soon we will extend into console controllers; and, finally, our simulation products, a niche category that is comprised of racing wheels and flight simulation controllers and joysticks.

In Q3, our PC gaming sales growth actually accelerated versus the prior quarter. At the same time, ASTRO continued to deliver strong double digit growth despite very strong comparison from last year. And simulation, which is more cyclically tied to Gaming title launches, declined as expected off an especially tough comparison when several racing game title launches last year at the same time, Gran Turismo, Forza and Need For Speed last year.

So, as you can see, the underlying growth trajectory we're seeing in Gaming outside of niche racing wheels was really strong. Even in China, we achieved very consistent growth momentum this past quarter despite some worries that China gaming market is slowing down due to government game approval delays.

As we look into our future, Gaming will continue to offer multiple paths for growth, further market share gains. Outside of mice, our shares are good, but they can be a lot better. The ever-rising popularity of esports, which is destined to be the world's biggest spectator sport, and adjacent market expansion such as ASTRO's new PlayStation 4 controller. By now, the consistent performance in our PC Peripherals group should not be surprising anyone. It's secular.

This quarter's sales growth was 13%, especially strong. Despite choppiness in new PC shipments, we've always said that as long as we innovate on how consumers engage with their PCs, this is a very strong consumer reception to our MX vertical mouse. We can drive continued peripheral refreshes against the very large PC installed base. And there's actually something else going on here.

The growth of content creation or broadcasting, whether that's through Gaming, streaming, social media generation or video blogging has simply re-energized PC Peripherals for content creation, much as esports re-energize them for Gaming.

You can see that this quarter, as Pointing Devices, Keyboards and Webcams all contributed to a strong growth in Q3. That said, I wouldn't encourage anyone to expect us to deliver double digit growth in PC Peripherals.

Last year's compare was easier than usual well, but we've consistently planned for a low-single digit growth in this category and we should be able to do at least that. And we'll keep innovating to outperform the broader market.

Our Tablet & Other Accessories group delivered its fourth consecutive quarter of double digit growth, with sales up 36%. In fact, we're on-track to deliver back-to-back years of double digit growth from this category.

New products like Crayon, our first digital pencil for the 9.7-inch iPad, as well as the existing products like our Slim portfolio (sic) [Folio] (00:08:36) drove the performance in Q3. In fact, that Slim Folio is now the best-selling tablet product we've had ever.

Now let me update everyone on our recent Blue Microphones acquisition. Blue contributed approximately 3 percentage points to our overall Q3 sales growth. The acquisition has been off to a great start and we've already introduced two new products since the acquisition.

The Yeti Nano, a $99 compact version of its flagship, Yeti mic; and the Blue Ember XLR mic, that brings professional recording features to a more consumer friendly price point. It's still early days, but I can't wait to see all the exciting opportunities that Blue will bring to our Logitech family.

In Mobile Speakers, sales were down steeply again this quarter. While Creativity & Productivity performed well against the weaker quarter compare a year ago, Bluetooth speakers were transitioning into a really strong compare a year ago.

Last year, we grew 35% globally and 50% in the Americas. Despite the lower sell-in, we made good progress in transitioning out our older products to our new [ph] instance (00:09:41), BOOM 3 and MEGABOOM 3. But the softer market for Bluetooth speakers has made this transition longer than we would have liked.

The overall mobile speaker market remains soft, which is why we've taken actions to better align our investments and resources against this reduced market outlook. But this doesn't mean we'll stop innovating. This really demonstrates the power of our portfolio. When one category faces challenges in the market or an execution, we can continue to adjust and innovate for the future long-term, while other categories can continue to drive growth and overall resources shorter term.

Audio & Wearables sales increased 18% in Q3. As I mentioned earlier, Blue Microphones contributed roughly 3 percentage points to our overall Q3 sales growth and offset declines in desktop speakers and Jaybird. As we said before, we refocus the Jaybird business on product innovation, a laser focus on reaching runners, and Tarah Pro, one of our latest products, is the best product yet for runners from any company I believe. It's a testament to where we're heading. We still have a long way to go, but we are super excited about the path we're on and for what's ahead.

And with that, let me turn the call over to Vincent to walk through our financial metric.

Vincent Pilette

Thanks, Bracken, and good morning, everyone. We delivered a strong and record P&L for our [ph] early day (00:10:58) quarter, with sales up 8% and operating profit up 22%. I read this morning that the growth of 8% might not be as strong as some may have expected. While some categories are better than expected, actually most of them, and others are lower, I would not to remind everyone that last year, Q3 sales grew an exceptional 18%. The comparison is particularly tough when you consider that the Americas grew 30% year-over-year in Q3 last year.

And so for this quarter, it might make sense also to keep in mind the sequential growth when analyzing the results. This quarter, we grew sequentially 25%, 5 points above our last five-year average, and that is slightly better than expected.

Asia Pacific, continue its strong performance despite choppiness in China's macroeconomic trends. EMEA returned to high-single digit growth as the team there continues to improve efficiency around our promotional spend. And in the Americas, stable quarter partly due to that tough comparison against the 30% growth last year. Sequentially, Americas sales were up 36%, better than our past five-year seasonality.

These results demonstrate once again the robustness and the breadth of our portfolio and the ability to overcome weaknesses in some categories with the strength of our three main businesses. After five quarters of strong growth in ASTRO, we clearly have a winner here. Blue is off to a strong start as well and will be another successful acquisition and integration. We have not done many acquisitions over the past few years. And with each, we are learning how to better select our targets, integrate faster and leverage and accelerate the innovation and growth of these assets with Logitech's core capabilities. We view this as another key strategic differentiator.

In Q3, our non-GAAP gross margin improved by 370 basis points to 38.1%. I would remind everyone that approximately 150 basis points of that increase was due to gross margin in Q3 last year being impacted by temporary duplicate distribution center cost in the Americas. The core margin improvement comes from better product mix and greater cost reductions than we had anticipated.

And finally, favorable impact of ASC 606 more than offset incremental China tariff cost this quarter. Nevertheless, gross margin did indeed come in higher than expected. While quarterly gross margins may fluctuate from time to time, above or even below our range, we'll remain committed to our long-term annual gross margin range of 35% to 37%, with a pronounced focus on delivering at the high end of that range and reinvesting a portion of the excess gross profit to build our portfolio of products and brands and drive sustainable top line growth.

As for China tariffs, we had mentioned last quarter that we are deploying multiple levers to minimize the impact of the new tariff. As you all know, the incremental increase in the tariff rate to 25% has been delayed until end of February, but we are continuing to develop and deploy our mitigation actions. By around midyear, we expect that the impact on our gross margin from the new tariffs imposed last summer as well as those expected for March should become immaterial.

Our non-GAAP operating expenses increased 15% this past quarter, partially driven by the Blue Microphone acquisition, business investments and variable compensation tied to the strong profit performance. R&D investments increased 18% and sales and marketing expenses rose 14%, both to support the expected strong top line growth in the year and in the long-term.

G&A expense was around the prior quarter's run rate of about $20 million, absorbing our volume growth. The one thing you can continue to expect from us is a very disciplined approach to spending, creating efficiencies but also investing in resources to support long-term growth opportunities, which are funded by gross margin expansion.

The better than expected gross margin combined with disciplined spending do have an increase of over 20% in our non-GAAP operating income and EPS to $143 million and $0.79, respectively.

In the quarter, we generated $176 million cash from operations with year-to-date cash from operations at $273 million, up $17 million from the same period last year. That cash generation improvement versus last year was in spite of our planned inventory increase of about $60 million compared to last year to enable strategic inventory pull-in in anticipation of tariffs, inventor builds for the holiday period, and the addition of Blue Microphones.

In the quarter, we also spent $3 million for stock repurchases, leading to a total cash and short-term investment balance of $586 million at the end of December compared to $565 million at the end of Q3 last year. We have a lot of work and many opportunities in front of us. But how we finish this biggest quarter of the year sets us up to finish fiscal year 2019 on a very strong note.

And with that, Bracken, I'll pass it back to you.

Bracken P. Darrell

Thank you very much, sir. On the back of those strong Q3 results, we're raising our outlook for fiscal year 2019 non-GAAP operating income to $340 million to $345 million on sales growth of 9% to 11% in constant currency. As we look to the last stretch of our fiscal year, we're getting super excited about next year.

So, with that, we will open it up for questions. Vincent and I are as always very available for absolutely anything. Fire away.

Q&A

Operator

[Operator Instructions] Your first question comes from Asiya Merchant with Citigroup. Your line is open.

<A - Bracken P. Darrell>: Hi there.

<Q - Asiya Merchant>: Hi.

<A - Vincent Pilette>: Hi, Asiya.

<Q - Asiya Merchant>: Good morning, everyone.

<A - Bracken P. Darrell>: Hi, Asiya.

<Q - Asiya Merchant>: Congratulations. Yeah. I wish I was named after a continent. But very quickly, so you guys have gross margin expansion, which is driven by favorable product mix, some one-time cost improvements that you've talked about previously at your Analyst Day, and I understand you continue to invest to grow your market opportunities here. How should we think about – sorry. Offsetting that, you have, like Bracken mentioned, some short-term political uncertainties, etcetera. So, how should we think about going into fiscal 2020 or even towards the end of fiscal 2019 and then into fiscal 2020, quite a bit high-single digit growth rate on the top line as you continue to invest given that you had strong margin expansion?

And then the other question that I feel [indiscernible] (00:18:25) some investors if you can take a little bit more into the Mobile Speakers market, why that continues to underwhelm. I understand there are some product mixes that you're trying to transition to the new products, but just if you could kind of talk about how you look at the Mobile Speakers market going forward as well. Thank you.

<A - Bracken P. Darrell>: Yeah. Let me jump into part of that, and then Vince and I will kind of ping ponging this back and forth. First, I really enjoyed Vincent's opening because he was almost apologetic for our high gross margin. So, thank you for raising the point, so I can rib him a little bit.

In terms of, yeah, I mean we're – you know our view of the world, which is if we have a higher gross margin, our principle is we want to invest that back because we want higher growth, and then you're raising the right point question is, okay, if you're investing that higher gross margin, higher growth, so you're going to get higher growth than you normally expect.

It's a little too early for us to talk about next year. I mean we save that for our Analyst and Investor Day. But it's really great when you do have extra gross margin that you can invest in. And we're always looking – we've always got our list of new investment opportunities to go after. I'll let Vincent respond to that a little bit.

I'll jump into the PC speaker. Sorry. The Bluetooth speaker's question real quickly. Yeah, I mean Bluetooth speakers market is softer than we would have liked. I mean it is what it is. And we've kind of accepted that it is what it is for the last few quarters. We've had a longer transition as a result around the world, getting out of our old product into our new. And I think by the time we get to the end of the next quarter, it'll be completely into the new product, which is terrific and we're super excited about.

But I think it's a good illustration of our portfolio. We're going to have – you're going – in a diverse portfolio, you're going to have some categories that are growing really strongly, like 64%. Others are going to be declining really strongly, especially short-term.

And then in the near – and they'll certainly moderate out in Bluetooth speakers and, overall, we'll continue to deliver good strong growth, that's the whole concept of our model. Do you want to add anything, Vincent?

<A - Vincent Pilette>: No. I just wanted to clarify Bracken's point. I'm not apologetic of our group margin, just of not raising our long-term target range. And I think we've said it for a long time, we're building great product, good innovation, we're building brand and with that, we should get also price premium and gross margin expansion.

It's our goal to drive at the high-end or higher, if we can, some quarter we will, some quarters we will not. And then to reinvest that into a strong growth focus. Because if gross margin is our – definitely operationally our goal, as you know, we have so many opportunities that reinvesting for growth is the goal. Now, when we'll have our Analyst and Investor Day, we'll talk about long-term and other things that are shifting in our portfolio and we'll see you in March to discuss that topic.

<A - Bracken P. Darrell>: Yeah. By the way, we haven't announced yet. But...

<A - Vincent Pilette>: No. Yeah.

<A - Bracken P. Darrell>: ...if I could just give you a specific date now that we think we've locked in on it, but it will be in early March, the Analyst and Investor Day will be in Zurich.

<Q - Asiya Merchant>: Great. Thank you very much.

<A - Bracken P. Darrell>: Thank you very much. We'll call you by a different continent next time.

<Q - Asiya Merchant>: Yeah.

Operator

Your next question comes from Joern Iffert with UBS. Your line is open.

<A - Bracken P. Darrell>: Hi, Joern. How are you?

<A - Vincent Pilette>: Hi, Joern.

<Q - Joern Iffert>: Hi. I'm fine. Thanks. Hope all is well with you. Two to three questions please. Number one is focusing on the Americas segment.

<A - Bracken P. Darrell>: Sure.

<Q - Joern Iffert>: On the sales through, which was slowing down, and if I exclude Blue Microphones, it seems that the Americas is negative on organic growth first times in six or seven years. Can you elaborate on this? Why is this happening? Is it only due to Mobile Speakers or also other categories are impacted here? And how you see this to turnaround?

Second question would be on Europe. I think you made really progress on sell-in. I know you changed the distribution setup, etcetera, but sales through at 1% is not looking like high-single digits. What you are potentially focusing for? Can you help us understand what should support Europe in the quarters to come?

<A - Bracken P. Darrell>: Sure.

<Q - Joern Iffert>: And the last question for Vincent on the gross profit margin, please. Vincent, can you please tell us what was the one-off benefit, is it 50 basis points, 100 basis point, just that we have a better picture here? Thanks very much.

<A - Bracken P. Darrell>: Yeah. Let me go after a couple of those, and then Vincent, you can add to it. First of all, on Europe, you're right. One thing is really done as we try to – actually in both EMEA and AMR, we tried to pull back on some of our Black Friday and promotional activities. And so, you're seeing – you see a slightly lower sell-out growth versus a year ago, but it's improved and it's actually reflected in our gross margin the fact that we were promoting less. And that same answer is kind of in the AMR thing, AMR story which is we did, we much less deeply in some of our promotion activity, Black Friday, especially in Bluetooth speakers and Jaybird. And as a result, you'll see our gross margin improvement. So I think that's a strategic choice and the nice thing about that is it's in our base for next years. So we like where we are there and neither one of those regions do we see secular problems with growth. I think the opportunity for us is in both regions to have good, strong secular growth.

<A - Vincent Pilette>: Yeah. So on the EMEA, as Bracken mentioned, I think we talked on the call last quarter that we would see some improvement in EMEA. We knew the first steps to do this rebalancing between promotion and more marketing brand-driven activities. We would manage promotion much tighter going into Q3. So, you see the improvement in the sell-in coming from that and work on to our revenue. And that...

[Technical Difficulty] (00:24:06)

<A - Vincent Pilette>: ...and that give us some room to invest – somebody should go on mute – but give us some room to invest. Overall, we feel pretty good about where the overall [ph] churn venture (00:24:20) is. It's very flat.

[Technical Difficulty] (00:24:24)

<A - Vincent Pilette>: ...year-over-year. And AMR, I would say, the main driver between the gap is the tough compare last year, right? It was plus 30% driven by a 50% growth in Mobile Speakers. If you look at PC Peripherals, Peripherals and Video Collaboration, all are very strong in the Americas, in line sell-through versus sell-in. And finally I think...

<Q - Joern Iffert>: So would you say that – yeah.

<A - Vincent Pilette>: Yeah. Go ahead. No, I was going – just to finish on your third question, Joern, which is one-timer, ASC 606 versus China tariffs. We said last quarter that China tariff is about 0.5 point, ASC 606 is slightly more than a point. The whole thing is net to less than a point one-time benefit this quarter.

<Q - Joern Iffert>: All right. Thanks for that. And on EMEA and Americas on the sales through, do you think or do you expect this to accelerate already in the next quarter, that sales through is coming back to positive territory in particular in the Americas?

<A - Vincent Pilette>: Yeah. Just to be clear, even in Americas, sell through was in positive territory, growing low-single digit and same for EMEA, but less than the sell-in, which was you point. And yes, we definitely see some rebalancing. I also cautious investor to not over pay attention to that metrics. You need to look at trends, indoors and, as I said, there's the thing, the channel inventory which is on-hand is flat year-over-year, so feeling good about that.

<Q - Joern Iffert>: All right. Thanks very much.

<A - Bracken P. Darrell>: By the way, Joern, we're going to soon move to video calls so we can see exactly what's happening behind you, because we could certainly hear it, but we'd love to see it.

<Q - Joern Iffert>: I'm in a cab. I'm sorry.

<A - Bracken P. Darrell>: I'm kidding, although I'm not kidding about the video call though.

<Q - Joern Iffert>: Thanks.

<A - Bracken P. Darrell>: Okay. Thank you.

Operator

The next question comes from Ananda Baruah with Loop Capital. Your line is open.

<A - Bracken P. Darrell>: Hi, Ananda.

<A - Vincent Pilette>: Hi, Ananda.

<Q - Ananda Baruah>: Hey, hey. Good morning, guys. Congratulations on a solid result. Hey, yeah. So just a few for me if I could. Hey, Bracken, you mentioned just with regards to kind of strength in the traditional business. This is part clarification. I believe I heard that it was – or I believe that – my interpretation was given a part by content creation, new kind of broadcasting, podcasting like that sort of all that stuff. Did I hear that accurately? And it seems like if I did of that you're communicating, so just if I recall it's the first time you seem to be speaking to that as a new catalyst there as support to that business.

<A - Bracken P. Darrell>: Yeah, you're perceptive and you picked right up on that. I think we we've – over the last couple of years, we've really continued to look carefully at the impact of the two biggest secular trends for people under the age of 30 or 35. One of them is Gaming, and we've repositioned a lot of our business around Gaming.

And the second one is the fact that so many young people especially – but even old people like me are video blogging and streaming and doing new things, either mobile or at their desk in their home or in their office. And we think that's probably part of the impact of why it's appealing not only to buy a new webcam because your camera is often not good enough on your notebook or PC and you want to sit back from it so that you can get some impact visually. But also, if we can improve the experience of a keyboard and a mouse, we do think that's driving part of this. So, more to come on that later.

<Q - Ananda Baruah>: Okay. Do you think you only get data around that at some point that either sort of shed light on it, but [indiscernible] (00:28:05) guide longer term?

<A - Bracken P. Darrell>: It's really hard to link that directly to the purchases of our products. But it's easy to look at the fundamental change that's happening in the world and there's plenty of data on how much – especially people in the age of 30 to 35 are doing this. So, I think that data exists and the implied outcome is really part of the impact on our business, certainly, our Webcam business.

<**Q - Ananda Baruah**>: Got it. Got it. And then with regards to your enterprise sales build out comments. I would love to get your thoughts on how high up sort of the priority list that is – and I'm thinking particularly with regards to Video Collaboration, how the [indiscernible] (00:28:49) – I mean there's other areas that are [indiscernible] (00:28:54) on that as well.

And I guess what I'm speaking about is I know you've commented before that you want to build out enterprise sales force. One of the things that you would have gotten with Plantronics was to make enterprise sales force. Do you think you can get to where you want to be going organically on enterprise sales force? And how do you think about sort of – I'm going to use a term threat, that someone could get to huddle room and say some of the market you think is rightfully yours if you can't get the sales force the way you want it to be with the velocity you wanted. And I have one more. Okay.

<**A - Bracken P. Darrell**>: Yeah. Let me – you asked a couple of questions there. First of all, yes, it's very high on our priority list to make sure we have the right sales staffing, not only for direct enterprise sales force, but also indirect. And so we're certainly – that's right at the top of our priority list. We have one of our top three things all the time, has been for the last few years, it won't go away. Can we do that organically? Yes, definitely. We've made a tremendous progress here. Will this be a great market for lots of people? Absolutely. Like most great growth markets like Gaming. There are going to be lots of people who are going to get a lot of growth here and we have no misconceptions about that, but there's so much opportunity here for the long term that it's just an incredibly exciting market.

I'm sitting in a – I'm sitting in rooms all day long. They're video enabled, but the vast majority of companies still had just a fraction that are video enabled. So, it's a massive opportunity and we're going to be right there, going after it aggressively and resourcing it appropriately.

<**Q - Ananda Baruah**>: Okay. Great. And then just one quick last one for me. It doesn't sound like you guys are suggesting that you feel like – you saw any incremental impact sort of from macroeconomic dynamics, but I wanted to just check that with you.

<**A - Bracken P. Darrell**>: Economics in general, you mean macroeconomics?

<**Q - Ananda Baruah**>: Macroeconomics, yeah.

<**A - Bracken P. Darrell**>: Yeah. I mean obviously, every company, I guess, is somehow impacted by macroeconomics but – and overall, the global growth has been pretty good. But one of the points I try to make in the opening, which I really believe strongly is we're kind of in a good spot because most of what we sell is at an affordable price point. Even the video conferencing stuff that we sell actually if there were macroeconomic slowdown or something like that in an area or all over the world, it would help you avoid having to buy an expensive plane ticket.

So, we're really not only urged from a category standpoint, which gives us some room to kind of maneuver and improve one category dynamics as we grow another one like we did this quarter, which is figures in Jaybird and have strong growth in other areas. But also, in the event that there is an economic slowdown, I believe we'll be really well-positioned because our products are relatively cheap. They tend to be affordable luxuries, let's say, or they really improve the productivities where you can actually spend less money on travel.

<**Q - Ananda Baruah**>: Got it. Okay. Great.

<**A - Bracken P. Darrell**>: I answered more than you asked, but I couldn't help myself.

<**Q - Ananda Baruah**>: Yeah. Yeah. Yeah. We'll take it all, all the context.

<**A - Bracken P. Darrell**>: Okay.

<**Q - Ananda Baruah**>: More context [indiscernible] (00:32:06). Thanks a lot.

<A - Bracken P. Darrell>: Thank you.

Operator

Your next question comes from Andreas Müller with ZKB. Your line is open.

<A - Bracken P. Darrell>: Hi, Andreas.

<A - Vincent Pilette>: Hi, Andreas.

<Q - Andreas Müller>: Hi, everybody. Thanks for taking my questions. I've got a question on the progress on these tariff mitigation actions you...

<A - Bracken P. Darrell>: Sure.

<Q - Andreas Müller>: ...mentioned last time. Can you confirm on, say, the individual action sort of an update on the status how far have you progressed? And I was expecting actually [indiscernible] (00:32:41) cost from the implementation of these actions and haven't seen really that much I mean, how costly is the whole kind of plan here to be prepared if the tariffs went up to 25%.

<A - Vincent Pilette>: Yeah. So, Andreas, quickly, last quarter, we said that the tariffs would have an impact of about 0.5 point of margin both Q3 and then again in Q4. And as we work our mitigation item, we had plan for the tariff to go to 25% in January. The three actions we've taken is as I said kind of classifications and bundling products together. The second one is really relocation of manufacturing, and then the third one, at the high level, is considering price increases. We've been working our plans all along and have adjusted it. We said that by the spring/summer of these calendar 2019, we would feel the impact of those tariffs to be mainly mitigated or being immature into the gross margin.

Outside of the push from January to end of February, nothing has changed in our plan. We did align pricing to end of February, to align when we know more about the incremental tariffs. But otherwise, we are on-track to plan. In term of incremental cost, we've kind of build that into the equation to say that by summer, we will be somewhat be immaterially impacted.

<Q - Andreas Müller>: Okay. Great. And then on the pull-in of inventory to mitigate tariffs. I mean is that fully implemented there, or what's their kind of – what can we expect of the inventory progress?

<A - Vincent Pilette>: Yeah. Yeah. So, the pull-in is at a high level, right? Inventory increased $63 million to be exact then year-over-year. And about a third is for the tariff pull-in and a third for the Blue acquisition coming in with all of its inventory, and then a third for the incremental new product introduction here in Q3.

The tariffs pull-in will be burned here going into Q4 or will be used, if I can say. Because new tariffs may be implemented in March, we may still have a little bit of impact in Q4 of inventory – extra inventory would pull-in to mitigate most of the short-term impact. But by the end – after Q4, I think you'll have a full – go down to normal levels. So, you'll see already some correction in Q4 and by Q1, we'll be done in term of the pull-in.

<Q - Andreas Müller>: Okay. Great. Then last question on the China progression which seems to be still doing well at least in the last quarter, can you talk a bit maybe for the next two or three quarters what you expect from China in general, but also Asia given that the growth is currently relatively high?

<A - Bracken P. Darrell>: Yeah. We don't guide by region, of course, but I'll give you some high level color. The Asia Pacific in general and China specifically have been really strong for us for the last couple of years. And I think they'll continue to be strong. Will it be as strong as they are now? Surely not. I mean it's hard to imagine that we'd be able to sustain that kind of growth, but the other reasons will pick up the pace.

So, I think overall we'll end up with the same kind of good growth story globally and that's kind of the way it's always worked for us where when one region kind of stepped down, another would step up. And I think you saw that over the last year with EMEA down for three or four quarters, and now AMR down for a quarter or two or one. I don't know when it'll be. And then Asia Pacific has been very strong through and they'll probably – So, who knows?

I think overall, I just got back from China. I was in Asia for a week right after I went directly from CES. I think there is concern about, just generally, I think in the macroeconomics over there from a lot of people, not in our company, but just generally. And I think that seems like it's for real and then you just saw the latest GDP number that came out at 5.5%, the lowest since 1990. But the truth is this is a very high class problem, 5.5% is a very strong growth. Yeah. Remember, we don't sell cars. So, we're not – the categories we're in are not sort of hypersensitive to macroeconomic growth. So, I'm really optimistic. I continue to be very optimistic about China and Asia in general.

<Q - Andreas Müller>: Okay. Many thanks. Bye-bye.

<A - Bracken P. Darrell>: Thank you.

<A - Vincent Pilette>: Okay. Thanks, Andreas.

Operator

Your next question comes from Michael Foeth with Vontobel. Your line is open.

<A - Bracken P. Darrell>: Hi, Michael.

<A - Vincent Pilette>: Michael, hey.

<Q - Michael Foeth>: Yes, hi. Hi, gentlemen. Two questions from my side. Blue Micro, you mentioned it contributed around 3% to your total growth. My question is what is the actual growth of that business currently? Can you give us an indication, and so organically, and what sort of trajectory you're looking at? That will be the first one, and the second one is on Jaybird. Can you maybe tell us where you see yourself standing in that whole refocusing on running process and then where do you stand in that transition and when do you expect sales to stabilize Jaybird?

<A - Bracken P. Darrell>: Yeah. Let me take the Jaybird one, and I'll hand the Blue back over to Vincent. I think Jaybird is a long-term project for us. When we got in this category, we knew that you're in – it's kind of exception to our rule which is we're in a category, a really large category that is going to have really large players in it like some of the ones you know. And we don't really like to compete and to have them, so I'll remind you that our strategy is to narrow our focus in the beginning, super narrow into running itself and that was a change for the business. So, it's a long term project and we view it as a long term project.

I think where are we on that, I think we really just launched our first – the first product I think is at the level you could expect for us long-term, which is Tarah Pro, and Tarah Pro is a killer. It's the best product for running that's ever been done. Okay. I'll just say it out there, if you haven't tried it, please do. Every element of that product was made for a runner, and with a runner in mind, that I think the team has done an amazing job. But that's only the first one, so more will come. I think as you go into Q4 and into next year, I think we'll be pretty well in a position over the next several quarters that feel like, okay, now, we've got the distribution tight enough and small enough, that we can really exploit this running opportunity. We've probably been too broadly distributed up until now. So, we're going to keep doing this until we get it right. It's a small business, we can afford it, and then we want to make sure we really get this thing nailed from a positioning standpoint for the runner.

<A - Vincent Pilette>: And then for Blue, if you consider why they did standalone, not in our base, but standalone, they grew double digit this quarter and it's really on the back of the two new products being introduced. We haven't really driven yet the distribution expansion, which is the next leg of growth for that business. And then as Bracken mentioned, the market itself, right, is prone for structural growth as more and more people are streaming and blogging, etcetera.

<Q - Michael Foeth>: So, double digit structurally as a category is...

<A - Vincent Pilette>: Yeah. We're not going to talk about overall long-term growth by all of our product lines. But I would say the market definitely support what you just said, yes.

<A - Bracken P. Darrell>: Yes.

<Q - Michael Foeth>: Okay. Excellent. Thank you.

<A - Bracken P. Darrell>: All right. Michael, thank you.

<A - Vincent Pilette>: Thanks.

Operator

The next question comes from Paul Chung with JPMorgan. Your line is open.

<A - Bracken P. Darrell>: Hi, Paul.

<A - Vincent Pilette>: Hi, Paul.

<Q - Paul J. Chung>: Hey, guys. Thanks for taking my question. So, first question on Keyboards. Can you just expand what's been the growth drivers there over the last 12 months? It's been pretty impressive. I know you mentioned the kind of the easier comps and that helps. But if you could just expand on what are the levers there, where there's ASPs, market share, unit sell through, maybe some channel expansion?

<A - Bracken P. Darrell>: Yeah. No, I don't think there's any channel expansion there. Keyboard has continued to do well. I've been here almost seven years and the Keyboards just continue to do well. I think part of that is that you really do still need keyboards and the keyboard can improve the experience dramatically. And we keep innovating Keyboards. Last year, we launched Craft, which was a really different kind of keyboard, sold at $199 and that certainly was a good story. And we have a period there a couple of years ago where living room keyboards were really the answer and we've re-launched that living room keyboard. So, we're just continuing to systematically innovate there.

Now, I think we can't fool ourselves. I think part of our Keyboards business growth is probably Gaming because I imagine, there are people buying keyboards, getting a better keyboard experience, not going all the way to mechanical keyboards but using keyboards for Gaming, and I wouldn't be surprised that's part of what is driving this long-term secular growth. So, I think it's a combination of things but people definitely still get a great experience in their keyboard and I imagine it but [indiscernible] (00:42:07) is still using those regularly even if you've added a whole bunch of other ways to input digitally, the keyboard is still the best thing out there if you really want to compose something that's long.

<Q - Paul J. Chung>: Got you. Okay. And then my next question is kind of on capital deployment. So you repurchased about $3 million this quarter. I know your higher priorities are dividends and acquisitions underscored by Blue Microphone just recently. But given the stock weakness over the quarter, should we expect some more material buybacks in the near term? Did you do any in January? Thank you.

<A - Vincent Pilette>: So the answer is yes, you're right in the priorities. First, invest in the business and alternatively, also looking at acquisition, maintaining a growing dividend and then buyback. I think you may recall in November, there was some rumor we had to confirm that blocked us from buying into the quarter. So, those activities prevented us to buy. And at the same time, we saw their share price dropping to level that we think are very attractive for buyback. So, you should expect us to continue to buyback in open windows.

<Q - Paul J. Chung>: Thanks, guys.

<A - Bracken P. Darrell>: Thank you, Paul. Take care.

Operator

Your next question comes from Tom Forte with D.A. Davidson. Your line is open.

<A - Bracken P. Darrell>: Hey, Tom.

<Q - Thomas Ferris Forte>: Great. Thank you for taking my question. So, I have two...

<A - Bracken P. Darrell>: Thank you.

<Q - Thomas Ferris Forte>: ...questions on different topics.

<A - Bracken P. Darrell>: Sure.

<Q - Thomas Ferris Forte>: So, the first question is how should we think about the impact of the U.S. government shutdown? You've talked about the impact on sales, it doesn't sound like it's much of an impact. But we're hearing that there's been some disruption at the ports. So, is it affecting your supply chain? And then the second question, on Gaming growth, I think you parsed it into three buckets and...

<A - Bracken P. Darrell>: Yeah.

<Q - Thomas Ferris Forte>: ...suggested that virtual accessories performed in a different level than, say, ASTRO in the third bucket. Can you talk about, I guess, the level of variance? How much faster did the two other buckets grow versus the virtual accessories?

<A - Bracken P. Darrell>: Yeah. You bet. Just real quick on the shutdown. No, we don't see any impact, I mean from the port impact of the shutdown. Maybe we'll find out something later, but so far there's been absolutely no impact and we don't see anything coming.

In terms of Gaming, yeah, I broke them into three pieces. That simulation is the word that I use for that niche category, that includes steering wheels and joysticks. And that category declined, and just to give a little more color there. And a pretty strong decline because what happens in that category is you have -when the racing games come out, it's mostly wheels. By the way, there's some really cool stuff happening there.

When the racing games come out, like Forza, they spike the business, because when people go out and buy a game, that's when you're most likely to buy a wheel. We still have wheel sales that happen in between every year. But you have your biggest ramp-up happens, right, as they come out over the next three to six to nine months, and that's really what happened last year.

So, it's cyclical, it'll happen again. And so, that's the key story there. The other two parts of the business which are ASTRO, which is console gaming, and then our PC gaming are both looked very similar and very good growth, quarter-over-quarter looks strong, no real change there.

<Q - Thomas Ferris Forte>: Great. Thanks, Bracken.

<A - Bracken P. Darrell>: Thank you.

Operator

[Operator Instructions] And we have a question from Nehal Chokshi with Maxim. Your line is open.

<A - Bracken P. Darrell>: Hey there.

<Q - Nehal Sushil Chokshi>: Yes. Hi. Thank you for taking my question and congratulations on the strong bottom line results, demonstrating the resiliency of your portfolio. Congratulations on that.

<A - Bracken P. Darrell>: Thank you.

<Q - Nehal Sushil Chokshi>: Yes. So, I do want to follow-on on Tom's question there, especially on the PC gaming. You did note in your introductory comment that you saw an acceleration in PC gaming. I forgot if you did define what was the driver of the acceleration there.

<A - Bracken P. Darrell>: I mean we didn't go into specifics. We just said basically there's slight acceleration from this quarter over last quarter. I would say the bottom line is we continue to see a very good PC gaming market around the world even in places like China where there was a lot of press around the government. They have any controls on releases of new games. They kind of pull the damper off a little bit. And I always think, gosh, the worst thing you can do if you want to try to stem the growth of something is to make it less legal or just try to discourage it with the government or a parent. And I don't think it had much impact on the interest in gaming in China. So, overall, the PC gaming business continues to be quite strong. That's the bottom line.

<A - Vincent Pilette>: And if I can add to that. Last year, we had said, hey, in PC gaming in general growing about 20% to 25%. Structurally, the market is growing double digits and we've been outgrowing this year our expectations 20% to 25% in PC gaming specifically. I wouldn't overpay attention to one quarter versus the other, sometimes will be a little bit above, sometimes under, but we've been structurally outgrowing that market and growing pretty nicely.

<Q - Nehal Sushil Chokshi>: Okay. And then, I want to shift to mice and Keyboards. You talked about it you continue to expect that that business will growth low-single digit despite the fact that's been growing much faster than that lately. And underpinning that, I think you talked a bit about at your Analysts Day that assumes a flat PC market. A, is that correct? And B, is that your outlook for calendar 2019 at this point in time?

<A - Bracken P. Darrell>: Yeah. We've tried to start to disconnect our forecasts or the guidance we're giving you on our PC Peripherals. We're trying to increase and we just disconnect or suggest that you disconnect the PC market from that. I mean right now the PC market is growing and I think it's kind of choppy. It was growing for the first couple of months of the quarter and then last month it wasn't. I would – our view of it is, there's an installed base out there and the installed base is so big compared to the new products that are shipped in. And this is a case where people aren't retiring PCs. The installed base is out there and it's not going anywhere. So, somebody buys a new one, they just buy a new one and the installed base stays very similar in size.

And because the installed base is so large and it is getting older, the opportunity to refresh it with a new mouse or keyboard or improve the experience of the webcam is significant and probably getting more significant and not significant in how much it costs to do it. And so, we're taking advantage of that and innovating as aggressively as we possibly can in that space where we think there's still a big opportunity to improve your work life, whether it's working in the office or working at home, and I think that's the story. There's not really a – I wouldn't spend too much time thinking about personally if the PC market growing or not, what percent is it growing? It's such a low impact on the overall installed base.

<Q - Nehal Sushil Chokshi>: Great. That's a fair point. And then finally, I didn't hear you guys mention whether or not you still are standing by that $2 per share EPS target for next year, next fiscal year.

<A - Vincent Pilette>: Hey, Nehal. This was like a three-year plan that then we did confirm at our Analyst Day. Analyst Day is coming in March but if you do the math, it's going to be very difficult not to achieve it .

<Q - Nehal Sushil Chokshi>: Okay. Thank you.

Operator

At this time, I will turn the call over to the presenters.

Bracken P. Darrell

Thank you, all, very much. It's a very engaged call, delightfully engaged. I promise that when we go to video, we'll give you a special price when you can buy all your video cameras from us, so you can – we can do a Video Analyst Call. I've got Vince sweating bullets now because he thinks we're really going to do that next quarter, which we probably won't. But thanks a lot. It was a good quarter. We're excited about the next. And we're getting ready for next year.

Vincent Pilette

Thank you.

Operator

This concludes today's conference call. You may now disconnect.