

Q3 2022 Earnings Call

Company Participants

- Bracken Darrell, President and Chief Executive Officer
- Nate Olmstead, Chief Financial Officer
- Nicole Noutsios, Investor Relations

Other Participants

- Alex Duval, Analyst
- Ananda Baruah, Analyst
- Andreas Mueller, Analyst
- Asiya Merchant, Analyst
- Erik Woodring, Analyst
- Franco Granda, Analyst
- Joern Iffert, Analyst
- Juergen Wagner, Analyst
- Paul Chung, Analyst
- Serge Rotzer, Analyst
- Torsten Sauter, Analyst

Presentation

Nicole Noutsios {BIO 15087891 <GO>}

Thank you everyone for joining Logitech's Q3 Fiscal '22 Earnings Call.

This call includes forward-looking statements, including with respect to future operating results and business outlook 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 due to a number of risks and uncertainties, including those mentioned in our earnings materials and SEC filings. We undertake no obligation to update or revise any of these statements, we will also discuss non GAAP financial results.

You will find a reconciliation between non GAAP to GAAP results and information about our use of non-GAAP measures in our press release and in our SEC filings. These materials as well as our prepared remarks and slides accompanying these are all available on the IR page of our website.

We encourage you to review these materials carefully and unless otherwise noted, comparisons between periods are year-over-year and in constant currency and sales or net sales. This call is being recorded and will be available for replay on our website. And with that, I'll turn the call over to Bracken.

Bracken Darrell {BIO 3403495 <GO>}

Thank you so much, Nicole. I am excited about this quarter's strong performance and our ability to raise our full year outlook on top of last year and last year's exceptional revenue growth. We have a strong foundation heading into next fiscal year. We also continue to gain share on the majority of our categories this quarter, reinforcing that we've got innovation engine, that is really working well. The Company's performance reflects the broad strength of our capabilities, especially that innovation engine, but also reflects our diverse portfolio and leading positions in growing markets. Our focus on operational execution continues to help us navigate the industry wide supply chain challenges and our investments in design and go to market are setting us up for next chapter's growth in the coming years.

I've always said that picking good markets is a key to success, so I want to speak just a moment about the market trends. We've always focused on identifying fast growing categories where we can develop a leadership position, leveraging our set of powerful capabilities. Today and over the last few years, Logitech has focused our design centered innovation engine on some of the world's most exciting secular trends.

Video everywhere, gaming as a social phenomena, hybrid work and the explosion of creators on all digital platforms. We are well positioned with each of these macro trends to keep growing strongly as they grow and evolve over the next decade. And, I said upfront, we have an innovation engine that's mature and continues to strengthen. Our design led innovation capability is powerful delivering diverse product offerings and a robust pipeline for the future.

We've been methodical. We've segmented our markets, we've understood customer needs and we've reorganized our teams to create new products and more recently, we've increased our marketing efforts to drive preference for our brand. With this consistent approach, we've established leadership positions in most of our key categories. As we have for years continue to grow market share. Now, let me briefly step into those categories. In creativity and productivity, we have our biggest quarter ever, driven by another strong performance in mice and keyboards. Hybrid work is driving and even accelerating demand for these products.

We're the market leaders in these categories and we're innovating as a leader should, developing upgrade opportunities that offer more value and have higher price points, unlocking new dimensions of advantage that cater to today's consumers like sustainability and lifestyle and always staying ahead of what's happening in the category. I'm so excited about the reception of our newest offerings from the latest MX portfolio to the sexy POP keys line up, there is really something for everyone. Yet only a small percentage of people have the optimal workplace set up. Let me repeat that. Few people have the optimal product set at their desks.

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In fact, even our market penetration, and our oldest category mice is still an opportunity. Imagine how many don't have ergonomic mice or keyboards but actually need them. How many people don't have a cool keyboard and don't yet even know that POP keys exists and how many of -- even those of you on this call don't yet have the amazing MX Master and MX Keys on your home desk and office and probably would love it and we continue to expand our product offerings to address underserved customer segments. And, like the recently announced M650 wireless mouse that has a left handed mouse option.

We continue our strong momentum in gaming, even after having exceptional revenue growth last year. We've been telling you that gaming is no longer a French ably [ph] for a small group of customers for a long time. According to Newzoo, there are now 3 billion gamers worldwide and whether you game for fun or competitively, our peripherals improve your experience.

And as the number of gamers grows, we see more and more opportunities for customer segmentation and product innovation to meet our broader set of market needs. Our gaming motive is that life is more fun when you play and we believe this applies across the gaming community from pro to social gamers.

As one example of our continued innovation, our recently launched G435 gaming headset was certainly designed with competitive gamers in mind which is also good for any gamer who just wants to connect with other players, it's extremely lightweight with an ultrafast connection and it's made of recycled plastic.

In video collaboration, we're starting to see some increased activity in our office reopenings and hybrid work planning. Video collaboration sales improved this quarter nearly equaling last year's high levels that when sales more than tripled. We delivered 24% quarter over quarter growth and conference cameras grew double digits year over year.

Video has become the de facto tool for replacing in-person meetings and audio only conference calls. Smaller conference rooms are more vital than ever but in fact all meeting spaces will need video. Our mission is to develop video collaboration tools that can make remote participants feel like they can participate equally or even better than those in the room.

This year has been another year when operations has been tested for many companies globally. Our operation team continued their strong execution in the face of ongoing industry wide supply chain challenges. As we mentioned last quarter, we continue to be impacted by higher logistics cost and prolonged delays and challenges with component availability.

However, our active supply chain management, long term supplier relationships and our wholly owned production facility continue to help us remain competitive. With value in the future, it's really important for us that we continue our focus on sustainability at the heart of our business.

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We're very pleased that we were recognized for the second consecutive year for leadership on the Dow Jones Sustainability Europe Index or DJSI. We were ranked number 12 worldwide in the computer peripherals and office electronics industry for ESG. We're taking strong action including going carbon neutral which we achieved in 2021, and setting us on a direct path to be climate positive beyond 2030 by capturing more carbon than we create. We are carbon labeling our products with the amount of carbon created by their production, distribution, use and end of life, the so called scopes one, two and three, so we're including everything.

In addition, we're moving to recycled plastics throughout our products, which are now in 65% of our mice and keyboard product lines. Now, let me turn the call over to Nate for further comments on our performance this quarter. Nate, good morning.

Nate Olmstead {BIO 21036514 <GO>}

Hey, good morning, Bracken. Thank you. We delivered solid financial results in Q3 with record sales in key categories as we navigated a challenging supply chain environment. As Bracken mentioned, we gained share in the majority of our categories while investing for long term growth.

Our total company topline declined 2% in constant currency, with impressive double digit growth in keyboards and combos, strong single digit growth in pointing devices and gaming and double digit sequential growth in video collaboration. While I'm pleased with our top line results and we have supply to fulfill most of the demand in the quarter, we had insufficient stock for some products, including keyboards and gaming wheels, industry wide supply availability, logistics disruptions and cost increases negatively impacted our Q3 top line growth by about three to four points and gross margins by approximately 2 percentage points.

Despite these headwinds, we are increasing our sales and profit outlook and now project to grow net sales for the full fiscal year. I'll cover our outlook in more detail later in the call. In our creativity and productivity categories, pointing devices grew 8% and keyboards and combos grew 29% driven by continued demand from hybrid work trends. We also saw strong growth in our B2B channel and high end MX product lines. Although, webcam sales decreased by 12%, they are still triple, where they were two years ago and we grew market share by more than 10 points over the last three months. Q3 video collaboration sales declined 1% after growing more than 200% in Q3 last year.

And quarter over quarter sales increased 24%. Similar to the first half of the year, conference room cameras and systems led the category performance growing double digits year over year. Gaming grew 8% off of our 73% growth last year and with better supply and gaming wheels, the category would have grown double digits this quarter.

It's been another excellent quarter for gaming with strong growth and share gains primarily enabled by an innovative product lineup and solid marketing execution. The tablet accessories category declined 37% in Q3, however, excluding Japan where we have a large education order in the same period last year, tablet accessory sales grew

21%. Our tablet category is still more than double the size it was two years ago and our strong product portfolio help drive 5 points of share gain in the quarter. Our music categories declined as expected in Q3 down 29% including mobile speakers, down 22%.

We regularly review our portfolio and redirect resources to new opportunities and along those lines, we've made a decision to seize future product launches under the Jaybird brand. We remain committed, however to developing wireless audio products such as Logitech Zone Wireless and UE Fits.

Q3 non GAAP gross margin was 40.6% down as anticipated from last year's elevated levels and remained within our target range. Higher freight costs reduced gross margin about 2 points year over year and quarter over quarter. We expect those headwinds to remain factors in Q4 and they are included in our profit outlook.

Turning to expenses in the quarter, we executed our plan to strategically invest to grow our business over the long term. Our Q3 non GAAP operating expenses increased 30% to \$361 million. The increase was largely driven by investment in marketing, sales coverage and product development.

Rounding out the P&L, our Q3 operating profit decreased 37% to \$302 million and operating margins were 18.5%, down about 10 points compared to two years ago however, profits nearly doubled and margins are up 1.7 points. Q3 cash flow from operations was positive \$377 million. We spent \$116 million on share repurchases and ended the quarter with a cash balance of approximately \$1.4 billion.

Our cash balance is flat with Q3 last year, even as we have returned \$450 million to shareholders through dividends and share repurchases year to date, more than double the amount of the first three quarters last year. Our Q3 cash conversion cycle was 56 days, up from an exceptionally low 15 days last year.

The primary driver of the change in our cash conversion cycle is higher inventory days impacted by industry wide supply chain disruptions such as port delays as well as demand forecast fluctuations for some of our products. We also continue to leverage our balance sheet to strategically purchase hard to find and long lead time components to ensure supply availability and maintain competitive advantage.

Looking ahead, we are increasing our fiscal '22 constant currency sales outlook to growth of 2% to 5%, up from our prior outlook of flat sales growth in constant currency, plus or minus 5%. We are also increasing our non GAAP operating profit outlook to \$850 million to \$900 million, up from our prior outlook of \$800 million to \$850 million.

And with that, we can open the line for your questions.

Questions And Answers

A - Nicole Noutsios {BIO 15087891 <GO>}

The first question, can come from Asiya from Citi. Asiya Merchant

Q - Asiya Merchant {BIO 20247269 <GO>}

Hey, good morning, gentlemen. And Nicole, congratulations on a well executed quarter. Some of the questions that we've heard from investors, you know as you guys report these segments and look across your portfolio, what gives you like some confidence about future year's outlook and the fact that this wasn't just some ASP benefit that's benefiting.

For example, your creativity and productivity portfolio and then I have a question on gross margins as well.

A - Bracken Darrell {BIO 3403495 <GO>}

The other day we -- across all of our categories, and these are not new trends for us as we've talked about many times, we mentioned in the script, again. We've had, it's been very long term growth, the secular trends underneath us are very, very strong and I don't see any reason why any of these trends will continue in mice and keyboards, I said this in the opening of the call, it just continues to blow my mind that if I can guarantee you that if we took pictures of everybody's workspace on this call and we did net [ph] analyzing very carefully, we took a quick glance of that there is maybe 20% of people here have a optimal set up and you follow us, so you know what we do, so there is just opportunity across the board, Asiya.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay. And then on gross margins, Nate, you talked about the impact of higher freight costs that were impacting the second half margins. Are we to assume that 2% impact continues in the fourth quarter and when do you see, do you see any light at the end of the tunnel for these higher freight costs?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I mean, yes, I think in Q4, I expect similar supply cost challenges -- supply chain cost challenges and in terms of the timing of when those will release, it's a great question. I think there's really two elements to this, Asiya, there is predictability and there is also cost and the predictability of supply -- in the supply chain really industry wide has not been to normal level.

So you're getting more delays as things come in both on ocean and on air, but that lower predictability is causing us to use more air freight more expedited supply measure -- channels to try to improve the predictability right and make sure that things are in stock, you can see that demand has remained pretty resilient on lot of these categories.

And so we've increased the use of air freight to try to overcome some of those predictability challenges that we see on the ocean. So that's one reason why the costs are higher and why I think, they'll remain higher in Q4 and the other reason, of course is

industry wide, just the rates being higher, they're up three to four times year over year both on ocean and air.

I think, that we could see some relief on both predictability and cost in our next fiscal year, but probably not till the back half but we'll keep a close eye on that and update you as we go, but I don't see any short term release on those pressures and we're operating under that assumption that these are going to be with us, first -- a few quarters still.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay. And will that be offset, I mean I think with the supply chains and then you guys were backing onto your media spend that benefited you in fiscal '21. So is the delta there just incremental media spend on a year on year basis?

A - Nate Olmstead {BIO 21036514 <GO>}

You're talking about year over year gross margins?

Q - Asiya Merchant {BIO 20247269 <GO>}

Yes.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. The two biggest factors year-over-year would be the return to some level of promotion, we're still not back to levels that we were two years ago, but some increase in promotion as we've been talking about doing and then also the higher logistics costs, those would be the two biggest drivers year over year.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay, thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

Bye, Asiya.

A - Nicole Noutsios {BIO 15087891 <GO>}

Thank you. The next question comes from Alex Duval.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi Alex.

Q - Alex Duval {BIO 16682293 <GO>}

Yes, hi everyone. Thank you so much for the question. Firstly, I just wanted to clarify some investors been asking obviously, you beat consensus today by around \$70 million on EBIT but then implicitly, you've only upgraded your full year guide by around 50 million. So

people just wanting to understand is that just prudent given some of these moving parts, you've just been talking about or is there any sort of change in fundamentals?

And then secondly, more of philosophical question, obviously we're in this period of very hard year on year comps but as we start to move forward a few quarters, those comps will ease very materially and we'll start to see comps in the single digits. You've obviously articulated a model of 8% to 10% constant FX growth in the longer term.

So should we be expecting you to hit those kind of growth rates at that point in time? How should we be thinking about that transition as you get out of this period of very challenging comps? Many thanks.

A - Bracken Darrell {BIO 3403495 <GO>}

Let me jump in on the second one, then I'll hand the first one right to you Nate. On the second question which is a good one, I invite you very cordially, all of you to our Analyst Investor Day that's coming up on March 3rd, and we'll be talking about exactly that topic, and we'll be thrilled to have you there.

And Nate, you want to talk a little bit about why we set the guidance where we did and kind of our general feeling about it.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, yeah, it's a good catch there, Alex. I mean, I think sequentially, if I look at the guidance really the topline sort of indicates at the high end, something a little bit better than typical seasonality into low end something a little bit worse than typical seasonality, and then from a profit standpoint as I just mentioned to Asyia's question, I think similar headwinds on gross margin pressure.

I think currency could be a little bit more of a headwind sequentially than what we had here with interest rate volatility and of course the volatility in the market overall, right now. So I think there is some potential for incremental cost pressure impacting margins and of course as you get down to the lower end, on the revenue guide, you've got some additional unfavorable operating leverage in the model as well and so took that into account. But, I just think we're in a period right now, our business like most operates its best in a very predictable environment. We can get our supply chain in a predictable state, we can have great matching of supply and demand. I just don't think we're quite there yet across the industry and across all the markets, but it's really encouraging to see some of the categories continuing to grow, despite the tough comps.

So I feel great about that and I think, the underlying demand trends over the long term look really solid.

Q - Alex Duval {BIO 16682293 <GO>}

Many thanks, it's very helpful.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you, Alex.

A - Nicole Noutsios {BIO 15087891 <GO>}

The next question comes from Loop Capital, Ananda.

A - Bracken Darrell {BIO 3403495 <GO>}

Hey, Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey, thanks, Nicole. Yeah, good morning, guys and Happy New Year.

A - Bracken Darrell {BIO 3403495 <GO>}

Happy New Year.

Q - Ananda Baruah {BIO 15320341 <GO>}

And Bracken to your point, you guys look great, you look super crisp. And I'm doing this on an iPad and I get to compare and contrast because I'm staring at me and I'm staring at you and I think, I need to go out and get a new webcam.

A - Nicole Noutsios {BIO 15087891 <GO>}

Actually. You might need the new Litra Glow Light that we just launched (multiple speakers)

Q - Ananda Baruah {BIO 15320341 <GO>}

I was actually going to -- so right behind you guys that -- this was pro lighting situation going on.

A - Bracken Darrell {BIO 3403495 <GO>}

No, no, it's very beautiful, looks like a webcam but it's light, we just launched it, so it's available. Pre-orders.

Q - Ananda Baruah {BIO 15320341 <GO>}

I'm going to take, I'm actually going to take pre orders. Thanks. Thanks for the heads-up on that. I guess, just so a couple of things if I could. So with the strong revenue performance this quarter, anything, any structural contacts that might be useful for us or interesting for us to be aware of?

I guess, I'll just start at there and I have a couple of quick follow ups.

A - Bracken Darrell {BIO 3403495 <GO>}

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I'll jump in on that and Nate, you can add anything you'd like. I think the most important structural comment I'd make is -- it's -- this is playing out about the way we thought it would. We are really excited that at the end of the day, the growth in number of workspaces, the need for copper in terms of video, the incredible long term growth of gaming and the equally or maybe more incredible long term growth of streaming [ph] creating, those structural secular trend moves are happening.

And there -- as we go through the pandemic, they've continued to happen and wherever you think we are in a pandemic, now they can do that. So it's exciting, I think it just validates our long term thesis that these are great long-term trends, right. And by the way, we're not going to stop there, we're going to keep launching new categories been right [ph] and getting behind other new trims over time.

Q - Ananda Baruah {BIO 15320341 <GO>}

So that was actually one of my follow up. So maybe we'll just go there, are there new categories that you guys are getting excited about, or maybe already excited about?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, there are, I mean, I think just as an an example, we're always working on new categories, we just announced set of seeds [ph], which we haven't talked about in the last few quarters because there have been so much demand in our existing products. We're always working on them, a lot of them don't make it out the door and some make it out the door in a very quiet way and we quietly pack and back away.

So when one gets the publicity, it means, we're really excited about it and I mentioned Litra Light as an example, I mean I think being in the lighting business makes a lot of sense for us. It's a -- it is super -- this one for example is super easy product to use, so yeah I'm excited about some new categories will be coming over time for sure.

Q - Ananda Baruah {BIO 15320341 <GO>}

Okay, awesome and I guess, just last one for me. I've seen before. Are you seeing any legitimate impact yet from from new competitors?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah we've had new competitors in serially or continuously as long as I've been here, I think we had in the webcam category, we had a lot of new competitors, and a lot of them have kind of -- have receded back out again or at least they've reduced their efforts there. Others will stay, but Nate always says the same thing and I've always felt which is great -- competition comes with great markets and we're in great markets.

So I would say, it really suggests we pick the right places and we love our innovation engine and we've built a commercial engine. Now we can deliver to both enterprise and consumers. So we're super optimistic about for the future and we feel we are very competitive.

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Q - Ananda Baruah {BIO 15320341 <GO>}

And I -- I'm probably going to miss one, but off the top of my head, I think specifically Microsoft and HP and those are deep pocket folks and new for them, so they're probably not quite as committed as you guys are. It's a new category for those guys in a strategic sense, but they do have -- they do have deep pockets and so I think of those guys but I mean, Bracken is that to say like you guys don't seem like you're really seeing material impact yet? And not necessary to the business, but like not really seeing them in the marketplace, kind of structural in the way that you guys operate?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, I think we -- the competitors, you mentioned, other competitors have been in the market and they're going to be in the market, and we know they're going to keep investing and we expect it and so we're going to keep investing and to keep driving and keep growing. All I can say is we're growing market share across all our key categories, vast majority still, I feel good about the innovation engine and we've got good stuff coming.

Q - Ananda Baruah {BIO 15320341 <GO>}

Awesome thank you, guys.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you, Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Thanks a lot.

A - Nicole Noutsios {BIO 15087891 <GO>}

Thank you. Next question is from JPMorgan. Paul Chung. Paul?

Q - Paul Chung {BIO 20654199 <GO>}

Ni Nicole.

A - Bracken Darrell {BIO 3403495 <GO>}

Hey, Paul.

Q - Paul Chung {BIO 20654199 <GO>}

Hey, good morning, guys.

A - Bracken Darrell {BIO 3403495 <GO>}

Good morning.

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Q - Paul Chung {BIO 20654199 <GO>}

Nice quarter. So first up on VC [ph], you called out strong video camera, just cement [ph], anything you want to call it by region or particular vertical and how the initial trends been in the -- kind of the first month in the year as you start to see more people return to the office?

A - Bracken Darrell {BIO 3403495 <GO>}

I would say, in terms of within the video conference segment, webcams have declined, boy they declined off of incredibly high base. They're really high. Conference cams are growing double-digit. That's a great story, and I think that's even though I would say, probably most people on this call would agree, roll into the beginning of the big thaw of the office, you know as it starts to we are about to get in there and people actually do you start to go back. I think the implementation plans for video conferencing are going to grow a lot more. So I think, I feel really good about that. You want to add anything, Nate?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I mean, I think regionally Americas was kind of the strongest of the three regions although EMEA actually had a much better quarter this quarter than it did last quarter. Paul, I think we mentioned last quarter, EMEA was little bit soft, and so we've seen some increased activity out there and then from a product standpoint, as Bracken said, I think it's impressive when you look even at something like web cameras, we're pretty much selling the same number of units as we did a year ago.

Some of the mix is a little bit lower. This is more on the PC side than in the business, but we're selling kind of the equivalent number of units as we were a year ago, which is great because that means the installed base is growing and creates future opportunity there. So there's still a lot of interest in webcam, but last year it was such a hot category and I think, it's been a little more reasonable this year, but I also think that has good potential in the future as offices reopen.

I think we'll see more video at the desk and I don't think, we've quite seen that yet.

A - Bracken Darrell {BIO 3403495 <GO>}

And I would say, Nate that we're good at driving mix within categories, and we actually drove really good mix last year, but it wasn't that super, is the fact that we just couldn't make enough, we didn't have supply at the lower end, so I think, now that we've got, we're going to have -- over a period we're going to the mix story, we will go the other way a little bit on webcams but then we're set up to see what we can do with the category after that.

Q - Paul Chung {BIO 20654199 <GO>}

Got you. And then on competition, given your cash and ability to fund inventory, are you seeing some market share in that respect in VC, and I guess across other segments as well?

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A - Nate Olmstead {BIO 21036514 <GO>}

We gained share, go ahead Bracken.

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah as we said, we continue to share in VC, and I think having a great balance sheet is an advantage. So we'll continue to try to make sure that we're well positioned with components going forward. We still have, we're not immune to what's happening out there. So we still have some component shortages. But I think generally speaking, we've really -- we've got a much improved state now hope it stays that way.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, it's hard to know, Paul. I mean, we will listen as you will to what our competitors say about their supply, the market share indicates that we did pretty well. As I mentioned, there were some categories, where we just did have enough supply, gaming wheels has been a challenge for us to get back to the levels that we want to be from a stock standpoint and so I actually think, we'll probably lose a little bit of share there just based on availability, kind of like what happened a year ago with web cameras.

And then I think we can recover that share with better supply, but we'll listen to what others have to say. I think also several of the market trends are really playing to our favor, some strengthening kind of the high -- if I look at gaming, there has been some strength in the higher price bands, which is a sweet spot for us and it's a little bit -- been a little bit weaker in the entry price bands, where we also play a lot, but market trend is towards wireless in places where we're strong, and so I think that's been beneficial from a market share standpoint.

Q - Paul Chung {BIO 20654199 <GO>}

Thanks. And last question is the pace of OpEx is on track to be up pretty strong this year. I guess the big step up last year, so as we think about the out years, should we assume kind of the pace of OpEx slows or is it more kind of think about it in terms of percentage of sales in that 25% to 26% range? Thanks.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I mean I think, we won't be increasing OpEx the same growth rates this year unless revenue grows at those rates. I think, we'll probably see more alignment between revenue and OpEx in the future, Paul. This was really a year, we had to catch up on some investments last year with 74% revenue growth just far ahead of what our ability was to really invest wisely into the business and so taken the opportunity this year to do that to set ourselves up, which we think for some good long term growth opportunities, but I would say, out into the future, you're going to see OpEx much more at a rate much closer to what you would expect relative to revenue.

Q - Paul Chung {BIO 20654199 <GO>}

All right, thanks guys.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you. Thanks, Paul.

A - Nicole Noutsios {BIO 15087891 <GO>}

Thanks, Paul. Next question is from UBS, Joern, are you on the call?

A - Bracken Darrell {BIO 3403495 <GO>}

Hi, Joern.

Q - Joern Iffert {BIO 15374623 <GO>}

Yes Hi. Good morning, Bracken, good morning, Nate. Thanks for taking my questions. The first one would be -- Bracken on the statement you made at the beginning of the call that logic [ph] reorganized teams to drive innovation market prospects, what exactly was reorganized recently?

A - Bracken Darrell {BIO 3403495 <GO>}

Well we -- we're constantly returning the -- for example in our C&P business, we reorganized a few years ago actually around different segmentation approach and I think that's been super effective. It's unlocked some openings for us for example in ergonomics and general lifestyle categories. I think, we would partly attribute POP keys and POP mouse, these new kind of lifestyle mice that include -- they're mechanical but they're beautiful and fun, really focused on Gen Z.

We've probably -- that was -- that's probably because where we've organized now, but we're not going to stop, so continuing to stay really close to the customer and organize around that is -- has been one of ours, I think strengths and we probably got two different -- two of our businesses right now that we're going to reorganize again as we go into the next year.

So we see opportunities, this is a very fluid market and lots of consumer insight and customer insight on the business side.

Q - Joern Iffert {BIO 15374623 <GO>}

Right understand, thanks. And the next question would be, please on your capacity planning, I mean this year production site in China and also which is third party suppliers. I mean, what are your plans in terms of capacity expansion for the next one or two years? What are you reserving here to your suppliers, what are you doing in your own production site?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, let me jump into that, Nate.

A - Nate Olmstead {BIO 21036514 <GO>}

Yes.

A - Bracken Darrell {BIO 3403495 <GO>}

It's a little bit of a hard question to answer. We have lots of different production sites and then we have lots of different components, large, of course like everybody. The main focus we've had in our supply chain is really been location. So we've tried to distribute our manufacturing into new places, so we've moved. We have more production than ever in China, but we have a lot more production than ever out of China, so we have China, we have production in Southeast Asia, in multiple countries now, and we really set it up for couple of reasons. One was during the tariff period, but then we decided to really continue to ramp that up, because we want to make sure, we are well positioned for whatever it could happen down the road.

In terms of production planning, we've -- the expansion of our ability to produce ourselves or in any of those factories has always been a strength for us. We've been able to ramp up and ramp down pretty quickly and move things in and out of own factory. So we're going to keep that capability.

Q - Joern Iffert {BIO 15374623 <GO>}

Thanks. And the last question, please on R&D spend. Can you give us some more clarity how much of the R&D is going proportionately in the existing end segments Logitech has and how much of R&D is going into new categories that you have a rough idea?

A - Bracken Darrell {BIO 3403495 <GO>}

Well, I would say the vast majority goes to our existing businesses. We've got big, strong, vibrant opportunities in all four of those kind of large secular trend areas. So the vast, the super vast majority goes into that, but we have a seed program where we're always investing in -- on small teams to really create pilot programs against new categories and that's ongoing all the time. Super exciting. Always found, I've got a couple of products on my desk from that.

Litra Glow came out of that. And sometimes that results in M&A, where we figure out -- we've learned enough about category that we feel confident that we want to be in it and we go out and look, sometimes it's organic like our UE Fits. If you haven't seen that product, it's really amazing. Automatically fits in. It customizes to your ear in 59 seconds, I don't know if we were talked about that on this call, but it's pretty amazing product and it's in market now in a small way, selling direct to consumer, as we continue to learn how to bring that thing to market, but we've always got products out there, but there we don't.

We really measure our investment against the timeframe when it needs to -- when it might come out and so we try to fail early, fail fast and then, and in a small ways, we can keep pivoting and understanding the customer need better until we get them right and then launch them like Litra Glow.

Q - Joern Iffert {BIO 15374623 <GO>}

All right, thank you very much.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you. Thanks, Joern.

A - Nicole Noutsios {BIO 15087891 <GO>}

Thank you. The next question comes from Erik Woodring from Morgan Stanley, please.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi, Erik.

A - Nate Olmstead {BIO 21036514 <GO>}

Hi, Erik.

Q - Erik Woodring {BIO 19492555 <GO>}

Hi guys, good morning. Congrats on your quarter here. Sorry about that. Let me get my Logitech -- my Logitech camera up and running, so maybe this is just a high-level question, but we've seen a handful of companies that I think the market perhaps sort of considered to be COVID beneficiaries, see some challenges in the near term. Obviously, you're bucking that trend. So would just love your high level thoughts on why you think that is why Logitech has been able to do that relative to other pre eminent companies, let's call it, and then I have a follow up.

A - Bracken Darrell {BIO 3403495 <GO>}

And without knowing exactly which companies you're referring to. I think our beliefs and I think it's a -- I think it's turned out to be true. Our belief was that what COVID really did wasn't to drive a one time surprise in our categories, but was to accelerate what was already happening.

And so and a cool thing about that is, you know if you have a, let's just take the -- our PC peripherals categories, if you have more workspaces especially workspaces that have more dimensions of mattering to you. What does that mean? Like and that when you have a product in the office and you have a mouse and a keyboard, it looks like everybody else's mouse and keyboard, so you might not care as much as at home.

Where suddenly you have a mouse and a keyboard, it's actually part of your home decor. And I don't know about you, but I didn't even believe it or not, I didn't even have a home office that had a permanent PC on it or back on [ph] before. I -- and so now I do and a lot of people. Now that the interesting thing is that that's just an increase in the installed base because I still got something in the office.

And on top of that, what I got for the home and even me was scrambled, I got what was available nearby as I was walking out the door on March 6th or 7th or whenever it was,

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and I think there are a lot of us out there like that and so, and then to take it to people who both work in this business, most people don't even know what's out there.

And so the opportunity to continue to upgrade them is significant, so I just think this -- the biggest difference between us and most businesses is, it's a gift that keeps on giving. Once you have it, you can upgrade it and the experience really is better and I think and we're focused on upgrading people over time.

So, there is more spaces and there is a constant opportunity for upgrading, especially as we keep innovating.

Q - Erik Woodring {BIO 19492555 <GO>}

Awesome. Sorry, go ahead, Nate.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I mean. I think, the way to maybe think about that too is just existing trends that got stronger versus some new trend they got created that maybe, I wouldn't call it fab but might have just been more short lived and I think in cases where something new has been created, it's sticky, right.

We've been doing this now for two years, people's way of working has changed, their ways of learning have changed, their ways of communicating have changed and so we've kind of gotten up the adoption curve on a number of trends that were already -- thinking a lot about like video. That was a trend before but it's gotten a lot stronger and we've gotten up the adoption curve where a lot more people have gotten comfortable with it. And they actually prefer it, and so I think that's what's perhaps different and in many of our categories or really in all of our categories. I think is that they were existing trends before that had good growth characteristics and all of those, I think we've gotten stronger.

Q - Erik Woodring {BIO 19492555 <GO>}

That's really helpful color. Maybe as a follow-up and this is more of a near-term comment just but curious on your general ability to procure supply in the December quarter and whether that surprise to the upside relative to your expectations, really just trying to get at, obviously, it was an amazing quarter. Kind of what do you think led to that outperformance relative to perhaps prior expectations? And was that supply-driven or or was that something else?

A - Bracken Darrell {BIO 3403495 <GO>}

It was a strong quarter. But I think, actually we continue to be a little frustrated, we couldn't get better supply. As Nate said, we have some areas where we really just couldn't get as much as we need it from a component standpoint and logistics continue to be a challenge. So actually, it could have been even a little stronger. You want to add anything to that, Nate.

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A - Nate Olmstead {BIO 21036514 <GO>}

No, I mean, I think it was actually kind of as expected in a lot of ways. We went into the quarter knowing that we would be tight in some areas. And it was really, I think we recovered well, we recovered kind of late in some places too and the linearity in Europe for example was pretty back end loaded. But I think we got there on time to be on shelf for most of it, but that was the place where we probably add some some more revenue if we could supply it.

Q - Erik Woodring {BIO 19492555 <GO>}

Okay, super. And then just last one, just channel inventory levels. You guys have commented on that in the past just maybe relative to the end of the September quarter, where do you think there might be opportunities for channel fill in the future. And that's it from me. Thanks, guys.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I mean, I think the channel is in good shape. Again, I think we're light in some areas, but in general, I think our availability metrics have improved a lot, but there's always places where we can do better, but I think the channel is in a good healthy place and we go into Q4 again, it's always -- it really matters down at the SKU level, Erik and where the demand is and where our supply is not only in terms of products, but also by country and by region. So we're going to do our best in Q4 to try to fill that but I was happy with the strength of the demand in the categories.

Q - Erik Woodring {BIO 19492555 <GO>}

Awesome, thanks, guys.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you, Erik.

A - Nicole Noutsios {BIO 15087891 <GO>}

The next question from Stifel, Juergen Wagner.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi Juergen.

Q - Juergen Wagner {BIO 3224953 <GO>}

Yeah, hi. Thanks for letting me on. Yeah. When I look at what your gaming competitors in the US reported recently, you must have gained a lot of share or are still gaining. And yeah, how should we model revenue growth based on that higher market share in gaming and then you talked a lot about supply demand for you on your supply side but also in your end markets. How would you see, I mean, you said March still difficult but further down calendar '22, how would you see supply demand trending? Thank you.

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A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, let me answer the first one then I will (multiple speakers) second one, Nate. Yeah, I think the -- in the gaming, we did gain share, we've been gaining share and we love our innovation engine, love our team in that business and I -- without getting into your modeling, I would just say, we're excited about what we're doing. I mean, I think we feel like we've got a group of people and a team that's really working well and we continue to see opportunities that are actually broadening the definition of gaming today.

You know, I had an interview with Jon Fortt, who is a CNBC reporter, an anchor and he -- he opened the call in a -- really with a lot of insight. I think, he said, you know, my kids are now -- when I was growing up, I would sit and listen to music with my friends and talk. He said, now my kids are getting it on playing games, putting the headphones on and talking to their friends.

And I think that's a really big difference from where even we started gaming. We saw it as kind of social but only among narrow gamer set. Now it's broader and that broadening is a reflection of the market itself growing and expanding horizontally. And that opens more and more categories, more and more different kinds of products for those people like that G435 headset I talked about, it's light and colorful, beautiful and you wear it, and it doesn't -- it's a, it looks like part of what you weren't [ph] aware of if you are a 17-year-old girl instead of the the stereotype of a boy in a basement playing games.

A - Nate Olmstead {BIO 21036514 <GO>}

Hey, Jurgen. I'd also add on share. We've been, I don't want to overstate our focus on share and we want to get that share in the right way, as Bracken said with innovation, with marketing investments to drive awareness and preference for our brand, but and I usually look at share over three months trends rather than one month.

As an example, I think we lost some share in gaming frankly during the holiday season and probably December or a bit in November because we weren't as price competitive as some others, but I think that was the right decision, we want to manage these businesses for the longer term.

So over the three months trend, again we were gaining some share but I can see it in November and probably December that we lost some share, maybe in the US, where we weren't as aggressive, but we're being very thoughtful about that as well. So, I think it's important to keep that in mind. Just as an example, you were asking about gaming, I'll give you an example in traditional mice and keyboards, as Bracken mentioned that MX Series.

Those products, both the MX Keys and the MX Master 3 have 4.7 stars on Amazon, over 10,000 reviews each, 86% five star reviews on both of those products, which is exceptionally high but those are just an example. We really have examples like that in tablet accessories, we have examples like that in Gaming.

So it starts with having great innovation, great products, obviously we're investing more in the marketing capability to drive the awareness for those products, because as I mentioned or as Bracken mentioned on this call, we still have a lot of opportunity with just increasing the awareness of how nice these products are and what a great experience it is. So it starts with having the great products and I think we're -- done very good job of doing that but we have a lot more to do to drive the awareness and I think, that's a big focus.

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Q - Juergen Wagner {BIO 3224953 <GO>}

And the supply chain?

A - Nate Olmstead {BIO 21036514 <GO>}

Sorry.

Q - Juergen Wagner {BIO 3224953 <GO>}

The supply chain?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, can you just -- sorry, can you just state the question on that?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, we didn't quite get that.

Q - Juergen Wagner {BIO 3224953 <GO>}

Yeah, I mean, how do you see supply demand for your products shaping? You said, you were still in short supply for some of our mice and keyboards but?

A - Nate Olmstead {BIO 21036514 <GO>}

Mostly on keyboards and also on gaming wheels were probably the biggest source parts - sourced parts. I think a bit on mice, maybe as well. I think we did see good strength in the B2B channel, even though I think by and large offices have not sort of reopened to capacity. I mean, I'm looking at your office there. It's probably been full at other times. So I think, we've seen some pickup in demand on B2B and that's put some pressure on certain products.

But I think these are, we're still really kind of thinking about most of these headwinds has sort of been with us for a while and so we're taking steps to try to secure supply for some of those things that have been tough to find using the balance sheet there and battling through it and I don't know, Bracken, you add anything on the supply situation?

A - Bracken Darrell {BIO 3403495 <GO>}

No, I think, look, we still got a tight spots on component availability, on semiconductors in particular and we're probably going to stay with us for a while. So we've -- we decided we are going to live with that and we're going to do the best we can to work around it as

we've done in the past and as we go into next year, I think that we can expect that for a while.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. I got to come back to Joern's question on that too about R&D, one of the things that we have been investing in R&D on a second sourcing.

A - Bracken Darrell {BIO 3403495 <GO>}

Absolutely.

A - Nate Olmstead {BIO 21036514 <GO>}

So I think as Bracken laid out strategically, how we think about where we want to invest in R&D this year. We have invested more of our R&D spend into existing products and ensuring supply by second sourcing. So I think positively as availability improves in the industry on some of the semiconductors, we'll probably see an increase in our R&D productivity just because we will be able to shift more resources towards new innovation rather than second sourcing.

Q - Juergen Wagner {BIO 3224953 <GO>}

Okay, good. Thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you, Juergen. Hope that office fills up soon.

Q - Juergen Wagner {BIO 3224953 <GO>}

Yeah we'll see, not soon I guess.

A - Nicole Noutsios {BIO 15087891 <GO>}

Just a friendly reminder, send me a chat or raise your hand if you would like to ask a question. And the next question comes from Serge at Credit Suisse, please.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi Serge.

Q - Juergen Wagner {BIO 3224953 <GO>}

Yes, good morning, everybody. Good morning, Nicole. Good morning, gentlemen. Well, I would have first VC question, you mentioned that you have seen the less webcams, less headset sales in VC, but more room solution. This is the start of the transition to the enterprise channel or is it only that you have very limited in supply for more the consumer-oriented products in VC, probably you can update here also on direct sales on supply chain companies where you are moving currently and especially when I'm on the

webcam, I see still some products are lagging available in 2022 or available soon like a PlayStation or other products, if you could give us more flavor here?

A - Bracken Darrell {BIO 3403495 <GO>}

Let me start, Nate, and you can fill in. And I think, I wouldn't interpret the mix of sales, the stronger sales in conference cams and the lower sales in webcams is anything more than - they're both really strong. The conference rooms, I think we're seeing, as I mentioned earlier, I think we're seeing the early days, the fall of the office, where people are going to -- are starting to rethink their footprints and how many offices need, how many meeting rooms do you need, how much video do you need, which we think is going to be everywhere over time.

And then even people restructuring offices, like there would be people closing offices and opening other ones. It's going to be -- there's going to be a lot of turmoil. So, I think we're seeing the early days of that fall and that has a lot of video conference room enablement in it ahead of us and we're super excited about that. So that you're starting to see that double digit growth. On the other hand, on the webcam side, remember while it was down versus year ago, it's way, way, way up versus 2020. So, those are pretty heady numbers. As Nate said, they're actually flat in units. So it's actually not down at all.

So I would say, they both look pretty strong for the years ahead in terms of the number of people really using video, and this is just the future we are in. And Nate, you want to take the rest that question.

A - Nate Olmstead {BIO 21036514 <GO>}

But now, I can't remember the question. Sorry.

A - Bracken Darrell {BIO 3403495 <GO>}

(multiple speakers)

Q - Serge Rotzer {BIO 4734915 <GO>}

So, but you can leave out that.

A - Nate Olmstead {BIO 21036514 <GO>}

Hold on, the enterprise channel. Yeah, can you try again. What was it?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah how are we doing in terms of the enablement of our sales force?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah.

Q - Serge Rotzer {BIO 4734915 <GO>}

The procurement companies in addition.

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah. I mean, listen, we're continuing to build out this -- the enterprise sales capability, direct sales, inside sales and also I think the cross selling across the portfolio is another big area of focus for us. I think, we're still kind of early days on some of these things, but we're starting to see better coverage, better pipeline metrics forming, those types of things.

I just think on Bracken's point, it's interesting on the webcams, you know, a year ago, we had 400. We had headquarters with 400%, 500% growth on web cameras within VC. Huge. So I think again, I'll just make the point, I think video at the desk in the office, it's something that didn't really exist a lot pre pandemic.

And I think will exist in the future, I'm going to say post pandemic, but just in the future as people come back into the office. I think, you'll have more video there and I don't think, we've really seen all of that take off yet, don't know when that will happen, Serge. I think that is good opportunity for us in FY '23 and '24.

But video everywhere in the office and at home, good trend. And so, yeah, I don't really know that I have much more to add for you on the coverage, it's still, we're still making investments in it and that's really a global investment but I don't know, Bracken anything you'd add into that

A - Bracken Darrell {BIO 3403495 <GO>}

We've come a long way. We're a different company than we were three years ago, we've really expanded our coverage directly into the largest enterprises. We still have ways to go to, where we feel like we're operating in a 100% but I feel very, very good about the trend line, we're on our way.

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. Probably in addition, I have noticed that you have launched Logitech Select. This is a -- it's service contracts. One years, and two years. Can you give us, what's the success so far? Did you already signed a contract with a customers, or what is happening there? What is incremental going forward, gives us some (multiple speakers)?

A - Bracken Darrell {BIO 3403495 <GO>}

If we gave you growth rates quarter-over-quarter, you'd just be so excited, but they are on a very, very small base. So (multiple speakers)

Q - Serge Rotzer {BIO 4734915 <GO>}

What does this mean for Logitech going forward?

A - Bracken Darrell {BIO 3403495 <GO>}

No, I think, I think it's very exciting. You know it's part of a long-term game plan we have which is, first of all we want to make sure that our users have everything they need in that case, it's the customers in the office and we think, we can bring services to them that they aren't getting now and when they buy our products and then extend those services out over time. So that the famous [ph] recurring revenue for us and a better experience for them.

And so we're excited about, it's early days, you know, I don't want to overstate it where it is now. But I'm optimistic for the future and I think, it's going to be exciting and we will talk more about that at Analyst/Investor Day. I have a feeling in March, so I invite you, Serge to come and hear more.

Q - Serge Rotzer {BIO 4734915 <GO>}

Happy to join, Bracken and probably last one. I had the impression that the promotional activities were quite low in this quarter, also because of availability that the peers didn't had enough products in the channel. So they were not even in position to make any promote. So what do you expect now going into January to March quarter because this is a typical promotional quarter especially with all the vouchers and cash the kids get from Christmas and then it's really the fight.

So do you see more promotional activities now in the current quarter or yeah, what does this mean quarter-over-quarter?

A - Bracken Darrell {BIO 3403495 <GO>}

You want to take that or I?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I think Q3 promotional levels were kind of similar to Q2, you really have to go in and look by category. I think in Gaming. We definitely did see some increased promotion from competitors during the holiday but that's not atypical, I'm not sure what we've seen yet in January, Serge. But for us at the company level it was not really a change, Q2 to Q3, there wasn't really a margin impact from promotions changing at all there. Again, I think our strategy for the last few years and continues to be, let's try to rely less on promotions to drive the top line to drive the business and let's invest in market and drive the awareness and I think, that's a healthier way to grow over the long term. So, both in the short term and long-term that's our strategy.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. Last one and then stop. Microsoft wants to acquire Activision Blizzard. What does this mean for Logitech, as you have for example Call of Duty line in mice and keyboards, I believe but still is it an opportunity for you or more a threat or what are you (inaudible) read through the first impression you have from this acquisition.

A - Bracken Darrell {BIO 3403495 <GO>}

Well, I certainly wouldn't say, it's a threat. Their -- that's the gaming content business and that gaming content business drives our business, so the better and stronger the innovation is in gaming the more content created that people are attracted to the bigger our business will be over the long term. So I think, Microsoft and Activision Blizzard have already been two big leaders in that and it's super exciting to see them potentially coming together, whether they do or they don't, gaming is going to keep growing with great content, it's inevitable.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. (foreign language) Go for it. Thanks very much.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you. Thanks so much. Thanks, Serge.

Q - Serge Rotzer {BIO 4734915 <GO>}

Welcome.

Operator

The next question is from ZKB from Andreas Mueller please.

Q - Andreas Mueller {BIO 16350975 <GO>}

Hi, Andreas here.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi, Andreas, we were missing, you were wondering when you are going to come on.

Q - Andreas Mueller {BIO 16350975 <GO>}

Yes. Hello. Just let me -- the video on, I've got a couple of questions. One is if you have any figures or any experience about this climate pledge friendly selection, people can choose an e-shop such as Amazon, is that really driving demand here? And can you share here a bit?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah.

Q - Andreas Mueller {BIO 16350975 <GO>}

What you see?

A - Bracken Darrell {BIO 3403495 <GO>}

Let's take them one at a time, so I'll answer that one. The answer is no we don't have any data right now that would say that we have -- we're getting big sales out of our climate policies and practices, which I think really are leading edge and leading in the industry. So we're doing it because we think it's the right thing to do, but we believe that that's going to be a brand builder and a business builder over time.

There is a growing certainly among younger people kind of Gen Z and also the Gen Y, there is just a general interest in and understanding that we need to do something about the climate now. And so we believe this -- it's not only the right thing to do, but it will be the right thing to do for the business and I think, that's going to prove out over the next several years.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay. And then further on, you have been able to pass on prices, I believe in the last, say two quarters at least. And if I remember right, I mean that's also the strategy, how -- what do you expect going forward? This -- is this, I think the same kind of factors in place that you can still pass on price increases or would there be gone, if say, demand supply is more in line?

A - Bracken Darrell {BIO 3403495 <GO>}

Sure, I'll start and then, Nate, and then I'll hand it off to you. I think the best way to increase prices is to lower promotion and Nate mentioned are the promotion practices, we've had last several quarters and we hope to continue those right through it onward and spend more lot of time and investment and try and drive demand the other way, which is to build our brand, is still -- to build long term expansion capability for the business more efficiently, I think.

In terms of direct price increases or even decreases related to, I think, our cost, I think when there is a broad cost impact that hits the whole industry do eventually see price increases. That broad cost increase has only just begun. We've and Nate mentioned and we've talked about in the last call, we've done some selective price increases now and we'll keep an eye on that, if inflation looks like it's here to stay.

We're pretty good at raising prices, when we need to be. We have a history of doing that during inflationary periods or especially during currency changes in different parts of the world. So I think, we're prepared for that and we're starting down that path, we'll see where it goes.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay. Then maybe my last question is on Jaybird, how much revenue was that say in the last quarter for example and also did you had some charges with ending this business

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basically or would you -- were able to see some charges going forward?

A - Nate Olmstead {BIO 21036514 <GO>}

Yeah, I can take that one. Really the revenues, it's about \$5 million a quarter so, it really was not material at all. And in terms of the charges, yeah, we had some things that hit then cost of goods and also some things that hit in GAAP, OpEx. In terms of cost of goods, we had about \$8 million of component and other inventory write offs related products that we decided not to launch or product, we decided not to launch.

So that hit us this quarter about \$8 million in cost of goods. There is also some about \$8 million that get down in OpEx, which is GAAP only for us this quarter, little bit of restructuring, little bit of contract cancellation, things like that.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay, thank you very much.

A - Bracken Darrell {BIO 3403495 <GO>}

Thanks, Andreas.

A - Nicole Noutsios {BIO 15087891 <GO>}

The next question comes from DA Davidson, Franco Granda.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi, Franco.

Q - Franco Granda {BIO 19647122 <GO>}

Hi, good morning, everyone and thanks for letting ask a couple of questions here. So I have one product and one big picture question. So Bracken, as you mentioned earlier, you recently introduced your POP keys as part of your efforts to really capture a broader market.

So I was wondering, what kind of traction are you getting there? And then secondly with most headlines nowadays in gaming, really revolving around this whole concept of the Metaverse. And so in some shape or form, is this a trend you'll be trying to capitalize on perhaps on marketing materials or even some type of product introductions?

A - Bracken Darrell {BIO 3403495 <GO>}

Yes. So POP keys. Yeah. The traction has been good. I mean, I think people are super excited about that. We launched it first in China. It's done really well and I think, as we expand -- as we're expanding that around the world the reception has been very strong, it's not only the numbers good but also the anecdotes are good. I always know when I have people reach out to me, especially people I don't even know on a product that we've just announced and asking if they can get it. That's usually a very good sign and

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that's a product we've had that. I'd also add Litra Glow, I brought it up a couple of times in this call. It's the highest pre-orders we've ever had and with that I've had tons of people writing me about.

So we'll see where we go with that. The Metaverses here -- is here and I think, it's going to keep growing and we've been working in VC or the VR and AR space quietly for years, for five years plus, it doesn't have to be VR and AR completely to be part of what most people are describing as a Metaverse. But the Metaverse is going to turn in -- is going to keep growing what we do online, what we do virtually. So we're certainly going to be in the middle of that action.

We're very excited about it. I think it's a potential creator for us and everybody (multiple speakers) products, marketing, everything.

Q - Franco Granda {BIO 19647122 <GO>}

Thanks. Absolutely, thanks.

A - Nate Olmstead {BIO 21036514 <GO>}

Thanks, Franco.

Operator

The last question comes from Torsten at Kepler.

A - Bracken Darrell {BIO 3403495 <GO>}

Torsten? Hello.

Q - Torsten Sauter {BIO 6588509 <GO>}

Yes, hello, everybody. And also congratulations from my side, quite a nice surprise this morning. Now, just quickly, I see you want to close, you said that you want to going forward rely less on promotion, invest more in brand building, brand equity. Now you'll -- DEFY LOGIC campaign that started if I'm not mistaken, about a year ago. Has your marketing search already led to any measurable improvements, say on guided -- unguided brand awareness, price perception also relative positioning of your brands?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah. We've, we have, we -- where, we have KPIs we are measuring now and so it's a little early for us to give too much insight into that probably, if you ask me six months from now, we give you a better answer. What we do have is a little more anecdotal, but somewhat data-driven, and looks pretty promising. I mean, I would say our brand, the DEFY LOGIC campaign does seem to have a direct effect on brand awareness especially among the younger consumer set, which we're really targeting, they're trying to bring them into the fold.

We historically we're underdeveloped in kind of the sub 30 group, and that looks like it really affects them dramatically, which is great in terms of awareness in that and possible -- positive view of the brand, which was our goal, but it's not just the DEFY LOGIC campaign, we spending a lot of marketing money on gaming. In the Gaming business, we've -- our brand definitely has elevated significantly over the past few years. It looks like the ROI on that spending is very high.

And we're going to keep investing there and also their direct product category spending that we do whether it's digital, online Internet spending, real kind of ongoing, almost like a sales engine activity, that people call marketing, and it is marketing, it's classified as marketing. That is also very measurable with the return on ad spend ratios, you may be familiar with them, we're seeing great pockets of investment there.

So across the board, we see opportunity and we're going to keep monitoring, measuring it and making sure, we're spending the right amount for what we're getting back.

Q - Torsten Sauter {BIO 6588509 <GO>}

Very clear. Thanks.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you.

A - Nicole Noutsios {BIO 15087891 <GO>}

Thanks, Torsten.

Operator

Thanks. That's the end of our questions. Thank you, everyone and Bracken and Nate, final comments.

A - Bracken Darrell {BIO 3403495 <GO>}

No, it's wonderful to be in 2022 and it feels like, we really are probably at the beginning of the down slope of this pandemic. And we just see so many opportunities ahead for Logitech, and for the world, you know it's like a really, I think it's going to be an exciting time ahead as things start to fall out and we're going to be ready to innovate, left, right and center and grow right into all of these long term secular trends we've been part of and I think they're not going to let up.

Thanks so much. Thanks for all of you, talk to you in a quarter.

A - Nate Olmstead {BIO 21036514 <GO>}

Thank you.

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