Company Name: Logitech
Company Ticker: LOGN SW
Date: 2019-07-23
Event Description: Q1 2020 Earnings Call

Market Cap: 6996.96926343
Current PX: 40.4199981689
YTD Change($): 11.3099981689
YTD Change(%): 38.853

Bloomberg Estimates - EPS
Current Quarter: 0.507
Current Year: 2.068
Bloomberg Estimates - Sales
Current Quarter: 723.5
Current Year: 2963.846

Q1 2020 Earnings Call

Company Participants

- Ben Lu, 'Head of IR'
- Bracken P Darrell, 'President And Chief Executive Officer'
- Nate Olmstead, 'Chief Financial Officer'

Other Participants

- Asiya Merchant
- Joern Iffert
- Paul Chung
- Andreas Mueller
- Tom Forte
- Jurgen Wagner
- Ananda Baruah
- Nehal Chokshi
- Michael Foeth
- Analyst

Presentation

Operator

Good day and welcome to the Logitech's First Quarter Fiscal 2020 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'd like to introduce your host for today's call, Mr.Ben Lu, Head of Investor Relations.

Ben Lu, 'Head of IR'

Thank you, Sharon. Welcome to the Logitech conference call to discuss the company's financial results for the first quarter of fiscal year 2020. The press release, the 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 SEC The company undertakes no obligation to update or revise any forward-looking statements as a result of new developments or otherwise. Please note that today's calls will include results reported on a non-GAAP basis.

Non-GAAP financial results have inherent limitations and are not meant to be considered in isolation form or as a substitute for or superior to GAAP results. The press release and slides provide a reconciliation between GAAP and non-GAAP numbers and are posting on our IR website. We encourage listeners to review these items. Unless noted

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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 Logitech website. Joining us today from California are Bracken Darrell, President and Chief Executive Officer; and Nate Olmstead, Chief Financial Officer. I'll now turn the call over to Bracken.

Bracken P Darrell, 'President And Chief Executive Officer'

Thanks Ben.

And thanks all of you for joining us. We had a good Q1 and a strong start to the year. We delivered total sales growth of 9% in constant currency at the high-end of our full year sales guidance of mid-to-high single-digit growth. All of you deal in investment portfolios, in one way or another.

An investment portfolio with only one stock is usually more volatile than one that's more diversified. Narrowly focused consumer hardware businesses are the same. They suffer the ups and downs of their single category with no offsets. Quarter in and quarter out some categories will do better, others will do worse.

Logitech differs from many other hardware companies because of our portfolio diversity. This diversity is tended to smooth short-term category specific fluctuations and provide stable funding for our investment priorities. That consistent funding approach is critical to our objective of long-term sustainable growth. But the key aim of our multi-brand, multi-category company is to deliver amazing customer experiences in many categories, a growing number where we can lead long-term.

We deliver category leadership across our broad-based portfolio through our strong capabilities in design, engineering, go to market, marketing and operations. That is the recipe, that is the recipe that's allowed us to consistently deliver ahead of our peers on both the top and the bottom line, and Q1 is no different. You've heard us talk about the secular trends driving our business, the growth of video communication, the rise of e-gaming as a sport, and the democratization of content creation. Those three major global trends continue to drive our business now and we'll drive it long term.

We're excited about being the world's leading peripherals player, bringing video to everybody, equipping and supporting gamers and enabling content creators. Now, let's dig into the performance of our different categories. Video collaboration sales grew 28% in Q1 with all three of our region's delivering double-digit growth. Our MeetUp huddle room product continued to see strong traction with customers, and sales were again very strong this quarter.

Sales of our recently introduced rally camera system, for larger conference rooms climbed to new highs. It could work -- that could very well become our second best-selling skew in video collaboration after MeetUP, despite being released less than a year ago. And our Tap touch controller that's embedded with great software, giving users single touch access to their video solution just started shipping to great customer feedback. And now you're beginning to see how we've been investing in software capabilities, to go beyond the software that brings products to life, like MeetUP and Tap.

Logitech Sync is a perfect example. Sync, which is in Beta now, is our new video conferencing device management platform that gives our customers seamless, cloud-based device administration, insights and control. It automatically flags issues in real time and offers in depth diagnostics so the problems can be addressed quickly, and we won't just stop there. Whether that's Logitech Sync or video collaboration or Logitech Capture for our webcams to help capture the fast-growing streaming opportunities, we'll continue to double down on building out our software capabilities to deliver amazing customer experiences.

Kelly talked about PC Peripherals business. The PC Peripherals business generally has bounced around quarter-to-quarter from slightly negative to mid-single digits or even better. Sales were roughly flat this quarter, yet the category remains consistent and stable. And as we stated at our March Analyst and Investor Day, we should be able to drive low single-digit growth for the foreseeable future here.

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As usual, you can count us to bring out some really cool innovation throughout the year, so stay tuned. In gaming, while sales grew just 2%, nothing has changed regarding the long-term structural growth trajectory of the category. So why the flattish growth in Q1? The bottom line, a really tough comparing headsets. Most of you are aware of the unprecedented impact of Fortnite last year on young gamers, and how it brought in millions of them.

In the US for example, where Fortnite has had the biggest impact, we saw the console and PC gaming headset market double almost overnight. Excluding headsets, our gaming business was actually up over 20%, and even accelerated versus last quarter. We don't see a change to the structure of growth and gaming overall. Gaming is here to stay and we'll continue to bring out innovative new products that will elevate every gamers potential and delight them.

You might have noticed the release of our newest and latest PRO X gaming headset, with a mic that was developed with none other than our blue microphone technology and team. Blue Voice gives everyone the ability to customize and tune how they sound in a game, and it's unique to Logitech. No distortion, no noise, no outside feedback, just the clear and crisp sound of your voice that everyone hears, that can really change the game for -- in multiplayer social games. Wired Magazine called it quite possibly the best headphone Logitech's ever made.

We also introduced a new version of our flagship ASTRO A50 headset. It has a new design and new base station for even better wireless connection and better sound. It'll be available later this summer. You'll notice that these two products are just some of our premium priced innovations.

With the broadening of the base of new gamers as a result of Fortnite, we aim to capitalize on the tremendous upgrade potential such a big base of first-timers provides. Of course, we have more exciting gaming innovations coming throughout the year. Tablet and other accessory sales grew 21% this quarter as we rolled out the new Slim Folio for the latest generation iPad Pro. We had a robust double-digit growth in both our traditional channel as well as in our educational channel.

This demonstrates our continued strength in both enabling and supporting the Apple ecosystem, both for consumers and education. Mobile speakers were up 51% in Q1, probably due to a successful launch of our new WONDERBOOM 2. As we've said before, don't expect this type of growth to persist, those growth rates are often driven by the timing of our new product introductions. Last year in Q2, for example, especially strong because of the launches of our newest versions of BOOM and MEGABOOM So that'll impact our mobile speaker comps this coming quarter.

While the overall mobile speaker market remains soft, we're attacking various opportunities there to deliver great music experiences for consumer, whether that's through new channels or new product. Audio and wearable sales were up 15% this quarter with Blue Microphones contributing roughly two points to our overall company growth. While we didn't have Blue in our Q1 figures last year, if we look at their year-over-year sales, Blue delivered another quarter of double-digit growth on the back of a continued trend towards podcast creation. Next week our Jaybird team will introduce another exciting product that I've been using whenever I go running.

It takes everything you love about our existing Jaybird products when you experience them, and brings it to the next level. Now before I turn the call over to Nate, I'd like to be the first on this call to congratulate him on being named our new CFO He is no longer interim. He's already become a great operating and financial partner for me and my team, and I look forward to working together. So Nate, you're in charge.

Nate Olmstead, 'Chief Financial Officer'

Thanks, Bracken. Q1 results were strong, with balance performance across all our financial metrics, thanks to solid execution and strong financial discipline. We grew sales at the high end of our full-year guidance, gained share in our key categories, invested wisely in our strategic priorities and expanded both gross and operating margins despite tariff and currency headwinds. Sales grew 9% in constant currency to $644 million and non-GAAP operating profits grew 11% to $67 million.

Our Q1 non-GAAP gross margin increased 40 basis points to 37.8% in the middle of our recently revised target margin range of 36% to 40%. We continue to see the benefit from mix shifts in our portfolio and our teams did a nice job

taking operational actions to mitigate costs headwinds from China tariffs and unfavorable currency exchange rates. We continue to proactively and aggressively take steps to reduce the impact of tariffs, including further diversifying our manufacturing locations, and recently informing our US partners of price increases for select products. We have implemented price increases many times over the past seven or eight years and price sensitivity is never completely predictable, but we feel good about our approach for the year and our confident in our full-year guidance.

Our non-GAAP operating expenses increased 6% to a $176 million or up 3% excluding Blue. Our sales and marketing and R&D spend were both up 7% as we continued to invest in our portfolio, brand, demand generation and coverage. At the same time, we continued to keep our G&A spending flattish at around $20 million per quarter. So with a disciplined approach to managing and balancing costs, we delivered another strong profit quarter.

Now, let me talk briefly about our cash flows. Cash flow from operations was $37 million in Q1, a nice increase from $12 million in Q1 last year. Our full year cash flows tend to be heavily skewed toward the second half and we are still targeting full year operating cash flow to roughly equal our full year non-GAAP operating profit. In summary, Q1 was another quarter where we demonstrated the resilience of our diversified product portfolio.

As Bracken said earlier, this is a key strength of our business model. We will continue to invest in adding new categories and capabilities, so that we can consistently deliver top and bottom line growth over the long term. Now I'll turn it back to Bracken.

Bracken P Darrell, 'President And Chief Executive Officer'

Thanks a lot, Nate.

We just wrapped up Q1 and delivered a strong start to the year, as we said. So today we're confirming sales growth of mid to high single-digits in constant currency, and non-GAAP operating income of $375 million to $385 million. And with that, Nate and I are ready for your questions. (Question And Answer)

Operator

(Operator Instructions).

Your first question comes from line of Asiya Merchant with Citigroup.

Asiya Merchant

Congratulations, everyone. Strong quarter given the backdrop that we've been hearing about throughout the quarter. I have a couple of questions.

One, Gaming, I know you address that head-on, Bracken about gaming headset versus gaming keyboards and other peripherals within Gaming. But how should we think about the rest of the year unfolding? I know first quarter was tough comp. But as we see the comp easing in the back half, September, December quarter relative to the expectations towards like mid-to-high teens growth. How should we think about the Gaming category unfolding for the rest of the year?

Bracken P Darrell, 'President And Chief Executive Officer'

Well, I think -- as I said in the my opening, all the growth outside of the headset business was actually stronger than was last quarter.

So quite strong. That included our new controller, an ASTRO and of course, all of our existing businesses have strong mouse performance. We're going to wait and see how the headset category develops over the rest of the year. But I feel

really good about the Gaming business overall.

And I think our expectations will deliver, somewhere in the range we gave earlier.

Asiya Merchant

Okay. That's good to know. And then the 4% year-on-year sell-through, that seemed relative to the sell-in that you guys reported, it seemed a little a weaker.

Maybe you can talk a little bit about the diversions between the sell-through versus the sell-in?

Nate Olmstead, 'Chief Financial Officer'

Yes. Sure. This is Nate, I'll take that one. So I think if you look at it on a dollar to dollar basis, the GAAP really wasn't quite as large.

Our US dollar revenue growth was 6% and we reported the sell-through of 4%. So pretty closed on those, too the widest GAAP you probably saw was in EMEA Where similar to prior quarters as we mentioned, we've made some strategic decisions about how we think about demand generation, investments, and shifting some of those investments from -- really from gross margin down into OpEx to build the brand and strengthen the brand over the long term. So that really explains the majority of the spread between our US dollar sell-in growth at 12% and the sell-through growth at 5%.

Asiya Merchant

Okay.

Alright. Thank you very much.

Bracken P Darrell, 'President And Chief Executive Officer'

Thank you very much, Asiya.

Operator

Your next question comes from Joern Iffert with UBS.

Bracken P Darrell, 'President And Chief Executive Officer'

Hi, Joern.

Joern Iffert

Hi. Thanks for taking my questions. And my question would be pleased on the VOM communication or collaboration.

And I thought Polycom is entering already with a product below $1,000. Do you see a fighter competition here, and already and also to this product category? Can you give us some more clarity what is your current headcount on direct sales force, and what you're planning for the next 12 months? And second question would be pleased going into Q2. I mean we have a couple of companies reporting software consumer environment et cetera. I'm not seeing anything for

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example in China.

And the last question on Gaming. After Google and Apple launched the streaming services, do you see potential for corporations here on the hardware side or is this independent? Or do you see as the Google going into the personal space and gaming? And thanks very much.

Bracken P Darrell, 'President And Chief Executive Officer'

Okay. So asked a lot of questions really perhaps.

Let me go through one at a time. So competitive entries into video conferencing. Yep, we expected them, we're getting them, there will be more. And that's -- competition makes you better.

So we will be better. We're already better than we were six months ago. And so far, I don't think it's had an impact on our business, but we're going to rise to the occasion. And the other good thing about that is I think when -- as great a Guerrino Luca, our current Chairman said -- I mean a long time ago, man, oh man, you don't want to be in a category with no competition, because there's no growth.

So I think really growth in this category will accelerate as you get more people out there talking about the benefits and the cost savings opportunities and more of video collaboration. So I love good competition, and we've got good competitors. Direct sales numbers, I don't think we've quoted externally our direct sales numbers, probably I'm not going to do it now. But what I can tell you is that we're accelerating rapidly the number we have around the world, where each region in the world is hiring, and we're trying to hire wisely.

And we've all been through the hiring searches that end up being a search. And then you lose after people, because they were the wrong ones. So we're hiring very aggressively around the world. Q2, your comment about, there's story over in China on the weaker markets.

I think China has had such a period of long strong growth for us too by the way. If you look at the last couple of years, we've been up 20% in China, I think 19% or 20%, 21%, 22%, 23%. And don't know, I don't expect to stay like that and we didn't see that this quarter, or even last quarter, it was lower. But I don't see anything in our categories that suggest China is in for a big slowdown.

It seems pretty stable to me. I think our China business won't have the 20% plus growth this year that it might had last year, the year before. But I do think it's going to continue to be solid. And then finally Google and Apple entering the streaming business and others.

No, I don't see that as a downside at all, I see is pure upside. A lot of this streaming entry really is going to enable people to get into the gaming experience at a much lower cost for the PC et cetera. And I think that's a great thing for us, because they still need peripherals. And I can imagine those people who ever see peripherals in Gaming as a strategic category.

So this is our place, we love it.

Joern Iffert

Thanks, Bracken. But coming back to the streaming services, and I think you have a corporation with effort on the tablet, keyboard -- on the tablet peripherals. Do you also see room for cooperation here? And basically remain independent?

Bracken P Darrell, 'President And Chief Executive Officer'

We never share anything we're doing with anyone, any partner on the outside before we do it.

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And what I would just say is I think we've always been a harmless capable partner for these big players, trying to enable their experiences. And that's what we're going to continue to be. And if I sound too modest there, I do feel like we're really capable, but we're not a threat to anybody like that. We're just trying to help them, realize their goals just like we're trying to realize on our own.

Joern Iffert

Good. Thanks very much.

Bracken P Darrell, 'President And Chief Executive Officer'

Thanks, Joern.

Operator

Next question comes from Paul Chung with JP Morgan.

Bracken P Darrell, 'President And Chief Executive Officer'

Hey, Paul.

Paul Chung

Hey, Bracken. Thanks for taking my question.

Bracken P Darrell, 'President And Chief Executive Officer'

Thank you.

Paul is my Starbucks name. Because if I use Bracken, it takes me forever to get -- for them to figure out what I'm saying. So my middle name is Paul.

Paul Chung

Nice.

So first off on VC How good is your visibility into the full year? Does your enterprise channel kind of provide you better visibility into demand relative to kind of some you're more consumer-oriented products? And then on seasonality, have you kind of been able to determine any patterns for this business or are we kind of still early days? It did notice that F 1Q has been typical low point for the year. So do you see enterprise buying patterns kind of accelerate more so in the second half of the fiscal year?

Bracken P Darrell, 'President And Chief Executive Officer'

Well, first of all, on visibility. I would say, yes and no. I think anything -- the sales cycles are longer, and video collaboration than they are in our consumer business.

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So we use salesforce.com et cetera like everybody else does. So we do probably have better visibility of a customer base, potential sales on the other hand. It doesn't mean we have -- we can't tell you exactly what the sales going to be next quarter for this quarter. This is in quite like some B2B businesses, where you really have very clear picture of exactly what's going to sell next quarter and the quarter after that, then you work on the third.

So it's a little -- I would say it's in between there, it's certainly is better. We're going to have growth all the yearlong, and we're excited about it. From a seasonality standpoint, so far. I would say that there hasn't been a lot of seasonality in our VC business.

It's different from our consumer business, where you have a really strong, of course, calendar Q4. You do see some improvement through the year, and it's probably seasonal. But I think a lot of its just the momentum of the business, and has continued to get stronger quarter-over-quarter. And every quarter is not bigger than the last quarter, it's pretty close.

So there's a little bit of seasonality, but I would never see, you can kind of see it in the numbers in few eyeball.

Nate Olmstead, 'Chief Financial Officer'

Yes. I think just to add a little to that. Obviously as we do get more exposure to those enterprise accounts that seasonality, sometimes you get a large deal one quarter and you don't have one the next quarter.

So you can move around a little bit for that reason. And then as Bracken mentioned, we don't really have the holiday sales as same sort of holiday sales push that you might have more in the consumer side. But we do have that enterprise strength and calendar Q4 that I would expect to see just as companies and corporations closed out their fiscal years. But as Bracken said, I think right now, we just see a lot of opportunity to continue to growth, we're investing in that space to increase our coverage and we'll go from there.

Bracken P Darrell, 'President And Chief Executive Officer'

Yes. I'll just add one other thing about of that. I think you're thinking about what you just said me. We also have large deals that get agreed to a front and they're deployed over a year too.

So it does make a little more predictable than there. Our DCS, by the way is underneath this 28% sell-in. Our DCS is more stable this quarter. I mean it looked a lot like last quarter, so it's very stable.

Is the next question about sell-in, what was up there?

Paul Chung

Okay. Thank you for that. And then next question is on pointing devices and keyboards. So you've mentioned the benefits of kind of addressing a large aging kind of PC install base.

And you continued post growth in these more mature categories. But now, PC shipments are actually squeezing out some growth near-term, right. So we did notice some positive correlation with your mouse and keyboard sales relative to kind of PC shipments over the year. So should we see some incremental benefit in these segments near-term? If so, why did we see any benefit this quarter particularly in the pointing devices?

Bracken P Darrell, 'President And Chief Executive Officer'

Yes.

I think first of all, the installed base is so much bigger than the PC shipments. I'm not sure that going forward, you're going to see a lot of correlation between PC shipments and our business or even -- or our categories. Because the truth is the we've sort of disconnected our selling from a PC shipments sale. So one of the reasons why we used to be more highly correlated was virtually installed base was lower.

And then also we had programs, where we're really aggressively trying to upgrade. If somebody bought a new PC, we would on the spot. If we were lucky, have one our retailers are even retailers, they're trying to upgrade the mouse that they bought, because it's a -- well, that mouse is pretty low end. But if you by higher, then you have a better experience when you get home with the PC That's a much smaller story now.

So I don't think you see a high correlation. On the other hand, I think the opportunity we have -- the thing that really drives our business now is our NPIs, our new product introductions. I think our new product introduction cycles, if they hit this quarter, we intend to have a better quarter to hit the next quarter. So I think that's probably a lot more of a driver for us going long term than PC shipments are.

And I think as we go through the rest of the year, you'll see us do some cool things, we've got good innovation coming.

Paul Chung

Perfect. Thank you so much.

Bracken P Darrell, 'President And Chief Executive Officer'

Thank you.

Paul.

Operator

Next question comes from Andreas Mueller from ZKB Please go ahead.

Bracken P Darrell, 'President And Chief Executive Officer'

Hi, Andre.

Andreas Mueller

Hi, everybody.

Thanks for taking my question. Two question, also in pointing devices. I mean, can you explain their the declining sales outside of the cordless mice category? I assume cordless mice still or is still driving. But then you mentioned I think trackballs and pointers.

I mean, is that such large categories to move the needles, what's happening there? That's the first question.

Bracken P Darrell, 'President And Chief Executive Officer'

Sure. Yes. No, I don't think there's a big story to be told on mice.

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We've had negative quarters off and on for this lineup as I've been here on the mouse business. And I do think it's much more of function as I said earlier, what did we launch, what's a traction on the latest thing we've launched, what's coming up next, are we selling in or what. A lot of that's what's happening there. And no, I don't think -- by the way, I think you're right, I know you're right.

Our cordless mice continue to be strong. The kind of, let's call them more niche products in the mouse category. It can be very attractive, and I think we're going to continue to do those things. Like the vertical mouse we've launched last year has done very, very well, we upgraded.

And you mentioned trackball, we upgraded our trackball about a year ago. So that -- the growth curve on that's probably faded out a little bit, but we've got more stuff coming. So I don't think -- I wouldn't overthink this quarter on mice. So I think it's just part of the wobble that's happened in that business for as long as we've had it.

And if you had it up, look at all of our PC peripherals business, it looks fine, up 2%. If we're up single digits or low single digits, that's good.

Andreas Mueller

I agree. And the second question on cash conversion.

I mean the cash conversion cycled out of this 50 days. What would be kind of the cash conversion? I mean if we hadn't had blue micron of tariffs sort of the normalized basis? Of course, it's then fluctuating between with seasonality. But I mean how many days we would have been lower with the -- without the exception of there?

Nate Olmstead, 'Chief Financial Officer'

Yes. I'll take that one.

So I think there's a few days of cash conversion cycle tied up in these items you mentioned. I think primarily on the tariff side, obviously, we did pull in some inventories. We've done in past quarters when the tariff increases were announced, tried to take proactive action there to help out on the cost side. Too, we did do that again this quarter.

The other things in cash conversion cycle, obviously, it's just a linearity of the business. Sequentially, cash conversion cycle improved 7 days as the business had a little better linearity to it than it did in Q4, and then year-over-year was up. So it's going to still move around, there's some headwind.

Andreas Mueller

Okay.

Great. Thanks.

Bracken P Darrell, 'President And Chief Executive Officer'

-- as higher cash conversion cycle than we have. But we can definitely do better with it.

Andreas Mueller

Great. Thank you.

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Bracken P Darrell, 'President And Chief Executive Officer'

Thank you.

Operator

The next question comes from Thomas Forte with DA Davidson.

Tom Forte

Great. Thanks for taking my questions. First of all, I want to congratulate Nate for being new CFO And then I want to talk about two things, first on gross margins, and then second on gaming. So the gross margin front, I think it's remarkable that you had a 40 basis point increase a year- over-year despite the tariffs.

So I want to know, can you give us some more information on what you're doing to mitigate the tariffs? And then on gaming in particular, I want to talk about new products, and how you thought about your new premium console controller from ASTRO?

Bracken P Darrell, 'President And Chief Executive Officer'

Great. Let me -- I'll take the second one first, and then I'll hand it off to Nate. Although I do want to make a comment on the gross margin forward, but I jump over the gaming question. I also -- I'm very impressed that we had such a strong quarter in gross margin.

Because we had a 170 basis points of impact from currency. So we've managed to offset that, which is great. And still deliver kind of in the middle of range, which is of our long-term rates. So I feel good about that.

On the gaming side, yes, the C40 is our first foray into controllers, since we bought ASTRO And it's been a good strong performer. And it's still very early days for us in that new category. But it's a big category, there's a lot of potential there, and we're going to -- we're optimistic about the long-term. Nate, go back to the?

Nate Olmstead, 'Chief Financial Officer'

Yes.

And then I think on gross margin as Bracken mentioned, there're really two significant headwinds. This year, currency actually the larger of the two, it's actually about a 120 basis points out our hedging. And then and tariffs added a little bit on top of that as well. I think in terms of tariffs, obviously, we've taken actions for some quarters now to diversify manufacturing locations.

That's probably the most important one as well as I mentioned, pulling in some inventory ahead of the tariff increases, it gets you sort of a onetime benefit. So both of those were significant helps this quarter. Also on gross margin, just keep in mind, we're continuing to see some benefits from the portfolio mix shifts, things like VC, which grew faster than the overall company again have relatively higher margins. And so that helps as well.

Looking forward, obviously, we only had a half of -- so the tariffs increased kind of in the middle of the quarter. So we'll have some additional tariff cost increases next quarter that we're taking steps to mitigate. I mentioned we did notify some of our US partners of -- all of our partners for some selective price increases. So that's an additional and new step that we're taking in Q2.

But that gives you a flavor of some of the things that we're doing again. Again, I give a lot of credit to the operations team for moving quickly, and doing a really good job to mitigating those costs.

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Tom Forte

Great. Thanks for taking my questions, Breck and Nate.

Bracken P Darrell, 'President And Chief Executive Officer'

Thanks, Paul.

Operator

Your next question comes from Jurgen Wagner with Mainfirst Bank.

Bracken P Darrell, 'President And Chief Executive Officer'

Hi, Jurgen.

Jurgen Wagner

Yes.

Hi. Thank you for taking my question. Actually follow up on the gross margin. Can you quantify the product mix impact on the gross margin? You mentioned video collaboration, so how much the benefit was? And on M&A, last time -- I think last year, we discussed potential electronics edition.

What can we expect this year with the new CFO? Thank you.

Bracken P Darrell, 'President And Chief Executive Officer'

Okay. Well, our new CFO is really a wet blanket on all acquisitions. So expect us to do nothing, I'm kidding.

Nate is all in on our current approach. We're an organic growth company that uses acquisitions to accelerate or differentiate what we're doing. And Nate I'll speak for you because we've talked about a lot. He's totally bought into that, and we're always looking in new staff and potential M&A and stars have to lineup things to make them happen.

But yes, I think, you can expect more M&A.

Nate Olmstead, 'Chief Financial Officer'

Yes. I think on the product mix, I'll think refrain from probably getting to too much detail on that. But I would say, there's always puts and takes, but that is one where I would expect some continued benefit for us.

Just because again, I think with some predictability, we expect VC to grow faster. Another thing this quarter which was nice to see, obviously, we had good growth in mobile speakers, and the products that did shift this quarter were higher margin than the same period in the prior year. So that was also a factor sort of a mixed benefit within that category itself.

Jurgen Wagner

And I thought mobile speaker would be around a lower gross margin product?

Nate Olmstead, 'Chief Financial Officer'

Overall it is.

But like I said just on a year-over-year basis, the products that were strong this quarter were higher margin. So it's still -- overall as a category, below the company average. But the products had shipped this quarter and provided some of that growth, we're on the higher end.

Jurgen Wagner

Okay.

And then on M&A, Bracken did just say a small acquisitions or did you just say acquisitions are part of your strategy?

Bracken P Darrell, 'President And Chief Executive Officer'

Yes. No, acquisitions are part of our strategy. So you can expect us to continue to be pursuing them as we've been in the past, a small, medium. And it's not impossible, we could do something large.

But as we talked for the large stuff is really the stars all have to align to make that happen. So but small and medium is certainly in the strike zone.

Jurgen Wagner

Okay. Thank you.

Bracken P Darrell, 'President And Chief Executive Officer'

Good.

Operator

Next question comes from Ananda Baruah with Loop Capital.

Bracken P Darrell, 'President And Chief Executive Officer'

Hey, Ananda.

Ananda Baruah

Hey.

Good morning. Good morning, Bracken and good morning, guys. Thanks for taking the questions. Congrats on the solid quarter.

Bloomberg Transcript

And Nate, congrats on the appointment, I look forward to working with you. So just to start at a higher level, do you still feel the same for this fiscal year, Bracken about the key revenue segments? And if you don't one way or another, could you just sort of highlight what we should know about the differences? And then I have a couple follow-ups. Appreciate it.

Bracken P Darrell, 'President And Chief Executive Officer'

Okay.

Look we've got three businesses that are big for us. It's video collaboration, it's gaming and its CMP And then we've got a growing number of other businesses that are contributors, including the M&A that we've done in the past. So I feel about the same as I -- about all of them that I did as we started the year. I think the one that was the most uncertain for us was gaming, because we really didn't know how big the fortnight effect was, it was really hard to say.

And so now that we've seen a quarter of that, which is probably the strongest year-over-year quarter in terms of a compare. Now we have a better visibility to it. So I would say generally speaking, we feel good about our guidance that we started the year with based on that, when we do the back of the envelope or the spreadsheet exercise, we feel good about that. And pretty much the same geography of growth.

Ananda Baruah

And would you say is -- do you feel that fortnight is about as you as expected kind of to start the year or is it different from what you were expecting one way or another?

Bracken P Darrell, 'President And Chief Executive Officer'

I'd say it was stronger than expected. I think the fortnight effect was -- it looked and felt strong at that time. And I think after looking at over quarter, it looks and feels very strong there. The good thing about that is that strength also, it's probably a pretty good indicator of how many new people came into the gaming business because of fortnight, and mainly came into headsets.

And since we have a big headset business now, by virtue of the fact of having both ASTRO and in Logitech G in the Gaming business. We've made a bet that we're going to emphasize, trade up opportunities of the low end as we did some of our new products. So our pro headset is perfect example of that. It's got the blue voice microphone built-in.

It's a very -- it's a beautiful design. And so I hope that is going to pay off and we're going to be able to drive some trade up through the year and in the next year.

Nate Olmstead, 'Chief Financial Officer'

Hey, Ananda, that's great. Ananda, one comment on the headset growth.

I went back and looked at the market data, so this is not Logitech specific. But for the market backing the calendar Q4 a year ago, typically that market showed a decline of about 40% calendar Q4 to calendar Q1. And a year ago, it actually grew 1% calendar Q4 to calendar Q1 just to highlight, so a 41 point swing in typical seasonality in the market and headsets a year ago, just to kind of augment Bracken's comments about the tough compare and really how powerful that headset growth was a year ago in the market.

Ananda Baruah

All the context is really helpful.

I appreciate it. So just to make that I'm accurately understand what you guys are saying. Bracken, the fortnight headwind to start this year was perhaps a bit more pronounced than you originally envisioned it would be. But you're still putting up solid numbers in the non-headset business.

And you guys also feel that based on the amount of headsets that were purchased four months ago, there's sort of a proof point there is to the attractiveness that the headsets market in sort of key segments of your Gaming. Is that all accurate?

Bracken P Darrell, 'President And Chief Executive Officer'

Yes. I think it could. I think it's pretty good summer.

I think on your last comment, I think we know the headset market is a great market. And so we're bringing out new things into that market and the really interesting things going to be see if we can upgrade some of those some of those people who came in. That big kind of wave of people who came in if we can upgrade them to higher in headsets, because a lot about medium and low end.

Ananda Baruah

That's great context.

Okay. Cool. And then a follow-up if I could. Could you just sort of connect some of the dots for us on the interplay between what has been your ongoing OpEx investments, and sort of the driving of incremental revenue growth? And which -- kind of how that plays into the key segments just a weekend, kind of that upward so.

And --

Bracken P Darrell, 'President And Chief Executive Officer'

It's a great question. And I probably not going to be able to go deep enough to satisfy a spreadsheet exercise or our model that would suggest it. What I would say is if you look for example this quarter, we grew kind of equally, not in absolute value, but in percentage terms, both in R&D and sales and marketing cost. And if you really dig underneath that on the sales and marketing expenses, we're really trying to increase the amount of real marketing spending we're doing at the expense of promotions as Nate said earlier.

And I think that's been a strategy of ours for a while, we're going to keep it up. We sort of started this over in Asia Pacific, and now we're moving it into EMEA and begin to move it into AMR So that path feels like the right long-term path for a company is trying to build sustainable brands and a sustainable business. On the R&D side, we have really good choices right now and good opportunities to invest in R&D So we're going to keep doing that. That's more broad-based.

But I would say we were certainly doing in a gaming or certainly doing in a VC, and in other categories as well. And of course, some that is we also -- when we do an acquisition, that's in that on too.

Ananda Baruah

Okay. Got it.

And so, yes. You're talking for the last year or so about the sort of moving your marketing versus promotion. So on the SG&A side, it's really that -- is it really that moving globally kind of ease. And then in addition to that I would assume

that you guys also are doing sort of some video collaboration in the price hiring.

Would those be the big buckets? And I'll see your point.

Bracken P Darrell, 'President And Chief Executive Officer'

Yep. You described it perfectly. That's exactly right.

Ananda Baruah

Awesome. Thanks a lot. Appreciate it.

Bracken P Darrell, 'President And Chief Executive Officer'

All right.

Thanks, Ananda.

Nate Olmstead, 'Chief Financial Officer'

Thanks, Ananda.

Operator

Your next question comes from the Nehal Chokshi with Maxim Group.

Nehal Chokshi

Yes.

Hello and congratulations on continue to deliver on the benefits of the diversification of business. That's really great. On the Gaming side, did I hear you correct that the excluding the headsets, gaming was up 20% year-over-year ?

Bracken P Darrell, 'President And Chief Executive Officer'

Yes. Over 20, over 20% versus Q4.

Nehal Chokshi

Okay. Exactly. And so what percent does the ASTRO and PC Gaming represent overall gaming in the June quarter?

Bracken P Darrell, 'President And Chief Executive Officer'

What percentage is ASTRO and PC Gaming, we don't actually break that out. So we -- But the majority is -- I mean a vast majority of it is obviously our PC Gaming business.

And ASTRO had a great year-over-year growth last year and now we got to the controller. So it's growing there too.

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Nehal Chokshi

Right. I guess what I'm trying to get at is that is the installed base of headsets, active headsets greater than before the fortnight phenomena took over?

Bracken P Darrell, 'President And Chief Executive Officer'

It's almost has to be.

I mean, well, it does -- mathematically, it has to be. So, yes, it is definitely bigger.

Nehal Chokshi

Any chance you can give a little bit of quantification of how much bigger it might be?

Bracken P Darrell, 'President And Chief Executive Officer'

No, I'm not ensure we have that. That's a tricky number to get, because you actually have to know really user number.

But you can kind of figure that it has to be, because so many new gamers came into it. And that's why as I mentioned earlier, we see upgrade potential now, whether that every potential happens this year or next year, it will happen I think. Because the -- as you get into your first headset, you don't have to experience it, just gave the one of our pro-headsets to somebody yesterday. And the difference in the Blue Voice for example, and just the design is significant.

So I think we will see upgrades, but I don't -- we don't know exact number OpEx.

Nehal Chokshi

Understood. And then slide in the presentation deck that shows the sell-through versus the US dollar as is. Can you just walk me through again why there's such a big differential between the EMEA, your view of 12% and 5% sell-through?

Bracken P Darrell, 'President And Chief Executive Officer'

Yep.

Nate Olmstead, 'Chief Financial Officer'

Yes. Sure. Let me try again. So the US dollar sell-in growth of 12% versus the sell-through growth of 5%, those are both US dollar.

And the majority of that spread is caused by again this strategy of moving from transactional promotional spend down into OpEx. And the sell-through we numbers reported really on a gross basis versus the revenue sell-in numbers are on a net basis. And so the reduction in that promo spend means that the gross revenue or the sell-through translates into a higher net revenue number, just because there's really less discounting, which is the difference -- the primary difference between the gross and the net. Is that makes sense?

Nehal Chokshi

I guess the headlines --

Nate Olmstead, 'Chief Financial Officer'

things that I can see for the last couple of quarters, yes.

Nehal Chokshi

Yes. The headline I see here is channel inventory built. But you're telling me, no, that is not the case. Because the differential is no discounting actually.

Is that correct? No promotional actually?

Nate Olmstead, 'Chief Financial Officer'

That's right.

Bracken P Darrell, 'President And Chief Executive Officer'

You got it. We're reducing promotion activity, which is coming out of topline show. So it's not a channel inventory bill.

The channel inventory is relatively stable quarter-over-quarter or year-over-year.

Nehal Chokshi

Understood. Okay. And then that reduced promotional activity, is that across all product sets or is it focused on certain products?

Bracken P Darrell, 'President And Chief Executive Officer'

It's focused on certain product sets, where it's fairly broad.

It's mostly our consumer business. The B2B part of it would look stable. But all the consumer part, which is most of our business is generally. And we're doing -- and that is more in Europe than elsewhere.

Nehal Chokshi

Okay. Great. Thank you.

Bracken P Darrell, 'President And Chief Executive Officer'

Thank you.

Nate Olmstead, 'Chief Financial Officer'

Thank you.

Operator

Your next question comes from Michael Foeth from Vontobel.

Bracken P Darrell, 'President And Chief Executive Officer'

Hey, Michael.

Michael Foeth

Yes.

Hi. So two questions from my side. The first one as you talked about the mitigation measures against the China tariffs and production shifts. My question would be what specifically have you shifted in terms of production or changed in terms of production? And are there more plans to do so, and what sort of cost and investments are attached to that, that will impact financials in the next quarters? And the second question would be the -- in video collaboration, you mentioned the growth supported by products for larger conference rooms.

My question would be if there is any change in the dynamics for small rooms that you are seeing? And because to me that the small room opportunity seems to be larger market. And my question is if there are any changes in those dynamics? Thank you.

Bracken P Darrell, 'President And Chief Executive Officer'

Okay. I'll start with that, and then I'll go back to the other one and then Nate can jump in anywhere he likes.

From -- no, we don't see any difference in the whole room versus medium and large conference rooms. We just work in the medium and large conference rooms very much. So we talked about that more. But the hotel rooms is obviously our sweet spot, it's where we started and we don't see a change in that, it's a great opportunity for us worldwide.

There will be -- the growth of small hotel rooms would be much bigger than the growth of large conference room. So it's still super key for us. And there, we don't see a big change. In terms of shifts and manufacturing without getting really specific on individual categories et cetera, we've got a -- we now have manufacturing in more countries in Asia than we ever have since Logitech started.

So where Malaysia and Vietnam and Thailand and we're even looking at a few other countries. But I don't want to exaggerate it either. I mean our factory is still quite busy. The factory in China has a great -- is a super-efficient.

And obviously, the US is just the -- is the only affected country here. So we have a lot of manufacturing still happening in China, we will have a lot of manufacturing have in China, we love that factory. And so we're just spreading out a little bit.

Michael Foeth

Okay.

Great. And --

Bracken P Darrell, 'President And Chief Executive Officer'

You asked about cost. Actually relatively low cost to move these. We were used to doing this.

Bloomberg Transcript

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So we don't, they aren't usually huge tooling costs or anything. So you are going to see a massive a flipping our fixed asset investments or cost for the move. They're going to -- they're really feathered in pretty well into our gross margin.

Michael Foeth

Okay.

Great. Thank you.

Operator

(Operator Instructions) And we have a question from Regal Heuer with Research Partners.

Analyst

Yes.

Hello. Thanks for taking my questions. First one is I was wondering what was the contribution of micro in Q1? And then the second one, do you expect the mobile speaker business in Asia Pacific in Q2 year-over-year happen a lot of later?

Bracken P Darrell, 'President And Chief Executive Officer'

You will take the blue microphone, what's the contribution.

Nate Olmstead, 'Chief Financial Officer'

What was a contribution, so it was about two points at the company level to our overall for growth.

Blue is about two points the total company growth.

Bracken P Darrell, 'President And Chief Executive Officer'

But in the business, it was over 20%. And Mobile -- and you asked when is the Mobile Speaker business was up 51% this quarter, when do we expect that to start to moderate next quarter. So it will absolutely not be anything like that.

Because last year in Q2, we launched the latest versions of BOOM and MEGABOOM which when we launched later versions, there's a big sell-in activity to happen. So I would expect it's an absolutely to be not nothing like that number and probably pretty strongly negative.

Analyst

I was actually wondering, Asia Pacific mobile speaker declining, right?

Bracken P Darrell, 'President And Chief Executive Officer'

Yes. Mobile speakers are declining kind of modestly everywhere, not every country but at certain amount.

I think the category is probably down about 5 -- between 5% and 10%. Asia Pacific is for us too it. We have a bigger business in Asia Pacific relative to the size, it's mostly Australia and New Zealand. But we also -- it's also a good business.

I think the Voles speaker business in Australia and New Zealand continue to do pretty good. It may have wabbles. But I think it's such an outdoor culture down there and it's pretty seasonal, but it's a great business. And we have a very large market share.

I think we have a 40% market share down there.

Analyst

All right.

Operator

(Operator Instructions) There appears to be no further questions at this time. I will turn the call back over to Mr.Darrell for closing remarks.

Bracken P Darrell, 'President And Chief Executive Officer'

Well, as I always say to our team, the key to a good year is a key good as a first quarter. And we just had a good first quarter. So now we need to turn it into a good year. So thanks a lot for such an engaged call.

I want to again congratulate my partner Nate and all of the rest of our team, who I think did a good job this quarter. And we'll see you guys next quarter.

Operator

That concludes our conference call for today. You may all now disconnect.

Thank you.

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