Company Name: Logitech
Company Ticker: LOGN SW
Date: 2020-01-21
Event Description: Q3 2020 Earnings Call

Market Cap: 8091.00370935
Current PX: 46.7400016785
YTD Change($): 0.740001678467
YTD Change(%): 1.609

Bloomberg Estimates - EPS
Current Quarter: 0.418
Current Year: 2.092
Bloomberg Estimates - Sales
Current Quarter: 687.286
Current Year: 2947.267

Q3 2020 Earnings Call

Company Participants

- Ben Lu, Vice President, Investor Relations
- Bracken P. Darrell, President and Chief Executive Officer
- Nate Olmstead, Chief Financial Officer

Other Participants

- Asiya Merchant
- Ananda Baruah
- Paul Chung
- Andreas Mueller
- Tom Forte
- Michael Foeth

Presentation

Operator

Good day, and welcome to the Logitech Third 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 would like to introduce your host for today's call, Mr.Ben Lu, Head of Investor Relations.

Ben Lu, Vice President, Investor Relations

Thanks, Sharon. Welcome to the Logitech conference call to discuss the company's financial results for the third quarter of fiscal year 2020. The press release, our prepared remarks and slides, as well as a 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 undertake no obligation to update or revise any forward-looking statements as a result of new developments or otherwise.

Please note that today's call will include results reported on a non-GAAP basis. Non-GAAP financial results have inherent limitations and are not meant to be considered in isolation from or as a substitute for or superior to GAAP results. Our press release and slides provide a reconciliation between GAAP and non-GAAP numbers and are posted on our IR website. We encourage listeners to review these items.

Unless noted otherwise, comparisons between periods are year-over-year and in constant currency. This call is being recorded and will be available for replay on the Logitech website.

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Joining us today 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, stimulating opening, Ben.

First of all, thanks to all of you for joining us. We delivered a strong quarter in Q3, despite the macroeconomics issues facing the world. China tariffs, Brexit, volatile currencies have become the new normal. But as the macro environment keeps turning out news, we keep turning out strong quarters. Behind secular trends that have nothing to do with the macro events in the world and everything to do with our performance.

The rise of video conferencing to every room, the expansion of computer gaming to the largest set of sports in the world and perhaps the biggest trend of all, which we haven't talked about too much yet, the unstoppable phenomenon of content creation by virtually every person on the planet. These will deliver our growth for a long, long time to come regardless of the macro environment. We execute well, we're driven by powerhouse secular trends and we have a portfolio of existing product categories and new ones in creation. The combination of our execution and our portfolio breadth creates sturdy growth.

What is that portfolio? It comprises three major growth areas, each a collection of product categories, Video Collaboration, Gaming, and creativity and productivity and it also contains other categories that are either under construction as future strategic growth areas, or optimized for profit contribution to enable us to invest more in the growth engines we have. We've got a good thing going here.

Regionally, you can see a different story occurring in each of the three regions of the world. Just as each of our reported categories is made up of a group of product categories. Each of our region is made up of a group of clusters of countries. In EMEA, we're revamping our go-to-market engine to shift from a pull approach or for a push approach to a pull. Invest in more and marketing and less in pricing. The net effect is a fifth strong quarter in a row. Every cluster is performing well, virtually every country.

In Asia-Pacific, we grew only 3% as local issues in Hong Kong with protests, a continued slower China that we've seen in the past few years. At a few markets with execution issues continue to hold back our growth from the double-digit growth, we've come to expect from that part of the world. The majority of our clusters had solid growth.

Five, the slight decline in the EMEA region is driven by a couple of factors. First, let me say we had growth in all the places you'd expect, PC, Gaming and CMP. But we constrained ourselves in several categories, as we reduced the depth and breadth of promotions during the holiday quarter to try to steer clear of over promotion. And as you know, we all set tariffs with price increases in the Americas. This combination of price increases and reduced promotions, helped protect the impressive gross margin progress we've made over the past few years. In fact, our overall company gross margin was down minimally despite the tariff impacts. We probably could have delivered a higher sales number for the Americas.

Did we go too far with our pricing discipline in the quarter? You know, I'm a long-term person. So, I believe the answer is no. We're here to build long-term sustainable franchises, not just quarters. By category, Mobile Speakers and Audio & Wearables really accounted for all of our decline. Mobile Speakers remained a tough market over the holidays, not too different from recent trends in the Americas for that category. And the Americas performance for Audio & Wearables was the primary reason why our Audio & Wearables globally were down 16% in Q3.

Blue Microphones was down as we made the decision to discontinue several special edition Yeti mics, that were sold during the holidays last year. This comp challenge was exacerbated by supply constraints as we made final steps to move our supply base to a new set of companies. This is behind us now. But we feel good that we can return Blue Microphones to product category growth as we capitalize on the long terms of street -- of the long-term big streaming

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opportunities.

I want to take a moment to talk about something. We've been quietly focused on inside Logitech for many years. We've not talked about sustainability, that's the topic. Except in our annual sustainability report, as I didn't want to come forward publicly, until we're really leading our peer group, and even among the leading companies in the world that are actions. This quarter, we stepped out to talk. Sustainability really has been a focus for Logitech for many years. This quarter, we committed to leadership in the value of work dangerous climate change. For the first time, Logitech publicly committed to ambitious sustainability goals for the entire company.

Specifically, we unveiled our support for the payers agreement and to go beyond the level of commitment made there. We pledged to limit our carbon footprint to support the aggressive 1.5 degree Celsius increase goal and to be powered exclusively by renewable electricity by 2030. We also announced that we are carbon neutral certified in all Logitech gaming products. And in the same quarter, a third-party validated our strong results and steps in sustainability. We were pleasantly surprised two weeks ago to be named one of the 37 companies in the world honored by World Finance Magazine for our sustainability efforts. This is the first year of these awards and we were the only consumer tech company to win. And despite all this news on sustainability, I promise you we have much more exciting work underway. You're going to hear from us regular on this topic.

Now, let me discuss how we did more specifically in our categories. Momentum in our Video Collaboration category continues to be strong with sales up 25% in Q3, sell-through was much stronger in that too. Of course, this came on the heels of last quarter's unusually strong 60% net sales growth, so the two quarters combined are more normal I would say. In the first nine months of the -- of the fiscal year, our Video Collaboration sales grew 37%. On top of this, all three regions achieved double-digit growth. Logitech's goal has always been to be a humble, capable, and neutral partner for other companies. We are Swiss after all and VC is no different. We're not only working with the major U.S. cloud providers like Zoom, Microsoft, Google, and others, we're also closely partnering with the leading platforms in China like Alibaba.

Since we announced the general availability of our Sync Device Management software, a couple of months ago, over 600 companies have installed and are trying the platform. It's still early days, but we're excited to see what more we can do to support company's expansion of video to a larger share of their rooms. Slowly, but surely, we're building out B2B capability too and it's exciting.

Now onto Gaming. We return to double-digit growth in Gaming this quarter as we predicted. As we managed before -- as we mentioned before, we're beginning to see easier Fortnite comps as we head into the end of the fiscal year. Q3 sales were up 16%, with PC Gaming sales growth excluding headsets remaining well in the double-digit range, while the decline in our gaming headset sales moderated significantly. I would expect to see more normalized gaming headset comparisons we exit the fiscal year. And during the quarter, we also been in -- benefited from the expanded distribution outside of the U.S. of the ASTRO PlayStation 4 controller, as well as strong performance in our Gaming Simulation products. In fact, we held the Logitech G Challenge Grand Finals in Las Vegas about two months ago. We had over 11,000 drivers racing through a mix of online qualifiers and in-person wildcard competitions.

We're just beginning to see the world of virtual racing and real racing converge. Very exciting times if you love fast cars and driving them from -- especially from a safe spot behind one of our steering wheels. We close the Streamlabs acquisition. I'm more excited than ever about having this team, this business and this brand in our portfolio. Stay tuned on that one.

Mobile Speakers sales were essentially flattish this quarter, as we'd anticipated, but underlying market conditions remain soft. We'll continue to closely assess the situation. And as we do with all categories in our portfolio, will adjust our investment accordingly. Our PC Peripherals business delivered another solid quarter of 6% sales growth. This is one of our strongest quarters and years and indicative of how I feel about this business. Pointing Devices sales grew 5% this quarter. Last quarter, we announced the release of our newest flagship mouse, the MX Master 3, which has been my mouse for the last three or four months. Sales more than doubled sequentially and the MX Master 3 is now our best-selling mouse. I'm also proud to say that was named one of our CES 2020 Innovation Award honorees.

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I will -- while we're in it -- we're executing well with our premium MX line of pointing devices, where MX Master sells for $100. We're doing just as well in the mass-market category, we've served our products retail for as little as $13. So our strong performance of Pointing Devices ranges from the high-end to the low-end and an unusual dynamic for any consumer product company, probably brand and a testament to our continued innovation and cost management. Keyboards & Combo sales increased 10% in Q3, representing this the eighth consecutive quarter of growth. As with mice, our premium MX product, our newest slim profile MX Keys, my newest keyboard as of three months ago, is now our number one wireless keyboard just a few months after its launch. That speaks to the innovation excitement that we can drive into what some might view it as a sleepy category and it's clearly resonating with consumers. But our innovation engine didn't stop there.

We continue to build out a line of products for the segment consumers who have pain at work. Last week, we announced -- we just announced our latest addition to our ergonomic portfolio the Logitech Ergo K860, and I've replaced like MX Keys with that keyboard and I'm looking at it on my desk through the glass window in our conference room. This is our first wireless keyboard that addresses consumers' literal pain points. In improves wrist support by over 50% and reduces risk spinning by 25%. Well, all of which greatly improves typing comfort and reduces muscle strain. PC World said that Logitech's K860 has done the unprecedented. It's made me adopt a split keyboard as my daily keyboard.

We now have a complete ergonomic portfolio with Ergo K860 keyboard, complementing the nicely -- only not complimenting nicely our MX Ergo trackball and our MX Vertical mouse and I switched the MX Vertical mouse there too and I'm getting hooked. I am personally using that the keyboard and I said the mouse or not and I'm excited about what about the effect I'm having, I actually have a little bit of arthritis in my thumb, thanks a lot too much basketball. Tablet and other accessory sales declined 12% this quarter, probably because we were supply constrained in our seventh generation, iPad keyboards, and partly because Apple entered with their own keyboard and price points where they haven't been before. This category always has had its ups and downs, but it's super strategic. By the way, we have resolved the supply constraints, and should be fully distributed in Q4.

Now, let me turn the call over to Nate, to walk you through some financial metrics.

Nate Olmstead, Chief Financial Officer

Okay. Thanks, Bracken. We delivered a strong P&L for our holiday quarter, with sales up 5% to $903 million. The first time our quarterly sales have ever exceeded $900 million. At the same time, we delivered operating leverage with non-GAAP operating profits up 6% to $152 million, also a record high. As Bracken said, despite currency headwinds, incremental China tariffs, and price increases across a wide range of our products, we delivered a strong performance.

As expected and forecasted in our last earnings call, our Q3 non-GAAP gross margin declined both year-over-year and sequentially due to unfavorable currency exchange rates and the full quarter impact of list 4A China tariffs. In spite of all these factors, our non-GAAP gross margin of 37.6% came in only a 0.5 point below last year. Margins were supported by cost reductions and as Bracken highlighted earlier, we made choices to limit the depth of our promotions and protect the long-term value of our brands, and innovations. I'm pleased with the margin results and the discipline, we exhibited during the holiday quarter.

One thing, I would like to point out is that while we are glad that the China tariffs did not escalate further with list 4B, the decrease of list 4A tariff rates from 15% to 7.5% will not have a material impact on our Q4 gross margin. That's because, the actual date of implementation for this reduced tariff rate is not until mid-February. And much of our U.S. inventory for this quarter, will be brought into the country before the tariffs are decreased. In addition, I want to remind you that the list 4B tariffs were never included in our full-year guidance. And therefore, their cancellation does not impact our outlook.

In Q3, we prudently managed our spending, with non-GAAP operating expenses up 1% to $188 million. We essentially kept sales and marketing spend flattish while we increased R&D spend by 6% and reduced our G&A costs. Of course, we invested strongly again in building out our video collaboration sales team. We actually accelerated investments

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versus last quarter, but we offset these increases with the lower G&A and a shift of spending toward our faster growing categories. This is the discipline that you've come to expect from us. So despite the product cost headwinds and gross margin pressures in the quarter, we still delivered operating profit growth of 6%, which was faster than our U.S. dollar sales growth of 4% and we remain on track to our full year operating profit outlook. Keep in mind, that since issuing these targets last March, we've absorbed not only the tariff increases, but also well over a point of margin headwind from currency. And at the same time, we've maintained or even increased our strategic investments in the business.

Now, let me talk briefly about our cash flow. Cash flow from operations was a $181 million in Q3, up from $176 million in the same quarter last year. Cash flow benefited from a 10% reduction in our inventory and a nice improvement in our inventory turns, which ended at 7.4 times. Excluding the impact of tariffs, our inventory turns would have matched our prior record high. And in fact, we achieved the record inventory turns in EMEA and AP.

Our global operations and supply chain teams continued to do a nice job, supporting business growth, while delivering cost savings and working capital efficiencies. I would point out however, that as is typical with our business seasonality, our fiscal Q3 is the single largest quarter for cash flow. So, you should expect to see the normal lower levels next quarter. For the full year, we continue to expect our cash flow to approximately equal or our full year non-GAAP operating profit.

And with that, I will turn it back to Bracken.

Bracken P. Darrell, President and Chief Executive Officer

Thank you, Nate. We just finished a good holiday quarter with record sales and profits. We're reiterating our sales growth of mid to high single digits in constant currency and non-GAAP operating income of $375 million to $385 million, despite the tariff impacts in currency that we've seen. With underlying secular growth trends across the vast majority of our business, content creation, video in all rooms, gaming, we are really excited about how we're positioned to capture these opportunities. We'll provide our fiscal year 2021 outlook at our upcoming Analyst and Investor Day, which I'm sure you will all join in New York City on Tuesday, March 3rd. And we look forward to sharing more of our plans and strategies then.

And with that, Nate and I are ready for questions.

(Question And Answer)

Operator

(Operator Instructions) Your first question comes from Asiya Merchant with Citigroup. Please go ahead.

Bracken P. Darrell, President and Chief Executive Officer

Hi, Asiya.

Asiya Merchant

Hey, good morning, everyone, and thank you for the pronouncing my name correctly.

Bracken P. Darrell, President and Chief Executive Officer

Good morning. Thank you.

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Asiya Merchant

Great quarter.

Bracken P. Darrell, President and Chief Executive Officer

Thank you.

Asiya Merchant

Quick question on gaming, it seems like there's underlying trends that you talked about Bracken, with the double-digit growth seems to be coming back, the fortnite comps are getting easier. As we look into calendar 2020 with console, new console hardware is planned, as well as just the underlying trend. Should we now expect gaming to sort of come back to kind of the growth rate that you typically talk about at your investor events, which are I think roughly in the 15% to 20% range just given this underlying drivers? And then I have a question for Nate as well.

Bracken P. Darrell, President and Chief Executive Officer

Okay. Great. Yeah. We'll give our guidance through next year by category in March, so March 3rd, as I just mentioned is our next Analyst/Investor day. I think the underlying secular trends in gaming at least the way I look at it the underlying secular trend in gaming really didn't change. We just have that big fortnite effect and the similar effect in China. So you had some things going on there. And I will come back and reiterate the guidance for -- or reiterate, will give the guidance, the long-term guidance. But yeah, I think you -- I think at least we expect long-term good solid growth in our gaming business across the board. I'm hesitating to give a number out now because we just haven't put together our materials for next year for the March event, but I think as somewhere in that direction makes sense.

Asiya Merchant

Okay. That's great. And then, Nate, you briefly alluded to gross margin for the fourth quarter not really benefiting from the tariffs rollout -- from the tariff roll back on this 4A. But typically, I think in the March quarter, do you guys see a little bit of a debt here? So, is that what something we should expect given, how you guys performed in the December quarter with your -- with just with the discipline that you talked about?

Nate Olmstead, Chief Financial Officer

I wouldn't say there's a really consistent trend Q3 to Q4. Some years it's up, some years it's down sequentially. Obviously, lot of it depends on product mix. We -- like I said, I was pleased with the margins in Q3 and teams worked very hard to find some efficiencies to help offset some of those new pressures and we'll have to continue to do those things in Q4. Where we sit right now with currency it doesn't look like we're going to get any benefit from that. So, I think, we're just going to have to battle a bunch of different -- bunch of different things and continue to do a good job of executing on our offsets. So, like I said no real consistent trend that I can point to historically, some years it's up, some years it's down.

Asiya Merchant

Okay. All right. Thank you. And then just on cash. I mean, I know you guys did acquisition, can't made an acquisition this quarter, but you still sitting on a lot of cash. There was no share buyback during the quarter, any particular reason

for that?

Nate Olmstead, Chief Financial Officer

We were -- we had the Streamlabs acquisition, which impacted our ability to do any share repurchases. That was really the only reason why I think will be in the market as we normally are and look for opportunities. The cash, we had strong cash flow again this quarter, it's up $51 million year-to-date. So, it's good to see that obviously sign of a healthy business and gives us continued opportunities to do the things we talked about before around M&A, dividends and share repurchases.

Asiya Merchant

Okay. All right. Thank you.

Operator

Next question comes from Ananda Baruah with Loop Capital.

Nate Olmstead, Chief Financial Officer

Hey, Ananda.

Ananda Baruah

Hey, good morning, guys.

Bracken P. Darrell, President and Chief Executive Officer

Yeah. Good morning.

Ananda Baruah

Congratulations on the solid quarter.

Bracken P. Darrell, President and Chief Executive Officer

Thank you.

Ananda Baruah

Yeah, you're welcome. So, just a couple for me. Bracken, understanding you want to kind of hold that on giving the forecast in the Analyst Day. But could you -- in the gaming category, could you talk about some of the catalysts aside from the secular trends that might be forthcoming this year, there's the console refreshes, although, I think you said was backward compatibility there that may not have the impact be as strong this time around. Are there any other sort of upcoming catalysts that you can point to at least in the general sense? And then I have a couple follow-ups. Thanks.

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Bracken P. Darrell, President and Chief Executive Officer

Okay. No, actually, historically the console refresh cycle has slowed down the console headset business, because there wasn't forward compatibility so you can buy an existing headset, so you have to kind of wait until the new one came out, there was a little bit confusion in the market [ph] I can use one of the old one and the new one I might buy -- might not work on the new one. We're hopeful that we're going to have and it looks like we probably have forward compatibility, but it's not confirmed yet on both the console refreshes, but we're hopeful. And I think that would be a really good thing.

Beyond that, I don't -- I couldn't point to a specific thing that has -- will have an impact or a catalyst on the gaming business, but I will go back to the secular trend. I think its super strong, its gone on unabated and I don't see anything that suggests that's going to change.

Ananda Baruah

Okay. Great. And then on video collaboration from the fiscal '20 guidance, you guys had 15 -- sorry, 25% to 30% and over the last five quarters and you reference this you sort of bounced in between mid-20 and high 50s. And you use the term trending in the prepared remarks when sort of talking about blending together in the last couple of quarters, it's really been five quarters, and I think, just my quick calculations even free cost. So you sort of been 40% over the last five quarters. Does -- I know, you're not going to give the forecast until you can still -- until we get to the Analysts Day, but does it feel like even kind of catching a little bit more momentum there, and can we think about the potential that the momentum could happen sustainability to it? I think it's sort of been at 40% over the last five quarters.

Bracken P. Darrell, President and Chief Executive Officer

Your math is good, because our sell-in and sell through have been about 37%, so it's right on target. Obviously, I'm not -- as you said today we're not going to give forecast in the next year. It's hard to say, we're getting bigger, bigger numbers. So, will we see that sustain or not? I don't know. I'm always hesitant to stretch out too far on a number like that. The bottom line is, it is remarkable, what a big opportunity this video business is. And I mean, I'm kind of amazed, I think there's something like 90 million rooms out there. That are supposed to be video enableable and only about 4% of those were as of a year ago, I sort of think this frozen sale or somebody but the gardener has similar numbers and a lot of people predicting that will triple over the next five years. So, you can do your own math that's somewhere between 20% and 35%, I don't know where it is. But I'm super excited about the business. And I know you need to -- there a lot of people building models out there and we are too, but if I step back I just think video is one of our single biggest opportunities in the company.

Ananda Baruah

And let me speak one more in here, while I had you Bracken, and just on content creation, anything you can tell us at a higher level about what a long-term content creation ecosystem? Could feel like aesthetically, and to what degree like software content become part of the product portfolio in that creation?

Bracken P. Darrell, President and Chief Executive Officer

Well. There's hardware and software to content creation. I said this in the opening, I think one of the quietly most amazing things to me is that so many of us are talking about stem fields, science, technology, engineering and math, especially in the U.S. that we need to improve our education there, because that's where all the jobs are. While the truth is there are more people doing content creation which is a creative exercise and there are stem fields by far and that's going to grow probably as much or more than the stem field. So, this -- and they need equipment, and the equipment

they need is hardware and software, so it's product and services.

And our goal is to play right in the middle of that. We've been pulled into it with the mouse and the keyboard which is part of that ecosystem now and then we step further into it with of course webcams and with microphones and now with most recently with the Streamlabs acquisition. So I think I don't want to preempt anything we might say at the Analyst/Investor Day, but I'm super excited about the overall space. I just think it's a great place for us to play and the users themselves have pulled us into the category and it's up to us to find new places to play beyond that, they can expand the opportunity well beyond where we are. So, I don't want to go any further than that except to say, it's more obviously a great space for us and you're going to hear more about it from us in the future.

Ananda Baruah

Okay. I appreciate it. Thanks a lot.

Bracken P. Darrell, President and Chief Executive Officer

Thanks, Ananda.

Operator

Next question comes from Paul Chung with JP Morgan.

Bracken P. Darrell, President and Chief Executive Officer

Hey, Paul.

Paul Chung

Hey, guys. Thanks for taking my question. So, first off, can you just expand on the strength you're seeing in Europe? What's kind of driving that outperformance there, are any kind of channel expansion, particular products or some market share gains you want to highlight?

Bracken P. Darrell, President and Chief Executive Officer

What I would say is, first of all, the key driver that changes were just -- you're just taking a different approach there. So, I'm sitting next to the -- to our leader who is (inaudible) specifically took over EMEA about a year and a half ago. So, AI -- and he brought a lot of the things we're doing at the time in China in the rest of Asia-Pacific into Europe, which was really about being more focused on trying to generate demand, growth and push demand and so pull versus push.

And I also think he and the team over there have really led an effort to try to improve our market shares over there. We have higher market shares in the U.S. in most of our categories and we do in Europe and many of our categories, and I think that's a gap, and it's an opportunity for us to close and we still have room there.

So, I would say those are probably the two biggest dynamics. I wouldn't point to a specific category one of the other, I mean, across the board, obviously, you have to be doing pretty well everywhere if you're going to grow 16% and we've -- and they grow double-digits for four, five quarters in a row is pretty impressive. But, I think we have an opportunity to continue to improve our demand creation, our pull capability, and that doesn't happen overnight, and I think that's going to happen. We're going to keep bring that around the world over the next, three to five years.

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Paul Chung

Okay. Great. And then on the Keyboard side, you had a tough comp from last year, but still pretty impressive growth. So, where you kind of seeing pockets of strengths across regions and product line? It sounds like your premium lines are raising, your overall ASPs, so if you could expand on that. And then I have a follow-up.

Bracken P. Darrell, President and Chief Executive Officer

Sure. Keyboards have always been a good category for us. I think when -- whatever, when I came in here eight years ago, a lot of people saw -- people stopped using keyboards, they'll just use their -- they didn't and they're not and nobody's created yet something that's better than a keyboard when you're sitting at a desk and especially in an increasingly -- in a world with increasing number of Openoffices where you really don't want to hear people talking next to you so.

So, keyboards are here to stay. Our performance this quarter reflects, I think, how strong we are really and being able to innovate. I think the MX -- our MX keys, which is the high-end of the line, which you really never had a high-end the lot of thing could be rolling here, but I think we've never had a high-end of the lines operated quite as strong as we do at this one right now. And then we just announced that we're coming out with an ergonomic keyboard, which is -- I mentioned in the opening, which is also really cool and a very different segment of people. So, there's just lots of opportunity to innovate despite what everybody would think because this category -- these categories are so mature, there's lots of opportunities to innovate in these categories and we're getting them and we're going to bring more.

Paul Chung

That's great. And then the last one is on VC. So, are you starting to see some seasonal patterns or is it still kind of in encrust mode? So it's still making this kind of difficult. And then given the nice momentum in this segment, are you starting to see more competition ramping? You mentioned some software, upgrades there and sales force investments, but how else are you kind of protecting or even expanding your market share? Thank you.

Bracken P. Darrell, President and Chief Executive Officer

Sure. It's probably the lease seasonal of our businesses, the video collaboration, because it's much more of obviously it is a B2B enterprise business. If there's a seasonality to it maybe you would expect some heavier buying at the end of a fiscal year something. But I wouldn't even say, we've really noted that too much so far, although, I keep expecting that to happen.

And is competition coming? Absolutely, they're definitely coming. And as I really grew up playing competitive sports and competition just makes you better. So, we've expected competition they're here, they're out there and we're doubling, tripling down on everything we're doing, because we need to raise our game all the time.

And then as you said, we introduced, I think last quarter, I said it in the opening and it's really cool. What are we doing to keep our competitive edge? We need to keep building our sales force, for sure, may be keep building out our product portfolio and innovating very surely [ph] and I think we're doing that, we have a great portfolio right now. And will -- we're a relentless, so we just don't give up and we're going to keep bringing the stuff out.

Nate Olmstead, Chief Financial Officer

Hi Paul, it's Nate. Also on the VC, I mean, you saw that our R&D investments increased 6% a lot of that is going into VC to kind of support what Bracken was saying around the product development be continued to be a focus. And then also Bracken mentioned the partnerships that we have with people like Microsoft and Zoom and Google and others, it's very similar to our strategy elsewhere is that we're trying to be that great complimentary partner with these very large players to support their business growth and business strategies as well. So, we're making investments to be good partners with them and make sure that we're doing the right things to grow the overall VC ecosystem.

Paul Chung

Awesome. Thanks guys.

Bracken P. Darrell, President and Chief Executive Officer

Thanks, Paul.

Operator

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

Bracken P. Darrell, President and Chief Executive Officer

Hey, Andreas.

Andreas Mueller

Hey. Hello, everybody. Good afternoon. I've got two questions. One is the release actually on the tariff, you mentioned in Q4, there won't be any release to be seen, but can you talk about next year what the current Phase 1 is providing you on the gross margin basis?

Nate Olmstead, Chief Financial Officer

Yeah. I think you're right, so in List 4A nothing material -- no material benefit to us from the reduction in the tariff rate on List 4A, just due to the timing of when that's implemented and the timing of when we bring in inventory. Next year, something again will cover in more detail when we get to the Analyst Day in March. We -- the 4A is still going to be with us at a reduced rate, and of course, List 3 is still with us at 25%. So, we still have a few quarters ahead of us until we annualize all of those tariffs into next year, so it's still a bit of a headwind for us, especially in the first half of next year, Andreas.

Andreas Mueller

Okay. And then the growth in marketing and sales, 1%, I mean, I understand the mechanics behind that, but still I mean is that and off to keep driving the growth on the top plan or do you see there some sort of a reacceleration on that plan again?

Nate Olmstead, Chief Financial Officer

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Yeah. You don't know move around, I think, it probably will increase, again, as I mentioned in my comments, so, we actually accelerated our investments in VC, I mean, since the beginning of fiscal year '19 we've more than doubled that number we're dedicated to VC headcount that we have and we're continuing to invest, like, I said, very aggressively there. Really it was around realigning some of our investments in that category. We did pull back in some -- in some businesses that have not been growing, and we redirected those investments into our other areas. So I just think about that as portfolio management, no concern I think needs to be raised around that level of investment. But the number will move around from quarter-to-quarter.

Bracken P. Darrell, President and Chief Executive Officer

Yeah. I wouldn't (inaudible) 1% growth for the next year or anything like that.

Nate Olmstead, Chief Financial Officer

Yeah.

Andreas Mueller

Okay. Thank you.

Bracken P. Darrell, President and Chief Executive Officer

Thank you. Thank Andreas.

Operator

Your next question comes from Thomas Forte with D.A. Davidson.

Bracken P. Darrell, President and Chief Executive Officer

Hey, Thomas.

Tom Forte

Great. Thank you for taking my question. So, I had three questions that I thought were important. So, congrats on getting the recognition on the sustainability.

Bracken P. Darrell, President and Chief Executive Officer

Thank you.

Tom Forte

How should we think about the margin impact of your efforts on sustainability to the extent that it may help you increase prices or affect your sourcing? And then second, having just been at the Consumer Electronic Show, 5G is kind of the story of the show. How should we think about that is potentially serving as the catalyst for your video

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collaboration efforts? And then lastly, as we start to gain distance on Fortnite, do you have any thoughts on the refresh rates? Fortnite brought new gamers into this space, are they buying that second headset at the same rate as the existing gamers were?

Bracken P. Darrell, President and Chief Executive Officer

Okay. On the market impact of sustainability, and I've had questions in both directions, is it going to grow to make our products more expensive or is it going to give us the chance to increase our pricing or get higher margins, because we're going to try to step out ahead of other people. The answer is, we're not counting on any of that. I think the truth is, it's kind of built into the fabric of how are working now and you're going to hear more about we're doing future. I'm really optimistic that this being a good global citizen from a sustainability standpoint is going to help -- it's going to be a catalyst to our business long-term. I wouldn't -- I couldn't put a -- possibly put a number on that as you probably wouldn't either, but it's I'm excited about it. We do it anyway. It's the right thing to do, but I believe that companies that are really leading will be rewarded in the long-term for this and we're going to be leading.

On the 5G, too early to say on VC, and I think, there's a long way to go for 5G is really available broadly enough to have an impact on any of our businesses including VC. But, it's like any of these other new technologies to come in and make things faster and better, I think it's going to -- it's going to be a catalyst because the consumer and business tech world and I can't come soon enough.

Finally, on the console refresh rates or the refresh rates in general for CNP. I think, it's hard for me to say how fast those are going to be. I mean, I think it's probably the headset business says about a two-year refresh rate from what we can see, and that's kind of what we're hearing in the marketplace. We started launching very premium headsets with that in mind and they've done very well. Our premium headset with the blue mic in it has done really, really well this year. So, we'll see.

But I think at the end of the day, there's no doubt that the Fortnite brought in a lot of new young gamers. And I'm sure there's going to be a continuous inflow of that age group into the category. So I don't know who are coming quite as lumpy as it did with Fortnite, but I think you can expect a long-term trend where people going to come in and then trade up over time. Two years seems like the right time frame.

Tom Forte

Thank you, Bracken.

Bracken P. Darrell, President and Chief Executive Officer

Thank you very much.

Operator

(Operator Instructions) We have a question from Michael Foeth with Vontobel. Please go ahead.

Bracken P. Darrell, President and Chief Executive Officer

Hey, Michael.

Michael Foeth

Yes. Hi, good afternoon. Two questions from my side. I was wondering, if you have seen any sort of early pulling effects in the quarter already due to the fact that Chinese New Year, is quite early and my question is also in addition to that whether that could be a reason why you're being a little bit sort of conservative I would say on your guidance for the last quarter.

And the second question would be, and again, I know it's early, but if you can make any additional comments on Streamlabs. How it's doing? How you're integrating that and any thoughts you can or want to share on how it's going to affect your business model?

Bracken P. Darrell, President and Chief Executive Officer

On the Streamlabs too early to say, I mean, I'm super excited about the team, the business, the brand, and I have to say, it's really great, when you bring in a new business like that especially an entrepreneurial lead driven business. And I thought we were fast until I saw Streamlabs in action. And I have to say, it's a real kick in the tail to move faster. Those guys are appropriately moving faster in a software service driven world and they can move fast and they do and it's a good -- it's exciting, it's something to learn from. On the -- so stay tuned, I think, Streamlabs is really cool. We've got a lot of exciting things happening there.

On the Chinese New Year timing whether it's having and we don't obviously are going to talk about this quarter yet, and how we think its going or whatever. But, I would say the only pulling fact that I can kind of point out from Chinese New Year is the fact that I had -- I needed to go over early this year because we go celebrate Chinese New Year with all our sites, and so I had to pull in my calendar, and it was -- it's really, really fun, because we go to all our sites in China and this year was super, super fun and exciting and it's the year of the mouse. So, get ready it's going to be a good year for mice or the rate [ph].

Michael Foeth

Okay. Thanks a lot. Thank you.

Operator

We have a question from Andreas Mueller with ZKB. Please go ahead.

Bracken P. Darrell, President and Chief Executive Officer

Hey, Andreas.

Andreas Mueller

Hey, back again. Just one question on the growth in the Americas, was that -- I mean you explained it by product wise, but it was there also an effect of the late Thanksgiving and how much was this effect?

Bracken P. Darrell, President and Chief Executive Officer

It's really hard to say, it's so hard to pin that, probably there was an effect. Yeah, we were kind of hoping that there wouldn't be one there might have been one. It was the shortest period you could possibly have I think between Thanksgiving and Christmas, so, Thanksgiving and New Year. So yeah, it's probably some effect. But I think the bigger fact is really the fact that we took some price increases, we didn't go as deep on promotions this year. And then

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we had the Blue Mic effect and the ongoing challenge of it. So I think when you roll out that together is really what drove it, I doubt if a lot of it was Thanksgiving to Christmas distance.

Nate Olmstead, Chief Financial Officer

Yeah, I mean, I think, as Bracken -- I think what Bracken called out were really the drivers, really those specific categories and those decisions we made.

Bracken P. Darrell, President and Chief Executive Officer

I feel good about the decision to on the pricing in general. I just think you learn every -- by the time we get to this call, I'm kind of always -- this call is kind of very anticlimactic for me, because we're so focused on what's coming and you're so focused on what happened to try to learn from it, which is great. And so, one of the things that I think we learned this quarter as well, you know what, there was more room on pricing than we realized and there was more room on cost than we realized. And if it weren't for tariffs, we wouldn't have gotten there, so shame on us for not getting more out of that sooner, it's good.

Andreas Mueller

Okay. That's clear. Thanks. Thanks a lot.

Bracken P. Darrell, President and Chief Executive Officer

Thanks, Andreas.

Operator

And at this time, I'll turn the call over to the presenters.

Bracken P. Darrell, President and Chief Executive Officer

Great. Well, you know what, another good quarter and another good holiday as I said we're way, way, way, way, way in the Q4 and we're already thinking hard and building plans for next year and the year beyond and it's been exciting and we've got these three big secular trends that are driving our biggest growth engines. But there's a whole lot that -- whole other set that we're working on to and who knows maybe we'll bring what those out soon. But thanks a lot for being on the call. I hope that many of you will make it to New York on March 3rd, we'll be there, we'll be there with the whiteboard talking about what's next. Thank you very much.

Nate Olmstead, Chief Financial Officer

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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Company Name: Logitech
Company Ticker: LOGN SW
Date: 2020-01-21
Event Description: Q3 2020 Earnings Call

Market Cap: 8091.00370935
Current PX: 46.7400016785
YTD Change($): 0.740001678467
YTD Change(%): 1.609

Bloomberg Estimates - EPS
Current Quarter: 0.418
Current Year: 2.092
Bloomberg Estimates - Sales
Current Quarter: 687.286
Current Year: 2947.267

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