Company Name: Logitech
Company Ticker: LOGN SW
Date: 2020-03-03
Event Description: Analyst and Investor Day

Market Cap: 6645.5631418
Current PX: 38.39
YTD Change($): -7.61
YTD Change(%): -16.543

Bloomberg Estimates - EPS
Current Quarter: 0.389
Current Year: 2.129
Bloomberg Estimates - Sales
Current Quarter: 665.875
Current Year: 2944.067

Analyst and Investor Day

Company Participants

- Bracken Darrell, President and Chief Executive Officer
- Prakash Arunkundrum, Head of Global Operations
- Delphine Donne-Crock, General Manager of Creativity & Productivity
- Ujesh Desai, Vice President and General Manager-Gaming
- Scott Wharton, Vice President and General Manager
- Unidentified Speaker
- Ben Lu, Vice President of Investor Relations
- Nate Olmstead, Chief Financial Officer

Other Participants

- Steve Wilson, Analyst
- Unidentified Participant
- Nehal Chokshi, Analyst

Presentation

Bracken Darrell, President and Chief Executive Officer

All right. Thanks everybody for attending. Sorry for the delay, we had some technical issues with the webcast. So hopefully, everybody is able to log on, but thankfully, when you guys were here, hopefully you guys got some food outside. And anyways, welcome to Logitech's Analyst and Investor Day. I'm going to go through a long litany of our forward-looking statements, so bear with as you can probably check your Bloomberg quotes while I'm doing this.

The press release as well as the live webcast of this presentation is available hopefully online now finally at the Investor Relations page of our website logitech.com. During the course of these presentations, we may make forward-looking statements along with respect to future operating results that are being made under the Safe Harbor of the Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated in the statements. Factors that can cause actual results to differ materially include those set forth in Logitech's Quarterly Reports on Form 10-Q for the quarter ended December 31 2019 and subsequent filings.

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 presentations will include results reported on both a GAAP and non-GAAP basis. Non-GAAP reporting is provided to help you better understand our business. However, non-GAAP financial results are not meant to be considered in isolation from or as a substitute for or superior to GAAP results. Non-GAAP measures have inherent limitations and should be used only in conjunction with Logitech's consolidated financial statements prepared in accordance with GAAP. Earnings press release, includes a table detailing these non-GAAP measures together with the corresponding GAAP numbers and reconciliation to GAAP.

This information is also posted on our investor relations website, we encourage listeners to review these items. Bear with me, we are almost done. Unless noted otherwise comparisons between periods are year-over-year and in constant currency and all reported results and outlook are focused on continuing operations and do not include the performance of Lifesize, which is reported under discontinued operations. These presentations are being recorded and will be

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available for replay on the Investor Relations page of the Logitech website.

Today's agenda will include presentations from Bracken and Nate, as well as several members of our leadership team. We will take a break in between and then have a Q&A at around noon. We have product demos in the back, including a racing, we offer anybody who wants to pretend they're a fast car driver. And I encourage everybody to take a look and try out some of the products.

And with that let me turn this presentation over to Bracken Darrell. Logitech's, President and CEO. Great. Okay. First, thanks a lot everyone for coming and for those of you who are listening in or watching. Before I get any further, I want to say two things. First, I want to introduce a couple of people, who will not be presenting. You know Guerrino De Luca, most of you do, who is our former Chairman, former CEO, current Board Member and a close Advisor and Partner for me. And then I want to introduce Wendy Becker, who is one of two women who are chairs of a Swiss company, and she has been on our Board for how many years, Wendy? Three years, it seems like much longer to me. Okay, then. She has been on the Board for three years, and been incredibly active and PowerHouse participant, but she is now the chair of our Board, which is really exciting and has become a great partner for me too. I wanted to introduce a couple of other people who you probably don't know as well. Kirsty Russell is in the back of the room, you probably can't see if you are on the webcast, but she has been our Head of People and Culture for how long? 4 years. So 4 years of amazing improvement in our culture, and I'm not saying that in jest, it's really true. And then Alex Grab, who is our General Counsel, who has been in place for how many weeks? Not long, but we're protected legally. He's here in the room. And I'm not going to introduce the rest of our management team, because they're going to be presenting and they'll introduce themselves, as we go through. It's been an amazing period for me and I'll talk more about that in a minute. But it's been an amazing year for everybody, amazing in good ways and in bad ways. And I'm going to do something that we have not done at one of these analyst and investor days before, which I'm going to start with this current year. And I want to give you a quick update on what we released today. The first -- through the first three quarters, we originally guided back at this time, a year ago at our Analyst Investor Day in Zurich. We guided to mid to high single-digit growth and a profitability level, our operating income, non-GAAP operating income of 375 to 385, all of you are familiar with that. We are also familiar with the first set of tumultuous surprises during the year, was the impact of tariffs. That had a 100 basis point impact on our cost. It also had a dampening effect on our US sales, as we raised prices to offset the added costs that we saw from tariffs. But we weathered that. We at the same time had currency impacts, another 100 basis point impact on our operating income, which we weathered that and by the end of the third quarter, so last time, we talked to investors and shareholders at the end of our third quarter, back in January. We reported 7% topline growth rate year-to-date, 7% bottom line growth rate and really a year that was well on track to that guidance. Despite $60 million of cost headwinds, now roll forward to today, why are we talking about this? First, we're reaffirming that top line guidance, which was admittedly quite a wide range, so easier to stay within. So mid to high single digits, we've reaffirmed that. Now even within that, we're seeing because of the corona virus impact on supply, about a $30 million impact on our sales. Most of that is China, some of that is supply limitations in the US and Europe. On the operating income side, we have not only the $16 million of cost headwinds, which we had really digested. But we have another $15 million potential impact to the bottom line. So, we have revised our guidance to mid to high-single digits, we're confirming the revenue line, but we're lowering our guidance slightly or modestly to 365 to 375, so a $10 million reduction in the range. The top end of our range continues to be the low end of the range we gave you before. Now this is a strange comment especially coming from me, because it's been -- I've been in this job for 8 years and I've never lowered guidance. So to do it in the last quarter of the year, of any quarter or any year, it's going to sound like a strange comment, but I'm actually proud of this number. Because I feel like it reflects the fact that we are an incredible operating machine. We execute well, when we faced into tariffs, I think we did an extremely good job of moving manufacturing where we should have of lowering cost to offset, the tariff impacts and of delivering in spite of that. When we faced currency impacts this year, we managed to lower our cost renegotiated with suppliers, especially in China and we managed to offset all of that. This one has hit us so late in the year, there has been very difficult for us to manage. But I'm super proud of our ability to manage it. I've got a chart up here now, for those of you who are listening on audio. That is extremely blurry by design and extremely detailed by design. And the reason why I'm showing this, is because I want you to see how deeply we go into this. We have -- we've got 320 suppliers, we have about 320 key suppliers. First tier, second tier suppliers. How many of those are in Wuhan? Five of them are in Wuhan, the rest are elsewhere and mostly elsewhere in China. We know exactly where they are, every week, every day and in

terms of their ability to meet their own commitments to us and how leverage they are in their factory from an employment standpoint. And as you can see, if you look on the right side of this chart, you'll see things going from red to less red, the little green. These are week-by-week by week us watching this as we go through the quarter. And our expectation is, and it looks really good right now is that this impact of supply at least for now. The impact of supply, we've seen from the corona virus in China, is moderating and by the end of April, it should be completely cleared, by the end of March mostly cleared. But I feel good about where we are. It has hit us late enough in the year, we had the impact our guidance on the profit line. But I think that's about as much as you could have imagine that we could have done. Now with that, I'm going to wait for questions on that till the end. Because if any question you asked may depend on next year's guidance. And we're going to touch that at the end of the presentation. This is my -- I think this is my 8th -- 7th or 8th Analyst and Investor Day. And I have to say, I still feel like a beginner. Every -- I'm so excited about this business and so excited about what we can do. It was actually very difficult for me this year to pick out what to present? Because we've got a lot more than we could have shown here. So we've been sort of choiceful as you'll see. But I'm excited about all of it. Now, let me start by talking about the last few years. We have consistently delivered strong performance. In fiscal year '17, we issued guidance beginning of the year, repeat the number of fiscal year '18 we did the same thing. Fiscal year '19, we did the same thing. And in this chart, I wanted to put up, because this consistent record of profit improvement is a pretty good picture of how our view of ourselves is that we should be able to execute year in and year out. There is one blemish on this chart, which I hate. And it's that 179 number. And the reason I wanted to point that out. First of all, it jumps, it stands out in a record of consistent profit growth. With the main reason I wanted to point that out, because I take personal responsibility for that. That year, we had about 80, I don't remember the number off top my head, but I think it was $80 million or $90 million of profit impact from currency changes in Europe, a relative currency changes in Europe. And at the time, I think we gave ourselves too much leeway to address that. Now I have to say, investors seem to respect the way we executed it, because our stock price went up right through it. But we, I believe we could have done better than that, could have seen growth even in that year. I wanted to show that, because this is the expectation I have for our company. When we face difficult challenges, I don't care if there -- even if there are macroeconomic and not directly result of anything we're doing, I believe we should be able to manage through those, including the corona virus. Now, the next thing I would do is, I want to set up the rest of the day. You're going to hear from three different business leadership teams, four different people. And the first one is going to be Delphine. Now Delphine is going to talk to you. And those of you have been to our Analyst and Investor Day in Zurich will remember Delphine. Delphine has worked across different parts of our business, a lot of different parts of our business, and she has come into our oldest business just recently. And she has brought in a level of energy and an insight that honestly I haven't seen somebody do with an old stale business in my entire career. So she has got the whole company is excited about this business as she is, and I am too. Just one big advantage, which is the tailwind and the tailwind probably surprises some people, but we've been in it for a while, so it doesn't surprised us. That tailwind is the reality that more-and-more people, especially more-and-more people. Especially, more-and-more younger people need a desk space to create. We're not creating spreadsheets for the most part, like many of you are. They're creating digital content and they're putting it up somewhere on Instagram, on YouTube, on Twit, and they want a job in that more-and-more of them want a job in that. In fact, if you ask Gen Z, the under 25 generation. What job they'd like to have when they grow up? If they're not already grown up. Most of them will say, I'd like to be a YouTuber, if I had any choice in the world. I'd love to make a living, broadcasting on YouTube. And the reality is that really drives our business. But it's super exciting, they need a place where the products are beautiful, where the products work really well and where they can film themselves, much of that's mobile. But much of it's not. The second thing, the second reality that Delphine has really brought to the business, is a real highlight on the fact that as people use these products more-and-more. And on the other than spectrum, especially those of us who get older, you end up with pain. We don't cause the pain, but the reality is, as you get older, as you mature. And if you're not older, repetitive use injuries come in. And so that means that there is an opportunity for us to address those issues ergonomically and we have done a great job recently, and really understanding the ergonomics this business and Delphine will talk a lot about it. And how we can bring new products? Most from them are premium to solve some of those issues. So we believe that this business is a $1.2 billion, $1.3 billion business over the next 3 years to 5 years, we certainly ought to be able to deliver at least a 1.5 billion business. Next up Ujesh, who has presented here, I think almost every year since he joined the company. How many years, you've been here Ujesh? 5 years. So Ujesh runs our gaming business and it's just the gaming business, I've talked about so much that I hesitate to go too far now, but I'm

going to draw one chart for those of you who are on the audio, I apologize, I'm going to describe it to you. The chart is really simple, some of you may have seen me do this before. Okay, So this chart is really simple. Okay, on the up here is their age. So this is age, you've got 80 year-olds, 60-year-olds, 40 year olds, 20 year olds and lower. And then here is the percentage of that age group. Now if you go back to regular sports, traditional sports. Sports like football, basketball, soccer in the US, almost everybody, played or plays either by choice or by force, some kind of traditional sport. If you're an 80-year-old [ph], you played something probably more by choice and by force, but you played something. And today if its 40 or 20, in school you're playing something, you're required to for PE class. So, bottom line is everybody is playing a traditional sport. So this is the world of traditional sports participation and that translates into -- the traditional sports that translates into viewership. Because, you're familiarity with playing those sports translates into an interest in watching those sports, sometimes watching other sports just because you've got started. So this is a world traditional sports and this is the reason why companies like Nike and Adidas and the NFL and the Premier League are so big, because the truth is everybody is playing, everybody's familiar and everybody is interested. And even if you're not a fan, you know what you feel familiar with it. Now let's talk about eSports. Some of you who are listening are watching this are thinking eSports, this name is sport. Why are they -- why are we using the word sport for that. So if you're at 80, you never played a video game. If you're 60 you probably never played a video game growing up, sorry, growing up. If you get a little younger 50 -- a few people did, 40 more-and-more. And then this line goes like that -- everybody. So this is the world of eSports. So why am I drawing this chart and pointing out that it's really young people who play these sports. I'm doing that, because this little sliver down here, results in more people watching people play games online like Premier League in regular sports or the NFL. More people are watching people play online, they are watching the -- watching CNN, CNBC, HBO and Netflix combined. Just this little slide. Now the reason why that's important, is because look what's going to happen next. Over the next 5 and 10 and 15 and 20 years, all those people are going to grow up and they're going to look more-and-more like this. So, the world of eSports is going to be bigger than the world of traditional sports over time. And that secular tailwind is driving our business and our goal, Ujesh's goal, is to turn us into a Nike or the Nike or Adidas of the eSports world. And so you'll hear from him. What you will hear from him is that we're working directly with some of the top eSports teams in the world, just like just like AC Barcelona in football or the San Francisco 49ers in American football. So we're working directly with these eSport teams and we're doing a lot of stuff, we're not going to talk about today, one of the choices we made, to help be a part -- an integral part of the fabric of the eSports future. The second thing is driving this business. The second tailwind, secular tailwind, which is maybe even more exciting. This is amazing thing called the cloud, which everybody in this room knows. The cloud is now reached gaming and it's now reaching, just starting to reach PC gaming. In someways its already been there. The reason why PC gaming has taken off over the past few years, because basically the game is always changing. The number of people is almost unlimited, who could play simultaneously and that's because games are on the cloud. What's not happen until now, is that if you really wanted to be competitive in gaming, you need to buy a big honking PC, expensive, full processing power with an amazing video card. You needed that, because to play some of these games just took a lot of power and a lot of energy. Well, cloud gaming is coming and cloud game is going to enable you to not have to spend all that money on the PC, and to be able to play on a screen almost anywhere. But what you're still going to need is the conventional sport equivalent of the ball or the cleats, the shoes or the jersey, you're going to need peripherals, you're going to need a mouse and a keyboard and a headset. So this is coming, it's early days, and then there's mobile gaming, which honestly we're not participating in. So stay tuned, we're always looking. So gaming is super exciting and there is no way that we should not deliver a $1 billion over the next 3 to 5 years in that business. If we deliver and we execute, we should absolutely deliver at least that. The third business, you're going to hear about. First from Scott Wharton and then from Ehrika Gladden is video. And you know this is an interesting time to talk about this business. Video, I only have one word on here, which is video everywhere. When I started on Logitech about almost 8 years, ago through in the 8 years ago about 30 days. We were doing -- we were in trouble and Guerrino remember this very well, and we went through and looked at all the operational head count, all the engineering, all the G&A and everything. And we got to this little group that was called video. And we had $10 million investment in headcount on the engineering side and the business was on a strong secular decline. And I called in the head of that business, and I said. Now, this was a ploy, I'll pay upfront. I said to him. And I said, what are we going to do with this? Because if I'm not going to invest in a secular declining business, we're really going to cut it or we going to do something new with it. And I said, it's your choice, we either chop it or we do something new with it. I said you think about it over the weekend, let's talk on Monday. His name was Eric Kintz. He came back on Monday

morning and said, there is no way we should cut this. He said, we should grow it, we should create some new businesses, new seeds and we should really go after it and that's what we did. And since then. He was 100% right. The video business has been super exciting. And from that very early start, we've built product after product, and Scott is going to take you through where we offer a product portfolio standpoint, we've gone from that a little webcam, we started with many years ago to today, where we can do almost any size room for almost any size company or for an individual sitting in China, who is quarantined in their home. The second thing we're going to talk about in the context of this business, is execution. Now Ehrika Gladden is brand new to our company. She'll introduce herself. So I won't steal her thunder, but we have -- really -- we're now to the point where we've built out a sales force, we've got the right -- probably the right numbers. Now we've got to upgrade our execution and I'll let her speak for herself and for us on what we need to do there and I think there is a lot of opportunity. So those are the three big businesses you're going to hear about today, we'll spend a sufficient time on that. You'll have time for Q&A. I just want to remind you of the few things that are really driving our business over the past few years. The first one is, we've talked in the last 3 or 4 of these Analyst and Investor Days about 5 core capabilities. The first one is operations. I'm really proud of our operations group. I know it's a way we execute. You're going to hear a little bit about that later in the context of sustainability and the environmental sustainability. Well, I'll say a few more things now. I have to admit, I would have been surprised, if -- I would have not been surprised, if you told me a year ago. But if you face -- if we face tariffs, where we needed to move a large amount of our manufacturing and we faced cost headwinds driven by currency and later faced a real supply crisis. But I would have said, gosh, something's got to give, we don't have the room to manage that and do the same kind of execution of NPI, new products that we do every day. But our operations team is just amazing and they have pulled it off and I think it's a real testament to the powerhouse leadership we've got there. Secondly, I going to talk about in a few minutes is design. So I'll give you an update on where I think we are with design and what's next. Engineering, the thing I'll say about engineering and I'll show you a slide in a second is, our engineering is shifting. We've gone from hiring lots and lots of hardware engineers to make hardware products. The more-and-more software engineers to create the software that connects to products, either directly as part of the experience that you buy, when you buy a -- when you buy a hardware product or even over time, as you're going to see, we're going to be offering services that are independent of a product. From a go to market standpoint, we continue -- one thing I'll say about Logitech is, it's always changing or always experimenting with new things. We're always trying something different. Many of those things are steps along the way to something bigger. And on the go-to-market side, the sales force side, we've got a lot of things in the works that I think will continue to upgrade and improve our ability to execute online in store and in businesses. And then finally marketing, several people today will kind of either talk directly about or suggest that we're moving to more-and-more of a pull model, away from a push model, which means more-and-more marketing driven and less-and-less promotion and distribution driven. This is fundamental what we're all about, where I can give a deep update on that today. But over time, you will see our marketing will get stronger-and-stronger. On the design side, I started talking about design within actually before I joined the company. When I first interviewed with Logitech, one of the reasons why Guerrino on the Board at the times picked-me, was because I came out of Braun. And Braun was really design company to happened to be making technology products. And that's very much what I envision that we could be. We always work on a design, but we didn't have any designers in-house at least not officially. And I envision that Logitech could be a design company. Now, the cool thing about being lucky I guess, is that because of where I came from that seemed obvious to me, because if you had been in my job running Braun, you would have said, oh my gosh, what's the world missing, every company should be a design company. When I came to Logitech, one of the first slides we showed at one of these Analyst and Investor Days was a slide that showed the growth of design companies, companies like Nike, companies like Apple. The growth of design companies in market value relative to the growth of other companies. And if I remember correctly, it was about 270% higher than the average company and that was way before we could say, we had really become a much of a design company. Roll forward, we're now, I would say a lot of the way there. I think we're in a pretty elite group now of companies that really do have very strong design operations and run themselves by design. And I'll talk about in a minute we're nowhere near, what we can be in that area. But boy, we've made a lot of progress, this chart here is just to say that McKinsey just recently talked about, they've really as happens in the business world when things work, a lot of the consulting firms McKinsey in particular. Look at what's working and then they really go deeply analyze it and start to talk about it. And they want to help other companies go there. We held up in their most recent report as an example of a company that's really gotten there from a design standpoint. What they don't realize is that, how much further we have to go. We continue to win design awards.

This is one example. Awards don't really matter in the grand scheme of things, what they do though, is they perfectly or they accurately depict what our emphasis is. By winning design awards, we're really showing the world out how important design is to us and we win design awards across almost every product category. But the design awards are given for products that you as users by an experience. The next opportunity for us in design, is to not only continue to improve that. Across every single product line, believe me, we've got lots of headroom for improvement from a product experience standpoint. But to go beyond that, what this chart shows is that, most companies are still in this first space, well Design 1.0, making products beautiful. That's the world still sees design as the pursuit of perfection and aesthetic beauty and that's probably because of the fashion world and probably because that's kind of where most companies are. Enlightened companies are in the second stage. And I would say that's where we are, and they are really building the product, the experience that they're selling around the use of the selling tool. And what does that means essentially taking the experience, they're starting with the user, sitting them at a table in our case and starting to build the experience around them. And viewing experience more broadly than just a physical product in our case, but all the way through the experienced includes the software and the services and more. And that's where we are and we're probably near the top of the curve -- top of our competitive set for that, but we still have a lot of room to grow there. The third area is really, really interesting. And I think it'll be fun to watch over the next decade. And that's when companies bring design into everything. Designed into the way they close their books at the end of the quarter, designed into the way that they we have a Board meeting, designed into the way they operate. Everything, designed into a meeting like this. And as that happens, it's going to change the business world again in a big way, and we're starting down this path right now and I'm super excited about it. Now you know the story about where we play. This is our current way of aggregating our businesses. But the reality is, we're now 28 or 29 different categories of businesses. So we keep building, as you know, if you followed us for long, we're always experimenting with new categories on a regular basis. Sometimes that experimentation leads to a product launch or a new category launch. Sometimes that leads to an acquisition. Because, we've been formed ourselves enough about that new category. We've got an excited enough about it. We have enough understanding about it, to actually do an investment and make about and go after it. Streamlabs is an example of that. And you know that we're not going to be limited by the brands that we have. If we believe that our capability can take us into categories and spaces with big potential, we're going to be there. And so that's sometimes will mean, we'll add brands and build new brands in our portfolio. But this simple chart is just to say that you --- many of the people who follow us, most of you. See us as a hardware company and we are hardware company. Hardware is not easy. We love hardware and everything in our company is oriented to make sure that we execute well on the hardware front. One of the reasons why we've been able to consistently deliver, as we haven't stumbled into some of the problems that hardware companies do, which is over forecasting demand and having really big write-offs. Why we are not doing that, eight years that I've been here. At least not in a big way. Two reasons. One is because, we've learned through it. We've had that in our past, just like every hardware company has. And so we've learned our way through how to manage that, how to manage that risk. We're not perfect and because we're not perfect, we have a second advantage in that area, which is we have a very broad portfolio. A very broad portfolio means, some things can have issues and some things don't. But when you aggregate it together and Nate's going to talk about this later. We do pretty well. But the thing that you're going to see quietly develop over the next few years, that we started about a year ago, two years ago. Is we're going to turn that software investment in engineering and services. Super early days, but if you dig a little deeper into our business, you'll see that almost every one of our businesses now has software developing, either explicitly as part of the product experience when you buy it or potentially as a new service and even a recurring revenue service. So this is coming. I don't want to -- I don't want you to over -- I want to over forecast this, I just want to say, we're super excited about this, we're committed to a 100%, and it will start to develop over time. Now I want to close with a quick comment about a couple of things. First of all, organizationally, one of the reasons why we've been able to weather a lot of these surprising macroeconomic storms, is because of the way we operate as a company. We have gone from -- when I think when I joined the company we had really two large business groups. Today, we have spent the high count at eight or nine. And the truth is, as I said, we have 29 different categories of business. That distribution has enabled us to be relatively flat. And the advantages of being flat are there are many advantages. First, it gives you, it makes communication fast. Inside our company, people feel pretty informed, pretty quickly. The second advantage of being flat, is you have a lot of small teams with a lot of independence. And we're not taking big risk by giving them independence, because we have 28 or 29 different teams. We have one culture, 28 or 29 different teams. So that's enable us to move fast on things that larger companies and companies that are organized in a very hierarchical

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way, struggle with.The combination of those two things makes us faster, more flexible and more fun. And it shows up in our -- in the engagement survey results we do. Now our transition to the next topic and I want to -- I want to try to bridge from here. One thing is showing up big time. From our employees is environmental sustainability. It's gone from being kind of an interesting topic for a few zealots. So it's an important topic for the majority of the people who work in Logitech. Now, it's so important to us, to me, to our leadership team and to our Board, that we've made it a top priority in the company. And we didn't start this yesterday, we started this many years ago, as Prakash will show you. But boy, are we making a headway right now. It is super, super exciting. I believe that the same steps we took in design, eight years ago. They have transform the company, the same process we used. We're going to -- we're applying a similar process now. And I don't know if we'll see as bigger transformation for our business results. But I believe we'll see as big or bigger a transformation in the way we think about our business and the impact we're having on the world. We not only want to lead ourselves to a better environmental place, but we want to be one of the leaders in business. And as you'll see, I think we're starting there. So Prakash, who runs our operations group is going to come up now and talk about sustainability. But I want to make a point before he does. The reason why Prakash is in charge of our sustainability. Two reasons. The most important one is, he has responsibility for all of our operations in the company, for our manufacturing. For the 140 million things a year that we make, the potentially could end up in a landfill somewhere, un-recycled. For all the energy that's required to make those things and all the energies that's required to move our people from one place to another one. So he's got direct responsibility for all of it. And now he has direct responsibility for offsetting all of it. That's a choice. The second -- the reason -- the second reason we made that choice is, not only because of his role. Because of this passion. There's not a single person in the company who is -- who believes more in this, than Prakash. Although, maybe we're tied and there are lot of people who believe in it. So, maybe I'm sure shifting a lot of people here. So I'm really excited what we're up to. I couldn't help to start to talk about this now, because we've made so much headway before we started to talk publicly about it. And I refused to let anybody talk publicly about sustainability until the last few months. But I am incredibly excited about how far we've already come and wait to you see what's next including what we're not going to talk about today. So Prakash?

Prakash Arunkundrum, Head of Global Operations

Great. Good morning. Thank you, Bracken. I would want to start with three takeaways for you that I want you to take away from here. As Bracken said, this is a priority for us. I am super passionate about it. Second thing, we are doing this, because of the way we are structured in operations and I'm looking at it, we have the ability to make an impact. And what that means for financial folks here that are looking at numbers is, we're going to do this in a way in which it's going to be actually better and lesser costly. And have a better impact and I'll walk through some of those examples.

And the third thing that I want to say that you should take away from here, as we've been doing this a long time. So, while I think we're talking about it today, we've actually been doing this for quite a number of years. So I want to actually start you off with a little video.

(Video Presentation)

Great, that was a quick [ph] review of what we've been up to, what we're going to do next and what I want to do today is, actually walk you through a little bit more about this, right? We have a very unique focus on sustainability. We call it the footprint and the hand print -- footprint is certainly what you leave behind on earth. And here we are really looking at our products and re-imagining, cradle to grave, how to make them as Bracken talked about. Looking at where we have landfill, all the way to where we source.

And on the hand print, is really impacting for social good. We've been doing this for a number of years. But first I want to talk to you about, what we've actually done here. So back in 2007, we actually signed what's called RBA, code of conduct. And this is essentially applying human rights, good working conditions. We audit 100% of our suppliers. We make sure that the environment that they work in is good and it's above the law in the sense that it's a universal code of conduct. We're not sticking to a code of conduct for a particular country, but an universal code of conduct. So we've been doing this for a long time, well over a decade.

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The second thing we've been doing is actually being transparent about our goals and publishing progress and you probably seen our sustainability report, we've been publishing that since 2012. And third thing, I think I just talked about is our hand print, footprint focus, which we really earnestly started three years ago. We've been talking about it in that way internally, but externally we started talking about it three years ago. And where we are really going next, is what I'd like to call pervasiveness.

And pervasiveness in the sense that we have -- for a long time as you could see, really focused on sustainability internally, we're now starting to advocate with partners externally. And it's also what our brand is going to stand for, it's a big part of the culture within Logitech. So what is pervasiveness, right? And we call it pervasive sustainability. At Logitech, it's a mindful principle that we apply to everything we do. It starts at the leadership team level, goes all the way down to anyone working on anything from design, operations, finance, design from a business perspective, the business units. But it's also comes back up in the sense that we have ideas coming from all across the company. And we are starting to do this with our partners and suppliers. And we, one day hope to actually influence the industry to do more here from an electronics perspective. That's what pervasive sustainability means for us. And one of the things that we -- I'm very proud to note here is that our leadership, while we've been doing this for a number of years is finally getting recognized. Sustainalytics, actually just recently declared us a leader in this category. So we are two out of 142 tech companies in the environment from a rating perspective and some of you probably follow Sustainalytics and that's 96 percentile overall.

We also got rated by Morgan Stanley AA-rated, which is literally their top rating. There is nothing beyond the AA rating and that's again a recognition of what we do on the environment, on the social side and on the government side as a company. We're also the first company from a consumer electronics perspective to win an award from a magazine called The World Finance Magazine, and we are the only tech company to win it last year.

And there is more right, and there is more EcoVadis, we also got listed on the FTSE for good index. So we're getting recognized and I think that's part of the fact that we've been working on this for many years. So why does it matter to you right? Why should you care about sustainability? Firstly, all of you know here, so I won't bother to even talk about it, ESG ratings matter, right? And they influence how you make investments, they influence how you make investment as investors, it also influences personally how you make investment choices.

The second thing Bracken talked about is consumer brands and not just consumer brands, when you go out to a grocery store, you got out to buy a car, this is now in our stream of consciousness and it's starting to happen with electronics. More sustainable brands get recognized more, and we're going to start seeing that more-and-more in electronics.

The third thing which is a bit counter intuitive, sustainable products actually drive costs down. And I'll talk about the few examples of how we are doing this. The fourth thing that's happening is climate regulation. I think some of you might have heard of Green New Deal, there is talk of carbon pricing, well those are things that -- maybe a little bit out there, but already in Europe there is energy regulation, it's called ERP that's in place, we are adhering to it, it's calling upon electronics, not just appliances to have better energy efficiency, so this has already started.

And the last point here is really for us internally, sustainability attracts great talent, not only attracts great talent, it allows us to keep great talent, especially as we look at millennials and the next generation. This is a key topic for a lot of them. And for those of you in the audience who have kids, it just makes the world a better place for the future. And this is the reason why we are really passionately focused about this topic as Bracken talked about.

So what did we say, you saw in the video a lot of things. But I want to call out one big thing that we actually called out there, which is our commitment and our commitment to actually support the Paris Agreement and really have a 1.5 degrees centigrade climate pledge. So what is 1.5 degree centigrade climate pledge? So the international panel of climate change actually declared that pre-industrial era to now, we need to be at a warming stage, no more than 1.5 degrees centigrade, we're already at about 1 to 1.2 centigrade Celsius. We need to be at 1.5 Celsius, if we don't want to see a lot of the things from a climate risk perspective.

This was an call to action for countries, we actually took this and we have said, as a company, we're going to ladder up to this. So what is laddering up 1.5 degree Celsius mean for a company like us? If you really look at our -- this chart

here, our carbon footprint, which is today somewhere about here. What this means is, we need to bring it down to a 1.5 centigrade world, which is nearly zero. That's what we need to do. And over the next 30 years by 2050.

Now and Bracken said long term, we are really serious about this. That's why I have a chart here that looks all the way out to 2050, very few times we actually do this, looking out all this way. And one of the places we made as you probably saw in the video, is actually getting to 100% renewable electricity by 2030. And we're going to do that through what's here in green, what's called Design for Sustainability. And this is really applying the design culture we have at Logitech that work for us, applying it next to sustainability. And what we're going to do here between 2020 and 2050 is to actually get on this glide path.

And I'll show you a few examples of how we are getting there. What we are doing to actually get to this net reduction in carbon. Towards design for sustainability. Design for sustainability is an umbrella term, it really hedged 3 points. Eco design, which is reducing the environmental impact of products. Circular design, keeping materials in use and I'll give few examples of this long beyond their linear consumption, essentially taking things out of landfill and reusing them to make new products and new materials. And the last one doing social good.

I'm going to spend a very little time on that today, in the interest of time. But I want to start with Eco design. So what is Eco design? so if you'd look at any of our products, it starts with materials. Making the right materials choices. As some of you might have seen in our sustainability report, we have avoided conflict minerals. Conflict minerals are tin, tungsten, tantalum and gold that come from conflict zones. We have avoided them. We're nearly 100% in a lot of them and this requires us to look beyond our Tier 1 supply chain.

We've also avoided a lot of targeted substances, hazardous substances were part of what's called RoHS and REACH, which are two environmental regulations. And really bearing that in mind, we've actually put in place responsible manufacturing, which is looking at how do we make manufacturing in a place where we take care of things like human rights, environment, the labor and of course being energy efficient.

We've also talked about packaging in the past in our sustainability report, but I'm going to give you a few examples of this. Really thinking about recyclability as we make new products. Thinking about durability, so that the products we make last a long time and lot of the Logitech products already last a long time, but this is something that we're going to do more-and-more of. And really thinking about how we inform Consumer Choices with labeling. How we enable a smartest society with some of our products like video collaboration and really spending some dollars in research and innovation of the next generation materials. And lastly efficiency, really keeping that in mind in terms of energy efficiency.

So I'm going to give you a few examples. But first, I want to say that we can do a lot of the things we are doing, because we built some unique capabilities. We can now tell you with our -- this is a set of product capabilities that we've built and we can tell you right now. If you have -- if you bought a Logitech mice, how many KGs of carbon is in it? So that when we are going to make the next mice or the next keyboard, we make sure that we actually look at the product impact and adjust accordingly.

As part of making electronics, PCBs or Printed Circuit Boards are a big part of the carbon contribution and we built a calculator to figure out how to actually impact, PCB impact and reduce it. And a lot more capabilities that we've built that uniquely Logitech, it's something that we've applied to our products.

Let me give you a few examples in the Eco design. And the idea here that I'm going to repeat a few times is less but better. So what you see here is G-PRO, wireless mice, which we launched a year ago. And one of the things we did was to apply all the things I talked about from an Eco design perspective. We completely re-thought the pin wall design for the plastics, we reduced the weight of the springs and the tension in the springs. We redid the spoke wheel. We actually reduced the size of the PCB which reduces carbon, we changed out the battery, which reduces carbon. We put a new sensor in, it's called the HERO sensor, which actually extends energy life. And doing this actually, we improved performance for the gamers. We made it lighter, so they could perform better. It's better rated than the predecessor, it's 4.3 stars on Amazon. 20% -- almost 20% less carbon and it costs less. So it's less but better and this is really what we're trying to do from an Eco design perspective.

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We're going to give you another example, we design lower carbon packaging. What do you see here is MX Master 3, the packaging for it. We increased the recyclability of this packaging. We use what's called forest certified paper, which is from forests that are actually renewables in the sense that they are protected forests. We have higher water -- lower water usage, lower carbon and not only did we do all these things, this packaging -- as Bracken talked about design awards, was one of the few packaging awards that we won from a design perspective as well.

And we didn't do this once, we've done this across quite a few number of products and you see here, carbon reduction is raising from 15% down to 20%. Again less but better, less carbon, better cost and every time we reduce the size of packaging, the amount of money you're going to spend shipping it is lesser, the amount of carbon is lesser and we're still delivering the same premium touch and feel for our products that you see.

One of the big things that I talked about is circular design. And really we are rethinking our supply chain to go from a linear supply chain where you source, manufacture, distribute, put it in the hands of consumers and then it goes to end of life, it goes to landfill. And we're really rethinking, how do you take it back from the grave and bring it back to the cradle. Of course, it starts with longevity and repair, so increasing the life of our products. Taking some of these products back and re-using them, actually remanufacturing. But perhaps the hardest of them all, is recycling. What is end of life and we've done just that.

So last year, we actually launched our first and world's first, recycle mice and webcam. So what did we do here, we actually took landfill that went from e-waste, electronics waste, extracted the plastics from the landfill, transported it to our factories, made resin out of it, from that resin, short new parts, which you see in our C930 webcam and our M275 mouse and it's 80% net reduction in carbon and we just started with these two products last year and we're going to do this more and it costs the same. It costs exactly the same, the same principle applies, again less but better.

So I want to move on and talk about our factory. Our factory as you probably saw in the video is actually carbon-neutral. We did a number of things in terms of efficiency improvement, we improved the air conditioning, the chillers, we actually use hot water recycling from a nearby waste water plant. We installed last year -- sorry, two years ago, renewable electricity. So we buy electricity from a wind farm, off of Pudong in our factory in Suzhou. And it's large scale metering, so it's actually clean energy. And by doing this and all the green activities we've done, we've taken our 17,000 tonnes of carbon, just in our factory. And our factory is net zero carbon.

We did exactly the same with travel, so our carbon from our travel -- corporate travel, that travel that a lot of us took flights to get here from California is also carbon-neutral. And again, we're doing this and you're not seeing anything on your P&Ls, because we are doing this in a way in which is actually less but better.

And we did this actually across, what's considered the biggest growth category -- that one of the biggest growth categories that Bracken talked about gaming. Gaming is now carbon-neutral. So what do we do here? We actually as I spoke about, we designed for sustainability to cut a whole bunch of carbon. And what we couldn't take out, we've actually invested in forestry and some of you might be thinking forest, why would you do that?

Well, forests are the best known vehicle for sucking carbon dioxide out of the atmosphere. An average tree, that's a full grown tree, that you can hug takes out about 5 kilograms of carbon a year, when it's mature. And we've taken what we can't take out today, which we are as I showed you earlier, we are on a glide path to actually taking out. What we can't take out today, we have offset with investments in rainforests in Brazil, Indonesia and other places, to do exactly that to suck out carbon dioxide so that the net impact of carbon from our products is neutralized.

So when you go out there and buy a gaming product from Logitech, it's the only company that has gaming peripherals that is carbon-neutral today. And we really hope they are not -- we are the first ones, but actually everybody else joins us here. It is not about just us. So I just want to recap, we're really doing three things, if you step back and look at what we're doing. We're reducing the amount of carbon from a design for sustainability perspective to hit a 1.5 degrees centigrade world. We're using renewables, we have a pledge to get to 100% renewable electricity by 2030 and we're going to restore, what we can reduce and renew immediately. We are going to restore by protecting forest and some climate impacted communities through certified offsets. So we're just getting started and I think there is a lot happening here. But as I said, we're designing for sustainability and shaping a better world and this is what I'm super passionate

about.

So with that, I'm going to introduce Delphine next to talk about creativity and productivity. Delphine?

Delphine Donne-Crock, General Manager of Creativity & Productivity

Thank you, Prakash. Good morning everyone. Thank you for joining and I'm really excited to talk about creativity and productivity. I feel very blessed to have this opportunity and it's been a really fun ride. So I will share with you all what we've been doing in the past couple of years now I have taken the lead of this group. And I want to try to address with you the question I get a lot. Can C&P, creativity and productivity keep growing? Actually, if we look at the past four years, we have been growing at a steady CAGR of about 6%. And there is a lot for us to continue delivering very steady growth moving forward. And I want to share with you a little bit, how we will continue.

Most people love Logitech for great design and experience. And this is, I'm very proud of all the products that the team has launched this year. But what is very important for us is, how we focus to help people create and communicate. It's not about the product itself that we deliver, it's really about the experience that we are trying to deliver at this space, where people get things done with the favourite app you're using. Everybody has to go back, we can use the phone during the day, but when we start having something we really want to get done. We have to go back to space where you have a bigger screen and you can really get focused into your content. And that's what we are passionate about, it's really helping people create and communicate.

And it's not just about selling one more products to consumer, it's really creating a full ecosystem of solution products, hardware services that will help you stay focus and deliver the best possible creative content in the cloud. So that's really what we care about. That's what my team is passionate about and we focus on every day.

Now, we are also in a great position in the sense of what's happening on top of the products, that we are selling in the category we are in. There is really strong trend in digital creativity, productivity and communication. If you look at the number of applications, that people use every day, it can be for some people, it's going to be office suite, for some others, it's going to be about Linux for your software coding, but for others it's going to be YouTube and creating video content that you're going to be uploading.

What we see is that in the past five years, the usage of all these digital cloud application has increased by three times, since 2015. So it's a fantastic opportunity, where more content is created every day and what is fascinating as well is that if you look at the profile, so (inaudible) about 25% of the usage is on creative application. But the younger you get, the more these creativity apps grow in usage. So millennials is 32%, if you look at Gen Z, it goes up to 43%. I mean it's really fascinating to know that every second on YouTube, there is eight hours of content that is created and to create that content, eight hours of content is uploaded on YouTube.

And what is really important is that there is a time you need during the week, during the day, where you need to go back to that space and use our products, because if you take a laptop, for example, yes we can all go around and use the laptop and touchpad, but as soon as you start going back to the space where you need to create your content, if you raise little bit your laptop, you need a keyboard, to be very comfortable, you need a mouse, if you're working from home, you want a webterm and obviously, right now, it's a great opportunity for us to help people to really engage in digital activities, that they are doing. But the other aspect, as well and one of the question I get on a regular basis is do young people use a mouse for example and all our research shows that 80% of young people between the age of 18 to 25 use a mouse. So great opportunity, people need to have more content to create, our products are highly relevant and the beauty on top of this is that we have more people to engage with. It's not just engaging with people who are between 30 to 45 years old, now obviously everybody is using a computer either for school homework, web-based learning, all the way to all our parents using a computer now and creating all sorts of activities in the cloud. So the reach of the people we can engage with is growing every day.

If we look at Gen Z, for example, it's more than 2 billion people we can engage with, it's absolutely -- I mean I can't be more excited to lead this business because the biggest challenge I have and generally the conversation I have with Nate

is more about how I prioritize all of the opportunities we have than the other challenges. So really proud of where we are.

Now in terms of our design strategy, it's really about putting people first. Bracken touched on this and it's really at the core of everything we do. We focus on very specific consumer because one size does not fit all. If you look at, for example, a lady[ph] in China versus -- who is doing all sorts of broadcast YouTube activities or Youku activities for the Alibaba engagement. It's going to be very different than the software developers in Germany that is really looking at creating the best good[ph] possible and staying focused for quite a few hours.

And this really precise targeting, we can do -- helps us to understand better the target audience, what they are doing, how they use use the product, how we can help them create and performing better. It's really what we are, it's at the core of all our innovation and it helps us to deliver much better products, but also engage with the audience in a way that makes a lot of sense for them.

So if we look at, for example, video content creators, all this audience and -- young people who wants to become YouTube starts as Bracken mentioned, they want to create content that represent their passion and then they want to engage with an audience that will care about what they want to talk about and they want to share that passion. But at the same time, we have to remember that most of the time, you can see the environment of these people. They are going to be putting themselves out there in front of people they don't even know most of the time. And so they want to be at their best. They want their ecosystem in where they are to represent who they are. So it's very important that these products are not only really easy to use, so they can focus on task they are trying to do. But they are also beautiful at the right price and really help them create this environment that they are looking forward.

And all this focus on really specific audience and understanding the differences from one consumer to another has helped us to deliver this year a lot of really strong products, we've had amazing reviews, ratings and engagement with our consumers which is helping our performance really nicely. It's important, as Bracken said, it's not just about the product, it's really about how the whole experience comes together. If you look at the MX Master Series, we want to help software developers, engineers to stay focused all day.

We are not just a mouse and keyboard for them. We are actually the tools they use to do their job every day. And it's a great opportunity for us to create this ecosystem of solution, but the software that is helping them to focus is also critical and when you look at our software Logitech options Logitech Flow, we get amazing feedback from software developers on this because it really helps them to customize, save time depending on the application they work in. So for them it's not about just plug and play, it's really about the ability to be able to customize their product.

And at the same time, if you look at a YouTuber or video content creators, they want to make that journey for them of creation as simple and easy as possible. And today, if you want to be in YouTube, well, there is a lot of tutorial you can read to know how to do it. It's fairly complex. And with Logitech Capture, we've been able to launch a software solution that was really easy to use, anywhere who wants to move from mobile phone to creating more advanced content at the desktop, they can do it easily with our solution. So that's really a very important journey for them -- for us to help consumers to create better[ph].

What is even more rewarding, if you look at our ergonomic solutions that we've launched this year, it's actually -- ergonomics is a very complex science and there is a lot to understand, especially when people now -- my hand size are very different from Bracken, the type of products work[ph] are going to be very different and it's really important for us to understand all these dynamic, but when we managed to combine these expertise science design and helping consumers to perform at their best, what is the most rewarding is when we have people telling us, You know what, I don't anymore, I've been using your products and I don't feel paying anymore and 18% of people, who use a computer every day express in the US [ph]paying they have some discomfort and we have a lot of testimonial of people saying that since they've been using our products, they don't feel anything anymore. So it's really powerful and when they love our product so much, it gives us a great opportunity to create a strong engagement and if you love your -- our products at home, you would probably want exactly the same solution at work and that's also a huge opportunity for consumer brands to be relevant at home and to be relevant at work.

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So again, I feel really excited about all the opportunities, because we can really bring together the products and the experience we deliver, the brands and really engaging with consumers about the passion, what they passionate about and helping them perform better and this has influenced also significantly how we even do our marketing and how we evolve from a push to pull marketing model. If you look at the transformation, we've had on our social platform -- on Logitech global and social platform, just being able to be more relevant for every audience we want to help, we've seen a massive growth of all engagements on our social platform.

Between November 2018 and February 2020, the engagement on our social platform has increased by 300%. So we're becoming more relevant, but it's also important that people get to know the products and solutions we have. So we continue to engage with authentic third party voices, we have influencers, who are really happy to work with us and really talk about the product we have and the solution we have, but we also continue to have fantastic relationship with the media and the YouTube now is full of also tutorial about our products to help us reach the audience we want to connect with. And I just want to show you, for example, one of our influencers -- YouTuber influencer [ph]Kimberley Margarita, she has been a key in our transformation on understanding better video content creators and I just want to show you this video

(Video Presentation)

-- has about 900,000 followers. She is passionate about makeup and engaging with our audience and she needs the tools to really be at her best to have the best possible quality and make this easily, so she can spend more time engaging with our audience and thinking about the next makeup she wants to do more than like the technical barriers she would have to go through. So, this is where we really help her to make that really very

Easy.

And, for us, it's really important to communicate very diverse channel. On one side, we have the own channel that -- our social platform, our website, we -- obviously, we create the content for. But it's also very important to engage with some influencers that are having a big reach, even if it means that there are times where we have to pay to be on this platform. I'll give you an example of this Chinese influencer. So her name is Viya. She has about 16 million followers on Taobao, it's like massive. And she -- when we engage with her, every time she posts something, she has about 20 million viewers. So you can imagine, for us to help reach in China and getting the visibility is absolutely critical.

For Logitech Pebble, we did partnership with her in 1 minute. In 1 minute, she sold 10,000 units of Logitech Pebble. So, it's very important for us to accelerate the awareness with all the consumers that don't necessarily know about our solution to also engage with this audience.

And then, it's very important that we engage obviously for -- to create this awareness with different types of channel, but it's also how people will find our product on shelf, whether it's online or in-store. And the last thing you want to do is to go in-store and look at a wave of products and being overwhelmed by the choice. You want someone to help you find the right products for you and this is just an example that we've done in MediaMarkt in Germany and Smac[ph] in France.

We took -- we developed a partnership with our retailer and it was not about putting more products on the shelf, it was actually about reducing the amount of products on the shelf. So we could have better communication with our target audience and our consumers and users, and help them choose better products from them. And our sales are -- have actually increased significantly since we've done this deployment in the specific stores. So now for us is how we replicate this type of activities over and over again. So on one side Logitech, Creativity & Productivity we have four categories they are really steady robust business. But we have the opportunity to go after unique audience that have very specific need again and again, create very deep insight, great innovation and engaging in a way that is more meaningful for them than trying to reach everyone at once.

So more than ever I'm feeling very strong about Creativity & Productivity. We have a great base of innovation insights, great technological leadership. I mean, Logitech is compatible with all operating systems, all application, peace of mind for us. But we also have this amazing scalable business where we can be in 100 countries, we can address consumers in China but with specific needs, and we can also be in the US and any emerging markets we want to, so absolutely great

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opportunity. We have a fantastic formula where we have world out there of creating more content that we can really take advantage of, because our products are more relevant, we have more consumers. And by driving full marketing in both consumer and B2B, we are developing the ongoing recipe for further growth opportunities.

So I really glad I could share the progress we've made in our strategy today. And I will actually invite you to take a break before my friend, Ujesh talk about exciting gaming business.

Thank you very much.

Ujesh Desai, Vice President and General Manager-Gaming

So thanks everybody. I think we can take 10 minute break, even that we start a little bit late. So hopefully we'll reconvene here in 10 minutes. And for those online, you can log back on if you want to take a short break. And for anybody who is here who wants to try to race car, I can ensure you, it's a lot of fun.

(Video Presentation)

Is mic on? All right, there we go. So, hi everyone. My name is Ujesh, and I manage the Gaming business here at Logitech. So I'm here to talk about why we think Gaming as a segment is going to continue to grow over the foreseeable future. So with that why don't we get started. So I thought I'd first start by talking about some of the long-term growth opportunities that we see in Gaming. Today, and I'm going to say this number slowly, because I said it last night and Guerrino still can't believe it when I said it and he said that, "Can you please repeat that again?" There is 2.5 billion gamers in the world today. Just think about that number, 2.5 billion gamers. And they play across PC, console, mobile and now cloud is coming as well. And we believe this trend is going to continue for a number of reasons.

Starting with the PC, Bracken through this chart up here and he mentioned eSports. eSports continue to grow, continues to be mainstream. I have two daughters at home, they only watch football because their dad makes them watch football, what they really like doing is watching their favorite gamers on Twitch, right and YouTube. So that is really their choice of sport. So we're going to see that continue to drive growth in the PC space.

Second, Console continues to remain a big growth area. Both Microsoft and Sony are launching brand new consoles this year. So they're going to continue to invest in that space, that will continue to drive growth for us, with gaming gear that attaches to those consoles.

And then finally, excuse me, in the Cloud space, you have traditional players like Microsoft that are launching an amazing cloud gaming platform. But you have other folks entering this space, folks like NVIDIA with their GeForce Now offering and Google with Stadia. And when you think of what cloud gaming will represent for us, it will enable AAA games to be able -- to be played on either a phone, a tablet, or even one of these entry-level laptops that you're using here. The benefit for us is, if you want to game on that laptop you're not going to use the Trackpad, you're going to need a gaming mouse. If you want to have good audio, you're going to want a gaming headset, right. So as this continues to grow, even with cloud there's just more and more platforms that we'll be able to attach our gaming gear to, okay.

So today, I'm actually going to focus on one area. I'm going to focus on PC Gaming and Simulation and talk about, as we roll here into FY21, what are some of the short-term things we're going to do to drive growth this year. So let's get started there. So the first thing is Wireless Leadership. If you've come to these Editors' Days or these Analyst Days in the past and you've heard me talk about Wireless. You'll see that this is a journey that we've been on for the last three years. It started with our gaming mice. And what we did is, we really did some major innovation in the Wireless segment around our gaming mice. I'm going to talk about the benefits and the payoff we're seeing with those investments, but I'm also going to talk about how we're going to leverage those investments across our entire portfolio. So that's the first thing I'll talk about.

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The second thing I will talk about is the racing space. I don't know some of you were trying to wheel back there during break, I can definitely see a lot of New York drivers in what I saw back there, really, really good driving skills, but we are seeing in the [ph]wheel space, is this explosive growth as well, because something like driving and racing is something everyone can do and enjoy and we're going to enhance that even more and we're building and I'll talk about our own E-racing platform that we've created for gamers to come together, that are passionate about driving in the virtual simulation world and we're giving them an Esports platform, where they can come together and compete. So I'll talk about that as well.

Let's first start with wireless, so if we look at our wireless gaming mice, there is a couple of things that we have to do to innovate. First, if you've heard of this notion of lag, a lot of gamers did not want to move to a wireless mouse, because they were worried about the performance. So, we had to solve that inherent issue. So, what we did is we created a technology we call LIGHTSPEED, it's our own proprietary wireless technology and what it enabled us to do is to build a wireless gaming mice or mouse that was actually faster than the competitions wired product. That's unique to us, it's the first thing that we did.

The second thing we had to do is battery life. It doesn't do me any good if I have an amazingly high performance mouse and I'm playing and all of a sudden I'm in a battle with my teammates and then my mouse dies, and I'll let everyone down. So, we had to solve the battery life issues, so we invented a technology we call POWERPLAY. POWERPLAY is electromagnetic resonance charging, so unlike a chi charger, where you place your phone or your mouse in one spot and you have to leave it for a long period of time to get it to charge, ours is charging whether it's at rest or at play, you never ever have to worry about your battery life. So, we've solve the battery issue. Once again that is unique to us as well.

And then third, there is a component in your mouse, that gives you that performance and that's your sensor, that's what you use to track, that's what gamers rely on, while that is a very, very high performance, but in a lot of cases, not a very efficient part of your gaming mouse. So, we had to innovate and invent something new there and that's where we came up with our HERO sensor, so it's uniquely ours, it has amazingly high performance, but it is extremely power-efficient and we uniquely have that. So, these are some of the advances we made from an engineering standpoint. So that was number one. But we didn't just stop there, part two is you have to educate the market, tell gamers, one, why should you move to wireless, but two, why is our wireless better than the competition. So, that's why we created a campaign that we call play at LIGHTSPEED and the idea was to educate gamers on why our wireless products were better than anything that was out there.

The next thing we did is, it's one thing for us to talk about it, it's another thing for the industry experts in the world to talk about it. So, a lot of the PRO Esports teams, these are the folks that rely on the highest performing products ever. They are now all moving to wireless, because they see the benefit of untethering and not being stuck with a wired product, and not only are they seeing the benefit, they are actually winning tournaments. The more and more of the pros that we work with that have moved to our wireless products are now winning and named MVPs at all the different tournaments.

By the way, this product that you see here this Pro Wireless mouse is the same product that Prakash showed in his presentation, which was one of the first products we moved for gaming to be way more sustainable. So once again that sustainability story is helping us from a cost standpoint, it's helping the planet, but it's also improving performance, which is really important as well. So the result of all this work that we've done here is, if you look at our gaming mice market share, in the last year, from 2016, we went from roughly 30% market share to now, we have well over 45% plus market share.

So what that means is almost half the gamers in the world use a Logitech G gaming mouse. Right? That's pretty impressive, but still we have a long ways to go to make that even better. The next thing though is because our wireless products have a higher ASP than their wired counterparts as we move to wireless, it's more than doubled our ASP. Right? So we're driving increased revenue as well. But the last thing that I'll show here, which I think gets me the most excited, if you look at the adoption rate, how many gamers today are using a wireless gaming mouse, it's still very small, it's only a 25% adoption rate. But because of the technology that I talked about, LIGHTSPEED, POWERPLAY,

our HERO sensor, within that 25% segment, we have 70% market share.

So our technology leadership is what's driving that. So what do we want to do next? Well, you just heard Delphine talk about the creativity and productivity space. Well, look at the wireless adoption rate for creativity and productivity. 83% of folks, in fact, probably, most of you here in the room use a wireless creativity or productivity mouse, whereas only 25% of gamers do that.

So if I did nothing else but move gamers to wireless, that represents a tremendous growth opportunity for us, especially when I talked about the ASP increases that we have as we move to wireless. And then don't forget, you've heard folks like Nvidia, they just had their earnings. They talk about their GPUs are now going into laptops. So there is more and more and more gaming laptops on the market. Well, guess what, I don't know how many of you have tried to play a video game on your laptop, but you can't really move that well with the trackpad. So you're going to need a gaming mouse to go with that gaming laptop. Well, guess what, you're going to want a wireless mouse with your gaming notebook, you're not going to want a wired product. So this move to wireless is inevitable. It's going to happen and we're leading the way with our technology advantage. So what's next? And we're not stopping just on gaming mice, right. So we're going to take that leadership that we have in wireless technology that LIGHTSPEED technology that we've invented, and we're going to extend it across the portfolio. So this is our new G915 wireless gaming keyboard that we just introduced the second half of last year. Let's just take a quick look at that.

(Video Presentation)

Okay. So I'm going to put -- it's early morning, but I'm gonna put two words together in a sentence, that have probably never ever before in the history of the English-language been put together in the same sentence, and that is one sexy keyboard. I don't know that anyone has referred to as a keyboard a sexy before, but that is really a sexy keyboard, I will say that. And I think part of the reason I think it's so sexy as well as when you look at the results, right, which gets me excited.

So this keyboard ships in the high-end segment. It's $180 price point keyboard. A year ago, we had roughly 0% market share in this segment. We launched this keyboard in August of last year between August and December. We already have 25-plus-percent market share in this segment. So it's proof that this LIGHTSPEED technology that we have, our wireless leadership, we can translate and we can move that across the portfolio.

So I'm just showing the keyboard and the mouse here. I'm not going to announce any unannounced products but just stay tuned. We have lots of exciting stuff coming this year and we're going to leverage that wireless leadership across our portfolio. So I'll just leave it at that. One other thing, our keyboard, just like gaming mice, actually in keyboard, the story is even better for us, if you think about it. The wireless gaming keyboards only have a 3% adoption rate versus creativity and productivity is a 53% adoption rate. And guess what, just like wireless gaming mice, within that 3%, we have 70% market share. Right? So once again tremendous growth opportunity, just moving the world to wireless. Okay, so stay tuned, we have a lots of new exciting announcements coming later this year in the Wireless space.

So next I want to talk about the Racing segment. So those of you that might not know is, we've actually been in the Steering Wheel business for a really long time. We were the first ones to come up with a cable-drive force feedback wheel, this is the Wingman Formula One. We launched this back in 2000. We have over 20 years of being in the Steering Wheel space.

Now the thing that's unique about this space is, there is not much competition. It's a very small segment. It's fundamentally us and one other major player. The products that we have today, we have our G29, which is our racing wheel for PlayStation and we have our G920, which is our racing wheel for the Xbox, right? The other thing that we're seeing, which is really unique to this segment unlike other video games that you might play. We are seeing this as a Virtual Sport, where people are making that transition from the virtual world to the real world. In fact here in the United States, William Byron, he drives Jeff Gordon's for NASCAR. Well, guess what, one of the ways he taught himself to drive when he was a young kid is using iRacing and a Logitech racing wheel. So we're seeing this transition from the digital world to the real world. In fact this picture here, is from a McLaren's Headquarters. So we created a partnership with folks like McLaren and folks like Fernando Alonso, who is a F1 racer, and we've created our own

e-racing platform. We call it the G Challenge. And by partnering with these folks in the traditional Motorsports segment, one of the cool things we've done with G Challenge is last year, the winner of G Challenge, guess what the Grand Prize was, they got hired by McLaren for one year. And they got to work as a sim-racer from McLaren. Talk about changing someone's life.

Let me show you a quick video in terms of G Challenge and what we're doing.

(Video Presentation)

So how does G Challenge work? G Challenge, we launched it last year in May, we kicked it off at the Indy 500. We then ran it during the entire year, we had in real-life tournaments, as well as online tournaments and it culminated in a grand final in Las Vegas. These were some images from the in real-life events that we did. So we did them in retail centers, in malls, we did it at our gaming event, the really cool thing about this, it was a way to bring this community together, no one was really bringing the racing community together and by creating G Challenge, we've now given them a platform on which they can come together and share their passion.

The other beauty of this is a lot of people play racing games, but they maybe have never tried a racing on their entire life, but having this in real-life event, they could come to the stores, they can try the racing wheel and guess what, they became such a fan, we just sold another racing wheel right there. So, it was another benefit of doing this.

The last thing I'll say is the thing I love personally the most about E-racing and simulation and what we're doing here is, it's cross gender, it's cross generational, this image that you see here in the top right, that's Josef Newgarden, he is a professional Indy car driver, on the bottom right it's Jamie Chadwick, she's a professional race car drive, right, so across gender, up on the top left there, those are some of the finalists that were part of our G Challenge, that we flew out to Vegas. I don't know if you could see here, but it's cross generational, everything from young kids to grandparents, driving, racing is something that all of us can do, we just love to drive. So, it's easy to learn, but it's actually find to figure out how to master.

And once again, all the work that we're doing here with G Challenge by building this platform for racing, supports our sales as well, let me get to that in a second, but the final live event that we did, just to show you what kind of platform that we're building, this year for the first time we decided, let's try and stream it, because it is an Esport, let's stream at ourselves on Twitch. For the grand finals, we had 158,000 unique viewers that watched over 1.8 million minutes. For our first time ever streaming this, it was pretty good, pretty impressive and I think we're just going to grow from here. Speaking of growth, this is where it comes down to the numbers themselves, so that G29 racing wheel that I showed you and the G920 in the beginning, those racing wheels, we've been shipping for four years now, yes, because of the launch of G Challenge in 2018 and then we did it again in 2019 and made it even bigger, it's driving double-digit growth for us, even though this products are four years old. Because we're showing newer gamers that are getting into racing, the benefit of having a racing wheel. And by the way, the other thing I'm not showing here that we haven't even frankly modeled yet, but we are going to look at that in the future is because it's our own eSports and it's our own e-racing platform, well, guess what, we're not even showing the potential revenue we can make here in sponsorships and advertising. So stay tuned there as well.

So kind of in conclusion, there is two main areas for this year that were driving around PC gaming and simulation. One is wireless, we're going to take that leadership that we have in wireless mice and we're going to extend it across the entire portfolio. And the second is racing. We're going to take the racing wheel that we have, but build a real eSports racing platform because of what Bracken talked about here in the importance of eSports.

But I think the more important thing for you to understand here is that this isn't just a one and done. This is a formula that we're operationalizing not only across gaming, but as Delphine mentioned, across the entire Company. This idea of innovating to make sure we have a technology lead as the first thing we're doing, but then when we combine that with building a real poor platform demand generation and marketing platform, and that's something we'll be able to replicate this year in 2021, but also for our long-term growth opportunities in PC gaming as the next-gen consoles launch and obviously as we go to cloud as well. Alright.

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So with that, thank you. That was my presentation, and I'm going to invite Scott Wharton to come up and talk about the VC space.

Scott Wharton, Vice President and General Manager

Okay. Thanks, Ujesh. So, I'm going to start out with some disappointing news. Unlike my colleagues who have some really exciting video, sadly I don't have any videos to show today, but hopefully you will still find the video collaboration story pretty exciting. So I'm going to go over three things, today. One is, I'm going to review where we've been over the past year or so, going to go share with you some market trends. And then finally, going to say what's next, what are we going to do beyond that.

So let's start out with the review. So over the last couple of years, I think many of you know that we've started out with some real strength in the huddle room or in the small room space, we launched this product called MeetUp, which has become the industry standard for small rooms. And the last day at AID, we said that we were going to expand beyond the small rooms into medium and large room. So, we've successfully done that over the last year, and now we can serve not only small rooms, but medium rooms, all the way up to large boardrooms and we partly did that with the product which we introduced about a year ago called Rally. And the great news is that, not only is MeetUp a successful product but Rally is now also very successful. In fact, it's won bunch of design awards like Bracken said, but it's also our top selling products in a very short period of time with incredible momentum in the market.

The second thing, we've done is we've moved from selling point solutions, so a camera standalone speakerphone. So really selling an entire room system. So, the audio, the video, the compute, the cabling everything that someone needs for an entire room. And last year, we unveiled that we launched a product called Tap. So, basically it's a touch controller that you can walk in your room and as the name suggests, you can just tap on the screen and start a meeting, really making video conferencing much, much easier than it had been in the past. Again, similar story we won a bunch of design awards for our video for that and this has really allowed us to move from a bunch of different piece parts to where we can sell everything for what you need in one box, so the software, the compute everything, so not only making the product easy to buy -- easy to use, but also easy to buy.

So over the last year, we've expanded that to Microsoft, (inaudible) Google and now customers can buy our products all around the world in over 100 countries and it's a incredible advantage for us, especially when we're dealing with large enterprises, where they really want to be able to buy and transact and get support locally all around the world. So, the other thing we said is, we were going to continue expanding from building out equipment to building out more software and cloud and one of the things we've done is we've shipped this product called (inaudible). So, basically allowing you to auto frame the session when you're in a video call, so instead of picking up a remote control and moving it around, it basically, it looks at the number of people in the room, sees, how many people are there and auto frame, so you don't have to pick up the remote control. So, it's an example of using software that (inaudible) add features, but really take things away and make things easier for people to use.

We also -- in June, we launched a new offering called Logitech Sync, so basically, it allows us to do device management through a cloud service at a very disruptive price, it's free and we've had tremendous adoption for this offering over the last year. So we announced the beta in June, we launched it for GA in November and this is what we're showing in the last three months and now we have over 1,200 large enterprises around the world, who are actively using Sync and as you can see from the chart, we are getting exponential growth in the usage and the number of rooms deployed. So again, it's just showing as Bracken said earlier, our move from having equipment to software to cloud and cloud services and eventually today, this is a free service, but we'll be able to add premium services that will be added to Sync.

And as a result, I think what we've done is we've continued to grow in this market, so for the first three quarters we're up 37% year-over-year and you can see the just tremendous growth in the VC business largely organic in this business, from about $62 million when I started to, now on a run rate of about $350 million, almost 6x in the last five years. So that's kind of looking back a little bit Now I want to share with you a few trends that are happening in the market. So,

many of you probably are aware of our following Zoom if you're following Logitech, or maybe you are actually using Zoom and you could see that Zoom is having tremendous growth, which is really helping us and that Zoom is an underlying platform that drives our growth. So when Zoom deploys their service, we attach our hardware to Zoom service, in fact, we are the largest hardware partner today with Zoom. So as they are successful as a platform, we benefit from that excess success and attaching as a platform to Zoom and they're growing about 85% year-over-year and a lot of that growth is in the United States, but now they're expanding greatly internationally and we are following them and working with them across the world to extend the[ph] video.

And then another partnership that we've had for a longer time is with Microsoft. So Microsoft is a world leader in video conferencing. There are very widely deployed with Skype for Business and with this is showing you is their growth in Teams. So what Microsoft will tell you is that, Teams is the fastest growing application for Microsoft in their history. So for Microsoft, that's saying a lot because they've had a lot of small successes like PowerPoint and a few other applications that many of you might use.

And what they are showing is they have about 20 million users that was as of November, but I think what we've heard is that, the growth continues to go up and this is also benefiting us, as Microsoft succeeds, we're succeeding along with them. And similar to Zoom, we are the largest video conferencing equipment provider that works along with Microsoft.

I'm going to show you three market research slides. These come from a company called Synergy Research. I would say that they are directionally accurate as far as the market research goes. So in this slide, what we're showing is the overall video conferencing equipment, so that would include not only the new equipment in this USB category that we're playing in, but also includes all the legacy equipment that's being sold worldwide. And you can see that we're now number two worldwide. So we're bigger than Poly. In fact, we are now in the last quarter, we're probably closer to 17% of the market for video. But you can see that number one, Cisco is still by far the biggest player. And part of why we're showing this is that we're proud of the progress that we've made. We've gone from about 5% to 15% or 16% in the last three years, but I think it also shows how much more we have to go in terms of the ability to win market share away from the competition.

So the second chart shows not just in revenue but it shows in units, so how many video conferencing rooms are actually deployed worldwide. So, you can see that we have 42% of all conference rooms now worldwide in calendar year '19, are deployed on Logitech, that means from an experience point of view, nearly almost one out of two conference rooms worldwide, people are experiencing Logitech now with Zoom, Microsoft, Google and a long tail of other players.

And then last but not least, if you take the legacy business out to all of the old (inaudible) and you just look at the new markets. So these are really products that are attaching to the cloud services like Microsoft, Google, Zoom, et cetera. You can see we've got 62% market share. So, almost [ph]$2 out of every $3 in this new market spend on Logitech. Now we're really proud of this, but as I was talking to Bracken last night and the others, this is a snapshot in time and really what we're -- what we like to see, is how do we keep this going and how do we grow the market much bigger than where we are today.

So three other examples of what's happening in the market, so there was a trade show, a couple of weeks ago in Europe, the biggest trade show for AV and we announced three big partnerships, so I want to spend a little bit of time going through each. So one partnership we announced is with the company called Barco, Barco is a public company in Belgium and if you haven't heard of them there, they're worldwide leader in wireless sharing, their labor product called ClickShare, which is really the standard of where you walk into a conference room and you could share wirelessly your screen. So they've now added a new capability, where you can not only share wireless content, but you can also share audio and video conferencing. So, I was in New York, few weeks ago with Barco and we're really the main partner that they announced that they are working with now in video conferencing. And the benefit for us is not just the product integration, but also -- Barco has a global sales force and a brand and a channel, so, it's now another partner that can work with us, that will be selling our solutions alongside of our sales force.

So second partnership, I want to highlight is a company called (inaudible), if you haven't heard of them, they're the worldwide leader in AV equipment, if you would walk around the corner, you would see a room and here that's got a huge rack of very expensive sophisticated [ph]crushed on gear, part of what's exciting about this relationship is that

(inaudible) has been a competitor of ours. So, they have their own video conferencing gear, but what they decided to do is partner with us, so we would focus on promoting their high end gear that's sitting in the racks next door and in return, they would sell products like MeetUp and Rally, so there are large enterprise customers and channels.

And I think this is a really big deal and that -- has got a incredible foothold into the AV world, some people make their career is based on being trained on (inaudible). So again, it's another -- not only a validation for us, but it's also another global brand and sales force, that's helping sell our equipment worldwide. And then last but not least, at the same time, we made an announcement with Lenovo, so we're working with Lenovo, [ph]Nano and expanding our choices for PCs, but Lenovo has decided to also resell our equipment. So, another example the company that has been competing with us, that's also decided based on the power of our products and brands to partner with us and help promote our products to their large enterprise customers worldwide. And just to show you how powerful Lenovo is, one out of every three PCs sold worldwide for the enterprises sold by Lenovo, there are huge powerhouse, and we think this is also going to add to our ability to penetrate the enterprise market. So I kind of finish with some of the things happening on the market side. So let me tell you a little bit about what's coming up next. So one of the things that we're continuing to go after is this vision of putting video collaboration in every single conference room. We fundamentally believe[ph], as Bracken said earlier, that there is a trend happening in the world where we're moving from using audio only calls to video. I think it sounds obvious to most of you, but over time, we expect and I don't know how long that time is, is it five years? Is it 10? Is it 20? It's just inevitable that we're going to move the way we work from using audio to using video.

And if you look at the opportunity, I have in front of us. It's massive. So even though probably for some of you if you live in New York or California, Silicon Valley, maybe we're using video on a day-to-day basis, but the reality is, there's only about between 3% and 5% of all conference rooms that have video in them. That means we have 95% to 97%, that's still upsized. As Bracken said, it's almost 20 times opportunity or I guess it's more like 30 times opportunity to grow this market. So even though we have that 62% of the market that I showed earlier, we're really just getting started with the opportunity to penetrate video and I think all of us know this is inevitable, so the question just, who is going to capture that and how, which leads to the next question, I'm sure many of you are asking, so, great. Scott, you guys have done really well, you've executed, you've gone 6 times, 7 times over the last few years, but can you keep it going. Great. The market is there, but how are you guys going to participate in that upside. So let me share with you some thoughts on that.

So as Bracken said, we started earlier on, it wasn't too long ago, we're really -- we were webcam company and we developed an incredible competency in doing video. So we've shipped over 100 million webcams that were integrated in with Microsoft and Skype. So I think that gave us rights to say that we have -- we know how to do video pretty well. But today, it's more than just about video, so we're developing a bunch of competencies and differentiators that will both expand that and make it harder to compete. The one thing that we talked about two years ago at AID, we talked about this idea of building up a sales force as a competitive advantage.

So, basically what the slide shows is that, if you're a start up, you might be able to have some new products, but you probably don't have that many salespeople worldwide because it takes -- as you guys know, it takes a long time to build up a global sales force. And on the other side there -- yes, there are some very large technology companies that have a massive sales force, but they're selling everything and they're not necessarily focused on our space. So the advantage that we have is, we're kind of in the middle, we've got this Goldilocks[ph] advantage of being just the right size. So a fairly large sales force. But as Bracken said, we can do more and totally focused on selling VC and understanding our enterprise customers' needs. So part of what we've been doing over the last few years has really gone beyond, just video and the sales force through a whole bunch of differentiators. So let's start out talking on the product and technology side. So, we said that we have a competency in video. But we've also over the last five years, we've been getting really strong in audio. And I think many of you know that if you're in a video call and your audio is not working then you're not really having that video call you're switching back to the telephone.

So we've developed all of the audio technology in-house, we own that IP. So that's an important part of where we've gone from being a video company to an audio company. I've shared you how we have built out our portfolio. But it's not just about having one room in the huddle room and there are some people now entering in just a small room. If

you're going to win in the enterprise, you need to have small, medium and large, you really need to have the whole thing, you can't just come in with one product and we've done that now. As I said, we can sell everything up from the small rooms up into the biggest boardrooms.

We also have desktop capabilities too. So as we work with IT managers and buyers and they're buying Zoom, Microsoft and Google, we can help them not only in the conference room but we can handle their needs for headsets and webcams. So basically everything they need is probably the largest and broadest portfolio from the desktop to the conference room. And then I showed you some examples on the software side, building out our AIML for audio and video, computer vision and also device management.

So the point is, I think if you want to play in this space, you can't just come in with a new camera, you really have to have all these things, you have to have a broad portfolio and you have to have them across the world, otherwise you can't play. So that's on the product and technology side, but there are other advantages that we've really cultivated and developed over the last few years and a lot of them have to do at scale and scaling up the business.

So Bracken and Prakash talked a little bit about our manufacturing capability, this is, I think, a really unsung advantage that we can really build and design products that are in our own factory where we can do them without sharing with other people and really have the ability to tailor that manufacturing to R&D. So most of the VC products are today built in our own manufacturing facility, and I think this is a big advantage that our competitors don't have where they largely outsource the capability.

We also have a very wide distribution. So the ability to go to almost any country in the world is a huge advantage for us. Again, when you're serving a large enterprise, they want to make sure that you can serve them and support them almost everywhere they do business and we can do that today, which very few people can do. Talking about the sales force and (inaudible) my new partner in crime is going to talk about that a little more, when she comes up. We also have very deep partnerships with the cloud providers, so whether it's Microsoft, Zoom, Google or literally, we have 70 partners on the world. The advantage for us is that they're also selling our solutions for us. So, it's not just what we do with our own sales force, but it's our partnerships promoting us too. As you can imagine, most of these big partners, they can work with 20 partners, or they can even work with 10, they're only going to work with a handful for a go-to-market point of view. So this is a big competitive advantage for us.

And now increasingly we have a big installed base. So what that means is, I was talking earlier this morning, if you're in an enterprise customer and they make a decision to go with your products, they're not like a consumer product switching every three months, I mean you're going to be in there for a while, unless you mess up, which hopefully we won't. But usually the switching times are a lot longer. So part of that advantage is, we can grow that installed base, but we cannot also up-sell and cross-sell them other products that we have, not only in the VC space, but also with Delphine's products as well.

And then, the last but not least, there are also this idea of brands and culture, so one of the nice things about working for Logitech on the VC side is that, we can really go into any CIO in the world and they will take a meeting with us because they trust and respect our brand. That is a huge advantage that we have that, as someone who worked a lot of start-ups in the past, I can tell you that, that is not something that you take for granted where as a start-up you try to get a meeting with them and they go, who are you? Why am I going to meet with you? Can I trust you? not an issue with Logitech.

Another advantage we have is we have incredible price performance. Again a discussion I had this morning, they're saying, what's the difference between what we do and some of the players that are trying to enter this market. Well, we are incredibly good at building products at a high volume in a low price and I think many of you know that some companies are good at building different attributes, very high price low volume. We're really good at the opposite. So, I would say the market is really moving our way where people want to have great products at a reasonable price.

And then last but related to, we've got a pretty clean business model. So what I mean by that is, we're not trying to evolve from selling very, very expensive products with expensive salespeople and moved down market. I think many of you know, if your financial analyst said, it's easier said than done to be able to change your business model. You can

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launch new products, but can you change your distribution, your culture, your sales compensation. And I think a lot of our competitors are certainly trying to move to the direction that we are, but I think you all know that that's easier said than done them.

So a couple of more thoughts on this. So one is, if you are a start-up, sure, you may be able to launch a new product and have some technology, but it's really hard to do all these advantages of scale to get global distribution and a sales force. If you are a big tech company, yeah, you may have some advantage of scale but I think what I mentioned is the requirements to compete in this space, you now notice the one product. But you need this broad portfolio in IP and technology. So the barrier to competing here is really going up pretty high. And then last but not least, if your competitor that's been in the space for a long time, sure, you can try to shift your business model. But I think everybody here knows that you can change technology, but people are hard -- people and culture are harder to change. So while I would say that any one of these attributes is probably not the sensible in and of itself, when you combine all these things together, I think we're building a pretty robust story about how we compete and how we add value to customers around the world.

So I'm just going to end on the note by saying that we've -- it's -- I've been at Logitech now about 4.5 years and I think it's been a really exciting ride and we've made incredible progress. But at the same time, I think I would say that I've never been more excited about the position that we're in, the opportunity to both transform this business that transform the world and how we all communicate and how we need to communicate.

So with that, I will introduce my transformation partner Erica[ph]. Thanks very much.

Unidentified Speaker

Thanks. Thanks a lot. Thanks, Scott. Nice to meet you all. I'm Erica Glidden[ph]. And as a 30-year that's not quite three decades, I'm rounding up a bit, you can laugh, because I need it. I am super excited about the opportunity to enter enterprises with the consumer brand as Scott just spoke to. Imagine entering an IT department, total of consumers, marketing departments, full of consumers, Human Resource departments, all of whom need to innovate, connect, collaborate with this technology. So, my background is early 90's start-ups from the spin-in spin-out era of AT&T (inaudible) via leading P&L operations. The technologies that I've supported over my career are telephony, services, cloud, excess of service, as well as networking including Cisco Systems.

Bracken asked me today to do my 30-day review because that's how long I've been here, four weeks and two days in public. You ready? Alright. Let's just talk about it. The brand is incredible. The culture and infectious[ph] portfolio innovative. But I'm a true speaker. So let's talk about the piece that I get to focus on. And that's the operational discipline required to meet customers where they are. Today, we sell mice and keyboards as well as video collaborations and webcams and headsets to the same buyer with no certain priority.

Customers who are both global mid-market and in every economy I enter the small, I call them foundational. They are foundational to economy. Those customers have to be met based on what their interests are. If you're talking to a Fortune 1000 Global customer, they're interested in globalization, the war for talent. How this technology can help them address sustainability as Prakash just spoke to. But a mid-market client or our foundational customer has a completely different interest. Today we meet them, all the same, imagine segmentation with targeting and what that focus will create in terms of capturing the opportunity as Scott just spoke to.

Last but not least, the channel -- my friends across the channel that I have cultivated over the years are all calling. They're very excited about this opportunity, but they know how to scale whether it's a cloud provider, a direct market reseller, service providers they know how to scale and enter the market. Today, this is an opportunity for us to be much more sophisticated. So the point is Scott shared with you the accelerated focus that he and the team have taken over the last five years.

Operational discipline will create the focus that allows us to capture that next set of opportunities. So, I'm looking forward to staying in touch with you all and keeping you posted on that progress beyond 30 days. Thanks.

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Bracken Darrell, President and Chief Executive Officer

Thanks, Erika. All right everyone. Well, Scott, didn't get his video, but thanks to my friend Ujesh, put together a quick video here. I haven't seen it before, but I'm excited to check it out. So if we just go ahead and roll the finance video. Go ahead and roll out.

All right, UJesh, we will talk about budgets later I guess. All right. Never mind, no video over finance, but I do you have the numbers. So let me jump right in. I'm going to talk about the FY '21 outlook in a little bit, but I think what's really important, maybe if I quickly just kind of summarize what you've heard today, because I think what's so important for you to walk away with here is the long-term potential and opportunity that we have here at Logitech, not just for next year, but really out over multiple years. And Bracken introduced this early on and you've heard from each of the business group leaders, about the potential. So creativity and productivity becoming a $1.5 billion or greater revenue business, video collaboration and gaming both have the potential to be more than $1 billion in annual sales and if you think about where they are today, that would be adding, if they all get there over the next three to five years, we'd be adding more than $1 billion of revenue to Logitech, we would be increase in our revenue by more than 33%.

So that's pretty exciting and what I would say is, and by the way that's happening at very attractive margins as well. So, while we're growing the business we're expanding our margin rates, we're creating investment capacity. So, then invest further out into the future as well. So before I move on, what I would say, what you really have to walk away with is, you have to believe two things. One is that the market potential is big and that there are secular tailwinds that are pushing the market forward. And two, that Logitech, with its history execution in tough times and in good times and that our capabilities, our core capabilities in areas of design and innovation, go to market and operational excellence. We've got Prakash here, he did a fantastic job. That with our capabilities in those areas, we can go capture that market opportunity. So those are really the two things I want you to keep in mind, above and beyond anything else.

So, one thing I want to share with you here is, is a little bit about how we think about investing here at Logitech, and I'm going to walk through this model kind of briefly, but what's really important to you to walk away with is an understanding that we have a very rigorous and disciplined, thoughtful and consistent way of thinking about our portfolio investments across the Company. And again, I'll touch it at kind of a high level, but if you think about our broad portfolio, we're creating experiences for customers along the X-axis here and we're trying to address existing and new users along the Y-axis and so we think about our investments fitting in these different categories and you've got products here on display, that demonstrates some of these. So we have sort of sustained investments which is refreshing and existing product lines, some of these might just be a color change. We might do a special color for the holiday. That would be an example of a sustained product refresh.

Now evolve and transform, evolve would be more what you hear us talking about here today. These are improvements on existing products. We're addressing new users or maybe expanding the experiences for our existing users and you'll see examples of that, Delphine mentioned a few, the Pebble mouse is a good example or some of the ergonomic products that her team has developed are really helping us expand either new users or new experiences for existing users.

And then our transform investments, our innovation investments into transform technologies, these are things that are really addressing completely new users and completely new experiences and some good examples of that where the StreamCam, which you see back here that Delphine had in her presentation with -- I was looking on this back here, but with Ms. Margarita, the makeup artist, as well as in Prakash's presentation with POWERPLAY, that have really cool charge mat[ph] for the wireless mouse. Those are great examples of some of our transform investments and innovation.

So again, the important thing, most companies have some sort of framework. I think ours is quite good and simple, it helps provide discipline and focus and faster decision making for us in the company and really a consistent way for us to look at our investments across our portfolio. Now, I mentioned the broad portfolio and you've heard, if you followed us, we talk about this a lot, because I do think it is really important to our success is the diversification that we have and you often hear or think about our diversification by category and if you -- in my job, what I'm really trying to do is provide investments that can sustain over the long-term. So as I work with the business leaders, I want to provide as

much predictability as I can to their investments, so that they can build a long-term road map. That's much easier for me to do when we have this type of diversification, because we're not reliant on any single category to drive our results in any given year.

So if one category is soft in any particular year, we have the strength of the diversified portfolio that allows us to sustain investments and maintain our long-term road maps. And I think that's a tremendous competitive advantage against a pure play or a single category competitor, who if they face that tough year, I'll tell you they're CFO has a very tough job, their CEO and CFO and business team has a tough job deciding what to do. As they can't meet their commitment externally, if they continue to invest, but at the same time if they don't continue to invest, are going to fall behind to a company like Logitech that can maintain those investment.

So, a huge competitive advantage for us and it's one of the reasons why I believe we're able to year-in and year-out meet our commitments and deliver on our long-term potential. We also have diversification by geography or by country and I think this tough environment we're in right now, obviously with the coronavirus actually highlights, one example of this. China is our second largest country, it makes up about 10% of our sales and while we did modestly adjust our operating profit outlook for this year, we've been able to continue plowing ahead, pushing forward with our strategies, despite the fact that obviously there has been such disruption and difficulties in that one large country for us, but we're diversified around the world and really global.

The other type of diversification, I want to highlight for you, which you just heard about when Scott and Erika presented was kind of our diversification across customers and the investments we're making to become a more diversified company, not only in consumer but even more broadly now into the enterprise with that wonderful portfolio that Scott is -- Scott and his team have been producing and now that Erika is going to come in and help us to take the market. So this diversification across category, geographies and now even further with customers really important to Logitech.

So I think about how those attributes play out and what does it mean for us financially, I mean, I think this is the slide any CFO would love the present if you look over the last three years, and this includes our updated estimates for FY '20. 10% revenue CAGR actually above the long-term model that we've laid out, you can see the gross margin expansion there in the center on the top, despite significant tariff and currency headwinds that you saw on Bracken's presentation, we've managed to maintain the forward progress on our gross margins, expanding those over the last three years and then, costs down in the bottom here in the center OpEx as a percentage of sales, you can see we've taken out about 100 basis points of cost, all that coming out of G&A, we've actually been investing at or above the rate of revenue growth in our R&D and sales and marketing over this period. So, we've been reducing our costs as a percentage of revenue in G&A and reinvesting that back into the business.

And of course, if you sum those together, you get the nice right-hand side of this chart, which is the operating profit a CAGR 14% faster than revenue growth, which of course their means operating margins have expanded. You can see estimate is more than a point as we close out this year compared to where we were three years ago. So, really robust financial performance based on many of the attributes I mentioned earlier.

Now of course, the starting point for free cash flow generation, which is ultimately what I care most about is how much is -- are we generating consistent free cash flow to reinvest back into the business and return to shareholders of course, that starts with strong operating profit growth. So you can see here, our free cash flow generation over time and what's so exciting here, if you look at FY '20 that's year-to-date. That's just through the first three quarters of the year, it does not include any forecast for Q4 and our cash flow year-to-date is already nicely above where it was last year and almost a record for a full year, which was back here in FY '18 just through the first three quarters of the year.

So strong operating profit growth and a real focus on working capital efficiency is generating good success here on free cash flow, which of course, we consistently fall back into the business through M&A or return to shareholders through dividends, which we've been growing at about 10% per year for the last few years and share buybacks.

Okay. Now let's cover the financial outlook. For FY '21, you can see here on the top line sales growth taking into account what we -- what we see today from a macro environment, certainly, it's an interesting time to be providing an

outlook for the full year. But again, I think you know Logitech, I think you know our history of execution, and our determination to achieve these numbers.

Mid single-digit top line growth in constant currency, I will talk to some of the assumptions around that in just a second and then on the operating profit line $380 million to $400 million of operating profit for fiscal year '21. Obviously coronavirus is a very fluid situation. The assumptions that we've built in here as Bracken mentioned earlier, I think certainly, we had some supply challenges in Q4 and some demand challenges, particularly in China in Q4, I think the supply situation is improving and I think, again, I think our team out executes the competition in regards to many of these things, the supply challenges are improving, but we see those really persisting a bit into Q1 and so we're going to see some revenue and profit pressure in Q1 Q1 relative to our normal -- our normal performance in that quarter. Positively, we are expecting to see normalized supply conditions starting in Q2. Now, from a demand perspective, it's obviously little harder to predict, but for supply, which we have pretty good visibility to, that's our expectation in this outlook. In terms of tariffs, which was obviously a huge topic, this current fiscal year in FY '20, we're assuming no change to the current tariff rates. So if this three comes down at some point, that's not factored in here, we're assuming tariff rates are exactly where they are. Currency, we're assuming the average rates for FY '20.

The only other change I call out here just for modeling purposes is our tax rate. We've mentioned throughout this year and posted in our filings, we're expecting a gradual increase in our tax rate of about a 0.5 point, maybe 1 point each year for maybe the next decade, but starting to see that here show up in FY '21 due to some changes in the Swiss tax laws.

Looking at growth expectations by category, creativity and productivity, similar to last year, I'm guiding or expecting low single-digit growth, certainly Delphine has a great vision for her business and she has been doing a little bit better than the expectation I've been setting. But I think this is the right way to think about the business and the right way for us to align our resources as we get started in the year.

Video collaboration, once again, we're projecting an growth rate of 25% to 30%. Again, Scott and Erica are developing plans to perhaps do better but we got to also keep in mind the law of large numbers here and I think this is the right way to think about video collaboration as we get started on the year. Gaming, with Ujesh, 10% to 15% growth, so we've got two nice double-digit scaled businesses -- double-digit growth businesses here with video collaboration and gaming.

One thing to keep in mind for gaming, this is a console refresh here. So this coming holiday, Sony and Microsoft would be refreshing their consoles. Typically, we see a bit of a slowdown on console peripherals, so like our ASTRO headsets going into a console refresh. So we'll see how that plays out but we factored that into our outlook for next year, but that's one thing to keep in mind as you're doing your modelling for gaming.

Music, the largest category within the music space for us is our Bluetooth speakers. We have seen some slowing in that market, really for the past couple of years. So, I'm projecting this to be flat to down 10%. We'll have some other businesses in there such as Blue Microphones that obviously, I think will do a little better than that. But Bluetooth speakers is really the largest portion. And then, similar to last year's Smart Home from a modelling standpoint just remains too small to really matter from a modelling standpoint.

So, closing out, as I mentioned and coming in -- I think the FY '21 is obviously very important. Our ability to manage through what looks to be kind of a tough situation, obviously with the virus, but it's really that long-term financial outlook, long-term financial strategy, which I think so important. And this hasn't changed from last year. We continue to drive our portfolio and our businesses for high single-digit growth, we continue to believe that we'll have gross margins within the 36% to 40% range, we're currently as you saw earlier, at about 38%.

There's still some room to grow there. I would say similar to the past. If I see opportunities to drive the top line and to drive growth at positive with -- profitably, we may make trade-offs and do that. So while we've incurred a lot of gross profit headwinds this year, if some of those released all our tariffs and so forth, I wouldn't immediately, expect to see gross margin shoot up to 40% because we may see opportunities to reinvest that back into revenue and to really drive the long-term performance.

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We'll continue to -- as Bracken mentioned I think really explore and importantly develop recurring and higher margin revenue streams, organically and inorganically and we'll continue to maintain our very disciplined capital allocation priorities across M&A, dividends and share buyback.

That's what I have for today financially. Bracken, if you want to come on up? Sure. Thank you Nate. Actually -- very nicely done. This is Nate's first Analyst and Investor Day, man, he seems like an old pro. I just -- I have a couple of things to finish. One is, I got a question before we started the day, which I didn't answer because the appropriate place to answer that, the correct place to answer that is in public and the question I got was, I asked someone here, what did you think of our guidance for this year and next year and the person said -- and the person shall remain nameless, said I was probably smart to take your guidance down this year whether it's because the business is softening or it's because of the coronavirus, it's kind of all muddled together and nobody will know the difference. While, I want to tell you right now, our demand is super strong, exactly where we thought it would be. So the reduction we took this year is completely because of supply and because the demand impact in China and a few place where we simply couldn't supply. So, the business continues to be strong and I feel really, really excited about it. Now, going into next year, our assumption is continue to be pretty solid, some kind of a band. We expect to have -- we don't expect to see a big change in the demand curve. It's a big change to happen, then of course we have to revisit our numbers, but I don't expect that to happen. We are in some kind of a band, I think you can expect that from strong to weaker -- we can deliver the guidance we have had for next year, we wouldn't be giving it. The second thing I wanted to talk about briefly was, what happens, some other risk, for those of you who've been talked to -- who have been to these things before, you know I kind of live in two worlds. On the one hand, I am super growth oriented, always 100% of the time, ambitious, optimistic, can do, don't let it get in our way. On the other hand, I hurdle and I live in fear of the worst case, so I'm always nervous about what could happen. So I live in this dark place like 5% of my time thinking, Oh my god, what if. So I have got the growth Bracken and the risk management Darrell and the risk management Darrell comes out when I think about recessions and when bad things could happen, global recession, fears of a global recessions, what happens if this thing it's terrible and worse and you know who knows exactly, I mean you can't predict the entire impact of anything when you get to that level. But if I ground myself back in our business, and I'll go back to the reality of what we do for a living. Here's what I think. First, I think if we end up being quarantined in our homes and we need to spend more time at home and people are encouraged not to accumulate to work together, you're probably going to want to have your own workspace at home. So, you will continue to have your workspace at work, but you also have you workspace at home, if you have your workspace at home, you're going to want to have something in home, that's good and that's great for Delphine's business. If you're home more, it's probably not going to stop this from happening. People are going to continue want to game. So they'll keep gaming and that's probably speaks well for Ujesh's business. And the reality is, if we're doing more and more remote work, we're going to do more and more video connecting. If you do more and more video connecting, an amazing affordable solution is the way to go. So if I look across all three of our businesses and I'm putting myself in that dark place, so I don't think it will happen tomorrow or six months from now, but it could. I actually think, gosh I'd rather be here than anywhere. So I think we're a great investment for growth and we're a great investment for risk management. That's just my point of view, and I'm obviously extremely biased. The final thing I want to close on is, and then we'll take questions, anybody here can take questions, is a few big questions that we already answered, but I want to remind you what the answers are. First one is in Delphine's business, our oldest, most mature, most boring business. Delphine, I don't mean to offend you, I was being sarcastic, our creativity and productivity business is not only alive and well. But it has exciting growth potential driven mostly from the youngest user who is out there. Those who are going out every day and digitally creating things to put out for their friends, for their followers, and for their potential new business customers that they're trying to create, it's a super, super exciting business. If that were our only business it would be a great company. So, do I think that our best days or we were kind of not going to be able to grow. No way. We are going, keep growing, sustainably growing in our C&P business, our biggest business. If your aggregate the categories, gaming, do I think that growth is slowing and gaming, do I think that this trend is going to somehow change, no, I hope you get a little feel for Ujesh's enthusiasm for the business and he lives in the middle of it. If you've got kids, you know this. This trend line is not going to change. The growth of gaming is just on the secular growth curve that will not let up, that is the future. There will still be regular sports thank god. I'm a basketball player, an old one but I am a basket ball player. But the growth of gaming is going to continue unabated and we're going to keep entering new spaces around it and driving our growth in things like

Streamlabs. So, look get ready, it's not going to slow down. We're going to keep growing. Now you hit the log of big numbers, so we will grow maybe a 25% every year, but I think the 10% to 15% is very reasonable. And the last one is video. Oh my god, what happens when -- now that has gotten really attractive, what happens when the competitors come? We must be in trouble. This must be the end. The glory days are over. Well, the competitors have been there. They're going to be there and they're going to get stronger and we've been there and we're getting stronger and stronger and stronger. And every step we take is to make ourselves a more efficient, more effective and more aggressive competitor. We love competition, with that competition, you don't improve enough. So if we have more competitors and the competitors that we didn't get better, terrific. There's so much growth in this market. So much, growth, I mean -- sometimes, I can't believe the numbers that we put out there, 3% to 5% of the rooms enabled and that it's probably going to get to, I don't know (inaudible) 10 years from now, maybe it's going to be 70%, 80%, you do the math. That's a lot of growth ahead of us and we're building an integrated system that is not easy to duplicate. Sometimes it's an advantage to start from scratch and we started from scratch eight years ago and now, this thing is getting really sick with tentacles that connect everything as Scott described it really well. So I am super excited about the business. The last question is what's next. What's next growth Bracken, where are you going to grow next, well the answer is we don't need one. We have got exactly what we need. We set the table, now we run -- that now we have dinner, now we run the play We run the play for the next several years. But there will be a what's next, because we're always working on what's next. We're always working on new seats, three is stuff development in the backroom. Can I tell you what they are or if they're going to come out. I will tell you what they are and I can't tell you if they're going to come out. We will keep working on them. So there's should always be what's next, a couple of what's next. So we'll stop there and give you chance for questions, Q&A. Yes.

Steve Wilson, Analyst

Steve Wilson, Lapides Asset Management. This is a great presentation, obviously it was skewed towards your larger faster growing businesses.

Bracken Darrell, President and Chief Executive Officer

Yeah.

Steve Wilson, Analyst

But you have a number that are stagnant and a few that are actually declining. Could you just talk about where they fit in all this in terms of is there for each one of these a revitalization strategy or where you just going to sort of take these body blows and let them sort of whither away. And I'll come back to the chart, where you talked about smart home and basically, what was the outlook that it was like too small to matter. Can you afford to have a couple too small to matter and still have them remain unfold or do you need to look at this and say, only our stronger business need to stay in?

Bracken Darrell, President and Chief Executive Officer

I always viewed from the first day actually from before I joined and (inaudible) I first talked, I always viewed Logitech as a, what would be a dynamic portfolio company. In my definition of a dynamic portfolio company means you have things you invest and double down in, things you support, but don't expect high growth from and things you take advantage of for their contribution to profit and used to invest those first two things and so those things that you described that are represented in the three businesses today. Somehow fit into all three of those buckets. There are some of those areas that we didn't talk too much about Jaybird today.

We didn't talk very much about Bluetooth speakers today. We didn't talk about PC speakers today. I think each one of those in a different state of play and what -- what's happening in each of those and I won't go through all of them but I'll

just say, you've got some business we think very deliberately about how do we reduce the overall investment. Get it to the lowest level we can and sustain the business or even sustain a decline curve and use that to invest where we've got high growth like in Scott's business or Ujesh's business or Delphine's business.

So I view this as a dynamic portfolio, you asked can we sustain that, can we live that. Absolutely, that's by design. Now, in the whole, we've really pulled back on the Harmony business. Because we don't think it's got long-term potential to really be a growth driver for us. It's still there, we still support those customers. They love us, absolutely love us and they buy a lot of other things from us, so we'll keep supporting them. But we're not going to invest in that business. We're not going to try to make something else. We've done various things to tested the water, we're going to keep supporting it, but in a very modest way. Okay, next question.

Unidentified Participant

Hey, thanks a lot. Can you just have a couple of -- could you just start by commenting on how much of the fiscal '21 guidance is -- or to what extent it's impacted topline, bottom line by coronavirus and then I have a follow-up after that?

Unidentified Speaker

Sure. It's a really tough one to answer. You want to try or you want to let me do it?

Unidentified Speaker

Yeah. So, we mentioned in Q4, we had about a $30 million revenue impact. I think Q1, based on what we see right now, I think it could be that size as well, maybe even a little bit worse, maybe a little bit better. We'll see how long it takes for the supply to recover. Again under the assumption that we get back to kind of full capacity and full supply in Q2, I think most of what we're projecting is going to be a Q1 impact, obviously, we'll get more visibility to that in the days and weeks ahead.

Yeah, I think beyond that everything Bracken mentioned, it will be interesting to see how some of these plays out just with kind of the use cases for many of our products and how it may be something that people find very attractive for them to help as their lives changed potentially here, especially in the short-term, we can help provide some solutions for them.

Unidentified Participant

And is there any cost headwind from increased shipping costs or anything like that?

Unidentified Speaker

Yeah. So I'll talk to that one. So that's something that we see a little bit of in Q4 that's part of the profit impact here in Q4 and probably more or so in Q1 as we try to catch up. A lot of what we needed in, say, the US for Q4 was on a boat before all this started. So we may have to chase a little bit because demand has been good and spend a little money on air freight here in Q4 and that's included in our outlook. I think that's one of the things that I probably expect to see. That'll be a little bigger factor in Q1. Just as supply starts to catch up, it's going to be late in the quarter, we may need to accelerate and expedite some of that material into the US.

Unidentified Participant

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And then just one last one here. Just with regards to gaming, the compares are easier, but the console mark, I mean this console refresh, so there is some sort of friction there between those two dynamics.

Unidentified Speaker

Yeah.

Unidentified Participant

The gaming guidance for this year was a little bit low in the gaming guidance for '20. Could you just sort of walk us through how sort of how you get from easier compare as what you get sort of guidance going being lower in fiscal '21 and the interplay between easier compares but console refresh and if there's anything else that drives the guidance being lower in '21 versus '20 for gaming? (Multiple Speakers)

Unidentified Speaker

Yeah, really two things that drive the -- there's three things that drive the gaming number. So overall, the gaming -- secular trend of gaming continues. And you said -- as you said, you have the tough compares last your Fortnite effect are largely gone. This year, however, you've got another dynamic, which is the two consoles refreshed. In historical -- historically, when those console refreshes happen, it sort of froze the headset market for a little while, and so we certainly think that could be a dynamic that happens. How severe it is? We don't know. We're contemplating it in our number. The second is that our controller -- the controller we launched this year will go out of -- essentially be out of not inspect when those new consoles come on, at least for a while, so we're expecting that to phase out. You want add anything?

Unidentified Speaker

Yeah, I mean I think similar to this year and under that we've got several businesses within there. We've talked to this year about how the PC gaming businesses have continued to grow nicely in the double-digits. In fact, even better than a year before in some quarters. So, I think it's going to be a mix of things, I wouldn't say every business within gaming is going to grow in that 10% to 15% range, but I do think that's kind of where the overall gaming portfolio would land.

Unidentified Participant

Thanks.

Unidentified Participant

Thanks. Nehal Chokshi from Maxim Group. Got two questions, unrelated questions. First one is -- I want to go back to the commentary on smart home. I understand it's too small to matter and that's not the business that you're going to invest in. But when you look at the overall picture of smart home, how big that could be, why not try to make out one of a transformative investment, because it seems like it could be a massive home run for you guys, if you did do that?

Unidentified Speaker

Yeah. Okay. I'll jump in on that, that might be a smart thing to do. We work on a bunch of different seeds in the background and we're always looking at M&A and so we're always thinking about what else could we be doing and if

we were doing something else, it would be in the context of those two areas. What we're basically saying is in the businesses that we report publicly right now, which is mostly Harmony, it's not an area we're really going to be investing in. So, that's going to be in a steady decline, I would say, worst case. But that doesn't mean that we're not interested in the smart home. We bring a lot of things to the -- from a technology standpoint, we bring a lot of things into play from an engineering standpoint and design that we could do in the home that are really interesting. But we're just not out there with them yet, will we come out with something, we'll see. It's too early to say, but right now based on what you see that's our view.

Nehal Chokshi, Analyst

And then the other question is that, I think it's safe to say that you're investing in growth, which always comes at the expense of current operating margins and you guys have been pretty transparent about that but what I'd like to really get a some perspective on is that, how much investments. Obviously with your gross margins 36%, 40% guidance, more or less at the midpoint there that's just that there might be 200 basis points there, but what about on the OpEx line, Were you are talking about 200, 500, 1,000 basis points investment in growth and therefore, when you get to a mature state, we could be looking at maybe 1,000 basis point higher operating margin x years out, whether that would be 3, 5, 10 whatever.

Unidentified Speaker

So on operating margin, as part of that long-term outlook, we've set a range of 11 to 14, we think we'll end this year probably somewhere around about the middle of that and I really think about those levers somewhat interchangeably between gross margin and OpEx, different businesses have different gross margin profiles and different OpEx intensity as well.

I think our focus is on adding more high-margin businesses to the portfolio and we're doing that today in these growth categories and the good news is still, I think we've put a lot of investment into the P&L over the last few years, specifically in video collaboration where not only, we've been really expanding the portfolio and the rate of innovation in that category, but also with the sales coverage. So, I think we've put some cost into the P&L there that I expect to have a good long-term return.

The other thing is we've been pulling dollars, we talk about this move from push to pull, if you've heard us talk about that before and what that is increasing our investment in our marketing capability, which again goes into OpEx, but provides that good long-term returns. So you don't always see these things from quarter-to-quarter or even on our full year because there's a lot of moving parts and we're shifting a lot of things around between businesses or categories that have different growth trajectories. But net-net, I would say, we'll continue to focus on tightening expenses on G&A and always keeping that growing slower than revenue growth and then, investing in R&D and investing in sales and marketing. Sometimes, you may not see those things like I said increase necessarily because we're shifting things around but we're really trying to realign investments where we think the business need the support.

Bracken Darrell, President and Chief Executive Officer

Before you answer the follow-up, let me add something to that which I agree with 100%, I think if we didn't think we had long-term strong growth opportunities, we would certainly increase our expectation of operating margin, but we really believe in this upper single-digit growth opportunity and I think that's going to keep expanding. So that is directly related to that 11% to 14% operating income level. If that change for some reason, five years and 10 years from now, I'm sure we would change our outlook, but no way would we expect the 1,000 point increase in operating income levels when we've got so much growth opportunity ahead of us.

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Nehal Chokshi, Analyst

Sure and I wouldn't expect that either, but let me just push back, you've given us some things to think about on how to think about my question of ultimately terminal period margin question 200, 500, 1000 basis point higher and based on the inputs that you gave me, I would be thinking probably somewhere in the 200 and 400 basis point range above the current guidance range, is that the right way to think about that?

Unidentified Speaker

Again, I think we're -- Yeah I mean I think the 11 to 14 is the range we have right now and that's really a long-term view. Like I said, there's many ways to grow cash. I can do it by expanding margins and growing or I could grow faster on the top line and I can still generate the same cash. So we set ranges because we like to have the optionality and the flexibility to create different types of businesses and pursue different types of opportunities. So, I guess I don't focus necessarily just on the operating margin number. I'm really focused on operating profit growth and free cash flow growth and we'll get there in whichever way it makes sense.

Nehal Chokshi, Analyst

All right, thank you.

Unidentified Speaker

Sure.

Bracken Darrell, President and Chief Executive Officer

Thank you.

Ben Lu, Vice President of Investor Relations

I'll give you a second, we actually had a couple of folks email me, right. So I'm going to ask on their behalf.

Bracken Darrell, President and Chief Executive Officer

Is it (inaudible) family members or.

Ben Lu, Vice President of Investor Relations

So one of the analysts have asked Bracken, you talked about a slide or pointed to a slide, we talked about services. Can you elaborate, it would be a little bit about what you mean by that and the time frame?

Bracken Darrell, President and Chief Executive Officer

Yeah, I -- so first of all, we are already moving down the services path. If you look at gaming, C&P or video collaboration, all three of them have some kind of a service component already in the business, not to mention Streamlabs, which is an acquisition that's 100% service. So we're moving systematically down this path. Now today,

the amount of service that we do, that's not integrated into, I buy a product, the service comes for free.

And that's true for example of Dalphine's business. But overtime, I expect that we will transition from continuing to do that, to continue to do that and also have some dedicated service businesses. So you know the chart that I showed, whoever asked this question, you will notice it's kind of a nice general sort of sloping up curve. That's to tell you, don't expect a big service revenue component tomorrow. But overtime, you can expect a bigger service revenue about it, because we're going to -- we're building it and we're building a software engineering culture and team across our business to support that. So, it's too early to talk much more about than that except to say that we're serious, we're investing, we are hiring and it's coming.

Ben Lu, Vice President of Investor Relations

And the other question on VC is, do you envision a world where hardware gets embedded into TVs, laptops that eliminate the need for standalone video conferencing equipment that Logitech's sells?

Bracken Darrell, President and Chief Executive Officer

I think there is going to be a whole bunch of happening between now and 97% rooms enabled. And it's really hard to imagine, all the things that will happen, just like there was a lot of stuff that have to had happen between the time we created our first mouse in 1981 to 2020 when we have a great business in that business. So, I think there's a lot of things happening. We're doing a lot of things in terms of bringing on new things into our portfolio. So whatever scenario, I can come up with looks good for us, to me so far. Now 10 years from now, we'll see, I hope this looks a lot like the mouse and keep our business 30 years from now, I think it might, but no matter what, we have a great opportunity.

Ben Lu, Vice President of Investor Relations

All right and then the last one question is for Nate. Nate last year you talked about -- or you talked about a $3 EPS. Can you talk about whether you still think that's an achievable target?

Nate Olmstead, Chief Financial Officer

Sure, well, I mean, I think it starts with revenue, right. So, when I was talking earlier about that long-term growth potential in these three large categories we talked about today. If we had $1 billion of revenue from those businesses, it takes about little bit less than $2 of operating profit for $0.01 of EPS. Okay. So we need $200 million of operating profit increase drive another $1 of EPS. So on $1 billion of incremental revenue, really the question there is can we flow that through at 20%, while our gross margins today are 40%. So I would say, yes, we can generate if you believe that we can generate that extra $1 billion plus of revenue then you'll see the EPS come with that. For sure.

Ben Lu, Vice President of Investor Relations

Thanks guys. Yeah, just going back to VC, two there, if I could. The first is, based on what you guys talked about today, Polycom is having sort of some dynamics that they're having to deal with Cisco, you've had a lot of really solid recent success against as well either moving into Board room, what will be the reasons that you wouldn't continue or you will be the reason that the momentum in there would slow for you guys, if they were to slow, and there were to be competitive response, from let's say actually from, well, let's start with Cisco, what would some of those reasons be given that there is such a price point call to return advantage differential between the two of you. Because it's easy to envision why you guys would continue to do well, I love to get a sense for why you might not continue to do as well. If

there is the possibility that you won't.

Bracken Darrell, President and Chief Executive Officer

Well, there's always a possibility, right. I think it won't come back to work. Our competitors do it comes back to what we do. If we don't keep executing on new products, which we fully intend to and will, if we don't execute beautifully on new products, as we have so far and I believe we will, if we don't continue to upgrade the execution capability of our sales force, so that we are selling it at the level we are capable of and getting the kind of opportunity we're capable of, we're not -- and I believe we're not nearly what we're capable of today. Then we could slow down, but I don't believe this is about a competitive problem. This is about a Logitech opportunity. We either deliver or we don't and that's exactly where I like to sit all the time and this is a unique spot where there's so much growth opportunity in the market that is the ball is in our court. We just have to execute.

Nate Olmstead, Chief Financial Officer

Yeah, I would agree with that, I mean I think the market is heading towards our strengths and I think what Bracken saying there rings true across the company. In fact, is I think the biggest single risk is complacency. I think when you have success, that's the one thing we have really got to fight against and I think the competition actually helps combat that.

Ben Lu, Vice President of Investor Relations

Cool and then maybe Bracken just clarification for me just to put you on the spot for one of the questions that have been ask on the web. So, just with regards to VC capability, potentially becoming you bet, with us on television set, and then you asked, you said that you can imagine that you believe there is any dynamic that might occur, that you could currently imagine actually plays to your strengths, would that be included in what you can imagine and if so, how would that play to your strengths?

Bracken Darrell, President and Chief Executive Officer

I think at the end of the day, it's not easy to imagine an embedded camera that can do what a non-embedded camera can do in this case, depending on the size room you're in. So I doubt seriously, if that would suddenly eliminate the need for separated systems, I mean there is a reason why dedicated systems exist.

So yeah, I don't think that's -- I'm not -- I don't live in fear of that alternative. I think if that happens and it could, it's going to signal a world where you're going to have multiple cameras operating in the same room at the same time, that's actually super exciting because that means we sell more equipment. So I think under that scenario, I think it will also be good for us.

Ben Lu, Vice President of Investor Relations

Thanks for the clarification.

Bracken Darrell, President and Chief Executive Officer

All right. I guess if -- would have any more questions? I want to thank everybody for attending and for those online and --

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Ben Lu, Vice President of Investor Relations

We have one more.

Bracken Darrell, President and Chief Executive Officer

Sorry, one more?

Ben Lu, Vice President of Investor Relations

Good job.

Unidentified Participant

Yeah thanks guys. Could you just give us some sense of which of the business segments are being most directly impacted by coronavirus today. And then does that change in your Q1 view as well?

Ben Lu, Vice President of Investor Relations

You want to take that or you want to make--

Bracken Darrell, President and Chief Executive Officer

I'll to take it. It's really hard to answer that, because when you talked about supply, it's kind of broad. So far, as we said, our demand is quite strong. So, it's been on track. So it's really hard to say that a certain categories more impacted than another one and as I said in my kind of close, I sort of thing, all of our categories are situated nicely to get the most of what you can in a world where there is a worse situation from an impact standpoint. So, I don't think we could really say what is impacted. I would say it's not -- I will say one thing, the impact of a video in China is interesting, it's so far it's been webcams for us, but they're also very, very significantly and I don't go raise all your numbers and everything else, but because I think the real, the impact of having more and more people going to create Zoom, your sign of presume seats and teams and Google Hangouts, those impacts translating into new rooms, it's going to come later. That's the way it works, but early days, it certainly looks kind of strongly up on the webcam side in China. So, that was on the upside. On the downside, it's hard for me to point to one yet. I think it's just broad scale, if you don't have availability, you don't have availability.

Unidentified Participant

Cool. I do have one more, I just thought of, sorry, but. M&A, none of the sub-roll up yet, what's taking place sort of coming into this year, do you think this has you look at M&A a little bit more closely could it impact valuation sort of to your favor?

Bracken Darrell, President and Chief Executive Officer

I would say that there is M&A that's non-public and the few M&A you could imagine it is public and obviously the overall market down. So everything is down, that's probably a good thing, from an M&A standpoint. In the private markets, I don't know if it will have that big an impact on pricing, I think we've always got things we're looking at -- we're looking at all the time, as I've said it means like this before, we're always looking at stuff. We look at a whole

bunch of things we do very few. So I think that the overall pricing through M&A looks reasonable to me, it just comes back to finding the right things and negotiating the right kinds of deals.

Unidentified Participant

Great, thanks.

Unidentified Participant

So, I have got a couple of more questions here.

Bracken Darrell, President and Chief Executive Officer

Sure.

Unidentified Participant

You guys mentioned that you now have this large installed based on the video collaboration. Do you have data points on what is refresh cycle within that install base at this point in time?

Bracken Darrell, President and Chief Executive Officer

Scott, do you have a view on that?

Scott Wharton, Vice President and General Manager

Traditionally in video conferencing or telecom it was seven years. I think right now we're seeing because of the increased innovation, it's probably more three to five years as the innovation cycle and refresh cycle.

Unidentified Participant

And then you mentioned that there with the cross selling opportunities with the creativity and productivity. How does that manage with the refresh cycle on that side and do you have any cross sell rates in reference as well?

Scott Wharton, Vice President and General Manager

I can't speak to the refresh over there, but I can say that as we get install base in one area and customers are buying stuff from us. I think as Erika said we have an opportunity to mine our database and say, all right, you're buying a huge amount of headsets or mice and keyboards maybe you should look at us on the VC side or vice versa. So I think that's part of the enterprise capabilities that Bracken and Erika talked about that we're building, especially we talked about in the sales side, but there is also the digital marketing side that we are now cultivating to get better at. I think it's an opportunity where we can definitely exploit and do more.

Unidentified Participant

Can you speak to what's the price of this is across those like 10% of times, or 2% of times. sometimes --

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Scott Wharton, Vice President and General Manager

I'm not going to speak generally to that comment, just to say that I would echo what Bracken said is that we -- we have a long way to go to get better to be more world-class in terms of our cross-selling and that is an opportunity to do more.

Bracken Darrell, President and Chief Executive Officer

Can I add to that. I think the cool thing about what we're doing is, first of all, what we've done so far is with a sales organization, it's good, but not nowhere near great, compared to what we're capable of. I know we've held it back and that's why, Erika is here and we're going to keep our best and we build it right. And as we build that capability, it's going to create new opportunities not just in our existing products either, in services and everything. So I think this is going to unlock new opportunities that we could talk about now, but I think some of them we probably wouldn't even know until a year from now, two years from now over there.

Scott Wharton, Vice President and General Manager

Yeah, I would say, the first thing on that, and Erika and I both kind of come from an enterprise background a little bit. We really have to earn the right in those accounts and I think that's why we're focused here initially on making sure that we really execute on VC and earning the right with those customers to have that type of relationship, but I do think that's something that has upside potential or longer term potential for us as well.

Unidentified Participant

Then my other question is on the gaming side, you just talked about taking a leadership position on wireless and that consisted of creating your own IP with respect to reducing the lag, where does that IP sit. Is that on the software side, is that on the semiconductor side, can you give a little more detail on that?

Bracken Darrell, President and Chief Executive Officer

You want to jump in there?

Scott Wharton, Vice President and General Manager

It's both. So on the software side, we're doing things like optimizing our wireless protocols and then with the hero sensor that I showed you, that's on the hardware side, right. So it's both, we're innovating on software as well as hardware. And then PowerPlay which I talked about, that's both -- that's hardware and software. There is software implementations that we do, but there's hardware changes and implementations that we've done for the electromagnetic residents charging. So it's both, we're innovating in hardware and software.

Unidentified Participant

And what was the lag reduction rate you were able to achieve with these two?

Scott Wharton, Vice President and General Manager

So we get to roughly 1 millisecond for our wireless products, so which is, I mean it's faster than any of the wired products that are out there from the competition. So ultimately it's gotten to the point where it's negligible, right. We're one's even complaining and it's good enough from a speed standpoint, so now there are other things we're solving which is battery life and things like that.

Unidentified Participant

I'm sorry, you said, micro-second?

Scott Wharton, Vice President and General Manager

1 millisecond second.

Unidentified Participant

Picosecond?

Scott Wharton, Vice President and General Manager

No. We have a 1 millisecond response rate.

Unidentified Participant

1 millisecond, got it. And were was it before you had those optimizations?

Scott Wharton, Vice President and General Manager

Sorry, I don't remember off the top of my head?

Bracken Darrell, President and Chief Executive Officer

What we did in fact very early days, we are first testing this, we brought a bunch of professional gamers into into our offices in Switzerland and we had we told them, we wanted to them to try new mouse at the time, none of them have used wireless mice, because it was the lag is too slow. So they all came in, the wireless -- these are connected mice, so they set out their PCs, at our PC's. Set up their PCs, they tried them out, we said, how is the mouse, that amazing. So has is the lag, there is no lag, like usual. And then we pulled the tables back of the wires weren't connected to anything and they are wireless. So, we've been working on this for a long-term.

Unidentified Participant

Right, thank you.

Ben Lu, Vice President of Investor Relations

All right then, I guess we'll wrap up and (inaudible) who is logged in from Europe, thank you for standing up around late this afternoon to listen in. Sorry for the delay this morning, getting started, and hope everybody found this very

highlighting. Thank you.

Bracken Darrell, President and Chief Executive Officer

Thank you very much.

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