FINAL

Bloomberg Transcript

Q1 2022 Earnings Call

Company Participants

- Ben Lu, Vice President of Investor Relations
- Bracken P. Darrell, President, Chief Executive Officer & Executive Director
- Nathan Olmstead, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Analyst
- Ananda Baruah
- Asiya Merchant
- Erik Woodrink
- Joern Iffert
- Jurgen Wagner
- Paul Chung
- Serge Rotzer
- Tom Forte

Presentation

Operator

Thank you, everyone for joining Logitech's Q1 Fiscal '22 Earnings Call. During this call, we may make forward-looking statements including with respect to future operating results and business outlook under the safe harbor of the Private Securities Litigation Reform Act of 1995. We're making these statements based on our views only as of today. Our actual results could differ materially due to a number of risks and uncertainties including those mentioned in our earnings materials and SEC filings. We undertake no obligation to update or revise any of any of these statements.

We will also discuss non-GAAP financial results. You will find a reconciliation between non-GAAP to GAAP results and information about our use of non-GAAP measures in our press release and in our filings with the SEC including our most annual recent -- annual report. These materials as well as our prepared results and slides and a webcast for this call are all available at the Investor Relations page of our website. We encourage you to review these materials carefully. And unless noted otherwise, comparisons between periods are year-over-year and in constant currency, and net sales -- and sales and net sales. This call is being recorded and will be available for replay on our website.

FINAL

Bloomberg Transcript

And with that, I will turn it over to Bracken. But first Bracken, I will have to apologize that I did not get to wrap the safe harbor provision statement that I have promised you. So I apologize and I hope to still be able to do that one day.

Bracken P. Darrell {BIO 3403495 <GO>}

Thank you, Ben and thanks everybody for joining us. Nate and I and Ben had been in the business before they had. One day, you would wrap the safe harbor provisions, and I guarantee if you had, people would have listened more carefully those safe harbor provisions. So it'd be good for an SEC standpoint. So maybe in your next company, one day you will do that. I will be listening for Ben.

Okay, well, this is officially Ben's last earnings call, and Nate and I couldn't be more excited about Ben's new role as a CFO which he is going into and his new company, he's going to announce that soon. So we won't jump the gun. But then I really want to thank you on behalf of all Logitech all of these investors and analysts on the call today. Yeah, I know you've added tremendous value. I've learned a lot from you. And I'll keep watching you from afar and cheering for you.

Ben Lu {BIO 19785128 <GO>}

Thank you Bracken. Thanks so much to you, Nate and the team.

Bracken P. Darrell {BIO 3403495 <GO>}

Absolutely. Well, thank you. Thanks again. Congratulations. And now let's move on. I spent last week in New York City. Today I'm in LA, and in New York City or just outside of the city, I was walking my daughter down the aisle at her wedding, and as a proud father I want to really adore his daughter and all of -- both -- all three of my kids and my new son-in-law, I can't tell you what an amazing experience it was. It was really wonderful to enjoy this long-awaited celebration and gathering with my friends and family.

And as I talked to people, I know many are having experience like that feel more like pre-pandemic life. While experiences like this may feel like a return to the old normal, in many ways, our work life has forever changed. In many places around the world, we won't commute into an office every day five days a week. We won't waste the 10 to 20 hours a week, that's 10% to 20% of our non-sleeping non-working time, think about that. We won't waste the 10 to 20 hours a week just getting to and from the place we work. Gone will be the lost days of flying to Tokyo or Shanghai or London or Paris for one or two our meetings.

And the reason they'll be gone is it because of the pandemic? It's because that way of working was fading even before we really realized it. The virus has been terrible, and yet it's pulled in a future that might otherwise have taken 20 years to get to or more. Autopilot has been turned off, and our employees, customers and friends are looking for a new and better way to return to work.

FINAL

Bloomberg Transcript

Every conversation I have and I bet you have too recently seems to evolve to a high discussion of hybrid in some way. The new normal will not be the same for every person in every part of the world or in every company. There are a variety will be as diverse as you could possibly imagine. I'm sure that to start a lot more people will simply work from home all the time like many of us are now. That was a practice previously, most common startups and for some salespeople.

Even at Logitech, a predominantly in the office culture part of the pandemic, we're going to have a lot more people working full-time remotely. This new approach to work also unlocks talent we couldn't have access before in jobs that are far more oriented to remote work than we realized. Erin Chin, who doesn't know I'm mentioning her today, runs marketing for our streamers and creators products out of New York. We did struggle to attract her from PepsiCo where she was in marketing for Mountain Dew.

If she'd hadn't moved to California with her family on the East Coast, we might have lost Vincent Burrell, who also doesn't know that I just mentioned him, and so we might have lost this umbrella at some point. That's who she reports to. Basically runs that group. But he moved to Florida to pursue his son's passion for water skiing and secretly he's own too.

Meredith Rojas, who works for Erin, so we're talking about whole reporting structure here, develops influencer and celebrity partnerships for our streamers and creators team, and she surely would not have joined us if she'd had to move from LA, which is the epicenter of the world that she's worked in for the last decade, the entertainment world. In short, remote work is growing within Logitech. But for most people, and like for me on this call, working from home two to three days a week will become the new normal.

Those people will need spaces and equipment to work in both places. For some, that will be a fully replicated workspace in each spot. For others, it will be a place to plug their laptop into a monitor. In both cases, you'll need a mouse, a keyboard and other peripherals so you can look directly at the screen, sit back comfortably, not get a terrible video angle, and be healthy ergonomically. Most of us will want duplicates of our tools in both places at work and at home. And larger companies will standardize on good equipment. So the conference call and employee productivity are optimized.

Natasha Ligai who some of you know, runs our strategy team, and she's eager to get back into the office a few days a week. She has an important and high-profile job for us as well as two adorable kids who want her all the time. She likes the idea of working some times in the office both for meetings and also just to quietly focus. Sam Harnett, our General Counsel, who is no doubt listening right now, lives a commutable distance but like Natasha it's not easy. It's not an easy daily commute, and like Natasha and Vincent, I've got to know Sam's daughter a little better, thanks to all our video calls.

I gave you specific names because I want to note, the people have --they're real people, they've realized with passions but aren't fully served by world where you burn up 20% of your time commuting. Yet they often do want in need some time in the office with their co-workers, who are also their friends. But despite that, there will be some in most

companies in parts of the world, who returned to work full-time to an office. A lot like we did before.

There are jobs where these can't be avoided, places where commutes are almost effortless and organizations that just aren't ready to make the shift. There are places where homes just don't work as well, where living spaces are too small to work comfortably, but even their work lives will never be the same. The rise of video meetings means they will feel awkward in the office on audio-only calls. They'll often discover customers and business partners who don't want to come to meetings, who request video meetings.

Video will simply overwhelm the old audio calls including in the office one-on-one. Everyone will need a good webcam there too. But that new hybrid world is not or is in a wide range of stages now? Some places are reopening quickly while others are back in more protected levels including Los Angeles where I happen to be today. It's gone back to masks. Country's like India have had starts and stops and reversals. And while much of Asia Pacific has been much better, some parts like Taiwan and Australia have moved back into defensive mode or even in the most severe lockdown since the pandemic started.

In a word, it's choppy. It's choppy around the world. It will stay highly uneven for some time. While the pandemic has been a huge change event, the cultural and technological trends underlying the change started well before the pandemic as you know. One of our clear strengths in the past nine years has been our ability to select trends to follow. I'll quickly address those trends. This approach has worked. After selecting the right categories, developing innovative products, we've become the market leaders in well over half our categories today.

If we weren't even present or barely present in over half of those categories a decade ago then we have not let up looking for new categories. While we continue to innovate in the businesses we've entered across all the categories you know, we also continue to quietly work on new categories all the time. Not all of our new category efforts turn into something. We've shelved many products before you saw them. We've redistributed teams across the company from one seed team to another, and we've launched categories you saw that we subsequently shut down. Logitech is dynamic. We continue to test and learn our way into new things, that's been a hallmark and a key to our growth and innovation.

Now, let's look ahead within our existing categories. We had strong growth across our businesses this quarter. Our video business is well positioned in a category with tremendous growth potential. Customers are digesting the need for more video, more webcams and more standardization of equipment in homework spaces. This is early days for the standardization, but it's happening. The conference room video growth is also still early days.

Many feared gaming would slow down dramatically as we exited this year, but our new products are fantastic and are growing quickly. In fact, our latest gaming products like our Superlight mouse are already among our biggest of the company. That's a shift. We're just getting our innovation and marketing engines refine here, and I'm super excited about

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

the future of gaming. Our CMP business which is mostly mice and keyboards had a super strong quarter. This is a reflection of great vision, strategy, and execution.

We're running the play from our analyst and investor day in fiscal year 2020, and you can see it. Our lifestyle products are fun and in line with cultural trends. Our ergonomic products are needed but still have low awareness. In fact, a crazy good experience provided by many of our best products is still unknown to most who would love it. We're just firing on all cylinders and have so much upside in CMP. There are awareness and new products.

Our pipeline is also really exciting. Our key categories grew double digits this quarter. That's despite chip shortages and an incredible work load and stress created by COVID on our people. Like most companies, our employees have been challenged during COVID from the stress of uncertainty, from fear, from long hours and difficulty detaching from the work day that just never seems to stop as their homes became their offices.

I think, everyone needs a break, and this summer we're encouraging everyone to take one. Now let me turn the call over to Nate to go deeper into the quarter, Nate?

Nathan Olmstead

Thanks, Bracken and thank you, Ben for your outstanding work. We're going to miss you. As Bracken said, we delivered an excellent Q1 with strong revenue growth, margin expansion, strategic investments to improve our business and share gains.

Net sales grew 58% in constant currency, profits doubled versus last year, and we remain on track to deliver to the increased full year outlook we gave in April. Similar to last year, our operations and sales teams continued to execute well and results were strong across our categories and regions. Our PC peripherals categories continued their strong momentum in the quarter with 49% growth in Q1 driven by better availability and a broad portfolio of differentiated products like Bracken mentioned.

Several of our flagship offerings like the Mx Master 3 mouse and Mx Keys keyboard continued to set new sales records even after being in the market for two years. And sales of our Ergonomic Split keyboard, the K-860 which retails for $129 more than doubled in the quarter. But that impressive performance was not just in the high end. In fact, each of our top 10 mice and keyboard products with prices that range from $12.99 to over $100 delivered strong double digit growth. And in some areas triple digit growth.

While webcam growth has started to moderate after more than tripled in last year, sales still grew 73% in the quarter and we have regained some of the share we lost last year due to supply shortages. Our priority remains driving greater awareness of the better user experience provided by an external webcam to increase our attach rates to the large and growing installed base of monitors and PCs.

Q1 video collaboration sales increased 72% similar to the 81% growth rate in the prior year. Sell-through in the quarter was even stronger and nearly doubled versus last year. On a

FINAL

Bloomberg Transcript

sequential basis, sales in the Americas and Asia Pacific remained strong, while sales in EMEA declined double digits compared to a record Q4 due to a lower opening backlog and softer demand as businesses evaluated reopening timelines.

Gaming had another strong quarter with Q1 sales up 76% continuing the fast pace of growth from last year. We delivered double-digit growth in all our gaming categories across gaming mice, keyboards, headsets, console and simulation. Gaming continues to become an integral part of many people's lives, whether for entertainment, socializing with friends or to showcase their skills on platforms like Twitch.

Tablet sales increased 66% with strong growth in both our retail and education categories. As we noted on past learning calls, however, sales of our education tablet products could decline this year due to the one-time benefit from a large education order in Japan last year. Our audio and wearable sales rose 57% in Q1 with double-digit growth in all products while mobile speakers fell 5% in Q1 in line with our expectations as we reallocated resources and prioritized our investments to faster growing categories.

Our Q1 non-GAAP gross margin was 43.8% up 460 basis points from last year. Gross margin was down as expected from a record level in Q4, but it remained at the high end of our target range. As we look out to the rest of the fiscal year, we continue to expect gross margins to be within our range but lower than current levels for three primary reasons.

First, we expect our promotional spending will continue to trend toward more historical levels. Second, we will invest in retail point of sale marketing which was significantly curtailed last year due to store closures. And last, industry-wide component cost increases. Our non-GAAP operating expenses increased 76% in Q1 to $340 million largely driven by increased investment in marketing, sales coverage and product development.

In the quarter, we expanded our DEFY LOGIC brand campaign into parts of Europe as we look to drive greater Logitech brand awareness and consideration globally. In addition to marketing we continued our investments to develop more innovative and environmentally friendly products. Wrapping up the income statement, our Q1 operating profit doubled year-over-year to $235 million and operating margins were 17.9% up 310 basis points versus the prior year period.

Now, let me talk briefly about our cash flow. Cash flow from operations was negative $115 million in Q1. Historically, our Q1 cash flows tend to be around breakeven, while this quarter, we dipped below this level as we made tactical inventory investments and we made an annual income tax payment of $120 million, which would typically be paid in quarterly installments. We expect to resume our normal payment schedule in FY'22.

Excluding this one-time change in payment timing, our Q1 cash flow would have been approximately flat, and in line with normal seasonal patterns, I still expect the vast majority of our full year cash flows to come from the second half of this fiscal year. Our Q1 cash conversion cycle was 45 days, up from 27 days last year but down from Q1 levels a couple years ago.

FINAL

DSO improved by 20 days versus last year driven by a greater percentage of our sales occurring in months 1 and 2 of the quarter compared to last year. And our days of inventory increased by 44 days to 94 as we rebuilt buffers, began migrating more of our shipments to slower but less expensive ocean freight, and strategically, invested in supply to ensure availability and favorable costs amidst a tightened global supply chain outlook.

Wrapping up, significant uses of cash, we spent $55 million on share repurchases in the quarter. Finally, in terms of guidance, with a strong first quarter in the books with the majority of the year still ahead of us, we are confirming our fiscal year '22 outlook of flat sales growth in constant currency plus or minus 5%, and maintaining our fiscal year '22 non-GAAP operating income outlook of $800 and $859. This outlook reflects continued investments in the business and is consistent with our focus on driving long-term growth.

With that, let me hand things back to Bracken.

Bracken P. Darrell {BIO 3403495 <GO>}

Thanks, Ben -- thanks Nate. Sorry. We already miss you Ben. We had a very good start to our fiscal year. Our performance this quarter demonstrates the strength of our capabilities, our excellent operational execution, and our ability to capitalize on long-term trends by gaming, streaming and creating, hybrid work and video everywhere.

The same underlying trends that drove our business pre-COVID significantly accelerated during COVID and have become much more pervasive and sustainable as we look to life after the shelter at home period of COVID ends all over the world. We have an exciting long-term growth potential ahead from this bigger base.

Now Nate and I are ready for your questions. Ben can you queue them up for the last time for you.

Questions And Answers

Operator

(Question And Answer)

A - Ben Lu {BIO 19785128 <GO>}

Sure. Thank you, Bracken. (Operator Instructions) The first question is Asiya Merchant. Your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hello. Asiya again.

Q - Asiya Merchant {BIO 20247269 <GO>}

Bloomberg Transcript

FINAL

Hey. Congratulations on a great quarter. Just a couple of quick questions, just on video collaboration, you mentioned a little bit of softness in EMEA . As you kind of look at and I know there was a great sell in the prior quarter, so you know people are already evaluating some of that. But as you look forward, some of the guidance that you provided at your Analyst Day for different segments, specifically as it relates to video collaboration of growth being double digits, up to 10% to 25%, if I'm not mistaken or 25% to 30%. How should we kind of think about that video collaboration segment now for this year given EMEA softness and do you expect that to reaccelerate given some of the channel to draw down this quarter?

A - Bracken P. Darrell {BIO 3403495 <GO>}

I'll jump in there Nate, or you want to --

A - Nathan Olmstead

Sure, just to clarify on the outlook we gave at the Analyst Day, it was 10% to 25% growth (Multiple speakers). I still think that's the right way to think about it as a double digit growth. And listen, I mean again the sell through nearly doubled this quarter. So I think we've seen in the past sometimes the selling timing can be a little different from one corner to another, especially as you talked about an enterprise business where you have large deals that fall on one side or another of the fiscal period. But we still feel great, of course about the video collaboration business both this year and over the long term.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah. I mean we're just super optimistic about that business. It's a great business for us. We have great products out there, and we have great products coming, so.

Q - Asiya Merchant {BIO 20247269 <GO>}

And then because of the inventory that you guys have built up the buffer as well as supply demand balance that you mentioned, were you like broadly share gainers across many of the categories because all I've heard from some of your peers was continued supply chain bottlenecks, logistic nightmares, component constraints in different ICs etcetera. So is it fair to assume that you guys gained share across several of your categories where you have pretty decent competition.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah it is. I mean, we gained share in most categories, in fact, the vast majority of our categories. And I do think, part of it was with just having just having supply availability. But we also -- we've got a great product line up right now. We've been gaining share. We were gaining share pre-pandemic. We're gaining share during the pandemic, and we're gaining share as we kind of see the light at the end of the tunnel. So yeah, we did though.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay. All right. Thank you.

Bloomberg Transcript

FINAL

A - Nathan Olmstead

On the inventory just because you brought it up, I think it's an important point because I think it just highlights again, the way we think about our business strategically and financially and operationally, and keeping those things aligned and with the strong balance sheet, we think this is the right time and it's good opportunity for us to use that to secure components where we can and it's a tough environment to secure components where we can, build up those buffer stocks, and as Bracken said, be ready to deliver on opportunities globally. So we've got good availability now. And I think that will be a competitive advantage for us, we'll see how it plays out.

Q - Asiya Merchant {BIO 20247269 <GO>}

Is most of the inventory in the warehouse as finished product or is it mostly the ICs and components that you've kind of put together.

A - Nathan Olmstead

It's really a mix, but I think a lot of it is in the distribution centers and it's out regionally, ready to be shipped. It's not out in the channel, right? It's in our distribution centers. Some of it is in components as well.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay. All right. Thank you.

A - Nathan Olmstead

Thank you.

Operator

The next question is from Paul Chung from J.P. Morgan. Your line is now open.

A - Unidentified Speaker

Hi, Paul.

Q - Paul Chung {BIO 21176642 <GO>}

Nice to see you guys. So first up, on gaming, very nice momentum there. Can you kind of expand on the product mix? We saw relative strength in the portfolio and as we start to you know lap these tough comps, where do you see kind of momentum extending. And given the strong start to the year, do you think, the flattish outlook in gaming is on the conservative side. And I have a follow up.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Well, I'm really excited where did we see strengths in within the gaming business, we got you know four, five segments you can really point to and really all of them I can honestly say, I'm excited about our gaming business because we just had growth in every single

Bloomberg Transcript

FINAL

Bloomberg Transcript

segment, and we're growing market share across the two, and we have a fantastic portfolio. And one of things I said in the opening was that the nature of the innovation we've been doing in gaming has also been changing and it's shifted from a lot of small products to fewer bigger ones and it's a testament to our team.

And then the other thing that's happened is our marketing engine in gaming is probably the best we've had. I mean, they've really created Logitech G over the last five to seven years and they're just getting stronger and stronger. So yeah, I would say overall, I just feel very very good about gaming. We're not reopening the discussion around each individual category right now as an outlook. We confirmed the outlook for the year that we just raised back two months ago, but I'm super excited about gaming Paul.

A - Nathan Olmstead

Yeah, I think Paul on the outlook too, just one thing to keep in mind is gaming does have a big holiday period and that's still ahead of us. So I think, it's been a good start to the year, good strong first quarter but typically, we do almost 80% of our revenue over the next three quarters and a lot of that comes in the holiday. So I think with gaming, we'll need to see how that plays out. But as Bracken said, we go into that period with a great line-up, and headsets is we -- we mentioned last quarter, I think just continues to perform well with some really cool new products.

Q - Paul Chung {BIO 21176642 <GO>}

Okay. Great. And then just on the ramp and reinvestments in the business, though it's up like 70% this quarter year-on-year, you know the percent of sales is pretty much in line with previous years. Is this kind of right way to think about it longer term, and as we think about that spend, how you are tracking that return on investment there and given the step-up in R&D, should we expect kind of more frequent cadence of new product releases moving forward. Thank you.

A - Nathan Olmstead

Paul, let me answer a couple parts of that question, I'll let Nate take one on the basically business model question, and what percentage of our that spend in to others. I think in terms of cadence of new product launches, I wouldn't necessarily relate to increased investments in more new products launch. I would say, the increased investment will just enable us to do better bigger and in the places that really matter, and we see lots of opportunities for innovation. And we're not holding back on making sure we're investing there. Nate, do you want to talk about the business model question a little bit.

A - Unidentified Speaker

Sure, and just to confirm it kind of you're looking at the numbers the same way I am Paul. Our OpEx as a percent of sales this quarter was actually lower than where it was in Q1 in FY'20, and it was basically the same level as what it was for the full-year in FY'20. So I think some people look at the growth rate of OpEx and maybe have questions about it, but again, the business model or the structure of our P&L actually looks very consistent historically.

FINAL

Now, our strategy as you know is to move to a more marketing led rather than promotion led company, and so that's exactly what you see us executing this quarter and you'll see it in future quarters is taking some of the incremental profits for generating -- the gross profits for generating and reinvesting that into marketing to build the brand, to build awareness, and to drive that product -- excuse me, the brand preference over the long term, which creates a virtuous cycle of higher margin products and faster growth.

So you're seeing us execute what we've been talking about for some time, and that's what you should expect to see in the future. In terms of the percent of sales, I think, something around like what you saw this quarter is probably the right way to think about it, but it's not something I would put too fine a point on, it might be a little higher than this in some quarters, might be a little bit lower, but it's going to be the same strategy that we talked about.

Q - Paul Chung {BIO 21176642 <GO>}

Okay. Great. Thanks.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thanks Paul.

A - Ben Lu {BIO 19785128 <GO>}

Thank you, Paul. Now the next question comes from Joern Iffert from UBS. Joern, your line is now open.

Bloomberg Transcript

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hello, Joern.

Q - Joern Iffert {BIO 15374623 <GO>}

Hi, Bracken, hi Nate, hi Ben. Ben, all the best to you and yeah, we'll miss you.

A - Ben Lu {BIO 19785128 <GO>}

Thank you.

Q - Joern Iffert {BIO 15374623 <GO>}

Maybe starting this, two to three questions if I may. The first one is on your implied outlook for the next nine months. The midpoint implies, sales may be down 12%, 13%, 14% but your non-GAAP EBIT down around 40% to 50%, your gross profit margin assumptions as Nate stated is maybe in the around 40% if I understood this correctly for the current year, but if I consider, your gross profit margin was standing already in fiscal year '20 and now you have better ethics benefits, it's falling back to the same level like fiscal year '20 despite you having pricing power to offset drive the component costs despite you have invested in your optimization strategy. So why are you exactly so cautious on the gross profit, if I may ask. This would be the first question.

FINAL

Bloomberg Transcript

A - Bracken P. Darrell {BIO 3403495 <GO>}

Okay, let's stop there, we will take one at a time. So you just unloaded a lot.

Q - Joern Iffert {BIO 15374623 <GO>}

Sure. Thank you.

A - Bracken P. Darrell {BIO 3403495 <GO>}

You sound like my Board or me talking to my team. I'll let Nate to take that one but that's --

A - Nathan Olmstead

Okay. Yeah, I mean, listen your -- we gave a range as you know 39% to 44%. I think we'll be in that range this year. There's several factors on why I think gross margins as I mentioned in my opening remarks where I think they're going to come down from current levels, they're going to remain in that range whether they're at 39, 40, 41, 42, 43, we'll just have to see. It depends on a lot of things like mix and so forth, but certainly, we have some the headwinds as we talked about sequentially here with -- just we're going to have to increase promotion in the market -- as the market stabilizes, normalizes back towards more historic levels.

You know, I think mix is always going to be one thing that changes from quarter-to-quarter. I think over the long term, our mixed trends are favorable with growth in some higher margin categories. You'll also have to see how logistics plays out. Certainly, we spent a lot on air freight last year. I think we'll spend less on airfreight this year, but rates continue to be higher than their historic levels. In fact, just recently, the ocean rates have been increasing on the spot market, 40% to 50% just in a very short period of time.

So while ocean's still a lot more attractive than air, those rates have gone up from their historic levels too. So there's some near-term things here we'll have to fight through. I think over the long term, we've given a range that's got some room for margin expansion off of this FY '20 level as you mentioned, and that's our focus, is adding new categories that have that more attractive margin profile, maybe some more software into the mix and things like that. But in the near term, there's clearly some margin pressures but I feel comfortable we'll be in the middle of that range or somewhere around there.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah and even I agree with you on the other pricing power. We haven't raised any prices yet though. We don't have immediate plans to -- we're going to keep an eye on the market. We feel like some of these shortages, some of this cost driven shortages are really temporary. So we'll see.

Q - Joern Iffert {BIO 15374623 <GO>}

Yeah. Thank you. And I got the message. And second question is please on product positioning for video conferencing and webcams. I mean we can likely expect that all the

notebook providers are significantly upgrading the camera systems over the next two to three years. I mean Apple was starting with the iPad Pro for example, that are improving camera system. To what extent can this affect your video conferencing webcam business from your point of view?

A - Bracken P. Darrell {BIO 3403495 <GO>}

I think the installed base is so big, you got 1.4 billion PCs installed. So the transition, no matter what people do to the existing market, it just won't put a big dent in that market for years. So we think the opportunity there is very significant, and we're going to keep investing. And even after they do, their advantage is to a remote webcam that are really exciting. And so we're going to -- we're excited about the webcam business, I think it's a -- we've been in that business a long time and we will keep innovating in it to make sure that we've got the products that are compelling. But we're also over 35 different categories now, so we don't live or die on any one category.

A - Nathan Olmstead

Yes. I'll add one thing to that. When you are on kind of the bullish side of that opportunity is anything that drives increased awareness for webcam, increases awareness for video calling. So if someone's going to communicate quality of their webcam or the importance of having a web camera, I think that we'll see some benefit from that just in the overall market opportunity. We're going to have to compete for it, right? We're going to have to come out and innovate with great features and products in a compelling value proposition for why an external web cameras are better experience.

And I think the opportunity on notebooks and laptops is huge, because I don't think we really communicated frankly, a lot of what the benefits are. And I think, as people move towards a -- I've got two monitors here in front of me at home, obviously a lot of people may not have that, but I think as people move to kind of a monitor setup, maybe they've got peripherals, my PC remains docked next to me the whole time. I never interact with it at all. I'm only interacting with my peripherals and so I think depending on someone's setup, I think there's clear advantages for an external webcam and I think that's a big opportunity for us to communicate.

Q - Joern Iffert {BIO 15374623 <GO>}

Thanks for this. And the last question and just a superficial one. Seasonality, I mean respect to school now over the summer, can we expect that Q2 is on higher revenues versus Q1?

A - Nathan Olmstead

It's a good question. I mean, typically we would see higher revenues in Q2 versus Q1, but as I said before, I think typical seasonality is kind of out the window right now, Joern. There's so many other factors that they're sort of atypical. Back to school was very strong last year. And as you see with the inventory, we're prepared for a good back to school, but I think we'll have to wait and see how that plays out, again compared to prior years, I'm not really counting on typical seasonality for a lot of things. Certainly, some of the

FINAL
Bloomberg Transcript

promo days and things like that, we'd expect to see a pickup, for the holiday period we would expect to be stronger, but we'll have to wait and see.

Q - Joern Iffert {BIO 15374623 <GO>}

Thanks a lot.

A - Ben Lu {BIO 19785128 <GO>}

Ananda Baruah from Loop Capital, your line is now open.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey guys. Good morning. Appreciate you guys taking the question, and Ben congrats, you're absolutely awesome, and it's been great working with you, both at Logie but for years and years before that as well. So look forward to absolutely staying in touch. And so I guess a couple questions, the seasonality I'd like to just touch on as well, that was one of my kind of a more common ones. So seasonality notwithstanding, it does seem like there could be some conservativism, I guess I just want to get your thoughts on this and the revenue because I'm sort of playing around, and if I do just flat revenue for September and then and soft side of seasonality for December, March I get double digit revenue growth for the year. So any context you could provide on sort of, I guess, connecting those kinds of dots with the flattish forecast, like what are the puts and takes there and then I have a quick follow-up as well?

A - Bracken P. Darrell {BIO 3403495 <GO>}

I'll start than you can jump ahead, I think, we guided at the beginning of year, this flattish revenue for the full year up five down five. And then we raised the number because we finished so strong in Q4 even after our Analyst Day which was the early March. We've recently raised equivalent of 7 points, 6 to 7 points in revenue. So we've done one raise already. And as you go in the back half of the year, obviously the comparisons get stronger. So the seasonality is as Nate said, I'll let Nate to probably repeat yourself again on this or but it's really hard to call seasonality this year. Nate?

A - Nathan Olmstead

Just to put a little finer point on those comparisons, the second half of the last year, we basically grew a 100%. So that's a -- I'm not one to use this excuse. I would say and I certainly wouldn't say too much internally, but that's a tough compare. So our visibility Ananda as you know is not 9 to 12 months out. I mean, we have a pretty good visibility in the short term and some businesses like video collaboration we build pipelines and we see things further out, but we're staying with the same strategy.

We're going to remain nimble, we're going to have inventory available to grow faster if the opportunity's there. And we're going to pull back hard if things slow down. And I think as Bracken mentioned in his prepared remarks, there's -- it's a little choppy, right? Europe look like it was on path to reopen strongly. And unfortunately, it's -- had to take a pause and I think, even in parts of the United States, we now see that as well.

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

So it's hard to it's hard to make long term prediction. I would say, 6 months predictions long term wise, I think we make very comfortable predictions about you know what the long-term trends are in these businesses, and we invest for those. But frankly, some of the shorter periods within this fiscal year, we're just going to have to remain nimble and prepared, and that's what we're doing.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Very well said.

Q - Ananda Baruah {BIO 15320341 <GO>}

That's really useful context, And I guess just quick follow-up. Bracken, would love to get your thoughts with regards to M&A -- You guys obviously --

A - Unidentified Speaker

You're kind of breaking up Ananda but I think you are asking what Bracken served at the wedding. So Bracken, you want to -- (Multiple Speakers) would this be a good time subsides?

A - Bracken P. Darrell {BIO 3403495 <GO>}

I think, I got that Ananda, you might have to jump off video to keep your audio. If I understood you correctly, okay? To talk a little kind of -- talk a little bit later size.

Q - Analyst

Yes.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yes. So, so the answer is, yes, we don't use to go into much detail of what we're looking at, but we are always looking at things. And the vast majority of things we've done have been small, and so probably stay that way, but we're always looking at medium size even larger things, so the M&A has been a surprisingly -- and I say surprising, because most companies don't do it very well, surprising strength for us.

We've been -- we've really delivered strongly when we've done M&A. I mean, I think we've done I don't know how many acquisitions now since I've been here and we've -- almost all of them have met or are meeting their -- our expectations, so I think it means we really have an engine there we can keep driving, and we're going to keep feeling it, and we're on the hunt all the time.

Q - Ananda Baruah {BIO 15320341 <GO>}

It's great, thank you.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thank you.

FINAL

Bloomberg Transcript

Operator

Thank you, Ananda. -- Michael from --. Your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hi, Michael.

Q - Analyst

Hey, guys, thank you. And hi, Bracken, hi Nate, and thanks a lot Ben and good luck to you. A couple from my side. Maybe starting with your streaming business. Can you maybe comment on how that is developing? How much of the growth have you have seen in gaming is coming from that? And how you can leverage your business to maybe two other categories or applications, if there is anything you can share with us on that front?

And the second one is sort of curiosity. Do you have any statistics or insights on the age distribution of people buying your creativity and productivity products, and does it correlate in any way with your DEFY LOGIC campaigns. Anything you can share with us. Thank you.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Okay. Why don't I answer that one first. The answer is we skew a little older on our creativity and productivity business, but we see a lot of opportunity in younger too. We also skew more male and we skew -- and we think there's an opportunity in female. So you'll see a lot of things we're doing are with those two thoughts in mind. And with DEFY LOGIC campaign does appeal more strongly. It's very strong an appeal generally, but it's even stronger against that younger target audience. So yeah, we think there's an opportunity there and we're excited about it. What was the first question was, remind me again.

Q - Analyst

Regarding your streaming business and how it contributes to growth.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah, I mean the streaming business has just been a really strong grower underneath these numbers has really kind of lives in different places in the -- in our different categories. But generally speaking, if you look at blue microphones over the past year, it's really just grown tremendously. And we think the long term there is very, very strong.

And Streamlabs is also super exciting and it's beating all the expectations we had for in terms of growth, and we're very optimistic ahead, and we're learning so much from our service businesses, it's a pure service play. So --and then we've got -- we're also slowly quietly entering new categories. We -- some if this is starting to get out, and we're excited about the potential to really be a real player in this -- in enabling people to stream and create a content for everybody else. And there's a lot of room to grow there. So the

growth in it so far has been very good, and I think the long-term is much, much more exciting.

Q - Analyst

So can we expect more subscription like offerings from Logitech going forward?

A - Bracken P. Darrell {BIO 3403495 <GO>}

You know, we already have that obviously in a couple places. We've got a very small starting business and services on the video collaboration piece, and of course, Streamlabs and Streamlabs has a couple of things within it. So, yeah, I think you can expect more. I don't know whether you could expect to see it be significant next year or so, but we're certainly going to keep adding. (Multiple Speakers)

A - Nathan Olmstead

I think you're asking that Streamlabs sort of impact on gaming, it's really not really not material, I mean, the growth we see is really driven by the hardware. As Bracken said, Streamlabs has done very well. And it's a very innovative organization I would say that's doing a lot of testing and so forth, but it's not driving the gaming results, so that's still driven by the hardware business.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Okay. The gaming results are across every segment.

A - Nathan Olmstead

Yeah.

Q - Analyst

Okay. Thanks and then maybe just the last one on component shortages. I mean for Nate maybe, with the inventory levels that you have now, do you think you're covered for the demand that you will see in the next quarter or are there any areas where shortage might sort of constrain you to not be able to deliver on demand?

A - Nathan Olmstead

I think broadly for the next quarter, I feel good about coverage, we'll see -- I don't think this is a one quarter challenge for us. I think our team's been working on it for a while and then we'll continue. On some days, we bought days of components or weeks of finished goods or maybe a month of finished goods here or there, but I think broadly, we feel good about the coverage here for the next quarter, but they'll be things that pop up for sure. I mean, it's a daily challenge if you're in operations and supply chain.

Q - Analyst

Great. Thanks a lot.

FINAL
Bloomberg Transcript

FINAL

A - Unidentified Speaker

Thank you, Mike.

Operator

Great. Thank you. Michael. Erik Woodrink from Morgan Stanley. Your line is Your line is now open.

A - Unidentified Speaker

Hi, Eric.

Q - Erik Woodrink

Hey, good morning guys. Thank you. Thank you for taking our call, Ben, just want to reiterate what everyone's saying, it's been a pleasure to work with you. Best of luck in the future. Look forward to following your success. I kind of want to start on pointing devices, keyboards and combos were obviously very strong. I'd say most particularly strong and there's this fear in the market that there is a slowdown in the PC market broadly speaking from consumers and call it the education sector.

So the question is, one, was there anything one time in nature this quarter like prime day or the 618 festival that outwardly contributed to growth in these segments. And then the second part is what are you seeing from enterprises in these segments as people are now returning to the office. Are they coming into the market more so than they particularly were in the past, and then I have a follow-up?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yes. I would say. Yes. There is -- we did have prime day this quarter, this last quarter, and so that's certainly in the numbers. But it still would have been an extremely strong growth quarter. In terms of really, what do we see ahead from enterprise et cetera and what about the overall view of the category, I think the coolest thing about this business is it's our oldest business, and it has probably -- it's got an incredibly strong innovation engine, and we've done a nice job of segmenting our team's done a nice show segmenting the market into the different places.

And then really delivering big time against that and still the awareness is relatively low for the products that we have. So I feel like we really control our own destiny to a large extent here, not completely, obviously anything can happen. In terms of -- so we've got a great portfolio of products coming and one that's already out there. In terms of what are we seeing from business, we are starting to see businesses, or we believe that we have an opportunity really to move to more B2B business there, and we certainly are moving some resources there to make sure that happens. This quarter's growth you can't see it but was stronger in the B2B segment but it was elsewhere, and that's exciting. It's small, but it's growing fast and we think there's a big opportunity there. You want to add anything Nate.

A - Nathan Olmstead

Bloomberg Transcript

FINAL

Well, I mean, of course, I'm always going to be a little bit cautious about it. I think all those things are very true and I think the line-up is the strong it's ever been. But Erik you've got the data as well. This was our easiest compare for pointing devices that only grew 1% last year in this quarter, as we did have some supply challenges with the factory being shutdown due to COVID and so forth, factories being shutdown.

So I certainly think the growth rate will moderate from where it has been here, but all the positive factors Bracken mentioned definitely agree with. And I think the key here is that this group in particular, although I think it's true elsewhere, but this group in particular, I think does a really excellent job with market segmentation and customer segmentation and understanding customer needs. And you see that in the product development, you see that in the execution, and I think that's the path to long-term success. And so we'll execute that.

Q - Erik Woodrink

Awesome. Thank you. And then just on video collaboration, again, would love to get your take on what you're seeing from enterprise again, as people go back to the office? And what I mean by that is, do you find that businesses are almost pulling forward demand as they say, we've created our return to work strategy and now we can make these infrastructure investments? Or are they saying, we've created our plan, but we're still kind of going to spread out our purchases over multiple, whatever it may be quarters or years as we somewhat re-evaluate those plans within the next three to six to nine months again, you mentioned the choppy environment. Just wondering, how that choppy environment potentially impacts big purchases for video collaboration? Thanks.

Bloomberg Transcript

A - Bracken P. Darrell {BIO 3403495 <GO>}

I mean, I think you can safely say it's a mixed bag, you've got companies that are really going all in now and getting ready. I'd say most are saying, hey, we're -- we have a game plan, let's start to enable it but they're not moving as fast as to basically snap their fingers and have everything ready to go right away, which I think is kind of expected. We sort of expected that. So I think it's going to unfold -- the growth is going to really unfold over the next year and two and three, and I think that probably plays right into our strengths, which is we've got a great portfolio out there, great one coming and I think we've really got a salesforce now that can handle it. You want to add anything to that Nate?

A - Nathan Olmstead

Yeah. I do think it's a mixed bag and you got to factor in deployment time on some of these things as well. So the decision may be made but the deployment may take months and quarters depending on what type of solution you're talking about. So I think that's a factor too Erik. And again I think the long-term strategy here is to innovate and to build great sales -- a great sales organization and we're doing those things and to increase our marketing to increase our awareness and brand preference, but it's an attractive market, one that is competitive and we're looking forward to I think many years of success in video collaboration.

Q - Erik Woodrink

Super. Thank you, guys very much.

A - Unidentified Speaker

Thanks Erik.

Operator

All right. Thank you. Jurgen Wagner from Stifel. Your line is now open.

Q - Jurgen Wagner

Yes. I -- thank you for letting me on.

A - Unidentified Speaker

Hey Jurgen.

Q - Jurgen Wagner

Hi, actually a follow-up to the previous question regarding enterprises, what in percent of revenue, what was it last quarter and what do you think a realistic number would be going forward? Second question Bracken, you said the pipeline is exciting. So what is it that makes you so exciting. And last question on visibility, you mentioned a near-term lack of visibility but better longer term or return. So do you think the next fiscal year would then be another growth year? Thank you.

A - Bracken P. Darrell {BIO 3403495 <GO>}

It's a little too early for us to guide for next year but I sure hope so, I expected to be another great year.

Q - Jurgen Wagner

Okay.

A - Bracken P. Darrell {BIO 3403495 <GO>}

In terms of what makes me excited about the innovation engine, we just get stronger and stronger. I would say we've all suffered from having to spend a lot more time on supply challenges than we would have liked. And so that's probably delayed a few of the things that we would love to come out sooner.

But it just means we've got a good pipeline ahead of us. I mean, what you see today is not what we'll have two years from now, a year from now, three years from now in any of our businesses. So I'm excited about what's on the rise. We don't talk specific products until we get to the launch period. And Nate, you want to add anything or take the first one.

A - Nathan Olmstead

FINAL
Bloomberg Transcript

FINAL

On the enterprise revenue mix Jurgen, that's really not a figure I'm going to really talk about here, I mean we don't have that type of visibility to our end customers. Unfortunately we sell through channels, and some of those are more business oriented than consumer-oriented. So we have ways of thinking about it internally, but it's just not really a great external figure.

But you can see with the growth and video collaboration, which clearly is a business type of product. That mix is improving due to the growth in that category. And then I agree with Bracken, in the next fiscal year, I think one of the things I always say, is that sometimes the market trends don't align perfectly with our changes in fiscal quarters and years. So it's about building capabilities for the long-term. The company we are today is the company we are tomorrow and if that happens across the fiscal period, March 31st, April 1st, so be it. But we just got to continue to build capabilities for the long term.

Q - Jurgen Wagner

Okay, understood. Thank you.

A - Unidentified Speaker

Thank you.

Operator

All right, thank you. Serge Rotzer from Credit Suisse, your line is now open.

A - Unidentified Speaker

Hi, Serge.

Q - Serge Rotzer {BIO 4734915 <GO>}

Yes, hi everybody and bon voyage Ben on your life. But coming back to video collaboration, you touched it several time, I have difficulties to understand why sequentially the sales was down by $150 million. This is a big number because I do not have expected that this could be seasonality. It is not. So please, can you explain me again where are these $150 million are going? Point one. Is it the questions of the sales mix of the video cams you sold in the past to the private people? And what makes you positive? Because you have to see some pre-orders when enterprises will buy now or invest into this video collaboration. So you should have much better visibility, which you probably could share with us. This will be the first question.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yes. Let me jump in, I'll start and Nate you can finish. I think in terms of why the big sequential difference and I think really we had a -- if you look at our Q3 and Q4, they were just super strong, especially in EMEA where I think -- and there were just a lot of momentum. And I think we mentioned last quarter that we had a big backlog that we really cleared and we were sitting on very large backlog in Q4 that we were able to clear almost all of.

Bloomberg Transcript

FINAL

Bloomberg Transcript

And I think we're really -- so that made this sequential story choppy. But it doesn't change the momentum underneath it and the momentum continues to be super strong. And in terms of the Americas and AP, I think they look very similar to what you'd expect in terms of quarter-over-quarter. You want to add anything Nate?

A - Nathan Olmstead

Yeah, I mean, just again, finer point on the data, we grew about 350% in VC in Europe in Q4. Again, I think as Bracken said, we had a very strong backlog coming in. We were short of supply and we were able to fulfill that and get the channel back to a healthy level. And I think early in the call, we talked about, we still maintain our outlook. I think our expectations is going to be a good growth category this year.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay, fair enough. Do you see any changes in the gross profit margins. Is there sales mix within video collaboration. And what about the behavior of your peers like Jabra came up with a webcam and you'll see more cams coming up to the market. Do you expect gross profit margin declining, and how was it now in the current quarter in the last quarter?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Gross margins are super strong in that business. We love that business and yeah, there -- it's certainly going to get more and more competitive, great markets are always competitive. But we love our competitive position and do we think that we're going to have gross margin compression within the video collaboration business, could be, I don't know, we certainly have room. It's a great mix it's a mixed driver for us from a gross margin standpoint, so more growth the better even in the lower gross margin. But -- so we'll see. You want to add anything to that Nate?

A - Nathan Olmstead

Maybe just our investment in R&D is -- a lot of that is going in the video collaboration category and the innovation that you see there -- there's some new products actually that just came out earlier this year that really highlight that I think the white board camera I've got here with me, just a really cool product. And so I think there's going to be opportunities for us as we build up that installed base, you get into these accounts, you sold them a great video solution to sell around that as well.

And I think that's an important piece of that business we'll need to see expand out into the future with the growth in the installed base. And I think that's an important margin driver over the long term. But certainly it's an attractive market, and there's a lot of competition, and I think it's reflected in our outlook, I think our expectations around pricing not only for VC, but for the market overall.

Q - Serge Rotzer {BIO 4734915 <GO>}

So I understood that the momentum will increase again in video collaboration, and if I didn't got you wrong Nate, before you mentioned that in mice and keyboards, the

absolute level can be -- can remain stable. So this should all have a positive impact on the gross profit margin isn't it, from the sales mix, going into the next quarter, so VCs to --

A - Nathan Olmstead

What was the comment about remaining stable on --

Q - Serge Rotzer {BIO 4734915 <GO>}

Yes, you mentioned to one of my colleague that year-over-year you see decline in numbers, but you see that the Q1 has absolute level as quite a firmer solid number to achieve also in the next quarters. Did I got this wrong?

A - Nathan Olmstead

--, I think you're talking about gross margin, right?

Q - Serge Rotzer {BIO 4734915 <GO>}

-- sorry, on the absolute level of pointing devices and keyboard and combos because you said that last year, Q1 was weak. Therefore, we have seen high growth, but you see that this level can be sustainable in mice and keyboard.

A - Nathan Olmstead

So level of revenues, you mean?

Q - Serge Rotzer {BIO 4734915 <GO>}

Yes.

A - Nathan Olmstead

Got it. I think we should probably be careful about talking too much about detailed forecast quarter-on-quarter for the different businesses. It is a -- if that category, if mice and keyboard grew faster than the overall company, it wouldn't have some favorable mix impact. But I think there's just -- there's lots of products within that category that see a surge. So kind of a question, I'll have to think about a little bit, but again I would just think at the high level what I would expect is that gross margin still going to come down a bit off of these levels we had here in Q1 due to the larger factors I talked about more earlier in the call.

And I think over the long term again, one of my focus is as we talked about M&A or we talked about new product introduction, is to continue to try to build a portfolio of categories that give us a mixed benefit as we grow the company. It's not always going to be the case and sometimes that mx benefits going to show up on the bottom line rather than on gross margin.

Meaning, it's going to be a category that's got a lower OpEx profile or lower investment profile, but still accretive to the overall margin rate. But that's I think an important part of

FINAL
Bloomberg Transcript

how we think about growing the businesses to look for categories where we can differentiate, where we can get a share leadership position that gives us the ability to earn margins that are at or above the level that we're at today.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. Probably a last one if I may. You touched emerging markets at your capital market day as an important topic. Can you give us a quick update here, do you see growth here and can this also even increase -- this potential increasing over the next quarters or incremental growth -- you see incremental growth to your guidance here.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah, I jump in on that Nate. I would say we see incremental growth in the current year, it's factored into our guidance for the year but we are really excited about the emerging markets in general, I wouldn't consider China in emerging market anymore, but we still have a very strong growth in China. And we have -- and really, if you look across Latin America, in different places of the world, we see strong growth and very strong growth potential. So if anything -- if I look at my tenure at Logitech, we've undershot a lot of the emerging markets compared to their potential. I don't regret that, but I think now we have that opportunity sitting out there in front of us.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay, thank you so much. Bye bye.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Thank you.

Operator

Great, thank you, Tom Forte, your line is now open.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Hi, Tom.

A - Nathan Olmstead

Hey, Tom.

Q - Tom Forte {BIO 19855396 <GO>}

Great. So Bracken, Nate thanks. First-off a comment then a question, then a follow-up. So the comment Ben, it was a pleasure working with you and best of luck for the future. The first question was a follow-up. So I think investors sometimes place too much emphasis working and learning remotely, and how that positively affects your business? But I would argue that two of the other secular shift that you're leveraging or accelerating both gaming and self broadcasting, so can you talk about the notion that you're seeing acceleration in gaming and self broadcasting?

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yes. I love your dog sleeping there in the background. It's really adorable. Yes. I mean, we'll start with self broadcasting. It's hard to talk about acceleration when we've got so little of the potential it's already out there, but I agree that it probably is accelerating and more -- anybody on this call, if you do anything, I'm sure you're -- just as an example, I'm sure you're seeing the wave of people entering the podcasting market or clubhouse or all the places that people are bringing in audio or video equipment to stream or broadcast. And they're just more and more of them.

So I think it's -- my line has always been, I think we're going to -- we're entering a world we're going to listen and watch a lot more of each other than we are. Netflix and all the companies are getting attention for content that it's actually dwarfed by the content that's created by each other, and I think that's just going to continue. I know it's just going to continue. So yeah, I think that is going to grow for a very long time and become enormous.

In gaming, we've been saying this from the beginning Tom, that gaming is -- was -- has been underestimated or was underestimated when we started. It was probably underestimated five years in, I think it's probably still underestimated now for its long-term potential and I don't know if you heard, you read this anywhere, but as one example of the commercial power of gaming, TSM sold its naming rights for $210 million. Those are NBA, NFL, Olympic numbers. And that's an E-sports team that most people here have never heard of. So this market is absolutely going to continue to be very stronger.

Q - Tom Forte {BIO 19855396 <GO>}

Great. And then for my follow-up, Nate you talked about this notion of moving promotion spending to marketing. Can you talk about long term how accretive that could be to your margin?

A - Nathan Olmstead

So how accretive it could be to the margin.

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah, operating margin.

Q - Tom Forte {BIO 19855396 <GO>}

Yeah. So long term if you trade promotion spending for marketing spending, I would think that could be something that could be accretive to margins of long-term.

A - Nathan Olmstead

It could be accretive to gross margin and I think it could be operating margin neutral. I really think about it as a growth strategy I think as well. It could lead to operating margin expansion. We may reinvest that as well. I would think about it as a way to drive growth

and then how that flows through Tom I think, is going to be dependent on a number of factors. Bracken, you want anything add to that?

A - Bracken P. Darrell {BIO 3403495 <GO>}

Yeah. I would just say, Tom our goal here is to be a long -- we guided long-term growth target both targets of 8% to 10%. So obviously, we've got our eyes on double digits, -- long-term double digits, that's --. If we felt like reinvesting some of that gross margin opportunity back into even more marketing to drive more growth as good investor would, I know that you get healthier growth when you have a stronger brand equity and that's really underneath this, and healthier growth can also be stronger growth for the given dollar spend.

Q - Tom Forte {BIO 19855396 <GO>}

Yeah, great. Thank you very much.

A - Ben Lu {BIO 19785128 <GO>}

Thank you Tom. And Bracken, Nate, this concludes our Q&A. So I'll turn the call back over to you.

A - Bracken P. Darrell {BIO 3403495 <GO>}

We just finished, I always tell our teams all the time the most important quarter of the year is really the first one because it sets the tone for the year and creates momentum and we're off to a great start. I think we feel very very good coming out of this first quarter and we'll look forward to seeing you a quarter from now.

A - Nathan Olmstead

Thanks, Ben.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2021, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript