


# Logitech

*Logitech participated in a fireside chat at the 50th Annual J.P. Morgan Global Technology, Media and Communications Conference on Tuesday, May 24, 2022 at 3:30 PM*

**Paul Chung:** Good afternoon. My name is Paul Chung. I'm the Applied Emerging Tech Analyst here at J.P. Morgan. Pleased to have with me the CEO of Logitech, Bracken Darrell. Welcome.

**Bracken Darrell:** Thank you, Paul.

**Paul:** For those that don't really know the firm, can you talk about brief overview of the firm, the evolution since you took the helm, and how it's changed.

**Bracken:** I started 10 years ago. We went from really being mostly a PC peripherals company to now, we work in mainly four broad areas that have multiple categories within each one.

One of them is video collaboration, which everybody in the room...If you're here, you're probably familiar with that. We video-enable more rooms than anybody.

The second one is workspaces. Most people are familiar with that -- the mouse, the keyboard, the webcam, headsets.

Then the third is gaming. That one we got into when I...both video collaboration and gaming, we really, really entered for the most part when I got here.

Then the last one is our newest one, which is streaming and creating as we call it, which is the collection of categories that help creators, which includes things like cameras, but also microphones and a company called StreamLabs, which is a total service business.

Those are our four big areas. What's changed I guess most since I got here is the combination of the portfolio we're in, but also our orientation to design. I had worked at a design company years ago called Braun, which is not really a design company, but they thought of themselves that way.

I dreamed of running a company that could become a design company. I had this chart for investors that Paul might remember me talking about or even showing once, that showed the

return of design companies relative to other companies. It was 3x return to shareholders.

The design companies included all the companies you would think, but some of you might not know about. I really believed that putting the customer at the center of everything you do could create incredible value, and it has.

I think that there's so much value ahead of us too. It still very much holds true.

**Paul:** Thanks for that. Then, just to talk about what everybody else is talking about, what's your current view on supply, components? How are you managing cost inflation? I'll ask a couple more follow-ups on that.

**Bracken:** They'll take till the end of the session.

In terms of supplying components, I feel like every year since COVID started we have a new chapter of this completely surprising story. The first year was oh my gosh, we don't have anything. We don't need anything because we don't sell anything because COVID's come, and retail's shut down, and the world's ending.

Then it flipped back the other way. We grew 74 percent the second year. It's now we can't get anything, and we, [laughs] and everybody suffering on components and on everything. We somehow managed to scramble our way through, and build our own inventory, and buy ahead of everybody else, and we did pretty well.

Now, we're in the third year where's suddenly a surprise. China's the one actually shut down, instead of the rest of the world. Now how do you get stuff in? How do you get stuff out? How do you make things? How do you sell in China? Every, every, every year's been different. That's just the reality.

The other big macros stories you talked about are relatively new. Inflation, it's one of the things people are talking about most of this conference. Inflation looks like it's here to stay for a while, so that's a factor. The only answer for most people is price and cost. That's the same thing for us. We have to raise prices and lower our costs.

The second one, where we can, and then this, the second one is the continued like crazy logistics pricing, which especially express or air freight, express boat, just crazy pricing. It's been out there

for a while. It looks like it's staying for a while. It's a very unwelcome guests like the rest of these. The last one is currency, which we're, like most people you're probably hearing here, we're dollar denominated when we report, and so we report constant currency on the revenue line and dollars the bottom line. Obviously, with our footprint, currency affects us just like it does everybody else.

Those are all macro headwinds that are unwelcome guests, but every year we've had unwelcome guests we've had to deal with, and we just try to outperform everybody else.

**Paul:** Talk about the disruptions in some of the manufacturing facilities and expand on what your footprint is like now, and believe you're vertically integrated, and how's that benefited you?

**Bracken:** I'll go back to the tariff days, when the, which seems so long ago, but it was only three years ago. When we first headed into tariffs, we had 100 percent of our supply came out of China.

We immediately started, one of the skills we, skill sets and capabilities we built is the ability to move things in and out of our own factories. We have our own factories in China. We also buy from other people in China, always have. We were, at the time, we were about 50/50.

We immediately moved as much manufacturing as we needed to into Southeast Asia, mostly into Vietnam, Thailand, Malaysia. That's where we sat as we entered the pandemic. As we entered the pandemic, we moved a little bit more out of there and a little bit more out of our factory as we just moved things within China and outside of China.

That's where we are today. I would say the supply chain challenge that everybody else has faced, we faced. The semiconductor shortages, the part shortages, and the latest batch of challenges in China. We're in the same boat as just about everybody else.

**Paul:** Like everyone else, you have some elevated inventory levels, but that's also giving you the flexibility to keep the shelves stocked. Talk about competitive advantage of that, where at a Best Buy, you have so many different SKUs and how that's helped you.

**Bracken:** The first weeks of the pandemic in 2020, we made a...I've been in my job for a while, so I have the advantage of being one of probably the more senior CEOs out there, or at least on that end of the curve. I really had a feeling that even though our business was tubing that it would come back strongly.

We made a pretty big inventory bet, a 50 percent bet on the growth even though we were declining probably 30 or 40. I sat down with my CFO and my Head of Operations and we all agreed, let's make the bet.

It feels like it can be risk managed because we can always turn it into product and it will sit in inventory for a while. Well, it didn't sit in there for long, so it all worked. We grew 74 percent that year.

Then, we kept doubling down that bet because we got ahead of it. We said, "Well, let's every little while, we'd keep the bet." As we saw supply chain challenges emerging, we used our balance sheet strength to make sure that we were sitting in a position where if we did have another supply chain problem, we could maybe not completely offset it, but manage it better.

We've been there all the way through and it's really helped us a ton. At some point, we'll no longer need to do that, but that's really been an advantage that we've played out throughout the pandemic.

**Paul:** I guess on the flip side, on the demand side, you're hearing some cracks in consumer sentiment across Europe and North America. What are the trends you're seeing from where you sit?

**Bracken:** We're in this very luxurious spot where...If you're a short-term investor, it's hard for me to give you a really satisfactory answer to this. If you're a medium or long-term investor, those four trends I talked about in the beginning, you really couldn't ask for a better complement of things that drive your business long term because video is going to be everywhere.

This was how we got in the first place. We said, "Gosh, actually all audio calls will be replaced by video at some point, so let's be in the middle of that." That's happening and it's still got a long way to go.

Most of the offices that you're working in are not...They may be in some of yours, but the average is about one-tenth video enabled. That means there's a lot of video enablement left to do. If you're looking at gaming, as much frustration as a lot of parents have about e-sports and gaming, that cohort below the age of 25 is not going to stop gaming.

Basically, that's their playground now. That's their social meeting house, their clubhouse. They're

just going to grow up and the new ones that are coming in are doing it even more, so that's a great place to be.

The workspace is a really interesting place. When I came to the company, I joined Logitech, because I thought the mouse and keyboard were dead. They were going to go on to this long term secular decline and the company would have to grow into new areas, which was what excited me the most.

Little did I know at the time, but I learned quickly that actually, our innovation engine had run out of steam. If we just targeted better and then innovated, we could actually grow that business and we did all the way up till the pandemic and then it grew even more after the pandemic.

Now, we just have a lot more workspaces to upgrade, which is what we were doing before. I bet very few people in this room have a workspace that's really well-enabled for them. I'm almost positive I could take orders right now. You send me a picture and I can tell you what you really need. It would cost you a little bit, but not much.

The last one is this growth of streaming and creating. We are watching more people, with each other, create stuff and we're helping them create stuff. We're giving tools for that. Then, we're watching Netflix, Amazon, all those combined. This is the future.

We're going to have more and more of that. Amazon and Netflix will be just fine, by the way. Keep investing. The growth of the individual creator, the creator movement, is unstoppable.

Sitting in the middle of those four, I'm just super optimistic.

**Paul:** Great. Let's dig a little bit deeper and see the segment. Pointing devices, you saw a surge during the pandemic. These outfit your workstation at all costs very quickly.

You have tough comps ahead, but where are some levers for growth? Talk about also the price versus volume dynamics as well.

**Bracken:** I think the cool thing about a mouse, for example, is that it's actually not much money, and it's pretty crucial to most people's work. It's a great thing to trade up on. A lot of people have an average or below average mouse, the vast majority of people. So, there's a lot of trade up opportunity.

About four years ago we started really trying to look at more discreet audience, back to my consumer products days. What we discovered was there were lots of different needs in these audiences.

We just kept mining those needs and we're finding more and more opportunity all the time. That's why I'm so confident that I could take anybody in this room and probably upgrade your entire workspace. I mean, I'm sure dramatically, and you'd probably be a lot happier. I know I would be.

I'm sure that some of you probably have a little bit of pain when you use a mouse or keyboard. We've got something for that. Some of you have kids in your house, who love the cool colors or mechanical keys.

Today, we launched a mechanical keyboard for you, by the way. It's actually a quiet keyboard, but it gives you that mechanical feel of almost the typewriter.

We're finding ways to innovate across that, and it's driving our growth. I think we'll keep doing that.

**Paul:** Yeah, just on the keyboards, it seen a little bit of relative strength versus the pointing devices. I guess there's some function of pricing, more so as well, because these keyboards aren't cheap and they're actually very high quality.

Talk about the price versus volume more so on the keyboard side, which has seen some strength.

**Bracken:** Yeah, just generally we're a mix engine. We're engineered. Throughout my entire history of my career, I've really focused on mix, because I learned a long time ago that gross margin is the most important number on an income statement.

The way to drive gross margin is to create real value for users. The way to create real value for users is spend a little more and charge a lot more, or spend a little more in charge of a little more plus, but not so much that it's no longer worth the value.

This is what we do. We did it before I got here, and we do it better now. We're constantly driving mix in almost every category.

The only period we probably had some negative mix within a category was the early pandemic, and we just ran out of products. We were selling too much low end. We couldn't help it. We ran completely out.

We had mixed go the other way in webcams for a little while, because we had just no C270s, which was the low end of our webcam. We were selling all high-end. That's the only period we really had, I think, a negative mixed story.

We also have a great mix story across our categories. If you think about it, the average mouse probably sells for $25 from us to whoever is selling it. The average VC product sells for well over 500. You can imagine that we would trade that any day of the week.

**Paul:** Switching to audio PC and wearables, you have Blue Microphone in there, which was an acquisition. It drove some strength. Jaybird saw some pressure. Kind of state of audio and expectations for the year.

**Bracken:** It's a tough one to look at, because it actually combines a lot of heterogeneous things into that line item.

Blue Microphone is a powerhouse sub-brand within its own right. We're going to bring it into the Logitech brand this year, but it's a very powerful brand in the audio space. It's the leader in microphones for podcasters or creators in general.

It's a very, very cool product, and it's more than doubled, I think tripled, since the beginning of the pandemic. Now it's down versus year ago, but it's off super high numbers.

The other things in there, PC webcams, bluetooth speakers, they're really categories we've completely deemphasized. We have a pretty systematic way of looking at our portfolio, and we ride the waves, and we pull back if something's coming down.

I don't like declining businesses, so we don't invest in them. But we are pretty good at optimizing contribution margin on them, so we often will just shut them down or spin them off. Eventually, we have shut them down, and we've shut down a lot of things.

There's a period there where it's a sweet spot of you can actually draw a lot of contribution margin

out of a declining business. We've got a couple of small ones that are...

**Paul:** OK. Switch to PC webcam. Very, very strong during the pandemic. You sustained it into 22. As we look beyond the pandemic, what drives growth from here, after a big surge during the pandemic?

**Bracken:** Yeah, I think two things. One is the same thing that drove the business before the pandemic, which was it had settled down into a business that was just a stable slow decline.

It was a replacement business where if somebody needed a better webcam they bought it, if their webcam on there or whatever. So, that business remains.

I think the other reality though is that I doubt if there's anybody in this room that loves the idea of looking themselves off and on all day on your PC. If your PC doesn't have a good webcam, and most in the install base do not, the vast majority, you actually can improve the appearance by upgrading your webcam.

That's one thing that will drive that business long term. The second thing will be innovation. I won't say any more than that, except that we think there is innovation to be had there.

**Paul:** Then, you just introduced the...Is it Lee-tra or Litra?

**Bracken:** Litra.

**Paul:** Litra Glow. Let's talk about how that came about. I know as recently as a couple weeks ago it was still sold out on the website. What's the demand been like on that product? And how that came out of the pandemic and drove a new category for you?

**Bracken:** Litra is a light. It's the first light that looks like a webcam. You literally plug it in the back, just like you would webcam to your USB port. You just hang it on top of your screen, and you've got a much better look. It gives you that evening glow look all day long.

That came out of really us really trying to understand what people are looking for during the pandemic. Our existing cameras do a good job, but there's no replacement for good lighting. Adding lighting to it does make a difference, and it has done extremely well.

**Paul:** Tablet accessories ebbs and flows with some of the iPad cycles and everything like that. You saw some very strong educational demand, where does this new business go from this new base?

**Bracken:** I say learned, but we've learned to love that business. I mean, I always liked it, because I was always really impressed with Apple. I loved being able to do something that complemented one of their products, just like we complement the cloud platforms in all of our products. This one complimented a physical product as well, which was their iPad.

I love the association, and also just what we learned from it. It turned into a good business over time. It's become a good, solid, predictable, strong business. Very strong in the last couple of years.

We had extremely strong growth in both education and the general retail business, but it's a little hard to look at in the last year because we had one one particularly enormous education deal in Japan. It was in last year's base. If you pull that out, it continues to be a really good business for us.

I like it a lot because it also led us into education, and we probably should have always been there. There's a monster opportunity for us in the education space. We really had not done anything to get after it, and now we're starting to.

**Paul:** Let's talk about mobile speakers. This business was an engine of growth years and years ago. I guess if you could expand on how you pivot and move those resources elsewhere and also how you're able to move quickly on trends and then reallocate resources.

**Bracken:** Yeah, I think it's a good example of a few things. First, it's a great example of design. The first Bluetooth speakers looked like rectangles, like a speaker does next to the wall.

When we entered the category, we launched a few of those and they didn't do very well. Then we really tried to design one with the user in mind first, instead of what the product was. I always think of it as, instead of creating a product for the user, we created a product around the user.

We watched how users were using Bluetooth speakers, and they would often sit together in twos or threes. But more often than not, at least once in a while, you'd use it with three people.

When you have three people or more around a Bluetooth speaker, if it's a rectangle, somebody feels left out. Our team decided it had to be a cylinder.

The engineering team said, well, it actually cannot be a cylinder, because we can't make it sound the same from different sizes. I said, but somebody always feels left out and the sound quality...even the perception is that it's not...
We found a way to do it, and we launched the first cylindrical Bluetooth speaker and that business just took off. We learned a lot from it. It was a very, very good business for us for many years.

I think it's another illustration of we're not afraid to cut ties when things don't look good in the future. We just decided, actually, this doesn't look like a great category for us for the future.

We also made a choice in the early days, because the Logitech brand wasn't strong enough that we branded it Ultimate Ears, which is another brand of ours. But during the pandemic the Logitech brand has gone back up to its status, probably where it was back in the heyday of the brand around the PC, where it's really become a brand that you would accept a very wide range of products from.

Now while we're phasing out of the bluetooth speakers, it's also given us confidence in the future. We could launch new categories and use the Logitech brand, and we will.

**Paul:** Cool. Switch to gaming. I know you're very passionate about this. Talk about kind of the mix. What drove the outsized growth during the pandemic, in terms of which products?

Then, we're at a new base of revenues. Looking forward, what are the growth lovers you can pull?

**Bracken:** Yeah, the cool thing about that category, all those main four big secular trends that I talked about. This secular trend of gaming will be the biggest driver of growth for us long term, and it will not let up.

The levers that we have and what made our business advantage during the pandemic was a couple things. One is, we've always done a very good job of mixing up. Our drive towards wireless products in the gaming business and our advantage technologically in that space drove

us up big time.

Our wireless products, both the mouse and keyboards did well. Our wheels did very well.

I think it's interesting. I was just noticing, we're sitting here in the US. I was just noticing how much discussion there was, and I'm wondering if anybody in this room did, about the Formula One at Miami this year.
I had never heard of Formula One being in Miami. I knew it was, but I never heard real discussion about it. This year for the first time, I'm hearing it all left, right, and center. It seems like people are talking about Formula One a lot.

I think we're seeing that in our wheels business during the pandemic, and we're still seeing it now. The people are interested in it.

**Paul:** The Netflix show, yeah.

**Bracken:** Yeah. Yeah, maybe it was the Netflix show. Exactly.

I'd say we really have some very attractive segments within our category. We're advantaged from a mixed standpoint. We really, from a technology standpoint, we're probably the best in the combination of wireless and power management, which is the ability to make a product last for a very, very, very long time on very little power.

The multiples on this are really amazing, actually, some of the stats. We can have a keyboard or mouse that will last multiples of our competitors, because of our ability to manage power.

**Paul:** OK. That's one part of the competitive advantage. What else are you seeing there, in terms of what differentiates the product? Because, the gaming competition is quite strong as well. You have very passionate people at different firms as well.

**Bracken:** Yeah. I think actually one of our advantages is that we have this brand that is both Logitech G, which is if you're serious, hardcore gamer and you have kids and gaming, they'll talk about Logitech G or Razor or Corsair.

On the other hand, we're also Logitech. And if you're a casual gamer, or you don't really think of yourself as a gamer at all, but you do want to game because you do it to socialize, we fit.

There we've taken it into more casual gaming. You'll see if you look up some of our more lifestyle oriented products, like POP Keys. If you look up POP Keys, it's mechanical keyboards, not actually positioned for gaming at all. But it's bought by predominantly women, girls. You'll see it's a beautiful, cool keyboard, and it has an accompanying mouse.

We have this advantage of being a very broad brand who can play across multiple segments, even to non-gamers and casual gamers and women. Also a serious gaming brand, where we were the number one brand and in the esports world of the products people use.

**Paul:** Right, so, the story has been switched from wired to wireless, and that's an ASP increase. It helps your contribution margin. The wheels have been quite expensive, and some of those rigs.

How's the headset business been trending? That's been pretty competitive. Besides that headset business, if you could expand on other future opportunities in gaming.

**Bracken:** I think all those existing businesses are future opportunities, because people are going to keep upgrading. The purchase cycles are shorter in the gaming business than they are in probably in any of our businesses. That's just a continued opportunity.

We're always looking for pockets around there. You could argue that Stream Labs was really an extension of our gaming business. We bought that about three years ago. Super interesting business.

We don't report it in gaming. I don't think we do. Do we, Nick? No, I don't think so.

It's a fascinating business. It's mostly still, but expanding. It is mostly still people broadcast themselves onto Twitch, playing games. It's the spectator sport of gaming. We've expanded it beyond that now. We're moving into all kinds of different creators using it.

It's a fascinating space, and I think the gaming industry keeps developing and evolving. We see more and more opportunities, and we've got other things we're working on now. I'm really optimistic about gaming long-term.

**Paul:** OK. Switch to video collaborations. You saw a lot of strength during the pandemic, like the webcam business, for example, is very, very strong. The business before the pandemic was

growing about 40 percent CAGR for quite some time.

Now that you've had this surge in demand and now as we look forward, what's that pace of normalized growth we can expect from this business?

**Bracken:** I won't quote a number here that I haven't quoted already, but I would say that if I look at the long term, I'll just paint the picture.
If nine out of ten rooms are not video-enabled and the purchase cycle, let's say, on upgrading the existing rooms is, let's say, every three to four years. That's a lot of rooms.

Now our existing number, as you know, is about a third webcams and two-thirds conference room cameras. The webcams, I don't know. That's declined a lot since the pandemic. It's still much bigger than it was. It's running much bigger than it was pre-pandemic, more than double.

Let's say just the conference cam business. I don't see why the conference cam business won't be many multiples larger than it is today over time.

**Paul:** Talk about the trends of the on-prem conference cam switch transition to a more cloud based and how you stand to benefit.

**Bracken:** Yeah. Before the advent of..actually, we and Zoom started together in a way. In fact, Eric, you first came into our offices 2013. I didn't meet him then, but my team met him. That was the very early days of Zoom.

We had followed the webcam into little startups' offices, where they had a webcam on top of TV and that was their video conference room. We said, we can do better than that.

We made something called the BC 950, which is a really sexy name and a good product. It was about $250. It just was a better webcam, but bigger, and it was separated physically from the TV. You could set it down in front.

Then, we just kept marching up the curve there. As we marched up that quality curve, we went further and further into it. What we were really doing without talking about that way was the combination of Zoom, or later Microsoft Teams and us, was disrupting the existing video conference room, because the existing video conference room cost $30,000 to video enable, required a big server on-premise and had a lot of very expensive service behind it.

But people were wanting more and more videos. They wanted these small little rooms so they wanted to pay $30,000 or $40,000 for that. We started in those small rooms, and then we made our way up into the middle-sized rooms, and now we're in every size room.

Now, you can replace your entire on-premise system with Logitech plus Teams, Logitech plus Zoom, or both, or Google Hangouts. That revolution, that disruption is well underway. Now, more people video enable their rooms with Logitech than any other brand. I don't see really how that disruption won't continue.

**Paul:** Yeah. The larger conference rooms are a big opportunity as well given the higher ASPs and whatnot. What's your trends there and how you're getting into the mix there?

**Bracken:** To be honest. I want to have products that work phenomenally well from the largest room to the smallest, but I'm very agnostic about what size. The margins are great in all of them. There's a lot of rooms to video enable. A lot more smaller ones to bigger ones. We're just going to try to perform in every room at the best level.

**Paul:** OK. HP is moving into the space a little bit more meaningfully with their acquisition here, but how does that impact the overall competitive environment in your view?

**Bracken:** Well. I'd say first of all, it's very difficult for me to say anything except that I have a lot of respect for them. I have a lot of respect for all of our competitors including the other ones you named here. In gaming and elsewhere, we've always had good competitors.

I think in this particular case, it's nice because it's going to bring a real spotlight in the IT department to the need. I think it should drive faster growth of the market. I think having another player who's already in the enterprise too, and now we've got a bunch of people in the enterprise.

Having many people out there, talking the same story, trying to drive the category will drive the overall growth of category. Second thing is competition is great. It just makes you better. You can bet that we're going to keep upping our game because we want to make sure we perform.

If this had happened five years ago, six years ago, I would have been really worried because I was like, "Gosh, we don't have a go-to-market. We're still new in the category. We don't really know how this place works." We're not new in the category. We have a go-to-market structure

globally, and we definitely have an innovation engine that works so I'm excited about the future.

I think there's plenty of room for growth for this business.

**Paul:** Yeah. The go-to-market you invested quite heavily in your enterprise salesforce a couple of years ago. Are you pretty comfortable where your salesforce sits today on the enterprise side?

**Bracken:** Yeah. I feel so good now that we've actually got a big global salesforce, but we're never going to stop improving it just like we've done anything in our business. What I talked earlier about being a design company, that fundamentally to me means that you're constantly iterating and reinventing what you got. It's not just about users. It's also internally.

We're going to keep improving the way we work, and learning and growing and expanding. We've got a lot of work to do in every part of our business, including that one, but I feel really good about the trend line. We're so far along now, and I never would have dreamed 10 years ago that we'd have a B2B sales force of this size and caliber.

It's really exciting. We can do more with it because we don't just have to sell video collaboration equipment, which is all we're doing now. We can put other things through that pipe and that's going to be exciting too and that's ahead of us.

**Paul:** Great. Let's jump into an income statement and P&L a little bit. Two to five points of growth. You do have FX and supply chain weighing as we look beyond some of those temporary cost, but what's a normalized growth rate longer-term that we can expect now from this kind of revalue of the base of revenue?

**Bracken:** Pre-pandemic, we were growing. I think we grew at or near double digits for about four, five or six years in a row, and that's always my goal. I want to grow at double digits plus. Where our long-term model is 8 to 10 percent. I don't know what year that is.

We're not guiding for next year right now, but growing that 8 to 10 percent feels very doable to me, especially with the complement of categories we have. I think we should do that. That's absolutely within our capability. At what year is that? Is it next year? Is it the year after? I don't know, but I'm very optimistic that we have the engine that can do that.

**Paul:** OK. Your margin mix...If you have more VC, which is VC in gaming, which are some of

your more faster-growing segments, you do have that boost in gross margins. How are you thinking about the gross margin profile?

**Bracken:** For our long-term models, 39 to 44 percent gross margins, which I think is a healthy place to be for a hardware business. It's on the high end of the curve for most hardware businesses, but I think it's sustainable for us. We're now at a scale where we can do that.

I'm excited about that because I think that gives you enough room that you can build a brand and at the same time, drive more poll. This is a model that Apple has demonstrated better than anybody else in the world in the hardware space. We can do that and that's our game plan.
**Paul:** OK. Let's finish on cash. We got a minute here or so. You have very, very strong cash flow, but inventory levels are a little elevated so you might have some harvest a little bit later on. Talk about what you're going to do with the excess cash. You got a lot of specific investments that have revalued lower. Talk about the M&A pipeline, cash usage, and all that good stuff.

**Bracken:** Yeah. First, the ideal use for cash to me is M&A. I've covered myself on the back a lot today, Nate, so you'll have to bring me back down to earth later, but on this particular point, we've been very successful in M&A. Our hit rate is super high and we've done a lot of it. We haven't done a large M&A. No large M&As.

All of them medium and small, but when we've done it, it's really worked. We're just regularly doing M&A. Most of it not material so you don't hear about it, but it's a kernel of something that we can expand on, or accelerates the technology, or brings us something new thing that we can bring to market over time. I'm super excited about that.

One way to look at that is we're not doing enough M&A if our hit rates are that high. I've never worked in a company that had a hit rate as high as ours is. You could argue we should be doing more of it, but I think that it's more of a testament to how focused we are on synergies, risk management, and making sure M&A is successful.

I didn't want to do M&A in the early years that investors would look at and say, "Yeah. Sometimes they're OK. Sometimes they're not OK." I wanted to be consistently successful so investors would say, "Hey, you know, this stuff really works," and our board.

We are aggressive looking stuff all the time, small, medium, and large. It's hard to get a large thing, really everything to line up. I would say that's the number one usage. Last year, we

returned almost $600 million to shareholders through buybacks and dividends. That's quite a bit for a company our size. I think that's good.

We have a buyback program in place. We'll continue to do that. That'll be a secondary priority. We just announced last week that we were going to seek another 10 percent increase in our dividend.

We're going to be a good cash generator. We're going to be a good cash generating company, and we're going to hold enough cash so that we have plenty of room for M&A when the deals do come.
The valuations are good, but it never stopped us before. I don't want to deceive you that suddenly because prices are down we're going to go out and go on a shopping spree. Honestly, maybe one deal we didn't do because of price, but it'll almost never happen.

**Paul:** Great. With that, we'll call it a wrap. Thanks for coming.

**Bracken:** Thank you very much. Thank you. Thanks a lot, Paul.

---

MAP Digital

*Webcasting and transcription services provided through MAP Digital, Inc.*