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Y 2023 Earnings Call

Company Participants

- Bracken Darrell, President and Chief Executive Officer
- Chuck Boynton, Chief Financial Officer
- Nate Melihercik, Investor Relations

Other Participants

- Adam Angelov, Analyst
- Alex Duval, Analyst
- Ananda Baruah, Analyst
- Andreas Mueller, Analyst
- Asiya Merchant, Analyst
- Erik Woodring, Analyst
- George Wang, Analyst
- Michael Foeth, Analyst
- Paul Chung, Analyst
- Serge Rotzer, Analyst

Presentation

Nate Melihercik {BIO 20814398 <GO>}

Good morning and good afternoon. Welcome to Logitech's video call to discuss our financial results for the Fourth Quarter and Full Year of Fiscal 2023. Joining us today are Bracken Darrell, our President and CEO; and Chuck Boynton, our CFO. As a reminder, during this call, we will make forward-looking statements, including with respect to future operating results 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. We undertake no obligation to update or revise any of these statements. We will also discuss non-GAAP financial results and you can find a reconciliation between non-GAAP and GAAP results and information about our use of non-GAAP measures and factors that could impact our financial results and forward-looking statements in our press release and in our filings with the SEC. These materials as well as our prepared remarks and slides and a webcast of this call are all available at the Investor Relations page of our website. We encourage you to review these materials carefully, unless noted otherwise, comparisons between periods are year-over-year and in constant currency and net sales. This call is being recorded and will be available for a replay on our website.

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I will now turn the call over to Bracken. Bracken?

Bracken Darrell {BIO 3403495 <GO>}

Thank you, Nate. Thanks all of you for joining us. Today I'm joining you from New York. This really is a hybrid call and I think, Chuck is in -- I know Chuck is in California and Nate, I believe you're in Dallas. So we're really all over. About 60 days ago, we provided an overview of our business and our outlook for the coming fiscal year and Chuck will cover the details, but big picture, we ended this year within our latest outlook and the outlook for the first half of -- first fiscal year '24 remains unchanged. Most of the macroeconomic and geopolitical issues that impacted our fiscal year '23 results continue. Central banks are raising rates to combat inflation, consumer confidence remains lower and overall demand from enterprises remains tepid. As I look at factors that are more directly impacting our business, it's a mixed bag. There are positive signs.

The dollar is weakening thankfully, shipping rates, lead times and our reliance on expedited shipping are nearing pre-pandemic levels. Promotional levels are normalizing and supply chains appear to be a problem of the past. However, industry layoffs continue. The way companies handle return to the office continues to be uncertain and we're not yet seeing refresh cycles kick in for products that were in high demand during the pandemic. As we said last quarter, these conflicting economic signals create an environment with low visibility and a bias towards managing our business conservatively. Adjusting our business to meet the market opportunity is something that is not new to us, we adapted throughout the pandemic when we faced supply chain, logistics and manufacturing challenges and we're adapting now, to reshape our organization for more nimble decision making, faster product design cycles, meeting evolving customer needs quickly and fluidly and improving our speed to market. So while acknowledging the macro headwinds, we've ended Q4 in a solid position.

Our sales teams closed a number of meaningful customer deals. We closed on Snowflake for example and representing multiple industries, as well as education and government contracts. We released 52 new products in fiscal year '23, and while it takes time to scale these launches, it demonstrates our commitment to product innovation.

We won a record number of design awards. The latest number is over 160 for the full year, 82 in the fourth quarter alone. Innovation is the key engine of this business and it's firing on all cylinders. Our commitment to sustainability is absolutely unwavering. In fact, we now have nearly 45% of our products with Carbon labels. I believe, there is no other tech company of our size or bigger near this level.

We quickly reduced operating expenses to match the revenue reality. Revenue decline and OpEx reductions were down equally on a percentage basis for the year. As I indicated last quarter and our Analyst and Investor Day, our fiscal year '23 results were disappointing. As I always say to myself, it's time to draw a line behind our heels, learn from the past but move forward and that's exactly what we're doing. We remain committed to the long-term growth trends, markets, strategy and business model we have in place.

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So looking ahead, you should expect us to operating the business in a disciplined manner consistent with what we've demonstrated over the last few quarters. We'll continue to adjust our expenses in line with the market. We'll continue to invest in product development. We've plans to introduce a whole line of new -- whole series of new products across gaming, video collaboration and keyboards and mice in the quarters to come. And we will continue to improve and refine our global go-to-market capabilities. I'm confident that the big durable trends we've been highlighting video everywhere, hybrid work and the explosion of gaming and content creation will drive growth.

Challenging times always sharpen your focus and the fiscal year '23 definitely sharpened ours. We quickly re-sized in a prudent methodical fashion, while remaining committed to the keystone of our business, product innovation or as I think of it design led engineering. We're confident that we've been -- we've taken the appropriate steps to spring load our categories for growth as we exit this economic cycle and move ahead.

One final point, before I turn it over to Chuck. I said earlier that 45% of our products now include carbon labeling. This is a huge deal for Logitech. But it could be an even bigger deal for the world. I'd like to point out that we're not trying to convey -- create competitive advantage here. We'd love the chance to help others including competitors to advance carbon labeling. So please, for those of you listening, consumers, investors, analysts or -- and our competitors. You can have an impact, a big one.

I'd ask that next time, you're interacting with any company including your own, ask them about their approach to carbon labeling. We can move this ahead so much faster for the betterment of our customers and for the world. Carbon labels on all our products can be the new calorie and that will drive competition and bring down carbon levels.

With that, I'll hand over to Chuck to provide some additional color on Q4 and fiscal year '23 results. Chuck? And Chuck, I want to -- I want you to notice that I -- I wore my jacket, I felt so much pressure [ph] from you, you said, until we have growth, you have to wear a jacket to the earnings calls.

Chuck Boynton {BIO 17080323 <GO>}

Well you look great, Bracken. Well thank you. And I appreciate you all joining our call today. Our Silicon Valley site is being relocated, so I'm calling in from my house today using a 4K Brio webcam, the Logi Dock and our MX Series mouse and keyboard. Next quarter, we should be in our new office in San Jose. Now let me delve into the fourth quarter and full year in greater detail. Our Q4 and full year results are in line with the revised outlook we shared during our Analyst Day in March. For the quarter, net sales in constant currency declined by 20% to $960 million. For the full year, net sales were down 13% to $4.5 billion.

Examining our category performance, results were in line with expectations with continued pressure in Video Collaboration down 25% and Gaming down 22% due to a slowdown in simulation while our creativity and productivity categories either held steady or improved sequentially. In Q4, gross margins were in line with our expectations, decreasing year-over-year to 36.3%. For the year, gross margins were 38.3%, down 340 basis points compared to fiscal year '22. Margins were pressured throughout the year due to

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unfavorable currency movements, inflation-driven cost increases and product mix. As we transitioned to fiscal year '24, we anticipate the weakening US dollar euro exchange rate and lower manufacturing costs to contribute to improving gross margins.

We judiciously reduced operating expenses over the year while continuing to invest in our product innovation initiatives and enterprise selling capabilities. Operating income was $82 million in Q4 and $589 million for the full year. Operating income in both the quarter and the year reflected lower demand and gross margin pressure, partially offset by reductions in operating expenses. Cash flow from operations was $217 million in Q4 and $534 million for the full year.

Our ending cash balance was over $1.1 billion. We returned a total of $577 million to shareholders in fiscal year '23 through our share repurchase program and dividend payment. In March, we outlined our intentions to quickly address two opportunities. One, improve our cash conversion cycle by reducing on-hand inventory and optimizing channel inventory and two, reduce operating expenses to a run rate of $1 billion.

Although less than two months have passed since we presented these plans, I'm encouraged by the strong momentum on both fronts. I'm pleased to report that our on-hand inventory was down for the fourth consecutive quarter with Q4 seeing the biggest reduction of the year. Our goal over the next year or so is to continuously improve inventory turns to five or better. Furthermore, we plan to keep reducing channel inventory in the first half of the year before the normal build for the December quarter.

As we mentioned during Analyst Day, we believe lower channel -- lower channel and on-hand inventory provide better economics for us and our partners in the value chain. We are maintaining the outlook we provided in March expecting H1 fiscal year '24 revenue of $1.8 billion to $1.9 billion, down approximately 22% to 18% compared to the prior year in US dollars. Our corresponding operating income is expected to be between $160 million and $190 million, down approximately 47% to 37%. Nate, we can now open the line for questions.

Nate Melihercik {BIO 20814398 <GO>}

Great, thanks Chuck, thanks Bracken and thanks everyone to joining. As a reminder, please raise your hand if you're interested in participating in Q&A and come off of video when selected. Thank you.

Questions And Answers

A - Nate Melihercik {BIO 20814398 <GO>}

First question comes from Paul Chung at JPMorgan. Morning, Paul.

A - Bracken Darrell {BIO 3403495 <GO>}

Hello, Paul.

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Q - Paul Chung {BIO 21446425 <GO>}

Good morning. So good to see you guys,

A - Bracken Darrell {BIO 3403495 <GO>}

Good to see you and (inaudible)

Q - Paul Chung {BIO 21446425 <GO>}

Yeah, so first up on gross margins for 4Q, would have thought there would be better improvement and kind of easing supply chain headwinds, what drove the pressures there? I know VC and gaming mix has come down a bit, which may have driven some impact there. What do you see as temporary and as we move into the next year, how should we think about those variables easing and kind of impact on gross margins at least in the first half.

A - Bracken Darrell {BIO 3403495 <GO>}

Okay. Chuck, you want to take that one.

A - Chuck Boynton {BIO 17080323 <GO>}

Yes, certainly, thank you, Paul. Our overall margins for the quarter were roughly in line with our expectations. We did -- the operations team did a phenomenal job reducing costs. But with inventory turns, we won't see the benefit of that cost reduction until next quarter as it flows through. Q4 compared to Q3, we did have some minor inventory charges. The mix issue is identified in the prepared remarks and looking forward, we see tailwinds with FX, lower costs and obviously note -- not the same inventory charges and longer term, we expect to be in that long-term operating model of 39 to low 40s over time.

Q - Paul Chung {BIO 21446425 <GO>}

Okay, great. And then second on VC in your prepared remarks, you kind of mentioned kind of typical ASP per room has been increasing, which is great. Can you help us size both the opportunity to expand conference rooms, where you think that ASP can go when volume comes back and which peripherals, you're seeing the most success in the conference rooms? Thanks.

A - Bracken Darrell {BIO 3403495 <GO>}

I -- so I think, the cool thing about our business model is there's just a lot of room to continue to increase the ASP per room. If you think about it, we announced something called SCRIBE whiteboard, whatever kind of whiteboard you're using becomes a participant. So we've lots of ways to increase the value per room, so I'm very optimistic long-term that the ASPs can go up. And the number of rooms that will be enabled, it continues to be very high number. So we just got to get through this current period where people are kind of scratching their heads saying, I'm not really sure -- not all people, but not [ph] all companies, but a lot of companies are saying, I'm not quite sure, what we're doing yet. We're a good example.

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We're closing one office, we're opening another office. And the new office, we know exactly we're doing for video enablement standpoint, but a lot of other people are lagging us, they're either -- they really haven't completely decided what to do with the current office, they're doing the minimum or they're saving money because they're going through this economic cycle too. Or they're going to do it, but it's going to come later. So I'm not hearing anybody say, gosh, video enablement are [ph] for rooms is bad idea. It's just timing.

A - Chuck Boynton {BIO 17080323 <GO>}

And I would just add Bracken, the market sizing that we talked about at Analyst Day is roughly $50 million [ph] conference rooms of approximately 10% penetration. I'm certainly, what you're seeing, I think is we've won some great deals this quarter, a large food company, Bracken mentioned a lot of tech giants. So we're winning lots of deals they tend to be smaller upfront with additional purchases as they re-outfit their rooms over time. So we're bullish on video long term, and it's a great category. These new products, I think will provide additional fuel for growth long-term.

A - Bracken Darrell {BIO 3403495 <GO>}

One other thing, we didn't mention, Paul, was service. It's a really small business for us today, but it's going to keep growing, and it's growing rapidly and every time you buy a room, you really ought to be getting the service that goes with it. And our service package is called Select and it's growing -- like I said, it's growing very rapidly. And I think, one day that will be a pretty -- pretty decent chunk of our revenue.

Q - Paul Chung {BIO 21446425 <GO>}

Okay, great. Thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Next up is Alex Duval from Goldman Sachs.

A - Bracken Darrell {BIO 3403495 <GO>}

Hey, Alex. How you doing?

Q - Alex Duval {BIO 16682293 <GO>}

Hi, everyone. Thanks very much for the questions. Just wanted to ask firstly on OpEx. You've done a very strong job controlling that. I just wondered, how much more OpEx control, you think can be done? Should we expect further cost reductions this fiscal year versus fiscal '23 or is fiscal fourth quarter indicative of new run rate going forward? And secondly, some investors have been asking about PC suppliers, which you've indicated there could be a possibility of stabilizing PC demand in the second half of the year. Curious to what extent your PC linked revenues could benefit from such a recovery? Any color there very much appreciated.

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A - Bracken Darrell {BIO 3403495 <GO>}

I'll just touch on each one and then Chuck, you can clean up whatever you feel like, I didn't cover. I think, we've been super clear that we want to get to a $1 billion run rate. Our OpEx, as we get past this first half and into the latter half of the year and that's where we're headed. So no, our current run rate is not quite where we want to be yet. But we'll get there. The second, on your second question, we've been pretty clear that we think the PC -- the PC category is kind of not linked as a driver of our peripheral's business. However, it is probably indicative of what's happening in one way, which is that if [ph] especially in the B2B business, people are cutting spending on PCs, they're probably also cutting spending on peripherals.

So yeah, I think there's some relationship, we'll see what happens. We're not guiding back half of the year yet, where we continue to feel like the visibility is really hard to call. What do you want to add there, Chuck on either one of those.

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I'll just add on the OpEx side, we finished the quarter with $266 million on OpEx and our plan is to get to $250 million in a quarter by the back end of this year. And so there is -- there are some headwinds on OpEx with FX which is an [ph] overall benefit to the company, but a little bit of a headwind, but, so the reductions are already mostly completed and where, we'll see the numbers come down, I think each and every quarter up until the middle part of the back half of the year.

Q - Alex Duval {BIO 16682293 <GO>}

That's very helpful. Many thanks.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you (Multiple Speakers)

A - Nate Melihercik {BIO 20814398 <GO>}

Next question is from Asiya Merchant at Citi. Good morning, Asiya.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi Asiya

Q - Asiya Merchant {BIO 20247269 <GO>}

Hey, good morning, everyone. Hopefully you can hear me? So a quick question on gross margins, I think in the past, you guys have provided some breakdown of how FX versus promotions versus inflation have kind of affected margins on a year-on-year or even on a sequential basis. So if you could go through that exercise for the March quarter. And then as you look ahead, I heard Chuck mentioned that margin should improve here as dollar weakens and the inventory is right sized and flow-through of the lower manufacturing costs. So what should we kind of expect for, let's say, even the first half of the year or

should we expect those unwinds to happen that are headwind in the first -- throughout most of fiscal '23. That's my first question.

And then secondly, Bracken (Multiple Speakers)

A - Bracken Darrell {BIO 3403495 <GO>}

Let me stop you there. And let me -- let's answer one at a time, so we can really focus on it. And Chuck, correct me if I'm wrong, but I think, we've been saying that about 300 basis points were inflation, a couple of 100 basis points were currency, and then the -- and then there was a few other drips and drabs, so 100 basis points on transportation et cetera. I think, all that is coming through. It's just coming through slowly and as it would, it has to work its way through our inventory, which takes time.

We've got a pretty long inventory cycle and we're -- and we were sitting on more inventory than we would have liked before. You want to add anything to that, Chuck.

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I think that's good and sequentially, that's sort of a year-over-year view, sequentially inventory charges were a couple of hundred basis points and mix was a couple hundred, so those are ones, mix, it's hard to predict. But inventory FX costs, I think are all transitory, and I think, we should see sequential improvement slowly throughout the year.

A - Bracken Darrell {BIO 3403495 <GO>}

Sorry to interrupt.

Q - Asiya Merchant {BIO 20247269 <GO>}

(Multiple Speakers) good will promotions -- no, that's fine. Were there -- was there any effect, just people are trying to understand what the effective promotions have been, is there a competitive, that was kind of, it goes into my second question, the competitive dynamics, you talked about gaming being soft, we heard from GN, I guess Jabra in Europe that they had done well in Gaming. So maybe you can talk a little bit about the competitive dynamics, both on the gaming side, and just broadly, how it's affecting margins whether there's been an increased competitive intensity here and if you can see that easing as the year progresses?

A - Bracken Darrell {BIO 3403495 <GO>}

First let me, I don't know their earnings quite well enough to know, but I have a hunch what the difference between us and them is simply category difference. So we have a big simulation business and we've a huge simulation number a year ago now, year ago (inaudible) so we certainly don't think we're losing any share in Gaming. So I think, it's probably comparable. Chuck, you want to take any of this that [ph]

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I do, so promotional activity, sort of went back to normal in Q4 that was a bit of a headwind in Q3 sort of back to normal in Q4. Our competitive positioning. I think we feel

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great in gaming, our business, our gaming business is very, very much larger than theirs, is it. So it's -- when you compare the categories, we have different categories like simulation that they're not in, it's a great category with terrific margins that was down quarter-over-quarter, given the kind of promotional bump from the December quarter.

A - Bracken Darrell {BIO 3403495 <GO>}

And a year ago.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay, all right. And so just competitive intensity going forward, whether it's VC, an HP Pozy [ph] whether it's gaming, are we trying to -- are we seeing like as the inventory digestion has happened, competition is kind of going back to normal promo [ph] and so there isn't this excessive hunt to reduce inventory in the channel.

A - Chuck Boynton {BIO 17080323 <GO>}

(Multiple Speakers)

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, go ahead Chuck.

A - Chuck Boynton {BIO 17080323 <GO>}

The B2B side is not as price-sensitive as the consumer side. So I don't think the -- that the video category is -- very price sensitive. The margins are terrific and the industry participants have been behaving rationally and so that's really more, I think just this kind of general issue around the economy and uncertainty that's happening with corporate buyers that -- that the overall large conference room, medium conference room business is kind of stable, it's not really taking off and growing, but it's not really going down either. So I think, that's really more just the early indicators look good.

But I think, with the overall uncertainty that will come back, other areas like webcams, I think, you see more price sensitivity.

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, and we've always got -- and we do now, areas where we feel like we really need to adjust pricing a little bit or bring pricing down a little heavier, but they tend to be surgical and so we and without getting into specifics here, I think that's going to continue to happen. But overall, I feel like the promotion intensity is not, it doesn't scare me right now, I don't feel like there's a big wave of price competition coming through, it's going to change the dynamics of our business.

Q - Asiya Merchant {BIO 20247269 <GO>}

Okay, great. Thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

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Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Next on the line is Erik Woodring from Morgan Stanley.

A - Bracken Darrell {BIO 3403495 <GO>}

Hello Erik.

Q - Erik Woodring {BIO 19492555 <GO>}

Hey, good morning, guys. Thanks for -- thanks for taking my question. Bracken maybe I -- if I could ask you a bigger picture question and that is, I appreciate the fact that you're very clear in that visibility is more limited today. Can you maybe just share some comments about why visibility is less limited today, is it the channel, is it spending patterns, is it the impact and the uncertainty of the macro conditions, all of the above. If you could just double-click on that to help us understand why perhaps today versus historical periods, you just have less visibility into the business.

A - Bracken Darrell {BIO 3403495 <GO>}

That's a great question. I like the way you phrased it, it's really not -- it's only the -- just the economic environment we're in, it's just a little hard to see, you don't know -- you're going to go up until you actually balance and I think, we've been down now for three or four quarters and I think, it's really hard for us to judge when that direction will change. We think it will change. It's just a question of when, so it's really just that. I was with the -- I was in an event this week, where there were a bunch of kind of mid -- mid sized and smaller CEOs and some HR people et cetera.

And I got -- I really got this -- it just reinforced my strong feeling and the data that we're seeing, which is that, especially on the B2B side, it's not like companies are in trouble. I mean they are okay. They're just spending more conservatively and I think that conservatism is pretty -- is -- when you spend conservatively, you tend to have a [ph] easiest control over your costs and that's why lot of the PC companies are feeling it.

We're feeling it. So it's really just that, Erik. And it's really hard for me to say, when it will turn, but it will, you could probably go back and look at economic cycles, and try to deduce [ph] something, but we decided just to be more conservative and just guide for six months and then wait and see quarter-by-quarter.

Q - Erik Woodring {BIO 19492555 <GO>}

Okay, that's helpful. And then I guess maybe the second question, because you guys kind of elaborate to it, but you called out some deals this quarter which I feel like, you don't necessarily do historically, you mentioned Snowflake, Chuck, you mentioned another one. Can you just give us an understanding, I know, Chuck, you mentioned they start small but are these needle movers -- are these mostly in the VC business, are they currently embedded into your guidance or is this incremental because you just announced some of them. So, I wasn't sure, how much line of sight you had 30 or 60 days ago.

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So again, if you could just elaborate on the impact of those deals. Any color you could share on the products and then whether they're incremental or not. That'd be helpful. Thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

I'll jump in and Chuck you can add. I think -- I think, we really just felt like, you know what, we should once in a while call out some of the customers. So you get a feel for the logos. There are lot of big logos that we don't get permission to talk about publicly for whatever reason, it's not usually that they don't want us to, we just don't -- don't go ask them. We did mention Snowflake this time, we talked about the food company. There are many others.

I would say, they are pretty much part of our overall game plan. They're needle movers. But they're not needle movers relative to the expectations I have already said, you want to add anything in there, Chuck.

A - Chuck Boynton {BIO 17080323 <GO>}

Yes, I do. Erik, the key thing is you want to win the Company. Now, many companies use multiple vendors. So it's not like there are other [ph] exclusive. But the -- if you win the account, it tends to be a smaller deal upfront and then they keep buying more and more and more over a period of years. So no one transaction is a needle mover for us, but they're really good signs that we've won the account that we can land and expand and ultimately that's what we're looking for. And I just want to call out our sales organization because they are -- just they've done a really, really good job of building out this B2B capability.

It's a key strategic investment for us and I think, it will bear fruit for years to come.

A - Bracken Darrell {BIO 3403495 <GO>}

And if I could just add, I was just in a -- a large manufacturing company's offices here in New York, this week, and it's really interesting. They started very small with us, to your point, Chuck. Started very small with us about two years ago and now, every single room they have has our stuff and it's an incredible office by the way and so that's kind of our game plan, where you just really want to land and expand.

Q - Erik Woodring {BIO 19492555 <GO>}

If I could, sorry, just follow up with one last question. Chuck, this one's for you, just on gross margins. If we look back over the last four years, we have seen sequential compression in gross margins from March into June. The comments I hear from you kind of seem to indicate they might go the other direction and expand from March to June. Can you just maybe help us, give us a few more pieces to help us understand the direction of -- directionality of gross margins from March into June and some of the more influential moving pieces there, and that's it from me. Thanks.

A - Chuck Boynton {BIO 17080323 <GO>}

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Yeah, thank you, Erik. We're not providing detailed guidance for June. So I would not [ph] -- I would say, let's look over the longer term. We're in this sort of transition -- transitory state right now. We brought channel inventory down significantly. So we brought channel inventory down, we're going to continue to take that down in Q1 and Q2 before it builds into Q3. The overall seasonality of the Company is such that Q1 and Q2. Actually, we outlined at our Analyst Day. If you go back and look. I think it was like 24% Q1, 24% Q2, 30% Q3 and I think 22% if my math works for Q4.

That overall profile if you think about that, you're absorbing more overhead, where -- as you have bigger quarters and we're taking channel inventory down and revenue being sort of suppressed with reducing channel inventory that hurts gross margins. And then when it expands, it's a benefit. So I look at that and say, I'm not going to say, Q1 of the June quarter, it's back to normal, but I do think by end of Q2, Q3, back half of the year, I expect us to be back to normal and certainly no one can predict the currency rates, but that's been a real headwind over the last year or so. It looks like it's getting better and turning now, but we just -- we can't be sure.

The inventory charges, some of those items, I do think, those are a tailwind now.

Q - Erik Woodring {BIO 19492555 <GO>}

Super. Thank you for all the color, guys.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Our next question is from Ananda at Loop. Good morning, Ananda.

A - Bracken Darrell {BIO 3403495 <GO>}

Hey, Ananda.

Q - Ananda Baruah {BIO 15320341 <GO>}

Hey, guys. Hey, good morning. Yeah. Good to see you guys, thanks for taking the questions. A couple if I could. I mean, I guess we could just stick right there Chuck with your comments around sort of seasonality, do you think that the inventory that remains to be worked down, could impact seasonality in September, December quarter meaningfully or is it -- is the inventory really in businesses where right now where the impact would be needed? And then, I have a quick follow-up. Thanks.

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I mean, overall, I feel comfortable with where our inventory levels are. I just -- our view is sort of a philosophy is that a lean supply chain is better for everyone. If you think about return on invested capital as I think is the ultimate metric, if you have less on-hand inventory, less channel inventory, it's better economics for everyone. So while our weeks [ph] on hand are within the normal operating model, we'd like to get that a little bit leaner,

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because I think that will be better returns for us and the channel, but of course you have to rebuild the channel inventory because of that seasonality for the December quarter, Black Friday into the Christmas period.

So, that -- that I believe will happen regardless, but overall, I -- we're comfortable with where the levels are today and even where they were in Q4. We just want to take them down because I think, it's better unit economics.

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Q - Ananda Baruah {BIO 15320341 <GO>}

That's really helpful. I appreciate that. And then Bracken, I guess for you. You mentioned, sort of like kind of off the LUFF [ph] in the beginning prepared remarks, return to office is uncertain, refresh cycles haven't kicked in yet. Anything that you guys are seeing that has you think kind of the structural nature that underpins some of the key trends is altering at all and actually, if could just, as a part of that, just where are you seeing the refresh cycles not yet kicking in. Would you think they -- they eventually will kick in and (Multiple Speakers) that's it for me. Thanks.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you. On the refresh cycles, I think, we're not yet seeing in -- in personal workspace. We're not really seeing it kick in yet, which is the mice and keyboards and that kind of thing. And even for gaming. So I think, that's probably ahead of us. Those cycles are three to five years. So we'll probably see it, some of the categories are faster, some of them longer. On the -- on the structural nature of our opportunity, I don't really see anything that's changed. I mean, I think it's pretty much the same.

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We've just got such a -- I'm sitting in an [ph] office now and the one I'm sitting in now does have video, but if I walk down the hallway, it's amazing to me, how many of these offices do not have video. So I think, that's just a reality and hybrid work, it has done nothing but make that more obvious to people and more required. I think, what has -- so I don't think that's changed. I don't think the need for a home office has changed or to upgraded.

I don't think the reality of gaming or streaming and creating has really changed at all. So I don't see anything really fundamentally, structurally that's changed in our view of the category opportunities.

Q - Ananda Baruah {BIO 15320341 <GO>}

All right, okay, great, that's helpful. Thank you. Appreciate it.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you

Operator

Next on the line is Adam Angelov from Bank of America.

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A - Bracken Darrell {BIO 3403495 <GO>}

Hi Adam

Q - Adam Angelov {BIO 22341766 <GO>}

Hi, thanks for letting me on. Yes. So firstly, just a very quick one for Chuck, to follow up on what you just answered to previous question, gross margins back to normal. Did you mean, back to the long-term guidance range, just quickly on that?

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I -- it's possible we get there still this year, Q3 generally tends to be really strong gross margins because it is a peak quarter. So I think, it's very possible that Q3 is there just because it's such a big, big quarter due to seasonality. But if you think about run rate structurally, annually at that kind of 39% to 44%, my guess is, it's probably into next year, but that's we -- I can't really predict that.

But certainly, I think if you look historically, Q4, Q3 being our best quarter, we've been typically quite high margins in that Q3 just given the volume.

Q - Adam Angelov {BIO 22341766 <GO>}

Got it. That's helpful, thanks. So next, I think just curious on what you saw in China in the quarter, was there any sequential improvement there and perhaps as you look into the rest of the year? How you would expect that to develop?

A - Bracken Darrell {BIO 3403495 <GO>}

I want to try that one, Chuck, and you feel free to jump in. I think, China is a little harder for me to judge right now to be honest, it's usually been just kind of consistently up into the right. I think, it's been choppy over the last kind of year. It's -- it is highly competitive there, it's opened up but not as much as you'd like. So it's not quite where back where it used to be. But, I feel very confident and so longer-term, I think the dynamics in China are great. You've got such a young population, everybody's moving into the workforce and moving up in the workforce. There's more and more knowledge workers and it's become an environment where you can imagine a bigger, a healthier, more dynamic kind of IT world in China. It's obvious to me and probably obvious to you.

So I'm really excited about long-term, we have a great brand there. I mean, a really great brand there, incredibly strong market shares and that's across both our two consumer businesses. On the video collaboration side, it's never been as strong there. It's just a -- for some reason, the dynamics there have developed quite differently. And that does -- tend to happen in China in some categories. We'll see if it eventually gets to where it really got more gusto but -- but overall, I don't see anything but strength long term in China, but I don't -- it's really hard for me to call, just like it is for our visibility in the back half of the year for the company in general for China particularly. I don't know.

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I think as it relates to China, Q3 was a tough quarter. It was down and we were down 25% year-over-year in Q3. Q4, though, we were down 3% year-over-year. So it looks like a recovery in China. As Bracken mentioned, our top SKUs -- the best selling products in China are in the gaming side. So there's just a huge opportunity on video, but that's a -- it's a tough nut to crack but that one, the market is just enormous, and so, I think, we're in a good position with things stabilizing there as it relates to volumes year-over-year.

A - Bracken Darrell {BIO 3403495 <GO>}

And we do partner differently in video in China than we do elsewhere, because the -- you don't have the same service players, or not -- I think big video conference players are not as big in China, that they're much smaller.

Q - Adam Angelov {BIO 22341766 <GO>}

Okay, that's great. And if I can just squeeze one more in.

A - Bracken Darrell {BIO 3403495 <GO>}

Sure.

Q - Adam Angelov {BIO 22341766 <GO>}

The behavior you're seeing from the enterprise customers, I think you touched on it briefly but just curious to know, it sounds like it hasn't got worse, but equally hasn't improved, but maybe if you could just go into that in a little bit more detail would be helpful. Thanks.

A - Bracken Darrell {BIO 3403495 <GO>}

I think, you captured it, it's pretty much kind of stable. I would say, it's about where it was, which doesn't really shock me. The layoff news continues and the layoffs especially in Tech but it's also spread to some extent, as you know in banking and I think, in some other sectors. I think, that news kind of -- it's kind of -- it seems like it maybe as almost all the way out the big company news at least is almost all the way out. But the impact really dribbles over a three to six to nine months. So I think, that that -- those dominos will continue to fall now for another few quarters, but it will turn.

Q - Adam Angelov {BIO 22341766 <GO>}

Very good, thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you.

Operator

Our next question is from George Wang at Barclays. Hey, George.

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A - Bracken Darrell {BIO 3403495 <GO>}

Hey, George.

Q - George Wang {BIO 17439572 <GO>}

Hey, guys. And Chuck, maybe you can give more color on the capital return kind of going forward, especially given better cash flow backdrop with some tailwinds coming back on the inventory kind of better cost profiles. Just curious if you have any color just on buyback or kind of dividend going-forward?

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, we're just really proud of what we've been able to accomplish on returning capital to shareholders over the last few years, we had a great cash quarter, we had a great cash year, if you look at it year-over-year, our cash balance now is $1.14 billion, $1.15 billion it's down year-over-year. We ended last year at about 1.2 or 1.3, and we returned 577 million roughly to shareholders. So that has been great. Our primary objective though as we've stated before is to -- is growth. And so we -- if to the extent we don't use cash to buy companies or expand then we plan to return that back to our shareholders via a great dividend that we pay, as well as buybacks.

Q - George Wang {BIO 17439572 <GO>}

Okay, thanks. I have a quick follow-up, Bracken, maybe you can comment on that. It's kind of with share gains. In your prepared remark, you called out some share gains within the gaming category. Are there any other kind of category -- you want to recall [ph] in terms of notable share gains in the last few months?

A - Bracken Darrell {BIO 3403495 <GO>}

Across the year, you can see our share gains across most of our key categories and those share gains were very widespread and consistent. It's -- and it's really a function of our innovation engine -- within [ph] any single quarter, a few months we'll have sometimes it wobbles up-and-down, so, I won't go through the individual categories. But we've -- over the 10, 11 years that I've been here, we've consistently gained share in almost every category, and we're -- that's why we're so focused on design and design led engineering. And that's why we're investing.

Q - George Wang {BIO 17439572 <GO>}

Okay, great, thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you.

Q - George Wang {BIO 17439572 <GO>}

That's it for me

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A - Bracken Darrell {BIO 3403495 <GO>}

All right. Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

George. Our next question is from Serge Rotzer at Credit Suisse.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi Serge.

Q - Serge Rotzer {BIO 4734915 <GO>}

Hi. So now I'm ready. Good morning, everybody. Well, two simple questions. The first question is you were down 22% in sales and also in gaming, 25, 27 in video conferencing. Can you give me a feeling, how much is price impact and how much is volume impact. Price impact due to promotions, but also due to more competition in the enterprise business, can you give me a flavor on that?

A - Chuck Boynton {BIO 17080323 <GO>}

Certainly, it's -- the year-over-year changes are primarily volume. We were promoting a little more than we'd expected in Q3 that has returned to normal, so it's primarily volumes Year-over-Year.

Q - Serge Rotzer {BIO 4734915 <GO>}

Any product categories where you have been able to increase prices or to increase volume.

A - Chuck Boynton {BIO 17080323 <GO>}

We increased prices in a number of categories, there have been some bright spots. Some of the tablets and accessories have been a bright spot, certain -- certainly, there's lots of different, we have many-many SKUs in many products, many of them, there are -- many of that are growing, but the secular trends that you're seeing are the -- are year-over-year comps. As we start to lap our Q4 and throughout this year, I think we will see easier and better comps as it relates to the year-over-year results.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay, fair enough. Then probably I switch directly to second question. At the Capital Market Day, you mentioned that. Hey guys, look at the seasonality of our quarters in sales. And it's 48% [ph] in sales you do the first-six months and obviously, 52 in the second six-month for second-half, now I'm wondering, we also have a seasonality in EBIT, in the past you did 40% of the EBIT in the first-six months. So basically, you had to do 60% in second-half. And when I take your guidance and would -- sum this up for the full-year then we are at the level at the mid point of $435 million. This is clearly below consensus and expectation, now I am wondering are you took CAUTIOUS more for the first-six months or are you much more ambitious for the second six month?.

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A - Chuck Boynton {BIO 17080323 <GO>}

Well, what you're seeing is the profile is -- we are in a transitional stage. So operating expenses are coming down. We're taking costs out and we're seeing some benefits that we think will manifest into gross margins. And so that profile that you're seeing in this transitional stage is putting more pressure on the near-term. We're not providing outlook to the back-half of the year because quite frankly, we just -- we just don't know.

We hope to do that. We plan to return to annual guidance over time. Certainly, we're optimistic that the December quarter, our biggest quarter will be a strong quarter, but at this point, sitting here in early May, it's just too early right now to provide color on Q3 and Q4.

Q - Serge Rotzer {BIO 4734915 <GO>}

But to be honest, to improve your margin, your EBIT contribution in the second-half, you need success in VC, is correct because it's still the highest gross profit margin product.

A - Chuck Boynton {BIO 17080323 <GO>}

Well, certainly if videoconference improves, that's an additional tailwind. The mix that we talked about, it's really hard to predict what will happen with the mix, I will tell you generally the B2B categories are less seasonal. So I think, you'll see the -- other parts of the business will mix up more in the Q3 quarter due to seasonality but Video does not have to return to get to our targets, but if it does, I think that's great. And we expect it to, we just -- we're not providing guidance for the back half of the year.

Q - Serge Rotzer {BIO 4734915 <GO>}

And probably, still the last one, you mentioned VC is stable but VC quarter-over-quarter was minus down 20%. So what do you mean with stable, when things down by 20%?.

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, it's -- that's a good -- good question. So we're going to realign the categories that we show you next quarter. So you'll see, we're going to break out in a bit more detail the quarterly businesses. So in the video category, we have professional webcams and some other solutions in there, and webcams across the board business to business consumer those have seen -- has seen some significant declines and whereas the room solutions have been fairly stable. And that's what we're referring to.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay, got it. This is very helpful. So (Foreign Language) Thank you so much. Bye-bye.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you.

A - Chuck Boynton {BIO 17080323 <GO>}

Thank you.

A - Bracken Darrell {BIO 3403495 <GO>}

I'm glad you said that Chuck because I think, that -- I can't wait till we do that realignment because it will -- I think it will bear things for people.

A - Nate Melihercik {BIO 20814398 <GO>}

Great. Our next question is from Andreas Mueller at ZKB.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi, Andreas.

Q - Andreas Mueller {BIO 16350975 <GO>}

Hi, everybody. Thanks for taking my questions. I have one on Windows 11, if that's going to help you in at some point, you mentioned this correlation with PC sales of course is not that much strong, but from a product perspective that this operating system will help you in some ways with your product that some new innovations coming in?

A - Bracken Darrell {BIO 3403495 <GO>}

My experience with Windows upgrades is just kind of ignore them from a volume standpoint for the near term and then the long-term, they're good, because they keep the PC industry vibrant. So that's kind of the way we're thinking about it now, but I'm sure it will be a good thing overall, good for users and our products are always well integrated with the latest Windows update -- upgrade. So it's going to -- we're going to be in good shape there. But I wouldn't expect anything significantly changed because of that.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay then your (Multiple Speakers)

A - Bracken Darrell {BIO 3403495 <GO>}

I wish -- I would add one other thing, I think the bigger change we've made is our products work really well with Apple or with the Mac and that's happened over the last year and we've seen really significant business improvement and potential out there because of that.

Q - Andreas Mueller {BIO 16350975 <GO>}

That's tied to the productivity categories or also others [ph]?

A - Bracken Darrell {BIO 3403495 <GO>}

Yeah, perfectly correct [ph].

Q - Andreas Mueller {BIO 16350975 <GO>}

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Then next question, you are a cash rich Company right now and I was wondering, can you discuss if that is helpful or was that helpful at times when financing by banks, sort of more conservative and towards clients and competitors. I mean, does that change your position in some ways because I saw DPOs went up.

A - Bracken Darrell {BIO 3403495 <GO>}

Let me just try to briefly answer that and I'll let Chuck jump in. I'm not sure really it changed anything for us because we don't need much support from banks. We do have a great banking relationships in the event we ever needed it. But we don't really need much, so it probably didn't change much. I will say, it's kind of comforting not to -- not to be too dependent on leverage and if -- in tough times. But I think, at the end of the day, we're really -- as you said, we're a cash-rich company, but we're also very good cash generator, so that means, we have to make sure that we deploy our -- that cash responsibly and I think, like Chuck, I'm really proud of the way we put the cash back in shareholder's hands last year in one way or another. And I think, we expect to continue to be a great cash generator and we're aggressively looking for strategic ways to really grow our business because growth is what it's all about. And so we're going to keep doing that.

Chuck you want to add anything to that?

A - Chuck Boynton {BIO 17080323 <GO>}

Yeah, I agree. We have a very high bar for M&A, we've got a great history and a great track record and to the extent we find great opportunities then we'll deploy it. Otherwise, we will return the capital to shareholders as we've done, but I'm very comfortable with the cash balance that we have. It's similar to where it's been the last couple of years. And so I think, it's sort of steady as she goes on the capital allocation model.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay. And then last question on you -- with for you, Chuck, this $18 million restructuring charge was that it now in this program, or should we look for more going forward?

A - Chuck Boynton {BIO 17080323 <GO>}

There will be more charges. The accounting rules have kind of changed over the years, where it used to just take all the charges upfront and then you would spend against those reserves, the rules have changed a little bit. So there will be additional charges that we incur over the next few quarters. But largely, the actions are all done internally. It's just more of a timing.

Q - Andreas Mueller {BIO 16350975 <GO>}

Okay, thank you very much.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you very much. All the best [ph] Michael?

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A - Nate Melihercik {BIO 20814398 <GO>}

Bracken and Chuck. Our final question for the morning is from Michael Foeth at Vontobel.

A - Bracken Darrell {BIO 3403495 <GO>}

Hi, Michael. It's biking [ph] season-- so you're probably back out [ph].

Q - Michael Foeth

Okay. I have one on sustainability. You mentioned that your carbon labeling is now, I think 45% of products. What holds you back from being fast and labeling the rest and is the process so complex, is that maybe reason why it's also holding back your peers from doing the same?

A - Bracken Darrell {BIO 3403495 <GO>}

Okay. I'll answer that. There are two things going on there, one is that, it is a -- we don't want to just give a really high level estimate of carbon impact because we're taking scopes one, two and three, which means from the components that go into our products, transportation end use and end of life. So we're really taking the full period. We also need to have enough data to actually be able to draw conclusions that are accurate. So some of our products that are newer. We really have to give them a year before we have a good accurate assessment. So that's the -- that's one of the drivers. The second one is, it just takes a while to then implement those into individual products pack product by product.

So I'm really excited about how fast we've moved actually, I think one of the reasons why you don't see it from other people is because it is -- it isn't easy. We're trying to make it easier. So we've been working with an external provider to try to make that easier and more cost-efficient because it's not terribly expensive but it costs money because we really strongly believe that everybody should be carbon labeling in every industry, but this is really the one tool that we can all use, governments can use to drive this all to be -- to have -- to compete with each other on carbon.

Q - Michael Foeth

Okay, thank you. And then on your guidance for the first half of your fiscal year, what's -- which categories are you most confident in that -- that will support that guidance and where do you have more uncertainty looking in the first six months?

A - Bracken Darrell {BIO 3403495 <GO>}

Well I have not -- I won't try to be anything except to be straightforward on this. It's a little hard to say. I really think personal workspace seems pretty solid, mice and keyboards, it's just kind of a -- it's been great for us for instance, since 1981 also [ph] '82 and it continues to be and I think that the gaming category will be solid, I think Video Collaboration, it's -- I kind of think that one, they say enter cycle earlier on consumer and you exited earlier, and you enter cycle later on B2B and you exit it later. So I would say, you know if you had to ask me, you really press me, I would say the -- my guess is that the (inaudible) business will be sturdier and more reliable than the others, but, but it's been a little hard to tell through

the cycle, being one of the reasons why we only guided six months because it's really harder to tell right now, especially on the B2B side.

Q - Michael Foeth

All right. And then a last one for Chuck, you mentioned, return on invested capital is your ultimate metrics, is -- how long do you have to wait until that becomes sort of part of your long-term model?

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A - Chuck Boynton {BIO 17080323 <GO>}

I don't think at this point we plan to use that for an outlook externally, it's an internal metric that we track. And it's -- so I would not expect us to publish long-term outlook there.

A - Bracken Darrell {BIO 3403495 <GO>}

I do love that we're using it internally. And I think, it's a super important metric.

Q - Michael Foeth

Definitely. Thanks. Thanks a lot.

A - Bracken Darrell {BIO 3403495 <GO>}

Thank you. Well, thanks to all of you. I'll jump in here. Nate, just -- I really appreciate all the discussion, one quarter down, the minute we have more visibility, you can bet that -- or -- strong visibility, we're going to -- we're going to go to the full year. As Chuck said and so thanks. We'll see you in a quarter.

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