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Q1 2024 Earnings Call

Company Participants

- Chuck Boynton, Chief Financial Officer
- Guy Gecht, Interim Chief Executive Officer
- Nate Melihercik, Head of Global Investor Relations

Other Participants

- Adam Angelov
- Alex Duval
- Ananda Baruah
- Andreas Mueller
- Asiya Merchant
- Erik Woodring
- George Wang
- Joern Iffert
- Michael Foeth
- Samik Chatterjee
- Serge Rotzer

Presentation

Nate Melihercik {BIO 20814398 <GO>}

Good morning and good afternoon. Welcome to Logitech's video call to discuss our Financial Results for the First Quarter of Fiscal Year 2024. Joining us today are Guy Gecht, our Interim CEO and Chuck Boynton, our CFO. 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 the 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. I will now turn the call over to Guy.

Guy Gecht {BIO 3114277 <GO>}

Thanks, Nate, and thank you all for joining us. It is a pleasure to speak with you today. Before we jump into our first quarter achievements, let me provide some context regarding my role and the Board's search process for Logitech's next CEO. I'm both honored and excited to guide this iconic brand company in the near-term. During my four years on the Board of Logitech, I've gotten very familiar with the company as I had the opportunity to serve as the Chair of Logitech Technology and Innovation Committee of the Board, and to serve as a member of the Audit Committee.

I view my role as an interim CEO is to provide a consistent and steady hand to the many wonderful experienced teams working hard across Logitech. I'm singularly focused on making progress and ensuring we do not lose any time in our ongoing execution. Our strategy remains unchanged, as do the business plans that are in place. All teams are focused on executing their proven playbook. And my focus is to remove obstacles, facilitate decision-making, and ensure we lose no time.

Now a few words on the search. As we previously announced, the Board is in conducting a global CEO search, including internal and external candidates. It is progressing well. There has been a lot of interest in the opportunity, and we are pleased with the strong caliber of the candidates we are seeing. Needless to say, the Board views this decision with the utmost seriousness it deserves, and it's working diligently reviewing and interviewing candidates.

Given the confidential nature of the search, I will not be able to add more color today, but rest assured that we will update you when we have news to show. Before I turn it over to Chuck to review the team's progress on many important fronts, let me provide a few of the non-financial highlights of this quarter. Affirming Logitech as a global leader in design and innovation, we were awarded the industry most prestigious Red Dot Design Team of the Year award, previously awarded to companies such as Apple, Ferrari, and others, renowned for their design.

We introduced four new products in the quarter, including Rally Bar Huddle, the newest addition to Logitech's family of conference cameras that turn small meeting rooms into collaboration spaces. And designed for Esport athletes, our newest Logitech G Pro X gaming headset feature graphene drivers for those that require precision audio technology.

And in addition to the products launched last quarter, we are just about to start shipping Logitech Sight, a tabletop camera with 315 degrees view capabilities, delivers a truly unique video conferencing experience. At the heart of this new system is an AI director-like technology that decides which participant should be highlighted on the screen and from which angle, close or far.

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This benefits both people in the conference room and especially remote participants who otherwise may feel they are not fully involved in the meeting, because they're not seated around the table.

Our sales teams closed a number of meaningful customer deals in Q1, including Honda, Kroger, TD Synnex, and the Proximus Group, as well as the European Commission. These wins represent multiple industries in both the public and private sectors. And finally, last week, we announced the acquisition of Loupedeck, a small tuck-in deal that is adding a differentiated technology, initially in gaming and streaming, and later in other areas.

We will continue to screen for more deals that will help us accelerate the execution of our strategy, as well as bringing our unique technology to new sets of users. These were just some of the recent highlights, although most importantly for today is that we started our fiscal year with an encouraging set of results and an updated outlook. As we move through the remainder of the fiscal year and leap toward our expected return to growth, you should expect to see unwavering commitment to the principles and capabilities that have become the hallmark of Logitech.

Innovation to capitalize on the growth trends that fuel our business, which is video everywhere, hybrid work, gaming, and digital content creation. Design-led engineering and product innovation. A maniacal focus on lean manufacturing and operations. And a capital allocation strategy that is focused on M&A, paying a dividend, and share buyback.

And we do all of that with continued commitment to our values. As an example, this week, we released our annual impact report where you can read about the progress our teams have been making in the areas of sustainability and social impact. With that, I will turn it to Chuck to provide the financial details of our first quarter and to review the outlook for the reminder of the year. Chuck?

Chuck Boynton {BIO 17080323 <GO>}

Thank you, Guy. I also appreciate everyone joining us on the call today, first and foremost, I want to thank all of our employees for the strong execution and teamwork in the quarter. It really shows in our results, especially our strong operating cash flows. Before we get into the details in our financial performance, let me spend a minute on some reporting changes we've made to our product category classifications. Our slide presentation and quarterly fact sheet provide additional information, as well as a five-year set of comparables. Many of you have asked for these updates over the last several quarters, so we hope the changes provide a simpler and clearer view of our business. These reclassifications do not impact our previously reported financial statements.

Moving on to the business results for the first quarter. Net sales in constant currency declined by 15% to $974 million. Sales out was quite strong, particularly for headsets, tablet accessories, and gaming. As we discussed at Analyst Day and in the last earnings call, we believe in the benefits of lean on-hand and channel inventory. For the fifth consecutive quarter, we reduced on-hand inventory significantly, with our inventory turns improving to 4.2. We remain committed to our goal of improving to 5 turns or better over the next year or two.

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Likewise, channel inventory was also reduced in the quarter, and I'm proud of the team for hitting the targets that we set. This has improved linearity and predictability. We plan to keep reducing channel inventory during the seasonally soft months of July and August, and then replenish the channel in September, October, and November as part of a normal build for the December quarter. Net-net, we expect channel inventory to be roughly the same at the end of Q2 as it was at the beginning.

In Q1, gross margins expanded quarter-over-quarter to 39%, slightly better than anticipated, as significant reductions in our on-hand inventory drove down or drove some one-time benefits in the quarter. On a year-over-year basis, margins were pressured by FX and mix, but partially offset by cost improvement and less reliance on expedited shipping.

Again, thank you to our operations team for such amazing execution. Sequentially in Q2, we anticipate gross margins to be pressured, and as a reminder, gross margins in our December quarter have both headwinds and tailwinds. We have the seasonally higher consumer sales and holiday promotions, but those are somewhat offset by overhead absorption. While there will be quarter-to-quarter fluctuations, we feel our business is structurally positioned to generate 40% gross margins in the next four to six quarters.

Operating expenses were $271 million in the quarter, up slightly versus our internal expectations. A portion of our operating expenses were attributable to some one-time administrative expenses and the weakening U.S. dollar in the quarter. I continue to be pleased with the team's cost focus and ability to quickly dial up or dial down OpEx based on business performance. Our long-term model is to maintain operating expenses at around 25% or less of revenue.

Operating income was $109 million in Q1 and better than our internal expectations due to improved demand and strong gross margins. One big highlight for the quarter was our working capital execution. Cash flow from operations was $240 million, a first-quarter record for the company, leading to a cash balance of $1.25 billion. Our capital allocation strategy remains consistent. Evaluate M&A opportunities, pay an increasing annual dividend, and return excess capital to our shareholders through share repurchases. We are making progress on all three fronts.

As Guy mentioned, we announced the acquisition of Loupedeck. They provide valuable technology for Logitech G, and while modest in acquisition price, reflects our consistent and disciplined approach to M&A. In May, we announced a 10-cent Swiss franc increase in our dividend, which will be voted on by our shareholders at our September Annual General Meeting.

And just last month, our Board of Directors approved a new $1 billion three-year share repurchase program. Our existing buyback program expires at the end of July, and in total, we will have returned more than $1.1 billion to our shareholders as part of this program. Our new program will replace the expiring program upon its approval by the Swiss Takeover Board.

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Moving on to our outlook. We are raising the first half outlook we confirmed in May, expecting first half '24 revenue of $1.875 billion to $1.975 billion. Our corresponding operating income is expected to be between $180 million and $220 million. In our last earnings call, we said we plan to revert to full-year estimates either this quarter or next quarter.

Today, we are updating the first half and have provided full-year estimates based on the progress we made in Q1. There is uncertainty with many factors, like FX, inflation, the state of the consumer, and then in the December quarter, which is typically our largest quarter, and so forth. However, now with one quarter behind us, we are providing a full fiscal year '24 outlook.

We are expecting revenue of $3.8 billion to $4 billion. Our corresponding operating income is expected to be between $400 million and $500 million. I'll close with where I started. Thank you, thank you to all of our employees for driving such strong execution this quarter. And with strong market share and some great new products launching, we are cautiously optimistic. We are going to show a short video on one of our new products, Sight. Nate, roll the video, and then let's take Q&A. (Audio-Video Presentation)

Questions And Answers

A - Nate Melihercik {BIO 20814398 <GO>}

(Question And Answer)

Hello, everyone, and thank you for joining. As a reminder, if you'd like to participate in Q&A, please raise your virtual hand and we will get you in queue. I will start today with Asiya Merchant from Citi. Hey, Asiya.

Q - Asiya Merchant {BIO 20247269 <GO>}

Hey, good morning, everyone. Hopefully you can hear me.

A - Nate Melihercik {BIO 20814398 <GO>}

We can hear you --

Q - Asiya Merchant {BIO 20247269 <GO>}

Thank you for the color, Chuck and Guy, great to see you on video, guys. Chuck if you can -- and Chuck and Guy, actually, this is for both of you, if you guys can talk a little bit about seasonality, it seems like, at least in the implied guide, the September quarter or the calendar third quarter, which typically up, at least in the low double digits, seems to be kind of guided flattish, maybe slightly higher. Maybe you can talk about that.

And as you kind of look into the December quarter, if you can kind of -- can you talk a little bit about the visibility that you're seeing and which product segments you feel very strongly about. And then on gross margins, I think, Chuck, you mentioned there were some one-time benefits. Clearly, gross margins came in better than what we were

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expecting. And, in terms of hitting your 40% target, if you can talk about some puts and takes to get there as a year progresses for you guys. Thank you.

A - Chuck Boynton {BIO 17080323 <GO>}

Yes, sounds great, Asiya. Thank you so much for the questions. So first on seasonality, we outlined last quarter, as you'll recall, that if you looked at the last kind of four years, on average, the quarters were roughly 24%, Q1, 24% Q2, 30% Q3, 22% Q4. And, I'm not sure that that's going to be this year, our Q1 was better than we'd expected. We performed better than our internal expectations.

It was a strong quarter compared to where we expected both top line and bottom line. And we're cautiously optimistic on the back half of the year, but there are still uncertainties, foreign exchange, the various uncertainties in the environment. Last year, the December quarter had some margin pressure because of promotions, we don't know what's going to yet happen with our December quarter this year, our single biggest quarter.

The read through though, the June 18 holiday in China was quite strong. We don't have the final results back from Prime Day, but it looks like it performed reasonably well. So I'd say we're cautiously optimistic, but we don't want the first quarter here providing estimates for the full-year. We want to make sure that we're appropriately providing an outlook that is manageable. The second question on margins.

It was a great quarter. 39% is the low end of our long-term operating model. We feel good about that. However, there were some benefits. Specifically, when we brought our on-hand inventory levels down by over $100 million, that had a benefit to the overall inventory reserves that provided really a strong uplift for the quarter and we see a little bit of pressure going into Q2 on margins.

For the back half of the year, we are again cautiously optimistic that we will be in that kind of range that is probably a little below 39% or in that range. But we are optimistic. There are tailwinds. Freight costs have come down significantly. Cost pressures on components. Our operations team has done a great job doing cost reduction and improvement. What we don't know is how the mix will impact. Now we have a couple of new products that are coming out. They're going to provide we think a nice tailwind and could help on the margin side. But there is still uncertainty in the back half of the year.

Q - Asiya Merchant {BIO 20247269 <GO>}

Thank you. I appreciate the color.

A - Chuck Boynton {BIO 17080323 <GO>}

Thank you so much.

A - Nate Melihercik {BIO 20814398 <GO>}

Great. Next up, we'll go to Adam Angelov at Bank of America. Hey, Adam.

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Q - Adam Angelov {BIO 22341766 <GO>}

Thanks for taking the question. Just -- so firstly, on the inventory decline, sounded like that was a bit of a surprise. Maybe you could dig into that. And why?

A - Chuck Boynton {BIO 17080323 <GO>}

Inventory I would say was not a surprise. Our operations team, we have targets. Our operating model, our goal is to operate with on-hand inventory at about 5 turns. We hit 4.2, which is great progress considering where we've been. But it was not a surprise. It was strong execution. It was deliberate. And the great news is that not only was on-hand inventory reduced, but channel inventory came down as well, significantly high single digit decline in channel inventory. So if you couple that on-hand inventory and channel inventory are down, we've leaned out the supply chain. And that is great news for us and our channel partners. With lower inventory levels, we make more money, our channel makes more money, and it's good for everyone.

Q - Adam Angelov {BIO 22341766 <GO>}

Okay, got it. That makes sense. Thanks. And then just a quick one on video collaboration. So, I think it's declined again in the quarter. Maybe you could just touch on -- yes, how you're feeling about that market into H2. Are you seeing sort of some stabilization from the enterprise customers or is it still a lot of uncertainty?

A - Guy Gecht {BIO 3114277 <GO>}

Yes. First of all, not the numbers we want to see on the business side, the B2B video conferencing side. I would say in the last 30 days, I talked to customers in every region, met face-to-face in Asia and North America, going to Europe this afternoon. Our brand is strong and the wins are significant. What we're seeing is actually big companies decided to standardize on Logitech and they just deploy at some pace where budget get open, they deploy us in conference rooms. So that should play definitely better for the future.

The second thing is, if you look at the market, it's -- there's the high to the mid-range. We're actually doing quite well. We grew double-digit at that category, where we have some pressure, it's kind of the lower mid-range to the bottom, to the lower end, where we didn't have a product for some time and we are about to launch a product, the Rally Bar Huddle. That's a great product.

It will play really well in this category, energize ourselves for us to go in. So between this and the Sight that I talked about, this is going to be a really good way for us to come back to customers, try to push deployment, win some more big accounts. I feel very positive about the future of this business after talking to channel, after talking to customers. I think the opportunity there is significant and it's of course the talking to the margin. This is the best margin category we have, so that will help a lot.

A - Chuck Boynton {BIO 17080323 <GO>}

I would just add, we gained a couple of points of share in the quarter, so we feel good about our -- the strength of our position. Sequentially, the video category was down $5

million, so relatively modest quarter-over-quarter. And then with these new products that Guy just mentioned being launched, we're again, cautiously optimistic about our execution in the back half of the year.

Q - Adam Angelov {BIO 22341766 <GO>}

Got it. That's great. Thank you.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Adam. Next question will be from George Wang at Barclays. Hey, George.

Q - George Wang {BIO 17439572 <GO>}

Hey, guys. Thanks again for the question. So firstly, can you talk about gaming? Just in terms of our checks, we picked up some incremental improvement, especially on kind of on a downstream, just not sure whether necessary flow into the gaming peripherals, just based on your guide for below seasonal 2H. So they imply the gaming to be down again on a year over year basis for the F4Q. Just curious whether you think it's less conservative or how much invisibility you have on the gaming side?

A - Chuck Boynton {BIO 17080323 <GO>}

Well, we haven't provided, specific estimates for gaming for the back half of the year, but clearly the December quarter is the biggest quarter for gaming. Our gaming team has been operating incredibly well. We've got some new products coming out that we think will help. Overall, it was a really good quarter for gaming. The China team executed flawlessly for the June 18 promo, which is a really important event for us in that market. And overall, we've got strength in Japan and elsewhere, but I'd say the real test will be the December quarter for us. That's the biggest quarter for gaming.

Q - George Wang {BIO 17439572 <GO>}

Great, great, thank you. Just if I can squeeze in a follow up? I guess you guys always sort of a looking to expand to new categories, right? Just adjacencies, that's one of the kind of growth pillars. So, any high level thoughts on, if largely to -- entering into any sort of a brand new category, which area or which vertical do you think will be most likely in the next few years?

A - Guy Gecht {BIO 3114277 <GO>}

George, great question. I found great plans in the company to expand the TAM, expanding to new use cases where we are, going after a higher value application and use cases, which is too early for us to talk about it, but you will see in the coming quarters, more discussion about this expansion.

Q - George Wang {BIO 17439572 <GO>}

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Okay, great, thank you. I will go back to the queue.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you George.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks George. Our next question will be from Alexander Duval at Goldman Sachs.

Q - Alex Duval {BIO 16682293 <GO>}

Yes, hi, everyone. Many thanks for the question. Just a couple. Firstly, on OpEx, it looks like you've made some good strides on cost control in the quarter. I wonder if you could talk a bit about how much further headroom there is for cost control going forward in the remaining quarters. And then I have a quick follow-up on FX. Can you just remind us how much support we should expect to be seeing from FX in coming quarters? Many thanks.

A - Chuck Boynton {BIO 17080323 <GO>}

Certainly. First, on the FX side, this quarter, we still have headwinds in the year-over-year comps. That starts to change. Next quarter, it's more balanced with where rates currently are. So I think we should be back into a year-over-year balance starting in Q2 and beyond. First question was the -- can you remind us? It's early here, sorry.

Q - Alex Duval {BIO 16682293 <GO>}

Cost control.

A - Chuck Boynton {BIO 17080323 <GO>}

Cost control, thank you, my favorite topic. So we have done a phenomenal job lowering costs. OpEx for Q1 was a little higher than our internal targets. There was a couple of one-time administrative charges. So I think you'll see sequential improvement on OpEx. Our long-term operating model is to have OpEx below 25% of revenue. We may or may not get to that level this year. We'll have to wait and see. But we're on that trajectory. And we believe that by the end of the year, roughly we should be kind of at a $1 billion run rate approximately. But the real long-term target is to be below 25% of revenue.

Q - Alex Duval {BIO 16682293 <GO>}

Thank you very much.

A - Chuck Boynton {BIO 17080323 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

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

Q - Ananda Baruah {BIO 15320341 <GO>}

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Hey, guys thanks for taking -- sorry. No video, got it Nate, cool. Thanks for taking the question. Yes, so just two quick ones if I could. Guy and Chuck as well, the decision to give the second half guide today and as opposed to 90 days from now, can you tell us just, I mean, just give some context around sort of visibility that gives you guys confidence in the ability to do that and the thought process around doing it? And then I just have a quick follow-up as well.

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A - Chuck Boynton {BIO 17080323 <GO>}

Well, on the guide, we deliberated it and what we had outlined last quarter that we would either provide it this quarter or next quarter. And given the strong first quarter we had relative to expectations with one quarter behind us, we felt now was the right time. And, is visibility better? In some areas, yes. Inflation in the U.S. has come down a little bit. It's higher in UK and other markets, but the U.S. inflation has come down a little bit. FX is starting to stabilize a bit, but we just felt that with one quarter behind us, that it was the right time to update our estimates for the full year. And we're pleased to have done that, one quarter kind of ahead of expectations.

Q - Ananda Baruah {BIO 15320341 <GO>}

Okay, that's helpful context, Chuck. And I guess just bigger picture question, any thoughts -- and maybe you guys haven't sort of reached this conclusion yet, but we'd love any context. Thoughts on sort of when you kind of renormalize the revenue base, I've just done some quick analysis. It seems like exiting fiscal '24, you could be there, but just would love your thoughts on that. That'd be helpful, thanks.

A - Chuck Boynton {BIO 17080323 <GO>}

Well, I'll start, Guy, and you can add color, but as we look the year-over-year and sequential change, things are starting to stabilize. Like, we are -- the year-over-year comps are getting -- they're still not where we want them to be. We're not happy. They're still declining, but the rate of change is getting more favorable. Now, I can't tell you when we're going to hit bottom and -- for an asymptote, but it feels like things are starting to stabilize and that's reflective in our cautiously optimistic estimates for the year.

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A - Guy Gecht {BIO 3114277 <GO>}

I would say the last 42 days here as an interim CEO, just to reaffirm my conviction, this is a growth company in a growth market with a growth trajectory. This will come, but let me tell you another thing. We're not just waiting for the market to improve. The team here is working really hard to push whatever we can. New products, obviously, going to help win some share and get to this point where we start to be plus in front of our number again. And just a matter of time, there is a clock in our head. We want to get there. Obviously, it will take some time, but we will get there.

Q - Ananda Baruah {BIO 15320341 <GO>}

And guys, the right -- is the right way to think about, I mean, I guess like sort of as we sit currently, does the company want sort of the financial community to think about normalized growth go forward the same as we have kind of pre-COVID or different, whether positive or negative?

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A - Guy Gecht {BIO 3114277 <GO>}

Look, and you know me from prior life, we always want more. We always want to be a higher growth and we will continue to plan, look at the right acquisition that can accelerate that, look at the right product. There's a lot of potential here and a lot to build on. This company is super strong. The muscles and innovation in design is super strong. The leadership team is super strong. We have a lot to build on. So you know how ambitious are, and as we go forward, you will hear more, but we certainly like to do better.

Q - Ananda Baruah {BIO 15320341 <GO>}

Awesome. Thanks a lot, guys. I appreciate it.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you, Ananda.

A - Nate Melihercik {BIO 20814398 <GO>}

Our next question will be from Erik Woodring at Morgan Stanley. Good morning, Erik.

Q - Erik Woodring {BIO 19492555 <GO>}

Hey, good morning, guys. Thank you for taking the question. Guy good to see you again. I just wanted to kind of double-click on Asiya's seasonality question because I understand there are uncertainties today, but you're guiding to the worst seasonality in at least a decade, but also telling us the channel is normalized. And so that would, I guess, would imply demand would be worsening, but I don't really hear that from your comments, actually. So I was just wondering if you could kind of help me square that circle and understand really why we were expecting such a below-seasonal September quarter. And then I have a follow-up. Thanks.

A - Chuck Boynton {BIO 17080323 <GO>}

Well, I think overall, we haven't provided updated seasonality or targets for December or the March quarter. I would say if the December quarter is really strong, then we would be above the estimates. If the December quarter and the state of the consumer is difficult because of rising interest rates and inflation and global conflicts, et cetera, then that's a different situation.

But I feel like we feel coming into the year, we started off strong relative to expectations in Q1. We feel like we've got a plan that we can manage to and that we're in a pretty good place. And we'll have to just wait and see how the December quarter happens and what happens in the March quarter. March is the -- is typically our seasonally worst quarter of the year.

So if you look at the outline of what I mentioned earlier, generally, March is, the March quarter is 22% of the year. Could be lower, we don't know. But so we're I think I'd say we're balanced. And that would be my view. Guy, do you have a different point of view?

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A - Guy Gecht {BIO 3114277 <GO>}

I agree with you. Chuck and I were part of a very extensive review, operational review that we have done last week and informed us in decision to issue the guidance and -- for the full year. I would say Erik, you're spot on. We are not anticipating demand to be worsening. That's definitely not what we're seeing or hearing or planning on.

Q - Erik Woodring {BIO 19492555 <GO>}

Awesome, thank you for that color then. Maybe Chuck, just a question for you to follow up on one of your comments there. In terms of OpEx below 25% of revenue, I think last quarter we kind of talked about Logitech exiting the year at maybe like a $250 million quarterly run rate for OpEx. If you did do below 25%, you'd get, call it $8 million to $10 million below that.

So just wondering if you are thinking you can cut OpEx beyond your prior expectations and then secondarily, if you are growing next year, would you expect to keep cutting OpEx or would you kind of then lean into reinvestment and try to grow OpEx base alongside your revenue base? And that's it for me. Thank you so much.

A - Chuck Boynton {BIO 17080323 <GO>}

Yes, yes. Good questions, and maybe I wasn't super clear. So our target by the end of the year is to have OpEx at a run rate of roughly $1 billion, which would imply an approximate $250 million Q4, maybe a little higher, maybe a little lower, but in that range.

We have taken a lot of costs out of the company. We do not have a cost reduction plan in place right now to reduce headcount or OpEx further. That's not our plan. We're focused on the top line and getting back to a year that has a 4 in front of it. And so if we're at $4 billion in revenue, $1 billion OpEx run rate is 25%. So our, we're -- if we're below the $4 billion, we're still going to stay at approximately $1 billion in OpEx or run rate.

So the Q4 plan is, think of that as approximately $250 million, if we're below 4. As we start to grow again, then we would have OpEx be below that 25% of total revenue number. That is the long-term operating model.

A - Guy Gecht {BIO 3114277 <GO>}

Right, so just to be explicit, Erik, when we come back to growth, we like the 25% -- and we take the extra investment in growth areas. There's plenty here opportunities to invest in, but 25% is, we like it as a long-term model for us.

Q - Erik Woodring {BIO 19492555 <GO>}

Super, thank you so much, guys.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you, Erik.

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A - Nate Melihercik {BIO 20814398 <GO>}

Our next question is from Joern Iffert at UBS. Hello, Joern.

Q - Joern Iffert {BIO 15374623 <GO>}

Thank you, good morning, everybody. Two to three questions, please, from my side. I would take them one by one, if it's okay. The first one is, can you please be so kind and clarify again on gross profit margins? What exactly was a one-off benefit in Q1 and where you see gross profit margins trending to in Q2?

A - Chuck Boynton {BIO 17080323 <GO>}

Okay, so if you look year-over-year, gross margins were 39% down from 40% a year ago. The primary difference there is going to be FX. There's other puts and takes, but if you broadly -- it says roughly 100 basis points. The quarter, though, was quite strong because of significantly reduced on-hand inventory. So, as we look forward into Q2, there will be some pressure because we don't think we can reduce inventory by another $110 million.

So, of course, there's a lot of dynamics with mix and FX and all those things. But generally, all things being equal, we see a strong gross margin trend here, but there's a bit of a one-time benefit in Q1 that will put a little bit of pressure on the results for Q1. And in four to six quarters, we see that trend improving structurally to a 40-ish percent gross margin as a company. Our long-term model for gross margin is 39% to 44%. Now, to get to the high end, mix shift, more video, things have to happen. But in four to six quarters, we see structurally 40%-ish gross margins. Next question there, you said you had three, that's the first of three?

Q - Joern Iffert {BIO 15374623 <GO>}

Yes, exactly. So it means in four to six quarters, you will reach the 40% gross profit margin run rate, not in the next four to six quarters, just to be clear.

A - Chuck Boynton {BIO 17080323 <GO>}

Well, we may have quarters where it's above 40%, we may have quarters where it's below, but I think structurally in four to six quarters, we see the business on average being 40% and growing because we said the long-term model is 39% to 44%, but there's a lot of puts and takes that can happen with gross margins, primarily mix being one of the biggest impacts. Now, Guy mentioned earlier, we've got some new products coming out, those could be really helpful and be a tailwind, but there's -- it's uncertain as to what's going to happen in the short-term. We're just -- we've got more conviction in the intermediate term that we can hit our long-term operating model.

Q - Joern Iffert {BIO 15374623 <GO>}

Okay. Thanks. This second question would be, please, on Q2 on the revenue guide. I mean, usually Q2 is significantly higher versus Q1 due to normal seasonality. What have you seen in July so far? I mean, in the first weeks of July, do you see a stable, flattish development year-over-year? Or have you started with some growth quarter-on-quarter?

Sorry, I was speaking about quarter-on-quarter, not year-over-year. Just to double check that's what you're seeing in the first weeks of July.

A - Chuck Boynton {BIO 17080323 <GO>}

The data that we have so far is the first couple of weeks. And I would say we're cautiously optimistic about the results so far. We don't have the final analysis in yet from Prime Day. So, we still have a lot of wood to chop for the quarter. And I think we feel like we're in a good position for the second quarter.

Q - Joern Iffert {BIO 15374623 <GO>}

Okay, thanks. And the last question then, please, on video conferencing you said it's around $5 million down, so we can assume it's bottoming out here, that Q2 in video conferencing and also gaming should be up quarter-on-quarter. Is this a fair assumption for these categories?

A - Chuck Boynton {BIO 17080323 <GO>}

Yes, we haven't provided that level of specificity. Has video bottomed out, I hope so, but I can't guarantee that. It was fairly in line with last quarter, down a little bit and with new products coming, I think we've got tailwinds in video.

Q - Joern Iffert {BIO 15374623 <GO>}

All right, thank you.

A - Chuck Boynton {BIO 17080323 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Joern. Our next question is from Andreas Mueller at ZKB.

Q - Andreas Mueller {BIO 1830206 <GO>}

Yes, hello, thanks for taking my questions. I've got a question about the difference of growth rate between keyboard and combos and my standalone. What was the other reason?

A - Chuck Boynton {BIO 17080323 <GO>}

So keyboard and combos was down a bit, but better than our expectations. It was quite a strong quarter relative to our internal expectations. Pointing devices also performed quite well with share gains. I don't have a lot more to offer in terms of color, but generally, I would say both categories were a little better than expectations. And pointing devices being a hallmark of our company, we're just thrilled to see additional share gains.

Q - Andreas Mueller {BIO 1830206 <GO>}

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Okay. And then the cash on the balance sheet is now really high. Would you accelerate the share buybacks? I think it's running a bit lower than $100 million. Is there room to improve that?

A - Chuck Boynton {BIO 17080323 <GO>}

Well, there is room to improve. First of all, in Q2, we pay our annual dividend. So that's being paid this quarter and that will reduce the cash balance. We have put in place a new buyback plan, the old buyback plan of $1.5 billion. We were able to execute $1.1 billion of buybacks on the old plan that's now expiring. And we have announced an acquisition.

So we're -- I would say we're executing on our capital allocation strategy of targeting M&A for growth. Now Loupedeck is a modest purchase price, but we are targeting M&A for growth, paying the dividend and growing the dividend and then excess cash returning back to shareholders. So I think we're following our playbook right down the middle.

Q - Andreas Mueller {BIO 1830206 <GO>}

Okay, understood. Then last question on the administrative cost is one timer. What was that exactly?

A - Chuck Boynton {BIO 17080323 <GO>}

We don't disclose the individual details, but it was a kind of millions of dollars. So it's not a huge number either, but that was sort of a one-timer. So we should see a benefit in Q2.

Q - Andreas Mueller {BIO 1830206 <GO>}

Okay, perfect. Thanks a lot.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks, Andreas. Our next question is from Michael Foeth at Vontobel. Michael, I think you're still on mute. Michael, we'll circle back. Let's go to Samik Chatterjee at J.P. Morgan. Hey, Samik.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Hi, can you hear me?

A - Guy Gecht {BIO 3114277 <GO>}

Good morning, Samik. Yes.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Okay, great. So I jumped in a bit late. So I apologize if you've gone through this already, but in some of the PC companies we track, there are expectations for a second half seasonal improvement in PC volumes related to the first half. I'm just wondering, as you look at your sort of momentum into the back half of the year, are you associating any improvement given the attach rate that you would typically expect to see with PC volumes into your model, or are you largely sort of keeping that as more of a potential upside if

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that comes through? Or otherwise you're sort of going to more track flattish half over half? And I have a quick follow-up. Thank you.

A - Guy Gecht {BIO 3114277 <GO>}

Yes, we -- part of analysis and reviews, we closely tracking PC shipment and our attach rate with that. And so obviously those are good news from our perspective, the outlook we're seeing with some of the big PC providers. As Chuck said, we're trying to be cautious here. It's just the first quarter. We're very pleased with the overachievement , don't get me wrong, but we're not going to build on other companies stocking a little bit more bullish on the second half.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Yes, okay. And for my follow-up, it was an interesting acquisition Loupedeck to see sort of what you're doing there, but maybe if you can sort of highlight how you're thinking about what addressable market does that have, and as you look at your portfolio, what are these other sort of niche opportunities that you're thinking of in relation to M&A?

A - Guy Gecht {BIO 3114277 <GO>}

Yes, so on the Loupedeck, it's a small, relatively small team, but very important IP that will allow us to add very sophisticated capabilities to keyboard and mice in the future. And we will use it first in for gamers and creators, but we're seeing the potential beyond that. And I'll leave it at that. We'll talk about it when we get to this.

As far as M&A, we review you the M&A funnel. We encourage the team to replenish it, look at that. We have the optionality. We're not desperate for M&A organically. I like our chances and the growth trajectory, but I think we can accelerate in certain areas, whether by small, tuck-in, or by something a little larger than that. And we want to see, we obviously have to bring it to the Board for approval. If we have targets, we want to see what else is out there that can allow us to accelerate the coming back to growth and growth beyond that.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Great. Thanks for taking my questions. Thank you.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you, Samik.

A - Chuck Boynton {BIO 17080323 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Michael, I believe you're back. Michael Foeth from Vontobel. Hey, Michael.

Q - Michael Foeth

Can you hear me now?

A - Nate Melihercik {BIO 20814398 <GO>}

Yes.

A - Chuck Boynton {BIO 17080323 <GO>}

Yes.

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Q - Michael Foeth

Perfect, thank you. So just one, you changed your reporting structures for the some of the categories. And I was wondering if the -- what's an other now? So the speakers, if you're planning to phase any of these products out and if that has any impact on your rather cautious guidance for the full year as well?

A - Chuck Boynton {BIO 17080323 <GO>}

No, we are not phasing those products out. The challenge I gave to the general manager of that group was grow it so it's its own standalone category. So we just tried it for housekeeping. We don't want a bunch of small cats and dog categories and so the idea is put those together so it's we're focused and then if they can outgrow then we'll create a separate line for them and that's the challenge to the general manager and he's accepted that challenge.

Q - Michael Foeth

Okay, so if you can talk maybe just a few words about UE Boom and if there is any plan to reposition that for growth going forward?

A - Guy Gecht {BIO 3114277 <GO>}

That's a great question. We actually the company invested not much in this, but invested. We're actually expecting a couple of new products in the coming months to do in the remainder of the year to ship, and hopefully we'll energize the category there, but it's too early to say. And as Chuck just said, he told the GM wants to go out of other, we want to see good growth and we'll get you out of other category. But this point to give you the best transparency on our product categories, we felt like it's better suited than the others.

Q - Michael Foeth

Okay, perfect. Good to hear. Thank you.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you very much.

A - Nate Melihercik {BIO 20814398 <GO>}

Our final question for today is from Serge Rotzer at Credit Suisse. Hey, Serge.

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Q - Serge Rotzer {BIO 4734915 <GO>}

Yes, good morning, everybody. Basically I had a similar question like Michael because of this other. I'm wondering that you want to see growing these product categories, as in the past you always said that you take out research and development costs and that you squeeze them down. And we know that these product groups have the lowest margin. So it gives no sense for me that you want to grow now again in these product groups as it will dilute your margin. So for me, it sounds more that you want to close these product categories, at least on your old strategy.

A - Chuck Boynton {BIO 17080323 <GO>}

Well, so clearly we, our goal is to grow the company profitably and there's a margin threshold. So the challenge for the team is to build great products and grow those with attractive margins that makes sense for the company. And if they don't meet our thresholds, then we will not seek to grow those. What we have been doing historically in those categories is kind of profit max, not investing necessarily, but harvesting the profits.

And I believe there's a strategy that they can execute to do both. Now we'll see, that's why it's in the other category. It's small, it's not worth you focusing on as an investor today, but the challenge for the internal team is to build great products with attractive margins. And if they can get to the level that it's worthy, then it'll create its own standalone category.

A - Guy Gecht {BIO 3114277 <GO>}

And rest assured, there is no product development here that is targeted at a low margin category. We are -- our dollars, R&D dollars are going after higher margin, higher growth products.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay got it.

A - Chuck Boynton {BIO 17080323 <GO>}

And that's where Guy and I are aligned. It's really portfolio management. How do you manage the portfolio for growth and profit. Not either or.

Q - Serge Rotzer {BIO 4734915 <GO>}

Probably a follow up here. Is there a significant goodwill position linked to these products? So speakers, Jaybird, UE Boom, can you give me any information here?

A - Chuck Boynton {BIO 17080323 <GO>}

I don't believe so. I think that any goodwill associated with those acquisitions would be fairly immaterial.

Q - Serge Rotzer {BIO 4734915 <GO>}

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Okay, good. And then the last one, you have increased slightly the CapEx from $90 million to $100 million. Is there any reason or do you start to capitalize some of the OpEx? Although it's a very small position, I know.

A - Chuck Boynton {BIO 17080323 <GO>}

No, it's tied to our new building here in Silicon Valley. And we hope to have you all visit us here and host you if you're in town, the Silicon Valley, we've got a really, -- our -- a new office that we're just opening and that we're calling in from today using our great technology. So, come visit us here and we'll give you a tour of our new facility.

Q - Serge Rotzer {BIO 4734915 <GO>}

But still $10 million for a new building change quarter sequential change only in three months. So, --

A - Chuck Boynton {BIO 17080323 <GO>}

Well, it's a -- the accounting rules for leases has changed now where you capitalize operating leases. So, I wouldn't read into it too much.

Q - Serge Rotzer {BIO 4734915 <GO>}

Okay. Got it. Many thanks. Moving on Chuck for the next quarter.

A - Chuck Boynton {BIO 17080323 <GO>}

Thank you.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

Thanks Serge. Guy, Chuck, that wraps up our Q&A for today.

A - Guy Gecht {BIO 3114277 <GO>}

Thank you, Nate. Thank you everybody for joining us. Pleasure to be on the call with everybody. And I also want to extend many thanks to the very hardworking Logitech team that allow us to deliver this overachievement and build for a great future. Thank you.

A - Nate Melihercik {BIO 20814398 <GO>}

That's all. Thank you.

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