REFINITIV STREETEVENTS

EDITED TRANSCRIPT

LOGN.S - Q2 2024 Logitech International SA Earnings Call

EVENT DATE/TIME: OCTOBER 24, 2023 / 12:30PM GMT

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

Charles D. Boynton *Logitech International S.A. - CFO*

Guy Gecht *Logitech International S.A. - Director & Interim CEO*

Nate Melihercik

CONFERENCE CALL PARTICIPANTS

Ananda Prosad Baruah *Loop Capital Markets LLC, Research Division - MD*

Andreas Müller *Zürcher Kantonalbank, Research Division - Research Analyst*

Asiya Merchant *Citigroup Inc., Research Division - VP & Analyst*

Dong Wang *Barclays Bank PLC, Research Division - Research Analyst*

Erik William Richard Woodring *Morgan Stanley, Research Division - Research Associate*

Jörn Iffert *UBS Investment Bank, Research Division - Director & Analyst*

Jürgen Wagner *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

Michael Foeth *Vontobel Holding AG - Head of Swiss Industrial Research*

PRESENTATION

Nate Melihercik

Good morning and good afternoon. Welcome to Logitech's video call to discuss our financial results for the second 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 and 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 in that sales. This call is being recorded and will be available for replay on our website.

One brief note before we move on to the quarterly results. Next quarter, we will plan to update and modernize our earnings materials. The totality of the information we provide today will not change.

I'll now turn the call over to Guy. Guy?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Thank you, Nate. And thank you all for joining us today. I'm very proud of the Logitech's team performance and execution this quarter, driving better than expected results despite continued challenges, especially in Asia. Our new products combined with sales execution led to significant

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

progress toward the return to growth. And we did it while delivering record operating and gross margins exceeding any time in our history outside of the big pandemic periods along with OpEx control coming in slightly better than our 25% target.

While we pause to congratulate the team and indeed they deserve a huge thank you for the results, you will not find here any complacency, especially not before we return to healthy growth. That may take time as we work through pandemic portfolio demand, but we are actively working toward it.

Looking longer term, I'm confident about Logitech's positioning. Our portfolio aligns with doable secular trends and hybrid work, video conferencing, gaming and content creation that will continue playing out and we see no reason to why we will not maintain the number one positioning Logitech currently holds in the majority of our growth categories.

Now let me briefly comment about the state of the business in these growth categories. And then Chuck will give you a lot more color on our performance in the quarter. I'm going to jump right into the video collaboration where our results are sequentially improving, but still far from where we wanted them to be. We're still facing market-related challenges, where some customers are taking a measured approach to equipping conference rooms, focusing first on hybrid work enablement by getting the workflow back into the office. But the need for equitable video and audio is only increasing and our new Sight Tabletop camera shipped this quarter uniquely provides the best experience for hybrid meeting.

We expect to continue to see gradual improvement in this business and we'll be back in growth mode. Our solution for personal workspaces like keyboards and mice are on the verge of growth again. Mobile accessories and ourselves into the enterprise are areas of specific strengths this quarter. Between business interest and new consumer products, we see this category well-positioned for the holiday season.

PC gaming improved sequentially and the year-over-year declines are moderating. Simulation and console gaming remain challenged as we work through unfavorable [dotcoms] (inaudible) in FY '25. Current and upcoming products (inaudible) across our gaming portfolio in the next several quarters will further boost us in this industry that's improving, but still not back to growth.

Our design-led innovation was on full display this quarter. With 16 new products, we expanded the [BOSS] gaming portfolio with the LIGHTSPEED keyboard and SUPERLIGHT 2 mouse. We launched Logitech G Litra Beam light and 2 Yeti microphones. We also launched the first product in a new category for Logitech, the Casa Pop-Up Desk, which is an all-in-one ergonomic desk setup.

We also continue to introduce new AI-powered products like our Zone Wireless 2 headsets. This headset uses AI for far end noise suppression resulting in a unique 2-way noise-free cancelling experience. Products like this demonstrate how AI can improve the user experience. More broadly, Logitech sees AI as a major strategic opportunity, just as we have enabled people to be productive by accessing PC and cloud capabilities, we envision Logitech providing the interface tools people need to access and benefit from AI. As artificial intelligence transforms how people work and live, we plan for Logitech to be at the forefront, delivering the solutions that seamlessly bridge human emotions.

This is an exciting new frontier for us that you will hear more about in coming quarters. This quarter it wasn't just our innovation on full display, but also our commitment to climate action and equity within our recent Impact Report. We aligned with 2 major private sector initiatives for the UN Sustainable Development Goals. We firmly believe businesses play a critical role driving progress on these goals. And we are proud to foster alignment across companies.

As our Chief Operating Officer, Prakash, said during Climate Week in New York City, when it's come to the environment, we need progress not just pledges. Let me close with an update on our CEO search. Over the last 4 months, the Board has been conducting a global CEO search including internal and external candidates across industries and geographies.

From the first days of the search, there was a tremendous interest in the opportunity that afforded the Board the chance to meet with incredibly strong, diverse and experienced candidates. Our Board masterfully led by Chairperson Wendy Becker deserves real credit for their work. You might sense from my update that we are getting closer to finalizing a decision and indeed we are. Until then, I hope you understand I will not be able to add more color to this topic.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

In summary, this quarter, we have made real progress, but aren't satisfied. We want consistent growth and consistent financial performance and we are very focused on delivering that. Thank you again and let me turn it to Chuck to discuss the numbers. Chuck?

Charles D. Boynton - *Logitech International S.A. - CFO*

Thank you, Guy. Thank you all for joining us on the call today. I'd like to echo Guy's comments about the great focus and execution of our employees throughout the quarter. Their commitment to the customer is certainly reflected in our 16 product launches ahead of the holiday season while also demonstrating the discipline to operate the business in a responsible way and generating strong operating cash flows. Tremendous work by everyone.

Now moving on to the business results for the second quarter. Net sales in constant currency declined by 9% to $1.06 billion. Overall, our Europe team had a very strong quarter with both sequential and year-over-year top line growth in U.S. dollars. In constant currency, we were down mildly from the prior year. Both Americas and Asia-Pacific were down year-over-year, but showed sequential growth. Our personal workplace solutions had a really great quarter while gaining market share in Keyboards and Combos, Pointing Devices and Webcams.

Our video and Logi G business still had pressure versus more difficult comps last year. We have been talking on our earnings calls and our Investor Day about the benefits of lean on-hand and channel inventory. This quarter, we continued our progress in leaning out the supply chain. And in fact, our sales out was stronger than expected, which not only led us to over-performing in the top line, but also reducing channel inventory.

We are currently shipping at a fast pace, getting ready for the peak holiday season. We expect to reduce channel inventory in the March quarter to align with the seasonally lower revenue we see in Q4 as well as Q1 and Q2. Please note, this will create a negative year-over-year comparison for Q4. For the sixth consecutive quarter, we reduced on-hand inventory significantly with our inventory turns improving from 3.2 to 4.6 year-over-year. We are getting close to our target operating model of 5 turns or better.

Lastly, it's important to know that similar to last quarter, the reduction in channel inventory and on-hand inventory had a onetime positive impact on gross margins. In Q2 gross margins expanded quarter-over-quarter to 42%, better than anticipated and in the upper range of our long-term financial model.

Year-over-year increases were driven by cost improvement, including less reliance and expedited shipping along with lower promotions partially offset by unfavorable product mix. Comparing sequentially, increases were driven by cost improvements, favorable mix as well as leverage and scale. Though we are encouraged by the gross margin improvement, Q3 gross margins are typically pressured by promotions and mix and discounting typically increases during the holiday season and our sales are more consumer-led than enterprise.

We expect these headwinds to be partially offset by overhead absorption. In the back half of the year, we expect gross margins to be approximately 38% or 39% based on the previously mentioned onetime benefits in Q2 and sequential headwinds. Looking further ahead, with our slightly larger scale cost reduction and lower promotions, we believe that business is positioned to structurally attain the 39% to 44% gross margin target on average, although there will be quarters where we'll be below our long-term target due to various factors such as seasonality, mix or promotions.

Operating expenses were $261 million in the quarter in line with revenue declines down 9% year-over-year. 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. Note that we expect OpEx to rise mildly in Q3 due to seasonality and certain onetime costs.

Operating income was $183 million in Q2 and better than our expectations due to improved demand, strong gross margins and cost discipline. Following up on our record Q1 for cash generation, the team delivered strong Q2 cash flow from operations at $223 million, leading to a cash balance of approximately $1.2 billion.

Q2 was also reflective of our consistent capital allocation strategy, particularly our commitment to returning capital to shareholders, which totaled approximately $276 million in Q2. In September, our shareholders approved an increase to our dividend and we returned $182 million to shareholders. And we started our new $1 billion 3-year share repurchase program that was approved in June. In the second quarter, we repurchased nearly 1.9

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

million shares for a total consideration of $124 million. Actual cash outflow was $94 million in the quarter with the remaining balance to be paid in Q3. Please note the shares repurchase were under both the 2020 and 2023 program.

Moving on to our outlook, we exceeded our first half outlook on both the top and bottom lines driven by stronger than anticipated demand, lower promotional intensity and more aggressive cost reductions. Although uncertainty still exists, we remain cautiously optimistic that our business will continue to slow our rate of decline and eventually get back to growth. Therefore, we're raising the full year outlook for fiscal year 2024. We are now expecting revenue of $4 billion to $4.15 billion. Our corresponding operating income is expected to be between $525 million and $575 million.

Before we start Q&A, we're going to show a short video highlighting our PRO line gaming products. Nate, roll the video and then we can take Q&A.

(presentation)

QUESTIONS AND ANSWERS

Nate Melihercik

Our first question today comes from George Wang at Barclays.

Dong Wang - *Barclays Bank PLC, Research Division - Research Analyst*

I have 2 quick ones. Firstly, just to kind of see if you can reconcile the fiscal to H -- just based on the (inaudible), it's still kind of below seasonal and kind of from 2H to H kind of flattish versus historical trends kind of up 15% to 20% sequentially from 2H to H. Just curious how much visibility you have and kind of tried to reconcile, you talked about improving demand and sequentially, yet you're guiding kind of below seasonal for the back half. Just curious if any color on that.

Charles D. Boynton - *Logitech International S.A. - CFO*

Certainly, George, thank you for the question. So if you think about the math, we're in, the rate of change, the negative is slowing down. So it's the rate of change in Q1 versus a year ago was worse than Q2 and we're projecting Q3 and Q4 to be slightly better than Q2. And so if you look at absolute dollars, because it's -- the rate of change is slowing, the halves might look somewhat comparable, but we're sort of cautiously optimistic that the back half of the year will be -- it's still probably going to be negative still down year-over-year, but should be down a little bit in line with Q2, a little bit better than Q1 and the rate of change, we're sort of confident that -- or optimistic that we're in an improving state.

Dong Wang - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Great. If I can squeeze in a second question quickly. Just any color on the kind of refresh cycle, kind of the upgrade cycle across gaming especially because intuitively gaming has much faster refresh cycle versus kind of traditional PC related peripherals and B2B side. So just curious whether you are already seeing a kind of rebounding the reverse cycle come after last cycle according to COVID?

Charles D. Boynton - *Logitech International S.A. - CFO*

Certainly, I can take this and Guy can jump in. We have a handful of new NPIs that we've launched this quarter, just in time for our peak December quarter in the gaming area. We're really excited about the PRO line, you saw a commercial there, the PRO line mice and keyboards, 2 new Yeti microphones, the new lighting system. So I think we're in a really good place with the category. We do have a couple NPIs coming right after the December quarter to address console gaming headsets, but the line is being updated and refreshed. The product teams are working very hard to accelerate the time to market for new products. Guy, do you want to --

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

So first of all, exactly that, we need to give people the reason to refresh and buy new things and we're working on this, continue to release new products. Our road map is pretty exciting. In gaming, as I mentioned the 3 categories, the PC gaming, it's the biggest spot. I think we started to see people moving and updating what they have. There's another category of console and simulation. Those are two categories where people have really pulled forward doing COVID. And I think that might take a little longer than the PC gaming, but definitely at some point people would like to upgrade and we give them pretty good reason to update.

Nate Melihercik

(Operator Instructions) And our next question is from Asiya Merchant at Citi.

Asiya Merchant - *Citigroup Inc., Research Division - VP & Analyst*

I'm trying to turn on my video, but I think Nate's disabled, but anyway. Just on margins if I may. You mentioned there were some onetime benefits that certainly resulted in margins which were better than what you think had guided which was down sequentially for the September quarter. Can you walk us through some of those margin benefits that impacted this quarter and why we shouldn't expect that to continue in the second half? I understand there's new products that takes a little bit off, just given the new product launches, but what's there that shouldn't help you in the second half of this year?

Charles D. Boynton - *Logitech International S.A. - CFO*

Certainly, Asiya, I think, yes, great question. So first, we over-delivered revenue in Q2 and when you over-deliver revenue, you get more fixed cost absorption. So there was leverage and scale that helped in the quarter versus expectations. We also had communicated that we expected channel inventory to be flat quarter-over-quarter and it came down and when channel inventory comes down, then gross to net tends to improve.

We also decreased on-hand inventory again, which had a corresponding benefit as well onetime benefit to inventory reserves. So those were the -- those two are probably not going to repeat in the third quarter, maybe in the fourth quarter they will and then structurally we did a really good job on cost reduction. We drove down product costs. That had a meaningful impact both year-over-year and a little bit quarter-over-quarter. Certainly, freight and logistics costs year-over-year were a huge improvement, not so much quarter-over-quarter and then there were some mix benefits quarter-over-quarter, but tailwinds year-over-year.

So a lot in there, but I do think overall, we're in a better place now than we were. Primarily, our operations team has driven lower product costs and our commercial organization has improved linearity and has reduced discounting which has been helpful to gross margins. Now a word of caution now for Q3, it is our biggest quarter, it's more consumer-oriented and therefore it tends to be more promoted. So we do see margin pressure in Q3, and then as I mentioned in the prepared remarks in Q4, we intend to bring down channel inventory. So you'll have less leverage and scale in Q4 given it's typically seasonally our lowest quarter.

Asiya Merchant - *Citigroup Inc., Research Division - VP & Analyst*

Okay. And is the guide that December quarter could be more in line with seasonal?

Charles D. Boynton - *Logitech International S.A. - CFO*

December quarter will be more in line with seasonal and then I think Q4 will be a little lower because of the year-over-year reduction in channel inventory.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Asiya Merchant - *Citigroup Inc., Research Division - VP & Analyst*

Okay. Great. And just gaming and finally one more. I think specifically in the prepared remarks you mentioned share gains across your 3 other products. You didn't mention the -- is that still a function of the fact that, are you losing share in PC gaming, or is it just because you're seeing tough comps in console and simulation that the gaming looks a little bit maybe (inaudible) some of the other competitors that talked about gaming getting growth by the quarter -- by the year-end, calendar year-end?

Charles D. Boynton - *Logitech International S.A. - CFO*

There's been some share shifts in different categories, gains and losses in gaming. The important thing in gaming, console gaming is a really important category to us. One, the margins are higher. It's the heritage of Logitech. We have number one market share in mice, so really important category for us. In the keyboard space, we have #2 market share in both those categories, I think the NPIs will help gain some share back.

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

I would say when I track to where are we gaining and losing, it's normally where we have a product, been in market too long, competitors will make again, low improvement. When we have new products, normally we have big fan support, that's great. And our job is just to make sure we accelerate and get it to the market and you're just (inaudible), but obviously, gaming is definitely on it. So a lot more good products to come.

Nate Melihercik

Our next question is from Erik Woodring at Morgan Stanley.

Erik William Richard Woodring - *Morgan Stanley, Research Division - Research Associate*

So maybe to start, just one clarification question on the top line, Chuck, for you. And historically, again, we see revenue grow about 25% sequentially in the December quarter and then decline about 25% sequentially in the March quarter. If we assume that, we do get to, call it, 3 -- or excuse me, $4.3-ish billion of revenue for the year. So clearly above the high end of your guidance range. I would love if you could maybe just double click on the comment that you just made to Asiya about December being more in line with seasonal but 4Q being below seasonal. Is that how we should be thinking about seasonality and kind of why the guide would imply something below normal seasonality? And why would that be after such a strong second quarter? If you could just tease that out a little bit, that would be helpful. And then I have a follow-up.

Charles D. Boynton - *Logitech International S.A. - CFO*

Yes, Erik, good questions. I think ultimately, because we're still in a year-over-year declining environment that the seasonality needs to be adjusted for that slope of decline and therefore, if you compare historical Q1 and Q2 to Q3 and Q4, if you adjust for that slope of decline, I think you will get back into the outlook that we see.

The other issue that we mentioned in the prepared remarks is that we intend to reduce channel inventory in Q4. And so year-over-year, that will be down more than it was historically to bring channel inventory to the appropriate levels for Q4 and Q1 and Q2. Right now we're building channel inventory, obviously, for the prime selling season.

So I think you're a little high on the revenue numbers based on our outlook. Historical seasonality, we did this at the Analyst Day, we talked about it. If you looked at the last 5 years and you take out the peak COVID years, it generally was -- and sales in and sales out can be a little different, but demand typically was 24%, 24%, 30% in Q3 and 22% in Q4. That was kind of 3 out of the 4 or 4 out of the 5 years have been kind of the average pacing. And if you layer on top of that the rate of decline, of course, it's slowing, we're getting not quite back to neutral, we're still in a declining

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

environment. And then it will bring down that back half of the year relative to the first half of the year. So we're kind of seeing the back half being somewhat similar to the first half of the year, maybe slightly better, but roughly in line with the first half of the year in total revenue.

Erik William Richard Woodring - *Morgan Stanley, Research Division - Research Associate*

Okay. That's helpful. And then a follow-up again on a question that was kind of previously asked, because gross margins were so strong this quarter, really nice improvement, and Chuck, again, you talked about kind of sustainability to a degree and structurally, you think you can attain this 39% to 44% range. Can you just tease that comment out a little bit because I feel like it's a bit of a shift from what we heard last quarter, which was it will take 4 to 6 quarters before we get back to that 40% level?

So it took you less than one quarter to get back to that level. So has something changed in your view structurally where you have a lower cost profile such that you're more comfortable being kind of up towards that 40% range? I realize not for the second half, but overall, is that 40%-plus level now more attainable in your view than it was 3 months ago?

Charles D. Boynton - *Logitech International S.A. - CFO*

It is a little bit. Now there's 2 key factors that give us a little more confidence now than a quarter ago. The first is scale and leverage. We over-delivered on the top line and that was a positive surprise for us, that gives you leverage and scale. That was a real positive. The other 2, maybe it's combined, but better margins driven by lower cost and less promotion. And I think I'll give credit to our teams, [Quin], our Head of the GCO, the global commercial organization, and Prakash, our COO, have done a really, really good job driving lower promotions and lower material costs that have helped us.

Now we can't really predict mix. And we know in Q3, we're going to have more promotions, more consumer. And we know in Q4, we're going to have a reduction in channel inventory, and that's a low watermark quarter typically for the year. So I think there's a little bit of headwind in Q3 and Q4 on the margin side. But structurally, I think we're in that zone of 39% to 44%. Of course, a lot of things can happen. But as we sit here today, Guy and I are just really pleased with how the team has executed and where we sit and the read through to the future is, I think, better now than it was a quarter ago. Guy, do you want to add to that?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

I think perfectly said. I think the team kind of accelerated the arrival of the future business model and they deserve tons of credit. And obviously, we'll continue to work hard to maintain and push hard on profitability.

///C^Nate Melihercik^ Our next question will be from Jurgen Wagner at Stifel.

Jürgen Wagner - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

Question on your market positioning in your PC peripherals business. You mentioned you are gaining share now. Dell had recently CMDed, they showed a slide that they want to go back into the peripherals business. Is that now a new trend? So do you see that as a threat? Or maybe do you consider going back into the OEM business at some point? And then a question on video from today's perspective, when would you see that reversing or turning into growth again?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Thank you. I would say what we're finding, it's really reassuring is the strengths of the brand and we're seeing indication of pricing power and you can see that some of it in our P&L. We like to sell products with larger brand that has definitely a promise of quality of innovation. People like that. We're seeing -- I mentioned Logitech for business, we're seeing more and more enterprise saying, you know what, we're going to buy that. We're

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

going to just -- we know that, that will work for our users, both at home and in the office, our IT tools will manage that as well, not just the video conferencing, but the peripherals.

We're very comfortable where we are. We always had competition. We just need to continue on our game. And we did in the last many years. We need to continue to do faster, better and I think we have great opportunity to do.

Jürgen Wagner - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

So you wouldn't see OEM business as an opportunity again for you?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Yes. We never say never again. We love partnerships. It's something we make financial sense. Obviously, it will be up to the next CEO to decide. But I think we're very comfortable with people picking a premium product with the Logitech brand and getting great return for it.

Charles D. Boynton - *Logitech International S.A. - CFO*

And Dell can be a partner as well. I think we do sell some of our products on their website and they are a good partner and they'll be a formidable competitor. But I think with our quality engineering, design, brand and #1 market share, I like the position that we sit in.

Jürgen Wagner - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

Okay. And on video, any thoughts when you -- when this could turn again? Or yes or --

---

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

I think that's the right question of when, not whether. Talking to customers, the people they are dealing with video conference and the enterprise are often the same people that get the mandate let's bring the team back to the office. And right now they have 2 conflicting kind of topic, not completely conflicting, but they try to get people to come back and then they try to arrange for them great environment, productive environment to work with the people who work from home or the customers and videoconferencing.

So I have no doubt that we are going to see more rooms being equipped with videoconferencing. That's what people tell me. They do their homework toward that. I see customers making a decision to essentially standardize on Logitech. I know they are going to place POs this quarter, next quarter and more and more in the future. But at the same time, they take a pose. They want to get their workforce back to the office so they will be used for those conference rooms.

Charles D. Boynton - *Logitech International S.A. - CFO*

And I would say, generally, video grew this quarter sequentially. The year-over-year comps are still a little bit difficult. But we saw video growth this quarter. And so I think we're feeling that our products are great and the market is there. It's just a matter of when, not if.

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Exactly.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Charles D. Boynton - *Logitech International S.A. - CFO*

And we can't predict that, but I like our position there.

Nate Melihercik

Our next question is from Ananda Baruah at Loop Capital.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

So I guess, better demand you guys saw, any view on what the drivers of the stronger demand were throughout the quarter?

Charles D. Boynton - *Logitech International S.A. - CFO*

Couple of key things. The consumer is still quite strong. The consumers really held us through the soft part on the enterprise, but we are seeing enterprise come back. We just mentioned on the last question, we saw video grow quarter-over-quarter. And the enterprise selling of mice, keyboards, webcams has been quite strong. So the enterprise maybe has some signs of life, but the consumer has really been incredible. Year-over-year growth in pointing devices, primarily mice, it's one of the few categories that we've seen year-over-year growth. Overall, 9% decline top line, but growth in mice.

And if you look at Europe, Europe has been quite strong. The European market has really -- that team and that market has been a really important point of strength for us this quarter. U.S. market, so-so, Asia is still lagging behind. But I would say a couple of categories and a couple of regions have really delivered a great quarter for us.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

And Europe, has Europe been both consumer and enterprise?

Charles D. Boynton - *Logitech International S.A. - CFO*

Yes.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

Interesting. Interesting. What like -- I guess, as you guys think through the rest of the fiscal year, I mean -- and look, even more broadly kind of counting '24, if you're willing, what do you see as the most important kind of, I don't know, like tension points in either direction for your business that could swing things? Well, actually let me just ask it that way out. What do you see is the most important tension points for your business? Sounds like kind of inventory -- channel inventory, you're going to lean on a little bit more, but maybe in addition to that, we should be thinking of?

Charles D. Boynton - *Logitech International S.A. - CFO*

Well, I think the 2 I would say is how Q3 ends, both from a promo and volume standpoint. It's our biggest quarter of the year. This will really be a telltale sign for the company. And the second would be the return of video in a more meaningful way. And I just can't tell if that's 1 quarter or 5 quarters or when that inflection point will be. But overall, those are the 2 things I would point to as inflection points.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Just add to that, just geographically, I think Europe is essentially on the verge of growth. We want to see that and we have high hopes for the Americas to come back to this. We like to see stabilization in Asia. China is our second largest market. So hopefully, that will start to bottom and go back. So if we start to get all of that, there's definitely things that will play well for us.

Ananda Prosad Baruah - *Loop Capital Markets LLC, Research Division - MD*

And Chuck, and Guy as well, to the dynamic with videoconferencing is -- Guy, you had talked to this, and Chuck just mentioned it, is really the decision -- like everybody sort of -- it sounds like everybody is -- not everybody, it sounds like folks are largely onboard that there's going to be some hybrid work model. But it also seems like it's unclear still what that will look like. And so is that really kind of the sticking point for folks deciding which rooms they want a video enabled in enterprise? Is that really what we're waiting for? Is it something other than that?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Say the people I need them. I met quite a few customers in the last 90 days. They know where they want the video enabled. And in most of the rooms they want it, I would say, (inaudible) kind of leaving labs, we have almost every one video enabled, and it's often come into play, go to a meeting and says, okay, let's take this person working from home today, let's call this customer and let's see if there have few minutes and get him on a video. What you used to do on the cell phone now becoming a quick video conference. So that is happening and people are planning for this.

You just see the same people also at the same time saying, hey, I need to get my workforce. Yes, we announced the policy of 2 or 3 days in the office, whatever the policy here. Now we need to see people do that and use those rooms. We're not standing still, by the way, we're going to expand our portfolio. You're going to hear more about actually enabling those companies to do a great job in attracting, making this very attractive place for people to come and collaborate inside the corporate and outside the corporate. So stay tuned on that.

And I think it's just a matter of time when they come back and says, okay, now the priority is back to, let's get video enabled, modernize all those videoconferencing.

Charles D. Boynton - *Logitech International S.A. - CFO*

I would add to that. I think that's super well said, Guy. The backdrop is quite interesting. We sold this past quarter, $152 million worth of videoconferencing solutions. That's not a small number. We have #1 market share. It's not -- none of the players are really doing a better or a lot worse than we are. The market is just kind of sideways in the backdrop and the why is companies are being cautious. Global conditions are unsettled, interest rates are high. Ours are somewhat discretionary spending.

And so I think companies are prioritizing other areas right now. As the things Guy mentioned, when those settle out, I think we're going to see this become a priority again. Once they have their model of back to work and hybrids settled out, I think this is a -- to me, this is again, it's a when, not an if. But I think the backdrop is cautious corporate spending on these categories broadly. We have #1 market share. We have great solutions. And I think the pendulum will swing back, but it's still a great business today, high margins, $150 million a quarter. I mean, I feel good about the fundamentals. It's just we're not seeing the growth rates that we'd like to see.

Nate Melihercik

Our next question is from Michael Foeth at Vontobel.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Michael Foeth - *Vontobel Holding AG - Head of Swiss Industrial Research*

Starting with a clarification on the gross margin. You talked about lower costs driving the margin. And I was wondering, is that only lower input costs, lower material cost inflation? Or is it something in the design of the products as well that is more structural that allows you to have lower product costs? That would be the first part.

Charles D. Boynton - *Logitech International S.A. - CFO*

Yes, Michael, it's both. And it depends on the comparison year-over-year versus quarter-over-quarter. We have structural material cost reduction that our COO, Prakash and his team have driven. It's both designed for manufacturing, designed for cost as well as procurement negotiated cost reductions. And then certainly, everyone has been benefiting year-over-year from lower freight costs, inbound, outbound, air, water, modal, those -- all companies have benefited from where we've done an especially good job is material cost reduction. Year-over-year, it's about 50-50 cost reduction and expedite/logistics. And then quarter-over-quarter, it's primarily material cost reductions because freight has not changed a lot quarter-over-quarter.

Michael Foeth - *Vontobel Holding AG - Head of Swiss Industrial Research*

Second one on the strength and the workplace solutions business, mice and keyboards. Can you be a bit more granular? Is it -- you talked about strong consumer, but is it equally strong in enterprise? Is it -- where does it come from? Is it a segmentation of your lineup? Is it more in the high end or the low end of the products? What's driving the strength there?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

I would say across the board geography, we talked about Europe much better, leading, Asia, China little trailing, selling to the enterprise and influencing enterprise. It's something that's relatively new to Logitech, but it's working really well. We're partnering with enterprise saying, hey, you want to expand, would you do Logitech in general, companies like to do to work with fewer vendors. So that's really worked well with that for us.

The mobile type of solution is actually doing quite well too for us. And so we're seeing strength, we expect to be seeing strength, but we're seeing strength in all those personal workspace. I think now that some of the pull forward is starting to go away, we're seeing it back to normal demand and normal growth. We see the path to normal growth, yes.

Michael Foeth - *Vontobel Holding AG - Head of Swiss Industrial Research*

Maybe just a very quick last one on financials. You have a pretty big cash pile and interest rates are up. So I guess it's starting to earn some good money on that cash. I was just wondering where is the cash parked and what sort of return are you expecting on the cash?

Charles D. Boynton - *Logitech International S.A. - CFO*

We have a very conservative investment philosophy. So primarily in bank deposits and treasuries, yields. It's different in different countries, but the highest yields we're earning are kind of just sub-5%-ish. So we have an incredibly conservative model when it comes to managing our cash. We're really pleased this quarter. We returned more cash to our shareholders than we generated. I think that gives us the confidence and strength in our business. We paid our annual dividend, executed buybacks, opened up a new $1 billion line for additional buybacks. And so we feel like we're -- our capital allocation model is working. It's executing, it's consistent. And the excess cash that we have is earning a decent return.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Nate Melihercik

Our next question is from Joern Iffert at UBS.

Jörn Iffert - *UBS Investment Bank, Research Division - Director & Analyst*

I will take them one by one if it's okay. Just the first question, when you get all the preorders already for the Christmas season or a good chunk of the preorder for the Christmas season and if you exclude the B2B business, can we already assume that at least so far, the revenues are trending flattish year-to-date for the quarter, considering these preorders for the consumer business?

Charles D. Boynton - *Logitech International S.A. - CFO*

So the way we look at this, Joern, is our global business has -- is different around the world and the many accounts plan very far in advance and many accounts order every 2 weeks. We don't disclose the level of detail of kind of book-to-bill or ordering. I will tell you that our operations team is working fast and furious delivering amazing amounts of product right now, getting ready for the big holiday promo.

We're just super proud of the engagement with our key customers and partners, e-tail, retail and we're optimistic for a strong holiday season. B2B is trending nicely. There can be a budget flush. We don't know what that's going to look like at year-end. That's kind of a wait and see. It tends to happen in the last couple of weeks of the quarter. So B2B and the business is trending as we would expect at this time in the quarter. Of course, it's week 3, so it's early.

Jörn Iffert - *UBS Investment Bank, Research Division - Director & Analyst*

Okay. The second question would be, please, on gaming. Can you remind us how much of the gaming sales is linked to consoles via the headsets and game controllers, for example? And it seems that some console sales are doubling these days and that you get a feeling to -- yes, to what extent gaming was benefiting from the strong console exposure?

Charles D. Boynton - *Logitech International S.A. - CFO*

We don't break out gaming in that level of detail. Console has been a little more difficult for us because our product portfolio is aged. Our product team was launching, we believe, a revolutionary new product. It's going to come out just the tail end of the holiday buying season. So we're not going to get a huge amount of lift from it. It's called the A50, and it is a killer, killer new product. But this will primarily be a benefit more into next year. PC gaming, as you know, is our hallmark. We have #1 market share in gaming mice, and we just launched new NPIs to further build our lead from a technological advantage standpoint on the gaming side.

Jörn Iffert - *UBS Investment Bank, Research Division - Director & Analyst*

(inaudible) we saw all the good console gaming data and you said your product portfolio was a bit aged. So you're not yet fully benefiting from the strong growth which is happening on the street or console sales?

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

That's right. We have more to benefit. There's also -- this is an area that has a significant pull forward during COVID from our perspective. So people bought our accessories and still use it. So the upgrade -- the refresh upgrade is a little further than maybe the rest of the gaming categories. But as Chuck said, we're going to give -- our team is very innovative. We're going to give the user really good reasons to upgrade.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Jörn Iffert - *UBS Investment Bank, Research Division - Director & Analyst*

And the last question, if I may, on Europe. Pretty good performance absolutely in the quarter. Can you give us some more color which regions and which products in particular if you must name the top 3 reasons why Europe was so good? Would be helpful if you can share it with us.

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

The #1 reason is our team, and then I'll let Chuck maybe take the next 2 reasons.

Charles D. Boynton - *Logitech International S.A. - CFO*

Yes. We don't break out that level of detail. But I would say our team in Europe, led by [Yeltsin], is a really, really good team. We are unlocking value by reducing promotions, improving linearity, driving engagement with the end customers with the Tier 2 resellers, doing a masterful job with our e-tail partners there. And so I think, honestly, this is an execution story in Europe for us. It truly is. The market is good. We're gaining share, but our team on the ground is just really executing across the board.

Jörn Iffert - *UBS Investment Bank, Research Division - Director & Analyst*

But just maybe to name 1 or 2 products that did in particular well or regions?

Charles D. Boynton - *Logitech International S.A. - CFO*

Gaming crushed it in Europe, had a phenomenal quarter. Mice, keyboards did well, videos up. I mean it's really across the board. And what's amazing, in U.S. dollars, it's up 5% year-over-year, while the whole business is down 9%. I mean, so Europe did incredibly well. In constant currency, it was down 2%. So -- and that's maybe the more relevant metrics. I'd call it flattish to slightly down, but Europe had a really good quarter.

And now we'll see how the December quarter holds in there because it's our single biggest quarter in Europe. So hopefully, it's a read through that Q2 will -- Q3 will look like just like Q2 did. But it's kind of a wait and see, but we feel great about the progress and execution.

Nate Melihercik

And our final question today is from Andreas Muller at ZKB.

Andreas Müller - *Zürcher Kantonalbank, Research Division - Research Analyst*

Well done for the quarter. Congratulations. Can you be a bit more explicit on promotions for the December quarter? What were the learnings from last year's promotion and in the gross margin guidance, it seems implied that the promotions are far more broad-based. Is that right? Can you elaborate here a bit?

Charles D. Boynton - *Logitech International S.A. - CFO*

Certainly. Last year, I think the -- the promos came in more than we had expected. This year, we've allocated budgets to the team and we expect promo to be less than last year, but the mix will be a little negative because it's going to be more consumer, a little less enterprise. And so the mix shift will be a bit of a headwind overall as we see gross margins for the quarter. So I think it will be less promo, but it's still our peak promo period, but the mix shift is going to be more to the consumer-led items.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Andreas Müller - *Zürcher Kantonalbank, Research Division - Research Analyst*

Okay. And turning VC, what has been the market adoption of the new site product? Was that already a driver in the quarter? Or do we see here something?

Charles D. Boynton - *Logitech International S.A. - CFO*

Early days, single-digit millions of orders. We're still not at the full-scale launch of site yet. That will likely happen this quarter or next, knock on wood this quarter, but it's still very, very early, early days, but the reception so far has been strong. Guy's been with a lot of customers.

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Yes. I have to say, I don't think I met a customer that didn't like it and wanted to use it. Normally in an enterprise, the IT want to test the solution, a new type of solution before they deploy it. And then they have a few rooms and then they have conclusion and then they come to us. So this takes little longer for people to deploy it, but feedback is tremendous. It's a game changer as far as being able from a remote location to come in and fill part of the room, not just the video, also the audio. And so we feel really good about that. There's a lineup behind that. Obviously, it's not the last product that will have multiple combos. That's big part of our road map. We feel really good about the initial response.

Andreas Müller - *Zürcher Kantonalbank, Research Division - Research Analyst*

Okay. And my last question, what is in your opinion, a possible time horizon for year-on-year growth overall? Obviously, it's beyond March 2024. But can you give some color when that could happen, say, with the most likelihood?

Charles D. Boynton - *Logitech International S.A. - CFO*

I think with the rate of change that we're seeing, it's mid to end of next year would be my -- the current thinking based on the slow rate of change.

Nate Melihercik

And Guy, that's our last question for today.

Guy Gecht - *Logitech International S.A. - Director & Interim CEO*

Thank you, Nate, and thank you all for joining us today. I want to really extend my sincere thank you to the Logitech team. The fruit of their dedication and execution, I think we're seeing in the numbers and give us a lot of confidence for the future. So thank you, Logitech, and thank you all for joining us today. Looking forward for talking to you in the future.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

