Morgan Stanley

Logitech International SA | Morgan Stanley TMT Conference | November 12, 2025

Participants

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Erik Woodring

Why don't we get started here? I want to just take out my pen. Perfect. Good afternoon, everyone. Welcome to the first day of the Euro TMT Conference. My name is Erik Woodring. I cover U.S. IT hardware based out in New York. Let me just quickly read the disclaimer. Morgan Stanley research disclosures can be found at the Morgan Stanley research disclosure website, www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

So I'm delighted to be joined today by Matteo Anversa, Logitech CFO. This is actually the first time we've been together at this conference, ever. And so a little over a year since you've been at the firm, obviously held a number of CFO positions previously across kind of tech and automotive, but excited to have you here. So thanks for joining us.

Matteo Anversa

Well, Erik, thank you so much. You guys always do a great job. Thanks, it's a pleasure to be here.

Erik Woodring

Beautiful. So I figured what we'd do is maybe start short term, review the quarter, some of the dynamics there and then work longer term beyond that. And so maybe the most appropriate place to start is a quick overview of the September quarter, kind of highlights and how that quarter informs your view on

the December quarter. And I would just ask any trends you'd call out, whether that's by customer, by segment, just as it relates to your December quarter?

Matteo Anversa

Yes, sure. So let me just start at a high level. What I really liked about the second quarter is a couple of things. First of all, demand was extremely strong. For demand, I mean sell-through was very broad-based, both in terms of product, in terms of regions. So we saw the majority of our product lines having really double-digit growth in sell-through in the quarter, and the rest really was high single digits.

So very good broad-based strength in demand across all the product spectrum. And on a regional standpoint, sell-through was actually very good. Asia Pacific was up double digit. Europe was also up double digit. And North America was slightly up or flattish. We can talk more about that. But overall, demand was good. On how this translated into the net sales, there were a couple of, I think, important dynamics to call out.

And if I look at the regions, Asia Pacific continues to be a strong source of growth for us, up double digit, primarily driven by China, primarily driven by gaming. And gaming in China remains extremely, extremely strong. Europe did well and up in the low single digit, in line with the market, driven by personal workspace and also video conferencing. North America, that's where we saw a slight net sales decline year-over-year.

And really, the dynamic that happened while video conferencing was good, we saw some softness on the consumer side, primarily in gaming, where we saw a, call it, roughly a mid-single-digit market decline in gaming in the quarter. With that being said, look, to the second part of your question, I think we are cautiously optimistic as we get into the holiday season for a couple of reasons:

The trend, particularly both in the consumer in general, in North America improved throughout the second quarter. So the latter part of the second quarter was a little better than the first part. So that's encouraging. Throughout the second quarter, we saw sell-through outpacing sell-in, which is generally a good indicator. So there is more room in the channel. We saw also some new releases of gaming, take Battlefield 6 is doing pretty well, good comments from what we read.

And that really plays into the sweet spot for us for our gaming product. And then as we always do during this time of the year through our Logi-Work and Logi-Play event that happened in September, we have some fantastic products. So if you haven't tried it, you should. Both on the gaming side and on the personal workspace, new mice, Superstrike, more precise with Aptech feedback, the Superlight mouse, which is basically 50 grams also, so very light, a new set of wheels. So I think we are overall, I think, encouraged by the trend that we saw in the second half of the second quarter, and we are looking at the holiday season cautiously optimistic. So that's, I think, the rundown.

Erik Woodring

Yes. Perfect. And you mentioned it, so I want to dig into it, which is just kind of the views on the U.S. consumer. And like maybe it's -- the question is almost about how you think about demand elasticity of the U.S. consumer because of tariffs and higher prices, how did they respond? How did you have to make changes through the quarter? Because you talked about that linearity improving. So was that pricing driven? Just kind of talk about all the factors as you think about the health of the U.S. consumer because that seems like a kind of swing factor relative to the market.

Matteo Anversa

Yes, I can maybe back up your point, so for everybody to understand. The outlook that we provided for the third quarter has revenue up in constant currency, 1% to 4%, and we said gross margin rate between 42% and 43%. So the assumption underneath this outlook is -- so first of all, I think it's a pretty balanced construct taking into account on one side, the underlying strength of the business that we continue to see as we've seen in the first half of the year. But at the same time, also the litany of uncertainties that we are facing in the world today. So I think that's a pretty fair balance of the 2 components.

And really, we are expecting Asia Pacific to continue to do well and grow double digits year-over-year in constant currency in the third quarter. Europe continues to do what we saw in the first half of the year. So really, to your point, the bookend of our outlook are -- is centered around what happens in the U.S., right, with the consumer. So the low end of the outlook assumes that we continue to see North America trending slightly down year-over-year like we have seen in the first half of the year and that we have to promote a little bit more to stimulate demand.

So that's where the 42% gross margin rate comes into play. The high end of the outlook conversely assumes that we have a good holiday season. North America turns around, so flattish to slightly positive, and we have to promote a little less. So that's the 43% on the gross margin rate. So really, these are the bookends of the outlook. So in terms of -- to your question on elasticity, I'd say it's a little difficult to give you one number because it really varies by product line and price point.

But at a high level, as expected, what we have seen is really very limited elasticity in B2B and very limited elasticity on the mid- to high end of the pricing points of our products. On the other side, we've seen more elasticity impact at the low end and within the product categories in gaming. right? So that's kind of the point. I think overall, numbers came in as we were expecting, and this is really thanks to the very meticulous work that we have done basically since November, since the new administration was announced.

And when it was clear that tariffs were coming into play, we really looked at price points by price point, SKU by SKUs, and we tried to deliver a price increase that was in a way we thought was swallowable by the consumer. So in aggregate, numbers came in as expected, but these are the kind of the different dynamics that I can tell.

Erik Woodring

Okay. And then maybe last one on the holidays is -- can you talk us through what you're hearing from retailers, whether that is willingness to take on new inventory, how they've thought through Prime Day 11/11 in China, channel inventory levels? Just any incremental color you can share just from that side of things?

Matteo Anversa

So on the channel inventory, we're happy where we are. I think we entered the holiday season with the weeks on hand in the range where we wanted the weeks on hand to be. So overall, healthy. I think, as I said earlier, the fact that overall across the business, sell-through outpaced a little bit sell-in in the second quarter is generally good because it means that there is a little bit more room.

And 11/11 early to say because we'll see the results in a couple of weeks. But overall, we are pretty optimistic. We had 6/18, which was the prior big day in China, where we saw strong double-digit growth. We launched new products in China, thanks to our execution on the China for China strategy. So there is no reason to believe that we won't be equally successful. And for the rest, I think it's a little bit early to say. We'll have to see what happens with Black Friday and Christmas. So -- but I think we -- as I said, we are cautiously optimistic.

Erik Woodring

Okay. Let's touch first on international markets. So EMEA and especially APAC, it's been a real area of strength for Logitech. I guess the simple question is what's working for you in these international markets? And maybe the follow-up to that is just maybe compare and contrast that with the U.S. I'll ask about China separately because obviously, it's a unique market. But just compare and contrast what's working internationally and how does that compare to the U.S.

Matteo Anversa

I think for the U.S., let me start maybe with a negative. I would call it more a market situation that we saw happening on the consumer side in the second quarter. So in terms of execution in Europe, you're absolutely right. Europe has been a bright spot for us now, at least since I joined the company, so almost 1.5 years ago. And it's really blocking and tackling and hard core execution by Yalcin, our leader in Europe and the team.

If you go to MediaMarkt, and there is a beautiful one here in Barcelona, you can clearly see it. We really -- Logitech looks like a leader. They've done a fantastic job with the e-tailers and retailers to make us look like a leader where people can go in, test the product, they can try it compared to competition and really have a sense of the entire Logitech portfolio. The displays are great. On the gaming side, a very similar

story, right? You go in, we have play days where families can get in, try the simulators in conjunction with the big Formula 1 racing event.

So it's really a fantastic execution by the team. And I think that's why we keep growing pretty nicely in Europe. China, which is the other big international market for us. It's -- I think we are starting to see the positive impact of the China for China strategy that we launched exactly September of last year, if I recall correctly. So if you rewind the tape a little bit, as you may recall, Erik, we saw some share pressure in China in calendar year '24.

So we decided to create a cross-functional team, which is led by Quin, our commercial leader in China. And we -- the goal of the team was really to develop products for the Chinese market in China, for China, at the Chinese speed, right? Because you see it in our industry, I saw it in automotive, the speed in which the Chinese market operates is a step function of what we are used to in our world. And so that's the goal of the team.

And I think they've done a fantastic job. We are launching and we launched new products. For example, upstairs, we have one of our products, mechanical keyboard with new lights, very bright, very colorful where the customers can replace the keys, right? That's a big trend. In China, quite frankly, we missed that. And so I think that's really what helped us stopping the decline in the share in gaming. And actually, we're starting to see now share gains in personal workspace, particularly on the higher end.

So that's really the execution of the China for China team. So really, Europe is commercial execution. China is the product and also marketing. We are much more marketing our product on social media, like TikTok and all these types of social media platforms. We are doing much more of that today than before. So I think these are the 2, 3 things that we are doing differently.

Erik Woodring

And can you talk about just on China specifically, maybe how you ensure that the gains that you're benefiting from this year are sustainable, especially in a market that can be hypercompetitive? Like I think there's a different value proposition that Logitech offers.

Matteo Anversa

Absolutely.

Erik Woodring

How do you make sure nobody encroaches on that value prop?

Matteo Anversa

That was the entire intent, right? We saw primarily the -- the China for China strategy. We saw primarily share pressure on the low end. And our intent was, okay, we need to develop this product so that we can protect our turf a little bit on the low end with the ultimate objective to see -- not to see any negative impact on the mid to the high end where we play. And it's important to remember, Logitech is a fantastic player. We are -- our innovation, our quality, our brand that we try also to make even more iconic, right? This has been a hot topic for Hanneke since she joined the company a couple of years ago. That provides a natural shield in a way, also in China.

But having a product that we can fend off some of the low-end Chinese brands in China is very important. And it's not only important for China, but the intent then is we develop this product for China and then move them to other regions, for example, Europe, where we are starting to see also some low-end B brand, Chinese brand popping up since they cannot come to the U.S. due to the tariffs. And that's so equally important both for China as well as in Europe. And is there anyone...

Erik Woodring

The focus be Logitech, but is there anyone that's kind of coming for the higher end for you, right? Again, the value prop is so different than, hey, here's a $10 mouse, right? So we don't see it, but...

Matteo Anversa

The majority of the pressure that we had in China and the comment that I just made in Europe is primarily on the low end.

Erik Woodring

Okay. And then maybe last kind of near-term question. Just obviously, it's a pretty uncertain world, a lot of moving pieces. The guidance philosophy that you've taken of just kind of one quarter ahead, is that the new normal? Is that kind of how we should expect you can understand it because how are you going to forecast for demand 6 months from now? But just would love just an updated view.

Matteo Anversa

So as you know, I used to give total annual, I gave it on March 5th, I think it was at Investor Day. And then a month later, the Liberation Day happened and we had to withdraw it for obvious reasons. I think for us -- in order for us to be able -- there are some complicated aspects in our business, the third quarter with the holiday season is the biggest quarter of the year.

So it makes it -- the cyclicality, it makes it in a normal environment, already complicated to basically accurately look at a 12-month span, then the current environment makes it basically impossible. So that's why we decided to go and stay with 1 quarter at a time. I think we'll have to reassess what the situation is when we report the year-end financials in April, and we'll take a last shot over there. But for sure, there has to be a more economic stability in the environment in order for us to be able to go further ahead beyond 3 months.

Erik Woodring

Fair enough. Okay. So let's maybe take a step back. And one question that we get pretty often is just kind of the attachment or the tie that Logitech does or does not have to PC cycles, right? Because it's thought of you're attaching a number of products to kind of a core compute device and PCs. We've been through a number of very solid quarters in PC refresh. The market would have concerns about the PC market. I would argue Logitech has always outperformed the PC market. Just how do we think about PC refresh moving beyond Windows end of life, what that means for Logitech PWS business?

Matteo Anversa

So for us, I really tried -- and we really tried as a team to look at data and see if we had a data-driven correlation between PC sales and our peripherals. I cannot stand here today and tell you, if X happens on PC, Y happens to us. But in general, so if you look at the data we looked at, spend 10, 15 years, normalized by COVID, roughly, you would expect peripherals to outpace PC sales, call it, by a couple of points. But let's take this with a grain of salt, okay?

So we don't count on the PC sales to the good or to the bad. When we do our models, we are not counting on it. But overall, I think it's natural to think that if there is a refresh due to Windows 11 or whatever, that should be a natural tailwind for our personal workspace. It's also, I think, dependent on how the retailers are placing the product, right? If your peripherals are sitting relatively close to the laptops, then I think there is a more natural trend for a person to go buy. If the peripherals are a couple of stands away, that's also more difficult. So that's why probably the data is very convoluted. But overall, I think a refresh should be a tailwind.

Erik Woodring

Okay. But then generally, again, not necessarily a hard guide, but generally think about...

Matteo Anversa

Couple of points -- yes, Okay.

Erik Woodring

Okay. And then moving just to gaming. It's kind of a -- it's one that I think probably has the strongest long-term growth as we think about willingness to spend, number of gamers entering the market. I was amazed by how big Esports actually is globally. At the same time, I guess it can be fickle because it is very competitive, the market in general. So how do we think about the gaming market if we look out a number of years? And is there anything you're trying to do differently in gaming that you haven't done as we look out over that period?

Matteo Anversa

I think -- so I agree with you. Gaming is -- everybody is gaming right now, like even my wife, who is the most boring person ever. Hopefully, she's not going to replace, but like she's gaming so with a kid. And I think there is a -- that's a natural tailwind. Even in the U.S., the majority of the Americans, 45 or younger spend more time in gaming than going to restaurants and going to the movies. Gaming is a cheap form of entertainment.

We are looking at -- we are seeing this every day in China now for quite some time. I think what I -- in addition to the strength of the market, I think what Ujesh and the team, what they do so well is that we have products for the casual gamers like you and I and products for the more sophisticated professional gamers. They partner extremely well with other companies with, for example, NVIDIA, where we -- together with them, we launched this AI streamer, right, AI agent that streams the game live while you are gaming, if you're a professional gamer. We partnered with McLaren to develop some of the high-end wheels.

And we really develop particularly the high-end products with the professional gamers. So they are not only there in our stand, and you see their pictures, but they are really working with us on the product. So I think that's really what in my opinion, with the NPI and the new product that we obviously always introduce, that's a strength of our gaming team. So it's both execution by Ujesh and the team and a natural -- even in the second quarter, where we had this bumpy, call it, gaming performance in -- of the market in the U.S., we look at demand and market, gaming grew double digit.

Erik Woodring

Okay. And then just moving to the VC market. It's one thing I struggle with just big picture when I think about m ost return to office has happened. When I think about the prioritization of enterprises, where does VC spend come? Maybe talk me off the cliff and help me understand maybe what I'm not understanding because the VC business has been strong even if you kind of normalize the pricing.

Matteo Anversa

Yes. So VC for us, first half was up -- net sales were up high single digit year-over-year. So very strong. I think the -- for us, 2 things I would point out. One is the fact that new ways of working are now part of the normal, right? The days of you as a worker having only one place like the office are well gone. We are seeing more and more companies calling back people into the office. And it's very interesting. I can't name the bank, but we had a few -- Nate and I were in London yesterday, we met with several investors, and we had really a case study.

So this group says, hey, we struggled internally. Do we call everybody back to the office every day. We decided to go hybrid. But now we find ourselves where we have to shrink the square footage because we don't need all the spaces that we had pre-COVID. And then we need to change the way our offices look with much more conference rooms that need to be enabled -- video enabled because in the meetings, 99% of the time, a portion of the team is not there. They are always traveling. So that's a natural tailwind for us, and it's happening everywhere, Europe, North America and Asia for us, B2B is pretty small. So let's leave that aside.

The second thing for us is the fact that with the strategy of doubling down in B2B, we want to start penetrating some of the verticals where we have been pretty much not very focused in the past. So education, health care and the public sector. If you leave alone the public sector in the U.S. right now, the -- if you look at education and health care, these 2 verticals are in total, they make almost $4 billion of market size, growing mid-teen CAGRs. That's a huge opportunity for us where our product already has relevance. It requires some tweaks.

But really, it's more about getting the tools and the sales force to then get into these verticals. Since we started this focus on verticals, education has been great. Verticals have been growing double digit now for a few quarters. More to come. But I think these are the 2 key areas. So it is true what you're saying that the enterprise spend tends to be cyclical, tends to be lumpy. So don't expect every quarter for your modeling a high single-digit growth on VC because obviously, enterprises have to focus on AI, have to focus on cyber, digitization. But overall, over the long run, a) with our products; b) with the market and entering new verticals, that should be -- we're bullish, should be a tailwind for the company.

Erik Woodring

And it sounds like what you're saying is maybe more of a penetration story rather than a replacement story. Is that a fair...

Matteo Anversa

I think it's both. Okay. What you said is true. There are still -- the vast majority of the conference rooms worldwide are not video-enabled. So that should not be a replacement, just us getting into the door, right? And that's a tailwind for us and also for our competitors.

But then generally, these product companies replacing -- the replacement cycle is about 5 years. So now you're coming into a time post-COVID where the replacement is due, which also should give us a tailwind. And with the use of AI and how AI is embedded now in the software of the product that we develop, the new generation of products are so much better than the old generation as a customer experience.

Erik Woodring

Okay. So let's kind of bring that together. We touched on each of the major segments, PWS, gaming, VC. You've outlined kind of this path long term to 7% to 10% long-term growth. What's the time line to getting there? What's the right formula to think about? Like is there a certain type of mix we need to see for you to kind of sustain that level of growth? Obviously, there's a little M&A in there, and I'll touch on that. But just time line and kind of what we need to see to get there?

Matteo Anversa

Yes. So in March, we said our long-term plan is to grow the company 7% to 10% and with AI between 15% and 18%. So profitability-wise, you may argue we are so far in the year, pretty good. And so we are happy, and we can talk about that in a separate question. On the top line, so if I exclude M&A, then organically, we said 6% to 8%. I think there are 3 factors to consider. One, personal workspace, video conferencing, so B2B and gaming play in 3 key markets where data is showing that these markets are poised to grow mid- to high single digits. So that already has a natural tailwind to the business.

Second, we are planning to continue to gain at least a point of share annually, right, through focus on innovation, which we do very well and really working on becoming an even more iconic brand than where we are today. Then the rest is entering the 3 verticals that I just said. That should give us, once we complete the work that we have to do, a natural 1 to 2 points incremental in the growth. So that's your math. That's how you get to the 6% to 8%. So we are well ahead where the work is well underway. Now Investor Day was in March. It looks like an eternity ago, but it was just like March. So -- but the work is well underway.

Erik Woodring

Good. Okay. Perfect. Let's turn to the cost side of things. And I would say, from my perspective, one of the most impressive, if not the most impressive part of your performance has been your gross margin performance. Year-to-date, your gross margins are stronger than any other period outside of the 2021 COVID crazy period.

So what has been that biggest source of gross margin as we think about multiple years, and maybe that starts before you got to the firm, but what is the biggest tailwind that you've been benefiting from if we were to think about the core underlying drivers there?

Matteo Anversa

I think the credit really -- the biggest credit goes to Sree and the operating team, who have now for several quarters and a couple of years really have done a fantastic job in driving cost out of the product. And it's really in 2 key areas: supplier negotiation and value engineering. Value engineering is a complicated term, but basically, what this means, you take the product, you do it this way today, and now you think through how you can take cost out of your bill of materials. What can you -- material substitution? What can you substitute of the product to make it more cost effective? So that's, I think, driver number one.

Then there are a couple of more high-level things that happened throughout the years. One is the mix, right? So even in the last quarter, when you look at the high-end products of our company, so the MX line, the ERGO line, wheels, the PRO Line in gaming, they all grew double digits, right? So that obviously drives the ASP, the selling price of the company higher and that also helps margins. So positive mix.

And then also business mix, depending on how far back you go. But pre-COVID, the B2B side, the DC side was probably like roughly 10% of the company, right? Today, we are at 40%. So split between consumer and enterprise is 60% consumer, 40% enterprise. Our stated target is over the long run, we would like to be a little bit more balanced to make the split maybe 50-50. And the margin on video conferencing equipment is accretive to the average of the company, right? So that really -- I think these are the 3 key factors.

Then obviously, if you look at the last couple of quarters with tariffs being implemented, the fact that the team did a great job in driving 150 basis points of positive price in the second quarter that also helped us offset the tariff impact. But I think if you forget the noise of the tariffs and you look at onger term, I think operational, the work that Sree is doing, value engineering, supplier cost price negotiations, and the mix. That's the key reason.

Erik Woodring

And before I touch on tariffs quickly, just on the cost out, we hear it like -- maybe my question is, how much more of that is there to go? And I'd say it in the context of you guys have been very clear about how you want to spend on OpEx. You've kind of given us an operating margin target. So you can back into what you think gross margins are, and we're generally there, but you continue to see tailwinds from cost out. So the question is kind of how much more is there to go on cost takeouts? And is there anything to come after that?

Matteo Anversa

Look, every year is a little different, and you are never done. This is almost like continuous improvement, right? So the way Sree and the team do it, every year, they come in basically at this time when we start

thinking, okay, what's going to happen in the following fiscal year. And we have a hopper of projects that the team has to work on, to continue to drive the value engineering, so the product cost out -- the cost out of the product. You're never done. Every year is a new year.

We know what the hopper needs to be and how much needs to be in a way in the backlog of your savings every year to look at comfortably the following year, but you are never done. And I think -- and what is even more remarkable, I think, in the current environment is that the team that is doing this cost-out work is the same identical team that has been working on the manufacturing diversification, which I'm sure is going to come next.

And so -- and that's what actually, in a way, in the second quarter surprised me a little bit to the positive, right? The gross margin rate was a little higher than what we telegraphed the street when we had the first quarter earnings call. Well, I was not really expecting them to do such a good job considering how much work they have to do concurrently on driving the diversification of the supply chain. So every year is a little different. But what you can count on us is every year, we have a hopper of projects, and we work relentlessly on it.

Erik Woodring

Okay. So let's talk about that. And I'm not going to touch on tariffs because there's so much uncertainty. It's not -- I can ask you your strategy tied to tariffs, but we kind of know that already. So the real question is the target is to get 90% of your U.S. products basically coming ex China by the end of this calendar year.

Matteo Anversa

You know December.

Erik Woodring

And so maybe the question is just like where do we go from there? Can you make it 100%? Is that a goal? Or is that ambitious to think about it?

Matteo Anversa

So a very good question. Let me start. First of all, the credit goes again to the supply chain team. And quite frankly, also our predecessors who started this process back in 2018. So that's what allowed us to be in a way, so fast, right? Because the process was really already underway. We just accelerated it, right, once the second Trump administration came into office.

So you said it correctly, only 10% of the imports that will come into the United States after the end of the year will be coming from China. I think the -- once we reach that, and we are well on track to get that by the end of December, you're reaching a point where almost the juice is not worth the squeeze because what's left is lower volume product, number one. Then the other thing is China is a great place to be. If you exclude tariffs, our ticket tariffs are out of the picture completely. China is still a great place to produce the product, right? So we want to be there, both with our manufacturing side, but also with our supplier partners because things may change.

And having this flexibility of China plus 5, we don't want to lose it. That's what really allowed us in the tariff environment to deliver the gross margin that you were mentioning earlier. So never say never. We have a very, I think, meticulous way of assessing where to go. There are a couple of things that need to happen. Number one, you need to have a good supplier ecosystem wherever you go. You need to have availability of labor, and then it needs to make sense cost-wise. And we apply the same 3 criteria no matter where we go. That's the process that we follow.

Erik Woodring

And I guess in kind of combining the 2 answers to the last question is as you've moved out of China, we haven't seen gross margin degradation. And so one can assume that the cost of a product made in Malaysia, for example, is not materially different than from China.

Matteo Anversa

When you start something new, you always have a little bit of higher cost just for ramping up the production. But the beauty is that we know the majority of the partners that we use. They know us. We spend some time on our own teams in short-term assignments for a few months on the new sites to make sure that things are done with our quality standard, with our efficiency standard. So I agree with your statement. It's not easy. It's a lot of work.

Erik Woodring

Right, exactly.

Matteo Anversa

But, yes, okay.

Erik Woodring

Quickly touching on OpEx before we do kind of capital allocation and whatnot, which is spending in '24 was a little elevated in '25, it's normalized. Where does this go? Are we -- is it right for us to think kind of OpEx is 25% of revenue, set it and forget it? Like is it that simplified?

Matteo Anversa

I think longer term, 24% to 26% is the right range. You said it right. Last year was a little towards the higher end. This year is towards the lower end. What I really appreciated of the work that the team has done is that we proved that we are capable of flexing down cost or up cost, depending on the environment that we are playing in. That's what the team proved, I think, in the first 6 months of this fiscal year. All the cost actions and austerity measures were primarily in G&A with the intent of saving money in G&A and then put the money back into the growth of the business, which is sales and marketing and R&D, right?

So the percentages, look R&D is 6% to 7% of sales, that's where we want to be. That's the heart of the company. So this is nonnegotiable. Sales and marketing, call it, between 15% and 16% and then G&A is the rest. Right now, G&A is between 2% and 3%. And I think overall, we are in the right space.

Erik Woodring

Okay. Perfect. So let's touch on capital allocation and really going back to that long-term growth question and touching on M&A. For the time that I've known Logitech, it just -- it hasn't been a major part of the story. So when we heard it at Investor Day, it sounded like a bit of a change, like a tone change in that we want to make it a real part of the long-term growth algorithm.

So the question is, 3 part. How big are you willing to go? And is this strengthening the core? Or is this looking to add on adjacencies? And is there anything nonproduct there, like software or services or subscription or anything like that?

Matteo Anversa

Yes. So we put some very specific boundaries, right? So you're absolutely right. M&A is part of the core strategy of the company and of the capital allocation strategy, right? And what we are interested in is really bolt-on opportunities, tuck-ins and bolt-ons that can expand our reach in work and play. It can be a technological company that maybe something that we don't have that we can do organically. But if I buy someone we can do it faster, that would be a sweet spot for us.

So really not large, not transformational. We are very comfortable with the organic growth trajectory of the company. So we don't need a big transformational deal that is risky and they're always difficult. And also, the other aspect is we want a company that allows us to go faster, right? And since you asked this question during the earnings call, I think as Hanneke said, it's like they are not easy to find, right? So --

but we're not in a hurry. We like the flexibility of the balance sheet. When we find something that fits this criteria, then we will execute.

Erik Woodring

And is there a story that we -- that you'd be looking to tell in the future about monetizing Logitech's brand and kind of platform outside of product? Like is there a subscription or services or streaming angle that you think that can become bigger? Or is that just...

Matteo Anversa

Look, service, we're already working on it on the B2B side. It is very small, but it's fantastic margin. It's not big enough yet to make the print of the pages at quarter end, but that's for sure, a key focus for us. More to come on the rest.

Erik Woodring

Okay. So we're about 2 minutes left. I just want to kind of ask you the last question. Just anything that I didn't hit on that I should hit on as it relates to the story short, medium, long term or any message that you want to leave all of us post touching on everything that we do.

Matteo Anversa

Yes. Great question. So I tell you what I like of the company, and I think you and I spoke about it in the past. I like the simplicity of the story. We are a $4.5 billion, $5 billion company that plays in a market that in aggregate is more than $20 billion. So the organic growth potential for the company is immense, right? We are a company that, we are market leader in the products that we do.

And our continued focus on the 6% to 7% of net sales in R&D will allow us through our extremely strong engineering team to continue to really position the company to be even more market leader today than where we are. We have a team that I think we've laid out a credible path to the 7% to 10% growth and 15% to 18% margin as we discussed earlier. Obviously, we are not immune to the craziness that is happening around us, but we have a very experienced team that thrives as demonstrated during COVID and even today during tariffs, right, as we said during the meeting. And overall, we are a very financially responsible company. We like the flexibility of our balance sheet.

But at the same time, we're a very investor-friendly franchise, right? We continue to -- as part of the capital allocation strategy, we want to continue to increase the size of our dividend and then return money back to shareholders with share repurchases, as we said during Investor Day. So that's really the essence of the story, pretty simple story.

Erik Woodring

We'll leave it there. Thank you very much.

Matteo Anversa

Erik, thank you so much.

Erik Woodring

Thank you always.