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EDITED TRANSCRIPT

LOGN.S - Q1 2025 Logitech International SA Earnings Call

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CORPORATE PARTICIPANTS

Nate Melihercik *Logitech International SA - Investor Relations*

Johanna Faber *Logitech International SA - Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Joern Iffert *UBS AG - Analyst*

Ananda Baruah *Loop Capital - Analyst*

PRESENTATION

Nate Melihercik - *Logitech International SA - Investor Relations*

Good morning and good afternoon. Welcome to Logitech's video call to discuss our financial results for the first quarter of fiscal year 2025. Joining us today are Hanneke Faber, our CEO; and Meeta Sunderwala, our Interim CFO.

During this call, we will make forward-looking statements, including with respect to future operating results under the Safe Harbor of the Private Securities Litigation Reform Act of 1995. We're making these statements based on our views only as of today, our actual results could differ materially. We undertake no obligation to update or revise any of these statements.

We will also discuss non-GAAP financial results. And you can find a reconciliation between GAAP and non-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 shareholder letter and a webcast of this call are all available at the investor relations page of our website. We encourage you to review these materials carefully. Unless noted otherwise, comparisons between periods are year-over-year and in constant currency and net sales. This call is being recorded and will be available for a replay on our website.

I will now turn the call over to Hanneka.

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Thank you Nate, and welcome everyone, to our first earnings call of our 2025 fiscal year. Pleased to say that we started the year off strong. We delivered 13% year-over-year growth and 430 basis points of margin expansion while generating strong levels of cash further bolstering our balance sheet.

Given the healthy momentum in our business, the market share gains we've seen in most of our key product categories, and the confidence in our ability to execute, we are raising our fiscal '25 outlook, which I'll touch on shortly.

You can read the full details of our quarter in our shareholder letter, which will give you a full review of our operating and financial performance. But I'd like to spend a few minutes on this call to provide some color and context to our results, and then we'll transition to Q&A.

Let me briefly touch on three points. First, I'm super pleased to see Q1 net sales growth in the low teens, our second consecutive quarter of growth. As a reminder, we told you last quarter that strategic working capital investments would be a part of the story this quarter, as we prepared our own end channel inventories for big selling seasons like June 18, Amazon Prime, back to school and into the holiday season.

Even after you normalize for these planned channel investments, demand was nearly one-third of our top-line growth. The teams delivered on our plans exceptionally well. Together with our strong top line results and our focus on execution and operational discipline, we drove healthy gross

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and operating margin expansion. These results were also enabled by our ability to balance the needs of our distribution partners with continued focus on lean working capital management.

At the end of Q1, our owned inventory was down nearly 20% from last year, and our Q1 inventory turns were at 5.4. A notable increase from 4.2 last year, demonstrating our strong command of the business. And our channel inventory levels in terms of weeks on hand remain well within the upper and lower ranges in which we've operated since the beginning of fiscal year '24.

Second, I'm excited about our product innovation lineup for this fiscal year, advancing our strategic priority that I talked about last quarter to innovate. You saw us launch 11 products in the first quarter across almost all of our product categories.

This ability to launch a diversified set of innovations with a design led focus at global scale is a competitive advantage that we will continue to leverage. Many of these products are finding smart ways to leverage the power of AI. And for example, the recently released AI Prompt Builder has now been used in over 5.5 million instances.

And our recently introduced MeetUp 2 conference camera with right sight and right sound technologies leverages proprietary data models, our own, and machine learning algorithms to deliver a truly equitable meeting experience for those in the meeting room or participating remotely.

Third, given our solid start to the year, we are updating our fiscal year '25 outlook, modestly increasing our fiscal '25 targets for both net sales and non-GAAP operating income. Fiscal year '25 net sales gross is now expected to be between 1% and 3%, and non-GAAP operating income is expected to be between $700 million and $730 million.

This updated fiscal '25 outlook contemplates two discrete trends. Our top line growth in Q1 was clearly strong. End customer demand, coupled with the working capital investments I discussed earlier, drove a healthy increase in net sales.

At the same time though, this positive business momentum occurred amidst this uncertain and volatile global economic backdrop. So while we're pleased with our third quarter -- first quarter results, we remain pragmatic about future risks and uncertainties.

Now before we move to Q&A, I'd just like to highlight our 2024 impact report that we published yesterday. You've heard us talk about our commitment to sustainability, and this annual scorecard holds us accountable.

There's a lot to be proud of in this report, such as the fact that three out of four of our products now use recycled plastic, and 66% of our products are carbon labeled, helping consumers and enterprise technology buyers make informed decisions about the environmental impact of their purchases, sorry.

I'm very comfortable with this approach to sustainability. We set ambitious goals and provided annual transparent scorecard. And above all, we pursue this commitment to sustainability while delivering strong business results.

So in summary, I'm pleased with our ability to execute on our strategic priorities as we focus on extending human potential in work and play. Our first quarter results demonstrate that we're on the right track.

Thank you. And with that, Nate, let's go to Q&A.

QUESTIONS AND ANSWERS

Nate Melihercik - *Logitech International SA - Investor Relations*

Great. Layla, we are now ready for our first questions.

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Operator

Thank you Nate. (Operator Instructions)

Joern Iffert, UBS.

Joern Iffert - *UBS AG - Analyst*

Thank you. Thanks for taking my question. Hello everybody. Can you hear me?

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Yes, good morning Joern. How are you?

Joern Iffert - *UBS AG - Analyst*

I'm all right, thanks, and thanks for taking the questions. There's one starting question and the follow-up is the starting question is please do you see sell in and sell out sources through to trending to the same corridor now in Q2 because you have not reiterated your past seasonality and guidance for Q2 in the report.

Johanna Faber - *Logitech International SA - Chief Executive Officer*

So I guess you're asking about our forward-looking outlook. So we've raised a little bit, as you can see to 1 to 3 from 0 to 2 on the top line. And also on the bottom line, we've raised a little bit from minus 2 to plus 2 and now to 0 to plus 4. What does that reflect? It maybe helpful just to touch on that.

So that reflects the higher demand we've seen in Q1, which we're really pleased by. At the same time where we don't see a change is what we talked about last quarter, which is in Q1 and Q2, sell in will be larger than sell out, that is planned.

We need to boost channel inventory because we're shifting to growth mode and we have to get ready for the big selling seasons, especially those in Q3 at the holidays. In Q3 and Q4 that dynamic is going to reverse. So sell out will be larger than sell in, no changes there. So what you're seeing in our new forecast is that we are flowing through the increased demand that is higher than expected that we've seen in Q1, but no change for the rest of the year.

Joern Iffert - *UBS AG - Analyst*

Thank you. And then allow me to follow up. Given the consumer weakness you've seen from so many companies recently, do you see that promotion have increased again in the exit rates? So by May, June, and then your Q1?

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Yeah, no, not yet. So I think promotional discipline has been a good part of our Q1 results and our teams have just been extremely disciplined. So not yet but again, that is part of looking forwarding. A little bit of our caution is it may increase going forward. We're always going to promote as much as necessary in the market.

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Joern Iffert - *UBS AG - Analyst*

Thank you very much.

Nate Melihercik - *Logitech International SA - Investor Relations*

Thanks, Joern.

Operator

Ananda Baruah, Loop Capital.

Ananda Baruah - *Loop Capital - Analyst*

Yeah. Good morning, guys. Thanks for taking the question. Really appreciate it. Yeah, two if I could. I guess the first one is Hanneke, on the last call, and this is really more big picture. I think you talked about the most impactful opportunities as you see them being geographic wallet share, kind of true up, B2B, and expansion of work in play. And I guess just any incremental thoughts there or kind of progress/ actions the last 90 days that have been taken to sort of go with those. And then I have a quick follow-up as well. Thanks.

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Yeah, absolutely. No, thanks for that question. Clearly we're working on all of those three things, and it's too early to see massive changes. But there's a few things I'm pleased by. When it comes to geography, we're seeing really broad-based growth in the quarter.

So the Americas up 9%, EMEA up 20%, and APAC up 13%, so that's really broad based and a particularly standout performance from EMEA where our execution just has been outstanding.

When it comes to B2B, yes, we are doubling down and pleased to see growth in this segments, up 9%. Market probably a little more robust than it has been, which is also great to see. And we continue to build capabilities.

And that's both on the product side, where we had a great launch of the MeetUp 2 in the quarter, but also on the organizational talent and services side. So I'm excited about the steps we're taking there to really double down on that B2B business where we still have so much opportunity.

And then finally, on work and play expansion, that's clearly a multi-year program, but again, some green shoots. We had terrific results in education in the quarter, that's a new space for us. I talked about how today we mostly focus on offices when it comes to B2B, you know, you and I on a video conference, you and I at our desk.

But most people in the world don't work in offices. Education is the first other workplace we started to focus on, and are again, our results in the quarter very, very strong, more than 20% growth in education behind great products like the Rugged Folio. So love that, and then more to come.

We also announced a launch in the quarter of the MX Ink, which is a stylus for the Meta Oculus headset. Again, you can imagine how that goes into new work verticals as well in the future. And again, these will be small to start with. This is a multiyear effort. But I'm excited about some of the green shoots that we're starting to see.

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Ananda Baruah - *Loop Capital - Analyst*

And that dovetails into the follow-up. I appreciate the context. That's super helpful. Sort of throughout the quarter, there is sort of the idea in the investment community that the keyboard business is benefiting from or preparing to benefit from PC refresh, some of which is AI driven, sort of an AI component to sort of a keyboard pulls.

We'd love context. Sort of how does the company think about that. Would company agree that? And what is the company's view around keyboards and AI pull? Any context there would be great, in the near term, and even bigger picture.

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Yeah. I think the top line is we are very bullish on mice and keyboards, that's the core of the core of our business, that's where we started, and it's still a great business. We are not one to one correlated to PC refreshes, but it certainly can't hurt if people are buying new PCs. So that's a good thing.

And then AI will play a big role. We've always been the human machine interface ever since the start of this company 40 years ago. And we can now really be the link between the human and the large language model via our mice and keyboards. So we've started to do that.

The Logi AI Prompt Builder is a free piece of software that sits in all our mice and keyboards since April. It allows you to shortcut to ChatGPT, and it's quite popular, 5.5 million unique user interactions since the middle of April. That's pretty good. So I'm excited, again this is just the start of how we're serving as that interface to the large language models through our mice and keyboards. But it's exciting.

Ananda Baruah - *Loop Capital - Analyst*

Thanks a lot. That's super helpful. Appreciate it.

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Thanks Ananda, great to see you.

Ananda Baruah - *Loop Capital - Analyst*

Thanks guys.

Operator

(Operator Instructions) There are no raised hands at this time, Nate.

Nate Melihercik - *Logitech International SA - Investor Relations*

Okay. Layla, we will give a one minute and then we'll wrap if there are no other questions.

Operator

Joern.

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Nate Melihercik - *Logitech International SA - Investor Relations*

Great. Thank you.

Joern Iffert - *UBS AG - Analyst*

Thanks. And sorry, I think it takes a while until I can join as a panelist again, so sorry for the silence. Yeah, a follow up, please. I mean, can you distinguish between your price and volume performance for the quarter? Is price still a significant contributor here, price at mix, or is it mainly volume trip to start maybe with this one if I may.

Johanna Faber - *Logitech International SA - Chief Executive Officer*

I would say -- Hey Joern. I would say that it's mainly volume driven. Our prices have stayed fairly steady. We do have some promo in the quarter, but it has stayed fairly flat with last quarter.

Joern Iffert - *UBS AG - Analyst*

Okay. All right. Thanks. And then if you allow me and a follow-up. I think in the last earnings call, you mentioned APAC should be the key driver. Now it turns out EMEA is key driver, but of course, it was the full year what you mentioned. So has your view on the regions changed now over the last two to three months and also same on categories, is it still tablet peripherals which would be the strongest growing category or has this changed?

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Yeah, I'm not sure that we actually said that APAC should be -- I think we talked about what might be impacts on gross margins. So mix is an impact on gross margin. And if Europe and the US are a little better, APAC is a little worse, that's a positive, that's a tailwind on gross margin, and the same is true with our video conferencing business. If that grows faster, that's a tailwind on gross margin.

So I think we talked about it that way. That said, I'm super pleased with the broad based profile of our growth. APAC had a robust result at plus 13%. But Europe really was a star and again, driving a good portion of that increased demand that was a little unexpected versus what we were seeing last quarter.

And the execution in Europe has been particularly strong. If you've been to media market recently, Joern, you're seeing a fantastic user centric shelf there that we've built, which looks fantastic, where you can really see MX versus Ergo versus our mobile line versus our baseline, really good way for people to shop. And we're seeing double digit increases where we place that in stores.

And then Europe is also done a great job with Logi PLAY and Logi PLAY race days where we engage consumers in store and online with our simulation wheels, so to actually play with our product. And again, that's a great driver of sales. So kudos to our European team. The market in Europe is okay, but certainly not growing 20%. And that's really testament to the execution of our teams there.

And Joern I just want to (multiple speakers)

Joern Iffert - *UBS AG - Analyst*

Yeah, sorry.

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Johanna Faber - *Logitech International SA - Chief Executive Officer*

Joern, I just wanted to have -- I'll give you one clarification is that I was giving you a sequential number on the promos. And actually year over year, we did have one point of favorability on promo and but as I said before, it was mainly volume.

Joern Iffert - *UBS AG - Analyst*

Okay, great. Thank you very much.

Operator

All right. Nate, we seem to have no further questions at this time.

Nate Melihercik - *Logitech International SA - Investor Relations*

Okay. Thank you, everybody, and thank you for your questions this morning. Hanneke?

Johanna Faber - *Logitech International SA - Chief Executive Officer*

Yeah, thank you, Nate. Thank you all. Of course, if you have other questions, Samik, Lucas, there will be follow-ups. Thanks for joining us here. Thanks for your interest in Logitech. And again, I'd be remiss to not say thank you to the Logitech teams around the world for everything they did in the quarter, and we'll continue to do throughout the year. Looking forward to seeing you next quarter. Thanks, everyone.

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