Transcript - Q3 FY'25 Earnings Call

Nate | Head of Investor Relations

Good afternoon and good evening. Welcome to Logitech's video call to discuss our Financial Results for the Third Quarter of Fiscal Year 2025. Joining us today are Hanneke Faber, our CEO; and Matteo Anversa, our CFO.

During this call, we will make forward-looking statements, including with respect to future operating results under the safe harbor of the Private Securities Litigation Reform Act of 1995. We're making these statements based on our views only as of today. Our actual results could differ materially. We undertake no obligation to update or revise any of these statements. We will also discuss non-GAAP financial results. 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'll now turn the call over to Hanneke.

Hanneke | CEO

Thank you Nate, and welcome everyone to our third quarter earnings call.

As you know, the holiday quarter is an important quarter for us at Logitech - seasonally our biggest. And I am thrilled to share that we performed very well this holiday, delivering strong, profitable growth for the fourth consecutive quarter.

Net sales grew +6% vs last year; demand, or sellout, growth accelerated to +8%; and the growth was broad-based across categories and regions. As a result, we are raising our outlook for the year.

Importantly, our growth was driven by the strategic priorities I shared with you last spring.

First, superior, design-led innovation. It is in our DNA; and we went into the holiday quarter with a fantastic line up of new products which customers and consumers loved, and which translated into strong demand around the world.

In gaming, with 16 new products launched in advance of the holidays, sales reached near pandemic highs, growing double digits at +13% vs last year. Our Pro line, developed in

collaboration with professional e-sports athletes, was a standout and achieved record sales. And looking ahead, we just announced an AI Streaming Assistant, developed in collaboration with NVIDIA, at CES. This agentic AI innovation is designed for gaming streamers, giving them an instant producer, co-host and sidekick to better ‘content-create’ and reach their fans.

Superior innovation like this fueled success across our portfolio, particularly in the high end. For example, our premium MX line of mice, keyboards and webcams, including the new MX Creative Console developed for digital designers, reached near-record sales levels this quarter.

Our innovation increasingly leverages AI to make our products smarter, driving new features that were not possible even six months ago. In addition to the AI Streaming agent for gamers I just mentioned, our newest headsets offer a truly unique two-way noise-cancelling experience powered by AI. And the Logitech Sight, our advanced tabletop meeting room camera which uses AI-driven ‘smart switching’ for video framing and sound processing, was recognized as one of TIME’s Best Inventions of 2024 last quarter.

There is more to come. Just last week, we announced the Rally Board 65—a mobile touchscreen display with video conferencing capabilities that can easily be rolled into any room. This portable solution creates a digital cocoon for meetings, and a more immersive meeting experience in any space.

In a short amount of time, we have successfully integrated AI into the 'work' and 'play' flows of nearly all our key categories…and there is much more to come. The developments in AI of just the last week position us even better, as they provide more opportunities for Edge AI applications into our product development.

The second strategic driver of our strong results was Logitech 4 Business. Doubling down on growth in the B2B channel is an important strategic focus for us. This quarter, engagement with customers at LogiWork events created strong momentum, resulting in growth in Video Collaboration and Headsets, as well as in Personal Work Space products sold to B2B customers. Services bookings, an important driver of customer satisfaction, more than doubled. And our continued expansion into the new vertical of Education yielded growth of more than 20%.

The Logitech for Business team continues to meet the evolving needs of modern workplaces. Just this month, they launched a range of innovative smart office tools, including the Rally board 65 I just mentioned, the Rally Camera Streamline Kit for education and the Logitech Spot sensor. These new solutions, combined with commercial go to market initiatives from our new, dedicated global salesforces, are resonating very well with customers.

Next, when you look at our growth this quarter, it was broad-based across geographies. This underscores our strategic approach, tailoring our execution to meet local demands and rapidly reapplying best practices across countries. For Q3, I want to congratulate our teams around the

world for delivering highly effective marketing campaigns, and truly excellent in-store and online holiday retail execution.

Notably, we are making progress in China. Our end markets there saw robust growth, helping to drive a double-digit increase in Logitech's net sales year over year. Our teams are doing admirable work, quickly introducing new products that reposition us in the market at both the premium and the lower end; and refreshing our use of social media and online sales channels in exciting new ways. It's still early innings in our execution, but I love the momentum we've regained in China.

Last, and certainly not least, our continued delivery of profitable growth is underpinned by the exceptional execution of our operations team. Once again, cost reductions drove our gross margin above 43%. And with tariffs on everyone's mind, we continue to prepare for a range of possible outcomes, and for an ever more resilient global supply chain. I am pleased to report that we remain on track to further diversify our manufacturing footprint, with well over half of units shipped to North America coming from locations outside China by the end of this fiscal year.

In summary, a quarter with very strong results, driven by real progress against our strategic priorities.

And finally, as a reminder, we have our Analyst & Investor Day scheduled for March 5th, when we will discuss our mission to extend human potential in work and play and our longer-term strategy, as well as showcase our industry-leading innovation. We would be thrilled to host you at our Silicon Valley office or online.

Matteo, over to you.

Matteo | CFO

Thank you Hanneke, and thank you all for joining us on the call today.

The team delivered another exceptional quarter with strong, profitable growth.

The detailed financial results can be found in the press release and shareholder letter, but let me briefly share with you the key financial highlights.

Net sales were up 6% year over year, driven by demand in both our business and consumer channels, which came in ahead of our outlook.

Demand was broad-based, with all regions and key product categories growing year over year.

I'd like to call out two particular high points for the quarter…

- Gaming grew double digits, approaching net sales levels last seen during the pandemic.
- The high end of our business did very well - as Hanneke mentioned, our Pro line hit record net sales, and our MX line also hit near record net sales.

Regionally, Asia grew high single digits in year-over-year net sales, and Europe and the Americas grew mid single digits.

We entered the third quarter with a healthy and balanced channel inventory, which supported a successful holiday season. And as we exit the quarter, both owned and channel inventory levels ended well within our operating targets.

As we indicated in the prior earnings call, in the third quarter sell-through outpaced sell-in, and we expect this trend to continue into the fourth quarter.

Most importantly, our growth continued to be highly profitable. The non-GAAP gross margin rate was at 43.2% in the third quarter, up 90 basis points year over year, driven by reductions in product costs. This marks the fifth consecutive quarter of year-over-year gross margin rate expansion, a testament to the durability of our cost reduction initiatives and commitment to operational excellence.

As a result, we expect the gross margin rate for this fiscal year to be on the higher end of the previously provided range of 42 - 43%.

Moving to operating expenses, Q3 opex was impacted by a $14 million charge for a bad debt reserve due to the inability of one of our e-commerce payment providers to pay us. We have since transitioned to a new provider.

Excluding the impact of this charge, operating expenses would have been 22.3% of net sales, slightly lower than the previous year; and Sales & Marketing would have been up ~6% year over year.

Additionally, we continued to invest in R&D while maintaining G&A flat year over year.

Non-GAAP operating income increased by 7% compared to the prior year. Excluding the charge I mentioned earlier, it would have been 20.9% of net sales, up 110 basis points compared to the third quarter of last year.

Our cash generation remains robust. In the quarter, we generated $370 million cash from operations, contributing to a healthy cash position of $1.5 billion.

In addition, we announced a 5-year $750 million credit facility which we believe will enhance our financial flexibility and further strengthen our financial position.

In Q3, we returned $200 million to shareholders through share repurchases as part of our ongoing $1 billion buyback program. Since the beginning of FY25, we have returned over $650 million to shareholders through dividends and share repurchases.

Looking ahead, we have increased our FY25 outlook. Our underlying business is performing extremely well, and we are confident we will close out this year in a strong position.

There are two items that I would like to call out since our update last quarter:

- First, as I mentioned earlier, in this quarter we faced an isolated $14M headwind related to a bad debt expense and…
- Second, we believe it is likely that our results in the fourth quarter will be negatively impacted by the recent strengthening of the US dollar.

Taken together, bad debt and foreign exchange represent an approximate $40M headwind.
These items are not related to our core business, and ultimately transitory.
Despite this pressure, the tremendous performance of our underlying business gives us the confidence to raise our FY25 outlook for both net sales and operating income.
Absorbing an unforeseen $40M headwind near the end of our fiscal year, and raising our full year outlook is a testament to the resiliency and flexibility of our teams.
We speak often about the dynamic environment in which we operate - inflation, possible tariffs, and currency fluctuations - but in the end, our business is executing at a high level and adjusting to these external uncertainties. We delivered another strong quarter and are positioned to end the year with continued momentum.

We are now ready for Q&A.

David Connell | Zoom Event Services

Thank you so much, Matteo. We will now move to the Q&A session. If you have a question, please use the raise hand icon located on your Zoom toolbar. When we call your name, please turn on your video and unmute your line. Our first question comes from Asiya Merchant with Citi.

Asiya Merchant | Citi

Oh, great, thank you. I was having a few issues unmuting myself. Very strong results here, just on gross margins. You guys continue to deliver towards the high end of that. You've talked about these cost controls that are delivering. I take it there was no impact from inventory reserves unwinding in this quarter. So just as we look ahead, if you look into the trajectory of momentum that you're exiting December with and entering March, and as we look into fiscal 26, what are some drivers, puts, and takes that you see for gross margins into fiscal 26 to continue delivering here towards the higher end of your range, and if we could continue to see further margin momentum, thank you.

Logitech
Sure, Asiya. Thanks for the question. You're absolutely right. The quarter was very clean, very operational. There was no impact coming from the inventory, exactly as you mentioned, really a fantastic job done by the operating team, by Sri and his team, in keeping driving the product cost reductions. It's primarily activities such as value engineering, taking cost out of the bill of material. Value engineering is an ongoing process. You're never done. Every year you have to start a new set of programs. We have a pretty good pipeline also entering into next year. This is going to be a continued effort for years to come. As I said, it's continuous improvement. You're never done. I will refrain from giving more details on the financials as they pertain to 26. We look forward to updating all of you at the investor day on March 5th. But we are thrilled by the continuous work the team has been doing.

David Connell | Event Services

Our next question comes from Alex Duval with Goldman Sachs. Alex.

Alex Duval | Goldman Sachs

Yes, hi, everyone, thank you so much for the question. Just a quick couple, if I may. Firstly, we saw another quarter of growth on the VC side, and clearly, you've seen some stabilization and are talking about further attach of services, so I wondered if you could expand on that. And then, I guess, the other question, just on the PC side, showing growth there. Clearly, there's been talk of Windows refresh and upgrades to devices purchased early in COVID, so I wondered if you could give your latest perspectives on those. Many thanks.

Logitech

Yeah, happy to do that. Hi. VC, yes, we're seeing, from the many customer discussions that we're having, a market improving a little bit. IT budgets overall are still flattish, but I think the AI spending is getting a little smarter. And of course, there's the return to office, and customers making choices on how they want to work going forward, how many days in the office, which then leads to office remodelings, always a good thing for us. The market is becoming a little better. Within that, we think we're executing really well. Both VC demand and the overall B2B channel sales are quite a bit higher, maybe even than the VC sales you saw here in the quarter, driven by superior products and innovation. I touched on some of those in the remarks, strengthening our go-to-market capabilities with increased sales coverage, better talent, which we're excited about. And indeed, as you said, our services attach doubled, which is great because it drives customer satisfaction and is very profitable. Some of the verticals, especially education, are starting to get to some scale with 20% growth. So we're bullish on Logitech for business. In terms of PC and PC refresh cycles, that cycle is definitely underway. As I've said before, there's no direct correlation with PC refreshes in our business, but certainly, people buying or receiving a new PC at work is a good time to also think about adding one of our products. So it is underway, and those new super PCs need super mice and keyboards. We can.

David Connell | Event Services

Our next question comes from Eric Woodring with Morgan Stanley. Eric.

Erik Woodring | Morgan Stanley

Great, thanks so much for taking my question, guys. I have two, if I may. Hanneke, I was wondering if you could kind of double-click on your comments on China. It's been a very challenging market overall. You've called it out specifically for Logitech over the last handful of quarters. Do you feel like things have kind of turned around this quarter? Specifically, is there a market dynamic that's inflecting, or is there something you're doing in China that's also inflecting? I'd love it if you could just double-click on the market and then Logitech's positioning within China. What's changing? And then I have a follow-up. Thank you.

Logitech

Yeah, absolutely. Eric, it's both of the above. I'm really pleased with the improving momentum we're seeing in our business in China. As you know, we don't break it out, but you've seen the double-digit net sales growth for APAC, and within that, China did even a little better than the average. What's driving that? It's both of the things you mentioned. First, the gaming market continues to grow rapidly in China. I came from beauty in the past, and we called it the lipstick effect when consumers are a little cash-strapped. That actually is true for gaming as well. It's a cheaper form of entertainment than going out to eat or to the movies. The increasing popularity of first-person shooters in China also drives this growth. The competitive environment is dynamic, leading to a lot of innovation in gaming. That market is robust, driving our gaming growth and overall growth in China. Second, our teams are doing great work, quickly introducing new products in China for China, both at the premium and lower ends. They're doing exciting new stuff in marketing and social selling on platforms like Douyin (TikTok) and Pinduoduo. We're seeing encouraging share progress, especially at the premium end on those channels. I'm really liking the momentum we're regaining in China.

Erik Woodring | Morgan Stanley

Awesome, really helpful commentary. Thank you, Hanneke. And then, Matteo, maybe just one clarification question. Again, not necessarily specific to Logitech, but taking a step back, the threat of potential tariffs has been something we've seen pull forward demand a little bit. I'm just wondering, from your perspective, is this something you see from your channel partners? Again, I understand the sell-through was strong, so it's not trying to get a channel inventory, but just wondering what you're hearing from your channel partners, and whether there's a bit of a pull forward of demand just to ensure they get products at the right price before the potential of tariffs arise. That's it for me. Thanks so much.

Logitech

Sure, Eric, not really, at least not yet. From what we could see, things have been progressing pretty normally. What I can tell you, to Hanneke's earlier point, is that we feel very prepared. We've been working on diversifying our supply chain for quite some time. We have multiple manufacturing sites in multiple countries, so we think we are ready. It's really about supply chain resilience. More related to your question, when you look at the inventory, for example, you saw the inventory sequentially went down third quarter versus the second, but we did pull in some inventory on the right high runners to protect ourselves and customers in case there is a final determination on tariffs.

Erik Woodring | Morgan Stanley

Thanks so much.

Logitech

You bet!

David Connell | Event Services

Our next question comes from Joern Iffert with UBS. Joern.

Joern Iffert | UBS

Thank you for taking my questions. The first one is a pretty basic one on your Q4 implied outlook, which means sales are more or less flattish year-over-year, and gross profit margin, I think, is going back to the 41-42% range, and also non-GAAP EBIT being down around 10-20% year-over-year. If I'm not totally wrong on the back of the envelope calculation, can you clarify if you're really seeing it, or is it the concept of prudence? This would be the first question, please.

Logitech

Okay, I will take that one. Let me peel the onion for you, Joern. Starting from the top, we continue to see strong demand on the back of the very successful holiday quarter that we just had. Demand in constant currency is expected to be in the mid-single digit, and this translates, depending on which side of the range you are, into our net sales. When you factor in the FX impact that I mentioned in my prepared remarks, net sales are expected to be up low to mid-single digit. As for the gross margin point of your question, that is correct. We are expecting the gross margin rate to be around 41.5% in the fourth quarter. There are fundamentally two things happening year-over-year. One is the FX impact that I mentioned in my prepared remarks. As you've seen in recent weeks, the US dollar has strengthened quite substantially compared to the other major currencies, and for us, it's primarily the euro. That's about 150 basis points of pressure on the gross margin rate year-over-year. Last year, we were still

enjoying a little tailwind coming from the release of inventory reserves as the channel was coming down. That's not going to repeat in the fourth quarter. So that's why the gross margin rate is roughly 200 basis points down year-over-year. However, if you exclude the impact of the FX and the inventory dynamic, the operating income would be pretty much flat. Notwithstanding all these pressures that I just mentioned, it's a testament to the great work that the team has done, allowing us to raise the guidance for the year. If you rewind a little bit to what we said in the last earnings call, our outlook is improving by about 100 million in revenue and about 20 million dollars in margin. It's a pretty nice flow-through, considering some of the challenges I mentioned in my prepared remarks.

Joern Iffert | UBS

Thank you.

Logitech

I was just going to add, Joern, because we've been talking about this all year. Again, in the fourth quarter, we do expect in constant currency that the sellout, the demand, will continue to be robust, mid-single digits, but as we've said many times before, towards the end of the year, the sell-in will be lower than the sellout. So that's the dynamic you're seeing. But we do expect it to be positive.

Joern Iffert | UBS

Thank you, and this brings me to the second question, if I may. When I look into the first half of fiscal 26, just mechanically, your sell-in was much higher versus sell-out. Is this something we should prepare for, that maybe sell-in against the tight comp is more flattish in the first half of fiscal 26, and sell-out will maintain the pace we're seeing around mid-single digit? Or is it not a big deviation you would expect for the first half of fiscal 26?

Logitech

Sure, if we rewind the tape a little bit. If you remember, at the beginning of fiscal year 25, we mentioned that the channel exiting fiscal year 24 was a bit light. We were positively surprised by some of the growth we saw in the revenue in the last couple of months of the fourth quarter of 24, and this created a bit of an imbalance in the channel inventory. We spent the first half of fiscal 25 fixing this, which is why we said the first half of 25, sell-in will outpace sell-out. But then this dynamic reversed itself in the second half of 25, which is exactly what has been happening in the third quarter, and what Hanneke mentioned for the fourth. Our plan is to continue maintaining a healthy channel inventory. This enabled us to have such a strong holiday quarter, so we want to continue that. If we are successful, you should not see the same dynamic happening next year. Sell-in and sell-through will mirror closer to each other throughout the year.

Joern Iffert | UBS

Thank you very much. The very last question for me is a technical one, to be sure, because I could not go through all the details. But this SG&A one-off you were highlighting, this is included in your non-GAAP EBIT, right? So the adjusted non-GAAP EBIT for this one would be even higher, just to double-check this quickly.

Logitech

That is correct. First of all, the 14 million was booked, not in G&A, but in sales and marketing, and it is included in our numbers.

Joern Iffert | UBS

Thank you very much.

David Connell | Event Services

Our next question comes from Ananda Baruah with Loop Capital.

Ananda Baruah | Loop Capital

Yeah, thanks, guys, good afternoon. Thanks for taking the questions. Starting real quick on gaming, what's a good way to think about the durability of these results as you go through the year? There are some important new gaming refreshes coming out later in the year. Typically, there's good pull-through ahead of those. There are also tougher comparisons coming up as you go through the year, and you are at record levels of gaming revenue. Just starting there, I'd love to get your take on that. Thanks.

Logitech

Yeah, I'm not going to give you an outlook for the year ahead, but we're bullish on gaming. We're super excited about what we did in the holiday quarter. We're gaining share in the US and in EMEA, in really robust markets. I talked about the momentum we're regaining in China. We're gaining share and growing faster on the premium end of our gaming business. I mentioned Pro, which is back to records. I didn't mention SIM, but that was a fourth quarter of double-digit growth on SIM. Those are really high ASP products. AI and innovation, you know that fun AI streaming agents we just launched. There's a lot more to come there. So bullish on gaming, and we can talk more about it.

Ananda Baruah | Loop Capital

I appreciate the context. Quick follow-up, you mentioned back-to-office. VC is doing well again. Are you getting any context, whether it's anecdotal in your conversations with larger customers

or data you're picking up about bodies coming back to the office, connecting to increased activity? Any context there would be great, thanks.

Logitech

Yeah, we're definitely seeing increased activity in people moving into new offices, changing their office setups, etc., because many companies will continue to be hybrid, a few days in the office, a few days at home. Some have decided to go all-in and go all back to the office. All of that requires a new way of thinking about the office, which is really perfect for us. We've got clear points of view on what great offices look like and what great technology in those offices looks like. Our teams are being pretty effective at sharing those perspectives and sharing our products. Again, another place that we're bullish on. We can support companies that decide to go back five days a week, but we also support companies really well that decide on fewer days.

Ananda Baruah | Loop Capital

Thanks a lot. Thanks, guys. Appreciate it.

Logitech

Thank you.

David Connell | Event Services

Our next question comes from George Wang with Barclays. George.

George Wang | Barclays

Thank you for taking my questions and congrats on the quarter. I have two quick ones. Firstly, can you give more refreshed thoughts on operating expenses? Nice to see strong OpEx control. Just curious if there's a tendency to reinvest some of the savings into R&D and S&M to increase sales. Previously, you talked about 24 to 26% in terms of the sales ratio. Just curious if there's a move away to the low end versus reinvesting in the business.

Logitech

Absolutely not. Let me dissect the number for you, George. We continue to invest in R&D and in sales and marketing. If you forget for a second the bad debt reserve we had to book this quarter, sales and marketing were up about 6% year-over-year. The team did a great job being meticulous on how to spend the money, selectively spending marketing dollars with some of our key e-tailers and retailers to drive profitable growth. You saw the results in the numbers we just posted. Really great job by the team in spending the dollars wisely, and the same applies to R&D. We continue to see R&D going up. That's part of what we always do. You saw the impact of that. We launched just in gaming 16 new MPIs right before the holidays, and look at what

gaming did with it. They achieved almost record net sales, so that philosophy is not changing. As far as the range, we confirm the range of 24 to 26%, excluding the bad debt we recorded in the quarter, and we'll probably be on the higher end of that range. The philosophy really is not changing. We continue to invest in R&D and sales and marketing cautiously, and we continue to drive efficiency in G&A.

George Wang | Barclays

Great. Just a quick follow-up if I can. Since you guys are cash-rich, 1.5 billion cash on the balance sheet increased a bit sequentially. Just in terms of bolt-on deals, do you think you're going to address a bit more cross-sell opportunities, like adjacencies, versus maybe a new category, such as B2B, where you are doubling down? Just curious if there's any refreshed thoughts there.

Logitech

Yeah, we'll definitely touch on that at the investor day. For now, though, our priorities when you look at capital, we have a pristine balance sheet. Our cash situation is great, and the priorities on how we spend that don't change. First of all, we invest in the business, especially in R&D, which is critical for us. Second, we prioritize dividends with nice increases every year. The third priority is M&A, so I'm glad you're bringing it up. We have to be extremely thoughtful, deliberate, and strategic about M&A. It's easy to do a deal; it's much harder to do a really great deal. If I were a betting woman, I would say that you're right. Any M&A would be in the places of work and play, with synergies, especially in B2B or in our B2C go-to-market. We are looking, and if and when we pull the trigger, I want to tell you that we'll be ready to integrate it well. It's another thing that we're working on, and when we have something to share, you'll obviously be the first to know. In the meantime, while we're not announcing any new M&A, our fourth priority for capital allocation is share buybacks, really important. We usually buy back around 130 million in a quarter. You've seen us buy back 200 million in the last quarter, again because of that cash situation, but also because we believe it's a really good share to invest in, so it was a little higher than usual.

George Wang | Barclays

Great. Thank you.

David Connell | Event Services

At this time, we do not have any more hands raised.

Logitech

Great, Hanneke. That's our last question for today. Excellent! Well, thank you, guys, it's great to see you. Appreciate you joining. Maybe the last thing I'll say is, I am just so proud of our team's

performance in this last quarter. You've seen us invest strategically and sensibly in product innovation, in our B2B capabilities, and around our global markets. You've seen us do that over the last several quarters. Hopefully, what you've seen is that the return on that investment is on full display this holiday quarter. The business regained top-line momentum across products, geographies, and channels. It's generating, as we just said, really healthy invested capital and cash returns. We feel we're well-positioned to perform in the volatile global environment that will be there this year, but I could not be more excited for what's to come in 2025. Thank you again, and we hope to see you all in March here in Silicon Valley at our investor day.

Nate | Head of Investor Relations

Hanneke, that’s our last question today.

Hanneke | CEO

Thank you all for joining today.

In summary, I am so proud of our teams’ performance this quarter.

You’ve seen us invest strategically and sensibly in product innovation, B2B capabilities and global markets over the last several quarters, and the return on that investment is on full display this quarter.

Our business has regained topline momentum across our product portfolio, our geographies and our channels. It is generating healthy invested capital and cash returns; and is well positioned to perform in a volatile global environment.

In this new calendar year, I could not be more excited for what’s to come. Thanks again, and we will see you in March at our Analyst and Investor Day.