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# Logitech International SA (LOGI)

Q4 2017 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the Logitech Fourth Quarter Fiscal 2017 Financial Results Conference Call. At this time, all participants are in a listen-only mode. We will be conducting a question-and-answer session and instructions will follow at that time. [Operator Instructions] This call is being recorded for replay purposes and may not be reproduced in whole or in part without written authorization from Logitech.

I would now like to introduce your host for today's call, Mr. Benjamin Lu, Vice President of Investor Relations.

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Benjamin Lu, CFA

*Vice President-Investor Relations, Logitech International SA*

Thank you, Dan. Welcome to the Logitech conference call to discuss the company's financial results for the fourth quarter of fiscal year 2017. The press release, our prepared remarks and slides, as well as a live webcast of this call are available online at the Investor Relations page of our website, logitech.com. As noted in our press release, we published our prepared remarks on our website in advance of this call. Those remarks are intended to serve in place of extended formal comments today and they will not be read on this call.

During the course of this call, we may make forward-looking statements, including forward-looking statements with respect to future operating results that are being made under the Safe Harbor of the Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated in the statements. Factors that could cause actual results to differ materially include those set forth in Logitech's Quarterly Result – Report on Form 10-Q filed with the SEC on December 31, 2016 and subsequent filings. The company undertakes no obligation to update or revise any forward-looking statements as a result of new developments or otherwise.

Please note that today's call will include results reported on both a GAAP and a non-GAAP basis. Non-GAAP reporting is provided to help you better understand our business. However, non-GAAP financial results are not meant to be considered in isolation from or as a substitute for or superior to GAAP results. Non-GAAP measures have inherent limitations and should be used only in conjunction with Logitech's consolidated financial statements prepared in accordance with GAAP.

Our press release includes a table detailing the non-GAAP measures, together with the corresponding GAAP numbers and a reconciliation to GAAP. This information is also posted on our Investor Relations website. The slides that accompany this call are also available on our Investor Relations website. We encourage listeners to review these items.

Unless noted otherwise, comparisons between periods are year-over-year and in constant currency and all reported results and updated outlook are focused on continuing operations and do not include the performance of Lifesize, which is reported under discontinued operations. This call is being recorded and will be available for replay on the Investor Relations page of the Logitech website.

Joining us today from Zurich are Bracken Darrell, President and Chief Executive Officer, and Vincent Pilette, Chief Financial Officer.

Now, I'll turn the call over to Bracken.

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## Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Thanks a lot, Ben, and thanks to all of you for joining us. Let me start by talking about a few of the products that we introduced this year. It's just a fraction of the total. We launched our first ever completely Pro Gaming mouse. We love eSports and we want to be a partner with the people making eSports the most exciting and the fastest growing sport in the world, the athletes and the coaches. Did you see the eSports will now be an official event of the 2042 Asian Games? Who knows, it might even be an Olympics sport one day soon.

We made listening to music out loud even more social. We upgraded our prior BOOM and MEGABOOM products again and again, and most recently with PartyUp, that allows you connect really to an unlimited number of speakers together to create an incredible group listening experience. And just earlier this month, we released our latest mobile speaker, the Ultimate Ears WONDERBOOM. It's waterproof. It's practically break-proof and the volume and sound quality is as good as the original BOOM 1, all for just \$99.

We introduced the SmartDock and extends our lineup for Video Collaboration, enabling Skype with a push of a button. It's a terrific compliment to our any size meeting room offerings. And even as we've entered and now are growing new businesses by double digits, we are not letting up on our original core. Silent mice, multi-device keyboards, and our latest, the reinvention of the clicker, all are part of our product highlights this year.

A minute on that clicker reinvention. Spotlight, we just launched. It's a breakthrough way to present and it's the coolest way to give a presentation. Spotighting are magnifying instead of laser pointing. Every time I use it with people, as I just did this morning here in Zurich, people come up and ask me how to buy it. [ph] Over an (04:36) organic innovation company, we are sharpening our skills in acquisitions and integration. This is enabling us to accelerate our entry in the [ph] seats (04:44) basis. Jaybird and Saitek help us accelerate into Bluetooth earphones and simulation gaming, both are off to good starts and we're learning a lot.

Now, let me give you a quick rundown of this year's performance by business and region. The Q4 and full-year performances are consistent, so I'm going to focus on the year. We grew across all our regions and almost all of our categories. PC Peripheral categories remained healthy, with sales up 7% for the year. Consumers continue to use PCs as they add mobile computing on top of PC usage. We use computers for productivity and we use our phones for almost everything.

Keyboards & Combos sales increased 12%. This is the seventh consecutive year of growth. Pointing Devices rose 2%, and we won't stop innovating in mice or keyboards. Webcams grew 9% behind the rise of streaming. Sales on our Tablet & Other Accessories category fell 26% in line with performance in the broader tablet market. We'd expect this steep Q4 drop compared to Q4 a year ago when we had introduced, and we're in the first full quarter, of the CREATE keyboard for the iPad Pro.

Video Collaboration increased 42%, powerful across all three regions, all year long. Mobile Speakers sales grew 30%, ahead of our original expectations heading into the year. Despite not having any new hardware product introductions, we leveraged software and our go-to-market capabilities to drive market share gains and deliver that growth.

With Jaybird, you might recall last quarter, we mentioned supply constraints that held us back and we committed that we would fix that. We did. And now, Jaybird supply is where it should be. In fact, Jaybird contributed 3 points, not only to the full year but also in Q4.

Gaming sales grew 28%. Even as we continue to grow well in Gaming, there's just a lot of exciting potential in every segment of the Gaming business.

Now, I'm going to pass it over to Vincent to go through some financial performance details.

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## Vincent Pilette

*Chief Financial Officer, Logitech International SA*

Thanks, Bracken. Very consistently with our performance through the year, we finished the year-end quarter with another strong and broad-based performance, double-digit sales growth across our regions and our main product categories. Q4 retail sales rose 17% to \$496 million and our fiscal year 2017 sales grew 14% to \$2.2 billion. We have not seen this level of growth since fiscal year 2011, and today, our market growth opportunities are a lot bigger.

On top of that, our Q4 non-GAAP operating profit increased 61% to \$36 million and our full-year non-GAAP operating income grew 33% to a better than expected \$238 million. Non-GAAP EPS was \$0.21 in Q4 and \$1.32 in fiscal year 2017, up 35% versus last year. These results reflect the strength of our business model and our disciplined execution.

At our Analyst and Investor Day, we laid out our fiscal year 2020 non-GAAP EPS roadmap of \$2. This would be double the level of earnings we saw in fiscal year 2016. And the \$1.32 we just delivered this past year, demonstrates our clear progress towards this goal. As we look out to fiscal year 2020, we will continue to push for strong and sustainable top line growth, while at the same time, reinvest our gross profit into our five key capabilities that constitute the foundation of our long-term financial model.

Our Q4 non-GAAP gross margin increased 430 basis points to a robust 37.4%. In fact, our margin remained flat sequentially, despite the sequential seasonal decline in sales. This is a great example of how we continued to improve our cost structure ahead of plan, benefiting from higher volume and our design forecast programs. It puts

us in a healthy position to reinvest our gross profit dollars to support our long-term growth objectives while continuing to create operating leverage.

Our Q4 non-GAAP operating expenses rose 24% to a \$149 million, with Jaybird contributing 6 points of that increase. For the year, non-GAAP operating expenses rose 14%, or 10% excluding Jaybird, as we're making prudent investments to support our growth opportunities. While we invested in R&D and sales and marketing in the year, we reduced our infrastructure costs and drove G&A to below 4% of sales, a metric that we see as an external sign of improving our efficiency. For fiscal year 2017, operating expense ratio was 26.1% of sales and on track towards our long-term targets.

Along with strong operating profits, we also generated robust levels of cash flows. In fiscal year 2017, cash flow from operations reached \$279 million. That's over 50% from \$183 million last year. Our full-year cash conversion cycle remained stable at 23 days, essentially unchanged versus a year ago, and right in the line with our annual target of 20 to 25 days.

In fiscal year 2017, we returned \$177 million of cash back to shareholders in the form of \$93 million of dividends and \$84 million of stock repurchases. Going forward, we will continue to return our free cash flow to our shareholders through a growing dividend and opportunistic share buyback.

And now, I will turn it back to Bracken.

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## Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Thanks, Vincent. I joined Logitech five years ago this month. Three things stand out as I look back that suggest a very strong future ahead. First, we proved that we can extend our portfolio. We love mice and keyboards and we are tend to have a nice business in them for a long time to come. But today, they're less than 45% of our business as we're growing faster in an increasing number of new categories, like Video Collaboration, Gaming and others.

Second, we aren't just innovating in a few categories or countries. We've created an innovation-led growth engine that's growing all our regions and almost all our categories. This growth capability in retail and e-tail in a growing array of categories around the world is an exceptional strength versus those single category small companies. It's also unique for our size.

Third, we proved, we can consistently grow our business profitably. In a world where top line growth with bottom line losses is sometimes viewed as attractive. We've demonstrated that our ability to grow top line sales and increase profitability is possible in Logitech long-term. We've almost quadruple our profits and accelerated our growth over the past four years. But the most exciting fact of all is that the opportunities available to us are expanding dramatically.

For 30 years, our primary growth driver was the PC. While the PC industry is flattened, file services are exploding, and there is and will be an expanding number of peripheral opportunities for these cloud services. We just gave our outlook for fiscal year 2018 a few weeks ago, so naturally today, we're confirming that, and you can be sure that we're working toward our long-term model.

With that, Vincent and I are ready to take your questions. Operator, please queue up the questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes the line of Tavis McCourt with Raymond James. Please go ahead.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Hi, Tavis.

A

Tavis C. McCourt

*Analyst, Raymond James & Associates, Inc.*

Hey, guys. Thanks. Hey, Bracken. Thanks for taking my question and great finish to a great year. So, a couple of questions. I guess, first, if I do the math on the Jaybird operating expense, I'm assuming it's probably neutral to a little dilutive to the bottom line right now, and I guess if you could give us a sense on kind of your game plan for scaling that business. Obviously, it's in a big growth category but maybe kind of the game plan for scaling that business to get it to a meaningful level of profitability.

Q

Secondly, Harmony Hub had a great quarter, obviously, easy comp, but maybe give us a sense of the sell-through on that and how sustainable you think adding some of these voice assistance is maybe creating a new growth category there for you guys?

And then, finally, Vincent, just a [Technical Difficulty] (13:36) if the top line growth continues to outperform, how we should think about flow through to operating income this year? Thanks.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Okay. I'll take the middle one. I'll let Vincent take both the Jaybird and top line [ph] comps (13:54).

A

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

Yeah. So, I can take the first one. So, first on Jaybird, right, so we – and so, we did the acquisition with the idea of running the business at somewhat around the breakeven point for [Technical Difficulty] (14:06) investing for the future growth. We were on track as you remember in Q3, we had a little bit of a supply issue that lowered the revenue compared to our expectation. We made the decision not to lower our investment because we're very confident in both the market opportunity and our portfolio. And so, for that reason, it's slightly diluted for the full year but if you exclude that supply bump, if you want, in Q3, which we recovered in Q4, we're on track to our initial plan.

A

For next year investment, it's built into our guidance. We're investing into expansion internationally, investing in Europe, investing in Asia heavily to take that brand off the ground and make it meaningful. We're also investing for the long-term path [ph] towards much (14:56) long-term portfolio growing mark where we think we have a lot of opportunities. So definitely, we expect this product line or set of products, if you want, to become more and more meaningful to our portfolio. That's for Jaybird.

In terms of the flow through, right, as we continue to grow high-single digit, and of course, we work every day to deliver that. We'll continue to expect a very healthy flow through. We achieved the high end of our initial margin target of 35% to 37%. At this point in time, we plan to use the incremental gross margin dollars if they come through to invest and build even at a more accelerated growth rate. So, our focus really is on capturing the growth opportunities.

Now with that said, we have a long-term range of operating profit of 10% to 12% on the bottom line and we are just at the midpoint – starting at the midpoint, 10.8%, 10.9%. And so, you'll see a constant expansion of that operating profit margin that's – we continue to build out this [ph] year (15:59).

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**Bracken P. Darrell**

*President, Chief Executive Officer & Director, Logitech International SA*

A

And on your Harmony question, I think, I say we're guardedly optimistic. The performance over the last couple of quarters has been really strong as we've activated through Amazon Echo and now Google Home. And I think the couple of interesting facts about that, one is that about half of the users who come in are new users or using – based on what we can see from activation, so it makes you optimistic that this is an interesting one. And the other thing is we haven't seen a significant fall off after the first announcement, the first letter that went out from Amazon Echo, for example, so for Amazon on the integration. So, we'll see. We're not going to make any strong commitments on that but we're optimistic and it's exciting to see.

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**Tavis C. McCourt**

*Analyst, Raymond James & Associates, Inc.*

Q

Great. Thanks very much.

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**Bracken P. Darrell**

*President, Chief Executive Officer & Director, Logitech International SA*

A

Thank you, Tav.

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**Operator:** Your next question comes from the line of Michael Foeth with Vontobel. Please go ahead.

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**Bracken P. Darrell**

*President, Chief Executive Officer & Director, Logitech International SA*

A

Hey, Michael.

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**Vincent Pilette**

*Chief Financial Officer, Logitech International SA*

A

Hey, Michael.

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**Michael Foeth**

*Analyst, Bank Vontobel AG*

Q

Yes, hi. Hi, guys. One question regarding your selling and sell-through dynamics, in particular, in EMEA, where selling was high and sell-through – selling was low and sell-through was high. And then, in the Americas, we have the opposite. Can you maybe just give us a little bit more explanation of what is going on there and how we should see that...

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

Yeah. So...

Michael Foeth

*Analyst, Bank Vontobel AG*

Q

...in the coming quarter?

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

Yeah. Let me answer that first, Michael. So, quickly before we talk about region wise, so selling was around 15% U.S. dollars, 17% in constant currency. Sell-through is around 14% in dollars. So, overall globally, pretty stable. When you look at weeks on hand, whether it's backward looking or forward looking, it's either flat or slightly improving. So, we feel really good about position overall in our inventory somewhere in the midpoint of our target range and very stable to slightly improving year-over-year. So, I feel good on that one.

When you look at by region, I don't know if you remember, last year, Q4 in Americas was exactly the reverse which was low-selling, high sell-through. And then, this year, we have in the EMEA that position, well, obviously, it's a dynamic management of our overall distribution footprint, if you want, and nothing specific on this at this point in time. Overall, if you look at EMEA, full-year selling is around 18% and we exit the year with sell-through at a rate of 19%. So, nothing special at this point in time.

Michael Foeth

*Analyst, Bank Vontobel AG*

Q

Okay. And maybe just to follow-on, the high growth in the Americas...

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

Yeah.

Michael Foeth

*Analyst, Bank Vontobel AG*

Q

...was that just Jaybird or anything else?

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

No, no. It's a function of, again, the compares. So last year, selling in Americas was minus 8% on the positive DCS, and therefore, now, of course, you have the [ph] file (18:47) that you compare against that's very low. If you look at the trend on the gross rate in Americas, we've been trending at the high-single digit, low double-digit, except Q4 2016, where we voluntarily – we're cautious on mobile speakers and that the overall sell in Americas was minus 8%. So, now, of course, a year later, you compared against that.

Michael Foeth

*Analyst, Bank Vontobel AG*

Q

Okay. Great. And then, just maybe one last one on your distribution. Can you give us the development of the portion of online sales in Asia versus Americas? How is that developing?

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

I couldn't really give you Asia overall because you got a combination of online-only players, and then, bricks-and-mortar which are harder to judge. What we can see though is in China, for example, our online sales, we do know pretty well, which is somewhere between 65% and 70% now. In the Americas, it's – we believe it's about 35%.

Michael Foeth

*Analyst, Bank Vontobel AG*

Q

Okay. That's great. Thank you.

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

You're welcome.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

Thanks, Michael.

**Operator:** Your next question comes from the line of Joern Iffert with UBS. Please go ahead.

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

Hey, Jörn.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

Hey, Jörn.

Joern Iffert

*Analyst, UBS AG*

Q

Hi, Bracken. Hi, Vincent. Thanks for taking my questions. The first one, obvious one, just to [ph] redelivered (20:04) your fiscal year 2018 guidance. I think it's implying no margin improvement. Is there any specific reason for this? Are you planning any, in brackets one-off investments or [ph] adjust (20:15) a course of nature, which, of course, would be absolutely reasonable?

And second question would be on your design to cost program. I think, last time, when you update us, you have reviewed around 20% of your products. Where do we stand here right now and when do you expect us to finish and what are roughly the proceeds coming out of this in terms of dollars?

And last question was to a strategic nature, would you consider, or is this part of your strategic thinking to enter into advanced partnerships with Amazon and Google, for example, not as an OEM supplier but just as a [indiscernible] (20:51) peripheral and partner? Thanks very much.

Vincent Pilette

Chief Financial Officer, Logitech International SA

A

Yeah. Joern, let me take the first one and Bracken will take the two. And so, when you talk about guidance, so we've build a reputation on delivering a plan that we have high confidence in and delivering on what we say. Early March, when we give our guidance for the full year here FY 2018, we measure all the risk and the opportunities and develop a strong operational plan by category, by region, investments and returns expected. I'm really glad that we finish Q4 here slightly better than expected. I think it's a very good sign as we start the year, but we still have full months – full year, sorry, to deliver this guidance. So, I don't think at this point in time, it wouldn't make any sense to adjust that guidance. If we see revenue upside in the year, we may still make the decision to accelerate some investments for a better FY 2019, and of course, we'll dynamically [ph] boost (21:49) financial business and update the investors on what we're doing here.

Bracken P. Darrell

President, Chief Executive Officer & Director, Logitech International SA

A

On your question of design for cost, in the description, you used a 20% of the kind of a ballpark number. What I would say is overall, our current game plan is we want to take the concept of supplier for cost into everything. We're doing it over time. We're doing it very systematically. It's actually showing up our new products now, so you saw some this year. As you said, 20% is not a bad number. It probably – you could probably guess it's going to be about the same kind of number or even larger next year. And then, over time, all our products would be more designed for cost. We will always have cost [indiscernible] (22:27) opportunity at every launched product. But one of the things that we measure now, we look very carefully at what's the – if a product is replacing other products and redoing it equal or better gross margin and that is a reversal from what you would have seen five years ago when we launched at lower gross margin and then we're falling back over time.

On the – on your question on, would we consider or is there an option or to do partnerships of some kind with other players out there. If you remember our – the nature of our business from its very kind of beginning was to create products that work with other people's products. We're a peripheral player and we've been a peripheral player and we'll probably, in some ways, in most of our categories, would be a peripheral player, that we're already doing things in that space. And so, with the question earlier about Harmony, Harmony is now integrated with both Alexa and Google Home and we're always looking for opportunities to peripheral as other products with the existing ones or new ones.

Joern Iffert

Analyst, UBS AG

Q

All right. Thanks. Thanks, very much.

Vincent Pilette

Chief Financial Officer, Logitech International SA

A

Thank you.

**Operator:** Your next question comes from the line of Andreas Mueller with ZKB. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, Logitech International SA

A

Hi, Andreas.

**Andreas Mueller***Analyst, Zürcher Kantonalbank*

Q

Yes, hi. Hi, everybody. Thanks for taking my question. Question, can you be a bit specific more on the gross margin right there? Who are the main drivers behind this increase sequentially even, I mean, was very good?

**Vincent Pilette***Chief Financial Officer, Logitech International SA*

A

Yeah. So, I can definitely do that. So, it's definitely an operational performance. If you wonder, there's no big one-timers that's in that margin. Similar to what we described in margins, similar to what we delivered this year, the single biggest contributor of this gross margin improvement this year is the improvement of the cost structure combined with our ability to hold prices and value we deliver to consumer. And I think that contributed to even more gross profit with that. We then, in turn, reinvest to simulate growth at a form of sales.

**Andreas Mueller***Analyst, Zürcher Kantonalbank*

Q

Okay. Then, what was the main factor behind this huge growth at Video Collaboration? I mean, was it all through pure sell-through or was it coming from the expansion of some channels? And how do you see the growth going forward? I know that you see all these – big and small conference rooms, but this 73% going forward, of course, that's probably not really a sustainable figure out but for this year, at least, can you indicate what you see there?

**Bracken P. Darrell***President, Chief Executive Officer & Director, Logitech International SA*

A

I would look at 70% in Q4 as the number to expect for next year. We grew 42% this year and I think that's the kind of growth we've seen – on average, we saw on the first three quarters. That said, I take us out of the quarter or even out of the year, what's the driver of the overall growth. It's the fact that honestly, I continue to walk in everyday into small, medium and some big companies and I'm amazed that how many small, medium and even large conference rooms are not even enabled yet. I would say the vast minority are, and so, there is just a very large long-term opportunity for very affordable video-enabled conference rooms and we intend to be, and as many as we possibly, can be. So, no, I don't think we can expect 70% all year long next year but we expect to have strong growth.

**Vincent Pilette***Chief Financial Officer, Logitech International SA*

A

If I can just add, so we had guided the year at around 40% and we delivered, as Bracken said, 42%. I don't know if you remember but Q1 [indiscernible] (26:12) was actually weaker and you had or some of you had reverse questions and we said, this is not a business that deliver the same growth rate every quarter, right? We come here to [ph] be drop (26:21) our sales engagement with various accounts and businesses and we see a very strong long-term structural growth. The sales cycle is a bit more aligned to a B2B sales cycle, which is slightly different than the core retail.

**Andreas Mueller***Analyst, Zürcher Kantonalbank*

Q

Okay. And then, my last question on the Pointing Device category and most specifically, the Spotlight. I mean, what's [ph] there (26:47) the opportunity, I mean, that'd be kind of substantial within the category like 10%, 20% or will it be kind of just a small product within huge category going forward?

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

It's too early for us to say. What I can say with a lot of conviction is we've created a breakthrough in that category that anybody who presents will prefer what we just offer to anything that's ever been made before. What I can tell you is how broadly that will spread across the people who do presentations. And so, our mission right now is because that as many people's hands as possible to sample it, and the minute you present like I did today here in Zurich, we've got a room full of people who see, for the first time, what could be done with the Spotlight compared with anything they ever saw before.

Now, how fast will it happen? I don't know. We just announced a partnership with TED, which is the most important in a way public speaking operation in the world. And so, we are trying to make sure we get Spotlight as many people have as possible. So that audience – those audiences or few potential speakers are seeing it in action. And so, we'll see. We'll give you an update through the year on our proceeding but we're very optimistic.

Certainly, if you think about it, I don't want to overstate this, but if you think about how many people presenting and how few people own a "clicker", there's a big opportunity out there.

Andreas Mueller

*Analyst, Zürcher Kantonalbank*

Q

Okay. Thank you very much.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

Thank you.

**Operator:** Your next question comes from the line of Felix Remmers with Credit Suisse. Please go ahead.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

Hi, Felix.

Felix Remmers

*Analyst, Credit Suisse Securities Europe Ltd (Switzerland)*

Q

Yes. Hi. Three questions from my side, actually. One on PC gaming, maybe hear an update on the competitive situation. I read that, for example, Lenovo wants to open 100 stores in Asia devoted to PC gaming, and I think they have a collaboration with Razer. You have other companies talking about, bullish about PC gaming. Have you seen, experienced any increased competition in that market so that would be of interest?

And then, maybe an update on market share in your PC Peripherals business. I mean, I'm always surprised how fast you are growing, particularly in keyboards. I understand that this is also related to market share gains but how big is still this market share gain opportunity?

And maybe lastly on Jaybird. It's a bit difficult to forecast that for us, given it's in the Audio-PC & Wearables category. But the category as a whole, do you foresee growth in this year in that category?

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

Yeah. So, I'll take all three of those. Vincent, you can jump in as you like. From a PC gaming standpoint, is the competition tough? It's always been tough. Is there more – are there more people entering? Yes, because it's a super high growth category. Do we love our position [ph] over (29:44) there? Absolutely. We're fond to deliver key tools in that category, our mouse and keyboard [indiscernible] (29:49) today, so we love that spot. And one of the reasons why a lot of activity is in Asia is Asia's just on fire from a PC gaming standpoint, for us and our competitors. So, yeah, I feel good about where we are. It will absolutely be competitive and that's probably not all bad. It's helping drive growth in the category.

From a market share standpoint in PC Peripherals, yeah, we are and you mentioned keyboards, in particular. We are systematically growing market share, depends on what you see around the world. We have grown market share in Q4 and we're going to keep innovating there.

Finally, Jaybird, the category of wireless earphones is growing. It's growing rapidly. And so, we expect that that category will continue to grow and we're going to keep innovating in it.

Felix Remmers

*Analyst, Credit Suisse Securities Europe Ltd (Switzerland)*

Q

But for the full category report in Audio-PC & Wearables, is there growth? Is that feasible, given that the traditional PC speakers are more still under pressure, I guess, no?

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

Felix, the answer is yes, we obviously don't guide for every category. We said in overall music business next year, we expect a growth of 10% to 15% in both categories, should drive positive growth.

Felix Remmers

*Analyst, Credit Suisse Securities Europe Ltd (Switzerland)*

Q

Okay. Thank you.

**Operator:** [Operator Instructions] Your next question comes from the line of Paul Coster with JPMorgan. Please go ahead.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

A

Hi, Paul.

Vincent Pilette

*Chief Financial Officer, Logitech International SA*

A

Hi, Paul.

Paul J. Chung

*Analyst, JPMorgan Securities LLC*

Q

Hey, Bracken and hey, Vincent. Hey, this is Paul Chung on for Coster. Thanks for taking my question.

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Hey, Paul.

A

Paul J. Chung

*Analyst, JPMorgan Securities LLC*

So, on keyboards and desktops, can you give us more insight into how this business accelerated double-digits after growing low-single digits in both 2015 and 2016? What have been the drivers there and what do you expect for 2018?

Q

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Sure. Yeah. I think at the end of the day, we're just innovating very well there, to be honest. The category is still absolutely alive and well, and we've got the multi-device – first, we went to [ph] living room (31:50) keyboards and we did multi-device. We launched more multi-device keyboards this year. Our best top line keyboard is the multi-device keyboard with a cradle in it and that has had just a lot of appeal. So, we've – the market for keyboards has done fairly okay and we've grown share within it, and I think that's really most driven the acceleration.

A

So looking at into 2018, it's hard to predict exactly what's going to happen with PC category. We tend to be more consistent, more conservative in our PC Peripherals planning, and therefore, it puts pressure on us to make sure we're growing our new engines of growth faster, but I think the PC Peripherals category will be okay in 2018.

Paul J. Chung

*Analyst, JPMorgan Securities LLC*

Okay. Great. And then, going back to Video Collaboration, what has been your go-to-market strategy there and how do you think about sizing this opportunity or what do you think is the TAM? And also, what's the competitive landscape in this space in your respective market share? Thank you.

Q

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

Well, it's really hard to come up with a TAM but if you could find reliable because it depends on how you think about it. It's really a new category And so, we've sized at 100 different ways. What I would just say is, forget the TAM. If you look at our existing growth rate, we should be able to sustain that and it's a very, very big operation. The addressable market range we've come up with sort of anywhere from \$20 billion to \$40 billion and those numbers are still big, honestly, that's a little hard to believe them. So, [indiscernible] (33:20) today is a big market and there are lot of rooms that are not video-enabled and we really do believe that over the next 5 to 10 years, most will be video-enabled, over 20 years probably, all will be video-enabled. That's a big, big opportunity.

A

Paul J. Chung

*Analyst, JPMorgan Securities LLC*

Who do you think your main competitors are there?

Q

Bracken P. Darrell

*President, Chief Executive Officer & Director, Logitech International SA*

It's interesting. There are a couple of ways to look at that. Essentially, I think the biggest competitor is really the chair in the room. So, if you're in a chair – if you have a room with six chairs in it, for the cost of one or two of

A

those chairs, you can video-enable the room. And today, most people are running facilities or even the CIOs are not thinking like that. Once that's put in front of them, they kind of scratch their heads, especially when they're creating an open office environment outside [indiscernible] (34:08) this is a huge opportunity. And then, the question is which video first I use. I start to look at costing and pricing and it takes time. So, I think the biggest competitor we have is just the inertia of the reality that video is not yet in rooms, but it will come.

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**Paul J. Chung**

*Analyst, JPMorganSecurities LLC*

Great. Thanks. Excellent results.

Q

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**Vincent Pilette**

*Chief Financial Officer, Logitech International SA*

Thank you.

A

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**Bracken P. Darrell**

*President, Chief Executive Officer & Director, Logitech International SA*

Thanks a lot. Say hi to Paul.

A

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**Operator:** Thank you. And it appears there are no further questions at this time. I will now turn the conference back over to Mr. Darrell for closing remarks.

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**Bracken P. Darrell**

*President, Chief Executive Officer & Director, Logitech International SA*

I'll just close quickly by saying thanks a lot for hanging with us through those of you who have, most of you have through the last year, and certainly, through the last five years that I've been here. We're really proud of the results and it's been an exciting ride. I always smile when I read or hear somebody say, we did price to perfection, or boy, we're executing nearly perfectly because if you sat inside, you could see how many just amazing number of opportunities we have both operationally and from a growth standpoint that we're not yet getting at. So, we're really excited about the future. We have so many opportunities ahead of us. I hope each of you will be on for these calls for the next five years, and thank you.

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**Vincent Pilette**

*Chief Financial Officer, Logitech International SA*

Thank you.

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**Operator:** That concludes our conference call for today. You may all now disconnect. Thank you.

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