Company Name: Logitech
Company Ticker: LOGN SW
Date: 2017-03-07
Event Description: Investor Day

Market Cap: 5,470.17
Current PX: 31.60
YTD Change($): +6.20
YTD Change(%): +24.409

Bloomberg Estimates - EPS
Current Quarter: 0.168
Current Year: 1.256
Bloomberg Estimates - Sales
Current Quarter: 476.400
Current Year: 2187.545

Investor Day

Company Participants

- Ben Lu
- Bracken P. Darrell
- Alastair Curtis
- Charlotte Johs
- Maxime Marini
- Vincent Borel
- Kristian Tear
- Heidi Arkinstall
- Ujesh Desai
- Rene Oehlerking
- L. Joseph Sullivan
- Art O Gnimh
- Vincent Pilette

Other Participants

- Ananda P. Baruah
- Felix Remmers
- Michael Foeth
- Paul J. Chung
- Torsten Sauter

MANAGEMENT DISCUSSION SECTION

Ben Lu

Hello, everybody. Well, thank you. Thank you all for coming to the Logitech Investor and Analyst Day. The press release, as well as a live webcast of these presentations, is available online at the Investor Relations page of our website Logitech.com. During the course of these presentations, we may make forward-looking statements including forward-looking statements with respect to future operating results that are being made under the Safe Harbor and 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 can cause actual results to differ materially include those set forth in Logitech's quarterly result on Form 10-Q for the quarter ending December 31, 2016 and subsequent filings.

The company undertakes no obligation to provide or revise any forward-looking statements as a result of new developments or otherwise. Please note that today's presentations 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 accordance with Logitech's consolidated financial statements prepared in accordance with GAAP.

Our earnings press release include a table detailing the non-GAAP measures, together with the corresponding GAAP numbers and reconciliation to GAAP. This information is also posted 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 based on continuing operations and do not include the performance of Lifesize, which is reported under discontinued operations. These presentations are being recorded and will be available for a replay on the Investor Relations page of the Logitech website.

And now that I've gotten this mouthful out of the way, today's agenda will include presentations from Bracken and Vincent as well as several of our key leadership team. We'll take a break at around 10:30, and then when Vincent's presentation ends, we'll take a live Q&A at the end.

We have product demos in the back. I think some of you may have already seen that, and I'll just encourage everybody to take a look and try it out.

And with that, let me turn this presentation over to Bracken Darrell, President and CEO.

Bracken P. Darrell

Thanks, Ben. And I couldn't be – this is my – I think this is the fifth one. And I couldn't be any more excited to be here. It's the first one we've done since I've been here in New York, and I'm going to jump right in. So, we're going to go through a bunch of everything that's been said today. And it's going to be a little different from our prior formats for those of you who've been to our prior Analyst and Investor Day events. And you'll understand why a little bit later.

So, I'll go first, then I want to introduce the team that is going to present today briefly and I apologize to those of you who are listening, streaming. But Alastair Curtis is standing in the back. He runs our Design group, and you'll hear more about that in a minute. Charlotte Johs who is somewhere here. Charlotte is standing at the back too. She runs the – she's run several things in the company. Now, she's running the Music business basically.

Maxime Marini, who lives somewhere between Switzerland and Taiwan, is one of our top engineering people in the company and he'll be talking about that. Vincent Borel is running our in-home camera business. and you're going to hear some really interesting things from him. Kristian Tear is over here from Switzerland. He runs our Europe, Middle East and Africa business among other things.

And then from a marketing standpoint, we've got three people presenting. Heidi Arkinstall is our CMO, the first one since I've been here. Ujesh Desai is running our gaming business, and he's back here somewhere. I didn't see him, but I'm sure he's standing. Okay. Rene Oehlerking and Rene came to us through Jaybird, and you'll see he is the heart and soul of Jaybird. Joe Sullivan has been with us for a very long time. Where is Joe? Here he is. As usual, he's in the front row. Joe runs operations. And Art O Gnimh is running our keyboard business which has had a quite a run; and finally everyone knows Vincent.

So, let me just started. Some of you would say, and I often get the comment, boy, Logitech has come a long way in the last four or five years. And there are good reasons for that. Our growth – the first year I was here – actually this is my, almost my fifth-year anniversary. By the way, Sue Gove is here. He's on our board. I should have introduced him. Of course, Guerrino de Luca, who's always here, who is the chairman, and a very active chairman, here late last night, as a matter of fact.

So, when I started five years ago, when Guerrino brought me in, our first year was admittedly not our best year. In fact, it might have been one of our worst. We declined 7%, and we started to change things. When Vincent comes up, he'll, kind of, talk about the stages that we've gone through in the company, but the outcome has been quite good. So, we grew 2%. We grew 4%. We grew 9%. This year, as you know, we're growing 12% to 13%.

Our profit has also improved dramatically. So, we made $67 million non-GAAP that first year, and this year we'll be somewhere between $225 million and $230 million as per last guidance. Maybe the more exciting thing, and if I were you, either an investor or a potential investor, this the part that would interest me the most, we've really changed who we are underneath the hood.

If you look on the left side of this chart, we've gone from about 20% of what I would call really new categories or new-to-the-world categories. So, the rest of the 80% would be mice and keyboards and headsets and things like that to about 50% today. And also very interesting, we've gone from about 10% of our business growing double-digits to 50% growing double-digits. And in fact, over 95% growing. So, it's quite a transformation in really who we are from a category standpoint as well.

Now, I stood here – the second year I was here because I try never to tell you everything that I think we're going to do in the future until we're starting to do it. And so, you won't see things here today that we're [ph] not already (06:30) deeply in.

And we are working on things we're not going to talk about today. But I didn't talk that first year about this, which was design. And the reason that I didn't talk about it in the first year was because we really hadn't gotten started. We've started very carefully but we were a few months into it – six months into it.

And Alastair is going to mention where we were in that first year. But the cool thing is we've made, the second year I did talk about it because I felt proud of where we're going. And now, I'm really excited. We've built quite a – at least in the design world, we've built quite a reputation. We're being a design-led company. And we certainly have put design at the center of everything we're doing.

And as you'll see, we're winning more and more design awards. Design awards are nice. They're a little bit like Academy Awards or something. They don't mean anything except that somebody recognized you for doing what you really love. And design, in all its facets is really what this company has always loved and now more than ever.

Now, I want to take a minute – and I'm going to use this later – and place us in this world of technology because we're a little misunderstood sometimes. We sit in this strange company. On the left side, we sit next to the giants of industry that are mentioned every day. There are 5 or 6 or 10 or 12 that are monsters and they're really changing the world. They're changing the world with their platforms. They're changing the world with their technology. They're changing the world with their vision and their leadership. They're just changing the world. And we don't really compete with them. We partner with them. We're a pretty harmless, small, very capable partner to them.

On the other side, there are start-ups and there are more and more and more start-ups. This is a frenzy of startups. This is the most exciting time in the world from a start-up standpoint. There are more start-ups in hardware, more start-ups, period, right now, by a factor of probably two or three than there's ever been. And it's not going to stop. It's just going to keep accelerating and there are reasons for that, that we could talk about later, if you like.

Now, start-ups in hardware have also become quite common. And I feel humbly, like an expert in hardware startups. Now how could that be because I've never created my own start-up? Here's why. Because I spend an incredible amount of time with entrepreneurs, more than you could possible imagine.

Since I started here, after about the first six months, I probably spent three to five meetings a week with hardware and hardware/software start-ups. And here's what I learned, it's incredibly hard. Every start-up I meet with is passionate, most of them. Every start-up I meet with has a good idea and most of them are quite capable. And I always walk away, usually walk away with a new friend, which is my primary objective.

What I also learned is they spend a tremendous amount of time raising money and they have amazing limitations. It is very difficult, very difficult in hardware to go from $0 to $5 million or $10 million. It's even more difficult once you get there to go from $10 million to $50 million. And if you think that was hard, go from $10 million to $50 million to $100 million and then go public. And then once you go public, if you're a single-category company, if the trajectory of that category changes, you are so vulnerable to the world you grew up in, and we are, too.

The difference between us and all those start-ups and anybody who made it all the way to the end, all the way to the public stage, the difference between us and them is we're 35 years old and we're in 22 different categories. We've been through it over and over and over again. And now, I'm going through the other differences briefly. All right. In a moment, I'll go through them. But let me walk back through our history for a minute.

So, when you look back into our past and those who haven't followed us recently still think of us a little this way. You know that we grew behind the PC. The PC was an amazing engine of growth. Guerrino who is sitting in the back of the room making notes, and I'm sure he's going to tell me what I should have said later, but Guerrino has been sitting – don't take it personally, Guerrino, I'm kidding. I'm just kidding. I'm just showing what a partnership we have.

When Guerrino was running the business and Daniel Borel before that, this was the model, and it was a great model. The PC was the big platform. It was an incredible, exciting platform. That platform was growing – for a while, it was growing more than double-digits, then it slowed down to grow double digits, but it was growing very nicely.

So, we grew on the back of that platform because we started out being an OEM company. And then, one day, about five years after we started, Daniel Borel and his partner said, God, we got to create our own brand, we're too vulnerable, and they did. And then we started our own brand and we sold it through retail.

And then, we gained shares slowly. We went from zero, gain share, gain share, gain share. And then, before you know it, we're growing in two different ways. We're growing with the platform and we're gaining share within the platform which is quite a model. But then, we grew a third way, especially under Guerrino, where we went into keyboards. We went beyond keyboards. We started surrounding that PC with other things.

Wow. This was a model. It was a model you can only dream about. In fact, we all dream about it. You dream about it as investors because that model grew for 10 straight years, double-digit top-line, double-digit bottom-line growth, 10 consecutive years. I'm not sure, there may not be another company that has ever done it. So, this was it, and then it slowed down. And that's when I came in.

So, what are we doing now? Guess what? There's a new model. The new model is, there's a new platform. The PC slowed down, actually, we're still growing in our PC business. And PCs are still being used and most of you will go back and you still have a PC and I think, we're going to do just fine. Thank you very much.

But the real platform for our growth is this, it's the cloud. In the cloud, you know it and I know it, we all know it, the cloud is going to be growing for a very, very long time. If you look at our business, when you go play – when Ujesh goes back, he may be doing it right now actually, when Ujesh goes back home tonight and plays PC games, he's not really playing with the screen in front of him. He's not actually playing it on the hard drive that's embedded in the computer. He's playing with somebody off of a drive that's sitting in Arizona, thanks to Amazon Web Services.

And so are other people around the world, around the country and around the world. He's playing on that drive and the reason why he's playing on that drive is because it's so efficient. That game costs a lot less than the old console game you used to have to stick in your living room. It's upgraded all the time. He can play with anybody around the world at the same time. So, it's a wonderful model. Guess what? It's like the PC was. It's another great model. So, that PC gaming business is growing on the cloud.

Music. Streaming music. If we take our music business and we look at where does our Bluetooth speaker business grow? Where does the industry go? You can overlap it right against streaming music growth, and you'll see exactly where the market is, which means our hardware is enabling the cloud-based streaming business. Video conferencing is even easier to see.

When you get on your video conferencing, it used to be, you spend $50 to $250,000 for that conference room, which most people still are, for that conference room to video-conference somebody somewhere.

Today, you want a video conferencing experience in all size of the room, and that's exactly what we're doing. So, video conferencing has gone into Skype for Business, BlueJeans, Facetime, all these cloud-based video conferencing need equipment, and that's exactly what we're doing.

So, this is the new platform and smart homes and other. This is the new platform. We're making peripherals for the cloud. So, this might sound familiar. I hope it does. The market growth is being driven by the growth of the cloud. And it is not going to stop.

We have an opportunity to gain share against that market growth. In many of our categories we're relatively small. This feels much like if probably [indiscernible] (15:01) joined the company back in 1998. And the cool thing is we have adjacencies everywhere.

This time, we're not limited to the PC and how much you can put on a desk. We're limited to our own imagination because everything is being reinvented, and everything will be enabling the cloud. We have opportunities within these categories.

We can surround this cloud, and we are. We're making a mouse, a keyboard, a headset. We can surround that, but we can also surround this one. Then, we can surround that one, and we can surround the home and we can surround a lot. And there are going to be more things that go into the cloud and It's already happening.

So, it's an incredibly exciting time to be in any business, but especially in our business. But what do we have to do to win? Because the other day, you could say, well, yeah, of course there are a lot of opportunities, but why Logitech? There are those big companies. Why don't they just take everything? Or those little companies, why can't they do – won't they pick Logitech apart? Well, I hope you – first of all, there's enough opportunities for all of us. It's not a – it is a zero-sum game, but there are so many opportunities that there are going to be lots and lots of players in here winning.

I hope you understand my view of the world which is – really, our goal is really not to compete head to head. Occasionally we do, but really not to compete head to head with these really big players. We're playing around them. But most of the categories we play in aren't interesting, and if we do play in a category that's interesting for them, we're playing in our little carved-off section of it. So we've defined in our own way that we can be a number one or number two or maybe number three.

For those start-ups, I talked about how hard it is, and I am totally sympathetic. And I love entrepreneurs. I've learned more from them than they could ever learn from me. I've learned more from those meetings with all those entrepreneurs than I did from all the years of working in big companies.

And I'm trying to apply what they're doing, except for the fundraising part, to my company. But it's tough and there are opportunities for us. They frequently hit the wall like little insects flying right into the wall, and we're there to scoop them up before they're gone, bring them into our company, bring them back into health, and turn them into something special.

And sometimes they don't hit the wall. They're just really special and they realize, wow, this is really getting tough. It's difficult to be alone out here without the capabilities that are on this slide. What are these capabilities? I'm going to go through these. These are the secret to our future, and you'll remember this because every year we're going to talk about it. From now on, just like we're doing design, operations is what Joe's going to talk about mostly.

Operations are the foundation of the company. Now I am going to talk about what makes us different from any other company in the world right now. Design is a new capability that we really built. Logitech was always good at design, but we did design on the outside. Now, we brought it inside as Alastair is going to talk you through and that makes us faster, deeper, broader and better.

Engineering. Engineering is what built this company. This is an engineering company. Anyone who works in this company for any amount of time knows that we are engineering first and everything else second, third and fourth. But if we do design well, we turn that engineering into magic experiences – magical experiences.

Third is go-to-market. This is the other one that is so difficult, and I'll show this in a minute, so difficult for a small company for a start-up especially. And then finally marketing which is our other new capability, and Heidi is going to talk you through where we're headed there.

For a year-and-a-half I'd say into this, and it's a long-term play, but if we want to be what's at the top of this slide which is this multi-category, multi-brand company, we have to become very, very good at it. It's a new kind of marketing though, it's not the kind of marketing that a Procter & Gamble and a Unilever and a Nestle grew up in, it's a different world. And it will be a different company than they are, but quite similar.

Let's go through each one briefly. I showed you this slide earlier and we're humbly sitting between the giants and right next to our friends that are entrepreneurs. And what we do here is really interesting because we manufacture. And the people on the left for the most part don't, the big companies. And I would neither if I were them because why in the world do they need to manufacture. They can have somebody who does nothing all day but manufacture and they have so many people inside their company responsible for that manufacturing, they probably have more people in their company responsible for manufacturing than we have in our entire manufacturing plant. They shouldn't manufacture, there's no need to. So they go to these really big contract manufacturers who do a tremendous job and they get very efficient manufacturing out of them, and quality.

On the right side, if you're a startup, why in the world would you manufacture? You couldn't afford it anyway. No venture capital is going to pay you to build a factory, believe me. And even if they did, you shouldn't do it. you'd be crazy because there's so much capacity over here.

There's lots of capacity in China for people to manufacture. I mean, you can find lots of people who manufacture. The problems for these people is the best manufacturers are manufacturing for these guys, and guess who gets the priority.

So, when the going gets tough, guess who gets flipped off the priority list and you get a supply problem, or you have to go to another manufacturer, who's not one of these. And sometimes they're good and sometimes they're not, but we sit in the middle.

So, why do we manufacture if it doesn't make sense for the people on the right or the people on the left? It's really simple because we did and we never stopped. So, I'm lucky. We're lucky. We inherited manufacturing. We inherited 35 years of manufacturing. That 35 years of investment is an incredible investment in our future.

Because we manufacture, we can manufacture. Because we manufacture, we can go to contract manufacturing and say, excuse me, I have to show this off. I have a plant where I can make this for less than $39. Can you make it for $36? If you say, contract manufacturer, no, I can't. They'll say, well, I can, so I guess I'll do it. And that gives us better costs whether we manufacture or we source, and we do both, as Joe is going to explain.

We could also do very difficult products. We can do difficult manufacturing challenges, as Joe will show you in a minute. We can keep secrets. We can keep secrets better than anyone because it's our place and as Joe is going to tell you how we keep those secrets. But we're really good at keeping secrets. And then finally, I mentioned cost. That's manufacturing.

Design is a new capability. I'm not going to spend more time on this. I've, kind of, already covered it, but we're really at the very – we're really advanced in terms of the kind of design most people talk about. And Alastair will talk about where we're doing design, how we're doing design, our principles of design. But we're really early in terms of bringing – of the kind of vision that Alastair and I have for what design can do for a company.

Design can completely [ph] reinvent (22:08) a company all the time. That's the real mission here. It's to constantly reinvest through design. And that's where we're headed, but we're not even close to that yet. We're just making magical experiences in some cases for consumers.

Engineering. I've said this is really a core capability company, and I just can't overemphasize it. Now, there's lots of kinds of engineering out there. We all know it. I always call this an iceberg. I think of this as an iceberg because people see us for the tip of the iceberg, which is the piece of hardware sitting in front of them or in the back of this room.

And we're going to talk about that. We're actually going to drill down a level deeper because that is not easy, as I mentioned, and there's lots of dimensions to it. There's a reason why more and more people don't go into hardware. There are a couple of reasons, so this is one of them. There are lots of dimensions.

Well, the thing that's surprising when you're inside our company, and I was surprised when I joined, to be honest, is how many dimensions of hardware engineering we're good at. It's not just the sensor that goes in the mouse. It's the optics. It's acoustics. It's far-field microphones. It's the – sensors, lots of different kinds of sensors.

So, we have a very broad range of capability in engineering – in hardware engineering. We're also building what's below the iceberg: the apps, the data analytics, the machine learning, the AI, the deep learning, and you're going to hear more about that today. That's the most exciting part of the future of our engineering, but the bedrock will always be hardware.

Now, I mentioned it's really tough for a start-up on the go-to-market side. I want to give a little detail, and then Kristian is going to give you more. If you're a start-up and you start at Silicon Valley, it's pretty easy to go down the street. There's a new company that caters to start-ups, new retailer called b8ta. You can get into b8ta tomorrow. So if you just [ph] get (24:04) enough funding, you can be in b8ta. So you can be selling in beta.

And if you're really successful in b8ta, you can go to [ph] Alpha (24:10) or Best Buy or all the other retailers and e-tailers. You can be in Amazon tomorrow. And you can then start to sell in the U.S. And they do. And so, start-ups everywhere can get distribution. And if they start in Europe, you can replicate this in Europe. So, you can get distribution in your country. And if you're really, really successful, you might dribble over and get something in Europe.

A lot of companies after 5 or 10 years will get to the point where they're 90% U.S. or North American and 10% Europe or 80:20, because it's hard. Because once you get into Europe, for those Europeans in the room, you know it's like lot of channels, lots of countries, lots of languages. The packages are different. The distribution is different. The rules are different. It's just hard. Okay.

Now, that's about the best you can do if you're a start-up. This is us. So, 35 years later, we started it, we're a Swiss company. We, kind of, started the company in the U.S. Within seven years, we were – eight years, we were in Asia. And we're so global for our size.

For those of you who don't know this expression, I'll explain it. There's a great boxing expression which is, we punch above our weight. The idea is you have a lightweight fighter, and he punches like a heavyweight. We punch so far above our weight for a company our size. There is probably no $2 billion company going through retail and e-tail, who has this kind of distribution. And the reason we have is because the mouse and the keyboard are ubiquitous. They're everywhere. They're all over the world.

So, what that operates for us is that, think of it as just zero potential. We have a pipe that flows right into every major market in the world whether it's developed or developing. And that pipe is only a third pole or a fourth pole or a fifth pole (25:54), and we can keep building capacity in that pipe.

And that means we can take a new product like a Bluetooth speaker and put it right down through the pipe and put it right into Germany or we can put it right into Australia or we can put it right into China. We've got great teams all over the world that is very difficult to duplicate if you're a start-up or a small company.

Now marketing. I said marketing was our newest skill. And in a way, it's a big advantage for it to be new for us or undeveloped for us. Why? Because this is the world that most people grew up with in marketing. I did, too, by the way.

When I started in 1991 at Procter & Gamble, I spent all my time talking about – I've spent too much time talking about coupons. But I spent a lot of time talking about television advertising, billboards, print, sponsorship.

Actually, these were the sexy things everybody wanted to talk about. And they were all super expensive. TV was really expensive. It used to cost $200 million to build a brand. That was our, kind of, internal [ph] lie (26:54). If you want to build a brand, you need to spend a couple hundred million dollars around the world to build it.

That period is gone. Absolutely gone. This is the new world. This is the way brands are being built now. They're being built digitally. They're being built online. They're being built through social media. They're being built through all the digital [indiscernible] (27:15) that you can make to a consumer some of which are up here.

This is much more efficient. That's why overnight, you feel like, wow, where did Uber come from? Where did Snap come from? Where did these companies come from? How did we hear about them so fast? Why did they grow from nothing to being everywhere so fast from an awareness standpoint, it's because the world has changed.

Now, at your fingertips, your eyeballs are looking every day at that billboard, that TV, that print of today is around us all the time. It's in front of you. It's on your phone. So, this is the kind of marketing we're talking about. We're not going to go spend a fortune, $200 million to build brands. We're going to build it smartly. And it's exactly what [indiscernible] (27:56) is going to talk to you about.

With that, I am going to stop and hand this off to our first couple of presenters to give you an update on design. Alastair.

Alastair Curtis

Thank you. Thanks, Bracken. So, design. As Bracken already mentioned, it's probably worth noting that four years ago, and it's almost my four-year anniversary coming up. When I joined four years ago, there was no design within the company at all. There was zero capability in the company. And to me – it's part of the reason I joined, it was the ability as a designer to actually build a design organization from scratch, to build your leadership team from scratch, to define the, sort of, design philosophy, the design DNA for the company from scratch. It's a very rare opportunity. And to do it with a company which I feel have great bones and, as Bracken told, has great capability with almost a chance in a million to, sort of, take that opportunity as a design leader.

So, we talk about the capability. I would say the capability, four years old, we're still in our infancy. I look at what we've done and, I think, we've achieved an amazing amount as a team in four years. But where I think we can take the team, where I think we can design is we've only really just started.

So, if we talk about why, I mean, why is design important, I think it's really worth noting that probably, most of the innovative companies in the world, Nike, Apple, Intuit, Amazon, the list goes on. Those are the companies which have invested in design. Those are the companies which have put design at the heart of their company. They're embedded into the company. They're actually integrated into their everyday work into the company.

And it's really important to recognize that because when you have design integrated into the company, you can actually drill deep and actually, sort of, build an emotional relationship, an emotional brand and actually an obsession with the consumers' [indiscernible] (29:57) everyday.

And if you look at these companies which are investing in design and putting design at the heart of their company are outperforming the S&P by roughly 150%. It's a significant difference, a significant gap. And it's the reason why, for us, in Logitech we're investing in design, but also while I think Logitech's portfolio, its products, its experiences, is such a marked improvement over the last four or five years.

So, when we talk about design as a capability, there's really two dimensions that I talk to. The first dimension is the actual capability of design. So, the practitioners of design, so the industrial designers, these are experienced designers, et cetera.

It's their responsibility, working with the business groups, working with the categories, working with the brands to actually develop beautiful experiences, to actually design holistic experiences which ultimately are loved by people.

And when we talk about loved by people, there's two things there which I really want to focus on. The first is people. I think it's really important to recognize that as a designer, people are key. Understanding people, understanding the motivations of people, understanding the behaviors of people and how you translate that into beautiful products is actually absolutely critical. I know Rene is going to talk about this specifically in Jaybird.

But it's absolutely right. When people love your product, they love your brand. The difference of the attachment to that brand, to the attachment to that company is phenomenal. And I think as the design team, it's their responsibility to design those beautiful experiences to create that passion and that's ultimately about creating that love.

The second dimension is creating design as a behavior. So, yes, we are a design organization. And, yes, we've got an amazing design organization. But fundamentally, we're trying to be a design-led company. We're building the company into the next generation of what Logitech can be. And that's all about building design as a behavior. That's about the obsession of the consumer, every dimension, across the whole of the company.

So, customer care, the websites, wherever you touch, wherever the consumer touches, Logitech, we have to obsess about that and actually [ph] dial that up (32:03) and actually make it as beautiful and as amazing as possible. So, then the consumer actually relates to Logitech and loves Logitech. And the behavior is something which it doesn't happen overnight. This is something which takes years. This is about embedding it into the company culture, embedding it into some of the ethos of the whole company.

So, if you go back four years ago, it's a long story where me and Bracken went which I wouldn't go into, but one of the things which Bracken and I sat down before we started building the capability, we, sort of, talked about defining some design principles.

And actually talked about saying, okay, what is the DNA, what are the principles which define a Logitech product, a Logitech experience. And we put these down, sort of, as like almost the absolute what Logitech stands for. And then when we start to build the capability, we start to bring designers, whether it's designers in Switzerland, whether it's designers in Taiwan or over here in the U.S., they're all living by this principle. So, they're developing a coherent experience across the whole of Logitech.

The next was then, okay, we've got the principles, now let's build the team. Now, if you asked me four years ago would I have a team as amazing and as talented as we have, I wasn't 100% sure. Originally, we were a keyboards and mice company and that's not necessarily the sexiest thing for designers to do.

But I think designers have joined Logitech because they're recognizing the potential of what we're doing. They recognize it as, sort of, the value of, this is not just about keyboards and mice. This is about building and defining a whole new company.

So, we've managed to attract designers from some of the best design agencies in the world: IDO, fuseproject, Pentagram, frog design. And we've messed those with some of the best designers from the corporate environment: Nike, Samsung, Sonos, LG, the list goes on.

It's putting those two elements together, which I think creates a unique team. And then on top of that, that team is a mix of industrial designers, user-experience designers, color and materials finish designers, packaging designers all working together in a multi-disciplined way. So, it's not about designing the product, designing the packaging. It's about all of those guys working together to design the experience.

And then, I guess, the question is what do we do. Now, this is far from the sexy slides in the deck. Packaging is, sort of, a relatively simple mouse. But it's a really important slide, a really important image for me to start off [indiscernible] (34:36) talk about what we do.

Because design [indiscernible] (34:39) we do from a far end about creating products that people love. But it's also about working with Joe's team. It's about talking with the engineering teams, working with the business teams to actually look at how do we optimize the costs and how do we make our products, sort of, get the maximum margin out of those products.

And Joe will talk to this in more detail, but I think it's really important to recognize that there's lots of things that we can do behind the scenes to still make products people love, but actually saving cost at the same time.

So, this is an example of a packaging mouse where we took roughly seven or eight different packaging styles and actually optimized them into one solution. So, the savings were phenomenal as far as just the fact that it's optimized for packaging, for pallets, for shipping, but also on the shelf, the fact that we have a new brand, it gives such a strong brand block now versus the packaging all over the place. It actually creates a much more unified Logitech story which, I think, Kristian will talk to as well when he shows images there.

The next dimension is reimagining design. So, yes, we do keyboards. Yes, we do mice. We do Bluetooth speakers. There's lots of products that we do. But it isn't about just doing the next generation from a, okay, let's make them a better spec, let's make them a little bit nicer It's about actually looking at each one and how do you re-imagine them, how do you raise the bar on those products. How do you take the consumer input. Learn from that and actually say, okay, how can you make a better product.

So, this is a G900, where with Ujesh's team, with gamers, we actually sat down and looked at what did they want to make a better mouse. They wanted the product lighter. They wanted it to have better [indiscernible] (36:14) time. They wanted it to be ambidextrous. So, we took all of those dimensions and dialed it into the product to actually create the G900 which, I think, for me is, sort of, hands down, probably one of the best gaming mouse now in the market.

And then lastly, it's about design to grow. So, Bracken talked about designing for adjacencies and designing for growth. A key part of the team is actually to work, sort of, in an advanced way to develop new product experiences.

So, Vincent will talk about Circle in more detail, but it's an example of where we're no longer just designing the physical product, we're actually designing the whole experience. It's about designing the app, the whole service and making experiences which are way beyond what Logitech historically has ever done before.

And then, I touched on design as a behavior. It's not the best photo in the world but it's a really great photo in the world because this was literally taken on Thursday of last week. And you can see Bracken in there chewing his fingers in nervousness. But essentially, it's an example of where we're bringing design, engineering, business, marketing, altogether to actually work on a design sprint.

So, in this case, what we were doing, we were actually looking at a new speaker option. And they've been brainstorming all week and creating some stories of what it could be. And then they develop prototypes. And then, naturally, at the end of the day after this, we bring consumers in, and then we test those concepts with the consumer. And we actually get their feedback, and then we evolve that, and then we develop ideas from there.

And it's a super [indiscernible] (37:46), super coordinated exercise, but it helps develop the thinking much, much quicker and much more toned in – tuned in, rather, to the consumer.

And some of you may know it as design thinking. We, sort of, term it design doing because for us it's not just about the academic [indiscernible] (38:02) design, it's about the actual hands-on design and hands-on developing with consumer.

And then, lastly, Design Awards, I know Bracken talked about it, and it's a great measure. I mean, I think if I look at the four years we've, sort of, built the design capability, year-on-year, we win more awards, so the iF Awards which we announced I think literally on Monday.

It's an amazing achievement. It's an amazing achievement for the design team, but I think more importantly it's an amazing achievement for Logitech because it's an indication of how much we're actually taking design to the next level as a whole company. We're raising the bar across the whole company.

And probably the thing that's the most sort of – the thing that makes me the most proud is the fact that we're winning design awards in every category, in every brand for the whole of Logitech. So, this isn't pockets of excellence. This is excellence across the whole of our portfolio of developing design.

So with that, I will hand over to Charlotte to talk about designing context to UE.

Charlotte Johs

Thank you. Thanks, Alastair. So, as Bracken was saying, I've been at Logitech for about seven years and I've worked on different categories and different products, different teams. And I've worked on the music team for about a year, so leading Ultimate Ears. And this is really fascinating, I think to the work on music, because I think you underestimate sometimes the role that music plays in your life. And I think Ultimate Ears is just one of those product that actually enable you to change moments in your life that you hadn't thought about. So, I see myself changing a really boring dinner party into a dance party, whatever you want to do, you could do that really spontaneously because you got your speaker with you. So, that's really the great thing about Ultimate Ears.

So, Ultimate Ears is also a great example of what Alastair has just talked about, about design thinking and building capabilities within Logitech for design. So, that's what we're going to be talking about. At Ultimate Ears, we have always been obsessed with understanding how consumers listen to music. So back in 2013, when we launched the speakers, consumers were making that shift, so actually going from having a dedicated music device like the iPod or something else, to having music on their phones.

In terms of listening devices, the world was very much [ph] still in (40:23) either wearables of headphones, earphones or [ph] talkables (40:27) and pluggables where you would actually have them plugged into the wall. And we set out to change that. We really wanted to change the category and we set out, on a mission, you could say, to change the way that people listen to music. We wanted to enable people to listen to music anywhere with their friends, with people they like, and actually spontaneously change the world around them. And that's what's guiding our [ph] whole (40:53) design philosophy at the time.

So, we set out to build a brand and this is maybe not what we all look in this room today. This is maybe how we would look like on a weekend, when it's a little bit more sunny and warmer than New York. But these are the consumers that we design [ph] experiences for (41:12). And we set out to build this brand, again, a brand that lets you listen to music with your friends out in the world where you want to be.

Again, when we launched in 2013, there were some very big pure music players in the market space. We had Bose. We had Beats. We had Jawbone. We had JBL. And if you think about Bose being the brand for the audiophiles and Beats being the celebrity brand, we really wanted to be the brand for people who love music and want to again listen to music everywhere, anywhere in the world with a friend. We wanted to create a social music brand. We wanted to make music social, and that really guided the design principles. So when we designed our first speaker, the BOOM, and today, as you know, the range is much bigger. We got our UE BOOM 2. We've got our MEGABOOM. We've got our ROLL. Then, when we set out for the first BOOM, we stayed true to that design vision.

So, first of all, we designed for great sound because even though you're on the go with your friends, you want amazing sound and you want amazing sound in a really small format. You can take everywhere. So, designing [ph] sound for phone (42:30) was a big thing for us.

The second thing was about Bluetooth and wireless Bluetooth, again not being held back by wires and being able to tap [indiscernible] (42:41). And Bracken talked about the cloud of music. But tapping into that huge potential of music, I mean, the streaming market is just booming and all that music is suddenly available to you on your Bluetooth devices.

Thirdly, we wanted to enable people to again go where they want for long time, so we make this battery operate and we got a very good, I would say, innovation within power management and battery management. And the whole physical industrial design of the product it's just very simple, but it's just very – you could say [ph] life-proof (43:12). You can do anything, like you can drop it, you can dump it in the pool. You can take it in the snow. You can take it on the beach, whatever your life really takes you.

And third, we wanted to be social. So, social principle is you put the BOOM in the middle of friends, a group of friends and it plays music 360. But also even though it's social, it's still a very personal device and we make it very customizable, because we actually can design different patterns on the skin of the speaker, so we can make it very personal as well. And I think one of the huge strengths about Ultimate Ears is, we've been staying true to that design vision and not sort of making compromises on the way.

So, this is of course great, about design awards, right? [indiscernible] (43:59) love awards. I love awards, too, but I actually always – I'd prefer to see a business, right? And I want to say that Ultimate Ears has grown into a wonderful business. We came from nothing four years ago to being a really fixed, sustainable business that's growing. We've grown this year probably around 30% for business, which I think is really great results. We've been growing double digits, high-double digit now for four years. We are among the top 3 speakers brands of the world and that was our ambition when we set out to become among the three big ones and we are.

We launched in more than 20 countries and this has really enabled us to go into new channels. And Kristian is going to talk much more about that in a moment. But this has really enabled us to go into the telco channel and that is great for us, because the consumer [ph] target (44:49) that we talk to young people, they go to buy phones, right? So, they go into the telco stores all the time or they shop online. That has really given us a step into the telco channel. It's great for Ultimate Ears, but it's also great for Logitech, because it opens the door for all the new products that we went into the telco channels. But I think that you have probably learned as much about geography than me, so there is more than 20 countries in the world, right? So, that's where we see a huge potential moving forward. We got many more country to go to. We got market share to win. We got, again, more channels to go into, that's really a big opportunity still for Ultimate Ears.

So, this year, we actually did not launch any hardware. So, you're not seeing any new BOOM speaker up here, but we managed to grow behind a very significant share gains in our existing markets. We've grown again into new channels and we expanded into new markets, particularly in Europe and in Asia. So, that's a really good start I think [indiscernible] (45:51) there's so much still ahead of us that we could grow into.

Another I would say factor for the growth this year has been that we have launched new experiences. The very great thing about Ultimate Ears is we launched our own software platform that enables us to upgrade the product over the year as we go. Meaning, we can upgrade the old BOOMs that people have at home, so they can get a new experience.

The first experience we launched in June last year was actually integrating and Siri and Google Now, which means you can push a button on your speaker and ask your speaker to play your favorite song.

[Video Presentation] (46:35-47:03)

[indiscernible] (47:04) set of experience was an app called PartyUp. Some of you have probably heard about it before and we demonstrated the app at the Investor Meeting last year in Zurich. So, this is a very, very easy application that enables you to group a number of speakers to connect a number of speakers to create the party, the size of the party that you want. So, basically, you just [indiscernible] (47:31) your app and actually pull speakers into the group and we [ph] set out (47:37), okay, we would like to couple maybe [ph] around the (47:38) group maybe 50 speakers and that was the message we went out within October. Then we knew we could do more. And in November, we had this big launch party in France and we invited Guinness Book of Records to come and join us. And we managed actually to connect 208 speakers to one source. Can you imagine that sound? And that party was absolutely amazing.

So, the good thing is, we let you create this big party, but also we let you connect just a few speakers. You don't need to connect 200, right. You connect two, three around your home [ph] and actually (48:15) get a really big music experience. We also create – you can say, sort of a social – I wouldn't say a club, but a social group where people can connect with their friends and join in the party. Just bring your BOOM, and you're actually part of this amazing party.

And thirdly, I would say for us at Logitech, it's a great experience, but it's also a great business idea. Because can you imagine when people sort of want to buy their speaker number two, number three, number four, so it's really having the experience as a software driving a really healthy business idea. So, let me just show you how that works.

[Video Presentation] (48:50-49:27)

Super simple. I mean, anyone can do it, really. Really, really simple. And we've been super successful with the app. So, basically, from the day we launched the new app, we had a 70% increase in number of active sessions using the Ultimate Ears app. And I would say, no surprise, you can say, but this really peaks on Fridays and Saturdays, right?

So, that's when all these office people [indiscernible] (49:51) slide I showed you before and we actually party. So, that we can see a real peak every weekend. And we also have said the New Year's Eve this year was the biggest night we've ever seen for the use of our app. So, there's a lot for us in the future. And we will stay very true to our design vision when we design the future, also going into what's going to be next Ultimate Ears. We're not going to move away from that. We'll stick to that principle if that really works.

And I would say we are already right now designing the future. And there is so much there for us to grab into the future. And we get together as the multi-functional team all the time to use design, thinking design doing to really create the future of this great brand of Ultimate Ears. So, thank you.

And I'm going to hand over to Maxime and Vincent to talk about engineering capabilities.

Maxime Marini

Thank you, Charlotte. So, hello. I'm Maxime in charge of engineering. I'm with Vincent. We're going to talk about engineering, because at the end we saw a lot of great products, a lot of great experience, but to make those great experience, of course, you need great engineering.

So, first, let me talk a lot about the globality of our engineering. It's a pretty big team. It's global. It's in a lot of location. But here, the key point is that we leverage the skills we can find at each location. For example, in Switzerland, we sit on the campus of EPFL which is a great engineering university, and we have amazing contact with academia, with professor. We can do research with the school. This is an amazing advantage.

Of course, in U.S., we're in Camas, Washington state, but also in Newark, in the heart of the Silicon Valley, which give us access to the full ecosystem there. And in Asia, we are very close to our supplier and our factory in Suzhou, in Taiwan, in Hong Kong. There, the leverage, of course, is talking to suppliers and driving amazing cost reduction, because we really know what happens.

But first, let's talk about the other part, the top of the iceberg. And here, we had a great introduction from Bracken. Engineering is a key thing. It's now my 20 years in Logitech, 21st in fact, being an engineer. And I joined this company because I loved engineering. Going out of school, I wanted to make great products. And the beauty of Logitech is that engineering is really [indiscernible] (52:31) everything we do. Those capabilities are really amazing and we're going to show you that now. But, the main point is understand that we just don't assemble components together. We are not just cooks who go to the market and takes the best component. We really work with the farmer. We tell him how much soil to use, how much water to pour, make sure that we customize every piece, every ingredient, so we can make the best products, make the best user experience.

So, let's go now through those capabilities. Of course, there are many more, I want to [ph] highlight somewhere (52:08) I think Logitech is really amazing. And they really serve [indiscernible] (53:13) our experience really well. The one [indiscernible] (53:17) is sensor. Sensing is in pretty much every products we do, a video camera, of course, has a great sensor. A mouse, gaming mouse has a fantastic tracking sensor.

Microphone in our video conference system has sensor. But also, of course, there was one new sensor we just released which is in this little thing in my hand. When I press here, what happened? Before we use the laser, which by the way is very dangerous for your eyes. But when you are an engineering guy sitting in front of so many investors, financial people, you're a little nervous. So, with the laser, you might end up doing this. But, here because we design this sensor, we design also all the [ph] firmware (54:00), all the codes, all the smoothing, even when you are presenting, this is absolutely smooth, you can move it extremely well.

That's us going in depths into sensor. Not just taking something off the shelf, but really working on every aspect of the sensing. If I talk about the gaming mice, as you know gaming is the big growth category, here we went really deep. Today, we have basically some of the best – we have the best gaming mouse out there using the best sensor and we were working with the supplier to make this sensor the best. Today, the best sensor out there is something that Logitech co-designed. It's an industry standard.

But when you do the sensor, you don't do only the sensor. You do also the ecosystem around it. For example, here, you see this test equipment. We [ph] coded block (54:55) it with [ph] PSL (54:56). We spent really one year and a half developing this test equipment so we can reach an acceleration of 40G, which by the way is amazing. I mean, your arm would fall off at 40G. But this is unique. The only person who has this machine is us and in fact, the sensor maker has to come to Logitech to test. And so, we are really enabling the industry. We are making an amazing difference. No one else is so advanced as we are in sensing. Best gaming sensor, best equipment, best video sensors, best 3D sensors. We really invest in the world in sensing because this is fundamental to all the products we are doing.

Acoustics, and I think you saw Charlotte's presentation before. The BOOM is a magical product. It has a fantastic sound. Here again, we don't go shopping for a speaker, put it in a box and hope it works. That's not the way. We really get involved in the design of every aspect of the transducer. We use top-of-the-line simulation software that will simulate every aspect of the speaker, fine-tune it.

We're going to use a laser system to measure the [ph] deformation (56:08) of the membrane, making sure that the speaker behave exactly as we wanted. And, of course, we simulate the full speaker itself. And we go even one step further, where most of people who do speaker just use industry chips, we're going to have to fine tune what we call the Digital Signal Processing to make sure we have this big beautiful sound that is our signature sound. So, that's years of investment.

And then, of course, after all that simulation, that fine-tuning, you go to the testing. And for the testing, we build our own anechoic chamber, which cost a fortune, but it's unique. It allow us to do testing hours. This chamber is in Camas in U.S. And that's what makes, at the end, this fantastic 360 degree sound. It's the years of investment on every aspect of the product to make sure the sound is big.

Another aspect which is also very important is wireless. And we have been the leaders in wireless. We did the first wireless mouse in 1991, 26 years ago. So, I was still a student, not in Logitech yet. But since that time, we've been improving, improving, improving. And you know, wireless is very complex. In fact, in engineering school, I don't think that many people were really are strong in wireless. And they are very [indiscernible] (57:28) because it's such a complex field to master. And it takes years of research. And when you have to do a wireless device, you have to optimize every aspect.

At the end, why? Because you want to gain the [ph] best experience and (57:42) the best range and for example, this device is in metal. If you know a little about wireless [indiscernible] (57:49) metal is the worst thing you could have. But, I mean, in feet, it's what, 50 feet, the computer is 50 feet away and it was perfectly – it can go up to 100 feet. Why? Because we design every aspect of it. We fine tune the antenna, the amplifier. We work together with the chipmakers that do the radio. We don't just use off-the-shelf chips. We make sure that it's fully customized for use.

And then, we use top of the line simulation software. Why? Because, again, you need to simulate everything. [ph] You can't build billion of (58:22) device, but you can simulate every aspect and run and run it. And that's really the kind of investment we do. In fact the simulation software we use are the Nokia, Apple use to simulate cell phone. They are amazingly complex software.

And I think this is really what makes the difference, the way we master wireless there, no one else was at level of mastery. And, of course, at the end, you need to test it. So, anechoic chamber, different color, different material because of course, this one is a chamber to [indiscernible] (58:55) and it's based in our Swiss site.

And if I take now this beautiful G900 mouse, gaming mouse, this is the best wireless gaming mouse [ph] better known (59:05). The amazing thing is that when you compare it to our competitor's wired mice, it's better, it's more reactive. Why? Because when we talk about wireless, we also design our own protocol and we work on the latency. We want every part of the wirelessness to be as responsive as possible and that's the difference. That's why we are such in leadership position. That's the level of investment we do in wireless.

Optics, similar. As you know, we just released the BRIO 4K camera. It's a beautiful camera with a wide angle lens. Again here, if you go by the lens out there, you're going to have what you see in many competing cameras, when you have maybe a wide angle, but you have a lot of deformation, because when you open the angle, of course, you create artifacts at the side of the image.

Now, if you say, wait, let's invest. Let's take time. Let's design a five-lens module that we fine tune, that we simulate with the best lens supplier out there, we end up with what? A wide angle lens with very little deformation, with a lot of light, means that the performance of the camera will also be very good in low light. That's again what happens where you really spend time and engineering in building the best user experience.

And then, on power management. Power management is becoming so critical on every one of the products we do. In 2001, we did the first wireless optical mouse. We were amazingly proud of this achievement, because at the time, no one could do a wireless optical mouse. There was just one thing that was not so [ph] appealing (01:00:50). It was eating a lot of batteries. [indiscernible] (01:00:54) people we like being green and, I said, we need to improve that. We need to learn how to manage power.

So, again here we work with the sensor maker. We work with the radio. We work with every aspect and we end up improving by [ph] a factor of 20 (01:01:11) in 15 years. Today with one single AA, most of our mice can last two years. But this is not only for mice, because everything we do, if I click this little button here, we can last years, years because this is the beauty that everything we learn in a field, we can reapply it to all the other products because our engineering is global, but we all work together. We all share the knowledge.

So, power management, let me introduce you also another thing that we do. I feel extremely well in the company which is the embedded software, what we call the [ph] firmware (01:01:46). It's a little software which just to be [ph] a line (01:01:49) years ago, but today becomes very competitive [indiscernible] (01:01:53) inside the device to enable functionality. And here too we have amazing expertise. I just said on the G900, we develop our own wireless protocol. It's very complex. On power management, the complexity for every device is to make it save power. The BOOM, the button here, whatever. But at the same time, don't impact the user experience.

We could have a very aggressive sleep mode, the device would stop and you would have to wait a long time, but no because we master the software, the embedded software. We can make sleep mode that are very natural. And in fact, the device is always maximizing it's power saving without impacting the user experience. That's the kind of [indiscernible] (01:02:35). At the same time, we make our device very reactive. As I said on gaming, we have very low latency. We are best-in-class. I mean, no one beats us in terms of reactivity and this is so important. So, really that's another part we invest. And the embedded software firmware can be used also to create a lot of interesting effects. Today, RGB lighting is coming to all our device and one potential application of that is to generate a lot of very, very nice effects.

So, I also have a fancy video, which is coming.

[Video Presentation] (01:03:12-01:03:46)

This is delighting. I mean, I play often on GTA V and having all the effect on the keyboard is so fantastic. So again to summarize, you have seen those amazing capabilities. Some of them will run them with mice, but you know what, we grew them and we share them. And today, they can be applied to not only mice and keyboard, but to every other products we do. Imagine on wearables, everything we know on wireless and power management, imagine on everything we do when we apply that level of capabilities, that level of mastery within engineering. Imagine the possibilities. Imagine.

And now, we're going to dig deeper in the iceberg, and I will pass it to Vincent.

Vincent Borel

All right. Thank you, Maxime. So, what Maxime just showed is really the reason why a few years back I decided to join Logitech. I think this heritage and this expertise that we have, gives us a strong foundation to expand into new categories like the smart home. So – we're missing something here. All right. Well, we have a few capabilities that we're expanding below the iceberg that Bracken showed earlier is all the software.

So, if you think there's apps, we have analytics, and we have AI. Apps is really just another canvas for us. Logitech's been in the business of interfacing with the digital world for the longest time. And we're just using now this expertise and applying it to apps. If you think about analytics, analytics is something we never dreamed we could have, because now we have those feeds of data that allow us to apply to new products to existing products, but also to explore new business models like subscriptions.

The last one is AI. And we've all heard a lot of buzzwords turnaround AI, and we've seen very cool demos of how this is being applied in different labs. But today, I'll show you how we use this technology into products that people use every day. So, if you take Circle, of course, it has all of those amazing technologies embedded from the optics to the high-res video sensors or the power or the integrated audio with our microphone and speaker, as well as its friendly design so that it just blends into your home. But this is only the start. The reality is that when you look at what's – sorry, about that – the order of the slides have been changed. All right. So, if you look at those capabilities that you have here, they're really what's supporting the heart of Circle. So, what Circle has is the cloud. And the cloud is really what is powering products like this. Why? Because we take connectivity for granted, but it's really a challenge to actually connect a device, keep it connected, make it fast, reliable and secure.

And so, that's why we've actually built our back-end from scratch, why? We can actually, through this, connect you instantly to your home through the camera. But we can also digitally fingerprint everyone of our cameras so that we can have a secure link between the camera and our cloud.

What does that give us? You've all heard about the hackings that happened recently and our products are much less exposed to such things because of those capabilities. But the cloud is also the home of our AI. What is AI? Well, we apply it in order to turn this simple camera into more of a human eye.

So, think about typically when you're looking at motion detection, the way we do motion detection, is that we would develop hand coded algorithms that would analyze the scene and try and detect what's there. The trouble of those hand-coded algorithms really struggled in the real world when the lighting conditions weren't good, when the scene was obstructed.

And so with AI, we're actually able to turn our camera to be more like a human eye. It takes a holistic approach to what's happening in order to determine what it sees. And in our Circle camera now, we're able to distinguish a person from a pet, a car or other things and that's really quite unique. And I'm going to show you right now how that works.

So if you look at the video, we first look at the whole scene. We analyze where the motion is. And then we look at that motion and determine what it is. Is it a person? Is it something else? So, this is our AI engine running in real-time. And you can see even people from the back when you're only showing a hand or in different settings we're able to pick this out. With traditional techniques, this was really impossible, but today, thanks to our AI capabilities, we're able to turn this into a much more powerful and reliable analysis.

Of course, this is not the end, because our app is really what takes all of this amazing technology and brings it to people. In your hands, we have ability to show you things like sending you instant alerts. You're able to know when someone unwanted is at home. And this is the camera analyzing through our AI that is able to do this.

Our back-end, building our back-end from scratches allowed us to take all of the recordings that you see here and actually group them into smart recording so that you can flick through time, removing all of the dead spots and allowing you to very quickly browse. And if you've tried our Circle, you know how fast it is to browse and actually playback those recordings.

[Video Presentation] (01:10:22-01:11:26)

So together with design, engineering is able actually to turn our passion into amazing products that people want across our categories. It goes from our mice and keyboards to gaming, speakers and more. Thank you.

Kristian Tear

So, hello, everybody. My name is Kristian Tear, I'm heading up EMEA and I'm going to talk about how we take these great products experiences, designs to all the boys and girls, men and women out there in the world.

Like Bracken already said, we have this global capability in retail. We're covering all the regions. We are in the Americas, we are in Europe, we are in Asia with our retail partners that we built up over 35 years. So, that's a great foundation for our business, but we keep on developing that and we keep on growing that, even in retail, even with our existing products.

And we do that in four different ways. We grow with our existing products in our existing retail environment. We grow with new products with our existing channels and of course we had new product as well into new channels and then existing products into new retailers. So, four different ways that we can grow this and we keep on doing that obviously with all the major partners that we have and we also innovate into the retail space. And what you see here on this picture is actually how we sell this beautiful product in the retail.

It's a completely new point of sales that is interactive, that is online and provides with an online, offline experience. I'm going to share with you some examples on how we grow mice and keyboard. I don't think that many of you expected us to be able to do that.

An existing category in an existing channel and we [indiscernible] (01:13:25) pick two of them. We picked one in Spain. And this is what it looked like in the retail channel in Spain with this particular retail channel, before we implemented a concept that we call [ph] Look Like a Leader (01:13:35).

[ph] Look Like a Leader (01:13:37) is when we take the store over, we take the category ownership over, and you will see that expand our brand and our brand [ph] block. So, we said, we sold (01:13:44) 3% growth basically in this channel before we did this implementation of [ph] Look Like a Leader and we put the brand blocking (01:13:51).

And look at that, we sold a whopping 32% just by changing the in-store. And we also grew the whole category for the retailer. So, everybody was happy. So, this is one example on Spain. We have the same formation. Another customer, you see what it looked like before, we have 3% first half, 17% we implemented this [ph] brand blocks (01:14:11) we take over and you see we grow with 22%.

So, it is possible to grow our existing products with our existing channels and we are doing that across the world. We have till date, implemented this concept, [ph] Look Like a Leader (01:14:31) in probably 2000 different locations and we're still expanding it. We're still rolling it out.

And we do that, also, I think in a really, really good way. So we use merchandisers and sales support teams that we contract and that help us them to make sure that the stores and the shelf look really nice. And of course to incentivize them and keep them happy, we have created a tool on Facebook where they can upload pictures that they take, executions that they do, and then they can win nice prizes.

So, they will be really charged and they go for this and of course, they have a lot of fun at the same time, because they get all these videos and they get all these images into this Facebook page. And I'm going to share with you an internal video that was made a while back that's explaining this concept for you.

[Video Presentation] (01:15:17-01:17:00)

[indiscernible] (01:17:06) each and every day. We're taking this concept now online as well. So, this was the retail version of it. Now, we're bringing it online, so we don't implement exactly the same thing as we do for our online channel which is of course also a very, very important channel for us. We continue to work with all the big players in online. We are with Amazon, we are with Alibaba and many small online players that you probably never heard about. And we, of course, having an enormous success because online is growing as a [ph] sentiment (01:17:40) but also because we are growing in online and we're doing all of these activities making our product searchable, getting better content up there. And Heidi will talk more about that later on in the marketing section as well. But we have shared some numbers with you what we have achieved so far in online [indiscernible] (01:18:00) the U.S. and when we started FY 2013 or fiscal year 2013, we had 25% of our pie that was online. Look at that now, this year 35%, so the online is growing. But look at Asia, in Asia we had 15% and it has grown to 70%. And on the Singles Day, that is November 11, we had a year-over-year growth of 75% in the online channel. So this channel is becoming an increasingly important channel for us, and of course it's great because we can put all our products into this channel, all the categories go into this channel. So great growth and more to come from here.

Then we have new channels, something that we denominate as well non-traditional channels. And that could be telco channels, it could be enterprise channel, it could be specialized retail stores, surf shops and other stores with our multi-brand and multi-category products we'll fit in. I'm just going to give you few examples from the telco world. And in the U.S., it started with UE here, and we have managed to get UE into the telecom channels. And we have managed to get it also into subscription model. So basically, when you go and subscribe on your mobile phone, you're going to get a UE product in the bundle, and of course, that created enormous growth for us. The other carriers in the U.S. followed suit, and we did it with all of them eventually.

But it doesn't stop there. We of course, as well been taking this concept to Europe and we have till date in EMEA launched UE products with 18 different carriers. There is still 300-something to go, so we are still in the beginning in the carrier world as well. And our products and our multi-category end products and also multi-brand products fit the telecom channel really well because they need it for tactical play to get footfall into the stores. They need it to get subscriber acquisition. They need it to retain their current customers. But we also have a bigger play that is even more exciting, which is the strategic play on how we help them to build the smart home, and we have several products and several discussions ongoing with Harmony products, with POP products, with the Circle products on how we actually become part of their strategic roadmap.

Also, we have to illustrate what I'm talking about before when it comes to subscription models. Just one block away from here, if you want to have a BOOM with zero out-of-pocket cost, you can just go and visit AT&T store there, because you will get it for free if you sign up to an AT&T contract in Madison Avenue on 46th Street for free. Once we are in to the telecom channel, of course, we have an opportunity to bundle and cross-sell. So we take UE first, then we go and continue with Circle. We put Circle together with one of their Wi-Fi perks, and we get into a subscription model also with the Circle product. And here, we can see an example from Orange in France where they take one Wi-Fi perk and they bundle that together with a Circle, and they sell it on a subscription model for €9.90.

The other example is from Mexico, from Telcel, which is América Móvil, one of the probably three, four largest carriers in the world with a subscriber base of 300 million subscribers. They've implemented these three products into the stores in Mexico City, and they're now expanding it across Mexico and into Latin America as well. So they took the UE, they took the Circle, and they took Zero Touch which is an intelligent car mount into store. So in terms of channel development, we're just in the beginning. There's so much more opportunity, and we haven't scratched the surface yet on our go-to-market opportunity.

When I look at EMEA, which is my region, I'm trying to illustrate this with this slide. And this is for illustrative purposes only, but on one axis, you will have our channel coverage. All these channels that I talked about and that I didn't talk about, gas stations being one example. We have 100,000 gas stations with one company in EMEA. Imagine if you put the products into these gas stations. And then, the level of portfolio penetration that we have with each and every channel. And then, we just put the flags out in the 20 countries something, that we do business in currently, and this is roughly how we would populate. And you can see we're only not even halfway done. Thank you very much.

Ben Lu

All right. Thank you, guys. I think we'll probably take a 15-minute break right now, and for those listening on the webcast, if you can join us back at 10:40 AM, we'll restart the presentation again. Thank you.

All right. I think we've all taken a 15-minute break now. So I want to keep everybody back on track. So let's try and get together, and I think we'll have marketing next with Heidi, Rene and Ujesh.

Heidi Arkinstall

All right. Good morning, everyone. My name is Heidi Arkinstall and I have the privilege of being the CMO for Logitech. This time, a year ago, I had recently joined, excited by the evolution of the company into a multi-category, multi-brand company. And this year, I'm even more excited because I get to be a pillar in our house, and to talk about how we're building marketing as a capability to support all of our brands. Now, marketing is always a combination of kind of head and heart and art and science, and in fact these days it's more science than ever before. But we'll touch on both of these dimensions along with Rene and Ujesh as we talk about what we're doing for our multi-brand.

And when I talk about building marketing capability, it's really in three dimensions; the first is brand strategy and execution; the second is digital marketing; and the third is an underpinning of marketing technology. So in terms of brand strategy and execution, for us, you've heard about Alastair talking about our obsession with consumers and really understanding their wants and needs. Charlotte has shown the great experiences we're creating, and Maxime has shared how we're really investing in engineering to create the best of those experiences. So we don't want marketing to be an artificial layer on top of those things. We don't need it to be. We're creating great experiences.

And so what we're doing in terms of brand strategy and execution is really mirroring what we've done from a design capability. We're bringing in great talent from digital companies, from agencies and from strong brand organizations, and we're embedding those teams as part of creating the total experience. And then we're really using that to move from concept to execution with speed to market and efficiency. In terms of digital marketing, our focus on digital, as Bracken said, it's because we don't want to build brands the old way. It's not about just spending more, it's about investing in marketing in a way that's efficient and targeted.

So we're investing in digital to drive more exposure for our brands, our Always on Search program has increased our search impressions for our brand fourfold in the last 12 months, and working with key mobile platforms, recognizing the consumers' shift to mobile, and working with them to create custom audience opportunities so again we can be very targeted and focused on the people that we're reaching. In doing so we're driving more engagements. In the last 12 months, we've had an almost 40% increase in our video views of our content, and almost 40% increase on engagement in our social channels. And we're doing this more efficiently.

Over 85% of our display and video impressions are now both programmatically so that we can reach efficiently at scale. And we're reducing the fees that we're paying our media agencies to reduce non-working media spend by about 25%. And we're leveraging more marketing technology. So we're re-platforming our websites, creating an infrastructure that supports global scale. Jaybird is going to benefit from this, moving from a single language U.S. website to over 36 localized country sites by July.

We're investing in analytics. Again, digital is targeted and can be efficient, but we really want to understand where our investments are working the hardest and driving the greatest ROI. So this is a real focus for us. And as Vincent talked about, we now have the benefit of analytics through our products and through our marketing. And the combination of those things can be really powerful for us. And we're using marketing technology to really understand consumer behavior. Now, a recent discovery we made is that if you bought a mouse from logitech.com, the next purchase you are most likely to make in the next three months is another mouse.

Now, that seems unexpected. It shouldn't be because we make great mouse, and we should know that people want to buy another one, but it's actually not what we would have assumed. But uncovering those kinds of insights gives us the opportunity to up-sell and cross-sell across our portfolio and brands in a way that we may not be thinking of. Speaking of brands, last year, I talked about the introduction of Logi as a contemporary expression of our brand on new products and new categories. Now, we're increasing our use of Logi, and it's going to appear on all of our new products as our logo mark over time, including [ph] Spotlight (01:28:05).

It is a more contemporary expression of our brand, and importantly, it's a brand that feels like it can live in the office, in the home office, and in the home as we start to move products into those categories. Our brand will remain Logitech, but Logi is to Logitech as Coke is to Coca-Cola. It's a friendly contemporary expression of our brand. And speaking of brands, you know that we're evolving into a multi-brand company, and we're not doing that lightly. This is not about just creating label. When we create a new brand, it's because we're really committed to a space. And those spaces that we're moving to are places that people are really passionately engaged with, it's gaming, it's sports, it's music.

And so for us, the brand is really a representation of our commitment to the space, to the commitment to driving great product experiences into that space, and we want the brands to authentically connect with the consumers in that way, and be a sign of our commitments. And I think there's no greater sign of commitments than the willingness of somebody to tattoo it to his body. And that's the nicest introduction I can think of to invite Ujesh up to talk about our commitments to gaming through Logitech G.

Ujesh Desai

I think that's actually the nicest thing Heidi has ever said about me, and soon I'll think about it. Hi, everyone. My name is Ujesh and I ran the Gaming business at Logitech. So we call that Logitech G. Now, as Bracken said, kind of what we've been talking about today never been more excited than we are to be here today, and I personally say that as well. I've been in gaming for 16 years, so I'm the old man in gaming. But I feel like gaming nowadays is growing faster than ever. And when I think about where I came from even the term gamer is a little bit weird if you use that nowadays. It made sense for an old guy like me, and I was a product of the Atari generation, so I grew up playing the Atari. Not that many people – I don't know, how many people here even know what the Atari is? Okay. Good. So you grew up playing the Atari and you refer to yourself as a gamer because you're very [ph] niche-y (01:30:20), it was not that many people did that was brand new.

But nowadays so many people play games. In fact, just a plane ride I took over here from San Francisco, it's about a four-and-a-half hour flight. The woman next to me played, I don't know, Candy Crush or every mobile game I can see on her phone the entire four-and-a-half hours on the plane. Two rows behind me, I was happy to see there was a guy wearing our Logitech G gaming headset, playing games on the plane. So when I think of my daughters at home, I have two daughters, 14 and 11, they both play games, but I think the younger one was actually born with an iPad in her hand playing Minecraft. So gaming is just something that people do today because it's fun. It's less about gaming, and I think it's more about the idea of playing. And who doesn't like to play. Life is more fun when you play.

So when you think of Logitech G, that's what we stand for. We stand for advancing play. And we want to build the best gaming gear, whether you're a casual gamer, whether you're a hard-core gamer, or whether you're a niche sports pro. And I think the results speak for themselves. If you look at what the Gaming business has done over the last four years, we've more than doubled that business over the last four years. And I think part of that is a testament to what you've already seen this morning. You've seen the great work we do with design. You've seen the great work we do with engineering, both on the hardware side and the software side. But what I'm going to talk to you about today is what we're going to do on the marketing side. And this is an area where we're just getting started in G. So I think the roles we have are even bigger, and I'm going to use one example to illustrate that today.

So eSports, how many people here by show of hands have heard of eSports or know what eSports is? Okay. Good. So it is a real sport, contrary to what my friend at Jaybird says, it is a sport. So we're going to talk about that. So this is a picture from the League of Legends Finals back in 2011. So as you can see here, a modest number of people attended. They were actually really excited because during the live finals over 200,000 people watched the live finals. Well, let's fast forward to last year, 2016. Over 43 million people turned in for the finals. I think that was more than watched game seven of the NBA Finals. They streamed over 370 million hours of live eSports during the course of the tournament. It was broadcasted in 18 different languages. And it was held at the Staples Center, which I think most of you know that's where the Los Angeles Lakers play, and it was a sold-out crowd that went and watched it.

So this is how big eSports is growing. And how do we work in the eSports space? Well, when you think of Logitech G and what we mean to eSports, it's what Nike means to the traditional sports. So what we'll do is we'll partner with the eSports athletes. Just last August, we launched a product called our Logitech G Pro Gaming Mouse. We designed it in conjunction with the eSports players themselves. They helped us tell the specifications that they wanted. We gave them early prototypes. We gave them early shapes. We worked with them, went back and forth, tested it. That's how we bring it to market. When we take it in marketing, if you look at our marketing ads, it's no different than how Nike brings their products where they feature the athlete as the hero. That's what we do with our eSports marketing.

And the result is just like, when you're a kid, I don't know how many of you had Michael Jordan's Air Jordan, but you have that aspirational kind of purchase. Even if you weren't Michael Jordan, you thought if you bought those Air Jordans you could jump higher. It's the same for eSports. There's a bunch of fans out there, and it's that aspirational purchase. So just this morning, we announced a new addition to our Pro line and that's our Pro Mechanical Keyboard.

Why don't we take a quick look?

[Video Presentation] (01:34:09-01:35:16)

The switch itself is a switch we co-designed with the eSports players. It's 25% faster than a standard switch. What we do is we don't just stop there, that's just a [ph] tactile (01:35:27) feel. We look at things like keystroke signal processing to see from the time you engage that to the time you see what you've done on the screen is extremely fast. Actually, in gaming, it's just like the Olympics. The difference between first place and second place is milliseconds. In fact, in eSports, the difference between winning and losing is the difference between winning $5,000 in a tournament and $500,000 in a tournament. So it makes a huge difference.

It's a compact design. So I don't know if you noticed, but there's no numpad. Obviously, eSports, unlike all of you here in the room, they're not working on spreadsheets for a living. So they don't need that. They actually want extra space so they can have a large mouse movement. So it's a compact design. Working with the eSports players, we thought of little things that, frankly, we wouldn't have known. They seem very obvious in hindsight, but until you talk to the players, you don't know that. It's got a removable USB cable. Why is that? Well, they travel 148 days out of the year, and they're constantly shoving their gear into their backpack. So when they wrap the cable around they're finding that it was fraying and breaking. So that's something we figured out as well.

And then it's got full RGB lighting. Maxime, in his presentation, showed you by doing embedded software how we can do different lighting for over 300 games. In the context of eSports, every player wants to represent their team color. So they'll use our software, put it on the keyboard, but guess what, when you go to a tournament you're not allowed to load any custom software. So all of those settings were getting erased. But what we've done is we put onboard memory on the keyboard. It's little things like that, but you don't know that until you start talking to the teams and working with them. And then finally, the way we bring this to market just like to Pro Gaming Mouse, we featured the athletes in the ads. We put them front and center because they're the heroes and that's what creates that aspirational purchase. So that's a little about what we do in the Gaming section around eSports.

I'm going to turn it over to my friend, Rene, who's going to talk about – he hates it when I call it traditional sports, but I'll give it to him. He's in a lot more better shape than I am. So I'll turn it over to him.

Rene Oehlerking

Thank you. Let's talk about real sports. Jaybird is completely thrilled to be a part of this incredible organization. We started in 2005, and we started in a very organic way, and we wanted to bring music where we sweat. We love to mountain bike. We're born in the mountains. We love the trail run. We'd love to run everywhere. And having a complete untethered sports music experience was what we wanted. And so we started doing it ourselves. And little did we know back then that the company would become what it is today, and we're just getting started.

Our own pain points of bringing great sounding music to your active lives, we realized that millions of people around the world had the same pain points, but it came from a very authentic organic way, and that's how we've built the brand. For us, this is authentic. We believe it. We started it. We own it, and what's important is that our fans can sense that. This is about building a passion brand, a brand that transcends the commoditization of any category. When you love a brand, when we can own the hearts and minds of our fans, we've got something special.

And just this morning, while I was getting [ph] miked (01:38:50) up, I'm going to make someone embarrassed here for just a second, the audio guy said, hey, you're with Jaybird. I said, yes, I am. He said, I love your X2 because I've been using them all the time. And I said, well, how did you find out about them? He said, well, I jumped online and saw some review, then went into Best Buy and asked the blue shirt, what should I get, and he said, you want to get these. You want to get these. We seed our products so that people can use them, the blue shirts inside of Best Buy [ph] insider of retailers (01:39:12) all over the world can use them. When they use our product, they realize how fantastic they are, the attention to detail for every little pain point, and that comes across in a very authentic way.

When I'm right there where the rubber hits the road, at events, at 5Ks, at marathons, half marathons and bike races, our fans will come up and high-five me and saying, damn, I love what you guys do, can I get a T-shirt. And we call it the T-shirt test, when people voluntarily want to wear our brand. And there's something special that happens there. And so we've started something, we started a movement in this space. All we want to do is throw gas on this fire, and that's where we can leverage this amazing company that we are part of now.

[Video Presentation] (01:39:54-01:41:06)

Better when they're active. And every activity you participate in is better when you add music to it. Your favorite soundtracks, your favorite song at the right time, you're sweating, it's nirvana. At least it is for me and it is for our fans. And taking this movement everywhere is our next step, and we're just getting started. It's that authenticity of a true organic sports brand that can cut through the clutter of a very, very competitive marketplace, and we're seeing that. We have been a start-up. And as Bracken explained earlier, this company does amazing things with start-ups, and this is where we're about to go. We're throwing gas on this fire. We're excited and we can't wait.

Thank you.

L. Joseph Sullivan

Good morning. Many years ago, and Bracken told you earlier today, he kind of embarrassed me, he told me, I've been here forever. But many years ago, I was on a job interview, and I had done really, really well in the interview, and the CEO said to me, Joe, you've done great. You have one more interview to have. And I said, what's that? That you have to meet with our industrial psychologist. I said, [obscenity] (01:42:46), who knows what she's going to find out. And so I walked in, and the first thing she said is my job is to eliminate people who don't fit our culture. Wow, what an icebreaker. And so she says, tell me, what do you do? And I said, well, I lead the engineering organization. I make products. No. What do you do? And she kept badgering me. She kept saying, what do you do.

And I think out of either frustration or an epiphany, I said, look, there are two types of people that work in companies, there's those that sell more and those that spend less, and I lead the spend less department. So every time I introduce myself, I say, hello, I'm Joe Sullivan and I lead the spend-less department for Logitech. I listened to our marketing presentation, and I said, wow, every time I see the design folks, every time I see the engineering folks, every time I see the go-to-market folks and the marketing folks, and what they're doing to help build our great company, I say, wow. I am never and it has never been in the entire forever that I've been here, been more proud of where the company is or where it's going than I am standing here in front of you today.

But then, I also listened to Rene who says, we want to bring sweat to where you work. And I said, holy [obscenity] (01:44:26), after those presentations and after those films and videos, I got to tell you, I'm doing a little sweating right here trying to figure out how I'm going to make the transition from exciting to operations. So I'm going to try. As Bracken said, operations is the foundation of our company. And I want you to think about two very iconic buildings. I want you to think about the Parthenon in Greece, built in 477 BC; and the Leaning Tower of Pisa, built in Italy in 1173. And if I was to ask you today, which of those buildings do you think is going to last longer, I think many of you would say the Parthenon. And when you ask yourself, why, it's because it's built on a solid foundation, and that foundation is firmly attached to bedrock.

At Logitech today, and in the operations side of the house, we are building capabilities that are building and reinforcing our foundation. And what I want to do is I want to show you how those capabilities are now firmly attaching us to the bedrock of where we compete. The first of our capabilities, there are three key areas in sustaining capabilities I want to talk to you about. The first of them is cost reductions. We're accelerating our cost reduction each and every year. If you look at this chart, this chart it actually represents our COGS as a percent of revenue. Now, I've indexed it for FY 2013 at 100. The goal of this chart is to demonstrate how each and every year, a dollar's worth of Logitech product cost less to manufacture than it did the year before. If you look at what happened between FY 2013 and FY 2016, we went from 100 to 98. But then that was three years, but then in just one more year, we dropped to 96, so we've accelerated our cost reductions.

The second capability we're building is we're building our design for cost capability. Probably, the single most important initiatives that we're running in operations this year. We're partnering with our design fellows and with our engineering people to take a look at how do we reduce and how do we take advantage of the total cost package for our products. And the third one is that we have to become a flexible and adaptable organization to support a multi-category, multi-brand environment. So let's dig down just a little bit deeper. As Bracken said, we have our own factory, and we have our own factory and because of that it's a strategic advantage for us because of three key things; the first one is confidentiality. When you go to a contract manufacturer, any contract manufacturer, you're likely not the only customer of that factory.

And so when you are bringing your latest and greatest products to markets and developing at that contract manufacturer, your competitor very likely is walking through that factory at exactly the same time. In fact, I have been at some of the biggest contract manufacturers on the planet, and they were stupid enough to put our office right next to our competitors' office. How do you maintain confidentiality in that kind of environment? The only products manufacturer in our factory are Logitech products. We don't have to worry about anybody walking through our factory and finding out something that they should not. The second area is that we're able to build much more complex products. Charlotte, Maxime and Alastair told you how special our BOOM product is.

It has an incredible experience. The sound is unbelievable. We spent a lot of time and effort developing each and every component that goes into that, from the speakers through the acoustic wrap and everything. Why would we want to put that product in a [ph] me too (01:49:02) manufacturing environment. So what we did was we built a special manufacturing process, equal to the capabilities of the device, and after 5 million units, there are many copies of this product, but nobody yet has been able to match the performance of the BOOM, and that's because the combination of our engineering and our manufacturing processes.

The next thing I want to talk about, and I want to take a little minute here and take a little step out. I want to step out of my spend-less-guy for a minute, and I want to see if I can try to go into the sell-more-guy for a second, because I want to take an opportunity to highlight one of our great products. This is an unbelievable product. This is called Spotlight. And if I stand here and I take in a look at this, I can highlight what I'm talking about. The most important thing is, it's not only on the screen, it's on the TV in the back, and it's on the web conference. If I double click it, I can also magnify what's going on. So those of you that have large spreadsheets that you have to present, and you're trying to find those very, very small numbers, we've got a product for you.

So I'm going to step back into where I'm more comfortable, and I'm going to talk about manufacturing productivity. Manufacturing productivity here represented by output per person per year, or revenue generated per person in our factory per year. In FY 2013, we did a benchmarking study where we took the seven biggest contract manufacturers in the world, and we looked at what was their median and what was their range for output per person per year. And much to my dismay, we found out that we were about $10,000 below the average of these contract manufacturers, that immediately was a cause for action.

We took a look at what we were doing in the factory. We had 10,000 people in the factory. We reduced that to 3,500. We implemented lean manufacturing and put manufacturing cells in the factory. And we actually increased the output even though we reduced the number of people in the factory. So if you look at productivity again, say FY 2013 is our 100 point, and by FY 2016 we were 164. And this year again, we've increased it now to 185. That is true manufacturing productivity improvement. We've also done the same thing in sourcing. This sourcing metric is per cost savings as a percent of dollar spent. As Bracken said, because we're a manufacturer, we have a very good [ph] shoot (01:52:00) cost model. That allows us an advantage when we go in to negotiate with our suppliers.

This spend number includes both our components, raw materials and finished goods. We started off at 100 in FY 2013, we moved to 165 over a three-year period in FY 2016. In FY 2017, we are skyrocketing to 210. Each of these improvements is a sustainable capability for the company, and you can actually think of it as an annuity that will continue to pay back every single year. The next capability we're working on, and as I said, probably the most significant thing that we are doing as a company, it is a game changer as we put in place a program called design for cost, where we're working with our designers and our engineers to try and find out where the biggest buckets of opportunity for cost management are.

Historically, we have worked on the cost in the black, which is the cost after launch. In those kinds of environment, you're lucky if you get 8% to 10% of cost negotiating leverage, maybe another 10% in cost of replacement components. But if you really want to make cost savings, 75% of the cost is fixed the day you launch the product. So you have to drive back left, my left on the chart and working very closely with design and engineering. We moved in FY 2017, we [indiscernible] (01:53:48) significantly left. And in fact, 24% of the total cost savings of the company in FY 2017 are going to come from our design for cost initiatives, second only to the right-hand side which is 34%. Significant game-changing program.

With that, I'm going to turn it over to my very good friend, Art, who's going to tell you how we've taken our design for cost initiatives and driven it down to one product line.

Art O Gnimh

Thank you, Joe. So the product line that we're going to use to illustrate how we take these operations capabilities and put them into effect every day is the PC keyboards category. So you may or you may not know, but the PC keyboards category at Logitech has been growing every year for the last six years. And in fact, we're in the seventh year of growth and that growth is accelerating. What you may not know is that the profitability of the category is also improving year-after-year. In each of those years it's improved. So how? This is despite, in fiscal year 2013, us making the decision to reduce the R&D investments that we put into categories like keyboards and mice, so that we can invest elsewhere in faster growth categories.

So that reduction in R&D investment helped us, because on the one hand it made us a bit more hungry, and on the other hand it made us double down on those things that really make a difference for our business. The first is we focused and doubled down on consumer-inspired innovation, keeping the consumer at the heart of our products so that we can make better products that are worth more to the people who buy them. And the second thing is it forced us to work closer with Joe and his team, to get them involved from the very, very start so that we could build these products in a more profitable way.

I'm going to take a few examples so we can actually see this in concrete products. So the first is a product transition. So we're often transitioning products and existing products where we want to upgrade it to a newer version. The most recent one that we did in January is product called the MK710 where we upgraded it to the MK850. This is a keyboard and a mouse combo. This is a number four product in my portfolio, and it's the top 20 products in Logitech's portfolio, so a really important product. And we've upgraded it for the consumer. We've added a better palm rest, better comfort, better typing, a better mouse, better connectivity.

We've included Bluetooth, and we've added some software elements that allow you to use the same keyboard to type in your computer, and then to switch and to respond to a message on your phone, for example. So all of these things are based on what the consumer really wants, and they help us to raise the average selling price of the MK850 by 20% compared to its predecessor product. So there's a lot of value there for the consumer, but we're getting all of that value at 5% lower cost of goods. So that equation is where our gross margin has been growing.

How we do this is by, at the very inception of the project, sitting with the design team, with the engineering team, and with the operations team at the same time and getting them involved from the start. For example, for this product, we designed it to have 50% fewer major plastic parts. That's a saving in tooling, that's a saving in CapEx which is amortized on the product, saving on the product cost.

Another example, the predecessor product, the MK710, had this PCB, printed circuit board, right? We replaced it with this. Okay. So clearly, there's a material saving but is also a productivity saving and not so productivity saving. And finally, we design the product, working with the operations team to actually think about the production line. Okay. So, designing with 25% fewer screws is not just a material cost saving. More importantly, it's 25% fewer opportunities for something to go wrong in the production line which increases our productivity, increases our yield and reduces the product cost. These are very concrete examples of how the operations team has helped us design for cost on this product. The PCB that I showed you in fact wasn't just designed for this product. It's another example of [ph] how we worked (01:58:17) with the operations team, they challenged us to design platforms.

So, we designed an electronic platform that can be used on multiple products. We have a multi-year roadmap and we have visibility to that and we worked on a platform that we could use on already three products and we'll [indiscernible] (01:58:33) more products in the future.

Now, of course, there's R&D efficiencies. Of course, there's speed to market improvement but above all, there's OpEx savings on the compliance cost of getting this product electrically compliant in every market that we go to. There's a saving of 50% on every subsequent product that uses the same PCB.

When we talk about platforms and standardization and things like that, one thing I want to talk about is cables, right? So, cables is a total [ph] mess (01:59:02) for consumers. Total [ph] mess (01:59:02) for all of you and your homes and it's the total [ph] mess (01:59:05) for anybody who has got to manage an inventory of 17 cables and that's what we had in our core business, 17 cables essentially doing more or less the same thing.

The operations team came to us and challenged us to reduce it to one and we did that, this is the cable. We reduced it to one cable. That's the right one for the consumer and it's the right one for us. Now, you may ask, well, why didn't you do that before? That's a good question, right?

Most companies don't because most companies don't have that strength of an operations team and the credibility to be able to come in and to force us to challenge our assumptions and to come with a better solution for the consumer and in Logitech, we have that. And this is just the beginning of the areas that we can simplify and we can do a better experience for the consumer and benefit from a cost perspective.

The operations team is pretty diverse. So, we work with other areas of the operations team and this is as an example for – we challenged the design team and the supply and logistics team from operations to come together and to redesign the packaging for a product called the MK120. This is a keyboard and mouse combo. And we knew that the packaging was big and clunky, and it just wasn't optimized. We didn't know what optimized was.

So, the design team and the operations team came together to redesign this, to reduce it in size, optimize it for the retail sales, to optimize it for the consumer as they open the box, and to optimize it for shipping.

The results, we got a 34% reduction just in the material cost of the packaging. We've 14% reduced packaging volume which allows us to get almost 20% more units on a pallet and 20% more units in the container. So if you imagine, the material cost savings but also just the logistical savings for us, for all the retailers, multiplied by the millions of products of this product that we ship every year.

This, of course, is another template that we have for all of the keyboard and mice packaging. As we move forward, we'd be applying the same template which will give us those savings in the coming years also.

I think the last area of operations, the last example that I'll take up how we work together, is working with the demand-and-supply planning side. Okay? By introduction, I should tell you that keyboards are an inventory nightmare, because I live in Switzerland. The keyboard layout in Switzerland is not QWERTY, as you have here. It's QWERTZ with a Z instead of the Y.

I'm 50 miles away from France, in France, it's AZERTY. It's not QWERTY, it's not QWERTZ. In Italy, it's different. In Germany, it's different. So, if I've got too much inventory in Switzerland, I cannot sell that in France, Germany, Italy or anywhere else in Europe. It's very complex. And we've worked with the operations team to improve our forecasting over the last number of years. Our forecast in terms of systems, processes, people, so that now we've managed down any risk of aging inventory to an absolute minimum and we sustained that at the lowest level that it's ever been for the last three, four years in a row.

And this means that all of our go-to-market teams, the teams that Kristian talked about earlier, are able to focus on selling the products we want them to sell, the products with a better experience for the consumer and a better margin for us, rather than selling the older products that we might have happened to have too much of in stock.

So, with those examples, I pass you back to Joe.

L. Joseph Sullivan

Thank you, Art. We highlighted Art in his presentation and his product line because they are farther ahead than most of other product lines. However, each and every one of our product lines, music, video collaboration, mice, all of these products and categories are taking the same approach that our team has.

The third part of our flexibility and adaptability story is supporting multiple categories. Most people, when you think about the two words, flexibility and adaptability, they think and they use them interchangeably. But for you, I'm going to define flexibility as the ability for us to ramp up and ramp down in the same products that we have; and adaptability is to take our core capabilities and translate those into the amazing products and experiences that we're developing for our new categories.

Let me give you a couple of examples. If you look over here, on the left-hand side, upper, there's a picture of our manufacturing cell line. This is the type of line that we use for all of our high volume products in our factory. This happens to be the BOOM line. If we need 10 BOOM lines, we can use 10 BOOM lines. And tomorrow, if we need to ramp down, we can use eight. If we get a really big order, we can put 12.

So, that's our flexibility. Our adaptability is in the upper right. When you take a look at, you think of our products that we're just getting started with, and we're not sure they're going to be successful, and we don't want to commit a lot of effort to them. So, we're able to put individual single operator cells in place to manufacture products. And also, if you think about some of our business products where there are a unique configurable environment where everybody is a little different, we're able to take and manufacture product for a specific customer.

Down on the bottom, last year, when I made this presentation, I keyed out and showed a prototype video of our automated assembly line for entry-level mice. This year, I am showing you a complete full-scale manufacturing facility capable of producing 12 million mice in a fully automated way that would fit in two-thirds of this room. And when you think about flexibility and adaptability, you need to think about that cell, that manufacturing factory could be dropped any place in the world at any given point in time in a very short period of time because we already have it developed.

Next is we're talking about adaptability, we're talking about what do we have to do. Our customer care environment is changing rapidly. We're seeing significantly different requirements for the new categories that we're getting into. So, we have to adapt our capability built largely for mice and keyboards into these new and exciting experiences that we're developing as a company.

Now, last year, when I presented, I told the story that many times I'm asked, you had a tremendous cost improvement and cost management run, do you think there is any more room for improvement. And you can go back and listen to the recording, because I said you bet. All right. I stand before you today even more excited on where we are and the opportunities ahead of us because we're just getting started.

And with that, I want to transfer over to Vincent Pilette, who's going to tell you how this all works out in our financials.

Vincent Pilette

Thanks, Joe. As I listened to Joe, I suddenly realized what I'm suffering from, from a technological standpoint, actually, a more acute form than what Joe is suffering from. It's about spend less and grow faster and I live everyday by that. So, today, our objective was really to show you our five core capabilities that we are building and that we can apply to a multitude of categories, a broad set of categories to build a virtuous circle of growth.

And [ph] our recap of (02:07:06) the financials, where the financials are virtually unchanged compared to what you know. And coming out of a record quarter and a very strong year, I think unchanged is a very good output. As you know, I joined Logitech, first as a shareholder, then as a CFO. Then, when I look at the books, I say, oh my God, I'm an activist CFO. There's a lot of opportunity here to grow value. And when you look back as a management team, we've done a pretty good job. Over the last four years, 367% return, beating all indexes.

Even last year, we said, hey, we think we have potential to grow across fiberboard market. There were lots of skeptics. And then, as we started to deliver on that agenda, we saw value increasing for the company. The most important message on this slide is actually not on the slide, that everyone on our management team can be in any company they want, Nike, Facebook, Google. And they chose to be at Logitech because they believe that it was a huge opportunity to create an amazing company and in the long run, deliver amazing value.

When I started, it was all about rebuilding the credibility and restoring the profitability. We now have 15 sequential quarters of delivering on what we said we would do and sometimes over delivering. With triple profit, as Bracken mentioned, moving profit margin from 3% to slightly over 10% in FY 2017. And we started to transform the portfolio, where we focus the company on Logitech brands, selling directly to consumers, really focusing on what was known as the retail business, exited OEMs, [indiscernible] (02:08:51) life size and are fully into the structure that we wanted to be.

And last year, we reorganized the portfolio around five key markets, in which we have growth opportunities, all five of them. And today, we're really working on building up the capabilities to replicate the success we've had in many of those categories, to tackle all of the categories we see in front of us. If last year there was any doubt was Logitech could return to growth, I think this year it dissipated all the doubts. Double-digit growth rate, half of the product's portfolio position on market, that are structurally growing in double-digit.

Virtually all of our categories in FY 2017 growing through market share gains, great products, expanded ROI into distribution and adding to that, market growth, share gain potential, adjacencies either from our [ph] seed (02:09:50) programs, coming up with new categories, or from acquisition. And this year, you've heard about the acquisition of Jaybird. We also acquired Saitek, middle adjacencies for the gaming portfolio. So, very strong growth with virtually all of the categories growing.

In FY 2017, we just came out of a record quarter. We delivered a very strong performance across all drivers of the value creation. I see you take a picture on that. We'll give you the slide. Don't worry about it. Across all of the value drivers for the shareholder, we've made progress. Revenue growth, double digits, 9% to 10% organic adding to that tuck-in acquisition.

While we grew, remember spend less and grow, we also expanded margins, expanding gross margin, partially using that gross profit to fuel the growth and to expand the profit line. 10.5% operating profit margin estimated for this year compared to 8.9% the year before, and then improving the return in capital allocation return. Deploying our capital to build the portfolio with tuck-in acquisitions to acquisition for $65 million. Dividend growing 10% this year and continue to grow moving forward, and I'll come back on the capital allocation framework, and then I'll buyback that [indiscernible] (02:11:14) in place.

One of our strength obviously is the diversified portfolio. Bracken mentioned about all the stuff [indiscernible] (02:11:24), and generally speaking, it goes this way. He meets them on a Sunday morning, meets the entrepreneurs, and then he calls me back and he say, fantastic, amazing founder. Great company, great technology, great product. You have to meet them. Then by Monday morning, I'd go and meet the company and on my way back, I'll call Bracken and say, oh, my God, what a screwed up balance sheet. Did you see the rate of return? Did you see the distribution? What an opportunity and complementary opportunity? It goes really that way and that to say is really hard to start a hardware business.

If you have a one great product, and Bracken mentioned it, you need to go to next cycle, then you don't have for the next product cycle enough room on the shelf. Then – if you're successful in one category, you want to diversify to another category. You may not have the cash required to build up your inventory on many other challenges. We have 35 years of history, learning from that risk management to – risk management [ph] that want (02:12:24) building up new categories, addressing today's size market. [ph] One (02:12:27) category, tens of products families and that really gives us sustainable advantages over those innovative start-ups.

Every time I meet with investors, they come up with new ideas for new product. The last time I was in [ph] here actually in the team (02:12:47) in the room, somebody came up with a product and say, you know what, this is a product you need to build. And they ask me, hey, would you go into this category or would you buy that product? And my answer is always the same. It's yes, yes and yes.

Our strategy is really to find more [indiscernible] (02:13:10) in which we can become a market leader where we're called a big fish. There is over 50 billion of connected device today, devices connecting to the cloud, as Bracken mentioned, and that's a growing number. It's really a matter for us of choosing which category we're going to penetrate and try to become a leader in.

If you take the notepad that's in front of you and put the next five categories you think Logitech is either investing in or should go in, I'm pretty sure there would be some similarities but order list would be different and that really create endless list of possibilities for us.

So, our focus and our priority is growth. It's about sustainable growth by building our capabilities, and as the CFO, I'm going to add one more adjective and that's as much for you investors but also for the management team, it's sustainable and profitable growth because again once you create this virtuous circle of growth, where growth leads then to scale, scale leads to more profits and we're reinvesting profit into the next category to transform it.

So, let's talk about the operational efficiency. At the last quarter, we've reported record revenue, record gross margin, a little more profit than I wanted but great profit, maybe we would say, oh my, God, that's perfect execution. And when I see that I don't know if I need to cry or laugh actually because daily we look at metrics, and I see a lot of [indiscernible] (02:14:41), I don't want to scare you, but I see a lot of opportunities and my routine goes this way, wakeup at 5 AM, 5 to 5:30 [indiscernible] (02:14:50) about the news and I go to the gym and when I come back my adrenaline is really high, I look at all the reports and I contact Jim and say, okay, what are we going to do about the market share in France, what we're going to do about the declining margin on that product line, and really makes my job the best job in the world. It's really exciting.

I cannot share with you all of those reports, you understand why. But I wanted to give you a high level glimpse of how we tradeoff between sales growth and operational metrics and take a basket of operational metrics. It can range from gross margin, working capital, rate of returns, whatever it is from an operational perspective and where we stand from each product category today. So, we have the categories that we are optimizing, really moving towards the [ph] right (02:15:36) of the operational metric taxes as you've heard from Art trying to improve the profitability and using a little bit of that proceeds to try to move up the sales growth. But we know that's not going to be a double-digit growth overall for the PC peripherals.

We have a set of businesses that we are structurally scaling up. That's the mobile speakers, the gaming businesses, where we have a mix of both. We continue to invest to continue to grow while, at the same time, as we get scale, we move towards the right, on the operational axis.

Then, we have the set of categories that are in acceleration mode. This is not about improving the operational metrics. It is really about reinvesting to try to accelerate the growth, whether it's a wearable or video collaboration. I think those have a lot more potential. Later on, they'll move into the scaling category, where we'll balance better sales and operational efficiencies.

And then, we still have a few categories that are strategic. Tablets, the category itself is not growing as much. I think we have a lot of potential to move on the operational side of that category. Smart home, on the other hand, has great operational metrics but hasn't tapped yet into the growth potential that that markets offer. So, in smart home, it's all about moving up on the [ph] access (02:16:54).

Now, the full set of reports and when I look at every day, but it gives you a glimpse of where we stand from a product life cycle across the entire diversified portfolio. Last year, we told you, we're changing the objective to growing in every markets we play, and the number one metrics for us was expanding gross profit or gross margin. Why? Because we know that that is the fuel for us to be able to repeat the model.

In FY 2016, you remember we talk about ASP increases, price increase to offset currency, a lot of the gross margin was through those levers. In FY 2017, we made tons of progress on the cost savings side. Sustainable cost savings structure whether it's through material cost savings on each one of the product, [ph] what we call product grade (02:17:44), or just leveraging the scale of our manufacturing, automation initiatives driven by Joe and re-driving that gross margin up.

We have a broad set of levers, all the way from pricing to product costs across this diversified portfolio. And year in year out, you're going to see many different levers where we're going to continue to focus on expanding what we call the pure margin, which is the margin before reinvestment.

And then we're going to reinvest some of that gross profit to create these virtuous circle of growth. Some of those investments will show up as a net reduction of gross margin, which really are the investments in the channels, whether it's online investments, or what Kristian showed you, investment at the point of sales, all of those would support the growth, both in the short term and in the long term, would come as a reduction of gross profit. You'll see more of that as we continue to drive our business forward.

The second level of growth of investment is really through our OpEx, operating expenses, and I'll come back on that. But first, let me talk about what we've done in operating expenses. When we started, we started by restructuring the businesses, every product line had to be healthy by itself, have a positive bottom-line contribution. We work on infrastructure cost savings. The cost restructuring, the cost realignment from the PC [indiscernible] (02:19:14) is virtually done. And as a result, we moved from 29% of net sales to 26% in FY 2017. And now, it's all about investing to support the growth as we continue to moderately creating operating leverage.

Our investment priorities are very clear. First, we want to invest in technologies and products. You've heard from more of our [indiscernible] (02:19:38). You've heard from Maxime, plenty of investments opportunities there. We want to continue to invest into building up a leverageable sales distribution and certainly building up the marketing capabilities that we've explained today.

And then sometimes, we want to invest in G&A to be able to drive scalable processes and our goal in G&A is really to stay flat in dollars as we create scalable operations to absorb the growth and continue to operate at that level. As a result, we're going to see the P&L 25% of sales.

So, this brings me to the FY 2018 outlook. High single-digit growth rate in constant currency for our business, coupled with an operating income of $250 million to $260 million or low-double-digit growth rate. So, we continue to grow profit out of our revenue growth. But the focus is on the revenue growth.

A little more around the growth expectations by the five key markets we play in. Creativity and productivity, basically the PC peripherals being flattish. As you know in the first two years of this journey, we find the PC peripherals to be declining at the rate of the PC market decline or just putting in good reasons, because we're reallocating the resources from one category or one set of categories into new growing categories.

Last year, we came up for the first time and say, you know what, we've been start guiding this categories [indiscernible] (02:21:16) flattish. And many of you came to me and said, oh, that's really scary, and then, we've delivered about 4% in those categories. Today, I'm getting around flattish. I'm pretty sure people will tell me, are you sure? That seems too low. So, I think it's good and prudent planning assumption. I can tell you, every Jim in the company that's leading some of those categories has a higher growth target, a higher growth ambition and really believe that they can do better in the market. Well, I think, we are not ready yet to commit to more but that's the planning assumption.

We do collaboration. It's all about investing into the product portfolio and the sales distribution into small and medium businesses. Music has set of two categories: Bluetooth speaker, lower growth rate, bigger scale; wearables, for us still a very vibrant nascent new business like Jaybird, on the high side of the growth rate combined 10% to 15%.

Gaming has a structural growth, 15% to 20%. Again, if you talk to Ujesh, I think he will tell me he can do more. If you look at Ujesh's scorecard, he has a higher growth rate. But when we look at the all the dynamics at this point in time, that's where we're ready to go with.

Smart home is still based on current portfolio. Obviously, lot of activities here around these investments and M&A opportunities. But at this point in time, it's based on what we have. We're doing a lot of high single digit.

Let me talk about the sustainable long-term model. Last year, we raised the operating profit margin goal from 10% to 12%. As we guided this year at around 10.5%, many of you came to me and said, are you going to change that long-term model? And the answer is no. At this point in time, our focus is to build a sustainable business.

With a very clear priority, number one is to drive growth, capturing the market opportunity that we [ph] see (02:23:21); and number two is making progress around the operating profit margin. We would slow down the progress on the margin side if we go straight out for better growth, and that's how we manage the business.

Finally, on this long-term model, you can see that we have a goal of returning 100% of free cash flow through dividends or buybacks, that has been the case for the last few years. And we continue to be very focused on that capital allocation framework. The first metric in capital allocation framework is generating cash and Logitech has always been a very good solid cash generator, generating about cash from operations that's one-time non-GAAP OP and this year will be no exception to that, and it's through good working capital [indiscernible] (02:24:09) a big piece of it. We have a cash conversion cycle target of 20 to 25 days. Last year, we had 22 days, this year will be equally on the low side of that range.

When it comes to capital, the first one is how do we deploy capital. Obviously, you want to invest in our invest. Investing in R&D or sales and marketing is build within the constraints of the P&L outlook that we've given, not a very CapEx insensitive business. From a CapEx perspective, we spend around $50 million annually. In FY 2016, we are at $55 million, this year will be around $40 million. Year in, year out it may change, but over a long period of time, that's right [indiscernible] (02:24:48).

And from deployment of capital, the most important thing is tuck-in acquisitions. We see a lot of opportunities. We need a lot of stars to align to be able to close a deal, like in the case of Jaybird. But we [indiscernible] (02:25:03) very active. I don't know if we'll do more or less but it will continue to be a very big focus of our growth agenda if you want.

And then, capital deployment. Our intent is to continue to grow the dividend, to return a meaningful yield to the shareholders. And then, as you've seen this morning, the board has approved a new $250 million buyback to roll up over two-year period.

So, that's on the capital allocation framework. Let me wrap this and what it means for the next three years. If you remember last year, I went to the whiteboard and drew what I saw the earnings power would be in the kind of a three-plus years' timeframe and look at all the different levers we had to continue to grow EPS. We've made a lot of progress inside and developed kind of a three-year plan supported by three-year plan at each categories looking at. And today, we have FY 2020 road map to a $2 EPS.

We have many levers in our businesses and configurations to how to get there. We stress-test our plans a lot as we go with it, short term or long term. But it's not a surprise to you that today the plan we're presenting is a plan that's focused on growth, whether by the $1 of EPS to gains coming from growth. 50% of the portfolio positioned on structurally growing categories and that, we're sure, will continue to increase. Great execution, leading to market share gains, virtually all of our categories and then the opportunity to continue to add adjacencies.

We should see gross margin [ph] or at least (02:26:48) productivity gain but after that we're investing the gross margin [indiscernible] (02:26:54) depending on the categories, it may be different, but productivity gains for $0.15, $0.20. And then, we will invest a portion of those productivity gains into current categories and new categories moving forward.

So, with that, before I pass it back to Bracken, I want to publicly thank Ben for the story he help us put together. I met Ben through Shannon Cross about a year-plus ago, and Ben was sitting in [indiscernible] (02:27:21), making portfolio investment decisions and having like a million question per second. When I met him, he has a lot of questions about Logitech, and he had more and more questions. And it was clearly a gap between what investors perceived and what we perceived in such. And as Ben gets more and more inside, he got more and more excited. And remember he wasn't, of course, part of our company yet and he was sending Bracken and I every [indiscernible] (02:27:47) in the Street. What does that mean for you, et cetera? And Ben got convinced. There was a huge gap between what a company can do and what people think the company can do. And the rest is history.

Ben joined, and he has done a very good job helping us streamlining how we explained what we're so excited about to you, investors. Now, I told Ben that I cannot hire every investors to make sure they understand our potentials, so now we have to do a better job at communicating and hopefully we did that today.

Bracken P. Darrell

Okay. I put my coat on. For those of you who are listening, I wasn't wearing a jacket and I am wearing now just because I'm cold. But I have to say I want to close just a couple of things. So, first, and then we'll take questions. First, let's see if I've got a slide here. I'll wait for that.

First, we spent our time today unlike the last five years talking about capabilities instead of categories. And the reason we did that is because I wanted you to know, we wanted you to know that we're not building something that expires or gets old or might hit its top and then stabilize or flatten our growth. We're building an amazing company. We're building a company that will grow for the long term. I didn't come here for the last five years. I came here for the next five or more, and I think that's the way most of our leadership team feels. We're here to build something amazing.

We started with capabilities. We mentioned those five capabilities. And those five capabilities enable the existing businesses to grow. So, the second thing I want you to take away is we have lots of growth potential in our existing businesses. So, if we did nothing else, we'll have a good growth business. But that's not all we're going to do, we're going to enter new businesses. We're going to be a multi-brand, multi-category company over the long-term.

You know, I'm kind of a tough judge I have to admit, but when I look at where I think we are, I think some of you may remember a few years ago when I was here I said, my mom when I was growing up and maybe your mom or dad did the same thing, used to say, hey, Bracken, [ph] Bart, Bobby and Shelly (02:30:14), those are my brothers and sisters, if they come to the doorway, stand in the doorway – Ben I told you I'll use this marker where I'm finally going to use it – stand in the doorway and then if you put a ruler or a yardstick or a meter stick over your head and she draw a line and say, you know, Bracken is 10 years old and he's this tall. And I would say, I really think we're about right here as a company relative to what we're capable of and what we're going to be and we are.

Now, when I look at our capabilities, this is kind of how I see it. I think from a design standpoint – first of all, I'm very impressed of where we've gotten to, I'm very proud of where we are. But I see the potential much more than I see where we've been. And from a design standpoint, Alastair did a good job explaining where we are, and I think we've come a long way. And relative to other companies, I think we're in an incredibly good shape but we have a lot more to do and maybe that's even too high.

From a hardware standpoint, hardware engineering, it's undeniable we have very, very strong engineering capability. But we're going to keep developing that and it's going to keep maturing. And we're to keep – as Maxime said, we're going to keep working inside and with our suppliers to develop those components, those capabilities, those attribute so that we're really differentiated and better. So, we've got work to do. Software, Vincent Borel showed you [ph] where we (02:31:38), just one example of what we're doing in the company, moving from just firmware, which is embedded software to apps, to data analytics, to machine learning and even to artificial intelligence.

I don't think we need to be the artificial intelligence company at all, but we need to be able to do it. We need to be able to look up and operate anywhere we need to up into the cloud all the way down. And often, we'll be simply creating a device that enables someone else's magic up in the cloud. Sometimes, we'll have our own and we're going to have that capability. We're going to keep growing it. So, we're early days there.

Go-to market, we have an incredible strength especially if we punch above our weight, especially relative to other companies of our size. There's probably nobody like us, but even relative to big companies who really are in a good position.

From a marketing standpoint, Heidi took you through where we started. And I hope you guys are excited, it's hard for you maybe. We are so excited about the brand building thing we're doing. What I'm not excited about is conventional marketing. Not just the TV advertising, no offense to those in TV, in the TV business. Not just TV advertising or billboard, the conventional way that marketing grew and developed, became more about claims, more about 1% better, not about authenticity and what the brand is really built on, which is the magic of why people got in to the business in the first place.

That's why I loved Rene's pitch because he came up here and he said, we got in this business because we are standing in Salt Lake City, in Park City, Utah. [ph] We are skiers (02:33:08) and we wanted to listen to music because it inspired us to go out and exercise. And that's exactly why every one of our brands must be authentic, purely authentic, and we're going to build them through digital media and then operations.

Joe's a great storyteller. He's also a great leader. And from an operation standpoint, you saw one example of what we're doing, going upstream and changing the way after quite a while of the company, changing again what we're doing to really re-engineer ourselves to be more and more efficient, so we can grow and spend less.

So, we've got a lot of room to go. We're nowhere near where we're going to be for a capability standpoint. We've come a long way but the future is really exciting. Now, Ben, I'll use this chart one more time before we take questions. Ben, I'm sorry. I'll use this marker board one more time before we take questions so that you won't be angry at me later that I made you bring this up there. I'm just going to write on here for those on the phone that we are just getting started. Thank you.

Now, Vincent, why don't you come up? Let's take some questions. I know we've got some coming in through the phone, too.

Q&A

<A - Bracken P. Darrell>: Yes.

<Q>: [indiscernible] (02:34:46) about the trends that you see in the category – ASP trends that you see in the categories and in terms of the guidance that you're putting out especially on the keyboards and combo, the productivity devices. What's embedded in there in terms of unit versus ASPs? And then just broadly as you embed more software experiences into all your various products, make them better, what do you kind of see in terms of your ASP trends?

<A - Bracken P. Darrell>: Well, I think if we step back as a total company, so what's happened to our ASPs last year, it's gone way up. We don't report that number. But because now, our mix of categories got much higher ASP products. So, we're obviously in bluetooth speakers, but we're also in video collaboration because we sell products, [indiscernible] (02:35:29) we sell for the retail, MSRP is [ph] $1,000, $1,500, $299, $199 (02:35:37). Even within our categories, if you look at the gaming business, our most expensive mouse now is $150 mouse. So, our ASPs in general have gone up. I would say, if you drill down into the productivity categories, I think our ASPs have also been at least stable or probably gone up. And we fully intend to keep innovating so that's sustained. Next question? Yes.

<Q - Ananda P. Baruah>: Hey. Thanks, guys. Ananda Baruah. So, just Vince and Joe and Bracken as well, going to the modeling, appreciate sort of the thoughtfulness around the fiscal year 2018 guidance as some of the new models are developing. But with regards to the longer term model, Bracken, to your point is, as you are just getting started, there's a lot of new market dynamics that you're starting to kind of lean into and/or just manifesting societally as well and you're saying there's share gain opportunities. Can you just dimension for us the thinking with regards to the long-term model around high-single-digit growth and balancing that with the 10% to 12% margin potential would seem that you either would have potential for much stronger growth longer term, or potential to drop through some of that incremental margins to the longer term margin model? So, how do you guys think about the interplay of those two things in the context of the dynamics that you laid out today?

<A - Bracken P. Darrell>: Do you want to take it first, [indiscernible] (02:37:12)

<A - Vincent Pilette>: I can take it first. So, first of all, next year high-single digit growth rate in constant currency as you know is within our current product categories. And it's based on the market dynamics and the portfolio we have and what we know about the macro level at this point in time.

Obviously, as we said, we always have the opportunity to drive faster towards the end state of the business model, which would be, at this point in time, 12%, maybe a little bit higher than that. We want to reinvest to build up those capabilities.

It goes without saying that those investments will have to have a return. The return, in return, will create new categories [indiscernible] (02:37:51) to accelerate the growth. So, that's the virtual circle of growth. If market conditions continue as it is, as technology continue to innovate and transform many categories, categories that were not known and consumer tech yesterday that could become now consumer tech.

The opportunity are vast. So, our goal is really to accelerate and focusing on building up those capabilities to accelerate the growth over the long term. And I think that's what we can promise today. We want to stay prudent and manage the business step by step and divide it.

<A - Bracken P. Darrell>: I'll add to that. Generally speaking, everybody likes to be predictable and to be able to – we think we can do that and then do it or do better. But take that off the table for a second, what we're really predicting is that we're going to be an amazing company in a broad array of categories with a very long-term growth story. And so, for the short-term investors, that's probably not really interesting to hear about. For somebody who's really in it for the long term, it's really interesting, if you believe it.

<Q - Ananda P. Baruah>: Just a quick follow-up in that context. With regards to smart home order of magnitude, how significant [ph] would you like for us (02:39:18) to think about smart home potential. Is it another gaming or video collaboration type of category longer term, if you could just mention that for us a little?

<A - Bracken P. Darrell>: Well, I would say, we step back as a – forget about us for a minute. I think for those of you familiar with the hype curve, the hype curve is the story that [indiscernible] (02:39:39) becomes super big. Everybody is talking about something for a while. It's usually applied to technology. And then, nothing really comes in as strongly as everybody predicted, and then the hype starts to go away meaning people stopped talking about it much. And then, at some point, it actually does really well and even better than people expected that, that reduced point and then, long term, the hype was true.

I think the smart home is like that. So, I think there's been a lot of discussion of smart home. Everybody is super excited about it. I think it kind of – a year ago, people kind of got – well, sort of like, these things are like taking forever. And now, I think you're starting to see it take hold. And I think over the next 5 and 10 and 15, 20 years, the smart home is going to be enormous and we're going to play in it. How big is it going to be for us? We don't stretch out and talk about that more, so we don't really put an order of magnitude on it, and we intend to be there. And we love the space. We've been there for a long time. we're going to be there for a much longer time in a bigger way.

Yes?

<Q - Felix Remmers>: Hi. Felix Remmers from Credit Suisse. I have a question around design for cost program. Can you share some percentage of products which are selling right now have been introduced under that program? So, I want to get how much of the potential still there. And one other question is on video collaboration. I mean, I still have difficulties to grasp the growth opportunity here. So, if you still can share some thoughts on VR there and how do you get to this 30% growth now this year, for example?

<A - Bracken P. Darrell>: You're going to take first one...

<A - Vincent Pilette>: I can take the first one. It's very simple. We've just started on design forecast. If you take 80/20 rules, we're less than 20% of products being touched by that early design focus. It doesn't mean that we haven't really touched other products that's already in the market to make some smaller indication and generate some dollars. But the real concept is to integrate a cost management framework at the early point of design. And from that perspective which will generate the best return, we've just started.

<A - Bracken P. Darrell>: Felix, if you want to follow up on that one, I'll wait until the other one.

<Q - Felix Remmers>: Yeah. If you – I mean, if that's true, then I was wondering that if you show your split, how do you get to $2 per share on EPS and the cost improvement is one of the smallest fraction of that.

<A - Vincent Pilette>: Yeah.

<Q - Felix Remmers>: Why is that?

<A - Vincent Pilette>: And that's because we always said we're going to reinvest for growth, and part of the reinvestment will be at the [indiscernible] (02:42:13) and within the gross margin, so it's a nice productivity improvement on the gross margin expansion perspective in that model.

<A - Bracken P. Darrell>: If we're running a really short-term business, we drop here a lot more sale.

<Q - Felix Remmers>: Yeah.

<A - Bracken P. Darrell>: So, to answer your second question, yeah, I do say – I understand it's hard to understand the video collaboration category because it's a new category. It's a baby. I don't have a good analogy for you and probably wouldn't be very satisfying if we gave you the ones that come to mind, but I'll do it anyway. Originally, a computer came out, and it didn't have a camera in it, and we've created webcams, and then everybody used them for communication using your camera.

So, today lots of people are communicating using video. Well, when the [ph] Room (02:42:55) was born, [ph] Rooms (02:42:58) didn't have any video in them. You just met in them. And then somebody came up with video conferencing, and they put a very expensive solution in, and then you could communicate in that room with another room like a PC with another PC. Well, now there are just more and more smaller and medium-sized rooms in the world. And why aren't they video-enabled? Because they're not, because the solution was too expensive. Well, now it's not. Now, it's up in the cloud, the services in the cloud. The equipment to do it is really cheap. And so, there is going to be a very, very long growth curve on this.

<Q - Felix Remmers>: Thanks. So, from a gross margin perspective, you did a great job explaining how you can control costs on your end. But, I guess, I was wondering how you guys think about the competitive environment and in some of the mature categories like keyboards and mice, the larger players like the PC guys have historically not been very aggressive, I guess, relative to you guys. But were they to come in and be more aggressive, how would you react and how would you think about the tradeoffs in margin versus market share where you've been gaining a lot over the last few years?

<A - Bracken P. Darrell>: Well, I haven't been here for 30 years like Guerrino has, but I can promise you, they've always been aggressive. The keyboard and mouse business has always been a tough business, and it's always been very cost competitive. And we've always had to be very aggressive on costs, and we've always been aggressive on cost, and we're not letting up at all. In fact, we're doubling down. We used to be in the OEM business, and Maxime actually used to run the engineering for the OEM business, it's a birthright. So we're just going to stay very, very aggressive on it. Right now, I'd say, the mouse and keyboard businesses is very similar to what it was probably five years ago or maybe even seven years ago in terms of the marketplace dynamics. So will that dramatically change? I don't know, but if it does, we'll double down on costs even further if we have to.

<A - Maxime Marini>: But I think, the key to continue to invest in that business as well [indiscernible] (02:45:04) we're not milking or treating that as a cash cow. We're really coming up with constantly new products. You've seen in last quarter's [ph] final remarks (02:45:11) that we announced and contributed nicely from both the revenue and the margin standpoint to that category, and you will see us to continue to be active with that portfolio to stay ahead of that.

<A - Bracken P. Darrell>: And this is a business that's set inside that. And that just turns off here, but this is another example of reinventing, of innovating into that business to drive higher ASP. This product sold at $129. The average of the category sells for about $40. So we're going to keep innovating across those old core categories, and keeping them fresh and new.

<Q>: Thanks, Ben. Thanks. [ph] Alexander (02:45:53) Soc Gén. Just a quick one. One thing you haven't touched upon in your presentation is a long-term model as your cash generation has always been very strong. As you grow faster and also your margins expand, your cash generation expands consequently, which is a good thing. How do you [indiscernible] (02:46:13) spend this cash? How much do you want to allocate longer term? How much do you want to divert to acquisitions? What's going to be return to shareholders? What's your idea on that? And then also, kind of adjacent to that is your high single-digit long-term growth targets. How much of that you think, you can generate organically and how much you will acquire?

<A - Vincent Pilette>: Yes. So first question was, great cash generation, as cash grow, what do you do with that cash. And today, our capital return framework is growing dividends and buyback. It's sufficient to return today 100% of the free cash flow generated. We have a lot of cash, $0.5 billion, on our balance sheet. As we grow, obviously, we'll generate more cash. And if that framework is still adapted, what I would say is the capital allocation from what you've seen today is a commitment to continue to grow the capital return to shareholders, but giving us enough flexibility to see where it goes and how it's going to be with [indiscernible] (02:47:11). In the long run, we still have the objective of returning 100% of our free cash flow. We'll have plenty of other Analyst Days to update you as we make progress towards that long term.

When it comes to acquisitions, it goes without saying, tuck-in acquisitions, small and medium acquisitions is definitely a huge opportunity. We meet with a lot of potential opportunities, I would say. We need lot of stars to align, so it's difficult for us to predict. You've seen in the long term model of $2 EPS, we plan for about $0.20 coming from adjacency. There is a real-time tradeoff between the seed program that we're investing on new categories that don't have revenue today, that could potentially lead to something with the decision to do an opportunistic purchase. Jaybird was the perfect example. We had seed money when Jaybird come along, and we traded, say, hey, we're already a great brand, already scaled, should we tradeoff, and we [ph] shared (02:48:08) on one program and decided to purchase. We'll do that real time, and we'll review every year as we come up here.

<A - Bracken P. Darrell>: [indiscernible] (02:48:22)?

<A - Vincent Pilette>: Yeah. Michael. Yeah.

<Q - Michael Foeth>: Michael Foeth, Bank Vontobel. Just to follow up on that, in your $2 EPS, I don't see anything about the share count. The shares that you're buying back, is there any intention to actually cancel those shares, or will they be used for acquisitions or [ph] option (02:48:43) programs and so on?

<A - Vincent Pilette>: Yeah. So the first question is, in your $2 EPS, I don't see a share count reduction that contributes to EPS. Remember last year, [ph] wide boarding (02:48:53). I had all levels being explained, including share count reduction. And then over a matter of 12 months, the share pricing moved from $15 to $30, which created more delusion than we anticipated. At this point in time, the buyback, all things being equal, is enough to offset any dilution. But obviously, there is still share price appreciation that would increase the dilutive [indiscernible] (02:49:17) that we need to be able to offset. That's why, you see, kind of a neutral [ph] ratings (02:49:21). When we work on our plans, so they're internally three-year plans, we really focus on operationally driving to earnings [ph] parallel (02:49:29) to the EPS. And that means, growth agenda, productivity and investments. Those are the three main levers, and that's what I've tried to share today. So I would say, it's fair to assume a flat share count over the next three years as we deploy our buyback to offset dilution.

<Q - Michael Foeth>: Okay. So no cancellation plans.

<A - Vincent Pilette>: So the second part of the question is, hey, the share that you buyback, do you plan to use it for acquisition or cancel them. So they are the buyback, the shares we have in treasury shares, a 100% dedicated for [indiscernible] (02:50:00) compensations, and if they cross the 10%, would be cancelled over time. We're not planning at this point in time to use stuff for acquisition, and we'll use currently the cash we have on the balance sheet. That's as of today, things can change from there. That's not a commitment, but that's a framework that we had in place today.

<Q - Michael Foeth>: And maybe a second question, if I may. Can you maybe update us on your seed investment, not the seeds that you can talk about because they are not public yet. But over the last year, things that were in seed, and actually became a reality, is there something you can update us on? Thank you.

<A - Bracken P. Darrell>: Yeah. I think, I'll just – actually, if you look back over time, whether it's Bluetooth speakers, video collaboration, in-home cameras which you heard from Vincent today, earphones which were seed, zero touches and other seeds. So you see an array of things that are systematically and consistently coming out, some work, some don't. That's in our model, we have a lot of things that are in seed development that never leaves the launching pad that we say, yeah, the market is not ready for these yet, so we either put it on the shelf or we kill it entirely.

Now, when we did that, we try to give everybody who's working under on the bonus, and they move on to other projects and we just keep going. And so I think this is a pretty healthy system now. And when you see us do something, when we do acquire something, it's almost always going to be a seed we're already working on, because we like that familiarity. So we're either working directly or we've worked on it and it's a way to accelerate, and the investments is the way to accelerate and differentiate the existing seeds. As you said, there's things we're working on, we really just don't talk about, and that's the nature of the seed program. Okay? Yes.

<Q - Paul J. Chung>: Hi. Paul Chung JPMorgan.

<A - Bracken P. Darrell>: Hi, Paul.

<Q - Paul J. Chung>: Hey. So you gave us a glimpse of potential software offering via the Circle, video feeds or the UE BOOM app. What other use cases do we think about for the firm, and how big of a focus is the software offerings which would ultimately help your long-term operating margin?

<A - Bracken P. Darrell>: Yeah. I would say we're – in everything we do now, especially in our newer category is everything we look at software. Software offering, potential recurring revenue models. The first recurring revenue model we've done in [indiscernible] (02:52:30) programs is really within Circle where you can buy the premium service.

It's too early to say how many more we'll have, when they'll come out, exactly what they'll be, but we certainly – we're looking in – and I think Alastair tried to explain this, we're looking very holistically at the experience now. When we launched the Spotlight product, we started – we didn't start with the idea of, gosh, how do we take a pointer and make it better. We started with how we make a presenter more confident.

And so, that starting point generated a whole range of things that we can do including many that we can do through software and recurring revenue models. And we landed on a piece of that so far, which is around a superior way to literally stand in front of you and move through and show you things. But that, for example, could easily have a [ph] modeling topic (02:53:25). So, everything we're doing really has it. Too early for us to say exactly what they're going to be and where. Let's stay tuned. Other questions. We had a couple on the phone right, Ben? Or yeah, I guess, online.

<A - Ben Lu>: Yeah. So, I got two question from Jörn over at UBS. His first question is, are there any new distribution channel Logitech plans to enter in the next one to two years?

And then, his second question is, what is the investment amount in dollars in VR? And when can we expect some of the first VR products?

<A - Bracken P. Darrell>: Okay. So, on the new distribution channels, I think Kristian did a really good job of taking you through kind of the progression that we've gone from traditional retail to e-tail to telco, and even hinted at some other things we're looking at. There are always new distribution channels whether they're online or offline that we're looking at and exploring and there are right now. But I can't tell you more than that.

In terms of the investments we're making VR and AR, where it might go, I think we certainly are exploring VR and AR and I'm really excited about it. I think the whole space can be really interesting, but I also think it's really interesting medium and long-term, not really exciting short-term. So, we're in it because we believe that that will be a key place that we will play over the long-term and we don't disclose how much we're investing in it.

<A - Ben Lu>: Okay. And then I have two questions from Andreas over from ZKB. Also similar, around the distribution, how different are the new channels like telcos and gas stations versus more traditional electronic retailers? And then, the second one is probably more for Vincent. In the 2020 roadmap, can you talk more about the investments you'd mentioned in that bar chart?

<A - Bracken P. Darrell>: Yeah. I would say every distribution channel is quite different. Telco is a lot different from traditional retail or e-tail, although they have an e-tail component to it. So, they're all different. That's why it's great to as we – one of the things that's really cool about this model of multi category and multi-brand, especially multi-category is, it's leading us into these new channels which once we are in, like telco, it opens up new category opportunities that we could enter and then bring into those same channel. So, it's really synergistic. And, yes, they're different. Every channel is different. The good news is we already have leaders and people in the Street around the world and we can build that capability on top of that and leverage a scale that already exist.

So, yeah, every channel is different. And we're learning something. We're building new opportunities, a broader pipe. Every time we enter a new channel, we can bring other new things there.

<A - Vincent Pilette>: From the investment perspective, it's no different than what I've explained [ph] right now (02:56:08). We have a bottom-up and a top-down framework. From the top-down perspective, it's really about investing in our R&D and sales and marketing capabilities going at slightly less than revenue and keeping our G&A flat as we build up a scalable model and that leads to getting closer to that 25% of revenue.

From a bottom up, we have a lot of projects and [indiscernible] (02:56:31) from across the [ph] five capabilities (02:56:33) we have seen and across the 10 categories we have. And it's about really making prioritization choices across those investments. You'll see more in R&D and R&D will continue to grow at the rates you've seen, creating some room for those [ph] SEEDs (02:56:50) program. And then on the sales and marketing distribution, investing in video collaboration, direct sales investing in online, all of those sort of investments.

<A - Ben Lu>: And there's two more questions if there's nobody here have any more. How many designers does Logitech have and how many do we expect over the next one to two years? And then, the second question is, is there any possibility to increase gross margin in fiscal 2018?

<A - Bracken P. Darrell>: Yeah. You want to answer that, Alistair? Yes. Go ahead.

<A - Alastair Curtis>: So, currently, we have roughly 60 designers globally in the organization and we'll probably grow a little bit more over the coming years. I think we're doubling down on UX, which is obviously in line with the growth of the software that we'll be working on.

<A - Bracken P. Darrell>: Yeah. I think the UX Design is one that's going to grow, because when you think about – when you launch – when you have software especially apps that live well beyond the physical product, you continue to innovate against it. And so, it's a living, breathing thing out of the marketplace. It's always evolving [indiscernible] (02:57:51). As you saw from our UE BOOM or you saw in the Circle camera, so that requires that we keep innovating and we are.

<A - Vincent Pilette>: From a gross margin perspective, we're not guiding FY 2018 gross margin. As you know, we guide two things. Number one priority, revenue growth, high-single digit in constant currency. And number two is operating profit $250 million to $260 million. That's non-GAAP. In the long run, we're working on expanding our gross margin. And then, you need to offset that with, A, the set of investments that we're making that could impact gross margin and, B, some volatility there could exist. We have currency volatility and we know, we understand all of our levers and we'll act on those, but those things have to be balanced with the gross margin potential we have. As we told Felix, we could drop easily a lot more gross margin today. But that's not how we drive the business.

<A - Bracken P. Darrell>: Any other last questions? Yes.

<Q - Torsten Sauter>: Torsten Sauter, Kepler Cheuvreux. I've got two questions. Let me start with the boring one maybe. Could you elaborate a little bit about the tax situation? I think you're guiding for a 9% tax rate and the world is changing a little bit with the Swiss electorate rejecting the corporate tax reform, the U.S. administration looking at things differently potentially. So, how sustainable is this and what does it mean to your guidance?

And then, the other question would be, I'd be curious to understand how you manage pricing across the various distribution channels in the various regions. I'm having like control over pricing in mind, reinforce gray markets, stuff like that?

<A - Vincent Pilette>: Good. So, something tells me that the boring question was for me. So, on the tax rate this year it would be around 9.5% as you know. We have a tax model that the higher the profits, the lower the effective tax rate. In the long-term model for the level of operating profit it goes up to 2019, FY 2020, we will [indiscernible] (02:59:50) on the low side of our range of 7.5% to 9.5%. So, that's kind of the bracket you have.

Our tax structure is subject, obviously, to the tax laws in Switzerland. We're a Swiss company. We're headquartered in Switzerland, our operation is in Switzerland. And as you know, there was this tax reform that was being proposed, rejected by Referendum here at the end of February. And we're monitoring that situation very closely.

Part of that tax reform, there were a lot of measures that would enable us to maintain the tax rate for certain transition period, 5 to 10 years, and we don't know yet what will be represented by the Federal Government as an alternative and we're waiting for that.

<A - Bracken P. Darrell>: On pricing, as you know, retailers and e-tailers determine their own pricing. We sell to them and then they determine their own pricing. I'll give a, kind of, blanket answer to that, companies that don't innovate very frequently and very well, struggle with pricing. Companies that innovate frequently at a high velocity well, don't struggle with pricing. We're trying to be one of those. So, we're constantly trying to innovate at a fast rate in a broad section of our categories, and I think that's the way to avoid really having a structural pricing problem. Other questions? Yes.

<Q>: Jaybird were supply constrained in the most recent quarter, how should we expect the Jaybird sales trajectory to move forward in fiscal 2018 especially as supply constraints get alleviated and I mean, is it unreasonable to think that Jaybird could double as you expand – double in sales as you expand distribution channels and supply constraints go away?

<A - Bracken P. Darrell>: Do you want to take that or you want me to...?

<A - Rene Oehlerking>: It is definitely possible and I'm sure the team is driving [ph] quite (03:01:46), so supply constraint is getting resolved as we progressed through Q4, it has been incorporated into our Q4 guidance. We guided next year the category music 10% to 15%. As I mentioned, Bluetooth speaker would be more high single-digit and Jaybird would a lot more than that 15%. I wouldn't quite model yet doubling, but definitely the market potential is there.

<Q>: [indiscernible] (03:02:12). I want to follow-up on Logi versus Logitech. To be honest to you, it's not necessarily that clear to me and I have a lot of your products. As a matter of fact, I have all of them except the big speaker, the one.

<A - Bracken P. Darrell>: Is that right?

<Q>: Keyboards and other stuff and the speakers and the headphones different kind. Anyway, I noticed the pricing for the same product for Logi and Logitech also it's very difficult to differentiate, at least, to me and I did look in it. And it took me a very long time to understand what is it and find a description, what's the Logi is? I understand that's a Logitech. Is it a higher priced – for example, I noticed it could be the same product with the same packaging, the same scanner like the label scanner, the same number.

<A - Bracken P. Darrell>: Yeah.

<Q>: But one could be priced higher for the same product and one could be priced lower, for example, Logi priced higher for the same product and Logitech for the same product, if I'm not mistaken. But that's my perception as a consumer and [indiscernible] (03:03:37).

<A - Bracken P. Darrell>: I totally understand the question. So, let me give you the definitive answer. What are we doing? So, I think – what are we doing with this Logi Logitech thing? And I think the answer is really simple and I think Heidi did a good job explaining the high level. I'll give you more detail.

If you think of Logi, think of Coke, as she said, and Logitech is Coca-Cola. We're going to be Logitech forever. And you're going to see on every product we have is Logitech Logi. Those four letters are going to be on every product.

Today, you may have seen an example that we're halfway in transition. You may have seen. I don't know. But you may have seen one product that was transitioned and [indiscernible] (03:04:21)... Perfect. Okay. So, that product we moved early with Logi. Now, we're moving everything else through. So, you won't have any pricing difference between Logi and Logitech. In fact, there won't be any difference because every product is going to have Logi on it and Logitech on the box. There's no pricing difference. Zero. Okay. Next question? Any other questions?

<A - Ben Lu>: One more question from a line from Günther from Baader Helvea. Can you provide an update on Jaybird in terms of the anticipated growth rates over the next two to three years and an update on profitability?

<A - Bracken P. Darrell>: We're not guiding for two to three years on many categories really including Jaybird. But I think the – and we talked about the supply constraint nature we have this year. We're really super excited about the whole category. The earphone category, we wouldn't have gotten into it if we weren't bullish on where the category is going.

Wirelessness is coming. Wirelessness is coming into everything, and wireless is certainly into the ear. We love the sports area of that, and we'll try to carve off our little specific narrow niche of that, which for us could be big, but for everybody else could be small. And so, look, we're really excited about it. We have a lot of technology in that space already before we acquired Jaybird.

Jaybird is not an example of a company that got in big trouble so they had to sell like I had talked about in the beginning. They're a company that was super successful, and we've brought in a really great team, as you saw, and a great brand. And now, we can expand distribution, help them develop, and help ourselves develop for the next-generation of new products using our technology and their technology. So, look, I'm really excited. We don't really guide, but I'm really super thrilled about the category and about the purchase.

<A - Rene Oehlerking>: And if I take the second part of the question, it's really a real-time trade-off between sales growth potential and improvement on the operation metrics. Jaybird, in the category of wearables, is definitely in this accelerating mode, which means that our priority is product innovation and sales growth. Now, as we go into FY 2018, again, all of our categories are positive contributor to the bottom-line, a direct contribution in margin, but Jaybird is in this investment mode for accelerated growth.

Bracken P. Darrell

Any other last questions? Before we close, I want to thank everybody. Ben for sure, but the whole team that presented today and all the teams that built this out, by the way, who are behind the scene, they've done a terrific job.

I just want to finish with one last thought which is, when I came here five years ago, I had this – I still remember the first dinner Guerrino and I had, and it was in Barcelona actually in a little Italian restaurant. And I remember we both, kind of, talked about, gosh, what could Logitech be? And since then, I think we're about maybe 20% of where I think we could be in some reasonable timeframe.

So, we're just getting started. And I think the whole team in this room feels that way. Some of our investors probably feel that way. And I hope more and more are convinced, because I am.

Thank you very much. Thanks to all of you for coming.