

# Logitech

## Market profile

|                          |                |
|--------------------------|----------------|
| Country                  | Switzerland    |
| Sector                   | Technology     |
| Market cap (CHF bn)      | 9.0            |
| 52-week high / low (CHF) | 118.40 / 51.10 |
| Price per share (CHF)    | 52.14          |

## Key metrics (USD)

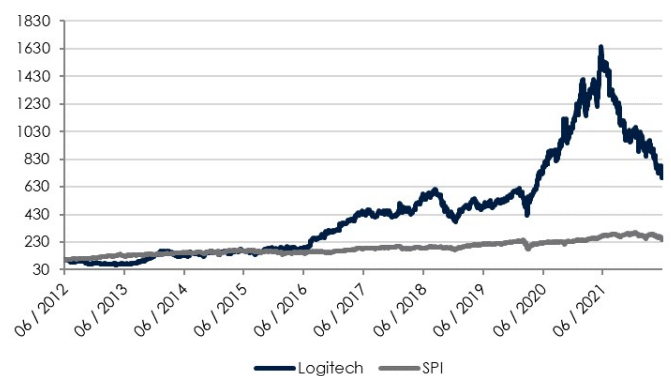
|                | 2022  | 2023e | 2024e |
|----------------|-------|-------|-------|
| EPS            | 3.78  | 3.99  | 4.56  |
| PE             | 18.3x | 14.7x | 12.9x |
| EV/EBITDA      | 10.4x | 7.7x  | 6.9x  |
| Dividend yield | 1.3%  | 1.6%  | 1.9%  |

## Executive summary

Logitech is a world leader in designing, manufacturing and marketing products that help connect people to digital and cloud experiences. More than 40 years ago, Logitech created products to improve experiences around the personal computer (PC) platform, and today it is a multi-brand, multi-category company designing products that enable better experiences consuming, sharing and creating digital content such as computing, gaming, video and music, whether it is on a computer, mobile device or in the cloud. Logitech's brands include Logitech, Logitech G, ASTRO Gaming, Streamlabs, Ultimate Ears, Jaybird, and Blue Microphones.

Historically, Logitech's business has been driven by the same trends that drove the adoption of desktop and laptop PCs for consumers, businesses and institutional applications, including the growth in affordable processing power, communications bandwidth, the increased accessibility of digital content, and the growing and pervasive

Evolution of stock price with respect to benchmark (rebased)  
Source: IAM



use of the Internet for productivity, communication and entertainment. More recently, the democratization of content creation, the rising trend of electronic sports (esports), the growth of streamers and creators and the expansion of video everywhere have created multiple opportunities for Logitech to drive greater interaction and engagement between people and digital content.

The recent growth in revenues has been boosted by the COVID pandemic. This exceptional growth rate is clearly a risk, as we don't know how much future sales have been brought forward. Logitech products are buy once and forget; you don't need to upgrade your keyboard, mouse or webcam every year. For these reasons, we think future growth should be closer to 3-4% (which remains almost double the world's GDP growth rate).

Currently the share price is very cheap on a P/E basis. The fall in valuation is mainly due to the big increase in interest rates, which hinders growth stocks the most, as future cash flows are discounted to a lower value today.

# Logitech

Daniel Pfund, Senior Financial Analyst

June 2022

## Company description

Logitech is a world leader in designing, manufacturing and marketing products that help connect people to digital and cloud experiences. More than 40 years ago, Logitech created products to improve experiences around the personal computer (PC) platform, and today it is a multi-brand, multi-category company designing

Revenues are split into 4 divisions:

1. Creativity & Productivity (45% of total revenues)
2. Gaming (27%)
3. Video Collaboration (18%)
4. Music (10%)

Fig.1: Logitech brands and logos

Source: Company data, IAM research



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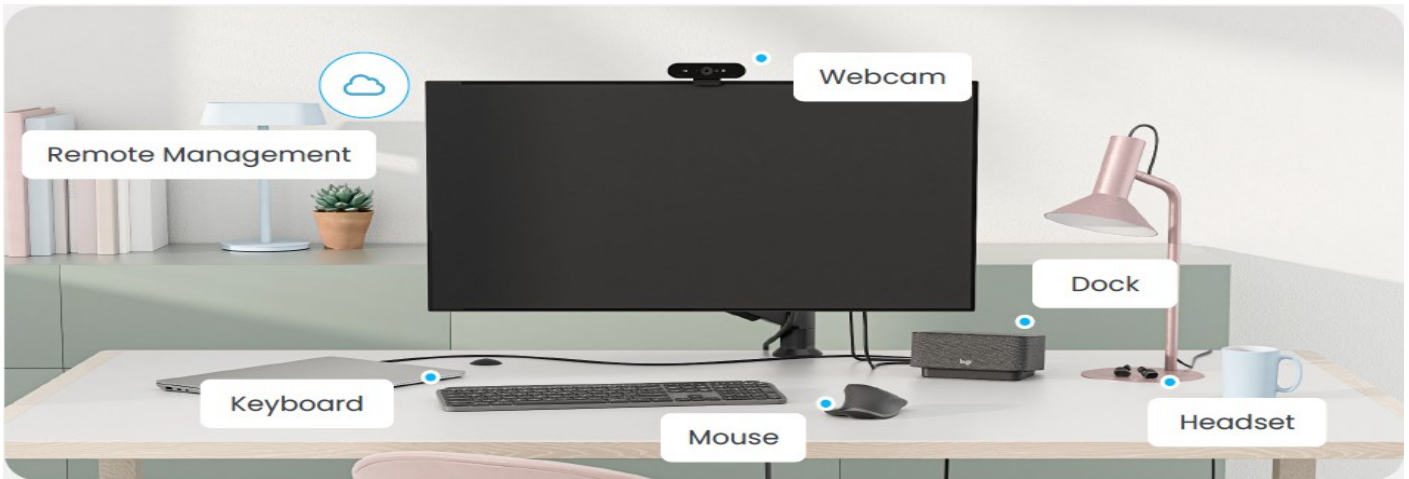
Logitech sells their products to a broad network of domestic and international customers, including direct sales to retailers and e-tailers, and indirect sales through distributors. Their worldwide channel network includes consumer electronics distributors, retailers, mass merchandisers, specialty stores, computer and telecommunications stores, value-added resellers and online merchants.

## Creativity & Productivity

This is by far Logitech's biggest division, as it stems from its historic roots. In this division, we find several sub categories:

- Pointing Devices: PC and Mac-related mice, trackballs, touchpads, and presenters.
- Keyboards & Combos: PC keyboards, living room keyboards, and keyboard/mice combo products.
- PC Webcams: PC-based webcams targeted primarily at consumers.
- Tablet & other accessories

Fig.2: Logitech's products include keyboards, mice, cameras, docks, and headsets  
 Source: Company data, IAM research



## Gaming

The gaming division comprises gaming mice, keyboards, headsets, gamepads, steering wheels, simulation controllers, console gaming headsets, console gaming controllers, and the newly acquired Streamlabs services. Streamlabs is a software that allows content creators to easily live stream their content to different platforms such as Twitch, YouTube Live, and Facebook Live.

## Video Collaboration

Video Collaboration (VC) includes Logitech's ConferenceCams, which combine affordable enterprise-quality audio and high definition (4K) video to businesses of any size. This division caters only to businesses, as consumer grade PC webcams are included in the Creativity & Productivity division.

## Music

This division includes Bluetooth wireless speakers (mobile speakers) as well as PC speakers, PC headsets, in-ear headphones, and studio quality microphones for professionals and consumers (Blue Microphones line).

Segments can change over the years. Previously Logitech had a "Smart Home" segment, but sales were declining year after year. The company decided to close this division and stop selling the Harmony remote controls in the fourth quarter of their 2021 fiscal year.

## History of the company

Logitech was founded in Apples, Vaud in 1981 by Stanford alumni Daniel Borel and Pierluigi Zappacosta, and former Olivetti engineer Giacomo Marini. Mr. Borel served as chairman from 1982 to 2008 and served as

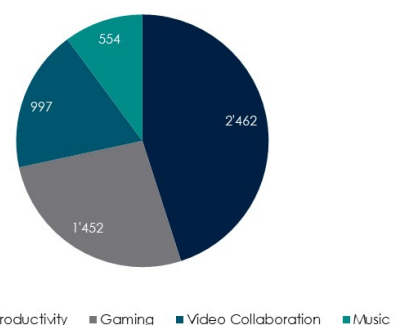
the company's CEO from 1982-1988 and again from 1992-1998. He still holds a small minority participation in the company (3%) but is no longer active on the board of directors, although he was promoted "Chairman Emeritus".

Logitech's roots stem from the computer mouse, and the company evolved to become the world's largest manufacturer of computer mice and other personal interface products. The name Logitech is derived from "logiciel" (French word for software).

The company was first listed in Switzerland in 1988, and on the Nasdaq in 1997.

A big turning point came in 2008 when Logitech acquired Ultimate Ears for USD 34 million, a supplier of then custom in-ear monitors for professional musicians and Bluetooth speakers for the consumer market. That was the start of a significant buying spree and diversification outside of mice/keyboards. In 2009, Logitech acquired Lifesize Communications for USD 405 million,

Fig.3: Revenues by segment (USD mn)  
 Source: Company data, IAM research

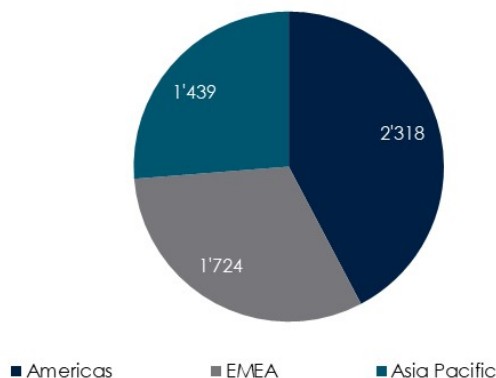


a provider of business video conferencing equipment. But this segment proved tough to conquer, as Logitech was not an enterprise name and Lifesize continued to operate under its own name, so in 2016, this division was sold.

## Geographic exposure

Logitech discloses revenues in three distinct geographic zones: Americas, Europe Middle-East and Africa (EMEA), and Asia Pacific. There is not a lot of granularity. Americas (mainly North America) makes up the biggest proportion of sales. Logitech has a headquarter in the United States, and its accounting figures are reported in US dollars.

Fig.4: Logitech revenues by geography (USD mn)  
Source: Company data, IAM research



## Industry Overview & Competitive positioning

Historically, Logitech's business has been driven by the same trends that drove the adoption of desktop and laptop PCs for consumers, businesses and institutional applications, including the growth in affordable processing power, communications bandwidth, the increased accessibility of digital content, and the growing and pervasive use of the Internet for productivity, communication and entertainment. More recently, the democratization of content creation, the rising trend of electronic sports (e-sports), the growth of streamers and creators and the expansion of video everywhere have created multiple opportunities for Logitech to drive greater interaction and engagement between people and digital content.

In the last couple of years, new PC shipments have continued to be strong due to work-from-home and learn-from-home trends. We believe that innovative PC peripherals, such as Logitech's mice and keyboards, can renew the PC usage experience and help improve the productiv-

ity and engagement of remote work, and learning, thus providing some growth opportunities. Hybrid work culture will also greatly expand the number of new workspaces to which users can attach their PC peripherals.

Smaller mobile computing devices, such as tablets, have created new markets and usage models for peripherals and accessories. Logitech offers a number of products to enhance the use of mobile devices, including a combo backlit keyboard case with trackpad for the iPad. Hybrid and remote learning environments have also created demand and growth opportunities in the education market for tablet keyboards and accessories.

Growing adoption of cloud-based experiences in gaming, video, music and smart home has expanded the total addressable market opportunities for the company. More and more consumers today interact with cloud-based content platforms, such as Steam and Twitch for gaming or Zoom, Google Meet, and Microsoft Teams for video collaboration. Logitech offers peripherals and accessories to enhance the use of such cloud-based content platforms.

In the gaming market, the rapid rise of esports and the growth of live streamers on platforms such as Twitch and broadcasters on platforms such as YouTube continue to drive growth. Logitech can leverage their deep research and development (R&D) capabilities in the area of PC peripherals to develop industry-leading gaming gear that enhances consumers' overall gaming experience and performance. As consumers increasingly watch various esports tournaments or other gaming broadcasts on cloud-based platforms such as Twitch, the gaming industry is becoming both a source of entertainment and participation by mainstream consumers.

The adoption of video everywhere, in large and small conference rooms and at home, is a continuing trend that has accelerated during the COVID-19 pandemic. The video communication industry continues to make progress toward a vision in which people can conduct a video call from any of a variety of platforms - video-enabled rooms, PCs, laptops and mobile devices such as tablets and smartphones - to any other platform. This trend to embrace cloud video conferencing by businesses and institutions and, in particular, the growing adoption of remote work, distance learning, and telemedicine, is driving Logitech's Video Collaboration category and offers a long-term growth opportunity for the company. For businesses and institutions, video conferencing is increasingly substituted for travel, because of high travel costs as well as the productivity gain that can be achieved by a high quality face-to-face meeting that does not require travel away from the office. For some schools, distance

learning has become a complementary or, in some cases, an alternative way to educate students. Further, with the increased availability of high Internet bandwidth, video conferencing is becoming a key component of Unified Communications, which is the integration of communications solutions such as voicemail, e-mail, chat, presentation sharing and live video meetings. The market opportunity to provide innovative, affordable, and easy-to-use video collaboration products to the millions of small- to medium-sized meeting rooms lacking video is substantial, and we think that Logitech is well-positioned to take advantage of that opportunity. Eventually the company could even expand into large-sized meeting rooms, although the failed Lifesize acquisition and spin-off does not presage an easy path.

Cloud-based music services have enjoyed tremendous growth, fueled by the adoption of smartphones, tablets, and other connected devices. Consumers are optimizing their audio experiences on their tablets and smartphones with wireless mobile speakers that pair easily with their mobile devices and with in-ear and other headphones. Logitech's mobile speakers and in-ear headphone products target a large market that reflects the increasing popularity of mobile devices or various voice assistants for accessing digital music, although near-term growth has slowed in some markets. Additionally, within the music market, consumers are increasingly listening with wireless earphones while they undertake activities such as sports and fitness. The innovation in truly wireless headphones has led to double-digit industry growth in

revenue and average selling price, which highlights a growth opportunity for Logitech.

Finally, due to travel/transport restrictions during the COVID-19 pandemic, a lot of people invested in gaming equipment, as this is a cheap way to entertain oneself.

The PC gaming and console gaming platforms continue to show strong structural growth opportunities as online gaming, multiplatform experiences, and esports gain greater popularity and gaming becomes more social.

We expect gaming will increasingly become one of the largest participant and spectator sports in the world. We believe Logitech is well positioned to benefit from the overall gaming market growth. In addition, Logitech's acquisition of Streamlabs provides a solid platform to deliver recurring services and subscriptions to gamers and streamers.

## Financial analysis

### Growth

The chart in figure 6 depicts Logitech's top-line growth.

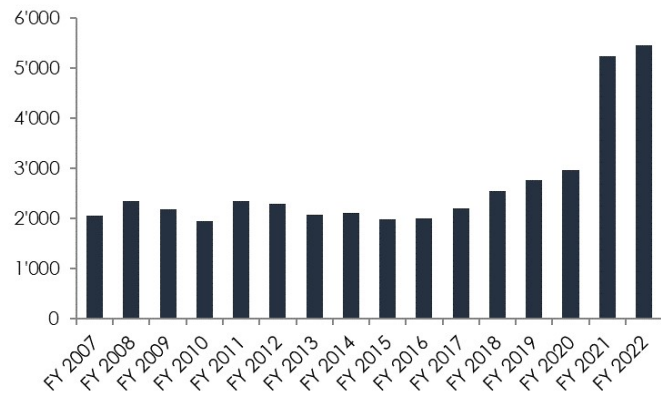
The 15 year compound annual growth rate is 6.7% per annum. But more interestingly, the recent 5 years growth has been higher, at 19.8% per annum. This higher growth rate was heavily influenced by the last 2 years, when the COVID pandemic forced millions of workers to stay at home and equip themselves with Logitech's hard-

Fig.5: Logitech's racing wheel includes TRUEFORCE, a high definition feedback system based on the game's physics  
Source: Company data, IAM research



Fig.6: Revenues

Source: Company data, IAM research



ware. Of course, we cannot extrapolate this recent growth, which has been artificially boosted by the COVID pandemic. This exceptional growth rate is a now turning into a major headwind for Logitech and we don't know how much future sales have been brought forward. Clearly, Logitech products are buy once and forget; you don't need to upgrade your keyboard, mouse or webcam every year. For these reasons, we think future growth should be closer to 3-4% (which is almost double the world's GDP growth rate).

Fig.7: Logitech's long-term model

Source: Company data, IAM research

A large proportion of future growth will come from higher penetration of new products. The company thinks that it will be at least "several years" before they reach a plateau in sales with current category products, at which point they will be looking at acquiring a new growth category. This strategy is obviously not reliable and predictable, and remains one of the main risks (see discussion in Risks section later).

To soothe shareholder's growth angst, the company has provided a scenario for a growth path trajectory. (Fig 7). We see that they put a lot of emphasis on Video Collaboration. The company believes that they can integrate their products into small-sized conference rooms, but as the Lifesize experience has shown, entering the corporate world is a tough nut to crack.

### Margins

Gross margins are a relevant metric for Logitech because they can vary quite a lot from year to year (not to mention, quarter to quarter). The reason for this variability is Logitech's mix of products sold, cost and manufacturing efficiencies, tariffs, and logistic costs (both on the procurement and distribution sides). Indeed, if Logitech has not correctly forecast demand, it needs to bring finished products by airplane instead of lower cost sea freight to their final destination.

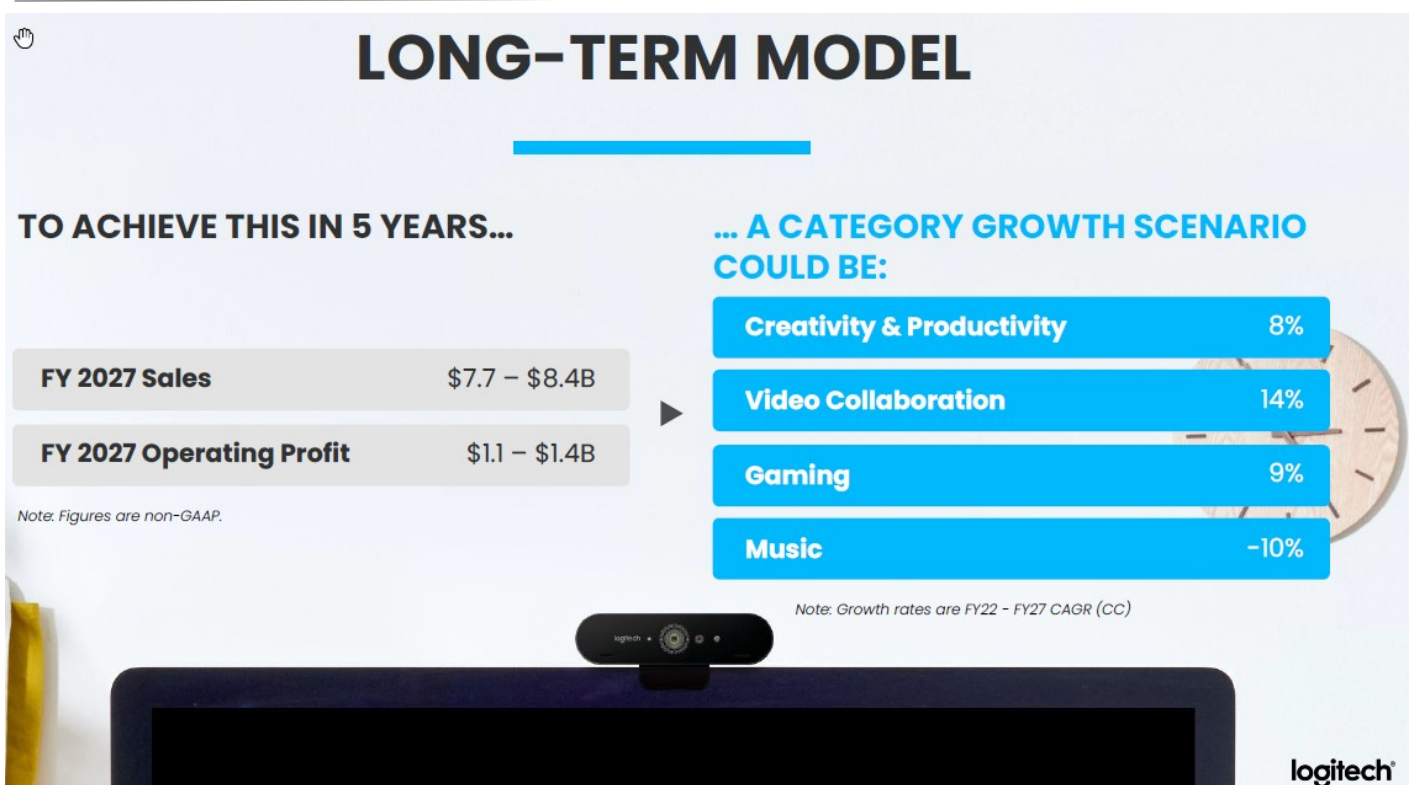
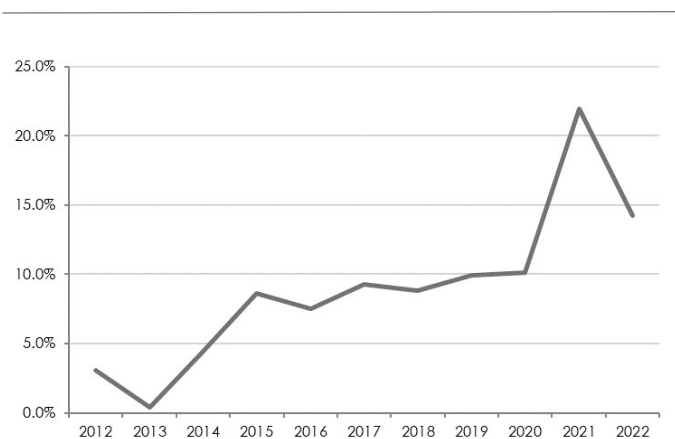


Fig.8: Adjusted EBIT margin  
Source: Company data, IAM research



Operating margins (adjusted EBIT) are shown in the graph of figure 8. As we can see, operating margins are on an increasing trend, although not on a linear basis. We can clearly see the boost in operating income due to the COVID pandemic in FY21.

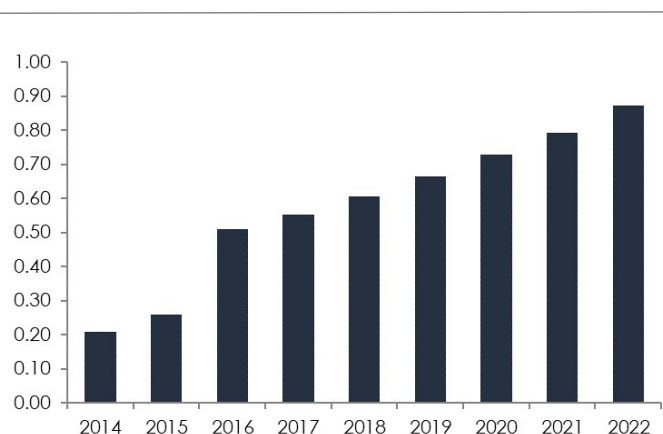
In the past, Logitech was very dependent on PC sales, which itself was dependent on operating system renewal cycles. Operating margins remain dependent on top-line growth, so a certain amount of cyclicality will remain, even if the company has diversified away from pure PC products.

#### Dividend

Figure 9 shows Logitech's dividend history.

Logitech is clearly not an attractive dividend play, with a paltry 1.3% yield. Obviously the company prefers to keep the cash internally to make further acquisitions and grow future revenues. This makes sense, as Logitech must be seen as a growth company, not a value play. We

Fig.9: Logitech dividend per share (CHF)  
Source: Company data, IAM research



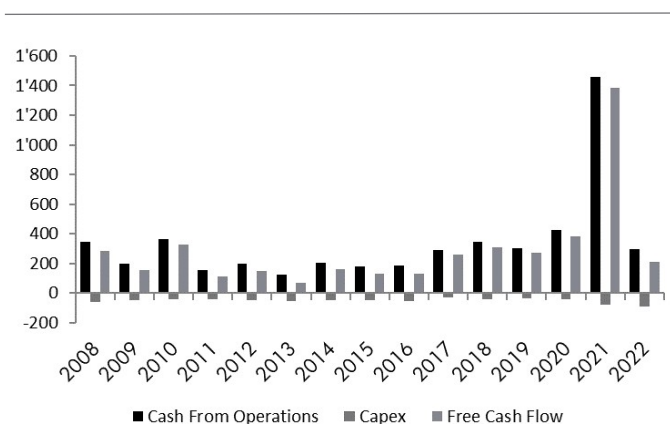
note nevertheless that Logitech has one of the highest dividend yields in the technology sector.

Also, we must not forget that the company has an active share buyback program in place. For example, over the last three fiscal years, the company has brought back USD 579 million in shares, which is actually more than the dividends paid (USD 430 million). The company has the right to purchase up to 10% of its capital.

#### Free Cash Flow

The following figure shows Logitech's operating cash flows, capex and free cash flow over time.

Fig.10: Net debt and Net debt/EBITDA  
Source: Company data, IAM research



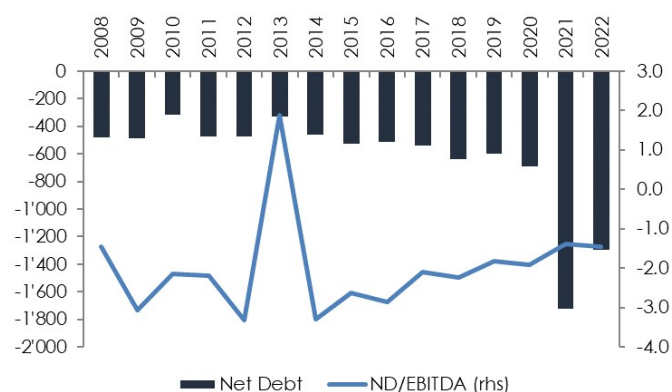
As we can see, Free Cash Flow has always been positive over this period. This is especially true because capital expenditures are extremely low (between USD 40 and USD 90 million/year). Indeed, Logitech owns only one factory in Suzhou, China and this has been largely amortized over its lifetime. In case of extra capacity needs, Logitech has contracts in place to outsource manufacturing to several contract manufacturers in China. We can consider that capex is mainly maintenance capex, so at very low levels (with an order of magnitude of 1.5% to 2% of sales).

#### Balance Sheet

The chart in figure 11 shows Logitech's net debt (ND) as well as a common indebtedness ratio (ND/EBITDA).

As seen, net debt has always been negative (ie: a net cash position). Logitech has a very solid balance sheet, and one could even argue that it has too much cash on hand. This is a double edged sword, as investors worry that the company will use that mountain of cash to acquire companies in new domains. Unfortunately, the acquisition track record of Logitech has not always been very good, so this is clearly a risk.

Fig.11: Net debt and Net debt/EBITDA  
Source: Company data, IAM research



### Investment case

Logitech is a very shareholder oriented company. Management’s incentives are directly aligned with shareholders’ as they are required to hold a certain minimum amount of shares. For example, the CEO needs to hold at minimum 5 times the market value of his annual base salary (USD 925’000) in Logitech shares. The CFO needs to hold at minimum 3 times the market value of his annual base salary in Logitech shares. Executive directors need to hold at least 2 times the market value of their respective annual base salary in Logitech shares. If Logitech’s market value falls below those thresholds, management has up to 2 years to return to compliance by acquiring shares.

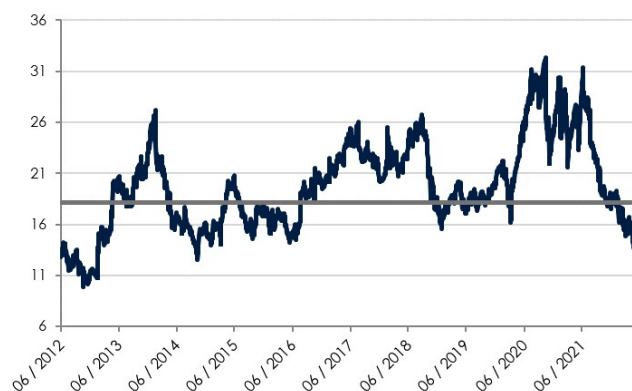
The CEO’s base salary only corresponds to 12% of his total potential compensation. The rest is linked to incentive targets and mostly stock options, so again this aligns the company’s interests with those of the shareholders’.

### Valuation

The chart in figure 12 depicts Logitech’s next 12 months forward P/E multiple over the past decade.

We can see that the shares are very cheap today. On one side, the growth rate has come down dramatically, and as most tech investors value companies on P/E to growth ratios (PEG), this implies a lower P/E ratio. On the other hand, growth stocks are severely punished by increasing interest rates. As future earnings need to be discounted back to today, the more this discount rate rises, the lower the current value of those future cash flows. Typically, in a discounted cash flow model, the majority of the value lies in the terminal value, which is very far out.

Fig.12: 12M forward P/E over last decade  
Source: IAM research



Overall, Logitech remains a fairly cyclical stock and the P/E ratio range is very high, so we would not consider this as a “buy and hold” stock over the long-term.

### Risks

#### COVID-19

While the COVID-19 pandemic is usually a negative risk for companies, for Logitech, this has been a massive driver of revenues. For this reason, it is unclear how much future growth has been brought forward when people invested for work at home equipment or home entertainment (gaming).

Furthermore, we have witnessed a very weak share price as soon as better news was announced on the vaccines front. Obviously, investors had purchased Logitech shares on the basis of the “stay at home” theme, and were just as likely to sell them when the pandemic was over.

#### Acquisitions

Because Logitech has so much extra cash on its balance sheet, investors are worried that the company will use it to make acquisitions. Logitech’s track record of acquisitions is rather muted, so this is a real risk. Nevertheless, management is aware of this issue and has promised to return more money to shareholders via a share buyback. In May of 2020, the company announced its intention to return up to USD 250 million to shareholders via a share buyback over 3 years (which was not particularly impressive as it compared to USD 113 million bought back the year before). In April 2021, the company extended the total buyback to USD 1 billion until July 2023, which reassured investors somewhat that management is dedicated to consistently return cash to shareholders.

