

## Logitech International S.A.

## “Cautious” tone despite strong results

Reiterate Rating: BUY | PO: 90.00 CHF | Price: 75.64 CHF

## Beat and raise but cautious tone looking into FY25

LOGI reported F3Q revenue 1.1% above VA css, as Gaming recovers sequentially (+45% QoQ), with Keyboard & Combos (+18%), VC (+11% QoQ) and Pointing Devices (+8% QoQ) growing sequentially to offset declines in Webcams (-3% QoQ) and Headsets (-6%). Adj. GM of 42.3% was way ahead of css at 39% driven by lower product logistics costs and reduced promotional activities. 3Q adj. EBIT came in 27% ahead driven by GM expansion. Strong FCF of \$443m was mainly driven by lower inventory levels with DOI at 55 vs. Sep-Q at 78/Dec-22 at 91. LOGI raised FY24E guide from \$4-4.15bn to \$4.2-4.25bn (in-line) and non-GAAP operating income of \$610-660mn (4-12% YoY growth), 8% ahead of css at the midpoint (from \$525-575mn, 11-2% decline). We raise our FY24 sales/EBIT/EPS by 1.5%/10%/20% but cut our FY25-26E sales by ~2% and EBIT/EPS by ~7%. Our PO remains unchanged on higher '26E EV/EBITDA multiple from 16x to 17x on sector multiple re-rating. Reiterate Buy. LOGI is a top pick in IT Hardware.

## Likes: Market share gains, M&amp;A, CMD, Capex

(A) LOGI saw market share gains in its PC segments, especially in mice and keyboard, and gained share across key categories. (B) LOGI continues to see M&A as an attractive opportunity to consolidate growth going forward. More information and FY25E outlook will be provided at LOGI's next CMD in May. (C) LOGI expects lower FY24E Capex of \$70mn (vs previous of \$90mn), and effective tax rate of 10% (prev 12%, as a result of an agreement with the Swiss Tax authority that provides for an additional tax amortisation deduction).

## Risks: Uncertain FY25 outlook, GM headwinds, Inventory

(A) LOGI highlighted FY25 remains uncertain, as the company is facing certain headwinds (i.e. rates, macro, Enterprise spending). Recovery is more likely to be in a prolonged U-shape than a V-shape. (B) LOGI sees GM headwinds coming into Q4, notably with its fixed cost base in trough quarter, logistics rates (Suez Canal disruption), as well as lower inventory reduction reserves. (C) After 7 consecutive quarters of on-hand inventory reduction, LOGI expects no further inventory reduction in Q4.

Estimates (Mar) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	4.63	3.22	3.81	4.02	4.66
EPS Change (YoY)	-27.9%	-30.5%	18.5%	5.3%	16.1%
Dividend / Share	0.94	0.97	1.06	1.10	1.15
ADR EPS (Adjusted Diluted - US\$)	4.63	3.22	3.81	4.02	4.66
ADR Dividend / Share (US\$)	0.94	0.97	1.06	1.10	1.15
Valuation (Mar)					
P/E	17.8x	25.7x	22.8x	21.6x	18.6x
Dividend Yield	1.08%	1.11%	1.22%	1.26%	1.32%
EV / EBITDA*	12.9x	19.3x	17.9x	17.4x	14.9x
Free Cash Flow Yield*	1.44%	3.13%	4.45%	7.31%	4.29%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

24 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,195.3	4,257.4
2025E Rev (m)	4,482.1	4,394.9
2026E Rev (m)	4,852.6	4,752.0
2024E EPS	3.46	3.81
2025E EPS	4.29	4.02
2026E EPS	4.99	4.66

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## Stock Data

Price (Common / ADR)	75.64 CHF / 84.86 USD
Price Objective	90.00 CHF / 101.00 USD
Date Established	12-Dec-2023 / 24-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	45.56 CHF-83.90 CHF
Market Value (mn)	12,022 CHF
Shares Outstanding (mn)	158.9 / 158.9
Average Daily Value (mn)	54.37 USD
Free Float	93.5%
BofA Ticker / Exchange	XLGKF / SWX
BofA Ticker / Exchange	LOGI / NAS
Bloomberg / Reuters	LOGN SW / LOGN.S
ROE (2024E)	27.2%
Net Dbt to Eqty (Mar-2023A)	-50.9%

VC: video collaboration

Css: consensus

GM: gross margin

FCF: free cash flow

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 24 January 2024 12:00AM EST

# iQprofile<sup>SM</sup> Logitech International S.A.

## Key Income Statement Data (Mar)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	5,481	4,539	4,257	4,395	4,752
EBITDA Adjusted	992	665	717	737	858
Depreciation & Amortization	(119)	(101)	(101)	(106)	(106)
EBIT Adjusted	874	564	616	631	752
Net Interest & Other Income	(128)	(125)	(81.6)	(58.6)	(55.1)
Tax Expense / Benefit	(131)	(98.9)	(53.6)	(76.8)	(92.1)
Net Income (Adjusted)	789	527	603	616	717
Average Fully Diluted Shares Outstanding	170	164	158	153	154

## Key Cash Flow Statement Data

Net Income (Reported)	645	365	501	514	617
Depreciation & Amortization	119	101	101	106	106
Change in Working Capital	(592)	(43.6)	(13.4)	358	(139)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	127	112	87.7	83.8	89.8
<b>Cash Flow from Operations</b>	<b>298</b>	<b>534</b>	<b>677</b>	<b>1,061</b>	<b>674</b>
Capital Expenditure	(89.2)	(92.4)	(70.1)	(95.0)	(105)
(Acquisition) / Disposal of Investments	(7.98)	(7.58)	(11.8)	0	0
Other CFI	(10.7)	(5.79)	(2.44)	0	0
<b>Cash Flow from Investing</b>	<b>(108)</b>	<b>(106)</b>	<b>(84.3)</b>	<b>(95.0)</b>	<b>(105)</b>
Share Issue / (Repurchase)	(412)	(418)	(472)	(380)	(400)
Cost of Dividends Paid	(159)	(159)	(182)	(169)	(177)
Increase (decrease) debt	0	0	0	0	0
Other CFF	(35.4)	(6.33)	(19.4)	0	0
<b>Cash Flow from Financing</b>	<b>(607)</b>	<b>(583)</b>	<b>(673)</b>	<b>(549)</b>	<b>(577)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>(416)</b>	<b>(155)</b>	<b>(81.0)</b>	<b>417</b>	<b>(8.27)</b>
FX and other changes to cash	(5.25)	(24.6)	0.13	0	(4.21)
Change in Cash	(422)	(180)	(80.8)	417	(12.5)
Change in Net Debt	422	180	80.8	(417)	12.5
Net Debt	(1,329)	(1,149)	(1,068)	(1,485)	(1,472)

## Key Balance Sheet Data

Property, Plant & Equipment	110	122	112	119	130
Goodwill	448	455	464	464	464
Other Intangibles	83.8	63.2	50.0	31.8	19.9
Other Non-Current Assets	321	316	327	327	327
Trade Receivables	676	630	713	544	651
Cash & Equivalents	1,329	1,149	1,068	1,485	1,472
Other Current Assets	1,069	826	770	604	693
Total Assets	4,035	3,561	3,503	3,575	3,757
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	216	253	268	268	268
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,421	1,050	1,058	1,081	1,138
Total Liabilities	1,637	1,303	1,326	1,350	1,407
Total Equity	2,399	2,258	2,176	2,225	2,350
Total Equity & Liabilities	4,035	3,561	3,503	3,575	3,757

## Business Performance\*

Return On Capital Employed	28.7%	17.9%	23.8%	23.7%	27.1%
Return On Equity	33.9%	22.6%	27.2%	28.0%	31.3%
Operating Margin	16.5%	13.0%	15.0%	14.8%	16.1%
Free Cash Flow (MM)	209	442	607	966	569

## Quality of Earnings\*

Cash Realization Ratio	0.38x	1.01x	1.12x	1.72x	0.94x
Asset Replacement Ratio	1.01x	1.21x	0.87x	1.09x	1.11x
Tax Rate	16.9%	21.3%	9.66%	13.0%	13.0%
Net Debt/Equity	-55.4%	-50.9%	-49.1%	-66.7%	-62.6%
Interest Cover	NA	NA	NA	NA	NA

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

IT Hardware

## Company Description

Logitech is a design company specialising mainly in PC peripherals such as mice, keyboards and headsets. It began by creating products for use around the PC platform but today it is a multi-brand, multi-category company selling products for consuming, sharing and creating digital content such as computing, gaming, video and music either on a computer, mobile or in the cloud.

## Investment Rationale

Our Buy rating is underpinned by attractive mid-term growth outlook based on (A) a strong track record of execution, high ROIC (highest in our coverage) and market share gains, which we expect to continue, (B) exposure to secular megatrends (social media, gaming, video calling, etc.) and (C) upgrade path for consumers to higher-ASP products.

## Stock Data

Shares / ADR	1.00
Price to Book Value	6.3x

## Quarterly Earnings Estimates

	2023	2024
Q1	0.74A	0.65A
Q2	0.84A	1.09A
Q3	1.14A	1.53A
Q4	0.50A	0.54E

## Key Changes

(US\$)	Previous	Current
Price Obj.	100.00	101.00
2024E EPS	3.46	3.81
2025E EPS	4.29	4.02
2026E EPS	4.99	4.66

# Changes to estimates

**Exhibit 1: We raise our FY24 sales/EBIT/EPS by 1.5%/10%/20% but cut our FY25-26E sales by ~2% and EBIT/EPS by ~7%**

Logitech changes to estimates FY24-26E, USD mn

USD million, March y/e	FY24E			FY25E			FY26E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
<b>Revenue</b>	<b>4,195.3</b>	<b>4,257.4</b>	1.5%	<b>4,482.1</b>	<b>4,394.9</b>	-1.9%	<b>4,852.6</b>	<b>4,752.0</b>	-2.1%
YoY growth (%)	-7.6%	-6.2%	1.4%	6.8%	3.2%	-3.6%	8.3%	8.1%	-0.1%
<b>Gross Profit (Adj.)</b>	<b>1,659.8</b>	<b>1,732.7</b>	4.4%	<b>1,789.0</b>	<b>1,753.3</b>	-2.0%	<b>1,973.3</b>	<b>1,932.6</b>	-2.1%
Margin (%)	39.6%	40.7%	1.1%	39.9%	39.9%	0.0%	40.7%	40.7%	0.0%
<b>EBITDA (Adj.)</b>	<b>656.2</b>	<b>717.5</b>	9.3%	<b>796.0</b>	<b>736.7</b>	-7.5%	<b>923.1</b>	<b>858.1</b>	-7.0%
Margin (%)	15.6%	16.9%	1.2%	17.8%	16.8%	-1.0%	19.0%	18.1%	-1.0%
<b>Operating Income (Adj.)</b>	<b>573.9</b>	<b>636.5</b>	10.9%	<b>707.4</b>	<b>649.4</b>	-8.2%	<b>827.4</b>	<b>763.7</b>	-7.7%
Margin (%)	13.7%	15.0%	1.3%	15.8%	14.8%	-1.0%	17.1%	16.1%	-1.0%
<b>Net Income (Adj.)</b>	<b>546.2</b>	<b>599.2</b>	9.7%	<b>659.0</b>	<b>615.9</b>	-6.5%	<b>768.7</b>	<b>716.8</b>	-6.8%
Net Margin (%)	13.0%	14.1%	1.1%	14.7%	14.0%	-0.7%	15.8%	15.1%	-0.8%
<b>Adjusted:</b>									
EPS (basic)	3.48	3.85	10.5%	4.32	4.06	-6.1%	5.03	4.70	-6.5%
<b>EPS (diluted)</b>	<b>3.46</b>	<b>3.81</b>	10.2%	<b>4.29</b>	<b>4.02</b>	-6.4%	<b>4.99</b>	<b>4.66</b>	-6.7%
Capex	90.0	70.1	-22.2%	95.0	95.0	0.0%	105.0	105.0	0.0%
D&A	82.3	81.0	-1.6%	88.6	87.3	-1.5%	95.6	94.3	-1.4%
FCF	468.0	606.8	29.6%	940.5	966.0	2.7%	644.5	568.6	-11.8%

Source: BofA Global Research estimates

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## Price objective basis & risk

### Logitech International S.A. (XLGKF / LOGI)

For our PO of CHF 90 (\$101 for US listing), we use 17.0x FY26E EV/EBITDA, slightly higher than Logitech's ten-year median 14x multiple and a premium to consumer electronics peers trading in the low teens. We believe that Logitech will continue to trade at a premium to peers given its higher margins and cash generation. We see the increasing exposure of Logitech to the enterprise sales channel as a long-term multiple tailwind. Enterprise revenue typically comes at higher gross margin and increased visibility vs. consumer.

Upside risks to our price objective are (1) stronger consumer spending, (2) higher-than-expected share gains in core markets, (3) less gross margin pressure than expected, (4) higher operational leverage than expected, (5) faster penetration of enterprise customers, (6) faster-than-expected video-calling penetration.

Downside risks to our price objective are (1) weaker-than-expected consumer spending, (2) share losses in core markets, (3) higher gross margin pressure than expected, (4) lower variability of opex than expected, (5) weaker-than-expected traction with enterprise customers, (6) slower-than-expected video-calling penetration.

## Analyst Certification

I, Didier Scemama, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### EMEA - Technology Hardware Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	ASMI	ASMXF	ASM NA	Didier Scemama
	ASML Holding N.V.	ASMLF	ASML NA	Didier Scemama
	ASML Holding N.V.	ASML	ASML US	Didier Scemama
	Comet Holding AG	XCHHF	COTN SW	Marie Ganneval
	Infineon Technologies AG	IFNNF	IFX GY	Didier Scemama
	Infineon Technologies AG	IFNNY	IFNNY US	Didier Scemama
	Logitech International S.A.	XLGKF	LOGN SW	Didier Scemama
	Logitech International S.A.	LOGI	LOGI US	Didier Scemama
	Nordic Semiconductor	NDCVF	NOD NO	Didier Scemama
	Soitec	SLOIF	SOI FP	Didier Scemama
	STMicroelectronics NV	STMEF	STMPA FP	Didier Scemama
	STMicroelectronics NV	STM	STM US	Didier Scemama
	Technoprobe S.p.A.	XMDDF	TPRO IM	Marie Ganneval
<b>NEUTRAL</b>				
	Aixtron	AIXXF	AIXA GR	Didier Scemama
	BE Semiconductor Industries N.V.	BESVF	BESI NA	Didier Scemama
	Nokia	NOKBF	NOKIA FH	Didier Scemama
	Nokia	NOK	NOK US	Didier Scemama
	VAT Group AG	VTTGF	VACN SW	Didier Scemama
<b>UNDERPERFORM</b>				
	ams Osram AG	AUKUF	AMS SW	Didier Scemama
	Ericsson	ERIXF	ERICB SS	Didier Scemama
	Ericsson	ERIC	ERIC US	Didier Scemama
	Inficon Holding AG	IFCNF	IFCN SW	Marie Ganneval
	Siltronic AG	SLLF	WAF GR	Marie Ganneval

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

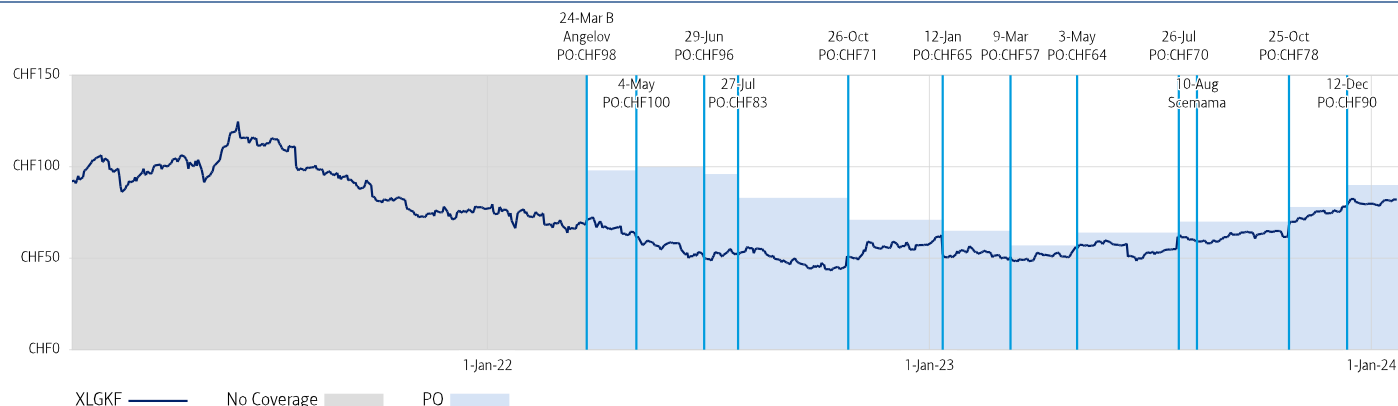
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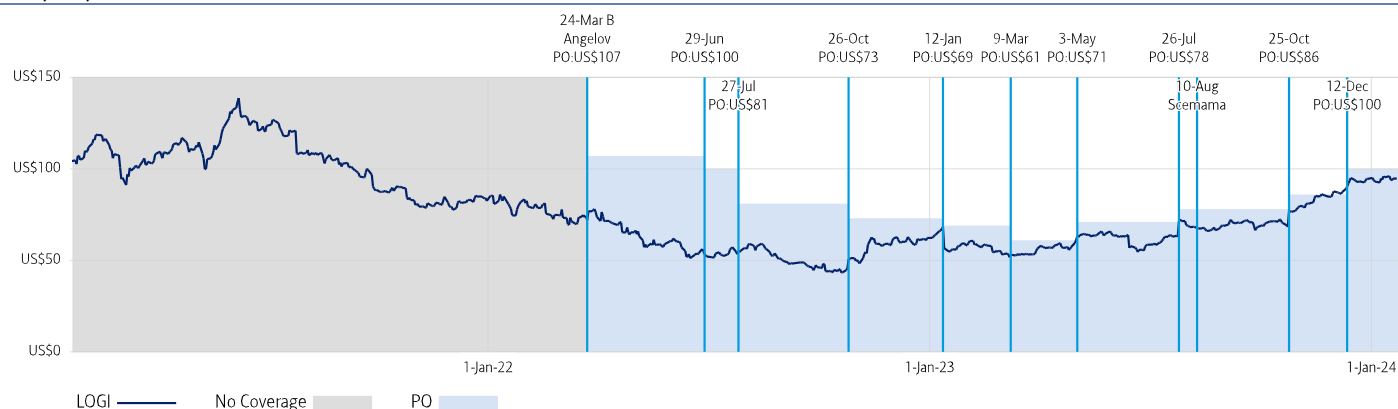
## Important Disclosures

### Logitech (XLGKF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Logitech (LOGI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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