# Logitech International Sa LOGN.S

## Investment Case

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| **Sector** | Information Technology |
| **Group** | Technology Hardware& Equip |
| **Capitalization (bn)** | CHF6.55 |
| **Style** | Quality |
| **Employees** | 6600 |
| **Major Shareholders** | Credit Suisse Am 3.53% |
| | Ubs Am 3.03% |
| | Marathon Am 2.98% |
| | Norges Bank 2.82% |
| | The Vanguard Group 2.38% |
| **Competitors** | Razer, Corsair, Plantronics |
| | Sony, Panasonic |
| | Microsoft |

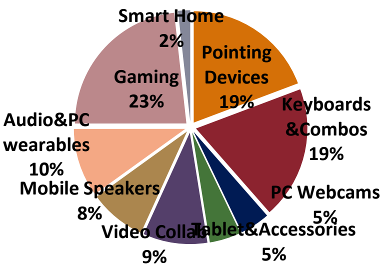
### Company in Brief

Logitech International S.A. is a holding company. The Company designs, manufactures and markets products that allow people to connect through music, gaming, video, computing, and other digital platforms. The Company operates through peripheral segment.

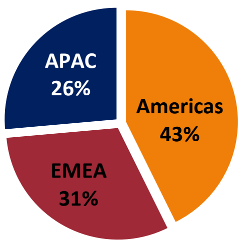
**In Swiss Portfolio since 8/14/2018**

**In Top 25 since 12/17/2019**

### Business Segment Exposure




### Geographical Exposure




### Customer Exposure

Retail side: Ingram Micro (13%), Amazon (14%)

### Production Facilities

China (1) that handles 50% of production needs

### Currency Exposure

Report in $, 50% of sales not $ denominated

### Business Model Description

***Multi-brand, multi-category company***

Logitech is a global leader in accessories for PCs that designs, manufactures and markets products that allow people to connect through music, gaming, video, computing and other digital platforms. Co's manufacturing operations primarily consist of final assembly and testing; however, since 1994 it has own plant in Suzhou (China) that currently handles 1/2 of production volumes.

### Competitive Advantage

***Brand and technology differentiation as a key to success***

Since new management came in, Logitech has been building diversified multi-brand, multi-category company that adresses huge captive markets and has a corporate culture of remaining "hungry". LOGN's product quality and brand recognition is very strong among consumers and company scored #1 ranking in design award per sales dollar in 2017 (yielding 70% higher relative to anybody else in the list) as a tribute to Co's dedication to Innovation.

### Growth Opportunities

***Cloud-based businesses and penetration of new niches***

Logitech is doubling down on its 2 key businesses - Video Collaboration and Gaming (e.g. over last 6 years, CAGR of VC has been >50%). In Gaming, LOGN benefits from leading position (14% market share in gaming peripherals) in structurally growing end market, driven by e-sports that has rather low penetration rates of wireless products (where core competence of LOGN lies). In Video Collaboration, Co grows through partners (Google, Microsoft, Cisco) as they offer their cloud services (comes with low cost of client acquisition for LOGN). Expansion of adressable markets via penetration of new niches either organically, or through M&A (like studio microphones that come with Blue Microhones) is another strategic growth pillar for the company.

### Peer Comparison

***Growth boosted by internal efforts pays off as solid cash flow***

Logitech's GM is in the range of 35-37%, while EBIT margin within 10-12% range, which is consistent with other players in the industry (Razer, Netgear, etc). Over the last five years, Logitech's return on assets has improved from median to better than the median among its peers, suggesting the company has found relative operating advantages.

### Market Environment

Global games market was worth $137.9 bn in 2018 (+13% YoY), up from just $70.57 five years ago, with China being fastest growing gaming region, with revenue CAGR of 8.2% for 2016-20 vs 6.2% for the total market. On the other hand, personal computer sales have been on the decline since 2012, with Q4'18 numbers dropping yet another 1.3%, according to Gartner (after a couple of quarters of modest growth, the market began to slow down again due to political and economic uncertainty and a CPU shortage).

### Latest Results and Outlook

Q4'20: LOGN's net sales grew by 14 percent in US dollars and 15 percent in constant currency to $709 million, driven by surging demand for video conferencing and gaming equipment. Non-GAAP EBIT was up 23 percent to $79 mio. Company confirmed FY 2021 outlook of mid-single digit sales growth (CER) and $380-$400 mio in Non-GAAP EBIT.

### Risk Factors

1) Short product life cycles, 2) supplier disruptions (as some materials are single sourced), 3) ongoing decline in PC market, 4) FX risks (especially USD/EUR fluctuations).

### Valuation

Stock is valued at 27 trailing P/E, giving a 48% premium to Swiss Performance Index, but placing it on par with broader european technology sector.

### Summary

We added Logitech to our portfolio as 1) it is high quality growth company with competent management that completely turned company around in 5 years; 2) there are huge captive markets, where LOGN can grow, all around cloud-based services; 3) high level of innovation, with 25% of sales generated from recently launched products; 4) corporate culture of remaining "hungry".

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