

Logitech International (LOGI)

\$63.15 (As of 06/22/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 05/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Logitech is benefiting from solid performance of Gaming and Video Collaboration units. Stay-at-home orders due to the coronavirus outbreak, are boosting sales. Strong performance of the existing products and a growing momentum in new products are positives. Rising adoption of new mobile platforms in both mature and emerging markets is fueling demand for Logitech's peripherals and accessories. Logitech's partnerships with cloud providers like Zoom, Microsoft and Google are major positives. Shares of the company have outperformed the industry in the year-to-date period. However, weakness in the Mobile Speaker, Audio & Wearables, and Smart Home units remains an overhang. Moreover, tepid sales in the Asia Pacific due to slowdown in China sales are near-term headwinds.

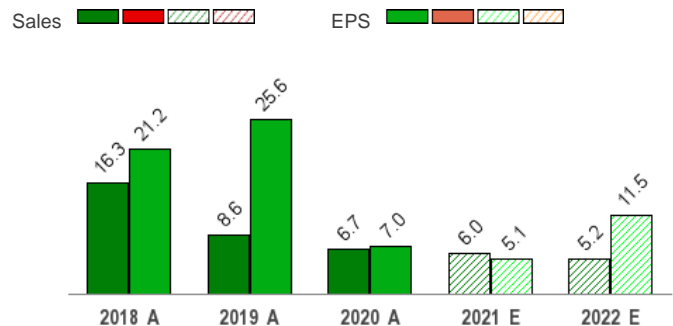
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.13 - \$31.37
20 Day Average Volume (sh)	595,194
Market Cap	\$10.5 B
YTD Price Change	33.7%
Beta	1.04
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Peripheral Equipment
Zacks Industry Rank	Top 9% (24 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	7.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/27/2020
Earnings ESP	0.0%
P/E TTM	29.3
P/E F1	27.9
PEG F1	3.1
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	716 E	817 E	1,024 E	807 E	3,321 E
2021	706 E	765 E	948 E	736 E	3,156 E
2020	644 A	720 A	903 A	709 A	2,976 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.43 E	\$0.58 E	\$1.04 E	\$0.54 E	\$2.52 E
2021	\$0.34 E	\$0.54 E	\$0.92 E	\$0.47 E	\$2.26 E
2020	\$0.39 A	\$0.50 A	\$0.84 A	\$0.42 A	\$2.15 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/22/2020. The reports text is as of 06/23/2020.

Overview

Based in Switzerland, Logitech International S.A. is the parent holding company of Logitech, a Swiss holding company. Logitech International S.A. is a global leader in peripherals for personal computers and other digital platforms, which develops and markets innovative products in PC navigation, Internet communications, digital music, home-entertainment control, video security, interactive gaming and wireless devices. The company conducts its business through subsidiaries located throughout the world.

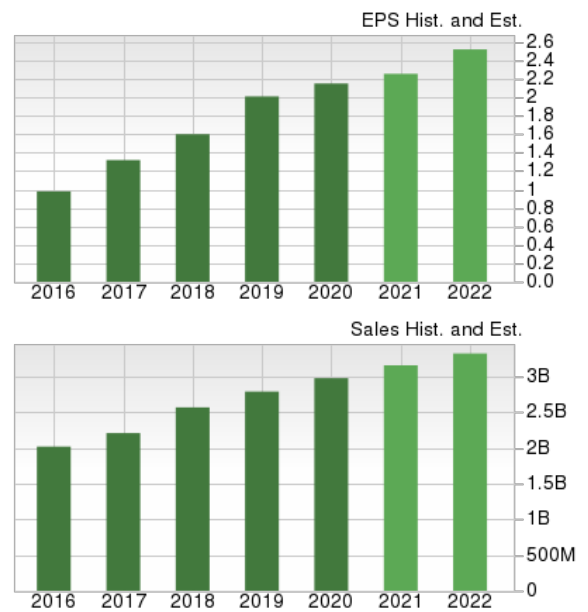
The company used to operate primarily through two business segments: peripherals and video conferencing. The Video conferencing segment included the design, manufacturing and marketing of LifeSize video conferencing products, infrastructure and services for the enterprise, public sector and other business markets. However, in the third quarter of fiscal 2016, Logitech divested its LifeSize video conferencing business, such that it now classifies only its Peripherals segment as continuing operations.

The Peripherals business consists of the design, manufacturing and marketing of peripherals for PCs (personal computers) and other digital platforms. For the PC, the company's products include trackballs, interactive gaming controllers, multimedia speakers, headsets, webcams, 3D control devices and lapdesks. Tablet & Other Accessories products include keyboard and covers.

Internet communications products comprise webcams, headsets, video communications services and digital video security systems for a home or small business.

Mobile Speakers products include wireless speakers, earphones and custom in-ear monitors. For home entertainment systems, Logitech offers the Harmony line of advanced remote controls and Squeezebox wireless music solutions.

For the full-year fiscal 2019, Logitech recorded the sixth consecutive year of growth. Revenues of \$2.8 billion grew 9% year over year. The top-line growth was 10% in constant currency year over year.



Reasons To Buy:

- ▲ Growing adoption of new mobile platforms in both mature and emerging markets are fueling the demand for Logitech's peripherals and accessories. Robust sales across product categories and strong momentum in Video Collaboration, Gaming, and Creativity & Productivity businesses, are helping the company boost its top-line. Logitech has been able to leverage its software and go-to-market capabilities to drive market share gains and growth. The company's cloud-based video conferencing services is also a key growth driver. Apart from this, growth in its tablet business has proved conducive to its top-line.
- ▲ Logitech is intending to tap the high potential market for accessories by pursuing innovation and expanding its product lines. The company has manufactured innovative offerings like fastest performing mouse and keyboard switches, wireless mouse with longest battery, and multi-device keyboards among others. Over the last one year, Logitech has introduced a number of offerings to grab a greater market share. This apart, the acquisition of earbud manufacturer Jaybird has helped Logitech expand its current product portfolio to address customers who prefer headphones over speakers. With such a strong product roster and excellent demand, Logitech is optimistic about the market traction of its offerings in coming times. Moreover, Logitech's recent acquisition of Blue Headphones is also expected to be a key growth driver.
- ▲ The acquisition of ASTRO Gaming — a popular console gaming headset maker — in second-quarter fiscal 2018 is helping Logitech carve a deeper niche in the gaming peripheral market. This acquisition is a strategic move on Logitech's part to get a jumpstart on the console market, as it has historically targeted PCs, tablets and phones.
- ▲ Logitech has been making efforts to increase returns to its investors through share repurchases and dividend hikes. We believe such initiatives boost shareholders' confidence in the stock. This apart, Logitech's solid financial health also allows it to take up acquisitions to boost core business areas.
- ▲ Logitech has a strong balance sheet with ample liquidity position and no debt obligations. Cash and cash equivalents were \$715.6 million as of Mar 31, 2020. Since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.
- ▲ Logitech generates solid cash flow, which allows management the opportunity to invest in product innovations, acquisitions and business development. At the same time, the company has historically returned significant cash through a combination of share repurchases and dividend to reward shareholders with risk-adjusted returns. The company generated cash flow from operations of \$425 million in the fiscal 2020. As of April 30, 2020, Logitech's three-year share buyback program, initiated in May 2017, expired. During the three years of the 2017 share buyback program, the Company repurchased 2,902,071 of its shares for about \$1.13 billion. The company's ability to generate solid free cash flow is expected to help it sustain current dividend payout level, at least in the near term.

The bullish momentum in Gaming and Video Collaboration businesses, along with the thriving cloud-based video conferencing services, will continue to be catalysts for the company's growth.

Risks

- The rising trend of smaller, mobile computing devices with touch interfaces and the declining popularity of desktop PCs can be a headwind for the company. Moreover, the company's sales are impacted by end-user consumer demand and therefore, the business can be negatively impacted by unanticipated shifts in consumer buying patterns.
 - The market where Logitech operates is highly competitive and characterized by short product life cycles, constant new product introductions, rapidly changing technology, evolving customer demands and aggressive promotional and pricing practices. Strong competitors like Microsoft, Bose, Philips and Cisco Systems as well as increasing new entrants in Logitech's operating markets pose a threat. Therefore, in a dynamic market such as this, Logitech needs to bring in newer products that match the trend, in order to survive the competition. Consequently, the company has been experiencing significant surges in R&D expenses, which is likely to remain an overhang on the upcoming quarters.
 - Logitech's business is prone to be affected by the negative impact of currency translation as the company derives highest portion of its revenues from outside the Americas. Adverse currency impact also significantly hurt the company's operating cash flow. Apart from currency fluctuations, weaknesses in political and macroeconomic conditions are adding to the company's woes. In particular, political tensions between Russia and Ukraine are posing risks for Logitech. Such external factors create unpredictability and are beyond the control of the company.
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Last Earnings Report

Logitech Q4 Earnings & Revenues Top Estimates

Logitech reported fourth-quarter fiscal 2020 results, wherein both bottom and top lines surpassed estimates.

Non-GAAP earnings came in at 42 cents per share, surpassing the Zacks Consensus Estimate by 16.7%. The bottom line also improved from the year-ago quarter's 38 cents.

Net sales of \$709 million surpassed the consensus mark of \$661 million and rose 14% year over year in dollars and 15% at constant currency.

The year-over-year increase stemmed from strong growth across all business segments. Bracken Darrell, president and CEO, Logitech, noted, "Video conferencing, working remotely, creating and streaming content, and gaming are long-term secular trends driving our business. The pandemic hasn't changed these trends: it has accelerated them."

Segmental Details

Logitech's Gaming segment's sales grew 8% year over year to \$148.9 million. Video Collaboration sales witnessed a 60% rally to \$110.7 million.

However, Mobile Speakers' sales fell 7% to \$21.2 million.

Audio & Wearables segment sales remained flat year over year at \$65 million. Smart Home segment sales fell 28% year over year to \$8.3 million.

Logitech's Creativity and Productivity business comprises four sub-business lines — Keyboards and Combos, Pointing Devices, PC Webcams, and Tablet and Other Accessories. Revenues from Pointing Devices, and Keyboards and Combos grew 3% and 12% year over year, respectively. Moreover, revenues from PC Webcams, and Tablet and Other Accessories surged 32% and 36%, respectively.

The Other segment declined 59% to \$94 million in the quarter.

Margins & Operating Metrics

Non-GAAP gross profit rose 19% year over year to \$282.5 million. Non-GAAP gross margin expanded 180 basis points (bps) from the year-ago quarter to 39.8%.

Non-GAAP operating expenses grew 17.6% to \$203.5 million.

Non-GAAP operating income climbed 23% to \$79 million. Operating margin of 11.1% expanded 80 bps.

Liquidity

As of Mar 31, 2020, Logitech's cash and cash equivalents were \$715.6 million compared with \$656.05 million in the previous quarter.

Additionally, the company generated operating cash flow of \$100.8 million in the fiscal fourth quarter compared with \$181.12 million in the prior quarter.

Fiscal 2020 Highlights

Revenues for the year grew 7% in dollars and 9% at constant currency to \$2.98 billion. Non-GAAP earnings of \$2.15 grew 7% year over year.

Cash flow from operations was \$425 million, up from \$305 million a year ago.

Guidance

Logitech provided a view for fiscal 2021. The company expects non-GAAP operating income of \$380-\$400 million.

Revenue growth is anticipated in the mid-single-digit range at constant currency.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	7.30%
EPS Surprise	16.67%
Quarterly EPS	0.42
Annual EPS (TTM)	2.15

Recent News

On June 17, Logitech announced that information on the carbon impact of all its products will henceforth be available on the packaging and the company website. The first carbon impact labeling is likely to appear on Logitech's gaming products later this year.

On May 28, Logitech announced the approval of a new, three-year share buyback program, which authorizes the company to use up to \$250 million to repurchase its shares.

On Feb 26, Logitech and Herman Miller announced a research, design, and manufacture partnership to deliver the next generation high-performance furniture solutions for gamers.

On Feb 11, Logitech launched the Logitech StreamCam, a webcam with features like 1080p/60 fps video, USB-C connectivity and flexible mounting options.

On Feb 4, Logitech announced the expansion of its video conferencing solutions for work environments with the launch of its Zone Wired headset.

Valuation

Logitech's shares have increased 33.8% in the year-to-date (YTD) period and 61.2% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have increased 7.9% and 10.8%, respectively, YTD. Over the past year, while the Zacks sub-industry has increased 13.8%, the sector increased 23.4%.

The S&P 500 Index has declined 3.1% YTD and increased 5.9% in the past year.

The stock is currently trading at 3.3X forward 12-month sales, which compares to 0.6X for the Zacks sub-industry, 3.91X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.3X and as low as 0.98X, with a 5-year median of 2.13X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$72 price target reflects 3.8X forward 12-month sales.

The table below shows summary valuation data for LOGI

Valuation Multiples - LOGI					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.3	0.6	3.91	3.5
	5-Year High	3.3	6.9	3.91	3.5
	5-Year Low	0.98	0.34	2.32	2.53
	5-Year Median	2.13	5.09	3.12	3.02
P/B TTM	Current	7.07	1.26	5.76	4.26
	5-Year High	7.77	1.29	5.76	4.56
	5-Year Low	2.7	0.63	3.16	2.83
	5-Year Median	5.7	0.98	4.35	3.67
EV/EBITDA TTM	Current	44.01	13.07	12.64	11.56
	5-Year High	44.01	13.23	12.72	12.85
	5-Year Low	4.92	1.57	7.57	8.25
	5-Year Median	17.11	3.44	10.77	10.83

As of 06/22/2020

Industry Analysis Zacks Industry Rank: Top 9% (24 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
LG Display Co., Ltd. (LPL)	Outperform	1
Apple Inc. (AAPL)	Neutral	3
Dell Technologies Inc. (DELL)	Neutral	3
HP Inc. (HPQ)	Neutral	3
Immersion Corporation (IMMR)	Neutral	3
Lenovo Group Ltd. (LNVGY)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Stratysys, Ltd. (SSYS)	Neutral	3

Industry Comparison Industry: Computer - Peripheral Equipment				Industry Peers		
	LOGI	X Industry	S&P 500	AAPL	HPQ	MSFT
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	B	A	B
Market Cap	10.52 B	84.05 M	21.83 B	1,555.46 B	24.21 B	1,521.01 B
# of Analysts	2	2	14	12	5	15
Dividend Yield	0.00%	0.00%	1.93%	0.91%	4.16%	1.02%
Value Score	D	-	-	C	A	C
Cash/Price	0.07	0.21	0.07	0.06	0.17	0.09
EV/EBITDA	24.64	8.91	12.63	19.81	5.21	25.04
PEG Ratio	3.10	6.56	2.90	2.65	5.33	2.52
Price/Book (P/B)	7.07	1.42	3.01	19.83	NA	13.28
Price/Cash Flow (P/CF)	26.63	12.24	11.47	23.52	6.04	31.57
P/E (F1)	27.94	51.83	21.30	29.14	8.07	35.15
Price/Sales (P/S)	3.54	1.13	2.29	5.80	0.42	10.97
Earnings Yield	3.59%	-2.32%	4.42%	3.43%	12.40%	2.85%
Debt/Equity	0.00	0.10	0.77	1.14	-5.30	0.61
Cash Flow (\$/share)	2.37	0.54	7.01	15.26	2.80	6.35
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	23.41%	-8.62%	10.84%	9.79%	-5.33%	18.74%
Proj. EPS Growth (F1/F0)	4.88%	-41.02%	-10.80%	3.59%	-6.34%	20.13%
Curr. Cash Flow Growth	9.67%	-36.68%	5.46%	-3.74%	8.32%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	3.78%	2.22%	8.55%	7.40%	-18.40%	11.99%
Current Ratio	1.98	2.12	1.29	1.50	0.78	2.90
Debt/Capital	0.00%	9.13%	45.14%	53.18%	NA	37.98%
Net Margin	15.11%	-2.98%	10.53%	21.35%	5.27%	33.36%
Return on Equity	25.03%	-4.61%	16.06%	64.49%	-295.77%	40.37%
Sales/Assets	1.33	0.93	0.55	0.81	1.74	0.49
Proj. Sales Growth (F1/F0)	6.05%	0.00%	-2.66%	0.76%	-6.75%	12.48%
Momentum Score	F	-	-	C	D	A
Daily Price Chg	2.65%	0.00%	0.09%	2.62%	0.89%	2.78%
1 Week Price Chg	5.92%	-0.09%	0.92%	3.22%	3.07%	3.95%
4 Week Price Chg	11.62%	4.03%	5.61%	12.54%	-0.41%	9.30%
12 Week Price Chg	44.63%	39.74%	16.49%	40.84%	-5.10%	25.18%
52 Week Price Chg	61.04%	-24.03%	-6.63%	80.72%	-18.05%	45.57%
20 Day Average Volume	595,194	74,753	2,841,862	34,374,196	19,998,484	35,265,944
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.16%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.09%	-2.42%	0.36%
(F1) EPS Est 12 week change	7.85%	-117.84%	-13.25%	-4.10%	-9.18%	1.38%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.98%	2.76%	0.47%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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