



logitech

Logitech International S.A. (NASDAQ:LOGI)

Jaimie Chen, Arnav Chinchankar, Maheen Vasania, Edward Choi, Dahntay Baugh

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V	Operational Overview
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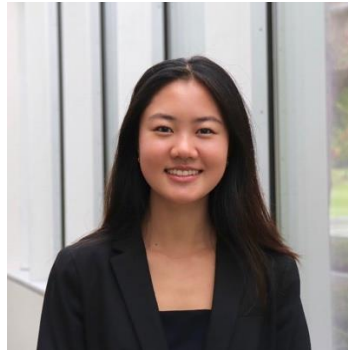
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Goldman Sachs

**Global Head of
Consumer Retail**

Over \$250 bn across
100+ deals

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**Global Head of
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**M&A Managing
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Cornell PGN
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**Global Head of
Technology & Media**

Industry advisor to
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Key Information

- Founded on October 2, 1981, in Switzerland focusing on sales and manufacturing moving into research on the mouse
- Its product lines range from computer accessories to house security cameras, hardware remotes, and audio equipment
- Logitech's registered offices are in Switzerland but operate out of subsidiaries in 102 countries and 66% out of the US

Performance Metrics (Q3 2023)

- **Revenue:** \$3.83 Bn (17.6% YoY)
- **Market Cap:** \$12.442 Bn
- **Market Share:** 20.2% (industry leader)
- **Profit Margin:** 38.55% (above industry average)

Past Stock Performance (\$USD)



Products



Mice:
\$8.99 –
\$99.99



Keyboards:
\$12.99 –
\$169.99



Audio:
\$15.99 –
\$299.99



Accessories:
Varies by type
and product

Management Team



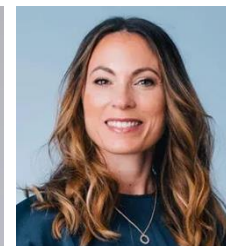
Guy Gecht
CEO



Chuck Boynot
CFO



Prakash Arunkundram
COO



Samantha Harnett
CLO

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Industry Description

Computer Peripherals

Encompasses hardware devices and accessories designed to enhance functionality and provide additional features.

Technology and Electronics

Computer peripherals, with a diverse array of products, are an integral part of the broader technology and electronics sector.

Market Size

\$451.57 Bn (2022)

Growth Potential

10.7% CAGR

Key Players



Area:
Gaming

Revenue:
\$1.39 Bn
Market Cap:
\$1.35 Bn

Area:
Mice

Revenue:
\$218 Bn
Market Cap:
\$2.62 Tn

Area:
Keyboards

Revenue:
\$54.7 Bn
Market Cap:
\$27.1 Bn

Area:
Video

Revenue:
\$57.0 Bn
Market Cap:
\$215 Bn

Growth Contributors

1

- Rapid growth of the **gaming industry** has been a significant driver for specialized gaming peripherals
- Gaming produces **26.7%** of Logitech's revenue

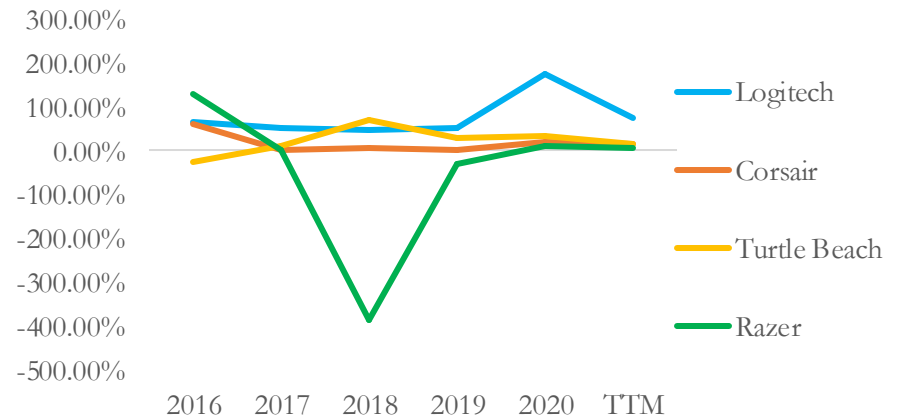
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- Growth in **computer use** (9.1% CAGR) and **internet use** (6% CAGR) in general
- Peripheral growth accompanies technology growth

3

- **Advancements in technology** leads to increased demand for new and improved peripherals
- Ex. wireless charging, curved displays, USB-C

Industry ROIC



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Competitive Advantages

First-Mover

One of the first companies to develop wireless mice and keyboards, using this advantage to become a market leader

Customer Retention

Logitech provides customers with excellent service compared to the industry, leading to a NPS score of 49 (Great)

Quality Design

High-quality design team that received 116 awards across product categories and the Red Dot Design Team of the Year

High Growth

Gaming
Segment

8% YoY

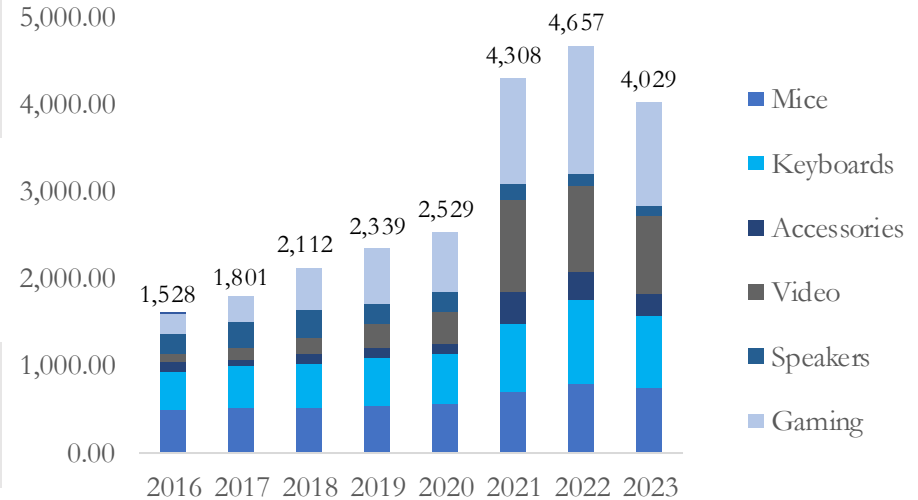
Pointing
Devices

8% YoY

Q2 2024
EBIT

17% YoY

Revenue by Segment (mm)



New Developments



Continued investment in research and development resulting in the introduction of **16 new products** in Q2



The **first** consumer electronics company to commit to providing **carbon impact labels** on product packaging



Appointed **Hanneke Faber**, former Unilever and P&G executive, to join as CEO in December 2023

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Production Processes

Logitech's production is highly automated and uses **Lean Manufacturing** to reduce waste and improve productivity

Lean Manufacturing Initiatives

- **Just-in-time (JIT):**
A production system that minimizes inventory
- **Total productive maintenance (TPM):**
A maintenance program that focuses on equipment failures
- **Automated optical inspection (AOI):**
Used for inspecting its products for defects and outliers

Facilities



Switzerland:

Headquarters of management, tech, and sales team and the manufacturing facility in Lausanne



China:

Largest manufacturing facility located in Suzhou, China and houses Logitech's global R&D center



United States:

Gaming manufacturing facility in Fremont and is home to Logitech's global customer support center

Technology



LIGHTSPEED:

Logitech's proprietary wireless technology that is designed for high performance and low latency



Optical Sensors:

In computer mice, trackballs, and webcams-tracking movement by detecting light reflection



Image Processing:

Present in webcams and video conferencing solutions and improves quality of various media

Operational Considerations

Supply Chain Management:

Logitech has a complex global supply chain, and therefore needs to ensure that it has a secure supply of materials from suppliers

Product Quality:

Known for their high quality, maintenance of high standards for product quality needs to occur to maintain brand reputation

Innovation:

Logitech needs to continue to innovate and develop new products to stay ahead of its competitors and industry shifts

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Shipping Breakdown:

White-label shipping:

Logitech offers white-label shipping for customers who want to brand Logitech products with their own logo. It expands market demand for their products

Logitech Shipping:

Logitech's in-housing shipping company, specializes in shipping Logitech products to customers in North America and Europe, combining

Drop shipping:

Logitech offers drop shipping for customers who sell Logitech products online, allowing for shipping of products directly to customers



China

Production Percentage:
~40%

Primary manufacturing location is in Suzhou, China

Innovation testing, general production and intellectual property protection



Mexico

Production Percentage:
~15%

Primarily produces mice, keyboards and webcams

Logitech outsources its manufacturing in North America to Pemstar



Taiwan

Production Percentage:
~20%

Taiwan is a key design and production center

New product launches, process engineering and quality assurance



Malaysia

Production Percentage:
~15%

Production outsourced to third party producers

Logitech also does a proportion of their contract manufacturing in Malaysia

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Customer and Supplier Relationships

Customers

Retailers: Logitech sells its products through a variety of retailers, including Amazon, Best Buy, and Walmart

OEMs: Logitech also sells its products to OEMs (original equipment manufacturers), such as Dell, HP, and Lenovo.

Distributors: Sells to middle-men distributors such as Ingram Micro, Synnex, Tech Data, Arrow Electronics, and CDW

Customer Initiatives:

- Partners with the Amazon Alexa Fund, which invests in companies that develop innovative voice-enabled products
- Partner of the Google Assistant Developer Community, which gives Logitech access to Google's AI expertise

Suppliers

Component suppliers: Logitech sources goods from many suppliers, including Broadcom, Intel, and NXP Semiconductors

Contract manufacturers: Outsources manufacturing to contract manufacturers (CMs), such as Foxconn and Pegatron

Supplier Initiatives:

- A Supplier Code of Conduct exists that all suppliers must adhere to, which sets out Logitech's standards for labor practices, environmental protection, and business ethics
- Logitech conducts regular audits of its suppliers to ensure that they are meeting the company's standards, including labor practices, environmental impact, and financial stability

Key Relationships



Launch of several new mice and keyboards that have been developed for use with Apple's Macs, including Logitech's first mechanical keyboard



Exclusive supplier of mice and keyboards for Dell's XPS line of laptops through a three-year, potentially-renewable **\$200mm** contract

Key Relationships



Major customer of NXP Semiconductors, which supplies the company with sensors and semi-conductors and has a contract that is **>\$1Bn**



Logitech is also a major customer of **Broadcom**, which supplies the company with wireless communication chips- **>\$500mm** contract

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Free Cash Flow Build (\$mm)

UNLEVERED FREE CASH FLOW BUILD

Fiscal Year	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Fiscal Year End Date	3/31/19	3/31/20	3/31/21	3/31/22	3/31/23	3/31/24	3/31/25	3/31/26	3/31/27	3/31/28
NOPAT	263.3	418.9	951.8	652.2	392.2	456.2	503.0	557.9	564.8	608.1
(+) D&A	43.5	42.9	50.8	88.4	76.3	60.4	62.6	66.2	78.1	84.2
(-) CapEx	(35.9)	(39.5)	(76.2)	(89.2)	(92.4)	(64.3)	(69.9)	(76.5)	(86.9)	(95.4)
(+/-) Change in NWC		(76.8)	(777.0)	(174.3)	96.8	403.4	(106.8)	(121.7)	(166.7)	(139.9)
Unlevered Free Cash Flow	270.9	345.5	149.4	477.1	472.9	855.8	389.0	425.9	389.4	456.9
PV of UFCF						794.4	335.2	340.7	289.1	314.9

Other Key Statistics

WACC
7.73%

Beta
0.63

LT Debt
\$0

Exit Multiple
11.92x

Sensitivity Tables

		1.5%	2.0%	2.5%	3.0%	3.5%
7.83%	\$	52.22	\$ 54.93	\$ 58.15	\$ 62.04	\$ 66.82
7.78%	\$	52.56	\$ 55.32	\$ 58.61	\$ 62.58	\$ 67.49
7.73%	\$	52.91	\$ 55.72	\$ 59.08	\$ 63.14	\$ 68.17
7.68%	\$	53.26	\$ 56.13	\$ 59.55	\$ 63.71	\$ 68.86
7.63%	\$	53.62	\$ 56.54	\$ 60.04	\$ 64.29	\$ 69.58

		10.9x	11.4x	11.9x	12.4x	12.9x
7.83%	\$	78.43	\$ 81.10	\$ 83.77	\$ 86.44	\$ 89.11
7.78%	\$	78.45	\$ 81.12	\$ 83.78	\$ 86.45	\$ 89.12
7.73%	\$	78.46	\$ 81.13	\$ 83.80	\$ 86.47	\$ 89.14
7.68%	\$	78.48	\$ 81.15	\$ 83.82	\$ 86.48	\$ 89.15
7.63%	\$	78.49	\$ 81.16	\$ 83.83	\$ 86.50	\$ 89.17

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Trade Policy and Regulatory Risk

- Primarily manufacturing in China means the company is at risk to changes in **global trade policies and regulatory shifts**
- **Anti-Foreign Sanction Law** passed by China also poses significant threats to the company's operations



- Strengthening of **contractual agreements** with distributors in order to ensure flexibility and adaptability in the face of regulatory changes
- Consider **diversification of manufacturing locations** to reduced dependence on a single region

2

Reliance on Third-Party Distributors

- Logitech relies on third parties to sell and distribute products, as well third-party information
- Disruption of this relationship with these channel partners could adversely affect operational efficiency



- **Attract and retain** sales channel partners through cooperative marketing arrangements, incentive programs and pricing programs
- Logitech has **diffuse distribution relationships** across various distribution channels

3

Data Security and Privacy Risks

- Collection storage and use of confidential information by Logitech may pose a threat for **data privacy leaks**
- Risks regarding **financial or legal information** and **personal information** about employees and customers



- Use of **TLS encryption** and Security Awareness and Training programs to protect against unauthorized access
- **Retention policies, access controls** and **contingency plans** in place to reduce the impact of privacy breaches

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Acquisition Rationale



Strong Market Position

Well-recognized brand with international presence along with a diverse product stream



Acquisition History

Over 20 acquisitions that allow Logitech to improve product variety and appeal to different customers



Industry Growth

The gaming industry has a 9.17% CAGR and is expected to reach \$321 Bn in 2026

Response to Trends

Growth in Gaming

- Logitech has positioned itself as a market leader in the gaming industry through their brand, **Logitech G**
- Acquired **ASTRO Gaming** to accelerate growth

Tech Advancement

- New microphones** with Blue VO!CE technology and launch of **AI-powered headsets** in Fall 2023
- Logitech G Cloud launched in **Europe** in May 2023

Feasibility Analysis

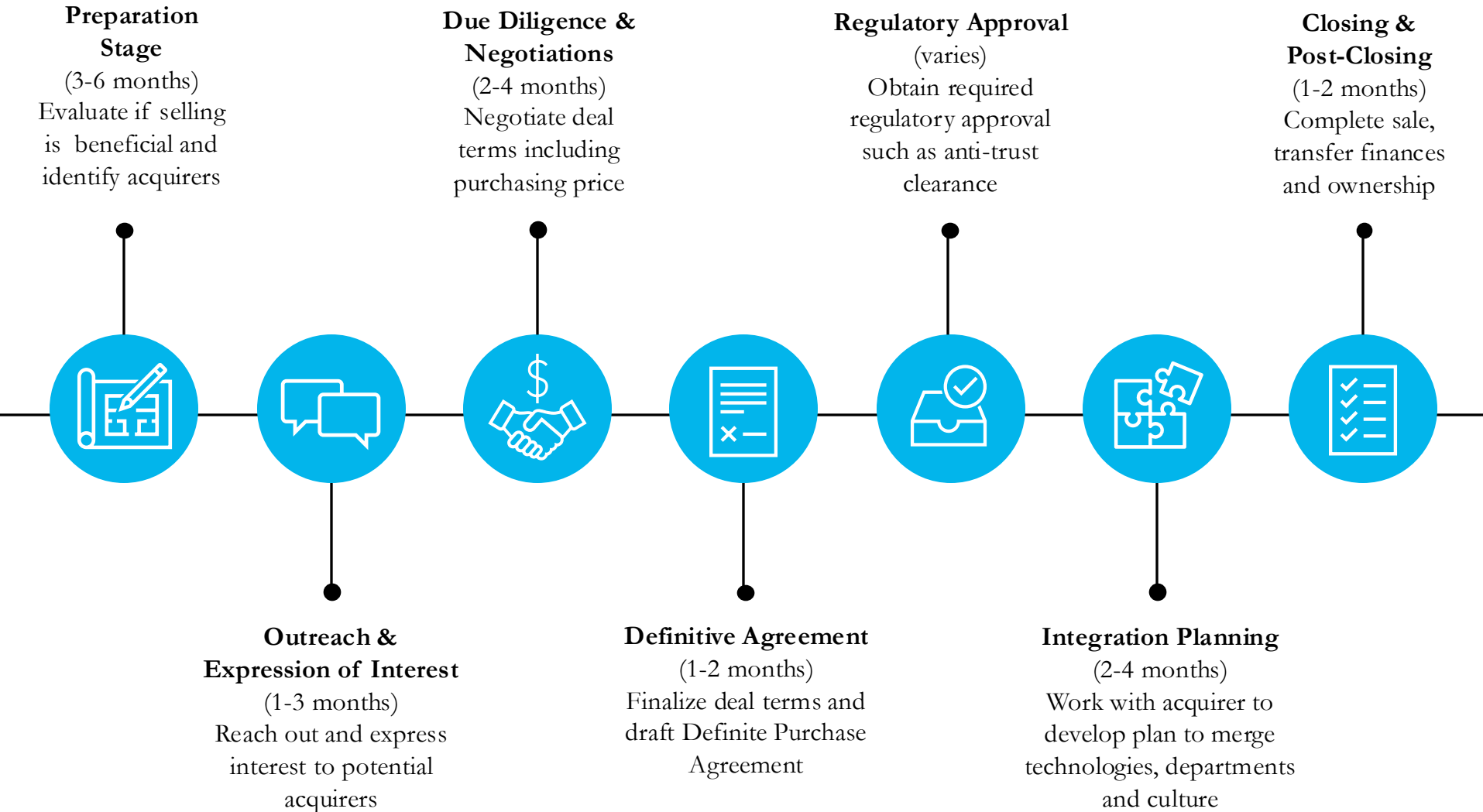
Low Debt

- Lack of debt gives them a strong financial position for acquisition and room for R&D investment or paybacks
- Acquirer will not have to refinance or pay back any debt

Depressed Valuations

- Technology companies have seen a significant drop in valuations post-2021, including Logitech
- Lower valuations improve chance to see higher returns

Acquisition Timeline



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Thank You

Any Questions?

UNLEVERED FREE CASH FLOW BUILD

Fiscal Year	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
<i>Fiscal Year End Date</i>	<i>3/31/19</i>	<i>3/31/20</i>	<i>3/31/21</i>	<i>3/31/22</i>	<i>3/31/23</i>	<i>3/31/24</i>	<i>3/31/25</i>	<i>3/31/26</i>	<i>3/31/27</i>	<i>3/31/28</i>
NOPAT	263.3	418.9	951.8	652.2	392.2	456.2	503.0	557.9	564.8	608.1
(+) D&A	43.5	42.9	50.8	88.4	76.3	60.4	62.6	66.2	78.1	84.2
(-) CapEx	(35.9)	(39.5)	(76.2)	(89.2)	(92.4)	(64.3)	(69.9)	(76.5)	(86.9)	(95.4)
(+/-) Change in NWC		(76.8)	(777.0)	(174.3)	96.8	404.5	(106.5)	(121.4)	(167.2)	(139.8)
Unlevered Free Cash Flow	270.9	345.5	149.4	477.1	472.9	856.9	389.2	426.3	388.9	457.0
PV of UFCF						798.8	338.3	345.3	293.7	321.8

COST OF CAPITAL

Cost of Debt	0%
Tax Rate	21%
After-Tax Cost of Debt	0%

Risk-Free Rate	4.58%
Beta	0.63
Equity Risk Premium	5.00%
Cost of Equity	7.73%

Capital Structure	Amount	Weight
Total Debt	73.8	5.9%
Equity	1176.3	94.1%

WACC	7.27%
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GORDON GROWTH METHOD

Terminal Year UFCF	457.0
Perpetuity Growth Rate	2.5%
Terminal Value	9579.4
Present Value of Terminal Value	6744.2
Present Value of Projected Cash Flows	2097.8
Enterprise Value	8842.1
(+) Cash	1163.9
(-) Debt	73.8
(-) Minority Interest	0
Equity Value	9932.2
Shares Outstanding	156.8
Implied Share Price	\$ 63.34

EXIT MULTIPLE METHOD

Terminal EBITDA	836.9
Exit EBITDA Multiple	11.92x
Terminal Value	9975
Present Value of Terminal Value	9975.5
Present Value of Projected Cash Flows	2097.8
Enterprise Value	12073.3
(+) Cash	1163.9
(-) Debt	73.8
(-) Minority Interest	0
Equity Value	13163.4
Shares Outstanding	156.8
Implied Share Price	\$ 83.95

INCOME STATEMENT (CONSOLIDATED)

Fiscal Year	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Fiscal Year End Date	3/31/19	3/31/20	3/31/21	3/31/22	3/31/23	3/31/24	3/31/25	3/31/26	3/31/27	3/31/28
Revenue	2788.3	2975.9	5252.3	5481.1	4538.8	4159.38	4376.84	4632.34	5134.6	5599.5
% Growth		7%	76%	4%	-17%	-8%	5%	6%	11%	9%
Cost of Goods Sold	1738.00	1838.70	2903.20	3204.10	2806.40	2492.98	2602.35	2732.68	3067.14	3359.15
% of Sales	62%	62%	55%	58%	62%	60%	59%	59%	60%	60%
Gross Profit	1050.30	1137.20	2349.10	2277.00	1732.40	1666.40	1774.49	1899.66	2067.46	2240.35
Selling, General, and Administrative	(586.00)	(626.60)	(937.10)	(1169.90)	(928.60)	(846.16)	(884.51)	(928.30)	(1051.52)	(1137.03)
% of Sales	21%	21%	18%	21%	20%	20%	20%	20%	20%	20%
Research & Development	(161.20)	(177.60)	(226.00)	(291.80)	(280.80)	(229.29)	(238.92)	(248.15)	(285.88)	(314.50)
% of Sales	6%	6%	4%	5%	6%	6%	5%	5%	6%	6%
Amort. Of Goodwill and Intangibles	(25.90)	(30.90)	(32.40)	(30.20)	(24.40)	(30.55)	(30.45)	(29.05)	(32.31)	(36.11)
% of Sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Operating Income (EBIT)	277.20	302.10	1153.60	785.10	498.60	560.40	620.61	694.16	697.76	752.71
Interest Expense	-	-	-	-	-	-	-	-	-	-
Interest and Invest. Income	8.40	9.60	1.80	1.20	18.30	11.72	12.17	12.26	15.65	20.00
% of Sales	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Other Expenses	(14.40)	12.70	(7.20)	(10.60)	(53.40)	(21.75)	(22.94)	(33.36)	(41.72)	(50.34)
% of Sales	1%	0%	0%	0%	2%	1%	1%	1%	1%	1%
Pre-Tax Income	271.20	324.40	1148.20	775.70	463.50	550.38	609.84	673.07	671.69	722.37
Income Tax Expenses	(13.60)	125.40	(200.90)	(131.30)	(98.90)	(102.30)	(115.57)	(132.09)	(127.99)	(138.77)
% Tax Rate	5%	-39%	17%	17%	21%	19%	19%	20%	19%	19%
Net Income	257.60	449.80	947.30	644.40	364.60	448.08	494.27	540.98	543.71	583.61

NETWORKING CAPITAL SCHEDULE

Fiscal Year	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Fiscal Year End Date	3/31/19	3/31/20	3/31/21	3/31/22	3/31/23	3/31/24	3/31/25	3/31/26	3/31/27	3/31/28
Cash and Cash Equivalents	604.5	715.6	1750.3	1328.7	1149	1069.9	1161.2	1252.0	1323.0	1459.9
% of Sales	22%	24%	33%	24%	25%	26%	27%	27%	26%	26%
Accounts Receivable	383.3	394.7	612.2	675.6	630.4	539.7	561.2	589.9	664.9	732.1
% of Sales	14%	13%	12%	12%	14%	13%	13%	13%	13%	13%
Other Receivables	34.3	33.6	67.7	58.9	60.3	50.3	52.8	56.6	62.0	69.2
% of Sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Inventory	293.5	229.2	661.1	933.1	682.9	523.1	568.4	650.6	736.1	772.6
% of Sales	11%	8%	13%	17%	15%	13%	13%	14%	14%	14%
Prepaid Expense	34.8	41.3	62.5	75.1	82.4	58.3	62.7	66.8	76.6	85.0
% of Sales	1%	1%	1%	1%	2%	1%	1%	1%	1%	2%
Other Current Assets	0	0	5.5	1.5	0.1	0.0	0.0	0.0	0.0	0.0
% of Sales										
Total Current Assets	1350.4	1414.4	3159.3	3072.9	2605.1	2241.4	2406.3	2615.8	2862.7	3118.7
Accounts Payable	283.9	259.1	823.3	636.3	407	458.7	490.1	541.8	559.6	602.4
% of Sales	10%	9%	16%	12%	9%	11%	11%	12%	11%	11%
Accrued Expenses	247.1	258.9	461.8	483.4	390.1	364.1	382.2	404.8	448.1	487.7
% of Sales	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Current Portion of Leases	0	10.9	13.1	13.7	12.7	9.5	12.0	11.9	13.3	14.5
% of Sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Current Income Taxes Payable	9	8.8	131.4	35.4	18.8	34.8	41.1	49.4	40.1	45.2
% of Sales	0%	0%	3%	1%	0%	1%	1%	1%	1%	1%
Other Current Liabilities	186.8	176.3	252.3	252.4	221.6	223.9	224.1	229.7	256.2	283.7
% of Sales	7%	6%	5%	5%	5%	5%	5%	5%	5%	5%
Total Current Operating Liabilities	726.8	714	1681.9	1421.2	1050.2	1091.0	1149.5	1237.6	1317.3	1433.5
Networking Capital	623.6	700.4	1477.4	1651.7	1554.9	1150.4	1256.9	1378.2	1545.4	1685.2

CAPITAL EXPENDITURE SCHEDULE

Fiscal Year	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Fiscal Year End Date	3/31/19	3/31/20	3/31/21	3/31/22	3/31/23	3/31/24	3/31/25	3/31/26	3/31/27	3/31/28
Capital Expenditures	35.9	39.5	76.2	89.2	92.4	64.3	69.9	76.5	86.9	95.4
% of Sales	1%	1%	1%	2%	2%	2%	2%	2%	2%	2%
Depreciation and Amortization	43.5	42.9	50.8	88.4	76.3	60.4	62.6	66.2	78.1	84.2
% of Sales	2%	1%	1%	2%	2%	1%	1%	1%	2%	2%