

LOGITECH INTERNATIONAL SA

Form 10-Q

February 06, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

Canton of Vaud, Switzerland None
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

Logitech International S.A.

Apples, Switzerland

c/o Logitech Inc.

7700 Gateway Boulevard

Newark, California 94560

(Address of principal executive offices and zip code)

(510) 795-8500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes
No

As of January 9, 2017, there were 161,721,924 shares of the Registrant's share capital outstanding.

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In this document, unless otherwise indicated, references to the "Company" or "Logitech" are to Logitech International S.A., its consolidated subsidiaries and predecessor entities. Unless otherwise specified, all references to U.S. Dollar, Dollar or \$ are to the United States Dollar, the legal currency of the United States of America. All references to CHF are to the Swiss Franc, the legal currency of Switzerland.

Logitech, the Logitech logo, and the Logitech products referred to herein are either the trademarks or the registered trademarks of Logitech. All other trademarks are the property of their respective owners.

The Company's fiscal year ends on March 31. Interim quarters are generally thirteen-week periods, each ending on a Friday of each quarter. The third quarter of fiscal year 2017 ended on December 30, 2016. The same quarter in the prior fiscal year ended on December 25, 2015. For purposes of presentation, the Company has indicated its quarterly periods as ending on the last day of the calendar quarter.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net sales	\$666,707	\$621,079	\$1,710,875	\$1,587,259
Cost of goods sold	418,015	412,582	1,083,908	1,048,312
Amortization of intangible assets and purchase accounting effect on inventory	1,929	—	4,705	—
Gross profit	246,763	208,497	622,262	538,947
Operating expenses:				
Marketing and selling	102,036	87,295	279,700	241,924
Research and development	32,284	29,161	96,867	85,889
General and administrative	24,631	24,080	75,587	77,966
Amortization of intangible assets and acquisition-related costs	1,494	112	4,535	447
Change in fair value of contingent consideration for business acquisition	(9,925)) —	(9,925)) —
Restructuring charges (credits), net	(33)) (666)	(44)) 14,018
Total operating expenses	150,487	139,982	446,720	420,244
Operating income	96,276	68,515	175,542	118,703
Interest income, net	202	105	263	549
Other income (expense), net	2,634	862	943	(894)
Income before income taxes	99,112	69,482	176,748	118,358
Provision for income taxes	1,647	1,442	10,297	7,006
Net income from continuing operations	97,465	68,040	166,451	111,352
Loss from discontinued operations, net of taxes	—	(2,954)) —	(20,732)
Net income	\$97,465	\$65,086	\$166,451	\$90,620
Net income (loss) per share - basic:				
Continuing operations	\$0.60	\$0.42	\$1.03	\$0.68
Discontinued operations	—	(0.02)) —	(0.13)
Net income per share - basic	\$0.60	\$0.40	\$1.03	\$0.55
Net income (loss) per share - diluted:				
Continuing operations	\$0.59	\$0.41	\$1.01	\$0.67
Discontinued operations	—	(0.02)) —	(0.12)
Net income per share - diluted	\$0.59	\$0.39	\$1.01	\$0.55
Weighted average shares used to compute net income (loss) per share:				
Basic	161,977	162,669	162,070	163,521
Diluted	165,901	165,168	165,211	165,951

Cash dividend per share	\$—	\$—	\$0.57	\$0.53
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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LOGITECH INTERNATIONAL S.A.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)
 (unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net income	\$97,465	\$65,086	\$166,451	\$90,620
Other comprehensive income (loss):				
Currency translation loss, net of taxes	(7,968)	(3,098)	(7,714)	(488)
Defined benefit pension plans:				
Net gain and prior service costs, net of taxes	1,193	283	1,520	475
Amortization included in operating expenses	424	400	1,289	1,233
Hedging gain (loss):				
Deferred hedging gain (loss), net of taxes	2,497	(62)	4,026	(1,236)
Reclassification of hedging loss (gain) included in cost of goods sold	(463)	45	432	(2,443)
Other comprehensive loss:	(4,317)	(2,432)	(447)	(2,459)
Total comprehensive income	\$93,148	\$62,654	\$166,004	\$88,161

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LOGITECH INTERNATIONAL S.A.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except per share amounts)
 (unaudited)

	December 31, 2016	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$513,578	\$519,195
Accounts receivable, net	277,677	142,778
Inventories	250,286	228,786
Other current assets	43,339	35,488
Total current assets	1,084,880	926,247
Non-current assets:		
Property, plant and equipment, net	84,194	92,860
Goodwill	249,721	218,224
Other intangible assets, net	50,313	—
Other assets	85,728	86,816
Total assets	\$1,554,836	\$1,324,147
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$358,196	\$241,166
Accrued and other current liabilities	247,963	173,764
Total current liabilities	606,159	414,930
Non-current liabilities:		
Income taxes payable	55,573	59,734
Other non-current liabilities	91,709	89,535
Total liabilities	753,441	564,199
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Registered shares, CHF 0.25 par value:	30,148	30,148
Issued and authorized shares —173,106 at December 31 and March 31, 2016		
Conditionally authorized shares — 50,000 at December 31 and March 31, 2016		
Additional paid-in capital	16,336	6,616
Less shares in treasury, at cost — 11,298 at December 31, 2016 and 10,697 at March 31, 2016	(167,342)	(128,407)
Retained earnings	1,034,685	963,576
Accumulated other comprehensive loss	(112,432)	(111,985)
Total shareholders' equity	801,395	759,948
Total liabilities and shareholders' equity	\$1,554,836	\$1,324,147

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LOGITECH INTERNATIONAL S.A.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (unaudited)

	Nine Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 166,451	\$ 90,620
Non-cash items included in net income:		
Depreciation	32,479	36,884
Amortization of intangible assets	6,618	1,536
Loss (gain) on equity-method investment	(547)	176
Share-based compensation expense	26,354	19,875
Excess tax benefits from share-based compensation	(6,357)	(2,089)
Deferred income taxes	(473)	2,914
Change in fair value of contingent consideration for business acquisition	(9,925)	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(139,414)	(115,814)
Inventories	(15,194)	18,066
Other assets	(6,346)	(9,329)
Accounts payable	109,095	68,763
Accrued and other liabilities	71,549	39,244
Net cash provided by operating activities	234,290	150,846
Cash flows from investing activities:		
Purchases of property, plant and equipment	(23,372)	(50,443)
Investment in privately held companies	(640)	(2,099)
Acquisitions, net of cash acquired	(66,987)	—
Release of restricted cash	715	—
Purchases of trading investments	(5,868)	(4,395)
Proceeds from sales of trading investments	5,912	4,668
Net cash used in investing activities	(90,240)	(52,269)
Cash flows from financing activities:		
Payment of cash dividends	(93,093)	(85,915)
Purchases of treasury shares	(63,764)	(48,802)
Proceeds from sales of shares upon exercise of options and purchase rights	20,355	12,562
Tax withholdings related to net share settlements of restricted stock units	(13,054)	(5,357)
Excess tax benefits from share-based compensation	6,357	2,089
Net cash used in financing activities	(143,199)	(125,423)
Effect of exchange rate changes on cash and cash equivalents	(6,468)	(1,205)
Net decrease in cash and cash equivalents	(5,617)	(28,051)
Cash and cash equivalents, beginning of the period	519,195	537,038
Cash and cash equivalents, end of the period	\$ 513,578	\$ 508,987

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Supplementary Cash Flow Disclosures:

Non-cash investing activities:

Property, plant and equipment purchased during the period and included in period end liability accounts	\$4,044	\$3,417
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The following amounts reflected in the statements of cash flows are included in discontinued operations:

Depreciation	\$—	\$2,207
Amortization of other intangible assets	\$—	\$1,089
Share-based compensation expense	\$—	\$584
Purchases of property, plant and equipment	\$—	\$1,431
Cash and cash equivalents, beginning of the period	\$—	\$3,659
Cash and cash equivalents, end of the period	\$—	\$3,905

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LOGITECH INTERNATIONAL S.A.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

	Registered Shares		Additional Paid-in Capital	Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
March 31, 2015	173,106	\$30,148	\$—	8,625	\$(88,951)	\$930,174	\$(113,237)	\$758,134
Total comprehensive income	—	—	—	—	—	90,620	(2,459)	88,161
Tax effects from share-based awards	—	—	(1,749)	—	—	—	—	(1,749)
Sales of shares upon exercise of options and purchase rights	—	—	(2,327)	(1,147)	14,889	—	—	12,562
Issuance of shares upon vesting of restricted stock units	—	—	(13,484)	(802)	8,127	—	—	(5,357)
Share-based compensation expense	—	—	19,912	—	—	—	—	19,912
Purchase of treasury shares	—	—	—	3,502	(48,802)	—	—	(48,802)
Cash dividends	—	—	—	—	—	(85,915)	—	(85,915)
December 31, 2015	173,106	\$30,148	\$2,352	10,178	\$(114,737)			