Logitech International S.A.	Symbol: logi
Analyst	Nick Sapienza
Buy below	$36.11
Sell above	$49.86
Probability of Price Increase	58%
Last Price	$37.06
Intrinsic Value	$40.65
Target Dividends	$0.76
Target Price	$44.37

Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
12/31/2017	8.92%
3/31/2018	4.38%
6/30/2018	3.22%
9/30/2018	-0.62%
12/31/2018	0.34%
Mean (Standard Error)	3.25% (1.01%)
EBITDA	
12/31/2017	6.00%
3/31/2018	14.07%
6/30/2018	-2.33%
9/30/2018	-2.00%
12/31/2018	8.10%
Mean (Standard Error)	3.25% (14.76%)

Financials

Profitability	logi (LTM)	logi Historical	Peers' Median (LTM)
Return on Capital	11.0%		
Adjusted EBITDA Margin	12.8%	11.34%	40.66%
Return on Equity	10.7%		
Adjusted Net margin	9.2%		
Invested Funds	**logi (LTM)**	**logi Historical**	**Peers' Median (LTM)**
Cash/Capital			
NWC/Capital			
Operating Assets/Capital			
Goodwill/Capital			
Capital Structure	**logi (LTM)**	**logi Historical**	**Peers' Median (LTM)**
Total Debt/Market Cap.			
Reported Cost of Borrowing			2.3%
Cash Interest/Total Debt			4.3%
CGFS Credit Rating	AA		B
Credit Model Rating			bb to bb+
Probability of Default	0.12%		0.13%

Cost of Capital

	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (logi)	4.0%		4.2%
Implied Cost of Borrowing (Peers)	5.9%	6.7%	6.0%
Cost of New Debt Estimate	4.5%		
Market Risk Premium Estimate	7.6%		
Cost of Equity Estimate	12.1%		
WACC Estimate	11.9%		

Valuation

DCF Valuation

	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	$2,756.44	13%	$195.82	11.92%	11.02%	$42.10
year 1	$3,032.08	13%	$260.78	11.91%	11.59%	$45.83
year 2	$3,335.29	12%	$288.08	11.90%	12.41%	$49.84
year 3	$3,668.82	13%	$324.18	11.89%	13.34%	$54.17
year 4	$4,017.36	16%	$459.86	11.88%	16.78%	$58.80
year 5	$4,378.92	17%	$526.37	11.87%	17.17%	$63.71
year 6	$4,751.13	18%	$618.01	11.87%	17.65%	$68.89
year 7	$5,131.22	19%	$702.52	11.87%	17.52%	$74.30
year 8	$5,516.06	19%	$794.73	11.86%	17.28%	$79.94
year 9	$5,902.19	20%	$896.79	11.86%	17.01%	$85.77
year 10	$6,285.83	20%	$910.58	11.86%	15.36%	$91.77
year 11	$6,662.98	21%	$1,006.74	11.86%	15.03%	$97.97
year 12	$7,029.44	22%	$1,106.29	11.86%	14.64%	$104.31
year 13	$7,380.91	22%	$1,208.18	11.87%	14.21%	$110.78
year 14	$7,713.06	23%	$1,311.38	11.87%	13.74%	$117.34
year 15	$8,021.58	25%	$1,469.68	11.87%	13.69%	$131.50
Continuing Period	$8,302.33	25%	$1,067.96	11.88%	11.88%	

Relative Valuation

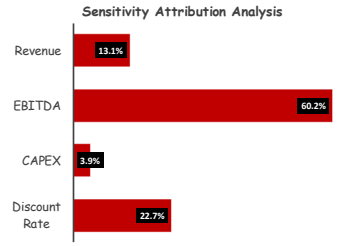
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)
Median (Peers)	1.4x	7.6x	2.8x	11.9x
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)
logi	$3,088.57	$388.96	$2,448.17	$253.49
Implied EV	$4,281.72	$2,965.80		
Total Net Claims	-$566.24	-$566.24		
Implied EQ	$4,847.96	$3,532.04	$6,783.10	$3,020.23

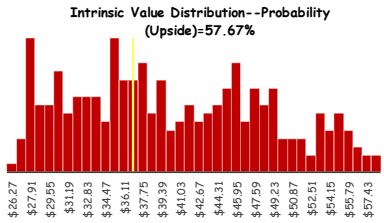
Asset Based Valuation

Recovery Rate	100%
Capital	$5,987.83
Intangibles	$471.01
Claims	$117.89
	$5,398.93

Valuation Summary

Model	Intrinsic Value	Target Price	Weight
DCF Valuation	$42.10	$45.83	100.00%
EV/Rev (FW)	$28.45	$30.99	0.00%
EV/EBITDA (FW)	$20.73	$22.35	0.00%
P/BV (TTM)	$39.81	$43.70	0.00%
P/E (FW)	$17.73	$18.99	0.00%
Asset Based Valuation	$31.69	$34.61	0.00%
Price per Share	$42.10	$45.83	100%





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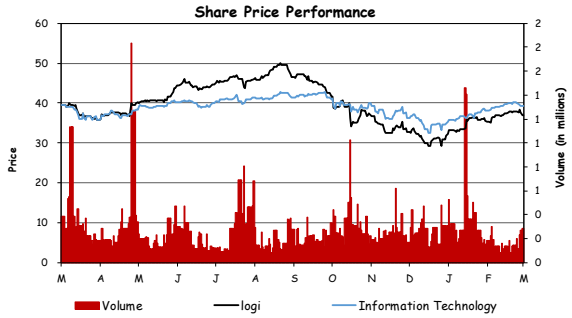

Description

Logitech International S.A., through its subsidiaries, designs, manufactures, and markets products that allow people to connect through music, gaming, video, computing, and other digital platforms worldwide.

Sector	Information Technology
Industry	Technology Hardware, Storage and Perip
Last Guidance	December 11, 2018
Next earnings date	April 25, 2019

People

De Luca, Guerrino, Executive Chairman
Darrell, Bracken, President, CEO & Executive Director
Pilette, Vincent, Chief Financial Officer
Stolk, Marcel, Senior Vice President of Creativity & Productiv
Thuruthiyil, Teresa, Senior Director of Investor Relations
Ko, Bryan, General Counsel & Corporate Secretary

Top Competitors

Chicony Electronics Co., Ltd.	Micro-Star International Co., Ltd.
Temenos AG	Seagate Technology plc
Elecom Co., Ltd.	Shenzhen Rapoo Technology Co., Ltd.
Primax Electronics Ltd.	Plantronics, Inc.
Guillemot Corporation S.A.	Roku, Inc.

Market Statistics

Market Capitalization (mil)	$6,214.03
Last Price per share	$37.06
52 week high	$49.96
52-week low	$29.06
Volatility	31.03%
Daily volume (mil)	0.29
Short interest	0.00%
Days to cover short interest	0.00
Beta	0.00

Investment Thesis

Category Leader Across Fastest Growing Markets

I am initiating coverage of Logitech with a BUY at $36.11 and a $44.37 price target. LOGI is a category leader across multiple technology markets with consistent growth across major categories. Even while stating that the company is focused more on long-term goals instead of margins, they have still seen significant increases in gross and EBITDA margins. The markets they are operating in, notably video collaboration and gaming, have growth expectations in 2019 of 25-30% and 15-20%, respectively. This market growth will have a huge impact on the company's performance as it is the market leader in each of these categories, and they are further expaning their products to match the growing industries. Additionally, the company is in the middle of a share buyback program which is going to continue for the next 2-3 years, meaning they believe their stock is being undervalued.

For the long:

1. Future margin growth:

Although Logitech has stressed that they are not focused on improving margins in the short-term, they have still been able to increase key factors such as EBITDA and gross profit margins. The compounded three year operating margin expansion is greater than 3%, while the gross margin has improved from 33.7% in FY2016 to 37% currently. These are very strong numbers for a company who is more focused to spending on advertising and R&D to continue to increase market share. Considering this, the company will clearly be able to increase their operating margins significantly if they are ever in question.

2. Successful selection of product mix:

Logitech has been able to successfully change their product mix with the growth and demands across markets. By decreasing their investments in markets with slow or declining growth, such as music and smart home products, they have been able to focus their attention on their current main categories of computer & peripherals (C&P), gaming, and video collaboration. This gives Logitech the potential to further increase their market shares in industries where their net sales are already greater than $1 billion and are still growing. Additionally, they have been able to further integrate in console gaming (as opposed to only PC gaming) with their recent aquisition of Astro Gaming. Through their expanding market growth and synergies, Astro sales have approximately doubled year over year after the aquisition in mid 2018.

3. Continued growth in the PC/gaming industry:

The PC and Console gaming industry is approximately a $5.5 billion market. The gaming industry is clearly growing, and the viewership numbers are backing this. For example, the League of Legends World Championship had a 200 million viewership in 2018 compared to the Super Bowl of 100 million and NBA Finals of about 25 million. Also, the viewership numbers are increasing by percentages in the mid-teens YOY. The demographic is mainly 10-25 year olds, which will continue to grow with the brand, while also introducing the upcoming youth to the products logitech has to offer. Esports college scholarships have also increased to $15 million in 2018-2019 from about $2.5 million in 2015-2016. Being the leader in this industry, they are bound to experience the greatest returns from the growth this market has to offer.

Key Catalysts for price change

- EBITDA Growth
- Ability to expand into more profitable products while exiting the less successful product markets
- Continued growth in PC/gaming industry

Valuation

My $44.37 price target is derived from Discounted Unlevered Free Cash Flow estimates

Ownership		Change in Ownership ("Input"month)
Shares outstanding (mil)	0.00	
Diluted shares outstanding (mil)	169.07	
Options and Warrants (Shares equivalent)	1.32	
% shares held by institutions	0%	**"INPUT from BB"**
% shares held by investments Managers	0%	**"INPUT from BB"**
% shares held by hedge funds	0.00%	**"INPUT from BB"**
% shares held by VC/PE firms	0.000%	**"INPUT from BB"**
% shares held by insiders	0.00%	0.00%
Poison Pill Type	NONE	