Is Logitech a Good Investment after the Pandemic?

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ABSTRACT
Investing is a critical decision for a large part of the population across the globe since it's a probabilistic question with a multiplicity of choices. At any given point and time, an investor is faced with the problem of numeracy of information about the investment, and he/she often succumbs to failure or succeeds with sheer luck for not knowing what matters before making an investment decision. In the wake of COVID-19, many businesses were affected due to the lockdowns and other restrictive measures that led to either lowered sales or the total closure of some establishments for a significant amount of time. However, although every crisis cripples many, there is always an opportunity for the strong to survive and others to come up as the best companies to invest in. In this paper, an analysis of the investment fitness of Logitech is performed, serving as an advisory tool for investors post COVID-19.

Keywords: *Cash Flows, Fair Value, Stock Price, Ratio Analysis, Operating Margin, Post-COVID-19, Management Planning, Return on Investment (ROE), Debt, Equity*

1. INTRODUCTION

Logitech is a Swiss global digital industry player with interests in both hardware manufacturing and software development. According to Darrell & Johnson, Logitech's consumer product outlay is structured to offer customers an unusual interface between them and their wants in the digital technology space [1]. Logitech's business operations are centered on sectors of computing technology with the manufacture of laptop and smartphone screens that enhance the user experience of PCs and tablets, communication, where they enable the smooth controls of digital audio-visual technology and entertainment. According to Muhammad Kamal, Logitech's software is also at par with global industry requirements for markets in; video shooting, gaming technology, and video communication and security over the internet [2].

Even before December 2019's COVID-19 pandemic struck the world, Logitech had robust distribution and retail partnerships operations across the globe, with strong presence notations in America and continental Europe. From a historical stock price perspective, Logitech did not seem perturbed by the pandemic of $100 and over even in 2020. Although other factors are paramount to check while making an investment decision, could Logitech be a safe bet post-COVID-19 investment? The analysis below seeks to answer this question with thorough research and future forecasting of industry trends.

2. BACKGROUND INFORMATION

2.1. Business and Its Elements for Thriving

A business can be defined as an enterprise that engages in the trade or exchange of goods and services for the beneficial contentment of its investors. According to Cherunilam, a business operates smoothly when the political, technological, and other relevant market environmental conditions are in a stable state [3]. Because of stability, the market conditions of operation are free of interferences that might wreak havoc on either operation, management, or even sales distribution of enterprises within a certain market. According to Kumar, business is a huge part of social-economic development as it not only aids customers in receiving quality products but also creates the aptitude for competition that leads to more innovative products and economic growth as a consequence of the same [4].

Some of the key elements of continued business growth include confidence for both investors and consumers. A business that offers good returns and has prospects of growth is bound to attract more investment, while a business with good products attracts more customers. However, a business's continued growth and

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ability to compete effectively is dependent on a myriad of factors, including strategic planning by the management as well as internal operations of the firm [5]. According to Dalcher, companies such as 3M and Coca-Cola have survived for centuries and endured various crises including world wars I and II since they have proven to investors that they can survive such turbulent and foggy business times [6]. One of the key elements that investors look at while evaluating a company for investment in their rationales for making key strategic decisions in management. According to Bigelow & Barney, strategic planning can either bankrupt or harness more profits for the company, especially during times of economic crisis [5].

For example, despite the huge market competition in the smartphone manufacturing industry, Xiaomi made it to become one of China's top 5 manufacturers in 4 years after its launch in 2010. When Xiaomi's company started, it was only 2 years after the global recession of 2008 and economies were barely recovering. However, a tech-boom was the next opportunity for investors as more development of smartphones triggered the rise in revenue sales of other technology industries such as Logitech, Facebook, and Pinterest [7]. During the COVID-19 crisis, whose severity was felt more in 2020, investors evaluated their options and either resized their positions, withdrew from falling stocks, or decided not to participate in unpredictable times of market volatility. After the COVID-19 crisis, investors are now looking at the post-pandemic options for investment, where there are the opportunities, the risks of investment, and the futuristic perspectives of those industries.

2.2. COVID-19 and Business

COVID-19, a health pandemic recognized by the UN, was perhaps the most catastrophic global business disruptor of the 21st century. According to Lee and Trimi, the health risks for the population in countries, especially where deaths are recorded, always come above the interests of individual or business interests.As such, countries had to be locked down and other restrictive measures applied to contain the pandemic’s extremeness [8]. However, the saving of the larger population would also entrap most companies, such as airlines whose operations were grounded, and other retail supply chains. According to Nseobot et al.the COVID-19 pandemic aftermath only presented another opportunity for investors to sieve the weak from the strong in business today [9].

However, despite the drop in stock prices for major companies across the globe during the COVID-19 crisis, the NASDAQ bourse which boasts of harboring technology companies rallied high [10]. According to Lee and Trimi, the work from home campaign slogans during the COVID-19 pandemic severity times strengthened the need for technology in business modulation, communication, and entertainment today, and as such investors put even more confidence and money on those particular stocks [8]. According to Sharma et al., the demand for technological products was as high as at COVID-19 times that companies such as Amazon rallied over a 100% gain in stock pricing [10]. However, despite the market condition for companies in the technology sector, such as Logitech looking to bloom, investors have to analyze the financials before making the critical investment decision.

3. FINANCIAL ANALYSIS OF LOGITECH

In this part of the paper, an advanced dissection of the financials of Logitech is the major focus as of the year 2021 SEC 10K report outlines filed in May 2021 and the SEC 10Q report for the quarter ended December 2021. To adequately understand the financial standpoint of Logitech, it is only important to approach the financial analysis via five key elements that include: revenues, profits, operational efficiency, capital structuring, and liquidity position.

3.1. Revenues

Revenues from sales are the main component of the statement of financial performance as it is the first recording made from which all other entries are entered to derive either an operating margin in the negative or positive. According to Lee and Hallak, revenues provide the business with the cash flow required to continue with its operations and are thus crucial for the maintenance and sustainability of a venture [11]. The graphical representation below reveals the trend in sales revenue for Logitech starting in 2019.

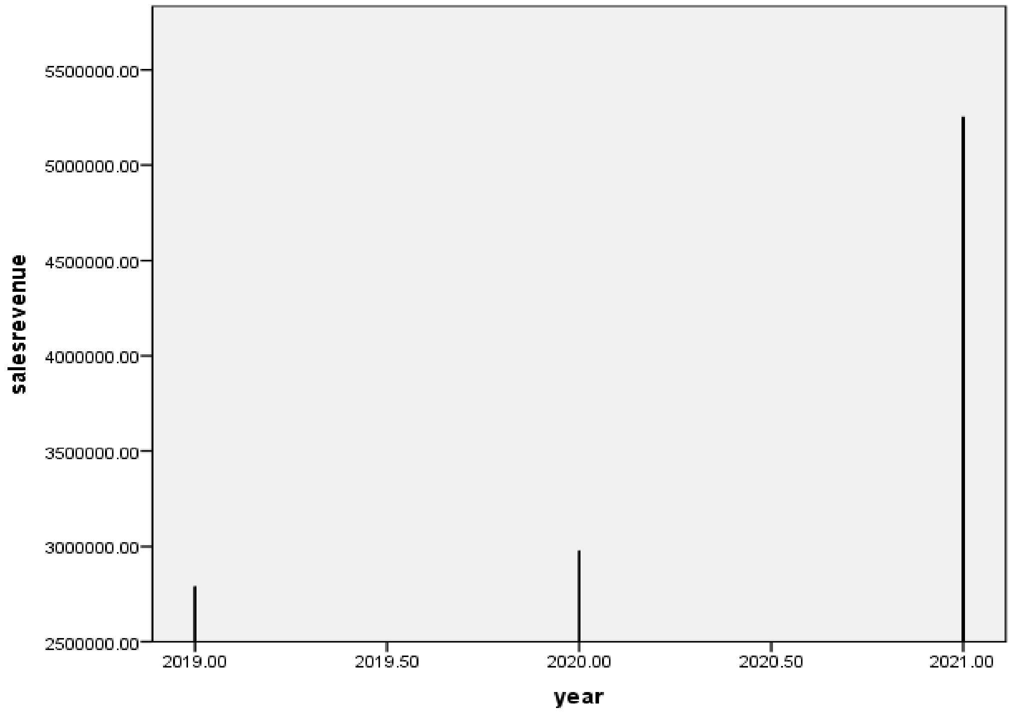

Figure 1. Logitech Sales Revenue from 2019 [12]

The graphical illustration above (fig 1.0) shows that since 2019, the sales have been on a gradual rising trend each year, with 2021 scoring $5,252,279 and 279,000 in revenue sales, representing a 77% growth from 2020's record.

3.2. Profit Analysis

A business's profit is a representation of the income generated from sales after all deductibles have been made. Such an income can be termed as net profit or the comprehensive income for a firm after the end of a particular accounting period. As seen in the trend diagram below, the comprehensive income grew significantly from 2019 heading into 2021.

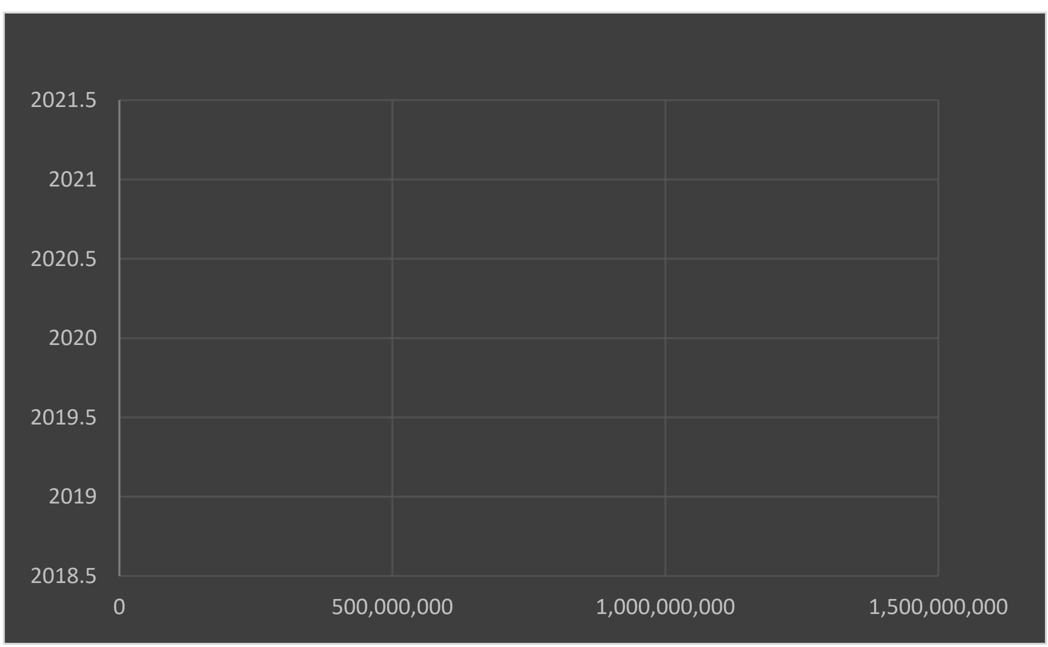

Figure 2. Logitech Income Trend [13]

In the above trend diagram (fig 2.0), the comprehensive income after deduction of expenses shoots from $245 million in 2019 to $959 million in 2021 representing a 291.4% gain [13].

3.3. Operational Efficiency

In this segment, the focus is on how well the resources of the firm (Logitech) are utilized in the production process. According to Osazefua, a lack of ample operational efficiency leads to a firm's succumbing to slowed growth in revenues and profits [14]. Operational efficiency in this segment shall be evaluated by calculating the inventory turnover ratio for years 2021, and 2020.

Inventory turnover ratio = cost of goods sold/average stock.

For 2020 = 1, 838, 685,000/229, 249, 000 = 8.02.

For 2021 = 2, 903,215,000/ 661, 116, 000 = 4.39.

The operational efficiency for Logitech seems to be reducing as observed above, from 8.02 in 2020 to 4.39 in 2021.

3.4. Capital Structuring

The capital structure of a firm is the ability of a firm to retain a sound capital investment base by managing debt and equity levels. According to Osazefua, any mismanagement of corporate funds, either by borrowing or over-valuation of assets, leads to financial hemorrhage in the medium or long term [14]. To evaluate a company's soundness in capital structuring, investors dwell on the capital ratios of debt-to-equity ratio and the return on equity ratio (ROE). In this analysis, the years 2020 and 2021 serve well in the determination of the two capital ratios.

Return on investment (ROE) is a calculation derived from the division of the net comprehensive income on the shareholders' equity.

ROE for 2020 = $434, 761, 000/$1, 489, 268,000 = 0.292 or 29.2%.

ROE FOR 2021 = $959,002,000/ $2, 261, 789, 000 = 0.424 or 42.4%.

The return on investment for 2021 is 0.424, which is higher than that of 2020 at 0.292.

The other capital structuring ratio of importance is the debt-to-equity ratio which is given by:

Debt to equity ratio = total debt/ total equity

Debt to equity ratio for 2020 = $874, 206,000/$1, 489, 268,000 = 0.587.

Debt to equity ratio for 2021 = $1,880, 589,000/ $2, 261, 789, 000 = 0.829.

However, the debt-to-equity ratio is not looking very good for 2021 at 0.829 compared to 0.587 in 2020.

3.5. Liquidity Position

The state of liquidity in a firm is complemented by a firm's ability to meet its cash obligations and is also augmented by the statement of cash flows. According to Figueroa & Leukhina, a firm can have a billion in revenues and millions in profit but the accounting for all of these is based on the accrual method hence the state of liquidity can in thousands where too many of the sales were made on credit [15]. In this section, the most applicable ratio to check is the current ratio for years 2020 and 2021 financial statements.

Current ratio = current assets/ current liabilities

Current ratio for 2020 = $1, 414, 478,000/$714, 144, 000 = 1.98

Current ratio for 2021 = $3, 159, 318, 000/$1,681,850, 000 = 1.88.

The current ratio for both years is well above 1.5 which shows there is strong liquidity set up in the firm.

4. A COMPARATIVE ANALYSIS OF LOGITECH AND ITS COMPETITORS

For an investor interested in the digital space of investment, it would be prudent to also examine other competitor organizations of Logitech to grasp an idea of the performance of the entire industry. Some of the major competitors of Logitech are Harman and Razer.

4.1. Razer

Razer is a digital technology company founded on American-Singaporean originations, dealing in consumer electronics, financial software technologies, and gaming technology equipment. According to Investing.com, most of Razer's products are centered on gaming, ranging from keyboards to mice for computer navigation, but the company has recently expanded into smartphone manufacturing since 2017 when it acquired Nexbit [16]. Also, in 2017, Razer was registered through an IPO as a participant in the Hong Kong Stock Exchange. As of March 14th 2022, the Razer share price closed at 2.22 HKD or $0.28 [16]. Razer's fair value is also estimated to be 19.5 billion Hong Kong dollars as of 14th March 2022 with a P/E ratio of 44.28. The recent data from the company further indicates that; the twelve-month trail of inventory turnover is 8.36; the return on equity is 10.19% while the current ratio from the most recent quarter is 1.44 [16]. On average, the company is seemingly in good investment condition as inventory is moving at a high rate, as depicted by the inventory turnover ratio. The debt-to-equity ratio according to the most recent quarter is 5.21%, while return on equity is admissible at 10.19% in 12 months.

4.2. Harman

Harman is an American audio digital electronics industry participant with such extensive products that include: pro-amplifiers, headphones, video control devices, digital processors, mixing consoles, and other supporting communication devices. According to Investing.com, Harman's revenue grew from $1.32 billion in the second quarter of 2020 to an average of $2 billion by the end of 2021 [17]. The P/E ratio for Harman as of March 2022 is 22.9. Although Samsung Corporation acquired Harman in 2017, it still remains a worthy competitor of Logitech up to date.

5. RESULTS AND DISCUSSION

Logitech's financial position, as determined in the financial analysis above, depicts a company with a strong financial basis heading into 2022. The sales reports for the year 2019 proceeding to 2021 show a gradual incremental rise each year, proving that COVID-19 did not affect the sales network of the firm. As noted in the revenue section above, the year 2021 saw a 77% increment in sales revenue as per the annual SEC 10-K report filed in March 2021. With the SEC-10K report filed in March 2021, it only means that about 3 quarters of the financial year is in the year 2020 when COVID-19 was severe across the globe. Logitech's strong financial status in 2021 was also reflected with the operating comprehensive income jumping from $245 million in 2019 to $959 million in 2021 representing a 291.4% gain [13]. The high sales reported in 2021's financial statement reflect the significance of work from home campaigns during the pandemic that resulted in strong demand for digital technological products. However, the inventory turnover ratio for 2021 was lower compared to 2020 meaning there was too much production for the sales levels.

Due to improved sales performance and consequently higher operating marginal income for 2021 compared to 2020, the capital efficiency of Logitech is sound since the money lent to the company is within acceptable limits as per the debt-to-equity ratio. The debt-to-equity ratio is low at 0.587 in 2020 but increases to 0.829 in 2021 which points to an increased risk of debt overrunning capital. However, the return-on-investment points to a different picture in that 42.4% recorded in 2021 from 29.2% in 2020 offsets the debt-to-equity ratio increase. Logitech's liquidity position is above 1.5, meaning no risks of cash flows to offset short-term financial obligation beguile the company soon. As noted in the management's planning report from 2022's first-quarter projections, the management expects increased sales during the first 3 quarters of the 2022 financial year as the work from home frenzy continues as gaming and video collaboration will still permeate strong industrial growth.

6. CONCLUSION

As much as the COVID-19 pandemic served as a sales holy grail for Logitech, the management admits that the future of the company still lays on a variety of factors outside the control of the firm. The firm management notes that COVID-19 disrupted major supply chains and logistics may take a radical shift in various parts of the world. However, the demand for technological products as observed via the sales report of the company remains strong industry-wide, as witnessed from competitors Razer and Harman.

However, the company needs to optimize inventory turnover and debt-to-equity ratios to fall within optimal trends of investment. Overall, the Logitech stock provides a bullish opportunity in the short and medium-term, as sales are expected to continue rallying with strong operating incomes. This paper is, however, highly deficient in market information about Logitech in terms of its segmentation and performance. Furthermore, the analysis doesn't ascribe the details of Logitech's product mix. Therefore, future analytical works for companies should accompany reports of cost volume analysis, as well as market segments performance and product portfolio mix evaluation.

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