



## Logitech's Gaming Cash Cow

5/29/2019

**Bullish Alert for \$LOGI**

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### Takeaways/Key Points

1. Logitech International has posted revenues which either met or exceeded analysts' expectations in 12 consecutive quarterly releases.
  2. Logitech's Purchase Intent (PI) Mentions have increased Y/Y in every quarter since 2013, so the ongoing string of earnings beats comes as no surprise to LikeFolio members who've been following \$LOGI closely.
  3. Shares of LOGI have fallen roughly \$12 from their 2018 high point (near \$50 a share); the stark contrast between the stock's move lower and the current PI level constitutes a bullish divergence opportunity.
  4. As the popularity of PC Gaming continues to rise on a global scale, Purchase Intent Mentions for Logitech's brands appear poised to maintain the exceptional growth seen over the last four years.
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## Potential Trade Ideas

**Simple Option:** Buy the stock

**Option Spread:** Sell the Dec. 19 38/37 Put Spread @ \$0.57 Credit. Max Loss: \$43 per contract. Max Gain: \$57 per contract.

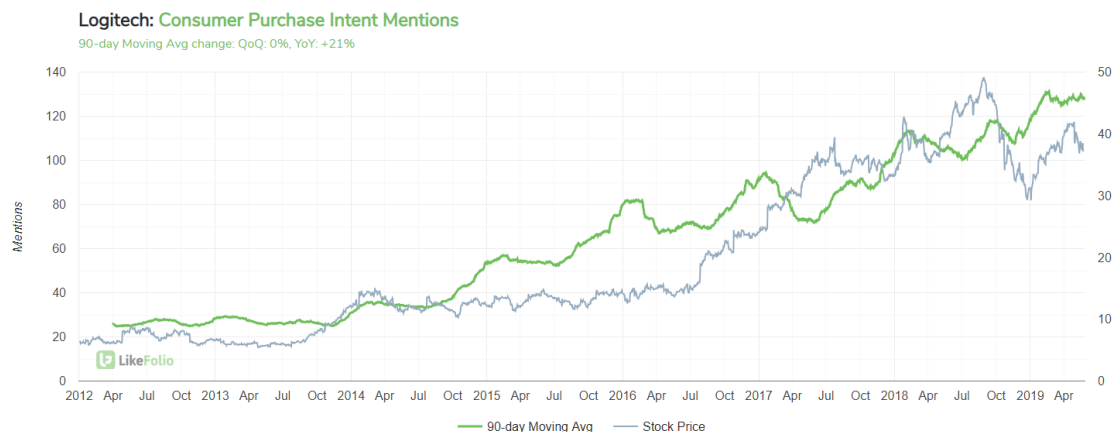
**Aggressive:** Purchase At-the-Money Call Options with an expiry of September or later.

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## LOGI analysis:

With a diverse portfolio of tech brands ranging from portable speakers to personal computer peripherals, Logitech International has enjoyed revenue improvements and heightened Purchase Intent Mentions in each successive year since 2012. Despite a prolonged sell-off in the final quarter of 2018, shares of \$LOGI have rallied back to more than 2x their 2016 low point.

Consider the chart below, which plots the 90-day moving average of Logitech's PI Mentions against the company's stock price.



[Open this view in Dashboard](#)

In the past, notable growth in the average volume of Logitech's Purchase Intent Mentions has proceeded similar increases in the company's stock price by 3-6 months. LOGI suffered their most substantial correction since the start of Likefolio data (1/1/2012) between October 1st and the end of December 2018. Although the PI trendline in the months leading up to the correction suggested a modicum of relative weakness, the extent of the stock's downturn more accurately reflected the prevailing bearish sentiment towards technology companies at large. Since then, Logitech shares have recovered, and the continued rise of the company's consumer mentions suggests an impending return to the highs seen in 2018.

### **PC Gaming as a Profit Driver:**

In their most recent earnings release, Logitech International attributed much of their 9% YoY revenue increase to their [gaming hardware business](#). The international market for video games has expanded by a factor of [\\$50 Billion since 2012](#), and Logitech has reaped the rewards of one of the fastest growing sectors within that industry.

The chart below plots the 90-day moving average of Purchase Intent Mentions related to "PC Gaming," beginning in 2015.



Note the sharp uptrend in Mentions, spurred by the unprecedented success of **Fortnite** in late 2017/early 2018. Since then, the trendline has steadily ascended to new heights, with generic PI Mentions related to PC Gaming sitting at all-time high volume in 2019. The chart above proves that American Consumers have begun to adopt computer-based gaming at an increasingly rapid pace: it's also worth mentioning that emergent markets, encompassed by Logitech's international sales umbrella, account for a rising portion of the total revenues derived from the gaming industry.

The rising demand for PC gaming equipment has an undeniable link to Logitech's bottom line, and they've already proven themselves capable of profiting from the expanding customer base.

Going forward, Logitech must take steps to emphasize this gaming "cash cow," as the relative failure of their Mobile Speaker and Smart Home segments provided some cause for concern on the tech conglomerate's latest earnings report.

If they can maintain the present revenue growth rate and continue to cut costs, we expect to see \$LOGI stock back above \$40 per share in 2019.

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