

Logitech First Quarter Fiscal Year 2014 Financial Results Management's Prepared Remarks (July 24, 2013)

Logitech is posting a copy of these prepared remarks, its press release and accompanying slides to its investor website. These prepared remarks will not be read on the call. To access the live webcast or replay of the question and answer session, please visit the Investor Relations section of Logitech's website at <http://ir.logitech.com>.

COMPANY COMMENTARY

Following is a summary of the company's comments on key areas impacting Q1 Fiscal Year 2014 performance. Unless noted otherwise, the growth percentages that follow are in comparison to Q1 Fiscal Year 2013.

EMEA SALES REGION

Sales in EMEA were down by 3% in USD and by 5% in local currency. Units decreased by 12%. The decline in sales was related primarily to the categories that we are in the process of exiting (reported under Retail - Other). Sales of Tablet Accessories more than doubled, while sales in the Audio Wearables & Wireless, PC Gaming and Remotes categories grew by more than 40%. The overall level of inventory carried by our channel partners in EMEA declined by 23% and by 4% sequentially.

AMERICAS SALES REGION

Sales in the Americas increased by 12%, with units down by 1%. Our sales growth in the region was constrained by the \$5.4M decline in sales in the Retail – Other category. It was a very strong quarter for sales in the Tablet Accessories category, with sales more than doubling. We achieved growth in all of our PC-related categories with the exception of Audio PC. The overall level of inventory carried by our channel partners in the Americas declined by 4% and increased by 9% sequentially.

ASIA PACIFIC SALES REGION

Sales in Asia Pacific increased by 4% in USD and by 7% in local currency. Units were down by 6%. The growth in the region was driven primarily by Tablet Accessories,

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which more than tripled, and PC Gaming. We also achieved solid growth in the Audio Wearables & Wireless category. Sales in China increased by 7%, with strong growth in the Keyboards & Desktops, Tablet Accessories and PC Gaming categories. The overall level of inventory carried by our channel partners in the Asia Pacific region was up by 6% and by 15% sequentially.

OEM

The 6% decline in our OEM sales was primarily due to a drop of 11% in the Pointing Devices category, which is consistent with the weak market conditions for sales of new desktop PCs. We delivered strong growth in the Keyboards and Desktop category, reflecting new business with a large customer.

LIFESIZE

Sales in Q1 decreased by 18%, with declines experienced in all regions. The sales weakness reflects a combination of a changing industry landscape, an evolving LifeSize product line and challenges in execution.

ADDITIONAL FINANCIAL COMMENTS

Q1 FISCAL YEAR 2014 RESULTS

SALES

- Our retail sales increased by 5% in both USD and local currency. Units decreased by 6%. Excluding sales reported in the Retail Other category, our retail sales increased by 8%.
- Our overall retail average selling price in Q1 increased by 12% compared to the prior year and by 9% sequentially. The increase versus the prior year was primarily driven by Remotes, where we have exited the low end of the category, Audio Wearables & Wireless, where we have introduced a number of higher price point products over

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the last year; and Video, where we have shifted our focus to higher price point products for consumers and unified communications applications.

TABLET ACCESSORIES

Tablet Accessories was our strongest growth product category during Q1, with sales up by 143% and units by 155%. A key driver of the growth was the initial sales of our new Keyboard Folios for the iPad and iPad Mini, such as our Fabric Skin Keyboard Folio, which began shipping in volume during the quarter. We also benefitted from continued strong demand for our Logitech Ultrathin Keyboard Cover for both the iPad and the iPad Mini.

PC GAMING

Sales in the PC Gaming category increased by 48%, with units growing by 16%. The growth was driven by the launch of a number of new gaming products early in the quarter. We achieved double digit growth in gaming keyboards, headsets and mice, with the strongest growth coming in keyboards driven by our G510S gaming keyboard.

AUDIO – WEARABLES & WIRELESS

Our Wearables & Wireless sales increased by 31%, with units down by 22%. Sales of our mobile speakers more than doubled. This growth was driven by strong demand for two speakers, the UE Boom and the Mobile Boombox. UE Boom was launched late in the quarter and we experienced strong initial demand for this mobile speaker that provides 360 degree sound. Sales of our earphones and headphones declined by 41% primarily due to weak demand for earphones.

REMOTES

Our Harmony Remotes sales increased by 6%, with units declining by 40%. The average selling price in the Remotes category increased by 77%. This overall growth in value coupled with a steep unit decline reflects one element of our strategy change: we exited the low end Remotes categories worldwide. The growth in sales reflects strong

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initial demand for the Harmony Ultimate, our premium remote launched during the first quarter. Our sales and units in the low-end of the category fell by nearly 100%. Looking at mid-range and high-end remotes combined, sales and units were up by roughly 40%. During the quarter we announced that we intend to retain ownership of the Harmony Remotes product line.

PC KEYBOARDS & DESKTOPS

Sales in the PC Keyboards & Desktops category increased by 4%, with units down by 6%. It was a strong quarter for wireless stand-alone keyboards, with sales up by 41% and units by 20%. The biggest contributor to this growth was the Wireless Touch Keyboard K400, one of our top five selling products in the quarter, which features an integrated touchpad and has proven to be popular for use in the living room.

POINTING DEVICES

Sales in our Pointing Devices category declined by 1%, with units up by 1%. Sales of cordless mice increased by 2%, with units up by 5%. We experienced significant weakness in sales of our high-end offerings, primarily due to an aging product line-up. Sales in the low-end of the category were down by less than 5%, while sales and units were up by double digits in the mid-range of the category. Pointing Devices sales fell in EMEA and Asia Pacific, but grew strongly in the Americas.

VIDEO

Video sales declined by 5%, with units down by 31%. The steeper drop in unit sales reflects our gradual shift away from the low-end of the consumer webcam category. While we believe the consumer webcam market is in secular decline, we continue to see sales and unit growth in the mid-range and the high-end of the category. Our Pro Webcam HD C920 was one of the top sellers among all of our retail products in the first quarter. The Video category also benefitted from strong sales of our BCC950 ConferenceCam, which provides HD 1080p video and a duplex speakerphone for business grade video conferencing. Sales of our Digital Video Security products, a

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product category that we intend to transition out of during Fiscal Year 2014, were roughly \$3M.

PC AUDIO

Sales in our PC Audio category declined by 16%, with units down by 24%. The decline in sales and units was similar for both PC speakers and PC headsets. The drop in PC speakers sales primarily reflects a product line-up that had not been meaningfully refreshed in several years. We've begun to address this with last week's announcement of the Logitech Bluetooth Speakers Z600, wireless stereo speakers that stream music and other audio from a computer, smartphone or tablet.

OTHER

This category includes a variety of products that we already have or intend to transition out of by the end of Fiscal Year 2014. Sales declined by 89% to less than \$2M, with units down by 84%. Sales of speaker docks declined by \$6M, and sales of streaming media systems were down by roughly \$8M.

GROSS MARGIN

Our Q1 gross margin was up by 420 basis points and by 170 basis points sequentially. The increase compared to the prior year reflects a variety of factors, including product cost improvements across all of our PC-related categories, benefits from the actions we took during Fiscal Year 2013 to streamline our product portfolio, and a comparable that included roughly \$5M in costs related to restructuring and the settlement of a patent dispute in the prior year.

OPERATING EXPENSES

- Our operating expenses decreased by 17%, primarily due to \$31M in restructuring costs in Q1 of the prior year. Excluding restructuring charges from Q1 of both fiscal years, operating expenses declined by 4% due to the savings from the restructuring in Fiscal 2013.

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- Restructuring charges were \$2.3M in Q1 of the current year. These charges reflect headcount reductions in our digital video security business combined with more aggressive, opportunistic restructuring actions that we took in EMEA.
- Sales and marketing expenses were flat. Restructuring-related savings were offset by spending in support of new product launches in Tablet Accessories, PC Gaming, and wireless speakers.
- R&D expenses decreased by 7% and G&A expenses decreased by 10%, with both reflecting savings from the restructuring actions taken in the prior fiscal year.

BALANCE SHEET

- Our quarter-ending cash position was \$319M
 - Our cash was down by \$42M compared to June 2012 and by \$15M compared to March 2013
- Cash flow from operations in Q1 was a negative \$1M, up from a negative \$7M
 - Our cash conversion cycle in Q1 was 41 days, a 5 day improvement
- Inventory increased by \$15M compared to June 2012 and by \$35M compared to March 2013
 - Inventory turns declined to 4.2 from 4.6
- DSO was unchanged at 41 days
- DPO was 86 days, up by 13 days

SHARE REPURCHASES

- We did not repurchase any shares during Q1
- We own approximately 8% of our shares

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- We have \$4M remaining under our current \$250M repurchase program that expires in August 2013

FISCAL YEAR 2014 OUTLOOK

For Fiscal Year 2014, ending March 31, 2014, we continue to expect sales of approximately \$2 billion and operating income of approximately \$50 million. The gross margin for the full year is estimated at approximately 34 percent. We target our full year tax rate at approximately 20%.

FORWARD LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: product categories which we intend to keep or out of which we intend to transition and the timing of those transitions, and Fiscal Year 2014 sales, operating income, gross margin and tax rate. The forward-looking statements in these remarks involve risks and uncertainties that could cause Logitech's actual results and events to differ materially from those anticipated in these forward-looking statements, including, without limitation: if our product offerings, marketing activities and investment prioritization decisions do not result in the sales, profitability or profitability growth we expect, or when we expect it; the demand of our customers and our consumers for our products and our ability to accurately forecast it; if we fail to innovate and develop new products in a timely and cost-effective manner for our new and existing product categories; if we do not successfully execute on our growth opportunities in our new product categories and sales in emerging market geographies; if sales of PC peripherals in mature markets are less than we expect; the effect of pricing, product, marketing and other initiatives by our competitors; if our products and marketing strategies fail to separate our products from competitors' products; if our restructurings fail to produce the intended performance and cost savings results; if there is a deterioration of business and economic conditions in one or more of our sales regions or operating segments, or significant fluctuations in

exchange rates. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in Logitech's periodic filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, available at www.sec.gov, under the caption Risk Factors and elsewhere. Logitech does not undertake any obligation to update any forward-looking statements to reflect new information or events or circumstances occurring after the date of these remarks.

CHANNEL INVENTORY DATA

Estimates the inventory levels of our products held by or in-transit to our retailer and distributor customers. Includes data compiled by Logitech from data supplied by our customers, and our estimates of inventory in transit to our customers. Customers supplying data vary by geographic region and from period to period, but typically represent a majority of our retail sales. Data and our estimates are subject to limitations and possible error sources and may not be an entirely accurate indicator of actual customer channel inventory. Limitations and possible error sources include the following:

- Data supplied by our customers may not be indicative of inventory held by our customers as a whole
- Reliability of the data depends on accuracy and timeliness of information supplied to us by our customers, and the processes by which they collect their data is largely outside our control
- In the U.S., Canada, and to a lesser extent Asia Pacific, and a still lesser extent, EMEA, data is based on Point of Sale (POS) electronic data. Where POS data is not available, the data is collected largely through manual processes, including the exchange of spreadsheets or other non-automated methods of data transmission, which are subject to typical human errors, including errors in data entry, transmission and interpretation

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- Our interpretation of the data, and our estimates of in-transit inventory, may be subject to errors in assumptions, calculations or other errors.