

# Financial Model

Logitech Analyst & Investor Day

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**11 March 2015**

# Forward Looking Statements

This presentation includes forward-looking statements within the meaning of the U.S. federal securities laws, including, without limitation, statements regarding: forecasts of FY15 and FY16 financial results, growth in strategic retail categories, sales mix, product launches, R&D capabilities and focus, a long-term business model, market and product category expectations, a capital allocation model, cash flow, dividends, share repurchases, product pricing and Logitech's ability to affect product pricing, product and infrastructure cost reductions and their impact on profitability, investments, and other financial and business activity. These statements are subject to risks and uncertainties that may cause actual results and events to differ materially, 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 or our growth opportunities are more limited than we expect; if sales of PC peripherals are less than we expect; the effect of pricing, product, marketing and other initiatives by our competitors, and our reaction to them, on our sales, gross margins and profitability; if our products and marketing strategies fail to separate our products from competitors' products; if we do not fully realize our goals to lower our costs and improve our operating leverage; 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; the effect of changes to our effective income tax 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 its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2014 and its Annual Report on Form 10-K for the fiscal year ended March 31, 2014, available at [www.sec.gov](http://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 this presentation.

To facilitate comparisons to Logitech's historical results, Logitech has included non-GAAP adjusted measures in today's presentations, which exclude primarily share-based compensation expense, amortization of other intangible assets, restructuring charges (credits), other restructuring-related charges, investment impairment (recovery), benefit from (provision for) income taxes, and one-time special charges. Logitech also presents percentage sales growth in constant currency, a non-GAAP measure, to show performance unaffected by fluctuations in currency exchange rates. Percentage sales growth in constant currency is calculated by translating prior period sales in each local currency at the current period's average exchange rate for that currency and comparing that to current period sales. Logitech believes this information will help investors to evaluate its current period performance, outlook and trends in its business. For historical financials, reconciliation between non-GAAP amounts and GAAP amounts is provided on the Investors page of Logitech's website at <http://ir.logitech.com/gaap.cfm>. With respect to financial outlook, most of the excluded amounts pertain to events that have not yet occurred and are not currently possible to estimate with a reasonable degree of accuracy. Therefore, no reconciliation to GAAP amounts has been provided for non-GAAP outlook.

# Turnaround On Track

## **Delivering FY16 non-GAAP operating profit target one year ahead of plan**

- FY15 sales in line with turnaround targets, with much higher profitability
- Improved profitability driven by higher gross margins and disciplined spending
- Profitability gains despite significant currency headwinds in 2<sup>nd</sup> half of FY15

## **Repositioning product portfolio to drive future growth**

- Strategic retail categories delivering consistent growth
- Growth category share now over 30% of retail strategic sales
- Strengthening R&D capabilities around biggest retail growth opportunities

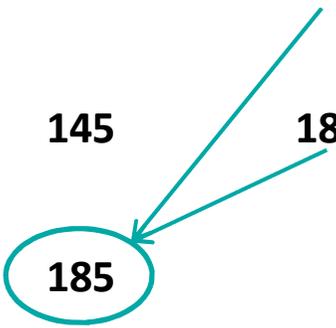
## **Refining three year capital allocation model**

- Plan to return up to \$500M to shareholders through dividends and buybacks
- Intend to propose ~\$85M for FY15 dividend at next annual general meeting

# Operating Profit One Year Ahead of Plan

## Profit Turnaround Targets

Non-GAAP OP as Shown at AID	M\$		
	FY14	FY15	FY16
Turnaround Targets in May 2013	88	120	175
Updated Targets in March 2014	125	145	185
Actual/Estimate in March 2015	138	185	



# Key Drivers of Improved Profitability

## **Better product gross margins**

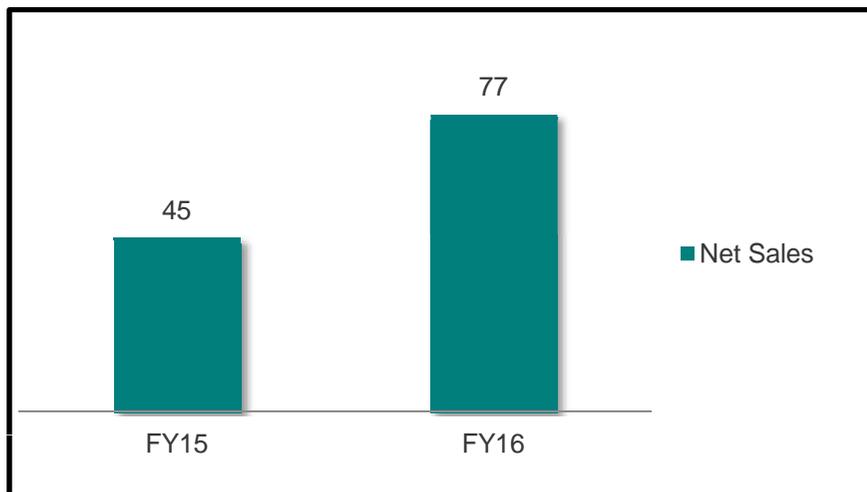
- Cost reductions in Pointing Devices and Keyboards driven by design changes
- Procurement savings ~\$30M driven by vendor consolidation and negotiation
- Mobile Speakers margins up over 400 bps with economies of scale
- Sales in Profit Maximization category benefitted from stronger PC market

## **Disciplined spending**

- Reduced non-GAAP operating expenses two years in a row
- Infrastructure costs down ~\$15M in FY15
- Continued progress building a culture of P&L accountability across the organization

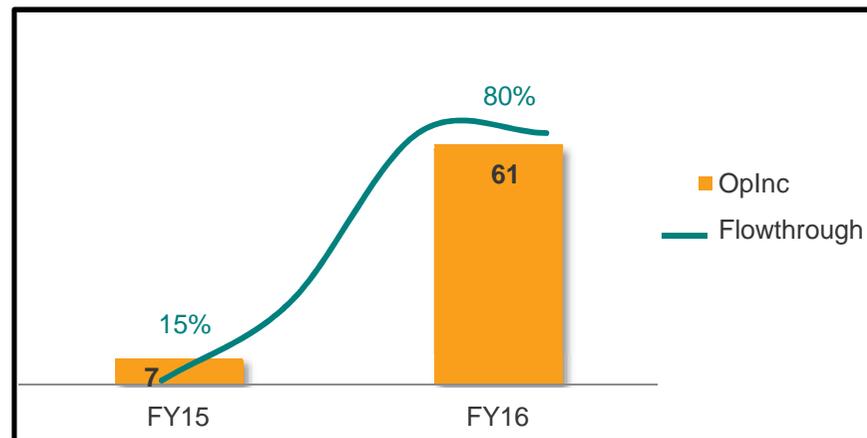
# Material Impact From Stronger USD

Currency Headwind on Net Sales (M\$)



- One third of sales impacted by USD appreciation starting 2<sup>nd</sup> half of FY15
- FY15 EUR/USD average 1.27; FY16 EUR/USD planning rate: 1.12
- Sales not hedged

Negative Currency Impact on OpInc (M\$)



- Majority of COGS operations in USD
- ~ 10-12 weeks inventory on hand with some inventory held in EUR, partially hedged (~3 months)
- OPEX in EUR ~10% (vs. 25% of revenue) offering minimal “natural hedge;” OPEX in CHF ~10%, no longer pegged to EUR

Notes:

- 6 • FY16 assumes February 2015 exchange rates (EUR/USD = 1.12)

# Resetting To The New Environment

Benefits Expected Over Next 18 months, Partially Offset by Investments

## **Price increases in select markets/categories**

- Strong market share position in Profit Maximization categories
- Extensive pricing review for all 20+ new product releases expected in FY16

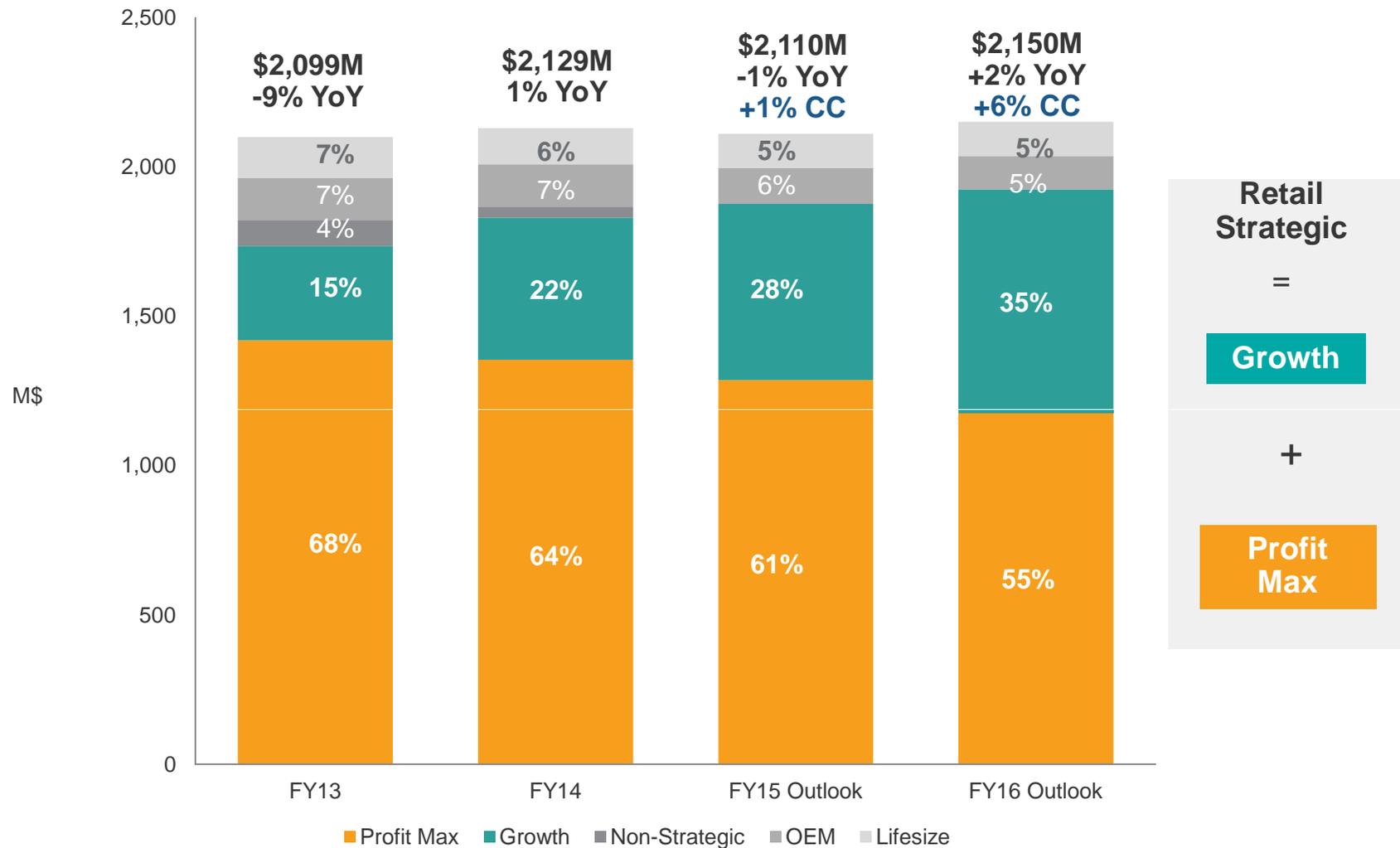
## **Product cost reductions**

- Lower oil prices provide upside in negotiating reduced transportation costs
- Reduce suppliers in select categories to gain leverage through scale
- Improve manufacturing efficiency through increased use of automation

## **Infrastructure cost reductions**

- Accelerated transformation of G&A/Infrastructure towards long-term blueprint including geographic footprint
- G&A projected at ~4% of sales in long-term business model (further cost reduction plans)

# Sales Mix Evolving Toward Growth



**Notes:**

- FY16 assumes February 2015 exchange rates (EUR/USD = 1.12)
- 8 • Constant Currency (CC) calculated by restating FY15 using February 2015 exchange rates

# Category Growth Projections

Retail Strategic Growth Accelerates in Constant Currency (CC)

Sales Categories					(March 2014)
	FY15 Outlook	FY16 Outlook	FY15 CC	FY16 CC	FY15 - FY16 2Y CAGR
Pointing Devices	(4%)	(8%)	(2%)	(4%)	(7%)
PC Keyboards/Desktops	2%	(2%)	5%	2%	1%
Audio - PC & Wearables	(17%)	(20%)	(14%)	(15%)	(13%)
PC Webcams	(14%)	(25%)	(12%)	(23%)	(12%)
Remotes/Home Control	1%	1%	3%	5%	0%
<b>Profit Max</b>	<b>(5%)</b>	<b>(9%)</b>	<b>(3%)</b>	<b>(5%)</b>	<b>(6%)</b>
Tablet and Other Accessories	(18%)	(3%)	(15%)	0%	37%
Mobile Speakers	97%	53%	102%	60%	56%
Gaming	14%	19%	17%	25%	24%
Video Collaboration	119%	48%	126%	55%	(in Video)
<b>Growth</b>	<b>24%</b>	<b>27%</b>	<b>27%</b>	<b>32%</b>	<b>36%</b>
<b>Retail Strategic</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>	<b>7%</b>	<b>6%</b>
OEM	(17%)	(5%)	(17%)	(5%)	(8%)
Lifesize	(5%)	(0%)	(5%)	0%	0%
<b>Total Company</b>	<b>(1%)</b>	<b>2%</b>	<b>1%</b>	<b>6%</b>	<b>4%</b>

1. Retail Strategic on track to plan in CC
2. Profit Max categories aligned to declining PC market
3. Growth category now includes Video Collaboration; CAGR ~30% reflecting market opportunities

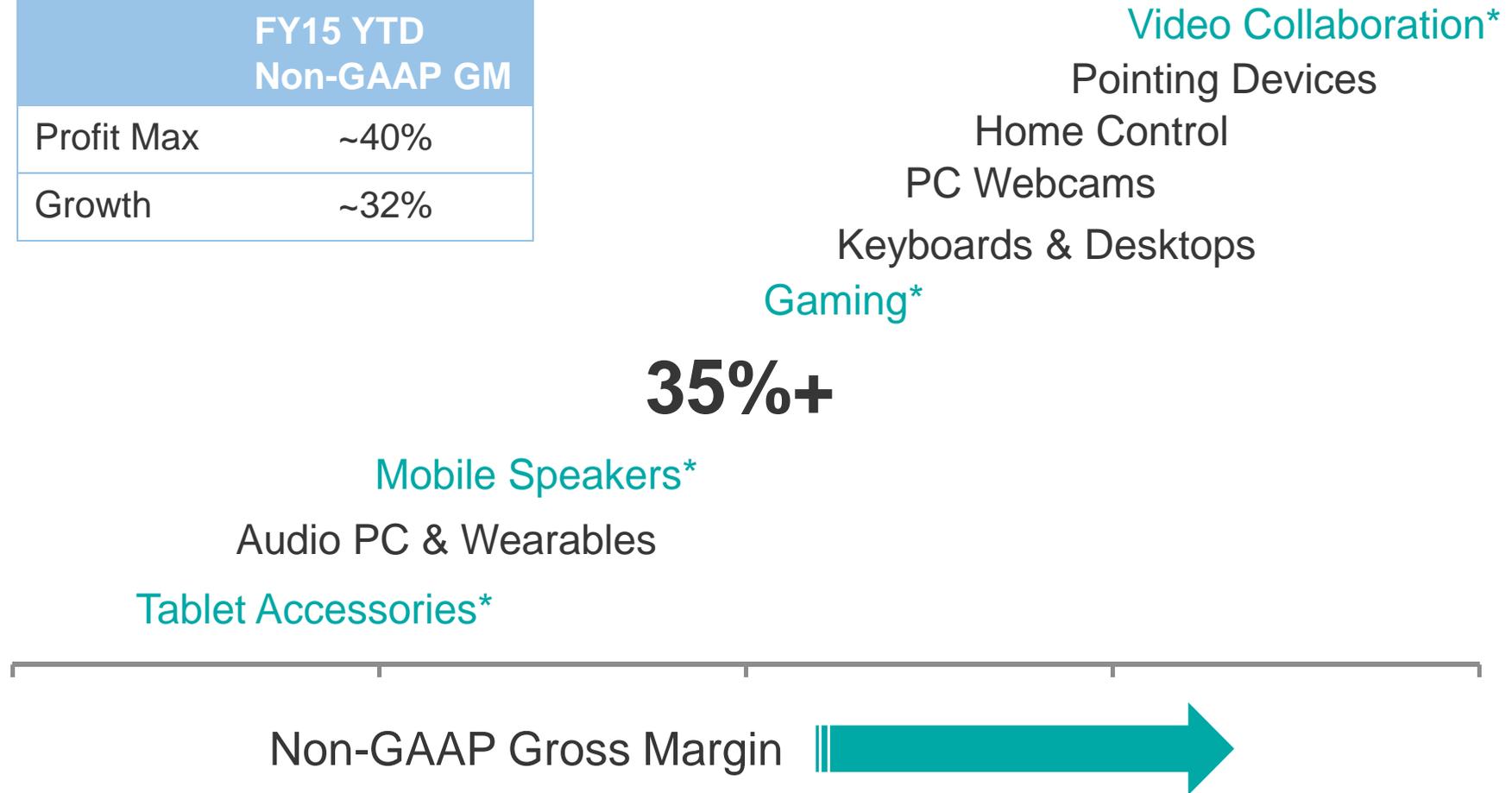
**Notes:**

- FY16 assumes February 2015 exchange rates (EUR/USD = 1.12)
- Constant Currency (CC) calculated by restating FY15 using February 2015 exchange rates
- Growth rates restated for movement of Video Collaboration to Growth Category (~\$65M in FY15E)

# Retail Category Gross Margin Ranking

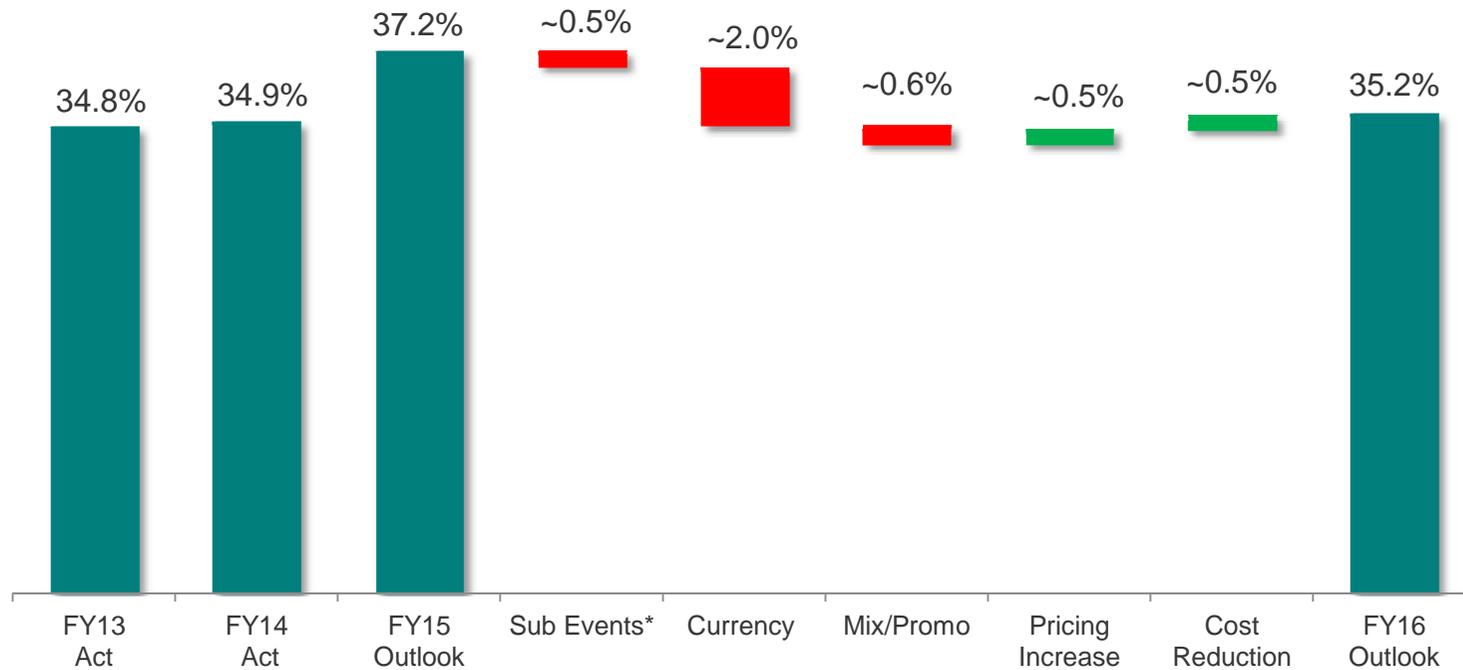
Growth Category Approaching Long-Term Model of 35%+

	FY15 YTD Non-GAAP GM
Profit Max	~40%
Growth	~32%



# Non-GAAP Gross Margin Progression

Taking Action to Reduce Currency Impact in FY16



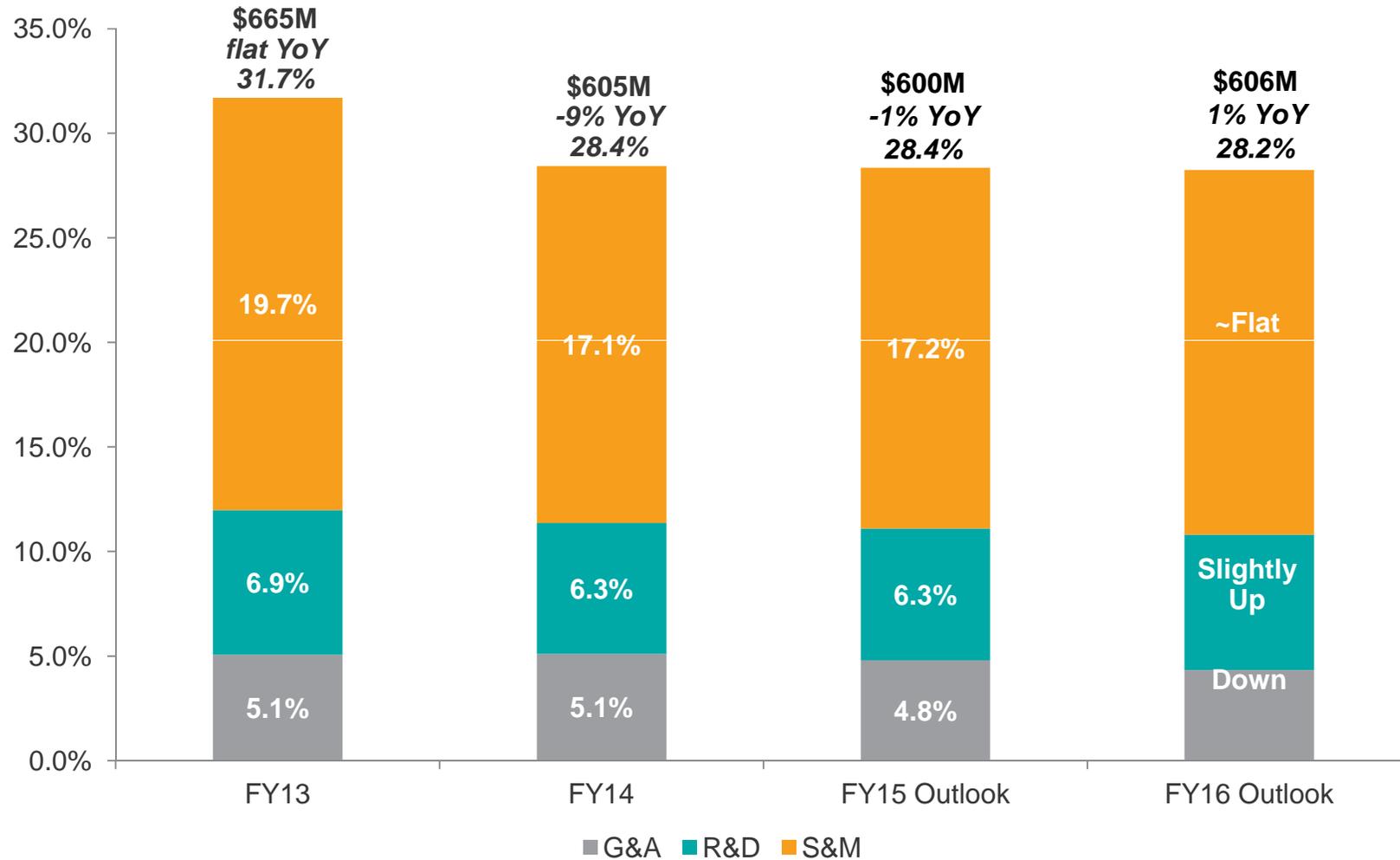
**Notes:**

- Subsequent Events – See Logitech Financial Filings Update at <http://ir.logitech.com/gaap.cfm> for information

11 • FY16 assumes February 2015 exchange rates (EUR/USD = 1.12)

# Non-GAAP Operating Expenses as % of Sales

G&A Efficiencies Funding Investment for Growth



# Investing to Drive Long-Term Growth

## Aligning Operating Expenses With Strategy

Strategy	FY13	FY16
Invest in Growth	~1/3 <sup>rd</sup> product development* spend invested in Growth Category	> 2/3 <sup>rd</sup> invested in Growth Category
Reduce Total Infrastructure Spend	~\$200M in total spend	~\$165M in total spend
Develop New Long-term Growth Drivers	No seed investments	Investing to fund multiple seeds
Become a Design Company	No central leadership for design	Chief Design Officer with centralized design team

**Notes:**

- 13 • Product development Includes R&D, Product Design and Product Marketing

# Non-GAAP Financial Outlook

\$M	Actual	Outlook	
	FY14	FY15	FY16
<b>SALES</b>	<b>2,129</b>	<b>2,110</b>	<b>2,150</b>
<i>YoY Growth</i>	1%	-1%	2%
<i>YoY Growth in CC</i>	<b>1%</b>	<b>1%</b>	<b>6%</b>
<b>GROSS PROFIT</b>	<b>743</b>	<b>784</b>	<b>756</b>
<i>% of Sales</i>	34.9%	37.2%	35.2%
<b>OPERATING EXPENSES</b>	<b>605</b>	<b>600</b>	<b>606</b>
<i>% of Sales</i>	28.4%	28.4%	28.2%
<b>OPERATING PROFIT</b>	<b>138</b>	<b>185</b>	<b>150</b>
<i>% of Sales</i>	6.5%	8.7%	7.0%

**FY16 OP growth of ~15% YoY in constant currency**

**Notes:**

- FY16 assumes February 2015 exchange rates (EUR/USD = 1.12)
- Constant Currency (CC) calculated by restating FY15 using February 2015 exchange rates

# Long-Term Business Model

INCOME STATEMENT Non-GAAP (M\$)	LONG-TERM MODEL
Sales	High Single Digit Growth
Gross Margin	≥ 35%
Opex % Sales	≤ 25%
Operating Margin	≥ 10%

Non-GAAP Opex % Sales	LONG-TERM MODEL
S&M	14 - 15%
R&D	6 - 7%
G&A	< 4%
<b>Opex % Sales</b>	<b>≤ 25%</b>

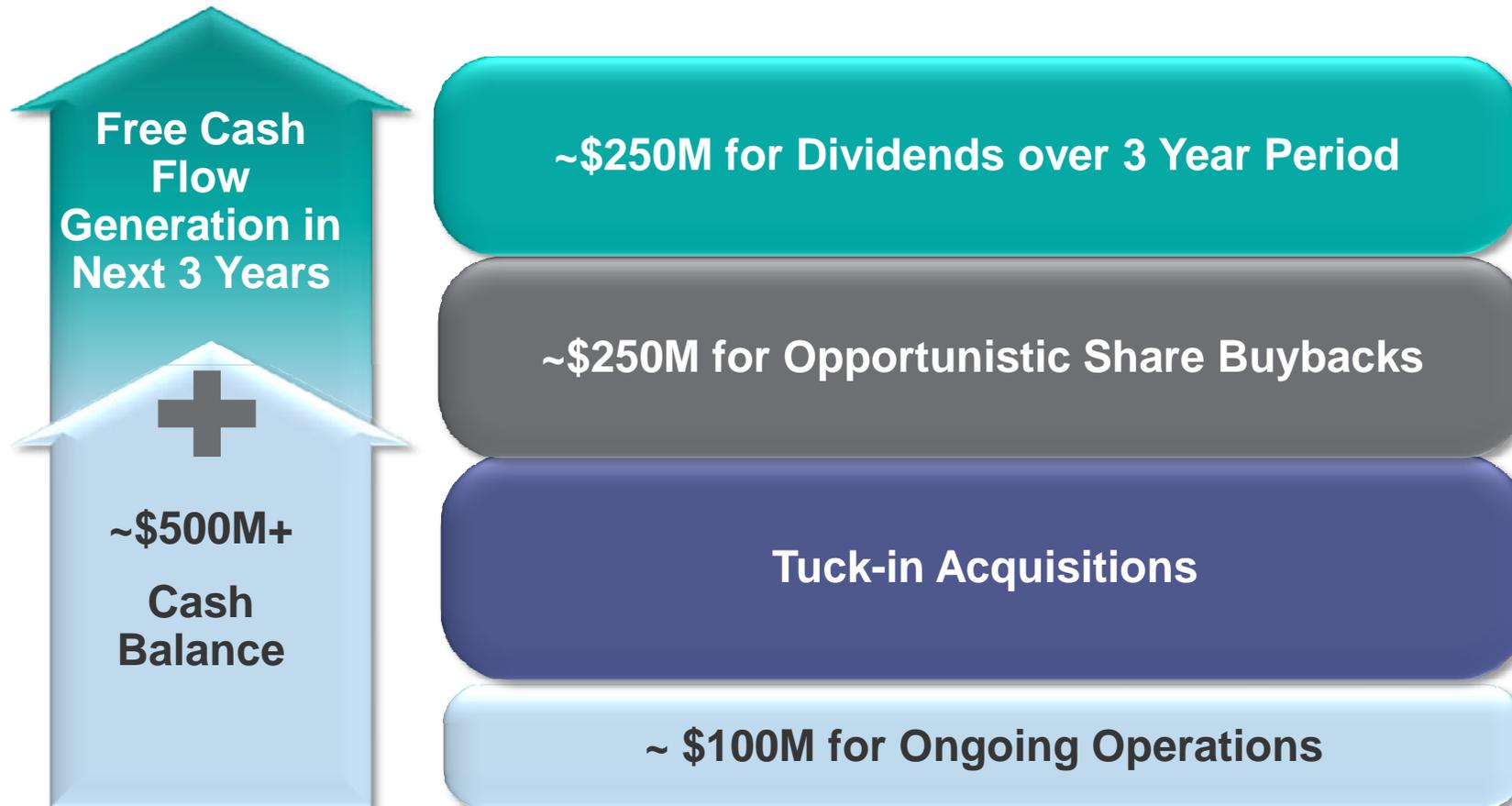
Sales Mix



- Annual cash conversion cycle: < 30 days
- Annual cash from operations ~ 1x OP
- Cash used for tuck-in acquisitions, dividends, and buybacks

# Revised Capital Allocation Strategy

Three Year Outlook



# Enhanced Dividend Plan

## **Allocating ~\$250M for dividends for FY15 through FY17**

- Reflects outlook for continued strong cash generation and sustained progress towards our long-term operating margin target
- Execute dividend proposal annually via shareholder approval at annual general meeting

## **Dividend proposal for FY15**

- Plan to request shareholder approval of Swiss franc equivalent dividend of approximately \$85M at September 2015 annual general meeting
- Proposal represents ~CHF 0.52 dividend per share based on current exchange rate and share count; final dividend per share and payout in CHF will reflect USD/CHF at time of proxy filing
- Dividend proposal represents double prior year's dividend
- Dividend yield of ~4% at current share price

## Key Takeaways

- Delivered turnaround profitability target one year ahead of plan
- Accelerated profitability enables enhanced focus on driving sales growth
- Prioritizing investments to strengthen capabilities in retail growth categories
- Resetting the business to drive growth in a strong USD environment (adjusting prices, reducing global cost structure, etc)
- Expecting continued progress towards achieving our long-term business model
- Refining capital allocation plan to return up to half a billion dollars to shareholders through increased dividends and opportunistic buybacks



# Supplemental slides

## Sales Category Changes vs March 2014

From	To	Change
Video	PC Webcams	Name change
	Video Collaboration	Move to Growth*
Remotes	Home Control	Name change
PC Gaming	Gaming	Name change

**Notes:**

- Video Collaboration moving to Growth Category with FY15 Estimated revenue of ~\$65M

