

Logitech Third Quarter Fiscal Year 2013 Financial Results Management's Prepared Remarks (January 23, 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 Q3 Fiscal 2013 performance. Unless noted otherwise, the growth percentages that follow are in comparison to Q3 Fiscal 2012

EMEA SALES REGION

Sales in EMEA were down by 20% and by 18% in local currency. Units decreased by 22%. The decline in sales was experienced across all categories except for tablet accessories, which nearly tripled. In response to the continued weakness in the PC market, a number of our distribution channel partners in EMEA chose to carry less inventory of PC related products during Q3, which further exacerbated the decline in our sales of PC platform peripherals in the region. The overall level of inventory carried by our channel partners declined by 12%.

AMERICAS SALES REGION

Sales in the Americas declined by 8%, with units down by 7%. Sales of remotes fell by 21% while sales of our Google TV related products fell to zero from roughly \$7M in the prior year as we have exited the category. It was a very strong quarter for sales in the Tablet Accessories category, with sales nearly doubling. We also achieved single-digit sales growth in the PC Keyboard & Desktop and PC Gaming categories. The overall level of inventory carried by our channel partners declined by 14%.

ASIA PACIFIC SALES REGION

Sales in Asia Pacific declined by 11% in USD and in local currency. Units were down by 15%. Sales were particularly weak in Australia and Japan. Sales in China increased by 7%, with the strongest growth in the Tablet Accessory and Audio Wearables & Wireless

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categories. The overall level of inventory carried by our channel partners in the region was flat.

OEM

The 22% decline in our OEM sales was primarily due to a double-digit decline in mice sales, reflecting the very weak market conditions for new desktop PCs. We also saw much lower sales in the Keyboards & Desktops category due to product mix changes with a large customer a year ago.

LIFESIZE

Sales in Q3 decreased by 4%, with declines experienced in all regions. Sales increased by 7% sequentially. The enterprise market for video conferencing has slowed considerably and continues to have a negative impact on our LifeSize business.

ADDITIONAL FINANCIAL COMMENTS

Q3 FISCAL 2013 RESULTS

Please refer to Appendix A for definitions of our revised retail product categories

SALES

- Our retail sales decreased by 14% and were down by 13% in local currency. Units decreased by 15%.
- Our overall retail average selling price in Q3 increased by 2% compared to the prior year and by 8% sequentially.

TABLET ACCESSORIES

Tablet Accessories was our strongest growth product category during Q3, with sales and units up by 119%. The majority of the growth was driven by continued strong demand for our Logitech Ultrathin Keyboard Cover, which was our best selling product across all categories.

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AUDIO – WIRELESS & WEARABLES

Our Wireless & Wearables sales grew by 1%, with units down by 15%. Sales of our earphone and headphones declined by 26% and units dropped by 35%. The decline was entirely due to our participation in an aggressive Black Friday promotion of our UE earphones with a large US online retailer in Q3 of the prior year. In Q3 of this year we chose not to participate in similarly aggressive promotions for our new music products launched under the Logitech UE brand. It was a strong quarter for our wireless speakers for smartphones and tablets, with sales and units both growing by 29%. The growth was driven primarily by strong sales of our Logitech UE Mobile Boombox.

PC KEYBOARDS & DESKTOPS

Sales in the PC Keyboards & Desktops category declined by 6%, with units down by 10%. The decline was entirely in the Desktops category. Sales of stand-alone keyboards increased by 15%, with the largest contribution coming from sales of the Wireless Touch K400. While sales declined in EMEA and Asia, we achieved 8% growth in the overall category in the Americas.

VIDEO

Video sales declined by 11%, with units down by 29%. Sales of consumer webcams fell by 21%, with units down by 31%. Our sales in the consumer webcam category continue to be negatively impacted by market trends, including the popularity of embedded webcams in mobile devices and the overall weakness of the PC market. We were pleased with sales of our Logitech TV Cam HD, which partially offset the decline in webcam sales. Sales of our Digital Video Security products were roughly \$5M, down by 6%.

POINTING DEVICES

Sales in our Pointing Devices category declined by 10%, with units down by 12%. The impact of continued weakness in the global PC market was a major factor in the sales declines in this category across all regions, with the steepest decline in EMEA. Looking at the category in total, we experienced lower sales in both our mid-range and low-end

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offerings, while sales and units nearly doubled at the high-end of the category. The growth at the high-end was driven by our TouchMouse T620 and our new Wireless Rechargeable Touchpad T650.

PC AUDIO

Sales in our PC Audio category declined by 19% with units down by 22%. The decline in sales was the result of double-digit drops in both PC speakers and PC headsets. The drop in these PC-related products is influenced by several factors, including the weakness in the overall market for new PCs and the shift towards mobile audio devices. An additional factor specific to PC speakers is the relative weakness of our lineup in strong growth markets such as China and Russia. We achieved single digit growth in PC speakers at the high-end of the category.

PC GAMING

Sales in the PC Gaming category declined by 20%, with units down by 10%. We saw declines across most products in the category, with the steepest decline in steering wheels. The most significant regional decline was in our EMEA region, while we achieved modest growth in PC Gaming sales in the Americas.

REMOTES

Our Harmony remotes sales were down by 24%, with units declining by 55%. Sales at the high-end of the category increased by just 4%, despite the launch of the Harmony Touch, our first new high-end remote in over four years. The significantly steeper decline in units primarily reflects our transition over the last several quarters away from selling low-end remotes.

OTHER

This category includes a variety of products that we intend to transition out of during calendar 2013, or have already transitioned out of, as they are no longer strategic to our business. Sales declined by 76%, with units down by 68%. Sales of speaker docks declined by \$20M, sales of streaming media systems were down by roughly \$8M, sales

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of Google TV related products fell by roughly \$7M, and sales of console gaming peripherals declined by \$6M.

GROSS MARGIN

Our Q3 gross margin was down by 200 basis points compared to the prior year and by 160 basis points sequentially. The year-over-year decline was primarily driven by an unfavorable change in our retail product mix and the weaker EURO.

OPERATING EXPENSES

- Our operating expenses increased by 107% due to the impact of the \$211M goodwill impairment charge related to our video conferencing segment
- Excluding this charge, our operating expenses decreased by 5%
- Sales and marketing expenses decreased by 3%
- R&D expenses decreased by 4%
- G&A expenses decreased by 14%

GOODWILL IMPAIRMENT

In Q3 we recorded a non-cash, non-tax deductible income statement charge of \$211M for the impairment of goodwill in our video conferencing segment. Our videoconferencing segment encompasses integrated operations of our acquisitions of SightSpeed, LifeSize, Paradiat, and Mirial for approximately \$440 million combined. The majority of the impairment charge relates to the LifeSize acquisition.

OTHER INCOME/(EXPENSE)

Other expense totaled \$3.7M, compared to other income of \$6.7M in the prior year. The prior year includes a gain of roughly \$6M from the sale of CDOs. In Q3 of the current year, we wrote down an equity investment by approximately \$4M.

INCOME TAXES

Our tax provision in Q3 was \$11M, despite having a loss before income taxes of \$184M. Note that the goodwill impairment charge we booked during Q3 is not tax deductible.

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Excluding the goodwill impairment, our income before income taxes would have been \$27M.

BALANCE SHEET

- Our quarter-ending cash position was \$322M
 - Our cash was up by \$85M compared to September and down by \$201M compared to the prior year.
 - In comparing to the prior year, note that during Q2 of Fiscal 2013 we paid a one-time dividend of \$133M and that our stock repurchases over the last twelve months totaled \$173M.
- Cash flow from operations in Q3 was \$95M, down from \$153M in Q3 of the prior year, with this year over year reduction in net income being a major factor in the decline.
 - Our cash conversion cycle in Q3 was 25 days, up from 24 days in the prior year
- Inventory decreased by \$44M compared to the prior quarter and by \$18M compared to the prior year
 - Inventory turns were 5.8, down from 6.2 in the prior year
- DSO was 39 days, down by 1 day from the prior year

SHARE REPURCHASES

- We did not repurchase any shares during Q3
- We own approximately 8.7% of our shares
- We have \$4M remaining under our current \$250M repurchase program
- During Q3 we canceled the 18.5M shares we repurchased in Q4 FY12 and Q1 FY13

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FORWARD LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: demand for our products, market trends, inventory trends, and our plans to divest or discontinue non-strategic products. 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. 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 Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012, 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

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