Logitech Fourth Quarter Fiscal Year 2013 Financial Results Management's Prepared Remarks (April 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 Q4 Fiscal Year 2013 performance. Unless noted otherwise, the growth percentages that follow are in comparison to Q4 Fiscal Year 2012.

EMEA SALES REGION

Sales in EMEA were down by 25% in both USD and in local currency. Units decreased by 22%. The decline in sales was experienced across all categories except for tablet accessories, which were over five times larger than the prior year. In response to the extreme weakness in the PC market, as well as continued macro-economic uncertainty across many European countries, our distribution channel partners in EMEA chose to further reduce their inventory of PC-related products during Q4, which exacerbated the decline in our sales of PC platform peripherals in the region. The overall level of inventory carried by our channel partners in EMEA declined by 23% compared to the prior year and by 25% sequentially.

AMERICAS SALES REGION

Sales in the Americas declined by 2%, with units down by 1%. It was a very strong quarter for sales in the Tablet Accessories category, with sales more than tripling. We also achieved 10% sales growth in the PC Keyboard & Desktop category as well as modest growth in the pointing devices category. Excluding the $5.2M decline in sales in categories that we are in the process of exiting (reported under Retail - Other), our sales in the region would have grown by 2%. The overall level of inventory carried by our channel partners in the Americas declined by 13% compared to the prior year and by 8% sequentially.

ASIA PACIFIC SALES REGION

Sales in Asia Pacific increased by 2% in USD and by 5% in local currency. Units were down by 5%. Sales in several PC peripheral categories were solid, with growth in Pointing Devices, Keyboards & Desktops, and webcams. These three categories combined grew by 9%. It was a very weak quarter for sales in the PC Gaming category, which declined significantly due to an aging product line that is now in the process of being refreshed. Sales in China increased by 3%, with double-digit growth in the Keyboards & Desktops category. The overall level of inventory carried by our channel partners in the Asia Pacific region was down 2% both sequentially and compared to the prior year.

OEM

The 21% decline in our OEM sales was due to a drop of roughly 20% in sales in both the Pointing Devices and Keyboards & Desktops categories. The poor performance in these categories primarily reflects very weak market conditions for sales of new desktop PCs.

LIFESIZE

Sales in Q4 decreased by 19%, with declines experienced in all regions. The enterprise market for video conferencing has slowed considerably and continues to have a negative impact on our LifeSize business. We believe that an additional factor in the decline in our sales was uncertainty resulting from the strategic assessment that we announced in late January of this year. At that time, we explained we were evaluating our options for LifeSize. Those comments may have negatively impacted the sales cycle with some of our channel partners during the quarter.

After completing our business assessment, we have elected to keep LifeSize. We have implemented a strategic realignment and restructuring with the goal of making LifeSize profitable, net of amortization, by the end of Fiscal Year 2014.

ADDITIONAL FINANCIAL COMMENTS

Q4 FISCAL 2013 RESULTS

SALES

- Our retail sales decreased by 10% in both USD and local currency. Units also decreased by 10%.
- Our overall retail average selling price in Q4 was flat compared to the prior year and down by 11% sequentially.

TABLET ACCESSORIES

Tablet Accessories was our strongest growth product category during Q4, with sales up by more than four times and units nearly tripling. 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. We also experienced strong initial demand for our Ultrathin Keyboard for iPad mini, which began shipping during the quarter and made a strong contribution to the growth in the category. Late in Q4, we announced additions to our portfolio of tablet accessories and plan further expansion during Fiscal 2014.

PC KEYBOARDS & DESKTOPS

Sales in the PC Keyboards & Desktops category increased by 4%, with units down by 2%. Sales of wireless stand alone keyboards increased by 43%, with units up by 30%. This biggest contributor to this growth was the Wireless Touch Keyboard K400. Sales in the overall Keyboards & Desktop category increased by 10% in both the Americas and Asia Pacific.

POINTING DEVICES

Sales in our Pointing Devices category declined by 3%, with units down by 4%. Sales of cordless mice increased by 2%, with units up by 9%. We experienced lower sales in both our high-end and low-end offerings, while sales and units were up in the mid-range of the category. The decline in the overall category was entirely in our EMEA region, with sales up by low single-digits in both the Americas and Asia Pacific despite the continued weakness in the global market for new PCs.

VIDEO

Video sales declined by 18%, with units down by 35%. The significantly steeper drop in unit sales reflects our focus on the mid-range and high-end of the consumer webcam category, where both sales and units increased. The overall decline in the Video category was the result of weakness in EMEA. Sales were essentially flat in the Americas and grew by 21% in Asia Pacific. Sales of our Digital Video Security products, identified last quarter as a product category that we intend to transition out of during calendar 2013, were roughly $4M.

PC AUDIO

Sales in our PC Audio category declined by 20% with units down by 24%. The decline in sales was primarily due to PC speakers, with sales down by 25% and units by 32%. The drop in PC speakers sales reflects both the weakness in the overall market for new PCs and a product line-up that has not been meaningfully refreshed in well over one year. The lack of new products in the PC speaker category has been particularly noticeable in growth markets such as China and Russia.

REMOTES

Our Harmony remotes sales were down by 33%, with units declining by 43%. Sales declined by double-digits in both the high-end and low-end of the category. The steeper decline in units primarily reflects our transition over the last several quarters away from selling low-end remotes. Last quarter we identified Remotes as a product category that we intend to transition out of during calendar 2013.

AUDIO – WIRELESS & WEARABLES

Our Wireless & Wearables sales declined by 39%, with units down by 15%. Sales of both our mobile speakers and our headphones declined steeply. Our mobile speaker sales were negatively impacted by very weak demand for the Logitech UE Boombox. The poor performance of this product was due to a lack of competitive differentiation and a form factor that has proved to be too large for many consumers. Looking at the category in total, the significantly smaller decline in unit sales reflects the mix shift driven by the success of our $99 Logitech UE Mobile Boombox and very weak sales of the larger and higher priced Boombox. While sales of our headphones were poor, this was not a product issue. We launched these products with the belief that delivering a better value proposition than the competition at several price points would be sufficient to establish momentum in this space. Despite exceptional product quality and consistently positive reviews, we learned that success in consumer headphones requires a sizable marketing investment to drive lifestyle brand appeal. We chose not to increase our marketing spending to the level that would be required to clearly distinguish our brand from the competition in the minds of the consumer.

PC GAMING

Sales in the PC Gaming category declined by 43%, with units down by 38%. The decline in the category primarily reflects an aging product line-up that we are now in the process of addressing. Late in March we announced the launch of eight new gaming products, including mice, keyboards, and headsets. These products did not begin shipping in volume until this month and are just now starting to appear in stores.

OTHER

This category includes a variety of products that we intend to transition out of by the end of Fiscal Year 2014, or have already transitioned out of, because they are no longer strategic to our business. Sales declined by 96% to less than $1M, with units down by 74%. Sales of speaker docks declined by $11M, sales of streaming media systems were down by roughly $8M, and sales of Google TV-related products fell by roughly $0.6M.

GROSS MARGIN

Our Q4 gross margin was down by 290 basis points and by 70 basis points sequentially. The biggest single driver of both declines was a $5M charge to revalue our inventory of several headphones and a large form-factor wireless speaker. Our gross margin was also negatively impacted by a variety of costs related to project cancellations and product line streamlining as we further simplify our overall product portfolio.

OPERATING EXPENSES

- Our operating expenses increased by 14% primarily due to the impact of $15.5M in restructuring charges and $5.7M in goodwill and other impairment charges. The restructuring charges are slightly higher than the $12 million - $14 million estimate we provided in February due to the strategic realignment and restructuring of our LifeSize business. The goodwill and other impairment charges reflect the combination of a $3.5M true-up of the $211M LifeSize goodwill impairment that we booked in Q3 as well as additional asset impairments related to our Digital Video Security business, which we are in the process of exiting. Excluding these charges, our operating expenses increased by 2%.

- Sales and marketing expenses increased by 7% primarily due to spending in support of upcoming new product launches
- R&D expenses decreased by 11%
- G&A expenses were flat but would have declined excluding non-recurring costs

OTHER INCOME/(EXPENSE)

Other income totaled $2.1M, compared to other income of $6.5M in the prior year. The prior year includes a gain of roughly $4M from the sale of a building.

BALANCE SHEET

- Our quarter-ending cash position was $334M
    - Our cash was down by $145M but up by $12M compared to December 2012

  - In comparing to the prior year, note that during Q2 of Fiscal Year 2013 we paid a one-time dividend of $133M and that our stock repurchases during Fiscal Year 2013 totaled $90M.

- Our cash flow from operations in Fiscal Year 2013 was $117M, down by $79M from $196M in the prior year. The decline was primarily due to the lower net income in Fiscal Year 2013.
  - Excluding the impact of $30M in restructuring payments made during Fiscal Year 2013, our cash flow from operations would have declined by $49M

- Cash flow from operations in Q4 was $13M, down from $42M, with the reduction in net income being the major factor in the decline.
  - Our cash conversion cycle in Q4 was 33 days, down from 37 days

- Inventory decreased by $36M and by $16M compared to the prior quarter
  - Inventory turns improved slightly to 4.8

- DSO was 34 days, down by 4 days

- DPO was 77 days, down by 3 days

SHARE REPURCHASES

- We did not repurchase any shares during Q4
- We own approximately 8% of our shares
- We have $4M remaining under our current $250M repurchase program

FISCAL YEAR 2014 OUTLOOK

For Fiscal Year 2014, ending March 31, 2014, we 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%. Our outlook assumes that we will have transitioned out of our non-strategic product categories by the end of Fiscal Year 2014.

FORWARD LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: product categories out of which we intend to transition and the timing of those transitions, our plans with respect to LifeSize and other product categories, expansion of our tablet accessories portfolio, the launch of new products, 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 Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 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 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