

Logitech Q3 Fiscal Year 2015 Financial Results Management's Prepared Remarks (January 21, 2015)

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. We refer both to GAAP and to non-GAAP financial measures herein. For full GAAP to non-GAAP reconciliation information and cautionary information regarding the use of non-GAAP measures, please refer to "Supplemental Financial Information" in our earnings press release or "Financial Statements only" posted to our website under "Quarterly Results" at <http://ir.logitech.com>. The live webcast or replay of the question and answer session is also available on our website.

COMPANY COMMENTARY

Following is a summary of the company's comments on key areas impacting Q3 Fiscal Year 2015 performance. The growth percentages that follow are in comparison to the same period of the prior year.

OVERVIEW

Q3 sales grew by 1% to \$634M, with sales in constant currency up by 4%. Total retail sales grew by 2% to \$574M, by 5% in constant currency and by 7% in constant currency excluding the discontinued products reported in our Other/Non-Strategic category. Non-GAAP operating income was better than expected at \$76M and 12% of sales, a 140 basis point improvement. Non-GAAP earnings per share grew by 17% to \$0.41. Through continued strong working capital management, we generated \$76M in cash flow from operations in the quarter and for the last twelve months, we generated \$232M in cash flow from operations, up by 86%.

RETAIL - GROWTH

Our retail Growth category, which includes PC Gaming, Mobile Speakers, and Tablet & Other Accessories, delivered 11% growth in Q3 in both sales and units, with sales up by 15% in constant currency. Combined sales in PC Gaming and Mobile Speakers, the two growing categories, were up by more than 40%.

PC GAMING

Q3 sales in our PC Gaming category increased by 21%. Our sales growth was driven by double-digit gains in gaming headsets, mice and keyboards. Headset sales were up by 50%, with our G930 Wireless Gaming Headset making a strong contribution. Gaming mice and keyboard sales both increased by over 20%, with keyboard sales benefitting from the launch of our newest gaming keyboard, the G910 Orion Spark Mechanical Keyboard. Sales of our PC Gaming products grew strongly in both the Americas and EMEA, reflecting our improved product portfolio. Our overall growth in the category was constrained by a decline in sales of legacy steering wheels for console and PC platforms.

MOBILE SPEAKERS

Sales and unit shipments in Q3 in our Mobile Speakers category, which is made up entirely of wireless speakers, grew by more than 80%. The strong performance in this category continues to be driven primarily by UE BOOM. Mobile Speakers sales increased significantly across our three regions due to great products and expanded distribution, with sales in the Americas doubling. Earlier this month, we announced the newest addition to our Mobile Speakers lineup, the UE MEGABOOM, our next-generation portable wireless speaker that delivers more power, more 360° sound, and more bass.

TABLET & OTHER ACCESSORIES

In Q3, sales in our Tablet & Other Accessories category declined 28%, with units down by 18%. The reduction in sales reflects the combination of a declining market for iPad shipments and the phase-in of our products for the new iPad.

RETAIL - PROFIT MAXIMIZATION

Sales in our Profit Maximization category increased by 1% and units were up by 4%, with sales also increasing by 4% in constant currency. Excluding the Video

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Collaboration products reported in our Video category, sales in our Profit Maximization category were slightly down.

POINTING DEVICES

Q3 sales in our Pointing Devices category were flat but up by 3% in constant currency. Sales and units were up in the mid-range and low-end of the category. We achieved sales growth in the category in our Americas and Asia Pacific regions.

PC KEYBOARDS & DESKTOPS

Q3 sales in our PC Keyboards & Desktops category increased by 5%. The growth was driven by sales of our keyboard and mouse combos as well as our cordless keyboards, with a strong contribution from our new Bluetooth Multi-Device Keyboard K480, the first desk keyboard designed for use with up to three devices at the same time.

AUDIO – PC & WEARABLES

Q3 sales in our Audio category declined by 15%. This primarily reflects a PC speaker category that appears to be in structural decline as music consumption continues to migrate to mobile platforms, which benefits products such as our UE Bluetooth mobile speakers.

VIDEO

Q3 sales in Video increased by 22%, with units down by 2%. The majority of the growth in the Video Category was driven by sales of our Video Collaboration offerings targeted at small and midsize conference rooms, which more than doubled. The primary contributor to this growth, as well as to a 25% increase in the average selling price for the Video category, was the Logitech ConferenceCam CC3000e, a mobile video conferencing solution that delivers 1080p HD video and enterprise-quality audio for under \$1,000.

REMOTES

In Q3, our Harmony Remotes sales decreased by 4%. Sales growth in our EMEA region was more than offset by declines in the Americas and Asia Pacific. The Q3 decline in sales follows Q2 sales growth of 41% that was driven by supplying our newly launched products, including the Harmony Home Hub, ahead of the holiday selling season. The sell through in Q3 for our Remotes grew compared to the prior year.

RETAIL - OTHER/NON-STRATEGIC

This category is made up of product categories that we have discontinued, and is subject to change as we continually assess the strategic fit of the products in our portfolio. As planned, sales declined to nearly zero in Q3, down by \$11M.

RETAIL - SALES BY REGION

RETAIL SALES – AMERICAS REGION

Q3 sales in the Americas grew by 10%. This was the fifth consecutive quarter of sales growth in excess of 8%, demonstrating a combination of strong execution and relatively favorable market conditions. The increase in sales in Q3 was primarily driven by the Growth category, with Mobile Speakers doubling and PC Gaming up by over 30%. The Video category in the Americas also delivered strong growth, driven primarily by our Video Collaboration offerings, and our combined mice and keyboard sales were up by nearly 10%.

RETAIL SALES – EMEA REGION

Q3 sales in EMEA were down by 7%. The decline in sales reflects very weak market conditions in Russia and Ukraine. Excluding those two countries in Q3, our sales increased by 3% in constant currency. We achieved strong sales growth in Mobile Speakers and PC Gaming.

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RETAIL SALES – ASIA PACIFIC REGION

Sales in Q3 in Asia Pacific were up by 3% in USD and by 7% in constant currency. We achieved double-digit sales growth in Mobile Speakers and Video, and experienced sales growth in both mature and emerging market countries.

OEM SALES

Our Q3 OEM sales decreased by 12%, primarily due to lower mice sales that were only partially offset by growth in Keyboards & Desktops. The decline in mice sales was expected, as we elected not to participate in lower margin opportunities with several customers.

LIFESIZE

Lifesize sales were flat in Q3 and grew by 5% sequentially. Lifesize is in the early stages of transitioning its product portfolio to the recently announced Lifesize Cloud, a software-as-a-service offering that is off to a promising start and provides an affordable, simple and scalable video conferencing solution with little to no need for IT involvement. Sales of Lifesize Cloud are growing rapidly, but they are not yet large enough to offset the combination of the short-term portfolio transition and soft market conditions for video conferencing infrastructure.

GROSS MARGIN

Our Q3 non-GAAP gross margin was 36.6%, up by 210 basis points. The increase primarily reflects the combination of a significant improvement in both our Profit Maximization category and in Mobile Speakers, driven largely by product cost reductions and economies of scale, as well as the mix benefit from exiting the products included in the Other/Non-Strategic Category.

OPERATING EXPENSES

Our Q3 non-GAAP operating expenses were \$156M, up by \$6M, or 4%. Consistent with the plans we shared during our last earnings call, the increase reflects investments we

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made in field marketing and product marketing to drive short-term and long-term sales growth primarily in Mobile Speakers, PC Gaming and Lifesize Cloud. Those investments were partially offset by continued savings in our infrastructure. Non-GAAP operating expenses were 24.6% of sales, up by 70 basis points.

OPERATING INCOME

Our non-GAAP operating income in Q3 was \$76M, an improvement of \$10M, or 14%, significantly outpacing the growth in sales despite the currency headwinds. Our non-GAAP operating margin reached 12%, up by 140 basis points.

OTHER EXPENSE

Non-GAAP other expense was \$0.9M in Q3 compared to income of \$1.1M. The expense was primarily driven by unfavorable changes in exchange rates. Note that our non-GAAP other expense in Q3 of the current year excludes a \$2.2M impairment of an investment in a privately held company.

NET INCOME & EPS

Non-GAAP net income was \$68M in Q3, up by \$11M, or 19%, and benefitting from our expectation of an 11.2% non-GAAP effective tax rate for the year. Non-GAAP earnings per share in Q3 increased to \$0.41, up from \$0.35.

BALANCE SHEET

We generated \$76M in cash flow from operations in Q3, the same as our non-GAAP operating income for the quarter. For the last twelve months, our cash flow from operations was \$232M, up by 86% compared to the prior period. Our quarter-ending cash position was \$517M, up by \$137M compared to December 2013 despite paying a \$43M dividend during the quarter.

Our cash conversion cycle in Q3 was 20 days, down by 10 days and reaching our second lowest level ever.

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We ended Q3 with \$246M in inventory, down by \$13M compared to December 2013 and flat sequentially. Inventory turns improved to 6.6, up by 0.2 turns and reaching the highest level for a Q3 in the last five years.

Our Q3 accounts receivable was \$307M, down slightly from the prior year. DSO decreased by 1 day to 44 days.

Accounts payable was \$350M, up by \$25M with DPO increasing by 7 days to 78 days.

SHARE COUNT & REPURCHASES

Our diluted share count in Q3 was 166.3M shares. We have a \$250M share repurchase plan that is available for opportunistic usage.

FISCAL YEAR 2015 OUTLOOK

Despite significant currency headwinds, we are increasing our outlook for non-GAAP operating income for Fiscal 2015 by \$15M to approximately \$185M, the second increase this year. We are adjusting our outlook for Fiscal 2015 sales from approximately \$2.16B to approximately \$2.11B to reflect the US Dollar's appreciation versus various currencies.

ANALYST & INVESTOR DAY

Our next Analyst and Investor Day is scheduled for March 11, 2015 in Zurich.

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: category growth and decline, migration of music consumption to mobile platforms, consumer webcams sales growth, Lifesize Cloud sales growth, Fiscal Year 2015 sales and operating income, and

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currency exchange rates. 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 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 our Annual Report on Form 10-K for the fiscal year ended March 31, 2014, 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.

USE OF NON-GAAP FINANCIAL INFORMATION

To facilitate comparisons to Logitech's historical results, Logitech has included non-GAAP adjusted measures, which exclude share-based compensation expense,

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amortization of other intangible assets, restructuring charges (credits), other restructuring-related charges, investment impairment (recovery), benefit from (provision for) income taxes, one-time special charges and other items detailed under "Supplemental Financial Information" in our earnings press release or "Financial Statements only" posted to our website under "Quarterly Results" at <http://ir.logitech.com>. Logitech also presents percentage sales growth in constant currency, a non-GAAP measure, to show performance unaffected by fluctuations in foreign 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, used together with the GAAP financial information, will help investors to evaluate its current period performance and trends in its business. With respect to our outlook for non-GAAP operating income, most of these 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 the GAAP amounts has been provided for Fiscal Year 2015.

USE OF SELL-THROUGH DATA

Logitech relies on reports from third-parties for data on its product sell-through and inventory information. While Logitech believes this information provides meaningful perspectives on sell-through and inventory trends over time, this information is not subject to Logitech's internal control systems and Logitech cannot assure investors of its accuracy.