Logitech Q1 Fiscal Year 2016 Financial Results
Management's Prepared Remarks (July 22, 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 Q1 Fiscal Year 2016 performance. The growth percentages that follow are in comparison to the same period of the prior year.

OVERVIEW

Q1 financial results put us solidly on track to achieve our Fiscal Year 2016 outlook. Total company sales in Q1 grew by 4% in constant currency to $470M and declined by 2% in USD. Retail sales, which represent roughly 90% of total company sales – grew by 7% in constant currency and were flat in USD. Non-GAAP operating income was better than expected at $31M. Non-GAAP earnings per share was $0.16.

RETAIL – GROWTH CATEGORY

Our Growth category, which includes Gaming, Mobile Speakers, Video Collaboration and Tablet & Other Accessories, delivered 9% sales growth in Q1 in constant currency, with sales up by 1% in USD. The relatively slow start to the year was driven by the timing of our upcoming new product releases as well as the continuing weakness in tablet market conditions.

VIDEO COLLABORATION

Q1 Video Collaboration sales grew by 52% in constant currency and by 39% in USD, with units up by 74%. The growth was primarily driven by the Logitech ConferenceCam Connect, a portable all-in-one videoconference solution with a breakthrough design for small-and-medium sized rooms. We achieved double-digit constant currency growth in the Video Collaboration category in all regions.

MOBILE SPEAKERS

Sales in our Mobile Speakers category grew by 51% in constant currency and by 41% in USD. UE BOOM was once again our top selling product during the quarter. UE MEGABOOM was right behind it as our next best selling product and drove strong growth in the quarter despite limited or no availability in some markets as demand outpaced supply.

GAMING

Q1 sales in our Gaming category were flat in constant currency and declined by 7% in USD. Our overall growth in the category was impacted by two factors. First was the significant decline in sales of legacy steering wheels for console and PC platforms as we transitioned out of our old wheels before our new wheels had launched. This issue will abate as our new wheels begin to ship over the next few months into a market already anticipating them. The second factor was lower PC Gaming sales in the Americas, particularly in mice. We believe this was a temporary slowdown and it does not change our growth outlook for the overall category.

Excluding wheels, our Gaming sales grew by 7% in constant currency. It was a strong quarter for sales of our Gaming Keyboards, with our G910 Orion Spark RGB Mechanical Gaming Keyboard making a strong contribution to the growth. Despite the slow start in the Gaming Category, we expect to deliver double-digit growth for the year in the category, driven particularly in the second half by a strong product portfolio.

TABLET & OTHER ACCESSORIES

In Q1, sales in our Tablet & Other Accessories category decreased by 37% in constant currency and by 41% in USD. The most significant decline in sales was in the Americas, reflecting very weak market conditions and the transition to our new products. Last week we announced the launch of our first family of products under the new Logi label: the Logi™ BLOK family of cases for iPad. We are excited about the potential for this innovative collection of protective and beautiful cases, although we are not planning on significant improvement in market conditions in the near future. Going forward we will pace our innovation to a slower moving and smaller market.

RETAIL - PROFIT MAXIMIZATION CATEGORY

Q1 sales in our Profit Maximization category increased by 7% in constant currency and were flat in USD. Our solid performance in PC peripherals, which reflects product innovation and strong execution, resulted in share gains across multiple categories.

POINTING DEVICES

Q1 sales in our Pointing Devices category increased by 10% in constant currency and by 3% in USD. The primary driver of the growth was our new flagship mouse, the MX Master Wireless Mouse, which began shipping in volume in Q1. We also benefitted from sales of the MX Anywhere 2, our latest high-end wireless mobile mouse that began shipping at the end of the quarter.

KEYBOARDS & COMBOS

Q1 sales in our Keyboards & Combos category increased by 7% in constant currency and were flat in USD. Sales in the Americas and Asia Pacific both grew by double-digits. We continued to see a strong contribution from our new Bluetooth Multi-Device Keyboard K480.

AUDIO – PC & WEARABLES

Q1 sales in our Audio category grew by 3% in constant currency and declined by 6% in USD. The growth was driven primarily by PC Speaker sales in the Americas and Asia Pacific.

PC WEBCAMS

Q1 sales in PC Webcams, which is composed entirely of consumer webcams, increased by 12% in constant currency and by 6% in USD. We achieved growth in both the Americas and Asia Pacific, with strong sales of the Logitech HD Pro Webcam C920.

HOME CONTROL

In Q1, our Home Control sales decreased by 13% in constant currency and by 17% in USD. Sales were weak in both our EMEA and Americas regions.

RETAIL - SALES BY REGION

In Q1, our retail sales grew by 7% in constant currency, with growth in all three of our regions. We've established solid momentum ahead of the launch of a number of innovative new products in FY16.

RETAIL SALES – AMERICAS REGION

Q1 sales in the Americas grew by 10% in constant currency and by 9% in USD. The increase in sales in Q1 was driven by Mobile Speakers and Video Collaboration, with both up by over 60%, and by a strong performance in multiple PC peripheral categories.

RETAIL SALES – EMEA REGION

Q1 sales in EMEA grew by 1% in constant currency, the second consecutive quarter of constant currency growth, but were down by 15% in USD. The constant currency growth was constrained by continued weak market conditions in Russia and Ukraine, with sales in both countries down in excess of 50%. Constant currency sales in mature markets in EMEA, which exclude Russia and Ukraine, were up by 11%. It was a strong quarter in EMEA for sales of Mobile Speakers and our Video Collaboration offerings.

RETAIL SALES – ASIA PACIFIC REGION

Sales in Q1 in Asia Pacific were up by 10% in constant currency, the third consecutive quarter of constant currency growth, and by 5% in USD. The growth was led by double-digit increases in China and Australia. We delivered growth across multiple categories, with Video Collaboration sales doubling in constant currency.

OEM SALES

Our Q1 OEM sales decreased by 32%. We are ahead of schedule for exiting the OEM business and now expect the process to be completed by the end of calendar year 2015, three months sooner than originally planned.

LIFESIZE

Lifesize sales declined by 12% in Q1. Sales of Lifesize Cloud offerings continue to deliver strong growth, but are not yet large enough to offset the combination of the short-term portfolio transition and soft market conditions for video conferencing infrastructure. We are on track with our actions to reorganize Lifesize to sharpen its focus on its new cloud-based offering. As we said last quarter, the Lifesize business is not synergistic with our focus on our retail business and we are evaluating alternatives to optimize the value of this unique asset.

GROSS MARGIN

Q1 non-GAAP gross margin declined by 120 basis points to 36.7% due to currency headwinds. While currency, net of hedging, was responsible for a 230 basis point decline in gross margin, we were able to offset nearly half of that through our product cost reduction initiatives, favorable product mix, and, to a lesser extent, early benefits from our price increases.

OPERATING EXPENSES

Our Q1 non-GAAP operating expenses were $141M, unchanged from the prior year due to continued disciplined spend management. Our R&D spending increased by 9% and primarily reflects investments to drive future growth. As planned, those investments were offset by continued savings in G&A and our infrastructure functions.

Our Q1 GAAP operating expenses include a restructuring charge of $13M as well as an additional accrual of $3.5M for a proposed settlement of the SEC investigation (see Other Contingencies – SEC Investigation in Appendix). For the full fiscal year, we continue to expect restructuring charges of between $15M and $20M.

OPERATING INCOME

Our non-GAAP operating income in Q1 was better than expected at $31M, with an operating margin of 6.7%.

NET INCOME & EPS

Non-GAAP net income was $27M in Q1 with non-GAAP earnings per share at $0.16. Based on our outlook of $150M non-GAAP operating income for FY16, we expect our annual non-GAAP tax rate will be approximately 13%, which is subject to change depending on the geographic profit mix.

BALANCE SHEET

Our quarter-ending cash position was $492M, up by $7M. Cash from operations was a negative $26M in Q1, primarily reflecting an increase in inventory combined with lower net income. Our cash conversion cycle in Q1 was 39 days, up by 12 days.

We ended Q1 with $328M in inventory, up by $87M compared to June 2014. Inventory turns declined from 5.0 to 3.6. The higher inventory balance reflects several operational and strategic actions, including the ramp up to launch the new products coming this quarter and in early Q3 and executing our strategy to reduce costs by shipping via sea rather than via air. Reducing air shipments is enabled by building products earlier and shipping them to our distribution centers earlier, which increases inventory compared to the prior year.

Another contributing factor to the inventory increase is the execution of our strategy to build more products in our factory in China. This is driven by our growing utilization of advanced technology and design combined with increased automation. Today most of the products in our Growth category are manufactured in-house. As we target more challenging designs and technologies, building them in our plant may help us extend the amount of time they remain proprietary. While we have historically targeted a ratio of 50/50 for the split between products we build ourselves vs. those that are built for us by third parties, we have now adjusted that ratio to 60/40. The shift in the ratio will result in slightly higher capital expenditures going forward, as well as increased inventory.

Our Q1 accounts receivable was $222M, up by $3M. DSO increased by 1 day to 42 days.

Accounts payable was $340M, up by $55M, with DPO increasing by 17 days to 103 days. The primary driver of the increase was the timing of the inventory-related purchases referenced above.

SHARE COUNT & REPURCHASES

Our diluted share count in Q1 was 166.9M shares. We repurchased 577K shares during the quarter for approximately $8.8M, leaving us with approximately $240M available for opportunistic usage under our current share repurchase plan.

FISCAL YEAR 2016 OUTLOOK

We are confirming our outlook for Fiscal Year 2016 of $150 million in non-GAAP operating income and 7% growth for Retail sales in constant currency.

APPENDIX

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: Logitech's momentum, Gaming category product portfolio and growth, Tablet & Other Accessories category market conditions and products' potential, new products, timing of new product introductions, exiting the OEM business, Lifesize Cloud offerings growth, reorganizing Lifesize, strategy to optimize the value of Lifesize, restructuring charges, settlement of the SEC investigation, shipping strategy, cost reduction strategy, percentage of products we build ourselves, utilization of advanced technology and design, automation, ability to maintain proprietary elements of products, capital expenditures, inventory, Fiscal Year 2016 annual tax rate, and Fiscal Year 2016 outlook for operating income and sales growth. 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, 2015, 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, 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 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 2016.

OTHER CONTINGENCIES – SEC INVESTIGATION

The Company is subject to an ongoing formal investigation by the Enforcement Division of the U.S. Securities and Exchange Commission ("SEC"), relating to certain issues including the accounting for Revue inventory valuation reserves that resulted in the restatement described in the Fiscal 2014 Form 10-K, revision to the Company's consolidated financial statements concerning warranty accruals and amortization of intangible assets presented in the Company's Amended Annual Report on Form10-K/A, filed on August 7, 2013, and the Company's transactions with a distributor for Fiscal Year 2007 through Fiscal Year 2009. The Company has entered into an agreement with the Enforcement Staff to extend the statute of limitations. The Company is cooperating with the investigation and, after discussions with the Enforcement Staff, the Company recently made an offer of settlement to resolve the matter, which is subject to approval by the SEC. The proposed settlement would be entered into by the Company without admitting or denying the SEC's findings and will resolve alleged violations of certain provisions of the Securities Exchange Act of 1934 and related rules, including the anti-fraud provisions. Under the terms of the proposed settlement, the Company would pay $7.5 million in a civil penalty and agree not to commit or cause any violations of certain provisions of the Securities Exchange Act of 1934 and related rules. There is no assurance that the proposal will be approved by the SEC. In accordance with U.S. GAAP, the Company has made a corresponding accrual in its financial statements.

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.