Logitech Q2 Fiscal Year 2016 Financial Results
Management's Prepared Remarks (October 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 Q2 Fiscal Year 2016 performance. The growth percentages that follow are in comparison to the same period of the prior year except as otherwise specified.

OVERVIEW

Q2 financial results demonstrate accelerated retail sales growth and strong progress towards achieving our Fiscal Year 2016 outlook. Total company sales in Q2 grew by 8% in constant currency to $540M and by 2% in USD. Retail sales, which represent over 90% of total company sales and the future of Logitech – grew by 12% in constant currency and by 5% in USD, our strongest sales growth since 2010. Non-GAAP operating income was better than expected at $42M. Non-GAAP earnings per share was $0.22.

RETAIL – GROWTH CATEGORY

Our Growth category, which includes Gaming, Mobile Speakers, Video Collaboration and Tablet & Other Accessories, delivered 45% sales growth in Q2 in constant currency, with sales up by 35% in USD. Growth category sales totaled $187M and represented 38% of Retail sales compared to just 29% in Q2 of the prior year.

MOBILE SPEAKERS

At $81M, sales in our Mobile Speakers category reached an all-time high for a quarter, with growth of 78% in constant currency and 66% in USD. Our three newest speakers drove the growth, led by UE MEGABOOM which became the company's top selling product during the quarter. UE BOOM 2, the new and improved replacement for UE BOOM, was also one of our best selling products even though shipments did not begin until relatively late in the quarter. UE ROLL, the most mobile member of the portfolio, also made a strong contribution to category growth.

VIDEO COLLABORATION

Q2 Video Collaboration sales grew by 55% in constant currency and by 45% in USD. The growth was primarily driven by our conference cams. We achieved triple-digit sales growth in Asia in the Video Collaboration category and strong double-digit growth in Americas and in EMEA.

GAMING

Q2 sales in our Gaming category grew by 54% in constant currency and by 42% in USD. The growth in Gaming was broad based. Our total Gaming sales, excluding steering wheels, grew by 24% in constant currency with strong growth in both Gaming keyboards and headsets. Sales of our Gaming wheels more than doubled as we launched our two new force feedback racing wheels. Our Gaming wheel sales in the quarter were the highest since Fiscal 2011.

TABLET & OTHER ACCESSORIES

In Q2, sales in our Tablet & Other Accessories category decreased by 32% in constant currency and by 34% in USD. The most significant decline in sales was in Americas, reflecting very weak market conditions. We are not expecting significant improvement in market conditions in the near future, but we are cautiously optimistic about the potential for the Logitech® CREATE Keyboard Case for iPad Pro, developed closely with Apple to leverage the new Smart Connector™. With this product we will bring to market the first third-party keyboard compatible with the iPad Pro Smart Connector.

RETAIL - PROFIT MAXIMIZATION CATEGORY

Q2 sales in our Profit Maximization category decreased by 2% in constant currency and by 8% in USD. We gained share in all of our PC-related categories due to strong product innovation.

POINTING DEVICES

Q2 sales in our Pointing Devices category increased by 3% in constant currency and declined by 2% in USD. The growth was primarily driven by our two newest high-end wireless mice, the MX Master Wireless Mouse and the MX Anywhere 2.

KEYBOARDS & COMBOS

Q2 sales in our Keyboards & Combos category increased by 3% in constant currency and declined by 3% in USD. Sales in Americas and Asia Pacific both grew by double-digits in constant currency, with new products contributing to the growth.

PC WEBCAMS

Q2 sales in PC Webcams, which is composed entirely of consumer webcams, decreased by 2% in constant currency and by 8% in USD. We achieved growth in both Americas and Asia Pacific, offset by a decline in EMEA.

AUDIO – PC & WEARABLES

Q2 sales in our Audio category declined by 12% in constant currency and by 19% in USD. Sales declined in all three regions.

HOME CONTROL

In Q2, our Home Control sales decreased by 29% in constant currency and by 33% in USD. The decline partly reflects an opportunistic sale in Q2 of the prior year to a mass market retailer as well as a shift in the timing of product launches during the quarter. Sales in Q2 of the prior year included the launch of a new high-end remote, while we did not launch Harmony Elite, the new flagship in our Harmony line, until the very end of Q2 this year.

RETAIL - SALES BY REGION

In Q2, our retail sales grew by 12% in constant currency, our best performance in nearly five years, with growth in all three regions. The acceleration in growth reflects strong momentum from the innovative new products we have recently launched, particularly in the Growth Category. Sales of new products represented 33% of our total retail sales in Q2, compared to just 12% in the prior year.

RETAIL SALES – AMERICAS REGION

Q2 sales in Americas grew by 9% in constant currency and by 7% in USD. The increase in sales in Q2 was primarily driven by the Growth Category, which was up by 24% in constant currency. Sales of PC peripherals, led by keyboards and webcams, contributed to the region's growth while also delivering share gains.

RETAIL SALES – EMEA REGION

Q2 sales in EMEA grew by 7% in constant currency, the third consecutive quarter of constant currency growth, and were down by 5% in USD. The constant currency growth was constrained by continued weak market conditions in Russia and Ukraine, where sales declined by 36%. Constant currency sales excluding Russia and Ukraine were up by 12%. It was a strong quarter in EMEA for sales of Mobile Speakers, Gaming and Video Collaboration offerings.

RETAIL SALES – ASIA PACIFIC REGION

Sales in Q2 in Asia were up by 26% in constant currency and by 18% in USD. This was the region's third consecutive quarter of double-digit growth in constant currency and the strongest growth in nearly four years, although it was against a relatively easy comparable. The growth was driven by double-digit increases in multiple countries, including China, Australia and India. Sales in the Growth category were up by 84%, with a strong contribution from our new products in Mobile Speakers and Gaming. The region also delivered sales growth in Video Collaboration, PC Webcams and Keyboards & Combos.

OEM SALES

Our Q2 OEM sales decreased by 22%. We are on schedule to exit the OEM business by the end of calendar year 2015 as planned, with final shipments at the end of December.

LIFESIZE

Lifesize sales were down by 25% in Q2 due to declines in their legacy business. Sales of Lifesize Cloud offerings continue to deliver strong growth. We have taken further actions to reorganize Lifesize to focus on its cloud-based offering. We are in the process of implementing a structural separation of Lifesize from the rest of Logitech, giving us more flexibility with this asset in the future.

GROSS MARGIN

Q2 non-GAAP gross margin was 34.6%, down by 420 basis points primarily due to the impact of currency. We were able to offset some of this negative impact through our product cost reduction initiatives and pricing adjustments. These improvements were diluted this quarter by the impact of reserves related to the weakness in the tablet accessories market and the artificially challenging comparable from the prior year. Our gross margin in Q2 of the prior year was inflated by roughly 100 basis points due to the unusual situation of our books being open for several prior periods as we worked to bring our filings current.

OPERATING EXPENSES

Our Q2 non-GAAP operating expenses were $145M, down by 1% due to continued disciplined spend management. This reduction in spending was achieved despite higher variable compensation costs resulting from the strong, better-than-expected sales performance in the first half of the fiscal year. We cut infrastructure costs by 10% and invested back roughly two-thirds of those savings into R&D and growth initiatives. As a result, R&D increased by 7%.

Our Q2 GAAP operating expenses include a restructuring charge of $9M. Restructuring charges through the first half of the year are $22M and we expect to finish the fiscal year in the $22M to $25M range. This is slightly higher than we had originally anticipated due to further reorganization actions taken at Lifesize to focus the business on its cloud offerings and implement a structural separation of the business from the rest of Logitech to provide us with increased flexibility with this asset.

OPERATING INCOME

Our non-GAAP operating income in Q2 was better than expected at $42M, with an operating margin of 7.7%.

NET INCOME & EPS

Non-GAAP net income was $36M in Q2, with non-GAAP earnings per share at $0.22. Our GAAP tax rate in Q2 was 27.9%, which includes several quarter-specific non-cash tax events. Our GAAP tax rate for the first half of the fiscal year was 18.2%. Our non-GAAP tax rate in Q2 was 11.9%, and we expect it will be similar to that for the full fiscal year based on our current profit outlook.

BALANCE SHEET

Our quarter-ending cash position was $366M, down by $134M. The decline was driven primarily by the combination of $130M in dividend payments and $50M in share repurchases over the last twelve months, partially offset by $103M in cash from operations.

Cash from operations was $11M in Q2. Unchanged from last quarter, our cash conversion cycle in Q2 was 39 days, an 11 day increase over the prior year driven by the inventory actions outlined last quarter. We expect our working capital metrics, particularly in relation to inventory, to improve in the second half of the fiscal year as we had communicated last quarter.

We ended Q2 with $328M in inventory, unchanged compared to Q1 and up by $83M compared to September 2014. Inventory turns declined from 5.3 to 4.3. Consistent with the strategy that we shared last quarter, the higher inventory balance reflects several actions, including 1) ensuring supply of new products heading into the holiday selling season, 2) executing our strategy to reduce costs by shipping high volume products via sea rather than air, and 3) building more products in-house at our factory in China. With Q3 being the biggest quarter of the year for our retail sales, we expect our new product inventory will decline from its current levels by the end of Q3.

Our Q2 accounts receivable was $275M, up by $22M. DSO increased by 3 days to 46 days, mainly driven by shipment patterns within the quarter.

Accounts payable was $357M, up by $57M, with DPO increasing by 8 days to 91 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 Q2 was 165.8M shares. We repurchased 2.9M shares during the quarter for approximately $40M, leaving us with approximately $200M 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.

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: Logitech's focus on retail sales, momentum, Tablet & Other Accessories category market conditions and product 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, cost reduction strategy, growth investments, Fiscal Year 2016 annual tax rate, inventory, shipping strategy, percentage of products we build ourselves, capital expenditures, 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 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 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.

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.