

Logitech Q3 Fiscal Year 2016 Financial Results Management's Prepared Remarks (January 20, 2016)

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 2016 performance. Except where noted otherwise, these comments are focused on results from Continuing Operations and do not address the performance of Lifesize, which is now reported under Discontinued Operations, or Total Logitech including Discontinued Operations. For more information on the impact of the Lifesize separation on Logitech's historical results, please refer to "Financial Reporting" posted to our website under "Financial History" at <http://ir.logitech.com>.

The growth percentages that follow are in comparison to the same period of the prior year except as otherwise specified.

OVERVIEW

Q3 financial results demonstrate better than expected sales growth and solid profitability driving an increase in our Fiscal Year 2016 outlook. Total company sales in Q3 grew by 8% in constant currency and by 3% in USD to \$621M. Our retail sales, the Company's go forward business, grew by 9% in constant currency and by 4% in USD. Non-GAAP operating income was better than expected at \$74M, just slightly below the prior year despite the significant impact of currency. Non-GAAP earnings per share was \$0.41.

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Cash flow from operations, which includes Lifesize, was \$166M in Q3, up by 10% on a year-to-date basis.

RETAIL – GROWTH CATEGORY

Our Growth category, which includes Gaming, Mobile Speakers, Video Collaboration and Tablet & Other Accessories, delivered 17% sales growth in Q3 in constant currency, with sales up by 10% in USD. Excluding Tablet & Other Accessories, which is down due to a declining market, our Growth category was up by 34% in constant currency.

VIDEO COLLABORATION

Q3 Video Collaboration sales grew by 62% in constant currency and by 55% in USD. The growth was primarily driven by our conference cams, which deliver powerful video communication solutions for meeting rooms. We achieved triple-digit sales growth in Asia in the Video Collaboration category and strong double-digit growth in Americas and in EMEA.

MOBILE SPEAKERS

At \$85M, sales in our Mobile Speakers category reached an all-time high for a quarter, with growth of 44% in constant currency and 37% in USD. The growth was driven primarily by UE BOOM 2, which was our top-selling product during the quarter, and UE MEGABOOM. Sales for our Mobile Speakers category grew by strong double-digits in all regions, with sales nearly doubling in Asia Pacific.

GAMING

Q3 sales in our Gaming category also reached an all-time high for a quarter, growing by 19% in constant currency and by 11% in USD. The growth in Gaming was driven by our PC gaming peripherals, with sales up by 25% in constant currency and by 17% in USD, reflecting strong growth driven by new products in both Gaming keyboards and headsets.

TABLET & OTHER ACCESSORIES

In Q3, sales in our Tablet & Other Accessories category decreased by 31% in constant currency and by 35% in USD. While we are not expecting significant improvement in market conditions in the near future, we are pleased with the initial sales for the Logitech® CREATE Keyboard Case for iPad Pro.

RETAIL - PROFIT MAXIMIZATION CATEGORY

Q3 sales in our Profit Maximization category increased by 5% in constant currency and were essentially flat in USD. We achieved constant currency growth in nearly all Profit Maximization categories, continuing the consolidation of our market share in these categories.

KEYBOARDS & COMBOS

Q3 sales in our Keyboards & Combos category increased by 8% in constant currency and by 2% in USD, with our wireless offerings driving the growth and continued strong sales of multi-device keyboards. All regions delivered constant currency growth, led by Americas.

POINTING DEVICES

Q3 sales in our Pointing Devices category increased by 3% in constant currency and declined by 1% in USD. Constant currency sales increased by low single-digits in all regions, with strong contributions from our newest high-end wireless mice, the MX Master Wireless Mouse and the MX Anywhere 2.

AUDIO – PC & WEARABLES

Q3 sales in our Audio category grew by 9% in constant currency and by 1% in USD. Sales grew in constant currency in all regions, led by double-digit growth in Americas.

PC WEBCAMS

Q3 sales in our PC Webcams category, which is composed entirely of consumer webcams, decreased by 2% in constant currency and by 6% in USD. Sales in Asia Pacific grew by double-digits.

HOME CONTROL

In Q3, our Home Control sales increased by 8% in constant currency and by 2% in USD. Growth was achieved in all regions, driven primarily by the Harmony Elite, the new flagship in our Harmony line.

RETAIL - SALES BY REGION

In Q3, our retail business delivered a broad-based performance with good growth in all regions. The continued strong growth reflects momentum from the innovative new products we have launched this fiscal year, particularly in the Growth Category.

RETAIL SALES – AMERICAS REGION

Q3 sales in Americas reached an all-time high for a single quarter, with growth of 7% in constant currency and by 5% in USD. The increase in sales in Q3 was primarily driven by the Growth Category, which was led by Video Collaboration and Mobile Speakers.

RETAIL SALES – EMEA REGION

Q3 sales in EMEA grew by 10% in constant currency, the best growth in more than three years, and were down by 1% in USD. The growth was constrained by continued weak market conditions in Russia and Ukraine, with sales up by 13% in constant currency excluding these two countries. It was a strong quarter in EMEA for sales of Video Collaboration, Mobile Speakers, and Gaming offerings.

RETAIL SALES – ASIA PACIFIC REGION

Sales in Q3 in Asia reached a record high, up by 15% in constant currency and by 9% in USD, the fourth consecutive quarter of double-digit growth in constant currency. The

region delivered sales growth in nearly every category, with Video Collaboration more than doubling.

OEM SALES

Our Q3 OEM sales decreased by 12%. We have successfully completed our exit from the OEM business, with last-time shipments at the end of December entirely depleting our inventory.

GROSS MARGIN

Q3 non-GAAP gross margin was 33.6%, down by 170 basis points, due primarily to the impact of currency, and up by 20 basis points sequentially. We were able to offset about half of the year-over-year negative impact through pricing actions combined with our ongoing supply chain efficiency initiatives. Our gross margin benefitted from a reserve release of about \$5M following the successful depletion of our OEM inventory. This release resulted in an OEM gross margin slightly above 35%, considerably higher than the historical average of between 15% and 20%. Our retail gross margin for the quarter was about 33.5%.

OPERATING EXPENSES

Our Q3 non-GAAP operating expenses were \$135M, unchanged from the prior year due to continued disciplined spend management. We continue to reduce infrastructure costs and invest back some of the savings into R&D and growth initiatives, with R&D increasing by 7% and G&A down by 6% to 3.5% of sales, the lowest for a quarter in the last ten years.

OPERATING INCOME

Our non-GAAP operating income in Q3 was better than expected at \$74M, with an operating margin of 11.9%.

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NET INCOME & EPS

Non-GAAP net income was \$67M in Q3, with non-GAAP earnings per share at \$0.41. Our non-GAAP tax rate in Q3 was 10.9%, and we expect it will be similar to that for the full fiscal year based on our current outlook for profit and revenue mix.

BALANCE SHEET

Our quarter-ending cash position was \$505M, down by just \$3M despite the combination of \$86M in dividend payments and \$49M in share repurchases over the last twelve months.

Cash from operations, including Lifesize, was \$166M in Q3 and grew by 10% on a year-to-date basis. Our cash conversion cycle in Q3 reached a record low of 14 days, a 4 day reduction over the prior year.

We ended Q3 with \$240M in inventory, up by \$7M but down by \$73M compared to Q2. The sequential reduction was driven by the actions we took to reduce our inventory, as we communicated last quarter, and the better than expected sales performance. Inventory turns increased from 6.7 to 6.9 times, the fastest turns in the last six years following the inventory build-up in the first two quarters.

Our Q3 accounts receivable was \$284M, down by \$7M despite higher sales. DSO decreased by 2 day to 41 days.

Accounts payable was \$364M, up by \$20M, with DPO unchanged at 79 days.

SHARE COUNT & REPURCHASES

Our diluted share count in Q3 was 165.2M shares. We did not repurchase shares during Q3 due mainly to the Lifesize separation. We have approximately \$200M available for opportunistic usage under our current share repurchase plan.

FISCAL YEAR 2016 OUTLOOK

We have increased our profitability outlook for Fiscal Year 2016 to approximately \$170 million in non-GAAP operating income from \$150 million, which included Lifesize. We have also increased our outlook for retail sales to 7 to 9 percent growth in constant currency, up from 7 percent.

ANALYST & INVESTOR DAY

Our Analyst and Investor Day is scheduled for March 2, 2016 in Zurich.

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: Logitech's transformation and ability to be a simpler, faster company, Logitech's retail business focus, market conditions in the Tablet & Other Accessories category, and Logitech's Fiscal Year 2016 annual tax rate and 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'

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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 product categories, 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 September 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), 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.