Logitech Q1 Fiscal Year 2017 Financial Results
Management's Prepared Remarks (July 28, 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 Q1 Fiscal Year 2017. The comments are focused on results from Continuing Operations.

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

OVERVIEW

Q1 delivered better-than-expected financial results for both the top- and bottom-line, with retail sales growth of 13% and non-GAAP operating income of $38M. In fact, Q1 marked our strongest retail sales growth in five years. Non-GAAP earnings per share was $0.20. Cash flow from operations was $14M.

SALES BY CATEGORY

Our strong Q1 performance was broad-based, with retail sales posting double-digit growth and with growth in all our key market opportunities (Creativity & Productivity, Gaming, Video Collaboration, Music, and Smart Home). It is a great start to Fiscal Year 2017 and today's results demonstrate that our diversified and innovation-focused portfolio strategy is working.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Q1 sales in our Pointing Devices category were stable, after posting 10% growth in the prior year period. We are pleased with performance in this category in spite of continued weakness in overall new PC shipments.

KEYBOARDS & COMBOS

Q1 sales in our Keyboards & Combos category rose 12%, with growth across all three regions. In fact, Keyboards & Combos had its ninth consecutive quarter of positive growth. Moreover, our traditional keyboards as well as our multi-device and living room keyboards all contributed to the positive results.

PC WEBCAMS

Our PC Webcams category produced Q1 sales growing double-digits for the second consecutive quarter. Sales rose 17%, driven by strong contribution from our C920 webcam, and were up in all regions. We are seeing increasing adoption of our webcams for live streaming applications and we are capturing that opportunity by leveraging our recognized leadership position in the webcam market.

TABLET & OTHER ACCESSORIES

In Q1, sales in our Tablet and Other Accessories category fell 26%. While we do not expect significant improvement in the tablet market in the near future, we continue to bring to market innovative new products. Our recently introduced CREATE Keyboard Case for the 12.9" iPad Pro remained our best-selling tablet accessory. We also have seen positive sales momentum from our Logi BASE Smart Connector Charging Stand for the iPad Pro since its launch.

GAMING

Q1 sales in our Gaming category were up 29%, continuing its strong growth trajectory through new product introductions and marketing initiatives. While we achieved growth in all three regions, Asia-Pacific was particularly strong as we continued to capitalize on the rising trend of PC gaming in that region. We again saw robust traction for our flagship G900 wireless mouse, and our new mechanical keyboards G810 and G610 benefited from expanded distribution in the quarter.

VIDEO COLLABORATION

Q1 Video Collaboration sales gained 13%. We continued to see strong sell-through demand as more customers are embracing cloud-based video collaboration solutions. And as we ramp up our sales coverage, we are on track to achieve our full-year outlook for this category. The addressable market is large at $20-40B, representing the opportunity to video-enable the millions of huddle rooms that are not yet currently set up for video collaboration.

MUSIC

MOBILE SPEAKERS

As expected, we saw a recovery in our Mobile Speakers category this quarter. Our Mobile Speaker sales rose 42%, with growth across Americas, EMEA, and Asia Pacific. Toward the end of Q1, we launched an update to our mobile speakers that allows consumers to use Siri or Google Now for an enhanced experience with the speakers. As we had noted previously, we are forecasting the mobile speaker market to increase 10-15% for the full year. We are focused on growth for Fiscal Year 2017 through various opportunities, including hardware introductions, expanded channel and retail distribution, and new features and functionalities.

AUDIO PC & WEARABLES

Our Audio PC & Wearables category sales gained 24%, owing to the addition of the Jaybird family of wireless earbuds into our portfolio. In May, we introduced the latest Jaybird Freedom wireless buds to positive reviews. We will continue to invest in developing our wireless earbud portfolio.

SMART HOME

HOME CONTROL

In Q1, our Home Control category sales rose by 9%, driven by notable contributions from EMEA and Asia Pacific. We recently launched our Harmony Pro in July for the specialty home-technology channel in the Americas, which should further expand our distribution for our Harmony universal smart remote controls. Harmony Pro builds on the momentum we have seen for Harmony Elite, the flagship in our Harmony line.

SALES BY REGION

All three regions – Americas, EMEA, and Asia-Pacific – delivered sales growth that exceeded expectations, driven by consistent execution across our portfolio.

- **Americas.** Our Q1 sales in Americas rose 8%, with growth in both developed and emerging markets in the Americas. Sales from emerging markets were up double-digits. Mobile Speakers was particularly strong in the quarter, driven by strong performance in the telco channel and further expansion into other mass market retailers.

- **EMEA.** Our EMEA region delivered its strongest retail sales growth for the past four years, with Q1 sales up 22%. In fact, all our key market opportunities in the region achieved double-digit growth in the quarter. The broad-based performance in EMEA was driven by great products, sales execution, channel expansion, and disciplined operations. This is the sixth consecutive quarter of growth in EMEA.

- **Asia Pacific.** Our Q1 sales in Asia Pacific showed its sixth consecutive quarter of double-digit sales growth, with revenues up 14%. China remains a strong outperformer for us, with another quarter of record sales. Our gaming portfolio also continued to see strong momentum in the region.

GROSS MARGIN

Our Q1 non-GAAP gross margin rose 250 bps quarter-over-quarter to 35.6%, ahead of our original plan to get back to 35% non-GAAP gross margin in the latter half of Fiscal Year 2017. We have made significant strides in recouping the negative impact from currency exchange rate fluctuations. We are pleased by our cost savings initiatives that are ahead of plan, underscoring the operational execution that has been a key foundation of our success. We remain committed to the long-term business model of non-GAAP gross margin of approximately 35% or higher that we had articulated at our March 2016 Analyst and Investor Day.

OPERATING EXPENSES

Our Q1 non-GAAP operating expenses reached $133M, or up 9%, with half of the increase coming from recently-acquired Jaybird. We will continue to re-invest some of our cost savings and gross profits into our innovation engine to support long-term future growth. At the same time, however, we will remain disciplined and prudent with how we spend our resources to most efficiently deliver top-line growth.

OPERATING INCOME

Our Q1 non-GAAP operating income exceeded expectations and reached $38M, up 5% despite currency and hedging headwinds versus the prior year. We believe that, through ongoing supply chain efficiency efforts and improved product mix coupled with ongoing disciplined expense management, we are marching towards our long-term business model of 10-12% operating margin.

NET INCOME & EPS

With the better-than-expected sales and non-GAAP operating income, our Q1 non-GAAP net income and EPS reached $33M and $0.20, respectively. Our non-GAAP tax rate was 10.1% and we expect FY17 to be similar, based on our current outlook for sales and profit mix.

BALANCE SHEET

We exited Q1 with $440M in cash and cash equivalents. Our primary uses of cash in the quarter were the acquisition of Jaybird and share repurchases. Cash flow from operations was $14M (despite a $7.5M settlement payment to the SEC in the quarter), an improvement from negative cash flows of $26M last year.

Despite the acquisition of Jaybird, our cash conversion cycle of 23 days remained healthy and within our targeted annual range of 20-25 days.

Our Q1 inventory of $248M declined $64M from last year. Our inventory turns were 5.0 times in the quarter (up from 3.7 times last year), which reflects our continued emphasis on tightly managing inventory levels.

Accounts receivable was $192M and accounts payable reached $293M at the end of June, down $17M and $43M, respectively, from last year. Our DSO was 36 days (versus 42 days last year) and DPO was 85 days (versus 104 last year).

SHARE COUNT & REPURCHASES

Our diluted share count in Q1 was 164.3M shares (down from 166.9M shares last year). In Q1, we repurchased 1.6M shares for $24M.

FISCAL YEAR 2017 OUTLOOK

We are raising our constant currency retail sales outlook for Fiscal Year 2017 to 8-10% growth from the previous guidance of mid-single digit growth. We are also increasing our non-GAAP operating income outlook to $195-205M from our prior guidance of $185-200M.

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: product category trends, our outlook for our product categories, market growth in our product categories, product development, our product portfolio, momentum for our products and our regions, our long-term business model and targets, investment in innovation and growth, efficient use of resources, our target cash conversion cycle range, inventory, and our Fiscal Year 2017 outlook for tax rate, 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 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 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, 2016, 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 AND CONSTANT CURRENCY

To facilitate comparisons to Logitech's historical results, Logitech has included non-GAAP adjusted measures, which exclude share-based compensation expense, amortization of intangible assets, purchase accounting effect on inventory, acquisition-related costs, restructuring charges (credits), gain (loss) on equity-method investment, investigations and related expenses, non-GAAP income tax adjustment, 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 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 2017.

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.