

Logitech Q3 Fiscal Year 2018 Financial Results Management's Prepared Remarks (January 23, 2018)

Logitech is posting a copy of these prepared remarks, our press release, and accompanying slides to our investor website. These prepared remarks will not be read on the call. We refer 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 will also be available on our website.

COMPANY COMMENTARY

Following is a summary of the company's comments on key areas impacting Q3 Fiscal Year 2018.

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

OVERVIEW

Q3 sales rose 18% to \$812M, fueled by robust double-digit growth in the Americas and Asia-Pacific as well as consistent growth in Video Collaboration, Gaming, and Smart Home. After a product transition last quarter, Mobile Speakers returned to solid

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contribution in the quarter. Gross margin in Q3 was negatively impacted by one-time costs of operating two distribution centers (DCs) in the Americas. Excluding this issue, our Q3 gross margin was in line with normal seasonality and within our target range. Despite this, our Q3 non-GAAP operating income grew 18% to \$117M. Non-GAAP earnings per share increased 16% to \$0.65.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

In Q3, our Pointing Device sales fell 4%, with continued robust contribution from our high-end MX family of mice offset by weakness in corded mice. Our newest trackball - the MX Ergo - helped drive renewed interest in the category and market share gains.

KEYBOARDS & COMBOS

Our Keyboards & Combos group reported a slight sales decline of 2% in Q3, with stable underlying trends in the broader PC peripherals market offset by a modest drop in living room keyboards. Our newest flagship keyboard - the MX Craft - has seen very positive reviews by press and users alike and had a positive impact on Q3 sales.

PC WEBCAMS

In Q3, PC Webcams sales declined 13% while sell-through remained stable. Video streaming continues to see widespread consumer adoption globally, which should lead to steady mid-term growth in our Webcam category.

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TABLET & OTHER ACCESSORIES

Tablet and Other Accessories had another solid quarter of performance, with sales up 5% and marking the third quarter of consecutive growth. We are encouraged by improving trends in the overall iPad tablet market while we will continue to innovate in this space to deliver the best typing experience for consumers.

GAMING

We reported another strong quarter of Gaming results, with sales up 57% in Q3. Our core PC gaming products continued to deliver double-digit growth across all product lines, while our industry-leading racing wheels also reported robust sales, driven by the release of several popular racing games. We completed the integration of ASTRO Gaming this quarter, and ASTRO Gaming represented approximately four percent of our overall sales.

VIDEO COLLABORATION

Our Video Collaboration group reported another quarter of double-digit growth, with sales up 25%. Our latest integrated video and audio product, MeetUp, had its highest sales performance since its launch. Companies are deploying MeetUp through small conference and huddle rooms as they increasingly embrace cloud-based video collaboration solutions.

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MUSIC

MOBILE SPEAKERS

In Q3, Mobile Speaker sales rose 34% as we benefited from the recent launch of our Ultimate Ears MEGABLAST and BLAST smart speakers as well as robust overall demand over the holiday period. We are excited about opportunities in both the traditional Bluetooth mobile speaker market and the nascent but fast-growing voice-enabled speaker market. We will continue to innovate in this category to drive differentiated experiences for consumers to enjoy their music anywhere and everywhere.

AUDIO PC & WEARABLES

Audio PC & Wearables generated 21% sales growth in Q3, with particular strength coming from Americas and Asia Pacific, offset by a decline in EMEA. Jaybird delivered strong growth in the quarter, led by the introduction of our true wireless earbud, Jaybird RUN, as well as our refreshed Freedom 2.

SMART HOME

In Q3, our Smart Home category had another set of impressive results with sales up 41%. Voice assistant adoption continues to gain traction with both existing and new purchasers of our Harmony Hub products. Our Circle 2 security camera also contributed to the overall growth in Smart Home.

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NET RETAIL SALES BY REGION

Americas and Asia-Pacific delivered strong double-digit gains over the holiday quarter. While EMEA sales only increased 2% in Q3, its underlying business remained healthy as sales rose 16% sequentially, in line with historical seasonality.

- **Americas.** In Q3, our Americas sales growth was 30%, driven by growth across all product categories. In fact, excluding PC peripherals, all of our other product categories achieved double-digit growth.
- **EMEA.** Our sales in the EMEA region increased 2% in the quarter, while sell-through remained at healthy double-digit levels. Video Collaboration and Gaming were particularly strong in the quarter.
- **Asia Pacific.** Our Asia Pacific sales rose 23%, marking the 5th consecutive quarter of double-digit growth. The region achieved growth in nearly all product categories.

GROSS MARGIN

In Q3, our non-GAAP gross margin was 34.4%, down 300 basis points. As we had mentioned in the prior quarter, our margins were impacted by one-time operational challenges of managing two distribution centers (DCs) during our seasonally largest quarter. We estimate that such heightened logistic costs and duplicate overhead and labor costs had approximately a 150 basis point negative impact on our Q3 gross margin. Excluding the DC issue, our gross margin performance in the quarter would

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have been in line with normal seasonality. Going forward, we continue to expect our gross margin to remain within our targeted range of 35-37% as we remain committed to re-investing our profit dollars to support both mid- and long-term growth.

OPERATING EXPENSES

Our non-GAAP operating expenses rose 8% to \$162M in Q3, demonstrating our focus on prudently balancing our investments for both top-line growth and gross margins. Excluding ASTRO Gaming, our operating expenses would have increased 4%. Most of the increase in operating expenses was due to Sales & Marketing, up 14% to support the robust top-line growth, while R&D spending was up 5%. G&A expenses were down to \$18M and reached 2.2% of sales in Q3, representing the lowest level in Logitech history.

PROFITABILITY

In spite of the DC cost headwinds in the quarter, our non-GAAP operating income still grew 18% to \$117M in Q3 and our operating margin declined by 50 basis points to 14.4%. We remain focused on driving operating leverage using multiple levers across our capabilities.

Our Q3 non-GAAP net income and EPS increased 20% and 16% to \$111M and \$0.65, respectively. Our non-GAAP tax rate was 6.0%, and we expect our tax rate for Fiscal Year 2018 to be around 7% based on our current outlook for sales and profit mix.

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BALANCE SHEET AND CASH FLOWS

At the end of Q3, cash and cash equivalents were \$565M. Cash flow from operations in Q3 was \$189M, the highest quarterly level we have ever achieved. This compares to \$149M of cash flows in the same period a year ago. Consistent with the prior quarter, we repurchased \$10M worth of stock in Q3.

Our cash conversion cycle in Q3 remained very healthy at 14 days in what is typically our seasonally largest sales and cash flow quarter. On a full-year basis, we expect the cash conversion cycle to remain within our targeted annual range of 20-25 days.

Q3 inventory increased \$29M to \$279M while inventory turns were 7.7 times in the quarter, an improvement from 6.7 times last year. Accounts receivable was \$352M and accounts payable was \$429M, up \$74M and \$71M from Q3 last year, respectively. Our DSO reached 39 days (versus 37 days in Q3 last year) and our DPO was 72 days (versus 77 days last year).

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q3 was 169.1M shares, up from 165.9M shares in Q3 last year but unchanged from last quarter. The increase in dilutive share count is primarily due to the stock price appreciation, options exercises, and the ASU 2016-09 accounting implementation. In Q3, we repurchased 0.3M shares for \$10M.

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FISCAL YEAR 2018 OUTLOOK

We are raising our Fiscal Year 2018 outlook to sales growth of 12% to 14% in constant currency and non-GAAP operating income of \$270-280M. Our previous outlook was for sales growth of 10% to 12% in constant currency and non-GAAP operating income of \$260-270M.

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FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding our preliminary financial results for the three and nine months ended December 31, 2017, trends in our product categories, innovation, differentiation, consumer interest in cloud-based video collaboration, seasonality, growth opportunities and the underlying markets, our commitment to growing certain product categories and investing in mid- and long-term growth, our focus on driving operating leverage, long-term goals, target range for gross margin, cash conversion cycle, and Fiscal Year 2018 outlook for tax rate, sales growth, operating income and sales and profit mix and related assumptions. 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; 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; 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 are not able to maintain and enhance our brands; if we do not successfully execute on strategic acquisitions and investments; 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

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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, 2017 and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2017, 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 intangible assets, purchase accounting effect on inventory, acquisition-related costs, change in fair value of contingent consideration for business acquisition, restructuring charges (credits), gain (loss) on investments in privately held companies, investigation 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, 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

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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 2018.

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.