Logitech Q1 Fiscal Year 2019 Financial Results
Management's Prepared Remarks (July 31, 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 and 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 Q1 Fiscal Year 2019.

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

OVERVIEW

Q1 sales grew 12% to $608M, with continued strong momentum from Gaming and Video Collaboration as well as steady growth from PC Peripherals. ASTRO Gaming contributed about five points to the growth. On a US dollar basis, Q1 sales rose 15%. Gross margin improved 40 basis points year over year to 37.4%, which operationally is around the upper-end of our target range. Non-GAAP operating income increased 41%

to $61M, and non-GAAP earnings per share grew 42% to $0.34. Cash flow from operations was $12M, up $13M from the year-ago period.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Pointing Devices sales increased 2% in Q1, with contribution across all our product lines (including double-digit growth in trackballs and presenters). Our premium trackball, MX Ergo, has largely been incremental to our overall trackball sales. And our newly introduced mainstream presenter, R500, is off to a good start.

KEYBOARDS & COMBOS

Our Keyboards & Combos category delivered a strong Q1, with sales up 7%. Not only did some of our new product introductions like MX Craft contribute to the solid performance, but our legacy products also delivered growth in the quarter.

PC WEBCAMS

In Q1, our PC Webcams sales achieved their second consecutive quarter of double-digit growth, with sales up 13%. Our Americas region had particularly strong results, which benefited from the continued popularity of streaming.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales grew 37% in Q1, despite a more difficult comparison against Q1 last year where sales rose 71%. Both our traditional retail tablet keyboards and our education-based iPad Rugged Combo 2 saw very robust growth in the quarter.

GAMING

Q1 marked another impressive quarter for our Gaming group, where sales increased 68% and became our single largest product category. ASTRO Gaming contributed approximately five points to our overall Q1 sales growth. We continue to benefit from our leadership position in the structurally growing gaming market, combined with blockbuster games and eSports that have expanded the number of gamers and brought increased awareness to mainstream consumers.

VIDEO COLLABORATION

In Q1, our Video Collaboration sales set another record quarterly high of $59M. Sales rose 60%, with all three regions delivering robust double-digit growth. We will continue to invest in market expansion opportunities through new products that optimize for various video conference room sizes as well as through expanding our direct sales force and bolstering our software capabilities.

MUSIC

MOBILE SPEAKERS

Mobile Speaker sales fell 46% in Q1 as we continued to right-size our business to match a slower market outlook. While we will continue to innovate in new products and experiences, we are also prudently right-sizing our resources to ensure that we are investing at appropriate levels.

AUDIO & WEARABLES

Audio & Wearables sales gained 2% versus Q1 last year as we balance our resources in this category for the various market opportunities. Headsets has growth potential, Jaybrid is positioning towards sports and specialty verticals, while PC speakers is structurally declining.

SMART HOME

Our Smart Home sales in Q1 declined 46% against a Q1 last year when sales grew 49%. Sales of our Harmony family of products fell, offset in part by growth in our Circle 2 security cameras.

NET RETAIL SALES BY REGION

Sales in all three regions grew in Q1, with Asia Pacific and the Americas delivering strong double-digit growth in the quarter.

- **Americas.** In Q1, our Americas region returned to double-digit growth, with sales up 13%. Video Collaboration and Gaming delivered significant growth in the quarter, more than offsetting weakness in Mobile Speakers and Smart Home.
- **EMEA.** Sales in our EMEA region increased 1% on a constant currency basis or 7% on a US dollar basis. Similar to the Americas, Video Collaboration and Gaming were particularly strong in the quarter.
- **Asia Pacific.** Our Asia Pacific region delivered its seventh consecutive quarter of double-digit growth with Q1 sales up 23%. Several countries (such as China) achieved quarterly record high sales, while PC Peripherals, Video Collaboration, and Gaming all reported double-digit growth in the region.

GROSS MARGIN

Our non-GAAP gross margin reached 37.4% in Q1 versus 37.0% in Q1 last year. Excluding a one-time benefit of approximately 60 basis points from a legal settlement with our prior distribution center supplier in the Americas, our Q1 gross margin ended at the high end of our long-term gross margin target range of 35 to 37%. Benefits from product cost savings and favorable currency exchange rates were partially offset by higher supply chain and logistics costs. We remain comfortable with managing our business within our gross margin target range of 35-37%, as we balance investments in growth opportunities with cost pressures, including higher logistics and component costs.

OPERATING EXPENSES

In Q1, non-GAAP operating expenses increased 9% (or 6% excluding acquisitions) to $167M, compared with US dollar sales growth of 15%. Sales & Marketing spending rose 11% and R&D increased 12%, offset in part by a 3% decline in G&A. Our total Q1 operating expense ratio was 27.4%, down versus 28.9% in Q1 last year.

PROFITABILITY

Non-GAAP operating income increased 41% to $61M in Q1. Non-GAAP net income and EPS rose 45% and 42% to $57M and $0.34, respectively. Our non-GAAP tax rate for Q1 was 6.3%.

Q1 GAAP results included a one-time $10M restructuring charge (which is excluded from our non-GAAP figures) to streamline our organizational structure, reallocate resources, and optimize our cost structure in slower growth categories.

NEW REVENUE ACCOUNTING STANDARD ASC 606

Effective as of April 1, 2018, we adopted Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes the revenue recognition requirements under ASC 605, Revenue Recognition. This had an immaterial impact on our revenues and no impact on our total cash flows, but did affect certain presentations and reclassifications on our balance sheet. Certain reserve balances previously shown net within Accounts Receivable are now presented as Accrued and Other Current Liabilities.

See Note A at the bottom of our Press Release for more details.

BALANCE SHEET AND CASH FLOWS

At the end of June 2018, our cash and cash equivalents were $604M. Our Q1 cash flow from operations was $12M, up $13M from Q1 last year. Our cash conversion cycle was 41 days (versus 29 days last year) and reflects the implementation of ASC 606, which had a year over year impact of 17 days.

At the end of June 2018, our inventory was $273M, down $7M from last year, while our inventory turns were 5.6 times (versus 4.8 times last year). Accounts receivable were $386M and accounts payable were $344M at the end of June 2018, up $164M and $31M from last year, respectively. Our DSO for Q1 were 57 days (versus 38 days last year) and our DPO were 80 days (versus 84 days last year). As a result of ASC 606, the year over year increase in accounts receivable and DSO reflects $114M and 17 days, respectively.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q1 was 169M shares, up versus 168M shares in Q1 last year, driven by share price increase and option exercises and RSU vesting, partially offset by stock repurchases. In Q1, we repurchased approximately 0.3M shares for $10M. Our share count will be driven by our continued stock repurchases as well as our stock price.

ACQUISITION OF BLUE MICROPHONES

Today, we reached an agreement to acquire Blue Microphones for approximately $117M in cash assuming breakeven net working capital at close. Blue Microphones is a leader in studio-quality microphones that will bring us into another exciting adjacent category and is also highly complementary to our existing product portfolio and capabilities. The transaction is expected to close by the end of August and should contribute approximately one point of sales growth to Fiscal Year 2019.

FISCAL YEAR 2019 OUTLOOK

We are raising our Fiscal Year 2019 outlook to sales growth of 9-11% in constant currency and to non-GAAP operating income of $325-335M. Our previous outlook was for sales growth of high single-digits in constant currency and non-GAAP operating income of $310-320M.

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 months and fiscal year ended June 30, 2018, target range for gross margin, trends and outlook in our product categories, growth opportunities, internal investments, innovation, new products, product features, direct sales and software capabilities, channel inventory, logistics costs, component costs, realignment of resources, cost structure, organizational structure, stock repurchases, timing of closing and sales growth from the acquisition of Blue Microphones, and Fiscal Year 2019 outlook for sales growth and operating income. 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; changes in trade policies and agreements and the imposition of tariffs that affect our products or operations; our ability to implement the restructuring in various geographies; possible changes in the size, timing and components of the restructuring or the expected costs and charges associated with the restructuring; and risks associated with our ability to achieve improved capabilities, growth opportunities and overall organizational structure; 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, 2018, 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, 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 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 2019.

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.