

Logitech Q2 Fiscal Year 2019 Financial Results Management's Prepared Remarks (October 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 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 impacting Q2 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

Q2 sales increased 10% to \$691M due to continued double-digit growth from our Gaming and Video Collaboration categories and a solid contribution from PC Peripherals. Non-GAAP gross margin improved 110 basis points to 37.6%, which supported operating expense growth of 10% as we reinforced our investments in key growth markets. Non-GAAP operating income reached \$85M, up 18%, and resulted in margins of 12.2%. Non-GAAP earnings per share grew 26% to \$0.49. Fiscal year-to-date cash flow from operations was \$97M, up \$30M.

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CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices group remained very stable, with sales up 5%. Our newly introduced vertical mouse, MX Vertical, is off to a solid start, while our overall MX line of premium mice delivered double-digit growth.

KEYBOARDS & COMBOS

Keyboards & Combos sales rose 12%, with growth in all three regions. Our focus on driving greater wireless adoption resulted in strong double-digit growth from our wireless products.

PC WEBCAMS

In Q2, our PC Webcams sales were up 4% and were once again led by particularly strong performance from our Americas region.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales delivered its third quarter of double-digit growth, with sales up 20%. Several new product introductions for the new 9.7" iPad, such as Crayon (our digital pencil) and Slim Folio, were very well received in the market and contributed to this robust growth.

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GAMING

Our Gaming group delivered another impressive quarter, with Q2 sales up 43%. The strong performance was broad-based across our major products, including robust contribution from ASTRO's console gaming headsets. All three regions continued to benefit from the structural growth in the global gaming market as consumers are increasingly embracing gaming as both a form of entertainment and social expression.

VIDEO COLLABORATION

In Q2, our Video Collaboration sales increased 25% while sell-through remained consistent with prior quarterly trends. We will continue to expand our go-to-market capabilities and our product portfolio to address multiple conference room sizes in order to capture the tremendous growth in the cloud-based video collaboration market.

MUSIC

MOBILE SPEAKERS

In Q2, we made improved progress in right-sizing our Mobile Speaker business, with sales down 14%. Our recently introduced BOOM 3 and MEGABOOM 3 speakers have been positively reviewed by the market, while we continued to manage the transition from our older products to our new speakers ahead of the upcoming holiday season.

AUDIO & WEARABLES

Audio & Wearables sales were flat in Q2, with our recently acquired Blue Microphones contributing approximately one percentage point to our overall Q2 sales growth. Late in

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the quarter, Jaybird introduced several new products, X4 and Tarah, that reset the product portfolio ahead of the seasonally stronger Q3.

SMART HOME

In Q2, we focused on re-aligning resources in our Smart Home group as sales declined 49% and now represents only 1% of our overall sales. While we continue to see various long-term opportunities in the broader smart home market, we will be prudent in how we deploy our resources in the near term.

NET RETAIL SALES BY REGION

AMERICAS

Our Americas region delivered sales growth of 9% in Q2, roughly consistent with prior quarter performance. Strong performance in our major product categories more than offset weakness in Mobile Speakers and Smart Home.

EMEA

In Q2, sales in our EMEA region were up 1% versus last year, with positive contribution from Creativity & Productivity, Video Collaboration, and Gaming. The region is stabilizing as we manage tightly promotional levels.

ASIA PACIFIC

Our Asia Pacific region reported another impressive quarter, with sales up 26%. Almost all product categories had robust double-digit growth in the quarter.

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GROSS MARGIN

Our Q2 non-GAAP gross margin was 37.6%, up 110 basis points versus Q2 last year. We continue to drive cost efficiencies across our organization in order to re-invest our gross profit dollars into various high-growth opportunities. While quarterly margin trends may fluctuate against our long-term gross margin target range of 35 to 37%, we remain committed to managing our full-year profitability within our overall range as we balance growth investments with multiple cost pressures, such as higher component costs and tariff impacts.

OPERATING EXPENSES

In Q2, non-GAAP operating expenses increased 10% to \$175M. Sales & Marketing spending rose 13% and R&D increased 7%, offset in part by a 3% decline in G&A. Our total Q2 non-GAAP operating expense ratio was 25.4%, up 20 basis points versus Q2 last year.

PROFITABILITY

Non-GAAP operating income grew 18% to \$85M in Q2. Non-GAAP net income and EPS rose 25% and 26% to \$83M and \$0.49, respectively. Our non-GAAP tax rate for Q2 was 7.1%.

BALANCE SHEET AND CASH FLOWS

At the end of September 2018, our cash and short-term investments were \$426M. Our fiscal year-to-date cash flow from operations was \$97M, up \$30M from last year. In Q2, we spent \$117M for Blue Microphones and an additional \$17M for its working capital.

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We also bought back \$10M worth of shares.

Our cash conversion cycle in Q2 was 43 days (versus 27 days in Q2 last year) and reflects the implementation of ASC 606, which had a year-over-year impact of 18 days.

At the end of September 2018, our inventory was \$359M, up \$28M from last year, while our inventory turns were 4.9 times (flat versus Q2 last year). We strategically invested in our inventory ahead of the recent tariff implementation and purchased the inventory on hand at Blue Microphones. Accounts receivable were \$460M and accounts payable were \$441M at the end of September 2018, up \$182M and \$54M, respectively. Our DSO for Q2 were 60 days (versus 40 days in Q2 last year, with an 18-day impact from 606 implementation) and our DPO were 91 days (versus 86 days in Q2 last year). Both DSO and DPO were impacted by sales linearity and the acquisition of Blue Microphones (full quarter of AP, AR and inventory but only partial revenue).

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q2 was 169M shares, flat versus Q2 last year. In Q2, we repurchased approximately 0.2M shares for \$10M. Our share count will be driven by future stock repurchases as well as our stock price.

FISCAL YEAR 2019 OUTLOOK

We are confirming our Fiscal Year 2019 outlook for sales growth of 9-11% in constant currency and non-GAAP operating income of \$325-335M.

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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 six months ended September 30, 2018, trends and outlook in our product categories and markets, growth opportunities, target range for gross margin, growth investments, component costs, tariffs and their impacts, stock repurchases, 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 and our ability to mitigate; risks associated with acquisitions; 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, 2018 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 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

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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.