

## Logitech Q3 Fiscal Year 2019 Financial Results Management's Prepared Remarks (January 22, 2019)

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 Q3 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**

Q3 sales grew 8% to \$864M, with double-digit growth contribution from several product categories and improved performance from our EMEA region. Non-GAAP gross margin improved 370 basis points to 38.1%, which drove a 22% increase in non-GAAP operating income to \$143M. Non-GAAP earnings per share also rose 22% to \$0.79. Fiscal year-to-date cash flow from operations was \$273M, up \$17M.

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**CREATIVITY & PRODUCTIVITY**

POINTING DEVICES

Pointing Devices sales rose 8% in Q3, led by strong contribution from our recently introduced vertical mouse, MX Vertical, as well as growth in our MX line of premium mice and presentation tools.

KEYBOARDS & COMBOS

In Q3, our Keyboards & Combos group delivered another quarter of double-digit growth across all three regions, with sales up 16% (versus the same period last year when sales were down 2%). A focus on delivering innovative typing experiences drove solid performance in both newly released and existing keyboards and combos.

PC WEBCAMS

PC Webcams sales increased 23% in Q3 to the highest level in six years, against the same period last year when sales were down 13%. All three regions contributed to this robust performance, led by particularly strong results from EMEA.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories group delivered its fourth consecutive quarter of double-digit growth, with sales up 36% in Q3. The strong growth was due to several recent product introductions, such as Crayon (our digital pencil) and record sales of our Slim Folio, as well as solid contribution from education-based products.

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**GAMING**

In Q3, Gaming sales increased 25%, with continued double-digit momentum in our core PC gaming products and in our ASTRO console gaming headsets in spite of a more challenging comparison period after the introduction of Fortnite's battle royale mode in late-2017. The growth in Gaming was tempered by a slight decline in our simulation products, which were compared against particularly strong racing wheel sales in Q3 last year that had benefited from the launch of several racing game titles.

**VIDEO COLLABORATION**

Our Video Collaboration group delivered another record quarter in Q3 with sales up 64% to an annual run-rate of nearly \$300M. We will continue to strengthen our go-to-market capabilities and expand our product portfolio across multiple conference room sizes. The structural long-term opportunities to drive greater penetration of cloud-based video collaboration remain unabated.

**MUSIC**

**MOBILE SPEAKERS**

Throughout Q3, we continued to balance right-sizing the channel inventory of several of our older Mobile Speaker products with healthy sales of our latest BOOM 3 and MEGABOOM 3 speakers and in line with market trends.

**AUDIO & WEARABLES**

Audio & Wearables sales increased 18% in Q3, with Blue Microphones contributing

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approximately three percentage points to our overall Q3 sales growth. As we refine Jaybird's product portfolio and go-to-market strategy, its Q3 sales fell against a difficult comparison period, when Q3 sales last year rose 144%.

### **SMART HOME**

In Q3, sales in our Smart Home group declined 49% to represent 2% 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

Sales in our Americas region were up 2% in Q3, against the same period last year when sales rose 30%. On a sequential basis, sales increased 36% compared to the past 5-year average seasonal growth of 30%. Record high sales in Gaming and Video Collaboration offset weakness in Mobile Speakers and Smart Home.

#### EMEA

In Q3, sales growth in our EMEA region improved to 9%, led by double-digit growth in PC Peripherals, Video Collaboration, and Gaming. We are encouraged by the operational improvements that the EMEA team is putting in place to better manage promotional levels.

#### ASIA PACIFIC

Our Asia Pacific region reported another robust quarter in Q3, with sales up 21%.

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Strong execution and an innovative product portfolio drove China to another record sales, with growth on par with the rest of the region.

### **GROSS MARGIN**

Q3 non-GAAP gross margin was 38.1%, up 370 basis points versus Q3 last year which was negatively impacted by roughly 150 bps from temporary duplicate distribution center costs in the Americas. In the quarter, we also achieved favorable product mix and better-than-expected cost reductions. A one-time favorable ASC 606 accounting impact and duty refund more than offset incremental tariff headwinds in the quarter.

### **OPERATING EXPENSES**

In Q3, non-GAAP operating expenses increased 15% to \$186M. Sales & Marketing spending rose 14%, R&D increased 18%, and G&A expenses remained at around prior quarter's run rate of \$20M. Our total Q3 non-GAAP operating expense ratio was 21.6%, up 160 basis points versus Q3 last year as we re-invested our gross profit dollars to support long-term growth opportunities.

### **PROFITABILITY**

Non-GAAP operating income grew 22% to \$143M in Q3. Non-GAAP net income and EPS rose 21% and 22% to \$134M and \$0.79, respectively. Our non-GAAP tax rate for Q3 was 6%.

### **BALANCE SHEET AND CASH FLOWS**

At the end of December 2018, our cash and short-term investments were \$586M. In Q3,

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we delivered \$176M in cash from operations, leading to fiscal year-to-date cash flow from operations of \$273M, up \$17M from last year.

At the end of December 2018, our inventory was \$342M, up \$63M from last year, while our inventory turns were 6.3 times (versus 7.7 times in Q3 last year). In addition to normal business growth, ending Q3 inventory was impacted by short-term pull-in to mitigate against future incremental tariffs as well as the first time impact of Blue Microphones. Accounts receivable were \$484M and accounts payable were \$436M at the end of December 2018, up \$132M (with a \$139M increase from ASC 606 implementation) and \$7M, respectively.

Our DSO for Q3 were 50 days (versus 39 days in Q3 last year), with a 14-day increase from ASC 606 implementation) and our DPO were 73 days (roughly flat versus Q3 last year). Our cash conversion cycle in Q3 was 34 days (versus 14 days in Q3 last year), with a 14-day increase from ASC 606 implementation.

### **SHARE COUNT & REPURCHASES**

Our weighted average diluted share count in Q3 was 169M shares, flat versus Q3 last year. We spent \$3M on share repurchases in the quarter. Our share count will be driven by future stock repurchases as well as our stock price.

### **FISCAL YEAR 2019 OUTLOOK**

We are raising our Fiscal Year 2019 outlook for non-GAAP operating income to \$340-345M on sales growth of 9-11% in constant currency.

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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, 2018, trends and outlook in our product categories and markets, growth opportunities, our go-to-market capabilities, our product portfolio, operational improvements, growth investments, tariffs and our ability to mitigate against them, 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

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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 and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018, available at [www.sec.gov](http://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), loss (gain) 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



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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.