

Logitech Q2 Fiscal Year 2017 Financial Results Management's Prepared Remarks (October 25, 2016)

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 is also available on our website.

COMPANY COMMENTARY

Following is a summary of the company's comments on key areas impacting Q2 Fiscal Year 2017. The comments are focused on results from Continuing Operations.

The sales 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

Q2 net sales growth of 14% came in higher than expected, delivering record net retail sales for a Q2 of \$564M. Solid cost savings and targeted investments led to non-GAAP operating income of \$65M, up 39%. Non-GAAP earnings per share was \$0.35, up 41%. Cash flow from operations was very strong at \$74M (compared with \$11M last Q2).

SALES BY CATEGORY

Our robust Q2 performance was broad-based, with retail sales continuing its strong momentum of double-digit growth. All three regions contributed to the year-over-year growth.

CREATIVITY & PRODUCTIVITY

KEYBOARDS & COMBOS

Our Keyboards & Combos category generated Q2 sales growth of 15%, with growth across all three regions. In fact, Keyboards & Combos had its 10th consecutive quarter of positive growth. Moreover, our traditional keyboards as well as our multi-device keyboards contributed to the positive results.

POINTING DEVICES

Q2 sales in our Pointing Devices category declined 1%. We continue to enhance the consumer experience within this category, as illustrated by the recent introduction of our silent mouse (M330 and M220) and our multi-device M720 Triathlon mouse.

PC WEBCAMS

Q2 sales in our PC Webcams group increased 4%, coming off two stellar quarters of double-digit growth. Our flagship C920 webcam continues to be a major contributor of this performance. And with social video platforms such as Twitch growing significantly

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over the past few years, this quarter we introduced our latest C922 Pro Stream webcam that allows you to broadcast in HD at 60fps and offers dynamic background replacement.

TABLET & OTHER ACCESSORIES

In Q2, sales in our Tablet and Other Accessories category rose 9%, driven by our newest CREATE Keyboard Case for the 9.7" iPad Pro. We are very pleased with the tablet accessories that we have introduced and continue to be excited about opportunities for further innovation in the tablet market.

GAMING

Our Gaming category posted sales growth of 17%, with the category achieving double-digit growth in 12 out of the past 14 quarters. And as gaming becomes more mainstream, we introduced our new Logitech G Prodigy family of gaming gear that leverages the same high-performance technology and design of our flagship gaming portfolio and taking it to a broader audience. Along with our latest Logitech G Pro mouse, we are already seeing a positive initial sales contribution from these two new series of gaming products.

During the quarter, we also acquired the Saitek line of flight and space simulation game controller assets from Mad Catz. This represents another example of our tuck-in acquisition strategy and extends our existing portfolio of gaming products into the simulation controller market. We would note that Saitek is not considered material to our Fiscal Year 2017 financials.

VIDEO COLLABORATION

Q2 Video Collaboration sales rose 43%, with a strong performance across all regions. As more companies are embracing cloud-based video collaboration solutions, we are taking advantage of our industry-leading position in webcam and audio technology to capture the dynamic growth in this category.

We just announced our newest Logitech SmartDock, a solution designed in partnership with Microsoft that leverages Microsoft's Skype for Business offering with our best-in-class video collaboration hardware products. With this launch, we further extend our capabilities to support video calls from small huddle rooms to large conference rooms.

MUSIC

MOBILE SPEAKERS

Mobile Speakers sales in Q2 grew 20%, particularly driven by strong execution from EMEA. The UE BOOM 2 and MEGABOOM were our top-selling products in the quarter. We continue to expand both our geographic and channel penetration for our mobile speaker products.

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AUDIO PC & WEARABLES

In Q2, our Audio PC & Wearables category sales increased 35%, owing to the addition of the Jaybird products into our portfolio. We will continue to invest in developing our wireless earbud portfolio.

SMART HOME

HOME CONTROL

Our Home Control category saw sales fall 6%, with growth in Asia Pacific offset by declines in the Americas and EMEA. Asia Pacific maintained its strong double-digit growth for Home Control. Sales for the first half were flattish, in line with our annual expectations.

NET RETAIL SALES BY REGION

We saw growth in net retail sales across all three regions – Americas, EMEA, and Asia-Pacific – demonstrating continued strong execution.

- **Americas.** Our Q2 sales in Americas rose 11%, driven by double-digit growth in Video Collaboration, Gaming, Mobile Speakers, and Audio PC & Wearables.

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Sales continue to benefit from increased traction within the telco channel and deeper penetration into mass market retailers.

- **EMEA.** Our EMEA region saw continued robust growth, with sales up 23%. We saw double-digit growth across several of our product categories, with particular strength in Mobile Speakers and Video Collaboration. Both our developed and emerging markets saw sales increase in the quarter, with emerging markets delivering year-over-year growth for the 3rd consecutive quarter.
- **Asia Pacific.** Our Q2 sales in Asia Pacific increased 7% against tough comparables, with last year's Q2 sales up 26%. However, several key countries, like China, still achieved double-digit growth. Gaming remains a key contributor to robust performance in the region.

GROSS MARGIN

Our Q2 non-GAAP gross margin rose 360 bps year-over-year to 37.0%, driven by strong effects of our product cost saving initiatives. While the second half gross margin is typically seasonally lower, we are making steady progress toward our long-term annual target of non-GAAP gross margin of 35-37%.

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OPERATING EXPENSES

Q2 non-GAAP operating expenses increased 14% to \$144M, driven in part by the addition of Jaybird, investments in growth initiatives, and the increased variable compensation linked to our strong performance. Excluding Jaybird, our operating expenses would have been up 9%. With our non-GAAP gross margin improving faster than expected, we are excited about our ability to re-invest a portion of our gross profits into R&D and sales & marketing to drive sustainable long-term growth.

OPERATING INCOME

Our Q2 non-GAAP operating income reached \$65M, up 39%. Operating margin improved 250 bps year-over-year to 11.5%. We are driving our operations to support a long-term non-GAAP operating margin target of 10-12% on an annual basis.

NET INCOME & EPS

With the better-than-expected sales and robust non-GAAP operating income, our Q2 non-GAAP net income and EPS increased 41% to reach \$58M and \$0.35, respectively. Our non-GAAP tax rate was 9.3%, and we expect a similar rate for Fiscal Year 2017, based on our current outlook for sales and profit mix.

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BALANCE SHEET

We exited Q2 with \$395M in cash and cash equivalents. We spent \$13M on the Saitek acquisition, paid \$93M in dividends, and repurchased \$18M of stock in the quarter. Cash flow from operations was \$74M, a major improvement from cash flows of \$11M in Q2 last year. Our cash conversion cycle of 22 days remained healthy and within our targeted annual range of 20-25 days.

Our Q2 inventory of \$268M declined \$45M from Q2 last year. Our inventory turns were 5.3 times in the quarter (up from 4.4 times in Q2 last year), despite the additions of Jaybird.

Accounts receivables were \$241M and accounts payable reached \$334M at the end of September, down \$24M and \$18M, respectively, from Q2 last year. Our DSO was 38 days (versus 46 days in Q2 last year) and DPO was 84 days (versus 92 days in Q2 last year).

Note: The year-over-year balance sheet comparisons exclude Lifesize.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q2 was 165.5M shares, down from 165.8M shares in Q2 last year but up from 164.3M last quarter. The sequential increase in share count is due primarily to the recent stock price appreciation. In Q2, we repurchased 852K shares for \$18M.

FISCAL YEAR 2017 OUTLOOK

Logitech's Fiscal Year 2017 outlook is 8 to 10 percent retail sales growth in constant currency and \$195 million to \$205 million in non-GAAP operating income.

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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 momentum, opportunities in our product categories, product category growth and trends, capabilities of our products, the impact of currency exchange rate fluctuations, our gross margin, our long-term targets for gross margin and operating margin, our ability to achieve long-term sustainable growth and to balance sales growth and margin improvement, our targeted annual range for cash conversion cycle, and our Fiscal Year 2017 outlook for tax rate, operating income, sales growth and our growth in our product categories.

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 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 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.

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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 other intangible assets, restructuring charges (credits), benefit from (provision for) income taxes, one-time special charges 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 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

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subject to Logitech's internal control systems and Logitech cannot assure investors of its accuracy.