



# Logitech

Q1 Fiscal Year 2014

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July 24, 2013

# Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: positive indicators and expectations of profitability and other improvement in Fiscal Year 2014, the turnaround of our business, our goals and priorities, growth and momentum in our product categories, product categories we intend to keep or plan to exit and the timing of those transitions, the potential of and our focus in certain businesses and product categories, new product development, innovation and launches, the timing of new product launches and associated sales, the pace at which we refresh our product portfolio, product pricing, our regional business outlook, changes in the industries for our product categories, growth opportunities, our spending to drive sales growth, and Fiscal Year 2014 sales, gross margin, operating income and tax rate,. The forward-looking statements in this presentation 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 in our new product categories and sales in emerging market geographies; if sales of PC peripherals in mature markets are less than we expect; the effect of pricing, product, marketing and other initiatives by our competitors; if our products and marketing strategies fail to separate our products from competitors' products; if our restructurings fail to produce the intended performance and cost savings results; if there is a deterioration of business and economic conditions in one or more of our sales regions or operating segments, or significant fluctuations in exchange 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, 2013, 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 this presentation.

## Overview

- Q1 FY14 results demonstrate turnaround is on track
  - Growth in total company sales and very strong sales performance in growth categories
    - Taken together, Tablet Accessories, PC Gaming peripherals and Wireless Speakers (identified as growth categories at May 2013 Analyst & Investor Day) up nearly 90%
  - Significant improvement in Company profitability

## Q1 FY14 Sales & Gross Margin

- Total sales +2% and no impact from exchange rates
  - Excluding “Retail-Other” (retail product categories the company is exiting), total sales +5%
  - Total retail sales +5%
  - OEM sales -6%
  - LifeSize sales -18%
- Gross margin +420bp YOY and +170bp sequentially
  - YOY increase reflects variety of factors including:
    - Product cost improvements across all PC-related categories
    - Benefits from actions taken in FY13 to streamline product portfolio
    - Comparable that included \$5M in costs related to restructuring and settlement of a patent dispute in prior year

Note: Comparison is Y/Y unless noted otherwise

Information in constant dollars is calculated by translating prior period local currency results at the current period's average exchange rate.

# Retail Sales Region Summary

## Q1 FY14



- Total retail sales +5% and units -6%
- Total retail sales, excluding “Retail-Other” (retail product categories which the company is exiting) +8%
- Overall retail average selling price +12% YOY and +9% sequentially
  - YOY increase primarily driven by a shift to higher price point products in Remotes, Audio-Wearables & Wireless and Video

	Q1 FY14	
	Sales Into Channel	Sell-Through
Americas	12%	3%
Asia	4%	-2%
EMEA *	-5%	-7%

\*EMEA sales into the channel and sell-through provided above are both in local currency.

Information in constant dollars is calculated by translating prior period local currency results at the current period’s average exchange rate.

Note: Comparison is Y/Y unless noted otherwise. See Appendix for more about sell-through data.

# Retail Sales Region Commentary



## Q1 FY14

### AMERICAS

- Strong performance with sales +12%, despite a decline in sales of products lines that we are in the process of exiting
- Tablet Accessories sales more than doubled
- Growth in all PC-related categories, except Audio-PC

### ASIA

- Growth driven primarily by Tablet Accessories (more than tripled) and PC Gaming, with solid growth in Audio-Wearables & Wireless
- China sales +7% with strong growth in Keyboards & Desktops, Tablet Accessories and PC Gaming

### EMEA

- Decline related primarily to product categories we are in the process of exiting (reported under Retail-Other)
- Tablet Accessories sales more than doubled, while sales in Audio-Wearables & Wireless, PC Gaming and Remotes grew more than 40%

Note: Comparison is Y/Y unless noted otherwise

# Selected Q1 Retail Product Category Commentary

- **Tablet Accessories sales +143%**
  - Key driver of growth was initial sales of new Keyboard Folios for iPad and iPad Mini
  - Continued strong demand for Logitech Ultrathin Keyboard Cover for iPad and iPad Mini
- **PC Gaming sales +48%**
  - Growth driven primarily by launch of new gaming products early in the quarter
  - Double-digit growth in gaming keyboards, headsets and mice
- **Audio-Wearables & Wireless sales +31%**
  - Sales of mobile speakers more than doubled
    - Growth driven by strong demand for UE Boom and UE Mobile Boombox
    - Earphones and headphones sales -41% primarily due to weak demand for earphones
- **Remotes sales +6%**
  - Average selling price +77% as we exited the low-end remotes category worldwide
  - Sales growth reflects initial demand for our newest premium remote, Harmony Ultimate, launched in Q1
  - Announced plans during Q1 to retain ownership of Harmony Remotes product line

Note: Comparison is Y/Y unless noted otherwise

## Product Category Commentary (continued)

- PC Keyboards & Desktops sales +4%
  - Sales of wireless, stand-alone keyboards +41%, led by Wireless Touch Keyboard K400 which has proven popular for use in living rooms with its integrated touchpad
- Pointing Devices sales -1%
  - Cordless mice sales +2% with units +5%
  - Weakness in high-end due to aging lineup, while sales down less than 5% at low-end and up by double-digits in mid-range of category
  - Declines in EMEA and Asia Pacific , with strong growth in Americas
- Video sales -5%
  - Sales and unit growth in mid-range and high-end of category, as we shift away from low-end of consumer webcam category
  - Digital Video Security sales ~\$3M (we intend to transition out of this product category by the end of FY 2014)
- PC Audio sales -16%
  - Declines in PC speakers and PC headsets



# Retail Product Category Summary

Q1 FY14

YoY Change

	Revenue	Units
Pointing Devices	-1%	1%
PC Keyboards/Desktops	4%	-6%
Tablet Accessories	143%	155%
Video	-5%	-31%
Audio - PC	-16%	-24%
Audio – Wearables & Wireless	31%	-22%
PC Gaming	48%	16%
Remotes	6%	-40%
Retail-Other	-89%	-84%
Total Retail Products	5%	-6%

## Q1 FY14 Overview: Operating Expenses

- Operating expenses -17% primarily due to \$31M in restructuring charges in Q1 of prior year
  - Excluding restructuring charges from Q1 of both years, operating expenses -4% due to savings from the FY 13 restructuring
- S&M flat as restructuring-related savings were offset by spending in support of new product launches in Tablet Accessories, PC Gaming and Wireless Speakers
- R&D -7%
- G&A -10%

# Q1 FY14 Financial Results

	Q1 FY14	Q1 FY13 <sup>1</sup> (Revised)	% $\Delta$
<b>Dollars (in millions, except per share data)</b>			
NET SALES	\$478	\$469	2%
GROSS PROFIT	\$168	\$145	17%
<i>% of net sales</i>	35.2%	31.0%	420bp
S&M	\$101	\$101	0%
<i>% of net sales</i>	21.1%	21.5%	
R&D	\$36	\$39	-7%
<i>% of net sales</i>	7.6%	8.3%	
G&A	\$29	\$33	-10%
<i>% of net sales</i>	6.1%	6.9%	
RESTRUCTURING CHARGES	\$2	\$31	
OPERATING INCOME (LOSS)	\$0	\$(59)	
NET INCOME (LOSS)	\$1	\$(51)	
NET INCOME PER SHARE	\$0.01	\$(0.32)	
DILUTED SHARES OUTST.	160	161	

<sup>1</sup>In the first quarter of fiscal year 2014, the Company identified errors related to the accounting for its product warranty liability and amortization expense relating to certain intangible assets which impacted prior reporting periods, starting prior to fiscal 2009. While these errors were not material to any previously issued annual or quarterly consolidated financial statements, management concluded that correcting the errors in the current quarter would be material to the current quarter's consolidated financial statements and to the expected results of operations for the year ended March 31, 2014. Accordingly, the Company will revise its prior period annual and quarterly consolidated financial statements to correct the errors in future SEC filings. In this earnings release, the Company has revised the March 31, 2013 and June 30, 2012 consolidated balance sheets, and the consolidated statements of operations and cash flows for the quarter ended June 30, 2012 to record an additional warranty liability and amortization of certain intangible assets and the related tax effects. The impact of the revision was to reduce the previously reported net loss for the quarter ended June 30, 2012 by \$0.8 million and reduce the previously reported retained earnings and shareholders' equity at March 31, 2013 and June 30, 2012 by \$17.8 million and \$18.5 million, respectively.

# Balance Sheet

June 30, 2013    June 30, 2012

Dollars (in millions)

	June 30, 2013	June 30, 2012
CASH	\$319	\$361
ACCOUNTS RECEIVABLE	\$219	\$214
<i>DSO</i>	<b>41 Days</b>	<b>41 Days</b>
INVENTORY	\$296	\$281
<i>Inventory turns</i>	<b>4.2</b>	<b>4.6</b>
ACCOUNTS PAYABLE	\$296	\$263
<i>DPO</i>	<b>86 Days</b>	<b>73 Days</b>
CASH CONVERSION CYCLE	<b>41 Days</b>	<b>46 Days</b>

## Cash

- Ended the quarter with \$319M in cash (-\$42M YOY and -\$15M sequentially)
- Q4 cash flow from operations was -\$1M, up from -\$7M in Q1 FY13
- No share repurchases during Q1
  - Currently own ~8% of our own shares
  - \$4M remaining under our current \$250M repurchase program that expires in August 2013

# FY 14 Outlook

## FY 14 Outlook

Sales	~\$2B
Gross margin	~34%
Operating Income	~\$50M

- Targeting full fiscal year tax rate at ~20%

## Summary

- Logitech's turnaround is on track
  - Grew sales and improved profitability
  - Growth categories of Tablet Accessories, PC Gaming peripherals and Wireless Speakers exhibited strongest growth
  - PC-related categories of Pointing Devices and Keyboards & Desktops outperformed PC market
  - Cost savings resulting from FY13 restructuring initiatives started to become visible

Top priority remains making Logitech  
faster and more profitable

# Appendices



# Sell-through Data

- Measures sales of our products by retailer customers to consumers and by our distributor customers to their customers
- Compiled by Logitech from data supplied by our customers
- Customers supplying sell-through data vary by geographic region and from period to period, but typically represent a majority of our retail sales
- Data is subject to limitations and possible error sources and may not be an entirely accurate indicator of actual consumer demand for our products. Limitations and possible error sources include the following:
  - Data supplied by our customers may not be indicative of sell-through experienced by our customers as a whole
  - Reliability of the data depends on accuracy and timeliness of information supplied to us by our customers, and the processes by which they collect their sell-through data is largely outside our control
  - In the U.S., Canada, and to a lesser extent Asia Pacific, and a still lesser extent, EMEA, sell-through data is based on Point of Sale electronic data. Where POS data is not available, the data is collected largely through manual processes, including the exchange of spreadsheets or other non-automated methods of data transmission, which are subject to typical human errors, including errors in data entry, transmission and interpretation.

# Channel Inventory Data

- Estimates the inventory levels of our products held by or in-transit to our retailer and distributor customers
- Includes data compiled by Logitech from data supplied by our customers, and our estimates of inventory in-transit to our customers
- Customers supplying data vary by geographic region and from period to period, but typically represent a majority of our retail sales
- Data and our estimates are subject to limitations and possible error sources and may not be an entirely accurate indicator of actual customer channel inventory
- Limitations and possible error sources include the following:
  - Data supplied by our customers may not be indicative of inventory held by our customers as a whole
  - Reliability of the data depends on accuracy and timeliness of information supplied to us by our customers, and the processes by which they collect their data is largely outside our control
  - In the U.S., Canada, and to a lesser extent Asia Pacific, and a still lesser extent, EMEA, data is based on Point of Sale electronic data. Where POS data is not available, the data is collected largely through manual processes, including the exchange of spreadsheets or other non-automated methods of data transmission, which are subject to typical human errors, including errors in data entry, transmission and interpretation.
  - Our interpretation of the data, and our estimates of in-transit inventory, may be subject to errors in assumptions, calculations or other errors

# Reconciliation of GAAP to Non-GAAP Measures

(In thousands, except per share amounts) - Unaudited

## SUPPLEMENTAL FINANCIAL INFORMATION

	Three Months Ended June 30,	
	2013	2012
<i>Total operating expenses - GAAP</i>	\$ 168,308	\$ 203,627
Less: Restructuring charges	2,334	31,227
<i>Total operating expenses before restructuring charges - Non-GAAP</i>	<u>\$ 165,974</u>	<u>\$ 172,400</u>
Net sales by channel:		
Retail	\$ 413,237	\$ 395,101
OEM	34,513	36,675
LifeSize	30,174	36,828
Total net sales	<u>\$ 477,924</u>	<u>\$ 468,604</u>
Net retail sales by product family <sup>(1)</sup> :		
Retail - Pointing Devices	\$ 114,651	\$ 115,830
Retail - Keyboards & Desktops	97,950	94,559
Retail - Tablet Accessories	38,559	15,886
Retail - Audio - PC	51,966	61,525
Retail - Audio - Wearables & Wireless	19,075	14,599
Retail - Video	35,258	37,159
Retail - PC Gaming	39,617	26,783
Retail - Remotes	14,574	13,732
Retail - Other	1,587	15,028
Total net retail sales	<u>\$ 413,237</u>	<u>\$ 395,101</u>
<i>Total net retail sales - GAAP</i>	\$ 413,237	\$ 395,101
Less: Retail - Other	1,587	15,028
<i>Total net retail sales excluding Retail - Other category - Non-GAAP</i>	<u>\$ 411,650</u>	<u>\$ 380,073</u>
<i>Total net sales - GAAP</i>	\$ 477,924	\$ 468,604
Less: Retail - Other	1,587	15,028
<i>Total net sales excluding Retail - Other category - Non-GAAP</i>	<u>\$ 476,337</u>	<u>\$ 453,576</u>

Constant dollar sales (sales excluding impact of exchange rate changes), net sales excluding Retail – Other, net retail sales excluding Retail – Other, and Non-GAAP operating expense before restructuring charges .

We refer to our net sales excluding the impact of foreign currency exchange rates as constant dollar sales. We also report non-GAAP net sales and net retail sales excluding Retail – Other sales and non-GAAP operating expenses excluding the restructuring charges. Constant dollar sales, net sales excluding Retail – Other, net retail sales excluding Retail – Other and non-GAAP operating expenses are non-GAAP financial measures, which are information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management uses these non-GAAP measures in its financial and operational decision-making, and believes these non-GAAP measures, when considered in conjunction with the corresponding GAAP measures, facilitate a better understanding of changes in net sales and operating expenses. Constant dollar sales are calculated by translating prior period sales in each local currency at the current period's average exchange rate for that currency. Non-GAAP net sales excluding Retail – Other, non-GAAP net retail sales excluding Retail – Other can be reconciled to GAAP net sales by adding the amount of Retail – Other sales. Non-GAAP operating expenses before restructuring charges can be reconciled to GAAP operating expenses by adding the amount of the restructuring charges.

