



# Logitech

Q2 Fiscal Year 2015 Preliminary and Unreviewed Results

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October 22, 2014

# Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: the Company's strategy, objectives, growth engines, new growth engines, sales growth and momentum, market share, product offerings, potential flagship products, new product launches and the timing of product launches, product supply constraints, product portfolio and portfolio expansion, innovation, investments in innovation and growth, operating expenses, spending, reductions in indirect procurement spending, global infrastructure and related processes, profitability, profitability improvements, economies of scale and cash generation, category growth, our capital allocation strategy, acquisitions, dividends, share buybacks, availability of the Company's share repurchase program, market adoption of home remote controls and video collaboration solutions, Fiscal Year 2015 sales, gross margin, operating profit margin and operating income, exchange rates in the second half of Fiscal Year 2015, the timing of filing periodic reports with the Securities and Exchange Commission and the SIX Swiss Exchange to regain compliance with the Company's listing requirements, and the impact and materiality of the restatement on and other corrections to the Company's financial statements. 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: the results of the Audit Committee's investigation and the completion of the additional work related to the Company's Fiscal Year 2014 Annual Report, Fiscal Year 2014 Annual Report on Form 10-K, and Fiscal Year 2015 First and Second Quarter Quarterly Reports on Form 10-Q; any adjustments resulting from the review of the preliminary financial results for the first and second quarter of Fiscal Year 2015 by the Company's independent registered public accounting firm or from the review of subsequent events, including reserves and estimates, through the dates of filing the Fiscal Year 2014 Annual Report on Form 10-K and the Fiscal Year 2015 First and Second Quarter Quarterly Reports on Form 10-Q; if there is a delay in completing the Fiscal Year 2014 audit of financial statements and internal controls or the First and Second Quarter of Fiscal Year 2015 accounting reviews; 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 or our growth opportunities are more limited than we expect; 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, 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 operating segments, 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 Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2013 and our Amended Annual Report on Form 10-K/A 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.

## 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), other restructuring-related charges, investment impairment (recovery), 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>. Historical GAAP and corresponding non-GAAP measures are provided under Financial History in the Investors section of our website. 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 2015.

## Update on Audit Committee Investigation

As previously disclosed, Logitech's Audit Committee, with the assistance of independent advisors, was conducting an independent investigation of certain accounting matters related to the Company's previously issued financial statements. The investigation is now closed. With the investigation closed, Logitech is performing the necessary work to complete and file its Annual Report for Fiscal Year 2014, Annual Report on Form 10-K for Fiscal Year 2014 and Quarterly Reports on Form 10-Q for the first and second quarters of Fiscal Year 2015. The Company intends to file these reports as soon as possible to regain compliance with Nasdaq and SIX Swiss Exchange listing requirements.

Last month, Logitech announced the restatement of its financial statements for Fiscal Years 2011 and 2012 and for the first quarter of Fiscal Year 2012, related to inventory valuation reserves for the Company's discontinued Revue product. In connection with the restatement, there will be other immaterial corrections to the financial statements for Fiscal Years 2010 and 2013, as well as the first and second quarters of Fiscal Year 2014. None of these other corrections are material to the respective years or to the interim period.

Preliminary financial information for the second quarter of Fiscal Year 2015 was compiled by the Company and has not yet been reviewed by the Company's independent registered public accounting firm. The financial information for the first and second quarters of Fiscal Year 2015 may be subject to adjustment based on changes in reserves and estimates resulting from subsequent events and other information available through the filing date of the Company's Quarterly Report on Form 10-Q for the second quarter of Fiscal Year 2015. Accordingly, the preliminary results for the first and second quarters of Fiscal Year 2015 and the results for the corresponding period of Fiscal Year 2014 contained in this presentation may be subject to potentially material adjustment.

Complete financial information for the second quarter of Fiscal Year 2015, including balance sheet and statement of cash flows, will be provided when the Company files its Quarterly Report on Form 10-Q.

# Financial Summary

## Q2 results show continued progress toward full-year FY15 objectives

- Total sales essentially flat at \$530M, with total retail sales up 2% and up 4% excluding the Other/Non-strategic category
  - Sales in Growth category (PC Gaming/Mobile Speakers/Tablet & Other Acc.) up 27%
- Q2 non-GAAP gross margin of 38.8%, up by 270 basis points
  - Improvement primarily reflects combination of significant improvement in both our Profit Maximization category and Mobile Speakers, driven largely by product cost reductions and the benefit to Mobile Speakers from economies of scale
  - About one percentage point of improvement due to our books being open for Q4 of FY14 and Q1 of FY15, which has resulted in changes that impact Q2 FY15 results
- Sixth consecutive quarter of YOY reductions in non-GAAP operating expenses, with plans to selectively invest in 2H FY15 to drive future sales growth
- Non-GAAP operating income up 58% to \$59M vs. \$37M and non-GAAP EPS of \$0.31 vs. \$0.20
- Generated ~\$33M in cash flow from operations in Q2 and trailing twelve months (TTM) cash flow from operations doubled to ~\$250M

## FY15 outlook

- Confirming outlook for FY15 of ~\$2.16B in sales, assuming relatively stable currency exchange rates, and ~\$170M in non-GAAP operating income

<sup>4</sup> The preliminary results for Q2 FY15 and the results for the corresponding period of FY14 may be subject to potentially material adjustment

# Non-GAAP Income Statements

(\$ in millions, except per share amounts)

	Q2 FY15 Non-GAAP	Q2 FY14 Non-GAAP	YOY
<b>Net sales</b>	<b>\$530</b>	<b>\$532</b>	<b>0%</b>
<i>Retail</i>	474	465	2%
<i>OEM</i>	28	38	-24%
<i>Lifesize</i>	29	30	-4%
Gross profit	\$206	\$192	7%
<i>% of net sales</i>	38.8%	36.1%	+270bp
Operating expenses	\$147	\$155	-5%
<i>% of net sales</i>	27.8%	29.1%	-130bp
Operating income	\$59	\$37	58%
<i>% of net sales</i>	11.1%	7.0%	+410bp
Interest and other, net	(\$1)	\$0	--
Effective tax rate	12.5%	15.3%	-280bp
Net income	\$51	\$32	62%
<i>% of net sales</i>	9.6%	5.9%	+370bp
<b>EPS</b>	<b>\$0.31</b>	<b>\$0.20</b>	<b>56%</b>
Diluted shares outstanding	166.1	161.2	3%

<sup>5</sup> The preliminary results for Q2 FY15 and the results for the corresponding period of FY14 may be subject to potentially material adjustment

## Q2 FY15 Retail Sales

	Q2 FY15	
	Sales into Channel	Sell-Through
Americas	10%	10%
EMEA*	-5%	3%
Asia	-1%	4%
<b>Total Retail</b>	<b>2%</b>	<b>6%</b>

\*For comparison purposes, EMEA sales into channel and sell-through provided in EURO

- Q2 total retail sales into channel up 2%
  - Growth category (PC Gaming, Tablet & Other Accessories, Mobile Speakers) sales up 27%
  - Overall Q2 retail average selling price (ASP) up 2%
- Six straight quarters of sales growth in Total Retail excluding Other/Non-strategic

<sup>6</sup> The preliminary results for Q2 FY15 and the results for the corresponding period of FY14 may be subject to potentially material adjustment

Notes: Comparison is YOY unless noted otherwise.  
See Appendix for more about sell-through data.

# Retail Sales & Units YOY % Change

	Q2 FY15 YOY	
	Net Sales	Net Quantity
PC Gaming	10%	11%
Tablet & Other Accessories	-19%	15%
Mobile Speakers	143%	170%
<b>Total Growth</b>	<b>27%</b>	<b>31%</b>
Pointing Devices	-2%	-1%
PC Keyboards & Desktops	0%	2%
Audio – PC & Wearables	-17%	-14%
Video	3%	-17%
Remotes	41%	56%
<b>Total Profit Maximization</b>	<b>-2%</b>	<b>-3%</b>
<b>Total Growth + Profit Maximization</b>	<b>4%</b>	<b>0%</b>
Other/Non-strategic	-91%	-68%
<b>Total Retail Products</b>	<b>2%</b>	<b>0%</b>

<sup>7</sup> The preliminary results for Q2 FY15 and the results for the corresponding period of FY14 may be subject to potentially material adjustment

# Q2 FY15 Growth Category Commentary

## Growth category sales increased 27%, with units up by 31%

- PC Gaming sales +10%
  - Double-digit gains in gaming mice and headsets, with keyboards up single digits, despite constrained component supply in several key areas
  - Improved product portfolio positions us well for continued growth in remainder of the fiscal year
- Mobile Speakers sales +143%
  - Success driven primarily by our flagship product - UE BOOM, our best selling product across all categories in Q2
  - Sixth consecutive quarter of sales more than doubling
  - Significant sales increases across our three regions due to great products and expanded distribution
- Tablet & Other Accessories sales -19%
  - Sales decline reflects:
    - Declining market for iPad shipments
    - Inventory actions taken in anticipation of new iPads announced last week
  - Unit shipments growth primarily driven by our protective cases for iPad



# Q2 FY15 Profit Maximization Category Commentary

**Profit Maximization category sales decreased by 2%, with units down by 3%**

- PC Keyboards & Desktops sales flat
  - Sales in Americas and EMEA up single digits
  - Good initial demand for Bluetooth Multi-Device K480 Keyboard, a new keyboard designed for use with up to three devices on any major operating system that began shipping late in the quarter
- Video sales +3%
  - Consumer webcam sales down 18%, reflecting expected structural decline of market
  - Sales of video collaboration offerings targeted at small and midsize conference rooms more than doubled, more than offsetting the decline in webcams
- Remotes sales +41%
  - Growth in all regions as we supply our newly launched products ahead of the holiday selling season
  - Key driver of growth was the Harmony Ultimate Home which enables home automation control in addition to control of home entertainment devices

# Non-GAAP Operating Expenses

- Q2 FY15 non-GAAP operating expenses of \$147M declined by 5% or \$7M YOY
  - Non-GAAP operating expenses were 27.8% of sales, down 130 basis points YOY
  - Includes savings from ongoing rationalization of infrastructure and indirect procurement activities, as well as last year’s restructurings
  - Q2 FY15 non-GAAP op ex excludes \$8M in G&A costs related to the now closed Audit Committee investigation

	Non-GAAP Operating Expenses	
	Q2FY15	YOY
	(\$ in millions)	
S&M	\$92	2%
<i>% of net sales</i>	<i>17.4%</i>	<i>+40bp</i>
R&D	\$32	-13%
<i>% of net sales</i>	<i>6.0%</i>	<i>-80bp</i>
G&A	\$23	-15%
<i>% of net sales</i>	<i>4.4%</i>	<i>-80bp</i>
<b>TOTAL</b>	<b>\$147</b>	<b>-5%</b>
<i>% of net sales</i>	<i>27.8%</i>	<i>-130bp</i>

10 The preliminary results for Q2 FY15 and the results for the corresponding period of FY14 may be subject to potentially material adjustment

## Key Balance Sheet Metrics

- Total cash balance ~\$500M, up approximately \$205M YOY
- Q2 cash flow from operations of ~\$33M was most for a Q2 in last five years
- TTM cash flow from operations doubled to ~\$250M
- Cash conversion cycle of ~28 days, the best ever for a Q2, with improvement driven primarily by inventory efficiency initiatives

## Confirmed FY15 Outlook

	Current FY15 Outlook
Sales	~\$2.16B
Non-GAAP Operating Income	~\$170M

Confirming outlook for FY15 of ~\$2.16B in sales, assuming relatively stable currency exchange rates, and ~\$170M in non-GAAP operating income

<sup>12</sup> The preliminary results for Q2 FY15 and the results for the corresponding period of FY14 may be subject to potentially material adjustment

## On Track to Deliver FY15 Objectives

- Q2 results reflect continued progress toward delivering full-year FY15 objectives
  - Growth in retail sales, with continued double-digit YOY improvement in sales within Growth category
  - Record high non-GAAP gross margin, with plans to invest selectively in 2H FY15 to drive future sales growth
  - Significant improvement to profitability
  - Improved cash generation
- Entered 2H FY15 with robust portfolio and compelling new product pipeline for coming quarters
- Investing to create new growth engines

# Appendices

# Other/Non-strategic Retail Products

<b>Other/Non-strategic includes:</b>
DVS video security products
Console Gaming
Speaker docks, headphones, streaming audio products
Misc. PC Peripherals (lapdesks, bags, etc.)

# GAAP to Non-GAAP Reconciliation

The following financial statements and supplemental information maybe subject to potentially material adjustment. Please see notes below the tables.

(In thousands, except per share amounts) - Unaudited

## GAAP TO NON GAAP RECONCILIATION <sup>(A)</sup>

### SUPPLEMENTAL FINANCIAL INFORMATION

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014 <sup>(1) (2)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1) (2)</sup>	2013 <sup>(1)</sup>
<b>Gross profit - GAAP</b>	\$ 204,778	\$ 183,413	\$ 386,982	\$ 351,768
Share-based compensation expense	627	594	1,165	1,171
Amortization of other intangible assets	543	2,593	1,093	5,171
Restructuring-related charges	-	5,194	-	5,194
<b>Gross profit - Non-GAAP</b>	<u>\$ 205,948</u>	<u>\$ 191,794</u>	<u>\$ 389,240</u>	<u>\$ 363,304</u>
<i>Gross margin - GAAP</i>	38.6%	34.5%	38.2%	34.8%
<i>Gross margin - Non-GAAP</i>	38.8%	36.1%	38.4%	36.0%
<b>Operating expenses - GAAP</b>	\$ 162,657	\$ 166,203	\$ 321,698	\$ 334,511
Less: Share-based compensation expense	5,434	3,515	11,834	7,328
Amortization of other intangible assets	2,033	2,661	4,265	5,347
Restructuring charges, net	-	5,465	-	7,799
One time special charge	8,020	-	17,000	-
<b>Operating expenses - Non-GAAP</b>	<u>\$ 147,170</u>	<u>\$ 154,562</u>	<u>\$ 288,599</u>	<u>\$ 314,037</u>
<i>% of net sales - GAAP</i>	30.7%	31.2%	31.8%	33.1%
<i>% of net sales - Non - GAAP</i>	27.8%	29.1%	28.5%	31.1%



# GAAP to Non-GAAP Reconciliation continued

The following financial statements and supplemental information maybe subject to potentially material adjustment. Please see notes below the tables.

(In thousands, except per share amounts) - Unaudited

## GAAP TO NON GAAP RECONCILIATION <sup>(A)</sup>

<b>SUPPLEMENTAL FINANCIAL INFORMATION</b>	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2014</b> <sup>(1) (2)</sup>	<b>2013</b> <sup>(1)</sup>	<b>2014</b> <sup>(1) (2)</sup>	<b>2013</b> <sup>(1)</sup>
<b>Operating income - GAAP</b>	\$ 42,121	\$ 17,210	\$ 65,284	\$ 17,257
Share-based compensation expense	6,061	4,109	12,999	8,499
Amortization of other intangible assets	2,576	5,254	5,358	10,518
Restructuring charges, net	-	5,465	-	7,799
Restructuring related charges	-	5,194	-	5,194
One time special charge	8,020	-	17,000	-
<b>Operating income - Non - GAAP</b>	<b>\$ 58,778</b>	<b>\$ 37,232</b>	<b>\$ 100,641</b>	<b>\$ 49,267</b>
<i>% of net sales - GAAP</i>	7.9%	3.2%	6.4%	1.7%
<i>% of net sales - Non - GAAP</i>	11.1%	7.0%	9.9%	4.9%
<b>Net income - GAAP</b>	\$ 36,090	\$ 14,398	\$ 56,218	\$ 15,441
Share-based compensation expense	6,061	4,109	12,999	8,499
Amortization of other intangible assets	2,576	5,254	5,358	10,518
Restructuring related charges	-	5,194	-	5,194
Restructuring charges, net	-	5,465	-	7,799
One time special charge	8,020	-	17,000	-
Investment impairment, net	105	(261)	105	109
Benefit from (provision for) income taxes	(1,803)	(2,638)	(3,964)	(5,368)
<b>Net income - Non - GAAP</b>	<b>51,049</b>	<b>31,521</b>	<b>87,716</b>	<b>42,192</b>
<b>Net income per share:</b>				
Diluted - GAAP	\$ 0.22	\$ 0.09	\$ 0.34	\$ 0.10
Diluted - Non - GAAP	\$ 0.31	\$ 0.20	\$ 0.53	\$ 0.26
<b>Shares used to compute net income per share:</b>				
Diluted - GAAP and Non GAAP	166,065	161,183	165,949	160,875

# GAAP to Non-GAAP Reconciliation Notes

**(1) NOTE: Based on the Audit Committee's investigation and related additional work associated with the Company's Fiscal Year 2014 Annual Report on Form 10-K, the preliminary results for the three and six months ended September 30 of Fiscal Year 2015 and the results for the corresponding periods of Fiscal Year 2014 contained in these prepared remarks are subject to potentially material adjustment.**

**(2) NOTE: The financial information for the three and six months ended September 30 of Fiscal Year 2015 is preliminary, was compiled by the Company and has not yet been reviewed by the Company's independent registered public accounting firm. The financial information for the first and second quarters of Fiscal Year 2015 may be subject to potentially material adjustment based on changes in reserves and estimates resulting from subsequent events and other information available through the filing date of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.**

## Non-GAAP Exclusions by Category

Non-GAAP Exclusions by Category	Q1'14 Actual	Q2'14 Actual	Q3'14 Actual	Q4'14 Actual	FY14 Actual	Q1'15 Actual	Q2'15 Actual
<b>Total GAAP OpInc</b>	<b>\$0</b>	<b>\$17</b>	<b>\$53</b>	<b>\$5</b>	<b>\$76</b>	<b>\$23</b>	<b>\$42</b>
Stock Based Compensation	\$4	\$4	\$9	\$8	\$26	\$7	\$6
Restructuring	\$2	\$11	\$1	\$5	\$19	(\$0)	\$0
Amortization of Intangibles	\$5	\$5	\$4	\$3	\$18	\$3	\$3
Goodwill Impairment	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Special One-Time	\$0	\$0	\$0	\$0	\$0	\$9	\$8
<b>Total Adjustments</b>	<b>\$12</b>	<b>\$20</b>	<b>\$14</b>	<b>\$16</b>	<b>\$62</b>	<b>\$19</b>	<b>\$17</b>
<b>Total Non-GAAP OpInc</b>	<b>\$12</b>	<b>\$37</b>	<b>\$67</b>	<b>\$21</b>	<b>\$138</b>	<b>\$42</b>	<b>\$59</b>

## 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 are 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 are 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

