Logitech Q1 Fiscal Year 2018 Financial Results
Management's Prepared Remarks (July 25, 2017)

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 Q1 Fiscal Year 2018. 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.

Logitech Q1 Fiscal Year 2018 Financial Results
Management's Prepared Remarks (July 25, 2017)

OVERVIEW

Q1 sales rose 13% to $530M, as all three regions grew double-digits and several new product introductions contributed to the growth. Continued gross margin improvement allowed us to re-invest in our long-term capabilities and still deliver 14% non-GAAP operating income growth to $43M. Non-GAAP earnings per share reached $0.24, up 20%.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices category posted sales growth of 6%. While we saw stable demand for our mice products, we also benefited from continued healthy momentum from our recently introduced Spotlight presentation device.

KEYBOARDS & COMBOS

Keyboards & Combos sales were flat in Q1. Sales in the Americas and EMEA were up, offset by a decline in Asia Pacific.

PC WEBCAMS

In Q1, PC Webcams sales rose 3%, marking the sixth consecutive quarter of growth. We remain cautiously optimistic that the PC webcam market is showing signs of improvement driven by greater proliferation of personal broadcasting, ranging from gaming to social media to video blogging.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category grew 71% against an easier comparison where Q1 sales last year fell 26%. In addition, we benefited from contribution from our newly introduced Slim Combo Case for the iPad Pro as well as our Rugged Combo family of products for the 9.7" iPad sold to educational institutions.

GAMING

Gaming sales grew 40% in Q1, with strong double-digit growth from all three regions and all product categories. In July, we also announced that we entered into an agreement to acquire ASTRO Gaming – a leading console gaming brand – that will extend our leadership position into the adjacent console gaming headset market.

VIDEO COLLABORATION

Sales in our Video Collaboration category increased 51%. All three regions contributed to the strong performance in Q1. We continue to see strong momentum in the market as companies large and small are increasingly video-enabling huddle rooms and conference rooms to improve employee productivity.

MUSIC

MOBILE SPEAKERS

Our Q1 Mobile Speaker sales increased 10% in spite of a difficult comparison where Q1 sales last year grew 42%. Sales of our recently introduced Ultimate Ears WONDERBOOM are off to a great start.

AUDIO PC & WEARABLES

Our Audio PC & Wearables category sales fell 10% in Q1, as Jaybird under-performed relative to our expectations. While we are realigning our portfolio and distribution in this dynamic market, we are committed to driving this category for growth in Fiscal Year 2018.

SMART HOME

In Q1, our Smart Home category posted sales growth of 49%, led in particular by strength from the Americas and EMEA. We continue to see strong consumer adoption of our Harmony Hub integrated with Alexa and Google Assistant. Going forward, our newly introduced Circle 2 security camera that started shipping in July will be reported in the Smart Home category. We are excited about the growth opportunities in the home security camera market, as more consumers embrace connected devices inside and outside the home.

NET RETAIL SALES BY REGION

Our sales in Americas, EMEA, and Asia-Pacific all grew double digits in Q1 for the second consecutive quarter, demonstrating the broad-based progress we are making.

- **Americas.** Our Q1 sales in Americas increased 11%, driven by strong double-digit growth across multiple categories. There was also double-digit growth in four of our top five countries in the region.

- **EMEA.** Our sales in the EMEA region also grew 11% in Q1, marking the 7th consecutive quarter of double-digit growth. Video Collaboration, Gaming, and Smart Home were particularly strong in the quarter.

- **Asia Pacific.** In Q1, our Asia Pacific sales growth accelerated further to 19%, with all major regions in Asia Pacific up double digits. In fact, China sales continued to set record highs. Virtually all product categories contributed to the solid performance in the quarter.

GROSS MARGIN

Our Q1 non-GAAP gross margin improved by 140 basis points to 37.0%, driven largely by cost savings across all product lines. As we continue to drive cost efficiencies across our organization, we are reinvesting our gross profit dollars into targeted investments – both for the short-term and for the long-term.

OPERATING EXPENSES

Our non-GAAP operating expenses increased 15% to $153M in Q1. G&A expenses have remained rather constant in the past several quarters, while we continue to invest in Sales & Marketing (up 22% in Q1) and R&D (up 8% in Q1). The first half of Fiscal Year 2018 will be a period of investment for us - operating expenses and working capital - as we launch and ramp multiple new products ahead of the upcoming holiday season.

OPERATING INCOME

Non-GAAP operating income grew 14% to $43M in Q1. Operating margin of 8.1% was up 20 basis points as higher gross margins were offset by greater investments ahead of our seasonally stronger second half.

NET INCOME & EPS

Our Q1 non-GAAP net income and EPS increased 20% to $40M and $0.24. Our non-GAAP tax rate was 8.4%, and we expect our tax rate for Fiscal Year 2018 to be between 8% and 9%, based on our current outlook for sales and profit mix.

BALANCE SHEET AND CASH FLOWS

We exited Q1 with cash and cash equivalents of $528M. Cash flow from operations in Q1 was a negative $1M, compared to $17M in the same period a year ago. In the past, we paid our bonuses bi-annually (in fiscal Q1 and in fiscal Q3), while for Fiscal Year 2017 we changed our bonuses to an annual payment, paid in Q1 of Fiscal Year 2018.

In addition, as we had communicated previously, we started to invest in our working capital (e.g., inventory) in the first half of Fiscal Year 2018 as we ramp up new products and prepare for the holidays. Accordingly, our cash conversion cycle in Q1 was 29 days in Q1, slightly above our targeted annual range of 20-25 days. For the full year, we expect the cash conversion cycle to remain within our targeted range.

Our Q1 inventory of $279M was up $32M from Q1 last year. Our inventory turns were 4.8 times in the quarter, down slightly from 5.0 times last year.

Accounts receivable was $221M and accounts payable was $313M, up $29M and $20M from Q1 last year, respectively. Our DSO reached 38 days (versus 36 days in Q1 last year) and our DPO was 84 days (versus 85 days in Q1 last year).

Effective as of April 1, 2017, we adopted Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. See Note 1 at the bottom of this document for more details regarding the impact to our consolidated statements of cash flows, balance sheet, and diluted share count.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q1 was 168.3M shares, up from 164.3M shares in Q1 last year and up from 166.5M shares last quarter. The increase in dilutive share count is primarily due to the stock price appreciation, options exercise, and the ASU 2016-09 accounting implementation.

We did not repurchase any stock in the quarter due to the transition to our new 3-year buyback program as well as the anticipated acquisition of ASTRO Gaming.

FISCAL YEAR 2018 OUTLOOK

We are raising our Fiscal Year 2018 outlook to sales growth of 10% to 12% in constant currency and to non-GAAP operating income of $260-270M. This includes the anticipated impact of the ASTRO Gaming acquisition, which is expected to close in August 2017.

NOTE 1: ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09 "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payments, including immediate recognition of all excess tax benefits and deficiencies in the income statement, changing the threshold to qualify for equity classification up to the employees' maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows for the excess tax benefits and employee taxes paid when an employer withholds shares for tax withholding purposes. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company adopted the standard effective April 1, 2017.

Changes to the statements of cash flows related to the classification of excess tax benefits were implemented on a retroactive basis and accordingly, to conform to the current year presentation, the Company reclassified $3.3 million of excess tax benefits previously reported under financing activities to operating activities for the three months ended June 30, 2016 on its condensed consolidated statements of cash flows. Under the new standard, the Company accounts for forfeitures as they occur. The change in accounting for forfeiture resulted in a cumulative-effect adjustment to decrease retained earnings as of March 31, 2017 by $3.3 million. The Company further recognized a cumulative-effect adjustment to increase retained earnings as of March 31, 2017 by $57.2 million upon adoption of the new guidance to account for gross excess tax benefits of $75.2 million that were previously not recognized because the related tax deduction had not reduced current income taxes, offset by a valuation allowance of $18.0 million to reduce the deferred tax assets to amounts that are more likely than not to be realized.

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding investments and the timing of investments, momentum, market trends, the ASTRO Gaming acquisition and its timing, market share and leadership positions, our growth in and commitment to certain product categories, growth opportunities, cost efficiencies and operating leverage, new product launches, seasonal sales and trends, cash conversion cycle, and our Fiscal Year 2018 outlook for tax rate, sales growth, operating profit and profit mix and related assumptions. 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 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; 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, 2017, 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, investigation and related expenses, 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 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 subject to Logitech's internal control systems and Logitech cannot assure investors of its accuracy.