

Logitech Q2 Fiscal Year 2020 Financial Results Management's Prepared Remarks (October 21, 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 or 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 on key areas impacting Q2 Fiscal Year 2020. The growth statistics 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 for net sales and in constant currency, except as otherwise specified.

OVERVIEW

Q2 sales increased 6% to \$720M, demonstrating another quarter of consistent growth, with positive contribution from all three regions and our major categories, offset by an expected decline in Mobile Speakers. Similar to Q1 FY'20, unfavorable currency exchange rates adversely impacted Q2 sales growth and profitability compared to the same period in the prior year. In spite of unfavorable currency exchange rate and China tariff headwinds, strong operational discipline and a favorable product mix led to an 80 basis point improvement in Q2 non-GAAP gross margin of 38.4%. Non-GAAP operating

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income rose 6% to \$89M, and non-GAAP earnings per share increased 2% to \$0.50. Cash flow from operations was \$107M, up from \$85M in Q2 last year.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

In Q2, our Pointing Device sales grew 5%, with positive contributions from mice, trackballs, and presenters. Our redesigned flagship cordless mouse, MX Master 3, is off to a strong start in its first quarter of launch while the distribution of our slim, design-centric Pebble continued to expand beyond China. Growth in EMEA was particularly strong, up double digits.

KEYBOARDS & COMBOS

Our Keyboards & Combos category delivered its 7th consecutive quarter of positive growth, with contributions from most of the major product lines and from all regions. Several new product introductions, such as MX Keys, were instrumental to the consistent performance of this category.

PC WEBCAMS

Sales of our PC Webcams rose 3%, with growth in EMEA and Asia Pacific offsetting a decline in the Americas.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales declined 6% in Q2. We had continued strong

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growth through the education channel and a decline in our retail business.

GAMING

Similar to Q1 FY'20, our Gaming sales were up 2% in Q2 as we continued to confront challenging Fortnite comparisons. Excluding ASTRO and PC Gaming headsets, sales growth in the rest of our Gaming products remained in the double digits in Q2. This demonstrates that the underlying health of our Gaming business remains fundamentally strong.

VIDEO COLLABORATION

In Q2, our Video Collaboration sales rose 60%, led by robust double-digit growth across all three regions. MeetUp, which was introduced over two years ago, continued to deliver double-digit growth, while our larger Rally camera system and new Tap touch controller further expanded our addressable market opportunity.

MUSIC

MOBILE SPEAKERS

As anticipated, our Mobile Speaker sales fell 24% against a quarter last year that benefited from the launch of BOOM 3 and MEGABOOM 3. We expect the growth of the

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overall mobile speaker market to remain soft in the near term.

AUDIO & WEARABLES

Our Audio & Wearables sales increased 12% in Q2, driven by growth in Blue Microphones, stable performance in Jaybird, and gains in headsets, offset by a modest decline in PC Speakers.

SMART HOME

Our Smart Home sales in Q2 were up 3%, with growth in our Circle 2 security cameras and flattish sales in Harmony remotes and hubs.

NET SALES BY REGION

Sales in all three regions grew in Q2, with EMEA continuing to deliver operational improvements.

- **Americas.** In Q2, our Americas region posted sales growth of 5%. Video Collaboration sales were particularly strong in the quarter and reached another record high. Gaming sales were down double digits, primarily due to a decline in sales of our headset products.
- **EMEA.** Sales in our EMEA region increased 10% and represented the third consecutive quarter of double-digit growth. PC Peripherals and Video

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Collaboration sales were up double digits in the quarter.

- **Asia Pacific.** Q2 sales growth in our Asia Pacific region was 3%, in line with Q1 FY'20 trends. Growth in PC Peripherals, Video Collaboration and Gaming were offset by declines in Audio & Wearables and Mobile Speakers.

GROSS MARGIN

Our non-GAAP gross margin reached 38.4% in Q2, up 80 basis points year over year, and up 60 basis points from Q1 FY'20. Benefits from cost savings, tariff mitigation efforts, and favorable product mix more than offset headwinds from China tariffs and unfavorable currency exchange rates.

OPERATING EXPENSES

In Q2, our non-GAAP operating expenses increased 7% to \$187M. Sales & Marketing and R&D spending rose 9% and 6%, respectively, offset in part by a 3% reduction in G&A. Our total Q2 operating expense ratio was 26.0%, up 60 basis points year over year.

PROFITABILITY

Our non-GAAP operating income grew 6% to \$89M and operating margin increased 20

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basis points to 12.4% in Q2. Non-GAAP net income and EPS rose 2% to \$85M and \$0.50, respectively. Our non-GAAP tax rate for Q2 was 7.5%, up from 7.1% in Q2 last year. For Fiscal Year 2020, our non-GAAP tax rate guidance remains 7-8%, but thereafter we expect a gradual and modest increase each year until we fully reflect the new Swiss tax rate resulting from recent Swiss tax reform.

BALANCE SHEET AND CASH FLOWS

At the end of September 2019, our cash, cash equivalents, and short-term investments were \$575M. Our Q2 cash flow from operations was \$107M, versus \$85M in Q2 last year. Our cash conversion cycle was 43 days, flat versus Q2 last year.

At the end of September 2019, our inventory was \$338M, down \$20M from Q2 last year, while our inventory turns were 5.3 times (an improvement versus 4.9 times in Q2 last year). Accounts receivable were \$466M and accounts payable were \$411M at the end of September 2019, up \$6M and down \$30M from last year, respectively. Our DSO for Q2 were 58 days (versus 60 days in Q2 last year) and our DPO were 83 days (versus 91 days in Q2 last year).

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q2 was 169M shares, unchanged versus Q2 last year. During the quarter, we did not repurchase any shares due to the Streamlabs acquisition. Our share count will be affected by our continued stock

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repurchases and equity grants, as well as our stock price.

FISCAL YEAR 2020 OUTLOOK

We are confirming our Fiscal Year 2020 outlook for mid to high single-digit sales growth in constant currency and for non-GAAP operating income of \$375 to 385M.

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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 six months ending September 30, 2019, trends and outlook in our product categories, growth opportunities, product market trends and outlook, Swiss tax reform, tax rate guidance and evolution, share count, stock repurchases, and Fiscal Year 2020 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 changes to our effective income tax rates. A

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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, 2019 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2019, 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), loss (gain) on investments, 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

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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 2020.

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.