




Logitech Q2 Fiscal Year 2018 Financial Results Management's Prepared Remarks (October 24, 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 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 2018.

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.



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OVERVIEW

Q2 sales grew 11% to \$634M, led by double-digit growth in Asia-Pacific and continued strong contribution from Video Collaboration and Gaming, offset somewhat by a product transition in Mobile Speakers. In Q2, we also acquired ASTRO Gaming, which did not materially impact the quarter's results due to the timing of integration. Gross margin and operating expenses reflect the investments we made as we introduced exciting new product innovations across multiple market opportunities. In spite of this quarter being a transition quarter, we still achieved 12% growth in non-GAAP operating income to \$72M. Non-GAAP earnings per share reached \$0.40, up 14%.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Pointing Devices sales growth was flat in the quarter. We saw strong growth from our high-end MX family of mice as well as robust performance from our trackball products. Our newest innovation to the trackball market - the MX Ergo - has received numerous positive reviews and is off to a great start.



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KEYBOARDS & COMBOS


Our Keyboards & Combos category reported sales that were up 1% in Q2. Similar to mice, we continue to see relatively stable trends in keyboards and combos. Our latest flagship keyboard - the MX Craft - was recently introduced and brings an entirely new way to interact with your keyboard, through its creative input dial.

PC WEBCAMS

In Q2, PC Webcams sales growth improved to 12%, demonstrating the seventh consecutive quarter of growth. Our C922 webcam continued to deliver consistent growth in the quarter and contributed to the double-digit growth in the quarter. Consumer interest in video broadcasting (for gaming or for social media) remains very robust around the world. Sales in the Americas and Asia Pacific were up strongly, offset by a slight decline in EMEA.

TABLET & OTHER ACCESSORIES

We saw another quarter of robust growth in Tablet and Other Accessories, with sales up 50%. Our Rugged Combo family of products for education institutions and Slim Combo



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Case for the iPad Pro continued to post very strong results in the quarter. However, we would point out that the educational channel is highly seasonal.

GAMING

We increased our Gaming sales by 42% this quarter, led by strong double-digit growth from all three regions. All product categories contributed to the 9th consecutive quarter of growth. We closed our ASTRO Gaming acquisition in the quarter and are in the process of integrating those products and operations into our portfolio. We are very excited to expand our presence into the adjacent console gaming headset market.

VIDEO COLLABORATION

Our Video Collaboration sales rose 59% in Q2, driven by broad-based contribution from all three regions. In fact, almost all of our countries saw another quarter of solid growth. The consistent quarterly performance we have seen in Video Collaboration reflects the




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significant near and long-term structural growth opportunities in the market and our related investments.

MUSIC

MOBILE SPEAKERS

In Q2, Mobile Speaker sales fell 8% as we prepared for the recently announced launch of Ultimate Ears MEGABLAST and BLAST – our newest portable speakers that combine Wi-Fi and Bluetooth and come integrated with Alexa voice control. Our recently introduced Ultimate Ears WONDERBOOM delivered another strong performance in the quarter. While the Bluetooth mobile speaker market growth may have moderated, our focus is to continue to gain share through great design and sound quality, while at the same time to expand into adjacent categories like smart speakers, Wi-Fi speakers, and others.



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AUDIO PC & WEARABLES

Our Audio PC & Wearables category sales were flat in Q2. We recently announced our latest Jaybird products – Freedom 2 and RUN. Freedom 2 is a redesign of the award-winning, ultra-small Freedom headphones for greater comfort and an improved fit. Jaybird RUN is a true wireless earbud that offers the same Jaybird secure, run-specific comfort fit, and sweat-proof experience. As we look forward, we are committed to delivering growth in this new and exciting category.

SMART HOME

Our Smart Home group delivered the strong outperformance that we have seen in the past couple of quarters, with sales up 54% in Q2 and led by our voice-enabled Harmony Hub products. Our Circle 2 home security camera is seeing multiple product placements globally post-launch. While it is still too early to gauge the success of Circle 2, we are excited to participate in a very fast-growing home security market.

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NET RETAIL SALES BY REGION

All three regions – Americas, EMEA, and Asia-Pacific – contributed to the robust performance we saw this quarter as we continue to drive toward consistent top- and bottom-line growth.

- **Americas.** In Q2, our Americas sales growth was 10%, led by double-digit gains in Video Collaboration and Gaming. All top 5 countries in the region contributed to the growth.
- **EMEA.** Our sales in the EMEA region increased 5% in the quarter, with double-digit increases in Video Collaboration and Gaming offsetting the product transition in Mobile Speakers and a modest decline in PC peripherals.
- **Asia Pacific.** Our Asia Pacific sales rose 23%, marking the 4th consecutive quarter of double-digit growth. All major regions in Asia Pacific as well as almost all product categories contributed to the robust results in the quarter.

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GROSS MARGIN

In Q2, our non-GAAP gross margin declined by 40 basis points to 36.6%. We remain confident in our ability to manage our gross margin within our targeted range of 35-37% and will continue to balance gross margin with consistent sales growth. As we deliver solid gross profit dollars, we will continue to re-invest to support our growth, such as this quarter's product transitions ahead of our seasonally stronger second half.

OPERATING EXPENSES

Our non-GAAP operating expenses grew 11% to \$159M in Q2, in line with our expectations. Excluding ASTRO Gaming, our operating expenses would have increased 9%. While we continue to strategically invest in Sales & Marketing (up 14% in Q2) and R&D (up 10% in Q2), we are commensurately focused on driving greater leverage from our G&A spending (down 40 basis points as percent of sales compared to the same quarter last year).

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PROFITABILITY

Non-GAAP operating income grew 12% to \$72M in Q2. Operating margin of 11.4% was down 10 basis points as slightly lower gross margin was partly offset by higher operating expense leverage.

Our Q2 non-GAAP net income and EPS increased 16% and 14% to \$67M and \$0.40, respectively. Our non-GAAP tax rate was 8.2%, 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 Q2 with cash and short-term investments of \$406M. Cash flow from operations in Q2 was \$68M, compared to \$75M in the same period a year ago. As mentioned previously, first half Fiscal Year 2018 working capital was impacted by the timing of new product introductions and a strong product portfolio heading into the




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holiday quarter. During the quarter, we also repurchased \$10M worth of stock and paid out \$104M in dividends, compared to \$93M in dividends in the same quarter last year.

Our cash conversion cycle in Q2 was 27 days, 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 Q2 inventory of \$330M was up \$62M from Q2 last year (of which more than half of the increase was due to new product introductions and acquisitions). Our inventory turns were 4.9 times in the quarter, down slightly from 5.3 times last year. This was to support our numerous product ramps leading into the holiday season. We expect our inventory metrics to improve in the second half – similar to the seasonal pattern we saw back in Fiscal Year 2016.

Accounts receivable was \$280M and accounts payable was \$387M, up \$39M and \$53M from Q2 last year, respectively. Our DSO reached 40 days (versus 38 days in Q2 last year) and our DPO was 86 days (versus 84 days last year).




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SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q2 was 169.1M shares, up from 165.5M shares in Q2 last year and up from 168.3M shares last quarter. The increase in dilutive share count is primarily due to the stock price appreciation, options exercises, and the ASU 2016-09 accounting implementation. In Q2, we repurchased 0.3M shares for \$10M.

FISCAL YEAR 2018 OUTLOOK

Our Fiscal Year 2018 outlook is sales growth of 10% to 12% in constant currency and non-GAAP operating income of \$260-270M.



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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 ended September 30, 2017, trends in our product categories, consumer interest in video broadcasting, seasonality, growth opportunities and the underlying markets, expansion into new product categories, our commitment to growing certain product categories, long-term goals, target range for gross margin, cash conversion cycle, inventory metrics, and Fiscal Year 2018 outlook for tax rate, sales growth, operating income and sales 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; 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



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



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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 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



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estimate with a reasonable degree of accuracy. Therefore, no reconciliation to the GAAP amounts has been provided for Fiscal Year 2018.

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.