

Logitech Q4 Fiscal Year 2019 Financial Results Management's Prepared Remarks (April 29, 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 Q4 and full Fiscal Year 2019.

The growth percentages 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

Q4 sales increased 9% to \$624M, driven by double-digit growth in multiple product categories and bolstered by a stable performance in PC Peripherals. Unfavorable currency exchange rates adversely impacted Q4 sales growth by approximately 4 percentage points. Non-GAAP gross margin remained very healthy at 38.0%, up 160

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basis points. Non-GAAP operating income in Q4 grew 16% to \$64M, and non-GAAP earnings per share was \$0.38, up 19%.

For the full Fiscal Year 2019, sales increased 10% to \$2.79B, in line with expectations for sales growth of 9% - 11%. Several large product categories and all regions contributed to the robust growth for the year. Our recent Blue Microphones acquisition added approximately two percentage points to the full year growth. Non-GAAP gross margin improved 190 basis points to 37.8%. Non-GAAP operating income increased 23% to \$352M, exceeding outlook of \$340M - \$345M. Fiscal Year 2019 non-GAAP earnings per share was \$2.01, up 26%, and we achieved our \$2 Fiscal Year 2020 earnings per share target a year early.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices group delivered a solid performance, with both Q4 and Fiscal Year 2019 sales up 5%. Several strong innovations in the category, such as MX Vertical, Pebble (specifically designed for the China market), and our Silent series of mice, contributed nicely to the growth. And sales of our MX family of premium cordless mice also increased in both Q4 and Fiscal Year 2019.

KEYBOARDS & COMBOS

Keyboards & Combo sales were flat in Q4 and up 9% in Fiscal Year 2019. Asia Pacific achieved very robust growth in the full year in this category, while the Americas and

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EMEA regions delivered mid-single digit growth.

PC WEBCAMS

Our PC Webcams sales declined 1% in Q4, but increased 9% in Fiscal Year 2019. The Americas and EMEA regions delivered double-digit growth in the full year, while Asia Pacific posted a small increase.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category fell 11% in Q4, due to the timing of the launch of our new SLIM FOLIO PRO for the latest 11" and 12.9" iPad Pro. Fiscal Year 2019 sales rose 20%, representing the second straight year of strong double-digit growth.

GAMING

Our Gaming group delivered sales growth of 13% in Q4, led by growth in all three regions and double-digit growth in PC Gaming and ASTRO sales, offsetting a decline in Simulation sales. Our new ASTRO console controller is off to a good start and had a small contribution in the quarter. Our Gaming performance is particularly notable given that we are lapping the Fortnite effect from last year. Fiscal Year 2019 sales increased 33%, representing the sixth consecutive year of double-digit growth.

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VIDEO COLLABORATION

Video Collaboration sales grew 32% in Q4 and increased 44% in Fiscal Year 2019.

Demand for cloud-based video collaboration remains very robust, as evidenced by the strong revenue and customer momentum demonstrated by one of our partners, Zoom. We continue to invest in this exciting growth opportunity, across both our go-to-market capabilities and our product portfolio to address all types of meeting rooms.

MUSIC

MOBILE SPEAKERS

Our Q4 Mobile Speaker sales rose 81% against a weak quarter last year when we adjusted our channel inventory and pricing to match a slower market outlook. For Fiscal Year 2019, our sales were down 26% as we continued to face greater competition from lower priced personal voice assistant products as well as a maturing mobile speaker market.

AUDIO & WEARABLES

Our Audio & Wearables category sales grew 22% in Q4 and increased 11% in Fiscal Year 2019. Blue Microphones contributed approximately two percentage points to our overall sales growth in both Q4 and the full year.

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SMART HOME

Our Smart Home sales declined 25% in Q4 and 44% in Fiscal Year 2019, as expected. While we will continue to introduce new innovations such as our recently announced Harmony Express remote, we will prudently balance our investments with a smaller market outlook.

NET RETAIL SALES BY REGION

Sales in all three regions grew in Q4 and in Fiscal Year 2019, due to double-digit growth in Asia Pacific, operational improvements in EMEA and stability in the Americas. A diverse product portfolio, strong operational execution, and disciplined investments all contributed to the performance across our geographies.

- **Americas.** Sales in our Americas region were up 7% in Q4. Continued growth in Video Collaboration and Gaming, combined with a triple-digit recovery in Mobile Speakers (against very favorable comparison from Q4 Fiscal Year 2018) more than offset declines in PC Peripherals and Smart Home. In Fiscal Year 2019, Americas sales increased 7%.
- **EMEA.** In Q4, our EMEA region continued to improve its execution, with sales growing the fastest in two years, up 16%. In the quarter, more disciplined promotional activities led to growth in virtually all our product categories. Fiscal Year 2019 EMEA sales rose 7%.
- **Asia Pacific.** Q4 growth in our Asia Pacific region slowed to 6% after 9

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consecutive quarters of double-digit growth. Growth in PC Peripherals, Video Collaboration, and Gaming offset declines in Mobile Speakers and Audio & Wearables. Fiscal Year 2019 Asia Pacific sales grew 19%.

GROSS MARGIN

Q4 non-GAAP gross margin of 38.0% was up 160 basis points and remained within our recently raised long-term target range of 36-40%. Our Fiscal Year 2019 non-GAAP gross margin improved 190 basis points versus last year, to 37.8%. Our focus on reducing costs and driving greater operational efficiencies as well as a favorable product mix have generated the gross profit dollars to support investments to fund our near- and long-term growth.

OPERATING EXPENSES

In Q4, non-GAAP operating expenses increased 8% (or 5% excluding Blue Microphones) to \$173M. While we invested in Sales & Marketing (up 9%) and R&D (up 11%), we drove a 3% decline in G&A spending. This demonstrates our continued focus on managing costs while ensuring the necessary resources to drive top-line growth. For Fiscal Year 2019, non-GAAP operating expenses rose 10% (or 8% excluding Blue Microphones) with an operating expense ratio of 25.2% of sales, in line with our business model.

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PROFITABILITY

Non-GAAP operating income grew 16% to \$64M in Q4 and increased 23% to \$352M in Fiscal Year 2019, ahead of our latest outlook of \$340-345M. Fiscal Year 2019 non-GAAP operating margin of 12.6% is at the midpoint of our recently raised long-term annual margin target of 11% - 14%.

Our Q4 non-GAAP net income and EPS increased 18% and 19% to \$65M and \$0.38, respectively. Our Fiscal Year 2019 non-GAAP net income and EPS rose 25% and 26% to \$339M and \$2.01, respectively. Our non-GAAP tax rates for Q4 and for Fiscal Year 2019 were 3.6% and 5.7%, respectively, impacted by geographical sales and profit mix.

BALANCE SHEET AND CASH FLOWS

At the end of March 2019, our cash and cash equivalents were \$605M. Our Fiscal Year 2019 cash flow from operations was \$305M, down versus \$346M last year due to strategic pull-in of inventory ahead of the China tariffs and a more back-end loaded March quarter.

In Fiscal Year 2019, we spent \$117M for Blue Microphones and an additional \$17M for its working capital. In addition, we returned \$146M to shareholders in the form of \$114M of dividends and \$32M of stock repurchases.

At the end of March 2019, our inventory was \$293M, up \$34M from last year (half of which was from the impact of Blue Microphones), while our Q4 inventory turns were 5.3 times (versus 5.9 times in Q4 last year). Accounts receivable were \$383M and accounts

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payable were \$284M at the end of March 2019, up \$168M (with a \$123M increase from ASC 606 implementation) and down \$10M, respectively.

Our DSO for Q4 were 55 days (versus 33 days in Q4 last year), with an 18-day increase from ASC 606 implementation, and our DPO were 65 days (versus 70 days in Q4 last year). Our cash conversion cycle in Q4 was 57 days (versus 25 days in Q4 last year), with an 18-day increase from ASC 606 implementation, and was negatively impacted by a more back-end loaded linearity during the quarter.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Fiscal Year 2019 was 169M shares, unchanged versus last year. During the fiscal year, we repurchased approximately 0.8M shares for \$32M. Our share count will be driven by our continued stock repurchases 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 \$375M - \$385M in non-GAAP operating income.

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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 months and fiscal year ended March 31, 2019, trends and outlook in our product categories, product innovation, product investments, target ranges for gross margin, operating expense ratio and operating margin, our focus on reducing costs and driving greater operational efficiencies, our focus on managing costs and ensuring resources to drive top-line growth, long-term goals, share count drivers, stock repurchases, and Fiscal Year 2020 outlook for sales growth, operating income 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 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

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policies and agreements and the imposition of tariffs that affect our products or operations and our ability to mitigate; risks associated with acquisitions. 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, 2018 and our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2018, 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

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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 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.