logitech

Q1 Fiscal Year 2020 Financial Results

Newark, July 22, 2019

FORWARD-LOOKING STATEMENTS

This presentation includes **forward-looking statements** within the meaning of the U.S. federal securities laws, including, without limitation, statements regarding: our preliminary financial results for the three months ended June 30, 2019, objectives, innovation, momentum, opportunities, product portfolio, product features and capabilities, new product introductions, their timing and their effect, product investments, product mix, trends, growth and outlook in our product categories, secular trends, software capabilities, long-term gross margin target range and operating expenses model, growth and new category investments, shift to a pull-driven marketing model, tariffs, tariff mitigation, quarterly volatility, seasonality, cash flows, sales growth, profit growth, currency exchange rates, and outlook for Fiscal Year 2020 results, sales growth, operating income, effective tax rate, cash from operations, capital expenditures and related assumptions. These statements are subject to risks and uncertainties that may cause actual results and events to differ materially, 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 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. These and other risks and uncertainties are detailed in Logitech's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended March 31, 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 this presentation.

To facilitate comparisons to Logitech's historical results, we have included **non-GAAP adjusted measures** in this presentation, which exclude primarily 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 in privately held companies, non-GAAP income tax adjustment, and other items detailed under "Supplemental Financial Information" in our quarterly earnings press release and posted to our website at http://ir.logitech.com. Historical GAAP and corresponding non-GAAP measures are provided with our earnings releases and presentations in the Investors section of our website. We also present percentage sales growth in constant currency ("CC") 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 will help investors to evaluate its current period performance, outlook and trends in its business. For historical financials provided in this presentation, reconciliation between non-GAAP amounts and GAAP amounts is provided on the Investors page of our website, together with this presentation and with our earnings releases. With respect to financial outlook, most of the 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 GAAP amounts has been provided for non-GAAP outlook.

KEY MESSAGES – Q1 FY 2020

Strength of our diversified product portfolio drove **Q1'20 sales up 9% (CC) to $644M**

Strong top-line performance, led by double-digit sales growth in Video Collaboration, Tablets & Accessories, Mobile Speakers, Audio & Wearables

Gross margin improved 40 bps to 37.8%, driven by cost savings, tariff mitigation efforts, and product mix benefits

Operating profits grew 11% to $67M, demonstrating leverage and a robust start to the full year

Cash flow from operations was $37M, up from $12M in the same period last year

Confirming FY 2020 guidance for mid to high single-digits sales growth (CC) and non-GAAP operating income of $375-385M

Note: Results are non-GAAP, except for cash flow from operations. Comparisons are YoY and in constant currency unless otherwise specified.

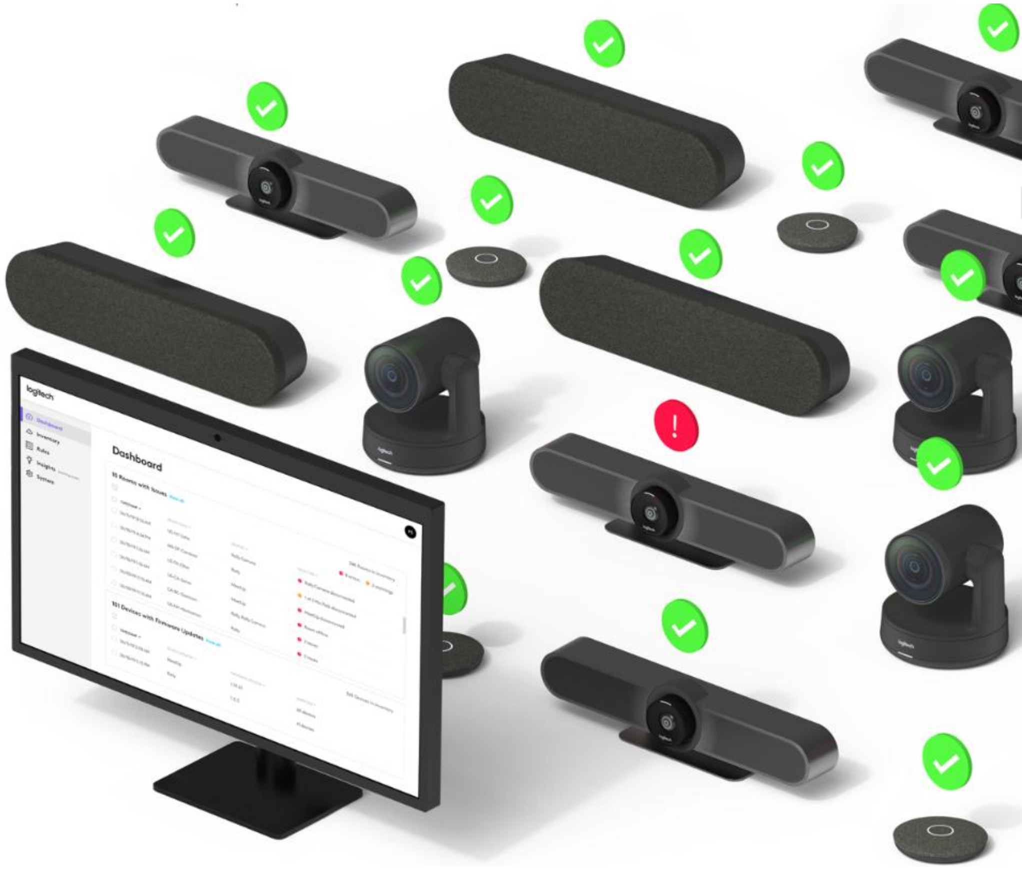
WHAT'S NEW FROM LOGITECH

VIDEO COLLABORATION

Logitech Sync is our new video conferencing device management platform for seamless cloud-based administration, insights, and control

Provides remote monitoring and management for Logitech meeting room devices

Automatically highlights issues in real-time that need attention and offers in-depth diagnostic info so customers can resolve problems before they impact a meeting

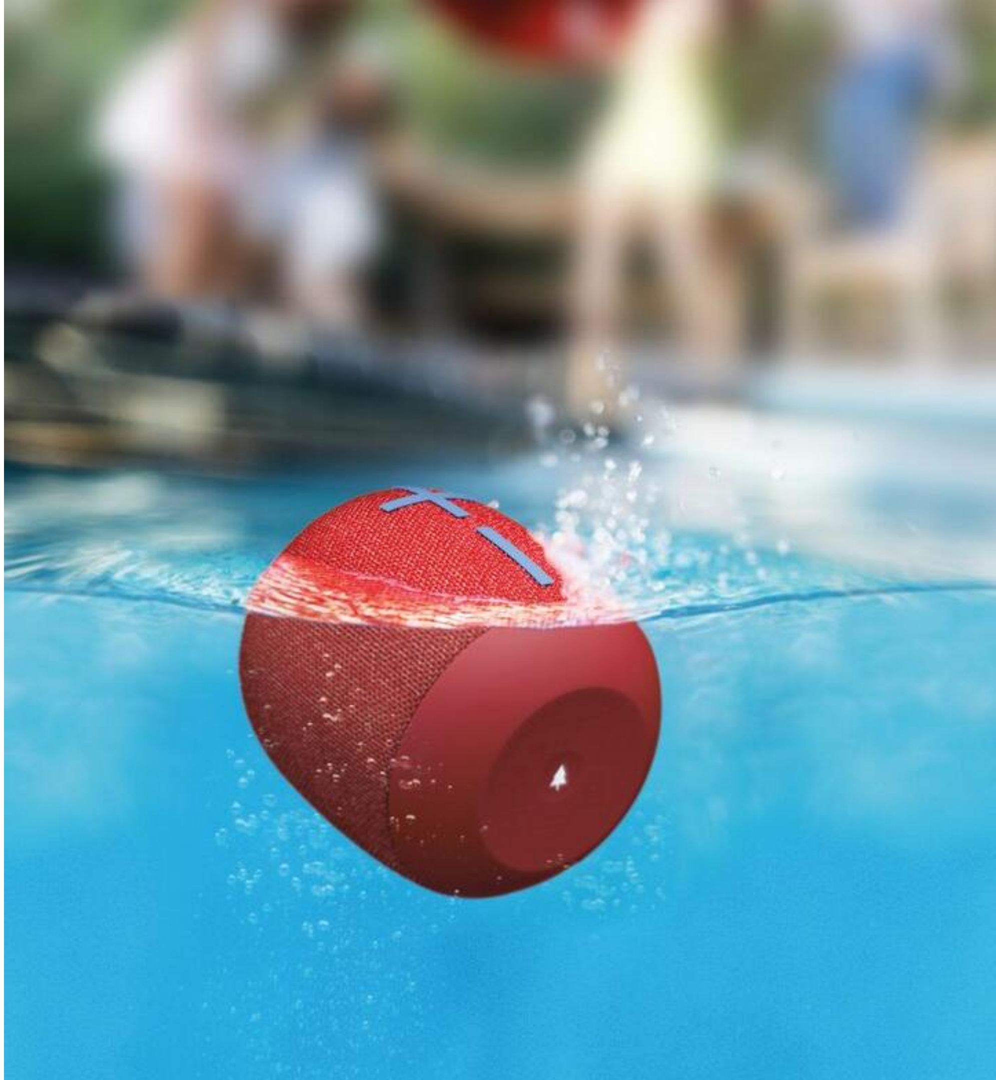


MOBILE SPEAKERS

The **WONDERBOOM 2** has been redesigned with a stylish two-tone fabric and new colorways

All-new Outdoor Boost mode delivers louder, crisper audio with a built-in and pre-adjusted equalizer (EQ) that compliments any outdoor environment

Equipped with more bass, 30% longer battery life (13 hours) and a new IP67 rating, making it waterproof, dustproof, and able to float



GAMING

The ASTRO A50 Wireless was engineered to provide the highest quality sound and most immersive audio experience

ASTRO Audio V2 brings the latest audio technologies to the headset, and the ability to customize the sound profile through the ASTRO Command Center (ACC) software

Optimized for spatial audio solutions like Dolby ATMOS

The all-new Base Station provides clear, low-latency voice communication, while making headset pairing and charging simple

GAMING

Logitech G PRO X Gaming headset was designed with top esports athletes to offer incredible sound and voice technology

Developed in partnership with Blue Microphones, the PRO X headset marks the debut of Blue VO!CE software, which offers a suite of real-time microphone effects that enables clean, professional voice communication

Gamers can tune their voice based on their individual preferences, so teammates can hear them better, or they can sound like a professional streamer

FINANCIAL RESULTS

Q1'20 RESULTS KICK OFF STRONG START TO THE YEAR

	Q1'20	Q1'19	YoY
Net sales	$644	$608	6%
YoY % chg	*6%*	*15%*	
YoY % chg (CC)	*9%*	*12%*	
Gross profit	243	227	7%
% margin	*37.8%*	*37.4%*	*40 bps*
Operating expense	176	167	6%
% of sales	*27.4%*	*27.4%*	*0 bps*
Operating income	$67	$61	11%
% margin	*10.4%*	*9.9%*	*50 bps*
Net income	66	57	14%
% margin	*10.2%*	*9.4%*	*80 bps*
Earnings per share	**$0.39**	**$0.34**	**15%**
Diluted shares	169	169	

Net sales +9% (CC) to $644M, with growth from all regions and all major categories

Blue Microphones contributed around 2 ppts to our overall sales growth

Strong gross margin of 37.8%, within our long-term target range

Opex spending +6% due to investments for long-term growth

Operating profit +11% to $67M

Note: Numbers in $ millions except EPS and percentages. Diluted share count in millions. Results are non-GAAP. Comparisons are YoY and in US$ unless otherwise specified.

DIVERSIFIED PORTFOLIO DROVE HEALTHY GROWTH

	Q1'20	Q1'19	YoY	YoY (CC)
Pointing Devices	122	128	(5%)	**(2%)**
Keyboards & Combos	129	128	0%	**3%**
PC Webcams	28	30	(5%)	**(3%)**
Tablet & Accessories	38	32	18%	**21%**
Video Collaboration	73	59	25%	**28%**
Mobile Speakers	50	34	47%	**51%**
Audio & Wearables	59	52	12%	**15%**
Gaming	135	136	(1%)	**2%**
Smart Home	10	9	9%	**12%**
Net sales	**$644**	**$608**	**6%**	**9%**

Video Collaboration +28% (CC), led by MeetUP and Rally

Gaming +2% (CC), due to difficult comparison from Fortnite, but in line with 5-year historical QoQ seasonality

PC Peripherals flat (CC), consistent with a stable PC market

Audio & Wearables +15% (CC) led by Blue Microphones acquisition

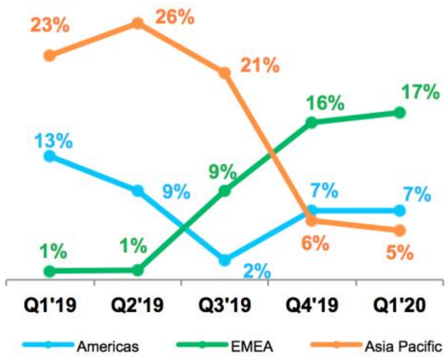
Mobile Speakers +51% (CC) against an easy comparison and the launch of WONDERBOOM 2

Note: Net sales in $ millions. Results are non-GAAP. Comparisons are YoY and in US$ unless otherwise specified.

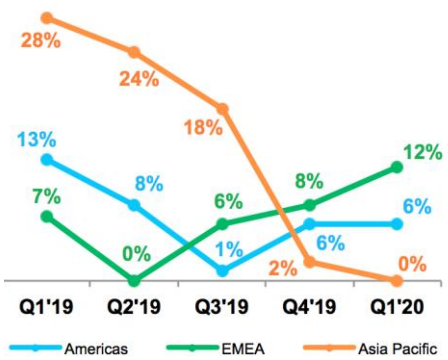
BALANCED GROWTH FROM ALL THREE REGIONS

	Q1'20	Q1'19	YoY (CC)	YoY (US$)	Sell-through (US$)
Americas [1]	293	277	7%	6%	5%
EMEA	179	161	17%	12%	5%
Asia Pacific	172	171	5%	0%	3%
Net sales [1]	**$644**	**$608**	**9%**	**6%**	**4%**

Sales growth YoY % (CC)



Sales growth YoY % (US$)



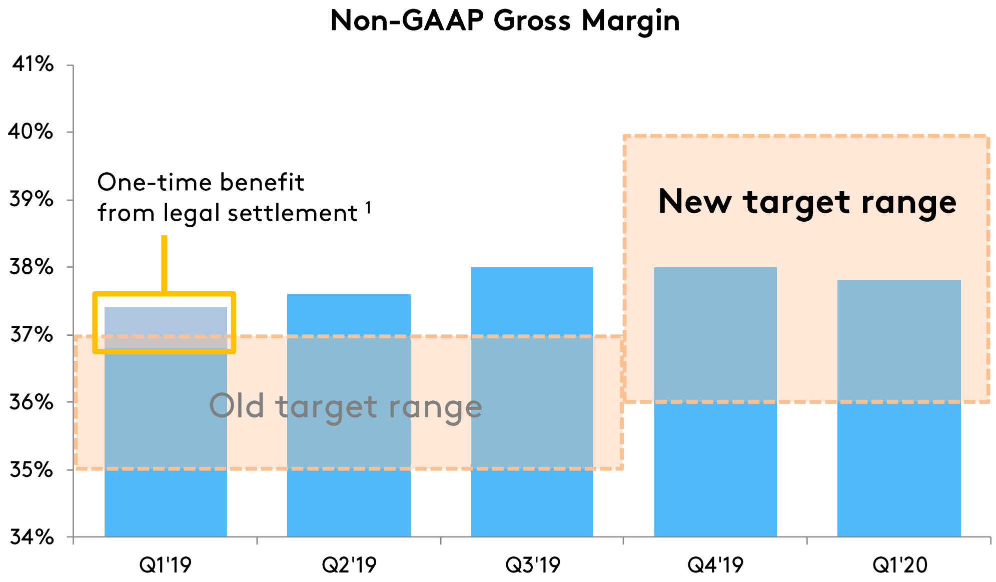
Americas sales +7% (CC), with double-digit growth in Video Collaboration and Mobile Speakers offsetting difficult Gaming comparisons against last year

EMEA sales momentum increased to +17% (CC), with contribution from all major markets

Asia Pacific sales +5% (CC), in line with prior quarter trends and with particular strength in Video Collaboration

Note: Sales in $M and are net sales. Results are non-GAAP. Comparisons are YoY unless otherwise specified. See Appendix regarding sell-through data.
(1) Americas and total net sales figures for Q1'20 include the acquisition of Blue Microphones.

HEALTHY GROSS MARGINS WITHIN TARGET RANGE



Q1'20 gross margin expanded 40 basis points to 37.8% in spite of unfavorable currency exchange rates and China tariff headwinds

Improved gross margin was driven by cost savings, tariff mitigation efforts, and product mix benefits

Managed our business within our recently raised long-term gross margin target range of 36-40%

Note: Figures are for illustrative purposes only.
(1) Q1'19 non-GAAP gross margin includes a one-time benefit of ~60 basis points from a legal settlement with our previous distribution center supplier in the Americas.

CONTINUED INVESTMENTS FOR LONG-TERM GROWTH

	Q1'20	Q1'19	YoY
Sales & marketing	116	109	7%
% of sales	*18.0%*	*17.9%*	*10 bps*
Research & development	40	37	7%
% of sales	*6.2%*	*6.2%*	*0 bps*
General & administrative	20	21	(3%)
% of sales	*3.1%*	*3.4%*	*(30 bps)*
Operating expenses	**$176**	**$167**	**6%**
% of sales	*27.4%*	*27.4%*	*0 bps*

Operating expenses +6% (or +3% excluding Blue) as we made investments for long-term growth and kept spending in G&A flattish

Sales & Marketing +7% as we continued to pivot toward a more marketing-led and pull-driven model

Operating expenses as a % of sales remained in line with annual model

Note: Numbers in $ millions except percentages and basis points (bps). Results are non-GAAP. Comparisons are YoY unless otherwise specified.

MAINTAINING SOLID WORKING CAPITAL METRICS

	Q1'20	Q1'19	YoY	QoQ
Cash from operations	37	12	24	5
Ending cash balance [1]	598	604	(6)	(8)
Inventory	297	273	24	4
Inventory turns	*5.5*	*5.6*	*(0.1 turn)*	*0.2 turn*
DSI	*66*	*64*	*2 days*	*(1 day)*
Accounts receivable	419	386	33	36
DSO	*59*	*57*	*2 days*	*4 days*
Accounts payable	339	344	(5)	55
DPO	*75*	*80*	*(5 days)*	*10 days*
Cash conversion cycle	**50 days**	**41 days**	**9 days**	**(7 days)**

Cash flow from operations was $37M versus $12M in the same period last year

Inventory increase was driven by the Blue Microphones acquisition, some strategic inventory pull-in ahead of tariffs, and normal business growth

Cash conversion cycle was 50 days, due to timing of inventory pull-ins and business linearity

Repurchased $15M of stock in Q1'20

Note: Numbers in $ millions except turns and days figures. Comparisons are YoY unless otherwise specified.
(1) Ending cash balance reflects cash, cash equivalents, and short-term investments.

FISCAL YEAR 2020 OUTLOOK

FY'20 OUTLOOK	
Sales CC growth	**Mid to high single-digits**
Non-GAAP operating income	**$375 – 385M**

ADDITIONAL ASSUMPTIONS	
Currency	FY'19 average rates
Non-GAAP effective tax rate	7 - 8%
Cash from operations	~1x non-GAAP operating income
Capex	$40 - 50M

Note: Comparisons are YoY unless otherwise specified. Sales are net sales.

APPENDIX

GAAP TO NON-GAAP RECONCILIATIONS

PRELIMINARY RESULTS *

(In thousands, except per share amounts) - Unaudited

GAAP TO NON-GAAP RECONCILIATION [(A)]	Three Months Ended June 30,	
SUPPLEMENTAL FINANCIAL INFORMATION	**2019**	**2018**
Gross profit - GAAP	$ 238,976	$ 223,937
Share-based compensation expense	1,158	1,130
Amortization of intangible assets and purchase accounting effect on inventory	3,271	2,372
Gross profit - Non-GAAP	$ 243,405	$ 227,439
Gross margin - GAAP	37.1%	36.8%
Gross margin - Non-GAAP	37.8%	37.4%
Operating expenses - GAAP	$ 191,509	$ 191,486
Less: Share-based compensation expense	11,060	12,129
Less: Amortization of intangible assets and acquisition-related costs	3,596	2,521
Less: Restructuring charges, net	478	9,921
Operating expenses - Non-GAAP	$ 176,375	$ 166,915
% of net sales - GAAP	29.7%	31.5%
% of net sales - Non - GAAP	27.4%	27.4%

GAAP TO NON-GAAP RECONCILIATIONS

PRELIMINARY RESULTS *

(In thousands, except per share amounts) - Unaudited

GAAP TO NON-GAAP RECONCILIATION [(A)]	**Three Months Ended June 30,**	
SUPPLEMENTAL FINANCIAL INFORMATION	**2019**	**2018**
Operating income - GAAP	$ 47,467	$ 32,451
Share-based compensation expense	12,218	13,259
Amortization of intangible assets	6,867	4,893
Restructuring charges, net	478	9,921
Operating income - Non - GAAP	$ 67,030	$ 60,524
% of net sales - GAAP	7.4%	5.3%
% of net sales - Non - GAAP	10.4%	9.9%
Net income - GAAP	$ 45,345	$ 38,466
Share-based compensation expense	12,218	13,259
Amortization of intangible assets	6,867	4,893
Restructuring charges, net	478	9,921
Loss (gain) on investments	(211)	13
Non-GAAP income tax adjustment	907	(9,109)
Net income - Non - GAAP	$ 65,604	$ 57,443
Net income per share:		
Diluted - GAAP	$ 0.27	$ 0.23
Diluted - Non - GAAP	$ 0.39	$ 0.34
Shares used to compute net income per share:		
Diluted - GAAP and Non - GAAP	168,797	168,756

GAAP TO NON-GAAP RECONCILIATION NOTES

Note: These preliminary results for the month ended June 30, 2019 are subject to adjustments, including subsequent events that may occur through the date of filing our Quarterly Report on Form 10-Q.

(A) Non-GAAP Financial Measures

To supplement our condensed consolidated financial results prepared in accordance with GAAP, we use a number of financial measures, both GAAP and non-GAAP, in analyzing and assessing our overall business performance, for making operating decisions and for forecasting and planning future periods. We consider the use of non-GAAP financial measures helpful in assessing our current financial performance, ongoing operations and prospects for the future as well as understanding financial and business trends relating to our financial condition and results of operations. 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.

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

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