Logitech Q4 Fiscal Year 2018 Financial Results
Management's Prepared Remarks (May 2, 2018)

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 2018.

The growth percentages that follow are in comparison to the same period of the prior year, except as otherwise specified. In addition, the sales growth percentages are for net sales and in constant currency, except as otherwise specified.

OVERVIEW

Q4 sales increased 9% to $592M, led by very strong double-digit growth in Gaming and Video Collaboration that offset a market slowdown in Mobile Speakers. On a US dollar basis, Q4 sales grew 16%. As expected, gross margin returned to 36.4% in Q4 and was around the midpoint of our target range for the full year, after being impacted in Q3 by temporary costs of operating two distribution centers (DCs) in the Americas. Non-GAAP operating income in Q4 grew 9% to a better-than-expected $55M, and non-GAAP earnings per share was $0.32, up 7%. Cash from operations reached $90M, up 89%

For the full Fiscal Year 2018, sales gained 13% to $2.57B and, on a US dollar basis, Fiscal Year 2018 sales was up 16%. Product categories contributed to the growth in all of the five key markets we play in. All of our tuck-in acquisitions (Jaybird, Saitek, ASTRO Gaming) grew double-digits for the year, and ASTRO Gaming represented approximately two percent of our full year sales. Non-GAAP operating income grew 14% to a better-than-expected $287M. Non-GAAP earnings per share reached $1.60, up 13%. Cash flow from operations was very strong for the year at $346M, the highest level in eight years.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices category remained very stable, with Q4 sales up 2% and Fiscal Year 2018 sales up 1%. We saw strong demand for our newest, innovative trackball, MX Ergo, that helped drive very strong double-digit growth in trackball sales. And sales of our MX family of premium cordless mice also increased in both Q4 and Fiscal Year 2018.

KEYBOARDS & COMBOS

In Q4, our Keyboards & Combo sales increased 7%, with growth coming from both our premium cordless products such as MX Craft and our corded keyboards and combos. In Fiscal Year 2018, sales grew 2%.

PC WEBCAMS

Our PC Webcams sales grew 12% in Q4 and rose 3% in Fiscal Year 2018, representing the third consecutive year of growth. Popular new games like Fortnite and PlayerUnknown's Battlegrounds (PUBG) have led to an expansion of streaming video adoption on platforms such as Twitch and YouTube.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category increased 48% in Q4 against a favorable comparison where Q4 sales last year fell 42%. However, Tablet and Other Accessories sales in this quarter were up 2% sequentially, which is better than the past 3-year average seasonal sequential decline of 32%. Fiscal Year 2018 sales grew 38%, benefiting from our new innovative tablet products, new channels such as the education market, and the recovery of the iPad tablet market.

GAMING

Our Gaming group delivered sales growth of 65% in Q4, led by strong growth from all three regions and all product lines. Fiscal Year 2018 sales rose 52% to nearly half a billion dollars and represented the fifth consecutive year of robust double-digit growth. ASTRO Gaming was approximately two points of our Fiscal Year 2018 overall sales growth and 17 points of total Gaming sales growth. Our impressive performance in both the quarter and the year reflects the structural strength of the overall gaming market and our leadership position.

VIDEO COLLABORATION

In Q4, Video Collaboration sales reached an all-time quarterly high of $55M, up 32% and up double-digits across all three regions. Fiscal Year 2018 sales posted sales growth of 39% and exited the fiscal year with an annual sales run-rate exceeding $200M for the first time. We continue to see strong momentum in this nascent but high-growth market and will continue to invest in our core capabilities to capture the growth opportunities.

MUSIC

MOBILE SPEAKERS

Our Q4 Mobile Speaker sales declined 67% as we aligned our channel inventory and adjusted pricing to match a slower market outlook, and against a difficult comparison where Q4 sales last year increased 70%. For Fiscal Year 2018, our sales were up 2%, in line with our expectations communicated at our Analyst and Investor Day in March. We will continue to innovate in new products and experiences (such as the recent announcement of Spotify voice support for our Ultimate Ears MEGABLAST and BLAST Alexa-enabled smart speakers that will be available soon). At the same time, we will prudently manage our investments against an overall market outlook of low-single digit growth.

AUDIO PC & WEARABLES

Our Audio PC & Wearables category sales fell 13% in Q4 and were flat in Fiscal Year 2018. Jaybird delivered double-digit growth for Fiscal Year 2018, offsetting a decline in desktop speakers.

SMART HOME

Our Smart Home sales in Q4 slightly declined 3% (against a Q4 last year when sales were up 48%) but were up a very robust 33% for Fiscal Year 2018. We saw strong demand for our voice-enabled Harmony Hub products balanced against a decline in the traditional universal remote market.

NET RETAIL SALES BY REGION

Sales in all three regions grew in Q4 and in Fiscal Year 2018, with Asia Pacific and the Americas driving strong double-digit growth in the year. A diverse product portfolio, strong operational execution, and disciplined investments all contributed to the performance across our geographies.

- **Americas.** Sales in the Americas were up 9% in Q4 in spite of a strong Q4 last year when Americas sales rose 30%. Video Collaboration and Gaming delivered significant growth in the quarter, more than offsetting a weakness in Mobile Speakers. In Fiscal Year 2018, Americas sales increased 16%.

- **EMEA.** In Q4, our EMEA region achieved sales growth of 2%, although sales were up 16% on a US dollar basis. Sequentially, EMEA sales were down 22%, which is roughly in line with the past 3-year average seasonal sequential decline of 29%. Similar to the Americas, Video Collaboration and Gaming were particularly strong in the quarter. Fiscal Year 2018 EMEA sales rose 4%.

- **Asia Pacific.** Our Asia Pacific region delivered its 6th consecutive quarter of double-digit growth with Q4 sales up 21%. Almost every top 10 country in Asia Pacific contributed to the strong performance in the quarter. Fiscal Year 2018 sales grew 22%, representing the third year of double-digit gains.

GROSS MARGIN

Q4 non-GAAP gross margin of 36.4% was up 200 basis points sequentially getting back to the midpoint of our long term target range of 35 to 37%. While our non-GAAP gross margin declined 280 basis points year-over-year, it is important to note that in Q4 Fiscal Year 2017 we had a first-time implementation of a breakage model in EMEA that boosted sales, profitability, and margins by $14.4M leading to an unusually high gross margin of 39.2%. Finally please note that we completed our transition back to one distribution center (DC) in the Americas. Our Fiscal Year 2018 non-GAAP gross margin was 35.9%, compared with 37.3% last year. We will continue to improve our cost structure and efficiencies, while at the same time prudently balancing top-line growth with gross margin within our targeted range.

OPERATING EXPENSES

In Q4, non-GAAP operating expenses increased 7% (or 4% excluding ASTRO Gaming) to $161M, compared with US dollar sales growth of 16%. While we invested in Sales & Marketing (up 10%) and R&D (up 11%), we drove an 8% 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 2018, non-GAAP operating expenses rose 10% (or 8% excluding ASTRO Gaming), compared with US dollar sales growth of 16%. Our Fiscal Year 2018 operating expense ratio was 24.7% of sales, in line with our long-term annual operating expense ratio target of 25% or lower.

PROFITABILITY

Non-GAAP operating income grew 9% to $55M in Q4 and increased 14% to $287M in Fiscal Year 2018, ahead of our latest outlook of $270-280M. Fiscal Year 2018 non-GAAP operating margin of 11.2% is at the midpoint of our long-term annual margin target of 10-12%.

Our Q4 non-GAAP net income and EPS increased 11% and 7% to $55M and $0.32, respectively. Our Fiscal Year 2018 non-GAAP net income and EPS rose 16% and 13% to $271M and $1.60, respectively. Our non-GAAP tax rate for Q4 and Fiscal Year 2018 were 1.4% and 6.0%, respectively, impacted by geographical sales and profit mix.

BALANCE SHEET AND CASH FLOWS

At the end of March 2018, our cash and cash equivalents were $642M. Our Fiscal Year 2018 cash flow from operations was $346M, up 20% versus $288M last year.

In Fiscal Year 2018, we acquired ASTRO Gaming for $85M and we returned $135M to shareholders in the form of $104M of dividends and $31M of stock repurchases. In Fiscal Year 2018, our cash conversion cycle was 22 days (versus 24 days last year) and within our target annual range of 20-25 days.

At the end of March 2018, our inventory was $260M, up $7M from last year. Our inventory turns reached an 8-year high of 5.8 times in Fiscal Year 2018 (versus 5.5 times last year).

Accounts receivable were $215M and accounts payable were $294M at the end of March 2018, up $30M and $19M from last year, respectively. Our DSO for Fiscal Year 2018 was 30 days (flat versus last year) and our DPO was 64 days (versus 71 days last year).

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Fiscal Year 2018 was 169M shares, up versus 166M shares last year, driven by share price increase, option exercise and new stock-based-compensation accounting rules, partially offset by stock repurchases. In Fiscal Year 2018, we repurchased approximately 0.9M shares for $31M. Our share count will be driven by our continued stock repurchases as well as our stock price.

FISCAL YEAR 2019 OUTLOOK

We are confirming our Fiscal Year 2019 outlook for high-single digit sales growth in constant currency and $310-320M in non-GAAP operating income.

GAAP TO NON-GAAP RECONCILIATION FACTORS

Fiscal Year 2018 pre-tax stock-based compensation was $44M, up 23% from $36M last year due to increased number of employees, broader employee stock participation, higher Performance Stock Units (PSUs) tied to better-than-expected operational performance, and acquisitions.

Fiscal Year 2018 amortization of intangibles was $15.6M, up from $9.4M last year due to our tuck-in acquisitions. For Fiscal Year 2019, we expect amortization of intangibles to be approximately $20M, which is flat versus the annualized run-rate in Q4 and assuming no new acquisitions.

Fiscal Year 2018 GAAP tax rate was 10.2% while our non-GAAP tax rate was 6.0%. Our GAAP tax rate includes a one-time $22M tax charge related to the implementation of the new U.S. federal tax rules. We expect our non-GAAP tax rate for Fiscal Year 2019 to be around 7-8% based on our current outlook for geographical sales and profit mix. Our non-GAAP tax rate for Fiscal Year 2019 will reflect a full-year impact of the new United States Tax Bill, which reduced the U.S. corporate income tax rate as of January 1, 2018, and other tax reforms.

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, 2018, trends and outlook in our product categories, internal investments, new products and the timing of their introduction, distribution centers, cost structure improvements and efficiencies, our focus on managing costs and ensuring resources to drive top-line growth, long-term goals, target ranges for gross margin, annual operating expense ratio, operating margin and cash conversion cycle, stock repurchases, and Fiscal Year 2019 outlook for sales growth, operating income, tax rate 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; 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 December 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 2019.

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.