Logitech Q1 Fiscal Year 2020 Financial Results
Management's Prepared Remarks (July 22, 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 Q1 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

Q1 sales rose 9% to $644M, with growth from all three regions and from all our major categories. Unfavorable currency exchange rates adversely impacted Q1 sales growth by approximately three percentage points. Non-GAAP gross margin improved 40 basis points to 37.8% in spite of currency exchange rate and China tariff headwinds. Non-GAAP operating income grew 11% to $67M, and non-GAAP earnings per share increased 15% to $0.39. Cash flow from operations was $37M, up from $12M in Q1 last year.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

In Q1, Pointing Device sales decreased 2%, with stable trends in cordless mice offsetting declines in trackballs and presenters. Recent product introductions such as MX Vertical and Pebble as well as continued success of our MX family of premium mice have helped to drive consistent performance in our cordless mice category, which is the largest product line within Pointing Devices.

KEYBOARDS & COMBOS

Our Keyboards & Combos group delivered another quarter of solid performance, with Q1 sales up 3%. Growth from the EMEA and Asia Pacific regions offset a flat quarter in the Americas.

PC WEBCAMS

Sales in our PC Webcams declined 3% against a very strong quarter last year, which was up 13%. Our EMEA region had particularly strong results, which marked the third consecutive quarter of double-digit growth.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales grew 21% in Q1, as we launched our new

SLIM FOLIO PRO for the latest 11" and 12.9" iPad Pro. We achieved double-digit growth in both our traditional retail and our education channels.

GAMING

Our Gaming sales were up 2% in Q1, as we faced difficult comparisons from the Fornite effect. In the June quarter last year, the gaming headset market in some large countries more than doubled. Excluding ASTRO and PC Gaming headsets, sales growth in the rest of our Gaming business remained in the double-digits. Despite the tough Fornite comparisons, we continue to benefit from our leadership position in the structurally growing gaming market, driven by blockbuster games and esports that have expanded the number of gamers and brought increased awareness to mainstream consumers.

VIDEO COLLABORATION

In Q1, our Video Collaboration sales grew 28%, led by robust double-digit growth across all three regions. Our recently introduced Rally camera system - designed for larger conference rooms - continued its strong sales momentum in the quarter, while our exciting new Tap touch controller just started shipping. We will continue to invest and innovate across both hardware products and software features to capture the tremendous growth opportunities in the cloud-based video collaboration market.

MUSIC

MOBILE SPEAKERS

Mobile Speaker sales gained 51% against a weak quarter last year when sales declined 46%. Moreover, our Q1 results benefited from our new WONDERBOOM 2 launch as well as the contribution of BOOM 3 and MEGABOOM 3. While we will continue to innovate in new products and experiences, we also expect the growth of the overall mobile speaker market to remain lackluster in the near term.

AUDIO & WEARABLES

Audio & Wearables sales increased 15% in Q1, driven by Blue Microphones, which contributed approximately two percentage points to our overall company sales growth in Q1.

SMART HOME

Our Smart Home sales in Q1 were up 12%, with growth in our Circle 2 security cameras offsetting a decline in Harmony remotes and hubs.

NET SALES BY REGION

Sales in all three regions grew in Q1, with EMEA continuing to deliver operational improvements.

- **Americas.** In Q1, our Americas region achieved another quarter of mid-single digit growth, with sales up 7%. Video Collaboration and Mobile Speaker sales were up double digits. Gaming sales were flat against a very strong quarter last year when sales more than doubled, but was in line with normal sequential seasonality. Excluding headsets, Gaming sales grew double digits.
- **EMEA.** Sales in our EMEA region increased 17%, with growth in all our major categories. Similar to the Americas, Video Collaboration and Mobile Speakers were particularly strong in the quarter.
- **Asia Pacific.** Q1 sales growth in our Asia Pacific region was up 5%, in line with prior quarter results. Growth in PC Peripherals, Video Collaboration, Gaming, and Audio & Wearables offset declines in Mobile Speakers.

GROSS MARGIN

Our non-GAAP gross margin reached 37.8% in Q1, up 40 basis points year over year, and remained within our recently revised long-term target range of 36-40%. Benefits from product cost savings, tariff mitigation efforts, and product mix more than offset headwinds from China tariffs and unfavorable currency exchange rates.

OPERATING EXPENSES

In Q1, non-GAAP operating expenses increased 6% (or 3% excluding Blue Microphones) to $176M, in line with US dollar sales growth of 6%. Sales & Marketing and R&D spending both rose 7%, offset in part by a 3% reduction in G&A. Our total Q1 operating expense ratio was 27.4%, flat versus Q1 last year.

PROFITABILITY

Non-GAAP operating income grew 11% to $67M in Q1. Non-GAAP net income and EPS rose 14% and 15% to $66M and $0.39, respectively. Our non-GAAP tax rate for Q1 was 7.9%, up from 6.3% in Q1 last year. The increase in our non-GAAP tax rate was driven by recent Swiss tax reform changes. 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.

BALANCE SHEET AND CASH FLOWS

At the end of June 2019, our cash, cash equivalents, and short-term investments were $598M. Our Q1 cash flow from operations was $37M, up versus $12M in Q1 last year. Our cash conversion cycle was 50 days (versus 41 days in Q1 last year) due to the timing of strategic inventory pull-in and business linearity.

At the end of June 2019, our inventory was $297M, up $24M from Q1 last year, while our inventory turns were 5.5 times (versus 5.6 times in Q1 last year). Accounts receivable were $419M and accounts payable were $339M at the end of June 2019, up $33M and down $5M from last year, respectively. Our DSO for Q1 were 59 days (versus 57 days in Q1 last year) and our DPO were 75 days (versus 80 days in Q1 last year).

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q1 was 169M shares, unchanged versus Q1 last year. During the quarter, we repurchased approximately 0.4M shares for $15M. Our share count will be affected by our continued stock 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.

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 ending June 30, 2019, growth opportunities, internal investments, innovation, new products and experiences, trends and outlook in our product categories, long-term target range for gross margin, tariffs, tariff mitigation, Swiss tax reform, tax rate guidance and evolution, share count, stock repurchases, and Fiscal Year 2019 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; our ability to implement the restructuring in various geographies; possible changes in the size, timing and components of the restructuring or the expected costs and charges associated with the restructuring; and risks associated with our ability to achieve improved capabilities, growth opportunities and overall organizational structure; the risk associated with acquisitions; 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, 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), gain (loss) on investments in privately held companies, 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 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.