Logitech Q3 Fiscal Year 2020 Financial Results
Management's Prepared Remarks (January 20, 2020)

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 Q3 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

Q3 sales grew 5% to a quarterly record high of $903M, with a consistent performance from PC Peripherals, continued momentum in Video Collaboration, and a return to double-digit growth in Gaming. Despite incremental cost headwinds from List 4A China tariffs in the quarter and continued unfavorable currency exchange rates, non-GAAP gross margin of 37.6% was better than expected. And combined with disciplined cost management, this drove a 6% increase in non-GAAP operating income and earnings per share to $152M and $0.84, respectively. Cash flow from operations reached $181M, up from $176M in Q3 last year.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Device sales increased 5%, driven by strong contributions from our recently introduced flagship cordless mouse MX Master 3 as well as record high sales in our slim, design-centric Pebble mouse and our ergonomic MX Vertical mouse. Growth in EMEA was again very strong, up double digits, which offset a decline in Asia Pacific.

KEYBOARDS & COMBOS

In Q3, our Keyboards & Combos category achieved its 8th consecutive quarter of positive growth, with sales up 10%. All three regions drove another solid performance, led particularly by our leadership in wireless products. Several new product introductions - both global and regional - were strong contributing factors to the double-digit growth performance of this category.

PC WEBCAMS

Sales of our PC Webcams were down 1% in Q3, against a robust quarter last year that was up 23%. Similar to the previous quarter, growth in EMEA and Asia Pacific offset a decline in the Americas.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales fell 12% in Q3, as we experienced some short-term supply constraints on our newest keyboards for the 7th Generation iPads. Our education channel continued to grow by strong double digits in the quarter.

GAMING

In Q3, our Gaming category returned to double-digit growth, with sales up 16%. The challenging comparisons for our ASTRO and PC Gaming headset sales moderated this quarter, while sales in the rest of our Gaming products continued to deliver strong double-digit growth. The quarter also benefited from very strong performance in our Simulation products as well as expanded global distribution of the ASTRO C40 Playstation 4 controller.

VIDEO COLLABORATION

Our Video Collaboration sales in Q3 increased 25%, with consistent double-digit growth in all three regions. For the first nine months of Fiscal Year 2020, Video Collaboration sales are up 37%. Continued expansion of our direct sales force combined with a portfolio that spans huddle rooms to large boardrooms have enabled us to capture the growing demand for easy-to-use, cloud-based video collaboration solutions.

MUSIC

MOBILE SPEAKERS

As expected, our Mobile Speaker sales were down 2% in Q3, with growth in EMEA and Asia Pacific offsetting a decline in the Americas.

AUDIO & WEARABLES

Our Audio & Wearables sales declined 16% in Q3. Blue Microphones faced some difficult year-over-year comparisons due to several Blue Yeti derivative products that we had discontinued heading into this quarter. Jaybird true wireless earbud sales grew very nicely in the quarter but were offset by a decline in sales of traditional wireless earbud products.

SMART HOME

Our Smart Home sales in Q3 were down 18%, with growth in sales of our Circle 2 security cameras and double-digit decline in sales of our Harmony remotes and hubs.

NET SALES BY REGION

AMERICAS

In Q3, sales in our Americas region fell 1% due primarily to declines in Mobile Speakers and Blue Microphones. Most of our other categories in the Americas achieved growth in the quarter.

EMEA

Sales in our EMEA region increased 16% and represented the fourth consecutive quarter of double-digit growth. PC Peripherals, Video Collaboration and Gaming sales were all up double digits in the quarter.

ASIA PACIFIC

Q3 sales growth in our Asia Pacific region was 3%, consistent with prior quarter trends. Growth in PC Peripherals, Video Collaboration and Gaming were offset by declines in Tablets & Other Accessories and Audio & Wearables.

GROSS MARGIN

Our Q3 non-GAAP gross margin reached 37.6%. Although gross margin was down 50 basis points year over year and down 80 basis points sequentially, this was slightly better than expected as cost mitigation efforts and favorable product mix helped offset the incremental headwinds from List 4A China tariffs (which had a full quarter impact in Q3) and continued unfavorable currency exchange rates.

OPERATING EXPENSES

In Q3, our non-GAAP operating expenses were up 1% to $188M. Sales & Marketing and R&D spending rose 1% and 6%, respectively, offset in part by a 9% reduction in G&A expense. Our total Q3 operating expense ratio was 20.8%, down 80 basis points year over year.

PROFITABILITY

Our non-GAAP operating income grew 6% to a record high of $152M, and non-GAAP operating margin increased 20 basis points to 16.8% in Q3. Non-GAAP net income and EPS rose 7% and 6% to $143M and $0.84, respectively. Our non-GAAP tax rate for Q3 was 7.9%, consistent with our full year guidance of 7 - 8%.

BALANCE SHEET AND CASH FLOWS

At the end of December 2019, our cash, cash equivalents, and short-term investments were $656M. Our Q3 cash flow from operations was $181M, up from $176M in Q3 last year. For the first nine months of Fiscal Year 2020, our cash flow from operations was $324M, versus $273M in the same period last year. Our cash conversion cycle was 32 days in Q3, an improvement of 2 days from Q3 last year.

At the end of December 2019, our inventory was $307M, down $35M from Q3 last year, while our inventory turns were 7.4 times (an improvement versus 6.3 times in Q3 last year). Accounts receivable were $531M and accounts payable were $439M at the end of December 2019, up $47M and $3M from last year, respectively. Our DSO for Q3 were 53 days (versus 50 days in Q3 last year), and our DPO were 70 days (versus 73 days in Q3 last year).

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q3 was 170M shares, versus 169M shares in Q3 last year. During the quarter, we did not repurchase any shares. 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 $375M 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 and nine months ending December 31, 2019, trends in our product categories, tax rate guidance, share count, and Fiscal Year 2020 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 and our ability to mitigate; risks 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 and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 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, 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 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.