Logitech Q1 Fiscal Year 2021 Financial Results
Management's Prepared Remarks (July 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 Q1 Fiscal Year 2021. 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 increased 25% to $792M, with growth driven by the four long-term trends that are the focus of our company strategy: 1) more of us will work from home; 2) video calls will replace audio calls; 3) esports will become bigger than conventional sports; and 4) billions of people worldwide will create content, not just a handful of TV and movie studios. These are existing trends that accelerated beginning in March. Sell-through for many products was even stronger than net sales, as these products were supply constrained through the quarter and channel inventory was reduced. Currency exchange rates adversely impacted Q1 US dollar sales growth by approximately two percentage points, while Streamlabs contributed approximately two percentage points to total top-line growth.

Non-GAAP gross margin improved 140 basis points to 39.2% due to more favorable product mix and reduced promotional spending, which more than offset elevated logistics costs and currency exchange rate headwinds. Non-GAAP operating income grew 75% to $117M, and non-GAAP earnings per share increased 64% to $0.64. Cash flow from operations was $119M, up from $37M in Q1 last year.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

In Q1, Pointing Device sales were up 1% versus last year, with strong growth in our Mice and trackball products offset by a significant decline in Presenters as most conferences, events, and other large scale presentations were halted during the quarter. Excluding Presenters, Pointing Device sales increased 9%. Our MX family of premium mice saw another quarter of strong double-digit growth.

KEYBOARDS & COMBOS

Our Keyboards & Combos group delivered a third consecutive quarter of double-digit growth, with Q1 sales up 15%. Growth was broad-based across all three regions and across various product categories within Keyboards & Combos. Our first ergonomic keyboard - K860 - resonated well with consumers while our high-end MX Keys wireless keyboard was our second best-selling keyboard SKU in the quarter.

PC WEBCAMS

Sales in our PC Webcams category increased 121% to $61M, the highest quarterly level in the past ten years. Performance was strong in all three regions as Webcams are a vital part of remote work and distance learning, although growth was constrained due to supply challenges in Q1. While we expect supply/demand balance to improve in Q2, it is likely to remain tight throughout the quarter.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales grew 22% in Q1, with double-digit growth in EMEA and Asia Pacific offsetting a slight decline in the Americas. Our Education iPad keyboards were particularly strong in the quarter, with sales increasing over 50%. We expect a very robust year across our Education channel as schools around the world adapt to a new hybrid school/home academic environment.

GAMING

Our Gaming sales were up 38% in Q1, with greater than 20% growth in each of our three categories of PC Gaming, Simulation and Console Gaming. Sell-through growth rates were even stronger, as gamers spent more time playing and socializing with other players as many sheltered in place. Streamlabs contributed approximately two percentage points to our total company sales growth in the quarter and benefited from heightened game streaming viewership on platforms like Twitch, Facebook, and

YouTube.

VIDEO COLLABORATION

In Q1, our Video Collaboration sales rose 81%, an acceleration from last quarter, and reached a record $130M of quarterly sales. Strong demand was evident across various set-ups, ranging from personal workspaces at home to conference rooms being video enabled ahead of employees coming back to work. Our flagship business webcam, the Brio 4K Pro, performed particularly well with growth of more than 200% in the quarter.

MUSIC

MOBILE SPEAKERS

As expected, Mobile Speaker sales fell 42% due to physical retail store closures during the quarter and our continued re-prioritization of investments into other faster-growing market opportunities. We expect near-term growth will remain challenged as consumers shift their discretionary dollars to other products and as group and outdoor gatherings remain restricted.

AUDIO & WEARABLES

Audio & Wearables sales increased 23% in Q1, driven by robust growth in Blue Microphones and Retail Headsets, offset by a double-digit decline in Jaybird. Blue

Microphones sales were very strong during the quarter as musicians and streamers embraced online platforms to engage and connect with their fans, and we are adding supply capacity to better support the future demand in this growth category.

SMART HOME

Our Smart Home sales in Q1 declined 30%, with flattish performance in our Circle line of security cameras offsetting an expected decline in Harmony remotes and hubs.

NET SALES BY REGION

All three regions delivered strong double-digit sales growth in the quarter, led by 33% growth in Asia Pacific, followed by 23% growth in Americas, and 21% growth in EMEA.

- **Americas.** In Q1, our Americas region delivered another quarter of strong double-digit growth, with sales up 23%. Several key categories like Video Collaboration, PC Peripherals, Gaming, and Blue Microphones experienced significant demand in the quarter. This more than offset categories like Mobile Speakers, Jaybird, and Smart Home that were negatively impacted by physical retail store closures and shifting market trends.

- **EMEA.** Sales in our EMEA region increased 21%, with double-digit growth in several categories that benefited from remote work and stay-at-home mandates. Similar to the Americas, Video Collaboration, PC Peripherals, Gaming, and Blue

Microphones were particularly strong in the quarter. France sales declined in the quarter due to the temporary shutdown of Amazon's distribution center, while sales in Germany and the UK were up strongly.

- **Asia Pacific.** Q1 sales growth in our Asia Pacific region was up 33%, a notable acceleration from prior quarters. Growth in PC Peripherals, Video Collaboration, Gaming, and Blue Microphones offset declines in Presenters, Mobile Speakers, and Jaybird. China, Japan, and Australia all delivered significantly improved year-over-year sales momentum versus the prior quarter's growth rate.

GROSS MARGIN

Our non-GAAP gross margin was better than expected and reached 39.2% in Q1, up 140 basis points year over year. Reduced marketing and promotional spending and favorable product mix offset significant increases in logistics costs and continued currency exchange headwinds. We anticipate that marketing and promotional spending will begin to normalize in Q2 and in the second half of the year as supply becomes more aligned with sell-through demand, and we still expect non-GAAP gross margin to remain within our long-term range of 36-40%.

OPERATING EXPENSES

In Q1, non-GAAP operating expenses increased 10% to $193M, with investments in etail and strategic growth initiatives partially offset by savings from reduced travel and physical retail store marketing campaigns. Sales & Marketing spending rose 7% while R&D spending grew 16%. G&A expense also increased 11% but was flat on a dollar basis versus the prior quarter. Our total Q1 non-GAAP operating expense ratio was 24.4%, an improvement of 300 basis points versus Q1 last year.

PROFITABILITY

Non-GAAP operating income grew 75% to $117M in Q1. Non-GAAP net income and EPS rose 66% and 64% to $109M and $0.64, respectively. Our non-GAAP tax rate for Q1 was 9.1%, up from 7.9% in Q1 last year. The increase in our non-GAAP tax rate was driven by recent Swiss tax reform changes. For Fiscal Year 2021, our non-GAAP tax rate guidance is 8-9% and we expect a gradual and modest increase each year thereafter until we fully reflect the new Swiss tax rate.

BALANCE SHEET AND CASH FLOWS

At the end of June 2020, our cash and cash equivalents were $809M. Our Q1 cash flow from operations was $119M, up versus $37M in Q1 last year. Our cash conversion cycle was 27 days, a significant improvement against 50 days in Q1 last year due to improvements in inventory turns and cash collections.

At the end of June 2020, our inventory was $271M, down $26M from Q1 last year, while our inventory turns were 7.2 times (versus 5.5 times in Q1 last year). We expect our inventory to grow in Q2, as it typically would to support our holiday quarter in Q3, and as we replenish our distribution centers and factories following the strong sales demand in Q1. Accounts receivable were $500M and accounts payable were $430M at the end of June 2020, up $81M and $91M from Q1 last year respectively, due to increased sales volumes. Our DSO for Q1 were 57 days (versus 59 days in Q1 last year) and our DPO were 80 days (versus 75 days in Q1 last year).

SHARE COUNT

Our weighted average diluted share count in Q1 was 170M shares, versus 169M shares in Q1 last year. Our share count will be affected by our continued stock repurchases and equity grants, as well as our stock price. We did not repurchase any shares during the quarter as our previous three-year $250M buyback program expired at the end of April, while a new three-year $250M buyback program was approved by the board of directors on May 27.

FISCAL YEAR 2021 OUTLOOK

We are raising our Fiscal Year 2021 outlook for sales growth in constant currency to 10-13% and for non-GAAP operating income to $410 to $425M. Our previous outlook was for mid-single digit sales growth in constant currency and for non-GAAP operating income of $380 to 400M.

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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 ending June 30, 2020, growth opportunities, secular and long-term trends, the momentum of long-term trends, trends and outlook in our product categories, investment priorities, discretionary pending trends, product category demand and growth, effects of the COVID-19 pandemic, marketing and promotional spending, supply, sell-through demand, long-term target range for gross margin, tax rate guidance and evolution, inventory, stock repurchases, and Fiscal Year 2021 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; the COVID-19 pandemic and its potential impact; 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; 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, 2020, 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 2021.

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.