Logitech Q2 Fiscal Year 2021 Financial Results
Management's Prepared Remarks (October 19, 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 Q2 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

Q2 sales grew 73% to $1.26B - our first quarterly sales over $1B. The strong sales momentum was across all regions and virtually all product categories. Sales volume in the quarter was driven by continued acceleration of growth in our four big secular trends - 1) working and learning from home; 2) video everywhere; 3) esports driving gaming engagement and participation; and 4) democratization of content creation.

Non-GAAP gross margin increased over 7 percentage points versus the prior year to

45.7% due to greater-than-expected sales volume, favorable product mix, and continued restrained promotional spending, which more than offset higher-than-normal logistics costs as we expedited shipments to meet strong demand. Non-GAAP operating income nearly quadrupled to $354M, and non-GAAP earnings per share increased 274% to $1.87. Cash flow from operations was $280M, up from $107M in Q2 last year.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

In Q2, Pointing Device sales increased 26%, with demand for our Mice and Trackball products more than offsetting continued weakness in our Presenters, as most conferences, events, and other large-scale presentations remained prohibited during the quarter. Mice and Trackball sales growth was balanced across both the high-end (such as MX Master 3 and our recently launched MX Anywhere 3) and our mainstream products (such as M185 and M325).

KEYBOARDS & COMBOS

Our Keyboards & Combos products achieved sales growth of 44% in the quarter, as all three regions contributed strong double-digit growth. Similar to Pointing Devices, demand was strong for both the high-end (such as MX Keys and K860 ergonomic keyboards) and the mainstream category (such as MK270 wireless combo).

PC WEBCAMS

Sales in our PC Webcams category increased 258% to $102M, the first time quarterly sales broke $100M, as higher quality video communications became a more integral part of remote work and distance learning. Channel inventory exited Q2 at low levels and supply remained constrained. We expect Webcam supply to improve in the second half to be more aligned with overall industry demand.

TABLET & OTHER ACCESSORIES

Our Tablet and Other Accessories sales rose 144% in Q2, with strong double-digit growth in our Retail Tablet products. Our Education iPad Keyboards sales quadrupled in Q2. Schools around the world are embracing various technology devices to better support students learning in hybrid on-site/remote academic environments.

GAMING

Our Gaming sales grew 84% in Q2, with Simulation sales nearly doubling as we introduced our latest G923 Racing Wheels with TRUEFORCE feedback. PC Gaming and Console Gaming sales were also particularly strong in the quarter, as we launched several new Gaming products - Pro X Wireless headset and the new G-Series Color Collection. Streamlabs added over one percentage point to our total company sales growth in Q2, as we saw the continued ramp in Prime subscriptions for gamers that look to build their online brand.

VIDEO COLLABORATION

In Q2, our Video Collaboration sales rose 161% to a record $237M of quarterly sales. Growth more than doubled in all three regions, with particular strength from our enterprise-grade webcams (such as the Brio 4K Pro) and headsets. Sales of our conference room products (such as MeetUp and Rally) nearly doubled and benefited from continued deployment of video in the office as some countries started reopening work locations.

MUSIC

MOBILE SPEAKERS

As expected, Mobile Speaker sales declined 25% in Q2, a slight improvement from the 42% decline in Q1. Limited outdoor activities and social gatherings have pressured Mobile Speakers and as such, we have reallocated investments in this category to other faster-growing market opportunities.

AUDIO & WEARABLES

Audio & Wearables sales increased 67% in Q2, driven by a doubling in Blue Microphones and Retail Headset sales, offset by weakness in Jaybird. Gross sell-through for Blue was ahead of gross sell-in, and we are actively investing in supply capacity to support the future demand in this growth category. We will continue to invest in future Jaybird innovations, especially in the fast-growing true wireless market.

SMART HOME

Our Smart Home sales in Q2 declined 10%, with flattish performance in Harmony remotes and hubs, offset by a decline in our Circle line of security cameras.

NET SALES BY REGION

All three regions contributed to the exceptional performance in the quarter, with the Americas sales increasing 85%, EMEA up 62%, and Asia Pacific growing 69%.

- **Americas.** In Q2, our Americas sales growth accelerated to 85% from 23% in Q1. Several products delivered sales that more than doubled, such as PC Webcams, Education Tablet keyboards, Video Collaboration, and Gaming. This more than offset categories like Mobile Speakers, Jaybird, and Smart Home that remained expectedly weak during the quarter.

- **EMEA.** Sales in our EMEA region increased 62%, also a material improvement from the 21% growth rate in Q1. Similar to the Americas, the secular trends driving our growth were also pervasive across the various countries in EMEA with broad-based strength across almost all product categories. Virtually all the countries in the EMEA region delivered strong double-digit or triple-digit sales growth.

- **Asia Pacific.** Q2 sales growth in our Asia Pacific region rose 69%, notably above the 33% growth in Q1. Growth accelerated despite many countries in Asia relaxing COVID-related social gathering restrictions, with strength in nearly all categories.

GROSS MARGIN

Our Q2 non-GAAP gross margin was significantly better than expected and reached a record 45.7%, up 730 basis points versus last year. Higher sales volume, continued restraint in marketing and promotional spending and favorable product mix more than offset elevated logistics costs. In the second half of the year, we expect gross margin to return to the high-end of our 36-40% target range due to typical holiday promotions, investments in retail store marketing, and higher mix of lower margin products (such as Tablet Education products).

OPERATING EXPENSES

In Q2, non-GAAP operating expenses rose 18% to $221M as we reinvested gross profit dollars into strategic investments in etail, direct-to-consumer (DTC), and other initiatives. With the stronger-than-expected gross margins in Q2, we plan to significantly increase our spending in areas such as brand marketing, broader sales coverage, future technology roadmaps, and IT/customer care infrastructure to support the strong sales volumes. Sales & Marketing spending rose 17% while R&D spending grew 25%. G&A expense also increased 13% although absolute dollar was relatively flat sequentially at $23M in the quarter. Our total Q2 non-GAAP operating expense ratio was 17.6%, a decline of 840 basis points versus last year. With an acceleration in operating expense investments, we expect our second half operating expense ratio to revert back to the mid- to high-20% range.

PROFITABILITY

Non-GAAP operating income increased nearly four-fold to $354M in Q2. Non-GAAP net income and EPS rose 276% and 274% to $320M and $1.87, respectively. Our non-GAAP tax rate for Q2 was 10.6%, up from 7.5% in Q2 last year and up from 9.1% in Q1. The year-over-year increase in our non-GAAP tax rate was driven by recent Swiss tax reform changes while the sequential increase is due to greater pre-tax income from higher tax jurisdictions. For Fiscal Year 2021, we are raising our non-GAAP tax rate guidance to 10-11% from our previous guidance of 8-9% due to the upward revision in our non-GAAP operating income for the year.

BALANCE SHEET AND CASH FLOWS

At the end of Q2, our cash and cash equivalents were $917M. Our Q2 cash flow from operations was $280M, up versus $107M in Q2 last year. Our cash conversion cycle was a record low of 19 days, a significant improvement against 43 days in Q2 last year due to improvements in inventory turns and strong cash collections.

At the end of Q2, our inventory was $395M, up $56M from Q2 last year, while our inventory turns were 7.0 times (versus 5.3 times in Q2 last year). We leveraged our strong balance sheet to invest in supply and capacity to support strong sales demand in the quarter and in the upcoming second half of Fiscal Year 2021. Accounts receivable were $751M and accounts payable were $663M at the end of Q2, up $285M and $252M from Q2 last year, respectively. Both were up 61% versus last year, in line with the sales volume growth in the quarter. Our DSO for Q2 were 54 days (versus 58 days in Q2 last year) and our DPO were 87 days (versus 83 days in Q2 last year).

SHARE COUNT

Our weighted average diluted share count in Q2 was 171M shares, versus 169M shares in Q2 last year. Our share count will be affected by our continued stock repurchases and equity grants, as well as our stock price. During the quarter, we paid out $147M in dividends, an increase from $124M in dividends last year, and also spent $22M in stock repurchases.

FISCAL YEAR 2021 OUTLOOK

We are raising our Fiscal Year 2021 outlook for sales growth in constant currency to 35 to 40% and for non-GAAP operating income to $700M to $725M. Our previous outlook was for 10 to 13% sales growth in constant currency and for non-GAAP operating income of $410M to 425M.

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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 September 30, 2020, market and growth opportunities, secular and long-term trends, the momentum and sustainability of long-term trends, trends and outlook in our product categories, hybrid work and academic environments, market demand, sales demand, product supply, investments in product categories and growth, investments in supply capacity, investment priorities, supply and demand dynamics, gross margin, gross margin target range, growth initiatives and trajectory, future spending, operating expense investments, operating expense ratio,effects of the COVID-19 pandemic, marketing and demand business model, marketing and promotional spending, tax rate guidance and evolution, stock repurchases, equity grants, 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 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 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), loss (gain) 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.