Logitech Q4 Fiscal Year 2021 Financial Results
Management's Prepared Remarks (April 28, 2021)

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 videoconference. 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 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 2021.

The growth percentages 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

Q4 sales increased 108% to $1.54B, driven by strong growth across our three large categories - Creativity & Productivity, Gaming, and Video Collaboration - and across all three regions. Favorable currency exchange rates benefited Q4 sales growth by approximately 8 percentage points. Non-GAAP gross margin in Q4 reached 46.6%, up

680 basis points versus last Q4 last year and up 140 basis points sequentially. Non-GAAP operating income in Q4 increased more than four-fold to $325M, and non-GAAP earnings per share was $1.45, up 245%.

For the full Fiscal Year 2021, sales grew 74% to $5.25B, exceeding our guidance of approximately 63% sales growth. Double-digit growth in PC Peripherals and Gaming and triple-digit growth in Video Collaboration more than offset expected declines in Mobile Speakers and Jaybird. Non-GAAP gross margin improved 640 basis points to 44.8%. Non-GAAP operating income more than tripled to $1.27B, beating our outlook of approximately $1.1B. Fiscal Year 2021 non-GAAP earnings per share were $6.42, up nearly three-fold versus last year.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices category delivered strong sales increases of 27% and 23% in Q4 and Fiscal Year 2021, respectively. Growth in Mice more than offset the expected decline in Presenters. Several new product introductions - across our high-end MX family and our mainstream mice portfolio - helped drive consistent growth throughout the year.

KEYBOARDS & COMBOS

Our Keyboards & Combos sales were up 44% in Q4 and up 36% in Fiscal Year 2021, with consistent growth in all three regions. The record-high sales in the quarter were due to the increased number of workspaces as a result of hybrid work/learn and a rising attachment of Keyboards & Combos to these new workspaces. Our premium MX Keys wireless keyboard and our ergonomic K860 keyboard continued to deliver sales records despite being in the market for over a year, demonstrating how innovations can drive sustained growth in our categories.

PC WEBCAMS

Our PC Webcams sales increased 248% in Q4 and 237% in Fiscal Year 2021. The need for video communications has remained consistently strong throughout this pandemic as people around the world used video to stay in touch with their co-workers, friends, students, and others. Demand for PC Webcams should continue to be robust even as we recover from the pandemic given how hybrid work is likely to be the dominant form of work culture in many, or perhaps most, parts of the world for the coming years.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category rose 254% in Q4 and 181% in Fiscal Year 2021. Our Tablet Keyboards for the education channel achieved over a seven-fold increase in sales for the year, due primarily to a large, one-time education deal in Japan. Schools around the world adopted new technology tools to help deliver remote learning to students. While education channel sales were exceptionally strong, our retail Tablet products also had a fine year, with sales growth of over 50% in Fiscal Year 2021.

GAMING

Our Gaming category sales accelerated and more than doubled in Q4, led by strong performance in PC Gaming, Simulation, and Console Gaming. Growth in the overall gaming industry combined with market share gains led to the impressive performance in the quarter and the Fiscal Year. Streamlabs sales nearly doubled in Q4 as the game streaming industry saw a near-doubling in the number of hours viewed and a 76% increase in the number of hours streamed. Our Fiscal Year 2021 Gaming sales increased 77%.

VIDEO COLLABORATION

Our Video Collaboration sales grew 233% in Q4 and increased 180% in Fiscal Year 2021. Demand for cloud-based video collaboration has remained consistently strong throughout Fiscal Year 2021 and should continue to deliver strong double-digit growth in Fiscal Year 2022. Not only did sales of our conference room-based video products accelerate in Q4 to a record high, sales of VC Webcams and Headsets also achieved increased momentum in the quarter. Our recently announced all-in-one video products Rally Bar and Rally Bar Mini have received great customer feedback and should help sustain robust growth in our Video Collaboration category.

MUSIC

MOBILE SPEAKERS

Our Mobile Speaker sales rose 32% in Q4 but declined, as expected, 22% in Fiscal Year 2021. As we continue to redeploy our investments to other growth market opportunities, we expect Mobile Speaker sales to remain weak in Fiscal Year 2022.

AUDIO & WEARABLES

Our Audio & Wearables sales increased 94% and 69% in Q4 and Fiscal Year 2021, respectively. Blue Microphones and Retail Headset sales more than doubled in the quarter and full year as demand for streaming more than offset an expected decline in Jaybird sales.

SMART HOME

Our Smart Home sales were flat in Q4 and fell 21% in Fiscal Year 2021, in line with expectations. As we discontinue production of our Harmony remotes, we expect sales from our Smart Home category to decline again in Fiscal Year 2022.

NET RETAIL SALES BY REGION

Our sales in all three regions grew significantly in Q4 and in Fiscal Year 2021, with more than 70% growth for the full year in each of the Americas, EMEA and Asia Pacific. As supply was below demand throughout most of the year, our sell-in exceeded our sell-through as we restocked channel inventory to more healthy and typical levels to address the strong demand from consumers and enterprises alike. We expect our net sales growth to be more aligned with sell-through growth in Fiscal Year 2022.

- **Americas.** Sales in our Americas region were up 92% in Q4, with robust growth in all focus categories. Video Collaboration and Gaming sales more than doubled in the quarter. In Fiscal Year 2021, our Americas sales increased 73%.

- **EMEA.** In Q4, our EMEA region delivered sales growth of 144%, with a near-five fold increase in Video Collaboration sales and a more than doubling in sales from Gaming. Our Fiscal Year 2021 EMEA sales rose 77%.

- **Asia Pacific.** Q4 growth in our Asia Pacific region was 89%, with sales from our Video Collaboration, Creativity & Productivity and Music categories more than doubling. Even countries that have already largely re-opened (such as China, South Korea, Australia and Japan) delivered sales growth in the double- and triple-digit range in Q4. Our Fiscal Year 2021 Asia Pacific sales grew 72%.

GROSS MARGIN

Q4 non-GAAP gross margin of 46.6% was up 680 basis points versus last year and up 140 basis points versus the prior quarter, as our continued discipline in managing our promotion spending, favorable product mix and currency exchange tailwinds more than offset continued elevated shipping costs. Our Fiscal Year 2021 non-GAAP gross margin expanded 640 basis points to 44.8%, above our recently revised target range of 39-44%.

The constrained supply/demand dynamics in Fiscal Year 2021 resulted in lower promotional spending to levels which we do not think are sustainable. Even as we continue to pivot toward a more marketing-led and demand-pull business model, we expect sales promotions and retail point-of-sales marketing activities to increase and return to more normalized levels that are more aligned with balanced supply and demand. As such, we expect Fiscal Year 2022 non-GAAP gross margin to be in our target range which reflects this more normalized pricing environment.

OPERATING EXPENSES

In Q4, non-GAAP operating expenses increased 92% to $391M. As we generated very strong revenue and gross profit dollar growth in the quarter, we were able to reinvest back into Sales & Marketing (nearly doubled in Q4) and R&D (up 37% in Q4) to support our long-term growth opportunities and increase our brand equity awareness. Our G&A spending doubled sequentially as we invested $30M into a charitable Donor-Advised Fund to support our long-term social giving strategy in support of equality and sustainability focused causes. Excluding this investment, our G&A spending would have been flat sequentially.

For Fiscal Year 2021, non-GAAP operating expenses rose 44% to $1.1B, with an operating expense ratio of 20.6% of sales. We expect this ratio to increase in Fiscal Year 2022 as our investments scale to support our greater business volumes and expanded market opportunities.

PROFITABILITY

Non-GAAP operating income more than quadrupled to $325M in Q4 and more than tripled to $1.27B in Fiscal Year 2021, ahead of our latest outlook of approximately $1.1B. Fiscal Year 2021 non-GAAP operating margin of 24.2% was higher than our recently revised target range of 14-17%, as we had benefited from a rapid rise in sales growth which outpaced our rate of investment back into the business and unusually low levels of promotional spending.

Our Q4 non-GAAP net income and EPS increased 254% and 245% to $251M and $1.45, respectively. Our Fiscal Year 2021 non-GAAP net income and EPS roughly tripled to $1.10B and $6.42, respectively. Our non-GAAP tax rates for Q4 and for Fiscal Year 2021 were 20.3% and 13.7%, respectively, as our higher levels of profits resulted in a higher non-GAAP corporate tax rate than our prior outlook. For Fiscal Year 2022, we maintain our non-GAAP tax rate of 11-12% due to the lower levels of projected non-GAAP profits.

Our Q4 GAAP net income of $226M was up only 6% versus last year due to two one-time items in Q4 last year, including a $40M one-time gain related to the sale of our minority stake in Lifesize in exchange for cash plus an equity interest and subordinated note in a privately held company group that acquired Lifesize, and a $152M income tax benefit related to the recent Swiss tax reform.

BALANCE SHEET AND CASH FLOWS

At the end of March 2021, our cash and cash equivalents were $1.75B, up over $1B versus March 2020. Our Fiscal Year 2021 cash flow from operations was a record $1.46B, up versus $425M last year. Looking forward, we continue to expect our cash flow to approximate our non-GAAP operating income. In Fiscal Year 2021, we returned $312M to shareholders in the form of $147M of dividends and $165M of stock repurchases (up from $175M in shareholder returns in Fiscal Year 2020).

At the end of March 2021, our inventory was $661M, up $432M from last year, while our Q4 inventory turns were 5.0 (versus an all-time best of 7.5 times in Q4'20). The slowing of our inventory turns was related to manufacturing slowdowns a year ago due to the COVID outbreak in China which reduced our Q4'20 ending inventory levels, the linearity of our sales, and our efforts to increase buffer stock and distribution center inventory to meet future demand. We expect our inventory turns to remain slower in the first half of Fiscal Year 2022 relative to recent levels as we tactically leverage our strong balance sheet to invest in our owned inventory to provide better product availability amidst a tightened near-term global supply chain and logistics outlook. Accounts receivable were $612M and accounts payable were $823M at the end of March 2021, up $217M and $564M, respectively driven by higher sales volumes and the linearity of our purchases in the quarter.

Our DSO for Q4 were 36 days (versus 50 days in Q4 last year) and our DPO were 90 days (versus 54 days in Q4 last year). Our cash conversion cycle in Q4 was 18 days (versus 44 days in Q4 last year). As we noted earlier, our inventory investments in the near-term could result in a cash conversion cycle in the first half of Fiscal Year 2022 that is higher than current levels.

SHARE COUNT, REPURCHASES & DIVIDEND

Our weighted average diluted share count in Fiscal Year 2021 was 172M shares versus 169M shares last year. During the fiscal year, we repurchased approximately 1.9M shares for $165M under the current three-year $250M authorization. Today, our board of directors has authorized, subject to approval from the Swiss Takeover Board, an increase to our three-year buyback program to a total aggregate amount of $1B. Our share count will be driven by any future share repurchases, share issuances, as well as our stock price.

Our board of directors has also approved a proposal for a Fiscal Year 2021 dividend, which would be approximately a 10% increase versus last year's dividend. Together with the new share buyback authorization, this demonstrates our continued commitment to consistently return cash to shareholders.

FISCAL YEAR 2022 OUTLOOK

We are confirming our Fiscal Year 2022 outlook of flat sales growth in constant currency, plus or minus five percent. By maintaining our growth rate outlook for next year, we are flowing through the upside from our higher Fiscal Year 2021 net sales result. As such, we are raising our Fiscal Year 2022 non-GAAP operating income outlook to $800-850M from our prior outlook of $750-800M.

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, 2021, trends and outlook for Fiscal Year 2022, including in our product categories, net sales growth, target range for non-GAAP gross margin, non-GAAP gross margin, non-GAAP operating expense ratio, target range for sales growth, non-GAAP operating margin target range, non-GAAP corporate tax rate, cash flow, inventory turns, cash conversion cycle, share buyback program, share count drivers, including share repurchases and share issuances, proposed Fiscal Year 2021 dividend, and Fiscal Year 2022 outlook for sales growth, growth rate, non-GAAP operating income, 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 demand variability and supply shortages; 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; the COVID-19 pandemic and its potential impact; 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 efficiently manage our spending;

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; and 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 (SEC), including our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2020 and our subsequent reports filed with the SEC, 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, acquisition-related costs, change in fair value of contingent consideration for business acquisition, 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 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 2022 outlook.

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.