

Logitech Q2 Fiscal Year 2022 Financial Results Management's Prepared Remarks (October 25, 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 Q2 Fiscal Year 2022. 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

Q2 sales increased 2% to \$1.31B, in spite of challenging global supply chain dynamics, and we are growing market share in the majority of our categories. Maintained strong Q2 non-GAAP gross margin of 42%, down 370 basis points as expected, versus Q2 last year. Non-GAAP operating profit in Q2 was \$211M, and non-GAAP earnings per share was \$1.05, down 44%.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices category delivered strong sales growth of 10% in Q2 and gained market share in the quarter. The growth was broad based, with contribution across both our high-end MX family and our mainstream mice portfolio.

KEYBOARDS & COMBOS

Our Keyboards & Combos sales were up 15% in Q2, its eighth consecutive quarter of double digit growth. This demonstrates the strength and diversity of our product portfolio and the increased demand for tools that enhance productivity, both at home and as we return to work.

PC WEBCAMS

Our PC Webcams sales decreased 9% in Q2, but remained more than triple our sales levels of two years ago. Sell-through grew year over year and we increased our market share by more than 10 points over the last three months. We remain focused on driving greater awareness of the better experience provided by an external webcam in order to increase attach rates to the large and growing installed base of monitors and PCs.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category declined 3% in Q2, but excluding

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Japan, where we had a large education order last year, sales grew more than 30%. Importantly, our tablet category is still more than double the size it was two years ago and our portfolio is stronger than ever.

GAMING

Gaming delivered 9% growth, against 84% growth last year, with strong double digit sell-through growth. We also had impressive share gains across PC gaming, simulation and console headsets. It's been an excellent first half for gaming, enabled by a very strong lineup of innovative products, solid marketing execution and our leadership position in the fastest growing categories like wireless mice and keyboards.

VIDEO COLLABORATION

Our Video Collaboration sales declined 4% in Q2, but sell-through grew double digits in all regions. Net sales for Americas and Asia Pacific grew year over year, and while EMEA net sales declined vs the prior year, they grew sequentially and sales remained at levels more than double versus two years ago.

MUSIC

MOBILE SPEAKERS

Our Mobile Speaker sales declined 11% in Q2, as expected, as we are continuing to reallocate our resources to faster growing market opportunities.

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AUDIO & WEARABLES

Our Audio & Wearables sales decreased 15% in Q2, as expected, and we expect similar declines in H2 compared to very strong growth in the prior year.

SMART HOME

Our Smart Home sales fell 35% in Q2, as expected. As we discontinue production of our Harmony remotes, we expect sales from our Smart Home category to decline for the remainder of Fiscal Year 2022.

NET RETAIL SALES BY REGION

Our sales continued to grow in the Asia Pacific region, while our Americas and EMEA region sales were approximately flat in Q2. Our sell-through, however, maintained double-digit growth across all regions. The difference between our net sales and sell-through growth rates was due to higher levels of promotional spend and retail point of sale marketing, compared to the historically low levels last year, and lower channel inventory replenishment versus the prior year.

- **Americas.** Sales in our Americas region were down 1% in Q2, with growth led by Video Collaboration, Gaming and PC Webcams. While Americas sell-in declined slightly in Q2 versus a record prior year, our sell-through continued to grow at double-digit rates.

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- **EMEA.** In Q2, our EMEA region sales remained flat, with good growth from Creativity & Productivity and Gaming. As noted earlier, Video Collaboration EMEA sales declined in Q2 but remained more than double their levels of two years ago.
- **Asia Pacific.** Q2 growth in our Asia Pacific region was 9%, led by China with growth nearly matching last year's growth rates. By product, AP had strong double digit growth in Gaming, Pointing Devices and Keyboards and Combos.

GROSS MARGIN

Q2 non-GAAP gross margin of 42% was down 370 basis points versus last year but up 360 basis points versus two years ago and slightly above the midpoint of our target gross margin range of 39%-44%.

As we mentioned the past few quarters, we expect FY'22 non-GAAP gross margins to be down versus last year and lower in the second half of FY'22 versus the first half of the year. We expect gross margins to be lower than current levels for three primary reasons.

- First, we expect our promotional spending will continue to increase, but still remain below historical levels, in many categories.
- Second, we will continue to invest in retail point of sale marketing, which was significantly curtailed last year due to store closures and broad based supply shortages.

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- Third, while we continue to manage our supply chain, we may be impacted by the industry-wide freight and component cost increases.

OPERATING EXPENSES

In Q2, non-GAAP operating expenses increased 52% to \$337M as we continue to execute our plan to build our capabilities to drive long-term growth with increased investment in marketing, sales coverage and product development.

Sales & Marketing spending was up 66% in Q2 as we increased investment in brand equity marketing campaigns to drive sustained brand awareness and we reignited retail and online marketing which was curtailed last year due to broad based supply constraints and record demand across most of the portfolio. R&D spending grew 29% as we invested to secure new sources of constrained components and expand our future roadmap with additional engineering resources supporting both hardware and software. G&A spending was up 13%, but down sequentially in dollars and as a percentage of sales. Total operating expense as a percent of sales was 25.8%, up 820 basis points versus last year, but down versus two years ago, highlighting our significantly increased scale as a company.

PROFITABILITY

Non-GAAP operating income was \$211M or 16.2% of sales, which is down 1190 basis points versus last year but up 380 basis points versus two years ago and near the high end of our target range of 14%-17%. Our Q2 non-GAAP net income and EPS decreased 44% and 44% to \$180M and \$1.05, respectively. Our non-GAAP tax rate for

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Q2 was 12.9%. For Fiscal Year 2022, we are increasing our non-GAAP tax rate from 11%-12% to 12%-13% to reflect a revised country mix of our profits, which leads to the modest increase in our non-GAAP tax rate outlook for the year.

BALANCE SHEET AND CASH FLOWS

At the end of September 2021, our cash and cash equivalents were \$1.1B, up over \$0.2B versus September 2020. Cash flow from operations was negative \$63M in Q2, we repurchased \$120M of our shares, and paid an annual dividend of \$159M. Historically, our Q2 cash flows tend to be positive, but they remained negative this quarter as inventory turns were slower due to longer transit times and our continued strategic use of the balance sheet to secure long lead time components for key product categories.

Our FY'22 cash from operations will be approximately 0.5x our projected FY'22 non GAAP operating income. Our prior FY'22 outlook for cash from operations was that it would approximately equal FY'22 non GAAP operating income. We expect to see positive cash flow generation in the second half of the year, but given that logistics bottlenecks and supply dynamics will remain challenging for at least the rest of this year, our cash from operations will be lower than our initial outlook. We expect this dynamic to be temporary and as lead times and transit times improve, we expect cash flow to rebound due to reduced working capital.

At the end of September 2021, our inventory was \$828M, up \$433M from last year, while our Q2 inventory turns were 3.7 (versus an unusually high 7.0 times in Q2 last

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year).

Accounts receivable were \$728M and accounts payable were \$661M at the end of September 2021, down \$23M and \$2M versus last year, respectively.

Our DSO for Q2 was 50 days (versus 54 days in Q2 last year), DOI was 97 days (versus 52 days in Q2 last year) and our DPO was 78 days (versus 87 days in Q2 last year). Our cash conversion cycle in Q2 was 69 days (versus an usually low 19 days in Q2 last year and 43 days in Q2'20). The primary driver of the increase in our cash conversion cycle is higher inventory days, which are up about 25 days vs pre-COVID Q2 levels, due to the logistics backlogs and strategic inventory positioning.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q2 was 171M shares versus 171M shares last year. During the quarter, we repurchased over 1.2M shares for \$120M under the current three-year \$1B authorization. Our share count will be driven by any future share repurchases, share issuances, as well as our stock price.

FISCAL YEAR 2022 OUTLOOK

We are confirming our Fiscal Year 2022 outlook of flat sales growth in constant currency, plus or minus five percent and maintaining our Fiscal Year 2022 non-GAAP operating income outlook of \$800-\$850M.

FORWARD-LOOKING STATEMENTS

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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 ended September 30, 2021, trends and outlook for Fiscal Year 2022, including in our product categories, market opportunities, non-GAAP gross margin, promotional spending, investment in retail, supply chain challenges, including industry-wide freight and component cost increases, non-GAAP corporate tax rate, cash flows, logistics challenges and supply dynamics, cash from operations, share count drivers, including share repurchases and share issuances, 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, supply shortages, and other supply chain challenges; 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 we are not able to maintain and enhance our brands; if our products and marketing strategies fail to separate our products from competitors' products; the COVID-19 pandemic and its potential impact; 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

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categories, or significant fluctuations in exchange rates; changes in trade regulations, 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, 2021, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2021, 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

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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 the 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.