

Logitech Q4 and Fiscal Year 2022 Financial Results Management's Prepared Remarks (May 2, 2022)

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 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

Q4 net sales decreased 17% to \$1.2B, after growing 108% in Q4'21. We had continued growth in Pointing Devices, Keyboards & Combos and Gaming despite supply challenges. We gained market share in all three categories and in Video Collaboration. Q4 non-GAAP gross margin was 40.5%, down as anticipated from last year's elevated levels, and essentially flat sequentially despite incremental currency headwinds. Non-GAAP operating profit in Q4 was \$156M (down 52% year-over-year), and non-GAAP earnings per share was \$0.81 down 44% versus Q4 last year. The decline in profits reflects the Company's continued strategic investments in marketing and product development to support its expanded long-term market opportunities.

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For the full Fiscal Year 2022, sales grew 4% to \$5.48B, at the high end of our annual guidance, and on top of last year's 74% net sales growth. Continued growth in Keyboards & Combos (+22%), Gaming (+17%) and Pointing Devices (+14%) more than offset declines in other areas of the business. Non-GAAP gross margin was 41.7%, down year-over-year, within our target range, due to higher promotional spend and higher component and freight costs. Non-GAAP operating income was \$904, beating our original annual outlook of approximately \$750M - \$800M. Fiscal Year 2022 non-GAAP earnings per share were \$4.63.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices category delivered sales growth of 14% and 3% in Fiscal Year 2022 and Q4, respectively. This sales growth was driven by continued demand from hybrid work trends, a strong product lineup and increased marketing investments which helped drive share gains in the quarter. As an example of our innovation, in Q4 we launched the Signature M650 wireless mouse, for both consumers and businesses, including a left-handed option to expand our market opportunity.

KEYBOARDS & COMBOS

Our Keyboards & Combos sales were up 22% for Fiscal Year 2022 and up 8% for Q4. This marks the 4th consecutive year of high single digit or double digit growth for Keyboards & Combos. This consistent growth demonstrates the durability of the hybrid work trends, as well as the diversity of our product portfolio.

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PC WEBCAMS

Our PC Webcams sales decreased 40% in Q4; and were down 8% for Fiscal Year 2022 but remained up more than 200% versus FY'20. We are the market leaders in this category and gained significant share during the year. The need for video communications continues to be strong, and we remain focused on driving greater brand awareness and product development.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category declined 39% in Q4 and 17% for Fiscal Year 2022. As a reminder, last year we saw a surge in sales for our Education iPad Keyboard sales, driven by Japan's government-sponsored GIGA program, which expired at the end of March, 2021. Excluding sales through the GIGA program last year, FY'22 sales in this category grew double digits and we gained more than 3 pts of share in retail keyboards driven by strong product launches and in-store marketing execution.

GAMING

Gaming delivered 1% growth in Q4, versus 108% in Q4 last year, and strong growth of 17% in Fiscal Year 2022. Delivering double-digit growth off of a FY'21 growth rate of 77% was impressive. While we experienced pressure in our Console Gaming and PC Gaming Headset categories, we have an excellent lineup of innovative products, a leadership position in expanding categories like wireless mice, keyboard, and steering wheels, and are beginning to gain traction in the social gaming space.

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VIDEO COLLABORATION

Video Collaboration sales declined 35% in Q4 and 4% for Fiscal Year 2022. Following recent trends, conference room cameras grew double digits for the year, while business webcams and headsets declined but these two categories combined remained more than 4 times larger than FY'20. The sustained growth in conference cams, and two-year growth in webcams and headsets, supports our commitment to the longer term trend of video everywhere. Recent product enhancements like RightSight 2, a software based, artificial intelligence driven feature that creates greater connection between in-room and remote participants, is the latest example of our robust product development capabilities.

MUSIC

MOBILE SPEAKERS

Our Mobile Speaker sales declined 12% in Q4 and 15% for Fiscal Year 2022. As noted previously, we continue to reallocate our resources to faster growing market opportunities.

AUDIO & WEARABLES

Our Audio & Wearables sales decreased 35% in Q4, and 15% for Fiscal Year 2022, as expected. Despite these declines, sales for the year were up more than 40% versus two years ago due primarily to expanded market opportunities for retail headsets and Blue microphones.

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SMART HOME

Our Smart Home sales declined 75% in Q4 and 47% for Fiscal Year 2022, as expected. Also previously noted, we discontinued production of our Harmony remotes; as such, we anticipate sales from our Smart Home category to continue to decline into Fiscal Year 2023.

NET RETAIL SALES BY REGION

For Fiscal Year 2022, our sales sustained or grew in all three regions:

- **Americas.** Sales in our Americas region were down 19% in Q4, but up 4% for Fiscal Year 2022. For the year, Video Collaboration grew double digits, followed by C&P and Gaming, which both grew mid single digits.
- **EMEA.** Sales in our EMEA region decreased by 25% in Q4, and was essentially flat for Fiscal Year 2022. Strong double digit growth from Pointing Devices, Keyboards & Combos, Gaming and Tablet Accessories was partially offset by declines in Music categories and Video Collaboration for the year.
- **Asia Pacific.** Sales in our Asia Pacific region decreased 2% in Q4, but grew 9% for Fiscal Year 2022. By product, we had strong double digit annual growth in Pointing Devices, Keyboards & Combos and Gaming.

GROSS MARGIN

Q4 non-GAAP gross margin of 40.5% was essentially flat sequentially, despite a quarter filled with macroeconomic volatility and uncertainty and unfavorable currency impacts. For Fiscal Year 2022, non-GAAP gross margin was 41.7%, within our target range of

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39% - 44%.

For the year, gross margin played out as anticipated. Increased promotional spend, and higher component and freight rates drove gross margin down from levels achieved in Fiscal Year 2021, and were lower in the back half of Fiscal Year 2022 due to rising freight and component costs and unfavorable currency rates. Looking at 1H of next year, margins could come down further due to ongoing cost increases, unfavorable currency rates and higher levels of air freight as we expedite to recover from supply disruptions from the China Covid lockdowns in Shanghai.

OPERATING EXPENSES

In Q4, non-GAAP operating expenses decreased 13% to \$342M, and were up 27% for Fiscal Year 2022. As noted earlier, we continue to execute our plan to build our capabilities to drive long-term growth with increased investment in marketing and product development.

Sales & Marketing spending was down 10% in Q4, and up 35% for the full Fiscal Year 2022. Our marketing approach continues to mature and be refined, and in Q4 we launched the second installment of our “Defy Logic” marketing campaign. R&D spending grew 14% for Q4 and 29% for Fiscal Year 2022, as we remain committed to driving hardware and software innovation across our portfolio. G&A spending declined 52% for Q4, was down 14% for Fiscal Year 2022, and was down as a percentage of sales for the year.

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PROFITABILITY

Non-GAAP operating income for Q4 was \$156M, down 52% year-over-year; however for the full Fiscal Year 2022, operating income was \$904M, comfortably exceeding our original annual guidance of \$750M - \$800M. Operating margin for the Fiscal Year 2022 was 16.5%, vs. 24.2% last year, down 7.7 points. For the Fiscal Year 2022, versus two years ago, profits have more than doubled and margins are up 3.5 points. Our FY'22 non-GAAP net income was \$789M and EPS was \$4.63. Our non-GAAP tax rate for FY'22 was 13.1%, in-line with our expectations.

BALANCE SHEET AND CASH FLOWS

At the end of March 2022, our cash and cash equivalents were \$1.3B, down \$422M from March 2021. Cash flow from operations was positive \$100M in Q4 and \$298 for Fiscal Year 2022. We returned a record total of \$571M to shareholders in Fiscal Year 2022 through share repurchases (\$412M) and a dividend payment (\$159M).

At the end of March 2022, our inventory was \$933M, up 41% from last year, while our Q4 inventory turns were 3.2. As we've done since the beginning of the pandemic, we will continue to leverage our balance sheet to strategically purchase hard to find and long lead time components to assure supply availability and maintain competitive advantage. When supply conditions improve and logistics performance becomes more predictable, we expect to reduce our days of inventory (DOI) from FY'22 levels.

Accounts receivable were \$676M and accounts payable were \$636M at the end of March 2022, up 10% and down 23% versus last year, respectively.

Our DSO for Q4 was 49 days (versus 36 days in Q4 last year), DOI was 114 days

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(versus 72 days in Q4 last year) and our DPO was 78 days (versus 90 days in Q4 last year). Our cash conversion cycle in Q4 was 85 days versus 18 days in Q4 last year, reflecting our previously mentioned increased investments in strategic components, the replenishment of buffer stocks in our distribution centers and longer lead times for some components.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Fiscal Year 2022 was 170M shares versus 172M shares in the previous fiscal year. During FY'22, we returned a record total of \$571M to shareholders through our previously announced share repurchase program (\$412M) and dividend payment (\$159M). Our share count will be driven by any future share repurchases, share issuances, as well as our stock price.

FISCAL YEAR 2023 OUTLOOK

We reduced our Fiscal Year 2023 outlook, removing the estimate of annual sales and profits that would have been generated in Ukraine and Russia. This reflects the current, uncertain environment in which the war in Ukraine continues without sign of resolution in the near term. We continue to monitor the Russia/Ukraine situation and broader, potentially challenging, market conditions.

Sales growth in constant currency is now expected to be between 2 and 4 percent, and non-GAAP operating income is expected to be between \$875 million and \$925 million. Previously, sales growth in constant currency was expected to be in the mid single digits, and non-GAAP operating income was expected to be between \$900 million and \$950 million.

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FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the U.S. federal securities laws, including, without limitation, statements regarding our preliminary financial results for the three months and fiscal year ended March 31, 2022, future growth, trends and opportunities in our product categories, product development, product offerings, sustainability commitments, non-GAAP gross margin, expected headwinds and challenges, our long-term growth plan, supply chain challenges, competitive advantage, share count drivers, and Fiscal Year 2023 outlook for sales growth and 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 impact of global events, such as COVID-19 pandemic and Russia's military operations in Ukraine, and any associated economic downturn and political instability; changes in inflation levels and in the Federal Reserve's monetary policy; if we do not successfully execute on strategic acquisitions

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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 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 December 31, 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, impairment 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

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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 2023 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.