

Logitech Q1 Fiscal Year 2023 Financial Results Management's Prepared Remarks (July 25, 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 Q1 Fiscal Year 2023. 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

Q1 net sales decreased 9% to \$1.2B, after growing 58% in Q1'22. We had growth in Video Collaboration, Keyboards & Combos and Pointing Devices. And despite declines in Webcams and Gaming, we outperformed the market and gained share. Q1 non-GAAP gross margin was 40.0%, down versus the prior year as anticipated and essentially flat sequentially despite operating in an inflationary environment, facing ongoing logistic cost pressures and unfavorable currency movements. Non-GAAP operating profit in Q1 was \$146M (down 38% year-over-year), and non-GAAP earnings per share was \$0.74 down 39% versus Q1 last year. The decline in profits reflects reduced volumes and gross margins in the quarter, partially offset by reduced operating

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expenses. While the Company reduced operating expenses during the quarter, it continued to invest in product development.

GAMING

Gaming decreased 13% in Q1, after growing 76% in Q1 last year. We saw momentum from our products geared toward our social gaming and professional gaming customer segments. Our console gaming business continues to be impacted by weaker demand for headsets and gaming console supply constraints. Looking ahead, we have a series of innovative products set to launch later in the year, and look to expand our leadership position in categories like wireless mice, keyboard, and steering wheels.

VIDEO COLLABORATION

Video Collaboration sales increased 7% in Q1 driven by conference room cameras, peripherals and headsets, despite an uneven customer approach to return-to-work. Conference room cameras and headsets grew double digits, while VC (business oriented) webcams declined. The sustained growth in conference cams, along with recent product launches like the Logitech Tap Scheduler and Logitech Sync, supports our commitment to the longer term trend of an integrated, video-centric meeting experience.

CREATIVITY & PRODUCTIVITY

KEYBOARDS & COMBOS

Our Keyboards & Combos sales were up 7% for Q1 as customers continue to embrace the hybrid work trend. Our strong commitment to product innovation is evidenced in the

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launch of the MX Keys Mini and Signature MK650 Combos for Business, as well as additions to our Master Series product line with the MX Mechanical and MX Mechanical Mini keyboards.

POINTING DEVICES

Our Pointing Devices category delivered sales growth of 3% in Q1. This sales growth was driven by solid demand from both consumer and enterprise customers. We view pointing devices as part of a broader set of work space essentials, and as with Keyboards & Combos, believe in continued product innovation: in Q1, we launched the MX Master 3S, the next iteration of Logitech's Master Series, which features high performance features and precision tracking.

PC WEBCAMS

Our PC Webcams sales decreased 44% in Q1. We outperformed the market and grew share during the quarter. We are focused on enhancing PC webcam features and design and continue to believe the PC Webcam plays a central role in the long-term trend of video everywhere.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category declined 13% in Q1. While the tablet keyboard market declined, Logitech increased market share with strong gains across all Regions.

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MUSIC

MOBILE SPEAKERS

Our Mobile Speaker sales declined 19% in Q1. As noted previously, we continue to reallocate our resources to faster growing market opportunities.

AUDIO & WEARABLES

Our Audio & Wearables sales decreased 39% in Q1, after growing 57% in Q1'22. While we are primarily focused on faster growing market opportunities, the team continues to work on developing wireless audio products such as UE Fits for Gaming (UE DROPS).

NET RETAIL SALES BY REGION

For Q1, Asia Pacific performed well, growing 11% in Q1'23 after growing at 43% in Q1'22. Americas and EMEA declined, after growing 70% and 56%, respectively, the prior year.

- **Americas.** Sales in our Americas region were down 18% in Q1. By product, Keyboards & Combos grew double digits, followed by Pointing Devices, which grew low single digits.
- **Asia Pacific.** Sales in our Asia Pacific region increased 11% in Q1. We had strong double digit growth in Gaming, Tablets & Accessories, Keyboards & Combos, and Pointing Devices.
- **EMEA.** Sales in our EMEA region decreased by 12% in Q1. Strong double digit growth from Video Collaboration helped partially offset declines in PC

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Webcams, Gaming, Music, Tablet & Accessories, Pointing Devices, and Keyboards & Combos.

GROSS MARGIN

Q1 non-GAAP gross margin of 40.0% was essentially flat sequentially. Increases in component costs and ocean and air shipping rates, and foreign exchange pressure, were only partially offset by lower air freight costs and favorable category mix.

OPERATING EXPENSES

In Q1, non-GAAP operating expenses decreased 6% to \$319M. We've said in the past that we would focus on containing variable costs while investing in areas of the business to drive long term growth. In Q1, we reduced marketing and sales by 10% and reduced G&A by 9%. And while the economic environment was challenging, we continued to invest in product development and increased R&D by 9%.

PROFITABILITY

Non-GAAP operating income for Q1 was \$146M, down 38% year-over-year, reflecting reduced volumes and gross margins, partially offset by reduced operating expenses. Operating margin for the quarter was 12.6%, vs. 17.9% last year, down 530 bps. Our Q1 non-GAAP net income was \$123M and EPS was \$0.74. Our non-GAAP tax rate for Q1 was 12.9%, in-line with our expectations.

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BALANCE SHEET AND CASH FLOWS

At the end of June 2022, our cash and cash equivalents were \$1.1B, down \$391M from June 2021. Cash flow from operations was negative \$36M in Q1.

At the end of June 2022, our inventory was \$917M, up \$139M from last year, while our Q1 inventory turns were 3.1.

Accounts receivable were \$707M and accounts payable were \$559M at the end of June 2022, up \$161M and down \$151M versus last year, respectively.

Our DSO for Q1 was 55 days (versus 37 days in Q1 last year), DOI was 118 days (versus 94 days in Q1 last year) and our DPO was 72 days (versus 86 days in Q1 last year). Our cash conversion cycle in Q1 was 101 days versus 45 days in Q1 last year.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q1 was 166M shares versus 172M shares in the previous fiscal year. During Q1, we returned a total of nearly \$121M to shareholders through our previously announced share repurchase program.

Additionally, Logitech's board of directors approved an increased share buyback authorization up to \$1.5 billion. This expands the Company's current \$1 billion, three-year share buyback authorization. To date, the Company has repurchased approximately \$697 million of shares in the current program. Subject to approval from the Swiss Takeover Board, the increase will provide for a total authorization of approximately \$800 million remaining for repurchases over the next 12 months of the program ending in July 2023. Our share count will be driven by any future share

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repurchases, share issuances, as well as our stock price.

FISCAL YEAR 2023 OUTLOOK

Sales growth in constant currency is now expected to be between negative 8 percent and negative 4 percent, and non-GAAP operating income is expected to be between \$650 million and \$750 million. Previously, sales growth in constant currency was expected to be between 2 percent and 4 percent, and non-GAAP operating income was expected to be between \$875 million and \$925 million.

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 ended June 30, 2022, long-term trends, product development, share count drivers, our share buyback program increase, 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: macroeconomic and geopolitical conditions and their impact, including the COVID-19 pandemic, the war in Ukraine, changes in inflation levels and monetary policies; 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

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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; 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; if we do not successfully execute on strategic acquisitions and investments; 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, 2022, 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, 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

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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 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.