logitech

Q3 Fiscal Year 2023 Financial Results

January 23, 2023

FORWARD-LOOKING STATEMENTS

This presentation includes forward-looking statements within the meaning of U.S. federal securities laws, including, without limitation, statements regarding: our preliminary financial results for the three and nine months ended December 31, 2022, secular trends and opportunities, operational performance, product innovation, product launches, our near term plans, our long-term strategy, future growth and efficiencies, restructuring and reduction in expenses and their timing, and Fiscal Year 2023 outlook for sales growth and non-GAAP operating income, and related assumptions. These statements are subject to 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 other factors and their impact, including the COVID-19 pandemic and changes in the COVID-19 pandemic controls and infection levels in China, 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 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; our expectations regarding our restructuring efforts, including the timing thereof; 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, our Quarterly Report on Form 10-Q for the quarter ended September 30, 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 this presentation.

To facilitate comparisons to Logitech's historical results, Logitech has included non-GAAP adjusted measures in this presentation, which exclude share-based compensation expense, amortization of intangible assets, acquisition-related costs, impairment of intangible assets, change in fair value of contingent consideration for business acquisition, restructuring charges, loss on investments, non-GAAP income tax adjustment, and other items detailed under "Supplemental Financial Information" in our earnings press release and posted to our website at http://ir.logitech.com. Logitech also presents percentage sales growth in constant currency ("CC"), 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, outlook and trends in its business. For historical financials provided in this presentation, reconciliation between non-GAAP amounts and GAAP amounts is provided on the Investors page of our website, together with this presentation and with our earnings releases. With respect to financial outlook, 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.

What’s New From Logitech?

INNOVATION

2023 Innovation Award Honorees

Logitech won four CES 2023 Innovation Awards: Logitech Litra Beam, Blue Sona, Logi Dock and UE DROPS.

The products represent some of the newest innovations from Logitech that enhance experiences and help people pursue their passions across streaming, audio and hybrid work.

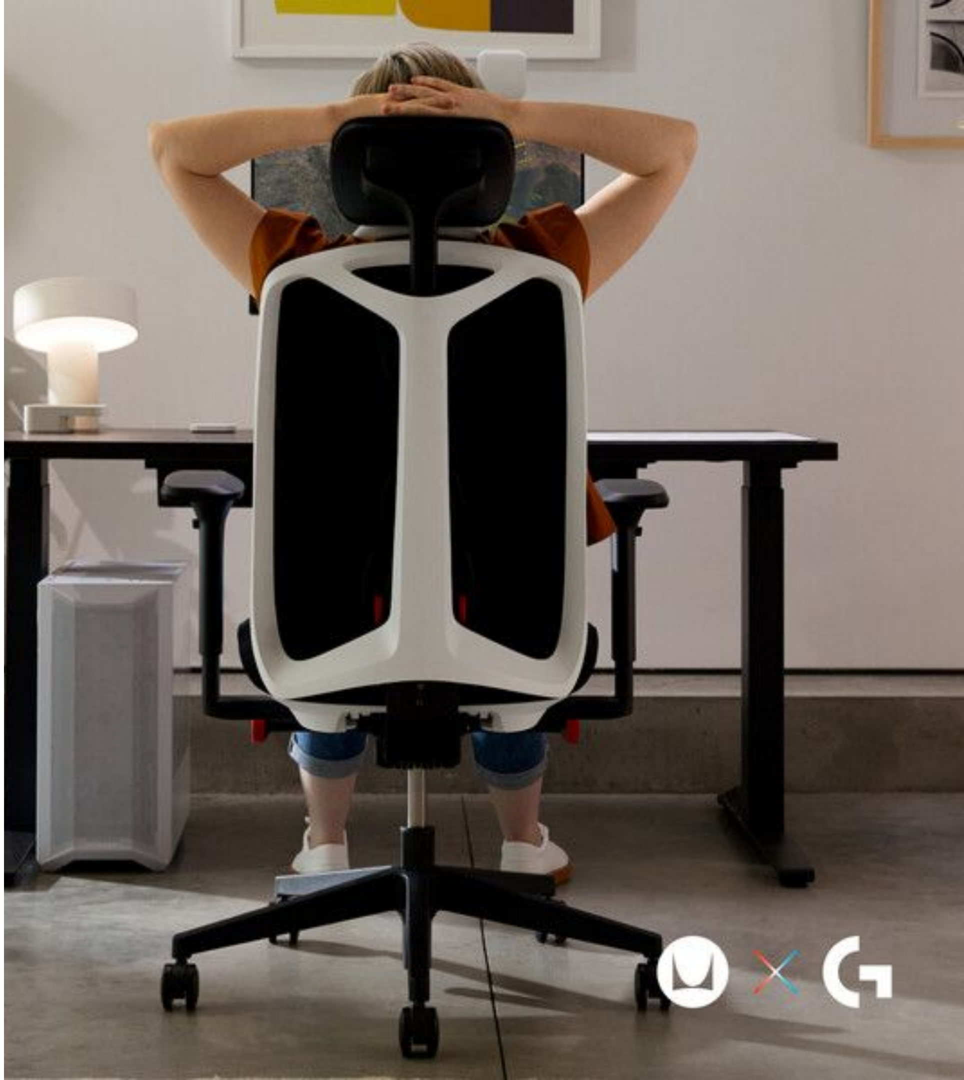
GAMING

Vantum

Representing another example of the research-focused spirit of the partnership between Herman Miller and Logitech G, the Vantum gaming chair was released in Q3.

Vantum is centered on versatility, adaptability and purposefully built for gamers from the ground up, providing the correct level of support throughout the various modes of gameplay for increased comfort, concentration and endurance, whether in a position of play or pause.

Vantum is the second gaming chair introduced by Logitech, and is priced at a more attractive price point than its predecessor.



SUSTAINABILITY

Logitech was once again recognized as a member of the Dow Jones Sustainability Europe Index (DJSI).

Widely recognized as a standard for measuring and advancing Environmental, Social, and Governance (ESG) criteria, the DJSI recognized Logitech for the third consecutive year.

The company made advancements in areas such as Cybersecurity & Privacy Protection, Operational Eco-Efficiency, Product Stewardship, and Climate Strategy.

The actual improvement reflected in these scores translates into real and tangible benefits to people and our environment, which continues to be Logitech's primary focus and motivation.

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Member of
Dow Jones
Sustainability Indices
Powered by the S&P Global CSA

FINANCIAL RESULTS

KEY MESSAGES – Q3'23

Q3'23 net sales declined 17% (CC) to $1.27B, as the industry continues to operate in a volatile macro environment. Despite declines in year-over-year net sales, we grew market share in Gaming, Video Collaboration, Pointing Devices and Tablet Keyboards in the quarter[1].

In the quarter we experienced soft demand from our Enterprise and Consumer customers, as well as a more promotional environment for Consumers.

We continue to operate the business with discipline, reducing our total operating expenses 23%, which was greater than the year-over-year reduction in revenue.

Gross margin was 37.9%, down versus Q3'22. Pressures due to unfavorable currency movements, higher promotional environment and inflation were partially offset by price increases and less reliance on expedited shipping.

Operating income was $204M, down 32% year-over-year, reflecting lower demand and gross margin pressure partially offset by reductions in operating expense.

Cash flow from operations was $280M, ending cash balance was $1,036M and we returned $90M to shareholders through share repurchases in the quarter.

Note: Results are non-GAAP, except for cash flow from operations. Comparisons are Y/Y and in constant currency unless otherwise specified.
[1] Market share data through November 2022.

MANAGED OPEX TO REFLECT CHALLENGING GLOBAL ENVIRONMENT

	Q3'23	Q3'22	Y/Y
Net sales	1,270	1,633	(22%)
Y/Y % chg	*(22%)*	*(2%)*	
Y/Y % chg (CC)	*(17%)*	*(2%)*	
Gross profit	482	663	(27%)
% margin	*37.9%*	*40.6%*	*(266 bps)*
Operating expense	278	361	(23%)
% of sales	*21.9%*	*22.1%*	*(25 bps)*
Operating income	204	302	(32%)
% margin	*16.1%*	*18.5%*	*(242 bps)*
Net income	185	263	(29%)
% margin	*14.6%*	*16.1%*	*(150 bps)*
Earnings per share	$1.14	$1.55	(26%)
Diluted shares	163	170	(4%)

Net sales down 17% (CC) to $1.27B, reflecting softness in the global economy

Gross margin was 37.9%, driven by foreign currency headwinds, increased promotions and inflation, partially offset by pricing actions and less reliance on expedited shipping

Reduced operating expense by 23%, including a 27% reduction in sales and marketing expense

Operating income of $204M, down 32% year-over-year, reflecting lower demand and gross margin pressure partially offset by reductions in operating expense

Note: Numbers in $ millions except EPS and percentages. Diluted share count in millions.
Results are non-GAAP. Comparisons are Y/Y and in US$ unless otherwise specified.

RESULTS REFLECT WEAK ENTERPRISE AND CONSUMER DEMAND

	Q3'23	Q3'22	Y/Y	Y/Y (CC)	% of Total Sales
Gaming[1]	392	469	(16%)	(10%)	31%
Video Collaboration	226	287	(21%)	(16%)	18%
Keyboards & Combos	220	282	(22%)	(17%)	17%
Pointing Devices	199	231	(14%)	(8%)	16%
Audio & Wearables	69	104	(34%)	(31%)	5%
Tablet & Accessories	65	83	(21%)	(15%)	5%
PC Webcams	58	115	(49%)	(46%)	5%
Mobile Speakers	38	57	(32%)	(29%)	3%
Other[2]	1	5	(71%)	(74%)	0%
Net sales	**1,270**	**1,633**	**(22%)**	**(17%)**	**100%**

While all categories were down this quarter, the biggest change from the prior quarter was in Video Collaboration, as Enterprise customers delayed orders or reduced spending

Consumer purchases were lighter than expected and highly concentrated in promotional weeks throughout the quarter

Despite declines in year-over-year net sales, we grew market share in Gaming, Video Collaboration, Pointing Devices and Tablet Keyboards in the quarter[3]

[1] Gaming includes streaming services revenue generated by Streamlabs.
[2] Other includes Smart Home.
[3] Market share data through November 2022.
Note: Net sales in $ millions. Comparisons are Y/Y and in US$ unless otherwise specified.

GLOBAL ECONOMIC DOWNTURN IMPACTED ALL REGIONS

	Q3'23	Q3'22	Y/Y (CC)	Y/Y (US$)	Sell-through[2] (US$)
Americas	514	674	(23%)	(24%)	(7%)
EMEA	429	552	(13%)	(22%)	(15%)
Asia Pacific	328	406	(12%)	(19%)	(14%)
Net sales[1]	**1,270**	**1,633**	**(17%)**	**(22%)**	**(12%)**

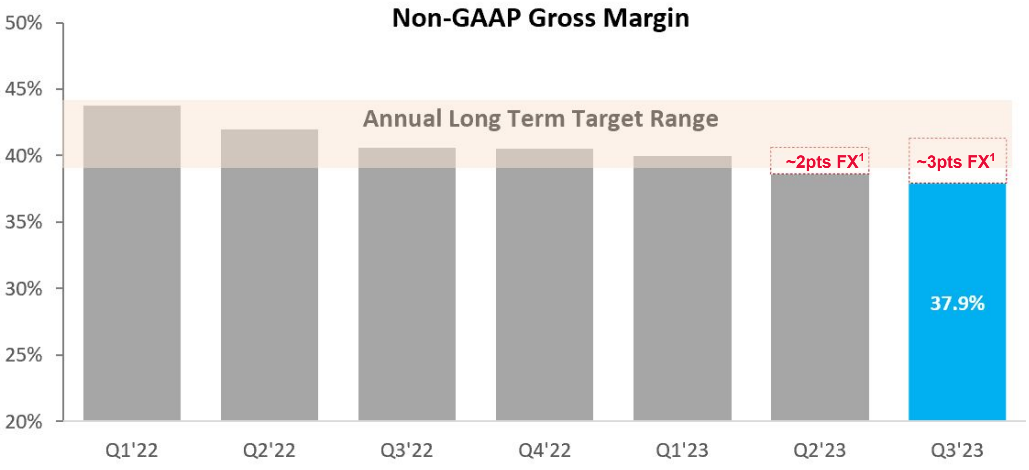
Sell-through declined 12% (US$) and declined mid-single digits excluding Russia/Ukraine and in constant currency, and significantly less than net sales

Sell-through results reflect resilient consumer category performance but weaker Enterprise demand

Net sales results indicate a cautious approach to inventory management by our customers and a higher concentration of sales during promotional weeks in the quarter

[1] Net sales include promotions.
[2] Sell-through figures do not include promotions.
Note: Sales in $ millions and are net sales. Comparisons are Y/Y unless otherwise specified. See Appendix regarding sell-through data.

CURRENCY AND INFLATION CONTINUE TO IMPACT GROSS MARGIN



Gross margin was 37.9%, down year over year, as anticipated

Pressures due to unfavorable currency movements, higher promotional environment and inflation were partially offset by price increases and less reliance on expedited shipping

[1] Reflects approximately 3 points and 2 points of unfavorable currency pressure vs. Q3’22 and Q2’22, respectively.

TIGHTLY MANAGING OPERATING EXPENSES

	Q3'23	Q3'22	Y/Y
Sales & marketing	189	259	(27%)
% of sales	*14.9%*	*15.9%*	*(102 bps)*
Research & development	63	71	(11%)
% of sales	*5.0%*	*4.3%*	*60 bps*
General & administrative	26	31	(15%)
% of sales	*2.1%*	*1.9%*	*17 bps*
Operating expenses	**278**	**361**	**(23%)**
% of sales	*21.9%*	*22.1%*	*(25 bps)*

Maintained disciplined approach to managing P&L, reducing operating expense as a percentage of sales

Investment in R&D down 11% year-over-year, but up more than 50% vs. Q3'20

Operating expense reduction remains focused on Sales & Marketing (down 27%) and General & Administrative (down 15%)

Note: Numbers in $ millions except percentages. Results are non-GAAP. Comparisons are Y/Y unless otherwise specified.

CAPITAL RETURNS TO SHAREHOLDERS REMAINS A PRIORITY

	Q3’23	Q3’22	Q/Q	Y/Y
Cash from operations	280	377	207	(97)
Ending cash balance	1,036	1,364	168	(328)
Inventory	798	835	(82)	(37)
Inventory turns	*4.0*	*4.7*	*0.7*	*(0.7)*
DOI	*91*	*77*	*(21 days)*	*14 days*
Accounts receivable	802	846	30	(43)
DSO	*57*	*47*	*(4 days)*	*10 days*
Accounts payable	491	739	(55)	(248)
DPO	*56*	*68*	*(13 days)*	*(12 days)*
Cash conversion cycle	**92**	**56**	**-12 days**	**36 days**

Note: Numbers in $ millions except turns and days figures. Comparisons are Y/Y unless otherwise specified.

Ending cash balance more than $1B, and we returned $90M to shareholders through share repurchases

Cash flow from operations was $280M in Q3, and cash flow is up $118M YTD vs last year

Cash conversion cycle decreased versus last quarter and inventory drawn down for third consecutive quarter

FY’23 UPDATED OUTLOOK

FY’23 OUTLOOK	
Sales growth (CC)	(15%) - (13%)
Non-GAAP operating income	$550M - $600M

ADDITIONAL ASSUMPTIONS	
Currency exchange rates	Approximately -5 ppts delta between USD and CC growth year over year
Non-GAAP effective tax rate	Approximately 13%
Cash from operations	Approximately 1x non-GAAP operating income
Capex	Approximately $100M

Note: Sales growth is Y/Y and in constant currency unless otherwise specified.

APPENDIX

GAAP TO NON-GAAP RECONCILIATIONS

LOGITECH INTERNATIONAL S.A.
PRELIMINARY RESULTS*
(In thousands, except per share amounts) - unaudited

SUPPLEMENTAL FINANCIAL INFORMATION	Three Months Ended December 31,		Nine Months Ended December 31,	
GAAP TO NON-GAAP RECONCILIATION [(A)]	2022	2021	2022	2021
Gross profit - GAAP	$ 477,268	$ 658,010	$1,375,651	$1,769,099
Share-based compensation expense	1,324	1,782	4,228	5,253
Amortization of intangible assets	3,168	3,126	9,355	11,028
Gross profit - Non-GAAP	$ 481,760	$ 662,918	$1,389,234	$1,785,380
Gross margin - GAAP	37.6 %	40.3 %	38.4 %	41.6 %
Gross margin - Non-GAAP	37.9 %	40.6 %	38.8 %	42.0 %
Operating expenses - GAAP	$ 300,523	$ 395,259	$ 956,026	$1,123,856
Less: Share-based compensation expense	14,481	23,010	47,512	67,212
Less: Amortization of intangible assets and acquisition-related costs	2,810	3,662	9,052	13,986
Less: Impairment of intangible assets	—	7,000	—	7,000
Less: Change in fair value of contingent consideration for business acquisition	—	(1,110)	—	(3,509)
Less: Restructuring charges, net	5,654	1,759	16,471	1,770
Operating expenses - Non-GAAP	$ 277,578	$ 360,938	$ 882,991	$1,037,397
% of net sales - GAAP	23.7 %	24.2 %	26.7 %	26.4 %
% of net sales - Non-GAAP	21.9 %	22.1 %	24.7 %	24.4 %

GAAP TO NON-GAAP RECONCILIATIONS

LOGITECH INTERNATIONAL S.A.
PRELIMINARY RESULTS*
(In thousands, except per share amounts) - unaudited

SUPPLEMENTAL FINANCIAL INFORMATION	Three Months Ended December 31,		Nine Months Ended December 31,	
GAAP TO NON-GAAP RECONCILIATION (A)	2022	2021	2022	2021
Operating income - GAAP	$ 176,745	$ 262,751	$ 419,625	$ 645,243
Share-based compensation expense	15,805	24,792	51,740	72,465
Amortization of intangible assets and acquisition-related costs	5,978	6,788	18,407	25,014
Impairment of intangible assets	—	7,000	—	7,000
Change in fair value of contingent consideration for business acquisition	—	(1,110)	—	(3,509)
Restructuring charges, net	5,654	1,759	16,471	1,770
Operating income - Non-GAAP	$ 204,182	$ 301,980	$ 506,243	$ 747,983
% of net sales - GAAP	13.9 %	16.1 %	11.7 %	15.2 %
% of net sales - Non-GAAP	16.1 %	18.5 %	14.1 %	17.6 %
Net income - GAAP	$ 140,153	$ 210,011	$ 323,080	$ 536,308
Share-based compensation expense	15,805	24,792	51,740	72,465
Amortization of intangible assets and acquisition-related costs	5,978	6,788	18,407	25,014
Impairment of intangible assets	—	7,000	—	7,000
Change in fair value of contingent consideration for business acquisition	—	(1,110)	—	(3,509)
Restructuring charges, net	5,654	1,759	16,471	1,770
Loss on investments	1,488	460	13,065	1,421
Non-GAAP income tax adjustment	16,230	13,054	23,296	12,463
Net income - Non-GAAP	$ 185,308	$ 262,754	$ 446,059	$ 652,932
Net income per share:				
Diluted - GAAP	$ 0.86	$ 1.24	$ 1.96	$ 3.14
Diluted - Non-GAAP	$ 1.14	$ 1.55	$ 2.71	$ 3.82
Shares used to compute net income per share:				
Diluted - GAAP and Non-GAAP	162,529	169,707	164,427	171,027

GAAP TO NON-GAAP RECONCILIATION NOTES

Note: These preliminary results for the three and nine months ended December 31, 2022 are subject to adjustments, including subsequent events that may occur through the date of filing our Quarterly Report on Form 10-Q.

(A) Non-GAAP Financial Measures

To supplement our condensed consolidated financial results prepared in accordance with GAAP, we use a number of financial measures, both GAAP and non-GAAP, in analyzing and assessing our overall business performance, for making operating decisions and for forecasting and planning future periods. We consider the use of non-GAAP financial measures helpful in assessing our current financial performance, ongoing operations and prospects for the future as well as understanding financial and business trends relating to our financial condition and results of operations. 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.

SELL-THROUGH DATA

- Measures sales of our products by retailer customers to consumers and by our distributor customers to their customers
- Compiled by Logitech from data supplied by our customers
- Customers supplying sell-through data vary by geographic region and from period to period, but typically represent a majority of our retail sales

- Data is subject to limitations and possible error sources and may not be an entirely accurate indicator of actual consumer demand for our products. Limitations and possible error sources include the following:
  - Data supplied by our customers may not be indicative of sell-through experienced by our customers as a whole
  - Reliability of the data depends on accuracy and timeliness of information supplied to us by our customers, and the processes by which they collect their sell-through data are largely outside our control
  - In the U.S., Canada, and to a lesser extent Asia Pacific, and a still lesser extent, EMEA, sell-through data is based on Point of Sale electronic data. Where POS data is not available, the data is collected largely through manual processes, including the exchange of spreadsheets or other non-automated methods of data transmission, which are subject to typical human errors, including errors in data entry, transmission and interpretation