Logitech Q3 Fiscal Year 2023 Financial Results
Management's Prepared Remarks (January 23, 2023)

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 Q3 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.

<u>OVERVIEW</u>

Q3 net sales decreased 17% to $1.27B. Despite declines in year-over-year net sales, and tight management of expenses, we grew market share in Gaming, Video Collaboration, Pointing Devices and Tablet Keyboards in the quarter. In the quarter we experienced softer than anticipated demand from our Enterprise customers, softness in consumer spending and consumer purchases concentrated in promotion weeks throughout the quarter. Enterprise customers delayed orders or reduced spending, negatively impacting our B2B portfolio.

Q3 non-GAAP gross margins decreased year-over-year versus last quarter, as expected, to 37.9%, driven by foreign currency headwinds (~3 pts), increased promotions (~3 pts) and inflation (~2 pts), partially offset by pricing actions and less reliance on expedited shipping. Non-GAAP operating income in Q3 was $204M, down 32% year-over-year, and non-GAAP earnings per share was $1.14, down 26% versus Q3 last year. The decline in profits reflects lower demand and gross margin pressure partially offset by reductions in operating expense.

GAMING

Gaming decreased 10% in Q3. Growth in our simulation products was essentially flat, and more than offset by declines in PC and Console Gaming. Sales out in constant currency were positive for the quarter however, and we gained market share in each Gaming category and in total.

VIDEO COLLABORATION

Video Collaboration sales decreased 16%, driven by softer than anticipated demand from our Enterprise customers. Despite the net sales decline, we gained market share in conference cameras, which were down single digits. Business oriented webcams continued to be pressured, and were down more than 40%.

CREATIVITY & PRODUCTIVITY

KEYBOARDS & COMBOS

Our Keyboards & Combos sales were down 17% for Q3 as share gains and growth in our higher end products only partially offset weaker market conditions in the Americas and China. Sales out was essentially flat year over year excluding currency and our prior year sales in Russia and Ukraine. This reflects resilient consumer demand and a rise in ASPs driven by a mix shift toward our premium products and our price increases to help offset currency and inflation pressure.

POINTING DEVICES

Pointing Devices were down 8% but we gained market share and sales out grew excluding currency impact and our prior year sales in Russia and Ukraine.

PC WEBCAMS

As with our business webcams, consumer webcams were pressured and down 46% versus the prior year but remain up more than 80% versus Q3'20.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category declined 15% in Q3, however, we gained market share in Tablet Keyboards in the quarter. Our retail tablet sales for the quarter were flat and we grew share, following the launch of Apple's new line-up of iPads in the quarter, while sales of keyboards for the education market were down more than 50%.

MUSIC

MOBILE SPEAKERS

Our overall Mobile Speaker sales declined 29% in Q3, while Asia Pacific grew 11%. As noted previously, we continue to reallocate our resources to faster growing market opportunities.

AUDIO & WEARABLES

Our Audio & Wearables sales decreased 31% in Q3, similar to the first half of the year. As with Mobile Speakers, we are primarily focused on faster growing market opportunities.

NET RETAIL SALES BY REGION

For Q3, Americas, EMEA, and Asia Pacific declined 23%, 13% and 12%, respectively.

- **Americas.** While sales in our American region were down 23%, sell through was down mid single digits in constant currency.

- **EMEA.** Sales in our EMEA region decreased by 13% in Q3 driven by multiple categories, although sell through was roughly flat excluding currency impact and Russia and Ukraine.

- **Asia Pacific.** Sales in our Asia Pacific region decreased 12% in Q3, with double digit declines in China partially offset by stronger performance elsewhere in the region. We had double digit growth in conference room cameras and peripherals and mobile speakers.

GROSS MARGIN

Q3 non-GAAP gross margin of 37.9% was 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 EXPENSES

In Q3, non-GAAP operating expenses decreased 23% to $278M. Our focus on reducing cost to offset volume pressure in the P&L continued, with sales and marketing expense down 27%, research and development expense down 11%, and general and administrative expense down 15%.

PROFITABILITY

Non-GAAP operating income for Q3 was $204M, down 32% year-over-year, reflecting lower demand and gross margin pressure partially offset by reductions in operating expense. Non-GAAP operating margin for the quarter was 16.1%, vs. 18.5% last year, down 2.4 points. Our Q3 non-GAAP net income was $185M and EPS was $1.14. Our non-GAAP tax rate for Q3 was 12.5%, in-line with our expectations.

BALANCE SHEET AND CASH FLOWS

At the end of December 2022, our cash and cash equivalents were $1,036M, down $328M from December 2021. Cash flow from operations was $280M in Q3, and cash flow is up $118M for the nine months ended December 31, 2022 compared to the same period last year.

At the end of December 2022, our inventory was $798M, down $37M from last year and down $82M sequentially, while our Q3 inventory turns were 4.0. This is our third consecutive quarter of sequential inventory reductions as we continue to work to align our inventory with lower business volumes.

Accounts receivable were $802M and accounts payable were $491M at the end of

December 2022, down $43M and down $248M versus last year, respectively. Our lower accounts payable reflect lower purchases as we manage our costs and sell our existing inventory.

Our DSO for Q3 was 57 days (versus 47 days in Q3 last year), DOI was 91 days (versus 77 days in Q3 last year) and our DPO was 56 days (versus 68 days in Q3 last year). Our cash conversion cycle in Q3 was 92 days versus 56 days in Q3 last year, reflecting slower inventory turns this year. Cash conversion cycle improved 12 days versus last quarter.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q3 was 163M shares versus 170M shares in the previous fiscal year. During Q3, we returned a total of $90M to shareholders through our previously announced share repurchase program.

FISCAL YEAR 2023 OUTLOOK

As announced earlier this month, we are adjusting our Fiscal Year 2023 outlook, which includes expectations for sales growth in constant currency to be between negative 15 percent and negative 13 percent, and non-GAAP operating income to be between $550 million and $600 million.

FORWARD-LOOKING STATEMENTS

These remarks include 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, our near term plans, our long-term strategy, future growth and efficiencies, and Fiscal Year 2023 outlook for sales growth and non-GAAP operating income, and related assumptions.

The forward-looking statements in these remarks are subject to risks and uncertainties that could cause Logitech's actual results and events to differ materially from those anticipated in the 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 these remarks.

USE OF NON-GAAP FINANCIAL INFORMATION

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 the 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.