logitech

Q2 Fiscal Year 2024 Financial Results

October 23, 2023

Forward-Looking Statements

This presentation includes 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 September, 2023; Fiscal Year 2024 outlook for sales and non-GAAP operating income; growth expectations; non-GAAP gross margin expectations; capital allocation strategy; business strategy, including but not limited to product innovation, manufacturing and operations; AI solutions; trends in our business; climate action commitments; CEO search update; and related assumptions.

These statements are subject to risks and uncertainties that may cause actual results and events to differ materially, including without limitation: macroeconomic and geopolitical conditions and other factors and their impact, for example changes in inflation levels and monetary policies; our expectations regarding our expense reduction efforts, including the timing thereof; changes in secular trends that impact our business; 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, 2023, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, 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.

Non-GAAP Financial Measures

To facilitate comparisons to Logitech's historical results, we have included non-GAAP adjusted measures in this presentation, which exclude share-based compensation expense, amortization of intangible assets, acquisition-related costs, restructuring charges (credits), net, 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.

We also present 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 will help investors to evaluate its current period performance, outlook and trends in its business. With respect to our outlook for non-GAAP operating income, 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 2024 non-GAAP operating income outlook.

What's new from Logitech

Logitech G

Logitech G PRO X TKL LIGHTSPEED Gaming Keyboard

Logitech G PRO X SUPERLIGHT 2 Gaming Mouse

Logitech G introduced the two newest products in the award-winning PRO Series line, the Logitech G PRO X TKL LIGHTSPEED Gaming Keyboard and Logitech G PRO X SUPERLIGHT 2 Gaming Mouse.

Over the past three years, Logitech G has been working with top professional esports athletes to create the next generation of PRO Series gear. These new products, when combined with the Logitech G PRO X 2 LIGHTSPEED Gaming Headset launched earlier this year, complete the PRO Series line, offering the highest level of PC performance across mice, keyboards and headsets.

In addition to creating high-performing gear, the PRO Series includes certified post-consumer recycled plastic to give a second life to end-of-use plastic from end of life consumer electronics.

Logitech G

Logitech G Yeti GX Microphone

Logitech G Yeti Orb Microphone

Logitech G Litra Beam LX Light

Logitech G released three new products for the gaming and streaming space, the Logitech G Yeti GX microphone, Logitech G Yeti Orb microphone, and the Logitech G Litra Beam LX light.

The new Yeti microphones and Litra light are designed to meet the specific needs of game streamers and content creators by using broadcast-style audio and pro-level lighting gear, and work seamlessly together via Logitech's G Hub software to enable them to deliver great content to their community.

Logitech is committed to creating a more equitable and climate positive world by actively working to reduce our carbon impact. These products also include certified post-consumer recycled plastic – a minimum of 74% for Yeti Orb, 68% for Yeti GX, and 48% for Litra Beam LX.

Logitech

CASA Pop-Up Desk

Hybrid work brings many opportunities for innovation to address the different needs people face, including limited space, flexibility, and improved comfort. Casa Pop-Up Desk, a compact, all-in-one, ergonomic desk setup comprised of a wireless keyboard and intuitive touchpad, stored inside a book-like case that transforms into an ergonomic laptop stand.

The first product in a new combo category for Logitech, Casa Pop-Up Desk is designed to transform any surface of the home into a comfortable, productive workspace, without turning the home into an office.

The plastic parts in Casa Pop-Up Desk include certified post-consumer recycled plastic - a minimum 62% for Casa Touch, minimum 47% for Casa Keys, and minimum 44% for Casa Book.

Sustainability

Fiscal Year 2023 Impact Report

Logitech's Fiscal Year 2023 Impact Report details the Company's progress toward its sustainability commitments. Logitech is dedicated to removing more carbon than it produces, aiming to achieve climate positive by 2030. Since 2019, Logitech has reduced Scope 1 and 2 emissions by more than 56% and its carbon intensity has decreased by 74%. Scope 3 value chain emissions have reduced by more than 21% since 2021.

Designing for Sustainability is a catalyst for reducing negative environmental impact and elevating social impact. Because sourcing materials and the manufacturing of Logitech products comprises 65% of the company's entire carbon footprint, moving to renewable energy, partnering with suppliers, and focusing on removing and reducing hidden impacts early in the design process are critical to achieving the company's climate goals.

Key Messages - Q2'24

Q2'24 net sales were $1,057M, down 9% (CC) versus Q2'23 but up sequentially from $974M. We grew market share in Keyboards & Combos, Pointing Devices and Webcams in the quarter.[1]

Non-GAAP gross margin was 42.0%, up 340 bps versus Q2'23, and up 300 bps sequentially. Year-over-year increases were driven by cost improvement and less reliance on expedite shipping, as well as lower promotions, partially offset by unfavorable product mix.

Total non-GAAP operating expenses were down 9%, in line with revenue declines, driven primarily by reduced spending in sales and marketing.

Non-GAAP operating income was $183M, up 17% versus Q2'23, reflecting gross margin expansion.

Cash flow from operations was $223M, ending cash balance was $1,164M and we returned $276M to shareholders through our annual dividend payment ($182M) and share repurchases ($94M) in the quarter.

Year over year, inventory turns increased to 4.6 from 3.2 (and up from 4.2 sequentially). We've seen continued momentum in reducing channel inventory and owned inventory.

Note: Comparisons are Y/Y and in constant currency unless otherwise specified.
[1] Market share data through August 2023.

Q2'24 NON-GAAP RESULTS

$M	Q2'24	Q2'23	Y/Y
Net sales	1,057	1,149	(8%)
Y/Y % chg	(8%)	(12%)	
Y/Y % chg (CC)	(9%)	(7%)	
Non-GAAP gross profit	444	443	1
% margin	42.0%	38.6%	340 bps
Non-GAAP operating expense	261	287	(26)
% of sales	24.7%	25.0%	(30 bps)
Non-GAAP Operating income	183	156	17%
% margin	17.3%	13.6%	370 bps
Non-GAAP net income	173	138	26%
% margin	16.4%	12.0%	440 bps
Non-GAAP earnings per share	$1.09	$0.84	30%
Diluted shares	158.9	164.3	(5.4)

Net sales down 9% (CC) to $1,057M, but remained the #1 market share leader in Personal Workspace, PC Gaming and Video Conferencing

Non-GAAP gross margin was 42.0%, up 340 bps versus Q2'23, and up 300 bps sequentially. Year-over-year increases were driven by cost improvement and less reliance on expedite shipping, as well as lower promotions, partially offset by unfavorable product mix

Reduced non-GAAP operating expenses by 9%, including a 14% reduction in sales and marketing expenses

Non-GAAP operating income of $183M, up 17% versus Q2'23, reflecting gross margin expansion

NOTE:
Numbers in $ millions except EPS and percentages. Diluted share count in millions.
Comparisons are Y/Y and in US$ unless otherwise specified.

REVENUE BY PRODUCT CATEGORY

$M	Q2'24	Q2'23	Y/Y	Y/Y (CC)
Gaming[1]	282	322	(12%)	(12%)
Keyboards & Combos	195	201	(3%)	(4%)
Pointing Devices	192	185	3%	3%
Video Collaboration	152	179	(15%)	(16%)
Webcams	88	102	(14%)	(15%)
Tablet Accessories	64	54	17%	15%
Headsets	44	45	(1%)	(2%)
Other[2]	40	61	(35%)	(35%)
Net sales	**1,057**	**1,149**	**(8%)**	**(9%)**

Gaming declined in the quarter, primarily driven by declines in PC Gaming and Simulation, although both categories grew revenue sequentially

Keyboards & Combos and Pointing Devices both grew market share in Q2[3]

Video Collaboration was down 16% year-over-year, but improved sequentially

Webcams grew sequentially for the second consecutive quarter

Tablet accessories grew 15%, driven by continued strong demand from the education sector

NOTE:
[1] Gaming includes streaming services generated by Streamlabs.
[2] Other primarily consists of Mobile Speakers and PC Speakers.
[3] Market share data through August 2023.
Net sales in $ millions. Comparisons are Y/Y and in US$ unless otherwise specified.

REVENUE AND SELL-THROUGH BY REGION

	Q2'24	Q2'23	Y/Y (CC)	Y/Y (US$)	Sell-Through (US$)[2]
Net sales[1]	**1,057**	**1,149**	**(9%)**	**(8%)**	**(8%)**
Americas	462	492	(6%)	(6%)	(9%)
Asia Pacific	283	360	(18%)	(21%)	(19%)
EMEA	312	297	(2%)	5%	5%

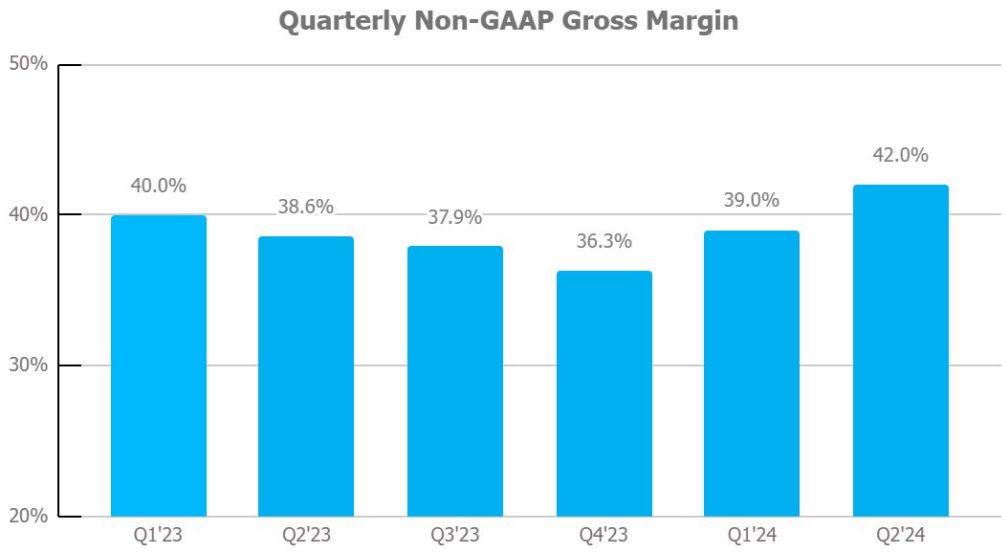
In Q2'24, channel inventories were reduced modestly quarter-over-quarter

Net sales declined less than gross sell-through due to reduced promotions year-over-year

Improvements in channel inventory management continue to drive consistency between net sales and sell-through results

NOTE:
[1] Net sales include the impact of promotions.
[2] Sell through figures are gross and do not include the impact of promotions.
Net sales in $ millions. Comparisons are Y/Y and in US$ unless otherwise specified. See Appendix regarding sell-through data.

NON-GAAP GROSS MARGIN



Non-GAAP gross margin was 42.0%, up 340 bps versus Q2'23, and up 300 bps sequentially

Year-over-year increases were driven by cost improvement and less reliance on expedite shipping, as well as lower promotions, partially offset by unfavorable product mix

Quarter-over-quarter improvement was better than anticipated driven by cost improvements, favorable product and channel mix, as well as leverage and scale

Looking to Q3'24, we anticipate gross margins to be lower due to promotions, mix, and higher expedite shipping, partially offset by overhead absorption

In 2H of FY24, we expect margins to be approximately 38% or 39%

NOTE:
Results are non-GAAP.
Comparisons are Y/Y unless specified.

NON-GAAP OPERATING EXPENSES

	Q2'24	Q2'23	Y/Y
Non-GAAP Operating Expenses	**261**	**287**	**(9%)**
% of sales	**24.7%**	**25.0%**	***(30 bps)***
Sales & Marketing	167	195	(14%)
% of sales	15.8%	16.9%	*(110 bps)*
Research & Development	64	66	(3%)
% of sales	6.0%	5.7%	*30 bps*
General & Administrative	30	26	13%
% of sales	2.8%	2.3%	*50bps*

We reduced non-GAAP operating expenses by 9%, in line with revenue declines

Reductions in non-GAAP operating expenses were primarily driven by a 14% reduction in Sales & Marketing

We continued to prioritize investment in Research & Development

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

CASH BALANCE, CASH FLOW AND INVENTORY

$M	Q2'24	Q2'23	Q/Q	Y/Y
Cash from operations	223	73	(17)	150
Ending cash balance	1,164	869	(87)	295
Inventory	533	880	(39)	(347)
Inventory turns	4.6	3.2	0.5	1.4
DOI	78	112	*(8 days)*	*(34 days)*
Accounts receivable	657	773	94	(116)
DSO	56	61	*4 days*	*(5 days)*
Accounts payable	493	547	106	(54)
DPO	72	69	*14 day*	*3 days*
Cash conversion cycle	**62**	**104**	**(18 days)**	**(42 days)**

Cash from operations was $223M in the quarter, and our ending cash balance was nearly $1.2B, driven by better inventory management and higher operating income

Reduction in on-hand inventory drove inventory turns to 4.6 and the cash conversion cycle down 18 days, sequentially

In Q2'24, we returned $276M to shareholders through our annual dividend payment ($182M) and share repurchases ($94M)

NOTE:
Numbers in $ millions.
Comparisons are in US$ unless otherwise specified.

FY'24 OUTLOOK

FY'24 Outlook				
	1H'24 Outlook	1H'24 Results	Previous FY'24 Outlook	New FY'24 Outlook
Net sales	$1.875B - $1.975B	$2.032B	$3.8B - $4.0B	$4.0B- $4.15B
Net sales decline (USD, Y/Y)	19% - 14%	12%	16% - 12%	12%-9%
Non-GAAP operating income	$180M - $220M	$292M	$400M - $500M	$525M-$575M
Non-GAAP op. inc. decline (Y/Y)	40% - 27%	3%	32% - 15%	11%-2%

Additional Assumptions	
Non-GAAP effective tax rate	Approximately 12%
Cash from operations	Approximately 1x non-GAAP operating income
Capex	Approximately $90M

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

APPENDIX

UPDATED PRODUCT CATEGORIES[1]

	Changes to Category	Primary Products Included in Current Category
Updated Categories		
Gaming	Added Blue Microphone, Lights, Mevo	Gaming headsets, keyboards, mice, speakers, wheels; Streamlabs, Blue microphone, Lights, Mevo
Keyboards & Combos	No change	Keyboards, Keyboard/Mouse combo
Pointing Devices	No change	Mice
Video Collaboration	Removed VC Webcams, VC Headsets	VC Conference Cameras, Accessories and Service
Webcams	Added VC Webcams Removed Lights, Mevo	PC Webcams, VC Webcams
Tablet Accessories	No change	Tablet keyboards
Headsets	Added VC Headsets, PC Headsets, Wearables	VC Headsets, PC Headsets, Wearables
Other	Added Mobile Speakers, PC Speakers, Jaybird	Mobile Speakers, PC Speakers, Jaybird, Smart Home
Removed Categories		
Audio & Wearable	Removed PC Headsets, PC Speakers, Blue Microphones, Wearables, Jaybird	
Mobile Speakers	Removed Mobile Speakers	

NOTE:
[1] As of FYQ1'24.

GAAP TO NON-GAAP RECONCILIATIONS

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

SUPPLEMENTAL FINANCIAL INFORMATION	Three months ended September 30,		Six months ended September 30,	
GAAP TO NON-GAAP RECONCILIATION [(A)]	**2023**	**2022**	**2023**	**2022**
Gross profit - GAAP	$ 438,622	$ 438,780	$814,264	$898,383
Share-based compensation expense	2,462	1,443	3,877	2,904
Amortization of intangible assets	2,983	3,145	6,128	6,187
Gross profit - Non-GAAP	$ 444,067	$ 443,368	$824,269	$907,474
Gross margin - GAAP	41.5 %	38.2 %	40.1 %	38.9 %
Gross margin - Non-GAAP	42.0 %	38.6 %	40.6 %	39.3 %
Operating expenses - GAAP	$ 281,983	$ 311,379	$579,220	$655,503
Less: Share-based compensation expense	19,606	10,802	39,702	33,031
Less: Amortization of intangible assets and acquisition-related costs	3,318	2,873	6,003	6,242
Less: Restructuring charges (credits), net	(1,788)	10,817	1,723	10,817
Operating expenses - Non-GAAP	$ 260,847	$ 286,887	$531,792	$605,413
% of net sales - GAAP	26.7 %	27.1 %	28.5 %	28.4 %
% of net sales - Non-GAAP	24.7 %	25.0 %	26.2 %	26.2 %

GAAP TO NON-GAAP RECONCILIATIONS

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

SUPPLEMENTAL FINANCIAL INFORMATION	Three months ended September 30,		Six months ended September 30,	
GAAP TO NON-GAAP RECONCILIATION [A]	2023	2022	2023	2022
Operating income - GAAP	$ 156,639	$ 127,401	$235,044	$242,880
Share-based compensation expense	22,068	12,245	43,579	35,935
Amortization of intangible assets and acquisition-related costs	6,301	6,018	12,131	12,429
Restructuring charges (credits), net	(1,788)	10,817	1,723	10,817
Operating income - Non-GAAP	$ 183,220	$ 156,481	$292,477	$302,061
% of net sales - GAAP	14.8 %	11.1 %	11.6 %	10.5 %
% of net sales - Non-GAAP	17.3 %	13.6 %	14.4 %	13.1 %
Net income - GAAP	$ 137,117	$ 82,091	$199,844	$182,927
Share-based compensation expense	22,068	12,245	43,579	35,935
Amortization of intangible assets and acquisition-related costs	6,301	6,018	12,131	12,429
Restructuring charges (credits), net	(1,788)	10,817	1,723	10,817
Loss (gain) on investments	(214)	22,934	11,609	11,577
Non-GAAP income tax adjustment	9,933	3,607	7,930	7,066
Net income - Non-GAAP	$ 173,417	$ 137,712	$276,816	$260,751
Net income per share:				
Diluted - GAAP	$ 0.86	$ 0.50	$ 1.25	$ 1.11
Diluted - Non-GAAP	$ 1.09	$ 0.84	$ 1.74	$ 1.58
Shares used to compute net income per share:				
Diluted - GAAP and Non-GAAP	158,934	164,328	159,545	165,371

GAAP TO NON-GAAP RECONCILIATIONS

LOGITECH INTERNATIONAL S.A.

*PRELIMINARY RESULTS**
(In thousands) - Unaudited

SUPPLEMENTAL FINANCIAL INFORMATION

GAAP TO NON-GAAP RECONCILIATION *(A)*	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24
Gross profit - GAAP	$ 438,780	$ 477,268	$ 343,864	$ 375,642	$438,622
Share-based compensation expense	1,443	1,324	1,407	1,415	2,462
Amortization of intangible assets	3,145	3,168	3,510	3,145	2,983
Gross profit - Non-GAAP	$ 443,368	$ 481,760	$ 348,781	$ 380,202	$ 444,067
Gross margin - GAAP	38.2%	37.6%	35.8%	38.5%	41.5%
Gross margin - Non-GAAP	38.6%	37.9%	36.3%	39.0%	42.0%

GAAP TO NON-GAAP RECONCILIATION NOTES

* Note: These preliminary results for the three months ended September 30, 2023 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 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