

Logitech Q3 Fiscal Year 2022 Financial Results Management's Prepared Remarks (January 24, 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 Q3 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

Q3 sales declined 2% to \$1.6B. This performance nearly sustains last year's record Q3 sales which grew 80% in constant currency, with strong growth in Pointing Devices, Keyboards and Combos and Gaming, and share gains in the majority of key categories. Q3 non-GAAP gross margin was 40.6%, down as anticipated from last year's elevated levels, and remained within our target range. Non-GAAP operating profit in Q3 was \$302M, and non-GAAP earnings per share was \$1.55, both down 37% versus Q3 last year. The decline in profits reflects the Company's planned, strategic investments in

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marketing and innovation to support its expanded long-term market opportunities.

CREATIVITY & PRODUCTIVITY

POINTING DEVICES

Our Pointing Devices category delivered sales growth of 8% in Q3, and gained market share in the quarter. This sales growth was driven by continued demand from hybrid work trends. The performance was broad based, with contribution across both our high-end MX family and our mainstream mice portfolio.

KEYBOARDS & COMBOS

Our Keyboards & Combos sales were up 29% in Q3, its ninth consecutive quarter of double digit growth. This demonstrates the strength and diversity of our product portfolio and the increased demand for tools that enhance productivity, both at home and at work.

PC WEBCAMS

Our PC Webcams sales decreased 12% in Q3, from record sales levels a year ago, and grew market share by more than 10 points over the last three months. We remain focused on driving greater awareness of the better experience provided by an external webcam in order to increase attach rates to the large and growing installed base of monitors and PCs.

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TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category declined 37% in Q3. Excluding Japan, where we had a large education order in the same period last year, our sales grew 21%. Even with the decline this quarter, our tablet category sales are still more than double what they were two years ago, with a strong product portfolio helping to drive 5 points of share gain in the quarter.

GAMING

Gaming delivered strong 8% growth in Q3, against 73% growth last year. We had impressive share gains in both PC Gaming and Console Headsets. It's been an excellent year for gaming, enabled by a very strong lineup of innovative products, solid marketing execution and our leadership position in the fastest growing categories like wireless mice and keyboards.

VIDEO COLLABORATION

Q3 Video Collaboration sales declined 1% after growing more than 200% in Q3 last year. Quarter over quarter, sales increased 24%. Similar to the first half of the year, conference room cameras and systems led the category performance, growing double digits year over year, while webcams and headsets declined. Regionally, Americas net sales grew while EMEA and APJ declined, but all three regions had sell-through growth.

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MUSIC

MOBILE SPEAKERS

Our Mobile Speaker sales declined 22% in Q3, as expected, as we are continuing to reallocate our resources to faster growing market opportunities.

AUDIO & WEARABLES

Our Audio & Wearables sales decreased 32% in Q3, as expected. We regularly review our portfolio and redirect resources to new opportunities, and along those lines, we have made a decision to cease future product launches under the Jaybird brand. We remain committed however to developing wireless audio products such as Logitech Zone Wireless and UE Fits.

SMART HOME

Our Smart Home sales declined 57% in Q3, as expected. As we discontinued production of our Harmony remotes, we anticipate sales from our Smart Home category to decline for the remainder of Fiscal Year 2022.

NET RETAIL SALES BY REGION

Our sales grew in the EMEA region, and declined in the Americas and Asia Pacific.

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- **Americas.** Sales in our Americas region were down 5% in Q3, with double digit growth in Video Collaboration and Keyboards & Combos offset by declines in Music categories and PC Webcams.
- **EMEA.** Sales in our EMEA region increased 3% in Q3, with solid growth from Pointing Devices, Keyboards & Combos, Gaming and Tablet Accessories partially offset by declines in Music categories and Video Collaboration.
- **Asia Pacific.** Sales in our Asia Pacific region decreased 2% in Q3, with strong double digit growth in China offset by declines in Japan, which benefited from a large education order in Tablet Accessories last year. Excluding Japan, Asia Pacific grew double digits versus the prior year. By product, we had strong double digit growth in Gaming, Pointing Devices and Keyboards & Combos.

GROSS MARGIN

Q3 non-GAAP gross margin of 40.6% was down 4.6 points versus last year, but up 3 points versus two years ago, and remained within our target gross margin range of 39%-44%.

As we mentioned the past few quarters, we expect FY'22 non-GAAP gross margins to be down versus last year and lower in the second half of FY'22 versus the first half of the year. Higher freight costs reduced gross margin about 2 points year over year and quarter over quarter. We expect these headwinds to remain factors in Q4 and they are included in our profit outlook.

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OPERATING EXPENSES

In Q3, non-GAAP operating expenses increased 30% to \$361M as we continue to execute our plan to build our capabilities to drive long-term growth with increased investment in marketing, sales coverage and product development.

Sales & Marketing spending was up 32% in Q3, as we increased investment in retail and online marketing which was curtailed last year due to broad based supply constraints and record demand across most of the portfolio. R&D spending grew 41% as we invested to secure new sources of constrained components and expand our future roadmap with additional engineering resources supporting both hardware and software. G&A spending declined 2%, and was flat as a percentage of sales.

PROFITABILITY

Non-GAAP operating income was \$302M or 18.5% of sales, which is down 10.1 points versus last year. Versus two years ago, profits nearly doubled and margins are up 1.7 points. Our Q3 non-GAAP net income and EPS decreased 38% and 37% to \$263M and \$1.55, respectively. Our non-GAAP tax rate for Q3 was 12.1%.

BALANCE SHEET AND CASH FLOWS

At the end of December 2021, our cash and cash equivalents were \$1.4B, remaining flat versus December 2020. Cash flow from operations was positive \$377M in Q3 and we repurchased \$116M of our shares.

At the end of December 2021, our inventory was \$835M, up \$358M from last year, while

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our Q3 inventory turns were 4.7 (versus an unusually high 7.7 times in Q3 last year). Inventory turns were slower due to industry wide supply chain disruptions such as port delays and demand forecast fluctuations for some of our products. We also 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.

Accounts receivable were \$846M and accounts payable were \$739M at the end of December 2021, down \$49M and \$73M versus last year, respectively.

Our DSO for Q3 was 47 days (versus 48 days in Q3 last year), DOI was 77 days (versus 47 days in Q3 last year) and our DPO was 68 days (versus 80 days in Q3 last year). Our cash conversion cycle in Q3 was 56 days versus an unusually low 15 days in Q3 last year.

SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Q3 was 170M shares versus 173M shares last year. During the quarter, we repurchased over 1.4M shares for \$116M under the current three-year \$1B authorization. Year to date, we have returned \$450M to shareholders through dividends and share repurchases, more than double the amount during the same period last year. Our share count will be driven by any future share repurchases, share issuances, as well as our stock price.

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FISCAL YEAR 2022 OUTLOOK

We are increasing our Fiscal Year 2022 constant currency sales outlook to growth of 2 to 5 percent, up from our prior outlook of flat sales growth in constant currency plus or minus 5 percent. We are also increasing our non-GAAP operating income outlook to \$850 to \$900 million, up from our prior outlook of \$800 to \$850 million.

FORWARD-LOOKING STATEMENTS

These remarks contain forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding our preliminary financial results for the three months ended December 31, 2021, future growth, trends and opportunities in our product categories, our innovation engine, product offerings, sustainability commitments, non-GAAP gross margin, expected headwinds, our long-term growth plan, supply chain challenges, competitive advantage, share count drivers, and Fiscal Year 2022 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

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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 COVID-19 pandemic and its impact; if we do not successfully execute on strategic acquisitions 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 September 30, 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

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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 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 2022 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.