# Logitech Q4 Fiscal Year 2020 Financial Results
# Management's Prepared Remarks (May 11, 2020)

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 call. 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 or "Financial Statements only" 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 Q4 and full Fiscal Year 2020.

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**

Q4 sales increased 15% to $709M, driven by double-digit growth in our three large categories - Creativity & Productivity, Gaming, and Video Collaboration. Unfavorable currency exchange rates adversely impacted Q4 sales growth by approximately 1 percentage point. Non-GAAP gross margin in Q4 reached a record high of 39.8%, up

180 basis points in spite of China tariff, currency exchange rate, and COVID-19 headwinds. Non-GAAP operating income in Q4 increased 23% to $79M, and non-GAAP earnings per share was $0.42, up 11%.

For the full Fiscal Year 2020, sales grew 9% to $2.98B, at the upper end of our mid to high single-digit sales growth outlook. PC Peripherals delivered another year of consistent growth, while Video Collaboration maintained its strong sales momentum similar to last year. Gaming sales growth was slower due to difficult Fortnite comparison against last year, although Gaming growth excluding Headsets remained at strong double-digits. Our recent Streamlabs acquisition was not material to the full-year growth. Non-GAAP gross margin improved 60 basis points to 38.4%. Non-GAAP operating income increased 10% to $387M, exceeding our outlook of $365M - $375M. Fiscal Year 2020 non-GAAP earnings per share were $2.15, up 7%.

## CREATIVITY & PRODUCTIVITY

### POINTING DEVICES

Our Pointing Devices category achieved stable sales growth of 4% and 3% in Q4 and Fiscal Year 2020, respectively. Several strong innovations in the category, such as MX Master 3, expanded global distribution of Pebble, and consistent performance in our mainstream mice all contributed positively to the growth.

### KEYBOARDS & COMBOS

Keyboards & Combos sales were up 13% in Q4 and up 8% in Fiscal Year 2020.  The

Americas delivered double-digit growth in the full year in the category, while the EMEA and Asia Pacific regions achieved mid to high single-digit growth. Our recently launched premium MX Keys wireless keyboard also added to the strong growth in the category for the year.

PC WEBCAMS

Our PC Webcams sales increased 34% in Q4 and 8% in Fiscal Year 2020. We experienced particularly strong double-digit growth in the Americas and Asia Pacific in Q4 due to increased remote work, distance learning, and telemedicine adoption. Sell-through upside was especially pronounced during the quarter, starting in the month of March. PC Webcam growth also benefited during the quarter from the introduction of Logitech StreamCam, our new webcam designed specifically for streamers and content creators.

TABLET & OTHER ACCESSORIES

Sales in our Tablet and Other Accessories category gained 37% in Q4, due to the launch of our new Slim Folio Pro for the latest 11" and 12.9" iPad Pro and our Combo Touch (a keyboard case with integrated touchpad). Fiscal Year 2020 sales rose 7%, representing the third straight year of growth.

## GAMING

Our Gaming category delivered sales growth of 10% in Q4, led by growth in Gaming Mice, Keyboard, Simulation, and our recent Streamlabs acquisition, offset by a decline in Gaming Headsets. Gaming sell-through was even stronger than net sales. Fiscal Year 2020 Gaming sales increased 8%.

## **VIDEO COLLABORATION**

Video Collaboration sales grew 62% in Q4 and increased 43% in Fiscal Year 2020. Sell-through demand for cloud-based video collaboration accelerated through the quarter, as more workers set up home offices, teachers adopted video for distance learning, and doctors implemented telemedicine. We believe this trend toward video everywhere will continue to be embraced across all room types, including home offices, and we will continue to invest in both our go-to-market capabilities and our product portfolio.

## **MUSIC**

### MOBILE SPEAKERS

Our Mobile Speaker sales declined 5% in Q4 and 2% in Fiscal Year 2020, in line with expectations. We expect industry growth to slow significantly in the near term as a result of recent retail store closures, and will realign our investments to more attractive growth opportunities.

AUDIO & WEARABLES

Our Audio & Wearables sales rose 1% in Q4 and were flat in Fiscal Year 2020. Blue Microphones returned to growth in Q4, with particular strength in the Americas. Headset sales growth offset the decline in Jaybird sales, which were negatively impacted by recent retail store closures in the quarter.

## SMART HOME

Our Smart Home sales declined 27% in Q4 and 11% in Fiscal Year 2020, as expected. We had a positive contribution from our Circle 2 family of security cameras that offset declines in our Harmony remotes and hubs.

## NET RETAIL SALES BY REGION

Sales in all three regions grew in Q4 and in Fiscal Year 2020, with especially strong double-digit growth in the Americas in Q4, continued stability in Asia Pacific, and operational improvements in EMEA. Double-digit sell-through growth in Q4 was broad-based across all regions.

- **Americas.** Sales in our Americas region were up 30% in Q4, with robust double-digit growth in PC Peripherals and Gaming and more than a doubling in Video Collaboration sales. In Fiscal Year 2020, Americas sales increased 8%.

- **EMEA.** In Q4, our EMEA region delivered sales growth of 7%, with sell-through growth in the double digits. Fiscal Year 2020 EMEA sales rose 13%.

- **Asia Pacific.** Q4 growth in our Asia Pacific region modestly improved to 5% after two quarters of low single-digit growth. China sales were down slightly in Q4, due to the earlier start of the COVID-19 pandemic in the region. Similar to the other regions, sell-through growth in Q4 was up double digits. Fiscal Year 2020 Asia Pacific sales grew 4%.

## GROSS MARGIN

Q4 non-GAAP gross margin of 39.8% was up 180 basis points and at the high end of our long-term target range of 36-40%. Our Fiscal Year 2020 non-GAAP gross margin improved 60 basis points versus last year, to 38.4%. Our focus on reducing costs and driving greater operational efficiencies as well as a favorable product mix have more than offset incremental headwinds from unfavorable currency exchange rates, China tariffs and, more recently, COVID-19-related costs.

## OPERATING EXPENSES

In Q4, non-GAAP operating expenses increased 18% (or 16% excluding Streamlabs) to $203M. As we generated strong revenue and gross profit dollar growth in the quarter, we were able to reinvest back into Sales & Marketing (up 18% in Q4) and R&D (up 19% in Q4) to support our long-term growth opportunities. We will continue to judiciously invest in new production innovations (across hardware and software), in our transition to a more marketing-led business model, and in building out our internal Video Collaboration sales force. For Fiscal Year 2020, non-GAAP operating expenses rose 8% (or 7% excluding Streamlabs) with an operating expense ratio of 25.4% of sales, in line with our business model.

## PROFITABILITY

Non-GAAP operating income grew 23% to $79M in Q4 and increased 10% to $387M in Fiscal Year 2020, ahead of our latest outlook of $365-375M. Fiscal Year 2020 non-GAAP operating margin of 13.0% was around the midpoint of our long-term annual margin target of 11-14%.

Our Q4 non-GAAP net income and EPS increased 10% and 11% to $71M and $0.42, respectively. Our Fiscal Year 2020 non-GAAP net income and EPS grew 8% and 7% to $365M and $2.15, respectively. Our non-GAAP tax rates for Q4 and for Fiscal Year 2020 were 8.1% and 7.9%, respectively, in line with the expected gradual increase related to the recent Swiss corporate tax reform.

Our Q4 GAAP operating income of $32M fell 24% compared to $42M in Q4 last year due to a one-time, $23M fair value charge of contingent consideration due to better-than-expected performance in Streamlabs. Our Q4 GAAP net income of $214M increased significantly versus $42M in Q4 last year due to a $40M one-time gain related to the sale of our minority stake in Lifesize in exchange for cash plus an equity interest and subordinated note in a privately held company group that acquired Lifesize, and a

$152M income tax benefit related to the recent Swiss tax reform.

## BALANCE SHEET AND CASH FLOWS

At the end of March 2020, our cash and cash equivalents were $716M, our highest cash balance ever. Our Fiscal Year 2020 cash flow from operations was also a record $425M, up versus $305M last year. Looking forward, we continue to expect our cash flow to approximate our non-GAAP operating income. In Fiscal Year 2020, we spent $89M to acquire Streamlabs, with an additional $29M in Logitech stock payable should Streamlabs achieve certain significant revenue growth targets (the "earnout"). In Q4, we took a $23M fair value charge related to this earnout as Streamlabs' performance is trending toward the earnout target. In addition, we returned $175M to shareholders in the form of $124M of dividends and $50M of stock repurchases (up from $146M in shareholder returns in Fiscal Year 2019).

At the end of March 2020, our inventory was $229M, down $64M from last year, while our Q4 inventory turns were an all-time best of 7.5 times (versus 5.3 times in Q4 last year). Accounts receivable were $395M and accounts payable were $259M at the end of March 2020, up $11M and down $25M, respectively.

Our DSO for Q4 were 50 days (versus 55 days in Q4 last year) and our DPO were 54 days (versus 65 days in Q4 last year). Our cash conversion cycle in Q4 was 44 days (versus 57 days in Q4 last year).

## SHARE COUNT & REPURCHASES

Our weighted average diluted share count in Fiscal Year 2020 was 169M shares, roughly unchanged versus last year. During the fiscal year, we repurchased approximately 1.3M shares for $50M. Our share count will be driven by any future stock repurchases, issuances, as well as our stock price.

## FISCAL YEAR 2021 OUTLOOK

We are confirming our Fiscal Year 2021 outlook of mid single-digit sales growth in constant currency and $380-400M in non-GAAP operating income.

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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 and fiscal year ended March 31, 2020, momentum,trends and outlook in our product categories, product innovation, business model, product and go-to-market investments, growth opportunities, inventory, target ranges for gross margin, operating expenses and operating margin, our internal sales force, our focus on reducing costs and driving greater operational efficiencies, our focus on managing costs and ensuring resources to drive top-line growth, tax rate, cash flow, share count drivers, stock repurchases, and Fiscal Year 2021 outlook for sales growth, 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 pricing, product, marketing and other initiatives by our competitors, and our reaction to them, on our sales, gross margins and profitability; if our products and marketing strategies fail to separate our products from competitors' products; the COVID-19 pandemic and its potential impact; if we are not able to maintain and enhance our brands; if we do not successfully execute on strategic acquisitions and investments; if we do not fully realize our goals to lower our costs and improve our operating leverage; 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 policies and agreements and the imposition of tariffs that affect our products or operations and our ability to mitigate; risks associated with acquisitions. 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, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 and our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2019, 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, purchase accounting effect on inventory, acquisition-related costs, change in fair value of contingent consideration for business acquisition, restructuring charges (credits), loss (gain) on investments, non-GAAP income tax adjustment, and other items detailed under "Supplemental Financial Information" in our earnings press release or "Financial Statements only" 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 Fiscal Year 2021 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.