



# Logitech

## Q1 Fiscal Year 2012

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**July 27, 2011**



# Forward-Looking Statements

These prepared remarks contain forward-looking statements, including the statements regarding anticipated sales, operating income, and tax rate for Fiscal Year 2012; expected impacts of the reduction of the price of Logitech Revue; expected timing for EMEA channel partners to adjust their inventory levels to the demand environment and for the implementation of EMEA operational changes; FY 12 priorities; and returning to consistent profitability. These forward-looking statements involve risks and uncertainties that could cause Logitech's actual results to differ materially from those anticipated in these forward-looking statements. Factors that could cause actual results to differ materially include:

- The demand of our customers and our consumers for our products and our ability to accurately forecast it
- The effect of pricing, product, marketing and other initiatives by our competitors and our reaction to them on our sales, gross margin and profitability
- If our decisions to prioritize investments in our LifeSize division, in growing our sales and marketing in China and other high potential emerging markets, in peripherals for tablets, and in our other investment priorities, do not result in the sales or profitability growth we expect, or when we expect it
- If significant demand for peripherals to use with tablets and other mobile devices with touch interfaces does not develop, or if market reaction to our peripherals for tablets is less positive than we expect
- Competition in the video conferencing and communications industry, including from companies with significantly greater resources, sales and marketing organizations, installed base and name recognition, and the rate of adoption of video communications in enterprises
- If the price drop of Logitech Revue does not have the intended positive impact on sales and consumer adoption of the Google TV platform, or if Google fails to update, support or continue the Google TV platform
- If the consumer demand environment in EMEA continues to be weak, or if our operational changes in EMEA are not completed when we expect, or do not result in the sales improvement in EMEA we expect
- If the sales growth in emerging markets for our PC peripherals and other products does not increase as much as we expect
- If we fail to successfully innovate in our current and emerging product categories and identify new feature or product opportunities
- If there is a deterioration of business and economic conditions in one or more of our sales regions or significant fluctuations in currency exchange rates
- If our product introductions and marketing activities do not result in the sales and profitability growth we expect, or when we expect it
- The sales mix between our lower- and higher-margin products and our geographic sales mix

More information about these and other factors impacting Logitech's business and prospects is contained 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, 2011. Logitech does not undertake to update any forward-looking statements, which speak as of their respective dates.

## Q1 FY12 Overview

- Company posts net loss of \$30M (\$0.17 per share)
- Results significantly impacted by \$34M charge related to planned (Q2) price reduction of Logitech Revue for Google TV
- Progress in improving operations in EMEA, despite continued weak demand environment
- Strong growth momentum in Emerging Markets, particularly in China
- Continued growth and momentum in LifeSize videoconferencing business
- Positive initial reception of first set of tablet accessories



# Planned Price Reduction of Revue

- Dropping retail price of Logitech Revue for Google TV from \$249 to \$99 during Q2
  - Revue price change expected to remove price as barrier to broad consumer acceptance
  - Seek to accelerate adoption of Google TV platform in order to develop a large installed base for our products over time
- Resulted in \$34M non-cash charge to COGS to revalue inventory on-hand and at our suppliers to lower of cost or market
- Upcoming enhancements to Google TV platform expected from Google in late summer, including
  - Updated user interface
  - Apps marketplace

## EMEA Progress

- Continued weak consumer demand across much of Western Europe
  - Pronounced weakness in mature markets in Southern Europe
  - Achieved strong YOY growth in Emerging Markets, particularly in Russia
  - Sequential improvement in YOY sell-through performance in Germany, our largest market in the region
- Channel partners' inventory in EMEA -22% sequentially, but anticipate another one to two quarters before all customers align inventory with current demand environment
- Expect it will take remainder of FY 2012 to fully implement operational changes needed to get the region back on track

# Q1 FY12 Overview: Sales & Gross Margin



- Total sales flat YOY
  - Excluding favorable impact of exchange rate changes, total sales (retail+OEM combined, constant dollars\*) -4%
  - Retail sales flat YOY, led by Asia Pacific region +29%, driven primarily by China
- OEM sales -16% due to lower sales of microphones for console gaming and lower mice sales to our OEM customers
- LifeSize sales +34% to \$36M
- Gross margin -920bp YOY and -670bp sequentially
  - Most significant driver of decline was \$34M non-cash charge to COGS for price reduction of Revue
  - Excluding charge, Q1 FY12 gross margin would have been 33.2%\*\*

Note: Comparison is Y/Y unless noted otherwise

\*\*Please see Reconciliation of GAAP to Non-GAAP measures in Appendix of this slide deck.

\*Information in constant dollars is calculated by translating prior period local currency results at the current period's average exchange rate.

# Q1 FY12 Overview: Operating Expense & Operating Income



- Operating expenses +9%
  - S&M +9% and R&D +4%
    - Well over half of increase in S&M and nearly all of increase in R&D were in LifeSize as we continue to invest to drive future growth
  - G&A +13% and flat on a sequential basis and expected to remain ~ flat in absolute terms through remainder of FY12
- Operating loss \$45M compared to operating income of \$12M
  - Significantly impacted by \$34M charge related to planned (Q2) price reduction of Logitech Revue for Google TV from \$249 to \$99



# Q1 FY12 Financial Results

Dollars (in millions, except per share data)

	Q1 FY12	Q1 FY11	% $\Delta$
NET SALES	\$480	\$479	+0%
GROSS PROFIT	\$126	\$169	-26%
<i>% of net sales</i>	26.1%	35.3%	-920bp
S&M	\$100	\$91	+9%
<i>% of net sales</i>	20.8%	19.1%	
R&D	\$40	\$38	+4%
<i>% of net sales</i>	8.3%	8.0%	
G&A	\$31	\$27	+13%
<i>% of net sales</i>	6.4%	5.7%	
OPERATING INCOME (LOSS)	(\$45)	\$12	
NET INCOME (LOSS)	(\$30)	\$20	
NET INCOME (LOSS) PER SHARE	(\$0.17)	\$0.11	
DILUTED SHARES OUT.	179	177	

# Balance Sheet

June 30, 2011    June 30, 2010

Dollars (in millions)

	June 30, 2011	June 30, 2010
CASH	\$476	\$317
ACCOUNTS RECEIVABLE <i>DSO</i>	\$241 <b>45 Days</b>	\$214 <b>40 Days</b>
INVENTORY <i>Inventory turns</i>	\$318 <b>4.5</b>	\$280 <b>4.4</b>
ACCOUNTS PAYABLE <i>DPO</i>	\$328 <b>83 Days</b>	\$317 <b>92 Days</b>
CASH CONVERSION CYCLE	<b>43 Days</b>	<b>29 Days</b>

# Cash Generation

- Q1 cash flow from operations was \$4M, essentially unchanged from prior year despite Q1 FY12 net loss
  - Significant decline in net income compared to prior year more than offset by sequential decline in accounts receivable combined with lower sequential increase in inventory
- Cash conversion cycle was 43 days
  - DSO was 45 days (up by 5 days and our second lowest DSO for a Q1 in last 10 years)
  - Inventory +13%, with inventory turns at 4.5, up from 4.4 in prior year
    - YOY increase in inventory due to Google-TV related inventory (which was not in the mix last year), the impact of the stronger Euro on our inventory in EMEA as well as inventory investment to support our strong growth in Asia

# Retail Sales Region Summary

## Q1 FY12



- Total retail sales +0% and units +2%

Q1 FY12

	Sales Into Channel	Sell-Through
Asia	29%	21%
Americas	1%	6%
EMEA	-14%	-3%*

\*In local currency

- EMEA and Asia sales into the channel, in constant dollars<sup>1</sup>, -23% and +24% respectively
- Overall retail average selling price -2% from prior year and unchanged sequentially
  - Share of retail products with ASPs above \$100 = 15% of retail sales, same as in prior year and up slightly from 14% in prior quarter

<sup>1</sup>Information in constant dollars is calculated by translating prior period local currency results at the current period's average exchange rate.

Note: Comparison is Y/Y unless noted otherwise



# Product Category Summary

Q1 FY12  
YoY Change

	Revenue	Units
Pointing Devices	0%	9%
<i>Cordless Mice</i>	10%	24%
<i>Corded Mice</i>	-19%	-6%
Keyboards/Desktop	26%	16%
<i>Cordless KB + DT</i>	17%	24%
<i>Corded KB + DT</i>	6%	4%
Video	6%	-9%
Audio	-15%	-13%
Gaming	51%	-7%
<i>PC Platform</i>	53%	-4%
<i>Console Platform</i>	69%	-15%
Digital Home*	-53%	-57%
<i>Remote Control</i>	-48%	-57%
<i>Revue</i>	N/A	N/A
<b>Total Retail</b>	<b>0%</b>	<b>2%</b>
<b>OEM</b>	<b>-16%</b>	<b>-22%</b>
<b>Total (excluding LifeSize)</b>	<b>-2%</b>	<b>-8%</b>

\*Digital Home product category includes Harmony remotes, Logitech Revue and associated peripherals for the Google TV platform

# Selected Q1 Retail Product Family Highlights



- Gaming was best performing retail category with sales +51%
  - Strong performance in steering wheels for driving games drove growth in PC and console gaming across all retail regions
- Keyboards & Desktops sales +26%
  - Growth driven by combination of cordless keyboards (led by Wireless Solar Keyboard K750) and initial roll-out of iPad-specific keyboard products
- Video sales +6%
  - Growth driven by Logitech Alert line of digital video security systems
- Pointing Devices sales flat
  - Decline in sales in EMEA offset by growth in Americas and Asia
  - Growth driven primarily by cordless mice, with strong growth in sales and units in both the high-end and low-end of the category
  - Sales of cordless mice more than doubled in China

Note: Comparison is Y/Y unless noted otherwise

# FY 2012 Outlook

## FY 2012 Outlook



### Notes:

- The Company expects operating income for FY 2012 to be equal to or greater than last year's operating income of \$143M
- FY 2012 tax rate expected to be ~18%
- Plan to provide update on gross margin outlook at a later date

# Summary

- Continue to target sales growth for FY 2012
- Focused on building momentum for remainder of year, aligning resources with highest growth opportunities and returning to consistent profitability
  - Taking action on Revue price to improve positioning of the product and outlook for Digital Home
  - Introducing more tablet accessories
  - Improving operations in EMEA
  - Continuing growth momentum in Emerging Markets
  - Leveraging breakthrough innovations at LifeSize and growing breadth of Unified Communications portfolio and distribution



# Appendix

# 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 is 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.



# GAAP to Non-GAAP Reconciliation

## SUPPLEMENTAL FINANCIAL INFORMATION

(In thousands, except per share amounts) - Unaudited

Reconciliation of GAAP to Non-GAAP Financial Measures	Qtr Ended June 30,	
	2011	2010
<b>GAAP measures:</b>		
GAAP net sales	\$ 480,441	\$ 479,330
GAAP gross profit	125,607	169,029
GAAP gross margin	26.1%	35.3%
<b>Adjustments to GAAP measures:</b>		
Charge related to planned repricing of Logitech Revue for Google TV	34,074	-
<b>Non-GAAP measures:</b>		
Non-GAAP gross profit	\$ 159,681	169,029
Non-GAAP gross margin	33.2%	35.3%

We sometimes use information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission rules. Our management uses these non-GAAP measures in its financial and operational decision-making. Our management believes these non-GAAP measures, when considered in conjunction with the corresponding GAAP measures, facilitate better comparison by our investors of our recent period results with corresponding prior periods.



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