

Logitech Fourth Quarter and Fiscal Year 2011 Financial Results Management's Prepared Remarks (April 27, 2011)

Logitech is posting a copy of these prepared remarks, its press release and accompanying slides to its investor website. These prepared remarks will not be read on the call. To access the live webcast or replay of the question and answer session, please visit the Investor Relations section of Logitech's website at <http://ir.logitech.com>.

CEO COMMENTARY

Gerald Quindlen, President and Chief Executive Officer

Q4 and FY11 PERFORMANCE

I am very disappointed with our results for the fourth quarter. We were far below our Fiscal Year 2011 sales and operating income targets and the shortfall was caused by the unexpectedly weak performance in our EMEA retail sales region in Q4.

The weakness in EMEA was due to two factors: lower than expected demand and poor execution of pricing and channel programs. Let me provide more detail on each of these factors, starting with demand.

We entered Q4 with the expectation that our orders and shipments in EMEA would be relatively back-end loaded, which is fairly typical for a March quarter in the region. The demand signals for our products from our channel partners were positive through January. We saw some indications of weakening demand in mid-February, but it was too soon to draw any conclusions about the implications for the remainder of the quarter. The weakness in demand became more pronounced as we moved through March. However, we were well into the month before it was clear EMEA would fall significantly short of its sales and profit targets.

The unexpected downturn in consumer demand for our products in much of Western Europe was consistent with reports from several large retailers and PC manufacturers.

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This led to higher inventory levels for our products at retailers, which in turn contributed to higher inventory levels with our distribution partners.

In response to the initial signs of a slowdown in demand and the higher-than-planned inventory in the channel, the region increased promotional activities to drive sales both from distribution partners to retailers as well as from retailers to consumers. This increase in promotional spending not only had a significantly negative impact on profitability, it also failed to generate the anticipated incremental demand.

In addition to the weaker-than-expected demand, we had execution issues in EMEA that also had a negative impact on our performance. Starting in late FY 10 and continuing into FY 11, we began to implement several pricing and channel management programs in EMEA that were intended to increase our visibility into channel and consumer trends and to increase satisfaction among our channel partners.

As we have come to learn over the last several weeks, the region's implementation of these programs created unintended consequences, including higher-than-planned promotional spending, frustrated customers, and reduced order flow due to the perceived increase in complexity.

I want to emphasize that the pricing and channel programs that I've referred to were specific to EMEA. We do not have similar programs in place in the Americas or Asia Pacific and we have no intention of introducing them in the future.

As disappointed as I am with our results in EMEA, there were several highlights during the quarter that I do want to mention.

I'm pleased that we delivered double-digit sales growth in both the Americas and Asia Pacific. Our results in Asia Pacific benefitted from another very strong quarter in China,

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where sales grew by 70 percent compared to the prior year. It was a very strong quarter globally in the retail keyboard category, with sales up by 21 percent driven by growth in all of our regions.

And it was the best quarter ever for our LifeSize division, with sales nearly doubling compared to the prior year and topping the previous high in the December quarter. I am very pleased with LifeSize's performance both in Q4 and throughout the full Fiscal 2011.

FISCAL YEAR 2012 PRIORITIES

Our priorities for FY 2012 start with improving the performance in EMEA. The first step in our action plan, changing the regional leadership, is behind us. We are making progress in identifying and implementing changes to the regional pricing and channel management programs to drive margin improvement and reduced complexity for our customers. At the same time, we are working closely with our channel partners to help them move inventory through the channel to the consumer.

We believe that our EMEA sales region will be back on track during Fiscal 2012, but we expect it is going to take up to two quarters to fully implement our operational changes as well as for our channel partners to adjust their inventory levels.

Beyond fixing EMEA, we are focused on rapidly realigning our resources and prioritizing our spending to support what we see as our most promising growth opportunities in the new fiscal year and beyond:

- China (and Emerging Markets more broadly)
- Tablet peripherals
- LifeSize
- Unified Communications
- The next generation of Google TV

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These opportunities are consistent with the strategic direction we shared during our November 2010 Analyst & Investor Day. Let me briefly touch on each of them.

CHINA

We made great progress executing our China strategy in Fiscal 2011. We've actually entered Fiscal 2012 ahead of where I had originally hoped we would be at this stage. We have built a strong sales and marketing team in China that we plan to fully leverage as we continue to expand our footprint in tier 3, 4 and 5 cities. We will maintain our focus on developing high-volume products specifically for the Chinese market with a cost structure that supports our overall margin targets. And we will use the lessons we're learning in China as we begin to target other high-potential emerging markets.

TABLET PERIPHERALS

We believe the increasing popularity of tablets provides us with a significant growth opportunity for sales of tablet peripherals. Earlier this month we announced the Logitech Keyboard Case, which combines a protective case and a wireless keyboard for the iPad 2. This is the first of a number of products we plan to introduce this fiscal year designed to enhance the way people create, consume and communicate using tablets.

LIFESIZE

LifeSize will be our top investment priority in Fiscal 2012. We plan to build on our strong momentum with new disruptive price/performance end point and infrastructure solutions. We will continue delivering on our vision of extending high-quality communication capabilities to anyone, anywhere. Two recent examples of that vision are the announcements of qualified interoperability with Microsoft Office Communication Server and becoming the first room-based, business-class video conferencing solution to be plugged into Skype. You can expect similar announcements during the year as we focus on delivering a rich Unified Communications experience for our customers.

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UNIFIED COMMUNICATIONS (UC)

Unified Communications is an area that we increasingly see as providing significant long-term growth opportunities for Logitech. We are recognized leaders in delivering high-quality video calling in both the office and the home. We also have a number of communication assets spread across various parts of the company. We are still in the early stages of implementing our UC strategy, but you can expect to hear much more from us during fiscal 2012 as we align our existing resources to focus on this significant market opportunity.

GOOGLE TV

It is early days in the world of Internet connected televisions and we are enthusiastic about Google TV and the opportunity to develop another large installed base for our products over time. Five years ago, the Internet on a mobile phone was a novelty--today it's a staple for smartphones. We anticipate the same shift with TV, as more smart TVs make it to market. We plan to lower the price of Logitech Revue to 249 dollars in May, and we will continue to periodically promote Logitech Revue with in-store promotions. Although we have scaled back marketing activities around Logitech Revue, we will be fully prepared to re-accelerate those activities at the appropriate time.

FISCAL YEAR 2012 OUTLOOK

I want to emphasize that a key planning assumption underpinning our outlook for Fiscal 2012 is that we will experience a decline in sales of our PC peripherals in mature markets. We therefore expect the majority of our sales growth to be driven by the opportunities I have just reviewed.

For Fiscal Year 2012, we are targeting sales of around \$2.6 billion. We expect our gross margin to be around 35% and that our operating income will be roughly \$185 million. We target our full year tax rate at approximately 15%.

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CLOSING COMMENTS

While the final quarter was disappointing, Fiscal 2011 was a year in which we returned to strong double-digit growth for both sales and operating income. We understand the factors that caused the shortfall in EMEA and we are taking steps to improve our performance and get EMEA back on track.

We have entered the new year focused on prioritizing and aligning our resources with our most promising growth opportunities: China and emerging markets, LifeSize, Unified Communications, tablet peripherals, and the next generation of Google TV. I look forward to providing you with progress updates during Fiscal 2012.

CFO COMMENTARY Erik Bardman, Chief Financial Officer

Q4 FISCAL 2011 RESULTS

SALES

The growth percentages that follow are in comparison to Q4 Fiscal 2010

- Our retail sales grew by 2% and were up by 1% in local currency. Units grew by 12%
- Looking at our regional sales in local currency, EMEA was down by 17%, the same as its decline in U.S. dollars, while Asia Pacific grew by 28% compared to U.S. dollar growth of 32%
 - Our sales in Asia Pacific were negatively impacted by the tragic events in Japan, but the impact at the total company level was not material
- Retail units were up by 10% in the Americas, by 2% in EMEA, and by 40% in Asia Pacific
- Our overall retail average selling price in Q4 was down by 9% from the prior year and by 19% sequentially
- Sales of our retail products priced above \$100 represented 14% of our retail sales in Q4, down from 16% in the prior year and 24% in the prior quarter
- The sequential mix shift to fewer products priced above \$100 primarily reflects sales from the launch of Logitech Revue during Q3 compared to the much lower sales of Logitech Revue in Q4

Keyboards was our best-performing product category during the quarter, with sales up by 21% and units by 22%. We saw growth in all of our retail regions, led by both the Americas and Asia Pacific. The strength in the category was primarily driven by our wireless offerings, including products such as our Wireless Combo MK520, which includes a wireless mouse and keyboard in the same package, and our Wireless Illuminated Keyboard K800.

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In the Digital Home category, which includes our Harmony remotes as well as Logitech Revue and our Google TV peripherals, we delivered sales growth of 13%. The growth in the Digital Home category was driven by \$5M in sales of Logitech Revue and our Google TV peripherals. Our Google TV-related sales for Fiscal 2011 were \$27M in total, which was \$13M lower than the outlook we shared during the Q3 call. Harmony remote sales declined by 6%, while units grew by 29%. The decline in sales was entirely due to EMEA, where our sales fell by 31%. The much stronger unit growth in the category was due to the contribution from several remotes priced below \$100.

Sales in our pointing devices category grew by 4%, with units up by 12%. It was a very strong quarter in our Asia Pacific region, with sales up by 33%. We delivered 8% growth in the Americas and EMEA was down by 14%. The growth in the pointing devices category was driven primarily by cordless mice, with sales increasing by 14% and units by 34%. The stronger growth in units reflects the success of our low-end offerings across our three regions.

Audio was our weakest-performing category during the quarter, as sales fell by 16%. The decline in the category was entirely due to the poor performance in EMEA, where sales fell in every audio product family and were down in total by nearly 40%. We achieved double-digit sales growth in both the Americas and Asia Pacific.

Turning now to OEM, our sales declined by 10% primarily due to lower mice sales to our OEM customers. The decline in our OEM mice sales reflects the weakness in sales of new desktop PCs.

GROSS MARGIN

Our Q4 gross margin declined by 300 basis points compared to the prior year and was down by 320 basis points sequentially. The most significant driver of both the year-over-year and sequential decrease in our gross margin was the poor performance in our

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EMEA retail sales region. As one indicator, the Q4 gross margin in EMEA fell by over 1,000 basis points compared to the prior year, primarily due to the higher-than-originally anticipated impact of pricing and promotional programs.

OPERATING EXPENSES

- Our operating expenses were up by 9%
- The year-over-year increase in Q4 was entirely in sales and marketing, which grew by 19%, while R&D declined by 4% and G&A was flat
- The increase in our sales and marketing spending reflects advertising programs in support of our Harmony product family, Logitech Revue, and growth in the LifeSize sales team

BALANCE SHEET

- Our quarter ending cash position was \$478M
 - Our cash was up by \$17M from the December quarter and by \$158M compared to the prior year
- Our cash flow from operations for Fiscal 2011 was \$155M, a decrease of \$210M compared to the prior year. The decrease was primarily due to the significant working capital deleveraging in the prior year, which resulted from that year's 11% decline in sales
- Our cash flow from operations in Q4 was \$2M, a decrease of \$64M compared to the same quarter last year
 - There were a variety of factors that drove the decrease compared to the prior year, including larger sequential reductions in accounts payable and accrued liabilities in Q4 of this year as well as the lower net income
 - Our cash conversion cycle in Q4 was 38 days, 15 days higher than the same quarter last year due to higher DSO and DSI this year

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- Our inventory increased by \$61M, or 28%, compared to the prior year and it was down by \$20M, or 7%, compared to the December quarter
 - The most significant factor in the year-over-year increase was our Google TV-related inventory, which is not included in the prior year
- Inventory turns were 5.2, down from 6.1 in the prior year
- Our DSO was 42 days, up by 9 days from the record low set last year but still our second lowest DSO for Q4 in the last ten years
- We did not repurchase any shares during Q4
- We own approximately 6.5% of our shares outstanding
- We have a \$250M board approved program that we have not yet utilized

FORWARD LOOKING STATEMENTS

These prepared remarks contain forward-looking statements, including the statements regarding anticipated sales, operating income, gross margin and tax rate for Fiscal Year 2012; growth opportunities, and the timing for that growth, in China, peripherals for tablets, China, LifeSize, unified communications and the Digital Home; investment priorities for FY 2012; that Logitech's EMEA retail sales region will be back on track in FY 2012; that it will take up to two quarters to fully implement operational changes in EMEA as well as for EMEA channel partners to adjust their inventory levels; and planned product introductions, and the timing for those introductions.

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

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- 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 consumer reaction to and demand for Google TV and our products for it continue to be less positive than we expect, or if Google fails to support or continue the Google TV platform
- If the decline in expected sales for our PC peripherals in mature markets is greater than we expect, or 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 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, 2010 and our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2010, September 30, 2010 and December 31, 2010. Logitech does not undertake to update any forward-looking statements, which speak as of their respective dates.