

Logitech Third Quarter Fiscal Year 2012 Financial Results Management's Prepared Remarks (January 25, 2012)

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>.

COMPANY COMMENTARY

Following is a summary of the company's comments on key areas impacting Q3 Fiscal 2012 performance.

EMEA SALES REGION

While weak economic conditions continue to weigh heavily on consumer sentiment in several mature markets in Western Europe, negatively impacting our sales in Italy, Spain and several other countries, we continued to achieve strong growth in emerging markets, particularly Russia. The 5% decline in the region's total sales compared to the prior year also reflected significant weakness in the webcam and remotes categories due to product gaps that we are in the process of addressing.

We achieved significant operational improvements during the quarter. The overall level of inventory carried by our channel partners was up by 6% sequentially and down by 22% compared to the prior year. We believe that our customers in EMEA have now aligned their channel inventory levels with the current demand environment.

AMERICAS SALES REGION

A major factor in the 8 percent decline in the Americas sales compared to the prior year was Logitech Revue for GoogleTV. We began shipments of Logitech Revue in Q3 of the prior year and delivered sales of \$22M that quarter. Sales of Logitech Revue this year were down by \$15M due to the combination of a significant price reduction in Q2 of this fiscal year and our previously announced intention to exit the category. We are now sold out of all new Logitech Revue units.

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Sales in the Americas in Q3 were negatively impacted by very weak performance in the webcam and remotes categories. The substantial decline in our webcam sales primarily reflects a product portfolio that does not currently offer consumers a compelling alternative to embedded cameras. The weakness in remotes is primarily due to product gaps in the high-end of the category, with our best selling product, the Harmony One, having been introduced well over three years ago. Our total unit sales of remotes grew by 17% compared to the prior year, demonstrating strong demand in the mid-range and low-end price bands.

ASIA PACIFIC SALES REGION

We were pleased with the sales growth we achieved in our Asia Pacific region during Q3. China was the single biggest factor in the region's growth, with sales up by 45% compared to the prior year, reflecting strong growth in all major product categories.

OEM

The primary factor in the decline in our OEM sales was much lower sales of microphones for console gaming, which fell by 99%. Console microphone sales are opportunistic and continue to be subject to significant variations on a year-over-year basis. Sales of mice to our OEM customers decreased by 5%, reflecting a weak market for sales of desktop PCs.

LIFESIZE

We experienced modest sales growth in our LifeSize division on both a year-over-year and sequential basis. Concerns about potentially deteriorating economic conditions led to longer sales cycles in the US, which is LifeSize's largest market. We delivered stronger growth in Europe and Asia, with contributions from emerging markets such as Russia, China and Brazil as we begin to leverage our recently expanded sales capacity in these high potential markets.

ADDITIONAL FINANCIAL COMMENTS

Q3 FISCAL 2012 RESULTS

SALES

The growth percentages that follow are in comparison to Q3 Fiscal 2011

- Our retail sales declined by 4% and units grew by 8%. Changes in exchange rates did not have an impact on sales compared to the prior year.
- Looking at our regional sales in local currency, EMEA was down by 5% in both U.S. dollars and local currency. Asia Pacific grew by 11%, compared to U.S. dollar growth of 13%.
- Retail units grew by 3% in the Americas, by 1% in EMEA, and by 29% in Asia Pacific
- Our overall retail average selling price in Q3 was down by 11% from the prior year and up by 3% sequentially
- Sales of our retail products priced above \$100 represented 16% of our retail sales in Q3, compared to 24% in the prior year and 15% in Q2

KEYBOARDS & DESKTOPS

Keyboards and Desktops was our highest growth retail product category during the quarter, with sales up by 20% and units by 11%. The primary growth driver was sales of our iPad specific keyboard products, including the Keyboard Case for iPad2 and the Tablet Keyboard for iPad. It was a very strong quarter for cordless keyboards, with sales nearly doubling. Sales in the high-end of the Keyboard and Desktop category declined by 10%, but were up by 46% in the mid-range and by 8% in the low-end.

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POINTING DEVICES

Sales in our pointing devices category grew by 3%, with units up by 14%. Excluding sales from 3DConnexion, which we sold in Fiscal 2011, sales would have grown by 5%. Cordless mice sales increased by 9% and units were up 29%, with sales growth, as well as double-digit unit growth, across all three retail regions. The significantly higher growth in units reflects product gaps in the high-end of the category that were more than offset by double-digit growth in both sales and units in the mid-range and low-end of the category. We plan to significantly improve our high-end cordless mice offering in the coming quarters.

AUDIO

Audio sales grew by 2%, with units up by 5%. It was a very strong quarter for our Ultimate Ears line of earphones, with sales reaching a record high for a quarter. Sales of PC speakers were up by 3% with units up by 12%. The growth in PC speakers was delivered in the Americas and Asia Pacific. The biggest contributor to the growth in PC speaker sales was the Logitech Z906, a THX-Certified 5.1 speaker system. We were pleased with the initial demand for the Logitech Mini Boombox, a compact Bluetooth sound system that pairs easily with tablets and smartphones that we began shipping in the second half of the quarter.

GAMING

Sales in the Gaming category declined by 12% and units were down by 8%. The decline was entirely due to console gaming, where our sales fell by 45% due to much lower sales of steering wheels. PC gaming peripheral sales were up by 7% with units up by 10%. The vast majority of the growth was generated by our G27 Racing Wheel.

VIDEO

Video sales declined by 25% with units down by 12%. The decline in sales was experienced across the major price bands, with the weakest results in the high-end. Our sales in the category continue to be negatively impacted by the combination of

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market trends and gaps in our product portfolio. The embedded webcam experience appears to be sufficient to meet the needs of many consumers. In response, we will enhance our product line-up by enabling experiences that cannot be easily achieved with an embedded webcam. For example, earlier this month we introduced the Logitech HD Pro Webcam C920, the first webcam to offer 1080p video calling for connecting with friends using Skype.

DIGITAL HOME

Sales in the Digital Home category, which include our Harmony remotes as well as Logitech Revue and our Google TV peripherals, declined by 42%, with units down by 15%. Sales of Logitech Revue and related peripherals were \$6.9M, down by 71% due to the impact of the price drop that we implemented in the September quarter and our exit from the category.

Sales of our Harmony remotes declined by 30%, with sales falling significantly in both the Americas and EMEA. The sales decline was experienced in both the high-end and mid-range price bands. We achieved very strong growth in sales and unit shipments in the low-end of the category, with sales up by 51% and units by 34%.

Our success in the low-end reflects the combination of our much stronger lower-end offering and a weak up-sell proposition to higher price points. As our recent results demonstrate, we are overdue for a meaningful refresh across much of the category. We plan to strengthen our Harmony line-up in the coming months.

GROSS MARGIN

Our Q3 gross margin was up by 250 basis points sequentially and by 20 basis points compared to the prior year. The majority of the sequential increase is due to the combination of supply chain efficiencies and favorable product mix.

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OPERATING EXPENSES

- Our operating expenses declined by 3%
- Sales and marketing declined by 7% primarily due to higher costs in Q3 of the prior year in support of the launch of Logitech Revue as well as a promotional campaign for our Harmony remotes
- R&D increased by 8% primarily due to investments in LifeSize
- G&A declined by 2%

OTHER INCOME

- Our other income increased by \$5.9M compared to the prior year due to opportunistic sales of investments that we had held for the last several years

BALANCE SHEET

- Our quarter ending cash position was \$523M
 - Our cash was up by \$144M compared to the September quarter and up by \$63M compared to the prior year
- Cash flow from operations in Q3 was \$153M, up from \$149M in the prior year despite the decline in net income
 - Our cash conversion cycle in Q3 was 24 days, unchanged from the prior year
- Inventory decreased by \$29M, or 9%, compared to the prior quarter, and declined by \$5M, or 2%, compared to the prior year
 - Inventory turns were 6.2, down slightly from 6.4 in the prior year
- DSO was 40 days, unchanged from the prior year

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SHARE REPURCHASES

- We did not repurchase any shares during Q3 as we were waiting for regulatory approval to amend our existing buyback program to enable the repurchase of shares on a separate trading line for cancellation. That approval has been received.
- We own approximately 9.7% of our shares outstanding
- We have \$177M remaining under our current \$250M repurchase program

FISCAL YEAR 2012 OUTLOOK

Several factors have changed since we last provided our outlook for Fiscal Year 2012 at the end of October. Most significantly, the Euro has weakened considerably compared to the US dollar. In addition, webcams and remotes continue to be impacted more than expected by product portfolio and market weakness. Consequently, we have lowered our outlook for FY 12 sales and operating income.

For Fiscal Year 2012, ending March 31, 2012, we now expect sales of approximately \$2.3 billion and operating income of approximately \$60 million. The gross margin for the full year, which factors in the very low margin previously reported for Q1, is estimated to reach approximately 33 percent. We target our full year tax rate at approximately 24%.

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; that EMEA channel partners have adjusted their inventory levels to the demand environment; future product plans; and future share repurchases.

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:

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- 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 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 and other mobile devices is less positive than we expect
- If the sales growth in emerging markets for our PC peripherals and other products does not increase as much as we expect
- In digital music, if we are not able to identify product development, marketing, and organizational skill gaps, and resolve them, or if we fail to introduce differentiated product and marketing strategies to separate ourselves from competitors
- 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 operating segments 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
- 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
- The adverse conclusion of one or more ongoing tax audits in various jurisdictions and a material assessment by a governing tax authority that adversely affects our profitability;
- The sales mix between our lower- and higher-margin products and our geographic sales mix
- If our operational changes in our EMEA sales region do not result in the sales improvement in EMEA we expect

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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, our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2011 and September 30, 2011, and the Quarterly Report on Form 10-Q we intend to file for the fiscal quarter ended December 31, 2011. Logitech does not undertake to update any forward-looking statements, which speak as of their respective dates.

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.

CHANNEL INVENTORY DATA

Estimates the inventory levels of our products held by or in-transit to our retailer and distributor customers. Includes data compiled by Logitech from data supplied by our customers, and our estimates of inventory in-transit to our customers. Customers supplying data vary by geographic region and from period to period, but typically represent a majority of our retail sales. Data and our estimates are subject to limitations and possible error sources and may not be an entirely accurate indicator of actual customer channel inventory. Limitations and possible error sources include the following:

- Data supplied by our customers may not be indicative of inventory held 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 data is largely outside our control
- In the U.S., Canada, and to a lesser extent Asia Pacific, and a still lesser extent, EMEA, 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
- Our interpretation of the data, and our estimates of in-transit inventory, may be subject to errors in assumptions, calculations or other errors