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Simply Smarter Communications®

Q2 FY2016 Financial Results Prepared Comments November 5, 2015

Ken Kannappan, President & CEO

Our financial results were above our guidance for the second quarter after a $3.6 million reserve adjustment, and well above guidance excluding this charge. On a constant currency basis and excluding our reserve adjustment, our revenues grew by 5%, our operating income grew by 10% and our earnings per share grew by 16%.

We have been experiencing a fairly stable and improving demand environment in our Enterprise market, with Unified Communications headsets being the key driver of growth in the second quarter. Unified communications continues to be the primary driver of top-line growth, and we continue to believe it will be the primary driver of top-line growth for the long-term.

Our newest Unified Communications headset, the high-end Voyager Focus UC with an MSRP of $299, started shipping late in the September quarter. It is generating very strong demand in all geographies.

This product is uniquely designed to help workers stay in the zone in an open plan environment while having multi-point connectivity to mobile phones, laptops/tablets and desk phones.

It features active-noise cancellation for listening, as well as enhanced DSP and 3 microphones for superior noise cancellation when transmitting your voice. In addition, it features long-range *Bluetooth* and 12-hour talk time. The Voyager Focus is also equipped with sensors to provide an intuitive experience by automatically muting the call when the headset is removed and answering a call or resuming music when the headset is put back on. Besides communications, this headset features dynamic hi-fi stereo music streaming and a multitude of other intelligent features, such as an integrated open-mic feature that allows users to hear their surroundings when needed, and enhanced voice alerts including caller ID, mute status, connection status and talk time level.

Our newest products for intensive-use customers, the Encore Pro line, have received extraordinarily positive reviews from end-users and partners. These products are unparalleled in design, comfort and value and include our lightest product ever in its class. They provide all-day comfort for contact center employees, and incorporate our proprietary noise-cancelling microphone for an extraordinary office and consumer experience. We initially started shipping the Encore Pro 530 and 540 in the December quarter last year, and shortly thereafter announced that we were delaying further shipments to address a quality control issue. Our renewed Encore Pro 510 and 520 began shipping early this quarter after correcting the earlier issue.

Turning to our consumer revenues, these represented 25% of overall revenues and were at the lowest level in the past year. While our market share in mono Bluetooth headsets is at an all-time high, the decline of the total market contributed to an 8% decline in consumer revenues. Revenues for our Stereo *Bluetooth* headset line offset a portion of the decline; we shipped a record quantity of our top selling Backbeat FIT after a component limitation was substantially resolved. Additionally, our latest introduction to our stereo *Bluetooth* line, the Backbeat SENSE, began shipping recently and hs garnered favorable editorial and consumer reviews.

Our solutions in both the Enterprise and Consumer markets remain highly differentiated and our competitive position is strong, if not improving. Last quarter, we discussed our investment and focus on solutions related to three strategic initiatives, which we refer to as Innovation Waves. Very briefly,

The First is Taming Communications Chaos. The number of devices people use continues to grow and the complexity around managing those devices and software tools increases as well for both users and IT. Our goal is to provide better integration and smarter headsets and tools for the experience to be seamless and easy. We remain at the forefront of this opportunity and continue to deliver products that support this mission.

The second is In The Zone. Here our aim is to preserve and protect the times when employees are most productive. People are most productive for only about 20% of each work day, due in part to receiving, on average, 56 interruptions per day. We're working on maximizing and extending the productivity peaks with headsets that defer distractions by blocking out unwanted background noise and interruptions.

And the third is Smarter Customer Interactions. This is made possible through the unique and proprietary intelligence our new digital adapters provide to managers. They are being integrated with technology from industry leaders such as Cisco, Avaya, Genesys, Interactive Intelligence and other strategic alliance partners. The result is actionable real-time data to improve the customer experience as well as lower costs and improve efficiency.

Pam Strayer, SVP & CFO

Key Points (Non-GAAP, Comparisons are to Q2 FY15)

- We exceeded revenue and earnings per share guidance on healthy Enterprise revenue growth, driven by double digit Unified Communications revenue growth. Core Enterprise revenues declined, but were flat on a constant currency basis. Revenues were $215 million compared with guidance of $202 million to $212 million. EPS were $0.70 compared with guidance of $0.58 to $0.66.
- Constant Currency Revenues were $223.3 million.
- Reported revenues were negatively impacted by $10.5 million of currency declines and an additional large revenue reserve adjustment of $3.6 million, offset by a $2.2M currency hedge.
- Gross margin was negatively impacted from currency declines by 141 basis points and the impact from the reserve adjustment was 80 basis points.
- Operating Income declined 5.1% to $43 million. On a constant currency basis and after adjusting for the one time revenue reserve, operating income increased to $49.9 million, or 22.0% of net revenues.
- EPS were $0.89 on a constant currency basis and after removing the unusual revenue adjustment of $3.6 million.
- Capital Expenditures for the quarter were $9.1M and for the year are expected to be between $30 million and $35 million.
- The full year Non-GAAP tax rate is expected to be 26.5%.

Revenue and Gross Margin Overview

Given the significantly adverse impact of foreign currency exchange rates in our year over year comparisons, we are providing constant currency results for many of our key metrics.

- Second quarter net revenues were $215.0 million, down slightly from $215.8 million in Q2 FY15. On a constant currency basis, our second quarter revenues were $223.3 million dollars, an increase of 3.5% from Q2 FY15. Breaking down the currency impact on our revenues: foreign currency exchange rate movements decreased our revenues by $10.5M; however, our hedging program protected us against $2.2M of this loss for a net negative impact of $8.3M.
- Our constant currency results can only address a quantifiable impact on how foreign currency-denominated business gets reported in our USD financial reports. What these metrics don't capture is the impact we had from additional pricing pressure, discounting, or lost business in locations where we sell in U.S. Dollars outside of the U.S. and the negative impact of the stronger dollar on customer buying decisions.
- We accrue revenue reserves for customer discounts quarterly and recorded an unusually large revenue reserve for customer discounts this quarter. The $3.6 million increase in revenue reserves booked this quarter over historical levels was primarily driven by visibility

improvements into the length of time our channel partners take to utilize approved discounts. This adjustment is based on a reasonably conservative approach to future liabilities and is not an indication of any increases in channel inventory levels or discounting during this current quarter or in the recent past. We do not expect to have changes as significant as this one in the foreseeable future.

- When we remove the currency impact in addition to the reserve adjustment, we get to a result that is more comparable to the prior year in terms of understanding the underlying health of the business. Adjusting for these two things would result in a revenue growth of 5% over the second quarter of fiscal year 2015.

Non-GAAP gross margin was 52.0%, down from 54.9%. The primary driver of the decline in gross margin is negative currency impacts on revenues which reduced our gross margins by 141 basis points. In addition, the revenue reserve adjustment had no costs associated with it and negatively impacted the gross margin by another 80 basis points. Excluding these two primary drivers, our gross margins would have been 54.2%. Over 75% of our cost of goods sold is denominated in USD so we did not, and do not expect in the future to, see significant currency benefit in these costs. We remain focused on implementing more efficient manufacturing processes and continuously reducing manufacturing, component costs and shipping to improve gross margin.

Revenue Detail

Total net revenues for the second quarter of $215.0 million were down $0.8 million compared to the second quarter last year.

- On a regional basis, revenues in the Europe & Africa region and the Asia Pacific region were both flat to up slightly compared to Q2 FY15. However, the Americas region had a revenue decline of $2.9 million and 2% compared to Q2 FY15. The decline was driven by lower revenues in Consumer Mobile due primarily to the continued contraction in the mono Bluetooth category in the U.S.

The following are key product line comparisons to Q2 FY15:

- Enterprise net revenues of $160.5 million were up $3.8 million and 2.4%. The growth was driven by growth in sales of our UC ("Unified Communications") products. Revenue from our Core Enterprise products was down year over year; however, most of that decline was a result of additional customer reserves for discounts. Without that adjustment, Core Enterprise revenues would have been flat to down slightly. On a constant currency basis, Enterprise revenues grew by 6% over the prior year quarter driven by increases in revenues from our UC products. We experienced positive growth in the UC category in all regions, on a constant currency basis. In the Americas region our constant currency UC growth rate percentages were in the mid-teens, our E&A and APAC regions experienced constant currency growth rates in the mid 20%'s and close to 40%, respectively. These constant currency growth rates reflect global UC adoption rates and support our UC strategy. The growth rates also reflect an increase in adoption rates that had slowed in the immediate aftermath of Microsoft's announcement transitioning Lync to Skype for Business.
- Consumer net revenues were down $4.6 million and 7.7% compared to Q2 FY15. On a constant currency basis, the decline was 3.5%. This decrease was driven largely by a decline in the US mono *Bluetooth*® market of 25%; however, we continued to achieve share gains in this market although our comparative sell-through decreased by approximately 20%. As we have stated in the past, this category continues to decline driven in part by reduced shelf space allocated to the category in favor of the faster growing Stereo *Bluetooth*

category and the integration of *Bluetooth* in automobiles. While we have been building our stereo portfolio over the last several years, it is not yet as robust as our mono *Bluetooth* portfolio of products. As a result of these market changes, we have reduced the amount we expect to invest in our non-premium mono *Bluetooth* portfolio while shifting that investment toward additional Stereo *Bluetooth* products. Our past and current product launches in the Stereo *Bluetooth* market have been well received and the growth opportunity for Plantronics remains high.

Operating Income and Expense

Non-GAAP operating income was $43.0 million dollars and 20.0% of Net Revenue in Q2 FY16. This represents a decrease of $2.3 million and 5% compared to Q2 FY15. The year over year decline was driven primarily by a $6.6 million decrease in gross margin (discussed above) offset by reduced operating expenses of $4.3 million.

- On a constant currency basis, and excluding the impact of the unusual accounting adjustment, our operating income is $49.9 million and 22% of Net Revenue.

Non-GAAP Operating Expenses were $68.9 million, down $4.3 million and 6% compared to Q2 FY15. The decrease is due to the positive impact of the currency movements of $4.1 million and a reduction in variable compensation expense of $3.2 million resulting from lower revenue and operating income. These decreases were offset by the elimination of the litigation gain of $4.2 million we recorded in Q2 FY15 as well as increasing headcount and related costs.

Below the operating income line, we recorded interest expense of $7.3 million primarily from the issuance of 8-year 5.50% Senior Notes in May 2015.

Taxes

Our effective non-GAAP tax rate for the quarter was 28.6%.
The rate increased in Q2 FY16 compared to last quarter (Q1 FY16) as a result of a shift of income away from lower tax rate jurisdictions. The effective tax rate for the first half of fiscal year 2016 is 26.5%, a decrease from the prior year of 50 basis points primarily due to lower domestic earnings resulting from the interest expense on the issuance of notes. The tax rate for Q2 was higher than the first half effective rate due to a necessary catch-up of expense due to the change in our forecast. We expect the non-GAAP effective tax rate to be 26.5% for the remainder of the fiscal year.

As a result of all of these items, our Q2 non-GAAP net income of $24.0 million was 26% lower than a year ago.

Non-GAAP EPS of $0.70 per share was down $0.07 from the prior year quarter. EPS was negatively impacted in the quarter by interest expense associated with our $500M debt offering, net of the tax benefit and net of share repurchases made to date. We repurchased 3.4 million shares during the second quarter and currently have approximately 0.2M shares remaining in our repurchase authorization.

- On a constant currency basis and excluding our revenue reserve adjustment our EPS would have been $0.89, an increase over Q2 FY15 of $0.12 and approximately 16%.

Balance Sheet and Cash Flow Highlights

We finished the second quarter of FY16 with $506 million in cash and investments on our balance sheet and generated $23 million in cash flow from operations during the quarter. Our cash flow from operations was lower than the $42 million we recorded in Q2 FY15, primarily due to the timing of billings and collections of Accounts Receivable. For the six month period ending September 30, 2016, we generated $66 million of cash flows from operations compared to $72 million in the first six months of fiscal year 2015.

Of the $506 million in cash and investments at the end of the second quarter of FY16, $20 million was domestic. We used $188.8 million to repurchase shares during the quarter.

DSO was 59 days, consistent with Q2 FY15.

Inventory turns are 7.2 compared to 6.2 in Q2 FY15 due to improvements in our inventory management practices.

Turning to our capital expenditures, our Q2 FY16 investment was $9.1 million, or 4% of net revenues. Large expenditures included costs related to the construction of a new Smarter Working office at our European headquarters site in the Netherlands, an investment in a Manufacturing Execution System for our Mexican plant, and equipment and tooling for our operations. Total capex for FY16 is expected to be approximately $30 - $35M.

Depreciation and amortization expense on a GAAP-basis for Q2 FY16 was $5.1 million, up $0.2 million from the prior year quarter.

Guidance & Outlook

We believe total net revenues for our third fiscal quarter ending in December will be in the range of $225 to $235 million. This forecast assumes gross margins in the range of 50% - 51%, lower than the second fiscal quarter margins as a result of the normal product mix shifting toward lower margin, higher consumer revenues from holiday sales. Currency continues to weigh on our profitability as well, accounting for over 100 basis point decline in margins compared to Q3 FY15.

On a constant currency basis compared with Q3 of FY15, this range would be roughly $233 to $243 million and, at the mid-point, would represent approximately 3% growth from the prior year. At today's spot rates on the Euro and British Pound, we would expect a negative currency impact to revenue of roughly $9M offset by hedging gains of approximately $1M for a negative net impact of $8M.

Depending on revenue mix and other factors, we believe our GAAP operating income will be approximately $31 to $36 million and non-GAAP operating income of approximately $40 to $45 million. The GAAP reconciling items we expect in the third quarter include approximately $9 million in stock-based compensation expense and purchase accounting amortization, before tax.

Our guidance assumes that we will spend approximately $1.6M on GN litigation in Q3. The GN lawsuit is still in the discovery phase and the impact to operating income from the associated legal expenses is particularly difficult to forecast. Actual expenses can vary significantly from our forecast.

On a constant currency basis compared with Q3 of FY15, we expect a positive impact to our expenses of roughly $4M. Therefore, if currency rates do not change significantly, the positive operating expense impact combined with the net negative impact on the revenue line of $8M, means that our hedging program will protect us from all but $4M in negative impacts to operating income.

Our Non-GAAP tax rate for the third fiscal quarter is expected to be 26.5%, and we are anticipating a full-year tax rate of 26.5%.

Based on all the above, in the third quarter, we expect GAAP EPS of $0.52 to $0.62 and non-GAAP EPS to be $0.71 to $0.81 on average diluted shares outstanding of approximately 34 million.