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Simply Smarter Communications®

Q3 FY2016 Financial Results Prepared Comments

Ken Kannappan, President & CEO **February 1, 2016**

Key Points on the Quarter:

- We continue to execute well on our strategy and innovation wave initiatives, with favorable customer and partner response to both our strategy and product development path.

- Our market position in Enterprise remains excellent, and our position in the growing Stereo Bluetooth® market is expected to improve with new product introductions in Fiscal 2017.

    - Our product reliability, price-to-value, sound quality, integration, software value-add, and the support we provide, remain significant competitive differentiators.

- We are striving to improve operating margins on a constant currency basis in Fiscal 2017. Reduced opportunity due to the decrease in the mono Bluetooth market segment, macroeconomic weakness, and lower growth in Unified Communications have made this necessary. We are still trying to balance short term profitability against investing in game changing opportunities in our Innovation Waves, which we believe are extremely attractive over the longer term. Today we announced restructuring actions to better align our cost structure with diminished growth expectations as a result of pressures and constraints impacting various facets of our sales and operations. We anticipate these actions will save us a little over $15 million in Fiscal 2017.

Financial Results

We believe our overall execution and strategic leadership in our industry remains excellent. However, our third quarter results were at the low end of our revenue guidance and while earnings per share were above guidance, it was largely due to reversal of performance compensation accruals. In Q3 on a constant currency basis, our revenues grew one percent, our operating income declined 5% and our earnings per share grew 14%, with our Enterprise revenues growing 1% and Consumer revenues flat year over year. In addition to the adverse impact of currency exchange rates, our growth was significantly diminished by sharp declines in the mono Bluetooth headset market and weakness in certain other markets. For instance, the Enterprise market has weakened, particularly the natural resources industry, the aerospace sector, and emerging markets. Despite the currency impact on exporters as well as the aforementioned industries, the U.S. economy otherwise remains stable.

Overall demand in Enterprise remained consistent in Q3 as organizations continued to deploy solutions to improve employee collaboration and provide flexible working options, which also resulted in cost savings to their organizations. Based on our conversations with Fortune 500 companies, they have indicated that they plan to increase their spending on IT over the next two years. The Public Sector is another area where IT spend is expected to increase as government agencies at the local, state, and federal levels improve their technology and modernize.

Unified Communications continues to be the strongest growth driver of our Enterprise revenues, with constant currency growth in the high single digits. UC headsets now represent approximately 35% of our Enterprise revenue, and we remain confident in both our market position and the opportunity for long-term growth. We shipped a record number of UC headsets in the December quarter and a record number in each of our UC product families. Indications from our customers, channels, and partners are that Enterprise UC deployments will increase over the coming year; companies that were postponing deployments for the last two years are now moving into the proof of concept phase.

A trend which we are well positioned for is the redesign and addition of office space to more collaborative and often more noisy open workspaces. The need for active and passive noise cancellation is becoming a key requirement for participation in the headset market. We have been investing in a proprietary form of noise cancellation as well as a room based sound-scaping technology which strongly differentiates our solution set.

Our recently introduced UC headset, the high-end Voyager Focus UC with an MSRP of $299, provides distraction blocking technology and is generating strong interest in all geographies. This product targets our "In the Zone" innovation wave and is designed to help workers avoid distractions in an open plan environment while having multi-point connectivity to mobile phones, laptops/tablets, and desk phones. We expect good sales of the Voyager Focus UC this calendar year.

Strategic Alliances

We continue to work closely with a number of strategic partners**.** During the quarter we announced a new co-development initiative with Avaya to address the growing need for simplified communications in contact center and UC environments. The first initiative under this expanded relationship is focused on ensuring compatibility and integration between select Plantronics headsets and Avaya's Chrome-based contact center apps, including Avaya Agent for Chrome and Customer Engagement OnAvaya™ -- Google Cloud Platform. This month Avaya is expected to begin reselling our headsets in the U.S.

Product Update

We believe our new product pipeline is robust. The vast majority of our new product development in Consumer Bluetooth has been redirected to the much larger and faster growing stereo Bluetooth category. At the recent Consumer Electronics Show in Las Vegas, the reception for our soon to be introduced Consumer portfolio was unprecedented.

Our Enterprise portfolio and upcoming solutions are equally strong. Our Encore Pro line of products for the contact center and Voyager Focus for UC are being well received globally.

Outlook

While near-term macro-economic uncertainty exists and alignment of costs with uncertain revenues remains challenging, our long-term outlook and opportunities for growth remain excellent. Our solutions in both the Enterprise and Consumer markets remain highly differentiated and we believe our competitive position in

Enterprise is as strong as ever.

Our primary focus for long-term growth and enhancing shareholder value remains focusing on three areas of investment:

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 end users and IT, as well as for our channel partners and service providers who sell to them. We will be introducing new solutions for IT departments this year with the goal of providing better tools and integration to manage deployed headsets seamlessly and easily. We remain at the forefront of this opportunity and continue to deliver products that support this mission.

In The Zone. In the Zone aims to preserve and protect the times when employees are most productive by minimizing or eliminating distractions. Our propriety form of active conversation blocking is exceptional, and our investment in this area is focused on significantly reducing or eliminating sounds which are disruptive to individual workflow as well as a new generation of work space sound-scaping which we believe we can monetize in the next few years.

Smarter Customer Interactions. Smarter Customer Interactions are made possible through the unique and proprietary intelligence our new digital adapters provide to managers. We continue to strategically lead the industry with innovation here as well with a promising pipeline of new offerings. Our technology is being integrated with that of 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 improved efficiency.

Pam Strayer, SVP & Chief Financial Officer

Key Points (Non-GAAP, Comparisons are to Q3 FY15)

- We met the low end of our revenue guidance and exceeded our EPS guidance on lower performance-based compensation.
- Total revenue of $225.7 million was down $6.1 million and 2.6%. Enterprise revenues were down $3.3 million and 2.1%. Consumer revenues were down $2.7M and 3.9%.
- Our quarterly results were impacted by:
  - Weakness in certain emerging markets due to significant currency declines. The energy and defense verticals were down significantly, impacting our Core Enterprise (Non-UC) revenues.
  - Modest growth in headset sales for Unified Communications (UC) deployments. Growth in our revenue from UC products was in the single digits and in the high single digits on a constant currency basis. UC growth in our E&A region was good after adjustment for currency.
  - A sharp decline in the mono Bluetooth market of 25% in the U.S. in calendar year 2015 vs. 2014. Globally, our Q3 FY16 mono Bluetooth revenues were down 20% compared to Q3 FY15. The large majority of this decline was in the U.S. market.

- Our stereo Bluetooth revenues experienced strong growth over the prior year, driven by higher sales of our immersive products that were developed as part of our *In the Zone* innovation wave. Specifically, our BackBeat SENSE and BackBeat PRO products are driving growth in this category and receiving strong customer reviews. In addition, holiday promotions on our BackBeat GO 2 product contributed to our growth. Although our revenue from stereo Bluetooth products are still less than half of the revenues we recorded from mono Bluetooth, we have shifted our product investment away from mono Bluetooth and are continuing to build out a more robust stereo Bluetooth portfolio in order to take advantage of this fast growing category.

- Gross margins were 48.9%, down 310 basis points compared to Q3 FY15. Of this decline, 120 basis points were due to a strengthening dollar, 130 basis points were due to higher cost of sales resulting from higher freight on the strong reception of our new gaming product as well as lower production volumes on fixed costs. Competitive pricing on Consumer products as well as Enterprise brought down margins by 70 basis points. Compared to our other fiscal quarters, our December quarter typically has lower gross margins due to the higher mix of our lower margin consumer products.

- On a constant currency basis: Total revenues were $233 million and grew 1%. Enterprise revenues grew 1% and Consumer revenues were flat compared to the prior year.

- Foreign currency movements negatively impacted our P&L compared to Q3 FY15. Revenues were $7 million lower (net of hedge gains), gross margin was 120 basis points lower and operating expenses were $4 million lower. As a result, operating income was roughly $3 million lower due to currency, and EPS was lower by $0.07. We recorded $2 million hedge gain in revenue. Hedge gains in the current quarter and in future quarters are expected to be much lower compared to the past year.

- Our longest hedging instruments cover a period of 12 months and it is now more than 12 months since the U.S. Dollar began strengthening against the Euro, British Pound, and other major currencies. We expect full year revenue hedge gains to be $8.5 million, with $7.9 million recorded through Q3 FY16. In comparison, in Q4FY15 we realized $3.7 million of revenue hedge gains.

- Operating income for Q3FY16 declined $5 million and 11% to $43 million and 19.0% of revenue. On a constant currency basis, operating income decreased $2 million to 19.6% of revenue.

- EPS were $0.83, up 5% from $0.79. On a constant currency basis, EPS were $0.90, up 14% over the prior year. We repurchased approximately 181,000 shares during the quarter and used approximately $10 million on share repurchases.

- Capital expenditures for the quarter were $8 million and, for fiscal year 2016, are expected to be between $30 million and $35 million.

- The full fiscal year 2016 Non-GAAP tax rate is expected to be 25.5%.

Restructuring Activities

As a result of the business impacts discussed above, we have executed a restructuring plan in order to take costs out of the business and adjust our operating expense run rate for Fiscal Year 2017.

The restructuring actions, which consist primarily of workforce reductions in the U.S., Mexico, China, and Europe, will result in pre-tax charges of approximately $12.6 million over two quarters, consisting of approximately: $8.4 million for severance and related benefits recorded during the third quarter of fiscal year 2016, $5.8 million to be recognized in the fourth quarter related to a one-time incentive under our existing retirement program, offset by a reduction in stock-based compensation expense of approximately $1.6 million attributable to related stock award forfeitures. Projected net annual saving from the restructuring activities are expected to be approximately $15 million to $16 million in fiscal year 2017. Our March quarter (Q4 FY'16) will not reflect the full benefit of these restructuring activities given the timing of our cost reduction actions.

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.

- Third quarter net revenues were $225.7 million, down $6.1 million and 2.6% from $231.8 million in Q3 FY15. On a constant currency basis, our revenues were approximately $233 million dollars, an increase of 1% from Q3 FY15. Breaking down the currency impact on our revenues: foreign currency exchange rate movements decreased our revenues by approximately $9 million; however, our hedging program protected us against approximately $2 million of this loss for a net negative impact of $7 million.

- 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.

Non-GAAP gross margin was 48.9%, down from 52.0%. The primary driver of the decline in gross margin is negative currency impacts on revenues which reduced our gross margins by 120 basis points, as discussed above. 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 over the long-term.

Revenue Detail

Total net revenues for the third quarter of $225.7 million were down $6.1 million compared to the third quarter last year.

- Revenues in the Americas region were down $3.1 million and 2.3%. The declines in the region were driven by decreases in Canada and Latin America, due to economic conditions. In the U.S., revenue was down by $1 million and less than 1%. U.S. Enterprise revenues grew over the prior year but were more than offset by the declines in Consumer revenues, driven primarily by declines in the mono Bluetooth market.

- Revenues in the Europe & Africa region were down $1.6 million and 3%. On a constant currency basis, the region was up $3 million and 5%. UC growth was good in France and Germany as the UC markets are beginning to broaden there.

- The Asia Pacific region was down $1.3 million and 4%. On a constant currency basis, the region was up $0.5 million and 2%.

The following are key product line comparisons to Q3 FY15:

- Enterprise net revenues of $158.3 million were down $3.3 million and 2%. Declines in our Core Enterprise products offset low growth in revenues from our UC products.

- Consumer net revenues were $67.4 million, down $2.7 million and 4% compared to Q3FY15. This decrease was driven largely by a decline in the U.S. mono Bluetooth market.

Operating Income and Expense

Non-GAAP operating income was $42.9 million dollars and 19.0% of net revenue in Q3 FY16. This represents a decrease of $5.2 million and 11% compared to Q3 FY15. The year over year decline was driven primarily by a $10.3 million decrease in gross margin (discussed above) offset by reduced operating expenses of $5.0 million. On a constant currency basis, our operating income is $45.7 million and 19.6% of net revenue.

Non-GAAP Operating Expenses were $67.5 million, down $5.0 million and 7% compared to Q3 FY15. The decrease is due to the reduction in performance-based compensation expense of $6 million, resulting from lower revenue and operating income, and a positive impact from currency movements of $4 million. These decreases were offset by higher base compensation costs of $2 million and lower litigation receipts of $2 million.

Below the operating income line, we recorded interest expense of $7.2 million, primarily from the issuance of 8-year 5.50% Senior Notes in May 2015.

Our effective non-GAAP tax rate for the quarter was 23.6%
The rate decreased in Q3 FY16 compared to last quarter (Q2 FY16) as a result of the permanent renewal of the Federal R&D tax credit. The effective tax rate for the full fiscal year 2016 is expected to be 25.5%, consistent with the full fiscal year 2015 rate.

As a result of all of these items, our Q3 non-GAAP net income of $27.5 million was 18% lower than a year ago.

Non-GAAP EPS of $0.83 per share was up $0.04 from the prior year quarter. EPS was positively impacted by $0.19 in the quarter by share repurchases made over the past year. This was offset by a negative impact from interest expense associated with our $500M debt offering, net of the tax benefit. We repurchased approximately 181,000 shares during the third quarter and the board of directors has authorized an additional 1 million shares for repurchase.

On a constant currency basis our EPS would have been $0.90, an increase over Q3 FY15 of $0.11 and approximately 14%.

Balance Sheet and Cash Flow Highlights

We finished the third quarter of FY16 with $521 million in cash and investments on our balance sheet and generated $38 million in cash flow from operations during the quarter. Our cash flow from operations was higher than the $28 million we recorded in Q3 FY15 primarily due to the timing of billings and collections of accounts receivable. For the nine month period ending December 31, 2015, we generated $104 million of cash flows from operations compared to $100 million in the first nine months of fiscal year 2015.

Of the $521 million in cash and investments at the end of the third quarter of FY16, $28 million was domestic. We used approximately $10 million to repurchase shares during the quarter.

DSO was 54 days, down from 61 days in Q3 FY15. Improvements in aged receivables reduced DSO by 3 days and increased discount and marketing reserves reduced DSO by 4 days.

Inventory turns are 8.3 compared to 7.8 in Q3 FY15.

Turning to our capital expenditures, our Q3 FY16 investment was $7.9 million, or 3.5% 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.

Depreciation and amortization expense on a GAAP-basis for Q3 FY16 was $4.9 million, up $0.1 million from the prior year quarter.

Turning to the outlook.

Renewed volatility in foreign exchange rates and the macro environment make forecasting more difficult than typical. In addition, our fourth fiscal quarter ending in March will consist of 14 weeks, instead of the typical 13 week fiscal quarter. Once every seven years we have an extended fourth quarter.

We believe total net revenues for our fourth quarter will be in the range of $200 to $210 million. This forecast assumes gross margins in the range of 51% - 52%. Currency continues to weigh on our profitability as well, accounting for over 80 basis point decline in margins compared to Q4 FY15. While we have an extra week to book and ship revenue, it is a week that shifts from the third quarter holiday period when bookings are extremely low. Therefore, we are not expecting any significant increase in our revenues from this extra week.

On a constant currency basis compared with Q4 FY15, the mid-point of the range would be roughly $208 million and would represent 3.5% growth from the prior year.

Operating expenses for Q4 are expected to be $5 million to $6 million higher than in Q4 of FY15. The majority of this increase is due to the one additional week in our fiscal calendar. The remainder of the increase is due primarily to annual merit increases and the non-recurrence of last year's litigation gain.

Depending on revenue mix and other factors, we believe our GAAP operating income will be approximately $16 million to $21 million and non-GAAP operating income of approximately $30 million to $35 million. The GAAP reconciling items we expect in the third quarter include approximately $8 million in stock-based compensation expense and purchase accounting amortization, before tax, and approximately $6 million in restructuring costs.

On a constant currency basis compared with Q4 FY15, we expect a positive impact to our expenses of roughly $2 million.

Our Non-GAAP tax rate for the fourth fiscal quarter is expected to be 25.5%, and we are anticipating a full-year tax rate of 25.5%.

Based on all the above, in the fourth quarter we expect GAAP EPS of $0.21 to $0.31 and non-GAAP EPS to be $0.50 to $0.60 on average diluted shares outstanding of approximately 33 million.

Full Year FY2016

We estimate the ultimate impact to revenue and EPS in FY 2016 from currency and the decline in mono Bluetooth to be approximately $46 million in revenue and $0.44 per share.

Due to our significant revenue from outside of the United States, currency has brought down our profitability levels since the December quarter of 2014 when the dollar first began significantly strengthen compared to other currencies. Based on our guidance mid-point for Q4, our full fiscal year 2016 results are expected to be impacted by currency as follows:

- Approximately $27 million in reduced revenue, net of hedge gains during the year of approximately $8 million.

- Approximately $10 million of reduced operating income and a decrease in our operating margin to 18.3%, from 18.8% on a constant currency basis.

- EPS for the full fiscal year is expected to benefit from our significant share repurchases in the first half of the year. Total EPS benefit for the year, based on purchases through December 31, 2015, is expected to be $0.45. However, negative currency impacts in operating income, as well as foreign currency losses from unhedged currencies in other income & expense is expected to have a negative EPS impact of $0.28.

In addition, the speed and size of declines in our mono Bluetooth product revenue were unexpected. Based on actual results for the first nine months of this fiscal year, our mono Bluetooth revenues were down by $19 million compared to the same period in Fiscal Year 2015 on a constant currency basis.

Fiscal Year 2017 Outlook.

Our restructuring activities are expected to save $15 million to $16 million in annual expenses. However, strategic investments for future growth, as well as an expected increase in employee related expenses will result in a net increase in operating expenses in FY17 compared to FY16, and we expect our Q1 FY17 operating expenses to increase slightly from the fourth quarter of FY16. Performance-based compensation expense returning to target levels, annual merit increases, and increasing healthcare costs are the primary drivers behind an expected increase in annual expenses in Fiscal 2017.

We have already taken significant steps to adjust our cost structure to align with the current economic conditions and company profitability. However, going forward we will have lower gains from our hedging program to offset existing currency exchange rates. Many of our competitors benefit from a weak Euro and we believe that cutting our spending to a level necessary to achieve our target operating margin would put us at a significant competitive disadvantage and would hurt our long term strategic position.