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Simply Smarter Communications®

Q4 FY2016 Financial Results Prepared Comments

Ken Kannappan, President & CEO **May 3, 2016**

Key Points on the Quarter, Fiscal 2016 and Outlook:

- We achieved 5% revenue growth in the fourth quarter of fiscal year 2016 compared to the same period in fiscal year 2015, driven primarily by Unified Communications growth of 25% and stronger than anticipated Consumer category results. There were several largely offsetting items which affected fourth quarter results compared to the prior year. We benefited from an extra week in the quarter, which was offset by lower hedging gains of $3.3 million (versus the prior year quarter), unfavorable currency rates, and lower levels of channel inventory in the U.S.

- On a constant currency basis, revenues grew by 6% in the quarter and 2% for the year compared to the same fiscal year 2015 periods.
  - We believe demand in our Core Enterprise business is stable.
  - Unified Communications grew by 25% in the fourth quarter (YoY) and over 10% for all of fiscal year 2016. We expect strong mid-teen percentage growth of Unified Communications headset revenue in fiscal year 2017.
  - Our Consumer business has stabilized, revenues grew by 3% in the fourth quarter over the prior year period. Mono Bluetooth headset sales grew year over year due to both market share gains and an extra week in the quarter, and we anticipate the stereo Bluetooth category to contribute to growth by the end of the calendar year.

- We expect average annual constant currency revenue growth in the mid-to-high single digit percentages through fiscal year 2019, with a slightly lower revenue growth rate in fiscal year 2017.

- New opportunities in services and Soundscaping are anticipated to provide incremental upside to our revenue growth expectations after fiscal year 2017.

- Our competitive position in the Enterprise and mono Bluetooth headset categories remains strong, and we believe we are well positioned for growth in the stereo Bluetooth market.

Commitment to Improved Profitability

We completed restructuring activities announced in February, and have taken steps intended to further reduce expenses to position us for additional operating margin improvement in fiscal year 2017. Our operating margins are expected to increase by 100 to 200 basis points in the first quarter of fiscal year 2017 from last quarter and to improve from that approximate level throughout fiscal year 2017 provided there are not any significant fluctuations in currency exchange rates. Long term, we remain committed to achieving a Non-GAAP operating margin target of 20% to 23%.

Business Group Results

Robust Unified Communications revenues drove our financial results to the high end of expectations. Our margins, ASP's and competitive position remain excellent and our offerings continue to receive a price premium compared with competitive offerings.

We're very pleased with the phenomenal reception for our new Encore Pro, Voyager Focus and our line of digital adapters. We anticipate these products, when combined with services offerings, will contribute to growth in the next several years.

Unified Communications (UC) continues to be the strongest growth driver of our Enterprise revenues. Our competitive position in this market remains strong. Our UC revenues grew by over 10% in fiscal year 2016. We believe the opportunity for UC to drive headset adoption remains compelling, though the growth so far has been less than originally anticipated.

The bulk of our investment continues to be focused on delivering a hardware and software solution set for UC. Indications from our customers, distribution channels, and partners are that Enterprise UC deployments will remain strong over the coming year.

Consumer

Our market share in mono Bluetooth headset sales reached a record level in the U.S. for the first two months of this calendar year, rising from 58% in calendar 2015 to 63%. The mono Bluetooth market continues to decline at a 30% annual rate. Our gaming and Clarity products experienced healthy growth in the fourth quarter of fiscal year 2016, and our overall outlook for our consumer line of products has improved entering FY 2017.

Our new Voyager 5200, Backbeat Go 3 and Virtual Reality headsets have received noteworthy market reception.

The Voyager 5200 is our new premium mono Bluetooth headset introduced this quarter, and provides the best mono Bluetooth communications experience we have ever offered. We believe its capabilities and sound experience are superior to other mono Bluetooth headsets on the market today. It is designed for stability and comfort on a wide range of ear shapes and sizes; fitting over 90 percent of people. It features our new WindSmart technology, an exclusive Plantronics innovation, which provides extraordinary wind and noise reduction. It also features Plantronics' sensor technology allowing automatic call answering, has a wireless range of about 100 feet, contains 4 microphones, 50% more digital signal processing than its predecessor, and incorporates a unique two molecule thick coating process to protect against water. An optional multi-purpose charging case provides up to an additional 14 hours of talk time on the go.

The Backbeat Go 3 is our new stereo Bluetooth wireless set of earbuds designed to provide stunning audio quality and sound performance. BackBeat GO 3 delivers vivid, high-res sound from a small, portable form factor that is attractive and comfortable to wear. Our Backbeat Go 3 is expected to begin shipping this quarter and is expected to improve sales in our stereo Bluetooth product line, and offset declining sales as Backbeat Go 2 passed maturity.

Our Backbeat Sense Stereo Wireless Bluetooth headset, introduced this past fall, was chosen from among approximately 5,300 entries and awarded the International Forum Design (iF) award in the audio category. Plantronics has been honored by the iF multiple times over the past decade for design excellence. Previous BackBeat family product winners have included the Plantronics BackBeat FIT and the Plantronics BackBeat PRO.

In the gaming category, we introduced the RIG 4VR, a headset designed for use with the PlayStation®VR. RIG 4VR is a complete audio solution developed for PlayStation®4, with interchangeable cables for use with PlayStation®VR and DualShock®4 wireless controllers, and will be available worldwide concurrently with the launch of the PlayStation®VR in October 2016. RIG 4VR features rich speakers paired with low-frequency resonators for enhanced bass while maintaining accuracy of sounds. It is constructed with an ultra-light, super-flexible frame and modular components for extraordinary comfort. A unique oval earcup design means it fits comfortably while in use with wearable displays like the PlayStation®VR headset.

Incremental Growth Opportunities

Over the coming years, we anticipate higher revenue growth and profitability as new services offerings are commercially released and expanded.

Plantronics Device-as-a-Service

Enterprises are increasingly adopting “as a service” business practices to reduce the complexity and costs of internal software and hardware infrastructure and minimize the impacts of vendor product updates and upgrades. During fiscal year 2016, we introduced a services offering specifically designed to meet customer demands for hardware flexibility and reliability, Plantronics Device-as-a-Service. We believe this offering is the right solution for the SMB market and presents an opportunity to expand our market presence in that category.

SaaS (Software-as-a-Service)

Our strategy in SaaS is to leverage telemetry data generated by the headset and captured by our client software, Plantronics Hub. We can then process this data in the cloud to provide data insights and simplify the management of systems that include our devices. We have the ability to integrate into partner platforms and management processes. This opportunity provides an attractive ROI with an excellent margin profile.

The first of several data capabilities and data sets was announced today; Plantronics Manager Pro v3.8 and the new Asset Analysis suite. Plantronics Manager Pro is a software subscription service that customers and partners can use to manage audio communications devices. With Plantronics Manager Pro, IT and contact center managers can gain insights from voice interactions, turning the headset into a data aggregation tool by using analytics to improve collaboration and customer service at the point of interaction. Plantronics Manager Pro includes the ability to:

- Track device deployment and configurations, reconfigurations, and firmware updates.
- Find non-standard firmware, software, softphone, and communications client deployments. This can include conflicts where users are using incompatible versions of software.
- Use user groups to define standard device settings that improve user experience and assist compliance with workplace security, health, and safety policies.

Plantronics Manager Pro is the foundation service upon which we will offer additional analysis suites that can help IT and contact center managers evaluate usage patterns, conversational dynamics, and acoustic health. Asset Analysis is the first generally available suite. By August 1, we expect to offer this service through our partners in 169 countries around the world.

We believe our subscription software services allow our channel partners to create higher-value relationships with their customers by improving conversations on both ends of the call.

Plantronics Manager Pro with Asset Analysis enables IT managers to quickly run an inventory report to determine which headset is being used, the operational status and to which softphones they are connected. We also believe SaaS offers our customers the opportunity to create higher-value relationships.

Soundscaping

Many organizations are trying to optimize productivity in their facilities given the high cost of real estate and personnel. More and more knowledge workers spend their time collaborating with others instead of working individually. As a result, many organizations have moved to open plan environments to break down barriers and encourage collaboration. Other firms that have yet to make the transition see the value of dramatically reducing per employee office space in open plan environments. Firms can experience savings of up to 80 square feet per person. Depending on local rates for office space this could result in savings of up to $15,000 per person.

Unfortunately, open space plans can lead to distractions and interruptions that may significantly impair productivity. Frequently, Facilities Departments mistake employee complaints as a “noise” problem. Rather than managing sound, they seek to dampen all sound by installing expensive sound dampening solutions, which creates a library effect where even a whisper can cause productivity-impairing distractions. Restoring the ability for people to concentrate while others collaborate has therefore become a critical objective. So for firms that have already moved to open plans or those who have an interest in doing so, managing sound is crucial.

We have invested in a proprietary noise masking technology we call Soundscaping. Soundscaping is a room based system that at normal conversational levels allows people to have conversations five to eight feet away without disturbing others 12 to 15 feet away from them.

We believe that one of our most promising opportunities is monetizing our unique ability to shape and manage disruptive sound in open space environments by providing intelligent and adaptive algorithms. Our efforts in Soundscaping technology for the past several years have been successful and we are now accelerating plans to bring it to market. Thus far, we’ve had an enormous amount of interest in our solution. Customers who tour our facility and have experienced Soundscaping want it and are willing to pay for it.

Our Soundscaping technology is more effective than other solutions that provide simple “white, pink, or brown noise”. Our Soundscaping solution, manages sounds in open space environments, targeting specific areas as needed, to provide a more conducive environment to focus, and be productive in denser, open collaboration office environments.

We expect our Soundscaping offering, which incorporates both hardware and software to be in beta at several customers in fiscal year 2017 and have a commercially available solution with attractive margins next year.

The Plantronics Culture & Operations

We also take great pride in a differentiated work culture at Plantronics. Over the past few years, we’ve fully embraced smarter working, invested in employee development and have redesigned our facilities to showcase transformative workspaces that boost employee engagement.

We conduct annual surveys which benchmark Plantronics against leading companies in the U.S. and in the most recent survey, we continued to make significant progress in shaping our company into one of the best companies to work for. Our manufacturing facility in Mexico also recently received an unprecedented 6th consecutive Best Place to Work in Mexico award. We are enormously proud of our manufacturing excellence and the superb environment they’ve created.

Pam Strayer, SVP & Chief Financial Officer

Key Points (Non-GAAP, Comparisons are to Q4 FY15)

- Our Q4 FY16 results were at the high end of our expectations, we furthered our cost reduction efforts announced last quarter and our outlook for growth has improved compared to last year.

- Total Q4 revenue of $209.8 million was up $9.0 million and 4.5%. We met the high end of our revenue guidance and exceeded our EPS guidance on better than expected Enterprise revenue growth of 5% (driven by Unified Communications revenue growth of 25%) and Consumer revenue growth of 3% (driven by growth in mono Bluetooth and gaming headset sales).

- An extra week in our quarter aided year over year comparisons, which was offset by lower hedging gains of $3.3 million and a negative currency impact of $3.9 million.

- On a constant currency basis: Total revenues were $3.9 million higher at $213.7 million and grew 6.4%. Enterprise revenues grew 7.0% and Consumer revenues grew 4.8% compared to the prior year.

- Gross Margin was 51.3%, down 340 basis points compared to Q4 FY15 and up 240 basis points sequentially. Of the year over year decline, the strengthening dollar and prior year hedge gains were responsible for a decrease of 150 basis points, product mix shifts, including a shift from core to UC, was responsible for 100 basis points, and increased E&O and warranty costs were responsible for 100 basis points.

- Operating Income decreased $6 million and 14.8% from the prior year quarter to $34 million and 16.4% of revenue. On a constant currency basis, the year over year decrease would have been $3.8 million and our operating margin would have been 17.1% of revenue.

- EPS were $0.64 down 11.1% from $0.72. On a constant currency basis, EPS were $0.67, down 7% over the prior year. We repurchased approximately 400,000 shares during the quarter and used approximately $15 million on share repurchases.

- Capital Expenditures were $10 million for the quarter and $31 million for the full year. We are expecting to invest between $25 million and $30 million in capital expenditure for fiscal year 2017. Our long-term expectation for capital expenditures is between 2% to 3% of revenues.

- The full fiscal year 2016 Non-GAAP tax rate was 25.3% and the forecast tax rate for FY17 is 25.5%

- Foreign currency movements and our hedging strategy impacted our P&L compared to Q4 FY15. As a reminder, our hedging strategy is designed to dampen volatility from currencies and to delay the impact of changes in our P&L. The following metrics adjust for changes in currency rates as well as a decrease of $3.3 million in hedge gains that had been recorded in the prior year, to normalize results. Year over year revenue growth of $9.0 million, would have been $16.5 million or 8% compared with the prior year. In addition, Gross Margin was $7.1 million lower and Operating Expenses were $1.9 million lower. The net impact to Operating Income was $5.2 million lower and we recorded lower currency gains in Other Income & Expense of $3.9 million. As a result, the change in EPS was negatively impacted by $0.17 when compared to Q4'15. As our hedging instruments cover a period of 12 months, the hedging conducted a year ago has little benefit in offsetting the stronger dollar against other major currencies in which we conduct business.

Cost Reduction, Restructuring Activities and Operating Margin Outlook

We initiated a restructuring plan in Q3 FY16 to better align our expenses with our revenue and gross margin profile and position us for improved operating performance. In addition to the restructuring announcement made last quarter, additional expense reductions were made during the quarter to achieve operating margin improvement in Fiscal 2017. We believe we hit a trough in operating margins in Q4 FY16, and anticipate an improvement of approximately 200 basis points in Q1 FY17 from Q4 FY 16. We expect operating margins to be flat to slightly up for the full Fiscal Year 2017 compared to the 18.4% operating margin recorded for Fiscal Year 2016. The impact of currency is expected to remain significant in Fiscal Year 2017. Our expectation for flat to slightly improved operating margins assumes currency rates remain consistent with the prior year's average rates. Our Fiscal Year 2017 operating margin outlook would be approximately 20% based on Fiscal Year 2015 average currency rates.

Revenue Detail

Total net revenues for the fourth quarter of FY16 of $209.8 million were up $9.0 million compared to the fourth quarter last year.

- Revenues in the Americas region were up $1.8 million and 1%. The increase was due to an increase in the US of $2.8 million and 2%, partially offset by decreases in Latin America. US Enterprise revenues benefited from strong double-digit growth in UC; partially offset by a decline in Consumer revenues, driven primarily by declines in our stereo Bluetooth revenues as we transition to new product offerings in our stereo Bluetooth line.

- Revenues in the Europe & Africa region were up $4.6 million and 9%. On a constant currency basis, the region was up $7 million and 15%. Strong UC growth was the primary driver in this region.

- The Asia Pacific region was up $2.6 million and 13%. On a constant currency basis, the region was up $3 million and 17%. Growth in this region was driven in near equal measure by increases in our UC and Consumer product revenues.

The following are key product line comparisons to Q4 FY15:

- Enterprise net revenues of $156.2 million were up $7.5 million and 5%. Increase in UC product revenues more than offset low single digit declines in revenues from our Core Enterprise products. Channel inventories declined during the quarter as several channel partners made directed efforts to manage their inventory levels down and weeks on hand of Enterprise product inventory declined by almost a full week, contributing to the quarter's revenue weakness but positioning us well for the current quarter.

- Consumer net revenues were $53.6 million, up $1.5 million and 3% compared to Q4 FY15. This increase was driven primarily by increases in revenue from our gaming products. We also recorded year over year increases in our mono Bluetooth business due to the continued strength of our premium line of headsets including the Legend. Our stereo Bluetooth business declined compared to the prior year due to some aging of products in that category. However, the Backbeat Go 3 was recently announced to replace the Backbeat Go 2, and additional new stereo Bluetooth products are scheduled for release in Fiscal Year 2017.

Operating Income and Expense

Non-GAAP operating expenses were $73.3 million, up $3.8 million and 6% compared to Q4 FY15. The increase is due to an increase in expenses associated with the extra week in our fiscal quarter of $3.8 million, higher legal expense including non-recurrence of gains of $1.2 million, and additional compensation expense of $1 million, partially offset by a positive impact from currency movements of $2 million.

Non-GAAP operating income was $34.4 million dollars and 16.4% of net revenue in Q4 FY16. This represents a decrease of $6.0 million and 15% compared to Q4 FY15. The year over year decline was driven primarily by a $3.8 million increase in operating expenses compounded by a $2.2 million decrease in gross margin (both discussed above). On a constant currency basis, our operating income is $36.6 million and 17.1% of net revenue.

Below the operating income line, we recorded interest expense of $7.9 million primarily from the issuance of 8-year 5.50% Senior Notes in May 2015. We recognized a $0.7 million gain from fx within our Other Income and Expense line item compared to a $2.4 million loss in the year ago quarter.

Our effective non-GAAP tax rate for the quarter was 24.4%

The rate increased in Q4 FY16 compared to last quarter (Q3 FY16) by just under 1% as the research credit was reinstated last quarter providing a one-time benefit that quarter for the retroactive reinstatement to the start of the year.

As a result of all of these items, our Q4 non-GAAP net income of $21.0 million was 31% lower than a year ago.

Non-GAAP EPS of $0.64 per share was down $0.08 from the prior year quarter. EPS was positively impacted by $0.14 in the quarter by share repurchases made over the past year. This was offset by a negative impact from interest expense associated with our $500 million debt offering, net of the tax benefit. We repurchased more than 400,000 shares of our common stock during the fourth quarter.

On a constant currency basis our EPS would have been $0.67, a year over year decline of $0.05 and approximately 7%.

Balance Sheet and Cash Flow Highlights

We finished the fourth quarter of FY16 with $541 million in cash and investments on our balance sheet and generated $43 million in cash flow from operations during the quarter. Our cash flow from operations was lower than the $54 million we recorded in Q4 FY15, primarily due to lower net income (after adjusting for non-cash items). For the full fiscal year 2016, we generated $147 million of cash flows from operations compared to $154 million in fiscal year 2015.

Of the $541 million in cash and investments at the end of the fourth quarter of FY16, $41 million was domestic. We used approximately $15 million to repurchase shares of our common stock during the quarter.

DSO was 59 days, down from 61 days in Q4 FY15. Increased discount and marketing reserves reduced DSO by 5 days which was partially offset by a slight increase in aged receivables.

Inventory turns are 7.7 compared to 6.5 in Q4 FY15.

Turning to our capital expenditures, our Q4 FY16 investment was $9.7 million, or 4.6% 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 Q4 FY16 was $5.3 million, up $0.6 million from the prior year quarter.

Turning to the outlook.

We believe total net revenues for our first fiscal quarter of 2017 will be in the range of $207 million to $217 million and assumes no currency hedge gains in our revenue compared with $3.5 million of hedge gains we recorded in the first fiscal quarter last year. Partially offsetting this is a one-time revenue benefit of several million dollars and a 50 basis point gross margin benefit from a royalty payment received from a partner.

Operating expenses for Q1 are expected to be flat to down from Q4 of FY16. Although we expect savings from the cost reduction activity and one less week in our fiscal quarter, increases in operating expenses compared to our fourth quarter are coming from increases related to the timing of marketing and sales expenses, higher litigation expenses and replacement of positions related to our Voluntary Retirement Program announced as part of our restructuring.

Depending on revenue mix and other factors, we believe our GAAP operating income will be approximately $27 million to $32 million and non-GAAP operating income of approximately $35 million to $40 million. The GAAP reconciling items we expect in the first quarter include approximately $8 million in stock-based compensation expense and purchase accounting amortization, before tax.

Our Non-GAAP tax rate for the first 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 first quarter of Fiscal Year 2017 we expect GAAP EPS of $0.45 to $0.55 and non-GAAP EPS to be $0.63 to $0.73 on average diluted shares outstanding of approximately 33 million.

Fiscal Year 2017 Outlook.

We are focused on improving our profitability during Fiscal Year 2017 and expect operating margins to be flat to up compared to the annual Non-GAAP operating margin of 18.4% recorded for Fiscal Year 2016. This expectation is dependent on currency rates that are similar to those in place during Fiscal Year 2016.

We continue to actively manage costs and are working to achieve efficiencies in manufacturing and operations to offset currency headwinds and the significant decline in the mono Bluetooth market over the past year. We believe that a lower growth of expenses compared to revenues will return us to our Non-GAAP operating margin target range of 20% to 23% in the coming years. We're moving in the right direction as our operating expenses as a percentage of revenue are forecasted to decline for the second consecutive year.