



# **VTech Holdings Limited**

FY2022 Annual Results Announcement

16 May 2022

# Financial Review



# Financial Highlights

For the year ended 31 March

(US\$ M)

2022

2021

Change

**Revenue**

**2,370.5**

2,372.3

-0.1%

**Gross Profit**

**669.1**

726.6

-7.9%

Gross Profit Margin %

**28.2%**

30.6%

-2.4% pts

**Operating Profit**

**203.8**

266.2

-23.4%

Operating Profit Margin %

**8.6%**

11.2%

-2.6% pts

**Profit Attributable to Shareholders of the Company**

**172.7**

230.9

-25.2%

Net Profit Margin %

**7.3%**

9.7%

-2.4% pts

**Basic Earnings per Share** (US cents)

**68.5**

91.6

-25.2%

**Dividend per Share** (US cents)

• Interim

**17.0**

17.0

• Final

**51.0**

74.0

• Total dividend for the year

**68.0**

91.0

-25.3%





# Revenue by Region

For the year ended 31 March

(US\$ M)	2022	%	2021	Change
North America	1,068.5	45.1	995.1	7.4%
Europe	1,025.1	43.2	1,086.3	-5.6%
Asia Pacific	255.0	10.8	268.4	-5.0%
Other Regions	21.9	0.9	22.5	-2.7%
<b>Total</b>	<b>2,370.5</b>	<b>100.0</b>	<b>2,372.3</b>	<b>-0.1%</b>

# vtech | Working Capital

(US\$ M)

31/03/22

31/03/21

**Stocks**

**553.3**

414.0

**Stocks Turnover Days**

**131 days**

103 days

**Trade Debtors**

**325.4**

270.7

**Trade Debtors Turnover Days**

**65 days**

61 days

(US\$ M)

31/03/22

31/03/21

Deposits and Cash

195.8

343.8

Total Borrowings

-

-

Net Cash Position

195.8

343.8

# Costs

# vtech | Costs

- Gross profit margin of 28.2%
- Decline mainly attributable to:
  - Unprecedented increase in freight costs
  - Higher direct labour costs and manufacturing overhead
  - Higher materials prices
- Improvement seen in 2H as the Group raised prices
- Freight cost declined slightly after peak shipping season
- Semiconductors supply remained tight

- Extremely challenging in FY2022
- Continual disruption to global supply chain led to materials shortages, significant cost increases and shipment delays
- Productivity impacted even further, as instability resulted in more overtime payments and hence higher overall labour costs
- Strong demand for VTech products, but some orders could not be fulfilled
- Materials supply and shipment problems led to late availability of products and low channel inventory

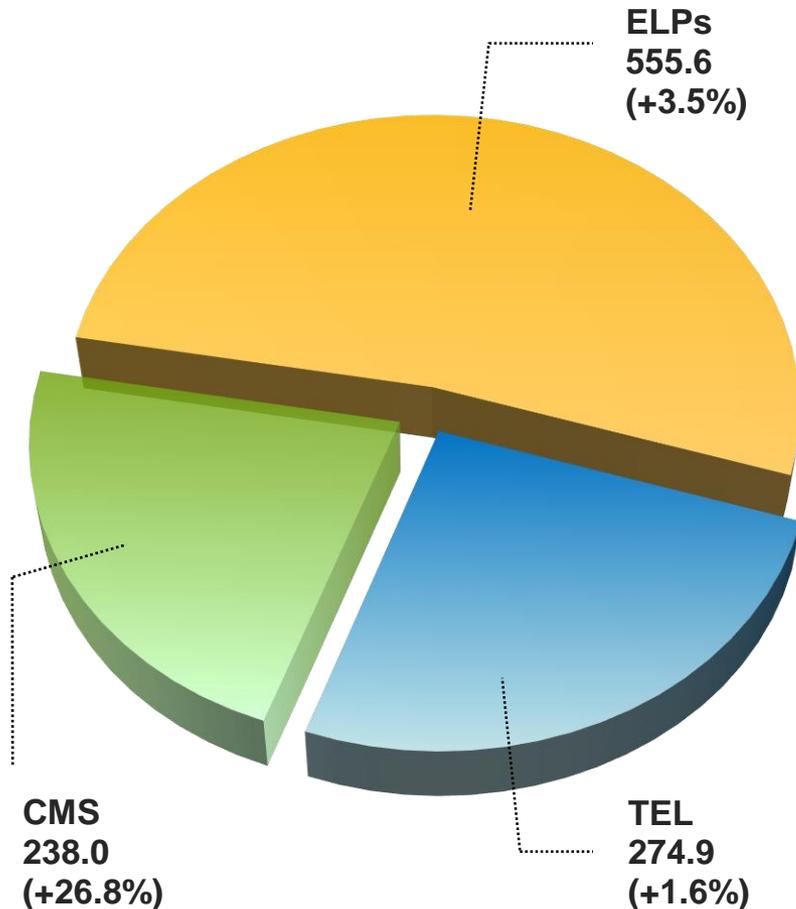
# vtech | VTech's Response

- Swift measures to mitigate negative impacts took effect in 2H:
  - Close, long-standing relationships with suppliers enabled more stable supply of critical components
  - Re-engineered products
  - Sourced alternative shipping carriers
  - Increased stocks of critical components
  - Started production earlier
  - Raised product prices

# Operations Review

# vtech | North America

Revenue by Product Line (US\$ million)

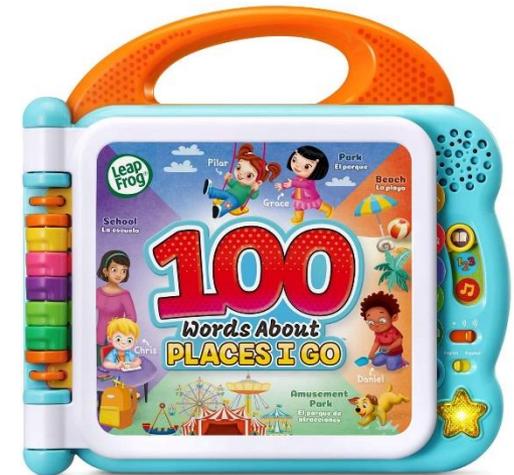


- Revenue increased 7.4% to **US\$1,068.5 million, 45.1% of Group revenue**
- Higher sales of **ELPs, TEL products and CMS**
- **ELPs revenue** rose 3.5% to US\$555.6 million
  - Higher sales in US offset decline in Canada
  - **US:** Maintained position as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool
  - **Canada:** Remained no. 1 supplier in infant, toddler and preschool toys category

# vtech | North America (continued)

- **Standalone Products:**

- Higher sales of both brands
- **VTech:** Sales increases from infant, toddler and preschool products, KidiZoom Cameras and Switch & Go Dinos, supported by launch of Marble Rush
- Offset declines in Kidi lines, Go! Go! Smart family of products and Go! Go! Cory Carson vehicles and playsets
- **LeapFrog:** Growth in infant and toddler products offset decline in preschool products
- New LeapLand Adventures boosted sales





- **Platform Products:**

- Sales declined as higher sales of LeapFrog products insufficient to offset lower sales of VTech products
- **LeapFrog:** Growth in Magic Adventures Globe and interactive reading systems offset declines in children's educational tablets on semiconductor shortages, which also led to slowdown in new LeapFrog Academy subscriptions
- **VTech:** Sales declines for KidiZoom Smartwatches and KidiBuzz as shipment of new products held up by semiconductor shortages and shipment delays
- Offset growth of Touch & Learn Activity Desk



- **TEL products** revenue grew 1.6% to US\$274.9 million, as gains in commercial phones and other telecommunication products offset lower sales of residential phones

- Good increases in sales to online channels

- **Commercial Phones and Other Telecommunication Products:**

- Sales increased as business activity returned to normal

- New products drove growth

- **Baby monitors:** Boosted by additional placements in key retailers, expanded online sales and new product launches



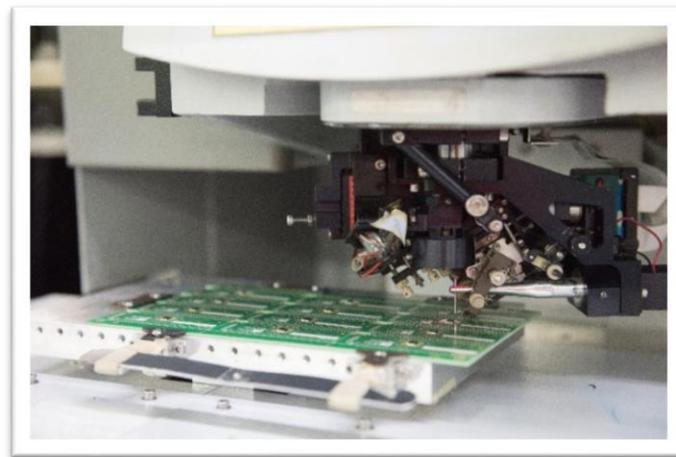
- VTech strengthened position as largest baby monitor manufacturer in US and Canada
- First LeapFrog branded baby monitor launched to positive reception
- **Headsets:** Grew on increased orders from existing customer
- **Snom SIP phones:** Gained market share on stable product supply
- **Hotel phones:** Sales benefitted from lifting of COVID-19 restrictions and supported by new models
- **Residential phones:** VTech maintained leadership in US although market returned to downward trend



- **CMS** revenue increased 26.8% to US\$238.0 million
- Growth in most product categories and full year sales contribution from the plant in Mexico
  - **Professional audio:** Higher sales to a customer on business acquisition
  - Relaxation of social distancing measures lifted sales of equipment used in concert halls, lecture theatres and churches

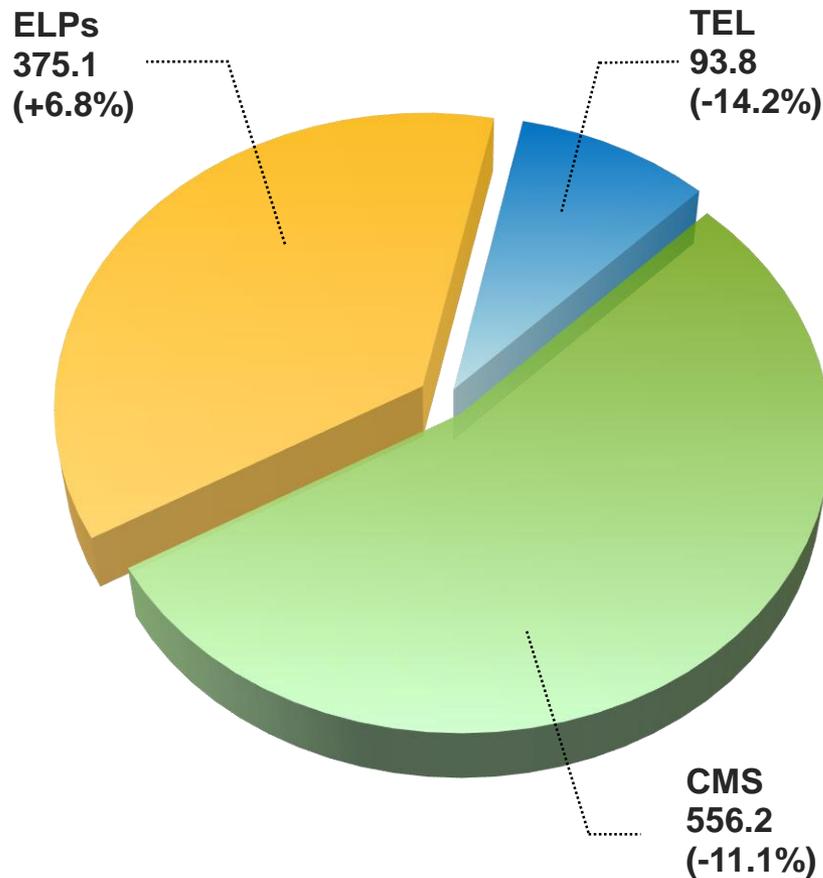


- **Solid-state lighting:** Sales grew as tenders and project-based activities resumed
- **Industrial products:** Sales increased on higher orders for PCBA for coin and note recognition machines
- **Medical and health products:** Sales grew on more orders for hearing aids
- **Communication products:** Sales rose on more orders for commercial VoIP phones



# vtech | Europe

Revenue by Product Line (US\$ million)



- Revenue declined 5.6% to US\$1,025.1 million, 43.2% of Group revenue
- Higher sales of ELPs offset by lower sales of TEL products and CMS
- ELPs revenue grew 6.8% to US\$375.1 million
  - Sales picked up in 2H as new products hit the shelves and channel inventory improved
  - Standalone products saw higher sales for full year, but platform products declined on materials shortages
  - Sales increased in France, Germany, Spain and Netherlands; declined in UK
  - Remained no. 1 infant and toddler toys manufacturer in France, UK, Germany and Benelux; regained leadership in Spain

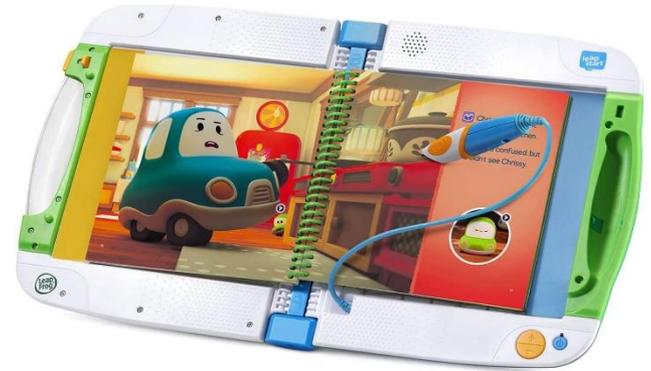
- **Standalone Products:**

- Higher sales for both brands
- **VTech:** Higher sales of infant, toddler and preschool products, KidiZoom Cameras, Kidi line products, Switch & Go Dinos and ELAs, augmented by Marble Rush launch
- Offset declines for Toot-Toot family of products and Toot-Toot Cory Carson vehicles and playsets
- **LeapFrog:** Growth in infant, toddler and preschool products, augmented by launch of LeapLand Adventures



- **Platform Products:**

- Lower sales for both brands, as materials shortages and logistics problems caused late availability of certain new products and low channel inventory
- These included new generation of LeapStart/MagiBook, KidiCom Advance 3.0, Magic Adventures Globe, KidiCom MAX and children's educational tablets
- Offset gains for Touch & Learn Activity Desk
- Sales of KidiZoom Smartwatches stable



# vtech | Europe (continued)



- **TEL products** revenue fell 14.2% to US\$93.8 million
  - Lower sales of residential phones and other telecommunication products offset higher sales of commercial phones
- **Residential Phones:**
  - Sells products on ODM basis
  - Shortage of semiconductors resulted in shipment deferrals and reduced sales
  - Successful launch of VTech branded DECT phones on a major e-tailer in UK, paving the way for increasing penetration of branded products in Europe

- **Commercial Phones and Other Telecommunication Products:**



- **Baby monitors, CAT-iq handsets, CareLine residential phones and IADs:** Sales decreased as semiconductor shortages negatively impacted production

- **Baby monitors:** VTech branded products strengthened position in UK on new product line-up

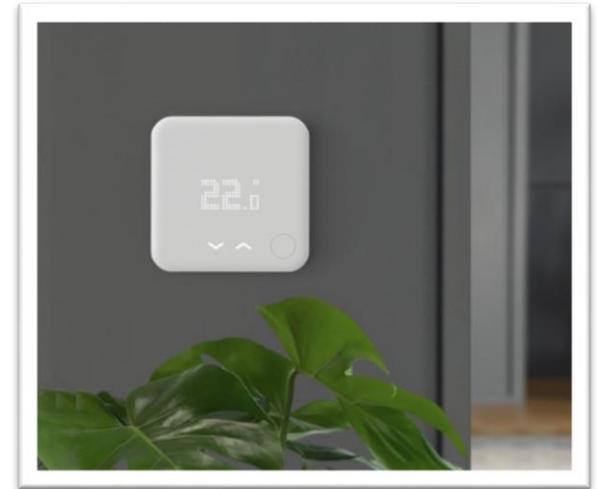
- **Snom SIP phones and hotel phones:** Resumption of business activity and leisure travel led to sales increases



- **CMS** revenue fell 11.1% to US\$556.2 million
  - **Hearables:** Lower sales on materials shortages and reduced orders for Bluetooth headsets
  - **Professional audio:** Sales increase driven by higher orders for audio mixers
  - **IoT products:** Sales grew as installation of smart meters resumed in UK, demand for internet connected thermostats and air-conditioning controls recovered
  - **Medical and health products:** Growth driven by increased orders for hearing aids, with sales of health and beauty products stable

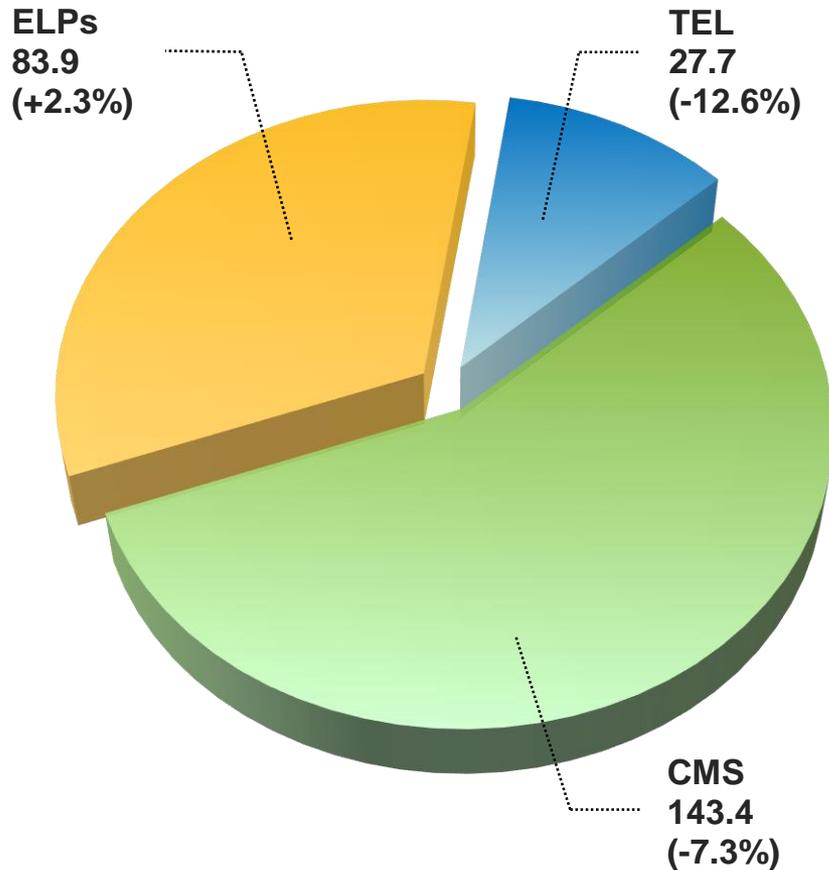


- **Home appliances:** Sales increased slightly
- **Automotive related products:** Increased orders for smart electric vehicle chargers
- **Communication products:** Sales decrease on lower orders for Wi-Fi routers
- Added a new customer in **smart energy management systems**



# vtech | Asia Pacific

Revenue by Product Line (US\$ million)



- Revenue decreased 5.0% to US\$255.0 million, 10.8% of Group revenue
- Lower sales of TEL products and CMS offset higher ELPs revenue
- ELPs revenue increased 2.3% to US\$83.9 million, as growth in Australia and Japan offset decline in mainland China

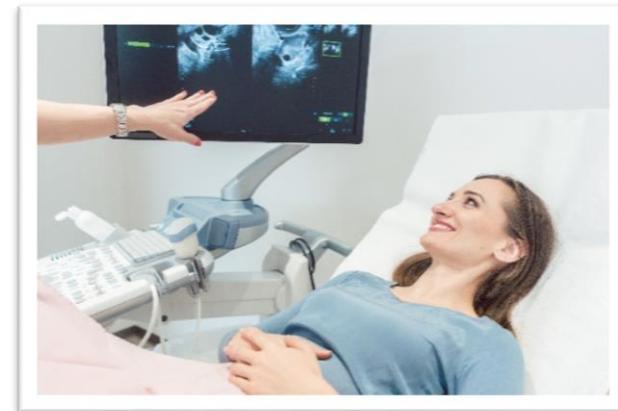


- **Australia:** Sales growth on easing of lockdowns and re-opening of retail stores in 2H
  - Remained no. 1 manufacturer in infant and toddler toys category
- **Japan:** Growth from rising sales to a major toy retailer and good sell through of jointly developed smartwatch featuring popular Japanese characters
- **Mainland China:** Lower online and offline sales despite the success of the new range of Switch & Go Dinos based on Mini Force animation and the enhanced version of Magic Adventures Globe

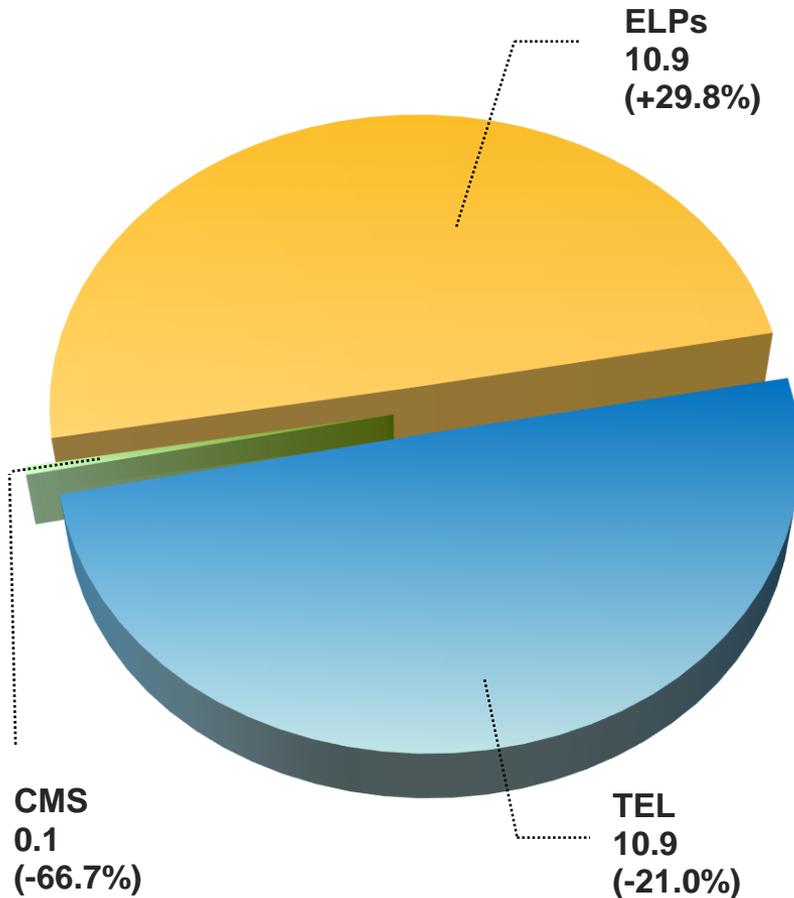
- **TEL products** revenue decreased 12.6% to US\$27.7 million, as higher sales in Australia offset by lower sales in Japan and Hong Kong
  - **Australia:** Higher sales of baby monitors compensated for decline in residential phones
  - **Japan:** Sales decreased on semiconductor shortage for existing residential phones customer
  - **Hong Kong:** IADs orders decreased



- **CMS** revenue declined 7.3% to US\$143.4 million
- Lower sales of professional audio equipment offset growth in medical and health products and communication products
- **Professional audio:** Lower sales of DJ equipment and USB streaming microphones for online KOLs
- **Medical and health products:** More orders for diagnostic ultrasound systems
- **Hearables:** Demand increased as business activity recovered
- **Communication products:** Higher orders for marine radios



Revenue by Product Line (US\$ million)



- Revenue fell 2.7% to US\$21.9 million, 0.9% of Group revenue
- Lower sales of TEL products and CMS offset growth in ELPs
- ELPs revenue increased 29.8% to US\$10.9 million. Higher sales in Latin America offset declines in Middle East and Africa
- TEL products revenue fell 21.0% to US\$10.9 million as sales decreases in Latin America and Middle East offset growth in Africa
- CMS revenue was US\$0.1 million, as compared to US\$0.3 million in FY2021

# Sustainability



- **A Steadfast Commitment**
  - Sustainable designs for products and packaging
  - Climate change initiatives
  - Safe and inclusive workplace
  - Ethical sourcing throughout supply chain
- **Making Progress Towards a Circular Economy**
  - Introduced green ELPs utilising plant-based plastic, reclaimed plastic and FSC-certified wood
  - More eco-friendly toy products in FY2023

# Outlook

## Uncertainties in FY2023

- High inflation in US and Europe may slow consumer spending
- Recent lockdowns in major cities in mainland China negatively impacting domestic consumption
- Materials prices remain elevated, especially plastic materials
- Supply of semiconductors and critical components remains tight
- Lockdowns in mainland China disrupting global supply chain
- Freight costs will be higher than last year, despite some improvement in supply of containers

- Minimal direct effects from war in Ukraine
- Cautiously optimistic to achieve overall top-line growth in FY2023
- Gross profit margin expected to be largely stable year-on-year
- Much better prepared to tackle supply chain pressures

# vtech | Outlook

## ELPs

- Revenue forecast to post modest growth
- Infant, toddler and preschool products will maintain positive momentum
- Expanded Spring offerings hit the shelves on time, with good initial sell-through
- **LeapFrog Academy:** Subscriptions expected to return to growth
- **Mainland China:** Sales expected to decrease



## TEL products

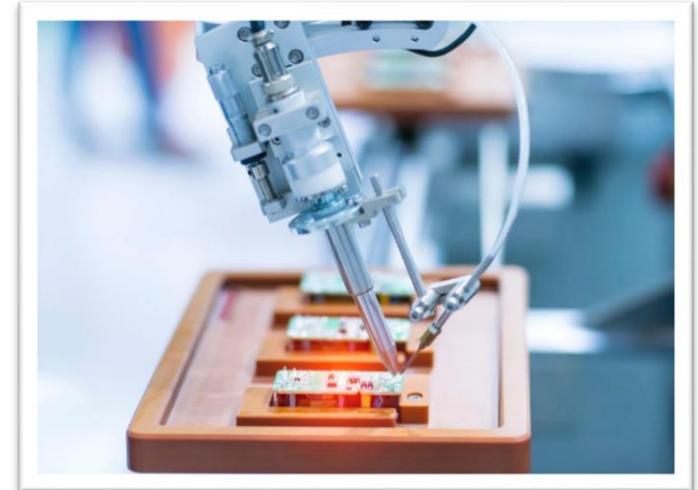
- Expected to achieve higher revenue
- **Baby monitors:** To be strengthened by expansion of LeapFrog range and new VTech branded series with AI detection features
- **Commercial phones:** New D8 series of Snom SIP desksets, multi-cell SIP DECT mobility system, work-from-anywhere series, new hospitality phones
- **Residential phones:** Recovery in the US and expansion in Europe



# vtech | Outlook

## CMS

- Anticipated to return to growth
- Most product categories forecast to grow
- Hearables to decline further on lower demand for mobile headsets
- Significant contribution from new smart energy management systems
- Further growth from NPI centre in Shenzhen
- Mexican facility to ramp up production and build up EMS capacity



# Q&A

**Thank You**