VTech Holdings Limited

FY2015 Annual Results Announcement

19 May 2015

Financial Review

Financial Highlights

For the year ended 31 March

(US$ M)	2015	2014	Change
Revenue	**1,879.8**	1,898.9	*-1.0%*
Gross Profit	**610.5**	634.3	*-3.8%*
Gross Profit Margin %	**32.5%**	33.4%	*-0.9% pts*
Operating Profit	**220.1**	226.6	*-2.9%*
Operating Profit Margin %	**11.7%**	11.9%	*-0.2% pts*
Profit Attributable to Shareholders of the Company	**198.1**	203.8	*-2.8%*
Net Profit Margin %	**10.5%**	10.7%	*-0.2% pts*
Basic Earnings per Share (US cents)	**78.9**	81.3	*-3.0%*
Dividend per Share (US cents)			
• Interim	**17.0**	16.0	
• Final	**61.0**	64.0	
• Total dividend for the year	**78.0**	80.0	*-2.5%*

Revenue by Region

For the year ended 31 March

(US$ M)	2015	%	2014	Change
North America	**899.5**	47.8	950.7	*-5.4%*
Europe	**812.3**	43.2	791.8	*2.6%*
Asia Pacific	**117.6**	6.3	108.9	*8.0%*
Other Regions	**50.4**	2.7	47.5	*6.1%*
Total	**1,879.8**	100.0	1,898.9	*-1.0%*

Working Capital

(US$ M)	31/03/15	31/03/14
Stocks	290.2	265.9
Stocks Turnover Days	96 days	87 days
Trade Debtors	221.9	208.6
Trade Debtors Turnover Days	57 days	54 days

Liquidity Position

(US$ M)	31/03/15	31/03/14
Deposits and Cash	294.2	322.9
Total Borrowings	--	--
Net Cash Position	294.2	322.9

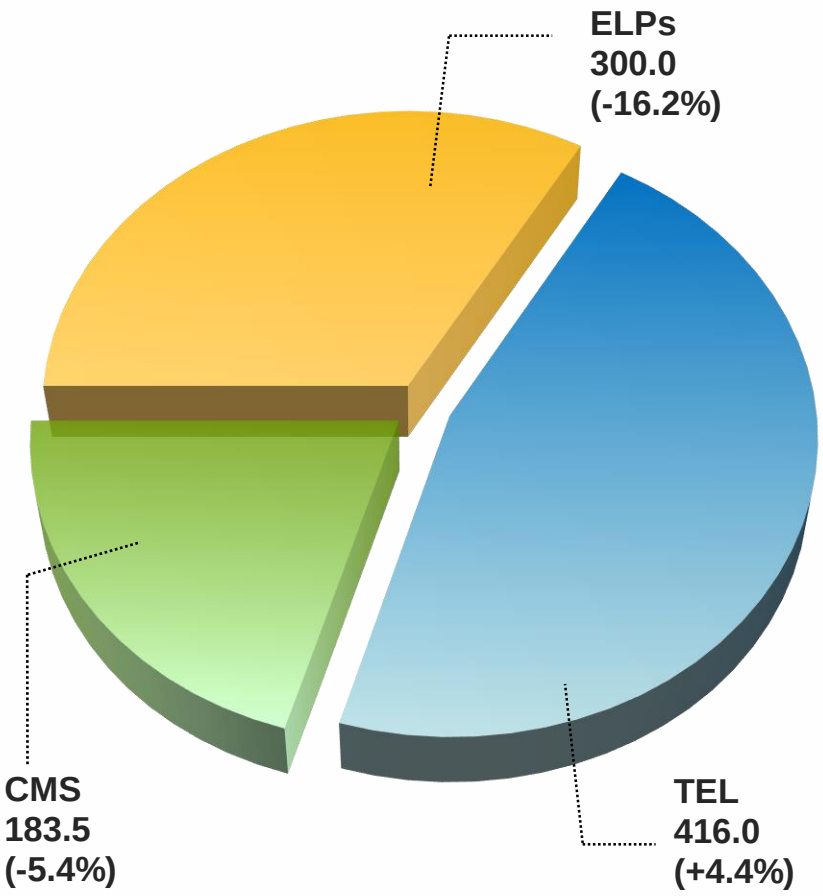
Operations Review

Operations Review - Costs

- Cost of materials largely unchanged
- Weaker RMB reduced costs
- Despite wage inflation in China, higher productivity reduced labour costs and manufacturing overheads
- Gross margin declined due to a change in product mix and weaker-than-expected tablets performance

North America

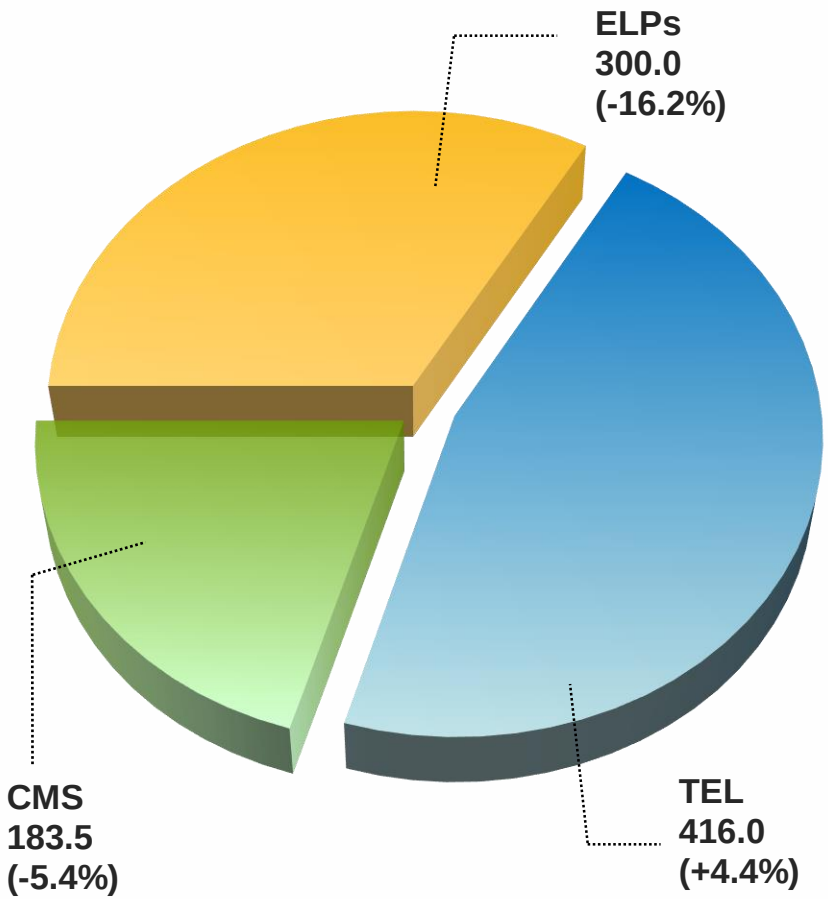
Revenue by Product Line (US$ million)



- **Revenue decreased 5.4% to US$899.5 million, 47.8% of Group revenue**
- **Lower revenues from ELPs and CMS offset higher revenue from TEL products**
- **ELPs** revenue down 16.2% to US$300.0 million
  - Sales declines in both platform and standalone products
  - Became the no.1 manufacturer in US Infant and Preschool Electronic Learning toys
  - Launched Kidizoom Smartwatch
  - Strong growth of Go! Go! Smart family

North America (continued)

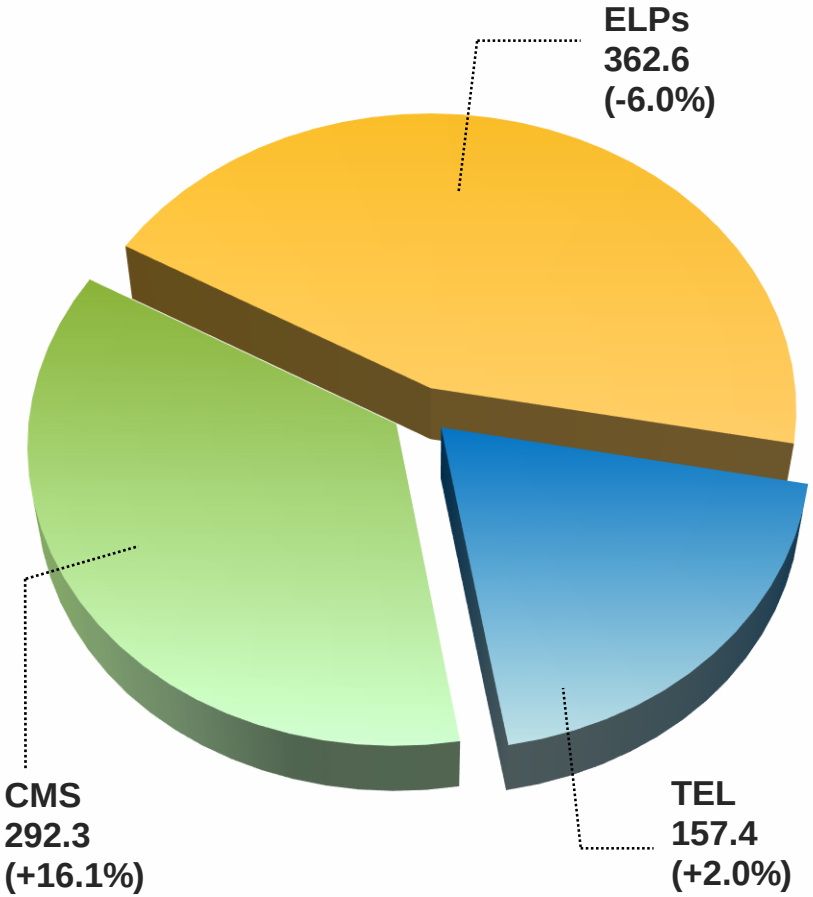
Revenue by Product Line (US$ million)



- **TEL** revenue rose 4.4% to US$416.0 million
  - Sales of commercial phones and other telecommunication products grew
  - Sales of residential phones declined slightly
  - Maintained no. 1 position in the US residential phones market
- **CMS** revenue down 5.4% to US$183.5 million
  - Sales of professional audio equipment and communication products were lower
  - Partially offset by growth in solid-state lighting, industrial products, home appliances and medical and health products

Europe

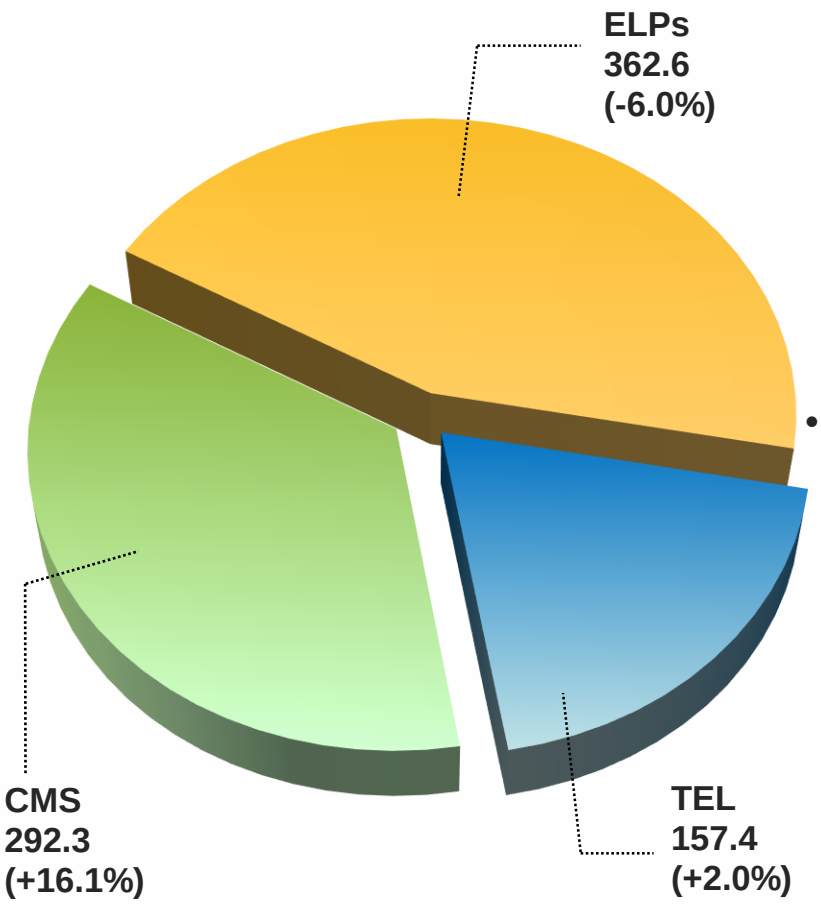
Revenue by Product Line (US$ million)



- **Revenue increased 2.6% to US$812.3 million, 43.2% of Group revenue**
- **Higher sales of TEL products and CMS offset lower sales in ELPs**
- **ELPs** revenue decreased 6.0% to US$362.6 million
  - Higher sales of standalone products failed to offset a sales decline in platform products
  - Launch of Kidizoom Smartwatch
  - Expansion of Toot-Toot family of products
  - Strengthened position as the no. 1 infant toy manufacturer
  - Launched Kidizoom Action Cam and new models of Little Love

Europe (continued)

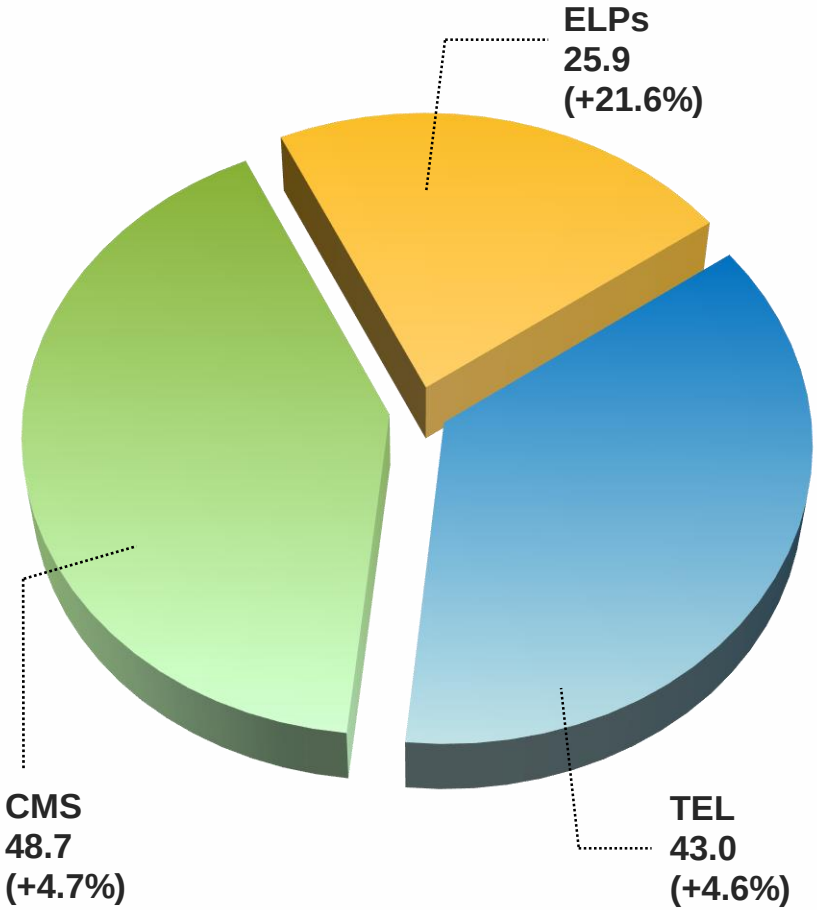
Revenue by Product Line (US$ million)



- **TEL** revenue up 2.0% to US$157.4 million
  - Higher sales of commercial phones and other telecommunication products offset a sales decline in residential phones
  - Maintained position as one of the leading cordless phone manufacturers
- **CMS** revenue rose 16.1% to US$292.3 million
  - Sales growth in most product categories, including wireless headsets, switching mode power supplies and home appliances
  - Sales of professional audio equipment decreased

Asia Pacific

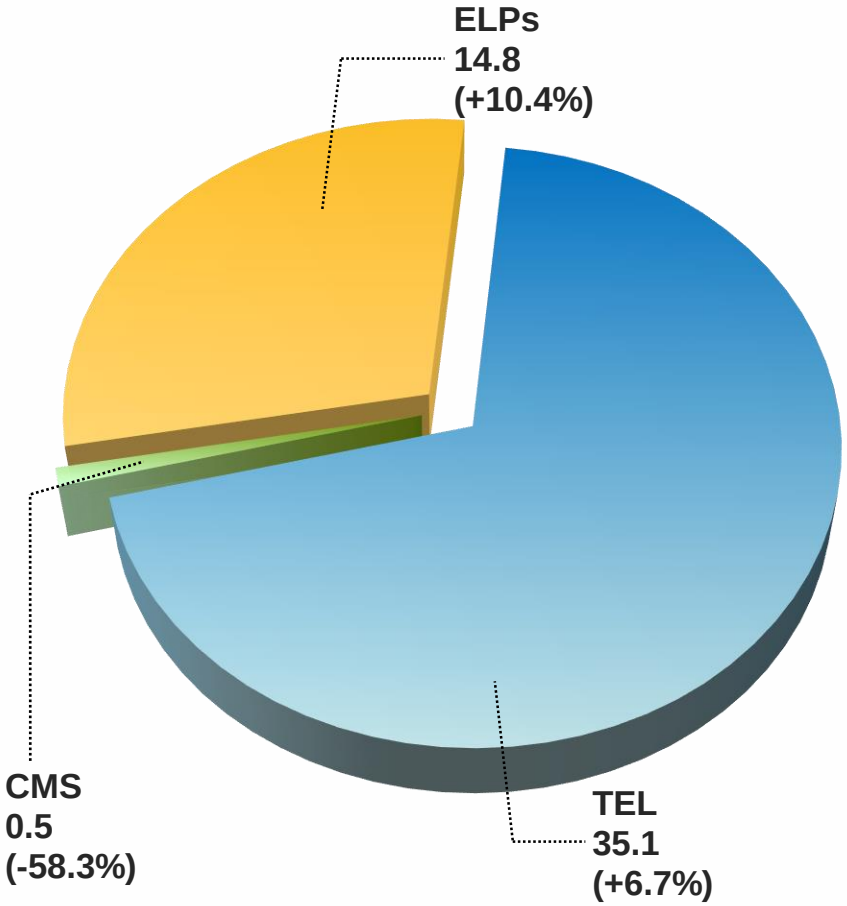
Revenue by Product Line (US$ million)



- **Revenue increased 8.0% to US$117.6 million, 6.3% of Group revenue**
- **ELPs** revenue grew 21.6% to US$25.9 million, driven by growth in China, Hong Kong and Korea. Sales in Australia were down
- **TEL** revenue increased 4.6% to US$43.0 million, driven by higher sales in Australia and Japan. Inroads were made in Thailand, Malaysia, Korea
- **CMS** revenue increased 4.7% to US$48.7 million, with higher sales of wireless products, medical and health products and solid-state lighting

Other Regions

Revenue by Product Line (US$ million)



- **Revenue rose 6.1% to US$50.4 million, 2.7% of Group revenue**
- Other Regions include Latin America, Middle East and Africa
- **ELPs** revenue increased 10.4% to US$14.8 million, as higher sales in Latin America and Africa offset lower sales in the Middle East
- **TEL** revenue increased 6.7% to US$35.1 million, with higher sales in all regions
- **CMS** revenue was US$0.5 million, against US$1.2 million in FY14

VTech Strategy

Growth Strategy

Product Innovation - ELPs

GO! GO! SMART FAMILY

- Expansion of Go! Go! Smart Family
- Nationwide distribution of Go! Go! Smart Friends in the US

BABY AMAZE/LITTLE LOVE

- Launch Baby Amaze in the US
- Line extension of Little Love in Europe

STANDALONE PRODUCTS

- 100+ new products will be launched globally

FLIPSIES

- Global launch
- Enable VTech to enter the girl aisle

KIDIZOOM ACTION CAM

- Global launch

Product Innovation - ELPs

Smartwatch

Kidizoom SMARTWATCH

Roll out a new generation of Smartwatch

New Platforms

Launch of new innovative platform products

Tablet

InnoTab MAX

Stay in the children's tablet market

Product Innovation – TEL products

Commercial Phones

- Introduce new models of ErisStation and ErisTerminal

Other Telecommunication Products

- Expansion of baby monitor range
- Launch wireless monitoring devices based on the ULE standard

Product Innovation – TEL products

Residential Phones – Continue to launch feature-rich products with superior design

Product Innovation – CMS

13th consecutive years of growth

Competency

Competence in handling low to medium volumes and a high mix of products

Flexible Service

Delivering flexible service and high quality products to customers

DFM

Continue to innovate in the area of Design for Manufacture

Manufacturing Know-how

Expertise in certain product categories

Strong Reputation

VTech CMS enjoys an enviable reputation for service

Growth Drivers

Market Share Gain

Global no. 1 cordless phone manufacturer

Global no. 1 player in ELPs

World's top 50 EMS provider

Geographic Expansion

- Australia
- China
- Japan
- Korea
- Selected markets in Latin America and the Middle East

Operational Excellence

- Deploying more standard and in-house custom-made machines
- Continuous process improvement
- Optimisation of products for manufacturing

➡ **Reduce number of workers further while increasing output**

Outlook

Outlook

- US continues a moderate recovery
- Uncertain prospects in Europe
- Depreciation of Euro
- **VTech plans for modest revenue increase in FY2016**

vtech | Outlook

ELPs

- Business expected to be stable
- Sales of **platform products** are forecast to decline
  - Children's tablet market remains challenging
  - Kidizoom Smartwatch will continue to grow
  - New innovative platform products to contribute additional revenue stream
- Sales of **standalone products** are forecast to grow
  - Expansion of Go! Go! Smart family
  - Nationwide distribution of Go! Go! Smart Friends in the US
  - Worldwide launch of Kidizoom Action Cam and Flipsies
  - Extension of Little Love/Baby Amaze line
  - New core infant and preschool learning products to strengthen leadership position

Outlook

TEL products

- Expect to maintain the positive sales trend, led by **commercial phones and other telecommunication products**
  - Full deployment of CAT-iq handsets
  - Introduction of new conference phones and SIP phone models
  - Strong momentum of baby monitors
  - Global launch of wireless monitoring system
- Sales of **residential phones**: forecast to be stable

Outlook

CMS

- Expect sales to increase
- **Professional audio**: on track to return to growth
- **Wireless headsets**: will grow further
- **New product categories:** smart hearable and wearable devices
- **Solid-state lighting**: will remain stable
- **Power supplies**: change of ownership of a customer creates uncertainty
- New factory building to increase capacity by 25%

Outlook

- **Gross margin**: do not anticipate any improvement given the strong US dollar
  - Stable material costs
  - RMB in a narrow range
  - Labour costs and manufacturing overheads will rise further
  - Continue to offset cost increases through automation, process improvement and product optimisation

Conclusion

"VTech has a culture rooted in innovation and technology. Our market leadership, R&D capability, strong balance sheet and operational efficiency differentiate us from our competitors...

We will continue to bring out innovative products, increase market share, expand geographically and strive for operational excellence to generate sustainable returns for shareholders."

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Thank You