



# **VTech Holdings Limited**

FY2016 Annual Results Announcement

17 May 2016

# Financial Review



# Financial Highlights

For the year ended 31 March

(US\$ M)

2016

2015

Changes

## Revenue

1,856.5

1,879.8

-1.2%

## Gross Profit

583.3

610.5

-4.5%

Gross Profit Margin %

31.4%

32.5%

-1.1% pts

## Operating Profit

202.3

220.1

-8.1%

Operating Profit Margin %

10.9%

11.7%

-0.8% pts

## Profit Attributable to Shareholders of the Company

181.4

198.1

-8.4%

Net Profit Margin %

9.8%

10.5%

-0.7% pts

## Basic Earnings per Share (US cents)

72.2

78.9

-8.5%

## Dividend per Share (US cents)

• Interim

17.0

17.0

• Final

25.0

61.0

• Total dividend for the year

42.0

78.0

-46.2%

# Revenue by Region

For the year ended 31 March

(US\$ M)	2016	%	2015	Change
North America	878.3	47.3	899.5	-2.4%
Europe	795.9	42.9	812.3	-2.0%
Asia Pacific	129.0	6.9	117.6	9.7%
Other Regions	53.3	2.9	50.4	5.8%
Total	1,856.5	100.0	1,879.8	-1.2%

(US\$ M)

31/03/16

31/03/15

**Stocks**

**285.4**

290.2

**Stocks Turnover Days**

**93 days**

96 days

**Trade Debtors**

**230.3**

221.9

**Trade Debtors Turnover Days**

**63 days**

57 days

(US\$ M)	31/03/16	31/03/15
Deposits and Cash	273.0	294.2
Total Borrowings	--	--
Net Cash Position	273.0	294.2

# Operations Review

- Gross profit margin declined due to foreign exchange headwinds and change in product mix
- Cost of material as % of Group revenue was higher, despite lower cost of material
- Direct labour costs declined
- Number of workers reduced by 9.9% year-on-year
- Higher manufacturing overhead

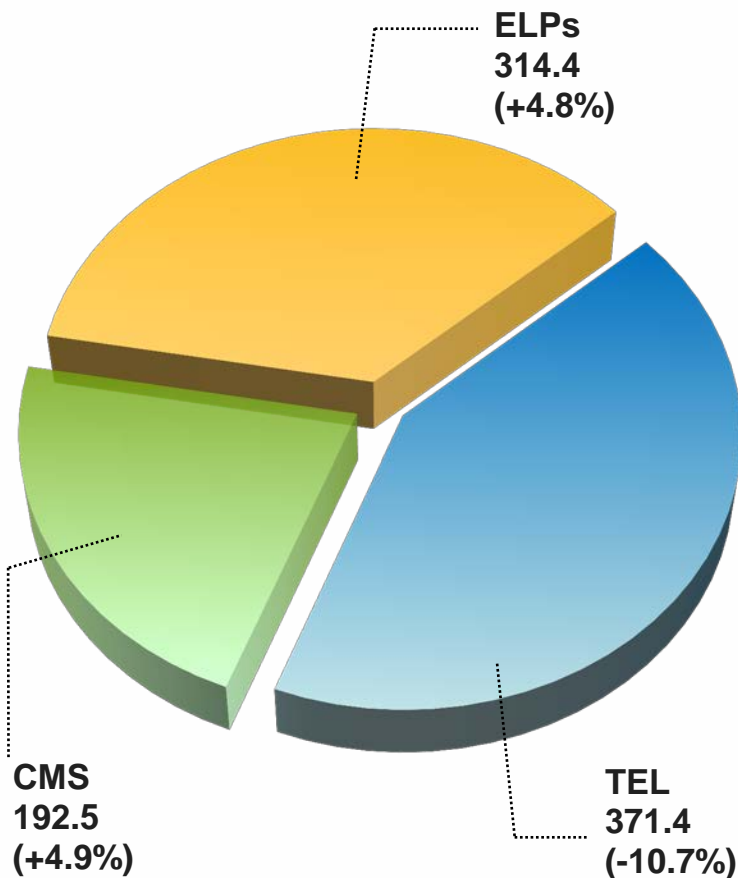


- FY2016 results affected by the data breach as a result of a cyber-attack
- Learning Lodge offline during key holiday period
- Strengthened data protection
- Stolen customer data recovered



# vtech | North America

## Revenue by Product Line (US\$ million)



- Revenue down 2.4% to US\$878.3 million, 47.3% of Group revenue
- Lower TEL products revenue offset higher sales of ELPs and CMS
- ELPs revenue increased by 4.8% to US\$314.4 million
  - Led by higher sales of standalone products
  - Maintained no. 1 position in electronic learning toys from infancy through toddler and preschool
  - **Standalone:** Growth driven by core infant, toddler, preschool and Go! Go! Smart family of products; Kidizoom Action Cam, Baby Amaze, Flipsies added incremental growth

- **Platform:** Growth in Kidizoom Smartwatch range unable to offset declining sales of InnoTab and its software
- Cyber-attack impacted sales
- Kidizoom Smartwatch DX performed strongly
- Rolled out InnoTV





- **TEL** products revenue decreased by 10.7% to US\$371.4 million
  - Growth in commercial phones and other telecommunication products insufficient to offset lower sales of residential phones
  - Sales decline in residential phones due to continued market contraction
  - Maintained leading position in US residential phone market



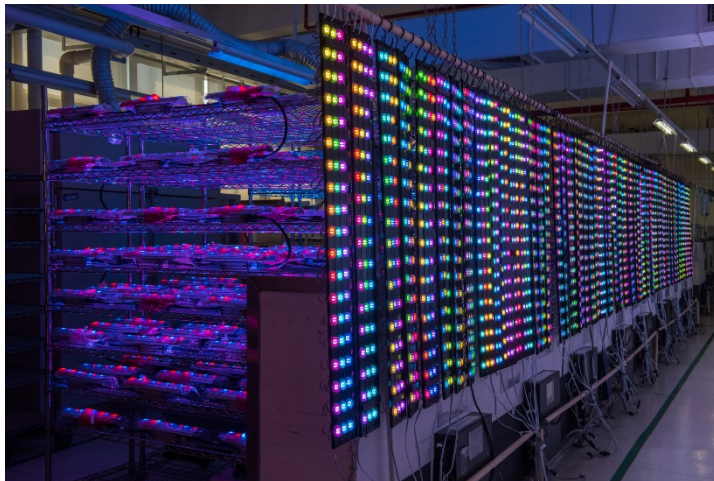
- Sales of commercial phones and other telecommunication products continued to rise
- Baby monitors, new four-line small business phone systems, ErisStation and ErisTerminal saw sales increase



- **CMS** revenue up 4.9% to US\$192.5 million
  - Higher sales of professional audio equipment, industrial products and home appliances offset lower sales of solid-state lighting, communication and medical and health products



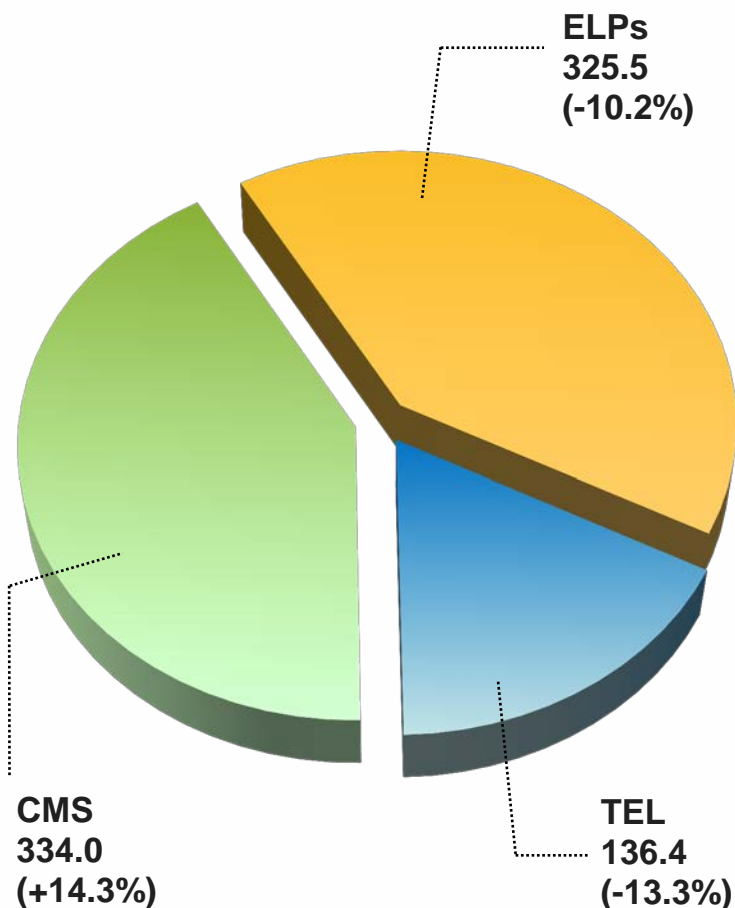




- **Professional audio:** A number of positive factors
- **Industrial products:** Supplier consolidation
- **Home appliances:** More orders from existing clients
- **Solid-state lighting:** Fall in demand for customer's products
- **Communication products:** Lower sales from a few existing customers
- **Medical and health:** Change in outsourcing policy of one customer

# vtech | Europe

Revenue by Product Line (US\$ million)



- **Revenue down 2.0% to US\$795.9 million, 42.9% of Group revenue**
- **Lower sales of ELPs and TEL products offset higher CMS revenue**
- **ELPs** revenue down 10.2% to US\$325.5 million
  - Sales decline in US dollar terms was driven by depreciation of European currencies, with local currency sales up in France, UK, Germany and Spain
  - Strengthened position as no. 1 infant and toddler toy manufacturer in France, UK and Germany
  - Maintained no. 1 position in preschool electronic learning in France, Germany and Spain





- **Standalone:** Sales decrease
  - Lower sales of core infant, toddler, pre-school learning products and Switch & Go Dinos
  - Toot-Toot family and Little Love saw growth
  - Kidizoom Action Cam, Flipsies brought additional revenue
- **Platform:** Lower sales
  - Sales of InnoTab/Storio contracted further due to market decline and keen competition
  - Cyber-attack: Negative impact on sales
  - Kidizoom Smartwatch: Slight sales decrease
  - Launched DigiGo and 5" Storio MAX

- **TEL products** revenue declined by 13.3% to US\$136.4 million
  - Sales growth in commercial phones and other telecommunication products unable to offset fully residential phone sales decline
  - Lower sales of residential phones on market contraction, compounded by weak Euro reducing customers' purchasing power
  - Sales of commercial phones and other telecommunication products posted good growth
    - Baby monitors, CAT-iq handsets, IADs
    - ErisStation and ErisTerminal: Started selling VTech branded products in selected markets

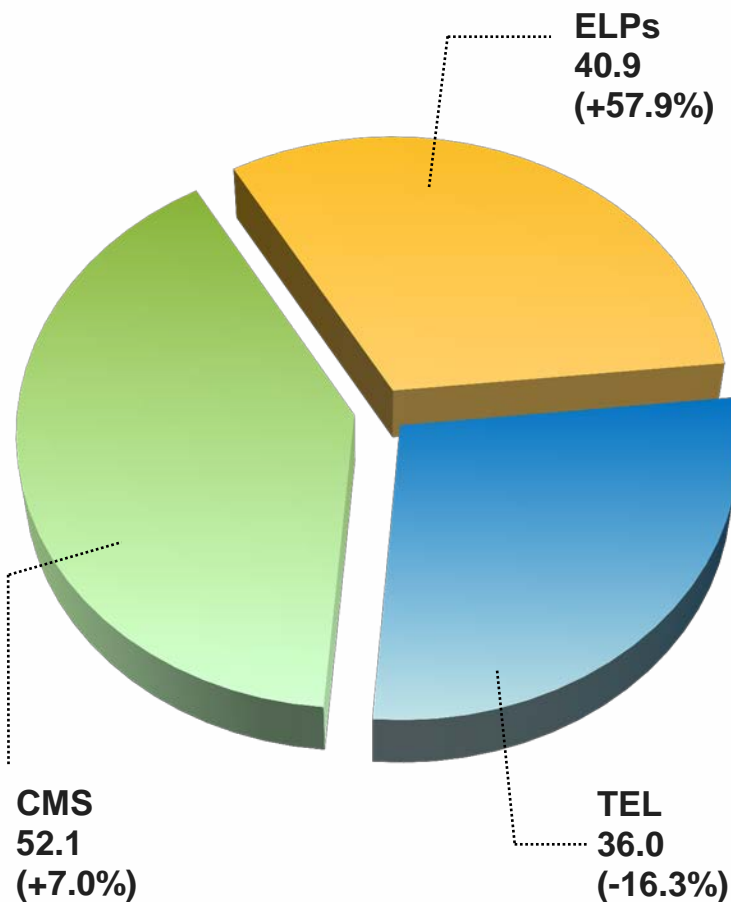


- **CMS** revenue rose by 14.3% to US\$334.0 million
- Sales increases in all product categories
  - **Professional audio:** More projects from existing customers, sales contribution from new customers
  - **Hearables:** Revenue share gain with a major customer, ramp-up of orders for world's first wireless smart earphones
  - **Switching mode power supplies:** Temporary boost in sales
  - **Home appliances:** More orders from an existing customer



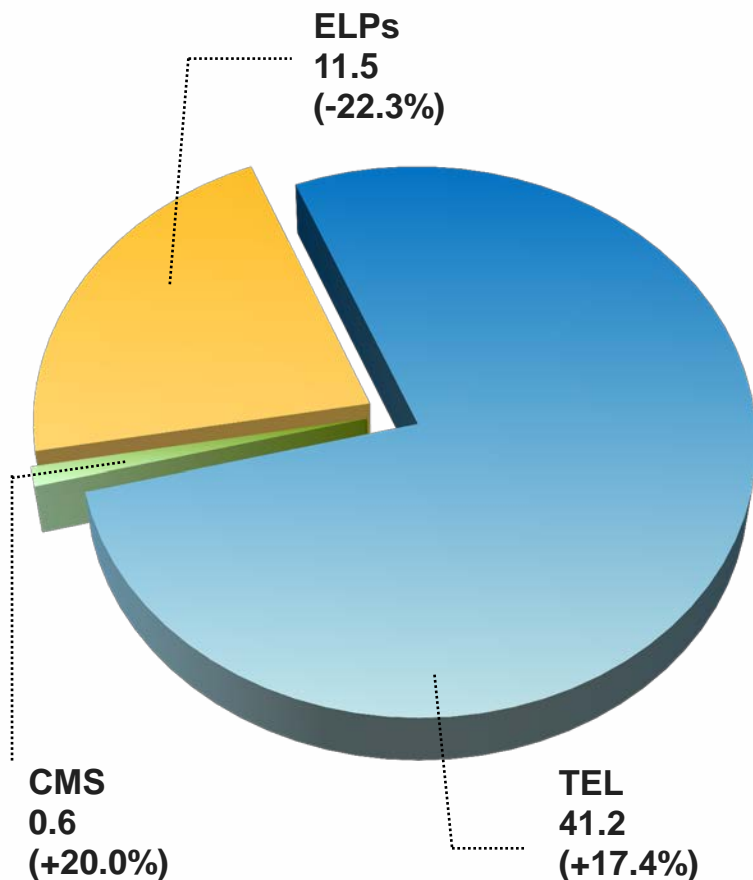
# vtech | Asia Pacific

Revenue by Product Line (US\$ million)



- **Revenue increased by 9.7% to US\$129.0 million, 6.9% of Group revenue**
- **Higher sales of ELPs and CMS offset decline in TEL products**
- **ELPs** revenue up 57.9% to US\$40.9 million, driven by growth in China, Australia and Japan
- **TEL products** revenue decreased by 16.3% to US\$36.0 million. Lower sales in Australia, Japan and China offset growth in India, Taiwan and Hong Kong
- **CMS** revenue up 7.0% to US\$52.1 million, driven by higher sales of home appliances, hearables and professional audio equipment

## Revenue by Product Line (US\$ million)





- **Revenue up 5.8% to US\$53.3 million, 2.9% of Group revenue**

- Other Regions comprise Latin America, the Middle East and Africa
- **ELPs** revenue down by 22.3% to US\$11.5 million. Growth in the Middle East and Africa offset by lower sales in Latin America
- **TEL products** revenue grew by 17.4% to US\$41.2 million, mainly driven by higher sales in the Middle East as shipments of IADs rose, offsetting lower sales in Latin America
- **CMS** revenue was US\$0.6 million, as compared to US\$0.5 million in FY15

# Acquisition of LeapFrog



- Announced acquisition of LeapFrog in February 2016
- Consideration: approx. US\$72 million
- Financed by internal resources
- Acquisition completed on 4 April 2016
- LeapFrog is now an indirect wholly-owned subsidiary of VTech

		
<b>Brand</b>	<ul style="list-style-type: none"> <li>Stronger brand name in Europe</li> </ul>	<ul style="list-style-type: none"> <li>Strong educational toy brand</li> </ul>
<b>Geography</b>	<ul style="list-style-type: none"> <li>Stronger in Europe</li> </ul>	<ul style="list-style-type: none"> <li>More US focused</li> </ul>
<b>Product</b>	<ul style="list-style-type: none"> <li>Performs well in standalone products</li> </ul>	<ul style="list-style-type: none"> <li>Stronger in platform products</li> </ul>
<b>Talent</b>	<ul style="list-style-type: none"> <li>Excels in technology and engineering</li> </ul>	<ul style="list-style-type: none"> <li>Has an edge in content development, backed by a strong education team</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>In-house manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturing outsourced</li> </ul>



# Outlook

- Expect higher revenue in FY2017
- Profitability to be impacted by integration of LeapFrog, which will make a negative contribution
- Material costs expected to be largely stable, but labour costs and manufacturing overhead to rise moderately
- Will continue to offset cost increases through automation, process improvement and product optimisation

## ELPs

- **Revenue forecast to grow**
- Immediate sales contribution from the acquisition of LeapFrog
- Sales of **standalone products** to increase:
  - Expanded baby line, Go! Go! Smart Wheels
  - Princess themed Go! Go! Smart Friends
  - New Little Love/Baby Amaze, core infant, toddler and pre-school products
  - New LeapFrog branded learning toys
  - Sales in China and Australia will grow



## ELPs

- Sales of **platform products** to grow, with combined VTech and LeapFrog offerings:
  - Touch & Learn Activity Desk Deluxe
  - Roll out DigiGo to US
  - Kidizoom Smartwatch DX to launch in Europe
  - New LeapFrog multi-activity learning platform
  - Strong presence in children's educational tablets category





## TEL products

- **Business expected to improve**
- Commercial phones and other telecommunication products to grow:
  - Momentum in baby monitors to be maintained
  - Sales of CAT-iq handsets continue to grow, based on technology shift
  - ErisTerminal: New models; new project in Korea
  - ErisStation: Wider distribution and new SIP based models
  - Wireless monitoring system to add incremental sales



## TEL products

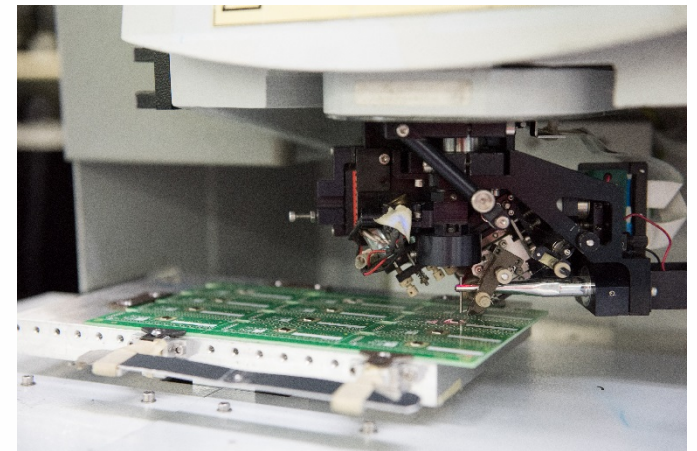
- Decline in residential phones expected to moderate
- **US:** Capture more market share by growing online sales, launching new products with enhanced Connect-to-Cell features
- **Europe:** Business expected to stabilise
- **Asia Pacific:** Higher sales in Australia and Japan will support growth





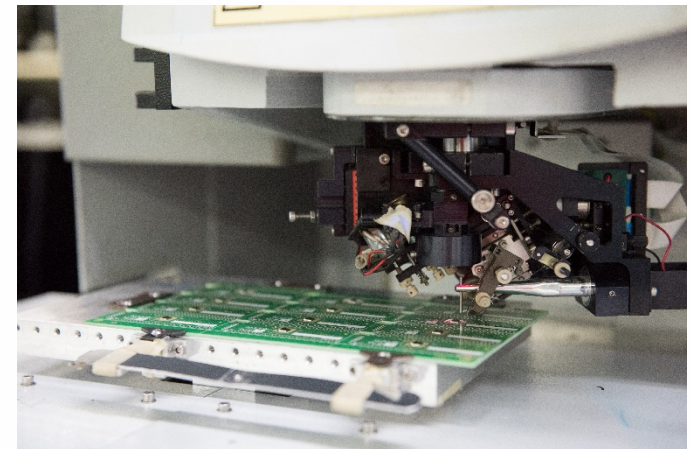
## CMS

- **Forecast higher sales**
- **Professional audio:** Expect to grow further
- **Hearables:** Target more business in miniaturised electronic devices
- **Industrial products:** Continue to benefit from consolidation of suppliers by a customer
- **Switching mode power supplies:** Change of ownership of a customer creates uncertainty



## CMS

- Signed an agreement to acquire the assets from a third party
- Will extend VTech CMS supply chain vertically, securing supply of high-precision metal tooling and parts
- Contribution would start in Q4 FY2017





# Thank You