



VTech Holdings Limited

FY2017 Annual Results Announcement

16 May 2017

Financial Review



Financial Highlights

For the year ended 31 March

(US\$ M)

2017

2016

Changes

Revenue

2,079.3

1,856.5

12.0%

Gross Profit

689.4

583.3

18.2%

Gross Profit Margin %

33.2%

31.4%

1.8% pts

Operating Profit

200.0

202.3

-1.1%

Operating Profit Margin %

9.6%

10.9%

-1.3% pts

Profit Attributable to Shareholders of the Company

179.0

181.4

-1.3%

Net Profit Margin %

8.6%

9.8%

-1.2% pts

Basic Earnings per Share (US cents)

71.3

72.2

-1.2%

Dividend per Share (US cents)

- Interim
- Final
- Total dividend for the year

17.0

17.0

53.0

25.0

70.0

42.0

66.7%

Revenue by Region

For the year ended 31 March

(US\$ M)	2017	%	2016	Change
North America	1,016.2	48.9	878.3	15.7%
Europe	867.8	41.7	795.9	9.0%
Asia Pacific	148.6	7.2	129.0	15.2%
Other Regions	46.7	2.2	53.3	-12.4%
Total	2,079.3	100.0	1,856.5	12.0%

vtech | Working Capital

(US\$ M)

31/03/17

31/03/16

Stocks

324.9

285.4

Stocks Turnover Days

96 days

93 days

Trade Debtors

275.4

230.3

Trade Debtors Turnover Days

64 days

63 days

(US\$ M)

31/03/17

31/03/16

Deposits and Cash

268.8

273.0

Total Borrowings

(1.7)

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Net Cash Position

267.1

273.0

Operations Review

- Gross profit margin improved from 31.4% to 33.2%
 - Change in product mix
 - Relatively favourable cost environment
 - Productivity gains



LeapFrog

- Completed in April 2016
- Leading developer of educational entertainment for children
- Strong educational toy brand
- Allows VTech to offer broadest portfolio of products, positioning it for higher growth
- LeapFrog's industry-leading teams retained at its US office, back-end operations integrated and production consolidated, with majority of LeapFrog products now manufactured in-house

Snom

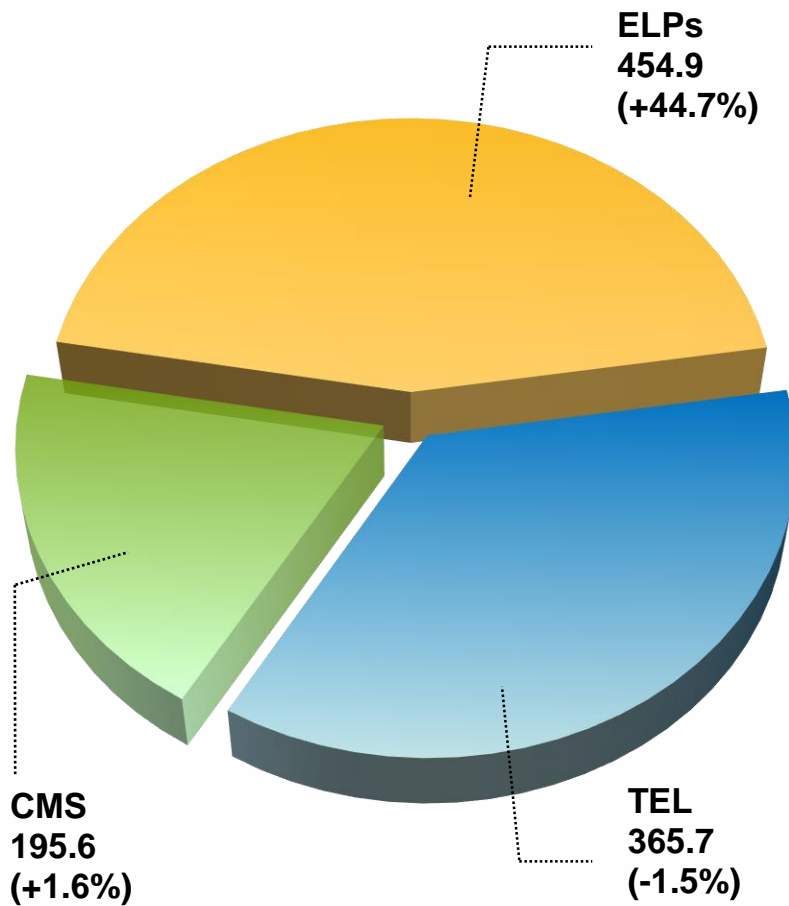
- Completed in November 2016
- German company which is a pioneer in VoIP phone development
- Strong synergies from combining Snom's technical expertise and European sales channels with VTech's engineering and manufacturing capabilities
- Enables VTech to become a major player in the growing market for VoIP phones

High precision metal tooling and parts

- Signed agreement in October 2015 and completed the acquisition in FY2017, VTech established its own facilities in Liaobu, Dongguan with the acquired fixed assets
- Entirely new expertise for VTech
- Extends the supply chain vertically, improving the cost base and adding a source of revenue
- Has commenced operations and began contributing to CMS revenue in 4Q FY2017

vtech | North America

Revenue by Product Line (US\$ million)



- **Revenue increased by 15.7% to US\$1,016.2 million, 48.9% of Group revenue**
- **Higher ELPs and CMS sales offset lower revenue from TEL products**
- **ELPs** revenue rose by 44.7% to US\$454.9 million
 - Driven by sales contribution from LeapFrog and higher sales of VTech standalone products
 - Addition of LeapFrog strengthened VTech's number one position in electronic learning toys from infancy through toddler and preschool in the US

Standalone products:

- Growth driven by higher sales of core VTech infant, toddler and preschool products, augmented by contribution from LeapFrog standalone toys
- VTech Sit-to-Stand Learning Walker, Smart Shots Sports Center were top two best selling infant and toddler toys in US
- Sales of Go! Go! Smart family of products were down



Platform products:

- Growth driven by new VTech and LeapFrog product launches, together with the combined VTech and LeapFrog educational tablet offerings
- Touch & Learn Activity Desk Deluxe and LeapStart hit US shelves in August and favourably received
- Sales of Kidizoom Smartwatch declined as market awaited new generation





- **TEL** products revenue decreased by 1.5% to US\$365.7 million
 - Growth in commercial phones and other telecommunication products insufficient to offset lower sales of residential phones

Residential phones:



- Sales decline reflected further contraction of fixed-line telephone market
- Maintained leading position in US residential phones market

Commercial phones and other telecommunication products:

- Growth driven by baby monitors, hotel phones, headsets, wireless monitoring systems, conference phones and VoIP phones
 - **Baby monitors:** Benefited from more placements and new products launches
 - **Hotel phones:** Won new projects and increase market share
 - **Headsets:** Sales boosted by new Bluetooth models for professional trucker market
 - **ErisStation and ErisTerminal:** Steady sales growth

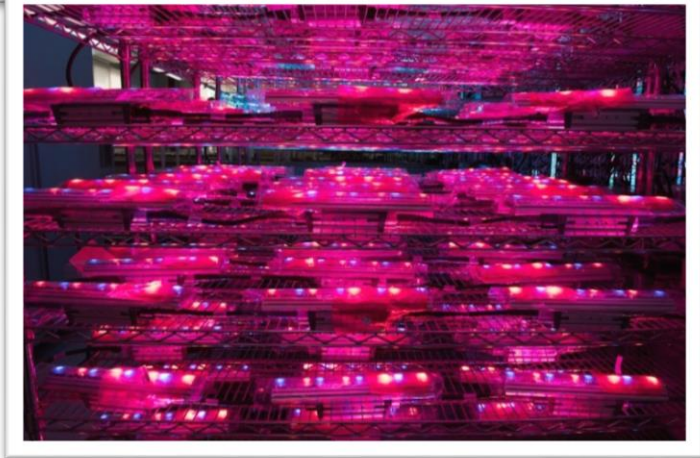


- **CMS** revenue up 1.6% to US\$195.6 million
- Higher sales of industrial products, solid-state lighting and home appliances offset lower sales of professional audio equipment and communication products

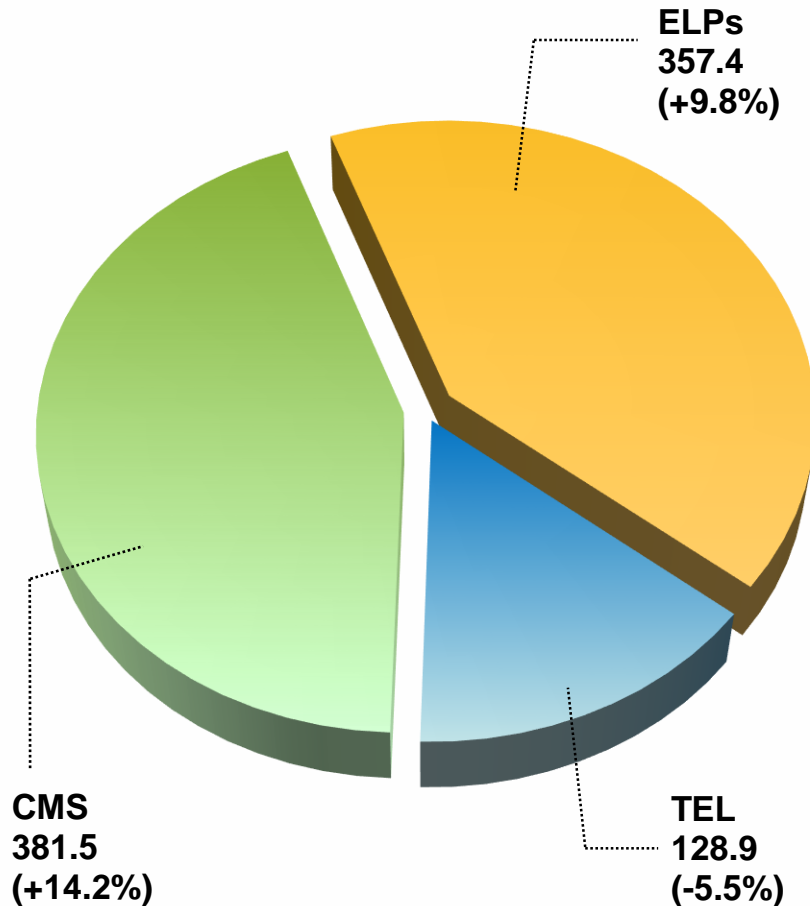




- **Industrial products & home appliances:**
More orders from existing customers, with additional business from their parent companies
- **Solid-state lighting:** Contribution from new customer, transfer of products from existing customer
- **Professional audio:** Major customer delayed orders on excess inventory, project delays
- **Communication products:** Lower orders for a home security system



Revenue by Product Line (US\$ million)



- **Revenue up 9.0% to US\$867.8 million, 41.7% of Group revenue**
- **Higher sales of ELPs and CMS offset a decline in TEL products**
- **ELPs** revenue up 9.8% to US\$357.4 million, driven by:
 - Growth in VTech standalone products and LeapFrog sales contribution
 - All key markets recorded sales increases
 - Strengthened position as number one infant and toddler toy manufacturer in France, UK and Germany

Standalone products

- Growth driven by:
 - Higher sales of core VTech infant, toddler and pre-school products
 - Kidizoom Camera, Kidi line and Little Love
 - Consolidation of LeapFrog sales
- Sales of Toot-Toot family of products were down
- 30 awards including three 2016 Grand Prix du Jouet



Platform products:

- Sales grew slightly on new product launches and sales contribution from LeapFrog
- Second generation of Kidizoom Smartwatch rolled out to all major European countries
- LeapStart launched in UK
- Sales of children's educational tablets held steady, with LeapFrog branded tablets added to the portfolio



- **TEL products** revenue decreased by 5.5% to US\$128.9 million
 - Lower sales of residential phones due to contraction of fixed-line telephone market
 - Commercial phones and other telecommunication products saw further growth





- **Commercial phones and other telecommunication products:**
 - **VoIP phones:** Sales increased on contribution from Snom
 - **Hotel phones:** Higher sales on growing reputation
 - **IADs:** Sales increased due to new product launches by customers in 2H
 - **CAT-iq handsets:** Lower sales as a major customer changed its sales and marketing strategy
 - **Baby monitors:** Orders declined due to delayed product launches by some customers

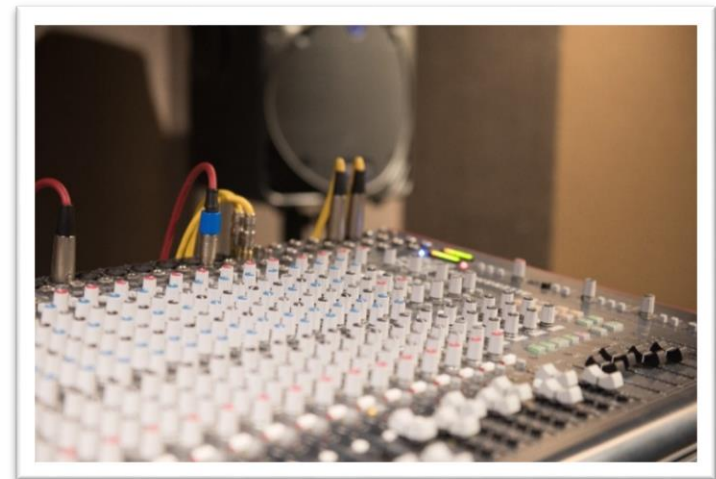


- **CMS** revenue increased by 14.2% to US\$381.5 million
- Growth driven by higher sales of hearables, industrial products, medical and health products
 - **Hearables:** Benefited from rising sales of world's first wireless smart earphones and customers' other products being well received
 - **Industrial products:** Growth led by smart meters sales on UK regulation

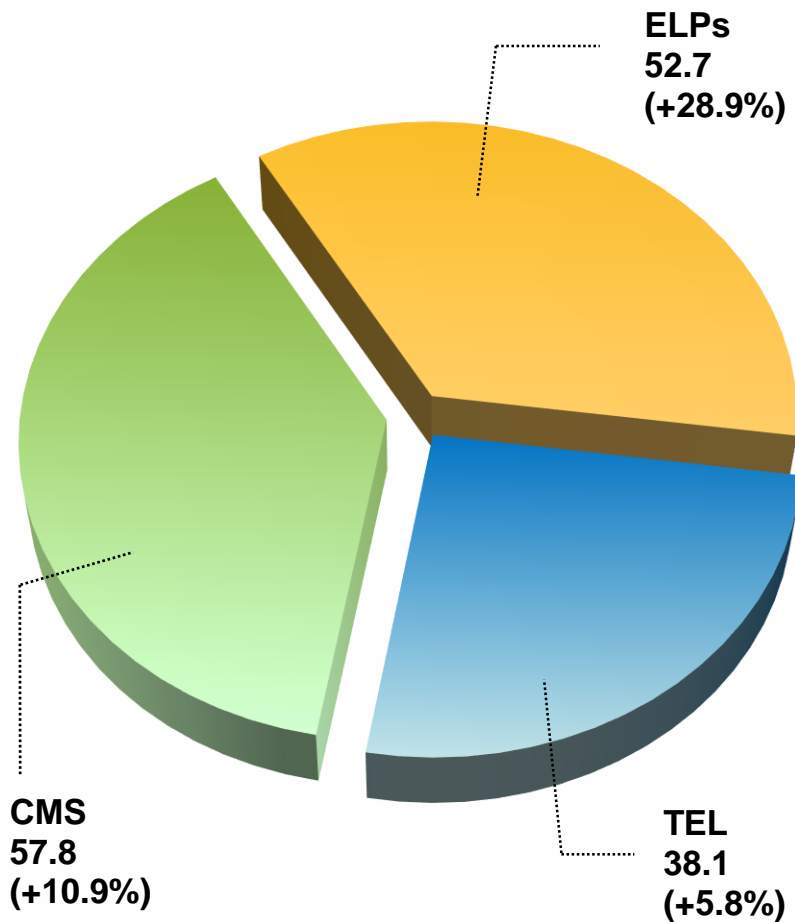


vtech | Europe (continued)

- **Medical and health products:** Began shipping hearing aids
- **Professional audio:** Sales were stable
More orders for USB audio interface products offsetting lower demand for mixers
- **Switching mode power supplies:**
Sales declined as customer ownership change led to production being moved back in-house
- **Home appliances:** Lower demand for customers' products



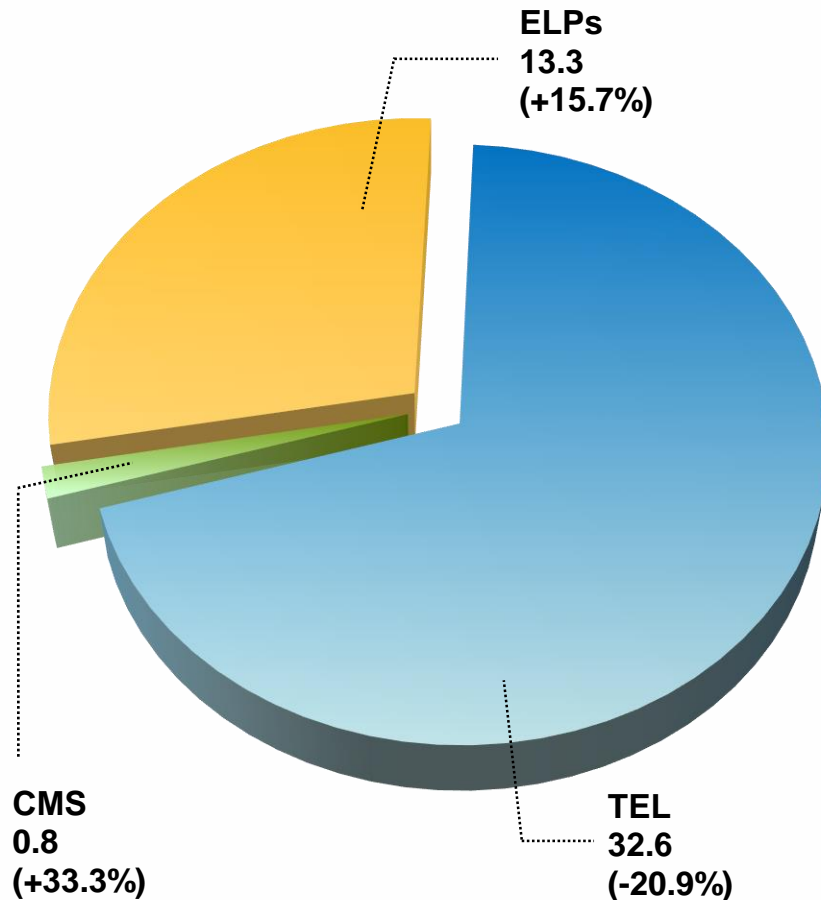
Revenue by Product Line (US\$ million)



- Revenue increased by 15.2% to US\$148.6 million, 7.2% of Group revenue
- Higher sales in all product lines
- **ELPs** revenue up 28.9% to US\$52.7 million, driven by growth in Australia, South Korea and mainland China, which offset decline in Japan. LeapFrog products contributed to overall sales growth
- **TEL** products revenue up 5.8% to US\$38.1 million. Higher sales in Japan, Hong Kong, India and South Korea offset lower sales in Australia
- **CMS** revenue up 10.9% to US\$57.8 million, driven by higher sales of home appliances, medical and health products, solid-state lighting and professional audio equipment

vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue down 12.4% to US\$46.7 million, 2.2% of Group revenue**
- Other Regions comprise Latin America, the Middle East and Africa
- **ELPs** revenue up 15.7% to US\$13.3 million. Sales to Latin America, the Middle East and Africa improved. Leapfrog sales consolidated
- **TEL products** revenue fell by 20.9% to US\$32.6 million on lower orders from Latin America, the Middle East and Africa
- **CMS** revenue was US\$0.8 million, as compared to US\$0.6 million in FY16

Outlook

- Expect higher revenue in FY2018, with sales increases across all three product lines
- Gross margin more difficult to predict:
 - Foreign exchange headwinds likely to be strong
 - Higher cost of materials
 - Direct labour costs and manufacturing overheads as a percentage of Group revenue forecast to decrease slightly

vtech | Outlook

ELPs

- **Growth driven by higher sales of standalone and platform products**
- **Standalone products** to be boosted by:
 - Expansion of VTech baby, infant, toddler and preschool lines
 - Launch of more LeapFrog learning toys



ELPs

- **Platforms products:**
 - Growth driven by introduction of new platforms
 - **VTech:** New children's communication devices and Kidizoom Smartwatch
 - **LeapFrog:** LeapPad Ultimate, Epic (Academy edition), LeapStart
 - LeapFrog Academy



TEL products

- Expected to achieve growth
- Commercial phones and other telecommunication products to see higher sales:
 - **VoIP phones:** Snom a key driver
 - **CAT-iq handsets:** Sales to be boosted by migration from PSTN to VoIP telephony



TEL products

- **Baby monitors:** Strong momentum
- **Hotel phones & conference phones:** Positive trend
- **Residential phones**
 - Sales decline will moderate



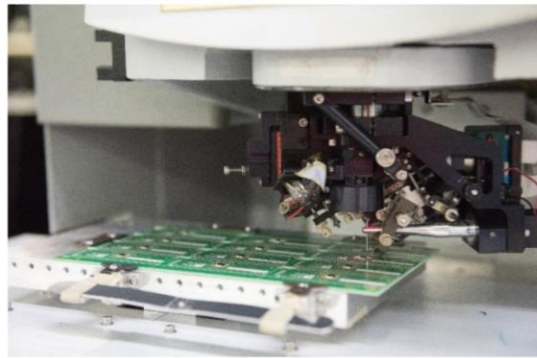
CMS

- **Sales expected to rise**
- Increasing orders from existing customers in professional audio, hearables, industrial products, solid-state lighting as well as medical and health products, offsetting further sales decline in switching mode power supplies



CMS

- Medical and health products showing particular promise on diagnostic ultrasound systems and hearing aids
- Full-year sales contribution from the newly acquired high precision metal parts business



Thank You