



VTech Holdings Limited

2016/2017 Interim Results Announcement

10 November 2016

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2016

2015

Change

Revenue

982.9

928.1

5.9%

Gross Profit

313.8

286.0

9.7%

Gross Profit Margin %

31.9%

30.8%

1.1% pts

Operating Profit

79.3

111.0

-28.6%

Operating Profit Margin %

8.1%

12.0%

-3.9% pts

**Profit Attributable to Shareholders
of the Company**

71.4

100.1

-28.7%

Net Profit Margin %

7.3%

10.8%

-3.5% pts

Basic Earnings per Share (US cents)

28.4

39.9

-28.8%

Interim Dividend per Share (US cents)

17.0

17.0

-



Revenue by Region

For the six months ended 30 September

(US\$ million)

2016

%

2015

Change

North America

474.4

48.3

461.6

2.8%

Europe

412.6

42.0

373.7

10.4%

Asia Pacific

69.9

7.1

59.7

17.1%

Other Regions

26.0

2.6

33.1

-21.5%

Total

982.9

100.0

928.1

5.9%

(US\$ million)

30/09/16

31/03/16

30/09/15

Stocks

390.5

285.4

367.9

Stocks Turnover Days

110 days

93 days

115 days

Trade Debtors

423.1

230.3

395.5

Trade Debtors Turnover Days

60 days

63 days

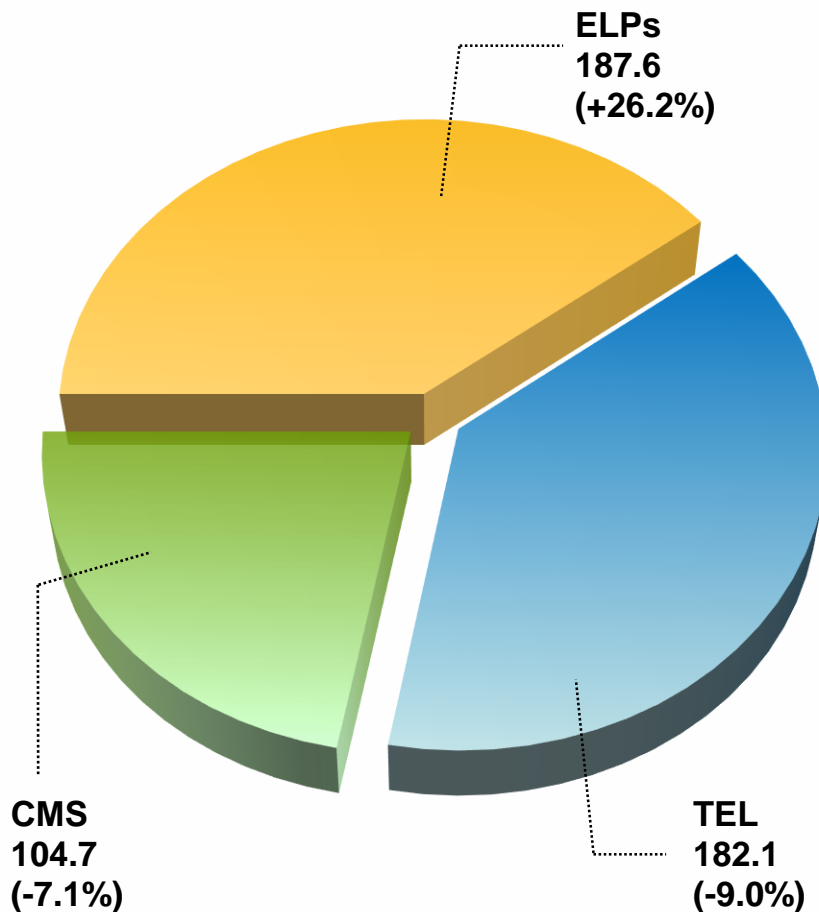
61 days

(US\$ million)	30/09/16	31/03/16	30/09/15
Deposits and Cash	104.4	273.0	104.9
Total Borrowings	—	—	—
Net Cash Position	104.4	273.0	104.9

Operations Review

- Gross margin increased
- Cost of materials as % of Group revenue was largely unchanged
- Direct labour costs and manufacturing overhead declined as wages held steady and the Renminbi depreciated
- Efficiency increased by reducing the workforce through automation and process improvement

Revenue by Product Line (US\$ million)



- **Revenue up 2.8% to US\$474.4 million, 48.3% of Group revenue**
- **Higher sales of ELPs offset lower sales of TEL products and CMS**
- **ELPs** revenue rose by 26.2% to US\$187.6 million
 - Sales of LeapFrog products consolidated
 - Overall, sales of both standalone and platform products increased
 - Maintained no. 1 position in electronic learning toys from infancy through toddler and preschool

- **Standalone:**
 - Growth driven by core infant and toddler products
 - Augmented by new Go! Go! Smart family launches, such as Go! Go! Smart Wheel Treasure Mountain Train Adventure playset and Go! Go! Smart Friends Enchanted Princess Palace



- **Platform:**

- Growth driven by new product launches and the combined VTech and LeapFrog educational tablet offerings
- Touch & Learn Activity Desk Deluxe hit the US shelves in August 2016
- New LeapStart interactive learning system
- Sales of Kidizoom Smartwatch declined





- **TEL** products revenue decreased by 9.0% to US\$182.1 million
 - Growth in commercial phones and other telecommunication products offset by lower sales of residential phones

- **Residential:**



- Impacted by decline of fixed-line market and some major retailers tightening inventory management
- Increased market share and maintained number one position in US residential phone market

- **Commercial and other telecommunication products:**

- **Baby monitors:** Had the strongest performance, driven by new product launches, strong sell-through and increased product placements
- **SIP phones:** Sales increase as distribution channels expanded
- **Hotel phones:** Market share gain and new projects
- **Cordless headsets:** New Bluetooth for professional trucker market
- **Conference phones:** Steady sales growth



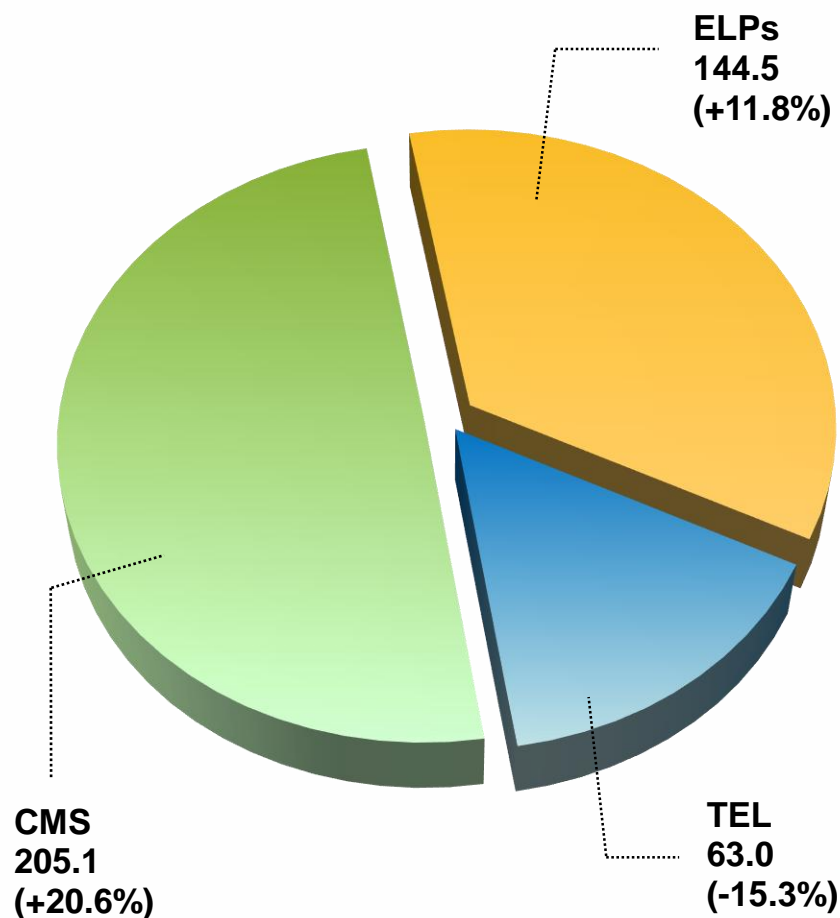
- **CMS** revenue down 7.1% to US\$104.7 million
 - Lower sales of professional audio equipment and communication products offset higher sales of solid-state lighting and home appliances



- **Professional audio:** Excess inventory, project delay at a customer
- **Communication products:** Lower orders for a home security system from an existing customer
- **Solid-state lighting:** Sales contribution from a new customer. An existing customer transferred production of a new series of products to VTech
- **Home appliances:** Increased demand from existing customers
- **Industrial products:** Business was stable



Revenue by Product Line (US\$ million)



- **Revenue up 10.4% to US\$412.6 million, 42.0% of Group revenue**

- **Higher sales of ELPs and CMS offset a decline in TEL products**

- **ELPs** revenue up 11.8% to US\$144.5 million

- Growth in all key markets, namely the UK, France, Germany, the Netherlands and Spain
- Strengthened position as the number one infant and toddler toy manufacturer in France, the UK, Germany, Belgium and the Netherlands

- **Standalone:**

- Sales increase led by core infant, toddler and preschool products
- Higher sales of Kidizoom camera and Kidi line
- Sales of Toot-Toot family of products were stable
- Kidizoom Action Cam saw sales decline



- **Platform:**

- Sales of children's educational tablets increased with the addition of LeapFrog tablets and incremental sales from DigiGo
- Rolled out second generation of Kidizoom Smartwatch
- LeapStart hit UK shelves in July 2016



- **TEL products** revenue decreased by 15.3% to US\$63.0 million
 - Lower sales of residential phones, commercial phones and other telecommunication products
- **Residential:**
 - Contraction of fixed-line telephone market
 - Weak Euro reducing customers' purchasing power



- **Commercial and other telecommunication products:**
 - **CAT-iq handsets:** lower sales as a key customer changed its sales and marketing strategy on product bundling
 - **SIP phones, baby monitors and IADs:** Affected by delayed product launches by customers
 - Started shipping fixed-line telephones for the hearing impaired



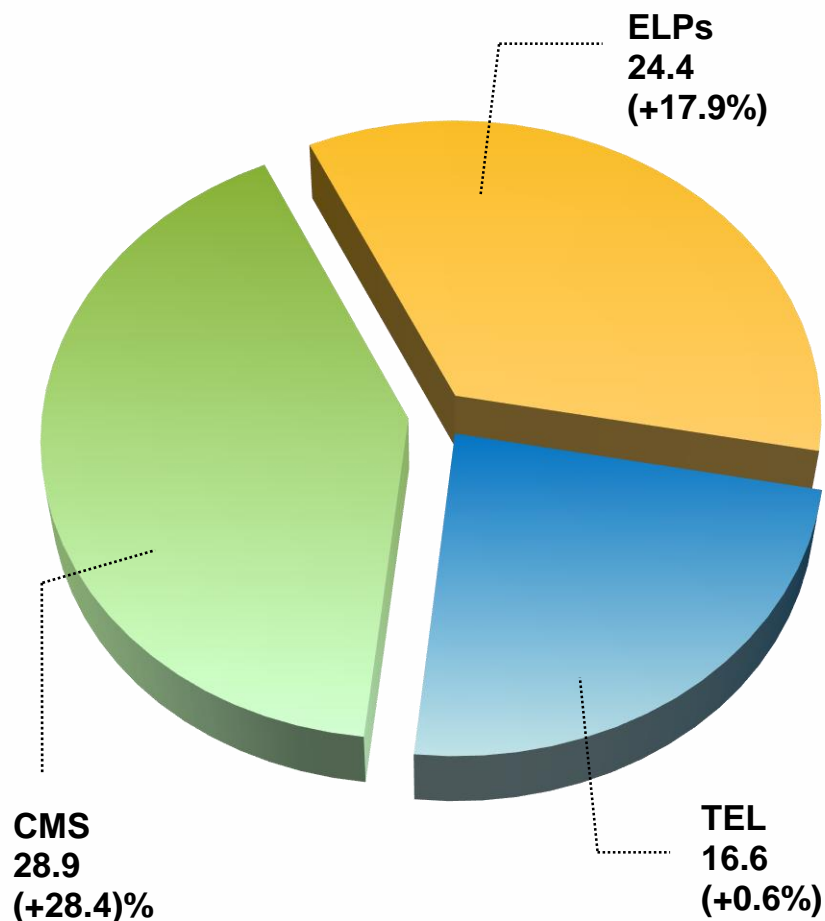
- **CMS** revenue rose by 20.6% to US\$205.1 million
- Broad based growth offset slightly lower sales of home appliances and communication products
 - **Hearables:** Significant growth due to successful launch of the world's first wireless smart earphones by a new customer. Other customers' products well received by the market
 - **Professional audio:** More orders for USB audio interface products, offsetting lower demand for mixers



- **Switching mode power supplies:** Temporary boost in sales despite the customer's change of ownership
- **Industrial products:** Supported by higher sales of smart meters
- **Medical and health products:** Began shipping hearing aids products

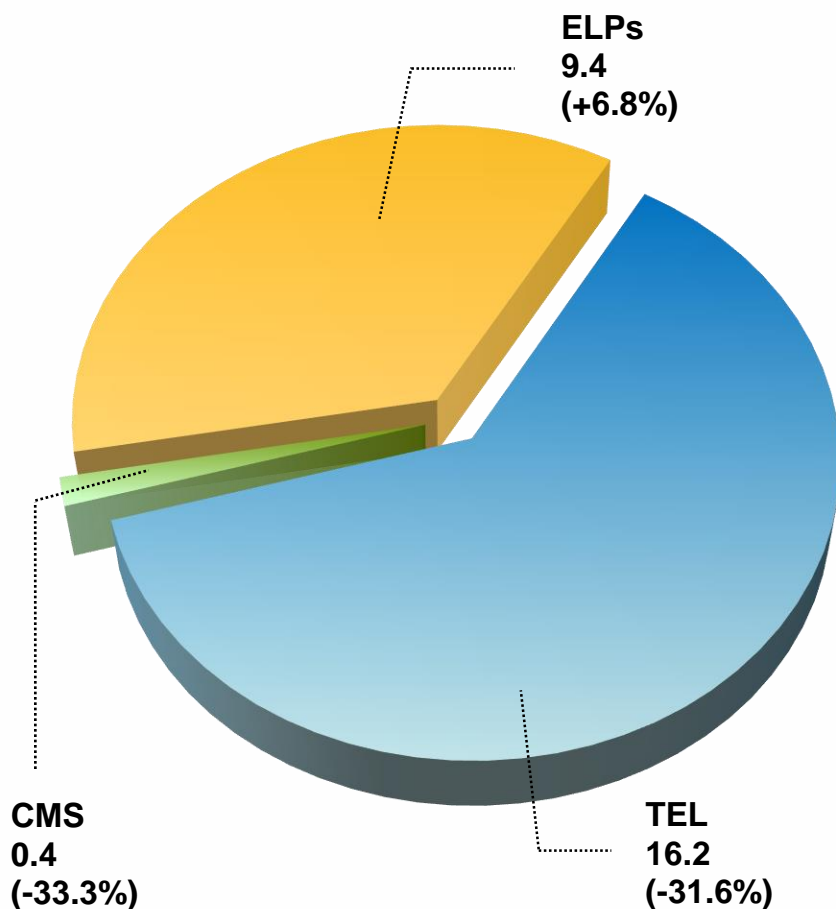


Revenue by Product Line (US\$ million)



- **Revenue up 17.1% to US\$69.9 million, 7.1% of Group revenue**
- **Sales of all product lines rose**
- **ELPs** revenue up 17.9% to US\$24.4 million, driven by sales increase in Australia and Korea, which offset declines in China and Japan
- **TEL products** revenue increased by 0.6% to US\$16.6 million. Higher sales in China and India offset lower sales in Australia, while those to Japan were stable
- **CMS** revenue grew 28.4% to US\$28.9 million, with higher sales of home appliances, medical and health products, solid state lighting and professional audio equipment. Sales of hearables and communication products registered a decline

Revenue by Product Line (US\$ million)



- Revenue down 21.5% to US\$26.0 million, 2.6% of Group revenue
- Higher sales of ELPs insufficient to offset the declines in TEL products and CMS
- Other Regions comprise Latin America, the Middle East and Africa
- **ELPs** revenue up 6.8% to US\$9.4 million. Higher sales in the Middle East and Africa offset a sales decline in Latin America
- **TEL products** revenue fell by 31.6% to US\$16.2 million with lower sales in Latin America, the Middle East and Africa
- **CMS** revenue was US\$0.4 million, as compared to US\$0.6 million in 1HFY16

Acquisition of Snom



- Announced a binding definitive agreement for the acquisition of Germany's Snom Technology AG on 21 October 2016
- Consideration: Approx. US\$15 million
- Pioneer and a leading brand of professional and enterprise VoIP telephones
- Main synergies:
 - Hardware and software development
 - Expanded sales channels
 - Improvements in operational efficiency
- Transaction subject to relevant regulatory authorities' approval

Outlook

- Good momentum in ELPs and CMS, sales of TEL products anticipated to pick up in 2H
- Management expecting Group revenue to increase for the full year
- Profitability expected to improve in 2H as Group revenue will be higher, while the majority of LeapFrog integration costs has been incurred in 1H results

ELPs

- **Revenue forecast to be higher year-on-year**
- Sales of both standalone and platform products expected to grow
- **Standalone:** Positive trend of infant, toddler and preschool products will continue, supported by:
 - Contributions from LeapFrog branded products
 - Sales of Go! Go! Smart family of products, especially the expanded Go! Go! Smart Friends line and new Go! Go! Smart Sea World line
 - New Kidi and Little Love products



ELPs

- Sales of **platform products** driven by:
 - A broadened portfolio of VTech and LeapFrog branded products, including educational tablets

VTech:

- Touch & Learn Activity Desk Deluxe;
- Kidizoom Smartwatch DX to launch in Europe; DigiGo

LeapFrog:

- LeapStart expected to make good contribution, augmented by LeapReader



TEL products

- Sales expected to pick up in 2H, as growth in commercial phones and other telecommunication products accelerates:
- Commercial phones
 - **Snom acquisition** will boost sales worldwide
 - **SIP phones:** Shipment of SIP terminals to a major Korean customer in 4QFY17
 - **CAT-iq handsets:** Sales will increase as VTech starts shipping to one of the largest US wireless communication service providers
 - **Hotel phones:** Sales on track to rise due to market share gains and new projects



TEL products

- **Other telecommunication products**

- **Baby monitors:** US sales will grow on increased product placements and new products. VTech branded baby monitors to be introduced to Eastern Europe. More units to be shipped to Western Europe
- **Wireless monitoring system:** Will benefit from the product range expansion
- **IADs:** Shipments in Europe will resume growth

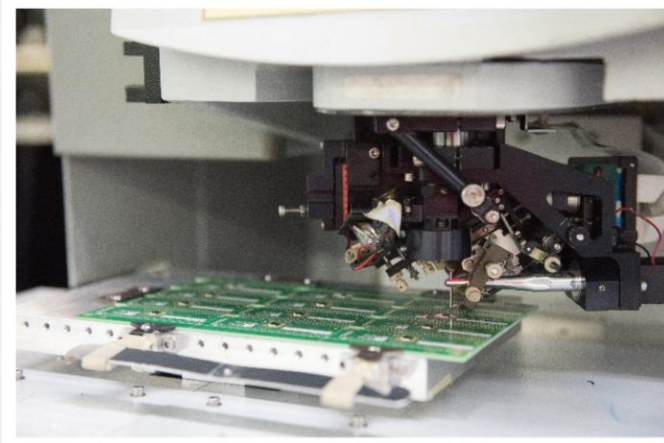
- **Residential phones**

- Business will remain slow worldwide
- Market share in North America and Australia will continue to grow



CMS

- **Good performance to continue, although growth in 2H expected to moderate slightly**
- **Professional audio:** Should stabilise as customer's excess inventory issue resolved
- **Hearables:** Positive trend to continue as customers' products perform well
- **Industrial products:** Benefit from the policy to install smart meters in UK households
- **Solid state lighting:** Orders from new customer and transfer of production of the new product series by an existing customer



CMS

- **Medical and health equipment:** Begin to manufacture entire ultrasound machines for a Japanese customer
- **Switching mode power supplies:** Uncertainty because of change of customer ownership
- New strategic business units to manage growth of hearing aids and medical and health products
- Contribution from the high precision metal tooling and parts will start in 4QFY17



Thank You