VTech Holdings Limited

2017/2018 Interim Results Announcement

9 November 2017

Financial Review

Financial Highlights

For the six months ended 30 September

(US$ million)	2017	2016	Change
Revenue	**1,039.7**	982.9	*5.8%*
Gross Profit	**335.4**	313.8	*6.9%*
Gross Profit Margin %	**32.3%**	31.9%	*0.4% pts*
Operating Profit	**114.8**	79.3	*44.8%*
Operating Profit Margin %	**11.0%**	8.1%	*2.9% pts*
Profit Attributable to Shareholders of the Company	**103.6**	71.4	*45.1%*
Net Profit Margin %	**10.0%**	7.3%	*2.7% pts*
Basic Earnings per Share (US cents)	**41.2**	28.4	*45.1%*
Interim Dividend per Share (US cents)	**17.0**	17.0	-

Revenue by Region

For the six months ended 30 September

(US$ million)	2017	%	2016	Change
North America	**499.7**	48.0	474.4	*5.3%*
Europe	**413.7**	39.8	412.6	*0.3%*
Asia Pacific	**100.6**	9.7	69.9	*43.9%*
Other Regions	**25.7**	2.5	26.0	*-1.2%*
Total	**1,039.7**	100.0	982.9	*5.8%*

Working Capital

(US$ million)	30/09/17	31/03/17	30/09/16
Stocks	**456.9**	324.9	390.5
Stocks Turnover Days	**128 days**	96 days	110 days
Trade Debtors	**462.9**	275.4	423.1
Trade Debtors Turnover Days	**64 days**	64 days	60 days

Liquidity Position

(US$ million)	30/09/17	31/03/17	30/09/16
Deposits and Cash	**91.3**	268.8	104.4
Total Borrowings	**(1.6)**	(1.7)	–
Net Cash Position	**89.7**	**267.1**	**104.4**

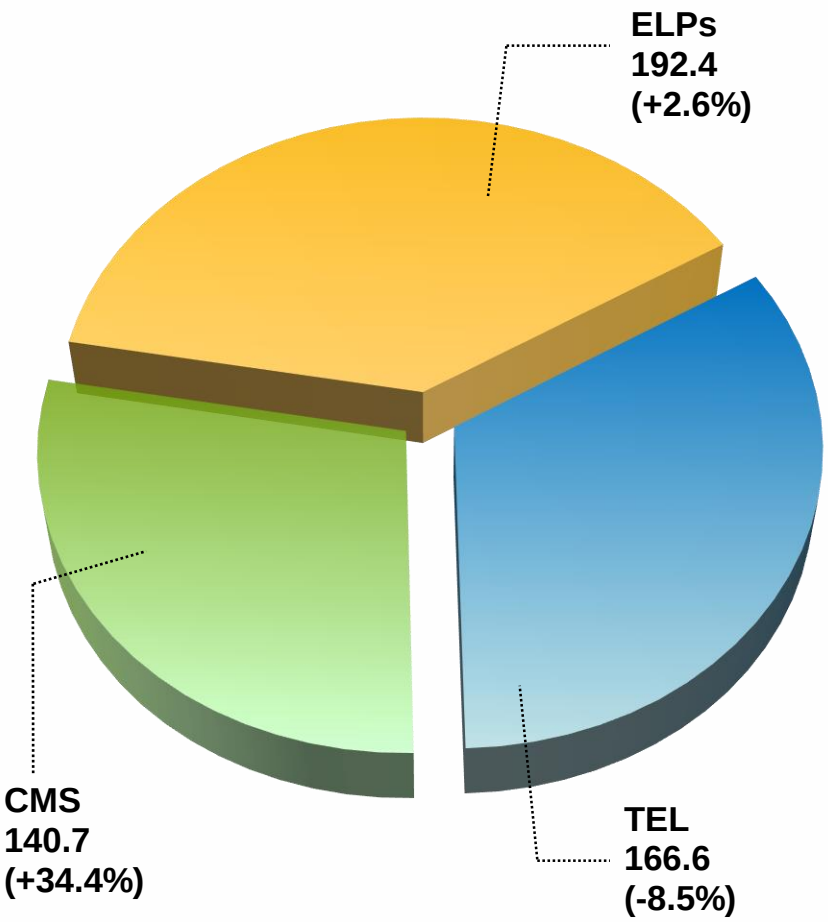
Operations Review

Costs and Operations

- **Gross profit margin improved from 31.9% to 32.3%**
- Improvement due to more favourable product mix, positive currency impact and productivity gains, despite increased materials prices
- Most of the LeapFrog and Snom products brought in-house for manufacture

North America

Revenue by Product Line (US$ million)



- **Revenue increased 5.3% to US$499.7 million, 48.0% of Group revenue**
- **Higher ELPs and CMS sales offset lower revenue from TEL products**
- **ELPs** revenue rose by 2.6% to US$192.4 million
  - Driven by higher sales of standalone and platform products
  - Maintained position as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool in the US
  - Revenue growth negatively impacted by Toys“R”Us bankruptcy protection filing

North America (continued)

Toys“R”Us:

- Filed for bankruptcy protection in US and Canada on 18 September 2017
- VTech’s sales to the retailer covered by credit insurance up to the date of the filing
- Shipments no longer covered after 18 September and so temporarily suspended, pending negotiation of new terms
- Has worked closely with this long-term partner to ensure the right products are delivered to consumers in the run-up to the holiday season

North America (continued)

Standalone Products:

- Strategy to grow LeapFrog standalone toy business has seen initial success
- Top LeapFrog performers included both new and classic items
- VTech standalone products: Higher sales of preschool products and the Kidizoom Camera range offset declines in the infant category and the Go! Go! Smart family of products
- Expanded to outdoor tricycle category with 4-in-1 Stroll & Grow Tek Trike

North America (continued)

Kidizoom SMART WATCH DX2

DUAL CAMERAS

leap start

Platform Products:

- Kidizoom Smartwatch a growth driver, with new DX2 and Star Wars themed versions
- Touch & Learn Activity Desk Deluxe and LeapStart continued to perform well, with updated LeapStart system introduced in August
- A new children's communication device KidiBuzz on shelves in US
- Sales of children's educational tablets decreased in line with overall market decline
- Launch of LeapFrog Academy in August

North America (continued)

- **TEL** products revenue decreased by 8.5% to US$166.6 million

- Growth in commercial phones and other telecommunication products unable to offset lower sales of residential phones

- **Residential Phones:**

  - Sales decline reflected ongoing contraction of fixed-line telephone market

  - Maintained leadership position in US residential phones market

North America (continued)

Commercial Phones and Other Telecommunication Products:

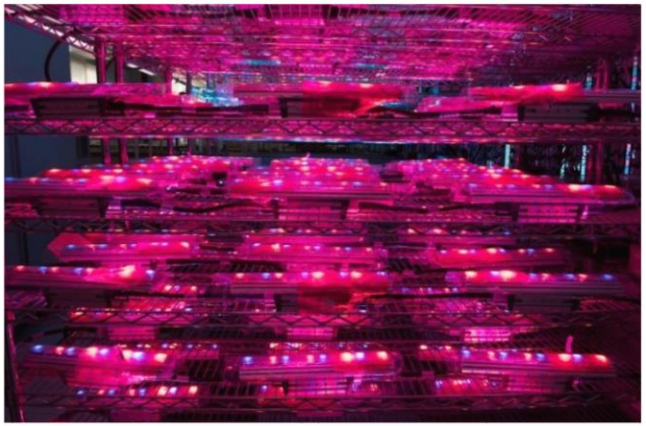
- Higher sales of headsets, SMB phones, VoIP phones and conference phones
  - **Headsets:** Popularity of Bluetooth models designed for professional trucker market
  - **VoIP phones**: Snom contribution
  - **Conference phones:** New channels
- **Hotel phones:** Stable sales
- **Baby monitors:** Slight sales decline as customers delayed project launches to 2H

North America (continued)

- **CMS** revenue up 34.4% to US$140.7 million
  - Higher sales of professional audio equipment, solid-state lighting and industrial products offset a decline in communication products

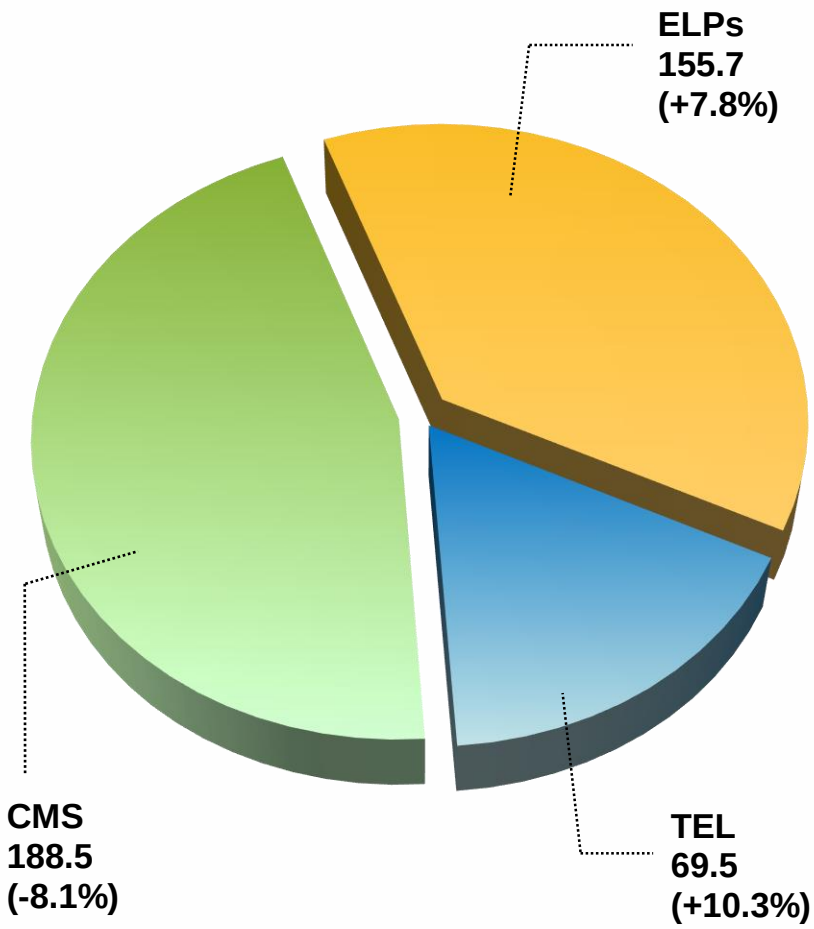
North America (continued)

- **Professional audio:** Significant growth on higher demand of new active speakers and as a customer increased orders after working through excess inventory
- **Solid-state lighting:** An existing customer transferred production of a product line to VTech
- **Industrial products:** Gained orders for PCB assembly for industrial printers and note counting devices
- **Communication products:** Sales declined as client's product line reached the end of life cycle
- **Home appliances :** Stable sales



Europe

Revenue by Product Line (US$ million)



- **Revenue up 0.3% to US$413.7 million, 39.8% of Group revenue**
- **Higher sales of ELPs and TEL products offset decline at CMS**
- **ELPs** revenue up 7.8% to US$155.7 million
  - Growth in both standalone and platform products
  - Sales increased in key markets of France, UK, Germany, Benelux and Spain
  - Strengthened position as no. 1 infant and toddler toy manufacturer in France, UK, Germany, Spain and Belgium

Europe (continued)

Standalone Products:

- Growth driven by higher sales of both VTech and LeapFrog infant and preschool products, Kidizoom Camera range, Kidi and Little Love lines
- Offset lower sales of Toot-Toot family of products
- Award-winning products include:
  - Kidizoom Flix
  - Little Love Puppy Pal
  - GearZooz Roll & Roar Animal Train

Europe (continued)

Platform Products:

- Growth driven by Kidizoom Smartwatch, DigiGo and LeapStart
- Second generation Kidizoom Smartwatch DX continued to perform well
- Growth supported by new Star Wars themed Kidizoom Smartwatches and KidiCom MAX (the new version of DigiGo)
- Sales of children's educational tablets declined

Europe (continued)

- **TEL** products revenue increased by 10.3% to US$69.5 million
  - Higher sales of commercial phones and other telecommunication products offset lower sales of residential phones
- **Commercial Phones and Other Telecommunication Products:**
  - **VoIP phones**: Main reason for sales increase, as six months contribution from Snom was consolidated
  - **Baby monitors:** Another growth factor, on good sell-through and increased orders from existing and new customers

Europe (continued)

- **CAT-iq handsets:** More orders from existing customer and entry to Swiss market for VTech branded handsets
- **IADs:** Sales increase to existing and new customers
- **Hotel phones:** Good growth

- **Residential Phones:**
  - Sales continued to decline due to further contraction of fixed-line telephone market

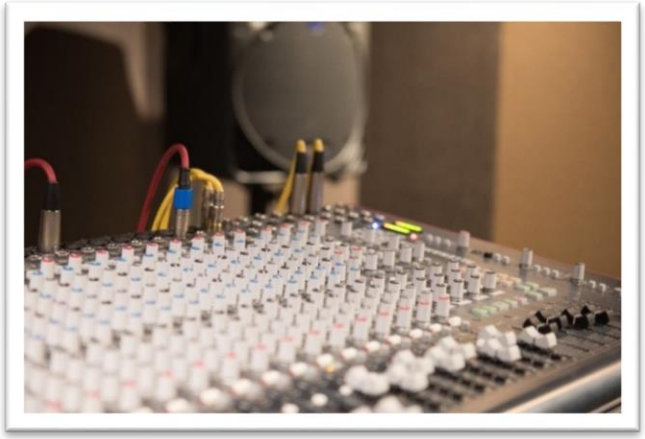
Europe (continued)

- **CMS** revenue decreased by 8.1% to US$188.5 million

- Decline mainly on lower sales of switching mode power supplies

  – **Switching mode power supplies**: Ownership change led to production being moved back in-house

  – **Professional audio**: Sales retreated slightly as a product phased out by an existing customer

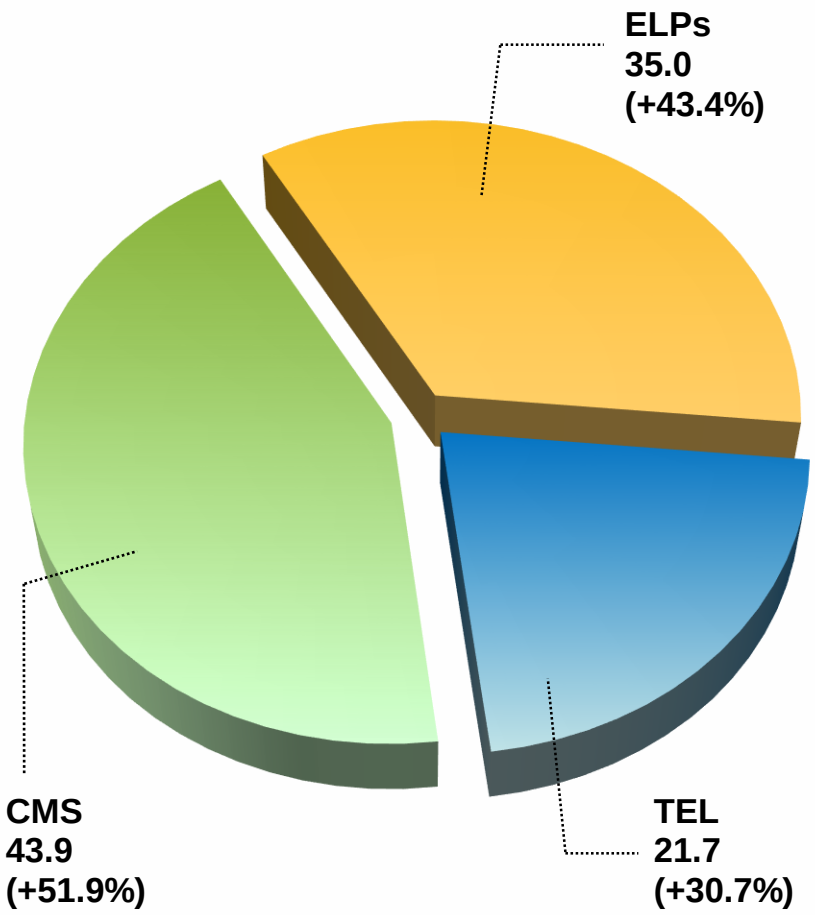


Europe (continued)

- **Hearables**: Lower sales on keen competition in wireless headset market
- **Industrial products**: Growth supported by smart meters for the UK market
- **Medical and health products**: Growth on higher orders of hearing aids

Asia Pacific

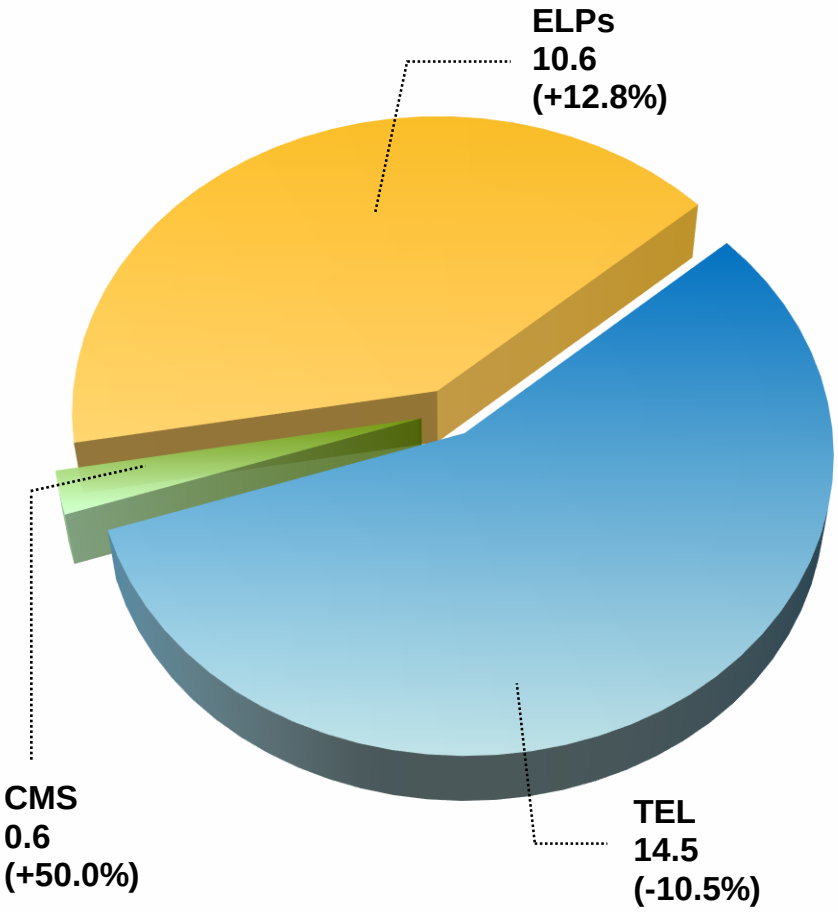
Revenue by Product Line (US$ million)



- **Revenue rose by 43.9% to US$100.6 million, 9.7% of Group revenue**
- **ELPs** revenue up 43.4% to US$35.0 million, led by growth in mainland China, Australia, South Korea and Hong Kong
- **TEL** products revenue rose 30.7% to US$21.7 million, driven by higher sales in Japan and Hong Kong
- **CMS** revenue up 51.9% to US$43.9 million. Higher sales of medical and health products, professional audio equipment, hearables and communication products offset lower sales of solid-state lighting and home appliances. The newly acquired high precision metal parts business added to growth

Other Regions

Revenue by Product Line (US$ million)



- **Revenue down 1.2% to US$25.7 million, 2.5% of Group revenue**
- Lower sales of TEL products offset higher sales of ELPs and CMS
- **ELPs** revenue up 12.8% to US$10.6 million. Higher sales in Middle East compensated for lower sales in Latin America and Africa
- **TEL** products revenue decreased by 10.5% to US$14.5 million on lower sales in Latin America, offsetting growth in Middle East and Africa
- **CMS** revenue was US$0.6 million, as compared to US$0.4 million in 1HFY17

Outlook

Outlook - Overview

- **Group revenue for FY2018 expected to increase**
- Sales of TEL products to pick up in 2H
- Good momentum behind CMS to continue
- Sales of ELPs difficult to gauge, as shipments to Toys“R”Us in 2H are uncertain
- Gross margin trend difficult to predict

Outlook

ELPs

- Good demand for Group's ELPs
- **Standalone Products**:
  - LeapFrog portfolio strengthened by more new learning toys
  - VTech infant and toddler products, as well as Kidizoom Camera range, gaining market share

Outlook

- **Platform Products**:
  - Strong sell-through of Kidizoom Smartwatch LeapStart, KidiBuzz and KidiCom MAX
  - Subscriptions to LeapFrog Academy expected to grow on more marketing efforts and more Epic Academy Editions are sold through

- **By Geography:**
  - Asia Pacific continues to outperform on relaxation of one child policy in mainland China; broader listings in Australia and South Korea

Outlook

TEL products

- Expected to achieve full-year growth
- Sales of commercial phones and other telecommunication products continue to improve, offsetting further sales decline of residential phones
  - **VoIP phones:** Two key new Snom phones have been introduced
  - **Conference phones:** Benefit from new Snom models and additional sales channels
  - **Hotel phones:** Will grow as delayed projects come on stream and a new Boutique range is launched

Outlook

- **Headsets:** Strong momentum expected to continue; two new models for business market to be launched
- **Baby monitors:** Growth on increased retail shelf placement
- **CAT-iq handsets and IADs:** Will grow on increasing orders from existing and new customers

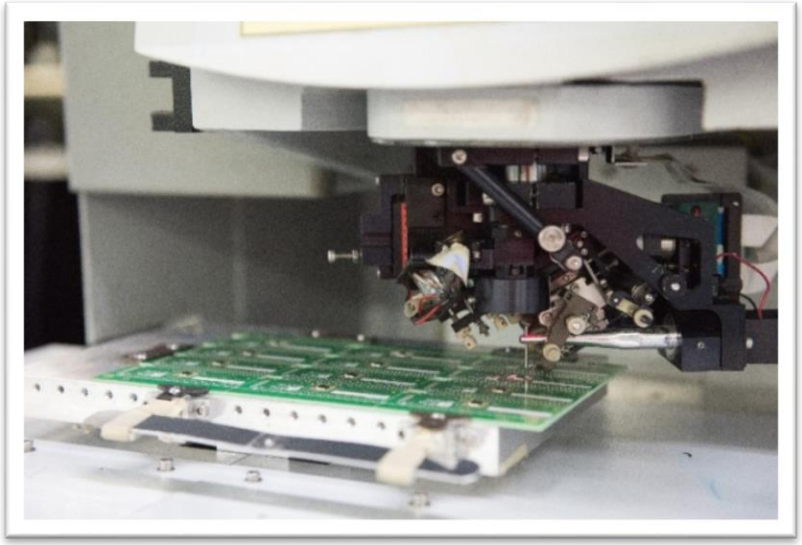
Outlook

CMS

- Solid growth expected for FY2018, despite a slow EMS market in 1HCY2017
- Growth on increasing orders from existing customers in professional audio, hearables, industrial products, solid-state lighting as well as medical and health products
- Will offset further decline in switching mode power supplies
- Full year sales contribution from high precision metal parts business

Outlook

- Plan to migrate towards “Industry 4.0” to position CMS for further growth
- Will continue to achieve excellence in manufacturing, lowering costs, increasing productivity and improving time to market for customers



Thank You