



# **VTech Holdings Limited**

FY2018 Annual Results Announcement

17 May 2018

# Financial Review



# Financial Highlights

For the year ended 31 March

(US\$ M)

2018

2017

Changes

**Revenue**

**2,130.1**

2,079.3

2.4%

**Gross Profit**

**702.0**

689.4

1.8%

Gross Profit Margin %

**33.0%**

33.2%

-0.2% pts

**Operating Profit**

**231.3**

200.0

15.7%

Operating Profit Margin %

**10.9%**

9.6%

1.3% pts

**Profit Attributable to Shareholders  
of the Company**

**206.3**

179.0

15.3%

Net Profit Margin %

**9.7%**

8.6%

1.1% pts

**Basic Earnings per Share** (US cents)

**82.1**

71.3

15.1%

**Dividend per Share** (US cents)

• Interim

**17.0**

17.0

• Final

**63.0**

53.0

• Total dividend for the year

**80.0**

70.0

14.3%

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> INNOVATION BEYOND TECHNOLOGY

# Revenue by Region

For the year ended 31 March

(US\$ M)	2018	%	2017	Change
North America	1,041.0	48.9	1,016.2	2.4%
Europe	849.1	39.9	867.8	-2.2%
Asia Pacific	197.1	9.2	148.6	32.6%
Other Regions	42.9	2.0	46.7	-8.1%
Total	2,130.1	100.0	2,079.3	2.4%

# vtech | Working Capital

(US\$ M)

31/03/18

31/03/17

**Stocks**

**349.9**

324.9

**Stocks Turnover Days**

**102 days**

96 days

**Trade Debtors**

**264.9**

275.4

**Trade Debtors Turnover Days**

**65 days**

64 days

(US\$ M)

31/03/18

31/03/17

Deposits and Cash

254.4

268.8

Total Borrowings

-

(1.7)

Net Cash Position

254.4

267.1

# Operations Review

- **Gross profit margin fell from 33.2% to 33.0%**
- Mainly due to higher cost of materials, which offset a positive currency impact and productivity gains
- Most LeapFrog and Snom products brought in-house for manufacture

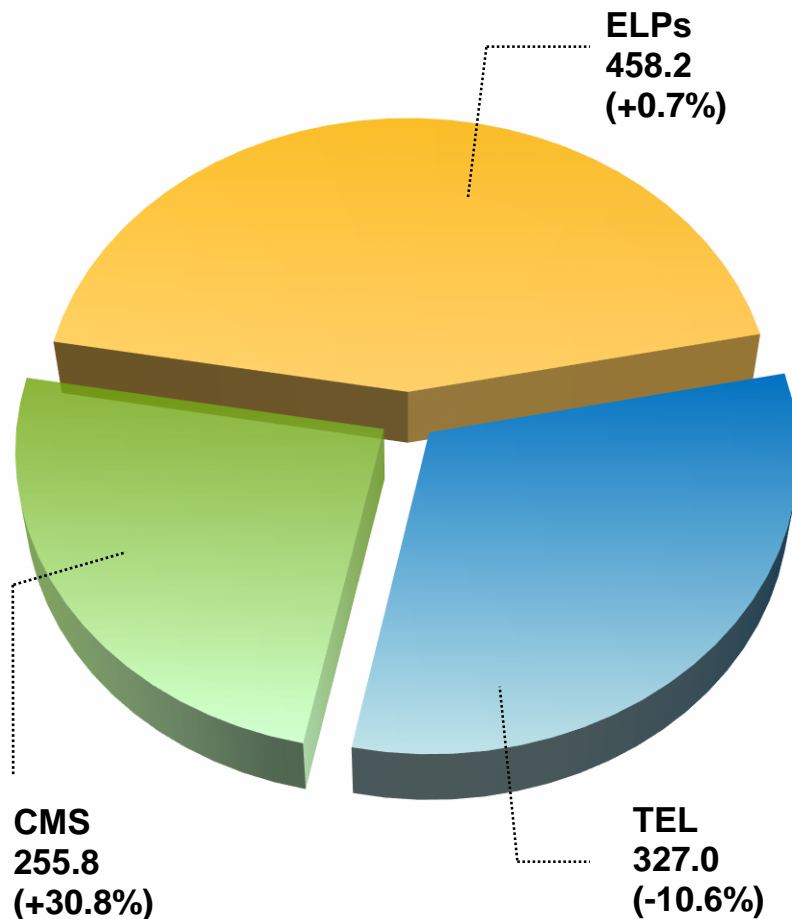


# vtech | Toys“R”Us

- Retailer filed for bankruptcy protection in the US and Canada in September 2017, followed by liquidation of its US and UK businesses in early 2018
- Resulted in significant reduction of sales to the retailer, affecting growth primarily in North America and Europe
- VTech’s sales up to the date of the bankruptcy protection filing covered by credit insurance
- No material bad debts was incurred as a result of the liquidation
- ELPs achieved revenue growth overall, led by strong performance in Asia Pacific

# vtech | North America

Revenue by Product Line (US\$ million)



- Revenue increased 2.4% to US\$1,041.0 million, 48.9% of Group revenue
- Higher ELPs and CMS sales offset lower revenue from TEL products
- ELPs revenue rose by 0.7% to US\$458.2 million
  - Growth negatively impacted by Toys“R”Us
  - Maintained the position as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool in the US

## Standalone Products:

- Flat sales
- **LeapFrog:** Sales grew on more new product launches, with both infant and preschool products recording higher sales
- **VTech:** Sales decreased, mainly owing to weaker performance of Go! Go! Smart family of products





**Kidizoom®**  
SMART  
WATCH DX2



## Platform Products:

- Higher sales, driven by VTech platform products
- Kidizoom Smartwatch range, KidiBuzz, Touch and Learn Activity Desk Deluxe were growth drivers
- LeapFrog platform products sales declined, on lower sales of children's educational tablets
- Sales of LeapFrog reading system remained flat
- LeapFrog Academy: Launched in August 2017. Subscriptions growing steadily



- **TEL** products revenue decreased by 10.6% to US\$327.0 million
- Growth in commercial phones and other telecommunication products unable to offset lower sales of residential phones



## Commercial Phones and Other Telecommunication Products:

- Growth was driven by higher sales of headsets and VoIP phones



- **Headsets:** Maintained strong sales momentum
- **VoIP phones:** New VTech branded phones were driver
- **Baby monitors:** Sales declined on customer order delay, but VTech branded range gained market share
- **Hotel phones and conference phones:** Steady growth
- **Residential Phones:**
  - Higher-than-expected decline of fixed-line telephone market
  - Maintained leadership position

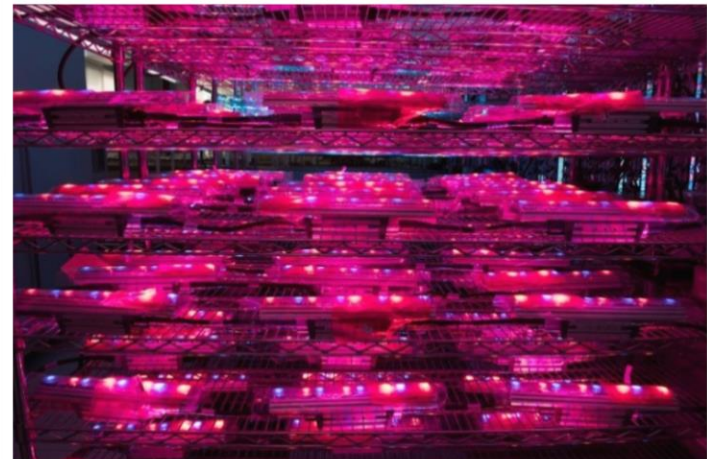


- **CMS** revenue up 30.8% to US\$255.8 million
  - Growth across the board
  - **Professional audio:** Significant sales increase on strong demand for new active speakers and more orders as a customer worked through excess inventory



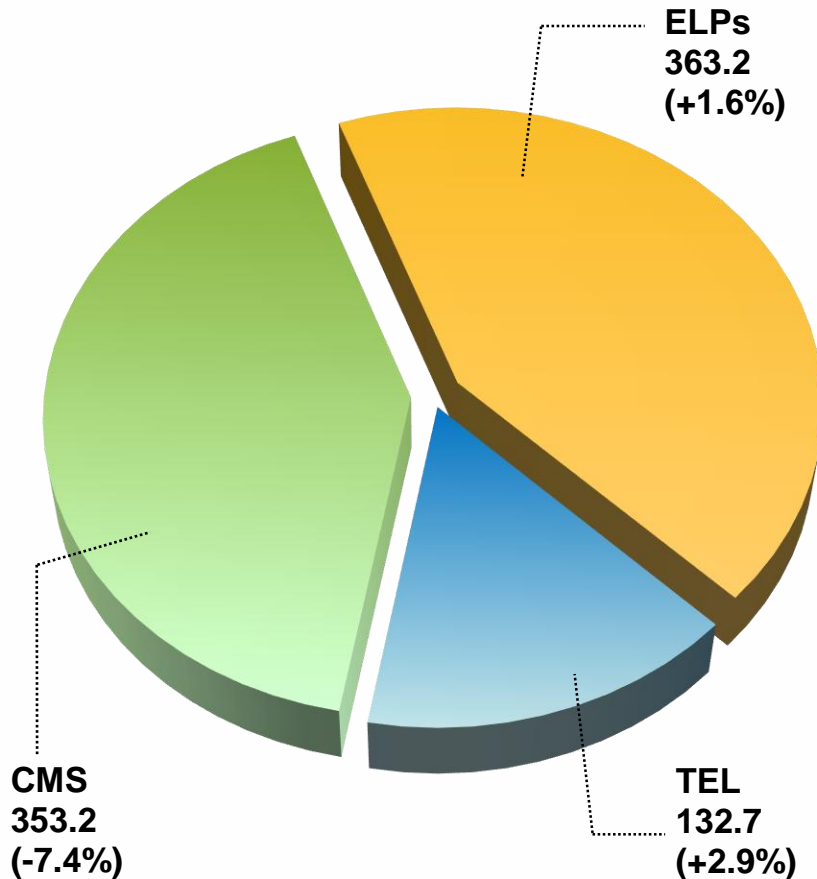
# vtech | North America (continued)

- **Solid-state lighting:** Sales boosted by an existing customer transferred production to VTech
- **Industrial products:** New orders for PCB assembly for industrial printers, electronic locks and note counting devices
- **Home appliances:** Sales rose as customer expanded market share in US
- **Communication products:** Sales declined as customer's product line reached the end of life cycle





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



- **Revenue fell by 2.2% to US\$849.1 million, 39.9% of Group revenue**
- **Higher sales of ELPs and TEL products unable to offset lower sales of CMS**
- **ELPs** revenue rose by 1.6% to US\$363.2 million, despite the negative impact from Toys“R”Us
  - Germany, Spain and the Netherlands recorded growth, while France and the UK maintained stable sales
  - Strengthened position as the no. 1 infant and toddler toy manufacturer in France, the UK, Germany and Spain

## Standalone Products:

- Achieved slightly higher sales owing to growth in LeapFrog infant and preschool categories
- VTech standalone products: Stable sales
- Higher sales of infant and preschool products, Kidizoom cameras and the Kidi line compensate for lower sales of Toot-Toot family of products and Kidizoom Action Cam
- Sales of Little Love line: Steady



## Platform Products:

- Sales increased
- **VTech**: Higher sales, driven by Kidizoom Smartwatch range and KidiCom MAX
- **LeapFrog**: Sales grew on introduction of updated version of LeapStart/MagiBook, offsetting decline in children's educational tablets



- **TEL** products revenue increased by 2.9% to US\$132.7 million
  - Higher sales of commercial phones and other telecommunication products offset lower sales of residential phones
- **Commercial Phones and Other Telecommunication Products:**
  - **VoIP phones:** Higher sales driven by full-year sales contribution from Snom and the launch of new, high-end phone
  - **IADs:** Good growth because of addition of new customers



- **CAT-iq handsets:** Sales rose due to increased promotion
- **Baby monitors and hotel phones:** Stable sales
- **Residential Phones:**
  - Sales declined on continued contraction of fixed-line telephone market



- **CMS** revenue fell by 7.4% to US\$353.2 million
- Decline mainly due to lower sales of switching mode power supplies
  - **Switching mode power supplies:**  
Ownership change led to production being moved back in-house
  - **Hearables:** Lower sales as customers faced keen competition in headset market
  - **Home appliances:** Sales declined as customer reduced orders

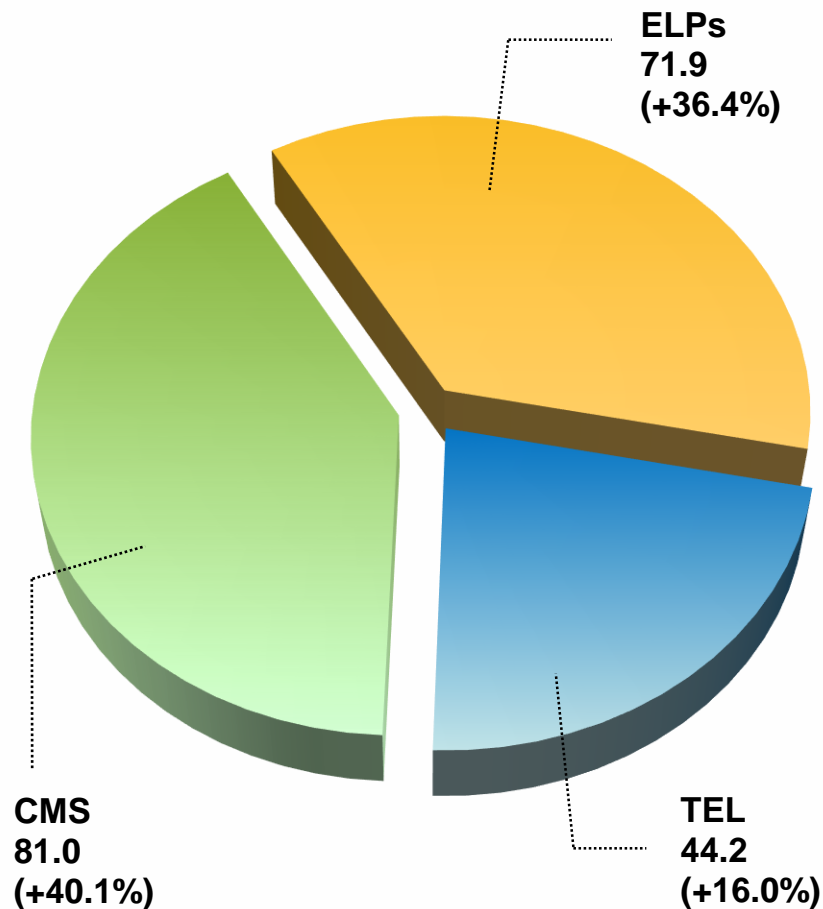




- **Medical and health products:** Growth in hearing aids offset by declines in hair removal products
- **Professional audio:** Sales grew as orders from two major customers increased
- **Industrial products:** Continued to benefit from rising sales of smart meters
- **Communication products:** Strong growth on increased orders for VoIP phones and addition of a new customer for Wi-Fi routers



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

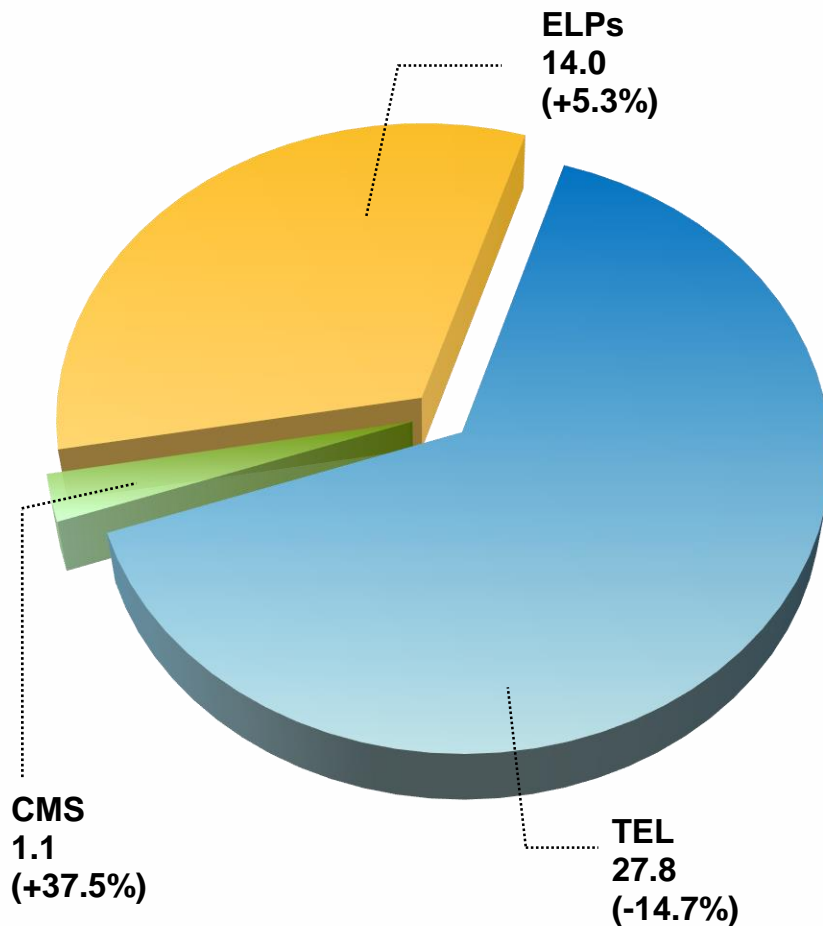


- **Revenue increased by 32.6% to US\$197.1 million, 9.2% of Group revenue**
- **ELPs** revenue up 36.4% to US\$71.9 million, led by growth in Australia and mainland China
- **TEL** products revenue increased 16.0% to US\$44.2 million. Japan, Hong Kong and Korea led the growth
- **CMS** revenue up 40.1% to US\$81.0 million. Growth attributable to full-year sales contribution from the high precision metal parts business, and higher sales in most product categories



# vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue fell by 8.1% to US\$42.9 million, 2.0% of Group revenue**
- Lower sales of TEL products offset higher sales of ELPs and CMS
- **ELPs** revenue up 5.3% to US\$14.0 million. Higher sales in Middle East and Latin America compensated for lower sales in Africa
- **TEL** products revenue declined by 14.7% to US\$27.8 million on lower sales in Latin America and Middle East, offsetting small growth in Africa
- **CMS** revenue was US\$1.1 million, as compared to US\$0.8 million in FY2017

# Outlook

- **Group revenue expected to rise in FY2019**
  - **TEL** products anticipated to return to growth
  - **CMS** sales forecast to increase
  - **ELPs** revenue difficult to gauge
- Gross margin trend difficult to predict
- US-China trade conflict: The target list announced of products potentially subject to punitive tariffs does not include VTech product categories

## ELPs

- Revenue in FY2019 to be affected by Toys“R”Us liquidation
- Longer term prospects remain positive
- **North America and Europe:** Plan to strengthen market position by new product launches
- **Standalone Products:**
  - Expansion of VTech baby, infant and preschool lines, as well as LeapFrog branded learning toys



- **Platform Products:**
  - Kidizoom Smartwatch DX2 to be rolled out to most European markets
  - New LeapStart 3D to be launched in US and UK
  - LeapStart library to expand
- **Asia Pacific:** Growth expected to remain robust



## TEL products



- Forecast to return to growth
- Commercial phones and headsets lead the way, driven by new product launches, increased sales channels and geographic expansion
  - **VoIP phones:** Latest VTech and Snom phones extremely well-received
  - **Headsets:** Good momentum to continue, supported by new product launches and expansion to Europe and Australia

# vtech | Outlook



- **Baby monitors:** Continue to drive innovation by introducing relevant new features
- **CAT-iq handsets:** Sales will increase as new products to be launched in Germany. The Group also begins supplying products to a UK telecom operator in 3QFY2019

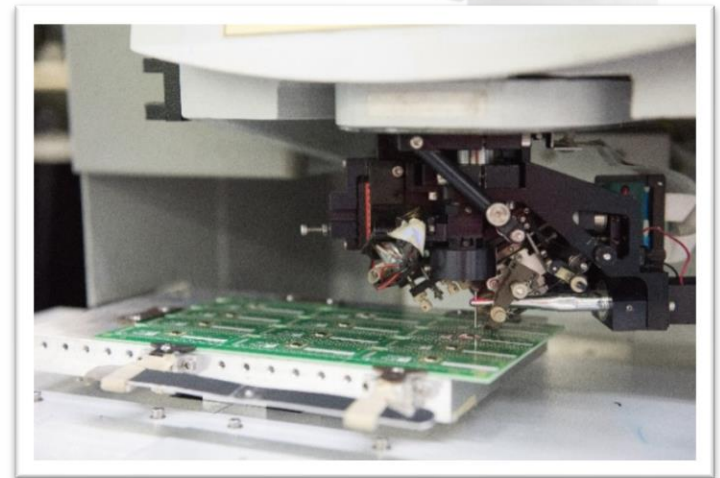


- Residential phones sales will decline further as fixed-line telephone market continues to contract



## CMS

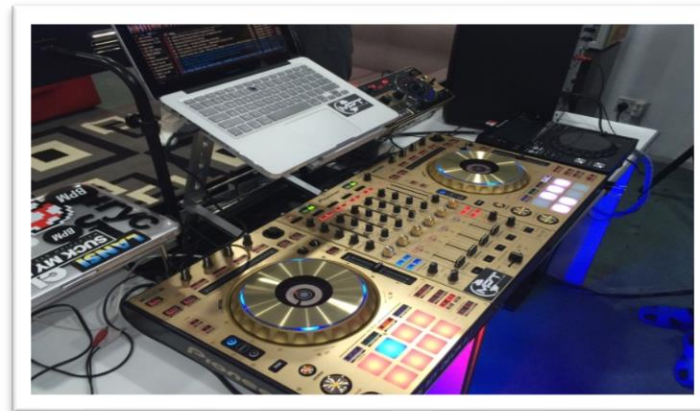
- Poised for further growth
- Sales will increase across the board, driven by:
  - Business expansion of existing customers
  - VTech's ability to gain additional business by offering customers more design support





# vtech | Outlook

- VTech to acquire manufacturing facility in Malaysia from Pioneer Corporation
- Agreement signed in April 2018
- Acquisition includes fixed assets and business in manufacturing high performance audio equipment
- Strengthens CMS' leading position as a manufacturer of professional audio equipment
- Expands VTech's global footprint
- This acquisition, plus new factory building in Dongguan, adds almost 50% to CMS production capacity



# Thank You