



VTech Holdings Limited

2018/2019 Interim Results Announcement

12 November 2018

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2018

2017

Change

Revenue

1,003.5

1,039.7

-3.5%

Gross Profit

296.5

335.4

-11.6%

Gross Profit Margin %

29.5%

32.3%

-2.8% pts

Operating Profit

100.3

114.8

-12.6%

Operating Profit Margin %

10.0%

11.0%

-1.0% pts

Profit Attributable to Shareholders of the Company

90.1

103.6

-13.0%

Net Profit Margin %

9.0%

10.0%

-1.0% pts

Basic Earnings per Share (US cents)

35.8

41.2

-13.1%

Interim Dividend per Share (US cents)

17.0

17.0

-

Revenue by Region

For the six months ended 30 September

(US\$ million)	2018	%	2017	Change
North America	470.1	46.8	499.7	-5.9%
Europe	400.4	39.9	413.7	-3.2%
Asia Pacific	112.1	11.2	100.6	11.4%
Other Regions	20.9	2.1	25.7	-18.7%
Total	1,003.5	100.0	1,039.7	-3.5%

(US\$ million)	30/09/18	31/03/18	30/09/17
Stocks	492.6	349.9	456.9
Stocks Turnover Days	138 days	102 days	128 days
Trade Debtors	471.1	264.9	462.9
Trade Debtors Turnover Days	63 days	65 days	64 days

(US\$ million)	30/09/18	31/03/18	30/09/17
Deposits and Cash	74.3	254.4	91.3
Total Borrowings	—	—	(1.6)
Net Cash Position	74.3	254.4	89.7

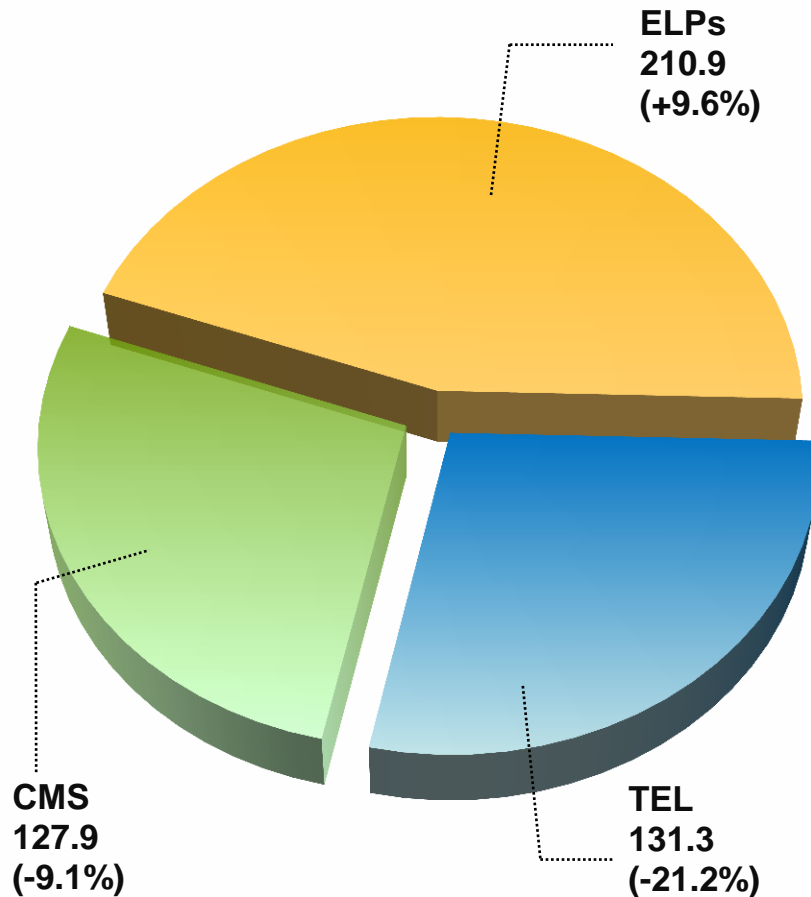
Operations Review

- **Gross profit margin decreased from 32.3% to 29.5%**
- Mainly due to product mix, higher materials prices, increase in direct labour costs and manufacturing overheads, which offset the positive impact of further productivity gains

- During 1HFY2019, the US Government imposed three rounds of tariffs on Chinese imports amounting to US\$250 billion of goods
- Neither VTech's ELPs nor TEL products included in list of items targeted
- Tariffs affect some CMS customers who export to US from VTech facilities in mainland China
- VTech is offering such customers the alternative use of its recently acquired facilities in Malaysia as a contingency

vtech | North America

Revenue by Product Line (US\$ million)



- Revenue fell by 5.9% to US\$470.1 million, 46.8% of Group revenue
- Lower sales of TEL products and CMS offset higher sales of ELPs
- **ELPs** revenue rose by 9.6% to US\$210.9 million
 - Standalone and platform products grew, driven by strong sales in Canada and good growth in the US
 - Maintained position as No.1 manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada

Standalone Products:

- Sales increases of both VTech and LeapFrog branded products:
 - **VTech:** Higher sales of infant and preschool products, Kidi line and Kidizoom Camera offset lower sales of Go! Go! Smart family of products
 - **LeapFrog:** Strong growth reflected higher sales of infant and preschool products, as the Group supported the brand by launching new learning toys





Platform Products:

- Growth across both brands:
 - **VTech:** Kidizoom Smartwatch DX2 and KidiBuzz saw higher sales; the new Explore and Write Activity Desk hit the market in August
 - **LeapFrog:** Higher sales of both reading systems and children's educational tablets, including the newly launched LeapStart 3D
 - **LeapFrog Academy:** Launched in August 2017 and making a sales contribution





- **TEL** products revenue decreased by 21.2% to US\$131.3 million
- Lower sales of residential phones, commercial phones and other telecommunication products
- **Residential Phones:**
 - Lower sales due to continued contraction of fixed-line telephone market and loss of shelf space in club channels
 - Maintained leadership in US residential phones market

vtech | North America (continued)

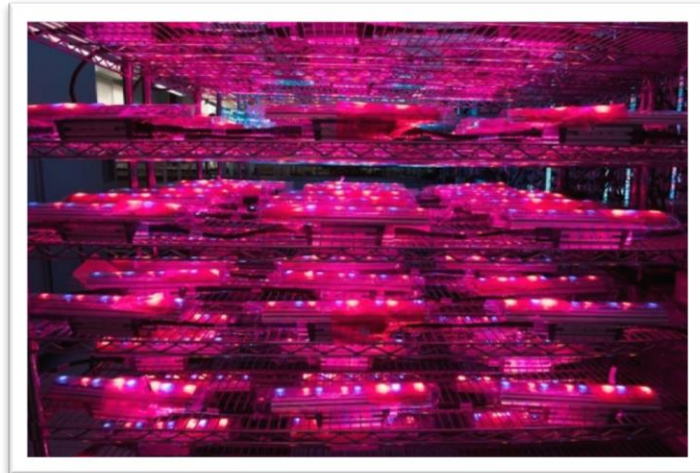
Commercial Phones and Other Telecommunication Products:

- Higher sales of hotel phones and wireless monitoring systems unable to compensate for lower sales of baby monitors and VoIP phones
 - **Hotel phones:** Sales rose as new projects won
 - **Wireless monitoring systems:** Benefited from the launch of new Wi-Fi cameras
 - **VoIP phones:** Sales remained low primarily due to delay of the new VoIP phone series
 - **Headsets:** Sales held steady

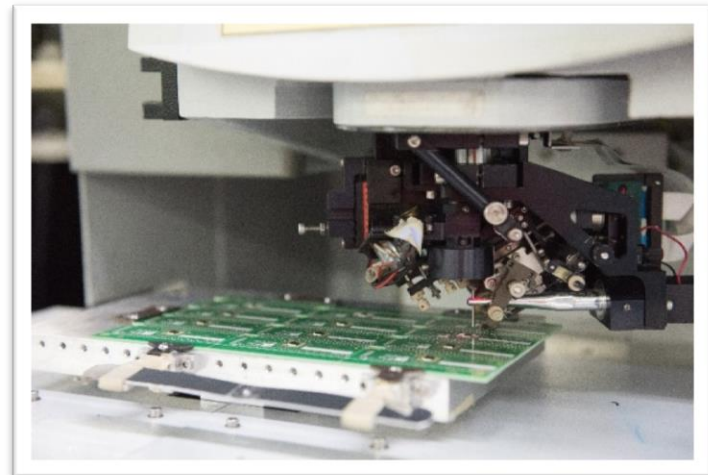


vtech | North America (continued)

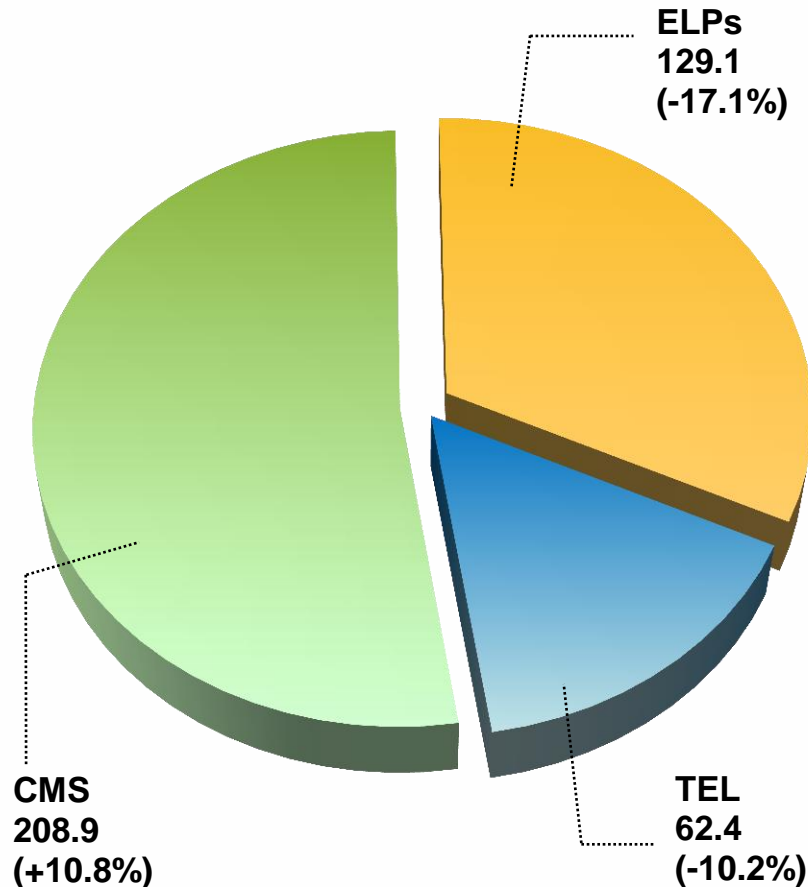
- **CMS** revenue declined by 9.1% to US\$127.9 million
- Lower sales of solid-state lighting, communication products and professional audio equipment
 - **Solid-state lighting:** Affected by customers' less favourable business conditions
 - **Communication products:** Further sales decline as a client's product line reached the end of life cycle



- **Professional audio:** Lower orders as a major customer worked through excess inventory
- **Industrial products:** Sales increased owing to good orders for items including PCB assembly for industrial printers and note counting devices



Revenue by Product Line (US\$ million)



- **Revenue down by 3.2% to US\$400.4 million, 39.9% of Group revenue**
- **Lower sales of ELPs and TEL products offset sales increase at CMS**
- **ELPs** revenue declined by 17.1% to US\$129.1 million
 - UK sales stable but other markets decline on issue following appointment of new third-party vendor who relocated to a new warehouse, resulting in reduced shipment
 - Maintained position as No.1 infant and toddler toy manufacturer in France, the UK and Germany

Standalone Products:

- Sales declined overall
- VTech sales lower
- Good growth for LeapFrog, with higher sales in infant and preschool categories
- Won numerous awards, especially for Myla the Magical Make-Up Unicorn and Toot-Toot Friends Kingdom Pirate Ship



Platform Products:

- Sales decreased
 - **VTech:** Higher sales of KidiCom MAX offset by lower sales of Kidizoom Smartwatches and children's educational tablets
 - **LeapFrog:** Continued growth in LeapStart/MagiBook and introduction of LeapStart 3D in the UK offset decline in children's educational tablets





- **TEL** products revenue decreased by 10.2% to US\$62.4 million
 - Sales declines in residential phones and other telecommunication products, while VoIP phones posted a slight growth



- **Residential Phones:**
 - Sales decreased as fixed-line telephone market continued to contract

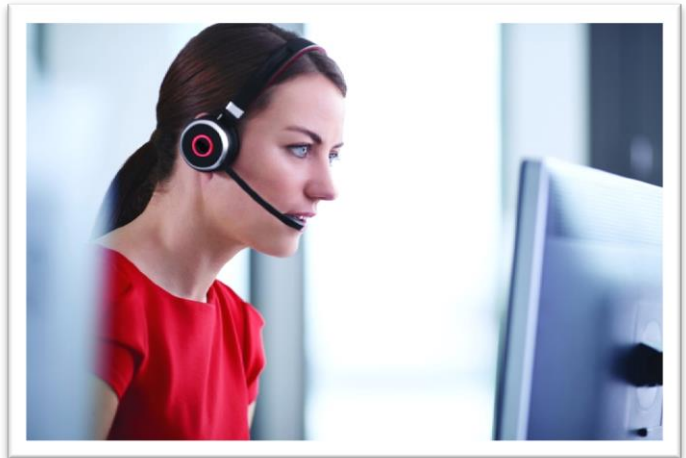
- **Commercial Phones and Other Telecommunication Products:**

- **VoIP phones:** Continued growth supported by positive reception for the new colour display VoIP phone under the Snom brand
- **Baby monitors:** Sales declined as a major customer reduced orders
- **CAT-iq handsets:** Lower sales on project delay by a customer
- **IADs:** Sales declined on reduced orders by a telephone company customer



vtech | Europe (continued)

- **CMS** revenue rose by 10.8% to US\$208.9 million
- The increase mainly due to higher sales of hearables, professional audio equipment and communication products
 - **Hearables:** Market share gains and new product launches by existing customers led to growth
 - **Professional audio:** Order increased as customers' new product launches well received by the market

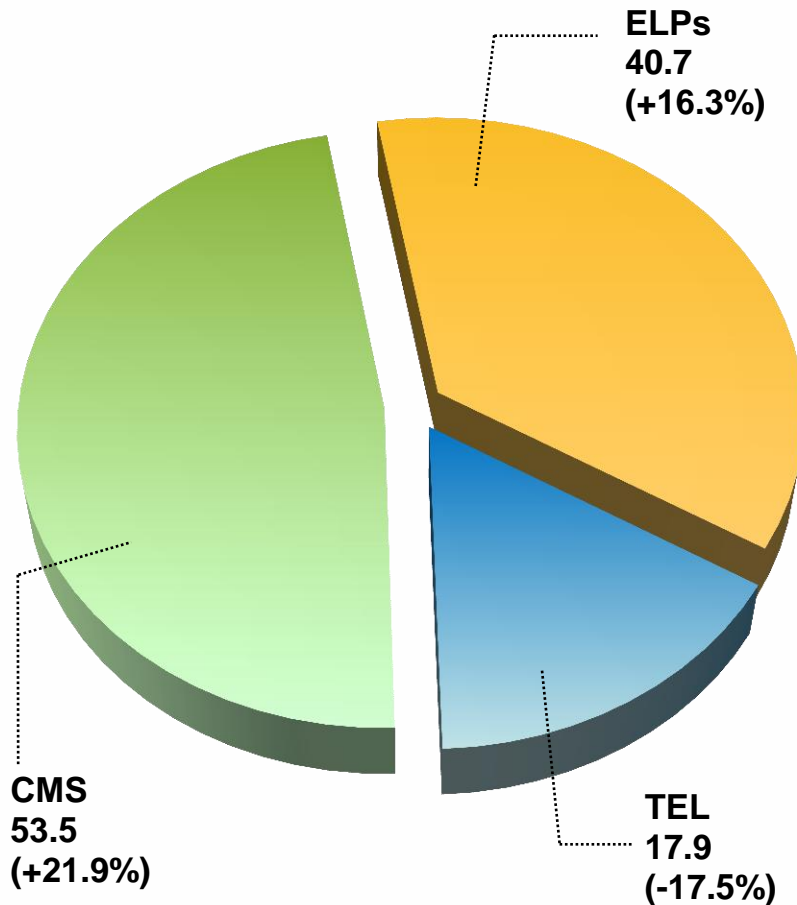


vtech | Europe (continued)

- **Communication products:** Benefited from increased orders for Wi-Fi routers and VoIP phones
- **Medical and health products:** Sales negatively impacted by lower orders for hair removal products and hearing aids
- **Industrial products:** Sales held steady
- **Switching mode power supplies:** Sales held steady



Revenue by Product Line (US\$ million)



- **Revenue increased by 11.4% to US\$112.1 million, 11.2% of Group revenue**
- **ELPs** revenue up 16.3% to US\$40.7 million, led by growth in mainland China and Australia
- **TEL** products revenue declined by 17.5% to US\$17.9 million on lower sales in Japan, Australia and Hong Kong. Sales increased in Malaysia and the Philippines
- **CMS** revenue up 21.9% to US\$53.5 million on growth in professional audio equipment and medical and health products

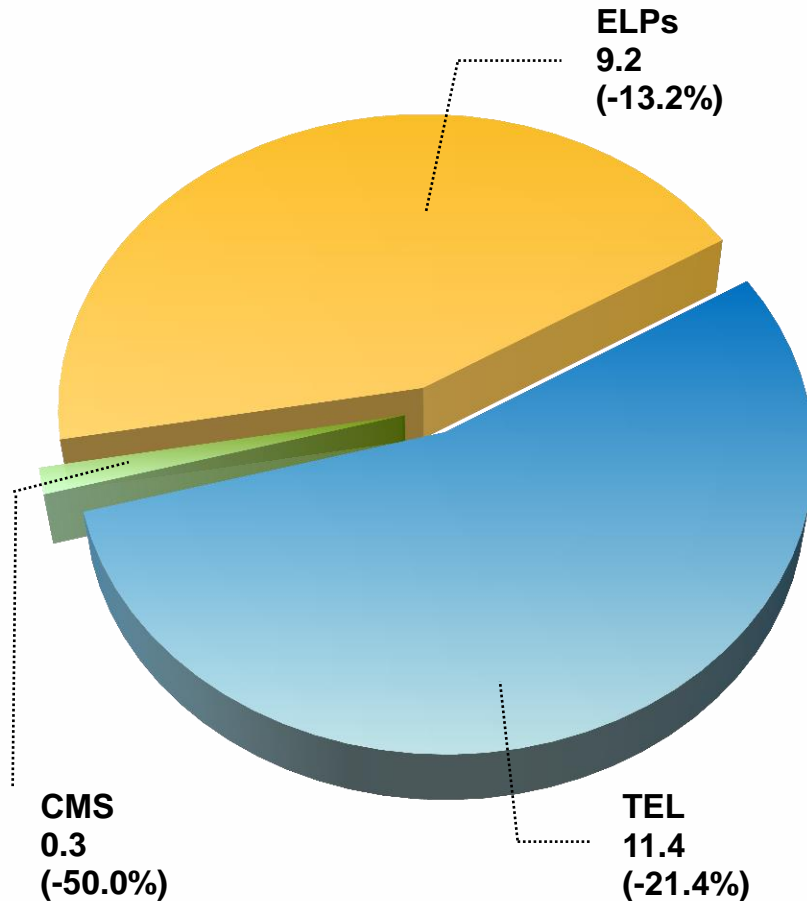
vtech | Asia Pacific (continued)

- Completed acquisition of manufacturing facility in Malaysia
- Consideration of approx. US\$19.9 million
- Includes business manufacturing high performance audio equipment for DJs, producers and artists
- Strengthens CMS' position as a leading global manufacturer of professional audio equipment
- Expands VTech's global footprint, allowing the Group to serve its customers better



vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue declined by 18.7% to US\$20.9 million, 2.1% of Group revenue**
- Lower sales of ELPs, TEL products and CMS
- **ELPs** revenue down 13.2% to US\$9.2 million, with sales lower in all three regions
- **TEL** products revenue decreased by 21.4% to US\$11.4 million on sales decreases in Latin America and the Middle East
- **CMS** revenue was US\$0.3 million, as compared to US\$0.6 million in 1HFY2018

Outlook

- Group revenue for FY2019 difficult to gauge
- Full year CMS revenue to grow
- TEL products revenue lower year-on-year
- ELPs revenue hard to predict, as 2H sales may be affected by lingering effects of Toys“R”Us closure and logistics issues in continental Europe
- US-China trade tension adds to the level of uncertainty
- Gross margin is projected to decline year-on-year

ELPs

- **Revenue in FY2019** difficult to gauge, as challenges will carry over into 2H
- **North America:** Lingering effect of Toys“R”Us closure may affect holiday sales
- **Europe:** Sales in 2H will be higher than 1H, as logistics issues being resolved
- **Asia Pacific:** Continued good performances from Australia and mainland China



vtech | Outlook

ELPs

- **Positive longer term prospects**
 - Expansion into building sets category with interactive building sets LeapBuilders/ BlaBla Blocks
 - Good reception of VTech and LeapFrog CY2019 new line-up of products
 - Well-positioned for solid performance in FY2020



TEL Products

- Sales to pick up in 2H, but full year revenue projected to be lower
- Full year sales of commercial phones and other telecommunication products to increase
 - **VoIP phones:** Sales to grow in 2H over 1H on aggressive promotional programme and introduction of additional VoIP phone models



TEL Products

- **Baby monitors:** Resumption of growth on new product launches and increasing orders from a major customer
- **CAT-iq handsets:** Sales to pick up
- **Headsets:** Business to grow further on shipments of new models
- **IADs:** Sales in 2H to improve



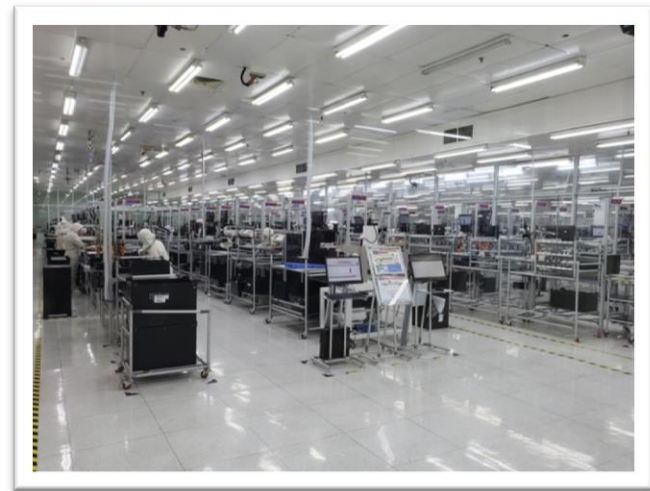
CMS

- **Will achieve growth for FY2019**
- Sales will increase across the board: driven by higher sales of professional audio equipment, hearables, industrial products, home appliances as well as medical and health products
- Existing customers expanding their businesses, new customers being added



CMS

- Further growth from IoT products
- Sales contribution from manufacturing DJ equipment
- Additional business from new customers demanding an alternative manufacturing site outside mainland China, in response to US-China trade tensions



Thank You