



# **VTech Holdings Limited**

**FY2020 Annual Results Announcement**

18 May 2020

# Financial Review



# Financial Highlights

For the year ended 31 March

(US\$ M)

2020

2019

Change

**Revenue**

**2,165.5**

2,161.9

0.2%

**Gross Profit**

**663.6**

636.4

4.3%

Gross Profit Margin %

**30.6%**

29.4%

1.2% pts

**Operating Profit**

**219.7**

193.2

13.7%

Operating Profit Margin %

**10.1%**

8.9%

1.2% pts

**Profit Attributable to Shareholders  
of the Company**

**190.7**

171.3

11.3%

Net Profit Margin %

**8.8%**

7.9%

0.9% pts

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

**75.7**

68.2

11.0%

**Dividend per Share** (US cents)

• Interim

**17.0**

17.0

• Final

**36.0**

50.0

• Total dividend for the year

**53.0**

67.0

-20.9%

# Revenue by Region

For the year ended 31 March

(US\$ M)	2020	%	2019	Change
North America	989.6	45.7	994.5	-0.5%
Europe	886.3	40.9	882.9	0.4%
Asia Pacific	259.4	12.0	248.6	4.3%
Other Regions	30.2	1.4	35.9	-15.9%
Total	2,165.5	100.0	2,161.9	0.2%

# vtech | Working Capital

(US\$ M)

31/03/20

31/03/19

**Stocks**

**372.6**

369.9

**Stocks Turnover Days**

**102 days**

100 days

**Trade Debtors**

**221.5**

263.0

**Trade Debtors Turnover Days**

**63 days**

65 days

(US\$ M)	31/03/20	31/03/19
Deposits and Cash	242.5	237.0
Total Borrowings	-	-
Net Cash Position	242.5	237.0

# Operations Review

- Disruptions to supply and demand for products
- **Supply:**
  - CNY holiday extended; factories in mainland China required to resume work in phases
  - Production facilities for CMS in Malaysia ceased production in mid-March 2020 on “movement control order”
  - Production capacity returning to normal in April
- **Demand:**
  - Shipments across all businesses adversely affected

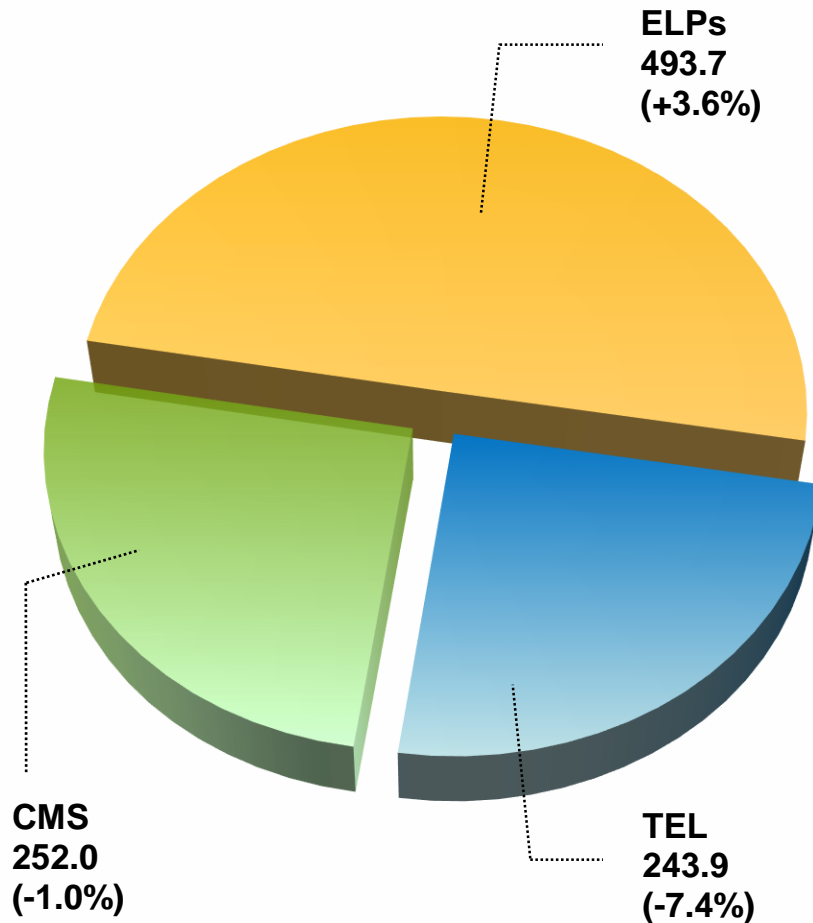


- **Gross profit margin rose from 29.4% to 30.6%**
- Lower materials prices
- Direct labour costs benefitted from RMB depreciation
- Manufacturing overheads stable

- Phase one trade deal between China and US signed on 15 January 2020
- 15% tariff imposed on residential cordless phones on 1 September 2019 reduced to 7.5%, effective 14 February 2020
- Some CMS customers affected, with tariffs ranging from 7.5% to 25%
- All but a few ELPs exempt from US tariffs

# vtech | North America

Revenue by Product Line (US\$ million)



- **Revenue decreased 0.5% to US\$989.6 million, 45.7% of Group revenue**
- **Higher ELPs sales insufficient to offset lower revenues of TEL products and CMS**
- **ELPs** revenue rose 3.6% to US\$493.7 million
  - Higher sales of LeapFrog and VTech standalone products
  - Became no.1 supplier of infant and toddler toys in Canada
  - Strengthened leadership as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada

- **Standalone Products:**

- **LeapFrog:** Robust growth, driven by higher sales of infant, toddler and preschool products
- **VTech:** Higher sales of preschool products and Kidi line offset declines in infant and toddler products, KidiZoom Camera and Go! Go! Smart family of products





• **Platform Products:**

- Lower sales for both brands
- **LeapFrog:** Sales decline of children's educational tablets offset contribution from RockIt Twist and Magic Adventures Globe
- LeapStart Go expands reading platforms line-up
- **VTech:** Lower sales of KidiBuzz offset higher sales of KidiZoom Smartwatches and Touch & Learn Activity Desk



- **Go! Go! Cory Carson:** Animation on Netflix premiered in January 2020, with good response

- Playsets and vehicles based on the characters reached US shelves in March 2020

- **LeapFrog Academy:** Steadily growing subscriber base

- **Awards:** Five TOTY finalists, Walmart's "Top Rated by Kids" and "Top Toys for 2019" awards



# vtech | North America (continued)

- **TEL products** revenue decreased 7.4% to US\$243.9 million, with lower sales of residential phones, commercial phones and other telecommunication products
- **Residential Phones:**
  - Sales decreased on fixed-line telephone market contraction
  - Rate of decline moderated on becoming exclusive supplier to a key US retailer
  - Strengthened leadership position in US residential phones market





- **Commercial Phones and Other Telecommunication Products:**
  - Lower sales of SMB phones, hotel phones, headsets and baby monitors offset growth in VoIP phones and conference phones
  - **SMB phones:** Sales reduced as VTech's range reached end of life-cycle
  - **Hotel phones:** Face pressure of very competitive marketplace
  - **Headsets:** Sales fell on customer with excess inventory, partially offset by new mobile phone station launch







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

- **Baby monitors:** Sales declined overall as a number of customers reduced orders
- VTech gained market share and remained no. 1 baby monitor brand in US and Canada
- **VoIP phones:** Snom products contributed to overall growth



- **CMS** revenue down 1.0% to US\$252.0 million
- Growth in professional audio equipment and medical and health products offset by lower sales of industrial and communication products
  - **Professional audio:** Sales grew as order backlog cleared on improved materials supply, while another customer benefitted from new product launch

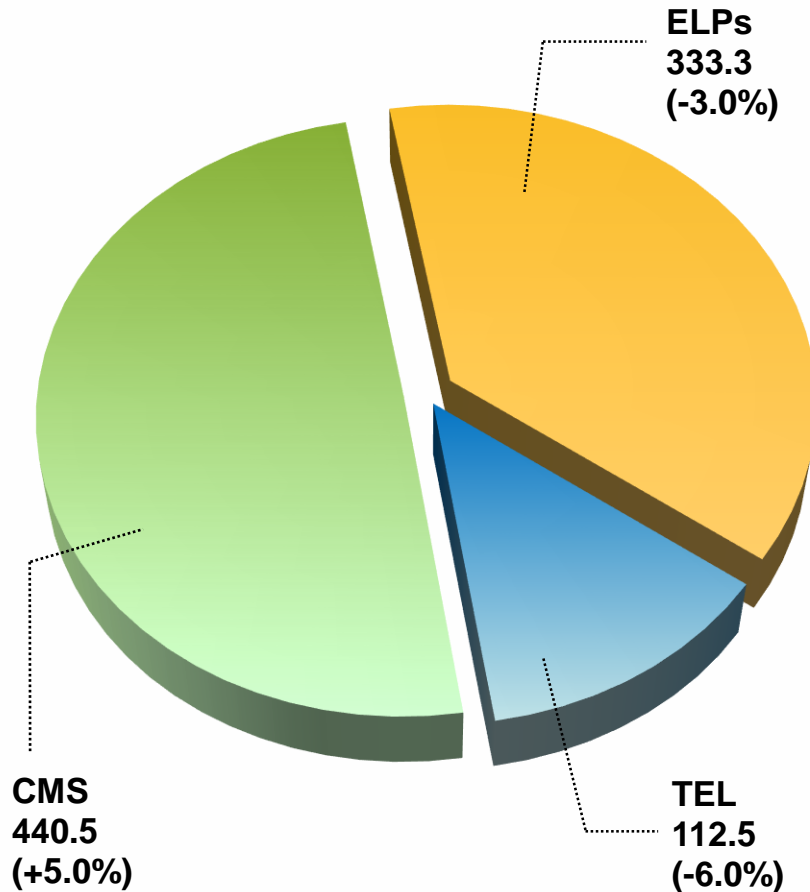


- **Medical and health products:** Higher sales on more orders for hearing aids, as customer transferred in-house production to VTech and contracted for finished products
- **Industrial products:** Sales decreased on lower orders for note counting machines and electronic locks
- **Communication products:** Sales declined as customer's product reached end of life cycle
- **Solid-state lighting:** Largely stable



# vtech | Europe

Revenue by Product Line (US\$ million)



- **Revenue up 0.4% to US\$886.3 million, 40.9% of Group revenue**
- **Higher sales of CMS offset lower revenues of ELPs and TEL products**
- **ELPs** revenue down 3.0% to US\$333.3 million
  - Markets affected by weakness of European currencies, lingering effects of Toys“R”Us bankruptcy and financial difficulties faced by smaller retailers
  - Lower sales of standalone and platform products
  - No. 1 infant and toddler toys manufacturer in France, UK, Germany, Spain & Belgium

- **Standalone Products:**

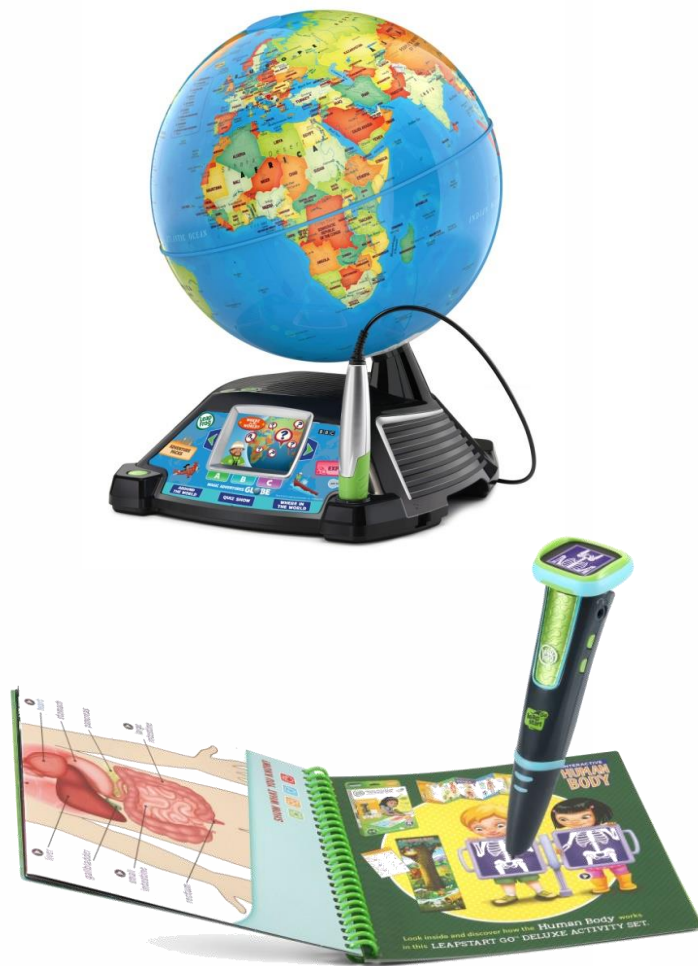
- **VTech:** Sales declined as lower sales of infant and toddler products, Toot-Toot family of products and Kidi line offset growth in preschool products, KidiZoom Camera and Switch & Go Dinos
- Introduced new ZoomiZooz animal playsets
- **LeapFrog:** Sales increased on rising sales of infant, toddler and preschool products; Bla Bla Blocks sales decreased





- **Platform Products:**

- Sales down as higher sales of LeapFrog products insufficient to compensate for lower sales of VTech products
- **LeapFrog:** Growth driven by new products launches, including Magic Adventures Globe, RockIt Twist, LeapStart Go
- This offset sales declines in children's educational tablets and reading system
- **VTech:** Sales decline led by lower sales of children's educational tablets, KidiZoom Smartwatches & KidiCom Max, with sales of Touch & Learn Activity Desk steady





- **TEL products revenue decreased 6.0% to US\$112.5 million**
  - Lower sales of residential phones offset growth in commercial phones and other telecommunication products
- **Residential Phones:**
  - Sales declined as fixed-line telephone market contracted further and existing customers reduced orders

- **Commercial Phones and Other Telecommunication Products:**
  - Sales growth mainly driven by CAT-iq handsets and CareLine range
  - **CAT-iq handsets:** Sales boosted by new German customer and start of shipment to UK telecoms operator
  - **CareLine range:** Increased orders from existing customers





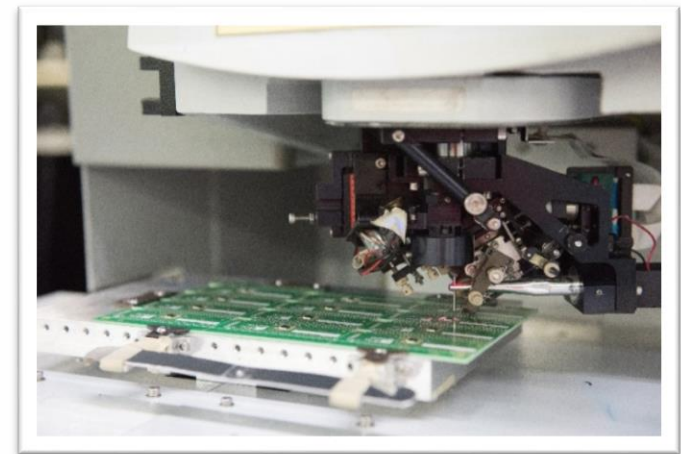
- **Conference phones:** Modest growth
- **VoIP phones, hotel phones and baby monitors:** Stable
- **IADs:** Lower sales on reduction in orders



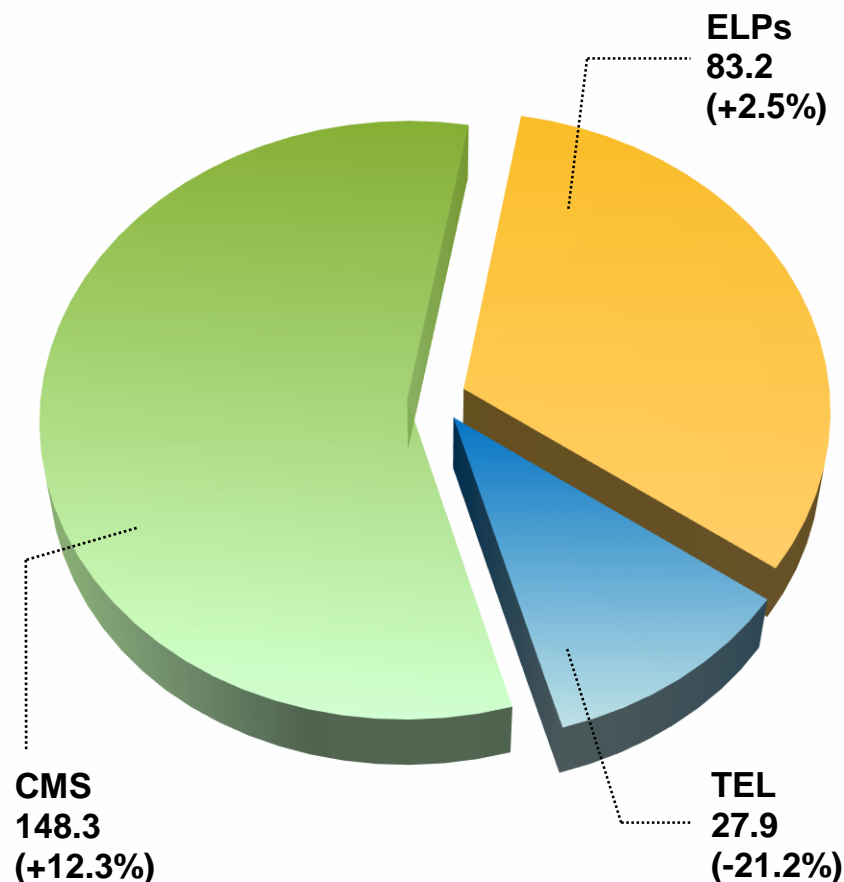


- **CMS** revenue grew 5.0% to US\$440.5 million
- Growth in majority of product lines
  - **Hearables:** Good sell-through of customer's products and new project launch
  - **Professional audio:** Supported by clearing backlog for a major customer; strong demand for a customer's new products
  - **IoT products:** Sales rose on shift of all production to VTech by a customer, with stable demand for smart meters

- **Medical and health products:** Revenue from hearing aids rose as customer contracted VTech to make finished products, plus a new hair removal product customer
- **Home appliances:** Sales increased on improvement in market demand for key customers
- **Communication products:** Production of network routers ramped up
- **Switching mode power supplies:** Sales declined as expected



Revenue by Product Line (US\$ million)



- Revenue increased 4.3% to US\$259.4 million, 12.0% of Group revenue
- Higher sales of ELPs and CMS offset lower sales of TEL products
- **ELPs** revenue up 2.5% to US\$83.2 million, led by growth in Australia, Korea and Japan

- **Australia:** Benefitted from broader listings and more shelf space
- **Korea:** Growth driven by higher sales of LeapFrog products
- **Japan:** Benefitted from relaunch of VTech brand in a major toy retailer
- **Mainland China:** COVID-19 led to lower sales in offline channels in Q4 FY2020
- **Malaysia:** Opened a VTech's flagship toy store on Lazada.com

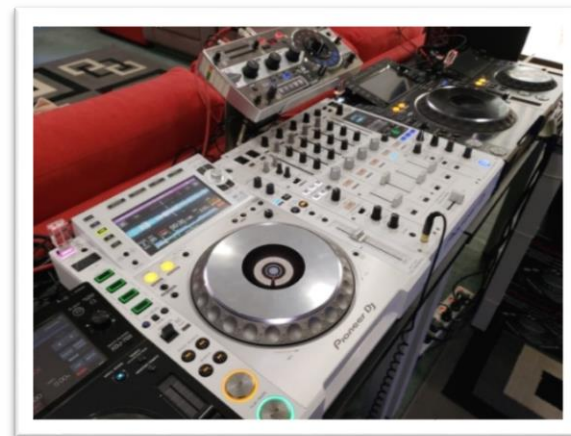




- **TEL products** revenue declined 21.2% to US\$27.9 million, with decreases in most markets
  - **Hong Kong:** Sales rose on increased orders for IADs
  - **Australia:** Sales fell as lower residential phone sales offset higher baby monitor sales
  - **Japan:** Sales affected by a customer's financial situation
  - **Malaysia:** Lower sales on excess inventory at a customer

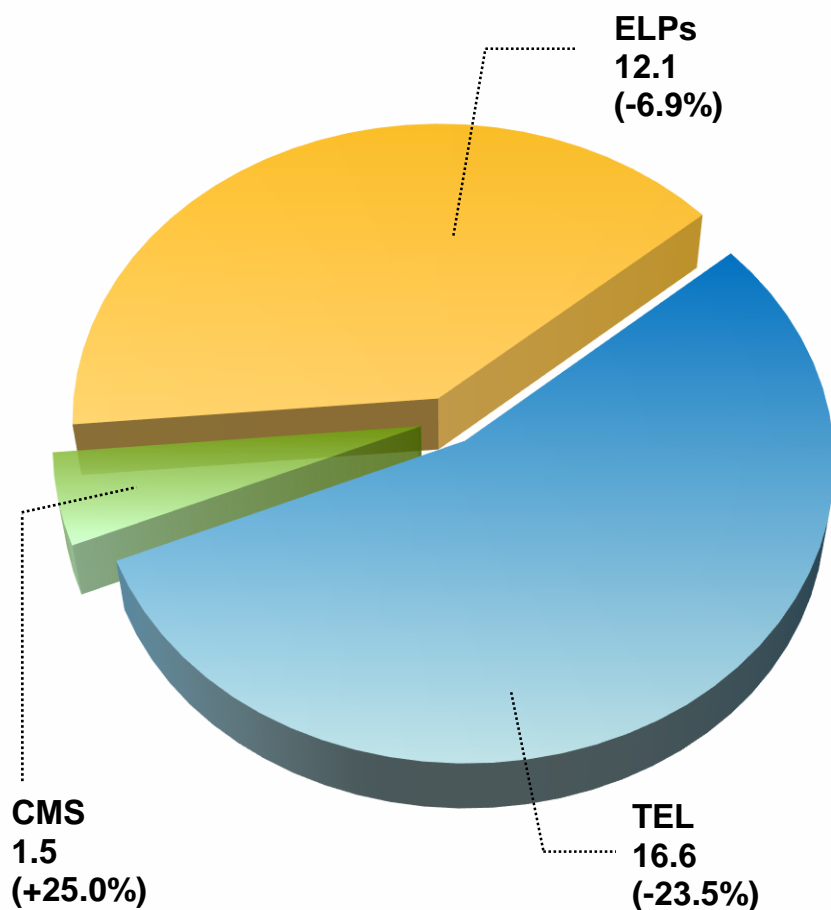


- **CMS** revenue up 12.3% to US\$148.3 million
- Higher sales of professional audio equipment offset declines in medical and health products, home appliances and communication products
  - **Professional audio:** Boosted by full year contribution from DJ equipment business
  - **Medical and health products:** Lower orders for diagnostic ultrasound systems
  - **Home appliances:** Lower orders due to slow market demand
  - **Communication products:** Sales fell as marine radios customer began a transition to new generation of products



# vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue down 15.9% to US\$30.2 million, 1.4% of Group revenue**
- **Lower sales of ELPs and TEL products offset higher sales of CMS**
- **ELPs** revenue down 6.9% to US\$12.1 million. Higher sales in Middle East offset by lower sales in Latin America and Africa
- **TEL products** revenue decreased 23.5% to US\$16.6 million on lower sales in all three regions
- **CMS** revenue was US\$1.5 million, as compared to US\$1.2 million in FY2019



# Outlook

## **Unprecedented COVID-19 crisis makes outlook highly uncertain**

- Group's key markets still in different stages of lockdown
- Lower orders and demand for products
- Revenues from all businesses expected to decrease in FY2021

## **To mitigate impact of lower orders and weaker demand:**

- Streamline operations and slow new CAPEX
- Inventory management tightened
- Accounts receivable closely monitored
- Stepping up efforts to increase sales to e-tailers and other online channels
- Speed up product development and roll out more innovative products

## ELPs

- Focus on strengthening market leadership through new product launches and expansion in Asia Pacific
- **Standalone Products:**
  - New VTech and LeapFrog infant, toddler and preschool products
  - Myla's Sparkling Friends adds to robotics category
  - Kidi line to benefit from arrival of KidiZoom Creator Cam
  - LeapBuilders to be strengthened with Blue's Clues & You! characters



# vtech | Outlook

- **Platform Products:**
  - New generation of KidiBuzz/KidiCom Max
- **Asia Pacific:**
  - **Mainland China:** Stepping up digital marketing and increasing sales to online channels
  - **Japan and Malaysia:** Increasing penetration through channel expansion and more product introductions



## TEL products

- HD video baby monitors and super-long range residential cordless phones delivered 2H FY2020 will contribute to revenue
- New Snom VoIP phones to drive growth in commercial phones
- Newly designed SIP and PSTN based hotel phones to regain market share



## TEL products

- Anti-bacterial technology to be applied to Snom business phones and hotel phones
- Baby monitor with baby care app to strengthen VTech's lead in US and Canada
- New IADs with Wi-Fi 6 standard to expand the category





## CMS

- Customers revising orders on COVID-19 impact
- NPI centre to open in Shenzhen in Q2 FY2021, targeting start-ups





## **Rationalising production base:**

- Signed an agreement in Dec 2019 to acquire second manufacturing facilities in Malaysia
- Comprises over 500,000 square feet of buildings in Penang
- Expect to commence operations by end of FY2021
- Existing CMS facilities in Muar to expand in two phases, adding 50% capacity upon completion
- Malaysian facilities to account for about 25% of Group's total production capacity

# Q&A

# Thank You