



VTech Holdings Limited

2019/2020 Interim Results Announcement

11 November 2019

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2019

2018

Change

Revenue

1,124.1

1,003.5

+12.0%

Gross Profit

344.8

296.5

+16.3%

Gross Profit Margin %

30.7%

29.5%

+1.2% pts

Operating Profit

134.9

100.3

+34.5%

Operating Profit Margin %

12.0%

10.0%

+2.0% pts

**Profit Attributable to Shareholders
of the Company**

118.0

90.1

+31.0%

Net Profit Margin %

10.5%

9.0%

+1.5% pts

Basic Earnings per Share (US cents)

46.9

35.8

+31.0%

Interim Dividend per Share (US cents)

17.0

17.0

—



Revenue by Region

For the six months ended 30 September

(US\$ million)	2019	%	2018	Change
North America	521.9	46.4	470.1	+11.0%
Europe	440.6	39.2	400.4	+10.0%
Asia Pacific	141.9	12.6	112.1	+26.6%
Other Regions	19.7	1.8	20.9	-5.7%
Total	1,124.1	100.0	1,003.5	+12.0%

(US\$ million)

30/09/19

31/03/19

30/09/18

Stocks

457.3

369.9

492.6

Stocks Turnover Days

141 days

100 days

138 days

Trade Debtors

489.9

263.0

471.1

Trade Debtors Turnover Days

62 days

65 days

63 days

(US\$ million)	30/09/19	31/03/19	30/09/18
Deposits and Cash	102.5	237.0	74.3
Total Borrowings	—	—	—
Net Cash Position	102.5	237.0	74.3

Operations Review

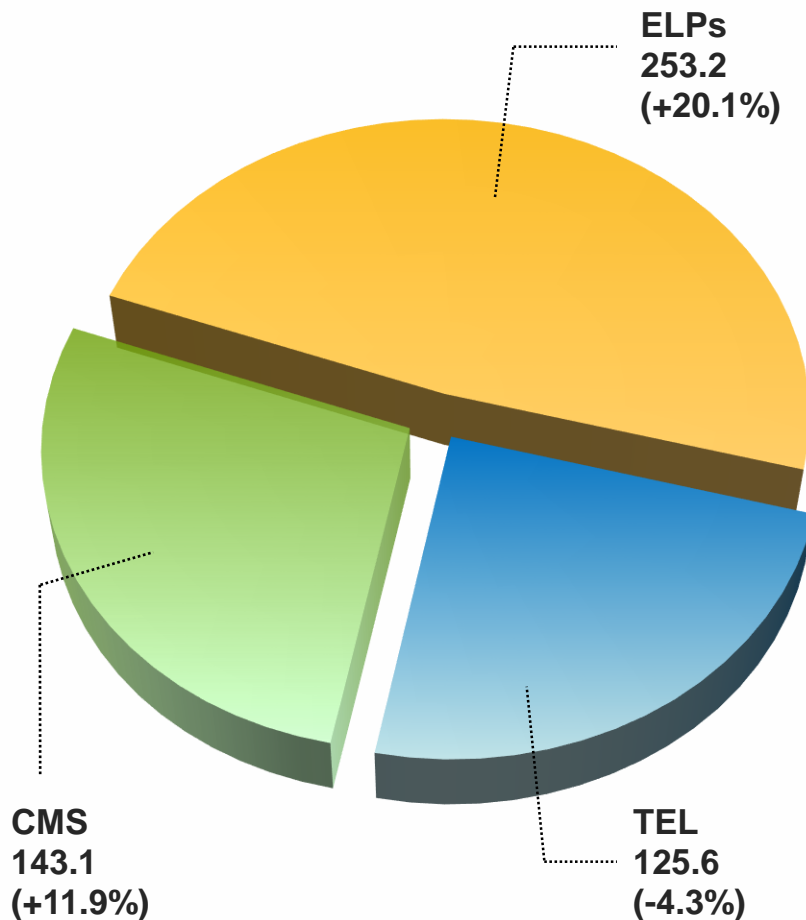
- **Gross profit margin rose from 29.5% to 30.7%**
- Lower materials prices
- Direct labour costs and manufacturing overheads benefited from RMB depreciation
- Further productivity improvements

- Some CMS customers affected since List 3 tariffs introduced in September 2018
- VTech residential phones subject to List 4A tariffs, effective 1 September 2019
- List 4B implementation on 15 December 2019 would mean virtually all VTech products made in mainland China for the US market are affected

- To mitigate the impact, production of ELPs and TEL products accelerated
- Majority of such products for the US market shipped before the tariffs came into effect
- Most of the affected CMS customers transferring production to VTech's facilities in Malaysia

vtech | North America

Revenue by Product Line (US\$ million)



- **Revenue increased 11.0% to US\$521.9 million, 46.4% of Group revenue**
- **Higher ELPs and CMS sales offset lower TEL products revenue**
- **ELPs** revenue rose 20.1% to US\$253.2 million
 - Growth for both LeapFrog and VTech branded products
 - Strong growth in both Canada and US, with the US additionally benefiting from accelerated product shipment
 - No.1 manufacturer of electronic learning toys from infancy through toddler and preschool in US and Canada

- **Standalone Products:**
 - Higher sales of both LeapFrog and VTech branded products
 - **LeapFrog:** Posted significant sales increase, buoyed by rising sales of infant, toddler and preschool products
 - **VTech:** Growth led by higher sales of infant, toddler and preschool products





- **Platform Products:**

- Higher sales driven by VTech platform products
- **VTech:** Increased sales of Kidizoom Smartwatch range and Touch & Learn Activity Desk Deluxe offset a decline in KidiBuzz
- **LeapFrog:** Lower sales on declines for children's educational tablets, LeapStart and LeapReader
- These decreases partially offset by launches of RockIt Twist and LeapStart Go
- Steady growth for LeapFrog Academy

vtech | North America (continued)

- **TEL products** revenue decreased 4.3% to US\$125.6 million, with lower sales in both categories
- **Residential Phones:**
 - Sales decline due to contraction of fixed-line telephone market
 - Rate of sales decline slowed as VTech recouped some lost market share and became sole supplier to key retail customers
 - Strengthened leadership position in US residential phones market





- **Commercial Phones and Other Telecommunication Products:**
 - Lower sales of headset products, hotel phones and SMB phones offset growth in VoIP phones and conference phones, with sales of baby monitors stable
 - **VoIP phones:** New series of Snom products gaining traction
 - **Headset products:** Customer faced over-inventory issue, but partially offset by new customer's launch of a mobile phone station
 - **Hotel phones:** Sales decline due to keen competition
 - **SMB phones:** Current range reached the end of life cycle

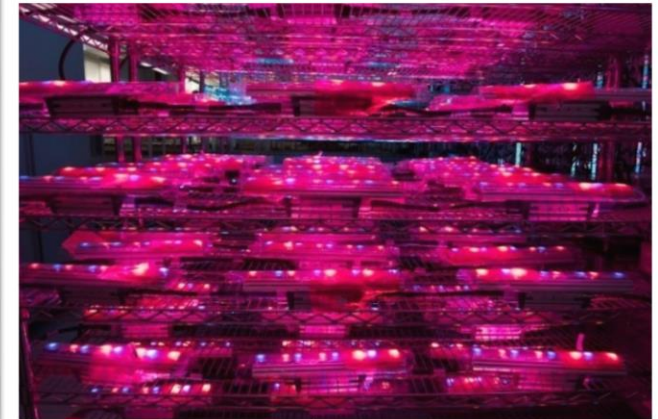


- **CMS** revenue up 11.9% to US\$143.1 million
- Higher sales of professional audio equipment, medical and health products and solid-state lighting offsetting lower sales of communication products, with sales of industrial products stable
 - **Professional audio:** Customer's order backlog cleared as materials supply improved, another customer buoyed by good market response to its products

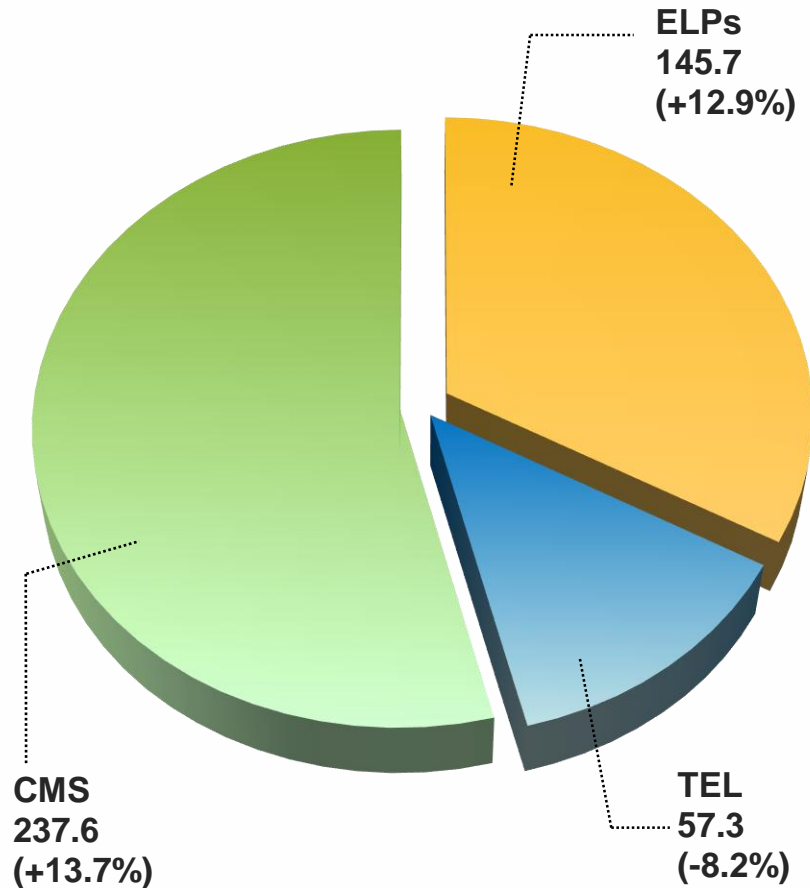


vtech | North America (continued)

- **Medical and health products:** Higher sales of hearing aids as customer transferred in-house production to VTech; shift from PCB assembly to manufacture of finished products
- **Solid-state lighting:** Benefited from addition of a new customer
- **Communication products:** Sales declined as customer's product line reached the end of life cycle



Revenue by Product Line (US\$ million)



- Revenue up 10.0% to US\$440.6 million, 39.2% of Group revenue
- Higher sales of ELPs and CMS offset lower TEL products revenue
- ELPs revenue up 12.9% to US\$145.7 million
 - Higher sales of standalone and platform products
 - Resolution of logistics issues in continental Europe saw higher sales in France, Germany and Spain, but UK declined on tough market conditions
 - No. 1 infant and toddler toy manufacturer in France, UK, Germany, Spain and Benelux countries

- **Standalone Products:**

- Growth in both brands
- **VTech:** Higher sales of infant, toddler and preschool products, Kidizoom Camera and Kidi line, offsetting declines in Toot-Toot family of products
- **LeapFrog:** Higher sales of infant, toddler and preschool products on new product launches



- **Platform Products:**
 - Sales increase for both brands
 - **VTech:** Higher sales of Kidizoom Smartwatches, KidiCom MAX and Touch & Learn Activity Desk
 - **LeapFrog:** Higher sales of LeapStart; launch of LeapStart Go and RockIt Twist





- **TEL products** revenue decreased 8.2% to US\$57.3 million
 - Decline in residential phones offset growth of commercial phones and other telecommunication products
- **Residential Phones:**

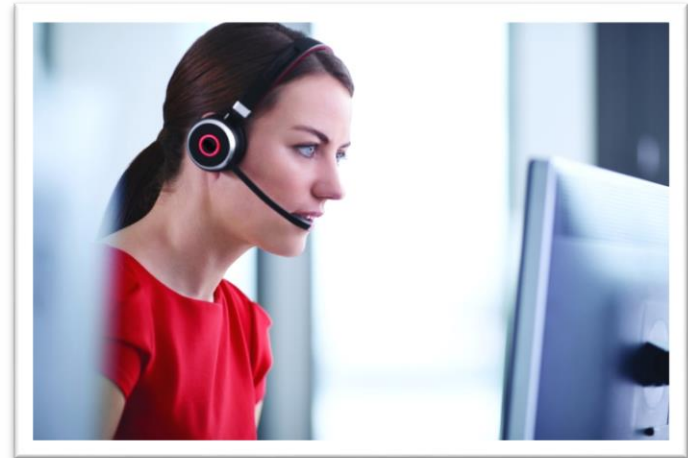


- Fixed-line telephone market contracts; existing customers reduced orders

- **Commercial Phones and Other Telecommunication Products:**
 - **VoIP phones:** Continue to grow steadily as new line of Snom products gains traction
 - **CAT-iq handsets:** Sales boosted by new customer in Germany
 - **CareLine:** Increasing orders from existing customers
 - **Baby monitors:** Stable
 - **Hotel phones:** Stable
 - **IADs:** Lower sales on reduced orders



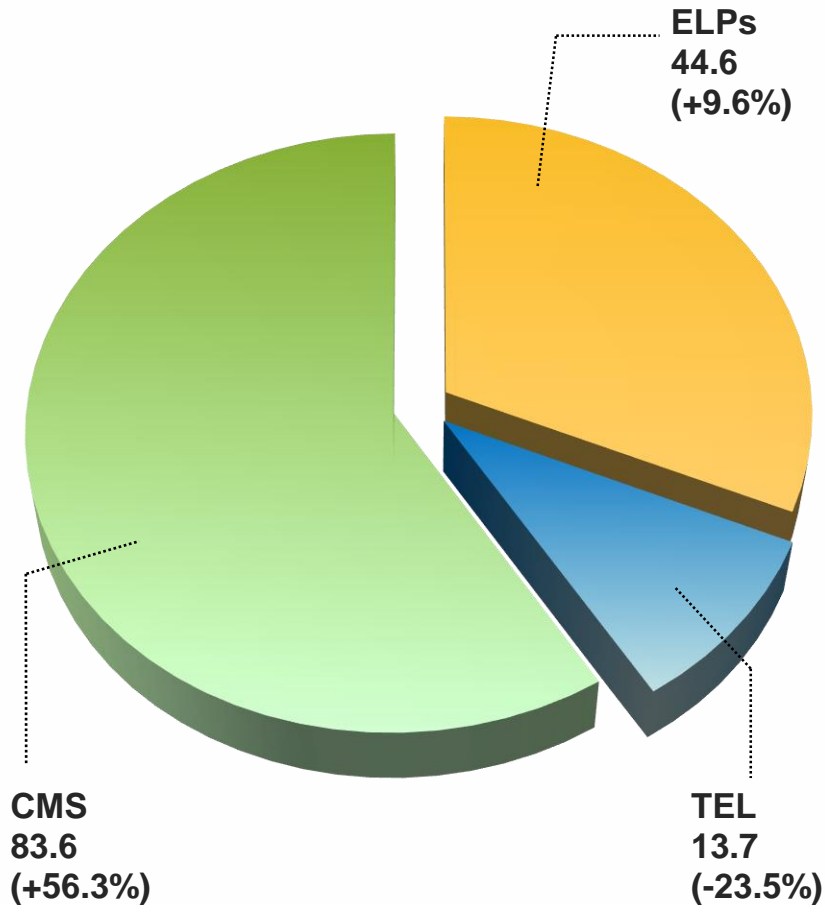
- **CMS** revenue grew 13.7% to US\$237.6 million
- **Growth across the board**
 - **Professional audio:** Good market reception for customer's products; new customer added; backlog of orders cleared for a customer
 - **Hearables:** Good sell-through of customer's products; new projects won



- **IoT products:** More orders for internet connected thermostats and AC controls; significant growth in smart meters for UK market, driven by rising installations
- **Communication products:** Production of network routers ramped up
- **Medical and health products:** Higher sales of hearing aids as VTech moves from PCB assembly to manufacture of finished products; new customer in the field of hair removal products



Revenue by Product Line (US\$ million)



- **Revenue increased 26.6% to US\$141.9 million, 12.6% of Group revenue**
- **Higher sales of ELPs and CMS offset lower sales of TEL products**
- **ELPs** revenue up 9.6% to US\$44.6 million, led by continued growth in mainland China and Australia

vtech | Asia Pacific (continued)

- **Mainland China:**

- Further growth in KidiSchool line, targeting early education segment
- Increasing sales to maternity-infant-child specialty retailers and an e-commerce retailer

- **Australia:**

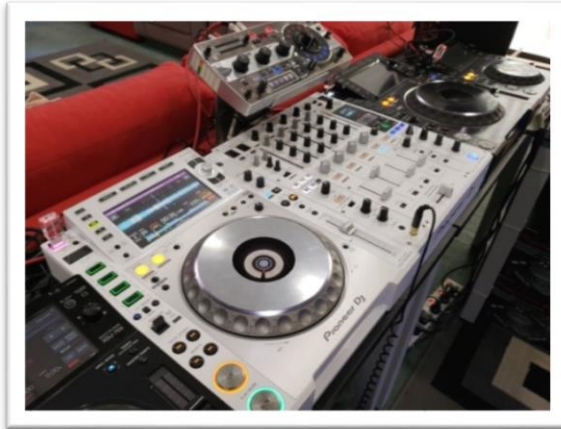
- Several new customers added
- Further expansion of sales channels supported strong sell-through of VTech and LeapFrog product lines



vtech | Asia Pacific (continued)

- **TEL products** revenue declined 23.5% to US\$13.7 million, as higher sales in Hong Kong insufficient to offset lower sales in Australia, Japan and Malaysia
 - **Hong Kong:** Increased orders for IADs
 - **Australia:** Lower sales of residential phones offsetting growth in baby monitors
 - **Japan:** Reduced shipment to a customer facing financial problems
 - **Malaysia:** Sales affected by excess inventory at a customer

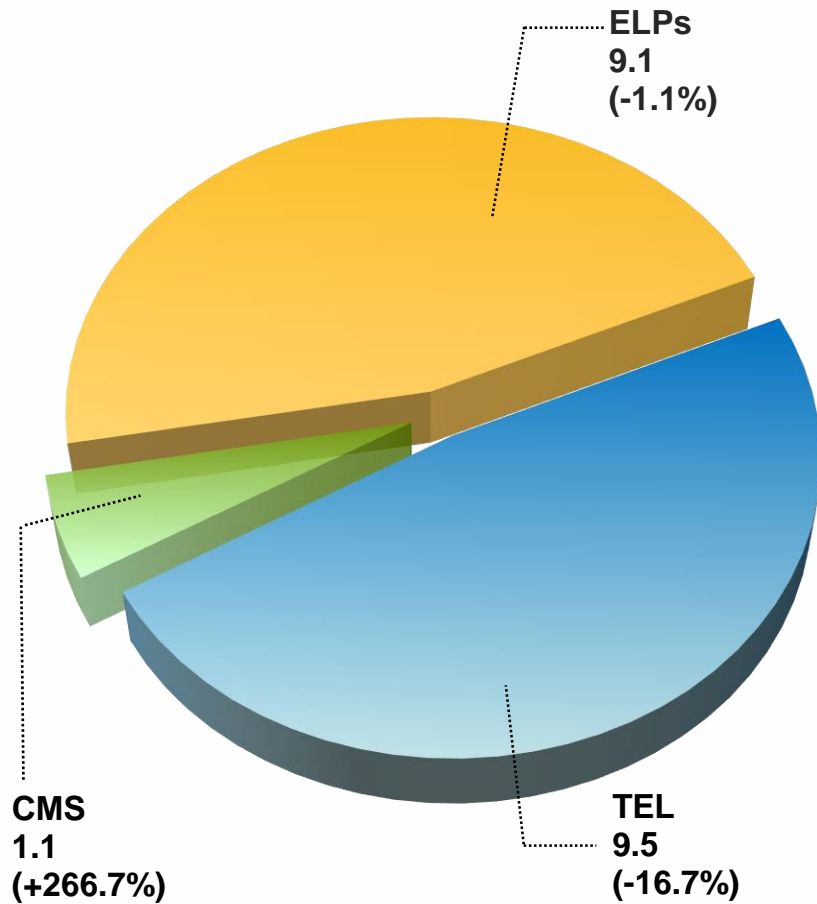




- **CMS** revenue up 56.3% to US\$83.6 million
- Sales of professional audio equipment and medical and health products continued to rise, offsetting decline in communication products
 - **Professional audio:** Boosted by full six months contribution from DJ equipment business, against less than two months' contribution in 1HFY19
 - **Medical and health products:** More orders for diagnostic ultrasound systems and hearing aids
 - **Communication products:** Lower sales of marine radios

vtech | Other Regions

Revenue by Product Line (US\$ million)



- Revenue down 5.7% to US\$19.7 million, 1.8% of Group revenue
- ELPs and TEL products saw sales declines, CMS registered growth
- ELPs revenue declined 1.1% to US\$9.1 million. Higher sales in Middle East were offset by lower sales in Latin America and Africa
- TEL products revenue decreased 16.7% to US\$9.5 million. Lower sales in all three regions
- CMS revenue was US\$1.1 million, as compared to US\$0.3 million in 1HFY19

Outlook

Group revenue forecast to increase in FY2020

- Growth rate to moderate in 2H, as some 2H shipments to US customers brought forward to 1H to avoid tariffs
- ELPs and CMS revenues expected to be higher for full year
- TEL revenue for full year to be lower but rate of decline to moderate year-on-year

Gross profit margin expected to improve

- Materials prices expected to be lower
- Labour costs and manufacturing overheads forecast to benefit from weaker RMB
- Some negative impact expected from US trade tariffs and weak European currencies
- In discussion with customers on measures to alleviate tariff impact, including cost sharing and domestic fulfilment

Rationalisation of manufacturing base

- Implementation began in August 2018 with the acquisition of the manufacturing facilities in Malaysia
- Helping CMS customers to transfer production to Malaysia
- Expansion in Malaysia will continue

ELPs

- **Full year revenue forecast to increase**
- New products will boost sales worldwide and strengthen market share
- **North America:** Growth momentum continues, albeit at a more moderate pace
- **Europe:** Business recovered from logistics issue, but market soft and some customers facing financial problems
- **Asia Pacific:** Positive momentum to continue, with rising sales in Australia and mainland China





ELPs

- **New animation series on Netflix, called Go! Go! Cory Carson**
- To complement VTech's preschool learning toy business
- Inspired by Go! Go! Smart Wheels
- Premieres on 4 January 2020
- New products associated with the animation to launch in North America in Spring 2020, other markets in Autumn 2020

TEL products

- **Full year revenue anticipated to decrease, but rate of decline expected to moderate year-on-year**
- **Residential phones:** Sales anticipated to decline, though VTech will continue to regain market share in North America
- **Commercial phones and other telecommunication products:** Sales forecast to be stable, as VoIP phones, CAT-iq handsets and mobile phone stations expected to grow, offsetting declines in other product categories



TEL products

- **Accelerating new product development**
 - Super-long range residential phones
 - New generation of SMB phones and hotel phones
 - VoIP phones: Category to be enriched with wireless headsets, cordless handsets and wireless desksets
 - HD video baby monitors with remote access function



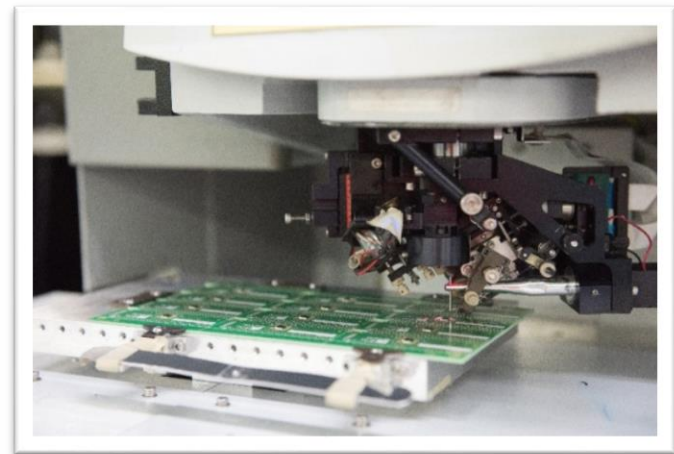
CMS

- **On track to achieve full year growth**
- **Hearables:** Benefit from strong sell through and new product launches by a major customer; win more new projects
- **Professional audio:** Rising sales to existing customers on good performance of their new products; new customers; continued growth in DJ equipment



CMS

- **Medical and health:** Rising orders of hearing aids as VTech manufactures finished products
- **IoT products:** Demand for smart meters encouraging
- **Industrial products:** Stable





Thank You