



# **VTech Holdings Limited**

**FY2021 Annual Results Announcement**

18 May 2021



# Financial Review





# Financial Highlights

For the year ended 31 March

(US\$ M)

2021

2020

Change

**Revenue**

**2,372.3**

2,165.5

9.5%

**Gross Profit**

**726.6**

663.6

9.5%

Gross Profit Margin %

**30.6%**

30.6%

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**Operating Profit**

**266.2**

219.7

21.2%

Operating Profit Margin %

**11.2%**

10.1%

1.1% pts

**Profit Attributable to Shareholders  
of the Company**

**230.9**

190.7

21.1%

Net Profit Margin %

**9.7%**

8.8%

0.9% pts

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

**91.6**

75.7

21.0%

**Dividend per Share** (US cents)

- Interim
- Final
- Total dividend for the year

**17.0**

17.0

**74.0**

36.0

**91.0**

53.0

71.7%



# Revenue by Region

For the year ended 31 March

(US\$ M)	2021	%	2020	Change
North America	995.1	41.9	989.6	0.6%
Europe	1,086.3	45.8	886.3	22.6%
Asia Pacific	268.4	11.3	259.4	3.5%
Other Regions	22.5	1.0	30.2	-25.5%
Total	2,372.3	100.0	2,165.5	9.5%



# vtech | Working Capital

(US\$ M)

31/03/21

31/03/20

**Stocks**

**414.0**

372.6

**Stocks Turnover Days**

**103 days**

102 days

**Trade Debtors**

**270.7**

221.5

**Trade Debtors Turnover Days**

**61 days**

63 days



(US\$ M)

31/03/21

31/03/20

Deposits and Cash

343.8

242.5

Total Borrowings

-

-

Net Cash Position

343.8

242.5



# Operations Review



- **Gross profit margin unchanged at 30.6%**
- Lower-than-expected gross profit margin was due to:
  - Marked increase in materials prices in 4Q
  - Change in product mix
  - Rising freight costs
  - Higher direct labour costs
- These offset lower manufacturing overheads and further productivity improvement

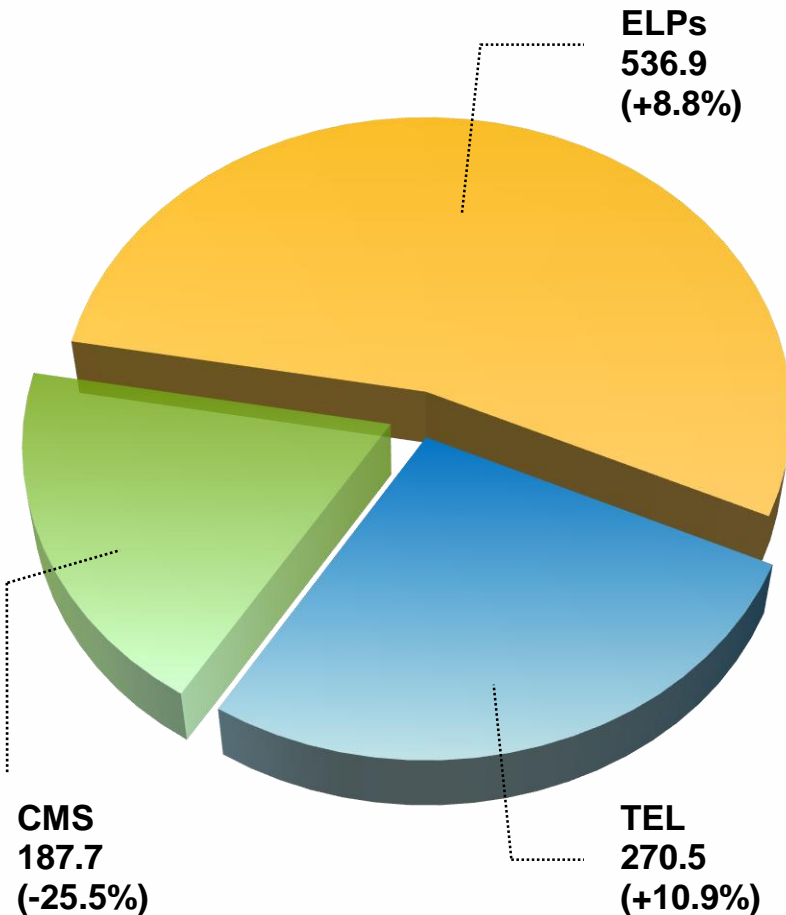


- Took a strategic step forward in expanding manufacturing base
- Acquisition of QSC, LLC facility in Tecate, Mexico for professional loudspeakers completed on 1 April 2021
- Adds new product category to CMS and serves its customers better
- First manufacturing base outside Asia



# vtech | North America

Revenue by Product Line (US\$ million)



- Revenue rose 0.6% to US\$995.1 million, 41.9% of Group revenue
- Higher ELPs and TEL products sales offset lower CMS sales
- ELPs revenue up 8.8% to US\$536.9 million, with good growth in Canada
  - Double-digit increase for VTech sales to online retailers
  - **US:** Strengthened leadership as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool
  - **Canada:** Remained no. 1 supplier in infant, toddler and preschool toys category



# vtech | North America (continued)

- **Standalone Products:**

- Higher sales of both brands
- **LeapFrog:** Especially robust growth
- Strong sell-through of preschool items offering overt educational value
- Blue's Clues & You! series performed strongly
- LeapBuilders sales declined
- **VTech:** Rising sales of infant and toddler products, KidiZoom cameras, other Kidi line products and Go! Go! Smart family of products. These offset decline in preschool products





# vtech | North America (continued)



- **Platform Products:**

- Slight decrease for both brands
- **VTech:** Higher sales of Touch & Learn Activity Desk insufficient to compensate for lower sales of KidiZoom Smartwatches and KidiBuzz
- **LeapFrog:** Sales increases of educational tablets and Magic Adventures Globe offset declines in interactive reading systems and RockIt Twist
- **LeapFrog Academy:** Subscriptions increased substantially



# vtech | North America (continued)

- **TEL products** revenue increased 10.9% to US\$270.5 million, driven by higher sales of residential phones, commercial phones and other telecommunication products
- Strong sales increase to online retailers
- **Residential Phones:**
  - Market saw an uptick as consumers upgraded fixed-line phones on working from home
  - Both AT&T and VTech phones recorded sales increases, with super-long-range and Connect-to-Cell models performing especially well
  - Strengthened leadership position in US residential phones market





# vtech | North America (continued)

- **Commercial Phones and Other Telecommunication Products:**
  - Best performers were products geared to staying at home
  - **Baby monitors:** Performed especially well
  - VTech strengthened position as no. 1 baby monitor brand in US and Canada
  - **Headsets and CareLine range of residential phones:** Higher sales
  - Lower sales of **SMB phones, hotel phones, conference phones** offset sales increase for **VoIP phones**



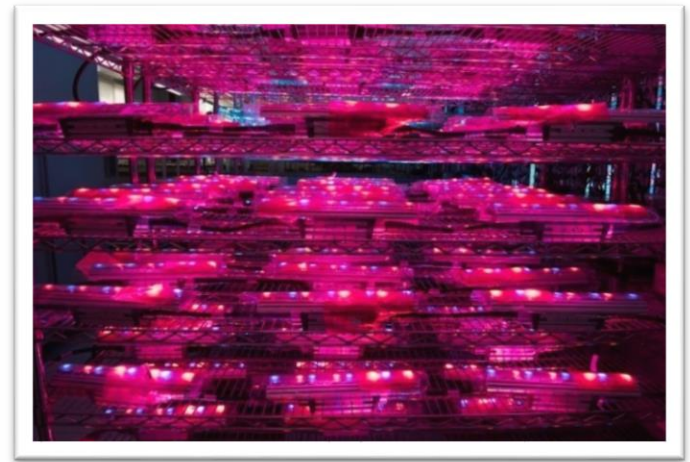


- **CMS** revenue down 25.5% to US\$187.7 million
- Lower sales for all product categories
  - **Professional audio:** Demand for commercial professional audio products fell steeply as COVID-19 measures restricted large public gatherings
  - Major customer experienced over-inventory
  - These offset increased demand for professional audio equipment for home use



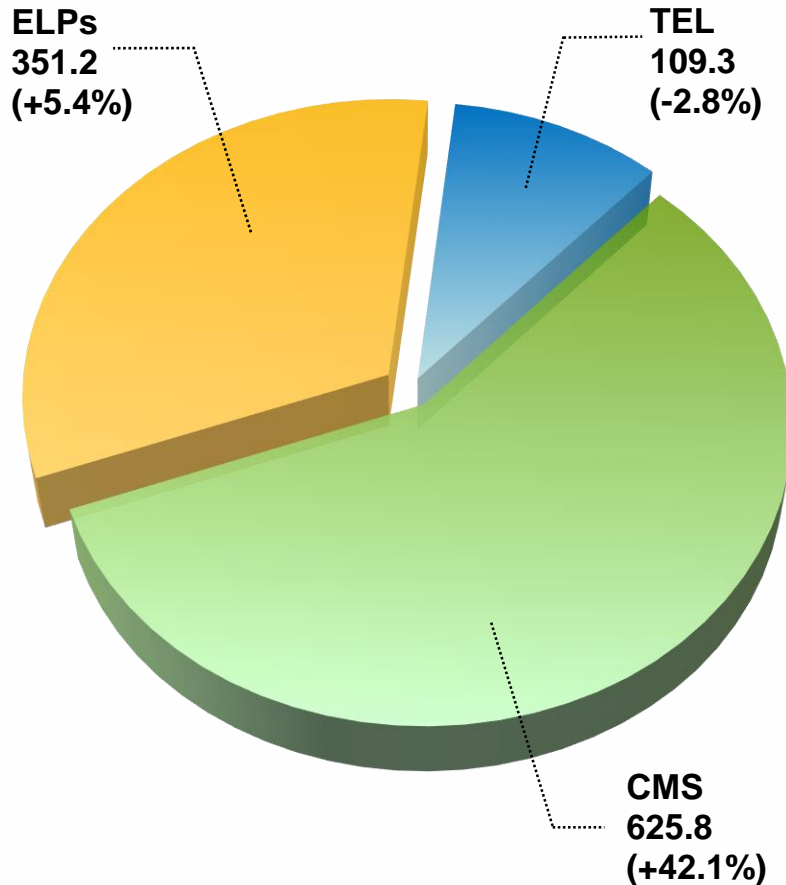


- **Industrial products:** Sales decline on lower orders for coin and note recognition machines
- **Solid-state lighting:** Sales decrease on sharp fall in project-based bidding activity due to the pandemic
- **Medical and health products:** Lower orders for hearing aids, as COVID-19 restrictions affected sales activities
- **Communication products:** Sales declined as customers phased out product ranges





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



- **Revenue up 22.6% to US\$1,086.3 million, 45.8% of Group revenue**
- **Higher sales of ELPs and CMS offset lower TEL products revenue**
- **ELPs** revenue up 5.4% to US\$351.2 million
  - Growth slowed down in 2H as lockdowns forced closure of non-essential stores
  - Sales increased in France, UK, Germany, Netherlands; sales declined in Spain
  - Remained no. 1 infant and toddler toys manufacturer in France, UK, Germany and Benelux countries



- **Standalone Products:**

- Higher sales for both brands
- **VTech:** Growth in electronic learning aids, KidiZoom cameras, other Kidi line products and Switch & Go Dinos offset declines in Toot-Toot family of products
- Sales of infant, toddler and preschool products largely stable
- Growth supported by Toot-Toot Cory Carson
- **LeapFrog:** Rising sales of infant, toddler and preschool products. This offset decline for LeapBuilders/Bla Bla Blocks





- **Platform Products:**

- Sales decrease as growth in LeapFrog products insufficient to offset decline in VTech products
- **LeapFrog:** Revenue increase driven by Magic Adventures Globe and interactive reading systems, offsetting declines in RockIt Twist and children's educational tablets
- **VTech:** Higher sales of Touch & Learn Activity Desk unable to offset lower sales of children's educational tablets and KidiCom Max
- Sales of KidiZoom Smartwatches steady







- **TEL products** revenue fell 2.8% to US\$109.3 million
  - Higher sales of commercial phones and other telecommunication products insufficient to offset lower residential phones sales
- **Residential Phones:**
  - Sells to major telephone companies in the region on ODM basis
  - Sales decrease on lower orders from an existing customer



- **Commercial Phones and Other Telecommunication Products:**
  - Sales increased as benefited by stay-at-home restrictions
  - **CAT-iq handsets, CareLine range of residential phones, IADs and headsets:** Sales increase as consumers seeking to upgrade communication devices
  - **Baby monitors:** Sales declined as a major customer reduced orders
  - **VoIP phones, conference phones and hotel phones:** Lower orders due to trade show cancellations and slower business activities; gradual pick-up in 2H







- **CMS** revenue rose 42.1% to US\$625.8 million
  - Higher sales of hearables, medical and health products, home appliances, communication products and automotive related products offset declines in professional audio equipment, IoT products and switching mode power supplies
  - **Hearables:** Strongest growth as demand for headsets boosted by work from home; production of true wireless headset moved to VTech
  - **Home appliances:** Higher orders from existing customers
  - **Medical and health products:** Sharp rise in sales of health and beauty products, offsetting decline in hearing aids

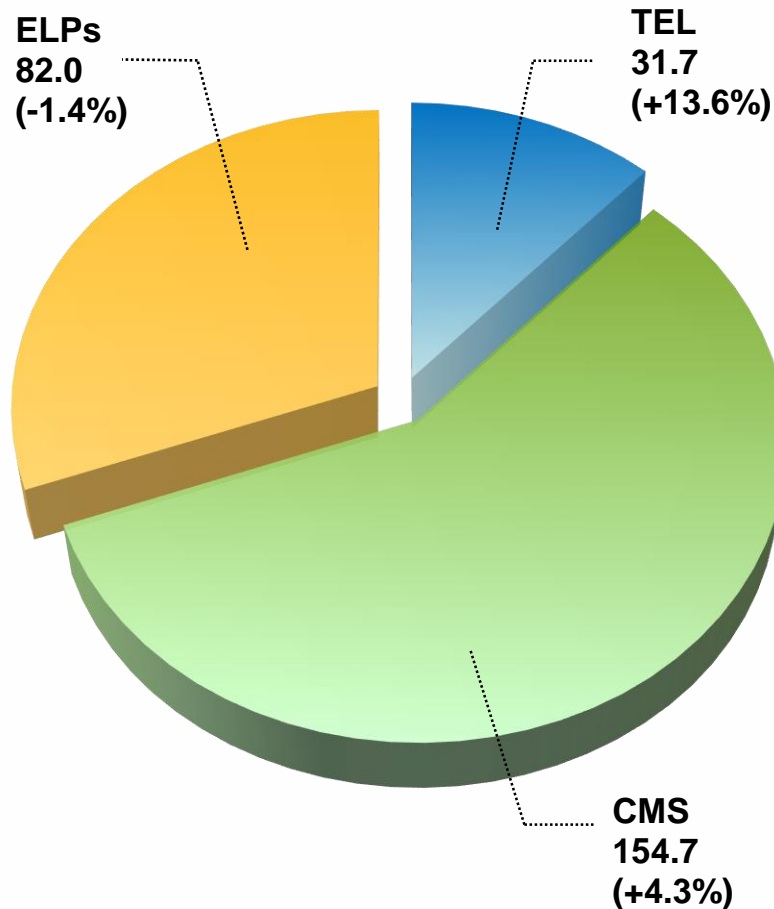


- **Communication products:** Higher orders of Wi-Fi routers
- **Automotive related products:** Sales of smart battery chargers improved on good response to new product
- **Professional audio:** Lower sales, as growing demand for audio interface equipment for home use failed to offset lower orders for mixers and amplifiers
- **IoT products:** Affected by slower installation of smart meters in UK, but internet-connected thermostats and air-conditioning controls stable
- **Switching mode power supplies:** Sales lower as customer transferred production in-house following ownership change





Revenue by Product Line (US\$ million)



- Revenue increased 3.5% to US\$268.4 million, 11.3% of Group revenue
- Higher sales of TEL products and CMS offset lower sales of ELPs
- **ELPs** revenue decreased 1.4% to US\$82.0 million, with growth in Australia offset by decline in mainland China



# vtech | Asia Pacific (continued)

- **Australia:** Robust sales increase for VTech and LeapFrog products, with rising demand for educational toys
  - Effective channel management drove online-to-offline sales higher
  - Remained no. 1 manufacturer in infant and toddler toys category
- **Mainland China:** Lower sales primarily due to revenue decrease in offline channels
- **Malaysia:** First full-year sales contribution from flagship store on Lazada.com





# vtech | Asia Pacific (continued)

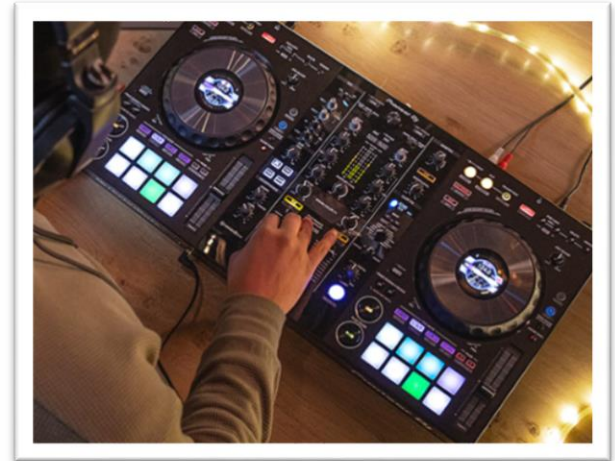
- **TEL products** revenue increased 13.6% to US\$31.7 million, driven by higher sales in Australia, Japan and Hong Kong
  - **Australia:** Growth mainly from baby monitors
  - **Hong Kong:** Higher sales of IADs
  - **Japan:** Higher residential phone sales as existing customer increased orders





# vtech | Asia Pacific (continued)

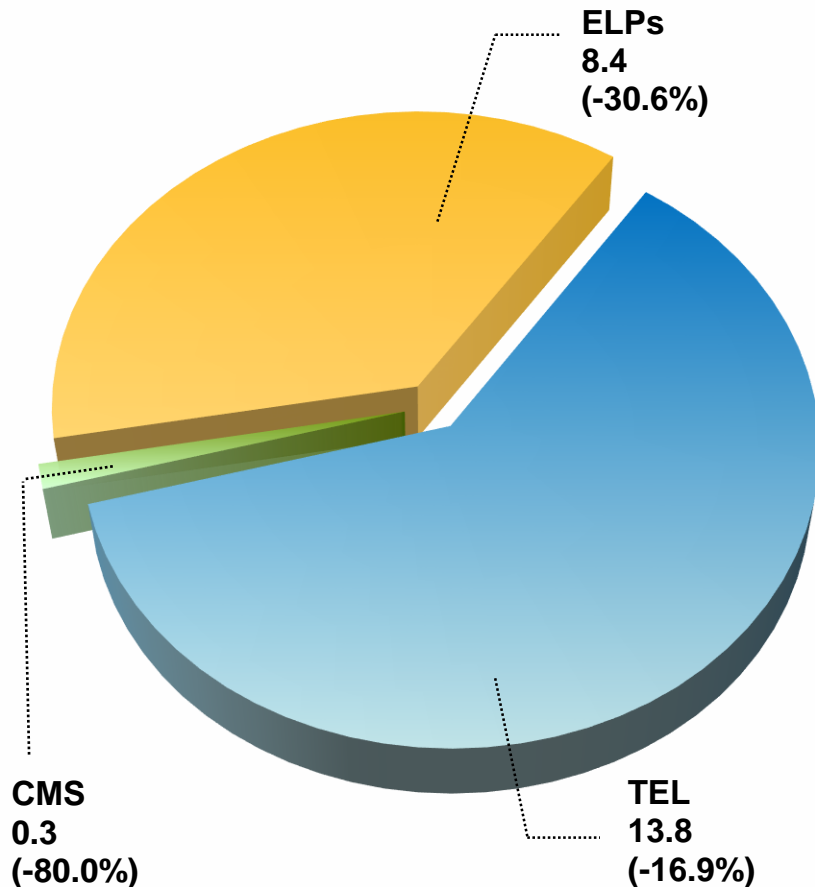
- **CMS** revenue up 4.3% to US\$154.7 million
- Growth in professional audio equipment and communication products offset lower sales of medical and health products and home appliances
  - **Professional audio:** Increased sales of DJ equipment and acquisition of customer supplying USB streaming microphones for online KOLs
  - **Communication products:** More orders for marine radios as new generation of products launched
  - **Medical and health products:** Orders for diagnostic ultrasound systems declined
  - **Home appliances:** Sales decreased as a product reached end of life cycle





# vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue down 25.5% to US\$22.5 million, 1.0% of Group revenue**
- **Lower sales at all three product lines**
- **ELPs** revenue down 30.6% to US\$8.4 million. Higher sales in Africa offset by lower sales in Middle East and Latin America
- **TEL products** revenue down 16.9% to US\$13.8 million as sales decrease in Latin America offset increases in Middle East and Africa
- **CMS** revenue was US\$0.3 million, as compared to US\$1.5 million in FY2020



# Outlook





- **COVID-19 Response**

- Top priority to protect health and safety of employees while fulfilling orders
- Ensure safe working environments at VTech's locations worldwide
- Support children and local communities

- **Sustainable Products**



- Set out pledge to replace fossil-based plastic in all ELPs with sustainable alternatives by 2030
- Roll-out eco-friendly ELPs made from plant-based and reclaimed plastics
- New wooden toy line made with material sourced from responsibly managed forest certified by FSC



## **Group revenue for FY2022 hard to predict**

- All product lines have a solid order book, but despite VTech's best efforts, fluid situation in global material supplies may affect ability to meet demand
- There is general shortage of electronic components worldwide, in particular semiconductors and LCD screens
- Huge increase in demand has resulted in longer lead times and erratic order fulfilment
- Despite long-term relationship with suppliers and their full support, some confirmed order are not being fulfilled on time
- This uncertainty in supply chain could limit VTech's ability to meet orders



- **Gross profit margin expected to decline:**
  - Higher materials prices owing to tight supply
  - Rising freight costs
  - Stronger RMB
- VTech has taken steps to mitigate these effects:
  - Diversifying sources of supply
  - Re-engineering products
  - Negotiating new shipping contracts
  - Price increases



## ELPs

- Focus on maintaining positive momentum through new product launches globally and return to growth in Asia Pacific
- **Platform Products:**
  - **VTech:** Launch new versions of KidiZoom Smartwatch, KidiBuzz and Touch & Learn Activity Desk
  - **LeapFrog:** Introduce refreshed LeapStart reading system





# vtech | Outlook

- **Standalone Products:**

- **VTech:** Additions to core infant, toddler and preschool ranges; expansion of KidiZoom camera, Kidi lines and launch of Marble Rush; new models of Go! Go! Cory Carson, new content on Netflix
- **LeapFrog:** More items to Blue's Clues & You! line and Learning Friends 100 Words Book series; new LeapLand Adventures, eco-friendly toys line-up and role-play toys

- **Asia Pacific:**

- **Mainland China:** Expected to resume growth following renewed focus on channel management and e-commerce, supported by new product launches
- **Malaysia:** Has opened second official online store on Shopee





## TEL products

- Launch new products catering to continued demand for residential phones and other telecommunication products, as well as recovery in commercial phones market
- **Residential Phones:**
  - Sales will benefit from a series of new products, notably premium work-from-home desktop cordless phone





- **Other Telecommunication Products:**

- Launch Wi-Fi 6 IADs with dual WAN connection via 4G LTE
- LeapFrog smart Wi-Fi baby monitor, incorporating health monitoring and baby care app features



- **Commercial Phones:**

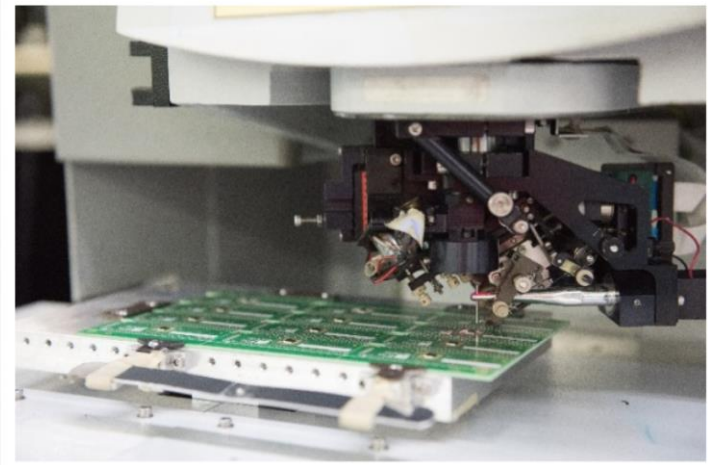
- New range of Snom products targeting work-from-anywhere users
- Hotel phones to gain market share on consolidation, boosted by new series of handsets





## CMS

- Increased demand in most product categories
- Critical situation of global material supplies may impact ability to meet orders
- New Mexican facility will contribute to FY2022 revenue through producing QSC branded professional loudspeakers
- Utilisation to rise gradually as new customers are added
- Capacity of Muar facility in Malaysia to increase as more existing customers wish to maintain dual manufacturing sites as contingency





# Q&A



# Thank You