



VTech Holdings Limited

2020/2021 Interim Results Announcement

9 November 2020

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2020

2019

Change

Revenue

1,123.6

1,124.1

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Gross Profit

357.0

344.8

3.5%

Gross Profit Margin %

31.8%

30.7%

1.1% pts

Operating Profit

142.6

134.9

5.7%

Operating Profit Margin %

12.7%

12.0%

0.7% pts

**Profit Attributable to Shareholders
of the Company**

123.6

118.0

4.7%

Net Profit Margin %

11.0%

10.5%

0.5% pts

Basic Earnings per Share (US cents)

49.0

46.9

4.5%

Interim Dividend per Share (US cents)

17.0

17.0

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> INNOVATION BEYOND TECHNOLOGY



Revenue by Region

For the six months ended 30 September

(US\$ million)	2020	%	2019	Change
North America	492.9	43.9	521.9	-5.6%
Europe	487.5	43.4	440.6	10.6%
Asia Pacific	130.2	11.6	141.9	-8.2%
Other Regions	13.0	1.1	19.7	-34.0%
Total	1,123.6	100.0	1,124.1	--

(US\$ million)

30/09/20

31/03/20

30/09/19

Stocks

436.1

372.6

457.3

Stocks Turnover Days

120 days

102 days

141 days

Trade Debtors

521.7

221.5

489.9

Trade Debtors Turnover Days

60 days

63 days

62 days

(US\$ million)	30/09/20	31/03/20	30/09/19
Deposits and Cash	137.1	242.5	102.5
Total Borrowings	—	—	—
Net Cash Position	137.1	242.5	102.5

Operations Review

- Unprecedented challenges to most of the world's businesses
- Low visibility in May resulting from lockdowns. Retail closures, weak consumer sentiment and business activity slowdown led to pessimistic guidance at annual results
- Despite many uncertainties, sales turned out better than expected:
 - Stable revenue
 - Improved gross profit margin
 - Higher profit

Gross profit margin rose from 30.7% to 31.8%

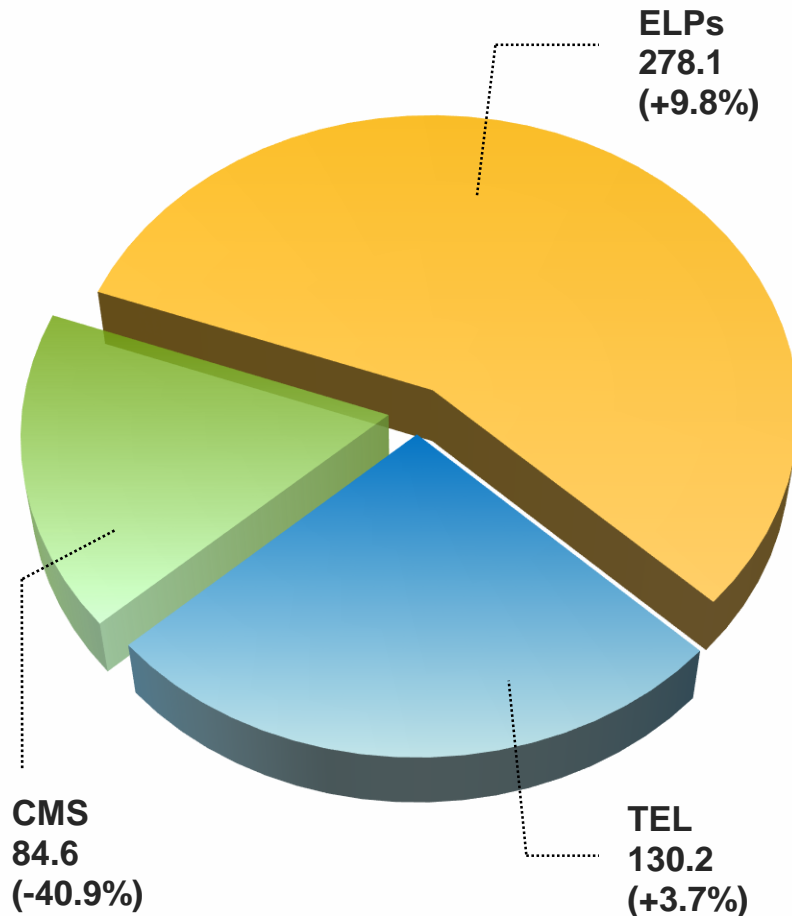
- Lower materials prices
- Direct labour costs and manufacturing overheads benefited from weaker RMB
- Further productivity gains
- More favourable product mix

- 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% from 14 February 2020
 - Production started at new facility in Penang to mitigate the impact
- Some CMS customers face tariffs ranging from 7.5% to 25%
 - Affected customers who wanted to relocate already moved to CMS facility at Muar
- ELPs largely unaffected by US tariffs

- Unprecedented challenges to the Group's operations
- Production and capacity utilisation now back to pre-COVID-19 levels
- Consumer demand has recovered strongly in some markets
- Rapid growth in e-commerce
- Strong financial position
- Priority is health and safety of employees and customers

vtech | North America

Revenue by Product Line (US\$ million)



- Revenue decreased 5.6% to US\$492.9 million, 43.9% of Group revenue
- Higher sales of ELPs and TEL products offset by lower CMS sales
- ELPs revenue rose by 9.8% to US\$278.1 million
 - Higher sales of standalone products, benefiting from stay-at-home demand for electronic learning toys
 - Strengthened position as No.1 in electronic learning toys from infancy through toddler and preschool in the US
 - Remained No. 1 in infant, toddler and preschool toys category in Canada

Standalone Products:

- **Growth on higher sales of LeapFrog and VTech brands**
- **LeapFrog:** Robust sales. Strong sell-through of pre-school items and Blue's Clues & You! series of licensed products. Sales decline for LeapBuilders
- **VTech:** Higher sales of infant and toddler products, KidiZoom cameras, other Kidi line products and Go! Go! Smart family of products. Sales decline in preschool products
- **Go! Go! Cory Carson** vehicles and playsets hit the shelves



Platform Products:

- Sales declined slightly
- **LeapFrog:** Posted overall growth
- Growth in children's educational tablets and interactive reading systems offset a decline in RockIt Twist; Magic Adventures Globe launched, augmenting growth; LeapFrog Academy growing steadily
- **VTech:** Sales declined
- Higher sales of Touch & Learn Activity Desk insufficient to compensate for lower sales of KidiZoom Smartwatches and KidiBuzz



vtech | North America (continued)

- **TEL products** revenue increased by 3.7% to US\$130.2 million, mainly driven by residential phones
- Sales of commercial phones and other telecommunication products held steady
- **Residential Phones:**
 - Sales rose as work-from-home trend led to upgrading and replacement of fixed-line telephones
 - Remained exclusive supplier to a key US retailer and strengthened leadership in US residential phones market



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

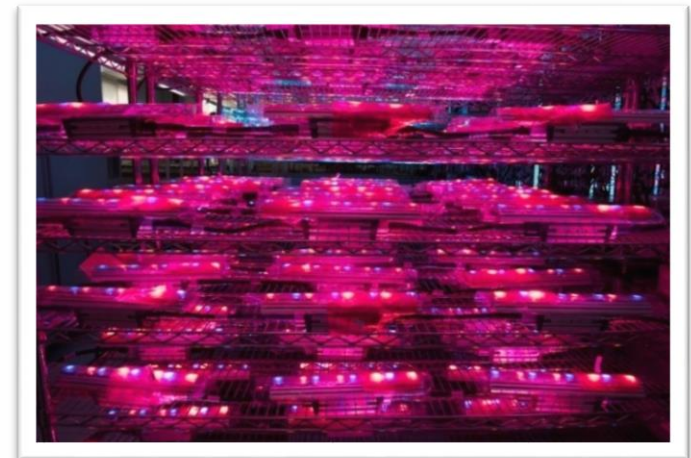
- Stable, though sales of SMB phones, hotel phones, VoIP phones and conference phones decreased as they were hit by slump in business activity and travel
- Headsets achieved higher sales
- Baby monitors, CareLine, IADs benefited from stay-at-home advice
- VTech baby monitors strengthened position as No. 1 brand in US and Canada



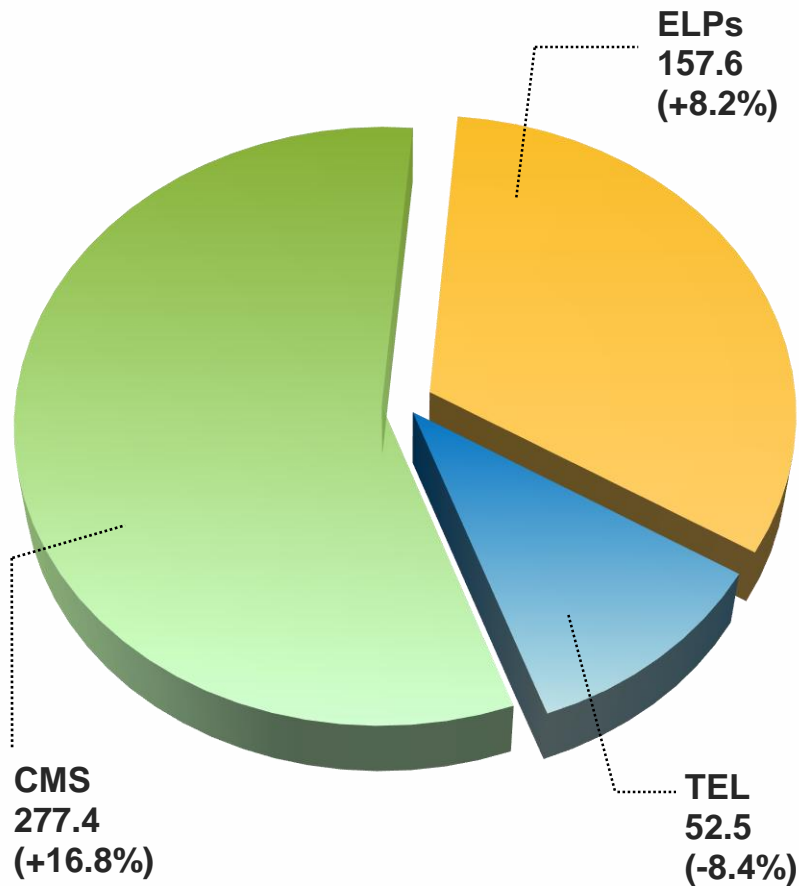
- **CMS** revenue fell 40.9% to US\$84.6 million
- Declines in all product categories, primarily due to negative impact of the pandemic
 - **Professional audio equipment:** Significantly impacted by restrictions on public gatherings, with a major customer having excess inventory
 - **Industrial products:** Sales declined on drop in replacement demand for coin and note recognition machines and over-inventory at industrial printers customer



- **Medical and health products:** Lower orders of hearing aids, as sales activities affected by pandemic
- **Solid-state lighting:** Sales decreased as contracts could not be concluded and project-based bidding ceased
- **Communication products:** Sales declined as customers phased out product ranges
- New customers added in professional audio equipment and industrial products



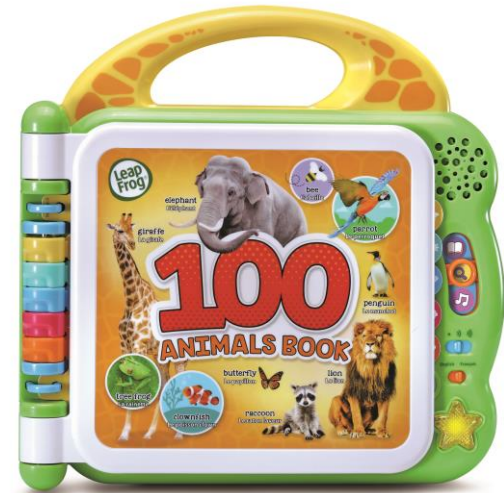
Revenue by Product Line (US\$ million)



- **Revenue up 10.6% to US\$487.5 million, 43.4% of Group revenue**
- **Higher sales of ELPs and CMS offset lower TEL products revenue**
- **ELPs** revenue up 8.2% to US\$157.6 million
 - Higher sales of standalone and platform products
 - Sales increased in France, UK, Germany and the Netherlands, while declining in Spain
 - No. 1 infant and toddler toys manufacturer in France, UK, Germany and the Benelux countries

Standalone Products:

- **VTech:** Higher sales. Growth in preschool products, KidiZoom camera, other Kidi line products and Switch & Go Dinos offset declines in infant products and Toot-Toot family of products
- Toot-Toot Cory Carson rolled out
- **LeapFrog:** Sales increased. Rising sales of infant, toddler and pre-school products
- Sales of Bla Bla Blocks declined





Platform Products:

- Growth in both VTech and LeapFrog brands
- **VTech:** Main drivers were KidiZoom Smartwatches, Touch & Learn Activity Desk and children's educational tablets. These offset a decline in KidiCom Max
- **LeapFrog:** Revenue increase driven by Magic Adventures Globe and interactive reading systems, which offset declines in RockIt Twist and children's educational tablets
- Grand Prix du Jouet awards in France



- **TEL products** revenue decreased by 8.4% to US\$52.5 million
 - Lower sales of residential phones, commercial phones and other telecommunication products
- **Residential Phones:**
 - Sales on ODM basis to major telephone companies declined as their business activities slowed down

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

Higher sales of CAT-iq handsets, CareLine, IADs and headsets insufficient to offset declines in baby monitors, VoIP phones and conference phones

- **CAT-iq handsets, CareLine, IADs and headsets:** Benefited from stay-at-home advice
- **Baby monitors:** A major customer reduced orders
- **VoIP phones and conference phones:** Lower orders on cancellation of trade shows and slower business activities
- **Hotel phones:** Sales held steady



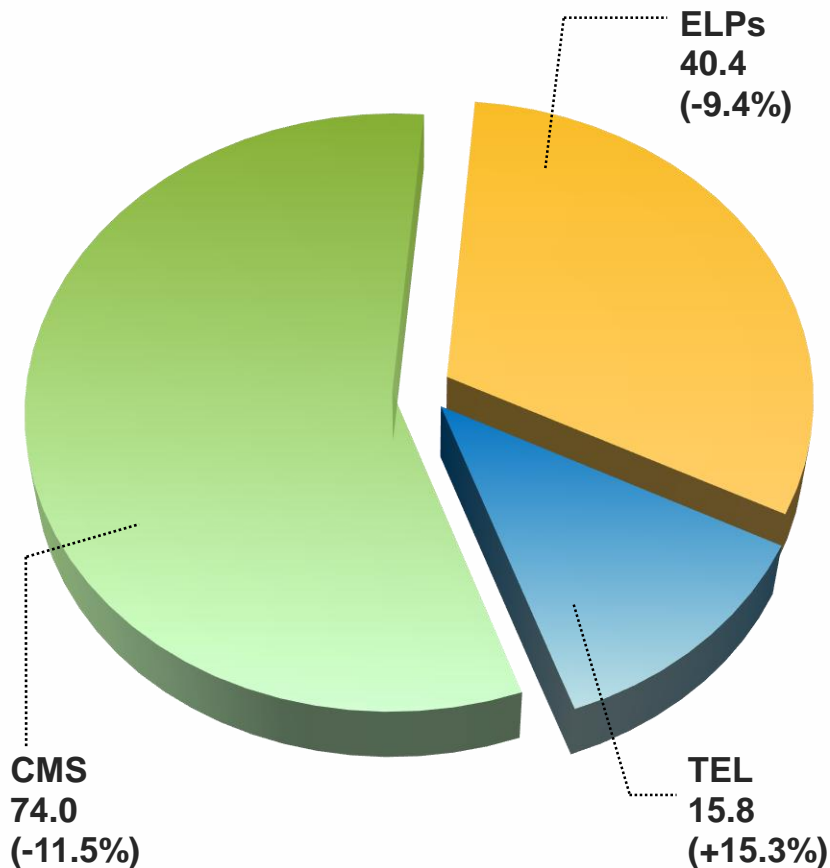
- **CMS** revenue rose 16.8% to US\$277.4 million
- Higher sales of hearables, medical and health products, home appliances and communication products offset declines in professional audio equipment, IoT products and switching mode power supplies
 - **Hearables:** Significant growth boosted by the need to work from home; a customer moved production to VTech
 - **Medical and health products:** A new customer and higher sales of hair removal products offset decline in hearing aids



- **Home appliances:** Stable
- **Communication products:** Benefited from more orders for Wi-Fi routers
- **Professional audio:** Lower sales, as higher demand for audio interface equipment failed to offset lower orders for audio mixers and amplifiers
- **IoT:** Sales decreased as pandemic slowed down installation of smart meters in UK. Sales of internet-connected thermostats and air-conditioning controls remained stable
- **Switching mode power supplies:** Lower sales as customer transferred production back in-house



Revenue by Product Line (US\$ million)



- **Revenue decreased by 8.2% to US\$130.2 million, 11.6% of Group revenue**
- Lower sales of ELPs and CMS offset higher sales of TEL products
- **ELPs** revenue down 9.4% to US\$40.4 million, as growth in Australia offset by decline in mainland China



ELPs

- **Australia:** Strong sell-through of VTech and LeapFrog branded products
- Became No. 1 manufacturer in infant and toddler toys category
- **Mainland China:** Growth in online sales insufficient to compensate for decline in offline channels

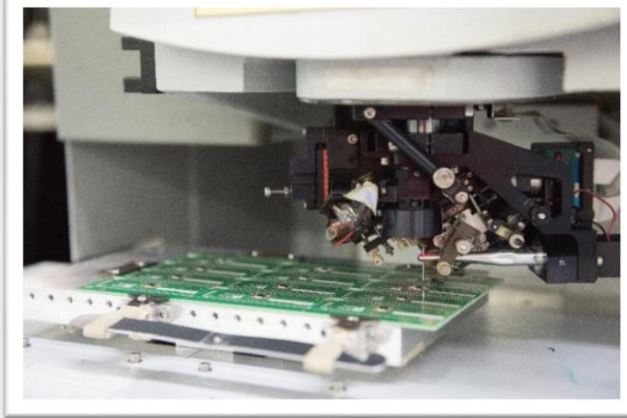
vtech | Asia Pacific (continued)

- **TEL products** revenue up 15.3% to US\$15.8 million on higher sales in Australia, Japan and Hong Kong
 - **Australia:** Growth mainly driven by baby monitors
 - **Japan:** Increased orders for residential phones
 - **Hong Kong:** IADs were key driver



vtech | Asia Pacific (continued)

- **CMS** revenue down 11.5% to US\$74.0 million
- Lower sales of medical and health products and home appliances offset growth in professional audio equipment and communication products
- Movement control order in Malaysia also affected sales



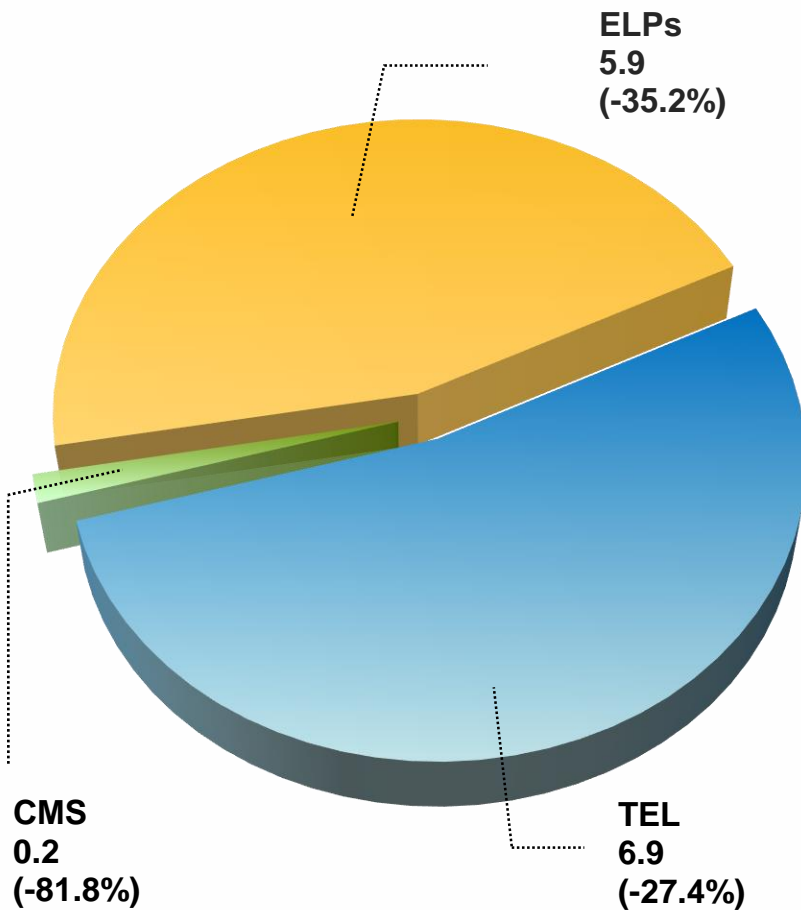
vtech | Asia Pacific (continued)

- **Medical and health products:** Sales of diagnostic ultrasound systems fell as budgets shifted to COVID-19 related equipment
- **Home appliances:** Orders fell as product reached end of life-cycle; orders for other products slowed by pandemic
- **Professional audio:** Growth driven by a rise in revenue from new customer supplying USB streaming microphones for online KOLs
- **Communication products:** Higher sales as orders for marine radios increasing



vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue down 34.0% to US\$13.0 million, 1.1% of Group revenue**
- **Lower sales of all three product lines**
- **ELPs** revenue down 35.2% to US\$5.9 million. Higher sales in Africa offset by lower sales in Middle East and Latin America
- **TEL products** revenue declined by 27.4% to US\$6.9 million. Lower sales in Latin America and Africa offset higher sales in Middle East
- **CMS** revenue was US\$0.2 million, as compared to US\$1.1 million in 1HFY20

Outlook

Ongoing impact of COVID-19 brings unusually high degree of uncertainty to outlook

- Resurgence in infection rates in US and Europe, along with higher unemployment, could weaken consumer sentiment in Group's key markets
- Full year revenue not expected to grow
- Gross profit margin to improve year-on-year
- Investment in expanding online sales

ELPs

- **Full year revenue forecast to be broadly stable**
- **North America:** Positive momentum at VTech and LeapFrog brands forecast to continue
- **Europe:** Lockdowns in France, Germany and UK may impact holiday sales
- **Asia Pacific:** Trend in Australia to remain robust; sales in mainland China in 2H should pick up



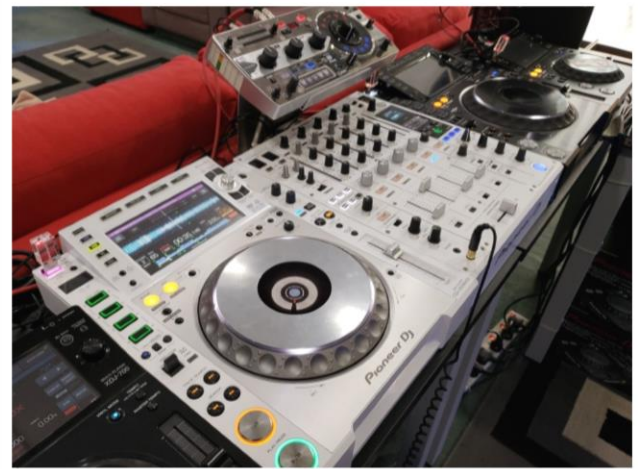
TEL products



- Full year revenue may decline slightly
- Residential phone sales to hold steady
- Slow recovery for commercial phones
- New Snom VoIP line to be rolled out in early 2021
- Good response to latest range of hotel phones
- Positive momentum in CAT-iq handsets, CareLine and IADs
- Sales of baby monitors anticipated to be stable

CMS

- **Full year revenue expected to increase on strong headset orders and recovery in other product categories**
- **Shenzhen NPI centre:** Aims to capture orders from start-ups worldwide, with full operation by end-2020
- **CMS facility in Muar:** Phase 1 expansion complete, work moving ahead on phase 2, raising capacity by 50%



Q&A



Thank You