



VTech Holdings Limited

2022/2023 Interim Results Announcement

10 November 2022

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2022

2021

Change

Revenue

1,164.8

1,114.8

4.5%

Gross Profit

329.4

304.9

8.0%

Gross Profit Margin %

28.3%

27.4%

0.9% pts

Operating Profit

99.0

90.8

9.0%

Operating Profit Margin %

8.5%

8.1%

0.4% pts

**Profit Attributable to Shareholders
of the Company**

82.0

76.9

6.6%

Net Profit Margin %

7.0%

6.9%

0.1% pts

Basic Earnings per Share (US cents)

32.5

30.5

6.6%

Interim Dividend per Share (US cents)

17.0

17.0

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Revenue by Region

For the six months ended 30 September

(US\$ million)	2022	%	2021	Change
North America	530.5	45.5	497.9	6.5%
Europe	470.4	40.4	485.8	-3.2%
Asia Pacific	152.2	13.1	119.0	27.9%
Other Regions	11.7	1.0	12.1	-3.3%
Total	1,164.8	100.0	1,114.8	4.5%

(US\$ million)

30/09/22

31/03/22

30/09/21

Stocks

570.0

553.3

599.4

Stocks Turnover Days

140 days

131 days

141 days

Trade Debtors

487.4

325.4

507.9

Trade Debtors Turnover Days

62 days

65 days

66 days

(US\$ million)	30/09/22	31/03/22	30/09/21
Deposits and Cash	103.3	195.8	52.2
Total Borrowings	(93.2)	—	(26.4)
Net Cash Position	10.1	195.8	25.8

Operations Review

vtech | Costs

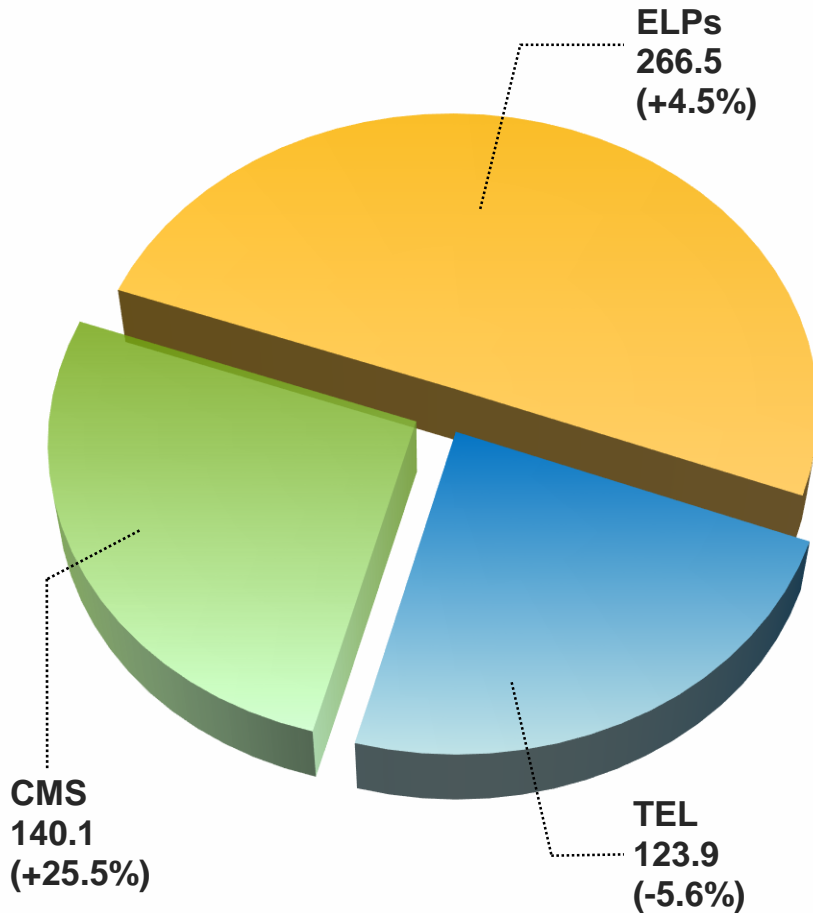
- **Gross profit margin rose to 28.3% from 27.4%**
- Increase in gross profit margin mainly attributable to:
 - Higher selling prices
 - Lower cost of materials, direct labour costs and manufacturing overheads
- These offset negative impact of:
 - Depreciation of major currencies against the US dollar
 - Increase in inventory provisions

- US Department of Commerce has published new technology restrictions on mainland China
- No impact on Group's businesses
- Neither Group's products nor equipment used in production affected

- Strategy of rationalising manufacturing base
- Implementation began in August 2018 with first manufacturing facilities in Malaysia, in Muar
- Since then, the Group has expanded in Malaysia and to Mexico, with acquisition of two more facilities in Penang in 2020 and Tecate in 2021
- The facility in Tecate now contributing to CMS revenue
- As production base is expanded further, manufacturing footprint will become increasingly global

vtech | North America

Revenue by Product Line (US\$ million)



- Revenue increased 6.5% to US\$530.5 million, 45.5% of Group revenue
- Higher sales of ELPs and CMS offset lower sales of TEL products
- ELPs revenue rose 4.5% to US\$266.5 million
 - Growth driven by standalone products, on-time delivery and improving channel inventory
 - **US:** Maintained position as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool
 - **Canada:** Strengthened position as no.1 manufacturer in infant, toddler and preschool toys category

vtech | North America (continued)

- **Standalone products:**

- Sales growth for both brands
- **VTech:** Preschool products, KidiZoom cameras, Kidi line, Switch & Go Dinos and Marble Rush posted higher sales
- Offset declines in infant and toddler products and Go! Go! Smart family of products
- **LeapFrog:** Higher sales of infant and toddler products, LeapLand Adventures and eco-friendly toys offset decline in preschool products
- Magic Adventures Microscope and new licensed version of LeapLand Adventures added to growth





- **Platform products:**

- Sales decline, mainly due to lower sales of VTech products
- **VTech:** Higher sales of KidiZoom Smartwatches insufficient to offset lower sales of Touch & Learn Activity Desk, while KidiBuzz sales steady
- **LeapFrog:** Sales increased slightly. Interactive reading systems and Magic Adventures Globe benefited from increased distribution and expanded content
- Sales of children's educational tablets declined, which led to slight fall in LeapFrog Academy subscriptions



- **TEL products** revenue fell 5.6% to US\$123.9 million, with declines for commercial and residential phones offsetting growth in other telecommunication products
- **Commercial phones:**
 - **Analog commercial phones:** Shipments reduced on tight semiconductor supply
 - **Headsets:** Sales decreased on reduced orders from a major customer
 - **SIP phones:** Sales declined on delayed product launch
 - **Hotel phones:** Higher sales on stable supply of products and good market reception on new series

vtech | North America (continued)

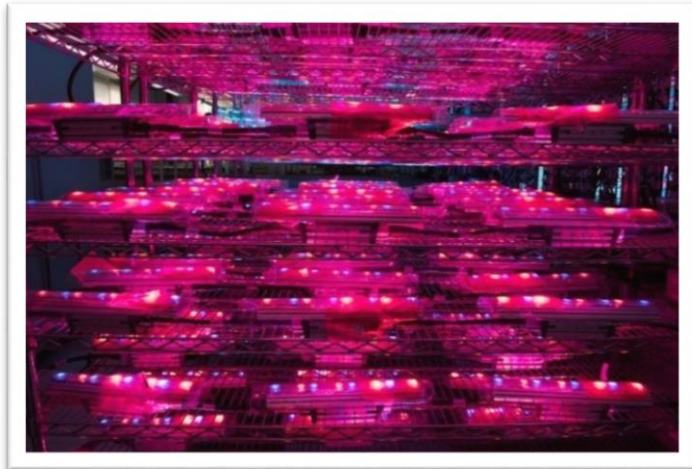
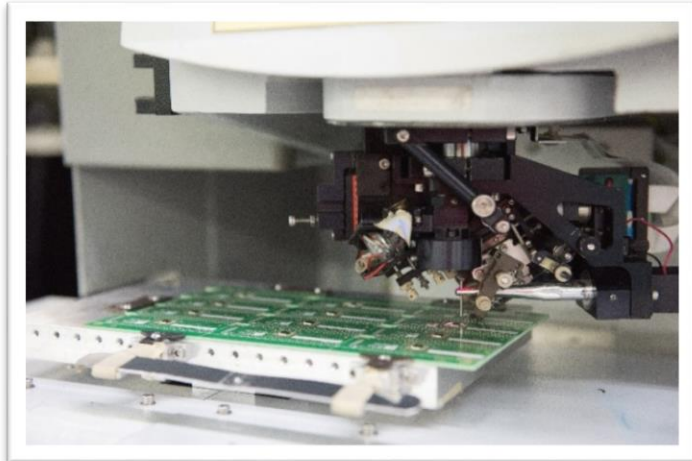
- **Residential phones:**
 - Sales lower as market declined and shipments constrained by tight semiconductor supply
 - Regained distribution in a key retailer; strengthened leadership in US residential phones market
- **Other telecommunication products:**
 - **Baby monitors:** Higher sales on increased placements and good reception of new VTech and LeapFrog ranges
 - **CareLine:** Sales grew due to higher sales of VTech branded products and a customer's products
 - **IADs:** Benefited from increased orders from existing customer



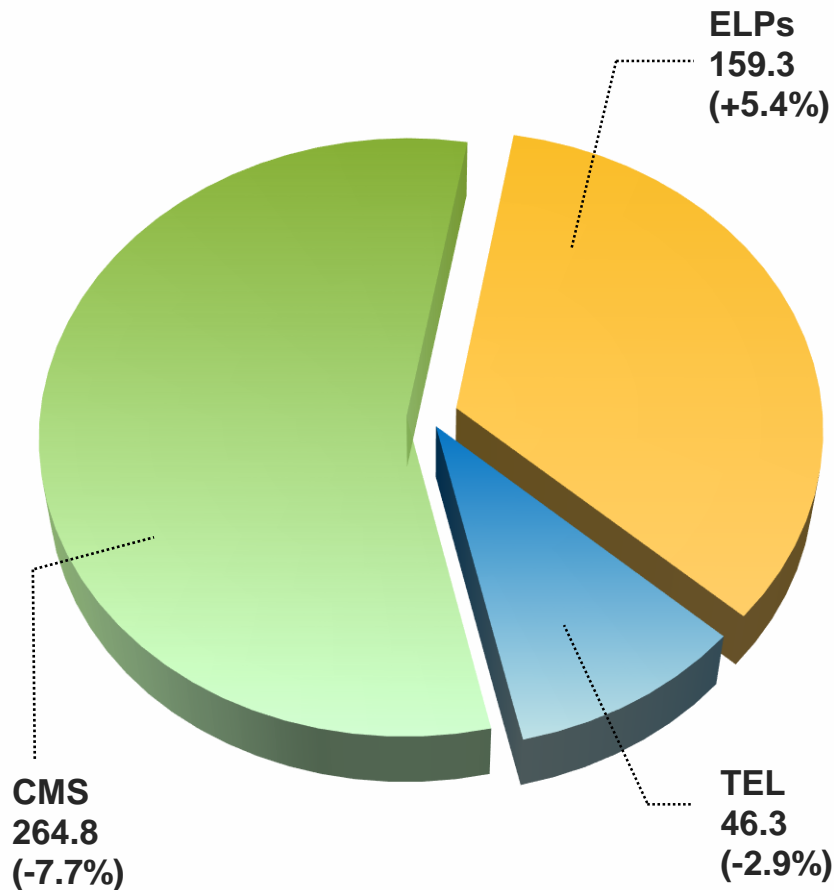
- **CMS** revenue increased 25.5% to US\$140.1 million
- Growth driven by professional audio equipment and industrial products as business activity recovered and component shortages improved
- **Professional audio equipment:** Sales grew on increased demand for power amplifiers and loudspeakers



- **Industrial products:** Growth driven by more orders for PCBA for coin and note recognition machines and electronic locks
- **Solid-state lighting:** Sales declined as a major customer reduced orders
- **Medical and health products:** Sales remained stable



Revenue by Product Line (US\$ million)



- **Revenue decreased 3.2% to US\$470.4 million, 40.4% of Group revenue**
- **Higher sales of ELPs insufficient to offset lower sales of TEL products and CMS**
- **ELPs** revenue rose 5.4% to US\$159.3 million
 - The increase came despite depreciation of euro and sterling against the US dollar
 - Higher sales of standalone products offset declines in platform products
 - France, Germany, Netherlands and Spain posted sales increases, compensating for decline in UK
 - Remained no.1 infant and toddler toys manufacturer in France, UK, Germany and Benelux countries

- **Standalone products:**

- Sales increases for both brands
- **VTech:** Preschool products, electronic learning aids, KidiZoom cameras, Kidi line, Marble Rush and eco-friendly toys saw growth, offsetting declines in Toot-Toot family of products
- Sales of infant and toddler products and Switch & Go Dinos held steady
- **LeapFrog:** Preschool products and LeapLand Adventures posted sales increases, with launch of Magic Adventures Microscope and new licensed version of LeapLand Adventures adding to growth
- These offset declines in infant and toddler products



- Platform products:
 - Sales decrease for both brands
 - **VTech:** Lower sales of children's educational tablets, KidiZoom Smartwatches and Touch & Learn Activity Desk offset growth in KidiCom range of products
 - **LeapFrog:** Higher sales of Magic Adventures Globe offset by lower sales of interactive reading systems





- **TEL products** revenue decreased 2.9% to US\$46.3 million
 - Sales declines of commercial phones and other telecommunication products offset growth in residential phones
- **Commercial phones and other telecommunication products:**
 - **Snom branded SIP phones and hotel phones:** Sales impacted by economic slowdown
 - **CareLine:** Sales affected by tight semiconductor supply

- **CAT-iq handsets:** Sales declined on reduced orders from customers
- **Baby monitors:** Sales increased on channel expansion and new product launches, including the introduction of LeapFrog models in Germany
- **Residential phones:**
 - Growth driven by increased orders from existing ODM customers and the launch of VTech branded products in UK and Germany



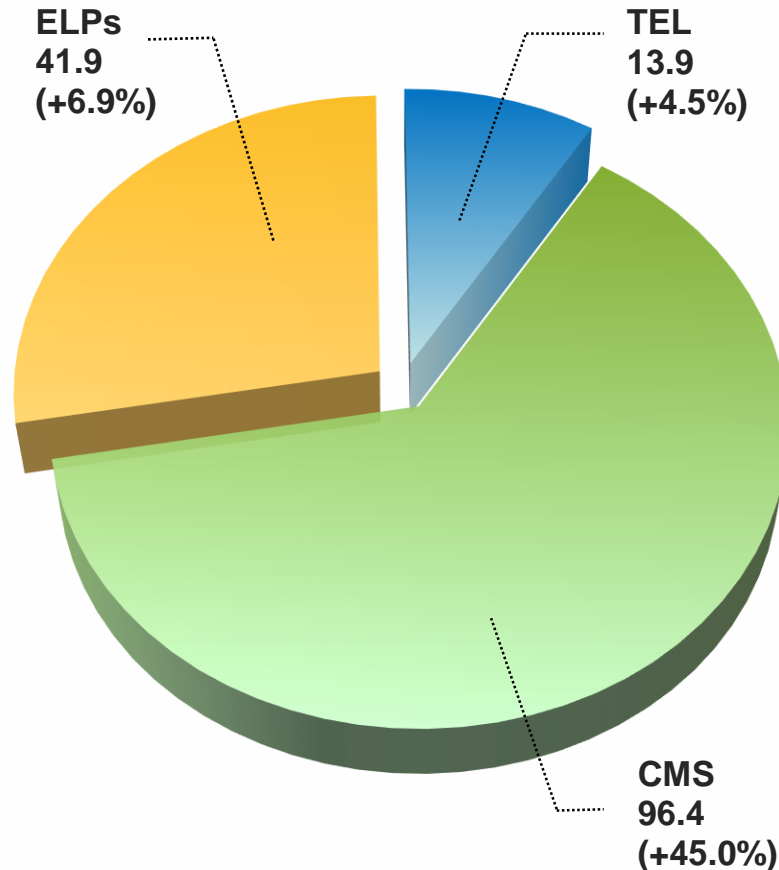
- **CMS** revenue decreased 7.7% to US\$264.8 million
 - Growth from professional audio equipment, IoT products and smart energy storage systems failed to offset lower sales of hearables, medical and health products and communication products
 - **Hearables:** Sales declined on lower demand for commercial and Bluetooth headsets
 - **Medical and health products:** Growth in hearing aids failed to offset decline in hair removal products
 - **Communication products:** Sales decreased as the upgrading of Wi-Fi routers ended, while the lack of critical components limited order fulfilment



- **Professional audio equipment:** Sales increased on higher orders for audio interface products and recovery in demand for audio mixers
- **IoT products:** Sales of smart meters, internet-connected thermostats and air-conditioning controls increase on soaring energy prices
- **Smart energy storage systems:** Sales trended higher despite lack of critical components
- **Home appliances:** Sales remained stable



Revenue by Product Line (US\$ million)



- Revenue increased 27.9% to US\$152.2 million, 13.1% of Group revenue
- Growth in all three product lines
- **ELPs** revenue rose 6.9% to US\$41.9 million, with higher sales in Australia and Japan offsetting a decline in mainland China
 - **Australia:** Good growth for VTech and LeapFrog products; strengthened position as no.1 manufacturer of infant and toddler toys
 - **Japan:** Rising sales to a major toy retailer; good sell-through of jointly developed Sumikkogurashi Smartwatch
 - **Mainland China:** Higher online sales insufficient to offset lower sales from offline channels

- **TEL products** revenue increased 4.5% to US\$13.9 million as higher sales in Japan, Hong Kong and India offset lower sales in Australia
 - **Japan:** Orders for CareLine increased
 - **Hong Kong:** Higher sales of IADs
 - **India:** Orders for residential phones increased
 - **Australia:** Sales of residential phones were down on shrinking market; sales of baby monitors held back by semiconductor shortages

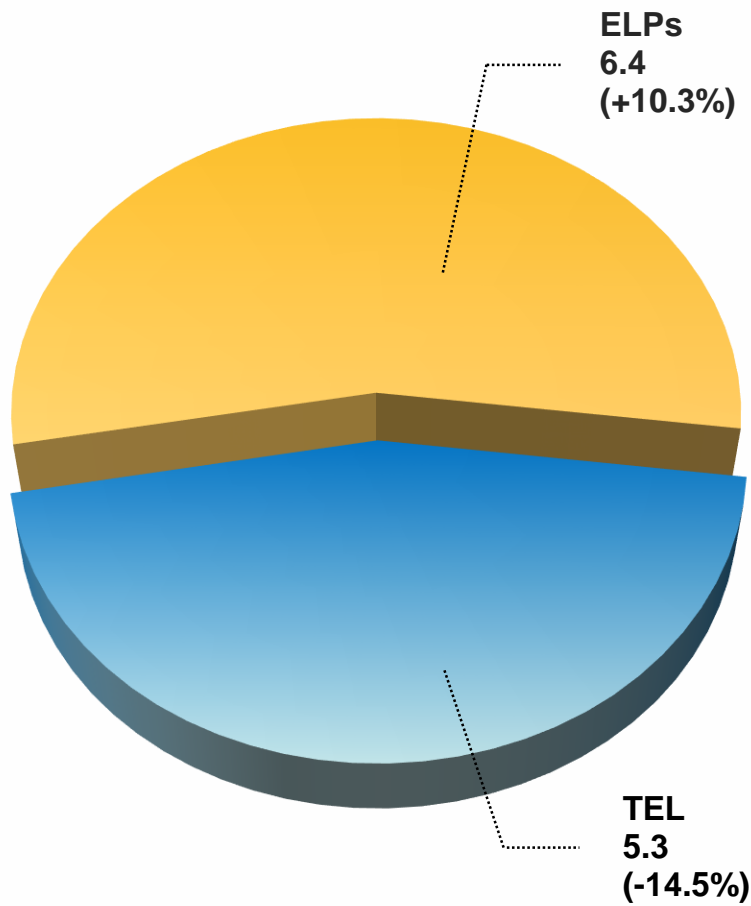


- **CMS** revenue increased 45.0% to US\$96.4 million
- Good performances across all major categories
 - **Professional audio equipment:** Higher sales of DJ equipment offset lower sales of USB streaming microphones
 - **Medical and health products:** Orders for diagnostic ultrasound systems benefited from hospital budget rebalancing; more orders for hearing aids
 - **Communication products:** Orders for marine radios rose following product redesign



vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue fell 3.3% to US\$11.7 million, 1.0% of Group revenue**
- **Lower sales of TEL products and CMS**
- **ELPs** revenue increased 10.3% to US\$6.4 million. Higher sales in Latin America and Africa offset lower sales in Middle East
- **TEL products** revenue decreased 14.5% to US\$5.3 million. Sales decreases in Latin America and Africa offset sales increase in Middle East
- **CMS** revenue immaterial in 1HFY23

Outlook

- **Complex and volatile operating environment**
 - Persistently high energy costs and high inflation
 - Rising interest rates, with no sign of them peaking in near term
 - Sharp fall in economic growth, with consumers more price sensitive and reducing discretionary purchases
 - High channel inventory at retailers, order delays
 - Additional pressure on retailers outside US from strong US dollar
 - Tight supply of some critical components and logistics costs higher than FY2022

- **Revised outlook on dramatic change in operating environment**
 - Group revenue expected to decline year-on-year
 - Gross profit margin anticipated to be stable
 - Increased focus on managing inventory, with higher advertising and promotional spend
 - Tightening cost control
 - Continue to invest in developing new products and expanding geographically to drive future growth

ELPs

- **Full year revenue expected to decline**
 - Retailers in North America and Europe tightening inventory management and cautious about placing new orders
 - Well-planned advertising and promotions in place to ensure good sell-through
 - Good momentum expected to continue in Canada, Australia, Germany, Spain and the Benelux countries on market share gains and more new product launches
 - Sales in mainland China expected to improve in 2H, but overall sales for full year anticipated to decline





TEL products

- **Full year revenue projected to decrease year-on-year, with sales in 2H expected to improve**
 - New baby monitors with AI features and revamped hotel phones will maintain good momentum in these product lines
 - Sales of commercial phones expected to recover as new products hit the shelves, including Snom D8 series of SIP desksets, multi-cell SIP DECT mobility system and work-from-anywhere series
 - Sales of residential phones anticipated to pick up in 2H, with market share gains in North America and Europe

CMS

- **Full year revenue projected to be stable**
 - 2H sales expected to slow as certain critical components supply remains tight and customers cut inventory
 - Sales of hearables for full year expected to decline sharply on lower demand for commercial and mobile headsets
 - Full year growth forecast across most major categories, while contribution from smart energy storage systems to become significant
 - Mexican facility ramping up to meet strong demand
 - Further rationalisation of production base and process improvements



Q&A

Thank You