



VTech Holdings Limited

2021/2022 Interim Results Announcement

15 November 2021

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2021

2020

Change

Revenue

1,114.8

1,123.6

-0.8%

Gross Profit

304.9

357.0

-14.6%

Gross Profit Margin %

27.4%

31.8%

-4.4% pts

Operating Profit

90.8

142.6

-36.3%

Operating Profit Margin %

8.1%

12.7%

-4.6% pts

**Profit Attributable to Shareholders
of the Company**

76.9

123.6

-37.8%

Net Profit Margin %

6.9%

11.0%

-4.1% pts

Basic Earnings per Share (US cents)

30.5

49.0

-37.8%

Interim Dividend per Share (US cents)

17.0

17.0

-





Revenue by Region

For the six months ended 30 September

(US\$ million)	2021	%	2020	Change
North America	497.9	44.6	492.9	1.0%
Europe	485.8	43.6	487.5	-0.3%
Asia Pacific	119.0	10.7	130.2	-8.6%
Other Regions	12.1	1.1	13.0	-6.9%
Total	1,114.8	100.0	1,123.6	-0.8%



(US\$ million)

30/09/21

31/03/21

30/09/20

Stocks

599.4

414.0

436.1

Stocks Turnover Days

141 days

103 days

120 days

Trade Debtors

507.9

270.7

521.7

Trade Debtors Turnover Days

66 days

61 days

60 days



Liquidity Position

(US\$ million)

30/09/21

31/03/21

30/09/20

Deposits and Cash

52.2

343.8

137.1

Total Borrowings

(26.4)

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Net Cash Position

25.8

343.8

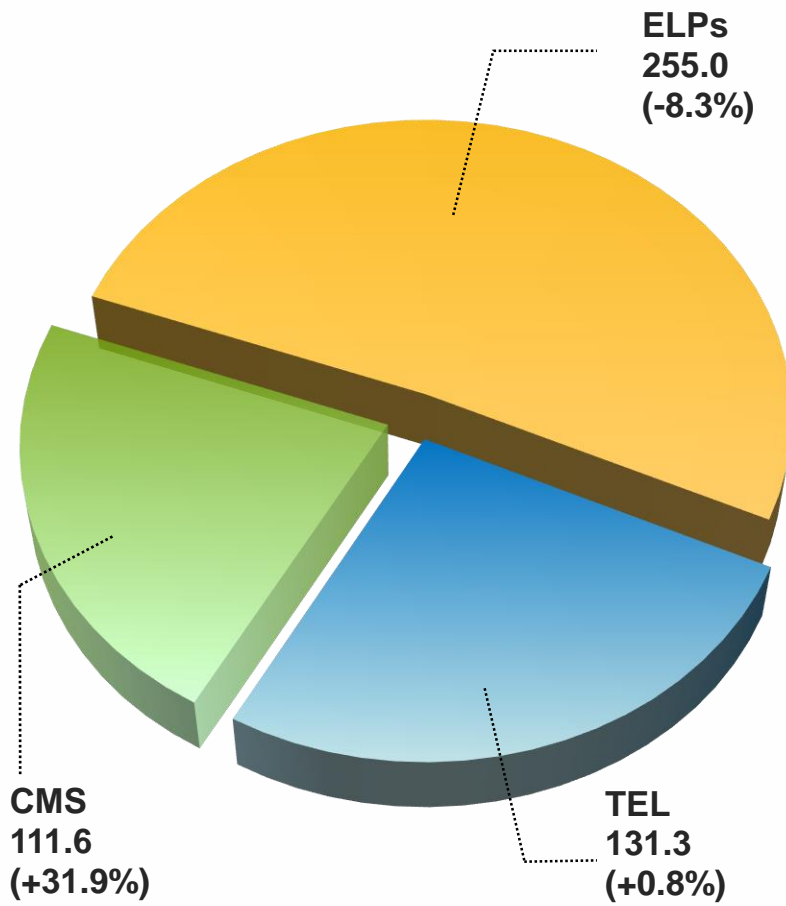
137.1

Operations Review

- **Gross profit margin decreased from 31.8% to 27.4%**
- Decline in gross profit margin was attributable to:
 - Higher materials prices, especially of electronic components and plastic materials
 - Drastic increase in freight costs arising from container shortages
 - Higher direct labour costs and manufacturing overheads, with appreciation of RMB and unstable materials supply impacting productivity
 - Change in product mix

vtech | North America

Revenue by Product Line (US\$ million)



- Revenue increased by 1.0% to US\$497.9 million, 44.6% of Group revenue
- Higher sales of TEL products and CMS offset lower sales of ELPs
- ELPs revenue declined by 8.3% to US\$255.0 million
 - Production and shipment delays resulted in low channel inventory and delayed availability of some new products, despite strong orders
 - **US:** Maintained position as no.1 manufacturer of electronic learning toys from infancy through toddler and preschool
 - **Canada:** Remained no.1 manufacturer in infant, toddler and preschool toys category

- **Standalone Products:**

- Lower sales of both brands
- **VTech:** Growth in KidiZoom camera and Switch & Go Dinos ranges offset by declines in Go! Go! Smart family of products, Go! Go! Cory Carson vehicles and playsets, preschool products and Kidi line
- Sales of infant and toddler products held steady
- New products: KidiZoom PrintCam, Marble Rush line, eco-friendly toys using plant-based and reclaimed plastics
- **LeapFrog:** Lower sales of infant, toddler and preschool products
- New products: LeapLand Adventures, On-the-Go Story Pal, role-play toys and eco-friendly toys made with 100% FSC-certified wood





- **Platform Products:**

- Sales decreases for both brands
- **VTech:** Higher sales of Touch & Learn Activity Desk insufficient to offset lower sales of KidiBuzz and KidiZoom Smartwatches
- New KidiBuzz 3 and KidiZoom Smartwatch DX3 did not reach retail shelves until September
- **LeapFrog:** Growth for Magic Adventures Globe offset by declines in children's educational tablets and interactive reading systems
- Expansion of LeapStart and LeapReader ranges to strengthen reading product offerings



- **TEL products** revenue rose by 0.8% to US\$131.3 million, as higher sales of commercial phones and other telecommunication products offset lower sales of residential phones
- **Commercial Phones:**
 - Benefited from gradual resumption of business activities
 - Higher sales of Snom VoIP and SMB phones, supported by increased orders from value-added resellers
 - Sales of hotel phones recovered
 - Headset sales increased on more orders from an existing customer

- **Other Telecommunication Products:**

- Boosted by rising sales of baby monitors, with additional placements in key retailers, expanded online presence and launch of new models
- VTech strengthened position as no.1 baby monitor brand in the US and Canada



- **Residential Phones:**

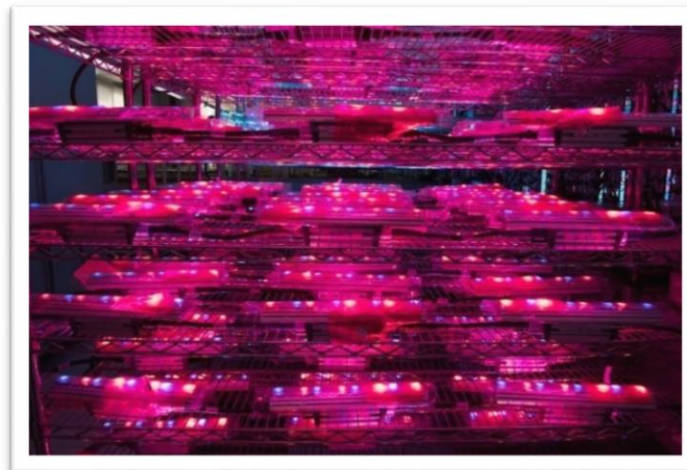
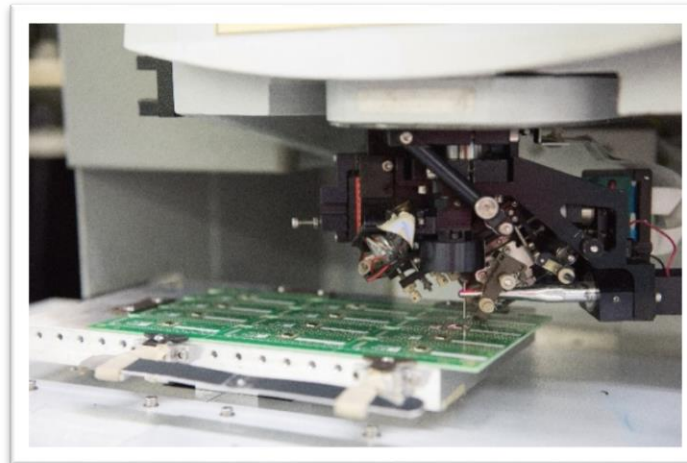
- Sales declined as market returned to normal following lifting of lockdowns
- Maintained leadership position in US residential phones market



- **CMS** revenue increased by 31.9% to US\$111.6 million
- Lifting of COVID-19 restrictions led to a surge in demand for certain types of professional audio equipment, industrial products, solid-state lighting and medical and health products
 - **Professional Audio Equipment:** Sales of products used in lecture theatres, music concerts and churches rose as social distancing measures relaxed

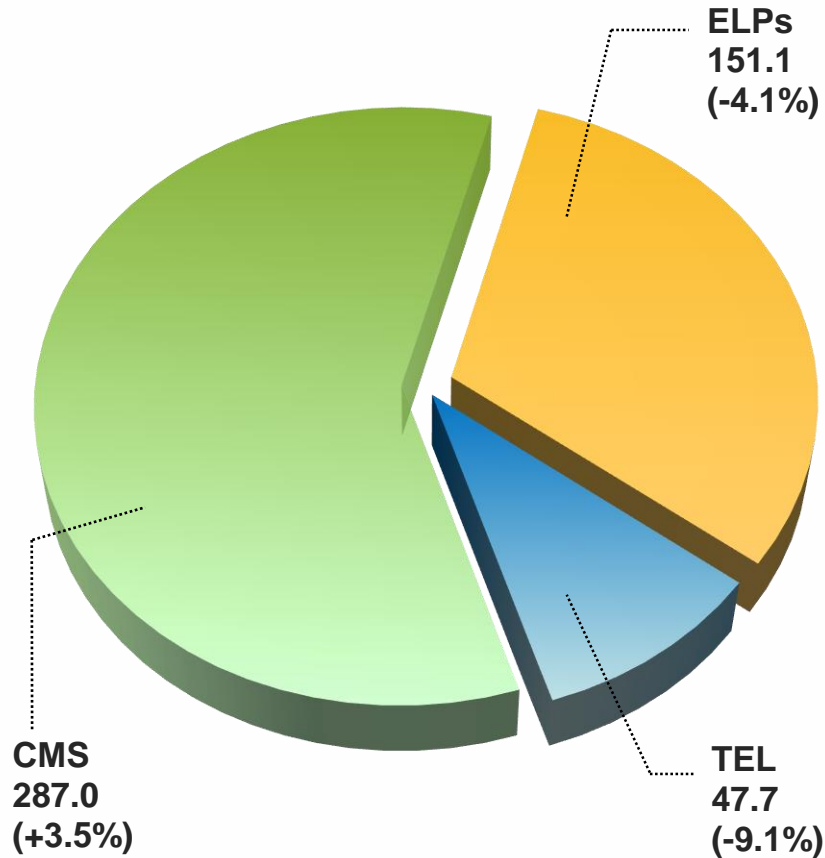


- **Industrial Products:** Benefited from resumption of business activities, boosting orders for PCBA for coin and note recognition machines. Orders for industrial printers recovered as market returned to normal
- **Solid-state Lighting:** Sales rebounded as project-based demand resumed
- **Medical and Health Products:** Sales trended higher, driven by increased orders for hearing aids



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Revenue by Product Line (US\$ million)



- Revenue down 0.3% to US\$485.8 million, 43.6% of Group revenue
- Higher sales of CMS offset by lower ELPs and TEL products revenues
- ELPs revenue fell 4.1% to US\$151.1 million
 - Lower sales of both standalone and platform products
 - Production and shipment delays resulted in low inventory levels, late availability of new products and delayed sales contributions
 - Sales increased in France but declined in other key markets
 - Remained no.1 infant and toddler toys manufacturer in France, UK, Germany and the Benelux countries

- **Standalone Products:**

- **LeapFrog:** Higher sales, with growth led by infant, toddler and preschool products, augmented by launch of LeapLand Adventures
- **VTech:** Higher sales of Switch & Go Dinos offset by declines in other categories
- New Marble Rush line hit shelves in all major European markets in September
- New KidiZoom Video Studio HD and KidiZoom PrintCam saw good initial sell-through in key European markets





- **TEL products** revenue decreased by 9.1% to US\$47.7 million
 - Lower sales of residential phones offset growth in commercial phones and other telecommunication products
- **Residential Phones:**
 - Sells products in the region on ODM basis
 - Shortage of semiconductors led to deferral of shipments and reduction in sales to customers

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

- Benefited from resumption of business activities, leading to rising sales of Snom business phones and recovery in hotel phones
- **CAT-iq Handsets:** Sales increased as orders from an existing customer grew
- **Baby Monitors:** Sales declined on shortage of semiconductors, but good inroads made in UK on new product line-up
- **IADs:** Launched new product featuring Wi-Fi 6, but sales declined on semiconductor shortage



- **CMS** revenue increased 3.5% to US\$287.0 million
 - Sales of home appliances, IoT products, medical and health products, communication products and automotive related products rose, offsetting declines in professional audio equipment and hearables
 - **Home Appliances:** Demand recovered to pre-pandemic levels
 - **IoT Products:** Boosted by resumption of smart meter installations

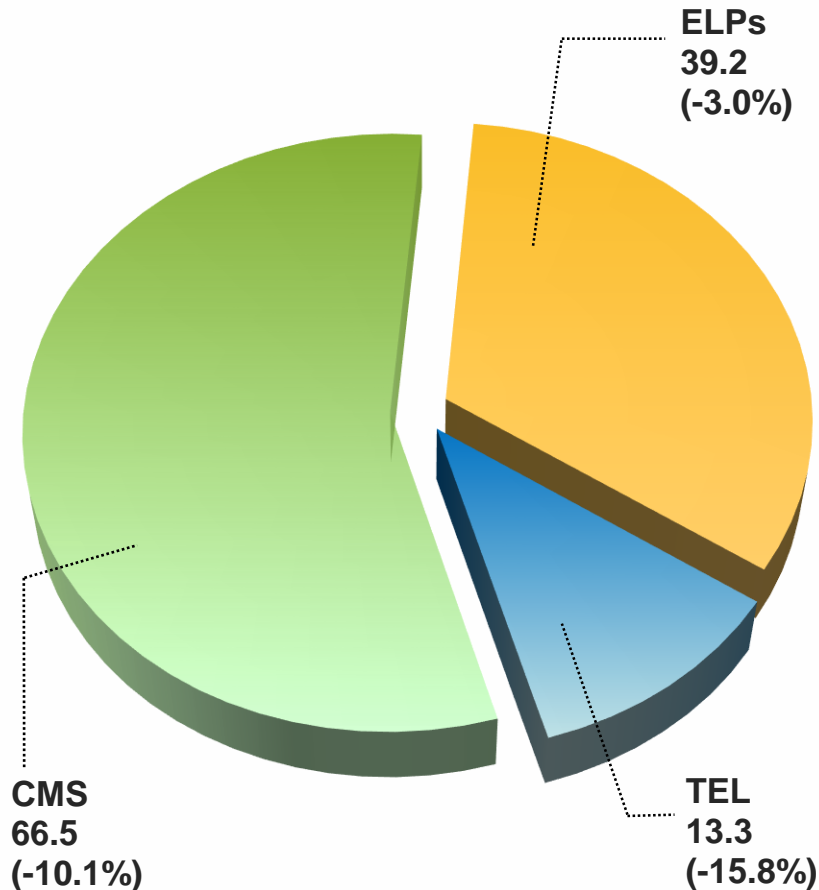


- **Medical and Health Products:** Grew on increasing orders for health and beauty products and hearing aids
- **Communication Products:** Benefited from higher orders for Wi-Fi routers
- **Automotive Related Products:** Sales supported by increasing orders for smart electric vehicle chargers
- **Hearables:** Sales negatively affected by material shortages despite strong demand
- **Professional Audio Equipment:** Material shortages reduced sales of professional audio equipment for home use



vtech | Asia Pacific

Revenue by Product Line (US\$ million)



- Revenue decreased by 8.6% to US\$119.0 million, 10.7% of Group revenue
- Lower sales of ELPs, TEL products and CMS
- ELPs revenue fell 3.0% to US\$39.2 million, with lower sales in Australia and mainland China
- **Australia:** Lower sales of both brands due to closure of retail stores, material shortages and shipment delays
 - Remained no.1 manufacturer in infant and toddler toys category
- **Mainland China:** Growth in offline channels offset by decline in online sales

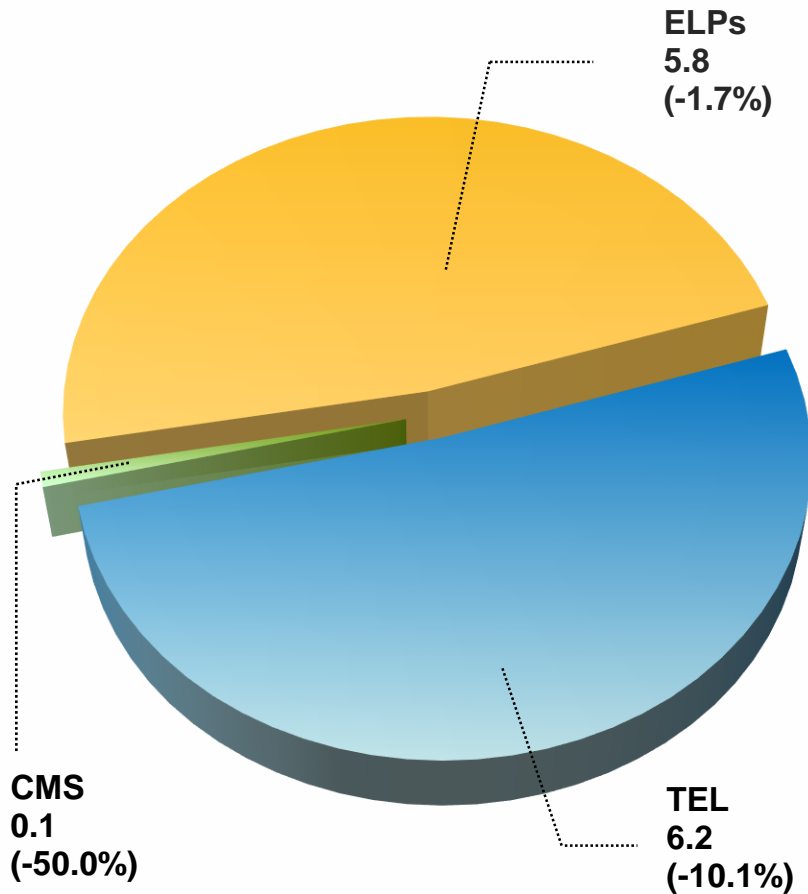
- **TEL products** revenue decreased by 15.8% to US\$13.3 million as lower sales in Japan and Hong Kong offset growth in Australia
 - **Japan:** Sales lower as orders for residential phones from an existing customer declined
 - **Hong Kong:** Lower sales of IADs resulted in overall decrease
 - **Australia:** Higher sales of baby monitors offset decline in residential phones



- **CMS** revenue decreased by 10.1% to US\$66.5 million
- Lower sales of professional audio equipment offset increases in medical and health products
 - **Professional Audio Equipment:** Lower sales of DJ equipment, as production at Malaysia factory impacted by COVID-19 Movement Control Order
 - **Medical and Health Products:** Sales rebounded as orders for diagnostic ultrasound systems increased. Resumption of business activities boosted orders for hearing aids



Revenue by Product Line (US\$ million)



- Revenue down 6.9% to US\$12.1 million, 1.1% of Group revenue
- Lower sales of all three product lines
- ELPs revenue declined by 1.7% to US\$5.8 million. Higher sales in Latin America offset by lower sales in Middle East and Africa
- TEL products revenue decreased by 10.1% to US\$6.2 million. Lower sales in Middle East offset higher sales in Latin America and Africa
- CMS revenue was US\$0.1 million, as compared to US\$0.2 million in 1HFY21

Outlook

- **FY2022 revenue to be lower than FY2021**
 - Robust order book amid strong demand for products
 - As channel inventory improves and new products reach shelves, ELPs and TEL products sales to pick up in 2H
 - CMS revenue to decline year-on-year due to global material shortages
- **Gross profit margin to be lower year-on-year**
 - But gross profit margin for the full financial year 2022 to improve over 1H due to change in product mix

- **To mitigate negative impacts of material supply and logistics issues:**
 - Re-engineer products to lower cost and accommodate alternative parts
 - Sign long-term contracts with material suppliers to secure stable supply
 - Source alternative shipping carriers to secure containers
 - Increase stocks of critical components
 - Start production earlier to allow longer time for shipment and transportation

ELPs

- **Full year revenue to increase slightly**
 - Sales in North America and Europe gaining momentum as entire range of new products begins to sell through and channel inventory improves
 - New Go! Go! Cory Carson content to be launched globally throughout Autumn and Winter
 - LeapFrog Academy subscriptions flattening out since reopening of schools
 - Sales in Australia to rebound as lockdowns are lifted and retail stores resume trading
 - Overall sales in mainland China to show full year decline



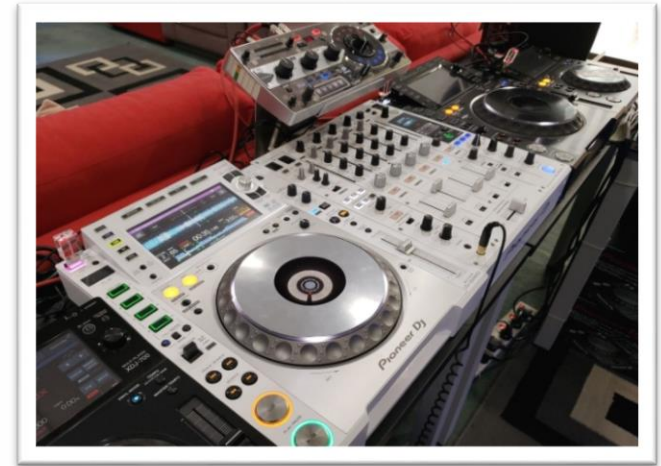
TEL products

- **Full year revenue hard to predict due to material shortages, but 2H revenue to improve on new product launches**
 - Good performance of baby monitors and recovery in commercial phones expected to continue
 - New product launches: Full range of LeapFrog branded baby monitors, smart sleep training device VHush, work-from-home desktop cordless telephone, work-from-anywhere series, Snom SIP desksets, multi-cell SIP DECT mobility system



CMS

- **Full year revenue to decline year-on-year despite solid order book and large backlog**
 - Strong 2H FY2021 performance hard to repeat due to material shortages
 - Recommending alternative components to customers and providing material suppliers high visibility on demand forecasts
 - DJ equipment production in Malaysia gradually returning to normal
 - NPI centre in Shenzhen attracting business from start-ups and building a strong reputation
 - Develop and expand EMS capability of Mexican facility once COVID-19 situation stabilises



Q&A

Thank You