



VTech Holdings Limited

2023/2024 Interim Results Announcement

15 November 2023

Financial Review



Financial Highlights

For the six months ended 30 September

(US\$ million)

2023

2022

Change

Revenue

1,140.9

1,164.8

-2.1%

Gross Profit

325.5

329.4

-1.2%

Gross Profit Margin %

28.5%

28.3%

0.2% pts

Operating Profit

110.3

99.0

11.4%

Operating Profit Margin %

9.7%

8.5%

1.2% pts

**Profit Attributable to Shareholders
of the Company**

93.6

82.0

14.1%

Net Profit Margin %

8.2%

7.0%

1.2% pts

Basic Earnings per Share (US cents)

37.0

32.5

13.8%

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) | 2023 | % | 2022 | Change |
|----------------|----------------|-------|---------|--------|
| North America | 489.4 | 42.9 | 530.5 | -7.7% |
| Europe | 468.7 | 41.1 | 470.4 | -0.4% |
| Asia Pacific | 171.5 | 15.0 | 152.2 | 12.7% |
| Other Regions | 11.3 | 1.0 | 11.7 | -3.4% |
| Total | 1,140.9 | 100.0 | 1,164.8 | -2.1% |



(US\$ million)

30/09/23

31/03/23

30/09/22

Stocks

432.0

475.5

570.0

Stocks Turnover Days

120 days

128 days

140 days

Trade Debtors

451.7

277.2

487.4

Trade Debtors Turnover Days

60 days

59 days

62 days

(US\$ million)

30/09/23

31/03/23

30/09/22

Deposits and Cash

108.5

198.5

103.3

Total Borrowings

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(93.2)

Net Cash Position

108.5

198.5

10.1

Costs

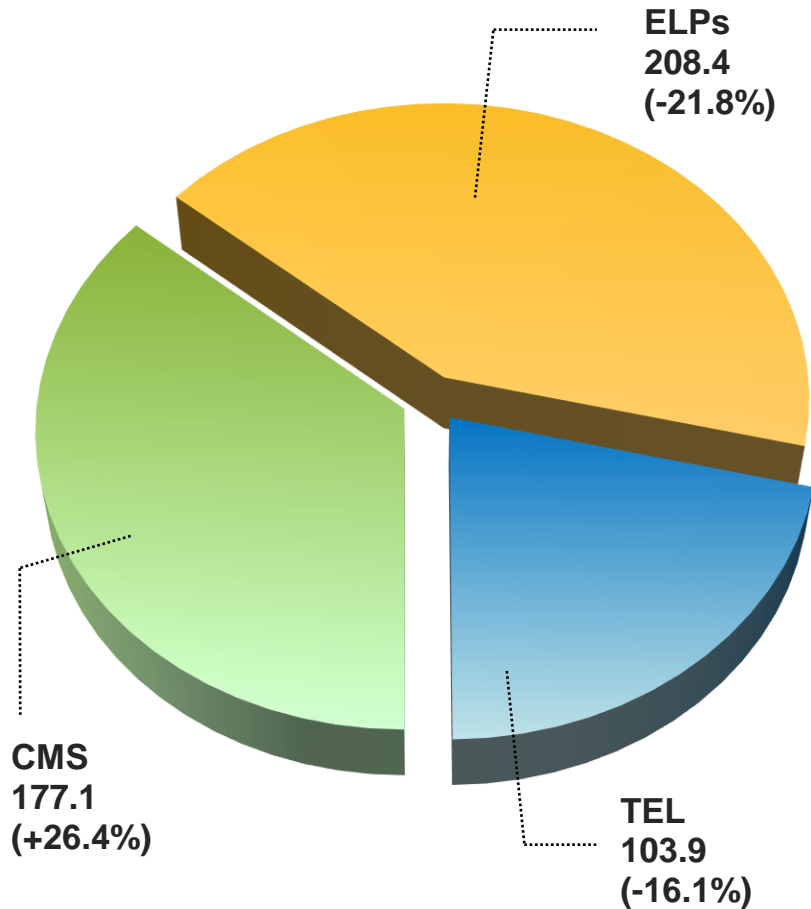
vtech | Costs

- Gross profit margin improved to 28.5% from 28.3%
- Improvement in gross profit margin:
 - Freight costs and inventory provisions fell
 - Direct labour costs and manufacturing overheads declined on Renminbi depreciation, increased automation and reduced factory workforce
- These offset negative factors:
 - Cost of materials as percentage of Group revenue increased, following a change in product mix
 - Depreciation of most currencies against US dollar

Operations Review

vtech | North America

Revenue by Product Line (US\$ million)



- Revenue decreased 7.7% to US\$489.4 million, 42.9% of Group revenue
- Higher sales of CMS offset by lower sales of ELPs and TEL products
- ELPs revenue declined 21.8% to US\$208.4 million
 - Primarily driven by lower sell-through
 - Unfavourable year-on-year comparison due to advancement of some customer shipments in 1HFY23 to compensate for logistics delays
 - Maintained position as no.1 manufacturer of electronic learning toys from infancy through toddler to preschool in US and Canada

- Sales of standalone and platform products decreased for both VTech and LeapFrog brands
- Standalone Products:
 - **VTech:** Growth in Go! Go! Smart family of products, Switch & Go Dinos and Kidi line insufficient to compensate declines in infant, toddler and preschool products, KidiZoom range, Marble Rush and eco-friendly toys
 - **LeapFrog:** Higher sales of eco-friendly toys offset by lower sales of infant, toddler and preschool products, LeapLand Adventures and Magic Adventures Microscope



- **Platform Products:**

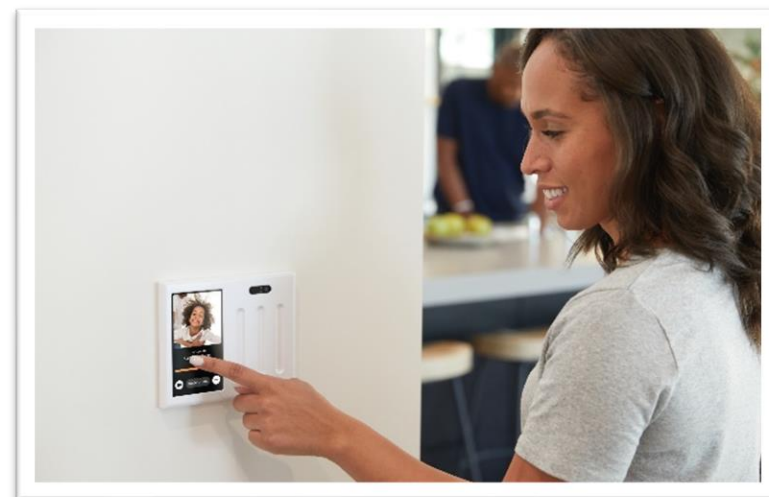
- **VTech:** Lower sales of KidiZoom Smartwatches, Touch & Learn Activity Desk and KidiBuzz resulted in overall sales decrease
- **LeapFrog:** Sales of children’s educational tablets, interactive reading systems and Magic Adventures Globe decreased
- **LeapFrog Academy** subscription revenue lower



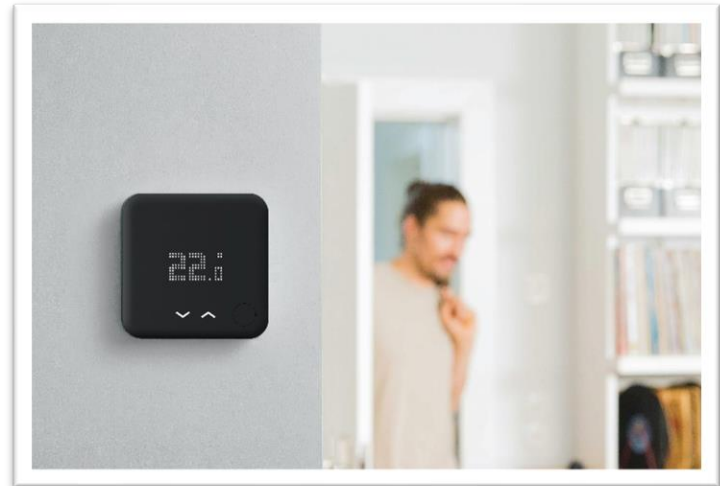
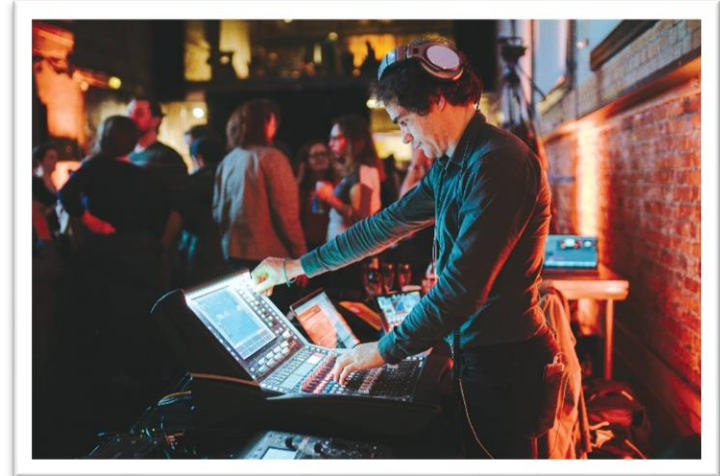


- **TEL products** revenue fell 16.1% to US\$103.9 million
- Lower sales of residential phones, commercial phones and other telecommunication products
- **Residential phones:** Sales declined as market contraction continued and shelf space at a major US retailer reduced
- **Commercial phones:** Higher sales of hotel phones and Snom SIP phones insufficient to offset declines for headsets and multi-line analogue phones
- **Other telecommunication products:** Sales of baby monitors stable while CareLine and IADs decreased
- Maintained no. 1 position in baby monitor market in US and Canada

- **CMS** revenue grew 26.4% to US\$177.1 million
- Sales increased as improved materials supply enabled VTech to clear backlog of orders from customers
- Higher sales of professional audio equipment and IoT products offset declines in industrial products, solid-state lighting and communication products
- Maintained world's no. 1 contract manufacturer of professional audio equipment in CY2022

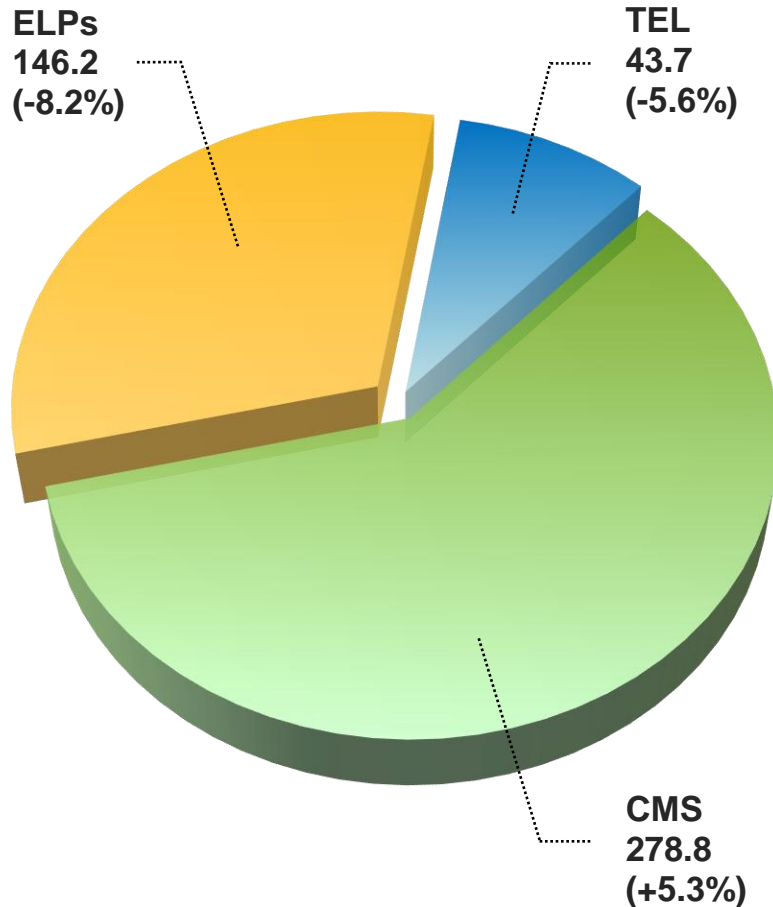


- **Professional audio:** Higher sales of power amplifiers, professional loudspeakers and wireless microphones
- **IoT:** New smart home control systems customer
- **Industrial products:** Customers faced over-inventory
- **Solid-state lighting:** Sales declined as market demand softened
- **Communication products:** Customer's products reached end of life cycle



vtech | Europe

Revenue by Product Line (US\$ million)



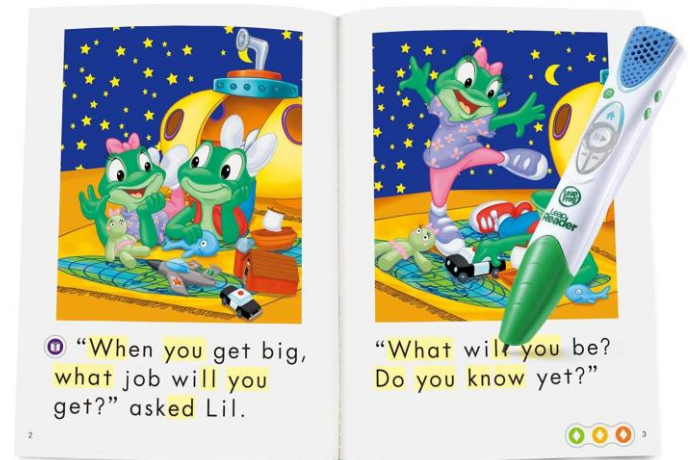
- Revenue decreased 0.4% to US\$468.7 million, 41.1% of Group revenue
- Higher CMS sales insufficient to offset lower sales of ELPs and TEL products
- **ELPs** revenue fell 8.2% to US\$146.2 million
 - Lower shipments to customers of both standalone and platform products
 - Weaker sell-through and depreciation of Euro and Sterling against US dollar
 - Declines in France, UK, Spain and Netherlands offset growth in Germany
 - No.1 infant and toddler toys manufacturer in France, UK, Germany, Benelux countries and Spain

vtech | Europe (continued)

- Sales of standalone and platform products decreased for both VTech and LeapFrog brands
- Standalone Products:
 - **VTech:** Higher sales of preschool products, electronic learning aids, Marble Rush and eco-friendly products offset by lower sales of infant and toddler products, KidiZoom cameras and Kidi line
 - **LeapFrog:** Growth in Magic Adventures Microscope and eco-friendly toys offset by declines in infant, toddler and preschool products, and LeapLand Adventures



- **Platform Products:**
 - **VTech:** Lower sales of KidiZoom Smartwatches, children's educational tablets and KidiCom range of products
 - Sales of Touch & Learn Activity Desk held stable
 - **LeapFrog:** Lower sales of interactive reading systems and Magic Adventures Globe





- **TEL products** revenue decreased 5.6% to US\$43.7 million, with sales declines in residential phones, commercial phones and other telecommunication products
- **Residential phones:** Growth in VTech branded phones offset by lower shipments to ODM customers
- **Commercial phones:** Lower sales of hotel phones and headsets, while sales of Snom SIP phones were stable
- **Other telecommunication products:** Growth in baby monitors insufficient to compensate drop for CareLine, CAT-iq handsets and IADs

vtech | Europe (continued)

- **CMS** revenue rose 5.3% to US\$278.8 million
- Higher sales of professional audio equipment, smart energy storage systems, communication products and medical and health products compensated for declines in hearables, IoT products and automotive products
 - **Professional audio:** Growth in audio mixers offset decline for home audio interface products; added a new customer in USB streaming microphones for professional gaming market
 - **Smart energy storage:** Production ramped up as materials supply improved
 - **Communication products:** New Wi-Fi routers launched by customer

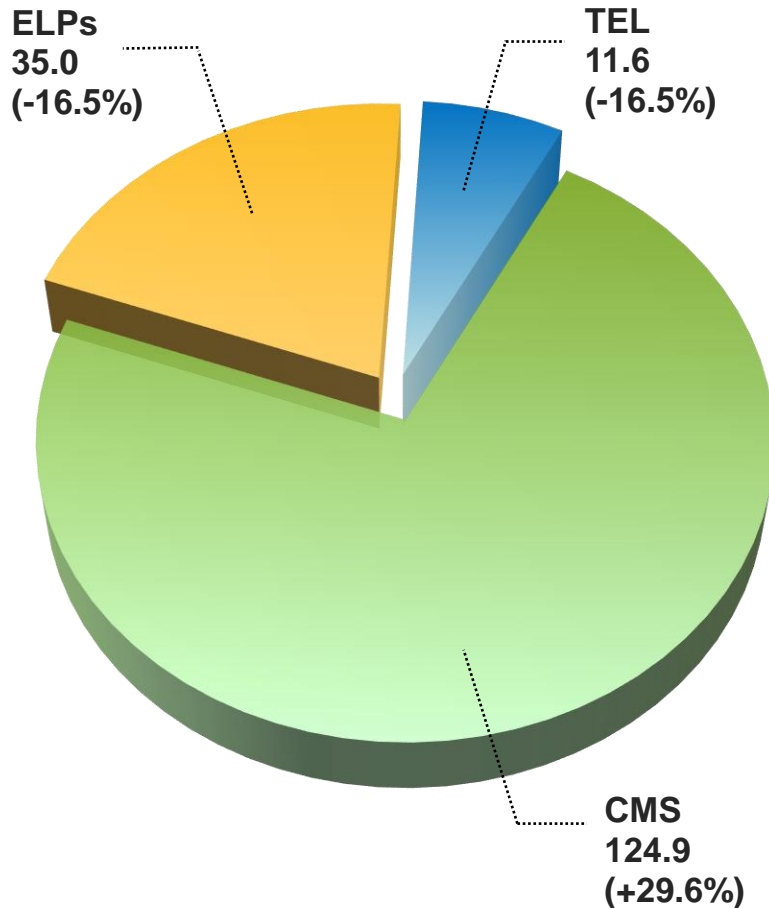


- **Medical and health products:** Growth driven by higher sales of hearing aids as business activities continued to accelerate after pandemic
- **Hearables:** Sales declined as market demand return to pre-pandemic levels
- **IoT products:** Sales decreased as smart meters customer returned to more normal sales pattern, with stable sales of internet connected thermostat and air-conditioning controls
- **Automotive products:** Sales fell as customer for EV chargers lost market share
- **Home appliances:** Sales remained stable



vtech | Asia Pacific

Revenue by Product Line (US\$ million)

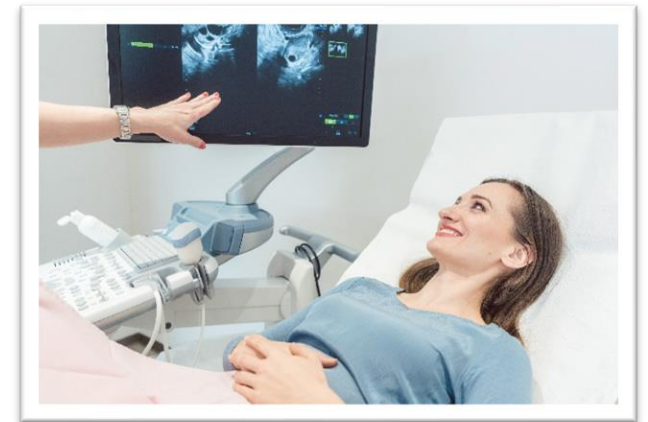


- Revenue increased 12.7% to US\$171.5 million, 15.0% of Group revenue
- Higher sales of CMS offset lower ELPs and TEL products sales
- ELPs revenue decreased 16.5% to US\$35.0 million
- Higher sales in mainland China offset by declines in Australia and Japan
 - **Mainland China:** Sales increases in both online and offline channels
 - **Australia:** Sales decreased due to weakening economy
 - **Japan:** Sales declined due to lower sell-through of jointly developed smartwatches and decreased sales to a major toy retailer

- **TEL products** revenue declined 16.5% to US\$11.6 million
- Lower sales in Japan and Hong Kong offset higher sales in Australia
 - **Japan:** Residential phone sales were down as ODM customer reduced orders
 - **Hong Kong:** Lower sales of IADs and residential phones
 - **Australia:** Growth in baby monitors offset sales decline for residential phones

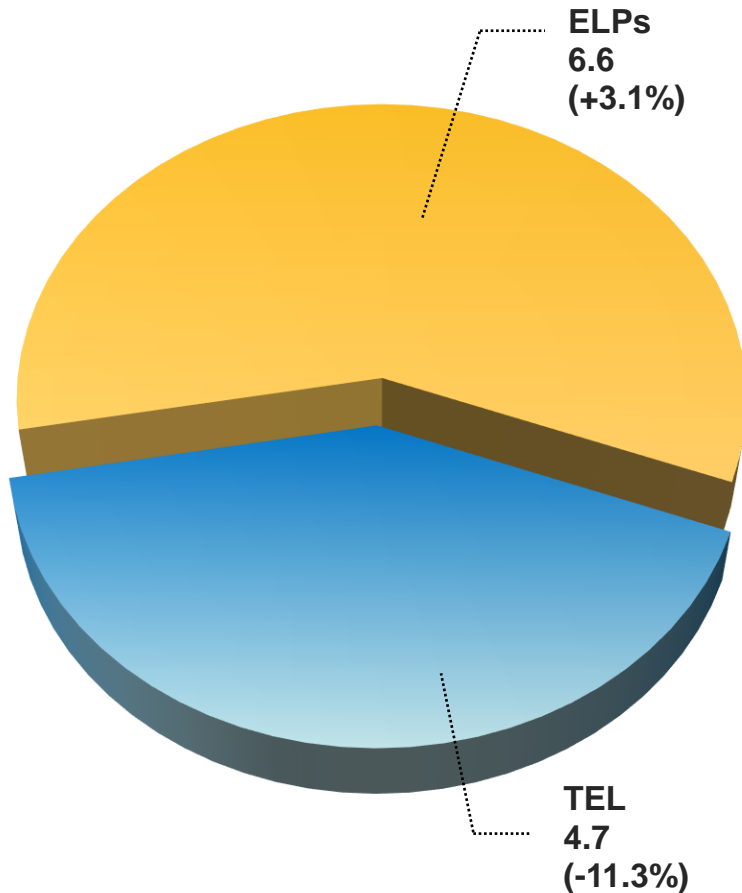


- **CMS** revenue increased 29.6% to US\$124.9 million
- Growth in professional audio equipment offset decline in communication products
- Sales of medical and health products stable
 - **Professional audio:** Orders for DJ equipment grew significantly on improved materials supply, market share gains and more new product launches by the customer
 - **Medical and health products:** Orders of diagnostic ultrasound systems stable
 - **Communication products:** Decreased orders from marine radios customer



vtech | Other Regions

Revenue by Product Line (US\$ million)



- **Revenue fell 3.4% to US\$11.3 million, 1.0% of Group revenue**
- **Higher sales of ELPs offset by lower TEL products sales**
- **ELPs** revenue increased 3.1% to US\$6.6 million. Higher sales in Latin America and Middle East offset lower sales in Africa
- **TEL products** revenue declined 11.3% to US\$4.7 million as lower sales in Latin America and Middle East offset growth in Africa
- **CMS** revenue immaterial

Outlook

Uncertainty in global economy

- Wars in Ukraine and Middle East
- Volatile energy costs and high interest rates in US and Europe
- Consumer spending and business investment being cut
- Outside US, strong dollar pressuring retailers

Positive factor

- Pressure on raw materials and critical components supplies, plus freight costs, has eased considerably

vtech | Outlook

- Group revenue for the full financial year expected to show a slight decline
- Profitability remains on track to show improvement as materials prices and freight charges trend down year-on-year
- Continuing strict control of inventory and operating expenses to bolster profitability further
- Committing resources to advertising and promotions and exercising tight management to ensure good sell-through in upcoming holiday seasons

ELPs

- Full year revenue expected to decline despite sales improvement in 2H
- Will benefit from the completed re-organisation of US operations
- New US leadership team will monitor sell-through closely and react quickly with advertising and promotions to maximise sales
- New standalone and platform products will drive sales



TEL Products

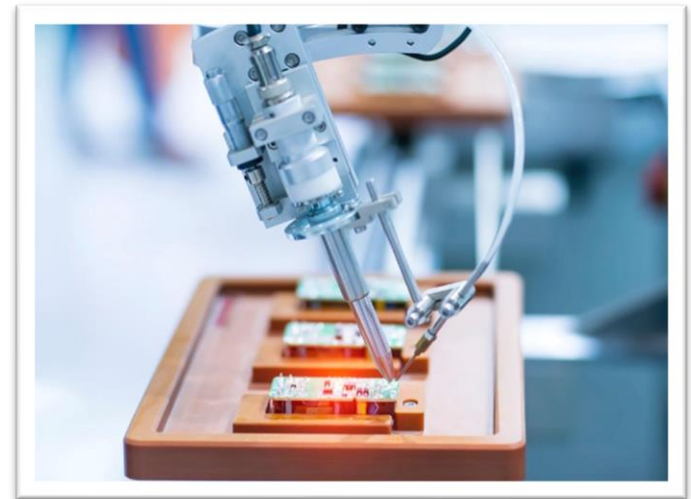
- Full year revenue forecast to be lower
- **Residential phones:** Sales in North America anticipated to decrease for full financial year, but Europe to benefit from expansion of VTech branded products into new markets
- **Commercial phones:** New product launches and addition of Snom as a distribution channel in Europe will drive growth in hotel phones. Snom SIP phones to be boosted by new M500 DECT series
- **Other telecommunication products:** Baby monitors will be key driver



vtech | Outlook

CMS

- Full year revenue expected to increase following 1H outperformance of global EMS market
- Sales in 2H anticipated to slow down as global economy is weakening
- Customers cautious about placing orders and managing inventory tightly
- Continued good performance expected from professional audio equipment, hearing aids and smart energy storage systems
- Orders from the new smart home control systems customer to ramp up further



Q&A

Thank You