

**FOR IMMEDIATE RELEASE**

**VTech Announces 2016/2017 Interim Results**

***Higher revenue driven by growth in ELPs and CMS***

- Group revenue increased by 5.9% to US\$982.9 million
- Gross margin increased from 30.8% to 31.9%
- Profit attributable to shareholders of the Company decreased by 28.7% to US\$71.4 million, mainly due to one-off LeapFrog integration costs
- Integration of LeapFrog largely complete
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the same period last year

**Hong Kong, 10 November 2016 – VTech Holdings Limited (HKSE: 303)** today announced its results for the six months ended 30 September 2016, reporting higher Group revenue.

Group revenue for the six months ended 30 September 2016 rose by 5.9% over the same period of the previous financial year to US\$982.9 million, with growth in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company declined by 28.7% to US\$71.4 million. The fall in profit was mainly attributable to a lower operating profit resulting from the one-off costs associated with the integration of LeapFrog, the majority of which have been taken in the first half. Basic earnings per share decreased by 28.8% to US28.4 cents, compared to US39.9 cents in the corresponding period last year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, which is the same as the dividend paid in the corresponding period last year.

“The first six months of the financial year 2017 saw an increase in Group revenue. The increase was driven by the sales consolidation from recently acquired LeapFrog Enterprises, Inc. (LeapFrog) and growth in contract manufacturing services. This offset lower sales of telecommunication products. Profitability was lower largely because of one-off costs associated with the integration of LeapFrog,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

## Costs and Operations

Gross margin increased over the same period last year. Cost of materials as a percentage of Group revenue was largely unchanged. Direct labour costs and manufacturing overhead declined, as wages in the Group's factories in China held steady and the Renminbi depreciated against the US dollar. VTech again increased efficiency by reducing the workforce through automation and process improvement.

## Segment Results

### *North America*

Group revenue in North America in the first six months of the financial year 2017 increased by 2.8% to US\$474.4 million, as higher sales of electronic learning products (ELPs) offset lower sales of telecommunication (TEL) products and contract manufacturing services (CMS). North America remains the Group's largest market, accounting for 48.3% of Group revenue.

ELPs revenue in North America rose by 26.2% to US\$187.6 million, as sales of LeapFrog products were consolidated into VTech following completion of the acquisition on 4 April 2016. Overall, sales of both standalone and platform products increased and VTech maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US<sup>1</sup>.

In standalone products, growth was driven by the core infant and toddler products. This was augmented by the launch of new Go! Go! Smart family products, which were well received by the market. In particular, the new Go! Go! Smart Wheels<sup>®</sup> Treasure Mountain Train Adventure<sup>™</sup> playset was named to Walmart's "Chosen by Kids" Top 25 Holiday List. This is the third year in a row that a Go! Go! Smart Wheels product has made the list. The playset also won recognition at the prestigious National Parenting Product Awards (NAPPA), alongside eight more VTech ELPs. Another major success was the new Go! Go! Smart Friends<sup>®</sup> Enchanted Princess Palace<sup>™</sup>, featuring the Group's proprietary MagicPoint<sup>®</sup> technology. It was included in *The Toy Insider's* "Hot 20" list as well as the TTPM "Most Wanted" holiday list.

The sales growth in platform products was driven by the launch of new products and the combined VTech and LeapFrog educational tablet offerings. The Touch & Learn Activity

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<sup>1</sup> Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of infant electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2016

Desk™ Deluxe hit the shelves of US retailers in August 2016. It features an interactive desktop and activity cards filled with engaging content including letters, numbers, music and colours. Very positively received, this product has made all of the major holiday toy lists, including the TTPM “Most Wanted” list and the NAPPA awards. The LeapFrog brand introduced to the market a new interactive learning system, LeapStart™. Helping children acquire a range of school and life skills, LeapStart has also been included in the TTPM “Most Wanted” list. In contrast, sales of Kidizoom® Smartwatch declined during the period as the product family entered its third year of sales.

Revenue from TEL products in North America decreased by 9.0% to US\$182.1 million. Although sales of commercial phones and other telecommunication products were on an upward trend, this was offset by lower sales of residential phones.

Sales of residential phones continue to be impacted by the decline in the fixed-line telephone market and orders were affected as some major retailers tightened inventory management. VTech nonetheless further increased its market share and maintained its number one position in the US residential phone market<sup>2</sup>.

Commercial phones and other telecommunication products posted good growth. Baby monitors had the strongest performance, driven by new product launches, strong sell-through and increased product placements. ErisTerminal™, VTech’s SIP (Session Initiation Protocol) based business phone system saw sales increase as distribution channels were expanded. Sales of hotel phones rose as VTech’s reputation in the hospitality sector continues to grow, enabling it to increase market share and secure new projects. New Bluetooth headsets specially designed for the professional trucker market boosted sales of cordless headsets, while ErisStation™, the Group’s conference phone with wireless microphones, saw steady growth.

CMS revenue in North America decreased by 7.1% to US\$104.7 million. The decline was the result of lower sales of professional audio equipment and communication products, which offset higher sales of solid state lighting and home appliances. Professional audio equipment experienced lower orders because of an excess inventory issue and the delay of new projects by a customer, while sales of communication products declined because of lower orders for a home security system from an existing customer. In contrast, solid state lighting recorded a sales increase as there was the sales contribution from a new customer. An existing customer transferring the production of a new series of products to VTech also supported growth. Sales of home appliances rose as there was increased demand from existing customers. The industrial products business was stable during the period.

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<sup>2</sup> Source: MarketWise Consumer Insights, LLC

## Europe

Group revenue in Europe in the first six months of the financial year 2017 was up 10.4% to US\$412.6 million, as higher ELPs and CMS sales offset a decline in TEL products. Europe is the second largest market of the Group, representing 42.0% of Group revenue.

ELPs revenue in Europe increased by 11.8% to US\$144.5 million. Growth was recorded in all the Group's key European markets, namely the UK, France, Germany, the Netherlands and Spain. During the first nine months of the calendar year 2016, VTech further strengthened its position as the number one infant and toddler toy manufacturer in France, the UK, Germany, Belgium<sup>3</sup> and the Netherlands.

Sales of standalone products in Europe grew, led by the core infant, toddler and preschool products. There were higher sales of Kidizoom camera and the Kidi line, while sales of the Toot-Toot family of products were stable and Kidizoom Action Cam saw sales decline.

Platform products also recorded growth. Sales of children's educational tablets increased with the addition of LeapFrog branded tablets, while the introduction of DigiGo<sup>®</sup> in late September 2015 added incremental sales. During the first six months of the financial year 2017, VTech started rolling out the second generation of Kidizoom Smartwatch to all its major Western European markets. The LeapFrog branded LeapStart also hit shelves in the UK in July 2016.

VTech's ELPs continued to gain wide recognition across Europe. In the UK, Toot-Toot Drivers<sup>®</sup> Gold Mine Train Set was named to the "Top Toy Predictions for Christmas 2016" by Argos. In France, the singalong microphone set Kidi Super Star, the interactive doll Little Love<sup>®</sup> Cuddle and Care, as well as DigiArt Creative Easel<sup>™</sup> all won "2016 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine.

TEL products revenue in Europe decreased by 15.3% to US\$63.0 million on lower sales of residential phones, commercial phones and other telecommunication products.

Sales of residential phones declined as the fixed-line telephone market contracted further and the weak Euro reduced the purchasing power of the Group's customers.

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<sup>3</sup> Source: Ranking for France, the UK, Germany and Belgium are based on total retail sales (NPD Group, Retail Tracking Service) of infant and toddler toys for the calendar year ending September 2016

In commercial phones and other telecommunication products, sales of CAT-iq (Cordless Advanced Technology—internet and quality) handsets were lower as a key customer changed its sales and marketing strategy on product bundling, while sales of SIP phones, baby monitors and IADs (integrated access devices) were affected by the delayed launch of new products by customers. During the first half of this financial year, VTech started shipping fixed-line telephones specially designed for the hearing impaired to several European customers, tapping the demand of this unfulfilled market.

CMS revenue in Europe rose 20.6% to US\$205.1 million on broad based growth, offsetting slightly lower sales of home appliances and communication products. Significant sales growth of hearables was mainly due to the successful launch of the world's first wireless smart earphones by a new customer. Sales also benefited as customers' products were well received by the market. In professional audio equipment, more orders were secured for USB audio interface products, offsetting a reduction in demand for mixers. Switching mode power supplies saw a temporary boost in sales despite the customer's change of ownership. Industrial products were supported by higher sales of smart meters in the UK market as utility suppliers, backed by Government regulation, began to encourage households to install the units to track their consumption patterns. During the first six months, the Group started shipping hearing aids products to a European customer, driving growth in medical and health products.

#### *Asia Pacific*

Group revenue in Asia Pacific increased by 17.1% to US\$69.9 million in the first six months of the financial year 2017 as sales of all product lines rose. The region accounted for 7.1% of Group revenue.

ELPs revenue in Asia Pacific was up 17.9% to US\$24.4 million, driven by sales increases in Australia and Korea, which offset declines in China and Japan. Australia posted significant growth on stronger sales and marketing efforts following the establishment of VTech's own sales office in the country, while LeapFrog products also made a contribution. Sales in the Korean market benefited from more product launches and an increased sales effort. In China, sales in local currency terms showed modest growth but retreated slightly in US dollar terms due to the depreciation of the Renminbi. Sales to Japan were affected by excess inventory at one customer.

TEL products revenue in Asia Pacific increased by 0.6% to US\$16.6 million as higher sales in China and India offset lower sales in Australia, while those to Japan were stable. In China, VTech began shipping its hotel phones to one of the top luxury hotel chains, while in India the Group won more orders for cordless phones from a key customer. Sales declined in Australia due to the contraction of the market for fixed-line telephones, but VTech continued to gain market share.

CMS revenue in Asia Pacific grew by 28.4% to US\$28.9 million. Higher sales were recorded for home appliances, medical and health products, solid state lighting and professional audio equipment, whereas sales of hearables and communication products registered a decline. Home appliances benefited from the good sell-through of a customer's products, while the medical and health products business was boosted by higher sales of parts for ultrasound machines. The sales growth of solid state lighting was driven by increased demand in China. Professional audio equipment saw increased orders from existing customers.

### *Other Regions*

Group revenue from Other Regions in the first half of the financial year 2017 fell by 21.5% to US\$26.0 million, as higher sales of ELPs were insufficient to offset the declines in TEL products and CMS. Other Regions, which include Latin America, the Middle East and Africa, represented 2.6% of Group revenue.

ELPs revenue in Other Regions rose by 6.8% to US\$9.4 million. Higher sales were achieved in the Middle East and Africa, offsetting a sales decline in Latin America.

TEL products revenue in Other Regions declined by 31.6% to US\$16.2 million, led by lower sales in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US\$0.4 million, as compared to US\$0.6 million in the same period last year.

### **Snom Acquisition**

On 21 October 2016, VTech announced that it had entered into a binding definitive agreement to acquire 100% of the share capital of Germany's Snom Technology AG (Snom) for approximately US\$15 million. Snom is the pioneer and a leading brand of professional and enterprise VoIP (Voice over Internet Protocol) telephones. The main synergies of the acquisition are in hardware and software development, expanded sales channels in VoIP telephony and improvements in operational efficiency. The transaction will be financed through internal resources and is subject to the approval of the relevant regulatory authorities.

### **Outlook**

With the good momentum behind ELPs and CMS, and sales of TEL products anticipated to pick up in the second half, management is expecting Group revenue for the full year to increase. Profitability is expected to improve in the second half as Group revenue will be

higher, while the majority of the LeapFrog integration costs has already been incurred in the first half results.

ELPs revenue is forecast to be higher year-on-year as sales of both standalone and platform products are expected to grow.

Supplemented by contributions from LeapFrog branded products, the positive trend of infant, toddler and preschool standalone products will continue. Growth will also be supported by VTech's award-winning Go! Go! Smart family of products, especially from the expanded Go! Go! Smart Friends line and the newly launched Go! Go! Smart Sea World line. New products for the Kidi and Little Love lines will also provide additional growth.

Sales of platform products will be supported by a broadened portfolio of VTech and LeapFrog branded products, including educational tablets from both brands. VTech branded platform sales will be driven by Touch & Learn Activity Desk Deluxe, the launch of Kidizoom Smartwatch DX in the Group's key European markets, as well as DigiGo. For the LeapFrog brand, the newly launched LeapStart is expected to make a good contribution, augmented by LeapReader™.

Sales of TEL products are expected to pick up in the second half as the growth in commercial phones and other telecommunication products accelerates.

In commercial phones, the acquisition of Snom will boost sales worldwide by bringing an immediate sales contribution, strengthening the product portfolio, expanding VTech's global sales channels and adding new interoperability and technology partners. This will be augmented by the shipment of SIP terminals to a major Korean customer in the fourth quarter of the financial year 2017. Sales of CAT-iq handsets will also increase as VTech will start shipping the handsets to one of the largest US wireless communication service providers. Sales of hotel phones are on track to rise, with the Group gaining further market share and winning new projects.

Sales of other telecommunication products are expected to increase due to a number of factors. Sales of baby monitors in the US will grow further, driven by increased product placements and new products, including the launch of a model featuring cutting-edge video technology that will hit the shelves in March 2017. The Group will also introduce VTech branded baby monitors to the Eastern European markets, while more units will be shipped to Western Europe. Wireless monitoring system sales will benefit from the expansion of the product range, as VTech introduces its first remote access IP camera to the US market in the fourth quarter of this financial year. Furthermore, shipment of IADs in Europe will resume growth.

The residential phones business will remain slow worldwide, but VTech will continue to increase its market share in North America and Australia.

The good performance of CMS will continue, although growth in the second half is expected to moderate slightly. The professional audio business should stabilise as the customer's excess inventory issue has been resolved. Hearables, industrial products, solid state lighting and medical and health equipment will all achieve growth. Hearables will sustain their positive trend as customers' products continue to perform well in the market, while industrial products will benefit from the policy to install smart meters in UK households. Solid state lighting will be supported by orders from the new customer and the transfer of the production of the new product series by an existing customer. In addition, VTech will move from the manufacturing of parts to producing entire ultrasound machines for a customer in Japan, which will boost growth in medical and health products. However, the switching mode power supplies business faces uncertainty due to the change of ownership of a customer.

With VTech CMS manufacturing more hearing aids products, as well as other medical and health products, new strategic business units have been set up to manage the expected growth.

In the last annual results, the Group announced that CMS had acquired the fixed assets of a company that manufactures high precision metal tooling and parts. Contribution from this acquisition will start in the fourth quarter of this financial year.

"The financial year 2017 has got off to a solid start. With the integration of LeapFrog now largely completed and Group revenue expected to rise, the second half will see an improvement in profitability. Moving forward, VTech will continue to strive for product innovation, gains in market share, geographic expansion and operational excellence to enhance shareholder value," said Mr. Wong.

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### **About VTech**

VTech is the global leader in electronic learning products from infancy to preschool and the world's leading manufacturer of cordless phones. It also provides highly sought-after contract manufacturing services. Founded in 1976, VTech has been a pioneer in the electronic learning toy category with cutting-edge and innovative products that provide fun and learning to children across the world. By leveraging decades of success, VTech provides a diverse collection of telecommunication products that elevate the consumer experience with state-of-the-art technology and design. The Group is also one of the world's leading electronic manufacturing service providers, offering world-class, full turnkey services to customers in a number of product

categories. The Group's mission is to design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating sustainable value for its stakeholders and the community. Please visit [www.vtech.com](http://www.vtech.com) for further information.

**Note: Starting from 22:30, 10 November 2016 (HKT), the video archive of the 2016/2017 interim results announcement can be accessed through VTech website via this link <https://www.vtech.com/en/investors/financial-briefings/>.**

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