

## **FOR IMMEDIATE RELEASE**

### **VTech Announces 2023/2024 Interim Results**

*Higher profit as operating expenses decreased and gross margin improved*

- Group revenue decreased 2.1% to US\$1,140.9 million
- Gross profit margin rose from 28.3% to 28.5%
- Profit attributable to shareholders of the Company increased 14.1% to US\$93.6 million
- Interim dividend of US17.0 cents per ordinary share, unchanged
- Uncertain economic environment leading to a more conservative full year outlook
- Financial position remains strong

**Hong Kong, 15 November 2023 – VTech Holdings Limited (HKSE: 303)** today announced its results for the six months ended 30 September 2023, reporting an increase in profit.

“VTech reported an increase in profit in the first half of the financial year 2024 despite a slight decline in revenue, as operating expenses decreased and gross profit margin improved. There was a particularly strong performance by the Group’s contract manufacturing services (CMS), which achieved record first-half revenue,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

#### **Results and Dividend**

Group revenue for the six months ended 30 September 2023 decreased by 2.1% to US\$1,140.9 million, from US\$1,164.8 million in the corresponding period last year. Lower sales in North America, Europe and Other Regions offset higher sales in Asia Pacific.

Profit attributable to shareholders of the Company rose by 14.1% to US\$93.6 million. The growth in profit was mainly attributable to lower operating expenses, as selling and distribution costs declined. This was supported by a modest improvement in gross profit margin.

Basic earnings per share increased by 13.8% to US37.0 cents, compared to US32.5 cents in the same period of the previous financial year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the dividend declared in the first half of the financial year 2023.

## **Costs**

The Group's gross profit margin in the first six months of the financial year 2024 was 28.5%, as compared with 28.3% in the same period of the previous financial year.

The improvement came as freight costs and inventory provisions fell. Direct labour costs and manufacturing overheads also declined, as a result of the depreciation of Renminbi against the US dollar, increased automation and a reduction in the factory workforce. These gains offset two negative factors. Cost of materials as a percentage of Group revenue rose despite lower materials prices, following a change in product mix. The depreciation of most currencies against the US dollar during the period also had a negative impact.

## **Segment Results**

### ***North America***

Group revenue in North America decreased by 7.7% to US\$489.4 million in the first six months of the financial year 2024. Higher sales of CMS were offset by lower sales of electronic learning products (ELPs) and telecommunication (TEL) products. North America remained VTech's largest market, accounting for 42.9% of Group revenue.

ELPs revenue in North America declined by 21.8% to US\$208.4 million. The decrease was primarily driven by lower sell-through. The unfavourable year-on-year comparison is also due to the advancement of some customer shipments in the comparable period of last year to compensate for logistics delays. During the first nine months of the calendar year 2023, the Group maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada<sup>1</sup>.

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<sup>1</sup> Circana, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, toddler figure and playset, walker, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ended September 2023

Sales of standalone and platform products decreased for both the VTech and LeapFrog brands. In standalone products, at VTech, growth in the Go! Go! Smart family of products, Switch & Go® Dinos and the Kidi line was insufficient to compensate for the declines in infant, toddler and preschool products, the KidiZoom® range, Marble Rush® and eco-friendly toys. At LeapFrog, higher sales of eco-friendly toys were offset by lower sales of infant, toddler and preschool products, LeapLand Adventures™ and Magic Adventures™ Microscope.

In platform products, lower sales of KidiZoom Smartwatches, Touch & Learn Activity Desk™ and KidiBuzz™ led to an overall decrease in sales of VTech platform products. Sales of LeapFrog platform products also declined, as those of children's educational tablets, interactive reading systems and Magic Adventures Globe all decreased. Subscription revenue from LeapFrog Academy™ was also lower.

Many innovative new products were launched during the period to strengthen the VTech standalone products ranges. Core learning products in the baby, infant, toddler and preschool categories saw a number of additions. The new Storytime with Sunny™ and Style & Glam On Unicorn™ bring a variety of learning activities to younger children, while introductions in the baby category included four new products, namely 6-in-1 Tunnel of Fun™, Snuggle & Discover Baby Whale™, Prop & Play Tummy Time Pillow™ and 2-in-1 Roll & Discover Roller Drum™. A completely revamped Go! Go! Smart range was introduced, offering new playsets and vehicles, as well as new products carrying the popular licensed character CoComelon. The Switch & Go Dinos line was boosted by new dinosaur models and more eggs that “hatch” into different dinosaurs.

At LeapFrog, the award-winning Magic Adventures line built on its success with the launch of Magic Adventures Telescope. Featuring 110-times zoom and more than 100 interactive videos and images, courtesy of NASA, it allows children to develop their STEAM (science, technology, engineering, the arts and mathematics) skills and make discoveries about the universe. LeapFrog's range of core learning products was strengthened with new role-play toys that introduce important early learning skills, including Build-a-Slice Pizza Cart™, Rainbow Tea for Two™ and Spin & Change Apple Shape Sorter™. The range of eco-friendly toys also expanded, with the addition of three new wooden toys that blend VTech learning technology with 100% FSC-certified wood.

During the first six months of the financial year 2024, the Group's ELPs again won numerous awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in both the US and Canada. VTech Drill & Learn Workbench™ was named to Walmart's "2023 Top Toys List" in the US, while Storytime with Sunny was included in Walmart Canada's "Top Toy List for 2023". Switch & Go 3-in-1 Rescue Rex and LeapFrog Touch & Learn Wooden Activity Cube™ made *The Toy Insider's* 2023 "Hot 20" list, while Magic Adventures Telescope was included in its "STEM 10" list. Marble Rush Tip & Swirl Set™ was named to The Toy Association's "Summer Learning STEAM Toy" list.

TEL products revenue in North America fell by 16.1% to US\$103.9 million, with declines for residential phones, commercial phones and other telecommunication products.

Sales of residential phones fell because the market contraction continued during the period. In addition, shelf space reduction at a major retailer in the US resulted in lower sales of AT&T branded phones. During the period, the Group maintained its leadership position in the residential phone market in the US<sup>2</sup>.

In commercial phones, higher sales of hotel phones and Snom branded SIP (Session Initiation Protocol) phones were insufficient to offset declines for headsets and multi-line analogue phones. Sales of hotel phones rose as the market in the US continued its post-pandemic recovery. Demand for SIP phones increased after the Group successfully revitalised its go-to-market strategy for these products. Headsets, however, were affected by reduced orders from a customer, while sales of multi-line analogue phones decreased as the products made the transition to a new generation.

For other telecommunication products, sales of the Group's popular range of baby monitors held stable, although consumers were becoming more price sensitive. However, decreases in CareLine® residential phones and IADs (integrated access devices) resulted in an overall sales decline for other telecommunication products. VTech achieved an important breakthrough with the launch of the V-Care VC2105 Smart Baby Monitor in September 2023. Harnessing unique AI (artificial intelligence) capabilities, the over-the-crib Wi-Fi video monitor provides sleep analytics and real-time alerts, while allowing parents to watch over their baby at home on a 5-inch, HD (high-definition) display or remotely on their smartphone.

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<sup>2</sup> MarketWise Consumer Insights, LLC, April 2023 to September 2023

In the first six months of the financial year 2024, the Group maintained its number one position in the baby monitor market in the US and Canada<sup>3</sup>. During the same period, LeapFrog's LF2936FHD Baby Monitor was named "Touch Screen Monitor Product of the Year" in the "2023 Baby Innovation Awards".

CMS revenue in North America grew by 26.4% to US\$177.1 million as improved materials supply enabled VTech to clear a backlog of orders from customers. Growth in professional audio equipment and IoT (Internet-of-Things) products offset declines in industrial products, solid-state lighting and communication products. As a result, VTech maintained its position as the world's number one contract manufacturer of professional audio equipment in the calendar year 2022<sup>4</sup>.

Professional audio equipment saw higher sales of power amplifiers, professional loudspeakers and wireless microphones. In addition to the boost from the improved supply of materials, successful new product launches by a customer bolstered growth. In IoT products, a new customer was acquired in the field of smart home control systems, with sales starting to make a contribution during the period. Industrial products sales were down as customers faced over-inventory. Solid-state lighting sales declined as market demand softened. Sales of communication products also trended down, as the customer's products reached the end of their life cycle.

During the period, VTech CMS received a "20 Years Partnership Award" from a US customer in the industrial products category.

### ***Europe***

Group revenue in Europe decreased by 0.4% to US\$468.7 million in the first six months of the financial year 2024. Higher sales from CMS were insufficient to offset lower sales of ELPs and TEL products. Europe remained VTech's second largest market, accounting for 41.1% of Group revenue.

ELPs revenue in Europe fell by 8.2% to US\$146.2 million. As in North America, the decrease was mainly attributable to lower shipments to customers of both standalone and platform products, following the advancement of shipments in the corresponding period of last year. Weaker sell-through and the depreciation of the euro and sterling against the US dollar during the period also contributed to the sales decline. Geographically, sales in

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<sup>3</sup> Circana/Retail Tracking Service, US and Canada, VTech and LeapFrog brands combined, based on dollars and units, April 2023 – September 2023 combined vs April 2022 – September 2022 combined

<sup>4</sup> *Music Trade Magazine*, September 2023

France, the UK, Spain and the Netherlands decreased, offsetting growth in Germany. In the first nine months of the calendar year 2023, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries. The Group also regained its number one position as the largest infant and toddler toys manufacturer in Spain<sup>5</sup>.

In standalone products, both VTech and LeapFrog products reported sales declines. For VTech, higher sales of preschool products, electronic learning aids, Marble Rush and eco-friendly products were offset by lower sales of infant and toddler products, KidiZoom cameras and the Kidi line. For LeapFrog, Magic Adventures Microscope and eco-friendly toys saw sales increases, while the launch of Magic Adventures Telescope added to growth. These gains, however, were offset by declines in infant, toddler and preschool products, as well as the LeapLand Adventures range.

In platform products, the VTech and LeapFrog brands both experienced a decline. The decrease at VTech was largely due to lower sales of KidiZoom Smartwatches, children's educational tablets and the KidiCom<sup>®</sup> range of products. Sales of Touch & Learn Activity Desk held stable. For LeapFrog, lower sales of interactive reading systems and Magic Adventures Globe resulted in the overall decrease.

In the first six months of the financial year 2024, VTech was given the prestigious "Trophée de l'innovation (Innovation Trophy) 2002-2023" by a key customer in France. In addition, four VTech ELPs won "Grand Prix du Jouet 2023" awards from France's *La Revue du Jouet* magazine. The award-winning products were KissKiss, Mon toutou bisous (Kosy the Kissing Puppy) in the "Best Interactive Plush Toy" category, Switch & Go Combo – Trio, le méga T-Rex SOS 3 en 1 (3-in-1 Rescue Rex) in the "Best Transformable Vehicle" category, KidiSecrets Mon casier MagicLocker in the "Best Electronic Game" category and Genius XL – Télescope Vidéo Interactif (Magic Adventures Telescope) in the "Best Scientific Toy" category.

Revenue from TEL products in Europe decreased by 5.6% to US\$43.7 million. Residential phones, commercial phones and other telecommunication products all saw declines.

In residential phones, sales of VTech branded phones grew as the Group expanded into France and Italy, while increasing sales in the UK and Germany. This growth was, however, offset by lower shipments to ODM (original design manufacturing) customers, as they experienced over-inventory during the period.

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<sup>5</sup> Circana, Retail Tracking Service, January 2023 – September 2023

The decline in commercial phones was mainly due to lower sales of hotel phones and headsets. Sales of Snom branded SIP phones held stable. The more advanced D8 SIP desksets have been well-received by customers because of their HD LCD (liquid crystal) display, attractive aesthetics and superior quality, despite their higher price point. Meanwhile, the D7 series, which is positioned as a value product, was expanded further to meet market demand. As a result, the Snom brand now offers a complete range of SIP products from entry to premium level.

In contrast, sales of hotel phones declined, because keen competition made growth challenging despite a pick-up in the market as travel gradually returned to pre-pandemic levels. Distribution of hotel phones in the region was, however, strengthened by the addition of Snom Technology GmbH (Snom) as a distribution channel in continental Europe. Sales of headsets posted a decline as an ODM customer reduced orders.

For other telecommunication products, growth in baby monitors was insufficient to compensate for a drop in CareLine residential phones, CAT-iq (Cordless Advanced Technology—internet and quality) handsets and IADs.

During the period, the Group's baby monitors and sleep trainers both gained recognition in the UK. For the VTech brand, there were awards for the RM7766HD and VM5463 baby monitors, as well as the BC8313 V-Hush™ Pro Soothing Sleep Trainer, in the "UKMUMS.tv Pre-school and Baby Awards 2023". At LeapFrog, the LF920HD and LF2936FHD baby monitors also gained UKMUMS.tv awards, while the LF815HD and LF1911 baby monitors picked up silver and gold respectively in the "Dadsnet Product Awards 2023".

CMS revenue in Europe rose by 5.3% to US\$278.8 million, mainly driven by the improvement in the supply of materials. 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. Sales of home appliances remained stable.

Professional audio equipment saw growth in audio mixers as market demand continued to recover, offsetting a decline for home audio interface products. Smart energy storage systems benefited from production ramping up as materials supply improved, while communication products sales increased as the customer launched new Wi-Fi routers. Growth in medical and health products was driven by higher sales of hearing aids, as

business activities continued to accelerate following the end of the pandemic. Sales of hearables declined as market demand returned to pre-pandemic levels. IoT products saw a decrease as the smart meters customer returned to a more normal sales pattern following earlier market share gains, while sales of internet connected thermostat and air-conditioning controls were little changed. Automotive products sales fell as the customer for EV (electric vehicle) chargers lost market share owing to increased competition and a delayed product launch. The Group added a new customer in the professional audio equipment category of USB streaming microphones for the professional gaming market, with hardware and software designed in-house by VTech CMS.

During the period, VTech CMS was named “Supplier of the Year” by an IoT product customer in Germany and won an “Outstanding Supplier Award” from a professional audio customer in the UK.

### ***Asia Pacific***

Group revenue in Asia Pacific increased by 12.7% to US\$171.5 million in the first six months of the financial year 2024, as higher sales of CMS offset lower sales of ELPs and TEL products. The region represented 15.0% of Group revenue.

Revenue from ELPs in Asia Pacific decreased by 16.5% to US\$35.0 million, as higher sales in mainland China were offset by declines in Australia and Japan. In mainland China, both online and offline channels posted sales increases. This was mainly due to the resumption of activities after the lifting of COVID restrictions. The resulting recovery in sales of core learning products drove the growth. In June, Magic Adventures Microscope was shortlisted for the Innovation Design Awards in the 2023 CBME (Children Baby Maternity Expo). Sales in Australia decreased, with both VTech and LeapFrog branded products reporting declines. This was mainly due to a weakening economy resulting from higher inflation and interest rates. During the first nine months of the calendar year 2023, VTech remained the number one manufacturer in the infant and toddler toys category<sup>6</sup> in the country. In Japan, sales declined owing to lower sell-through of the jointly developed smartwatches and a decrease in sales to a major toy retailer.

TEL products revenue in Asia Pacific declined by 16.5% to US\$11.6 million, as lower sales in Japan and Hong Kong offset higher sales in Australia. In Japan, sales of residential phones were down as an ODM customer reduced orders due to over-inventory. In Hong Kong, lower sales of IADs and residential phones resulted in an overall sales decrease. In Australia, however, continued growth in baby monitors offset a sales

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<sup>6</sup> Circana, Retail Tracking Service, January 2023 – September 2023



decline for residential phones. In August, the Group's baby monitors picked up two "Bounty Baby Awards 2023". The VTech BM775HD Baby Monitor was named "Bronze Winner" in the "Best Baby Monitor" category, while LeapFrog's LF925HD Baby Monitor made the "Editors' Top 5 Picks".

CMS revenue in Asia Pacific increased by 29.6% to US\$124.9 million, as growth in professional audio equipment offset a decline in communication products. Sales of medical and health products were stable.

Sales of professional audio equipment surged as orders for DJ equipment grew significantly owing to improved materials supply. VTech also benefited from market share gains and more new product launches by the customer. In medical and health products, orders of diagnostic ultrasound systems held stable. Lower communication products sales were the result of a customer losing market share due to increased competition, leading to a decrease in orders for marine radios.

### ***Other Regions***

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 3.4% to US\$11.3 million in the first six months of the financial year 2024. The decrease came as higher sales of ELPs were offset by lower sales of TEL products. Other Regions accounted for 1.0% of Group revenue.

ELPs revenue in Other Regions increased by 3.1% to US\$6.6 million. Higher sales in Latin America and the Middle East offset lower sales in Africa.

TEL products revenue in Other Regions declined by 11.3% to US\$4.7 million. The decline was attributable to lower sales in Latin America and the Middle East, which offset growth in Africa.

CMS revenue in Other Regions was immaterial in the first six months of the financial year 2024.

## Outlook

The wars in Ukraine and the Middle East, as well as the uncertainty in the global economy, are weighing on world markets. Energy costs are volatile and in the US and Europe, interest rates are forecast to remain high. Consumer spending and business investment are consequently being cut back. In markets outside the US, the strong US dollar continues to pressure retailers. More positively, the pressure on raw materials and critical components supplies, together with freight costs, has eased considerably in recent months.

In light of the less favourable economic environment, Group revenue for the full financial year is now expected to show a slight decline. Profitability, however, remains on track to show improvement for the full year, as materials prices and freight charges trend down year-on-year. To bolster profitability further, the Group will continue to exert strict control on inventory and operating expenses. Despite this, VTech will commit resources to advertising and promotions and exercise tight management to ensure good sell-through of products in the upcoming holiday seasons.

For ELPs, full year revenue is now expected to post a decline, even though second half sales will show improvement over the first half. Faced with higher living costs, price-sensitive consumers are delaying holiday season purchases in search of bargains. The ELPs business will, however, benefit from the re-organisation of the US operations that is now complete. The new leadership team that has been put in place will be able to monitor sell-through closely and react swiftly with appropriate advertising and promotions. This will maximise sales and ensure that VTech emerges from the holiday season with a healthy level of inventory.

As ever, an exciting array of new standalone and platform products will help drive sales, adding to the recent product launches already mentioned. Magic Adventures Telescope recently garnered one of the most prestigious consumer product awards, being named as one of *Time* magazine's "Best Inventions of 2023". The product has also been awarded "Best Toy of the Year 2023" by the Spanish Association of Toy Manufacturers and named one of the Belgian Toy Federation's "Toys and Games of the Year".

The second half will see introduction of the new KidiZoom Smartwatch MAX, the latest generation of this enduringly popular product range. It features a sleek and stylish design, with a landscape display that is the ideal fit for a child's wrist. Momentum will be further strengthened by the innovative Turbo Edge Riders™, a brand-new line of racing track sets

that combines the excitement of car racing with creativity. Children can build and race through a stunt-filled course right out of the box and then expand it with repurposed shipping boxes and everyday objects to create even more epic courses.

Sales of TEL products are now forecast to be lower for the full financial year 2024. Residential phones sales in North America are anticipated to decrease for the full financial year, but in Europe the Group will benefit from the expansion of VTech branded products into new markets. In commercial phones, new product launches and the addition of Snom as a distribution channel in Europe will drive growth in hotel phones. Sales of Snom SIP phones are expected to be boosted by the new M500 series, a DECT (digital enhanced cordless telecommunications) based system that delivers superior mobility for medium-sized offices and businesses. For other telecommunication products, baby monitors will be the key driver. The new baby monitor with AI features is already on shelves in North America and VTech is increasing marketing efforts to maximise its exposure. The Group also plans to expand this range with different products offering additional features and to strengthen its go-to-market strategy.

CMS outperformed the global EMS (electronic manufacturing services) market in the first half and hence revenue for the full financial year is now expected to increase. Sales in the second half are, however, anticipated to slow down as the global economy is weakening. Customers are cautious about placing orders and are managing inventory tightly. Despite this, continued good performance is expected from professional audio equipment, hearing aids and smart energy storage systems. Orders from the new customer for smart home control systems will continue to ramp up.

“The rising geo-political uncertainties present significant challenges to global economic growth and hence to the sales outlook. VTech is in a strong position, however, with a solid balance sheet and reputable brands rooted in product innovation and operational excellence. We are therefore confident of successfully managing through these difficult times,” said Mr Wong.

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### **About VTech**

VTech is the global leader in electronic learning products from infancy through toddler and preschool and the largest manufacturer of residential phones in the US. It also provides highly sought-after contract manufacturing services. Since its establishment in 1976, VTech has been a pioneer in the electronic learning toy category. With advanced educational expertise and cutting-edge innovation, VTech products provide fun and learning to children around the world. Leveraging decades of success in cordless telephony, VTech's diverse collection of telecommunication products elevates both home and business users' experience through the latest in technology and design. As one of the world's leading electronic manufacturing service providers, VTech offers world-class, full turnkey services to customers in a number of product categories. The Group's mission is to integrate economic growth, environmental protection and social responsibility in its business strategies to design, manufacture and supply innovative and high quality products for the well-being of people and benefits of society, aiming to drive sustainable value for its stakeholders and the communities.

**Note: Starting from 22:00, 15 November (HKT), the webcast of the results announcement can be accessed through VTech website via this link <https://www.vtech.com/en/investors/financial-briefings/>**

This release is issued by VTech Holdings Limited through Golin. For further information, please contact:

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