

FOR IMMEDIATE RELEASE

VTech Announces 2021/2022 Interim Results

Lower revenue and profit despite strong demand

- Global material shortages, supply chain disruptions and rising costs affected results
- Group revenue decreased 0.8% to US\$1,114.8 million
- Gross profit margin fell from 31.8% to 27.4%
- Profit attributable to shareholders of the Company declined 37.8% to US\$76.9 million
- Interim dividend of US17.0 cents per ordinary share, remained unchanged
- Financial position remained strong

Hong Kong, 15 November 2021 – VTech Holdings Limited (HKSE: 303) today announced its results for the six months ended 30 September 2021, showing declines in revenue and profit as a result of global material shortages, supply chain disruptions and rising costs.

“The first half of the financial year 2022 was challenging for VTech. Critical component shortages, supply chain issues and disruption of production in Malaysia due to coronavirus (COVID-19) negatively impacted the Group’s manufacturing and order fulfilment, preventing VTech from meeting the strong demand for its products. This led to slightly lower revenue for the first six months. Meanwhile, soaring material prices and freight costs significantly affected the Group’s gross profit margin, resulting in a substantial decline in profit attributable to shareholders of the Company,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Results and Dividend

Group revenue for the six months ended 30 September 2021 decreased by 0.8% to US\$1,114.8 million, from US\$1,123.6 million in the corresponding period last year. Higher sales in North America were insufficient to offset lower sales in Europe, Asia Pacific and Other Regions. The revenues of all three businesses were negatively impacted by global material shortages and shipment delays.

Profit attributable to shareholders of the Company fell by 37.8% to US\$76.9 million. The decline in profit was mainly attributable to a drop in gross profit margin arising from the significant increase in costs and lower revenues from electronic learning products (ELPs) and telecommunication (TEL) products.

Basic earnings per share consequently decreased by 37.8% to US30.5 cents, compared to US49.0 cents in the same period of the financial year 2021.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the interim dividend declared in the first half of the financial year 2021.

Costs

The Group's gross profit margin in the first six months of the financial year 2022 was 27.4%, as compared with 31.8% in the same period last year.

The decline in gross profit margin was mainly attributable to higher material prices, especially of electronic components and plastic materials, as well as a drastic increase in freight costs arising from container shortages. Direct labour costs and manufacturing overheads were also higher than the same period last year, with appreciation of the Renminbi and the unstable supply of materials impacting productivity. A change in product mix also contributed to the decrease in gross profit margin.

Segment Results

North America

Group revenue in North America increased by 1.0% to US\$497.9 million in the first six months of the financial year 2022. Higher sales of TEL products and contract manufacturing services (CMS) offset lower sales of ELPs. North America remained VTech's largest market, accounting for 44.6% of Group revenue.

ELPs revenue in North America declined by 8.3% to US\$255.0 million, as material shortages and supply chain issues led to production and shipment delays, despite strong orders. This resulted in low channel inventory and the delayed availability of some new products. Both standalone and platform products experienced sales declines. During the first nine months of the calendar year 2021, the Group maintained its leadership as the

number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US¹. In Canada, VTech remained the number one manufacturer in the infant, toddler and preschool toys category².

Standalone products saw lower sales of both VTech and LeapFrog brands. For VTech, growth in the KidiZoom[®] camera and Switch & Go[®] Dinos ranges was offset by declines in the Go! Go! Smart family of products, Go! Go! Cory Carson[®] vehicles and playsets, preschool products and the Kidi line. Sales of infant and toddler products, meanwhile, held steady. The standalone products category was expanded with the introduction of KidiZoom PrintCam[™], which lets children create instant photos using cost-effective thermal paper. In addition, the introduction of the new Marble Rush[™] line added incremental sales. It allows children to build their own marble run courses or use easy-to-follow building instructions to build pre-set designs, before launching marbles to bring the playsets to life. A new range of eco-friendly toys made from plant-based and reclaimed plastics saw four new vehicles added to the Go! Go! Smart Wheels[®] line and the launch of Sort & Recycle Ride-On Truck[™].

For LeapFrog, sales of infant, toddler and preschool products were lower. The brand's offering was, however, expanded by the launch of exciting new products. LeapLand Adventures[™] is a unique plug-and-play TV video game adventure for early learners, with curriculum-based games and activities. On-the-Go Story Pal[™], a portable audio player for listening to stories, poems, songs and lullabies, also hit the shelves. It was joined by a new range of role-play toys, including Count-Along Basket & Scanner[™] and Choppin' Fun Learning Pot[™], an interactive cooking pot set that utilises plant-based plastic. The brand also launched a line of eco-friendly toys made with 100% FSC-certified wood, which kicked off with Touch & Learn Nature ABC Board[™] and Interactive Wooden Animals Puzzle[™].

Platform products recorded sales decreases for both the VTech and LeapFrog brands. At VTech, higher sales of Touch & Learn Activity Desk[™] were insufficient to offset lower sales of KidiBuzz[™] and KidiZoom Smartwatches, as the new KidiBuzz 3 and KidiZoom Smartwatch DX3 did not reach retail shelves until September owing to material supply and logistics delays. At LeapFrog, growth for Magic Adventures Globe[™] was offset by declines in children's educational tablets and interactive reading systems. To strengthen

¹ The NPD Group, 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 2021

² The NPD Group, Retail Tracking Service

the reading product offerings, the LeapStart® range saw the addition of LeapStart Learning Success Bundle™, while LeapReader® was expanded with the LeapReader Learn-to-Read 10-Book Mega Pack™.

During the first six months of the financial year 2022, the Group's ELPs won numerous awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in the US. Hover Pup™ and KidiZoom PrintCam made Walmart's "Top Rated by Kids" toy list. There were ten mentions in *The Toy Insider* Holiday Gift Guide, which additionally named Choppin' Fun Learning Pot and KidiZoom PrintCam to its "Hot 20" list. Marble Rush Ultimate Set, 100 Words About Places I Go™, KidiGo™ Basketball Hoop and Get Ready For School Learning Desk™ were among many "2021 National Parenting Product Awards" winners. Go! Go! Cory Carson, the animated preschool series inspired by VTech's popular Go! Go! Smart Wheels line, won three Daytime Emmy Awards in July 2021.

TEL products revenue in North America 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 the gradual resumption of business activities. Snom branded VoIP (Voice over Internet Protocol) phones and small to medium sized business (SMB) phones saw higher sales, supported by increased orders from value-added resellers. Sales of hotel phones also recovered. For headsets, the sales increase came from an existing customer. Other telecommunication products were boosted by rising sales of baby monitors, as the Group secured additional placements in key retailers, expanded its online presence and launched new models. In the first six months of the financial year 2022, VTech baby monitors strengthened their position as the number one brand in the US and Canada³. They also scooped up a number of awards. In the US, six models garnered "Women's Choice Awards" while in Canada, the VTech brand picked up the 2021 "BrandSpark Most Trusted Awards" in the baby monitor category, based on a survey of more than 18,000 consumers.

Sales of residential phones saw a decline as the market returned to normal following the lifting of lockdowns, during which consumers had purchased more residential phones for home use. VTech nevertheless maintained its leadership position in the US residential phones market during the period⁴.

³ The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, April 2021 – September 2021 combined vs April 2020 – September 2020 combined

⁴ MarketWise Consumer Insights, LLC, April 2021 – September 2021

CMS revenue in North America increased by 31.9% to US\$111.6 million, as the 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. Sales of professional audio equipment used in lecture theatres, music concerts and churches rose as social distancing measures were relaxed. Industrial products benefited from the resumption of business activities, boosting orders for printed circuit board assembly (PCBA) for coin and note recognition machines. Orders for industrial printers recovered as the market returned to normal. Sales of solid-state lighting rebounded as project-based demand resumed, while those of medical and health products trended higher, driven by increased orders for hearing aids. In July 2021, VTech CMS was selected as one of the “Top 10 Contract Manufacturing Services Companies-2021” by *Manufacturing Outlook* magazine.

Europe

Group revenue in Europe decreased by 0.3% to US\$485.8 million in the first six months of the financial year 2022, as higher sales of CMS were offset by lower revenues from ELPs and TEL products. Europe remained VTech’s second largest market, accounting for 43.6% of Group revenue.

ELPs revenue in Europe fell by 4.1% to US\$151.1 million, with lower sales of both standalone and platform products. Material shortages and logistics issues led to production and shipment delays. These resulted in low inventory levels, the late availability of some new products and delayed sales contributions. Geographically, sales increased in France but declined in other key markets in the region. In the first nine months of the calendar year 2021, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries⁵.

In standalone products, the LeapFrog brand achieved higher sales. Growth was led by infant, toddler and preschool products, augmented by the launch of LeapLand Adventures. For the VTech brand, higher sales of Switch & Go Dinos were offset by declines in other categories. In September, the new product line Marble Rush hit the shelves in all major European markets, adding incremental sales. During the first six months, VTech expanded its award-winning KidiZoom camera offerings with the addition of KidiZoom Video Studio HD and KidiZoom PrintCam in key European markets. Initial sell-through of both products has been good.

⁵ The NPD Group, Retail Tracking Service

For platform products, both the VTech and LeapFrog brands posted sales declines. The decrease came as material supply and logistics problems resulted in certain new products not reaching the shelves until after September, delaying their sales contributions. These included a new generation of the interactive reading systems LeapStart/Magibook® and KidiCom® Advance 3.0, a sleek, touch-screen mobile phone-like device. VTech branded children's educational tablets recorded higher sales. These, however, were offset by lower revenues from KidiZoom Smartwatches, Touch & Learn Activity Desk and KidiCom Max. For LeapFrog, sales of interactive reading systems and Magic Adventures Globe registered declines.

In the first six months of the financial year 2022, VTech ELPs won five "Grand Prix du Jouet 2021" awards given by *La Revue du Jouet* magazine in France, the highest among all manufacturers. They included Ruby Mon Chat Paillettes Magiques (Glitter Me Kitten™), Kidi DJ Mix, Funny Sunny, Marble Rush Ultimate Set and Genio My First Laptop. In the UK, Marble Rush Adventure Set and Choppin' Fun Learning Pot gained gold and silver medals respectively in the "2021 Independent Toy Awards" given by Toy Shop UK.

Revenue from TEL products in Europe decreased by 9.1% to US\$47.7 million as lower sales of residential phones offset growth in commercial phones and other telecommunication products.

In Europe, the Group sells residential phones in the region on an original design manufacturing basis. The shortage of semiconductors led to the deferral of shipments and a reduction in sales to customers.

Commercial phones and other telecommunication products benefited from the resumption of business activities as COVID-19 restrictions were eased, which led to rising sales of Snom branded business phones and a recovery in sales of hotel phones. CAT-iq (Cordless Advanced Technology – internet and quality) handsets also registered a sales increase as orders from an existing customer grew. Baby monitors, in contrast, experienced a sales decline, mainly due to the shortage of semiconductors. Despite this, VTech baby monitors made good inroads in the UK, following the launch of a new product line-up. Integrated access devices (IADs) saw the launch of a new product featuring Wi-Fi 6 in the first half of the financial year 2022. Sales of this product category were down, however, due to the shortage of semiconductors. During the period, VTech's VM5463 video baby monitor, featuring a 5-inch colour LCD screen with a pan and tilt camera, was named Best Baby Monitor – Gold Winner, Best Video Monitor – Platinum Winner and

Best Innovative Baby Monitor – Platinum Winner in the “2021 Loved by Parents Awards” in the UK.

CMS revenue in Europe increased by 3.5% to US\$287.0 million as COVID-19 restrictions eased. Sales of home appliances, IoT (Internet-of-Things) products, medical and health products, communication products and automotive related products rose, offsetting declines in professional audio equipment and hearables. Home appliances saw demand recover to pre-pandemic levels, while IoT products were boosted by the 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, while sales of automotive related products were supported by increasing orders for smart electric vehicle chargers. Although demand for hearables remained strong, sales were negatively affected by material shortages, which also reduced sales of professional audio equipment for home use.

Asia Pacific

Group revenue in Asia Pacific decreased by 8.6% to US\$119.0 million in the first six months of the financial year 2022, with lower sales of ELPs, TEL products and CMS. The region represented 10.7% of Group revenue.

Revenue from ELPs in Asia Pacific fell by 3.0% to US\$39.2 million, primarily due to lower sales in Australia and mainland China. In Australia, sales of both VTech and LeapFrog products were lower. This was due to the closure of retail stores as a result of lockdowns, as well as to material shortages and shipment delays. Despite this, in the first nine months of the calendar year 2021, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in Australia⁶. In mainland China, growth was seen in offline channels, boosted by the launch of a new range of infant and preschool products, as well as a new line of Switch & Go Dinos based on a popular animation series called Mini Force. However, this was offset by a decline in online sales.

TEL products revenue in Asia Pacific decreased by 15.8% to US\$13.3 million, as lower sales in Japan and Hong Kong offset growth in Australia. In Japan, sales were lower as orders for residential phones from an existing customer declined. In Hong Kong, lower sales of IADs resulted in an overall decrease. VTech nonetheless launched a new generation of home gateway in Hong Kong that supports Wi-Fi 6 and has a changeable faceplate, which received good market feedback. In Australia, higher sales of baby

⁶ The NPD Group, Retail Tracking Service

monitors contributed to growth in the country, offsetting a decline in residential phones. During the period in Australia, VTech's RM7764HD 7-inch smart Wi-Fi baby monitor with a pan and tilt camera was named "Best Baby Monitor 2021 – Bronze Winner" in the "Bounty Baby Award" and an "Editor's Picks Product" in the "My Child Excellence Awards 2021" given by *My Child* magazine.

CMS revenue in Asia Pacific decreased by 10.1% to US\$66.5 million, as lower sales of professional audio equipment offset increases in medical and health products. The professional audio category was affected by lower sales of DJ equipment, as production at the Group's factory in Malaysia was impacted by the COVID-19 Movement Control Order in the country. In contrast, sales of medical and health products rebounded. Orders for diagnostic ultrasound systems and hearing aids increased, as hospitals began to rebalance budgets away from COVID-19 related equipment purchases, while the resumption of business activities boosted orders for hearing aids.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 6.9% to US\$12.1 million in the first six months of the financial year 2022. The decrease was attributable to lower sales of all three product lines. Other Regions accounted for 1.1% of Group revenue.

ELPs revenue in Other Regions declined by 1.7% to US\$5.8 million. Higher sales in Latin America were offset by lower sales in the Middle East and Africa.

TEL products revenue in Other Regions decreased by 10.1% to US\$6.2 million. The decline was attributable to sales decrease in the Middle East, which offset increases in Latin America and Africa.

CMS revenue in Other Regions was US\$0.1 million in the first six months of the financial year 2022, as compared to US\$0.2 million in the corresponding period of the prior financial year.

Outlook

All the Group's three businesses enjoy a robust order book amid strong demand for its products. As channel inventory improves and new products hit the shelves, both ELPs and TEL products are expected to see sales pick up in the second half. CMS revenue, however, is forecast to decline year-on-year due to global material shortages. Overall, the Group expects full year revenue to be lower than the previous financial year. The Group's gross profit margin for the full financial year 2022 is anticipated to improve over the first half, owing to the change in product mix. Despite the improvement over the first half, the full year gross profit margin is anticipated to be lower year-on-year.

As material supply and logistics issues look set to continue in the short run, VTech has put in place a number of measures to mitigate the negative impacts. The Group is re-engineering products to lower cost and accommodate alternative parts, signing long-term contracts with material suppliers to secure stable supply, sourcing alternative shipping carriers to secure containers, as well as increasing stocks of critical components. It is also starting production earlier to allow a longer time for shipment and transportation, in order to mitigate the impact of logistics delays.

ELPs revenue is forecast to show a slight increase for the full financial year 2022. Owing to the shipment delays, some orders were postponed to the second half. Sales in North America and Europe are now gaining momentum as the entire range of new products that reached shelves in September begins to sell through and overall channel inventory improves. New content for the award-winning Go! Go! Cory Carson animation series are being launched globally throughout the Autumn and Winter. Subscriptions to LeapFrog Academy™, however, have flattened out since schools reopened. In Asia Pacific, Australia is expecting sales to rebound as lockdowns are lifted and retail stores resume trading, but overall sales in mainland China are expected to show a full year decline.

Sales of TEL products in the second half are expected to improve as compared with the first six months, driven by new product launches. However, given the ongoing global material shortages, full year revenue is hard to predict. Nevertheless, the good performance of baby monitors and recovery in commercial phones are expected to continue. The baby monitor offering will expand as the full range of LeapFrog branded baby monitors with baby care app will be launched in North America in November 2021. VHush, a smart sleep training device with 100 bed-time stories and bluetooth feature, will hit the shelf in the fourth quarter of the financial year. A new feature-rich VTech work-from-home desktop cordless telephone will also be available in the US in January 2022.

In addition, a work-from-anywhere series, whose features include an all-in-one projector and camera, a bluetooth conference speaker with audio recording function and professional headsets, will start to ship globally in the fourth quarter of the financial year. A new series of advanced Snom SIP (Session Initiation Protocol) desksets and a multi-cell SIP DECT (Digital Enhanced Cordless Telecommunications) mobility system will be rolled out in Europe in the last quarter of this financial year.

CMS revenue is expected to decline year-on-year. Despite a solid order book and a large backlog, the strong second half performance in the previous financial year will be difficult to repeat due to the global material shortages. As part of VTech's efforts to improve the situation, the Group is recommending alternative components to its customers and providing material suppliers high visibility on demand forecasts. The COVID-19 surge in Malaysia appears to have peaked, enabling the production of DJ equipment gradually to return to normal. Looking at new avenues for growth, the NPI (New Product Introduction) centre in Shenzhen has been successful in attracting new business from start-ups and is building a strong reputation in the Greater Bay Area of southern China. In April 2021, the Group completed the acquisition of a facility in Tecate, Mexico. While it continues to engage in manufacturing professional loudspeakers, once the COVID-19 situation stabilises, VTech will begin developing and expanding the EMS capability of the facility.

“Demand for the Group's products remains strong and VTech colleagues are working diligently to minimise the impact of global supply chain disruptions. Given our strong financial position and continued success in product innovation, I am confident that VTech will successfully navigate the current complexities to emerge even stronger from this extraordinary time,” 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 our business strategies to design, manufacture and supply innovative and high quality products for the wellbeing of people and benefits of society, aiming to drive sustainable value for our stakeholders and the communities.

Note: Starting from 22:00, 15 November 2021 (HKT), the archived webcast of the results announcement can be accessed through VTech website via this link

<https://www.vtech.com/en/investors/financial-briefings/>

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