

## FOR IMMEDIATE RELEASE

### VTech Announces 2022/2023 Interim Results

*Higher revenue and profit as materials supply and gross margin improved*

- Group revenue increased 4.5% to US\$1,164.8 million
- Gross profit margin rose from 27.4% to 28.3%
- Profit attributable to shareholders of the Company increased 6.6% to US\$82.0 million
- Interim dividend of US17.0 cents per ordinary share, unchanged
- Complex and volatile operating environment leading to revised full year outlook
- Financial position remains strong

**Hong Kong, 10 November 2022 – VTech Holdings Limited (HKSE: 303)** today announced its results for the six months ended 30 September 2022, showing higher revenue and profit as materials supply and gross margin improved.

“VTech achieved a solid result in the first half of the financial year 2023, recording an increase in both revenue and profit. The growth in revenue came as the supply of materials improved, leading to better order fulfilment and resulting in higher sales in North America and Asia Pacific. Profitability was buoyed by an improvement in gross profit margin,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

#### Results and Dividend

Group revenue for the six months ended 30 September 2022 rose by 4.5% to US\$1,164.8 million, from US\$1,114.8 million in the corresponding period last year. Higher sales in North America and Asia Pacific offset lower sales in Europe and Other Regions. The revenue growth was partially due to some shipments to major markets having been advanced in order to avoid logistics delays.

Profit attributable to shareholders of the Company increased by 6.6% to US\$82.0 million. The growth in profit was mainly attributable to higher gross profit margin as cost of materials, direct labour costs and manufacturing overheads decreased as a percentage of

Group revenue. The improvement in gross profit margin also reflected the positive impact of price increases during the period. The increase in profit came despite a depreciation of the major currencies against the US dollar, and a continued rise in freight and other costs.

Basic earnings per share increased by 6.6% to US32.5 cents, compared to US30.5 cents in the same period of the financial year 2022.

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 2022.

## **Costs**

The Group's gross profit margin in the first six months of the financial year 2023 was 28.3%, as compared with 27.4% in the same period last year.

The increase in gross profit margin was mainly attributable to the increase in selling prices and lower cost of materials, while direct labour costs and manufacturing overheads benefited from the productivity gains during the period. These offset the negative impact of the depreciation of the major currencies against the US dollar, as well as an increase in inventory provisions. These arose from early production and shipment of the Group's products to its overseas warehouses in order to mitigate higher freight costs and the risk of vessel capacity constraints during the peak season.

## **US-China Tensions**

Tensions between mainland China and the US have continued to mount. On 7 October this year, the US Department of Commerce published a raft of new technology restrictions on mainland China, limiting its access to certain semiconductors and chip-making equipment. There is no impact on the Group's businesses from these measures. Neither the Group's products nor the equipment used in production is affected.

## **Manufacturing Footprint**

VTech has embarked on a strategy of rationalising its manufacturing base in order to raise its competitiveness and position for further growth. The implementation of this strategy began in August 2018 with the acquisition of its first manufacturing facilities in Malaysia, at a site in Muar. Since then, the Group has expanded its production in Malaysia and to Mexico, with the acquisition of two more manufacturing facilities, in

Penang in 2020 and Tecate in 2021. The facility in Tecate, which manufactures professional loudspeakers and other electronic products for customers in North America, is now contributing revenue to contract manufacturing services (CMS). As VTech expands its production base further, its manufacturing footprint will become increasingly global.

## **Segment Results**

### ***North America***

Group revenue in North America increased by 6.5% to US\$530.5 million in the first six months of the financial year 2023. Higher sales of electronic learning products (ELPs) and CMS offset lower sales of telecommunication (TEL) products. North America remained VTech's largest market, accounting for 45.5% of Group revenue.

ELPs revenue in North America rose by 4.5% to US\$266.5 million, with a particularly strong increase in Canada. The growth was driven by higher sales of standalone products, as VTech strengthened its core learning product offerings. It also reflects the Group's success in delivering products on time and improving channel inventory, through adjusting production and shipment schedules to avoid logistics delays.

During the first nine months of the calendar year 2022, the Group maintained its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US<sup>1</sup>. In Canada, VTech strengthened its position as the number one manufacturer in the infant, toddler and preschool toys category<sup>2</sup>.

Standalone products saw sales growth for both VTech and LeapFrog branded products. For VTech, preschool products, KidiZoom<sup>®</sup> cameras, the Kidi line of products, Switch & Go<sup>®</sup> Dinos and Marble Rush<sup>™</sup> all posted higher sales. VTech's new series of learning watches featuring favourite children's characters, including Paw Patrol, Bluey and Spidey, sold especially well. These gains offset declines in infant and toddler products, as well as the Go! Go! Smart family of products.

At LeapFrog, growth was driven by higher sales of infant and toddler products, LeapLand Adventures<sup>™</sup> and eco-friendly toys, which offset a decline for preschool products. The launch of Magic Adventures Microscope<sup>™</sup> and a new licensed version of LeapLand

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<sup>1</sup> 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 2022

<sup>2</sup> The NPD Group, Retail Tracking Service, January 2022 – September 2022

Adventures added to growth. Among core learning products, the line was strengthened by items carrying overt educational values such as A to Z Learn With Me Dictionary™ and 100 Things That Go™ book. These were joined by new eco-friendly toys such as Wooden AlphaPup™, Tappin' Colours 2-in-1 Xylophone™ and Interactive Learning Easel™. A particular hit at LeapFrog was My Pal Scout Smarty Paws™, which was included in Walmart's "2022 Top Toy List" for this holiday season.

Platform products saw sales decline, mainly due to lower sales of VTech products. For the VTech brand, sales of KidiZoom Smartwatches were higher as materials supply improved. However, this was insufficient to offset lower sales of Touch & Learn Activity Desk™, while sales of KidiBuzz™ held steady. LeapFrog sales increased slightly during the period. The interactive reading systems and Magic Adventures Globe™ benefited from increased distribution and expanded content. Sales of children's educational tablets, however, posted a decline. This led to a slight fall in subscriptions to LeapFrog Academy™.

During the first six months of the financial year 2023, the Group's ELPs again won awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in the US. Eight VTech and six LeapFrog products were selected for *The Toy Insider's* 17th annual holiday gift guide. Among them, the VTech Level Up Gaming Chair™ and LeapFrog's Clean Sweep Learning Caddy™ were named to the highly coveted "Hot 20" list, highlighting the top toys of the holiday season. In addition, five products were named finalists in The Toy Foundation's "2022 Toy of the Year (TOTY) Awards". Level Up Gaming Chair and the 100 Things That Go book were vying for "Infant/Toddler Toy of the Year". VTech's DJ Beat Boxer™ and My Pal Scout Smarty Paws were both nominated for "Plush Toy of the Year". In the "Preschool Toy of the Year" category, Clean Sweep Learning Caddy was a finalist.

TEL products revenue in North America fell by 5.6% to US\$123.9 million. Commercial phones and residential phones reported sales declines, offsetting growth in other telecommunication products.

The decline in commercial phones resulted from lower sales of analog commercial phones, headsets and SIP (Session Initiation Protocol) phones. The tight supply of semiconductors led to reduced shipments of analog commercial phones, while sales of headsets decreased as a major customer reduced its orders. SIP phones experienced a sales decline owing to a delayed product launch. These declines offset growth in hotel phones. Sales of hotel phones were higher as the Group maintained a stable supply of

products and a new series with revamped designs was launched that enjoyed a good market reception.

Sales of residential phones were lower. The US residential phone market has continued to decline and shipments were constrained by the tight supply of semiconductors. Despite this, the Group regained distribution in a key retailer and strengthened its leadership position in the US residential phones market during the period<sup>3</sup>.

Other telecommunication products, which comprise baby monitors, CareLine<sup>®</sup> residential phones and integrated access devices (IADs), posted a sales increase. Baby monitors saw higher sales on increased placements in major US retailers, while the new VTech and LeapFrog ranges were well-received by the market. CareLine residential phones grew due to higher sales of VTech branded products and a customer's products. IADs benefited from increased orders from an existing customer.

During the period, LeapFrog's LF930HD baby monitor was a winner in the "2022 National Parenting Product Awards" in the US. In Canada, VTech's BC8313 V-Hush™ Pro Sleep Training Soother and RM5764HD baby monitor, as well as LeapFrog's LF815HD baby monitor, gained "Parent Tested Parent Approved Seal of Approval" awards. In the first six months of the financial year 2023, VTech strengthened its number one position in the baby monitor market in the US and Canada combined<sup>4</sup>.

CMS revenue in North America increased by 25.5% to US\$140.1 million. Growth was mainly driven by professional audio equipment and industrial products, as business activity has continued to recover following the easing of social distancing measures and as component shortages have improved. Sales of professional audio equipment grew on increased demand for power amplifiers and loudspeakers. The growth of industrial products was driven by more orders for printed circuit board assembly (PCBA) for coin and note recognition machines and electronic locks. In contrast, sales of solid-state lighting declined as a major customer reduced orders, while sales of medical and health products remained stable.

## ***Europe***

Group revenue in Europe decreased by 3.2% to US\$470.4 million in the first six months of the financial year 2023. Higher sales of ELPs were insufficient to offset lower sales of TEL

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<sup>3</sup> MarketWise Consumer Insights, LLC, April 2022 – September 2022

<sup>4</sup> The NPD Group/North America Retail Tracking Service, US & Canada, based on combined US converted dollar and unit share, April – September 2022 combined vs April – September 2021 combined

products and CMS. Europe remained VTech's second largest market, accounting for 40.4% of Group revenue.

ELPs revenue in Europe rose by 5.4% to US\$159.3 million. The increase came despite the depreciation of the euro and sterling against the US dollar during the period. Sales of standalone products grew, offsetting declines in platform products. Among the Group's key markets, France, Germany, the Netherlands and Spain posted sales increases, compensating for a decline in the UK. In the first nine months of the calendar year 2022, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries<sup>5</sup>.

In standalone products, both VTech and LeapFrog branded products reported sales increases. For VTech, preschool products, electronic learning aids, KidiZoom cameras, the Kidi line of products, Marble Rush and eco-friendly toys saw growth, offsetting declines in the Toot-Toot family of products. Sales of infant and toddler products, as well as Switch & Go Dinos, held steady. For LeapFrog, preschool products and LeapLand Adventures posted sales increases. The launch of Magic Adventures Microscope and the new licensed version of LeapLand Adventures added to growth. This offset sales declines in the brand's infant and toddler products.

Both VTech and LeapFrog platform products saw lower sales. The decline for the VTech brand was mainly attributable to lower sales of children's educational tablets, KidiZoom Smartwatches and Touch & Learn Activity Desk. This offset growth in the KidiCom<sup>®</sup> range of products. At LeapFrog, higher sales of Magic Adventures Globe were offset by lower sales of interactive reading systems.

In the first six months of the financial year 2023, VTech ELPs won four "Grand Prix du Jouet 2022" awards given by *La Revue du Jouet* magazine in France. The award-winning products were Magic Adventures Microscope, Magic Lights 3D and SuperSound Karaoke™, with Magic Adventures Microscope gaining the top "Toy of the Year" award. Magic Adventures Microscope also picked up a "Toy of the Year Award 2022" from the Dutch Toy Association in the Netherlands. In Belgium, both Magic Adventures Microscope and Smart Chart Medical Kit™ were named "Toy of the Year 2022" by the Belgian Federation of Toys. In Spain, KidiZoom PrintCam™ and Magic Lights 3D were chosen as "Best Toy of the Year 2022" by the Spanish Association of Toy Manufacturers.

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<sup>5</sup> The NPD Group, Retail Tracking Service, January 2022 – September 2022

Revenue from TEL products in Europe decreased by 2.9% to US\$46.3 million. Commercial phones and other telecommunication products saw sales declines, offsetting growth in residential phones.

Commercial phones and other telecommunication products were affected by the economic slowdown in the region, which impacted sales of Snom branded SIP phones and hotel phones. Sales of CareLine residential phones were affected by the tight supply of semiconductors, while CAT-iq (Cordless Advanced Technology—internet and quality) handsets saw a sales decline due to reduced orders from customers. By contrast, VTech’s award-winning range of baby monitors saw sales increase on the back of channel expansion and new product launches, including the introduction of LeapFrog branded baby monitors in Germany. During the period, VTech’s RM7767HD baby monitor garnered three awards in the UK’s “2022 Loved by Parents Awards”, while V-Hush Pro Sleep Training Soother was named “Best Night Light”.

The growth in residential phones in Europe was driven by increased orders from existing ODM (Original Design Manufacturing) customers and the launch of VTech branded products, with the Group increasing its penetration in the UK and successfully expanding into the German market.

CMS revenue in Europe decreased by 7.7% to US\$264.8 million. The growth from professional audio equipment, internet-of-things (IoT) products and smart energy storage systems failed to offset lower sales of hearables, medical and health products and communication products.

Sales of hearables declined as the demand for commercial headsets began to slow down as the pandemic receded, while end-market demand for the customer’s Bluetooth headsets decreased owing to keen competition. In medical and health products, growth from hearing aids failed to offset a decline in hair removal products, which were negatively affected by the tight supply of critical components. Sales of communication products decreased as the upgrading of Wi-Fi routers that had occurred during the pandemic ended, compounded by the lack of critical components that limited VTech’s ability to fulfil orders.

In contrast, sales of professional audio equipment increased, driven by higher orders for audio interface products and a recovery in demand for audio mixers following the pandemic. IoT products saw sales of smart meters, internet-connected thermostats and air-conditioning controls increase as market demand rose in response to soaring energy

prices. Despite growth being constrained by the lack of critical components, sales of smart energy storage systems also trended higher. Sales of home appliances, meanwhile, remained stable during the period.

### ***Asia Pacific***

Group revenue in Asia Pacific increased by 27.9% to US\$152.2 million in the first six months of the financial year 2023, with all three product lines reporting growth. The region represented 13.1% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 6.9% to US\$41.9 million, as higher sales in Australia and Japan offset lower sales in mainland China. In Australia, sales of both VTech and LeapFrog products reported good growth and during the first nine months of the calendar year 2022, VTech strengthened its position as the number one manufacturer in the infant and toddler toys category in Australia<sup>6</sup>. In Japan, growth came from rising sales to a major toy retailer and good sell-through of a jointly developed Smartwatch featuring the popular Japanese “Sumikkogurashi” characters. In mainland China, however, higher online sales were insufficient to offset lower sales from the offline channels. This was despite the successful launch of Marble Rush in the market and the strong performance of Magic Adventures Globe, which picked up an “Innovation Design Award” in China’s “CBME (Children Baby Maternity Expo) Awards” during the period.

TEL products revenue in Asia Pacific increased by 4.5% to US\$13.9 million. Higher sales in Japan, Hong Kong and India offset lower sales in Australia. In Japan, orders for CareLine residential phones from a customer increased. In Hong Kong, higher sales of IADs led the growth, while sales of residential phones in India increased as an existing customer placed more orders. Sales in Australia were down due to lower sales of residential phones, as the market continued to shrink, while sales of baby monitors were held back by the semiconductor shortages. In August, the VTech RM7764HD baby monitor was a “Gold Winner” in “Best Baby Monitor 2022” in Australia’s “Bounty Baby Awards”.

CMS revenue in Asia Pacific increased by 45.0% to US\$96.4 million, with good performances across all major categories. Professional audio equipment was boosted by higher sales of DJ equipment, as component shortages improved and market demand recovered following the pandemic. This offset lower orders for USB streaming microphones for online KOLs (Key Opinion Leaders). Medical and health products recorded higher sales. Orders for diagnostic ultrasound systems benefited from hospitals

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<sup>6</sup> The NPD Group, Retail Tracking Service, January 2022 – September 2022

rebalancing their budgets away from COVID-19 related equipment, while more orders were taken on for hearing aids as the supply of materials improved. Communication products sales were up, with orders for marine radios rising following a product redesign using components that are not in short supply.

### ***Other Regions***

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 3.3% to US\$11.7 million in the first six months of the financial year 2023. The decrease was attributable to lower sales of TEL products and CMS. Other Regions accounted for 1.0% of Group revenue.

ELPs revenue in Other Regions increased by 10.3% to US\$6.4 million. Higher sales in Latin America and Africa offset lower sales in the Middle East.

TEL products revenue in Other Regions decreased by 14.5% to US\$5.3 million. The decline was attributable to sales decreases in Latin America and Africa, which offset an increase in the Middle East.

CMS revenue in Other Regions was immaterial in the first six months of the financial year 2023.

### **Outlook**

The operating environment for the second half of the financial year 2023 appears complex and volatile. Rather than being transitory as forecast, high energy costs and high inflation are proving persistent. This has resulted in rising interest rates, with no sign of them peaking in the near term. Economic growth has consequently fallen sharply, with consumers becoming more price-sensitive and reducing discretionary purchases. This has caused high levels of channel inventory, leading retailers to delay orders. The strong US dollar is exerting additional pressure on retailers outside the US. The supply of some critical components, meanwhile, remains tight and logistics costs are higher than last year.

In light of this dramatic change in the operating environment, VTech is revising its full year outlook. Group revenue is now expected to post a decline year-on-year, while gross profit margin is anticipated to be stable. The Group has increased its focus on managing inventory, with higher advertising and promotional spend to ensure healthy sell-through during the holiday seasons. Cost controls are also being tightened. VTech will

nevertheless continue to invest in developing new products and expanding geographically to drive future growth.

ELPs revenue, which was forecast to show modest growth year-on-year, is now expected to decline for the full year. In both North America and Europe, retailers are tightening their inventory management and are cautious about placing new orders. VTech has well-planned advertising and promotions in place to ensure good sell-through in the upcoming holiday seasons. Good momentum, meanwhile, is expected to continue in a number of key markets, notably Canada, Australia, Germany, Spain, and the Benelux countries, as the Group gains market share and launches more new products. Sales in mainland China are expected to improve in the second half as new products hit the shelves, but overall sales for the full year are anticipated to show a decline.

The outlook for TEL products has also been lowered from the previous forecast. Full-year revenue is now projected to decrease year-on-year, although sales are expected to improve in the second half. New baby monitor models with artificial intelligence features and a revamped line of hotel phones using contemporary designs will maintain the good momentum in these product lines. Sales of commercial phones are expected to recover as new products gradually hit the shelves, including the Snom D8 series of SIP desksets, multi-cell SIP DECT mobility system and work-from-anywhere series. Residential phone sales are anticipated to pick up in the second half. An improvement in component supply will enable VTech to increase its share of the North American market further, while in Europe gains in market share will be driven by the expanded distribution of its own brand products.

CMS revenue is now projected to be stable year-on-year. In the second half, sales are expected to slow as the supply of certain critical components remains tight, while economic uncertainty is leading customers to pare back inventory. Sales of hearables for the full year are expected to decline sharply owing to lower demand for commercial and mobile headsets. However, full year growth is still forecast across most major categories and the contribution from smart energy storage systems will become significant as the complete product line enters production. The facility in Mexico is now being ramped up to meet strong demand and the CMS business is planning further rationalisation of its production base to address customer requirements. Additional process improvements are being implemented to raise productivity.

“The headwinds from the global economy are growing. However, VTech has a solid balance sheet and strong brands backed by product innovation and operational excellence. We are confident of managing the business through this challenging period and emerging as a stronger company,” 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, 10 November 2022 (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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