

FOR IMMEDIATE RELEASE

VTech Announces FY2023 Annual Results

- Group revenue declined by 5.4% to US\$2,241.7 million
- Gross profit margin was 28.3%, as compared with 28.2% in FY2022
- Profit attributable to shareholders of the Company fell by 13.6% to US\$149.2 million
- Final dividend of US42.0 cents per ordinary share, resulting in a full-year dividend of US59.0 cents per ordinary share

Hong Kong, 17 May 2023 – VTech Holdings Limited (HKSE: 303) today announced its results for the year ended 31 March 2023.

“VTech reported a decline in revenue and profit for the financial year 2023, as the challenging macro-economic environment in North America and Europe resulted in lower sales of electronic learning products and telecommunication products. This offset record revenue at contract manufacturing services as the supply of critical components improved,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Results and Dividend

Group revenue for the year ended 31 March 2023 declined by 5.4% to US\$2,241.7 million, from US\$2,370.5 million in the previous financial year. Lower sales in North America and Europe offset higher sales in Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company fell by 13.6% to US\$149.2 million. The decline in profit was mainly attributable to the decrease in revenue combined with a higher advertising and promotional spend for electronic learning products (ELPs) and telecommunication (TEL) products.

Basic earnings per share decreased by 13.7% to US59.1 cents, compared to US68.5 cents in the financial year 2022.

The Board of Directors has proposed a final dividend of US42.0 cents per ordinary share, providing a full-year dividend of US59.0 cents per ordinary share, a 13.2% decrease from the US68.0 cents declared in the previous financial year. This represents a dividend payout ratio of 99.9%.

Costs

The Group's gross profit margin in the financial year 2023 was 28.3%, as compared with 28.2% in the previous financial year. The slight increase was mainly attributable to lower cost of materials and freight charges, combined with an increase in selling prices. Direct labour costs and manufacturing overheads were also lower. However, these gains were offset by the negative impact of lower Group revenue, the depreciation of the major currencies against the US dollar, an increase in inventory provisions and a change in product mix.

Segment Results

North America

Group revenue in North America decreased by 7.8% to US\$984.8 million in the financial year 2023, as lower sales of ELPs and TEL products offset an increase at contract manufacturing services (CMS). North America remained VTech's largest market, accounting for 43.9% of Group revenue.

ELPs revenue in North America declined by 15.2% to US\$471.4 million, with sales decreases in the US and Canada. Both standalone and platform products registered lower sales, with declines in VTech and LeapFrog brands. Despite the challenges, VTech retained its leadership in electronic learning toys from infancy through toddler to preschool in the US¹. In Canada, VTech remained the number one supplier in the infant, toddler and preschool toys category².

¹ Circana (previously IRI and 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 Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2022

² Circana, Retail Tracking Service, January – December 2022

In standalone products, at VTech, sales of Marble Rush® and Kidi line products pushed higher, boosted by the launch of new items such as Marble Rush Corkscrew Rush Set™ and My First Kidi Smartwatch™. These successes were, however, insufficient to offset lower sales of infant, toddler and preschool products, KidiZoom® cameras, Switch & Go® Dinos and the Go! Go! Smart family of products. At LeapFrog, sales of LeapLand Adventures™ grew on the back of a new licensed version, as did the brand's growing range of eco-friendly toys made with wood, as well as plant-based and reclaimed plastics. The successful roll-out of Magic Adventures™ Microscope, the latest addition to the popular range of toys with a scientific learning content, also contributed additional revenue. These gains were offset, however, by lower sales of infant, toddler and preschool products.

Sales of VTech platform products declined as those of KidiZoom Smartwatch, KidiBuzz™ and Touch & Learn Activity Desk™ fell. Despite this, KidiZoom Smartwatch topped the Youth Electronics Supercategory in the US and Canada in the calendar year 2022³. LeapFrog platform products sales were lower, led by decreases in children's educational tablets, interactive reading systems and Magic Adventures Globe. Subscription revenue from LeapFrog Academy™ also declined.

During 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. LeapFrog's My Pal Scout Smarty Paws™ was named to Walmart's "Top Toy List", while VTech Level Up Gaming Chair™ and LeapFrog's Clean Sweep Learning Caddy™ made *The Toy Insider's* highly coveted "Hot 20" list of toys for the holiday season. Numerous other products from both the VTech and LeapFrog ranges garnered key awards from organisations including the National Parenting Center, Autism Live Toy & Gift Guide, Mom's Choice Awards, Academic's Choice and the National Parenting Product Awards.

TEL products revenue in North America fell by 12.7% to US\$239.9 million. The decrease resulted from lower sales of residential phones, commercial phones and other telecommunication products. This was despite a further increase in sales via online channels.

Sales of residential phones fell as the US residential phone market continued to contract and shipments were hampered by the tight supply of semiconductors in the first half of the financial year 2023. Despite this, the Group regained distribution with a key retailer and maintained its leadership position in the US residential phones market⁴.

³ Circana, Retail Tracking Service, January – December 2022

⁴ MarketWise Consumer Insights, LLC, April 2022 – March 2023

Commercial phones saw lower sales of multi-line phones, headsets and SIP (Session Initiation Protocol) phones. Production of multi-line phones was affected by tight semiconductor supply in the first half of the financial year 2023, while a major customer for headsets reduced its orders. Sales of SIP phones decreased because of a delayed product launch. These declines offset growth in hotel phones, which were buoyed by the Group's ability to maintain a stable supply of products and a well-received revamped product line featuring a more contemporary design.

Sales of other telecommunication products decreased, mainly attributable to declines in baby monitors and CareLine® products. Baby monitors saw lower sales as consumers traded down to lower-priced items owing to inflationary pressure. CareLine products, meanwhile, were affected by reduced orders from a customer and lower sales of VTech branded products.

In the financial year 2023, the Group gained market share and maintained its number one position in the baby monitor market in the US and Canada⁵. In the US, LeapFrog's LF930HD baby monitor gained recognition in the "2022 National Parenting Product Awards", while the LF925HD model made TTPM's "Best of Baby 2022 List (Category of Baby Tech)". 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.

CMS revenue in North America increased by 14.9% to US\$273.5 million. Higher sales of professional audio equipment and industrial products offset a sales decline for solid-state lighting. Professional audio equipment benefited from the continuing rebound after the COVID-19 pandemic, as demand for power amplifiers and loudspeakers rose. The growth of industrial products was driven by more orders for printed circuit board assembly (PCBA) for coin and note recognition machines. Sales of solid-state lighting registered a decline as a major customer reduced its order, while sales of medical and health products remained stable. During the financial year 2023, the business acquired new customers in IoT (Internet of Things) products and professional audio equipment, respectively for smart home control systems and audio interface accessories for electronic drums.

⁵ Circana/Retail Tracking Service, US and Canada, based on dollar and unit brand share, 12 months ended March 2023 vs. prior year

Europe

Group revenue in Europe fell by 10.5% to US\$917.0 million in the financial year 2023. The decrease was due to lower sales of ELPs and CMS, which offset higher sales of TEL products. Europe was the Group's second largest market, representing 40.9% of Group revenue.

ELPs revenue in Europe decreased by 12.0% to US\$330.1 million, with declines for both standalone and platform products. Sales declined in the Group's key European markets, namely France, the UK, Germany and the Netherlands. In the calendar year 2022, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany, Spain and the Benelux countries⁶.

In standalone products, VTech recorded higher sales of Marble Rush, electronic learning aids and eco-friendly toys. However, these were insufficient to compensate for lower sales of infant, toddler and preschool products, KidiZoom cameras, the Kidi line and the Toot-Toot family of products. At LeapFrog, sales posted a slight increase as growth in eco-friendly toys and LeapLand Adventures offset declines in infant, toddler and preschool products. The launch of Magic Adventures Microscope added incremental business.

For platform products, sales at both VTech and LeapFrog brands fell. The decline at VTech was mainly attributable to lower sales of children's educational tablets, KidiZoom Smartwatch, the KidiCom[®] range of products and Touch & Learn Activity Desk. For LeapFrog, higher sales of Magic Adventures Globe were insufficient to offset lower sales of interactive reading systems.

During the financial year 2023, VTech and LeapFrog ELPs won numerous awards across the region. These included four "Grand Prix du Jouet 2022" awards given by *La Revue du Jouet* magazine in France, where Magic Adventures Microscope won "Toy of the Year". In the Netherlands, Magic Adventures Microscope gained a "Toy of the Year Award 2022" from the Dutch Toy Association. In Spain, KidiZoom PrintCam[™] and Magic Lights 3D were chosen as "Best Toy of the Year 2022" by the Spanish Association of Toy Manufacturers. In Belgium, Magic Adventures Microscope and Smart Chart Medical Kit[™] were both named "Toy of the Year 2022" by the Belgian Federation of Toys. In the UK, Rainbow Learning Lights Mixer[™] made the "Toy Fair Hero Toys List 2023" at the British Toy & Hobby Association while the drawing robot JotBot was named one of the "Top Ten Toys for Christmas 2022" by retailer John Lewis.

⁶ Circana, Retail Tracking Service, January – December 2022

Revenue from TEL products in Europe rose by 2.8% to US\$96.4 million. Growth in residential phones and other telecommunication products offset a sales decline in commercial phones.

Sales of residential phones increased, as VTech branded phones continued to grow in the UK and Germany, and several ODM (Original Design Manufacturing) customers increased orders. Other telecommunication products also achieved a sales increase. The Group was able to meet demand for CAT-iq (Cordless Advanced Technology – internet and quality) handsets as the supply of semiconductors improved. This offset lower sales of baby monitors, CareLine products and IADs (Integrated Access Devices). During the financial year 2023, VTech baby monitors and V-Hush sleep trainers garnered three “2023 MadeforMums Awards”, three “2022 Loved by Parents Awards” and two “2022 Dadsnet Product Awards” in the UK.

By contrast, sales of commercial phones fell as growth in hotel phones was offset by declines in SIP phones and headsets. Hotel phones grew as the series with revamped designs was well-received by customers, while sales of SIP phones and headsets were negatively impacted by the economic slowdown in the region.

CMS revenue in Europe declined by 11.8% to US\$490.5 million, as lower orders of hearables and communications products offset gains in other categories.

Sales of hearables declined because orders for a customer’s Bluetooth headsets decreased as end-market demand fell due to competition, while demand for commercial headsets returned to normal levels. Sales of communication products decreased as orders for Wi-Fi routers no longer benefited from the surge in upgrading that had occurred during the COVID-19 pandemic. Professional audio equipment grew on a recovery in demand for audio mixers as events recovered with the return of normal social life. IoT products saw higher sales of smart meters as installation resumed in the UK, while demand for internet-connected thermostats and air-conditioning controls rose in response to soaring energy prices. Medical and health products saw sales of hearing aids increase, as business activity resumed after the pandemic. This offset a decline in hair removal products. Sales of home appliances remained stable, while the power supplies category saw growth from smart energy storage systems.

Asia Pacific

Group revenue in Asia Pacific rose by 23.8% to US\$315.8 million in the financial year 2023, as higher sales of TEL products and CMS offset lower revenue from ELPs. The Asia Pacific region represented 14.1% of Group revenue.

Revenue from ELPs in Asia Pacific decreased by 5.4% to US\$79.4 million, as growth in Japan was unable to offset lower sales in mainland China. Sales in Australia, meanwhile, held steady. The increase in Japan was driven by rising sales to a major toy retailer and good sell-through of jointly developed Smartwatches featuring the popular Japanese “Sumikkogurashi” and “Doraemon” characters. In Australia, sales held steady despite tougher market conditions. In the financial year 2023, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in the country⁷. Four products won awards at the Australian Toy Fair in March 2023, with Magic Adventures Microscope named “Overall Product of the Year” by the Australian Toy Association. In mainland China, sales were lower as higher online sales were insufficient to offset a sales decline in offline channels. This was despite the successful roll-out of Marble Rush and the strong performance of Magic Adventures Globe in the market.

TEL products revenue in Asia Pacific increased by 2.5% to US\$28.4 million, as higher sales in Japan offset lower sales in Australia and Hong Kong. The growth in Japan was due to more orders of CareLine products from an existing customer. In Australia, sales of residential phones declined as the market shrank, while sales of baby monitors were held back by semiconductor shortages, particularly in the first half of the financial year 2023. Hong Kong, meanwhile, was affected by reduced orders of IADs from a customer.

CMS revenue in Asia Pacific rose by 45.0% to US\$208.0 million. Sales of professional audio equipment, medical and health products and communication products were higher. Professional audio equipment benefited from a rebound in sales of DJ equipment, as the Group’s Malaysian facilities returned to full production following disruptions during the COVID-19 pandemic. Sales of medical and health products also increased. Orders for diagnostic ultrasound systems continued to rise as hospitals rebalanced budgets away from COVID-19 related equipment purchases. In communication products, orders for marine radios increased following a product redesign incorporating components not in short supply.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, grew by 10.0% to US\$24.1 million in the financial year 2023. The increase came as higher sales of TEL products offset declines for ELPs and CMS. Other Regions accounted for 1.1% of Group revenue.

⁷ Circana, Retail Tracking Service, January – December 2022

ELPs revenue in Other Regions decreased by 3.7% to US\$10.5 million. Higher sales in the Middle East were unable to offset declines in Latin America and Africa.

TEL products revenue in Other Regions rose by 24.8% to US\$13.6 million. The growth was attributable to sales increases in Latin America and the Middle East, which offset a decline in Africa.

CMS revenue in Other Regions was immaterial in the financial year 2023.

Keep Steering Towards a Sustainable Future

Despite the complex and challenging operating environment the Group is facing, as a global leader in ELPs and residential telephony, as well as a world-leading CMS provider, VTech remains steadfast in its commitment to creating sustainable value to improve the lives of people and protect the planet for future generations. It achieved meaningful progress towards sustainability in the financial year 2023.

Leveraging its 47 years of excellence in technological innovation, VTech expanded its range of eco-friendly ELPs made from sustainable materials such as recycled polyethylene terephthalate (PET) bottles, reclaimed plastics and Forest Stewardship Council (FSC) certified wood. It also introduced a series of hotel phones made from recycled PET bottles. As for sustainable packaging, over 95% of the packaging materials for its ELPs was recyclable, of which about 85% was made from recycled materials. Blister was also eliminated in about 99% of ELPs packaging.

To combat climate change and reduce its impacts on the planet, VTech increased its use of renewable energy by accelerating the installation of solar panels at its manufacturing sites, and reduced volatile organic compounds (VOCs) emission through the increasing use of waterborne paint in its products and packing. On-going programmes for energy efficiency improvement, water consumption savings and waste reduction management are also in place to preserve natural resources in factory operations.

As a responsible corporate citizen, VTech is dedicated to providing a diverse, equitable and inclusive working environment for its employees. In addition to the gender diversity of its Board of Directors, about 41% of VTech's workforce was women, with 26% of management positions held by women. VTech also promotes a culture of integrity in the workplace for its employees, and engages in ethical sourcing practices with its suppliers throughout the supply chain.

Moving forward, VTech will uphold its culture of integrity, accountability and innovation to guide the company towards a sustainable future. With its solid sustainability foundation, VTech will continue 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 the benefit of society, aiming to drive sustainable value for its stakeholders and the communities.

Reorganisation of ELPs and TEL products operations

VTech is taking steps to reorganise its ELPs and TEL products operations. The goal is to create a stronger, leaner and more efficient organisation that can bring new products to the market faster and quickly respond to changing market conditions.

As part of this effort, the US ELPs business is undergoing a structural reorganisation, with a new leadership team that will reduce the number of management layers and downsize operations. In addition, the Group will increase the productivity of its products by improving product segmentation and portfolio management, as well as expanding license partnerships to maximise sales opportunities. The Group will also strengthen its product planning and marketing through more targeted advertising and promotional spend, enhanced marketing communications and leveraging its VTech and LeapFrog brands more effectively. To support growth further, VTech will rebuild its e-commerce team to ramp up online sales and implement measures to raise supply chain efficiency.

In order to create a leaner and more efficient TEL products business, VTech is streamlining its R&D (Research and Development) function in mainland China, tightening management and accelerating new product launches. The Group is also revitalising its go-to-market strategy for commercial phones, with dedicated teams to refocus the telecommunication service provider and the VAR (Value-added Reseller) businesses. These initiatives demonstrate VTech's commitment to delivering innovative, high-quality products and services to ensure long-term success in the telecommunication products market.

Outlook

The macro-economic outlook for the financial year 2024 is uncertain, but the challenges posed by persistent inflation and high interest rates in the US and Europe look set to continue. Consumers remain price-sensitive and reluctant to make purchases, leading VTech's customers to exercise caution when placing orders and managing inventories.

In view of this, the Group targets revenue to be flat year-on-year. Profitability, however, is forecast to recover. Costs are trending down and margins will be boosted further by the actions taken at the ELPs and the TEL products businesses.

The cost trends for the financial year 2024 appear favourable. Cost of materials is expected to decrease as the recent supply issues have mostly eased, even though the supply of a relatively small number of critical components will remain tight. Direct labour costs are no longer on the rise in mainland China and there is an adequate supply of labour.

Manufacturing overheads are expected to improve. Freight costs, meanwhile, have returned to pre-pandemic levels as the global economy has slowed. The only exception is that domestic transportation costs in the US and Europe remain high.

The ELPs business is striving to achieve growth in the financial year 2024, as sales in North America and Europe recover and the business extends its geographical reach.

Growth in North America and Europe will be driven by the introduction of exciting new products across all categories. Core learning products will be strengthened by the launch of new infant, toddler and preschool items, as well as the expanded license offerings. At VTech, the toddler and preschool Go! Go! Smart/Toot-Toot family of products has been completely revamped with new playsets, cars and animals. The infusion of a new licensed character, CoComelon, into this line will add further momentum. To boost growth in the preschool vehicle category, VTech will expand its popular Switch & Go Dinos range. This recently saw the addition of new dinosaur models as well as a series of eggs that “hatch” into different dinosaurs, with more to come in this direction in the financial year 2024. The Group will also re-enter the bath and robotic toys markets to tap new avenues of growth. At LeapFrog, the focus is on invigorating existing product categories. New core learning products will be launched. There will also be innovative variations on successful themes, such as the eco-friendly toys, Magic Adventures range and role-play toys.

In addition to new product launches, a new sales office in Italy has started operations that will add incremental sales in Europe in the financial year 2024. In Asia Pacific, the Group is expected to grow in Australia and a strong sales recovery is anticipated in mainland China following the easing of COVID-19 restrictions.

Although the uncertain market conditions make forecasting difficult, TEL products revenue is projected to be higher in the financial year 2024. Sales of commercial phones are expected to increase, with growth in the Snom D8 series of SIP desksets, the multi-cell SIP DECT (Digital Enhanced Cordless Telecommunications) mobility system and the work-from-anywhere series, as the Group rolls out these products to more markets. This will be augmented by rising sales of the hospitality category led by hotel phones, following the addition of a new, advanced wireless thermostat designed for hotels.

For residential phones, growth in Europe is expected to offset a sales decline in the US, where the market continues to contract. VTech branded residential phones are expected to continue to grow their market share in the UK and Germany, while expanding to France, Italy and Spain via online channels. This will drive an overall sales increase for residential phones.

Other telecommunication products will benefit from a recovery in baby monitors. VTech's leadership in North America will be strengthened by continued good sell-through of VTech branded products and growing sales of LeapFrog branded premium baby monitors. This will be supported by new product launches. A smart Wi-Fi baby monitor using AI (Artificial Intelligence) technology, featuring face-covering and roll over monitoring, will hit the shelves in North America by July 2023.

CMS revenue is forecast to be stable, as customers remain cautious in placing orders and managing inventories in view of global economic uncertainties. Sales of the key product categories, namely professional audio equipment, industrial and medical and health products are expected to remain largely stable. Growth will be seen in the areas of smart energy storage systems and smart home control systems, where customers are launching new products. After a two-year period of decline, sales of hearables are expected to stabilise. Work to complete the implementation of Industry 4.0 in the manufacturing facilities in mainland China will continue, while the Mexican facility is on track to offer full turnkey EMS (Electronics Manufacturing Services) capability by December 2023.

"The reorganisations underway at our ELPs and TEL products operations will result in tighter, leaner management. This will allow us to leverage our brands and core competence more effectively and develop competitive, innovative products. CMS, meanwhile, is creating a more technology-driven and globally diversified manufacturing base. Although it has been a challenging twelve months, therefore, we are confident of a solid recovery in the financial year ahead," said Mr Wong.

~ End ~

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, 17 May (HKT), the 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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