

FOR IMMEDIATE RELEASE

VTech Announces 2019/2020 Interim Results ***Higher revenue and profit with improved margins***

- Group revenue increased by 12.0% to US\$1,124.1 million
- Profit attributable to shareholders of the Company rose by 31.0% to US\$118.0 million
- Gross margin increased from 29.5% to 30.7%
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding period last year
- Rationalisation of manufacturing base

Hong Kong, 11 November 2019 – VTech Holdings Limited (HKSE: 303) today announced its results for the six months ended 30 September 2019, showing an increase in revenue and profit, as well as an improvement in margins.

“The first six months of the financial year 2020 saw VTech achieve an increase in both revenue and profit. Revenue rose on higher sales to North America, Europe and Asia Pacific, while lower costs and higher operational efficiency boosted profits. The US tariffs had no negative impact on the financial results in the period,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Results and Dividend

Group revenue for the six months ended 30 September 2019 increased by 12.0% to US\$1,124.1 million, as higher sales in North America, Europe and Asia Pacific offset lower sales in Other Regions.

Profit attributable to shareholders of the Company rose by 31.0% to US\$118.0 million. This was attributable to higher revenue and gross profit, lower operating expenses as a percentage of Group revenue, as well as a fair value gain on an investment in a company that designs and distributes integrated circuit products.

Basic earnings per share increased by 31.0% to US46.9 cents, compared to US35.8 cents in the first six months of the previous financial year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the interim dividend declared in the corresponding period last year.

Costs

The Group's gross profit margin in the first six months of the financial year 2020 increased to 30.7%, from 29.5% in the corresponding period last year. Materials prices were lower, while direct labour costs and manufacturing overheads benefited from the depreciation of the Renminbi. In addition, the Group achieved further productivity improvements.

US-China Trade Tensions

The first half of the financial year 2020 saw continued trade tensions between the US and China, with further tariffs on imports announced and introduced by both countries. A number of the Group's contract manufacturing services (CMS) customers became affected when List 3 came into force in September 2018. VTech residential phones, which fall under List 4A, have been subject to tariffs since 1 September 2019. If List 4B comes into force on 15 December 2019, virtually all VTech products manufactured in mainland China for export to the US would be subject to US tariffs.

The Group took various measures to mitigate the impact of the tariffs on its businesses during the period. Production of electronic learning products (ELPs) and telecommunication (TEL) products was accelerated, so that the majority of such products for the US market were shipped before the tariffs came into effect. For the CMS business, it is the customers themselves who bear the additional tariff cost, and most of those affected have been transferring production to the Group's manufacturing facilities in Malaysia.

Segment Results

North America

Group revenue in North America rose by 11.0% to US\$521.9 million in the first six months of the financial year 2020 as higher sales of ELPs and CMS offset lower sales of TEL products. North America remained VTech's largest market, accounting for 46.4% of Group revenue.

ELPs revenue in North America increased by 20.1% to US\$253.2 million, with sales rising for both LeapFrog and VTech branded products. The increase resulted from strong growth in both Canada and the US, with the US additionally benefiting from the accelerated shipment of products ahead of the tariffs. During the first nine months of the calendar year 2019, the Group strengthened its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada¹.

Growth in standalone products was supported by higher sales of both LeapFrog and VTech branded products. LeapFrog standalone products posted a significant sales increase, buoyed by rising sales of infant, toddler and preschool products. Among the new items launched, Smart Sizzlin' BBQ Grill™, LeapStory™ and Learn & Groove® Dancing Panda™ sold particularly well. This strong performance was supported by the introduction of LeapBuilders® to the North American market, allowing the Group to expand into the building sets category.

For the VTech brand, growth was led by higher sales of infant, toddler and preschool products. This was driven by the introduction of new items such as Mix & Match-a-Saurus™ and Myla the Magical Unicorn™, along with the good performance of preschool licensed products. The Kidi line of products also saw solid growth. These successes offset a decline in the Go! Go! Smart family of products.

Platform products too registered higher sales, driven by growth in VTech platform products. Sales of the Kidizoom® Smartwatch range and Touch & Learn Activity Desk™ Deluxe were higher, offsetting a decline in KidiBuzz™. Sales of LeapFrog platform products were lower, due to sales declines for children's educational tablets, the LeapStart® line of interactive learning systems and LeapReader®. These decreases, however, were partially offset by launches of two new products, RockIt Twist™, a handheld gaming system targeting children aged four to eight years, and LeapStart Go, a complete learning system that brings books to life. Subscriptions to the LeapFrog Academy® continued to grow steadily.

¹ Source: 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 ending September 2019

During the first six months of the financial year 2020, the Group's ELPs again received numerous awards from toy and parenting industry experts, key retailers and toy advisory boards in both Canada and the US. Myla the Magical Unicorn and Mix & Match-a-Saurus were both included in Walmart's "Top Rated by Kids" toy list, while RockIt Twist was in Target's "Bullseye's 2019 Top Toy's List". Eight products made *The Toy Insider's* "2019 Holiday Gift Guide", including LeapBuilders ABC Smart House™ and Myla the Magical Unicorn. Myla the Magical Unicorn and LeapStart Go were also featured in Amazon's "2019 Top 100 Toys". In Canada, RockIt Twist and Myla the Magical Unicorn were named to Walmart's list of "Top Toys for 2019".

TEL products revenue in North America was 4.3% lower at US\$125.6 million, as residential phones, commercial phones and other telecommunication products all registered lower sales. During the period, VTech strengthened its leadership position in the US residential phones market².

Sales of residential phones declined owing to the continued contraction of the fixed-line telephone market in the US. The rate of sales decline slowed, however, as VTech recouped some lost market share and became the sole supplier to some key retail customers.

Commercial phones and other telecommunication products saw a decrease, as lower sales of headset products, hotel phones and small to medium sized business (SMB) phones offset growth in VoIP (Voice over Internet Protocol) phones and conference phones. Sales of baby monitors remained stable during the period. The Group's new series of products under the Snom brand are gaining traction, contributing to overall growth for its VoIP phones. Although sales of headset products declined as an existing customer faced an issue with excess inventory, this was partially offset by a new customer launching a mobile phone station during the period. Sales of hotel phones declined in the face of keen competition. The Group's current range of SMB phones has reached the end of its life cycle, leading to a downtrend in sales.

CMS revenue in North America rose by 11.9% to US\$143.1 million. The increase was attributable to growth in professional audio equipment, medical and health products and solid-state lighting. This offset a sales decline in communication products, while sales of industrial products were stable. Professional audio equipment grew as VTech cleared a backlog of orders for a customer following an improvement in the supply of materials, while another customer was buoyed by the good market response to its products. Growth in medical and health products was driven by higher sales of hearing aids, as a customer

² Source: MarketWise Consumer Insights, LLC

transferred part of its in-house production to VTech, which now manufactures finished products rather than printed circuit board (PCB) assembly. Solid-state lighting benefited from the addition of a new customer, while sales of communication products declined as the customer's product reached the end of its life cycle.

Europe

Group revenue in Europe increased by 10.0% to US\$440.6 million in the first six months of the financial year 2020, as higher sales of ELPs and CMS offset lower revenue from TEL products. Europe was VTech's second largest market, accounting for 39.2% of Group revenue.

ELPs revenue in Europe rose by 12.9% to US\$145.7 million, with higher sales of both standalone and platform products. Despite weak European currencies, growth was supported by new product lines, which have been well received by the market. With the logistics issues that affected the business in continental Europe in the first half of the previous financial year resolved, France, Germany and Spain all recorded higher sales. In the UK, the uncertain political and economic environment, along with tough market conditions, resulted in lower sales in the country. In the first nine months of the calendar year 2019, VTech was the number one infant and toddler toy manufacturer in France, the UK, Germany, Spain and the Benelux countries³.

In standalone products, both the VTech and LeapFrog brands posted growth. Growth in VTech came from higher sales of infant, toddler and preschool products, Kidizoom Camera and the Kidi line of products. These increases compensated for declines in the Toot-Toot family of products. LeapFrog also saw rising sales of infant, toddler and preschool products in the first half of the financial year 2020, owing to new product launches.

Platform products achieved growth across both brands. For VTech, there were higher sales of Kidizoom Smartwatches, KidiCom™ MAX and Touch & Learn Activity Desk. Growth for LeapFrog was driven by higher sales of the LeapStart interactive learning system, augmented by the introduction of LeapStart Go and RockIt Twist.

During the period, VTech ELPs won several important awards in Europe. Kidizoom Pixi™ was named "Best Electronic Toy" in the "Grand Prix du Jouet 2019" award from *La Revue du Jouet* magazine in France, while in Spain, the Spanish Association of Toy Manufacturers named Kidizoom Touch 5.0 and Turbo Force® Racers Race Track "Best Toy of the Year

³ Source: NPD Group, Retail Tracking Service

2019” in their respective categories of Electronic Toys and Vehicles, Radio Control and Tracks. In the UK, Hop-a-Roo Kangaroo and KidiGear™ Walkie Talkies gained, respectively, gold and silver medals in the “2019 Independent Toy Awards” given by Toy Shop UK.

Revenue from TEL products in Europe decreased by 8.2% to US\$57.3 million in the first six months of the financial year 2020. Sales of residential phones continued to decline, offsetting growth of commercial phones and other telecommunication products.

Sales of residential phones registered a decline, as the fixed-line telephone market contracts. In addition, a number of existing customers reduced orders to the Group during the period.

Commercial phones and other telecommunication products saw growth. Sales of VoIP phones continued to grow steadily as the new line of Snom products gains traction. CAT-iq handsets were boosted by the addition of a new customer in Germany, while the CareLine range saw increasing orders from a number of existing customers. The baby monitors and hotel phones businesses remained stable. Sales of integrated access devices (IADs) were lower, however, as a customer reduced orders.

CMS revenue in Europe grew by 13.7% to US\$237.6 million, with an increase across the board. Professional audio equipment benefited from three factors. The market reception has been good for a customer’s new generation of products, a new customer has been added and, as for the US, a backlog of orders has been cleared for a major customer. Hearables saw good sell-through of customers’ products and more new projects were won from a major customer. Sales of IoT (Internet of Things) products grew on the back of more orders for internet-connected smart thermostats and air-conditioning controls. With an increasing number of installations by UK households wanting to track their energy consumption, the growth from smart meters was significant. In communication products, production of network routers for an existing customer was ramped up. Medical and health products saw higher sales of hearing aids following the decision by the customer to allow VTech to manufacture finished products rather than only handle PCB assembly. In addition, the Group gained a new customer in the field of hair removal products.

Asia Pacific

Group revenue in Asia Pacific increased by 26.6% to US\$141.9 million in the first six months of the financial year 2020, as higher sales of ELPs and CMS offset lower sales of TEL products. The Asia Pacific region rose to 12.6% of Group revenue.

Revenue from ELPs in Asia Pacific increased by 9.6% to US\$44.6 million, led by continued growth in mainland China and Australia. In mainland China, there was further growth of the KidiSchool line, which targets the early education segment. There were also increasing sales to maternity-infant-child specialty retailers and an e-commerce retailer. In Australia, several new customers were added and there was also further expansion of sales channels. This supported a strong sell-through of both the VTech and LeapFrog product lines.

TEL products revenue in Asia Pacific declined by 23.5% to US\$13.7 million. Higher sales in Hong Kong were insufficient to offset lower sales in Australia, Japan and Malaysia. In Hong Kong, sales were higher because of increased orders for IADs from an existing customer. In Australia, the continued contraction of the fixed-line telephone market led to lower sales of residential phones, offsetting growth in baby monitors. Sales in Japan declined owing to reduced shipment to a customer who faced financial problems. Excess inventory at one customer led to lower sales in Malaysia.

CMS revenue in Asia Pacific increased by 56.3% to US\$83.6 million as sales of professional audio equipment and medical and health products continued to rise, offsetting a sales decline in communication products. Sales of professional audio equipment were boosted by the addition of sales from the DJ equipment business that formed part of the acquisition of the production facilities in Malaysia. The acquisition was completed on 20 August 2018 and hence a full six months' contribution was recorded for the first half of the financial year 2020, as against less than two months' contribution in the first half of the financial year 2019. Medical and health products benefited from more orders for diagnostic ultrasound systems and hearing aids. Sales of marine radios, in contrast, recorded a decline.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 5.7% to US\$19.7 million in the first six months of the financial year 2020. ELPs and TEL products saw sales declines, while CMS registered growth. Other Regions accounted for 1.8% of Group revenue.

ELPs revenue in Other Regions declined by 1.1% to US\$9.1 million for the period. Higher sales in the Middle East were offset by lower sales in Latin America and Africa.

TEL products revenue in Other Regions decreased by 16.7% to US\$9.5 million. The decline was attributable to sales decreases in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US\$1.1 million in the first six months of the financial year 2020, as compared to US\$0.3 million in the corresponding period of the last financial year.

Outlook

Group revenue for the full financial year 2020 is forecast to increase year-on-year. The growth rate will moderate in the second half, however, as some of the Group's second half shipments of ELPs and TEL products to US customers were brought forward into the first six months, in order to avoid the new tariffs. ELPs and CMS are both expected to record higher revenues for the full year. Although TEL products revenue is expected to be lower, the rate of decline will moderate year-on-year.

The Group's gross profit margin is expected to improve. Materials prices are expected to be lower, while labour costs and manufacturing overheads are forecast to benefit from the weaker Renminbi. There will, however, be some negative impact from the US trade tariffs, as well as from the weakness in European currencies. The Group has been discussing with customers various measures to alleviate the impact of the tariffs, including sharing the additional costs and increased use of domestic fulfilment.

To raise its competitiveness and position for further growth, VTech has embarked on a strategy of rationalising its manufacturing base. The implementation of this strategy began in August 2018 with the acquisition of the manufacturing facilities in Malaysia. The ramp up of production at these facilities has been smooth and the Group is helping CMS customers impacted by the US tariffs to transfer production there. The expansion of manufacturing capacity in Malaysia will continue.

ELPs revenue for the full financial year 2020 is forecast to increase. New product launches will boost sales worldwide and strengthen the Group's market share. In North America, the growth momentum continues, albeit at a more moderate pace because of the effect of the accelerated shipments in the first six months. In Europe, the business has now recovered from the logistics issue experienced in the first half of the previous financial year, although the market is soft and some retailers are facing financial problems. Positive momentum in the Asia Pacific region will continue, with rising sales in Australia and mainland China.

To complement VTech's preschool learning toy business, a new animation series inspired by the award-winning Go! Go! Smart Wheels® will be launched on Netflix. Designed for preschoolers and called Go! Go! Cory Carson, the first episode of season one has been confirmed to premiere on 4 January 2020. New products associated with the animation are planned for launch in North America in Spring 2020, followed by other markets in Autumn 2020.

TEL products revenue is anticipated to decrease for the full financial year 2020, but the rate of decline is expected to moderate year-on-year. In residential phones, sales are anticipated to see a decline, though VTech will continue to regain market share in North America. Sales of commercial phones and other telecommunication products are forecast to be stable. VoIP phones, CAT-iq handsets and mobile phone stations are expected to grow, offsetting the declines in other product categories.

The Group is accelerating the development of new products. VTech will launch a line of super-long range residential phones with large displays and a visual ringer feature in North America. A new generation of SMB phones and hotel phones will also gradually replace the existing product ranges. The category of VoIP phones will be enriched with wireless headsets, cordless handsets and wireless desksets. A new line of VoIP conference phones, including video phones with large colour touch displays, will come onto the market. As for baby monitors, VTech will launch a new line of high definition video baby monitors with a remote access function. This pipeline of new products will be instrumental in restoring the TEL products business to growth.

CMS is on track to achieve full year growth. Hearables will benefit from strong sell-through and new product launches by a major customer. VTech is also winning more new projects from this customer, boosting sales and market share. Professional audio equipment will see rising sales to existing customers, driven by the good performance of their new products, while the Group is also acquiring new customers. DJ equipment sales are expected to continue to grow. Sales of medical and health products will be driven by rising orders of hearing aids, as the Group starts the manufacture of finished products for a customer. Growth is also expected from IoT products as demand for smart meters remains encouraging. The industrial products business is forecast to be stable.

“The current business environment remains overshadowed by the US-China trade tensions. Despite this, the Group will continue to pursue its growth strategy, focusing on product innovation, market share gain, geographic expansion and operational excellence. Together with the rationalisation of the Group’s production base, this will ensure VTech stays competitive in the market,” 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 design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating sustainable value for its stakeholders and the community.

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

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