

## **FOR IMMEDIATE RELEASE**

### **VTech Announces 2020/2021 Interim Results**

*Higher profit on stable revenue and improved gross margin*

- COVID-19 brought unprecedented challenges to the Group's operations
- Group revenue was flat at US\$1,123.6 million
- Gross profit margin improved from 30.7% to 31.8%
- Profit attributable to shareholders of the Company rose 4.7% to US\$123.6 million
- Interim dividend of US17.0 cents per ordinary share, unchanged from the dividend declared in the corresponding period last year
- Strong balance sheet, with higher net cash and lower inventory

**Hong Kong, 9 November 2020 – VTech Holdings Limited (HKSE: 303)** today announced its results for the six months ended 30 September 2020, showing an increase in profit on stable revenue and improved gross profit margin.

“The COVID-19 coronavirus pandemic has brought unprecedented challenges to most of the world's businesses. When VTech announced its annual results for the financial year 2020 in May this year, the Group's key markets were experiencing different levels of lockdown, with extensive closures of retail outlets, weak consumer sentiment and a severe slowdown in business activities. This resulted in very low order visibility and consequently a pessimistic outlook was given for the financial year 2021,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited. “Despite many uncertainties, however, sales for the first six months turned out to be better than expected and the Group reported stable revenue, an improved gross profit margin and higher profit for the period.”

#### **Results and Dividend**

Group revenue for the six months ended 30 September 2020 was US\$1,123.6 million, compared to US\$1,124.1 million in the same period last year. Higher sales in Europe were offset by lower sales in North America, Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company grew by 4.7% to US\$123.6 million. This was mainly attributable to higher gross profit, as costs declined. During the period, the Group recorded a fair value loss on an investment in a company that designs and distributes integrated circuit products, contrasting with a fair value gain in the corresponding period last year.

Basic earnings per share increased by 4.5% to US49.0 cents, compared to US46.9 cents in the comparable period of the financial year 2020.

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 2020.

### **Costs**

The Group's gross profit margin in the first six months of the financial year 2021 was 31.8%, as compared with 30.7% in the same period last year. The improvement was due to a number of factors. Materials prices were lower, while direct labour costs and manufacturing overheads benefited from a weaker Renminbi. Further productivity gains and a more favourable product mix also improved the Group's gross profit margin.

### **US-China Trade Tensions**

On 15 January 2020, a phase one trade deal was signed between mainland China and the US. A 15% tariff that was imposed on VTech residential cordless phones from 1 September 2019 was reduced to 7.5%, effective 14 February 2020. To mitigate the impact, the Group has started the production of residential phones at its new facility in Penang, Malaysia. Some of the Group's contract manufacturing services (CMS) customers have also been affected by the tariffs, ranging from 7.5% to 25%. CMS customers who wanted to relocate their production outside mainland China have already moved to VTech facility in Muar, Malaysia. The Group's electronic learning products (ELPs) are largely unaffected by the US tariffs.

## **COVID-19 Business Update**

The pandemic has brought unprecedented challenges to the Group's operations. Early in 2020, with many countries in various degrees of lockdown, global supply chains were severely disrupted and consumer demand weakened dramatically.

In recent months, however, business operations have gradually returned to normal. Production and capacity utilisation at the Group's manufacturing facilities are now at pre-COVID-19 levels, while the supply chain is operating as normal. Consumer demand has also recovered strongly in some markets. It has been especially robust for products relating to working and staying at home, which has benefited some of the Group's product lines.

Globally, e-commerce has grown rapidly as consumers have shifted more to online purchases. Sales to e-tailers and other online channels expanded to 16.2% of total Group revenue during the first six months of the financial year 2021.

Restrictions on travel and meeting nevertheless mean new patterns of working, with a much greater reliance on carrying out tasks and managing businesses remotely. VTech has been coping well with these challenges and its global operations continue to run smoothly.

As for liquidity, VTech is in a strong financial position. The Group ended its half year with increased net cash and lower inventory.

While managing the effect of the pandemic on its businesses, VTech's priority has been to protect the health and safety of its employees and customers. The Group continues to ensure a safe working environment at all its locations worldwide, in line with government and World Health Organisation recommendations. VTech and its employees have also been giving much needed support to local communities, including financial donations and supporting children in need with educational toys.

## **Segment Results**

### ***North America***

Group revenue in North America decreased by 5.6% to US\$492.9 million in the first six months of the financial year 2021 as higher sales of ELPs and telecommunication (TEL) products were offset by lower CMS sales. North America remained VTech's largest market, accounting for 43.9% of Group revenue.

ELPs revenue in North America rose by 9.8% to US\$278.1 million, driven by higher sales of standalone products. The increase reflects the Group's strong position in electronic learning toys, a segment that has benefited from the pandemic, as parents and children spend more time at home. During the first nine months of the calendar year 2020, the Group strengthened 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 maintained its position as the number one manufacturer in the infant, toddler and preschool toys category<sup>2</sup>.

Growth in standalone products came from higher sales of both LeapFrog and VTech brands. LeapFrog sales were especially robust. Preschool items offering overt educational values including Learning Friends 100 Words Book™ and 100 Animals Book™ achieved strong sell-through. The Blue's Clues & You!™ series of licensed products performed strongly, with the Really Smart Handy Dandy Notebook selling particularly well. Sales of LeapBuilders®, however, registered a decline.

VTech standalone products benefited from rising sales of infant and toddler products, KidiZoom® cameras, other Kidi line products and the Go! Go! Smart family of products. These increases offset a decline in preschool products. There were innovative additions to the product line-up during the period. Go! Go! Smart Wheels® saw the addition of Ultimate Corkscrew Tower™. Building on the success of the popular robotic toy Myla the Magical Unicorn™, VTech launched Myla's Sparkling Friends™, a line of toys that brings colour play to life using fantastical characters. The new Go! Go! Cory Carson® vehicles and playsets hit the shelves during the period. The first two seasons of the associated animation, along with a special edition entitled "Go! Go! Cory Carson Summer Camp", are now streaming on Netflix.

Sales of platform products in North America declined slightly. At LeapFrog, the platform products business posted overall growth. The brand's children's educational tablets and interactive reading systems saw sales increases, offsetting a decline in RockIt Twist™. The growth was augmented by the introduction of Magic Adventures Globe™. Subscriptions to the LeapFrog Academy™ continued to grow steadily. At VTech, sales of platform products saw a decline, as higher sales of Touch & Learn Activity Desk™ were insufficient to compensate for lower sales of KidiZoom Smartwatches and KidiBuzz™.

During the first six months of the financial year 2021, the Group's ELPs gained further recognition from toy and parenting industry experts, key retailers and toy advisory boards in

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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 ending September 2020

<sup>2</sup> The NPD Group, Retail Tracking Service

North America. KidiZoom Creator Cam and Helping Heroes Fire Station™ both made Walmart's "Top Rated by Kids" toy list. LeapFrog Speak & Learn Puppy™ and KidiZoom Creator Cam were included in *The Toy Insider's* "Hot 20" list, while KidiZoom Creator Cam, the LeapFrog 100 Animals Book and Blue's Clues & You! Really Smart Handy Dandy Notebook were selected for TTPM's "Holiday Most Wanted" list. A total of 11 VTech and LeapFrog products made it into *The Toy Insider* magazine's "2020 Holiday Gift Guide".

TEL products revenue in North America saw a 3.7% increase to US\$130.2 million, mainly driven by higher sales of residential phones. Sales of commercial phones and other telecommunication products held steady.

During the period, sales of residential phones in North America rose as the work-from-home trend led consumers to replace and upgrade their fixed-line telephones. The VTech branded super-long-range cordless phone performed especially well. In the first half of the financial year 2021, VTech remained the exclusive supplier to a key retailer in the US and strengthened its leadership position in the US residential phones market<sup>3</sup>.

The commercial phones and other telecommunication products business in North America was stable. Small to medium sized business (SMB) phones, hotel phones, VoIP (Voice over Internet Protocol) phones and conference phones posted sales decreases, as they were hit by the slump in business-related activity and in travel. However, headsets achieved higher sales, boosted by the work-from-home boom. Baby monitors, the CareLine™ range and IADs (Integrated Access Devices) benefited from the stay-at-home advice as well, with VTech 1080p 7-inch Smart Wi-Fi baby monitor selling particularly well. As a result, VTech baby monitors strengthened their position as the number one brand in the US and Canada<sup>4</sup>.

CMS revenue in North America fell by 40.9% to US\$84.6 million, with declines in all product categories. The reduction in revenue was primarily due to the negative impact of the pandemic. The professional audio industry was significantly impacted by the restrictions on public gatherings, with a major customer experiencing excess inventory as a result. A drop in replacement demand for coin and note recognition machines and over-inventory at an industrial printers customer contributed to the sales decline in industrial products. Medical and health products saw lower orders of hearing aids, as sales activities were significantly affected by the pandemic. Sales of solid-state lighting fell as contracts could not be concluded and project-based bidding ceased. Communication products recorded a sales

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<sup>3</sup> MarketWise Consumer Insights, LLC, April 2020 – September 2020

<sup>4</sup> The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, April 2020 – September 2020 combined vs. April 2019 – September 2019 combined

decline as customers phased out their product ranges. The Group nonetheless managed to add new customers in the fields of professional audio equipment and industrial products during the period.

### **Europe**

Group revenue in Europe increased by 10.6% to US\$487.5 million in the first six months of the financial year 2021, as higher sales of ELPs and CMS offset lower revenue from TEL products. Europe remained VTech's second largest market, accounting for 43.4% of Group revenue.

ELPs revenue in Europe rose by 8.2% to US\$157.6 million, with higher sales of both standalone and platform products. Geographically, sales increased in France, the UK, Germany and the Netherlands, while declining in Spain. In the first nine months of the calendar year 2020, VTech was the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries<sup>5</sup>.

In standalone products, both the VTech and LeapFrog brands achieved higher sales. For the VTech brand, growth was led by preschool products, KidiZoom camera, other Kidi line products and Switch & Go Dinosaurs<sup>®</sup>. This offset declines in infant products and the Toot-Toot family of products. The new Go! Go! Cory Carson vehicles and playsets were rolled out to the major European markets in September 2020 under the name Toot-Toot Cory Carson<sup>®</sup>. LeapFrog saw rising sales of infant, toddler and preschool products in the first half of the financial year, with strong sales of Learning Friends 100 Words Book and 100 Animals Book. This offset a decline for Bla Bla Blocks<sup>®</sup> (the name in Europe for LeapBuilders).

Platform products saw growth in sales of both VTech and LeapFrog branded products. For VTech, the main drivers were KidiZoom Smartwatches, Touch & Learn Activity Desk and children's educational tablets. Growth in these products offset a decline in KidiCom<sup>™</sup> Max. At LeapFrog, the revenue increase was driven by higher sales of Magic Adventures Globe and interactive reading systems, which offset declines in RockIt Twist and children's educational tablets.

In the first six months of the financial year 2021, Speak & Learn Puppy and KidiZoom Video Studio HD were named "Best Infant Toy" and "Best High Tech Toy" respectively, in the "Grand Prix du Jouet 2020" awards given by *La Revue du Jouet* magazine in France.

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<sup>5</sup> The NPD Group, Retail Tracking Service

Revenue from TEL products in Europe decreased by 8.4% to US\$52.5 million in the first six months of the financial year 2021 as sales of residential phones, commercial phones and other telecommunication products declined.

In Europe, the Group sells residential phones to major telephone companies in the region on an original design manufacturing basis. The pandemic resulted in reduced orders from these customers as their business activities slowed down.

For commercial phones and other telecommunication products, higher sales of CAT-iq (Cordless Advanced Technology - internet and quality) handsets, the CareLine range, IADs and headsets were insufficient to offset declines in baby monitors, VoIP phones and conference phones. Stay-at-home advice across Europe benefited sales of CAT-iq handsets, CareLine products, IADs and headsets, as people sought to upgrade their communication devices. Baby monitors saw sales decrease, however, as a major customer reduced orders. Lockdowns and travel restrictions led to the cancellation of trade shows and a slowdown in business activities, resulting in lower orders for VoIP phones and conference phones. Sales of the Group's hotel phones in Europe held steady, however.

During the period, VTech 1080p 7-inch Smart Wi-Fi baby monitor won three top awards from *Loved by Parents* magazine in the UK: "2020 Best Baby Monitor – Gold Winner", "2020 Best Video Monitor – Gold Winner" and "2020 Best Innovative Baby Monitor – Platinum Winner".

CMS revenue in Europe rose by 16.8% to US\$277.4 million. Hearables, medical and health products, home appliances and communication products saw higher sales, offsetting declines in professional audio equipment, IoT (Internet-of-Things) products and switching mode power supplies.

Hearables recorded significant growth as demand for headsets was boosted by the need to work from home. A customer moving production of its new version of a true wireless headset to VTech also contributed to the sales increase. Medical and health products added a new customer during the period and saw sales of hair removal products rise, offsetting a decline in orders for hearing aids. Business from home appliances was stable, while communication products benefited from increasing orders for Wi-Fi routers. In contrast to these increases, professional audio equipment posted lower sales, as higher demand for audio interface equipment failed to offset lower orders for audio mixers and amplifiers. IoT products also saw sales decrease, as the pandemic significantly slowed down the installation of smart meters in the UK. Sales of internet-connected thermostats and air-conditioning controls

remained stable. Sales of switching mode power supplies were lower as a customer continued to transfer production back in-house following a change in ownership.

### ***Asia Pacific***

Group revenue in Asia Pacific decreased by 8.2% to US\$130.2 million in the first six months of the financial year 2021, as lower sales of ELPs and CMS offset higher sales of TEL products. The Asia Pacific region represented 11.6% of Group revenue.

Revenue from ELPs in Asia Pacific fell by 9.4% to US\$40.4 million, as growth in Australia was offset by lower sales in mainland China. Australia saw a robust sales increase on strong sell-through of both the VTech and LeapFrog branded products. In the first nine months of the calendar year 2020, VTech gained market share and has become the number one manufacturer in the infant and toddler toys category in Australia<sup>6</sup>. In mainland China, growth in online sales was insufficient to compensate for a decline in the offline channels.

TEL products revenue in Asia Pacific increased by 15.3% to US\$15.8 million, owing to higher sales in Australia, Japan and Hong Kong. In Australia, growth was mainly driven by baby monitors, while Japan saw increased orders for residential phones from an existing customer. In Hong Kong, IADs were the key driver of higher sales.

CMS revenue in Asia Pacific decreased by 11.5% to US\$74.0 million as lower sales of medical and health products and home appliances offset growth in professional audio equipment and communication products. The movement control order imposed by the Malaysian government in mid-March also affected sales, as this caused the CMS production facility in Muar to shut down for several weeks. In medical and health products, sales of diagnostic ultrasound systems were lower as hospitals shifted their budgets to purchase COVID-19 related equipment. For home appliances, orders fell as a product reached the end of its life cycle, while orders for other products slowed down owing to the pandemic. Contrasting with these decreases, the growth in professional audio equipment was driven by a rise in revenue from a new customer supplying USB streaming microphones for online KOLs (Key Opinion Leaders). Sales of communication products were also higher, with orders for marine radios increasing as a second generation of products came on stream.

### ***Other Regions***

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 34.0% to US\$13.0 million in the first six months of the financial year 2021. The decrease

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<sup>6</sup> The NPD Group, Retail Tracking Service

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 35.2% to US\$5.9 million for the period as higher sales in Africa were offset by lower sales in the Middle East and Latin America.

TEL products revenue in Other Regions decreased by 27.4% to US\$6.9 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 US\$0.2 million in the first six months of the financial year 2021, as compared to US\$1.1 million in the corresponding period of the prior financial year.

## **Outlook**

The ongoing impact of the COVID-19 pandemic brings an unusually high degree of uncertainty to assessing the outlook for the remainder of the financial year. A resurgence in infection rates in the US and Europe, along with higher unemployment, could lead to a weakening of consumer sentiment in the Group's key markets. Consequently, Group revenue for the full year is not expected to grow. Gross profit margin, meanwhile, is forecast to improve year-on-year. The Group is investing more on expanding online sales, in order to capitalise on the shift towards higher online purchasing.

ELPs revenue is forecast to remain broadly stable for the full financial year. In North America, the positive momentum at both VTech and LeapFrog brands is forecast to continue, with the sales outlook for LeapFrog preschool toys especially promising. In Europe, however, the nationwide lockdown imposed by the French, German and UK governments in late October and early November respectively may negatively impact holiday sales. In Asia Pacific, the trend in Australia is expected to remain robust. For mainland China, sales should pick up in the second half, as shipments to some of the maternity-infant-child specialty retailers resume and sales of other channels show continuous improvement.

For TEL products, revenue for the full year may decline slightly. Sales of residential phones are expected to hold steady, while the recovery in commercial phones is likely to remain slow. Paving the way for future growth, a new line of VoIP phones under the Snom brand will be rolled out in early 2021. There has been a good response to the latest range of hotel phones based on SIP (Session Initiation Protocol) and PSTN (Public Switched Telephone

Network) technology. This bodes well for VTech being able to benefit from the market consolidation that is underway, although the challenges currently faced by the hospitality industry will dampen demand in the short term. The momentum in CAT-iq handsets, the CareLine range and IADs remains positive, while sales of baby monitors are anticipated to be stable.

CMS revenue is expected to increase for the full financial year, led by strong orders for headsets and a recovery in the other product categories. A new NPI (New Product Introduction) centre in Shenzhen will open up additional business avenues. It aims to capture orders from start-ups worldwide, in particular the growing number in mainland China's Greater Bay Area. State-of-the-art equipment is currently being installed and the centre should be fully operational by the end of 2020. In Malaysia, with the phase one expansion of the CMS facility in Muar now complete, work is moving ahead on phase two, raising capacity by 50%.

The acquisition of the Group's second manufacturing facility in Penang, Malaysia was completed in July 2020. Comprising 500,000 square feet of buildings, it will be used for manufacturing ELPs and TEL products destined for the US market.

"The macro-economic environment remains highly uncertain, but VTech has managed to navigate the turbulence so far. Our solid balance sheet, strong line-up of innovative products and operational excellence should enable us to gain further market share and hence create long-term value for our shareholders," 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 toys 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.

**Note: Starting from 22:00, 9 November 2020 (HKT), the archived webcast of the 2020/2021 interim results announcement can be accessed through VTech website via this link <https://www.vtech.com/en/investors/financial-briefings/>.**

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