

**FOR IMMEDIATE RELEASE**

**VTech Announces FY2017 Annual Results**

***Record revenue and positioned for growth with three strategic acquisitions***

- Group revenue increased by 12.0% to a record US\$2,079.3 million
- Gross margin improved from 31.4% to 33.2%
- Profit attributable to shareholders of the Company decreased by 1.3% to US\$179.0 million, mainly due to the one-off costs associated with LeapFrog integration
- Final dividend of US53.0 cents per ordinary share, resulting in a full-year dividend of US70.0 cents per ordinary share, an increase of 66.7% year-on-year
- Positioned for growth following the completion of three strategic acquisitions

**Hong Kong, 16 May 2017 – VTech Holdings Limited (HKSE: 303)** today announced its results for the year ended 31 March 2017, reporting record revenue and the completion of three strategic acquisitions.

Group revenue for the year ended 31 March 2017 increased by 12.0% to US\$2,079.3 million, supported by higher sales in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company decreased by 1.3% to US\$179.0 million. The fall in profit was mainly due to the one-off costs associated with the acquisition and integration of LeapFrog Enterprises, Inc. (LeapFrog), including the professional and legal costs associated with the investigation by the UK's Competition & Markets Authority. This investigation was initiated in April 2016, with final and unconditional approval given in January 2017. The expenses related to the cyber-attack that occurred in November 2015 also contributed to the decline in profit.

Basic earnings per share fell by 1.2% to US71.3 cents, compared to US72.2 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US53.0 cents per ordinary share, providing a full-year dividend of US70.0 cents per ordinary share. This 66.7% increase from the US42.0 cents declared in the previous financial year reflects a rise of the dividend payout ratio from 58.2% to 98.2%, a return to its historic level.

“In the financial year 2017 VTech achieved record revenue, surpassing the US\$2 billion mark. A relatively favourable cost environment saw gross margin improve, although profit was affected by one-off costs associated with the integration of LeapFrog. The Group also laid the ground for future growth, with the completion of three strategic acquisitions,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

## **Costs**

For the financial year 2017, the gross profit margin of the Group improved to 33.2%, from 31.4% in the financial year 2016. This was mainly due to the change in product mix, a relatively favourable cost environment and productivity gains.

## **VTech Business**

The Group completed three strategic acquisitions during the financial year 2017.

The acquisition of LeapFrog, a leading developer of educational entertainment for children, was completed in April 2016. LeapFrog is a strong educational toy brand, and its product ranges complement those of VTech. The acquisition allows VTech to offer the broadest portfolio of products that enhance the education and development of children around the world, and positions VTech for higher growth.

LeapFrog’s industry-leading content development, education, product marketing, consumer insight and infrastructure teams have been retained at its office in California, where they continue to develop the curriculum-based educational content for which the company is renowned. Its back-end operations have been integrated into VTech’s global organisation. Production has been consolidated, with the majority of LeapFrog products now being manufactured in-house.

Combining VTech and LeapFrog products, the share of total electronic learning products (ELPs) revenue from platform products, including related software, increased to 23% in the financial year 2017, from 16% in the previous financial year.

Standalone products continued their strong performance. Growth was led by higher sales of core VTech infant, toddler and preschool products. There was also a contribution from LeapFrog standalone toys. This has reaffirmed VTech’s leadership position in the industry. In the calendar year 2016, VTech strengthened its position globally as the number one supplier of electronic learning toys from infancy through toddler and preschool<sup>1</sup>.

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<sup>1</sup> Source: NPD Group, Retail Tracking Service and Global Market Share Estimates by MarketWise Consumer Insights, LLC. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of toddler electronic learning, toddler figures, playsets and accessories, preschool electronic learning, electronic entertainment (excluding tablets) and walkers for the 12 months ending December 2016

In November 2016, the Group completed the acquisition of Snom Technology AG (Snom), a German company which is a pioneer in Voice over IP (VoIP) phone development. There will be strong synergies from combining Snom's technical expertise and well-established sales channels in Europe with VTech's engineering and manufacturing capabilities. This acquisition will enable VTech to become a major player in the growing market for VoIP phones.

This development follows the Group's strategy of recent years, which has seen Telecommunication (TEL) products expanding outside the residential phones sector. During the financial year 2017, sales of residential phones declined by 12.9% year-on-year, partially offset by a 22.4% growth in commercial phones and other telecommunication products. As a result, the share of commercial phones and other telecommunication products rose to 34% of total TEL products revenue, from 27% in the previous financial year.

The good performance of commercial phones and other telecommunication products came from higher sales of baby monitors, VoIP phones, hotel phones, headsets, wireless monitoring systems and conference phones. This was the result of more placements and the launch of new products, such as baby monitors featuring a video camera with interchangeable standard and wide-angle lenses and headsets designed for the professional trucker market.

Contract Manufacturing Services (CMS) once again delivered good results in the financial year 2017. Its growth outpaced the global EMS (Electronic Manufacturing Services) market, in which the top 50 providers grew by 0.3% in the calendar year 2016<sup>2</sup>. A strong reputation, deep manufacturing know-how and a stable management team have enabled CMS to achieve 15 years of uninterrupted growth. This exceptional performance further testifies to VTech's strategy of focusing on professional, industrial and commercial products.

In October 2015, the Group signed an agreement to acquire the fixed assets of Kenny Precision Products (Shenzhen) Company Limited. With the acquired fixed assets, VTech established its own facilities in Liaobu, Dongguan for manufacturing high precision metal tooling and parts. This is entirely new expertise for VTech. It not only extends the supply chain vertically, thereby improving the Group's cost base, but also brings a new product category to CMS that is an additional source of revenue. The new facilities have commenced operations and started contributing to CMS revenue in the fourth quarter of the financial year 2017.

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<sup>2</sup> Source: *Manufacturing Market Insider*, March 2017

## Segment Results

### *North America*

Group revenue in North America increased by 15.7% to US\$1,016.2 million in the financial year 2017 as higher sales of ELPs and CMS offset lower revenue from TEL products. North America remained VTech's largest market, accounting for 48.9% of Group revenue.

ELPs revenue in North America rose by 44.7% to US\$454.9 million. The increase was driven in part by the sales contribution from LeapFrog, following completion of the acquisition in April 2016. Higher sales of VTech standalone products also contributed to the increase. The addition of LeapFrog strengthened VTech's position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US<sup>3</sup>.

In standalone products, growth was driven by higher sales of core VTech infant, toddler and preschool products, augmented by contributions from LeapFrog standalone toys. Among notable successes, the VTech Sit-to-Stand Learning Walker™ and Smart Shots Sports Center™ were the top two best-selling infant and toddler toys in the US in the calendar year 2016<sup>4</sup>. Sales of the Go! Go! Smart family of products were down as growth in the Go! Go! Smart Friends® line was offset by lower revenues from Go! Go! Smart Wheels® and Go! Go! Smart Animals®.

Sales of platform products were up as a result of new VTech and LeapFrog product launches, together with the combined offering of children's educational tablets under both brands. VTech's Touch and Learn Activity Desk™ Deluxe and LeapFrog's LeapStart™ Interactive Learning System hit US retail shelves in August 2016 and were favourably received by the market. They won a total of 15 top industry accolades, including the National Parenting Center's Seal of Approval and being named to TTPM's "Most Wanted" list. Among children's educational tablets, LeapFrog Epic™ was named the "Best Tablet" by Kidscreen. Sales of Kidizoom® Smartwatch declined as the market awaited the launch of the next generation of products.

TEL products revenue in North America decreased by 1.5% to US\$365.7 million. Continued growth in commercial phones and other telecommunication products was insufficient to offset declining sales of residential phones.

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<sup>3</sup> 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, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the 12 months ending December 2016

<sup>4</sup> Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of early electronic learning, toddler figures/playsets & accessories, other infant toys, infant plush, bath toys, other toddler toys, playnests/playgyms, walkers, rattle & toy teether/toy pacifier and mobiles for the 12 months ending December 2016

The drop in sales of residential phones reflected a further contraction of the fixed-line telephone market. Nonetheless, VTEch maintained its leading position in the US residential phones market<sup>5</sup>.

The growth in commercial phones and other telecommunication products was driven by higher sales of baby monitors, hotel phones, headsets, wireless monitoring systems, conference phones and VoIP phones. Baby monitors benefited from more placements and new product launches. A new model featuring a video camera with interchangeable standard and wide-angle lenses proved very popular with consumers and sold particularly well. In hotel phones, VTEch's growing reputation enabled it to win new projects and increase market share. Sales of headsets were boosted by new Bluetooth models specially designed for the professional trucker market. The VTEch branded ErisStation<sup>®</sup>, a conference phone with wireless microphones, and ErisTerminal<sup>®</sup>, the VoIP business phone system, saw steady growth.

CMS revenue in North America increased by 1.6% to US\$195.6 million, as higher sales of industrial products, solid-state lighting and home appliances offset lower sales of professional audio equipment and communication products. Industrial products and home appliances saw more orders from existing customers, and the Group also gained additional business from their parent companies. Sales of solid-state lighting increased because of a sales contribution from a new customer and an existing customer transferring a new product range to VTEch. By contrast, sales of professional audio equipment declined as a major customer placed fewer orders, owing to excess inventory and delays to new projects. Communication products sales decreased on lower orders of a home security system.

## ***Europe***

Group revenue in Europe increased by 9.0% to US\$867.8 million in the financial year 2017, as higher sales of ELPs and CMS offset a decline in TEL products. Europe was VTEch's second largest market, accounting for 41.7% of Group revenue.

ELPs revenue in Europe rose by 9.8% to US\$357.4 million. The sales increase was attributable to growth in VTEch standalone products and sales contributions from LeapFrog. Geographically, all of the Group's key Western European markets, namely France, the UK, Germany, the Netherlands and Spain, recorded sales increases. VTEch strengthened its position as the number one infant and toddler toy manufacturer in France, the UK and Germany in the calendar year 2016<sup>6</sup>.

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<sup>5</sup> Source: MarketWise Consumer Insights, LLC

<sup>6</sup> Source: NPD Group, Retail Tracking Service

Growth in standalone products was driven by higher sales of the core VTech infant, toddler and preschool products, Kidizoom Camera, as well as the Kidi and the Little Love® lines. It was also supported by the consolidation of LeapFrog sales. Sales of the Toot-Toot family of products were down. During the financial year 2017, VTech ELPs won more than 30 leading industry awards across continental Europe, including three “2016 Grand Prix du Jouet” awards presented by *La Revue du Jouet* magazine in France.

Platform products sales in Europe grew slightly in the financial year 2017, mainly due to new product launches and the sales contribution from LeapFrog. During the financial year, the second generation of Kidizoom Smartwatch was rolled out to all major European countries and LeapStart was launched in the UK. Sales of children’s educational tablets held steady, with LeapFrog branded tablets added to the portfolio.

Revenue from TEL products in Europe decreased by 5.5% to US\$128.9 million. Sales of residential phones fell because of the contraction of the fixed-line telephone market. In contrast, commercial phones and other telecommunication products saw further growth. Sales of VoIP phones increased on the contribution from Snom, following completion of this acquisition in November 2016. There were also higher sales of hotel phones as VTech’s reputation continues to grow in the industry. Sales of integrated access devices also increased, due to new product launches by customers in the second half. Sales of CAT-iq (Cordless Advanced Technology – internet and quality) handsets were lower, however, as a major customer changed its sales and marketing strategy on product bundling. Orders for baby monitors declined due to the delayed launch of new products by some customers.

CMS revenue in Europe increased by 14.2% to US\$381.5 million, with higher sales of hearables, industrial products and medical and health products. Hearables benefited from rising sales of the world’s first wireless smart earphones and as customers’ other products were received well by the market. In industrial products, the sales growth was led by smart meters for the UK market as utility suppliers, backed by Government regulation, encouraged households to install the devices to track their energy consumption. Medical and health products sales increased as the Group started shipping hearing aids to a European customer. Sales of professional audio equipment were stable, as more orders for USB audio interface products offset lower demand for audio mixers. Switching mode power supplies and home appliances, however, saw their sales decline. The change of ownership of a switching mode power supplies customer led to production being moved back in-house, while lower demand from end consumers affected the home appliances business of existing customers.

### ***Asia Pacific***

Group revenue in Asia Pacific increased by 15.2% to US\$148.6 million in the financial year 2017, with higher sales in all three product lines. Asia Pacific represented 7.2% of Group revenue.

Revenue from ELPs in Asia Pacific was up 28.9% to US\$52.7 million, as growth in Australia, South Korea and mainland China offset a decline in Japan. VTech achieved significant growth and market share gains in Australia following the establishment of its own office in the country. The good performance in South Korea resulted from increased sales efforts and product launches. In mainland China, sales growth was held back by the depreciation of the Renminbi. Sales in Japan were affected by excess inventory at one customer. LeapFrog branded products contributed to overall sales growth in the region.

TEL products revenue in Asia Pacific rose by 5.8% to US\$38.1 million. Higher sales in Japan, Hong Kong, India and South Korea offset lower sales in Australia. During the financial year, VTech increased sales further with a new customer in Japan. In Hong Kong, VTech's 3-in-1 connected home system was rolled out in the second half with a key broadband service provider. In India, the Group won more orders for cordless phones from a key customer, while in South Korea VTech started shipping VoIP business phone systems to a new customer in the second half. Sales declined in Australia as a direct result of the contraction of the fixed-line telephone market, though sales of baby monitors continued to grow.

CMS revenue in Asia Pacific rose by 10.9% to US\$57.8 million, primarily driven by higher sales of home appliances, medical and health products, solid-state lighting and professional audio equipment. Home appliances benefited from good sell-through of a customer's products. For medical and health products, the Group started producing and shipping entire diagnostic ultrasound systems to a Japanese customer in the second half. Professional audio equipment and solid-state lighting posted higher sales as existing customers sold more products to mainland China. Communication products and hearables, however, saw sales declines.

### ***Other Regions***

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, fell by 12.4% to US\$46.7 million in the financial year 2017. Higher revenue from ELPs and CMS was insufficient to offset lower revenue from TEL products. Other Regions accounted for 2.2% of Group revenue.

ELPs revenue in Other Regions increased by 15.7% to US\$13.3 million, as sales to Latin America, the Middle East and Africa improved and the sales of LeapFrog products were consolidated.

TEL products revenue in Other Regions fell by 20.9% to US\$32.6 million. The decline was attributable to lower orders from Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US\$0.8 million in the financial year 2017, as compared to US\$0.6 million in the previous financial year.

## Outlook

Group revenue is expected to be higher in the financial year 2018, with sales increases across all three product lines. The trend in gross margin is more difficult to predict. There are likely to be strong headwinds from foreign exchange movements. Cost of materials is also expected to be higher. Meanwhile, direct labour costs and manufacturing overheads as a percentage of Group revenue are forecast to decrease slightly.

The growth in ELPs will be driven by higher sales of both standalone and platform products. Standalone products will be boosted by the expansion of the VTech baby, infant, toddler and preschool lines, supported by the launch of more learning toys under the LeapFrog brand. Growth in platform products will be driven by the introduction of new platforms. The VTech brand will see launches of new children's communication devices and Kidizoom Smartwatch. For LeapFrog, the new LeapPad™ Ultimate, a first tablet for children, will be complemented by LeapFrog Epic (Academy edition), an enhanced version of the tablet that caters to older children. The LeapStart interactive learning platform will also expand.

Leveraging LeapFrog's expertise in education further, the Group plans to launch LeapFrog Academy™ in major English-speaking countries in the second half of the calendar year 2017. This is a subscription-based guided learning system designed by educational experts. At launch, it will offer over 1,000 curriculum based activities for children aged 3 to 6 years.

TEL products are also expected to achieve growth in the financial year 2018, with higher sales of commercial phones and other telecommunication products. The acquisition of Snom will be a key driver. Its strong brand and extensive sales network, particularly in Europe, will accelerate the Group's introduction of new VoIP phones into this growing market. The migration from traditional Public Switched Telephone Network (PSTN) to VoIP telephony is supporting the much wider adoption of CAT-iq handsets, particularly via major telecoms operators. This will boost sales of CAT-iq products globally. The strong momentum in VTech baby monitors will be maintained through the introduction of the innovative new models and increased product placements. Hotel phones and conference phones will also continue their positive trend. Although sales of residential phones will again decline, the pace will moderate as VTech gains more shelf space with US retailers.

CMS is also positioned for growth. Sales are expected to rise on the back of increasing orders from existing customers in professional audio, hearables, industrial products, solid-state lighting as well as medical and health products, offsetting a further decline in switching mode power supplies. The medical and health products category is expanding rapidly and showing particular promise. To target the growing opportunities, a new strategic business unit for medical and health products has been set up. VTech began producing entire diagnostic ultrasound systems for a Japanese customer in the second half of the financial year 2017 and orders have been ramping up for the financial year 2018. The Group is also beginning to produce hearing aids for a European customer,

adding another product to this category. Contributing to the overall momentum in CMS, there will be a full-year sales contribution from the newly acquired high precision metal parts business.

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#### **About VTech**

VTech is the global leader in electronic learning products from infancy through toddler and preschool and the world's largest manufacturer of cordless phones. 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. For more information, please visit [www.vtech.com](http://www.vtech.com).

**Note: Starting from 22:30, 16 May 2017 (HKT), the video archive of the FY2017 annual results announcement can be accessed through VTech website via this link <https://www.vtech.com/en/investors/financial-briefings/>.**

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