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VTech Announces FY2022 Annual Results
Stable revenue despite global supply chain disruptions

- Group revenue remained essentially flat at US\$2,370.5 million
- Sales of electronic learning products surpassed US\$1 billion
- Global materials shortages, supply chain disruptions, unprecedented increase in freight charges, and rising costs affected results
- Gross profit margin fell from 30.6% to 28.2%
- Profit attributable to shareholders of the Company declined 25.2% to US\$172.7 million
- Final dividend of US51.0 cents per ordinary share, resulting in a full-year dividend of US68.0 cents, down 25.3% year-on-year

Hong Kong, 16 May 2022 – VTech Holdings Limited (HKSE: 303) today announced its results for the year ended 31 March 2022, reporting stable revenue and lower profit.

“VTech reported stable revenue and lower profit for the financial year 2022. This was largely the result of coronavirus (COVID-19) related disruptions to production and supply chains, together with cost pressures resulting from global shortages of materials and shipping containers,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Results and Dividend

Group revenue for the year ended 31 March 2022 decreased slightly by 0.1% to US\$2,370.5 million, from US\$2,372.3 million in the previous financial year. Higher sales in North America were insufficient to offset lower sales in Europe, Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company fell by 25.2% to US\$172.7 million. The decline in profit was mainly attributable to lower gross profit as costs rose significantly.

Basic earnings per share decreased by 25.2% to US68.5 cents, compared to US91.6 cents in the financial year 2021.

The Board of Directors has proposed a final dividend of US51.0 cents per ordinary share, providing a full-year dividend of US68.0 cents per ordinary share, a 25.3% decrease from the US91.0 cents declared in the previous financial year. This represents a dividend payout ratio of 99.4%.

Costs

The Group's gross profit margin in the financial year 2022 was 28.2%, as compared with 30.6% in the previous financial year.

The decline was mainly attributable to the unprecedented increase in freight costs arising from container shortages globally. Direct labour costs and manufacturing overhead were also higher than the last financial year, mainly because of the appreciation of the Renminbi and the unstable supply of materials, which impacted productivity. The increases in materials prices, especially of electronic components and plastics, also contributed to the decline in gross profit margin. These pressures were partially offset by a change in the product mix.

Improvement was seen in the second half as the Group raised prices for its products. Freight cost also declined slightly after the peak shipping season, but the supply of semiconductors remained tight.

Segment Results

North America

Group revenue in North America increased by 7.4% to US\$1,068.5 million in the financial year 2022, with higher sales of electronic learning products (ELPs), telecommunication (TEL) products and contract manufacturing services (CMS). North America was VTech's largest market, accounting for 45.1% of Group revenue.

ELPs revenue in North America rose by 3.5% to US\$555.6 million. Higher sales in the US offset a decline in the Canadian market, where the transition to a new third-party logistics vendor resulted in logistics issues that reduced shipment of VTech and LeapFrog products. The Group maintained its position as the number one manufacturer of electronic

learning toys from infancy through toddler and preschool in the US¹. In Canada, despite the logistics issues, VTech remained the number one supplier in the infant, toddler and preschool toys category².

The growth in ELPs came from higher sales of VTech and LeapFrog branded standalone products. At VTech the sales increase came primarily from three product categories. Infant, toddler and preschool products were led by higher sales of new products including Sort & Recycle Ride-On Truck™. KidiZoom® Cameras again performed well, with especially good results from KidiZoom PrintCam™ and KidiZoom Creator Cam™. Switch & Go® Dinos achieved growth following new product launches. The introduction of Marble Rush™ also added incremental revenue. These increases offset declines in the Kidi lines and Go! Go! Smart® family of products, as well as Go! Go! Cory Carson® vehicles and playsets. LeapFrog saw growth in infant and toddler products. Among these, the Learning Friends 100 Words Book™ series sold especially well and was augmented by a new addition to the range “100 Words About Places I Go”. The roll out of the new LeapLand Adventures™ TV video game also boosted sales. These successes offset a decline in preschool products as sales of licensed products fell.

Platform products declined as higher sales of LeapFrog products were insufficient to offset lower sales of the VTech ranges. LeapFrog benefited from growth in Magic Adventures Globe™ and interactive reading systems, as the content of the Magic Adventures Globe was expanded. LeapStart® was also refreshed with new hardware. This compensated for a decline in sales of children’s educational tablets that was mainly due to the semiconductor shortages, which also led to a slowdown in new LeapFrog Academy™ subscriptions.

VTech platform products trended lower owing to sales declines for KidiZoom Smartwatches and KidiBuzz™. Shipment of the new products in these ranges, namely KidiBuzz 3 and KidiZoom Smartwatch DX3, was held up by semiconductor shortages and shipment delays. Low channel inventory also led to lower sales. This offset growth for Touch & Learn Activity Desk™, to which a new model was added during the financial year 2022.

¹ 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 2021

² The NPD Group, Retail Tracking Service

During the 12 months, the Group's ELPs received a large number of awards from toy and parenting industry experts, key retailers and toy advisory boards, in multiple categories. Both Hover Pup™ and KidiZoom PrintCam made it into Walmart's "Top Rated by Kids" list. KidiZoom PrintCam received 10 awards, while all four introductory products in the Marble Rush line received the esteemed STEAM Toy Accreditation Seal of Approval. In addition, LeapLand Adventures made the "2021 Best Toy Awards" in *Good Housekeeping* magazine.

TEL products revenue in North America grew by 1.6% to US\$274.9 million. The increase came as gains for commercial phones and other telecommunication products offset lower sales of residential phones. Sales to online channels continued to see good increases.

Sales of commercial phones and other telecommunication products increased as business activity returned to normal, following the relaxation of COVID-19 restrictions. Well-received new product launches also drove growth. Baby monitors, headsets, Snom branded SIP (Session Initiation Protocol) phones and hotel phones all achieved higher sales.

Baby monitors were boosted by additional placements in key retailers, expanded online sales and new product launches. As a result, VTech strengthened its position as the largest baby monitor manufacturer in the US and Canada³. During the financial year 2022, the first LeapFrog branded baby monitor, featuring a baby care app, was launched to a positive market reception. Headsets grew on the back of increased orders from an existing customer. The Snom branded SIP phones gained market share due to a stable supply of products. Sales of hotel phones recovered as they benefited from the lifting of COVID-19 restrictions, while the launch of models with a new industrial design further supported growth. Although the residential phones market returned to its downward trend, VTech maintained its leadership position in the US residential phones market⁴.

There was considerable industry recognition for the Group's baby monitor products and their online sales growth during the financial year 2022. The LeapFrog LF925HD Remote Access Smart Video Baby Monitor was a "2022 National Parenting Product Awards Winner". In addition, VTech won the "BrandSpark Most Trusted Awards 2022 (Category of Baby Monitor)" given by BrandSpark International. In recognition of the online sales growth of VTech baby monitors, VTech won the "Top E-commerce US Market Share Gain

³ The NPD Group/Retail Tracking Service, April 2021 – March 2022 combined vs YA

⁴ MarketWise Consumer Insights, LLC, April 2021 – March 2022

(Category of Baby Monitors)” award in the “Consumer Electronics Industry Performance Awards” given by the NPD Group, Inc. in January 2022⁵.

CMS revenue in North America increased by 26.8% to US\$238.0 million, with growth in most product categories. Business activity resumed as social distancing measures eased. There was also a full year sales contribution from the plant in Tecate, Mexico, following the completion of the acquisition in April 2021.

Professional audio equipment benefited from higher sales to a customer that had acquired a new business. The relaxation of social distancing measures lifted sales of professional audio equipment used in concert halls, lecture theatres and churches. Sales of solid-state lighting grew as tenders and project-based activities resumed. Industrial products also benefited from the resumption of business activities, boosting orders for PCBA (printed circuit board assembly) for coin and note recognition machines. Medical and health products saw sales increase as orders for hearing aids grew. Sales of communication products rose on increased orders for VoIP (Voice over Internet Protocol) phones for commercial use, following the successful re-launch of products by a customer.

Europe

Group revenue in Europe declined by 5.6% to US\$1,025.1 million in the financial year 2022, as higher sales of ELPs were offset by lower sales of TEL products and CMS. Europe was the Group’s second largest market, representing 43.2% of Group revenue.

ELPs revenue in Europe grew by 6.8% to US\$375.1 million, with sales picking up in the second half as new products arrived on the shelves and channel inventory improved. Standalone products saw higher sales for the full financial year, while platform products posted a decline mainly owing to materials shortages. Geographically, sales increased in France, Germany, Spain and the Netherlands while the UK recorded a sales decline. In the calendar year 2021, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries, while regaining the number one position in Spain⁶.

In standalone products, both VTech and LeapFrog branded products registered growth. For the VTech brand, sales of infant, toddler and preschool products, the KidiZoom Camera range, Kidi line products, Switch & Go Dinos and electronic learning aids were all higher. Growth in the region was augmented by the successful launch of the new Marble

⁵ The NPD Group/Checkout, based on online dollar market share, 12 months ending September 2021

⁶ The NPD Group, Retail Tracking Service

Rush line. These increases offset declines in the Toot-Toot family of products and Toot-Toot Cory Carson[®] vehicles and playsets. The LeapFrog brand saw growth in infant, toddler and preschool products, augmented by the launch of LeapLand Adventures.

Platform products saw lower sales of both VTech and LeapFrog products. Materials shortages and logistics problems resulted in late availability of certain new products and low channel inventory. These included a new generation of the interactive reading system LeapStart/MagiBook, KidiCom[®] Advance 3.0, Magic Adventures Globe, KidiCom MAX and children's educational tablets. These declines offset gains for Touch & Learn Activity Desk. Sales of KidiZoom Smartwatches were stable.

During the financial year 2022, the Group's ELPs gained several important awards in Europe. In France, Marble Rush Ultimate Set[™], Ruby, mon chat paillettes magiques (Glitter Me Kitten[™]), KidiStar DJ Mixer[™], Funny Sunny and Genio My First Laptop won a total of five awards in different categories in the "Grand Prix du Jouet 2021" awards given by *La Revue du Jouet* magazine, the highest among all manufacturers. In the UK, Count-Along Basket & Scanner[™] was a "Gold Winner (Best Toy for Pretend Play)" in the "MadeForMums Toy Awards 2021". KidiZoom Video Studio was named "Best Toy of the Year 2021 (Imitation Toys Category)" by the Spanish Association of Toy Manufacturers. Marble Rush Ultimate Set was also named one of "The Best Toys 2021 (Category of 4-6 Years)" in "The Best Toys in the Netherlands" awards.

Revenue from TEL products in Europe fell by 14.2% to US\$93.8 million. Lower sales of residential phones and other telecommunication products offset higher sales of commercial phones.

In Europe, the Group's residential phones are sold mainly on an ODM (Original Design Manufacturing) basis. These products were affected by the shortage of semiconductors, which resulted in the deferral of shipments and a reduction in sales. In a notable development, however, the Group successfully launched its VTech branded DECT (Digital Enhanced Cordless Telecommunications) phones on a major e-tailer in the UK in March 2022, paving the way for the increasing penetration of its own branded phone products in European markets.

Sales of other telecommunication products decreased as the semiconductor shortages negatively impacted the production of baby monitors, CAT-iq (Cordless Advanced Technology—internet and quality) handsets, CareLine[®] residential phones and IADs (integrated access devices), all of which saw sales decline.

Despite the reduction in sales, VTech branded baby monitors strengthened their position in the UK, with the successful introduction of a new product line-up, in a further expansion of the Group's market presence in Europe. Commercial phones benefited from the resumption of business activity and leisure travel as COVID-19 restrictions eased across the region, which led to rising sales of Snom branded SIP phones and a recovery in sales of hotel phones.

In the UK, in addition to three top awards from *Loved by Parents* magazine, VTech's RM5754 HD baby monitor was named "Best Baby Monitor – Bronze Winner" in the "Mother & Baby Awards".

CMS revenue in Europe fell by 11.1% to US\$556.2 million. Hearables recorded lower sales due to materials shortages and reduced orders for Bluetooth headsets. Sales of professional audio equipment increased, driven by higher orders for audio mixers. IoT (Internet of Things) products grew as smart meter installations resumed in the UK, following the relaxation of social distancing measures in the country. Sales of internet connected thermostats and air-conditioning controls increased as demand recovered. Growth in medical and health products was driven by increased orders of hearing aids, while sales of health and beauty products were stable. Home appliances sales increased slightly, while sales of automotive related products were supported by increasing orders for smart electric vehicle chargers. In contrast, sales of communication products were down, due to lower orders for Wi-Fi routers. During the financial year 2022, the Group added a new customer in the category of smart energy management systems.

Asia Pacific

Group revenue in Asia Pacific decreased by 5.0% to US\$255.0 million in the financial year 2022, as lower sales of TEL products and CMS offset higher revenue from ELPs. The Asia Pacific region represented 10.8% of Group revenue.

Revenue from ELPs in Asia Pacific increased by 2.3% to US\$83.9 million, as growth in Australia and Japan offset lower sales in mainland China. Australia achieved sales growth as lockdowns eased and retail stores reopened in the second half of the financial year, leading to higher sales of VTech products. In the calendar year 2021, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in Australia⁷. Growth in Japan came from rising sales to a major toy retailer and good sell-through of a jointly developed smartwatch, featuring the popular Japanese

⁷ The NPD Group, Retail Tracking Service

“Sumikkogurashi” characters. In mainland China, sales in both online and offline channels decreased. This was despite the success of the new range of Switch & Go Dinos based on a popular animation series called Mini Force and the enhanced version of Magic Adventures Globe.

TEL products revenue in Asia Pacific decreased by 12.6% to US\$27.7 million, as higher sales in Australia were offset by lower sales in Japan and Hong Kong. In Australia, the growth was led by higher sales of baby monitors, which compensated for a decline in residential phones sales. In this market, the RM7764HD Baby Monitor was named an “Editor’s Picks Product” in the “My Child Excellence Awards 2021” from *My Child* magazine. It was also the “Best Baby Monitor 2021 – Bronze Winner” in the “Bounty Baby Awards”. In Japan, sales decreased owing to a shortage of semiconductors for an existing customer of residential phones. Sales in Hong Kong trended lower, as orders for IADs declined, although VTech launched a new generation of home gateway that supports Wi-Fi 6 and has a changeable faceplate during the first six months.

CMS revenue in Asia Pacific declined by 7.3% to US\$143.4 million. Lower sales of professional audio equipment offset growth in medical and health products and communication products. The professional audio category was affected by lower sales of DJ equipment, as the Group’s Malaysian facilities shut down for a total of 45 days during the financial year 2022, following the imposition by the Malaysian government of a Movement Control Order to curb the spread of COVID-19. There were also lower orders for USB streaming microphones for online KOLs (Key Opinion Leaders), resulting from over-inventory at a customer. In contrast, sales of medical and health products rose. There were more orders for diagnostic ultrasound systems, as hospitals rebalanced budgets away from COVID-19 related equipment purchases, while demand for hearables increased as business activity recovered. Sales of communication products were higher as orders for marine radios improved following the launch of a new generation of products by the customer.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 2.7% to US\$21.9 million in the financial year 2022. The decrease came as lower sales of TEL products and CMS offset growth in ELPs. Other Regions accounted for 0.9% of Group revenue.

ELPs revenue in Other Regions increased by 29.8% to US\$10.9 million. Higher sales in Latin America offset declines in the Middle East and Africa.

TEL products revenue in Other Regions fell by 21.0% to US\$10.9 million. The decline was attributable to sales decreases in Latin America and the Middle East, which offset growth in Africa.

CMS revenue in Other Regions was US\$0.1 million, as compared to US\$0.3 million in the previous financial year.

Building a Sustainable Future Together

VTech is a global leader in ELPs and residential telephony, as well as a world-leading contract manufacturing service provider. With 46 years of excellence in technological innovation, the Group has a steadfast commitment to build a sustainable future to improve the lives of people and for future generations. This includes sustainable design for products and packaging, climate change initiatives, and provision of a safe and inclusive workplace for the employees with ethical sourcing practices throughout its supply chain.

Despite the ongoing COVID-19 pandemic and the challenges it has brought to the world, VTech continues to make progress towards a circular economy. Last year, VTech introduced its first range of green ELPs that utilise plant-based plastic, reclaimed plastic and Forest Stewardship Council (FSC) certified wood. Later this year, VTech will launch two new plush ELPs with fabric made from recycled polyethylene terephthalate (PET) bottles, and offer more eco-friendly toy products made from plant-based plastic and FSC-certified wood. As for sustainable packaging, over 94% of the packaging materials for its ELPs is recyclable, of which about 85% is made from recycled materials.

In order to combat climate change and its impacts on the planet, VTech continues to extend its investment in solar technology together with various energy efficiency projects at its manufacturing sites, and implement a number of water saving and waste management programmes to reduce natural resources consumption in its factory operations. As a responsible corporate citizen, VTech also collaborates with its suppliers to provide a safe, inclusive and sustainable workplace throughout its supply chain, and promote ethical sourcing practices through its suppliers' commitment to VTech's code of conduct.

Looking to the future, VTech will continue to step up efforts 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 benefit of society, aiming to drive sustainable value for its stakeholders and the communities.

Outlook

Many uncertainties lie ahead in the financial year 2023. On the demand side, high inflation in both the US and Europe may slow consumer spending. The spread of COVID-19 in mainland China has recently prompted lockdowns in major cities, which are negatively impacting domestic consumption. On the cost side, materials prices remain elevated. This is especially true of plastic materials, as the war in Ukraine has pushed up oil prices significantly. The supply of semiconductors and critical components remains tight, with the lockdowns in mainland China also disrupting the global supply chain. Despite some improvement in the supply of containers, freight costs will also be higher than last year.

The direct effects on the Group of the war in Ukraine will be minimal, as its sales to Ukraine and Russia represented only about 0.2% of Group revenue in the financial year 2022.

In spite of the uncertain business environment, the Group is cautiously optimistic of achieving overall top-line growth in the financial year 2023. Gross profit margin, meanwhile, is expected to be largely stable year-on-year, owing to the continued headwinds of elevated materials prices and freight costs, as well as shortages of critical components.

The Group is now much better prepared to tackle the supply chain pressures. Sufficient stockpiles of materials are in place to meet the strong orders on hand, while earlier production and shipment schedules will ensure new products reach customers on time, and channel inventory will greatly improve.

ELPs revenue is forecast to post modest growth in the financial year 2023. This will be driven by strong product offerings, on-time delivery of products, improved channel inventory and more well-planned advertising and promotions. The infant, toddler and preschool products will maintain their positive momentum as the Group strengthens its core learning and licensed products. The expanded Spring offerings have hit the shelves on time and the initial sell-through has been good. Among the upcoming new product launches for Autumn is Magic Adventures Microscope™, which lets children explore interesting facts related to flowers, insects, the human body and more through over 220

custom BBC videos and images. Subscriptions to LeapFrog Academy are expected to return to growth as the supply of LeapFrog tablets improves, supported by content targeting older age groups. In mainland China, however, sales are expected to decrease as the lockdowns in major cities are negatively impacting both offline and online sales.

TEL products are expected to achieve higher revenue. This will be driven by increased sales of commercial phones and other telecommunication products, augmented by the recovery of VTech branded residential phones in the US and expansion in Europe. The continued good momentum of commercial phones and other telecommunication products will be supported by a wide array of new products. The baby monitors category will be strengthened by the expansion of the LeapFrog range and a series of VTech branded baby monitors with AI (artificial intelligence) detection features. In commercial phones, the D8 series of advanced Snom SIP desksets, along with a new range of the multi-cell SIP DECT mobility system, will be rolled out globally. A work-from-anywhere series, including a Bluetooth conference speaker with audio recording function and a professional headset, will be launched in the third quarter of the financial year 2023. VTech hospitality phones will be revamped, with a new series featuring a contemporary design.

CMS revenue is anticipated to return to growth as the order book is strong. Benefiting from the global economy recovering to its pre-pandemic level, and a very sizable backlog of orders, most product categories are forecast to grow. The exception will be hearables, which are expected to decline further on lower demand for mobile headsets. The contribution from the new smart energy management system is expected to become significant during the financial year 2023, as the complete product line enters full production. Further growth is expected from the New Product Introduction (NPI) centre in Shenzhen, while the Mexican facility will ramp up production and begin to build up its EMS capacity. As ongoing materials shortages may constrain VTech's ability to meet all orders on time, the Group is taking steps to work closely with customers and suppliers to secure a high level of mutual support during critical situations.

"VTech is now much better prepared for the headwinds ahead than a year ago. We have strong brands, a diverse product mix, a proven ability to bring innovative products to market and a strong financial position. As such, the Group is in a good position to deliver solid results in the current financial year, as we continue to strengthen our market leadership and pursue operational excellence," 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, 16 May 2022 (HKT), the archived webcast of the results announcement can be accessed through VTech website via this link

<https://www.vtech.com/en/investors/financial-briefings/>.

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