



Universal Electronics Reports First Quarter 2019 Results

May 2, 2019

SCOTTSDALE, Ariz.--(BUSINESS WIRE)--May 2, 2019-- Universal Electronics Inc. (UEI), (NASDAQ: UEIC), the worldwide leader in sensing and control technologies for the smart home, reported financial results for the three months ended March 31, 2019.

Paul Arling, UEI's chairman and CEO, stated, "During the first quarter, based on solid execution across the board, we exceeded our bottom line expectations. Demand for the connected home remains strong, and entering the second quarter, we have a wider array of customers than ever. Leading companies across the world in telecom, consumer electronics, and traditional cable and satellite are developing, testing, and shipping advanced, 2-way, IP-connected home entertainment systems. Combined with our ongoing success in home automation, we are well positioned to deliver consistent and profitable growth."

Financial Results for the Three Months Ended March 31: 2019 Compared to 2018

- GAAP net sales were \$184.2 million, compared to \$164.7 million; Adjusted Non-GAAP net sales were \$182.7 million, compared to \$165.2 million.
- GAAP gross margins were 21.7%, compared to 22.6%; Adjusted Non-GAAP gross margins were 25.8%, compared to 23.9%.
- GAAP operating income was \$1.7 million, compared to \$0.9 million; Adjusted Non-GAAP operating income was \$14.6 million, compared to \$6.1 million.
- GAAP net loss was \$1.0 million, or \$0.07 per share, compared to a net loss of \$0.6 million or \$0.04 per share; Adjusted Non-GAAP net income was \$11.3 million, or \$0.82 per diluted share, compared to \$4.1 million, or \$0.29 per diluted share.
- At March 31, 2019, cash and cash equivalents were \$44.9 million.

Bryan Hackworth, UEI's CFO, stated, "We are progressing as expected with the transition of approximately 40 percent of production volume from China to Mexico and the Philippines in an effort to offset the impact of the increased tariffs. We remain on track for this transition to be completed by this summer. Further, our 2019 strategic initiatives to streamline the business are beginning to improve operating efficiencies and are enabling us to invest in product innovation, technologies and new markets."

Financial Outlook

For the second quarter of 2019, the company expects GAAP net sales to range between \$180 million and \$190 million, compared to \$162.5 million in the second quarter of 2018. GAAP earnings per diluted share for the second quarter of 2019 are expected to range from \$0.20 to \$0.30, compared to GAAP earnings per diluted share of \$1.60 in the second quarter of 2018. During the second quarter of 2018, UEI sold its Guangzhou factory and recognized a gain of \$37.0 million.

For the second quarter of 2019, the company expects Adjusted Non-GAAP net sales to range between \$178 million and \$188 million, compared to \$162.4 million in the second quarter of 2018. Adjusted Non-GAAP earnings per diluted share are expected to range from \$0.70 to \$0.80, compared to Adjusted Non-GAAP earnings per diluted share of \$0.15 in the second quarter of 2018. The second quarter 2019 Adjusted Non-GAAP earnings per diluted share estimate excludes \$0.50 per share related to, among other things, stock-based compensation, amortization of acquired intangibles, changes in contingent consideration relating to acquisitions, foreign currency gains and losses, excess manufacturing overhead and factory transition costs, recently enacted U.S. tariffs on goods manufactured in China, restructuring costs and the related tax impact of these adjustments. For a more detailed explanation of Non-GAAP measures, please see the Use of Non-GAAP Financial Metrics discussion and the Reconciliation of Adjusted Non-GAAP Financial Results, each located elsewhere in this press release.

Conference Call Information

UEI's management team will hold a conference call today, Thursday, May 2, 2019 at 4:30 p.m. ET / 1:30 p.m. PT, to discuss its first quarter 2019 earnings results, review recent activity and answer questions. To access the call in the U.S. please dial 877-843-0414, and for international calls dial 315-625-3071 approximately 10 minutes prior to the start of the conference. The conference ID is 6581398. The conference call will also be broadcast live at www.uei.com where it will be available for replay for one year. In addition, a replay will be available via telephone for two business days beginning two hours after the call. To listen to the replay, in the U.S. please dial 855-859-2056, and internationally dial 404-537-3406. The access code is 6581398.

Use of Non-GAAP Financial Metrics

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, UEI provides Adjusted Non-GAAP information as additional information for its operating results. References to Adjusted Non-GAAP information are to non-GAAP financial measures. These measures are not required by, in accordance with, or an alternative for, GAAP and may be different from non-GAAP financial measures used by other companies. UEI's management uses these measures for reviewing the financial results of UEI, for budget planning purposes, and for making operational and financial decisions and believes that providing these non-GAAP financial measures to investors, as a supplement to GAAP financial measures, helps investors evaluate UEI's core operating and financial performance and business trends consistent with how

management evaluates such performance and trends. Additionally, management believes these measures facilitate comparisons with the core operating and financial results and business trends of competitors and other companies.

Adjusted Non-GAAP net sales is defined as net sales excluding the revenue impact of increased U.S. tariffs on products manufactured in China and imported into the U.S. and the impact of stock-based compensation for performance-based warrants. Adjusted Non-GAAP gross profit is defined as gross profit excluding the impact of increased U.S. tariffs on products manufactured in China and imported into the U.S. and costs of implementing countermeasures to mitigate this impact, excess manufacturing overhead and factory transition costs, stock-based compensation expense, depreciation expense related to the increase in fixed assets from cost to fair market value resulting from acquisitions and amortization of intangibles acquired. Adjusted Non-GAAP operating expenses are defined as operating expenses excluding costs incurred related to implementing countermeasures to mitigate the impact of increased U.S. tariffs on products manufactured in China and imported into the U.S., stock-based compensation expense, amortization of intangibles acquired, changes in contingent consideration related to acquisitions and employee related restructuring and other costs. Adjusted Non-GAAP net income is defined as net income excluding the aforementioned items, foreign currency gains and losses, the related tax effects of all adjustments and adjustments to certain deferred tax assets resulting from tax incentives at one of our China factories. Adjusted Non-GAAP diluted earnings per share is calculated using Adjusted Non-GAAP net income. A reconciliation of these financial measures to the most directly comparable GAAP financial measures is included at the end of this press release.

About Universal Electronics

Universal Electronics Inc. (NASDAQ: UEIC) is the worldwide leader in universal control and sensing technologies for the smart home. For more information, please visit www.uei.com/about.

Note on Forward-looking Statements

This press release and accompanying schedules contain "forward-looking statements" within the meaning of federal securities laws, including net sales, profit margin and earnings trends, estimates and assumptions; our expectations about new product introductions; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent annual report on Form 10-K and the periodic reports filed thereafter. Risks that could affect forward-looking statements in this press release include our ability to anticipate the needs and wants of our customers, new and existing, and timely develop and deliver products and technologies that will meet those needs and wants, including our advanced control products, our intuitive 2-way home entertainment technologies, and our home automation and sensing products and technologies; management's ability to manage its business to achieve its net sales, margins, and earnings as guided, including management's ability to improve operating costs and efficiencies at acceptable levels through cost containment efforts including moving our administrative, operations, and manufacturing facilities to lower cost jurisdictions, and effects that changes in laws, regulations and policies may have on our business including the impact of trade regulations pertaining to importation of our products and the tariffs imposed upon them. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this press release. We make these forward-looking statements as of May 2, 2019. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share-related data)
(Unaudited)

| | March 31, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 44,895 | \$ 53,207 |
| Accounts receivable, net | 158,071 | 144,689 |
| Contract assets | 26,001 | 25,572 |
| Inventories, net | 149,966 | 144,350 |
| Prepaid expenses and other current assets | 10,024 | 11,638 |
| Income tax receivable | 2,255 | 997 |
| Total current assets | 391,212 | 380,453 |
| Property, plant and equipment, net | 94,036 | 95,840 |
| Goodwill | 48,448 | 48,485 |
| Intangible assets, net | 23,237 | 24,370 |
| Operating lease right-of-use assets | 21,315 | — |
| Deferred income taxes | 1,741 | 1,833 |
| Other assets | 2,366 | 4,615 |
| Total assets | \$ 582,355 | \$ 555,596 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 107,715 | \$ 107,282 |
| Line of credit | 106,500 | 101,500 |
| Accrued compensation | 33,864 | 33,965 |
| Accrued sales discounts, rebates and royalties | 7,813 | 9,574 |

| | | |
|---|------------|------------|
| Accrued income taxes | 1,881 | 3,524 |
| Other accrued liabilities | 31,669 | 24,011 |
| Total current liabilities | 289,442 | 279,856 |
| Long-term liabilities: | | |
| Operating lease obligations | 17,520 | — |
| Contingent consideration | 4,846 | 8,435 |
| Deferred income taxes | 3,722 | 930 |
| Income tax payable | 1,640 | 1,647 |
| Other long-term liabilities | 13 | 1,768 |
| Total liabilities | 317,183 | 292,636 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 5,000,000 shares authorized; none issued or outstanding | — | — |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 24,018,606 and 23,932,703 shares issued on March 31, 2019 and December 31, 2018, respectively | 240 | 239 |
| Paid-in capital | 278,801 | 276,103 |
| Treasury stock, at cost, 10,159,205 and 10,116,459 shares on March 31, 2019 and December 31, 2018, respectively | (277,104) | (275,889) |
| Accumulated other comprehensive income (loss) | (18,548) | (20,281) |
| Retained earnings | 281,783 | 282,788 |
| Total stockholders' equity | 265,172 | 262,960 |
| Total liabilities and stockholders' equity | \$ 582,355 | \$ 555,596 |

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2019 | 2018 |
| Net sales | \$ 184,163 | \$ 164,698 |
| Cost of sales | 144,289 | 127,496 |
| Gross profit | 39,874 | 37,202 |
| Research and development expenses | 6,791 | 6,051 |
| Selling, general and administrative expenses | 31,420 | 30,247 |
| Operating income | 1,663 | 904 |
| Interest income (expense), net | (1,206) | (1,070) |
| Other income (expense), net | (466) | (587) |
| Income (loss) before provision for income taxes | (9) | (753) |
| Provision for income taxes (benefit) | 996 | (166) |
| Net income (loss) | \$ (1,005) | \$ (587) |
| Earnings (loss) per share: | | |
| Basic | \$ (0.07) | \$ (0.04) |
| Diluted | \$ (0.07) | \$ (0.04) |
| Shares used in computing earnings (loss) per share: | | |
| Basic | 13,827 | 14,087 |
| Diluted | 13,827 | 14,087 |

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2019 | 2018 |
| Cash provided by (used for) operating activities: | | |
| Net income (loss) | \$ (1,005) | \$ (587) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 8,019 | 8,243 |

| | | |
|---|------------------|------------------|
| Provision for doubtful accounts | 3 | 4 |
| Provision for inventory write-downs | 2,537 | 756 |
| Deferred income taxes | 2,966 | 913 |
| Shares issued for employee benefit plan | 347 | 336 |
| Employee and director stock-based compensation | 1,918 | 2,204 |
| Performance-based common stock warrants | 434 | 471 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and contract assets | (14,056) | (266) |
| Inventories | (6,519) | 1,372 |
| Prepaid expenses and other assets | 735 | (455) |
| Accounts payable and accrued liabilities | 3,017 | (21,160) |
| Accrued income taxes | (2,943) | (3,774) |
| Net cash provided by (used for) operating activities | (4,547) | (11,943) |
| Cash provided by (used for) investing activities: | | |
| Acquisitions of property, plant and equipment | (2,800) | (9,314) |
| Acquisitions of intangible assets | (653) | (571) |
| Net cash provided by (used for) investing activities | (3,453) | (9,885) |
| Cash provided by (used for) financing activities: | | |
| Borrowings under line of credit | 25,000 | 13,000 |
| Repayments on line of credit | (20,000) | (10,000) |
| Proceeds from stock options exercised | — | 439 |
| Treasury stock purchased | (1,215) | (615) |
| Contingent consideration payments in connection with business combinations | (4,251) | (3,858) |
| Net cash provided by (used for) financing activities | (466) | (1,034) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 154 | 832 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (8,312) | (22,030) |
| Cash, cash equivalents and restricted cash at beginning of year | 53,207 | 67,339 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 44,895</u> | <u>\$ 45,309</u> |
| Supplemental cash flow information: | | |
| Income taxes paid | \$ 1,942 | \$ 2,893 |
| Interest paid | 1,186 | 1,164 |

UNIVERSAL ELECTRONICS INC.
RECONCILIATION OF ADJUSTED NON-GAAP FINANCIAL RESULTS

(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------------|
| | 2019 | 2018 |
| Net sales: | | |
| Net sales - GAAP | \$ 184,163 | \$ 164,698 |
| U.S. tariffs on goods imported from China ⁽¹⁾ | (1,916) | — |
| Stock-based compensation for performance-based warrants | 434 | 471 |
| Adjusted Non-GAAP net sales | <u>\$ 182,681</u> | <u>\$ 165,169</u> |
| Cost of sales: | | |
| Cost of sales - GAAP | \$ 144,289 | \$ 127,496 |
| U.S. tariffs on goods imported from China ⁽¹⁾ | (5,410) | — |
| Excess manufacturing overhead and factory transition costs ⁽²⁾ | (3,272) | (1,553) |
| Adjustments to acquired tangible assets ⁽³⁾ | (120) | (158) |
| Stock-based compensation expense | (28) | (17) |
| Amortization of acquired intangible assets | — | (37) |
| Adjusted Non-GAAP cost of sales | <u>135,459</u> | <u>125,731</u> |
| Adjusted Non-GAAP gross profit | <u>\$ 47,222</u> | <u>\$ 39,438</u> |
| Gross margin: | | |
| Gross margin - GAAP | 21.7% | 22.6% |
| U.S. tariffs on goods imported from China ⁽¹⁾ | 2.1% | —% |
| Stock-based compensation for performance-based warrants | 0.2% | 0.3% |

| | | |
|---|--------------|--------------|
| Excess manufacturing overhead and factory transition costs ⁽²⁾ | 1.7% | 0.9% |
| Adjustments to acquired tangible assets ⁽³⁾ | 0.1% | 0.1% |
| Stock-based compensation expense | 0.0% | 0.0% |
| Amortization of acquired intangible assets | —% | 0.0% |
| Adjusted Non-GAAP gross margin | <u>25.8%</u> | <u>23.9%</u> |

Operating expenses:

| | | |
|--|------------------|------------------|
| Operating expenses - GAAP | 38,211 | 36,298 |
| U.S. tariffs on goods imported from China ⁽¹⁾ | (724) | — |
| Stock-based compensation expense | (1,890) | (2,187) |
| Amortization of acquired intangible assets | (1,401) | (1,399) |
| Change in contingent consideration | (1,062) | 751 |
| Employee related restructuring and other costs | (515) | (112) |
| Adjusted Non-GAAP operating expenses | <u>\$ 32,619</u> | <u>\$ 33,351</u> |

UNIVERSAL ELECTRONICS INC.
RECONCILIATION OF ADJUSTED NON-GAAP FINANCIAL RESULTS

(In thousands, except per share amounts)

(Unaudited)

| | <u>Three Months Ended March 31,</u> | |
|---|-------------------------------------|-----------------|
| | <u>2019</u> | <u>2018</u> |
| Operating income: | | |
| Operating income - GAAP | \$ 1,663 | \$ 904 |
| U.S. tariffs on goods imported from China ⁽¹⁾ | 4,218 | — |
| Stock-based compensation for performance-based warrants | 434 | 471 |
| Excess manufacturing overhead and factory transition costs ⁽²⁾ | 3,272 | 1,553 |
| Adjustments to acquired tangible assets ⁽³⁾ | 120 | 158 |
| Stock-based compensation expense | 1,918 | 2,204 |
| Amortization of acquired intangible assets | 1,401 | 1,436 |
| Change in contingent consideration | 1,062 | (751) |
| Employee related restructuring and other costs | 515 | 112 |
| Adjusted Non-GAAP operating income | <u>\$ 14,603</u> | <u>\$ 6,087</u> |
| Adjusted pro forma operating income as a percentage of net sales | 8.0% | 3.7% |
| Net income (loss): | | |
| Net income (loss) - GAAP | \$ (1,005) | \$ (587) |
| U.S. tariffs on goods imported from China ⁽¹⁾ | 4,218 | — |
| Stock-based compensation for performance-based warrants | 434 | 471 |
| Excess manufacturing overhead and factory transition costs ⁽²⁾ | 3,272 | 1,553 |
| Adjustments to acquired tangible assets ⁽³⁾ | 120 | 158 |
| Stock-based compensation expense | 1,918 | 2,204 |
| Amortization of acquired intangible assets | 1,401 | 1,436 |
| Change in contingent consideration | 1,062 | (751) |
| Employee related restructuring and other costs | 515 | 112 |
| Foreign currency (gain) loss | 403 | 605 |
| Income tax provision on adjustments | (2,761) | (1,061) |
| Other income tax adjustments ⁽⁴⁾ | 1,772 | — |
| Adjusted Non-GAAP net income | <u>\$ 11,349</u> | <u>\$ 4,140</u> |
| Diluted shares used in computing earnings (loss) per share: | | |
| GAAP | 13,827 | 14,087 |
| Adjusted Non-GAAP | 13,920 | 14,233 |
| Diluted earnings (loss) per share: | | |
| Diluted earnings (loss) per share - GAAP | \$ (0.07) | \$ (0.04) |
| Total adjustments | \$ 0.89 | \$ 0.33 |
| Adjusted Non-GAAP diluted earnings per share | \$ 0.82 | \$ 0.29 |

- (1) Includes incremental revenues and costs directly attributable to the increased U.S. tariffs implemented in 2018 on goods manufactured in China and imported into the U.S. as well as costs incurred for the movement of factory equipment, duplicative labor efforts and other costs of countermeasures undertaken by the company to modify its manufacturing operations and supply chain in response to the increased U.S. tariffs on goods manufactured in China and imported into the U.S.
- (2) The three months ended March 31, 2019 include excess manufacturing overhead costs incurred as a result of expanding our manufacturing capacity in Mexico and transitioning certain of our manufacturing activities from China to Mexico. The three months ended March 31, 2018 include excess manufacturing costs incurred resulting from factory underutilization associated with ceasing manufacturing activities while transitioning our Asia operations onto our new global ERP system, which went live in Asia in April 2018.
- (3) Consists of depreciation related to the mark-up from cost to fair value of fixed assets acquired in business combinations.
- (4) The three months ended March 31, 2019 includes net deferred tax asset adjustments resulting from a lower statutory tax rate due to tax incentives at one of our China factories.

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