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UEIC - Q4 2013 Universal Electronics Inc. Earnings
Conference Call

EVENT DATE/TIME: FEBRUARY 20, 2014 / 09:30PM GMT

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Paul Arling *Universal Electronics Inc. - Chairman & CEO*

Bryan Hackworth *Universal Electronics Inc. - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Josh Goldberg *G2 Investments - Analyst*

Jason Ursaner *CJS Securities - Analyst*

Ian Corydon B. Riley & Co. - Analyst

Steven Frankel *Dougherty - Analyst*

Andy Hargreaves *Pacific Crest Securities - Analyst*

PRESENTATION

Operator

Good afternoon, my name is Danielle, and I will be your conference operator today. At this time, I would like to welcome everyone to the Universal Electronics Fourth Quarter and Year End 2013 Results Conference Call. All participants are in a listen-only mode. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce Ms. Becky Herrick of LHA. You may begin your conference.

Becky Herrick - LHA - IR

Thank you operator, and thank you all for joining us for the Universal Electronics fourth quarter and full-year 2013 conference call. By now, you should have received a copy of the press release. If you have not, please contact LHA at 415-433-3777.

This call is being broadcast live over the Internet. And a webcast replay will be available for one year at www.uei.com. Also, any additional updated material non-public information that might be discussed during this call will be provided on the Company's website where it will be retained for at least one year. You may also access that information by listening to the webcast replay.

After reading a short Safe Harbor statement, I will turn the call over to management.

During the course of this conference call, management may make projections or other forward-looking statements regarding future events and the future financial performance of the Company, including the benefits anticipated by the Company due to the continued strength across its entire business; the continued innovation of products and advanced technologies that will attract new customers in existing and new markets; the continued expansion of the Company's technologies into smart devices such as smart phones, tablets, smart TVs, IPTV devices, game consoles and over-the-top services, including the benefits anticipated by management due to Microsoft selecting the Company to embed its technology into the Xbox One console and the continued deployment of the Company's QuickSet and Control Plus technologies into home entertainment products; and the other factors described in the Company's filings with the US Securities and Exchange Commission. The actual results the Company achieves may differ materially from any forward-looking statements due to such risks and uncertainties.

Management wishes to caution you that these statements are just projections and actual results or events may differ materially and the Company undertakes no obligation to revise or update these statements to reflect events or circumstances that may arise after today's date. For further detail on risk, management refers you to the press release mentioned at the onset of this call and the documents the Company files from time to time with the SEC, including the Annual Report on Form 10-K for the year ended December 31, 2012 and those periodic reports filed since then. These documents contain and identify various factors that could cause actual results to differ materially from those contained in management's projections or forward-looking statements.

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Also the Company references adjusted pro forma or non-GAAP metrics in this call. These adjusted pro forma metrics are provided because management uses them in making financial, operating and planning decisions, and in evaluating the Company's performance. The Company believes these measures will assist investors in assessing the Company's underlying performance for the periods being reported. In 2013, adjusted pro forma metrics primarily excluded amortization expense relating to intangible assets acquired, employee-related restructuring costs, and certain costs incurred for years preceding the acquisition of Enson Assets Limited. Beginning in the first quarter of 2014, the Company will also exclude stock-based compensation expense from its adjusted pro forma results in an effort to better reflect the Company's true operating performance as well as to provide a better comparison to other companies in its sector.

In management's financial remarks, it will reference adjusted pro forma metrics. A full reconciliation of these adjusted pro forma measures versus GAAP is included in the Company's press release that was issued after the close of market today.

On the call today are Chairman and Chief Executive Officer, Paul Arling, who will deliver an overview; and Chief Financial Officer, Bryan Hackworth, who will summarize the financials. And then Paul will return to provide closing remarks. It's now my pleasure to introduce Paul Arling. Please go ahead, Paul.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Thank you, Becky.

Our fourth quarter results again reflect the strong performance across our entire business. For the fourth quarter, we reported 16% year-over-year revenue growth and a 17% operating income increase over the same period last year. For the full year, we reported net sales of \$529.4 million, up 14% over 2012. In addition, we grew operating income 22% for the full year 2013 compared to 2012.

Years ago, we began developing and patenting advanced wireless control technologies designed for the emerging connected home market. In 2012, as market interest accelerated and connected devices proliferated, we began demonstrating the many applications for our technology in new product categories. As a consequence, many of the world's largest mobile, smart TV, tablet and game console manufacturers began embedding UEI's advanced technologies into their devices.

This year, we continue to gain traction in the connected home category.

With millions of new devices being incorporated into the home entertainment environment, the need for simplicity and streamlining of the entertainment control experience has become a priority for device manufacturers, content providers, and mobile platforms. UEI has established a proven track record of successful innovation by proactively developing and patenting technology that incorporates ease of use and advanced functionality. UEI QuickSet exemplifies how our forward-thinking innovation is adopted and then evangelized. We expect our next-generation control solution, Control Plus, as well as future solutions, to follow a similar path.

QuickSet is currently deployed in over 70 million devices around the world, including set-top boxes, smartphones, smart TVs and game consoles, and it is available on a variety of platforms and operating systems. This embedded software technology enables an AV device remote to be set up and programmed to control virtually any television or entertainment device in the home. The important point here is that we achieved this with minimal or no user input.

Licensees of UEI QuickSet include DIRECTV, EchoStar, Sony, LG for its leading smartphone models, and most recently Microsoft on its Xbox One gaming system, which began shipping in late 2013. This, as it has always been, is the ultimate litmus test of our progress as a company. That is the impressive, growing list of industry-leading companies that have adopted our products and technologies to power their next-generation home entertainment products.

At the International Consumer Electronics Show in January, we announced the latest release of our industry-leading QuickSet technology. Among QuickSet's key new features are its ability to automatically set up a device by identifying the brand and model of connected devices without requiring user input; and a cloud-based service that ensures access to a real-time and continuously updated device code database, future proofing the universal control interface.

Our next technology breakthrough comes in the form of Control Plus; a technology that builds on UEI QuickSet to automatically discover and set up connected devices, but also enables automatic configuration of activities for one-touch control. This technology is uniquely positioned to address the most common frustration for average consumers: mode confusion and input switching. We continue to receive encouraging feedback from our customers that confirms our commitment to this technology solution.

In 2013, we released several new advanced remote control products for many of our key partners in the OEM space, including Sony and Panasonic. These advanced remotes are bundled with smart televisions and include such features as touch pad and voice control, content mirroring using NFC and RF technologies, as well as motion and downstream audio. Our position in the industry continues to be strong and we are confident that UEI will be at the forefront of providing the control solutions that address consumers' desires to make their home entertainment environment easier to access and control.

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With that, I'd like to turn the call over to our CFO, Bryan Hackworth, to discuss our financial results.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Thank you, Paul.

As a reminder, our results for the fourth quarter and full-year 2013, as well as the same periods in 2012, will reference adjusted pro forma metrics.

Fourth quarter 2013 net sales were \$136.1 million, up 15.6%, compared to \$117.8 million for the fourth quarter of 2012. Business Category net sales were \$117.2 million, compared to the fourth quarter 2012 net sales of \$102.8 million. Our Consumer Category net sales were \$18.9 million, compared to the fourth quarter 2012 net sales of \$15 million.

Gross profit for the fourth quarter was \$40.9 million, or 30% of sales, compared to a gross margin of 30.5% in the fourth quarter of 2012.

Total operating expenses were \$30.5 million, compared to \$27.1 million in the fourth quarter of 2012. Breaking down our operating expenses: R&D expense was \$4 million, compared to \$3.7 million in the fourth quarter of 2012. SG&A expenses were \$26.5 million, compared to \$23.3 million in the fourth quarter of 2012.

Operating income was \$10.4 million in the fourth quarter of 2013, an increase of 17% when compared to \$8.9 million in the fourth quarter of 2012.

The effective tax rate was 23% in the fourth quarter of 2013, compared to 20.7% in the fourth quarter of 2012.

Net income for the fourth quarter of 2013 was \$7.8 million or \$0.49 per diluted share, compared to \$6.3 million or \$0.42 per diluted share in the fourth quarter of 2012.

For the full year December 31, 2013, net sales were \$529.4 million, up 14.3%, compared to \$463.1 million in the same period of 2012. Gross margin for the full year of 2013 was 28.8%, compared to 29.1% in the same period a year ago. Total operating expenses were \$114.1 million, compared to \$102.9 million in 2012. Net income for 2013 increased by 22% to \$28.7 million or \$1.84 per diluted share, compared to \$23.4 million, or \$1.55 per diluted share, in the prior year period.

Next, I'll review our cash flow and balance sheet at December 31, 2013. We ended the quarter with cash and cash equivalents of \$76.2 million, compared to \$44.6 million at December 31, 2012. DSOs were approximately 63 days at December 31, 2013, compared to 69 days a year prior. Net inventory turns were approximately 3.8 turns at December 31, 2013, compared to 3.9 turns a year prior.

Now, turning to our guidance. In the first quarter of 2014, we expect revenue between \$120 million and \$126 million, compared to last year's first quarter revenue of \$114.7 million. Reflecting the exclusion of stock-based compensation expense, EPS for the first quarter is expected to range from \$0.33 to \$0.41 per diluted share, compared to \$0.32 recorded for the first quarter of 2013, which has been adjusted to reflect the exclusion of stock-based compensation expense. This guidance represents the best first quarter results in our Company's history.

I'd now like to turn the call back to Paul.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Thank you, Bryan.

Our financial results in 2013 continue our long-term track record of solid performance, which is reflected by an over 15% compound annual growth rate in sales and earnings over the last decade. Let me repeat that -- an over 15% compound annual growth rate in sales and earnings over the last decade.

We believe we are better positioned than ever for future success. Our strategy of providing the innovative products and technologies that provide an easier, more intuitive control interface for the consumer has expanded our market presence. And, our industry-leading and well-protected patent portfolio has ensured our leadership position within the home entertainment control industry.

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Across the world, the list of industry-leading companies that utilize our next-generation control technologies is impressive. We continue to win new customers, expand relationships with existing customers, and deepen our penetration of new markets and geographies. We remain committed to this strategy and believe it will continue to serve us well in the months and years ahead.

Stay tuned.

I'd like to now open it up for questions. Tanya?

QUESTION AND ANSWER

Operator

(Operator Instructions) Ian Corydon, B. Riley & Co.

Ian Corydon - B. Riley & Co. - Analyst

Thank you. Just looking at the operating expenses in the fourth quarter, it looks like they grew faster than revenues, which I think is a little different from the trend earlier in the year. Can you just talk about why that was and what we should expect going forward?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes. The increase in OpEx part is variable since we had a significant increase in net sales. But we also had additional legal costs. I think you're aware of that. We're currently in a couple of lawsuits and we're vigorously defending our IP. So that cost us a little extra and as well as we had incentive compensation in Q4. We exceeded our targets actually for the year and some of its back-end loaded, so the incentive comp [was reflected] in Q4.

Ian Corydon - B. Riley & Co. - Analyst

Okay. And then in terms of the gross margin, can you help us out a little bit with what's implied in the Q1 guidance and how you think fiscal 2014 plays out on gross margin?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes. We don't give specific guidance on gross margin. I will say that I expect it to tick up a bit, a little bit in 2014, mainly due to the license revenue that we've been talking about. So, I do expect some growth in 2014.

Ian Corydon - B. Riley & Co. - Analyst

Okay and on the mobile side, understanding you don't give us a lot of information. Can you just maybe talk about the unit growth you expect in 2014 in terms of mobile devices that will include your technology versus what's shipped in 2013?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

It's difficult for us to give a precise number on that, Ian, because there is -- I think, as we explained last year, there's three stages to a project there is the buy-in, the sell-in of it or the commencement, then there is the design-in, because you have to have the product software done and also the product launch, which we may or may not be -- the critical path item on.

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So, sometimes the product may be scheduled to go out in May and it doesn't go up till July. And then of course you have the sell-in after the project has actually launched. So you have those three stages. It's difficult for us sometimes to provide the long-term guidance on that because if one product slips a month or two or three or commencement doesn't occur in March, it occurs in April, there can be a lot of variables in it.

The important thing for us though is to get designed in. And that's what we focus our sales team on. Of course, we want to see the results, but the sell-in and start of a specific project on a product is sometimes a variable. So we don't really want to provide any guidance on units.

I will say this, though, that our smart device units this year, if we were to include all the things I mentioned earlier, are going to see some growth this year. Obviously, we had some design-ins in the year 2013 that are going to ship all year this year. So it's easy for us to say that there's going to be some significant growth on the unit volumes in these smart device categories.

Ian Corydon - B. Riley & Co. - Analyst

Perfect. Thank you.

Operator

Jason Ursaner, CJS Securities.

Jason Ursaner - CJS Securities - Analyst

Good afternoon. Congrats on a strong end to the year.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Thank you.

Jason Ursaner - CJS Securities - Analyst

On the guidance, yes, I understand the move away from full-year guidance in the past just due to the embedded market. But can you maybe talk a little bit about seasonality for the core business, traditional seasonality and how you view this year shaping up just from the TV market and the cable market?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes. In our core market, traditional seasonality, you'll have sales in Q3 be our largest. That's what you've seen in the last few years and I don't expect that to change in 2014.

Jason Ursaner - CJS Securities - Analyst

Okay.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

And then Q1 is usually a little lighter. And if you're talking about the Consumer Category, Q4 is obviously the largest because you're talking about the holiday season.

Jason Ursaner - CJS Securities - Analyst

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Okay. And Paul, you just mentioned the embedded market, the three stages of development, product launch and volume, can you talk a little bit about the cycle for UEIC though in terms of -- on the cost side, but also revenue recognition?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Well, the cost side is, as we do the work -- we have a team of engineers here, obviously the expenses on them are recognized every month. The team of engineers here works on the projects, there is obviously a lot of work that goes in prior to even commencement because just earning the business requires you to do work.

And then upon commencement, there is a -- that's where the work ramps up before the revenue starts, because you have to do the design-in on the software, work with the engineers in the smart device company to get it done. And then when the product launches then you'll enjoy the revenues from it.

Now, different contracts vary there sometimes and are re-embedded, but oftentimes not. So all contracts are a little different. Sometimes it's the sell-in of a product, sometimes it's just sell-in of a chip, sometimes there is an associated license for either the ongoing service of updating the database and/or the license of the technology in the patents or both.

It really varies on each individual contract. So generally that's how it works. There is a commencement you have to work to get it sold in, then you have to work to get it built in, and then the product has to launch usually before you'll enjoy any significant revenue.

Jason Ursaner - CJS Securities - Analyst

Got it. So when you talk about success on the design front with a couple of wins there, without being too specific on any contract at a high level, how large a headwind to margin would the mobile business had been in the quarter? Obviously, there is some volume coming through, but it sounds like there is also some cost ahead of revenue?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Yes, the overhead cost, not so much on the gross margin side. So the cost for most of this would fall into the SG&A category, either R&D or SG&A, because it's the engineers that you need to have on staff to do the work required to get these projects done. But it would affect the operating margin, but not the gross margin as much.

Jason Ursaner - CJS Securities - Analyst

Okay. And then I guess just a little on consolidation in the cable and MSO market, I guess specifically about the Comcast, Time Warner proposed merger and then more generally, how the US cable industry moving towards more national providers would affect you over time?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Well, look, I go back, obviously a number of years here, almost two decades myself, and this is something that's been there for the last 17 years. So when I started here, there were literally thousands of operators and thousands of decision makers. It's now down to a number far smaller than that. No more than a couple dozen.

So, I don't know that further consolidation, it may have an impact, it may not, it -- that hasn't been sorted out yet, but we're confident that the -- as it has happened over the last two decades, it will continue to happen. We bring the types of technology enhancements that these companies are looking to put in place. Regardless of which operator it is, they're all interested in making the consumer experience easier.

As I said in the prepared remarks, a lot of them are making this an imperative to make the consumer experience easier. So things like QuickSet, Control Plus and other technologies we're working on fit really nicely with the product plans that all of the operators have. So as they combine, they're going to have a similar, I guess, what I'm saying is as they combine, they're going to have a similar mindset on both sides of the equation through a merger.

Jason Ursaner - CJS Securities - Analyst

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Okay. And then just last question from me. The change to remove the stock-based comp, what's the expectation for total share comp in 2014 relative to the \$5 million or so in 2013?

Bryan Hackworth - *Universal Electronics Inc. - SVP & CFO*

It should be around the same, roughly.

Jason Ursaner - *CJS Securities - Analyst*

Okay. Appreciate that.

Operator

Steven Frankel, Dougherty.

Steven Frankel - *Dougherty - Analyst*

Good afternoon. Paul, you've spoken in past quarters about being able to embed Control Plus on the smart TV. Could you give us an update on what progress you might be making in in going beyond the initial win you had there?

Paul Arling - *Universal Electronics Inc. - Chairman & CEO*

Yes, we're -- and it wouldn't be just the smart TV, as I mentioned in the remarks, any device that would do any amount of AV switching, as we call it, so if the various sources that the consumer has are plugged into a device, typically in the home today that's a TV, but occasionally it's other devices, including some new game consoles and/or AV receivers. So that technology is targeted mainly towards those devices that do the AV switching or that sit on a HDMI bus that could enable that HDMI switching.

So we're talking to, at this point, it's many companies, about the inclusion of this in next-generation platforms. And we'll be reporting on it as time goes on as to wins for that Control Plus technology. But we are actively engaged with -- on the technical and, as I mentioned earlier, on commencement. And then we'll look at product launch and actual shipment on that technology.

Steven Frankel - *Dougherty - Analyst*

Okay. And just give us an update on the Latin American subscription broadcast market for you and how that's progressing?

Bryan Hackworth - *Universal Electronics Inc. - SVP & CFO*

Yes, it's progressing well, Steve. We formed an entity there about two and a half years ago and it's actually grown on a percentage basis significantly. Now, it's still -- again it's only a couple of years old, but we're really -- I think, I would say we've actually exceeded our expectations in terms of Latin America, specifically in Brazil. So it's gone really well.

Steven Frankel - *Dougherty - Analyst*

And is there anything relative to the World Cup that could accelerate business there?

Bryan Hackworth - *Universal Electronics Inc. - SVP & CFO*

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It could. I mean, we're expecting it to a bit. We don't give specifics to our guidance, but for Brazil, we're actually expecting it to again increase at a relatively high percentage from the prior year partly due to the World Cup.

Steven Frankel - Dougherty - Analyst

In terms of the software license ability to impact your gross margin, did we see kind of a full quarter's impact, [any of that] ramp in Q4 or is there more to come over the next couple of quarters?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Well, it depends on -- as we continue to gain customers, we should see a ramp up. We did see a positive effect in Q4. So Microsoft launched, as Paul mentioned, I have to go back and check regarding the exact launch date, but it may not have been a full quarter, but it did had a positive effect on the quarter from a gross margin perspective.

Steven Frankel - Dougherty - Analyst

And what, if any, potential headwinds are there in gross margins over the next couple of quarters?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

I mean nothing out of the ordinary. It's always typical where you have -- if you are in China, you got wage inflation, [of that nature], that's nothing new. We've offset those cost pressures over time and you can see with our margins being stable over the last few years and actually they've been very stable. So, I think with the licensing revenue, we should see a little bit of a tick up over time.

Jason Ursaner - CJS Securities - Analyst

Okay, great. Thanks.

Operator

(Operator Instructions) Andy Hargreaves, Pacific Crest Securities.

Andy Hargreaves - Pacific Crest Securities - Analyst

Just on the [Consumer Category] side, I know [that's not] a huge part of the business, but what drove the growth in Q4 and can you give us any expectations for 2014 around that?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes. [I would tell you] in Q4, we actually -- we had a strong season in retail in Europe and it's primarily in the UK. They had -- the [off-take] at the customers -- at the retailers was actually relatively strong at least for our products. And to be honest it actually exceeded our forecast. So it was strong primarily, majority of that -- the increase was due to sales in the UK.

And 2014, we don't provide specific guidance associated with [the Consumer Category], but like we've always said, last year and we continue to say this -- from a long-term perspective, we think we can grow topline 5% to 10% and the bottom line 10% to 15%.

Andy Hargreaves - Pacific Crest Securities - Analyst

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On the smart TV side, are you guys seeing any material ASP or gross profit per unit bumps on those remotes at this point?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Well, actually because we're selling in -- I guess you could say in a new way over the last couple of years, we're not just selling remote controls there although that is something we do. We're also selling embedded technology, sometimes embedded on chips. So, if you were to look at it that way, there's been a dollar value per unit market increase, substantial increase because there is more to the solution than just selling the traditional remote control.

And I would say that in terms of the market, it's widened because the higher-end TVs, they're putting some very nicely featured remotes into the higher end of the market. As I mentioned, there is NFC and other RF technologies embedded, there's capacitive touch for new interfaces on smart TVs. So there's a lot of technology being built into those next-generation products.

We also think again as Steve and -- as I said in the prepared remarks, and as Steve pointed out, Control Plus is another feature that -- the TV, the typical AV switch. They may be looking for value enhancements like that for the consumer for automatic plug and play and device identification set up and activity buttons.

So, yes, there is a lot of activity in that market as far as value creation or ASP uptick. I wouldn't say though that I don't want to call it ASP because typically internally here that means we're selling the traditional remote for more money. I wouldn't portray it as that. I portray it as we're conveying more value to these customers and are able to charge the license fee either in the form of the hardware, the remote or chip or the software license itself.

Andy Hargreaves - Pacific Crest Securities - Analyst

And then I apologize, but just Bryan, can you give us -- in the press release today, it says Q1 2013 pro forma would have been \$0.32, but then in the full-year break down, I had it matching what I have and I had \$0.26. So, can you just give us what the -- maybe -- the pro forma?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes. It's the difference in the stock-based compensation because what we [are doing] in 2014 [is] we're adding back the stock-based comp and we're basically aligning ourselves with the practices of our peer group. If you look, the majority of our companies in our peer group add back the stock-based comp, as do many of our analysts. So, by excluding the stock-based comp, our pro forma results were -- we're able to provide an accurate tax [exempted] figure to you guys as well as the investors and if you look at Q1 --.

Andy Hargreaves - Pacific Crest Securities - Analyst

And so you guys do that in Q4, is that right?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

No. In 2013, we did not (multiple speakers). We're starting in 2014, which is why you're seeing the \$0.06 delta. If I want to -- we need to compare apples to apples. So, because I'm adding it back for 2014, I had to add it back to 2013 or else that would be [cheating a bit].

Andy Hargreaves - Pacific Crest Securities - Analyst

I got it. Perfect. Thank you very much.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Sure.

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Operator

Edison Chu, G2 Investments.

Josh Goldberg - G2 Investments - Analyst

Hi, this is Josh Goldberg. Good quarter. Couple of quick questions, could you tell us who -- your base [customers, 10%] customers in the quarter?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

We do, we had one, it was DIRECTV.

Josh Goldberg - G2 Investments - Analyst

Roughly how big was it?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

I don't think it's exact amount, give me a second.

Josh Goldberg - G2 Investments - Analyst

Okay.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

While we look that up, do you have another question?

Josh Goldberg - G2 Investments - Analyst

Yes. Just building on some of the comments [I think] your opportunities in the smart device market and your win in Xbox, obviously, everything being equal, you had a great year in 2013, you grew your revenue over 14% and your earnings also grew nicely, is there a thought that next year, 2014, you might see possibly a slower revenue growth here, but a much better earnings here because some of these design wins in the smart device market. I know you talked about the Microsoft Xbox, but obviously there is a lot of phones out there as well that could be an opportunity for you. Can you just talk a little about what you're seeing out there in that space and how big an opportunity that can be for you in 2014?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Sure. Yes. I can't really give you how big it will be in 2014, provide that guidance, but I would say you're on to a point here that we're going to be more focused on the earnings for this reason. The mobile market will probably have lower ASPs as you might imagine than the AV market. But the earnings potential from it is much greater.

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So depending on how the mix ends up throughout 2014, if you were to imagine a scenario where you had growth in the AV market, but you had much greater growth in mobile and smart devices, what would happen is the sales growth wouldn't be as aggressive but the earnings growth could be substantial in terms of growth in the margins, the operating margins.

So while we're not providing guidance, it would be -- there is a potential outcome to go that way. If the device market grows while the gross margin is lower and the net margin maybe slightly lower, it's still a good outcome, because it grows the EBIT numbers. So it all depends on the mix as we go through the year. Obviously, we're pushing for growth, heavier growth as we can get on both sides --.

Josh Goldberg - G2 Investments - Analyst

What kind of visibility do you have toward some of these design wins on the mobile side?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Well, I guess, what I would say --.

Josh Goldberg - G2 Investments - Analyst

Outside of Xbox.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

In every market that we're in has a different timeline. So certain of them we may know as much as 12 months in front of the design win or the commencement as we call it. Now, we might know what they are telling us 12 months from now they'll ship, and it might be 11 months, it might be 14 months before they start shipping but we may know that far in front. I will tell you that on certain devices like mobile, it's very short in terms of commencement to shipment because it's a software download, this is not something that has to be worked on, there is no hardware in our case, there is very little hardware content involved.

So the timeline on that can be very tight, meaning the difference between commencement and actual shipment could be a very short time frame. So, in other words if you're implying that we might know about things that in that market that will happen later this year, we may have a good indication of it, but you don't know until you're right -- almost right in front of the product shipment in that market.

In other markets, we do these set-top boxes, totally different time frame. It's a hardware -- there's a lot of hardware component to that. So usually there is a good lead time on it, you might have months. In some cases on set-top boxes, we're in at the concept stage and it might be 12 to 18 months before that actual set-top box is in final stages of being shipped. So we have a varied business in that regard. Mobile, though, has much shorter time frame.

Josh Goldberg - G2 Investments - Analyst

Okay. And Bryan, just -- so I understand when you get to \$120 million to \$126 million on the topline in March, can you help us understand how does that imply a \$0.33 to \$0.41 bottom line, what sort of let's say the tax rate or the gross margins that you are expecting to get to that number, because it seems like either your tax rate is going to be low or your gross margins are going to tick up?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, we don't give a lot of guidance in between, I will say that, for OpEx, I don't expect a significant growth in 2014 versus 2013.

Josh Goldberg - G2 Investments - Analyst

For the entire year?

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Bryan Hackworth - *Universal Electronics Inc. - SVP & CFO*

Yes. And the tax rate shouldn't change significantly, and yes, for the year. And to answer to your previous question, DIRECTV represented 13.2% of the total sales for the quarter.

Josh Goldberg - *G2 Investments - Analyst*

13.2%. Okay, great. Thanks so much.

Bryan Hackworth - *Universal Electronics Inc. - SVP & CFO*

Thank you.

Operator

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back to Paul Arling for closing remarks.

Paul Arling - *Universal Electronics Inc. - Chairman & CEO*

Okay. Everybody thank you for joining us today and for your continued interest in UEI.

I want to tell you that we will be participating in the Piper Jaffray Technology Media and Telecommunications Conference March 11th and 12th in New York City. We hope to see you there.

Good-bye.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.

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