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EDITED TRANSCRIPT

UEIC - Q4 2015 Universal Electronics Inc. Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Universal Electronics fourth-quarter and full-year 2015 earnings call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to turn the conference over to Becky Herrick of LHA. You may begin.

Becky Herrick - *Lippert/Heilshorn & Associates - IR*

Thank you, operator, and thank you all for joining us for the Universal Electronics fourth-quarter and year-end 2015 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. A webcast replay will be available for one year at www.uei.com. In addition, any updated material nonpublic 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 Company's ability to maintain and build its relationship with key customers; the Company's ability to anticipate the needs and wants of its customers and timely develop and deliver products that will meet those needs and wants; the significant percentage of our revenue attributable to a limited number of customers; the timing of new product rollout orders from the Company's customers as anticipated by management; the continued trend of the home entertainment industry in providing consumers with more advanced technologies; the successful integration of the Ecolink assets and business lines; the timely development, delivery and market acceptance of products and technologies such as two-way RF technologies, voice control, QuickSet Cloud™, QuickSet@ 3.7, home security, home automation, wireless sensors and other technologies identified in this call; management's ability to manage its business to achieve its revenue and earnings as guided; the continued ability to identify and execute on opportunities that maximize stockholder value, including the effects repurchasing the Company's shares have on the Company's stock value; and 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 call.

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, 2014 and the periodic and quarterly reports filed since then. These documents, along

with the risks identified earlier, contain and identify various factors that could cause actual results to differ materially from those contained in management's projections or forward-looking statements.

In management's financial remarks it will reference adjusted pro forma metrics. Management provides adjusted pro forma metrics because it 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. A full description and reconciliation of these adjusted pro forma measures versus GAAP is included in the Company's press release 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. Paul will then return to provide closing remarks. It is now my pleasure to introduce Paul Arling. Please go ahead, Paul.

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

Thank you, Becky, and thank you all for joining us today. For the fourth quarter of 2015 we reported record net sales of \$162.1 million reflecting 17% growth over the same quarter last year. We also reported a quarterly record in EPS at \$0.91 per share, reflecting 30% growth over the same quarter last year.

One of the main contributors to these record results was our strong subscription broadcasting business, which benefited from the industry's transition to advanced remote control technologies. We expect this trend to continue over the next few years as our customers rollout new platforms featuring UEI's advanced AV control software and hardware.

These new platforms are changing the landscape of home entertainment. The technologies embedded in these new platforms, cloud connectivity, two-way radio frequency and voice, to name a few, are enabling users to enjoy their home entertainment more easily than ever before.

They also allow a future of home connectivity that promises valuable service offerings in the area of safety and security, home control or, more broadly, the Internet of Things. We expect to further benefit from this trend as these new platforms mature, expand into new service offerings and grow worldwide.

In addition to promising demand trends, we are constantly enhancing our technology. At CES in January we unveiled our latest innovations, QuickSet Cloud™ and QuickSet® 3.7.

QuickSet Cloud™ delivers all the features of the flagship QuickSet solution as a cloud service, which effectively makes all the QuickSet features and benefits available to all connected devices in the home, including AV, mobile and resource constrained IoT devices.

With the release of QuickSet® 3.7, we've added a predictive logic algorithm that further extends the automatic discovery and control capabilities of QuickSet to uniquely identify consumers' video service provider and optimize consumers' access to their programming content.

These enhancements to QuickSet take what was already, by far, the most advanced AV configuration and use software in the world and elevated it to a new level. It gives users the ability to access UEI's library of control protocol in real-time and further enhances the ease of setup and everyday use. These features will be introduced by leading names in home entertainment, such as Samsung and Sony, this spring.

Also at CES we introduced UEI's exciting new portfolio of intelligent sensing solutions via our August 2015 acquisition of Ecolink Intelligent Technology. This new suite of solutions addresses common home security, monitoring and control challenges. In fact, we have several new home safety and security product introductions planned throughout 2016.

Combined with UEI's platform of innovative home entertainment control solutions, these products and services enable us to offer customers a more complete smart home solution. The Ecolink acquisition enables us to deepen our relationships with existing customers and also add new ones as the smart home connects devices and technologies in a way never seen before.

Our embedded software solutions and market-leading position in control devices and technologies assures us of exciting future as the home experience will evolve and become more complex, but much more useful and powerful at the same time. This is right where UEI excels as the evolution will require innovative concepts and solutions to make home control simpler, more accessible and more enjoyable for consumers.

I'd now like to have Bryan Hackworth, our CFO, take you through the financial results.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Thank you, Paul. As a reminder, our results for the fourth quarter and full-year 2015, as well as the same periods in 2014, will reference adjusted pro forma metrics.

Fourth-quarter 2015 net sales were \$162.1 million compared to \$138.4 million for the fourth quarter of 2014. Business Category net sales were \$145.4 million, compared to \$120.7 million in the prior year. This represents an increase of over 20%, which was driven primarily by certain customers transitioning to higher end remotes that include features such as two-way RF technology and voice control. Consumer Category net sales were \$16.7 million, compared to \$17.7 million. Because of the stronger US dollar versus the Euro and British Pound, Consumer sales were adversely affected by \$1.3 million.

Gross profit was \$46.6 million or 28.8% of sales, compared to a gross margin of 30.3% in the fourth quarter of 2014. The decrease in our gross margin rate is due primarily to a higher percentage of our sales being made to large customers who receive favorable pricing because of higher volumes. We have also experienced a decrease in royalty revenue as there were a number of new product introductions in the prior year, one with a significant brand name.

Total operating expenses were \$31.4 million, compared to \$29.1 million in the fourth quarter of 2014. Breaking down our operating expenses, R&D expense was \$5.4 million compared to \$4.3 million in the fourth quarter of 2014. SG&A expenses were \$26 million compared to \$24.8 million.

Operating income was \$15.2 million, compared to \$12.8 million in the fourth quarter of 2014 representing an increase of approximately 19%. The effective tax rate was 13% compared to 15.6%.

Net income for the fourth quarter of 2015 was \$13.4 million or \$0.91 per diluted share, compared to \$11.3 million or \$0.70 per diluted share in the fourth quarter of 2014.

For the full-year 2015 compared to 2014, net sales were \$602.8 million, compared to \$562.3 million. Gross margin was 27.9%, compared to 29.8%. Total operating expenses were \$112.9 million compared to \$115.3 million.

Operating income was \$55 million, compared to \$52.5 million. Net income was \$43.3 million or \$2.79 per diluted share, compared to \$41.1 million or \$2.55 per diluted share in the prior year period.

Next I will review our cash flow and balance sheet at December 31, 2015.

We ended the quarter with cash and cash equivalents of \$53 million, compared to \$112.5 million at December 31, 2014.

During the fourth quarter we repurchased approximately 223,000 shares for \$10.7 million representing an average price of approximately \$48 per share. Depending on market conditions, we expect to continue to buy back our shares over the next few months as promising trends in our industry and our growing market position support our positive long-term outlook.

DSOs were approximately 68 days at December 31, 2015, compared to 64 days a year prior. Net inventory turns were approximately 3.9 turns at December 31, 2015, compared to 4.1 turns a year prior.

Now turning to our guidance. In the first quarter of 2016 we expect revenue between \$153 million and \$161 million, compared to last year's first-quarter revenue of \$132.7 million. EPS for the first quarter is expected to range from \$0.46 to \$0.54 per diluted share compared to \$0.46 recorded for the first quarter of 2015.

Although we are not providing specific guidance for the full-year 2016, I would like to mention we expect our earnings growth to improve as the year progresses. In terms of comps, the first quarter is the most challenging because royalty income was still significant in the first quarter of 2015. However, as Paul mentioned, we have a number of new customers that are transitioning to advanced platforms throughout 2016 both in the US as well as in Europe. In addition, we have secured new customers in the home security market that will begin shipping in the second quarter and ramp throughout 2016.

Based on the aforementioned positive trends in our industry we are reaffirming our long-term financial outlook. We expect average annual sales growth of 5% to 10% and average earnings growth of 10% to 20%. I would now like to turn the call back to Paul.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Thanks, Bryan. We are excited to be in the midst of an exciting evolution in the home. The Internet of Things has enabled an uncountable number of devices to connect, integrate and share information.

We are at an inflection point where home security solutions converge with home entertainment devices. UEI is ideally positioned to benefit from this convergence as we have established relationships with the world's leading names in home entertainment worldwide.

As I have said before, we are changing what a remote control is and what a remote control is capable of doing. Our products and technologies are changing the way that consumers interact with their home entertainment sources and we are making set up and everyday use easier than they have ever been before.

We have extended this same approach of superior product differentiation into the growing market for safety and security products within the home. We have a very long track record of developing the control solutions that anticipate these future trends and we have the financial results to prove it.

Our team has done a brilliant job of establishing us as the leader in control and sensing technologies within the home over many years, yet we feel that we are just getting started. I am more confident than ever we have a bright future ahead of us. Stay tuned.

I would now like to open it up for questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Les Sulewski, Sidoti & Company.

Les Sulewski - Sidoti & Company - Analyst

So I wanted to reach out about percentage of shipments from third quarter versus what occurred in the fourth. Essentially I just want to get an idea of what remains to be shipped that were delayed, if anything.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, there is nothing that remains to be shipped. We had a little bit of a delay in Q3, but Q4 it all shipped. There is no more additional delay.

Les Sulewski - Sidoti & Company - Analyst

Got it, okay. And then at what point does the gross margin pressure from advanced remote shipments to customers start to ease?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, I think you're going to see it ease throughout 2016. As I mentioned on the call – [in] Q1, the comp is a little more difficult because we had a significant amount of royalties in Q1 of last year.

And as the year progresses I see the gross margin improving a bit because, as Paul mentioned before, we are starting off with a large customer that transitioned from the low-end remote to the high-end remote so they get favorable pricing. And then as new customers adopt that aren't as big, the pricing will be a little different and it should put some upward pressure on the gross margin rate.

Les Sulewski - Sidoti & Company - Analyst

Okay. I guess to follow up on that, what are you seeing as far as the adoption rates from new customers?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

The adoption rate? Well, we are in discussions with a number of new customers. We talked about how we had a large customer that came on in Q2 of 2015. Q4 we mentioned that we had three additional customers come on board. And then throughout 2016 additional customers will -- we are in various stages with a number of new customers when they are going to come on at different stages.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

And those who have put out their advanced platforms already are -- some of them have told us, and I'm using their words, they are ecstatic about the results they have gotten from the new implementation of their products.

So they are very excited about the new features it brings, the ease-of-use that is being brought by the new platform as well as other things. So customers that have implemented these advanced platforms already are very excited about the effect they have had.

Les Sulewski - Sidoti & Company - Analyst

Okay and then I guess when we are going through 2016 what would you say would be a rollout or kind of a conversion rate of the legacy remotes versus the new technology?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Well, we can't really give a rate on that. I mean obviously the rate of change will be embedded in our guidance as far as the sales results from it. All we can say is that there is -- again, just like last quarter, there [are] a couple dozen customers, and we have converted some. So they went from being in the bid stage to being in the development stage.

We have some that are moving from development into introduction. And this will be a process that takes place, as I said during the prepared remarks, over the next couple of years. But I will say that the operators, today mainly in the US, but also in Europe -- it is easier to name the ones that aren't working on this or talking about it than the ones who are.

So, they are all moving toward this idea of cloud connected, two-way advanced platform boxes making the user interface much simpler, much easier to use to watch their TV content.

Les Sulewski - Sidoti & Company - Analyst

That is helpful. Also regarding your just issued guidance for first quarter and then your long-term guidance of 5% to 10% on the top line -- given that just released guidance, do you think we'll come up maybe on the -- kind of on the higher end of that range for the full year?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, the long-term guidance we give, Les, as we've talked about before, it is usually long term or three-to-five years out. So we don't give guidance on any given year, we just give it on quarter to quarter. And for the first quarter we are looking at 15% to 21% sales growth. But, I don't specifically give guidance for the full year.

Les Sulewski - Sidoti & Company - Analyst

Okay, got it. I guess just one more from me and I will jump into queue. Can you give a little bit of a breakdown on the R&D and SG&A expenses in the fourth quarter and how can we look at that moving forward? Thanks.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, well we have Ecolink on board now so Q4 is a little higher than last years. Next year we will have a full year of Ecolink, you will get normal pay raises that kick in, and we had a higher -- a little more engineering in terms of the RF technology to handle some of the more advanced features that we are deploying in our products now.

But we don't give any -- we don't give specific guidance on OpEx, but those three categories, what I just mentioned, should increase a little bit but nothing too significant.

Les Sulewski - Sidoti & Company - Analyst

Okay, thank you.

Operator

Mike Olson, Piper Jaffray.

Mike Olson - Piper Jaffray - Analyst

You mentioned more rollouts of advanced remotes. Are those with other major service providers or in some other capacity like in the CE space or otherwise?

And I guess you haven't officially announced any, but as you do get other service providers deploying advanced remotes will that be something that you can announce at some point? Or will it be more of we kind of try to see it playing out in the field to know what is happening?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Yes, we will announce them as we can. Certainly on these calls it is a little easier. Doing press releases can sometimes be difficult or time-consuming, meaning they can take longer than you might expect. But we obviously will update on calls and as we can as time goes forward.

As far as which channels will we be selling these new implementations into, the majority of the projects now are in subscription broadcasting. But as I mentioned on the call, QuickSet implementations are moving forward, either upgrades from prior QuickSet implementations or new QuickSet implementations with major names in the consumer electronics market.

So, we are making progress on both fronts as far as advanced platforms, advanced functionality are concerned.

Mike Olson - Piper Jaffray - Analyst

Okay. So just to be specific, if you can answer this. Are there other service providers outside of Comcast that are kind of putting advanced remotes live into the marketplace right now or not yet?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Yes.

Mike Olson - Piper Jaffray - Analyst

Okay, perfect. And then in 2015 you had some issues -- I guess this kind of came up in some of the previous questions -- but some issues with customers drawing down inventory for the legacy gen remotes ahead of deployment of some of the more advanced offerings. Is there a risk that this could create any unforeseen volatility in 2016?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

It is possible, although again, as you move into the medium-size customers the effect of those inventory issues lessen. In other words, the larger the customer and the larger the inventory backup they have or safety stock, as they might call it, the larger the effect.

As you move into the medium-size companies the effect of those inventory imbalances lessen. Particularly as you have larger customers moving into the new platform the sales growth from it more than offset the sales shrinkage from any inventory imbalance you may have with a medium-size customer.

So, a long-winded way of saying the problem would still exist or the problem can still cause risk, but it is only the major ones that have the biggest effect.

Mike Olson - Piper Jaffray - Analyst

Okay, that makes sense. And then one last thing you mentioned -- Bryan, you mentioned share repurchases. What is the current buyback authorization?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

400,000 shares.

Mike Olson - Piper Jaffray - Analyst

Okay. All right, thanks a lot.

Operator

Steven Frankel, Dougherty.

Steven Frankel - Dougherty & Co. - Analyst

Good afternoon, Paul. Let's start with that advanced technology pipeline. How many designs are in there and how many of those would you expect to ship in 2016?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Steve, I don't have an exact count. Again, as we said last quarter, there is a few dozen, I think it is about 20, almost a couple dozen projects, but again they are at various stages. Some were at the bid stage, some were at the acceptance stage, development stage and then commercial introduction.

All I can tell you right now is that obviously many of those projects have moved closer to the last stage, which is commercial introduction. So, some of these projects can take as much as a year. And so we are working on many of them that we are planning to introduce in the coming quarters of this year.

In addition, we have the safety and security products which we also have projects we are working on with major customers in the industry for introduction in the coming quarters.

Steven Frankel - Dougherty & Co. - Analyst

Okay. And any commentary around the SEC decision today to open up the set-top box market and how that might impact your business?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Well, it is kind of early for us to comment on it because we don't know exactly how they are going to do that. But I guess taking a step back, obviously consumers want ease-of-use, they want devices where they can plug them in and they can set themselves up.

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Consumers that have gotten the new platforms really love them, [which] is why our customers are ecstatic over the results. So I think obviously everyone involved, including our governmental agencies, certainly want to do what is in the best interest of the customer, of the consumer. And the consumers really like the TV viewing experience from these new platforms.

So, regardless of how this thing ends up, it may change the way in which we sell, but it won't change the fact that people still sit 10 to 12 feet on average from their television and they are going to want a product that will ease their ability to control various sources they have. So we don't really see this as changing anything, but we will have to see exactly how this thing shakes out.

Steven Frankel - Dougherty & Co. - Analyst

Okay. And a couple questions for Bryan, don't want him to feel left out. What was Comcast in the quarter? And were there any other 10% customers?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, there were two 10% customers, Steve. Comcast was about 25% and DIRECTV was 10.7%.

Steven Frankel - Dougherty & Co. - Analyst

Okay. And CapEx in 2015 looked above trend line. I know some of that had to do with these new advanced remotes. What should we anticipate for CapEx in 2016?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, I would say low to mid 20s, because we are actually implementing a new ERP system as well this year. So it's going to raise it from the 2014 levels but it will be less than 2015.

Steven Frankel - Dougherty & Co. - Analyst

All right, I will hop back in the queue. Thank you.

Operator

Ian Corydon, B. Riley & Company.

Ian Corydon - B. Riley & Company - Analyst

Bryan, what is the tax rate for the first quarter that is embedded in the earnings guidance?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

I would use low 20s; use around 22% and you will be fine.

Ian Corydon - B. Riley & Company - Analyst

Okay. And apologies if this has been asked. But as gross margin rises through the year, should we assume that sales growth slows a bit from the mid-teens to low 20% year-over-year growth in the first quarter?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, I mean, we don't give guidance by quarter -- we give it by quarter but I am not going to give four quarters out. All I will say is that for the long-term guidance we think we can grow 5% to 10%. Now for Q1 we think it is -- we are going to grow more than that. But we'll give additional guidance as the year progresses.

Ian Corydon - B. Riley & Company - Analyst

Okay. And will sales of home security products be material to overall results this year? And then maybe you could just talk about the kind of gross margin you expect to get on those products versus your current legacy business gross margin?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Yes, the sales of safety and security products this year will grow significantly. But remember, when we bought Ecolink we did disclose that their sales were less than \$10 million. So, the growth rate on it will be substantially more than our Company growth rate. That is our expectation for this year.

But it could grow by 3 to 4x -- 3 or 4 times and it would still be relatively small, but with a significant growth rate. In terms of the gross margins, typically this product carries a higher gross margin than our average.

Ian Corydon - B. Riley & Company - Analyst

Got it, thank you very much.

Operator

George Prince, RBC.

George Prince - RBC Capital Markets - Analyst

[Could] you give us some more feedback, some more details into Comcast's experience with your new remotes and any other customers that you have? Why do they like it or not like it? What features are important? And can you also tie that into how you are working with the set-top boxes?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

Sure. Well, I won't speak specifically about any individual customer, because we don't -- we would rather let them talk about this publicly to the extent they wish to. But I will give you generalized comments that we have had on some of these platforms that the consumers, the research they have done, they love this product.

If anybody out there has experienced one of the new platforms with voice search, etc., it is real easy to get to the content you want to watch; you simply press a button and say what you want to watch and it will come up right on the screen and you select it and off you go. So there is no more wading through 35 pages of guide. It is a real simple process.

Also when you put in the search term what they are finding is that they are getting a lot more interest in VOD selections, but because there may be things that operators have that you may not know they have because they are too difficult to find in the old interface.

But when you say I want to watch an action movie, one might come up and you'll say, wow, I didn't know that was out there. You click on it and buy it. And they are finding that they can sometimes pay for the additional expense of this new remote that everybody loves in a couple months because of that.

So, they are getting a lot more customer engagement with the platform. The interface is way better both onscreen and the one in your hand. Voice is a real enhancement. So they are just real ecstatic about the way it has all worked technically and from a customer perspective, customer acceptance perspective. I think Comcast has stated publicly that they are aggressively rolling this out, they are very happy with the program.

George Prince - *RBC Capital Markets - Analyst*

Do they provide any -- you mentioned a payback of a couple of months. Are they giving you any kind of numbers on the value of the remote? Churn numbers or --?

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

No, again I would let them publicly talk about that. We wouldn't comment on that. But they are real pleased both technically from a customer acceptance perspective and financially. The investment they feel that they have put in and Comcast has done a lot of great work on this along with us. But also obviously they have spent a lot on their own on this. And they are real pleased with the return on investment they are getting.

George Prince - *RBC Capital Markets - Analyst*

Can you talk about how this all ties into the set-top box?

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

Well, sure. I mean, obviously the remote, as always, works directly with the set-top box and also with software at the head end. So it is very well integrated with the on-screen interface, if that is what you mean, George.

George Prince - *RBC Capital Markets - Analyst*

Well, are you getting adoption, are you putting chips in, is it just software, are you getting paid for it? How does it all come together?

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

Well again, it depends on the customer. Typically what we do is give a -- it is a price that we sell the remote for. And we provide all the remote control technology in the solution for a price. So sometimes that will include software that gets embedded, sometimes it -- and it always includes, in the subscription broadcasting case it includes the remote. There are times where we would just sell chips.

Typically on the consumer electronics side we may not sell the hardware, we may just sell the chip and/or the software that would be embedded in the television. So it varies by customer. But subscription broadcast being the typical model is to sell the entire control -- remote control technology and hardware. So the remote itself and the software that goes along with it.

George Prince - *RBC Capital Markets - Analyst*

Okay, all right. Thanks, good luck.

Operator

(Operator Instructions). Josh Goldberg, G2 & Partners.

Josh Goldberg - *G2 & Partners - Analyst*

A couple quick ones. It seems like Ecolink obviously has a bright future in 2016, but it possibly could have been dilutive for you in the December quarter with the increase in the OpEx as it was. Is that fair to say?

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

No, I think we mentioned that before Ecolink is mildly accretive -- breakeven to mildly accretive.

Josh Goldberg - G2 & Partners - Analyst

How much of the increase in OpEx was Ecolink related? I mean your OpEx went up by about \$5.5 million.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes, we don't disclose that specifically for Ecolink. We may break it out in 2016, we'll have to wait and see. But right now we are not breaking it out.

Josh Goldberg - G2 & Partners - Analyst

Okay. It was mildly accretive. There [were] obviously some other expenses there because if you are doing \$10 million a year even if it was backend loaded and high margin, [there were] obviously some additional expenses. Were any of those one time or those are recurring as well?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

For Q4? Well, I mean OpEx wasn't that high for Q4. Slightly higher than last year, but part of it -- the majority of it was Ecolink and a little bit of payroll versus the prior year but the OpEx wasn't that much higher than the prior year.

Josh Goldberg - G2 & Partners - Analyst

It was about \$2.5 million, yes.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Yes. So I mean we are actually -- half of that was R&D spending on these next-generation platforms.

Josh Goldberg - G2 & Partners - Analyst

Okay. Can you roughly say how much of the net income was royalty-based in Q1 last year? Would you say it was more than 10% of your net income?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

We don't believe -- I don't believe we disclose the actual royalty income. So I am not going to disclose it right now.

Josh Goldberg - G2 & Partners - Analyst

Okay. But you said it was material and enough that it is going to cause this tough compare in Q1 this year?

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Q1 is a difficult comp.

Josh Goldberg - G2 & Partners - Analyst

Okay. Can you talk a little bit about the gross margin? Obviously that was a very good number in the fourth quarter. And it sounds like, based on both Ecolink and some of the new customers you have in store, we might see maybe not 20, 29 all year, but an increasing gross margin in 2016.

Why was the gross margin so strong in the fourth quarter? And does currency at all help you in 2016 if the Euro stays where it is? Thanks.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

Well, Q4 does have Consumer [Category], it is the largest quarter of the year. And the Consumer Category yields a higher gross margin than the Business Category, so that helps in Q4. And then you are right, the currency does have -- there are two aspects to it. From a sales perspective, the strengthening of the dollar versus the Euro and the British pound actually hurts us. But then from a COGS perspective the strengthening of the US dollar versus the Chinese renminbi actually helps us. So that should help us in 2016.

Josh Goldberg - G2 & Partners - Analyst

So, just so I understand, you have three different things that might really help you in 2016 on the gross margin line. You have the new products and Ecolink, which you said have higher margin new customers outside of your biggest customers that are moving forward with this high end remotes that have higher margin and the currency will help you with margin on the gross margin side, is that fair to say?

Paul Arling - Universal Electronics Inc. - Chairman & CEO

That is fair to say. Now there is a lot more to gross margin than just those three facets. There are lot of positives --.

Josh Goldberg - G2 & Partners - Analyst

Sure.

Bryan Hackworth - Universal Electronics Inc. - SVP & CFO

And there are also negatives. You've got inflation in China, things of that nature. So you have got positives and negatives. But what you just mentioned is true, those are three positives that will affect our gross margins positively.

Josh Goldberg - G2 & Partners - Analyst

Okay. Last one for me, sorry to take up so much time. But you bought back 1.8 million shares this year. That is remarkable, almost -- over 12% of the company. Obviously you are feeling really good about the company and the [bright] prospects.

[Could] you just talk a little bit about what gives you this level of confidence? I mean obviously it sounds like you have won some pretty big designs. But to buy that kind of stock is -- it is definitely not very common right now in the public markets to buy that kind of stock back.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

We do a detailed -- we do detailed analytics every quarter, Josh, to determine --.

Josh Goldberg - G2 & Partners - Analyst

No question about that.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

(Multiple speakers) based on our view of both the near-term and the longer-term forecast, what we believe our future looks like. Then we compare that obviously to the market, the trading of our stock and when a distance between those two things grows, we more aggressively buy the stock. And when it shrinks we less aggressively by the stock.

So I guess you could say that what has happened over the last 12 months, in particular, is that the distance between those two numbers grew a little bit.

And we see that as an opportunity to successfully use the company's capital -- one of the best investments we can do besides some of the CapEx we have done to get a good return is to take advantage of that -- that separation between the intrinsic value that we see and the market value that we trade at.

Josh Goldberg - G2 & Partners - Analyst

Got you. Okay, great. Thanks so much.

Paul Arling - Universal Electronics Inc. - Chairman & CEO

That is a quarter-to-quarter thing and as the price changes we -- our view on that may change. But during the last 12 months we have somewhat aggressively, compared to prior years, bought our own stock.

Josh Goldberg - G2 & Partners - Analyst

Got you. Great, thanks so much.

Operator

Thank you. (Operator Instructions). And at this time I would like to turn the call back over 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 do want to announce that on March 8th we will be participating in the Piper Jaffray Interactive Entertainment and Technology Conference in New York City. We hope to see some or all of you there. Thank you very much and goodbye.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.