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# EDITED TRANSCRIPT

UEIC - Q1 2016 Universal Electronics Inc. Earnings Call

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## CORPORATE PARTICIPANTS

**Becky Herrick** *LHA - IR*

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

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

## CONFERENCE CALL PARTICIPANTS

**Mike Olson** *Piper Jaffray & Co. - Analyst*

**Les Sulewski** *Sidoti & Company - Analyst*

**Steven Frankel** *Dougherty & Co. - Analyst*

**Josh Goldberg** *G2 Investment Partners - Analyst*

## PRESENTATION

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### Operator

Good day, ladies and gentlemen, and welcome to the Universal Electronics first quarter 2016 financial results conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference may be recorded.

I would now like to turn the conference over to our host of today's call, Ms. Becky Herrick of LHA. You may begin.

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### Becky Herrick - LHA - IR

Thank you all for joining us for the Universal Electronics first quarter 2016 financial results 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.UEL.com](http://www.UEL.com).

In addition, any additional updated material nonpublic information that may 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 relationships with key customers; the Company's ability to anticipate the needs and wants of its customers and timely develop and deliver products and technologies that will meet those needs and wants including two-way RF technology, voice control, QuickSet Cloud™, QuickSet® 3.7, home security, home automation, wireless sensors and other technologies identified in this call; the significant percentage of its revenues attributable to a limited number of customers and particularly the sales growth and benefits of the Company's relationships with Comcast; the timing of new product rollout orders from the Company's customers as anticipated by management; the continued trend of the industry in providing customers with more advanced technologies; the Company's expansion into the home security space; management's ability to manage its Company's expansion into the home security space; management's ability to manage its business to achieve its revenue, margin and earnings as guided; the continued ability to identify and execute on opportunities that maximize shareholder value including the effects the purchasing of the Company's shares have on its stock value, and other forward-looking statements 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 risks, 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, 2015. 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 period 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.

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

Thank you, Becky, and thank you all for joining us today. For the first quarter 2016, we reported record net sales of \$151.5 million reflecting 14% growth over the same quarter last year. We also reported EPS of \$0.50 per share –a first-quarter record for UEI and reflecting a 9% growth over the first quarter of 2015.

UEI's focus on creating the world's best user experience within home entertainment has us ideally positioned as the industry trends toward more sophisticated products and solutions. Our subscription broadcasting business in particular benefits from this industry transition as our customers are rolling out new platforms around the world that are changing the landscape of home entertainment. These platforms feature UEI's advanced A/V control software and hardware which enable users to operate the devices within their home entertainment set up more easily than ever before.

To provide you with more color on this significant opportunity, it is important to look at the overall market opportunity within the subscription broadcasting channel. There are approximately 600 million subscribers in the subscription broadcasting industry worldwide. Companies that represent roughly one-tenth of those subscribers, around 57 million, have already begun rolling out advanced remote control technologies incorporating UEI's solutions.

This provides a significant growth opportunity for us as they continue to deploy these products across their entire subscriber base in the coming months and years.

Companies representing another approximately 55 million subscribers are at various stages of implementing similar advanced technologies. These customers plan to begin rolling out these next-generation projects later this year and into 2017.

In essence, UEI is or will be supplying our advanced remote control technology to customers representing more than 110 million subscribers or nearly 20% of the entire world subscriber base over the next few years.

While we are still at the early stages of this trend and these customers will take time to roll out these new platforms across their entire subscriber base, this provides a near-term and a long-term impetus for growth and we are very excited about the opportunity before us.

Throughout 2016 and beginning in the second quarter, we will be rolling out our exciting new portfolio of Ecolink home security monitoring and control solutions. This new suite of intelligent sensing technology combines with our home entertainment control innovations to provide customers a more complete smart home solution.

On March 10, we announced we signed an exclusive distribution agreement with Interlogix to make our innovative wireless sensing and control products available exclusively through all Interlogix sales channels within the residential and commercial security segment. We expect this agreement to significantly expand our presence in the home security space.

Our traditional customer base, with the introduction of the cloud connected two-way platforms discussed previously, provide an enormous opportunity for UEI to add its new home security products to their offerings. Our innovative solutions and strong customer relationships provide us with a great advantage in building our share of this new and exciting market.

The newest innovations in our QuickSet suite continue to set the benchmark for phenomenal user experience in home entertainment. New products powered by QuickSet were recently introduced by leading names in home entertainment such as Samsung and Sony. We are already receiving positive feedback on the devices powered by QuickSet. For example, in an April 20th product review in the Wall Street Journal, Jeffrey Fowler reviewed Samsung's new TV in which our QuickSet technology is



embedded. Fowler stated and I quote, "When Samsung told me it built a remote that automatically controls almost anything you plug into its 2016 TVs, Blu-ray players, Apple TVs, XBoxes and pretty much every cable box in America, I didn't believe it." Fowler went on to state, "Samsung fixed the most annoying thing about TVs. This tech development will have a pretty immediate impact behind the scenes, the TV was labeling each input and wirelessly teaching its remote the language of its corresponding device. Samsung's TV and remote are your universal translator. All of this happens without tapping any special buttons. Things just work when you need them."

This is certainly a ringing endorsement of our QuickSet technology and the full review is available on our website.

Another reviewer from CNET stated and I quote. "Amazingly the TV itself can recognize your external devices as you plug them in and program the TVs remote to control them, automatically eliminating setup. No other tech device I know about can do anything like that."

This feedback speaks to the many years of experience we have in developing the kinds of innovative products and technologies that anticipate our customers' and consumers' future needs. It affirms that UEI has created the easiest, most intuitive user experience in home entertainment control that has once again elevated the state-of-the-art in our industry.

Our team is proud of what they have created but we are far from done. We continue to work on enhancements and expect more market penetration of these technologies in the coming months and years.

On March 9, we announced our relationship with our long-standing customer, Comcast, took a major step forward. After extending our development and supply collaboration agreement in which we supply the voice remote as part of Comcast's X1 Entertainment Operating System<sup>®</sup>, we entered into a warrant agreement. This new agreement provides Comcast with the opportunity to acquire shares of our capital stock tied to the fulfillment of predefined purchase milestones.

In anticipation of our continued sales growth with Comcast particularly as we will be now providing them with innovative products across their XFINITY<sup>®</sup> home platform, we believe this agreement is of significant benefit to UEI, Comcast and our shareholders.

With that, I would now like to have Bryan Hackworth, our CFO, take you through the financial results.

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

Thank you, Paul. As a reminder, our results for the first quarter of 2016 as well as the same period in 2015 will reference adjusted pro forma metrics.

First-quarter 2016 net sales were \$151.5 million, an increase of 14% compared to \$132.7 million for the first quarter of 2015. Business category net sales were \$141.5 million compared to \$121.5 million in the prior year. This increase represents the continued transition of customers from the lower end platforms to the higher end platforms including features such as 2-way RF technology and voice control.

Consumer category net sales were \$10 million compared to \$11.2 million. Gross profit was \$38.9 million or 25.6% of sales compared to a gross margin of 28.4% in the first quarter 2015.

The largest impact to our gross margin rate is the result of a decrease in royalty revenue primarily in the mobile space relating to a significant brand name. This created a difficult comp in the first quarter. However, the year-over-year impact of royalties for the remaining quarters of 2016 is minimal.

Also affecting our gross margin rate is the fact that a higher percentage of our sales were made to large customers who received favorable pricing because of higher volumes. As mentioned on our earnings call in February, we expect our gross margin rate to improve throughout 2016 as the previously discussed mix impact diminishes as the year progresses.

Total operating expenses were \$29.5 million compared to \$28.6 million in the first quarter 2015. Breaking down our operating expenses, R&D expense was \$5.1 million, an increase of approximately 17% compared to \$4.3 million in the first quarter 2015 as we continued to develop technology that enhance the user experience in both the home entertainment and home security channels.

SG&A expenses were relatively flat at \$24.4 million compared to \$24.2 million. Operating income was \$9.4 million compared to \$9.1 million in the first quarter 2015. The effective tax rate was 25.7% compared to 21.1%. Net income for the first quarter of 2016 was \$7.3 million or \$0.50 per diluted share compared to \$7.4 million or \$0.46 per diluted share in the first quarter of 2015.



Next, I will review our cash flow and balance sheet at March 31, 2016. We ended the quarter with cash and cash equivalents of \$56.1 million compared to \$53 million at December 31, 2015. During the first quarter, we repurchased approximately 33,000 shares for \$1.7 million representing an average price of approximately \$52 per share. We have approximately 375,000 shares remaining on our share buyback program. Depending upon market conditions, we may buy back our shares over the next two months.

DSOs were approximately 66 days at March 31, 2016 compared to 64 days the year prior. Net inventory turns were approximately 3.8 turns at March 31, 2016 compared to 4 turns the year prior.

Now turning to our guidance. In the second quarter of 2016 we expect net sales to range between \$167 million and \$175 million compared to \$147.6 million in the second quarter of 2015. EPS for the second quarter is expected to range from \$0.71 to \$0.81 compared to \$0.67 in the second quarter of 2015. As a result of the continued adoption of higher end platforms by domestic and international customers as well as the recent customer wins in the home security market, we expect our earnings growth to accelerate in the second half of 2016.

I would now like to turn the call back to Paul.

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

Thanks, Bryan. The trend toward easier setup and intuitive control of devices and services in your home plays right into UEI's core strengths. For years we have redefined what a remote control is and what it is capable of doing. The home is beginning to transform with a series of cloud connected two-way devices that will bring entertainment and services not available before. We are leading the industry in creating the products and embedded technologies that make these new options easier to set up and use than ever before.

As I stated earlier, we have already elevated the state-of-the-art in the industry with our latest product and technology solutions but we are far from finished. We are excited to play such a key role in the exciting evolution of home entertainment, home safety and home security – and we believe the best is yet to come. Stay tuned.

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

## QUESTION AND ANSWER

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**Operator**

(Operator Instructions). Mike Olson, Piper Jaffray.

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**Mike Olson - Piper Jaffray & Co. - Analyst**

Good afternoon. I had a couple of questions for you. When you look at the operators representing 57 million subs that are currently using UEI to roll out next-generation remote out of that 600 million number, Comcast would maybe account for half of those subs I would guess. But can you tell us what operators are the other subs coming from and at what stage of rollout are those service providers at?

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

Yes, Comcast would actually be less than half of that I believe on the dataset we looked at, first of all. Second of all, a lot of the names still haven't allowed us to go public. I guess the only one I could name that is public is Cox. Cox is using a version of the X1 platform so that is the only one at this point that I can recognize publicly. But together the operators that we have currently, which is a few, total almost 10% of the market. We have 10% more that are close and will roll out later this year and into 2017.

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**Mike Olson - Piper Jaffray & Co. - Analyst**



So when you are describing that 55 million that are currently in advanced phases of testing, is that consistent with the language you just used related to “they’re close and they will be rolling out later in the year?”

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

Correct. The projects are being worked on; they are at various stages of completion. Some will be coming out sooner, some later in the year but throughout the remainder of this year and a few into next year, those projects will roll out. What we are working on with the operator now, they are finalizing [the] design of everything, those we really can't talk about because many of those platforms are not public yet.

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**Mike Olson - Piper Jaffray & Co. - Analyst**

Okay, makes sense. What percent of those 600 million total subs are in the US? And do you believe your opportunity in the US is more tangible than getting next gen remotes pushed out to international subs or is the interest equivalent both domestically and internationally?

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

No, I would say it is, many of the wins we have and there's over 10 of them that we haven't announced yet, many of them are outside the US. I would say that it is mostly in the higher ARPU markets. We have a lot of wins in Europe, there are some in Asia-Pacific region as well but clearly the US is a key market because of the high ARPU here. So we think that this is a market where – in the next few years – this could become 100% of the market whereas other markets may move to 50% or more. But it will take a long time for them to get to 100%.

I liken it to the advent of universal remotes, Mike, where when they first came out the markets that grew first were North America, then in Western Europe and major markets in the Asia Pacific region but it has spread from there to nearly 100% now. So the advanced remotes will probably follow the same path. They will be more prominent in North America, Western Europe and major markets of Asia-Pacific. Then we will grow from there.

The important thing though is that we are winning a lot of customers here. I mentioned this before, I kind of want to put some numbers around it so people could get an idea of how this trend is progressing. And it looks like right now UEI technology will be powering these next-generation platforms over the next couple of years with 20% of the companies' representing 20% of the world subscribers.

The US market by the way is — North America, rather, is between 110 and 115 million subs. So the ones we've closed are about the size of the entire US market or equal to that size. I think the ones we won were in Europe and a handful in the Asia-Pacific region.

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**Mike Olson - Piper Jaffray & Co. - Analyst**

Okay. One last one, I missed the very beginning of the call, I think the midpoint of your guidance for Q1 was somewhere around \$157 million I think if I remember right it was reported \$151 million. The \$6 million delta there versus the midpoint of the guidance, what was that attributed to?

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

Yes, [we were] probably a little aggressive on the forecast in terms of sales. The earnings came right in at the midpoint at \$0.50. It was a little bit in Latin America. Right now Latin America is in a tough environment. So Brazil and Argentina are struggling a little bit compared to our forecast. It was really small things. We had a retailer go bankrupt in Australia. That hurt the Consumer [Category] a little bit.

Europe fell short a bit – about \$1 million. But we thought we would grow 15% to 21% on the top line and we came in at 14% so I was a little bit short on the bottom end of the range by 1 percentage point, but again for the earnings, we came in at \$0.50 right in the middle. And as Paul just outlined, the year looks really good. The number of customers that we launched, we came out of the chute with one large customer, very large customer and we added three additional in Q4. And as Paul just mentioned, we got 10 additional that we are in different stages with will get launched in 2016 and a few in 2017. The year is really shaping up well so I am excited about it.

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**Mike Olson - Piper Jaffray & Co. - Analyst**



That is great. Thanks very much.

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**Operator**

Les Sulewski, Sidoti.

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**Les Sulewski - Sidoti & Company - Analyst**

Thank you. So on the gross margin side and you mentioned a falloff in the royalty revenue, can you talk a little bit more about that? What will happen there on the royalty side specifically regarding smart devices and how will that impact margins moving forward?

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

Yes, we talked about this before where the comp for Q1 over Q1 was difficult because the royalties that we received in Q1 of 2015 were still significant and it related to a mobile device manufacturer with a large brand name. I can't say the name but that went away so that was a hole in Q1 that made the comp difficult from a gross margin rate.

Now as the year progresses, as I just mentioned, we came out of the chute with a large customer with the higher end platform that because of the volumes that they purchase, the gross margin rate is lower than our company average. But as these smaller customers adopt, the rate will be not as favorable, which should put upward pressure on our margin, which is good.

The other part that is going to help the margin rate is the home security channel, which yields a higher gross margin than our company average as well. So [the] second half of the year we should ramp nicely in that category as we recently issued a press release stating one of the wins that we had. So I expect the back half the gross margin rate will increase and the earnings will accelerate in the back half of the year.

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**Les Sulewski - Sidoti & Company - Analyst**

So if I get it right, the royalty revenue was primarily from smart devices. And then I guess from a high level standpoint if you can talk about some of the adoption rates on a smart devices, are you more -- are you I guess less bullish than say you were a year or two years ago?

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

Yes, I would say this that there was a major player who had this as a feature and has now dropped it. So the overall volume is tougher but we have had a number of wins with smaller providers so it will be interesting to see how it unfolds as the next five to 10 years, but one of the major companies in the industry dropped the feature so that is what caused our royalty to surge in Q1 of last year and have it be absent this year. We understand the latest model does not have the feature.

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**Les Sulewski - Sidoti & Company - Analyst**

Got it. Okay. As far as the deal with Interlogix goes, do I understand you correctly, will this be your exclusive distributor? And I mean if not, are you going to be working with others and then maybe talk about some of the wins there. You announced one but didn't quite get specific details. If you could provide any that would be great.

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

Yes, Interlogix may not be the only company we work with. They will be providing their third-party product provided by us. There are others we could work within that industry and then of course as I outlined in the prepared remarks, there is -- our traditional customer base some of whom have already announced that they are in this market or are moving into it provides a huge opportunity because they are all putting in place an architecture within your home that would allow them to add this service relatively easily.



But the things that they will need to do it are the products similar to what we make, which are the sensing products. Just like in video, they need to control products. In safety and security, they need to provide sensing products, window sensors, door sensors, motion sensors, the keypad to control it, all of which are quite frankly similar in nature to the remotes that we make on the video side. So we think that is also obviously a huge opportunity.

The Interlogix win, though, gives us volume and a big win in the traditional market, which we have told people: Don't overlook that either; there are growth opportunities there as well.

So after six months or more of being involved with Ecolink, we have made a lot of progress as far as market development is concerned. And as I said earlier and we did in the press release on Comcast, XFINITY home, what they will also be working with us on these products as well.

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**Les Sulewski - Sidoti & Company - Analyst**

Great. Thank you for that color, Paul. I guess last one maybe for Bryan here, two-part question. First off, as far as repurchases go, I think you slowed down a little bit in Q1. I guess as far as modeling purposes you will probably keep the share count at this level and then you also mentioned the EPS growth rate to accelerate in the second half of the year. How can we look at that? Is this double-digit growth in EPS? Is it something safe to assume?

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

I'm not going to give the numbers but if you look at Q1 and Q2 sequentially, then Q3 and Q4 are going to accelerate even more than that. As I mentioned, I think the driver behind it is going to be the gross margin rate because as more customers are coming onboard, that is going to put upward pressure on the gross margin rate as well as the sales into the home security channel. So it has played out well and the one thing I am pretty confident on is that the growth rate will accelerate from an EPS level.

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**Les Sulewski - Sidoti & Company - Analyst**

So if I understand you correctly you are mentioning the growth rate accelerating sequentially first half over second half, not year-over-year?

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

Correct.

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**Les Sulewski - Sidoti & Company - Analyst**

Okay, got it. Thank you.

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**Operator**

(Operator Instructions). Steven Frankel, Dougherty & Company.

Steven Frankel

Good afternoon. Bryan, could you start by telling us what Comcast and DIRECTV were in the quarter?

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

Yes, Comcast was 26% and DIRECTV was 11%.

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**Steven Frankel - Dougherty & Co. - Analyst**





Okay. The tax rate was a little higher in Q1. Is that the new rate for the year or was there something in particular in the quarter that popped it up?

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

No, compared to last year, we had a tax refund coming in Q1 so that is why year-over-year it is a little higher but for the full-year I still think they come in around 22% give or take a little bit. It is just more of a timing thing. But full-year I think it will be in the 22% range.

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**Steven Frankel** - *Dougherty & Co. - Analyst*

And then, Paul, on Interlogix, does that relationship begin in Q2 or do those products start to ship later in the year and how material are they going to be as a customer of you?

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

Well, the products will start shipping now, but we will ramp as the year goes on because there are in some cases a qualification process that some of the products will still have to go through. So it will ramp as the year progresses.

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**Steven Frankel** - *Dougherty & Co. - Analyst*

And are they a big enough customer that it can be material; are you the only supplier of these products to them or you are one of several? Help us understand the potential of this relationship.

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

Well, as the products get qualified, we will become the only supplier of the product.

But I think the earlier question is how material is this? I guess it depends on what we mean by material. I don't know that we have in our forecast any specific security customer becoming a 10% customer of UEI in the short term because with annual sales in excess of \$600 million, it is unlikely that any of these customers will become a 10% customer this year.

However, we do expect significant growth in this business over a relatively small number annualized from last year, a number as we said when we purchased Ecolink that was below \$10 million. We expect a significant growth and an enormous growth rate over that level of sales from the prior year. But we are gaining traction in this business and it will have some significant growth this year.

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**Steven Frankel** - *Dougherty & Co. - Analyst*

And just to help me understand Interlogix a little better, so they supply into the traditional security channel and if I am an ADT dealer, is that the only place I go for these devices or I might have half a dozen suppliers, Interlogix being one of my distributors?

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

No, ADT could buy from others. This is a deal with Interlogix. So we are utilizing their -- I think it is about 60 sales representatives nationwide to sell this to obviously the channel that actually comes out to your house to install and they provide service so they are competitors.

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**Steven Frankel** - *Dougherty & Co. - Analyst*

Okay. And then back to the advanced remote business. You've got a big backlog of customers, where does this go three years from now? Are there other things that you are working on that can help these companies keep innovating or this is the big innovation and it is all about implementation from here?



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

Oh no. There are a lot of things that we are working on as are our customers because they are -- some of them, the world's leading home entertainment companies are focused on bringing in ever better user experience and ever better entertainment experience to your home. Many of them, if not most of them have shared some of their plans with us and we are working on next-generation products to make -- and technologies to be embedded into their products, their converters, set-top boxes, TVs, etc., to make the experience even better, which is the core focus of UEI.

We are seeing a lot of traction as we announced on the call. You've probably seen the reviews of the Samsung product. But we think that there is still more innovation in this area to come. I think that the rollouts we are doing now provide a significant impetus for growth because these companies who represent 20% of the world's subscribers, it will take some time months and years, to fully turn over their subscriber base to these new technologies. This isn't something that they do in a month. It will take time, which provides growth over a multiyear period.

Then you focus on the next 20%, which we are not done there yet either with other customers that are going to see what is going on with the leaders in the industry and say we want to have this as well. Again, as I said earlier, it does remind me of many decades ago the advent and popularity of the universal remote itself. It comes out. The leaders implement it, others see it and slowly but surely it becomes the de facto standard. I think that is what is becoming of these cloud connected two-way platforms that allow things like QuickSet to occur. Because it is difficult to argue that things like QuickSet aren't what people want.

To be able to plug-in your TV in the simplest instance and have it automatically be recognized and the remote automatically set up. It is kind of difficult for people to argue no, that is not what people want.

So I think these products at reasonable cost, which is what we have, we can implement this technology reasonably, I think it is beginning to take hold, which is why we are winning the leaders in the industry; 10% of companies representing 10% of the subscribers and we have also closed on 10% more and we don't think it stops there. So there are multiple years of wins and rollout that are in front of us.

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**Steven Frankel - Dougherty & Co. - Analyst**

Given how public Comcast has been on how satisfied they are with the XR 11, has that helped you win new customers that you have been knocking on the door for a while but haven't been able to win previously?

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

Sure. Yes, I mean I think they see the success and how aggressively Comcast has rolled this out and that is all public knowledge now. We don't like to talk about specific customers but it is very public what is going on at Comcast and I think that -- not just here in the US either -- I think other companies worldwide are aware of what is going on here, have seen the platform, have seen how great it is, and have seen how integrated the remote control has become to the overall home entertainment experience and how it can make it better.

So yes, I think this is a good example of how things can be and I think the Samsung TV, the one that I mentioned on call is another example of how great things can be. So it does affect the others in the industry, other potential customers of ours or current customers who have debated whether or not to upgrade to this type of technology sometimes are pushed to action by seeing what others are doing.

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**Steven Frankel - Dougherty & Co. - Analyst**

Great, thank you.

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**Operator**

Edison Chu, G2 Investment Partners.

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**Josh Goldberg - Deutsche Bank - Analyst**



It is actually Josh for Edison. Just a couple of questions. I guess first obviously the Comcast relationship with the warrants seemed to -- just sounds like it expanded your relationship and deepened it. And I know that there was some concern before the beginning of the year that we didn't know when they were going to peak and if they were going to peak around the \$40 million, \$42 million number. Your comments today sound like you are continuing to work with them on the Ecolink and the security side. Are you comfortable that you are going to see Comcast increase their business with you throughout the rest of this year from where they were in March? And then I have a follow-up?

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

Sure, we don't like to talk specifically about the growth rate of any specific customer but I suppose that we have announced that we are involved with the X1 and are making what we refer to as the XR 11, are working on successor products. We are also working on other products for the XFINITY home platform rolled out to the Comcast subscriber base. The warrant agreement does call for predefined milestones that go as high as \$170 million a year to receive the full or the last tranche of warrants.

We are not going to give a forecast for the customer but I think if you look at the types of numbers that are in the warrant agreement, it might give you an idea of what they may be contemplating, how deep this relationship could go as far as an ongoing multiyear agreement. It was three two-year agreements for a total of six years with very similar sales milestones in it. So we won't venture to forecast for Comcast. If they would like to release a forecast they can. But I do think the intent of the agreement is to have us deepen the partnership over a six-year timeframe.

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**Josh Goldberg - Deutsche Bank - Analyst**

Okay, great. And then two questions for Bryan I guess. First, you talked about the gross margins improving and I know not to give us an exact number but your range of margins last year every quarter was from 27% to as high as 28.5%. And here you came in at 25.6% this quarter, which you talked about being an anomaly comparing it to last year's first quarter. But even after last year's -- first quarter of 27%, 27.5% and 28%, is that a more reasonable number to think about going forward?

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

Yes, I am not going to give a specific number but I think back half of the year we will get to a more normalized rate of 27[%] plus. It could be above that as well. I think we said in Q4 we were higher than that so I think it is not a stretch to think that we will approximate that this year.

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**Josh Goldberg - Deutsche Bank - Analyst**

Last one for me just so I absolutely I understand what you are saying, you said that you are expecting your earnings per share growth to accelerate in the back half of the year versus the first half. And then you also said you think it is going to accelerate from the second quarter. Based on the midpoint of your second-quarter guidance, not saying that is going to happen but if you do the midpoint around 15% earnings growth rate so what you are saying is that the third and fourth quarters should be greater than 15% earnings growth as you look at it. Just so I understand that.

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

We are not providing forward guidance for Q3 and Q4.

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**Josh Goldberg - Deutsche Bank - Analyst**

I know, but you said it is going to grow. Were you saying it is going to grow off of the second quarter or growing off year-over-year?

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

Year-over-year earnings growth should -- we expect it according to our forecast to improve as the year progresses.

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**Josh Goldberg - Deutsche Bank - Analyst**



From the second quarter?

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

As the year progresses. This quarter it was 9% [growth]. We gave guidance for Q2, which as you pointed out 15% [growth]. So that is the numeric guidance we are providing.

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**Josh Goldberg - Deutsche Bank - Analyst**

Okay, perfect. Thank you so much.

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**Operator**

I'm showing no further questions at this time. I would now like to turn the call back over to Paul Arling for closing remarks.

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

Okay, thank you for joining us today and for your continued interest in the Company. We will be participating in the 17<sup>th</sup> Annual B. Riley Investor Conference on May 25<sup>th</sup> in Hollywood; the Robert W. Baird Global Consumer Technology and Services Conference on June 7<sup>th</sup> in New York City; and the Citi 2016 Small and Mid-Cap conference on June 9<sup>th</sup> also in New York the same week.

We hope to see you at one or all of these events. Thanks for being on the call today and talk to you next quarter. Goodbye.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day.

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