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# Universal Electronics Inc. Q4 2020

*As of February 18, 2021*



This presentation and accompanying schedules contain "forward-looking statements" within the meaning of federal securities laws, including net sales, profit margin and earnings trends, estimates and assumptions; our expectations about new product introductions; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our Annual Report on Form 10-K for the year ended December 31, 2020, and quarterly and periodic reports we have filed with the Securities Exchange Commission (the "SEC") since then. Risks that could affect forward-looking statements in this press release include: the acceptance of and demand for the various advanced control products and technologies, including our Apple TV remote control, Quickset® Widget, Quickset Cloud service, UEI Virtual Agent, UEI Comfort products, technologies, and platforms; our ability to continue anticipating the needs and wants of our customers, and timely develop and deliver products and technologies that will be accepted by our customers; the continued commitment of our customers to their product development strategies that translate into greater demand for our technologies and products as anticipated by management; the continued ordering pattern of our customers as anticipated by management; management's ability to manage its business to achieve its net sales, margins, and earnings through its operating efficiencies, product mix, and gross margin improvement initiatives as guided and as anticipated; our ability to enhance and protect the value of our intellectual properties, including our patents and trade secrets, through our licensing and litigation efforts; interruptions in our supply and logistics chains; the effects that natural disasters and public health crises, including the COVID-19 pandemic, have on our business and management's ability to anticipate and mitigate those effects, including the duration, severity and scope of the COVID-19 pandemic, and the actions and restrictions that may be imposed on us and our operations by federal, state, local and international public health and governmental authorities to contain and combat the outbreak and spread of COVID-19, each of which may exacerbate one or more of the aforementioned risks; and uncertainties and other factors more fully described in our reports filed with the SEC; and effects that changes in laws, regulations and policies may have on our business including the impact of trade regulations pertaining to importation of our products and the tariffs imposed upon them. Since it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results, the above list should not be considered a complete list. Further, any of these factors could cause actual results to differ materially from the expectations we express or imply in this press release. We make these forward-looking statements as of February 18, 2021. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

# UEI is the global leader in wireless universal control solutions for home entertainment and smart home devices.

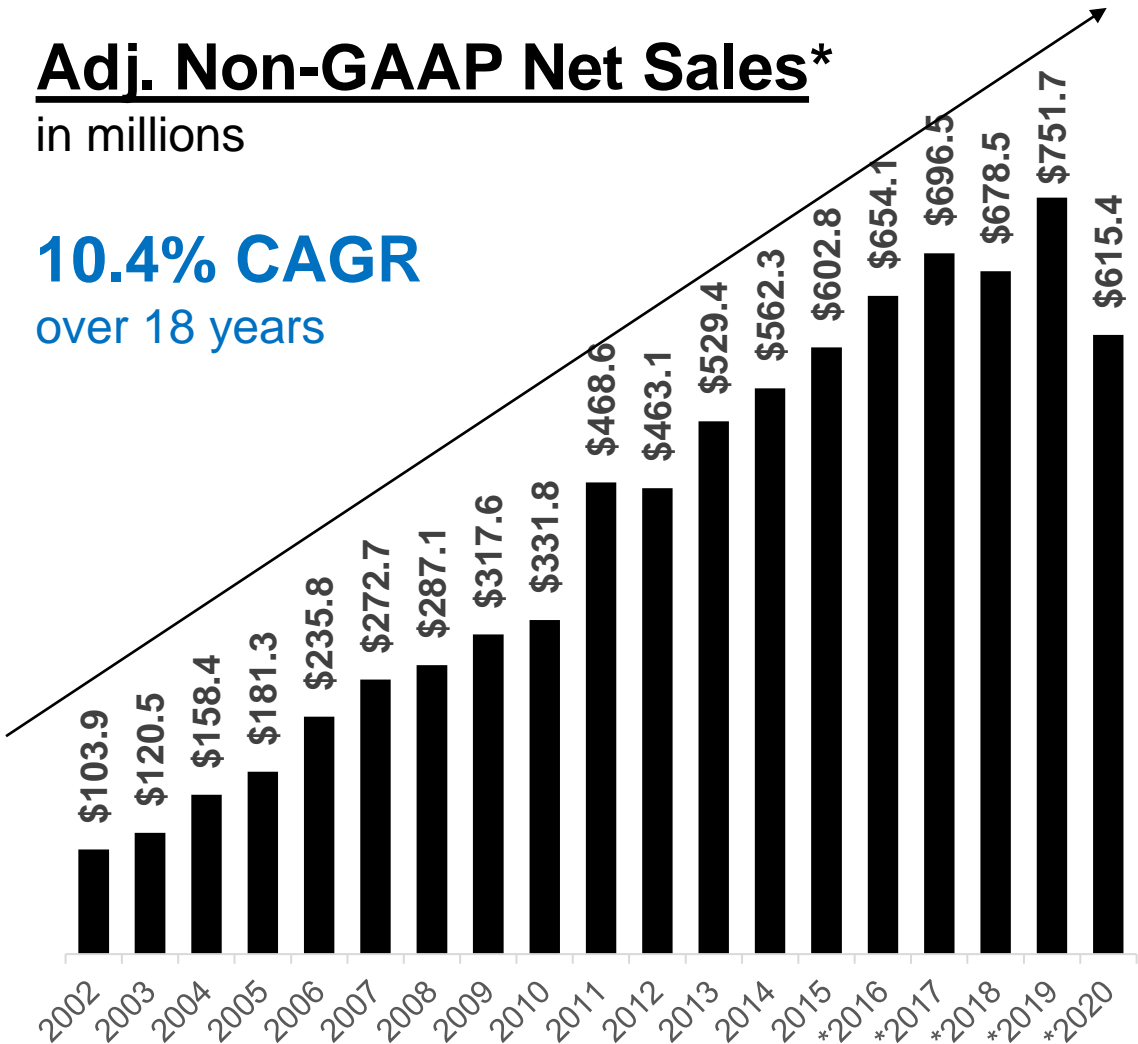
Our 3,800+ employees worldwide design, develop, manufacture, ship and support over 100 million innovative products each year which are used by the world's leading brands in the consumer electronics, subscription broadcast, security, home automation, hospitality and climate control markets.

# Long term, sustainable value creation

## Adj. Non-GAAP Net Sales\*

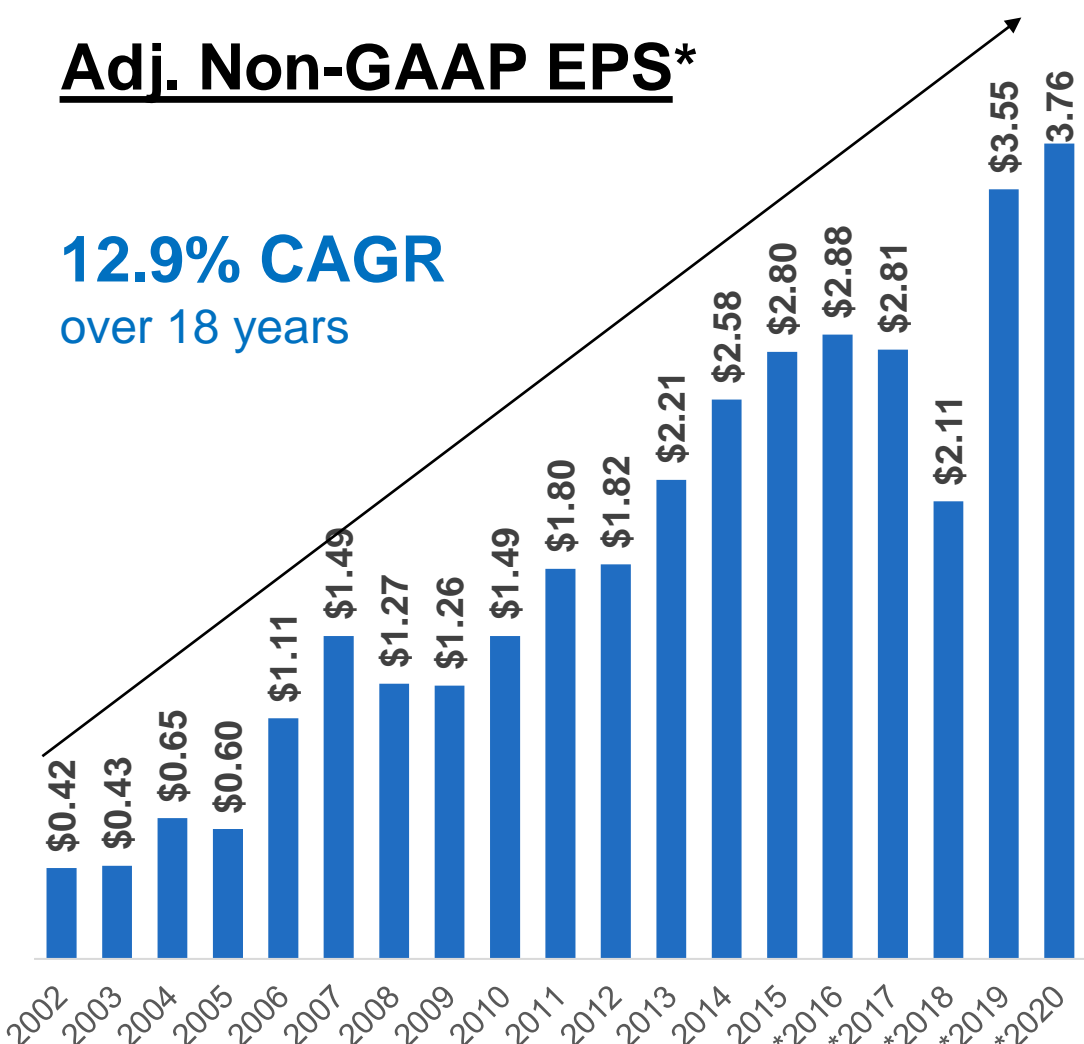
in millions

10.4% CAGR  
over 18 years



## Adj. Non-GAAP EPS\*

12.9% CAGR  
over 18 years



\* Reconciliation of Adjusted non-GAAP to GAAP in the appendix.

## OUR SOLUTIONS



# UEI at a glance

Universal Electronics - Investor Presentation - Q3 2020

## Market Share Leader

- More than three decades of experience designing and developing wireless entertainment and home control solutions
- Worldwide leader in growing market for entertainment (voice) remote controls
- Broad portfolio of connected sensing and control solutions for the home

## Focus on Technology and Product Innovation

- Industry-leading QuickSet software controls entertainment and smart home devices
- Nearly 600 issued and pending patents

## Global Scale

- Vertically integrated across design, development, software and manufacturing
- R&D teams in the U.S., Europe, China, India and Taiwan
- Globally diversified manufacturing in China, Mexico, Brazil and Vietnam
- 3,800+ employees worldwide

## Fortune 100 Customer Base

- Technology licensing with leading consumer electronics and security brands
- Development partner for world's largest video and telecom service providers

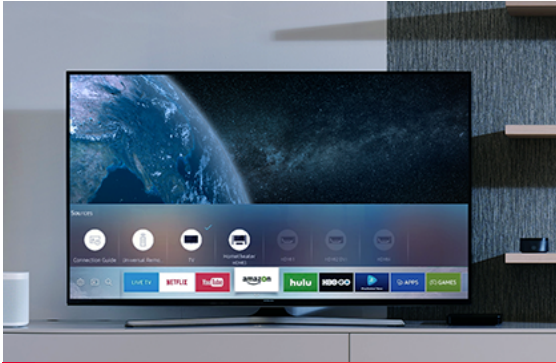
## Strong Financial Performance

- Consistent revenue and earnings growth

# Diverse, scalable sales channels



Video Service Providers



Consumer Electronics



Retail



Security and Automation



Climate Control



Home Appliances



Hospitality

# Powering Fortune 500 companies



Video Service Providers



Consumer Electronics



Retail



Security and Automation



Climate Control



Home Appliances



Hospitality

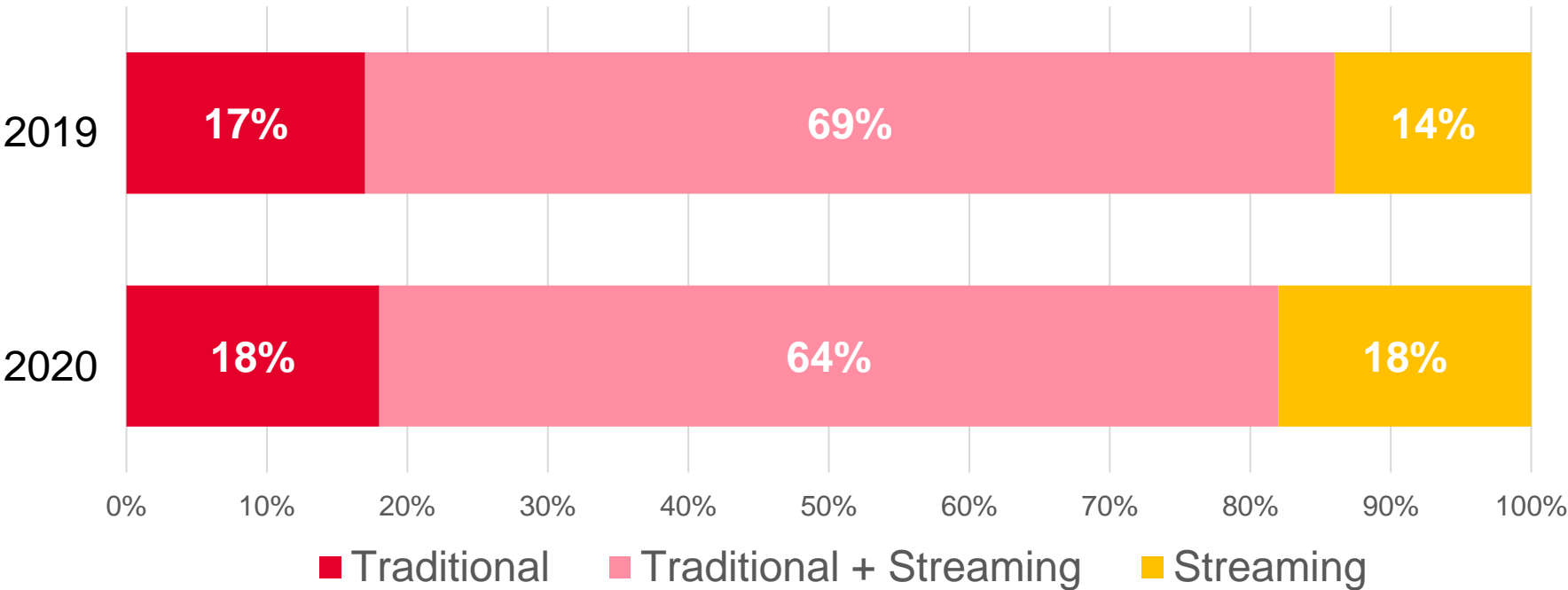
The average American  
spends 4:58 hours per  
day watching TV

Source: Nielsen, Q2 2020



# Most Americans watch both traditional and streaming services

3x more customers combine services than those who have cut the cord and only stream



Traditional: over-the-air or MVPD (cable or satellite TV service provider)

Streaming: direct-to-consumer app based video over internet (TVOD, SVOD, AVOD) or virtual MVPD

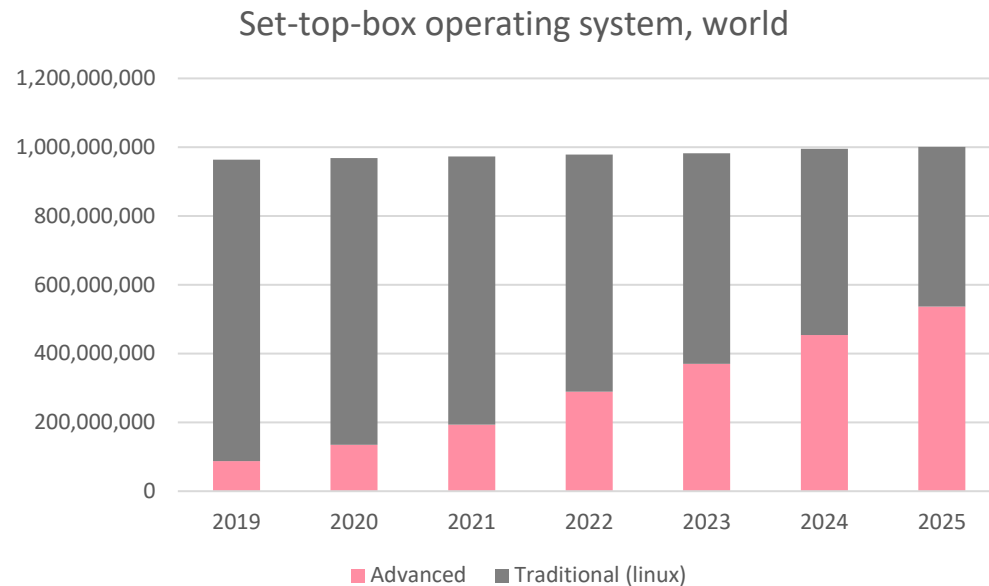
Source: Hub Entertainment Research, August 2020



## Entertainment control has dramatically changed in the past four years

- More content requires better search leading to greater demand for voice remotes
- Internet connectivity and two-way communication create smart control opportunity

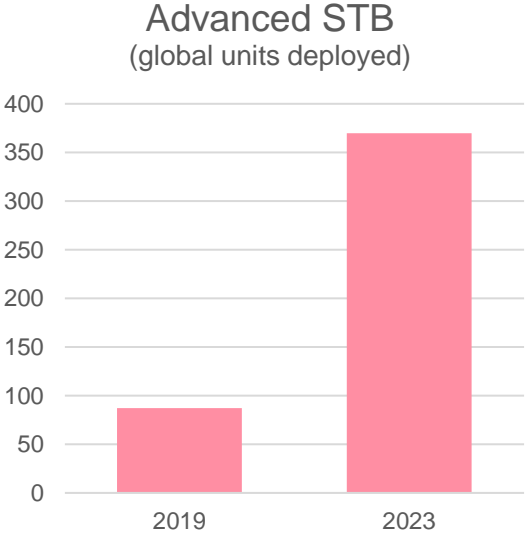
# Set-top boxes with advanced TV OS will penetrate over half a billion households as they offer a better user experience and OTT services



Source: Rethink Technology, 2020

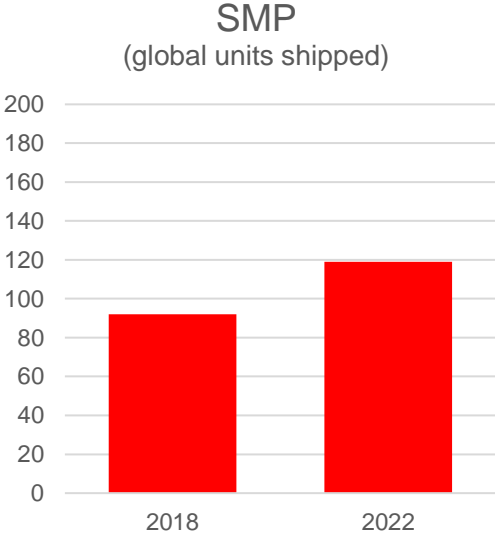


Advanced  
Set-Top Box

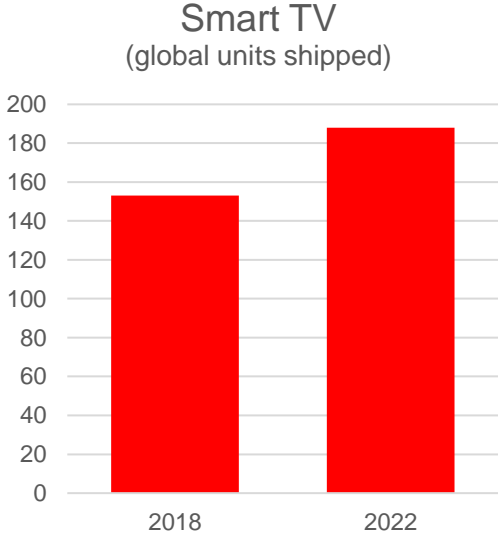
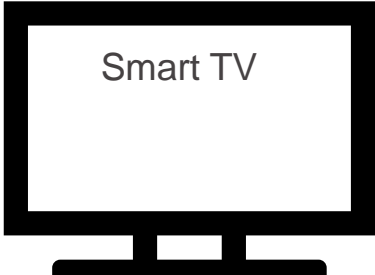


Source: Rethink Technology, 2020

Streaming Media  
Player



Source: Parks Associates, 2019



Source: IHG, 2019

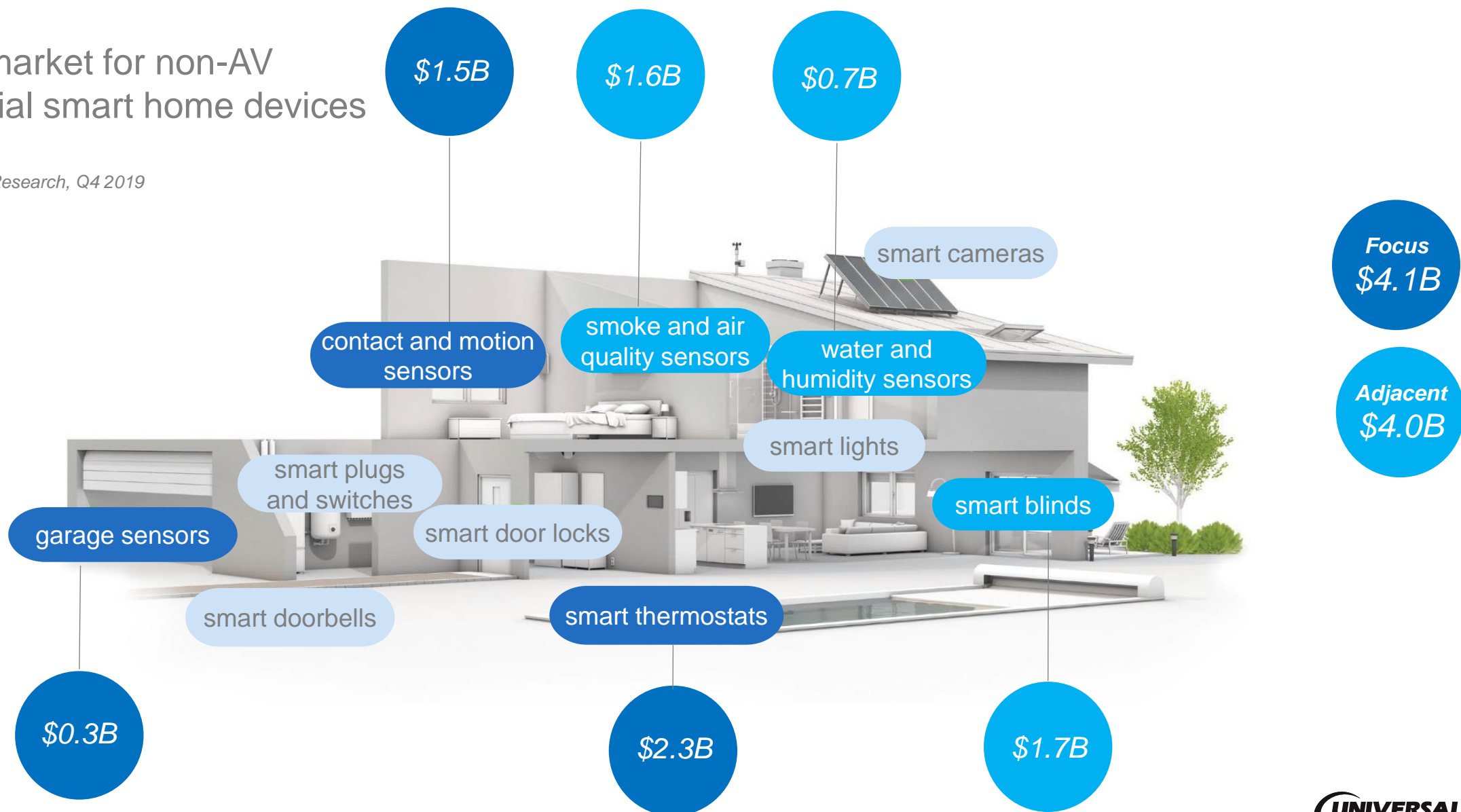
69% of U.S. households  
have at least one smart  
home device

Source: Consumer Technology Association, Q4 2019



# Global market for non-AV residential smart home devices

Source: ABI Research, Q4 2019





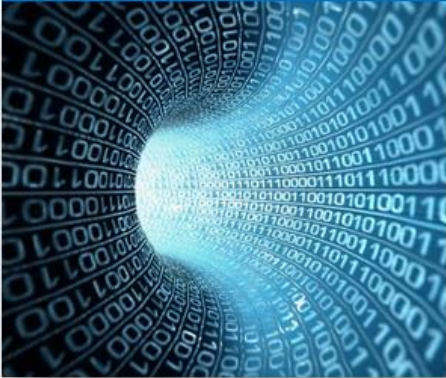
## OUR VISION

# Connecting the home

To be the most knowledgeable company on the planet about the entertainment, smart devices and services that people have in their home.

## OUR SOLUTIONS

### SOFTWARE & SERVICES



### WIRELESS CONNECTIVITY



### HOME ENTERTAINMENT



### CONNECTED HOME



Our industry-leading technology and expertise power our solutions to enable unmatched control of entertainment and smart home devices for a seamless user experience

- Global leader in high performance, low cost voice solutions based on proprietary silicon with more than 100 million units shipped
- World's largest cloud-based knowledge graph for devices and services in the home with over 100 billion cloud transactions annually

## New Products

- The **UEI Comfort family of connected thermostats** is designed to simplify installation, use and support of climate control in residential, commercial and hospitality applications with built-in sensing capabilities to optimize comfort and reduce energy costs
- **QuickSet® Widget** enables OEMs to upgrade their products to be connected, managed and secured, and enables interoperability with other devices, expanding UEI's portfolio across several connected home product segments
- **UEI Virtual Agent** enables self-help support to address common challenges around onboarding, feature discovery and troubleshooting for entertainment and smart home devices



## Q4 Wins



UEI to provide voice-enabled remotes for the new Virgin TV 360 platform

UEI to launch Apple TV remote control for MVPDs



UEI to provide voice-enabled remotes for Liberty Global's environmentally friendly 4K Mini TV Box

# Achieving profitability records

<b>Adjusted Non-GAAP*</b> (\$ M, except EPS)	<b>Q4 2020</b>	<b>Q4 2019</b>	<b>FY 2020</b>	<b>FY 2019</b>
Net Sales	\$156.4	\$174.8	\$615.4	\$751.7
Gross Margin	33.6%	29.3%	30.8%	26.7%
Operating Margin	12.2%	9.9%	10.7%	8.8%
Net Income	\$16.0	\$12.8	\$53.3	\$50.1
EPS	\$1.14	\$0.90	\$3.76	\$3.55

<b>Adjusted Non-GAAP*</b> <b>Guidance (\$ M, except EPS)</b>	<b>Q1 2021</b>	<b>Q1 2020</b>
Net Sales	\$150-\$160	\$152.0
Gross Margin	Exceed 30%	30.9%
EPS	\$0.83-\$0.93	\$0.81

\* Reconciliation of Adjusted non-GAAP to GAAP in the appendix.

## ENRICHING PRODUCT MIX WITH TECHNOLOGY & LICENSING

- Expanded GM:
  - 30.8% in 2020 vs. 26.7% in 2019

## INVESTING IN SCALABILITY AND EFFICIENCY

- Improved OM with restructuring and cost efficiency efforts:
  - 10.7% in 2020 vs. 8.8% in 2019

## STRENGTHENING BALANCE SHEET

- \$73.4M cash flow from operations for 2020
- \$57.2M cash and cash equivalents at 12/31/20
- \$20.0M in debt at 12/31/20, \$48.0M repaid during 2020
- Stock repurchase:
  - 440k shares bought for \$17.7M in 2020
  - Up to 300k more shares approved

### **GROW HOME ENTERTAINMENT CHANNELS**

- Leverage long-term customer relationships
- Upgrade customers to voice remotes and technology on advanced video platforms
- Continue expansion into streaming and hybrid systems
- Develop extended products and services

### **DIVERSIFY INTO CONNECTED HOME**

- Focus on diversifying in security, home automation, climate control and hospitality channels
- Leverage strength in high-volume electronics, wireless connectivity and interoperability
- Innovate with new products and services

### **SHIFT TO HIGHER MARGIN SALES**

- Shift focus to selling hardware, software and services across all channels and making products smarter

### **DELIVER CONSISTENT GROWTH**

- Targeting 5% to 10% sales and 10% to 20% earnings growth long-term

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Thank you!

Questions?

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# Financial Appendix



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

Adjusted Non-GAAP net sales is defined as net sales excluding the revenue impact of the additional Section 301 U.S. tariffs on products manufactured in China and imported into the U.S. and the impact of stock-based compensation for performance-based warrants. Adjusted Non-GAAP gross profit is defined as gross profit excluding the impact of the additional Section 301 U.S. tariffs on products manufactured in China and imported into the U.S. and costs of implementing countermeasures to mitigate this impact, excess manufacturing overhead costs including those related to the COVID-19 pandemic, factory transition costs, the loss on the sale of our Ohio call center, stock-based compensation expense, depreciation expense related to the increase in fixed assets from cost to fair market value resulting from acquisitions and employee related restructuring costs. Adjusted Non-GAAP operating expenses are defined as operating expenses excluding costs incurred related to implementing countermeasures to mitigate the impact of the additional Section 301 U.S. tariffs on products manufactured in China and imported into the U.S., stock-based compensation expense, amortization of intangibles acquired, changes in contingent consideration related to acquisitions and employee related restructuring and other costs. Adjusted Non-GAAP net income is defined as net income excluding the aforementioned items, the reversal of a social insurance accrual related to our Guangzhou entity, which was sold in 2018, foreign currency gains and losses, the related tax effects of all adjustments as well as the effect of a reversal of a reserve of an uncertain tax position related to our Guangzhou entity, which was sold in 2018, and certain net deferred tax adjustments. Adjusted Non-GAAP diluted earnings per share is calculated using Adjusted Non-GAAP net income. A reconciliation of these financial measures to the most directly comparable GAAP financial measures is included at the end of this presentation.

## GAAP TO ADJUSTED NON-GAAP RECONCILIATION TABLE (In thousands, except per share amounts, unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Net sales:</b>				
Net sales - GAAP	\$ 156,264	\$ 174,694	\$ 614,680	\$ 753,477
Section 301 U.S. tariffs on goods imported from China <sup>(1)</sup>	—	(530)	—	(3,725)
Stock-based compensation for performance-based warrants	161	616	686	1,997
Adjusted Non-GAAP net sales	<u>\$ 156,425</u>	<u>\$ 174,780</u>	<u>\$ 615,366</u>	<u>\$ 751,749</u>
<b>Cost of sales:</b>				
Cost of sales - GAAP	\$ 105,180	\$ 124,837	\$ 438,424	\$ 583,274
Section 301 U.S. tariffs on goods imported from China <sup>(1)</sup>	—	1,084	(3,523)	(13,377)
Excess manufacturing overhead and factory transition costs <sup>(2)</sup>	(1,154)	(1,412)	(7,500)	(17,746)
Loss on sale of Ohio call center <sup>(3)</sup>	—	(811)	(570)	(811)
Adjustments to acquired tangible assets <sup>(4)</sup>	(180)	(110)	(378)	(471)
Stock-based compensation expense	(37)	(37)	(183)	(139)
Employee related restructuring	—	—	(204)	—
Adjusted Non-GAAP cost of sales	<u>103,809</u>	<u>123,551</u>	<u>426,066</u>	<u>550,730</u>
Adjusted Non-GAAP gross profit	<u>\$ 52,616</u>	<u>\$ 51,229</u>	<u>\$ 189,300</u>	<u>\$ 201,019</u>
<b>Gross margin:</b>				
Gross margin - GAAP	32.7 %	28.5 %	28.7 %	22.6 %
Section 301 U.S. tariffs on goods imported from China <sup>(1)</sup>	— %	(0.8)%	0.6 %	1.4 %
Stock-based compensation for performance-based warrants	0.1 %	0.3 %	0.1 %	0.2 %
Excess manufacturing overhead and factory transition costs <sup>(2)</sup>	0.7 %	0.7 %	1.2 %	2.3 %
Loss on sale of Ohio call center <sup>(3)</sup>	— %	0.5 %	0.1 %	0.1 %
Adjustments to acquired tangible assets <sup>(4)</sup>	0.1 %	0.1 %	0.1 %	0.1 %
Stock-based compensation expense	0.0 %	0.0 %	0.0 %	0.0 %
Employee related restructuring	— %	— %	0.0 %	— %
Adjusted Non-GAAP gross margin	<u>33.6 %</u>	<u>29.3 %</u>	<u>30.8 %</u>	<u>26.7 %</u>
<b>Operating expenses:</b>				
Operating expenses - GAAP	\$ 38,569	\$ 38,406	\$ 138,989	\$ 154,888
Section 301 U.S. tariffs on goods imported from China <sup>(1)</sup>	—	(18)	—	(1,804)
Stock-based compensation expense	(2,232)	(2,090)	(8,940)	(8,705)
Amortization of acquired intangible assets	(485)	(1,395)	(4,508)	(5,595)
Change in contingent consideration	(20)	366	2,408	(1,403)
Litigation costs <sup>(5)</sup>	(2,287)	—	(3,901)	—
Employee related restructuring and other costs	—	(1,335)	(287)	(2,720)
Adjusted Non-GAAP operating expenses	<u>\$ 33,545</u>	<u>\$ 33,934</u>	<u>\$ 123,761</u>	<u>\$ 134,661</u>

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Operating income:</b>				
Operating income - GAAP	\$ 12,515	\$ 11,451	\$ 37,267	\$ 15,315
Section 301 U.S. tariffs on goods imported from China <sup>(1)</sup>	—	(1,596)	3,523	11,456
Stock-based compensation for performance-based warrants	161	616	686	1,997
Excess manufacturing overhead and factory transition costs <sup>(2)</sup>	1,154	1,412	7,500	17,746
Loss on sale of Ohio call center <sup>(3)</sup>	—	811	570	811
Adjustments to acquired tangible assets <sup>(4)</sup>	180	110	378	471
Stock-based compensation expense	2,269	2,127	9,123	8,844
Amortization of acquired intangible assets	485	1,395	4,508	5,595
Change in contingent consideration	20	(366)	(2,408)	1,403
Litigation costs <sup>(5)</sup>	2,287	—	3,901	—
Employee related restructuring and other costs	—	1,335	491	2,720
Adjusted Non-GAAP operating income	<u>\$ 19,071</u>	<u>\$ 17,295</u>	<u>\$ 65,539</u>	<u>\$ 66,358</u>
Adjusted Non-GAAP operating income as a percentage of net	12.2 %	9.9 %	10.7 %	8.8 %
<b>Net income:</b>				
Net income - GAAP	\$ 12,158	\$ 7,027	\$ 38,572	\$ 3,630
Section 301 U.S. tariffs on goods imported from China <sup>(1)</sup>	—	(1,596)	3,523	11,456
Stock-based compensation for performance-based warrants	161	616	686	1,997
Excess manufacturing overhead and factory transition costs <sup>(2)</sup>	1,154	1,412	7,500	17,746
Loss on sale of Ohio call center <sup>(3)</sup>	—	811	570	811
Adjustments to acquired tangible assets <sup>(4)</sup>	180	110	378	471
Stock-based compensation expense	2,269	2,127	9,123	8,844
Amortization of acquired intangible assets	485	1,395	4,508	5,595
Change in contingent consideration	20	(366)	(2,408)	1,403
Litigation costs <sup>(5)</sup>	2,287	—	3,901	—
Employee related restructuring and other costs	—	1,335	491	2,720
Accrued social insurance adjustment <sup>(6)</sup>	—	—	(9,464)	—
Reversal of accounts receivable reserve <sup>(7)</sup>	(432)	—	(432)	—
Foreign currency (gain) loss	596	263	1,984	933
Income tax provision on adjustments	(2,866)	(320)	(4,349)	(7,259)
Other income tax adjustments <sup>(8)</sup>	—	—	(1,303)	1,772
Adjusted Non-GAAP net income	<u>\$ 16,012</u>	<u>\$ 12,814</u>	<u>\$ 53,280</u>	<u>\$ 50,119</u>
<b>Diluted shares used in computing earnings per share:</b>				
GAAP	14,099	14,286	14,166	14,109
Adjusted Non-GAAP	14,099	14,286	14,166	14,109
<b>Diluted earnings per share:</b>				
Diluted earnings per share - GAAP	\$ 0.86	\$ 0.49	\$ 2.72	\$ 0.26
Total adjustments	\$ 0.27	\$ 0.41	\$ 1.04	\$ 3.29
Adjusted Non-GAAP diluted earnings per share	\$ 1.14	\$ 0.90	\$ 3.76	\$ 3.55

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GAAP TO ADJUSTED NON-GAAP RECONCILIATION TABLE

- (1) The twelve months ended December 31, 2020 includes costs directly attributable to the additional Section 301 U.S. tariffs implemented in 2018 on goods manufactured in China and imported into the U.S. The three and twelve months ended December 31, 2019 include incremental revenues and costs directly attributable to the additional Section 301 U.S. tariffs implemented in 2018 on goods manufactured in China and imported into the U.S. as well as costs incurred for the movement of factory equipment and other costs of countermeasures undertaken by the company to modify its manufacturing operations and supply chain.
- (2) The twelve months ended December 31, 2020 includes excess manufacturing overhead costs incurred as we temporarily shut-down our China and Mexico-based factories as a result of the COVID-19 pandemic. Additional excess manufacturing overhead costs have been incurred for the three and twelve months ended December 31, 2020 and 2019 due to the expansion of our manufacturing facility in Mexico where products destined for the U.S. market are now manufactured. These products destined for the U.S. market were previously manufactured in China. In addition, the twelve months ended December 31, 2019 include direct manufacturing inefficiencies incurred in Mexico as we were still in a start-up phase through the third quarter of 2019.
- (3) Consists of impairment expenses related to and the loss recorded on the sale of our Ohio call center which was completed in February 2020.
- (4) Consists of depreciation related to the mark-up from cost to fair value of fixed assets acquired in business combinations.
- (5) Consists of expenses related to our International Trade Commission (“ITC”) investigation of Roku, Inc. and certain other related entities. We have requested the ITC to issue a permanent limited exclusion order prohibiting the importation of certain products into the United States due to their infringement of our patents.
- (6) Consists of the reversal of a social insurance accrual related to our Guangzhou entity, which was sold in 2018. The indemnification agreement related to the sale of our Guangzhou entity expired in the second quarter of 2020.
- (7) Consists of the reversal of a reserve on an accounts receivable balance related to our Guangzhou entity, which was sold in 2018. The amount was recovered during the fourth quarter of 2020.
- (8) The twelve months ended December 31, 2020 includes the reversal of a reserve of an uncertain tax position related to our Guangzhou entity, which was sold in 2018. The indemnification agreement related to the sale of our Guangzhou entity expired in the second quarter of 2020. The twelve months ended December 31, 2019 includes the revaluation of net deferred tax assets at one of our China factories resulting from tax incentives that lowered the statutory rate.