

WESTPEAK RESEARCH ASSOCIATION

Universal Electronics (NASDAQ: UEIC)

Consumer Discretionary – Consumer Electronics

The Future of Smart Home Technology

March 13, 2021

Headquartered in Arizona, USA, Universal Electronics Inc. (UEI) is a universal smart home technology provider and a manufacturer of remote control, IoT devices, and software/cloud services. UEI designs, manufactures, and ships products across the globe for consumers and companies in the audio video, subscription broadcasting, connected home, and mobile devices market.

Investment Thesis

Despite UEI's stock price surging almost 56% in the past four months, the company remains fairly valued by the market. As well, even through the company's successful efforts in being a leader within the remote control and home automation industry, the majority of their expected growth has already been priced in by investors. Consequently, even with UEI's value drivers and growth opportunities, we believe the potential for significant upside is highly restricted.

Drivers

As individual disposable income and the demand for more sophisticated consumer electronics goods continues to increase, we expect an increase in spending within the home automation industry. Additionally, with UEI's constant product innovations, they continue to increase their annual revenue and grow their market share in the entertainment control and intelligent software markets. Lastly, with UEI's international partnerships and global scale, they have reliable streams of growing revenue.

Valuation

With the current share price of \$64.11, we believe that Universal Electronics is fairly valued by the market. Through a discounted cash flow and comparable company analysis, weighted at 40% and 60% respectively, we determined a target share price of \$60.08. With a resulting total return of -6.3% we recommend a HOLD rating on Universal Electronics.

Analyst: Alair Ang, BCom. '23
contact@westpeakresearch.com

Equity Research	Canada/US
Price Target	CAD \$60.08
Rating	Hold
Share Price (Mar. 12 Close)	CAD\$ 64.11
Total Return	-6.3%

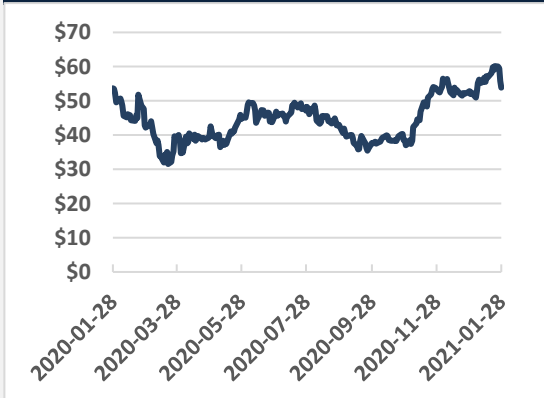
Key Statistics

52 Week H/L	\$56.92/\$29.50
Market Capitalization	\$751.57M
Average Daily Trading Volume	67.78K
Net Debt	\$63.68M
Enterprise Value	\$840.13M
Net Debt/EBITDA	0.74x
Diluted Shares Outstanding	14.21M
Free Float	95.71%
Dividend Yield	N/A

WestPeak's Forecast

	2020E	2021E	2022E
Revenue	\$622M	\$634M	\$647M
EBITDA	\$69M	\$82M	\$84M
Net Income	\$35M	\$36M	\$38M
EPS	\$2.50	\$2.51	\$2.65
P/E	21.9x	21.8x	20.6x
EV/EBITDA	12.3x	9.8x	9.0x

1-Year Price Performance



Business Overview/Fundamentals

Business Model

Founded in 1986, Universal Electronics (NASDAQ: UEIC) is a leading consumer electronics company that designs, develops, and manufactures control and sensor technologies around the world. They specialize in audio video accessories, intelligent wireless security, and smart home products that are used by consumers and leading brands. UEI's principal markets include subscription broadcast, consumer and mobile electronics, residential security, and hospitality. UEI aims to further penetrate the traditional OEM consumer electronics markets and new product categories in smart home markets through disruptive innovations.

UEI's ultimate goal is to provide universal control solutions that require minimal setup and delivers one-touch control of all connected devices. The *One for All* brand name is UEI's original and largest consumer brand, which manufactures and distributes remote controls and audio video accessories. Products under *One for All* are sold in over 13,000 stores internationally and account for approximately 10% of their annual sales. UEI's primary smart home software application is QuickSet Cloud, which provides the discovery, control, and interaction of smart devices within a home. In 2018, UEI introduced Nevo, a digital assistant platform optimized for smart home applications that work hand in hand with QuickSet Cloud. Two of UEI's most significant acquisitions are Ecolink in 2015 and RCS Technology in 2017, with the former being a leading developer of security products and the latter a manufacturer of energy management and control products.

Exhibit 1: UEI's Largest Brands

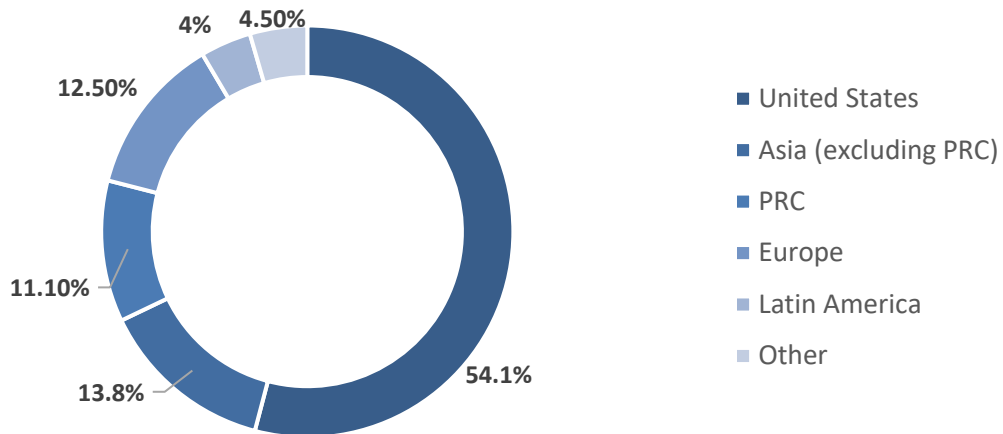


Source: Company Website

Revenue Streams & Customer Segments

UEI generates product revenues by distributing remote control devices, sensors, and AV accessories directly to subscription broadcasters and households across the globe. They also distribute home security sensors and thermostats to pro-security installers and hospitality system integrators in the United States. Furthermore, UEI designs and manufactures innovative products for the world's leading global electronic brands. UEI also earns revenue through selling integrated circuits with embedded codes to OEMs that manufacture products such as televisions, video players, air conditioning equipment, game consoles, and mobile phones. The graph below shows UEI's revenue breakdown by geographic segment, with the top three geographic segments being the United States, Europe, and Asia (excluding the People's Republic of China).

Exhibit 2: Revenue Geographic Segment (FY 2019)



Source: Company Filings

UEI’s target customer segments are service providers, original equipment manufacturers (OEMs), retailers, private label brands, computing companies, and individuals with a high level of disposable income. UEI’s customer base includes some of the world’s largest companies including Samsung, Panasonic, Sony, Phillips, and LG.

Exhibit 3: A Snapshot of UEI’s Customer Base



Source: Company Website

Intellectual Property and Technology

At the end of 2019, UEI had over 580 issued and pending United States patents for their remote control, home security, safety, and automation products. They also have hundreds of foreign patents and applications across the world, with patents having remaining lives between one to 18 years. Additionally, UEI has obtained copyright registration and claimed copyright protection for their proprietary software and libraries of device control codes. The majority of their products are registered as trademarks in the United States Patent and Trademark Office. Although UEI follows the practice of

obtaining patents, copyrights, and trademark registrations when advisable, they have sometimes elected common law trade secret protection instead. Having the proper protection on UEI's intellectual property and technology is essential to staying ahead of competitors, as it allows them to be the only company to provide certain goods and services in the industry.

Global Scale & World-Renowned Partners

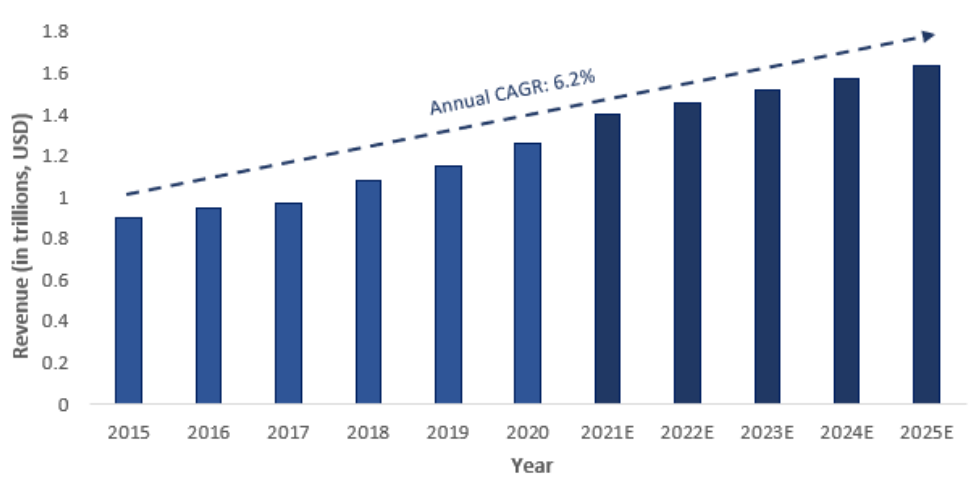
UEI has already established itself as a world-leading consumer electronics company through partnering with some of the world's largest video service providers and retailers. With the reliance of large brands such as Samsung, Panasonic, and Sony in UEI's services, Universal Electronics can maintain a steady stream of revenue through the continuous growth of their clients. Currently, subscriptions from their clients account for approximately 38% of their total revenue in 2019. Furthermore, Universal Electronics' R&D teams are spread across California, China, India, and Taiwan, allowing for diverse methods of researching and developing. Additionally, they have globally diversified manufacturing in China, Mexico, Brazil, and Vietnam, reducing UEI's vulnerability to external and uncontrollable factors that negatively affect their production process.

Industry Analysis

Consumer Electronics Industry

The consumer electronics industry has seen significant growth over the last decade due to new technological developments and changes in consumer preferences. Globally, the Consumer Electronics industry is projected to earn revenue of \$1.4 trillion USD in 2021. This is forecasted to gain an annual market growth of 4.7% from 2021 to 2025. In the US alone, revenue in the Consumer Electronics segment is projected to reach \$416 billion USD in 2021, which is a 4% growth rate since 2020.

Exhibit 4: Global Historical and Projected Revenue in Consumer Electronics Industry



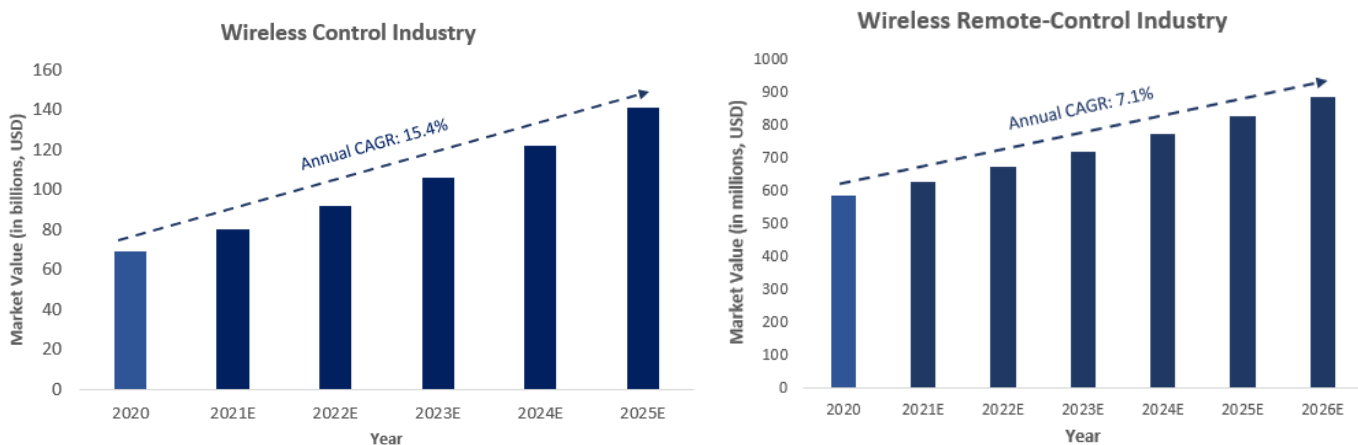
Source: Statista

Going forward, technological proliferation and the growing emergence of smart devices is expected to be a key factor driving growth. Whereas sales are expected to remain steady or decline of traditional desktop PCs, tablets, and laptops, technology products that are expected to increase automation in everyday lives are expected to rise. Technological advancements such as IoT across devices, increasing consumer disposable income, and growing popularity of smart devices is expected to provide a path for industry growth. To succeed in this industry, collaboration with other organizations is imperative to assist in continuous product innovation and to promote products through various streams. A well-established network will help companies increase product volume and reduce costs.

Wireless Control Industry

The global wireless control industry is currently valued at \$69 billion USD and is projected to grow to \$141 billion USD by 2025, an estimated CAGR of 15.4%. More specifically, the global industrial wireless remote-control market size is worth around \$585 million USD, and is forecasted to reach \$883 million USD by 2026, a CAGR of 7.1% from 2021-2026. With other companies creating more sophisticated technological content, consumers require more sophisticated wireless control products. The competition in the wireless control industry is primarily dependent on product availability, speed of delivery, price, quality, and ability to tailor specific solutions to customer needs. The industry is also heavily dependent on capital expenditure and research & development to discover profitable product developments. However, although decreasing, there is still hesitation to invest in wireless solutions because of concerns regarding the reliability, security, and compatibility of wireless connections with established infrastructures. Ultimately, remaining competitive in this industry is reliant on a company's ability to identify new product opportunities, develop new products, and seek strategic alliances in a timely and cost-effective manner.

Exhibit 5: Global Market Value of Wireless Control and Wireless Remote-Control Industry



Source: GlobeNewswire

Home Security and Automation Industry

The global home automation system market was valued at \$41 billion USD in 2020 and projected to reach \$63 billion USD by 2025, an expected CAGR of 9.1%. This industry is subject to prominent competition and pricing pressures. Specifically, many countries have security industry providers that are already nationally recognized, increasing the overall competition in the international scene. For instance, Fala Technology and Rako have already dominated the industry in China and the United Kingdom, two countries that already have a large and growing home security and automation market. Additionally, there has been a recent trend where cable and telecommunications companies have begun to expand into the monitored security industry or partner with already established monitored security services. If we see key players infiltrating the home security and automation industry, current players are at risk of being unprofitable. Factors affecting this industry include the development of innovative & energy efficient systems, growth in IoT markets, increase in the importance of home monitoring, and rising consumer awareness related to the availability of smart home devices. Ultimately, the adoption of home automation systems is growing because of the development of the construction industry and the increase in demand for energy efficiency in smart homes.

Drivers

Consumer Trends: Rise of Home Automation Products

With the growing demand for consumer electronics and home automation products, there is a lot of room for revenue growth in the future. The home automation market is expected to grow from \$41 billion USD in 2020 to \$63 billion by 2025, with an expected CAGR of 9.1%. The market continues to grow annually due to the rising adoption of the internet and things to increase automation and connectivity. For instance, 157 million people in the US owned at least one smart home product in 2020, a 32% increase since 2019 and a 134% increase since 2018. As well, large tech companies such as Google and Amazon have driven the home automation industry in recent years because of their expansion into this market, particularly Google Home and Amazon Alexa. However, this does not pose a large threat to UEI because whereas Google and Amazon are focused specifically on integrating AI into speakers as virtual assistants, UEI targets the entire home automation scene, from speaker to TV products. Furthermore, the increases in disposable income and growing preference for a luxurious lifestyle in developing countries are a significant driver in the home automation market's growth. We believe the rise of the home automation products will drive UEI's growth because of their reputable brand name and established position in the home automation market. There is not a lot of competitors with UEI's size and experience that are specifically targeting the AI aspect of the home automation industry. Thus, with the growth of the home automation market, we believe that UEI will be able to expand and capture larger customer segments.

Technology and Product Innovation

One of UEI's main business strategies emphasizes value-added product differentiation, which is a result of UEI's technical, creative, and innovative teams across the globe. UEI continues to constantly invest in product differentiation, in hopes to grow its market share in the entertainment control and intelligent software markets. For instance, UEI leveraged innovative developments last year through Nevo Butler, a new product for smart homes which is an end-to-end voice enabled-smart home hub with a built-in digital assistant that unifies the home automation experience. They also own hundreds of patents

on their technology to ensure that they can provide products and services that are unique from their competitors. During a conference call in 2020, the CEO also hinted at the release of a new product with enhanced features from their nevo.ai and QuickSet Cloud technology. With forecasted and innovative product launches in the next three years, we believe that the creation and continued development of their products creates an opportunity for growth.

Catalysts

COVID-19

The continuous recovery and aftermath from COVID-19 is expected to drive sales, due to individual households returning to their regular spending and normalizing market conditions. Although the timeline for a complete recovery from COVID-19 remains uncertain, the return of the economy will enable UEI to recover from their reduced revenue from 2020. The most affected geographical segments from COVID-19 are Latin America and the United States, with revenue decreasing from the last year by 47% and 32%, respectively. Additionally, with the large proportion of the population decreasing their spending and increasing their savings, we forecast a further increase in sales of UEI's home automation products. With fewer alternatives to spend excess individual cash (most prominently through the decrease in vacations) and the growing trend for home automation products, we expect a larger population to increase their spending on consumer electronics and home automation products.

New Opportunities

On December 8, 2020, it was released that UEI was selected to provide voice-enabled remote controls to Virgin Media for their new Virgin TV 360 platform. Virgin Media, which is one of Europe's largest telephone and television services companies, currently serves over 5.6 million cable customers and 3.3 mobile customers in the United Kingdom. With this partnership, UEI can expect their revenue for remote controls and earnings to grow substantially in the coming years. Furthermore, Walmart is also working with Comcast to release their own product line of televisions. We believe that the success of these partnerships will act as a launching point for other companies to want to partner with UEI during the production and release of new products. Particularly, the expected release of Xiaomi, Huawei, are top prospects that are intending to release a line of TV products in the near future. As UEI is a leading contender to also provide remote controls for an increasing number of partnerships, this can allow an opportunity for UEI to capture an even larger share of the remote-control market. Moving forward, we expect the announcements of new partnerships to be perceived very well by investors, ultimately resulting in an increased share price.

Management Team

Paul D. Arling - *Chairman and Chief Executive Officer*



Source: *Company Filings*

A Master of Business Administration graduate from the University of Pennsylvania, Paul D. Arling joined Universal Electronics in May 1996 as Chief Financial Officer and was named to the Board of Directors three months later. Mr. Arling was appointed President and COO in September 1998, promoted to CEO in October 2001, and then appointed as Chairman in July 2001. Prior to joining Universal Electronics, Paul worked in LESCO Inc., a leading manufacturer and distributor of turf care products. Mr. Arling also worked for Imperial Wallcoverings as Director Planning and The Michael Allen Company as a management consultant. The prior firm is a manufacturer and distributor of wall covering products whereas the latter is a strategic management consulting company. Mr. Arling earned a total compensation of \$3.8 million USD in 2019, a 62% increase compared to 2018. He received \$1.7 million USD in non-equity incentive plan, \$650 thousand USD in option awards, \$830 thousand USD in salary, \$650 thousand USD in stock awards, and \$26.3 thousand USD in other compensation. We believe that Mr. Arling is fit to be UEI's CEO because of his commitment to the company and his past roles in executive positions, giving him the necessary company knowledge and leadership to make strategic decisions for UEI.

Bryan M. Hackworth - *Senior Vice President and Chief Financial Officer*

Mr. Hackworth initially joined Universal Electronics in June 2004 as a Corporate Controller and was subsequently promoted to the Chief Accounting Officer in May 2005. He was promoted to Chief Financial Officer in August 2006 and continues to serve that position today, as well as Senior Vice President. Before Universal Electronics, Mr. Hackworth served five years at Mars Inc, an international manufacturer and distributor of consumer products. He also spent six years at Deloitte & Touché LLP as an auditor that specialized in the manufacturing and retail industries. In 2019, Mr. Hackworth's total compensation was \$1.4 million USD, a 51% increase compared to the previous year. Of this \$1.4 million USD, he received \$476 thousand USD in non-equity income, \$300 thousand USD in option rewards, \$340 thousand USD in salary, \$300 thousand USD in stock awards, and \$24.9 thousand USD in other compensation.

Ramzi S. Ammari - *Senior Vice President, Corporate Planning and Strategy*



Source: *Company Filings*

Ramzi S. Ammari joined Universal Electronics in June 1997 as a Project Manager and was promoted to positions of increasing responsibility within the organization until being named Senior Vice President, Corporate Planning and Strategy in October 2013. Mr. Ammari is responsible for the company's technology innovation road map, which includes driving new product initiatives, implementing strategic partnerships, joint ventures and acquisitions, and recommending new avenues for business opportunities. Prior to Universal Electronics, Mr. Ammari worked at Mitsubishi Consumer Electronics for four years as a Business Planning Manager, where he introduced the first flat-screen plasma television in North America.

David Chong – Executive Vice President, Asia

David Chong acts as UEI’s Executive Vice President, Asia and is responsible for managing sales in Asian markets. Mr. Chong joined UEI in January 2009 as Senior Vice President of Global OEM Sales, where he oversaw general management of UEI’s Asian region. Prior to joining UEI in January 2009, Mr. Chong served as Senior Vice President at Philips Consumer Electronics Division and Chief Marketing Officer of Philips Display. He has previously led the re-engineering of the Product Creation, Marketing, and Sales Organization to compete in the LCD TV space. Additionally, Mr. Chong served as Vice President and General Manager of the Audio Video Business in Asia in Philips’ Consumer Electronics Division and Managing Director for Asia at InVue Security Product before his time at UEI. His total compensation in 2019 was \$1.1 million USD, a 54% increase compared to 2018. From this \$1.1 million USD, Mr. Chong received \$400 thousand USD in non-equity incentive plan, \$200 thousand USD in option rewards, \$331.6 thousand USD in salary, \$200 thousand USD in stock awards, and \$6.7 thousand USD in other compensation.



Source: Company Filings

Management: Findings & Conclusions

Through management’s rich experience working in UEI and competitors in the consumer electronics industry, we believe that management has the necessary qualifications to successfully lead UEI to long-term growth. Not only does management have extensive experience in their founding location, they also have deep international experience in key regions such as Asia. Furthermore, UEI has ensured that its compensation policies are directly aligned with the shareholders’ interests. Other than their base salary, the management team benefits from a non-equity incentive plan and stock awards based on the company’s overall performance. With a significant portion of management’s compensation resulting from these compensation policies, it is evident that management is motivated to perform in the company’s best interest. Thus, with management’s relevant experiences and incentivized compensation plan, we believe that the management team is more than capable of leading Universal Electronics to reach its goals and milestones.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

UEI currently has 14.21 million of diluted shares outstanding and a free float of 95.71%. Institutional investors hold 92.73% of all shares and 96.87% of the free float shares. 4.28% of shares are held by insiders, meaning that 2.99% shares are left for the general public. With a high institutional ownership of UEI, this indicates their belief in UEI’s long-term growth potential. In the past year, the average daily trading volume was approximately 68,000 shares. The table below shows the top ten shareholders of Universal Electronics. Other than Carillion Ser tr-Carillion Eagle Small Cap Growth Fund and iShares Core S&P Smallcap ETF, the remaining eight shareholders are institutional investors.

Exhibit 6: UEI's Top 10 Shareholders

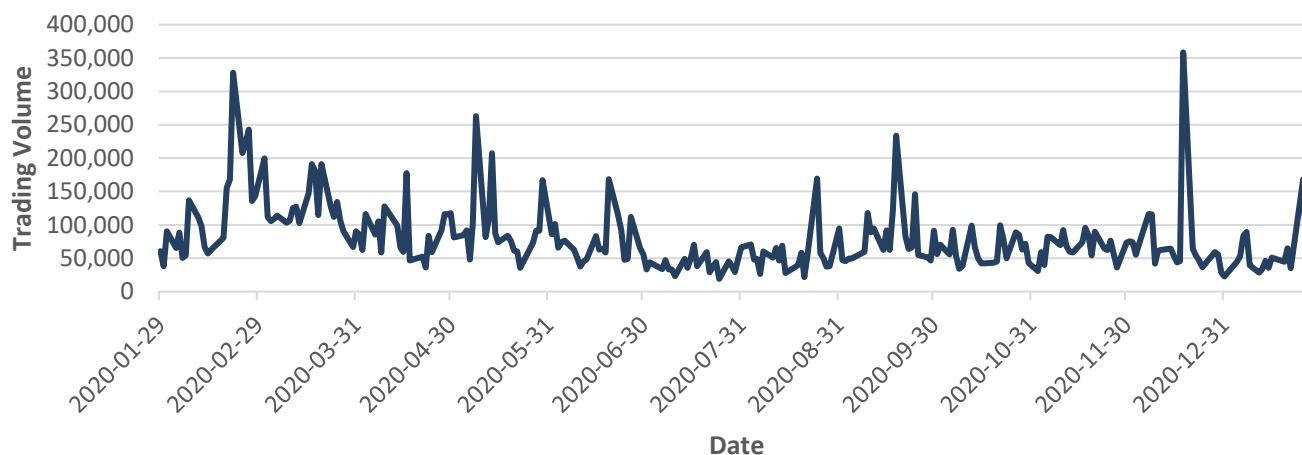
Name of Shareholder	Shares Owned	% of Shares Outstanding	Value
Blackrock Inc.	2,036,507	14.81%	76,857,774
Eagle Asset Management Inc.	1,961,993	14.27%	74,045,615
Carillon Tower Advisers, Inc.	1,332,476	9.69%	50,287,644
Carillon Ser Tr-Carillon Eagle Small Cap Growth Fund	1,243,472	9.04%	46,083,072
iShares Core S&P Smallcap ETF	885,584	6.44%	46,634,853
Dimensional Fund Advisors LP	872,450	6.35%	32,926,263
Vanguard Group, Inc.	844,988	6.15%	31,889,847
Investment Counselors of Maryland	511,073	3.72%	19,287,895
Royal Bank of Canada	461,606	3.36%	17,421,010
State Street Corporation	443,421	3.22%	16,734,708

Source: Yahoo Finance

Liquidity

Universal Electronics has an average daily trading volume of 67,780 shares over the past year. The most significant liquidity spikes align directly during earning reports seasons. For everyday investors who don't intend on trading large amounts of UEI stock, their daily trading volume does not create a significant problem. However, to institutional investors and large stakeholders, a liquidation risk is present as the average trading volume is much lower than the number of shares many of their major investors currently own.

Exhibit 7: UEI's One-Year Trading Volume



Source: Yahoo Finance

Valuation

Discounted Cash Flow Analysis

Revenue: With UEI already suffering an almost -20% revenue growth in 2020 due to COVID-19, it is expected that revenues are at their minimum point in all geographic segments and will begin to increase. Specifically, United States revenue growth is predicted at 4% from 2021-2023 and decreasing to 3% onwards. Asia and PRC revenue growth are expected to be 3% in 2021, 3.5% from 2022-2023, and 3% onward. Europe revenue growth is expected to be 4% in 2021, 3.5% from 2022-2023, and 3% onwards. Lastly, the revenue growth from Latin America and Other (Geographical Segments) is expected to grow 3% in 2021, 4% in 2022-2023, and then 3% onwards.

Cost of Goods Sold: The cost of goods sold as a percent of revenue is predicted to be constant at 74%, which is calculated by taking the weighted average of the past five years.

Selling, General, and Administrative Expenses: With the SG&A expense as a percent of revenue decreasing the past four years, we assumed that the rate would fall and plateau at 12.5%.

Capital Expenditure: After UEI's surge in capital expenditure in 2016-2017 of over \$42M, their capital expenditure in the years after range between \$22M-\$24M. As we expect their capital expenditure to remain steady in the future, we forecasted future capital expenditure at \$6M quarterly or \$24M annually.

Depreciation & Amortization: To forecast for depreciation, we used a straight-line depreciation method with an estimated useful life of three years, which is taken through a four-year weighted average. We assumed that this rate remained constant to indefinitely forecast future depreciation and amortization.

Effective Tax Rate: With the annual fluctuations of UEI's tax rate, we assumed a constant 26% tax rate.

Weighted Average Cost of Capital: UEI's WACC is calculated to be 10.2%, which is calculated through the cost of equity and cost of debt. To determine the cost of equity, the 10-Year Treasury Bill was used to determine a risk-free rate of 1.13%, as well as an expected market return of 10%. Additionally, a beta of 1.1, which was obtained through Bloomberg, was used to calculate a cost of equity of 10.9%. To calculate the cost of debt a 0.4%, a 0.6% pre-tax cost of debt and a 26% effective tax rate were used.

Perpetuity Growth Rate: A perpetuity growth rate of 2% was used for future projections past five years, which we believe is sustainable given UEI's competitive advantage in the consumer electronics industry and home automation market.

Terminal Multiple: A terminal EV/EBITDA multiple of 11.9x was used for future projections past five years, which is UEI's EV/EBITA three-year weighted average.

Company Comparable Analysis

The company comparable analysis compares UEI with five publicly traded companies that are similar to UEI's business model, internal processes, and international scope. Although the five companies chosen are larger in market cap, they have been chosen because of their similar value drivers of reducing COGS, investing in R&D for future growth, and increasing automation through tech. The five companies chosen in the analysis and their justification are listed below.

Tower Semiconductor Ltd (NASDAQ: TSEM): Tower Semiconductor Ltd is an Israeli American semiconductor manufacturing company that targets growing markets such as consumer, medical, and mobile devices. The company designs and manufactures integrated circuits using special process technologies for some of the world's largest companies such as Panasonic, Intel, and Samsung.

iRobot Corporation (NASDAQ: IRBT): iRobot Corporation is a leading American technology company that designs and builds consumer robots, with the goal of automating mundane tasks. Through successful development of censoring and automating technologies, it is expected they utilize their technology to infiltrate the home automation market.

Fabrinet (NYSE: FN): Fabrinet is a Southeast Asian based company that specializes in manufacturing services and process engineering. As one of the world's most demanding and low-cost OEMs, Fabrinet competes with UEI through manufacturing optimal communications, electronics PCBA, and integrated circuits in any-volume production.

Alarm.com Holdings, Inc (NASDAQ: ALRM): Alarm.com is a technology company based in the United States that specializes in home automation, remote control, and monitoring services. As one of America's leading and most established home automation companies, they are one of UEI's largest competitors to consumer households.

Emerson Electric (NYSE: EMR): Emerson Electric is an American company that manufactures products and provides engineering services for industrial, commercial, and consumer markets. With their goal of automation solutions, their primary products include process control systems, power technologies, and industrial automation.

Target Share Price

To reach the target share price, we issued a 40/60 weighing between the discounted cash flow analysis and the comparable company analysis. Within the discounted cash flow analysis, the 40% weighed valuation is split equally between a 2% perpetuity growth rate and an 11.9x terminal EV/EBITDA multiple. Similarly, the 60% weighted valuation is split equally in the comparable company analysis using the EV/EBITDA multiple and the P/E multiple. Through the DCF valuation of \$30.84 and the comparable company valuation of \$79.57, we reach a target share price of \$60.08.

Recommendation

We believe that UEI's drivers of rising consumer home automation products, product innovation, and their global scale and partnerships have placed the organization in a stable financial position. As well, we believe that the aftermath from COVID-19 and the increasing number of future partnerships will further drive UEI's potential growth in the coming years. Specifically, we expect UEI's revenue to recover from the COVID-19 pandemic and grow through their new partnerships,

while increasing margins to cut costs. However, revenue growth is expected to be stable and not large enough to make a significant impact on UEI's targeted share price. With the rapid 56% growth of UEI's stock in the last four months, we believe that the market has already fairly priced UEI and thus, there is not a lot of room for further growth. Through our discounted cash flow and comparable company analysis, we determined a fair share price of \$60.08 and thus, we recommend a HOLD rating on Universal Electronics.

Risks

Reliance on New Product Introductions

UEI's ability to remain competitive in the consumer electronics industry requires a high level of innovative, cost-effective, and timely developments which can be difficult to create or execute. Additionally, there is never a guarantee that UEI will be successful in developing ground-breaking technology and even if they do, there is always the chance that customers are not interested in it.

Dependence on Consumer Preferences

UEI is susceptible to fluctuations in revenue as demand for their luxury products are positively correlated with the disposable income of individual consumers. Recently, with the consumer's disposable incomes reducing during the COVID-19 pandemic, sales decreased drastically during the period and it is not expected to return to its normal level of sales until 2022. If UEI is unable to generate cash, they will have a difficult time investing in developing new products, resulting in an inability to compete with key industry players.

Patents, Trademarks, and Copyrights

As procedures used to identify patents, trademarks, and copyrights are based on management judgement, there is no assurance that rights granted under any patent will provide competitive advantages or be adequate to maintain UEI's proprietary rights. Additionally, even if UEI patents a specific technology they develop, there are many ways for competitors to develop a product that is very similar through the endless possibilities of tech.

International Trade Policies and Manufacturing

Due to the international scope of UEI's operations, minor changes in government policies on foreign trade and investment can affect both their production levels and demand. Additionally, with core factories in Brazil, China, and Mexico, production can be negatively affected by tariffs, weather conditions, environmental restrictions, and political instability.

Established Companies Infiltrating Home Automation Market

With the greater consumer demand for home automation products, established technology companies may be attracted to enter the home automation market. If leading consumer electronics companies begin to research and develop their own technologies for automation, UEI may not be able to discover the necessary product developments to remain profitable.

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Appendices


Appendix 1: Financial Model Summary

Summary Page															
(Figures in mm CAD)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Income Statement															
Revenue	602.8	651.4	695.8	680.2	753.5	151.8	153.1	153.5	163.2	621.6	644.0	668.3	693.4	714.2	735.7
EBITDA	56.4	52.4	42.0	31.9	47.2	15.5	14.6	17.4	16.3	63.9	58.0	60.1	62.4	64.3	66.2
Net Income	29.2	20.4	(10.3)	11.9	3.6	5.8	14.4	6.2	6.1	32.6	17.8	19.8	22.4	24.4	26.3
Earnings Per Share	\$ 1.88	\$ 1.38	\$ (0.72)	\$ 0.85	\$ 0.26	\$ 0.41	\$ 1.02	\$ 0.43	\$ 0.43	\$ 2.29	\$ 1.26	\$ 1.39	\$ 1.58	\$ 1.72	\$ 1.85
Cash Flow Statement															
Acquisitions	(35.4)	(42.6)	(42.3)	(22.7)	(24.0)	(3.3)	(6.0)	(6.8)	(6.7)	(22.8)	(26.8)	(24.7)	(24.7)	(24.7)	(24.7)
Divestitures	(2.4)	(1.9)	(1.9)	(2.5)	(2.7)	(1.3)	(1.8)	(2.2)	(0.7)	(6.0)	(2.8)	(0.7)	(0.7)	(0.7)	(0.7)
Balance Sheet															
Current Assets	315.3	324.2	407.3	380.5	378.8	356.2	351.0	329.8	354.3	354.3	389.3	411.7	440.5	469.8	500.5
Non-Current Assets	179.9	196.9	201.1	175.1	185.4	178.1	175.5	178.8	178.7	178.7	183.0	179.1	176.4	174.6	173.4
Assets	495.2	521.0	608.4	555.6	564.2	534.2	526.4	508.6	533.0	533.0	572.3	590.8	616.9	644.4	673.9
Current Liabilities	215.1	215.9	332.9	279.9	265.5	246.2	222.2	194.1	212.4	212.4	220.7	219.1	223.9	227.8	231.8
Non-Current Liabilities	22.2	24.7	21.9	12.8	23.3	18.1	18.0	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9
Liabilities	237.3	240.5	354.9	292.6	289.8	264.3	240.3	212.1	230.3	230.3	238.6	237.0	241.8	245.7	249.7
Shareholders' Equity	257.6	280.5	253.5	263.0	274.4	270.0	286.1	296.6	302.7	302.7	320.5	340.3	362.7	387.1	413.3
Cash	53.0	50.6	62.4	53.2	74.3	58.9	58.8	67.1	73.9	73.9	98.9	124.8	143.3	164.1	186.0
Debt	143.8	147.1	257.2	208.8	186.2	181.6	166.8	130.8	149.1	182.7	191.0	189.4	194.2	198.1	202.1
Net Debt	90.9	96.5	194.7	155.6	111.9	122.7	108.0	63.7	75.2	108.8	92.1	64.6	50.9	34.0	16.2
Minority Interests	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	1.6 x	1.8 x	4.6 x	4.9 x	2.4 x	-	-	-	-	1.7 x	1.6 x	1.1 x	0.8 x	0.5 x	0.2 x
Valuation Metrics															
Stock Price (High)	\$ 66.36	\$ 78.99	\$ 74.00	\$ 55.40	\$ 59.57	\$ 54.27	\$ 49.53	\$ 49.46	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11
Stock Price (Low)	\$ 40.79	\$ 45.95	\$ 47.05	\$ 24.04	\$ 26.45	\$ 31.55	\$ 34.70	\$ 35.46	\$ 64.11	\$ 31.55	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11
Stock Price (Average)	\$ 53.58	\$ 62.47	\$ 60.53	\$ 39.72	\$ 43.01	\$ 42.91	\$ 42.12	\$ 42.46	\$ 64.11	\$ 47.83	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11	\$ 64.11
Diluted Shares Outstanding (Average)	15.5	14.8	14.4	14.1	14.1	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Market Capitalization (Average)	832.7	922.3	868.6	558.5	606.8	608.8	596.0	603.1	910.7	678.9	910.7	910.7	910.7	910.7	910.7
Enterprise Value (Average)	923.8	1,018.8	1,063.3	714.0	718.8	732.5	704.0	686.8	985.9	787.7	1,002.8	975.3	961.6	944.7	926.9
P/E	28.5 x	45.2 x	n/a	46.8 x	167.2 x	-	-	-	-	20.9 x	51.1 x	46.1 x	40.7 x	37.3 x	34.7 x
EV/EBITDA	16.4 x	19.5 x	25.3 x	22.4 x	15.2 x	-	-	-	-	12.3 x	17.3 x	16.2 x	15.4 x	14.7 x	14.0 x
FCF Yield to Market Capitalization	-2.0%	-1.0%	-6.3%	-4.2%	8.9%	-	-	-	-	3.9%	3.1%	3.2%	2.4%	2.7%	2.8%
FCF Yield to Enterprise Value	-1.8%	-0.9%	-5.1%	-3.3%	7.5%	-	-	-	-	3.4%	2.9%	3.0%	2.3%	2.6%	2.7%
Free Cash Flow															
EBIT	35.9	25.4	10.7	(1.7)	15.3	8.0	6.5	10.2	9.5	34.3	28.9	31.5	35.0	37.8	40.3
Tax Expense	(6.9)	(4.8)	(17.6)	(14.2)	(6.9)	(1.2)	(1.9)	(2.2)	(2.9)	(8.9)	(7.5)	(8.2)	(9.1)	(9.8)	(10.5)
DBA	20.5	27.0	31.3	33.6	31.9	7.5	8.2	7.2	6.8	29.7	29.1	28.6	27.4	26.5	25.9
Capital Expenditures	(35.4)	(42.6)	(42.3)	(22.7)	(24.0)	(3.3)	(6.0)	(6.8)	(6.7)	(22.8)	(26.8)	(24.7)	(24.7)	(24.7)	(24.7)
Changes in NWC	(31.1)	(14.2)	(36.5)	(18.7)	37.7	(26.5)	(3.4)	24.0	0.4	(5.4)	5.0	2.2	(6.6)	(5.4)	(5.6)
Unlevered Free Cash Flow	(16.9)	(9.2)	(54.4)	(23.6)	54.2	(15.4)	3.3	32.5	7.6	26.8	28.6	29.5	22.0	24.3	25.5
Valuation Summary															
Current Price	\$ 64.11														
Target Price	\$ 60.08														
Total Return	-6.3%														
Recommendation	HOLD														
DCF Valuation															
Perpetuity Growth Implied Price	\$ 20.89														
Exit Multiple Implied Price	\$ 40.79														
Comps Valuation															
Comps - EV/EBITDA Implied Price	\$ 82.14														
Comps - P/E Implied Price	\$ 77.00														

Appendix 2: Discounted Cash Flow Analysis

Discounted Cash Flow Analysis															
	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
(Figures in mm CAD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
WACC Calculations															
Cost of Equity															
Risk-free rate	1.1%														
Expected market return	10.0%														
Market Risk Premium	8.9%														
Beta	1.10														
Cost of Equity	10.9%														
Cost of Debt															
Pre-tax cost of debt	0.6%														
Effective tax rate	26.0%														
Cost of Debt	0.4%														
WACC															
Market value of equity	910.7														
Market value of debt	67.5														
Total Capitalization	978.2														
Cost of equity	10.9%														
Cost of debt	0.4%														
WACC	10.2%														
Free Cash Flow															
EBIT	36	25	11	(2)	15	8	6	10	10	34	29	32	35	38	40
Less: Tax expense	(7)	(5)	(18)	(14)	(7)	(1)	(2)	(2)	(2)	(9)	(8)	(8)	(9)	(10)	(10)
Add: Depreciation and amortization	20	27	31	34	32	7	8	7	7	30	29	29	27	27	26
Less: Capital expenditures	(35)	(43)	(42)	(23)	(24)	(3)	(6)	(7)	(7)	(23)	(27)	(25)	(25)	(25)	(25)
Less: Change in net working capital	(31)	(14)	(36)	(19)	38	(26)	(3)	24	0	(5)	5	2	(7)	(5)	(6)
Unlevered Free Cash Flow	(17)	(9)	(54)	(24)	54	(15)	3	32	8	27	29	29	22	24	25
Discount factor									0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow									7.4	7.4	27.2	23.7	16.1	16.1	15.3
Discounted Cash Flow Valuations															
Perpetuity Growth Method					Exit Multiple Method					WACC					
Perpetuity Growth Rate	2.0%				Terminal EV/EBITDA Multiple	11.9 x				Perpetuity Growth Rate					
PV sum of unlevered FCF	105.8				PV sum of unlevered FCF	105.8				1.00%	\$ 22.02	\$ 23.45	\$ 25.08	\$ 26.96	\$ 29.15
Terminal value	191.2				Terminal value	473.9				1.50%	\$ 23.05	\$ 24.65	\$ 26.50	\$ 28.65	\$ 31.19
Enterprise Value	297.1				Enterprise Value	579.8				2.00%	\$ 24.24	\$ 26.04	\$ 28.15	\$ 30.64	\$ 33.63
Add: Cash	67.1				Add: Cash	67.1				2.50%	\$ 25.60	\$ 27.67	\$ 30.11	\$ 33.04	\$ 36.62
Less: Debt	67.5				Less: Debt	67.5				3.00%	\$ 27.20	\$ 29.59	\$ 32.46	\$ 35.97	\$ 40.35
Less: Other EV adjustments	-				Less: Other EV adjustments	-									
Equity Value	296.7				Equity Value	579.4				Terminal EV/EBITDA Multiple					
Shares outstanding	14.2				Shares outstanding	14.2				8.0 x	\$ 31.35	\$ 32.02	\$ 32.71	\$ 33.42	\$ 34.15
Implied Share Price	\$ 20.89				Implied Share Price	\$ 40.79				9.0 x	\$ 34.31	\$ 35.06	\$ 35.82	\$ 36.61	\$ 37.42
Current Price	\$ 64.11				Current Price	\$ 64.11				10.0 x	\$ 37.28	\$ 38.09	\$ 38.93	\$ 39.80	\$ 40.68
Implied Price	\$ 20.89				Implied Price	\$ 40.79				11.0 x	\$ 40.24	\$ 41.13	\$ 42.04	\$ 42.98	\$ 43.95
Total Return	-67.4%				Total Return	-36.4%				12.0 x	\$ 43.21	\$ 44.17	\$ 45.16	\$ 46.17	\$ 47.22

Appendix 3: Comparable Company Analysis

 Comparable Company Analysis											
<i>(Figures in mm CAD)</i>				EV/EBITDA Multiple			P/E Multiple				
Company	Ticker	Equity Value	Enterprise Value	2019A EV/EBITDA	2020E EV/EBITDA	2021E EV/EBITDA	2019A P/E	2020E P/E	2021E P/E		
Tower Semiconductor Ltd.	(NASDAQ:TSEM)	3,913.5	3,660.4	9.9 x	9.6 x	6.9 x	33.9 x	43.2 x	21.2 x		
iRobot Corporation	(NASDAQ: IRBT)	3,035.4	3,159.1	20.3 x	13.6 x	25.9 x	28.6 x	15.8 x	50.2 x		
Fabrinet	(NYSE: FN)	3,893.7	3,966.0	19.8 x	19.9 x	15.3 x	26.2 x	25.9 x	19.0 x		
Alarm.com Holdings, Inc.	(NASDAQ: ALRM)	6,094.3	6,086.7	56.4 x	50.5 x	5.3 x	91.9 x	66.4 x	66.4 x		
Emerson Electric	(NYSE:EMR)	3,218.4	1,275.3	1.9 x	2.3 x	1.9 x	(41.2 x)	(29.1 x)	16.1 x		
Universal Electronics	(XCH: TCK)	910.7	911.1	15.1 x	10.6 x	6.7 x	48.2 x	21.6 x	11.7 x		
Median					13.6 x	6.9 x		25.9 x	21.2 x		
Mean					19.2 x	11.1 x		24.4 x	34.6 x		
High					50.5 x	25.9 x		66.4 x	66.4 x		
Low					2.3 x	1.9 x		(29.1 x)	16.1 x		
				EV/EBITDA Implied Price			P/E Implied Price				
Median				\$	82.14	\$	66.47	\$	77.00	\$	116.02
Mean				\$	115.90	\$	106.27	\$	72.53	\$	189.23
High				\$	305.42	\$	248.52	\$	197.13	\$	363.07
Low				\$	13.79	\$	18.31	-\$	86.55	\$	88.03