



Q2 Fiscal Year 2015 Earnings

Prepared Management Remarks
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NASDAQ: UBNT



Ubiquiti Networks Second Quarter Fiscal 2015 Financial Results

Second Quarter Fiscal 2015 Financial Summary

- Revenues of \$153.1 million, up 11% year-over-year
- GAAP operating profit of \$50.7 million, up 8% year-over-year
- GAAP net income of \$46.3 million, up 11% year-over-year
- Non-GAAP operating profit of \$52.2 million, up 7% year-over-year
- GAAP diluted EPS of \$0.52 and non-GAAP diluted EPS of \$0.53, up 11% and 10% year-over-year, respectively
- \$32.7 million in net cash provided by operating activities

Management Commentary

We are pleased to announce another strong quarter for Ubiquiti Networks. Revenues were \$153.1 million, at the high end of our guidance of \$147 million to \$153 million, while non-GAAP diluted earnings were \$0.53, exceeding our guidance of \$0.46 – \$0.49 per share.

We believe that our quarterly financial results are reflective of our ability to execute Ubiquiti's global business model in the context of ever-changing business conditions. We continue to have a focused approach to deliver competitively-priced, proprietary network communication platforms with outstanding performance to our end customers. The strength of our business model is evident in the global demand for our products. As of December 2014, we have sold approximately 28 million devices worldwide since our inception, compared to approximately 21 million devices sold since our inception as of December 2013, an increase of more than 30% year-over-year.

This quarter, we were very encouraged by our Enterprise product category, up 25% sequentially and 98% year-over-year, fueled by robust and growing demand globally for our UniFi® WLAN product. We continue to gain share at a quick pace in the enterprise WLAN coordinated access points segment.

In addition to the financial summary below, there are a few key recent business and product-related achievements that we would like to highlight:

- **Record revenues in Enterprise Technology**, primarily due to further product expansion and momentum in our UniFi® technology platform.
- **Released Point-to-Multi-Point (PtMP) software for airMAX® AC**, and shipped volume customer-premises equipment (CPE).
- **Shipped first UniFi® Switch and UniFi® VoIP units to select distributors.**
- **Launched airFiber® X**, a revolutionary new platform for the global last-mile wireless industry.

Key Quarterly Financial Summary

These prepared remarks include both GAAP and non-GAAP financial information because we consider non-GAAP information in our planning and forecasting processes. We believe that disclosing these non-GAAP financial measures can provide useful supplemental information that, while not a substitute for GAAP measures, can allow for greater transparency in the review of our financial and operational performance. Non-GAAP financial measures exclude certain costs, expenses and gains such as stock based compensation expenses, purchase commitment termination fee and the tax effects of these non-GAAP adjustments.

Income Statement

Financial Results Summary (\$, in millions, except per share data)

Financials	F2Q15	F1Q15	F2Q14
Revenues	153.1	150.1	138.4
<i>Service Provider Technology</i>	99.7	107.3	111.4
<i>Enterprise Technology</i>	53.4	42.8	27.0
Cost of Revenues	84.1	89.0	77.5
Gross Profit	69.0	61.0	61.0
Total Operating Expenses	18.3	17.4	13.9
Income from Operations	50.7	43.6	47.1
GAAP Net Income	46.3	37.7	41.8
GAAP EPS (diluted)	0.52	0.42	0.47
Non-GAAP Net Income	47.1	43.4	42.6
Non-GAAP EPS (diluted)	0.53	0.48	0.48

Revenue by Product Category

Service Provider Technology

- The Service Provider Technology product category encompasses the airMAX[®], airFiber[®] and EdgeMAX[®] embedded radio and antenna product lines.
- Revenues of \$99.7 million.
- Represented 65% of our total Q2 2015 revenues.
- The reduction in revenues this quarter in this category was primarily due a decrease in airFiber sales, influenced by the seasonal reduction in the sales of those products, although the reduced airFiber demand was partially offset by robust demand for our EdgeMAX product line.

Enterprise Technology

- The Enterprise Technology product category encompasses our UniFi[®], UniFi[®] Video, UniFi[®] VoIP, UniFi[®] Security Gateway, UniFi[®] Switch and mFi[®] product lines.
- Revenues of \$53.4 million, an increase of 25% from the prior quarter and 98% from the prior year, primarily fueled by robust and growing demand globally for our UniFi WLAN product.
- Represented 35% of our total Q2 2015 revenues.
- Growth was led by UniFi and UniFi Video, both of which had outstanding quarter over quarter increases.
- We continued to observe a positive impact from newer distribution partners, particularly as relates to our entire UniFi product line.

- Our newly released UniFi VoIP and UniFi Switch products were available in limited quantities for distribution during the second quarter of fiscal 2015 and did not have a material impact on revenue.

Revenue by Geography (\$, in millions)

Region	F2Q15	F1Q15	F2Q14
North America	54.1	53.6	32.6
South America	22.2	31.1	28.0
Europe, the Middle East and Africa (EMEA)	60.1	50.6	58.8
Asia Pacific	16.7	14.8	19.0
Total	153.1	150.1	138.4

We continue to experience variable mix of demand for our products from all corners of the globe. Regional results were as follows:

- **North America** revenues were at a record high, at \$54.1 million. Growth in this region outpaced all others in recent months. Revenues in this region represented 35% of total revenues for the quarter, compared to 24% for the fiscal quarter Q2 2014. Revenues were up \$0.5 million or 1% sequentially, and up \$21.6 million or 66% year-over-year. Revenues for the United States were \$50.5 million for the quarter and \$31.1 million same quarter in the prior year. For the quarter, we saw strong incremental demand for EdgeMAX and UniFi Video.
- **South America** represented 15% of total revenues for the quarter, compared to 20% for the fiscal quarter Q2 2014. Revenues were down \$8.9 million or 29% sequentially at \$22.2 million, and down \$5.8 million or 21% year-over-year. For the quarter, we saw strong demand for UniFi offset by slower sales in airFiber.
- **EMEA** represented 39% of total revenues for the quarter, compared to 42% for the fiscal quarter Q2 2014. Revenues were up \$9.5 million or 19% sequentially at \$60.1 million, and up \$1.3 million or 2% year-over-year. We saw increased demand for airMAX and UniFi.
- **Asia-Pacific** represented 11% of total revenues for the quarter, compared to 14% for the fiscal quarter Q2 2014. Revenues were up sequentially 13% at \$16.7 million, and down \$2.4 million or 12% year-over-year. For the quarter, we saw strong incremental demand for the UniFi product line.

As we have highlighted in the past, the price-to-performance and ease of deployment of our products are especially appealing in emerging economies, where a large percentage of our sales occur. We believe these markets present important growth opportunities, although they are highly volatile in nature. This especially affects products in our airMAX line and complementary products.

Some regions have been particularly subject to political and economic instability. Recent geopolitical developments in Eastern Europe and the Middle East clearly influenced our sales in recent quarters. This instability continues to disrupt the business environment in the effected countries, and in the broader region. However, this quarter, we experienced an improvement in sales in several of these impacted and surrounding countries including Russia, Ukraine, Czech Republic, Iraq and the United Arab Emirates.

In addition to regional conflict, we have seen a dramatic fluctuation in currencies across the globe. We do not believe there is a credible threat of a replacement technology with a currency advantage, but we continue to monitor the situation closely. The net effects of currency fluctuations are difficult to predict. The strengthening of the US Dollar could delay future purchases or incentivize our distribution network to lower its inventory levels in the future.

Gross Margins

During this quarter, our non-GAAP gross margin was 45.2%, and GAAP gross margin was 45.1%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 44.1% and 44.0%, respectively. Over the last several quarters we have embarked on multi-faceted strategy to decrease our supply chain costs, and to some extent we are starting to see some of the results. We are optimistic that we can continue to improve on these strategies and believe our future margins will fluctuate between 43.0% and 45.0%. The variance is primarily driven by the mix of products sold to our channel partners.

Research and Development

Research and Development (“R&D”) expenses were \$12.1 million on a non-GAAP basis, or 7.9% of revenue. Non-GAAP R&D expenses were up 11% sequentially, primarily due to the hiring of new engineers and costs incurred for intellectual property (IP) procured for use in our products. These R&D investments will help us to bring new products to the market and remain at the cutting edge of networking technology. Our investments in R&D are primarily reflected in labor costs, and to a lesser extent, in opening and maintaining offices for these employees. Over the long-term, we believe that our R&D expenses will be between 6% and 8% of revenues.

Sales, General and Administrative

Our non-GAAP selling, general and administrative (“SG&A”) expenses for the quarter were \$4.9 million, or 3.2% of revenue. We continue to run a highly efficient operating business model, and are focused on leveraging a scalable cost structure. We believe that our SG&A expenses will continue to be between 3% and 4% of revenues.

Headcount

We finished the quarter with a total of 418 full-time employees, up from 400 or 4.5% in the prior quarter, primarily related to the hiring of new engineers.

Taxes

Our GAAP effective tax rate for the quarter was 8.8% as compared with 10.8% in the second quarter of fiscal 2014. This low effective tax rate reflects our geographic sales/product mix, resulting in a larger percentage of our overall profit occurring in jurisdictions with lower corporate income tax rates. The year-over-year decrease was primarily driven by the re-enactment of the U.S. R&D tax credit in the fiscal second quarter 2015. The fiscal second quarter 2015 tax rate reflects a favorable year-to-date catch-up adjustment and the net impact of these tax law changes. For planning purposes, we assume a target tax rate of 11.5%.

Net Income

GAAP net income for the second quarter of fiscal 2015 was \$46.3 million, or \$0.52 per diluted share, compared with GAAP net income of \$41.8 million, or \$0.47 per diluted share, in the second quarter of fiscal 2014. We recorded second quarter of fiscal 2015 non-GAAP net income of \$47.1 million, or \$0.53 per diluted share, compared with non-GAAP net income of \$42.6 million, or \$0.48 per diluted share, in the second quarter of fiscal 2014.

Balance Sheet

Total cash and cash equivalents as of December 31, 2014, were \$388.6 million, compared with \$391.0 million as of September 30, 2014. Cash balance at the end of the second quarter is net of a dividend payout of \$15 million as part of the annual dividend program we announced on September 30, 2014, and net of \$15 million in share repurchase activity during the quarter as part of our share repurchase program. We believe our cash position will allow us to make investments that will continue to enhance our competitive position and product portfolio. A majority of our cash is held by our foreign subsidiaries.

Our inventory balance at the end of the quarter was \$37.5 million which represents approximately 8.8 turns on an annualized basis, compared to 8.4 turns in the prior quarter. We expect to maintain inventory turns between 8 and 9 turns going forward.

This quarter we saw days sales outstanding in accounts receivable ("DSO") of 44 days, compared with 40 days in the prior quarter, and 24 days in the second quarter of fiscal 2014. The increase in DSO for the quarter was primarily the result of our strategic decision to add larger distributors worldwide that received longer credit terms, as well as extending more favorable credit terms to other distributors who have built up a credit history with us.

Cash Flow Statement

Our net cash inflow from operations for the second quarter of fiscal 2015 was \$32.7 million, compared with a net cash inflow of \$27.6 million in the second quarter of fiscal 2014. Total cash and cash equivalents as of December 31, 2014, were \$388.6 million, compared with \$391.0 million as of September 30, 2014. As mentioned above, our cash balance at the end of the second quarter of fiscal 2015 is net of \$30 million that was used to pay our annual dividend and to repurchase shares. Capital expenditures for the period were \$4.9 million.

Third Quarter Fiscal 2015 Outlook

The following represents our financial outlook for the third quarter of fiscal 2015.

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$146 – \$158 million in the third quarter of fiscal year 2014. Over time we believe the Enterprise Technology will grow at a faster pace and become an increasingly larger percentage of our total revenues.

We anticipate GAAP earnings in the range of \$0.44 – \$0.49 per share, and non-GAAP diluted earnings to be in the range of \$0.45 – \$0.50 per share, based on a share count of approximately 90 million.

Conclusion

We remain focused on execution, as we continue to grow our business. We are making investments in R&D and operations globally that we believe will help us expand our addressable market and maintain our industry leading financial metrics.

As we look to future prospects, we are confident in our dominant position in the wireless broadband market and growing market share in the enterprise WLAN coordinated access points market. We remind investors that, in any given quarter, we may observe fluctuations in specific product categories or geographies for a variety of reasons, and seasonal fluctuations as well. We believe the long-term global market environment for our products continues to be

favorable. We expect the long-term global market environment for our products continues to be favorable. We believe that we have continued to lay a strong foundation for long-term value creation, including having taken the following actions recently:

- **Sustained investment in R&D**, designed to expand our platform of products using the best-and-brightest engineers globally.
- **Initiated shipments of new Enterprise products**, such as UniFi Switch and UniFi VoIP phone, with industry leading solutions that will offer intelligent design and outstanding price-to-performance for worldwide deployments.
- **Released Point-to-Multi-Point (PtMP) software for airMAX AC**, and shipped volume customer-premises equipment (CPE).
- **Launched airFiber X**, a revolutionary new platform for the global last-mile wireless industry, including the airFiber AF-5X designed for long-range, Point-to-Point (PtP) backhaul links.

We appreciate our shareholders' continued commitment to the Company and look forward to speaking to you on our earnings call. The Q&A call information is listed below.

Robert J. Pera
CEO, Founder & Chairman

Craig L. Foster
CFO

Conference Call Information

Ubiquiti Networks will host a Q&A-only call to discuss the Company's financial results at 2:00 p.m. Pacific Time today. Management's prepared remarks can be found on the Investor Relations section of the Ubiquiti Networks website, <http://ir.ubnt.com/results.cfm>.

To listen to the Q&A call via telephone, dial (877) 291-1296 (U.S. toll-free) or (720) 259-9209 (International) to be connected to the call by an operator. Participants should dial in at least 10 minutes prior to the start of the call. Investors may also listen to a live webcast of the Q&A conference call by visiting the Investor Relations section of the Ubiquiti Networks website at <http://ir.ubnt.com>.

A recording of the Q&A call will be available approximately two hours after the call concludes and will be accessible on the Investor Relations section of the Ubiquiti Networks website, <http://ir.ubnt.com>.

About Ubiquiti Networks

Ubiquiti Networks (NASDAQ: UBNT) is closing the digital divide by building network communication platforms for everyone and everywhere. With over 28 million devices sold worldwide, Ubiquiti is transforming under-networked enterprises and communities. Our leading edge platforms, airMAX[®], UniFi[®], airFiber[®], UniFi[®] Video, UniFi[®] VoIP, UniFi[®] Switch, mFi[®] and EdgeMAX[®], combine innovative technology, disruptive price-to-performance and the support of a global user community to eliminate barriers to connectivity. For more information, join our community at <http://www.ubnt.com>.

Ubiquiti, the Ubiquiti logo, Ubiquiti Networks, airMAX, airFiber, airCRM, UniFi, mFi, and EdgeMAX are registered trademarks or trademarks of Ubiquiti Networks, Inc. in the United States and other countries.

The Ubiquiti Networks, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=24865>.

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Use of Non-GAAP Financial Information

To supplement the financial information prepared under generally accepted accounting principles, or GAAP, we use non-GAAP measures of net income and earnings per diluted share that are GAAP net income and GAAP earnings per diluted share adjusted to exclude certain costs, expenses and gains. Non-GAAP net income and non-GAAP earnings per diluted share are among the primary indicators used by management as a basis for planning and forecasting future periods, and by management and our board of directors to determine whether our operating performance has met specified targets and thresholds. Management uses non-GAAP net income and non-GAAP earnings per diluted share when evaluating operating performance because it believes that the exclusion of the items described below, for which the amounts or timing may vary significantly depending upon the Company's activities and other factors, facilitates comparability of the Company's operating performance from period to period. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our business and the valuation of our Company.

We compute non-GAAP net income and non-GAAP diluted earnings per share by adjusting GAAP net income and GAAP earnings per diluted share to remove the impact of certain adjustments and the tax effect of those adjustments. Items excluded from net income are:

- Stock-based compensation expense
- Reserve against vendor deposits relating to a purchase commitment termination fee
- Tax effect of non-GAAP adjustments, applying the principles of ASC 740

Ubiquiti Networks Inc. Reconciliation of GAAP Net Income to Non-GAAP Net Income (In thousands, except per share data) (Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net income	\$ 46,265	\$ 41,792	\$ 84,008	\$ 82,320
Stock-based compensation:				
Cost of revenues	150	148	299	292
Research and development	864	553	1,689	1,049
Sales, general and administrative	417	721	815	1,248
Purchase commitment termination fee	—	—	5,500	—
Tax effect of non-GAAP adjustments	(572)	(569)	(1,781)	(1,036)
Non-GAAP net income	\$ 47,124	\$ 42,645	\$ 90,530	\$ 83,873
Non-GAAP diluted EPS	\$ 0.53	\$ 0.48	\$ 1.01	\$ 0.94
Weighted-average shares used in non-GAAP diluted EPS	89,737	89,653	89,838	89,593

Usefulness of Non-GAAP Financial Information to Investors

These non-GAAP measures are not in accordance with, or an alternative to, GAAP and may be materially different from other non-GAAP measures, including similarly titled non-GAAP measures used by other companies. The presentation of this additional information should not be considered in isolation from, as a substitute for, or superior to, net income or earnings per diluted share prepared in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect certain items that may have a material impact upon our reported financial results. We expect to continue to incur expenses of a nature similar to the non-GAAP adjustments described above, and exclusion of these items from our non-GAAP net income and non-GAAP earnings per diluted share should not be construed as an inference that these costs are unusual, infrequent or non-recurring.

For more information on the non-GAAP adjustments, please see the table captioned "Reconciliation of GAAP Net Income to non-GAAP Net Income" included herein.

Safe Harbor for Forward Looking Statements

Certain statements in this press release are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements other than statements of historical fact including words such as “look”, “will”, “anticipate”, “believe”, “estimate”, “expect”, “forecast”, “consider” and “plan” and statements in the future tense are forward looking statements. The statements in this press release that could be deemed forward-looking statements include statements regarding expectations related to our cash position, newer distributions agreements, DSOs, Gross Margins, R&D, SG&A, tax rates, inventory turns, growth opportunities, demand and long-term global environment for our products, introduction of new products and financial performance estimates including revenues, GAAP diluted EPS and non-GAAP diluted EPS for the Company's fiscal quarter ending March 31, 2015, and any statements or assumptions underlying any of the foregoing.

Forward-looking statements are subject to certain risks and uncertainties that could cause our actual future results to differ materially, or cause a material adverse impact on our results. Potential risks and uncertainties include, but are not limited to, fluctuations in our operating results; varying demand for our products due to the financial and operating condition of our distributors and their customers, and distributors' inventory management practices; political and economic conditions and volatility affecting the stability of business environments, economic growth, currency values, commodity prices and other factors that may influence the ultimate demand for our products in particular geographies or globally; impact of counterfeiting and our ability to contain such impact; our reliance on a limited number of distributors; inability of our contract manufacturers and suppliers to meet our demand; our dependence on Qualcomm Atheros for chipsets without a short-term alternative; as we move into new markets competition from certain of our current or potential competitors who may be more established in such markets; our ability to keep pace with technological and market developments; success and timing of new product introductions by us and the performance of our products generally; our ability to effectively manage the significant increase in our transactional sales volumes; we may become subject to warranty claims, product liability and product recalls; that a substantial majority of our sales are into countries outside the United States and we are subject to numerous U.S. export control and economic sanctions laws; costs related to responding to government inquiries related to regulatory compliance; our reliance on the Ubiquiti Community; our reliance on certain key members of our management team, including our founder and chief executive officer, Robert J. Pera; adverse tax-related matters such as tax audits, changes in our effective tax rate or new tax legislative proposals; whether the final determination of our income tax liability may be materially different from our income tax provisions; the impact of any intellectual property litigation and claims for indemnification and litigation related to U.S. Securities laws and economic and political conditions in the United States and abroad. We discuss these risks in greater detail under the heading “Risk Factors” and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2014, and subsequent filings filed with the U.S. Securities and Exchange Commission (the SEC), which are available at the SEC's website at www.sec.gov. Copies may also be obtained by contacting the Ubiquiti Networks Investor Relations Department, by email at IR@ubnt.com or by visiting the Investor Relations section of the Ubiquiti Networks website, <http://ir.ubnt.com>.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date made. Ubiquiti Networks undertakes no obligation to update information contained herein. You should review our SEC filings carefully and with the understanding that our actual future results may be materially different from what we expect.