



Q4 Fiscal Year 2014 Earnings

Prepared Management Remarks

August 7, 2014

Investor Relations Contact:
Anne Fazioli
Vice President, Investor Relations
Anne.Fazioli@ubnt.com

NASDAQ: UBNT



Ubiquiti Networks Fourth Quarter Fiscal 2014 Financial Results

- Revenues of \$156.0 million, up 54% year-over-year
- GAAP operating profit of \$52.8 million, up 59% year-over-year
- GAAP net income of \$49.4 million, up 71% year-over-year
- GAAP diluted EPS of \$0.55 and non-GAAP diluted EPS of \$0.56, with non-GAAP up 70% year-over-year
- Average days sales outstanding ("DSO") of 32 days

CEO & CFO Commentary

We are pleased to announce another record quarter and fiscal year for Ubiquiti Networks. Our business model and overall success continue to be predicated on a differentiated operating model that is focused on engineering and financial governance. We continue to aggressively pursue our vision of leveling the playing field for the end consumer by creating world-class products that have disruptive price-to-performance characteristics. The fourth quarter was no exception. We recently launched a number of new products that we believe will be the cornerstone of our expansion into the Enterprise market under a unified control plane.

In addition to solid financial results, there are a few key business and product-related achievements that we would like to highlight:

- **Sustained growth in Service Provider Technology**, led by an outstanding early market reaction to our airFiber5® release.
- **Strong momentum in Enterprise Technology**, primarily due to product expansion and further adoption of our UniFi® technology platform.
- **Launched UniFi Video**, a new line of video surveillance camera control software and a new generation of cameras - the UVC, UVC-Dome, and UVC-Pro models - to join the Unifi family of products.
- **Launched EdgeSwitch™**, the first switch of its price-to-performance class, designed to offer superior performance and capability for a fraction of the cost of a traditional enterprise switch.
- **Launched UniFi VoIP**, a new VoIP enterprise smart phone technology to provide price/performance disruptive telephony solutions for business, schools, hotels, and more.
- **Extended the UniFi platform** into a broad Software Defined Networking platform encompassing routing, switching, video security, VoIP, wireless and much more.
- **Leased manufacturing space**, with our own prototyping line expected to accelerate our bringing new products to market.

Key Quarterly Financial Highlights

These prepared remarks include both GAAP and non-GAAP financial information because we consider non-GAAP information in our planning and management 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 recurring costs, expenses and gains such as stock based compensation expenses and the tax effects of these non-GAAP adjustments.

Income Statement

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

Financials	F4Q14	F3Q14	F4Q13
Revenues	156.0	148.3	101.2
<i>Service Provider Technology</i>	124.0	121.0	90.1
<i>Enterprise Technology</i>	32.0	27.3	11.1
Cost of Revenues	87.1	82.7	56.9
Gross Profit	68.9	65.6	44.4
Total Operating Expenses	16.1	15.5	11.2
Income from Operations	52.8	50.1	33.2
Net Income	49.4	45.2	28.8
Non-GAAP EPS (diluted)	0.56	0.50	0.33

For the quarter, we posted record revenues of \$156.0 million, up 5.2% from the prior quarter, and up 54.1% over the same period in the prior year.

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 \$124.0 million, an increase of 2% from the prior quarter and a 38% from the prior year.
- Represented 79% of our total Q4 revenues.
- Growth was led by airMAX sales and the new airFiber5 product release.
- Newly released EdgeSwitch products were not yet available for distribution during fiscal Q4 2014.

Enterprise Technology

- The Enterprise Technology product category encompasses our UniFi®, UniFi Video®, UniFi VoIP® and mFi® product lines.
- Revenues of \$32.0 million, an increase of 17% from the prior quarter and 188% from the prior year.
- Represented 21% of our total Q4 revenues.
- Growth was led by UniFi and a stronger mix of “N” to “AC” versions of the product.
- Newly released UniFi VoIP and Software Defined Networking products were not yet available for distribution during fiscal fourth quarter 2014.

Revenue by Geography

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

Revenue by Geography Summary (\$, in millions)

Region	F4Q14	F3Q14	F4Q13
North America	43.3	29.2	31.3
South America	35.7	25.0	19.9
EMEA	57.4	77.9	37.2
Asia Pacific	19.6	16.2	12.8
Total	156.0	148.3	101.2

- **North America** - For the quarter, we saw strong incremental demand for our airMAX, airFiber and UniFi product lines.
- **South America** - For the quarter, we saw an incremental demand increase for our airMAX and UniFi product lines.
- **EMEA** - For the quarter, we saw a decrease primarily driven by a reduction in demand for airMAX.
- **Asia-Pacific** - For the quarter, we saw an increase primarily due to incremental demand for our airMAX and airFiber product lines.

We remind investors that, in any given quarter, we tend to observe fluctuations in regional demand for a variety of reasons, but we believe this is significantly a reflection of our strategies to keep the channel optimized to turn inventory efficiently.

World developments do have the potential to influence our revenues as the geopolitical landscape continues to evolve quickly. Our expansive distribution model provides exposure to emerging economies because our products appeal to their communications growth initiatives. Some of these areas are particularly subject to political and economic instability that could impact our sales and the ability of ports to receive our goods. We are closely tracking developments in Ukraine, Russia, Iraq, Argentina and Israel, which collectively make up around 6% of our total sales. We do not believe these world developments have had a material impact in our fiscal fourth quarter results.

Gross Margins

During this quarter, our non-GAAP gross margin was 44.2%, and GAAP gross margin was 44.1%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 43.8% and 44.0%, respectively. We believe that our gross margin range is largely influenced by sales product mix.

In Q4 2014, we entered into a lease for manufacturing space in Suzhou, China, initially to support product development and prototyping for new products. We expect this investment will accelerate our bringing new products to market, and will reduce inefficiencies in the design qualification process with our existing contract manufacturer ("CM") partners. We are in the very early stages of building-out this facility, and expect to see a small reduction in our gross margins starting in Q1 2015. We believe that the minor financial impact from this investment in the near-term will be outweighed by the long-term benefits. We believe our margins will fluctuate between 42.5% and 44.5% in the near-term as we ramp up production the facility, and we expect to see margins increase over the long-term as utilization is increased.

Research and Development

Research and Development (“R&D”) expenses were \$9.4 million on a non-GAAP basis, and \$10.2 million on a GAAP basis. Non-GAAP R&D expenses were up 7.2% sequentially, as we continue to make engineering investments designed to help us accelerate our development release cycles, expand our addressable market, and maintain our industry leading financial metrics. During the quarter we launched several new products, including UniFi Video, EdgeSwitch and UniFi VoIP. We have also made enhancements to our existing airMAX and airFiber product lines. Our ability to bring new Enterprise products to the market, while remaining at the cutting edge of networking technology, demonstrates the positive results of our R&D investments. 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 \$5.5 million, or 3.5% of revenue, a decrease of \$1.4 million compared with the prior quarter. We continue to run one of the most efficient operating business models, and are focused on leveraging a scalable cost structure. The sequential decrease in SG&A spend was primarily due to a reduction in expenses from the prior quarter related to the launch of the Ubiquiti World Network™ (“UWN”). 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 312 full-time employees, up from 263 in the prior quarter. We put a heavy emphasis on translating engineering resources to future revenue. As of Q4 2014, 69% of our employees were in R&D.

Taxes

Our GAAP effective tax rate for the quarter decreased to 5.4%, as compared with 12.4% in the fourth quarter of fiscal 2013. Our effective tax rate for fiscal Q4 2014 is lower in comparison to our effective tax rate for fiscal Q4 2013, primarily due to an increase in the benefit from the effect of foreign operations, the expiration of the buy-in payments from subsidiaries to our parent entity as of December 31, 2012, and the decrease of the state blended tax rate. This reduction in effective tax rate also reflects our geographic sales product mix, resulting in a larger percentage of our overall profitability occurring in jurisdictions with lower corporate income tax rates. For planning purposes, we assume a target tax rate of 10.5%.

Net Income

GAAP net income for this quarter was \$49.4 million, or \$0.55 per diluted share, compared with a GAAP net income of \$28.8 million, or \$0.32 per diluted share, in the fourth quarter of fiscal 2013. We recorded fourth quarter fiscal 2014 non-GAAP net income of \$50.2 million, or \$0.56 per diluted share, compared with non-GAAP net income of \$29.5 million, or \$0.33 per diluted share, in the fourth quarter of fiscal 2013.

Balance Sheet

Total cash and cash equivalents as of June 30, 2014, were \$347.1 million, compared with \$291.7 million as of March 31, 2014, and \$227.8 million as of June 30, 2013. We believe that 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.

We are committed to keeping channel inventory optimized and in-line with end market demand. Our inventory balance at the end of the quarter was \$46.3 million, down substantially from \$66.0 million in the prior quarter. We remind investors that we raised our inventory levels to avoid the product stock-outs we have experienced in the past, continue to reduce lead times and “stock our shelves” as we prepare for the launch of new products. As expected, our inventory in the fourth quarter fiscal 2014 decreased as we initiated the sell-in period for new products and experienced increased demand for our existing products. We continue to enhance our ability to analyze channel sales and inventory globally, and expect to hold it at 7 to 8 weeks of previously introduced product inventory going forward. Our total inventory will fluctuate when we introduce new products because there will be an element of “stocking the shelves” during each initial sell-in period.

This quarter we saw DSOs of 32 days, compared with 30 days in the prior quarter, and 32 days in the fourth quarter of fiscal 2013. While we are comfortable with the current DSOs level, going forward, we expect to see that number increase to the low 40s due to the addition of larger and better capitalized distributors.

Cash Flow Statement

We generated record cash from operations in the fourth quarter. Our net cash inflow from operations for the fourth quarter of fiscal 2014 was \$55.8 million, compared with an outflow of \$14.0 million in the third quarter of fiscal 2014, and net cash inflow of \$46.2 million in the fourth quarter of fiscal 2013. The primary driver of the increase in net cash from operations in the quarter was improved lead times to our consumers and strong demand for our products, particularly the new products that we launched which experienced a “stocking the shelves” effect during their initial sell-in period. Capital expenditures for the period were \$0.8 million and depreciation and amortization was \$0.8 million.

First Quarter Fiscal 2015 Outlook

Based on our analysis of orders received and current channel inventory levels, we expect to generate revenues of \$156 – \$161 million in the first quarter of fiscal year 2015. Included in our estimates is an adjustment for recent geopolitical developments that could require us to delay shipments until business can be resumed within regions afflicted by conflict. While both product categories are expected to grow, over time we believe the Enterprise Technology category will grow at a faster pace than the Service Provider Technology category and will therefore become an increasingly larger percentage of our total revenues.

Based on these estimates, we expect GAAP earnings to be in the range of \$0.51 – \$0.53 per share, and non-GAAP diluted earnings to be in the range of \$0.52 – \$0.54 per share, based on a share count of approximately 90 million.

Conclusion

We are very focused on execution right now as we continue to grow our business. We are making investments in R&D and operations that we believe will help us expand our addressable market and maintain our industry leading financial metrics. We continue to lay a strong foundation for long-term value creation, including having taken the following actions in recent months:

- **Continued to invest in R&D**, designed to expand our platform of products with the best-and-brightest engineers at an increased pace.
- **Invested in extending our core product lines**, including the airMAX ac and airFiber5 platforms with breakthrough technology advancements for the global broadband wireless industry.
- **Leased manufacturing space**, with our own prototyping line expected to accelerate our bringing new products to market.
- **Launched new products**, such as EdgeSwitch, UniFi Video and UniFi VoIP, with industry leading solutions that will offer intelligent design and outstanding price-to-performance for worldwide deployments.
- **Extended the UniFi platform**, into a massive Software Defined Networking platform encompassing routing, switching, video security, VoIP, wireless and much more.

We look forward to speaking to you on our earnings call. The conference 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 conference 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>.

To listen to the Q&A-only conference 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-only conference call by visiting the Investor Relations section of the Ubiquiti Networks website, <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 20 million devices deployed in over 180 countries, Ubiquiti is transforming under-networked businesses and communities. Our leading edge platforms, airMAX®, UniFi®, UniFi® Video, UniFi® VoIP, airFiber®, mFi® and EdgeMAX®, combine innovative technology, disruptive price-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, UniFi, mFi, EdgeMAX EdgeSwitch and Ubiquiti World Network are registered trademarks or trademarks of Ubiquiti Networks, Inc. and/or its affiliates in the United States and other countries.

Investor Relations Contact

Anne Fazioli
Ubiquiti Networks, Vice President of Investor Relations
IR@ubnt.com

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 recurring costs and non-recurring, 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 and/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 recurring stock-based compensation expense, the gain on the reversal of a charge for an export compliance matter, and the tax effect of these adjustments. Items excluded from net income are:

- Recurring charges and gains, including:
 - Stock-based compensation expense is recognized in accordance with FASB Accounting Standards Codification, Topic 718, Stock Compensation.
- Gain on reversal of charge for an export compliance matter
- Tax effect of non-GAAP adjustments. After adjusting to exclude the items described above, we apply the principles of ASC 740, Income Taxes, to estimate the non-GAAP income tax provision.

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

	Three Months Ended June 30,		Years Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 49,418	\$ 28,841	\$ 176,937	\$ 80,490
Stock-based compensation:				
Cost of revenues	145	137	590	446
Research and development	744	442	2,423	1,433
Sales, general and administrative	387	548	1,893	1,497
Gain on reversal of charge for an export compliance matter	—	—	(1,121)	—
Tax effect of non-GAAP adjustments	(510)	(451)	(1,514)	(1,351)
Non-GAAP net income	\$ 50,184	\$ 29,517	\$ 179,208	\$ 82,515
Non-GAAP diluted EPS	\$ 0.56	\$ 0.33	\$ 2.00	\$ 0.91
Weighted-average shares used in non-GAAP diluted EPS	89,821	89,064	89,715	90,259

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 business trends, anticipated demand for our new products, long-term benefits of leasing manufacturing space in Suzhou, China, DSOs, fluctuations in margins, R&D expenses and SG&A expenses, inventory, and revenues, GAAP diluted EPS and non-GAAP diluted EPS forecasts for the Company's fiscal quarter ending September 30, 2014, 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, distributors' inventory management practices and general economic conditions; 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, 2013, subsequent Quarterly Reports on Form 10-Q and other 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 Ubiquiti Networks' Investor Relations Department, or 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.