



Q1 Fiscal Year 2015 Earnings

Prepared Management Remarks
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NASDAQ: UBNT



Ubiquiti Networks First Quarter Fiscal 2015 Financial Results

First Quarter Financial Summary

- Revenues of \$150.1 million, up 16% year-over-year.
- GAAP net income of \$37.7 million and non-GAAP net income of \$43.4 million.
- GAAP operating profit of \$43.6 million and non-GAAP operating profit of \$50.5 million.
- GAAP diluted EPS of \$0.42 and non-GAAP diluted EPS of \$0.48.
- Cash of \$391.0 million, up 40% year-over-year and 13% sequentially.
- \$46.9 million in net cash provided by operating activities.

CEO & CFO Commentary

We continue to target aggressive goals in our evolution as a company while keeping the fundamentals of our business strong. We believe we will maintain our leadership position of building world-class products with disruptive price-to-performance ratios, serving to bridge the digital divide and connect underserved markets.

This quarter we saw strong results in our Enterprise product category, although we experienced lower than expected revenue overall due to lower demand from our service provider customers outside of North America. We believe this will subside as political and economic stability eventually recovers in certain key countries for our overseas customers. We do not believe end customers in these regions will delay investments for the long-run, although delayed shipments to key distributors in the impacted areas will lead to weaker bookings in the near term.

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

- **Record growth in Enterprise Technology**, primarily due to further product expansion and momentum in our UniFi® technology platform.
- **Strong demand for some key products within Service Provider Technology**, including airFiber® 5, airMAX® ac and EdgeMAX®.
- **Signed new distribution agreements with ECS and Redington**, leading technology distributors in China and India, respectively, which are expected to accelerate our expansion into established and emerging markets.
- **Announced annual dividend policy**, as part of our long-term strategy to maximize shareholder value and broaden our shareholder base.

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	F1Q15	F4Q14	F1Q14
Revenues	150.1	156.0	129.7
<i>Service Provider Technology</i>	107.3	124.0	94.2
<i>Enterprise Technology</i>	42.8	32.0	35.5
Cost of Revenues	89.0	87.1	71.7
Gross Profit	61.0	68.9	58.0
Total Operating Expenses	17.4	16.1	12.1
Income from Operations	43.6	52.8	45.9
GAAP Net Income	37.7	49.4	40.5
GAAP EPS (diluted)	0.42	0.55	0.45
Non-GAAP Net Income	43.4	50.2	41.2
Non-GAAP EPS (diluted)	0.48	0.56	0.46

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 \$107.3 million, an increase of 14% from the prior year.
- Represented 71% of our total Q1 revenues.
- Sales in this product category were led by airFiber 5 and airMAX ac and EdgeMAX products.

Enterprise Technology

- The Enterprise Technology product category encompasses our UniFi®, UniFi® Video, UniFi® VoIP and mFi® product lines.
- Revenues of \$42.8 million, an increase of 34% from the prior quarter and 21% from the prior year.
- Represented 29% of our total Q1 revenues.
- Growth was led by UniFi and UniFi Video, including stronger demand for the “ac” version of the UniFi product.
- We observed a positive impact from newer distribution partners, particularly as relates to the UniFi product line.
- Our newly released UniFi VoIP product was not yet available for distribution during first quarter of fiscal 2015.

Revenue by Geography

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

Revenue by Geography Summary (\$, in millions)

Region	F1Q15	F4Q14	F1Q14
North America	53.6	43.3	37.4
South America	31.1	35.8	20.8
Europe, the Middle East and Africa (EMEA)	50.6	57.4	52.9
Asia Pacific	14.8	19.6	18.6
Total	150.1	156.0	129.7

In the first quarter of fiscal 2015, North America revenues showed significant strength and were up 24% on a sequential basis. We saw high demand across all product lines in this region, especially those in the Enterprise product category such as our UniFi product line. North America represented a record 36% of total revenue for the quarter.

While sales to North America were strong for the quarter, our total revenues worldwide were lower than expected primarily due to reduced demand from our overseas customers. 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 the substantial majority 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 communications platform.

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 for the quarter. This instability has not only disrupted the business environment in the effected countries, but also in the broader region.

Our recently signed distribution agreements with ECS (China) and Redington (India) are expected to increase our geographic diversification, mitigating volatility and increasing our exposure to some of the most rapidly expanding markets. The increase in our sales to Enterprise customers also serves to diversify our revenue.

Gross Margins

During this quarter, our non-GAAP gross margin was 44.4%, and GAAP gross margin was 40.7%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 44.9% and 44.7%, respectively. We believe our margins will continue to fluctuate between 42.5% and 44.5% and the variance is subject to the mix of products sold to our channel partners.

Non-GAAP gross margin excludes stock compensation expense and a reserve for a purchase commitment termination fee. In fiscal 2014, the Company entered into a commitment with a vendor for the final purchase of certain chips that were being discontinued. During the course of the last year we qualified a replacement chip ahead of schedule. The replacement chip provides higher performance and lower cost, thereby diminishing our reliance on the discontinued chip. In fiscal Q1 of 2015, we made a decision to reduce the purchase commitment with this vendor, resulting in a one-time termination fee of \$5.5 million. Accordingly, the Company recorded a reserve of \$5.5 million against its vendor deposits balance to reflect the amount not recoverable due to the termination fee. We believe the replacement chip will provide a cost savings well in excess of the termination fee.

Research and Development

Research and Development (“R&D”) expenses were \$10.9 million on a non-GAAP basis, or 7.3% of revenue. Non-GAAP R&D expenses were up 16% sequentially, primarily due to the hiring of new engineers (R&D headcount increased by 14%) and costs incurred for intellectual property (IP) purchased for use in our products. These R&D investments help us to bring new Enterprise 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 \$5.3 million, or 3.5% of revenue. We continue to run one of the most efficient operating business models, 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 400 full-time employees, up from 312 or 28% in the prior quarter. The majority of the increase was related to the hiring of operational personnel for the Company’s new China prototyping facility. As of fiscal Q1 of 2015, 62% of our employees were in R&D and 29% were in Operations.

Taxes

Our GAAP effective tax rate for the quarter was 13.4%, as compared with 11.2% in the first quarter of fiscal 2014. This low effective tax rate reflects our geographic sales product mix, resulting in a larger percentage of our overall profitability occurring in jurisdictions with lower income tax rates. The year-over-year increase was primarily driven by our relatively greater sales in higher tax jurisdictions during the quarter. For planning purposes, we assume a target tax rate of 11.5%.

Net Income

GAAP net income for the first quarter of fiscal 2015 was \$37.7 million, or \$0.42 per diluted share, compared with GAAP net income of \$40.5 million, or \$0.45 per diluted share, in the first quarter of fiscal 2014. Ubiquiti recorded first quarter of fiscal 2015 non-GAAP net income of \$43.4 million, or \$0.48 per diluted share, compared with non-GAAP net income of \$41.2 million, or \$0.46 per diluted share, in the first quarter of fiscal 2014.

Balance Sheet

Total cash and cash equivalents as of September 30, 2014, were \$391.0 million, compared with \$347.1 million as of June 30, 2014, and \$279.7 million as of September 30, 2013. 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.

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 \$38.7 million, down from \$46.3 million in the prior quarter. We remind investors that we raised our inventory levels in third quarter of fiscal 2014 to avoid the product stock-outs we have experienced in the past, continue to reduce lead times and “stock our shelves” as we prepared for the launch of new products. As expected, our inventory in the first quarter of fiscal 2015 continued to decrease as we experienced this sell-in period for new 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 Day Sales Outstanding in accounts receivable ("DSO") of 40 days, compared with 32 days in the prior quarter, and 25 days in the first quarter of fiscal 2014. DSO for the quarter reflects our strategic addition of larger distributors worldwide who we extend credit to instead of requiring a prepayment. This quarter's DSO was at the low end of our long term target DSO range of approximately 40 to 45 days.

Cash Flow Statement

Our net cash inflow from operations for the first quarter of fiscal 2015 was \$46.9 million, compared with a net cash inflow of \$51.9 million in the first quarter of fiscal 2014. Total cash and cash equivalents as of September 30, 2014 were \$391.0 million, compared with \$347.1 million as of June 30, 2014. Capital expenditures for the period were \$3.5 million and depreciation and amortization was \$0.9 million.

Second Quarter Fiscal 2015 Outlook

Based on our analysis of orders received and current channel inventory levels, we expect to generate revenues of \$147 – \$153 million in the second quarter of fiscal year 2015. We continue to adjust our estimates for recent geopolitical developments that could require us to delay shipments until business conditions return to normal 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 represent an increasing percentage of our total revenues.

Based on these estimates, we expect GAAP earnings to be in the range of \$0.45 – 0.48 per share, and non-GAAP diluted earnings to be in the range of \$0.46 – 0.49 per share, based on a share count of approximately 90 million.

Conclusion

We continue to be focused on execution as we continue to grow and evolve our business. We believe the Enterprise business will continue to represent an increasing portion of our total revenues, and will lead the Company's growth in the coming quarters. We continue to make calculated investments in R&D and operations to achieve our long-term strategy to maximize shareholder value, including the following actions in recent months:

- **Continued prioritization of R&D**, with the goal of increasing the pace at which we expand our portfolio of products.
- **Expansion of Operations**, with the creation of our own prototyping facility in China expected to accelerate our bringing new products to market.
- **Signed new distribution agreements** with ECS and Redington, leading technology distributors in China and India, respectively, who we expect to accelerate our expansion into established and emerging markets.

We appreciate our shareholders' continued commitment to the Company and 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>.

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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. 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 September	
	2014	2013
Net income	\$ 37,743	\$ 40,528
Stock-based compensation:		
Cost of revenues	149	144
Research and development	825	496
Sales, general and administrative	398	527
Purchase commitment termination fee	5,500	—
Tax effect of non-GAAP adjustments	(1,209)	(467)
Non-GAAP net income	\$ 43,406	\$ 41,228
Non-GAAP diluted EPS	\$ 0.48	\$ 0.46
Weighted-average shares used in non-GAAP diluted EPS	89,913	89,473

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 relating to our leadership position of building world-class products, customer demand for your products, rebound in North American sales, expected results of new distribution agreements, bookings, future growth of demand for our products, DSOs, exchange rates, margins, R&D expenses, SG&A expenses, effective tax rate, operational results of our prototyping facility in China, financial performance estimates including revenues, GAAP diluted EPS and non-GAAP diluted EPS for our fiscal quarter ending December 31, 2014, and any statements or assumptions underlying 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, 2014, Q 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 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.