



# Q4 Fiscal Year 2016 Earnings

Prepared Management Remarks  
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NASDAQ: UBNT



## Ubiquiti Networks Preliminary Fourth Quarter Fiscal 2016 Financial Results

### Fourth Quarter Fiscal 2016 Financial Summary

- *Revenues of \$185.7 million*
- *GAAP gross profit of \$89.8 million and non-GAAP gross profit of \$89.9 million*
- *GAAP net income of \$57.7 million and non-GAAP net income of \$58.2 million*
- *GAAP diluted EPS and non-GAAP diluted EPS of \$0.69*
- *Cash of \$551.0 million, up 23% year-over-year*

### Management Commentary

We are pleased to announce another record quarter for Ubiquiti Networks. Revenues were \$185.7 million, above our guidance of \$170 million to \$180 million, while non-GAAP earnings were \$0.69 per diluted share, above our guidance of \$0.61 – \$0.67 per share.

We believe that our quarterly financial results reflect 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. This quarter, our Enterprise Technology revenues were up 89% year-over-year and 8% sequentially, which we primarily attribute to strong demand for our new UniFi family of products on a global basis. Our Service Provider Technology revenues are up 4% year-over-year and 13% sequentially.

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

There are a few key financial and product-related achievements that we would like to highlight:

### Recent Financial Highlights

- **Enterprise Technology revenues increased 89% year-over-year and 8% sequentially**, fueled by new UniFi AC access points, UniFi Switch, UniFi Video and other industry-leading products targeting the Enterprise market.
- **Non-GAAP Gross Margins increased 2.8% year-over-year to 48.3%**, fueled by product mix, cost-reduction strategies and stable pricing.
- **Non-GAAP diluted EPS increased 38% year-over-year and 10% sequentially**, demonstrating the scalability of Ubiquiti's unique business model.
- **Completed \$50 million stock repurchase plan as of June 30, 2016.**
- **Initiated a new stock repurchase program**, authorizing the Company to repurchase up to \$50 million of its common stock as disclosed in the Form 8-K filed on August 4, 2016.

### Recent Product Highlights

- **Continued strong demand for our new UniFi AC access points** which feature Wi-Fi 802.11ac technology in a refined industrial design and are ideal for cost-effective deployment of high-performance wireless networks.
- **Introduced AmpliFi™ from Ubiquiti Labs**, the new Consumer Division of Ubiquiti Networks. With turbocharged 802.11AC Wi-Fi, AmpliFi utilizes multiple self-configuring radios and advanced antenna technology to bring ubiquitous Wi-Fi coverage to any home.
- **Shipped in volume our UniFi Video products**, plug and play, high-performance IP surveillance devices that scale easily across multiple locations.
- **Shipped the airFiber® AF 4X**, a licensed spectrum backhaul radio with industry-leading spectral efficiency and TDD throughput.
- **Expanded the UniFi Switch line.** Now available with 16, 24 or 48 RJ45 Gigabit ports, the UniFi Switch delivers robust performance, PoE+ support, and intelligent switching for growing networks.

### 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 expense, loss as a result of a BEC fraud, implementation of overhead capitalization, reserve against vendor deposits relating to a purchase commitment termination fee, gain on reversal of charge for an export compliance matter, and the tax effects of these non-GAAP adjustments.

## Income Statement

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

Income statement highlights	F4Q16	F3Q16	F4Q15
Revenues	185.7	167.4	145.3
<i>Service Provider Technology</i>	109.0	96.3	104.8
<i>Enterprise Technology</i>	76.7	71.1	40.5
Gross Profit	89.8	82.5	66.1
<i>Gross Profit (%)</i>	48.3%	49.3%	45.5%
Total Operating Expenses (1)	24.1	22.4	58.8
Income from Operations	65.6	60.1	7.3
GAAP Net Income	57.7	52.7	4.5
GAAP EPS (diluted)	0.69	0.62	0.05
Non-GAAP Net Income	58.2	53.0	44.1
Non-GAAP EPS (diluted)	0.69	0.63	0.50

(1) Includes business e-mail compromise (“BEC”) fraud loss of \$39.1 million in F4Q15.

#### *Service Provider Technology*

- The Service Provider Technology product category encompasses the airMAX, airFiber and EdgeMAX embedded radio and antenna product lines, as well as the sunMAX solar system product line
- Revenues of \$109.0 million
- Represents 58.7% of our total fiscal Q4 2016 revenues

#### *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 \$76.7 million
- Represents 41.3% of our total fiscal Q4 2016 revenues

### **Revenue by Geography (\$, in millions)**

Region	F4Q16	F3Q16	F4Q15
North America	71.1	57.8	44.3
South America	23.9	15.5	25.9
Europe, the Middle East and Africa (EMEA)	69.7	73.3	56.9
Asia Pacific	21.0	20.8	18.2
<b>Total</b>	<b>185.7</b>	<b>167.4</b>	<b>145.3</b>

In the fourth quarter of fiscal 2016, revenues were strong worldwide. North America revenues showed strength and were up 61% year-over-year and 23% sequentially, representing 38% of total revenue for the quarter. Sales to South America were also strong for the quarter, up 54% on a sequential basis. Both EMEA and Asia Pacific have seen a year-over-year increase in sales, at a 22% and 15% year-over-year increase, respectively.

#### **Gross Margins**

During this quarter, our non-GAAP gross margin was 48.4%, and GAAP gross margin was 48.3%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 45.6% and 45.5%, respectively. Our improved

gross margins are primarily the result of product mix, coupled with continued cost-reduction strategies and stable product pricing. We believe our future margins will fluctuate between 45.0% and 50.0%.

### ***Research and Development***

Research and Development ("R&D") expenses were \$14.4 million on a non-GAAP basis, or 7.8% of revenue, as compared to R&D expenses of \$13.3 million in the prior quarter. This increase is primarily due to external development cost for products in development.

Our R&D investments 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 an increase in R&D hiring, and to a lesser extent, in opening and maintaining offices for these employees. During the past few quarters, we have released a number of new products significantly expanding our addressable market, which is a result of the R&D investments we made in the past. We expect to continue to invest in developing new products and newer versions of existing products. Accordingly, we estimate our R&D expenses to be 8% to 10% of revenues going forward.

### ***Sales, General and Administrative***

Our non-GAAP selling, general and administrative ("SG&A") expenses for the quarter were \$8.9 million, or 4.8% of revenue, compared to \$8.3 million for the prior quarter. This quarter, total SG&A expenses remained elevated due to interim management and advisory services to remediate previously disclosed internal control weaknesses. For long-term planning purposes, we assume SG&A expenses of 3% to 5% of revenues.

### ***Headcount***

We finished the quarter with a total of 537 full-time equivalent employees, up from 503 or 7% in the prior quarter, and up from 435 or 23% in the prior year.

### ***Taxes***

Our GAAP effective tax rate for the quarter was 11.0% as compared with 11.6% in the third quarter of fiscal 2016. For long term planning purposes, we assume a target tax rate of approximately 11.5%.

### ***Net Income***

Non-GAAP net income in the fourth quarter of fiscal 2016 non-GAAP was \$58.2 million, or \$0.69 per diluted share, compared with \$44.1 million, or \$0.50 per diluted share, in the fourth quarter of fiscal 2015. GAAP net income for the fourth quarter of fiscal 2016 was \$57.7 million, or \$0.69 per diluted share, compared with GAAP net income of \$4.5 million, or \$0.05 per diluted share, in the fourth quarter of fiscal 2015. Net income on a GAAP basis was unusually low in the fourth quarter of fiscal 2015 due to the business e-mail compromise ("BEC") fraud loss disclosed in the Form 8-K filed on August 6, 2015. As a result of the BEC fraud, the Company lost \$39.1 million and therefore, recorded a corresponding expense of \$39.1 million in the fourth quarter of fiscal 2015.

### **Balance Sheet**

Total cash and cash equivalents as of June 30, 2016 were \$551.0 million, compared with \$446.4 million as of June 30, 2015. We held \$524.3 million of our \$551.0 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States.

On May 4, 2016, the Company initiated a new stock repurchase program, authorizing the Company to repurchase up to \$50 million of its common stock which was funded through draws of \$50.0 million on our revolver facility.

This quarter we saw days sales outstanding in accounts receivable ("DSO") of 41 days, compared with 41 days in the prior quarter, and 41 days in the fourth quarter of fiscal 2015.

We are committed to keeping our inventory optimized and in-line with end market demand. Our inventory balance at the end of the quarter was \$57.1 million, which represents approximately 7.7 turns on an annualized basis, compared to 9.0 turns in the prior quarter. We remind investors that as we prepare for the launch of new products we raise our inventory levels to provide sufficient availability of these products to our distributors. We continue to enhance our ability to analyze channel sales and inventory globally, and expect to hold inventory turns at 7 to 9 going forward.

### ***Distribution Channel Management***

Since the founding of the Company, Ubiquiti has built a network of over 100 distributors, master resellers and resellers worldwide. Distribution channel management, including improved visibility of future demand and channel inventory levels through periodic reporting by our channel partners, has been and will continue to be, a focus of the Company.

### **Cash Flow Statement**

Our net cash flow from operations for the fourth quarter of fiscal 2016 was \$44.9 million, compared with a net cash flow of \$18.2 million in the fourth quarter of fiscal 2015. Capital expenditures for the period were \$0.7 million.

### **First Quarter Fiscal 2017 Outlook**

The following represents our financial outlook for the first quarter of fiscal 2017.

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$180 - 190 million in the first quarter of fiscal 2017.

We anticipate GAAP earnings in the range of \$0.67 – \$0.73 per diluted share, and non-GAAP earnings to be in the range of \$0.68 – \$0.74 per diluted share.

I look forward to speaking to you on our earnings call. The Q&A conference call information is listed below.

### ***Robert J. Pera***

CEO, Founder & Chairman

### **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 38 million devices sold worldwide as of December 2015, Ubiquiti is transforming under-networked enterprises and communities. Our leading edge platforms, airMAX<sup>®</sup>, UniFi<sup>®</sup>, airFiber<sup>®</sup>, UniFi<sup>®</sup> Video, mFi<sup>®</sup> and EdgeMAX<sup>®</sup>, 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, Ubiquiti Networks, the U logo, UBNT, airMAX, UniFi, airFiber, mFi, EdgeMAX and sunMAX are registered trademarks or trademarks of Ubiquiti Networks, Inc. in the United States and other countries.

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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 earnings per diluted 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
- Business e-mail compromise ("BEC") fraud loss/(recovery)
- Implementation of overhead capitalization
- 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 June 30,		Years Ended June 30	
	2016	2015	2016	2015
Net income	\$ 57,706	\$ 4,518	\$ 213,616	\$ 129,663
Stock-based compensation:				
Cost of revenues	107	161	448	601
Research and development	526	355	2,296	2,854
Sales, general and administrative	220	297	975	1,537
Business e-mail compromise ("BEC") fraud	—	39,137	(8,294)	39,137
Purchase commitment termination fee	—	—	—	5,500
Implementation of overhead capitalization	(8)	—	(1,221)	—
Tax effect of non-GAAP adjustments	(341)	(325)	(1,342)	(2,656)
Non-GAAP net income	\$ 58,210	\$ 44,143	\$ 206,478	\$ 176,636
Non-GAAP diluted EPS	\$ 0.69	\$ 0.50	\$ 2.41	\$ 1.97
Weighted-average shares used in non-GAAP diluted EPS	83,836	89,110	85,784	89,569

## **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", "assume" 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 June 30, 2016, 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; 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, 2015, 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](http://www.sec.gov). Copies may also be obtained by contacting the Ubiquiti Networks Investor Relations Department, by email at [IR@ubnt.com](mailto: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. Except as required by law, 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.