



Ubiquiti Networks First Quarter 2014 Financial Results

CEO Commentary – Robert Pera

Welcome to our fiscal 2014 Q1 earnings commentary. We are encouraged by the quarter results, but are still targeting much larger goals in our evolution as a company. We look forward to proving the scalability of our unique business model in the coming quarters.

CFO Commentary – Craig Foster

Our Q1 2014 financial results are firm validation that our robust business model and differentiated products are widely accepted in our target markets. We sell products that deliver an exceptional value proposition to the most important people in our ecosystem – the end customer. Our commitment to this relationship continues with our ability to focus our resources on engineering and minimize the corporate barriers that destroy value – as reflected in our earnings results.

Building upon our last year's momentum, we had an exceptional first quarter of our fiscal 2014. We had our fourth consecutive quarter of sequential double-digit revenue growth. Similar to the previous quarter, we achieved a number of Ubiquiti financial records, including:

- Revenue,
- Earnings,
- Cash Flow and
- Days Sales Outstanding.

We produced 31% and 32% net income margins on a GAAP and non-GAAP basis respectively, demonstrating that increased scale drives profitability in our business.

Our channel continues to be healthy, and our days sales outstanding ended at 25 days. This is once again a record low for the Company.

Our focus is now on growth, and we are setting aggressive goals for ourselves. We are staying true to the fundamentals of the business: building world-class products with disruptive price-to-performance.

First Quarter Results

Fiscal first quarter 2014 revenues were up 28% from the prior quarter, and up 111% over the same period in the prior year.



Revenue by Product Category

Starting this quarter we have simplified the reporting of our product category revenue. These categories better represent how our business is managed and benchmarked internally. They also reflect the Company's end user customer delineation. Going forward, product revenue will be reported in two categories:

- Service Provider Technology encompasses the airMAX, airFiber, EdgeMAX, embedded radio and antenna product lines. Revenue in this segment was \$94.2 million, representing 73% of our total Q1 revenues. airMAX comprises a majority of the service provider category revenues.
- Enterprise Technology encompasses our UniFi, airVision and mFi product lines. Revenue in this segment was \$35.5 million, representing 27% of our Q1 total revenue. Our UniFi product line showed a substantial increase in sales, primarily due to the initial sales of our UniFi AC products. UniFi comprises a majority of the enterprise technology category revenues.

A comparison between the old and new reporting categories is available in our press release and 8-K, filed today.

Revenue by Geography

Revenues are up in all four regions that we report with particular strength in EMEA and Asia-Pacific. Last quarter, we noted that we are working closely with our distributors to better manage and balance inventory levels on a regional level, as well as to gain better visibility into their individual operational inventory management and forecasting systems. Our efforts have given us much more visibility in all our regional markets, especially in the U.S.

- Our North America revenues showed significant strength and were up 20% on a sequential basis. We saw high demand across all segments, especially in our UniFi product line. North America represented approximately 29% of total revenue for the quarter.
- In South America, revenues were up 4% sequentially. The sequential revenue increase for South America was driven by UniFi and airMAX sales. The South America region represented about 16% of revenues for the quarter.
- The EMEA region also rose this quarter, with revenues up 42% over last quarter. This increase was due to strong demand for UniFi and airFiber products. EMEA represented about 41% of revenues for the quarter.
- Lastly, in the Asia-Pacific region, sales were up 45% quarter-over-quarter, with increased demand in UniFi and airMAX products. Asia-Pacific represented 14% of the quarter's revenues.



Income Statement

Our business model is architected for capital efficiency and scalability. This quarter we saw gross and operating margin improvements that demonstrated some of our leverage points.

Starting with gross margins, our non-GAAP gross margins increased to 45%, due to a combination of volume efficiencies and improved product mix sales.

Looking at the expense line, our non-GAAP operating expenses were 9% of revenue, down on a percentage basis from the prior period. We continue to make significant investments in our engineering teams and have contained our spend on outside legal counsel associated with anti-counterfeiting actions.

Our effective GAAP tax rate for the quarter was 11.2%, which is a reflection of how a majority of our sales are outside the U.S.

Non-GAAP net income was \$41 million, up 40% sequentially.

Non-GAAP diluted EPS was \$0.46 compared to \$0.33 in the fourth quarter of 2013.

Cash Flow

We had another quarter of very healthy cash generation. Cash flow from operations was \$52 million and our cash balances increased to \$280 million. As we've noted in the past, we expect to continue to generate significant free cash flow, with a majority of the cash being generated and held outside the U.S.

Balance Sheet

We continued to optimize and enforce our credit policies, and I think the results show that the channel has responded accordingly. We saw another improvement in our DSOs for the quarter. In the first quarter, we once again achieved a record low DSOs of 25 days, better than the 32 days from the prior quarter. That said, having achieved what we believe is peak performance in this regard, we expect DSOs to trend back to a target range of 45-50.

Our net inventory balances were \$16.4 million, up from \$15.9 million in the prior quarter. We believe that we are still well below our target finished goods inventory levels. We continue to make investments to increase our ability to meet demand.

Corporate Actions

We did not repurchase any additional shares during the quarter. The buyback facility has since expired and was not renewed.



Outlook

Lastly, I would like to talk about our guidance and our outlook for the next quarter. We are continuing to make operational improvements by increasing manufacturing and distribution capacity which we believe will translate into a better ability to meet worldwide demand.

Based on current industry and business trends, we expect:

- Revenues to be in the range of \$130 million to \$136 million,
- GAAP earnings to be in the range of \$0.40 to \$0.44 per share, and
- Non-GAAP diluted earnings to be in the range of \$0.42 to \$0.46 per share.

We are hosting a Q&A call with the investment community starting at 2:00 p.m. Pacific Time. We look forward to speaking with you then.

Conference Call

Ubiquiti Networks will host a Q&A-only conference call to discuss the Company's financial results at 2:00 p.m. PT today. An audio file and a transcript of management's prepared remarks can be found on the Investor Relations section of Ubiquiti Networks' website, <http://www.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 Ubiquiti Networks' website.

The playback 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 Ubiquiti Networks' website.

About Ubiquiti Networks

Ubiquiti Networks (NASDAQ: UBNT) is closing the digital divide by building network communication platforms for everyone and everywhere. With over 10 million devices deployed in over 180 countries, Ubiquiti is transforming under-networked businesses and communities. Our leading edge platforms, airMAX™, UniFi™, airFiber™, airVision™, 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, UniFi, airFiber, airVision, mFi and EdgeMAX are registered trademarks or trademarks of Ubiquiti Networks, Inc. and/or its affiliates in the United States and other countries.



Use of Non-GAAP Financial Information

To supplement our condensed consolidated financial results prepared under generally accepted accounting principles, or GAAP, we use non-GAAP measures of net income and earnings per diluted share that are adjusted to exclude certain recurring costs, expenses and gains such as stock based compensation expense and the tax effects of these non-GAAP adjustments. Reconciliations of the adjustments to GAAP results for the three months ended September 30, 2013 and 2012 are provided below. In addition, an explanation of the ways in which management uses non-GAAP financial information to evaluate its business, the substance behind management's decision to use this non-GAAP financial information, the material limitations associated with the use of non-GAAP financial information, the manner in which management compensates for those limitations, and the substantive reasons management believes that this non-GAAP financial information provides useful information to investors is included under "About our Non-GAAP Net Income and Adjustments" after the tables below.

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.

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", "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 anticipated healthy and strong demand, growth prospects, expected product launches and new updates, market positioning, potential of new technology platforms, effect of anti-counterfeit manufacturing processes, short and long term opportunities, revenues, GAAP diluted EPS and non-GAAP diluted EPS forecasts for the Company's fiscal quarter ending December 31, 2013, 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 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 Ubiquiti Networks' Investor Relations website at www.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 in this press release. You should review our SEC filings carefully and with the understanding that our actual future results may be materially different from what we expect.