



Ubiquiti Networks Second Quarter 2014 Financial Results

CEO Commentary – Robert Pera

As the company continues to demonstrate the disruptive power of our business model, we are focused on additional R&D investments along with executing our world network vision that we believe will sustain our long-term growth plans.

CFO Commentary – Craig Foster

Ubiquiti continues to evolve at an incredible speed and our Q2 results are a direct reflection of our heads down approach to efficiently transferring technology innovation to the end customer. During the quarter we had a few key investments that we believe will serve as a foundation for our growth plans:

- Hired Engineering Talent – increased our R&D headcount by 17% to accelerate our development release cycles.
- Built Out Inventory – increased our inventory to lower lead times to distributors, which in turn provides more stability in the channel.
- Launched Ubiquiti World Network – a structure for building awareness and a more unified experience in our end markets.

Ubiquiti's unique business model has substantial validation in our Q2 records in revenue and earnings per share.

We produced 30.8% non-GAAP net income margin, demonstrating that increased scale drives profitability in our business. Our channel continues to be healthy, and our days sales outstanding ended (DSOs) at 24 days, a slight improvement from last quarter.

Our focus continues to be on growth, and we have aggressive plans in place expected to achieve those goals while continuing to deliver world class products at a disruptive price. We will continue to make calculated investments in the business, which we anticipate will translate into rapid and sustainable innovation over the long term.

First Quarter Results

Fiscal second quarter 2014 revenues were up 6.7% from the prior quarter, and up 85% over the same period in the prior year.



Revenue by Product Category

This is the second quarter of our product category realignment. This system better represents how our business is managed and benchmarked internally.

- Service Provider Technology primarily encompasses the airMAX®, airFiber™, EdgeMAX™, embedded radio and antenna product lines. Revenue in this segment was \$111 million, representing 81% of our total Q2 revenues.
- Enterprise Technology primarily encompasses our UniFi™, airVision™ and mFi™ product lines. Revenue in this segment was \$27 million, representing 19% of our Q2 total revenue.

Revenue by Geography

Revenues in EMEA and South America outpaced other regional growth. We are encouraged by the fast adoption of our 802.11ac products – the new Wi-Fi standard – in North America and we expect this to spread to other regions in the near future.

- Our North America Revenues were down slightly this quarter at \$33m or -13%. In Q1 we had a significant sell-in of our new UniFi 802.11ac product line to stock the distributors and the Q2 results reflect the sales post that event.
- In South America, revenues were up 35% sequentially to \$28m. The sequential revenue increase for South America was driven by the continued expansion of AirMax deployments in the region.
- The EMEA region also rose this quarter, with revenues up 11% over last quarter at \$59m, which was primarily driven by the continued expansion of AirMax deployments in the region.
- Lastly, in the Asia-Pacific region, sales were up 2% quarter-over-quarter at \$19m.

Income Statement

We continue to execute on our growth plan. Let me touch on a few highlights.

Starting with gross margins, our non-GAAP gross margins decreased to 44.1% due to changes in sales product mix.

Our non-GAAP operating expenses were 9.1% of revenue, up on a percentage basis from the prior period, primarily due to hiring new engineers.

Our effective GAAP tax rate for the quarter was 10.8%, which reflects our geographic sales mix.



Non-GAAP net income was \$42.6 million, up 3.4% sequentially.

Non-GAAP diluted EPS was \$0.48 compared to \$0.46 last quarter.

Cash Flow

We had another quarter of very healthy cash generation. Cash flow from operations was \$27.6 million and our cash balances increased to \$306 million up from \$280 million in the previous quarter. As we've noted in the past, we expect to continue generating significant free cash flow, with a majority of the cash being generated and held outside the U.S.

Balance Sheet

We continue to improve and enforce our credit policies with favorable results. While we had to tighten up our credit in 2013, we eased it modestly toward the end of the year. At this point we believe that we have found the right balance.

We have seen consistent improvement in our DSOs in the last year. This quarter, DSOs were essentially flat at 24 days. Going forward, however, we continue to believe that the appropriate range for our DSOs is in the low 40s.

Our inventory balance at the end of the quarter was \$32.3 million, up from \$16.4 million in the prior quarter. We deployed resources last quarter specifically to build our inventory, whereas it was a constraint to our business in recent quarters, at this level we believe it is optimized for current business trends.

Outlook

Now let me turn to our business outlook. Based on current business trends, we expect:

- Revenues to be in the range of 138 – 144 million,
- GAAP earnings to be in the range of 0.46 - 0.50 per share, and
- Non-GAAP diluted earnings to be in the range of 0.47 - 0.51 per share.

Conclusion

To conclude our comments, we continue to rapidly grow our business. I'd like to remind investors that in any given quarter there may be ebbs and flows in a specific product category or geography, in addition to seasonal trends. As we look ahead, we believe that we have laid important groundwork for long term growth. These actions include efforts to hire the best-and-brightest engineers to drive future innovation, to reduce the inventory constraints we've experienced in recent quarters, and the formal roll out of our Ubiquiti World Network, which we believe will create powerful network effects to drive our customers' businesses, and in turn our business.



We look forward to speaking to you on our earnings call.



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 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 conference by visiting the Investor Relations section of Ubiquiti Networks' website. <http://www.ubnt.com>.

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 are provided in each of our earnings press releases as well as our quarterly filed financial statements. 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 March 31, 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 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.