



Q1 Fiscal Year 2016 Earnings

Prepared Management Remarks
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Investor Relations Contact:

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

NASDAQ: UBNT



Ubiquiti Networks First Quarter Fiscal 2016 Financial Results

First Quarter Fiscal 2016 Financial Summary

- *Revenues of \$151.4 million*
- *GAAP gross profit of \$73.5 million and non-GAAP gross profit of \$72.7 million*
- *GAAP net income of \$53.8 million and non-GAAP net income of \$45.5 million*
- *GAAP diluted EPS of \$0.61 and non-GAAP diluted EPS of \$0.51*
- *\$47.7 million in net cash provided by operating activities*

Management Commentary

This quarter revenues were \$151.4 million, compared to guidance of \$145 million to \$155 million, while non-GAAP earnings were \$0.51 per diluted share, towards the top of our guidance of \$0.47 – \$0.52 per share.

The Company continues to see significant demand for its broad offering of competitively-priced, proprietary products with outstanding performance to our end customers. This quarter, we saw our Enterprise Technology revenues grow at 19% compared to fiscal Q4 2015. This growth was primarily driven by strong demand for our UniFi® products in North America. We believe the market is in the early stages of transitioning into the new AC standard, and our UniFi AC line of products is well positioned to take advantage of this upgrade cycle given its industry-leading price/performance ratio and unparalleled value to our consumers.

Our Service Provider Technology revenues were relatively flat this quarter, which we attribute to lower than expected airMAX® sales, although strong airFiber® and EdgeMAX® sales partially offset this weakness.

We believe that our quarterly financial results demonstrate our ability to effectively execute on our next generation business that is built for growth and profitability. We continue to have a focused approach to deliver competitively-priced, proprietary products with outstanding performance to our end customers. There are a few key financial and product-related achievements that we would like to highlight:

Recent Financial Highlights

- **Enterprise Technology revenues increased 19% quarter-over-quarter**, fueled by UniFi® access points and other industry-leading products targeting the Enterprise market
- **Completed \$100 million stock repurchase plan as of October 20, 2015**, repurchasing \$63.3 million of common stock during the quarter ended September 30, 2015
- **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 November 5, 2015

Recent Product Highlights

- **Released the new UniFi AC**, four new access points and a redesigned UniFi Controller featuring advanced technology for enterprise, hospitality, and education markets. In conjunction with this release, we launched an Easy App for UniFi setup
- **Achieved backwards compatibility for airMAX[®] AC products** through release of beta version of airOS[®] 8
- **Obtained DFS certifications** for our remaining 802.11n and 802.11ac products, unlocking the full spectrum available to our U.S. WISP operators
- **Launched UniFi Cloud Key**, hybrid cloud device management that securely runs a local instance of the UniFi Controller software and features cloud Single Sign-On for remote access
- **Announced sunMAX[®]**, a solar solution designed to address the obstacles preventing solar deployment on a global scale
- **Introduced enhancements to our recently introduced airFiber[®] X with the airFiber NxN**, a thoughtfully engineered MIMO multiplexer designed for the global last-mile wireless industry. With expected range exceeding 200km+ and increased throughput of up to 2Gbps+, airFiber NxN is a technological leap in true long-range, carrier-class, backhaul technology for the world

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	F1Q16	F4Q15	F1Q15
Revenues	151.4	145.3	150.1
<i>Service Provider Technology</i>	103.4	104.8	107.3
<i>Enterprise Technology</i>	48.0	40.5	42.8
Cost of Revenues	77.9	79.1	89.0
Gross Profit	73.5	66.1	61.0
<i>Gross Profit (%)</i>	48.5%	45.5%	40.7%
Total Operating Expenses (1)	13.7	58.8	17.4
Income from Operations	59.8	7.3	43.6
GAAP Net Income	53.8	4.5	37.7
GAAP EPS (diluted)	0.61	0.05	0.42
Non-GAAP Net Income	45.5	44.1	43.4
Non-GAAP EPS (diluted)	0.51	0.50	0.48

(1) Includes business e-mail compromise ("BEC") fraud loss of \$39.1 million in F4Q15 and recovery of \$8.0 million in F1Q16.

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 \$103.4 million
- Represents 68% of our total fiscal Q1 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 \$48.0 million
- Represents 32% of our total fiscal Q1 2016 revenues

Revenue by Geography (\$, in millions)

Region	F1Q16	F4Q15	F1Q15
North America	53.2	44.3	53.6
South America	22.2	25.9	31.1
Europe, the Middle East and Africa (EMEA)	60.5	56.9	50.6
Asia Pacific	15.5	18.2	14.8
Total	151.4	145.3	150.1

In the first quarter of fiscal 2016, North America revenues showed strength and were up 20% on a sequential basis, representing 35% of total revenue for the quarter. Revenues in this region were positively impacted by a strengthening of relationships with our technology distributors who are accelerating our expansion into the region, particularly the Enterprise market.

While sales to North America were strong for the quarter, our South America and Asia Pacific revenues were lower than expected. We believe the decline in South America revenues was primarily a function of a strong U.S. Dollar and the decline in Asia Pacific revenues was primary due to macro factors beyond our control, such as the recent flooding in India. We do not expect this to be a long-term issue.

Gross Margins

During this quarter, our non-GAAP gross margin was 48.0%, and GAAP gross margin was 48.5%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 44.4% and 40.7%, respectively. Margins for the quarter, which were above expectations and our long-term targets, benefited from changes in product mix. Compared to prior quarters, margins this quarter improved due to timing of reserve adjustments and the capitalization of manufacturing overhead costs. We believe our future margins will fluctuate between 44.0% and 47.0%.

Research and Development

Research and Development ("R&D") expenses were \$12.9 million on a non-GAAP basis, or 8.5% of revenue. These R&D investments will 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 labor costs, 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, as 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 9% to 10% of revenues going forward.

Sales, General and Administrative

Our non-GAAP selling, general and administrative (“SG&A”) expenses for the quarter were \$7.9 million, or 5.2% of revenue. This quarter, SG&A expenses were high 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 452 full-time equivalent employees, up slightly from 435 or 4% in the prior quarter, and up from 400 or 13% in the prior year.

Taxes

Our GAAP effective tax rate for the quarter was 10.0% as compared with 13.4% in the first quarter of fiscal 2015. For long term planning purposes, we assume a target tax rate of 11.5%.

Net Income

GAAP net income for the first quarter of fiscal 2016 was \$53.8 million, or \$0.61 per diluted share, compared with GAAP net income of \$37.7 million, or \$0.42 per diluted share, in the first quarter of fiscal 2015. GAAP net income for the first quarter of fiscal 2016 includes \$8.0 million of BEC recovery. We recorded first quarter of fiscal 2016 non-GAAP net income of \$45.5 million, or \$0.51 per diluted share, compared with non-GAAP net income of \$43.4 million, or \$0.48 per diluted share, in the first quarter of fiscal 2015.

Balance Sheet

Total cash and cash equivalents as of September 30, 2015 were \$436.1 million, compared with \$446.4 million as of June 30, 2015. The slight sequential decrease in cash and cash equivalents during the first quarter of fiscal 2016 is net of \$63.3 million in share repurchases as part of our share repurchase program.

This quarter we saw days sales outstanding in accounts receivable (“DSO”) of 39 days, compared with 41 days in the prior quarter, and 40 days in the first quarter of fiscal 2015.

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 \$30.7 million, which represents approximately 9.2 turns on an annualized basis, compared to 8.0 turns in the prior quarter. We remind investors that as we prepare for the launch of new products we raise our inventory levels to avoid the product stock-outs we have experienced in the past, continue to reduce lead times and “stock our shelves”. As expected, our inventory in the first quarter fiscal 2016 decreased from the prior quarter 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 inventory turns at 7 to 9 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.

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 inflow from operations for the first quarter of fiscal 2016 was \$47.7 million, compared with a net cash inflow of \$46.9 million in the first quarter of fiscal 2015. Capital expenditures for the period were \$1.8 million.

CFO Search Update

As disclosed in the Form 8-K filed on August 6, 2015, the Company entered into an agreement for advisory and interim management services with FTI Consulting, Inc. In connection with this agreement, the Company appointed Mark C. Spragg as Interim Chief Accounting Officer effective August 4, 2015. Effective August 4, 2015 and in connection with the appointment of Mr. Spragg, the Company's principal financial officer and principal accounting officer duties will be performed on an interim basis by Mr. Spragg. The Company is continuing its search for a permanent CFO.

Second Quarter Fiscal 2016 Outlook

The following represents our financial outlook for the second quarter of fiscal 2016.

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$150 - \$160 million in the second quarter of fiscal 2016.

We anticipate GAAP earnings in the range of \$0.48 – \$0.55 per diluted share, and non-GAAP earnings to be in the range of \$0.49 – \$0.56 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 28 million devices sold worldwide, Ubiquiti is transforming under-networked enterprises and communities. Our leading edge platforms, airMAX®, UniFi®, airFiber®, UniFi® Video, mFi® and EdgeMAX®, 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>.

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The Ubiquiti Networks, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=24865>.

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 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 September 30,	
	2015	2014
Net income	\$ 53,759	\$ 37,743
Stock-based compensation:		
Cost of revenues	113	149
Research and development	624	825
Sales, general and administrative	290	398
Purchase commitment termination fee	—	5,500
Business e-mail compromise ("BEC") fraud loss/(recovery)	(8,034)	—
Implementation of overhead capitalization	(944)	—
Tax effect of non-GAAP adjustments	(297)	(1,209)
Non-GAAP net income	\$45,511	\$43,406
Non-GAAP diluted EPS	\$ 0.51	\$ 0.48
Weighted-average shares used in non-GAAP diluted EPS	88,465	89,913

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 September 30, 2015, 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. Copies may also be obtained by contacting the Ubiquiti Networks Investor Relations Department, 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. 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.