



Q2 Fiscal Year 2016 Earnings

Prepared Management Remarks
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NASDAQ: UBNT



Ubiquiti Networks Second Quarter Fiscal 2016 Financial Results

Second Quarter Fiscal 2016 Financial Summary

- *Revenues of \$161.9 million*
- *GAAP gross profit of \$79.0 million and non-GAAP gross profit of \$79.1 million*
- *GAAP net income of \$49.5 million and non-GAAP net income of \$49.7 million*
- *GAAP diluted EPS of \$0.57 and non-GAAP diluted EPS of \$0.58*
- *Cash of \$496.7 million, up 28% year-over-year and 14% sequentially*
- *\$77.3 million in net cash provided by operating activities*

Management Commentary

This quarter revenues were \$161.9 million, slightly above guidance of \$150 million to \$160 million, while non-GAAP earnings were \$0.58 per diluted share, above our guidance of \$0.49 – \$0.56 per share.

We believe that our quarterly financial results are reflective of 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 ongoing global demand for our products.

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 9% compared to the prior quarter. This growth was primarily driven by strong demand for our UniFi® products in North America.

Our Service Provider Technology revenues were up 6% this quarter, which we attribute to strong airMAX® sales, particularly in Asia and EMEA.

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 9% quarter-over-quarter**, fueled by UniFi® AC access points, UniFi Switch and other industry-leading products targeting the Enterprise market.
- **Service Provider Technology revenues increased 6% quarter-over-quarter**, primarily fueled by our airMAX technology platform.
- **Completed \$50 million stock repurchase plan** as of February 3, 2016.

Recent Product Highlights

- **Shipped in volume UniFi AC** access points which feature the latest Wi-Fi 802.11ac technology in a refined industrial design and are ideal for cost-effective deployment of high-performance wireless networks.
- **Released EdgePoint**, an innovative combination of robust routing performance, fiber backhaul capability, and the convenience of passive PoE support.
- **Shipped LiteBeam**, an ultra-lightweight airMAX ac CPE device with incredible range and disruptive pricing.
- **Shipped UniFi Cloud Key**, a hybrid cloud device manager that securely runs a local instance of the UniFi Controller software and features cloud Single Sign-On for remote access.

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	F2Q16	F1Q16	F2Q15
Revenues	161.9	151.4	153.1
<i>Service Provider Technology</i>	<i>109.6</i>	<i>103.4</i>	<i>99.7</i>
<i>Enterprise Technology</i>	<i>52.3</i>	<i>48.0</i>	<i>53.4</i>
Cost of Revenues	82.8	77.9	84.1
Gross Profit	79.0	73.5	69.0
<i>Gross Profit (%)</i>	<i>48.8%</i>	<i>48.5%</i>	<i>45.1%</i>
Total Operating Expenses(1)	22.6	13.7	18.3
Income from Operations	56.4	59.8	50.7
GAAP Net Income	49.5	53.8	46.3
GAAP EPS (diluted)	0.57	0.61	0.52
Non-GAAP Net Income	49.7	45.5	47.1
Non-GAAP EPS (diluted)	0.58	0.51	0.53

(1) Includes business e-mail compromise ("BEC") fraud loss recoveries of \$8.0 million and \$257 thousand in F1Q16 and F2Q16, respectively.

Service Provider Technology

- The Service Provider Technology product category encompasses the airMAX, airFiber and EdgeMAX embedded radio and antenna product lines
- Revenues of \$109.6 million
- Represents 67.7% of our total fiscal Q2 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 \$52.3 million
- Represents 32.3% of our total fiscal Q2 2016 revenues

Revenue by Geography (\$, in millions)

Region	F2Q16	F1Q16	F2Q15
North America	57.1	53.2	54.1
South America	23.8	22.2	22.2
Europe, the Middle East and Africa (EMEA)	61.0	60.5	60.1
Asia Pacific	<u>20.0</u>	<u>15.5</u>	<u>16.7</u>
Total	161.9	151.4	153.1

In the second quarter of fiscal 2016, Asia revenues showed strength and were up 29% on a sequential basis, representing 12% of total revenue for the quarter. This quarter, Asia revenues rebounded after the prior quarter's revenues were negatively impacted by an interruption in shipments due to flooding in India.

Sales to North America and South America were strong for the quarter, both up by 7% on a sequential basis, representing 35% and 15% of total revenue, respectively, for the quarter. Revenues in this region were driven by increased demand for Enterprise products.

Gross Margins

During this quarter, our non-GAAP gross margin was 48.9%, and GAAP gross margin was 48.8%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 45.2% and 45.1%, respectively. Our improved gross margins are primarily the result of cost-reduction strategies combined with stable product pricing. Margins for the second fiscal quarter of 2016, which were above expectations and our long-term targets, also benefited from a lower inventory impairment charge. We believe our future margins will fluctuate between 45.0% and 48.0%.

Research and Development

Research and Development ("R&D") expenses were \$14.8 million on a non-GAAP basis, or 9.2% of revenue compared to R&D expenses of \$12.9 million in the prior quarter. This increase is primarily due to a \$2.5 million impairment charge for capitalized software development costs recorded in the quarter related to the cancellation of the commercial launch of certain software in development.

Our 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. 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 \$7.2 million, or 4.4% of revenue. This quarter total SG&A expenses remained slightly 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 470 full-time equivalent employees, up from 452 or 4% in the prior quarter, and up from 418 or 12% in the prior year.

Taxes

Our GAAP effective tax rate for the quarter was 11% as compared with 9% in the first quarter of fiscal 2016. For long term planning purposes, we assume a target tax rate of 11.5%.

Net Income

GAAP net income for the second quarter of fiscal 2016 was \$49.5 million, or \$0.57 per diluted share, compared with GAAP net income of \$46.3 million, or \$0.52 per diluted share, in the second quarter of fiscal 2015. GAAP net income for the second quarter of fiscal 2016 includes \$257 thousand of BEC recovery. We recorded second quarter of fiscal 2016 non-GAAP net income of \$49.7 million, or \$0.58 per diluted share, compared with non-GAAP net income of \$47.1 million, or \$0.53 per diluted share, in the second quarter of fiscal 2015.

Balance Sheet

Total cash and cash equivalents as of December 31, 2015 were \$496.7 million, compared with \$436.1 million as of September 30, 2015. We held \$476.9 million of our \$496.7 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States.

The sequential increase in cash and cash equivalents during the second quarter of fiscal 2016 is net of \$36.7 million in share repurchases as part of our \$100 million share repurchase program which has been extinguished, partially offset by draws of \$33 million on our revolver. Effective November 6, 2015, the Board of Directors of the Company approved a \$50 million stock repurchase program. The full \$50 million common stock repurchase program was completed subsequent to the close of second quarter of fiscal 2016.

This quarter we saw days sales outstanding in accounts receivable ("DSO") of 37 days, compared with 39 days in the prior quarter, and 44 days in the second 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 \$33.1 million, which represents approximately 10.3 turns on an annualized basis, compared to 9.2 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". 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 second quarter of fiscal 2016 was \$77.3 million, compared with a net cash inflow of \$32.7 million in the second quarter of fiscal 2015. Capital expenditures for the period were \$1.19 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.

Third Quarter Fiscal 2016 Outlook

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

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$160 - \$170 million in the third quarter of fiscal 2016.

We anticipate GAAP earnings in the range of \$0.52 – \$0.59 per diluted share, and non-GAAP earnings to be in the range of \$0.53 – \$0.60 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 34 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>. 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.

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

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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 December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Net income	\$ 49,452	\$ 46,265	\$ 103,211	\$ 84,008
Stock-based compensation:				
Cost of revenues	114	150	227	299
Research and development	580	864	1,204	1,689
Sales, general and administrative	263	417	553	815
Purchase commitment termination fee	—	—	—	5,500
Business e-mail compromise ("BEC") fraud loss/(recovery)	(257)	—	(8,291)	—
Implementation of overhead capitalization	(50)	—	(994)	—
Tax effect of non-GAAP adjustments	(377)	(572)	(674)	(1,781)
Total Non-GAAP adjustments	\$273	\$859	(\$7,975)	\$6,522
Non-GAAP net income	\$ 49,725	\$ 47,124	\$ 95,236	\$ 90,530
Non-GAAP diluted EPS	\$ 0.58	\$ 0.53	\$ 1.09	\$ 1.01
Weighted-average shares used in non-GAAP diluted EPS	86,091	89,737	87,285	89,838

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 December 31, 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.