

Company: Ubiquiti Networks, Inc.
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Participant: Robert Pera - Chief Executive Officer and Director
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Interviewer

Let me go ahead and get started. Welcome everyone. My name is Sanjit Singh, analyst for Wedbush Securities. Today, we're very happy to have the CEO of Ubiquiti, Robert Pera. He's going to join us for the next 30 minutes.

We're just going to work -- we are going to have a discussion, mostly focused on transformational technologies. We will leave some time at the end for some Q&A. But, the first thing I would like to do is just for Robert to give us a brief introduction, Ubiquiti. Now, what do you guys do, what markets do you target, and then your little bit of history. Go ahead, Robert.

Robert Pera

Sure. So, I guess the simplest way to explain Ubiquiti is we connect people who aren't connected, which is most of the world. And we connect them at incredibly fast speeds, and in some spaces we even -- they connect it at even faster speeds. And if you looked at the last couple of years, we've shipped over 10 million devices. There are billion dollars of historical revenue, and we've done this without any sales people, without any operational investment truly. And so the way we do it is interesting is what we do. And we don't sell the carriers. What we've done is we've enabled entrepreneurial operators around the world, and there's tens of thousands of these entrepreneurial operators. And the way we've enabled them is we removed the technical and economic barriers to becoming a carrier. Our equipment essentially is plug and play broadband infrastructure at disruptive economics almost anyone can afford.

And -- so I guess the question is how do we that. And I can take you back maybe, in my current history, I started off as a hardware engineer at Apple before starting Ubiquiti and this is in 2003. I mean, that was stock prices, \$7 split in just a dozen -- my options is kind of funny. And I remember being in a team of about -- I worked on the wi-fi airport based station, and my team, Harvard team was almost 30 guys. And I'd walked into project meetings after project meeting everyday. And out of this huge team, there was only one or two goal getters that really were the value creators. And when I start at Ubiquiti, I said to myself, "Well, I am going to do things differently. I am going to assemble RNG teams of engineering superstars, and I'm going to get these top one percent or two percent people and I'm going build R&Ds exclusively of these people. And I think kind of the results show before themselves. So Ubiquiti was unique as we have incredible efficiency. We have multi-million dollars per employee. At one point earlier, we're over a million dollars net income per employee. And what we're great at is, we're great at looking at inefficiencies in technology and providing a great complete software and hardware, complete solutions with great user experience.

Interviewer

Thanks, Robert.

Before we start our discussion on transformational technologies, just want to ask you about a recent news event. You hired a brand new CFO, Craig Foster. And just wanted to ask you, you know, why would you and the board decided to bring Craig on, what skills are you going to bring in the team, and given his, you know, impressive banking background, that maybe signal more of the willingness to look at M&A as a growth strategy?

Robert Pera

Sure. So the CFO search was quite long. It was several months. I looked at over a dozen of candidates. Many interesting candidates, many very, very experienced, well-respected, public company CFOs wanted this position. I chose Craig, at the end of the day, because, well, from the accounting perspective, he's competent. He has experiences auditing in Price Waterhouse Coppers and he's very familiar with the roles and responsibilities of the position. But, the real reason I chose Craig is, I think, the Ubiquiti story about who we are and what makes us special and the potential of the company, hasn't really been correctly messaged to the public markets. And Craig is somebody that knows the company just as well as maybe any of the insiders do. He was part of the banking team on IPO, and he told me that he really understands the technology, instantly kind of grasp who we are and can explain it very well. And I think, this is really a long-term decision. And I think, as Ubiquiti grows in the future, I think he is very good in that position, messaging to Wallstreet about who we are and what we do.

Interviewer

Thanks for the update. So start off our conversation on transformational technologies, the book defines this dilemma as construction of the situation where the incumbent in the market finds it impossible to respond to a disruptive product with disruptive business model. In general, what areas of the market are right for disruption where -- are currently being disrupted?

Robert Pera

Okay. So, maybe I'll go back to our first real success at Ubiquiti which is our AirMax product line. So AirMax is a full wireless broadband infrastructure replacement and it operates in unlicensed vents. It could scale to thousands of subscribers, very powerful. And when we look at this market and we released AirMax in 2009, it was disruptive on a few different levels. From the technology perspective, it was disruptive. It was based on, at that time, 802.11N silicon. And the new 802.11N standard incorporated news signal processing called MIMO, multiple input, multiple output. And, at that time, instead of the Wi-Fi industry, it was kind of commonly understood that technology only had benefit indoors. You needed what they call multipath, and it would not work outdoors. What Ubiquiti did is we firmly believe it would work outdoors and we started on a very cool kind of dual polarity directional MIMO directional array antennas portfolio.

So we grouped 802.11N with our antenna and technology, and then we brought this AirMax around TDMA software protocol. So we did three things that were very advanced in the market.

And I think there's a – Wayne Gretzky quote “you go to the -- where the puck skating not where it's been”. So we were looking two or three years in the future when we put in all our R&D efforts for those couple of years, and it paid off. When we launched AirMax in late 2009, it's more advance than anything on the market. It had speed many times faster than I think on the market capacity, scalability, our software was incredible, so we just up it in terms of leading a technology.

Now, the second thing we did was we priced it disruptively. And when we launched AirMax, it completely sold out where our back quartered is incredibly popular. And I took a lot of criticism for pricing it too low. And people would say, "You could sell this two times or three times and you could, you know, it still sell. You're leaving profits on the table. Why are you doing this?" And I would argue with them, I would say, "We're purposely leaving money on the table. We want to shake up this industry. We want to create something where people cannot believe it's too good to be true." and then they start spreading the word.

So if you look at, you know, something like religion is a very powerful thing because inside the Catholic religion is just kind of responsibility for people to spread the word and talk about and get other people to join. And that's what we created with Ubiquiti. We have such disruptive economics that was too good to be true, that it created this kind of fanatical community where everybody started spreading the word and that's how we got these rapid operators to -- the rapid adoption of operators. And that's really how we shipped 10 million devices -- subscribers and AirMax than possibly is without a single sales person.

I'll get to -- yes. So that's one example. Now, looking at other markets that are right for disruption. I know Aruba and -- was here at this conference, that was on the list, so the Wi-Fi enterprise phase is very hot right now. So you have -- you know, Cisco is number one. It's over \$1 billion a year. You have Aruba that's posed a very good quarters. I think they had \$160 million revenue quarter. You have companies like Ruckus coming up. You have the Aero High that's going to be IPO soon. You have Meraki getting acquired. So this is a very hot fit. But there's a couple of interesting things in this space that's going on. The first thing is, if you look at the market 10 or 15 years ago, something like Cisco was in the leadership position, they really built all their technology in house. They build their own A6, they did all their low level software and built their own drivers, and there was a lot of engineering involved. And if you stop for today, a lot of the technology is being shifted from the systems vendors to the chips vendors. So now at Ferros, Broadcom, Marvell, these guys really are developing a technology, and almost giving a turnkey.

Very analogous maybe to the Android and a smartphone where anybody can make mobile phones today. And that's topping in a non-working space. So we can make -- we have our own Wi-Fi enterprise called Unified, and we could make and sell unified, an AP at \$50, that is equivalent in performance to something like Cisco that's -- maybe well over \$1,000. And we do that -- we're able to do that because we're leveraging the same building -- technology building blocks. The technology building blocks, blocks are getting kind of commoditized. And so now it's shifting to the use experience, the management software capabilities and those types of things, but they don't want a huge markup, right? And at the same time, a lot of events now working equipment vendors, it's in their best interest to make the solutions very complex. The

more complex it is, they could have training certifications, value-added resellers. They could have, you know, a Cisco certification network. You know, companies have to hire these 150,000 IT people. What Ubiquiti is doing is we're slamming on the prices but we're also focusing on the user experience. We want anyone to be able to deploy our equipment.

So the way I look at, you know, this enterprise Wi-Fi space today, is you have a company like a Cisco, who is cost of their hardware is the same as us. But the difference is, they're selling to a distributor who's selling to a value-added reseller, who -- and they haven't switch up incredibly complex, they have a training network, and all these people are taking cuts, right? Then Cisco has to support their 50 points of SG &A, and so they have these huge markups.

So, traditional business is based on getting as many people involved and many partners involved, using symmetries and the information to maximize profit from a customer. What Ubiquiti is doing is we're embracing transparency and we're trying to maximize customer value.

So, start for the long winded answer, but this kind of concept we applied in AirMax after Broadband's phase, we're pointing it right now in the enterprise's Wi-Fi space, we're going to apply it -- we're applying it again in the IP video surveillance phase, in their routing and switching phase, and the machine to machine communications basis, there's a lot of ways we can take our strategy.

Interviewer

To follow on to your comments, it's a two-part question on AirMax, there was the kind of thing - - as you took a little bit of hit to sales there, how much progress have you made, what _____ [00:13:31] are we in terms of getting AirMax back to kind of the historical revenue levels? And then, to follow on you, we're just talking about, we have six platforms currently, and probably a seventh one coming, which of these new platforms represents Ubiquiti's biggest opportunity? Maybe you can kind of rank order from the most promising to least promising.

Robert Pera

The counterfeit situation we're making great progress on. We hired a GC last year that has a terrific skill set at the type of response. She's built a team, an internal legal team. We have litigation going on on multiple continents. We have bad guys in prison facing criminal trials. And we've seen by all indications that the counterfeit activity has definitely declined. But, the positive I want to take out of this which is I'm not just saying, it is actually a really good positive, is Ubiquiti's kind of, you know, point in our history right now, we shipped 10 million plus devices, and under the -- in vision of shipping hundreds and millions and, ultimately, a billion plus devices, and to have this from happening at this stage in our flow is actually kind of a blessing in disguise. It's forced us to very -- take very serious efforts in inside counterfeit manufacturing technology which we've implemented across all our products. It's forced us to be much more aggressive in our IP strategy, and we filed dozens of trademarks and patents over the past several months. And so, it was a wake-up call, and I'm glad it happened relatively early on.

Interviewer

One of the -- well, thesis's out there by investors is, in the outdoor broadband market, there's a proliferation of small cell technologies, Wi-Fi, and the idea here is that, you know, maybe it's kind of easier for somebody's underserved markets to -- for the traditional _____ [00:15:48] to serve those underserved markets. Given your -- you saw, a sizable concentration internet search by the market, does that market come under more competition, you know, how -- what about imply in terms of the growth opportunities for Ubiquiti?

Robert Pera

In the unlicensed vents, we have hundreds of megahertz spectrum. We have spectrum at 902.4. We have lots of spectrum at 5 gigahertz. So we have unlicensed micro hertz spectrum at 24 gigahertz. There's a lot of spectrum and capacity is really related to how much spectrum you have.

The license vents, that license spectrum is very expensive and the carriers pay billions of dollars for small blocks of spectrum. And, moving -- if you look at our Air Fiber and AirMax technologies, it's really their backbone technologies and their primary internet connection technologies. We can serve customers who are downloading terabytes of information, who are stringing videos and playing games and doing all great kinds of advanced applications. So I don't think -- I don't see the mobile networks in LTE as competing technologies. I see LTE and mobile connectivity as the secondary technology, and I think offices and schools and homes will always have their primary technology.

So I look at AirMax and Air Fiber really as a kind of a fiber home replacement for areas where it's not possible to deploy cable infrastructure which is a big part at work. And -- sorry, what was the second part?

Interviewer

No, I think that was -- that address it.

Ubiquiti is looking to adjacent markets that you've mentioned at a price Wi-Fi and machine to machine communications market. Going back to the business model, how -- the industry build the world's greatest products and you're going into new markets where you traditionally haven't had a presence. How are those customers supposed to hear about this project if you're using the sales force light or zero sales force model? Exactly how would you build awareness? Is it purely by the pricing or is it, you know, how are you going to get into the --

Robert Pera

I'll throw some numbers at you. Ten million devices in the past four years, \$1 billion historical revenue, top 20,000 website in the world, 50,000 unique visitors to our site a day. So, I would say, in the kind of the Wall Street marketing, sales world, Ubiquiti is relatively unknown. If you go to the inners of Brazil or South Africa, Ubiquiti is just a bigger name of Cisco in those areas. So I think we have reached a big part of the world.

I think the challenge that we have moving forward, we don't sell the carries, right? And -- so if you look at a company like Ruckus and maybe they have a lot of their business concentrated in a few carries, a few big customers. With Ubiquiti, we have tens of thousands of entrepreneur operators around the world, and a lot of these operators, they are able to deploy and set up possible networks because we removed the economic and technical barriers to entry, but they don't have the same kind of marketing resources and financial resources to be carried. So I think the challenge for us will incredibly dominate in this -- in our industry, but the challenge is how do we bring awareness to all these entrepreneur operators, and I think we can do that than, you know, the market for AirMax can grow multiples.

Interviewer

Any initial thoughts on how you build awareness?

Robert Pera

Yeah. We're working on some things here.

Interviewer

We have about 10 minutes left. Let me just look at the audience to see if there's any questions. And then I'll just move the microphone back and forth if you don't mind.

Questioner

Hi. So you mentioned before, you know, religious co and how that's kind of necessary given a different type of distribution model that you guys have, a go-to-market model. So if you look at Flyec, Streakwave, they almost are religious in some ways about selling Ubiquiti products. Where does that come from? Because, you know, I'm talking to -- for our distributor so you don't really see that type of zeal when talking to them because the adrenaline making such thin margins. And a lot of it is because anyone given supplier is just a small percentage of the overall revenue. So where do you think that's coming from, from a Streakwave or a Flytec follow?

Robert Pera

So, to get some background, Streakwave is a big distributor in the United States, Flytec is a big distributor for our Brazil market. And I would say our products are never been -- aren't sold. People don't sell our products. We make solutions so compelling that they are pulled. And the distributors have done a good job of facilitating our products getting out to the operators, but we are not dependent, in any way, on the distributors' ability to sell our products. I firmly believe the solutions we make sell themselves.

Questioner

You know, I guess this is in accordance of hiring a new CFO yesterday. _____ [00:22:08] there's been a lot of -- there's been credibility issues surrounding your company, whether it's management turnover or different things that have come out, different short reports. How do you guys address that? What's the best way to address that? Do you think it's just proving consistent sustainable results over time generating free cash flows? If you do that, then anyone can throw whatever they want at you, you're putting up -- you're generating that type of free cash flow, so anyone can walk away, unless you have a negative story on the cover that's generating a lot of cash. Is that the right way to kind of address those issues or things that you're -- he's doing or considering?

Robert Pera

I think how I run the company, I would say -- I'll take a long-term approach. So the thing that I'm most concerned about was, did the R&D teams, did they -- are they happy? Do they believe in division? Are we recruiting, you know, the proper R&D talent. The customers, right? What did the customers think of our direction? Are they happy? And then, the new products and the new markets, how do we grow this thing from a few hundred million to several billion dollars in revenue? And I think, if we execute on those areas, then, hopefully, you know, the credibility takes care of itself. So I think we have some unfortunate challenges the past year, but I don't think the long-term story or the long-term integrity that accompany has been an impact in any way, and I think over the next few quarters, you will see that's a true statement.

Questioner

Sorry, just have one last one. You know, one thing I have to say the credibility measures what a large holder at the company does with their own stock and, to my knowledge, you have not sold any of your stock. You know, that was -- is that when it was down to 12 or 13 dollars, there's an opportunity for you to potentially buy more?

Robert Pera

I could, but the thing is when you have \$57 million shares, there's a difference between 57 and 57 million, a couple of hundred thousand. So -- but if it does get lower, you know, the chances of me jumping in are going to increase.

Interviewer

So, continuing on our conversation, with the new CFO hire, with your current growth strategy, what if any bolt-on or tuck-in technologies will make sense for Ubiquiti to get involved with?

Robert Pera

We're always looking, and I'm always looking for companies that possibly acquire. But, we've never made an acquisition officially, but if you look at Ubiquiti's growth, it is kind of fueled by talent acquisitions. An example of that is the Air Fiber group out in Chicago. Those guys were the kind of the founding fathers of the Motorola Canopy business, and we were able to recruit

them out, and we reapplied them to a new market which became the Air Fiber solution. And there's a few other instances of that in Ubiquiti.

I think our biggest strength is we're good at finding great talent, and then, applying them on when they create solutions. And I think as we go forward, I'm constantly looking for talent acquisitions.

Interviewer

As it relates to your new product roll out strategy, historically, that's been taken a very methodical, slow approach. You've told the sale-side analyst that, you know, this may take a couple of quarters on any given platform, Air Fiber, being the recent one. Are any, you know, how would you assess the new product _____ [00:26:39]? Are you changing anything that it's still kind of a, you know, a slower _____ [00:26:44] that hopefully runs over time?

Robert Pera

I have a couple of terms that I use for product development strategies or Go-To-Market strategies. And I say, one strategy is a reactive strategy. The other strategy is a predicted strategy. So, if you're an absolute master in a market, you know it inside out, you've dealt with R&D teams developing products for this market, then you could have a predicted strategy, like Apple, right? They put hundreds and millions of dollars into a development. They build hundreds of millions of dollars in the inventory, and then, boom, they shift in and release it to market. And they're able to do that because they are absolute masters that use their experience. They have great proven talent executing on the product development, and so they're able to go with that predictive kind of development strategy. Now, Ubiquiti, we were based on a reactive strategy. By reactive, I mean, we get something to market quick that's usually quite good in concept, and then, we go to iterations with the customer to refine and perfect it. And if you look at AirMax, that was actually a third generation product. And if you look at Unified, Unified has just turned the corner, it's in our second generation. If you look at Air Vision which was entirely new, that's just entering its second generation. So, I think we do take—we're entering a completely new market, we will take a reactive approach. That's what I believe is the best way to go.

Now, if we're experts in the market, we have to get a predictive approach before, that was the Air Fiber strategy. So, Air Fiber, we got the Motorola Canopy teams that were complete experts in designing radios from the ground up. We defined a product, and we knew the market quite well, and so we were able to nail it on the first try and have a hit. But, entering new markets, that's tuff to do and until you, you get your feet wet and you learn both on the R&D side and on the market -- the customer side.

Interviewer

We have about a little over a minute left, so this will be my final question. It's a two-part question. The six new platforms currently, I think there's a seventh one that's supposed to be rolled out. Can you give us an update on that seventh platform in terms of timing, and then, you

know, could you give investors a sense of where do you see Ubiquiti in the next three years in terms of product's, you know, markets and maybe sales as well?

Robert Pera

I can't give an update on the specific seventh platform, but, we have kind of like an R&D incubator at Ubiquiti. So we have tons of stuff, and I think you'll see exciting things in the next two or three years. What's the second part?

Interviewer

Yeah, like, how -- where does Ubiquiti, you know, two or three years from now? What markets will you be in? What geographies are going to be your biggest geography? What products are going to be your biggest product? You can kind of answer in any way you'd like.

Robert Pera

So my vision is for Ubiquiti to become the de facto brand for events networking technology, whether it's outdoor like broadband, scalable Wi-Fi systems, routing and switching, machine to machine networking, video surveillance and others that are coming up too. And we're at \$10 million devices today, I want us to become the household kind of de facto brand that people trust like at Cisco, and I want to approach hundreds and millions of devices and be a big networking company. That's my dream.

Interviewer

I appreciate. Thanks, Robert.

Robert Pera

Bye.