



Ubiquiti Networks Fourth Quarter 2013 Financial Results

CEO Commentary – Robert Pera

Welcome to our fiscal 2013 Q4 earnings commentary. I believe the numbers show that we are at a very positive inflection point where we have addressed infrastructure weaknesses and are now returning to aggressive growth. But this time we are doing so with far more discipline as evident by our logistics strategy, integrating an inventory hub with lower lead times, our accounts receivable discipline producing a 32 days sales outstanding figure and our IP strategy which has largely confined brand counterfeit activity.

Both our carrier technology led by airMAX and our enterprise technology led by UniFi are experiencing significant growth. To put this growth in perspective, Gartner has recently ranked UniFi as the fourth largest enterprise AP volume platform and our goal is to be first by end of next year.

Ubiquiti is not a product commodity company like those whose products are found in consumer outlets, nor are we a project-based company like those who simply bid on carrier networks and campus deployments. What we are is a disruptive technology platform company that brings unparalleled technology value and performance to those areas of the world with a large presence of social inequality. We have rallied a diverse group of entrepreneurs around the globe that are passionate about our company and have built profitable businesses applying our technology to address social inequalities and improving lives. We have used the power of the internet and information transparency to further remove inefficiencies which destroy value and as a result have created a very scalable business, largely without the need for sales and middlemen relationships.

We believe our disruptive technology and overall business model will continue to generate public market-leading profitability fundamentals.

I'll turn things over to our Chief Financial Officer, Craig Foster.



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CFO Commentary – Craig Foster

Alright, thanks Robert.

I want to spend a few minutes reflecting on what was the final quarter of our 2013 fiscal year. We recorded our third consecutive quarter of sequential double digit revenue growth and broke a number of Ubiquiti financial records in the process, one of which was our first \$100 million revenue quarter. We've stayed true to the core fundamentals of our business, performance-based engineering, operational efficiency and engaged community, to drive a differentiated business model that translates into the financial results you see today. It was only a year ago we were confronting major operational challenges, but we've quickly rebounded and we have surpassed the financial metrics which we achieved prior to our counterfeiting problem. Going forward we have shifted our focus to growth.

Our quarter is highlighted by achieving record levels in:

- Revenue
- Earnings
- and Cash Flow

All product categories were up sequentially. Similarly, most geographic categories were up by double digit percentages. North America led the way, by being up 49% on a sequential basis. We produced 28% and 29% net income margins on a GAAP and non-GAAP basis respectively, which is a testament to the leverage of our efficient business model. Equally important is our channel continues to be very healthy and our days sales outstanding ended at 32 days which is also a record for the Company.

Fourth Quarter Results

Moving onto our results for the fourth quarter - revenues were up 22% from the prior quarter. We saw unprecedented demand as our service provider customers continue to build out WISP infrastructure using our AirMax and antenna product lines and our enterprise customers build out their wireless LAN strategies.

Looking at revenue by category, airMAX was up 19% for the quarter and represents 65% of our total revenues.

Our new platforms category revenue was up 23% sequentially and represented about 14% of revenue for the quarter. As it did in prior quarters, our UniFi wireless LAN product makes up a majority of this category's revenue.

Other systems, which primarily consists of non-airMAX outdoor wireless products were up 33% sequentially, but as we mentioned in prior earnings calls we anticipate that this product category



will continue to decline as a percentage of revenues, as customers continue to transition to our airMAX product line.

We also expect revenues for the legacy embedded radio category to decline on absolute terms as we move forward, especially from this quarter's \$1.9 million.

Moving into our last category, antennas and other, revenue in this category was up 31% sequentially. Revenues in this category are largely driven by the build-out of infrastructure for the WISP markets around the world.

Revenue by Geography

Moving to revenue by geography, last quarter we noted that management was very focused on continued improvements to our operations infrastructure and I believe that we are beginning to see some of the results. We have been working closely with our distributors to better manage and balance inventory levels on a regional level as well as gain better visibility into their individual operational inventory management and forecasting systems.

Our North American revenues showed significant strength and were up 49% on a sequential basis and represented approximately 31% of total revenue for the quarter. We saw high demand across all segments, but especially in airMAX and UniFi.

In South America, revenues were up 8% sequentially. The sequential revenue increase for South America was driven by wireless infrastructure build-outs and growth in Antenna and UniFi product lines. The South America region represented about 20% of revenues for the quarter.

The EMEA region also rose this quarter with revenues up 18% over last quarter. The region saw strong demand for our wireless backhaul product, AirFiber and strong increases in Antenna and airMAX sales. EMEA represented about 37% of revenues for the quarter.

Lastly, in the Asia-Pacific region, sales were up 7% quarter-over-quarter with increased demand in UniFi and airMAX products. This represented 13% of the quarter's revenues.

Income Statement

Moving onto margins, our business model is architected for capital efficiency and scalability and this quarter we saw some margin improvements which demonstrated some of our leverage points. Starting with gross margins, our non-GAAP gross margins increased to 44% which is due to a combination of volume efficiencies and product mix sales. Looking at the expense line, our non-GAAP operating expenses were down 11% on a sequential basis. The decrease is primarily due to a reduction in our outside legal expenses from our counterfeiting litigation.

Our effective GAAP tax rate for the fiscal year was 12.3%, which is a reflection of a vast majority of our sales being outside the U.S.



Balance Sheet

Turning to the balance sheet, we had another quarter of very healthy cash generation. Cash flows from operations were \$47 million and our cash balances increased to \$228 million for the quarter. 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.

We also continue to optimize and enforce our credit policies and I think the results show that our strategy is working. We saw another improvement in our DSOs for the quarter. For the fourth quarter, we achieved record DSOs of 32 days, a continued improvement from the 42 days from the prior quarter.

Our net inventory balances were \$15.9 million, down from \$19.4 million in the prior quarter. This decrease was related to the high demand for our products which depleted some of our buffer inventory stock.

Corporate Actions

Moving on to corporate actions, in June we completed a secondary equity offering of approximately 7 million shares, not including the green shoe. The Company did not sell any primary shares and therefore did not dilute any shareholders, but we did feel that it was a critical step in helping to increase the available float of our stock.

We also did not repurchase any additional shares during the quarter and we still have approximately 45.6 million of our authorized available for further repurchases.

Outlook

Lastly, I would like to talk about our guidance and our outlook for the next quarter. We are continuing to make improvements by increasing manufacturing and distribution capacity to meet our demand. We expect revenues to be in the range of \$116 million to \$122 million, GAAP earnings in the range of \$0.37 to \$0.40 per share and non-GAAP diluted earnings in the range of \$0.38 to \$0.41 per share.

We are hosting a Q&A call with the investment community starting at 2:00pm 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. PDT today. In lieu of prepared remarks, the company has provided an audio file and a transcript of management's prepared remarks 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) and provide the passcode 21115178. 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>



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. In addition, our non-GAAP adjustments present shares of Series A preferred stock as if these shares had been converted to common stock throughout the periods presented. Reconciliations of the adjustments to GAAP results for the three and twelve months ended June 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", "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 September 30, 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, 2012 and in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2012, December 31, 2012 and March 31, 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 investor.relations@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.