



Q1 Fiscal Year 2017 Earnings

Prepared Management Remarks
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NASDAQ: UBNT



Ubiquiti Networks Preliminary First Quarter Fiscal 2017 Financial Results

First Quarter Fiscal 2017 Financial Summary

- *Revenues of \$204.8 million*
- *GAAP gross profit of \$98.3 million and non-GAAP gross profit of \$98.4 million*
- *GAAP net income of \$71.8 million and non-GAAP net income of \$65.5 million*
- *GAAP diluted EPS of \$0.86 and non-GAAP diluted EPS of \$0.79*
- *Cash of \$573.6 million, up 32% year-over-year*

Management Commentary

We are pleased to announce another record quarter for Ubiquiti Networks. Revenues were \$204.8 million, above our guidance of \$180 million to \$190 million, while non-GAAP earnings were \$0.79 per diluted share, above our guidance of \$0.68 – \$0.74 per share.

We believe that our quarterly financial results reflect 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 global demand for our products. This quarter, total revenues grew 35% year-over-year and 10% sequentially. Our Enterprise Technology revenues were up 75% year-over-year and 10% sequentially, which we primarily attribute to strong demand for the UniFi product family on a global basis. Our Service Provider Technology revenues were up 17% year-over-year and 11% sequentially.

We remain focused on execution as we continue to grow our business. We are making substantial investments in R&D, inventory and operations that we believe will help us expand our addressable market and maintain our industry leading financial metrics.

There are a few key financial and product-related achievements that we would like to highlight:

Recent Financial Highlights

- **Revenues increased 35% year-over-year and 10% sequentially**, as a result of strong demand worldwide across all of our product lines.
- **Enterprise Technology revenues increased 75% year-over-year and 10% sequentially**, fueled by the UniFi product family and other industry-leading products targeting the Enterprise market.
- **Service Provider Technology revenues increased 17% year-over-year and 11% sequentially**, fueled by the airMAX product family and EdgeMAX product lines.
- **Non-GAAP diluted EPS increased 55% year-over-year and 14% sequentially**, demonstrating the continued scalability of Ubiquiti's unique business model.

Recent Product Highlights

- **Announced a retail partnership with Amazon**, focusing on our popular AmpliFi HD router and AmpliFi Mesh Points from Ubiquiti Labs.
- **Experienced strong demand for our UniFi Switch products**, and an expansion of this product line to include new UniFi Switch 24-Port and 48-Port models.
- **Launched UniFi Mesh technology**, a powerful multi-hop, self-healing mesh product line that expands the application of UniFi's industry leading software-defined-networking platform into wide-area Wi-Fi deployments.
- **Announced EdgePower**, which provides reliable DC power to the EdgePoint EP-R8 and EP-S16 devices and their attached PoE devices.
- **Experienced strong demand for our UniFi Video products**, our plug and play, high-performance IP surveillance devices that scale easily across multiple locations.

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, the adoption of ASU 2016-09 Improvements to Employee Share-Based Payments Accounting, and the tax effects of these non-GAAP adjustments.

Income Statement

Financial Results Summary (\$, in millions, except per share data)

Income statement highlights	F1Q17	F4Q16	F1Q16
Revenues	204.8	185.7	151.4
<i>Service Provider Technology</i>	120.6	109.0	103.4
<i>Enterprise Technology</i>	84.1	76.7	48.0
Gross Profit	98.3	89.8	73.5
<i>Gross Profit (%)</i>	48.0%	48.3%	48.5%
Total Operating Expenses	23.4	24.1	13.7
Income from Operations	74.9	65.6	59.8
GAAP Net Income	71.8	57.7	53.8
GAAP EPS (diluted)	0.86	0.69	0.61
Non-GAAP Net Income	65.5	58.2	45.5
Non-GAAP EPS (diluted)	0.79	0.69	0.51

Service Provider Technology

- The Service Provider Technology product category encompasses the airMAX, airFiber and EdgeMAX embedded radio and antenna product lines, as well as the sunMAX solar system product line
- Revenues of \$120.6 million
- Represents 59% of our total fiscal Q1 2017 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 \$84.1 million
- Represents 41% of our total fiscal Q1 2017 revenues

Revenue by Geography (\$, in millions)

Region	F1Q17	F4Q16	F1Q16
North America	74.2	71.1	53.2
South America	24.2	23.9	22.2
Europe, the Middle East and Africa (EMEA)	81.4	69.7	60.5
Asia Pacific	25.0	21.0	15.5
Total Revenues	204.8	185.7	151.4

In the first quarter of fiscal 2017, revenues were strong worldwide. North America revenues were up 39% year-over-year and 4% sequentially. Sales to EMEA were also strong for the quarter, up almost 35% year-over-year and 17% sequentially. Asia Pacific sales increased 61% and 19% on a year-over-year and sequential basis, respectively.

Gross Margins

During this quarter, our non-GAAP gross margin was 48.1%, and GAAP gross margin was 48.0%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 48.0% and 48.5%, respectively. Our gross margins remained stable primarily as a result of product mix, coupled with continued cost-reduction strategies and stable product pricing. We believe our future margins will fluctuate between 45.0% and 50.0%.

Research and Development

Research and Development ("R&D") expenses were \$14.0 million on a non-GAAP basis, or 6.8% of revenue, as compared to R&D expenses of \$14.4 million in the prior quarter.

Our R&D investments 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 an increase in R&D hiring, 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, which is 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 8% to 10% of revenues going forward.

Sales, General and Administrative

Our non-GAAP selling, general and administrative ("SG&A") expenses for the quarter were \$8.6 million, or 4.2% of revenue, compared to \$8.9 million for the prior quarter. This quarter, total SG&A expenses remained 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 564 full-time equivalent employees, up from 537 or 5% in the prior quarter, and up from 452 or 25% in the prior year.

Taxes

Our GAAP effective tax rate for the quarter was 2.7% as compared with 11.0% in the fourth quarter of fiscal 2016. During the quarter, a large number of non-qualifying stock options were exercised, which positively impacted our tax rate due to the Adoption of ASU 2016-09. The adoption of the ASU 2016-09 has the effect of reducing income for the excess tax benefits realized by the Company. Prior to the adoption of ASU 2016-09, the excess tax benefits would have been credited to paid in capital. On a non-GAAP basis, our effective tax rate for the quarter was 12.3%, as compared with 11.3% in the fourth quarter of fiscal 2016. For long term planning purposes, we assume a target tax rate of approximately 11.5%.

Net Income

Non-GAAP net income in the first quarter of fiscal 2017 was \$65.5 million, or \$0.79 per diluted share, compared with \$45.5 million, or \$0.51 per diluted share, in the first quarter of fiscal 2016. GAAP net income for the first quarter of fiscal 2017 was \$71.8 million, or \$0.86 per diluted share, compared with GAAP net income of \$53.8 million, or \$0.61 per diluted share, in the first quarter of fiscal 2016. Our GAAP net income was positively impacted by the adoption of ASU 2016-09.

Balance Sheet

Total cash and cash equivalents as of September 30, 2016 were \$573.6 million, compared with \$551.0 million as of June 30, 2016. We held \$530.2 million of our \$573.6 million of cash and cash equivalents in accounts of our subsidiaries outside of the United States.

This quarter we saw days sales outstanding in accounts receivable ("DSO") of 43 days, compared with 41 days in the prior quarter and 39 days in the first quarter of fiscal 2016.

We are committed to keeping our inventory optimized and in-line with end market demand. During the first quarter of fiscal 2017 we invested heavily in inventory. Our inventory balance at the end of the quarter was \$79.8 million, up

from \$57.1 million in the prior quarter. We have increased our inventory balance to compensate for reduced inventory in our distribution channel and to reduce our lead times. We expect to hold 7 to 9 weeks of previously introduced product inventory in our warehouses going forward.

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 flow from operations for the first quarter of fiscal 2017 was \$32.8 million, compared with a net cash flow of \$47.7 million in the first quarter of fiscal 2016. Capital expenditures for the period were \$1.06 million.

Second Quarter Fiscal 2017 Outlook

The following represents our financial outlook for the second quarter of fiscal 2017.

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$200 - \$210 million in the second quarter of fiscal 2017.

We anticipate GAAP earnings in the range of \$0.72 – \$0.78 per diluted share, and non-GAAP earnings to be in the range of \$0.73 – \$0.79 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 38 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.

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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
- Adoption of ASU 2016-09 Improvement to Employee Share-Based Payments Accounting
- 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,	
	2016	2015
Net income	\$ 71,788	\$ 53,759
Stock-based compensation:		
Cost of revenues	144	113
Research and development	560	624
Sales, general and administrative	223	290
Business e-mail compromise ("BEC") fraud loss/(recovery)	—	(8,034)
Excess tax benefits resulting from the adoption of ASU 2016-09 Stock Compensation	(6,820)	—
Implementation of overhead capitalization	—	(944)
Tax effect of non-GAAP adjustments	(371)	(297)
Non-GAAP net income	\$ 65,524	\$ 45,511
Non-GAAP diluted EPS	\$ 0.79	\$ 0.51
Shares outstanding (Diluted)	83,854	88,465
Share adjustment (ASU 2016-09 Adoption)	(774)	—
Weighted-average shares used in non-GAAP diluted EPS	83,080	88,465

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 our expectations for our financial results for the fiscal quarter ended September 30, 2016 and statements regarding expectations related to our cash position, number of distributors and resellers, 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, 2016, 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, 2016, 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.