



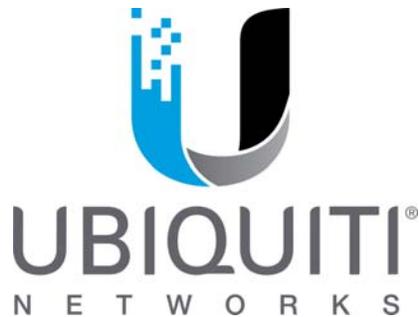
## Q2 Fiscal Year 2017 Earnings

Prepared Management Remarks  
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NASDAQ: UBNT



## Ubiquiti Networks Preliminary Second Quarter Fiscal 2017 Financial Results

### Second Quarter Fiscal 2017 Financial Summary

- Revenues of \$213.5 million, increasing 32% year-over-year
- GAAP gross profit of \$95.1 million and non-GAAP gross profit of \$95.2 million
- GAAP net income of \$60.6 million and non-GAAP net income of \$60.1 million
- GAAP and non-GAAP diluted EPS of \$0.72
- Cash of \$612.7 million

### Management Commentary

We are pleased to announce our sixth consecutive quarter of revenue growth for Ubiquiti Networks. Revenues were a record \$213.5 million, above our guidance of \$200 million to \$210 million, while GAAP earnings were \$0.72 per diluted share, versus our guidance of \$0.72 – \$0.78 per share.

This quarter, total revenues of \$213.5 million represent an increase of 32% year-over-year and 4% sequentially. Our Enterprise Technology revenues were \$98.0 million, up 87% year-over-year and 16% sequentially, which we primarily attribute to strong sales for our UniFi product family, with a particular strength in the U.S. Our Service Provider Technology revenues were up 5% year-over-year primarily driven by increased sales of new offerings for the Ubiquiti community of service providers.

During this quarter, both our non-GAAP and GAAP gross margin was 44.6%, representing a year-over-year decline in non-GAAP and GAAP gross margins from 48.9% and 48.8%, respectively. This decline in gross margins is primarily driven by a change in product mix. In addition to product mix, gross margins saw a decline due to discrete expedited shipping charges to provide U.S. availability of our AmpliFi products during the 2016 holiday season.

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. We're very excited about our new product pipeline, which we expect will enable us to increase average selling prices for high performance, best value proposition products.

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

## Recent Financial Highlights

- **Revenues increased 32% year-over-year and 4% sequentially**, primarily driven by robust demand for the Company's UniFi product family and increasing demand for new offerings for the Ubiquiti service provider community.
- **Enterprise Technology revenues increased 87% year-over-year and 16% sequentially**, primarily fueled by the continued adoption of the Company's UniFi AC access points, UniFi Switch, UniFi Video and other industry-leading products targeting the Enterprise market. Enterprise revenues also benefitted from strong initial sales of the Company's new consumer products, including the AmpliFi HD Mesh Router and AmpliFi HD MeshPoints.
- **Service Provider Technology revenues increased 5% year-over-year**, primarily driven by demand for new offerings for the Ubiquiti service provider community.
- **Gross margin of 45%** was negatively impacted by product mix and discrete expedited shipping charges to provide U.S. availability of the Company's AmpliFi products during the 2016 holiday season.
- **Non-GAAP diluted EPS increased 24% year-over-year**, demonstrating the continued scalability of Ubiquiti's unique business model, while Ubiquiti's 28% net income margin continues to trend well above industry averages of less than 20%.

## Recent Product Highlights

- **Launched UniFi AC HD**, the highest performance access point in the industry at the best value.
- **Expanded the UniFi Switch Portfolio**, introducing the US-16-XG, US-8-60W and US-8 and enabling Ubiquiti's rapidly growing base of enterprise customers to manage the core to the edge of their wired networks.
- **Released AirOS 8.0** providing complete compatibility between airMAX ac and airMAX devices
- **Expanded the AmpliFi product family** with the introduction of AmpliFi HD MeshPoints from Ubiquiti Labs.
- **Introduced UCRM**, free software for Ubiquiti's service provider customers that streamlines billing and customer management.

## 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)**

<b>Income statement highlights</b>	<b>F2Q17</b>	<b>F1Q17</b>	<b>F2Q16</b>
Revenues	213.5	204.8	161.9
<i>Service Provider Technology</i>	115.6	120.6	109.6
<i>Enterprise Technology</i>	98.0	84.1	52.3
Gross Profit	95.1	98.3	79.0
Gross Profit (%)	44.6%	48.0%	48.8%
Total Operating Expenses	25.3	23.4	22.6
Income from Operations	69.8	74.9	56.4
GAAP Net Income	60.6	71.8	49.5
GAAP EPS (diluted)	0.72	0.86	0.57
Non-GAAP Net Income	60.1	65.5	49.7
Non-GAAP EPS (diluted)	0.72	0.79	0.58

### ***Service Provider Technology***

- The Service Provider Technology product category encompasses the airMAX, airFiber and EdgeMAX product lines, as well as the sunMAX solar system product line
- Revenues of \$115.6 million
- Represents 54% of our total fiscal Q2 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 as well as our AmpliFi consumer product line
- Revenues of \$98.0 million
- Represents 46% of our total fiscal Q2 2017 revenues

### ***Revenue by Geography (\$, in millions)***

<b>Region</b>	<b>F2Q17</b>	<b>F1Q17</b>	<b>F2Q16</b>
North America	94.6	74.2	57.4
South America	19.3	24.2	23.5
Europe, the Middle East and Africa (EMEA)	77.4	81.4	61.0
Asia Pacific	<u>22.2</u>	<u>25.0</u>	<u>20.0</u>
<b>Total Revenues</b>	<b>213.5</b>	<b>204.8</b>	<b>161.9</b>

During the second quarter of fiscal 2017, revenues grew significantly versus the prior year period. North America revenues were up 65% year-over-year and 27% sequentially. We attribute the relatively small sequential declines in revenue outside of North America to distributor ordering patterns and not to any decrease in demand for our products.

### ***Gross Margins***

During this quarter, both our non-GAAP and GAAP gross margins were 44.6%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 48.9% and 48.8%, respectively. As previously mentioned, our gross margins were negatively impacted versus the prior year by product mix and to a lesser extent, discrete

expedited shipping charges to provide U.S. availability of our AmpliFi products during the 2016 holiday season. We believe our annual long-term gross margins will fluctuate between 45.0% and 50.0%.

### ***Research and Development***

Research and Development ("R&D") expenses were \$16.0 million on a non-GAAP basis, or 7.5% of revenue, as compared to non-GAAP R&D expenses of \$14.0 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 were primarily driven by non-recurring engineering payments for milestones achieved and 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 long-term R&D expenses to range between 8% to 10% of revenues.

### ***Sales, General and Administrative***

Our non-GAAP selling, general and administrative ("SG&A") expenses for the quarter were \$8.8 million, or 4.1% of revenue, compared to \$8.6 million for the prior quarter. This quarter, total SG&A expenses remained elevated due to advisory services to remediate previously disclosed internal control weaknesses. For long-term planning purposes, we expect SG&A expenses to range between 3% and 5% of revenues.

### ***Headcount***

We finished the quarter with a total of 620 full-time equivalent employees, up from 564 or 10% in the prior quarter, and up from 470 or 32% in the prior year.

### ***Taxes***

Our GAAP effective tax rate for the quarter was 11.7% as compared with 11.4% in the second quarter of fiscal 2016. On a non-GAAP basis, our effective tax rate for the quarter was 13.2%, as compared with 11.9% in the second quarter of fiscal 2016. We attribute the increase in our effective tax rate to the increasing portion of our sales in the U.S. For long term planning purposes, we assume a target effective tax rate of approximately 12% to 14%.

### ***Net Income***

Non-GAAP net income in the second quarter of fiscal 2017 was \$60.1 million, or \$0.72 per diluted share, compared with \$49.7 million, or \$0.58 per diluted share, in the second quarter of fiscal 2016. GAAP net income for the second quarter of fiscal 2017 was \$60.6 million, or \$0.72 per diluted share, compared with GAAP net income of \$49.5 million, or \$0.57 per diluted share, in the second quarter of fiscal 2016. For long-term planning purposes, we expect net income margin to range between 25% and 35% of revenues.

### **Balance Sheet**

Total cash and cash equivalents as of December 31, 2016 were \$612.7 million, compared with \$573.6 million as of September 30, 2016. We held \$572.7 million of cash and cash equivalents in accounts of the Company's subsidiaries outside of the United States.

This quarter we experienced an increase in days sales outstanding in accounts receivable ("DSO") to 50 days, compared with 43 days in the prior quarter. DSO's have increased over time and we expect this increase to continue as the mix of the Company's distributors evolves toward larger volumes of products moving through large distributors who qualify for credit terms. Enabling these customers to purchase higher volumes of products on credit terms

allows them to shorten the cash conversion cycle and has helped enable the Company to significantly expand its market share while maintaining a conservative customer credit profile.

The Company has invested in inventory to reduce customer lead times and meet increasing demand and support the commensurate growth of the Company's customers. The Company is committed to optimizing inventory to correspond with end-market demand. During F2Q17, the Company continued to invest in inventory. Inventory at the end of the quarter was \$104.4 million, up \$24.6 million from F1Q17. The Company expects to hold 8 to 12 weeks of previously introduced product inventory in 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 second quarter of fiscal 2017 was \$42.9 million, compared with a net cash flow from operations of \$77.3 million in the second quarter of fiscal 2016. Capital expenditures for the second quarter of fiscal 2017 were \$1.8 million.

### **Third Quarter Fiscal 2017 Outlook**

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$210 - \$220 million in the third 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 5:00 p.m. Eastern Time (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) Conference ID: 52655989. 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, Inc. (Nasdaq: UBNT) eliminates barriers to connectivity for under-networked enterprises, communities and consumers with its leading-edge platforms that connect hundreds of millions of people throughout the world. With over 60 million devices sold worldwide, through a network of over 100 distributors, to customers in

more than 180 countries and territories, Ubiquiti has maintained an industry-leading financial profile by leveraging a unique business model to develop products that combine innovative technology with disruptive price-to-performance characteristics. Our growth is supported by the Ubiquiti Community, a global grass-roots community of 4 million entrepreneurial operators and systems integrators who engage in thousands of forums. For more information, join our community at <http://www.ubnt.com>.

Ubiquiti, Ubiquiti Networks, the U logo, UBNT, airMAX, UniFi, airFiber, mFi, EdgeMAX and AmpliFi 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 December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net income and comprehensive income	\$ 60,608	\$ 49,452	\$ 132,396	\$ 103,211
Stock-based compensation:				
Cost of revenues	30	114	174	227
Research and development	381	580	941	1,204
Sales, general and administrative	155	263	378	553
Business e-mail compromise ("BEC") fraud loss/(recovery)	—	(257)	—	(8,291)
Excess tax benefits resulting from the adoption of ASU 2016-09 Stock Compensation	(860)	—	(7,680)	—
Implementation of overhead capitalization	—	(50)	—	(994)
Tax effect of Non-GAAP adjustments	(227)	(377)	(598)	(674)
Non-GAAP net income	\$ 60,087	\$ 49,725	\$ 125,611	\$ 95,236
Non-GAAP diluted EPS	\$ 0.72	\$ 0.58	\$ 1.51	\$ 1.09
Shares outstanding (Diluted)	83,888	86,091	83,875	87,285
Share adjustment (ASU 2016-09 Adoption)	(654)	—	(715)	—
Weighted-average shares used in Non-GAAP diluted EPS	83,234	86,091	83,160	87,285

## **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 these prepared remarks 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 these prepared remarks that could be deemed forward-looking statements include statements regarding our expectations for our financial results for the fiscal quarter ended December 31, 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 December 31, 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](http://www.sec.gov). Copies may also be obtained by contacting the Ubiquiti Networks Investor Relations Department, by email at [IR@ubnt.com](mailto: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.