



Q4 Fiscal Year 2015 Earnings

Prepared Management Remarks
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NASDAQ: UBNT



Ubiquiti Networks Fourth Quarter Fiscal 2015 Financial Results

Fourth Quarter Fiscal 2015 Financial Summary

- Revenues of \$145.3 million
- GAAP gross profit of \$66.1 million and non-GAAP gross profit of \$66.3 million
- GAAP net income of \$4.5 million and non-GAAP net income of \$44.1 million
- GAAP diluted EPS of \$0.05 and non-GAAP diluted EPS of \$0.50
- GAAP net income and diluted EPS include a \$39.1 million business e-mail compromise ("BEC") fraud loss as disclosed in the Form 8-K filed on August 6, 2015

Management Commentary

This quarter, revenues were \$145.3 million, compared to guidance of \$140 million to \$150 million, while non-GAAP diluted earnings were \$0.50 per share, above our guidance of \$0.43 – \$0.48 per share.

As disclosed in the Form 8-K filed on August 6, 2015, we lost \$39.1 million in connection with a business e-mail compromise ("BEC") fraud involving employee impersonation.

We continue to target aggressive goals in our evolution as a company while focusing on the fundamentals of our business. We believe we will maintain our leadership position of building world-class products with disruptive price-to-performance ratios, serving to bridge the digital divide and connect underserved markets.

In addition to the financial summary below, there are a few key recent business and product-related achievements that we would like to highlight:

Recent Financial Highlights

- **Enterprise Technology revenues increased over 26% year-over-year**, fueled by UniFi® access points and other industry-leading products targeting the Enterprise market
- **Initiated a new stock repurchase program**, authorizing the Company to repurchase up to \$100 million of its common stock as disclosed in the Form 8-K filed on August 6, 2015
- **Shipped in volume our new Enterprise products**, including UniFi Video products, the UniFi Switch and our newly released EdgeRouter™ X and EdgeRouter™ X SFP

- **Announced Ubiquiti NEXT Event to be held on October 12, 2015 at the Wynn, Las Vegas.** At this event, Ubiquiti's founder and Chief Executive Officer, Robert J. Pera, will discuss future of WISP products as well as some of Ubiquiti's newer products

Recent Product Highlights

- **Announced Deep Packet Inspection** technology for the mainstream market with the latest software release (v1.7.0) for our EdgeRouter™ Lite, EdgeRouter PoE, EdgeRouter, and EdgeRouter PRO routers
- **Set a new world distance record for wireless broadband with our airFiber® 5X**, a ruggedized outdoor Point-to-Point radio designed for the global unlicensed frequency bands
- **Released airOS® 5.6.1, a new operating system for our airMAX® ac products** that provides powerful features, including full Simple Network Management Protocol (SNMP)
- **Announced the LiteBeam™ M5**, a long-range, disruptively-priced, lightweight airMAX® CPE
- **Announced an ISO series of our ac PowerBeam® series**, an ideal solution for deployments requiring maximum performance and RF isolation. We expect the PowerBeam® ac ISO to expand deployments of our airMAX ac products

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 expenses, purchase commitment termination fee and the tax effects of these non-GAAP adjustments.

Income Statement

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

Income Statement highlights	F4Q15	F3Q15	F4Q14
Revenues	145.3	147.5	156.0
<i>Service Provider Technology</i>	<i>104.8</i>	<i>106.3</i>	<i>124.0</i>
<i>Enterprise Technology</i>	<i>40.5</i>	<i>41.2</i>	<i>32.0</i>
Cost of Revenues	79.1	81.5	87.1
Gross Profit	66.1	66.0	68.9
<i>Gross Profit (%)</i>	<i>45.5%</i>	<i>44.7%</i>	<i>44.1%</i>
Total Operating Expenses	58.8	20.7	16.1
Income from Operations	7.3	45.2	52.8
GAAP Net Income	4.5	41.1	49.4
GAAP EPS (diluted)	0.05	0.46	0.55
Non-GAAP Net Income	44.1	42.0	50.2
Non-GAAP EPS (diluted)	0.50	0.47	0.56

Revenue by Product Category

Service Provider Technology

- The Service Provider Technology product category encompasses the airMAX®, airFiber® and EdgeMAX® embedded radio and antenna product lines.
- Revenues of \$104.8 million.
- Represented 72% of our total Q4 2015 revenues.
- Shipped in volume our airFiber® X and related antennas.

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 \$40.5 million.
- Represented 28% of our total Q4 2015 revenues.
- Shipped our UniFi Switch in volume.

Revenue by Geography (\$, in millions)

Region	F4Q15	F3Q15	F4Q14
North America	44.3	45.7	43.3
South America	25.9	17.9	35.7
Europe, the Middle East and Africa (EMEA)	56.9	66.8	57.4
Asia Pacific	<u>18.2</u>	<u>17.1</u>	<u>19.6</u>
Total	145.3	147.5	156.0

In the fourth quarter of fiscal 2015, South America revenues showed strength and were up 45% on a sequential basis, representing 18% of total revenue for the quarter. We saw strong incremental demand from countries such as Argentina, Brazil and Paraguay. A portion of the increase in South America revenues resulted in a decrease in North American revenues as certain South American distributors have begun buying larger shipments of Ubiquiti products directly at their South American facilities rather than combining smaller shipments in Miami and sending them down to their ultimate destination in South America.

Gross Margins

During this quarter, our non-GAAP gross margin was 45.6%, and GAAP gross margin was 45.5%. Non-GAAP and GAAP gross margins for the same quarter in the prior year were 44.2% and 44.1%, respectively. Margins for the quarter were in line with expectations and our long-term targets. The variance quarter over quarter was driven by the mix of products sold during the quarter, as well as a reduction in warranty reserve. We believe our future margins will fluctuate between 43.0% and 45.0%.

Research and Development

Research and Development (“R&D”) expenses were \$14.3 million on a non-GAAP basis, or 10% of revenue. These R&D investments will 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 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 \$4.7 million, or 3% of revenue. We continue to run a highly efficient operating business model, and are focused on leveraging a scalable cost structure. For long term planning purposes, we assume SG&A expenses of 3% and 4% of revenues, although in the near term they may be slightly higher due to the BEC fraud loss and associated remediation efforts.

Headcount

We finished the quarter with a total of 435 full-time employees, down from 447 or 3% in the prior quarter, and up from 312 or 39% in the prior year, primarily related to the hiring of new engineers.

Taxes

Our GAAP effective tax rate for the quarter was 35.1% as compared with 5.4% in the fourth quarter of fiscal 2014. Our GAAP effective tax rate was unusually high this quarter primarily due to the BEC fraud loss as disclosed in the Form 8-K filed on August 6, 2015. The BEC involved a loss of \$39.1 million that consisted entirely of cash held outside of the U.S. and it therefore reduced GAAP net income but did not significantly reduce our tax liability. In the 2015 fiscal year, our annualized tax rate was 11.0%. For long term planning purposes, we assume a target tax rate of 11.5%.

Net Income

GAAP net income for the fourth quarter of fiscal 2015 was \$4.5 million, or \$0.05 per diluted share, compared with GAAP net income of \$49.4 million, or \$0.55 per diluted share, in the fourth quarter of fiscal 2014. We recorded fourth quarter of fiscal 2015 non-GAAP net income of \$44.1 million, or \$0.50 per diluted share, compared with non-GAAP net income of \$50.2 million, or \$0.56 per diluted share, in the fourth quarter of fiscal 2014. Net income on a GAAP basis was unusually low this quarter due to the business e-mail compromise ("BEC") fraud loss as disclosed in the Form 8-K filed on August 6, 2015. As a result of the BEC fraud, the Company lost \$39.1 million and therefore recorded a corresponding expense of \$39.1 million in its fourth quarter of fiscal 2015.

Balance Sheet

Total cash and cash equivalents as of June 30, 2015 were \$446.4 million, compared with \$451.2 million as of March 31, 2015. The sequential decrease in cash and cash equivalents during the fourth quarter of fiscal 2015 is primarily due to the following factors:

- We repurchased \$19.7 million of our common stock
- As disclosed in the Form 8-K filed on August 6, 2015, we lost \$39.1 million in connection with a business e-mail compromise (“BEC”) fraud involving employee impersonation

This quarter we saw days sales outstanding in accounts receivable (“DSO”) of 41 days, compared with 43 days in the prior quarter, and 32 days in the fourth quarter of fiscal 2014.

Our inventory balance at the end of the quarter was \$37.0 million which represents approximately 8.0 turns on an annualized basis, compared to 8.2 turns in the prior quarter. We currently expect to maintain inventory between 7.5 and 8.5 turns 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

Excluding the impact of the BEC fraud loss and related expenses, our cash from operating activities for the fiscal fourth quarter would have been \$57.3 million, a 56% increase sequentially. We generated \$18.2 million of cash from operating activities, which is net of the BEC fraud loss and related expenses.

Capital expenditures for fiscal fourth quarter were \$1.9 million. During the fourth quarter of fiscal 2015, the Company repurchased \$19.7 million of shares of its common stock.

Business E-mail Compromise (“BEC”) Fraud Incident

As disclosed in the Form 8-K filed on August 6, 2015, the Company determined that it had been the victim of a criminal fraud on June 5, 2015. The incident involved employee impersonation and fraudulent requests from an outside entity targeting the Company’s finance department. This fraud resulted in transfers of funds aggregating \$46.7 million held by a Company subsidiary incorporated in Hong Kong to other overseas accounts held by third parties. As soon as the Company became aware of this fraudulent activity it initiated contact with its Hong Kong subsidiary’s bank and promptly initiated legal proceedings in various foreign jurisdictions. As a result of these efforts, the Company has recovered \$8.1 million of the amounts transferred. Furthermore, an additional \$6.8 million of the amounts transferred are currently subject to legal injunction and reasonably expected to be recovered by the Company in due course. The Company is continuing to pursue the recovery of the remaining \$31.8 million and is cooperating with U.S. federal and numerous overseas law enforcement authorities who are actively pursuing a multi-agency criminal investigation. The Company may be limited in what information it can disclose due to the ongoing investigation. The ultimate amount of the loss will depend, in part, on the Company’s success in recovering the

funds. The Company may not be successful in obtaining any insurance coverage for this loss. The Company currently believes this is an isolated event and does not believe its technology systems have been compromised or that Company data has been exposed. While this matter will result in some additional near-term expenses, the Company does not expect this incident to have a material impact on its business or its ability to fund the anticipated working capital, capital expenditures and other liquidity requirements of its ongoing operations.

The Audit Committee of the Company's Board of Directors has conducted an independent investigation into this matter with the assistance of outside advisors. The investigation concluded on July 17, 2015. The investigation uncovered no evidence that our systems were penetrated or that any corporate information, including our financial and account information, was accessed. The investigation found no evidence of employee criminal involvement in the fraud. As a result of this investigation, the Company, its Audit Committee and advisors have concluded that the Company's internal control over financial reporting is ineffective due to one or more material weaknesses. The Company has implemented enhanced internal controls over financial reporting since June 5, 2015 and is in the process of implementing additional procedures and controls pursuant to recommendations from the investigation.

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.

First Quarter Fiscal 2016 Outlook

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

Based on our analysis of orders received and current estimated channel inventory levels, we expect to generate revenues of \$145 - \$155 million in the first quarter of fiscal year 2016.

We anticipate GAAP earnings in the range of \$0.46 – \$0.51 per share, and non-GAAP diluted earnings to be in the range of \$0.47 – \$0.52 per share.

Conclusion

We continue to be focused on execution as we expand our platform of products and accelerate the growth of our business. We are making investments in our company that we believe will help us expand our addressable market and maintain our industry leading financial metrics.

In addition to strong quarterly financial results, we believe that we have laid a strong foundation for long-term value creation. Furthermore, we are well placed to grow significantly in the next few quarters due to the following growth drivers: new product launches, 802.11 ac upgrade cycle, a lessening impact of foreign currency fluctuations on the business and the United States E-Rate funding program.

We remind investors that, in any given quarter, we may observe fluctuations in specific product categories or geographies for a variety of reasons, including foreign exchange and seasonal fluctuations; however we expect the long-term global market environment for our products to continue to be favorable.

We appreciate our shareholders' continued commitment to the Company and look forward to speaking with you on our earnings call. The Q&A 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 28 million devices sold worldwide, Ubiquiti is transforming under-networked enterprises and communities. Our leading edge platforms, airMAX®, UniFi®, airFiber®, UniFi® Video, UniFi® VoIP, UniFi® Switch, 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>.

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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 diluted earnings per 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
- Reserve against vendor deposits relating to a purchase commitment termination fee
- Gain on reversal of charge for an export compliance matter
- 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 June 30,		Years Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 4,518	\$ 49,418	\$ 129,663	\$ 176,937
Stock-based compensation:				
Cost of revenues	161	145	601	590
Research and development	355	744	2,854	2,423
Sales, general and administrative	297	387	1,537	1,893
Business e-mail compromise ("BEC") fraud loss	39,137	—	39,137	—
Purchase commitment termination fee	—	—	5,500	—
Gain on reversal of charge for an export compliance matter	—	—	—	(1,121)
Tax effect of non-GAAP adjustments	(325)	(510)	(2,656)	(1,514)
Non-GAAP net income	\$ 44,143	\$ 50,184	\$ 176,636	\$ 179,208
Non-GAAP diluted EPS	\$ 0.50	\$ 0.56	\$ 1.97	\$ 2.00
Weighted-average shares used in non-GAAP diluted EPS	89,110	89,821	89,569	89,715

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” 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 September 30, 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, 2014, 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.