



# Second Quarter Fiscal 2018 Earnings

Prepared Management Remarks  
February 8, 2018

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NASDAQ: UBNT



## Ubiquiti Networks Reports Second Quarter Fiscal 2018 Results

~ Achieves Record Revenue and Tenth Consecutive Quarter of Revenue Growth ~

~ Cash of over \$823 million, an increase of more than 34% Year-over-Year ~

### Q2 Fiscal 2018 Financial Highlights (\$, in millions, except per share data)

	F2Q18	F1Q18	F2Q17	Q/Q	Y/Y
Revenues	250.8	245.9	213.5	2%	17%
Service Provider Technology	119.9	119.9	115.6	0%	4%
Enterprise Technology	131.0	126.0	98.0	4%	34%
Gross profit	96.9	111.7	95.1	(13%)	2%
Gross Profit (%)	38.6%	45.4%	44.6%	(6.8)	(6.0)
Total Operating Expenses	30.8	24.6	25.3	25%	22%
Income from Operations	66.1	87.1	69.8	(24%)	(5%)
GAAP Net (Loss)/Income	(51.5)	74.9	60.6	NM	NM
GAAP EPS (diluted)	(0.66)	0.92	0.72	NM	NM
Non-GAAP Net Income	59.6	74.9	60.1	(20%)	(1%)
Non-GAAP EPS (diluted)	0.76	0.92	0.72	(17%)	6%

NM = Not Meaningful

### Second Quarter Financial and Product Highlights

- **Revenues increased 17.5% year-over-year and 2% sequentially**, primarily driven by demand for our UniFi AC and airMAX AC product families.
- **Enterprise Technology revenues increased 33.7% year-over-year and 4% sequentially**, reflecting the continued adoption of our UniFi AC technology platform.
- **Initiated a new stock repurchase program**, authorizing the Company to repurchase up to \$150 million of its common stock, as disclosed in the Form 8-K filed on February 8, 2018.
- **Entered into a new credit facility**, providing for a \$500 million term loan and \$400 million revolving credit facility, as disclosed in the Form 8-K filed on January 23, 2018.
- **Cash of over \$823 million**, up over 34% year-over-year and over 30% sequentially.
- **Announced UNMS (Ubiquiti Network Management System)**, proprietary software providing for the centralized control of Ubiquiti devices across multiple sites worldwide.

### Segment Commentary

#### **Service Provider Technology**

- The Service Provider Technology product category encompasses the airMAX, airFiber, EdgeMAX and UFiber product lines

- Revenues were \$119.9 million
- Represents 48% of our total fiscal Q2 2018 revenues

### ***Enterprise Technology***

- The Enterprise Technology product category encompasses our UniFi Access Point, UniFi Video, UniFi VoIP, UniFi Security Gateway, UniFi Switch and mFi product lines as well as our AmpliFi and FrontRow consumer product lines
- Revenues were \$131.0 million
- Represents 52% of our total fiscal Q2 2018 revenues

### **Ubiquiti Networks, Inc. Revenues by Geographical Area (In millions) (Unaudited)**

	<b>Three Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
North America	\$ 95.0	\$ 94.6
South America	20.7	19.3
Europe, the Middle East and Africa	102.0	77.4
Asia Pacific	33.1	22.2
Total revenues	\$ 250.8	\$ 213.5

During the second quarter of fiscal 2018, revenues grew 17.5% versus the prior year period. Year-over-year, North America revenues were essentially even, EMEA revenues increased 31.8%, South America revenues increased 7.3% and Asia Pacific revenues increased 49.1%.

### **Additional Income Statement Items**

#### ***Gross Margins***

During this quarter, GAAP and non-GAAP gross profit was \$96.9 million, representing 38.6% of revenues. Gross margin includes \$18.6 million of charges primarily related to provisions for obsolete inventory, vendor deposits and loss on purchase commitments associated primarily with the Company's FrontRow consumer-oriented product launched in August 2017. Due to the lower than expected sales performance of FrontRow during the December 2017 holiday season, the Company was forced to assess the economic recovery of inventory and other related commitments. Excluding this \$18.6 million charge, gross profit would have been \$115.5 million, or 46.1%, representing a sequential improvement over the previous quarter.

We anticipate third quarter fiscal 2018 gross margins to remain consistent on a sequential basis, excluding the \$18.6 million charge described above. Our long term gross margin projection remains at 45% to 50% because we expect the margins on our newer products to expand as we implement cost reduction strategies while maintaining our selling prices.

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

Research and development expenses increased to \$20.5 million in the second quarter fiscal 2018 as compared to \$16.3 million the prior year and \$16.9 million in the prior quarter. Both year-over-year and

sequentially, research and development expenses increased as the Company recognized higher non-recurring engineering (NRE) payments and payroll related costs in the second quarter fiscal 2018.

We will continue to make substantial investments in research and development that we believe will help us expand our addressable market and remain at the cutting edge of networking technology. We estimate our long-term R&D expenses to range between 6% to 8% of revenues.

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

Our selling, general and administrative (“SG&A”) expenses for the quarter were \$10.4 million compared to \$9.0 million the prior year and \$7.7 million the prior quarter. The increase in SG&A costs are primarily related to professional fees. For long-term planning purposes, we expect SG&A expenses to range between 3% and 5% of revenues.

### ***Headcount***

We finished the second fiscal quarter with a total of 780 full-time equivalent employees, up from 741 or 5% in the prior quarter, and up from 620, or 26%, in the prior year. Increases in headcount versus the prior quarter and prior year primarily reflect additional employees in R&D.

### ***Taxes***

GAAP effective tax rate for the quarter was not meaningful as the Company recognized a \$110.7 million Tax Reform Transition Tax. On a non-GAAP basis, our effective tax rate for the quarter was 7.4%, as compared with 13.2% in the second quarter of fiscal 2017. For long term planning purposes, we assume a target effective tax rate of 15% to 16%, which incorporates the recently enacted Tax Cuts and Jobs Act and its corresponding changes to the Company’s domestic and foreign tax rates.

### ***Net Income***

GAAP net loss was \$51.5 million and GAAP loss per share was \$0.66. The Company incurred a net loss in the second quarter of fiscal 2018 causing inclusion of any potentially dilutive securities to have an anti-dilutive effect, resulting in the weighted average shares outstanding for basic and dilutive earnings per share being equivalent during the quarter. The net loss was due to the Tax Cuts and Jobs Act, which resulted in a \$110.7 million of tax expense, or a \$1.41 per diluted share negative impact.

Non-GAAP net income was \$59.6 million and non-GAAP diluted EPS were \$0.76. Non-GAAP earnings per share were lower than management forecast primarily due to the impact of charges related to provisions for obsolete inventory, vendor deposits and loss on purchase commitments as mentioned in the gross margin discussion above.

### **Balance Sheet Highlights**

Cash. Total cash and cash equivalents as of December 31, 2017 were \$823.8 million, compared with \$604.2 million as of June 30, 2017. Cash and cash equivalents, less debt (net cash) of \$356.1 million increased \$22.2 million sequentially. The sequential increase in net cash during the second quarter of fiscal 2018 was primarily driven by operating earnings partially offset by the repurchase of common stock.

Borrowing Availability. The Company fortified its balance sheet by securing additional liquidity through its amended and restated credit agreement, as filed on Form 8-K on January 23, 2018. The amended and

restated credit agreement provides credit facilities of \$900 million, consisting of a \$500 million term loan which was entirely drawn at closing and a \$400 million revolving credit facility.

**Tax Reform.** In addition to the increased liquidity provided by its credit facilities, the Company will have additional flexibility to repatriate foreign earnings as a result of the most recent federal tax reform.

**DSOs.** Second quarter fiscal 2018 days sales outstanding in accounts receivable ("DSO") were 58 days, compared with 48 days in the prior quarter, and 50 days in the second quarter of fiscal 2017. DSO's in the current period increased versus the prior quarter and prior year quarter primarily due to the timing of sales within the current quarter, which were more heavily weighted toward the back of the quarter.

**Inventory.** Inventory at the end of the quarter decreased \$23.4 million to \$98.9 million. This amount includes \$2.8 million of the \$18.6 million charge associated primarily with the Company's FrontRow consumer-oriented product, as discussed above. Consequently, inventory weeks on hand decreased on a sequential basis to 9 weeks in the current quarter versus 13 weeks the prior quarter. The Company expects to hold 8 to 12 weeks of previously introduced product inventory in warehouses going forward, in addition to new product inventory and selected raw materials.

### **Cash Flow Statement**

Our net cash flow from operations for first half fiscal 2018 was \$165.7 million, compared with a net cash flow from operations of \$75.7 million for the first half fiscal 2017. The \$90.0 million increase in operating cash flow during fiscal 2018 as compared with fiscal 2017 was driven by reduced investments in working capital, which were partially offset by reduced net earnings. Note, net earnings in the fiscal 2018 period, include a \$112.8 million Tax Reform Transition Tax. Capital expenditures for the first half of fiscal 2018 were \$6.2 million.

### **Capital Return**

The Company has returned a total of \$484.7 million to shareholders, through stock repurchases, from fiscal 2015 through the second quarter fiscal 2018. On November 8, 2017, the Board of Directors of the Company approved a \$50 million stock repurchase program and on February 6, 2018, the Board of Directors of the Company approved a \$150 million stock repurchase program. Common stock repurchase activity under the share repurchase program during the three months ended December 31, 2017 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced	Estimated Remaining Balance Available for Share Repurchases
October 1, 2017 - October 31, 2017	602,192	\$ 57.28	602,192	\$ —
November 1, 2017 - November 30, 2017	—	\$ —	—	\$ 50,000
December 1, 2017 - December 31, 2017	—	\$ —	—	\$ 50,000
Total	602,192	\$ 57.28	602,192	\$ 50,000

## **Business Outlook**

Based on recent business trends, Ubiquiti currently believes the demand environment in its end markets supports the following forecast for the Company's third fiscal quarter ending March 31, 2018:

- Revenues of between \$245 million and \$260 million; and
- Non-GAAP diluted EPS of \$0.92 - \$0.99.

The Company is currently optimistic that it will achieve the lower-end of the revenue and non-GAAP diluted earnings-per-share guidance previously provided for the full fiscal year ending June 30, 2018.

A material number of non-qualified stock options issued under our 2005 Equity Incentive Plan will expire on April 8, 2018 and we expect these options to be exercised during the fiscal third or fourth quarter of 2018. The impact of any exercise of such non-qualified stock options upon our financial results is not included in the foregoing business outlook for the fiscal third and fourth quarters of 2018.

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 11:00 a.m. Eastern Time today. Management's prepared remarks can be found on the Investor Relations section of the Ubiquiti Networks website, <http://ir.ubnt.com/financial/quarterly-results>. To listen to the Q&A call via telephone, dial (800) 289-0438 (U.S. toll-free) or (323) 794-2423 (International). 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 for replay at <http://ir.ubnt.com>.

## **About Ubiquiti Networks**

Ubiquiti Networks, Inc., Inc. currently focuses on 3 main technologies: high-capacity distributed Internet access, unified information technology, and next-gen consumer electronics for home and personal use. The majority of the company's resources consist of entrepreneurial and de-centralized R&D teams. Ubiquiti does not employ a traditional direct sales force, but instead drives brand awareness largely through the company's user community where customers can interface directly with R&D, marketing, and support. With over 70 million devices shipped in over 200 countries and territories in the world, Ubiquiti aims to connect everyone to everything, everywhere. Ubiquiti was founded by former Apple engineer Robert Pera in 2005. More insight about the company management can be found at [www.rjpblog.com](http://www.rjpblog.com).

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## **Safe Harbor for Forward Looking Statements**

Certain statements in these prepared management 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” and “plan” and statements in the future tense are forward looking statements. The statements in these prepared management remarks that could be deemed forward-looking statements include statements regarding expectations for financial results for the third fiscal quarter of 2018 and full fiscal year 2018, the repatriation of foreign earnings under recent federal tax reform, and statements regarding expectations related to our cash position, expenses, DSO, number of distributors and resellers, shipments, the roll-out of our consumer retail channel, the introduction of new consumer products, Gross Margins, R&D, SG&A, tax rates, inventory turns, growth opportunities, demand and long term global environment for our products, new products, and financial performance estimates including revenues and GAAP diluted EPS for the Company's third fiscal quarter of 2018 and full fiscal year 2018, 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, 2017, 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.

**Ubiquiti Networks, Inc.**  
**Reconciliation of GAAP Net Income to Non-GAAP Net Income**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended			Six Months Ended December 31,	
	December 31, 2017	September 30, 2017	December 31, 2016	2017	2016
Net (loss) income and comprehensive (loss) income	\$ (51,459)	\$ 74,925	\$ 60,608	\$ 23,466	\$ 132,396
Stock-based compensation:					
Cost of revenues	40	245	30	285	174
Research and development	370	456	381	826	941
Sales, general and administrative	370	211	155	581	378
Excess tax benefits resulting from the adoption of ASU 2016-09 Stock Compensation	(194)	(575)	(860)	(769)	(7,680)
Tax Reform Transition Tax <sup>1</sup>	110,708	—	—	112,798	—
Tax effect of Non-GAAP adjustments	(242)	(365)	(227)	(607)	(598)
Non-GAAP net income	\$ 59,593	\$ 74,897	\$ 60,087	\$ 136,580	\$ 125,611
Non-GAAP diluted EPS	\$ 0.76	\$ 0.92	\$ 0.72	\$ 1.71	\$ 1.51
Shares outstanding (Diluted)	79,235	81,748	83,888	80,494	83,875
Share adjustment (ASU 2016-09 Adoption)	(471)	(616)	(654)	(474)	(715)
Weighted-average shares used in Non-GAAP diluted EPS	78,764	81,132	83,234	80,020	83,160

**About our Non-GAAP Net Income and Adjustments**

<sup>1</sup> Both periods reflect a provisional estimate of the mandatory repatriation tax expense of \$110.7 million and \$2.3 million of tax expense related to the remeasurement of deferred taxes at the lower tax rate. Included in the Company's second quarter transition tax calculation is an approximate \$2.1 million benefit recorded in the second quarter related to the reduced domestic rate to 28% on the first quarter 2018 earnings which were previously provided for at the 35% rate. As the year to date provision reflects the impact of the reduced 28% rate for the six-month results, this \$2.1 million benefit was not removed from the non-GAAP results for the six-month period ending December 31, 2017. As a result, the Company's non-GAAP Tax Reform Transition Tax adjustment for the six months will differ from the three months period by the \$2.1 million benefit made during the second quarter fiscal 2018 related to first quarter 2018 earnings.

## **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 costs, expenses and gains such as stock-based compensation expense, the adoption of ASU 2016-09 Improvements to Employee Share-Based Payments Accounting, the tax effects of these non-GAAP adjustments and Tax Reform Transition Tax.

Reconciliations of the adjustments to GAAP results for the periods presented are provided above. 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, 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.

A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis due to the high variability and low visibility with respect to the charges which are excluded from these non-GAAP measures. For example, share-based compensation expense is impacted by the Company's future price at which the Company's stock will trade in those future periods. The items that are being excluded are difficult to predict and a reconciliation could result in disclosure that would be imprecise or potentially misleading. Material changes to any one of these items could have a significant effect on our guidance and future GAAP results. Certain exclusions, such as share-based compensation expenses, are generally incurred each quarter, but the amounts have historically and may continue to vary significantly from quarter to quarter.

We believe that the presentation of non-GAAP net income and non-GAAP earnings per diluted share provides important supplemental information regarding non-cash expenses, significant items that we believe are important to understanding our financial, and business trends relating to our financial condition and results of operations. 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.

### **Use and Economic Substance of Non-GAAP Financial Measures used by Ubiquiti Networks**

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
- Adoption of ASU 2016-09 Improvements to Employee Share-Based Payment Accounting
- Tax effect of non-GAAP adjustments, applying the principles of ASC 740
- Tax Reform Transition Tax

### **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.

For more information on the non-GAAP adjustments, please see the table captioned "Reconciliation of GAAP Net Income to Non-GAAP Net Income" included in this press release.