



Third Quarter Fiscal 2018 Earnings

Prepared Management Remarks
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NASDAQ: UBNT



Ubiquiti Networks Reports Third Quarter Fiscal 2018 Results

~Revenues of \$250.4 million~

~GAAP and Non-GAAP EPS of \$1.32 and \$0.98, respectively~

~Repatriated \$677 million in Cash from Foreign Subsidiaries~

Q3 Fiscal 2018 Financial Highlights (\$, in millions, except per share data)

<u>Income statement highlights</u>	<u>F3Q18</u>	<u>F2Q18</u>	<u>F3Q17</u>
Revenues	250.4	250.8	218.4
Service Provider Technology	100.9	119.9	104.7
Enterprise Technology	149.5	131.0	113.6
Gross profit	114.5	96.9	99.1
Gross Profit (%)	45.7%	38.6%	45.4%
Total Operating Expenses	29.6	30.8	25.7
Income from Operations	84.9	66.1	73.4
GAAP Net (Loss)/Income	102.7	(51.5)	64.4
GAAP EPS (diluted)	1.32	(0.66)	0.77
Non-GAAP Net Income	76.0	59.6	64.6
Non-GAAP EPS (diluted)	0.98	0.76	0.78

Third Quarter Fiscal 2018 Financial Highlights

- **Revenues of \$250.4 million**, increasing 14.7% year-over-year
- **Repurchased 4,389,195 shares of common stock through May 7, 2018**, at an average price of \$66.53 per share
- **Initiated a new \$200 million stock repurchase program**, as disclosed in the Form 8-K filed on May 10, 2018
- **Repatriated \$677.2 million in cash** from foreign subsidiaries to U.S. banks
- **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

Recent Product Highlights

- **Announced UniFi nanoHD**, offering 4x4 MU-MIMO technology with an MSRP of only \$179
- **Announced UFiber Loco**, our newest UFiber ONU with the features and quality of the UFiber Nano G in a price-optimized package
- **Announced the UniFi Security Gateway XG**, an enterprise 10G gateway that offers robust security and advanced routing features

- **Announced the EdgeRouter 4 and EdgeRouter 6P**, featuring breakthrough performance improvement over first-generation EdgeRouters

Ubiquiti Networks, Inc.
Revenues by Product Type
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Service Provider Technology	\$ 100,892	\$ 104,724
Enterprise Technology	149,512	113,635
Total revenues	<u>\$ 250,404</u>	<u>\$ 218,359</u>

Segment Commentary

Service Provider Technology

- The Service Provider Technology product category encompasses the airMAX, airFiber, EdgeMAX and UFiber product lines
- Revenues were \$100.9 million
- Represents 40% of our total fiscal Q3 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 \$149.5 million
- Represents 60% of our total fiscal Q3 2018 revenues

Ubiquiti Networks, Inc.
Revenues by Geographical Area
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
North America	\$ 94,800	\$ 78,573
South America	19,882	27,770
Europe, the Middle East and Africa (“EMEA”)	113,738	87,780
Asia Pacific	21,984	24,236
Total revenues	<u>\$ 250,404</u>	<u>\$ 218,359</u>

During the third quarter of fiscal 2018, total revenues grew 14.7% versus the prior year period. Year-over-year, North America revenues increased 20.7%, EMEA revenues increased 29.6%, South America revenues decreased 28.4% and Asia Pacific revenues decreased 9.3%.

Additional Income Statement Items

Gross Margins

During this quarter, GAAP gross profit was \$114.5 million, representing 45.7% of revenues versus \$99.1 million, or 45.4%, in the prior year. The prior quarter (second quarter fiscal 2018) GAAP gross margin included \$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 during the second quarter fiscal 2018, GAAP gross margin would have been 46.1%.

Research and Development

Research and development expenses were \$17.4 million in the third quarter fiscal 2018 as compared to \$16.6 million the prior year and \$20.5 million in the prior quarter. Sequentially, research and development expenses decreased as the Company recognized higher non-recurring engineering (NRE) payments and payroll related costs in the second quarter fiscal 2018.

Sales, General and Administrative

Our selling, general and administrative ("SG&A") expenses for the quarter were \$12.2 million compared to \$9.1 million the prior year and \$10.4 million the prior quarter. The increase in SG&A costs on both a year-over-year and sequential basis are primarily related to professional fees.

Headcount

We finished the third fiscal quarter with a total of 806 full-time equivalent employees, representing an increase of 3% on a sequential basis and an increase of 23% on a year-over-year basis. 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 \$27.4 million tax benefit from the exercise of a material number of non-qualified stock options issued under our 2005 Equity Incentive Plan. On a non-GAAP basis, our effective tax rate for the quarter was 6.3%, as compared with 11.2% in the third quarter of fiscal 2017.

Net Income

GAAP net income was \$102.7 million and GAAP diluted earnings per share were \$1.32. Included in GAAP net income was a \$27.4 million, or \$0.35 per diluted share, benefit related to equity award exercises and benefits. Non-GAAP net income was \$76.0 million and non-GAAP diluted EPS were \$0.98. These results compare with prior year non-GAAP net income of \$64.6 million and non-GAAP diluted EPS of \$0.78. The 18% increase in non-GAAP net income, and 26% increase in non-GAAP diluted EPS was driven primarily by higher revenues versus the prior year but was also driven by a 5.1 million, or 6%, reduction in weighted-

average shares used in non-GAAP diluted EPS. The reduction in shares has been driven by the Company's stock repurchase program.

Balance Sheet Highlights

Cash. Total cash and cash equivalents as of March 31, 2018 were \$690.8 million, compared with \$604.2 million as of June 30, 2017. As of March 31, 2018, the Company held \$128.6 million of cash and cash equivalents in accounts of the Company's subsidiaries outside of the United States. Cash and cash equivalents, less debt (net cash) of \$199.9 million decreased \$156.2 million sequentially. The sequential decrease in net cash during the third quarter of fiscal 2018 was primarily driven by the repurchase of common stock and was partially offset by operating earnings. Note that \$22.0 million in share repurchases made during the third quarter fiscal 2018 were settled during the fourth quarter fiscal 2018.

The Company repatriated \$677.2 million in cash from its foreign subsidiaries to U.S. banks, providing liquidity for the Company's share repurchase program.

Borrowing Availability. On January 17, 2018, the Company entered into an amended and restated credit agreement. The 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, which remains undrawn as of March 31, 2018.

DSOs. Third quarter fiscal 2018 days sales outstanding in accounts receivable ("DSO") were 57 days, compared with 58 days in the prior quarter, and 52 days in the third quarter of fiscal 2017.

Inventory. Inventory at the end of the quarter decreased \$6.1 million to \$92.8 million. Inventory weeks on hand decreased slightly on a sequential basis to 9.1 weeks in the current quarter versus 9.4 weeks the prior quarter.

Cash Flow Statement

Our net cash flow from operations for first nine months fiscal 2018 was \$285.1 million, compared with a net cash flow from operations of \$65.9 million for the first nine months fiscal 2017. The \$219.2 million increase in operating cash flow during first nine months fiscal 2018 as compared with first nine months fiscal 2017 was driven by reduced investments in working capital, and higher operating earnings. Note net earnings in the first nine months fiscal 2018 period include a \$112.8 million Tax Reform Transition Tax and a \$27.4 million net tax benefits related to equity awards, exercises and vesting. Capital expenditures for the first nine months of fiscal 2018 were \$7.3 million.

Business Outlook

Based on recent business trends, the Company believes that it is on track to achieve the low-end of the revenue and non-GAAP diluted earnings-per-share guidance previously provided for the full fiscal year ending June 30, 2018 and has no update to previously provided long-term guidance.

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 1-800-239-9838 (U.S. toll-free) or 1-323-794-2551 (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.

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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 fourth fiscal quarter of 2018 and full fiscal year 2018, and statements regarding expectations related to the repatriation of foreign earnings under recent federal tax reform, expected impact of taxes on our liquidity and results of operations, 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 fourth 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. 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.

Ubiquiti Networks, Inc.

**Reconciliation of GAAP Net
Income to Non-GAAP Net
Income**

**(In thousands, except per
share data)**

(Unaudited)

	Three Months Ended			Nine Months Ended March 31,	
	March 31, 2018	December 31, 2017	March 31, 2017	2018	2017
Net Income/(Loss) and Comprehensive Income/(Loss)	\$ 102,739	\$ (51,459)	\$ 64,432	\$ 126,204	\$ 196,828
Stock-based compensation:					
Cost of revenues	39	40	39	324	213
Research and development	527	370	421	1,353	1,362
Sales, general and administrative	166	370	141	747	519
Net Tax Benefits related to Equity Awards Exercises and Vesting	(27,419)	(194)	(179)	(28,188)	(7,859)
Tax Reform Transition Tax	—	110,708 ¹	—	112,798 ¹	—
SEC Related matters	317	—	—	317	—
Tax effect of Non-GAAP adjustments	(325)	(242)	(240)	(932)	(837)
Non-GAAP net income	\$ 76,044	\$ 59,593	\$ 64,614	\$ 212,623	\$ 190,226
Non-GAAP diluted EPS	\$ 0.98	\$ 0.76	\$ 0.78	\$ 2.68	\$ 2.29
Shares outstanding (Diluted)	77,953	79,235	83,317	79,661	83,694
Share adjustment (ASU 2016-09 Adoption)	(346)	(471)	(635)	(433)	(689)
Weighted-average shares used in Non-GAAP diluted EPS	77,607	78,764	82,682	79,228	83,005

About our Non-GAAP Net Income and Adjustments

¹ 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 fiscal quarter transition tax calculation is an approximate \$2.1 million benefit recorded in the second fiscal quarter related to the reduced domestic rate to 28% on the first quarter fiscal 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 nine-month results, this \$2.1 million benefit was not removed from the non-GAAP results for the nine-month period ending March 31, 2018. As a result, the Company's non-GAAP Tax Reform Transition Tax adjustment for the nine 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 fiscal 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, net tax benefits related to equity awards, exercises and vesting, the tax effects of these non-GAAP adjustments, the SEC related matters 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 above.

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:

- SEC related matters
- Stock-based compensation expense
- Net Tax Benefits related to Equity Awards Exercises and Vesting
- 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.