

Ubiquiti Inc. (UI)

\$191.64 (As of 08/03/20)

Price Target (6-12 Months): **\$201.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/20)

Prior Recommendation:

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

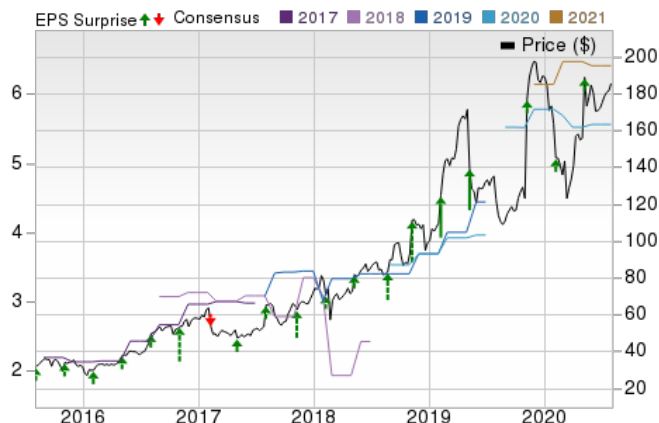
Growth: A

Momentum: B

Summary

Ubiquiti has made investments in inventory to reduce lead times and meet higher demand. Backed by a resilient global business model, the operating framework contributes significantly toward the expansion of its addressable market, thereby maintaining its dominant foothold in the industry. It is poised to benefit from steady R&D investments and enhanced inventory management techniques. The proprietary network communication platform is well equipped to fulfill end-market customers' needs. However, due to its geographically diverse scale of operations, Ubiquiti is susceptible to various macroeconomic challenges. Its supply chain and logistics have suffered considerably due to the COVID-19 pandemic. Price-competitive environment and dynamic market with rapidly-evolving technologies are risks for Ubiquiti's business.

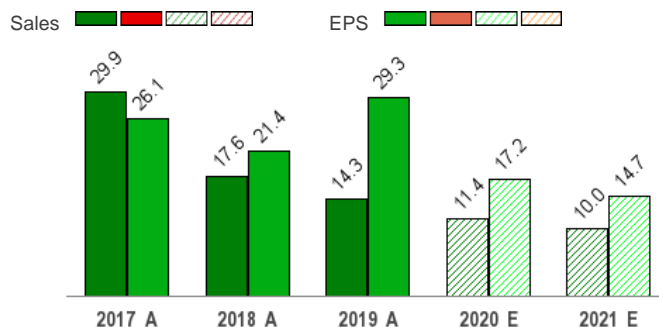
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$199.91 - \$107.22
20 Day Average Volume (sh)	66,599
Market Cap	\$12.2 B
YTD Price Change	1.4%
Beta	1.12
Dividend / Div Yld	\$1.20 / 0.6%
Industry	Wireless Equipment
Zacks Industry Rank	Top 48% (123 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.2%
Last Sales Surprise	6.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/14/2020
Earnings ESP	0.0%
P/E TTM	34.0
P/E F1	29.9
PEG F1	2.4
P/S TTM	9.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	339 E	363 E	350 E	372 E	1,424 E
2020	323 A	308 A	337 A	325 E	1,294 E
2019	283 A	307 A	285 A	287 A	1,162 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.41 E
2020	\$1.44 A	\$1.40 A	\$1.61 A	\$1.13 E	\$5.59 E
2019	\$1.17 A	\$1.33 A	\$1.26 A	\$1.19 A	\$4.77 A

*Quarterly figures may not add up to annual.

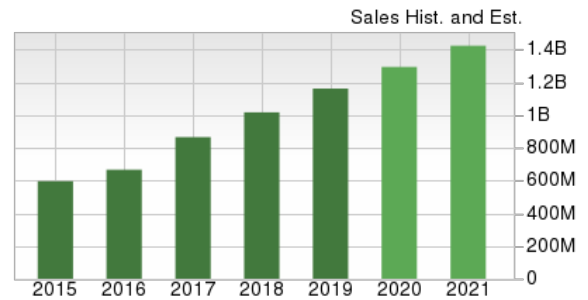
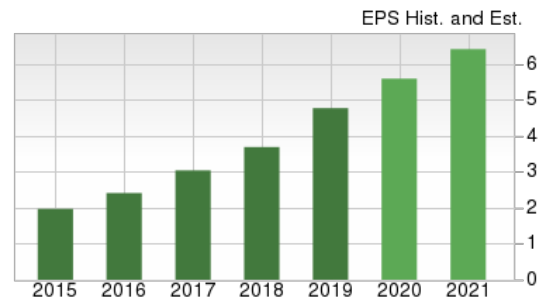
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

Overview

Headquartered in New York, Ubiquiti Inc., along with its subsidiaries, offers a comprehensive portfolio of networking products and solutions for service providers and enterprises. Its service-provider product platforms offer carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing; while enterprise product platforms provide wireless LAN infrastructure, video surveillance products and machine-to-machine communication components. The company was earlier known as Ubiquiti Networks Inc. and traded under the symbol "UBNT".

Ubiquiti offers high-performance radios, antennas, software, communications protocols and management tools that are designed to deliver carrier and enterprise class wireless broadband access and other services primarily in the unlicensed radio frequency spectrum. The company offers its products and solutions through disruptive price offering. They are also integrated as well as easy to deploy and manage. Moreover, Ubiquiti follows a scalable community-led approach based on product feedback of customers.

Broadly speaking, Ubiquiti has two different product categories, namely, Service Provider Technology (31.5% of total revenues in third-quarter fiscal 2020) and Enterprise Technology (68.5%). The Service Provider Technology segment includes airMAX, airFiber and EdgeMAX embedded radio and antenna product lines. This segment also includes products like base stations, radios, backhaul equipment and Customer Premise Equipment ("CPE"). The Enterprise Technology Segment includes UniFi and mFi product lines. This comprises UniFi Access Point ("UAP") products, UniFi Video Products, UniFi Voice Over IP ("VOIP") phones and UniFi switches.



Reasons To Buy:

- ▲ Ubiquiti's excellent global business model, which is flexible and adaptable to evolving changes in markets, helps it to steer challenges and maximize growth. Its operating model is backed by a rapidly growing and highly engaged community of service providers, distributors, value-added resellers, systems integrators and corporate IT professionals (referred to as the Ubiquiti Community). Moreover, the company's effective management of its strong global network of more than 100 distributors and master resellers has improved its visibility for future demand as well as inventory management techniques. Periodic reporting by channel partners has added to operational strength. Ubiquiti expects its resilient business model to contribute significantly toward growth momentum in the coming quarters.
- ▲ During third-quarter fiscal 2020, Enterprise Technology revenues were \$231 million, up 31.6% from \$175.5 million in the prior-year quarter. Disruptive pricing and higher average selling price of products boosted the top line. The company believes that its global market share in Enterprise Technology will continue to grow, fueled by increasing adoption of UniFi products, including switches, security gateways, cameras and other complementary products.
- ▲ Ubiquiti spends significantly toward R&D activities for developing innovative products and state-of-the-art technology in order to expand its addressable market and remain at the cutting edge of networking technology. The company believes its new product pipeline will help it increase average selling prices for high performance, best value products, thus raising the top line. It upgraded the UniFi ecosystem, which includes hotspot analytics and high-density WLAN improvements, and added new features to the AmpliFi product family. The company's strategic product launches at disruptive prices helped it beat rivals to a great extent. Apart from launching products, reduction of labor-related costs also remains one of the chief highlights of the R&D initiatives. The company believes investments in R&D, inventory and operations management will help it expand the addressable market and maintain its dominant foothold in the industry.
- ▲ Ubiquiti boasts a proprietary network communication platform that is well equipped to meet end-market customer needs. In addition, the company is committed toward reducing its operational costs by using a self-sustaining mechanism for rapid product support and dissemination of information by leveraging the strength of the Ubiquiti Community. The company has made significant investments in inventory to reduce lead times, meet increasing demand and support the growing number of customers. These efforts have optimized Ubiquiti's inventory with market demand. Apart from this, Ubiquiti remains committed toward enhancing the value of its shareholders. During the fiscal third quarter, Ubiquiti repurchased more than 1.1 million shares at an average price of \$133.38 per share for \$148.4 million.

Ubiquiti expects its resilient business model to contribute significantly toward its growth momentum, helping it expand the addressable market and maintain its dominant foothold in the industry.

Reasons To Sell:

- ▼ Ubiquiti is susceptible to geopolitical instability on account of its geographically diverse scale of operations. The company is also prone to a number of intellectual property-related risks. Additionally, in emerging markets, namely China and South America, it is difficult for Ubiquiti to enforce IPR and this is particularly risky as a significant portion of demand is generated from this region. Unfortunately, for Ubiquiti, it operates in an industry where component suppliers are targets of extensive intellectual property litigation, which adds to its legal expenses. These factors are beyond its control and can weigh on its profitability in the short run.
- ▼ Ubiquiti operates in an extremely price-competitive environment, which includes big telecom service providers. The company operates in enterprise WLAN, solar, video surveillance, wireless backhaul and machine-to-machine communications markets, which are highly competitive in nature. Longer operating histories, greater brand recognition, larger customer bases and significantly greater resources of competitors add to its woes. As a result, the company needs to maintain competitive selling prices while continuously enhancing its product offerings. Moreover, this dynamic market is characterized by rapid technological changes, evolving standards, frequent product introductions and short product life cycles that make it crucial for Ubiquiti to maintain its human resource pool. It needs to make substantial investments in R&D. This will likely hurt its margin in the short term.
- ▼ Ubiquiti's offerings are subject to export control and economic sanctions laws in the United States and elsewhere, and failure to comply with these laws can adversely impact its reputation and financials. Additionally, as government regulations are typically intended to protect the privacy and security of personal information that is collected, stored and transmitted in or from the governing jurisdiction, Ubiquiti may find it increasingly difficult to sell products on account of delayed product launches and escalating product-launch costs.
- ▼ As of Mar 31, 2020, the company had \$85 million in cash and cash equivalents with \$677 million of long-term debt. The stock looks relatively more leveraged than the sub-industry. Ubiquiti currently has a debt-to-capital ratio of 2.03 compared with 0.35 of the sub-industry. A highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability. The times interest earned has declined sequentially from 18.3 to 17.1. This indicates that Ubiquiti is less likely to clear its debt obligations in the near future. It is to be seen whether Ubiquiti can turn the tables in the coming days despite disruptions caused by the COVID-19 pandemic.

Ubiquiti operates in an intensely competitive market, which is highly price sensitive in nature.

Last Earnings Report

Ubiquiti Q3 Earnings Beat Estimates, Revenues Rise Y/Y

Ubiquiti reported solid third-quarter fiscal 2020 results, with the bottom and the top line surpassing the respective Zacks Consensus Estimate and increasing year over year.

Net Income

On a GAAP basis, net income in the March quarter was \$103.7 million or \$1.60 per share compared with \$88.3 million or \$1.25 per share in the prior-year quarter. The improvement can be primarily attributed to top-line growth.

Non-GAAP net income came in at \$104.3 million or \$1.61 per share compared with \$88.9 million or \$1.26 per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 20 cents.

Revenues

Quarterly revenues increased 18.4% year over year to \$337.4 million backed by higher sales of enterprise technology products. By product type, revenues from **Service Provider Technology** were \$106.4 million compared with \$109.4 million reported in the year-ago quarter. **Enterprise Technology** revenues were \$231 million, up 31.6% from \$175.5 million in the prior-year quarter. The top line surpassed the consensus estimate of \$317 million.

Region wise, revenues from North America were \$133.9 million compared with \$109.1 million in the year-ago quarter, driven by higher revenues from Enterprise Technology products. Revenues from South America were \$17.8 million compared with \$23 million and that of Asia Pacific totaled \$26.2 million, down 3.3% from \$27.1 million in the year-ago quarter. The year-over-year decline was primarily caused by lower revenues from Service Provider Technology products, partially offset by higher revenues from Enterprise Technology products. Revenues from Europe, Middle East and Africa were \$159.4 million, up 26.9% from \$125.7 million in the prior-year quarter mainly on higher Enterprise Technology revenues.

Other Details

Overall gross profit increased to \$159.6 million from \$132.8 million in the year-ago quarter, driven by top-line growth. Gross margin improved to 47.3% from 46.6%, led by favorable mix of products sold and reduced inventory reserves. However, it was partly offset by higher tariffs and indirect costs. Total operating expenses were \$32.3 million compared with \$30.7 million in the year-earlier quarter due to higher R&D and SG&A expenses. Operating income increased to \$127.3 million from \$102.1 million, primarily owing to higher revenues.

Cash Flow & Liquidity

For the first nine months of fiscal 2020, Ubiquiti generated \$335.3 million of net cash from operating activities compared with \$158.3 million in the prior-year quarter. As of Mar 31, 2020, the computer networking company had \$77.8 million in cash and equivalents with \$659.4 million of long-term debt.

During the reported quarter, Ubiquiti repurchased more than 1.1 million shares at an average price of \$133.38 per share for \$148.4 million. It bought back an additional 99,165 shares at an average price of \$138.25 for \$13.7 million subsequent to the end of the quarter. Further, the company started off a new stock repurchase program to buy back up to \$500 million worth of shares.

Moving Ahead

Despite the uncertainties pertaining to the COVID-19 pandemic, Ubiquiti has emerged as a strong player by augmenting its proprietary network communication platform that is well equipped to meet end-market customers' needs. Backed by a resilient business model, the operating framework contributes significantly toward the expansion of its addressable market, thereby maintaining its dominant foothold in the industry. However, the global pandemic has taken a toll on Ubiquiti's supply chain and logistics, thereby disrupting the distribution of products and services globally. Nevertheless, the company is committed to increase R&D investments and enhance its inventory management techniques to steer challenges and maximize growth.

Quarter Ending **03/2020**

Report Date	May 08, 2020
Sales Surprise	6.49%
EPS Surprise	14.18%
Quarterly EPS	1.61
Annual EPS (TTM)	5.64

Valuation

Ubiquiti shares are up 61.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 24.7% over the past year, and stocks in the Zacks Computer and Technology sector are up 36.7% in the same period.

The S&P 500 Index is up 15.4% in the past year.

The stock is currently trading at 25.98X trailing 12-month EV/EBITDA, which compares to 24.29X for the Zacks sub-industry, 13.6X for the Zacks sector and 12.76X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 29.59X and as low as 9.28X, with a 5-year median of 15.2X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$201 price target reflects 6.72X forward 12-month earnings.

The table below shows summary valuation data for UI

Valuation Multiples - UI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	25.98	24.29	13.6	12.76
	5-Year High	29.59	25.88	13.6	12.85
	5-Year Low	9.28	9.84	7.59	8.24
	5-Year Median	15.2	16.52	10.89	10.89
P/E F12M	Current	29.9	19.92	26.43	22.59
	5-Year High	43.52	30.47	26.43	22.59
	5-Year Low	12.98	13.61	16.72	15.25
	5-Year Median	21.01	18.63	19.47	17.55
P/S F12M	Current	8.6	3.74	4.07	3.6
	5-Year High	10.41	3.74	4.07	3.6
	5-Year Low	3.46	2.07	2.32	2.53
	5-Year Median	5.76	2.79	3.14	3.04

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 48% (123 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Clearfield, Inc. (CLFD)	Outperform	1
Aviat Networks, Inc. (AVNW)	Neutral	3
Comtech Telecommunications Corp. (CMTL)	Neutral	3
InterDigital, Inc. (IDCC)	Neutral	3
PCTEL, Inc. (PCTI)	Neutral	4
Sonim Technologies, Inc. (SONM)	Neutral	3
Sierra Wireless, Inc. (SWIR)	Neutral	3
CommScope Holding Company, Inc. (COMM)	Underperform	5

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	UI	X Industry	S&P 500	CMTL	COMM	SWIR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	B	-	-	A	F	F
Market Cap	12.20 B	469.83 M	22.67 B	408.86 M	1.87 B	469.83 M
# of Analysts	1	3	13.5	2	6	3
Dividend Yield	0.63%	0.00%	1.77%	2.42%	0.00%	0.00%
Value Score	D	-	-	A	D	F
Cash/Price	0.01	0.14	0.07	0.12	0.22	0.15
EV/EBITDA	31.81	11.43	13.08	6.40	40.78	-17.53
PEG Ratio	2.33	2.06	2.94	NA	2.99	NA
Price/Book (P/B)	NA	1.83	3.10	0.75	3.27	1.32
Price/Cash Flow (P/CF)	38.96	14.17	12.34	5.30	1.57	NA
P/E (F1)	29.17	20.58	21.71	16.62	8.08	NA
Price/Sales (P/S)	9.72	1.55	2.46	0.64	0.20	0.67
Earnings Yield	3.34%	4.15%	4.38%	6.05%	12.33%	-7.35%
Debt/Equity	-1.90	0.19	0.75	0.29	16.91	0.19
Cash Flow (\$/share)	4.92	0.49	6.94	3.12	6.09	-0.10
Growth Score	A	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	26.05%	-5.34%	10.46%	21.11%	-1.78%	-25.11%
Proj. EPS Growth (F1/F0)	14.67%	16.82%	-7.08%	696.00%	-44.88%	-9,400.00%
Curr. Cash Flow Growth	18.36%	-14.66%	5.47%	18.78%	53.52%	-108.17%
Hist. Cash Flow Growth (3-5 yrs)	14.25%	5.53%	8.55%	14.59%	11.92%	NA
Current Ratio	2.72	1.67	1.32	1.67	1.70	1.30
Debt/Capital	NA%	22.60%	44.21%	22.60%	94.92%	15.73%
Net Margin	28.56%	2.32%	10.25%	1.87%	-11.72%	-11.76%
Return on Equity	-191.57%	3.74%	14.72%	4.46%	32.68%	-7.40%
Sales/Assets	1.72	0.78	0.52	0.69	0.62	1.07
Proj. Sales Growth (F1/F0)	10.00%	0.00%	-1.79%	8.88%	1.55%	-12.17%
Momentum Score	B	-	-	C	F	F
Daily Price Chg	3.42%	0.00%	0.27%	0.73%	3.13%	-2.64%
1 Week Price Chg	2.16%	2.16%	0.14%	1.30%	7.28%	18.15%
4 Week Price Chg	7.40%	8.51%	2.96%	1.85%	10.32%	45.28%
12 Week Price Chg	2.28%	17.72%	10.90%	-8.37%	-11.63%	52.30%
52 Week Price Chg	61.83%	10.64%	2.35%	-40.97%	-28.32%	11.08%
20 Day Average Volume	66,599	149,831	2,043,624	269,981	4,941,939	391,858
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.82%	0.00%	-2.80%	0.00%
(F1) EPS Est 12 week change	-0.93%	3.45%	0.59%	-43.45%	-30.77%	-51.74%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.25%	0.00%	-3.09%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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