

Ubiquiti Inc. (UI)

\$129.50 (As of 03/11/20)

Price Target (6-12 Months): **\$136.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

Ubiquiti's excellent global business model, which is flexible and adaptable to evolving changes in markets, helps it to steer challenges and maximize growth. The company is well positioned to benefit from steady R&D investments, and focused inventory and operations management. Its self-sustaining mechanism and a proprietary network communication platform help in providing rapid product support while fulfilling end-market customer needs. Increasing adoption of UniFi products is likely to fuel growth. However, longer operating histories and rapid technological changes continue to weigh on its revenues. Ubiquiti operates in an extremely price-competitive environment, which includes big telecom service providers. The company is susceptible to geopolitical instability on account of its geographically diverse scale of operations.

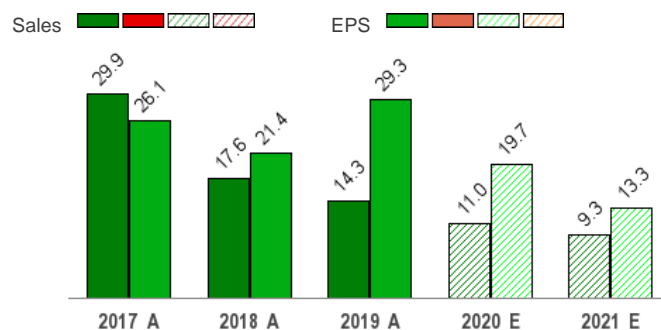
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$199.91 - \$107.22
20 Day Average Volume (sh)	223,866
Market Cap	\$8.4 B
YTD Price Change	-31.5%
Beta	1.46
Dividend / Div Yld	\$1.20 / 0.9%
Industry	Wireless Equipment
Zacks Industry Rank	Top 23% (58 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-10.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/08/2020
Earnings ESP	0.0%
P/E TTM	24.5
P/E F1	22.7
PEG F1	2.5
P/S TTM	7.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,410 E
2020	323 A	308 A	316 E	343 E	1,290 E
2019	283 A	307 A	285 A	287 A	1,162 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.47 E
2020	\$1.44 A	\$1.40 A	\$1.41 E		\$5.71 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.

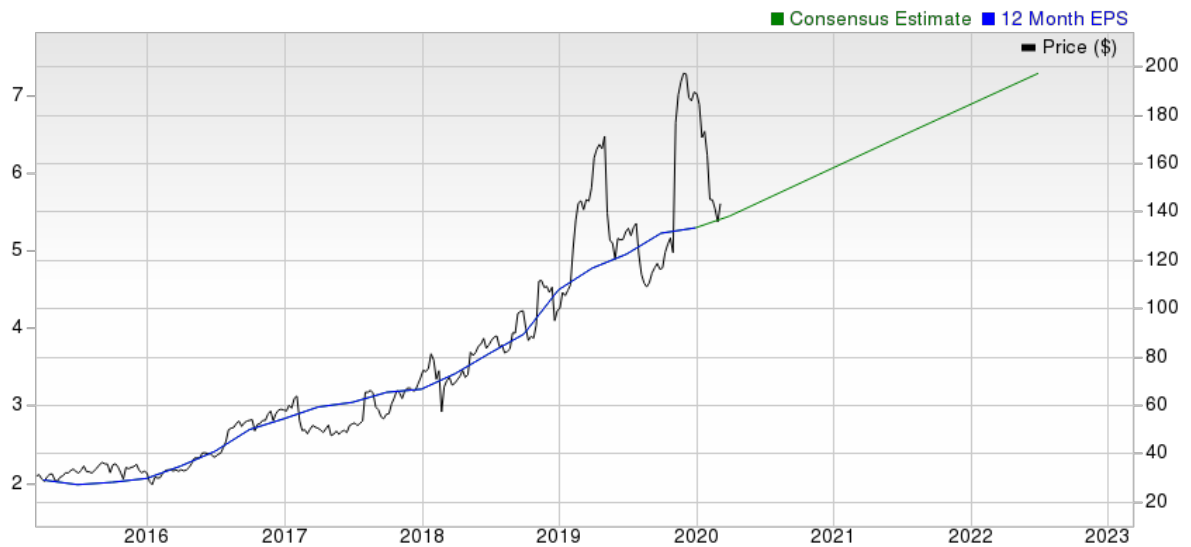
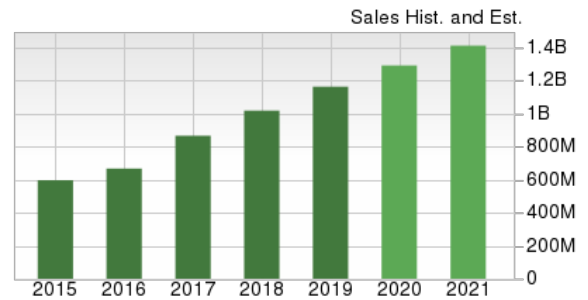
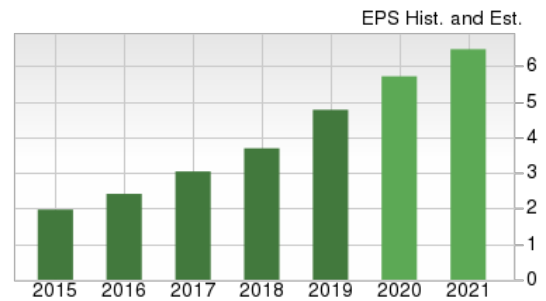
The data in the charts and tables, except sales and EPS estimates, is as of 03/11/2020. The reports text and the analyst-provided sales and EPS estimates are as of 03/12/2020.

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 (31.7% of total revenues in second-quarter fiscal 2020) and Enterprise Technology (68.3%). 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 second-quarter fiscal 2020, Enterprise Technology revenues were \$210.6 million, up from \$194.1 million driven by product expansion and further adoption of UniFi technology platform across all regions other than EMEA. 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. Earnings estimate for the current and next fiscal have increased by 17% and 57.8%, respectively, over the past year, signifying bullish investor sentiments on the stock.
- ▲ 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 fiscal second quarter, Ubiquiti repurchased 995,495 shares at an average price of \$120.11. Further, the company initiated a new stock repurchase program to buy back up to \$200 million worth of shares.

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.

Ubiquiti operates in an intensely competitive market, which is highly price sensitive. Costs due to higher tariffs on certain Chinese products imported into the U.S. market remain another concern.

Last Earnings Report

Ubiquiti's Q2 Earnings Match Estimates

Ubiquiti reported relatively modest second-quarter fiscal 2020 results, wherein the bottom line increased year over year and matched the Zacks Consensus Estimate.

Net Income

On a GAAP basis, net income for the December quarter was \$85.8 million or \$1.32 per share compared with \$77.8 million or \$1.09 per share in the prior-year quarter. The improvement was primarily attributable to lower operating expenses and a reduction in outstanding share count.

Non-GAAP earnings came in at \$91.4 million or \$1.40 per share compared with \$95.1 million or \$1.33 per share in the year-ago quarter. The bottom line was in sync with the Zacks Consensus Estimate.

Revenues

Quarterly revenues were relatively flat at \$308.3 million and missed the consensus estimate of \$343 million. By product type, revenues from **Service Provider Technology** were \$97.7 million compared with \$113.2 million reported in the year-ago quarter due to lower revenues in Europe, Middle East and Africa (EMEA), North America, South America and Asia Pacific. **Enterprise Technology** revenues were \$210.6 million, up from \$194.1 million driven by product expansion and further adoption of UniFi technology platform across all regions other than EMEA.

Region wise, revenues from North America were \$130 million compared with \$121.2 million a year ago. Revenues from South America were \$24.9 million compared with \$20.9 million, and the same from Asia Pacific totaled \$32.8 million, up from \$30.7 million. The increase was primarily due to higher revenues from Enterprise Technology products, partially offset by lower contribution from Service Provider Technology products. Revenues from EMEA were \$120.6 million, down from \$134.4 million.

Other Details

Overall gross profit increased to \$145.1 million from \$140.2 million in the year-ago quarter driven by lower costs of sales. Gross margin improved to 47.1% from 45.6%, led by favorable mix of products sold, partly offset by higher tariffs and indirect costs. Total operating expenses were \$33 million compared with \$48.6 million in the year-earlier quarter led by higher litigation costs in the year-ago quarter. Operating income improved to \$112 million from \$91.7 million mainly due to lower operating expenses.

Cash Flow & Liquidity

For the first six months of fiscal 2020, Ubiquiti generated \$243.3 million of net cash from operating activities compared with \$144.6 million in the prior-year period. As of Dec 31, 2019, the computer networking company had \$100 million in cash and equivalents with \$615.5 million of long-term debt. During the reported quarter, Ubiquiti repurchased 995,495 shares at an average price of \$120.11.

Quarter Ending **12/2019**

Report Date	Feb 07, 2020
Sales Surprise	-10.04%
EPS Surprise	0.00%
Quarterly EPS	1.40
Annual EPS (TTM)	5.29

Recent News

On Nov 20, 2019, Ubiquiti communicated that it has launched AmpliFi Alien, its first whole-home Wi-Fi 6 platform that offers Gigabit speeds. The router, which features a single Gigabit Internet interface and internal power supply, is available at a list price of \$379. The product has been optimized to provide home network with the highest possible performance. Driven by 8x8 MIMO Wi-Fi 6 technology, a single AmpliFi Alien router performs with far better range and speed than previous Wi-Fi solutions. Each router has an integrated LAN switch with 4 Gigabit Ethernet ports.

Valuation

Ubiquiti shares are down 8.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 4% over the past year, but stocks in the Zacks Computer and Technology sector are up 2.2% in the same time frame.

The S&P 500 Index is down 3.4% in the past year.

The stock is currently trading at 21.02X trailing 12-month EV/EBITDA, which compares to 18.89X for the Zacks sub-industry, 11.18X for the Zacks sector and 11.04X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 29.6X and as low as 9.3X, with a 5-year median of 14.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$136 price target reflects 6.55X 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	21.02	18.89	11.18	11.04
	5-Year High	29.59	25.55	12.67	12.87
	5-Year Low	9.29	10.1	7.68	8.49
	5-Year Median	14.42	16.04	10.59	10.79
P/E F12M	Current	20.75	16.57	19.51	16.58
	5-Year High	43.52	30.47	22.04	19.34
	5-Year Low	12.89	13.61	16.87	15.18
	5-Year Median	19.66	18.22	19.34	17.42
P/S F12M	Current	6.61	2.86	3.24	3.05
	5-Year High	10.41	3.51	3.58	3.44
	5-Year Low	3.46	2.07	2.3	2.54
	5-Year Median	5.35	2.8	3.07	3.01

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 253)



Top Peers

Comtech Telecommunications Corp. (CMTL)	Outperform
PCTEL, Inc. (PCTI)	Outperform
Clearfield, Inc. (CLFD)	Neutral
CommScope Holding Company, Inc. (COMM)	Neutral
Cisco Systems, Inc. (CSCO)	Neutral
InterDigital, Inc. (IDCC)	Neutral
Juniper Networks, Inc. (JNPR)	Neutral
Ceragon Networks Ltd. (CRNT)	Underperform

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	UI Neutral	X Industry	S&P 500	CLFD Neutral	COMM Neutral	CRNT Underperform
VGM Score	B	-	-	D	A	B
Market Cap	8.40 B	238.42 M	19.20 B	139.99 M	1.48 B	117.94 M
# of Analysts	1	3	13	1	6	1
Dividend Yield	0.93%	0.00%	2.31%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	B	B
Cash/Price	0.01	0.19	0.05	0.17	0.30	0.18
EV/EBITDA	22.18	8.99	11.76	14.30	38.98	3.41
PEG Ratio	2.33	1.62	1.73	NA	0.40	NA
Price/Book (P/B)	NA	1.41	2.64	1.85	1.77	0.74
Price/Cash Flow (P/CF)	26.33	11.55	10.55	20.97	1.25	15.27
P/E (F1)	20.85	17.91	15.66	27.70	4.00	NA
Price/Sales (P/S)	6.98	1.20	2.06	1.66	0.18	0.41
Earnings Yield	4.41%	5.43%	6.38%	3.61%	25.03%	-3.40%
Debt/Equity	-2.17	0.24	0.70	0.00	11.72	0.00
Cash Flow (\$/share)	4.92	0.49	7.01	0.49	6.09	0.10
Growth Score	A	-	-	F	A	D
Hist. EPS Growth (3-5 yrs)	25.38%	-4.51%	10.85%	-2.05%	0.45%	33.29%
Proj. EPS Growth (F1/F0)	19.71%	22.81%	6.02%	8.82%	-11.24%	NA
Curr. Cash Flow Growth	18.36%	-8.77%	6.09%	5.54%	53.52%	-67.44%
Hist. Cash Flow Growth (3-5 yrs)	14.25%	4.04%	8.52%	1.74%	11.92%	129.98%
Current Ratio	2.59	1.85	1.24	8.26	1.72	2.07
Debt/Capital	82.40%	25.07%	42.57%	0.00%	92.81%	0.00%
Net Margin	28.52%	3.15%	11.69%	4.81%	-11.14%	-0.82%
Return on Equity	-592.27%	3.33%	16.74%	5.50%	31.35%	-1.21%
Sales/Assets	1.49	0.78	0.54	1.06	0.60	0.95
Proj. Sales Growth (F1/F0)	11.04%	1.21%	3.55%	9.96%	10.06%	-0.18%
Momentum Score	B	-	-	B	B	A
Daily Price Chg	-4.52%	-3.26%	-5.37%	-1.16%	-9.81%	-2.65%
1 Week Price Chg	5.59%	0.00%	-0.67%	0.56%	-6.18%	-3.55%
4 Week Price Chg	-11.17%	-20.94%	-20.57%	-18.33%	-47.20%	-24.62%
12 Week Price Chg	-30.49%	-17.00%	-17.57%	-29.16%	-44.95%	-28.64%
52 Week Price Chg	-8.87%	-23.58%	-8.21%	-33.36%	-65.18%	-60.48%
20 Day Average Volume	223,866	94,202	2,882,511	20,149	5,120,360	601,928
(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%	-0.23%	4.23%	-22.89%	0.00%
(F1) EPS Est 12 week change	-1.56%	-1.56%	-0.60%	0.00%	-23.20%	-171.43%
(Q1) EPS Est Mthly Chg	0.00%	-5.54%	-0.52%	0.00%	-91.25%	0.00%

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.