

Ubiquiti Inc. (UI)

\$187.85 (As of 01/13/20)

Price Target (6-12 Months): **\$197.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

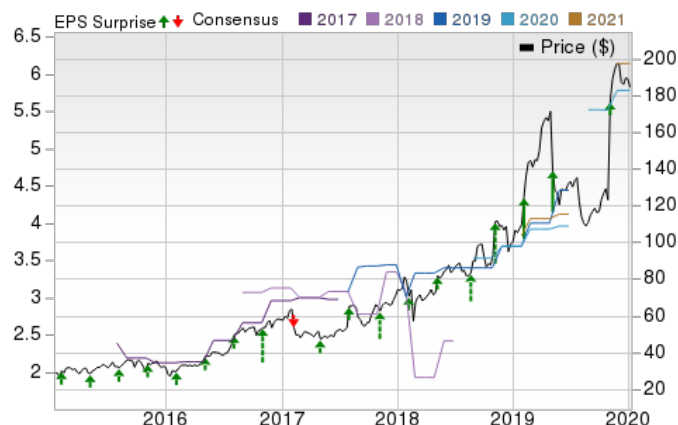
Growth: A

Momentum: B

Summary

Ubiquiti remains poised to benefit from investments in R&D, inventory and operations management to maintain its leading position in the industry. Its resilient business model, backed by an accretive base of highly engaged service providers, distributors, systems integrators and IT professionals helps in combating challenges and boosting growth in the long run. The company's self-sustaining mechanism and a proprietary network communication platform help in providing rapid product support while fulfilling end-market customer needs. However, potential impact of tariffs on certain products imported into the United States from China remains a concern. Natural disasters can disrupt Ubiquiti's shipments, thereby affecting its financial performance. Longer operating histories and rapid technological changes weigh on its revenues.

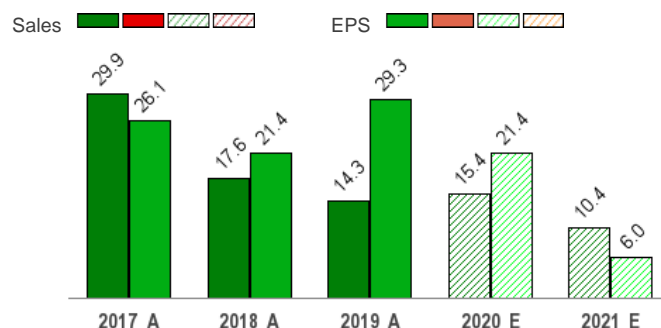
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$199.91 - \$101.32
20 Day Average Volume (sh)	226,764
Market Cap	\$12.2 B
YTD Price Change	-0.6%
Beta	1.46
Dividend / Div Yld	\$1.20 / 0.6%
Industry	Wireless Equipment
Zacks Industry Rank	Bottom 9% (230 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	8.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/14/2020
Earnings ESP	0.0%
P/E TTM	36.0
P/E F1	32.4
PEG F1	3.6
P/S TTM	10.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,481 E
2020	323 A	343 E	328 E	347 E	1,341 E
2019	283 A	307 A	285 A	287 A	1,162 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.14 E
2020	\$1.44 A	\$1.40 E			\$5.79 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.

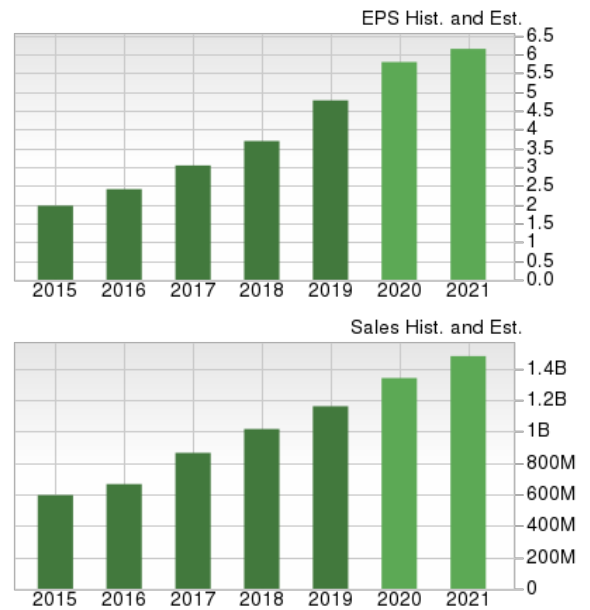
The data in the charts and tables, except sales and EPS estimates, is as of 01/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/14/2020.

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 (35.8% of total revenues in first-quarter fiscal 2020) and Enterprise Technology (64.2%). 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 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 its growth momentum in the coming quarters.
- ▲ During first-quarter fiscal 2020, the company's revenues increased 14.3% year over year. The company's Enterprise Technology segment sales continued its momentum on the back of solid demand for the entire UniFi product family. 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 the market demand. Apart from this, Ubiquiti remains committed toward enhancing the value of its shareholders. During fiscal first quarter, Ubiquiti repurchased 3,635,534 shares at an average price of \$114.49 per share. It bought back an additional 995,495 shares at an average price of \$120.11 subsequent to Sep 30, 2019. 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. Certain operating expenses are denominated in currencies of countries where the operations are located. Also, natural disasters like flood and earthquake can disrupt the company's shipments, thereby affecting its financial performance. These factors are beyond the company's 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 the company's 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 Ubiquiti's margin in the short term.
- ▼ Being a multinational company, Ubiquiti is also susceptible 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.
- ▼ 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 Q1 Earnings Top Estimates on Record Revenues

Ubiquiti reported solid first-quarter fiscal 2020 results, wherein both the bottom line and top line surpassed the respective Zacks Consensus Estimate and increased year over year. Notably, the company registered record revenues and GAAP earnings per share.

Net Income

On a GAAP basis, net income for the September quarter was \$98.1 million or \$1.43 per share compared with \$85.7 million or \$1.16 per share in the prior-year quarter. The improvement was primarily attributable to higher operating income and a reduction in share count.

Non-GAAP net income came in at \$98.7 million or \$1.44 per share compared with \$86.2 million or \$1.17 per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 16 cents.

Revenues

Quarterly revenues increased 14.3% year over year to \$323.3 million backed by higher sales of service provider technology and enterprise technology products. By product type, revenues from **Service Provider Technology** were \$115.9 million compared with \$105 million reported in the year-ago quarter. **Enterprise Technology** revenues were \$207.4 million, up from \$177.9 million. The top line surpassed the consensus estimate of \$299 million.

Region wise, revenues from North America were \$148 million compared with \$119.4 million a year ago. Revenues from South America were \$19.8 million compared with \$14.2 million, and the same from Asia Pacific totaled \$29.7 million, up from \$24.4 million. The increase was primarily due to higher revenues from both product segments. Revenues from Europe, Middle East and Africa were \$125.8 million, slightly up from \$124.9 million.

Other Details

Overall gross profit increased to \$151.4 million from \$131.6 million in the year-ago quarter driven by top-line growth. Gross margin improved to 46.8% from 46.5%, led by favorable mix of products sold, partly offset by higher tariffs and indirect costs. Total operating expenses were \$30.7 million compared with \$32 million in the year-earlier quarter on account of lower SG&A expenses. Operating income improved to \$120.7 million from \$99.6 million mainly due to higher gross profit.

Cash Flow & Liquidity

During the fiscal first quarter, Ubiquiti generated \$119.7 million of net cash from operating activities compared with \$93.9 million in the prior-year quarter. As of Sep 30, 2019, the computer networking company had \$119.7 million in cash and equivalents with \$621.5 million of long-term debt.

During the reported quarter, Ubiquiti repurchased 3,635,534 shares at an average price of \$114.49 per share. It bought back an additional 995,495 shares at an average price of \$120.11 subsequent to Sep 30, 2019. Further, the company initiated a new stock repurchase program to buy back up to \$200 million worth of shares.

Quarter Ending **09/2019**

Report Date	Nov 08, 2019
Sales Surprise	8.29%
EPS Surprise	12.50%
Quarterly EPS	1.44
Annual EPS (TTM)	5.22

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 up 82.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 24.2% and 32% over the past year, respectively.

The S&P 500 index is up 24.2% in the past year.

The stock is currently trading at 27.50X trailing 12-month EV/EBITDA, which compares to 22.28X for the Zacks sub-industry, 12.41X for the Zacks sector and 12.12X 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 14.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$197 price target reflects 6.27X 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	27.5	22.28	12.41	12.12
	5-Year High	29.59	25.55	12.6	12.86
	5-Year Low	9.29	10.1	7.68	8.48
	5-Year Median	14.14	15.77	10.52	10.67
P/E F12M	Current	31.44	20.02	22.65	18.87
	5-Year High	43.52	30.47	22.65	19.34
	5-Year Low	12.72	13.61	16.87	15.17
	5-Year Median	19.22	18.22	19.24	17.44
P/S F12M	Current	9.38	3.28	3.65	3.5
	5-Year High	10.41	3.51	3.65	3.5
	5-Year Low	3.35	2.07	2.3	2.54
	5-Year Median	5.2	2.8	3.01	3

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 254)



Top Peers

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

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	UI Neutral	X Industry	S&P 500	CLFD Neutral	COMM Underperform	CRNT Neutral
VGM Score	C	-	-	B	B	D
Market Cap	12.18 B	358.24 M	24.31 B	193.44 M	2.73 B	172.49 M
# of Analysts	1	2	13	2	6	1
Dividend Yield	0.64%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	A	B
Cash/Price	0.01	0.22	0.04	0.12	0.23	0.12
EV/EBITDA	31.49	13.38	14.12	21.14	15.87	5.52
PEG Ratio	3.58	3.23	2.05	NA	0.52	2.05
Price/Book (P/B)	NA	2.20	3.34	2.58	2.25	1.05
Price/Cash Flow (P/CF)	38.19	16.05	13.66	29.01	3.51	7.08
P/E (F1)	32.05	26.61	18.82	38.32	6.31	30.71
Price/Sales (P/S)	10.13	1.83	2.64	2.27	0.38	0.57
Earnings Yield	3.08%	3.68%	5.29%	2.61%	15.86%	3.26%
Debt/Equity	-2.66	0.25	0.72	0.00	8.34	0.00
Cash Flow (\$/share)	4.92	0.53	6.94	0.49	4.00	0.30
Growth Score	A	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	24.35%	-5.87%	10.56%	-0.15%	0.99%	33.29%
Proj. EPS Growth (F1/F0)	21.38%	23.31%	7.49%	8.82%	9.80%	16.67%
Curr. Cash Flow Growth	18.36%	-14.66%	14.83%	5.54%	-0.93%	0.12%
Hist. Cash Flow Growth (3-5 yrs)	14.25%	6.65%	9.00%	1.74%	8.68%	40.61%
Current Ratio	2.64	1.94	1.23	6.43	1.86	2.08
Debt/Capital	82.40%	25.49%	42.99%	0.00%	90.16%	0.00%
Net Margin	27.88%	3.08%	11.08%	5.37%	-7.26%	4.45%
Return on Equity	841.80%	3.26%	17.16%	6.30%	27.25%	4.90%
Sales/Assets	1.38	0.78	0.55	1.09	0.59	1.01
Proj. Sales Growth (F1/F0)	15.44%	4.72%	4.23%	10.86%	11.80%	4.05%
Momentum Score	B	-	-	C	D	C
Daily Price Chg	1.97%	1.40%	0.73%	0.71%	3.23%	-2.71%
1 Week Price Chg	-2.42%	0.00%	0.39%	2.55%	0.37%	6.25%
4 Week Price Chg	0.19%	1.18%	1.84%	-3.54%	0.36%	14.97%
12 Week Price Chg	47.37%	0.13%	6.48%	15.19%	7.66%	-25.61%
52 Week Price Chg	85.28%	2.71%	23.15%	33.15%	-25.05%	-44.87%
20 Day Average Volume	226,764	68,700	1,578,594	13,736	2,294,431	877,254
(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%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	4.81%	-1.35%	-0.48%	-8.64%	-14.58%	-56.25%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	0.00%	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	F
Growth Score	A
Momentum Score	B
VGM Score	C

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

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