

# Q2 2014 FINANCIAL RESULTS CONFERENCE CALL

TUESDAY, JULY 22, 2014  
2:00 P.M. PACIFIC TIME



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## Use of Non-GAAP Financial Measures

These presentation slides contain references to the following non-GAAP financial measures derived from our Preliminary Condensed Consolidated Statements of Operations: product gross margin, product gross margin as a percentage of product revenue; service gross margin; service gross margin as a percentage of service revenue; gross margin; gross margin as a percentage of revenue; research and development expense; sales and marketing expense; general and administrative expense; operating expense; operating income; operating margin; provision for income taxes; income tax rate; net income; and net income per share. For detailed reconciliation between the non-GAAP financial results presented in these slides and corresponding GAAP measures, please refer to the appendix at the end of this slide deck. In addition, for important commentary on why Juniper Networks considers non-GAAP information a useful view of the company's financial results, please see the press release furnished with our Form 8-K filed today with the SEC. With respect to future financial guidance provided on a non-GAAP basis, we have excluded estimates for amortization of intangible assets, share-based compensation expense, acquisition-related charges, restructuring and related costs, product quality-related remediation charges, impairment charges, litigation settlements and resolutions, professional services related to non-routine stockholder matters, gain or loss on equity investments, non-recurring income tax adjustments, valuation allowance on deferred tax assets and income tax effect of non-GAAP exclusions.

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.



# Q2 2014 RESULTS

SHAYGAN KHERADPIR  
CHIEF EXECUTIVE OFFICER



# Q2'14 KEY TAKEAWAYS

- Executing well on Integrated Operating Plan
- Great customer feedback – our value prop resonating with customers
- Near term revenue caution due to delays in certain projects with key US-based service providers
- Healthy outlook for other market verticals, Web 2.0, Cable, EMEA and Enterprise
- Healthy medium and long-term growth drivers



# IOP: RESULTS TO DATE

## Strategy

### **Leading Provider of High-IQ Networks and Best-in-class Cloud Builders**

Focus on innovation that matters most to our customers: hyper-scale, resilient, secure, highly intelligent, open & virtualized networks

## Results to Date

- ✓ Strategy is resonating with customers
- ✓ Web 2.0, Cable, Carriers, Financial Services, Government & mission critical Enterprises

## Structure

### **Optimized One-Juniper Structure**

Focused, centralized, agile structure to reinvigorate the heritage of a mission-driven culture

- ✓ Company restructured
- ✓ 1 R&D, 1 GTM, 1 Operations team
- ✓ GTM simplified and focused on targeted industry verticals

## Cost Management

### **Enhanced Efficiency Resulting in 25% Operating Margin Target for 2015**

Approximately 580 basis point improvement versus 2013

- ✓ Execution in full motion
- ✓ Mid-point of September OpEx guidance ~87% of targeted cost reductions of \$160M
- ✓ Portion of compensation plan tied to IOP

## Capital Allocation

### **Aggressive Capital Return Plan while Preserving Flexibility for Future Growth**

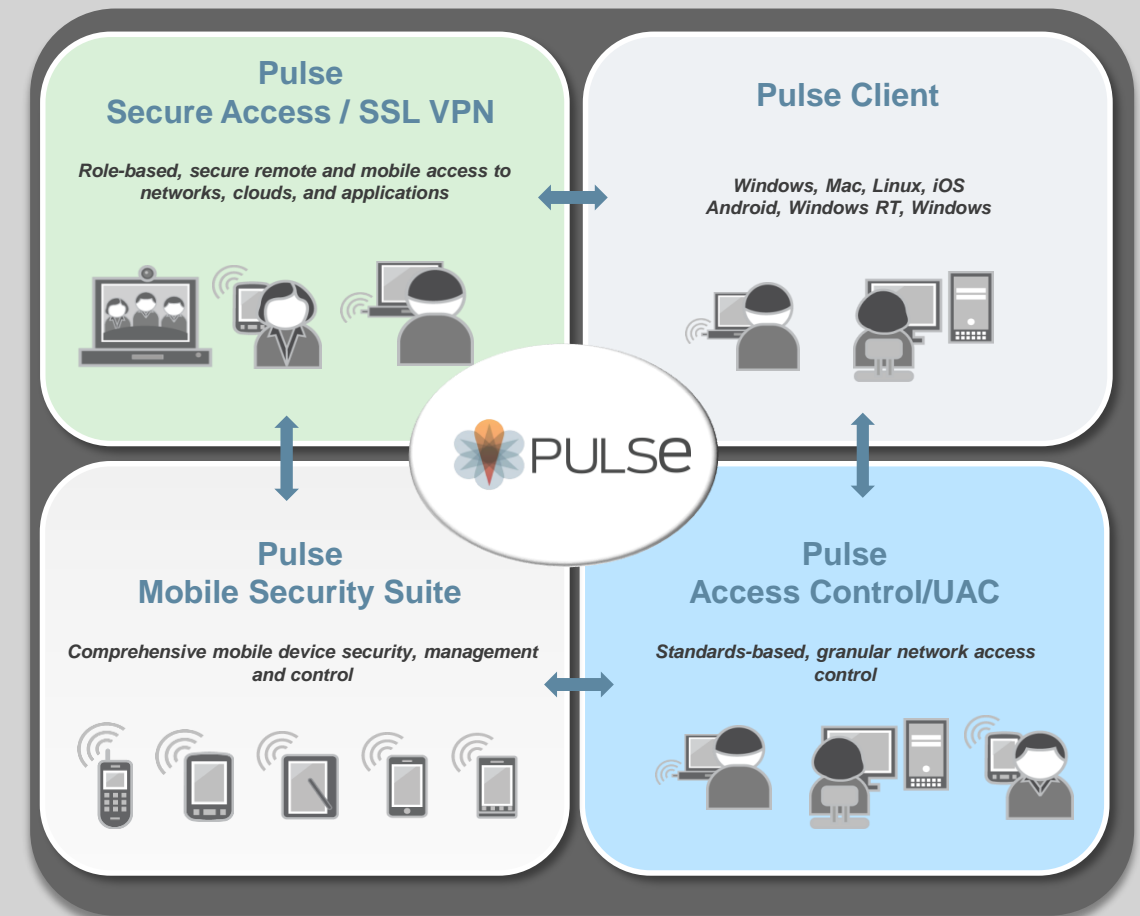
Returning at least **\$3B** of capital to stockholders over the next three years;  
Initiating quarterly cash dividend of **\$0.10** per share in Q3 2014 with intent to grow over time

- ✓ \$1.2B ASR completed by end of Aug'14
- ✓ Initiated \$0.10 dividend per share of common stock

**Execution well under way and seeing good results**

# PULSE TRANSACTION OVERVIEW

- Juniper has entered into a definitive agreement to sell its Junos Pulse SSL VPN, network access control (NAC) and mobile device security products to Siris Capital, for approximately \$250M
  - Pulse supports mobile and local network, cloud, and application access for mobile and local end users
  - Pulse enables secure connectivity to private networks, device-based authentication for network access, and mobile device anti-virus / anti-malware protection
- Juniper and Siris have a comprehensive plan to ensure existing and new customers receive consistent, seamless support
- Siris Capital is a New York-based private equity firm with a successful track record of investing in and managing technology companies
- Anticipated close late Q3'14; minimal financial impact to Q3'14





# FINANCIAL REVIEW

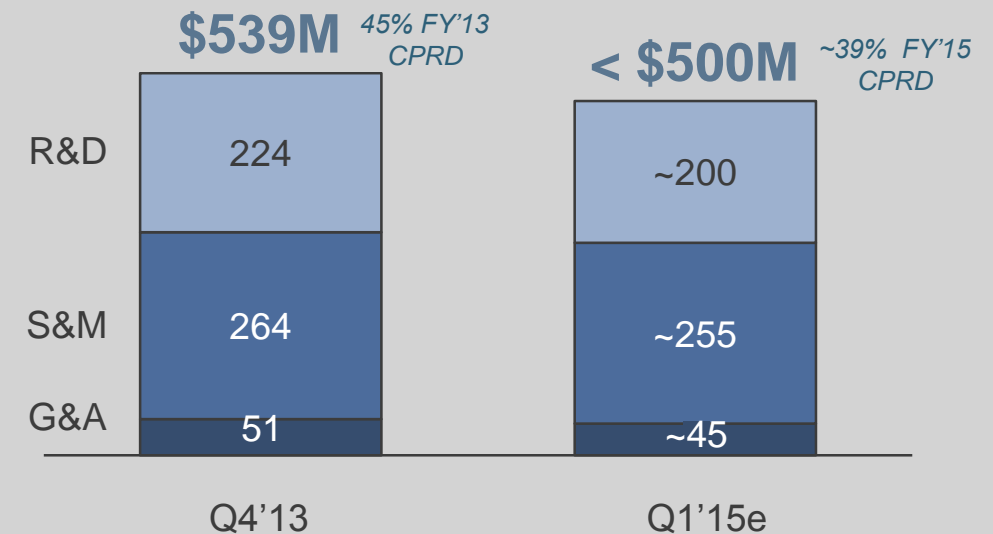
ROBYN DENHOLM  
CHIEF FINANCIAL AND OPERATIONS OFFICER



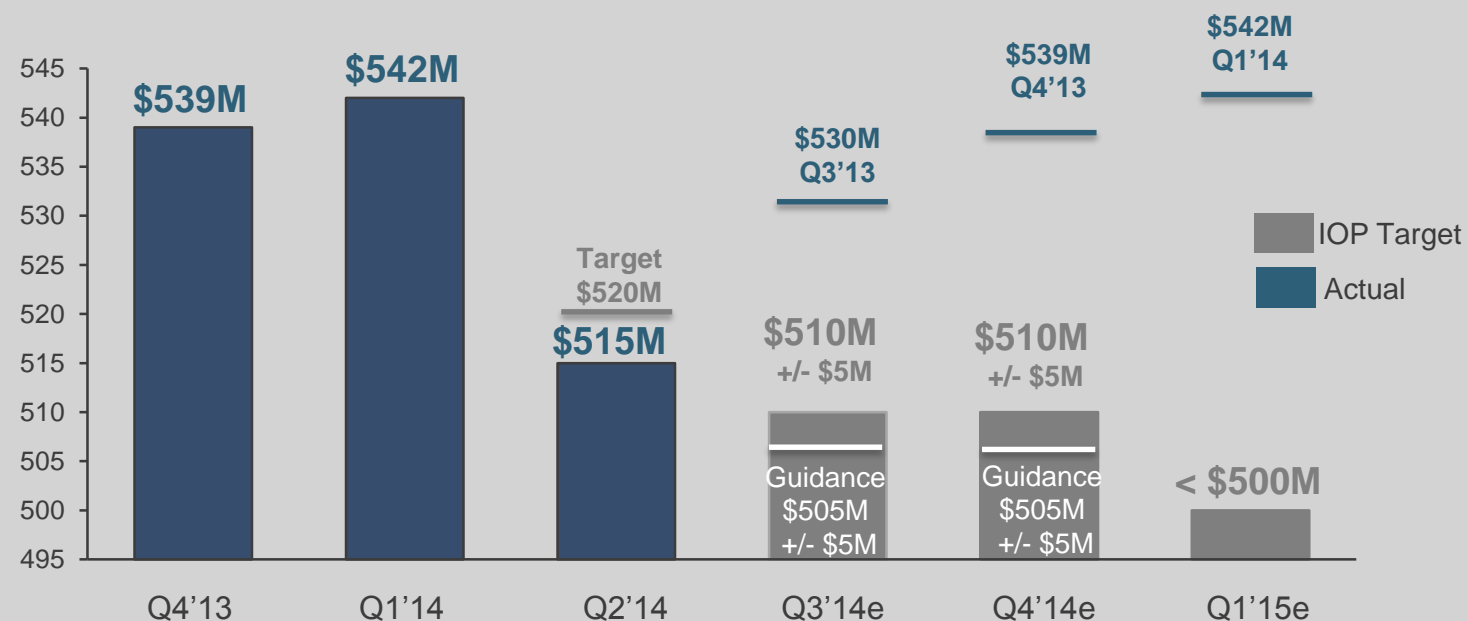
# IOP COST REDUCTIONS ON TRACK\*

- ✓ Realized ~\$100M in annualized savings; on track to achieve target of \$160M by Q1'15
- ✓ Headcount reduced by ~5%; ~75% of savings from management positions
- ✓ ~10% of real estate consolidated; savings to be realized in 2H'14
- ✓ Continuing to strategically cease development/restructure R&D projects

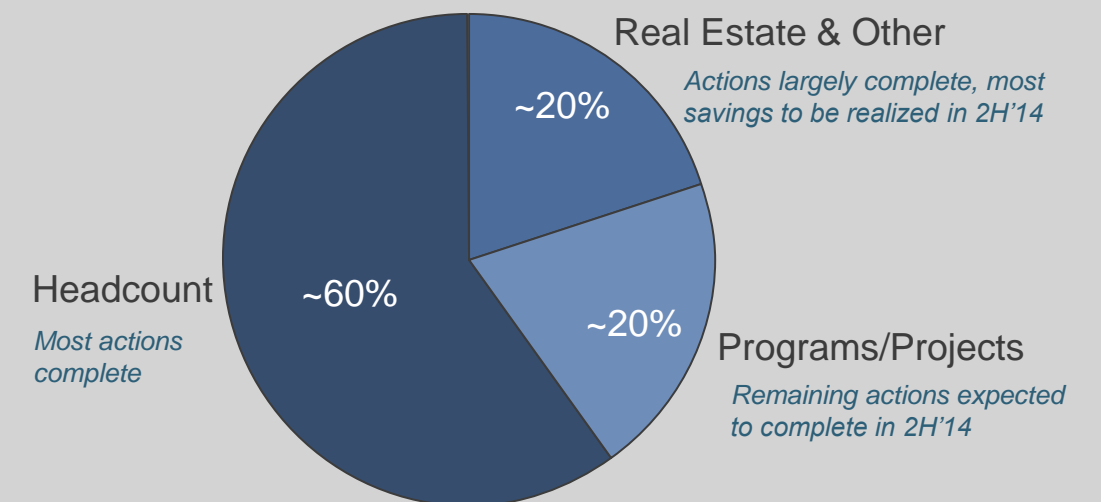
## \$160M of annualized savings by Q1'15



## Opex Glide Path - Improvement throughout FY14



## Costs savings are structurally focused



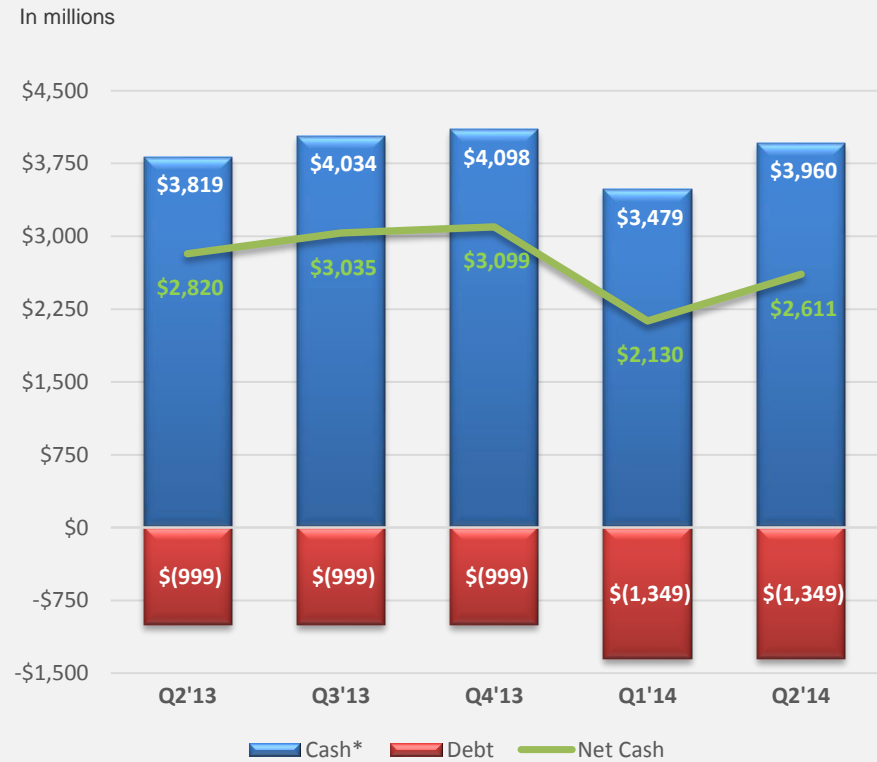
\*All numbers are Non-GAAP

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# CAPITAL ALLOCATION RETURNING \$3B TO STOCKHOLDERS OVER NEXT 3 YEARS

## Well Positioned Capital Structure...

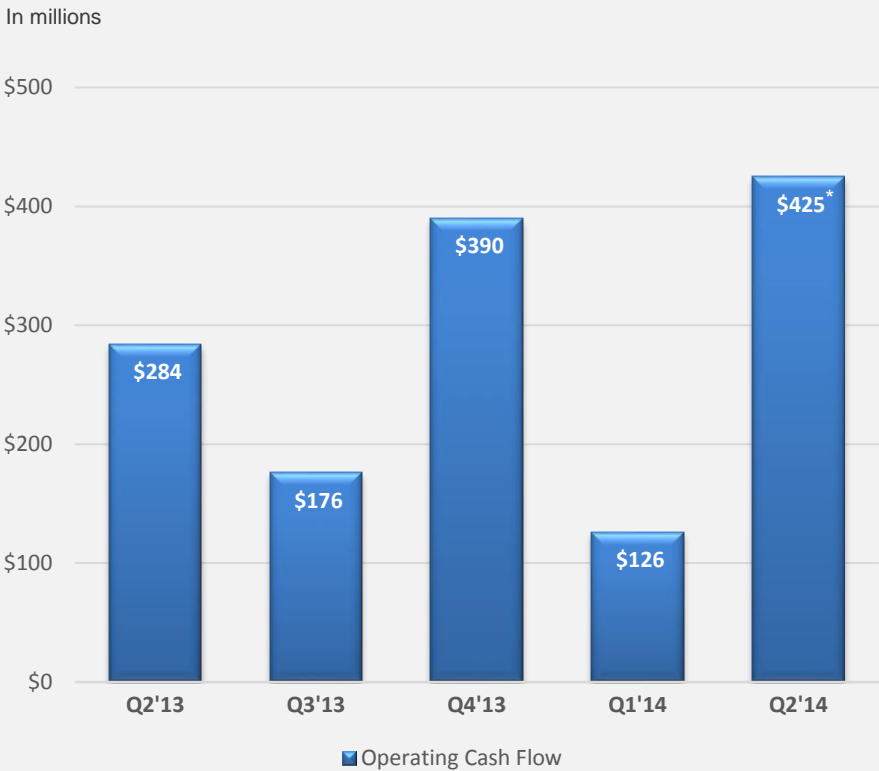


AS OF Q2'14:

- Total cash of nearly \$4.0B\*
- ~37% of cash held onshore
- Total debt of \$1.35B
- Rated BBB/Baa2 by S&P/Moody's

\*Cash includes cash equivalents and investments.

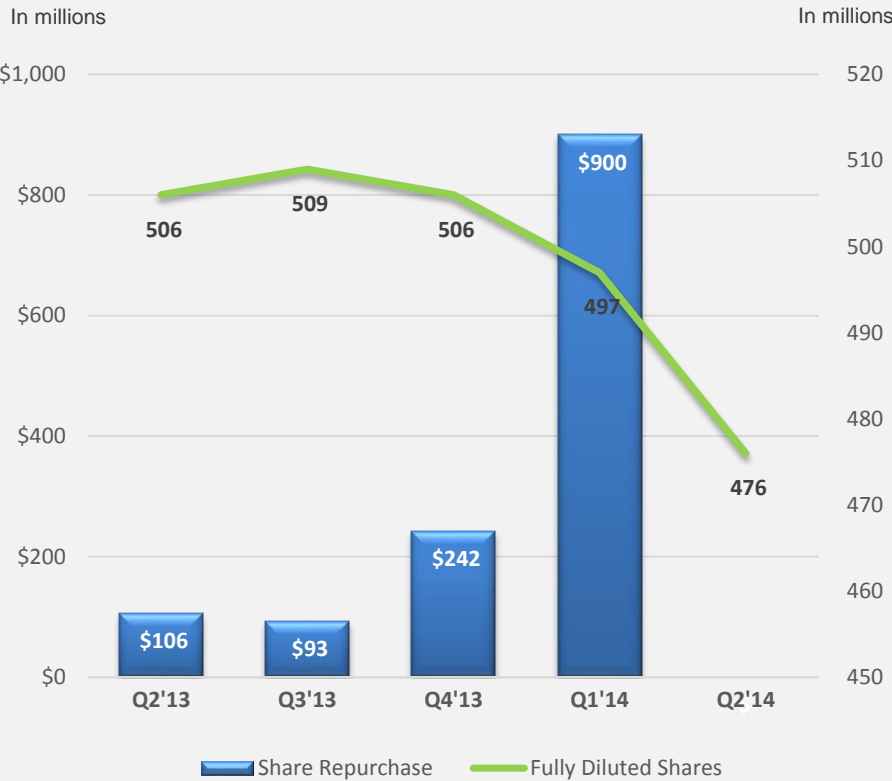
## ...And Strong Cash Flow Generation...



- Operating Cash Flow realized 50% Y/Y growth in Q2'14
- Typical quarterly seasonality evident
- Trailing 12-month Operating Cash Flow of over \$1.1B

\*Includes \$75 million from patent litigation settlement

## ...Resulting in Return of Shareholder Cash

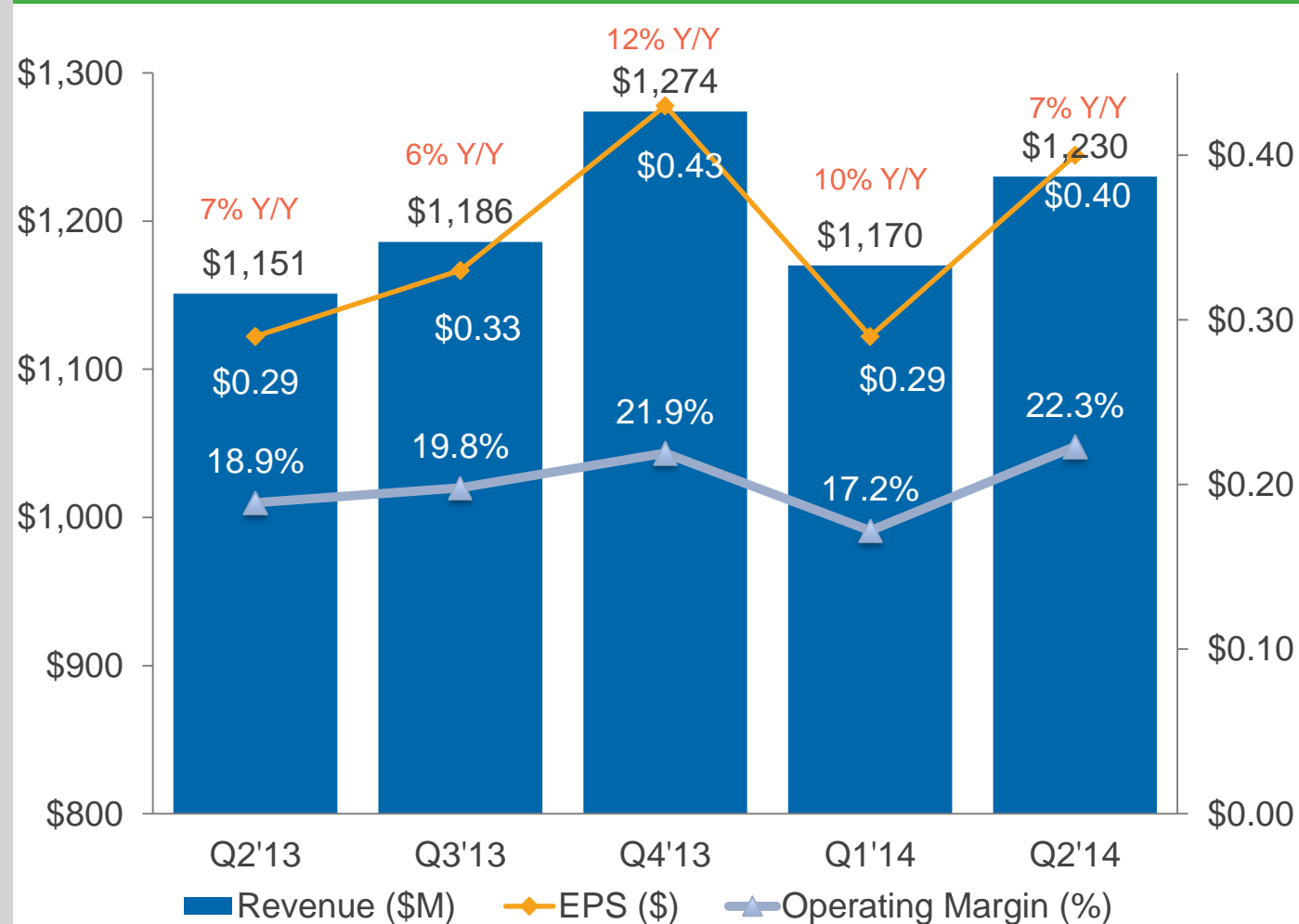


- Remaining ASR shares expected to be delivered in Q3'14
- Commitment to spend \$800M more on share repurchases by end of Q1'15\*
- Initiating \$0.10 per share quarterly dividend to be paid in Q3'14, with intention to grow over time

\*Does not include remaining \$300M of shares expected to be delivered under the ASR.

# Q2 2014 RESULTS: CONTINUED REVENUE GROWTH & EARNINGS EXPANSION

## Revenue, Non-GAAP Diluted EPS & Op Margin Trend



## Financial Overview

- 8th consecutive quarter of Y/Y revenue growth
- Revenue grew 7% Y/Y and 5% Q/Q
- Non-GAAP Operating Margin of 22.3%
- 6<sup>th</sup> consecutive quarter of Y/Y Non-GAAP Diluted EPS growth; increase of \$0.11 Y/Y

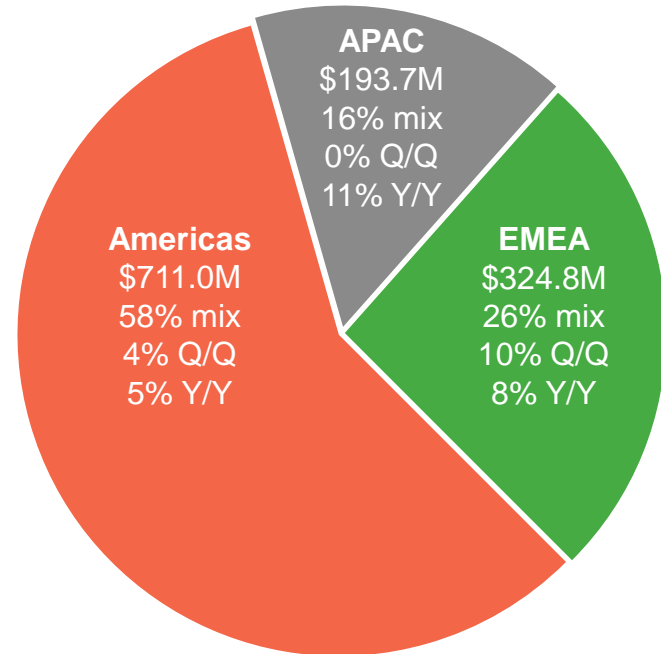
## Demand Metrics

- Book-to-bill approximately 1
- Total product deferred revenue was up \$20M Q/Q due to increased channel inventory



# Q2 2014 REVENUE MIX

## GEOGRAPHY



### Americas\*:

Strength in Web 2.0 providers and US Federal.

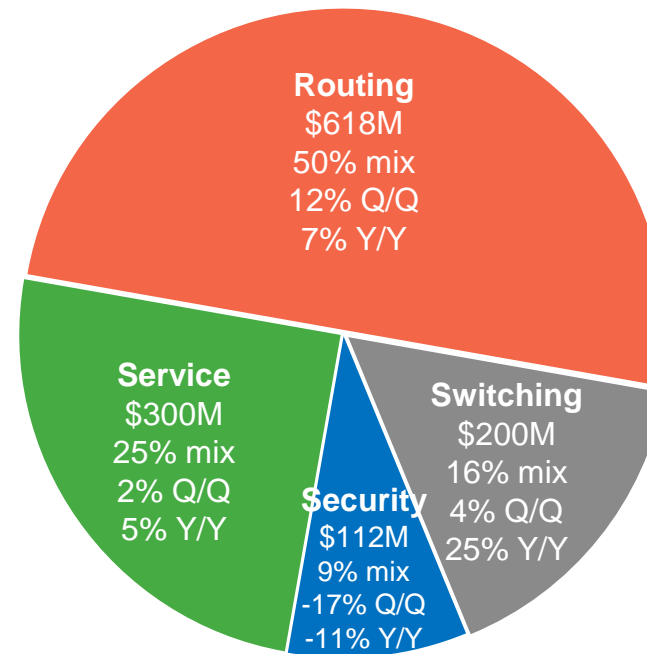
### EMEA:

Healthy growth in Service Provider especially large carriers in Central and Eastern Europe and the Middle East.

### APAC:

Strength with regional carriers across the theatre and in Enterprise.

## PRODUCT & SERVICE



### Routing\*:

Continued strong performance in MX and improvement in T series.

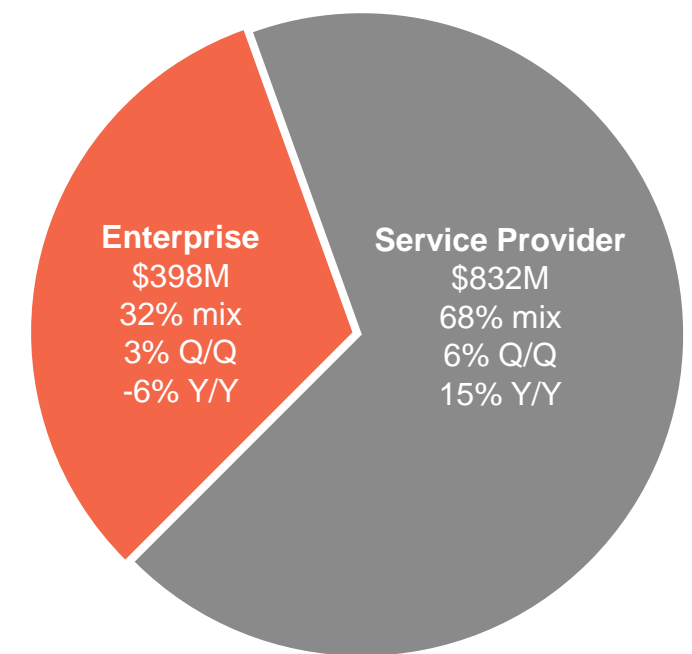
### Switching:

Strong sales of QFabric products.

### Security:

SRX platform and security software up 9% Y/Y & 11% 1H'14.

## MARKET



### Service Provider:

Strength in all three geographies, particularly in EMEA and Americas, especially with Web 2.0 providers.

### Enterprise\*:

Growth led by US Federal partially offset by decline in EMEA public sector.

Note: Revenue in \$ Millions

\*Q2'13 includes \$34M in deferred revenue recognition for routing with a US government customer

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# FINANCIAL RESULTS

Non-GAAP Except Revenue

	Q2'14	Q1'14	Q2'13	Q/Q Change	Y/Y Change
Revenue	\$1,229.5M	\$1,170.1M	\$1,150.7M	5%	7%
Gross Margin %	64.2%	63.5%	63.7%	0.7 pts	0.5 pts
R&D	\$222.9M	\$228.8M	\$224.5M	-3%	-1%
Sales & Marketing	\$241.5M	\$255.6M	\$247.8M	-6%	-3%
G&A	\$50.8M	\$57.5M	\$43.1M	-12%	18%
Total Operating Expense	\$515.2M	\$541.9M	\$515.4M	-5%	0%
Operating Margin %	22.3%	17.2%	18.9%	5.1 pts	3.4 pts
Net Income	\$190.3M	\$142.6M	\$148.1M	33%	28%
EPS (Diluted)	\$0.40	\$0.29	\$0.29	\$0.11	\$0.11



# Q2 2014 CASH FLOW AND BALANCE SHEET METRICS

Cash Position	<p>Net cash, cash equivalents and investments of \$2.6B. Includes patent litigation settlement.</p> <p>Net cash flows from operations of \$425M, includes \$75M from patent litigation settlement.</p>
Share Repurchase	\$1.2B ASR continues. Expect completion by end of August.
DSO	41 days
Deferred Revenue	<p>Total product deferred revenue was up \$20M Q/Q.</p> <p>Increase largely due to an increase in channel related inventory.</p>
Headcount	9,083, a decrease of 5% Y/Y, and 5% Q/Q

# Q3 2014 OUTLOOK\*

3 Months Ending September 30, 2014

Non-GAAP (Except for Revenue and Share Count)

<b>Revenue</b>	Between \$1,150 million and \$1,200 million
<b>Gross Margin</b>	64.0%, plus or minus half a percent
<b>OPEX</b>	\$505 million, plus or minus \$5 million
<b>Operating Margin</b>	21%, plus or minus half a percent
<b>EPS</b>	Between \$0.35 and \$0.40 per diluted share
<b>Tax Rate</b>	Flat to Q2'14 tax rate
<b>Share Count</b>	Assuming share count of 475 million shares
<b>Capital Allocation</b>	<u>Dividend</u> : Initiating quarterly dividend of \$0.10 per share of common stock – intend to grow over time. <u>Share Repurchase</u> : \$1.2B ASR to be completed by end of August 2014. Minimum of additional \$550M of opportunistic repurchase by December 31, 2014.



# SECURITY PRODUCTS: QUARTERLY REVENUE TREND

\$ in millions	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14
SRX Platform & Security Software	\$81.7	\$73.1	\$94.6	\$102.4	\$92.8	\$79.6
Screen OS	\$24.5	\$25.4	\$22.6	\$25.8	\$18.3	\$13.2
Other Legacy	\$12.8	\$8.3	\$7.3	\$6.4	\$5.5	\$2.9
Junos Pulse	\$17.6	\$19.3	\$19.7	\$22.4	\$17.6	\$15.9
Total Product Revenue	\$136.6	\$126.1	\$144.2	\$157.0	\$134.2	\$111.6

# TOTAL JUNOS PULSE REVENUE TREND BY QUARTER

\$ in millions	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14
Product Revenue	\$17.6	\$19.3	\$19.7	\$22.4	\$17.6	\$15.9
Service Revenue	\$15.5	\$15.6	\$15.7	\$15.7	\$15.4	\$15.5
Total Revenue	\$33.1	\$34.9	\$35.4	\$38.1	\$33.0	\$31.4



# APPENDIX



# NET REVENUES BY PRODUCT AND SERVICE

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
Routing	\$617.8	\$549.8	\$577.5
Switching	199.8	192.0	160.2
Security	111.6	134.2	126.1
Total product	929.2	876.0	863.8
Total service	300.3	294.1	286.9
Total	\$1,229.5	\$1,170.1	\$1,150.7



# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP gross margin - Product	\$569.9	\$549.4	\$542.5
GAAP product gross margin % of product revenue	61.3%	62.7%	62.8%
Share-based compensation expense	1.3	1.3	1.2
Share-based payroll tax expense	0.2	0.3	—
Amortization of purchased intangible assets	8.4	8.2	6.5
Restructuring and other charges	27.5	8.4	0.8
Non-GAAP gross margin – Product	\$607.3	\$567.6	\$551.0
Non-GAAP product gross margin % of product revenue	65.4%	64.8%	63.8%
GAAP gross margin – Service	\$178.3	\$170.7	\$178.0
GAAP service gross margin % of service revenue	59.4%	58.0%	62.0%
Share-based compensation expense	3.1	4.0	3.5
Share-based payroll tax expense	0.4	1.0	0.1
Non-GAAP gross margin – Service	\$181.8	\$175.7	\$181.6
Non-GAAP service gross margin % of service revenue	60.5%	59.7%	63.3%

# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP gross margin	\$748.2	\$720.1	\$720.5
GAAP gross margin % of revenue	60.9%	61.5%	62.6%
Share-based compensation expense	4.4	5.3	4.7
Share-based payroll tax expense	0.6	1.3	0.1
Amortization of purchased intangible assets	8.4	8.2	6.5
Restructuring and other charges	27.5	8.4	0.8
Non-GAAP gross margin	\$789.1	\$743.3	\$732.6
Non-GAAP gross margin % of revenue	64.2%	63.5%	63.7%

# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP research and development expense	\$255.5	\$264.0	\$257.7
Share-based compensation expense	(31.6)	(32.1)	(33.0)
Share-based payroll tax expense	(1.0)	(3.1)	(0.2)
Non-GAAP research and development expense	\$222.9	\$228.8	\$224.5
GAAP sales and marketing expense	\$258.0	\$273.4	\$267.1
Share-based compensation expense	(14.4)	(14.6)	(18.1)
Share-based payroll tax expense	(1.0)	(2.2)	(0.3)
Amortization of purchased intangible assets	(1.1)	(1.0)	(0.9)
Non-GAAP sales and marketing expense	\$241.5	\$255.6	\$247.8



# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP general and administrative expense	\$60.6	\$74.9	\$49.2
Share-based compensation expense	(8.9)	(8.8)	(5.7)
Share-based payroll tax expense	(0.1)	(0.4)	—
Amortization of purchased intangible assets	(0.3)	(0.3)	(0.3)
Acquisition-related charges	(0.1)	(0.6)	(0.1)
Professional services related to non-routine stockholder matters	(0.4)	(7.3)	—
Non-GAAP general and administrative expense	\$50.8	\$ 57.5	\$43.1

# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP operating expense	\$632.3	\$726.3	\$582.0
Share-based compensation expense	(54.9)	(55.5)	(56.8)
Share-based payroll tax expense	(2.1)	(5.7)	(0.5)
Amortization of purchased intangible assets	(1.4)	(1.3)	(1.2)
Restructuring and other charges	(58.2)	(114.0)	(8.0)
Acquisition-related charges	(0.1)	(0.6)	(0.1)
Professional services related to non-routine stockholder matters	(0.4)	(7.3)	—
Non-GAAP operating expense	\$515.2	\$541.9	\$515.4

# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP operating income (loss)	\$115.9	\$(6.2)	\$138.5
GAAP operating margin	9.4%	-0.5%	12.0%
Share-based compensation expense	59.3	60.8	61.5
Share-based payroll tax expense	2.7	7.0	0.6
Amortization of purchased intangible assets	9.8	9.5	7.7
Restructuring and other charges	85.7	122.4	8.8
Acquisition-related charges	0.1	0.6	0.1
Professional services related to non-routine stockholder matters	0.4	7.3	—
Non-GAAP operating income	\$273.9	\$201.4	\$217.2
Non-GAAP operating margin	22.3%	17.2%	18.9%
GAAP income tax provision	\$73.4	\$37.4	\$28.0
GAAP income tax rate	24.9%	25.3%	22.2%
Income tax effect of non-GAAP exclusions	(6.5)	11.6	27.9
Non-GAAP provision for income tax	\$66.9	\$49.0	\$55.9
Non-GAAP income tax rate	26.0%	25.6%	27.4%



# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q2'14	Q1'14	Q2'13
GAAP net income	\$221.1	\$110.6	\$97.9
Share-based compensation expense	59.3	60.8	61.5
Share-based payroll tax expense	2.7	7.0	0.6
Amortization of purchased intangible assets	9.8	9.5	7.7
Restructuring and other charges	85.7	122.4	8.8
Acquisition-related charges	0.1	0.6	0.1
Professional services related to non-routine stockholder matters	0.4	7.3	—
Gain on equity investments	—	(164.0)	(0.6)
Gain on legal settlement, net	(195.3)	—	—
Income tax effect of non-GAAP exclusions	6.5	(11.6)	(27.9)
Non-GAAP net income	\$190.3	\$142.6	\$148.1
GAAP diluted net income per share	\$0.46	\$0.22	\$0.19
Non-GAAP diluted net income per share	\$0.40	\$0.29	\$0.29
Shares used in computing diluted net income per share	476.5	496.5	506.3

# THANK YOU