EDITED TRANSCRIPT

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PRESENTATION

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay, good morning, everyone. I'm Simona Jankowski, Comm Tech Analyst from Goldman, and it's my pleasure this morning to welcome with us Juniper. And we have Robyn Denholm, the CFO. Thanks for joining us.

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Thank you.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And before we kick off the Q&A, we just need to have the disclosure read by Lisa.

Lisa Hartman - *Juniper Networks, Inc. - IR*

Before we begin, I do want to bring your attention to our Safe Harbor statement. There are certain risks affiliated with forward-looking statements. In the event that we do make forward-looking statements this morning, the Company takes no obligation to correct those. I'd like to refer you to our 10-Q filed with the SEC for a full list of risks associated with the business. Thank you.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay, well, let's get started. So, Robyn, I wanted to start at a high level first, just looking back quickly at 2013, which largely ended up better than you guys had expected at the beginning of the year, and also better than most investors expected as well. What surprised you the most about how the year unfolded?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Well, thanks, Simona. I'll just start with a brief overview of where we are at the moment and what, from a Company perspective, what are the highlights of 2013. So as a Company, we're busy working on our integrated operating plan at the moment. And I'm not going to unveil that today, so I know that you're all going to be disappointed at that. But we will be announcing that or unveiling that soon.

In terms of 2013, there were some very good trends that happened during the year. And if I look across the different geographies, it really was an Americas service provider led year. We started actually seeing good demand in the Americas service provider, and that's wireless and wire line as well as content Web 2.0 service providers, as well as cable progressively through the year. And so we actually finished the year with very good demand trends through that, and we're expecting the markets that we serve on the service provider and on the enterprises we moved through 2014 to continue to be healthy.

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The other thing that we saw during 2013, which I think was an important set of trends, is we saw improvement in enterprise, again in Americas, starting off with the Americas, but also in EMEA and a little bit in Asia-Pacific as well. And they're the same sort of trends. What we're seeing is demand for high-performance networking, obviously, high-IQ networking. You've heard us Shaygan use that term. And then also, cloud-like infrastructure for data centers. And they're the key trends that we did see.

One of the things I talked about on the fourth quarter earnings call was that for 2013 as a whole, more than 50% of our growth came from these types of opportunities in cable and Web services, Web 2.0 type service providers. And that was the first time I'd actually talked about that. So from my perspective, that's a significant proof point to what we've been talking about in terms of high-IQ networks as well as cloud infrastructure for data centers.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay, so then as you look forward now into 2014, what do you expect will be the top two drivers for the Company from a top line perspective?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Yes, I think the trends will continue into 2014. We are seeing, in the second half of 2013, we saw significant improvements in our switching business, both in terms of product lineup that we've had, again focused on this high-IQ, highly intelligent networks and cloud infrastructure. So we saw in the fourth quarter a 36% year-over-year growth in our switching business. And that was both QSX and the QFabric family as products, as well as the EX area.

We also saw a very good routing year. For the full year, we were up a full 10% to 15% in terms of routing for the full year, mainly led by the edge, but we've also seen a good build-out starting to happen on the core as well. And so from our perspective, again, those trends are converging, both from an enterprise and a service provider perspective.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Got it. So it's fair to say that as you look into this year, switching and edge routing are, you think, the best categories for Juniper?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I think they'll continue to do well. I think that security, we saw a good improvement in the second half of the year. And again, the area that we're seeing the most improvement is where we're most differentiated, which is in the data center. So we saw three quarters in a row of good sequential bookings growth with high-end SRX, and even we did also see some improvement in the branch SRX as well. But we saw high-end SRX improve in bookings for three quarters, and then revenues for both the third and fourth quarter. And that was, again, across service provider and enterprise. And again, those large data center environments is where that high-end SRX goes into.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay. And Robyn, I know you said that you're not going to disclose the integrated operating plan today. However, I did want to just ask some related questions on that, just more broadly. Obviously, when Shaygan talked about the plan, it focused on retailers, really, a more focused strategy, lower costs, and then capital allocations. So just to start off on the strategies, again in broad terms, should we still think of Juniper as a company that's focused on both service provider and enterprise as we go forward?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Yes, I think the first thing, we are excited about the integrated operating plan as staying focused on what has worked to do that as you're bringing in a new CEO, But actually, from my perspective, it's also a very good time to be doing it, because with a fresh perspective in terms of many of the areas, both strategy as well as the cost area as well as capital allocation, it actually enables us to make changes on all three fronts that would actually help the business long term. So from my perspective, it's very good doing this as Shaygan's coming in new, and particularly with the perspective of being a customer in the networking industry for a long time. So I think that's the first thing.

If you look at the three areas, we have a very focused strategy, obviously. Some things that he's called out in terms of high-intelligence networks, high-IQ networks and cloud-like data centers are things that our products are focused on, and making sure that we continue that focus, but also do it in a way that's more impactful, delivers a better ROI -- that type of thing. But we'll reveal more on the strategy side with the integrated operating plan.

In terms of the cost structure, we have made some improvements, but there's always more things that we can do. And again, with a fresh set of eyes, fresh perspective, looking at things differently and how we do business differently, we can make some improvements in that area.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Yes. And just to pick up on that front on the cost side, so last year you guys had a target of $150 million, which we didn't quite reach in the end. Can you just give us some context? So what were some of the challenges in reaching that target, and what can be different this time?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I think, to me, the targets were the right targets. Obviously, we didn't achieve them. So that, to me, states improvements on the execution side. And I think, again, with Shaygan arriving at the Company and having a very different background, different focus, he's committed to achieving whatever targets we put out there. So I think that accountability, that drive, and also a fresh set of perspectives on the results of the Company, I think, are important.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

You guys have been free cash flow positive for 11 years, pretty much since the tech bust. You've never paid a dividend, and a lot of your tech peers do pay a dividend. Historically, what has been the primary argument for not having paid a dividend?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

So I think capital allocation is an area that we've been talking about reviewing for probably six or seven months already. The time to make a change on that front wasn't when we were actually bringing in a new CEO. So, obviously, as Shaygan's come onboard, reviewing both the strategy as well as the cost structure, the capital allocation strategy falls out of those two things. So as we're going through the integrated operating plan review, we're obviously also looking at our capital allocation policies and what we would do from a distribution perspective as well as how we look at our cash, both internally, but also how we're looking at it onshore versus offshore, and as well as what we would do going forward. So, again, that will be part of our integrated operating plan.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Sure. And then just the last one on this topic, if you can remind us what percent of your free cash flow you generated in the US versus overseas.

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Yes, it does vary by quarter. But the operating cash flow pretty much lines up with the operating income. And the main driver of that is the revenue. So of recent times, that's been more 50/50, onshore/offshore, in terms of generation. Capital requirements in terms of CapEx are more onshore in the US than they are offshore. And so that means the generation is roughly 50/50, but we have in the US less available cash after our capital requirements than we do offshore.

And as you all are aware, in terms of our percentage of onshore versus offshore cash, it is roughly 40/60, onshore versus offshore. And so that has been -- it's historically been higher than that, but more recent times, it's 40/60 has been the split that we've had.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay. Thank you for that. I wanted to go back to some of the fundamental drivers we talked about at the beginning and just dig into that a little bit more. As you pointed out, growth really accelerated through the year. And in particular, the fourth quarter had a remarkably strong quarter in switching which, as you talked about, was up 36% year over year and actually also quarter over quarter.

You gave some insight there into the end markets that drove that -- federal was a piece and the Web 2.0 customer set was a piece. I wanted to also cut it, though, from a product perspective. So some of the new products you announced at the beginning of the fourth quarter were things like your Contrail SDN controller, also your MetaFabric, and also you had some new announcements with VMware, some you attend, you can port it, you can switch it. If we look at it from that perspective, can you just give us some insight on what, if any, of those drove some of the improvement?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Yes, I think as I look at switching across the year of 2013, obviously, we made some significant improvements and changes in our lineup throughout the year. So Contrail happened early in the year, late 2012 to early 2013. And what that does in terms of the discussion with customers around virtualizing their network or NSE and SCN is actually a very important trend, again, talking about cloud-like data centers or cloud-like infrastructure within the network's operators as well.

And so that level of engagement and dialogue has continued to increase. And I think it is some of the capabilities from that as well as the MetaFabric launch that we did, which encompasses all of our switching lineup, as well as software, as well as the solution for the data centers and large service provider networks, particularly Web services and Web 2.0, both in the private and the public cloud. I think both of those things helped to accelerate the revenue growth as we got into the second half of the year.

So for the full year, we were up 15% in terms of the switching lineup for the full year, but the second half of the year was significantly higher, with 36% year-over-year growth in the fourth quarter. And I think that's a combination of the work that we've done on the Contrail side as well as the MetaFabric solutions that we're bringing and the focus that we've had on these types of opportunities for a while.

That is the other thing. Most live infrastructure opportunities take a while to actually go from a design win, or even from a proposal stage to a design win through to an actual order. And so we started to see some of those things late in the year.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And can you give us a little bit of insight into how much of your switching business is traditional enterprise versus more service provider or Web 2.0 oriented?

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Robyn Denholm - *Juniper Networks, Inc. - CFO*

We haven't disclosed numbers broadly around switching, but the overall category that I gave you in terms of more than 50% of our growth in 2013, that's across all product lines, came from content Web services and cable type of opportunities. You can start to see that that's a significant trend. And for us, it's a combination of routing, switching, and security that actually combined in terms of the overall revenue.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Some companies yesterday at the conference mentioned that the pace of build-out in the Web 2.0 community has been just so torrid in the last couple of quarters that they questioned a little bit the sustainability, or we might be adding capacity a little bit ahead of actual usage. Do you guys have any insight into that as far as the sustainability of this kind of growth in that segment?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I think the trend has been a long time in coming, and in terms of wins and design wins, they've been gradual, and they've picked up pace across the rest of the world. So as I mentioned earlier, some of the demand signals we started to see late in 2012 in the US and in the Americas, and then those picked up in pace. And then we started to see EMEA actually have the same sort of demand pattern midway through the year. And again, we saw good revenues from them in the fourth quarter.

So we get visibility through the four quarters in terms of design wins ahead of when we see revenues. Sometimes it's shorter, sometimes it's a bit longer, depending on the customers and depending on the significance of the architectural change. So our view is that demand signals look healthy throughout 2014.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay. So shifting gears a little bit to security which, as you pointed out, while still down year over year, has actually been growing on a sequential basis, so that year-on-year decline has really been narrowing. And I know you cited an improving enterprise spending environment on the call as part of that improvement. Digging a little deeper there, what were some of the underlying fundamental drivers for the improvement as well from a product perspective?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I know this is going to sound strange, but it's the same sort of thing. If you're building a high-IQ network or a cloud infrastructure, it needs to be secure, by definition. And so that's why we're seeing the demand on the data center architecture, high-end SRX that goes both into the data center and into the large networks as well.

And so it's the same underlying trend, and we happen to have the right product at the right time, even though it took us a little while to get there in the market to deal with the scale of requirements from a security perspective. And we saw that a couple of years ago in some of the LTE build-outs when we were doing the service provider security area. And now we're seeing it on the traditional carrier side. And now we're seeing it in the high-IQ and data center environments as well.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And what percent of your security business is now SRX versus the older three NLX products?

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Robyn Denholm - *Juniper Networks, Inc. - CFO*

On the third quarter earnings call, we talked about a 20% to 25% range in terms of the older products. And that's normal. Obviously, some of those products are 7 to 10 years old, and so they start to tail off as the new products butt against their momentum. So that product transition period, at times, it is largely behind us. There's obviously still a little bit left. But it's pretty much the way we saw it happen.

I will say on the networking side as opposed to other industries that are open-end in technology, those product cycles are longer. So many of the design wins, they're designed into networks for 7 to 10 years. You don't see that in other parts of the technology environment.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And there were a lot of security events in the second half of last year. Certainly, the NSA revelations and then a lot of high-profile security breaches such as Target and a bunch of others. Are you seeing any impact from that in terms of either increased activity, more inbound interest, anything like that?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I think security is a hot topic for many customers in terms of both, and network security in particular is very important. And so I think in terms of the trends that we're seeing, that, in terms of underlying demand, that is there. And obviously, from our perspective, making sure the products were right and making sure that the manageability of those products was also in keeping with what our customers needed was our focus. And since we've done that, we've started to see the improvement in revenue.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

One of the conversations we had at the conference yesterday, which was with F5 Networks, what came out of that discussion, one of the things was that they see themselves as gaining some share from Juniper or having a fairly high win rate, as they put it, in bakeoffs for firewalls. Would you view them as a more significant competitor in the security space now?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Our view is we take all competitors seriously, irrespective of how big they are or how small they are. In the security market, it's a very fragmented market, as you know, and there are many competitors, depending on which part of the security area you're in. And so we see different competitors in different parts of the security market. We feel pretty good about our end-to-end solution. Obviously, we've been improving that over time, and particularly as it relates to where we think the market is going around these high-IQ and high available networks and the cloud-like infrastructure. So we feel pretty good about our competitiveness in those markets.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

I think one of the areas they were citing is service provider, and it just feels like Juniper hasn't had a recent service provider security surge in that area.

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Well, if you looked at our third quarter revenues, the reason they were up was service provider. So our view is the service provider business tends to be a little bit lumpier, just because of the type of build-outs that we do on that front. But our view is that our products are very competitive. We're doing well in that area, and we continue to improve.

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Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And then lastly on security, how should we think about the potential impact from either a win or loss in the Palo Alto Network lawsuit?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

In terms of where that is, obviously, there was some hearing last week. There is a lot of time, still, to happen before that's finalized. But our view is we stand behind the case that we have, and we're pretty comfortable with that.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Is that something that would be a material event for us to look out for? I know it's a relatively small piece of your business, but --

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I don't think I would comment on that.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Okay. And then just lastly, from a segment perspective, I wanted to touch on the routing business, which was a bit below seasonal in Q4 from a revenue perspective, but bookings were very, very strong -- up 20% sequentially, up 30% year over year. Can you just remind us what drove that disconnect between the booking strength and the revenue? And then over what time period do you think those bookings will convert into revenue?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

So we exited the year with a very healthy bookings quarter in the fourth quarter for routing. Revenue was down sequentially in the Americas. We were expecting some light orders, which is effectively how those ended up being in backlog. And you could see by where we finished up with our guidance range, it wasn't unexpected; it was expected. So in terms of the visibility that we have, as I mentioned before, from design win to conversion into revenue, there is visibility there. And so it might change in terms of quarterly boundaries and that sort of thing, but we know -- not with 100% certainty, but with some certainty -- as to when things are going to roll out.

And so our view is we have good design wins we are continuing to roll out, but we're also winning new design wins as well. And the product portfolio is very strong on the routing side. Whether it's on the core or the edge, we feel very comfortable. And we're continuing to develop new features and functionality. And as I mentioned earlier with our ACX product as well, that's also given us a different area to focus on as well.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

In edge routing, I think it's pretty clear that you gained quite a bit of share in the fourth quarter. And one of the things we always try to figure out on the outside is how much of that was just customers upgrading to your new products such as the MX2020 versus how much of that is new footprint?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

We feel very good about the fact that we're not only upgrading some existing customers in the edge, but we're also gaining footprint. And we're also gaining in new areas with the MX as well, new customer verticals in terms of the MX. It's truly a universal edge platform, and the use cases for

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it keep growing with the new features and functionality that we deliver. We also started shipping, in the second half of the year, the MX2020. The service is core aspect of the MX lineup. And that's also doing quite well.

So our view is we are gaining share. We're, again, respectful of our competitors, but our view is that our product lineup across the board on the routing side, and now increasingly on the switching side with the new products that we've brought out, are very, very competitive.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

When you say new segments, did you mean like the cable operators, some of the Web 2.0 that we talked about earlier?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Yes, the same sort of trends that we were talking about before. And we do track that. We look at brand-new customers, new parts of the customer's network that we haven't been in before. We also look at brand-new customers as well. And Vince, our head of our go-to-market, actually calls out the new logos or the new parts of a particular logo every time we do a QBR.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And then you also highlighted improving traction with into PTX, which originally was, I think, targeted at service provider core. Is that where that product is finding a home, or are you finding new segments for that as well?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Well, it is, obviously, a core position product, where you're converging layers between the obstacle and MPLS layer. So that's where it lives. We are, again, finding -- we have use cases for it that take it into, again, new customers as well as new parts of customers' networks that we've been in traditionally. And so we actually feel pretty good about the product line to line up, and also the roadmaps of that better product.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

And then I'll just ask a couple more questions and then open it up for the audience. But you have struck a more optimistic tone this year. And a lot of that, I think, has to do with your own product positioning. But what is your overall view on the carrier CapEx demand environment there, just broadly, both in North America and globally?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

I think overall, in terms of the demand environment, we think it's healthy for 2014. And I think the definition of carrier, obviously, or service provider, is broadening. And for us, we have been focused on that for a number of years. But we're starting to see that trend of Web services within a standalone company or as part of a traditional service provider customer start to improve in terms of the underlying demand environment.

And then we're also seeing the same sort of trend with financial services and government or private cloud type of enterprise customers. And so we have had a vertical approach for a while on the service provider side, and we've called those four verticals out, and increasingly on the enterprise side as well.

And so our view is taking that technology and the use cases that they apply really well to across the different segments is actually how we've improved our performance over the last 12 months.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

The last question I wanted to get your view on is actually, so we had a federal court recently setting aside the FCC's rules on net neutrality. What do you guys think about that? What do you think that means to the industry? Have any of your customers given any feedback so far?

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Obviously, from our perspective, we support our customers in terms of their views, and we will continue to do that. An open network is important for us as a supplier, but it's also important to our customers as well.

QUESTIONS AND ANSWERS

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Great. Well, let's see if there's any questions in the audience in the remaining two minutes we have. We have a couple of mikes, depending on who has a question.

While we look for those, let me ask you a question on the SDN topic, which I think, obviously, has been a big focus for you guys and for the industry for the last couple of years. So Juniper, as you mentioned, you partly acquired Internet space and then partly innovated through Contrail. And actually, in our last IT survey that was just published a couple of weeks ago, Contrail showed up as a really strong performer from a feedback perspective, from 100 CIOs out in the field, which was a very interesting result. So I would love for you to give us a little more perspective on what you're seeing within the SDN space, what you're seeing with Contrail, and how your tie-ups with guys like VMware might be helping you in that regard.

Robyn Denholm - *Juniper Networks, Inc. - CFO*

Yes, again, an open ecosystem around the network space is very important. It's important to our customers. It's also important for the improvement of the technologies you serve. For those of you who haven't seen a demo of the Contrail controller and how easy it is for operators to use, you should do that. It's actually very, very easy to then provision.

So if I back up a little bit, a lot of what's happening on the SDN NFV is to automate a lot of the functionality of the network, whether it's provisioning new services, or whether it is maintaining existing services, or whether it's running the infrastructure around the network. And whether you use SDN, and particularly in the data center environment or in the enterprise environment, that core tenant is there. And so you need a central point in which you can use to provision that, particularly in the data center, but also in the rest of the network.

And then, having services that can actually run as software on top of the network infrastructure is how you actually get the efficiency and effectiveness out of the network. And so Contrail does that extremely well, as your survey said. And having the services to actually then provision is equally important.

So things that we've done on the security side without Firefly products, those types of things, you can start to see how that moves the ball forward from a services perspective. And so we are working with customers, both on the enterprise and on the service provider environment, to continue to move that forward in terms of how networks evolve with those services.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Terrific. One more quick check for any questions in the audience. Okay. Well, Robyn, thank you very much for joining us.

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Robyn Denholm - *Juniper Networks, Inc. - CFO*

Thanks very much.

Simona Jankowski - *Goldman Sachs & Co. - Analyst*

Appreciate it.

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