

FINAL TRANSCRIPT

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JNPR - Juniper Networks Inc at MORGAN STANLEY Technology Media & Telecoms Conference

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CONFERENCE CALL PARTICIPANTS

Sunil Gupta

Morgan Stanley - Analyst

PRESENTATION

Sunil Gupta - *Morgan Stanley - Analyst*

Good morning, everyone. Welcome to Juniper. We have got Mark Burrows, the Head of Global Treasury Tax and Business Solutions; Kathleen Nemeth, Head of IR. I will give it to Kathleen first and then we will go to Mark. Mark, if you could do a quick summary of Q3 maybe a quick introduction, overall strategy for Juniper, that would be great.

Kathleen Nemeth - *Juniper Networks - VP of IR*

Thank you, Sunil, and welcome, everyone. We are very, very delighted to be here with you this morning. Just as a quick, brief introduction, I would like to point out that today to the extent that we make forward-looking statements during today's discussion, there are risks associated with that. For a full review of those risks, please refer to our most recent filings with the SEC. In this case, it would be our most recently filed 10-Q.

With that I would like to turn it over to my colleague, Mark.

Mark Burrows - *Juniper Networks - Managing Director*

Thank you, Kathleen. Thank you, Sunil. Welcome, everybody. Great to be in this wonderful city, albeit we are in the dungeon of the city at the moment but great to be in the technology sector. I think in this volatile world, technology and particularly networking is an exciting place to be.

Juniper talks about the new network of the future. We talk about that new network connecting everything, empowering everyone, a simple but very powerful vision.

We see two particular trends around mobile Internet and cloud computing really driving user behavior, content, consumption, and the network requirements, and driving real business challenges and solutions that are required for that.

If you take simple examples such as the growth in smartphones or the streaming video growth and traffic just driving exponential traffic requirements and network requirements both today and into the future, all of this is requiring real business solutions for customers and businesses alike.

We at Juniper look to focus around delivering first of all, good customer experience and secondly, driving the economics of the network so we can drive down total cost of ownership. And we look to support that in both for the service provider and for the enterprise customers.



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We have an innovation strategy that is focused around three strategic pillars. First of all, we are looking to embrace the architectural change that is required for that new network. Secondly, we are trying to expand our systems footprint. Thirdly, we would like to focus on software and develop software up the stack in terms of the business needs and solutions that Juniper can bring to the market.

We are delivering on that strategy. For example in the architectural transitions, we have delivered recently on QFabric, our data center network architecture and in the core, we are delivering new PTX, the converged SuperCore router.

In the expanding footprint for our systems, we have a new market-leading core router coming out this quarter, the T4000 and we continue to innovate on our MX 3-D Universal Edge Router, which is doing very well.

In software as I say, we are becoming even more focused in software. We have always had a proud heritage in our Junos and other software solutions, but we are focusing and reorganized and have established a software solutions division. Bob Muglia has joined us recently to head up that and we're looking to enhance our Junos operating system and the developer community that we have there, Junos Pulse and Junos Space Solutions, as well as add new solutions such as the mobile MX packet core solution that we have recently started shipping. So we are delivering on that strategy today and continue to innovate.

In terms of results year to date, we have had healthy results given the current macro environment. We have grown in all markets. We've grown in all geographies.

So overall, Juniper is very confident in our long-term strategy. We are mindful of the current macro environment. We are delivering on our innovation roadmap. We are looking to be agile in execution given the current environment. But we are also investing for the long term and continuing to do that.

As I say, it's an exciting time to be in networking.

Unidentified Participant

Thank you, Mark. Going back to your comment on results, can we -- one of the things that we saw in results is there was a bunch of orders that came in which were for Q1 delivery, not for immediate delivery, so what is the trend there? Are we seeing lead times expanding? What is the reasoning behind this?

Mark Burrows - Juniper Networks - Managing Director

Sure, we did see some significant overall bookings in Q3 and we were delighted to have those bookings. Our overall trend continues to be -- we see lead times have not changed particularly, but what we have seen through that significant backlog is we believe continued support of our product portfolio. But some of these -- particularly in the service provider environment, some of these customers have long project rollouts and so it's not unusual for there to be a multiple month rollouts. What was unusual this time was the magnitude of it. So it really was driven through a few service providers and some kind of multiple month project rollout.

Sunil Gupta - Morgan Stanley - Analyst

In terms specifically in telcos we would see a Q4 what we call budget flush. So is that something this year that based on what you are seeing is maybe not going to happen to the extent that it normally does? What's your view?



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Mark Burrows - Juniper Networks - Managing Director

You are right. I think our Q4 numbers historically have often seen a Q4 flush in service providers. The outlook we gave in our earnings call in Q3 looking out into Q4 suggested we didn't expect that for this quarter given the current macro environment and so we have not assumed any budget flush in our outlook this quarter.

Sunil Gupta - Morgan Stanley - Analyst

I think your outlook was 5% to 10%, a Q-on-Q increase. Can you sort of give us more of a breakdown on that? Is this a bit of routing but a switching with what's strong and what's not?

Mark Burrows - Juniper Networks - Managing Director

Yes. As you say, somewhere between our outlook was somewhere between 5% and 10% sequential growth. We talked about growth both in the service provider and the enterprise environment, probably slightly more in the service provider because traditionally Q4 is a good service provider quarter, but we are expecting growth in both enterprise and service provider.

Sunil Gupta - Morgan Stanley - Analyst

Thanks, Mark. I think you mentioned before that Juniper is present in 75 countries across the world.

Mark Burrows - Juniper Networks - Managing Director

Yes.

Sunil Gupta - Morgan Stanley - Analyst

What are you -- I think we are in interesting economic times. What are you seeing by region maybe Americas versus LatAm versus Asia Pac versus Europe in terms of overall trends in terms of spend?

Mark Burrows - Juniper Networks - Managing Director

Yes, we tend to break down our geographical regions into three so the Americas for us would be United States, America and Canada is always through -- LatAm and then we have traditional EMEA and Asia Pac. Quarter on quarter we can see a little bit of volatility. Our historic percentages suggest round about 50% of our business comes in from the Americas, around about 28% from EMEA and 20% to 22% in APAC. In Q3, we saw an increase in the APAC revenue and a slight sequential decline in the Americas and EMEA. But if you look at the year-to-date those historic averages are really being maintained.

Clearly all of the markets are currently in a difficult macro environment and hard to call exactly what the impact of that is. Our view of the long-term is that we think our products are both the continuation of our kind of core routing and switch products as well as new products we're bringing in the data center and so on, we'll play well in all of those markets. So current volatility is certainly there in markets. The long-term we believe we will see similar growth that you have seen historically.

Sunil Gupta - Morgan Stanley - Analyst

Thanks, Mark. A question on pricing and gross margins, we had Huawei on the stage the other day, they talked about --



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Mark Burrows - Juniper Networks - Managing Director

Not this stage.

Sunil Gupta - Morgan Stanley - Analyst

They talked about not wanting to compete on price anymore, that they have the market share. So what have you -- we've seen gross margin decline for Juniper. Is that a pricing effect? What is -- or is there a product mix effect? What is sort of going on here?

Mark Burrows - Juniper Networks - Managing Director

We have certainly seen some variation in our gross margins the last couple of quarters. We said that that's really a product mix impact primarily there with some inventory, inventory flushes that we were having to adjust for. But overall, it's a product mix impact.

We believe that product margins are primarily driven by innovation and differentiation in our product and we tend to -- so at the high-end and that's where our innovation differentiation helps to maintain margins. So we expect to really continue in the long term around our 66% to 68% guided gross margin because of the innovation I talked about at the beginning and because of that, we can command that differentiation in our pricing.

So whilst we know that in the low end there's clearly a lot of competitive pricing pressure, we expect to maintain our margins around that 66% to 68% in the longer term.

Sunil Gupta - Morgan Stanley - Analyst

Enterprise for you I think is showing growth. What is the overall strategy here and how are you competing with someone like Cisco, who's been doing very well in this space?

Mark Burrows - Juniper Networks - Managing Director

Sure. We saw very good enterprise quarter and we are very pleased with our enterprise business year to date. We think that that will continue into Q4 and beyond and from our perspective, we are bringing products to play to both the enterprise and service provider market. We think our routing and switch products play very well for enterprise. We think there's good opportunity in campus and branch and clearly a lot of the data center products will also talk about -- play well to enterprise. So we are confident with our long-term strategy and our competitive position in the enterprise.

Sunil Gupta - Morgan Stanley - Analyst

Okay, can you talk a little bit about balance sheet and cash and sort of Juniper's overall thinking on that and how to return that to shareholders?

Mark Burrows - Juniper Networks - Managing Director

Sure, we have just over \$4 billion in cash and we continue to manage it looking obviously first of all in terms of our overall liquidity and working capital requirements and then looking to utilize our balance sheet to drive profitable investment. And



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we continue to see great opportunities for that both in R&D as well as targeted M&A. Outside of that targeted investment, we would return cash to shareholders.

We have the typical technology challenge where we've got quite a lot of offshore cash, so we look to manage that within our cash allocation strategy, etc. I'm interested to see what happens in Congress around the potential Investment Act changes, etc. But overall we've got a very strong balance sheet and feel very positive about it.

Sunil Gupta - Morgan Stanley - Analyst

Okay, so you've seen a couple of organizational changes on the software and systems side. You mentioned this when you -- the introductory comments on the overall strategy. Can you go a little deeper into that? You just mentioned M&A as well. Would that be an area for potential acquisitions or how do you think about this?

Mark Burrows - Juniper Networks - Managing Director

So as you referenced, we made an organizational announcement earlier on in the year where we essentially looked to split the business into -- on the one hand a platform systems division headed up by Stefan Dyckerhoff who has long been a key leader in our platform business and we would continue to focus in that division, which drives data center, our core and edge routing business.

But in addition to that, we set up a system solution division to really focus on -- sorry -- software solutions division, which will really focus on software. And Bob Muglia joined us at the beginning of October and what we have is a strong history in Junos, our operating system and (inaudible) that. We've got a strong developer community supporting it.

We have got our Junos Pulse, the device security app, which continues to be -- to get great traction in companies like AT&T with their smartphone and so on. We have Junos Space, which is our application management software and we are now starting to add to that with new solutions. I mentioned Mobile MX and that is a key area of focus for us and we expect to be able to further develop that business and Bob brings great leadership and expertise and with his vision, we will bring great value to the business through -- in our software business.

In terms of M&A, we will have targeted M&A and have shown targeted M&A in both the systems and the software environment and so you would certainly see I'm sure, we have seen M&A activity in the software business. That is reflected today and we are certainly looking for good opportunities in the future there.

Sunil Gupta - Morgan Stanley - Analyst

Thanks, Mark. Cloud computing, one of the big buzzwords of today, the QFabric, can you talk about how that ties into the overall data center and cloud computing? And you have a product, the EX product, is QFabric, is there any cannibalization effect there or how do you position this product for customers?

Mark Burrows - Juniper Networks - Managing Director

Yes, cloud computing is clearly something that's driving different network requirements and cloud computing needs large-scale data centers to be effective as well as the right network infrastructure and Juniper plays very well for both of those requirements.

The QFabric is a new revolutionary architecture for the network in the data center that essentially collapses the current three-layer network architecture down into one and using the full QFabric solution with a kind of top of rack node, a back plane, and the



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routing engine, we create a far more effective and scalable way of managing network (inaudible) around the data center, particularly playing to the 10 gig speed interfaces, which is the fastest-growing part of the data center.

Data centers need scale and they will do that to deal with this kind of traffic and cloud computing growth. And the QFabric is kind of revolutionary architecture and recent external reviews have shown that the total cost of ownership of a QFabric approach is something like 58%, 75% less than the current environment and in these green days, something like a similar percentage less power, which is a major OpEx cost for a data center operator. So very powerful.

Now as far as the EX is concerned, the EX is able to take those three layers for the network and collapse them into two, which is what a lot of solutions look to do today. And there's still very much a market for that.

So for the less -- from a slightly smaller scale and for the current data center environment, EX plays well. So we see EX and QFabric as being complementary dependent on the scale of the data center. We also see EX playing in (inaudible) and so on so we believe that both QFabric and EX will grow over time.

Sunil Gupta - Morgan Stanley - Analyst

Excellent. On the edge routing side, I think we have seen from the lower data the last couple of quarters, Cisco and Alcatel-Lucent have both gained share. Can you talk -- MX product I think is about two years old now?

Mark Burrows - Juniper Networks - Managing Director

Recently introduced two years ago, yes.

Sunil Gupta - Morgan Stanley - Analyst

What is the strategy? How do you try to gain back share? What is the differentiator for Juniper? Is it in silicon? How do you think about it?

Mark Burrows - Juniper Networks - Managing Director

Our overall routing growth has been something like 19% year-to-date year on year. And MX in particular has grown something like 30% year on year, so we are very pleased with MX business. I referenced before that we had a lot of MX in our backlog and so we expect good Q4 growth for MX.

The MX 3-D, our Universal aged router, has today three times the capacity of any other competitive product and we expect to continue to innovate on that product. It has that capacity benefit through silicon. We introduced a trio chip which was -- helped to drive that capacity growth two years ago. And we continue to innovate and grow with the MX 3-D as I say. We have got significantly greater capacity than anybody today, and we continue to expect to keep that innovative pattern.

Sunil Gupta - Morgan Stanley - Analyst

Okay, you mentioned the Mobile MX, which is basically the packet core platform. This competes with Ericsson, Alcatel that do -- that ultimately deal with the wireless -- the RAND stuff. How do you find this product positioned against these competitors? I think you have a partnership with Ericsson. Does that also play to EPC to the Mobile MX?



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Mark Burrows - Juniper Networks - Managing Director

We do have a long-standing partnership with Ericsson and we work very well with them and that is in the kind of GGSN 3G product that we have today, which runs on our M-series. Mobile MX is a software solution. It is one of the examples where we have invested in a software solution that runs on the MX 3-D. And it is really looking to provide a packet core solution for 4G. It's very much a future-facing product and in that regard, we see that it will look to provide services for providers as they move to 4G.

We are confident of the mobile MX ability to go into the market as we move to 4G services, helping LTE and 4G services. Whether that's with Ericsson or whether it's independently, we believe we can be very successful with it. It will take time. It will take time to get accepted. We've got some design wins already, but they tend to be with the kind of Tier 2 providers at the moment as people look at the technology and we expect to bring some of those to revenue in early 2012.

Sunil Gupta - Morgan Stanley - Analyst

Okay, at this point I would like to open it up to the audience for any questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thanks. You describe QFabric as revolutionary and certainly in my experience a lot of customers prefer evolution over revolution. Bearing that in mind, what do you think -- how should we frame QFabric in terms of its impact on your P&L as of the coming one, three, five years?

Mark Burrows - Juniper Networks - Managing Director

I agree that some customers prefer the evolution to revolution. I think the nice thing with QFabric is that they can look to either evolve or be more revolutionary in the way they approach an implementation. If you want to be more evolutionary, then we have a node, a top of rack node that you can implement today and that can be a first step towards using QFabric in its broader scale.

The real benefit as we see it is going to be when you implement the full scale QFX as well as the overall solution around the backbone and routing engine -- sorry -- back plane and routing engine. That can -- that will need a broader implementation change but data centers are going to have to upgrade and change as growth demands come through and we believe and we already have customers who are looking to take the full QFabric and implement it in one go and others who will take that more evolutionary approach.

So we expect -- we are shipping already and we expect to see revenue in 2012 and customers will take different routes. We are very excited because of the 10G growth that customers will have to invest in and will want to invest in and we believe that QFabric facilitates that very well.

Unidentified Audience Member

Yes, can you please discuss the competitive dynamics in the security area, where there is several new IPOs and increase -- it seems from the outside to me to be increasing competition? To what extent do you expect to maintain share in that space?



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Mark Burrows - Juniper Networks - Managing Director

Sure, we are the market leader in high-end firewall. Our continued development in those areas means we believe we will keep an innovation edge. Clearly it's a competitive environment. It always has been. But we continue to develop our products. We integrate them in our broader suite of products and we think that helps give us an edge over all that is integrating into our broader networking environment.

So there are clearly competitors out there but we continue to innovate and believe we will maintain an edge in that environment.

Sunil Gupta - Morgan Stanley - Analyst

I will ask another question. The new core router, the T4000, I think that starts shipping this quarter --

Mark Burrows - Juniper Networks - Managing Director

This quarter, yes, later this quarter.

Sunil Gupta - Morgan Stanley - Analyst

Cisco's product, the CRS-3, which is the newest product, has been out already. How do you see marketshare evolving there that Cisco has a product already out and you are just launching this quarter? Do you see Juniper maybe losing some share in the core?

Mark Burrows - Juniper Networks - Managing Director

We are very pleased with the T4000 launch and the fact that it's shipping later this quarter. It's part of a family. It's simply building on our T640, our T1600, now to the T4000. It will keep a technology and capacity edge in core routing. The time to market and sales cycle for the T4000 will be a lot faster than some of the new products such as QFabric or PTX simply because it's building on our current core router family.

Also we have -- we protect our customers' investment because of the kind of upgrade path that's available. So we believe it will come to revenue quickly and we will maintain our technology edge.

Sunil Gupta - Morgan Stanley - Analyst

Okay, you just mentioned the PTX. How does that tie in with the core product because it's an optical connection there as well. How does this work? Do these two products work together? Is this completely separate? Does it take share from this? What's the thought?

Mark Burrows - Juniper Networks - Managing Director

The PTX is our converged SuperCore, fantastic name. Converged -- Hadron Collider, eat your hearts out. I think the converged SuperCore is looking for the first time to take the optical transport layer and MPLS and converge them down into one. We see that as part of the overall core routing strategy, certainly, but playing to an incremental market for us in the optical side.

So we see it as an adjacent opportunity. It is architecturally a new approach but certainly part of our broader investment in that growing core networking environment. And we have seen research analysts suggesting that in 2014, there will be something



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like a 2 billion additional TAM for that market. We certainly have customers talking about the need for it and we have already got first order for that product. It starts shipping in Q1 but we have already got orders for it.

Unidentified Audience Member

You said that the innovation in your Company was key to your gross margin. What is sustainable about your advantages in terms of innovation? Do you just become like Cisco and gobble up any R&D house that looks as if it might try to take you on?

Mark Burrows - Juniper Networks - Managing Director

We have had a successful history of certain technology tuck ins, but on a much smaller scale. Our focus is around organic development. We have a very strong development community and what has differentiated our product has been that innovation that have driven very high-end routing type products with real IP that people find very hard to replicate.

And in that regard, that's the differentiation that we think we can continue to maintain and that innovation is something we continue to invest in as an organization. That creates very high barriers to entry, which is why some of the competitors who may compete in the low end can be successful but have really struggled to get into the high-end because of that high IP and barriers to entry.

We have the best engineers in the world and we maintain that focus.

Kathleen Nemeth - Juniper Networks - VP of IR

I would just add Juno to that, the operating system. We do -- part of our differentiation is our Junos operating system, which is a single code base system.

Mark Burrows - Juniper Networks - Managing Director

Thank you, yes, which has been historically -- the way we have run all of our products and we are integrating all our products on that single Junos operating system, which is a major differentiator from anybody, Cisco included.

Unidentified Audience Member

Apologies for the ignorant question, but once you have broken into a customer, could you just explain how easy it is to resell on to that customer compared to getting the order in the first place?

Mark Burrows - Juniper Networks - Managing Director

Yes, I think we are no different from most organizations that once you do break in, then trying to kind of upsell in one way or another and selling a broad a range of products is obviously a focus for us. So whether we get into that customer through the security route and then try and look to sell core routing or vice versa, we have had some great success in selling to large service providers where we perhaps go there through our traditional core routing route but then start to sell SRX security and so on. Now we will obviously be developing data center type requirements.

Likewise in an enterprise environment gain, we might go in with the software -- sorry -- with security and then try to broaden the reach. So we have had a lot of success in that and that's a natural thing to do once you do have the relationships with the customer.



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Unidentified Audience Member

Huawei, having watched over the last decade what they did in the wireless infrastructure market and listening to them here and at other forums sort of saying that they were happy with where their positioned now in wireless but they were interested now in pushing into handsets and data networking, clearly R&D isn't a barrier for them. They've got a huge manpower advantage there.

What potential barriers are there to them -- to stopping them doing what they did in wireless infrastructure in the data networking market?

Mark Burrows - Juniper Networks - Managing Director

Well, clearly they have been successful in a number of markets and they are a huge organization. They have not been successful in the high-end routing environment and we believe those barriers remain. The sheer number of engineers doesn't get over the quality that you require to deliver on the core high-end routing. They are significant barriers. Many companies have tried. It is a very difficult hurdle. Barriers to entry there are high and we will continue to innovate and maintain that differentiation.

So that -- some of the geographical challenges that are there, there are advantages in some regions, disadvantages in others I think will help to differentiate the companies.

Sunil Gupta - Morgan Stanley - Analyst

I think that's all the time we have for today. Thank you very much, Mark and Kathleen.

Mark Burrows - Juniper Networks - Managing Director

Thank you.

Kathleen Nemeth - Juniper Networks - VP of IR

Thank you, Sunil.

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