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## PRESENTATION

### Operator

Greetings, and welcome to the Juniper Networks third quarter 2015 earnings results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Kathleen Nemeth, Vice President of Investor Relations. Thank you, Ms. Nemeth, you may now begin.

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### **Kathleen Nemeth** - *Juniper Networks, Inc. - VP of IR*

Thank you operator, and thanks for joining us to discuss Juniper Networks' third quarter financial results, and the outlook for fourth quarter of 2015, which we announced earlier this afternoon. With me today are Rami Rahim, Chief Executive Officer; and Robyn Denholm; Chief Financial and Operations Officer.

Today's call contains forward-looking statements, including statements concerning Juniper's business outlook, economic and market outlook, strategy, future financial operating results, capital return program, and overall future prospects. Actual results might differ materially from those projected in the forward-looking statements.

Additional information that could cause actual results to materially differ from those in these forward-looking statements are listed in our most recent 10-Q, the press release furnished with our 8-K filed today, and in other documents that we file with the SEC from time to time. All statements



made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call in the event facts or circumstances change after the date of the call.

Our discussion of the financial results today will include non-GAAP financial results. Full GAAP to non-GAAP reconciliation information can be found on the Investor Relations section of our website. For important commentary on why our Management team considers non-GAAP information a useful view of the Company's financial results, please consult the press release furnished with our 8-K filed with the SEC today. Now I'll hand the call over to Rami.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Thanks, Kathleen. Good afternoon, and welcome to our third-quarter financial results call. Juniper delivered another quarter of strong financial performance, with robust demand metrics and solid year-over-year earnings expansion. Our customer diversification strategy continues to yield positive results, with revenue growth both sequentially and year over year across routing, switching, and security. Notably this quarter, we saw strong performance within our telecom and a targeted enterprise verticals. Security was also a highlight, with double-digit growth, driven by our high end SRX product. Over all, I'm pleased with the strong pipeline and execution across key areas of the business.

The industry is in rapid transition, moving towards cloud-delivered value. This paradigm shift to the cloud is changing the way we access technology and how IT services are being delivered. In this era of massive transformation, the network is at the heart of the action. Our goal as a pure play in high-performance networking is to make sure we invest and innovative to capture this transformation as it is happening. Our customers are looking to us to support them in their evolution.

We continue to lead in the industry with technology innovations. In the quarter, we announced a new reference architecture called Juniper Networks Unite for the cloud-enabled enterprise. It demonstrates our commitment to the enterprise campus and branch segment, and our ongoing focus on IP network innovation. The new reference architecture includes our new Junos Fusion enterprise fabric, which enables customers to simplify management of large enterprise campus networks. We also announced new security innovations that will enable sophisticated threat intelligence, prevention, and dynamic policy enforcement.

We are forging new alliances and partnerships that will help us drive top-line growth and market expansion. In the quarter, we extended our partnership with NEC to help provide IP transport routers to Telenor Group. We are also expanding our technology alliance ecosystem, adding Aerohive Networks, who along with Ruckus and Aruba, will help us deliver a simple, secure, and cloud-managed wired and wireless solution for distributed enterprises.

Because of our clear focus on execution, we're seeing some great customer and product traction. Among our top customers in the quarter are globally recognized high-tech companies, and four of our top 10 are cloud or cable provider. As our customers look to the future, they recognize Juniper's unique value proposition to deliver the ultimate in performance, agility, and automation, and we are empowering such companies as British Airways and Telefonica Spain to deliver world-class cloud services without compromise. In addition, we are pleased with several new design wins at multiple leading-edge technology companies.

I will summarize some highlights this quarter across our technology. First, I want to underscore how strategic our Contrail solution is in defining the IT and business evolution to the cloud. Customers are moving towards open-source products, softer driven automation, and containers in micro services. We've secured beachhead wins in three major segments: Software as a service, public cloud, and teleco cloud NFB. Of note, AT&T was a landmark deal for us this quarter.

In routing, we grew 13% year over year. Most verticals continued to grow, with solid quarter-over-quarter growth and telecom and national government. We had another record revenue quarter for both the PTX and MX series; and in Q3, adoption of some of our newest product, the PTX 5000, PTX 1000, and ATX 500 accelerated. In switching, we had another record revenue quarter for the QFX series. The QFX 10000 continued to see good traction, along with the QFX 5100, with service providers, cloud, and enterprise customers. We also saw strength in the X family of switches, with enterprise, government, and service provider customers.



In security, we saw our second consecutive quarter of year-over-year growth, excluding Junos Pulse. Our security business is showing early strength in the high-end SRX with cloud and service provider customers, and Branch SRX is doing well in government, managed service provider, and enterprise account. We believe the combination of new threat detection capabilities and new security partnerships is a catalyst spurring our return to growth. The course we set for ourselves is now playing out largely as we anticipated. By remaining resolute in our focus as a pure play and high-performance networking, we are creating tremendous value for our customers and our shareholders.

Overall, while we acknowledge that recent industry consolidation activity could create some volatility, we believe overall spending trends remain healthy. Industry dynamics continue to unfold as we expected, and our Q4 guidance incorporates our view of the macroeconomic landscape. The world needs a Company like Juniper Networks. We have a clear and deliberate strategy, and as a challenger in this industry I continue to see tremendous opportunity for us to challenge the status quo, and deliver on our vision of being the worldwide leader in network innovation.

I want to thank each of our employees for being a critical part of this incredible journey. Thanks to our customers, partners, and shareholders, who believe in our vision to empower everyone in this increasingly connected world. I remain focused on disciplined execution of our business, and prudent investments for growth to realize Juniper's full potential. Now I'll turn it over to Robyn to review a few highlights of the quarter.

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

Thank you, Rami, and good afternoon everyone. Our third-quarter 2015 results reflected good year-over-year and sequential revenue and earnings growth. We also demonstrated the strength of the diversity of our revenue across multiple verticals, technologies, and geographies. Specifically, we saw year-over-year and sequential revenue growth in both EMEA and APAC, as well as solid growth in the enterprise across all geographies. We are pleased with the ongoing year-over-year growth, and healthy underlying demand from cloud providers; however, as we have noted, this vertical can be lumpy due to the timing of deployment.

As a reminder, our second-quarter 2015 results for routing in the Americas were positively impacted by the recognition of deferred revenue for the delivery of product and future commitments. In reviewing our top 10 customers, five were telcos, three of which were outside of the US; four were cloud and cable providers; and one was an enterprise customer. We expect this diversification trend to continue, demonstrating the increased relevance of our product portfolio across multiple verticals and geographies.

Our underlying demand metrics were healthy this quarter, with a year-over-year and sequential increase in product-deferred revenue and a product booked-to-bill greater than one. For the quarter, we delivered strong year-over-year non-GAAP operating margin, and earnings per share expansion, which reflects our solid execution, focus on revenue growth, effective management of our cost structure, and significant reduction in share count. We are pleased that we delivered results in line with our long-term model of 39% non-GAAP operating expense as a percentage of revenue.

In the quarter we had strong cash flow from operations of \$293 million, as a direct result of our improved operating margin. CapEx for the quarter also increased to \$71 million, as we focused on investments to drive long-term productivity, and support continued innovation and development of new products. We repurchased \$50 million of shares and paid \$39 million of dividends. Since Q1 of 2014, inclusive of share repurchases and dividends, we have returned approximately \$3.5 billion of capital to our shareholders against our commitment to return \$4.1 billion by the end of 2016.

Now let's take a look at some of the underlying assumptions behind our outlook for Q4. We expect the demand environment across multiple verticals to remain healthy, and anticipate the diversification of our revenue to continue. We expect continued uncertainty around the macro environment in China and certain parts of Europe, which we have factored into our outlook. We also anticipate the exchange rate of the US dollar to other currencies to remain strong. I'm very pleased with the ongoing operational discipline, including operating expense management across the Company.

Our new products are gaining traction with our customers. Given the underlying healthy demand environment, and to ensure that we capture the growth opportunities from these new products, we anticipate making modest increases to our go-to-market resources over the next few quarters, while remaining in line with our long-term model of non-GAAP operating expense as a percentage of revenue of 39%. You can find the detailed outlook for Q4 in the CFO commentary available on our website.

To summarize, I am pleased with the strong performance in Q3, including demonstrating the ability to achieve our long-term model. We anticipate overall demand to remain healthy across our target verticals and geographies. We continue to see good traction with our customers for our new product innovations, as evidenced by new design wins and a growing pipeline. As we close out the year, we remain focused on execution and delivering on our strategic commitment. I would like to thank our team for their continued dedication and commitment to Juniper's success. Now I'd like to open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now be conducting a question-and-answer session.

(Operator Instructions)

Jim Suva, Citi.

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### Jim Suva - Citigroup - Analyst

Thank you, and congratulations to you and your team there at Juniper. A quick question. You mentioned about investing more for the future, but still within your financial goals, which is great. For the investing in those items, can you help us a little bit more? Is that focused on say geographic expansion or product expansion, or certain areas of software security, or certain parts that you're a little bit soft on? Also, the timing of when these harvesting of these investments should start to see some growth where we should start to see some fruit from that investment? Thank you.

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### Rami Rahim - Juniper Networks, Inc. - CEO

Yes, thanks for the question and the comments, Jim. Let me start and then I'll pass it over to Robyn. First and foremost, as a pure-play innovator, the goal for Juniper is really to continue to make sure that we have really differentiated products in the market segments that we are going after. We have an incredible product pipeline, as we talked about earlier this year, and is now in the process of shipping.

We've also consistently said that when we invest, we're going to invest in a way in a prudent manner, with discipline that's commensurate with our growth as a Company. That's a discipline that Robyn and I are absolutely driving through the organization right now. It's one that I think is paying off, if you take a look at the profitability metrics in terms of operating margin and OpEx as a percentage of total revenue for the Company in the Q3 time frame. I'll pass it to Robyn if you want to add anything else.

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### Robyn Denholm - Juniper Networks, Inc. - EVP & CFO

Yes, so specifically, Jim, what I mentioned in my commentary was that we will invest modestly as we move forward here on the go-to-market side. As Rami mentioned, from a product delivery point of view, we're very excited by the new products that we are delivering into the market. We have seen good receptivity to those products. We're adding prudently to the go-to-market effort to make sure that we are capturing the opportunity that's out there.

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### Jim Suva - Citigroup - Analyst

Thank you, and congratulations again to you and your team.



**Rami Rahim** - Juniper Networks, Inc. - CEO

Thanks, Jim.

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**Operator**

Thank you. Tal Liani, Bank of America Merrill Lynch.

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**Tal Liani** - BofA Merrill Lynch - Analyst

Hi. Just first to follow up to the previous question, does it mean you're now at an operating margin of about 25%, give or take? What does it mean from a margin target, the fact you want to invest more, what does it mean for the margin target going forward? That's number one. Number two, I want to ask more about the market itself. There was a routing cycle. You recovered from some weakness we had in previous quarters. What's the outlook? Was there just a recovery from the lows, and then there is a new level, and from there it goes flat -- because I see it was flat sequentially this quarter -- or do you see demand continuing to creep up, go up, because of certain reasons, you can identify the reasons? Thanks.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Okay, thanks, Tal. Let me start, and then I'll also hand it over to Robyn. On the margin target, I think the results that you saw in Q3 with respect to our operating margins being north of 25% and also again our OpEx as a percent of revenue being in line with our long-term model, the long-term model that we outlined to our shareholders at the end of 2014 is intact. The results that you see here should essentially give you confidence, as it gives us a lot of confidence, that we can absolutely achieve that long-term model. That's how I would think about it. Certainly, that requires a level of disciplined execution and investment that we are driving through the Company today that I'm honestly quite proud of how the team is executing on.

On the second question with respect to routing, the trends that we're seeing in routing in the second half are largely playing out as we have been describing over the last several quarters. We've said that there should be some improvement in telco spending in the second half of the year, and that's essentially happening. We did see that improvement not only in the tier 1 but also in non-tier 1 service providers.

Bookings for routing was actually quite healthy in Q3. I think the softness was essentially as a result of cloud at difficult compare relative to Q2 because of the revenue recognition event we had in that quarter. But visibility is solid, and the product pipeline has never been this good in many years in the Company. I actually feel good about where we are with respect to routing. Robin?

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

No, I think you said it well on the margin side. In terms of the percentage of revenue for OpEx, we are targeting 39% as we outlined last year. I will point out that once we got to the model this quarter, we did get their last quarter, as well, from an operating margin. There's still a lot of work to be done to get there on a sustainable basis on an annualized basis. I think we'll have the next question.

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**Operator**

Mona Jankowski, Goldman Sachs.



**Mona Jankowski** - *Goldman Sachs - Analyst*

Hi, thanks very much. Rami, you commented on the recent industry consolidation, but then you also made a comment that the world needs a Company like Juniper. I was curious, was that a reference to a preference you had to remain standalone versus participating in the consolidation? Then I have a follow-up.

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**Rami Rahim** - *Juniper Networks, Inc. - CEO*

Okay, thanks for the question Simona. You look at the industry right now, certainly there are examples of consolidation. There's at least one example where the exact opposite of a split is in fact happening. But these things that I want everyone to be aware of is the massive transformation that's happening in terms of technology, in terms of a new approach in that service providers and enterprises are using to deliver value to their end users that requires things like virtualization. It requires things like automation and visibility and analytics. That, in my mind, requires that there be somebody that's absolutely focused on innovation in the space of IP networking.

I believe that's the role that we satisfy in this industry. As I go around the world and I talk to our customers, CIOs, CTOs, CEOs, they all have a common theme in terms of the requirements, which is a technology provider that can partner with them to offer a new way for them to deliver services and values to their end users. They view us as that right partner, and that's I think the role that we satisfy.

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**Mona Jankowski** - *Goldman Sachs - Analyst*

Thank you. Then a follow-up question, which is to do with your MX product, which has been very successful over the years. Some of your competitors, Cisco, Arista, and others, are talking about addressing some of the routing features and the routing stack in an aggregated fashion on the switching platforms in the data center. I think you guys are considering or working on doing something similar. But can you just address how that development might impinge on the opportunity for the MX, and whether that's cannibalistic, whether you do it to yourself or others do it to you?

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**Rami Rahim** - *Juniper Networks, Inc. - CEO*

Sure. Thanks for the questions, Simona. The MX success is a result of a few different things, but one of the biggest elements of its success has to do with the diversity of use cases that it satisfies. It really has turned into the standard Swiss Army knife, if you will, for this industry, where it has the ability to deliver all sorts of services, whether they be business or residential, or to serve at the edge of the data center, connecting data centers together, or connecting data centers to the consumers of cloud services. I think it's very difficult for anybody to target the MX in its entirety with all of the use cases that it serves. That flexibility is flexibility that we built ground up from the start to make it very competitive.

That said, I'm not confused about the fact that this industry is a competitive industry, and we have to innovate in that way. Yes, I do believe that there will be competition that will go after specific use cases that the MX does target. In that case, we either show and demonstrate the flexibility of the MX in solving that use case in a better way, or we do have options ourselves with other products that we can use in our portfolio, whether it be the PTX or the new QFX 10000, that can solve a particular use case in a more efficient manner. I think about it from a standpoint of yes, the industry's competitive. We now have a diverse tool chest between the MX, the PTX, and the QFX that give us all of the weapons that we need to compete effectively.

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**Mona Jankowski** - *Goldman Sachs - Analyst*

Thank you.

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**Operator**

Thank you. Rod Hall, JPMorgan.

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**Rod Hall** - *JPMorgan - Analyst*

Yes, thanks for the question. I wanted to focus a little bit more on switching the numbers better than we expected. Momentum there continues yet. A lot of other data points out there are pointing to enterprise spending weakness. I just wonder, Rami, could you comment on where we are with the major projects that you guys are seeing in switching or are implementing? Have you added more of those projects? Is that what's allowing you guys to buck the trend? Then I've got a follow-up.

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**Rami Rahim** - *Juniper Networks, Inc. - CEO*

Sure, Rod. In switching, I think the strength was broad-based in that we saw a good diversity of business across both the service provider and the enterprise. We also saw healthy demand for switching around the world, which certainly helped. When you think about switching, for us it really comes down to cloud. There is a consistent theme across pretty much all of our market verticals. In the enterprise, there is a cloud-first mentality where CIOs are looking to move workloads and applications to the cloud. In the service segment and the cable provider segment, they are looking at delivering more value to end-users through cloud-based architectures.

I think our switching, routing, and security portfolios are coming together under the MetaFabric architecture framework in a way that's really resonating with our customers. The road map with the new set of spine switches that we are in the process of shipping into the market today is looking very solid in the eyes of our customers. I think I'm bullish on the long-term prospects for switching, given all of these trends, and because of the differentiation that we have in our product portfolio.

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

You had a follow-up, Rod? Hi, Manny or Rod, are you there?

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**Operator**

Pierre Ferragu, Sanford Bernstein.

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

Okay, and Manny, after Pierre you could put Rod back in for his follow-up.

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**Operator**

Certainly.

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**Pierre Ferragu** - *Sanford C. Bernstein & Company - Analyst*

Hi, guys. Thank you for taking the question. I would want to ask many questions. You've been doing so great on so many dimensions, so maybe I will just restrict it to switching and security. In switching, I would be curious to know how the ramp-up of your new product, your high-density spine QFX switch is going, and how much it has been impacting numbers this quarter, and if we should expect some up side from this product ramp-up on the one or two-quarter horizon?

Then on security, it's so impressive to see your SRX platform doing so well at the moment. I would be curious to know where you are winning with the platform at the moment, and how are you replacing an aging installed base that you had out there? Is that the product cycle? Are you winning these? Are you displacing competitors? That would be good to know that.

Then, as almost everybody asked it, I can't help asking you one more question on the cost and how we should think about that going forward. Would that be fair to think that you guys, whichever way things happen going forward, are probably not going to grow your cost base and your OpEx faster than your revenues? Is that a fair statement? Sorry for the embarrassing question.

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

No, that's okay. Yes, let me handle the cost one first, and then Rami will talk about switching and security. On the cost side, absolutely we are focused on the discipline around cost management that we've shown over the last few years. We are very focused on making sure that we only add modest amount of cost. The increase between Q3 and Q4 -- I gave you the mid-point of \$500 million plus or minus in terms of the OpEx. The majority of that increase quarter over quarter, the vast majority is actually variable comp. What we're talking about is modest increases in our go-to-market. We're very focused on delivering the leverage in the model that we believe is there, in line with our long-term model.

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**Pierre Feragu** - *Sanford C. Bernstein & Company - Analyst*

This is great. Thanks.

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

Thank you.

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**Rami Rahim** - *Juniper Networks, Inc. - CEO*

Hi, Pierre. Let me touch on switching and security. In the spine switches, we have now shipped the first version of the family of new QFX 10000 spine switches. We anticipate that we'll get the second version out into our customers' hands before the end of the year. The traction that we're seeing is solid. I think these products have been now in our customers' labs for some time, and we're getting feedback. We are essentially putting the finishing touches on those products.

I will say that the team really pushed the limits of technology in developing these products. We did it with the hope and the anticipation that we will have some true differentiation, and it's playing out exactly as we had predicted in terms of our differentiation relative to what's out in the market. I feel very good about that. All that being said, we have consistently said that modest revenue in the second half of this year. That's how I would think about it, with the growth really starting to happen next year.

On the security side, if you recall, earlier in the year we talked about our security pivot. We talked about reaping synergies from the standpoint of technology and cost, as well as revenue. We talked about security as being intimately tied to the network. The initial focus for us was on the high end. If we offer a cloud network or a campus network to our customers, we want them to have the peace of mind that it will be resilient. It will be high quality. It will be resilient to attacks from the bad guys. That means that you should be able to secure the network without slowing it down.

With the initial focus on the high end, I think we've increased the confidence in the eyes of our customers. We've improved the performance of the product line dramatically. Now, in fact, the high-end SRX is the fastest firewall in the industry. For certain use cases around the edge of the cloud or in service provider mobile infrastructure, we really have a differentiated product, and we're starting to see the effect of that.

That said, I don't -- I'm not yet calling mission accomplished on security. We've said that 2015 will be the year of stability. There's still a lot of work, quite frankly, for us to do to shore up the rest of the product portfolio, especially as it comes to the enterprise. That's exactly what we're focused on right now. Pleased with what we've done thus far -- a lot more work for us to do.

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

To touch with that, as we've said numerous times, this year is a year of stabilizing the security business. Year to date we are flat with 2014. Obviously we hope to grow that business next year, but we're pleased with the progress to date. I just wanted to follow back around with your specific question, Pierre. We will grow revenues faster than OpEx as we move forward. That was part of our guidance when we set the long-term model last year. I just wanted to clarify that.

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**Pierre Feragu** - Sanford C. Bernstein & Company - Analyst

Excellent. Thank you very much.

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**Operator**

Thank you. With that, we will turn to Rod Hall for his follow-up question.

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**Rod Hall** - JPMorgan - Analyst

Yes, thanks for coming back to me. Can you hear me okay?

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

Yes, go ahead.

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**Rod Hall** - JPMorgan - Analyst

I was going to ask about the routing business. I wonder if you guys could comment on what you think happened to your share this quarter, your market share? Also on the Contrail win on AT&T -- which by the way, congratulations on that -- just wonder if you could maybe give us a little idea of what the revenue opportunity there might look like? What sort of products that might pull through? Thanks.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Sure, Rod. On market share, I don't think all of the reports are out quite yet. These share reports, you have to look at them and dissect them into different areas. I think in the edge, based on the wins and the projects that we've been executing on, there is a large dynamic that's happening around the world, especially here in the US and in EMEA for edge modernization and consolidation, simplification of edge architectures. Just based on the project activity, I believe that we're doing quite well there.

In the core, I think it's going to take a little bit of time for us as we go through the transition from T series to the next generation of the PTX that we are shipping this year that we've launched in the early part of this year. I'm not sure what's going to happen there with respect to share, but I feel good about the road map and the focus in terms of the prospects for share gains going forward into next year.

On Contrail, yes, you pointed out one of the wins that we are very proud of, and that is with AT&T. But let me say that pretty much every strategic discussion that we are having with our customers around the world, especially on the service provider side but also in some larger enterprises that are looking at transforming the way in which they manage their networks to simplify the operations of those networks, and to add far greater agility in how they deliver services over those networks, they are thinking about a new architectural approach, and Contrail is part of that discussion.

We added four new paying customers. I think the engagements have expanded. The developer community for the open-source Contrail project is only growing. The amount of innovation that's now coming -- not just from Juniper, but from our partners around the industry -- is also growing.



I'm really proud of what the Contrail team has done and continues to do. AT&T, I mean certainly we are externally proud of that project, but I think that's just an example of others we're also engaging in.

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**Rod Hall** - *JPMorgan - Analyst*

Great, thank you.

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**Operator**

Thank you. Jess Lubert, Wells Fargo.

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**Jess Lubert** - *Wells Fargo Securities, LLC - Analyst*

Hi, guys. Thanks for taking my question, and congratulations on another nice quarter here. First, I was hoping you could tell us if you had any 10% customers in the period, and if so, what category they would fall into? Secondly, in Europe, it looks like your carrier business was fairly strong. I was hoping to understand if that was driven by a handful of large deals that will tail off after a quarter or two, or if that was driven by a larger number of transactions that might be more sustainable? Then perhaps you could provide an update on the Nokia partnership -- how that's proceeding, how confident you are in your ability to navigate any disruption once that deal closes? Thanks.

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

Jess, in terms of 10% customers, there were no 10% customers in the quarter. Again, part of the strength of this quarter was actually the diversification of revenues in the quarter again, with enterprise actually being quite strong, telco being quite strong, and obviously a sequential decline, but still very healthy year-over-year growth in the cloud providers and cable area. I'll let Rami talk through the EMEA service provider business.

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**Rami Rahim** - *Juniper Networks, Inc. - CEO*

Sure. In Europe, actually the strength was fairly broad-based. It was both on the service provider, the key or the tier-one telecom operators; but also in the enterprise, and in particular in government. I actually am pretty pleased with the broad-based strength of the business. There are certainly large deals. In the SP space there are typically going to be large deals that drive the overall performance, but I don't think there's anything that's atypical, if you will, in the quarter.

Then I will say that the projects we're engaging in are really around a number of key use cases. Edge modernization, in particular, such as for example the announcement that we made recently with Telefonica Spain, seems to be a really key theme in that region. I think operators are looking to streamline their networks and deliver more value with greater agility over those networks. For that you need a universal edge-type product, and the MX satisfies that role quite naturally.

On the Nokia, I think we're executing to our strategy and the plans we outlined in the last earnings call. We have enjoyed a deep relationship with all of our customers around the world, and where there is a need to make a change in our go-to-market approach, we're doing that, and we're doing it to a schedule that I think is working very well for us. So no concerns on that front.

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**Jess Lubert** - *Wells Fargo Securities, LLC - Analyst*

Thanks, guys.



**Operator**

Thank you. Brian White, Drexel.

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**Brian White - Drexel - Analyst**

Yes, Rami. I wonder if you could comment a little about this product cycle. I know we're ramping up this year; but if you had to provide us with an idea of where we are in the revenue generation from this product cycle that would be great, in terms of what percentage we are the way through. The AT&T win for the carrier software defined networking, maybe just a little more color on why Juniper was chosen, and does this cannibalize existing business, or net-net this is incremental for Juniper? Thank you.

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**Rami Rahim - Juniper Networks, Inc. - CEO**

Thanks, Brian. On the product cycle -- and I'm assuming here you're talking about the newer product that we're introducing -- market across routing, switching, and security. It's still early stages. We've consistently said second half will see modest revenue on the routing side. We haven't yet shipped the enhancements to the PTX product line, but we are very excited about. I think the growth will really start to happen in a meaningful way in 2016, as the early customer interest give us confidence that these products are hitting the mark in terms of the challenges that they solve for our customers.

On AT&T, a couple of different projects that have been announced. One is that we are participating in AT&T's network-on-demand initiative. We're doing this -- essentially, we're offering -- we're partnering with them to offer to end user's enterprises a new way of deriving value from their networks that gives far more flexibility into the hands of the customer itself. They will have the ability to choose on demand the kinds of services that they want AT&T to deliver to them. It's a very software-centric approach to a market that has traditionally been driven by hardware and complexity.

We won it, quite frankly, because we have challenged the ways in which these solutions were delivered historically. We have actually little to nothing to lose, because this is essentially a net new market opportunity for Juniper. We've demonstrated to AT&T that we were very willing partners in that technology transformation, and we're delighted that we were successful.

The second project is really around the very strategic network control point, this being Contrail, that will provide the network automation in their next-generation central offices. This is where I provided the commentary that this is just an example of the types of engagements we're having with service providers around the world. The fact is that SPs are really looking to a new approach to running their next-generation network facilities, and delivering value from those facilities. The network controllers is a very strategic control point in the new architecture, and Contrail's and the traction it's seeing is something that's very encouraging to us.

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**Brian White - Drexel - Analyst**

Great, thank you.

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**Operator**

Thank you. Sanjiv Wadhvani, Stifel.

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**Sanjiv Wadhvani - Stifel Nicolaus - Analyst**

Thanks. Rami, I had a question about growth. A year ago at the Analyst Day, you had talked about 3% to 6% three-year growth rate, and understanding that it might fluctuate in any given year. Wondering if you can comment if next year might be a typical year, fall within that range, and how some of your new products that really start ramping next year might help out in terms of growth rate next year? Thanks.



**Rami Rahim** - Juniper Networks, Inc. - CEO

Thanks, Sanjiv. We are just going to stick to what we provided you at the end of 2014 in terms of the three-year view. Certainly the results that we're seeing this year give us the confidence that we can achieve that three-year view in terms of growth. I think the fundamentals of the industry are solid. I think the spending environment is good. The product road map is healthy. All of those factors come together to give me the confidence in our ability to actually achieve the growth targets that we provided you.

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

Yes, Sanjiv, we will provide you with some color into next year as we round out this year, in terms of what we're expecting from a growth rate perspective.

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**Sanjiv Wadhvani** - Stifel Nicolaus - Analyst

I guess just a quick follow-up. When you look at the new products, do you think that could add to some dimension in growth, just given that they're starting to ramp next year? Just qualitatively, not just in terms of the actual addition or subtraction in numbers?

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

Yes. As we've been saying consistently, our new product revenue for the products we announced earlier this year in March will contribute very modestly to revenue in 2015. We expect the revenue growth in for next year to be more substantial.

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**Sanjiv Wadhvani** - Stifel Nicolaus - Analyst

Got it. Okay, thank you.

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**Operator**

Thank you. James Faucette, Morgan Stanley.

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**James Faucette** - Morgan Stanley - Analyst

Thank you very much. I wanted to ask a similar question. If we go back to last year, last fall, as you were outlining your growth targets, one of the key tenets that you focused on was the eventual need for carriers to increase their spending, particularly on core as core capacity was exhausted. At the same time as we fast-forward to this year, service provider spending, at least among the US, has still been relatively flat without seeing much improvement there. I'm wondering if you could give a little bit of color -- what may be allowing the carriers in the US to do that?

Secondly, as they do start to increase their spend, how much of an additional tail wind can this be? It seems like with the good growth we've seen with the US tier ones kicking in, perhaps that could be an accelerator. Similarly, on security you're delivering good year-over-year growth in that line, in spite of the fact that you're characterizing it as a -- 2015 as a stabilization year. If that's the case, should we expect to see further acceleration in security in 2016 as you turn the corner and start to enter into what you think to be true growth? Thanks.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Okay, James. Thanks for the question. There's a lot in there. I'm going to see if I can address at all. First in terms of carrier spending, as I mentioned, things are largely playing out as we expected in the second half. I expect the next quarter, Q4, to also -- this current quarter -- to also be a good quarter for us in terms of carrier spending.

The dynamics between core and edge -- actually, I've been consistently saying that it's become very difficult to break out those two domains. Much of the pressure that's happening in telecom networks today is in fact happening in the metro. It's happening in the edge. A lot of the products that have traditionally been used or deployed in the core are now actually going in the edge to deal with that traffic capacity. I'm really more measuring our success in carrier routing from an overall routing standpoint, as opposed to specific to one domain or the other.

That said, despite the fact that we're seeing some improvement in telcos, we're not counting on that alone in driving our overall revenue growth. We're counting on continued diversity in our business. We saw that play out in the last couple of quarters with cloud kicking in to help some weakness in carrier spending. We're seeing it now this quarter with diversity across the enterprise, government, and different geos. All of that is kicking in to support the overall growth. It really then demonstrates the power of that strategy to diversify our business from a technology standpoint, from a market vertical standpoint, and also from a geo standpoint.

On security, again, this year is all about stability, as Robyn mentioned. Essentially we're flat year to date. We still have -- I feel very good on where the work that has been done thus far on shoring up our competitiveness in the service provider high-end security space and in the cloud. We still have some more work to do on the enterprise side.

Just in Q3, we announced a series of enhancements to our security portfolio under the umbrella of a new architecture called Juniper Unite, that essentially brings to bear our security switching and routing assets together to create far more agility, simplicity, and ease of management that's so important to our enterprise customers in the campus and in the campus domain. That's what working on right now. I think that plays out and results in growth in 2016 time frame.

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

Let me just add to the first part of your question. On telco, we actually saw good growth in the quarter, both sequentially and year over year on telcos globally. Modestly in the US, but globally it was a nice quarter for growth. We are actually anticipating that diversification to continue, and we are expecting that to continue to improve -- again, modestly. Next question please, Manny?

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**Operator**

Kulbinder Garcha, Credit Suisse.

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**Kulbinder Garcha** - Credit Suisse - Analyst

Hi, thanks for the question. I guess it's for Rami. A lot's been said on this call about diversifying your revenue base. Versus the charts that we saw in last year's Analyst (inaudible - low audio), can you please update us as to how diversified you are now? If you're not -- if you can't give us some of those numbers, maybe can you help us with are you sufficiently diversified now that you feel comfortable whereby Juniper could see through the cycle revenue growth where it continues in B and B, and you could offset on a continuous basis the typical service provider cycle that we see? Thanks.

**Rami Rahim** - Juniper Networks, Inc. - CEO

Yes. Thanks, Kulbinder. I know that data we had provided has been very useful. I think we can look to providing an updated view in the future. From just a qualitative standpoint, the strategy itself is definitely working out in terms of helping us offset what is in fact a cyclical industry. Do we believe that we can completely offset large cycles that might happen in telcos? No, I think that's a pretty tall order.

But that said, I think we've demonstrated with not just a diversity from a market vertical standpoint, but diversity across technology areas -- switching, routing, security -- and diversity across geos. You look at Q3, enterprise kicked in and also EMEA and APAC kicked in that helps us in again creating the overall growth. I think this strategy works. I think it has legs, and I think that it will help us in the future.

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**Kulbinder Garcha** - Credit Suisse - Analyst

Maybe just one very quick slightly different question that's been asked you about -- the questions on consolidation came up from a Juniper perspective. It seems to me that you guys are hitting most of the targets or heading towards most of the targets you want. The one that I have always been uncertain about is what's your own approach to M&A? Given that you are achieving your margin structure, generating good cash returning, cash growing, is now the time that Juniper's (inaudible - low audio) on the M&A (inaudible - low audio) maybe accelerate some of your growth, or is that not how you see the business?

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Yes. I'm actually open to M&A, and it will be -- as I've mentioned historically -- very much complementary to our strategies, tuck-in type technology M&As that will be easy to integrate, and work to accelerate the strategy that we are already executing on. Having said that, we are so focused right now on putting the finishing touches on what is a huge product pipeline that's all coming to bear into the market simultaneously around the same time frame, I honestly do not want to distract the team too much from that right now. Timing is going to be important. But that said, I do believe that M&A can be a good part of our strategy with the right timing, and certainly something that's complementary to our overall strategy.

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**Kulbinder Garcha** - Credit Suisse - Analyst

Thank you.

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**Operator**

Thank you. Mark Sue, RBC Capital Markets.

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**Mark Sue** - RBC Capital Markets - Analyst

Thank you. Robyn, I think on the cost side you should just go spend the money, so please go ahead.

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

(laughter) Thank you, Mark. Do you have a question?

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**Mark Sue** - RBC Capital Markets - Analyst

Actually, I have a technical question. Sure. As it relates to the tech competitors, some are moving quickly to combine as that converged, and seen some hyper-converge. Are there platform changes your customers are asking you to make, or is it still about combining discrete assets of switching,

routing, contrail? Just trying to get an understanding of the long-term migration opportunity with your current product set, and how you might see clean-page data centers being deployed?

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

Yes, thanks for the question, Mark. I will say you're actually hitting on a topic that's very important to me and to my leadership team. Today the growth that we've seen with Juniper products in the cloud have largely been as a result of companies, enterprises, telcos, cloud providers, that have the ability to choose best of breed, and to combine them themselves in ways that solve the business challenges that they face. That said, there is a part of the marketing segment, of the market, that value out-of-the-box converged architectures that include compute, storage, networking, and the software automations stack on top of that.

We have in fact been working with a number of different partners, so we probably have around a half dozen right now -- regional partners that are working with Juniper, as well as storage providers and compute providers to build those converged stack offerings. They typically are very targeted to specific market verticals, so some might be targeted towards health care, others towards retail. It's still early days. These are relatively new product offerings. But I actually -- I'm pretty -- I feel pretty confident in their ability to at least give us some access to that converged or hyper-converged market.

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**Mark Sue** - RBC Capital Markets - Analyst

That's helpful. Can we assume that Juniper's resorting back to the practice of not revealing products that might actually already are being tested by some of your customers?

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Sorry the question was not revealing are not reviewing?

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

The practice of not announcing products before they are scheduled to be shipped.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Oh, I see what you're saying. I think there is a balance here. The practice of revealing products years in advance of ship, I say yes. That's something that is well behind us. We certainly will announce within a certain reasonable time frame, like a couple quarters type of time frame. I think there's value in doing that, because what you do is you prime the market. You get it ready for adoption. But we are very careful in not revealing our cards, if you will, too early. That said, there is always a lot of deep dialogue and engagement under NDA with our customers where we're not only revealing the products, but we're actually making them stakeholders in the development of those products, and making sure that those products satisfy their specific requirements.

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**Mark Sue** - RBC Capital Markets - Analyst

That's helpful. Thank you and good luck.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Thank you.

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

Thanks, Mark. Next question.

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**Operator**

Thank you. Ittai Kidron, Oppenheimer.

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**Ittai Kidron** - Oppenheimer & Company - Analyst

Thanks, congrats. I made it. I had a couple questions. First, looking at your enterprise business, this is the first quarter in five -- after five quarters, we had year-over-year declines in your enterprise business that you actually had a positive year-over-year growth in the enterprise. Rami, it will be great to get some color as to how much of this is sort of a little bit of a reversion to the mean after five bad quarters, versus your confidence in that more sustainable result out of that business.

I'd like to apply that question, as well, to your security business. Clearly you've had two very good quarters. I'm wondering how much of it is just a reflection of the fact that clients have been sitting on the sidelines, and now that you have refreshed the product they're updating architectures, versus there true new wins, new customer additions here. If you could give us some color in security, how much of the progress here is on your existing installed base versus adding new customers, that would be great?

Then for you, Robyn, just as we think about next year, can you help us think about how to think about March quarter seasonality, and also the pro forma tax rate for 2016. Thanks.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Sure, let me start. First on the enterprise, I am certainly pleased with the performance. Three reasons -- cloud, cloud, and cloud -- are essentially why we are seeing the success that we're seeing in the enterprise. There's been a lot of focus on targeting enterprises and service providers that are building out cloud architectures. The product portfolio, the go-to-market focus, the support infrastructure we have in place, is all geared towards tapping into that segment. It is a growing segment. At the end of the day, while switching for example is a huge total addressable market, the cloud element of it is the part that's in fact growing. We want to tap into that, and we have been able to tap into that.

It has been also just a big focus for me personally as part of the strategic initiatives that I've laid out this year from the standpoint of partnerships -- creating the partnerships and the commercial engine that we need to tap into the overall enterprise opportunity, specifically as it relates to the cloud.

In security, it really is a combination. In fact, there have been a few notable wins in the last couple quarters that are net new. Having said that, I think there are also customers that have traditionally liked the SRX, especially the high-end SRX and the branch SRX that we are tapping into that need to modernize their infrastructure, and we're tapping into that as well. Again, we are not calling mission accomplished yet in security. There is a lot more work to do, and there might be a couple of gyrations here and there as we get to overall long-term growth, which happens next year.

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

I think the other area on the enterprise that's also we're focusing on the channel, as well -- using a lot of the enterprise wins that we've been developing ourselves, in terms of both the cloud area that Rami mentioned, as well as in the security side to reinvigorate the channel and put our design wins and that type of thing with them so that we can enable the channel to replicate them. Ittai, you asked two questions, one for me. One was on the tax rate. What was the other question?



**Ittai Kidron** - *Oppenheimer & Company - Analyst*

How should we think about seasonality heading into the March quarter?

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

Okay. Let me talk about seasonality. At this point it's obviously early. We'll give you more color next quarter's call, but we're not anticipating anything outside of the normal seasonality that we would see between Q4 and Q1. Typically we see a reduction somewhere between 7% and 10%, that type of thing. We're not expecting at this point anything different to that. We'll give you an update on that on the next call.

In terms of the tax rate, there was a lot of excitement in the tax rate commentary this quarter, which is not usual. On the pro forma GAAP tax rate, we will expect a slightly reduced rate. Obviously the R&D tax credit not being renewed has had an increase in our tax rate overall for the year. If that gets renewed, that can have close to a 2% tax-rate adjustment. At this point, we wouldn't see a significantly different tax rate the next year, except for the addition of the R&D tax credit.

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**Ittai Kidron** - *Oppenheimer & Company - Analyst*

Very good, good luck.

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

Thanks, Ittai. Okay, we are coming up on the hour, so Manny, we'll take one more question.

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**Operator**

Thank you. Vijay Bhagavath, Deutsche Bank.

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**Vijay Bhagavath** - *Deutsche Bank - Analyst*

Yes, thanks. Hi Rami, Robyn. I took over coverage of the group from Brian, so looking forward to working with you and your team.

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

Congratulations, Vijay

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**Vijay Bhagavath** - *Deutsche Bank - Analyst*

Yes, thank you. Our question is really on the sustainability and visibility of the order flow in the cloud and cable. Honestly, I'd like to ask you a question in terms of that segment has been doing well for you, cloud and cable. Providers, you also mentioned SaaS, et cetera. Are these one-offs, a near-term order flow? Do you see sustainability from a use case point of view that this could extend over a few quarters? Then a quick follow-on to that would be on their service provider routing side. You had the routing business as up. This consensus expectations in Q3 was flattish. Ex-Junos Pulse quarter on quarter, give us your view of the order commentary there in routing heading into Q4 and into the next few quarters? Thanks.

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**Rami Rahim** - Juniper Networks, Inc. - CEO

Okay. Thanks, Vijay, and congrats. Let me start, and I'll see if Robyn has anything to add. On cloud and cable, I think those verticals have had lumpiness historically. I'm not -- let's say concerned about the relative weakness that we had sequentially in cloud in Q3. If you look at the year over year, it's actually quite healthy growth -- very healthy growth, in fact. When I look at the fundamentals of cloud, the need to build efficient wide-area networks to connect the data centers together, to connect the data centers to the consumers of cloud services, to peering points, is all absolutely there. I don't anticipate that changing.

The long-term trajectory for this vertical, the cost vertical, I believe is actually healthy. The products that we're building with the specific capabilities for this vertical -- capabilities in terms of visibility and manageability, controllability -- are well understood by Juniper. We're developing our products with the intent of capturing the cloud opportunity in the future.

Cable as well can be lumpy. It has been lumpy historically. I think there's consolidation that's happening in the cable industry that will result in some short-term uncertainty, if you will. But the long-term prospects for us in cable, I think, our quite good. SP routing all up. I think -- as I mentioned, I feel actually quite good about where we are with respect to routing. Bookings were strong. I think it's the sequential softness in Q3 in North America specifically had to do with timing of projects, a difficult compare relative to Q2 with the revenue recognition event that we had in Q2 that we talked to you about. Visibility is good, and the road map is excellent.

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

Thank you so much. Thank you, Vijay. I want to thank each of you for your great questions and your interest in Juniper Networks. We look forward to speaking with you next quarter.

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**Operator**

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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