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JNPR - Q1 2018 Juniper Networks Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 total revenue of \$1.083b and non-GAAP EPS of \$0.28.



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PRESENTATION

Operator

Greetings, and welcome to the Juniper Networks First Quarter Fiscal Year 2018 Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Jess Lubert. Thank you. You may begin.

Jess Lubert

Thank you, operator. Good afternoon, and welcome to our first quarter 2018 conference call. Joining me today are Rami Rahim, Chief Executive Officer; and Ken Miller, Chief Financial Officer.

Today's call contains certain forward-looking statements that are subject to risks and uncertainties. Actual results might differ materially as a result of various risk factors, including those described in our most recent 10-K, the press release and CFO commentary 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 any forward-looking statements.

Our discussion today will include non-GAAP financial results. Reconciliation information can be found in the Investor Relations section of our website under Financial Reports. Commentary on why we consider non-GAAP information a useful view of the company's financial results is included in today's press release. Our Q1 2018 results and forward-looking guidance are provided under ASC 606, which we adopted on January 1, 2018, on a modified retrospective basis.

(Operator Instructions) With that, I will now hand the call over to Rami.



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Rami Rahim - Juniper Networks, Inc. - CEO & Director

Thank you. Good afternoon, everyone. We performed well compared to our expectations during the March quarter. Total revenue of \$1,083 million slightly exceeded the high end of our guidance as better-than-expected results in our Cloud vertical, along with the continued success in our Enterprise business, more than offset weaker-than-expected Service Provider sales. Non-GAAP earnings per share also came in at the high end of our guidance at \$0.28, due to the higher revenue and margin in line with our forecast.

While our results were better than our guidance, we are far from satisfied and are working hard to not only return the business to growth but drive profitability back toward normalized levels. We continue to believe we have the right products and strategy to win across our core verticals, and we are continuing to innovate with the goal of disrupting our markets and gaining share.

While we believe our greatest near-term opportunity remains in the cloud, we are also playing to win in our enterprise and service provider markets. Based on our current product pipeline and recent customer conversations, I remain confident that Juniper controls its own destiny and is positioned to drive a return to growth and improved profitability by the end of the year.

Now for a few highlights of the quarter. I'm pleased with the progress we are making in our Cloud vertical, where several of our largest customers are transitioning from our MX to our PTX platforms. While this process is creating ASP pressure in our cloud routing business that is likely to persist over the next few quarters, we believe we are making progress with this transition, which should become less of a headwind through the course of the year.

As proof of our progress, I'd like to highlight that several of our cloud projects that were previously on hold have started to move forward, and we expect these deployments to ramp through the remainder of this year and next. Our cloud routing business experienced sequential growth during the March quarter, a trend we anticipate will continue through the rest of the year.

Our PTX product accounted for more than 80% of the cloud routing ports we shipped on a 10-gig equivalent basis during Q1 compared to less than 40% 1 year ago. Our cloud routing ASPs began to stabilize sequentially, a trend we think is likely to continue as mix headwinds subside through the year. It's also worth mentioning that our cloud switching business exceeded our own expectations in the period. Based on our results and customer engagements, we remain confident that we are holding our cloud routing footprint and positioning the business to capitalize on this customer set's rising network requirements. We will continue to innovate, challenge the status quo and deliver new levels of performance programmability and telemetry to further strengthen our relevance to these important customers.

The Enterprise vertical was also a bright spot in the period with revenues growing 4% year-over-year, due to strength in financial services and healthy trends across all technologies. We believe we have a compelling portfolio of enterprise switching, security and orchestration solutions. We continue to strengthen our enterprise offering and view Contrail Enterprise Multicloud as a validation of these efforts, which should bring engineering simplicity to enterprise data center environment and establish Juniper as a leader in the field of intent-based networking systems.

Service Provider revenue was soft in the quarter, declining 16% year-over-year, due to seasonality and customer lumpiness. We expect service provider spending to remain sluggish in 2018 but expect to see improved spending levels beyond the March quarter. Despite a slow start to the year, we believe we continue to gain mind share with our largest service provider customers, who are recognizing the value of our no-slicing features, software disaggregation and integrated optical capabilities to meet their core and edge networking requirements. We believe our efforts should position Juniper to gain share as service providers move forward with metro initiatives and 5G build-outs, which could present tailwinds for our business over the next few years.

Now I'd like to summarize our performance across Routing, Switching and Security. In Routing, our business declined sequentially and year-over-year. While this weakness was seen across product lines, new PTX footprint opportunities within the cloud and MX requirements in the telecom and cable verticals, where service creation remains mission-critical, continue to give us confidence in the long-term trajectory for our routing portfolio.



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In Switching, our business declined 1% quarter-over-quarter and 5% year-over-year. The sequential decline was driven by seasonality across our key verticals. While our enterprise switching business grew year-over-year, this was offset by lower levels of spending at a few cloud customers, which we had expected.

Based on our pipeline and customer feedback, we remain optimistic regarding the outlook for our QFX and EX product lines, which we believe remain highly competitive and well positioned to compete across industry verticals, including cloud and hyperscale accounts.

In Security, our business declined 17% quarter-over-quarter but grew 11% year-over-year, representing the second consecutive quarter of year-over-year growth. We believe more customers are recognizing the value of leveraging the entire network for detection and enforcement against cyber threats. Our Software-Defined Secure Network solution is gaining traction, and we've added many new customers in Q1 that are leveraging its benefits. Based on our current pipeline, we remain optimistic that our Security business will see year-over-year growth for the full year of 2018.

We are making progress with our efforts to capture more software revenue, which has more than doubled over the last 3 years. We are seeing momentum with Contrail and had several new customer wins in the quarter, including a U.S. SaaS provider and a global strategic enterprise account. We believe we are executing on an extremely compelling product road map for Contrail, as highlighted by the recent release of our enhanced enterprise multicloud capabilities, which bring end-to-end policy and control capabilities for any workload running in physical and virtual environments, any cloud and across multivendor environments. These are capabilities that are truly unique in the industry.

Additionally, AppFormix continues to gain traction across a widening set of customers with new wins in the Service Provider and Enterprise verticals. We plan to introduce new software innovations to the portfolio through the course of the year that drive customer efficiencies, enhance the value of our existing hardware platform and result in more recurring software revenue, which should prove accretive to growth and margins.

While the impact of ASC 606 caused our services business to decline year-over-year, we saw strong renewal and attach rates of support contracts and an increase in demand for professional services. If not for ASC 606 accounting change, our service business would have experienced growth year-over-year.

We remain committed to all of our strategic verticals, especially the Cloud, and believe that we are more relevant than ever to our customers and the industry. We are innovating in ways that truly matter to all network builders and operators that are embracing cloud architectures to drive greater levels of operating efficiency and service agility. I'm very excited about the opportunity we have in front of us.

In summary, while we continue to believe 2018 is likely to be a transition year for Juniper, we are confident that we have the right strategy and solution portfolio needed to win in the market and drive a return to growth by the end of the year. I would like to extend my thanks to our customers, partners and shareholders for their continued support and confidence in Juniper. I especially want to thank our employees for their hard work and dedication, which is essential to creating value for all of our stakeholders.

I will now turn the call over to Ken, who will discuss our quarterly financial results in more detail.

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Thank you, Rami, and good afternoon, everyone. The results for the first quarter were in line with our expectations and were above the midpoint of our guidance for revenue, non-GAAP gross margin and non-GAAP EPS. The change to the new accounting standard, ASC 606, did not materially impact the overall first quarter financial results. And therefore, the discussion of our first quarter results will reflect the adoption of ASC 606.

Total first quarter revenue was \$1,083 million. Non-GAAP gross margin was 58.2%, and non-GAAP earnings per share were \$0.28.

As we expected, the architectural shifts in the Cloud vertical continued. However, Cloud revenues were up slightly sequentially and ahead of our expectations. The Service Provider vertical was challenged due to the timing of customer deployments, resulting in decreases both year-over-year

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and sequentially. Enterprise increased 4% year-over-year due to strength in all technologies. Routing and Switching both declined year-over-year. However, we continued to see positive momentum in security, where we saw a second consecutive quarter of year-over-year growth.

In reviewing our top 10 customers for the quarter, 4 were Cloud, 4 were Service Providers and 2 were Enterprises. Of these customers, 4 were located outside of the United States.

Product and service deferred revenue declined both year-over-year and sequentially, primarily due to the adoption of ASC 606. Without the impact of ASC 606, product deferred revenue would have been up approximately 19% year-over-year and flat sequentially. Service deferred revenue would have been up 4% year-over-year and sequentially.

Non-GAAP gross margin was 58.2%. The result on a year-over-year and sequential basis was largely due to lower revenue, customer and product mix and higher service costs, partially offset by improvements in our cost structure. On a year-over-year basis, the memory component costs were also a factor.

Non-GAAP operating expense was \$497 million, a decrease of 2% year-over-year but an increase of 4% sequentially. The sequential increase reflects the annual reset of variable compensation as well as targeted investments in R&D and sales and marketing designed to strengthen products and market opportunities that we believe will drive differentiation and create future shareholder value.

Our strong cash flow generation continued with cash flow from operations of \$271 million for the quarter.

As we mentioned during our January call, during the first quarter, we initiated a \$750 million accelerated share repurchase program and paid \$62 million in dividends.

Our total cash, cash equivalents and investment balance at the end of the March quarter was \$3.4 billion, and we repatriated \$2.5 billion during the quarter.

Before we move on to Q&A, I would like to provide some color on our guidance, which you can find detailed in the CFO commentary available on our website. Our Q2 revenue outlook reflects a return to normal seasonality. While customer spending remains dynamic and difficult to predict, we continue to expect sequential growth through the remainder of the year with a return to year-on-year growth in the fourth quarter.

For the second quarter, we expect non-GAAP gross margin to improve sequentially due to increased volume and improvements in our cost structure. While we believe better volumes and cost structure efficiency should drive further non-GAAP gross margin improvement during the second half of the year, the pace of this improvement could be offset by mix and other factors. Based on our expected spending levels through the first half of the year, we now expect non-GAAP operating expenses to be approximately flat for the full year 2018.

In closing, 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Simon Leopold from Raymond James.



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Simon Matthew Leopold - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Before I ask my question, just a quick clarification. I did hear a comment that you expected security to grow for the year. I don't know if you made a similar comment on switching, so just wanted to clarify that. And let me ask -- the broader question is we understand the transition to PTX replacing MX in the Cloud vertical. I get a lot of questions about the same transition happening in service providers. Now I know some operators like Verizon deployed PTX many years ago. But could you help us understand why we should or should not expect a similar product transition in your Service Provider vertical?

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

Simon, thanks for the question. Let me start with the first one around our expectation for security and switching for the year. The indications that we're getting in terms of customer conversations, the strength of the technology -- we just had a great RSA conference showing a few weeks ago -- the pipeline is looking good. So I do expect security to be a growth driver for us in 2018 all up. Similar set of commentary around switching. Switching has a degree of customer concentration. And we have talked about the fact that this transition in the Cloud does have an impact on switching. But I also mentioned in my opening commentary that we're progressing quite nicely in that transition. And as a result of that, I do expect switching to be a growth engine for us in 2018 all up. So security and switching, I think, will be growth technologies for us in 2018. As far as the PTX transition, as I've mentioned in my opening remarks, we're making really good progress with now over 80% of the capacity that's being provided to the Cloud vertical being PTX-oriented. A much smaller number is in the service provider space, and that's primarily because of the fact that the use cases and the applications in the third-party space are just not as conducive to a PTX-type of architecture. The feature flexibility, the service delivery models and so forth are much more oriented towards the kind of flexibility that the MX provides. Additionally, we continue to invest in the MX. You can expect that there will be product refresh cycles happening in the MX that will improve the economics of the MX over time and provide telcos with the combination of flexibility, services capability that they need at more and more compelling price points. So for that reason, there is going to be some shifting but nowhere near what it is for the Cloud vertical in the next couple of years.

Operator

Our next question is from Steven Milunovich from UBS

Thejeswi Banavathi Venkatesh - *UBS Investment Bank, Research Division - Associate Director and Analyst*

This is Tejas on for Steve. Also on cloud, what was the reason cloud surprised us? Is the transition happening faster than you previously expected?

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

Yes, it was a little bit faster than what we expected. I mean, we were at the high end of our range all up. So it's not like it was a huge surprise for us, but it's fair to say that we're pleased with the pace of that transition, right? The new architectures are well understood at this point. The certification for the products and the solution is well underway. In some cases, the new deployments have actually already started. And again, as a proof point of that, we provided the capacity mix between PTX and the MX. So I think we're just very pleased right now that we are making progress. And the more progress we make, the more confidence we have that we're going to get through this transition throughout the remainder of the year and get back to a year-over-year growth in cloud routing next year.

Operator

Our next question is from Tim Long from BMO Capital Markets.



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Timothy Patrick Long - *BMO Capital Markets Equity Research - Senior Equity Analyst*

Let me just move to the cloud switching part here. Rami, you did mention that it was down in the quarter, but it did exceed your expectation. So if you could give us a little color on why cloud switching did a little bit better. Was it 100 gig? Was it new customers? And then the second part of that one, can you talk a little bit about the next transition to 400 gig? When do you see that happening? Do you see that as an opportunity, maybe an insertion point to get better with the cloud? When can we hear more about that?

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

Certainly, Tim. So switching does have a fair degree of concentration, especially in the hyperscale cloud providers, where we still have a lot more room to grow over time. And I think the 400-gig transition is one that we're very excited about as an opportunity to go and to capture share. We expect that to happen sometime next year. We're very much getting ready for it from the standpoint of the systems that are on our road map, the silicon technology that we have chosen, the optics components that will be required to achieve that 400-gig cycle. So all up, I actually am quite excited about 400 gig sometime next year as an opportunity for Juniper to take share. And as far as the switching trends in -- that are happening in Q1 and in the next couple of quarters, because of the fact that there is a fair degree of customer concentration in switching and because of the fact that this scale-up to scale-out transition that we've talked a lot about does have a switching element, we're seeing some cyclical in the business. I do think that over the next few quarters, we should see good, solid growth in switching. And all up for 2018, I expect that switching will be up year-over-year. Very confident in the technology across software, silicon and optics that we have in the road map now for our switching product. So this is why I'm actually quite optimistic about switching in 2018.

Operator

Our next question is from Ittai Kidron from Oppenheimer.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

I'd like to dig into the gross margin, if I may, if you can quantify the impact specifically of 606 on gross margin versus other items, number one. And number two, the word competition or price pressure isn't mentioned anywhere in the release or your prepared comments. Was that not a factor? Is the pricing environment relatively stable? And how do I think about the potential -- what is steady state for you after you get back to volume on gross margins under 606? I'm trying to understand what's the ceiling there.

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

Let me start actually with the second question around the pricing dynamics. And then I'll pass it on to Ken to talk about the gross margins and any impact with 606. The biggest factor that has impacted pricing has actually been this cloud routing transition from the MX to PTX. And as you all know, the PTX price per port is meaningfully lower than that of the MX. As we get through more and more of that transition, then I expect there'd be more normalization of the ASP compression on a year-over-year basis. I don't think from a competitive standpoint, there's anything that's meaningfully different in Q1 versus what we saw last year. As this transition from MX to PTX plays out, I do expect that, that headwind associated with price compression will start to alleviate. And then I'll pass it to Ken to talk about gross margin.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Sure. So we are pleased with our gross margin result in Q1, slightly ahead of our midpoint of our guidance. That said, clearly it was down year-on-year and Q-on-Q as we expected it to be. The primary drivers for the decline sequentially would be lower revenue margin, which we talked about a lot last quarter, as well as some of the mix issues, both technology mix, Routing versus Switching as an example as well as just with in routing as we go through this transition. We talked about the PTX product doesn't quite have the same margin level as MX. Still a very good margin product, above the Juniper average, but not as margin-rich as MX. So those are the primary factors that caused it to decline Q-on-Q. Going forward, we



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expect margin to increase with volume. You can see the Q2 guidance is 59%, so that's up sequentially, up on Q1. I do expect it to increase throughout the rest of the year with volume. That said, the pace of the improvement could vary as mix will definitely be an impact going forward. So I don't expect the mix factor to normalize throughout the rest of the year. Basically the volume factor would be how I'd model that. From a 606 perspective, there's really no change. I mean, we see we have 58.2% in both 605 and 606. So the margin is the same in total. What is different is product versus service. So other revenue was largely unchanged. There's just a \$2 million difference between old rules and new rules. You did see approximately \$29 million more product revenue and \$27 million less service revenue. The cost of goods sold for product and the cost of goods sold for service were largely the same. So that shift in revenue is resulting in more margin for product, less margin for service, but overall, not much of an impact.

Operator

Our next question is from Paul Silverstein from Cowen and company

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

A couple of clarifications and then a question. I'll start with a question. Rami, if I heard you correctly, I get what you said you're expecting weak or decline in your service provider revenue. I'm just wondering, what are the underlying drivers of the disconnect between the calendar '18 outlook for service provider CapEx, especially wireline [and your expectations]. What's driving that? And then, Ken, I was hoping for a clarification in terms of on the previous question. Is it too early to talk about what you can return to in terms of peak operating, peak gross margin, once you get by -- once you get fully by this architectural transition issue? And finally, do you all still -- I think previously, you all had indicated that you expect to win a hyperscale cloud customer related to switching by the end of calendar '18. Do you still -- is that still the expectation?

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

Paul, thanks for the questions. So let me start with the service provider question. The factors that are affecting service provider have largely remained consistent over the last several quarters. Service providers are experiencing top line pressure. There is consolidation in this space. They're really thinking hard about how it is that they're going to move towards cloud-oriented architectures. And Q1, I think, was especially challenging for Juniper because we had a couple of large telco customers, especially in North America, that just didn't spend as much as they have historically done. I do expect based on timing of projects, the conversations that we're having with them, that we should see a recovery throughout this year. But it will remain a challenged environment, I think, for the next year or 2. There are some potential catalysts that come our way for service providers. One of them is the conversations now, especially on the heels of Mobile World Congress that took place earlier this year, around 5G are really increasing. And that's going to require an investment in metro infrastructure to carry the increased capacity level that 5G will drive. It's also very much a cloud-native technology. So we are starting to see, and I would say especially now in EMEA, an increased number of level -- of projects oriented around telco cloud that I think we are well set up to capture with our Contrail solutions. On the last question about hyperscale, I don't think we talked about any specific timing. In fact, we knew as we entered into the switching space that it would be easier for us to go after the Tier 2 cloud providers, the SaaS providers and the enterprise. And we've seen really solid momentum there that resulted in 25% year-over-year growth for the QFX last year. Hyperscalers are just going to take a little bit more time. We already have some presence in the hyperscalers switching use cases and opportunities, but there's a lot more for us to do. I do think 400 gig presents us with the next big opportunity that we're gearing up for.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes, on the gross margin question, we continue to focus on innovation and value engineering as well as optimizing our supply chain, pricing discipline and increasing our software mix as well. So there's a lot of company initiatives to drive gross margin up. I would say at this point, it is too early to call 2019. We are looking to have an Analyst Day or Investor Day later in the year, where we'll provide more long-term color and update our long-term model. But right now, the focus is on growing gross margin sequentially as volume grows throughout FY '18. And to that point, I wouldn't -- we're not going to provide full year guidance. But I would encourage you to maintain your revenue and EPS assumptions for the second half that you currently have in your models, and that would apply for gross margin as well.



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Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Rami, can I just clarify something? I'm not challenging your characterization of the carrier environment. But when you look at carriers' plans for spend this year, it actually is the best year in quite some time, in the last 8 or 9 years, especially wireline. You're looking at a 5-plus percent growth outlook. And I'm just wondering, is there anything -- in terms of the product market itself, I would think routing would do that much better. But is there anything going on? Are you just being appropriately conservative? Or is there something else underlying the disconnect in the guidance for that particular routing customers?

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

Yes, Paul, we see the same CapEx reports that you see. And they don't -- carriers, they're not always that clear about how they're going to be investing the CapEx dollars that they talk about as part of their plans. So again, I would say we're being cautious and prudent in terms of their spend level. But we are very much viewing this as an extremely important vertical for us. And we're going to be ready to capture any routing opportunities or telco cloud opportunities with the innovations that we're putting into the market with our carriers. I will say again, coming out of Mobile World Congress in Q1 of this year, I think the relationships that we have with our major telco customers worldwide have never been stronger.

Operator

Our next question is from Tal Liani from Bank of America Merrill Lynch.

Tal Liani - *BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector*

I want to go back to the question about carrier routing. Number one is, what do you make of AT&T's 60,000 white box routers? How does that impact your position in the space? Why don't we see them taking more branded solutions versus white boxes? And is this something that we've been seen in the switching side with Arista, and they managed to play still in the white box market through software? How are you planning to participate? And is there a room for you to play and participate in the white box market? So that's number one. The second thing is about the hyperscale LAN opportunity, not that WAN opportunity. So far, you have been mostly presence -- you had presence in the kind of WAN side. And the question is, what about the LAN side? Any of your technical progress, any of your new products that address this opportunity better than before? Or what needs to happen for you to participate there?

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

Thanks for the question. So on white box, I believe very strongly that we are innovating in ways that set us up to be very relevant to those that are moving towards white box-type solutions. I do also believe that there aren't that many white box-type opportunities, especially in the wide area. But to the extent that these become more of a factor, I do think that we are, quite frankly, leaders in this space. We were the first truly established network technology vendor that disaggregated our operating system. I think many of our customers, whether they be telecom operators or cloud providers, that are looking at white box are looking to achieve levels of flexibility -- new levels of flexibility, programmability and telemetry. And in all of these areas, we have disaggregated with a view on solving the specific requirements from our customers. So I don't want to comment about any one customer, but I will say that we're well equipped and well positioned to participate in the disaggregation capabilities that some of our customers are currently seeking and asking from us. On hyperscale LAN, and here I'm assuming you're talking about hyperscale data center, you're absolutely right that our market share in cloud routing is meaningfully ahead of our market share in cloud and especially hyperscale cloud switching. We have already made some progress in switching opportunities inside of the hyperscale cloud providers, but there is a lot more that we can do. We've learned a significant amount from the introduction of our QFX product line over the last year or 2 and now have, yes, a product and solution and technology plan in place across routing, across silicon technology and across optics that I think only increase our ability to penetrate the hyperscale data center in the incoming years.



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Operator

Our next question is from Vijay Bhagavath from Deutsche Bank.

Vijay Krishna Bhagavath - *Deutsche Bank AG, Research Division - VP and Research Analyst*

My question -- I was just reflecting on your prepared comments, the -- some of the service provider routing opportunities is kind of delayed by some timing. I'm just curious from a customer point of view, when you talk to some of your bigger telco cable customers, for example, what's holding them back? What's the timing? Is it some architectural transition? Is it 5G? I want to better understand the timing comment on the prepared comments.

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

Yes. Thanks for the question. I mean, it really is just a matter of projects typically go through their typical cycles where there is a period of time where they are doing the solution development and the design, the engineering. And then there's a period of time where they're deploying. And Q1, at least for a couple of our largest telco customers, ended up being a bit more of a pause for them. So I don't think there's anything sort of macro level beyond the fact that, as I've already talked about earlier, it's just really a matter of the timing of where they are with these projects. And it's specific to a few customers.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes, I would just add. I mean, Q1 is seasonally a weak quarter for us from a telco perspective. And what -- as Rami mentioned, in this particular quarter, we did see some of our larger customers not deploy. And as you know, we have a fairly high customer concentration in the telco and we have a deployment-based revenue model. So it does have -- impacts to our 90-day results are more pronounced in other verticals, and that's what happened in this quarter. It's not something that's really macro related. It's really more Juniper specific.

Vijay Krishna Bhagavath - *Deutsche Bank AG, Research Division - VP and Research Analyst*

Certainly. And a quick follow-up for you, Ken, is OpEx as a percentage of revenue. I mean obviously, lots of things are happening here in the horizon, 5G, et cetera. How we should think about OpEx as a percentage of revenues over the next few quarters?

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes. So we're going to remain prudent on OpEx. That said, we're also going to make sure we invest in the right areas to grow long-term revenue growth and expand profits. You can see the guide of our OpEx for Q2 is the \$490 million level, so down off of Q1 levels. I also mentioned in my commentary that I expect OpEx for the full year to be approximately flat. So we believe a flat OpEx for us would be enough for us to invest in the right areas and make sure we focus on long-term growth and long-term profit.

Operator

Our next question is from Jim Suva from Citi. And we'll move on. Our next question is from Rod Hall from Goldman Sachs.

Balaji Krishnamurthy - *Goldman Sachs Group Inc., Research Division - Associate*

This is Balaji on behalf of Rod. Two questions if I could. In the cloud routing opportunity that you're talking about right now, the ASPs are clearly coming down significantly. So what sort of bold growth are you targeting to be able to offset that? I recognize that it's expected to grow by the

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end of the year. But do you think that you can get revenues back into the neighborhood of where you were in the last couple of years? And then a follow-on question on Service Provider, if you could comment specifically on pricing within that vertical, that would be helpful.

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Thanks for the question. So on the cloud transition, as I mentioned, we are on or ahead of where we expect to be right now on that transition. A lot of that transition is behind us. There's still more to go as we go through the rest of this year. The more of the transition is in the rearview mirror with respect to MX and PTX, the more normalization we'll see in ASP compression, right, because the bulk of the ASP pressure comes from the transition from an MX with a certain price per port down to a PTX with a lower price per port. The math starts to work in our favor next year, assuming nothing is different next year for the kinds of port growth that cloud providers are seeing this year and have seen historically. As you know, many of the cloud providers have reported their numbers. They're not seeing any slowdown in their business. Their need to support their customers from a service delivery experience is -- remains very important. So I truly do believe that this remains a very important and a growth vertical for us to do that we'll be very much focused on. Pricing in the Service Provider space, I don't think there's anything out of the normal. It's honestly business as usual. We talked about some of the macro factors around the transition to cloud architectures and consolidation and the customer concentration. But from pricing dynamics, it's business as usual.

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

It remains a challenging environment, but really, no change from previous quarters.

Operator

Our next question is from Srinji Pajjuri from Macquarie.

Srinivas Reddy Pajjuri - Macquarie Research - Senior Analyst

One clarification and one question. First, in your Cloud segment, you said it's up 4% sequentially, mostly because of Routing. But at the same time, you're also saying that PTX is down sequentially. So I'm just trying to reconcile that. And is the growth still coming from MX? And if so, how sustainable that is? And then, Rami, you're talking a bit about the Enterprise and financials verticals being relatively healthy on the Switching side. If you could give us a bit more color as to what's driving that. Is that an upgrade cycle? Or is it just the environment being a little bit healthier?

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Yes, let me start with your question around Enterprise, and then I'll ask Ken to comment on your first question. What we saw in Enterprise is strength in our federal vertical, financial services, certain geos as well. Like Australia was actually a good market for us in the Q1 time frame. I think we're leading with a software-oriented cloud-based solution. And that's leading to good -- a good ability for us to position our Switching, our Routing and our Security. And the fact is that as you saw, Security actually was a good performer for us in the Q1 time frame. We announced just a few weeks ago a solution that helps enterprises solve the problem that is top of mind for most CIOs that I talked to, which is the ability to move to a multicloud environment with ease and with peace of mind on security. And that's exactly what Contrail Enterprise Multicloud seeks to solve for our customers. We've also complemented the solution and the technology with a go-to-market motion where we are specifically targeting new logos and especially large enterprise logos. And I think all of this effort is coming to bear in some good results that we've seen now over the last couple of quarters. And I expect -- I'm quite optimistic about Enterprise for the rest of the year as a result.



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Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes, and on the first question, so the Cloud vertical was up sequentially. PTX was up year-over-year but down sequentially. The difference is the PTX was up within the Cloud, but it was done with the Service Provider space. So if you look at PTX, we still sell a fair amount to both Service Provider and Cloud. The Cloud vertical is up for PTX sequentially, and the Service Provider vertical was down sequentially for PTX.

Operator

Our next question is from James Faucette from Morgan Stanley.

James Eugene Faucette - Morgan Stanley, Research Division - Executive Director

Just want to follow up on the security question. Firstly, can you talk a little bit -- it seems like you're getting good combination of results of targeting new customers and with your new portfolio. Can you talk a little bit about what [is driving] those new customers? Is it specifically the opportunity or abilities around multicloud? Or just elaborate that a little bit. And then my second question is related to M&A. You've mentioned a couple of times that you're looking at places to invest, et cetera. How should we think about the M&A factor into your investment plans?

Rami Rahim - Juniper Networks, Inc. - CEO & Director

I appreciate the question. In security, what I liked about our results is that they were fairly broad-based in nature across our technologies and our use cases. So we've now refreshed our mid-range portfolio and starting to see momentum there. We've refreshed our brands portfolio and seeing good momentum there. We also saw good high-end momentum, primarily as a result of cloud customers. We're seeing also a nice diversity of use case between data centers and next-generation firewall. And the million-dollar-plus opportunities that we track are growing nicely. And the last thing I'd say about security is we're seeing good software attach. The Layer 4 to Layer 7 software attach, which we track closely, which is I think a good sign of the value that we're offering to our customers, is growing now on a year-over-year basis. I do expect, based on the pipeline that we're seeing, that we should see full year growth for security. On the M&A side, we primarily look for an organic approach to our innovation, but at the same time, we have good, healthy balance sheet. We're generating cash, and we would look for opportunities to accelerate our strategy, especially around the cloud, around enterprise cloud and so on. So there is an opportunity for value-enhancing strategy accelerating M&A. We view that as fair game to consider.

Operator

Our next question is from James Fish from Piper Jaffray.

James Edward Fish - Piper Jaffray Companies, Research Division - Research Analyst

Just curious as to what you're seeing related to SD-WAN today and how we should think about the impact throughout the year and kind of moving forward. And then secondly, just kind of making sure we're dotting our Is and crossing our Ts. Was there any pull forward of the Switching business this quarter?

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Let me address the first question about SD-WAN. So we view the SD-WAN opportunity as a fantastic opportunity, but we actually look at SD-WAN a little bit different than most of our peers in the industry. We look at SD-WAN as a very important feature or element of a broader solution around Cloud CPE, where we're offering not just an easy managed solution for connectivity but also one that offers security embedded and the ability to leverage third-party virtual network function. We are initially targeting our service provider customers as a way of enabling them to go after the SD-WAN market opportunity. That way, we get to leverage the great relationships we have with our service providers. We also can leverage their



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go-to-market muscle that can complement our own in going after the enterprise end users. This year is really around wins and deployments. And we have, I believe I mentioned in the last earnings call, now 3 major telco wins. And we are in the process of deploying the solutions so that we can take it to market by the end of the year and start seeing some revenue growth next year. I think it's early days in terms of SD-WAN. I know it gets a lot of press and attention, but it's still at the beginning stages of the total opportunity, and we're excited about it. I think we'll start to see some revenue from it in a meaningful way next year.

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes. And on your second question, we don't believe there's any pull into Q1 from a Switching perspective. In fact, I do believe Switching will grow sequentially from Q1 levels throughout the year and return to full year growth in the second half of FY '18. And again, it should be a full year growth FY '18 over FY '17. So we see the Switching momentum only improving throughout the rest of the year.

Operator

Our next question is from Dmitry Netis from William Blair.

Dmitry G. Netis - William Blair & Company L.L.C., Research Division - Equity Research Analyst

Yes, I apologize for that. Can you hear me okay now?

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Yes.

Dmitry G. Netis - William Blair & Company L.L.C., Research Division - Equity Research Analyst

So a multipart question, if I may here, first on the sales transition or the Head of Sales transition. Can you give us an update where you are on that search and whether or not there are some key sales departures that you've been witnessing in the process or not? That would be sort of one topic I wanted to touch on. Secondly, you mentioned you repatriated \$2.5 billion in cash out of the \$3.4 billion. So how much cash is still sitting overseas and whether there was any urgency in this repatriation as you kind of look into the M&A spectrum? Or is this you're just being opportunistic? And then lastly, if I may, kind of beating the dead horse again on price pressure. I know you noted there's no significant change from prior quarter. It's always been tough, et cetera, in the service provider market. But I wanted to ask the question specifically as it relates to CommScope, which reported earlier this morning and had noted some commodity price increase -- increases and specific price pressure from North American carriers across mobility and connectivity businesses, and whether you could see anything incremental from that standpoint as it relates to your business.

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Thanks, Dmitry, for the questions. First, on your question around the Head of Sales, I think we're in the middle of the process right now. There's not much I can really say about it other than the fact that we have a great set of sales executives, fantastic bench strength. Our existing Head of Sales, Vince Molinaro, is seeing -- is making sure to see that there is an orderly transition. So I'm quite pleased with the progress that we're making and expect it to be a smooth transition to a new Head of Sales when we identify that individual. And as part of your second question around pricing pressure, I stand by what we've said already. There is nothing out of the ordinary from a service provider standpoint in terms of the pricing dynamics. In the cloud space, the biggest factor is just the mix as we go from MX to PTX. And that subsides as we go through the rest of the transition that we see ahead for us. But in the SP space, again, no new news there.



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Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes, and on the tax question, we did repatriate \$2.5 billion in Q1. We still have 35% of our cash offshore, so roughly \$1.2 billion is offshore. We expect to repatriate another \$500 million or so late this year or early next. From an urgency perspective, I wouldn't call it urgent. I think it's just good business practice to bring it back onshore. We did pay the full tax liability for all of our offshore cash in Q4 last year. So from a tax perspective, that's behind us on the expense side. And just bringing it onshore just gives us more flexibility, but I wouldn't categorize it as urgent for any sort of pending M&A or anything. It's really just more of good hygiene.

Jess Lubert

Thanks for all your questions. That concludes today's call.

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Excellent. Thank you.

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Thank you.

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