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PRESENTATION

Operator

Greetings, and welcome to the Juniper Networks first-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mrs. Kathleen Nemeth, Vice President of Investor Relations for Juniper. Thank you, Mrs. Nemeth, you may now begin

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Thank you, operator. Good afternoon, and thanks for joining us on today's call.

Earlier this afternoon we announced our first-quarter results and outlook for the second quarter of 2015. Also, shortly after the issuance of our financial results press release, we posted to the IR section of our website financial commentary by Robyn Denholm, our Chief Financial and Operations Officer. We've also furnished this commentary to the SEC on form 8-K. We hope you find this new format helpful, and we welcome your feedback.

With me today are Rami Rahim, Chief Executive Officer; and Robyn Denholm, Chief Financial and Operations Officer.



Today's call may contain certain forward-looking statements, including statements concerning Juniper's business, 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 concerning factors that could cause actual results to differ materially from those in the forward-looking statements are listed in our most recent 10K, and the press release furnished with our 8-K filed with the SEC today.

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 results. Full GAAP to non-GAAP reconciliation information can be found on the IR section of our website.

As a reminder, unless otherwise noted, revenue growth rates have been normalized for the sale of Junos Pulse. 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.

Rami Rahim - Juniper Networks Inc - CEO

Thanks, Kathleen. Welcome everyone.

We delivered solid results for the first quarter of 2015, exceeding our guided ranges. Our strong year-over-year expansion in non-GAAP EPS reflects our continued focus on operational discipline, and is a testament to our proven ability to execute on our strategy. We're making significant progress against our key initiatives, and we remain steadfast in achieving our goal of realizing Juniper's full potential.

Industry fundamentals are unfolding largely as we anticipated. Based on our visibility and our discussions with customers, we continue to expect an improvement in demand in the second half of 2015. It has been a busy Q1 at Juniper, and I'm proud of what we've accomplished in the past few months.

We organized our R&D team to innovate as a startup, and unveiled the compelling lineup of new products and solutions across routing, switching, and security that address real problems faced by our customers, and that will make a meaningful difference in the connected world we live in today. We've been listening closely to what our customers tell us they need, and the reception from those that have had early access to these new products has been very positive.

Our customers truly value our mission of creating solutions that offer performance and advanced automation capabilities, without compromising on scale and reliability. We are enabling our customers to deliver new revenue-generating services and a better experience to their customers. I'm energized by all the new opportunities our investment and innovations will make possible.

I will now comment briefly on highlights from routing, switching, and security in the first quarter. In routing, we're generally pleased with our execution and progress. Despite the expected sequential and year-over-year declines, we still see growth opportunities in routing all up.

The diversity of our customers across our focus verticals continues to help offset weakness in US carrier spending. Cloud providers and cable operators continue to be highlights for us, and we are pleased to see solid progress with large enterprise customers, such as those in our government's vertical that are adopting our routing and SDN solutions.

Regionally, EMEA returns year-over-year growth in Q1. We started to see traction from some key customers in APAC. In the first quarter, we announced enhancements to the PTX product line to make it highest performing IP routing platform in the market. Three times that of the closest competitor, and powered by Juniper's new express plus [diligen]. Coupled with our Northstar WAN SDN controller, I'm confident that we will be well-positioned to take routing market share, once these products fully ramp.



In switching, we're pleased that our mid- to high-end data center business was strong in the first quarter, through our overall product revenue was down. We expect to continue to grow in the data center with our sales focus and new line of QFX switches, which will be the highest performance switches on the market.

These switches can deliver unprecedented scale and port density to all types of data center and cloud deployment. Coupled with Contrail and our partnership with VMware, we're well-equipped with highly automated cloud data center solutions for both service provider and mission critical enterprise networks.

Moving to security, we know that we still have work to do to return to growth in this area of our business. Starting in early February, we outlined for customers our expected product direction over the next 18 months, illustrating our commitment to offering domain level solutions to have a strong element of security. Our customers understand the criticality of securing the networks we provide, and the roadmap was well received.

Just last week, we announced the industry's fastest firewall, with 2 Tb/s of performance, ideal for bandwidth intensive mobile deployments, as well as large cloud data centers. We're getting in front of our customer's security challenges, and we remain focused on areas where we can win.

Services deserves a quick recap as well. We saw a year-over-year increase in service revenue, driven by new service contracts and strong contract renewals. We continue to help customers through their next-generation network architectures, and with the transition toward service agility and automation.

Now to take a step back, the continued expansion of cloud computing and the mobile Internet has broad implications for the technology industry as a whole, and for network innovation in particular. There is tremendous opportunity for us to deliver on our vision of being the worldwide leader in network innovation.

We believe the industry needs a technology provider that is maniacally focused on IP networking. That's Juniper. That's what we do every day. We're squarely focused on solving our customers toughest networking challenges, with superior products and services that transform the economics of networking through high-performance and automation. And we have strong relationships with our customers and a robust global partner ecosystem that we believe will enable us to win in the marketplace.

Our sharpened strategy and focus go-to-market models have come together to drive real competitive advantage for us. We're executing on our vision to be a worldwide leader of network innovation. We remain resolute in our focus to drive profitable long-term growth and increase shareholder value.

As we continue on our course, I want to thank our customers, our shareholders, and our nearly 9000 passionate and hard-working employees for their ongoing support.

Now turn it over to Robyn, who will review a few highlights of the quarter.

Robyn Denholm - Juniper Networks Inc - CFO & COO

Thank you, Rami, and good afternoon, everyone.

Before I begin, I'd like to point out that we posted my detailed CFO commentary on our website prior to this call. For the first quarter of 2015, we delivered good year-over-year non-GAAP operating margin and earnings per share expansion, reflecting continued management of our cost structure and a significant reduction in our share count, while driving innovation and remaining focused on our growth strategy.

We exceeded our revenue guidance range due to slightly better demand from our cloud, cable, and European service providers. Which points to the continued strength in the diversification of our customer base. Our underlying demand metrics were healthy this quarter, with an increase in both total and product deferred revenue, and a book to bill greater than one.



We continue to deliver on our capital return program. In the quarter, we repurchased \$400 million of shares, and we are reaffirming our commitment to repurchase a total of \$1 billion of shares from January through June of 2015. Additionally, in the quarter, we completed a \$600 million bond offering, enabling us to execute on our total capital return of \$4.1 billion to shareholders through 2016.

I'd like to provide our perspective on the proposed merger between Nokia and Alcatel Lucent, as it relates to the Juniper's business. Our partners are a key component of our go-to-market strategy. The majority of our revenue is either resold or distributed through our partners. We have a good relationship with Nokia, and in 2014 they resold approximately \$190 million of Juniper products and services.

Our strategy is to be the worldwide leader in network innovation. And to deliver products and services that really matter to our customers. Irrespective of the route to market, we have direct relationships with all of our large end-user customers.

Moving on foreign currency fluctuation. The pricing environment remains competitive. And we take into account currency fluctuations in our processing strategy. As a reminder, we primarily price an invoice in US dollars, and as a result, we have not seen a significant translation impact of our revenue from the strengthening of the US dollar. On the cost side and the balance sheet, we have a hedging program in place to reduce the variability associated with currency fluctuation.

Now, let's take a look at some of the assumptions behind our outlook for Q2, and the demand environment for the second half of 2015. We expect continued momentum from our cloud and cable customers. We also expect further growth throughout the year from our international customers, as they continue to build out their networks. In addition to these trends, we expect an improvement in demand from our large US carrier customers in the second half of the year.

Based on all of these factors, we expect to see an improvement in our revenue in the second half of 2015, relative to both the second half of 2014 and the first half of 2015. You can find a detailed outlook for Q2 in the CFO commentary, available on our website.

In summary, I am pleased with our performance in Q1, and I would like to thank our team for their continued dedication and commitment to Juniper's success. And now, I like to open the call for questions for the remainder of the hour.

QUESTIONS AND ANSWERS

Operator

Thank you. We'll now be conducting a question and answer session.

(Operator Instructions)

Amitabh Passi, UBS.

Amitabh Passi - UBS - Analyst

Hi guys. I had a question, and if possible, a quick follow-up. I guess the question, Robyn or Rami, was just your conviction level in the visibility in the back half of this year, in terms of the outlook, particularly with US service providers?

Also want to just clarify, Robyn, your comment about second half being better than second half of 2014. Is that on a quarterly basis? i.e. Would you expect 3Q 2015 to be better than 3Q 2014 and 4Q to be better than 4Q 2014? Then I have a follow up



Rami Rahim - Juniper Networks Inc - CEO

Sorry, I think we got the question. Thanks for the question, and I'll start and I'll pass it over to Robyn. The first question about conviction with respect to the second half, really two elements to the guidance that we have provided, or the outlook we have provided. First and foremost, we remain very close to all of our service provider customers, including those that are here in North America.

So, we obviously have good visibility into projects that we are working on together. We have good visibility into the trends that happening in the industry, similar visibly to what you see, and based on that, I would say that, yes, we're pretty confident in the improvement in spending and in demand in the second half of this year.

The second element, I think to your question, that's equally important is the fact that we expect to see continued diversification of our business across all of our key verticals. So Q1 was another really good quarter in terms of the traction that we saw with cloud providers and cable operators, and clearly these are very strategic verticals, where our engagements with customers are happening on an ongoing basis, and we feel good about the strength in our position in the industry, if you will, our competitive position relative to these verticals in the second half.

And Robin, I'll pass it to you for the rest.

Robyn Denholm - Juniper Networks Inc - CFO & COO

In terms of the commentary, what I said was that we expect the second half of 2015 in aggregate, obviously, to be above the first half of 2015 as well as the second half of 2014. I'm not expecting a different trajectory Q3 to Q4, versus what we've seen in the past.

Amitabh Passi - UBS - Analyst

Okay, and then if I could just speak of quick follow-up. Rami, just on the new product announcements, you had a slew of them in the last 3 to 6 months. Which one, two, or three, do you think would start to add to revenues as we move towards through the rest of 2015 and into 2016?

Rami Rahim - Juniper Networks Inc - CEO

Yes, thanks, Amitabh. First, I feel really good about the products and the announcement that we just unveiled to the industry.

These are obviously technologies that we have been working on very diligently over the last several years, and Q1 was honestly very exciting for us, because we finally had an opportunity to announce to everybody what is that we've been up to. And as you know, they really touch all of our different business areas, and switching, routing, and security. I have to just remind everybody that, yes, these products all go through their normal certification cycles.

We have to first get them out to market. So, right now, we're all working around-the-clock to make sure that we get them into our customers' hands and ready for deployment. Crossing all of the T's and dotting the I's, if you will, on the testing that need to happen right now. I expect the first products that hit the market will be the switching products, and there I think the ramp will be sooner just based on the availability of that product to the market, followed by the enhancements that we've made to the PTX product line that happens in Q3 timeframe.

Amitabh Passi - UBS - Analyst

Thank you

Operator

Simona Jankowski, Goldman Sachs.

Simona Jankowski - *Goldman Sachs - Analyst*

Hi. Thank you. Just a couple of questions, as a follow-up to the prior question of the new products. So Rami, based on your guidance for both Q2 and the second half? It sounds like you're not really expecting a pause or kind of off-burn effect because of the new products, as customers wait for the better products to come out later in the year.

Can you just comment on why that is? And then follow-up on specifically the switching part of the portfolio, we haven't yet seen you announce anything in the area of 25 or 50 gig in the data center or 2.5 gig in campus. Can you just comment on whether those are segments that you plan to address?

Rami Rahim - *Juniper Networks Inc - CEO*

Yes, sure, Simona. Thanks for the question.

First, on the overhang effect that you're talking about, we've gone through product transitions at Juniper now a number of times, so we obviously are aware and always factor into our projections and our plan the potential for any sort of an overhang effect, but that said, I'm just going to drill one level deeper, we've been talking to our customers about these innovations for quite a long time, now. In fact, with many of our customers, we've developed these products with direct input and guidance from them, so it's not going to be new news for them.

Secondarily in -- let's say, the routing domain with the PTX, here, our customers have actually really liked the fact that we're continuing to invest in this product line, and so they know -- they have the peace of mind, if you will, that they can continue to purchase it and have the ability to upgrade in the future when their capacity requires them.

On the switching side, I'd say the overhang effect is slim to none, because of the fact that this essentially addresses a gap that exists in our portfolio, as opposed to something that replaces a product line that's already in the market.

Your follow-up question on 25 gig and some of these newer interface feeds, we haven't gone out externally and talked about specific products. All I'll say for now is that, actually, this is an important topic for us in the Company. We understand what our customers requirements are with respect to very different interface speeds, and we're building that into our roadmap.

Simona Jankowski - *Goldman Sachs - Analyst*

Great. Thank you, Rami, and I just had a very quick follow-up for Robyn. Robyn, I heard your comments on FX having not had a translational impact, which makes sense. It was interesting how strong your EMEA business was. Did you not see any impact in terms of either deal sizes getting smaller or competitively, or in terms of pricing from how strong the dollar was?

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

So, clearly, in the first-quarter, we did have very good results in our EMEA business. It was actually up, year-over-year. In terms of the pricing impact, it is a competitive market and we continue to take into account the currency impact on our customers' budgets, if you'd like, as opposed to just their own product pricing.

And so it is a factor that we've dealt with in the past, and we will continue to deal with it. Obviously going forward, we factored in what we believe will be the impact from currency into the guidance that I've given you for the second quarter, and then also more in terms of the color of the second half of the year, as well.

Simona Jankowski - *Goldman Sachs - Analyst*

Thank you

Operator

Pierre Ferragu, Sanford Bernstein.

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

Thank you for taking my question. Rami, first of all, we're talk about the consolidation in the industry, of course you've mentioned the Nokia/Alcatel Lucent merger. And so, I'd love to hear your thoughts on the topic.

First of all, how do you see that effecting you guys? Like, more consolidation in the industry, and say beyond of course, the direct impact of Nokia being one of your distributors? And then, I would love to hear your thoughts about how you see the industry evolving, going forward? Do you think that could be more consolidation? Do you think you could play in that?

And I'm thinking about two things: could Juniper be stronger as a part of a larger entity with service provider clients? And also from a technology core perspective, how do you think about you guys potentially being stronger closer to [adjacent] technologies like wireless and transport, versus being independent and focused on IP routing?

And then I have a very short follow-up for Robyn.

Rami Rahim - *Juniper Networks Inc - CEO*

Okay, great, thank you, Pierre. So, certainly we see the industry dynamics that are panning out right now.

Consolidation is one of those industry dynamics, and difficult to predict, but yes, it could continue going forward. There are other dynamics that are happening as well. There are transformational architectural shifts that happening right now, across the industry, of a movement towards cloud-based service delivery, value delivery to the end-users.

Whether that be residential or business end-users, and honestly, I believe that there is a need for a company that's going to be really laser focused on developing the types of IP innovations that are necessary to get our customers to make this transition. That's the role that we play in this company, that's the role we play at Juniper. So the net of it is, there is no change to our strategy. Our strategy remains one of delivering and competing based on the merit of our technology, and on achieving scale through really effective partnerships.

With respect to Nokia, Robyn addressed it in her opening remarks. We have deep, direct relationships with all of the customers that we work with, whether they go through Nokia or not, and we have a variety of other partners to choose from, as well, in taking our innovations to market. As far as the second part of your question, with respect to potential M&A for Juniper, I have said in the past and I still do believe that our strategy to innovate is going to be largely organic, but with the potential to augment it with some M&A activity.

Right now, the focus is primarily on getting the products that we have announced out the door, but at some point it's probably makes sense for us to think about M&A to compliment that. We continue to that as part of our ongoing strategic process.



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

Thanks, and Robyn, a very quick follow-up on the \$190 million of business you've generated with Nokia last year. How should we think about how sticky the business is?

I understand that you have relationship with client, it's not completely fully [at-risk,] but that will be pressure on these numbers. Is that something that can happen in the short-term, or is that more like a longer-term race, because you have good contractual and like protection related to the fact that it's difficult to swap out technology in a network?

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

Thanks, Pierre. That is a good question. From our perspective, obviously what we control is actually our relationships with our customers, our end-user customers. In terms of the profile of that \$190 million for 2014, it was both product and services. It was actually routing, switching, and security in those numbers.

Clearly, there is some overlap in terms of routing with the Alcatel Lucent portfolio, as and when this transaction closes. And I'm sure that will take some time. So we believe that there is an opportunity to continue to partner on those areas where we don't overlap, and then obviously the services contracts continue over time with those end-user customers.

And so the profile of the revenue product versus services is roughly the same as the overall Juniper profile, in terms of overall percentage.

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

Thanks.

Operator

Ehud Gelblum, Citi.

Ehud Gelblum - *Citigroup - Analyst*

Thanks guys appreciate it. Rami, welcome to conference calls.

A couple of things. First of all, we have mergers in lots of different directions. One obviously is the vendor one, you're talking about. The other one, given that you are seeing strength in cable is coming from two large cable companies in the US that were on a merger path that may or may not be on a merger path, going forward.

Can you give a comment as to how would that impact things positively or negatively, if that merger doesn't go through? And what kind of signposts should we be looking for, in terms of what that would mean to your business at [EDH1], your thought process on that?

Robyn, a couple years ago, when you had a slew of new products coming out in 2011, I want to say, you gave us this target, I believe it was \$75 million or \$150 million. I can't remember. That was about 7 quarters out.

Is there some kind of signpost that you can give us on growth of these new products that you came out with that are coming out now that we can kind of look to, a couple of years or so out, so we can kind of track the progress of the new products? And then I had a very quick -- just a small follow-up.

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

So, Ehud, I'll address the second part of the question, and then Rami can address the first part around customer consolidation. So in terms of the new product ramp to revenue, obviously we're very focused on doing that, and Rami went through the number of steps that we need to do in terms of getting the products out, and then also having them certified for the networks and that type of thing.

We've not put out, nor are we going to put out a number, in terms of the quantity of revenue to expect. What we will do is give you progress as we incur design wins and that type of thing. But in terms of an overall number, it's included in our outlook for the second half of the year, and it will be modest this year in terms of any revenue impact.

Rami Rahim - *Juniper Networks Inc - CEO*

Thanks, Robyn. On the question regarding cable, first I will remind everybody that cable is one of our key strategic verticals that we are focusing on and measuring ourselves against, in terms of performance of the business. We enjoy a really strong relationship on both sides of the potential merger. You talk about Comcast and Time Warner, and we continue to do so. We're working very closely with them on a variety of different projects.

I personally engage with executives on both sides, so honestly, whether it happens or not is a very neutral thing for us. It doesn't change the importance of the vertical for us, it doesn't change our investment level that we would put into the vertical, to make sure that we remain aligned with the innovations that we're introducing into the market, and I will say that some of the new products that we have just talked about were developed with explicit and detailed feedback about the requirements for the cable industry.

We know what they want, we know what kind of performance, the capabilities, the feature set that is required to build out their networks, and I feel confident that they're actually going to play out very well for that vertical.

Ehud Gelblum - *Citigroup - Analyst*

Thanks. So, confirming that you actually are on both sides of that, Time Warner and Comcast. Robyn, my question was, on cash flow statement, there is a line, professional services related to non-routine stockholder matters. That was \$7.3 million in the year ago quarter and \$3 million in this quarter. Is this to deal with your activist investor? What was the \$3 million spent on?

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

That is actually to do with settlements that we reached in the first quarter in relation to our proxy.

Ehud Gelblum - *Citigroup - Analyst*

Excellent. Okay. Thank you.

Operator

Tal Liani, Bank of America Merrill Lynch

Tal Liani - *BofA Merrill Lynch - Analyst*

Hi, guys. I have two questions. The first one is more kind of longer term. I understand that routing will have cyclical recovery, but if I try to think outside in terms of recovery in the last four years, routing revenues were flat, 0% growth. What do you think is the outlook. What are the -- even if



you don't get to a specific number, what are the puts and takes for growth over the next 4, 5 years? Why should it accelerate now, if it didn't grow the last four years, if you take the whole 2011 to 2015?

The second question is about the outlook cost cuts, if at all. So, you're coming out of the big restructuring program. Is that it from, cost cuts point of view? So going forward, will margin enhancement more of a function of revenue growth, or is there any room for additional cuts? Thanks.

Rami Rahim - Juniper Networks Inc - CEO

Okay, let me start, Tal, and then I'll pass it over to Robyn. The outlook that we had provided on our routing business over the next three years was essentially 3% to 5% in revenue growth. And I believe that's achievable because of a number of different things. First, just based on the merits of our product portfolio. The dynamics in the routing business are such that, in order to grow, you need to take market share, and in order to take market share, you need to have better products.

We just introduced a router that has three times the performance of anything else that's out there in the industry, today. At a time that traffic is growing substantially, and our customers care about the economics of routing. We have a product that truly demonstrates to them what we're capable of doing, in moving that amount of traffic cost effectively. That's why I think we have confidence in our ability to achieve these projections.

And then, as far as the restructuring cost that you are talking about, let me just start, and I'll pass it over to Robyn. The most important thing that I think you need to understand is, yes, last year was a year of restructuring for us, but going forward, I think we're going to make sure that the investments we make in OpEx are going to be commensurate with the revenue growth.

We're not going to get ahead of ourselves, as we have done in the past, quite frankly, in terms of how we invest in the business. We have to see the growth that will give us the freedom, if you will, to invest in the business, not the other way around.

Robyn do you want to add anything?

Robyn Denholm - Juniper Networks Inc - CFO & COO

Yes, thanks, Rami. First thing, I'm very pleased with cost performance in the quarter, and also the year-over-year declines that we've actually achieved this quarter in terms of the costs.

I think also, just amplifying what Rami said, clearly we put out in October that 25% is still our goal in terms of operating margin over this next three year period, and we are focused on doing that in a balanced way. We want to make sure that we continue to invest in the future of the Company, which is obviously the innovation that we're delivering to market.

And we will, as Rami said, grow OpEx outside of this year slower than we grow revenue, and so that's how we will continue to expand operating margin, just like we did in the first quarter, on a year-over-year basis. So that is our strategy, and we're continuing to do that. So the other side of that, Tal, is that we are always looking for cost improvements.

A lot of those will be invisible because you have to actually take costs out to even keep its flat in any sort of environment. So, we are very focused on the cost side, but in a balanced way.

Tal Liani - BofA Merrill Lynch - Analyst

Got it. Thank you.



Operator

Mark Sue, RBC Capital Markets.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. It's good to see the encouraging commentary. If I look at it from a historical perspective, you went through a period of product pruning. We now know you will keep routing, security, and also switching.

As you balance your commentary with OpEx, are there submarkets or perhaps verticals where you might potentially retreat from, while you fortify your efforts into the other verticals of cloud, data center, and service providers? Just trying to get a sense of how you narrow the scope so you get multiplied the effects on the other end.

Rami Rahim - *Juniper Networks Inc - CEO*

Yes, thanks, Mark. Last year was a busy and a tough year, quite frankly, because we have to make some difficult decisions about which particular product areas we're going to remain in, and which ones we would divest, and which ones we would unwind.

That work is effectively behind us at this point in time. So, I feel very good right now, that we're not stretching ourselves too thin, that we're investing in areas, and investing sufficiently in those markets that we are playing in, in order to differentiate, and compete, and to win. It's that simple. So, at this point, the focus really is on -- the focus in our strategy that we have to grow topline, and we'll go from there. We're in execution mode.

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

And if I could just add, as well Mark, the work that's [thins spend] on the go to market side is also, obviously, yielding results. And if you look at our strategy more deeply, in terms of the vertical focus that we have, it's obviously clearly focused on those customers that differentiate the network or run their business on the network across cloud, cable, carriers, as well as on strategic verticals in enterprise and government.

And so, we're very pleased with that, and partnering is a key element of making sure that we continue to get the growth rates from a revenue perspective, and continue to drive operating margin expansion as well.

Mark Sue - *RBC Capital Markets - Analyst*

That's helpful, Robyn, and on that, as you look at margin improvements and you look at firming net income, how should we think about cash flow from operations, considering the business, when it hums along, generates a lot of cash? Any thoughts on how we should think about cash flow from operations, this year?

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

Yes, Mark. I think cash flow generation is a core strength of the business model that we have here at Juniper. I think that operating cash flow in particular does follow the operating margin and the expansion of that will obviously lead to more cash per revenue dollar being generated.

And so, we're very pleased with our cash flow, and for the first quarter, and even for the whole of last year. And that enabled us to continue to drive investments that we made, going forward, and also deliver a healthy return for our shareholders in terms of the capital returns that we've been committed to.

Mark Sue - *RBC Capital Markets - Analyst*

All very helpful. Thank you, and good luck.

Operator

Rod Hall, JPMorgan.

Rod Hall - *JPMorgan - Analyst*

Hi guys thanks for taking my question. I wanted to ask either one of you on the routing cycle, maybe a little bit more short-term question. Which is, you guys seemed to think the routing cycle had bottomed last quarter, is down 15% year-over-year in your numbers. This quarter, you are down 8%, it does kind of feel like that was the right call for you, anyway.

Should we anticipate the routing cycle continuing to improve? And, do you think that we're getting to positive year of growth in the second half of the year in routing? So, that's the first question I've got. And then I'll just ask a follow-up after you guys answer that one.

Rami Rahim - *Juniper Networks Inc - CEO*

Let me start, and then I'll see if Robin wants to add anything. I'll just go back to the commentary we had made, we do expect based on the two factors that we've outlined, service providers spend in general -- telco spend, in general and specifically here in the United States, should improve in the second half of the year, and then also, the further diversification of our business across the different key verticals that includes cloud, that includes cable.

Based on that, we do anticipate the second half to be better than in the first half, and also better than the second half of last year.

Robin, anything else?

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

I agree with, obviously, everything Rami said, there. I would also point out, and I mentioned it in my CFO commentary, that we actually had a good routing quarter in Q1 in enterprise, as well. And that just speaks to not only the diversification of the revenue, but some of the key strategic pivots that we made last year around the data center.

So, obviously in enterprise as well as in cloud data centers and the service provider world, there's an element of routing that's in those solutions as well. And so, we're pleased by that performance, we saw some good wins and some good revenue on the enterprise side of routing, as well as the SP side, but to confirm, we do expect service provider routing to improve through the year, as well.

Rod Hall - *JPMorgan - Analyst*

Okay. And then my follow-up I guess is a strategic question for you, Rami. As you look at the routing business, it looks like, overtime anyway, routing and optical come closer together.

We know there's some organizational reasons at carriers that's not going to happen as quickly, particularly in some of the bigger carriers, but I'm just wondering what you're thinking about prospects of a standalone routing company? How badly do you think you guys need to develop an optical capability, a deeper optical capability, I should say, and do you think it would ever make sense to acquire assets to provide that capability?



Rami Rahim - Juniper Networks Inc - CEO

Yes, Rod, you're absolutely right. There is a transformation that's happening right now in the industry, where the packet world, if you will, and the optical world are moving closer together. You're also right about the velocity of which that's happening. It's not happening very fast, there are all sorts of non-technology barriers that are in the way that will prevent it from moving very fast.

As far as our own strategy, we do have a small, but very effective optical team in-house at Juniper that I do expect will grow over time, that has the capability of taking off-the-shelf optical components that are available to anybody, really, and integrated them into our routing products. But I also do believe that, where most of the innovation is going to be on the packet optical convergence topic, it's going to be in software.

It's going to be around the ability to look across layers, and to make optimal decisions how to move information from place A to place B, leveraging optical and packet technology as efficiently and effectively as possible. And we have now a product called the Northstar controller, which is essentially our WAN SDN controller that does exactly that.

Honestly, I think we have some the best minds in the industry right now, that have developed algorithms that have the ability to optimize these paths across layers in ways that's very meaningful to our customers, and we are engaging with a number of different customers on these product. It still early days, early stages, but I'm encouraged by the progress that we are making.

Rod Hall - JPMorgan - Analyst

Great. Okay. Thanks a lot guys.

Operator

Jess Lubert, Wells Fargo.

Jess Lubert - Wells Fargo Securities, LLC - Analyst

Hi, guys. Thanks for taking my question. I have a question on the security business. Specifically, I was hoping to understand if you've seen any developments that lead you to believe the business may be nearing a bottom?

Would you expect the security business to also strengthen through the year, and potentially return to growth during the second half? And perhaps you could walk through what's going well, and are the keys to better participate in what seems to be a fairly vibrant security market?

Rami Rahim - Juniper Networks Inc - CEO

Yes, thanks Jess. So, our goal for this year, as I stated last year, sorry, last quarter, is around stabilizing the security business you take a look at our SRX business in Q1, it was more or less flat with Q4. The part of the business that's in decline, and will continue to be in decline is going to be the legacy screen OS business.

We're still in work-in-progress mode, if you will, on security. I did mention that we pivoted our strategy, we're now working on a security strategy that's very highly aligned with the rest of our product portfolio, and offering domain level solutions that have a strong security element to our customers, and we are executing on a very high leverage engineering strategy.

So, just last week in fact, we announced the industry's fastest firewall. That's 2 Tb/s for cloud operators that are trying to protect massive cloud infrastructure, and for mobile operators that are trying to protect their mobile users, their mobile infrastructure. That's very, very meaningful, and



it's only possible because of the silicon innovations that we've already developed in-house for our other product lines, and it just demonstrates the power of the synergies, if you will, from a cost standpoint that exists in the organization.

So in summary, we're focusing on a narrower part of the market, it's the network security space, tightly aligned with the rest of our products, and we believe we can in fact innovate to differentiate and win there, it's just going take a bit of time.

Jess Lubert - Wells Fargo Securities, LLC - Analyst

Rami, in the security business over the last couple of years, a lot of your success has been at the high-end with large service providers. As service provider spending improves in the back half of year, should we expect that to also benefit the security business? And how you're thinking about security with respect to enterprise? Is the recovery likely to be more carrier focused, or are you also expecting similar improvement on enterprise? Thanks.

Rami Rahim - Juniper Networks Inc - CEO

Well, as CapEx improves for service providers, I expect that to help all of our business. I don't know whether it's specifically for the second half, it will have an effect on security. We haven't broken it out in that way. The enhancements that we are making right now to our Junos Space security products, I want to make clear, are certainly very compelling for the service provider space, but is also compelling for large-scale enterprises. So, those that are building large enterprise clouds will benefit from the performance and scale that we are adding.

And of course, it doesn't stop there. We're also continually enhancing our virtual security products and assets, which is very meaningful for the enterprise space, because at the end of the day breaches will always happen. You're always going to be able to overcome any security barriers you put at the perimeter. Once that happens, the key is to prevent the spread of malware inside of the enterprise, and our virtual security products are now being used by enterprises to do exactly that.

So yes, our strategy is very much around SP and enterprise. The scale in performance helps both, certainly more on the SP and the cloud infrastructure space, but also in the enterprise side, and then finally virtualization is something that will certainly help both SP and enterprise

Robyn Denholm - Juniper Networks Inc - CFO & COO

And just to underscore that, I made the comment before about routing and data center and the enterprises. The same was true in the quarter for security. The high end was up.

Again, nothing to write home about yet, because it was flat, overall. SRX flat overall, sequentially. However, the area that did grow nicely was actually the data center space, in the enterprise in the first-quarter. So it's early days, but our overall aim for this year is to create stability in that business this year, and then go from there.

Jess Lubert - Wells Fargo Securities, LLC - Analyst

Thanks guys

Operator

Vijay Bhagavath, Deutsche Bank



Vijay Bhagavath - *Deutsche Bank - Analyst*

Thanks. Rami, a question for you and Robyn. It seems to be that you're doing quite well in the non-telco segments, the cloud porters, web 2.2, et cetera. It would be helpful for us to get any color on the percentage split in terms of revenues, like for routing. So would it be less than 10% for web 2.2, cloud maybe somewhere in the 10%, 20%, and then the remainder would be telco and cable? Would be very helpful, thanks.

Rami Rahim - *Juniper Networks Inc - CEO*

Hi Vijay. We haven't broken that out. We can consider doing that at some point. I will say that the fact that we are seeing strength in cloud and cable and government is not an accident. It's a deliberate part of our strategy.

So we are, in fact, listening very closely and making sure that we weave in the requirements from all of the customers in these verticals into our products, and I feel good that that's going to continue. I will tell you again, that the products that we have just announced that will be shift throughout this year, were all developed with a deep understanding of specific requirements in these verticals, that others that might not have the strategic relationship that they have with these customers would have implemented.

So, I expect that that part of the business will continue to do well, and certainly the telco side will do well, as there is improvement in the CapEx environment there.

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

I just want to add one more point, Vijay. I think the diversification of the revenues a core strength of ours. This quarter one of the stats I'll leave you with is, of our top 10 customers in the quarter, 5 were carriers, 3 were outside of North America. We had 4 customers in the top 10 that were either cloud or cable, and one enterprise customer.

So to me, that is -- it's really good in terms of the diversification and it's not something that happened overnight. That's been a work progress by the team for quite some time. It speaks to the strength on the go-to-market side, as well as the relevance of the products across multiple customer types. So we're pleased with that progress.

Vijay Bhagavath - *Deutsche Bank - Analyst*

Excellent. So here's the question for you, Robyn. Juniper obviously is engaged in many new initiatives, programs, many different types of customers to work with. How do you look at OpEx as a percentage of revenue for the remainder quarters of the year?

You see that trending up as you get into new projects, some [NFE] on the service provider side? The web 2.2, cloud, have their own idiosyncrasies in terms of how they want to work with you. How should we look at OpEx? Thanks.

Robyn Denholm - *Juniper Networks Inc - CFO & COO*

Yes. So, OpEx as we talked about before, for this year, for 2015, we set a goal of \$1.9 billion plus or minus \$25 million. As we move forward, we said earlier that we're committed to the 25% operating margin over the next three years.

As we grow revenue, OpEx as a percentage of revenue will start to come down. And so, we've talked about that for quite some time. There's structural actions that we took last year, and the cost areas that we continue to work on are a testament to that. So, we're committed to doing that in a balanced way, so that we can continue to grow the business over the long term.



Vijay Bhagavath - *Deutsche Bank - Analyst*

Okay thanks. Good luck to your team.

Operator

Sanjiv Wadhvani, Stifel.

Sanjiv Wadhvani - *Stifel Nicolaus - Analyst*

Rami, a question on the switching side. Last year, in the first half you did really well in switching, touching \$200 million in revenues in the June quarter, which historically has been tough to get, there. I'm curious, you're tracking about \$20 million, \$30 million below that number.

What's changed between last year and this year? And what gets you back to that \$200 million mark or North of that? Thanks.

Rami Rahim - *Juniper Networks Inc - CEO*

Yes, sure. Thanks Sanjiv. On the switching side, let me sort of try to break out the business, and then probably shed some light on some the observations that you've made.

There is a service provider and enterprise component to our switching business. The service provider side, especially as it pertains to cloud, has actually performed quite well. And that includes performance in the Q1 timeframe, the quarter that we just wrapped up. The enterprise side is a bit of the mixed story, which is what you're seeing right now, or observing right now in the numbers. Cloud, as it pertains to enterprise, so private cloud type deployments as well as enterprise IT data centers, has actually gone quite well. So that area of the business, I think because of the focus and some of the newer product introductions, has helped us grow in that area of the business.

On the campus side, you have to understand that we've just sort of done a bit of a campus pivot in our switching business, or in our strategy all up, that includes taking some of the products that we had in-house, take our SSL VPN business, our Pulse business, the wireless LAN business, and we pivoted there to a partnership approach. And I think that strategy needs to play out over a number of quarters, before we get to some sort of stability and return to growth if you will.

Once that happens, I think that will create the environment, if you will, for all up growth in switching. Last but not least, clearly we have been competing even in the data center without a complete portfolio of products, which we're just about to plug, if you will, with the innovations and the QFX 10K product line that we have just announced that we'll start to introduce into our -- for our customers in the middle of the year.

That gives me more confidence, again, that I think that switching can be a good growth engine for the Company, going forward.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Sanjiv, are you still there?

Operator

Ittai Kidron, Oppenheimer.



Ittai Kidron - *Oppenheimer & Co. - Analyst*

Thanks. Rami, I want to drill into that switching segment that Sanjiv started. First of all, can you give us at least a qualitative assessment of the breakdown between your data center and your campus wiring closet switch, from just a revenue breakdown standpoint?

Rami Rahim - *Juniper Networks Inc - CEO*

We don't break it down, but I will say that they both represent pretty meaningful portions of the overall switching business, Ittai.

Ittai Kidron - *Oppenheimer & Co. - Analyst*

Okay. And then regarding the new announcements that you've made. It is very exciting, the new switch, but you've had a couple of switch cycles in the past, and you've kind of fumbled on them, whether it be the QFabric or even the high-end of your modular portfolio, the 9200 and the 8200. They never really managed to catch any traction.

It seems like in modular, you've always had very difficult challenges. So what changes in the next cycle?

Rami Rahim - *Juniper Networks Inc - CEO*

Well I mean, at the end of the day, these are just words, and it's the number that are going to have to prove our thesis, if you will, of our competitiveness in the space.

But, all I'll tell you is that we have learned tremendously, tremendously from the lessons of introducing the products into the market that are in the market today. Whether they be on the EX side or the QFabric side and so forth, and we have taken all of those lessons and applied them over the last couple of years as we were developing this new product into the development of those product lines.

And we have now been talking to many of our customers about this product line for quite some time, and so far what we've heard from them, and in fact some of them have had early access to the products in terms of an ability to actually kick the tires on them. The feedback has been quite encouraging. Now, we have a lot of work to do to finish up testing, ramp up production, and get these products into the market. We're doing exactly that, right now. But I feel really good about the prospects of this product line.

Ittai Kidron - *Oppenheimer & Co. - Analyst*

Okay, very good. Lastly for me, HP announced it's acquisition of Aruba. That was your Wi-Fi partner since you've exited your Wi-Fi business. Any thoughts on how you plug that hole, since you're trying to plug a lot of holes?

Rami Rahim - *Juniper Networks Inc - CEO*

Yes, fortunately, I don't consider this a hole. At least not right now. Now, things could evolve in certain ways, but at this point in time, I'm very close to the Aruba executive team, I've talked to their CEO. That partnership continues. The foundation of that partnership is one that is based on open interfaces between our technology and their technology.

So, having the ability for our customers to choose best of [REIT] technology is fundamental. Anybody that loses sight of that will lose just because our customers will not accept anything else, and I think that's the thing that makes this solution, A, long-lasting, but more importantly or just as importantly, it gives our customers the ability to interchange, either Juniper or the Aruba side with different types of technologies.



Ittai Kidron - *Oppenheimer & Co. - Analyst*

Very good. Good luck.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

I think we have time for one more question.

Operator

Brian White, Cantor Fitzgerald.

Brian White - *Cantor Fitzgerald - Analyst*

Rami, looking at the enterprise market was much stronger than seasonal, on a sequential basis. In fact, it was the best since the first quarter of 2010. So maybe you could walk us through some of the drivers? I know Robyn mentioned enterprise routers, but what's the dynamic in enterprise that it came is a much stronger than seasonality?

Rami Rahim - *Juniper Networks Inc - CEO*

Okay, thanks, Brian. Let me start. So, we're pleased with our enterprise performance for at least a sequential standpoint.

There are couple of dynamics here. First and foremost is, from an industry vertical standpoint, government is actually helping, here. We are seeing good strength in some project that we have with government agencies, and this helps us in switching, it helps us in routing, and it also helps us to some extent in security as well.

Beyond that, the focus that we have on this transformation that's happening towards cloud-based service delivery is very important. So, we are working right now with a large Fortune 500 company in building out their cloud infrastructure around the globe, and that is a testament to the strength that we have in our MetaFabric architecture, in the switching product that we've introduced into the market.

It's also a beautiful example of how security ties in really effectively to complete the cloud solutions that we offer to our customers. I expect that to continue.

Brian White - *Cantor Fitzgerald - Analyst*

Okay. Just to run the product cycle, when is the bulk of the product hitting the market, becoming generally available? Is it a second quarter or third quarter? Thanks.

Rami Rahim - *Juniper Networks Inc - CEO*

It starts in the second quarter, but it actually goes throughout the second half of this year.

Brian White - *Cantor Fitzgerald - Analyst*

Okay. Thank you.

Operator

Thank you. I'll now like to turn the conference back over to Management for any closing remarks.

Kathleen Nemeth - Juniper Networks Inc - VP of IR

Thank you, Manny. Thank you, everyone, for joining us today. We appreciate your participation and your great questions. Before I close out, I just want to give a shout to the Juniper IR and FP&A team that worked on the new format for today's call. We hope you found it helpful, and we'd love to hear your feedback. Thanks, everyone. Talk to you, soon.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference
you may disconnect your lines at this time, and thank you for your participation.

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