

# Q1 2014 FINANCIAL RESULTS CONFERENCE CALL

TUESDAY, APRIL 22, 2014

2:00 P.M. PACIFIC TIME



# Forward Looking Statements

Information, statements and projections contained in these presentation slides and related conference call concerning Juniper Networks' business outlook, economic and market outlook, future financial and operating results, and overall future prospects are forward looking statements that involve a number of uncertainties and risks. Actual results or events could differ materially from those anticipated in those forward-looking statements as a result of certain factors, including: general economic and political conditions globally or regionally; business and economic conditions in the networking industry; changes in overall technology spending and spending by communication service providers and major customers; the network capacity requirements of communication service providers; contractual terms that may result in the deferral of revenue; increases in and the effect of competition; the timing of orders and their fulfillment; manufacturing and supply chain constraints; ability to establish and maintain relationships with distributors, resellers and other partners; variations in the expected mix of products sold; changes in customer mix; changes in geography mix; customer and industry analyst perceptions of Juniper Networks and its technology, products and future prospects; delays in scheduled product availability; market acceptance of Juniper Networks products and services; rapid technological and market change; adoption of regulations or standards affecting Juniper Networks products, services or the networking industry; the ability to successfully acquire, integrate and manage businesses and technologies; product defects, returns or vulnerabilities; the ability to recruit and retain key personnel; significant effects of tax legislation and judicial or administrative interpretation of tax regulations; currency fluctuations; litigation settlements and resolutions; the potential impact of activities related to the execution of the Juniper Networks Integrated Operating Plan; and other factors listed in Juniper Networks' most recent report on Form 10-K filed with the Securities and Exchange Commission (SEC). All information, statements and projections contained in these slides and related conference call speak only as of the date of this presentation. Juniper Networks undertakes no obligation to update the information contained in these slides and related conference call in the event facts or circumstances subsequently change.

## Use of Non-GAAP Financial Measures

These presentation slides contain references to certain non-GAAP financial measures. For detailed reconciliation between the non-GAAP financial results presented in these slides and corresponding GAAP measures, please refer to the appendix at the end of this slide deck. In addition, for important commentary on why Juniper Networks considers non-GAAP information a useful view of the company's financial results, please see the press release furnished with our Form 8-K filed today with the SEC. With respect to future financial guidance provided on a non-GAAP basis, we have excluded estimates for amortization of intangible assets, share-based compensation expense, acquisition-related charges, restructuring and related costs, impairment charges, litigation settlements and resolutions, non-routine stockholder activities, gain or loss on equity investments, non-recurring income tax adjustments, valuation allowance on deferred tax assets and income tax effect of non-GAAP exclusions.

A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis due to the high variability and low visibility with respect to the charges which are excluded from these non-GAAP measures.



# INTEGRATED OPERATING PLAN UPDATE

SHAYGAN KHERADPIR  
CHIEF EXECUTIVE OFFICER



# IOP: RESULTS TO DATE

## Strategy

**Leading Provider of High-IQ Networks and Best-in-class Cloud Builders**  
Focus on innovation that matters most to our customers: hyper-scale, resilient, secure, highly intelligent, open & virtualized networks

## Structure

**Optimized One-Juniper Structure**  
Focused, centralized, agile structure to reinvigorate the heritage of a mission-driven culture

## Cost Management

**Enhanced Efficiency Resulting in 25% Operating Margin Target for 2015**  
Approximately 580 basis point improvement versus 2013

## Capital Allocation

**Aggressive Capital Return Plan while Preserving Flexibility for Future Growth**  
Returning at least **\$3B** of capital to stockholders over the next three years;  
Initiating quarterly cash dividend of **\$0.10** per share in Q3 2014 with intent to grow over time

## Results to Date

- ✓ Strategy is resonating with customers
- ✓ Web 2.0, Cable, Carriers, Financial Services, Government & mission critical Enterprises
- ✓ Major wins- US based Carrier; Global Financial Services Company

- ✓ Company restructured
- ✓ 1 R&D, 1 GTM, 1 Operations team
- ✓ GTM simplified and focused on targeted industry verticals

- ✓ Execution in full motion
- ✓ Mid-point of June OpEx guidance ~50% of targeted cost reductions of \$160M
- ✓ Portion of compensation plan tied to IOP

- ✓ \$350M debt offering completed
- ✓ \$1.2B ASR program initiated
- ✓ Credit rating maintained

**Execution well under way and beginning to see results**

# IOP: NEXT STEPS

## Strategy

**Leading Provider of High-IQ Networks and Best-in-class Cloud Builders**  
Focus on innovation that matters most to our customers: hyper-scale, resilient, secure, highly intelligent, open & virtualized networks

## Next Steps

- Continue deeper focus on targeted customers that are in a build cycle for High IQ Networks and Cloud ecosystems

## Structure

**Optimized One-Juniper Structure**  
Focused, centralized, agile structure to reinvigorate the heritage of a mission-driven culture

- Complete operationalization of Juniper Development and Innovation org.
- Fully transition to new GTM model

## Cost Management

**Enhanced Efficiency Resulting in 25% Operating Margin Target for 2015**  
Approximately 580 basis point improvement versus 2013

- Well positioned to execute commitments
- For full year 2015, we anticipate an expense to revenue ratio of approximately 39%; \$160M reduction in structural costs

## Capital Allocation

**Aggressive Capital Return Plan while Preserving Flexibility for Future Growth**  
Returning at least **\$3B** of capital to stockholders over the next three years;  
Initiating quarterly cash dividend of **\$0.10** per share in Q3 2014 with intent to grow over time

- Cash dividend of \$0.10 per share in Q3 2014
- Intend to grow dividend over time

**Continued focus on disciplined execution**



# FINANCIAL REVIEW

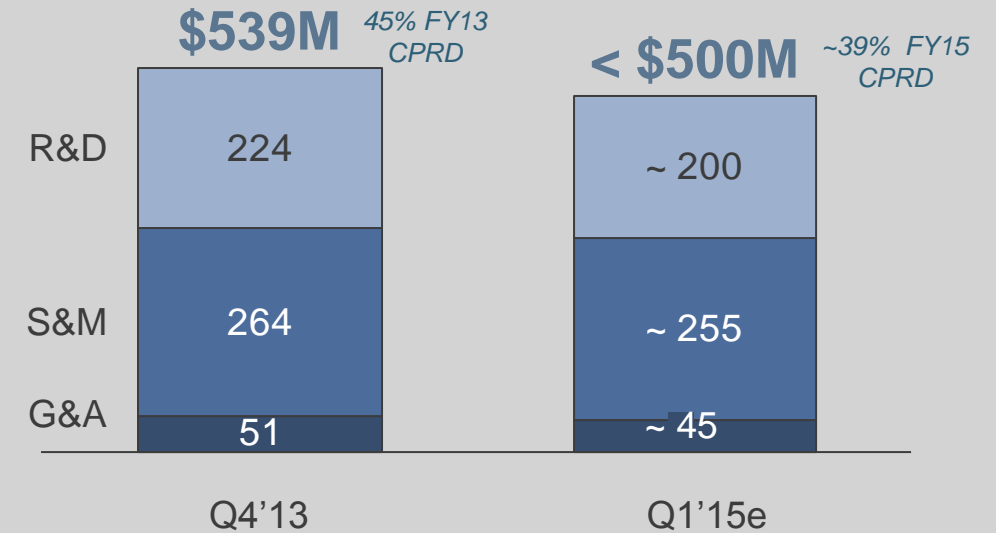
ROBYN DENHOLM  
CHIEF FINANCIAL AND OPERATIONS OFFICER



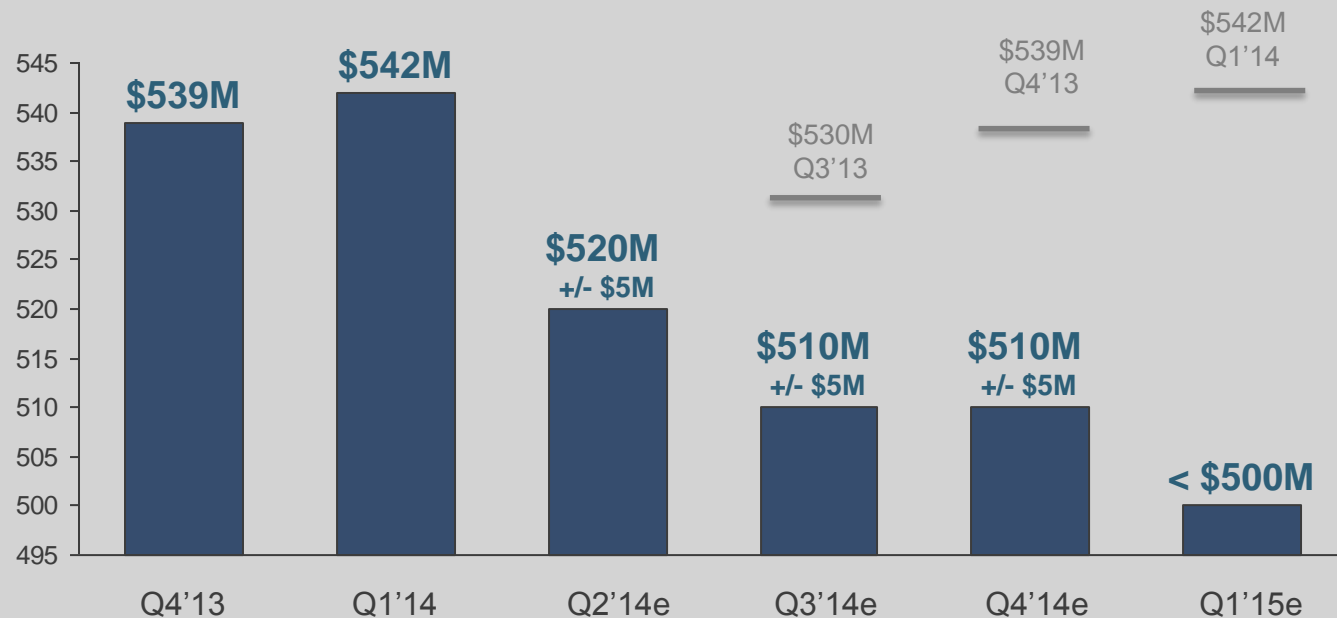
# IOP IS DRIVING SIGNIFICANT COST REDUCTIONS\*

- \$160M of annualized savings fully realized by Q1'15
- Actions are structural
- Headcount reduction of ~6%, largely complete and significantly focused on management positions
- Consolidation of Sunnyvale campus expected in 2H'14
- Ceasing development/restructuring several R&D projects

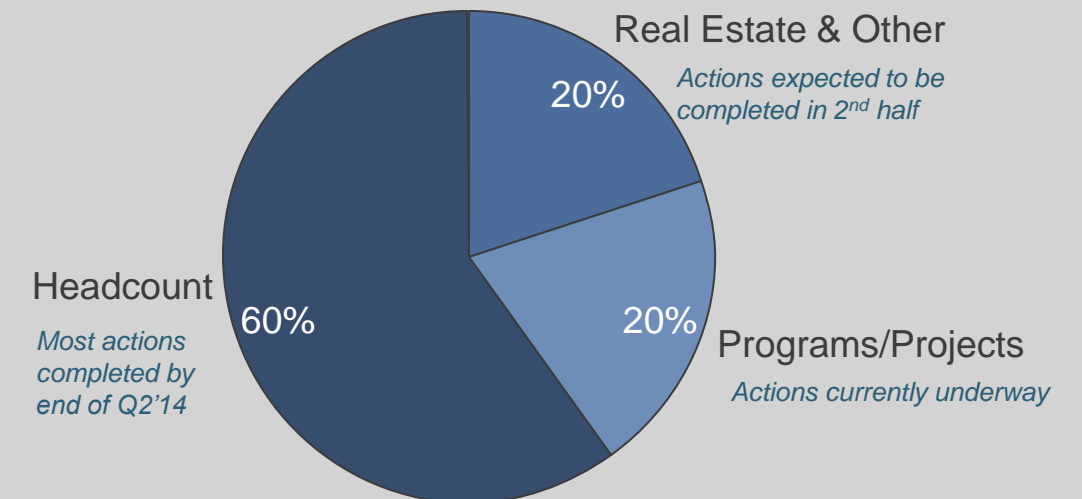
## \$160M of annualized savings by Q1'15



## Opex Glide Path - Improvement throughout FY14



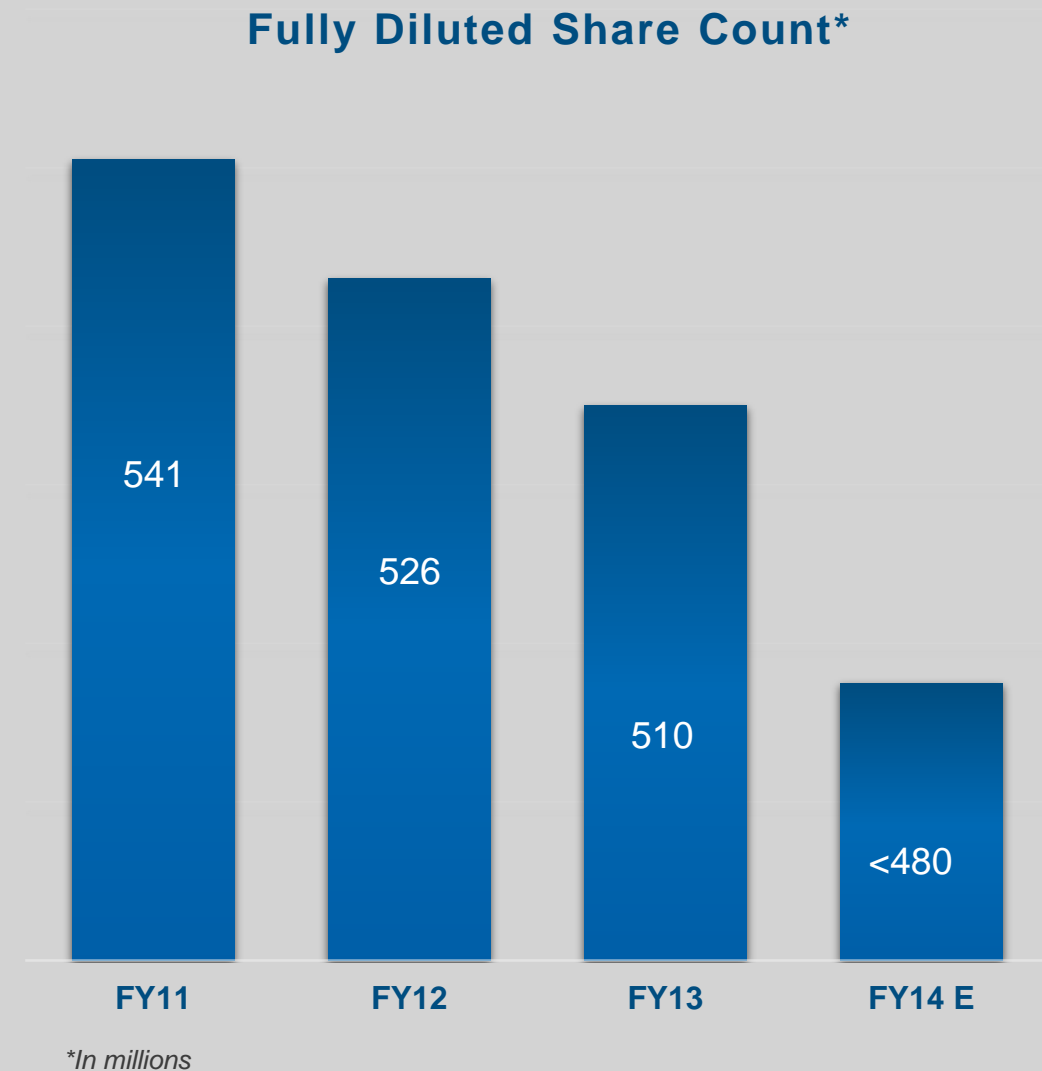
## Costs savings are structurally focused



\*All numbers are Non-GAAP

# CAPITAL ALLOCATION RETURNING \$3B TO STOCKHOLDERS OVER NEXT 3 YEARS

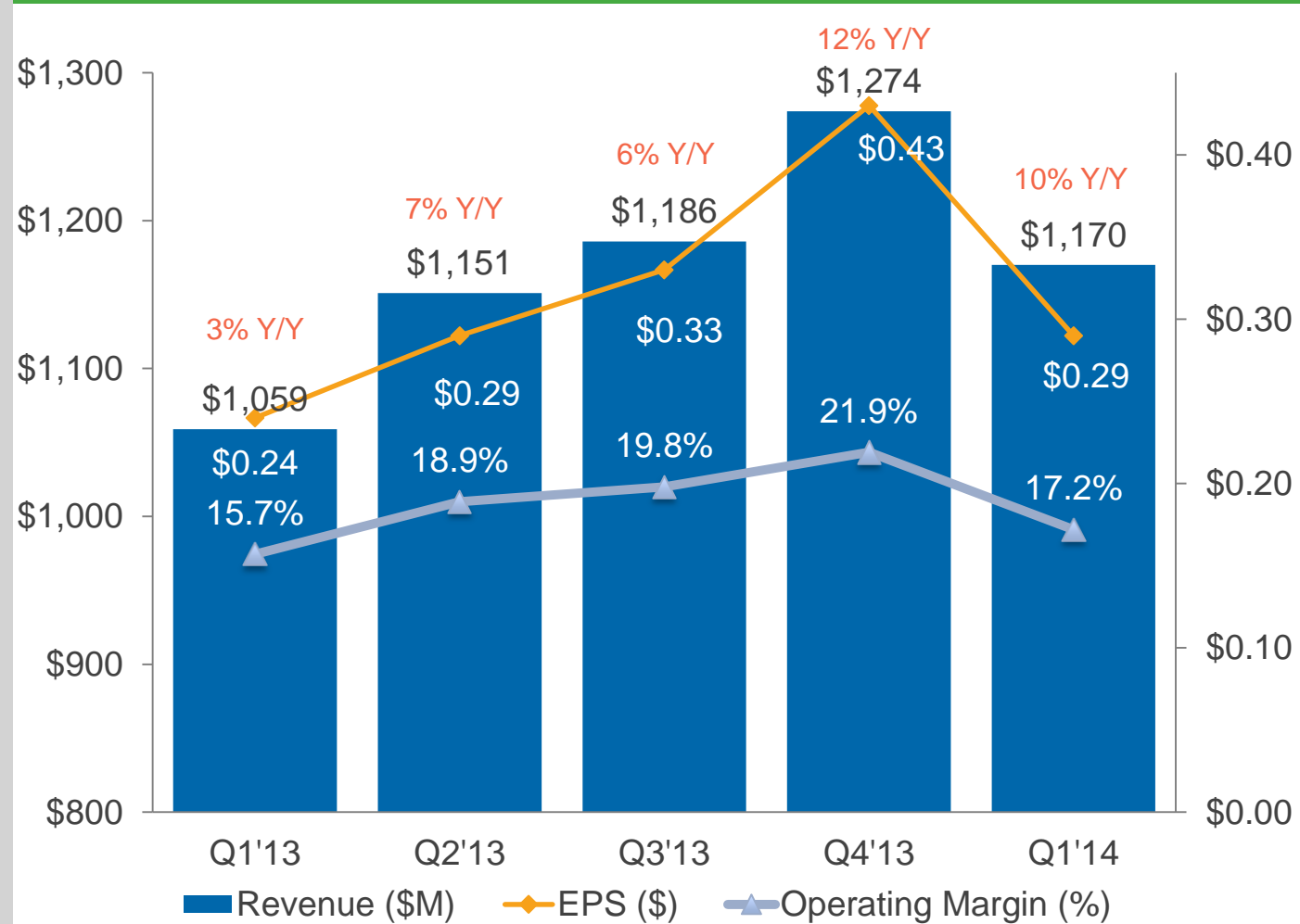
- \$1.2B Accelerated Share Repurchase initiated in Q1'14
  - On track to complete \$2B of share repurchases by end of Q1'15
  - Issued \$350M debt in Q1'14
- Initiating a \$0.10 per share quarterly dividend commencing in Q3'14, with intention to grow over time
- Continued management of overall share count through prudent equity issuance





# Q1 2014 RESULTS: STRONG REVENUE GROWTH & EARNINGS EXPANSION

## Revenue, Non-GAAP Diluted EPS & Op Margin Trend



## Financial Overview

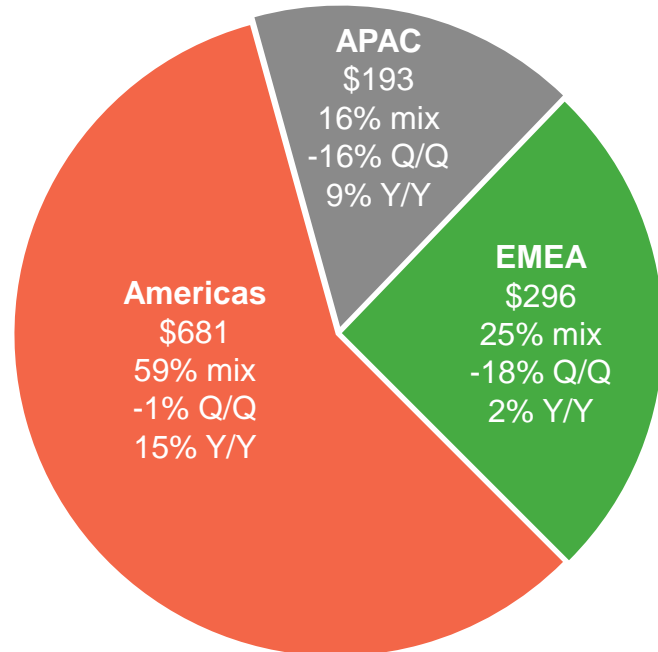
- 7th consecutive quarter of Y/Y revenue growth
- Revenue grew 10% Y/Y and declined 8% Q/Q
- Non-GAAP Operating Margin of 17.2%
- 5<sup>th</sup> consecutive quarter of Y/Y Non-GAAP Diluted EPS growth; increase of \$0.05 Y/Y

## Demand Metrics

- Book-to-bill slightly below 1
- Product backlog healthy
- Total deferred revenue was up \$174 million dollars Y/Y

# Q1 2014 REVENUE MIX

## GEOGRAPHY



- Americas:

Strength in Web 2.0 providers and Enterprise; with several new design wins in financial services.

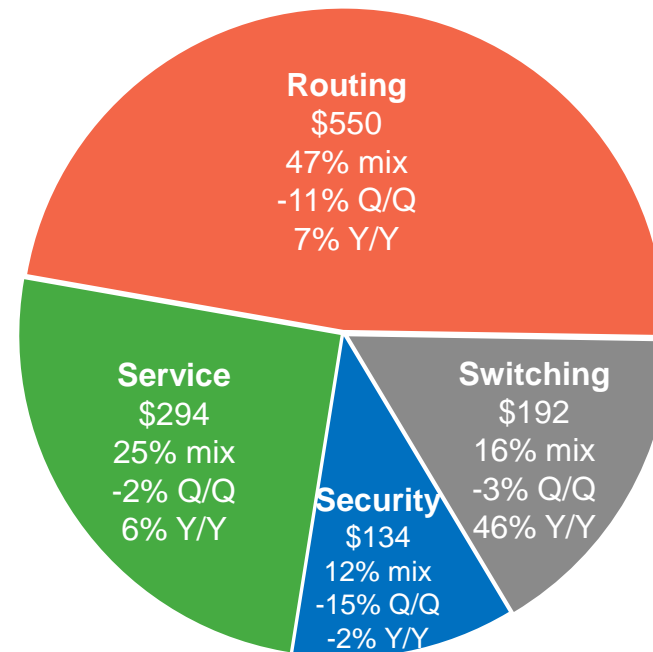
- EMEA:

Broad-based Y/Y strength across Enterprise and Service Provider growth in Germany and the UK.

- APAC:

Mixed conditions, however Y/Y Service Provider growth in Korea and Australia.

## PRODUCT & SERVICE



- Routing:

Strong performance in MX, while the new MX2020/2010 and MX104 continue to gain traction and experienced solid growth sequentially.

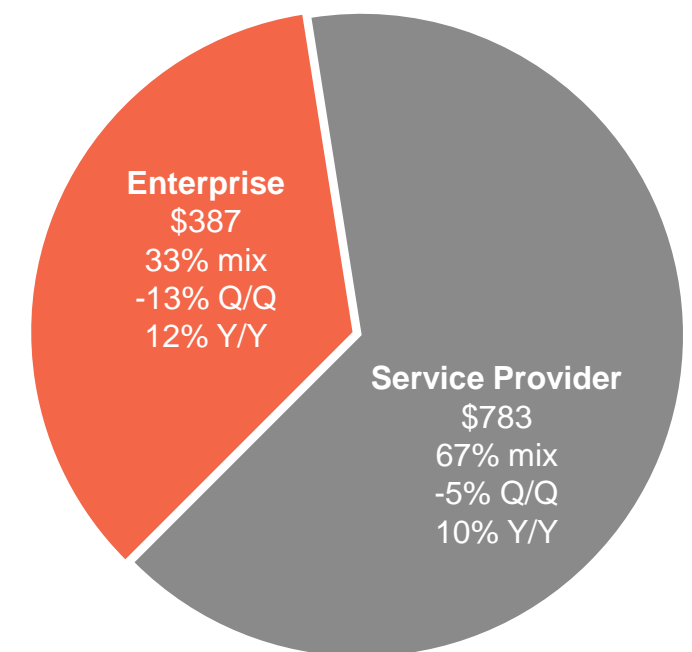
- Switching:

Strong sales of both EX and QFabric.

- Security:

Continued strength from high-end SRX.

## MARKET



- Service Provider:

Y/Y Growth in all 3 theatres, web 2.0 and cable growth continued.

- Enterprise:

Broad based Y/Y growth in Americas and Public Sector spending in EMEA and APAC.



# FINANCIAL RESULTS

## Non-GAAP Except Revenue

	Q1'14	Q4'13	Q1'13	Q/Q Change	Y/Y Change
Revenue	\$1,170.1M	\$1,273.6M	\$1,059.2M	-8%	10%
Gross Margin %	63.5%	64.2%	64.6%	-0.7 pts	-1.1 pts
R&D	\$228.8M	\$224.1M	\$237.0M	+2%	-3%
Sales & Marketing	\$255.6M	\$264.2M	\$239.7M	-3%	7%
G&A	\$57.5M	\$51.0M	\$41.3M	13%	39%
Total Operating Expense	\$541.9M	\$539.3M	\$518.0M	0%	5%
Operating Margin %	17.2%	21.9%	15.7%	-4.7 pts	1.5 pts
Net Income	\$142.6M	\$215.8M	\$123.8M	-34%	15%
EPS (Diluted)	\$0.29	\$0.43	\$0.24	-\$0.14	\$0.05

# Q1 2014 CASH FLOW AND BALANCE SHEET METRICS

Cash Position	<p>Net cash, cash equivalents and investments of \$2.1B</p> <p>Net cash flows from operations of \$126M</p>
Share Repurchase	\$1.2B ASR initiated; 33.3M shares initially delivered
DSO	46 days
Deferred Revenue	<p>Total deferred revenue was up \$174M Y/Y and \$85 million dollars Q/Q</p> <p>Product deferred revenue was down \$14M Q/Q due primarily to lower volume of channel inventory</p>
Headcount	<p>9,573, increase of 3% Y/Y, and 1% Q/Q</p> <p>(before announced reductions on April 2, 2014)</p>



# Q2 2014 OUTLOOK

3 Months Ending June 30, 2014

Non-GAAP (Except for Revenue and Share Count)

<b>Revenue</b>	Between \$1,200 million and \$1,230 million
<b>Gross Margin</b>	64.0%, plus or minus half a percent
<b>OPEX</b>	\$520 million, plus or minus \$5 million
<b>Operating Margin</b>	21%, plus or minus half a percent
<b>EPS</b>	Between \$0.36 and \$0.39 per diluted share
<b>Tax Rate</b>	Flat to Q1'14 tax rate
<b>Share Count</b>	Assuming share count of 480 million shares



# APPENDIX



# NET REVENUES BY PRODUCT AND SERVICE

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q1'14	Q4'13	Q1'13
Routing	\$549.8	\$617.7	\$513.6
Switching	192.0	198.8	131.5
Security	134.2	157.0	136.7
Total product	876.0	973.5	781.8
Total service	294.1	300.1	277.4
Total	\$1,170.1	\$1,273.6	\$1,059.2

# GAAP TO NON-GAAP RECONCILIATIONS

(in millions, except per share amounts and percentages)	Three Months Ended		
	Q1'14	Q4'13	Q1'13
GAAP gross margin - Product	\$549.4	\$621.9	\$503.6
GAAP product gross margin % of product revenue	62.7%	63.9%	64.4%
Share-based compensation expense	1.3	1.2	0.9
Share-based payroll tax expense	0.3	—	0.2
Amortization of purchased intangible assets	8.2	8.0	6.3
Restructuring and other charges	8.4	0.8	0.7
Non-GAAP gross margin – Product	\$567.6	\$631.9	\$511.7
Non-GAAP product gross margin % of product revenue	64.8%	64.9%	65.5%
GAAP gross margin – Service	\$170.7	\$181.7	\$167.2
GAAP service gross margin % of service revenue	58.0%	60.5%	60.3%
Share-based compensation expense	4.0	3.9	4.6
Share-based payroll tax expense	1.0	0.1	0.5
Non-GAAP gross margin – Service	\$175.7	\$ 185.7	\$172.3
Non-GAAP service gross margin % of service revenue	59.7%	61.9%	62.1%



# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
	Q1'14	Q4'13	Q1'13
(in millions, except per share amounts and percentages)			
GAAP gross margin	\$720.1	\$803.6	\$670.8
GAAP gross margin % of revenue	61.5%	63.1%	63.3%
Share-based compensation expense	5.3	5.1	5.5
Share-based payroll tax expense	1.3	0.1	0.7
Amortization of purchased intangible assets	8.2	8.0	6.3
Restructuring and other charges	8.4	0.8	0.7
Non-GAAP gross margin	\$743.3	\$817.6	\$684.0
Non-GAAP gross margin % of revenue	63.5%	64.2%	64.6%

# GAAP TO NON-GAAP RECONCILIATIONS

(in millions, except per share amounts and percentages)	Three Months Ended		
	Q1'14	Q4'13	Q1'13
GAAP research and development expense	\$264.0	\$258.7	\$262.2
Share-based compensation expense	(32.1)	(34.4)	(23.6)
Share-based payroll tax expense	(3.1)	(0.2)	(1.6)
Non-GAAP research and development expense	\$228.8	\$224.1	\$237.0
GAAP sales and marketing expense	\$273.4	\$283.2	\$256.1
Share-based compensation expense	(14.6)	(17.9)	(14.5)
Share-based payroll tax expense	(2.2)	(0.3)	(1.0)
Amortization of purchased intangible assets	(1.0)	(0.8)	(0.9)
Non-GAAP sales and marketing expense	\$255.6	\$264.2	\$239.7



# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
	Q1'14	Q4'13	Q1'13
(in millions, except per share amounts and percentages)			
GAAP general and administrative expense	\$74.9	\$48.2	\$58.5
Share-based compensation expense	(8.8)	(6.5)	(6.3)
Share-based payroll tax expense	(0.4)	—	(0.2)
Amortization of purchased intangible assets	(0.3)	(0.3)	(0.3)
Acquisition-related charges	(0.6)	(0.7)	(0.1)
Litigation charge	—	10.3	(10.3)
Non-routine stockholder activities	(7.3)	—	—
Non-GAAP general and administrative expense	\$57.5	\$51.0	\$41.3

# GAAP TO NON-GAAP RECONCILIATIONS

(in millions, except per share amounts and percentages)	Three Months Ended			
	Q1'14	Q4'13	Q3'13	Q1'13
GAAP operating expense	\$726.3	\$608.2	\$601.5	\$583.8
Share-based compensation expense	(55.5)	(58.8)	(64.5)	(44.4)
Share-based payroll tax expense	(5.7)	(0.5)	(0.3)	(2.8)
Amortization of purchased intangible assets	(1.3)	(1.1)	(1.1)	(1.2)
Restructuring and other charges	(114.0)	(18.1)	(6.0)	(7.0)
Acquisition-related charges	(0.6)	(0.7)	—	(0.1)
Litigation charge	—	10.3	—	(10.3)
Non-routine stockholder activities	(7.3)	—	—	—
Non-GAAP operating expense	\$541.9	\$539.3	\$529.6	\$518.0

# GAAP TO NON-GAAP RECONCILIATIONS

(in millions, except per share amounts and percentages)	Three Months Ended		
	Q1'14	Q4'13	Q1'13
GAAP operating (loss) income	\$(6.2)	\$195.4	\$87.0
GAAP operating margin	(0.5)%	15.3%	8.2%
Share-based compensation expense	60.8	63.9	49.9
Share-based payroll tax expense	7.0	0.6	3.5
Amortization of purchased intangible assets	9.5	9.1	7.5
Restructuring and other charges	122.4	18.9	7.7
Acquisition-related charges	0.6	0.7	0.1
Litigation charge	—	(10.3)	10.3
Non-routine stockholder activities	7.3	—	—
Non-GAAP operating income	\$201.4	\$278.3	\$166.0
Non-GAAP operating margin	17.2%	21.9%	15.7%
GAAP income tax provision (benefit)	\$37.4	\$33.4	\$(14.1)
GAAP income tax rate	25.3%	18.0%	(18.3)%
Income tax effect of non-GAAP exclusions	11.6	16.5	44.6
Non-GAAP provision for income tax	\$ 49.0	\$49.9	\$30.5
Non-GAAP income tax rate	25.6%	18.8%	19.8%



# GAAP TO NON-GAAP RECONCILIATIONS

	Three Months Ended		
(in millions, except per share amounts and percentages)	Q1'14	Q4'13	Q1'13
GAAP net income	\$110.6	\$151.8	\$91.0
Share-based compensation expense	60.8	63.9	49.9
Share-based payroll tax expense	7.0	0.6	3.5
Amortization of purchased intangible assets	9.5	9.1	7.5
Restructuring and other charges	122.4	18.9	7.7
Acquisition-related charges	0.6	0.7	0.1
Litigation charge	—	(10.3)	10.3
Non-routine stockholder activities	7.3	—	—
Gain on equity investments	(164.0)	(2.4)	(1.6)
Income tax effect of non-GAAP exclusions	(11.6)	(16.5)	(44.6)
Non-GAAP net income	\$142.6	\$215.8	\$123.8
GAAP diluted net income per share	\$0.22	\$0.30	\$0.18
Non-GAAP diluted net income per share	\$0.29	\$0.43	\$0.24
Shares used in computing diluted net income per share	496.5	505.6	512.7

THANK YOU