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JNPR - Juniper Networks Inc Corporate Call - Business Update - Rami Rahim Chief Executive Officer

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CORPORATE PARTICIPANTS

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

Scott Kriens *Juniper Networks, Inc. - Chairman*

Rami Rahim *Juniper Networks, Inc. - CEO*

CONFERENCE CALL PARTICIPANTS

Rod Hall *JPMorgan - Analyst*

Amitabh Passi *UBS - Analyst*

Ehud Gelblum *Citigroup - Analyst*

Simona Jankowski *Goldman Sachs - Analyst*

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

Ben Reitzes *Barclays Capital - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Juniper Networks investor update conference call. (Operator Instructions.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Kathleen Nemeth, Vice President of Investor Relations for Juniper Networks. Please go ahead.

Kathleen Nemeth - Juniper Networks, Inc. - VP IR

Thank you, Shea. Good afternoon and thank you all for joining us today. Here on the call with me are Scott Kriens, Chairman of the Board of Directors; Rami Rahim, Juniper's Chief Executive Officer; and Robyn Denholm, Chief Financial and Operations Officer.

Hopefully, you have had an opportunity to review our press release and 8-K that were filed today. Please remember when listening to today's call that statements concerning Juniper's business outlook, economic and market outlook, strategy, future financial operating results and targets, overall future prospects and capital return plans are forward-looking statements that involve a number of risks and uncertainties.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including economic conditions generally, or within the networking industry, changes in overall technology spending and spending by communication service providers and major customers, the network capacity requirements of service providers, the timing of orders and shipments, manufacturing and supply chain constraints, variation in the mix of products sold, customer perception and acceptance of our products, rapid technological and market change, litigation, and other factors listed in our most recent 10-Q and 8-K, which were filed today with the SEC.

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.

Please note that today's call is intended to be brief and is scheduled to last no more than 30 minutes.

With that, I'll turn the call over to Scott.



Scott Kriens - Juniper Networks, Inc. - Chairman

Thanks, Kathleen, and good afternoon, everyone. Thanks for joining us today on such short notice. As I'm sure you've no doubt read in this afternoon's release, today we announced that Rami Rahim has been named Chief Executive Officer of Juniper and that Rami has also been elected to Juniper's Board of Directors.

As we've also announced, Shaygan Kheradpir has left the Company, having resigned as Chief Executive Officer and as a Director of the Company, effective immediately. Further details regarding this decision are available in both the press release and the 8-K which Kathleen mentioned, which is also on file. But in simplest terms, after the Board's review on two fronts -- one being his leadership and the other most recently to do with a specific customer interaction -- it was time for a change.

We also believe that the potential before Juniper today deserves nothing less than the best leadership, and we have a compelling, ready leader able to take the Company where we want to go and to accelerate Juniper's success.

So this brings us to the news of today that's important to our future, and so let me tell you why I am -- and really, the entire Juniper Board -- is so excited about Rami's appointment and why we're confident of his ability to lead Juniper.

First of all, Rami knows Juniper inside and out. He's a 17-year, almost 18-year, Juniper veteran who started at Juniper in January of 1997. Though for the record, he actually came to the very first Juniper Christmas party in December of 1996, which was after he accepted the offer to join out of Stanford grad school and before he technically went on the payroll.

And from that initial role as an individual contributor to his most recent capacity as the Executive Vice President and General Manager of Juniper Development and Innovation, where he's responsible, before today, for more than \$1 billion of our annual resources and more than 45% of our workforce.

And outside of his specific role as the leader of Juniper Innovation, Rami also has deep relationships with our most significant customers and partners around the world. He's been pivotal in understanding their needs and then making the commitments on behalf of Juniper to meet those needs and then deeply trusted by customers, because he's gone back to the Juniper organization and delivered what he's promised. And he's been doing that for a lot of years.

Obviously, his engineering and technology expertise and his career spent in the networking industry combine to give him the instincts to see how to do what we need to do today to win, but he also sees what we need to do today to succeed tomorrow and to get to where we need to go then as well. And Rami represents Juniper's values. He's authentic, he's trusted, and really a powerful example of Juniper culture in action.

So when you couple all of that -- trust, experience, instincts, understanding, longstanding relationships, and the connections and the confidence Rami has with the Juniper team around the world -- you have the formula for our excitement surrounding his new role and today's announcement.

Rami has succeeded at every assignment that's ever been given to him, including his most recent role leading up to today, and that will be exactly what happens again in his role as our CEO.

And so let's hear from Rami. So now let me pass the call over to our new Chief Executive Officer at Juniper Networks. Congratulations, Rami.

Rami Rahim - Juniper Networks, Inc. - CEO

Thank you very much, Scott. I really appreciate the trust that you and the rest of the Board have placed in me, and I couldn't be more excited to take the CEO role at such an important time. Over the past 17 years, I've watched Juniper grow while playing a variety of roles across the organization, from Vice President of the Edge and Aggregation business unit to my most recent role overseeing Juniper's entire product and technology portfolio in JDI.

Throughout the years, I've developed strong relationships with many of Juniper's employees, our customers, partners, investors, as well as analysts, and I have a deep understanding of this industry, and I know how important the work we do is. I also know that Juniper has great products and passionate, hard-working employees. And I feel very fortunate to be supported by a leadership team of unmatched caliber and am honored to have their support.

It's been a very busy year for us, as you all know. We have successfully achieved many of the goals we outlined at the onset of the year, including focusing our investment dollars, both R&D and go-to-market efforts, on the fastest-growing segments of the market; we've streamlined our organizational structure to increase efficiency and also taking out significant costs out of the business; and also exceeding our capital return commitments while still investing significant R&D dollars on the innovation our customers have come to expect from Juniper.

I was a part of the team that put together the plan that Juniper is executing against, and I believe that continuing to execute on that plan is the best path forward for our customers, our employees, and our shareholders. From an investment standpoint, we remain focused on revenue-generating projects and prudent investment management. We also remain committed to the targets we set, including the long-term targets disclosed at our Investor Day 10 days ago. We are maintaining our 2015 operating expense guidance, which we said will be \$1.9 billion, plus or minus \$25 million, and we still plan to return a total of \$4.1 billion to shareholders over a 3-year period, including completing a \$1.5 billion in aggregate share repurchases before the end of Q2 of 2015.

My top priority in the coming months is to ensure that we continue to execute effectively on our strategy and stay focused on our goal of developing and delivering products and services that matter the most to our customers. I strongly believe that Juniper has immense potential and a bright future ahead. We are ready to take advantage of strong industry dynamics that represent an opportunity for us. We have a new and focused go-to-market strategy that I'm confident will pay off, and we have an exciting 2015 product roadmap that I obviously am very familiar with.

In short, Juniper is poised to seize the opportunity, and I am confident that we will do so.

Before I close, I want to thank all of the Juniper employees for their tireless efforts and dedication. I look forward to continuing our journey together.

With that, I'll turn it back over to the operator for a brief Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions.) Rod Hall, JPMorgan.

Rod Hall - JPMorgan - Analyst

So first of all, congratulations, Rami. It's, I think, a great achievement on your part. Scott, my question, and I guess I'll address it to you, which is that the timing on this seems a little unorthodox. We just had the Investor Day 10 days ago, and Shaygan was a pretty prominent presenter there. I assume that the strategy that was laid out was -- he had a hand in developing and presenting to investors. So could you just help us understand what drove the timing here and any other pertinent details you might be able to provide on the decision you guys made?

Scott Kriens - Juniper Networks, Inc. - Chairman

Sure, Rod, be glad to. First of all with regard to process here, the plans that were presented on the Analyst Day and the operating plan behind the strategy as well, as is the course of business at Juniper normally, was reviewed in detail and approved by the Board and developed by the team that is here. So everything that you've heard and that was prepared and the thoughts that went through that are still exactly intact without change and represent the thinking that the Board reviewed and approved, as you might expect.



In terms of timing, it happened now because the decision was made now. And it's a board's responsibility to support the executive in place until that change happens. And that change took place last night, and we just couldn't be more excited about having Rami in this role.

Rod Hall - *JPMorgan - Analyst*

And Scott, could you just, on the timing there, could you just elaborate on -- I assume this is related to information that you guys learned -- was it especially this customer negotiation, or were there other things that came to light that drove you to make the call on such, I guess, short notice here?

Scott Kriens - *Juniper Networks, Inc. - Chairman*

Well, the notice can only happen when it happens. But the deliberations by the Board were really on two dimensions, one -- and I guess maybe simply put, in the Board's judgment, the conduct was inconsistent with our expectations. But it's really about Juniper's definition of leadership at Juniper, and we felt it was time for the change, and we announced that today.

Operator

Amitabh Passi, UBS.

Amitabh Passi - *UBS - Analyst*

Rami, congratulations. Scott, I had a question for you, and then maybe just a follow-up for Rami. I guess, Scott, just from your perspective, what do you think also has changed to a significant degree in the last 10 months to give you greater confidence in appointing Rami now versus 10 or 11 months ago, when you felt compelled to go outside and bring Shaygan? And then for Rami, I just was wondering -- maybe it's too premature -- but curious how you're thinking about backfilling your role heading JDI at Juniper and how we should be thinking about continuity there.

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

Yes, thanks, Amitabh. Maybe I'll start with the second question, and then I'll pass it over to Scott. I've spent many years now in the engineering organization at Juniper. I have a lot of deep relationships, and I know how strong our bench strength is. So for the time being, just to make sure that we will not skip a beat in terms of the products and the technologies that we're developing right now, I'm going to continue to run that organization, and then we will pass it on to a successor in due course. That said, and thanks for the congratulations. I appreciate it. Scott?

Scott Kriens - *Juniper Networks, Inc. - Chairman*

Amitabh, with regard to the process last year, obviously, that was the Board's review at that time and the decision that we took. And Rami was a very busy guy a year ago. He was consolidating the development organization, the security and the switching businesses and so forth. So there's now that year behind us, and it's an organization that is firing on all cylinders. So we have an opportunity today to take advantage of his strength and his contribution and just spread it across the entire Company, which is really the source of our excitement.

Amitabh Passi - *UBS - Analyst*

Thank you.



Operator

Ehud Gelblum, Citi.

Ehud Gelblum - Citigroup - Analyst

A (inaudible) question along the same lines, if I could. Clearly, the analysts say there were a bunch of questions about the security business. I assume, Rami, that you had the same opinion that Shaygan did with respect to the future of that security business. I just wanted to just get clarity on that.

Also, on the timing, was this an investigation that just happened over the last several days and the decision was made now, or had this been going on for some time, and the concluding was made now? Just curious if the incident was something, and then the investigation that the Board underwent -- I apologize for the use of the word investigation -- is that something that was actually existent before the Analyst Day? I don't know if you want to comment on that.

And then, again back to Rami, 11 or 12 months ago when you went outside the firm and brought in Shaygan, what were the qualities at the time that you saw in Shaygan that I assume that Rami has now risen to that level to be able to cover? And Rami will do a terrific job, but I just want to understand your opinion as to the delta between the Rami today and delta 11 months ago that Shaygan had. And what are those qualities that Shaygan had that attracted you to him that now you think Rami has as well so that we can look for those qualities as Rami comes up to speed and ramps? Thank you.

Rami Rahim - Juniper Networks, Inc. - CEO

Okay, Ehud, thank you for the questions. Let me start by addressing your question on security. And then I think the rest of the questions are really more Board-related and I'll pass it over to Scott.

So just to make sure everybody's aware, I was an integral part of the team with the rest of the Juniper leadership team that put the overall comprehensive strategy and plan that we presented at Investor Day just around a couple of weeks ago, so I completely stand behind that strategy, and certainly security is an important element of that strategy. If you recall what I had mentioned during that meeting was we are going to be focusing all of our security effort on our Junos Space technology. That's the part of our security portfolio that's in fact growing. And we're going to implement the high-leverage strategy that takes in all of the really important technology building blocks from across the Company to make our security products and our business even stronger going forward.

So with that said, Scott, do you want to comment a bit on the second part of the question?

Scott Kriens - Juniper Networks, Inc. - Chairman

Sure. I'll combine it into two. Obviously, Shaygan was the person that we felt best capable at the time and the choice that we made. And with regards to timing, there's two elements. One is leadership, and the other reflects more recent developments.

But the Board's -- and I think this would be true of any board -- the Board's review of its CEO and leader is a recurring process. It takes place at every meeting, an assessment of the situation at the Company and the outlook and the performance and so forth. So all of the attributes of that process have been in place, and will continue to be, and the evolution of that assessment of leadership is not new. And when you couple it with the more recent developments, it just gets to the -- I guess to the same conclusion, which it's really for us, it's about Juniper's definition of leadership at Juniper. And we felt it was time for the change that we announced today.

Operator

Simona Jankowski, Goldman Sachs.



Simona Jankowski - *Goldman Sachs - Analyst*

Scott, I had a question for you and then a couple for Rami. Would you be able to roughly attribute the contribution of each of the two factors to your decision, the leadership and the particular customer negotiation? It doesn't need to be precise, but was it vastly the majority reason was one or the other?

And then, Rami, I wanted to ask you specifically about the customer that was cited in the press release. What, if any, changes do you expect to see in the relationship with that customer or with respect to any subsequent transactions, whether vis a vis your market share, pricing, et cetera, at that customer?

And then just lastly, it sounds like you are very aligned from a strategy perspective. How about from elements of execution? Would you expect to have to implement any organizational changes where you might have differed in opinion with Shaygan? Thank you.

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

Okay, thank you, Simona. So let me start with your second question, and then I will pass it on to Scott after that for commentary on the leadership factors. With respect to customers, I'm not going to talk specifically about customers related to this incident, but I will say this. Our relationship with our customers remains absolutely sound and very healthy. So I would not assume at all that this has had any bearing whatsoever on our relationships with any of our customers.

With respect to the strategy and the plan, yes, I very much believe in the strategy and the plan. I was an important element of formulating that strategy. In fact, we've been very busy already over the last, since the beginning of the year, in implementing and executing and aligning the organization around that strategy. The focus going forward is exactly what you just said, Simona. It's about execution. It's about me rolling up my sleeves and helping the team and doing everything that we can to execute against that strategy.

Scott, with that said, any comments on the first part of the question?

Scott Kriens - *Juniper Networks, Inc. - Chairman*

Hi, Simona, You're right. I don't have a way of assigning a factor to each. I was just thinking about the complexity of that algorithm. There would be a factor to assign for each, times 10 different Board members over a period of time. I guess maybe I should have grown up in the development organization. I'd have been more capable. But I think that the net of it is just the same. It's a decision made and a judgment made by the Board with, really, regard to our expectations and so forth. So I don't have an attribution like that I can offer. Just really simply, the summary that it was time for the change.

Simona Jankowski - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Pierre Ferragu, Alliance Bernstein.



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

Sorry if it sounds a bit like a repeat, but I'm very surprised, and I find it difficult to reconcile the fact that you all seemed as a management team and as a Board of Directors very aligned on the strategy and what to do going forward, and the fact that there was enough of a leadership issue with Shaygan to basically make the change today happen. So my question would be, Scott, in the context, and actually Rami as well, in the context of everybody agreeing on what to do, how could you qualify these leadership issues that you mentioned, and is that something that was really related to the executive team, or a broader issue with the overall group of employees at Juniper? Or is that actually leadership so with your partners outside of the Company?

And then on the specifics of this customer negotiation you talked about, same thing, same question. Did you guys, did Shaygan and you disagree on the way this negotiation should have been handled, and could you help us understand maybe what kind of perspective Shaygan was descending and what you disagreed with, is aware of this agreement on how this negotiation should have been handled? Thanks a lot.

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

Okay, thanks for the question, Pierre. Let me start, and I'll pass it on to Scott. I don't think you should be surprised simply because this action had absolutely nothing to do with our strategy or the execution of our strategy. It was related to the factors that Scott has already outlined in his prepared remarks. So I think it's as simple or as complicated as that, and it doesn't require anybody to be surprised by it.

Scott, anything more to add?

Scott Kriens - *Juniper Networks, Inc. - Chairman*

Not really. I'd just make one observation about strategy and plan, is it's developed by the entire operating team at the Company and it's reviewed by the entire Board. And one of the roles of a board to add the value that it can is to be involved in the overall direction of the Company and to share counsel and input. And that exercise is quite a comprehensive one by a large community of folks. So I don't really know that it ends up landing on any one person's shoulder at the end of the day. It does land on the shoulders of one person to deliver it, and that's the Chief Executive Officer leading his team. And in our judgment, the best Chief Executive Officer, frankly, on the planet to do that is Rami, and that's why he's in the role today.

Operator

Ben Reitzes, Barclays.

Ben Reitzes - *Barclays Capital - Analyst*

I'll just get right to it. One thing is can you just clarify all targets are still intact that you just laid out 10 days ago, including the current quarter guidance? And then, Rami, could you address a fundamental concern that people have, is the latest CapEx guidance from AT&T and how it impacts Juniper? And were you guys aware of that when you had your Analyst Day, and do you feel like the relationship there is unchanged as well as with other carriers as a result of what we just heard? Thanks.

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

Okay, thanks, Ben. So first of all, the changes and actions that we just announced are completely unrelated to the outlook or our historic financial performance. And as you know, we don't provide updates to our guidance in mid-quarter. On the AT&T question, obviously something that has come up quite a lot recently, consistent with our practices, I can't get into any specific guidance from any particular customer.



That said, I think we did mention 10 days ago at the Investor Day that we took a pretty cautious stance in the outlook that we did provide you for 2015 and beyond. And I'll just say with AT&T, as a Domain 2.0 partner of theirs, I remain very excited and very committed to engaging with them on a number of very interesting and exciting opportunities that I think give me a lot of confidence for the future.

And the targets that we articulated as part of our plan, as I mentioned as part of my prepared remarks, remain completely intact.

Ben Reitzes - *Barclays Capital - Analyst*

Thank you.

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

Okay, that is all the time that we have today. We appreciate everyone dialing in on such short notice and appreciate your participation today. Thank you very much.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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