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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Tim Long *BMO Capital Markets - Analyst*

PRESENTATION

Tim Long - *BMO Capital Markets - Analyst*

Okay, I think we are ready to start here. Tim Long from BMO. Thanks for joining us today for Juniper presentation and Q&A.

With us we have Kathleen Nemeth from Juniper's IR team, a long veteran. I think most of you probably know Kathleen. As you know, Juniper has long been a leader in the carrier routing market, but also very strong in the enterprise and a growing software presence as well. So we are happy to have Kathleen here today.

Kathleen is going to give a little overview and then we will get into the chat here. Thanks.

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

Thank you so much, Tim, and good morning, everyone. Welcome to this morning session. I also want to extend a welcome to those of you who may be joining us on the webcast.

It is wonderful to be here in New York City on this beautiful snowy day. I know it makes it difficult for people to get around, but it certainly is lovely, especially these first days of snow.

So before I get started just quickly to remind you that to the extent that I make forward-looking statements, either during the presentation or during my discussion with Tim, those statements have risks and uncertainties associated with them. Please see our most recent SEC filings for a full review of those risks.

What I would like to do is I just have four or five slides just to set some context. I know many of you are well familiar and well aware of Juniper's value proposition and overall story. Many of you have covered the Company for many years.

At the same time, there may be some of you that are relatively new to the story so I would like to spend a few minutes setting some context.

Clearly, as Tim noted, Juniper's strength has been in the routing market as well as somewhat recent entries into the switching market and security market. We target two specific sectors: service provider and enterprise.

On the service provider side I would like to call out that that comprises three segments: the carrier space, the cable space, as well as the content server provider space. Companies that you may refer to as [Web.20] companies.

That is a very nice diverse revenue stream for us and it is also fairly recent. Five or six years ago Juniper did not have a very strong presence in cable, for example, or in the content service provider. And those have been areas that we have been gaining market share and increasing our relevance for customers.

Of course, we are in the enterprise space now with both our switching portfolio as well as security. We have had some very exciting new announcements recently with regard to switching with MetaFabric and some new approaches to the datacenter that we are very pleased with and that are resonating with customers.

If you think about the routing, switching, and security approach, we tend to self-organize within Juniper through the eyes of our customers. So we bring solutions-oriented approaches to several domains including edge, core, the data center, and several others. That is how we have organized the Company and that is how we bring our solutions to customers.

Just a very quick review on the last quarter that we reported in October. Five quarters in a row of year-over-year consecutive growth. Starting to see some strength on the revenue side and we have had a very strong focus on managing our OpEx over the last several quarters.

And despite having to dial back some of our initial targets on OpEx reduction this year, we have done a good job of managing overall expenses and that has resulted in EPS growth of about 50% year to date. A lot of growth being driven by our strong routing portfolio and particularly MX, and we are also seeing some good momentum in switching.

On the security side, our performance here has been a bit uneven. We have been addressing some of the areas that we can improve on the campus and branch side. At the same time, we are very enthusiastic about some of our next-generation security offerings as they relate to the data center. And, of course, we have always done fairly well with the LTE securing mobile traffic and that plays into our strengths in the carrier space.

Just spend a few minutes here on our capital structure and historical uses of capital. This is an area where we have very, very strong performance and we have had consistently strong cash flows since the inception of the Company. This has enabled us, of course, to grow the Company and to do targeted M&A as well as return cash to shareholders. And that is something that we are very focused on.

If you look over the last six quarters or so, we have become more effective in our cash return to shareholders. This is a result of both decisions and actions that the management team has taken.

One, with regard to modifying our stance as it comes to share buybacks, moving to a more opportunistic stance versus a maintenance stance, which we did about six quarters ago. As well as an action the management team took several years ago to begin bringing down the option issuance each year, so reducing that dilutive rate. That has resulted in a more effective way to get cash back to shareholders and you are seeing that in some of the share count reduction over the last four to six quarters.

Certainly this is an area of strength and it is an ongoing discussion with both the Board and the management team on how to best maximize our strong capital structure and get cash back to our shareholders.

Just in summary, we believe our strategy positions us for growth going forward. We will remain very focused on OpEx and efficient resource allocation within the Company. We are very excited about some of the new drivers that we are seeing in the industry, SDN and NFV as key examples. And we will continue to focus on ways to best allocate our resources and deploy our capital as we go forward.

So with that, thank you and I look forward to taking some of your questions.

QUESTIONS AND ANSWERS

Tim Long - *BMO Capital Markets - Analyst*

Okay. Thank you, Kathleen. Maybe just start off -- I'm sure you can't get too into this but just love some brief thoughts on the CEO change. Kevin Johnson had been there for a while; now incoming CEO Shaygan seems like a little bit different of a background. So maybe if you can just give us maybe a one-liner on anything that you are expecting. I think he starts early next year.

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

That is correct, thanks, Tim. Yes, we do have a new CEO starting after the first of the year. We are very excited about that and looking forward to that.



Some of the key attributes that the Board was focusing on in bringing on our new leader was to find an executive with a proven track record of operational excellence as well as a deep knowledge of the technical landscape and the customer base that we work with. And so we are very pleased to have found an executive of Shaygan's caliber to come in and lead Juniper in the next generation of growth.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. Maybe if we could start out with the routing business. There has been some -- you have talked about some of the technology innovations there, but overall looking at the segment we have kind of seen a normalization of growth over the last few years.

Just give us your thoughts on how Juniper can reinvigorate growth with PTX and some of the other advances that are being made in the routing side.

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

Absolutely. We have been seeing very good growth in routing, as you know, over the last several quarters. Much of this has been driven by our edge routing portfolio, so the MX platform of products has been a very good contributor to our growth, as well as relooking at the way we approach the core.

So we have got a very strong portfolio of products across the spectrum in routing. So within the core we have our T4000 series, we have our PTX, and we have our most recent MX introduction, the MX 2020, which addresses some of the services edge area of the core network. So we feel that that combination with the MX, also the ACX, and now a full suite of products for the core should enable us to continue to post good returns and good growth within the routing market.

So, yes, we are very excited about that as we look forward.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. Then looking around the high level around the world, it seems like North America has been really strong from a CapEx standpoint, but most expecting that to normalize and maybe rebound in Europe and some of the new networks in China. Do you see anything differently than that?

Then related to that; obviously, Cisco, a big competitor, talked about a lot of emerging market weakness, so maybe just update us on kind of your emerging market exposure. And does what Cisco say make sense from a macro standpoint or do you think there is anything else going on there?

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

Let me start a little bit with the emerging market exposure and then I will talk a little bit about routing overall as we go forward. For Juniper, our emerging market area is somewhat of an area where we don't have the footprint that some of the larger US-based multinationals may have. And so, as a result of that, some of the recent political back and forth may not affect us as much. That may offset that a bit.

In addition, we go to market in those areas with partners. That also may have a beneficial impact for us as we approach those markets.

On our most recent call we talked about strength in China, Korea, and also Australia, so within that Asia PAC area we did see some areas of strength. It was, however, a bit mixed; there were other regions that were not as strong.

So I think from an emerging market perspective going to market with great partners, like Ericsson, is very helpful to us. And the overall size and scale of Juniper also is beneficial at this time.



That said, I think that it is reasonable to assume that those political back and forths could have an impact on the market. Although again I think that we may be offset a bit, have that offset a bit by our stance there and our go-to-market partners.

We haven't provided a forward view for the overall routing market. We talked about six quarters ago; we put some numbers out in our long-term model that showed routing as still a decent growth market and our intention is to continue to gain share there.

And so where we see opportunities of course with the core. As customers start to re-architect that part of the network a bit that gives us an opportunity to go in and maybe insert into a core where there is a competitive position, whether it is with the PTX or the MX 2020, as well as continuing to build upon the very, very strong installed base we have with the T Series routers. And so those combinations, I think, bode well for us as we look to address customers' needs for upgrading and extending their core routing.

Again, with the overall edge routing portfolio with the MX that has just been a flagship, very strong product for us. We continue to add capabilities. We continue to ensure that we are able to scale and bring new functionality to that product portfolio, and the customer response has been very, very strong.

Then, lastly, I would say that as we look into new opportunities within the data center, whether it is SDN related or even NFV, with some of the carriers this is an opportunity for us where we don't have a lot of footprint. Certainly in the data center side where we could go in with our Contrail or open Contrail offering and then perhaps get an opportunity to bring in some of our MX products and some of our security products.

I think the opportunity for us to take share and grow within the current profile for the routing market overall is quite good.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. Thanks. Maybe we will switch gears a little bit and talk a little bit about security and then we will hit on the rest of the enterprise.

Juniper seems to have gone through a few rough years, but it seems to have -- there has been a change in strategy. Maybe just update us on kind of renewed momentum in the security business and how do you keep pace in an industry like that where level of threats are always changing and there is a lot of innovation on the product side.

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

We certainly have had some uneven performance in security over the last couple of years. I wouldn't go so far as to call us being in a position of having renewed momentum yet. I think that we are still working on stabilizing certain areas of that business.

And when we look at security we look at it in three different areas. So we have the carrier-based LTE security which we service with the high-end SRX, which has actually done quite well going into some of our traditional areas of strength. We have the campus and branch area which is, frankly, where we have had the most challenging areas. And I can speak to that.

Then we have some of these emerging opportunities in the data center, and we could talk about that a little bit. It is certainly on the focus of the campus and branch where we have been bringing out new features and functionality, improving the overall management of the product, but that is where we have lost share and something that we do need to address.

Security has still showed year-over-year declines, frankly, quite sharply. We were down 18% or so in the third quarter. At the same time, we are encouraged that we saw a bit of an uptick sequentially there.

So our focus is on getting that campus and branch business stabilized, continuing to work to develop new opportunities with some carriers that may be only now rolling out LTE networks, and then to galvanize around some of the emerging opportunities within the data center. And we are doing that with some of the recent acquisitions we have.



Mykonos is an example where we can go in and provide customers with threat deception capabilities. We can look at virtualization; we can look at other ways that we can work in that area of security.

But that being said, that business has certainly been uneven and we are focused on it. Not looking for a return to growth this year, but we are encouraged about some of the signs that we are seeing for 2014.

Tim Long - *BMO Capital Markets - Analyst*

Okay. Then just update us on kind of profitability there and level of investment. I think there has been a scale back in investment, but I think I feel it is more targeted now.

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

It is more targeted. That business is profitable; the contribution margin for the security business is profitable despite the pressure that we have seen on revenue over the last couple of years. So it is really getting that revenue growth going again that is the key issue.

We are more targeted and we have been more focused on being very effective in terms of resource allocation internally in terms of what we need.

Tim Long - *BMO Capital Markets - Analyst*

Okay. Sticking with more enterprise focus, maybe talk a little about switching, so Layer 2, 3 switching. Obviously several years ago Juniper chose to vertically integrate into that; did a great job getting some few points of market share rather quickly.

But it seems to have stabilized a little bit now from a market share standpoint, so maybe talk to us about what it takes for Juniper to take it to the next level. It is obviously a huge addressable market with a small piece of the pie for you now, but obviously a large opportunity. So how does Juniper take that business to the next level?

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

Well, it is a large addressable market and it does present opportunity for us, as you said. So we have worked through -- as many of you know who have followed the Company for quite a while, we went into this switching market with our EX series of products. Then we announced something called QFabric and we had somewhat of a dual track for a while at Juniper as we approached that.

We didn't find that to be the most effective way to go after that market, so we have since brought those two businesses together. So we have the EX business and the QFabric business have been blended and we have looked for ways to strengthen our presence, whether it is in the top of rack with the QFX or bring out a new form factor of QFabric which we call the QFabric M.

So we have a more robust suite of products in switching. We are also more focused in some of the opportunities that we go after. And I think as enterprise customers start to evaluate SDN and other new functions or new capabilities, so to speak, within the data center they are going to look for a partner like Juniper that has a history of being very open, best-of-breed, often programmable options and can provide top-of-rack and also provide some of the underlying routing and then even security offerings for that opportunity.

So that is kind of how we are seeing it now and how we are thinking about how we grow switching. The business itself has done well. That switching business has grown quite well, and I think now with the -- both businesses together I think with a more focused approach and I think with some of these new opportunities I think that is beneficial for us as we go forward.



Tim Long - *BMO Capital Markets - Analyst*

Okay, great. You mentioned a few times SDN and NFV in your prepared remarks and in some of your answers. Maybe just give us a sense of how you view Juniper's differentiation in both SDN and NFV, and when do you think you will start to see a material contribution from some of these newer architectures that are being put out in both enterprises and service providers.

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

Sure. So in terms of some of the technical differentiation and elements of SDN, there are many, many other people at Juniper that could speak to that better than I can. So I can give you the overview and what we are seeing at this point.

First of all, of course we all know it is very, very early days for both SDN and NFV. I will say on the carrier side, as we work with customers there, we are getting very, very strong interest in our Contrail and open Contrail approach that will allow them to deploy services much faster.

We also, as you would imagine, have very strong long-term relationships with large carriers. And I think that helps us as we start to help them think about their networks as they go into next-generation networks and how they will perhaps re-architect given NFV.

I think on the SDN side the key thing to remember is that that is an area that Juniper has very, very small footprint, so that is an area of opportunity for us. Whether we partner with a VMware or whether we go into a data center that has got all competitor network in there, if we are able to bring in Contrail that works with existing switches and other network suppliers that gives us an opportunity perhaps down the road to then bring in MX or other parts of the Juniper portfolio.

So we really view that as an opportunity and that is how we are approaching it.

As far as a more technical discussion on that, I can certainly offer other people at Juniper who can walk you through that if you would like to dial down deeper into that.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. I have a few more, but we do have a question that was submitted here from someone named anonymous. And then we will open it up to the room here.

Is it necessary to make an acquisition to stabilize, grow the campus and branch security? If yes, what kind of acquisition? If no, what specific steps are being taken? So a little bit deeper into the security.

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

Sure, absolutely. Very fair question, anonymous.

What I would say is we are focused on organic R&D at Juniper. That is part of our overarching approach and our overarching strategy. That being said, we have done M&A and we have done small tuck-in type acquisitions.

One of the most recent on the security side, of course, was Mykonos which has been successful for us in terms of helping us establish thought leadership with some of these next-generation security requirements. It is a fair question, though, because the threat vectors are evolving so quickly and they change very rapidly.

That being said, at this point we feel comfortable with our roadmap, with the efforts we have been putting internally on getting those products competitive. I think we have got a very compelling roadmap of features that we will be announcing as we go forward over the next couple of

quarters. We don't rule out M&A, that is something that we are always looking at as a management team at the strategic level, but I think that at this point we feel comfortable that we have got a good roadmap in that business.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. Any questions in the room here? No? Okay.

Maybe talk a little bit, I guess a year or two ago we had some headcount reductions and OpEx savings, probably the first time in Juniper's history. Maybe walk us through how you think about or how we should think about the OpEx structure over the next few years. Is there a target to grow it lower than sales? Do we think there will be a need for other -- is there room for more efficiency within the operations of the Company?

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

As you know, we did put out a long-term model about six quarters ago and we talked about our OpEx envelope being in the 39% to 42% range of revenue. Specific to your comment about sales and OpEx, it is our intention to grow sales faster than OpEx and to manage that perhaps a bit more effectively than we have in the past.

We are certainly not happy with running the business in the high 40% or 50% OpEx range and we've started to take that down this year. To your point, we did some restructuring. If you look at our guidance for the December quarter, the midpoint I think has us at OpEx to revenue of about 42%, maybe 42.5%.

So in terms of how you should be thinking about that longer term, at this point we are managing to get into that long-term model range on a consistent basis with a bias towards the lower end of that. So I do think that that is an area that -- I know that that is an area that we are very, very focused on. It is a combination of driving revenue, getting that revenue line higher and getting more into that range, as well as continuing to be focused internally.

As you know, we announced we moved away from a project called [Mobile Next], so that is something that resulted in some OpEx savings for us that we could redeploy into other areas of growth. We will be looking at that all and again, with our new CEO starting on January, I think that is something that he will be looking at with the team.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. Maybe we will squeeze in just one last one on to the gross margin side. I guess on product Juniper and a lot of the peers more and more are software content. So is it safe to assume that the goal would be over time more software content, therefore, higher gross margin?

Then, secondly, on the service side I think relative to peers Juniper's gross margins are a little bit on the low side. Is there any way to maybe boost gross margins on the service side?

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

Well, let me take the services margin first. I think that what we saw in the third quarter on the decline in services margin was largely a result of the revenue coming down a bit as a function of renewals not happening in that quarter as we expected. I think there is a bit of a difference in some of our competitors' gross margins versus ours, and I don't think there is a surprise there given the size of the two companies.

I do expect to see the services gross margin start to rebound over the next couple of quarters as revenue starts to strengthen. And your prior question, Tim?

Tim Long - *BMO Capital Markets - Analyst*

Just on the product side, software mix.

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

Software for us is still a relatively very small part of our revenue, so at this point in time I would encourage you to look at the long-term model that we have out there in terms of gross margins and I believe the margins are 63 to 66 on the long term. I think I have got those right.

Tim Long - *BMO Capital Markets - Analyst*

Okay, great. I think we are out of time so thanks very much.

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

Thank you, Tim. And thank you, again, for inviting us. We have been just delighted to be here with you today. Thank you.

Tim Long - *BMO Capital Markets - Analyst*

Thank you.

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