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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Ittai Kidron** *Oppenheimer & Co. - Analyst*

## PRESENTATION

**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Well, good morning, everyone, and thanks for joining us for the second day of our technology conference here at Oppenheimer in Boston. I have the pleasure of hosting Juniper Networks and the wonderful Kathleen Nemeth, Head of IR at Juniper. She is going to give us a brief presentation, four or five slides, and then after that we'll have a little bit of a chat on the side with some questions, and then we will open it up to the crowd to ask some questions. Kathleen, the floor is yours.

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

Thank you. Thank you, Ittai. It's very nice to be here this morning; always great to be on the East Coast in the summertime, which includes a little bit of rain.

Before I get started, I'd like to remind everyone of our Safe Harbor statement. To the extent that there are forward-looking statements during the presentation or during my discussion with Ittai, please be aware that there are risks associated with that. For a full and comprehensive discussion of those risks, please be sure and see our most recent Form 10-Q filed with the SEC.

Now, for those of you who may not be familiar with Juniper, I just want to provide a brief introduction here. We're clearly a high performance networking company focused on allowing our customers to evolve their networks and provide next generation networking solutions for customers. We offer a full portfolio of routing, switching, and security. And we offer them for both service provider and enterprise customers.

We believe that we're currently positioned to drive market share and revenue growth as our customers evolve their networks, driven in particular by the mobile Internet and cloud trends that we're seeing today.

We take a very disciplined approach to our operating model, and we're scaling to grow to the opportunities that we see ahead. We're focused on investing in innovation and driving productivity across the organization, and we consistently maintain a very strong balance sheet. This provides us with the flexibility to drive our growth initiatives as we go forward.

Now I'd like to spend just a moment talking about the market opportunity as we see it. This is a slide that we presented not too long ago at our financial analyst meeting in June in Silicon Valley. And we talked about the fact that we believe that we are in a very vibrant growth market.

When we're looking at the businesses that we address, we are seeing a compounded annual growth rate of about 7% to 8% over the next three years or so. And again, we presented these numbers in June at our financial analysts meeting.

We've got strong businesses across all three product segments here, in switching, routing, and security. And it's our view that we intend to outgrow the market growth here. So we intend to take share in each of the markets that we serve.

Today we believe we are taking share in routing and switching. Security is a large business for us, and we've been expanding feature sets and capabilities of our offerings there to better target a broader range of enterprise customers. And we believe that we will improve our position there as we go forward, as well.



Let's talk just for a few moments about the five pillars of our strategy. As I said at the outset, we're very focused on high-performance networking. We believe that we differentiate on innovation. We're focused on this aspect of the business, and with the trends in our business, we believe this is the right place to be and we have a significant addressable market to go capture here.

Secondly, we believe we are the innovation leader. This manifests itself in great products -- innovation and breakthrough products, such as the PTX, for example, which are allowing our customers to rethink how they rearchitect the next generation of the core of their network. And this has been a very successful product for us, recently launched.

And third, we leverage across both the service provider and enterprise markets. We believe this allows us to best monetize our R&D investment, and we believe leverageable R&D is the right approach for us as a Company. Fourth, we go -- we intend to expand our customer sets, whether it is in service provider and enterprise, and we've been doing this consistently over the last couple of years.

And then finally and importantly, we complement the system strategy with our Junos-based software solutions. So this is really a key differentiator for us, that we do enable customers to get the benefits of a software-oriented approach with Junos. This enables them to ease integration and helps them to lower overall total cost of ownership.

So we think about the new network -- we really believe that this is domain optimize. Customers segment their networking challenges more and more these days by domain, whether it is the edge, the core, datacenter, access and aggregation, or campus and branch.

So within the Company, this is how we think about aligning and organizing our business. We want to make sure we're in a position to really effectively address customer challenges from the same perspective that they have. And we see this across our business.

There are seven of these domains, four of which are common to enterprises and five to service providers. Two of the domains, datacenter and devices, are shared, and all of these domains are supported by our security products and our unified software platform.

If you look at our portfolio, we have an end-to-end, very broad portfolio that addresses networking challenges across all of the different domains such as SAN trend. If you look at our product families, you could see the first 10 years or so of our business, we were very focused on innovating and the core and the Edge of the network. Clearly, with the core we had our flagship T-series products; and with the Edge, we had the M and then the MX. And then during this time we acquired NetScreen, which gave us a footprint in the security space.

Over the last six years we really expanded our product portfolio significantly, where we're now in the datacenter, access and aggregation, wide area network, campus and branch, and the consumer and business device part of the network. So we've taken a very systematically focused approach, and we believe that our focus on innovating in silicon, systems, and software really helps us put together a portfolio that effectively addresses these customer needs. Of course, this is all built upon the foundation of Junos and Junos Space.

So before I conclude and sit down with Ittai, I'd like to talk about our near-term priorities. Clearly, we've had several new product introductions over the recent, near-term period. And we intend to effectively drive those with targeted sales and marketing programs throughout the Company.

We are aligning our resources to the opportunities that we see ahead. We're very focused on driving efficiency and getting more effective across the organization. We're focused on careful cost management as we go forward, and we'll talk about that a little bit more. On our conference call just a couple of weeks ago, we did speak about taking costs out of the ongoing OpEx envelope that we currently have.

And lastly, I'll note, although it's not on the slide, that we do have a very strong balance sheet and cash position, and we intend to maintain that.

With that, I thank you, and I will sit down with Ittai.



## QUESTIONS AND ANSWERS

**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Very good. Well, thank you very much for the presentation, Kathleen. I wanted to start with the hot topic of the day, obviously, which is CapEx spending. On the conference call you've made very clear comments that you're seeing some improvement in spending here in the US, while Europe is still hot and cold, kind of inconsistent environment, still, at this point.

Very recently there have been some rumors that AT&T potentially is slowing down again slowing down again spending. Is there any clarification you can give us somewhat to you are seeing, again, in the US market perspective there?

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

Thank you, Ittai. Well, it was just a couple of weeks ago that we provided our outlook on our conference call. And from what we are seeing, we are expecting those trends to be consistent with what we outlined on the call. So a more typical spending pattern from the US carriers that we've seen in recent years. And so we're still seeing that same -- we haven't seen any change to that.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Okay. Very good. So a stronger second half versus the first half in the US carriers.

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

Typically -- exactly, yes; we think that they'll go along with their typical pattern.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Okay. Excellent. Now, the first part of the presentation you talked a lot about some of the new products that you've introduced, and how they are going to hopefully continue to contribute to growth in the future. So I was hoping to go through some of them.

First, on the T4000, your newest core router upgrade. It seems that you're starting to get some deployments, and the product is now shipping, but how far along in the process are we in deploying the T4000? Maybe using a baseball analogy, what inning are we in getting to that full run rate that you expect on that product?

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

Okay, well, using a baseball analogy, let's see -- I would say we're in the early innings.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Okay.

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

Clearly, we shipped the first T4000 at the end of last year in the December quarter. It really began shipping in the first quarter of this year. So it's early days.



I think that product is doing very well. We've been working with customers in that regard, and we've been shipping chassis. And so we expect that to continue, and we expect line card deployments to start, as well, as we go over the next couple of quarters.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Okay. Now, given that it's a new product, I'm sure that there is some lag between shipping and revenue recognition. Is that the right way of thinking about this, meaning the revenue will lag the actual volume shipping?

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

Not necessarily; it depends. Customers have different certification times, certainly for new products. So it's not necessarily a blanket approach by customer. But it really depends on customer, specific customers. It so it could, but not necessarily.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

But directionally, T4000 revenues should start climbing from here.

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

Yes, and we saw some of that in the June quarter, right? We had a good performance in core routing in June.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Excellent. Moving to the QFabric, your datacenter architecture, you've talked about this past quarter, 200 customers, if I remember correctly. But how many of them are really full-fabric appointments, meaning not just a couple of racks, but the director and fabric at the back of it?

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

Well, clearly the majority of them are the QFX deployments in the top of rack, which is quite a good thing. It shows that customers are recognizing the value that the full QFabric provides. The reason they all select QFX is because they believe as they evolve their datacenter architecture, that QFabric may play a role. So the majority is on the top-of-rack QFX side. We don't break out specifically what QFabric is, but we do have customers there, and that customer segment is growing in terms of full deployment of the fabric.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Okay. I think sometimes investors under-appreciate how long it really takes to qualify a full datacenter architecture. Even when the Nexus was introduced by Cisco, it took them literally 12, 18 months before they started seeing traction hitting. So I would understand that life traction over there is still very slow, at least to the outside world.

What would you say, though, about the trial activity with that product? How broad and how active are you on that front? Because that, I would say, is a leading indicator in the future. And so, progress there?

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

Overall, QFabric is tracking to our expectations. So to your point, it does take a while for these qualification cycles, especially when you have a new architecture. You're working with customers. And so there is a time component to that, Ittai, I think you're absolutely correct.

The trial activity with QFabric has been good overall. And we've recently introduced another iteration of QFabric, the smaller version, which I think is being well received by customers and is helping us to deepen our engagement with them from that regard.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

Excellent. So when you look at your new products in total, and you have talked about a \$600 million run rate exiting next year, correct me if I'm wrong --

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

No, that's correct.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

-- how would you say you're tracking to that target, in your opinion?

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

Well, we just put a target out there a couple of weeks ago, so I am happy to say we are tracking to that target.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

Nothing has changed in the last two weeks. Good.

And then on the most recent conference call, you talked about cutting your operating expenses by \$150 million and/or run rate, if I remember correctly. What can you tell us about the planning phases of that reduction process? In what areas would it come? And from a timing standpoint, when do we see that benefit hit the P&L?

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

So as a reminder, Ittai is referring to our commentary on the conference call where we intend to lower our overall operating expenses by approximately \$150 million in 2013 over full-year 2012. And so that process has begun in terms of reviewing the business and understanding where we can drive greater efficiencies, whether it is within organizations, in aligning organizations, reducing duplicative efforts within organizations. Certainly, there are opportunities to implement new processes within the Company that will help us to streamline and get more toward our long-term model, which we shared at SAM.

So as we noted on the call, we expect some of the benefits to start to be reflected in the first quarter of 2013. That will go throughout the year, with a lot -- the majority, or a large portion of them being affected in the run rate as we exit 2013.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

So you're still in that sort of final planning phases of that --



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

Correct.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

-- cut, and it effectively will -- I would assume somewhere by the end of this quarter and fourth, get implemented, and then benefits showing starting next year.

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

That's a reasonable way to look at it.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

All right. Great. At this point I'd like to open up to questions -- look, nothing? Nothing -- no. Anything else, anyone? Maybe we can talk about the security business.

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

Sure.

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**Ittai Kidron** - Oppenheimer & Co. - Analyst

And it seems there is two sides to it. On the carrier side you've been having a lot of success. For whatever reason, on the enterprise side it's been a little bit less impressive, let's say, in the last 12 months. What is wrong on the enterprise side of your security business? And what are you doing to turn the wheel there?

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

Sure. Stepping back a bit from the security side, you're absolutely right. On the service provider side, with what we call the high-end SRX, that has done very well with carriers since its introduction.

But certainly, on the enterprise side, whether as it relates to campus and branch, as we've acknowledged, there has been some areas of that product that we feel we need to strengthen, whether it's the network management or other features within that. And we have begun that process. So we've released something called Security Design, which addresses some of those feature sets.

And we're actively focused on that now within the Company. So we have aligned the organization. We have Bob Muglia, who joined the Company last October. He's leading that effort. Nawaf Bitar, who has joined us, is also an integral part of that senior leadership team there and is very, very focused on this particular product set and the challenges that we have had on the enterprise front with our security products.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

And speaking of Bob and some of the activities that he's been involved with, you've announced a licensing agreement with Riverbed to take their Layer 4-7 capability. Can you give us a little bit more color as to what do you plan to do with that software? What's the product that you envision, and longer term, what is the vision there?

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

Well, we did address this on the conference call as well. And we've not been disclosing specifics on the products or what we are specifically developing with that. We do think that it is very solid technology and will enable us to complement and strengthen that portfolio that we have down the line with those products. And so we're looking forward to working with Riverbed there and also working on our own portfolio development.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Very good.

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

Yes.

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**Unidentified Audience Participant**

(Inaudible - microphone inaccessible)

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

No, not at all. In fact, one of the things that we -- that's very important to us at Juniper is that we have an open ecosystem of partners that we work with. So there are other companies that we work with. Whether we have an SDK, and they're writing and developing on top of the SDK, or other avenues, but no, not at all.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Can you talk about Software-Defined Networking? Clearly, the noise around that has made a lot of impact on the one specific company that has a lot of business in that area, but it's a big growth driver for you well. What is your perspective on SDN? How does it impact -- help, hurt your switching business going forward?

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

It is a great question, Ittai. And certainly there are -- I have colleagues back in the Sunnyvale who could speak to this topic as well. But from our perspective, the basic tenants of SDN, or Software-Defined Networking, are completely aligned with the vision that we laid out for the new network a couple of years ago. And our founder, Pradeep Sindhu, walked through this at our financial analyst meeting.

To the extent that networks become open, and use open standards, and there are programmable APIs, that is all consistent with what we see with the new network. And so we view it as an opportunity.





Anytime customers are looking at something that's going to help them evolve their network to the next generation, we're closely aligned with them on that and helping them to do that. So we're very excited about it. We feel like there's a good fit with Juniper and this, and so we're very -- we feel very excited about the opportunity that it offers.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

So you're not of the vision that this is something that can hurt your margin profile longer term in that business?

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

You know -- thank you, Ittai. It's very early days to start framing what the potential is in terms of a particular products, or etc. So from this vantage point, we think that it presents a great opportunity for customers and also for us as we work with them on this new emerging technology.

And then I'll point out that, as we mentioned in the presentation, our value proposition to customers has always been very much weighted toward a software approach, right, with Junos. So it is a bit different from competitors. And so we believe that we have always brought a lot of value with the integration of software, silicon, and systems. And so that's been an important part of our differentiator with customers.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Over there.

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**Unidentified Audience Participant**

(Inaudible - microphone inaccessible)

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

Thank you. It's a good question. And certainly, we believe that there are solid capabilities within Junos. As far as the specifics of what VMware -- the route that they are taking, I don't have a comment on that.

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**Unidentified Audience Participant**

(Inaudible question - microphone inaccessible).

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

Yes, that's a great question. We've taken a very disciplined approach to M&A over the last couple of years. And you've seen that -- largely what we've done is we've acquired companies that have great technology, smaller tech companies that have great technology that complement our portfolio.

Our commitment within Juniper is to organic R&D. We believe that that's something that is very critical to us as we go forward. And so as far as the trade-off between valuation or strategy, we look at both, right? We want to take a financially disciplined approach, clearly. At the same time, we want to make sure that we're getting the right technology for our portfolio that we need.

So it's really a balanced approach. We don't have one that drives the decision to the exclusion of the other.



**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Any last questions? That was the last question. Thank you very much, Kathleen.

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

Okay. Thank you, Ittai, and thank you all for being here.

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