THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

JNPR - Juniper Networks at Credit Suisse Technology Conference

EVENT DATE/TIME: NOVEMBER 27, 2012 / 6:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Kevin Johnson *Juniper Networks, Inc. - CEO*

CONFERENCE CALL PARTICIPANTS

Paul Silverstein *Credit Suisse - Analyst*

PRESENTATION

Paul Silverstein - *Credit Suisse - Analyst*

Hi, good morning, Paul Silverstein, Credit Suisse comm equipment. It is my pleasure to have with us today Juniper Networks. We have the CEO, Kevin Johnson, and we have VP of Investor Relations, Kathleen Nemeth. We are going to do this as a fireside chat, but Kevin has got some slides he is going to go through to begin with. Thank you, Kevin.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Great, thank you, Paul; appreciate the opportunity to be here today. I thought before we go into Q&A I would just share three or four slides to sort of set perspective and remind folks of information we have communicated at our analyst meeting and our latest earnings calls.

Before I do that I just want to remind you of the Safe Harbor related to forward-looking statements and for the latest summary of the risks, please see the latest 10-Q filing that we just made.

I will start with reinforcing the five pillars of our strategy. We are and continue to be a pure play in high performance networking. We believe there continue to be significant opportunities for innovation and for us to create value in the domain of networking. That value comes from innovation and building great products. Therefore, the organic R&D that we do, the investments we make in R&D, the projects we select, the products that we build are core to what we do in terms of creating that value.

We think about that innovation and three businesses -- routing, switching, security. We have been in the routing, switching, security business certainly over the last five years. The Company's heritage was from the routing, it then expanded into security and now we are in routing, switching, security.

We do believe that leveraging the investment we make in R&D and innovation so that we can monetize it in both service provider sector as well as enterprise sector is core to our strategy.

In fact, for every dollar of R&D we invest, we invest and we build a great product like the MX router, the fact that we can sell MX routers to service providers and we can also sell them to customers on the enterprise side like federal governments, financial services and many other enterprise customers we think is very core to what we do.

Similarly on the switching side, the fact we invest in building our EX switching portfolio and QFabric portfolios we can monetize that investment in both enterprise data centers as well as service provider data centers.

Fourth pillar of the strategy is diversifying the customer base. And that is a statement both within the service provider sector as well as the enterprise sector. And I think of diversification as certainly, are we broadening the base of customers that do business with Juniper and when we do business with those customers are we deepening the relationship?

So in many ways the ability for us to secure a piece of business with a customer and then grow that business and deepen that relationship with those customers, as we have in the service provider sector, we continue to do that as well as our focus on the enterprise sector.

And then finally is complementing the systems strategy, the systems that include our silicon, our systems and our software with Junos-based software solutions. And much of those software solutions run on the edge of the network on our MX platforms utilizing our trio chipsets. And I will talk briefly about some of the announcements that we have made recently in that regard.

So those five pillars remain core to what we are doing. We're staying very focused on the domain of networking, focused on the product sets of routing, switching, security. We are an organic innovator and we believe that there is significant opportunity for us to continue to innovate in this domain and for us to create value.

Now certainly if you look at the track record of that innovation, I think over this last five-year period we have shown a 14% CAGR from 2006 to 2011. And you can see also the mix of revenue from enterprise and service provider -- in 2006 29% enterprise, 71% service provider. In 2011 full year it was 36% enterprise and 64% service provider.

But we are maintaining our focus clearly on our core business of routing with service providers but expanding and diversifying that customer base around those investments.

Now certainly delivering on this innovation agenda, the suite of new products that have been released in the market here I would say over the last year, certainly the T4000 was released early this year and the upgrade cycle is underway. Many people have asked, how does that upgrade cycle work?

Well first, customers will look to purchase a chassis upgrade that allows them to upgrade their existing T series chassis to be able to accept T4000 line cards. So when we look at the ramp of the chassis upgrades that ramp has been very consistent with what we saw on the T1600. So we feel like there is a very good ramp underway of the chassis and then certainly what we look to follow then would be line cards.

The line card upgrades are certainly where the bulk of the revenue is and in those upgrades we think a lot of that depends on how customers look at their networks and network capacity and network expansion. But we think the T4000 is positioned well for that.

The PTX is our new converged super core. It is -- now we have over 15 customers who are deploying it, a number of engagements across all three theaters. And in many ways the PTX is bringing a new architectural approach that is helping customers get better efficiency by collapsing multiple networks and having them managed with this converged super core implementation.

MobileNext is a body of software that runs on the MX and that software provides mobile packet core or evolved packet core services in the wireless side. The MobileNext ramp, we now have it running in production, we continue to release new features. We have -- it has helped us secure more MX footprint on the edge of the network, but the ramp of MobileNext and insertions for MobileNext continues to be an opportunity for us.

It is an area that we continue to be focused on and some of the announcements of how we are now packaging software, some of the key assets, software assets we have built with MobileNext are becoming part of our service delivery gateway.

QFabric -- QFabric had a wave of features that were released this summer that were very important to customers, features that included things like high availability, the ability to connect a single server to multiple QFabric nodes and a variety of other features that customers had requested.

Those features combined with the fact that we introduced a smaller footprint, our QFabric M Interconnect, created the opportunity for customers who did not want to have a single fabric in their data center, but wanted to have multiple smaller fabrics so that they would not have a single failure domain in a lower entry point.

That has accelerated some of the adoption of the interconnect and the directors. So we continue to make progress. We have a road map going forward of QFabric and our single tier solutions and we continue to make progress.

Our flagship Edge router product, the MX, we just announced the MX2020, which is a very high scale version of the MX that we will be shipping later this quarter. As well as the JunosV App Engine, which is basically now a virtualized app application engine that allows any software to run in a virtualized mode either on a service blade in the MX or on a server attached to the MX and be able to communicate with Junos. And that is an opportunity to now expand the volume of services and new applications that service providers are deploying on the Edge.

And then finally the ACX, which is our new Universal Access that allows us to get in backhaul, backhaul for mobile backhaul, residential and business. And we have approached this much like we did the MX with our Universal Edge. With Universal Access we have delivered Layer 3 services all the way to the access layer. We've packaged this in a form factor we think is very appropriate for the types of uses of these routers, and we have leveraged components from the MX all the way to the access point.

So we're delivering on the innovation of the new products and we continue to be on track relative to the expectations that we set at the June analyst meeting for the Q4 2013 revenue targets that we outlined.

Then on balance sheet, I did want to comment on the fact that we have been much more aggressive in our share repurchases, been more opportunistic clearly as we believe that the stock is undervalued. We deployed capital, returned it to shareholders.

We have reduced the total shares outstanding by approximately 24 million since December of 2011. $564 million have been repurchased through November 8 of our date of our filing and we have another $650 million remaining on the $1 billion buyback that the Board approved in June of 2012. If you look at that from 2008 to 2011 that represented $2.2 billion of repurchases.

So clearly our focus going forward is committed to driving growth through organic R&D and our R&D investments, really driving excellence in execution and how we take great products to market and connect with our customers.

We have taken action to streamline the organization with the three objectives in mind. Number one is to sharpen our focus. Number two is to enable more agility. And number three is driving efficiency.

And going through this restructuring process we have nearly completed the elimination of approximately 500 positions in the Company, many of those have been middle and upper management positions as we have consolidated organizations that we felt needed to be consolidated, allow us to reduce redundant work that was taking place and have more focus and more emphasis behind the highest priority items and that is allowing us to drive efficiencies as we set up for 2013.

And then certainly continuing a focus to be opportunistic on our buyback strategy, and returning cash to shareholders. So our view is we have got to stay focused on building great products that allow us to grow the top-line, being very thoughtful about how we are managing expenses and efficient how we are running the Company. And then being mindful of capital allocation as it relates to the cash balance sheet. So with that, Paul, happy to turn over to you.

QUESTIONS AND ANSWERS

Paul Silverstein - *Credit Suisse - Analyst*

Great. So I wanted to start off with the macro environment if your business model. How much visibility do you have into your business at present compared to a quarter a year ago?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Well, I think in many ways the improved execution that we have on our service provider and go-to-market business has -- if I just look at our ability to forecast quarters and where bookings come in relative to those quarters, we have made a number of improvements.

And here we sit mid-quarter in Q4 and linearity is tracking just fine relative to what we have guided and what we see happening. So I think the visibility and our improved execution relative to where I think we were a year ago has helped.

Paul Silverstein - *Credit Suisse - Analyst*

If my memory serves me, you spoke about improved business conditions. I think happened the better part of the last quarter and a half. Are you saying ongoing improvement in the US in particular?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Well, I think in the comments I've made in the past it varies by geography. I think Europe, EMEA continues to be very challenged on the macro. Service provider in the US has been stronger and part of that is some of the projects that we have secured and some of the work we are doing relative to new products and the relationships with those customers.

But then in the US you see other areas, I think financial services or federal have been -- they have had some pressures on some of their spending. And Asia I think I would characterize as stable. So the macro level I think -- Europe is and I think continues to be challenged. The US, I think the pattern that we've seen here over the last few quarters I think will continue to unfold and Asia I would characterize as stable.

Paul Silverstein - *Credit Suisse - Analyst*

You know, over much of the Company's life Juniper appeared to have a very loyal and very talented employee base, especially in R&D. At the same time it appears that over the past 12 to 18 months Juniper has seen a significant increase in employee departures. And I'm not talking about the stuff that you just announced.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Sure.

Paul Silverstein - *Credit Suisse - Analyst*

At all levels, executive management, senior R&D staff and rank and file as well as sales and marketing. I recognize that you have broad and deep bench, but employee departures obviously can be disruptive for any organization. Am I overstating the case and does it change your ability to deliver the product innovation that you all have been known for?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Well, first of all I think when I look at overall attrition at the Company, I mean we are still within below what tech company guide -- what industry averages in the tech industry would be. That said, certainly turnover causes change and that can cause disruption, I acknowledge that, certainly.

I think in this restructuring, as I pointed out, that many of the positions we eliminated were middle and upper management including some EVPs and senior vice presidents as we consolidated groups and got more focused. We felt like that was the right thing to do for the Company. It allowed us to get business unit that had similar functions or similar capabilities going on to get more aligned under a single leader. So as part of that there were some departures related to that.

And the good news is I think we made a set of thoughtful intentional decisions. I think in the cases where there were some transitions that were not related to that I look -- you can take Stefan, for example, he made a decision to pursue -- he had an aspiration to change his career path and become a venture capitalist. And yet at the same time he is staying connected to the Company.

The good news is Rami is a very talented leader who stepped right in and we are not going to miss a beat, we are just going to keep going. So I'd knowledge, transitions can be disruptive and create challenges. But I think we have managed it well and we have got a deep bench of talent. And I think with the products sets that we have been shipping we continue to execute well against our agenda.

Paul Silverstein - *Credit Suisse - Analyst*

Let me ask you about the operating model. Intermediate term where are the opportunities for significant improvement? What are the challenges with respect to gross and operating margin in terms of getting those back up?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Well, let me start with operating margin. Clearly one opportunity to expand operating margins is top-line revenue growth. And certainly we are a company that is overweight in selling routers to service providers and this has been a year that through Q3 year to date the routing and service provider routing addressable market has declined by about 2.93% year on year.

So we feel that. The demand pattern given the macro dictated that. But at the end of the day we like to focus on what we can control. So what can we control to drive top-line revenue growth?

Well, number one is we have got to ship great products. And I think if we look at the MX2020, we look at our MX product portfolio, we look at what we have done with ACX on the routing side, we look at the software solutions that we shipped and releasing on the MX, I think we've got a very strong product portfolio.

And over the past decade there has been about four periods where the capital investments in routing have eased up and then as networks run hotter and things change you see those patterns start to shift where then there is a re-surge of investment in routing. And so, I think part of this is are we building great products in position for when that occurs and are we able to then grow top-line on that?

I think certainly on our switching and fabric business I think year to date we have grown about 19% or 20% year on year. We continue to just chug away and grow that business. We remain committed to both a single tier fabric solution as well as two-tier solutions for customers. There are certain things that we have learned with QFabric that I think we have factored into the road map and I think will make us -- continue to make us more effective at the product set and how we are innovating in that domain.

In the area of security I think we -- this is an area that when you say, hey, what could we have improved on? I think in late 2008 when we shipped the first wave of SRXs we started to get a lot of design wins with large service providers and much of our focus was then on the feature sets and mobile Internet and helping those customers with the security solutions around mobile Internet.

And in the process we lost some ground on enterprise. And we've been closing gap on that ground as it relates to management with our security design offering, as it relates to content security with what we have done with App Secure and as it relates to analytics.

So I think -- in the area of security I think we feel like we have got a good position with service providers but we have had to make up some ground on enterprise. So we could have executed much better in that regard.

So to grow OpEx I think it is mostly about how can we now drive top-line growth with the wave of great products and make sure we are positioned on the service provider side as capital investments are made. Certainly we have been very thoughtful in this restructuring about how we have combined organizations and streamlined headcount so that we can have a sharper focus and more agility and drive efficiencies that will help us certainly on the bottom-line.

On gross margins -- number one, great products allow you to charge -- to maintain a pricing level that allows you to have a good gross margin. So number one on top-line is continue to ship great products. But number two, we see a lot of opportunities to drive efficiencies in the supply chain and contract manufacturing process. And that is related to the set of actions that we've been taking in that regard.

And so, the focus on driving efficiencies is not just about OpEx, it is about how we are looking at our cost of goods sold, the way we manage supply-chain, the way that we leverage common components and the way that we work with contract manufacturers.

Paul Silverstein - *Credit Suisse - Analyst*

With respect to revenue growth, you put out a 7% to 8% growth for all of your markets for the 2013 through 2015 period. And I think you said you are expecting to grow 2 to 4 points better than that. I assume it goes without saying that in that guidance that is premised upon improvement in the macroeconomic environment.

Certainly with respect to the two-thirds of your revenue that is coming out of the service provider. We're not seeing anything like that type of growth right now, that is not a Company specific issue.

But over and above that do -- that type of guidance, that 2 to 4 points better, do you have to be successful with MX and QFabric and the T series upgrade or with some combination of the five key new drivers or is that incremental over and above (inaudible)?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Well, I think number one, as you pointed out, we started by giving a view of what we thought the addressable market would grow over the years 2013 to 2015. And I think at that meeting we said 7% to 8% CAGR in that range over that period. And then we said, look, if we are doing our job and we are executing well to deliver great products and engage with customers in the right way we should be share takers and we should be able to grow then 2 to 4 points faster.

And so, clearly we indexed the growth aspirations we have with what happens in addressable market. Now on the routing side of the business, certainly the routing side of the business, if you look into 2013 and going forward, at some point we believe it is going to follow the same pattern it has followed for the last decade and there will be another pick up of routing spend, which would put that in an addressable market period of growth.

As that happens we think we are well positioned with what we have done on T series, PTX, MX and ACX. You just look -- it wasn't until this year that we just started shipping the ACX, it had an access layer solution. Before that we were just contained kind of at the Edge and the core.

And now that we have the ACX -- ACX is actually helping us sell more MXs because the proposition of what we are doing on the Edge now is strengthened by what we can do on the access layer. And we have got some unique intellectual property in the way we have done the access layer that adds value to the Edge. So that growth also includes work that we have done to build out this portfolio and to go capture share utilizing that as part of it.

Paul Silverstein - *Credit Suisse - Analyst*

Let me push you on that. Not all markets are equal. And if we look at the core router portion of the market, once upon a time not so long ago, I think actually recently as five years ago, core routing was about 50 plus/minus 10, in some quarters as much as 60, some as low as 40. But it was it that 50 plus/minus 10 range. It is now more like 25% of your router revenue which is two-thirds of total revenue.

Two of those new platforms you have introduced are largely core focused with PTX (inaudible) the T4000 upgrade. Going forward is it -- I think you have referenced a 5% to 10% gross margin, certainly others have compared to routing. Is there more risk to that view or is there more opportunity in particular if like I ask you to address that core router issue in terms of how that impacts the growth there?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Yes. Well, first of all the 5% to 10% over a three-year CAGR you could say in some years and is going to be higher common in some years it is going to be lower. And I still think that that is the view that we had in June and I think that continues to be the view.

And much of that is just based on looking at the patterns of spending and knowing that customers in many, many cases have been running their networks hotter where they have tightened up capital investment and there is no single standard, but in the past perhaps a customer would run the Edge until they got to a 50% utilization on that network and they would start to upgrade, maybe now they are running at 60% or 70%. So there is some point where that expansion needs to happen.

And so I think over that three year period we continued to remain optimistic that routing -- traffic is still growing and something has got to carry that traffic. Obviously improvements in technology reduce the cost per bit of traffic -- new silicon and new advances in the systems mean that not -- for every bit of traffic there is going to be the same amount of revenue growth because the innovation is reducing that cost per bit of traffic.

So if I look over that three year period I would still say that we feel the routing addressable market -- the routing market is a good market to be in and it is one that we invest in R&D and we feel like we innovate and have opportunities to grow.

Now you point out that the core market now is a smaller percentage -- or the core revenue at Juniper is a smaller percentage today than it was a few years ago. Well, part of that is due to the success we've had on the MX. The MX has just been a phenomenally great product for us and that is why we have continued to invest in it. We updated the silicon with Trio, we updated the silicon to add 100 gig line cards. We built the MX2020 for the very high end, we took components from the MX and used it to seed the ACX.

And so much of that is when you look at the growth segments within routing, the Edge has been a growth segment and over the last three or four years access to backhaul has been a significant growth segment. And if we had had the ACX four years ago maybe we would have had even more revenue from that. But we have got that now and we are focused on the same strategy that we used on the Edge with Universal -- the Universal Edge, we are doing the same with Universal Access.

Paul Silverstein - *Credit Suisse - Analyst*

I know you are limited in what you can say or are willing to say about any one customer, but I have got to ask you given the AT&T announcement from several weeks back, that fairly sizable CapEx increase, a ray of sunshine in what has otherwise been an incredibly gloomy CapEx environment.

When you spoke about improvement in the US, was that already -- had you already received communication from AT&T? Was that part of that improved outlook or would that be to extend your participating or spend going forward on those projects? Is that the incremental?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Well, look, it is just not appropriate for me to comment on specific discussions that I have with individual customers; I let them announce and talk about what they do. But it is important to just note that we stay very connected to our largest customers and we try and work hard to anticipate what they might need and what we can do to support them. And that is probably as much as I can say.

Paul Silverstein - *Credit Suisse - Analyst*

On that note I have got another couple hours worth of questions, but it will have to wait. Thank you all for coming.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Thank you, Paul.