

Juniper Networks, Inc. (JNPR)

\$23.97 (As of 08/18/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Juniper reported decent second-quarter 2020 results, wherein the top line beat the Zacks Consensus Estimate. The company is witnessing solid momentum in Mist Systems and strength in its services organization. It has made significant changes to the go-to-market structure to better align sales strategies with each of its core customer verticals. The company plans to launch several products over the next few quarters, which are expected to strengthen its position across service provider, cloud and enterprise markets. However, it is experiencing coronavirus-related supply constraints that are resulting in extended lead time. Juniper faces severe competition in each of the served markets that have traditionally spearheaded innovation. Uncertain global macro environment and weak investment patterns among carrier customers are other headwinds.

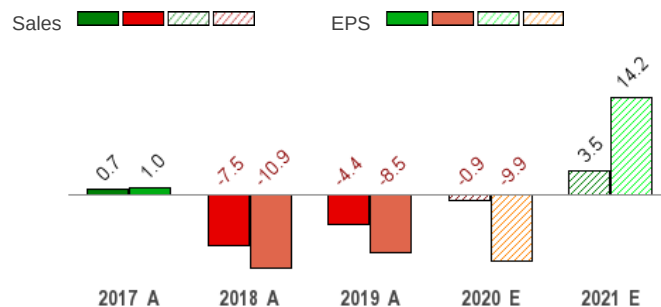
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.49 - \$15.20
20 Day Average Volume (sh)	3,168,064
Market Cap	\$8.0 B
YTD Price Change	-2.7%
Beta	0.98
Dividend / Div Yld	\$0.80 / 3.3%
Industry	Wireless Equipment
Zacks Industry Rank	Top 50% (125 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	3.1%
Expected Report Date	10/22/2020
Earnings ESP	-2.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,049 E	1,130 E	1,167 E	1,245 E	4,561 E
2020	998 A	1,086 A	1,132 E	1,199 E	4,406 E
2019	1,002 A	1,103 A	1,133 A	1,208 A	4,445 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.30 E	\$0.42 E	\$0.47 E	\$0.54 E	\$1.77 E
2020	\$0.23 A	\$0.35 A	\$0.44 E	\$0.53 E	\$1.55 E
2019	\$0.26 A	\$0.40 A	\$0.48 A	\$0.58 A	\$1.72 A

*Quarterly figures may not add up to annual.

P/E TTM	14.6
P/E F1	15.5
PEG F1	1.9
P/S TTM	1.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/18/2020. The reports text is as of 08/19/2020.

Overview

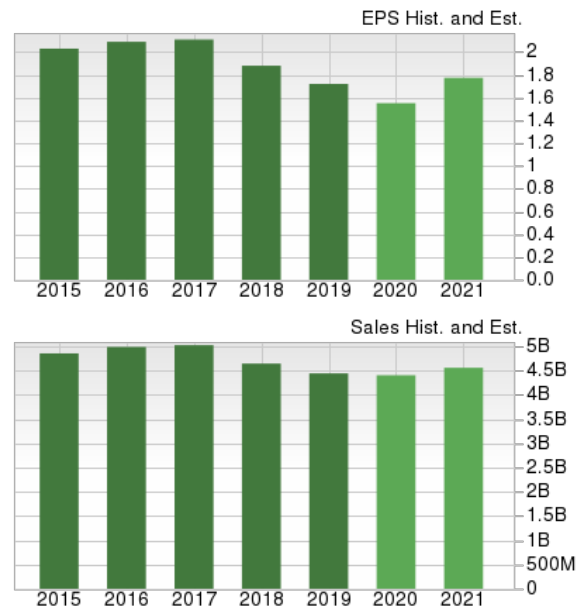
Based in Sunnyvale, CA, Juniper Networks, Inc. is a leading provider of networking solutions and communication devices. The company develops, designs and sells products that help to build network infrastructure used for services and applications based on single Internet protocol network worldwide. The company caters to the networking needs of enterprises and public sector organizations and service providers across the globe. Hence, the two primary markets for its networking products and services happen to be Enterprise and Service Provider.

Juniper offers a broad range of routing, switching and security products. Routing includes products and services from the E, M, MX, PTX, T Series, and ACX router families. Switching primarily consists of products and services for EX Series and wireless local area network solutions as well as QFabric. Security includes High-End SRX services and vGW Virtual Gateways, High-End Firewall virtual private network (VPN) systems and appliances, branch SRX, branch firewall, and J-Series product families, secure socket layer VPN appliances, intrusion detection and prevention appliances, and wide area network optimization platforms.

Per Juniper's integrated operating plan (IOP) formulated in February 2014, the company has realigned the organization into a One-Juniper structure. The company reports under two segments — Total Product (comprises Routing, Switching and Security products) and Total Services.

Product (63.7% of total revenues in second-quarter 2020) includes revenues from networking product sales and from sales made through distribution channels.

Service (36.3%) includes revenues generated from maintenance, training and other professional services.



Reasons To Buy:

- ▲ Juniper is witnessing encouraging trends across various areas of its business including solid momentum in Mist Systems and strength in the services organization. Despite short-term challenges, particularly within the service provider vertical, the company expects developments in most areas of business that bode well for its long-term growth. It has made significant changes to the go-to-market structure to better align sales strategies to each of its core customer verticals. Juniper plans to launch several products over the next few quarters, which are expected to strengthen its competitive position across service provider, cloud and enterprise markets. Offerings include new MX line card that will strengthen its ability to capitalize on carrier 5G initiatives, new 400-gig platform that will improve its capability to capture data centric footprint particularly in the cloud, and enhancement to its Contrail Enterprise Multicloud platform that will help its mid to large enterprise customers' transition to a multicloud world with increased simplicity and reduced cost. Juniper believes the 400-gig upgrade cycle, 5G deployment and enterprise multicloud initiatives hold huge opportunities where it is well positioned to benefit over the next several years.
- ▲ Juniper is leveraging the 400-gig cycle to capture hyperscale switching opportunities inside the data center. The company is set to capitalize on the increasing demand for data center virtualization, cloud computing and mobile traffic packet/optical convergence. It is offering suites of products such as the T4000 core router, QFX data center platform, ACX and PTX packet/optical solution among others. With the growing usage of smartphones and tablets, mobile data traffic has gone up. This has resulted in growing demand for advanced networking architecture, in turn leading service providers to spend more on routers and switches. Juniper is expected to benefit from the higher spending pattern among carriers to upgrade their networks and support the incremental growth in data traffic. Increased spending from AT&T and Verizon, Juniper's two customers, are expected to aid its top line. We believe Juniper's new products will be able to meet the escalating needs and thereby find easy acceptance among customers.
- ▲ Juniper is excited about expanding its partnership with firms like Nutanix and Ericsson as this will provide competitive edge over alternative offerings. The company has been successful at developing global channel partners and strategic reseller relationships with Ericsson, International Business Machines Corporation and Nokia Siemens Networks. In addition, it has worked with more than 9,000 channel partners to reach customers globally. The company created the J-Partner program for its preferred reseller and alliance partners. It has also developed partnerships with market leaders, such as Avaya Inc., Microsoft Corporation, NEC and Symantec Corporation. Apart from this, Juniper and IBM entered into an Original Equipment Manufacturer agreement, according to which IBM will provide Juniper's Ethernet networking products and support as part of its data center portfolio of products. Juniper has also collaborated with VMware to provide private cloud-based solutions across the APAC region. Through this collaboration, Juniper will combine its MetaFabric architecture with VMware's NSX network virtualization platform that provides private cloud-based services. These partnerships will enhance its networking technology, ultimately helping companies to transfer an enormous amount of data through different networks.
- ▲ As of Jun 30, 2020, the company had \$1,858 million in cash and equivalents with \$1,720 million of long-term debt compared with the respective tallies of \$1,922 million and \$1,713 million at the end of the previous quarter. The company currently has a debt-to-capital ratio has 0.28 compared with 0.38 of the industry. Juniper has a dividend payout rate of 67.8%. The rate has also increased steadily over the past quarters. This indicates that the company is sharing more of its earnings with stockholders. It is to be seen whether Juniper can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 crisis.

Juniper's innovative product launches and cost reduction initiatives are encouraging. Expansion into the SDN segment is expected to strengthen its position in the networking space.

Reasons To Sell:

- ▼ Uncertain global macro environment and weak investment patterns among carrier customers are headwinds. In the second quarter of 2020, the company's net revenues in the Service Provider unit were down modestly year over year to \$436.2 million. This was due to challenges many of the company's carrier customers are facing as well as COVID-19 related supply chain issues. Lower-than-expected business in the Service Provider vertical along with decline in average selling price of products will likely hinder Juniper's top-line growth.
- ▼ One of the primary markets that Juniper serves is Enterprise, which comprises large businesses; federal, state and local governments; and research and education institutions. Therefore, the company is widely exposed to the stringent budget activities of the U.S. government, which adversely affect its fundamentals. Moreover, Juniper could lose share in the core router market as competition creeps up. The company, together with Cisco, serves almost 80% of the core router market and enjoys the second position in the same. However, Alcatel-Lucent has entered the market with its Extensible Routing System (XRS) 7950 family of core routers. Juniper's competitors are also revamping their product lines with faster and power-efficient options. Although the edge business continues to be strong (helped by the MX line), the competitive pressure at the core is intense.
- ▼ Juniper faces severe competition in each of its served markets especially from industry leader, Cisco Systems, which has traditionally spearheaded innovation, charging higher prices for its premium branded products and expanding margins. It is worth mentioning that Cisco's acquisition of cybersecurity solutions provider Sourcefire could be an added pressure on Juniper's security business. Despite having a strong security portfolio (SRX Platform & Security Software, Screen OS and other Legacy products), Juniper has not been performing well for the past few quarters, due to lower-than-expected demand for non-Junos-based security products. Poor performance by the Junos business prompted the company to sell off the mobile security unit.

Uncertain global macro environment and weak investment patterns among carrier customers are headwinds. Severe competition and consolidation in the telecom industry are other concerns.

Last Earnings Report

Juniper's Q2 Earnings Meet Estimates, Revenues Beat

Juniper reported decent second-quarter 2020 results, with the top line surpassing the Zacks Consensus Estimate. The network products and services provider experienced solid demand during the quarter. Of the top 10 customers, six were Cloud, three were Service Provider and one was in Enterprise.

Net Income

On a GAAP basis, net income in the June-end quarter increased to \$61.2 million or 18 cents per share from \$46.2 million or 13 cents per share in the prior-year quarter. The improvement was primarily caused by higher operating income and lower provision for income tax.

Non-GAAP net income was \$116.3 million or 35 cents per share (above the mid-point of the company's guidance range) compared with \$139.5 million or 40 cents per share in the year-ago quarter. The bottom line matched the Zacks Consensus Estimate.

Revenues

Quarterly total revenues amounted to \$1,086.3 million (above the mid-point of the company's guidance range) compared with \$1,102.5 million reported in the year-ago quarter. The decline was due to supply constraints that resulted in extended lead times during the quarter. Nevertheless, Juniper experienced strong demand with orders growing mid-single-digits year over year. The top line beat the consensus estimate of \$1,053 million.

Product revenues (comprising Routing, Switching and Security and contributing 63.7% to net revenues) in the quarter fell 3% year over year to \$692.3 million. The company saw momentum within its customers' wide area network, particularly for some of its routing products. Service revenues (contributing 36.3% to net revenues) inched up 1.4% to \$394 million, driven by strong renewals and service attach rates.

By vertical, revenues in Cloud were stable year over year at \$285.5 million. Order trends were healthy with good momentum at multiple hyperscale accounts as well as with Tier 2 Cloud customers. Revenues in Service Provider declined modestly to \$436.2 million. This business was most affected by the coronavirus-related supply chain challenges. Revenues in Enterprise declined to \$364.6 million from \$370.3 million, owing to weaker-than-anticipated results from U.S. Federal business, which was impacted by COVID-19 timing dynamics.

Region-wise, revenues improved to \$294.1 million from \$291.9 million in the year-ago quarter in Europe, the Middle East, and Africa. Quarterly revenues in the Americas declined 6.2% year over year to \$608.8 million. In Asia-Pacific, net revenues increased 13.3% to \$183.4 million.

Other Details

Overall, gross profit came in at \$619.6 million compared with \$636.8 million in the year-ago quarter. Total operating expenses fell from \$554.4 million to \$529.1 million in the prior-year quarter. Operating income was \$90.5 million compared with \$82.4 million in the year-ago quarter. Non-GAAP operating income declined to \$155.2 million from \$174.4 million, with a margin of 14.3% and 15.8%, respectively.

Juniper stated that its board of directors approved a dividend of 20 cents per share, payable on Sep 22 to shareholders on record as of Sep 1.

Cash Flow & Liquidity

In the first half of 2020, Juniper generated \$369.8 million of net cash from operating activities compared with \$248.2 million in the prior-year period. As of Jun 30, the company had \$1,460.3 million in cash and cash equivalents with \$1,720.1 million of long-term debt.

Q3 Outlook

Juniper provided its guidance for the third quarter of 2020. It expects revenues of \$1,125 million (+/- \$50 million). Non-GAAP gross margin is anticipated to be 59.5% (+/- 1%). Non-GAAP operating expenses are expected to be \$478 million (+/- \$5 million).

The company estimates non-GAAP operating margin to be nearly 17% at the midpoint of revenue guidance. Non-GAAP net income is expected to be 43 cents per share (+/- 5 cents), assuming a share count of about 334 million.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	3.17%
EPS Surprise	0.00%
Quarterly EPS	0.35
Annual EPS (TTM)	1.64

Recent News

On Aug 18, 2020, Juniper announced that the Archdiocese of Brisbane and Centacare has selected its Access Points powered by Mist AI and Mist Cloud Services to improve the Wi-Fi set-up across all of its operations. Covering 77,000 square kilometers, the Archdiocese of Brisbane is the face of the Catholic Church in South-East Queensland. Also, the church provides community services through several support organizations. The new AI-driven network will likely enable the Archdiocese of Brisbane and Centacare to create better mobile experiences for staff and guests.

On Aug 12, Juniper announced four new wireless access points that extend benefits of AI-driven Wi-Fi 6 to additional verticals and use cases.

On Aug 5, Juniper announced that it has been selected by Macquarie Telecom for the refresh of its nationwide network from the core to the edge as well as to power its growth across telecom, data center and cloud services.

On May 25, Juniper announced that it has provided its Contrail Enterprise Multicloud solution to Net One Systems. Net One Systems is a Japan-based company that offers avant-garde networks, security and unified collaboration solutions essential to information and communications technology systems in multi-vendor environments. The solution has been adopted by Net One Systems as part of its common services management platform, which will enable it to benefit from automated networking infrastructure.

On Apr 21, Juniper announced that it has joined forces with a German IT services and consulting company, T-Systems, to establish an SD-WAN infrastructure for seamless connectivity solutions. Known as a long-standing Juniper partner, T-Systems is leveraging a range of the former's avant-garde products, namely Contrail Service Orchestration, vSRX Virtual Firewalls and SRX Series Security Gateways, to reinforce digital transformation and provide enhanced network visibility in a cost-effective manner to enterprise customers.

On Apr 15, Juniper announced that its Wireless LAN platform from subsidiary, Mist Systems, has been selected by a leading Belgium-based transportation and logistics company, Transports Vervaeke. The collaboration is primarily aimed at leveraging Mist's AI-driven platform to enhance the productivity of the European company's workforce with modernized enterprise solutions.

Valuation

Juniper shares are up 2.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 22% over the past year, and stocks in the Zacks Computer and Technology sector are up 37.6% in the same period.

The S&P 500 Index is up 17.1% in the past year.

The stock is currently trading at 11.05X trailing 12-month EV/EBITDA, which compares to 28.18X for the Zacks sub-industry, 13.51X for the Zacks sector and 12.83X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 12.87X and as low as 5.32X, with a 5-year median of 8.44X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$25 price target reflects 1.76X forward 12-month earnings.

The table below shows summary valuation data for JNPR

Valuation Multiples - JNPR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	11.05	28.18	13.51	12.83
	5-Year High	12.87	28.78	13.51	12.85
	5-Year Low	5.32	9.84	7.59	8.25
	5-Year Median	8.44	16.74	10.93	10.91
P/E F12M	Current	14.17	19.78	26.54	22.91
	5-Year High	21.43	30.47	26.54	22.91
	5-Year Low	12.24	13.61	16.72	15.25
	5-Year Median	17.18	18.64	19.61	17.58
P/S F12M	Current	1.77	3.74	4.12	3.72
	5-Year High	2.49	3.74	4.12	3.72
	5-Year Low	1.28	2.07	2.32	2.53
	5-Year Median	1.97	2.8	3.14	3.05

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 50% (125 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Aviat Networks, Inc. (AVNW)	Neutral	3
Comtech Telecommunications Corp. (CMTL)	Neutral	3
CommScope Holding Company, Inc. (COMM)	Neutral	5
Motorola Solutions, Inc. (MSI)	Neutral	2
Sierra Wireless, Inc. (SWIR)	Neutral	3
Ubiquiti Inc. (UI)	Neutral	3
InterDigital, Inc. (IDCC)	Underperform	5
Viasat Inc. (VSAT)	Underperform	3

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	JNPR	X Industry	S&P 500	COMM	UI	VSAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	A	B	C
Market Cap	7.95 B	455.27 M	23.71 B	2.10 B	11.58 B	2.78 B
# of Analysts	8	3	14	5	1	4
Dividend Yield	3.34%	0.00%	1.63%	0.00%	0.66%	0.00%
Value Score	B	-	-	B	D	C
Cash/Price	0.23	0.18	0.07	0.39	0.01	0.08
EV/EBITDA	12.51	11.01	13.45	40.95	30.26	12.15
PEG Ratio	1.94	1.93	3.01	2.95	2.26	NA
Price/Book (P/B)	1.78	1.68	3.18	7.00	NA	1.32
Price/Cash Flow (P/CF)	12.68	14.53	12.70	1.75	36.96	7.48
P/E (F1)	15.55	20.08	21.98	7.97	28.36	NA
Price/Sales (P/S)	1.80	1.40	2.46	0.24	9.22	1.21
Earnings Yield	6.47%	4.16%	4.33%	12.56%	3.53%	-0.36%
Debt/Equity	0.39	0.19	0.76	33.18	-1.90	1.00
Cash Flow (\$/share)	1.89	0.49	6.94	6.09	4.92	5.50
Growth Score	D	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	-7.06%	-6.20%	10.44%	-6.25%	26.05%	-97.89%
Proj. EPS Growth (F1/F0)	-9.81%	11.96%	-5.97%	-37.77%	14.67%	NA
Curr. Cash Flow Growth	-8.77%	-14.66%	5.22%	53.52%	18.36%	36.25%
Hist. Cash Flow Growth (3-5 yrs)	-15.41%	5.53%	8.52%	11.92%	14.25%	5.53%
Current Ratio	1.88	1.88	1.33	1.75	2.72	1.63
Debt/Capital	27.81%	22.60%	44.50%	97.34%	NA	49.98%
Net Margin	7.89%	2.76%	10.13%	-12.19%	28.56%	-0.05%
Return on Equity	8.71%	4.86%	14.59%	33.85%	-191.57%	-0.06%
Sales/Assets	0.51	0.73	0.51	0.61	1.72	0.49
Proj. Sales Growth (F1/F0)	-0.89%	0.00%	-1.54%	1.88%	10.00%	1.71%
Momentum Score	B	-	-	A	B	C
Daily Price Chg	-1.40%	-0.25%	-0.41%	3.19%	-0.78%	-0.36%
1 Week Price Chg	-4.32%	0.00%	1.09%	-3.63%	-2.91%	-1.71%
4 Week Price Chg	-0.70%	4.59%	3.41%	18.82%	-2.56%	6.80%
12 Week Price Chg	3.10%	12.04%	9.80%	12.67%	0.98%	-13.77%
52 Week Price Chg	2.39%	2.39%	3.43%	-2.65%	64.84%	-47.09%
20 Day Average Volume	3,168,064	111,212	1,894,669	4,527,945	70,475	612,602
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	3.08%	0.90%	1.86%	23.46%	0.00%	-219.61%
(F1) EPS Est 12 week change	3.45%	1.73%	2.86%	-13.30%	0.00%	-12.96%
(Q1) EPS Est Mthly Chg	2.86%	-0.65%	0.80%	-9.57%	NA	50.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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