

Juniper Networks, Inc. (JNPR)

\$24.14 (As of 07/21/20)

Price Target (6-12 Months): **\$26.00**

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:B

Value: B

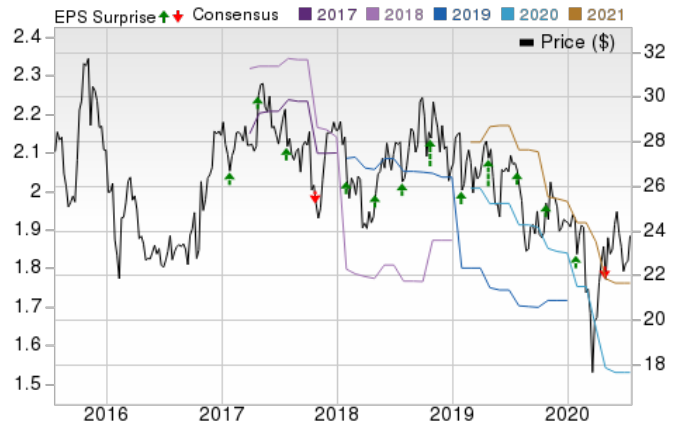
Growth: C

Momentum: C

Summary

Juniper is witnessing solid momentum in Mist Systems and strength in its services organization. It has made significant changes to its 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 market. It is optimistic about new and expanding partnerships with firms like Nutanix and Ericsson, while remaining bullish about the potential of MX5G offerings. However, the company faces intense competition in each of its served markets that has traditionally spearheaded innovation, charging high prices for premium branded products. Uncertain global macro environment and weak investment patterns among carrier customers are major headwinds.

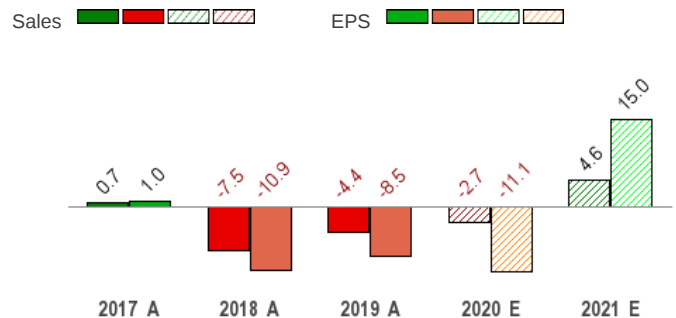
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$27.39 - \$15.20
20 Day Average Volume (sh)	2,824,945
Market Cap	\$8.0 B
YTD Price Change	-2.0%
Beta	0.96
Dividend / Div Yld	\$0.80 / 3.3%
Industry	Wireless Equipment
Zacks Industry Rank	Bottom 38% (155 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.0%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	14.3
P/E F1	15.8
PEG F1	2.0
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,040 E	1,119 E	1,157 E	1,226 E	4,525 E
2020	998 A	1,053 E	1,103 E	1,181 E	4,326 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	\$0.29 E	\$0.41 E	\$0.48 E	\$0.56 E	\$1.76 E
2020	\$0.23 A	\$0.35 E	\$0.43 E	\$0.54 E	\$1.53 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/21/2020. The reports text is as of 07/22/2020.

Overview

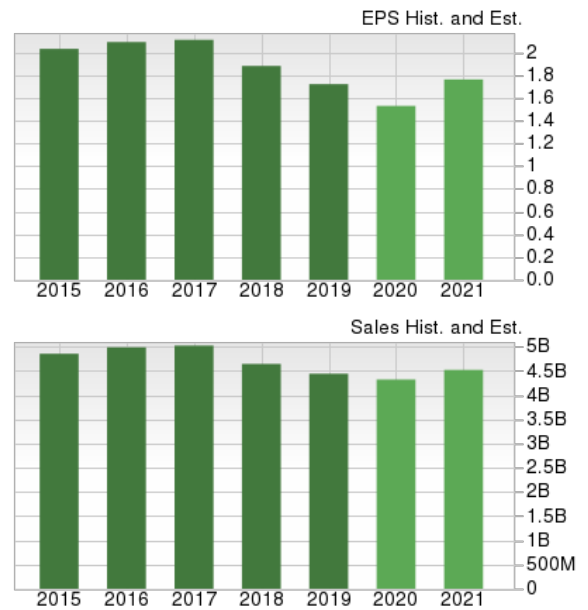
Based in Sunnyvale, CA, Juniper Networks, Inc. is a leading provider of networking solutions and communication devices. The company develops, designs and sells products that help to build network infrastructure used for services and applications based on single Internet protocol network worldwide. The 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 (61% of total revenues in first-quarter 2020) includes revenues from networking product sales and from sales made through distribution channels.

Service (39%) 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 its 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 its 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 market. 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 Mar 31, 2020, the company had \$1,922 million in cash and equivalents with \$1,713 million of long-term debt. Juniper has a dividend payout rate of 65.3%. The rate has increased steadily in the past several quarters. This indicates that the company is sharing more of its earnings with stockholders. Despite an unfavorable cash ratio, the company's cash flow yield rate has increased sequentially from 6.6% to 8.6%, which indicates that Juniper is more likely to effectively utilize its cash reserves to meet its financial obligations in the near future. Also, the stock is less-leveraged than the sub-industry. The company's debt-to-capital ratio is 0.28 compared with the sub-industry's figure of 0.35. Juniper's EV/EBITDA has declined sequentially from 10.8 to 8.4. This reinforces bullish sentiments for the stock. It is to be seen whether Juniper can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 pandemic.

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

Reasons To Sell:

- ▼ Uncertain global macro environment and weak investment patterns among customers remain major headwinds for Juniper. In first-quarter 2020, the company's net revenues from service provider unit were down 13.8% year over year to \$375.5 million 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 now 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 remains strong (helped by the MX line), the competitive pressure at the core is intense.
- ▼ Juniper faces stiff 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 recent acquisition of cyber-security 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. Moreover, poor performance by the Junos business prompted the company to sell off the mobile security unit.

Uncertain global macro environment and anticipation of potentially weak investment patterns are major headwinds. Stiff competition and consolidation in the telecom industry also remain concerns.

Last Earnings Report

Juniper Q1 Earnings & Revenues Lag Estimates, Down Y/Y

Juniper reported unimpressive first-quarter 2020 results, with the bottom and the top line missing their respective Zacks Consensus Estimate and declining year over year.

Of the top 10 customers for the quarter, four were Cloud, five were Service Provider and one was an Enterprise. While this Sunnyvale, CA-based company is optimistic about long-term prospects, it has withdrawn the previously-announced commentary for 2020 because it cannot predict the specific extent of the impact of COVID-19 on financial results.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	-0.84%
EPS Surprise	-8.00%
Quarterly EPS	0.23
Annual EPS (TTM)	1.69

Net Income

On a GAAP basis, net income in the March quarter declined to \$20.4 million or 6 cents per share from \$31.1 million or 9 cents per share in the prior-year quarter. The downtick was primarily caused by lower operating income and other net expenses.

Quarterly non-GAAP net income was \$77.2 million or 23 cents per share compared with \$92.7 million or 26 cents per share in the year-ago quarter. The bottom line missed the Zacks Consensus Estimate by 2 cents.

Revenues

First-quarter total net revenues amounted to \$998 million (slightly below the low end of the company's guidance) compared with \$1,001.7 million reported in the year-ago quarter. Revenues were impacted due to supply chain challenges related to COVID-19, which affected customer lead time and Juniper's ability to recognize revenues in the quarter, particularly within the service provider business. However, orders increased 10% year over year and improved across each of the core industry verticals. The top line lagged the consensus estimate of \$1,006 million.

Product revenues (comprising Routing, Switching and Security and contributing 61% to total net revenues) in the quarter dropped 1.6% year over year to \$608.8 million. Routing revenues were impacted by supply constraints related to the pandemic. Service revenues (contributing 39% to total net revenues) inched up 1.6% to \$389.2 million. Juniper saw a solid performance from its software offerings where software revenues were almost 11% of total revenues and up 9% year over year.

By vertical, net revenues in Cloud business increased 17.4% year over year to \$261.9 million. Juniper saw momentum within its Cloud customers' wide area network particularly for some of its switching products, while the cloud routing business also witnessed double-digit growth year over year. Order trends remained healthy as it saw improved momentum across multiple hyperscale accounts and continued strength with its Tier-2 customers.

Net revenues in Service Provider were down 13.8% to \$375.5 million. This business was most affected by COVID-19 related supply chain challenges. Orders increased 4% year over year, which represents the first increase since 2017. The order strength is attributable to Juniper's diversification efforts across customers and products over the last few years. Net revenues in Enterprise increased to \$360.6 million from \$343 million, driven by growth in the company's Campus and datacenter offerings.

Region-wise, net revenues declined to \$255 million from \$286.2 million in the year-ago quarter in Europe, the Middle East, and Africa. Quarterly revenues in the Americas increased 6.6% year over year to \$579.5 million. In Asia-Pacific, net revenues fell 4.9% to \$163.5 million.

Other Details

Gross profit came in at \$579.3 million compared with \$582.3 million in the year-ago quarter. Total operating expenses increased from \$539.6 million to \$539.9 million in the prior-year quarter. Operating income was \$39.4 million compared with \$42.7 million in the year-ago quarter. Non-GAAP operating income declined to \$105.5 million from \$112.5 million, with a margin of 10.6% and 11.2%, respectively.

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

Cash Flow & Liquidity

In the first quarter, Juniper generated \$272.2 million of net cash from operations compared with \$159.4 million in the year-ago quarter. As of Mar 31, the computer network equipment maker had \$1,398.6 million in cash and equivalents with \$1,712.9 million of long-term debt.

Q2 Outlook

Juniper provided its guidance for the second quarter of 2020. It expects revenues of \$1,060 million (+/- \$50 million). Non-GAAP gross margin is anticipated to be 59.5% (+/- 1%). Non-GAAP operating expenses are expected to be \$480 million (+/- \$5 million).

The company estimates non-GAAP operating margin to be almost 14% at the midpoint of revenue guidance. Non-GAAP net income is expected to be 34 cents per share (+/- 5 cents), assuming a share count of around 332 million.

Recent News

On May 25, 2020, 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. The move underscores Juniper's commitment to building advanced enterprise cloud environments, especially at a time when customers migrate to automated connectivity solutions.

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, 2020, 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. Markedly, the innovative network solution will be designed by Juniper's Elite Partner, Infradata, which provides cybersecurity and automation solutions to enterprises as well as network operators.

Valuation

Juniper shares are down 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 6.6% over the past year, while stocks in the Zacks Computer and Technology sector are up 28.1% in the same time frame.

The S&P 500 Index is up 9% in the past year.

The stock is currently trading at 10.71X trailing 12-month EV/EBITDA, which compares to 21.83X for the Zacks sub-industry, 13.25X for the Zacks sector and 12.1X for the S&P 500 Index.

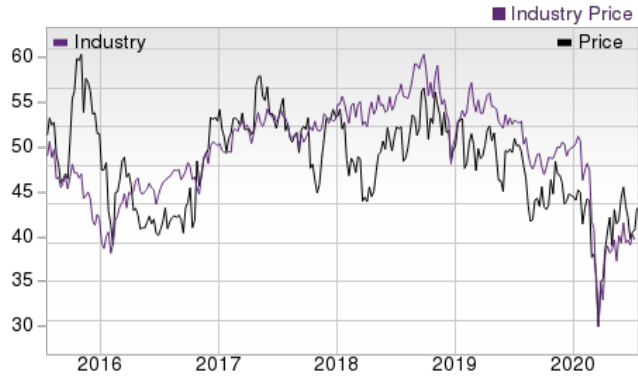
Over the past five years, the stock has traded as high as 12.87X and as low as 5.32X, with a 5-year median of 8.35X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26.00 price target reflects 1.79X forward 12-month earnings.

The table below shows summary valuation data for JNPR

Valuation Multiples - JNPR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.71	21.83	13.25	12.1
	5-Year High	12.87	25.88	13.35	12.86
	5-Year Low	5.32	9.84	7.59	8.25
	5-Year Median	8.35	16.47	10.87	10.88
P/E F12M	Current	14.56	19.29	26.31	23.01
	5-Year High	21.43	30.47	26.31	23.01
	5-Year Low	12.24	13.61	16.72	15.25
	5-Year Median	17.15	18.61	19.33	17.52
P/S F12M	Current	1.8	3.38	4	3.61
	5-Year High	2.49	3.52	4	3.61
	5-Year Low	1.28	2.07	2.32	2.53
	5-Year Median	1.98	2.8	3.14	3.02

As of 07/21/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (155 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Aviat Networks, Inc. (AVNW)	Neutral	3
Comtech Telecommunications Corp. (CMTL)	Neutral	4
InterDigital, Inc. (IDCC)	Neutral	3
Sierra Wireless, Inc. (SWIR)	Neutral	3
Ubiquiti Inc. (UI)	Neutral	3
Viasat Inc. (VSAT)	Neutral	3
CommScope Holding Company, Inc. (COMM)	Underperform	5
Motorola Solutions, Inc. (MSI)	Underperform	4

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	JNPR	X Industry	S&P 500	COMM	UI	VSAT
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	B	-	-	D	B	A
Market Cap	8.00 B	371.18 M	22.70 B	1.76 B	11.88 B	2.40 B
# of Analysts	8	2.5	14	6	1	4
Dividend Yield	3.31%	0.00%	1.81%	0.00%	0.64%	0.00%
Value Score	B	-	-	D	D	B
Cash/Price	0.24	0.15	0.06	0.23	0.01	0.13
EV/EBITDA	12.47	10.50	13.09	40.36	31.01	10.99
PEG Ratio	2.00	2.02	3.03	2.79	2.32	14.72
Price/Book (P/B)	1.82	1.69	3.12	3.07	NA	1.17
Price/Cash Flow (P/CF)	12.77	13.90	12.23	1.48	37.93	7.00
P/E (F1)	15.98	23.54	22.36	7.53	29.11	302.27
Price/Sales (P/S)	1.80	1.47	2.42	0.19	9.46	1.04
Earnings Yield	6.34%	3.95%	4.31%	13.25%	3.44%	0.34%
Debt/Equity	0.39	0.16	0.75	16.91	-1.90	1.03
Cash Flow (\$/share)	1.89	0.49	6.94	6.09	4.92	5.50
Growth Score	C	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	-4.16%	-4.77%	10.82%	-1.78%	26.05%	-97.89%
Proj. EPS Growth (F1/F0)	-11.12%	8.64%	-9.08%	-44.50%	14.67%	NA
Curr. Cash Flow Growth	-8.77%	-14.66%	5.51%	53.52%	18.36%	36.25%
Hist. Cash Flow Growth (3-5 yrs)	-15.41%	3.63%	8.55%	11.92%	14.25%	5.53%
Current Ratio	1.93	1.62	1.31	1.70	2.72	1.73
Debt/Capital	28.06%	19.16%	44.41%	94.92%	NA	50.70%
Net Margin	7.53%	1.65%	10.54%	-11.72%	28.56%	-0.01%
Return on Equity	8.93%	3.74%	15.38%	32.68%	-191.57%	-0.01%
Sales/Assets	0.51	0.78	0.54	0.62	1.72	0.51
Proj. Sales Growth (F1/F0)	-2.69%	0.00%	-2.40%	1.67%	10.00%	1.03%
Momentum Score	C	-	-	F	B	C
Daily Price Chg	0.88%	0.88%	0.86%	1.47%	2.01%	2.15%
1 Week Price Chg	5.08%	1.12%	3.82%	13.67%	1.12%	1.62%
4 Week Price Chg	6.16%	0.37%	3.42%	-1.43%	9.58%	-4.53%
12 Week Price Chg	0.84%	5.34%	9.22%	-19.86%	16.02%	-10.31%
52 Week Price Chg	-10.26%	-0.80%	-3.38%	-38.54%	37.03%	-53.32%
20 Day Average Volume	2,824,945	124,050	2,069,527	5,227,831	80,745	399,626
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.13%	-15.63%	0.00%	0.00%
(F1) EPS Est 12 week change	3.37%	-0.46%	-3.85%	-30.77%	-0.93%	200.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-19.66%	NA	0.00%

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	C
Momentum Score	C
VGM Score	B

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.

Disclosures

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