

Juniper Networks, Inc. (JNPR)

\$22.92 (As of 01/30/20)

Price Target (6-12 Months): **\$24.00**

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:D

Value: B

Growth: D

Momentum: F

Summary

Juniper reported healthy fourth-quarter 2019 results wherein the top line increased year over year and surpassed the Zacks Consensus Estimate. The company is seeing solid momentum in Mist 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. Juniper plans to launch several products over the next few quarters, which are expected to reinforce its competitive position across service provider, cloud and enterprise market. However, it faces stiff competition in each of its served markets, which has traditionally spearheaded innovation, charging high prices for its premium branded products. Uncertain global macro environment and weak investment patterns among its carrier customers remain major headwinds.

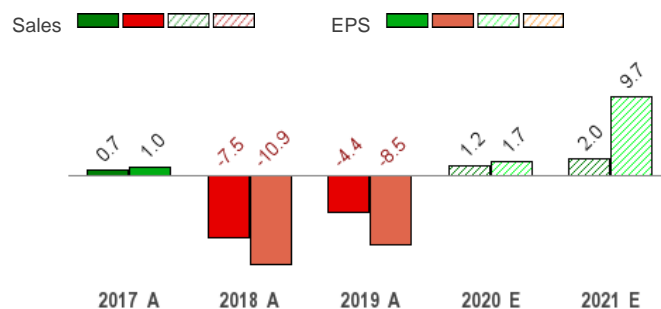
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.77 - \$22.38
20 Day Average Volume (sh)	3,280,808
Market Cap	\$7.7 B
YTD Price Change	-6.9%
Beta	0.97
Dividend / Div Yld	\$0.80 / 3.3%
Industry	Wireless Equipment
Zacks Industry Rank	Bottom 29% (181 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	13.3
P/E F1	13.1
PEG F1	2.1
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,063 E	1,141 E	1,182 E	1,252 E	4,588 E
2020	1,036 E	1,108 E	1,144 E	1,214 E	4,499 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	\$0.32 E	\$0.45 E	\$0.52 E	\$0.63 E	\$1.92 E
2020	\$0.28 E	\$0.41 E	\$0.48 E	\$0.59 E	\$1.75 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 01/30/2020. The reports text is as of 01/31/2020.

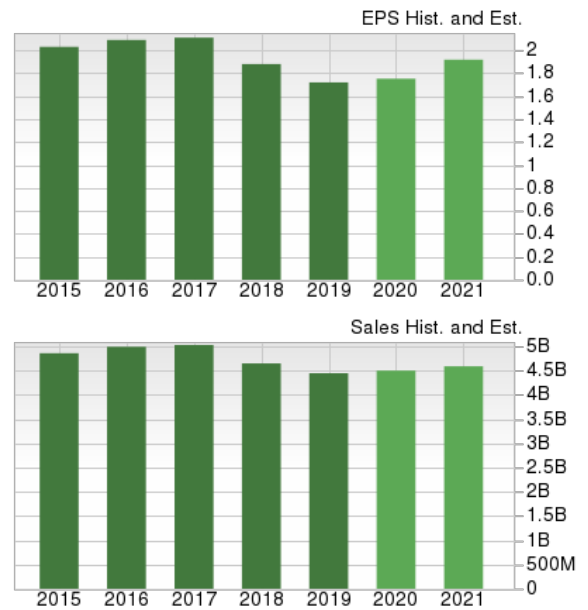
Overview

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 (65.5% of total net revenues in fourth-quarter 2019) includes revenues from networking product sales and from sales made through distribution channels. **Service** (34.5%) includes revenues generated from maintenance, training and other professional services.



Reasons To Buy:

- ▲ Juniper is seeing encouraging trends across various areas of its business including solid momentum in Mist and strength in its services organization. Despite some 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.

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 fourth-quarter 2019, the company's net revenues from service provider unit were down 4.6% year over year to \$492.5 million, due to ongoing challenges many of the company's carrier customers are facing. 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 Q4 Earnings Match Estimates, Revenues Rise Y/Y

Juniper reported healthy fourth-quarter 2019 results wherein the top line increased year over year and surpassed the Zacks Consensus Estimate.

The company returned to year-over-year growth during the reported quarter and saw encouraging trends across various areas of its business. These include record Enterprise sales, double-digit year-over-year growth in Cloud, solid momentum in Mist, and strength in its services organization.

Quarter Ending **12/2019**

Report Date	Jan 27, 2020
Sales Surprise	1.48%
EPS Surprise	0.00%
Quarterly EPS	0.58
Annual EPS (TTM)	1.72

Net Income

On a GAAP basis, net income for the December quarter declined to \$168.4 million or 49 cents per share from \$192.2 million or 55 cents per share in the prior-year quarter, primarily due to lower operating income. For 2019, net income was \$345 million or 99 cents per share compared with \$566.9 million or \$1.60 per share in 2018.

Quarterly non-GAAP net income was \$198.7 million or 58 cents per share compared with \$205.7 million or 59 cents per share reported a year ago. The bottom line matched the Zacks Consensus Estimate.

Revenues

Fourth-quarter total net revenues were \$1,208.1 million (above the midpoint of the company's guidance) compared with \$1,181 million reported in the year-ago quarter. The improvement was driven by the Cloud and Enterprise verticals, which more than offset anticipated weakness within its Service Provider business. The top line surpassed the consensus estimate of \$1,190 million. For 2019, revenues declined 4.3% year over year to \$4,445.4 million.

Product revenues (comprising Routing, Switching and Security, and accounting for 65.5% of total net revenues) for the quarter increased 2% year over year to \$791.9 million backed by strong demand for switching products. Service revenues (accounting for 34.5% of total net revenues) were up 2.9% to \$416.2 million. Juniper's services team continues to execute extremely well with improved attach rates and renewals.

By vertical, net revenues from Cloud business increased 17.8% year over year to \$279.8 million, primarily driven by routing and services. Net revenues from Service Provider unit were down 4.6% to \$492.5 million. This reflects the ongoing challenges many of the company's carrier customers are facing. Net revenues from Enterprise business increased to \$435.8 million from \$427.1 million, driven by switching.

Region wise, net revenues declined to \$335.7 million from \$344 million in Europe, Middle East, and Africa. Quarterly revenues in the Americas increased 6.6% year over year to \$676.8 million. For Asia Pacific, net revenues decreased 3.2% to \$195.6 million.

Other Details

Gross profit came in at \$719.3 million compared with \$710.9 million in the year-ago quarter supported by higher revenues. Total operating expenses increased from \$514.1 million to \$540.7 million mainly due to rise in sales & marketing, and R&D costs. Operating income was \$178.6 million compared with \$196.8 million. Non-GAAP operating income declined to \$244.7 million from \$248.7 million, with margin of 20.3% and 21.1%, respectively.

Concurrent with the results, Juniper communicated that its board of directors has approved a 5% increase in its quarterly cash dividend to 20 cents per share. The distribution is payable on Mar 23, 2020 to shareholders as of Mar 2, 2020.

Cash Flow & Liquidity

In 2019, Juniper generated \$528.9 million of net cash from operations compared with \$861.1 million in 2018. As of Dec 31, 2019, the computer network equipment maker had \$1,215.8 million in cash and equivalents with \$1,683.9 million of long-term debt compared with the respective tallies of \$2,489 million and \$1,789.1 million a year ago.

Q1 Outlook

Juniper has provided its guidance for first-quarter 2020. It expects revenues of \$1,030 million (+/- \$30 million). Non-GAAP gross margin is anticipated to be around 59.5% (+/- 1%). Non-GAAP operating expenses are expected to be nearly \$495 million (+/- \$5 million).

The company estimates non-GAAP operating margin to be around 11.5% at the midpoint of revenue guidance. Non-GAAP net income is expected to be approximately 27 cents per share (+/- 3 cents), assuming a share count of almost 340 million. For 2020, it expects a non-GAAP tax rate on worldwide earnings to be 19% (+/- 1%).

Recent News

On Jan 3, 2020, Juniper announced that it has appointed Gordon Mackintosh as the new worldwide vice president of channel and virtual sales. Gordon will drive the company's go-to-market strategy for partners, aimed at delivering greater business outcomes through Juniper's broad portfolio of AI-driven, cloud-based enterprise solutions and managed-services offerings.

On Dec 3, 2019, Juniper announced that it has collaborated with Russia's largest digital services provider — Rostelecom — to reinforce large-scale modernization of communication transport solutions across Russia. The infrastructure upgrade will be implemented with the help of Juniper Networks' MX Series 5G Universal Routing Platform and PTX Series Packet Transport Routers. With the installation of Juniper's MX960 and PTX10008, the Russian digital service provider has successfully curbed its operational expenses due to lower power consumption and improved network efficiency.

On Dec 2, 2019, Juniper announced that it has been selected by Orange Poland, a leading Polish telecommunication provider, to amplify the resilience and automation capabilities of its IP network core. Financial terms of the deal remained undisclosed. With more than 20 million customers across mobile, FTTH, DSL and fixed telephony, Orange Poland has been assessing ways to improve its network's performance. It aims to meet the increasing demand of its fixed and mobile network users, particularly in preparation for the roll out of 5G. By implementing Juniper's intelligent automation tools, telecommunication providers can deliver savings in network operations and better deploy network resources.

Valuation

Juniper shares are down 11.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 23.7% and 28.4% over the past year, respectively.

The S&P 500 Index is up 20.4% in the past year.

The stock is currently trading at 10.54X trailing 12-month EV/EBITDA, which compares to 22.28X for the Zacks sub-industry, 12.68X for the Zacks sector and 12.25X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 12.9X and as low as 5.6X, with a 5-year median of 8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$24 price target reflects 1.94X 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	10.54	22.28	12.68	12.25
	5-Year High	12.87	25.55	12.68	12.86
	5-Year Low	5.62	10.1	7.68	8.48
	5-Year Median	8.01	15.8	10.52	10.7
P/E F12M	Current	12.38	19.41	22.68	18.8
	5-Year High	20.95	30.47	22.68	19.34
	5-Year Low	12.24	13.61	16.87	15.18
	5-Year Median	17.19	18.23	19.28	17.46
P/S F12M	Current	1.71	3.2	3.68	3.49
	5-Year High	2.49	3.51	3.68	3.49
	5-Year Low	1.65	2.07	2.3	2.54
	5-Year Median	2.01	2.78	3.01	3

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (181 out of 255)



Top Peers

Acacia Communications, Inc. (ACIA)	Neutral
ADTRAN, Inc. (ADTN)	Neutral
Arista Networks, Inc. (ANET)	Neutral
Ciena Corporation (CIEN)	Neutral
Exponent, Inc. (EXPO)	Neutral
Nokia Corporation (NOK)	Neutral
Zayo Group Holdings, Inc. (ZAYO)	Neutral
CommScope Holding Company, Inc. (COMM)	Underperform

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	JNPR Neutral	X Industry	S&P 500	ADTN Neutral	COMM Underperform	ZAYO Neutral
VGM Score	D	-	-	D	A	D
Market Cap	7.67 B	354.00 M	23.94 B	450.05 M	2.36 B	8.23 B
# of Analysts	9	2	13	2	6	4
Dividend Yield	3.32%	0.00%	1.77%	3.83%	0.00%	0.00%
Value Score	B	-	-	C	A	D
Cash/Price	0.27	0.22	0.04	0.26	0.22	0.03
EV/EBITDA	9.57	13.04	14.14	-19.11	15.39	14.30
PEG Ratio	2.08	3.08	2.01	11.07	0.46	14.28
Price/Book (P/B)	1.66	2.11	3.25	1.14	1.95	5.99
Price/Cash Flow (P/CF)	12.13	15.31	13.56	NA	3.04	12.97
P/E (F1)	12.85	21.28	18.90	55.35	5.55	52.47
Price/Sales (P/S)	1.73	1.73	2.64	0.81	0.33	3.20
Earnings Yield	7.64%	4.58%	5.28%	1.81%	17.98%	1.90%
Debt/Equity	0.37	0.25	0.72	0.00	8.34	4.56
Cash Flow (\$/share)	1.89	0.53	6.92	-0.14	4.00	2.68
Growth Score	D	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	2.86%	-5.87%	10.68%	-10.22%	0.99%	60.85%
Proj. EPS Growth (F1/F0)	1.87%	20.65%	7.59%	183.33%	7.92%	6.85%
Curr. Cash Flow Growth	-8.77%	-11.77%	10.81%	-111.13%	-0.93%	-16.96%
Hist. Cash Flow Growth (3-5 yrs)	1.14%	6.65%	8.78%	NA	8.68%	44.27%
Current Ratio	2.08	1.94	1.22	2.73	1.86	0.61
Debt/Capital	26.75%	25.49%	42.99%	0.00%	90.16%	82.03%
Net Margin	7.76%	3.08%	11.69%	-8.79%	-7.26%	5.66%
Return on Equity	9.16%	4.41%	17.33%	-0.57%	27.25%	11.34%
Sales/Assets	0.50	0.78	0.55	0.89	0.59	0.27
Proj. Sales Growth (F1/F0)	1.21%	4.72%	4.12%	-6.79%	11.54%	0.84%
Momentum Score	F	-	-	D	B	D
Daily Price Chg	0.70%	-0.16%	0.36%	-0.63%	-3.33%	0.00%
1 Week Price Chg	-0.49%	-0.49%	-1.09%	-3.98%	-4.19%	0.03%
4 Week Price Chg	-7.24%	-1.03%	-0.22%	-5.99%	-13.37%	0.20%
12 Week Price Chg	-10.99%	4.43%	4.08%	-0.21%	-18.47%	1.43%
52 Week Price Chg	-11.64%	0.63%	16.06%	-35.46%	-41.75%	26.63%
20 Day Average Volume	3,280,808	74,798	1,808,632	183,123	3,008,562	2,751,345
(F1) EPS Est 1 week change	-2.82%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.82%	-1.16%	0.00%	0.00%	-0.40%	6.28%
(F1) EPS Est 12 week change	-4.64%	-2.33%	-0.09%	-21.74%	-14.92%	-10.95%
(Q1) EPS Est Mthly Chg	-19.41%	0.00%	0.00%	0.00%	0.00%	0.85%

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	F
VGM Score	D

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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