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Juniper's Cybersecurity Shift Is Bearing Fruit

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Juniper Networks has done a fantastic job turning around its cybersecurity business under CEO Rami Rahim — identified as having the highest growth potential in its networking portfolio. Yet its business is still being valued as a legacy hardware business, with other cybersecurity stock prices flying high.

With the market for on-premises routing and proprietary enterprise hardware stuck in a slow-growing rut, Juniper has wisely pivoted its products to software that can be delivered from the cloud — while still supporting its enterprise customers that want to use on-premises hardware. This could be an opportunity for investors. Once known as the premier maker of high-performance routers, Juniper has expanded its addressable market with a comprehensive cloud-based security stack, as well as software solutions, to show investors the path forward.

Revenue Growth Kicks In

Importantly, Juniper hasn't abandoned its existing customers. The new cybersecurity strategy works in both modes — existing hardware customers can couple the cloud security software with high-performance Juniper hardware used on premises (known in the industry as “on-prem,” or they can use it exclusively as software.

This isn't as easy as it sounds. But judging from Juniper's recent growth, it's working. For its second quarter 2021 results, the company reported year-on-year revenue growth of 8%. And margins increased to 15.8% from 14.3%. In a recent



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Rami Rahim, CEO, Juniper Networks speaks on stage during 2019 Watermark Conference for Women Silicon Valley at San Jose McEnery Convention Center on February 22, 2019 in San Jose, California.

analyst briefing, Juniper pointed out that its growth rate is the highest it has been in ten years, with security leading the way. Juniper reported that total security revenue was \$172 million, an increase of 11% year-over-year. Security product sales grew 21% year-over-year.

Even though Juniper executives downplayed the outlook due to the global semiconductor shortage, Juniper shares have been stronger since a pullback after earnings, trading at \$28, near a 52-week high.

Software is becoming a more important part of both networks and security. And new themes such as cloud security, Work from Anywhere (WFA), and Secure Access Service Edge (SASE) are growing in the minds of

networking and security professionals. Futuriom has been highlighting these strong themes based on our end-user research.

Juniper recently positioned itself as a SASE provider by launching Security Director Cloud, a cloud-based portal that can be used by practitioners to manage and distribute cybersecurity functionality using the cloud. The bonus is that this same approach can be used whether customers are interested solely in the cloud-based offerings or would like to manage security for on-premises devices. Juniper also recently introduced its Secure Connect VPN client, targeting Zero Trust Network Access (ZTNA) — another market that is growing very fast — which extends the

capabilities of the Juniper Connected Security portfolio. In Juniper's approach, user- and machine-based identifying markers (App, UID, etc.) are used to provide assurance that the requested connection is validated and secure — a way to authenticate users and applications using several vectors.

Adding to the SASE mix is the session software-defined wide-area networking (SD-WAN) technology Juniper acquired through the purchase of 128 Technology to deliver micro-segmentation for applications in distributed cloud environments. All of this boils down to a wide mix of cloud-based security options that can be combined with Juniper's hardware- and software-based next-generation firewalls, the SRX and vSRX series, which were already highly regarded in the industry.

Futurion recently learned, from sources inside the company and the industry, that Juniper has won some large enterprise contracts over its top firewall vendor competitors, including Fortinet and Palo Alto Networks. When contacted about these contracts, a Juniper spokeswoman declined to name the customers but did mention that Juniper recently won a large deal with “a leading supplier of inflight entertainment and communication systems.”

In addition to cybersecurity functions, Juniper has opportunities to expand its software across the board, with its recent acquisition of software companies Apstra, 128 Technology, and Mist Systems, all of which offer software designed to improve network performance and add Artificial Intelligence (AI) for operations. The slide above, from a Juniper investment deck, displays the company's wide-ranging software strategy: Another part of this story is the growth of the software-defined wide-area networking (SD-WAN) marketing into SASE, which combines cloud security functionality with WAN connectivity.



Juniper Networks

Juniper has methodically added to its software portfolio through acquisition.

Why Might the Stock Be a Bargain?

Among a number of software and cloud opportunities, cybersecurity may be Juniper's largest. The shift to WFH is driving the need for more secure access to cloud applications using SASE, ZTNA, and Virtual Private Network (VPN) software. As organizations deal with a larger virtual workforce, they need a wide range of flexible, software-based cybersecurity solutions that can lock applications and users down, no matter where they reside. Now to the bargain part and the stock price.

For investors, Juniper Networks hasn't benefitted much from the boom in the broader cybersecurity industry, which is supporting huge market valuations. As I've pointed out in this column before, cybersecurity spending is growing at above-trend rate in IT. Cybersecurity Ventures expects it to reach \$1 trillion cumulatively from 2017 to 2021.

Juniper carries a reasonable \$9 billion market cap, which is just under 2X its annual sales. That is incredibly cheap in an industry where cybersecurity pure-plays are trading at multiples of 30X sales and

higher. This reflects investor skepticism after many years of stagnant growth for Juniper and the perception that it is tied exclusively to legacy hardware sales — the same perception that plagues larger industry rival Cisco Systems Inc.

Just take a couple examples of Juniper's competitors and you will see what I mean: Palo Alto Networks has a market capitalization of \$37 billion, four times that of Juniper's, yet its trailing twelve months of sales are roughly the same as Juniper's at \$4 billion. Fortinet, whose shares have been skyrocketing lately, has a market cap of \$48 billion on \$3 billion in trailing twelve months sales.

So you could consider Juniper Networks a value play in cybersecurity. That's not to say the other companies will do poorly — the cybersecurity tide is lifting all boats — but if Juniper can start realizing sold revenue growth in its new and exciting portfolio of cybersecurity products, its share appreciation potential is large, with less risk. In the meantime you would get paid to wait. Juniper, which is profitable, is paying investors a 2.8% dividend.