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JNPR.N - Q2 2021 Juniper Networks Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 revenue of \$1.172b and non-GAAP diluted EPS of \$0.43. Expects full-year 2021 revenue growth of approx. 6%. Expects 3Q21 revenue to be up 5.5% YoverY at midpoint of guidance.

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PRESENTATION

Operator

Greetings, and welcome to Juniper Networks' Second Quarter 2021 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Jess Lubert, Vice President, Investor Relations.

Jess Ian Lubert - *Juniper Networks, Inc. - VP of IR*

Thank you, operator. Good afternoon, and welcome to our second quarter 2021 conference call. Joining me today are Rami Rahim, Chief Executive Officer; and Ken Miller, Chief Financial Officer.

Today's call contains certain forward-looking statements based on our current expectations. These statements are subject to risks and uncertainties, and actual results might differ materially. These risks are discussed in our most recent 10-Q, the press release and CFO commentary furnished with our 8-K filed today and in our other SEC filings.

Our forward-looking statements speak only as of today, and Juniper undertakes no obligation to update any forward-looking statements. Our discussion today will include non-GAAP financial results. Reconciliation information can be found on the Investor Relations section of our website under Financial Reports. Commentary on why we consider non-GAAP information a useful view of the company's financial results is included in today's press release.

Following our prepared remarks, we will take questions. (Operator Instructions) With that, I will now hand the call over to Rami.

Rami Rahim - *Juniper Networks, Inc. - CEO & Director*

Good afternoon, everyone, and thank you for joining us on today's call to discuss our Q2 2021 results.

We reported better-than-expected Q2 results, delivering a second consecutive quarter, which saw year-over-year revenue growth across all verticals and geographies. We also experienced record orders in Q2, which helped us grow backlog, both sequentially and year-over-year. Momentum is strong entering the second half of the year. I'm encouraged by the diversity of the strength we are seeing, which is spread across verticals, customer solutions and geographies. While the strength is due in part to improve trends with some of our large strategic customers, particularly in the Cloud and Service Provider verticals, we're also seeing strong momentum with new logos and an increased number of deals greater than \$1 million, especially in the Enterprise vertical.

I would call out 3 factors driving our momentum: First, our focus on leading the industry and delivering simplified operations and a superior user experience, what we call experience-first networking is resonating in the market; our AI and software management tools are second to none and deliver meaningful customer value that's enabling us to accelerate our success and take share, particularly in the Enterprise campus and the data center market, but also in Service Provider and Cloud verticals.

By leveraging software control points like Mist, Apstra and Juniper Paragon to improve customer operations and experience, we're not only creating sticky new software revenue stream, but also creating platforms that pull through a broader suite of core Juniper infrastructure.

Second, our teams are executing extremely well. Our internal alignment around customer solutions and investments in our go-to-market organization are enabling us to capitalize on our technical differentiation and benefit from improved end market conditions we're seeing. In addition, our customer satisfaction ratings are at record highs, reflecting the strong work of our engineering and services organization as well as our supply chain team, which continues to work tirelessly to meet customer demand in an extremely tight supply environment.

Third, we are seeing improved end market conditions across verticals and geographies. As global businesses reopen and companies look to bring workers back to the office, many projects which were halted are resuming, and many new ones are starting as digital transformation and clarification initiatives accelerate.

Enterprise, Cloud and Service Provider customers are all recognizing the strategic importance of the network and investing to support a more distributed workforce, which is increasingly reliant on high bandwidth applications such as real-time video collaboration. While the demand environment is strong, we, like others in our industry, are managing through significant supply chain challenges. Customers have become more aware of these challenges and many are either placing orders early or providing significantly greater visibility into future projects.

This is particularly true with some of our large strategic customers especially in the Cloud and Service Provider verticals. We view these early orders and insight into our customers' longer-term plans as a positive development. Importantly, even excluding these accelerations, orders are estimated to have experienced mid-teens growth in the period with healthy momentum across verticals and customer solutions. Based on this trend, we now expect to grow our business approximately 6% in 2021 on a full year basis despite the challenging supply chain backdrop. I'm excited by the momentum we're seeing. The investments we're making are paying off, and I'm increasingly confident in our ability to not only grow our business this year, but to do so on a sustainable basis.

Our strategy is down, and we're investing and succeeding in several big industry opportunities that should provide attractive tailwind over the next few years. The first area we're winning is the Enterprise transition to AI-driven Cloud architectures. Mist was one of the first to deliver on this vision with wireless and since the acquisition, we have brought the same automation, insight and agility to the wired land and now the win. This unique client-to-cloud approach for AI delivers superior end user and operator experiences, which is enabling us to both land new full stack wins defined as Wi-Fi, wired and SD-WAN and expand our opportunity with large existing accounts.

While marketing messages can sound similar, we believe Juniper with Mist AI has fundamental architectural advantages that will stand the test of time, including a purpose-built microservices Cloud architecture, 6 generation data science expertise, a unified AI engine across the land, wireless LAN SD-WAN and AI-driven support, led by the industry's only conversational systems market.

This differentiation has enabled us to take share in key networking segments, which we believe will continue as the \$20 billion campus in branch market transitions to AI-driven Cloud architectures in the years to come. We're also continuing to see success with our 400-gig offerings, both in wide area as well as data center use cases. We now maintain more than 200 wins that span across hyperscale Service Provider and Cloud major

accounts, which is up materially on a quarter-over-quarter basis. We remain optimistic regarding our ability to not only protect our footprint, but also to capture new opportunities in these larger accounts. We continue to expect 400-gig deployments to begin later this year and present increasing tailwinds over the next few years.

In addition, we're optimistic about our 5G metro opportunity. We believe the investments we're making in our Juniper Paragon automation suite as well as our ACF metro access and aggregation portfolio will position us to capitalize on this sizable and growing market. While it remains early, we're seeing healthy customer interest in our new metro portfolio, and we expect to continue to introduce new solutions over the next 18 months that should further enhance our ability to succeed in this market.

Now I'd like to provide some additional insights into the quarter and address some of the key developments we're seeing from a customer solutions perspective. Starting with our automated WAN solution, while revenues slightly declined year-over-year due to the timing of shipments in the Cloud, we experienced strong orders with solid momentum in both our Service Provider and Cloud segment. We saw healthy demand across both our MX and PTX product families and improved adoption of our newer products as well as our automation software portfolio.

Our 400-gig solutions are performing well and enabling us to not only protect our existing footprint, but also to secure several net new wins. While we are continuing to see strong customer demand for our automated WAN solutions, these products are currently the most impacted by supply chain challenges and therefore, the most difficult for us to predict. As a result, despite very strong orders, we now expect our results from this segment to return to within the range of our long-term model, calling for a minus 1% decline to a 3% growth during the year, with supply likely to be the biggest determinant of where we will ultimately fall within this range.

Our Cloud-ready data center solutions experienced 28% year-over-year growth during the June quarter, an encouraging order trend from our Cloud, Enterprise and Service Provider customers. We saw strong momentum with new logos as well as an increase in average deal size in the period, including a meaningful increase in deals over \$1 million. After exceeded expectations for a second consecutive quarter and it's creating a significant buzz in the market, this is leading to more software opportunities and full stack data center wins. Customer interest in our Cloud-ready data center portfolio is high, and we remain optimistic regarding the outlook of this business.

For the year, we believe our Cloud-ready data center business is now tracking at the slightly above the high end of our long-term model, looking for 5% to 9% growth year-over-year.

Finally, our AI-driven Enterprise solutions also grew 28% year-over-year. Our Mist AI differentiation continues to resonate in the market as new logos increased 130% year-over-year and Mist orders experienced another quarter of solid triple-digit growth. Our Mistified revenue from wireless LAN, wired assurance, Marvis Virtual Network Assistant and associated EX pull-through nearly doubled year-over-year, and we saw another quarter of record ES pull-through. I believe the missed pull-through opportunity will continue to grow, thanks to the recent introduction of the EX-4400, a groundbreaking new access switch that combines true Enterprise-grade scalability and performance with the ease of AI-driven Cloud operations.

Mist also positively impacted our brand security business, which performed well in Q2, and we continue to make progress with 128 Technology, which we are integrating with our SRX Secure Branch Gateways under a common Cloud and AI umbrella. The pipeline of SD-WAN opportunities remains strong, thanks to these technology differences, coupled with the unique synergy potential of a unified client-to-cloud Enterprise portfolio from Juniper with end-to-end automation insight and action.

In addition to strength with large Fortune 500 customers, we continue to see very strong momentum in the channel and success with smaller commercial accounts during Q2, which highlights the value of our AI-driven Enterprise offerings to customers of all sizes and across all verticals. We believe Mist AI continues to offer unique and market-leading differentiation resulting in the best user and operator experiences. I remain encouraged by the momentum we're seeing in this business and remain confident our AI-driven Enterprise solutions are likely to see double-digit growth in 2021.

Our security revenue experienced strong results during the June quarter, and orders also exceeded expectations. Strength was especially notable in the high end of the market where we have historically been strong, although we saw growth across all customer verticals and most product families. Our connected security strategy is gaining traction in the market because the convergence of networking security provides us with a

competitive advantage in the portions of the market where we are currently focused. We believe our technical strength in both security and networking will continue to provide tailwinds in future quarters and should enable our security business to achieve our growth objectives.

Our software momentum is also strong. Our software and related services revenue grew 59% year-over-year in Q2 as we experienced growth with ratable subscription, solid uptake of our Flex software licenses and strong sales of certain perpetual on-box licenses. ARR grew 32% year-over-year in the period driven by a combination of mix subscriptions, ratable security software offering and the related services associated with these software offerings. We experienced record software orders in the quarter due to broad-based strength across verticals and use cases. We're seeing ongoing strength in ratable subscription offerings and improved adoption of our on-box select licenses, which are seeing traction across all of the customer verticals that we serve.

Based on the momentum we're seeing, we remain confident in the long-term software and ARR targets we presented at our recent Investor Day. I'd like to mention that our Services team delivered another solid quarter and continued growth on a year-over-year basis due to strong renewals and service attach rates. Our services team continues to execute extremely well to ensure our customers receive an excellent experience.

I would like to extend my thanks to our customers, partners and shareholders for their continued support and confidence in Juniper. I especially want to thank our employees for their hard work and dedication, which is essential to creating value for our stakeholders.

I will now turn the call over to Ken, who will discuss our quarterly financial results in more detail.

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Thank you, Rami, and good afternoon, everyone.

I will start by discussing our second quarter results and end with some color on our outlook. We ended the second quarter of 2021 at \$1.172 billion in revenue, and non-GAAP earnings per share of \$0.43, both above the midpoint of our guidance.

Revenue was up 8% year-over-year, with growth across all verticals and geographies. We experienced record levels of product orders during the second quarter with significant strength across all verticals and customer solutions. We believe some of this strength is attributable to industry supply chain challenges that are causing certain customers to place orders early in an effort to secure supply when needed.

These early orders resulted in an increase in backlog and provide us with improved visibility into the second half of 2021. Even after adjusting for these early orders, total product orders are estimated to have grown mid-teens year-over-year, exceeding our expectations, with year-over-year growth across all verticals and customer solutions.

Looking at our revenue by vertical. On a year-over-year basis, Service Provider grew 2%; Cloud grew 12%; and Enterprise grew 12%. All verticals grew on a sequential basis.

From a customer solution perspective, automated WAN solutions declined 3% year-over-year, while PTS product family posted year-over-year growth, our MX offerings declined year-over-year. While our automated WAN revenue declined due to the timing of shipments, orders grew year-over-year.

Cloud-ready data center revenue increased 28% year-over-year as we experienced strong demand for our QFX product family across all customer verticals and geographies.

And finally, AI-driven Enterprise revenue increased 28% versus last year. Our Mist and EX product families both grew year-over-year. As Rami mentioned, total software and related services revenue was \$173 million, an increase of 59% year-over-year. And our annual recurring revenue, or ARR, grew 32% year-over-year.

Total security revenue which includes security products as well as services related to our security solutions was \$172 million, an increase of 11% year-over-year. Security product sales grew 21% year-over-year. In reviewing our top 10 customers for the quarter, 4 were Cloud, 5 were Service Provider and 1 was an Enterprise.

Our top 10 customers accounted for 33% of our total revenue as compared to 30% in Q2 2020. Non-GAAP gross margin was 60%, which was above the midpoint of our guidance, primarily due to higher revenue and lower service delivery costs. If it weren't for elevated logistics and other supply chain-related costs, we would have posted non-GAAP gross margin of approximately 60.5%.

Non-GAAP operating expenses increased 9% year-over-year and 2% sequentially, slightly above the high end of our guidance range, primarily due to higher variable compensation related to better-than-expected order momentum. Non-GAAP operating margin was 15.8% for the quarter which exceeded our expectations and the midpoint of the guidance looking for 14.6%.

We exited the quarter with total cash, cash equivalents and investments of \$1.8 billion. The sequential increase was due to strong free cash flow generation, which was partially offset by our capital return program. Cash flow from operations was \$257 million. From a capital returns perspective, we paid \$65 million in dividends, reflecting a quarterly dividend of \$0.20 per share and repurchased \$110 million worth of shares in the second quarter.

Turning to our guidance. As I'm sure you are all aware, there is a worldwide shortage of semiconductors impacting many industries. Similar to others, we are experiencing ongoing supply constraints, which have resulted in extended lead times and elevated costs. We have invested to strengthen our supply chain and have increased inventory purchase commitments over the course of the last year. We continue to work closely with our suppliers to further enhance our resiliency and limit disruptions outside of our control to the best of our ability. Despite these actions, we believe extended lead times and elevated costs will likely persist for at least the next few quarters.

While the situation is dynamic at this point in time, we believe we will have access to sufficient semiconductor supply to meet our full year financial forecast.

Looking specifically at the third quarter. At the midpoint of guidance, revenue is expected to be up 5.5% year-over-year. We expect supply constraints to be particularly tight in the third quarter, which has been factored into our guidance. We expect our third quarter non-GAAP gross margins to be impacted by higher component costs related to supply constraints and higher expected service delivery costs. At the midpoint of guidance, earnings are expected to grow faster than revenue in the period despite the expected pressure from supply constraints.

Moving on to our expectations for 2021. We have updated our full year revenue growth and profitability expectations to account for our better-than-expected Q2 results, and current expectations for the second half of 2021. We now expect full year revenue growth of approximately 6%, a point of which is expected to come from recently acquired assets. Our revised top line outlook is 150 basis points higher than the midpoint of our previous expectation of 4% to 5%. From a vertical perspective for 2021, Cloud is expected to grow faster than our long-term range of 1% to 5%. Enterprise is expected to grow towards the high end of our long-term model range of 5% to 9%, and Service Provider is expected to be flat to slightly up versus last year toward the high end of our guidance range.

While non-GAAP gross margin can be difficult to predict, we now expect non-GAAP gross margin to be approximately 59.5% for 2021, down from our previous expectation of approximately 60% due to the elevated freight and costs related to supply constraints we are now experiencing.

We continue to expect full year non-GAAP operating margin to be flat to slightly up versus 2020 levels. On a full year basis, we expect non-GAAP earnings to grow faster than revenue.

In closing, I would like to thank our team for their continued dedication and commitment to Juniper's success, especially in this challenging environment. Now I'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Samik Chatterjee from JPMorgan.

Joseph Lima Cardoso - JPMorgan Chase & Co, Research Division - Analyst

This is Joe Cardoso on for Samik. So my first question here is on the guide. You reiterated your guide for Service Provider revenue to be flat to slightly up for the full year, which implies revenue for that vertical is likely to decline or to be flat in the second half of the year, which optically would appear conservative given the expectations for Service Providers to ramp spending into the second half of this year. Can you help bridge that variance there and maybe how that thinking is wrong? And then I have a follow-up.

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Let me start, Joe, and then maybe Ken would like to weigh in. So we had a solid first half of the year for Service Provider. Our Q1 performance was exceptional. Q2 was also, I think, in line with expectations. We're entering the second half of the year with solid backlog. We're encouraged by the momentum that we're seeing across the business internationally and also Tier 1 Service Provider strength in this country, in the U.S., also encouraged by the number of wins, 400-gig wins, which aren't really contributing to revenue in a very meaningful way yet, but I expect that to change in the second half of the year. Technology strong new products, both MX and PTX routing products are performing very well. So I like the trends that we're seeing in SP all up. Certainly, a great start of the year, there are a lot of dynamics around the second half of the year, supply being one element of that dynamic that we just have to keep a watchful eye on. And all of that has fed into the outlook that we've provided for the SP segment.

Ken, do you want to...

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes, I would just reiterate that supply constraints are factored into our full year guide to your point, Joe, the full year guide is unchanged. We are seeing stronger-than-expected bookings, so the momentum is quite strong. That's resulting in improved visibility, improved backlog levels. That said, because of the supply constraints, we feel, at this time, keeping the guide kind of where it was on a full year basis is the most prudent thing to do. That visibility and increased backlog will ultimately result in revenue for us. But at this point, we see that perhaps beyond this year.

Joseph Lima Cardoso - JPMorgan Chase & Co, Research Division - Analyst

Got it. Appreciate the color. And then my second question is on the supply shortages. Given that the supply shortages appear to be here today for a couple of quarters, curious to hear if you guys are pulling on any levers to offset it like price increases or if you plan on passing on any pricing to customers and whether any of that is baked into the better top line we're seeing here?

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes. So we have recently adjusted some price -- list price changes for our products. We do that periodically. We did a pretty significant uplift on many of our products in the Q2 timeframe. That will take some time to play through as we do have a fair amount of backlog that was on previous pricing levels that still need to kind of ship. But as we continue to increase our bookings going forward, we should see a positive impact from our recent pricing changes. It wasn't across the board for all products, but it was a good percentage of our products in an attempt to offset some of the pressures we're seeing.

But it will play out over a fair period of time. Something we do periodically, making sure we have the right price for the right value that we deliver to our customers, it's something we're very focused on and something that we expect to play out in the form of improved profitability over time. It didn't have an impact on Q2 results. The price change came towards the end of the second quarter, and it really will play out over the next several quarters rather than have any impact on Q2.

Operator

Our next question is from Jeff Kvaal with Wolfe Research.

Jeffrey Thomas Kvaal - Wolfe Research, LLC - Research Analyst

I was hoping to unpack the gross margin dynamics a little bit. Ken, though we should be thinking 59.5% for both the third quarter and fourth quarter. At the same time, it also sounded like the intensity of the supply constraints was most acute in the third quarter. So wouldn't maybe a little pricing increase plus less acute shortages mean that -- and higher volume in the fourth quarter would be higher?

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes. So Q3, we definitely think that the supply constraints are particularly tight, and we mentioned that on the prepared remarks and obviously factored that into our guidance, both our top line guidance as well as our gross margin guidance. Q4, while we haven't given specific Q4 gross margin guidance, we have provided the full year and I think your math is pretty directionally correct where it applies somewhat flattish Q4 as compared to Q3. That said, it's a little bit too early to call with any more specificity than that. I mean we do expect volume to be up, our software mix should be up, which would be obviously tailwinds and potentially positive drivers to gross margin improvement -- potential gross margin improvement. However, given the supply dynamics, and quite honestly, the unknown aspects as we continue to work through this, we think it's prudent to kind of keep the guidance where we have it on a full year basis.

Jeffrey Thomas Kvaal - Wolfe Research, LLC - Research Analyst

Okay. And my second question would be on the visibility that you have. It's nice to be in a position of having a little bit additional visibility than usual. On the other hand, then invite questions like this one; How durable do you think the relative strength in your revenues are for this year? Are these trends that should persist into 2022 and beyond? Or do you think that this is a little bit of a cyclical uptick for us alone?

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Yes. Let me start, good question. We're entering the second half of this year with really strong momentum. What I like about this momentum is that it is really diverse. It cuts across geos, it cuts across our customer solutions, it cuts across the vertical segments. So we're firing on all cylinders on that front. There is definitely a COVID-related element where customers are, let's say, making sure that they're getting ahead of potential supply constraints.

But even factoring that out, we're seeing very solid order momentum with new projects that are starting, old projects that were paused that are starting to resume again, the need to build out capacity to keep ahead of customer demand on the network are all coming to fruition. I think we're executing well. So we're essentially setting ourselves up to benefit from that recovery in the market. So that improved market condition is something that I think is going to be very good for us going forward. So I don't think this -- the demand strength is not a short-lived thing from my perspective. I have confidence that the combination of market dynamics and our own execution, product differentiation, go-to-market strength is all going to work for us on a sustainable basis.

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes. And from a revenue perspective, I would say that our durability for revenue growth is actually -- have a much stronger; believe that, that's going to happen then I would have had, say, a few quarters ago, given the booking strength that we saw. So clearly, the booking strength in the first half is setting us up well with an increased backlog, increased visibility in the second half, which gives me confidence that our revenue strength that we've seen in the first half of 8% growth is going to result in a very solid year. We've raised the year now to 6% on a full year basis. It's the second time this year since February that we've raised the full year guidance on the revenue side. And part of that confidence is the strength that we're seeing and the momentum that we have pretty much across the board.

Operator

Our next question is from Rod Hall with Goldman Sachs.

Balaji Krishnamurthy

This is Balaji on for Rod. First of all, congrats on a good quarter and guide here. I want to quickly touch on geography here. Now EMEA has been strong the last few quarters. But if I look at Americas, the number is -- the number looks good here. Could you maybe tie this thing to strength and other costs to different verticals and see if you are -- you are expecting to see an improvement in its Service Provider because of the stronger Telco CapEx guidance, et cetera. Could you unpack that? And I have a follow-up.

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Yes. Thanks for the question. So the strength that we've seen in Q2 is broad-based. It cuts across every geography, Americas, EMEA and Asia Pacific. You're right, EMEA has been especially strong, growing 10% year-over-year in the Q2 timeframe and that is true. We saw growth across all verticals and all solution areas in EMEA. But even in the Americas, we saw growth in every vertical, we saw a special strength in data center opportunities and added Enterprise opportunities across those verticals. And in Asia Pacific, I think we're executing extremely well there as well with growth in the Cloud vertical, in the Enterprise and strength in data center, AI-driven Enterprise solutions. So I'm very encouraged, as I just mentioned earlier, with the diversity of the strength that we're seeing across geographies. There's definitely a market dynamic where things are working to our favor. But I think there's also this -- the fact that we are executing extremely well to capture that market opportunity.

Balaji Krishnamurthy

Okay. And secondly, on the metro opportunity in the Service Provider. So you talked about ACX your products and it looks like there are more products that you plan to launch in the near term. Could you talk about the interest levels that you are seeing there? I know this is a relatively metro opportunities literally near for Juniper. So could you maybe give us some more insight on what the plans there?

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Yes, absolutely. I'm quite frankly, very excited about the metro opportunity and the solutions that we're bringing to market today. We already have elements of that solution that are available, shipping with very solid early interest despite the fact that the solution is not really fully complete. We plan to round out that solution over the next year, 1.5 years or so with more and more products that will enter into the market. I think we're laying the foundation with Metro this year for growth next year. So this would be a growth vector within the automated WAN and especially in the Service Provider segment for next year.

And again, there's a very important element of our automated WAN solution that is software. And this is where our Paragon automation suite comes into the picture. We've recently rounded out that solution, introduced new capabilities into the market and actually won a competitive win with a Tier 1 telecom operator in Asia Pacific just recently, in fact, which I think speaks volumes to the strength of that software solution that we

now have in the market and will only get stronger in time. So the net of it is, I think it's going to be a wonderful opportunity for us, and I'm quite bullish about it.

Operator

Our next question is from Amit Daryanani with Evercore ISI.

Jyhhaw Liu - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

This is Irvin Liu on for Amit. I also had a question and a follow-up. And on the topic of the constrained semiconductor supply environment, I was wondering if you can perhaps quantify what sort of impact this had on your Q2 revenue and on your forward revenue guidance as well, essentially, if supply shortages impact your ability to fulfill orders. And from a gross margin perspective, do you see supply headwinds improving or deteriorating versus the 50 basis point headwind you saw in June?

Rami Rahim - *Juniper Networks, Inc. - CEO & Director*

Maybe I'll start and then, Ken, you can talk a little bit about what color we can provide in terms of quantification. It's clearly, a worldwide shortage, it's affecting many industries, not just IT and networking. It has resulted in extended lead times, but quite frankly, all of our customers have now come to expect these challenges. And as a result of that, they're providing us with much better visibility into their future purchasing and that's a very good trend for us, quite frankly, especially in this constrained environment. And I just want to add, I mean, our supply chain team has been doing a phenomenal job, all things considered navigating these challenges, which change from a month-over-month to week-over-week basis sometimes in terms of where those constraints are. And I personally have been very much involved in trying to alleviate challenges by working with our strategic partners. And I'll let Ken start from here.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes. So from a revenue perspective, I don't believe it impacted our Q2 results materially. I mean we're very pleased with the results we posted of \$1.172 billion, which is towards the high end of our range. Obviously, the profitability metrics were also quite strong in Q2. So I don't believe it had an impact on our Q2 results. That said, it is something we're considering as we set the guidance for Q3 and the rest of the year. We did increase the full year revenue guidance again for the second time this year, up to 6% full year year-on-year growth, and previously, we were at 4% to 5%. So we are able to secure the supply, at least we believe we'll be able to secure the supply to go ahead and increase our revenue guidance. So it's not impacting us very negatively. However, it is part of that guide. We are definitely considering our ability to secure supply when we set our forward guidance.

From a gross margin perspective, what's happening is we talked on the last call, at this point in time, we clearly knew on the last call that there were going to be some pressures because of the supply constraints, but we also expect at that time to have some alleviating pressures coming back towards us from the COVID perspective. So we were expecting some reduction in freight cost towards the second half of the year. Our current expectation does not call for that anymore. So we're seeing freight costs remain elevated throughout the rest of the year. That's our current anticipation. That coupled with the increased component costs that we're seeing and expedite fees, et cetera, as resulted in us bringing the full year guide down from 60% to 59.5%.

So I do believe these are temporary transitory costs, if you will. They should -- we should recover from these. That said, I do think it will take at least a few quarters, right? It's not something I anticipate recovering from in this quarter or next or, but I do think we will recover from this in the longer term. and allow us to expand our gross margins and operating profits even more robustly than this year's level where we do expect some operating margin expansion as well as earnings growth to be faster than revenue. So the profitability metrics are quite strong this year despite these pressures. As these pressures alleviate, it should just allow us to double down on our profitability goals.

Operator

Our next question is from Tim Long with Barclays.

Timothy Patrick Long - *Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst*

Two if I could as well. First, I did want to go back to the kind of this Q4 implied revenue guidance. I understand the supply chain impacts, but it does seem like you guys were able to kind of beat numbers on the top line, the last 2 quarters, you were able to fight through that somewhat. It sounds like you have supply for the year and clearly, the orders are there. So maybe what's changing with the ability to continue with mid-single or mid- to high single-digit growth in Q4 compared to what you're able to do in the prior 2 quarters? And then secondly, if we could just dig a little bit more into the Enterprise. Rami, you talked about the \$1 million deals. Can you kind of just give us an update there, maybe scale that a little bit, talk a little bit about win rates and where you are with Salesforce. Is this more to grow from here? Is it also getting more at-bats, if you can give us an update on Enterprise?

Rami Rahim - *Juniper Networks, Inc. - CEO & Director*

Yes. Maybe I'll start with the second question first, and then Ken, I'll pass it to you to talk a little bit more about the supply chain related questions. So Enterprise, I'm very pleased with our performance. And we have been doing well, performing well through -- from the beginning of the onset of the pandemic despite end market disruptions that our industry has faced. There's no doubt the economic uncertainty as a result of COVID persists, but it's getting better. And elements of the Enterprise market that have essentially shut down, like take, for example, traditional [carpeted] Enterprise are starting to recover again and projects are starting to emerge, and that will open up net new opportunities for us. And it's a good time because our differentiation in this space has never been better, quite frankly. We're seeing great growth in the AI-driven Enterprise, of course, Mist being a very important component of that, but I also want to emphasize that there's another leg to the Enterprise tool and that is the data center. We've always done quite well in the data center space in the Enterprise.

But I think now with the addition of the Apstra team, the technology, we've created some real lift to our solution to the differentiation in that space. So from a mix standpoint, the phenomenal growth and momentum just continues. Mist solution revenue which includes wireless, it includes wired, it includes software, it grew at nearly 2x year-over-year. If you think about Mist all up in terms of annualized order run rate, we're now over \$400 million. So it's a pretty significant component of the total Juniper business. And then add to that, although it's early days with Apstra, the initial feedback from customers, the initial win rate has exceeded our expectations. And quite frankly, the pipeline that we've built has been absolutely phenomenal. So I think that Apstra and the data center opportunities have a lot of the early signals that we got from Mist shortly after we made that acquisition in 2019.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes. And on the Q4 guide perspective, as you mentioned, Tim, we had a very solid first half, beat our midpoint of guidance, both in Q1 and Q2, raised guidance in Q2 and raised again in Q3 here on this call, and raised the full year at 6%. So we're pleased with the execution and the momentum we're seeing on the revenue side. That said, supply constraints are tighter now than they were in the first half. I mean a lot of this has to do with this -- our own inventory levels. And clearly, we are anticipating some of the shortages and some of the buffer stocks, some of the resiliency efforts we put into place starting last year, really helped us in the first half and are going to continue to help us in the second half.

However, material is getting tighter. So it is something that's going to impact us a bit, and we wanted to make sure we factor that into our second half guide, which again is up from where we were earlier in the year and on a full year basis in Q3. So I'm pretty pleased with the results. And I think given the strength of the bookings and the backlog we built, not normally we set up for a good second half, a good full year FY '21, but it's likely to leak into FY '22 as well. So I think it gives us a good head start. This bookings growth that we're seeing and the momentum that we have now is allowing for a solid revenue growth well above our at least low single-digit guidance range for this year and actually sets us up pretty favorably as we enter into 2022.

Operator

Our next question is from Alex Henderson with Needham.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

I wanted to clarify a few things. You just stated earlier question that you haven't seen -- you didn't see any impact to your numbers from the supply chain. And I think that, that's kind of a misstatement. Clearly, you did, but it may have been in line with what you had expected. Therefore, you're saying we didn't see a variance from our expectations. And I don't think that was the question that was asked. I think the question was asked was if you had no supply constraints, how much impact, would it have -- how much larger were the revenues have been. So could you clarify that point? Because I think you're answering a different question than what he was asking and what analysts probably heard relative to that key question. The other thing I wanted to clarify is you gave growth rates in software, both in revenues and ARR, you also gave revenue growth in security products. Can you give us what the organic growth rates were on those two?

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes, I'll take this one. So from a -- yes, just to clarify, the comment about supply constraints and the impact it had on Q2 was with our own guidance from where we expected the quarter to land. So we did factor in some supply constraints when we set our Q2 guidance. And you're right that the quarter played out actually a little bit more favorably than we expected, but largely in line, and it didn't negatively impact our ability to hit our results in Q2. The one area that is impacting the results, and we called that out in the prepared remarks was in gross margin, which was negatively impacted by about 50 basis points. Gross margin was quite solid, above the midpoint of Q2 at 60%, but it would have been 60.5% were it not for some of these transitory costs, both of kind of a carryover from last year's COVID-related freight costs as well as some of the supply constraints that are starting to impact Q2. So yes, to clarify that, that is what we intended to say.

On the organic -- I mean, we don't break out the organic versus nonorganic. I'm trying to understand when you say nonorganic, are you're rarely referring to the most recent acquisitions of the last 3 quarters or so. And I can tell you, those are on track, we're very excited about the momentum we're seeing there. We expect them to add one point of revenue growth. So that's in the \$45 million to \$50 million area on a full year basis. Those numbers, on a quarterly basis, aren't that impactful really to our overall software growth and/or our security growth.

They are a significant minority as compared to the strength we have in our security business and our software business. They're a big part of our future, both software as well as security, but to date, Q2 results were not significantly impacted by those most recent acquisitions. Clearly, if you go back to the Mist acquisition days, there's a significant impact on our growth due to Mist on the software side, in particular, 0 impact to security. But on the software side, Mist is a big driver for our software business, particularly our Software as a Service business, which is embedded in that number.

Operator

Our next question is from Simon Leopold with Raymond James.

Simon Matthew Leopold - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I want to first ask about the Cloud vertical, in particular. And essentially, the group that we often refer to as the Tier 2, Tier 3 Cloud builders. And just for illustrative purposes, I'm thinking of operators like Oracle and IBM, so not the hyperscalers. I want to confirm, first of all, that you would put those kinds of operators in your Cloud segment that's not as opposed to the Enterprise or Service Provider segment. And then regardless of where you put them, how do you see that group of sort of the smaller Cloud builders behaving for you? How material are they in your business? And how are they spending with you? And then I've got a follow-up.

Rami Rahim - Juniper Networks, Inc. - CEO & Director

Sure, Simon. Let me start. So first, we had a phenomenal Cloud quarter in Q2. It was a record quarter for us in that timeframe. Our Cloud orders, in fact, were up over 100% year-over-year. So we're seeing real great strength there, and it's broad-based. We indicated in the last quarter that there has been a resumption of spend by our largest Cloud provider customer that continued into the Q2 timeframe, but it also is true for the rest of the hyperscale customers as well as what we define as Cloud majors. So Tier 2, Tier 3 Cloud providers where the -- defined as customers whose businesses depend on delivering some sort of Cloud services. It continues from there.

Momentum and strength, double-digit, well into double-digit territory in terms of both switching and routing, WAN and data center and then 400-gig wins. The momentum we're seeing of 400-gig wins across large Tier 1 hyperscale customers as well as the broader Cloud major customers is very, very encouraging. And dare I say that the differentiation that we have introduced into the market with our products across the full stack of technology from our network operating system, Junos Evolved to our silicon technology. We have inserted silicon capabilities that are now in the market that we anticipated would be differentiators, things around security, for example, that have now resulted in wins for us, and that gives us a lot of confidence that what we -- the design point that we have chosen that we have decided on are actually paying off for us. So this is why we're now anticipating that we're going to grow faster than the full year guide that we provided for Cloud provider in the last Analyst Day.

Simon Matthew Leopold - Raymond James & Associates, Inc., Research Division - Research Analyst

And then just my follow-up is, on the surface, the product mix this quarter was unfavorable relative to what you would expect in terms of gross margin because normally routing has the better-than-average gross margin. So I'm imagining that your software business is contributing more favorably or disproportionately to Data Center and Enterprise segments, and that's helping those segments have better gross margin than they have historically. I don't necessarily need some complete breakdown of software by segment, but could you help us understand the distribution of software in the reported segments?

Kenneth Bradley Miller - Juniper Networks, Inc. - Executive VP & CFO

Yes. So I do -- you are right in that our software mix absolutely did help overall gross margin. Mix is the biggest determinant, product and/or vertical is a high correlation. However, even within vertical sometimes you might have some customer mix where you're more advantaged than other periods of time, maybe their geographic as an example, where we do have a higher margin in, say, the U.S. Tier 1s than we might in some parts of Asia as an example. So there's a lot of mix to consider, but generally speaking, you're correct in that the vertical/product mix and aggregate was unfavorable. We offset some of that with some software growth, which is a little more slanted, particularly the off-box, higher-margin software is a little more -- as a percentage a little higher in our Enterprise, our Cloud-ready data center, AI-driven Enterprise businesses than it is our traditional kind of Service Provider routing domain where we do have a fair amount of software, but it's more on box and has less margin impact overall.

So that is part of the mix going forward. And the last thing I'd call out Q2, we saw a very strong services gross margin in Q2, which was the primary reason why our gross margin was beyond the midpoint of our guidance. The product margin came in largely in line with our expectations, even with the mix shift that you're talking about, but services exceeded our expectations, which resulted in the overall increase from midpoint.

Jess Ian Lubert - Juniper Networks, Inc. - VP of IR

Operator, we're going to take 2 more questions.

Operator

Okay. Our next question is from Sami Badri with Credit Suisse.

Ahmed Sami Badri - *Crédit Suisse AG, Research Division - Senior Analyst*

The first thing I just wanted to ask was regarding some of the orders that some of your customers are submitting earlier than they normally would. I think you made that comment, Rami. Have most of your customers been doing this with most in the networking and equipment vendor base. And kind of a follow-up to that is, is there any kind of optionality the customers have to potentially postpone or full on cancel their order in the event that another vendor is able to deliver on any kind of routing or networking equipment.

Rami Rahim - *Juniper Networks, Inc. - CEO & Director*

Yes. Sami, thanks for the question. I think the first question -- sorry, I now have forgotten the first question.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Are others getting early... ?

Rami Rahim - *Juniper Networks, Inc. - CEO & Director*

Yes. Yes. It's very difficult for me to comment on sort of what is -- what our customers are seeing from our peers in the industry. I mean all I know is it's very likely that the demand -- sorry, the supply constraints and the challenges are broad based. They're felt across our peers, they're felt across the entire industry and many other industries. We have to understand that these supply constraints are very high upstream in the overall supply chain all the way to the silicon fabrication houses that are around the world. So it's most likely the case that our customers are seeing very similar trends from all of our peers in the industry.

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes. And our orders are cancelable. However, most orders wouldn't come with a cancellation fee if a customer would choose to cancel. And I would say that our history of cancellations is extremely low. We're quite confident in the strength of our backlog. We do not expect that cancellation activity to increase in any sort of significant way. We feel that customers are just giving us advanced -- or even better visibility to their true deployment needs as they're aware of our public lead times, obviously. And they want to make sure they get their orders in our hands in time for us to deliver against those stated goals. So I don't expect there to be any sort of disruption to our backlog or bookings from a cancellation perspective.

Operator

Thank you. Our next question is from Paul Silverstein with Cowen.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I appreciate you'll squeeze in. A couple of clarifications. I apologize if this is a repetitive of what's been said before; my lines come in and out. On the pricing -- on pricing, any meaningful change, Ken?

Kenneth Bradley Miller - *Juniper Networks, Inc. - Executive VP & CFO*

Yes. We did change a fair amount of our products in Q2 timeframe. Late in Q2, we did increase list prices, I don't want to say across the board, Paul, but in the majority of our products, we did see a price increase in Q2. That's going to play out over the next couple of quarters, but it's something that we did do in Q2.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I appreciate that. And then, Rami, if I understood you correctly, maybe I didn't, but with respect to the web scalers, did I hear you to say that you have product wins with the web scalers, I assume you're talking about other than interdata center switching. The related question was, were they the primary driver, not the only driver, of the improved outlook?

Rami Rahim - *Juniper Networks, Inc. - CEO & Director*

So from an order standpoint, I think that the trends and the momentum are broad-based. Certainly, they're very strong in the Cloud Provider space, but from an order standpoint, double-digit growth in Service Provider double-digit growth in Enterprise as well. And then I just provided you with color of over 100% growth in orders in the Cloud Provider segment. So I mean, clearly, it's broad-based and it's very encouraging, and it bodes well for future quarters in terms of revenue, in terms of visibility that we have.

You're right. In terms of the specific wins and the use cases within hyperscalers, our wins are WAN and inter data center not yet intradata center, although these continue to be opportunities that we pursue, and the rest of the Cloud Provider space, we have wins across the board that include WAN, data center interconnect as well as inside of the data center.

Okay. So I think that was our last question. And maybe I'd like to close with just a couple of thoughts. I'm very encouraged by the momentum in the business, I like the diversity and the strength that we are seeing. It speaks to our strategy, it speaks to the smart investments that we're making, it speaks to the strong execution by the team, which I'm very proud of. I believe that our end markets are recovering and that we're set up to benefit from that recovery. And I also think that the demand strength that we're building as well as the backlog that we have now allows us -- sets us up to deliver greater improvements in profitability next year, especially as some of the transitory supply chain-related costs start to receive. So this remains a very important focus area for myself and my management team.

And with that, I just want to thank you all for your time and the confidence in us. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you very much for your participation. Have a great day.

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