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JNPR.N - Q3 2021 Juniper Networks Inc Earnings Call

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OVERVIEW:

JNPR reported 3Q21 revenue of \$1.189b and non-GAAP EPS of \$0.46. Expects at least mid single-digit revenue growth in 2022. Also expects 4Q21 revenue to grow 3.5% YoverY at midpoint of guidance.

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PRESENTATION

Operator

Greetings. Welcome to the Juniper Networks Q3 2021 Financial Results Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to your host, Jess Lubert. You may begin.

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

Thank you, operator. Good afternoon, and welcome to our third 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. We ask that you please limit yourself to one question so that as many people as possible who would like to ask a question have a chance.

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 Q3 2021 results. We experienced very strong demand during the September quarter and delivered a fifth consecutive quarter of year-over-year growth, even though supply chain challenges impacted revenue in the period.

Orders saw another quarter of mid-teens year-over-year growth when adjusted to account for extended lead time. On an unadjusted basis, orders grew by more than 50% year-over-year for a second consecutive quarter, and our ending backlog has now increased by more than \$1 billion as compared to year-end 2020. Order momentum was strong across verticals, customer solutions and geographies, with each of these categories experiencing growth well into double-digit territory.

Needless to say, our team is executing extremely well. Our strategy is working, and the investments we have made in technologies that enhance customer operations and improve the end user experience, what we call experience-first networking, are allowing us to differentiate across the markets we serve. This technical differentiation along with the investments we've made in our go-to-market organization are paying off and enabling us to take share and capitalize on some of the big market transitions that are beginning to unfold across the verticals we serve.

This is particularly true in the enterprise market where customers are increasingly recognizing the value delivered by platforms such as Mist and Apstra that dramatically reduce deployment time, eliminate trouble ticket and reduce mean time to resolution for network problems. These platforms are not only enabling us to win new logos in the campus and the data center, but also to pull through other Juniper products that present meaningful opportunities to expand with customers over time.

In the cloud and service provider verticals, we're seeing strong early adoption of our 400-gig capable platform due to the strength of our Junos Evolved operating system, our differentiated silicon capabilities and the deep engagement we maintain with these important customers. These factors are not only enabling us to maintain our core franchises, but also to secure a new footprint, including a large new hyperscale WAN deployment that should present tailwinds for our business over the next few years.

I'm also encouraged by the early customer interest in our metro routing portfolio, which addresses a large and fast-growing market where historically we have in place. We expect this opportunity to steadily ramp through the course of next year as new products come to market and service providers' 5G investments steadily increased.

The bottom line is that I remain very optimistic regarding our future prospects despite the supply chain challenges we are currently navigating. I believe these challenges are likely to prove transitory in nature, and the strong order momentum we're seeing and the backlog we have developed sets us up extremely well to deliver improved growth and profitability in 2022 and beyond.

While it remains early, and we'll provide a more detailed 2022 outlook when we report our Q4 results, based on current backlog and the order strength we're continuing to see in the market, we currently expect to deliver at least mid-single-digit sales growth and at least a point of operating margin expansion in 2022. Our expectations for 2022 do not assume a material improvement in supply chain constraints.

Now I'd like to provide some additional insights into the quarter and address some key developments we're seeing from a customer solutions perspective. Starting with our automated WAN solutions. While revenue declined year-over-year due entirely to supply chain constraints, we experienced another quarter of strong order growth with solid momentum in both our service provider and cloud segments.

We saw healthy demand across both our MX and PTX product families and strong adoption of our newer products as well as our automation software portfolio. Our 400-gig solutions are performing well and enables us to not only protect our existing footprint but also to secure a new

win that includes several large opportunities with our cloud customers, including the hyperscale opportunity I previously referenced. Driven in part by these opportunities, our cloud orders saw a second consecutive quarter of triple-digit growth year-over-year. 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.

As a result, we continue to expect revenue from this segment to be within the range of our long-term model, calling for a 1% decline to a 3% growth this year despite the strong demand we are seeing. Our cloud-ready data center solutions experienced 26% year-over-year revenue growth in Q3 and another quarter of encouraging order trends from our cloud, enterprise and service provider customers. We continue to see strong momentum with new logos and deals greater than \$1 million.

As I mentioned last quarter, Apstra is creating a significant buzz in the market, which is not only leading to more software opportunities but also full stack data center wins. Customer interest in our cloud-ready data center portfolio is high, and we continue to be optimistic about the outlook of this business. Based on the momentum we're seeing, our cloud-ready data center business is now tracking to meet or exceed the high end of our long-term model, looking for 5% to 9% growth year-over-year.

Finally, our AI-driven enterprise solutions significantly outpaced the market and grew 35% year-over-year. Our Mist AI differentiation continues to win in the market as wireless orders experienced another record quarter with triple-digit growth and a record number of deals greater than \$1 million. Our Mistified revenue of wireless LAN, wired access, Marvis virtual network assistance and associated EX pull-through nearly doubled year-over-year, and we experienced record EX pull-through in the period with this pull-through revenue growing more than 200% year-over-year.

This momentum enabled EX to achieve the highest level of sales since 2014. We expect this momentum to continue in future quarters as customers increasingly recognize the value of AI-driven cloud operations including new and innovative features such as EVPN VXLAN fabric management in the Mist Cloud, which was launched this quarter. On a year-to-date basis, our Mistified revenue has more than doubled year-over-year.

We are also seeing very positive results with our AI-driven SD-WAN solution, which earned Juniper distinction as the only visionary in the Gartner WAN Edge Magic Quadrant published last quarter. We saw a record quarter for our Session Smart Router portfolio acquired from 128 Technology with triple-digit year-over-year growth and key wins in various sectors like retail and banking, plus especially strong traction with the federal government.

In addition, branch SRX sales last quarter hit a 2-year high. The pipeline for our AI-driven SDWAN is strong as both prospects and partners are gravitating towards the unique benefits provided by Juniper AIOps with assured client-to-cloud experiences. We are particularly encouraged by the number of full stack multimillion dollar wins we are seeing in the campus and branch, where companies are turning to Juniper for a combination of their wired access, wireless access and WAN Edge needs.

Examples include a prominent retail chain in North America, a multinational energy company, a European multinational retailer and a leading international construction company in Europe and managed services providers in North America and Europe. This highlights the value of our AI-driven enterprise offerings to customers and partners across all verticals and all geos. We believe Mist AI continues to offer unique and market-leading differentiation, including self-driving operations and predictive actions driven by our virtual network assistant Marvis, resulting in the best user and operator experiences. I am very pleased with the momentum we're seeing in this business and now expect our AI-driven enterprise solutions to see at least 20% growth in 2021.

Our security revenue experienced strong results in Q3, with total revenue growing 9% year-over-year and product revenue increasing by 16% year-over-year, which marks a third consecutive quarter of double-digit product growth. Strength was broad-based across our high end, midrange and branch SRX products as well as our virtual SRX offerings. Our connected security strategy is gaining traction in the market because the convergence of networking and security provides us with a competitive advantage. And we continue to receive third-party accolades on our solutions from organizations such as ICSA and NetSecOPEN, often vesting all competitors in head-to-head tests. We believe our technical strength in both security and networking will continue to provide tailwinds in future quarters and should enable us to grow our security business during the current year.

Our software momentum accelerated in Q3. Software and related services revenue grew 67% year-over-year as we experienced growth with ratable subscriptions, solid uptake of our Flex software licenses and strong sales of certain perpetual on-box licenses. ARR grew 34% year-over-year, driven by a combination of Mist subscription, ratable security software offerings 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 customer solutions. Momentum is strong, both ratable subscriptions offerings as well as on-box licenses. Based on the momentum we're seeing, we're currently tracking ahead of the long-term total 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 to grow on a year-over-year basis due to strong renewals and service attach rates. Our services team continues to execute extremely well to ensure 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 substantial 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 third quarter results and end with some color on our outlook. We ended the third quarter of 2021 at \$1.189 billion in revenue, slightly below the midpoint of our guidance, but up 4% year-over-year and 1% sequentially. The modest revenue shortfall as compared to our guidance was due to the negative impact of supply chain constraints. Non-GAAP earnings per share was \$0.46, in line with our guidance.

During the third quarter, momentum in product orders remained strong, showing exceptional year-over-year growth for the second consecutive quarter. We saw significant order growth across all verticals, all geographies and all customer solutions. Some of this order strength continues to be attributable to industry supply chain challenges that are causing certain customers to place orders early in an effort to secure supply when needed. Even after adjusting for these early orders, total product orders are estimated to have grown in the mid-teens year-over-year. This is the third consecutive quarter of mid-teens bookings growth after adjusting for early orders. It's important to mention that our backlog has increased by more than \$1 billion relative to the start of the year.

Looking at our revenue by vertical. On a year-over-year basis, cloud grew 20%. Enterprise grew 7% and service provider declined 6%. We saw double-digit year-over-year order growth in service provider. However, the timing of shipments due to supply constraints impacted revenue.

Turning to Customer Solutions. On a year-over-year basis, cloud-ready data center increased 26%, and AI-driven enterprise increased 35%. Automated WAN solutions revenue was negatively impacted by supply constraints and declined 12% year-over-year. However, orders grew double digits versus the last year.

Total software and related services revenue was \$204 million, which was an increase of 67% year-over-year. And ARR grew 34% year-over-year. As Rami mentioned, we are pleased that our software-related metrics were at record levels in the third quarter and are tracking ahead of the targets we shared at our Investor Day in February.

Total security revenue was \$160 million, growing 9% year-over-year. Security product revenue grew 16% year-over-year.

In reviewing our top 10 customers for the quarter, 6 were cloud, 3 were service provider and 1 was an enterprise. Our top 10 customers accounted for 31% of our total revenue, consistent with the third quarter of 2020.

Non-GAAP gross margin was 60.1%, which was above our guidance midpoint, primarily driven by favorable product and customer mix. If not for elevated supply chain cost due to COVID-19, we would have posted non-GAAP gross margin of approximately 61.5%.

Non-GAAP operating expense increased 8% year-over-year and was essentially flat sequentially, slightly below our guidance midpoint. Non-GAAP operating margin was 16.6% for the quarter, which slightly exceeded our expectations.

We exited the third quarter with total cash, cash equivalents and investments of \$1.8 billion. Cash flow from operations was \$137 million in the third quarter. From a capital return perspective, we paid \$65 million in dividends, reflecting a quarterly dividend of \$0.20 per share, and repurchased \$50 million worth of shares in the third quarter.

Now I'd like to provide some color on our guidance, which you could find detailed in the CFO commentary available on our Investor Relations website. Consistent with prior quarters in 2021, the worldwide shortage of semiconductors and other components is impacting many industries, caused in part by the continuation of the COVID-19 pandemic. Similar to others, we are experiencing ongoing component shortages which has resulted in extended lead times and elevated costs of certain products. We continue to work to resolve the effect of the supply chain challenges and have increased inventory levels and purchase commitments. We are working closely with our suppliers to further enhance our resiliency and mitigate the effects of recent disruptions outside of our control.

We believe that even with these actions, 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 supplies of semiconductors and other components to meet our financial forecast. At the midpoint of our guidance, revenue is expected to grow 3.5%. This would be the sixth consecutive quarter of year-over-year revenue growth.

We expect our fourth quarter non-GAAP gross margin to decline sequentially due to higher costs related to supply constraints and product mix. If not for the elevated supply chain cost, we would have forecasted non-GAAP gross margin of approximately 61%. We believe these elevated supply chain costs will prove to be transitory over time, but will likely remain elevated for the next several quarters.

I'd like to point out that despite an expected sequential decline in non-GAAP gross margin in Q4, on a full year basis, our guidance remains approximately 59.5%, which is in line with what we provided previously. While there is a lot unknown about the future due to the pandemic and other macroeconomic uncertainty, we would like to provide a few comments on our outlook for 2022.

Presuming no further COVID-19-related economic deterioration, based on the current order momentum we are seeing, and the anticipated Q4 2021 ending backlog, we expect at least mid-single-digit revenue growth on a full year basis in 2022. In addition, we expect to see at least 100 basis points of non-GAAP operating margin expansion on a full year basis. This guidance is not dependent on improvements in lead times or easing of industry supply chain constraints.

We expect to see seasonal patterns from a revenue, non-GAAP gross margin and non-GAAP operating expense perspective. As a reminder, our non-GAAP gross margin tends to be sequentially lower in the first quarter, with gradual volume-related improvements throughout the course of the year. In addition, operating expense is typically sequentially higher in the first quarter due to the reset of variable compensation and fringe costs.

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) And our first question is from Rod Hall with Goldman Sachs.

Roderick B. Hall - *Goldman Sachs Group, Inc., Research Division - MD*

I guess I wanted to check the number on automated WAN. That was down year-over-year in the quarter, but then it seems like you've got a lot of opportunity as you head into next year. And I just wanted to see kind of what you're thinking happen in the quarter. Maybe you can give us a little bit more color, but also was that supply mainly? And how does that look for you next year as you look out the next 12 months?

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

Thanks for the question, Rod. So the short answer is it's absolutely supply chain limited. It just so happens, as you might imagine, for automated WAN, the predominant product is routing. Routing is one of the more complex products that we need to build. They use the most amount of sophisticated semiconductor components, and for that reason, the discrepancy between revenue and orders is going to be greater for automated WAN and by connection, also for the service provider.

Now having said that, I'm very pleased with both our service provider and our automated WAN momentum, especially from a booking standpoint. I should mention every solution area, automated WAN, cloud-ready data center and the AI-driven enterprise had order growth of over 50%. It's just that the automated WAN had a biggest impact from when it came to supply chain challenges.

I really like the fact that our newer product that we've introduced into the market, line cards for the MX, line cards for the PTX are performing very well. That's something that we monitor closely. We've talked a lot about the metro opportunity, which in large part hasn't really positively helped us in any significant way that, really, I think next year and the year after is when it kicks in. But nonetheless, we're seeing very solid early momentum with record orders for our ACX product line, which is predominantly used in that metro opportunity.

And the last thing I'll say about automated WAN, which is very encouraging, is our 400-gig win rate. So while we don't necessarily see a ton of revenue yet with 400-gig deployment. We are looking at very solid wins and also growing orders at this point, which is reflected in the automated WAN order growth.

Roderick B. Hall - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. And can I just -- just following that up, could you comment on the backlog as -- I know you said it's a \$1 billion increase, I think, year-to-date. Is most of that backlog increase in this quarter in the automated WAN area? Or are you just kind of seeing that across the board? I'm just curious about the composition of the backlog.

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

Yes. So we've been building backlog throughout the year, and it did grow quite healthy in Q3 as well, as you noted, Rod. It is really across the board. I mean backlog is up across all customer solutions. I would say that the automated WAN is up a little bit more than the others, but it really is an across-the-board backlog build with a little bit more slanted towards automated WAN. So we are entering the fourth quarter and I believe next year with a very healthy backlog across all products, but automated WAN is, I would say, the most healthy, if you will.

Operator

And our next question is from Samik Chatterjee with JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

I guess I just wanted to start off by asking on pricing. What kind of actions have you taken on that front? If you can just break that down in terms of the different verticals, where are you finding it easy to take pricing where it's a bit more difficult? And in relation to the supply chain-driven

headwinds on gross margin, when do we get to a point where you can be more net neutral with the pricing actions that you take? And I have a follow-up, please.

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

Yes. So I'll take that. Thanks for the question, Samik. So we are expecting the supply chain cost to remain elevated throughout next year. I still believe they're transitory, and I could be positively surprised where we might see some of that reduction maybe late next year. But at this point, we are presuming that it's going to remain elevated on the cost side.

On the pricing side, we are absolutely taking pricing actions to try to protect our gross margin. At this point, I feel that we are going to be able to protect much of our gross margin. It's a little too early to call exactly how that's going to play out.

The other thing I would also add is the timing. I do expect that the cost to hit us a little earlier. As you can see from the results, costs have already started to hit us and the pricing actions will take some time to feather in, particularly because we have such a large backlog at the old prices. So we need to burn through the backlog at kind of legacy pricing, if you will. And as we make pricing actually going forward, we'll realize that benefit in 2022. But it might not be evenly throughout the year.

Samik Chatterjee - JPMorgan Chase & Co, Research Division - Analyst

Okay. Got it. And just for the follow-up, you are guiding to 5% revenue growth or mid-single digit, as you call it, revenue growth in 2022. In the past, you've given some color about growth expectations by vertical. Just wanted to -- I mean I can see different drivers here in cloud. You have the benefit of 400-gig. There's kind of a momentum on service provider as well. Just if you can help us think about directionally which vertical is probably going to be your strongest growth vertical and kind of rank order them in terms of growth for expectations for next year.

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

Yes. Let me take that and maybe Ken would add some more to it. First, I would say we're not really guiding to mid-single digit or 5% growth, as you mentioned. We are providing an outlook of at least mid-single-digit growth. And just keep in mind that we are supply chain limited right now. So that outlook that we provided assumes no meaningful improvement to the supply chain situation. If a supply chain situation does start to materially improve next year, then I think there is upside to that number. So I would just start with that.

In terms of where that growth comes in. Every vertical is performing extremely well, and every solution area is performing extremely well. Enterprise, I'd say, is going to be a significant growth driver for us. So assuming, again, supply chain goes our way, I think the differentiation that we have in the market, the win rate, the net new wins we're getting sets us up to perform extremely well.

Service provider, I think, could actually do exceptionally well and even compete with the enterprise vertical just from the standpoint of the significant backlog that we've built thus far. So it's going to be very difficult to predict exact stack ordering of contributors to that growth, primarily because it's going to be very much determined by the supply chain situation.

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

One thing I'll add, we'll provide more color in our next call as we typically do in the beginning of 2022. So our Q4 call will provide more color on FY '22 at that time.

Operator

And our next question is from James Fish with Piper Sandler.

Quinton Amedeo Gabrielli - *Piper Sandler & Co., Research Division - Research Analyst*

This is Quinton, on for Jim. Maybe kind of touching base again on the enterprise side. You've seen some really strong quarters, especially within the Mist business. How should we think about the puts and takes of the enterprise strength? Is it driven more by kind of delayed projects returning? Or are we seeing Juniper gaining more share or winning more against the incumbents?

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

Yes. Thanks for the good question. So I'm very confident that we're taking share in the enterprise space. You saw our enterprise routing performance, 7% year-over-year. But I think the big difference between our revenue, and I think I said enterprise routing performance, I mean enterprise revenue performance, 7% year-over-year. Order performance is actually significantly more than that. And the difference is driven primarily by the fact that we had some weakness in enterprise routing due entirely to the federal space where there's still uncertainty about budget. So if you remove that, our strength in the enterprise is phenomenal.

We're seeing significant wins of net new opportunities, and there are 2 things that are driving that today. One is our AI-driven enterprise solutions, campus and branch that includes the Mist for wireless, wired and WAN. That's achieving new records every single quarter, triple-digit revenue growth for Mist. The first triple-digit bookings quarter for Mist wireless significant EX wired switching pull-through of the Mist portfolio, all of these are contributing to that portion of the enterprise business.

The second vector of growth within the enterprise as a data center there as well over 50% year-over-year order growth, significant differentiation with Apstra as a management solution for the data center, very solid win rate. So I just think that we are taking share because of the strength of our portfolio, which have never been this differentiated -- I mean at least in my time at Juniper.

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

And I just want to add on to that a little bit. So as Rami mentioned, enterprise from a revenue perspective, was up 7%. We already talked about automated WAN and service provider being a little bit stunted because of supply. And I just want to make sure everyone is aware that all cuts, whether it's enterprise cloud or SP or automated WAN, cloud-ready data center edge or enterprise, all numbers are actually lower from a revenue perspective than we would otherwise expect. If it were not for supply constraints. We're not going to give you an absolute number of what it could have been. But one way to look at it is the difference between our adjusted bookings on a product perspective, which is 15% or mid-teens in Q3 year-over-year as compared to our revenue growth on a product perspective of 5%. So it's easily to imply that there's an extra 10% of revenue growth that did not happen due to supply constraints. And that would have really lifted all boats, enterprise, cloud and SP.

Operator

And our next question is from Simon Leopold with Raymond James.

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

I want to see if you could talk about the general trend in your input costs. And specifically, what I'm pondering is the components, particularly chips that you're ordering now or ordered during the quarter are likely to set up in 40, 50 weeks at higher price points. So I want to get a better understanding how to think about the impact of that particular headwind in '22 gross margins. Is that something you could help us with?

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

Yes. So as you can see from -- we provided the actual reported gross margin of 60.1% this quarter, which was above midpoint due to product mix being favorable. But we also talked about what it would have been if it weren't for the elevated costs, which would have been close to 61.5%. So these elevated costs are hitting us now. And one thing I would say, Simon, yes, we have purchase orders throughout all of next year. In some cases, out 50 weeks; in other cases, out 80 weeks, in an attempt to secure supply.

And these are noncancelable committed purchase orders with pricing. That said, this pricing environment is kind of taking that and throwing it out the window. We are seeing costs going up despite the fact that we have orders in place. So we are expecting -- the orders we have in place are not necessarily the price we're going to pay, whether it's disguised in the form of an expedite fee or purchase price bearings, et cetera, we're seeing costs going up in advance of those orders being fulfilled if that makes sense.

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

I think it does. Just to clarify, all else being equal, your mix the same, customers the same, gross margins for products would be lower in 2022 than they are right now. Is that fair?

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

Not providing 2022 specific gross margin guidance at this point. There's too much uncertainty. You could count on us giving you better understanding, 90 days from now on our next call. I will say this, we are not dependent on gross margin improvement next year for us to hit our commitment of at least 100 basis points improvement in operating margin. So we are very committed to expanding profitability next year, and we are not dependent on gross margin to do that, but we are very committed to expanding profits.

Operator

Our next question is from George Notter with Jefferies.

George Charles Notter - Jefferies LLC, Research Division - MD & Equity Research Analyst

I guess, as I listened to the call, you guys have thrown out a lot of numbers, certainly some eye-popping stats, I think, in terms of the additional \$1 billion in backlog, triple-digit order rates across a number of your business lines and customer areas. And yet we're talking about mid-single-digit growth for next year. Certainly, I think you caveat of that is at least mid-single, but I guess I'm trying to understand sort of the delta between all these numbers. I mean it seems like at some level you expect that some of your customers have double and triple ordered with you. I mean I guess I'm wondering like how you see that dynamic and how does that play out going forward.

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

George, I'll start. So I mean, you sort of said it, we're really not guiding or we're not providing an outlook of mid-single digits. We're providing an outlook of at least that number. And we're doing it with the major assumption that supply situation does not, in fact, get better. If the supply situation, in fact, does start to improve, and it could by the second half of next year, then I think you will see an upside to this outlook that we provided. That's really the net of it. At this point in time, based on visibility, we felt that it would be prudent for us to provide you with an outlook based on the supply situation not improving. However, that could be a false assumption. Things could actually be better next year.

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

Absolutely. I mean there's no doubt that the limiting factor or the primary input into our guidance or outlook for next year is supply. This really has to do with how much supply we think we're going to have access to next year, and that's where we came up with at least mid-single digits. If it were purely a demand equation, the number would be much greater than that. And that holds true next year but also this year.

Operator

Our next question is from Meta Marshall with Morgan Stanley.

Meta A. Marshall - Morgan Stanley, Research Division - VP

I just wanted to see kind of where you were seeing the most traction with the Apstra business. And was it enterprise or just were you seeing kind of any traction on the hyperscale side or on the cloud side? And then maybe just a second question, if you could just remind us of how much of the Q3 year-on-year growth would be inorganic.

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

Yes. Let me start with your question about Apstra. So first, I'll just say very quickly that we never anticipated that the Apstra would be a significant opportunity in the hyperscale space, primarily because the top 5 hyperscale customers tend to develop their own automation software. That being said, everything outside of hyperscale, enterprise, service provider, even cloud majors is an opportunity. Where we have thus far seen the quickest win rates, the biggest pipeline build is in the enterprise, large to midsized enterprise companies.

And as I mentioned earlier, it's extremely encouraging the rate at which we are taking down new opportunities. There is absolutely a demand for this kind of automation technology for the data center space. And there are some very unique aspects to our Apstra software offering. First and foremost, it's the only open solution in the market today. None of our peer automation solutions work on anything but their own switching infrastructure. Apstra works on our own switching as well as SONiC as well as our competitors switches. That turns out to be a highly desirable feature of the technology.

Apstra is designed ground up to scale to the largest data centers that's very meaningful for large enterprises, especially in financial services and manufacturing and other similar verticals. And Apstra invented, pioneered the concept of intent-based networking. So from an operational experience standpoint, there really is nothing as good as it's in the market. So very, very pleased with the performance thus far, and I think this is going to be a great growth driver for us in the future.

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

Yes. And your second question on organic versus inorganic. When we started the year, we called out that we believe the inorganic acquisitions in aggregate, all 3 of them would add about 1% of revenue growth to Juniper. It's about \$50 million. And that's holding exactly as we expected. So you could take that \$50 million. I'm not going to give you the exact number in Q3. But if you start with the \$50 million for the year and kind of quarterize that, that gives you some indication of the inorganic revenue in Q3.

Operator

Our next question is from Amit Daryanani with Evercore ISI.

Michael Fisher - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

It's Michael Fisher, on for Amit. I was curious on one of the comments on the AI-driven enterprise revenue growth. You mentioned both Mist and EX product families grew year-over-year. I was curious if you can give some more color on the trajectory there and whether growth rates are accelerating, decelerating, not moving around too much for each of those product families.

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

Yes. Sorry, you glitched there for a second. I think you're asking about Mist WiFi and then also the...

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

EX.

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

And EX. Got it. Thank you. So first, I think by any measure, Mist has been an incredible acquisition for Juniper Networks, and it really has put our enterprise business on a significant growth and take share trajectory. Q3 was no difference in terms of the quarter-over-quarter record we continue to make. This was a record AI-driven enterprise orders quarter and record AI-driven revenue quarter for us.

Order growth is well into double digits growth in all customer verticals, SP, enterprise and cloud providers that are all embracing the technology. And I think I did mention that it's not just about WiFi. Although WiFi in and of itself was a record and hit triple-digit bookings for the first time in the Q3 time frame. We saw a record number of EX pull-through both in units but also in revenue as well. So that has always been the strategy for Mist not just by WiFi, it's that entire client to cloud connection that includes WiFi, wired and WAN. We're seeing the full benefit in wireless and wired as we integrate 120 Technology into the WAN, which is really going to happen by the end of this year and the first part of next year. I think we'll see a similar pull-through effect happening on that side as well. So the momentum has just been really strong. I expect that to continue for sure.

Operator

Our next question is from David Vogt with UBS.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

Great. So Ken, can I just go back to the commentary about product order growth versus actual product revenue? Are you suggesting that in 3Q, there was roughly \$70 million of deferred product revenue that shows up in your product backlog that you're going to recognize next year? And if I do that same math in the June quarter, it's probably about \$60 million or maybe \$55 million. So is that revenue that you think you'll be recognized next year? Is that the right way to think about it? And then I have a quick follow-up.

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

Yes. So I think those numbers you're referring to are in the ballpark from an adjusted bookings perspective. Our actual backlog is growing much faster than that. We've talked about greater than \$1 billion, so much bigger numbers. But if you just go to our adjusted bookings number, which is that mid-teens number, that delta to revenue were the numbers you just quoted. And those were the -- those are the revenue that we could ever arguably should have recognized already, right, in Q3. That plus 10%, that \$70 million you're referring to. That if were not for supply constraints, we would have recognized approximately that much more revenue is really the math I want you to understand. From a backlog build, it's much greater than that because customers are placing orders at a faster rate.

David Vogt - UBS Investment Bank, Research Division - Analyst

So then maybe just as a quick follow-up. So that \$70 million, given your backlog, I guess, would be recognized in calendar 2022. So when I think about your commentary about at least mid-single-digit revenue growth, that sounds like about 1.5 points of that growth comes from the backlog pushed from, let's say, 3Q into 4Q, and I would imagine you're expecting something similar in Q4. Is that the right way to think about your '22 revenue outlook? There's some push-out in 3Q and 4Q that's going to benefit in 2022.

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

I do think that the backlog build, whether it's the adjusted bookings backlog build or even the unadjusted for that matter, is going to ship essentially, right? So I think that gives us confidence in our revenue outlook of at least mid-single-digit revenue growth. The reason why we're not guiding more than at least single digits is supply constrained. So we're supply constrained today, and we're expecting to be supply constrained next year as well. So how much of that backlog and how quickly we're able to ship it is still uncertain at this point, but we feel very good about at least mid-single-digit growth due to the strength of our backlog, due to the strength of the momentum we're seeing on the booking side. Quite honestly, the execution we have in the field and the product differentiation we enjoy. So there's a lot of reasons to be more bullish. The one reason to be somewhat prudent is supply, and that's something that's keeping us kind of at least mid-single-digit level at this point.

Operator

And our next question is from Fahad Najam with MKM Partners.

Fahad Najam - MKM Partners LLC, Research Division - Executive Director

I apologize I missed much of the call. So if I'm repeating, I apologize. But I just want to get a better sense on your gross margin trend. In terms of -- can you give us some color on pricing environment? And how much of puts and takes does that offset to a degree the component and freight costs that are impacting your near-term gross margin? And more how do you think the pricing environment plays out next year? I suspect it's probably favorable. And if anything, if I look at some of your peers like Cisco who highlighted significant benefit in the fourth quarter from the pricing environment, I suspect you're also likely to benefit from that. So can you give us a color on how that plays out versus component costs?

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

Yes. So we already are seeing some of the elevated costs related to the component shortages, freight, et cetera, and we expect those costs to remain elevated throughout next year. And in some cases, perhaps get a little worse. Other cases perhaps get a little bit better, but we expect elevated costs throughout all of next year, and we're already experiencing those. We've given you not only the gross margin reported, but the adjusted gross margin, just to account for that -- those extra costs, which we do believe are transitory. However, at this point, we're assuming it's not going to go away in 2022, it will be beyond that.

On the pricing side, we are taking actions. I think many of our competitors are taking similar actions. It will take some time for us to -- for those actions to really hit our P&L. I do expect them to be beneficial to 2022, but the timing will be a little more back-end loaded because we are carrying such a large backlog, right? We have nearly \$1.5 billion of backlog. We talked about growing at over \$1 billion. We started the year with \$420 million. So we're nearly at \$1.5 billion.

That takes some time to burn through, and that's not going to be impacted by the pricing actions as much as the future of orders will be. So you'll start to see some benefit. How that all plays out is something we're -- it's just too early for us to quantify and provide outlook on. But what I am confident on is our profitability will grow next year and op margin will expand by at least 100 basis points.

Fahad Najam - MKM Partners LLC, Research Division - Executive Director

Can you share how the customer feedback has been on the price hikes, especially like are you getting a lot of pushback? Can you give us some color on the discounting environment? Is it more disciplined across the market? And should that all else being equal, if you have a favorable discounting environment, wouldn't that to a degree, significantly offset the component headwinds that you've highlighted?

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

Yes. So we are taking the pricing actions with that goal in mind, right, to protect our gross margin. And I think to a degree, it will. How much degree is what we're still working through and not willing to provide an outlook at this point. But absolutely, it should help offset and protect our gross margin. That's why we're taking the actions. From a customer acceptance perspective, I think overall, I would summarize it as they're not surprised. They're seeing it across the board across most of their suppliers. We're seeing it across our suppliers. This is something that's upstream and not surprising. Obviously, I don't think that they are necessarily jumping up for joy when we talk about price increases, but I think their understanding of it. and we feel that we'll be able to capture much of that price increase and to be able to protect margins to the best of our ability.

Operator

And our next question is from Jim Suva with Citi Group.

James Dickey Suva - Citigroup Inc., Research Division - MD & Research Analyst

My question is your outlook for next year is very encouraging. I think you said at least mid-single digits. Can you just recap this year and next year the amount of organic versus inorganic? Because I think sometimes the timing layers in a little bit organic versus inorganic. And I just assume, but maybe you can answer, next year's outlook is not including anything not announced or pending or things like that for acquisitions.

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

Yes. So next year's outlook does not assume any new acquisitions. I mean the acquisitions we made approximately 12 months ago are now baked into our run rate and baked into next year's outlook. Those businesses are growing. And so you would see a year-on-year improvement if we were to break that out, which we're not. But we have backed that into our at least mid-single-digit growth. But yes, this is an organic Juniper as today. And how about for next year? I does not require any additional M&A.

Operator

And 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 all squeezing me, and I apologize if this has already been asked and answered. First off, with respect to web-scale customers, I know 6 of your top 10 customers were cloud. And I know that's been pretty typical in preceding quarters, but are all 4 of the web-scale giants among those 6?

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

Are all 4 of the hyperscalers, the web scale giant amongst those 6? We don't break out that little detail, as you know, Paul. I mean I think it's a fair assumption that where the CapEx is where you're going to see our biggest customer. So where the spend is, is likely going to be where our top 10 customers are, but I'm not going to get into any more detail than, say, 6 of our top 10 are cloud customers.

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

I do want to add just, Paul, that our cloud provider business is performing incredibly well. Second quarter of triple-digit order growth. And I love the broad-based strength that we're seeing. So we're seeing an expansion within hyperscale of opportunities and diversity across the 4 or 5 big hyperscale customers. So it's not just our traditionally largest cloud provider customer that's driving that growth. There's also other hyperscale customers. And add to that, the cloud majors, Tier 2, Tier 3 cloud providers that are also performing very well. There's an additional element of strength and broad-based diversity, and that is in the technology space. So routing, switching and security are all performing really well within the cloud provider segment.

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

So Rami, to that statement, I assume -- I recognize as you just pointed out, you've got more than just routing. But I assume routing is a big portion of those large -- of your business with those largest cloud operators. Where I'm really trying to go with this, and I'm trying to be too clever by half, clearly, is in light of Facebook's massive, what is a \$10 billion to \$15 billion increase in calendar '22 CapEx, I was trying to discern to what extent if any you will leverage. I assume you do have leverage, but I suspect you're not going to be willing to answer that if you are great. If not, I'd like to ask you -- let me pause and let you respond. And then I have a quick follow-up.

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

Well, I'm not going to answer a question that's specific to a customer. However, I will say I'm looking at the hot off the press earnings results from our -- the hyperscale cloud providers looking at their CapEx rates and feeling very good about that because as long as their business is performing well, they will need to invest in their infrastructure to maintain that strength to keep up with the demand that they are seeing, and we will benefit from that. As simple as that. Our footprint in routing within hyperscale is phenomenal. We've maintained that footprint despite many attempts by competitors to take slices of it away from us. And then as you go into the top 10 and the cloud majors, it's not just about routing. It's about routing and switching for us.

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

Understood. A quick follow-up. I assume -- assuming that an increasing number of customers are, in fact, providing longer-term forecast, as I believe it's been the case for you and most others. I assume your forecast, your outlook for '22 is relatively more solid. There's more knowledge underlying it and less hope relative to last year and preceding years. Is that simply a given?

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

Yes. I think given the strength of our backlog, and that's the most tangible way to look at it. I mean we have hard orders in place for a much greater percentage of next year's revenue than we normally would entering the year. So I think that absolutely gives us better visibility than we are accustomed to as we enter in future periods.

Operator

And our last question would be from Alex Henderson with Needham.

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

I was hoping you could talk a little bit about the broader pricing environment not necessarily in context of what you're doing, but rather what you're seeing from your competitors and to what extent your actions are under an umbrella or ahead of the umbrella? And just can you talk about your price in your categories relative to what they're doing?

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

Yes. I mean I don't want to get super specific on what others are doing individually. But I can tell you pricing actions, whether they be list price actions, discount controls or other types of actions are absolutely something that many companies -- I assume not just in our peer group, but even in other industries where they're getting input costs are rising pretty dramatically. Many companies are exploring and implementing it. And I can tell you that so far, we've taken some actions. We'll continue to look at opportunities going forward, all in an effort to protect our gross margin.

The input costs are absolutely rising. I think that's not a secret. It starts upstream with the wafers and the fabs and then moves into our component suppliers, and they're seeing higher costs and they're looking to pass those on to us. And we're looking to pass those on to our customers. And so far, we feel that -- we feel confident we are going to benefit from the actions we're taking, but we -- it's just too early to commit to gross margin inputs -- gross margin outputs for next year.

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

Certainly, I understand the mechanics of that and I think everybody on the call does. There shouldn't be any surprises there. But the real question is, are you more aggressive in trying to push price? Or are you less aggressive versus your competition? And I'm not asking for you to describe it on a per specific person or company, but rather in general, are you more aggressive or less aggressive on pricing than your competition in the categories that you are competing? And particularly, can you focus a little bit on the campus market, which is particularly important to your growth team?

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

Yes, Alex, let me take a stab at it. So it's very difficult to sort of answer that quantitatively because we don't know in a lot of detail what everybody else is doing. But to the extent that our peers are attempting to do what we're doing, which is essentially to offset cost increases, then I think first order of magnitude are going to be all roughly in line with each other. That's sort of how I would answer that question. And then in the campus and branch, in particular, yes, I mean, there are going to be cost pressures there just like anywhere else. But the thing about campus and branch that makes me feel very good is the level of differentiation, and this is a software-led differentiation has never been stronger, and it allows us to win to compete and win on value. So there are opportunities that we are winning now fairly routinely where we are not price leaders, and yet we're able to garner a greater price just because of the differentiation that we have with that solution.

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

With all due respect, I think there are large differences between the locations where price actions are being taken by your competitors and necessarily your exposure to them so that there could be meaningful differentials between categories. And my guess is that the campus is an area that prices have gone up more rapidly, but I'd be interested if you have any thoughts on that point.

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

No additional thoughts at this time. Thanks for that input, Alex. I appreciate it.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call back over to Rami Rahim for closing remarks.

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

Yes, briefly, I just wanted to thank everybody for participating in the call today and for the great questions. I'll just leave you with a couple of thoughts. First, I remain very encouraged by the momentum that we're seeing in the business. especially the diversity of the strength that we're seeing across market segments and technologies and solution areas. I think the team is executing extremely well, and I'm very proud of our Juniper team for doing that. And last but not least, I think the demand strength we're seeing, coupled with the backlog that we've built right now sets us up for a great next year, both from the standpoint of achieving revenue growth but then also our commitment to expanding profits as well. So I'll leave you with that thought. Thanks, again.

Operator

And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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