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JNPR.N - Q3 2022 Juniper Networks Inc Earnings Call

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OVERVIEW:

Co. reported 3Q22 total revenue of \$1.415b and non-GAAP EPS of \$0.58. Expects 4Q22 revenue to be \$1.475b at the midpoint of guidance and non-GAAP EPS to be \$0.64, plus or minus \$0.05.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Juniper Networks Third Quarter 2022 Financial Results Conference Call. (Operator Instructions)

We will open the floor for your questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Jess Lubert. Sir, the floor is yours.

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

Thank you, operator. Good afternoon, and welcome to our third quarter 2022 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 Q3 2022 results. We delivered better-than-expected results during the September quarter as total revenue of \$1.415 billion not only exceeded the high end of our guidance but also set an all-time quarterly revenue record for Juniper.

Total product sales grew 25% year-over-year and we saw double-digit year-over-year revenue growth across all customer verticals and all customer solutions. Our gross and operating margin also exceeded expectations, resulting in non-GAAP earnings per share of \$0.58, which was above the high end of our quarterly guidance. Our Q3 results reflect the strong demand we've experienced across customer verticals and solutions since the beginning of last year as well as the actions we have taken to procure incremental supply and overcome the many supply chain challenges that continue to exist in the market.

Our teams have executed extremely well over the course of the past year and these results are only possible due to the exceptional efforts from our go-to-market, product management, engineering, services and supply chain organizations, along with many others. This alignment across the company has not only helped us achieve strong Q3 results, but also should position us to deliver continued strength in Q4 and sustained growth in 2023 and beyond.

Overall demand remained healthy in the September quarter with product orders being high single-digit year-over-year growth when adjusted to account for customers placing orders early due to the extension of the lead time related to supply chain challenges. While gross orders experienced a mid-teens year-over-year decline, this was primarily due to a difficult comparison in the same quarter of last year, when there was a large amount of this early ordering, particularly amongst our cloud and service provider customers, where order patterns are now beginning to normalize as supply improves. We're paying very close attention to customers' willingness to both invest in new network projects and consume prior orders as supply becomes available, given the various economic uncertainties happening around the world.

While we have seen some customers more closely scrutinizing budgets as well as the timeline for certain projects -- by and large, we remain encouraged by the overall momentum we are seeing, which remains well above pre-pandemic levels and the expectations we had entering the year. We believe this momentum reflects the network's growing strategic importance to our customers' digital transformation and cloudification initiatives as well as certain cyclical tailwinds surrounding early-stage opportunities, such as 400 gig upgrades, where we saw accelerated momentum this past quarter with nearly 100 new wins spread across wind and data center environment.

Bolstering our momentum is the most differentiated solution portfolio Juniper has ever had. Our focus on delivering solutions that dramatically simplify customer operations and enhance end user experience, what we call Experience First Networking continues to resonate across each of the markets we serve. This is particularly true in the enterprise, while we not only achieved record revenue results in Q3 and a third consecutive quarter of double-digit year-over-year revenue growth, but we also saw continued demand strength with orders growing mid-teens year-over-year.

We believe our portfolio of campus, data center and wide area solutions is truly differentiated, which along with the investments we've made in our go-to-market organization is enabling us to capitalize on our customers' digital transformation and network modernization initiatives and, in many cases, shift share from the competition. We remain focused on scaling our enterprise business, and I'm confident that our new Chief Revenue Officer, Chris Kaddaras, will bring valuable insights and experience that will further accelerate our enterprise success.

Our cloud business also delivered solid Q3 results with revenue growing 24% year-over-year. Many of our cloud customers are early in their deployment of large-scale 400-gig upgrade and data center builds that are likely to present multiyear revenue tailwinds as supply improve. These customers are consuming prior purchases and forward revenue visibility remains high.

The large deals we announced previously are performing, and we are competing well for several additional large opportunities that could result in additional growth in future periods. I continue to be encouraged by the increased diversity of our cloud business as we saw strong growth from 4 of our top 5 cloud accounts and continued momentum amongst cloud majors during this past quarter.

I view this increased diversity and reduced reliance on any 1 customer as an important positive development that is providing increased confidence in this vertical's long-term growth prospects and our ability to navigate any potential lumpiness in customer spending. Our service provider business also delivered strong results in Q3, with revenue rising 17% year-over-year.

We remain confident regarding our ability to grow our service provider business as our customers consume prior purchases, and we make traction with the metro routing market where our new cloud metro solutions bring superior scale, power efficiency and automation capabilities to the sizable and growing portion of the market. I'd like to emphasize that we continue to feel good about our ability to capitalize on big opportunities tied to enterprise digital transformation and clarification initiatives, 400-gig upgrades at cloud and service provider customers and the broader adoption of cloud-based services and network architectures.

Based on my recent conversations with customers, these opportunities represent key strategic initiatives that we believe will present durable tailwinds for our business over the next several years, even in the event macro conditions soften. We also believe our focus on leveraging artificial intelligence and software automation tools to improve network operations and reduce cost is truly differentiated and creating opportunities to shift share.

In summary, overall demand remains healthy. And given the backlog we've built, along with the actions we've taken to secure more supply, we are now incrementally more confident regarding our top line outlook and our ability to ship products to customers. As a result, we now expect to deliver approximately 12% to 13% year-over-year revenue growth in 2022 and at least 7% year-over-year revenue growth in 2023.

We remain focused on delivering improved profitability and expect non-GAAP operating margin to expand by at least 100 basis points in 2023. 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 automated WAN. We delivered strong results in the Q3 time frame. Revenue saw double-digit year-over-year growth across all customer verticals with particular strength in our MX product family where our newer Trio 6-based products such as the MX10K, the LC 9600 line card and the MX304 continued to perform exceptionally well. We are continuing to see strong demand for our 400-gig products with our cloud and service provider customers and now have nearly 400 wins for wide area use cases across our MX, PTX and ACX products. We also saw another quarter of strong order growth for our ACX cloud metro portfolio, and our Paragon software automation suite. We plan to introduce new hardware and software automation capabilities in future quarters that will further enhance our competitive position in this attractive portion of the service provider market.

Our cloud-ready data center revenue also saw a strong year-over-year growth in Q3 due to the momentum with cloud major accounts. Orders with these accounts also remained strong and saw solid double-digit growth year-over-year as we continued to successfully develop new franchises and generate strong momentum with deals greater than \$1 million. Our 400-gig data center solutions are resonating in the market, and our solutions have now secured approximately 100 data center switching opportunities that span across cloud majors, enterprise and service provider accounts.

Our Apstra pipeline continues to build with qualified leads approximately doubling on a sequential basis. New logos saw healthy momentum, and we're seeing strong hardware pull-through for every dollar of software, which is a positive indicator for future growth. With the recent launch of Abstract Freeform, which provides more flexible deployment options and expand the list of potential customers we can address, we remain optimistic regarding the outlook for Apstra and our data center opportunity.

Customer interest in our cloud-ready data center portfolio remains high. And given the wins we've already secured, I'm optimistic about our ability to capitalize on the attractive growth within this market over the next several years. Our AI-driven enterprise business continues to materially outpace the market with revenue growing 16% year-over-year and orders rising more than 25% year-over-year.

This strength was led by our mystified business, which is a segment of our campus and branch portfolio driven by Mist AI and the cloud. This area saw both revenue and orders grew more than 50% year-over-year, with record sales of Mist WiFi and EX switching. On an annualized basis, our Mystified order run rate surpassed \$850 million in the Q3 time frame, which is up meaningfully from the run rate we last disclosed during Q4 of 2021.

We remain encouraged by the traction we're seeing with large customers, especially those choosing Juniper for full stack wins, which we define as a combination of wired access, wireless access, SD-WAN and/or edge security products managed via Mist AI. Notable wins for the AI-driven enterprise this quarter include the largest health care provider in the U.S., a large U.S. service provider, a top global logistics provider, a global 10 international energy provider and several top universities around the world.

We also saw a large renewal with a Fortune 10 retail account. Juniper continues to remain highly differentiated in the industry with our full breadth of wired, wireless, SD-WAN and indoor location product all managed via common microservices cloud and sixth-generation AI-driven operations. This provides industry-leading insight and automation, resulting in amazing user experiences from client to cloud. Juniper continues to innovate aggressively in these areas as evidenced by several exciting product announcements this quarter, including a new AI-driven access switch, the ES4100 enhancements to Marvis AI Ops that deliver even more insights into client experiences and groundbreaking new features that combine AI Ops with indoor location services to save time and money when deploying new wireless networks.

In addition, we announced new features and payment options that facilitate the consumption and operations of Juniper AI-driven network as a service, bringing even more flexibility, agility and insight to Juniper customers and partners. Our prospects for the AI-driven enterprise have never been stronger. We're taking market share in key areas such as wireless, where the 650 Group recognized Juniper as the fastest-growing enterprise and outdoor wireless vendor in their most recent market research report.

And we continue to be distinguished by respected third parties like Gartner, who have us in the leader position in 2 most recent Magic Quadrant for wired wireless land access infrastructure and indoor location services. As a result, the AI-driven enterprise remains a cornerstone of our enterprise go-to-market efforts and promises to be a key catalyst for the growth Juniper expects in the enterprise in coming years. Our security revenue declined in Q3 due to the deliberate shift from upfront appliance sales to a ratable software subscription model, which is likely to present headwinds to revenue over the next few quarters.

While we also saw some lumpiness in our high-end security business, we continue to see strength in our midrange firewall portfolio as well as our software-only security and cloud offerings. Customers appreciate the value of Juniper's Security Director Cloud platform to provide a single policy framework to manage all their firewalls, whether in the data center or at the edge or whether on-premises or in the cloud, which is essential to help customers migrate to Zero Trust and SASE architectures.

This platform launched in Q1 and already has more than 200 customers. We remain confident in our connected security strategy and expect this business to return to growth during the second half of 2023 as we build up more ratable software revenue. We experienced strong software momentum in the Q3 time frame, which saw total software and related services revenue grow by 21% year-over-year to account for 18% of our total revenue.

Our annualized recurring revenue, which solely consists of truly ratable software subscriptions and related services increased 38% year-over-year due to the strong demand for Mist and security subscriptions. We believe the outlook for our software business remains strong, and we are encouraged by the momentum we are seeing with our Junos-based Flex software, off-box subscription software and software-as-a-service offerings such as Mist.

Much of this momentum can be seen in our deferred revenue from customer solutions, which grew 11% sequentially and 50% year-over-year. The truly ratable component of this deferred revenue, which accounts for more than half of the total grew even faster, doubling on a year-over-year basis. I'd like to mention that our Services team delivered yet another record quarter due to strong renewals and attach rates.

In addition to strong revenue, we also achieved another quarter of solid services margin. Our services organization continues to execute extremely well and is focused on driving customer success through automation and cloud-delivered insights, creating new revenue opportunities and also

benefiting margins. 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.

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 delivered record revenue during the third quarter of 2022, at \$1.415 billion in revenue, which was above our guidance range and growth of 19% year-over-year. Non-GAAP earnings per share was \$0.58 and also above our guidance range due to the higher-than-expected revenue and gross margin.

Product orders were in line with our expectations in the third quarter. As a reminder, we have experienced order strength from customers placing orders at an accelerated pace to account for extended lead times related to industry supply chain challenges over the course of the past year. The impact of accelerated ordering decreased in the third quarter of 2022.

We expect this impact to continue to dissipate over time. While total product orders declined in the mid-teens year-over-year, due to difficult comparisons, adjusted orders grew high single digits year-over-year. Strong demand in the enterprise vertical continued with total orders growing mid-teens on a year-over-year basis.

Our backlog remains elevated, but declined sequentially due to improvements in supply. We would expect backlog to further decline as supply improves. We are very pleased with the balance of revenue growth in the third quarter across customer solutions and verticals. We saw double-digit revenue growth in all customer solutions on a year-over-year and sequential basis.

Automated WAN solutions increased 39%. Cloud-ready data center increased 18%, and AI-driven enterprise increased 16% on a year-over-year basis. On a sequential basis, automated WAN solutions increased 15%. Cloud-ready data center grew 14% and AI-driven enterprise revenue was up 17%. Looking at our revenue by vertical. All verticals grew double digits on a year-over-year and sequential basis. Enterprise and service provider revenue grew 17% versus last year and our cloud business increased 24% year-over-year.

This was a record revenue result for our enterprise vertical. On a sequential basis, Enterprise grew 10%, Service Provider increased 11% and cloud increased 13%. Total software and related services revenue was \$248 million, which was an increase of 21% year-over-year. Annual recurring revenue, or ARR, was \$261 million and grew approximately 38% year-over-year.

Total security revenue was \$140 million, down 13% year-over-year. In reviewing our top 10 customers for the quarter, 5 were cloud, 3 were service provider and for the first time, 2 of our enterprise customers. 34% of our total revenue came from our top 10 customers in the third quarter of 2022 as compared to 31% in the third quarter last year.

Non-GAAP gross margin was 57.2%, which was above the midpoint of guidance, primarily due to favorable product mix and higher revenue volume. The supply chain continues to be constrained with long lead times and elevated costs. However, we have seen some improvement in the volume of supply. If not for those elevated supply chain costs, we estimate that we would have posted non-GAAP gross margin of approximately 60%.

Operating expense increased 10% year-over-year and 5% sequentially on a non-GAAP basis. Primarily due to headcount-related costs and higher-than-expected variable compensation. Non-GAAP operating margin was 17.2% for the quarter, which was above our expectations due to the higher revenue and gross margin. Cash flow from operations was \$52 million. We paid \$68 million in dividends, reflecting a quarterly dividend of \$0.21 per share.

Total cash, cash equivalents and investments at the end of the third quarter of 2022 was \$1.3 billion. Now I would like to provide some color on our guidance. Which you could find detailed in the CFO commentary available on our Investor Relations website. We continue to work to resolve supply chain challenges and have increased inventory levels.

We are working closely with our suppliers to further enhance our resiliency and mitigate the effects of disruptions outside of our control. We believe that even with these actions, extended lead times and elevated costs will persist into 2023. 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.

For the fourth quarter of 2022, we expect to see revenue of \$1.475 billion at the midpoint of our guidance, which is growth of approximately 14% year-over-year driven by the strength of our demand forecast, our backlog and an improved supply outlook. Non-GAAP gross margin is expected to be approximately 57%.

Our non-GAAP earnings per share is expected to be \$0.64 plus or minus \$0.05, assuming a share count of approximately 330 million shares. While the current global macroeconomic environment poses some uncertainty, we would like to provide some additional color regarding our current outlook for 2023. With the order momentum we are seeing as well as our backlog visibility and current expectations for supply we expect revenue growth of at least 7% on a full year basis.

We see an opportunity for non-GAAP gross margin to stabilize or slightly expand in 2023 on a full year basis. However, this will depend on revenue mix as well as the future trajectory of supply constraint related costs, which we expect to modestly improve over time, but to remain elevated relative to historical levels.

With this in mind, we expect non-GAAP operating margin to expand by at least 100 basis points on a full year basis. Non-GAAP earnings per share are expected to grow double digits in 2023. At this point in time, we expect to see revenue seasonality in 2023. However, the degree of seasonality will be directly impacted by availability of supply and may vary relative to historical trends.

As a reminder, our gross margin tends to be seasonally lower in the first quarter with gradual volume-related improvements throughout the course of the year. Any improvement in supply constraint-related costs is expected to be weighted toward the second half of the year. Our long-term financial objectives have not changed. We plan to deliver sustained revenue growth improved operating margin and earnings expansion over time. In closing, I would like to thank our team for their continued dedication and commitment to Juniper's success. Now I'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is coming from Aaron Rakers from Wells Fargo.

Aaron Christopher Rakers - *Wells Fargo Securities, LLC, Research Division - MD of IT Hardware & Networking Equipment and Senior Equity Analyst*

Congratulations on the great quarter. Good execution. I guess what I wanted to ask you, Ken, was I think last quarter, and correct me if I'm wrong, you had alluded to an expectation that backlog would kind of remain flat through the back half of the calendar year. So it sounds like that maybe supply is loosening up a little bit quicker than you previously expected.

Maybe you can just dive into the supply chain and how much of that backlog, if you will, kind of unlock or recognition is kind of helping drive your updated expectations, not just for this year, fiscal 4Q, but also through 2023. How do you expect backlog to kind of trend here as we move forward?

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

Yes. That's a good question, Aaron. Thanks for the question. So yes, backlog did decline approximately \$100 million in this quarter, down to \$2.3 billion, still an extremely high number relative to our past, and we're still enjoying a lot of visibility, great to the great demand in the backlog we built over the past several quarters. It did decline a bit, and that was really a factor predominantly of more supply, quite honestly.

And you saw that in the revenue result as well. And we also raised Q4 revenue guidance a bit and raise next year. So we are seeing volume of supply start to improve. That should result in backlog declining over time. I mean backlog at \$2.3 billion or at these levels is not sustainable, quite honestly. I do expect backlog to normalize over hopefully, a long period of time.

At this point, I would expect backlog likely to decline a bit in Q4 as we continue to enjoy a little bit more supply and satisfy customer demand a little better than we were in the past. So I'm not surprised by the backlog performance. I still expect it to be up as compared to the beginning of the year and still extremely elevated, but do you think we'll start to see a decline here over the next couple of quarters.

And next year, I think backlog, we're likely to decline as well at some point throughout the year. Our supply improved and lead times normalize, which I hope happens, we will see a normalization of backlog, I would expect next year at some level. Again, I still expect we'll enter -- or exit next year elevated significantly elevated for that matter, but I think it will come down off of kind of record levels that we're at now.

Operator

Your next question is coming from Samik Chatterjee from JPMorgan.

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

I guess I had -- the first one that I wanted to start with, as you did mention earlier on in your prepared remarks about seeing some sort of more scrutiny from your customers. But wondering, sir, what you're seeing from the service provider as well as the cloud vertical? I know there's been a lot of discussion on enterprise customers evaluating spend more, but what are you seeing from the other 2 vertical service provider and cloud in response to the macro?

And if I can just squeeze in a second one here, which is just trying to think about the gross margin guide for fiscal '23 here, which does look a bit more modest than we were expecting? And sort of trying to think about supply visibility that you have and what could potentially drive upside to that number? What you probably like baking in, in terms of going back into the broker market for supply into that number? And what could potentially drive some upside to that gross margin for next year?

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

So Samik, thanks for the question. I'll start with the question around customers, and then I'll pass it on to Ken to talk a little bit about gross margins. So as I mentioned in our prepared remarks, demand remained healthy for the quarter. I think it remains above prepandemic levels. It remains above expectations that we had entering into the year. If you want a little bit more color about sort of SP cloud versus enterprise, I do think the dynamics of demand are a little bit different between those 2 segments.

So if I look at SP and Cloud first, there was a huge amount of early ordering that was happening just a year ago. And that's starting to normalizing -- to normalize. I don't think it's completely normal at all, but it's starting to normalize. And so for that reason, I think if you want a view of demand, you really have to look at both orders and revenue.

And the combination of both, I think, are very positive for SP and Cloud and give us great visibility into next year, and it's why we feel good about raising our outlook for the following year. In the enterprise, there was some early ordering that was happening a year ago, but nowhere near as much as what was happening in SP and Cloud. And we continue to see great order growth, mid-teens order growth in the enterprise.

I do think there's a market component to why that is. I also think there is just a differentiation, execution, the competitiveness of our offering, especially our AI-driven enterprise, our mystified solution that is doing so well in the market right now.

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

Yes. And from a gross margin perspective for 2023, I'm going to have to remind everybody, it's still a very challenging environment in supply chain world and very unpredictable. So I wanted to have a certain level of prudence. I do believe we have an opportunity to stabilize gross margin and modestly improved gross margin. A lot of that's going to depend on the timing of the transitory costs, the expedite fees and the freight cost, when and if those do come down, I think they will.

The question is really when it comes down quicker than we're expecting in these forecasts, and we should see some margin upside next year. But I want to plan prudently from a gross margin expectation for next year.

Operator

Your next question is coming from Simon Leopold from Raymond James.

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

I wanted to see if maybe you could give us your insights or thoughts on what your product mix assumptions are for 2023 revenue. So understanding that the sort of low end of 7% growth. But if you can maybe rank order your reported segments to give us a sense of how you expect it to perform relatively?

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

Yes. Thanks, Simon. Good question. So I think probably the best indicator would actually be our long-term model. Now the number of at least 7% is likely to outperform the long-term model. But from a relative basis, I still think the model pretty much applies. So I would expect enterprise to be our fastest-growing vertical followed by cloud and then the service rider be our slowest-growing vertical. If you look at the customer solutions perspective, I would expect to add driven enterprise to lead the way from a growth perspective, followed by cloud-ready data center in an automated WAN.

So I do think the relative results will hold to the model, but overall, the company has outperformed the model in all verticals, all solutions this year. And I think next year, we have an opportunity to outperform the model as well. But I think from a relative perspective, those still hold.

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

And just as a very quick follow-up. EMEA was down year-over-year for you, just whether or not you're seeing the macro really pressuring your business in that region on foreign exchange shifts or anything like that?

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

I'll take it. Honestly, nothing really -- there are no patterns, I would say, that would say EMEA is weaker than other regions at this point in time. I think the performance in EMEA was related more to our ability to ship product that was necessary in that time frame and the timing of deployments of solution. So we obviously keep a very close eye to make sure things do not deteriorate. But for now, honestly, we're not seeing anything specific in EMEA.

Operator

Your next question is coming from David Vogt from UBS.

David Vogt - UBS Investment Bank, Research Division - Analyst

Maybe just a quick question on -- a follow-up on backlog and what you're seeing from customers. I know this is atypical, but can you kind of share with us how you're thinking about how that backlog converts into revenue over the go-forward period? I know it's different than it's been historically.

But any commentary or comments you've had from your customers in terms of when they went that backlog shipped? And then Rami, to your point about conversations about customers being a little bit maybe more cautious. Any sort of indication on early maybe cancellation rates that you could share with us or anything that you think is quantifiable at this point, although it's low. I just would love to kind of get your perspective on that.

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

Yes. Let me start with the second part of the question first, and I'll hand it over to Ken. The answer to, are there cancellations is, no. We're not seeing any cancellations, nothing that is atypical at this period of time. And in push-outs, there have been a few project pushouts, but there are also push out in normal times as well. So there's nothing that I'd say is outside normal patterns.

And again, this is where we obviously have to keep a very close eye on things and just to see how the market evolves. But so far, so good in terms of what we're seeing on the ground, conversations, projects that are happening with our customers. In the event that there is more macro-related headwinds, I think we have a few things that are going for ourselves. First and foremost, the diversity of our business across SP, cloud and enterprise because it's unlikely in my view that there -- all of these verticals will be impacted equally, and we can rely on some verticals that do better than others.

I think that the types of solutions that we're offering our customers take, for example, our AI-driven enterprise solution that is all around reducing the cost and the complexity of running network really resonate with digital transformation efforts that are happening. And for that reason, I think there's a higher likelihood that such projects would be protected in the future, the competitiveness of our solutions.

The fact that we have relatively small share in these massive multibillion dollar markets, all give me confidence that even in the event that there are going to be any sort of headwinds, we can actually do quite well through that period of time.

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

Yes. On the backlog conversion, I mean, customers place an order, they are, for the most part, aware of our lead times, so they're not surprised that we typically ship products several months, if not a few quarters after getting their order. I'd also say, in many cases, they actually want it earlier than we able to provide it. So the vast majority of our customers are trying to get the product quicker than we're currently able to deliver. The backlog we have now, I would expect to completely ship in the next 3 to 4 quarters, and it will kind of be phased in over that period of time.

So it takes a few quarters for us to turn the entire backlog given the lead times that we have. But we are doing the best we can to accelerate the orders in accordance with our customers' expectations when supply improves.

Operator

Your next question is coming from Sami Badri from Credit Suisse.

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

I wanted to kind of understand how much the effect of increasing pricing on products has impacted both your fiscal 4Q of '22? And how that really impacts 2023? And I guess, like every company has been moving at a little bit of a different pace, pricing products and offering customers different

terms and RFPs, et cetera, but we're trying to understand when all these price increases finally make their way into the actual numbers. So that's kind of the first part of the question.

The second part is if we just looked at just units, right, ports, units, appliances, devices, and we look at the number in 2023, does your guide of high single digit or 7% revenue growth in fiscal year '23 include greater amounts of units shipped? Or is that increase being achieved via pricing mainly just to kind of get an idea on how Juniper is doing.

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

Yes. So for actuals and Q3 performance and Q4 expectations for this year, we are seeing an impact from the pricing actions we've taken over the past few quarters. It's -- and it's actually increasing over time. So the impact we saw in Q3 was larger than we saw in Q2, and I would expect Q4's impact to be larger than Q3. And the impact is showing up in revenue as well as gross margin.

But I would caution you on this year as well as next -- this year, in particular, the volume is driving significant growth. I mean product revenue grew 25% year-over-year. The vast majority of that is unit based. It's taking market share. It's really not pricing that's holding up these results. Next year, if the number were to be closer to that 7%, you kind of the low end of our range, if you will, you'll see -- I still believe volume would be the majority, but pricing would play a significant role in that overall result as we -- if we're able to outsize revenue with more volume, more inventory, more supply, you'll see that the volume is really the driving force.

Operator

Your next question is coming from George Notter from Jefferies.

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

Going back to the discussion on gross margins. I think, Ken, you're alluding to about 300 basis points of supply chain impact here in the Q3 results. I guess I'm just curious about how much of that gross margin impact came from broker fees, expedite fees, that sort of thing. I'm wondering how much of that might fall off as the supply chain environment starts to get better going forward?

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

Yes. So it was a little bit short of 300 basis points, but it is kind of in that 250 kind of range, 250 to 300 range if you were to normalize Q3 performance. And the majority of that delta is (inaudible) fees or purchase price variance, basically paying more to get the products that we want on time or earlier than we otherwise would get that, whether it's broker markets or paying extra for the part.

So that is the majority. The other factor in that number is we still believe freight costs are elevated compared to where they're going to normalize at. So those are the 2 big numbers in that delta. I would like to think we'll see some improvement next year. I do think we're still in a very supply-constrained environment with the long lead times, and we still are going to prioritize satisfying customer demand to the best of our ability.

So I don't believe those costs are going to go away entirely or go away anytime soon. But I do think we could see some benefit next year and particularly as we get into the second half of next year. But really, it's just too early to count on that. I want to make sure that we take it as time comes.

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

I know just to follow up on that. I know you guys made a big investment in components a quarter ago. Is there a point at which some of that component level inventory will have flowed through the model? And therefore, you kind of go back to more of a market rate of pricing?

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

So from a price -- and to us or component costs are we talking about?

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

I bought a bunch of stuff at cost.

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

Yes. So I mean, our inventory will turn when we're able to ship it, right? And the cost that we'll pay has been elevated, and I think will continue to be elevated if we have it on our balance sheet. So we'll be paying for the same cost. The good news is the costs go up in the future, we won't have to pay those costs if we're carrying it in inventory.

The primary reason for getting the components, though, just to be clear, is not some -- is not really a cost-driven exercise. It's really about supply and resiliency of supply and making sure we can satisfy customer demand to the best of our ability.

Operator

Your next question is coming from Meta Marshall from Morgan Stanley.

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

Great. I wanted to just kind of get a sense from you on what you're seeing in terms of cloud demand and maybe the difference between what you're seeing from your hyperscale customers versus your Tier 2 customers and if there's anything to note there? And also, just given that you had kind of a new project ramping, just how that influences how you look at cloud into 2023.

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

Yes. Thanks for the question, Meta. I remain very bullish on our cloud segments. Obviously, we had a great Q3 growing at 24% year-over-year. The strength is broad.

It's in Tier 1 hyperscalers. It's also in the cloud majors. And it also is broad in terms of the technologies that we're selling into the cloud provider segment, our automated WAN solutions, our wide area transport solutions that is and more and more data center type wins. We've alluded to a few wins that we've had in the last few quarters.

In fact, our engagement level with cloud providers across the board remains exceptionally deep at the engineering level, where we're engaging in existing as well as new opportunities and new projects. 400-gig adoption is very healthy. We've now seen roughly around 500, 400-gig wins in data center and the wide area across SP and cloud, maybe even a few large enterprises as well.

And I think that speaks to the engagement but then also the strong differentiation that we have. So all in all, I think cloud is going to have its ups and downs as always had but the general direction should be up and to the right.

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

But just from a general how your customer -- like how those cloud customers are feeling about their budgets? I understand that you're doing very well within them. Just trying to get a sense of kind of how their budgets are trending or just how you're seeing their demand activity trend?

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

In terms of the projects that are most meaningful for us, I think they're feeling good. As long as the cloud provider business is doing well, which they're all doing quite well, then they are going to need to invest in their network infrastructure to keep up with the demand for those cloud services. So generally speaking, I would say it's good.

Operator

Your next question is coming from Paul Silverstein from Cowen.

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

First, a clarification and then a broader question. On clarification, Rami, if I've heard you and Ken correctly, you've got 500, 400 gig wins, 100 of which are intra-data center switching. Did I hear that right?

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

Yes, that's correct.

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

Can you share with us what's been the growth on a quarterly or annual basis in terms of the number of wins? And what are the average deal sizes in trying to decipher what's the growth from the 400 gig upgrade cycle going forward? And then I've got a broader macro question for you.

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

So Paul, it's a good question, but I don't know that number off the top of my head. It grew meaningfully just on a quarter-over-quarter basis because I think we probably added 100 or so in the -- from quarter-to-quarter. And generally speaking, because these are 400 gig wins, typically, they're going to be fairly large projects. They're not necessarily going to be all large initially, but they are typically -- they start with an initial deployment and then they continue in time.

So -- and the last thing I'll say about 400 gig, whether it be in the WAN or in the data center as much progress as we've seen, we're still early innings. The vast majority of ports that are being sold and deployed these days, whether it be in the WAN or the data center is still 100 gig. So that transition from 100 gig to 400 gig is still in the process of happening right now. We should continue to benefit from it.

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

And Rami, to be clear, I assume your early innings with respect to both breadth and depth of 400-gig adoption. My broader question, if I may. And I recognize the numbers, your order book, your revenue plus your commentary relative to previous questions, it seems pretty clear, but I got to ask you, F5 reported tonight alongside you, and they referenced fairly significant, in particular, abroad, not so much in the U.S., North America, but they referenced a pretty significant pullback, downsizing delays, et cetera, in projects, I asked the question whether that was specific to the product

market, given what you said, and they said they don't think so, given the nature of customer behavior abroad, what they're seeing in terms of the downsizing delays.

But just to be clear, you referenced some, but it sounds like it's very -- I'm trying to decipher to what extent -- just how meaningful in terms of number of customers, number of projects that were impacted, what that might indicate for the future, whether a downturn is coming or not for you?

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

Yes. I mean, all we can say is there are certainly more customers that are thinking about their budgets and the timeline of projects. Have there been projects canceled? No. There's nothing that we see that has been canceled. Have there been some projects that have been delayed, Yes, some -- but honestly, not much more than we would see in normal times as well. And is there anything that we're seeing that's sort of geo-specific like more in EMEA versus Asia Pacific or North America? The answer to that question is no. It's really kind of the same worldwide at this point in time.

Operator

Your next question is coming from Amit Daryanani from Evercore.

Amit Jawaharlaz Daryanani - Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst

I guess maybe I think back to what you just said to the prior question. You also talked about, I think enterprise will grow the fastest in fiscal '23 versus that at least 7% growth bogey. Maybe just talk about -- how much of that yet is networking budgets, are you growing at enterprise companies versus you picking up share? And if the share gains are happening? Maybe you can just talk but where are you seeing the share gains in a more pronounced manner.

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

So that's a great question. And obviously, we'll know for sure and to what extent there is share taking that's happening to enterprise once the share reports are actually out. And there's also an orders versus revenue component to this because obviously, analysts only see the revenue and they track revenue. But my strong feeling is that we're taking share in the enterprise. I think there is -- we're participating in markets that appear to be healthy. But I also believe we have some very competitive solutions that are in the market today across the AI-driven enterprise and our data center offerings as well.

You heard me in my prepared remarks, I mean Mist and our mystified revenue is crushing it. The last time we reported an annualized order run rate was in Q4 '21 of \$600 million. We're now at \$850 million in the Q3 time frame. It's no longer just about selling WiFi. We're selling full stack solution. It's an enterprise architecture that's AI-driven and cloud delivered that runs across Wi-Fi, wired and SD-WAN.

And if you look at our pipeline and our wins, a lot of that is full stack. I think the differentiation we have is just exceptional right now. And I think it will remain exceptional for a period of time. And we're going to benefit from that. We are benefiting from that.

Operator

Your next question is coming from Alex Henderson from Needham.

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

Great. Thanks. I think a lot of people got introduced to your AI capabilities with the Mist product, and it's obviously been a home run and really changed the dynamics for the company over time. Proven effective premiums to drive business and upsell. But I think the companies as a whole seems to have gone well beyond that, taking that same microservice cloud-native AI open architecture to the data center, taking it out to even the metro area WAN for service providers.

And as I look at all of the moves that you're making in terms of the acquisitions you've done and the like, it seems pretty clear to me at this point that you've made a major pivot in your strategy to one that's driven off of that set of enablement to drive the entire company. And I was wondering if you could talk a little bit about when you're going to decide to announce this is the company-wide strategy.

And the differences between your ability to execute on that strategy across the entire platform by getting employee buy-in and competitively, whether if you see any of your competitors being able to follow suit because I don't think, for instance, Cisco could follow suit on this strategy. It's pretty broad change you guys have executed.

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

Alex, thanks for the excellent question and the great insight I think you're picking up on something that's really important. We've always that Juniper had a strategy around automation and being automation led. But you're 100% right, the AI-driven enterprise and the Mist component of the AI-driven enterprise has taught us some very valuable lessons in how to take that automation and take it to a whole new level with AI capabilities, and with a cloud-delivered strategy. So for example, in our metro solution that we're now selling to our customers, we've made the automation cloud first and AI-driven. I think we have the potential to do the exact same thing in the data center as well. So what you've described is exactly what's happening at Juniper.

We've learned valuable lessons from one segment, and we're applying them to others. And we need to do a better job in sort of communicating that more broadly. I think that's great feedback, and I appreciate it.

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

Competitively, can you talk about your -- anybody else -- do you see anybody else able to execute a similar strategy or whether it's Arista, whether it's HP or whether it's Cisco?

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

The more AI-driven capabilities we add to our solutions I think the more of a competitive differentiation we give ourselves. And honestly, where there is an opportunity to sell anything AI-driven and cloud delivered to our customers is fun to compete today because we tend to win the vast majority of the time.

Operator

Your next question is coming from James Fish from Piper Sandler.

James Edward Fish - *Piper Sandler & Co., Research Division - VP & Senior Research Analyst*

Nice quarter given the environment. You guys made some comments that the supply chain is getting better, I would agree with you there. And if it continues to kind of improve in the step function, Ken, without putting you in too much of a hole here, but what would prevent Juniper from growing kind of double digits next year on some of this backlog flush actually?

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

Yes. I mean the reality is the supply chain were to increase meaningfully enough. I would say nothing would prevent us from growing double digits next year. Really, it is supply constrained at our at least 7% if we see easing in the supply chain, given the backlog we have, given the visibility we have with customers and the demand we expect, the great part differentiation and the sales execution, this year is going to be north of double digits. There's really nothing holding us back next year other than supply from my perspective, and that's the reason why I want to be prudent with the model at this time. And we see a floor at least 7% or at 7%. We have not established a feeling at this point.

Operator

Your next question is coming from Fahad Najam from Loop Capital.

Fahad Najam - *Loop Capital Markets LLC, Research Division - MD*

Rami, Ken, my question is around security. It declined a little bit. Can you maybe expand on what you're seeing? Is it that maybe security budgets were more first half loaded than in the second half? And are you seeing any pronounced impact in security in Europe? And is that something that is probably impacting your business more because of some macro.

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

Yes. Thanks for the question, Fahad. So let me first answer the last part of it, which is no, I don't think there's anything geo-specific that we're seeing in our security business. Part of the decline is self-inflicted. It has to do with the transition that we're deliberately executing on at Juniper right now from an appliance-based model to more of a software-based model that's subscription-based and that will come with recurring revenue.

And so for that reason, we expect that there's going to be sort of ongoing headwinds for a period of time, at least until we get into the second half of next year before we start to see a recovery. There's another element of our security, which is that there's a high-end component that just tends to be lumpy. There are large customers that either buy or don't buy high-end security and Q3 was particularly weak from the high-end security standpoint.

Having said all that, the way that we look at security and we measure the -- our success in security is through the integration of security in our strategic solutions. We believe that more and more of our AI-driven enterprise solutions that we sell to our customers will have an embedded security component. We're starting to see that.

We also believe that having strong security capabilities in our data center solution is going to be increasingly important to our customers, and we're also starting to see some of that as well. It's just that we're going to have -- we're going to let -- we need to let some of these sort of transitions, product transitions in particular, from hardware to software play out.

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

Operator, we'll take two more questions.

Operator

Your next question is coming from Jim Suva from Citigroup.

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

Given your great success, coupled with the increasing backlog. A little commentary was made earlier about seasonality. Can you give us a little bit more insights on that? Because I wonder if as we exit 2022, and I know it's early for '23 given component constraints, does seasonality become less pronounced in 2023, given the orders backlog success you've had in the easing of supply chain.

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

Yes, it's a great question, Jim. And at this point, I do expect you to see some seasonality, but I think your point is valid. I do think that the degree of seasonality that we see could be lessened a bit. I mean historically, we've seen kind of a mid-teens decline sequentially from Q4 to Q1. At this point, it's a little bit too early to call, but I do see a possibility of that being a little lessened on a sequential decline basis, but I do expect there to be some decline and some seasonality to remain in the business from a revenue perspective.

Operator

Your next question is coming from Tal Liani from Bank of America.

Tal Liani - BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst

I have a very high-level question that I want to understand and it relates to something you answered before. So the biggest fear is that as we work off 2023 budgets, there's going to be weakness across the board. It's not company specific, it's more macro related. And the question I have is just to understand how much visibility you have into the projects, into the spending plans of your customers? 2023 budgets will only be set in the next few months. How much is there involvement on your end? How much is their involvement in the future planning? I'm just trying to assess the risk of a surprise, negative surprise because of macro, nothing specific.

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

Yes. So it's a good question, Tal. I would say our visibility is very strong. I mean first year, the visibility that comes with the backlog. These are orders that have been made for existing projects, then there's a visibility that comes from having very strong strategic conversations with our customers, especially large customers, hyperscalers, large enterprise and service providers. And there, again, I'd say the visibility is great.

The only risk would be if the -- things would change if plans that we understand today were to actually change. Again, I will say that for the most part, we don't see that happening at this point in time, but we have to, of course, stay very close to our customers to see if, in fact, things start to change. And I will reiterate here there are deliberate things that we're doing that are designed to make us more resilient in the event that there is a downturn, the diversification of our business, the competitiveness of our solutions.

Even if you look in the enterprise, we've really re-honed our go-to-market muscle on enterprise subsegments that we believe will be more recession resilient. So health care, college campuses, public sector would be examples of areas that I think would be less prone to a downturn, and we're making those changes and adjustments now just to prepare.

Operator

Thank you, ladies and gentlemen. This concludes today's event. You may disconnect at this time, and have a wonderful day.

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