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JNPR.N - Q4 2022 Juniper Networks Inc Earnings Call

EVENT DATE/TIME: JANUARY 31, 2023 / 10:00PM GMT

## OVERVIEW:

Co. reported 4Q22 revenues of \$1.449b and non-GAAP EPS of \$0.65. Expects revenue growth for 2023 from at least 7% to at least 8%. Also expects 1Q23 revenue to be \$1.340b.

## CORPORATE PARTICIPANTS

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

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

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

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## PRESENTATION

### Operator

Greetings. Welcome to the Juniper Networks' Q4 2022 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.

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

Thank you, operator. Good afternoon, and welcome to our fourth 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. 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.

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

Good afternoon, everyone, and thank you for joining us on today's call to discuss our Q4 and full year 2022 results. We delivered record revenue during the fourth quarter, although total sales of \$1.449 billion were slightly below the midpoint of our guidance due to the timing of supply and some logistical challenges at the end of the quarter.

Despite these challenges, we achieved a second consecutive quarter of double-digit year-over-year revenue growth. A record performance by our Enterprise business and our second highest Cloud revenue quarter.

Our non-GAAP gross and operating margin also exceeded expectations, resulting in non-GAAP earnings per share of \$0.65, which was above the midpoint of our quarterly guidance.

Our Q4 results capped a record revenue year for Juniper in 2022, which saw us accelerate our growth despite the challenged global supply chain environment. The diversity of our strength was also a highlight during the year as we grew our Enterprise business by more than 20% year-over-year. We grew our Cloud business by more than 13% year-over-year, and we grew our Service Provider business by approximately 3% year-over-year with the revenue growth for each of these verticals, exceeding the high end of our long-term model.

I believe these results speak to the strong execution by our teams, the strength of our portfolio and our ability to win across each of the customer verticals and use cases where we compete.

While revenue growth was healthy in Q4 and for the full year of 2022, as we expected, overall demand moderated in the December quarter, with total orders declining more than 20% year-over-year. Although our Enterprise orders were flat year-over-year despite a very difficult comp. This moderation in total orders was primarily driven by a normalization of buying patterns amongst our Cloud and Service Provider customers. This follows a year in which many of these accounts placed multiple quarters of demand in advance of known requirements to account for extended lead times.

Now that many of these orders placed in prior periods are shipping and with significant orders on the books for the upcoming year, Cloud and Service Provider customers are placing fewer new orders which is a trend we expect to continue through at least the first half of the current year.

As this order normalization process continues, we think revenue growth will be the most important metric to gauge customer demand over the next several quarters. I'd like to acknowledge that we are seeing some customers across each of our customer verticals, more closely scrutinize spending plans and deployment time lines due to the economic uncertainties that are happening around the world. Order cancellations continue to remain low and our customers' appetite to receive orders that were placed in prior periods remains high. As a result, we remain confident in our ability to monetize our backlog as supply improves. That said, we're watching these strengths closely and have factored these uncertainties into our financial outlook.

Despite these current macro uncertainties, I remain optimistic regarding our prospects for the upcoming year. 5 reasons driving my optimism include: First, our focus on leveraging AI-driven cloud-based automation tools to simplify customer operations and improve the end user experience. What we call Experience First Networking continues to resonate across the customer verticals we serve, whether it be Mist in the campus to Apstra in the data center, to Juniper Paragon in the service provider market, these software automation tools are enabling customers to achieve superior scale cost effectively to rapidly identify and remediate network problems in many cases without the need for human intervention and to accelerate the time line for network deployments.

These capabilities deliver tangible value to customers which is enabling us to win in the current market environment and may resonate even more if return on investment plays an increasingly important role in customer decisions.

Given our level of portfolio differentiation, balanced against our relatively modest share in the large markets where we compete, I remain optimistic regarding our ability to grow revenue even in a more challenged macro environment.

Second, we continue to invest in our go-to-market organization to capitalize on our product differentiation and take share, particularly in the enterprise. To this point, since the beginning of 2019, we have steadily increased our quota carrying headcount, meaningfully increased our channel presence and invested in both demand generation and modern selling tools that are creating more effect and more win in the market.

While these investments have enabled us to accelerate our growth over the last several years, particularly in the enterprise vertical, they are also continuing to provide tailwinds with deal registration from the channel growing 18% year-over-year and order momentum in the commercial market growing 43% year-over-year in the Q4 time frame. We expect this momentum to continue and further benefit growth in future periods.

Third, we continue to see strong 400-gig progress with more than 100 new wins across wide area and data center use cases since our last quarterly update. Many of these wins constitute franchises that are likely to present tailwinds for revenue over a multiyear period. While 400-gig solutions are critical to enabling customers to meet the continuous growth in the network bandwidth, they are also critical for improving the power efficiency and cost of operating network, which we think is likely to add resilience to these important projects.

Fourth, we continue to make progress transitioning our business to a more software-centric model. This includes transforming more of our perpetual offerings to term-based licenses, introducing more ratable subscription offerings and training our sales organization to better monetize the value of our software stack. While these efforts remain in the early innings, we experienced encouraging momentum in the Q4 time frame, which saw total software and related services revenue grew 26% year-over-year and accounts for 21% of our total sales.

Our annualized recurring revenue, which solely consists of truly ratable software subscriptions and related services, increased 43% year-over-year due to strong demand for Mist and certain security subscriptions. We are encouraged by the progress we are making in our software transformation strategy as many of these revenue streams are recurring, pull-through infrastructure and improve margin.

Finally, we exited 2022 with an exceptional backlog of more than \$2 billion, which is up approximately \$200 million from where we entered the year and remains well above historical levels. This backlog is providing us with exceptional revenue visibility and should enable us to deliver another year of healthy growth.

Based on our current backlog, customer demand and our assumptions regarding supply, we currently expect to deliver at least 8% revenue growth and at least a point of non-GAAP operating margin expansion in 2023. Our expectations for 2023 assumes the availability of supply only modestly improves and that the end market environment remains uncertain.

Now I'd like to provide some additional insights into the quarter and address some of the key developments we're seeing from a customer solutions perspective. Starting with our Automated WAN Solutions. This business experienced revenue weakness during the fourth quarter due to the timing of supply following very strong shipments during the prior quarter. That said, our Automated WAN business grew 12% on a full year basis, which exceeded our expectations and the high-end of our long-term model.

We remain optimistic regarding the long-term outlook for our Automated WAN business based on the momentum we're seeing for several of our newer products. To this point, our new 306-based MX304 and LC9600 line card continued to perform exceptionally well. With the MX304 securing 150 new logos in Q4 and emerging as one of our fastest ramping products over the last 5 years.

Our PTX portfolio also continues to perform well across Cloud, Service Provider and Enterprise accounts. In Q4, our PTX platform secured more than 15 new use case wins that we expect collectively will drive more than \$200 million of incremental opportunity over the next 3 to 5 years.

Not to be overlooked, we're continuing to make progress with our new cloud metro portfolio, which saw orders more than double on a year-over-year basis. Our pipeline of opportunities is strong, and we remain encouraged by our ability to win in the market, especially as we add new AI-driven cloud-based automation capabilities to the portfolio over the next few quarters.

Our cloud-ready data center revenue experienced an exceptional performance in Q4 and grew more than 20% on a full year basis. 400-gig momentum remains strong, and we now have more than 120 400-gig data center wins that include Cloud majors, large Enterprise and Service Provider accounts.

Our Apstra pipeline continues to build as new logos increased meaningfully on both a sequential and a year-over-year basis, and we experienced strong hardware pull-through for every dollar of software. Interest in our new Apstra freeform capability, which provides more flexible deployment options and expands the list of potential customers we can address is encouraging, and we plan to introduce new software capabilities that will further expand the use cases we can address in 2023.

Customer interest in our cloud-ready data center portfolio remains healthy. 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 revenue continued to significantly outpace the market, growing more than 30% year-over-year in Q4 and 24% on a full year basis. This strength was led by our Mistified business, which is the 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 AI-driven Wi-Fi and EX switching in the Q4 time frame.

On a full year basis, our Mistified revenue was \$500 million in 2022, which was up from approximately \$300 million in 2021. Our Mistified orders also continued to see strong momentum with fourth quarter results surpassing \$900 million on an annualized basis. The industry is clearly recognizing the differentiation of Juniper's campus and branch offerings, driven by Mist AI. We believe this is reflected in Gartner's latest Magic Quadrant for Enterprise wired and wireless LAN infrastructure that was released in December of 2022 where Juniper was named a leader for a third consecutive year and was ranked highest in both completeness of vision and ability to execute for a second consecutive year. Additionally, the Gartner Enterprise Wired and Wireless LAN Infrastructure Critical Capabilities report that was published in January 2023, Juniper received the top score in 4 out of 5 of the use cases.

On the product side, we continue to invest heavily in new key areas that drive real value to customers and partners, including Wi-Fi 6E and new AI-driven EX switch variants such as the 4100, both of which are seeing strong early adoption in the market.

We're also continuing to make enhancements to Marvis, the industry's only virtual network assistance driven by Mist AI. Lastly, customer traction for the AI-driven enterprise remains exceptionally strong. For example, we saw a nearly 80% increase in the number of accounts purchasing at least 2 Mistified products during the most recent year. This highlights the attractiveness of a full stacked Juniper offering managed via common AI engine and cloud as well as the land and expand opportunities available to our sellers and partners, which we believe remains in the early innings.

Our security revenue returned to growth in Q4, although we expect this business to be pressured over the next few quarters as we transition from an appliance to a ratable software subscription model. We remain optimistic regarding the long-term outlook for our security business as we believe the convergence of networking and security provides us with a competitive advantage in the portions of the market where we are currently focused.

We're also encouraged by the interest in our software security offerings, most notably our Security Director cloud platform. This product provides customers a single policy framework to manage all of 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 architecture. This platform was recently named CRN Magazine's Edge Platform of the Year and already has secured more than 300 wins, which we view as an encouraging sign of future success.

I'd like to mention that our Services team delivered another record quarter, and our Services business continued to grow year-over-year due to strong renewals and attach rates as well as the growth of our SaaS business. Our customer satisfaction scores remain at all-time highs, and our service margins came in better than expected due to higher revenue and lower costs. On a full year basis, our service margins achieved a new all-time record of 67.3%, up 150 basis points as compared to the prior year.

Our Services organization continues to execute extremely well and is focused on driving incremental efficiencies through automation and cloud-delivered insights that not only create new revenue opportunities, but also benefit margin and customer experience.

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

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

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

Thank you, Rami, and good afternoon, everyone. I will start by discussing our fourth quarter results, then cover our fiscal year 2022 and end with some color on our outlook.

We ended the fourth quarter of 2022 with record revenue of \$1.449 billion, up 11% year-over-year and 2% sequentially. This was below the midpoint of our guidance due to the timing of supply and some of the logistical challenges towards the end of the quarter. Despite the slight revenue shortfall, we delivered non-GAAP earnings per share of \$0.65, which was above the midpoint of our guidance, driven by a better-than-expected gross margin result and prudent operating expense management.

In terms of product orders, as expected, we saw a decline due to buying patterns normalizing and customers consuming previously placed orders. This was more pronounced with our Cloud and Service Provider customers. We expect this dynamic to continue as supply improves and backlog normalizes.

During the fourth quarter, total product orders declined more than 20% year-over-year. Adjusted orders placed to accommodate for the extended lead times, declined single digits year-over-year versus a difficult comparison, but grew sequentially. Our adjusted orders calculation only includes a one-way adjustment to reduce bookings due to accelerated ordering. During the entire time that we've reported adjusted orders, we have not added those orders back into future periods where they would have normally been placed. We believe that if we were to add back those accelerated orders, adjusted orders would have grown in Q4 of 2022.

We exited 2022 with backlog of slightly more than \$2 billion, which is down sequentially but up approximately \$200 million on a year-over-year basis.

Looking at our revenue by vertical. Enterprise had record revenue and was our largest vertical in the fourth quarter, increasing 32% year-over-year and 16% sequentially. Cloud grew 14% year-over-year and increased 1% sequentially. Service Provider declined 8% year-over-year and 10% sequentially.

From a customer solutions perspective, AI-Driven Enterprise revenue grew 30% year-over-year and 19% sequentially. Cloud-ready data center grew 50% year-over-year and 13% sequentially. Automated WAN Solutions revenue was down 4% year-over-year and 10% sequentially.

The total software and related services revenue was \$305 million, an increase of 26% year-over-year. Annual recurring revenue, or ARR, grew 43% year-over-year, and we exited the year with \$294 million in ARR. Total security revenue was \$169 million, up 5% year-over-year and up 21% sequentially.

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 34% of our total revenue as compared to 33% in the fourth quarter of 2021.

Non-GAAP gross margin was 58.5% in the quarter, which was above our guidance midpoint, primarily driven by the favorable software mix and to a lesser extent, some improvement in transitory supply chain costs which more than offset an unfavorable product mix.

Supply chain continues to be constrained with long lead times and elevated costs. If not for the elevated supply chain costs, we estimate that we would have posted non-GAAP gross margin of approximately 60%.

Non-GAAP operating expenses increased 7% year-over-year and was up 1% sequentially, primarily due to headcount-related costs. We exited the quarter with total cash, cash equivalents and investments of \$1.2 billion. Cash flow from operations was \$120 million for the quarter.

Turning to capital return. We paid \$68 million in dividends, reflecting a quarterly dividend of \$0.21 per share. We also repurchased \$88 million worth of shares in the quarter.

Moving on to our full year results. Our revenue for 2022 was a record, coming in at \$5.301 billion, which is 12% growth versus 2021. Despite the impact of supply chain constraints, we saw growth across all verticals, customer solutions and geographies. Our Enterprise business became our largest vertical and grew 21%. Our Cloud business grew 13%, while Service Provider grew 3% year-over-year.

From a customer solutions perspective, AI-driven enterprise revenue increased 24%, Cloud-ready data center revenue grew 21%, and Automated WAN Solutions revenue grew 12% on a full year basis.

Total software and related services revenue was \$994 million, which was an increase of 31% year-over-year. This exceeded our expectations as we continue to make meaningful progress in transitioning our business to more of a software and SaaS-centric model. Total security revenue was \$629 million, which was down 4% year-over-year.

In reviewing our top 10 customers for the year, 6 were Cloud, 3 were Service Provider and 1 was an Enterprise. Our top 10 customers accounted for 33% of our total 2022 revenue as compared to 31% in 2021.

Non-GAAP gross margin was 57.4%, a decline of 230 basis points versus 2021, primarily due to the product mix and increased supply chain costs. If not for elevated supply chain costs, we estimate that we would have posted non-GAAP gross margin of approximately 60% in 2022.

Non-GAAP operating expenses increased 6% year-over-year primarily due to higher headcount-related costs. Non-GAAP diluted earnings per share was \$1.95 in 2022, an increase of 12% versus 2021. During 2022, we repurchased \$300 million worth of shares and paid \$270 million in dividends.

I am very pleased with our financial performance, both in the fourth quarter and throughout 2022.

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.

At the midpoint of our guidance, we expect first quarter revenue of \$1.340 billion, which is 15% growth year-over-year. We are still experiencing supply chain-related headwinds associated with shortages as well as elevated components and freight costs, which are expected to modestly improve through the course of 2023.

First quarter non-GAAP gross margin is expected to be down sequentially to 57% due to a normalized software mix and seasonality. We expect first quarter non-GAAP operating expense to increase sequentially, primarily driven by the typical seasonal increase of fringe costs. Despite these increases, non-GAAP operating margin is expected to increase more than 100 basis points versus Q1 2022.

Turning to our expectations for the full year 2023. Given the ongoing customer demand for product, solid exiting backlog and improved supply, we're updating our revenue growth expectations for 2023 from at least 7% to at least 8%. Beyond the first quarter of 2023, we expect revenue to grow sequentially throughout the course of the year. This assumes the current supply chain environment modestly improves but remains challenged.

This forecast assumes a reduced backlog during the course of the year, however, we expect to exit the year with elevated backlog compared to historical normal levels. While non-GAAP gross margin can be difficult to predict, we expect full year non-GAAP gross margin to be flat to slightly

up year-over-year. We remain committed to disciplined expense management, and full year non-GAAP operating margin is expected to expand by at least 100 basis points versus 2022.

That said, we will continue to invest to take advantage of market opportunities and non-GAAP operating expense is expected to be up on a full year basis. Our non-GAAP tax rate on worldwide earnings is expected to be 19%, plus or minus 1%. Our non-GAAP EPS is expected to grow double digits on a full year basis.

Finally, I'm pleased to announce we have declared a 5% increase in our quarterly cash dividend to \$0.22 per share to be paid this quarter to stockholders of record.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And the first question is from Tim Long with Barclays.

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

Yes, just a 2-parter on the orders, if I could. Maybe, Rami start with you. You're obviously coming up tough compares in a strange environment with the multi-quarter ordering. Is your view that the Service Provider and Cloud customers are going to, over this period, over the next 6 months or so, be well below trend line and kind of ordering well under consumption? Or is it just something that works out over time?

And then maybe, Ken, if you could just give us a little more on the math here. I think if it was \$2.3 billion or so last quarter for backlog and a little over \$2 billion this quarter, implies a lot more than a 20% decline. So is there something else in the order backlog math there that we're missing?

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

Tim. Okay, I'll start, and then Ken, I'll pass it on to you. So what we saw from an order standpoint in Q4 is pretty much expected. Yes, the compares are getting very difficult. A year ago period, definitely Service Providers and Cloud providers were placing orders for multiple quarters in order to get ahead of supply constraints. Enterprise is a little bit of a different story. We actually saw flattish type order momentum on a year-over-year basis in Q4, but that was off of a very difficult compare in the Enterprise segment, where a year ago period in Q4, this would be in '21, orders grew over 40% year-over-year.

So looking forward to your question, I do think there will be for the next at least couple of quarters, a re-normalization of order patterns for Service Providers and Cloud providers as they consume orders that were placed a year ago period. And in the Enterprise, I actually think that order momentum will continue. I think if I look at it to 2023, we should continue to see solid Enterprise growth, both from an order standpoint as well as from a revenue standpoint.

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

Yes. And I think it's worth reiterating, even though I made a comment in my prepared remarks that when we talk about adjusted orders, which were down for the first time on a year-over-year basis, but up sequentially, we really are just doing that one-way adjustment that I referred to. So if you were to normalize and add back those accelerated orders in the proper period, if you will, some of that would have been added back to the

last quarter, Q4 '22. And we believe it would have actually shown growth, had we made those adjustments on both sides of the equation, we only did the takeaway side. So I want to make sure that's clear to folks.

From a backlog perspective, I mean the math really is -- the primary driver of why the backlog decline was orders being down greater than 20% on a gross order basis. We also did see some growth in revenue as well as growth in deferred revenue that I would point to that some of the backlog doesn't get recognized immediately, particularly some of the software subscriptions and SaaS business that is in backlog until we actually invoice or execute that delivery which gives to deferred revenue versus revenue. So that growth also has an impact on backlog.

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**Operator**

The next question is coming from Alex Henderson with Needham.

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

The first question I wanted to ask was on the Services side of the equation. Obviously, there's a clear tie to future services as you ship more product. And with the product sales accelerating, it's hard for us to determine how rapidly that rolls into the income statement.

So I was hoping you could give us a little bit more granularity around what you think Services revenues are going to do in the first quarter kind of growth and for the year, what kind of growth might we anticipate there? How much is that contributing to the increase?

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

Yes, I'll take that one. So we are seeing -- as you mentioned, Alex, the Product revenue does have a direct correlation to our Service revenue opportunity as our installed base gets bigger, given the pretty positive product revenue results of both 2022 and 2021, you are going to see -- I believe, that have a positive impact on Services going forward.

So Services is a bit of a lagging indicator. It doesn't -- is not as volatile. Typically, you won't see as large of increases or as large of decreases as product kind of gets a little bit normalized, but trying to convert it to installed base and services. But I would expect our Services business to continue to be strong in 2023 as it has been strong in 2022. And the other thing I would point to is our margin is also quite positive in our Services business. The team has done a great job there, not only satisfying customers and renewals, et cetera, but also really working down the costs.

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

The growth rate accelerated from 4% to 7% to 8%. Is that kind of high single digits, the rate we should be anticipating both in the March quarter and the year?

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

Yes. We're not giving specific guidance on Services, but I would say, as I mentioned, it is kind of a -- it's a lagging unit care, it's not that volatile. So I wouldn't expect significant step function changes anytime soon. That said, maintenance business is the vast majority, but there also is a software element which is our SaaS element, which has been a big part of the growth of our services business over the last few years as more of our software revenue is getting recognized in the form of SaaS revenue.

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

Okay. The second question I wanted to ask is you had a very significant increase in the cloud-ready data center year-over-year in the fourth quarter. That looks like it's somewhat of a spike versus a decline in the year ago, but nonetheless, a significant increase. Is that a function of that segment getting more of the available supply? What's the reasoning for that?

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

Yes. Alex, I'll take that one. So obviously, very pleased with our cloud-ready data center momentum and success that we saw in Q4 time frame. Over the last several quarters, we did highlight a couple of meaningful wins, one in particular, in a top 10 cloud provider that was a data center win. So this would be a part of our CRDC business and the solutions that we're developing in that business. So whereas in prior quarters, that was sort of shown in terms of orders, now we're actually starting to see the revenue contribution.

There are other elements as well. I think our focus on software-led data center sales in much the same way as we've seen Mist lead to success in the AI-driven enterprise. Cloud-ready data center is still in the earlier phases of that growth period, but we're starting to see a pickup in Apstra-led type opportunities where the net new logos and the sort of the strategic nature of those logos are actually starting to contribute nicely as well. I would not expect this kind of cloud-ready data center performance on an ongoing basis, but again, I do think that I'm optimistic about the overall growth prospects for this business.

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**Operator**

The next question is from George Notter with Jefferies.

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

I guess I wanted to ask about your thoughts on the composition of the growth this year. You said at least 8% revenue growth. And I know if we look back, you guys have instituted some price increases, I think Q3 included. But how much of that 8% plus growth do you think really comes from pricing versus units? How do you think about it?

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

Yes. So pricing is factored in, obviously, to our outlook. And the way I would describe it, George, is we expect the majority of that 8% to be volume based. There is definitely a pricing element, but it would be less than half, assuming we did revenue at 8%. Obviously, as we grow -- if we were able to grow faster than 8%, we did put 8% out there was a bit of a floor, but we talked about at least 8%. The majority of that incremental would also be volume related.

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

Got it. And then as I think about the unit volume piece. Is that really driven by new products, Mistified or ACX or some of the other new initiatives you've got? Or do you think it's -- what's the dynamic between sort of existing versus new products?

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

Yes. I mean, we're not giving too much detail on exactly the composition of 2023. But I would say this, though. I mean, I think the relative growth that we've outlined in our long-term model and actually that we've delivered for the last couple of years. So if you look at it by vertical, I would expect Enterprise to be our fastest-growing vertical and the products associated with Enterprise are predominantly AIDE and campus and branch

as well as some of our CRDC products. Then you could follow that by Cloud, which is predominantly routing and data center switching and then followed by Service Provider would be our slowest-growing vertical.

So I do think relative mix of our products and the mix of our verticals from a growth rate perspective is likely to play out similarly in 2023. But at this point, it's a little bit too early to call the exact components of revenue growth.

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**Operator**

The next question is coming from Samik Chatterjee with JPMorgan.

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

I guess my question was going to be about Service Provider revenues and if you could give us some more color there. It was down year-over-year and quarter-over-quarter. And Rami, I think in your script, you mentioned sort of revenue is going to be the driver or sort of the metric to judge sort of demand from. So what are you seeing in relation to sort of demand from that vertical? You mentioned scrutiny from customers. So are telco customers scrutinizing budgets a bit more than the other verticals? And how should we think of the CapEx positions impacting you here over the sort of next 12 months?

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

Yes. Thanks for the question, Samik. So what we saw in Q4 was mostly, if not entirely a function of supply. And that's not totally unusual to see this kind of a pullback after a very strong quarter. And if you recall, Q3 was actually a great quarter for Service Provider because we happen to be able to ship quite a large volume of products that was required that was on our balance sheet and also new orders that came in, in the quarter.

So -- but there's more that's happening in the Service Provider segment. First, we're monitoring closely new products that we have introduced over the last, let's say, a year or a couple of years or so. And we're seeing some really strong pickup, which I think gives us confidence in the next few years, if you will, in terms of the dynamics for this segment.

The MX304 is the fastest-growing product in the last 5 years, the PTX product family, which really goes to the heart of the 400-gig opportunities that are out there is performing really well as well. I just finished answering questions about the cloud-ready data center. One of the things that's actually driving momentum in our CRDC solutions is the fact that there is a strong diversity of interest among all of our segments especially including Service Providers that are moving to more of a virtualized approach to delivering the kind of services that we were delivering in the past.

So there's a number of elements of this business that I think are positive for us long term. In the short term, we're going to get through this normalization of order patterns to revenue, as we just discussed. But long term, being in line with our long-term model, minus 2 to plus 2 or even better is definitely possible.

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**Operator**

The next question is from Sami Badri with Credit Suisse.

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

I had 2 questions. When you talk about 8%, you're using the words at least versus prior, I believe the word you would use is floor. Is it -- should we assume 8% is the floor of growth for 2023? So that's the first question. And then the other question is of the product orders that were submitted in 4Q of '22, how much of the growth was driven by price increases versus volume just so we can get a better idea on composition of the backlog and how that change in 4Q?

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

Yes. I'll take both of those questions. So when we do -- the words we use officially is at least 8%. And when I describe it often times, I referred to that as the floor, right, because we're setting a range starting at 8%, and we're not really putting a ceiling on it. That's why I described the at least 8% as the floor. But it's not to confuse you. It's meant to be really -- it's the same guidance.

As far as price versus volume, again, I would say we are definitely getting a benefit from the pricing actions we've taken. It is impacting growth, but it is the minority of our growth, right? And the vast majority of our growth is tied to volume sales and quite honestly, taking shares in some of those markets that we're absolutely taking share and such as AI-driven enterprise in the campus and branch base, and I think we had a very strong quarter in data center as well. So I do prescribe our growth to the success and execution of the team much more than I do the pricing actions we've taken.

**Operator**

The next question is from Simon Leopold with Raymond James.

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

I wanted to get a better sense of the trends coming from Service Providers in that. It sounds like you're blaming this quarter's relative weakness on supply chain, but there's been some others exposed to that vertical that have talked about. Inventory absorption and some of the operators slowing down either in the fourth quarter or first half of '23 as they maybe manage their own cash flow or manage their inventory of gear.

I'm presuming that your customers haven't been able to stockpile your equipment and warehouses and don't have that inventory issue for you in the first half of '23. But I just want to get a sense directly from you if that's a factor of what's going on here or whether it's really concentrated around component shortages.

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

Let me start, and then, Ken, you might want to weigh in as well. So are there macro sort of challenges weighing in on the Service Provider segment? As I said in my prepared remarks, there are definitely customers across all segments, including in Service Providers that are, let's just say, scrutinizing orders a bit more, looking at time lines for projects, making sure that they're spending as efficiently as possible. So that is happening without a doubt.

Having said that, our outlook, our long-term model for Service Provider is a minus 2 to sort of plus 2 range. We've managed to exceed that over the last couple of years. I actually think we can still, even with these sorts of macro challenges that are -- that we're seeing out there, maintain that sort of long-term range. Just based on some of these factors that I just mentioned in answering the prior question, right? There are still 400-gig projects that are out there that remain exceptionally important for Service Providers in order to keep ahead of their demand pattern in their networks.

Metro opportunities are definitely still there. The need to carry an increased amount of 5G traffic in fiber optic networks. The need for highly automated metro solutions continues to be there, and this is a net new market opportunity for us. So net-net, I actually am long term, quite optimistic about this segment despite some of the macro concerns that might be out there.

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

The only thing I would add is as I've said before, any 90-day period, you're going to see a little bit of lumpiness Q-to-Q based on either vertical cuts or customer solution cuts. That really is a factor of inventory and supply and what we're able to ship in any given quarter. I think a longer-term view

of FY '22 was more indicative of what our Service Provider business is doing, and we did post 3% growth, as Rami mentioned, above our model. So I feel good about the space overall.

Based on the customers conversations we've had and the supply constraints, quite honestly, that we've had over the last few quarters, we do not believe customers are sitting on excessive inventory levels. It's not something that we're particularly worried about at this point. They clearly are able to not book as much as they did prior because they're no longer accelerating orders and are actually -- we're actually delivering the orders they booked previously. So the bookings is getting impacted. But from a revenue perspective, we're not seeing that impact.

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**Operator**

The next question is coming from David Vogt with UBS.

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

You guys were pretty clear, I think, on all the puts and takes in '23, but I wanted to ask a question about normalization. And so if you think about your order growth pattern over the last couple of years, it's been incredibly strong. But your backlog exiting 2020 was roughly about \$400 million, and your business is about 20% bigger today. So when we start to think about what normalized order growth rates look like and backlog looks like, how should we think about where backlog should be relative to where you were, let's say, 2 years ago or 2.5 years ago and your desire to obviously build some buffer stock to meet customer demand. I mean should we expect backlog to be a normalized period sort of commensurate with sort of the ratios that we've seen in the past? Or should we expect a slightly higher uptick in the backlog going forward when things normalize?

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

Yes. It's a really good question. And quite honestly, it's something, I don't have a perfect answer to you, but I'll let you know what I expect to happen. So I absolutely expect backlog to start to normalize, and I expect us to -- backlog to reduce in 2023. I still expect that we'll exit the year with what I refer to as elevated backlog. I don't exactly have the number for you, but I do think we'll exit the year elevated. So it will start to reduce, but remain elevated, would be my expectation. And what the new normal is hard to say.

And as you mentioned, historically, we've been in that kind of \$400 million to \$450 million range for quite some time. I would like to think that the new normal is going to be greater than that, maybe closer to somewhere between \$500 million and \$1 billion as I think customers understand the value of giving us orders a little bit earlier, giving us a little longer lead times to react. I'm hoping that the new normal is a little less frantic as it was just a few years ago when we were starting the quarter with not enough backlog. So I feel good about our backlog position, obviously, the variability of it. I think it will decline throughout 2023 but remain elevated and work finally settled a couple of years from now, it's hard to predict, but I would like to speak more than where we were in that 400-level.

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**Operator**

The next question is coming from Amit Daryanani with Evercore.

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

I guess the first one I had was when you folks talked about the order trajectory, you talked about order that's slowing down on Service Provider and Cloud side, but they're relatively flattish on the Enterprise side. I was wondering if you can talk about why are you seeing such a deviation in order trends between those 3 buckets? And on the Enterprise side, is it flat because you're picking up share? What's the better performance there versus other 2?

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

Yes, I'll start. So SP and Cloud, primarily because of the fact a year ago period and before that, they were just doing more ordering for multiple quarters to get ahead of the supply constraints that we were facing. And I think it's not unusual because typically the kinds of projects that SPs and Clouds are engaging and tend to be just very strategic, very large. They require a lot of upfront planning and for that reason, that early ordering was just happening in more abundance. It also did happen in the Enterprise just not to that same extent.

I think the second part of your question is about sort of the order momentum we're seeing in the Enterprise and why. I think we're just executing exceptionally well on the Enterprise across the board, pretty much every solution area, whether it be data center, our -- of course, our AI-driven enterprise solution, even in the WAN, we had a great federal government quarter, for example. We're sort of firing on all cylinders. Our competitive differentiation and our solutions, especially in our AI-driven enterprise solution continues to work really well for us. And for that reason, Enterprise is now Juniper's largest segment. A few years ago, there was actually some doubt about whether Juniper can win or succeed in the Enterprise, and I think those doubts are pretty much behind us at this point.

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

The only thing I would add is we've had a lot of momentum in Enterprise for the last several years, and we actually expect 2023 to be a growth year for Enterprise, both from a bookings, order perspective as well as a revenue perspective. And I know we aren't naive to some of the macro conditions out there. But given the product differentiation we have, kind of the market share we have, the opportunity in front of us, we feel pretty confident we can continue to grow the enterprise in 2023 despite kind of some of the macro conditions.

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**Operator**

The next question is from Tal Liani with Bank of America.

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

I have 2 questions on -- related to the backlog. If the backlog is down \$300 million or \$250 million in Q4. Do you -- and we are entering into a year that is supposed to be tougher for spending because it's really only starts this year. Does it mean that the backlog declines could accelerate this year on a sequential basis, dollar basis, et cetera? That's the first question.

And the second question is how should I think about the adjustment of backlog? I'm trying to think about what could the growth rate be after the backlog is adjusted down if the order -- if the environment is not changing. So when I look at the sequential basis of 4Q, last year, it was up 10% roughly. And this year, if I remove this quarter, if I remove the backlog, there is a 25% delta between the growth you had last year and the growth you have this year. Because without the backlog, you were down 15% instead of being up 10%.

So the question is, is the order environment deteriorate that much between 3Q and 4Q? And then how does it carry on to 1Q, 2Q, 3Q, when the year progresses and the spending environment worsened in some sense. So again, my question is more about understanding how could the environment look like once you consume the backlog if the order environment doesn't change much?

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

Yes. So let me start with that. So from a backlog perspective, we did see a decline in the fourth quarter, as you noted, sequentially. However, I think it's important to note, backlog was up approximately \$200 million year-on-year, right? So for the full year, we had a pretty strong bookings year and actually grew backlog, but you are starting to see that decline and you're starting to see orders, I would say, normalized, but actually, that's really not the right way to say it.

Customers have already placed orders, and we are now shipping those orders. So actually orders are understated, if you will, the true demand. Whereas the past 3 quarters, orders have been overstating true demand because they've been accelerating orders to account for multiple periods of time to adjust the lead times, now kind of the opposite is happening. And as I mentioned, we're not adding that back in.

So the bookings number is going to be very unusual, I believe. This like it has been on the positive side. I think you're going to see something similar on the negative side going over the next couple of quarters, which is why we think revenue is really the best demand metric you have. And backlog will come down, we haven't stated exactly how much and the timing of it, it really does depend on our ability to capture supply, which is uncertain at this point. But we do expect it to come down throughout 2023, but remain high as we exit the year as customers are basically consuming orders we've already received.

So I look at it as kind of a burden hand better than 2 in the bush scenario, where we already have the orders that really is the demand for 2023 in-house. And as we shift that it's going to play havoc on growth rates for current period orders.

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

And I'll just add on this. I think Ken summarized the situation for Q4 really well. Orders that we would have otherwise received in Q4, we already had them in hand because of customers that were early ordering, especially in SP and Cloud.

As we look at it to 2023, orders don't need to grow in order for us to hit the at least 8% in revenue growth for the year. But I actually think they can grow. And in the Enterprise, I believe they will grow.

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**Operator**

The next question is from James Fish with Piper Sandler.

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

Rami, for you, a big topic that's coming up is AI workloads. Is there a way to think about the opportunity you see for this and why Juniper will win out of your competitors? And then just, Ken, for you, are you assuming 2023 cancellation rates kind of remain at this level? And how to think about some of the kind of push out of Q4? Is that just completely flowing into Q1 in terms of timing? Or is that going to be out throughout the course of the year?

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

Yes, James, it's a great question. I'll start on the AI topic. So first, I want to talk about AI as it pertains to our own products. Our AI-driven solution revenue crossed \$1 billion for the first time in 2022. And I think it's a demonstration of the incredible value and power of artificial intelligence in driving real results, tangible results that drive market share taking for our Enterprise business, and now what we're doing is we're taking the page out of these lessons we've learned in the Enterprise and we're applying them to other segments, for example, in our Paragon Automation or the metro within the Service Provider debate.

Now having said that, I think your question is more around cloud providers and the opportunity that AI presents to us in terms of supplying the infrastructure necessary to keep up with demand. And earlier in this call, I mentioned how long term -- I'm actually quite bullish about long-term cloudified businesses. And one of the reasons is because of AI. I believe that this is going to be yet another big initiative or a catalyst to increase traffic within the data centers and in the WAN leading or ending in their data centers among all cloud providers that they will have to get ahead of. And they get ahead of that by building higher performance, more cost effective, more cost-efficient networks, both within the data centers and in the wide area network. We will benefit from that because of the existing footprint that we already have within the cloud space. As you know, we're in pretty much all of the major cloud providers, hyperscale and the top 10 cloud providers as well.

Add to that the new 400-gig opportunities that become exceptionally important to carry all this traffic cost effectively. And I think it bodes well for our cloud provider business in the long run.

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

Yes. And to your second question, so from a backlog perspective, we believe our backlog remains extremely durable. Level of cancellations remain extremely low compared to the backlog levels, and I expect that cancellation level to remain low going forward. From a Q4 kind of timing of revenue mix perspective, you're right in that the Q4 miss basically made -- we made that up in Q1. So it really was a timing thing. We had a few more days. We would have made the quarter's expectation, but that rate did slip into Q1. We've already made that up. You can see that reflected in the Q1 guide of 1340 which is lower sequential than we normally see from a Q4 to Q1. So I believe that has been made up.

And other thing I'd mention is on the Q4 margin, which wasn't asked about, we did see some favorableness in the Q4 margin. Some of that is due to software mix and quite honestly, some of that's because we couldn't ship some of the hardware we were expecting to ship, which was at a lower margin. So that also has an impact on Q1 guidance where you're seeing margin come down seasonally a little more than normal off of Q4. It always -- it normally comes down, it comes down a little more due to that software mix. And as it relates to margin in 2023, I do think there's opportunity for margin to be flat to modestly up. I do expect there to be some improvement in some of those expedite fees and freight costs. That said, there's a lot of uncertainty with gross margin, and I feel that the Street models as they are, the expectations the Street currently has, I would encourage you to keep those as they are for 2023.

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**Operator**

The next question is coming from Aaron Rakers with Wells Fargo.

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**Jacob Michael Wilhelm** - Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst

This is Jake on for Aaron. I was just wondering if you could talk a little bit more about the momentum you're seeing in 400G and any changes in the competitive landscape there?

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

Yes, I'd be happy to. So for 400-gig, there's been 100 new wins between Service Providers and Cloud providers since our last update, which was a quarter ago. In terms of competitive landscape, it's always been a competitive environment. I believe that we have real strength, experience and know-how, especially in the WAN for service providers and hyperscale cloud providers where we can leverage our existing footprint in order to basically understand the specific feature by feature requirements and do sort of incremental upgrades to 400 gig.

But we're actually also seeing some really promising success, if you will, in the cloud-ready data center space, and -- basically inside the data center switching fabric with 120 cumulative total 400-gig data center wins now. And I do believe that we're in the early innings right now. I get this question quite a bit, where I know it feels like we've been talking about the 400-gig opportunity for a while. But actually, it's still early periods because there's sort of this time period in the early part of any new Ethernet speed inflection point that starts with the introduction of optics. The optics have to become cost-effective. Then the project need to actually start to kick in. There's a testing period and there is a deployment period. I actually think that we're sort of right now in the early stages of that growth, and I do believe that it's going to be a wonderful opportunity for us, especially in SP and Cloud.

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**Operator**

This completes the Q&A session -- absolutely. Last question is coming from Fahad Najam with Loop Capital.

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

I had to go back to the topic of order normalization. Can you maybe help us -- maybe add a dimension of where lead times are? And should we expect as lead times now, customers will place orders as they normalize. Any indication on how lead times are trending? And then I have another question on what you're seeing on the broader market in terms of demand trends. You cited some macroeconomic challenges. Is it more pertaining to certain segments like high tech or is it more broad? Any color there would be also very helpful.

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

Let me start with the second part, and then I'll hand it over to you, Ken, for the first part. When we say some uncertainty that's out there, it's really more in conversations we're having with customers, the scrutiny that they're placing on budgets. There have been some, a few project push-outs, no cancellations really. But despite that, I think that there are plenty of reasons for us to be optimistic. The strategic importance of the network, digital transformation projects, the 400-gig opportunity that I just talked about, our Enterprise momentum that I think, in many ways, is unique to Juniper because of the differentiation, especially in artificial intelligence that we have and then the backlog that we're sitting on. Ken?

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

Yes, from a lead time perspective, it's hard to get specific because the reality is all products have different lead times. But the range really is from 30 days to upwards of 9 months, even 12 months in some cases. One way to look at it would be our overall backlog. If you just went on a FIFO basis, we have roughly 2 quarters of backlogs. So lead times on average roughly 6 months as one might look at it and it's down a bit from where we entered the quarter. So we are seeing some improvements there.

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

Thank you, everyone, for your time. That concludes today's call.

**Operator**

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

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