

Juniper Networks, Inc.
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October 26, 2023

CFO Commentary on Third Quarter 2023 Preliminary Financial Results

Related Information

The following commentary is provided by management and should be referenced in conjunction with Juniper Networks' third quarter 2023 preliminary financial results press release available on its Investor Relations website at <http://investor.juniper.net>. These remarks represent management's current views of the Company's financial and operational performance and outlook and are provided to give investors and analysts further insight into the Company's performance in advance of the earnings call webcast.

Q3 2023 Preliminary Financial Results

GAAP

(in millions, except per share amounts and percentages)	Q3'23	Q2'23	Q3'22	Q/Q Change	Y/Y Change
Revenue	\$ 1,397.8	\$ 1,430.1	\$ 1,414.6	(2) %	(1) %
Product	898.1	963.2	967.5	(7) %	(7) %
Service	499.7	466.9	447.1	7 %	12 %
Gross margin %	58.0 %	56.9 %	55.7 %	1.1 pts	2.3 pts
Research and development	288.5	282.0	274.0	2 %	5 %
Sales and marketing	311.5	308.3	286.8	1 %	9 %
General and administrative	60.3	65.2	64.7	(8) %	(7) %
Restructuring charges	62.5	16.5	13.0	279 %	381 %
Total operating expenses	\$ 722.8	\$ 672.0	\$ 638.5	8 %	13 %
Operating margin %	6.3 %	9.9 %	10.6 %	(3.6)pts	(4.3)pts
Net income	\$ 76.1	\$ 24.4	\$ 121.5	212 %	(37) %
Diluted net income per share	\$ 0.24	\$ 0.07	\$ 0.37	243 %	(35) %

Non-GAAP

(in millions, except per share amounts and percentages)

	Q4'23 Guidance	Q3'23	Q2'23	Q3'22	Q/Q Change	Y/Y Change
Revenue	\$1,400 +/- \$50	\$ 1,397.8	\$ 1,430.1	\$ 1,414.6	(2) %	(1) %
Product		898.1	963.2	967.5	(7) %	(7) %
Service		499.7	466.9	447.1	7 %	12 %
Gross margin %	60.0% +/- 1.0%	59.5 %	58.3 %	57.2 %	1.2 pts	2.3 pts
Research and development		253.6	255.0	247.4	(1) %	3 %
Sales and marketing		284.3	285.1	265.7	— %	7 %
General and administrative		49.6	52.1	53.0	(5) %	(6) %
Total operating expenses	\$580 +/- \$5	\$ 587.5	\$ 592.2	\$ 566.1	(1) %	4 %
Operating margin %	~18.6% at the midpoint	17.5 %	16.9 %	17.2 %	0.6 pts	0.3 pts
Net income		\$ 193.9	\$ 189.0	\$ 190.8	3 %	2 %
Diluted net income per share	\$0.63 +/- \$0.05	\$ 0.60	\$ 0.58	\$ 0.58	3 %	3 %

Q3 2023 Overview

We ended the third quarter of 2023 at \$1,398 million in revenue, above the mid-point of our guidance. Non-GAAP diluted earnings per share was \$0.60, which was one penny above the high-end of our guidance range, driven by better than expected revenue results and improved gross and operating margins.

Total product orders came in largely as expected, and the rate of year-over-year decline improved as compared to the prior few quarters. Enterprise demand continues to be strong and exceeded our expectations. Enterprise orders grew in the high single-digits on a sequential basis and were approximately flat year-over-year. Cloud and Service Provider demand remained pressured due to digestion of previously placed orders and an unfavorable macro-economic environment.

From a customer solution perspective, AI-Driven Enterprise revenue grew 43% year-over-year and 3% sequentially. Automated WAN Solutions revenue declined 18% year-over-year and 8% sequentially. Cloud-Ready Data Center revenue declined 26% year-over-year and 15% sequentially.

Looking at our revenue by vertical, Enterprise increased 37% year-over-year and 10% sequentially. Service Provider declined 20% year-over-year and 12% sequentially. Cloud declined 28% year-over-year and 13% sequentially.

Total Software and Related Services revenue was \$313 million, which was an increase of 27% year-over-year. ARR¹ was \$357 million and grew 37% year-over-year.

Total Security revenue was \$160 million, up 14% year-over-year.

Our Service business remained strong in Q3'23, posting record revenue and profitability. Service revenue was \$500 million and grew 12% year-over-year and 7% sequentially. Non-GAAP Services gross margin of 72.8% improved 4.8 points versus a year ago and 3.1 points sequentially. We see the potential for continued Services revenue growth and improvements in profitability.

In reviewing our top 10 customers for the quarter, five were Cloud, three were Enterprise, and two were Service Provider. Our top 10 customers accounted for 29% of our total revenue as compared to 34% in Q3'22.

Non-GAAP gross margin was 59.5%, which was at the high-end of our guidance, primarily driven by improved

¹ ARR represents annual recurring revenue from renewable contracts with customers for software licenses, software support and maintenance, and SaaS expected to be recognized over an annual period of time. This metric includes the implied annualized billing value of contracts that are active as of the end of the periods presented. This metric excludes software licenses recognized as revenue at a point in time.

services margin, favorable software revenue mix, and lower logistics costs, partially offset by higher inventory-related expenses.

Non-GAAP operating expenses increased 4% year-over-year primarily due to headcount-related costs, but were down 1% sequentially.

Non-GAAP operating margin was 17.5% for the quarter, which was above our expectations, driven primarily by better than expected gross margin.

Cash flows from operations were \$329 million. We paid \$70 million in dividends, reflecting a quarterly dividend of \$0.22 per share, and repurchased \$125 million worth of shares in the quarter.

Total cash, cash equivalents, and investments at the end of the third quarter of 2023 was \$1.4 billion.

Restructuring Charges in Q3 2023

In Q3'23 we incurred an aggregate amount of \$62.5 million in restructuring charges in connection with plans to reallocate resources to efficiently support our strategic priorities while delivering against our profitability goals. As disclosed in an 8-K filed on October 5, 2023, we announced a plan to, among other things, reduce worldwide headcount by approximately 440 employees, resulting in the majority of such Q3'23 restructuring charges. Please reference our SEC filings for more information.

Revenue

Product and Service

- **Product Revenue:** \$898 million, down 7% year-over-year and sequentially.
- **Service Revenue:** \$500 million, up 12% year-over-year and up 7% sequentially. The year-over-year and sequential increases were primarily driven by strong sales of hardware support contracts and SaaS.

Customer Solution

- **Automated WAN Solutions:** \$436 million, down 18% year-over-year and down 8% sequentially. The year-over-year and sequential decreases were due to Service Provider and Cloud, partially offset by an increase in Enterprise.
- **AI-Driven Enterprise:** \$383 million, up 43% year-over-year and up 3% sequentially. The year-over-year increase was driven by Enterprise and Service Provider, partially offset by a decrease in Cloud. Sequentially, the increase was primarily driven by Enterprise, partially offset by a decrease in Cloud.
- **Cloud-Ready Data Center:** \$170 million, down 26% year-over-year and down 15% sequentially. The year-over-year decrease was due to Cloud and Service Provider, partially offset by an increase in Enterprise. The sequential decrease was due to Service Provider and Enterprise.
- **Hardware Maintenance and Professional Services:** \$409 million, up 6% year-over-year and up 7% sequentially.

Vertical

- **Enterprise:** \$709 million, up 37% year-over-year and up 10% sequentially. The year-over-year increase was across all customer solutions. The sequential increase was driven by Automated WAN Solutions, AI-Driven Enterprise, and Hardware Maintenance and Professional Services, partially offset by a decrease in Cloud-Ready Data Center.

- **Service Provider:** \$419 million, down 20% year-over-year and down 12% sequentially. The year-over-year decrease was primarily due to Automated WAN Solutions and Cloud-Ready Data Center, partially offset by an increase in AI-Driven Enterprise. The sequential decrease was primarily due to Automated WAN Solutions and Cloud-Ready Data Center, partially offset by an increase in Hardware Maintenance and Professional Services.
- **Cloud:** \$270 million, down 28% year-over-year and down 13% sequentially. The year-over-year decrease was due to Cloud-Ready Data Center, Automated WAN Solutions, and AI-Driven Enterprise, partially offset by an increase in Hardware Maintenance and Professional Services. The sequential decrease was primarily due to Automated WAN Solutions and AI-Driven Enterprise.

Geography

- **Americas:** \$837 million, down 7% year-over-year and down 1% sequentially. The year-over-year and sequential decreases were due to Service Provider and Cloud, partially offset by an increase in Enterprise.
- **EMEA:** \$345 million, up 8% year-over-year and down 3% sequentially. The year-over-year increase was driven by Enterprise, partially offset by decreases in Service Provider and Cloud. The sequential decrease was due to Cloud and Service Provider, partially offset by an increase in Enterprise.
- **APAC:** \$216 million, up 9% year-over-year and down 5% sequentially. The year-over-year increase was driven by Enterprise and Service Provider, partially offset by a decrease in Cloud. The sequential decrease was across all verticals.

Additional Disclosures

- **Software and Related Services:** \$313 million, up 27% year-over-year and down 2% sequentially. The year-over-year increase was driven by perpetual software licenses and software license subscriptions. The sequential decrease was due to perpetual software licenses, partially offset by an increase in software license subscriptions.
- **Total Security:** \$160 million, up 14% year-over-year and down 5% sequentially. The year-over-year increase and the sequential decrease were due to the timing of hardware shipments.

Gross Margin

- **GAAP gross margin:** 58.0%, compared to 55.7% from the prior year and 56.9% from last quarter.
- **Non-GAAP gross margin:** 59.5%, compared to 57.2% from the prior year and 58.3% from last quarter.
- **GAAP product gross margin:** 50.4%, down 0.1 points from the prior year and down 0.7 points from last quarter.
- **Non-GAAP product gross margin:** 52.2%, down 0.1 points from the prior year and down 0.6 points from last quarter.

The year-over-year decreases in GAAP and Non-GAAP product gross margin were primarily due to higher inventory related expenses and unfavorable product mix, partially offset by favorable software revenue mix and the easing of elevated supply chain and other related costs.

On a sequential basis, the decreases in GAAP and non-GAAP product gross margin were primarily due to unfavorable product mix, partially offset by lower inventory-related expenses.

- **GAAP service gross margin:** 71.6%, up 4.7 points from the prior year and up 2.9 points from last quarter.

- **Non-GAAP service gross margin:** 72.8%, up 4.8 points from the prior year and up 3.1 points from last quarter.

The year-over-year and sequential increases in service gross margin, on a GAAP and non-GAAP basis, were primarily driven by strong sales of hardware support contracts and ongoing productivity improvements.

Operating Expenses

- **GAAP operating expenses:** \$723 million, an increase of \$84 million year-over-year, and an increase of \$51 million sequentially.

The year-over-year increase in operating expenses was primarily due to higher restructuring charges and headcount-related costs. The sequential increase in operating expenses was primarily due to higher restructuring charges.

GAAP operating expenses were 51.7% of revenue, up 6.6 points year-over-year and up 4.7 points sequentially.

- **Non-GAAP operating expenses:** \$588 million, an increase of \$21 million year-over-year, and a decrease of \$5 million sequentially.

The year-over-year increase in non-GAAP operating expenses was primarily due to higher headcount-related costs. The sequential decrease in non-GAAP operating expenses was primarily driven by lower variable compensation.

Non-GAAP operating expenses were 42.0% of revenue, up 2.0 points year-over-year and up 0.6 points sequentially.

Operating Margin

- **GAAP operating margin:** 6.3%, a decrease of 4.3 points year-over-year and a decrease of 3.6 points sequentially.
- **Non-GAAP operating margin:** 17.5%, an increase of 0.3 points year-over-year and an increase of 0.6 points sequentially.

Tax Rate

- **GAAP tax rate:** 6.0% provision, compared to 11.9% provision in the prior year and 36.2% provision last quarter.

The year-over-year and sequential decreases in the effective tax rate, on a GAAP basis, were primarily due to the changes in the effect of discrete items in the comparative periods, including one-time benefits in the current quarter related to tax legislative changes, restructuring charges, and excess tax benefits associated with stock-based compensation.

- **Non-GAAP tax rate:** 19.0%, compared to 19.0% in the prior year and 19.0% last quarter.

The year-over-year and sequential effective tax rate, on a non-GAAP basis, was flat.

Diluted Earnings Per Share

- **GAAP diluted earnings per share:** \$0.24, a decrease of \$0.13 year-over-year and an increase of \$0.17 sequentially.

The year-over-year decrease in EPS on a GAAP basis was primarily due to higher operating expenses and lower revenue, partially offset by a higher gross margin.

The sequential increase in EPS on a GAAP basis was primarily driven by the one-time loss on privately-held investments in Q2'23, a lower tax rate, and a higher gross margin, partially offset by higher operating expenses and lower revenue.

- **Non-GAAP diluted earnings per share:** \$0.60, an increase of \$0.02 year-over-year and an increase of \$0.02 sequentially.

The year-over-year increase in EPS on a non-GAAP basis was primarily driven by a higher gross margin, partially offset by higher operating expenses and lower revenue. The sequential increase in EPS on a non-GAAP basis was primarily driven by a higher gross margin and lower operating expenses, partially offset by lower revenue.

Balance Sheet, Cash Flows, Capital Return, and Other Financial Metrics

(in millions, except days sales outstanding ("DSO"), and headcount)

	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22
Cash ⁽¹⁾	\$ 1,418.0	\$ 1,296.4	\$ 1,191.0	\$ 1,230.0	\$ 1,254.9
Debt ⁽²⁾	1,588.5	1,602.6	1,616.7	1,601.3	1,595.7
Net cash ⁽³⁾	(170.5)	(306.2)	(425.7)	(371.3)	(340.8)
Operating cash flows	329.2	343.0	191.5	119.6	51.8
Capital expenditures	40.8	41.1	42.1	31.7	23.9
Depreciation and amortization	48.3	48.0	48.6	51.2	52.7
Share repurchases	125.0	120.0	140.0	87.5	—
Dividends	\$ 70.0	\$ 69.9	\$ 70.6	\$ 67.6	\$ 68.0
Diluted shares	323.8	326.0	329.1	329.9	328.9
DSO	60	57	70	76	65
Headcount	11,506	11,395	11,244	10,901	10,705

⁽¹⁾ Includes cash, cash equivalents, and investments.

⁽²⁾ Debt includes change in fair value of fixed-rate debt swapped to floating rate, equally offset on the balance sheet by a swap asset/liability.

⁽³⁾ Net cash includes cash, cash equivalents, and short and long-term investments, net of debt.

Cash Flows

- **Cash Flows from Operations:** \$329 million, up \$277 million year-over-year, and down \$14 million sequentially.

The year-over-year increase was primarily driven by one-time proceeds from the termination of our interest rate locks, lower supplier payments, and lower cash taxes, partially offset by higher employee compensation payments. The sequential decrease was primarily driven by lower customer collections and higher payments for variable compensation, partially offset by one-time proceeds from the termination of our interest rate lock and lower supplier payments.

As of September 30, 2023, we have deferred approximately \$250 million of federal tax payments. Our cash paid for income taxes in Q4 of this year will increase due to these deferred federal tax payments.

Days Sales Outstanding (DSO)

- **DSO:** 60 days, a 3-day increase from the prior quarter, driven by lower revenue and lower collection of in-quarter invoicing.

Capital Return

- In the quarter, we paid a dividend of \$0.22 per share for a total of \$70 million and repurchased \$125 million worth of shares.

Demand Metrics

- **Total deferred revenue** was \$1,840 million, up \$362 million year-over-year and up \$75 million sequentially.
- **Deferred revenue from customer solutions²** was \$756 million, up \$195 million year-over-year and up \$76 million sequentially.

The year-over-year and sequential increases were primarily driven by an increase in SaaS and software and related services.

- **Deferred revenue from hardware maintenance and professional services** was \$1,084 million, up \$167 million year-over-year and down \$1 million sequentially.

The year-over-year increase and sequential decrease were primarily driven by the timing of contract renewals.

Deferred Revenue

(in millions)	September 30, 2023	June 30, 2023	September 30, 2022
Deferred product revenue	\$ 88.5	\$ 91.3	\$ 105.9
Deferred service revenue	1,751.5	1,673.9	1,372.3
Total	<u>\$ 1,840.0</u>	<u>\$ 1,765.2</u>	<u>\$ 1,478.2</u>
Deferred revenue from customer solutions ²	\$ 756.0	\$ 680.3	\$ 561.2
Deferred revenue from hardware maintenance and professional services	1,084.0	1,084.9	917.0
Total	<u>\$ 1,840.0</u>	<u>\$ 1,765.2</u>	<u>\$ 1,478.2</u>

Headcount

- Ending headcount for Q3'23 was 11,506, an increase of 801 employees year-over-year and an increase of 111 employees sequentially. The year-over-year increase was primarily a result of additional hires in our R&D and go-to-market organizations. The sequential increase was primarily a result of additional hires in our R&D organization.
- Q3'23 ending headcount does not include the impact of the restructuring announced on October 5, 2023.

² Includes deferred revenue from hardware solutions, software licenses, software support and maintenance and SaaS offerings sold in our Automated WAN Solutions, Cloud-Ready Data Center, and AI-Driven Enterprise customer solution categories.

Outlook

These metrics are provided on a non-GAAP basis, except for revenue and share count. Non-GAAP earnings per share is on a fully diluted basis. The outlook assumes that the exchange rate of the U.S. dollar to other currencies will remain relatively stable at current levels.

The macro-economic environment is expected to remain challenged, which has been factored into our outlook. For the fourth quarter of 2023, we expect to see a sequential growth in bookings and the rate of year-over-year decline to further moderate. We continue to see healthy Enterprise momentum and expect orders to grow both in Q4 and on a full-year basis. However, we expect demand from Cloud and Service Provider customers to remain constrained as they continue to digest previously placed orders.

Non-GAAP gross margin is expected to modestly increase in Q4 2023 due to expected lower supply chain costs.

We will continue to manage non-GAAP operating expenses prudently and expect a sequential decline.

With our fourth quarter guidance, total 2023 revenue is expected to grow approximately 5 to 6 percent on a full year basis and non-GAAP operating margin will expand by more than 100 basis points. Additionally, non-GAAP earnings per share are expected to grow double-digits in 2023, meeting our previously stated guidance for revenue and profitability.

Q4 2023

Our guidance for the quarter ending December 31, 2023 is as follows:

- Revenue will be approximately \$1,400 million, plus or minus \$50 million.
- Non-GAAP gross margin will be approximately 60.0%, plus or minus 1.0%.
- Non-GAAP operating expenses will be approximately \$580 million, plus or minus \$5 million.
- Non-GAAP operating margin will be approximately 18.6% at the mid-point of revenue guidance.
- Non-GAAP tax rate will be approximately 19.0%.
- Non-GAAP net income per share will be approximately \$0.63, plus or minus \$0.05. This assumes a share count of approximately 323 million shares.

2024 Outlook

While the current global macro-economic environment poses some uncertainty, we would like to provide some initial color regarding our current outlook for 2024.

Bookings across all verticals are expected to grow next year on a full year basis. We expect our Enterprise revenue to grow, however, total revenue results will depend on the rate and pace of recovery in our Cloud and Service Provider verticals, which remains uncertain at this time. Based on current order expectations and backlog levels we expect a return to more traditional seasonal revenue patterns beginning in Q1'24. As a reminder, prior to the industry wide supply chain shortage we historically experienced double-digit sequential revenue declines in the first quarter, followed by sequential revenue growth through the remainder of the year.

We expect non-GAAP gross margin to expand in 2024. We will continue to manage non-GAAP operating expenses prudently and expect non-GAAP operating margin expansion in 2024; however, our ability to achieve this objective will be partially dependent on revenue results.

Our long-term financial objectives have not changed. We plan to deliver sustainable revenue growth, improved operating margin, and earnings expansion over time.

Capital Return

Our Board of Directors has declared a cash dividend of \$0.22 per share to be paid on December 22, 2023 to stockholders of record as of the close of business on December 1, 2023. We remain committed to paying our dividend and remain opportunistic with respect to share buybacks.

Forward-Looking Statements

Statements in this CFO Commentary and related conference call concerning Juniper Networks' business, economic and market outlook, financial guidance, the consummation and integration of, and financial impact resulting from any acquisitions and divestitures on our guidance; our expectations regarding our liquidity and capital return program; deal, customer and product mix; costs and supply constraints; backlog; customer demand; share buybacks; and our overall future prospects are forward-looking statements within the meaning of the Private Securities Litigation Reform Act that involve a number of uncertainties and risks. Actual results or events could differ materially from those anticipated in those forward-looking statements as a result of several factors, including: general economic and political conditions globally or regionally, including the impact of a U.S. federal government shutdown or sovereign debt default and adverse changes in China-Taiwan relations and any impact due to armed conflicts (such as the continuing conflicts between Russia and Ukraine and between Israel and Hamas as well as governmental sanctions imposed in response); rising interest rates; inflationary pressures; monetary policy shifts; recession risks; business and economic conditions in the networking industry; changes in overall technology spending by our customers; the network capacity and security requirements of our customers; contractual terms that may result in the deferral of revenue; the timing of orders and their fulfillment; continuing manufacturing and supply chain challenges and logistics costs, constraints, changes or disruptions; availability and pricing of key product components, such as semiconductors; delays in scheduled product availability; order cancellations; adoption of or changes to laws, regulations, standards or policies affecting our operations, products, services or the networking industry; product defects, returns or vulnerabilities; significant effects of tax legislation and judicial or administrative interpretation of new tax regulations, including the potential for corporate tax increases and changes to global tax laws; legal settlements and resolutions, including with respect to enforcing our proprietary rights; the potential impact of activities related to the execution of capital return, restructurings and product rationalization; the impact of import tariffs and changes thereto; currency exchange rates; and other factors listed in Juniper Networks' most recent report on Form 10-Q or 10-K filed with the Securities and Exchange Commission. In addition, many of the foregoing risks and uncertainties are, and could be, exacerbated by any worsening of the global business and economic environment or other disruptions due to geopolitical conditions and global health emergencies. Note that our estimates as to the tax rate on our business are based on current tax law and regulations, including current interpretations thereof, and could be materially affected by changing interpretations as well as additional legislation and guidance. All statements made in this CFO Commentary and related conference call are made only as of the date set forth at the beginning of this document. Juniper Networks undertakes no obligation to update the information made in this document or the related conference call in the event facts or circumstances subsequently change after the date of this document. We have not filed our Form 10-Q for the quarter ended September 30, 2023. As a result, all financial results described in this CFO Commentary should be considered preliminary, and are subject to change to reflect any necessary adjustments or changes in accounting estimates, that are identified prior to the time we file our Form 10-Q.

All forward-looking non-GAAP measures exclude estimates for amortization of intangible assets, share-based compensation expenses, acquisition, divestiture, and strategic investment related charges, restructuring benefits or charges, impairment charges, strategic partnership-related charges, legal reserve and settlement charges or benefits, gain, loss and impairment charges on equity investments, loss on extinguishment of debt, retroactive impact of certain tax settlements, significant effects of tax legislation and judicial or administrative interpretation of tax regulations, including the impact of income tax reform, non-recurring income tax adjustments, valuation allowance on deferred tax assets, and the income tax effect of non-GAAP exclusions, and do not include the impact of further changes to tariffs and the impact of any future acquisitions, divestitures, or joint ventures that may occur in the period. Material changes to any one of these items could have a significant effect on our guidance and future GAAP results. Certain exclusions, such as amortization of intangible assets and share-based compensation expenses, are generally incurred each quarter, but the amounts have historically varied and may continue to vary significantly from quarter to quarter.

Non-GAAP Financial Measures

This CFO Commentary contains references to the following non-GAAP financial measures: gross margin; product gross margin; service gross margin; research and development expense; sales and marketing expense; general and administrative expense; operating expense; operating expense as a percentage of revenue; operating income; operating margin; provision for income tax; income tax rate; net income; and diluted earnings per share. For important commentary on why Juniper Networks considers non-GAAP information a useful view of the company's financial results, please see the press release furnished with our Form 8-K filed today with the SEC. With respect to future financial guidance provided on a non-GAAP basis, we have excluded estimates for amortization of intangible assets, share-based compensation expenses, acquisition, divestiture, and strategic investment related charges, restructuring benefits or charges, impairment charges, strategic partnership-related charges, legal reserve and settlement charges or benefits, supplier component remediation charges and recoveries, gain, loss or impairment charges on equity or equity method investments, gain, loss or impairment charges on privately-held investments, gain on divestiture, loss on extinguishment of debt, retroactive impact of certain tax settlements, significant effects of tax legislation and judicial or administrative interpretation of tax regulations, including the impact of income tax reform, non-recurring income tax adjustments, valuation allowance on deferred tax assets, and the income tax effect of non-GAAP exclusions, and do not include the impact of changes to tariffs and the impact of any future acquisitions, divestitures, or joint ventures that may occur in the applicable period. These measures are not presented in accordance with, nor are they a substitute for U.S. generally accepted accounting principles, or GAAP. In addition, these measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The non-GAAP financial measures used in this CFO Commentary should not be considered in isolation from measures of financial performance prepared in accordance with GAAP. Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. In particular, many of the adjustments to our GAAP financial measures reflect the exclusion of items that are recurring and will be reflected in our financial results for the foreseeable future.

Juniper is unable to provide a reconciliation of non-GAAP guidance measures to corresponding U.S. generally accepted accounting principles or GAAP measures on a forward-looking basis without unreasonable effort due to the overall high variability and low visibility of most of the foregoing items that have been excluded from these non-GAAP measures. For example, share-based compensation expense is impacted by the Company's future hiring needs, the type and volume of equity awards necessary for such future hiring, and the price at which the Company's stock will trade in those future periods. Amortization of intangible assets is significantly impacted by the timing and size of any future acquisitions. The items that are being excluded are difficult to predict and a reconciliation could result in disclosure that would be imprecise or potentially misleading.

Juniper Networks, Inc.
Preliminary Supplemental Data
(in millions, except percentages)
(unaudited)

Deferred Revenue

	As of	
	September 30, 2023	December 31, 2022
Deferred product revenue	\$ 88.5	\$ 108.8
Deferred service revenue	1,751.5	1,554.3
Total	<u>\$ 1,840.0</u>	<u>\$ 1,663.1</u>
Deferred revenue from customer solutions	\$ 756.0	\$ 632.8
Deferred revenue from hardware maintenance and professional services	1,084.0	1,030.3
Total	<u>\$ 1,840.0</u>	<u>\$ 1,663.1</u>
Reported as:		
Current	\$ 1,037.6	\$ 1,020.5
Long-term	802.4	642.6
Total	<u>\$ 1,840.0</u>	<u>\$ 1,663.1</u>

Customer Solution: Revenue Trend

	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22	Q/Q Change		Y/Y Change	
Customer Solutions:									
Automated WAN Solutions	\$ 436.1	\$ 474.6	\$ 474.5	\$ 479.0	\$ 532.7	\$ (38.5)	(8.1)%	\$ (96.6)	(18.1)%
Cloud-Ready Data Center	170.0	200.3	193.6	259.9	229.3	(30.3)	(15.1)%	(59.3)	(25.9)%
AI-Driven Enterprise	382.5	371.1	317.0	318.3	266.6	11.4	3.1 %	115.9	43.5 %
Hardware Maintenance and Professional Services	409.2	384.1	386.7	391.6	386.0	25.1	6.5 %	23.2	6.0 %
Total revenue	\$ 1,397.8	\$ 1,430.1	\$ 1,371.8	\$ 1,448.8	\$ 1,414.6	\$ (32.3)	(2.3)%	\$ (16.8)	(1.2)%

Additional Disclosures: Software and Security Products and Services: Revenue Trend

	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22	Q/Q Change		Y/Y Change	
Software and Related Services	\$ 313.3	\$ 318.3	\$ 232.2	\$ 305.1	\$ 247.6	\$ (5.0)	(1.6)%	\$ 65.7	26.5 %
Total Security	\$ 159.8	\$ 167.6	\$ 181.6	\$ 169.3	\$ 139.7	\$ (7.8)	(4.7)%	\$ 20.1	14.4 %

Vertical Reporting: Revenue Trend

	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22	Q/Q Change		Y/Y Change	
Cloud	\$ 269.6	\$ 311.0	\$ 264.9	\$ 380.3	\$ 375.3	\$ (41.4)	(13.3)%	\$ (105.7)	(28.2)%
Service Provider	418.8	473.6	549.9	469.3	523.1	(54.8)	(11.6)%	(104.3)	(19.9)%
Enterprise	709.4	645.5	557.0	599.2	516.2	63.9	9.9 %	193.2	37.4 %
Total revenue	<u>\$ 1,397.8</u>	<u>\$ 1,430.1</u>	<u>\$ 1,371.8</u>	<u>\$ 1,448.8</u>	<u>\$ 1,414.6</u>	<u>\$ (32.3)</u>	<u>(2.3)%</u>	<u>\$ (16.8)</u>	<u>(1.2)%</u>

Geographic Region Reporting: Revenue Trend

	<u>Q3'23</u>	<u>Q2'23</u>	<u>Q1'23</u>	<u>Q4'22</u>	<u>Q3'22</u>	<u>Q/Q Change</u>		<u>Y/Y Change</u>	
Americas	\$ 836.5	\$ 848.6	\$ 798.5	\$ 857.4	\$ 895.8	\$ (12.1)	(1.4)%	\$ (59.3)	(6.6)%
Europe, Middle East, and Africa	345.4	354.6	369.9	378.5	320.4	(9.2)	(2.6)%	25.0	7.8 %
Asia Pacific	215.9	226.9	203.4	212.9	198.4	(11.0)	(4.8)%	17.5	8.8 %
Total	<u>\$ 1,397.8</u>	<u>\$ 1,430.1</u>	<u>\$ 1,371.8</u>	<u>\$ 1,448.8</u>	<u>\$ 1,414.6</u>	<u>\$ (32.3)</u>	<u>(2.3)%</u>	<u>\$ (16.8)</u>	<u>(1.2)%</u>

Juniper Networks, Inc.
Preliminary Reconciliations between GAAP and non-GAAP Financial Measures
(in millions, except percentages and per share amounts)
(unaudited)

	Three Months Ended		
	September 30, 2023	June 30, 2023	September 30, 2022
GAAP gross margin - Product	\$ 452.5	\$ 492.5	\$ 488.9
GAAP product gross margin % of product revenue	50.4 %	51.1 %	50.5 %
Share-based compensation expense	1.6	1.7	1.7
Share-based payroll tax expense	0.1	—	—
Amortization of purchased intangible assets	14.4	14.4	15.3
Gain on non-qualified deferred compensation plan ("NQDC")	—	0.1	—
Non-GAAP gross margin - Product	\$ 468.6	\$ 508.7	\$ 505.9
Non-GAAP product gross margin % of product revenue	52.2 %	52.8 %	52.3 %
GAAP gross margin - Service	\$ 357.9	\$ 320.6	\$ 298.9
GAAP service gross margin % of service revenue	71.6 %	68.7 %	66.9 %
Share-based compensation expense	5.4	4.7	4.8
Share-based payroll tax expense	0.5	—	0.3
Gain (loss) on NQDC	(0.1)	0.3	(0.1)
Non-GAAP gross margin - Service	\$ 363.7	\$ 325.6	\$ 303.9
Non-GAAP service gross margin % of service revenue	72.8 %	69.7 %	68.0 %
GAAP gross margin	\$ 810.4	\$ 813.1	\$ 787.8
GAAP gross margin % of revenue	58.0 %	56.9 %	55.7 %
Share-based compensation expense	7.0	6.4	6.5
Share-based payroll tax expense	0.6	—	0.3
Amortization of purchased intangible assets	14.4	14.4	15.3
Gain (loss) on NQDC	(0.1)	0.4	(0.1)
Non-GAAP gross margin	\$ 832.3	\$ 834.3	\$ 809.8
Non-GAAP gross margin % of revenue	59.5 %	58.3 %	57.2 %
GAAP research and development expense	\$ 288.5	\$ 282.0	\$ 274.0
Share-based compensation expense	(34.0)	(26.1)	(26.3)
Share-based payroll tax expense	(1.3)	(0.1)	(0.7)
Loss (gain) on NQDC	0.4	(0.8)	0.4
Non-GAAP research and development expense	\$ 253.6	\$ 255.0	\$ 247.4

Juniper Networks, Inc.
Preliminary Reconciliations between GAAP and non-GAAP Financial Measures
(in millions, except percentages and per share amounts)
(unaudited)

	Three Months Ended		
	September 30, 2023	June 30, 2023	September 30, 2022
GAAP sales and marketing expense	\$ 311.5	\$ 308.3	\$ 286.8
Share-based compensation expense	(23.3)	(19.4)	(17.4)
Share-based payroll tax expense	(1.5)	(0.3)	(1.0)
Amortization of purchased intangible assets	(2.7)	(2.8)	(3.1)
Loss (gain) on NQDC	0.3	(0.7)	0.4
Non-GAAP sales and marketing expense	\$ 284.3	\$ 285.1	\$ 265.7
GAAP general and administrative expense	\$ 60.3	\$ 65.2	\$ 64.7
Share-based compensation expense	(10.4)	(10.1)	(11.3)
Share-based payroll tax expense	(0.3)	(0.1)	(0.1)
Acquisition and integration-related charges	(0.1)	—	0.5
Loss (gain) on NQDC	0.1	(0.1)	0.1
Others	—	(2.8)	(0.9)
Non-GAAP general and administrative expense	\$ 49.6	\$ 52.1	\$ 53.0
GAAP operating expenses	\$ 722.8	\$ 672.0	\$ 638.5
GAAP operating expenses % of revenue	51.7 %	47.0 %	45.1 %
Share-based compensation expense	(67.7)	(55.6)	(55.0)
Share-based payroll tax expense	(3.1)	(0.5)	(1.8)
Amortization of purchased intangible assets	(2.7)	(2.8)	(3.1)
Restructuring charges	(62.5)	(16.5)	(13.0)
Acquisition and integration-related charges	(0.1)	—	0.5
Loss (gain) on NQDC	0.8	(1.6)	0.9
Others	—	(2.8)	(0.9)
Non-GAAP operating expenses	\$ 587.5	\$ 592.2	\$ 566.1
Non-GAAP operating expenses % of revenue	42.0 %	41.4 %	40.0 %
GAAP operating income	\$ 87.6	\$ 141.1	\$ 149.3
GAAP operating margin	6.3 %	9.9 %	10.6 %
Share-based compensation expense	74.7	62.0	61.5
Share-based payroll tax expense	3.7	0.5	2.1
Amortization of purchased intangible assets	17.1	17.2	18.4
Restructuring charges	62.5	16.5	13.0
Acquisition and integration-related charges	0.1	—	(0.5)
Gain (loss) on NQDC	(0.9)	2.0	(1.0)
Others	—	2.8	0.9
Non-GAAP operating income	\$ 244.8	\$ 242.1	\$ 243.7
Non-GAAP operating margin	17.5 %	16.9 %	17.2 %

Juniper Networks, Inc.
Preliminary Reconciliations between GAAP and non-GAAP Financial Measures
(in millions, except percentages and per share amounts)
(unaudited)

	Three Months Ended		
	September 30, 2023	June 30, 2023	September 30, 2022
GAAP other expense, net ⁽¹⁾	\$ (4.8)	\$ (7.4)	\$ (9.0)
GAAP other expense, net % of revenue ⁽¹⁾	(0.3)%	(0.5)%	(0.6)%
Loss (gain) on equity investments ⁽¹⁾	(1.5)	0.6	(0.1)
Loss (gain) on NQDC	0.9	(2.0)	1.0
Non-GAAP other expense, net	\$ (5.4)	\$ (8.8)	\$ (8.1)
Non-GAAP other expense, net % of revenue	(0.4)%	(0.6)%	(0.6)%
GAAP income tax provision	\$ 5.0	\$ 15.0	\$ 16.6
GAAP income tax rate	6.0 %	36.2 %	11.9 %
Income tax effect of tax legislation	7.8	—	—
Income tax effect of non-GAAP exclusions	32.7	29.3	28.2
Non-GAAP provision for income tax	\$ 45.5	\$ 44.3	\$ 44.8
Non-GAAP income tax rate	19.0 %	19.0 %	19.0 %
GAAP net income	\$ 76.1	\$ 24.4	\$ 121.5
Share-based compensation expense	74.7	62.0	61.5
Share-based payroll tax expense	3.7	0.5	2.1
Amortization of purchased intangible assets	17.1	17.2	18.4
Restructuring charges	62.5	16.5	13.0
Acquisition and integration-related charges	0.1	—	(0.5)
Loss on privately-held investments ⁽¹⁾	—	92.2	0.1
Loss (gain) on equity investments ⁽¹⁾	(1.5)	0.6	(0.1)
Loss from equity method investment	1.7	2.1	2.1
Income tax effect of tax legislation	(7.8)	—	—
Income tax effect of non-GAAP exclusions	(32.7)	(29.3)	(28.2)
Others	—	2.8	0.9
Non-GAAP net income	\$ 193.9	\$ 189.0	\$ 190.8
GAAP diluted net income per share	\$ 0.24	\$ 0.07	\$ 0.37
Non-GAAP diluted net income per share	\$ 0.60	\$ 0.58	\$ 0.58
Shares used in computing diluted net income per share	323.8	326.0	328.9

⁽¹⁾ The prior period amounts have been reclassified to conform to the current period presentation.