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PRESENTATION

Operator

Greetings and welcome to the Juniper Networks fourth-quarter and FY15 earnings conference call.

(Operator Instructions)

As a reminder this conference is being recorded. I will now turn the conference over to Ms. Kathleen Nemeth, Investor Relations for Juniper Networks. Thank you, Ms. Nemeth, you may now begin.

Kathleen Nemeth - *Juniper Networks, Inc. - VP of IR*

Thank you, operator. Good afternoon and welcome to our fourth-quarter and FY15 conference call. Joining me today are Rami Rahim, Chief Executive Officer; Robyn Denholm, Chief Financial and Operations Officer; and Ken Miller, Senior Vice President of Finance.

Today's call contains forward-looking statements including statements concerning Juniper's business, economic and market outlook; strategy; future financial condition and operating results; capital return program; and overall future prospects. Actual results might differ materially from those projected in the forward-looking statements.

Additional information that could cause actual results to materially differ from those in these forward-looking statements are listed in our most recent 10-Q, the press release furnished with our 8-K filed today, and in other documents that we file with the SEC from time to time.



All statements made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call in the event, facts, and circumstances change after the date of the call.

Our discussion of the financial results today will include non-GAAP results. Full GAAP to non-GAAP reconciliation information can be found on the investor relations section of our website. For important commentary on why our management team considers non-GAAP information a useful view of the Company's financial results, please consult the press release furnished with our 8-K filed with the SEC today.

Now, I will hand the call over to Rami.

Rami Rahim - Juniper Networks, Inc. - CEO

Thanks, Kathleen. Welcome, everyone. January is a time to review our key accomplishments of the prior year and set expectations for the year ahead. 2015 was an inflection point year for the industry and for Juniper, as well. Traditional networking boundaries are changing and, as a challenger in this industry, we are here to shape it and lead it.

Throughout last year, I committed to focusing on innovation, operational excellence, cost discipline and our targeted growth initiatives. I am pleased to report that in 2015 our total revenue grew 7% year over year, excluding Junos Pulse, driven by growth across all verticals, geographies and technologies.

Product and service revenue were up across routing, switching and security. Service provider and enterprise revenue was up by 7% and 8%, respectively. We improved our operating margin and delivered our third consecutive year of double-digit non-GAAP EPS growth.

So, I'm proud of what we've achieved. But there's still more to do to continue on our path of operational excellence, innovation and growth. We are living in disruptive times and we are witnessing some megatrends unfold.

The competitive landscape is evolving. New architectural approaches like FBN are becoming real. Business models are changing with software disaggregation and whitebox switching. The future of security is evolving and everything is shifting to the cloud.

What does this all mean for Juniper? We intend to be the most trusted technology provider helping our customers to solve their most pressing networking problems. We see incredible opportunity ahead and we intend to capture it.

Today there are about 700 million broadband users worldwide and an estimated 940 million by the end of 2018. This is driving an insatiable need for network capacity.

To illustrate this point, Netflix recently announced it is now serving 192 countries up from 60-plus. Imagine satisfying this increasing worldwide demand for rapid low-latency and high-volume communication of information. It will require new high-performance, highly automated networking solutions and cutting-edge technology.

In 2016, we plan to continue to capture inflection points in the industry that will help accelerate our existing strategy. We plan to do so through continued execution and product innovation, as well as partnerships and tuck-in acquisitions when appropriate that complement our organic R&D strategy.

For example, we see new growth opportunities in the data center interconnect and metro ethernet markets. Traffic growth in the networks that form these markets is forcing our customers to consider new architectural approaches to keeping up with traffic demand cost effectively.

Yesterday, we announced our intent to acquire optical equipment provider BTI Systems. By combining Juniper's data center switching and IP routing platform with BTI's cloud and metro networks and systems and software, we expect to transform packet optical networking and provide our customers with open software-driven solutions that are automated, highly programmable, cost efficient and offer tremendous service agility.

It is now more evident than ever that everything is shifting to the cloud. Enterprise IT is moving apps and data to public and hybrid clouds. Service providers are building out a distributed telco cloud to drive down operational cost, increase agility and better serve their customers.

Cloud has often required new network infrastructure build and upgrade across wide area networks, data centers and branch offices. And our customers have recognized the value of Juniper's networking innovations to help in their transition to cloud architectures.

Our intent is to lead in the area of software solutions that simplify the operations of network and to allow our customers across our key verticals to deliver real value over those networks. We anticipate that our increased focus on software business models will result in an increase in software revenue as a percentage of total revenue over time.

I remain optimistic about our entire product line up across routing, switching, security, and automation software that spans five solution domains -- data center, core, edge, campus and branch, and access and aggregation. We shipped several new products last quarter, including the ATX500 hardened access switch, the QFX5200 top-of-rack data center switch, the SRX1500 security platform for the campus and branch domain, and the newest generation of MX line card, the MPC7. These and other new products are getting good early reception from customers and we expect them to ramp in revenue this year.

Now I know cyber security is top of mind for organizations of all sizes. Investing in security is an imperative for our customers and Juniper's strategy. We believe the future of security is intimately tied to the network and we are investing and innovating in our domain solutions with that direction in mind.

We are also committed to maintaining the integrity, security, and assurance of all of our products at Juniper. Against this backdrop that I've laid out, and given our assumptions that the global economy will be volatile and customer investments may be lumpy, my team and I have set out the following three operating principles for managing the business in 2016.

First, we intend to take a prudent stand while going after revenue growth opportunities that we see within our target markets. Second, we will remain diligent in managing our operating expenses, and intend to expand non-GAAP operating for FY16. We reiterate our long-term target of operating margins of 25% on a sustainable annualized basis.

Third, we intend to maintain a healthy balance sheet and continue working towards an optimized capital structure. We will seek to fulfill our commitment through continuous process improvement in execution, and I look forward to sharing yet more accomplishments that provide value to our customers and return for our shareholders. I want to thank our employees for their continuous pursuit of excellence and their sincere commitment to helping our customers every day.

Before I conclude, I would like to say a few words on the leadership transition that we now announced earlier today. Robyn joined Juniper as our CFO over eight-and-a-half years ago and has since led the finance and operations organization through a period of extensive change and, frankly, significant accomplishment. I've always been impressed with Robyn's willingness to put customers first and bring her great energy and enthusiasm to some of the most challenging times our Company has faced.

Robyn has developed an outstanding finance, IT and operations organization, and has instilled a strong operational and financial discipline in the Company, complementing and strengthening our heritage of innovation. Robyn, I thank you for being a great business partner, not only with me but the entire Juniper senior leadership team and the Board over the last eight-and-a-half years. And thank you for stepping down in the thoughtful way you have, with a great CFO successor to take over after filing the 10-K in late February and staying on until the summer to ensure a smooth transition.

Ken, you have been at Juniper since before the IPO, and I know you have been in all parts of the Company over those 16-plus years and know the Company inside and out. In your current role as the SVP of Finance you have worked closely with Robyn and me in helping to instill the financial discipline that has resulted in our strong performance in 2015. I also know that you appreciate where this Company has been but, more importantly, are mindful that there is still more work to do to really achieve our full potential.

We are confident that with your leadership we will continue on this new path of operational excellence and diligent and prudent financial management. Continuing to strengthen these attributes of our culture are essential to our future successes. Robyn, thank you. And, Ken, we look forward to your new role.

And with that, I will turn the call over to Robyn for a review of our full-year and quarterly financial results.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

Thank you, Rami. Good afternoon, everyone. I'm very pleased with our record fourth-quarter 2015 results. They reflect strong year-over-year and sequential revenue and earnings growth.

We saw year-over-year and sequential revenue growth in both Americas and APAC, as well as solid growth with service providers across all technologies. Specifically, telecom, cable and cloud providers each grew revenue more than 20% year over year.

In reviewing our top 10 customers for the quarter, 7 were telcos and 3 were cloud or cable providers. Of these customers, 5 were located outside of the US, reflecting our continued strategy to diversify our revenue across multiple verticals and geographies.

Our underlying demand metrics continued to be healthy this quarter with a product book to bill greater than 1, and ending product backlog at \$517 million, up 16% year over year. Sequentially, product deferred revenue was flat and up 7% year over year.

I'm especially pleased that for the quarter, we delivered strong year-over-year and sequential non-GAAP operating margin and earnings per share expansion. This reflects our continued good execution focused on revenue growth and effective management of our cost structure.

In the quarter we had cash flow from operations of \$117 million, lower than the previous quarter primarily due to working capital requirements. Capital expenditures for the quarter were \$55 million.

We repurchased \$93 million of shares and paid \$38 million in dividends. Since the first quarter of 2014, inclusive of share repurchases and dividends, we've returned approximately \$3.6 billion of capital to shareholders against our commitment to return \$4.1 billion by the end of 2016.

Now I'd like to discuss our annual results. Our FY15 results were strong, with year-over-year revenue increases across all verticals, geographies and technologies. As anticipated, in the second half of 2015, US tier one telcos showed an improvement compared to the first half of 2015, as well as the second half of 2014.

In reviewing our top 10 customers for the year, 5 were telcos, 3 of which were outside of the US, and 5 were cloud or cable providers. For the year, we expanded operating margins significantly by 3.3 points and grew diluted earnings per share by 40% on a non-GAAP basis, which reflects our solid execution focused on revenue growth, effective management of our cost structure, and significant reduction in share count. We are pleased that we are making good progress towards our annualized long-term model of 39% non-GAAP operating expense as a percentage of revenue and towards our non-GAAP operating margin target of 25%.

For the year, we had strong cash flows from operations of \$893 million, primarily due to high revenue and improved operating margins. Capital expenditures for the year were \$210 million as we focused on investments to drive long-term productivity and support continued innovation and development of new products. We repurchased \$1.143 billion of shares and paid \$156 million in dividends.

Now let's take a look at some of the underlying assumptions behind our Q1 outlook. Although we have good visibility into the first quarter, the near-term macroeconomic uncertainty and the potential customer investment lumpiness calls for a conservative outlook. We also anticipate the exchange rate of the US dollar to other currencies to remain strong, which we have factored into our outlook. You can find the detailed outlook for Q1 in the CFO commentary available on our website.



Now I'll provide an update on our capital return program. Given that we are substantially through our \$4.1 billion capital return commitment, we wanted to give you some color on how we look at our capital return policy beyond the 2016 timeframe. Going forward, we intend to target a capital return policy of approximately 50% of annual free cash flow, inclusive of share repurchases and dividends. As a reminder, in March 2016, we have \$300 million of debt maturing that we currently intend to refinance, subject to market and other business conditions.

Also, yesterday, we announced our intent to acquire BTI Systems. Please note that we expect the transaction to close in Q2. And we will provide more information on the financial details of the combined operations after the transaction has closed. At this point, we don't expect the transaction to have a material impact to our 2016 earnings.

To summarize, I'm very pleased with what we've accomplished this year, which is reflected in our results. We are executing well against our long-term model. And as we begin the year, we remain focused on execution and delivering on our strategic commitment.

For the past eight-and-a-half years, I've been privileged to be the CFO of Juniper. We have accomplished a lot over this time and I feel really good about where the Company is positioned and the financial and operational discipline that is in place. I also believe that the Company is in great hands with Rami and with Ken as we move forward. I would like to thank our team for their continued dedication and commitment to Juniper's success.

And now with that I'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Mark Moskowitz of Barclays. Please go ahead.

Mark Moskowitz - Barclays Capital - Analyst

Yes, thank you. Good afternoon. A couple quick questions here. One, just in your comments about trying to inject more conservatism or prudence around the outlook, can you talk about, relative to what you were saying in terms of the macro, have you seen anything within your customer base that you've found to be somewhat incremental or cause for pause in terms of one customer vertical being out or one product or segment being out as far as starting to see a major change in the sales motion relative to the prior few months? Then I have a follow-up.

Rami Rahim - Juniper Networks, Inc. - CEO

Yes, sure, Mark, thanks for the question. I'll start and then I'll just pass it on to Robyn, if she wants to add anything else. First and foremost, I have to say that I feel good about the fundamentals of the business and, of course, the need for networking technology across all of our market verticals. The fact of the matter is there are some very important problems to be solved in the area of networking, keeping up with capacity and delivering services over those networks, and so forth.

I also feel great about our execution, the engagement that we have with our customers across all of our key market verticals. I think it really comes down to the fact that 2016 has started with a lot of market volatility, and we have to see how that plays out in terms of its effect on spending patterns and deployment with our customers, really, across all of our key verticals. I think it's really important that we manage the business and we invest with that assumption in mind, and that's exactly what we're doing.



Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

And just to add to that, we did really have a great Q4 and we've got good visibility. I mentioned in my prepared remarks that backlog was \$517 million, up significantly year over year, and so was the third revenue.

Having said that, as Rami mentioned, there is a lot of market volatility out there, and in our experience that has from time to time caused some lumpiness in our deployments or order patterns. So, it's more about that cautiousness in terms of what could unfold as we move forward here that we've been cautious with our guidance for the first quarter.

Mark Moskowitz - Barclays Capital - Analyst

Okay. And then the second question is more longer-term in nature, thinking about the second half of 2016 and into 2017. Juniper, under your leadership, has done a nice job in terms of refocusing on both security and switching. And we're hearing that a lot of big customers are starting to really kick the tires and bring Juniper in for some RFPs. I'm just curious if you can talk about the cadence there, the sales motion. And are you having to hire more people, one? And then, two, is this more of a 2017 potential or could it be a second half of 2016 in terms of maybe getting a boost from those initiatives in both security and the switching? Thank you.

Rami Rahim - Juniper Networks, Inc. - CEO

Sure, Mark. Thank you. If you look at 2015, we said that it's really important for us to diversify our business across geos, across technology areas, across market verticals. You're touching on the diversity in technology areas and that is very much a matter of our strategy. And I'm very happy with how the team executed to that effect in the last year.

Routing, all up, grew 6%, switching 7%, security grew 5%. And that, I think, is a reflection of just the execution by the engineering team, the go-to-market team, our marketing team. And I feel that the opportunity is there for us to continue the growth across all of the technology areas.

In security in particular, since you highlighted it, this was an area that required an extra level of focus from us because, as you know, we started with a bit of a deficit just a year ago. We refocused our strategy. We enhanced our product set. We definitely did a lot of training and marketing to win the hearts and minds of our partners and our customers. And while I'm not yet ready at this point to say we are completely done, because there is still a lot more execution for us to do in the area of security, I definitely feel much better about the opportunity that we have with that business and the way that we're executing in that business than I did a year ago.

Mark Moskowitz - Barclays Capital - Analyst

Thank you.

Operator

The next question is from Vijay Bhagavath with Deutsche Bank. Please go ahead.

Vijay Bhagavath - Deutsche Bank - Analyst

Good afternoon. Hi Rami and Robyn. A quick question from me around, you mentioned your guidance was conservative, primarily on the uncertainty you're noting in macro or the lumpiness. You also noted weakness in US enterprise. So, my question for you is if you could give us any color on the lumpiness comments, which product segment or customers, set of customers it's coming from, very helpful. Thanks.

Rami Rahim - Juniper Networks, Inc. - CEO

Let me start, Vijay. I don't think it's anything specific to any one technology area or customer vertical. As I mentioned, I actually feel good about the way that we're executing and about the fundamentals of the business, the need for the kinds of technologies, how our products that we're developing and innovating in are going to be addressing those requirements in 2016.

I just believe that as we start 2016 and you see the incredible amount of volatility in the market across, really, all markets and all geos, it's a good idea for us to plan and manage the business with the assumption that there could be some lumpiness. I don't think, as I said, it's specific to any one particular vertical.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

And just to amplify what Rami said, and just to remind you, our enterprise business typically is down in the first quarter from the fourth quarter. That's a normal seasonal pattern that we see. So, obviously we expect it to be up year on year but quarter on quarter we do expect that to be down. Rami addressed that in his prepared remarks.

In terms of the telco sector, just globally we had a very strong telco quarter in the fourth quarter, as we mentioned in our prepared remarks. And typically it does take a little bit of time for those deployments to be digested and move forward. So, we're constructive on the year, I think, in terms of how we're viewing the FY16 year for our business but we're being cautious in the near term just given the volatility, as Rami mentioned.

Vijay Bhagavath - Deutsche Bank - Analyst

A quick follow up is on the BTI announcement. We personally think it's a strategic positive for the Company getting into data center optical in particular. So the question for you is around how do you manage margins because optical margins, as we all know, is more in the mid to high 40s margins rather than the mid 60s. Help us understand the margin puts and takes of optical getting into your portfolio. Thanks.

Rami Rahim - Juniper Networks, Inc. - CEO

Yes, sure, Vijay. First, I'm happy to hear that you think it's a good idea and I agree with you completely. I want to just make sure everybody understands. The goal of this acquisition is not to build a large optical business inside of Juniper. The goal is to capture what we believe are very important market inflection points that have to do with the convergence of packet and optical.

This is not a new strategy. This is actually a strategy that I have talked to you and our customers and our partners about over several years. We have already been developing optical interfaces, colored interfaces, on our routers.

We think that there are certain market segments, data center interconnect in particular, metro, that are going to need to move to this architectural approach sooner rather than later. So, this acquisition, when it closes in the Q2 timeframe, is essentially a way for us to accelerate our innovation in this area by getting key building blocks and, of course, the talent that will help us do it. So that's why, as Robyn mentioned earlier, we don't think it's going to have a material impact on our 2016 financials.

Vijay Bhagavath - Deutsche Bank - Analyst

Thank you.

Operator

The next question is from Paul Silverstein of Cowen and Company. Please go ahead.

Paul Silverstein - *Cowen and Company - Analyst*

Thanks. Rami and Robyn, I hate to ask you this but it's a clarification of the last two or three responses and then a question, another clarification. I appreciate and trust we all appreciate prudence given the macro backdrop, but I just want to make sure I understand. When you talk about being prudent and the lumpiness -- one month in I recognize is not very long, and January is always a light month for the first quarter -- but have you actually seen things that cause you concern as opposed to reading the Wall Street Journal and CNN and listening to all the other companies that have announced?

And then my question would be on margins. You had a really strong services gross margin number relative to what you've done over the last year or two. Product gross margin was somewhere in between. The real question being going forward what should we expect? Is the 63-plus you did in services, is that the new norm or were there extraordinary things in the quarter that accounted for the strength? And similar question on products.

Robyn Denholm - *Juniper Networks, Inc. - Chief Financial and Operations Officer*

Paul, thanks for the questions. Let me touch on the guidance and the outlook for Q1 first. As we said, if I go back 90 days ago, what I said on the earnings call was that we expected Q1 to be 7% to 10% down. What we've just announced in terms of the guidance at the midpoint is 11% down. So, it's modestly down from what we were expecting before and that's us being cautious and prudent.

We're not seeing any wholesale signs of any weakness, as Rami mentioned before. Having said that, it is early in the quarter and it's just our experience that where there are headlines -- we're talking about capital purchases -- many of my peers around the world will start to tighten things unless macro environment changes. So, that's why we're being cautious and prudent. It's more experience than actually what we're actually seeing.

On the margin side, I'm very pleased with the gross margin that we posted for Q4. It's up a couple of ticks year over year and quarter over quarter. It is strong in terms of both the product and the services margin. The services, and the business around services, is doing very well within the Company. The team and continues to work on cost structure. They continue to take costs out of that business and productivity increase, at the same time as improving their customer satisfaction scores. So, I'm very pleased with that.

If we move to the first-quarter guidance on the gross margin, we also typically see a quarter-over-quarter sequential decline in gross margins. Again, it's if up year over year from Q1 of last year, and that's primarily the result of the volume in the Q1 period of time from product. So, services relatively consistent quarter over quarter in terms of the gross margin area. Sometimes we do get some fluctuation in that depending on deployments from product because of the PS revenue, as part of services, but we're very pleased with our services gross margin.

Paul Silverstein - *Cowen and Company - Analyst*

Robyn, I wish you well.

Operator

The next question is from Pierre Ferragu of Sanford Bernstein. Please go ahead.

Pierre Ferragu - *Sanford C. Bernstein & Co. - Analyst*

Hi. Thank you for taking my question. Maybe on the outlook you've pulled together and comments you've made about uncertainty, do you have a different shade of view when we think about your clients? Do you have more or less visibility service provider, webscale clients, enterprise? And if so, how does that look like from the original standpoint?



We see very clearly that you're very good performance today is mostly driven by the US. Are you concerned about the domestic slowdown, as well, or is still most of the uncertainty in international markets?

And then maybe along the same line, one last question. What's your view on data center standings. We have seen a few data points recently potentially showing the data center could be slowing. Is that something you see, something you anticipate? Thanks a lot.

Rami Rahim - Juniper Networks, Inc. - CEO

Yes, Pierre, let me start. First, as far as the outlook, really, I think Robyn covered it well. There's nothing specific to any one particular vertical or even geography. The macro volatility we're seeing is really widespread and it touches pretty much all of our customers across verticals and different geos, as well.

On the second question that you are talking about with respect to data center, I still see that as a tremendous opportunity for us. We are, if you look at our switching market share, although it's actually nudging up, still relatively small, and for that reason the opportunity for us to penetrate into the data center with switching products, data center interconnect with our MX product line, as well as some of the packet optical architectures that we're talking. And the data center is, in fact, the area where we are strongest today from a security standpoint.

Finally, where we are really seeing some good momentum is with Contrail and buildout of clouds for telecom operators and large enterprises. The Contrail win rate that we are observing right now, with six additional wins in the Q4 timeframe alone, is really healthy. And we definitely see a pulling other products along with it. So, macro uncertainty aside, I still view data center, and in particular the move to hybrid cloud environments, as a tremendous opportunity for Juniper.

Pierre Ferragu - Sanford C. Bernstein & Co. - Analyst

Excellent. Thank you.

Operator

Our next question is from Simona Jankowski of Goldman Sachs. Please go ahead.

Simona Jankowski - Goldman Sachs - Analyst

Hi. Thank you very much. If we look across the networking landscape, there's a few significant upgrades that seem to be kicking in this year. A couple of the carriers are moving their metro networks to 100 gig. Cloud providers are moving to 25 and 50 gig in their data centers. You see some enterprise data centers moving to 40 gig and then campuses moving to multi gigabit. Of these four opportunities, or any others you may want to add, which ones are you involved in and which ones do you think are going to be meaningful growth drivers for you this year?

Rami Rahim - Juniper Networks, Inc. - CEO

Yes, thanks, Simona. I'd say that the biggest areas of focus, and where our competitive differentiation is going to be greatest, as well as where our go-to-market attention is also the highest, is in the data center opportunity. So, you mentioned, correctly so, the move to 25 and 50 gig. We just introduced in the Q4 timeframe the QFX5200. In fact, that's the first switch that we offer with a completely disaggregated operating system to truly go after that opportunity.

That complements the spine switches that are now in the hands of our customers, at least the early versions in the hands of our customers, where we expect revenues to start ramping this year. So, anything to do with data center just as a matter of strategy and focus I'm optimistic about.

Metro 100 gigs, the MX is the sweet spot product now for these 100-gig deployments. And I do expect to be very much relevant, if you will, for those kinds of opportunities.

Campus have been a little bit less of a focus relative to the data center, but that's only because of the timing of products, if you will. We have a new architecture that we introduced for the campus that we call fusion architecture, and that architecture really comes to fruition around the middle of this year. And for large campus environments, I think that makes us a very competitive.

On the metro opportunity, we did mention that we introduced the latest version of our MX line cards in the Q4 timeframe. This is the MPC7, with very dense, industry-leading 100-gig capacity, which is perfectly timed to capture the metro opportunities that you're mentioning.

Simona Jankowski - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

Jess Lubert of Wells Fargo. Please go ahead.

Jess Lubert - *Wells Fargo Securities, LLC - Analyst*

Hi, guys. Thanks for taking my question. First for Rami, I was you could touch on some of the factors driving the strength in the routing business which posted a second consecutive quarter of double-digit growth. Any insight you can provide as to where you believe we are in the customer routing cycle, to what degree you think the new PTX and MX line card can continue to sustain healthy growth in that business for 2016, that would be helpful.

And then, Robyn, I was hoping you could perhaps touch upon to what degree you expect currency to impact the outlook, and perhaps some of the exchange rate assumptions that are embedded in the forecast. Thanks.

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

Okay let me start with routing -- thanks for the question -- and then I'll pass it over to Robyn. In routing over the last few quarters we've been taking market share. I think that's because of the strength of our product portfolio and the engagements that we're having with our service provider and enterprise customers around the world.

Last quarter was a great quarter for the MX and the PTX. This quarter is another fantastic quarter for the MX. So, there are really two routing product lines that are humming right now in terms of the business momentum that we are building. Both have fantastic road maps, and both are hitting the mark in terms of both the software capabilities, the services and the density in performance that they offer to our customers.

In Q4, in particular, we saw broad-based strength in service providers. This is not a comment specific to just the large Tier 1s. This is true for service providers around the world that are building out their metro, their edge, and their core with the MX and the PTX.

And I'm also very pleased with the performance that we saw in the cable in the Q4 time frame, where cable operators are really just trying to keep ahead of the growth in video traffic. They're doing this with the migration to DOS 3.0, 3.1. And, of course, the densities that we offer with the MX and the PTX to help them to do that is really turning into a competitive advantage for us.

Jess Lubert - Wells Fargo Securities, LLC - Analyst

Rami, based on the availability of the new products, is there any reason we shouldn't expect some of the share gains that we've seen in the last few quarters to continue?

Rami Rahim - Juniper Networks, Inc. - CEO

Share will always fluctuate on a quarter-by-quarter basis. But if I look at the win rates as well as the opportunities that are ahead of us, and the product road map, you have to keep in mind that we have actually managed to achieve the strength that we achieved in 2015 largely without the new products ramping up. This year I think we have the benefit of the new products ramping up, which I think can help us in sustaining the market share momentum.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

Just in terms of currency, Jess, as I've mentioned before, we predominantly invoice in US dollars. Having said that, obviously, with the strength of the US dollar versus other currency, we see some -- and I mentioned it in my prepared remarks -- modest pricing impact in those areas, which we have, by and large, offset with cost reductions. So, our assumptions are that the currency impact remains a consistent high level for the US dollar as we move forward here.

Jess Lubert - Wells Fargo Securities, LLC - Analyst

Thanks, guys.

Operator

Sanjiv Wadhvani from Stifel. Please go ahead.

Sanjiv Wadhvani - Stifel Nicolaus - Analyst

Thank you. Robyn, let me just wish you good luck on your next venture. Rami, broad level question for you -- within the context of a volatile macro, I was wondering if you could comment on how you see the year shaping up. I know you guys have talked about a 3% to 6% range. Especially given the various new products that are starting to gain traction, just curious to get a comment of how you think the year might shape up. Thanks.

Rami Rahim - Juniper Networks, Inc. - CEO

First, thanks for the question, Sanjiv. We're still sticking to our long-term outlook, which includes 2014, 2015, and 2016 of the 3% to 6% revenue range. And I think we will make progress toward -- if I look at 2016 all up, I do believe that we will make progress towards that goal. And that's true from a revenue standpoint, from the 3% to 6%, but also true from an operating margin standpoint where we expect to achieve our long-term goal of 25% all up on a full-year annualized basis.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

And Rami meant 2015, 2016, 2017. We announced it in 2014.

Rami Rahim - Juniper Networks, Inc. - CEO

Thank you for the correction, Robyn. You are absolutely right.

Sanjiv Wadhvani - Stifel Nicolaus - Analyst

Just one quick follow up -- as it relates to new products, are you expecting material contribution this year? Or do you think this ramps up as the year progresses and maybe in 2017 we'll start seeing more of the material contribution?

Rami Rahim - Juniper Networks, Inc. - CEO

It's both because it ramps up but it ramps up early this year. So, I do think it will have a significant contribution to 2016 across switching and routing, in particular, but also security.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

Yes. And just to underscore that point, and Rami mentioned it in his prepared remarks, for 2015, there was very little revenue from the new product. So, it underscores the strength of the results in 2015. And we are expecting those products to ramp as we move through 2016.

Sanjiv Wadhvani - Stifel Nicolaus - Analyst

Got it. Thank you.

Operator

The next question is from Jim Suva of Citi. Please go ahead.

Jim Suva - Citigroup - Analyst

Thank you and congratulations. One clarification question and then a follow up. First of all, on the clarification question, you mentioned the currency. And we know that you price mostly in US dollars. And you mentioned some changes which would be offset by your costs, which you've been able to do.

Can you give us a little bit more detail by what you meant by those changes? Is that, you lowered your price in certain geographies, or you did some more rebating? Or what did you mean by those changes need to be offset by cost? That's a clarification.

Then my main question is, a lot of the other questions were asked on your other products, but on switching could you give us a little bit of detail on switching, maybe what's happening now versus, say, six months ago, and your outlook for switching, whether it be trends or product cycles? Thank you very much and again congratulations.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

Thank you. In terms of the pricing commentary or the currency commentary, obviously the US dollar has been strong for quite some time now. So, we have actually seen some impact from our pricing in our international operations outside the US, which we have largely offset by the cost reductions that we've had throughout the year.

You can see the gross margin is very healthy on our product areas. It's very consistent year over year. It's also very consistent from a sequential basis. We obviously compete for business and we largely compete on the differentiation of our products. But there are obviously areas where we continue to work on the cost structure and reduce our costs so that we preserve the competitiveness of our overall product range, as well.

Rami Rahim - Juniper Networks, Inc. - CEO

And, Jim, on the switching question, FY15 we saw a 7% year-over-year increase in switching. That is largely without the benefit of the new spine switches, which we expect to ramp in this year. So, I am bullish on our ability to grow this part of our business.

I think that if you look at where the opportunity lies, it's mostly in the data center in the cloud. This is true for all of our vertical market segments, whether it's our telecom operators that are building out their next-generation distributed telco cloud architectures, transforming their network locations, to scale out data centers from which they're delivering value to their customers. It's certainly true for enterprises that are moving to hybrid cloud architectures. I think we can benefit from that.

And then, again, I will put in that plug for Contrail because I think that's really making us very relevant to the next-generation architectures where there is a high degree of automation that is being applied to how switching is deployed. We're seeing that is a very strategic and a sticky part of the sales motion for our customers across all vertical markets.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

Yes, and just to underscore that point, we grew switching 7% year over year without very much benefit at all from the new products. So, I think to Rami's point, we're very pleased with the switching performance, and we're also pleased with how we are moving forward from a competitive point of view with the switching line up that we have.

Jim Suva - Citigroup - Analyst

Thank you and congratulations.

Operator

The next question is from Rod Hall of JPMorgan. Please go ahead.

Unidentified Participant - Analyst

Hi. Thanks. This is Ashwin on behalf of Rod. Robyn, first of all, you will be missed and good luck to you. Actually my question is on Europe. It looks like Europe was down on the area basically in Q4. I'm wondering if you're expecting that region to return to growth anytime soon given that your FY Q1 guidance implies growth.

Rami Rahim - Juniper Networks, Inc. - CEO

Yes, sure, Ashwin. Europe actually, you're right, from a revenue standpoint it took a little bit of a step back. But actually from a booking standpoint Europe was quite strong year over year and sequentially so I'm not concerned.

I think in Europe the area where we're seeing the greatest success is with the telecom operators. The win rate, the level of engagement on some of the next-generation architectures in not just routing but in switching and security and Contrail is very good. And, so, for that reason, again, for 2016 as a whole I actually think Europe is going to be good.

There has been a very deliberate focus inside of Juniper to make sure that there is good diversity across the geographies and we're taking that seriously. I'm very pleased with how the team is executing.

Unidentified Participant -- *Analyst*

Okay. Thanks for the color. Just one more follow up. Rami, you commented that you're expecting operating margins to expand in FY16. I wanted to understand how contingent is that on revenue growth coming through. I just want to understand your planning assumptions there.

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

We are expecting that revenue will expand this year if you think about it from the full-year standpoint. With that said, we're essentially making sure that we are investing in a way that's commensurate with that expansion revenue. We're not going to, as I've said many times in the past, invest ahead of that growth.

Unidentified Participant -- *Analyst*

Okay, thank you.

Operator

George Notter, Jefferies. Please go ahead.

George Notter - *Jefferies LLC - Analyst*

Hi, thanks a lot, guys. More of a housekeeping question. I was curious about what your emerging markets exposure is right now. I seem to have lost track of that. I'm specifically interested in countries like Brazil, Russia, China, places where the currencies have really devalued or the economies slowed down. What is that now and how do you feel about those areas going forward? Thanks.

Robyn Denholm - *Juniper Networks, Inc. - Chief Financial and Operations Officer*

Thanks, George. We don't actually break out our emerging market number. But what I will say is I did provide some commentary about Asia-Pacific. If you excluded China we'd actually be up quite significantly in terms of the quarter. It's in my commentary. And in terms of Brazil, it's a small business for us but I can't actually say it was down in the quarter, and that's in the Americas results. In terms of the APAC results, they would have been up. I think it was about 10% but we will come back to you with that number.

George Notter - *Jefferies LLC - Analyst*

Got it. Thank you.

Operator

Steve Milunovich of UBS. Please go ahead.

Steve Milunovich - UBS - Analyst

Great. Thank you. This morning there was some news about Facebook's open compute project getting the backing of telcos like AT&T, Verizon, Deutsche Telekom. I wanted to get your perspective on that and what you're hearing when you talk to customers.

Rami Rahim - Juniper Networks, Inc. - CEO

Sure, thanks, Steve. This is an industry where most of the innovation and the investment goes into software, but much of the business models are tied to hardware. If you take a look at Juniper as an example, 85% of all of our development resources are software resources. That is where the crux or the majority of our R&D investment lies.

I do believe that over time business models will adjust so that more of the value is going to be monetized through software. And I think we're taking meaningful steps in that direction. In the Q4 timeframe we announced our disaggregated architecture. Our customers were very pleased. We got a lot of kudos, if you will, from our customers, telecom operators and enterprises, but mostly on the telco side, that this is the right step to take.

Do I believe that there's going to be an overnight shift in business models? No, I don't. I think in this industry everything unfolds in multi years. But I do think that we are taking the steps that are necessary to make sure that in a world where whitebox switching starts to become more prominent, that we will be able to participate, add value and, of course, create shareholder value from that transition, as well.

Steve Milunovich - UBS - Analyst

Thank you. And, Robyn, there was a comment in the formal remarks about moderately elevated pricing pressure. Have you addressed that in your comments today or are you seeing something competitively that's different?

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

No, it's a combination of factors. But we did address it. Obviously the currency impact is seen through that pricing and any other factors that are in there. But we are offsetting that with cost reductions, as you can see, in the quarter from the gross margin. So, slightly elevated is what I said in the prepared remarks.

And just coming back to George's question about emerging markets, in terms of Asia Pacific it was about 4% full year. We excluded China. The region was actually up 11%. So, you can see there has been in the FY15 period of time quite a reduction in that business. Although I will say that in the fourth quarter we actually saw it grow a little from the third quarter, from a China specific perspective.

Operator

Ittai Kidron, Oppenheimer. Please go ahead.

Ittai Kidron - Oppenheimer & Co. - Analyst

Thanks. A couple of questions. First, Rami, can you get into the enterprise business and the performance in the fourth quarter? I had to go back 10 years and I never could have found a quarter where your enterprise business took such a significant decline on a quarter-over-quarter basis. So, if you can give us a little bit more color on what's going on there, that would be great.

And, second, just from a big picture standpoint, do you have any view on what capital spending will be with [carris] year, how it's going to be weighted second half versus first half? Any color on that will be great.



Rami Rahim - Juniper Networks, Inc. - CEO

Okay, let me start. Thanks, Ittai. On the enterprise side Q3 was a very strong revenue quarter for us. If you recall, it was actually double-digit growth, both quarter over quarter and year over year. So, the step back that we took in enterprise, honestly I'm not too worried about it.

I think that it's largely as a result of the timing of large enterprise deployments and especially government. Government was actually very strong for us in Q3, and there was a bit more weakness in government just because of various factors in the Q4 timeframe.

If I think about the opportunity for us in enterprise and our ability to capture it, especially as it pertains to cloud deployments, I actually feel very good about 2016, all of 2016. I think that's the net of it. Expecting some lumpiness, especially in the larger enterprises in government is something that is pretty normal.

Robyn Denholm - Juniper Networks, Inc. - Chief Financial and Operations Officer

Yes, and actually I will just add to that. Our enterprise business for the fourth quarter was largely as we were expecting. So, not anything out of the ordinary.

The full year for enterprise was actually up 8%, which is a very good result for us for the full year for enterprise. And it just speaks to the diversity, again, that Rami has underscored through the commentary here.

If you look at our full-year service provider business, that was up about the same sort of level, 7%, and enterprise was up 8%. So, in any one quarter you will see some lumpiness between the sectors and between the verticals and the markets just because of the deployment cycle, but actually overall the diversity is working for us in that it gives us good growth in both areas over a full-year period of time.

Rami Rahim - Juniper Networks, Inc. - CEO

On the second question, I think it was around the capital expenditures for telecom operators in particular, we're seeing the same reports that you're seeing. It's still early in the year but it is at least one of the factors that we are considering as we provide our outlook.

For telcos in particular, the most important thing we need to do is to make sure that we remain extremely relevant to the next-generation architectures that they are now contemplating and will eventually deploy -- things like cloud CBEs, things like deploying SDN and transforming their network locations to data center-like entities. I feel really good about the level of engagement that we're having with our telecom operators to be able to capture that opportunity when it becomes real. I think there are some real good proof points of telcos, even large telcos, that are making significant progress in that direction.

And then, finally, it's important for us to continue the diversification of the business so that we can increase the predictability of our business over time across all vertical market segments.

Ittai Kidron - Oppenheimer & Co. - Analyst

Very good. Good luck.

Operator

The next question is from Jeff Kvaal of Nomura. Please go ahead.



Jeff Kvaal - *Nomura Securities - Analyst*

Yes, thanks very much. And, Robyn, I'd like to add my congratulations to you in appreciation for all of your help with me over the years. Two questions, really. I think, first, is big picture on routing. You've had a really nice series of quarters and the [tone] is quite good on that. Contrast that a little bit to what I hear out of the larger US telcos who have been pretty clear that NFV is an opportunity for them to reduce spending on what they call big iron in the core of the network. So, I'm wondering if you could compare and contrast that a little bit and help us think that through. And then I've got a follow-up. Thanks.

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

Yes, sure. I will start with this routing question. I think actually where you see virtualization becoming most relevant, it's in areas of the market that tend to be a little bit less performance, tend to be more around the customer premises equipment, is really around the end goal of automation. And we have developed what I think are really competitive solutions to address that particular opportunity.

The big iron stuff, it's really around keeping up with traffic patterns, with growth in traffic. If you look at, for example, the enhancements that we are making in the PTX where we are going from a terabit per slot to 3 terabits per slot, industry leadership from a performance standpoint, I can tell you that is absolutely hitting the mark in terms of the kinds of technologies that our telecom operators are looking for to cost effectively address the insatiable appetite of traffic growth in their networks.

Jeff Kvaal - *Nomura Securities - Analyst*

Thank you. The second one is, could you help us a little bit understand when we can expect revenues from the QFX10000? I think at one point it might have been in the first half of this year. I'm just not sure if I, A, have that right, and, B, if I'm interpreting your remarks as being more of a second half 2016 story.

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

We expect the revenue ramp to start in the first half. It will obviously be more meaningful in the second half but we do expect that revenue will start in the first half.

Robyn Denholm - *Juniper Networks, Inc. - Chief Financial and Operations Officer*

Yes, I think it's fair to say that we expect our first revenue in the first half but the ramp will start in the second half, is the way we would characterize it.

Jeff Kvaal - *Nomura Securities - Analyst*

Okay. Thank you both for helping me parse through that language.

Operator

Our final question is from Jayson Noland of Robert W. Baird. Please go ahead.



Jayson Noland - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thanks for slipping me in. I had a couple quick ones, hopefully. And thank you for giving the color on the top 10 customers. The question there, with more success in cable and cloud, Rami, is the business becoming more concentrated around key customers or is that the wrong way to look at it?

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

No, I think it's actually getting more diverse across vertical markets -- cloud, cable, telecom operators, large enterprises, federal governments, and so on. And I think that's good because it's adding a greater level of predictability to the business.

I don't think we're done. I think that there's always going to be some lumpiness. Our exposure to telecom operators is still quite high so there's going to be some lumpiness to the business, which is why it's so important for us to continue in 2016 on our strategy of diversification across vertical market, across geos, and also across technology areas of switching, routing and security.

Jayson Noland - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then a quick follow up -- the comments about volatility across all markets and geos, and then with security specifically, [screened-out] is all but gone, and you've got traction at the high end of the SRX market. Should we expect to see more resiliency in security relative to other markets just given the nature of that business?

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

Yes, I have said in the past that this 2015 would be the year of stabilizing security and then we would start to see modest growth in 2016. At the end of 2015, I think we can say that we exceeded our expectations last year. Security grew 5% full year, year-to-year comparison. And I think that's not an accident. It is a result of some really great work by a lot of people at Juniper that I'm extremely proud of.

You're going to see a rolling thunder of security enhancements that we will make across management where we knew that we have some work to do to better penetrate the enterprise, with the area of next-gen firewall capabilities that our cloud offered. This product is called the Sky Advanced Threat Prevention, that's in beta today, that essentially starts to ship shortly in the next few months.

We just wrapped up a customer and partner event -- actually more of a partner event -- just earlier this month where we heard first hand from our partners that they are feeling much better about where we are in security today relative to where we were just a year ago.

Jayson Noland - *Robert W. Baird & Company, Inc. - Analyst*

Appreciate the color. Thanks, Rami.

Kathleen Nemeth - *Juniper Networks, Inc. - VP of IR*

Thanks Jayson. And thank you, everyone, for joining us today. As always, we appreciate all of your great questions and we look forward to speaking with you next quarter. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. And thank you for your participation.



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