REFINITIV STREETEVENTS

EDITED TRANSCRIPT

JNPR.N - Q4 2020 Juniper Networks Inc Earnings Call

EVENT DATE/TIME: JANUARY 28, 2021 / 10:00PM GMT

OVERVIEW:

Co. reported 4Q20 revenues of $1,223m and non-GAAP EPS of $0.55.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Jeffrey Thomas Kvaal *Wolfe Research, LLC - Research Analyst*

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

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

Ryan Boyer Koontz *Rosenblatt Securities Inc., Research Division - MD & Senior Research Analyst*

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

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

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

PRESENTATION

Operator

Greetings, and welcome to the Juniper Networks Fourth Quarter and Fiscal Year 2020 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Jess Lubert. Thank you, Jess. You may begin.

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

Thank you, operator. Good afternoon, and welcome to our fourth quarter 2020 conference call. Joining me today are Rami Rahim, Chief Executive Officer; and Ken Miller, Chief Financial Officer.

Today's call contains certain forward-looking statements based on our current expectations. These statements are subject to risks and uncertainties and actual results might differ materially. These risks are discussed in our most recent 10-Q, the press release and CFO commentary furnished with our 8-K filed today and in our other SEC filings. Our forward-looking statements speak only as of today and Juniper undertakes no obligation to update any forward-looking statements. Our discussion today will include non-GAAP financial results. Reconciliation information can be found on the Investor Relations section of our website under Financial Reports.

Commentary on why we consider non-GAAP information a useful view of the company's financial results is included in today's press release. Following our prepared remarks, we will take questions. (Operator Instructions)

With that, I will now hand the call over to Rami.

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

Good afternoon, everyone, and thank you for joining us on today's call to discuss our Q4 and full year 2020 results. I hope you and your families are well and my thoughts go out to all those affected by the pandemic.

2020 was an unprecedented year, which presented challenges that none of us could have predicted a year ago. The biggest being the emergence of the global pandemic. This event materially impacted our supply chain, the way we work and collaborate and how we engage with our customers around the world. The pandemic also impacted the health of our customers, employees and people close to us in our personal lives.

Despite these challenges, we grew our enterprise business for a fourth consecutive year. We grew our cloud business for a second consecutive year, and we made progress stabilizing our Service Provider business, with orders in this vertical growing on a full year basis even though revenue declined. These results were made possible by the efforts of our employees who have executed exceptionally well, and I'd like to give a special thanks to all of them for not only enduring, but excelling in the face of adversity. We're proud to be one of the keepers of the global Internet, and the world needed the Internet in 2020 more than ever.

We are exiting 2020 following 2 consecutive quarters of year-over-year growth and entering the new year with good momentum. This is a direct result of the strategic actions we have taken around how we go-to-market, how we align our business and how we complement our organic business with thoughtful acquisitions, such as Mist that create new revenue streams and pull-through sales of our existing products.

While these actions should set us up to sustainably grow our business starting this year, I'd like to highlight several key areas of strategic focus where we plan to double down in the new year, which you'll hear us talk more about during our upcoming Investor Day event on February 12.

First, delivering industry-leading customer experiences through superior technology, engagement, quality and support. While we're entering 2021 with the highest customer satisfaction scores we have ever seen, we view customer experience as our true north and are committed to doing even better. We think delivering superior customer outcomes will enable us to win across all of the markets and verticals we serve.

Second, focusing our business on specific use cases, which include the AI-driven enterprise, cloud-ready data centers and automated WAN with connected security embedded in each. These use cases each represent a large opportunity that spans across verticals we serve. Each of these use cases is likely to see attractive market tailwinds over the next several years and focusing our resources on these areas should enable us to accelerate our growth as these opportunities unfold.

As I discussed last quarter, we have reorganized our sales, product management and engineering teams around these business opportunities, and we will begin disclosing our revenue mix in this format when we report our Q1 results.

Third, capturing the value presented by our recent acquisition and making sure 128 Technology, Apstra and Netrounds deliver similar returns on investment to what we are seeing with Mist, which continues to exceed expectations and is positively impacting sales of the broader Juniper portfolio. I am very encouraged by the early customer interest in each of these transactions, which is building confidence these businesses will positively impact our performance in the future.

We firmly believe we are taking share and that the deliberate actions we have taken, along with some of the investments we have made, should position us to not only capitalize on the big market opportunities, such as 400-gig and 5G that will unfold over the next few years but also to see broader market success that decreases our sensitivity to macro trends. We believe our plans will enable us to emerge from the pandemic stronger than we entered and deliver sustainable top and bottom line growth over the next several years even if end market conditions remain challenged.

Now I'd like to provide some additional insights into the quarter and address some of the key developments we are seeing within each of our core market verticals. Starting with enterprise. We delivered record revenue in the December quarter and experienced high single-digit order growth year-over-year, which exceeded our own expectations. While we saw particularly strong demand in the North American market, strength was broad-based across geographies, and we secured a significant multiyear opportunity with an international Global 10 account for our wireless, wired and SD-WAN portfolio driven by our Mist AI differentiation. Based on our results, we believe we are taking share and that our enterprise business is likely to be our fastest growth vertical in 2021.

Our optimism is fueled by the building customer response to our AI-driven enterprise offerings and specifically, the momentum we are seeing around Mist, which saw new logos grow by more than 125% year-over-year, and orders increased by nearly 140% year-over-year.

In addition to robust wireless growth driven by Mist AI, we experienced strong adoption of our wired assurance capabilities and record pull-through of our EX switching portfolio. In total, our current mystified business of Mist wireless LAN, wired assurance, Marvis virtual network assistant and associated EX pull-through generated more than $150 million worth of revenue in 2020, and we expect to materially grow this business over the next few years.

We would also remind you that Mist is a software subscription business with 30% to 35% of each deal recognized ratably, generating a healthy deferred revenue stream, which will be recognized in the future.

The Mist technology is truly unique and delivers a compelling solution for AI-driven client-to-cloud operations. Not only does our solution minimize IT costs with proactive automation and self-driving action but it assures secure user experiences with end-to-end service levels and AI-driven support. This experience-first focus is resonating in the market and is one of the reasons Gartner recently positioned us in the leaders quadrant for wired and wireless access, where we were named the Leader of Leaders in terms of ability to execute.

The acquisition of 128 Technology represents the next evolution of our AI-driven enterprise vision. 128 Technology will not only enable Juniper to provide a superior application and user aware SD-WAN experience as compared to all other SD-WAN offerings in the market, but also to extend the value of Mist's secure AI engine and cloud management capabilities from client to cloud.

Our Service Provider segment also exceeded our expectations in Q4 and we have been encouraged to see this business begin to stabilize in 2020 following several difficult years. The improved Service Provider results we delivered, both in Q4 and for the full year 2020, are due in large part to the deliberate diversification efforts we have undertaken, which has enabled us to overcome weak spending trends at several of our large U.S. Tier 1 customers.

We believe the strength we are seeing with U.S. cable operators and international carriers is likely to continue through the upcoming year and we remain optimistic regarding our ability to capture more switching and security opportunities within the Service Provider vertical in addition to core and edge routing deployments.

Not to be overlooked, we remain optimistic regarding the access/aggregation and metro routing opportunities, which, in aggregate, represent a $2 billion portion of the market that is growing and where Juniper historically hasn't played. We introduced our first product targeting this opportunity during the second half of this past year and plan to introduce additional solutions through the course of 2021. Early interest in our metro offerings is encouraging, and we believe the combination of these products with Netrounds software automation capabilities should present a compelling value proposition that enable us to win in this attractive portion of the market.

Based on our current pipeline, we remain confident in our ability to further stabilize our Service Provider business during the upcoming year, despite the ongoing challenges facing many of our customers in this vertical.

Our cloud business also exceeded our expectations in Q4 and grew on a full year basis for a second consecutive year despite an anticipated decline in spending by what has historically been our largest cloud customer. We have been able to achieve this growth through improved momentum with other hyperscale accounts and continued success with our Tier 2 customers, which we plan to call cloud majors going forward.

Our hyperscale pipeline remains healthy, and we continue to see strong wide-area momentum with these important customers, particularly for our routing solutions, which experienced strong growth from both a revenue and an orders perspective during the most recent quarter. While business with these customers is likely to remain lumpy, especially as old projects complete and new projects ramp up, the funnel of new high-value opportunities we have been seeing in this footprint continues to exceed the headwinds we also see from old projects completing.

The value of our routing stack remains critical to these customers and some of the innovations we have been delivering in software around SONiC and containerized routing are opening up new use cases to expand our TAM and will further increase the value of our technology to this critical customer set.

Importantly, we also remain optimistic regarding our potential to gain share with cloud majors, which we view as a large and growing market opportunity. Our potential here is not only driven by the strength of our portfolio, and Apstra will further enhance our position, but this is also an area where we see opportunities to diversify by gaining share within existing accounts and opening up new logos through an incremental go-to-market effort. Based on our current pipeline and the momentum we are seeing at both hyperscale and cloud majors, I expect us to grow our cloud business in 2021.

Importantly, we are continuing to make progress on 400-gig and currently have more than 100 wins for our 400-gig capable products. While many of our wins are addressing wide-area use cases, where we have historically been strong, we're also seeing an increased level of success in data center switching opportunities. We continue to expand our 400-gig product set and deliver new features needed to gain share in this critical market opportunity. We believe we have the right product and customer engagement to both protect our wide-area footprint and capture switching share as the 400-gig cycle unfolds across our cloud and carrier customers starting later this year.

On this last point, I'd like to spend a few minutes on Apstra, which has the potential to accelerate our success in the data center switching market, both within cloud majors and large enterprise accounts. Fabric management is a key determinant of success in many of these opportunities, and Apstra not only provides us with leadership here but also in the area of closed-loop assurance, which allows customers to quickly troubleshoot and remediate problems in large data center environments.

We believe Apstra's capabilities are highly differentiated and offer customers the industry's best day 0, day 1 and day 2 automated operations. We think these capabilities have the potential to significantly improve customer experience and accelerate the momentum in our data center switching business, both in cloud majors as well as large enterprise environment.

Our software business performed well in Q4 and accounted for 12% of our overall sales. As a company, we remain laser-focused on capturing more software and in particular, more SaaS and subscription based software. While high-value SaaS and subscription software are a smaller percentage of our overall software revenue stream today, they are growing rapidly, which is a trend we expect to continue over the next several years. This growth is primarily being driven by the strong adoption of our Mist Cloud as well as other software-based subscription offerings. The recent acquisitions of 128 Technology, Netrounds and Apstra will further accelerate our efforts to capture more software revenue in the years to come.

I'd like to mention that our services team delivered another solid quarter and on a full year basis, 2020 was another year of service revenue growth due to strong renewals and attach rates as well as growth in our SaaS and software subscriptions.

Our services team continues to execute extremely well and ensure our customers receive an excellent experience. I would like to extend my thanks to our customers, partners and shareholders for their continued support and confidence in Juniper. I especially want to thank our employees for their hard work and dedication, which is essential to creating value for our stakeholders.

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

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

Thank you, Rami, and good afternoon, everyone. I will start by discussing our fourth quarter results and then cover the fiscal year 2020 and end with some color on our outlook.

We ended the fourth quarter of 2020 at $1.223 billion in revenue and non-GAAP earnings per share of $0.55, both above the midpoint of guidance. Revenue grew 1%, which was the second consecutive quarter of year-over-year growth. The higher than midpoint results were driven by strength across all verticals.

Looking at our revenue by vertical. On a year-over-year basis, Enterprise posted a record quarter, growing 7% year-over-year and 14% sequentially. Cloud grew slightly year-over-year and increased 11% sequentially. Service Provider declined 4% year-over-year and was essentially flat sequentially.

From a technology perspective, routing increased 9% year-over-year and grew 7% sequentially. Switching decreased 2% year-over-year and increased 14% sequentially. Security decreased 14% year-over-year and grew 19% sequentially. Our Services business decreased 1% year-over-year and increased 2% sequentially. Software revenue was approximately 12% of total revenue in the fourth quarter.

Non-GAAP gross margin was 60.0% in the quarter, which was in line with our expectations.

In reviewing our top 10 customers for the quarter, 3 were Cloud, 6 were Service Provider and 1 was in Enterprise. Our top 10 customers account for 30% of our total revenue as compared to 33% in the fourth quarter of last year.

Product deferred revenue was $105 million, up 5% sequentially and down 21% year-over-year due to the timing of the delivery of contractual commitments. Deferred revenue related to our software-as-a-service and software subscription offerings, which grew year-over-year, are included in our Services deferred revenue. Non-GAAP operating expenses increased 2% year-over-year and 4% sequentially. The higher-than-anticipated costs were driven by higher variable compensation, mostly in the go-to-market organization, as a result of higher revenue as well as the acquisition of 128 Technology.

Cash flow from operations was $126 million for the quarter, an increase both year-over-year and sequentially. We paid $66 million in dividends, reflecting a quarterly dividend of $0.20 per share. We also repurchased $75 million worth of shares.

Total cash, cash equivalents and investments at the end of the fourth quarter of 2020 was $2.4 billion. I would like to point out that there was a timing difference between our new debt issuance and the full retirement of the previous debt which was completed in January. As a result of this timing difference, our total cash and debt balances are elevated by approximately $485 million and $425 million, respectively, as of year-end.

Moving on to our full year results. Total revenue for 2020 was $4.445 billion, which was flat versus 2019. Our Enterprise business grew 3% for the year, despite the impact of the pandemic. This was our fourth consecutive year of full year growth in Enterprise. Our Cloud business grew 2% for the year, the second consecutive year of growth. Our Service Provider business began to stabilize and performed as expected, declining 4% for the full year.

Looking at our technologies, routing declined 1% and switching grew 2% and security declined 9% year-over-year. Our Services business grew 1%. Software was 10% of total revenue, the second year of software being at or above this level.

In reviewing our top 10 customers for the year, 5 were Cloud, 4 were Service Provider and 1 was in Enterprise.

Non-GAAP gross margin declined by 90 basis points in 2020, primarily due to the additional logistics and other supply chain-related costs related to COVID-19, partially offset by improvement in our Service gross margin.

Throughout the year, we continue to focus on disciplined operating expense management with a modest increase of less than 1% on a non-GAAP basis. Non-GAAP operating expense as a percentage of revenue was 43.7%. Non-GAAP diluted earnings per share was $1.55 in 2020.

For the year, we had cash flow from operations of $612 million, which increased $83 million compared to 2019.

During 2020, we took a balanced approach to capital allocation. We repurchased $375 million worth of shares and paid $264 million in dividends for a total capital return of 125% of free cash flow to shareholders. In addition, we acquired 2 growth-oriented companies that we believe will help us return to sustainable revenue growth and margin expansion over time. We also improved our capital structure by refinancing a portion of our debt, locking in historically low long-term financing rates and extending our average maturity while preserving our investment-grade credit profile. I am proud of the strategic approach the team has taken to ensure our financial resilience through these challenging and uncertain times.

Now I would like to provide some color on our guidance, which you can find details in the CFO commentary available on our Investor Relations website. At the midpoint of our revenue guidance, revenue is expected to be up 6% year-over-year, which includes less than $10 million from our recent acquisitions. We expect non-GAAP gross margin to experience normal seasonal patterns in the first quarter. Excluding the anticipated impact of increased COVID-related costs, non-GAAP gross margin would be approximately flat versus the first quarter of last year.

We expect first quarter non-GAAP operating expense to increase sequentially, primarily due to the inclusion of approximately $20 million of operating expenses related to the recent acquisition as well as the annual reset of variable compensation and the typical seasonal increase in fringe costs, partially offset by a decline in commission expense.

In addition, our first quarter non-GAAP EPS guidance includes the dilutive impact of the recent acquisitions.

Before we move on to Q&A, I would like to provide some comments on our expectations for the full year 2021. Our 2021 revenue and non-GAAP earnings expectations remain unchanged relative to the forecast we provided during our Q3 2020 earnings call. However, we have updated our growth expectations to account for the revenue and the non-GAAP earnings upside that we experienced in Q4 2020 as compared to the midpoint of our guidance. We have also factored in the acquisition of Apstra, which is expected to be dilutive to our non-GAAP earnings during the first half of 2021, but be breakeven on a full year basis.

In terms of full year revenue, we expect organic growth of approximately 2% to 3% and we anticipate an additional 1% of growth from the recent acquisitions. Beyond the first quarter, we expect revenue to grow sequentially each quarter in 2021.

While non-GAAP gross margin can be difficult to predict, we expect full year gross margin of approximately 60% due to the higher volume, reduced COVID-related logistics costs and higher software mix as well as improved service costs. Through the course of the year, we expect non-GAAP gross margin to improve with volume.

Non-GAAP operating expense is expected to remain near first quarter levels through the course of the year. The full year non-GAAP operating margin is expected to be approximately flat to 2020 levels. While we expect total non-GAAP operating expense to be up on a full year basis as we absorb our recent acquisition and invest to take advantage of market opportunities, we remain committed to disciplined expense management and expanding operating margin longer term.

I'd also like to note that we expect non-GAAP other income and expense to remain near first quarter levels through the course of the year.

Our non-GAAP tax rate on worldwide earnings is expected to be 19.5%, plus or minus 1%. We expect full year non-GAAP EPS to grow faster than revenue.

Finally, our Board of Directors has declared a quarterly cash dividend of $0.20 per share, to be paid this quarter to stockholders of record.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Simon Leopold with Raymond James.

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

I wanted to just get sort of a very simple one out of the way. I appreciate the commentary on the full year. One of the trends that we assume would occur would be expenses rising in the second half of the year with some normalization and catch up post the pandemic. I'm thinking about things like travel expenses coming back. I'm just wondering how you're thinking about those kind of expenses coming back. Is that something you're assuming happens in 2022 rather than later this year? And then I've got a bigger picture question afterwards.

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

Sure. Thank you, Simon. So for Q1, the primary driver of the sequential growth in OpEx, the Q1 guide at $510 million really is the acquisitions that we recently closed, and that's about $20 million of OpEx in our Q1 number. We expect for the rest of the year to roughly maintain those Q1 levels around $510 million plus or minus a bit. We do anticipate there being some cost coming back into the equation when people start to travel again, et cetera, perhaps in the second half. However, I do think the new normal is still yet to be determined. And at this point, I'm not expecting all the costs to come back. I think we'll be able to be conservative and basically efficient with our travel, et cetera, as we move forward. So although I do expect some COVID cost to come back, we don't have a large amount baked into our current full year forecast at this time.

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

And then in terms of the trend, it seems pretty clear that the Enterprise market vertical will become your largest by the end of 2021. And doing business in that space is just very different than Juniper's routes. So clearly, you've done something different to get here. But could you talk about how this has affected the thinking on the long-term multiyear strategy and the profile of maybe the company's culture, go-to-market?

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

Yes. I'm happy to address that, Simon. So this would be -- 2020 would be our fourth consecutive year of growth in the Enterprise vertical. So this is not a new thing for us. However, I do believe that there have been a number of strategic actions that we've taken over the last few years, equipping sales and structuring sales in a way that goes after the Enterprise effectively and efficiently. Our organic innovation, our inorganic acquisitions have set us up to accelerate this part of our business. So despite the challenges that we saw in 2020 as a result of COVID, we grew this vertical, and we grew it nicely. I think we're taking share.

I believe our technology and our differentiation has never been stronger. We've created not just market share growth and business growth, but mind share growth in the industry. And I think we've done so with an eye on doing it as efficiently as possible by focusing on the large enterprises. So a big component of our success comes from large Fortune 500, Global 1000 accounts, where the sales investment is as efficient as it can be for that enterprise. So for all these reasons, I honestly have never felt better about our opportunity in the enterprise space.

Operator

Our next question comes from Paul Silverstein with Cowen.

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

First off, Ken, in terms of supply constraints, how large an issue and are you disadvantaged vis-à-vis Cisco, given the large volume into Broadcom and other suppliers? Or is that just not an issue in terms of both revenue growth and the pricing? And I've got a bigger picture follow-up question.

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

Yes. So we clearly did experience some pretty significant supply constraints in the peak of kind of the COVID pandemic, if you will, kind of in the summer months. We've had material improvement since then. I would articulate that as we exited the year, we're pretty much back to normal. We might have some elevated lead times here and there, but that's more due to demand being beyond our expectation and then true supply constraints. I'm very pleased with how the team has really adapted and improved the supply as we proceed.

That said, backlog is higher. We're exiting the year with about 20% more backlog than we entered. So we are maintaining healthy backlog as we move into this year 2021 and really, the supply constraints, extended lead times, et cetera, that we saw through most of the summer months are largely behind us at this point. I don't believe we're at a competitive disadvantage. Our team does a great job with components manufacturing and component suppliers to negotiate the supply that we need.

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

All right. And then on -- I hate to ask you this because I think I asked every quarter, so my apologies, but I think it's been an investor concern for a while, which is have you seen any share losses? Are there any signs of awards away from you, specifically in cloud for the DCI WAN routing or switching use cases? And on the other side of the equation, Rami, it's your comments about ongoing optimism in the cloud, any incremental insight you can give in terms of where is the opportunity for the greater subset?

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

Certainly, Paul. So the short answer to your question is, no. We have not lost share or footprint in cloud routing today, I mean, in cloud period, I should say. We saw our routing up double-digit year-over-year in the Q4 time frame. I think that is an indication of the health of the footprint that we have retained in this extremely important vertical for us. We continue to see healthy diversification within cloud, both within the hyperscale cloud providers where we enjoy footprint across practically all of them, but also among the what we used to call Tier 2, Tier 3, which we're now calling cloud majors going forward, more and more market share in that area as well. I'd also think that there is a greater diversity of technologies that we're selling. So it's not just about routing, it's also about switching. It's also about security in this very important vertical.

As I look out into 2021, I believe our footprint that we retain within the cloud space is going to work for us, right? We didn't anticipate any major additional share taking that's going to happen in 2021 to achieve the growth that we believe that we can achieve in '21. But I do think that with the right focus in go-to-market, the technology that I know we have, that I know is very competitive, we can, in fact, take some additional share as well in this vertical.

Operator

Our next question comes from Tim Long with Barclays.

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

Two, if I could as well. First, maybe, Rami, talk a little bit about the Enterprise side. You mentioned a lot of really good cross-selling with Mist, it seems to be doing very well. Could you talk a little bit about kind of win rates, deal sizes and kind of how you get more out of that business to keep the ball rolling? And then second, you talked obviously, there's a bunch of other acquisitions, you framed for us the size of them. Could you talk a little bit about the 3 of them and how easy it's going to be for the sales force to engage with those and potentially make 1, 2 or all of them have a similar type of impact and ramp that Mist is having on the company?

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

Yes, great question, Tim. Thank you. So as just a couple of data points for you to give you an indication of just how well we're doing with Mist, our annualized order business for Mist stand-alone in Q4 exceeded $200 million. And if you include Mist wireless and wired, so this is EX that's sold really under the Mist automation framework, on a stand-alone annualized order basis, it's really around $300 million already. So the momentum has been really amazing.

We're going to take the playbook that we implemented and getting our sellers very proficient in being able to position the Mist differentiation, the technology and apply that exact same playbook to the acquisitions that we've made last year, 128 and Apstra, in particular, which are mostly suited for the Enterprise but have applicability in other verticals as well.

With 128, it is a really unique differentiated SD-WAN solution that fit beautifully under the Mist client-to-cloud vision, right, where you're extracting data insight telemetry from everything in the path between client to cloud and you're doing something really interesting with that data, which is to provide insights and improved automation and improved end-user experience for our customers.

Apstra takes this experience-first networking approach that we know has worked so effectively in the campus, in client to cloud and applies it to the data center. So honestly, early interest in Apstra, although we just closed the deal yesterday, has been -- like exceeded our expectations at this point. The pipeline we're building, the interest in customers that want to understand the better together story has been extremely encouraging.

And then the last acquisition is a little bit, a smaller one, which is Netrounds, and Netrounds has applicability to all verticals, but especially the Service Provider vertical, where we have an ability now to sell beyond just the box and connectivity between boxes, but an assured experience, assured SLAs to service providers, and we're also very pleased with the early interest from SPs in that technology as well.

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

Yes. And on the Enterprise kind of customer acquisition question, Tim, I mean, we did mention in Rami's prepared remarks too, we did see 125% increase in new logos for Mist. I'd tell you that a good percentage of those logos are existing Juniper installed base customers. So really leveraging our installed base with the growth asset of Mist is very much part of the strategy to accelerate the Mist growth, but also a good percentage of those customers are net new to Juniper. So really, there is a land-and-expand opportunity where we might leave with the Mist and the Mist AI engine then expand to the rest of the portfolio. So we're really excited about the Enterprise momentum we're seeing from a customer acquisition perspective.

Operator

Our next question comes from Samik Chatterjee with JPMorgan.

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

Rami, I think you mentioned in your prepared remarks the stabilization in the Service Provider spending. But I think you mentioned that telco -- U.S. telco spending has been weak, whereas you're just kind of seeing stress with the cable customers. Can you just kind of talk about how long do you think this weakness from U.S. service provider -- in relation to your service provider spending kind of continues? And what kind of impact maybe some of these options going on in the U.S. are having on spending? And I have a follow-up.

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

Yes, I'd be happy to, Samik. We're very pleased with our results in SP. Though Europe largely played out as expected from a revenue standpoint, Q4 probably exceeded our expectations by a bit. We enjoy very strong, healthy franchises with service providers around the world. 49 of the top 50 service providers worldwide our customers trust Juniper technology.

We did see weakness in some of the largest Tier 1 service providers, especially here in North America. And I think for the reason that we all know, there has been a lot of capital expenditure that has been placed in spectrum auctions and so forth. So it diverted investments away from the areas of the network, the business that we are traditionally strong in. I don't expect that to be the case forever.

If you look out into '21, and we've provided an outlook of further stabilization, i.e., even better results than we saw in 2020 in '21, we did not, in that outlook, anticipate a resumption that any significant resumption in spending by our large Tier 1 SP. If they do resume spending in the kind of IP technology that we develop and sell, then I think that would obviously benefit our business even more.

The strength that we saw has to do with the diversification strategy that we have been executing on. So increased penetration in the cable space in this country, Tier 2 and Tier 3 service providers that are working very effectively for us and international service providers. You'll notice that we had a very healthy quarter in Asia Pacific. I'm very proud of the team in APAC for really showing results, not just in SP, but across all verticals, and that's just an indication of the kind of diversification we're driving through our business.

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

Got it. I had a follow-up on the 400-gig wins that you talked about, I think you said you have 100 wins and most of them are in the WAN, but there's a portion of them in data center switching as well. If you can just kind of talk about how many of those switching wins are where you already had that position in the data center with the customer versus kind of new wins where you displace incumbent or it's new use case that's kind of come up and you've managed to gain a position there, which is kind of an incremental opportunity?

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

Yes. In cloud provider data center switching, many wins are going to be mostly around net new share for us because that's where our existing share is not all that high. I don't know the exact split of the business that you're asking for, but I'll give you this data point. If you look at the foundation of 400-gig business today and measured in a number of customers, in the Q3 of 2020 time frame, our cumulative number of customers that invested in 400-gig capable switching technology and compared that to the Q4 time frame, same metric, cumulative number of customers that invested in 400-gig switching technology, that's doubled. So whereas the revenue from 400-gig switching today is still relatively small in comparison to the total switching business, the way we measure it is momentum in wins and momentum in customers and you can see that, that momentum is quite solid. That's a very encouraging data point for us.

Operator

Our next question comes from Rod Hall with Goldman Sachs.

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

I had a couple of quick number clarifications and a question on the products. So on the numbers, Ken, you said 2% to 3% growth and then 1% for acquisitions. Is that 1% on top of the 2% to 3% or is it included? That's first question.

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

Yes, it'd be on top of. So we expect in aggregate 3% to 4% in total.

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

Right. Okay. That's what I thought. And then on the gross margins, you said, excluding COVID costs, I'm assuming COVID costs there would be just a few tenths of a percent. Could you just confirm that that's the case?

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

Our COVID costs are running between 50 and 100 basis points in any given quarter. So it's a fairly material impact to our past few quarters, and I expect it to be similar in Q1. I do think that should come down a bit in maybe the second half, but the first half, I expect it to be -- remain in that 50 to 100 basis points of impact.

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

Okay. So we add 50 to 100 back to account for the COVID costs?

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

Yes. Once the costs normalize, that's what we'd expect to see, yes.

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

Okay. And then on the products, I just wanted to check on Mist again, Rami, that I guess the thing that we get back from investors quite a bit is this, it's hard for people to believe the campus networking-oriented products like that are going to continue to do well as we reopen. I think a lot of people think, gosh, why would people invest in their campus networking. And I know there's reasons for that, namely that you don't have a lot of market share there, and there's a lot to go for. But could you just kind of help maybe for the broader audience, help us all understand kind of what's going through customers' minds when they think about investing in that in the kind of a reopening environment, an environment where maybe more people are working from home, long term, that sort of thing?

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

Yes, certainly. It's actually a great question, Rod. So the way that we've maintained our momentum throughout the pandemic is on focusing on subsegments of the Enterprise and, of course, Cloud and SP, but primarily in the Enterprise, that are most resilient to economic perturbations or spending patterns in IT. So financial services, higher education, so think here college campuses, U.S. federal government, large big-box type retailers, warehouses, these are all areas where investments in IT and networking must be made today.

But as we look out beyond the pandemic, and you start to think about what happens when we recover from the pandemic, my strong belief is that there will be a pivot towards investments in IT technology that's going to be cloud delivered, AI-driven. It's not going to be the complex legacy on-prem traditional technologies that, quite frankly, are not important to Juniper, not a part of our strategy. It's the cloud-delivered technology that I think will actually see an acceleration as you get out of this COVID crisis. So my view is we've done what's necessary to capture share during the pandemic, and we're setting ourselves up with a strategy that's going to be geared to where investments are going to be greatest post pandemic.

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

So you would be thinking that people are investing to give themselves more resiliency, more workforce flexibility, that kind of thing as they think through the other side of the pandemic?

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

Absolutely. Whether it is because they need that flexibility or because they want to crush the cost of running networks by replacing the human elements of running network with automation. And that is the magic of Mist. And again, don't think of Mist as just wireless LAN. Mist is that cloud-delivered AI-powered automation framework for wireless, wired and now with 128 Technology WAN that full client to cloud experience.

Operator

Our next question comes from Jeff Kvaal with Wolfe Research.

Jeffrey Thomas Kvaal - *Wolfe Research, LLC - Research Analyst*

I guess my first question is about cloud. And I guess I'm wondering, are there opportunities for you to do better than that sort of a growth statement that you gave for the year. And I say that in the context of we had a couple of tough years in cloud as you I'm sure know better than I do. And we've had now a couple of decent years in cloud given they are flattish or up some. But at the same time, we see these cloud companies that are growing their revenues and expanding their CapEx and building new data centers at a faster clip than what your revenues are doing. And so I'm wondering if there's an opportunity here, whether it's '21 or '22 or down the road to kind of close the gap a little bit and make cloud a more sustainable mid or even high single-digit grower.

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

Yes. So Jeff, it's a good question. So we've seen now 2 years of growth in cloud. When we provide our outlook for '21, we're not assuming any major take share-type opportunities that we score that would accelerate beyond just the statement of growth. I mean that's really the thing that I would ask you to take note of. If there were 400-gig opportunities that would represent major like net new footprint and certainly, that would be additive and I will say this, I mean we do see those opportunities. And we are absolutely -- sleeves are rolled up, and we're aggressively fighting for them and actually I feel kind of good about them, but we're not yet at a point where we want to call them in our outlook for '21.

Jeffrey Thomas Kvaal - *Wolfe Research, LLC - Research Analyst*

Okay. All right. And then secondly, just to follow up on Rod's question a bit. How do you feel like your Enterprise customers are now perceiving their willingness to invest? And I think we cycle back a quarter or 2, even different companies we talk about, well, they are doing digital transformation, now they aren't, seems like not -- our starts to -- feels like these are back. Where are we in the recovery spending zone? Are we fully back yet? Or is there more -- is there opportunity for acceleration from here?

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

No, I don't think we're fully back yet. I still believe that there are COVID-related headwinds that we -- what we're facing, and we're anticipating that we will continue to face. In fact, I strongly believe that our Enterprise business would have performed even better in 2020, had it not been for COVID. We're not in our outlook for enterprise accounting on a major recovery, a significant recovery from COVID-type spending in enterprise, but should that reverse, let's say, in the second half of the year, enterprises go back to spending more like they used to, then I think we'll absolutely benefit from that.

As far as your question around appetite for spending, in those verticals that I just mentioned to Rod, financial services, campuses, higher education, federal government, large retailers, actually, the appetite for investments as measured by large projects is there. We've seen it. And we've won many opportunities based on the merits, the differentiation of our technology.

And the last thing I would say is even in the, let's say, the smaller-type enterprises, let's say, mid-sized enterprises, where COVID is going to be more of a headwind, more of a factor to be considered in IT teams justifying projects, I would argue that we're living at a time now where differentiation matters most, right? And I have never felt more strong about the merits of our technology, the differentiation of our solution for the enterprise.

Operator

Our next question comes from Sami Badri with Crédit Suisse.

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

The first question is more of a timing and clarification on one of your cloud comments, Rami. You mentioned that you are completing some projects, and then you're seeing the commencement of other projects. I just want to get an idea on some of the seasonality or just the timing of some of these. Are we seeing things kind of wind down right now, which means that things could be kind of slow for a quarter or 2 in the Cloud segment and then could they potentially ramp back up very quickly to the back half of 2021? Is there anything we should be expecting as kind of like the lumpiness in 2021 Cloud revenue?

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

Yes. Yes, I'm happy to answer that, Sami. So first, I wouldn't say seasonality because it sort of indicates maybe some timing of orders that's based on which quarter of the year. And that's not necessarily what we're seeing. What we see within the Cloud vertical are really 2 dynamics. One of them is a natural evolution of the deployment of use cases. So there are always going to be older, more mature use cases that start to sort of diminish. They're reduced over time. But we're offsetting those older use cases with new use cases that we continue to win even within the same customer. So any cloud provider, especially hyperscale cloud provider is going to be deploying our technology in a number of different use cases. And that natural evolution of use cases has always been there. Some will decline and others will grow.

The second factor within the Cloud vertical is diversity within or among customers, we're seeing really healthy diversity among our largest hyperscale cloud customers, and that offsets some of the puts and takes of use cases within each of the customers, and we're seeing strength in the cloud majors opportunity where there are many customers. So that naturally is going to be a more diverse element of our business.

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

Got it. But just to kind of lock on here, first half of 2021 should be relatively like no real surprises or should we be kind of expecting lumpiness or anything like that, just so I can frame out the year a little bit?

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

No. We're not anticipating any surprises. I mean, like I said, when we provide an outlook of growth in cloud, we're totally factoring in this transition of use cases in our business, and we're also, of course, taking into account that we've got a diversity of customers, and we're not counting on any major net new footprint wins.

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

Got it. Got it. I wanted to -- I just want to shift gears a little bit back to something that was a big dynamic about 2 years ago, the MX, the PTX transition. This hasn't really come up much.

Operator

I apologize. This is the operator, we are -- we have to move on to our next question. Our next question comes from David Vogt with UBS.

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

Just want to circle back on the enterprise for a second. Clearly, it's becoming a critical driver of the company going forward. And the recent M&A's query has been really focused on that segment. I just wanted to touch on how do you think about the portfolio today going forward? And where or if there are any white spaces that you need to address going forward to really solidify out that market going forward? And then I just have a quick follow-up question.

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

Yes. Thanks for the question, David. I really do think that we've rounded out our portfolio and our position, our solutions for each of our 3 really important use cases. I don't think there are any glaring gaps at this point in time. We're always going to be looking for opportunities for value-enhancing M&A. But quite frankly, where my mind is at right now, where my focus is at is on landing and integrating successfully and achieving the kind of business momentum and success that we saw with Mist to these acquisitions that we made last year.

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

Great. And just a quick follow-up on the M&A activity. I think last quarter, you mentioned -- pushed the closing of 128, you would expect about 1 point of growth this year in 2021 from that transaction. And your commentary certainly sounds like the receptiveness or the enthusiasm around Apstra has gotten clearly ahead of your expectations. Does that suggest that sort of the expectation from an M&A perspective that you outlined today probably is a little bit conservative, given sort of the initial client feedback from the transactions that you've completed?

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

Yes. So we did tweak the language a little bit there, David. We talked about being nearly 1 point of growth. We thought that the 128 tech and Netrounds would give us nearly 1 point of growth. We're now getting it to -- we do expect a full point of growth from our recent acquisition. So it's a modest change in our outlook there.

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

Operator, we'll take 2 more questions.

Operator

Our next question comes from Aaron Rakers with Wells Fargo. Alex Henderson with Needham.

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

So I was hoping you could talk a little bit about the spending patterns that you're seeing from enterprise customers, not so much driven by COVID but rather by the impact of the SolarWinds hack. We've spent a fair amount of time talking to value-added resellers during the survey work and the like as well as talking to individual companies. And it seems quite clear that spending intention around security has ratcheted up quite significantly and that the overall IT budgets are also increasing quite meaningfully, which does not really put to your commentary about fairly soft conditions on spending, potentially improving once COVID is resolved. Have you had conversations with the C-suite types in the large accounts or even intermediate-size accounts that are recent enough to get a handle on whether SolarWinds had an impact on spending intentions? And while you're at it, did you have any impact on -- as a result of the hack?

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

Yes. So there are a few things there's to unpack. First, I want to say, actually, what I mentioned was we anticipate enterprise spending to be healthy post COVID. So I actually think that there will be a resumption in spend and more tailwinds, an acceleration, if you will, of enterprise spending in many different use cases, especially the use cases that we as a company are focused on.

Next, I want to say with respect to Juniper and impact of SolarWinds, we never put that SolarWinds product into any of our products that we sell our customers. And of course, once we heard of the news, we quickly scoured our own networks and looked for any exposures, and we didn't find that we were in any way exposed. So that I'll just get out of the way.

In terms of has SolarWinds or how their security type incidents increased the appetite for IT leaders or CSOs, to focus on spending, especially in security, the answer is absolutely, yes. I mean there is a reason that I think it's very important that as a networking company, you also have security competence and you embed security as a forethought, not an afterthought in all of the solutions that you sell to address the use cases that are important to your business, that's never been more important.

So our security business in Q4 did not grow, but there's a reason for this. The high end of our security, where we typically sell into large service providers, cloud providers, that tends to be lumpy. The broader part of our security portfolio is, really the strategy there is to embed it into our solutions. So we talked a lot about Mist. One element of our client-to-cloud Mist solution is that it's going to be secured by default with the technology that we have embedded in our -- the Mist solution portfolio. And for that reason, I'm actually quite optimistic about how these security trends and the appetite to invest in security by IT departments for our business.

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

So did you talk to any C-suites post this hack broke in December? And one guy put it to me that we wish we could have a hack like this every year. If you're going to have a hack, have it in December because it spiked spending intention. Have you heard anything along those lines from anybody in the C-suites that you talked to?

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

Yes. So my remarks were -- Alex, were absolutely based on conversations that I have on an ongoing basis with C-suite professionals. So I think a big and very important part of my job is to talk on a regular basis to CEOs, CIOs, CTOs of large enterprises, service providers, cloud providers. And the net of it is absolutely, security is a top-of-mind consideration. It's driving spending and making sure that our customers understand that security is embedded in all of our strategic use case solutions is a big part of my job.

Operator

Our last question comes from Ryan Koontz with Rosenblatt Securities.

Ryan Boyer Koontz - *Rosenblatt Securities Inc., Research Division - MD & Senior Research Analyst*

Great progress on the routing side with Service Provider stabilizing there. I wonder if you could give us any color on some of the use cases you're seeing, some of the new use cases in the enterprise and cloud? Is it as simple as the campus and the DCI WAN piece? Or am I missing some other interesting use case?

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

Yes. I'm very pleased with our routing progress. In Q4, we saw double-digit routing growth in cloud providers and enterprises. Government and cable momentum was strong. MX and PTX grew both on a year-over-year and a sequential basis. So it does appear to be broad-based.

The use cases today for us are mostly going to be in core routing and edge routing, some DCI data center interconnect. The thing that I'm really excited about when it comes to the opportunity is on our metro road map. The metro represents around a $2 billion routing opportunity today that's growing at a healthy clip. It's probably the fastest-growing routing submarket of the overall routing market, and it's largely untapped by Juniper.

And the good news is this is just another high-performance networking -- network, but it requires certain capabilities, certain aspects of your products around footprint and power efficiency and certain types of features. These are all within our wheelhouse. And this is a road map that we're executing on. We've already introduced the first product to address it, but you can expect a number of new products that we introduce this year to complete our metro routing portfolio. Netrounds really fits beautifully into this solution because it really provides that automation and SLA assurance end-to-end that's important for the metro. So that, I believe, is going to help us in our routing business in '21, but especially in '22 when the portfolio is complete.

Operator

There are no further questions at this time. I would like to turn the floor back over to Jess Lubert for any closing comments.

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

Thank you, operator. Before we conclude today's call, I'd like to remind everyone that Juniper will be hosting its Virtual 2021 Investor Day on February 12. Executive presentations will start at 10 a.m. Eastern Standard time and can be accessed via a link which will be posted to our IR website. If you have any questions regarding how to participate in the event, you can reach out to me at jlubert@juniper.net. We look forward to hopefully seeing you there. That concludes today's call. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful evening.