Juniper Networks, Inc.
1133 Innovation Way
Sunnyvale, CA 94089

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CFO Commentary on First Quarter 2023 Preliminary Financial Results

Related Information

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

Q1 2023 Preliminary Financial Results

GAAP

(in millions, except per share amounts and percentages)	Q1'23	Q4'22	Q1'22	Q/Q Change	Y/Y Change
Revenue	$ 1,371.8	$ 1,448.8	$ 1,168.2	(5) %	17 %
Product	912.6	988.3	744.3	(8) %	23 %
Service	459.2	460.5	423.9	— %	8 %
Gross margin %	56.2 %	57.1 %	55.6 %	(0.9)pts	0.6 pts
Research and development	284.8	269.2	248.6	6 %	15 %
Sales and marketing	303.2	299.0	273.3	1 %	11 %
General and administrative	68.0	57.4	60.2	18 %	13 %
Restructuring (benefits) charges	(0.5)	(2.1)	8.8	(76) %	(106) %
Total operating expenses	$ 655.5	$ 623.5	$ 590.9	5 %	11 %
Operating margin %	8.4 %	14.0 %	5.0 %	(5.6)pts	3.4 pts
Net income	$ 85.4	$ 180.4	$ 55.7	(53) %	53 %
Diluted net income per share	$ 0.26	$ 0.55	$ 0.17	(53) %	53 %

Non-GAAP

(in millions, except per share amounts and percentages)	Q2'23 Guidance	Q1'23	Q4'22	Q1'22	Q/Q Change	Y/Y Change
Revenue	$1,410 +/- $50	$ 1,371.8	$ 1,448.8	$ 1,168.2	(5) %	17 %
Product		912.6	988.3	744.3	(8) %	23 %
Service		459.2	460.5	423.9	— %	8 %
Gross margin %	58.0% +/- 1.0%	57.8 %	58.5 %	57.5 %	(0.7)pts	0.3 pts
Research and development		257.7	246.5	231.3	5 %	11 %
Sales and marketing		280.5	278.7	256.3	1 %	9 %
General and administrative		51.4	46.1	46.3	11 %	11 %
Total operating expenses	$590 +/- $5	$ 589.6	$ 571.3	$ 533.9	3 %	10 %
Operating margin %	~16.2% at the midpoint	14.8 %	19.1 %	11.8 %	(4.3)pts	3.0 pts
Net income		$ 156.6	$ 213.8	$ 101.6	(27) %	54 %
Diluted net income per share	$0.54 +/- $0.05	$ 0.48	$ 0.65	$ 0.31	(26) %	55 %

Q1 2023 Overview

We ended the first quarter of 2023 at $1,372 million in revenue, above the mid-point of our guidance, and up 17% year-over-year. Non-GAAP diluted earnings per share was $0.48, above the guidance range driven by higher than expected revenue and gross margin.

As expected, total orders softened during the March quarter, declining more than 30% year-over-year. We do not believe this reflects true-underlying demand for our products, but rather is a reflection of our customers' consuming previously placed early orders and the reduced need for continued early ordering as lead times have improved. With that said, we believe customer ordering patterns are starting to normalize and we would expect to see a return to more traditional seasonal patterns on a sequential basis starting this quarter. This would imply that our year-over-year order declines should improve on a go-forward basis and return to year-over-year growth, potentially as soon as Q4 of this year.

Our backlog[1] remains elevated but declined more than $350 million due to improvements in supply. We expect the backlog to further decline as supply improves but remain elevated relative to historical levels exiting the year.

From a customer solution perspective, we saw revenue growth in all areas year-over-year. AI-Driven Enterprise revenue grew 48%, Automated WAN Solutions revenue grew 21%, and Cloud-Ready Data Center revenue grew 3%. On a sequential basis, AI-Driven Enterprise revenue was flat, Automated WAN Solutions revenue decreased 1%, and Cloud-Ready Data Center revenue decreased 26%.

Looking at our revenue by vertical, Enterprise increased 29% year-over-year but decreased 7% sequentially. Service Provider increased 28% year-over-year and 17% sequentially. Cloud decreased 14% year-over-year and 30% sequentially.

Total Software and Related Services revenue was $232 million, which was an increase of 2% year-over-year. ARR[2] was $293 million and grew 39% year-over-year.

Total Security revenue was $182 million, up 13% year-over-year due to the timing of shipments related to improved supply.

[1] Backlog consists of confirmed orders for product expected to be shipped to our distributors, resellers, or end-customers within the next twelve months. The following amounts are not included in our backlog: (1) deferred revenue, (2) unbilled contract revenue, (3) all service obligations, including software as a service (SaaS), and (4) certain future revenue adjustments for items such as sales return reserves and early payment discounts.

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

In reviewing our top 10 customers for the quarter, five were Service Provider, four were Cloud, and one was an Enterprise. Our top 10 customers accounted for 30% of our total revenue as compared to 32% in Q1'22.

Non-GAAP gross margin was 57.8%, which was above the mid-point of guidance primarily driven by favorable customer mix and higher revenue volume. While supply has improved for the majority of our products, we continue to experience constraints and elevated costs for certain components. If not for those elevated supply chain costs, we estimate that we would have posted non-GAAP gross margin of approximately 59%.

Non-GAAP operating expenses increased 10% year-over-year and 3% sequentially primarily due to headcount-related costs.

Non-GAAP operating margin was 14.8% for the quarter, which was above our expectations driven by higher revenue and better than expected gross margin.

Cash flow from operations was $192 million. We paid $71 million in dividends, reflecting a quarterly dividend of $0.22 per share and repurchased $140 million worth of shares in the quarter.

Total cash, cash equivalents, and investments at the end of the first quarter of 2023 was $1.2 billion.

Revenue

Product and Service

- **Product Revenue:** $913 million, up 23% year-over-year and down 8% sequentially.
- **Service Revenue:** $459 million, up 8% year-over-year and flat sequentially. The year-over-year increase was primarily driven by strong sales of SaaS and software subscriptions.

Customer Solution

- **Automated WAN Solutions**: $475 million, up 21% year-over-year and down 1% sequentially. The year-over-year increase was driven by Service Provider and Enterprise, partially offset by a decrease in Cloud. The sequential decrease was driven by Cloud and Enterprise, partially offset by an increase in Service Provider.

- **Cloud-Ready Data Center**: $194 million, up 3% year-over-year and down 26% sequentially. The year-over-year increase was driven primarily by Enterprise, partially offset by decreases in Cloud and Service Provider. Sequentially, the decrease was across all verticals.

- **AI-Driven Enterprise**: $317 million, up 48% year-over-year and flat sequentially. The year-over-year increase was across all verticals.

- **Hardware Maintenance and Professional Services:** $387 million, up 3% year-over-year and down 1% sequentially.

Vertical

- **Cloud: $**265 million, down 14% year-over-year and down 30% sequentially. The year-over-year decrease was driven by Automated WAN Solutions and Cloud-Ready Data Center, partially offset by increases in AI-Driven Enterprise and Hardware Maintenance and Professional Services. The sequential decrease was across all customer solutions.

- **Service Provider:** $550 million, up 28% year-over-year and up 17% sequentially. The year-over-year increase was primarily driven by Automated WAN Solutions and, to a lesser extent, AI-Driven Enterprise, partially offset by decreases in Cloud-Ready Data Center and Hardware Maintenance and Professional

Services. The sequential increase was driven by Automated WAN Solutions, partially offset by decreases in Cloud-Ready Data Center, Hardware Maintenance and Professional Services and AI-Driven Enterprise.

- **Enterprise:** $557 million, up 29% year-over-year and down 7% sequentially. The year-over-year increase was across all customer solutions. The sequential decrease was driven by Automated WAN Solutions, Cloud-Ready Data Center, and Hardware Maintenance and Professional Services, partially offset by an increase in AI-Driven Enterprise.

Geography

- **Americas:** $799 million, up 22% year-over-year and down 7% sequentially. The year-over-year increase was driven by Service Provider and Enterprise, partially offset by a decrease in Cloud. The sequential decrease was driven by Cloud and Enterprise, partially offset by an increase in Service Provider.

- **EMEA:** $370 million, up 11% year-over-year and down 2% sequentially. Year-over-year, the increase was primarily driven by Service Provider and Enterprise, partially offset by a decrease in Cloud. The sequential decrease was driven by Enterprise and Cloud, partially offset by an increase in Service Provider.

- **APAC**: $203 million, up 13% year-over-year and down 4% sequentially. Year-over-year, the increase was driven by Enterprise and Service Provider, partially offset by a decrease in Cloud. The sequential decrease was primarily driven by Enterprise and Cloud, partially offset by an increase in Service Provider.

Additional Disclosures

- **Software and Related Services:** $232 million, up 2% year-over-year and down 24% sequentially. The year-over-year increase was driven by SaaS and software license subscriptions. The sequential decrease was primarily due to a decline in perpetual software licenses.

- **Total Security:** $182 million, up 13% year-over-year and up 7% sequentially. The year-over-year and sequential increases were mainly driven by hardware sales.

Gross Margin

- **GAAP gross margin:** 56.2%, compared to 55.6% from the prior year and 57.1% from last quarter.

- **Non-GAAP gross margin:** 57.8%, compared to 57.5% from the prior year and 58.5% from last quarter.

- **GAAP product gross margin:** 50.2%, up 1.1 points from the prior year and down 2.0 points from last quarter.

- **Non-GAAP product gross margin**: 51.9%, up 0.4 points from the prior year and down 1.9 points from last quarter.

  The year-over-year increases in GAAP and Non-GAAP product gross margin were primarily driven by the easing of elevated logistics and other supply chain costs, pricing actions and favorable customer mix.

  On a sequential basis, the decreases in GAAP and non-GAAP product gross margin were primarily due to lower software as a percentage of total revenue, partially offset by easing of elevated logistics and other supply chain costs and favorable customer mix.

- **GAAP service gross margin**: 68.3%, up 1.4 points from the prior year and up 0.7 points from last quarter.

- **Non-GAAP service gross margin**: 69.4%, up 1.4 points from the prior year and up 0.8 points from last quarter.

The year-over-year increases in service gross margin, on a GAAP and non-GAAP basis, were primarily driven by higher revenue. The sequential increases were driven by lower delivery costs.

Operating Expenses

- **GAAP operating expenses:** $656 million, an increase of $65 million year-over-year, and an increase of $32 million sequentially.

  The year-over-year increase in operating expenses was primarily due to higher headcount-related costs, partially offset by lower restructuring charges. The sequential increase in operating expenses was primarily due to higher employee-related costs.

  GAAP operating expenses were 47.8% of revenue, down 2.8 points year-over-year and up 4.8 points sequentially.

- **Non-GAAP operating expenses:** $590 million, an increase of $56 million year-over-year, and an increase of $18 million sequentially.

  The year-over-year increase in non-GAAP operating expenses was primarily due to higher headcount-related costs, partially offset by lower outside services expenses. The sequential increase in non-GAAP operating expenses was primarily due to higher employee-related costs.

  Non-GAAP operating expenses were 43.0% of revenue, down 2.7 points year-over-year and up 3.6 points sequentially.

Operating Margin

- **GAAP operating margin:** 8.4%, an increase of 3.4 points year-over-year and a decrease of 5.6 points sequentially.

- **Non-GAAP operating margin:** 14.8%, an increase of 3.0 points year-over-year and a decrease of 4.3 points sequentially.

Tax Rate

- **GAAP tax rate:** 18.3% provision, compared to 21.9% benefit in the prior year and 11.0% provision last quarter.

  The year-over-year and sequential increases in the effective tax rate, on a GAAP basis, were primarily due to the discrete items in the comparative periods.

- **Non-GAAP tax rate:** 19.0%, compared to 20.4% in the prior year and 19.0% last quarter.

  The year-over-year decrease in the effective tax rate was primarily due to the impact of the geographic mix of earnings. The sequential effective tax rate was flat.

Diluted Earnings Per Share

- **GAAP diluted earnings per share:** $0.26, an increase of $0.09 year-over-year and a decrease of $0.29 sequentially.

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

Sequentially, the decrease in GAAP EPS was primarily due to lower revenue, higher operating expenses and a lower gross margin.

- **Non-GAAP diluted earnings per share:** \$0.48, an increase of \$0.17 year-over-year and a decrease of \$0.17 sequentially.

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

  Sequentially, the decrease in non-GAAP EPS was primarily due to lower revenue, higher operating expense, and a lower gross margin.

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

(in millions, except days sales outstanding ("DSO"), and headcount)	Q1'23	Q4'22	Q3'22	Q2'22	Q1'22
Cash[1]	\$ 1,191.0	\$ 1,230.0	\$ 1,254.9	\$ 1,285.6	\$ 1,668.9
Debt[2]	1,616.7	1,601.3	1,595.7	1,625.8	1,648.4
Net cash[3]	(425.7)	(371.3)	(340.8)	(340.2)	20.5
Operating cash flows	191.5	119.6	51.8	(266.9)	193.1
Capital expenditures	42.1	31.7	23.9	24.5	25.0
Depreciation and amortization	48.6	51.2	52.7	53.9	54.7
Share repurchases	140.0	87.5	—	100.0	112.2
Dividends	\$ 70.6	\$ 67.6	\$ 68.0	\$ 67.3	\$ 67.5
Diluted shares	329.1	329.9	328.9	328.1	331.1
DSO	70	76	65	74	65
Headcount	11,244	10,901	10,705	10,535	10,385

[1] Includes cash, cash equivalents, and investments.
[2] Debt includes change in fair value of fixed-rate debt swapped to floating rate, equally offset on the balance sheet by a swap asset/liability.
[3] Net cash includes cash, cash equivalents, and short and long-term investments, net of debt.

Cash Flows

- **Cash Flows from Operations:** \$192 million, down \$2 million year-over-year, and up \$72 million sequentially.

  The year-over-year decrease was due to higher supplier and employee compensation payments, partially offset by higher customer collections.

  The sequential increase was primarily driven by higher customer collections and lower cash taxes, partially offset by higher payments for variable compensation.

Days Sales Outstanding (DSO)

- **DSO:** 70 days, a 6-day decrease from prior quarter, primarily due to lower overall invoicing in-line with normal seasonality, partially offset by lower revenue. We believe the quality of our receivables is strong with the significant majority expected to be received in Q2'23.

Capital Return

- In the quarter, we paid a dividend of \$0.22 per share for a total of \$71 million and repurchased \$140 million worth of shares.

Demand Metrics

- **Total deferred revenue** was $1,760 million, up $293 million year-over-year and up $97 million sequentially.
- **Deferred revenue from customer solutions**[3] was $654 million, up $185 million year-over-year and up $22 million sequentially.

  The year-over-year and sequential increases were primarily driven by an increase in SaaS and software subscription services.
- **Deferred revenue from hardware maintenance and professional services** was $1,106 million, up $108 million year-over-year and up $75 million sequentially.

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

Deferred Revenue

(in millions)	March 31, 2023	December 31, 2022	March 31, 2022
Deferred product revenue, net	$ 95.8	$ 108.8	$ 110.8
Deferred service revenue, net	1,664.1	1,554.3	1,355.8
Total	$ 1,759.9	$ 1,663.1	$ 1,466.6
Deferred revenue from customer solutions	$ 654.4	$ 632.8	$ 469.5
Deferred revenue from hardware maintenance and professional services	1,105.5	1,030.3	997.1
Total	$ 1,759.9	$ 1,663.1	$ 1,466.6

Headcount

- Ending headcount for Q1'23 was 11,244, an increase of 859 employees year-over-year and an increase of 343 employees sequentially. The year-over-year and sequential increases were primarily a result of additional hires in our R&D and go-to-market organizations.

Outlook

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

There is a worldwide shortage of certain components impacting many industries. Similar to others, we are experiencing ongoing supply chain challenges, which have improved in the last quarter, but continue to result in extended lead times, as well as elevated logistics and component costs. We continue to work to resolve supply chain challenges and have increased inventory levels and purchase commitments. We are working closely with our suppliers to further enhance our resiliency and mitigate the effects of disruptions outside of our control. We believe that even with these actions, elevated costs and extended lead times will persist through 2023 for a portion of our portfolio. While the situation is dynamic, we currently have access to sufficient supplies of semiconductors and other components to meet our financial forecast.

For the second quarter, we expect to see strong revenue growth driven by the strength of our demand forecast, our elevated backlog, and an improved supply outlook.

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

Q2 2023

Our guidance for the quarter ending June 30, 2023 is as follows:

- Revenue will be approximately $1,410 million, plus or minus $50 million.
- Non-GAAP gross margin will be approximately 58.0%, plus or minus 1.0%.
- Non-GAAP operating expenses will be approximately $590 million, plus or minus $5 million.
- Non-GAAP operating margin will be approximately 16.2% at the mid-point of revenue guidance.
- Non-GAAP tax rate will be approximately 19.0%.
- Non-GAAP net income per share will be approximately $0.54, plus or minus $0.05. This assumes a share count of approximately 328 million shares.

2023 Outlook

While the current global macroeconomic environment poses some uncertainty, we would like to provide some additional color regarding our current outlook for 2023.

With the order and backlog visibility we have, and our current expectations for supply, we are raising our full-year revenue guidance from at least 8% to at least 9% growth, reflecting the Q1 over achievement and the the expectations embedded within our Q2 guidance.

For the remainder of 2023, we expect to see sequential revenue growth more in-line with normal seasonal patterns. However, the degree of seasonality will be directly impacted by availability of supply, and the timing of customer requested delivery dates.

We see an opportunity for non-GAAP gross margin to expand to approximately 58% in 2023 on a full-year basis this is above our prior guidance of flat to slightly up versus 57.4% in 2022. However, this will depend on revenue mix and the future trajectory of supply chain costs. With this in mind, we expect non-GAAP operating margin to expand by greater than 100 basis points on a full-year basis. Non-GAAP earnings per share are expected to grow double-digits in 2023.

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

Capital Return

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

Forward-Looking Statements

Statements in this CFO Commentary and related conference call concerning Juniper Networks' business, economic and market outlook, including currency exchange rates; our financial guidance and the expected continuing impact of manufacturing and supply constraints, and the consummation and integration of, and financial impact resulting from any acquisitions and divestitures on our guidance; our expectations regarding our liquidity, capital return program, supply constraints and access to sufficient supplies of semiconductors and other components; deal, customer and product mix; costs; backlog; share buybacks; and our overall future prospects are forward-looking statements within the meaning of the Private Securities Litigation Reform Act that involve a number of uncertainties and risks. Actual results or events could differ materially from those anticipated in those forward-looking statements as a result of several factors, including: the impact of current adverse developments affecting the financial services industry; the continuing effects of the COVID-19 pandemic; general economic and political conditions globally or regionally, including adverse changes in China-Taiwan relations and any impact due to armed conflicts (such as the continuing conflict between Russia and Ukraine as well as governmental sanctions imposed in response); rising interest rates; inflationary pressures; risk of U.S. sovereign default; business and economic conditions in the networking industry; changes in overall technology spending by our customers; the network capacity and security requirements of our customers and, in particular, Cloud and telecommunication service providers; contractual terms that may result in the deferral of revenue; the timing of orders and their fulfillment; continuing manufacturing and supply chain challenges and logistics costs, constraints, changes or disruptions; availability and pricing of key product components, such as semiconductors; delays in scheduled product availability; our customers canceling orders that are included in the calculation of backlog, which they may do without significant penalty; adoption of or changes to laws, regulations, standards or policies affecting Juniper Networks' operations, products, services or the networking industry; product defects, returns or vulnerabilities; significant effects of tax legislation and judicial or administrative interpretation of new tax regulations, including the potential for corporate tax increases and changes to global tax laws; legal settlements and resolutions, including with respect to enforcing our proprietary rights; the potential impact of activities related to the execution of capital return, restructurings and product rationalization; the impact of import tariffs and changes thereto; and other factors listed in Juniper Networks' most recent report on Form 10-Q or 10-K filed with the Securities and Exchange Commission. In addition, many of the foregoing risks and uncertainties are, and could be, exacerbated by the continuing effects of the COVID-19 pandemic and any worsening of the global business and economic environment. Note that our estimates as to the tax rate on our business are based on current tax law and regulations, including current interpretations thereof, and could be materially affected by changing interpretations as well as additional legislation and guidance. All statements made in this CFO Commentary and related conference call are made only as of the date set forth at the beginning of this document. Juniper Networks undertakes no obligation to update the information made in this document or the related conference call in the event facts or circumstances subsequently change after the date of this document. We have not filed our Form 10-Q for the quarter ended March 31, 2023. As a result, all financial results described in this CFO Commentary should be considered preliminary, and are subject to change to reflect any necessary adjustments or changes in accounting estimates, that are identified prior to the time we file our Form 10-Q.

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

Non-GAAP Financial Measures

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

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

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

Deferred Revenue

	As of	
	March 31, 2023	December 31, 2022
Deferred product revenue	$ 95.8	$ 108.8
Deferred service revenue	1,664.1	1,554.3
Total	$ 1,759.9	$ 1,663.1
Deferred revenue from customer solutions	$ 654.4	$ 632.8
Deferred revenue from hardware maintenance and professional services	1,105.5	1,030.3
Total	$ 1,759.9	$ 1,663.1
Reported as:		
Current	$ 1,074.3	$ 1,020.5
Long-term	685.6	642.6
Total	$ 1,759.9	$ 1,663.1

Customer Solution: Revenue Trend

	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q/Q Change		Y/Y Change	
Customer Solutions:									
Automated WAN Solutions	$ 390.7	$ 462.9	$ 532.7	$ 479.0	$ 474.5	$ (4.5)	(0.9)%	$ 83.8	21.4 %
Cloud-Ready Data Center	188.8	200.9	229.3	259.9	193.6	(66.3)	(25.5)%	4.8	2.5 %
AI-Driven Enterprise	214.0	227.3	266.6	318.3	317.0	(1.3)	(0.4)%	103.0	48.1 %
Hardware Maintenance and Professional Services	374.7	378.5	386.0	391.6	386.7	(4.9)	(1.3)%	12.0	3.2 %
Total revenue	$ 1,168.2	$ 1,269.6	$ 1,414.6	$ 1,448.8	$ 1,371.8	$ (77.0)	(5.3)%	$ 203.6	17.4 %

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

	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q/Q Change		Y/Y Change	
Software and Related Services	$ 228.1	$ 213.4	$ 247.6	$ 305.1	$ 232.2	$ (72.9)	(23.9)%	$ 4.1	1.8 %
Total Security	$ 161.0	$ 158.6	$ 139.7	$ 169.3	$ 181.6	$ 12.3	7.3 %	$ 20.6	12.8 %

Vertical Reporting: Revenue Trend

	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q/Q Change		Y/Y Change	
Cloud	$ 307.0	$ 331.0	$ 375.3	$ 380.3	$ 264.9	$ (115.4)	(30.3)%	$ (42.1)	(13.7)%
Service Provider	428.0	470.8	523.1	469.3	549.9	80.6	17.2 %	121.9	28.5 %
Enterprise	433.2	467.8	516.2	599.2	557.0	(42.2)	(7.0)%	123.8	28.6 %
Total revenue	$ 1,168.2	$ 1,269.6	$ 1,414.6	$ 1,448.8	$ 1,371.8	$ (77.0)	(5.3)%	$ 203.6	17.4 %

Geographic Region Reporting: Revenue Trend

	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q/Q Change		Y/Y Change	
Americas	$ 655.0	$ 748.6	$ 895.8	$ 857.4	$ 798.5	$ (58.9)	(6.9)%	$ 143.5	21.9 %
Europe, Middle East, and Africa	333.9	337.2	320.4	378.5	369.9	(8.6)	(2.3)%	36.0	10.8 %
Asia Pacific	179.3	183.8	198.4	212.9	203.4	(9.5)	(4.5)%	24.1	13.4 %
Total	$ 1,168.2	$ 1,269.6	$ 1,414.6	$ 1,448.8	$ 1,371.8	$ (77.0)	(5.3)%	$ 203.6	17.4 %

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

	Three Months Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
GAAP gross margin - Product	$ 457.7	$ 515.6	$ 365.8
GAAP product gross margin % of product revenue	50.2 %	52.2 %	49.1 %
Share-based compensation expense	1.7	1.6	1.4
Share-based payroll tax expense	—	—	0.2
Amortization of purchased intangible assets	14.4	14.5	15.7
Gain (loss) on non-qualified deferred compensation plan ("NQDC")	0.1	—	(0.1)
Non-GAAP gross margin - Product	$ 473.9	$ 531.7	$ 383.0
Non-GAAP product gross margin % of product revenue	51.9 %	53.8 %	51.5 %
GAAP gross margin - Service	$ 313.5	$ 311.4	$ 283.6
GAAP service gross margin % of service revenue	68.3 %	67.6 %	66.9 %
Share-based compensation expense	4.7	4.4	4.5
Share-based payroll tax expense	0.2	0.2	0.5
Gain (loss) on NQDC	0.3	0.1	(0.3)
Non-GAAP gross margin - Service	$ 318.7	$ 316.1	$ 288.3
Non-GAAP service gross margin % of service revenue	69.4 %	68.6 %	68.0 %
GAAP gross margin	$ 771.2	$ 827.0	$ 649.4
GAAP gross margin % of revenue	56.2 %	57.1 %	55.6 %
Share-based compensation expense	6.4	6.0	5.9
Share-based payroll tax expense	0.2	0.2	0.7
Amortization of purchased intangible assets	14.4	14.5	15.7
Gain (loss) on NQDC	0.4	0.1	(0.4)
Non-GAAP gross margin	$ 792.6	$ 847.8	$ 671.3
Non-GAAP gross margin % of revenue	57.8 %	58.5 %	57.5 %
GAAP research and development expense	$ 284.8	$ 269.2	$ 248.6
Share-based compensation expense	(25.7)	(21.8)	(16.6)
Share-based payroll tax expense	(0.6)	(0.4)	(1.6)
Loss (gain) on NQDC	(0.8)	(0.5)	0.9
Non-GAAP research and development expense	$ 257.7	$ 246.5	$ 231.3

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

	Three Months Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
GAAP sales and marketing expense	$ 303.2	$ 299.0	$ 273.3
Share-based compensation expense	(18.6)	(16.8)	(12.5)
Share-based payroll tax expense	(0.7)	(0.4)	(1.2)
Amortization of purchased intangible assets	(2.7)	(2.7)	(4.0)
Loss (gain) on NQDC	(0.7)	(0.4)	0.7
Non-GAAP sales and marketing expense	$ 280.5	$ 278.7	$ 256.3
GAAP general and administrative expense	$ 68.0	$ 57.4	$ 60.2
Share-based compensation expense	(10.2)	(10.8)	(10.2)
Share-based payroll tax expense	(0.1)	(0.1)	(0.2)
Acquisition related charges	(0.7)	(0.2)	(1.7)
Loss (gain) on NQDC	(0.2)	(0.1)	0.2
Others	(5.4)	(0.1)	(2.0)
Non-GAAP general and administrative expense	$ 51.4	$ 46.1	$ 46.3
GAAP operating expenses	$ 655.5	$ 623.5	$ 590.9
GAAP operating expenses % of revenue	47.8 %	43.0 %	50.6 %
Share-based compensation expense	(54.5)	(49.4)	(39.3)
Share-based payroll tax expense	(1.4)	(0.9)	(3.0)
Amortization of purchased intangible assets	(2.7)	(2.7)	(4.0)
Restructuring benefits (charges)	0.5	2.1	(8.8)
Acquisition related charges	(0.7)	(0.2)	(1.7)
Loss (gain) on NQDC	(1.7)	(1.0)	1.8
Others	(5.4)	(0.1)	(2.0)
Non-GAAP operating expenses	$ 589.6	$ 571.3	$ 533.9
Non-GAAP operating expenses % of revenue	43.0 %	39.4 %	45.7 %
GAAP operating income	$ 115.7	$ 203.5	$ 58.5
GAAP operating margin	8.4 %	14.0 %	5.0 %
Share-based compensation expense	60.9	55.4	45.2
Share-based payroll tax expense	1.6	1.1	3.7
Amortization of purchased intangible assets	17.1	17.2	19.7
Restructuring (benefits) charges	(0.5)	(2.1)	8.8
Acquisition related charges	0.7	0.2	1.7
Gain (loss) on NQDC	2.1	1.1	(2.2)
Others	5.4	0.1	2.0
Non-GAAP operating income	$ 203.0	$ 276.5	$ 137.4
Non-GAAP operating margin	14.8 %	19.1 %	11.8 %

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

	Three Months Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
GAAP other (expense) income, net	$ (8.6)	$ 1.5	$ (12.9)
GAAP other (expense) income, net % of revenue	(0.6)%	0.1 %	(1.1)%
Loss (gain) on equity investments	1.0	(13.0)	0.9
Loss (gain) on NQDC	(2.1)	(1.1)	2.2
Non-GAAP other expense, net	$ (9.7)	$ (12.6)	$ (9.8)
Non-GAAP other expense, net % of revenue	(0.7)%	(0.9)%	(0.8)%
GAAP income tax provision (benefit)	$ 19.6	$ 22.4	$ (10.1)
GAAP income tax rate	18.3 %	11.0 %	(21.9)%
Recognition of previously unrecognized tax benefits	—	8.1	—
Income tax effect of Assets Held for Sale and tax legislation	—	—	12.9
Income tax effect of non-GAAP exclusions	17.1	19.6	23.2
Non-GAAP provision for income tax	$ 36.7	$ 50.1	$ 26.0
Non-GAAP income tax rate	19.0 %	19.0 %	20.4 %
GAAP net income	$ 85.4	$ 180.4	$ 55.7
Share-based compensation expense	60.9	55.4	45.2
Share-based payroll tax expense	1.6	1.1	3.7
Amortization of purchased intangible assets	17.1	17.2	19.7
Restructuring charges (benefits)	(0.5)	(2.1)	8.8
Acquisition related charges	0.7	0.2	1.7
Loss (gain) on equity investments	1.0	(13.0)	0.9
Loss from equity method investment	2.1	2.2	—
Recognition of previously unrecognized tax benefits	—	(8.1)	—
Income tax effect of Assets Held for Sale and tax legislation	—	—	(12.9)
Income tax effect of non-GAAP exclusions	(17.1)	(19.6)	(23.2)
Others	5.4	0.1	2.0
Non-GAAP net income	$ 156.6	$ 213.8	$ 101.6
GAAP diluted net income per share	$ 0.26	$ 0.55	$ 0.17
Non-GAAP diluted net income per share	$ 0.48	$ 0.65	$ 0.31
Shares used in computing diluted net income per share	329.1	329.9	331.1