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PRESENTATION

Operator

Greetings, and welcome to the Juniper Networks second quarter 2014 earnings results conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Kathleen Nemeth, Vice President Investor Relations. Please go ahead.

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

Thank you, operator. Good afternoon, and thank you everyone for joining us today. Here on the call are Shaygan Kheradpir, Chief Executive Officer, and Robyn Denholm, Chief Financial and Operations Officer. Also with us is Rami Rahim, Executive Vice President Juniper Development and Innovation, who will be available for the Q&A portion of the call.

Please remember when listening to today's call that statements concerning Jupiter's business outlook, economic and market outlook, strategy, future financial operating results, and overall future prospects are forward-looking statements that involve a number of risks and uncertainties.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including: economic conditions generally, or within the networking industry; changes in overall technology spending and spending by communication service providers and major customers; the network capacity requirements of service providers; the timing of orders and shipments; manufacturing and supply chain constraints; variation in the mix of products sold; customer perception and acceptance of our products; rapid technological and market change; litigation; the potential impact of activities related to the execution of Juniper's integrated operating plan; and other factors listed in our most recent 10-Q and 8-K filed with the SEC.

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

For purposes of today's discussion, we will also review non-GAAP results. For important commentary on why our management team considers non-GAAP information a useful view of the Company's financial results, please consult the press release furnished with our 8-K filed with the SEC today. For the detailed reconciliation between GAAP and non-GAAP results, please see the investor relations section of our website.

Please note that today's call is scheduled to last for one hour, and please limit your questions to one per firm. With that, I'll turn the call over to Shaygan.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thanks, Kathleen, and welcome everyone. I'm pleased to report that Juniper had another solid quarter, delivering on the upper end of our guidance. On a year-over-year basis, we grew revenues 7%, and expanded our non-GAAP earnings per share by 38%.

Our revenue was well diversified across our target verticals, including carriers, Web 2.0, cable, and financial services, and across all geographies. We're seeing good trends in US federal, aided by a more stable market environment, and government budgets normalizing after a protracted period of constraint.

We delivered good performance across our routing and switching product lines, both of which grew year over year. I am particularly pleased with our routing performance, which grew 7% year over year, and if normalized for last year's deferred revenue recognition of $34 million, grew 14% year over year. Our highlights include switching growth up 25%, and continued customer traction of Contrail SEM.

While overall security was down, Junos-based SRX products delivered good year-over-year growth, up 9%. All in all, a very good performance for the June quarter.

Since the last earnings call, I've been on a whirlwind tour, meeting with over 70 customers and partners. They're all enthusiastic about our strategy to be the leading provider of high IQ networks and best in class cloud builder. What's really resonating is our approach of listening and understanding in a deep way to their particular business imperatives, and linking them to Juniper's art of the possible innovation.

Part of our renewed focus aligns our efforts across our go to market and R&D organizations by taking a deliberate, use case driven approach to helping our customers deliver innovation that matters to their customers and operations. While our strategy is clearly resonating with our customers, there are some specific -- customer-specific dynamics in the near term that we are factoring into our outlook.

Specifically, within US-based service providers, their market dynamics, including M&A activity, are impacting both sequencing and timing of projects. While this will impact our nerd near-term outlook, we are well-positioned with these customers, with major design wins in key areas of their networks, including next-generation projects. Despite the current near-term uncertainty, there are a number of positives.

First, we expect continued strong growth in our Web 2.0, cable and federal customers. Second, EMEA is showing positive momentum, with customers continuing to build out their network capacity. Third, we're seeing good performance out of our enterprise sector. I am very confident that our market position is strengthening, and our momentum in winning new business and new customer logos over the medium and the long term is strong.

Now, I'd like to spend a few minutes discussing the four pillars of our integrated operating plan. We are maintaining a disciplined approach to our commitments, and I am pleased with our progress. First, we pivoted our strategy toward growth areas of the markets, centered on cloud building and high IQ networking. And we deliberately aligned our resources and partner ecosystem to customers in defined verticals that are in the build cycle for these growth areas.

We're seeing clear signs of success, as well as an increasingly diverse customer set. For example, three of our top five customers this quarter are either Web 2.0 or cable companies. Second, we successfully implemented the organizational structure required to drive our strategy by streamlining the Company with a One-Juniper mindset. One go to market organization, one R&D organization, and one aligned infrastructure organization.

We have focused our go to market and R&D resources on projects with highest potential for growth, and we continue to drive leverage engineering across our routing, switching, and security products like Common, Junos, Silicon and Systems. As part of this realignment, today we announced the sale of our Junos Pulse business, which is our SSL VPN solution for securing remote network access. We are making the pivot fully to our stated higher growth strategy of cloud builder and high IQ networks, for which security is essential, and we are shifting our resources into security areas commensurate with this strategy.

In terms of how we work, we are implementing initiatives to drive greater collaboration and co-creation across organizational boundaries, as well as setting new standards of accountability. These changes will allow us to grow faster, work more efficiently, and be more responsive to our customers' business imperatives.

Third, we continue to drive structural efficiencies across the organization, and have executed on specific cost management actions, focused on four key areas. Consolidation and de-duplication, de-layering the organization, greater automation of business processes, and focusing on innovation that matters most to our customers.

Our OpEx this quarter was $515 million, which is $24 million lower than Q4 2013, our baseline for the IOP. This represents an annualized savings of approximately $100 million, nearly 2/3 towards our goal of $160 million in annual savings. The $24 million of in-quarter savings are primarily headcount-related costs, and structural in nature. Approximately 3/4 of our headcount savings comes from de-layering and de-duplicating management positions. We also reduced approximately 10% of our facility footprint by implementing a new dynamic workplace model. In addition, we have made decisions that will give us line of sight to the remaining cost savings goal by Q1 2015.

Our cost control committee, under my leadership, continues to drive implementation of efficiencies throughout the organization. All actions to date are strengthening Juniper's muscle on smart efficiencies, with mechanisms in place to ensure costs will not come back, even after we reach our targeted savings goal.

Finally, we have greatly improved our allocation and management of capital. We continue to deliver very strong cash flows from our operations. This has been a consistent area of strength for Juniper, enabling us to invest in growing the business, as well as generating returns for our shareholders.

The actions we are taking include the initiation of a quarterly cash dividend this quarter, and an aggressive return of $3 billion to our shareholders, per our plan. In addition, we have successfully concluded our patent litigation, and recorded a gain of $195 million. We are committed to delivering our integrated operating plan, and driving significant value for our shareholders.

Now, let me talk about the industry outlook. As the consumerization of tech drives demand for rapid innovation at massive scale, our customers will need to continue to invest in the network. We are seeing our key verticals at the forefront of this wave of change, making the transition to high IQ networking and cloud building. And they are all driving toward the common set of network architectures that are converting across verticals.

Market fundamentals for Juniper's routing products continue to be healthy and increasingly diversified. Routing demand is being driven by consolidation of networks across business and residential services, wireline and wireless, and a need for cloud building. Bandwidth demand continues to increase, and favors our products' speed and density advantage, such as the industry's first 0.5 terabyte per second line card in our MX platform that we have just begun shipping.

Demand for switching products also remained strong, driven by four trends. First, next-generation data center transformation projects, and the need for carrier-grade availability and operational simplicity. Second, hyper-scale cloud build-outs. Third, proliferation of big data and video requiring very high performance networking and 10 gigabit ethernet refresh. And forth, increasing need for open architectures and end-to-end automation.

These trends favor our products. For example, our customers have been using our QFX 5100 line as a fundamental building blocks for carrier-class layer 2 and 3 switching, as well as the foundation for automation capabilities, such as seamless workload movements. In addition, many of our customers are going into production with Contrail, as they look to automate and orchestrate the creation of highly scalable virtual networks.

In Q2, we have helped two large public clouds go live with Contrail. One in APAC, and the other, Cloud [Wot], the largest cloud in France. We have helped launch private clouds as well, including one with a global leader in enterprise security.

In security, the decline as our legacy NetScreen products has accelerated. And while we are disappointed with the overall growth rate, we are pleased that our Junos-based SRX portfolio was up 11% in the first half of the year. The growth was driven by demand for high-performance firewalls, virtualized firewalls, high IQ features for threat detection and mitigation, and end-to-end management simplicity.

As I've noted before, SRX space security offerings are a differentiated and critical element of our strategy of cloud building and delivering high IQ networks. Let me walk you through why. One, our cloud builder customers are increasingly aware that integrating carrier-class security is an imperative, and therefore are choosing our security, routing and switching products as an ensemble for their clouds and virtualized data centers.

Two, as our customers make the transition to LTE and NFV, security has become a crucial component of their overall solution. An example is security-based H services that work seamlessly with our MX and Contrail products.

And finally, there is a significant level of technology sharing between our Junos-based SRX security, routing, and switching across silicon, systems, and software that enables a very high-leverage R&D strategy. We are executing on this strategy, focusing our security investments on projects with the highest ROI, while improving the overall profitability of our Company.

As the only high-performance pure play IP networking company, we are uniquely positioned to build the bridge of the future for our customers. We are playing a critical role in helping them be more relevant as they look to create new business models, increase productivity, and optimize for rapid deployment of new services. I see great opportunity across our customer base, and I am confident that Juniper can help our customers change the world in creative new ways.

In summary, while there are some specific customer dynamics that we are carefully navigating in the near term, I am confident in our opportunities and growth prospects in the medium and long term. I'd like to thank our employees for their commitment and relentless focus on our customers and execution. Now, I'll turn it over to Robyn to provide more details on our financial results.

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Thank you Shaygan, and good afternoon everyone. I'm pleased to report that our Q2 2014 results reflect healthy revenue growth and continued strong earnings expansion. Revenue increased 7% year over year, with growth in all three geographies, driven by good performance in our routing, switching and SRX security products.

Non-GAAP earnings per share grew 38% year over year, marking the sixth consecutive quarter of strong double-digit earnings growth. Before I go into detail on the quarter's results, I'd like to provide an update on our integrated operating plan. One of the important elements of our cost reduction activities is that we've been very mindful of how we allocate and shift resources to ensure that we continue to invest in areas that will drive the future growth of the Company.

In the quarter, we consolidated our Sunnyvale campus, discontinued several R&D projects which had a low return on investment, and largely completed our headcount restructuring. As a result of these actions, in the quarter, we recorded restructuring and other charges of $72 million. Approximately $10 million was for headcount actions taken during the first half of the year.

The remaining $62 million was related to asset write-downs, including $44 million for facility consolidation, $14 million for inventory, and $4 million for R&D project cancellations and asset impairments. This brings total restructuring charges to date to $194 million, versus our original total estimate of $220 million. We are pleased with the pace with which we are taking out structural costs out of the business, and anticipate our future restructuring charges to be in the order of $5 million to $10 million.

I am also pleased with the execution of our capital return plan. As I mentioned during our call last quarter, we initiated a $1.2 billion ASR, of which $900 million of shares were delivered in Q1. We expect the remaining shares to be delivered no later than the end of August.

Given our strong cash generation, we intend to opportunistically repurchase a minimum of $550 million, in addition to the ASR, by the end of the year. This means that before year end, we will complete at least $1.75 billion against our commitment to repurchase $2 billion by the end of Q1 2015.

I am also pleased to announce the initiation of a quarterly cash dividend of $0.10 per share of common stock. This put in place another piece of our commitment to returning $3 billion to our shareholders over the next three years. As we have stated before, we expect to grow this dividend over time.

These capital initiatives reflect our confidence in the underlying long-term strength of Juniper's business, as well as our commitment to enhancing shareholder value. We have carefully structured the program to ensure flexibility to support innovation and growth initiatives. And as you would expect, we will provide updates on our progress against these initiative each quarter.

Now, I'd like to move into a discussion of the Q2 results. Looking at our demand metrics, our book-to-bill was approximately 1. Total product deferred revenue was up sequentially $20 million, and down $26 million year over year. The sequential increase was due to an increase in channel-related inventory.

Total revenue for the quarter was $1.230 billion, up 7% year over year and 5% sequentially. Product revenue was up 8% year over year, and 6% over the last quarter.

As you may recall, in Q2 of 2013, we recognized $34 million of previously deferred routing revenue from a US government customer. If you exclude the revenue recognition from last year's results, total revenue growth this quarter would've been 10%, and product revenue growth would have been 12%. This revenue recognition also impacted the year-over-year growth rates for enterprise and routing.

Services revenue was $300 million, up 5% year over year and 2% sequentially. There were no 10% customers this quarter.

For the quarter, GAAP diluted earnings per share were $0.46, an increase of $0.27 year over year. This included a net gain of $195 million related to a patent litigation settlement, which resulted in a $0.41 positive impact to earnings. This was offset by restructuring and other charges of $72 million, which resulted in a $0.15 negative impact. In the quarter, we also incurred a charge of $0.03 associated with an industry-wide memory product quality related item.

Non-GAAP diluted earnings per share were $0.40, up $0.11 year over year and over last quarter. This represents a 38% increase, both sequentially and year over year. The sequential increase was due to a substantial improvement in operating margin, fueled by higher revenue, improved gross margin, and the decrease in operating expenses.

We had a positive impact from reduced share count of approximately $0.02 year over year. Before I go into detail on revenue, I'd like to highlight some of the trends that we saw this quarter. We continue to see healthy drivers of long-term demand, and design wins with customers across the world.

In the US, we saw continued momentum in demand, with Web 2.0, cable and enterprise customers. This diversity of demand is a key strength for us going forward. However, late in the quarter, we saw some delays in the timing of projects with a few key US service providers. Based on current visibility, we expect these delays to impact second-half results.

Outside of the Americas, we saw continued strengths in EMEA carrier spending, coupled with several good build in select markets in APAC.

Now let's look at the results in detail. All regions experienced sequential revenue growth. Americas revenue was up 5% year over year and 4% sequentially. Americas service provider was up 13% year over year and 3% sequentially, driven primarily by Web 2.0 customers, a reflection of the continued diversity of our revenue.

Americas enterprise decreased 9% year over year. However, taking into account the previously mentioned government deferred revenue recognition from last year, the growth rate would have been 6%. Sequentially, Americas enterprise increased 6%, led by strength in the US federal market. EMEA revenue was up 8% over last year and 10% sequentially, due to healthy growth in the service provider market, with particular strength among large carriers in Central and Eastern Europe, and the Middle East. APAC was flat sequentially, and increased 11% year over year, primarily driven by strength with regional carriers across the theater, as well as growth in the enterprise market.

Service provider revenue for the quarter was $832 million, up 15% year over year across all three geographies, and up 6% sequentially, driven by EMEA and the Americas. Enterprise revenue was $398 million, down 6% year over year. Excluding the government deferred revenue recognition from last year, the year-over-year growth rate was 2%. Sequentially, enterprise revenue was up 3%, led by healthy US federal and financial services demand, partially offset by a decline in the EMEA public sector.

Now let me review our revenue by product area. Routing product revenue was $618 million, up 12% sequentially and 7% year over year. The sequential growth was driven by a strong performance for MX and significant improvement for T. Switching product revenue was a record $200 million, up 25% year over year and up 4% sequentially. The sequential growth rate was driven primarily by QFabric products. The year-over-year growth was driven by a combination of both QFX and the EX products.

Total security product revenue was $112 million, down 17% sequentially and 11% year over year. We are disappointed with this performance. However, it does reflect the trends that we've been seeing, as steady increase in Junos-based security products and a significant drop in the non-Junos-based security products. Our SRX platform and security software were up 9% year over year and up 11% for the first half of the year. We have included a table in our slide deck breaking out the security product revenue.

Moving onto the gross margins and operating expenses, non-GAAP gross margins for the quarter were 64.2%, compared to 63.5% last quarter and 63.7% a year ago. The sequential improvement was driven by an increase in both product and services gross margins. Non-GAAP product gross margins were 65.4%, up 0.06 of a point from last quarter, and up 1.6 points from a year ago. This sequential improvement was primarily driven by increased volume. Non-GAAP services growth margins were 60.5%, down 2.8 p

oints from a year ago, and up 0.08 points sequentially. The year-over-year decline is related to higher support costs. The sequential increase is due to higher revenue and flat support-related costs. We expect services margins to continue to modestly improve in the second half of the year.

We are pleased to report that our non-GAAP operating expenses were $515 million, at the lower end of the range that we gave last quarter, reflecting our focus and execution against our integrated operating plan. This represents a $27 million or 5% sequential reduction. This includes a $6 million reduction in patent litigation related expenses versus the first quarter, due to the settlement. The remaining legal and mitigation fees in Q2 were $12 million, consistent with Q1. We are on track to deliver against the $160 million of annualized cost reduction goal that we announced in February.

Our headcount ended the quarter at 9,083, which represents a 5% decline sequentially and year over year. Non-GAAP operating margin for the quarter was 22.3%, reflecting a year-over-year expansion of 3.4 points, and a sequential increase of 5.1 points, due to high revenue, improved gross margins, and lower operating expenses.

The non-GAAP tax rate was 26% compared to 25.6% last quarter. The GAAP tax rate was 24.9%, compared to 25.3% in Q1. We ended the quarter with $2.6 billion of net cash and investments, an increase of approximately $480 million sequentially. This includes the $165 million related to the patent litigation settlement.

Onshore cash and investments represented approximately 37% of total growth cash balance. Q2 operating cash flows were unusually strong, at $425 million. This included $75 million of cash received from the patent litigation settlement.

The strong cash flows during the quarter were also attributable to higher net income, lower incentive compensation payments, and improved working capital metrics. In line with recent trends, DSO improved to 41 days. CapEx was $41 million in the quarter, and depreciation and amortization expense was $45 million.

Now I will review our outlook for Q3. As a reminder, these metrics are provided on a non-GAAP basis, except for revenue and share count. As previously mentioned, there are some customer-specific dynamics in the near term that we have factored into our outlook.

While we are well positioned with these customers, with our current visibility, we expect sequencing and timing-related delays to affect both Q3 and Q4. This is partially offset by signs of strength in emerging verticals such as Web 2.0 and cable, as well as a positive outlook for enterprise.

We see positive momentum in EMEA, with customers continuing to build out their network capacity. For the third quarter, we expect revenues to range from $1.15 billion to $1.2 billion. Gross margins are expected to be 64%, plus or minus 0.5%. Operating expenses are expected to be $505 million, plus or minus $5 million, which at the midpoint is a $10 million reduction from Q2, and a $5 million reduction from our previously published targets.

We are delivering on our cross reduction commitments. Operating margins are expected to be 21%, plus or minus 0.5%. This is expected to result in non-GAAP diluted EPS of between $0.35 and $0.40 per share, assuming a share count of approximately 475 million. This continues our strong expansion of earnings, with growth of 14% at the midpoint of the guided range. We expect a flat tax rate versus the second quarter.

As you know, we announced the sale of our Junos Pulse business today. The impact has been factored into this guidance, and is immaterial to our revenue outlook for Q3.

The revenue impact beyond Q3 can be gauged from the supplemental table provided. We expect this sale to close late in Q3. We have factored the cost savings associated with this sale as part of our goal of achieving $160 million in cost savings as we exit the first quarter of 2015.

To conclude, I'm really pleased with the performance of the entire Juniper team. The first half of 2014 has been a time of solid execution for the Company. We've lots of moving parts, and we have continued our focus on the things that matter most to our customers and shareholders. I am very proud of our team, and thank them both for their continued dedication and commitment to Juniper.

Now, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tal Liani, Bank of America Merrill Lynch.

Tal Liani - *BofA Merrill Lynch - Analyst*

Hi. First, just housekeeping item, and then my question. Can you provide us the numbers for Pulse? And also the old platform also for Q3 and Q4 of last year? Then we'll have a complete picture of how security was trending. Second question, and then that goes back to my main question. When I look at your -- and this is more kind of a statement than a question. I'd like to hear -- maybe Shaygan, I would like to hear your view.

When I look at your plan, the expense side of the equation is almost done. You are almost finished with the expense reduction. And then I look at the numbers, and switching is relatively flat for three quarters now. The growth is mainly because you have easy comps from last year. In security, we are back to the levels -- we are down back to the levels of March 13. You quoted the six months numbers, but if you actually look at Q2 numbers, we're down sequentially. Back to the levels of first quarter 2013. And in routing, there are delays.

So how long do you think -- if we put the expenses aside, how long do you think it's going to take us to see the changes you are implementing on the product portfolio and growth acceleration and impact on switching and routing and security et cetera? Thanks.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Hi Tal. This is Shaygan. Good afternoon. On your first question on drilling into Pulse, I'm going to ask Robyn to sort of go through the numbers, and then we'll take the second one.

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Yes. So in the slide deck that's on our website, we've provided the details for the last six quarters, so you can see the Junos Pulse revenues. For the quarter Q2 of 2014, we did product revenue of $15.9 million, which is included in our security product revenue. And we also did about $15.5 million worth of services. And as I mentioned, the transaction on the Pulse sale will conclude late in three -- third quarter is what we're expecting. And so we don't expect any impact to the revenue in Q3. But you can use the table to model the impact to Q4.

Just going back to the other housekeeping question, the Screen OS product revenue for Q2 2014 was about $13.2 million, which is less than 12% of our total product revenue. That compares to the previous quarter, where it was under 14% at about 18.3%. So it's dropping off quite significantly from the Screen OS perspective.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thanks, Robyn. And Tal, on your second question, I would say that we continue to take share on both switching and routing. And as we mentioned before, on security, this year is a stabilization phase. If you look at our numbers this quarter, if you normalized for the one-time from last year at this time on routing, routing was up 14%, switching was up 24%. We are taking share, and we continue to do significant enhancements of both product lines.

For the balance of the year, we mentioned in our prepared remarks that we have a couple of US service providers with whom we are very close at all levels and in continuous dialogue. Because of their market environment and what they need to do, they are re-sequencing, and that's going to impact some of the timing of our programs that we were working with them. We are -- the growth drivers, our product positioning, we are very encouraged by both. And overall for 2015, we have an overall constructive view of where we're heading.

So overall, we feel good about our product positioning and our market positioning. And I think this quarter's growth and the growth year to date for both routing, switching. And I would also say, even though the -- in security, we are tuning in now heavily to our SRX-based, Junos-based products, it has a respectable growth of 9% year over year. So we feel good. Thank you very much.

Tal Liani - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Rod Hall, JPMorgan.

Ashwin Kesireddy - *JPMorgan Securities Inc. - Analyst*

Thanks -- yes, hi. This is Ashwin on behalf of Rod, thanks for taking my question. I wanted to understand a little bit about the customer-specific dynamics that you talked about. You said it's going to be weak in Q3 and Q4. So are we expecting the better seasonal Q1 and Q2 next year? Also, if you could comment on which verticals you see that impacting, that would be helpful.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Yes. Your first question was about -- actually, it was about the dynamics -- the market dynamics of a couple of the service providers. I don't want to really go into that. But I think you can see they are very transparent in terms of where they are putting their capital, for what reason, and there's some M&A that is in the market.

We know that, and I encourage you to think about M&A in the broader sense. And when you put it all together, and I have lived in those markets in the US specifically for a quarter of a century, it's mix. Everything comes together. And some of our internal metrics also are late in the quarter flash. So we want to be prudent, and we want to be cautious for the balance of the year. But we are also, because of the growth drivers that we talked about, and where we are from a product perspective, we are overall constructive for 2015. Robyn, do you want to add anything there?

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

I think you've discussed it quite well, Shaygan.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thanks, Ash.

Operator

Simona Jankowski, Goldman Sachs.

Simona Jankowski - *Goldman Sachs - Analyst*

Hi. Thank you. Can you clarify if Pulse was contributing positively to EPS when you account for the associated expenses? And then just remind us how much of your revenue is going to campus or access environments? As opposed to the focus areas, Shaygan, that you've talked about of data center and cloud.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Hi, Simona. This is Shaygan. I will pass the question to Robyn. I'll just say about Pulse, two seconds. Pulse is a good asset. The issue is, it's not in line with our strategy, which is very much focused on cloud builder, high IQ, and how those markets are shaping. And we want to really focus our security line around growth where the markets are going and where we are we are very strong at. So with that, I'm going to pass to Robyn to take the question on Pulse.

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Yes. As Shaygan mentioned, in terms of doing a strategic review of our portfolio, Pulse was an asset -- a good asset. But as Shaygan mentioned, not directly in alignment with the strategic focus of the Company. And therefore, we have announced the sale of the asset today. It has been mildly accretive for us over the years, in terms of the overall P&L. But given the focus of the company, and the -- in terms of return on investment, we've decided that that's an asset that was better in the hands of another entity to look after it.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

And Simona, on your second question, I'm going to ask Rami to come and say a few words.

Rami Rahim - *Juniper Networks Inc - EVP Juniper Development and Innovation*

Yes. On the question on campus versus -- sorry, Simona. On the question about the campus versus data center aspects of our switching business, the majority of our switching business goes into data center and combination data center/campus/switching scenarios. There are in fact large enterprise customers where -- in the line between their mission-critical campus and the data center is essentially blurring. They view the campus as an on-ramp to the data center. We're not going after the smaller wiring closet types of campuses. We're really going after the larger, strategic, high-performance, high IQ type of campus networks that many of our customers are building.

Simona Jankowski - *Goldman Sachs - Analyst*

Thank you.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thanks Simona.

Operator

Ehud Gelblum, Citigroup.

Ehud Gelblum - *Citigroup - Analyst*

Hey, guys. Hey, Robyn. Hey, Shaygan. How are you?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Hi, Ehud.

Ehud Gelblum - *Citigroup - Analyst*

Hi. A couple quick questions. First of all, back to the SRX. It was strong in Q3, Q4. It was very strong in Q1, and then fell fairly hard to about $80 million in Q2. I want to get a sense if that is seasonal? Or -- because Q2 of last year also had a similar impact. Or was there a large build that went on for those three quarters, Q3, Q4 and Q1? Or any other color that we can get on the dynamics over there.

Then I wanted to pick up a little bit on Contrail. You talked about continued traction in Contrail. Can you give us a sense as to -- is that -- is Contrail actually selling as a standalone product yet? Is there some revenue that we could be looking at that? Or is there a pull-through that we can be looking on, possibly, the Q effects, or other products? And now that Cisco is out with their ACI and their APIC, how are you seeing that change the dynamic of your conversations on Contrail? And then lastly, Web 2.0 and cable guys, Robyn, you talked about these guys a lot now. Can you give us a sense how large the Web 2.0 guys are? Are they 5% of your revenue now? Give us a sense as to what we should be looking from that vertical? Thank you.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thanks, Ehud. I'll -- there -- I think there was about four or five questions there. So I'll punch them through quickly, and I'll have Robyn and Rami also chime in if they want. So on as SRX, as we have pivoted to Junos-based SRX security line, obviously this is a cloud builder, high IQ service provider, carrier-grade kind of firewalls. And the sales of that, obviously, is more lumpy than, I would say, your grandfather's firewall, in normal branches and stuff. So you are going to see long PNS in those sales, just because of the nature of what we're selling, which is very high end.

On Contrail, we are very happy and encouraged with their progress. We are very early in the game, obviously, and it's all about design wins holistically for clouds, be it private clouds or public clouds, infrastructure-as-a-service, and so forth and so on. So we -- they started this just last year -- late last year. They have a large number of POCs -- proof of concepts. They have pivoted now from POCs, making those, coming to production. And the final keeps growing on POCs. And they are being very deliberate on these wins, because they are big, they are sophisticated, and we have to get them right. And we are doing that. The other two questions were Robyn and Rami.

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

So I can answer the question. So one thing I wanted to underscore on the SRX, Ehud. So you are right. It is lumpy. And Q1, we did have a deployment in a service provider area. And so that is one of the reasons why we saw the sequential decline in the SRX-based products.

In terms of Web 2.0 and cable, they did drive the growth in the Americas, both sequentially, and to some extent year over year. And as Shaygan mentioned, three out of our top five customers as a company are in that Web 2.0/cable sector in the quarter. So they are, obviously, an important part, from a future perspective, around the diversification of our revenue. Having said that, obviously, our carriers are also very important to us. And as we highlighted in the outlook, given their size and relevance to our revenue, any reduction in their revenue in the near-term does have a direct impact on us.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thank you, Robyn. And Ehud, on your last question, I would say, suffice it to say, we are in tense dialogue, of course, with our customers all the time. And clearly, the customers that we work with, cloud builder, high IQ types, they very much want open, no lock-in, and future proof solutions on their cloud solutions. So that's all I'll say. Rami, do want to say anything else on that -- from that front?

Rami Rahim - *Juniper Networks Inc - EVP Juniper Development and Innovation*

I'll just add, on the SRX front, there is a service provider component to the business that tends to be somewhat lumpy. The biggest use case being, for example, LTE security. And then on the Contrail side, I think Shaygan already mentioned it. The one thing that I will add is that we are seeing that in the first few deployments, they are being deployed -- Contrail is being deployed in heterogeneous networks where there is a combination of Juniper and other peer-type of infrastructure. And it just speaks to the openness of the solution, which our customers very much appreciate. And no lock-in.

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Thanks, Ehud. Next question, please, operator.

Operator

Jess Lubert, Wells Fargo.

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

Hi, guys. Things for taking my question. I was hoping to understand to what degree the delays are likely to be most or likely to be most -- or likely to most impact the routing business in the second half? Or if you're expecting to see impact in switching and security, given many of your carriers have been buying a portfolio of products? And then I was also hoping you could help us understand if you expect revenue for the second half of the year to be up relative to the first half of the year? And is there any reason we shouldn't expect the overall business to grow in 2014?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Hi, Jess. So on your first question, since the softness is coming from a couple of US service providers -- and you're right, they buy them ensemble. But they are very -- we are very heavily embedded with them with our routing products of MX and PTX series. So the impact is going to be more on our routing, rather than switching and security. And the second question -- I forgot but I think as you have it, Robyn.

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Yes. So overall, as we said, in terms of the outlook, we are expecting a down quarter for the third quarter. And we are expecting these delays to impact our fourth quarter, as well. We do expect, on the switching side, Shaygan mentioned the routing side. We do expect in switching that -- in the second half of the year, that we will grow that business, as well as the products in the switching area. Just bear in mind the compares that we have, as you've got to look at the second half for our switching. And on security, we expect the same trend that we've seen over the first half. That the Screen OS products will continue to decline, and the Junos-based SRX platforms will increase over the second half.

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

But -- and Jess, this is Kathleen. Just to answer your question specifically, we do expect overall 2014 revenue to be up this year.

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

Thanks, guys.

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

Thank you.

Operator

Ben Reitzes, Barclays.

Trevor Bacon - *Barclays Capital - Analyst*

Hi, guys. This is Trevor Bacon in for Ben. My question is on security specifically, and around the strategy. What gives you the confidence in the strategy in general, and the ability to return to growth across portfolio? While SRX seems to be core to the strategy, it's on a negative trajectory, at the same time as 1Q 2013. And while the other two businesses are growing pretty nicely despite this. So at what point does it make sense to consider alternatives, given the return to growth seemingly would require significant investment?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Hi, Trevor. This is Shaygan. We are very committed to security. Point number one. I went through, in my prepared remarks of the logic behind that, behind our SRX-based security, which we think is very differentiated. And it's a very critical element of cloud builder and high IQ networks. I don't want to repeat what I said in my script, but you can go it -- I think we laid it out of very nicely. Quickly, nobody is going to buy cloud with a big giant hole on the side, so that's why it is critical for there.

It's critical for our service provider customers which are even with our increasing diversity of our revenues. As you can see, they are still very material customers. And in their transition to LTE and NFV, it is an absolute critical component for their transitions, and it works seamlessly with MX and Contrail, and has a hand in glove. And finally, if you come to our labs and see the amount of commonality, in terms of componentry, silicon, chassis, of course Junos software. They are all -- I would -- I think leverage engineering is not -- does not quite do justice to. It is a lot of commonality.

And now that all three, switching, routing, and security, are under our JDI organization that's led by Rami, we expect growth to pick up over the medium or long term on our security. The logic is very sound and impeccable. And a pickup -- very profitably, because of the natural synergies that exist between these product lines. So yes. We are very committed to our SRX-based security products. And actually very encouraged to the medium- to long-term prospects for this, for the rationale that I went through. Thank you.

Operator

Mark Sue, RBC Marketing.

Mark Sue - *RBC Marketing - Analyst*

Shaygan, so when you recognize the company will keep the assets of routing, switching and securities/SRX, are there nonessential assets that you can further divest? Or are we mostly done with that? And as we look at improving the strength of the SRX, and perhaps the other product portfolio segments, should we think about -- how should we think about R&D spending? How should we think about spending potentially going back up? Or in a process of reducing OpEx, but are we at a point where you need to defend market share, and also improve the product set so that the OpEx needs to kind of increase again? How should we think about, from a planning point of view, what the steady rate OpEx should be on an annual basis?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Yes. Mark, again, very quickly, as -- if you have managed the business very closely and very prudently, and very focused, we continue -- as a matter of course, continue to always look at our portfolio to make sure that they are aligned with our strategy. Point number one, which is the one you've stated, which is IOP, which is cloud builder, high IQ, which is around growth and profitable growth. That matters to our customers. We continue to do that as a matter of course. We talked about Pulse. This was one of them that didn't fit our [paredo] charts, and we took action.

So that's just a normal course of our business. And now that we have a very clear strategy that we have tested over and over again, internally, externally, and just came back with 70 partners and customers, it's just a very vivid that this is where the world is going. And what we are doing is exactly right. So we have the right filter to balance upon. The second question is -- it's about -- we are also very committed to our IOP targets, and I reemphasize that. So you should rest assured there. And I think our track record so far should give you some comfort that we know how to land at the IOP targets. And the last question was?

Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Yes. So Mark, just on -- for planning purposes on the OpEx side, in the slide deck, we included our chart. Obviously, we're committed to the $160 million in terms of cost reductions, exiting Q1 of 2015, as Shaygan mentioned. We have also said that we'll be less than $500 million for Q1 of 2015. We've just achieved the low end of our range for Q2, in terms of $515 million. And we've given you guidance for $505 million plus or minus $5 million for both Q3 and Q4. So as Shaygan mentioned, we are very committed to the OpEx targets. And we're doing it in a way that makes it clear that we continue to invest in our long-term future around product development. And -- yes.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Yes. And -- thank you, Robyn. And Mark, the last point is, IOP is all about focusing on where the market is going, and profitable growth. So all the actions we are taking is actually putting our best engineers, our best go to market people, very focused around areas of growth, and strengthening those. So as we've said before, this is not a slash and burn kind of a project. It's very surgical, very focused. We are -- the thing we just did with Pulse. And some of the best engineers and so forth and so on, we are focusing them on the growth of security and SRX-based products.

As opposed to, in the wide spectrum of things which we may have the prospects for growth. So we feel very good about our strategy, and feel very good about our focus on the product line, our level of talent, where the products are going. Very excited about the pipeline. And very extremely happy with the level of our customer engagements, the way I described in my prepared remarks. In terms of going deep with them on the strategic customers and strategic partners. This is what IOP is all about. And the good news is, when you focus, you also eliminate unnecessary costs. And this is what we're doing, and we are committed to all of the above. Thank you.

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

Thank you. We have time for one more question.

Operator

Amitabh Passi, UBS.

Amitabh Passi - *UBS - Analyst*

Hi, guys. Thanks for squeezing me in. Shaygan, Robyn, I was wondering, is there a way to quantify what you think the impact is from the delays with these US-based service providers? If I look at the midpoint of your guidance, you're about $85 million short of where consensus was. And I'm just trying to get a sense, is the majority of that explained by these delays? And then just a quick follow-up on Junos Pulse. Robyn, why wouldn't we see incremental OpEx savings in the fourth quarter, once the divestiture has occurred?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Hi, Amitabh. This is Shaygan. I think, to answer to your first question, quick answer is yes. It is those couple of US-based service providers, for very specific market reasons in their markets and dynamics, that have impacted our second half. I will now hand it to Robyn to take the rest

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Robyn Denholm - *Juniper Networks Inc - CFO and COO*

Yes. In terms of the OpEx related to Pulse, that is included in our $160 million of OpEx savings. We had identified this as an area for which we believe that we could save some OpEx and focus the Company in terms of the overall strategy that we were focused on.

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

Okay. All right. Thanks, Amitabh. I would like to thank everyone for joining us today. That is all the time that we have. We appreciate your excellent questions, and we look forward to speaking with you again next quarter. Thank you.

Operator

Thank you. Ladies and gentlemen, that concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
