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JNPR - Q3 2012 Juniper Networks Earnings Conference Call

EVENT DATE/TIME: OCTOBER 23, 2012 / 9:00PM GMT

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PRESENTATION

Operator

Greetings and welcome to the Juniper Networks third quarter 2012 earnings results conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Kathleen Nemeth, Vice President Investor Relations for Juniper Networks. Thank you Miss Nemeth you may begin.

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

Thank you operator. Good afternoon and thank you everyone for joining us. Here on the call today are Kevin Johnson, Chief Executive Officer, Robyn Denholm, Chief Financial Officer, Stefan Dyckerhoff, Executive Vice President Platform Systems Division and Bob Muglia, Executive Vice President software solutions division.

Please remember when listening to today's call that statements concerning Juniper's business outlook, economic and market outlook, 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 and without limitation to economic conditions, generally or within the networking industry, changes in overall technology spending, the network of possible 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, litigation, and other factors listed in our most recent 10-Q 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 this call.

In discussing the financial results, Robyn will first present results on a GAAP basis. And for purposes of today's discussion, we'll also review non-GAAP results. For important commentary on why the Management team considers non-GAAP information a useful view of the Company's financial results, please consult our 8-K filed with the SEC today. For the detailed reconciliation between GAAP and non-GAAP results, please see today's press release. In general, non-GAAP results exclude certain non-recurring charges, amortization of purchase intangibles and other acquisition charges and expenses related to stock-based compensation.

On today's call Robyn will also be providing forward-looking guidance. As a reminder, guidance is provided on a non-GAAP basis. Other than that, with respect to revenue and share count. All guidance is forward-looking and actual results may vary for the reasons I noted earlier. GAAP guidance measures are not available on a forward-looking basis due to the high variability and low visibility with respect to certain charges which are excluded from the non-GAAP guidance estimates.

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 Kevin.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Thank you, Kathleen and welcome everyone. All of our major financial metrics were in line or ahead of our guided ranges in what continues to be a challenging environment. We remain focused on those things that are within our control, and on developing and delivering great solutions for our customers.

During the third quarter, we began to implement some of the initiatives we outlined broadly in last quarter's conference call. We have streamlined our organization, consolidated functional overlap and clarified our priorities. These actions are designed to best align the Company's resources with our strategic priorities. They will also allow us to sharpen our focus, enable agility and drive efficiencies. We do this with a clear recognition that it is the culture of innovation within our Company that enables our customer's business success and creates value for all our stakeholders.

I'll focus my comments today on how we are performing in the market including our progress relative to our new products. I also want to address some of the questions i know many of you have on the increasing industry focus around network programmability and software defined networks referred to as SDN. These are areas where we are very active. Robyn will walk you through some of the specifics on our financials and we will conclude with Q&A that will include Bob Muglia and Stefan Dyckerhoff.

Our total revenue was up both quarter-over-quarter and year-over-year. We continue to see healthy performance in our service provider business, including improving demand by our largest US customers and good results in the EMEA and APAC regions.

The Enterprise story is mixed, with good quarter-over-quarter growth driven by EMEA and APAC, but offset somewhat by softness in the Americas. Our service provider revenue increased 4% quarter-over-quarter and 3% year-over-year. We continue to expect to see a more typical pattern of service provider spend within the industry, with second half investment levels higher than first.

I'm pleased to note that the upgrade cycle relative to T4000 core routers is under way, and customer engagement around PTX is very strong. Our PTX product complements our T4000 core routers by collapsing multiple existing core networks into a single MPLS-based transport network, and we're seeing good customer feedback for both products.

These innovations provide us competitive differentiation. With PTX in particular, we now have more than 15 customers including recent strategic wins with companies like Optus in Australia and XO Communications here in the US. We believe we are off to a very promising start with PTX.

We had a good quarter in Edge routing, and we continue to build on the success of our flagship MX platform. Earlier this month, we announced the industry's most powerful Edge routing platform, the MX2020, to enable rapid service creation and service delivery. It is the only Edge platform capable of delivering broadband, mobile and business services on one platform. In addition, we announced a series of software offerings that include our service delivery gateway, and the JunosV app engine that offers a broad set of solutions on the MX.

Switching revenue was up solidly both sequentially and year-over-year. We continue to take share with the EX with recent customer wins such as Suncor, a top five North American energy company. We also continue to win new customers with QFabric. Recent wins include the University of Frankfurt, and in the APAC region, BOCI, a leading cross border platform provider for diversified financial services firms in China. BOCI is one of several customers deploying our QFabric M as its new data center core.

We're making good progress in rebuilding momentum in security. We grew in low double digits on a percentage basis quarter-on-quarter. Demand for high-end SRX within the service provider sector was also strong this quarter, growing quarter-on-quarter. We also saw gains across most of our product families, lending to our confidence that our security business is beginning to stabilize.

We're making good progress toward the objective we laid out at the analyst meeting to exit 2013 with an annualized run rate of $600 million in new product revenue. QFabric, PTX and T4000 each posted good revenue in the third quarter. The ACX universal access product family began shipping in Q3, and MX2020 will begin shipping in Q4. MobileNext is now running production traffic with one of our mobility customers, and we continue to engage with additional customers on insertion opportunities with our mobile packet core solution.

As we talk about new products and innovation, I want to address network programmability and what we're doing around software defined networks. We have a few key pillars that define our SDN strategy. First, we continue to believe that a software driven network platform will ultimately deliver maximum business value for our customers. This is the vision behind the new network that we laid out three years ago and continue to deliver upon. Junos is a key pillar of this programmability strategy.

Next, we believe the focus of SDN is initially around data center switching. The data center is where SDN solutions could drive the most business value for customers. Today, we have a data center fabric solution in market with QFabric. It was architected with some common principles of SDN. For example, our QFabric director, at its essence, is a software-driven controller for the QFabric system.

We have this foundation to build on as we continue to evolve QFabric and our entire data center portfolio. We know that lots of people are building SDN controllers. What that means for us is that we need to make sure our network systems work with as many of those controllers as possible. Open standards have always been a core underpinning of our innovation strategy. That means our systems need to support SDN protocols including OpenFlow, and that's exactly what we're delivering. We initially demonstrated OpenFlow on the MX in 2011, and this year we extended that to the EX. We will have a productized version of OpenFlow 1.3 on the MX, EX, and QFabric next year so that our data center solutions can inter-operate with these many SDN controllers that are being built.

We are actively engaging with several customers on the use cases where we think SDN can deliver the most value. We have a solution that is architected with SDN principles in QFabric, running in many customers' data centers today. We continue to gain traction with customers as we build out our feature sets. We are also building SDN APIs including OpenFlow into our systems, and as we do this throughout our product road map, we are continuing to evolve the portfolio. We think we're making pretty good progress.

I'll wrap up my comments by reiterating that we executed well in the third quarter, and we took the necessary steps to restructure the Company to sharpen our focus on the right priorities, enable agility, and drive efficiencies across the Company. The actions we are taking to align our resources with our strategic priorities are ahead of schedule, and that further strengthens our position as we look to drive revenue growth in 2013. The macro environment probably isn't going to become any more certain in the near term, but we continue to focus on our own execution as we manage through this in line with our operating principles. We believe our traction is increasing across all three of our product areas; routing, switching and security. That includes our new products as we move towards the expectation we set at our analyst meeting in June.

Before I hand over to Robyn, I want to note that we also issued a press release today regarding our Platform Systems Division. Stefan Dyckerhoff's role within Juniper will be changing. After many successful years an operating executive, Stefan has made the decision to pursue a career as a venture capitalist. At the same time, Stefan will remain actively engaged with Juniper.

Beginning in January 2013, he will transition to a new role as a staff consultant, supporting me and the executive team. In this role, he will continue to work with the executive team on strategy and some key customer engagements. As Stefan shifts into his new role, I'm pleased to note that Rami Rahim, a 15 year Juniper veteran and key architect of our routing portfolio, will succeed Stefan in the leadership role of PSD. Stefan will work closely with Rami to ensure a smooth transition.

Stefan, would you like to add a few comments?

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

Thank you, Kevin. My decision to change career paths is driven by a long-standing personal aspiration to work with entrepreneurs as a venture capitalist with a goal of financing market-defining companies. Juniper's product portfolio and our road maps are stronger than they have ever been, and we are starting to see the results of the work over the last years with early signs of increased momentum on T4000, PTX, MX, ACX, and QFX that will enable future growth for Juniper.

I have worked with Rami for many years, and he has played a key role in Juniper's success to date. I am confident that he is the right executive to lead the Platform Systems Division, and I look forward to working with him both during the transition phase and then throughout 2013 as an advisor.

I want to add my personal thanks to the employees at Juniper for all of their support during my many years with the Company, and look forward to staying connected to Juniper in my new role. Thank you. With that, I will hand it over to Robyn.

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Thank you, Stefan, and good afternoon, everyone. Juniper delivered third quarter revenue growth on both quarter-over-quarter and year-over-year basis, and we improved our operational performance. While many customers remain cautious in an uncertain near term environment, we continue to see positive long-term demand fundamentals for high performance networking. We are focused on the things we can control. So let me update you on our progress with our cost structure initiatives.

Last quarter, we announced that efforts were under way to bring our cost structure more in line with our long-term model. The team has initiated multiple actions, including a reduction in our workforce of approximately 500 positions, supply chain and procurement activities as well as several facility consolidations and other cost saving measures. In the third quarter, these actions have resulted in pre-tax charges of $83 million, associated primarily with workforce reduction, inventory, facility and other asset write-downs. We expect to have additional charges in the next several quarters, primarily related to facilities and other asset write-downs. Our employees remain focused on executing our strategy to drive revenue growth and disciplined operational execution, and I would like to thank them for their hard work and ongoing commitment during this turbulent time.

Looking at our demand metrics for the quarter, book-to-bill was greater than 1, with product deferred revenue and product backlog increasing sequentially. Customer demand this quarter for T4000 and PTX reflected design wins with good adoption across all three geographies. Total revenue was $1.118 billion, an increase of 4% sequentially and 1% year-over-year. The sequential increase was due to growth in APAC and EMEA across both the service provider and enterprise sectors. The year-over-year increase was due to US service provider and international enterprise growth.

For the third quarter, GAAP diluted earnings per share were $0.03. This reflected the impact of the charges I noted earlier, which totaled $0.16 per share. Non-GAAP diluted earnings per share were $0.22, up $0.03 sequentially and down $0.06 year-over-year. The sequential increase reflected our revenue growth and improved operational performance.

Now let me provide some color on revenue by region, business segment, and market. Americas revenue was down 5% sequentially, and up 1% year-over-year. The sequential decrease was due primarily to US enterprise. The year-over-year increase reflected service provider growth, particularly in large US carriers.

EMEA revenue was up 7% sequentially and 3% year-over-year. This increase over last quarter reflected improved enterprise revenue and some new wins in service provider. While we did see revenue improvement this quarter, we still see a soft demand environment in the region. APAC revenue was up 26% sequentially and down 1% year-over-year, with sequential increases in both service provider and enterprise. We saw good growth across the region, particularly in China.

Now let me review our revenue by segment. Platform System Division revenue was $893 million, up 2% sequentially and 1% year-over-year. PSD router product revenue was $488 million, which was flat sequentially and down 7% year-over-year.

Our new products continue to gain traction in the marketplace. We have seen good engagements in all three geographies on both T4000 and the PTX core products. Year-over-year, we saw good growth from the MX products, and as anticipated, the older products of M and E were the main reasons for the year-over-year decline in routing.

Total router product revenue including both PSD and SSD increased 2% sequentially to $514 million. Total switching product revenue increased 4% sequentially and 19% year-over-year, to $146 million. We continue to take share with our portfolio of EX and QFabric switching products.

SSD revenue in the quarter was $225 million, up 11% sequentially and flat year-over-year. Total security product revenue was $178 million, up 12% sequentially and down 7% year-over-year. The sequential increase reflected gains across most product families.

High end SRX product revenue increased 18% sequentially and was down slightly year-over-year, reflecting service provider deployment timing, and we expect continued revenue fluctuations for this product. Branch SRX, which is reported as part of PSD, continues to make good progress with enterprise customers and was up 7% sequentially and 2% year-over-year.

Looking more closely at the markets we address, service provider revenue was $705 million, up 4% sequentially and 3% year-over-year. The sequential growth was due to improved performance with large service providers globally and content service providers. Enterprise revenue was $413 million, up 5% sequentially and down 2% year-over-year. The increase was driven by new financial services and public sector account wins in EMEA and APAC. The year-over-year decline was due to lower revenue in the US federal and financial services sector compared to strong third quarter of last year.

Moving on to gross margins and operating expenses. Non-GAAP gross margins for the third quarter increased to 65.6%, compared to 63.4% last quarter. While the sequential increase reflected our continued supply chain efficiency improvement, approximately 100 basis points of the increase was due to items which we do not expect to recur.

Non-GAAP product gross margins were 66.8%, versus 64.7% in the quarter. Non-GAAP services gross margins were 62.2%, up 2.8 points from the prior quarter, reflecting productivity improvements. Non-GAAP operating expenses increased sequentially to $544 million, due to the timing of additional prototype costs, annual employee merit awards, and higher variable expenses.

Looking at headcount, we ended the quarter with 9,584 employees, and this does not reflect the impact of our workforce reduction which I discussed earlier.

Non-GAAP operating margin for the quarter was 16.9%. The sequential increase of 1.9 points was driven by higher revenue and gross margins, with operating expenses flat as a percentage of revenue. The GAAP tax rate was 56.7% for the quarter. This is up sequentially due primarily to the effect of the restructuring and other associated charges. The non-GAAP tax rate was 34.4%. This is higher than the prior quarter, primarily due to geographic mix of income, and as a reminder, the tax rates reflect no renewal of the R&D tax credit.

Looking at the balance sheet, we ended the quarter with $3 billion of net cash and investments. Cash flow from operations was $173 million. DSO was a healthy 32 days in the quarter. Compared to the prior quarter, capital expenditures were down slightly, and depreciation was up slightly.

We continue to move ahead with our build out of our Sunnyvale campus. This enables our facility consolidation. We repurchased 13.9 million shares for $250 million, at an average price of $18. We have $818 million remaining on our current authorization, and we will calibrate our buybacks in future quarters with market conditions at the time. Based on current trends, we clearly recognize the opportunity to continue to do more.

Now I will review our outlook for the fourth quarter. As a reminder, these metrics are provided on a non-GAAP basis except for revenue and share count.

At this point, there is no evidence of any indication of a significant improvement in the spending environment over the next few quarters. We expect customers to remain cautious with their investment decisions. We are pleased with the progress toward the new product revenue goal that we discussed at FAM of an annualized $600 million run rate for our new products exiting Q4 of 2013.

As a Company, we remain focused on driving revenue growth and disciplined operational execution. As an update on the cost reduction activities, we are on track to our cost savings goal.

Since the end of the quarter, we have taken steps to reduce our workforce by approximately 500 positions. This essentially completes our planned workforce reduction.

We have also made good progress on our supply chain and procurement activities, and we anticipate that the majority of the $150 million savings will be in operating expenses, and there will be some savings that will be realized in both product and services cost of goods sold. I'm pleased with the focus on efficiency within the Company, and I'm confident that we will continue to make good progress towards our cost reduction objectives.

For the fourth quarter, we expect revenues to range from $1.1 billion to $1.13 billion. Gross margins are expected to be in the range of 63.5% to 64.5%. Operating expenses are expected to be roughly flat with the third quarter.

The benefit of our cost reduction activities will largely offset the typical sequential increase in OpEx in the fourth quarter. We expect operating margins to range from 14% to 16%. This is expected to result in a non-GAAP diluted EPS of between $0.19 and $0.22 per share, assuming a flat share count, a tax rate of 32%, and assumes no renewal of the R&D tax credit.

In summary, we continue to drive improvements in our capital structure, we are driving top line revenue growth with our innovative products, and we are aligning our cost structure to sharpen our focus, enable agility and drive efficiencies. Now I will hand it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting a question-and-answer session.

(Operator Instructions)

Rod Hall, JPMorgan.

Rod Hall - *JPMorgan Securities Inc. - Analyst*

Yes, hi, thanks for taking my question, guys. I just wanted to ask you a little about the revenues. The revenue report here in the quarter is pretty good, routing revenue's stable. Yet, you seem to be guiding for flattish revenues again next quarter, and I guess that implies pretty flat routing revenue. But I think the commentary when you guys were talking about routing suggests that things are getting a little bit better, starting to see the T4000 ramp.

I just wanted to explore that a little bit, because clearly, in Q4, we normally would expect to see some seasonality even though the spending environment's weak, we ought to see some sort of a pickup. I'm trying to understand whether you guys are discounting your sales funnel more aggressively because you think the environment's gotten more uncertain, or are you just not seeing the sales funnel develop in the first place? Can you give us any more color on why you're giving us that kind of revenue guidance?

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Yes, thanks Rod. In terms of the revenue guidance for the fourth quarter, our customers continue to be cautious in terms of their spending that they're continuing. And clearly what we take into account when we're looking at our guidance for any period of time is we look at not just the revenue for the quarter, but also our deferred revenue and our bookings in the quarter as well as discussions with our customers, and we believe that over this next couple of quarters, they will continue to be cautious in their spending patterns.

Kevin, would you like to comment as well?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Thanks, Rod. I'll just add to Robyn's comments.

In the US, I think we continue to see good demand from our service providers, especially with the Tier 1 service providers we're working with. Clearly, in the US, I think this will be a year that we see a more typical first half versus second half capital expenditure plan, and we have to net that with the fact that we did have some large PTX projects that kicked off in the first half and how that balances, but the US, we feel good.

In Europe, I think there's still some softness in Europe, and we're very cautious about the situation in Europe. And Asia-Pacific, I would characterize as stable. I think we had a good performance this quarter in China, and we'll stay focused on Asia. But we net that all together, and I think that came together in the guidance that we have for the quarter.

Rod Hall - *JPMorgan Securities Inc. - Analyst*

Okay. Great. Thanks, guys.

Operator

Tal Liani, Bank of America-Merrill Lynch.

Tal Liani - *BofA Merrill Lynch - Analyst*

Hey, guys. Can you hear me now?

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Yes.

Tal Liani - *BofA Merrill Lynch - Analyst*

I'm trying to understand the drivers for growth this quarter, pretty good growth, but it's kind of coming in the wrong places in the sense that you had -- going into this quarter, you had three new products, whether it's the PTX, the T and you also have a little bit older but also newer Edge portfolio. And that's the flat part. And the growth part is in security, where you don't have actually new products.

Same thing when it comes to geography. Europe, everyone else is reporting on weakness in Europe, and you're showing very strong growth, relatively speaking nice growth in Europe. I'm trying to understand whether the growth we've seen this past quarter is related to spending or something you have done on your part getting to customers, specifically what have you done in Europe, et cetera, just to understand the trends? Thanks.

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Thanks, Tal. I'll start and I'll ask Kevin to comment as well. If you look at -- the demand in the quarter is obviously a reflection of not just the revenue in the quarter, but also the bookings and the deferred revenue in the quarter. And so to me, as we commented in the prepared remarks, we're seeing good demand for our core products, both in terms of PTX and as Kevin mentioned, we have started to see the beginning of the upgrade cycle for the T4000 as well, which we're very pleased with.

In terms of MX, you saw good sequential growth in that, and we're continuing to drive feature sets, not just on the MX itself, but also in terms of the software that runs on top of the MX as well, and again, Kevin mentioned that in terms of new product announcements that we've made as well.

In security, it is on the service provider side, we continue to do well in terms of the demand environment out there, and that is what drove the sequential revenue growth as we commented in the prepared remarks. Enterprise, we do believe we've stabilized in terms of the demand environment, there's still work to be done there, but the team's on top of that. So Kevin, would you like to --?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

I'll just add to Robyn's comments. I think if we look at MX, MX showed sequential and year-on-year growth. EX and QFabric showed sequential and year-on-year growth. SRX showed sequential growth and flat year-on-year. When we look at those combined with what we see happening with PTX and T, it gives us a positive sense on how product -- value proposition of product.

When you look by sector, there was some variances there. Certainly the US, we're seeing stronger demand from service providers. When we look at the project run rate and the set of projects that we're doing, and that doesn't always translate to specific revenue in that quarter, but the outlook on projects and work that we're doing in the US I would say is positive.

In Europe, we had a reasonable quarter on the service provider side. A lot softness, and we're very cautious on the outlook in Europe, and Asia-Pacific, we had a good performance in China. But we're -- Asia-Pacific I would characterize as very stable.

On the Enterprise side, we saw good Enterprise performance in APAC and EMEA and some softness in the US. The softness in the US was primarily driven by federal and financial services. So you net that together, I think overall when you look at product revenue, and as Robyn pointed out, backlog and deferred product revenue, we feel like we're making reasonable progress.

Tal Liani - *BofA Merrill Lynch - Analyst*

Maybe just one follow-up. If that's the case, why are you guiding so low? The quarter is great, and you're guiding much lower than our expectations into a seasonally strong quarter. Why is there such conservatism?

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Tal, as I mentioned before, our customers continue to be cautious in terms of the near term spending environment that they're actually participating in. We continue to have good dialogue with customers around the world in terms of the product sets that we have. When we set our guidance, we take into account not only the revenue in the quarter, but also the bookings that we've received in the quarter and the deferred revenue, and our point of view on the fourth quarter is that customers are going to continue to be cautious.

Tal Liani - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Brian Marshall, ISI Group.

Stephen Patel - *ISI Group - Analyst*

Hi. Thanks. This is Stephen Patel for Brian Marshall.

What do you see as the catalyst that sort of flipped the switch with respect to service providers migrating en masse to your new product platforms which possess significantly better cost and performance metrics? It seems like carriers in general will have to make the investment in one of these quarters, I'm trying to identify the drivers of the migration. Appreciate your thoughts. Thanks.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Yes, thanks for the question, Stephen. I'll take that one, Robyn.

I think first of all, with the PTX and the T4000, those products were released, certainly customers go through the process of certification and testing them in their labs before they begin deployment. I think we commented we now have 15 customers of PTX who are in various stages of that process. On the T4000, there's a process they go through where they -- first they upgrade the T series chassis to be able to handle T4000 line cards, and what we've seen thus far is some good progress on the chassis upgrade. And yet I think there's still a wave of line card upgrades to come, and that's a function of -- as customers look at their investment priorities and they look at the network, how hot their network's running and where they need to deploy their capital, certainly we think we're positioned for that.

And then the MX continues to be a very solid product across the dimensions of the wireless, the wire line, and the business services that our customers deliver. So I don't think there's any one specific thing, but it's a wide range of things, and maybe Stefan I'll ask if there's any additional color you want to add for Stephen.

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

Sure. I think what we're seeing here is kind of the continuation, execution of a strategy that we have outlined. When our customers look at making buying decisions, they look at really fundamentally two things, total cost of ownership, and then the ability to generate revenue from new services from the network on the service provider side.

So from a total cost of ownership point of view, certainly with the PTX, that's a great way to simplify the network, drive down both CapEx in terms of cost per bit and power usage and then OpEx as you simplify. Very similar on the T4000, where we give you a very simple way to upgrade the existing infrastructure to get to lower cost per bit.

At the edge of the network it's a combination of the two things. It really is total cost of ownership, so certainly the MX enhancements that we outlined, are shipping next quarter with the MX2000 series. Those drive down the total cost of ownership and also give the customer great investment protection story. But then on top of that, this is where service providers generate revenue. So the ability of Junos to evolve to support the Junos V app engine so you can have multiple services apped at the edge of the network reduces the time it takes for service providers to generate revenue.

So those things two things really drive adoption. There's always service providers have a long-term view of these architectural transitions.

Stephen Patel - *ISI Group - Analyst*

Great. Thank you.

Operator

Ehud Gelblum, Morgan Stanley.

Ehud Gelblum - *Morgan Stanley - Analyst*

Hey, guys. Thanks. I just have a litany of questions. I'll try and put them all together.

First of all, Robyn, can you give us a sense on the $150 million cost savings and the $600 million in new product revenue, both of which you plan to get to by the end of next year, can you quantify those so we can actually track them each quarter? Are we on having taken care of $30 million of annualized cost savings and $165 million of the $600 million new product revenue? Any sense you can give on that would be great.

And then China being strong in service provider was interesting. Was that kind of a one time deal, or is that a continuing thing? Is that a large deal that you won? Is that maybe a multi-quarter deal, or is that something that you think is more continuous over time?

And then finally, if you can give us any sense how large MX was. You said it was good, just give us a sense of that. And I have more, but I'll stop there.

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Thanks, Ehud. In terms of the revenue progress against the $150 million for the Q4 2013 exit point or $600 million annualized run rate, as I mentioned on the call, we're on track. We'll give you periodic updates in terms of where we are against that goal. And as we've mentioned before, that is against all of the five new product areas that we talked about at FAM.

In terms of the cost reduction activity, I am pleased where we are as well in terms of the cost reduction activity. We are on track to achieve the $150 million in terms of total cost reductions, both in terms of OpEx and COGS for next year. And we'll give you an update as to where we are against that as we move forward through the year.

Ehud Gelblum - *Morgan Stanley - Analyst*

Could you give a sense about the 100 bips of gross margin boost and where that came from?

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Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

So in terms of the -- in the prepared remarks, I talked about 100 basis points of additional cost reduction in the quarter. So if I step back in terms of gross margins, we're pleased with the performance in gross margins this quarter. We have seen some improvement in the quarter-over-quarter cost reduction and supply chain efficiencies that we're putting in place. What I also mentioned in the prepared remarks was we did see the one time benefit of about 100 basis points that we don't expect to recur, and then there are credits and other things like that, that we saw in the quarter that as I said I don't expect to recur.

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

So Ehud, this is Stefan. Let me briefly comment on the China service provider question you had.

Traditionally we've been strong in China, particularly in core routing with the major carriers. This is really what we saw this quarter. They're running very large networks, experiencing very large growth, and certainly the T series benefited from that. And from that strength, we're obviously trying to break into other areas of the network, but that's really what drove the business in the near term.

Ehud Gelblum - *Morgan Stanley - Analyst*

And it's sustainable going forward? It's not just a one time --?

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

As always, the ASP business will be lumpy, but we feel good about our position in the architecture and as they see growth, and they'll go through their investment cycles, and we'll be able to benefit from that.

Ehud Gelblum - *Morgan Stanley - Analyst*

If I could squeeze in one last one, gross margin guidance for Q4 is down, yet it seems that a lot of your high growth -- your high margin business, especially T4000, are increasing. I'm even taking into account the 100 bips of one-time boost. Just wondering why the gross margin guidance is down for next quarter.

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

As I mentioned previously, Ehud, the 100 basis points is one-time. If you take that out of the gross margin performance --

Ehud Gelblum - *Morgan Stanley - Analyst*

It's still down.

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Third quarter, it's pretty in line with that. And yes, we did see good performance in terms of mix in the third quarter as well, and so we expect that to continue in the fourth quarter.

Ehud Gelblum - *Morgan Stanley - Analyst*

Thanks.

Operator

Simona Jankowski, Goldman Sachs.

Simona Jankowski - *Goldman Sachs - Analyst*

Thanks very much. I just had a couple of questions on a couple of the different product cycles.

First starting with the T4000, can you just give us a sense of how we can think about the length of that replacement cycle, perhaps by looking back at the T1600, over how many quarters did you see a bulge in sales before you saw that flatten out or decline?

And then secondly, as it pertains to the PTX, you mentioned that you have now over 15 customers deploying the PTX. Out of those, how many do you think you could have otherwise addressed with the T4000? So this was maybe replacing your own opportunity versus how many do you think were incremental where you might have been competing against and displacing an optical alternative.

The third product I wanted to touch on was the SRX where you talked about 18% sequential increase for the service provider segment. Can you just expand on what drove that and again how broad-based it is and how sustainable it is?

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

Hi, Simona, this is Stefan. Let me comment on the first two.

On the T4000, we're happy with the uptake. I would say in terms of the number of upgrades, it's very consistent to the kind of uptake that we've seen with the T1600. As customers are more careful about their spend, which we do see, they might upgrade the chassis first and plug in one of the new denser underlying cards and then hold off on upgrading the rest. We think that this cycle might take a little longer and be a little bit more sort of flatter in terms of the uptake just because of the spending environment. But overall in terms of number of T4000s out there, the numbers of customers that qualified it, very much in line with T1600 experience.

So this will evolve over multiple years. This is -- that's what we saw with the T1600 as well. And as always, our customers will sort of apply the quarter-to-quarter spending discipline to how they upgrade the infrastructure.

On the PTX, we've really seen it play out to where this is complementary to the T4000 upgrades. There are a number of customers that have both T4000 and PTX and working on both. The PTX helps us redefine the architecture and helps us take share in the quarter, as we see that play out.

So there is an opportunity to merge networks into one, like we saw from Verizon last quarter. So these are the kinds of opportunities that will drive our growth going forward, and that opens up growth for us in those networks.

Bob Muglia - *Juniper Networks, Inc. - EVP - Software Solutions*

Hi, Simona, this is Bob Muglia. In terms of the SRX and the growth we saw quarter-to-quarter on that in service provider. What we're seeing is a wave of deployments around emerging wireless networks, predominantly LTE which have higher bandwidth requirements, which the SRX is particularly well suited for.

We see that as an area where we have a very good market position. It is the service provider market, so like everything with service providers, it is lumpy, so that means the performance could vary quarter-to-quarter. But we do see this as a long-term trend in which we remain very well positioned.

You didn't ask specifically about the Enterprise, but I'll comment a little bit more on that while I'm at it. As we described before, we are in a position of really driving forward and re-engaging in the Enterprise space. We've had some areas there where we've not been as strong as we like to be, particularly around things like manageability. And we have a very strong program to bring out a new product set to dramatically improve our manageability in the security design product.

We've had a great deal of engagement with customers of all types with this with very positive feedback from all of them. We have a very significant release of that coming out later this quarter as well as incremental updates of that in the first half of next year, where we expect to be very well positioned.

The other thing I'll say overall is about our engagement with Enterprise is that we are telling and talking to them about an end-to-end integrated security strategy which they find very, very important, and that is enabling us to have a different level of engagement with these Enterprise customers. That does not translate into revenue immediately, but it does provide a good long-term potential.

Operator

Jeff Kvaal, Barclays.

Jeff Kvaal - *Barclays Capital - Analyst*

Yes. Thanks very much. This is a bigger picture question perhaps. I think we've seen three, four or five quarters in a row of either flat or down year-over-year growth.

Kevin, you spoke in your intro script about return to revenue growth next year. What are you seeing that gives you confidence in that? Other carriers seem to have managed okay the last six quarters or so. Why are you confident there's going to be revenue growth next year, and should we be thinking about low single digit revenue growth or upper single digit? Any comments around that would be very helpful.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Yes, thanks for the question, Jeff. You know, the answer from my perspective at a high level is two things.

Number one, I think it's clear that on the service provider side, networks are running hotter, especially when you look at some of the capital expenditures in Europe as an example. And as even through the first half of this calendar year, the addressable market for routing had declined by about 3 percentage points. Yet network traffic I believe continues to increase in many cases, and putting pressure on or increasing the utilization of these networks. Number one factor is networks running hotter, which means at some point, investment cycles need to kick in.

And number two, it's our product cycle. I think -- I look at routing specifically for service providers, when you look at from the core what we've done with PTX and T4000, to the Edge and aggregation to what we've done with MX from even with this new release of the MX2000 family and the software assets on top of the MX, all the way to the access layer with the ACX. I think we have got a very rich portfolio of technology and solutions that is differentiated from competition, and that combined with the fact that networks are running hotter I think positions us well for the future.

Your second part of your question is can you quantify that. And I'm hesitant to do that because much of that's going to depend on factors as we go into 2013 that are going to have to do with the macro and the investment cycles. But I think consistent with the comments Robyn made at the analyst meeting, look it's our intent to really focus on how we can run this company in a way that we're able to grow faster than the addressable markets.

I think with the things we've done from an innovation standpoint, from a product standpoint, when it comes to routing, I think we're very well positioned. Certainly with switching and what we've done in QFabric, I think we continue to take share, and we're well positioned going forward. Bob's comments on security are consistent with the view that we've got a strong value proposition in service provider, and we've been taking actions over this last year to strengthen our hand in Enterprise. I feel like those are all the right set of things for us to be doing.

Operator

Ittai Kidron, Oppenheimer.

Ittai Kidron - *Oppenheimer & Co. - Analyst*

Couple of questions from me. First of all, on the weakness in Enterprise in the US, you mentioned financials in public, but can you be a little more specific on how execution was in the region just to make sure there isn't anything else out there. Many other companies have actually posted good public numbers this quarter. I'm just trying to understand why you don't.

Second, regarding your switching business, Kevin, I believe that you mentioned that both EX and QFabric were up quarter-over-quarter. So two questions related to that. If that is correct, if I got that right, does that mean that your wireless business was actually down quarter-over-quarter? And second, can you give us a little bit more color on the customer count on QFabric and how many of them are full architecture versus just top of rack? Thank you.

Robyn Denholm - *Juniper Networks, Inc. - EVP and CFO*

Yes, Ittai so let me start off with the public sector and financial services. So as we commented earlier, we did see strength internationally sequentially with our public sector and financial services business.

In the US, we did have a quarter last quarter in terms of public sector. This quarter was okay from a public sector perspective, but obviously it was down quarter-over-quarter, so it's a timing perspective. Our public sector team is absolutely fabulous, and they're continuing to drive market share wins in the public sector in the areas that we focus on, particularly in the US area.

So I'm confident with what they're doing there. In terms of financial services, again, we had a stronger quarter last quarter. We did see that decline quarter-over-quarter in the US. As I mentioned in the prepared remarks, the international business in both of those areas did better this quarter.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

The only other thing I'd add to Robyn's comments is our business in public sector is really federal -- Federal Government. We're not in state and local governments as much as many others are. So certainly Robyn's comments are accurate, but when you say public sector, really be thoughtful of federal.

And second part of your question then was on our switching business, which the comment was with our switching business, we look at EX and QFabric being up, your question was wireless down. Wireless was not down. Wireless was flattish. It was flat to up, but not as significant as the increase that we're seeing in the switching and QFabric, and I think that's reflective.

We've got a very strong focus on data center scenarios and a great solution for the campus and branch as well. Stefan, you want to add to that?

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

I think on the wireless side, this is also a function of where we are in the product portfolio. We recently introduced a set of new access points, a set of new management capabilities that is coming out later this year and early next year, and that really will be the key for us to drive forward. But as Kevin mentioned, it was flat to slightly up quarter-over-quarter. So we continue to invest in that business.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Then the final question you had was related to QFabric. I'd just comment. This was a quarter with QFabric where we saw much more activity on the interconnect and the directors == the full QFabric systems that were connecting together many of the nodes, whereas in prior quarters, we were seeing more of the activity on the nodes on the top of rack side. So I think I attribute much of that to the fact the release of the QFabric M interconnect has enabled an entry point for customers now that are now doing more of those deployments.

I don't have specific numbers, apologize on that. The way I would characterize an answer to your question was this quarter was much more about the full QFabric systems, where in prior quarters, I think there was a lot of groundwork laid for QFabric nodes that are now being connected together into the full data center solution.

Operator

Mark Sue, RBC Capital Markets.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. Kevin or Stefan, maybe just a thought on the need for the operators to upgrade their networks and where major carriers are with the utilization rates. And I ask because if I look at the performance improvements in your new products, your products get better every year and may now be exceeding network traffic growth, so can your product cycles actually extend the carrier investment cycles? We used to see big spending spikes every four years. We're wondering now if it goes to five or six years.

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Good question, Mark. I'll first comment, then I'll hand over to Stefan.

Look, the engineering work that we do and the innovation we drive is intended to continue to reduce the cost per bit of traffic carried through new innovation and technology in the silicon, in the systems and the way that comes together with the software. That's been true for the last 10 or 20 years as we focused on continuing to innovate and drive down the cost per bit of traffic carried.

The second part of your question then is does that create a great value proposition for customers? I believe the answer is yes.

And then certainly the third part is if traffic -- if networks -- if traffic isn't growing as rapidly and networks aren't running as hot, does that have implications in terms of the timing of investments? And certainly every network is different, but it would have difference in timing. Customers are going to look to make -- to put their capital where it could make the most impact for them in their business, and sometimes that's in the core, when the core gets running too hot. Sometimes that's in the Edge.

And as Stefan commented earlier, on the Edge of the network, it's not just about the cost per bit carried. It's the services and the way they're monetizing those new services with their customers. So there's a variety of ways that we have to add value to our customers. Stefan, you want to add to that?

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

Sure. I think from an overall demand picture, we still see when we talk to customers, traffic increasing at a very good clip. And fundamentally, the growth of traffic on the Internet is still out-stripping what Moore's Law gives you. You have to really invest in the silicon in the systems to keep up with the growth of traffic. And our customers always push us to build bigger and bigger systems to address this problem.

In terms of how they run their networks, as Kevin mentioned, they upgrade their networks for multiple reasons, in terms of how hot they run it, where they put capabilities in the network, and they'll make those different tradeoffs. But they're fundamentally going to choose to upgrade if they can either reduce the total cost of ownership or generate new services in addition to the underlying demand curve that drives their business.

Bob Muglia - *Juniper Networks, Inc. - EVP - Software Solutions*

And if I could add one more thing to that. This is Bob Muglia. As we move forward, the opportunity for software is very, very significant in these networks.

And software is the component which will add significant value for our customers. And we made some very significant announcements this last quarter in terms of the universal Edge and the MX in terms of our software portfolio. And that really is the beginning of what we'll be able to do in the months and years ahead to provide more value to our customers, more than just in terms of the performance that we can deliver, but in terms of their ability to monetize their networks.

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

Operator, we have time for one more question.

Operator

Certainly. Brent Bracelin, Pacific Crest Securities.

Brent Bracelin - *Pacific Crest Securities - Analyst*

Thank you. Wanted to go once more into kind of the growth drivers of the business.

Obviously two quarters in a row here, we saw 4% kind of sequential rebound in the product revenue. I think the really bigger question we're trying to ask here is, is this the beginning of a broader recovery where you're starting to see some of these operators that have run these networks hot for a while now, now look to upgrade? Or after kind of two years of revenue being in this $1 billion to $1.19 billion range for two years now for Juniper, is this the new normal?

And wondering if you could give us sort of any sense of urgency that you've seen with customers around adding network capacity as you think about kind of the planning process that you're in right now, I imagine for next year, what's your general sense of your ability to capitalize on some of these network expansion plans if there are any for these carriers for the next year or two?

Could you comment on your ability to kind of gain share? We haven't really seen an accelerated share gain out of Juniper over the last two years. Just trying to rationalize the opportunity around, is this the beginning of a bigger broader recovery, or is this the new normal we should expect for the next two years?

Kevin Johnson - *Juniper Networks, Inc. - CEO*

Yes, let me comment briefly, Brent and then I'll let Stefan add to it based on his observations. You used the word sense of urgency -- do we see some sense of urgency on the spending patterns of service providers.

I wouldn't characterize it as a sense of urgency. What I would characterize we are seeing is a very disciplined planning approach that is creating new projects and new need to do upgrades on networks. It's not a sense of urgency to react to adding capacity but there's a lot of thoughtfulness and discipline in the planning, and that planning results in very clear projects with very clear business objectives the customer's trying to achieve. And I feel like if I look over the last six months, I think we've secured a number of wins and commitments from these customers where we competed for these projects and we've been awarded these projects.

Some of these projects have kicked off. Some are going to kick off in 2013. But I think that is an indicator that there is clearly value in the investments that they're looking to make. Those investments are aligned with key business outcomes they're looking to drive, and the technology footprint that we have and innovation we've delivered is aligning with their business need.

I think that combined with the product cycle that we're in, having strength with the T4000, PTX and the Core routing footprint, strength in the Edge with what we've done with MX and expanding that system's platform along with the new software services that Bob highlighted and then moving us even forward into the access layer. I think that makes us a more competitive, more relevant player that has a fuller portfolio to solve these problems, and so those two things I think are very positive indicators.

Stefan, do you want to add to that?

Stefan Dyckerhoff - *Juniper Networks, Inc. - EVP, GM - Platform Systems*

Maybe just to add to that a little bit from my many conversations with service providers. I think the one sense of urgency they feel is that they can't just build the network the same old way. So they're really looking to reduce the total cost of ownership and their speed and cost of service by considering the right architectural transitions that they should make in the network.

And that then couples with what products can fulfill that, and certainly just like we saw on the MX a couple of years ago, we feel very good about those product cycles that are coming to market now. That's always going to be a key driver for our business.

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

Okay. We would like to thank everyone for joining us today. We do appreciate your time, and we look forward to speaking with you again next quarter. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
