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Juniper Networks' (JNPR) CEO Rami Rahim on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.48 beats by $0.02 | Revenue of $1.13B (-3.96% Y/Y) misses by $-13.76M

Earning Call Audio

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Juniper Networks, Inc. (NYSE:JNPR) Q3 2019 Earnings Conference Call October 24, 2019 5:00 PM ET

Company Participants

Jess Lubert – Vice President-Investor Relations

Rami Rahim – Chief Executive Officer

Ken Miller – Chief Financial Officer

Conference Call Participants

Jeff Kvaal – Nomura Instinet

Brian Yun – Deutsche Bank

Simon Leopold – Raymond James

Samik Chatterjee – JP Morgan

Tim Long – Barclays

Rod Hall – Goldman Sachs

Ittai Kidron – Oppenheimer

Paul Silverstein – Cowen

Amit Daryanani – Evercore

Erik Lapinski – Morgan Stanley

George Notter – Jefferies

Operator

Greetings and welcome to the Juniper Networks Third Quarter 2019 Earnings Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Jess Lubert, Vice President of Investor Relations. Please go ahead.

Jess Lubert

Thank you, operator. Good afternoon and welcome to our third quarter 2019 conference call. Joining me today are Rami Rahim, Chief Executive Officer; and Ken Miller, Chief Financial Officer.

Today's call contains certain forward-looking statements based on our current expectations. These statements are subject to risks and uncertainties and actual results might differ materially. These risks are discussed in our most recent 10-K, the press release and CFO commentary, furnished with our 8-K filed today, and in our other SEC filings. Our forward-looking statements speak only as of today, and Juniper undertakes no obligations to update any forward-looking statements.

Our discussion today will include non-GAAP financial results. Reconciliation information can be found on the Investor Relations section of our website, under Financial Reports. Commentary on why we consider non-GAAP information a useful view of the Company’s financial results is included in today’s press release. Following our prepared remarks, we will take questions. Please limit yourself to one question and one follow-up.

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

Rami Rahim

Thank you. Good afternoon everyone. We reported mixed results during the September quarter. Total revenue of $1.133 billion was slightly below midpoint of our guidance due to weaker than expected trends within our service provider business.

Challenges within this vertical more than offset healthy cloud and enterprise sales, both of which grew year-over-year. Non-GAAP, earnings per share of $0.48 came in $0.02 above the midpoint of our forecast as better than expected non-GAAP gross margins and strong cost controls more than offset the impact from our incremental China tariffs.

While we remain on track to deliver a return to year-over-year growth during the December quarter, we are now expecting a lower level of growth than we previously anticipated. The change versus our prior expectations reflects our belief that the Service Provider weakness we experienced over the last few quarters is likely to continue and that our enterprise momentum will moderate from recent levels based on the order trends we experienced this past quarter.

We believe these dynamics will more than offset the improved momentum we're seeing with our cloud customers. We believe we are executing well in a dynamic environment. We continue to believe in the long-term growth prospects of our business, and we are investing to win in each of our core markets, many of which are expected to undergo material technology transitions over the next few years.

Typically, transitions present opportunities to gain share and we believe we have the right products, strategy, and go-to-market motions needed to capitalize on the 5G, 400 gig enterprise multicloud, and WiFi 6 opportunities that are likely to play-out over the next several years.

Given our conviction in our prospects and belief that the innovations we are bringing to market should position us to drive a sustainable return to modest growth starting next year, our board has increased our buyback authorization by $1 billion, and we intend to enter into a $200 million ASR this quarter.

Now, I'd like to provide some insight into the September quarter and address some of the key developments we are seeing within each of our core verticals. Starting with the positive, we experienced a second consecutive quarter of improved trends within our cloud business during the September quarter, which grew 6% year-over-year as we continue to see momentum within our customers’ wide area network, particularly from some of our Switching Products this past quarter.

Order trends remained healthy and we are optimistic regarding our ability to once again grow this business year-over-year during the December quarter. We're encouraged by the success we are seeing within our cloud customers’ wide area network and continue to believe we are positioned to grow with their capacity requirements in this segment now that the MX to PTX transition is largely behind us.

While cloud wide area spending trends should present growth opportunities for us over the next few years, we are very much focused on leveraging the 400-gig cycle to capture hyperscale switching opportunities, where historically we have maintained limited share.

On this last point, we've started to deliver the systems, silicon, and software needed to win hyperscale switching share during the 400-gig cycle, and plan to introduce additional solutions and capabilities over the next few quarters. We have started to introduce these solutions into our customers’ labs and we remain optimistic regarding our ability to secure wins or even a modest level of success could present material tailwind for our business in the years to come.

Within our service provider vertical, we experienced weaker than expected trends during the September quarter with this business declining 17% year-over-year due to ongoing challenges many of our carrier customers are facing.

While our carrier relationships remain strong, we did see a number of expected projects push out of the quarter as many of these customers are choosing to run their networks harder, some are capital constrained, and others have shifted resources to spectrum licenses and RAN build-outs.

Despite these challenges, we do expect our service provider business to experience sequential growth during the December quarter and see more modest year-over-year declines in 2020. The move of our MX 5G line cards from qualification to deployment, the success of our Contrail Telco Cloud platform, and the availability of new access products are some of the reasons we expect our Service Provider vertical to present less of a headwind in future periods.

While we reported very healthy enterprise revenue during Q3 with this business growing 8% year-over-year, we saw a deceleration in orders toward the end of the period that is leading us to moderate our enterprise expectations for the remainder of the year. We believe this deceleration was due to lingering effects associated with the sales transformation actions we took earlier in the year and macro related weakening in the customer spending environment.

Despite these dynamics, we are seeing some pockets of strengths within our enterprise business that are providing optimism and longer-term prospects for this business. First, our QFX switching business experienced growth both on a quarter-over-quarter and year-over-year basis.

QFX orders grew 20% year-over-year driven by improved demand within the cloud as well as enterprise datacenter market. We believe our industry leading EVPN-VXLAN capabilities and Contrail fabric management software are resonating in the datacenter market and should position us to grow this business moving forward.

Second, I'm pleased by the momentum we are seeing with Mist and the opportunity to bring AI to the broader Enterprise market. While the numbers remain small, the momentum we are seeing is real, and I am increasingly convinced that Mist and the associated pull through it enables should become a material driver for Juniper in 2020.

To this point, Mist customer base has grown 42% since we closed the deal and doubled year-over-year; two proof points of the momentum we are seeing. It's also worth mentioning we secured over 100 new Mist customer proof-of-concepts in just this past quarter, more than 80% of which included an EX or SRX opportunity.

We believe we have just scratched the surface of Mist potential and we are investing to further monetize our existing customer base and capture new logos as the industry transitions to WiFi 6 and the AI driven enterprise. The WiFi 6 refresh and Mist differentiator architecture is already enabling us to win wireless and wired opportunities we previously were unable to address and should present further tailwind in the year to come.

Third, our SD-WAN capabilities are starting to see healthy traction in the market. While this opportunity remains in the very early innings, we believe our ability to offer cloud management, security, and WiFi capabilities is resonating with many of our customers and should not only position us to gain share in what is likely to be a large and fast growing market, but it also presents another catalyst that helps pull through our broader campus networking portfolio.

I think it's important to highlight that our security business is continuing to see strength with this business growing 22% year-over-year in the September quarter, driven by strength at the high-end and mid-range of our portfolio. While we do not expect our security business to sustain the level of growth we experienced in Q3, we are encouraged by the momentum we're seeing and the success of our secured networking strategy which focuses on bundling security with our networking platforms across several customer use cases.

We think customers are increasingly looking to consume security as part of a networking solution and believe we are well positioned to capitalize on this trend. We're also continuing to see success in our software business, which grew 13% year-over-year and accounted for approximately 10% of revenue during the September quarter. While much of our software revenue today is driven by on-box software licenses, our off-box software orders increased more than 100% year-over-year and off-box subscriptions increased more than 200% year-over-year due to Contrail, security subscriptions and Mist.

Based on the momentum we're seeing, we believe our software as a percentage of sales will continue to increase over time especially a subscription based pricing models become more pervasive and gain traction in the market.

Before I turn it over to Ken, I'd like to touch upon where we are with our sales transformation efforts which were set into motion under the leadership of Marcus Jewell earlier this year. The goal of these initiatives is to drive improved sales productivity by leveraging a more data-oriented approach, putting the right sales incentives into place to encourage the best behaviors and identifying areas of potential savings that could be reinvested into additional quota carrying sales teams.

I firmly believe these actions will not only position us to grow on a sustainable basis, but also to take advantage of the innovations we are delivering across our portfolio to take share. However, with an organizational change of this magnitude, it is not uncommon to see an elevated level of turnover for a short period of time, which is something we encountered earlier this year. While this disruption was largely behind us exiting the June quarter and we have made solid progress versus our hiring goals year-to-date, we have not been able to fill our open positions as quickly as we would have liked and many of our newer sellers are now early in the process of ramping to productivity.

The combination of which has slightly impacted the trajectory of our enterprise orders. This disruption along with the emergence of some macro related caution has caused us to expect a slightly more conservative enterprise revenue outlook for the December quarter. Longer term, I believe the investments we are making in our go-to-market organization along with the products and innovations we're bringing to market are the right ones and should position us to deliver a return to modest growth next year.

I would like to extend my thanks to our customers, partners and shareholders for their continued support and confidence in Juniper. I especially want to thank our employees for their hard work and dedication, which is essential to creating value for our stakeholders.

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

Ken Miller

Thank you, Rami and good afternoon everyone. I will start by discussing our third quarter results and end with some color on our outlook. Our third quarter results were mixed with total revenue of $1.133 billion, an increase of 3% sequentially but slightly below the midpoint of our guidance range. Strong non-GAAP gross margin of 61.1% was 1.1 points higher than the midpoint of our guidance. This strength was driven by favorable deal mix and improved inventory management.

Gross margin strength as well as prudent operating expense management drove the non-GAAP earnings per share of $0.48, $0.02 above the midpoint of our guidance range. Looking at our revenue by vertical on a year-over-year basis, Cloud increased 6% and we are pleased with the return to growth in this vertical.

While Enterprise revenue increased 8% year-over-year, we did see some weakness in bookings towards the end of the quarter. Finally, Service Provider declined 17% year-over-year, which was weaker than expected. On a sequential basis, Enterprise increased 10%; Service Provider increased 1% and Cloud was down 5%.

From a technology perspective, Switching increased 9%, Security increased 22% while Routing decreased 18% year-over-year. Software revenue continued to grow, increasing 13% year-over-year and was approximately 10% of total revenue. Our services business increased 1% year-over-year and was flat sequentially.

In reviewing our top 10 customers for the quarter, three were Cloud, six were Service Provider and one was an Enterprise. Product deferred revenue was $129 million, down 3% year-over-year due to the timing of the delivery of contractual commitments. Non-GAAP operating expenses were flat year-over-year and up 1% sequentially.

Looking at our balance sheet, total cash, cash equivalents and investments at the end of the quarter was $2.8 billion. We generated solid cash flow from operations of $185 million for the third quarter. The sequential increase was primarily due to lower payments to suppliers and lower cash tax payments, partially offset by higher payments related to variable compensation.

I would like to provide some color on our guidance, which you could find detailed in the CFO commentary available on our website. Our revenue outlook shows a modest return to year-over-year growth at the midpoint. However, it is lower than previously expected due to continued business challenges as some of our largest Service Provider customers, lingering impacts from our sales force transformation and macroeconomic uncertainty. We remain confident in our position in the markets we serve, and in our relationships with our customers.

Our fourth quarter 2019 non-GAAP gross margin guidance reflects the recent increase in China tariffs, which is offset partially by the expected increase in revenue. We continue to undertake specific efforts to improve our gross margin. These efforts include value engineering, optimizing our supply chain and service business, pricing management and increased software and solution sales.

We expect a non-GAAP tax rate of approximately 17% in the fourth quarter due to the anticipated reduction in India's corporate tax rate. Despite the lower than expected revenue outlook, we continue to manage costs prudently, and still expect to achieve the low-end of our $1.70 to $1.80 earnings range for the full-year 2019.

As Rami mentioned, our board of directors has approved an additional $1 billion of share repurchase authorization, which brings our current authorization to $1.9 billion. In addition, we intend to enter into an accelerated share repurchase program for $200 million in the fourth quarter of 2019. We expect to be opportunistic on future capital returns.

In closing, I would like to thank our team for their continued dedication and commitment to Juniper's success.

Now I'd like to open the call for questions.

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question comes from the line of Jeff Kvaal with Nomura Instinet. Please proceed with your question.

Jeff Kvaal

Thank you, gentlemen. I guess, I would love Rami if you would spend a little bit more time adding some color to your commentary about starting to deliver software and silicon into some hyperscale for testing. What does that mean in terms of how deep in the process you are with them? What are some of the milestones and timing that we can look for over the next quarter or so?

Rami Rahim

Thanks for the question, Jeff. So first, as a bit of a context here, I'm pleased with the results in the cloud provider space in the Q3 timeframe. It is in no little part due to the really amazing efforts of the engineering team, our sales team, and what is essentially a pretty impactful product transition from MX to PTX. The net of it is now we're in a position where we have retained the footprint that honestly leaves Juniper in a very unique position in terms of share in the routing space.

Now that allows us to grow with the capacity requirements of our cloud provider customers, and it also allows us to focus on net new footprint, in particular around 400 gig. And the 400 gig opportunity will initially be in the data center interconnect and the data center switching opportunity, and will eventually expand to more use cases.

From a technology standpoint, we've already released into the market the new Junos operating system that has been designed very purposefully for the cloud provider space. So, it has all of the capabilities, the Linux-native capabilities, modularity, the programmability, the telemetry aspects of what we know our cloud providers need and want. We also have our very first systems based both on merchant silicon and custom silicon offerings that run that operating system and there will be more to come.

So, we're working on a roadmap of different systems with different capacities that will be delivered over the next couple of quarters. In terms of the engagement with our customers, it's very strong. We have the initial proof-of-concepts that are already in flight right now. We are not confused about the fact that it's going to be a very competitive space because the opportunities are lucrative, but I think that we are well positioned to gain more than our fair share.

And even a small share take in this space would be quite meaningful in terms of the tailwinds it will give us starting next year. Time wise, I expect that the initial deployments for 400 gig will be in the second half of next year, and that's very much time to the availability of 400 gig optics. And I just remind you that that includes both the third-party 400 gig optics, but also Juniper's own 400 gig optics through our silicon-photonics project that is currently underway.

Jeff Kvaal

Okay. Super. And then, Ken, perhaps a clarification, you talked about modest growth starting next year. How does that compare to the modest growth in the fourth quarter and how should we think about that over the course of the year? Thank you.

Ken Miller

Yes, thanks Jeff. So while we remain opportunistic about our long-term growth prospects, and we are going to be looking for growth in 2020, I do think it's important to note that we are seeing some additional surge about a weakness and some macroeconomic uncertainties. Therefore, I really would caution you to be, conservative with your models, and we'll provide more detail later on 2020, but flat-to-low, single-digit growth would be a good way to think about 2020 at this point in time given some of the uncertainties that we see out there in the markets that we serve.

Operator

Your next question comes from the line of Brian Yun with Deutsche Bank. Please proceed with your question.

Brian Yun

Hi, thanks for taking my question. So you mentioned, weakening enterprise outlook. I was wondering if you could expand on what you're seeing there. Is this a Juniper-specific issue due to the enterprise transformation kind of sales force initiatives you detailed or are you also seeing a broader enterprise market environment?

Rami Rahim

Yes, thanks for the question, Brian. First, I should say that we're really pleased with the revenue performance that we saw in the enterprise space in Q3 timeframe, both year-over-year and quarter-to-quarter growth across pretty much all technologies and geos. Real great strengths in Q3 in our federal business in particular helped the performance in the Enterprise space. We did mention that, yes, near the end of the quarter, we started to see some weakening of orders and there are really a couple of factors that have impacted the business and they're roughly equal in terms of the total impact.

First is the sales transition. And as I mentioned in my prepared remarks, the issue there is really around the fact that we have a lot of new sellers that are not quite as productive as sellers that have been in seat for quite some time. We haven't been able to fill the open wrecks that we created as a part of the transition as quickly as we would like. That of course, it resolved itself over time. And in fact, I expect that to fully be beneficial to the business over the next few quarters. But in addition to that and separate to that, I do believe that there have been some overall macroeconomic factors that have impacted the timing of orders.

So, what we saw are some of the opportunities that we were competing for took longer to close, some moved out into Q4 and into next year. And I'd say that that's a really a very orthogonal issue and one that's somewhat out of our control. We're going to focus on what we can control, which is really around getting through the sales transformation. The good news about that is the hard part, it is really behind us at this point and it is really around rebuilding and getting our new sellers as productive as possible in the shorter timeframe as possible.

Brian Yun

Great. Thanks Rami. And Ken, maybe one for you, on gross margins, you outlined various margin improvement initiatives. Can you talk about which ones are more the immediate opportunities versus the longer-term opportunities? I'd imagine that increasing software sales that's more longer term, whereas supply chain optimization or pricing management that could be more near-term. Is that the right way to think about it? And if you could quantify any of those 2020 and beyond, that'd be helpful. Thank you.

Ken Miller

Ken Miller

Yes, I do think that's the right way to think about it as far as kind of what's been impacting us to date, pricing, supply chain management, obviously mitigating the tariffs have been a big focus over the last several quarters, and we've done a pretty good job on all those regards. Value engineering and design for value was longer term. However, I would say that we've been working on it for a few years, right. So, as we introduce new products this year and into next year and beyond, we are very focused on the cost of those products and really some of that will pay off over the long-term.

So, at this point in time, all of the attributes are starting to benefit us because we are in a cycle where some products are coming to market that we started value engineering work a year or two ago.

Operator

Your next question comes from line of Simon Leopold with Raymond James. Please proceed with your question.

Simon Leopold

Great. Thanks. Thanks for taking the question. I wanted to see if we could maybe triangulate the disclosures you offer on products and verticals, specifically seeing a lot of strength in your security business, and strength in switching, coincident with strength in the enterprise vertical. And so I want to see if we can get a better understanding of what's specifically going on with enterprise customers since I think historically, many folks associate security with enterprise and switching with cloud. And I think it's probably much more nuanced, if you could double click on that topic.

Rami Rahim

Happy to, Simon. So you're roughly right. There's a big element of security and switching that's tied to enterprise momentum at Juniper. But I think if you take a look at both of these technology areas, the strength is actually somewhat broad-based. So in switching, we saw strength in the enterprise, but we also saw strength in the cloud provider in particular, the hyperscale cloud provider space. In Security, I think we saw strength really all up across all of the verticals and it's very much, I think an artifacts of the technology that we're developing and solutions and use cases that we're addressing. So take for example, switching really it's around 100 gig. That's very interesting to the hyperscale space. It's also very interesting to large enterprises that are building out their own private data centers.

We have implemented really world-class protocol technologies like EVPN-VXLAN on our 100 gig switches that make it well suited for, again, large enterprises that are building out their own data centers. It goes without saying, I'm really pleased with the performance that we saw in security. And again, broad base across SPs, cloud providers and enterprise up 22% year-over-year. There, the strength was mainly in areas where there is a combination of features that are required, efficacy of stopping attacks and also performance.

So large enterprise, cloud providers, service providers that are securing mobile infrastructure, users, data, this is where we have some unique strengths that we are benefiting from right now in the security space. I would not expect this kind of performance in security on an ongoing basis. I think we benefit from a little bit of an easy compare in Q3 and the compare gets much more difficult, as you look into Q4. But nonetheless, I do have confidence in the trajectory of security across all our verticals going forward.

Simon Leopold

Great. And one quick follow-up, you did in an earlier question indicate that you expected your optics products would be part of the availability ramp in the second half of 2020. And I am interpreting that comment to mean that you're on track and that your silicon-based photonics are going to be available around the turn of the calendar year, but your expectation is that they would be volume production in the second half of calendar 2020, am I understanding this correctly?

Rami Rahim

We will introduce – our plan is to introduce 400 gig silicon-photonics based optics next year and with certainly in volume by the end of the year and sort of the specific milestones to get us there. We're not really ready to talk about that right now. The most important thing is to catch the beginning of the 400 gig wave. And I believe that we can do that.

At this point, just to give you a bit more color on where we are. We have confidence in the technology because we proved it out in a lab environment. I think it's really going to be differentiated, but we still have work to do in terms of making it available and at scale. And in order to de-risk that, we have signed strategic partnerships with fab houses that are out there that specialized in taking technology like this and manufacturing it in volume.

I would say that most of the risk is behind us, but there's still a lot of work ahead of us in order to get to the important ship dates next year. So in summary, I think if – when we deliver it should be really right at the sweet spot of the growth in 400 gig next year.

Operator

Your next question comes from line of Samik Chatterjee with JP Morgan. Please proceed with your question.

Samik Chatterjee

Hi, thanks for taking my question. I just wanted to start off with a question, primarily around kind of Mist and I got few other comments that you had on the strength you are seeing with Mist Systems and we're hearing the same from customers that we are talking to.

Just want to see what, how you're kind of thinking about the pull through of other products, particularly some of the campus switching portfolio with the strength you're seeing in Mist. Because I think last quarter when you spoke about Mist, you mentioned, you will have a separate specialist team for it. So do you need more integration or kind of more of those go-to-market motion to be able to drive more pull towards your other products with Mist?

Rami Rahim

Yes. Thanks for the question, Samik. So interest level in Mist is very high both from our customers and importantly from our own sales teams that are very excited about positioning and competing with the technology, I mentioned the proof points, the customer base for Mist has now grown by 40% since the close of the transaction. You're right that there is a significant opportunity to pull through additional Juniper products and that was part of the synergy thesis behind the acquisition that we've made.

And thus far what we are seeing in many of the net new customers that we are winning. There is in fact a significant portion or opportunity of attached for both switching and security, in particular switching. So many people who look at Mist and think of it as primarily filling a wireless LAN gap in our portfolio are honestly missing the bigger picture, which is that Mist offers the framework of cloud management and analytics and AI that can simplify the job of a network operator and enhanced the end user experience. What we want to do now is expand that to include other portfolio – enterprise portfolio products in Juniper. The first of which will be EX. And we're seeing a very high level of interest from our customers from doing that and we're executing on that roadmap as we speak.

Samik Chatterjee

Got it. I just want to follow up quickly on the 400 gig data center switching opportunities that you've talked about and you gave quite a bit of details on that already. I just wanted to understand, you mentioned you're trialing with both merchant silicone-based solution as well as the custom silicon solution. What do you – how do you feel about the rate of positioning of those products as well as the differentiation that you have? And which one do you think will be the preferred solution for the hyperscalers to go with?

Rami Rahim

Yes, I appreciate the question. I should clarify that we don't see those products addressing the same use case. So we have chosen to use merchant silicon in certain parts of the network. For example, the access layers of a service provider or a cloud WAN deployment or the top of rack in – first level access and aggregation within a hyperscale network. The custom solutions that we're offering address more of a spine layer within the data center, data center interconnect, wide area deployments in the cloud provider space as well as the service provider space.

So they're very much complimentary. To your question around differentiation, I feel very good. I think we have both the goods that are necessary in software with our new Junos evolved software that gives the modularity, the programmability, the telemetry capabilities that our customers need. It is the most modern operating system that's now out in the industry. And now couple that with the silicon offering that give I think an advantage to our customers in terms of price performance and honestly, the gravy on top it would be silicon-photonics once we introduced that capability into the market next year.

Samik Chatterjee

Great. Thank you.

Operator

Your next question comes from the line of Tim Long with Barclays. Please proceed with your question.

Tim Long

Thank you. Just wanted to follow-up if I could, first, Rami, could you just go back to the kind of the whole campus WiFi area obviously, Mist is off to a good start as a part of the portfolio here, but it seems to be a time, if you could talk a little bit about competition, obviously Cisco has a product cycle and HP seems to be reinvesting and Arista is trying to do a better job as well there. So just talk a little bit about what you're seeing competitively there. And then the second one is on the Service Providers side, I mean you're not alone here seeing the weakness. In your view, what is it going to take to turn this business around more broadly, this vertical? Does it have to be 5G or is there something else that you see over the next several quarters that can maybe reverse the trend that we've seen across the SP markets? Thank you.

Rami Rahim

Okay. For the questions, Tim. So first Mist, I think the level of differentiation that we have right now with Mist is truly unique compared to any competitive offerings that are out there. I think that the competitive advantage that we have is measured in the years, not less than that.

And I truly do believe now having a much closer view of the technology as they are part of the Juniper family. That in order to achieve the kind of cloud-native management and AI capabilities that Mist offers, you have to start from scratch. You have to build a true cloud-native management solution from the beginning. And that's something that Mist started to do – the Mist team started to do years ago and now we are benefiting from that today. So I feel very confident about the differentiation, but more importantly the proof points of that confidence in terms of wins in the market and new opportunities, net new accounts is absolutely there.

As we take that technology and extend it across other portfolio products, the most obvious one would be our EX campus wired switching portfolio. I think we will get additional lift in that area. On the Service Provider space, the business challenges that we're seeing right now are not new. We have been citing this now for a number of quarters and yes, you're right, our peer, they're also seeing some of these.

I think that we're already dealing with limited budgets and flattish CapEx environment with SP customers and now what they're doing is reprioritizing investments so that – they're addressing spectrum and ran build out first. And that means that they have less to invest in IP. Having said that, there is a positive side to the story, which is that to the extent that 5G RAN and radio becomes a reality, access networks get built out. That means that there's more traffic that needs to be carried within the service provider, core and edge networks where we have strength.

So, this is not something that I expect we will benefit from anytime soon. It's not going to be a next quarter thing. But I do believe that this will be a catalyst over time, measured in many quarters, that will help us benefits from net new investments in the SP space.

Additionally, all telcos today are thinking about how they can change their networks and their operations to reap the efficiency and agility benefits of cloud. And we've got the premiere telco cloud software stack that's available in the market today with Contrail cloud. And we're seeing that evidenced by net new wins, which is great and encouraging, but it's early days to the extent that 5G deployments start to really get built out. And the services over 5G become virtualized.

I think we benefit from that with the wins that we have at – we have had to-date. So these are a couple of factors that I think would be required in order to change the trajectory of our SP business. I do think next year the headwinds in SP will be less than what we have been experiencing this year.

Tim Long

Thank you.

Operator

Your next question comes from the line of Rod Hall with Goldman Sachs. Please proceed with your question.

Rod Hall

Yes. Hey guys, thanks for fitting me in. I wanted to, I guess ask a couple of questions. One is on 400 gig and the proof-of-concept trial that you're involved in, could you say, are there any situations where other operating systems are being used on your switches or is it all Junos? And just talk us through kind of the operating system, competitive environment as well, is it the likely suspects, are there new OSs emerging, et cetera, just interested in that.

And then secondly, wanted to go back to service providers, I know it's kind of be beaten up. And I, just a structural question on service providers, are you seeing any change in what types of routing ports people are buying? Like are you, are we seeing any structural changes here that are putting pressure on the service provider market or is it strictly, being delayed ahead of 5G and architectural decisions and things like that? Thanks.

Rami Rahim

Yes, thanks for the questions Rod. On 400 gig, the question around other operating systems running on our hardware, no, I have not heard of that and I doubt that that's actually happening. More broadly for, I think your question was about sort of the competitive nature of the different software stacks that are available. And we've been working on our Junos Evolved software now for a number of years and we have done so with a very tight eye on and engagement with our cloud provider customers.

So we've developed it to address the most pressing, requirements of our cloud customers, which gives me the confidence that, we've developed the right stack, that allows us to compete effectively in that space. In the service provider space, no, not really. I'm not seeing any sort of, I don't know, architectural or structural changes, as you know, we have the benefit of both these scale ups, like the traditional MX routing technology as well as scale-out with PTX and QFX.

I would argue that we probably have the most experience right now among all of our peers in that transition from scale up to scale out because of what we have done with our hyperscale customers. But having said that, I would, I would just reiterate what I've said in the past that I do not see, a rapid transition from one architecture to another the way that we have seen it in the cloud space, and there are reasons for this.

I mean, SP used cases, the services that they deliver tend to be more complicated. They're much more tied to the underlying networking infrastructure. And so whereas that transition might happen over time, I think it's going to be in a much longer timeframe than that we experienced in the cloud space.

Rod Hall

Okay. Thank you.

Rami Rahim

Thanks, Rod.

Operator

Your next question comes from the line of Ittai Kidron with Oppenheimer. Please proceed with your question.

Ittai Kidron

Hey guys, couple for me. First for you Rami on the hiring front, you've kind of mentioned that you're not clicking as fast as you do like on that front. Is this an HR issue or is this just a talent availability? It's just not out there. Is there no way to may perhaps repurpose some of your service provider people, it seems to be growing capacity there, maybe they can really repurpose.

And then for Ken on the buyback front, great to see the expansion there. But why only 200 million? I guess I'm kind of wondering with the portfolio revolving and the opportunities seem to be gradually kind of working for you. Why not be more aggressive on the buy-back near term, or rather than just $200 million, it feels like there's more that you can do there near term.

Rami Rahim

Thank you. So let me start on the hiring question. So, I would first point out that we are starting to see momentum in hiring. We have now, over a hundred new sales reps compared to just a quarter ago. So the ramp is really starting, and it's just not as fast as what we would like. And probably, the biggest reason for that is it's a competitive environment out there in terms of attracting and recruiting talent.

But I think now with the energy and focus that we put on the problem, we will start to benefit from, being able to fill the open reps that are available. I also just want to point out that as important as hiring is getting our sales teams to full productivity as quickly as possible. And we have put in place, a really professional and robust enablement process at Juniper that’s starting to work very effectively in our favor that will accelerate the time to productivity.

So, more work to do, but I'm pleased with the direction that we're taking now and the speed that we're moving ahead.

Ken Miller

Yes. And on the buyback front, I would just call out that we did $300 million in a Q2 ASR that just closed last quarter. In addition to that we did $50 million in Q3 at opportunistic purchases and we intend to enter into a $200 million, buy back soon. So that's $550 million this year, that plus our dividends is well over a 100% of our free cash flow. And I feel good about that. That said, we will continue to be opportunistic, right? We are announcing our intent to enter into a $200 million ASR. But we'll look to be opportunistic beyond that as we exit this year and into the next.

Ittai Kidron

Very good. Good luck guys.

Ken Miller

Thank you.

Operator

Your next question comes from the line of Paul Silverstein with Cowen. Please proceed with your question.

Paul Silverstein

I appreciate you all taking the questions. First off, Ken I feel bad for you? I don't think you said too much on this call. So, from a margin perspective, you've gotten back, I think, close is not exactly to where you were before the PTX to MX transition. Any visibility as to how much better you can do without the benefit of meaningful revenue growth and with the benefit of more meaningful, relatively speaking more meaningful revenue growth before I have a follow-up.

Ken Miller

Yes, but don't feel bad, first of all, Paul. It's good to be here on the call. On a gross margin perspective, I would say, on a full year basis we're going to be about 60%. Right? So, although we had a strong Q3 and our guide for Q4 is also strong, full year base is about 60%. So we still have a ways to go to get to the high-end of our model of 58% to 62%. We're very focused on that over time. Volume will be the driver that said, so is product mix.

So, making sure that our software solutions continue to grow as they have been for the last several quarters is a big part of the long-term gross margin profile. I am continuing being too focused on cost per byte, and margin management, pricing management, et cetera. So there is a lot of initiatives underway to help the company get to the higher end of that range but volume is definitely a driving factor.

Paul Silverstein

All right. And Rami, a two part question here. One, how would you characterize the challenge in terms of the opportunity in breaking into the inch rod data center or leaf spine or perhaps core portion of web-scale relative to the risk of one of your competitors breaking into your bailey with your stronghold of wide area within that cloud customer base, what are the differences, what are the similarities, in terms of the risk relative to the opportunity? And the other question is if you would, can you give us any incremental insight on U.S. Enterprise and U.S. Service Provider in particular beyond the more general comments on the call, appreciate it.

Rami Rahim

Okay. Thanks for the questions Paul. So, first it's good to understand our footprint in the hyperscale networks. We're very strong in the wide area and core networks. We are reasonably strong when it comes to data center interconnect and then we have relatively little, if any share in hyperscale leaf spine. We've got good deployments in sort of the tier two, tier three cloud providers switching but in hyperscale switching as it pertains to at leaf spine, they are a very limited footprint.

If you look at where the initial opportunities are going to be for 400-gig, I expect them to be in the data center and in the data center interconnect where our penetration is not as strong as it is in the wide area and in the core market.

The second part of your question around sort of the ease of which there is share shift in any one of these different layers. I'd point out that, share shift is always more difficult, but it is easier when there is inflection point and 400 gig is such an inflection point. And I would also argue that the software capabilities in DCI and in the data center, they're not small by any means, but they're no where near as sophisticated from a routing scale functionality features, of the true core wide area deployments.

So, I in no way want to make it sound like this is going to be an easy slam dunk. It's going to be an extremely competitive process. But I think we have the goods, the technology, the engagement model, the relationships that allow us to compete very effectively. And then I think the second question was around enterprise and SP as it pertains to the U.S. specifically.

Today the trends in both of those areas are largely the same worldwide. In the service provider space, the challenges that are being felt by tier one SPs as they gear up towards 5G deployments are roughly the same internationally or certainly where we have a strength in the U.S. in Western Europe in some parts of Asia Pacific as well. And then the enterprise, I would say the same thing, which is that both factors are at play in terms of the macro economic outlook and the impact of that on spending, as well as our sales transformation, which is really a worldwide sales transformation. So that I don't think there's anything specific to the U.S. in both cases.

Ken Miller

The only thing I would add is the U.S. Federal business is, is typically strong. In Q3 we had a very strong result in Q3. We typically see that go down in Q4 seasonally. That said, we do expect all up enterprise on a worldwide basis, to be up sequentially, despite the fact that U.S. Federal will likely be down.

Operator

Your next question comes from line of Amit Daryanani with Evercore. Please proceed with your question.

Amit Daryanani

Yes. Thanks for taking my question guys. Two for me. First up on the Enterprise softness side, maybe I missed this, but could you quantify the weakness that you guys saw towards the end of the quarter, either in terms of the change in bookings trajectory or how much revenues do you think you left on the table towards end of the quarter. And then do you think you can pick up at least half of that, which might be attributed to Juniper specific dynamics?

Rami Rahim

Yes, so on the Q3 results, from the revenue results, we actually didn't see the weakness, right? So there was nothing left on the table, if you will from a Q3 revenue perspective, the commentary is really more about guidance into Q4 and, we are off, $20 million to $40 million in total books, which is why we previously were in our Q4 guide. So, we're still guiding to modest growth, but it is down slightly from where we were before.

The both, that delta is really split between Enterprise and an SP weakness. So we're talking, $10 million to $20 million range of kind of softness.

Amit Daryanani

Got it. That's really helpful. And then that's helpful. Just follow-up with, when I think about calendar 2020 and the commentary around, flat to I think low single digit growth is what you guys have talked about? Can you just talk about what sort of trend line do you need the service provider business to be at for the overall company to have that kind of growth? Can you do this low single-digit growth, even if service providers are down mid-teens, or do you need a step-up there to achieve those overall calendar 2020 target?

Ken Miller

Yes, so for next year we are really not prepared to talk about specific guidance. I do think overall we have a lot of opportunity to grow across many verticals, cloud and enterprise in particular and service provider. Rami already mentioned, we think we have an opportunity to lessen the decline, if you will. But how it's going to actually shake out next year, it's a little too early to call out at this point.

I'd just caution you to be got, I encourage you to be cautious just given some of the macro certainties the continued weakness. That's why I think flat to perhaps some slight growth next year is a good model at this point.

Rami Rahim

Operator, we'll take two more questions.

Operator

Okay. Your next question comes from the line of James Faucette with Morgan Stanley. Please proceed with your question.

Erik Lapinski

Erik Lapinski

Hi team. You have Erik on for James. Thanks for taking our question. Maybe just to touch on the share repurchases and the increased authorization today, can you maybe walk us through the decision process on moving forward with share repurchases versus maybe maintaining extra dry power for acquisitions and given the success of Mist and if anything was attractive in the space?

Ken Miller

Yes, it's a good question, Erik. I mean balance is very important. We clearly want to maintain our flexibility for future value enhancing M&A. At the same time, I think it's prudent to return capital to shareholders, particularly when we feel, it is an opportunistic time to do so. And that's kind of what we are now. We feel good about our prospects in the future and we still are going to maintain, well north of $2.5 billion, even post ASR, we'll grow cash in Q4 with cash flow from operations. So our cash balances remain very strong, as well, so that gives us opportunity to continue to be, as needed from an M&A front.

Erik Lapinski

Thanks. And then maybe if I could just sneak in a second one, as you were mentioning actions to mitigate tariffs and kind of maintain gross margins, could you just walk us through maybe some of the specific actions that you're doing there?

Ken Miller

Yes, well, the primary action is really just, the geographic footprint of where our products are produced. So we have products, we have plants in China as well as outside of China and Asia and other parts of North America. So, really it's about, shifting some of the supply chain, particularly that headed into the U.S. to some of our alternative supply plants and that's what we've been doing over the last several quarters.

Operator

Our final question comes from the line of George Notter with Jefferies. Please proceed with your question.

George Notter

Hi. Thanks a lot guys. I guess I'm curious about your views on the cost structure of the company. I'm thinking about it from an OpEx perspective. If I look back, you've got two years of year-on-year top line declines. The OpEx run rates are still clipping along at $480 million, $490 million a quarter, about the same as even two years ago. So, I guess I'm just curious about your thoughts on an opportunity for cost reductions here or is there something about the business now that makes it more R&D intensive or sales and marketing intensive, any thoughts that would be great. Thanks.

Ken Miller

Yes, so I actually feel pretty good about our ability to control costs. We've been flat to slightly down over the last couple of years, this would be the second year we're actually on a full year basis, we'll be slightly down. Clearly that's in the headwinds of cost of living and et cetera. That said, I do think that we are quite honestly, we're optimized where we are. I don't see us going deeper. We've been pretty committed that when we don't grow revenue, we're not going to grow OpEx. But I do think, we've done the low hanging fruit over the last several years on cost controls and OpEx. Take out, if you will, at this point, it requires investment for us to grow and that's what we're focused on.

So, going forward, you could expect us to remain prudent, when revenue is challenged we will not be investing much in OpEx, but we want to continue with these investment levels to take advantage of the opportunities we have ahead of us to grow.

Rami Rahim

I would just add that, whereas we have been really careful and prudent in how we invest across the board, including R&D, where we have been investing in technologies like 400 gigs, silicon-photonics or our cloud delivered enterprise, which includes our Mist portfolio, our data center technology, I believe are the right areas for us to invest in, in order to achieve long-term growth for this company. So for that reason, I do think that these investments are truly going to payoff for us.

George Notter

Thank you.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session and I would like to turn the call back to management for closing remarks.

Rami Rahim

Thank you everyone for your questions. We look forward to speaking and meeting with you during the quarter. That concludes today's call.

Operator

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