These prepared remarks should be viewed solely in conjunction with the related quarter's conference call webcast and press release, which can be found here. The webcast includes the prepared remarks as well as a question and answer session.

Please click here for complete GAAP reconciliation information between our GAAP financial results and our non-GAAP financial results.

Cisco Systems, Incorporated [CSCO]
Q2FY25 Earnings Results Conference Call
Wednesday, February 12, 2025

Introduction (Sami Badri)

Good afternoon, everyone. This is Sami Badri, Cisco's Head of Investor Relations, joined by Chuck Robbins, our Chair and CEO, and Scott Herren, our CFO.

Cisco's earnings press release and supplemental information, including GAAP to non-GAAP reconciliations, are available on our Investor Relations website. Following this call, we will also make the recorded webcast and slides available on the website.

Throughout today's call, we'll be referencing both GAAP and non-GAAP financial results. We will discuss product results in terms of revenue, and geographic and customer results in terms of product orders, unless stated otherwise. All comparisons will be made on a year-over-year basis.

Please note that our discussion today will include forward-looking statements, including our guidance for the third quarter and fiscal year 2025. These statements are subject to risks and uncertainties detailed in our SEC filings, particularly our most recent 10-K and 10-Q reports which identify important risk factors that could cause actual results to differ materially from those contained in our forward-looking statements. With respect to guidance, please also see the slides and press release that accompany this call for further details.

Cisco will not comment on its financial guidance during the quarter unless it is done through an explicit public disclosure.

Now, I'll turn it over to Chuck.

CHUCK ROBBINS

Thanks Sami and thank you all for joining us today.

We saw strong results in Q2 with revenue, margins, and earnings per share all coming in at or above the high-end of our guidance ranges.

Our positive top line performance was supported by strong demand for our technology, generating double-digit growth in annualized recurring revenue, remaining performance obligations, and subscription revenue, which accounted for 56% of our total revenue in the quarter.

Importantly, our AI infrastructure orders with webscalers in Q2 surpassed $350 million, bringing our year-to-date total to approximately $700 million, and we are on track to exceed $1 billion of AI infrastructure orders in FY25.

In Q2, we returned $2.8 billion in value to our shareholders, totalling $6.4 billion year-to-date. Today, we also announced an increase to Cisco's dividend, and our Board authorized an additional $15 billion in share repurchases, all demonstrating our commitment to returning value to shareholders through consistent capital returns.

Now I'll provide some insight into the positive **demand environment** we saw during the quarter.

New product orders grew 29%, up 11% organically when excluding Splunk, marking our fourth consecutive quarter of accelerating order growth. This is a testament to the power of our portfolio and the value we bring to our customers.

Enterprise product orders were up 27% with double-digit growth across all geographic segments.

We continue to see very strong momentum in **Service Provider & Cloud**, with product orders up 75%, driven by triple-digit growth in webscale. Three of the top six webscalers each grew orders in the triple-digits and two of the six each grew more than 50%. This shows our increasing relevance to this high growth customer market as they scale their infrastructure for AI.

Within SP & Cloud, orders from telco customers grew more than 20%, with continued demand indicated as they re-invest in their core networks to be ready for AI connectivity.

Public Sector orders were up 13% with growth in all geographies, as governments around the world turn to Cisco as their trusted end-to-end partner, particularly as they develop and deploy sovereign AI clouds to digitally transform government services.

Now some color on demand from a product perspective…

Networking product orders grew double-digits driven by switching, enterprise routing, webscale infrastructure, and industrial networking applications in our IoT products. Campus switching orders were up double digits and we expect our campus switching portfolio, as well as our WiFi 7 access points, to gain traction with increasing return-to-office policies.

We also continue to see robust order growth for data center switching, this being our fourth consecutive quarter of double-digit growth. We expect this to continue as our 800G Nexus switches based on our 51.2T Silicon One chip become available in April for AI cloud buildouts.

We are also starting to see growth in **AI orders from Enterprise** customers as this large market opportunity starts to open up and enterprises seek seamless installation and security partners for production environments that leverage their proprietary data. In Q2, we signed several AI System deals where customers bought our integrated systems including Nexus, UCS and additional solutions to power the AI applications they are deploying today. Additionally, our recently launched Cisco AI POD product, consisting of Cisco hardware and software, is beginning to gain early traction, making it easier for partners to sell and customers to deploy AI infrastructure.

I also want to call out the strong performance of our **Industrial Internet of Things** product solutions comprised of our ruggedized Catalyst products which we sell to industrial and manufacturing customers. In the first half of FY25, orders grew more than 40% and, in Q2, we saw growth of more than 50%, signalling an acceleration as customers prepare for the deployment of AI-powered robotics and industrial security. As the United States takes steps to onshore strategic infrastructure, such as semiconductor fabrication plants, manufacturing, and scaled

AI power sources, we have the market-leading secure networking portfolio to help connect and protect these capital-intensive investments at scale.

Our **Security** orders more than doubled again this quarter, driven by the advanced data management, analytics, and threat detection capabilities of Splunk and by demand for key products like our refreshed firewall. In just 12 months, both Cisco Secure Access and XDR have gained more than 1,000 customers combined, and approximately 1 million enterprise users each. Even before it's in full production, Hypershield is also seeing solid momentum. In Q2, we booked major platform deals with two Fortune 100 enterprise customers who are leveraging Hypershield to deploy security into the network in a fundamentally new way.

A third platform deal, involving multiple Cisco products and services was spearheaded by **Splunk**, which shows the success of our joint and cross selling motions. Since Splunk became a part of Cisco almost eleven months ago, we continue to integrate our businesses and fuel synergies without disrupting momentum. During the quarter we also integrated Talos into Splunk's newly released Enterprise Security 8.0 solution and AppDynamics into Splunk's on-prem log observer.

I'd also like to highlight some key innovation we launched in the quarter.

Continuing on the Splunk side, we rolled out Splunk on Azure, Splunk Federated Analytics, and AI Assistant for Splunk Observability.

In a major launch last month, we unveiled **AI Defense**, our latest security breakthrough, purpose-built for enterprises to develop, deploy and secure AI applications with confidence. AI Defense leverages our unmatched network visibility to safeguard against the misuse of AI tools, data leakage, and increasingly sophisticated threats.

By delivering security at the network level in a way only Cisco can, we are offering enterprises consistent and reliable protection for their AI applications. The response to AI Defense has been phenomenal from our early access customers, with general availability in March.

The launch of AI Defense coincided with our AI Summit where we brought together several technology luminaries, AI pioneers, and leaders from close to half of the Fortune 100 to discuss the opportunities and challenges of AI and explore crucial topics such as policy and ethics, advancements in silicon and breakthroughs in data science – with well over 60,000 online registrants.

AI Security is top-of-mind for our customers, especially in light of the emergence of new AI models. These have reinforced that the battle for AI leadership will be on a global playing field, with competition fueling innovation, speed to adoption, and scale – all of which further accelerate the demand for and adoption of AI network infrastructure, data capacity investments, and best-in-class AI security – and all are tailwinds for Cisco.

At Cisco Live EMEA this week, we launched our first data center smart switch with embedded programmable DPUs, built on Silicon One. The smart switch combines both networking and data processing in a single high-capacity, multi-functional device to simplify data centers and make them more efficient to meet the performance demands of AI.

We also introduced Agile Services Networking, a new Silicon One based architecture which incorporates optics, assurance and automation for service providers as they evolve their infrastructure to offer new services and deliver enhanced connectivity to their end customers.

Overall, Cisco's innovation engine has never been more powerful. In line with that it is worth reiterating that we frame the Cisco AI opportunity in three distinct but connected pillars.

First, **AI training infrastructure for webscale customers**. Combinations of our Cisco 8K, Silicon One, optics and optical systems are being deployed by five of the largest webscalers in their back-end training networks.

Second, **AI inference and enterprise clouds.** Our Nexus switches, NVIDIA-based AI servers, AI PODs, and Hyperfabric and AI Defense software are designed to simplify and de-risk AI infrastructure deployment and bring the power of open, hyperscale AI networking to the enterprise.

And third, **AI network connectivity**. Customers are leveraging our technology platforms across switching, routing, security and observability to modernize, secure, and automate their network operations to prepare for pervasive deployment of AI applications. This, combined with mature back-end models will lead to increased capacity requirements from both private and public front-end cloud networks.

We also continue to fuse **AI into many of our products** with AI Assistants in production across our Security and Collaboration platforms, and developing Agentic capabilities across the portfolio.

In addition, we are using advanced **AI across Customer Experience** to maximize customer value and boost productivity. In Q2, we launched the Renewals Agent, an agentic AI-driven solution, co-developed with Mistral, that streamlines renewal proposals. We launched a new Assistant to help customers digitize and de-risk Network Change Management and we added predictive analysis as well as proactive technical support to our Network Security products to greatly reduce time to resolution. These are important milestones as we build towards agentic AI-led Customer Experience.

Before I close, I also want to touch on an announcement we made earlier today. Gary Steele, our President of Go-to-Market and former CEO of Splunk, will be departing Cisco at the end of the quarter for an external CEO opportunity. Gary's leadership has been instrumental in ensuring a successful integration of Splunk into Cisco. As we've said, the Splunk integration has gone extremely well with revenue in line with our expectations and profitability well ahead of expectations. So, Gary has really done a terrific job.

In addition, during his time as our President of GTM, he also helped evolve our Sales and GTM motions to drive growth and align with the needs of our customers and partners today and for the future. I want to thank Gary for his partnership, leadership, and unwavering commitment since we announced our intent to acquire Splunk 18 months ago.

As a result of this, we are immediately launching an internal and external search for a new GTM leader and Gary will stay with Cisco through the end of Q3 to ensure a smooth transition.

Now, let me summarize the quarter:

- There is clear demand for Cisco's technologies, which has accelerated, as evidenced by our strong results;
- Our pipeline of product innovation is accelerating as we build security deep into our networking products;
- The strength of our performance enabled our capital allocation model to return significant value to our shareholders;

- Lastly, we believe our strong execution and momentum position us well as we enter the second half of FY25.

Now, over to Scott for more detail on the quarter and our outlook.

SCOTT HERREN

Thanks Chuck.

We delivered a strong quarter, with revenue and earnings per share above the high end of our guidance ranges, coupled with solid margins and operating cash flow. For the quarter, total revenue was $14B, up 9% year-over-year. Non-GAAP net income was $3.8B, and non-GAAP earnings per share was $0.94.

Looking at our Q2 revenue in more detail:

- Total product revenue was $10.2B, up 11% and service revenue was $3.8B, up 6%.
- Networking was down 3%, with growth in Wireless and Switching offset by a decline in servers. It is important to note that Q2 FY24 included the last portion of our elevated backlog shipments.
- Security was up 117%, primarily driven by growth in our offerings from Splunk, SASE and Network Security. Excluding Splunk, Security grew 4%.
- Collaboration was up 1% driven by growth in Contact Center, CPaaS offerings and Collaboration Devices partially offset by a decline in our On-Prem Webex Suite offerings.
- Observability was up 47%. Excluding Splunk, Observability grew 3% for the quarter.

Looking at our recurring metrics:

- Total ARR ended the quarter at $30.1B, an increase of 22%, with product ARR growth of 41%.
- Total subscription revenue increased 23% to $7.9B, and now represents 56% of Cisco's total revenue.
- Total software revenue was up 33% at $5.5B, with software subscription revenue up 39%.
- Total RPO was $41.3B, up 16%. Product RPO grew 25%, and total short-term RPO was up 17% to $21B.

Q2 product orders were up 29% year-over-year. Excluding Splunk, organic product orders were up 11% year-over-year. Looking at our product orders across our geographic segments, the Americas was up 30%, EMEA was up 24% and APJC was up 35%. In our customer markets, Service Provider & Cloud was up 75%, Enterprise was up 27% and Public Sector was up 13%.

Total non-GAAP gross margin came in at 68.7%, up 200 basis points year-over-year, coming in line with our guidance range. Product gross margin was 67.7%, up 250 basis points, driven by Splunk and productivity improvements, partially offset by pricing. Services gross margin was 71.6%, up 110 basis points.

We continued our focus on profitability and financial discipline with non-GAAP operating margin above the high-end of our guidance range at 34.7%.

Shifting to the balance sheet, we ended Q2 with total cash, cash-equivalents, and investments of $16.9B. Operating cash flow was $2.2B, up 177%, primarily driven by higher tax payments in the prior year.

From a capital allocation perspective, we returned $2.8B to shareholders during the quarter comprised of $1.6B for our quarterly cash dividend and $1.2B of share repurchases.

Given the confidence we have in our business today and into the future, our Board has authorized an additional $15B for share repurchases, bringing the total outstanding authorization to approximately $17B. We are also raising our dividend by 1 penny to 41 cents per quarter, which represents our 14th consecutive annual increase.

We continue to invest organically and inorganically in our innovation pipeline. During Q2, we closed the acquisition of Deeper Insights, to expand our Customer Experience team's technology footprint and engineering talent, accelerating innovation and momentum of Cisco's CX AI capabilities and services.

This investment is highly complementary to our internal R&D and aligns with our strategy to strengthen our AI position with targeted strategic M&A.

To summarize, we had a great quarter with top and bottom line performance exceeding our expectations – driven by strong order growth and margins. We remain focused on making strategic investments in innovation across our business to best capitalize on the significant growth opportunities we see ahead, all underpinned by disciplined spend management. It’s this powerful combination that continues to fuel our strong cash flow generation as well as our ability to return significant value to our shareholders.

Before we move to the outlook, I want to provide some high-level context related to the recently proposed U.S. tariffs. In our guidance, we have accounted for the added cost driven by the increased tariffs on China and proposed tariffs on Mexico and Canada.

This is a dynamic environment but one we have spent a significant amount of time planning for, leveraging the strength of our best-in-class global supply chain team, as well as the flexibility and agility we have built into our operations over the last few years. We are prepared to take actions to mitigate the impact as and when tariffs go into effect.

Turning to our financial guidance.

For fiscal Q3, our guidance is as follows:

- We expect revenue to be in the range of $13.9 billion to $14.1 billion
- We anticipate non-GAAP gross margin to be in the range of 67% to 68%
- Non-GAAP operating margin is expected to be in the range of 33% to 34%
- Non-GAAP earnings per share is expected to range from $0.90 to $0.92

For fiscal year 25, our guidance is:

- We expect revenue to be in the range of $56.0 billion to $56.5 billion
- Non-GAAP earnings per share is expected to range from $3.68 to $3.74
- We are assuming a Non-GAAP effective tax rate of approximately 19%

CLOSING

- Cisco’s next quarterly call, which will reflect our FY 2025 third quarter results, will be on Wednesday, May 14, 2025, at 1:30 p.m. Pacific Time, 4:30 p.m. Eastern Time.
- This concludes today’s call. If you have any further questions, please feel free to contact the Cisco investor relations department, and we thank you very much for joining the call today.

The prepared remarks set forth above and the related conference call may be deemed to contain forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among other things, statements regarding future events (such as customer demand and our position to help our customers scale their network infrastructure, increase their data capacity requirements, and adopt best-in-class AI security) and the future financial performance of Cisco (including the guidance for Q3 FY 2025 and full year FY 2025) that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including: business and economic conditions and growth trends in the networking industry, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; our development and use of artificial intelligence; overall information technology spending; the growth and evolution of the Internet and levels of capital spending on Internet-based systems; variations in customer demand for products and services, including sales to the service provider market, cloud, enterprise and other customer markets; the return on our investments in certain key priority areas, and in certain geographical locations, as well as maintaining leadership in Networking and services; the timing of orders and manufacturing and customer lead times; supply constraints; changes in customer order patterns or customer mix; insufficient, excess or obsolete inventory; variability of component costs; variations in sales channels, product costs or mix of products sold; our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses and technologies; our ability to achieve expected benefits of our partnerships; increased competition in our product and services markets, including the data center market; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks; product defects and returns; litigation involving patents, other intellectual property, antitrust, stockholder and other matters, and governmental investigations; our ability to achieve the benefits of restructurings and possible changes in the size and timing of related charges; cyber attacks, data breaches or other incidents; vulnerabilities and critical security defects; our ability to protect personal data; evolving regulatory uncertainty; terrorism; natural catastrophic events (including as a result of global climate change); any pandemic or epidemic; our ability to achieve the benefits anticipated from our investments in sales, engineering, service, marketing and manufacturing activities; our ability to recruit and retain key personnel; our ability to manage financial risk, and to manage expenses during economic downturns; risks related to the global nature of our operations, including our operations in emerging markets; currency fluctuations and other international factors; changes in provision for income taxes, including changes in tax laws and regulations or adverse outcomes resulting from examinations of our income tax returns; potential volatility in operating results; and other factors listed in Cisco's most recent reports on Forms 10-Q and 10-K filed on November 19, 2024 and September 5, 2024, respectively. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent reports on Forms 10-Q and 10-K as each may be amended from time to time. Cisco's results of operations for the three and six months ended January 25, 2025 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in this release are based on limited information currently available to

Cisco, which is subject to change. Although any such projections and the factors influencing them will likely change, Cisco will not necessarily update the information, since Cisco will only provide guidance at certain points during the year. Such information speaks only as of the date of this release.