

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] Q3FY25 Earnings Results Conference Call Wednesday, May 14, 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, Scott Herren, our CFO, and Mark Patterson, our Chief Strategy Officer.

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 fourth 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.

Q3 was another strong quarter for Cisco, with revenue, margins, and earnings per share all above the high-end of our guidance ranges. We also generated solid growth in annualized recurring revenue, remaining performance obligations and subscription revenue, which all support our future performance.

In addition, we received AI infrastructure orders from webscale customers in excess of \$600 million in Q3, bringing our year-to-date total to well over \$1 billion – surpassing our original FY25 AI order target a full quarter early.

The performance of our core business continues to produce strong cash flows, underpinning our commitment to delivering consistent capital returns. In Q3, we returned \$3.1 billion in capital to our shareholders through share repurchases and dividends, with a total of \$9.6 billion in value returned year-to-date.

Our overall strong performance was the result of accelerated product innovation and solid execution by our teams driving sustained demand for our technologies.

Total product orders grew 20% year-over-year, or 9% on an organic basis excluding Splunk. Despite the uncertain macro environment, this demonstrates the valuable outcomes we are delivering for customers in the era of AI.

Looking at **demand** in more detail **by customer market...** I'd also like to remind you that Q3FY24 included 6 weeks of Splunk contribution:

Enterprise product orders were up 22% year-over-year in Q3, driven by double-digit growth in the Americas and APJC.

Public Sector orders were up 8% with growth in all geographies, as governments around the world continue to trust Cisco as their end-to-end technology partner.

Notably, US Federal orders grew double-digits in Q3 after a challenging first half. During the quarter, our AI-powered, cloud-managed Meraki for Government networking solution also achieved FedRAMP authorization from the US government.

Product orders **from Service Provider and Cloud** customers continue to be strong, up 32% year-over-year, driven by triple-digit growth in webscale, with three of the top six webscalers each growing orders in the triple-digits.

Now some color on **demand from a product perspective...**

Networking product orders grew double-digits driven by webscale infrastructure, enterprise routing, switching, and our industrial IoT products.

Campus switching orders grew high-single digits in Q3 against a tougher prior year compare, demonstrating the continued demand for our campus portfolio to Enterprise customers. We also saw triple-digit sequential growth in orders for our WiFi7 portfolio in Q3.

Year-to-date orders for our **Industrial Internet of Things** portfolio comprised of ruggedized Catalyst products, grew 35% year-over-year. As strategic infrastructure and manufacturing begins to onshore to the United States, Cisco is well positioned to help connect and protect these capital-intensive investments at scale.

Our **data center switching** orders are up double-digits year-to-date compared with the same period last year. Cisco was recently ranked as a market leader in Gartner's Magic Quadrant for Data Center Switching. This is a testament to our ability to address the full range of data center switching use cases and our vision to simplify operations while enhancing security, which is essential for critical application deployments.

As I mentioned earlier, the AI infrastructure orders we have received from webscale customers were exceptionally strong in the quarter, exceeding \$600 million and bringing our year-to-date total to well over our \$1 billion target for FY25. As expected, the product mix of these orders was more than two-thirds in systems with the remainder in optics, demonstrating the growing importance of our technology to webscale customers for their AI training use cases.

AI orders from Enterprise customers continue to show momentum, as this large, nascent market opportunity starts to unlock. Enterprises are seeking simple, seamless, scalable and secure solutions for their AI deployments, which we are ready to deliver through our expanding partnership with NVIDIA.

During the quarter we announced our intent to create a cross-portfolio unified architecture where NVIDIA will enable Cisco Silicon One to become the only third party silicon that is included as part of the NVIDIA Spectrum-X Ethernet networking reference architecture. Cisco will also build interoperable systems combining NVIDIA Spectrum silicon with Cisco operating system software,

allowing customers to simultaneously standardize Cisco networking and NVIDIA technology in the data center, across front and back-end networks.

We also announced the Cisco Secure AI Factory with NVIDIA which will embed security end-to-end, from the application to the workload to the infrastructure, using solutions like Cisco AI Defense and Hybrid Mesh Firewall, enabling enterprise customers to build and secure data centers to develop and run AI workloads.

Yesterday, we announced a new multi-phased investment program in the Kingdom of Saudi Arabia. Saudi Arabia announced a new AI company, HUMAIN, and we will be a strategic technology partner contributing to their AI infrastructure buildouts. This partnership aligns with Saudi's Vision 2030, contributing to the Kingdom's transformation into a diversified digital economy and enhancing its global and regional competitiveness in the AI era.

In addition, we have joined the AI Infrastructure Partnership (AIP) alongside BlackRock Global Infrastructure Partners, MGX, Microsoft, NVIDIA, xAI and energy partners, GE Vernova and NextEra Energy, as it seeks to invest in secure, efficient and scalable infrastructure to support AI workloads.

We also announced an expanded collaboration with G42, the UAE-based global technology group, to advance how secure AI infrastructure and innovation can be scaled across public and private sectors.

These investments and partnerships highlight our market position as a global leader and preferred partner in AI networking solutions as well as our commitment to collaborating across the industry to create a strong global ecosystem for AI. Additionally, we expect the sovereign AI cloud opportunity to ramp in the near-term, and that Cisco will be a core system provider for these significant AI training and inference cluster build-outs.

As we look at the opportunity that AI presents for Cisco, it is worth reiterating that we frame it 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.

Second, **AI inference and enterprise clouds**. Our accelerated innovation in hardware and software, coupled with our NVIDIA partnership is designed to simplify and de-risk AI infrastructure deployment for the enterprise.

And third, **AI network connectivity**. Customers are leveraging our technology platforms to help modernize, secure, and automate their network operations to prepare for pervasive deployment of AI agents and applications. With Agentic AI the network is fundamentally constrained and will require ultra-fast, low-latency, energy-efficient networks, which we can deliver.

Shifting to Security, orders grew in high double-digits in Q3.

Our security orders included a large, multi-year deal with a major financial services company for Splunk's Security and Observability platforms, which was driven by our combined sales force. This was a win for Splunk from an industry competitor and is a strong proofpoint of our go-to-market synergy. This was also the largest deal ever for Splunk.

Our recently launched security products of Secure Access, XDR, and Hypershield collectively added over 370 new customers in the quarter. The majority of our new Hypershield enterprise customers are bundling it with our new N9300 Smart Switch because of our unique ability to embed security directly into the fabric of the network.

Now I'd like to comment on some highlights from our accelerating **innovation pipeline**.

Safety and security will be the defining challenge of Agentic AI, and we recently introduced several innovations designed to help security professionals harness the power of AI while keeping security at the forefront. These included:

- Cisco XDR correlating attack telemetry across network, endpoint and cloud, using new AI-powered solutions to empower security teams to understand complex threats in seconds;
- Agentic AI advancements for Cisco XDR and Splunk to simplify threat detection and response;
- a new partnership with ServiceNow which will integrate their security operations capabilities with Cisco AI Defense; and
- the launch of Foundation AI, a team of leading AI and security experts focused on developing cutting-edge technology to address the fundamental

security issues of the AI era with novel, open-source tools including the first reasoning model to enhance security applications.

Just last week, we introduced Cisco's Quantum Network Entanglement Chip, a revolutionary prototype making real world quantum networking applications possible in order to speed up the future of quantum computing. These applications will solve complex customer challenges and drive innovation across industries from supply chain optimization to accelerating drug discovery.

In addition, we are using **GenAI and agentic systems across our Customer Experience organization** to maximize customer value, deliver great experiences, boost productivity and create capacity. Today, over 60% of support cases are touched by AI-driven automation which is driving up the proportion of complex cases we can solve within one day. In addition, low severity cases have reduced as more customers are using our AI support assistant. Also, our AI Renewals Agent has enabled us to increase the capacity of our renewals specialists.

As you can see, we are driving an enormous amount of innovation, and I look forward to showcasing even more new customer-centric solutions at Cisco Live next month.

Before I turn it over to Scott, I'd also like to share some important organizational announcements. After careful consideration, Scott has made the decision to retire at the end of FY25. As many of you know, Scott joined us in 2020 during a period of great uncertainty around the world and he has been instrumental in driving our transition towards more software and recurring revenue. This has driven greater predictability for our business and increased shareholder value – and I want to thank Scott for all that he has done for Cisco. I am grateful for his partnership as we've managed through many unprecedented situations together.

I'm happy to share that beginning day one FY26, Mark Patterson, our current Chief Strategy Officer, will serve as Cisco's new Chief Financial Officer. In Mark's nearly 25 years at Cisco, he's held leadership roles in finance, strategy, and operations. He also spent over a decade in sales, working in roles that spanned every customer segment and geography. Most recently, leading our Corporate Strategy, Development, and Incubation Organization, Mark's focus has been on connecting our longer-term strategy and investments with our immediate and urgent growth opportunities. The breadth of his experience along with his deep knowledge of Cisco and our customers, partners, and investor community uniquely position him to help accelerate Cisco's growth in this new role.

I am also excited to announce the promotion of Jeetu Patel to President and Chief Product Officer. Under Jeetu's leadership over the past nine months, he has unified our product vision and strategy and vastly accelerated our innovation pipeline focusing on delivering even greater value for our customers and partners. We also announced the appointment of Kevin Weil, Chief Product Officer of OpenAI, to Cisco's Board of Directors yesterday. These announcements further our confidence in Cisco's long-term success and durability in the era of AI.

To summarize the quarter...

- We are seeing clear demand for our technology across our customer markets.
- Our innovation pipeline continues to accelerate as we fuse security deep into our networking products.
- And our strong performance is fueling our capital allocation model, returning significant value to our shareholders.

Now I'll turn it 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 \$14.1B, up 11% year-over-year. Non-GAAP net income was \$3.8B, and non-GAAP earnings per share was \$0.96.

Looking at our Q3 revenue in more detail:

- Total product revenue was \$10.4B, up 15% and services revenue was \$3.8B, up 3%.
- Networking was up 8%, with growth across most of the portfolio led by double-digit growth in Switching and Enterprise Routing, partially offset by a decline in servers.
- Security was up 54%, primarily driven by growth in our offerings from Splunk and SASE.
- Collaboration was up 4% driven by growth in Devices, Webex Suite, and our CPaaS offerings.

- Observability was up 24%.

Looking at our recurring metrics:

- Total ARR ended the quarter at \$30.6B, an increase of 5%, with product ARR growth of 8%.
- Total subscription revenue increased 15% to \$7.9B, and represents 56% of Cisco's total revenue.
- Total software revenue was up 25% at \$5.6B, with software subscription revenue up 26%.
- Total RPO was \$41.7B, up 7%. Product RPO grew 10%, and total short-term RPO was \$21.1B, up 5%.

Q3 product orders were up 20% year-over-year. Excluding Splunk, product orders were up 9% year-over-year. Looking at our product orders across our geographic segments, the Americas was up 27%, EMEA was up 4% and APJC was up 21%. In our customer markets, Service Provider & Cloud was up 32%, Enterprise was up 22% and Public Sector was up 8%.

Total non-GAAP gross margin came in at 68.6%, up 30 basis points year-over-year, coming above the high-end of our guidance range. Non-GAAP product gross margin was 67.6%, up 70 basis points, driven by productivity improvements and Splunk, partially offset by pricing. Non-GAAP services gross margin was 71.3%, down 30 basis points. The impact of tariffs on our gross margin was favorable to what was estimated in the guidance we provided last quarter.

We continue our focus on profitability and financial discipline with non-GAAP operating margin at 34.5%, above the high-end of our guidance range.

We recorded a Non-GAAP tax rate of 17.5% for the quarter which was favorable by 1.5% compared to what was assumed in our guidance, primarily due to an increase in tax benefit from the foreign-derived intangible income deduction and one-time benefits.

Shifting to the balance sheet, we ended Q3 with total cash, cash-equivalents, and investments of \$15.6B. Operating cash flow was \$4.1B, up 2%, primarily driven by our revenue and earnings growth.

From a capital allocation perspective, we returned \$3.1B to shareholders during the quarter comprised of \$1.6B for our quarterly cash dividend and \$1.5B of share repurchases with \$15.4B remaining under our share repurchase program.

We continue to invest organically and inorganically in our innovation pipeline. During Q3, we closed the acquisition of SnapAttack, which adds capability to Splunk in helping organizations power the Security Operations Center of the future.

To summarize, we had another solid 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.

Turning to guidance, while we have seen some progress on tariffs, there continues to be uncertainty. **Our guide assumes current tariffs and exemptions remain in place through the quarter.** These include the following:

- China at 30%, partially offset by an exemption for semiconductors and certain electronic components
- Mexico and Canada at 25% for the components and products that are not eligible for the current USMCA exemptions
- Other countries at base rate of 10% until the end of the 90 day pause on July 9th and then reverting to country specific reciprocal tariffs, largely offset by an exemption for semiconductors and certain electronic components
- And finally, a small impact from tariffs on steel and aluminum, and retaliatory tariffs.

We will continue to leverage our world class supply chain team to help mitigate the impact, where appropriate, through the flexibility and agility we have built into our operations over the last few years. The size and scale of our supply chain provides us some unique advantages as we support our customers globally.

For fiscal Q4, our guidance is:

- We expect revenue to be in the range of \$14.5 billion to \$14.7 billion
- We anticipate non-GAAP gross margin to be in the range of 67.5% to 68.5%

- Non-GAAP operating margin is expected to be in the range of 33.5% to 34.5%
- Non-GAAP earnings per share is expected to range from \$0.96 to \$0.98
- We are assuming a Non-GAAP effective tax rate of approximately 18%

For fiscal year 25, our guidance is:

- We expect revenue to be in the range of \$56.5 billion to \$56.7 billion
- Non-GAAP earnings per share is expected to range from \$3.77 to \$3.79

CLOSING

- Cisco's next quarterly call, which will reflect our fourth quarter and FY 2025 results, will be on Wednesday, August 13, 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 the demand for our technologies, the momentum we are seeing with AI and how it is fueled, and our operational discipline and its impact on generating strong cash flows) and the future financial performance of Cisco (including the guidance for Q4 FY 2025 and full year FY 2025) that involve risks and uncertainties, such as the actual impact of tariffs on our guidance for Q4 FY2025 and full year FY2025. 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 February 18, 2025 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 nine months ended April 26, 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.