

# CSCO Earnings Call Transcript

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**Quarter: 2**

Operator: Welcome to Cisco's Second Quarter Fiscal Year 2025 Financial Results Conference Call. At the request of Cisco, today's conference is being recorded. If you have any objections, you may disconnect. Now, I would like to introduce Sami Badri, Head of Investor Relations. Sir, you may begin.

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 fiscal year '25. In Q2, we returned \$2.8 billion in value to our shareholders, totaling \$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 800 gig Nexus switches based on our 51.2 terabit 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 fiscal year '25, orders grew more than 40% and, in Q2, we saw growth of more than 50%, signaling 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 11 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 Go-to-Market, he also helped evolve our Sales and Go-to-Market 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 Go-to-Market 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 fiscal year '25. Scott over to you 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 billion, up 9% year-over-year. Non-GAAP net income was \$3.8 billion, and non-GAAP earnings per share was \$0.94. Looking at our Q2 revenue in more detail. Total product revenue was \$10.2 billion, up 11% and service revenue was \$3.8 billion, 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, '24 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 OnPrem 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 \$30.1 billion, an increase of 22%, with product ARR growth of 41%. Total subscription revenue increased 23% to \$7.9 billion, and now represents 56% of Cisco's total revenue. Total software revenue was up 33% at \$5.5 billion, with software subscription revenue up 39%. Total RPO was \$41.3 billion, up 16%. Product RPO grew 25%, and total short-term RPO was up 17% to \$21 billion. 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 \$16.9 billion. Operating cash flow was \$2.2 billion, up 177%, primarily driven by higher tax payments in the prior year. From a capital allocation perspective, we returned \$2.8 billion to shareholders during the quarter comprised of \$1.6 billion, for our quarterly cash dividend and \$1.2 billion of share repurchases. Given the confidence we have in our business today and into the future, our Board has authorized an additional \$15 billion for share repurchases, bringing the total outstanding authorization to approximately \$17 billion. We are also raising our dividend by \$0.01 to \$0.41 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 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%. Sami, let's now move into the Q&A.;

Sami Badri: Thank you Scott. Before we start the Q&A; portion of the call, I'd like to remind analysts to ask one question and a single follow-up question. Michelle, can we move to the first analyst in the queue?

Operator: Thank you. Simon Leopold with Raymond James. You may go ahead sir.

Simon Leopold: Thanks for taking the question. I know this might be a difficult one to answer, and I appreciate the comment on tariffs. But maybe the bigger issue around the federal government is all the noise around the DOGE. And so, I'd love if you could drill down on your federal exposure, and the scenarios you're envisioning if there are major layoffs, from the U.S. government employment? Thanks. Then I've got a quick follow-up.

Chuck Robbins: Okay. Thanks Simon for the question. Look, we have obviously been following this very significantly. And I think it's important to understand that this effort is really about driving efficiency, and productivity in government, which in many cases is actually delivered via the use of technology. So we think that there could be some positives for us. It's important to know that the federal, U.S. federal business is less than 10% of our total business, first of all. And the other thing to keep in mind, is that 75% of our U.S. federal business comes from the DoD. And most of this activity is actually occurring on the civilian side of the business. So, we had a - we still had a reasonable quarter, I'd say when the

executive orders came out initially. We saw a flurry of confusion, I would say. And then we've seen a lot of large deals that we've been working on, sort of get back on track and everything seems to be progressing, as we expected. As you look out to Q3 and Q4, we're not modeling in any materially higher performance, or any material lower performance in federal, than what we saw last quarter.

Sami Badri: Thank you, Simon. Go ahead, Simon.

Simon Leopold: One follow-up please. Yes, so there's been increasing noise around a technology known as co-packaged optics and given Cisco's, let's say, ingredients having, optics, vertical integration, switching, routing. Just wondering how you're thinking about that in your longer term strategy? Thank you.

Chuck Robbins: I think, Simon, the way we think about it is, the way we go-to-market with the web scalars today, is that we sell them systems with integrated optics. We sell them, standalone optics, optical systems or silicon. So however, the market evolves, we'll continue to evolve our offerings, and evolve our portfolio to just meet them where they are and how they want to procure our products.

Sami Badri: Thank you, Simon. Michelle, can we move to the next analyst?

Operator: Thank you. Meta Marshall with Morgan Stanley. You may go ahead.

Meta Marshall: Great. Thanks, Chuck. Maybe if I could ask to start, just kind of what you are seeing from customers on kind of propensity, to spend clearly a very good quarter. But just kind of as we've entered into the year, and kind of more resolution on administration, but maybe less resolution on kind of directionality, just kind of what you're hearing from customers. And then second just on, clearly you're seeing a lot of strength on the data center side, and kind of spoke to kind of seeing some of that on the campus side. But just how are you seeing, kind of strength broaden out to the campus portfolio? Thanks.

Chuck Robbins: Yes, I think if you look. Thanks, Meta. I think if you look across the board, we had relatively strong demand across geographies, across the portfolio and with the exception of the U.S. Federal discussion that we had earlier, largely across segments as well. We saw public sector strength outside the U.S. in both Europe, it was up high single-digits, I think. And in Asia, we saw good performance as well. So we saw it there, we've seen it in the campus. We talked about double-digit demand for campus switching, saw similar in enterprise routing, saw good demand for wireless. And then the fourth consecutive quarter, of double-digit demand growth in our Nexus portfolio, our data center switching, which predominantly goes into private cloud infrastructure, into the enterprise. And then obviously the web scale performance that we saw with five out of the - or, I'm sorry, three out of the six growing over 100% year-over-year, two of the six growing over 50% year-over-year, so it was very balanced. And so far, I think that despite the geopolitical risk, despite the uncertainty that's going on in the U.S. and in the marketplace around the world, I think one thing our customers understand is that their need to continue spending on technology is just there. And there's so much change going on right now from a technology perspective that there's both excitement about the opportunity. And candidly, there's a little bit of fear of slowing down too much and letting your competition get too much ahead of you. So we saw solid demand.

Sami Badri: Thank you, Meta. And I just want to remind analysts to ask one question and a follow-up question at the same time. Michelle, we can move to the next analyst.

Operator: Thank you. Ben Reitzes with Melius Research. You may go ahead, sir.

Ben Reitzes: Yes. Hi, thanks a lot guys. Congrats on the quarter. It's good to see you guys with the momentum. Chuck, we've got a lot of questions very recently about a new switch that you just put out, the 9,300 Nexus. And this programmable switch market looks like there's a lot of strong prospects there. Just wondering if you could talk a little bit more about that product and maybe why you went with AMD for the product and what that means for your - versus your Nvidia products? And my follow-up just is with regard to the overall comment of just overall demand just sounds much better than a few quarters ago. I just wanted some - the view that do you still think people are getting ready for AI? Or I don't know if I heard that from you this time that - in the last two quarters, people were getting ready for AI and it picked up. And this just sounded like a little more firm, but I was just wondering for a little more color on that. Hopefully, that didn't run on too long, Sami, but I'll pass it back to you.

Chuck Robbins: Thanks, Ben. No, I got on both. Look, first and foremost, I just thank the team in our product organization because the innovation that they've been delivering over the last 12 months to 18

months has been at a pace that we haven't seen in a very long time. We've seen a lot on the collab space in the security space, a lot in the silicon space and then in the web scale infrastructure. And now I think what you referenced this switch with the DPU in it is a great example of the innovation that we are going to drive in our core networking portfolio. And so, it's - I can't speak to exactly why the team chose the AMD, DPU other than I'm sure they did an analysis and thought it was the best solution for us. But this is a real - it's a breakthrough product, because it allows us to, candidly, we can take security out of these appliances that they come in and put it where it belongs, which is everywhere. Security needs to be deployed everywhere, and this really allows us to integrate security deeply into the network and at the speed of the network. So what this allows us to do is - you can run network services or security services on these DPUs in the network at the speed of ASICs as opposed to moving this traffic to a central place where you're going to be limited by the processing power of a single box. And so the first use case, as you are aware, is Hypershield, which we announced, and we had a couple of big Fortune wins in the prior quarter, even as we're just building out the final capabilities on Hypershield. So that's going to be the first deployment. If you think about the use case, you could put one of these switches sitting at between zones in a data center, and running all the traffic through it at line speed and doing security inspection via Hypershield to protect different zones from East West threats. So it's - we think it's got a lot of potential, and this is just the first service or first use case that the teams have come up with. On your second question, we absolutely believe that a lot of this demand is being driven by customers preparing for AI. We even think a lot of the telco demand that we see is - are the telcos building out their networks to be prepared to deliver AI as a service or AI-driven services. And so while I didn't call it out, it's one of the pillars that we talk about relative to our role in AI, and we do think there is an acceleration of companies that are just trying to get prepared for what they're going to need. It's clear that a genetic AI work streams are going to put more capacity onto the network.

Sami Badri: Thank you, Ben. Michelle, can we move to the next analyst?

Operator: Matthew Niknam with Deutsche Bank. You may go ahead, sir.

Matthew Niknam: Hi, guys. Thanks so much for taking the question. Just maybe to dovetail on the prior question. You talk about enterprises investing a little bit more in AI. I'm just wondering, as they've come into the new calendar what you're seeing and hearing, specifically from enterprise customers on the AI front? And how meaningful it is for your business today? And then just as a follow-up, maybe for Scott. You did about 68.7% on a gross margin front this past quarter. I think the guide implies a step down to between 67% to 68%. I'm wondering maybe what informs that view? Thanks so much.

Chuck Robbins: So I would say what we're seeing on the enterprise side relative to AI is, it's still - customers are still in the very early days, and they all realize they need to figure out exactly what their use cases are. We're starting to see some spending though on specific AI-driven infrastructure. And we think as we get AI pods out there, we got HyperFabric coming, we got AI Defense coming. We have Hypershield in the market. And we got this new DPU switch, they are all going to be a part of the infrastructure to support these AI applications. So we're beginning to see it happen, but I think it's also really important to understand that as the enterprises leverage their private data, their proprietary data, and they'll do some training on that and then they'll run inference, obviously, against that. We believe that opportunity is an order of magnitude higher than what we've seen in training today. We'll - we're going to continue to innovate and build capabilities to put ourselves in a better position to be a real beneficiary as this continues to accelerate. But as of today, we feel like we're in pretty good shape.

Scott Herren: And Matthew, on your question on gross margin, the guide at 67% to 68% for Q3, and by the way, I think it settles in, in that range for the full year. What's built into that and driving the step down from where we were in Q2 is we have - and this was noted in the - in my commentary upfront, have built in the cost of the proposed tariffs that we've seen so far. So the additional 10% in China, the 25% on Canada and Mexico. Canada has a negligible impact on us. And the steel and aluminum, we've quantified those out again, assuming the March 1 date. I think it's such a fluid environment right now. It's very difficult to say what's actually going to happen. But I wanted to protect the guide, and ensure that we built in the 25% that's been proposed. I will tell you, we've got a supply chain team that over the last several years has built a lot of muscle around the tariff that we had in China and how do we work our way around that. And from the time that was first imposed to where are now, our mitigation activities have reduced our exposure there by about 80%. So we've gained planned out several

scenarios and steps we could take depending on what actually goes into effect, we'll start to take those steps to mitigate the impact of the tariffs. But what I built into the cost of goods sold, that's where the tariffs will hit, is the full effect of 25% in Mexico, Canada and additional 10% in China, with no mitigation at this point - but no mitigation built in at this time.

Sami Badri: Thank you, Matt. Michelle, we can move to the next analyst.

Operator: Samik Chatterjee with JPMorgan. You may go ahead, sir.

Samik Chatterjee: Thanks for taking my questions. I guess maybe I'll follow up on that tariff question to start off. You do mention you're embedding in the cost of the tariffs, but I think we're getting a lot of questions also in terms how to think about demand. So Chuck or Scott, I mean, any thoughts in terms of how you've seen enterprises - enterprise customers respond on a demand basis to previous tariffs? And how does that inform your view in terms of what to expect for demand? And sort of - are you seeing any pull forward from customers to avoid some of these tariffs in the first place? And for my follow-up, I think it's more about hyperscaler and the AI momentum you're seeing there. You're seeing strong momentum in orders, but what is - maybe if you can give us some insights on deployments, we can see the strong CapEx numbers or guidance from them, but is there any acceleration or sort of more on track in terms of deployment base relative to what you expected? Thank you.

Scott Herren: Yes, Samik, on the first question, we're not seeing any evidence of customer pulling demand ahead. I think it's the tariff environment is very fluid right now. It's a very dynamic environment. While everyone is taking note, I think until we know what's actually going to go into effect, it will be very difficult for our customers to decide what to do. I think the other thing that as we look at the steps we would take to mitigate the impact of demand, there are a number of steps we can take to offset the cost. We obviously would have price as a lever, but there's a number of considerations that we have to go through before we get there. Right now, I don't envision that. What we would look to do first is make some of the changes we need to make inside the supply chain mitigate the impact of whatever tariff regime gets put into place. So, not seeing any evidence of any pull-in demand.

Chuck Robbins: Yes. And Samik, I think on the question relative to the webscale demand versus their deployments, I think that I think that there - I think the bottom line is I've set with all these customers, and they've looked at me and said, If you can build more, we will buy more. So I think that a couple of them had initial targets for how many units they wanted in 2025, and that number has already gone up by 50%. So I think the deployments are moving very rapidly and are on track and we continue to respond to all of their demand. And frankly, the changes that they make as their strategy evolves on it's a very dynamic. It's a very dynamic market.

Sami Badri: Thank you, Samik. Michelle, we can move to the next analyst.

Operator: Thank you. Tal Liani with BofA Securities. You may go ahead, sir.

Tal Liani: Hi. Great quarter, but I have a question about maybe the weaker parts. If my math is right, and I'm not sure it's right. So I need clarification. Splunk was down 11% this quarter year-over-year, maybe my numbers are totally wrong. So if you can clarify what's happening with Splunk, can you give us an update on the trends? And the second question is security and observability. It's supposed to accelerate - it accelerated last quarter. Can you talk about the trends this quarter and kind of the good parts and the bad parts of the growth? Thanks.

Scott Herren: Okay. I'll take first one and then, Chuck, we can tag team in a second, if you want. On the - I'm not sure what math you're doing, Tal. I think one thing that is not visible to you with the math that you've got in front of you is the end of Splunk's quarter, their fiscal - by the way, this would have been the end of January was the end of their prior Q4. So as with every enterprise software company, of course, Q4 is the biggest quarter of the year. And in fact, it gets back-end loaded so that the week 13 of that Q4 is the biggest week of the quarter. The way the calendar fell this year, our fiscal quarter ended on January 2025. So that last week of January that was historically Splunk's Q4, actually is not captured in our Q2 results, it will flow into our Q3 results. That may be what's throwing you off on the math. Splunk is still growing double digits. It's really right in line with our expectations modestly ahead of our expectations on the top line and is profitable well ahead of when we expected it to be profitable. So Splunk's performing quite nicely for us.

Chuck Robbins: Yes. On the security front, what I would say, Tal, is that look, we had always said we expected to see the acceleration in the second half of this year. We saw the last four quarters of growth

from a demand perspective in organic security, which is a good sign. And what we've launched is all this new innovation that just takes time to ramp, but I can give you a couple of data points. If you just look at two of the of the products, Cisco Security and XDR. Between those two, we now have those deployed at over 1,000 customers, and each of them are actually supporting over 1 million enterprise users each. So we're seeing the success they just need time to ramp. We've also launched Hypershield. I said earlier, we won two Fortune 100 enterprise customers this past quarter, and there's a great deal of excitement. If you look at AI defense with the AI Summit that we did recently, there's - I think there's about 20 some odd customers who are interested in going to proof of concept with us right now on it. We had almost half the Fortune 100 there for that event. So I feel good about where we are. It will turn into greater demand as we just continue to scale these products.

Sami Badri: Thank you, Tal. Michelle, can move to the next analyst.

Operator: Amit Daryanani with Evercore ISI. You may go ahead, sir.

Amit Daryanani: Great. Thanks for taking my question. Just a quick question on the 700 million AI orders so far this year. Are these mainly switching in optical wins? Are you seeing wins other products? And then just curious if you're expecting any of these you see some very strong AI orders. Are we expecting it to start converting into revenue this fiscal year? Or is that more of a fiscal 2026? Thank you.

Chuck Robbins: Thanks, Amit. I'll take the first and then Scott, you speak to the revenue. On the \$700 million in AI orders, it's a combination of systems, silicon, optics and optical systems. And I think if you break it down, it's about half is in silicon and systems. And - but it's - it continues to accelerate. And I'd say the teams have done a great job on the silicon front. We've invested heavily in more resources there. The team is running parallel development efforts for multiple chips that are staggered in their time frames. They've worked hard. They were increasing the yield, which is a positive thing. And so we feel good about it, but it's a combination of all those things that we're selling to the customers. Scott, on the revenue side?

Scott Herren: Yes. Amit, it's no different than what we've said all along about when we expect this to turn into revenue. We knew the orders would come in well ahead of the actual ship dates. We do expect to see this revenue begin to ramp in the second half of the year, and that's consistent with what we've said from the start.

Sami Badri: Thank you for the questions. And Michelle, we can move to the next analyst.

Operator: Thank you. Our next caller is Jim Fish with Piper Sandler. You may go ahead sir.

Jim Fish: Hi, guys. Nice quarter. Working off a few things you guys just have talked about here. Can you just first give us an update as to the actual penetration of the 6,500 large customers you guys expected between Cisco and Splunk to jointly go after and any further bundling plans you have, but beyond what you just announced? And then secondly, to the last question, what are you guys seeing from where you're winning within the data center between the Silicon one approach versus sort of systems approach with your AI wins? Would love additional color there. Thanks guys.

Chuck Robbins: Thanks, Jim. So on the Splunk side, I would say it's still early. These are still long sales cycles. And we're continuing to make progress. We are having wins. I mean they're clearly out there. We also have seen the benefit of the portfolio coming together with large customers doing our broad-based, what we call WPAs and that are inclusive of Splunk now, the old Cisco WPA that are inclusive of Splunk. And we talked about Splunk team that had a deal that they were leading that actually expanded the Cisco footprint. So we are beginning to see that, and we'll continue to see it as we go forward. I think you'll see as we get into the next couple of quarters, you're going to see more and more cross-selling sales incentives that the teams are putting in place that I think will continue to accelerate that. And on the second question, I think it was about how they're looking at systems versus silicon.

Jim Fish: System versus silicon.

Chuck Robbins: Yes. I think that by and large, it's systems. Actual just raw sales are still very small as a percentage of the total business. So the general method of consumption is just to buy the systems.

Sami Badri: Thank you, Jim. Michelle, we can move to the next analyst.

Operator: David Vogt with UBS. You may go ahead sir.

David Vogt: Great. Thanks guys for taking my question. So I'll give you both obviously at the same time.

So I'm just trying to square, Chuck your comments about the strength that you're seeing across the business because it looks like ex Splunk enterprise orders maybe decelerated a little bit sequentially and the strength in, I guess it looks like the Americas was mostly SP and cloud. And then the second question I have is maybe longer term, there's been a high number or a large number of project announcements over the last couple of weeks with some pretty big announcements from maybe the white box ODM space with some big wins as well. So maybe anything you can touch on from a competitive perspective on how you're thinking about maybe these bigger projects that have been announced, maybe the risks out there from some of these other alternatives like DeepSeek? And then some of these wins that have been announced by some of the OD market and how you're thinking about the landscape? Thanks.

Chuck Robbins: Yes. Okay. So first of all, on the enterprise, we've had four quarters of continued recovery. It was a little slower growth year-over-year than it was in Q1, but it's important to understand. I think Q2 over Q1 was up 29%. We literally took over \$1 billion more in orders in Q2 than Q1. So I don't think there's anything to be overly concerned about right there. And we saw real good strength in Asia in double digits. And I think I think Europe was close to double-digits. And U.S. Enterprise just had a bunch of big deals in Q1 that just kind of slowed them down a little bit for Q2. On these other deals, I mean, if you look at technology like DeepSeek, we think as not DeepSeek in particular, but we think as see more of this democratization of the access that is going to just facilitate a faster advancement of AI applications in the enterprise, first of all. Secondly, I think we ran our AI defense model. I think we did 50 prompts and the team - this was in 48 hours of this thing being out, and I think they proved every time that they could jailbreak this thing pretty easily. So I think we got to be careful as well. And the final thing I'd say on a lot of these unique deals out there, these bigger deals, I think we'll - we're having success in the web scale space. And I think if we're being chosen in that space, I think we'll have a real good opportunity to play in these other emerging opportunities as they come about as well.

Sami Badri: Thank you, David. Michelle, we can move to the next analyst.

Operator: Antoine Chkaiban with New Street Research. You may go ahead, sir.

Antoine Chkaiban: Hi. Thank you so much for taking my questions. So I'd like to follow up on the question regarding traction from enterprise customers in AI. Could you provide some additional color on where you are seeing Ethernet come in the enterprise segment, what kind of cluster side, what's use cases, which verticals? And then as a follow-up, I lost for your perspective on what you're hearing from these customers in terms of data center space and in particular, access to power as potentially being a bottleneck to roll out infrastructure this year? Thank you.

Chuck Robbins: Thanks, Antoine. Yes, I don't think that we're not thinking about it from massive clusters that the enterprises are going to build. They're certainly building clusters to do training on their own models or they're renting space from one of the major GP providers to actually do their training and then pulling that back. And the infrastructure we're talking about is really to support the inferencing side of it. And I think by and large, to be candid, the customers who have bought like Nvidia GPUs so far have just bought the whole stack on them. And so we think that will be an emerging opportunity in the future. It's not really Ethernet under GPUs in the enterprise today, has been - hasn't been a major opportunity to date. Now we believe with the Nvidia partnership, the hyper fabric stack, the AI pods, the things that we're building, we think that as we integrate that STACK together and they have these reference architectures to build that we think that, that will lead to our networking equipment being combined with Nvidia GPUs, and that's how we'll accomplish that in the future. And candidly, I don't think the - there hasn't been a lot of concern over the power issue in the enterprise like it has been in the web scale space.

Sami Badri: Thank you, Antoine. Michelle, can we move to the next question?

Operator: Aaron Rakers with Wells Fargo. You may go ahead, sir.

Aaron Rakers: Yes. Thanks for taking the question and congrats on the quarter. I'll stick with the AI theme first, and then I'll throw out my quick follow-up. On the AI side, I think in the prepared comments, you had mentioned that your 51.23 silicon will come out, I think it was April time frame. As you think about that 50% of your business on the AI orders being tied to switch and Silicon One silicon. Would you say that, that is kind of the point of inflection like the majority of your AI wins are tied to that 51.2 T silicon? Or just kind of trying to understand kind of the opening up of this monetization opportunity? And

then as a follow-up, I'm just curious like on the campus side, just kind of - help us appreciate maybe the WiFi 7 upgrade cycle that you're starting to see? Or how you're thinking about that? Thank you.

Chuck Robbins: Yes. I think on the comments we made on the 51.2 really was more of an enterprise comment in the Nexus portfolio, but it is Silicon One based. And so those chips will be used in the 8,000s as an example. But this is a - if you get back to the silicon discussion that we had earlier, that team is designing multiple silicon architectures based on the use cases on the customer. Do they need deep buffers? Do they not need deep buffers? I mean it's really - is it a latency application. I mean all of these things come into play as they develop different pieces of silicon for that marketplace. So we'll continue to develop and 51.2 is - and then beyond, they're already working on just subsequent chips that will continue to crank up the speeds in these data centers. On the campus side, I think that we're continuing to see the campus switching infrastructure, as I talked about earlier. And it's early days on the WiFi 7. I'd say customers are getting ready to begin deploying. I think we're going to move into that over the next two to three quarters where we'll see a full transition, both in the traditional on-prem access points and then also in the cloud managed.

Sami Badri: Thank you, Aaron. Michelle, we can move to the next analyst.

Operator: Karl Ackerman with BNP Paribas. You may go ahead.

Karl Ackerman: Thank you. Within Enterprise Networking, I think a couple of quarters ago customer lead times bottom out at just a few weeks. Is the greater visibility and support of your April core outlook from enterprises and even telco operators, coming from just a return to normal order patterns or lead times extending out beyond a quarter across those customers as you begin to introduce AI pods and Hybridshield and perhaps some on-prem service offerings in addition to that? Thank you.

Chuck Robbins: It's just normalization of ordering. We haven't had any lead time pressure at all.

Scott Herren: Yes, we're not seeing - if what's behind that question, Karl, is the demand that we're seeing today a function of extended lead times like we saw a couple of years ago. That's not the case. Our lead times are not extending.

Sami Badri: Thank you, Karl. Michelle, we can move to the last question.

Operator: Atif Malik with Citi. You may go ahead, sir.

Adrienne Colby: Hi. It's Adrienne Colby for Atif. Thank you for taking the question. Earlier this week, you announced some offerings geared towards traditional service providers. I was just wondering if you could help us size this customer segment for Cisco and understand where these customers are in terms of their embrace of AI? What are some of the key issues that Cisco is just helping them address? Chuck Robbins: Scott, do you want to comment on the size of the telco segment first?

Scott Herren: Yes. Overall, telco had a good quarter in the last quarter. That's actually a continuation of what we saw in Q1. And what we hear from telco, particularly in international, is they are in anticipation of demand on their networks driven by AI, doing the same thing that we hear enterprise is doing. They know there's increased load coming. In many cases, they've sweated those assets for some time because of the state of the financials in that industry. And they're coming back to the table to build out their networks in anticipation of the increased demand. I think we'll continue to see that for some period of time. Telco by its nature and the size of the telco customers that we have can be a little bit episodic, a little bit big deals in one quarter and not in the next. So it's not something that I would expect to see on a steady state. But we're seeing good demand right now as they see the same thing, the same exact trend that enterprises see. There's network load coming, we need to be ready for it.

Chuck Robbins: Yes, I think that's right. And I think the other thing that we see some of the European operators are looking at delivering AI as a service. We see a lot of them planning for AI edge applications that are sitting at the edge of their networks that they're managing for customers, et cetera. So they are preparing for sure.

Sami Badri: Thank you, Adrian. And I want to hand it over to Chuck for some closing remarks.

Chuck Robbins: I just want to thank everybody for joining us today, and I want to thank our teams. I'm really proud of these results, and the teams have been doing a really great job, both on the innovation front and engaging with our customers. We clearly live in a very dynamic world. And as Scott said earlier, as the impact of these potential tariffs become more clear, our teams will take the appropriate steps to mitigate where we can. I do feel good about our momentum. Again, the product innovation and particularly the innovation in our core, the portfolio and how it's translating through to customer value.

Clearly, the AI tailwind as well as the integration that has occurred so far relative to Splunk and just the team's period execution. I'm confident in the steps we've been taking. I think it will lead to durability of the performance and - we want to just continue to deliver for our customers, deliver the right technology, the right value and be a trusted partner for them. So thank you for being with us, and we look forward to talking to you soon.

Sami Badri: Cisco's next quarterly call, which will reflect our fiscal year 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.

Operator: Thank you for participating on today's conference call. If you would like to listen to the call in its entirety, you may call 1 (800) 395-6236. For participants dialing from outside the U.S., please dial (203) 369-3270. This concludes today's call. You may disconnect at this time.