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]
Q4FY25 Earnings Results Conference Call
Wednesday, August 13, 2025

Introduction (Sami Badri)

Good afternoon, everyone. This is Sami Badri, Cisco's Head of Investor Relations, and I am joined by Chuck Robbins, our Chair and CEO, and Mark Patterson, 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 first quarter and fiscal year 2026. 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 had a strong close to fiscal ’25, delivering revenue and gross margin at the high end of our guidance ranges for the fourth quarter. Continued operating leverage across our business produced strong profitability, with earnings per share above the high end of our guidance. In addition, we generated solid growth in annualized recurring revenue, remaining performance obligations and subscription revenue, which provides a strong foundation for our future performance.

The profitable growth of our business continues to produce strong cash flows, supporting our commitment to deliver consistent capital returns. In Q4, we returned $2.9 billion in capital to our shareholders through share repurchases and dividends, bringing the total returned in fiscal ’25 to $12.4 billion in value, or 94% of free cash flow, surpassing the $12.1 billion Cisco returned to shareholders in fiscal ‘24.

Overall, our FY25 performance has established a solid foundation as we turn our focus to delivering Cisco’s strongest year yet in FY26, as indicated in our guidance.

As we move into the next phase of AI, with agents autonomously conducting tasks alongside humans, the capacity requirements of the network will be compounded to accommodate both unprecedented levels of network traffic and an increasing threat landscape. According to our survey of IT Networking Leaders, 97% of businesses believe they need to upgrade their networks to successfully deploy AI. Having refreshed almost our entire product portfolio – with industry-leading networking systems powered by SiliconOne, AI-native security solutions, and software operating systems– Cisco is well positioned to provide the critical infrastructure needed for the AI era.

Now let me comment on the **demand** we saw in Q4, starting with record AI infrastructure orders received from webscale customers. These orders exceeded $800M in the quarter, bringing the total for fiscal year ‘25 to over $2 billion, more than double our original $1 billion target stated in Q4 of FY24. This demonstrates the undeniable capability and relevance of our technology for multiple back-end use cases with some of the most technologically advanced customers.

Overall, total product orders in Q4 grew 7% year-over-year, with solid growth across all geographies despite a complex environment, demonstrating the valuable outcomes we continue to deliver for customers worldwide.

Enterprise product orders were up 5% year-over-year in Q4. As typical for the fourth quarter, we closed several very large deals with major enterprises across different industries who are compounding the value of their investments by leveraging the full breadth of our technology platforms. We have a slide in our earnings presentation that highlights both the breadth of Cisco's reach through eight figure or larger deals, and the versatility of solutions tailored to our customers' needs.

Public Sector orders were down 6% year-over-year in Q4 compared with a very strong fourth quarter in FY24 when orders grew double digits year-over-year. That said, overall public sector demand grew sequentially, in line with normal seasonality.

Product orders **from Service Provider and Cloud** customers continued to be very strong, up 49% year-over-year, driven by triple-digit order growth in webscale for the fourth consecutive quarter, with four out of the top six webscale customers each growing orders in the triple-digits. In fact, two webscale customers each placed total orders of over $1 billion for networking, security, collaboration and observability in FY25. Demand from telco and cable customers was also strong in Q4, with orders growing more than 20% year-over-year.

Now some color on **demand for our core networking and security solutions:**

Networking product orders grew double-digits in Q4, marking the fourth consecutive quarter of double-digit growth, driven by webscale infrastructure, switching, enterprise routing, industrial IoT, and servers.

There is strong interest from customers in the new family of Cisco Cat9k Smart switches, along with a completely refreshed line-up of highly secure routers, wireless access points, and Industrial IoT devices, which are purpose-built for the AI-ready campus and branch. Our new Smart switches are powered by SiliconOne and deliver enhanced performance, quantum-secure networking, and radically simplified cloud-native and AI-driven operations—all supporting the new realities as AI changes how we work and collaborate. The introduction of our new switches marks the beginning of a major, multi-year refresh cycle opportunity for Cisco's large installed campus switching base.

Orders for our **Industrial IoT** portfolio, comprised of ruggedized Catalyst products, grew double-digits for the fifth consecutive quarter, and we see solid demand signals continuing into FY26 as countries around the world are committing to U.S. domestic investments as part of their trade agreements. As more strategic infrastructure and manufacturing is brought onshore to the United States, Cisco is well positioned to help connect and protect these capital-intensive investments at scale.

As I mentioned earlier, the **AI infrastructure orders** we received from webscale customers were, once again, exceptionally strong, exceeding $800M in the quarter. As expected, the product mix of these orders was more than two-thirds in systems with the remainder in optics.

In the Enterprise specifically – while still early, AI orders are ramping, and we have a growing pipeline in the hundreds of millions as these customers look to Cisco to provide simple, scalable and secure solutions for the AI era.

Our expanding partnership with NVIDIA also positions us to deliver on these new demands, with completed integrations of Cisco Nexus switches with NVIDIA's Spectrum-X architecture offering low-latency, high speed networking for AI clusters. Additionally, the Cisco Secure AI Factory with NVIDIA provides a trusted blueprint for building secure, AI-ready data centers for enterprises, sovereign cloud providers, and newly emerging neocloud providers.

We also see the opportunity with neocloud providers ramping, with several large deals in Q4 not included in the previously mentioned AI infrastructure orders. Our newly forged Middle East strategic partnerships including HUMAIN, G42 and Stargate UAE, are all progressing as planned, and we expect the Sovereign AI opportunity to build momentum in the second half of FY26. We believe Cisco will be a core system provider for these significant AI training and inference cluster build-outs, and integral to their development and eventual hyperscaling.

As we look holistically at the AI opportunity for Cisco, we frame it into three distinct but connected pillars:

First, **AI training infrastructure for webscale customers.** Combinations of our Cisco 8K, SiliconOne, optics and optical systems are being deployed by the largest webscalers and we expect demand for these technologies from neocloud providers and sovereign customers to increase in FY26.

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

And third, **AI network connectivity**. Customers are leveraging Cisco platforms to help modernize, secure, and automate their network operations to prepare for pervasive deployment of AI agents and applications.

As we move towards agentic AI – and the demand for inferencing expands to the enterprise and end-user networking environments – traffic on the network will reach unprecedented levels. Network traffic will not only increase beyond the peaks of current chatbot interaction, but will remain consistently high, with agents in constant interaction. We have a slide illustrating this new traffic model in our earnings presentation available on our website. As agents gain autonomous decision-making and action capabilities, security will be even more critical to ensure they operate reliably and safely.

As a trusted partner for enterprises, hyperscalers, neocloud and sovereign cloud providers alike, Cisco has the opportunity to lead this generational transition in networking and security, and provide the critical infrastructure needed for the AI era.

Now shifting to Security, we recorded mid single-digit growth in orders in Q4. Splunk and Cisco synergies delivered a 14% year-over-year increase in new logos for Splunk in Q4, demonstrating the benefit of our cross-selling motions and joint innovation. Our new and refreshed products including Secure Access, XDR, Hypershield and AI Defense also continue to ramp and added 750 new customers collectively in the quarter. The vast majority of our new Hypershield enterprise customers are bundling with our N9300 Smart Switch, which enables them to embed security directly into the fabric of the network. We believe that Agentic AI can only be secured by fusing security deep into the network and that only Cisco can deliver this capability.

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

At Cisco Live US in June, we delivered our largest innovation payload to date, announcing over 20 new customer-centric offerings across our portfolio to help our customers build AI-ready data centers and future-proof their workplaces with a foundational layer of digital resilience.

You can see the full list of product launches in our slide deck but I'd like to highlight our AgenticOps, which are already resonating with customers. Cisco AI Canvas is a revolutionary generative user interface for real-time collaboration between network and security teams, optimized for both human and agent interaction. Powered by Cisco's advanced Deep Network Model LLM, AI Canvas unifies real-time telemetry across various platforms to radically simplify IT operations and accelerate troubleshooting.

All of our new innovations introduced in FY25, spanning core networking products based on Cisco SiliconOne, advanced security technologies, and unified management tools, are designed on a foundation of AI further enhancing Cisco's platform advantage, where every technology doesn't just add value by itself, but compounds the value of our customers' existing investments.

We continue to use **GenAI and agentic systems across our Customer Experience organization** with things like Services as Code and AI agents for in-product support, renewals and adoption. Today, over two-thirds of support cases are touched by AI and automation which increases the proportion of complex cases we can solve within one day.

We're also seeing increased usage of Cisco's own proprietary AI application internally, with more advanced use cases emerging across engineering, sales, operations and our people, policy and purpose organization, resulting in meaningful productivity gains for our teams.

To summarize:

- We are seeing clear demand for our technology across customer markets in addition to expanded opportunities as we move towards agentic AI;
- We are innovating faster than ever before: making AI foundational in our designs, fusing security deep into our networking products, and providing operational simplicity for our customers;
- And our strong performance is fueling our capital allocation model, returning significant value to our shareholders, while positioning our business for success in fiscal '26.

Before I close, I'd like to once again thank Scott Herren for his leadership and partnership over the last 5 years. Scott has been instrumental in driving our transition to more software and recurring revenue which has driven greater predictability for our business and increased shareholder value – we wish you all the best in your retirement.

I'd also like to take a moment to thank our teams for their hard work to close out the year, for executing with urgency as one Cisco, and, most importantly, for their unfailing focus on delivering valuable outcomes for our customers.

Now I'll turn it over to Mark for more detail on the quarter and our outlook.

Mark Patterson

Thanks Chuck.

We delivered a strong quarter, with revenue and non-GAAP gross margin and operating margin at the high-end of our guidance range and earnings per share above the high-end of our guidance, coupled with solid operating cash flow. For the quarter, total revenue was $14.7B, up 8% year-over-year. Non-GAAP net income was $4.0B, up 12%, and non-GAAP earnings per share was $0.99, up 14%, demonstrating good operating leverage with EPS growth outpacing revenue growth.

Before we dive into the details, its worth reiterating as a reminder that we had a full 13-week contribution from Splunk in Q4FY24 last year, so our reported year-over-year growth rates are fully comparable this quarter.

Looking at our Q4 revenue in more detail:

- Total product revenue was $10.9B, up 10%, and services revenue was $3.8B, flat year over year.
- Networking was up 12%, with growth across most of the portfolio led by double-digit growth in Internet Infrastructure and Enterprise Routing, as well as solid growth in Switching, partially offset by a decline in servers.
- Security was up 9%, primarily driven by growth in our offerings from Splunk and SASE.
- Collaboration was up 2% driven by solid growth in Devices.
- Observability was up 4%, led by strong growth in Splunk and ThousandEyes.

Looking at our recurring metrics:

- Total RPO was $43.5B, up 6%. Product RPO grew 8%, and total short-term RPO was $21.7B, up 4%.
- Total ARR ended the quarter at $31.1B, an increase of 5%, with product ARR growth of 8%.
- Total subscription revenue increased 3% to $7.9B, and represents 54% of Cisco's total revenue.
- Total software revenue was up 5% at $5.6B, with software subscription revenue also up 5%.

Q4 product orders were up 7% year-over-year. Looking at our product orders across our geographic segments, the Americas was up 5%, EMEA was up 10% and APJC was up 7%. In our customer markets, Service Provider & Cloud was up 49%, Enterprise was up 5% and Public Sector was down 6%.

Total non-GAAP gross margin came in at 68.4%, up 50 basis points year-over-year, coming in at the high-end of our guidance range. Non-GAAP product gross margin was 67.5%, up 50 basis points, driven by productivity improvements. Non-GAAP services gross margin was 70.8%, also up 50 basis points. Our total gross margin included a small impact from tariffs, which was slightly favorable compared to our estimate included in guidance.

We continue our focus on profitability and financial discipline with non-GAAP operating margin at 34.3%, at the high-end of our guidance range.

Our Non-GAAP tax rate was 18.1% for the quarter.

Shifting to the balance sheet, we ended Q4 with total cash, cash-equivalents, and investments of $16.1B. Operating cash flow was $4.2B, up 14%, primarily driven by our revenue and earnings growth.

From a capital allocation perspective, we returned $2.9B to shareholders during the quarter comprised of $1.6B for our quarterly cash dividend and $1.3B of share repurchases with $14.2B remaining under our share repurchase program.

Turning to the full fiscal year, revenue was $56.7B, up 5%. Total non-GAAP gross margin was 68.7%, up 120 basis pts. On the bottom-line, non-GAAP net income was $15.2B, flat Y/Y and non-GAAP earnings per share was $3.81, up 2%.

Operating cash flow was $14.2B, up 30% compared to FY24. Cash flow growth for the full year was positively impacted by some large tax payments in early FY24 that did not repeat in FY25.

We returned $12.4B in value to our shareholders through cash dividends and share repurchases. This was comprised of $6.4B in quarterly cash dividends and $6.0B of share repurchases. We increased our dividend for the 14th consecutive year in FY25, reinforcing our confidence in the strength and stability of our ongoing cash flows.

To summarize, we had a solid fiscal quarter and year with top and bottom-line performance meeting and exceeding our expectations – driven by strong order growth and margins. For the full fiscal 2025, we delivered record non-GAAP operating income and margin, demonstrating our ability to provide operating leverage while driving strong top line growth.

We remain focused on making strategic investments in innovation to capitalize on the significant growth opportunities we see ahead. This will continue to be underpinned by disciplined spend management and it’s this powerful combination that continues to fuel strong cash flow and our ability to return significant value to our shareholders.

Turning to guidance: While we have some clarity on tariffs, we are still operating in a complex environment. Our Q1 and fiscal year 2026 guide assumes current tariffs and exemptions remain in place through the end of fiscal 2026. These include the following:

- China at 30%, partially offset by an exemption for semiconductors and certain electronic components
- Mexico at 25% and Canada at 35% for the components and products that are not eligible for the current USMCA exemptions
- Other countries reverted to country specific reciprocal rates, but largely offset by an exemption for semiconductors and certain electronic components
- And finally, a small impact from tariffs on copper, steel and aluminum and retaliatory tariffs.

We will continue to leverage our world-class supply chain team to help mitigate the impact of tariffs, 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 provide us with some unique advantages as we support our customers globally.

Looking ahead, you can expect us to continue our focus on durable growth, with financial discipline driving operating leverage and continued capital returns.

For fiscal Q1, our guidance is as follows:

- We expect revenue to be in the range of $14.65 billion to $14.85 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% to 34%
- Non-GAAP earnings per share is expected to range from $0.97 to $0.99
- We are assuming a Non-GAAP effective tax rate of approximately 19%

For fiscal year '26, our guidance is as follows:

- We expect revenue to be in the range of $59.0 billion to $60.0 billion
- Non-GAAP earnings per share is expected to range from $4.00 to $4.06

CLOSING

- Cisco's next quarterly call, which will outline our first quarter FY2026 results, will be on Wednesday, November 12, 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 massive opportunity ahead as we lead the required architectural shift and building the critical infrastructure needed for the AI era, and our focus on making strategic investments in innovation, driving durable, profitable growth and delivering shareholder value) and the future financial performance of Cisco (including the guidance for Q1 FY 2026 and full year FY 2026) that involve risks and uncertainties, such as the actual impact of tariffs on our guidance for Q1 FY2026 and full year FY2026. 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 May 20, 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 months and year ended July 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.