



# Q2 Fiscal Year 2019

Conference Call

February 13, 2019

## Forward-Looking Statements

This presentation contains projections and other forward-looking statements regarding future events or the future financial performance of Cisco, including future operating results. These projections and statements are only predictions. Actual events or results may differ materially from those in the projections or other forward-looking statements. Please see Cisco's filings with the SEC, including its most recent filings on Forms 10-K and 10-Q, for a discussion of important risk factors that could cause actual events or results to differ materially from those in the projections or other forward-looking statements.

## GAAP Reconciliation

During this presentation references to financial measures of Cisco will include references to non-GAAP financial measures. Cisco provides a reconciliation between GAAP and non-GAAP financial information on our website at [www.cisco.com](http://www.cisco.com) under "Financial Info" in the "Investor Relations" section.

<https://investor.cisco.com/investor-relations/financial-information/Financial-Results/default.aspx>

# Business Momentum & Key Trends

# Q2 FY2019 Highlights

- **Delivered revenue growth across all geographies and businesses, strong margins, double-digit non-GAAP earnings per share growth and continued solid cash generation.**
- Continued growth in infrastructure platforms.
  - Strong customer uptake of Catalyst 9000 family of switches and SD-WAN offerings.
- **Security generated strong double-digit revenue growth...** seeing strong traction with Duo while strengthening our cloud-based subscription portfolio.
- Within Applications, collaboration had another quarter of exceptional growth as customers are adopting our comprehensive market-leading portfolio.
- **Our innovation has given us the strongest portfolio in a long time.**
- **Increased our quarterly dividend by \$0.02 per share and increased the share buyback authorization by \$15B,** showing our confidence in future cash flows and commitment to shareholders.

# Financial Overview

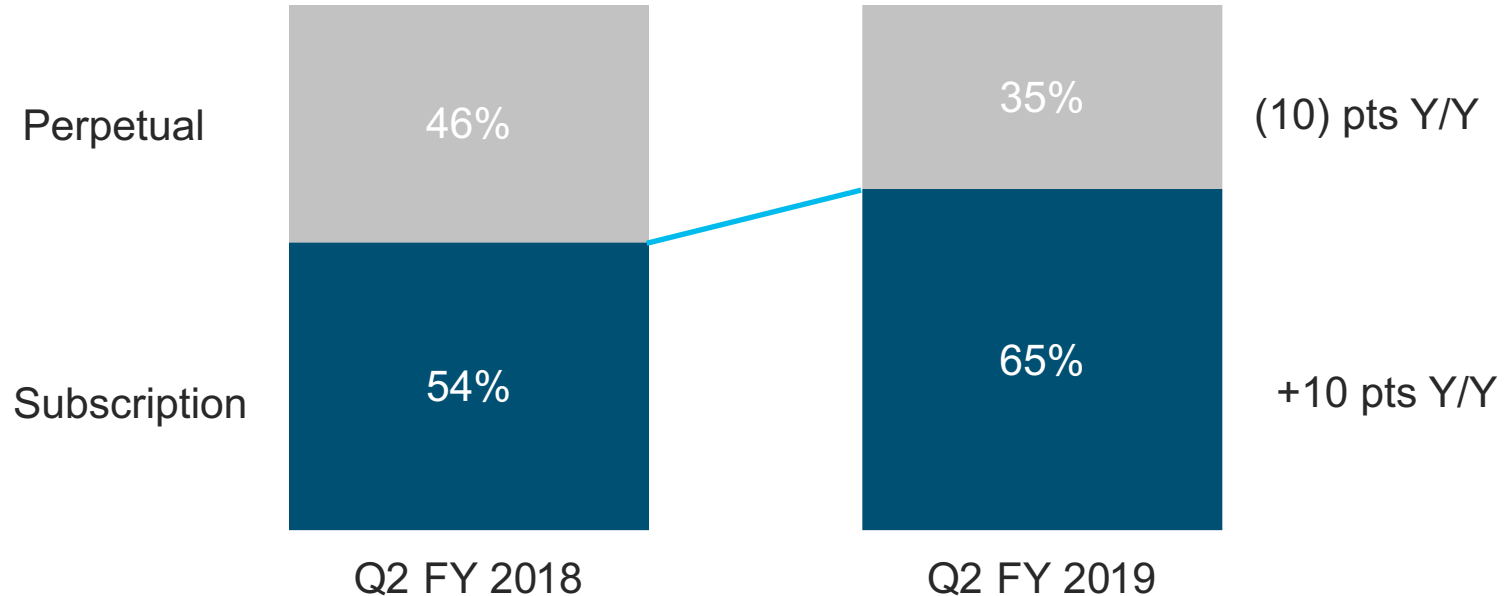
# Q2 FY 2019 Revenue Highlights

Product Category	\$M	Y/Y*
Infrastructure Platforms	\$7,128	6%
Applications	1,465	24%
Security	658	18%
Other Products	22	(59%)
Services	3,173	1%
Total Cisco	\$12,446	7%

\*Year over year growth normalized to exclude the Service Provider Video Software Solutions (SPVSS) business for Q2 FY2018, which was divested during Q2 FY2019 on October 28, 2018. SPVSS business revenue was \$230M for Q2 FY 2018.

Amounts may not sum and percentages may not recalculate due to rounding.

# Subscriptions as a % of Software Revenue



Normalized to exclude the SPVSS business for Q2 FY2018, which was divested during Q2 FY2019 on October 28, 2018.  
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# Q2 FY 2019 Product Orders

Total Cisco: 8% Y/Y\*

Geographic Region	Y/Y*
Americas	7%
EMEA	11%
APJC	6%

Customer Segment	Y/Y*
Enterprise	11%
Public Sector	18%
Commercial	7%
Service Provider	(1%)

\*Year over year growth normalized to exclude the SPVSS business for Q2 FY2018, which was divested during Q2 FY2019 on October 28, 2018.



# Q2 FY 2019 Revenue and Total Gross Margin

	Revenue*			Total Gross Margin %		
\$M (except percentages)	Q2 FY'18	Q1 FY'19	Q2 FY'19	Q2 FY'18	Q1 FY'19	Q2 FY'19
Americas	\$6,889	\$7,675	\$7,352	66.6%	65.9%	65.2%
EMEA	2,992	3,158	3,223	64.6%	64.3%	64.2%
APJC	1,776	2,072	1,872	60.5%	57.6%	59.2%
Geographic Total	\$11,657	\$12,905	\$12,446	65.1%	64.2%	64.1%

\*Excludes SPVSS business revenue for Q2 FY2018 and Q1 FY2019 of \$230M and \$168M, respectively. The SPVSS business was divested during Q2 FY2019 on October 28, 2018.

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# Q2 FY 2019 GAAP Income Statement Highlights

\$M (except per-share amounts and percentages)	Q2 FY 2018	Q1 FY 2019	Q2 FY 2019
Revenue <sup>(1)</sup>	\$11,887	\$13,072	\$12,446
<i>Year/Year Change</i>	3%	8%	5%
Product	\$8,709	\$9,890	\$9,273
Service	\$3,178	\$3,182	\$3,173
Gross Margin	63.1%	62.3%	62.5%
Product Gross Margin	61.5%	61.6%	61.0%
Service Gross Margin	67.4%	64.6%	66.6%
Operating Expenses	\$4,425	\$4,341	\$4,562
OPEX (% of Revenue)	37.2%	33.2%	36.7%
Operating Income (% of Revenue)	25.9%	29.1%	25.8%
Net Income (Loss) <sup>(2)</sup>	(\$8,778)	\$3,549	\$2,822
<i>Year/Year Change</i>	(474%)	48%	NM*
Earnings (Loss) per Share <sup>(2)</sup>	(\$1.78)	\$0.77	\$0.63
<i>Year/Year Change</i>	(479%)	60%	NM*

\*NM – Not meaningful

(1) Includes SPVSS business revenue for Q2 FY2018 and Q1 FY2019 of \$230M and \$168M, respectively. The SPVSS business was divested during Q2 FY2019 on October 28, 2018.

(2) GAAP results for Q2 FY2018 include an \$11.1 billion charge related to the enactment of the Tax Cuts and Jobs Act.

# Q2 FY 2019 Non-GAAP Income Statement Details

\$M (except per-share amounts and percentages)	Q2 FY 2018			Q2 FY 2019			Y/Y Change <i>Excluding SPVSS Business</i>
	Total Cisco	SPVSS Business	Excluding SPVSS Business	Total Cisco	SPVSS Business	Excluding SPVSS Business	
Revenue	\$11,887	\$230	\$11,657	\$12,446	-	\$12,446	7%
Gross Margin	64.7%	40.0%	65.1%	64.1%	-	64.1%	-1.0pts
Operating Expenses	\$3,911	\$64	\$3,847	3,975	-	3,975	3%
OPEX (% of Revenue)	32.9%	28.0%	33.0%	31.9%	-	31.9%	-1.1pts
Operating Income	\$3,774	\$28	\$3,746	\$4,000	-	\$4,000	7%
Operating Income (% of Revenue)	31.7%	12.0%	32.1%	32.1%	-	32.1%	0.0pts
Net Income	\$3,146	\$22	\$3,123	\$3,295	-	\$3,295	6%
EPS (diluted)	\$0.63	\$0.00	\$0.63	\$0.73	-	\$0.73	16%

The SPVSS business was divested during Q2 FY2019 on October 28, 2018.

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# Q2 FY 2019 Key Financial Measures

\$M	Q2 FY 2018	Q1 FY 2019	Q2 FY 2019
Cash, Cash Equivalents and Investments	\$73,683	\$42,593	\$40,383
Operating Cash Flow	\$4,070	\$3,763	\$3,797
Accounts Receivable	\$3,963	\$4,536	\$3,745
Inventory	\$1,896	\$1,572	\$1,701
Deferred Revenue:	\$18,788	\$16,814	\$17,261
Service Deferred Revenue	\$10,963	\$11,062	\$11,246
Product Deferred Revenue	\$7,825	\$5,752	\$6,015

# Capital Allocation

## Q2 FY2019 Results

Total Capital Allocation	
Share Repurchases (\$M)	\$5,016
Dividends Paid (\$M)	1,470
Total	\$6,486
Quarterly Dividends Per Share	\$0.33

Share Repurchases	
Amount Purchased (\$M)	\$5,016
Number of Shares (M)	111
Avg. Price Per Share	\$45.09

## Going Forward

- Increased quarterly dividend 2 cents, up 6% Y/Y.
- Represents dividend yield of approximately 3%.
- \$15B increase to the share repurchase program authorization to \$24B.

Q&A

# FORWARD-LOOKING STATEMENTS

These presentation slides and the related conference call 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 execution on our strategy, our ability to continue to transition to a software model and to grow revenue from software subscriptions, our ability to accelerate our pace of innovation, our ability to deliver the agility, operational efficiency and security our customers require to embrace multicloud, edge computing and digital transformation, continued momentum across the business delivering growth, and the strength of our ongoing cash flows and our ability to return capital to our shareholders) and the future financial performance of Cisco that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including: business and economic conditions and growth trends in the networking industry, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; 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 and other customer markets; the return on our investments in certain priorities, key growth areas, and in certain geographical locations, as well as maintaining leadership in routing, switching and services; the timing of orders and manufacturing and customer lead times; 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 service 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, intellectual property, antitrust, shareholder and other matters, and governmental investigations; our ability to achieve the benefits of the announced restructuring and possible changes in the size and timing of the related charges; cyber-attacks, data breaches or malware; vulnerabilities and critical security defects; terrorism; natural catastrophic events; a pandemic or epidemic; our ability to achieve the benefits anticipated from our investments in sales, engineering, service, marketing and manufacturing activities; our ability to recruit and retain key personnel; our ability to manage financial risk, and to manage expenses during economic downturns; risks related to the global nature of our operations, including our operations in emerging markets, currency fluctuations and other international factors; changes in provision for income taxes, including changes in tax laws and regulations or adverse outcomes resulting from examinations of our income tax returns; potential volatility in operating results; and other factors listed in Cisco's most recent reports on Forms 10-Q and 10-K filed on November 20, 2018 and September 6, 2018, respectively. The financial information contained in these presentation slides and the related conference call should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent reports on Forms 10Q and 10-K as each may be amended from time to time. Cisco's results of operations for the three and six months ended January 26, 2019 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in these presentation slides and the related conference call 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 these presentation slides and the related conference call.

# Supplemental Materials



# SP Video Software Solutions Business

## Historical Financial Information<sup>(1)</sup>

\$M (except per-share amounts)	Q1 FY 2018	Q2 FY 2018	Q3 FY 2018	Q4 FY 2018	Q1 FY 2019
Revenue	\$248	\$230	\$219	\$206	\$168
Gross Margin	\$68	\$92	\$66	\$89	\$61
Operating Expenses	\$67	\$64	\$61	\$59	\$59
Operating Income	\$1	\$28	\$5	\$30	\$1
Net Income	\$1	\$22	\$4	\$24	\$1
EPS (diluted)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

<sup>(1)</sup>Stand-alone financial information is unaudited. SPVSS business was divested during Q2 FY 2019 on October 28, 2018.

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