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CISCO REPORTS SECOND QUARTER EARNINGS

Dividend Increased 3 Percent

- **Q2 Results:**
- **Revenue:** \$12.0 billion
- Decrease of (4)% year over year
- **Earnings per Share:** GAAP: \$0.68; Non-GAAP: \$0.77
- Non-GAAP EPS increased 5% year over year
- **Q3 Guidance:**
- **Revenue:** (1.5)% to (3.5)% decline year over year
- **Earnings per Share:** GAAP: \$0.62 to \$0.67; Non-GAAP: \$0.79 to \$0.81

SAN JOSE, Calif. — February 12, 2020 — Cisco today reported second quarter results for the period ended January 25, 2020. Cisco reported second quarter revenue of \$12.0 billion, net income on a generally accepted accounting principles (GAAP) basis of \$2.9 billion or \$0.68 per share, and non-GAAP net income of \$3.3 billion or \$0.77 per share.

“I am incredibly proud of the innovation our teams continue to drive,” said Chuck Robbins, chairman and CEO of Cisco. “I am confident in our longterm growth opportunities as we help our customers build out the networks for the future.”

GAAP Results

	Q2 FY 2020	Q2 FY 2019	Vs. Q2 FY 2019
Revenue	\$12.0 billion	\$12.4 billion	(4)%
Net Income	\$ 2.9 billion	\$ 2.8 billion	2%
Diluted Earnings per Share (EPS)	\$ 0.68	\$ 0.63	8%

Non-GAAP Results

	Q2 FY 2020	Q2 FY 2019	Vs. Q2 FY 2019
Net Income	\$ 3.3 billion	\$ 3.3 billion	— %
EPS	\$ 0.77	\$ 0.73	5%

Reconciliations between net income, EPS, and other measures on a GAAP and non-GAAP basis are provided in the tables located in the section entitled “Reconciliations of GAAP to non-GAAP Measures.”

Cisco Increases Quarterly Cash Dividend

Cisco has declared a quarterly dividend of \$0.36 per common share, a \$0.01 increase or up 3% over the previous quarter's dividend, to be paid on April 22, 2020 to all shareholders of record as of the close of business on April 3, 2020. Future dividends will be subject to Board approval.

"We executed well this quarter by delivering strong margins and EPS growth while driving more software and subscriptions," said Kelly Kramer, CFO of Cisco. Our increased dividend shows confidence in the strength of our ongoing cash flows and demonstrates our commitment to shareholder return."

Financial Summary

All comparative percentages are on a year-over-year basis unless otherwise noted.

Q2 FY 2020 Highlights

Revenue — Total revenue was \$12.0 billion, down 4%, with product revenue down 6% and service revenue up 5%. Revenue by geographic segment was: Americas down 5%, EMEA down 3%, and APJC down 1%. Product revenue was led by growth in Security, up 9%. Infrastructure Platforms and Applications were each down 8%.

Gross Margin — On a GAAP basis, total gross margin, product gross margin, and service gross margin were 64.7%, 63.9%, and 66.6%, respectively, as compared with 62.5%, 61.0%, and 66.6%, respectively, in the second quarter of fiscal 2019.

On a non-GAAP basis, total gross margin, product gross margin, and service gross margin were 66.4%, 65.9%, and 67.7%, respectively, as compared with 64.1%, 62.8%, and 67.7%, respectively, in the second quarter of fiscal 2019.

Total gross margins by geographic segment were: 66.9% for the Americas, 65.8% for EMEA and 65.6% for APJC.

Operating Expenses — On a GAAP basis, operating expenses were \$4.4 billion, down 4%. Non-GAAP operating expenses were \$3.9 billion, down 1%, and were 32.7% of revenue.

Operating Income — GAAP operating income was \$3.4 billion, up 5%, with GAAP operating margin of 28.2%. Non-GAAP operating income was \$4.0 billion, up 1%, with non-GAAP operating margin at 33.7%.

Provision for Income Taxes — The GAAP tax provision rate was 18.6%. The non-GAAP tax provision rate was 20.0%.

Net Income and EPS — On a GAAP basis, net income was \$2.9 billion and EPS was \$0.68. On a non-GAAP basis, net income was flat at \$3.3 billion, and EPS was \$0.77, an increase of 5%.

Cash Flow from Operating Activities — \$3.8 billion for the second quarter of fiscal 2020, flat compared with \$3.8 billion for the second quarter of fiscal 2019.

Balance Sheet and Other Financial Highlights

Cash and Cash Equivalents and Investments — \$27.1 billion at the end of the second quarter of fiscal 2020, compared with \$33.4 billion at the end of fiscal 2019.

Deferred Revenue — \$18.7 billion, up 8% in total, with deferred product revenue up 19%. Deferred service revenue was up 2%.

Remaining Performance Obligations — \$24.9 billion at the end of the second quarter of fiscal 2020, up 11%.

Capital Allocation — In the second quarter of fiscal 2020, we returned \$2.4 billion to shareholders through share buybacks and dividends. We declared and paid a cash dividend of \$0.35 per common share, or \$1.5 billion, and repurchased approximately 18 million shares of common stock under our stock repurchase program at an average price of \$46.71 per share for an aggregate purchase price of \$870 million. The remaining authorized amount for stock repurchases under the program is \$11.8 billion with no termination date.

Guidance for Q3 FY 2020

Cisco expects to achieve the following results for the third quarter of fiscal 2020:

Q3 FY 2020	
Revenue	(1.5)% - (3.5)% decline Y/Y
Non-GAAP gross margin rate	64.5% - 65.5%
Non-GAAP operating margin rate	32.5% - 33.5%
Non-GAAP tax provision rate	20%
Non-GAAP EPS	\$0.79 - \$0.81

Cisco estimates that GAAP EPS will be \$0.62 to \$0.67 in the third quarter of fiscal 2020.

A reconciliation between the Guidance for Q3 FY 2020 on a GAAP and non-GAAP basis is provided in the table entitled "GAAP to non-GAAP Guidance for Q3 FY 2020" located in the section entitled "Reconciliations of GAAP to non-GAAP Measures."

Editor's Notes:

- Q2 fiscal year 2020 conference call to discuss Cisco's results along with its guidance will be held on Wednesday, February 12, 2020 at 1:30 p.m. Pacific Time. Conference call number is 1-888-848-6507 (United States) or 1-212-519-0847 (international).
- Conference call replay will be available from 4:00 p.m. Pacific Time, February 12, 2020 to 4:00 p.m. Pacific Time, February 19, 2020 at 1-800-839-1160 (United States) or 1-402-998-0925 (international). The replay will also be available via webcast on the Cisco Investor Relations website at <https://investor.cisco.com>.
- Additional information regarding Cisco's financials, as well as a webcast of the conference call with visuals designed to guide participants through the call, will be available at 1:30 p.m. Pacific Time, February 12, 2020. Text of the conference call's prepared remarks will be available within 24 hours of completion of the call. The webcast will include both the prepared remarks and the question-and-answer session. This information, along with the GAAP to non-GAAP reconciliation information, will be available on the Cisco Investor Relations website at <https://investor.cisco.com>.

CISCO SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (In millions, except per-share amounts) (Unaudited)

	Three Months Ended		Six Months Ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
REVENUE:				
Product	\$ 8,671	\$ 9,273	\$ 18,549	\$ 19,163
Service	3,334	3,173	6,615	6,355
Total revenue	<u>12,005</u>	<u>12,446</u>	25,164	25,518
COST OF SALES:				
Product	3,126	3,614	6,650	7,413
Service	1,115	1,059	2,286	2,186
Total cost of sales	<u>4,241</u>	<u>4,673</u>	8,936	9,599
GROSS MARGIN	<u>7,764</u>	<u>7,773</u>	16,228	15,919
OPERATING EXPENSES:				
Research and development	1,570	1,557	3,236	3,165
Sales and marketing	2,279	2,271	4,759	4,681
General and administrative	455	509	974	720
Amortization of purchased intangible assets	38	39	74	73
Restructuring and other charges	42	186	226	264
Total operating expenses	<u>4,384</u>	<u>4,562</u>	9,269	8,903
OPERATING INCOME	<u>3,380</u>	<u>3,211</u>	6,959	7,016
Interest income	242	328	515	672
Interest expense	(158)	(223)	(336)	(444)
Other income (loss), net	70	27	82	8
Interest and other income (loss), net	<u>154</u>	<u>132</u>	261	236

CISCO SYSTEMS, INC.

INCOME BEFORE PROVISION FOR INCOME TAXES	3,534	3,343	7,220	7,252
Provision for income taxes	656	521	1,416	881
NET INCOME	<u>\$ 2,878</u>	<u>\$ 2,822</u>	<u>\$ 5,804</u>	<u>\$ 6,371</u>
Net income per share:				
Basic	<u>\$ 0.68</u>	<u>\$ 0.63</u>	<u>\$ 1.37</u>	<u>\$ 1.41</u>
Diluted	<u>\$ 0.68</u>	<u>\$ 0.63</u>	<u>\$ 1.36</u>	<u>\$ 1.40</u>
Shares used in per-share calculation:				
Basic	4,242	4,470	4,244	4,517
Diluted	<u>4,260</u>	<u>4,505</u>	<u>4,265</u>	<u>4,557</u>

The Consolidated Statements of Operations include the results of the divested Service Provider Video Software Solutions (SPVSS) business for the six months ended January 26, 2019.

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REVENUE BY SEGMENT (In millions, except percentages)

	January 25, 2020				
	Three Months Ended		Six Months Ended		
	Amount	Y/Y%	Amount	Y/Y%	Including SPVSS business
Revenue:					
Americas	\$ 7,013	(5)%	\$14,990	— %	(1)%
EMEA	3,134	(3)%	6,417	1%	— %
APJC	1,859	(1)%	3,758	(5)%	(5)%
Total	\$ 12,005	(4)%	\$25,164	(1)%	(1)%

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

During the second quarter of fiscal 2019 on October 28, 2018, we completed the divestiture of the SPVSS business. SPVSS business revenue for the six months ended January 26, 2019 was \$168 million.

CISCO SYSTEMS, INC.
CISCO SYSTEMS, INC.
GROSS MARGIN PERCENTAGE BY SEGMENT (In percentages)

January 25, 2020

	January 25, 2020	
	Three Months Ended	Six Months Ended
Gross Margin Percentage:		
Americas	66.9%	66.8%
EMEA	65.8%	65.9%
APJC	65.6%	64.2%

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REVENUE FOR GROUPS OF SIMILAR PRODUCTS AND SERVICES (In millions, except percentages)

	January 25, 2020				
	Three Months Ended		Six Months Ended		
	Amount	Y/Y%	Amount	Excluding SPVSS business Y/Y%	Including SPVSS business Y/Y%
Revenue:					
Infrastructure Platforms	\$ 6,528	(8)%	\$14,067	(4)%	(4)%
Applications	1,349	(8)%	2,847	(1)%	(1)%
Security	748	9%	1,563	15%	15%
Other Products	46	110%	72	33%	(64)%
Total Product	8,671	(6)%	18,549	(2)%	(3)%
Services	3,334	5%	6,615	4%	4%
Total	\$ 12,005	(4)%	\$25,164	(1)%	(1)%

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

CISCO SYSTEMS, INC.

During the second quarter of fiscal 2019 on October 28, 2018, we completed the divestiture of the SPVSS business. SPVSS business revenue for the six months ended January 26, 2019 was \$168 million.

CISCO SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (In millions) (Unaudited)

	January 25, 2020	July 27, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,475	\$ 11,750
Investments	18,587	21,663
Accounts receivable, net of allowance for doubtful accounts of \$112 at January 25, 2020 and \$136 at July 27, 2019	4,330	5,491
Inventories	1,353	1,383
Financing receivables, net	4,827	5,095
Other current assets	2,481	2,373
Total current assets	<u>40,053</u>	<u>47,755</u>
Property and equipment, net	2,621	2,789
Financing receivables, net	4,757	4,958
Goodwill	33,612	33,529
Purchased intangible assets, net	1,906	2,201
Deferred tax assets	3,896	4,065
Other assets	3,581	2,496
TOTAL ASSETS	<u>\$ 90,426</u>	<u>\$ 97,793</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 1,499	\$ 10,191
Accounts payable	1,935	2,059
Income taxes payable	819	1,149

CISCO SYSTEMS, INC.

Accrued compensation	2,690	3,221
Deferred revenue	10,638	10,668
Other current liabilities	4,507	4,424
Total current liabilities	22,088	31,712
Long-term debt	14,494	14,475
Income taxes payable	8,227	8,927
Deferred revenue	8,048	7,799
Other long-term liabilities	2,036	1,309
Total liabilities	54,893	64,222
Total equity	35,533	33,571
TOTAL LIABILITIES AND EQUITY	\$ 90,426	\$ 97,793

CISCO SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended	
	January 25, 2020	January 26, 2019
Cash flows from operating activities:		
Net income	\$ 5,804	\$ 6,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and other	918	952
Share-based compensation expense	779	792
Provision (benefit) for receivables	46	30
Deferred income taxes	128	(257)
(Gains) losses on divestitures, investments and other, net	(162)	(77)
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	1,084	1,613
Inventories	25	(203)
Financing receivables	408	161
Other assets	130	(652)
Accounts payable	(126)	(296)
Income taxes, net	(1,007)	(830)
Accrued compensation	(521)	(339)
Deferred revenue	236	207
Other liabilities	(355)	88
Net cash provided by operating activities	7,387	7,560
Cash flows from investing activities:		
Purchases of investments	(4,250)	(677)
Proceeds from sales of investments	3,410	3,055

CISCO SYSTEMS, INC.

Proceeds from maturities of investments	4,044	6,263
Acquisitions and divestitures	(163)	(1,599)
Purchases of investments in privately held companies	(97)	(68)
Return of investments in privately held companies	91	43
Acquisition of property and equipment	(391)	(473)
Proceeds from sales of property and equipment	131	10
Other	(10)	(12)
Net cash provided by investing activities	2,765	6,542
Cash flows from financing activities:		
Issuances of common stock	334	312
Repurchases of common stock - repurchase program	(1,648)	(10,062)
Shares repurchased for tax withholdings on vesting of restricted stock units	(437)	(514)
Short-term borrowings, original maturities of 90 days or less, net	(3,470)	—
Repayments of debt	(5,220)	—
Dividends paid	(2,972)	(2,970)
Other	(12)	18
Net cash used in financing activities	(13,425)	(13,216)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(3,273)	886
Cash, cash equivalents, and restricted cash, beginning of period	11,772	8,993
Cash, cash equivalents, and restricted cash, end of period	\$ 8,499	\$ 9,879
Supplemental cash flow information:		
Cash paid for interest	\$ 349	\$ 425
Cash paid for income taxes, net	\$ 2,295	\$ 1,968

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DEFERRED REVENUE (In millions)

	January 25, 2020	October 26, 2019	January 26, 2019
Deferred revenue:			
Service	\$ 11,526	\$ 11,497	\$ 11,246
Product	7,160	7,105	6,015
Total	\$ 18,686	\$ 18,602	\$ 17,261
Reported as:			

CISCO SYSTEMS, INC.
RECONCILIATIONS OF GAAP TO NON-GAAP MEASURES

Current	\$ 10,638	\$ 10,646	\$ 9,976
Noncurrent	8,048	7,956	<u>7,285</u>
Total	\$ 18,686	\$ 18,602	<u>\$ 17,261</u>

CISCO SYSTEMS, INC.
DIVIDENDS PAID AND REPURCHASES OF COMMON STOCK (In millions, except per-share amounts)

Quarter Ended	DIVIDENDS		STOCK REPURCHASE PROGRAM			TOTAL
	Per Share	Amount	Shares	Weighted-Average Price per Share	Amount	Amount
Fiscal 2020						
January 25, 2020	\$ 0.35	\$ 1,486	18	\$ 46.71	\$ 870	\$ 2,356
October 26, 2019	\$ 0.35	\$ 1,486	16	\$ 48.91	\$ 768	\$ 2,254
Fiscal 2019						
July 27, 2019	\$ 0.35	\$ 1,490	82	\$ 54.99	\$ 4,515	\$ 6,005
April 27, 2019	\$ 0.35	\$ 1,519	116	\$ 52.14	\$ 6,020	\$ 7,539
January 26, 2019	\$ 0.33	\$ 1,470	111	\$ 45.09	\$ 5,016	\$ 6,486
October 27, 2018	\$ 0.33	\$ 1,500	109	\$ 46.01	\$ 5,026	\$ 6,526

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GAAP TO NON-GAAP NET INCOME (In millions, except per-share amounts)

	Three Months Ended		Six Months Ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
GAAP net income	\$ 2,878	\$ 2,822	\$ 5,804	\$ 6,371
Adjustments to cost of sales:				
Share-based compensation expense	59	53	116	109
Amortization of acquisition-related intangible assets	150	141	300	277
Supplier component remediation charge (adjustment), net	—	—	—	(1)
Acquisition-related/divestiture costs	1	3	2	7
Legal and indemnification settlements	—	5	4	5
Total adjustments to GAAP cost of sales	<u>210</u>	<u>202</u>	<u>422</u>	<u>397</u>
Adjustments to operating expenses:				
Share-based compensation expense	320	323	653	652

CISCO SYSTEMS, INC.

Amortization of acquisition-related intangible assets	38	39	74	73
Acquisition-related/divestiture costs	53	39	125	160
Legal and indemnification settlements	—	—	—	(395)
Significant asset impairments and restructurings	42	186	226	264
Total adjustments to GAAP operating expenses	<u>453</u>	<u>587</u>	<u>1,078</u>	<u>754</u>
Adjustments to GAAP interest and other income (loss), net:				
(Gains) and losses on equity investments	<u>(87)</u>	<u>(64)</u>	<u>(100)</u>	<u>(73)</u>
Total adjustments to GAAP income before provision for income taxes	<u>576</u>	<u>725</u>	<u>1,400</u>	<u>1,078</u>
Income tax effect of non-GAAP adjustments	<u>(166)</u>	<u>(209)</u>	<u>(375)</u>	<u>(394)</u>
Significant tax matters	—	(43)	67	(308)
Total adjustments to GAAP provision for income taxes	<u>(166)</u>	<u>(252)</u>	<u>(308)</u>	<u>(702)</u>
Non-GAAP net income	<u>\$ 3,288</u>	<u>\$ 3,295</u>	<u>\$ 6,896</u>	<u>\$ 6,747</u>
Diluted net income per share:				
GAAP	<u>\$ 0.68</u>	<u>\$ 0.63</u>	<u>\$ 1.36</u>	<u>\$ 1.40</u>
Non-GAAP	<u>\$ 0.77</u>	<u>\$ 0.73</u>	<u>\$ 1.62</u>	<u>\$ 1.48</u>

CISCO SYSTEMS, INC.
RECONCILIATIONS OF GAAP TO NON-GAAP MEASURES

GROSS MARGINS, OPERATING EXPENSES, OPERATING MARGINS, INTEREST AND OTHER INCOME (LOSS), NET, AND NET INCOME (In millions, except percentages)

Three Months Ended
January 25, 2020

	Product Gross Margin	Service Gross Margin	Total Gross Margin	Operating Expenses	Y/Y	Operating Income	Y/Y	Interest and other income (loss), net	Y/Y	Net Income	Y/Y
GAAP amount	\$5,545	\$2,219	\$7,764	\$ 4,384	(4)%	\$ 3,380	5%	\$ 154	17%	\$2,878	2%
<i>% of revenue</i>	<i>63.9%</i>	<i>66.6%</i>	<i>64.7%</i>	<i>36.5%</i>		<i>28.2%</i>		<i>1.3%</i>		<i>24.0%</i>	
Adjustments to GAAP amounts:											
Share-based compensation expense	23	36	59	320		379		—		379	
Amortization of acquisition-related intangible assets	150	—	150	38		188		—		188	
Acquisition/divestiture-related costs	—	1	1	53		54		—		54	
Significant asset impairments and restructurings	—	—	—	42		42		—		42	
(Gains) and losses on equity investments	—	—	—	—		—		(87)		(87)	
Income tax effect/significant tax matters	—	—	—	—		—		—		(166)	
Non-GAAP amount	\$5,718	\$2,256	\$7,974	\$ 3,931	(1)%	\$ 4,043	1%	\$ 67	(1)%	\$3,288	— %
<i>% of revenue</i>	<i>65.9%</i>	<i>67.7%</i>	<i>66.4%</i>	<i>32.7%</i>		<i>33.7%</i>		<i>0.6%</i>		<i>27.4%</i>	

Three Months Ended
January 26, 2019

	Product Gross Margin	Service Gross Margin	Total Gross Margin	Operating Expenses	Operating Income	Interest and other income (loss), net	Net Income
GAAP amount	\$5,659	\$2,114	\$7,773	\$ 4,562	\$ 3,211	\$ 132	\$2,822
<i>% of revenue</i>	<i>61.0%</i>	<i>66.6%</i>	<i>62.5%</i>	<i>36.7%</i>	<i>25.8%</i>	<i>1.1%</i>	<i>22.7%</i>
Adjustments to GAAP amounts:							
Share-based compensation expense			22	31	53	323	376
Amortization of acquisition-related intangible assets			141	—	141	39	180
Legal and indemnification settlements			5	—	5	—	5
Acquisition/divestiture-related costs			1	2	3	39	42

Significant asset impairments and restructurings	—	—	—	186	186	—	186
(Gains) and losses on equity investments	—	—	—	—	—	(64)	(64)
Income tax effect/significant tax matters	—	—	—	—	—	—	(252)
Non-GAAP amount	<u>\$5,828</u>	<u>\$2,147</u>	<u>\$7,975</u>	<u>\$ 3,975</u>	<u>\$ 4,000</u>	<u>\$ 68</u>	<u>\$3,295</u>
<i>% of revenue</i>	<u>62.8%</u>	<u>67.7%</u>	<u>64.1%</u>	<u>31.9%</u>	<u>32.1%</u>	<u>0.5%</u>	<u>26.5%</u>

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

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EFFECTIVE TAX RATE (In percentages)

	Three Months Ended		Six Months Ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
GAAP effective tax rate	18.6%	15.6%	19.6%	12.1%
Total adjustments to GAAP provision for income taxes	1.4%	3.4%	0.4%	6.9%
Non-GAAP effective tax rate	20.0%	19.0%	20.0%	19.0%

GAAP TO NON-GAAP GUIDANCE FOR Q3 'Y 2020

Q3 FY 2020	Gross Margin Rate	Operating Margin Rate	Tax Provision Rate	Earnings per Share ⁽²⁾
GAAP	63% - 64%	26% - 27%	19%	\$0.62 - \$0.67
Estimated adjustments for:				
Share-based compensation expense	0.5%	3.0%	—	\$0.07 - \$0.08
Amortization of acquisition-related intangible assets and acquisition/divestiture-related costs	1.0%	2.0%	—	\$0.05 - \$0.06
Significant asset impairments and restructurings ⁽¹⁾	—	1.5%	—	\$0.02 - \$0.03
Income tax effect of non-GAAP adjustments			1%	
Non-GAAP	<u>64.5% - 65.5%</u>	<u>32.5% - 33.5%</u>	20%	<u>\$0.79 - \$0.81</u>

⁽¹⁾ In the third quarter of fiscal 2020, we initiated a restructuring plan in order to realign the organization and enable further investment in key priority areas with estimated pretax charges of approximately \$300 million consisting of severance and other one-time termination benefits, and other costs. We expect to recognize approximately \$150 million of these charges in the third quarter of fiscal 2020.

⁽²⁾ Estimated adjustments to GAAP earnings per share are shown after income tax effects.

Except as noted above, this guidance does not include the effects of any future acquisitions/divestitures, asset impairments, restructurings and significant tax matters or other events, which may or may not be significant unless specifically stated.

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CISCO SYSTEMS, INC.
RECONCILIATIONS OF GAAP TO NON-GAAP MEASURES

Forward Looking Statements, Non-GAAP Information and Additional Information

This release 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 our ability to continue to drive innovation, our long-term growth opportunities as we help our customers build out the networks for the future, the continued strength of our ongoing cash flows and our ability to continue to return value to our shareholders) and the future financial performance of Cisco (including the guidance for Q3 FY 2020) 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 19, 2019 and September 5, 2019, respectively. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent reports on Forms 10-Q and 10-K as each may be amended from time to time. Cisco's results of operations for the three and six months ended January 25, 2020 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.

This release includes non-GAAP net income, non-GAAP gross margins, non-GAAP operating expenses, non-GAAP operating income and margin, non-GAAP effective tax rates, non-GAAP interest and other income (loss), net, and non-GAAP net income per share data for the periods presented. It also includes future estimated ranges for gross margin, operating margin, tax provision rate and EPS on a non-GAAP basis.

These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Cisco believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with Cisco's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate Cisco's results of operations in conjunction with the corresponding GAAP measures.

Cisco believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and its historical and projected results of operations.

For its internal budgeting process, Cisco's management uses financial statements that do not include, when applicable, share-based compensation expense, amortization of acquisition-related intangible assets, acquisition-related/divestiture costs, significant asset impairments and restructurings, significant litigation settlements and other contingencies, gains and losses on equity investments, the income tax effects of the foregoing and significant tax matters. Cisco's management also uses the foregoing non-GAAP measures, in addition to the corresponding GAAP measures, in reviewing the financial results of Cisco. In prior periods, Cisco has excluded other items that it no longer excludes for purposes of its non-GAAP financial measures. From time to time in the future there may be other items that Cisco may exclude for purposes of its internal budgeting process and in reviewing its financial results. For additional information on the items excluded by Cisco from one or more of its non-GAAP financial measures, refer to the Form 8-K regarding this release furnished today to the Securities and Exchange Commission.

Cisco divested its Service Provider Video Software Solutions business (SPVSS) during the second quarter of fiscal 2019 on October 28, 2018. This release includes, where indicated, financial measures that exclude the SPVSS business. Cisco believes that the presentation of these measures provides useful information to investors and management regarding financial and business trends relating to its financial condition and its historical and projected results of operations because the SPVSS business will not be part of Cisco on a go forward basis. Cisco's management also uses the financial measures excluding the SPVSS business in reviewing the financial results of Cisco.

About Cisco

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