Q2 2019 Earnings Call

Company Participants

- Charles H. Robbins, Chairman & Chief Executive Officer
- Kelly A. Kramer, Chief Financial Officer & Executive Vice President
- Marilyn Mora, Director, Head of Global Investor Relations

Other Participants

- Ittai Kidron, Analyst
- James E. Faucette, Analyst
- Jim Suva, Analyst
- Paul Silverstein, Analyst
- Pierre C. Ferragu, Global Team Head, Technology Infrastructure
- Rod Hall, Analyst
- Sami Badri, Analyst
- Samik X. Chatterjee, Analyst
- Steven Mark Milunovich, Analyst
- Tal Liani, Analyst
- Tejas Venkatesh, Analyst
- Vijay Bhagavath, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to Cisco's second quarter fiscal year 2019 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 Marilyn Mora, Head of Investor Relations. Ma'am, you may begin.

Marilyn Mora {BIO 19771101 <GO>}

Thanks, Michelle. Welcome, everyone, to Cisco's second quarter fiscal 2019 quarterly earnings conference call. This is Marilyn Mora, Head of Investor Relations, and I'm joined by Chuck Robbins, our Chairman and CEO, and Kelly Kramer, our CFO.

By now you should have seen our earnings press release. A corresponding webcast with slides, including supplemental information, will be made available on our website in the

Investor Relations section following the call. Income statements, full GAAP to non-GAAP reconciliation information, balance sheets, cash flow statements, and other financial information can also be found in the Financial Information section of our Investor Relations website.

Throughout this conference call, we will be referencing both GAAP and non-GAAP financial results and will discuss product results in terms of revenue and geographic and customer results in terms of product orders unless stated otherwise. All comparisons made throughout this call will be made on a year-over-year basis unless stated otherwise.

The matters we will be discussing today include forward-looking statements, including the guidance we will be providing for the third quarter of fiscal 2019. They are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically the most recent reports on Forms 10-K and 10-Q, which identify important risk factors that could cause actual results to differ materially from those contained in the forward-looking statements. With respect to guidance, please also see the slides and press release that accompany this call for further details.

As a reminder, Cisco will not comment on its financial guidance during the quarter unless it is done through an explicit public disclosure.

As a reminder, in Q2 on October 28, we completed the sale of our SPVSS business and accordingly had no revenue or expense from that business in Q2 of fiscal 2019. As such, all of the revenue, non-GAAP, and product orders information we will be discussing is normalized to exclude the SPVSS business from our historical results. We have provided historical financial information for the SPVSS business in the slides that accompany this call and on our website to help understand these impacts. As a reminder, the guidance we provided during our Q1 earnings call and today's call has been normalized in the same way.

I will now turn the call over to Chuck.

Charles H. Robbins {BIO 17845882 <GO>}

Thank you, Marilyn, and good afternoon, everyone.

This quarter, we again demonstrated that we have built a resilient growth engine that is firing on multiple cylinders. Our strategy of expanding our portfolio while investing in our core markets is delivering unprecedented innovation for our customers and sustainable value for our shareholders. We delivered revenue growth across all geographies and businesses, strong margins, double-digit non-GAAP earnings per share growth, and continued solid cash generation.

We're building the technologies that enhance our customers' new digital capabilities and experiences like never before. With the continued expansion to the cloud, the increasing connectivity of users and devices, and the need to secure their enterprises, our customers are facing the most complex and dynamic IT environment we've ever seen. Cisco's intent-based networking architecture helps to navigate this complexity by enabling them to simplify, automate, and securely transform their infrastructure.

We are redefining every networking domain for our customers, from the campus to the wider e-network to the data center to the cloud, delivering the agility, operational efficiency, and most importantly, the security our customers require to accelerate their digital transformations. Only Cisco can build and deliver a multi-domain intent-based architecture that sits at the intersection of users, devices, applications, and data that can securely connect any user on any device on any network to any application. Simply put, the Cisco of today is at the center of our customers' strategies and no longer viewed just as an enabler of those strategies.

Now let's review some of the highlights in our key strategic growth areas, starting with Infrastructure Platforms. Over the last 18 months, we've been reinventing networking from the ground up to connect every domain of the extended enterprise, and it's clear that the investments we've made in our core business are paying off.

We are executing well, with continued growth in our infrastructure portfolio and strong customer uptake of our Catalyst 9000 family of switches and our SD-WAN offerings. We are now extending our industry-leading security and intent-based networking capabilities to new IoT edge platforms, connecting devices throughout the enterprise with unprecedented scale, unparalleled flexibility, and control. Going forward, you will see us continue to extend our intent-based networking innovations across the portfolio with subscription-based offers that will enable our customers to adopt a consistent architecture across every domain.

In the data center, we are enabling digital enterprises to securely access their applications and their data everywhere, from private to public cloud environments as well as the edge. Two weeks ago, we announced a new architecture that extends the data center to wherever the data exists and across all applications running anywhere. We introduced several new innovations to extend our multi-cloud leadership with ACI Anywhere, HyperFlex Anywhere, and cloud center capabilities. We are also well positioned to take advantage of 100-gig and 400-gig upgrade cycles across enterprise data centers, service provider, and web scale networks.

With global internet traffic expected to increase threefold over the next five years, our customers are facing an exponential demand for capacity. To address their need for speed and performance, we continue to innovate to drive the industry's transition to next-generation high-speed networks of 400-gig and beyond. Our acquisition of Luxtera will further augment our existing capability around silicon and optics, enabling our customers to build the fastest and most efficient networks.

Now moving to our Security business, we generated strong double-digit growth, reflecting the increasing demand for our market-leading solutions and the trust our customers place in us. The attack surface is only increasing, and our comprehensive approach of integrating security into the intent-based architecture, from the network to the cloud to the endpoint, has been successful as our installed base continues to grow.

With our industry-leading threat intelligence, we are redefining how security is delivered with our multi-domain architecture. For example, as a leader in both SD-WAN and security, Cisco provides the most robust SD-WAN platform integrated with cloud security. This helps to simplify and secure our customers' deployment, operation, and management of their environments.

Increasingly, we are helping to secure our customers' distributed enterprises with remote access and cloud-based security solutions. A great example of this is Duo Security's cloud-delivered zero-trust platform, which significantly expands our footprint in the identity and access market, bringing together user, device and application visibility, and trust. We are seeing strong traction with Duo and good progress in scaling their capabilities while strengthening our cloud-based subscription portfolio.

Turning to Applications, in collaboration, enterprise communications continue to evolve as we move to a digital cloud-based world. We are defining the future of work with next-generation collaboration platforms that have flexible, intuitive, and intelligent on-premise and cloud-based solutions. This comprehensive approach to collaboration is a key reason why customers are adopting our market-leading portfolio, resulting in another quarter of exceptional growth.

Cisco provides a full suite of collaboration solutions for calling, meeting, team collaboration, and care with flexible subscription offerings designed to easily integrate into customer workflows. With the deep integration of BroadSoft with our core capabilities, we are now the market leader for cloud-based calling and care solutions, with compelling solutions for SMBs as well as enterprises globally.

AppDynamics is the largest APM vendor providing real-time analytics and insights across applications, infrastructure, and the network, driving solid momentum with our customers. We have been investing in several new capabilities, delivering the broadest application visibility and monitoring platform in the world. Our real-time analytics and monitoring offerings are mission-critical for our customers as they face a growing complex application environment. To simplify and automate their IT operations, we recently launched AI Ops, leveraging AI, machine learning, and automation to enable improved customer experiences and greater business performance.

In summary, we are very pleased with our strong quarter and first half performance. Our teams are executing incredibly well, aggressively transitioning to a software model, and accelerating our pace of innovation, and I'm proud of the work they are doing.

Our multi-domain intent-based architecture is helping to simplify, automate, and secure the complex IT environments our customers are facing, and I believe we are well positioned to play an even more strategic role with them as they embrace multi-cloud, edge computing, and digital transformation. The innovation our teams have been driving has now given us the strongest portfolio that we've had in a very long time, and I couldn't be more confident about our future.

Kelly, I'll now turn it over to you.

Kelly A. Kramer {BIO 18951157 <GO>}

Thanks, Chuck. I'll start with a summary of our financial results for the quarter, followed by the guidance for Q3.

Q2 was a solid quarter across the business. We executed well, with strong orders, revenue growth, margins, EPS, and operating cash flow. We had continued momentum in product orders, which grew 8%. Total revenue was $12.4 billion, up 7%. Our non-GAAP operating margin rate was 32.1%. Non-GAAP net income was $3.3 billion, up 6%, and non-GAAP EPS was $0.73, up 16%.

Let me provide some more detail on our Q2 revenue. Total product revenue was up 9% to $9.3 billion. Infrastructure Platforms grew 6%. Switching had another great quarter with double-digit growth in the campus, driven by the continued ramp of the Cat 9K [Catalyst 9000]. Wireless also had double-digit growth with the strength of our Wave 2 offerings and Meraki. Routing declined due to weakness in service provider. We also saw a decline in data center servers, partially offset by strength in hyper-converged.

Applications was up 24%, with growth across all the businesses. We saw strong growth in Unified Communications, TelePresence, and AppDynamics.

Security was up 18%, with strong performance in identity and access, advanced threat, and unified threat. Service revenue was up 1%, driven by software and solutions support. We continue to transform the business, delivering more software offerings and driving more subscriptions. Software subscriptions were 65% of total software revenue, up 10 points year over-year.

When we look at the impact of acquisitions on our Q2 results year over year, there was a 140 basis point positive impact on revenue.

We saw strong momentum in Q2, with total product orders growing 8%.

Looking at the geographies, Americas grew 7%, EMEA was up 11%, and APJC was up 6%. Total emerging markets was up 6%, with the BRICs plus Mexico up 2%.

In our customer segments, enterprise was up 11%, commercial grew 7%, public sector was up 18%, and service provider was down 1%.

From a non-GAAP profitability perspective, total Q2 gross margin was 64.1%. In terms of the bottom line from a GAAP perspective, Q2 net income was $2.8 billion and EPS was $0.63.

We ended Q2 with total cash, cash equivalents, and investments of $40.4 billion. Q2 operating cash flow was $3.8 billion, down 7%. We paid $750 million for the first transition tax payment related to the Tax Cuts and Jobs Act. Normalized for that tax payment, operating cash flow was up 12%.

From a capital allocation perspective, we returned $6.5 billion to shareholders during the quarter that was comprised of $5 billion of share repurchases and $1.5 billion for our quarterly dividend.

Today we also announced a $0.02 increase to the quarterly dividend to $0.35 per share, up 6% year over year. This represents a yield of approximately 3% based on today's closing price. We also announced a $15 billion increase to the authorization of the share repurchase program. This raises the remaining share repurchase authorization to approximately $24 billion. This dividend increase and additional share repurchase authorization reinforces our commitment to returning capital to our shareholders and our confidence in the strength and stability of our ongoing cash flows.

We continue to invest organically and inorganically in our innovation pipeline. During the quarter we announced the acquisition of Luxtera, a company focused on silicon photonics, which closed on February 6.

To summarize, we had a great Q2. We executed well with strong top line growth and profitability. We're seeing the returns on the investments we're making in innovation and driving the shift to more software and subscriptions, driving long-term growth and shareholder value.

Let me reiterate our guidance for the third quarter of fiscal 2019. This guidance includes the type of forward-looking information that Marilyn referred to earlier. Note again that we have normalized our third quarter guidance to exclude the SPVSS business for Q3 of fiscal 2018, which we divested on October 28, 2018. We have provided historical financial information for the SPVSS business in the slides that accompany this call.

We expect revenue growth in the range of 4% to 6% year over year. We anticipate the non-GAAP gross margin rate to be in the range of 64% to 65%. The non-GAAP operating margin rate is expected to be in the range of 31% to 32%, and the non-GAAP tax provision rate is expected to be 19%. Non-GAAP earnings per share is expected to range from $0.76 to $0.78.

I'll now turn it back to Marilyn so we can move to Q&A.

Marilyn Mora {BIO 19771101 <GO>}

Thanks, Kelly. Michelle, let's go ahead and open the line for questions. As a reminder, I ask that all of you limit yourself to one question only so that we have enough time to get to all of you. I'll now turn it over to you, Michelle, to start the queueing process.

Q&A

Operator

Thank you. Jim Suva from Citi Global Markets, you may go ahead.

Q - Jim Suva {BIO 6329522 <GO>}

Thank you very much and congratulations on the results and the outlook. When we look at a couple of dynamics, whether it be tariffs, government shutdown, or maybe even weather for installation and shipping your product around the whole U.S., any thoughts around how we should think about those items, how they played out, and then your forecast of what's built in?

A - Charles H. Robbins {BIO 17845882 <GO>}

Hello, Jim, this is Chuck. Look, first of all, I would tell you that it certainly is one of the more complex macro geopolitical environments that I think we've seen in quite a while with all the different moving parts. But to be honest, from the first day of the quarter to the last day of the quarter, we saw zero difference. We saw very steady demand throughout the quarter and just saw great execution by our teams.

When we look out ahead at the guide, we're looking at the conditions as they exist today. And so far, we've been able to navigate all the different dynamics I think pretty well. We're pretty proud of what the teams have accomplished.

Q - Jim Suva {BIO 6329522 <GO>}

Thank you so much for the details. It's appreciated.

A - Charles H. Robbins {BIO 17845882 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

All right, next question, please?

Operator

Vijay Bhagavath from Deutsche Bank, you may go ahead, sir.

Q - Vijay Bhagavath {BIO 6022835 <GO>}

Good afternoon, Chuck, Kelly. Congratulations, these are solid results.

A - Kelly A. Kramer {BIO 18951157 <GO>}

Hey, Vijay.

Q - Vijay Bhagavath {BIO 6022835 <GO>}

My question, Chuck, and Kelly, I would like to get your thoughts in too, the secular growth portfolio you have around AppDynamics, Meraki, Viptela, Duo, et cetera, are these assets starting to drive new sales opportunities, perhaps new product refresh for the core business, or are these mostly like standalone, like they're growing in their respective areas? Thank you.

A - Charles H. Robbins {BIO 17845882 <GO>}

Thanks, Vijay, and thanks for the nice comment. If I look at the different acquisitions, if you look at – let me just pick a few like BroadSoft and the integration that has been done with the collaboration portfolio. That clearly enhances the overall architecture and I would say has a positive impact on the total business.

As you look at things like Meraki and as we continue to do tighter integration between the Meraki portfolio and the classic Cisco portfolio and we bring together the automation strategies on each side, it gives customers the ability to deploy a hybrid model with both of those technology areas, which I think is a benefit that many of our customers have. They might want the traditional Cisco portfolio in their core headquarters buildings, and they might like Meraki out in their retail outlets or in small branches. So that's very positive.

When you think about an acquisition like Duo, that's clearly part of an overarching security architecture that our customers are buying into, as you can see from the 18% growth, which is the fastest growth rate we've seen in security in many years. So I think it depends on the acquisition, but most of them are pulling forward an architecture that they're associated with.

A - Kelly A. Kramer {BIO 18951157 <GO>}

And just to add, I think we're also embedding it in our products. You can look at when we acquired StealthWatch. It's now part of what we're doing with the Cat 9K or what we announced with Umbrella being part of our other products. So I think it's a combination of both.

A - Charles H. Robbins {BIO 17845882 <GO>}

Yeah, bringing together some of the traditional technologies, thinking about bringing together the ISR with Viptela with Umbrella to create this new secure SD-WAN offering, that's a unique capability that only we have. And you look at taking some of the security technologies like advanced malware and moving them into the Meraki portfolio, those are obviously key differentiators for us.

Q - Vijay Bhagavath {BIO 6022835 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

All right. Thanks, Vijay. Next question, please?

Operator

Rod Hall with Goldman Sachs, you may go ahead, sir.

Q - Rod Hall {BIO 20453923 <GO>}

Hi, guys. Thanks for the question. I guess I wanted to start off with the public sector side of things. And the order trajectory there improved a lot, 18%, and yet we're all sitting here expecting U.S. Fed to be weak. So I wonder if you could comment on the U.S. Fed impact on the current quarter and then why we're seeing such a big order acceleration there. And then I have a follow-up.

A - Charles H. Robbins {BIO 17845882 <GO>}

I would tell you, I think first of all, it's important to understand the dynamics of the shutdown that we experienced. It was really – only about 25% of the government agencies were impacted. And some of the groups that we do business with, when they had a sense a shutdown might be coming, some of them pulled some orders ahead and actually got them in the system. So I will tell you that we saw minimal impact. Our U.S. Federal business, even with the shutdown, grew double digits, which is I think a testament to our team and the relationships and the execution.

And around the world, when you look at our business in Europe, you look at the – think about the 11% growth in EMEA. When we talked to our team there, a lot of that is public sector oriented. Same across the world, we just saw – obviously we had 18% growth in our public sector business around the world. Obviously, the technology is resonating in that vertical, that's for sure.

Q - Rod Hall {BIO 20453923 <GO>}

Okay. Great, Chuck. I appreciate that. And then I wanted to, on the follow-up, just on the enterprise order rate, that was I think 15% last quarter. It's decelerated a little bit to 11%. Just comment on what you're seeing there. You've talked before about last year being such a strong year, and I'm just curious if you think that's just a one quarter thing, or is that a trajectory we would expect to continue?

A - Charles H. Robbins {BIO 17845882 <GO>}

Rod, as I think about the enterprise and you look at our portfolio right now, we really line up with what – our customers are looking at strategies to drive revenue and looking at how our collaboration architecture or our location analytics in retail outlets can help them, or they're looking at how do they reduce their operating expenses and simplifying and the automation we're driving in the networking space, the SD-WAN solutions, they're just – these are all really core to what our enterprise customers are looking for.

We've talked about it over the last several calls; that this Cat 9K, the early phases of that, we're still in the very early innings, and now we've deployed a wireless portfolio that fits within that architecture. The SD-WAN solutions are going to be integrated into that architecture, and the customers are still on the very front end of deploying all this technology.

So we feel good about where we are. And we think that, assuming we continue to execute well on that technology and that portfolio, the benefits to the customer are such that I think that we should have a pretty successful run ahead of us in our enterprise accounts, assuming we continue to execute.

Q - Rod Hall {BIO 20453923 <GO>}

That's great. Thanks, Chuck. I really appreciate it, nice job.

A - Charles H. Robbins {BIO 17845882 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Next question, please?

Operator

Paul Silverstein with Cowen & Company, you may go ahead, sir.

Q - Paul Silverstein {BIO 1812254 <GO>}

Thanks. I've got two related questions, one, my customary what's your rate of price erosion. And, Kelly, in connection with that, if you can, talk about gross margin drivers looking forward.

And related to that, if I did the math right, you all did $4.5 billion of operating cash flow if you exclude the $800 million in connection with that one-time tax item. That's a record by over $400 million or 10% of what historically is not your strongest cash flow quarter. The question is, is that a new normal, or were there other extraordinary items in that number?

A - Kelly A. Kramer {BIO 18951157 <GO>}

So just on the cash, there's nothing extraordinary in that. And again, that $750 million that we paid out, we'll be paying that – those charges that escalate in the later years, over the next eight years. That was just part of the transition tax. Besides that, no, there's no extraordinaries. Remember, in Q1 we had the extraordinary $400 million payout from Arista, but there's nothing in Q2 besides that.

Paul, to your question on price, this quarter it was a 1 point impact on gross margin. The teams did a good job on that, and so that's in that range. And then if I go back to the gross margin drivers, like we talked about on the last earnings call, it's been the same drivers. We still had a definitely negative headwind for the last quarter here, in Q2, from DRAM and component costs. But as you look in our guide forward, you'll notice that the guide went up another 0.5 point because, like I expected last quarter and what we're seeing, the DRAM turns into a tailwind in Q3 and Q4. So that's why you see that tick up in the guide on the gross margin.

So the drivers we had are really just again the headwinds being the component costs in Q2. That turns around. And then we still have a little bit of a drag on our rate for the – as we continue to ramp the Cat 9K portfolio for that deferral impact. But otherwise, we're executing well.

Q - Paul Silverstein {BIO 1812254 <GO>}

Kelly, I trust the ongoing shift to software will have a benefit over time.

A - Kelly A. Kramer {BIO 18951157 <GO>}

Oh, yeah, we're seeing that. That's what's offsetting a lot of these headwinds on the component stuff. So that will continue, which is again why you continue to see them inch up. So when the DRAM, which has been a significant headwind for us the last bunch of quarters, we'll continue to see that benefit us.

Q - Paul Silverstein {BIO 1812254 <GO>}

Thank you, I appreciate it.

A - Kelly A. Kramer {BIO 18951157 <GO>}

Yes.

A - Marilyn Mora {BIO 19771101 <GO>}

All right. Thanks, Paul. Michelle, next question?

Operator

Thank you. Ittai Kidron from Oppenheimer & Company, you may go ahead, sir.

Q - Ittai Kidron {BIO 5557426 <GO>}

Thanks and congrats. Let me add my congrats, fantastic execution in what seems to be a very crazy world. Maybe I have a two-part question. I guess, Chuck, I'm trying to dig into what Rod was asking before. You're riding multiple product cycles in multiple product areas. But if you had to put it all together across your entire customer base, in what phase of the adoption are we, the embrace of the customers of this new portfolio? Are we early cycle, mid-cycle? Help me think about that.

A - Charles H. Robbins {BIO 17845882 <GO>}

Okay, Ittai, thank you. Look, here's the thing I think is important to understand. We have been working over the years on building best-of-breed technology for what we talk about relative to domains with our customers. So we've been building the best data center switching portfolio, the best campus switching portfolio, the best campus wireless portfolio.

Over the last three years, what we've done is we've built an automation architecture within a domain. So we built ACI in the data center. We built DNA in the campus. We've got the SD-WAN platform in the branch. We've got a security control center that actually automates the security architecture, and now what we're doing is we're beginning to bring those together.

So when you hear us talk about multi-domain, it means that we're giving our customers the ability to drive automation across all of those domains. And you're going to see even more announcements over the next few months relative to extending that. We extended it into the IoT architecture. So think about an application that's either running in the cloud or running in the data center that requires a certain policy that gets deployed across all those domains, and I think that's the thing that our customers are really excited about.

So now where are we? We're still early. I would still say we're in the early innings. This transition, if you look back at the number of years that customers were buying and sweating a lot of this infrastructure, then that's the base that we have ahead of us to actually move into this new architecture. So I would say it's still very early across all those areas that I just described.

Q - Ittai Kidron {BIO 5557426 <GO>}

That's great. And then just as a follow-up, I didn't catch the data center switch comment. Was there one, or can you give us some color on where you stand there? And how do you envision 400-gig making its impact there timeline-wise?

A - Charles H. Robbins {BIO 17845882 <GO>}

I think what we gave, Kelly, you gave a broader switching number, I think. We said our overall switching business was up double digits. So it's a pretty big business, so we were pleased with that.

A - Kelly A. Kramer {BIO 18951157 <GO>}

And on the 400-gig, right...?

A - Charles H. Robbins {BIO 17845882 <GO>}

On the 400-gig, I'll tell you, we've got a lot of work going on in both our data center switching portfolio, where we're in some early field trials, as well as in our networking portfolio with some of the work that's going on there. And we believe that sometime middle of this year, we'll begin to see broad-based deployments. We're happy with that.

I think there are a couple of key differentiators for us, Ittai. We build our own silicon. The Luxtera acquisition is going to bring the optics into that for us as well instead of us having to go out and procure the optics. We'll be able to more tightly integrate them, the whole intent-based architecture we have and the ability for us with our silicon to do real-time packet examinations for the customers and let them look at packet flows dynamically. There's a lot of differentiators including a lot of power consumption advantages we think we're going to have. So middle of this year, we'll begin to see if all that comes to fruition, but I think the teams are in a good spot.

Q - Ittai Kidron {BIO 5557426 <GO>}

Fantastic. Congrats, good luck.

A - Charles H. Robbins {BIO 17845882 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Chuck. Next question?

Operator

Samik Chatterjee from JPMorgan, you may go ahead, sir.

Q - Samik X. Chatterjee {BIO 15496543 <GO>}

Hi, thanks for taking the question. Chuck, I just wanted to check with you, what you're seeing in terms of momentum in the emerging countries. I believe last quarter you had very solid momentum in countries like India. Are you seeing the stronger dollar at all catch up to them in terms of what their appetite is in terms of IT spend? If you can, help us with that.

A - Charles H. Robbins {BIO 17845882 <GO>}

I think we gave that number, right, the emerging markets?

A - Kelly A. Kramer {BIO 18951157 <GO>}

Emerging markets were up 6%. Yeah.

A - Charles H. Robbins {BIO 17845882 <GO>}

Up 6% on orders.

A - Kelly A. Kramer {BIO 18951157 <GO>}

And BRICM was up 2%.

A - Charles H. Robbins {BIO 17845882 <GO>}

BRICM was up 2%, so I think 6% in light of what we've heard from others around that space. And historically, what we've seen is when interest rates in the U.S. start rising, it creates challenges in emerging countries. And I think if you press Kelly, she'd probably tell you that currency was a slight headwind for us as well.

So I think the teams are doing well, and it speaks to the relevance of what we've built. We've had some big build-outs in India, so India slowed a little bit for us, but still quite positive. I think Russia was slightly negative. Mexico was positive. It's the same story. It's a portfolio of emerging countries, and right now we have more that are performing well from a volume perspective. China was roughly flat for the last quarter. But overall, again, I'm pleased given the complexities that our teams are facing, both geopolitically and from a currency perspective. I think they executed really well, and I think it speaks to the teams themselves on the ground and the portfolio that our engineering organization has built.

Q - Samik X. Chatterjee {BIO 15496543 <GO>}

Great, thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Thank you. Next question?

Operator

Thank you. Tal Liani from Bank of America, you may go ahead.

Q - Tal Liani {BIO 1643846 <GO>}

Hi, guys. I have two questions – or one question and one follow-up. The first one is just about cloud spending. We hear a lot about weakness in spending. On one hand, you're not very, very exposed. You're exposed in certain areas and other areas not. On the other hand, it's a big growth opportunity for you. Can you discuss your participation in cloud and your comments on any weakness in cloud spending? And then I have a follow-up on the Chinese vendors.

A - Charles H. Robbins {BIO 17845882 <GO>}

Tal, I guess this is a quarter where it helps not to have as much exposure, but I think we're still very happy with our progress we're making there. Some of these big transitions that we're talking about, the 100-gig, the 400-gig, those are going to be opportunities for us to try to insert, and we're working hard to actually position ourselves well for that. But I don't think that I can give any more color than what you've already heard from those who have a pretty significant exposure in that space.

We're still plugging along and doing all the same things that we've told you we're doing. I would say that we still haven't gotten to a substantial different position than what we described to you probably 12 or 18 months ago, but we continue to make progress, and we've said it's going to be a long journey to get there.

Q - Tal Liani {BIO 1643846 <GO>}

So maybe again, I have a follow-up just on that, but maybe you can discuss your exposure to cloud and the difference between hyperscalers versus smaller cloud vendors, and if you see similar trends with smaller companies where you do have exposure versus larger companies.

But I wanted to ask you, this morning I hosted a call with Huawei. And one of the things they were saying is they think they're actually going to gain market share despite all the issues. And I know you don't have – you don't compete with them in China on certain things, and you don't compete with them in the U.S., but you do compete with Huawei and ZTE globally. And the question is being asked repeatedly about share gains versus Huawei and ZTE. What is your position? What is your view? What kind of experiences you've had in the last few weeks and few months on the competition with Huawei when you talk with or when you discuss this with the carriers, and how do you see your portfolio versus Huawei's portfolio in light of these issues?

A - Charles H. Robbins {BIO 17845882 <GO>}

It's a good question. So first of all, the magnitude of the market opportunity in China skews the overall global market share numbers. So if you're not participating in a material way in China, then it's very difficult to gain share if you're just looking at it broadly across the world. So we've begun to look at it without China and with China just to see how we're doing.

What I would tell you is that – look, I think our innovation – I said this in my prepared comments at the beginning. I think our portfolio right now from an innovation perspective and particularly with the work the teams are doing in the SP space and the work that we're doing around the 5G packet core and some of these next-generation platforms that are going to hit the market this year, I would put our innovation up against theirs and anybody else's in the world right now.

I think if you look at our performance in EMEA and in APJC over the last few quarters, that would suggest that we're not only holding our own, but we're competing and winning. And I will tell you, last quarter we saw positive growth in SP in both of those regions. And so I feel very confident that not only can we compete but that we are and we're winning right now. And so the share comment from them could be related to the size of the Chinese market, and they're confident that the math works. But in other parts of the world, I'll tell you we're doing really well right now.

Q - Tal Liani {BIO 1643846 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Tal. Next question?

Operator

Thank you. Tejas Venkatesh from UBS, you may go ahead, sir.

Q - Tejas Venkatesh {BIO 19639694 <GO>}

Thank you. I'm on for John [Roy]. You talked about double-digit growth in campus. Are the new Catalyst 9K products that you introduced about a quarter ago starting to contribute to revenue? I'm really just trying to get at how much more there is to go in campus and whether it's unreasonable to think campus could be up double digits for the full year as the newer Cat 9K products start to layer on.

A - Charles H. Robbins {BIO 17845882 <GO>}

I think when you just look at the raw 9K sales versus the installed base of the products that the 9K replaces, we are very early in that cycle. And we just launched the 9200. When did that start?

A - Kelly A. Kramer {BIO 18951157 <GO>}

A quarter ago.

A - Charles H. Robbins {BIO 17845882 <GO>}

A quarter ago.

A - Kelly A. Kramer {BIO 18951157 <GO>}

It just started shipping this quarter.

A - Charles H. Robbins {BIO 17845882 <GO>}

It just started shipping this quarter. So the products that we announced in the middle of 2017 clearly are flowing through to revenue. The 9200 just started contributing to that. But again, if you look at where we are versus the installed base that these products replace, it's very early.

Q - Tejas Venkatesh {BIO 19639694 <GO>}

And then a quick follow-up on M&A. I wonder if you could comment on capital allocation. Now that the core business is growing very healthy, is it time for accelerated M&A perhaps?

A - Charles H. Robbins {BIO 17845882 <GO>}

I'll make a comment, and Kelly can add on to it. I don't think that the growth of the core fundamentally changes our overarching acquisition strategy. I think that we've had an acquisition strategy that's continued to add to our portfolio. In expanding our portfolio, what I alluded to early on is that our strategy of not only creating adjacent expansions to our portfolio but really driving innovation back into our core so that we can get growth from both given the size of our core markets, that's working. So I don't think that our overall M&A strategy changes because of the success of the core. But, Kelly, you may want to make...

A - Kelly A. Kramer {BIO 18951157 <GO>}

No, it never has changed. I think our strategy has always been clear. We're going to invest in the business first. And we're always looking for M&A no matter what the environment is, and we're going to do smart M&A, and then we're committing to our dividend growth like we have been, and then of course the share buyback.

And again, I think you saw the latter two there. We just announced again another increase to the dividend, just showing the commitment we have and the faith we have in the cash flow of the business as well as just another increase to the share buyback authorization. So I'd say it's independent to how the core business is doing. It's just a critical part of our overall strategy.

Q - Tejas Venkatesh {BIO 19639694 <GO>}

Thanks very much.

A - Marilyn Mora {BIO 19771101 <GO>}

Thank you. Next question?

Operator

Pierre Ferragu from New Street Research, you may go ahead.

Q - Pierre C. Ferragu {BIO 15753665 <GO>}

Hey, thank you for taking my question. I'd like to come back to the comments you made, Chuck, on emerging market, on China. So what I heard is clearly that you're very happy with your performance there relative, and it's true that having flat sales in China is great. And overall, your emerging markets is holding well, especially when you take into account currency.

But really the question I would like to ask you is about how conversations with clients are going there. What is your outlook? You guys at Cisco used to be a bellwether. You have very, very good insight into how enterprises are feeling about macro developments. So from all the conversations you've had with clients in the last three months, what's your take? What's your 2019 macro perspective?

A - Charles H. Robbins {BIO 17845882 <GO>}

Pierre, thanks for the question. What I've said several times in a lot of interviews is that I've been amazed at the resilience that we've seen around the world in light of all the macro environment and the geopolitical dynamics, whether it's a shutdown or it's U.S.-China trade or its Brexit or it's stress in Italy or it's political unrest in certain emerging countries. It's amazing the resilience that we've seen.

What I will tell you is that our enterprise customers, given the focus, they really – they don't view this technology any more as an optional enabler of a strategy that they've come up with. They now view the technology as a core part of their strategy. So many of the strategies they're driving around revenue growth don't work if they don't continue to invest in technology. Many of the things they're trying to do around simplification and cost reduction and productivity in their IT infrastructure as well as being able to efficiently deal with this new multi-cloud world, which is super complicated, they can't just stop. They have to keep executing. And I'd say that most of them have a paranoia that if they do stop investing, their competitors will not and they'll fall behind.

So all that being said, I will just tell you our customers, I haven't seen any general difference over the last 90 days in the discussions we've had with the exception of talking to a customer who has very high exposure to the Chinese market. But even then, they talk about the impact of the geopolitical situation, but they never connect it to any sort of spending shift. Some of them may do that, but I'm not having those conversations. Everybody seems to be moving in the same place they were three, six months ago.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Pierre. Next question?

Q - Pierre C. Ferragu {BIO 15753665 <GO>}

Thank you.

Operator

Thank you. Sami Badri from Credit Suisse, you may go ahead.

Q - Sami Badri {BIO 20178177 <GO>}

Hi, thank you. I just wanted to get a quick one regarding the number of ELAs you signed in the quarter and what percentage of revenues that actually reflected.

A - Kelly A. Kramer {BIO 18951157 <GO>}

Are you talking just Cisco ONE, what we have provided before?

Q - Sami Badri {BIO 20178177 <GO>}

Yes, exactly. That's right.

A - Kelly A. Kramer {BIO 18951157 <GO>}

I'd say for Cisco ONE, we are now basically over 31,000 – 31,500, in that range. I'd say the thing to think about as you think about that going forward, as we move more and more of the portfolio to this DNA architecture and the architecture we're rolling out more and more, you're going to see more and more of our customers going to that framework where the software is included in that as well.

So we continue to grow the Cisco ONE bundles. But again, as we progress through the early innings of the enterprise networking, Cat 9K and so on portfolio transition, you're going to see more and more going to the DNA architecture and software bundled with that.

Q - Sami Badri {BIO 20178177 <GO>}

And then are you comfortable giving a percentage of revenue, something like that, that we could get a little bit of an indicator from?

A - Kelly A. Kramer {BIO 18951157 <GO>}

No, we don't disclose that.

A - Marilyn Mora {BIO 19771101 <GO>}

Okay. Thanks, Kelly. Next question?

Operator

Thank you. Steve Milunovich from Wolfe Research, you may go ahead.

Q - Steven Mark Milunovich {BIO 1504637 <GO>}

Thank you. To follow on, at the last Analyst Day, Kelly, you talked about software as a percentage of total revenue I think going from 22% to 30% over three years. Can you indicate where you are in that range, if 30% is still the goal, if there is now a higher goal? And then how is ASC 606 affecting that, and specifically in this quarter, did ASC 606 give you a revenue boost?

A - Kelly A. Kramer {BIO 18951157 <GO>}

Yeah, so I would say to the first part of that question, we are continuing to progress along those lines. And with the new rev-rec, because it's accelerating some of these things that when you pull a snapshot for this year, it's accelerating some of it, but overall for the longer-term strategy, it's absolutely progressing like we said it would at FAC (00:42:43). And yes, this quarter we were around 2% for the acceleration when you compare the ASC 606 versus ASC 605 accounting change difference.

Q - Steven Mark Milunovich {BIO 1504637 <GO>}

Thank you.

A - Kelly A. Kramer {BIO 18951157 <GO>}

Yeah.

A - Marilyn Mora {BIO 19771101 <GO>}

Thank you. Next question, please?

Operator

James Faucette from Morgan Stanley, you may go ahead.

Q - James E. Faucette {BIO 3580933 <GO>}

Great, thanks very much. Chuck, I just wanted to ask you. It's interesting to me that the focus on hybrid and hybrid cloud is starting to evolve, especially given where people thought we might end up just a couple of years ago. Can you talk about how well formed you think your customers are? And I guess are they seeing or can they understand the real value that Cisco can deliver in hybrid implementations yet and how much missionary work do you still have to do?

A - Charles H. Robbins {BIO 17845882 <GO>}

Thanks, James. Look, here's the situation our customers find themselves in. If you contrast where they thought they were going to be four or five years ago, they thought that they were going to move to the cloud, and we joked about it being a euphoric neighborhood where they just move and everything is simple. And somewhere along the way, they find themselves with four or five cloud providers, multiple collaboration cloud providers, 100 SaaS providers, an explosion of IoT at the edge.

And so what's happening is – and by the way, they still have private data centers with applications that can't be migrated to the cloud. They've now gotten to a place where certain applications they're repatriating from the cloud. And the reality is that they now find themselves with a more complicated environment than they had five years ago when they began this journey to simplification. So that's the irony.

If you think about what I just described, there's only one piece of technology that is consistent across all of those things that I just talked about, and that is the network. And so what's happening is a lot of the things that have to occur to help them navigate this need to happen in the network. And so that's where this whole policy automation strategy that we have is really important, because for them to be able to deal with applications running anywhere, deal with users operating anywhere, the data flows and the traffic flows are nothing that look like what led them to architect their networks the way they did a decade ago.

And then couple that with security and the fact that security, you're not protecting a perimeter anymore, so it's not about a big fat honking firewall. It's about an architecture that really does have integrated security from the network to the cloud to the edge to email, where you're building a comprehensive integrated strategy where you're seeing threats in one area and you're protecting across all those domains.

So to answer your question, I think that two years ago we had to convince customers that this is what we felt. And today I'd say most enterprise customers, they could present the whole set of slides to you before we even start talking about the challenges they face and the importance of the network going forward.

Q - James E. Faucette {BIO 3580933 <GO>}

Great, thanks a lot.

A - Charles H. Robbins {BIO 17845882 <GO>}

James, thanks for the last question. Thank you. I want to thank all of you for joining us today.

I'll make a few closing comments. First of all, I think our teams have executed incredibly well in light of a very complicated macro and geopolitical environment that we find ourselves in. Our engineering teams over the last few years have delivered on innovation to a point where I will tell you that our portfolio is in the best shape it's been in years. And I think we are in a very good position with our customers based on the strategies that they're deploying going forward, and I have a high degree of confidence in our ability to execute.

When you look to the future, there are two elements that we have to consider. There are the geopolitical macro issues, and we'll continue to navigate them to the best of our ability. And then there's our own execution, which I think is probably near the peak of what our teams have done in quite a while. So we feel good about where we are. There's obviously a lot of variables and a lot of complexities, but we're pleased with what we accomplished last quarter, and we feel good about next quarter, and we're going to continue to execute. Thanks for joining us.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Chuck, and I'm just going to wrap up here. Cisco's next quarterly earnings conference call, which will reflect our fiscal 2019 third quarter results, will be on Wednesday, May 15, 2019, at 1:30 PM Pacific time, 4:30 PM Eastern time.

Again, I'd like to remind the audience that in light of Regulation FD, Cisco's policy is not to comment on its financial guidance during the quarter unless it's done through an explicit public disclosure. We now plan to close the call. If you have any further questions, feel free to contact Cisco's Investor Relations department. And we thank you very much for joining today's call.

Operator

And thank you for participating on today's conference call. If you would like to listen to the call in its entirety, you may call 800-391-9851. For participants dialing from outside the U.S., please dial 203-369-3268.

This concludes today's call. You may disconnect at this time.