Company Name: Cisco
Company Ticker: CSCO US
Date: 2018-02-14
Event Description: Q2 2018 Earnings Call

Market Cap: 208,077.06
Current PX: 42.09
YTD Change($): +3.79
YTD Change(%): +9.896

Bloomberg Estimates - EPS
Current Quarter: 0.634
Current Year: 2.495
Bloomberg Estimates - Sales
Current Quarter: 12199.955
Current Year: 48638.444

Q2 2018 Earnings Call

Company Participants

- Marilyn Mora
- Charles H. Robbins
- Kelly A. Kramer

Other Participants

- Vijay Bhagavath
- James E. Faucette
- Rod Hall
- Paul Silverstein
- Tal Liani
- Jayson A. Noland
- Ittai Kidron
- James E. Fish
- Simon M. Leopold
- Aaron Rakers
- Jeffrey Thomas Kvaal
- Mark Moskowitz
- Jason N. Ader

MANAGEMENT DISCUSSION SECTION

Marilyn Mora

GAAP and Non-GAAP Financial Measures

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

Charles H. Robbins

Business Highlights

Revenue Growth, Margins, Cash Flow and EPS

- We had a great quarter
- In Q2, we returned to revenue growth

- We continued to drive momentum in our intent-based networking portfolio and saw strength across the business
- We made continued progress in shifting more of our business towards software and subscriptions
  - This performance led to strong margins, solid cash flow, and double digit non-GAAP EPS growth
- We are clearly seeing the results of the strategy we've articulated to you over the last ten quarters

Dividend and Share Repurchase Authorization

- We also increased the dividend and share repurchase authorization, reinforcing the confidence we have in our future
- As we shared with you previously, customers are facing ever increasing complexity in their IT environments with the proliferation of devices in IoT, the adoption of multiple clouds, and the exponential growth of security threats
- The network has never been more critical to business success because of its ability to simplify this complexity while enabling real-time informed business decisions
  - This is why Cisco is well position for the future as we help our customers move to highly secure and intelligent platforms for their digital businesses

Infrastructure Platforms

- Now let me take you through what I'm seeing across the business and how Cisco's innovation is driving momentum across the portfolio
- First let's start with infrastructure platforms
- We continue to be intensely focused on delivering differentiated innovation in our core which has resulted in our return to revenue growth this quarter

Network Intuitive

- Last June, we launched The Network Intuitive., a fundamental reinvention of networking and the industry's leading intent-based networking portfolio
- Two weeks ago we announced the next phase of this intent-based network innovation with powerful assurance capability spanning across our data center, campus, and wireless portfolios
  - These will help our customers unlock the power of network data that will bring greater insights and visibility with rich predictive analytics
- We saw strong adoption of our subscription-based Catalyst 9000 switching platform as we more than doubled our customer base from last quarter to over 3,100 customers
  - This is the fastest ramping new product introductions we have had in our history and a fantastic example of the innovation we've delivered over the past two years
- When I became CEO, I challenged our team to increase the pace of innovation in this space and I could not be more proud of what they've accomplished
- The network is also a key enabler for our customers as they increasingly adopt a multi-cloud strategy
  - They need a unified, automated and scalable environment across their data centers, private clouds, and public clouds

Cloud Management Analytics, Automation and Security

- Cisco's cloud management analytics, automation and security combined with strategic partnerships such as Microsoft and Google position us very well to meet customer needs
- Further extending our cloud-focused software offers, we recently introduced a Cisco Container Platform to simplify the deployment of cloud native applications and containers with Kubernetes
  - This marks an important milestone in our partnership with Google to deliver the future hybrid cloud architecture
- In general, we are encouraged with the overall progress we are making with the web-scale community

Security

- Now turning to security
- Cybersecurity continues to be a top concern for customers as they evolve their enterprise architectures to address the challenges of a pervasive threat environment
- We are leading the security industry with an integrated architecture and a comprehensive best-of-breed portfolio across the network, endpoint, and cloud
  - This approach enables us to share context, intelligence, visibility and policy to reduce the time to detect and respond to threats

Cisco Security Connector

- We expanded our endpoint protection capabilities with Cisco Security Connector, a unique security application designed to give enterprises the deepest visibility and control over network activity on iOS devices
- Together with Apple, we are helping our joint customers become the most connected, collaborative and secure organizations in the world
- Additionally, Cisco, Apple, Allianz and Aon are collaborating on an industry-first cyber risk management solution which integrates technology, services and enhanced cyber insurance to make businesses more resilient

Applications

- Now moving to Applications
- The future of applications will unlock the power of trillions of terabytes of data across connected users, things and devices
- In today's digital world, we are executing on our strategy to transition more of our business to cloud-based subscriptions and driving increased relevance at the application layer of the stack to enable a better experience for our customers

AppDynamics' Analytics Capabilities and BroadSoft Acquisition

- We continue to see progress in scaling AppDynamics' analytics capabilities
- Over 20% of our top 500 global enterprise accounts have already adopted this technology

    - This is another example of our ability to scale acquisitions through our unparalleled go-to-market model
- We also closed the BroadSoft acquisition earlier this month, which provides us with access to its strong user base of 20mm and greatly strengthens our cloud-based collaboration subscription portfolio

Summary

To summarize, I'm very pleased with the traction we're seeing in our business, the progress we're making against our strategy, and I'm very optimistic about our future

I'd also just like to say how incredibly proud I am of Cisco's leadership in environmental, social and governance issues, including the work we're doing to help solve the global skills gap

Our recent recognition by Barron's as the number one most sustainable company in the United States underscores our deep commitment to enable a better world in which everyone has the opportunity to thrive

Kelly A. Kramer

Financial Highlights

Order, Revenue, Margins, Cash Flow and EPS

- I'll start with a summary of our financial results for the quarter, followed by a discussion of the impact of tax reform and then end with Q3 guidance
- Q2 was a strong quarter with results exceeding our expectations
- We executed well in a number of areas, including good orders momentum, solid revenue growth and strong margins and cash flow
- Total revenue was $11.9B, up 3%
- Non-GAAP net income was $3.1B, up 10% and non-GAAP EPS was $0.63, up 11%
- Operating cash flow grew 8% to $4.1B with FCF up 10%
- We continued to focus on driving margins and profitability, increasing our non-GAAP operating margin rate to 31.7%, up 0.7 points

Products Revenue, Infrastructure Platforms and Switching

- Let me provide some more detail on our Q2 revenue
- Total products revenue was up 3%
- Infrastructure Platforms returned to growth, up 2% with broad strength across the businesses
- Within switching, we had strong growth in data center switching and we're seeing great momentum with our new campus switch, the Cat 9000
- We also had strong wireless growth driven by our Wave 2 offerings and Meraki
- Data center was up double digits driven by server products as well as our HyperFlex offerings
    - These increases were partially offset by a modest decline in our routing products driven by continued weakness in service provider

Applications

- Let's move on to Applications
- Applications is made up of our collaboration portfolio of unified communications, conferencing and TelePresence as well as our IoT and application software businesses, Jasper and AppDynamics
- Applications was up 6% in total with strength in TelePresence and conferencing as well as AppDynamics offset by some weakness in UC endpoints

Deferred, Service and Subscription Revenue

- There was also a strong increase in deferred revenue, up 18%
- Security was up 6% with strong performance in unified threat and web security
- Deferred revenue grew 38% as we continue to drive more subscription-based software offers
- Service revenue was up 3% driven by growth in software and solutions support
- We continue to transform our business, delivering more software offerings and driving more subscriptions and recurring revenues
- In Q2, we generated 33% of our total revenue from recurring offers, an increase of 2 points from a year ago
- Revenue from subscriptions was 52% of our software revenue
- We drove good growth in deferred revenue, which was up 10% in total, with product up 19% and services up 4%
- Deferred revenue, product revenue from our recurring software and subscription offers was $5.5B, up 36%
- We saw strong momentum in Q2 product orders, growing 5% in total

By Geography

- Looking at our geographies, Americas grew 6%, EMEA was up 6% and APJC was flat
- Total emerging markets was up 1% with the BRICs plus Mexico down 1%
- In our customer segments, enterprise was up 3%, commercial grew 14%, public sector was up 8% and service provider declined 5%

Gross and Operating Margin

- From a non-GAAP profitability perspective, total Q2 gross margin was 64.7%, up 0.6 points
- Product gross margin was 63.3%, up 0.9 points and service gross margin was 68.5%, down 0.3 points
- We continue to be negatively impacted by the higher memory pricing we have discussed over the past several calls which we expect to continue in the near term
- Our operating margin was 31.7%, up 0.7 points

EPS and Tax Rate

- When we look at the impact of acquisitions on our results y-over-y, there's been an 80 basis point positive impact on revenue and a negative $0.01 y-over-y impact on our non-GAAP EPS
- In terms of the bottom line, our Q2 non-GAAP EPS was $0.63, up 11%
- GAAP EPS was a loss of $1.78 driven by the one-time charges related to U.S. tax reform
- We're very pleased with the tax rate reduction related to the Tax Cuts and Jobs Act
- Since our FY ends in July, we won't realize the full benefit this year but we will start to realize that full years' worth in FY2019
- For Q2, our non-GAAP tax rate was 20% to adjust to our full-year estimated non-GAAP tax rate of 21%
- We are currently forecasting our estimated non-GAAP tax rate for FY2019 to be 20%
  - This quarter we incurred an $11.1B charge to our income tax provision that is comprised of $9B related to the U.S. transition tax, $1.2B of foreign withholding tax and $0.9B for the remeasurement of our net deferred tax assets related with the lower tax rate
- Our Q2 GAAP tax rate includes the impact of this charge while our non-GAAP rate excludes it

Cash, Cash Equivalents and Investments

- We ended Q2 with total cash, cash equivalents and investments of $73.7B with $2.4B available in the U.S.
- We plan on repatriating $67B of our offshore funds to the U.S. in Q3 of FY2018
- Q2 operating cash flow of $4.1B reflects strong growth of 8%
- FCF was also very strong with growth of 10% to $3.9B

Share Repurchase and Dividend

- From a capital allocation perspective, we returned $5.4B to shareholders during the quarter that included $4B of share repurchases and $1.4B for our quarterly dividend
- Today we announced $0.04 increase to the quarterly dividend to $0.33 per share, up 14% y-over-y
- This represents a yield of approximately 3.1% based on today's closing price
- We also announced $25B increase to the authorization of the share repurchase program
  - This raises the remaining share repurchase authorization to approximately $31B
  - We expect to utilize this over the next 18 to 24 months
  - This significant 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

Summary

- To summarize, Q2 was a strong quarter with solid top line growth, strong profitability, cash flows and order growth
- We continue to make solid progress on our strategic priorities, making key investments to drive our long-term growth

Q3 FY2018 Guidance

Let me reiterate our guidance for Q3 FY2018

This guidance includes the type of forward-looking information that Marilyn referred to earlier

We closed the acquisition of BroadSoft in early Q3, and the impact of the acquisition is factored into our guidance

We expect revenue growth in the range of 3% to 5% y-over-y

We anticipate the non-GAAP gross margin rate to be in the range of 63% to 64%

The non-GAAP operating margin rate is expected to be in the range of 29.5% to 30.5%, and the non-GAAP tax provision rate is expected to be 21%

Non-GAAP EPS is expected to range from $0.64 to $0.$0.66

QUESTION AND ANSWER SECTION

<Q - Vijay Bhagavath>: So my question is around intent-based. Chuck and Kelly, please join in. It just seems like it's resonating with your customers. Is this mostly a U.S. phenomenon, Chuck? Or are your overseas customers also looking into intent-based? And then how do you see intent-based kind of catching across the portfolio? Why not extend intent-based across the broader portfolio? Thank you.

<A - Charles H. Robbins>: Yes, it's a great question, Vijay. First of all, we're incredibly pleased with the early acceptance of this intent-based portfolio. I called out in my opening comments that this Catalyst 9000 is the fastest ramping product in our history, which is pretty impressive. I'd say it's fairly balanced across the geographic regions, probably pretty much in line with what percentage of the business they represent. But Kelly can validate that in just a moment.

What I would tell you is that we have 3,100 customers who have adopted this platform. We obviously have the opportunity and we will extend the capabilities across the rest of our portfolio so that our customers who are driving automation can drive it across not only campus switching, but also routing, bringing the Viptela SD-WAN capabilities to play. We are integrating it backwards with ACI in the data center as well as within our security portfolio. So our strategy is to continue to enhance our customers' ability to drive intent across all of their technology areas as well as to gain context through analytics out of all of their technologies.

So 3,100 customers so far. I think our total customer population is well over 800,000, so we obviously have room to run. And we also have seen it, I'd say, from a segment perspective, the commercial marketplace has been a great adopter of the technology. And what I would tell you is that the enterprises have been evaluating it because it represents a different architectural approach with automation and analytics and security built into the network. So, Kelly, comments on those.

<A - Kelly A. Kramer>: No, just to add to that, you're correct. I mean the geography is split kind of in proportion, as you would expect. And across commercial, enterprise and public sector, it's fairly balanced as well. So it's just very broad-based adoption across the board. And again, we're very happy about the adoption of the more advanced software package on the Advantage. It's very heavily weighted towards that. So we're excited about that.

<Q - James E. Faucette>: I wanted to follow up on Vijay's question, particularly as it relates to the 9000. Some of the people that we've talked to have indicated that availability of the 9000 may be a little bit limited. I'm just wondering how and over what timeframe you may be able to address that. And I guess as part of that, what are you seeing in terms of attach rates of additional services to the 9000? And are those changing at all as the product rolls out globally? Thank you.

<A - Charles H. Robbins>: Yeah, let me just make a comment on the overall sort of strategy with the attach, and then Kelly can talk a bit about the supply. James, our original plan was to deliver a subscription model on the switch, and we've been very pleased with the attach rate and the percentage of customers and dollars in that subscription category that are actually being attached to the advanced subscription, which really contains the automation and it contains the encrypted traffic analytics, and we'll continue to add more and more of the Assurance stuff that we just launched two weeks ago. So we wanted to create real value in that subscription so that our customers would believe that it was worthwhile, and I think we're seeing exactly that. So, Kelly, comments on demand and [indiscernible] (19:18).

<A - Kelly A. Kramer>: Yeah, no. I mean, I think I saw a couple of reports on that. I can tell you from a demand perspective, we're very excited about how quickly this demand has been. And with any new product launch, we're going to get orders in faster than we recognize them in revenue. That's normal. And I'd say this ramp is normal as well. We did not have any significant supply chain issues of any sort or any shortages on this product line as well. So it's really more just we have tons of demand and we're very happy to see how quickly the take-up is going.

<Q - Rod Hall>: I wanted to start off by asking about the OpEx line. That line held relatively stable even though your revenues beat our expectations. And so I just wanted to see if you could talk a little bit about how you expect that to move in the future. Do you think it just should remain roughly flat on last year? Or where should we be going with OpEx?

And then secondly, I want to come back to this Cat 9000 supply/demand question and just see if – is this kind of a situation – I feel like we usually ask this about smartphone launches, but has the take-up been so fast that you couldn't keep up with demand and now you're able to meet demand? Is that kind of what you're telling us with those comments? I just want to clarify that a little bit. Thanks.

<A - Kelly A. Kramer>: Sure. So just to follow up quickly on the supply and demand, yeah, as I said, it's not a supply constraint issue at all from our supply chain or parts shortages in any way. I mean, it literally is – we operate to lead times on our products and if we get a lot of orders in the last week or two of a quarter, when again, as this thing is just ramping every week, we fulfill to our lead times. So there's nothing anything more than that than just we have a lot of demand for the product. So I wouldn't expect any issues as you look forward.

In terms of OpEx, Rod, as you know, we are very focused on driving efficiencies. The only thing that will change in our OpEx is we are adding BroadSoft, so in our guidance we will have obviously the revenue and the margin and the OpEx that comes with BroadSoft. But other than that, we are basically being very disciplined about where we're investing our R&D and making sure we're investing our R&D dollars in the best return projects. So you're going to see it move around if we do acquisitions, but otherwise we're going to be disciplined around that and invest when we can. And when we see margins go up, we're going to be investing as well. But otherwise, we're going to be managing that tightly like we have been.

<Q - Paul Silverstein>: I know we're going to see it when you publish the Q, but I was hoping you would tell us the rate of price erosion. And I'm assuming from the margin structure there wasn't a change, at least not for the worst, but let me ask the question. And I'm hoping you'll speak about – I know you haven't gotten there yet – Chuck, you've been very candid about saying that you were late with making progress with respect to the cloud. Can you give us any quantification of the growth, as well as as a percentage of revenue? Thank you.

<A - Kelly A. Kramer>: Hi. Okay. So, Paul, yes, let me address the gross margin rate question first. So, yes, we're very happy with our product gross margin rate. And as you and I talk about every quarter, we look at it in terms of what we're getting from price, what headwinds we're getting from price offset by what productivity. I would say this quarter we had a very, very effective price. We still had a price headwind, but it's at the lowest that it's been in many quarters. So it is less than – it's 1.3 points the way that you'll see it in the Q, Paul, so we're very pleased with that. We haven't been in that level for quite some time. I think maybe Q1 of 2017 we were close to that. But again, it shows the discipline between both our product management teams, as well as the sales force is being very disciplined about discounting. So we're happy there.

We also made some improvements on our productivity, where our productivity this quarter is offsetting the price erosion. So that helped a lot. And then, when we get our infrastructure platforms of business going like we did, seeing that return to growth, that helps from a mix perspective. So basically, all three of those were very helpful to our gross margin rate this quarter.

In terms of the web-scale question, Paul, I mean, we don't disclose that. It's not a huge number as we break out the broader company, but I will say that we are making some traction. I don't know, Chuck, if you want to add some comments to that.

<A - Charles H. Robbins>: Yeah, Paul, I appreciate the recognition we've been trying to be transparent about this. And we continue to make progress, and I put the comment in the opening comments for a reason, that we do continue to make progress. You see the announcements we've made with Google. I said a few quarters back that we were focused on 360 degree relationships with these, and we have more to bring and certainly we feel good about where we are. But we still have a lot of work to do. But I would say that every quarter, we're making progress.

<Q - Tal Liani>: I have a question. When Juniper discussed network trends, they discussed two things. migration from edge routers to what they call PTX or MPLS boxes in the core, which brings down prices. And second is the introduction of routing into switching and what Arista calls the 7500R. Could you please discuss the implications of these two trends on your switching and routing portfolios? Thanks.

<A - Charles H. Robbins>: Yeah, thanks, Tal. So we talked about this before, and this is happening in some of the big web-scale providers. And the great news for us is that we have several different product platforms that meet whatever need the customer is looking for. Because we have so many customers that will be looking at this transition at different paces, so for those customers that want to go now, we have platforms that address those. The NCS 5500, as an example, has been very well received. We've had routing capabilities in our switching platforms. And we have our Nexus portfolio that continues to perform very well for customers who are building the data center architectures that we've been focused on for the last two or three years.

So I think that what I would say in summary on this one is that we're probably best positioned to meet the customer's need regardless of which architecture they're choosing and where they are in that transition. And that would be what we would plan on doing going forward as well.

<Q - Jayson A. Noland>: And I wanted to ask on the 9000 subscription model. Chuck, interested in customer and partner feedback and what the puts and takes are there from your customer base and partners.

<A - Charles H. Robbins>: On the subscription model itself?

<A - Kelly A. Kramer>: Or the Cat 9000 overall, both.

<A - Charles H. Robbins>: Okay.

<Q - Jayson A. Noland>: Both and how extendible that would be across the portfolio. Most of the time, we hear positive feedback from large partners, but sometimes there's a cash flow dynamic. And just wondering how that nets out.

<A - Charles H. Robbins>: Yes, okay. So, Kelly, keep me honest when we talk about how we price it. But, so from a technological perspective, this thing, it's one product in a portfolio of switches that we've gotten out the door. So you can assume there's an architectural play we're running longer term. And when you look at the overarching automation platform, the DNA Center, which is also where the analytics come back to for our customers to drive some of these services like Assurance, we're actually quite pleased.

And I think that for our customers, what we wanted to do was we wanted the base subscription plus the product to be somewhere at or slightly below what they would have paid for a previous switch with a perpetual license on it. And then our plan was to create so much new innovation, not take stuff that they would have bought before, because the customers would have felt like that we were just changing our financial model at their expense.

So what we wanted to put into the advanced subscription was fundamentally new technology that they have never gotten from us before so that they could warrant the incremental spend because they're getting incremental capabilities. So it's not us taking $1 they've been spending in the past and telling them now you got to spend $1.20 a different way.

It was us saying, you spent $1.00 in the past. If you spend it the same way, you may only spend $0.95, but we think we're going to give you so much value that it's going to be $1.20 to $1.25. And that's been our plan.

And I think that the switch itself and the upfront cost is still enough of the acquisition cost that I have not heard partners on this particular portion of our portfolio, I haven't heard a tremendous amount of pushback. In fact, I think our partners are thrilled that we've reignited innovation in our core portfolio and given them an opportunity to work these refreshes with our customers. Kelly?

<A - Kelly A. Kramer>: Yes, I mean the only anecdote I will add to this is I was at a customer, and I was actually at an investor meeting, and their CIO was talking about the new platform. And they were talking about DNA Center, which allows them to manage not just your switches but your newer versions of the enterprise routing and wireless. And the CIO had said I wish I had known that. I wouldn't have bought a competitor's wireless product. So again, I'm encouraged from the whole ecosystem, we're getting very positive feedback from our customers that way.

<Q - Ittai Kidron>: All right, just a couple things for me. Kelly, can you tell us how much of the product revenue was recurring and number of Cisco ONE customers? And then for you, Chuck, the commercial order is up 14%. I mean to me, that was the most interesting number. I mean, it's been a while since we've seen such strong strength in such an important big part of your business. Can you talk about the economic backdrop, what's driving this, what is changing, ability to maintain that momentum going forward? It's really quite an impressive number.

<A - Charles H. Robbins>: Kelly, you want to hit the stats?

<A - Kelly A. Kramer>: I'll take mine first.

<A - Charles H. Robbins>: I know them, but I'll let you go.

<A - Kelly A. Kramer>: Yeah, yeah. So on the recurring revenue, we talked about again, we're up to 33% recurring revenue in total. Of that, again of the products, of the product side, of my product revenue, we are up to 13% is recurring. So again, that just continues to grow. That 13% is up over 3 points from what it was a year ago, so we continue to make progress. But 13% of our total product revenue is now recurring of which all of our revenue, 33% is.

<A - Charles H. Robbins>: Just a couple of – and Cisco ONE customers?

<A - Kelly A. Kramer>: Oh sorry. Cisco ONE customers, we're over 24,000 now.

<A - Charles H. Robbins>: Yes. And just on the percentage of product revenue that is coming from recurring, that was 6% just 10 quarters ago. So, and I think the raw number was up 34% y-over-y. So we're pleased with that. And then I completely forgot the second part of the question.

<Q - Ittai Kidron>: The commercial strength.

<A - Kelly A. Kramer>: Yes. Commercial strength.

<A - Charles H. Robbins>: Commercial strength. Thank you. Yes, so we saw that was very consistent around the world. And you've heard us talk about, Ittai, in the past that our commercial customers tend to be the early adopters and the customers that actually adopt the technology sooner and actually roll it out into production sooner, because our large enterprise customers and large service providers, they spend a fair amount of time putting in the labs, evaluating it.

As I said earlier, with the intent-based networking portfolio, they're looking at delivering the automation platforms and all those which are just a fundamental different way of running their infrastructure. So it takes them a little longer. So largely that was the big driver, but I think it was pretty consistent across the board in the portfolio. Kelly?

<A - Kelly A. Kramer>: Yeah, it was double digit in every region, and we were up in every single product category, sub product category.

<A - Charles H. Robbins>: So it was pretty comprehensive, which I think, look, if we're honest, we've got some good new innovation in our portfolio. Obviously the economy is providing a little bit of a tailwind as well. But I think our teams are executing really well.

<Q - James E. Fish>: My question is actually more on the capital return. And so if my math is correct on sort of the repatriation amount of $67B, it looks like after tax-wise, it'll be about $57B and spending, it sounds as if you're going to spend $25B on the repo and then another $13B over the next two years on the dividend. That still leaves you by my math roughly about $20B. How should we think about sort of M&A vs. either debt paydown over the next few years or other items?

<A - Kelly A. Kramer>: Yes, I mean, I think there is a couple pieces in there. Don't forget, I still have a very good dividend that I'm paying. I'm paying $6B a year on the...

<A - Charles H. Robbins>: He included $13B over the next two years.

<A - Kelly A. Kramer>: Did you have the $13B?

<A - Charles H. Robbins>: He said that.

<A - Kelly A. Kramer>: If I look at it, I'm at $34B net cash position right now. We've got the $66B we're bringing back. We've got the share buyback and the $31B we plan to try to utilize over the next 18 to 24 months. I'll still be in a net cash positive position of $10B to $12B without assuming anything else for acquisitions. And as you guys know, acquisitions are a critical part of our, and always has been of our overall strategy.

So I'd say the way to think about it longer term is we're going to be consistent with what we've said, right, from a capital allocation perspective. We're going to continue to be looking for the acquisitions that we can drive value and drive growth with.

We are going to continue to support the dividend and drive that up with earnings, like you saw us do today. And we're going to, again, give back cash now that we have – all of our cash basically is repatriated all the time now. We're going to be giving back to the shareholders through a healthy buyback, and I think we've got $30B to work through to do that. But we'll keep you updated as we go through this every quarter.

<Q - Simon M. Leopold>: First, just a quick clarification. In the prepared remarks, you talked about campus getting better. Did you indicate that it's up y-over-y? Or could you confirm if campus switching is up y-over-y?

<A - Kelly A. Kramer>: Yeah, no, so yeah, basically campus has been up. It's up in orders but from revenue, we're still slightly down, modestly down, from a revenue this quarter. And we saw strong growth on the data center side. But yes, the order side was very, very strong on campus. You'll see that flush through going forward.

<Q - Aaron Rakers>: I wanted to ask a question about just your data center segment. You talked about double-digit growth. It sounds like UCS was strong, sounds like you're continuing to get some traction with your HyperFlex product. So kind of updates there on how many customers you have for HyperFlex and do you think we're at a point in time where you could see some sustainable growth in that data center segment going forward?

<A - Charles H. Robbins>: Yes, I'll give you a little color on it, and then I think the number you – I think that's correct, Kelly. Yes, we had a good couple of quarters where the team has really focused on next generation innovation, lots of partnerships, integrated solutions with analytics, and then working on some of the new capabilities around some of the Kubernetes stuff that was announced and then HyperFlex is obviously still – it's not a significant portion of that business, but it's growing. And I think, Kelly, 2,400 customers now we're up to?

<A - Kelly A. Kramer>: Yes.

<A - Charles H. Robbins>: And so we're pleased with the progress that the teams have been driving. I think that we continue to see new customer adoption. We actually see a lot of the HyperFlex customers that don't overlap with UCS, so we have that opportunity to pull those together. So pleased with how the team is executing there for sure.

<Q - Jeffrey Thomas Kvaal>: Yes, a clarification and a question first, I guess. And the clarification is, Kelly, would you mind helping us understand how much BroadSoft is adding to the upcoming quarter and maybe to the most recent one too depending on the specific close date?

And then a bigger picture question is the macro outlook has in the past been a big focus for Cisco and something that has led to more confidence or less confidence in the business outlook. I'm wondering if you could share a little bit about what you are thinking through with the global picture, and how that may be helpful or may be overheated a little bit in certain places. Thank you.

<A - Charles H. Robbins>: You want to go through them?

<A - Kelly A. Kramer>: Yes. I'll do the BroadSoft. So yes, so in Q2, like I mentioned, we had about 80BPS of impact from acquisitions, which did not have BroadSoft. When I gave my Q3 guidance, overall inorganic impact bumps up another 0.5 point to about 130BPS. So 1 full point is from inorganic. And for BroadSoft, just to remind everybody, when we do an acquisition and we bring it onto our balance sheet, obviously what deferred revenue they had ends up going through purchase accounting and gets a bit of a haircut. So Q1 is going to be slightly less than what they were when they were a public company. But overall, it adds, we're at 130BPS overall at the company level.

<A - Charles H. Robbins>: So, Jeff, maybe I could just give you sort of a general view on what we saw around the world, and then we'll talk a little bit about sort of the overall economy. We referenced it earlier, the global strength in commercial was something that we were very happy to see. In U.S., we actually saw strength in our federal business. We haven't talked about that today.

Across Europe, Middle East, Africa, everything was positive except the SP business there. APJC was flat, but that was primarily driven by SP routing deals largely in China and Japan. So the rest of business, we were pleased with, particularly enterprise and commercial in APJC. And then the emerging markets continue to be somewhat volatile, but I think we saw slight growth this quarter as well.

But from an overall economy perspective, look, we came out of The World Economic Forum. We read and see and talk to the same customers and everyone that you do. There's a great deal of confidence right now on a global basis, probably more consistent than we've seen in a very long time. So that's good, but we believe that we also have driven innovation in our core technologies in the enterprise that we have needed for a long time. And so I think that both of those are contributing to how we feel about it in addition to the strength across the rest of the portfolio. So we appreciate the strength in the economy, but we're also very pleased with the new innovation as well.

<Q - Mark Moskowitz>: A question on the revenue growth profile. Could we actually see accelerating revenue growth going into the back half of the year because the 9000 intent-based networking and product portfolio is providing for a longer evaluation and lab work by some of your bigger customers? And then once they overcome that, you see more of a land and grab expand dynamic?

And then, Chuck, I had a question for you in terms of the cash that's going to be burning a hole in your pocket here even after all the different nice shareholder return initiatives you're undertaking here. Do you need to put a stamp on the company in terms of making a big transformative acquisition, or can you do it other ways?

<A - Charles H. Robbins>: Yes. Let me address the second one first, and then I'll let Kelly talk about some of the growth, the first question relative to growth. I think what we have said all along, even before tax reform, is that when it did occur that we would leverage our ability to continue our capital strategies, which you saw today relative to buybacks as well as dividend. But we also have kept plenty of powder dry. We also have obviously the ability to take on debt, if necessary. And we've also said that in the past, by virtue of our cash being outside the United States with access to the debt markets, we really had no impact on our ability to do M&A.

And the bottom line is that we'll continue to look for any M&A targets that actually line up in an integrated way with what we're trying to do strategically, and that's just what we're looking for. I wouldn't put any parameters around the size. I think it's really around strategic fit, both from a technological perspective from what our customers are looking for, and then obviously the financial implications. So Kelly, any comments on the revenue?

<A - Kelly A. Kramer>: On the revenue growth, we really do only guide one quarter at a time. But again, we are very, very encouraged with what we're seeing with the current portfolio of innovation, certainly in the switching portfolio.

Both the data center side and the campus side are pacing well, and again we are going to keep executing through and we'll see how that goes. But we feel good about what we see next quarter of the 3% to 5% growth, and we're just going to keep working it from there.

<Q - Jason N. Ader>: I was wondering what your thoughts are on the service provider business going forward and when do you think that might turn around. And what would be the puts and takes or the drivers that could turn it around?

<A - Charles H. Robbins>: Yeah, I think it's a great question, Jason, and the rest of the businesses were generally pretty strong. So when we think about SP, obviously one of the key variables for us is continuing to make the progress that we've been making in the web-scale community. And that's a key focus area for us, as they're included in this business. So that's certainly number one.

Number two, the consistency of CapEx coming from everyone in this space around the world will certainly be a contributor to the future performance. So, I think that's the other thing that we look for. And then, third, as we mentioned at the financial analyst conference, we're also working on some next-generation platforms that we think can help us here as well. So if I had to just pick three things, those are the ones that we're focused on, and we're going to take it quarter by quarter and keep executing in all of those areas to try to get that business moving in the right direction