Q1 2021 Earnings Call

Company Participants

- Charles Robbins, Chairman and Chief Executive Officer
- Kelly Kramer, Chief Financial Officer
- Marilyn Mora, Head of Investor Relations

Other Participants

- Aaron Rakers, Analyst
- Amit Daryanani, Analyst
- Ittai Kidron, Analyst
- James Fish, Analyst
- Jim Suva, Analyst
- Meta Marshall, Analyst
- Paul Silverstein, Analyst
- Rod Hall, Analyst
- Sami Badri, Analyst
- Samik Chatterjee, Analyst
- Simon Leopold, Analyst
- Tal Liani, Analyst
- Tim Long, Analyst

Presentation

Operator

Welcome to Cisco's First Quarter Fiscal Year 2021 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 first quarter of fiscal 2021 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.

As is customary in Q1, we have made certain reclassifications to prior period amounts to confirm -- to conform to the current period's presentation. 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 on a year-over-year basis. The matters we will be discussing today, include forward-looking statements, including the guidance we will be providing for the second quarter of fiscal 2021. They are subject to the risks and uncertainties, including COVID-19 that we discuss in detail in our documents filed with the SEC, specifically the most recent report on Form 10-K, which identifies 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. Cisco will not comment on its financial guidance during the quarter, unless it is done through an explicit public disclosure.

With that, I'll now turn it over to Chuck.

Charles Robbins {BIO 17845882 <GO>}

Thanks, Marilyn. First, I want to start off by saying I hope everyone is safe and healthy. I also want to thank our employees for their dedication to our customers and their relentless focus on innovation. Cisco is off to a solid start in fiscal 2021 and I'm proud of these results. Our teams are executing with excellence and we continue to make steady progress on our shift to a software and subscription-driven model. We are encouraged by the signs of improvement in our business, as we continue to navigate the pandemic and other macro uncertainties.

Our focus is on winning with a differentiated innovation portfolio, long-term growth and being a trusted technology partner for our customers. Over the last few quarters, we've successfully adjusted to new demands by making necessary changes and shifts within our business. We remain closely aligned with our customers to provide them with a mission-critical technology they need to stay resilient and move towards adopting new hybrid work models.

In fact, we see many great opportunities ahead, as every company and every industry is accelerating its digital-first strategy. Our customers are rethinking how they support and serve their customers and their employees. They need speed, agility and simplicity. Many customers have shared with me that they are compressing years of work into just a few months. This is why we are driving new innovation that helps our customers connect, secure and automate their environments at a faster pace than ever before.

With the right technology and tools, we can be even more effective and productive and that's what we intend to deliver for our customers. Going forward, we are focused on building innovation that helps our customers and Cisco thrive in a hybrid cloud world. As we think about the next few years, there are six key areas we are focused on.

First is delivering optimized application experiences for our customers. The application is the lifeline for all organizations and is increasingly how end users access their products and consume their services. Second is continuing to deliver the secure networking capabilities at Cisco as trusted for, as a service, offering even greater simplicity and automation. The third area is focused on helping communications provider succeed with significant architectural transitions like 400 gig and 5G. These will be done with the combination of our software assets, silicon and optics capabilities as well as complete integrated systems. We will deliver these technologies on-prem as well as from the cloud.

Fourth is accelerating the future of work. As many enterprises look to adopt new hybrid work models, with more remotely distributed workers than before, we are focused on helping them deliver consistent experiences whether working remotely or in the office from connectivity to collaboration to security. We have been supporting our customers with their mission of securing everything they do.

We will continue to deliver the end-to-end intelligent security architecture, designed to keep their data private and their people secure. And the final area is around developing edge technologies that allow application developers to run distributed applications, while securely accessing and managing distributed data. We believe that these key areas will drive our growth and success over the coming years.

Now, let me share more on our Q1 results. As I mentioned earlier, we saw encouraging signs of improvement in certain areas of our business. Some large customers who are already in the midst of modernizing their infrastructure continue to do so, as we've seen with the ongoing success of the Catalyst 9,000. WebEx, our security solutions and Business Resiliency offers also saw a strong growth as our customers are trusting us with their most critical projects.

We are succeeding and transforming our business model with 78% of our software revenue now sold as a subscription and we saw double-digit growth in our deferred product revenue. As I mentioned on the last call, you will see us deliver more of our technology as a service to provide more choice and flexibility across our entire portfolio.

Our new technology pipeline remains strong, as we continue to accelerate our pace of innovation. At our recent partners summit, we introduced a number of new technology solutions that help our customers adapt, accelerate and simplify their operations through new agile automation platforms. Relative to our Infrastructure Platforms, our Cat-9K family of switches and Meraki cloud-based platforms continue to perform well, as our customers build highly secure resilient and scalable networks as the foundation for their digital strategies.

Our customers are also increasingly running applications across multiple cloud environments and this requires next-generation architectures with automation, security and insights. We recently announced new cloud and SD WAN platform innovations to help our customers connect, secure and automate across their hybrid environments with greater visibility into their applications.

We are making great strides with our web-scale customers, with our fourth consecutive quarter of strong double-digit growth. This reflects their belief and our strategy going forward and their ongoing commitment to invest with us to build out their future architectures. We also continue to help our customers operate in a multicloud environment and optimize our overall cloud experience. In Q1, we extended these capabilities through Cisco's cloud on ramps solutions, which deeply integrate cloud services from AWS, Google and Microsoft to better enable end-to-end visibility and manageability of their distributed applications.

In security, we delivered another solid quarter of growth, driven by our broad cloud native portfolio. SecureX, which offers a simplified security experience, saw strong adoption, as it has been deployed across more than 4,000 organizations, since it became globally available in June. As our customers, employees remain working from home, they are looking to bolster their existing security efforts with unified user and endpoint protection. We continue to benefit from the shift to cloud-based security capabilities and had robust growth in our Secure Remote Worker offer that includes Duo, Umbrella and AnyConnect.

Our customers are also looking for highly secure, high-speed, low latency connectivity to the Internet. This is leading to the convergence of networking and security services in the cloud to securely connect any user device to any application to provide the best experience. Our world-class security team recently delivered new innovations, including extended detection and response, Zero Trust and secure access services edge, by combining our leading solutions SD WAN and Umbrella with our new Secure Internet Gateway capabilities, our customers can deploy solutions to enable their users to simply and securely access cloud workloads and SaaS applications.

Moving to our collaboration portfolio, business continuity and resiliency remain top of mind for our customers. Organizations are focused on creating flexible work environments to drive productivity, while ensuring their employees remain safe. The future of work will be a hybrid model with employees both in the office and at home and we are leading in this area.

Our collaboration portfolio is empowering organizations and teams to be more productive and secure, as they adapt to new business, health care and learning models. We are providing seamless collaboration with anyone, anywhere, while enabling consistent experiences for hybrid workplaces and continuing our leadership and security. Cisco WebEx saw significant increased usage and solid adoption, as customers look to us for a flexible work solution that also enables privacy and security.

Whether at home or in the office, our customers need a solution that brings together meetings, calling, file sharing and messaging with a simple and highly secure user experience. Last month alone WebEx had nearly 600 million participants, almost double the number we had in March.

We recently launched new return to office solutions that provide actionable workplace analytics with WebEx room navigator and integrated collaboration device sensors that help ensure a safe working environment. We are also accelerating our innovation with new offerings such as WebEx legislate, to keep critical functions of global governments running, along with capabilities like breakout rooms, virtual hurdle spaces and noise cancellation. We are reimagining every aspect of the collaboration experience with built-in AI technology, security and integrated workflow applications, to create a more intelligent work environment and to improve productivity.

Lastly AppDynamics, our customers are moving to highly distributed cloud-native applications, which require greater observability and insights, by combining AppDynamics and ThousandEyes, our cloud-based networking monitoring platform, we are delivering full-stack observability to help our customers better manage their applications and improve their digital experiences through end-to-end visibility, deep insights and automated action.

Now I want to share more on our CFO transition. On our last call, I shared that our CFO, Kelly Kramer had decided to retire from Cisco. Today, I'm excited that Scott Herron, will be joining Cisco as our new Executive Vice President and Chief Financial Officer beginning December 18. Most recently, Scott served as a CFO for Autodesk. He brings an incredible background in software and helps to lead Autodesk's successful business model transformation from perpetual licenses to SaaS and subscription software.

As we continue our strong progress on our business model shift and sell more of our solutions as a service, Scott's depth of expertise in this area, will help us accelerate our transition. He also has strong experience operating in complex global business environments at scale and a track record of profitable business growth, focused team building and prudent financial controls. I have no doubt that he will contribute to and foster the culture we are also proud of here at Cisco.

I want to thank Kelly once again for being such a great partner and for the role she has played in our transition. We will certainly miss her, but we're very excited to have Scott this role and as part of our team.

In summary, we are encouraged by the start to the year. I'm proud of our progress, both in our own transformation and how we are empowering customers to accelerate their own digital strategies. We have a clear vision and strategy and I feel very good about our portfolio and the innovation we are driving. Our customers want partners, they can trust as well as choice and flexibility and how they purchase, consume and implement technology based on their own individual needs. These anchors of trust, innovation and choice are core to who we are at Cisco.

As we focus on growing our business, we remain guided by our purpose to power an inclusive future for all. We know that pervasive access to technology and connectivity, directly impacts economic growth and enables key core human needs like healthcare and education. We know that technology can help solve some of the world's biggest challenges and we are more committed than ever to building an inclusive future in which everyone can thrive.

I'll now turn it over to Kelly.

Kelly Kramer {BIO 18951157 <GO>}

Thanks, Chuck. I also want to congratulate Scott on his new role. I've had the chance to spend some time with him and I am super excited. I think this is a very positive news for Cisco and he will be a great addition to the team. Also thanks to you, Chuck. It's been a great time working with you over the years.

Now let me provide a summary of our financial results for the quarter followed by guidance for Q2. Our overall Q1 results reflect good execution with strong margins in a challenging environment. Total revenue was $11.9 billion, down 9% year-over-year. Our non-GAAP operating margin rate was 32.7%, down 0.9 points. Non-GAAP net income was $3.2 billion, down 11% and non-GAAP EPS was $0.76, down 10%.

Let me provide more detail on our Q1 revenue. Total product revenue was down 13% to $8.6 billion, infrastructure platforms was down 16%. As a reminder, this is a product area most impacted by the COVID environment. We saw declines across switching, routing, data center and wireless driven primarily by the weakness we saw in the enterprise and commercial markets.

We continue to see growth of the CAT-9K and the ramp of our WiFi-6 products. Data center revenue declined driven by servers. Applications was down 8%. We did continue to see strong growth in WebEx with the importance of remote working. This was offset by declines in Unified Communications and telepresence endpoints.

Security was up 6%, our cloud security portfolio performed well with strong double-digit growth and continued momentum with our Duo and Umbrella offerings. Service revenue was up 2%, driven by growth in our maintenance business as well as support services. We continue to transform our business delivering more software offerings and driving more subscriptions. Software subscriptions were 78% of total software revenue, up 7 points year-on-year.

Remaining performance obligations or RPO at the end of Q1 were $27.5 billion, up 10%. RPO for product was up 15% and service was up 8%. The continued growth in RPO demonstrates the strength of our portfolio in software and services.

In terms of orders in Q1, total products orders were down 5%. Looking at our geographies, the Americas was down 5%, EMEA was down 1% and APJC was down 14%. Total emerging markets were down 15% with the BRICS plus Mexico down 19%. In our customer segments, public sector was up 5%, enterprise was down 15%, commercial was down 8% and service provider was down 5%.

From a non-GAAP profitability perspective, total Q1 gross margin was 65.8%, down 0.1 points. Product gross margin was 65.3% down 0.8 points and service gross margin was 67.1%, up 1.7 points year-over-year. In terms of the bottom line from a GAAP perspective, Q1 net income was $2.2 billion and EPS was $0.51. GAAP results include restructuring charges of $602 million related to the plan we announced in Q1. We ended Q1 with total cash, cash equivalents and investments of $30 billion. Operating cash flow was $4.1 billion, up 14%.

From a capital allocation perspective, we returned $2.3 billion to shareholders during the quarter that was comprised of $0.8 billion of share repurchases and $1.5 billion for our quarterly dividend. Let me reiterate our guidance for the second quarter of fiscal '21. This guidance is subject to the disclaimer regarding forward-looking information that Marilyn referred to earlier.

We expect revenue to be in the range of flat to minus 2% year-over-year. We anticipate the non-GAAP gross margin rate to be in the range of 64% to 65% and the non-GAAP operating margin rate is expected to be in the range of 32% to 33% and the non-GAAP tax provision rate is expected to be 19%. Non-GAAP earnings per share is expected to range from $0.74 to $0.76.

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

Marilyn Mora {BIO 19771101 <GO>}

Thanks, Kelly. While the operator is queuing the line for Q&A, I'd like to remind the audience, as I do every quarter that we ask you to address one question only. So we have adequate time to take as many questions as possible. Michelle, I will turn it over to you.

Questions And Answers

Operator

Thank you. Ittai Kidron from Oppenheimer. You may go ahead.

Q - Ittai Kidron {BIO 5557426 <GO>}

Hi guys, good to see some stability in the business. I guess a couple of things for me, Chucks on -- when you look at the enterprise orders quite significantly down. Should we gather from your tone that you think that reverses, where is the bottom on order patterns and as you look through the rest of the fiscal year, is it sequential improvement that you're looking for? And then Kelly just clarification on RPO. Can you tell us, if duration, how duration is changing, it's hard to reconcile this if the duration is changing from quarter-to-quarter?

A - Charles Robbins {BIO 17845882 <GO>}

Hi Ittai. Thanks for the comments and the question. So on the enterprise side, I'm not too concerned about it, honestly. We had -- we did have some pretty significant compares from the year earlier, which contributed to that. But the thing that I would call out is, we saw a pretty significant improvement in our commercial orders. I think that were minus 23 last quarter in the midst of the whole SMB meltdown that we knew was going on, and it was minus 8 this quarter.

And I'll tell you in the US it was even a greater improvement from that. So that gives us a fair amount of optimism. I think the enterprise thing is going to be fine. There is again -- we just said, we had some compare issues that I think just resulted in the math. But I don't see anything that concerns me there.

A - Kelly Kramer {BIO 18951157 <GO>}

And on RPO, Ittai. The duration hasn't changed much, since we started reporting this over a year ago. About half -- slightly more than half of the total balance will get recognized in the next 12 months and the rest is longer-term.

Q - Ittai Kidron {BIO 5557426 <GO>}

Very good and it's been a pleasure, Kelly. Good luck going forward.

A - Kelly Kramer {BIO 18951157 <GO>}

Appreciate it.

A - Marilyn Mora {BIO 19771101 <GO>}

Next question please.

Operator

Thank you. Paul Silverstein from Cowen & Company. You may go ahead, sir.

Q - Paul Silverstein {BIO 1812254 <GO>}

Thanks. First of all, Kelly. I just want to thank you for your help over the years and wish you all good things going forward. In terms of questions, first off, Kelly, can you update us on what you're seeing in pricing environment and the bigger question is, Chuck to the statement you just made in terms of improvement in commercial as well as enterprise. You've been talking for a while obviously about the benefit from remote work, as well as the offset the challenge presented by and assuming we go back to the 21st century. There's going to be organizations that we have a certain percentage of their workforce at home and with fewer or smaller offices, headquarters, branch and remote your workers in those offices. One would think that would be a challenge for switching and enterprise routing and wireless LAN access points. Any insight you can offer on that particular dynamic from a longer-term perspective?

A - Charles Robbins {BIO 17845882 <GO>}

Yes, let me take that first. And then, Kelly can give to the pricing question. So Paul, I think if you look at commercial, a lot of that recovery was actually driven by collaboration and security on a global basis. And so we feel good about that. I think that we also talked about the CAT-9K continue to show strength with double-digit demand growth and it -- and so what we think is going to happen is, when customers go back, they are going to ensure that they have robust infrastructure, they're going to need to deal with social distancing issues.

We think that in our Collab portfolio, you're going to see customers put high definition video in every conference room. We have technology that we've built in that I've actually seen working this week, where we have sensors in the units that not only will you have high definition video, but we have sensors in the units that actually monitor how many people are in a room. And you get warnings if you're exceeding whatever capacity the company has defined for that room and so we think that the safety aspect of it will be helpful too.

So I think it's still TBD on what really happens in this space, because I think 90 days to 120 days ago, there was just belief that we were going to shut down every headquarters building in the world and now I think people know that it's going to be a balance going back. So we've got the CAT-9K and WiFi-6, which is the future modern platforms that the company has been moved into that continue to show strength. And so while we have to wait and see, we're optimistic about it.

A - Kelly Kramer {BIO 18951157 <GO>}

And --

Q - Paul Silverstein {BIO 1812254 <GO>}

And Kelly, pricing?

A - Kelly Kramer {BIO 18951157 <GO>}

Yes, sure. On pricing and thanks for the kind words there, Paul. I appreciate it. On pricing, I'd say our Q1 pricing is in our normal range from a product gross margin walk perspective, the rate impact the number that we usually talk about it was down 1.8 points, which as you know is in our normal kind of operating range. I mean, just as a reminder, we've annualized all of the price increases we did a year ago for the list for tariffs. So now this is kind of -- where we're stated, but I'm happy to see where we are this quarter on pricing and even sequentially from Q4, it's better. So we're stable.

Q - Paul Silverstein {BIO 1812254 <GO>}

Thank you, guys. That's all.

A - Kelly Kramer {BIO 18951157 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Paul. Michelle, next question?

Operator

Thank you. Rod Hall. You may go ahead and from Goldman Sachs.

Q - Rod Hall {BIO 20453923 <GO>}

Thanks for the question. I wanted to start off with the mismatch, I guess its already in the guide, even at the top end of the guided revenues flat that your orders were down 5%. So I'm wondering, if you guys could just kind of connect those two dots for us? Help us understand why that is? And then I know Chuck, you said you're not that concerned by the enterprise and orders. I mean they did deteriorate quite a bit. Could you go into a little bit more detail on that? What is it that even though those have deteriorated, you think it's just a short-term effect or kind of what's going on within that enterprise segment would be great. Thanks a lot.

A - Kelly Kramer {BIO 18951157 <GO>}

So yes, I mean the orders versus revenue -- I mean it's really just timing of when things are and whatnot. I mean, there is no different than I normally go through. We know what's coming off the balance sheet with all the software, we know what's in our backlog. So it's really -- it's really just the year-over-year compares. So I feel good about the guide and you're seeing that in there.

A - Charles Robbins {BIO 17845882 <GO>}

Yes, On the enterprise front, I think the real thing that I would point out, as you were look, there are just a couple of significant transactions and we see in our pipeline, we see a robust pipeline right now. We see large transactions showing up again in the funnel, which is positive. And so, if you look at across the core infrastructure, enterprises are going to upgrade their core infrastructure, they're going to build out a robust on-prem collaborate. I mean, on-prem meaning, hardware video units when they go back into the offices, because everyone -- every meeting is going to have remote attendees and that you're going to have to have it in virtually every conference room.

So that's positive, everybody is moving to this WAN re-architecture with SD WAN and cloud security. So I think it's -- the short answer is right, is that, it's largely a couple of big deals a year ago when we see the funnel strengthening. So it's -- that's what gives me the optimism looking forward.

Q - Rod Hall {BIO 20453923 <GO>}

Okay. Thanks guys. Good working with you, Kelly.

A - Kelly Kramer {BIO 18951157 <GO>}

Thanks, Rod.

A - Marilyn Mora {BIO 19771101 <GO>}

Next question please?

Operator

Thank you. Meta Marshall from Morgan Stanley Investment Research. You may go ahead.

Q - Meta Marshall {BIO 18728692 <GO>}

Great, thanks. Chuck, I just wanted to ask maybe how linearity was during the quarter, you were pretty down turning on the initial earnings call, heading into fiscal Q1. Just when did you start to see that uptick? And then maybe just our customers may need to be back in the office in order to start thinking about orders or if they just accommodated and are starting to make orders, whilst offer more? Thanks.

A - Charles Robbins {BIO 17845882 <GO>}

Yes. So I would say that when we did the last earnings call, we had seen actually good demand in the first couple of weeks of the quarter, but clearly it was a couple of weeks since we -- it was not anything that would given us a trend. But it started, the quarter started and it stayed -- it was very linear, it was not we saw decent performance from the beginning and it stayed pretty consistent throughout. So that was a good sign for us. And the -- I'm sorry, who is (inaudible) the --

Q - Meta Marshall {BIO 18728692 <GO>}

In terms of whether people where needed to physically be in the office in order to start thinking about orders?

A - Charles Robbins {BIO 17845882 <GO>}

No, you know what I think is happened is, I think customers have come to grips with the fact that, this thing is going to be with us for some period of time. Obviously, we're optimistic like everybody else is, some of the vaccines and some of the therapeutics and all will ultimately help. We're balancing that obviously with the current peaks that we're seeing all around the world. But I think customers is basically said, we're not sure when it's going to get better, but it's going to get better. And I can't sit around and do nothing.

But what I kind of had a -- was hopeful was going to happen, which I think we did see this, is it -- we had customers who are super-focused on getting their employees working from home productively and getting their security set up. I think everyone race to do that and then I think they took a pause, which is what we felt in our last quarter in orders. And then I think they re-prioritize, what they were going to be spending money on and I think we started seeing some of that come back and it's sort of exactly what I expected, but we needed to see it and we'll see if it continues. But we're all dealing with the same macro environment. Everybody is relative to this virus, but that's sort of how played out. Any comments Kelly on the linearity?

A - Kelly Kramer {BIO 18951157 <GO>}

No greater linearity.

Q - Meta Marshall {BIO 18728692 <GO>}

Great, thanks and thanks working with you, Kelly.

A - Kelly Kramer {BIO 18951157 <GO>}

Thanks.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Chuck. Thanks, Kelly. Next question?

Operator

Thank you, Tim Long from Barclays. You may go ahead.

Q - Tim Long {BIO 21123922 <GO>}

Thank you. I'll offer a good luck to you Kelly as well. Just wanted to ask on the cloud vertical. Chuck, you mentioned kind of fourth quarter in other words strong. Could you just talk a little bit about what products you're seeing strength there and what kind of breadth across that customer base you're seeing that strength. And then just a quick follow-up, if you could on the public sector being up. Anything specific or more sustainable to that vertical being one of the better performers? Thank you.

A - Charles Robbins {BIO 17845882 <GO>}

Thanks, Tim. Yes. In the cloud vertical webscale space, I think what I've said historically is that, we've been rebuilding these relationships and we began to see them buying our broader portfolio as a result of then believing in both the fact that we're going to be there with them and that we were investing in technology that was being built the way that they want to consume it and aligned to the architectures that they want to build. What I will tell you now is, last December we had a launch where we talked about disaggregating our software, our hardware and that we would sell our silicon, our optics, we would sell our software stand-alone, we would sell integrated systems. Whatever our customers want it and I can tell you that we had now won in the webscale space across every one of those facets. And so we've seen really good progress and I would say now some of the new technologies that we built and had been testing and positioning are starting to show up very well in the accounts.

So we're very pleased with that. On the -- and the pipeline looks very strong. So on the -- in fact, one of the comment on that. In the US, we saw service provider flat and that in a lot of that was strength in the MSDC webscale space and in Europe we saw high-teens growth and we saw really good MSDC webscale strength there as well.

On the public sector that was reasonably consistent around the world and a lot of it was -- there was a lot of stimulus that was put in the system by lots of governments around the world. Our federal spending in the US was strong. We saw K-312 building out a lot of infrastructure for -- while students are not there and E-rate was strong for sure and we think that will stay strong. And then we saw some spending from the CARES Act in the local and municipal governments. But and the teams we spend some time with the leader, particularly in US this week. And I think he remains fairly bullish.

Q - Tim Long {BIO 21123922 <GO>}

Okay. Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Next question please.

Operator

Thank you, Jim Suva from Citigroup Investment Research. You may go ahead, sir.

Q - Jim Suva {BIO 6329522 <GO>}

Thank you. And Kelly you will truly be missed. Please keep in touch. For either Chuck or Kelly, can you help us reconcile or bridge the gap between public sector orders were up 5%, enterprise was down 15%. Why would one be so much stronger than the other? So I look back on the year-over-year comps and last year enterprise orders were down 7% and public sector was flattish. So we actually have comps that don't explain it either. So can you just explain, are there different purchasing decisions, because everyone have been affected in the world by COVID. So if you can just help us kind of reconcile that a little bit? That'd be great.

A - Charles Robbins {BIO 17845882 <GO>}

Well, I think a lot of it's what I just described, right? Public sector around the world saw a lot of stimulus. And in the US in particular we saw strength and we saw everything from Department of Defense spending to the local municipal spending, states where slightly weak, but the federal government was good, local muni was good, E-rate kicked in, the new E-rate program kicked in. Jim, which contributes a lot when that gets going.

And that's sort of early in its next wave. And so -- and then we just said, there is strength in public sector in Germany. And so I think it was just more consistency basically. And outside the US obviously some healthcare, inside the US too, there is a lot of healthcare in there -- in public sector, particularly outside the US.

Q - Jim Suva {BIO 6329522 <GO>}

Thank you so much for the details and clarifications, Chuck and bye-bye, Kelly. Thank you.

A - Kelly Kramer {BIO 18951157 <GO>}

Thank you, Jim.

A - Charles Robbins {BIO 17845882 <GO>}

Thanks, Jim.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Jim. Next question please.

Operator

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

Q - Tal Liani {BIO 1643846 <GO>}

Hi guys. I'm trying to reconcile your comments to your numbers. Last quarter, you sounded pretty downbeat highlighting some issues. This quarter you sound a lot better. But on the -- and you talked about growth initiatives. On the other hand, I look at your numbers, Infrastructure Platforms are down 16% year-over-year 16.9% that's (inaudible) 16% and it's worse than all of your competitors.

If I just look at switching and routing and Juniper and Arista on a global basis without getting into details of the composition. You're down more than they are. And the question is, why is it down so much versus competition? Do you feel that there is also share issues, market share shift issues? Can you give us some context about areas where you feel that you're growing share, maintaining share in areas where you see some challenges?

A - Charles Robbins {BIO 17845882 <GO>}

Yes, I'll give you my quick perspective Tal and then Kelly can add to it. If you look at what really drove that -- this -- it was compute and a lot of it is sort of the pricing that came through compute, which neither of those competitors you mentioned have. Also just exposure to Data Center and Campus this past quarter, we talked about the broader exposure we have I think would be the two things that I would call out. Kelly, you have anything to add?

A - Kelly Kramer {BIO 18951157 <GO>}

Only other thing I would call out is, some of those companies that you mentioned has different comparison we do from a year ago as well. But Chuck hit it, right? I mean again data center or the compute business has the -- has a big impact due to the DRAM pricing or (inaudible) pricing down (inaudible) hurts And then again the campus stuff.

Q - Tal Liani {BIO 1643846 <GO>}

Thank you.

A - Kelly Kramer {BIO 18951157 <GO>}

Yes.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Paul. Next question please.

Operator

Thank you, Amit Daryanani from Evercore. You may go ahead, sir.

Q - Amit Daryanani {BIO 7113568 <GO>}

Yes, thanks for taking my question, guys. I guess my question would be on the topline guide and Chuck as I think about the Jan quarter expectation of sales being flat year-over-year versus I think what you've seen in the last few quarters of down 10% or 11%. I think (inaudible) would say well they compares easier which mathematically they are. But it would be helpful to understand what do you think are the top two, three vectors that's driving this improved revenue trajectory in Jan? And to the extent you can touch on the durability of these metrics as we go forward? That would be helpful.

A - Charles Robbins {BIO 17845882 <GO>}

Kelly, you want to tell anything?

A - Kelly Kramer {BIO 18951157 <GO>}

Yes, I'll start and you can add. I'd just say this, again back to the earlier point. We have been consistently shifting the revenue mix. So as you see every quarter and you can see it in our RPO, we are getting more-and-more of our revenue coming off the balance sheet with the software mix. We have continued to make progress as you can see on the services side. For services its still growing for us and software and services together has become a much bigger part of our portfolio. So that benefits us on the revenue guide.

In terms of strength that we see, yes. This Q1 revenue though will be -- it will be still a tough Q1, we feel better about what we see in the orders profile and again the growth drivers of the same growth drivers that Chuck talked about. We see real momentum in collaboration on the WebEx side, we see real momentum and security and we're just, I mean -- that's kind of what is driving. I don't know Chuck, if you'll add anything else.

A - Charles Robbins {BIO 17845882 <GO>}

And I think also the webscale and the service provider 5G build-outs, we were -- we feel like those are going to continue. But I mean the short-term guide is a combination of what's coming off out of the RPO? What's in backlog and then we obviously assess the forecast that teams put forward and then we put the Kelly and Chuck factor on it. So it is -- and it is mapped to some extent, but I think that some of the things that we talked about earlier, the things that are given us. I mean, it's hard to say super optimistic, because the number still aren't where we want them to be. But relative to where we were 90 days ago and how we felt or the uncertainty that we felt, we certainly feel like we have a little more visibility now.

Q - Amit Daryanani {BIO 7113568 <GO>}

Perfect, thanks on a nice quarter guys and best of luck, Kelly.

A - Kelly Kramer {BIO 18951157 <GO>}

Thank you very much.

A - Marilyn Mora {BIO 19771101 <GO>}

Next question please.

Operator

Thank you. Samik Chatterjee from JPMorgan. You may go ahead.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Hi, thanks for taking the question. Chuck, in your prepared remarks, you outlined kind of six focus areas, as you align the business to where you're seeing customer demand come back? If you can share how are you thinking about rate -- kind of investing organically versus where you might kind of need M&A to fill in those priorities. And just, I didn't hear in your prepared remarks and I think in different two plans about like, having hardware as a service, as some of your peers are trying. So like what are your updated thoughts? What are you seeing in terms of customer demand for those kind of models?

A - Charles Robbins {BIO 17845882 <GO>}

It's a great question. So I think on the organic versus inorganic, I should probably clarify that our strategy there hasn't changed and I think my comments were either misstated or misconstrued last time and some folks thought that we were thinking about some significantly larger acquisition strategy. Our acquisition strategy hasn't changed. Just to be clear, but we'll use a combination. I would say that right now -- there -- we are probably at the peak of internal innovation that we've -- that I've seen for a long time.

And if you look at the platform play, the work that our service provider mass scale infrastructure group is doing and some of the wins we're seeing there. The 5G backhaul and packet core wins that we're seeing and the -- at least architectural progress we're making whenever our service provider customers start building out their 5G core, standalone infrastructure, we feel good about where we are.

So it will be a combination of both and but again, it hasn't changed. As you think about it as a service. I do want to delineate between this because, there is -- offer in the marketplace today from some of our competitors around consumption based as a service and that's largely around compute. And so you'll see us with a similar offer. But more of what I'm talking about is, looking at what aspects of our intellectual property. Can we pull, can we integrate together and can we deliver as a cloud service. So I'm not necessarily talking about selling Ethernet switch ports one port at a time.

We're really talking about delivering our core intellectual property. Example, take SD WAN, cloud security, secured Internet gateway and deliver that capability for our customers as a service in the future, which is high value very differentiated. Those are kinds of things we're thinking that we're working through right now and you'll see those kind of offers come out from us over the next 3, 6, 9, 12 months.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Okay, got it. Very helpful. Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Chuck. Next question.

Operator

Thank you. Aaron Rakers from Wells Fargo. You may go ahead.

A - Marilyn Mora {BIO 19771101 <GO>}

Aaron, we can't hear you.

Q - Aaron Rakers {BIO 6649630 <GO>}

Sorry about that, I was on mute. Congrats on the quarter and also good luck, Kelly. I guess my question is building on the last question. As we think about the CFO announcements and we think about subscription now being 78% of the software revenue. How do we think about the progression of deepening subscription across the product portfolio and how do we think about the renewal cycle of those subscriptions as we move forward? Thank you.

A - Charles Robbins {BIO 17845882 <GO>}

It's a good question. So I think you, you're going to see us continue to add more software assets, both organically and inorganically. As and most all of those solutions are sold as a service. So I think you'll see increases from that perspective. I think that you'll see on the renewal front, we have a focused effort right now. I think if you look at our core portfolio, where we drove mandatory subscriptions. The first meaningful renewal cycle comes about a year from now or about next -- middle of next year and our teams are working on that right now as we speak.

We currently have renewal motions in place across collab and across security, et cetera. So I think, what I would say is that, we'll be looking at more-and-more of our technology being delivered from the cloud and as a service. So you'll see that contribute to it as well. And we're just going to continue to move forward and I would say, you're going to continue to see software and services took up as a percentage of our overall business going forward.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Aaron. Next question please.

Operator

Thank you. Simon Leopold from Raymond James & Associates. You may go ahead, sir.

Q - Simon Leopold {BIO 4081594 <GO>}

Thank you much for taking the question. Kelly, I also send my congratulations on wherever you go next and thanks for the help. In terms of the question, I wanted to see if you could talk a little bit about the maturity of the campus refresh in terms of the opportunity in front of you for the CAT-9K, as well as whether you're seeing a benefit from renewals on D&A subscriptions. I assume you're sort of coming up on that first round of three-year subscriptions coming due? If you could elaborate on those two? Thanks.

A - Charles Robbins {BIO 17845882 <GO>}

Yes. Thanks, Simon. I would say on the campus refresh. I mean, when you look at WiFi-6, you look at the CAT-9K stuff, we're still early on honestly. And there is -- we have a large installed base out there and so that's a multi-year transition that we expect will go on for some period of time going forward. On the D&A renewal stuff, that's what I was telling about earlier, that's really -- it is the first real wave of it hits sometime in '21. Because if you remember, we launched that in -- I think we announced that in the summer of 2017, Kelly. Is that right? And so that was beginning of fiscal '18. And so when we get to the end of fiscal '21 and you had a lot of early adopters and we didn't hit scale to sort of the middle of next year. So you're really talking about getting into FY '22, when we'll start to see that come about.

Q - Simon Leopold {BIO 4081594 <GO>}

Great, that's helpful. Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Next question please.

Operator

Thank you. James Fish from Piper Sandler. You may go ahead, sir.

Q - James Fish {BIO 18284975 <GO>}

Thanks for the question and congrats again on the retirement, Kelly. We're starting to see signs of 5G core spending and Chuck you alluded to it, on the call and also more about the desire for open ran. How can Cisco enable more the open ran infrastructure, what are you guys hearing about timing for 5G core spending and in terms of materiality? Now that the first mid-band spectrum auction is through and the second is coming up. And how are you feeling about the products across infrastructure competitively for 5G? Thanks.

A - Charles Robbins {BIO 17845882 <GO>}

Well, Jim. I would say the active overran projects around the world, we are deeply in the middle of and have actually seen a lot of benefit from one in Japan and there is a couple of others going on in other places. And we're in the midst -- in the middle of the packet core side of it, we're in the middle of backhaul, we're in the middle of infrastructure to support it, we're in the middle of orchestration layers. And so our teams continue to work on building out our overall stack for how we -- how we'll play in that open ran space over time.

As it relates to the 5G stuff, you're right. Where we are seeing benefit today is, we're winning a lot of backhaul opportunities, we're winning a lot of packet core. I think we had seven more wins in between those two in the last quarter. And I would say, the core standalone build outs, we're going to largely be dependent upon the enterprise service delivery that we've talked about historically. And I still think that's probably. I think we're starting to see some early stuff going on around the world. But I think in earnest, I would say that's going to be notwithstanding pandemic and everything else, it's probably going to be starting, middle of next year and it will take several years. But again, there's a lot of variables that could move that either way.

Q - James Fish {BIO 18284975 <GO>}

Understood. Thanks, Chuck.

A - Marilyn Mora {BIO 19771101 <GO>}

Okay. We have time for one more question. Michelle, can you (inaudible) the last question.

Operator

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

Q - Sami Badri {BIO 20178177 <GO>}

Thank you very much for fitting me in. I just wanted to touch up a little bit on the public sector order strength. Is this something that can consistent may be growing from a product orders and strength perspective. And at least the upcoming quarters or was it just strong this quarter, because the government's fiscal year closed in the September quarter. And therefore, there was a big uptick offsetting some of the dynamics.

And then just as a kind of a follow-up here. Is there -- have you guys been able to go through the commercial and the federal segments and determine whether (inaudible) funding or stimulus funding was able to fund some of the reversals and dynamics that you guys saw in the quarter. And then that essentially all led to a better guide than what consensus was modeling. If you fit those two questions and that will be great.

A - Charles Robbins {BIO 17845882 <GO>}

Thanks, Sami. I'd say on public sector, we feel pretty good about it actually. And when we talk to our leaders around the world that is one area that is pretty consistent, the most of them feel pretty good about and particularly in the US where it's a big piece of the business regardless of administration. Right. It's -- there is different priorities, but they're all dependent upon tech and so that's good.

On the commercial and federal segments, I think what I would say is -- I would say in commercial, I would assume that there was some aspect of that. But I think looking at the collaboration and security spending, I think it's just a lot of those mid-size enterprises we're really just putting themselves in a position to continue operating in this new world we're living in right now, as much as anything. I'm not sure it's significant. I'll let Kelly comment, so if she thinks. But we did have a comment that I made earlier that our federal team did see that stimulus was positive, E-rate was positive and then we saw some local muni buying that was -- they felt like was in the customers are telling was connected to the CARES Act and that's probably the extent of what I've heard on this.

A - Kelly Kramer {BIO 18951157 <GO>}

And we heard -- we also heard that from the European team that's (Multiple Speakers) they got a lot of benefit from the stimulus. And again, when I look at the orders within public sector, there globally. I mean again ton of it is in getting this -- it's insecurities and collaborations are working from home, doing school from home and like Chuck said the K-312 education globally is very favorable.

Q - Sami Badri {BIO 20178177 <GO>}

Got it. Thank you.

A - Charles Robbins {BIO 17845882 <GO>}

Thank you.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Sami. Chuck, I'll turn it over to you for comments.

A - Charles Robbins {BIO 17845882 <GO>}

Yes, I think. First thing I'll say is that, I'm really proud of our team and how hard they are working and how committed they are to our customers and making sure that we're taking care of them during these complex times. And obviously we're trying to take care of our employees during these complex times. But I really want to just focus on thanking Kelly. It's been an incredible partnership. We've had a lot of fun and I think that there is a lot of love in the investor community for you. We're going to miss you, but we are excited about Scott, but Kelly thanks for everything you've done for us.

A - Kelly Kramer {BIO 18951157 <GO>}

I appreciate it, Chuck. It's been great working with you. And again I do appreciate everybody and industry and spend great relationship. But Scott, I think it's great that Scott coming, he is going to be fantastic for the company. But thanks for everything, Chuck.

A - Charles Robbins {BIO 17845882 <GO>}

And Kelly, actually helped us make that choice. So you guys can feel good that she helped us select the candidates and was very supportive on Scott's -- on the decision for Scott. So thank you all for joining us today and we look forward to talking to you again next quarter.

A - Marilyn Mora {BIO 19771101 <GO>}

Thanks, Chuck. Thanks, Kelly. So in closing Cisco's next quarterly earnings conference call, which will reflect our fiscal 2021 second quarter results will be on Tuesday, February 9 2021 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 is done through an explicit public disclosure.

We now plan to close the call. But if you have any further questions, feel free is always to reach out to the Investor Relations team. And we thank you very much for joining the 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 800-879-5193. For participants dialing from outside the US, please dial 203-369-3562. This concludes today's call, you may disconnect at this time.