Cisco Systems' CEO Discusses F4Q 2013 Results - Earnings Call Transcript

Executives

Melissa Selcher - Senior Director, Analyst and Investor Relations

John Chambers - Chairman and Chief Executive Officer

Frank Calderoni - Executive Vice President and Chief Financial Officer

Rob Lloyd - President, Development and Sales

Gary Moore - President and Chief Operating Officer

Analysts

Tal Liani - Bank of America Merrill Lynch

Simona Jankowski - Goldman Sachs

Ben Reitzes - Barclays Capital

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Jayson Noland - Robert Baird

Cisco Systems, Inc. (CSCO) F4Q 2013 Earnings Conference Call August 14, 2013 4:30 PM ET

Operator

Welcome to Cisco Systems’ Fourth Quarter and Fiscal Year 2013 Financial Results Conference Call. At the request of Cisco Systems, today’s call is being recorded. If you have any objections, you may disconnect.

Now, I would like to introduce Melissa Selcher, Senior Director, Analyst and Investor Relations. Ma’am, you may begin.

Melissa Selcher

Thank you, Kim. Good afternoon, everyone, and welcome to our 94th quarterly conference call. This is Melissa Selcher and I am joined by John Chambers, our Chairman and Chief Executive Officer; Frank Calderoni, Executive Vice President and Chief Financial Officer; Rob Lloyd, President of Development and Sales; and Gary Moore, President and Chief Operating Officer. I would like to remind you that we have corresponding webcast with slides on our website in the Investor Relations section.

Income statements, full GAAP to non-GAAP reconciliation information, balance sheets, cash flow statements and other financial information can also be found on the Investor Relations website. Click on the Financial Reporting section of the website to access these documents. Throughout this call, we will be referencing both GAAP and non-GAAP financial results. The matters we will be discussing today include forward-looking statements and as such are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically the most recent reports on the Form 10-Q and 10-K and any applicable amendments, which identify important risk factors that could cause actual results to differ materially from those contained in the forward-looking statements. Unauthorized recording of this conference call is not permitted. All comparisons throughout this call will be on a year-over-year basis unless otherwise stated.

I will now turn the call over to John for his commentary on the quarter.

John Chambers

Mel, thank you very much. As we closed fiscal year '13 we are pleased to announce another strong quarter and strong end to our fiscal year. Q4 was a record quarter on many fronts with record revenues of $12.4 billion and record non-GAAP operating income, record non-GAAP net income, and non-GAAP earnings per share of $0.52. In every case, we exceeded the midpoint of our guidance. We generated $4 billion in operating cash flow in the quarter, another record as well.

Delivering the record results we did this quarter and every quarter this year despite the challenging macroeconomic backdrop speaks to our increasing strategic position in the market and our ability to manage our overall business as a portfolio across technologies, customer segments, and geographic regions.

With this backdrop in mind, I want to highlight five key takeaways from Q4. First, our results, we continue to consistently deliver. Our performance in Q4 FY '13 was differentiated versus many of our peers. We drove both top line growth of 6% and bottom line growth in terms of non-GAAP EPS growth of 11% with stable gross margins for the year and strong operating margins. From the $4 billion cash from operations, we returned over $2.1 billion to our shareholders in buyback and dividend. Secondly, we are leading many of the technology transitions in the market which are increasing in pace. With the networks squarely at the center of cloud, mobility, BYOD, security and the internet and everything. We believe we're uniquely positioned to help our customers meet their business goals and they are asking us to play this role. An example is our continued success and mobility where we are driving the transition to a unified access architecture and cloud and saw revenue growth of over 30% in our wireless business this quarter. Our data center business is a tech improved point. We successfully drove the transition to a converged architecture and you see this is in our data center results, a 2 billion plus business in five years growing revenue over 40% year-over-year in the most recent quarter and we're not stopping.

At Cisco Live in June we previewed our application centric infrastructure strategic within SEMI (ph). We're delivering the next wave of industry innovation from the cloud through the campus and driving our continued market leadership. Third, we delivered the strong performance and what continues to be a challenging and inconsistent global macroeconomic environment. While we saw continued momentum in year-over-year orders in the U.S. enterprise up 9% U.S. commercial up 12% and an upturn in U.S. public sector which grew at 4% and APJC our Asia-Pacific, Japan, China operations we saw the same weakness many of our peers experienced with orders down 3%. Along with economic challenges impacting several of our Top 5 emerging markets.

Last quarter I described a continued slow recovery and I haven't seen anything to suggest that this dynamic will change in the short term but this recovery is more mixed and inconsistent than the others I've seen.

Fourth, we're committed to our long term financial model including driving profitable revenue growth of 5% to 7%. In this tight environment, we as leaders must continue to see rebalance our resources to indepth into opportunities, in my opinion we're managing our opportunities and our business better than we have ever have and our customers and shareholders are seeing the benefits.

And fifth, we believe our vision and strategy are working. We've never lost when we are aligned with our customers, helping them to solve their most important business challenges. You saw that in our U.S. enterprise and commercial business, global search for other customers and even entire countries. When we partner with our customers on their business priorities the results speak for themselves. As an example I look at our success selling solutions that deliver business results not selling products in (inaudible) as U.S. enterprise business resulting in terms of pipeline more than 50% year-over-year increase in orders of over $1 million in that territory. At the country level I look at 27% year-over-year increase in orders with Israel in Q4. As we align across all political parties to focus on the countries priorities, job creation, inclusion, education, healthcare, future infrastructure and technology industry development. When we partner with a customer and in this case a country is real to drive their success our business benefits which Forbes refers to as profits through peace.

The latest industry data shows our relevance with customers is only growing as we move to become the number one IT Company, to provide additional details on our Q4, FY '13 results I would like to turn the call over to Frank. After Frank I will then walk through some additional details in terms of what we're seeing in the business, Frank will then detail our guidance and then we will wrap up with a quick summary and move in to my favorite part which is the Q&A. Frank, to you.

Frank Calderoni

Thanks John. I'm pleased with our strong performance in Q4 and throughout FY '13. We delivered top-line growth for the full fiscal year of 6% and grew profits faster than revenue for each quarter and for the full year. We effectively managed our business with strong operational execution while maintaining stable growth margins and delivering profitable growth and return for our shareholders. Starting with the full fiscal year performance our total revenue was $48.6 billion, our non-GAAP net income was $10.9 billion and this was up 8%. Non-GAAP earnings per share on a fully diluted basis was $2.2 per share which grew 9% year-over-year.

As for our GAAP net income it was $10 billion or $1.86 per share on a fully diluted basis representing increases of 24% and 25% respectively. We generated strong operating cash flows of $12.9 billion increasing 12%. We returned $6.1 billion of cash to our shareholders through our dividends and share buybacks representing 52% of free cash flow, which is $11.7 billion. This is consistent with the capital allocation strategy that we introduced a year ago.

Moving on to Q4 results, we had solid execution which results consistent with our expectations. Total revenue was $12.4 billion growing 6% year-over-year and non-GAAP EPS was $0.52 per share growing 11%. Our Q4 marked the seventh consecutive quarter, where we grew profits faster than revenue as measured through earnings per share. In this quarter, we closed three more acquisitions, including SolveDirect, Ubiquisys, and JouleX and we announced two more acquisitions in security and software. Composite Software provides enterprise data virtualization software and services, and Sourcefire is a leading intelligent cyber security solutions company. These acquisitions are aligned with our portfolio approach of driving long-term returns in complementing our innovation engine.

In terms of our business momentum, we saw product and service revenue both grow at 6% with total product book-to-bill comfortably over 1. Total revenue from a geographic perspective grew 7% for the Americas, 12% for EMEA, and decreased 3% for APJC. We delivered strong and consistent non-GAAP operating margins of 28.2%. Within our operating margins, we have driven stability in our gross margins and maintained a concentrated focus and discipline on our operating expenses. In Q4, our total non-GAAP gross margin was 62.1% and this compared to 61.9% a year ago and 63% last quarter.

Our non-GAAP product gross margin was 60.8%. This compared to 60.4% a year ago and also 62.1% last quarter. We saw good gross margin stability across most of our product areas. Our non-GAAP service gross margin was 67.1% and this also compared to 66.5% last quarter and 67.1% in Q4 of FY '12. Total gross margins by geography where Americas is at 61.8%, EMEA was at 64.4%, and APJC was at 59.5%.

Our non-GAAP operating expenses were $4.2 billion, or 33.9% as a percentage of revenue compared to 34.4% in Q4 fiscal year '12. We made headcount investments this past quarter of approximately 900. These additions were driven by our acquisitions and portfolio investments in sales as well as in services.

Now, moving on to the non-GAAP tax provision rate, that was 20.1%. Our non-GAAP net income was $2.8 billion, and this represents an increase of 13%. As a percentage of revenue, non-GAAP net income was 22.9%. As I mentioned earlier, our non-GAAP earnings per share on a fully diluted basis was $0.52 and this is versus $0.47 in the fourth quarter of fiscal year 2012, and it represents 11% increase.

From a GAAP net income perspective, it was $2.3 billion representing an increase of 18% as compared to $1.9 billion in the fourth quarter of fiscal year '12. Our GAAP earnings per share on a fully diluted basis was $0.42 versus $0.36 in the same quarter of fiscal '12 and this represents a 17% increase. As a reminder, we announced in June that our GAAP net income and GAAP earnings per share for Q4 FY '13 included an impact of the TiVo patent litigation settlement. We recorded a charge of $172 million, or $0.03 per share. The non-GAAP earnings this quarter exclude this charge. During the quarter we returned $2.1 billion to our shareholders including 1.2 billion through the share repurchase and 918 million to our quarterly dividend. Total cash and cash equivalents and investments were $50.6

billion including $10.2 billion which was available in the U.S. at the end of the quarter. Cash flow from operations was a strong $4 billion up 29% and this was an all-time record. Our product backlog at the end of fiscal 2013 was approximately $4.9 billion as compared to approximately 5 billion at the end of fiscal 2012.

In terms of our key balance sheet metric, DSO or day sales outstanding was 40 days reflecting a slightly reduced linearity profile of product and service billings this quarter. This impact was partially offset by strong collections on our receivables and finally our non-GAAP inventory returns was strong at 12.8.

Overall our priority of long term possible growth is proving to be effective. We're driving focused and discipline in the right areas of the business which helps us to continue to be ahead and innovate IT solution for our customers. We remain highlight focused on shareholder value through rigorous expense management and strong cash return to our shareholders. We remain confident in our ability to continue to execute. John I will now turn it back over to you for more detail on the business moment.

John Chambers

Thank you Frank. I will now provide some additional detail on the performance in Q4 and trends we're seeing in our business and in the market. I will first walk through our product portfolio in terms of year-over-year revenue growth followed by discussing geographic and customer segments in terms of year-over-year orders. First in core networking, we have driven innovation in execution of (inaudible) switching portfolio which has resulted in solid growth of our switching business this quarter of 5%. Our Nexus switching product line continues with it's strong double digit growth over 20% and in the campus our full converged wired and wireless Catalyst 3850 platform continues it's very strong performance with the current quarter order rate of over a 150 million after only two quarters in the market.

Despite how you program new technologies and potentially disrupt your competitors. Our performance in switching has been extremely solid and we're innovating to continue to lead in the future and we saw another strong record quarter in our wireless business up 32%. We were particularly pleased with the performance of our cloud networking business based upon our acquisition of Meraki, this quarter which grew orders over 100% from the prior quarter within order run-rate now annualizing Q4 of over $250 million. This speaks to the power of industry leading technologies, in this acquired integrating to architecture accelerate about world leading channel organization.

We're also pleased with the initial uptick of 802.11ac modules for the AP 3600 leading the adoption of gigabit lap out the new industry standard for wireless LANs. In NGN routing total revenue for NGN routing was flat, the story across the industry this quarter was one of the edge, we saw our ASR 9000 revenues reach a record high with growth of 69% well outpacing our peers and the high end core we experienced weakness from our peers. In the quarter we introduced the CRS-X system with over 400 GPS capacity to address a surging demand for video, mobility and collaboration. We are very comfortable with our product leadership and plans for the future in this market.

In mobility we expanded our customer penetration with our newest ASR 5500 series with several key wins, this product tends to be large order driven and my word is i.e. lumpy even though I know you don't like it now and so following strong growth for several quarters we saw a slight decline this quarter. We're bringing advance software and management tools to carriers that will enable them to lower operating cost and drive efficiencies around their overall network spend. We believe our internal innovation coupled with the recent acquisitions of BroadHop, Cariden, Intucell and Ubiquisys position us to be the clear number one in this mobile market over the long run.

Cisco ONE continues to gain strong customer momentum by delivering in our view the most comprehensive framework for network programmability and SDN. We have more than doubled the number of beta customers to over 120 are utilizing Cisco ONE to program, orchestrate, and manage their networks. We also are continuing to invest in open source communities like OpenDaylight and OpenStack as a means we help accelerate our customers' adoption to SDN and cloud. Technology from Sourcefire, our most recent announced acquisition is based on industry leading open source platform for security.

Moving on to the data center cloud, where we grew revenue 43% year-over-year growing across all regions. We are pleased to have moved into the number two position worldwide in the x86 blade market with approximately 20% market share something our peers would have considered impossible a few years ago. We saw this strong performance despite a very challenging compared to Q4 FY '12, where a year ago we blew out the numbers with 90% year-over-year growth.

Our partner ecosystem, including VCE and NetApp as well as hundreds of application partners continues to accelerate the adoption of our unified data center architecture as the leading data center platform. VCE specifically had a very strong quarter with order growth over 50% and strong demand from new and existing customers. We are seeing similar momentum with our FlexPod solution with NetApp, where FY ‘13 orders also grew over 50% compared to FY ‘12.

Moving on to video, total SP video revenues grew 23% driven largely by our NDS acquisition. We continue to see good performance with our video software and solution business that includes NDS driven by new innovative solutions like cloud, DVR, and compelling user interfaces.

Moving on to collaboration, we continue to improve our collaboration execution. Revenue was flat normalized for the underlying server revenue. Momentum as measured by collaborative orders reached a record high this quarter growing normalized 5%. That’s the first quarter in five quarters that we have grown positively from now. Revenue growth lagged as the profile of this business shifts to recurring revenue. We saw this trend in our conferencing performance, which was flat and UC when normalized was down 2%. TelePresence was up 3% driven by strength in endpoints.

Moving on to security, where revenue of $346 million was flat year-over-year. Network security is flat and content security was slightly down. A continued shift in the security business to term-based software licensing, i.e., recurring revenue is having a short-term impact on year-over-year revenue growth. Last month, we announced our intent to acquire Sourcefire for $2.7 billion, and we expect this acquisition to close in the second half of the calendar year. With this move, we made a major step forward to be our customer’s leading security partner and our aspirational goal to become the number one security company.

Finally, services, services revenues grew 6% representing 22% of total revenue. As we said before, we are committed to our long-term growth rate to 9% to 11% in services. Together with our partners, we are winning large multi-year service deals as our customers ask us to partner with them to meet their business goals. In summary, we believe our innovation to build by partner combined with our architectural approach is working extremely well. We continue to focus on market transition and customer priorities to drive our innovation and focus.

I will now move on to provide some color on our geographic and customer segments. The following geographic and customer segment growth rates are in terms of year-over-year product orders for Q4 unless specifically stated otherwise. In Q4, Cisco’s total product orders grew 4% year-over-year. Looking at the numbers from a geographic perspective, the Americas region grew 5%. As I discussed upfront, we continue to see solid minimum in the U.S. with U.S. enterprise up 9% and commercial up 12%. U.S. public sector growth of 4% was driven by state, local, and education strength in their buying season which was up 9% and federal business was – growth was up 3%. U.S. service provider was down slightly. We saw challenges in the Asia-Pacific, Japan, and China region down 30% due largely to macroeconomic challenges. We saw challenges in Japan due to reduced large SP CapEx and economic challenges. We also continue to work through the challenges in China and so only 6% decline in our business there. China is less than 5% of Cisco’s total revenue from an overall perspective. India recorded a highlight in Asia-Pacific at 19%. One of the most positive trends we saw in Q4 was the continued improvement in our Europe, Middle-East, Africa and Russian Region which was up 6% and Europe itself was up 6%. Economic conditions in Europe still vary significantly by region with the North and UK showing very positive progress, we remain cautious however given the instability of the southern region.

Our emerging markets business was up 8%, however we saw mixed results in our top five emerging countries, with India and Mexico up in double digits, Brazil and Russia approximately flat and China down 6%. The changes in macroeconomic conditions in the emerging markets both positive and negative are driving more inconsistent growth than in the past. Now on moving on to customer segment view again and from an orders perspective.

Enterprise declined two percent the decline was driven largely by EMEA Enterprise which declined 10% year-over-year. Commercial grew 5%, service provider were 6%, global public sector grew 6%. This once again has been a very positive trend with global public sector and if you would have just looked back over the last year Q1 of this last year global public sector was down 6%, Q2 was flat, Q3 up 1% and Q4 up 6%.

Our results demonstrate the mixed nature of the market. In technology areas we’re seeing switching and data center strength offset by routing and set-top box weakness. In customer segments we see public sector moment offset by softness this quarter in enterprise. In geographies we see improvement in the EMEA and Europe if you will offset by weakness in APJC.

Despite these trends we continue to grow. Our total product order growth continues to slowly increases over the last four quarters excluding acquisitions and divestures so they are apples to apples. Speaking to the power of our portfolio and our execution. While the trends of ICT spending and global GDP growth according to industry experts continue to be revised down for calendar year ’13.

Industry estimates have the growth of our total available market and we’re looking through calendar year 2017 in the

5% to 7% range once again echoing our view to this is the area that we ought to grow in over the longer time period. In summary I believe the macro effects will purely continue mixed environment but I feel very good about how we're positioned and about what we can control. I will now turn it over to Frank to provide Q1, fiscal year '14 guidance.

Melissa Selcher

Before Frank continues I want to clarify one number the Asia-Pacific, Japan, China region was down 3% in terms or orders year-over-year not 30%.

Frank Calderoni

Thanks John. Let me now provide a few comments on our outlook for the first quarter, let me remind you again that our comments include forward-looking statements and you should review our recent SEC filings that identify some important risk factors and understand that actual results can materially differ from those contained in the forward-looking statements and that actual results could also be above or below the guidance. This guidance we're providing is on a non-GAAP basis with reconciliation to GAAP.

For Q1 FY '14, we're managing the business to account for a slow and consistent recovery. With that in mind, we expect revenue growth to be in the range of 3% to 5% on a year-over-year basis. For the first quarter we anticipate non-GAAP gross margin to be in the range of 61% to 62%. Our non-GAAP operating margin in Q1 is expected to be in the range of 27.5% to 28.5% and our non-GAAP tax provision rate is expected to be approximately 21% in the first quarter.

Our Q1 FY '14 non-GAAP earnings per share is expected to range from $0.50 to $0.51. We remain committed to our long term financial model of driving profitable growth, our growing revenue of 5% to 7%, and non-GAAP EPS 7% to 9%. As you would expect, we continued to make portfolio trade-offs to ensure we are investing in future growth through innovation such as cloud, data center, mobility, services, software, and security as well as driving operational efficiencies.

In the past two years, we have managed the business with discipline and focus. In order to execute on the portfolio investment and operational efficiency opportunities that we see in FY '14, we are rebalancing our resources with a workforce reduction, which will impact approximately 4,000 employees or 5% of our global workforce. We expect to continue to deliver non-GAAP operating margins as a percentage of revenue in the high 20% consistent with our long-term financial model. We expect to take this action starting in Q1 FY '14 and currently estimate recognizing pre-tax charges to our GAAP financial results of up to $550 million. We expect that approximately $250 million to $300 million of these charges will be recognized during the first quarter of FY '14 with the remaining amount recognized during the rest of the fiscal year.

We anticipate our GAAP earnings in Q1 to be $0.16 to $0.20 per share lower than our non-GAAP EPS. Please see the slides that accompany this webcast for more detail. Other than those quantified items noted previously, there are no other significant differences between our GAAP as well as our non-GAAP guidance. This guidance assumes no additional acquisitions, asset impairments, restructurings, and tax or other events which may or may not be significant. And as a reminder, Cisco will not comment on its financial guidance during the quarter unless it is done through an explicit public disclosure. John, turn it back to you?

John Chambers

Frank, thank you very much. The most difficult decisions we make as leaders are those that impact our employees. However, we will always take the necessary actions to efficiently manage our business for the long run. Consistent with what we have said over the past two years, we are positioning Cisco to accelerate and lead with greater speed, flexibility, and agility. As we closed a very successful fiscal year '13, I am very pleased with how we are operating as a company and the value we are delivering to our customers, our partners, our employees, and our shareholders.

We have delivered on and remain committed to our long-term profitable revenue growth of 5% to 7% and capital returns of the minimum of 50% of free cash flow annually and believe Cisco is better positioned in the market today than ever before. As I look at the area as a very-sought momentum going to Q1, I feel extremely confident. I know it is a long list, but I ask you to bear with me as I think these areas of strength are proof of our increasing relevance and strong execution over the next number of years. Specifically, I am very pleased with the following: U.S. enterprise and commercial momentum, beta center and cloud leadership, mobility and wireless strategy, switching growth and leadership, European momentum and execution, SP strategy and architecture, global public sector improvements.

We have seen two things that have changed over the course of this year. First, the economic recovery is slower and more inconsistent with global GDP continuing to sit down for calendar year 2013 and global challenges in Southern Europe, several of the large emerging markets and Asia-Pacific. Second, the pace of change has continued to increase. This is an environment that we are very effective at and very much want to lead. We are going to focus on aligning our resources to our top opportunities, speeding the decision cycles and time to implementation, balance sheet expenses to revenues, and driving efficiencies in the business while investing in growth. We never convinced ourselves. The market will evolve a certain way because it’s convenient to our current business rather we align closely with our customers to transform to meet the long-term market needs.

We prioritize and invest for where we believe the market is going. Every technology company should move with this agility, many don’t, and those companies that don’t get left behind. Investments we made many years ago are paying off today. Nothing is more evident than what we discussed earlier in terms of our movement in the datacenter. It's started over seven years ago. We've recognized the impact of datacenter and cloud would have on networking and opportunity to bring innovation in terms of product architecture and go to market. We move from being unknown in the market to the number one cloud infrastructure provider today as reported by Synergy Research. We're driving the same strategy across our business using innovation, acquisitions, spin in and partnering to drive our agenda making strategic bets and investments to position us well for the future.

My confidence in our ability to be the number one IT Company is increasing. This leadership is evident and our customer and partner satisfaction scores that are the highest in the industry and our customers want us to do more. Now more than ever our customers and our partners want Cisco's help navigating these challenging landscape successfully. They recognize the benefit of a partner who is not only the leader in their product categories but can bring technology and solutions together in an architecture to lower operating costs, reduce time to market and future proof their investments.

I'd love any player to take us on in this strategic approach. This is a strategy we invented and have delivered on successfully for over two decades and we’re moving aggressively to play on in even broader scale. While we’re planning conservatively given the broader macro environment we remain very much a company on the offensive and very comfortable with maintaining our position as the disrupter in the industry. Both today and in the future, we'll measure our success by the value we deliver to our customers, partners, employees and shareholders.

Mel, let me turn it over to you for questions.

Melissa Selcher

Thanks John. We'll now open the floor to Q&A. We still request that sell side analysts please ask only one question. Operators please open the floor to questions.

Question-and-Answer Session

Operator

Your first question comes from Tal Liani with Bank of America Merrill Lynch.

Tal Liani - Bank of America Merrill Lynch

I have a kind of a blunt question if the environment is improving why are you guiding a little bit conservatives and why are you laying off 4000 people which is about 5% of your work force if I understand correctly?

John Chambers

Sure so the environment in terms of our business is improving slightly but nowhere near the pace that we want. You know what product orders have done, minus the acquisition and spin offs because that gives you a feeling for what our growth is going to be and those will bump them up or down. It's just not growing at the speed we want, the inconsistency of global GDP growth and about the time you see Northern Europe start to get stronger, you see the issues in emerging markets start to get softer. You see us successful in one category switching and you see us not as successful except in the edge in terms of the routing. You begin to see a balance which was 13% growth in emerging markets back down to 8% in terms of the opportunity and so the combination of weakness in APJC offsetting what went on in Europe the strength in the U.S. offset by what went on in emerging markets, et cetera, is kind of leveling off. So, Tal what we see is slow steady improvement but not at the pace we want.

Now if we're going to lead in this industry the one thing I have learned over the years is you're the first mover. We have to very quickly reallocate the resources. So, you know a fair amount of that 4,000 people will be allocated to new growth opportunities.

The second thing is even though Gary I think you and I would agree we were very pleased with how we made progress in the last two years on speeding up decisions, in today's marketplace, they're almost up exponentially on how quickly not only decisions have to be made, but how quickly you implement those.

Those need to be done with small things. We just have too much in the middle of the organization. When you have that type of layers and standard controls without meaning to, very well-meaning people begin to really look at how they add value to the decision made and probably we're just not moving with the speed that we need in this area. So you can see us focused very much in this area on expanded control and also layers.

It's all about speed and pace in this new industry which we intend to balance in. Third, we make commitments on our financial model which we're absolutely sticking to. You heard our commitments 61%, 62% gross margins. You heard our commitment operating margins 27.5 and 28.5, you've seen our commitments to growing earnings on most quarters faster than revenues and we see our markets grew, we're gaining market share even at these lower numbers. Everywhere we run business in the world grows and keeps expenses in line with revenue growth and driving up productivity. Candidly, we didn't drive productivity this last year. So, with the change in the macroeconomic environment and you saw this from the better officials, you've seen it in all the forecasts on emerging countries, etcetera and you saw it in our business numbers with inconsistent data even in our own operations, which tends to be more lumpy than I like to see. This is just good business management. And I'd learn in this industry you lead with you mind, not with your heart and this is something that we think will allow us to grow our profits, but also most important to achieve the number one position in the industry and move our resources very quickly to the growth opportunities. If this were a normal pace, you can move those resources over two years with attrition and realignment.

But I think Gary given what we want to do on speed and organizational structure and our ability to move fast, you are going to see us target that 4,000 people, we are obviously going to hire that part of them and in other categories and realigned where we need to go for growth. So, Tal, that's a blunt question. My key takeaway is I am real pleased with our momentum in the market it just is not growing as fast as we need. And there are enough inconsistencies in the market we think not to remain agile and flexible to be able to grow for our growth markets quickly putting the resources behind that is needed. This is what we strongly believe we will do as a company.

Melissa Selcher

Great, thanks Tal. Next question please?

Operator

And your next question comes from Simona Jankowski with Goldman Sachs.

Simona Jankowski - Goldman Sachs

Hi, thanks very much. I just wanted to clarify some of the moving pieces around the guidance, and then I had a question. But in terms of the clarification, there were just a bunch of data points that pointed in opposite direction I think you said your book-to-bill is conformably above 1, I saw your deferred revenue was up 6% sequentially yet the backlog was down and the guidance was for some deceleration. So, if you can just kind of reconcile those conflicting data points? And then in terms of question, it seems like some of the weakness was in your service provider business and orders, I think you said in the Americas they are declined, the routing was also flat, but when we look at the carrier spending in North America, in particular, it seems actually to have strengthened in the last few months. So, if you can just help us understand that as well?

John Chambers

Okay, Simona. We will answer all the questions, but we will try to ask in the future for just one. Let me take the book-to-bill, you take the other two financial questions, then I will take the service provider question. The book-to-bill was in line with our normal Q4s. It was very comfortably over 1 and I mean very comfortably in line with what we normally see. In terms of the quarter linearity to the indirect part of your question, the first month of the quarter was lighter than we would like, second month was very consistent, third month was more stronger in terms of the linearity. Maybe Frank to the other two issues and then I'll do the service provider question.

Frank Calderoni

Yes, John. So, overall, Simona I would say that we were very pleased with the performance throughout the year, 6% top line growth, 9% from a non- GAAP EPS growth. And if you look at the momentum throughout the year, I think we were fairly consistent we started to see improvement as the year unfolded, especially in the back half of the year if you start to look at the order rates. As you know, we have flat orders in the first two quarters and then we started to get order growth rate about 4% in Q3, 4% in Q4. So, we got some good momentum. I think that also helped with the backlog kind of where John mentioned before. And then we also have deferred revenue as you mentioned which was up 6% at the end of the year. So, I think from a trend standpoint, we are first of all pleased with how the quarter closed, the year closed, and we are also pleased with the momentum that we started to see at the end of the year.

Now, the guidance for Q1 that I gave was 3% to 5% on a year-on-year basis from a revenue standpoint and then also from an EPS of $0.50 to $0.51 non-GAAP EPS. So, that's slightly down from what we normally see sequentially. Some of that has to do with what John was talking about some of the inconsistencies that we are seeing. And we are trying to be with those inconsistencies a little bit conservative as we are looking into the start of the fiscal year and as fiscal year going into Q1 always has some challenges here or there. And so we are taking that into consideration. Again, the slight decline from a profitability standpoint, we want to make sure that we can continue to drive the margins very consistent margins for the last two years from a growth and then improving margins from an operating income, we want to make sure that we are consistently following through staying committed to the long-term model, 5% to 7% long-term growth, 7% to 9% non-GAAP EPS growth getting operating margins as I said in that high 20% range. And so we are trying to balance all that as we go into a new fiscal year and making sure that everything is aligned to investing in the most effective innovation growth opportunity that we see over the next 12 months.

John Chambers

Now Simona to your question on service provider, I could not be more comfortable with where we're in our service provider architecture and key customers. They are spending does seem to be lumpy by service provider group and category and if you watch to the indirect part of your question we did extremely well in the edge with the ASR 9000 which compares to the Juniper MX although I think it's vastly superior which grew 43% in the quarter. We do a little bit more revenue I think than the Juniper MX does but if you were in the edge market in fixed edge this quarter and you didn't do well you had a real problem.

Now if I back into that number mill, Juniper's total growth was 6% and you take 43% for 350 million, all their growth was in this one product category. There is a little bit of bleed over with ASR 9000 into the core and a little bit of bleed over in terms of other peer added products in the quarter but we outgrew all of our peers here comfortably. Our problem in service providers was in the cable set-top boxes and the cable companies. Our business was down Q3 to Q4 about 40% usually Q3 to Q4 goes up comfortably. This is part of our focus on profitable set top boxes in the market that is becoming very tough, almost commodity like. We got to be able to fix set top box business and migrate it to the cloud and implement it very successfully within that.

To the other part of the quarter, we did extremely well in the large two carriers growing comfortably well above 20%. So, this is an issue that you are talking about core networks being loaded not at the level of quite that I would like to see the number of accounts, and the CapEx slowed down but largely and issue a step boxes effecting us disproportionally. And again this is part of a conscious decision to drive profitability on our overall gross margins.

Melissa Selcher

Great, thanks. Next question.

Operator

Your next question comes from Ben Reitzes with Barclays. Your line is open.

Ben Reitzes - Barclays Capital

Could you give a little more detail on this workforce rebalancing, when you're going to see the savings and how does that play out as we go throughout the year and also with regard to your revenue outlook you're below your target model at 4% next quarter. So when do we get back into the 5% to 7% range as we place that?

John Chambers

A bunch of questions Dan and today because I think we wanted to spend a little bit more time on the questions asked, we'll do that and I'll ask please hold them to one as we go forward. In terms of 3% to 5% guidance that is at the low end of what we said before. We were at 6, 5, 5, 6 this last quarter, last year for all four quarters. We're very comfortable with the 5% to 7% over the long run.

A lot of it depends on emerging markets and GDP growth. We need some consistency there, we're not seeing it. And we are often the first ones to see changes and i think you've all seen our ability to gain market share. I have no worries here on any major competitive issues across the board. Our ability from an architecture and position overall I think is an unmatched in the industry. And I think in each categories and including some like security and collaboration we haven't been growing this fast, so I would like to see. We are starting to slowly pick up momentum there and you looked at the second half of this fiscal year, I am comfortable that you will see us exited higher levels within that.

But according to me is the consistency of GDP growth and an issue where we began to take revenues which used to occur at a given point in time and began to get them recurring that means you have got all the expenses upfront and you get the revenues over a longer period of time that's great for shareholders in the longer term but short term it puts a lot of pressure on the profits and doesn't show you the growth that you would have seen under other models from a top-line growth. Frank to the other part of the question but before you do let me help you.

We're obviously not going to discuss where this is going to occur in timing. We're just now getting our communication put there, there are our employees at the time of this call is going on we will spend time with our employees and spend time talking with them on these key items. So we're not going to share any detail now or in the near term future which geographies are going to be affected at which level. So, within that framework may be a clarification on the write-downs and why the write-downs.

Frank Calderoni

So, I think Ben to get your question and correct me if it's not addressing the question directly. I think you asked about as far as the savings going forward associated with the workforce reduction. One of the things that I think it's important to know here, is that what we're talking about is a workforce rebalancing. And so, we're looking at the areas of most focused for us from an innovation standpoint as we've talked about data center cloud, security, software and services as well as video, those are the areas that we are looking to continue to invest in. And as we go through this and focusing that we were making some trade-offs and that's what we are talking about and we expect to continue to drive.

The other thing I think is important which I mentioned in the prepared remarks is as you look at the operating income as a percentage of revenue, and this goes back to even what I shared in the financial conference that we had last December and that we are looking at high 20s. I mean, we have been to execute at high 20s the last two years. We expect to continue to follow through that model. This workforce rebalancing allows us to position the investment for growth as well as John mentioned before continue to drive operational efficiencies in line with many of the things that we have had underway and improving over the last two years.

Frank Calderoni

The timing is purely dependent upon treating our employees fairly as you would expect us to do and also local rules and regulations and laws by country.

Melissa Selcher

Great, thanks Ben. Next question?

Operator

Our next question comes from Simon Leopold with Raymond James.

John Chambers

Hey, Simon.

Simon Leopold - Raymond James

Thanks. Great. Thanks for taking the question. I wanted to see if you could speak a little bit more about what's going on currently in the data center market and I am asking the question as a market vertical not the reporting segment, but what I am specifically trying to get an understanding of is how much of your business comes from that market vertical, so including Ethernet switches and anything else like services? And then within that context, how do you see the trends in that marketplace from this quarter out into the future?

John Chambers

Okay. Simon, we don't break it down that way. I don't think I have a problem at all answering that if I had the data to be able to combine services and switching depending on what campus what's in the data center etcetera. To your question about growth, we understand the growth from this market in many peoples opinion is slowing, ours has been the reverse. We feel very good about our data center growth and balance into the future. I love our architectural play and I love our next generation products coming up from what we have planned for UCS, to switching, to what we are going to do within semi and a total cloud architecture. Very simply, we are going to lead in this industry and it will be a combination of software, basics, hardware, management, orchestration, wired and wireless, global multiple clouds, etcetera coming together architecturally, and there is nothing that points that out more than the internet of things in terms if you will see processing power storage applications run throughout the network and just an embodiment of the SDN in terms of implementing from maybe things we discussed last quarter to our 86 design, etcetera. So, we are extremely bullish on the data center. I want to be careful in saying it will be our fastest speed growth area for next year, but I feel very comfortable on it. Rob, would add anything else to them?

Rob Lloyd

John, I just add that if you look at the data center portfolio of switching, obviously the Nexus portfolio has done very well, growth in the Nexus this quarter was over 20%. We have a very good innovation pipeline. We have just now started to see the Nexus 6000 the new platform start to ramp quite nicely. Couple of weeks ago, we introduced a 7700, a 40 and a 100-gig switch for the data center as well as 40-gig interfaces for the existing 7000. So, the portfolio is very, very strong there in addition to what we see happening with the UCS. And actually I think architecturally in the current environment and as we shift to more of the application centric opportunities in the future, I feel really good about the roadmap and great about our innovation.

John Chambers

Yes.

Melissa Selcher

Thanks, Simon. Next question please?

Operator

Our next question comes from Brian Modoff with Deutsche Bank.

John Chambers

Hey, Brian.

Brian Modoff - Deutsche Bank

Hey, you have talked about the set-top-box business has kind of been challenging I think for at least the last year, can you talk about where do you see that is and what's your long-term deal that and when you see your customer base, was it shifting to more of a cloud-based STP model? And then real quick if I slipped it in, you did really well again in the wireless LAN space growing over 30%, what you see going on there, is it the incremental growth of Meraki or is there more share gain occurring and what's driving that if that's the case? Thank you.

John Chambers

Got you. So, in terms of the set-top-boxes, it's a big market for us, not real profitable, which is one of the reasons you have seen how profitability do very well. At the same time even though, our revenues have dropped off. The volume literally Q3 to Q4 as I said earlier was down 40% in terms of the run rate. In terms of the transition, the customers, none of them are completely into the cloud yet and a lot of them are in between. And so this will be a transition over the next three to five years, a lot depends on how quickly we can help our customer's transition through that and how they get their business models set up effectively on it. So, we continue to model in our expectations, the set top box is coming down. There might be quarters where we have a profitable deal or an emerging market deal that we go after by continuing to come down it to $2 billion base.

Now in terms of the question about overall search provider with this, let me reiterate like I said earlier in very good shape product rise and otherwise Rob mentioned the numbers and if you look at our core search provider market the

CRS it was down 30% but that 30% was one company one account that did great with us last year and the year before and they are not by anybody else's gear but the network load and we put in tremendous capacity isn't anywhere near where they require additional capacity. So you're almost talking 30% off of our core product areas like CRS just because of the year-over-year comparison with the company is not buying more.

So Brian that would be the way I would answer the first part and the wireless it's both, the wireless LAN is hot, Meraki is hot, remember that I think it's almost 30% or 35% Meraki's businesses unfortunately is recurring. So when you talk about the number of bookings, third of that just goes into the recurring revenue and that's great for future earnings but it means you got your expenses your implementation upfront and you get the recurring revenue over a period of time. What's causing it is architecture, the minute we move the discussion in the architecture and remember we get the choice to our customers they can buy (inaudible), buy the piece or they can buy into an architecture bundle, they can pick through that and when you begin to provide a product like the 3850 which is just on fire, the ability for them to pick and future proof of environment fits very good.

Going back to the issue of software, when you look at what we're going to do, we're going to put software over our A6 and over core UCS architecture and over storage throughout the network. This is why I think you are going to see our customers begin to think about how they future proof their environment as opposed to go for an area that adds tremendous complexity with potentially I'm opinion very little benefit. So, thanks Brian.

Melissa Selcher

Thanks Brian. Next question?

Operator

Your next question comes from Amitabh Passi with UBS.

Amitabh Passi - UBS

Thank you. Frank I apologize but I wanted to clarify this one more time on the workforce rebalancing is that a net reduction of 4,000 people or again are you basically re-allocating and moving folks from one organization to the other? And then John I just wanted to pick up on your public sector comments, sounded like things were improving this quarter, September, October quarter tends to be the strongest in U.S. federal. I was just wondering what's your outlook is for the federal sector particularly as we look over to the next quarter?

John Chambers

Yeah the first part of the question is obviously a combination it's a workforce realignment and rebalancing, we need expenses back in-line with revenue growth, granted all for conservative number we hope and believe overtime but we've got to move this quickly and this is where we can't free up the headcount through attrition or normal means to move it over and then Gary and the rest of the team we're completely (inaudible) we got a speed time to market, small teams moving much faster and we have got to take a lot of this structure out mid-level management in terms of the opportunity and get moving quicker overall.

In terms of public sector I do think to be a direct part of your question it's turned to corner, I think it turned the quarter and state, local government in the U.S. about two to three quarter ago I think you're seeing on a global basis where there is also trend in quarter in terms of growth. That's too early to call.

We grew 3% this quarter; Pat's group did amazing on that as well as on state and local government repeating the 9% number. This is the busy season. So in the U.S. Public sectors is probably 50% state and local 50% federal.

In last quarter it was clearly the busy time for state and local this quarter as you said it's for federal, it's too early to call. There are lot of moving parts as you all are aware there. I like the trends it is moved consistently upwards in the federal side of the business but I would say it's too early to say for sure that the market is turned as much I would like to see it. And I want to verify some just before I give you numbers in terms of the trend on state and local government and make sure I got it right.

The federal just to give you the balance, it started off Q4 last year at minus 11 Q1 of this fiscal year '13 minus 15 then minus 5 then minus 3 then plus 3 . So this is the first positive quarter we have seen, too early to call the trend on that, the state and local government however started the year at 3% then 7% then 13% then 9% that's the trend that I do feel comfortable which is going to surprise and the economy calling. So Fed I would say it's still a question mark and this goes back to the inconsistencies. I think that we're going to consistently gain market share and list all of our top 18 product families is just that we are having fits reading the data just like our owned economists are doing. Hopefully, we do better that they do about interpreting where we need to go. So, that will be how I'll answer public sector that will still – U.S federal still a question mark, but not down like we saw before at the extent we were seeing.

Melissa Selcher

Great, thanks Amitabh. Next question please?

Operator

Your next question comes from Mark Sue with RBC Capital Markets.

Mark Sue - RBC Capital Markets

Thank you. John, with all the data – hi, John, with all the data that you have and the actions you are taking today does 5% to 7% growth become increasingly aspirational or is it conditional so when the economy does well, Cisco will be in that band, but if not Cisco will be below that band and if we do see more economic inconsistencies, is it possible that growth can actually turn negative and follow the trends in your backlog, or should we rather see it as the actions you are taking today more related to active portfolio pruning and just cutting declining businesses before they actually get worse?

John Chambers

So, a bunch of questions, I will try to go in reverse order. Again, the actions we are taking today, the first goal is all around realigning resources. And so it's about a growth objective goal of putting resources where the growth is going to be, but if you are not going to be able to increase headcount, by definition you have to move them. Some of them have the talent to move over. Candidly, some of them were going to have to hire with the given expertise. Second area on rebalancing the resource, we got to take out a middle of a management in terms of this just not a large enough span of control, we improved from what 5.9 to about 6.9 in the last two years, but that number needs to be much higher. And this is the time where we need to get after span and layering. What I am really after there is speed of decisions but more importantly speed of implementation. Even when you push things down from the top, it can take longer than it should in this new environment which is moving at a much faster pace. And that's where we really enjoy it.

In terms of the market momentum, let me say very specifically. Our product orders have steadily improved for four quarters. It's just been slow. And in terms of the approach that is not taking into consideration anything with acquisitions up or down or spin-outs, so you compare apples-to-apples, we are clearly projecting that continuing into Q1. We just do not have the benefit of NDS, which is what Frank said, it's 2 points in Q1 and we don't have the benefit of Linksys, which is 1 point. And Sourcefire hasn't kicked in till later in the year. So, you've got an issue here where the acquisitions have helped us by 2 to 3 points, now they are not going to help us and you have got an issue on recurring revenues.

Nice way of saying even in this environment which is very mixed, very comfortable about our momentum, it's just not fast enough. And I am not going to let us miss a window of opportunity, which could get this company into trouble. And I think we are doing this with very much proper focus on our customers, but also our shareholders and our employees. The shareholder return and projections is good. So, 5% to 7%, very comfortable with, it's one that I would measure our leadership team here. It would not surprise me at all if we go above it over the next couple of years. It would not surprise me if there are a couple of quarters, where we are slightly below it. Given today's environment I don't know anybody that's doing back flips in terms of their growth. And most of our peers in the high-tech industry, many of them are going flat or negative that's clearly not the case with Cisco.

Mark Sue - RBC Capital Markets

7% in '12 and 6% in '13.

Melissa Selcher

Alright, thanks Mark.

John Chambers

Yes, thanks for clarification, Mark because I know a lot of people had the exact same questions and I hope I got all of them if I remembered them.

Melissa Selcher

Next question please?

Operator

Our next question comes from Rod Hall with JPMC.

Rod Hall - JPMC

Yes, hi guys. Thanks for taking my questions.

John Chambers

Sure.

Rod Hall - JPMC

I just wanted to clarify some of the commentary on order growth John and Frank if I could, you guys are talking about the year-over-year growth here being 4%, so that's flat year-over-year on last quarter. Were orders up sequentially and can you give us any idea how much? I mean, it feels like maybe they were up just a few percentage points sequentially, but I would like to get clarification on that. And then I also wondered if maybe you could drill down into the APAC order decline with a little bit more detail and help us understand, you gave us China and India, but what was the most surprising thing about APAC to you? Was it a product area that was weaker or was it a particular country or are we just talking about across the region sluggishness? Thanks.

John Chambers

Okay. In sequencing, the product quarter growth in Q3 was 4%, including obviously 2% from Meraki – I am sorry not from Meraki, from NDS. And the product order growth was 4% in this quarter, including NDS. NDS will not be in Q1. In terms of the sequence on the numbers, it actually rounded up a little bit. So, it did continue on the line, which has been steadily improving and we anticipate it continuing to steadily improve in Q1. So that's exactly why I wanted to say very specifically, apples-to-apples its just slowly increasing but it is painful and it's speaks to the inconsistencies in the market.

In terms of sequential, few Q4s always are much powerful quarter. It increases dramatically year-over-year from Q3 to Q4 in terms of sequencing numbers. This one was very much inline. So, asking about your indirect question are we see sequentially the same data that would support what we are saying in terms of year-over-year, yes we are.

Q1 is always down. So, if I was to not give you specific numbers, but you use a Q3 to Q4 in double-digit increase Q4 to Q1 double-digit decrease that's why you build a lot of backlog in Q4 and we did once again this year although it's a little bit more back end loaded than we would like to see. In terms of APAC, a uniqueness is there, China is little bit unique to Cisco because of the some of the issues going on which you all are aware of but over there I think you all have seen the numbers on it, APAC and most of our peer's impairment has slowed. We're doing better in India than most of our peers. We're doing pretty well in emerging markets there, we're getting hit hard in Japan. Japan was down in the teen and this again has to do with our successful last several years in Japan especially in search providers and it is in question, we're losing business we just build up the networks with tremendous capacity and the great news is it is running smooth as can be, the bad news is we haven't got a loaded it at the pace that we want and the CRS is what we market demand, so you just build them up, you multi-chassis them together and those suckers hum and produce it.

So Japan is not a surprise but they are down in the teens, and when it's big or bigger than China in that then you see the challenges of the two. But APAC overall is just weak and I guess what you're seeing from our group there I am not doing back flips on any of the major countries there other than India but the emerging countries, the smaller emerging countries we saw a reasonable growth on otherwise you wouldn't have got to 8% total in emerging countries if you have your top five which represent half of that in very low single-digits.

Melissa Selcher

Great. Thanks Rod. Next question please.

Operator

Our next question comes from Jess Lubert with Wells Fargo Securities.

Jess Lubert - Wells Fargo Securities

I wanted to ask about the service business, which decelerated for third consecutive quarter and delivered growth well below the 9% to 11% range you have been targeting. So, while I understand you have had some difficult comps over the last few quarters with your solution oriented approach preparing to drive better product growth each of the last two quarters I was hoping to understand how come we're not seeing that drive better results in the service business and perhaps you can help us understand if you expect the service business to get back to your target range in fiscal 2014 and what are the keys to driving reacceleration there?

John Chambers

Gary, if you can take that for us?

Gary Moore

Yes. So Jeff I mean first of 6% growth 67.1% gross margin. This is a very important business for Cisco and as I said last quarter our service revenue would be slower growing because of the slower quarter product growth that we have seen for a number of quarters. But we see a solid opportunity relative to the business model, relative to the new things that we're looking at and the long-term plan there. So I'm very confident in our ability to get back to that long-term 9% to 11% growth over the next three to five years is what we said in December. I actually we see very strong potential but as the core product bookings reaccelerate which we see, services will follow that, normally a couple of quarters behind. So as you see that core grow, better attach rate and some of the programs that we have to drive even higher attach rate right now we are very comfortable getting back there.

So hopefully that makes sense to you. But if not we're not surprised here and I actually mentioned that last quarter.

John Chambers

In terms of, this is a compound growth number we are talking about. We are not talking about just spiking in and back down or spiking above and back into it. So, both on our 5 to 7 and 9 to 11. We expect that to be on the average if we execute well. If we don't hold ourselves accountable for the results on, so we are not sending mixed message but it's going to take us several quarters even with economy picking up to get back to where Gary and I will be more proud of the numbers which is a 10% give or take a point or two in terms of that approach.

Melissa Selcher

Great. Thanks Jess. Next question.

Operator

Our next question comes from Jayson Noland with Robert Baird

Jayson Noland - Robert Baird

John I wanted to ask about strength in U.S. enterprise and commercial. What the driver there is versus what you're seeing in emerging markets in Asia. Is the divergence mostly macroeconomic or is there something else you can point to as a contributor?

John Chambers

Well, kind of the good news and part of the challenge is the U.S. economy is one of the strongest engine right now in the world as far as moving to the rest of the world. And we all know GDP growth has been projected decelerating here versus what we would have thought just one or two quarters ago in terms of the direction. So, it's a better number to work with and that's part of it, but the real issue is we are learning how to sell architectures and solutions to our customer's needs. And the numbers that I have talked about with Brian think about it for a moment, in a business that is growing primarily as U.S. enterprise group, a 9% year-over-year – and it's been in high single-digits for several quarters now, the number of million dollar deals in the pipeline is up 50%. They are selling solutions. That's how you beat it. It doesn't matter if it's a different consumption model, it doesn't matter if it's IT as a service from Amazon, it doesn't matter if it's individual companies trying to put together product solutions, and in that, that's where you sell to the business leader as well as the CIO.

Now, interestingly enough, Alison Gleeson's 12% is very similar. She sells if I remember right Rob almost as many as UCSs and new architectures, including Cisco ONE in terms of leading-edge in the commercial market and it grew 12%, but she doesn't sell in the indirect part. She sells total architecture. We respond to RFPs with their commercial group, but it is a machine, both of those average if you can imagine 10 million per sales rep in terms of the ability to Frank, and you will see us selectively add sales reps and SEs around the world, that goes back to rebalancing probably to the tune of 400 people in terms of sales reps and SEs to really go after these opportunities. It's our fuel for the market.

So, the answer is they sell what our strengths are. They sell architectures. They sell solution to customer needs. They deliver on those. And they are often the number one IT partner within the organization. Mel, you give me the signal that I have talked a little bit too long, I want to close, first, unbelievably strong results. Well, I will leave you with that message. In my view, I don't see an area that I think that I am overly concerned at that we control, within that period of inconsistency of GDP growth and the importance of moving rapidly to take advantages of new opportunities. So, when you talk about workforce rebalancing more than two-thirds the reason for that is they are aligned to move very fast on new opportunities and get our mid-level management back to a number that will support our growth objectives as we said. We have strong momentum. I mentioned it in probably nine major categories. Mel gave me a hard time about it being too long, but thank you for bearing with me. That's the type of momentum we are going in with. And it's a very solid execution even though Gary, Frank, and I and Rob would be critical of our sales about what we have to better, I would argue very strongly, we are hard at executing our peers and we are winning in architectures and we are winning on new trends that perhaps 3 or 6 months ago people will be concerned about. And candidly, we are going to lead in these areas as opposed to play defense. We are going to be disruptor and we are going to be the company on the offing. So, I am very comfortable. I think if you look at the other five IT companies that Gartner has in their top six I think we have shown this year in terms of our appreciation, return to shareholders, growth, market share execution, we have beaten them all, and we intend to as we move forward. So, Mel, let me turn it back to you.

Melissa Selcher

Great, thanks John. Cisco's next quarterly call, which will reflect our FY '14 first quarter results will be on Wednesday, November 13, 2013 at 1.30 PM Pacific Time, 4.30 PM Eastern Time. Again, I would like to remind you that in light of regulation FD, Cisco plans to retain its longstanding policy to not comment on its financial guidance during the quarter unless it's done through explicit public disclosure. Please call the Investor Relations department with any follow-up questions from this call. Thank you for your participation and continued support. This concludes our call.

Operator

Thank you for participating on today's conference call. If you would like to listen to the call in its entirety, you may call 866-507-3618. For participants dialing from outside the U.S. please dial 203-369-1892. You may disconnect at this time.