



NEWS RELEASE

Cisco Reports First Quarter Earnings

2020-11-12

- **Q1 Results:**
 - **Revenue:** \$11.9 billion
 - Decrease of (9)% year over year
 - **Earnings per Share:** GAAP: \$0.51; Non-GAAP: \$0.76
 - GAAP EPS decreased (25)% year over year
 - Non-GAAP EPS decreased (10)% year over year
- **Q2 Guidance:**
 - **Revenue:** 0% to (2)% decline year over year
 - **Earnings per Share:** GAAP: \$0.55 to \$0.60; Non-GAAP: \$0.74 to \$0.76

SAN JOSE, Calif., Nov. 12, 2020 /PRNewswire/ -- Cisco today reported first quarter results for the period ended October 24, 2020. Cisco reported first quarter revenue of \$11.9 billion, net income on a generally accepted accounting principles (GAAP) basis of \$2.2 billion or \$0.51 per share, and non-GAAP net income of \$3.2 billion or \$0.76 per share.

"Cisco is off to a solid start in fiscal 2021 and we are encouraged by the signs of improvement in our business as we continue to navigate the pandemic and other macro uncertainties," said Chuck Robbins, chairman and CEO of Cisco. "Our focus is on winning with a differentiated innovative portfolio, long-term growth and being a trusted technology partner offering choice and flexibility to our customers. We see many great opportunities ahead as every company in every industry is accelerating its digital-first strategy."

GAAP Results

	Q1 FY 2021	Q1 FY 2020	Vs. Q1 FY 2020
Revenue	\$ 11.9 billion	\$ 13.2 billion	(9)%
Net Income	\$ 2.2 billion	\$ 2.9 billion	(26)%
Diluted Earnings per Share (EPS)	\$ 0.51	\$ 0.68	(25)%

Non-GAAP Results

	Q1 FY 2021	Q1 FY 2020	Vs. Q1 FY 2020
Net Income	\$ 3.2 billion	\$ 3.6 billion	(11)%
EPS	\$ 0.76	\$ 0.84	(10)%

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

"Our Q1 results reflect good execution with strong margins in a challenging environment," said Kelly Kramer, CFO of Cisco. "We continued to transform our business through more software offerings and subscriptions, driving 10% year over year growth in remaining performance obligations. We delivered strong growth in operating cash flow and returned \$2.3 billion to shareholders."

Financial Summary

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

Q1 FY 2021 Highlights

Revenue -- Total revenue was \$11.9 billion, down 9%, with product revenue down 13% and service revenue up 2%. Revenue by geographic segment was: Americas down 10%, EMEA down 10%, and APJC down 7%. Product revenue was led by growth in Security, up 6%. Infrastructure Platforms was down 16% and Applications was down 8%.

Gross Margin -- On a GAAP basis, total gross margin, product gross margin, and service gross margin were 63.6%, 62.7%, and 65.8%, respectively, as compared with 64.3% for each in the first quarter of fiscal 2020.

On a non-GAAP basis, total gross margin, product gross margin, and service gross margin were 65.8%, 65.3%, and 67.1%, respectively, as compared with 65.9%, 66.1%, and 65.4%, respectively, in the first quarter of fiscal 2020.

Total gross margins by geographic segment were: 67.3% for the Americas, 63.9% for EMEA and 63.0% for APJC.

Operating Expenses -- On a GAAP basis, operating expenses were \$5.0 billion, up 3%, and were 42.0% of revenue. Non-GAAP operating expenses were \$4.0 billion, down 7%, and were 33.1% of revenue.

Operating Income -- GAAP operating income was \$2.6 billion, down 28%, with GAAP operating margin of 21.5%. Non-GAAP operating income was \$3.9 billion, down 12%, with non-GAAP operating margin at 32.7%.

Provision for Income Taxes -- The GAAP tax provision rate was 18.9%. The non-GAAP tax provision rate was 19.0%.

Net Income and EPS -- On a GAAP basis, net income was \$2.2 billion, a decrease of 26%, and EPS was \$0.51, a decrease of 25%. On a non-GAAP basis, net income was \$3.2 billion, a decrease of 11%, and EPS was \$0.76, a decrease of 10%.

Cash Flow from Operating Activities -- \$4.1 billion for the first quarter of fiscal 2021, an increase of 14% compared with \$3.6 billion for the first quarter of fiscal 2020.

Balance Sheet and Other Financial Highlights

Cash and Cash Equivalents and Investments -- \$30.0 billion at the end of the first quarter of fiscal 2021, compared with \$29.4 billion at the end of fiscal 2020.

Deferred Revenue -- \$20.5 billion, up 10% in total, with deferred product revenue up 15%. Deferred service revenue was up 7%.

Remaining Performance Obligations -- \$27.5 billion at the end of the first quarter of fiscal 2021, up 10%.

Capital Allocation -- In the first quarter of fiscal 2021, we returned \$2.3 billion to shareholders through share buybacks and dividends. We declared and paid a cash dividend of \$0.36 per common share, or \$1.5 billion, and repurchased approximately 20 million shares of common stock under our stock repurchase program at an average price of \$40.44 per share for an aggregate purchase price of \$800 million. The remaining authorized amount for stock repurchases under the program is \$10.0 billion with no termination date.

Guidance for Q2 FY 2021

Cisco expects to achieve the following results for the second quarter of fiscal 2021:

Q2 FY 2021

Revenue	0% - (2)% decline Y/Y
Non-GAAP gross margin rate	64% - 65%
Non-GAAP operating margin rate	32% - 33%
Non-GAAP tax provision rate	19%
Non-GAAP EPS	\$0.74 - \$0.76

Cisco estimates that GAAP EPS will be \$0.55 to \$0.60 in the second quarter of fiscal 2021.

A reconciliation between the Guidance for Q2 FY 2021 on a GAAP and non-GAAP basis is provided in the table entitled "GAAP to non-GAAP Guidance for Q2 FY 2021" located in the section entitled "Reconciliations of GAAP to non-GAAP Measures."

Editor's Notes:

- Q1 fiscal year 2021 conference call to discuss Cisco's results along with its guidance will be held on Thursday, November 12, 2020 at 1:30 p.m. Pacific Time. Conference call number is 1-888-848-6507 (United States) or 1-212-519-0847 (international).
- Conference call replay will be available from 4:00 p.m. Pacific Time, November 12, 2020 to 4:00 p.m. Pacific Time, November 19, 2020 at 1-800-879-5193 (United States) or 1-203-369-3562 (international). The replay will also be available via webcast on the Cisco Investor Relations website at <https://investor.cisco.com>.
- Additional information regarding Cisco's financials, as well as a webcast of the conference call with visuals designed to guide participants through the call, will be available at 1:30 p.m. Pacific Time, November 12, 2020. Text of the conference call's prepared remarks will be available within 24 hours of completion of the call. The webcast will include both the prepared remarks and the question-and-answer session. This information, along with the GAAP to non-GAAP reconciliation information, will be available on the Cisco Investor Relations website at <https://investor.cisco.com>.

CISCO SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per-share amounts)

(Unaudited)

	Three Months Ended	
	October 24, 2020	October 26, 2019
REVENUE:		
Product	\$ 8,587	\$ 9,878
Service	3,342	3,281
Total revenue	11,929	13,159

COST OF SALES:

Product	3,206	3,524
Service	1,142	1,171
	<hr/>	<hr/>
Total cost of sales	4,348	4,695
GROSS MARGIN	<hr/>	<hr/>
	7,581	8,464

OPERATING EXPENSES:

Research and development	1,612	1,666
Sales and marketing	2,217	2,480
General and administrative	544	519
Amortization of purchased intangible assets	36	36
Restructuring and other charges	602	184
	<hr/>	<hr/>
Total operating expenses	5,011	4,885
OPERATING INCOME	<hr/>	<hr/>
	2,570	3,579

Interest income	174	273
Interest expense	(112)	(178)
Other income (loss), net	49	12
	<hr/>	<hr/>
Interest and other income (loss), net	111	107
INCOME BEFORE PROVISION FOR INCOME TAXES	<hr/>	<hr/>
	2,681	3,686

Provision for income taxes	507	760
	<hr/>	<hr/>
NET INCOME	\$ 2,174	\$ 2,926

Net income per share:

Basic	\$ 0.51	\$ 0.69
	<hr/>	<hr/>
Diluted	\$ 0.51	\$ 0.68

Shares used in per-share calculation:

Basic	4,230	4,246
	<hr/>	<hr/>
Diluted	4,244	4,273

CISCO SYSTEMS, INC.**REVENUE BY SEGMENT**

(In millions, except percentages)

	Three Months Ended	
	October 24, 2020	
	Amount	Y/Y %
Revenue:		
Americas	\$ 7,198	(10)%
EMEA	2,964	(10)%
APJC	1,767	(7)%
	<hr/>	<hr/>
Total	\$ 11,929	(9)%

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

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

	Three Months Ended October 24, 2020	
<u>Gross Margin Percentage:</u>		
Americas	67.3%	
EMEA	63.9%	
APJC	63.0%	

CISCO SYSTEMS, INC.
REVENUE FOR GROUPS OF SIMILAR PRODUCTS AND SERVICES
(In millions, except percentages)

	Three Months Ended October 24, 2020	
	Amount	Y/Y %
<u>Revenue:</u>		
Infrastructure Platforms	\$ 6,341	(16)%
Applications	1,380	(8)%
Security	861	6%
Other Products	5	(56)%
Total Product	8,587	(13)%
Services	3,342	2%
Total	\$ 11,929	(9)%

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

	October 24, 2020	July 25, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,822	\$ 11,809
	19,190	17,610

Investments	3,980	5,472
Accounts receivable, net of allowance for doubtful accounts of \$125 at October 24, 2020 and \$143 at July 25, 2020	1,303	1,282
Inventories	5,105	5,051
Financing receivables, net	2,589	2,349
Other current assets	<u>42,989</u>	<u>43,573</u>
Total current assets		
Property and equipment, net	2,412	2,453
Financing receivables, net	5,516	5,714
Goodwill	34,535	33,806
Purchased intangible assets, net	1,581	1,576
Deferred tax assets	4,138	3,990
Other assets	3,832	3,741
	<u>\$ 95,003</u>	<u>\$ 94,853</u>
TOTAL ASSETS		
LIABILITIES AND EQUITY		
Current liabilities:		
	\$ 5,002	\$ 3,005
Short-term debt	2,294	2,218
Accounts payable	810	839
Income taxes payable	2,978	3,122
Accrued compensation	11,271	11,406
Deferred revenue	4,636	4,741
Other current liabilities	<u>26,991</u>	<u>25,331</u>
Total current liabilities		
Long-term debt	9,564	11,578
Income taxes payable	8,786	8,837
Deferred revenue	9,202	9,040
Other long-term liabilities	2,303	2,147
	<u>56,846</u>	<u>56,933</u>
Total liabilities		
Total equity	<u>38,157</u>	<u>37,920</u>
	<u>\$ 95,003</u>	<u>\$ 94,853</u>
TOTAL LIABILITIES AND EQUITY		

CISCO SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended	
	October 24, 2020	October 26, 2019
Cash flows from operating activities:		
Net income	\$ 2,174	\$ 2,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and other	451	461
Share-based compensation expense	438	395
	13	50

Provision (benefit) for receivables	(120)	81
Deferred income taxes	(59)	(8)
(Gains) losses on divestitures, investments and other, net		
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:	1,526	515
Accounts receivable	(21)	34
Inventories	167	146
Financing receivables	(259)	59
Other assets	73	(45)
Accounts payable	(84)	(330)
Income taxes, net	(165)	(473)
Accrued compensation	(45)	158
Deferred revenue	7	(382)
Other liabilities		
	4,096	3,587
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(3,756)	(2,028)
Proceeds from sales of investments	657	2,342
Proceeds from maturities of investments	1,425	1,966
Acquisitions and divestitures	(830)	(163)
Purchases of investments in privately held companies	(68)	(54)
Return of investments in privately held companies	29	57
Acquisition of property and equipment	(171)	(202)
Proceeds from sales of property and equipment	4	4
	(2,710)	1,922
Net cash (used in) provided by investing activities		
Cash flows from financing activities:		
Issuances of common stock	1	2
Repurchases of common stock - repurchase program	(800)	(784)
Shares repurchased for tax withholdings on vesting of restricted stock units	(89)	(194)
Short-term borrowings, original maturities of 90 days or less, net	—	(3,470)
Repayments of debt	—	(2,720)
Dividends paid	(1,520)	(1,486)
Other	35	(16)
	(2,373)	(8,668)
Net cash used in financing activities		
Net decrease in cash, cash equivalents, and restricted cash	(987)	(3,159)
Cash, cash equivalents, and restricted cash, beginning of period	11,812	11,772
Cash, cash equivalents, and restricted cash, end of period	\$ 10,825	\$ 8,613
Supplemental cash flow information:		
Cash paid for interest	\$ 160	\$ 204
Cash paid for income taxes, net	\$ 710	\$ 1,009

CISCO SYSTEMS, INC.

DEFERRED REVENUE

(In millions)

	October 24, 2020	July 25, 2020	October 26, 2019
Deferred revenue:			
Product	\$ 8,139	\$ 7,895	\$ 7,105
Service	12,334	12,551	11,497
Total	\$ 20,473	\$ 20,446	\$ 18,602
Reported as:			
Current	\$ 11,271	\$ 11,406	\$ 10,646
Noncurrent	9,202	9,040	7,956
Total	\$ 20,473	\$ 20,446	\$ 18,602

CISCO SYSTEMS, INC.

REMAINING PERFORMANCE OBLIGATIONS

(In millions, except percentages)

	October 24, 2020		July 25, 2020		October 26, 2019	
	Amount	Y/Y%	Amount	Y/Y%	Amount	Y/Y%
Product	\$ 11,340	15 %	\$ 11,261	17 %	\$ 9,878	28 %
Service	16,129	8 %	17,093	9 %	14,991	3 %
Total	\$ 27,469	10 %	\$ 28,354	12 %	\$ 24,869	11 %

CISCO SYSTEMS, INC.

DIVIDENDS PAID AND REPURCHASES OF COMMON STOCK

(In millions, except per-share amounts)

Quarter Ended	DIVIDENDS		STOCK REPURCHASE PROGRAM			TOTAL
	Per Share	Amount	Shares	Weighted-Average Price per Share	Amount	Amount
Fiscal 2021	\$ 0.36	\$ 1,520	20	\$ 40.44	\$ 800	\$ 2,320
October 24, 2020	\$ 0.36	\$ 1,525	—	\$ —	\$ —	\$ 1,525
Fiscal 2020	\$ 0.36	\$ 1,519	25	\$ 39.71	\$ 981	\$ 2,500
July 25, 2020	\$ 0.35	\$ 1,486	18	\$ 46.71	\$ 870	\$ 2,356
April 25, 2020	\$ 0.35	\$ 1,486	16	\$ 48.91	\$ 768	\$ 2,254
January 25, 2020						
October 26, 2019						

CISCO SYSTEMS, INC.

RECONCILIATIONS OF GAAP TO NON-GAAP MEASURES

GAAP TO NON-GAAP NET INCOME

(In millions)

	Three Months Ended	
	October 24,	October 26,
	2020	2019
GAAP net income	\$ 2,174	\$ 2,926
Adjustments to cost of sales:		
Share-based compensation expense	65	57
Amortization of acquisition-related intangible assets	163	150
Acquisition-related/divestiture costs	1	1
Legal and indemnification settlements/charges	43	4
Total adjustments to GAAP cost of sales	<u>272</u>	<u>212</u>
Adjustments to operating expenses:		
Share-based compensation expense	362	333
Amortization of acquisition-related intangible assets	36	36
Acquisition-related/divestiture costs	59	72
Significant asset impairments and restructurings	602	184
Total adjustments to GAAP operating expenses	<u>1,059</u>	<u>625</u>
Adjustments to GAAP interest and other income (loss), net:		
(Gains) and losses on equity investments	<u>(48)</u>	<u>(13)</u>
Total adjustments to GAAP income before provision for income taxes	<u>1,283</u>	<u>824</u>
Income tax effect of non-GAAP adjustments	<u>(246)</u>	<u>(209)</u>
Significant tax matters	—	67
Total adjustments to GAAP provision for income taxes	<u>(246)</u>	<u>(142)</u>
Non-GAAP net income	\$ 3,211	\$ 3,608

CISCO SYSTEMS, INC.

RECONCILIATIONS OF GAAP TO NON-GAAP MEASURES

GAAP TO NON-GAAP EPS

	Three Months Ended	
	October 24,	October 26,
	2020	2019
GAAP EPS	\$ 0.51	\$ 0.68
Adjustments to GAAP:		
Share-based compensation expense	0.10	0.09
Amortization of acquisition-related intangible assets	0.05	0.04
Acquisition-related/divestiture costs	0.01	0.02
Legal and indemnification settlements/charges	0.01	—
Significant asset impairments and restructurings	0.14	0.04
(Gains) and losses on equity investments	(0.01)	—
Income tax effect of non-GAAP adjustments	(0.06)	(0.05)
Significant tax matters	—	0.02
Non-GAAP EPS	\$ 0.76	\$ 0.84

Amounts may not sum due to rounding.

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

GROSS MARGINS, OPERATING EXPENSES, OPERATING MARGINS, INTEREST AND OTHER INCOME (LOSS), NET, AND NET INCOME

(In millions, except percentages)

Three Months Ended

October 24, 2020

	Product	Service	Total	Operating	Operating	Interest and other	Net		
	Gross	Gross	Gross	Expenses	Income	(loss),	Income	Y/Y	
	Margin	Margin	Margin			net			
GAAP amount	\$ 5,381	\$ 2,200	\$ 7,581	\$ 5,011	\$ 2,570	\$ 111	\$ 2,174	(26)%	
% of revenue	62.7 %	65.8 %	63.6 %	42.0 %	21.5 %	0.9 %	18.2 %		
Adjustments to GAAP amounts:									
Share-based compensation expense	24	41	65	362	427	—	427		
Amortization of acquisition-related intangible assets	163	—	163	36	199	—	199		
Acquisition/divestiture-related costs	—	1	1	59	60	—	60		
Legal and indemnification settlements/charges	43	—	43	—	43	—	43		
Significant asset impairments and restructurings	—	—	—	602	602	—	602		
(Gains) and losses on equity investments	—	—	—	—	—	(48)	(48)		
Income tax effect/significant tax matters	—	—	—	—	—	—	(246)		
Non-GAAP amount	\$ 5,611	\$ 2,242	\$ 7,853	\$ 3,952	\$ 3,901	\$ 63	\$ 3,211	(11)%	
% of revenue	65.3 %	67.1 %	65.8 %	33.1 %	32.7 %	0.5 %	26.9 %		

Three Months Ended

October 26, 2019

	Product	Service	Total	Operating	Operating	Interest and other	Net
	Gross	Gross	Gross	Expenses	Income	income	Income
	Margin	Margin	Margin			(loss), net	
GAAP amount	\$ 6,354	\$ 2,110	\$ 8,464	\$ 4,885	\$ 3,579	\$ 107	\$ 2,926
% of revenue	64.3 %	64.3 %	64.3 %	37.1 %	27.2 %	0.8 %	22.2 %
Adjustments to GAAP amounts:							
Share-based compensation expense	23	34	57	333	390	—	390

Amortization of acquisition-related intangible assets	150	—	150	36	186	—	186
Legal and indemnification settlements/charges	4	—	4	—	4	—	4
Acquisition/divestiture-related costs	—	1	1	72	73	—	73
Significant asset impairments and restructurings	—	—	—	184	184	—	184
(Gains) and losses on equity investments	—	—	—	—	—	(13)	(13)
Income tax effect/significant tax matters	—	—	—	—	—	—	(142)
Non-GAAP amount	<u>\$ 6,531</u>	<u>\$ 2,145</u>	<u>\$ 8,676</u>	<u>\$ 4,260</u>	<u>\$ 4,416</u>	<u>\$ 94</u>	<u>\$ 3,608</u>
% of revenue	<u>66.1 %</u>	<u>65.4 %</u>	<u>65.9 %</u>	<u>32.4 %</u>	<u>33.6 %</u>	<u>0.7 %</u>	<u>27.4 %</u>

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

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

EFFECTIVE TAX RATE

(In percentages)

	Three Months Ended	
	October 24,	October 26,
	2020	2019
GAAP effective tax rate	18.9 %	20.6 %
Total adjustments to GAAP provision for income taxes	0.1 %	(0.6) %
Non-GAAP effective tax rate	<u>19.0 %</u>	<u>20.0 %</u>

GAAP TO NON-GAAP GUIDANCE FOR Q2 FY 2021

	Gross Margin	Operating Margin	Tax Provision	Earnings per
<u>Q2 FY 2021</u>	Rate	Rate	Rate	Share ⁽²⁾
GAAP	<u>62% - 63%</u>	<u>24.5% - 25.5%</u>	<u>19%</u>	<u>\$0.55 - \$0.60</u>
Estimated adjustments for:				
Share-based compensation expense	0.5%	3.5%	—	\$0.08 - \$0.09
Amortization of acquisition-related intangible assets and acquisition/divestiture-related costs	1.5%	2.0%	—	\$0.04 - \$0.05
Significant asset impairments and restructurings ⁽¹⁾	—	2.0%	—	\$0.04 - \$0.05
Income tax effect of non-GAAP adjustments			—	
Non-GAAP	<u>64% - 65%</u>	<u>32% - 33%</u>	<u>19%</u>	<u>\$0.74 - \$0.76</u>

(1) In the first quarter of fiscal 2021, we initiated a restructuring plan, which includes a voluntary early retirement program, in order to realign the organization and enable further investment in key priority areas with total estimated pretax charges of approximately \$900 million consisting of severance and other one-time termination benefits, and other costs. We recognized \$602 million of these charges during the first quarter of fiscal 2021. We expect to recognize approximately \$200 million of these charges in the second quarter of fiscal 2021 with the remaining amount to be recognized during the rest of the fiscal year.

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

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

Forward Looking Statements, Non-GAAP Information and Additional Information

This release may be deemed to contain forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among other things, statements regarding future events (such as improvement in our business as we continue to navigate the pandemic and other macro uncertainties, our ability to execute on our strategy to focus on winning with a differentiated innovative portfolio, long-term growth and being a trusted technology partner offering choice and flexibility to our customers, our future opportunities as every company in every industry is accelerating its digital-first strategy, our ability to continue to transform our business through more software offerings and subscriptions, and our ability to continue to deliver strong growth in operating cash flow and return value to our shareholders) and the future financial performance of Cisco (including the guidance for Q2 FY 2021) that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including: the impact of the COVID-19 pandemic; business and economic conditions and growth trends in the networking industry, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; the growth and evolution of the Internet and levels of capital spending on Internet-based systems; variations in customer demand for products and services, including sales to the service provider market and other customer markets; the return on our investments in certain priorities, key growth areas, and in certain geographical locations, as well as maintaining leadership in routing, switching and services; the timing of orders and manufacturing and customer lead times; changes in customer order patterns or customer mix; insufficient, excess or obsolete inventory; variability of component costs; variations in sales channels, product costs or mix of products sold; our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses and technologies; our ability to achieve expected benefits of our partnerships; increased competition in our product and service markets, including the data center market; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks; product defects and returns; litigation involving patents, intellectual property, antitrust, shareholder and other matters, and governmental investigations; our ability to achieve the benefits of the announced restructuring and possible changes in the size and timing of the related charges; cyber-attacks, data breaches or malware; vulnerabilities and critical security defects; terrorism; natural catastrophic events; any other pandemic or epidemic; our ability to achieve the benefits anticipated from our investments in sales, engineering, service, marketing and manufacturing activities; our ability to recruit and retain key personnel; our ability to manage financial risk, and to manage expenses during economic downturns; risks related to the global nature of our operations, including our operations in emerging markets; currency fluctuations and other international factors; changes in provision for income taxes, including changes in tax laws and regulations or adverse outcomes resulting from examinations of our income tax returns; potential volatility in operating results; and other factors listed in Cisco's most recent report on Form 10-K filed on September 3, 2020. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent report on Form 10-K as it may be amended from time to time. Cisco's results of operations for the three months ended October 24, 2020 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in this release are based on limited information currently available to Cisco, which is subject to change. Although any such projections and the factors influencing them will likely change, Cisco will not necessarily update the information, since Cisco will only provide guidance at certain points during the year. Such information speaks only as of the date of this release.

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

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

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

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

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