To Investment Team

From Your Name

Date Todays Date

Subject Cisco Systems (CSCO) - Q3 FY2024 Performance and Strategic Outlook

### Overview

Cisco Systems (CSCO) recently reported its Q3 FY2024 results, reflecting a solid performance amidst a dynamic market environment. The company continues to transform its business model, significantly bolstered by the acquisition of Splunk. Below is a summary of key events, conclusions, and recommended action items based on the recent performance and strategic developments.

### Key Events and Performance Highlights

1. Q3 FY2024 Financial Performance

* Revenue 12.7 billion, down 13 YoY, in line with expectations.
* Non-GAAP EPS 0.88, down 12 YoY.
* Gross Margin Non-GAAP gross margin at 68.3, up 310 basis points YoY.
* Operating Cash Flow 4.0 billion, down 24 YoY.

1. Splunk Acquisition

* Completed on March 18, 2024, contributing 413 million in revenue for Q3.
* Adds over 4 billion in annualized recurring revenue (ARR).
* Enhances Ciscos position as a leading software company.

1. Product and Segment Performance

* Networking Revenue down 27 YoY due to continued inventory implementation by customers.
* Security Revenue up 36 YoY, driven by Splunk acquisition and growth in SASE and Zero Trust offerings.
* Observability Revenue up 27 YoY, driven by growth in ThousandEyes and Splunk contributions.
* Collaboration Revenue flat YoY.

1. Strategic Developments

* Launch of Cisco Hypershield, an AI-native cybersecurity solution.
* Integration of Cisco XDR with Splunk Enterprise Security.
* Continued focus on AI infrastructure with significant design wins in the hyperscaler market.

### Strategic Implications and Outlook

1. Business Model Transformation

* Ciscos shift towards a subscription-based model is evident, with subscription revenue now representing 54 of total revenue.
* ARR stands at 29.2 billion, up 22 YoY, indicating strong recurring revenue streams.

1. Growth Opportunities

* The integration of Splunk is expected to drive revenue synergies in Security and Observability markets.
* Ciscos robust partner ecosystem and market presence provide significant cross-selling and upselling opportunities.
* AI infrastructure remains a key growth area, with Cisco well-positioned to capitalize on enterprise AI adoption.

1. Financial Guidance

* Q4 FY2024 revenue guidance 13.4 billion to 13.6 billion.
* FY2024 revenue guidance 53.6 billion to 53.8 billion.
* Non-GAAP EPS guidance for FY2024 3.69 to 3.71.

### Action Items

1. Monitor Integration of Splunk

* Track progress on product integration and go-to-market alignment.
* Assess early revenue synergies and customer adoption metrics.

1. Evaluate AI Infrastructure Investments

* Analyze the impact of AI-related design wins on future revenue.
* Monitor developments in the partnership with NVIDIA and other AI initiatives.

1. Assess Subscription Revenue Growth

* Focus on the growth trajectory of subscription-based revenue streams.
* Evaluate the impact of new product launches like Cisco Hypershield on subscription metrics.

1. Capital Allocation Strategy

* Review Ciscos capital return strategy, including share repurchases and dividends.
* Assess the impact of ongoing investments in RD and strategic acquisitions on long-term growth.

### Conclusion

Ciscos Q3 FY2024 performance underscores its successful business model transformation and strategic positioning in key growth areas like Security, Observability, and AI infrastructure. The Splunk acquisition is a pivotal development, expected to drive significant revenue synergies and enhance Ciscos software capabilities. Continued focus on subscription revenue growth and strategic investments will be crucial for sustaining long-term growth. Please review the detailed financials and strategic insights provided and prepare for a discussion on potential investment opportunities and risks associated with Cisco Systems.

### Attachments

* Detailed financial statements
* Q3 FY2024 earnings call transcript
* Strategic analysis report

Your Name

Your Position

Your Contact Information