# Company Analysis Cisco Systems, Inc.

## Origin, History, Development, and Current Business Model

Cisco Systems, Inc., founded in 1984 by Leonard Bosack and Sandy Lerner, has grown from a small startup into a global technology leader. Initially focused on routing technology, Cisco has expanded its portfolio to include a wide range of networking hardware, telecommunications equipment, and high-technology services and products. The company went public in 1990 and quickly became a dominant force in the networking industry, playing a crucial role in the development of the Internet.

Over the years, Cisco has strategically acquired numerous companies to enhance its product offerings and enter new markets. Notable acquisitions include Cerent Corporation in 1999, Scientific Atlanta in 2005, and more recently, Splunk Inc. in 2024. These acquisitions have allowed Cisco to diversify its portfolio and strengthen its position in various technology sectors, including cybersecurity, observability, and data analytics.

Ciscos current business model revolves around providing comprehensive solutions that integrate networking, security, observability, and data management. The company has successfully transitioned to a subscription-based model, with more than half of its revenue now coming from subscriptions. This shift has been further bolstered by the acquisition of Splunk, which added over 4 billion in annualized recurring revenue. Ciscos unified platform approach aims to deliver digital resilience to its customers, leveraging its extensive partner ecosystem and supporting hybrid and multi-cloud environments.

## Financial Performance

Ciscos financial performance in the third quarter of fiscal year 2024 reflects solid execution amidst a dynamic environment. The company reported total revenue of 12.7 billion, a 13 decrease year-over-year, largely due to the continued implementation of products by customers. Despite this decline, Ciscos profitability remained strong, with a GAAP gross margin of 65.1 and a non-GAAP gross margin of 68.3.

The acquisition of Splunk significantly impacted Ciscos financials, contributing 413 million in revenue for the quarter. However, the associated financing costs had a negative impact on both GAAP and non-GAAP earnings per share, reducing them by 0.09 and 0.01, respectively. Non-GAAP net income for the quarter was 3.6 billion, down 14 year-over-year, with non-GAAP earnings per share at 0.88, a decrease of 12.

Ciscos annualized recurring revenue (ARR) reached 29.2 billion, up 22 year-over-year, with product ARR growing by 44. The companys total subscription revenue increased by 12 to 6.9 billion, representing 54 of total revenue. These figures highlight the success of Ciscos transformation to a subscription-based model and the positive impact of the Splunk acquisition.

## Activist Shareholders and Stock Buyback Activity

Cisco has not reported any significant involvement of activist shareholders in recent periods. However, the company has been actively returning capital to shareholders through stock buybacks and dividends. In the third quarter of fiscal year 2024, Cisco repurchased approximately 26 million shares of common stock at an average price of 49.22 per share, totaling 1.3 billion. Additionally, the company declared and paid a quarterly dividend of 0.40 per share, amounting to 1.6 billion. Year-to-date, Cisco has returned 8.5 billion to shareholders, demonstrating its commitment to delivering consistent capital returns.

## SWOT Analysis

### Strengths

1. Diverse Product Portfolio

* Ciscos extensive range of products and services, including networking, security, observability, and data management, positions it as a comprehensive solutions provider.

1. Subscription-Based Model

* The successful transition to a subscription-based model has provided Cisco with a steady and predictable revenue stream, enhancing financial stability.

1. Strategic Acquisitions

* Acquisitions like Splunk have significantly expanded Ciscos capabilities in cybersecurity and observability, driving growth and innovation.

1. Strong Financial Performance

* Despite a decline in revenue, Cisco maintains strong profitability and a robust balance sheet, enabling continued investment in growth areas.

### Weaknesses

1. Revenue Decline

* The 13 year-over-year decrease in revenue highlights challenges in maintaining growth, particularly in the face of changing customer demand and market conditions.

1. Dependence on Acquisitions

* Ciscos growth strategy heavily relies on acquisitions, which can be risky and may not always yield the expected benefits.

1. High Operating Expenses

* The companys operating expenses remain high, which could impact profitability if revenue growth does not meet expectations.

### Opportunities

1. AI and Machine Learning

* Ciscos investments in AI and machine learning, particularly through partnerships with companies like NVIDIA, position it to capitalize on the growing demand for AI-driven solutions.

1. Expansion in Emerging Markets

* Increasing presence in emerging markets offers significant growth potential, particularly as these regions continue to invest in digital infrastructure.

1. Integration of Splunk

* The successful integration of Splunk presents opportunities for revenue synergies and enhanced product offerings in security and observability.

### Threats

1. Intense Competition

* Cisco faces fierce competition from other technology giants and smaller, specialized companies, which could impact market share and pricing power.

1. Economic Uncertainty

* Global economic conditions, including inflation and geopolitical tensions, could negatively affect customer spending and Ciscos financial performance.

1. Regulatory Challenges

* Evolving regulatory requirements, particularly in data privacy and cybersecurity, could increase compliance costs and impact Ciscos operations.

## Conclusion

Cisco Systems, Inc. has demonstrated resilience and adaptability in a challenging environment. The companys strategic acquisitions, successful transition to a subscription-based model, and strong financial performance position it well for future growth. However, Cisco must navigate competitive pressures, economic uncertainties, and regulatory challenges to maintain its leadership in the technology sector.