
Cisco FQ4 2024 Earnings

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CONTEXT

Cisco Systems reported its [financial results](#) for the fourth quarter (Q4) and full fiscal year 2024 (FY24), beating analyst expectations for both revenue and earnings.

Q4 FY 2024 Summary

- **Strong growth in product orders across geographies, customer markets and products**, indicating inventory digestion largely completed as expected; starting to see normalization of demand patterns
 - Product order growth up 14% y/y; up 6% y/y excluding Splunk
- **Revenue and Non-GAAP EPS results above the high end of our guidance**
 - \$13.6B in revenue; Non-GAAP EPS of \$0.87
 - Splunk contributed approx. \$960M in revenue, and negatively impacted Non-GAAP EPS by \$0.04, in line with expectations
- **Increased gross margins driven by higher software revenue contribution and favorable product mix**
 - Non-GAAP gross margin of 67.9% and Non-GAAP product gross margin of 67.0%, up 200 bps and 150 bps y/y respectively
 - Without Splunk, Non-GAAP gross margin of 67.0% and Non-GAAP product gross margin of 65.6%, up 110 bps and 10 bps y/y respectively
- **Solid growth in software and recurring metrics** with 56% of total revenue from subscriptions
 - Total ARR at \$29.6B, up 22% y/y; up 4% y/y excluding Splunk
 - Total software revenue at \$5.3B, up 15% y/y, with software subscription revenue up 25% y/y, making up 92% of total software revenue
- **Accelerated innovation** to enhance customers' digital resilience
 - Integrating Splunk to unlock the full power of the network with market leading security and observability solutions
 - Security platform gaining momentum with growth in XDR and Secure Access
 - Continued AI infrastructure momentum: approximately \$1B of AI orders with webscale customers to date and expect an additional \$1B of AI product orders in FY25
- **Returned \$3.6B to shareholders**, including share repurchase of \$2B, maintaining our commitment to returning capital

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The results reflect Cisco's strategic focus on key growth areas such as artificial intelligence, cloud computing, and cybersecurity, alongside the significant impact of its acquisition of Splunk.

FINANCIAL PERFORMANCE

Cisco's financial performance in Q4 FY24 was robust, underpinned by strong operational execution and strategic growth initiatives.

Q4 FY 2024 Revenue Highlights

Category	\$M	Y/Y	\$M without Splunk	Y/Y without Splunk
Networking	\$6,804	(28%)	\$6,804	(28%)
Security	1,787	81%	1,044	6%
Collaboration	1,019	0%	1,019	0%
Observability	248	41%	196	12%
Services	3,784	6%	3,617	2%
Total Cisco	\$13,642	(10%)	\$12,680	(17%)

Key financial metrics include:

- **Q4 Revenue:** Cisco reported \$13.6 billion, exceeding the high end of its guidance range.
- **Annual Revenue:** The company achieved \$53.8 billion for FY24.
- **Gross Margin:** Cisco reached a gross margin of 67.5%, the highest in 20 years, boosted by the integration of Splunk.
- **Product Order Growth:** Product orders grew by 14% in Q4, with a 6% growth rate when excluding Splunk, showing solid recovery from previous inventory challenges.
- **Recurring Revenue:** Subscriptions accounted for 56% of total revenue in Q4.
- **Shareholder Returns:** Cisco returned \$3.6 billion to shareholders through share repurchases and dividends in Q4, totaling \$12.1 billion for FY24, or 119% of its free cash flow.

NON-FISCAL HIGHLIGHTS

In addition to its financial performance, Cisco made several strategic moves in Q4 FY24 that position the company for future growth.

These non-fiscal highlights include:

- **AI and Cybersecurity Innovations:**

- **Hypershield:** A distributed AI-native cybersecurity solution embedded in the network fabric.
- **HyperFabric:** An advanced AI infrastructure offering designed to support the increasing demands of AI applications.
- **Organizational Restructuring:**
 - Cisco announced the consolidation of its networking, security, and collaboration teams into a single integrated unit.
 - **Jeetu Patel** was appointed Chief Product Officer to lead this new organization, emphasizing Cisco's focus on delivering integrated solutions that meet customer needs.

SPLUNK IMPACT

The acquisition of Splunk, completed earlier in FY24, significantly impacted Cisco's Q4 performance.

Q4 FY 2024 Income Statement Impact from Splunk

\$M (except percentages & earnings per share)	Q4 FY'24	Q4 FY'24 without Splunk
Product Orders Year/Year Growth	14%	6%
Revenue	\$13,642	\$12,680
Product	\$9,858	\$9,063
Services	\$3,784	\$3,617
Earnings per Share (diluted) ⁽¹⁾		
Non-GAAP	\$0.87	\$0.91

The integration has enhanced Cisco's capabilities in security and observability, leading to several key developments:

- **Revenue Contribution:** Splunk contributed approximately \$960 million to Cisco's Q4 revenue.
- **Margin Improvement:** Splunk's integration helped boost Cisco's overall gross margin.
- **Synergy Realization:**

- Cisco successfully closed several large deals that included Splunk's offerings, such as a cross-portfolio agreement with a major automotive company.
- The integration of Splunk is expected to create synergies that will drive future growth, particularly in AI and cybersecurity.

GUIDANCE & OUTLOOK

Looking forward to FY25, Cisco provided guidance that reflects cautious optimism. The company outlined its expectations for the coming year:

- **Revenue Guidance:** Cisco expects FY25 revenue to range between \$55 billion and \$56.2 billion.
- **Earnings Guidance:** Non-GAAP earnings per share are projected to be between \$3.52 and \$3.58.
- **Restructuring Plan:**
 - A restructuring plan will impact approximately 7% of Cisco's global workforce, aiming to reallocate resources towards growth areas like AI and cybersecurity.
 - Cisco plans to invest significantly in AI infrastructure, expecting an additional \$1 billion in AI-related product orders in FY25.
- **Challenges and Opportunities:**
 - While the service provider segment remains muted, Cisco is encouraged by stabilizing demand and improved performance in other segments, such as enterprise and public sector.

ANALYSIS

The company's strong financial performance, coupled with strategic investments in AI, cloud, and cybersecurity, positions it well for future growth.

However, several considerations are crucial for sustaining this momentum:

- **Execution of Strategic Initiatives:** Cisco must continue to effectively integrate Splunk and execute on its AI and cybersecurity strategies.

- **Operational Efficiency:** The organizational restructuring presents challenges in maintaining efficiency and morale but is necessary for long-term growth.
- **Market Conditions:** The broader economic environment remains uncertain, which could impact customer demand, especially in the service provider segment.

The newly-acquired Splunk is already starting to pay for itself. If Cisco can manage the integration of Splunk while also continuing to grow its cybersecurity business at its current rate, the company will turn into an infrastructure management software powerhouse. It's a powerful vision, but history has taught us to be cautious amid such ambitious visions by companies as large as those involved here.

Overall, Cisco's performance in Q4 FY24 and its forward-looking guidance suggest a solid foundation for capitalizing on emerging opportunities in AI, cloud, and cybersecurity. The company's disciplined approach to financial management and focus on innovation will be critical in maintaining its competitive edge in the coming years.



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