



# Q4 Fiscal Year 2009 Conference Call

August 5, 2009



## GAAP RECONCILIATION

During this presentation references to financial measures of Cisco will include references to non-GAAP financial measures. Cisco provides a reconciliation between GAAP and non-GAAP financial information on our website at [www.cisco.com](http://www.cisco.com) under “About Cisco” in the “Investor Relations” section.

<http://investor.cisco.com/results.cfm>

## FORWARD-LOOKING STATEMENTS

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**Opening Remarks**

Financial Overview

Business Overview and  
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Summary Comments

# Q4 FY'09 Highlights

## Financial Summary

- Revenue of \$8.5B
- Non-GAAP EPS of \$0.31 and GAAP EPS of \$0.19
- Exceeded \$1.5B expense reduction goals
- Total non-GAAP gross margin above 65%
- Cash flow generated from operations of approx. \$2.0B
- DSOs were 34 days and non-GAAP inventory turns of 11.3
- Product book to bill was comfortably above 1



# Q4 FY'09 Highlights

## Financial Summary

- Non-GAAP operating expenses approx. \$3.3B
- Non-GAAP operating expenses 39.2% of revenue
- Non-GAAP Net income
  - \$8.0B for FY09 which is 22% of revenue
  - \$1.8B for Q4FY09 which is 21.5% of revenue



# Q4 FY'09 Observations

- Q4 was the first quarter of **positive sequential product order growth** of the entire fiscal year with close to **normal sequential seasonality** for the quarter
- Innovative organizational structure operating extremely effectively
- Aggressively **managing our expenses** and exceeding our stretch goal of **reducing our annualized expense run rate by \$1.5B**
- **Completed major expense reductions and limited restructuring**, now moving the entire **focus of the company to growth**



# Q4 FY'09 Observations

- In areas we can control and influence, **very comfortable with long-term vision and differentiated strategy**
- New **organizational structure** built around councils, boards and working groups **operating very effectively**
- Exit the quarter with a compelling **financial position** and **innovation engine**
- Continue to fill out **architectural strategies** from the home to the service provider and enterprise
- **Key market transitions** relative to collaboration, virtualization and video networking **drive productivity and growth** and load networks





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# Cisco Total Revenue

	Year / Year Growth
Q4 FY'09 Total Revenue	Q4 FY'09
\$8.5B	(18%)



# Q4 FY'09 Revenue Highlights

	Q4 FY'09 <sup>1</sup>	Year / Year Growth
Routers	\$1.5B	(27%)
Switches	\$2.8B	(20%)
Advanced Technologies	\$2.0B	(19%)
Other	\$0.4B	(32%)
Services	\$1.8B	5%
<b>Total</b>	<b>\$8.5B</b>	<b>(18%)</b>

1. As a result of rounding, figures may not total. For detailed results, please see Cisco's Investor Relations Website at <http://www.cisco.com/go/investors>



# Q4 FY'09 Revenue by Geography

	Q4 FY'09 <sup>1</sup>	Year / Year Growth <sup>2</sup>
U.S. & Canada	\$4.8B	(13%)
Europe	\$1.7B	(19%)
Emerging Markets	\$0.8B	(38%)
Asia Pacific	\$1.0B	(20%)
Japan	\$0.3B	(5%)
<b>Total</b>	<b>\$8.5B</b>	<b>(18%)</b>

1. As a result of rounding, figures may not total. For detailed results, please see Cisco's Investor Relations Website at <http://investor.cisco.com/results.cfm>
2. As a reminder, revenue may lag orders due to a number of factors including shipment levels and the requirement to satisfy complex revenue recognition criteria.



# Q4 FY'09 Non-GAAP Gross Margin

	Q3 FY'09	Q4 FY'09
<b>Total Non-GAAP Gross Margin</b>	<b>65.1%</b>	<b>65.3%</b>
<b>Product Non-GAAP Gross Margin</b>	<b>64.6%</b>	<b>64.7%</b>
<b>Service Non-GAAP Gross Margin</b>	<b>67.0%</b>	<b>67.5%</b>

- Q4 FY'09 GAAP Total Gross Margin of 64.0%
- Q4 FY'09 GAAP Product Gross Margin of 63.8%
- Q4 FY'09 GAAP Service Gross Margin of 64.7%

# Q4 FY'09 Gross Margin by Geography

	Gross Margin % <sup>1</sup>
U.S. & Canada	66.7%
Europe	66.4%
Emerging Markets	58.6%
Asia Pacific	59.6%
Japan	72.9%
Theater Total	65.3%

1. Gross margin by geography may fluctuate from period to period. These fluctuations may be due to factors other than underlying business trends.



# Q4 FY'09 Non-GAAP Income Statement Highlights

\$M (except per-share amounts and percentages)

	Q4 FY'08	Q3 FY'09	Q4 FY'09
<b>Net Sales</b>	10,364	8,162	8,535
<b>Gross Margin</b>	64.9%	65.1%	65.3%
<b>Operating Expenses</b>	3,662	3,147	3,349
<b>Opex</b> (% of Revenue)	35.3%	38.6%	39.2%
<b>Operating Income</b> (% of Revenue)	29.5%	26.6%	26.1%
<b>Net Income</b>	2,395	1,753	1,839
<b>Net Income</b> (% of Revenue)	23.1%	21.5%	21.5%
<b>EPS</b> (diluted)	\$0.40	\$0.30	\$0.31

# Q4 FY'09 GAAP Income Statement Highlights

\$M (except per-share amounts and percentages)

	Q4 FY'08	Q3 FY'09	Q4 FY'09
<b>Net Sales</b>	<b>10,364</b>	<b>8,162</b>	<b>8,535</b>
<b>Gross Margin</b>	<b>64.0%</b>	<b>64.1%</b>	<b>64.0%</b>
<b>Operating Expenses</b>	<b>4,102</b>	<b>3,622</b>	<b>4,001</b>
<b>Opex</b> (% of Revenue)	<b>39.6%</b>	<b>44.4%</b>	<b>46.9%</b>
<b>Operating Income</b> (% of Revenue)	<b>24.4%</b>	<b>19.7%</b>	<b>17.1%</b>
<b>Net Income</b>	<b>2,014</b>	<b>1,348</b>	<b>1,081</b>
<b>Net Income</b> (% of Revenue)	<b>19.4%</b>	<b>16.5%</b>	<b>12.7%</b>
<b>EPS</b> (diluted)	<b>\$0.33</b>	<b>\$0.23</b>	<b>\$0.19</b>

# Non-GAAP to GAAP EPS Reconciliation for Q4 FY'09

	Q4 FY'09
<b>Q4 FY'09 Non-GAAP EPS</b>	<b>\$0.31</b>
<i>Stock compensation, amortization of intangible assets and other acquisition-related costs</i>	<i>(\$0.05)</i>
<i>IPR&amp;D related to Pure Digital and Tidal</i>	<i>(\$0.01)</i>
<i>Intangible asset impairment</i>	<i>(\$0.01)</i>
<b>Subtotal</b>	<b>(\$0.07)</b>
<b>Impact of tax charge</b>	<b>(\$0.03)</b>
<b>Impact of enhanced early retirement benefits</b>	<b>(\$0.02)</b>
<b>Q4 FY'09 GAAP EPS</b>	<b>\$0.19</b>



# FY'09 Total Revenue

	Year / Year Growth
FY'09 Total Revenue	FY'09
\$36.1B	(9%)



# FY'09 Revenue Highlights

	FY'09 <sup>1</sup>	Year / Year Growth
Routers	\$6.3B	(21%)
Switches	\$12.0B	(11%)
Advanced Technologies	\$9.2B	(4%)
Other	\$1.6B	(26%)
Services	\$7.0B	8%
<b>Total</b>	<b>\$36.1B</b>	<b>(9%)</b>

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# FY'09 Non-GAAP Gross Margin

	FY'08	FY'09
<b>Total Non-GAAP Gross Margin</b>	<b>65.1%</b>	<b>65.0%</b>
<b>Product Non-GAAP Gross Margin</b>	<b>65.6%</b>	<b>64.9%</b>
<b>Service Non-GAAP Gross Margin</b>	<b>62.3%</b>	<b>65.7%</b>

- FY'09 GAAP Total Gross Margin of 63.9%
- FY'09 GAAP Product Gross Margin of 64.0%
- FY'09 GAAP Service Gross Margin of 63.6%

# FY'09 Non-GAAP Income Statement Highlights

\$M (except per-share amounts and percentages)

	FY'08	FY'09
<b>Net Sales</b>	<b>39,540</b>	<b>36,117</b>
<b>Gross Margin</b>	<b>65.1%</b>	<b>65.0%</b>
<b>Operating Expenses</b>	<b>14,075</b>	<b>13,716</b>
<b>Opex</b> (% of Revenue)	<b>35.6%</b>	<b>38.0%</b>
<b>Operating Income</b> (% of Revenue)	<b>29.5%</b>	<b>27.1%</b>
<b>Net Income</b>	<b>9,585</b>	<b>7,956</b>
<b>Net Income</b> (% of Revenue)	<b>24.2%</b>	<b>22.0%</b>
<b>EPS</b> (diluted)	<b>\$1.56</b>	<b>\$1.35</b>

# FY'09 GAAP Income Statement Highlights

\$M (except per-share amounts and percentages)

	FY'08	FY'09
<b>Net Sales</b>	<b>39,540</b>	<b>36,117</b>
<b>Gross Margin</b>	<b>64.1%</b>	<b>63.9%</b>
<b>Operating Expenses</b>	<b>15,904</b>	<b>15,772</b>
<b>Opex</b> (% of Revenue)	<b>40.2%</b>	<b>43.7%</b>
<b>Operating Income</b> (% of Revenue)	<b>23.9%</b>	<b>20.3%</b>
<b>Net Income</b>	<b>8,052</b>	<b>6,134</b>
<b>Net Income</b> (% of Revenue)	<b>20.4%</b>	<b>17.0%</b>
<b>EPS</b> (diluted)	<b>\$1.31</b>	<b>\$1.05</b>

# Q4 FY'09 Key Financial Measures

	Q4 FY'08	Q1 FY'09	Q2 FY'09	Q3 FY'09	Q4 FY'09
Cash and Cash Equivalents and Investments (\$M)	26,235	26,763	29,531	33,551	35,001
Operating Cash Flow (\$M)	3,529	2,718	3,198	1,996	1,985

## Share Repurchase Program

	Amount Purchased (\$M)	Number of Shares (M)	Avg Price Per Share
Q4 FY'09 Purchases	\$800	42	\$19.02
Cumulative Program Purchases*	\$57,179	2,802	\$20.41

\*Since program inception in FY'02

**Approx. \$4.8B remaining authorized funds in repurchase program**



# Q4 FY'09 Key Financial Measures

	Q4 FY'08	Q1 FY'09	Q2 FY'09	Q3 FY'09	Q4 FY'09
Accounts Receivable (\$M)	3,821	3,278	2,893	2,392	3,177
Days Sales Outstanding	34	29	29	27	34
Inventory (\$M)	1,235	1,209	1,107	1,023	1,074
Non-GAAP Inventory Turns	11.6	11.6	11.3	10.7	11.3
Purchase Commitments (\$M)	2,727	2,852	2,669	2,196	2,157
Deferred Revenue (\$M)	8,860	8,844	9,300	8,773	9,393
Headcount	66,129	67,647	67,318	66,558	65,545

# Financial perspective

- Pleased with our Q4 and fiscal 2009 results which illustrate the **resiliency of our business model** as well as the **strength of our business**
- Remain focused in FY10 on **operational excellence and efficiency** . . . we will **continue to make investments in the key growth areas** across our 30+ market adjacencies



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# Strategy Review

- Innovation and operational effectiveness
- Architectural leadership in customers' minds
- 30+ market adjacencies – network as the platform
- Smart+Connected Communities
- Small Business
- Smart Grid



# Q4 FY'09 Customer Segments

## Global Customer Segments

- Public Sector orders down 3% y/y
  - U.S. up 4% y/y
  - Japan up 28% y/y
  - Asia Pac down 23% y/y
  - Europe down 7% y/y
  - Emerging Markets down 19% y/y
- Enterprise orders down approx. 30% y/y
- Service Provider orders down upper 20s y/y
- Commercial orders down mid 20s y/y
- Consumer orders up low single digits y/y



# Q4 FY'09 Geographic Highlights

## Geographic Highlights

- U.S. orders down approx. 20% y/y
- Emerging Markets orders down approx. 30% y/y
- Asia Pac orders down low 20s y/y
- Europe orders down high 20s y/y
- Japan orders down low single digits y/y



# Q4 FY'09 Product Highlights

## Product Revenue

- Routing revenue down 27% y/y
- Switching revenue down approx. 20% y/y
- Total Advanced Technologies revenue down 19% y/y
  - Video down 30%
  - Unified Communications down 5%
  - Wireless down 19%
  - Security down 19%
  - Networked Home down 26%
  - ANS down 27%
  - Storage down 8%
  - WebEx grew 14%
  - TelePresence grew 97%

# Q4 FY'09 Product Highlights

- Total revenue mix by technology category
  - Routing approx. 17%
  - Switching approx. 33%
  - Advanced Technologies approx. 24%
  - Services approx. 21%
  - Other approx. 5%



# Vision, Strategy and Execution

- **Vision** of how the industry is going to evolve appears to be **playing out as expected**
- Believe our differentiated **strategy is achieving the benefits that we thought possible**
- **Execution is on target** in terms of results - as measured by our **customer partnerships, market share, and share of customers' total communications and IT spend**





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# Summary Comments

- In areas we can control or influence our **leadership continues to be solid** as our customers beginning to see the productivity implications and importance of both the technology and architectural play
- Even if the market continues to slow, **we don't see this changing our long term growth opportunities**
- On a global and U.S. basis, **we see the same challenges and uncertainties** from an economic, political, and capital spending perspective – however, with **potential positive trends** in **Asia Pacific, U.S. Emerging Markets** and **Japan**
- Focus on what we can **control and influence** and position Cisco to **gain momentum in market transitions**
- We believe our **vision, strategy, and execution are in great shape**



# Forward-Looking Statements

These presentation slides and the related conference call contains 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 future order trends, the enhancement of our market position, the continuing development of the network as the platform, our continued focus on innovation, and trends in our business) and the future financial performance of Cisco 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: 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 market adjacencies and geographical locations during the current economic downturn; 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; increased competition in our product and service markets; 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; natural catastrophic events; our ability to achieve the benefits anticipated from our investments in sales and engineering activities; our ability to recruit and retain key personnel; our ability to manage financial risk, and to manage expenses during the current economic downturn; 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 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 reports on Form 10-K and Form 10-Q. The financial information contained in these presentation slides and the related conference call should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent reports on Form 10-K and Form 10-Q, as each may be amended from time to time. Cisco's results of operations for the three and twelve months ended July 25, 2009 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in these presentation slides and the related conference call 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 these presentation slides and the related conference call.





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