



The Silver Word

Cisco Systems, Inc.

Cisco Systems is an example of a company that is extremely well managed, brilliantly positioned with key partners and alliances, and in the right place at the right time. Founded in 1984, Cisco is the worldwide leader in networking for the Internet. Cisco provides end-to-end networking solutions to help its customers improve productivity and gain a competitive advantage. E-commerce is projected to grow from \$43.1 billion in 1998 to more than \$1.3 trillion by 2003, as the Internet continues to be a powerful force that fuels the economy. This anticipated growth, coupled with Cisco's expertise, positions the company to be the leader in the new Internet Economy.

Headquartered in San Jose, CA, Cisco has over 200 offices in Europe, Asia and Latin America. Forty-six percent of product bookings are international, and the worldwide employee count is slightly over 26,000. Cisco's top competitors are 3COM, Nortel, Lucent, Ericsson, Cabletron, Alcatel and Juniper.

Cisco currently offers the industry's broadest range of products for connecting people to the Internet and to internal corporate networks, or Intranets. Cisco's enterprise network solutions form the most comprehensive line of networking products available in the industry. The company sells to three types of customers: enterprises, service providers, and small/medium businesses. Cisco markets its products through a direct sales force, distributors, value-added resellers, service providers, and system integrators.

Cisco went public in February 1990 at a split-adjusted price of 12 cents per share. On March 28, 2000 the stock closed at \$77 7/8. Institutional equity ownership is estimated at 58%. The company's finances are strong. According to the company, Cisco "attempts in every possible way to do more with less"; its culture stresses frugality. Expenses are budgeted at conservative levels, and employees are expected to stay within the budget.

Annual sales increased 44%, to \$12.2 billion, in FY1999 from \$8.5 billion in FY1998; net income rose 55%, to \$2 billion. Return on equity for FY1999 was close to 18%. Revenues have also increased each quarter, most recently posting a 12% rise, to \$4.4 billion, in 2QFY2000 versus 2QFY1999. For the same period, net income almost doubled, to \$825 million, and earnings per share rose to \$0.24 from \$0.13. Working capital held up extremely well, doubling to \$3.9 billion in 2QFY2000 from \$1.8 billion in 1QFY2000.

In order to deliver complete solutions, Cisco fills gaps in its product offerings by making acquisitions, investments and alliances. In 1998 and 1999, Cisco expanded its relationships with Microsoft, Hewlett-Packard, EDS and Sprint and formed alliances with KPMG, PeopleSoft and INS.

From scanning the company's press releases, one can surmise that not a week goes by without Cisco announcing a new alliance, joint venture or acquisition. In just the past two quarters, Cisco:

- Completed the acquisition of Monterey Networks and MaxComm Technologies.
- Completed the acquisition of StratumOne Communications, TransMedia Communications and Cocom A/S.
- Announced the acquisition of Tasmania Network Systems and WebLine Communications.
- Formed an alliance with IBM to deliver networking technologies and services to service providers and to provide customers with a highly scalable technology foundation for e-business solutions.
- Completed acquisition of Calista, Internet Engineering Group and Tasmania Network Systems. These companies will provide Cisco's delivery of content networking framework, enabling broad deployment of web-based server solutions.
- Completed acquisition of Cerent and V-Bits.
- Acquired privately held Worldwide Data Systems, a leader in consulting and engineering services for converged data and voice networks.
- Announced an agreement with Whirlpool to jointly develop a complete line of Networked Home Solutions.
- Agreed to acquire privately held Altiga Networks and Compatible Systems. Both acquisitions enhance Cisco's New World Virtual Private Networks by providing customers with remote access and extranet solutions.

During March, 2000, four acquisitions were announced:

DATE: March 1, 2000

ACQUISITION: Cisco agreed to acquire privately held Atlantech, a provider of network element management software designed to help configure and monitor network hardware. Cisco already has a 9.5% stake in the company, and will buy Atlantech's remaining shares outstanding and options for \$180 million of Cisco common stock.

DATE: March 15, 2000

ACQUISITION: Completed acquisition of Aironet Wireless Communications, a developer of high-speed wireless LAN products. Each share, option and warrant of Aironet will be converted to 0.637 share of Cisco common stock.

DATE: March 16, 2000

ACQUISITION: Cisco agreed to acquire privately held InfoGear Technology, a provider of Internet applications and software used to manage information applications. Cisco has an 8% interest in the company, and will exchange common stock valued at \$301 million for all remaining outstanding shares and options of InfoGear.

DATE: March 16, 2000

ACQUISITION: Cisco agreed to acquire privately held JetCell, a developer of standards-based, in-building wireless telephony solutions for corporate networks. Cisco has close to a 10% stake in the company, and will issue \$200 million of common stock for the remaining outstanding shares and options of JetCell.

With the rapid expansion of the Internet Economy, prospects for Cisco are excellent. With its disciplined philosophy, technical savvy, strong financials and seemingly endless flow of acquisitions, this company appears well on its way to being the "Blue Chip" technology corporation of the next decade.

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