GMI Ratings Governance Issue | Cisco Systems, Inc.

June 27, 2012 in **Blog**, **Corporate Governance**, **Flash Reports**

Cisco Systems, Inc. lost its key acquisitions executive, Ned Hooper. After laying off thousands of people and announcing plans to streamline its operations in 2011, the Santa Clara computer networking company has continued buying up new investments in recent months. As the business grapples with the resulting chaos, its financial statements remain an uncertain hodgepodge of estimates about the value of its assets.

Cisco's CEO John Chambers said in a blog Tuesday that Hooper, who had led large-scale mergers and acquisitions at the company and managed its investment portfolio, is going to form an independent investment partnership company. Hooper had worked on his plan with Cisco for a number of months, and the company expects to partner with him on it. Hooper's team will now report to Padmasree Warrior, who is expanding her earlier role as Cisco's chief technology officer to at the same time take on the duties of Strategy Officer.

"Now the time is right for us to drive the next phase of our organizational evolution," Chambers wrote in his blog.

Organizational havoc would be another way to say it. The company announced a plan in July 2011 to axe around 6,500 employees, or 9% of its full-time workforce, as part of a $1 billion annual operating expense reduction and effort "to simplify the organization." It also said at the time that it would sell its set-top box manufacturing facility in Juarez, Mexico, to Foxconn Technology Group.

Then Cisco went ahead with some shopping decisions. In August 2011 Cisco said it had an agreement to buy Versly for an undisclosed amount and integrate the privately-held software company's employees into Cisco's collaboration software group. The same month the company announced its intent to take the service fulfillment software assets and associated employees from the UK subsidiary formerly known as Axiom Systems of the parent company Comptel Corp. for $31 million. Then in October Cisco said it would buy privately-held BNI Video for $99 million.

More recent deal announcements have had larger price tags. Cisco said it would buy the high-speed networking applications company Lightwire for around $271 million in February this year, and the software company ClearAccess for an undisclosed amount in March. That same month Cisco announced that it would spend around five times as much as it had planned to save in 2011 — $5 billion, including the assumption of debt and retention-based incentives – in order to own the video software and content security solutions company NDS Group Ltd.

As Chambers pulled off this kind of streamlining, the amount that Cisco had overpaid for assets that it considered worth more than book value climbed to $16.88 billion as of April 30, 2011 to more than $17 billion as of this April. Such estimations now amount to around 19% of Cisco's total assets – and will need to be adjusted if they turn out to be wrong. A $3.749 billion jump in Cisco's [illegible] between July 2009 and July 2010, when the company acquired the mobile infrastructure solutions firm Starent Networks [illegible] billion.

Moves such as these put investors at risk of being surprised about a company's financial statements. Indeed, [illegible] ed. In May Cisco estimated that it would have earnings of 44 to 46 cents a share, excluding items, in the fiscal fourth quarter ending in July. Wall Street analysts had on average expected 49 cents a share, Reuters reported.

Cisco said on a conference call that the new fourth quarter forecast was aligned with product order growth tre[illegible] rter, customer feedback on conservative information technology spending, and the global economy particularly in E[illegible] heir Generally Accepted Accounting Principles earnings would be between 7 and 11 cents per share lower than the non-GAAP version, and this range included items such as the up to 2 cent per share impact of anticipated restructuring charges.

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In part due to organizational changes such as restructuring, which tend to make a company's performance more confusing to analyze, Cisco's financial statements reflect an AGR score of 5 and indicate more accounting and governance risk than 95% of comparable companies. The company's AGR score has been lower than most other companies since December 2009. This doesn't necessarily mean Cisco is doing anything wrong, but it suggests that investors should scrutinize the company's earnings statements carefully. GMI also gives Cisco a D on its corporate governance overall.

"Over the past year, we've made significant changes to our company that enable us to respond and adjust to a cautious environment, and we will continue to be laser-focused on profitable execution," Chambers said on the conference call this May.

As Padmasree Warrior juggles her new, expanded responsibilities, it seems that some in the executive suite are also becoming more efficient.

Region: North America
Sector: Technology
Industry: Communications Equipment
Market Cap: $ 91,602.6mm (Large Cap)

ESG Rating: D
AGR: Very Aggressive (5)

Technology Sector
Overall Ratings Distribution

ESG Grade	Count	Percent
A	16	3%
B	134	25%
C	296	55%
D	79	15%
F	18	3%
Total	543	100%

AGR Rating	Count	Percent
Very Aggressive	242	12%
Aggressive	581	29%
Average	930	47%
Conservative	240	12%
Total	1,993	100%

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