



Stanford eCorner

Mergers and Acquisition at Cisco

Padmasree Warrior, *Cisco*

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Cisco Chief Technology and Strategy Officer Padmasree Warrior lays out her company's "disciplined and robust" approach to mergers and acquisitions. According to Warrior, Cisco's acquisitions fall into one of three categories: tech and talent purchases, acquisitions that fill strategic gaps with growth potential, and large, complex platform acquisitions that immediately impact revenue.



Transcript

We have a very, very solid M&A team, that has been I think at Cisco for 20 of the 30 years we've been in existence so we've done our first acquisition in the early '90s. So we go way back in how we think about acquisitions. That team is pretty self sufficient. We do everything from creating the map of what space we want to acquire in, working with the business groups to put that strategy together, they work with the architects to create the architecture. So we already have what we call a pipeline of companies that we may acquire in the future. So we don't share that. It's our trade secret but we guard it quite safely, but we have a pretty good idea of what we will be acquiring or roughly these sorts of companies that we'll be looking for. So we have a very disciplined process in how we execute that. We go through a pretty gated process. So once we have that map, once we decide this is a space we want to acquire in, we do something called a concept commit.

We will go and we will present the idea to - the team comes and presents the idea to myself and our CFO, we map out the architecture and figure out and they get permission to go look at that acquisition, do more diligence. So then we engage in a diligence process, we try to understand their technology, we try to understand their sales model, because oftentimes when you are acquiring companies, it's really important to understand the go-to-market mechanism, not just the technology piece. So we engage in a diligence process. And if we are satisfied with the diligence we do something called an execute commit, meaning we're asking for - the team, the M&A team ask for permission to go then start negotiating for a term sheet. And so we have a very disciplined process to go through that. The way we think about acquisitions, we think of them in three buckets. And each one we measure and I'll talk about which one has contributed to revenue because not all of them contribute necessarily to revenue. So we think about acquisitions in three buckets. The first bucket is what we call tech and talent acquisitions. So these tend to be from our perspective smaller acquisitions.

So \$100 million valuation or less roughly. So for us that's small and we think of those as tech and talent acquisition. So we're either acquiring the technology or acquiring the talent. And with the understanding that they will come into Cisco and work on something that we already have going. They sometimes are also called tuck-in acquisitions. So they actually support our entire strategy. Then we have a middle set of acquisitions roughly in the \$100 million to \$1 billion or so range. Majority of our acquisitions tend to be in that space where they are strategic. They fill a gap for us. They extend us into a new market but they are potential for growth.

So they don't have the growth yet and we can add strength to them and grow them fast because we have a huge sales team that can sell that product. So they fall in that bucket. And the third category which are probably the most complex but contribute a lot more to revenue are what we call platform acquisitions. So platform acquisitions are a billion dollars above. We just closed one yesterday; a security acquisition called Sourcefire. You know, that was valued at \$2.7 billion or \$2.4 billion. So that is a security company that is a platform company. So platform acquisitions that Cisco has made already are companies

like WebEx which is a cloud conferencing company that we bought. Tandberg, which is a video conferencing company. Starent was a company that took us into mobility gateway.

So Sourcefire now and so these tend to be a platform acquisition. And they usually come with their own brand, their own sales team, marketing. So they tend to be more complex from an integration point of view but they also bring a lot of revenue.