



CISCO

CSCO

Recommendation: Buy

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Business Overview

Cisco Systems, Inc.

Business Description:

- Founded in 1984 by Lerner couple in Stanford University. Headquartered in San Jose, Cisco conducts business in The Americas, EMEA, and APJC.
- Cisco Technologies focuses on selling networking equipment and other “high-tech” services to organizations and businesses.

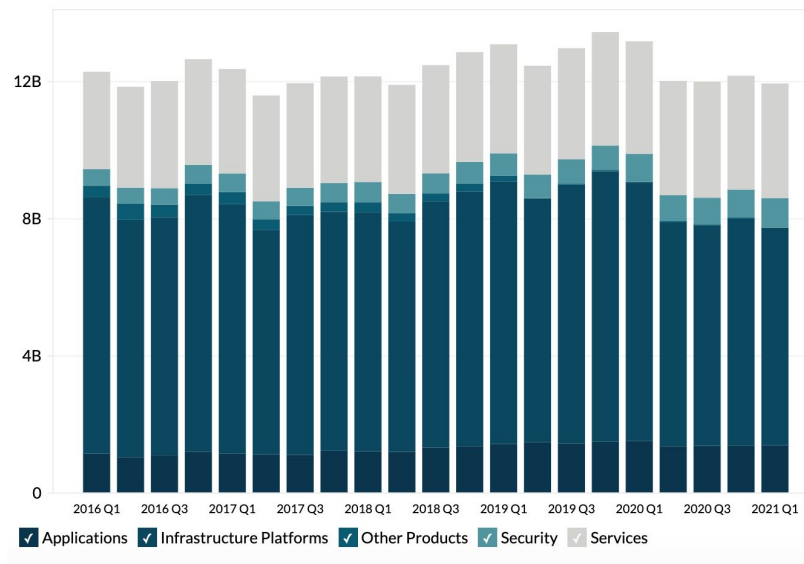
Financial Overview:

- Stock Price: \$48.27 at close on Nov 13.
- 52 Week Range: \$45.56 - \$58.19
 - (Yahoo Finance)
- Market Capitalization:
 - \$215.205B (Oct 31)
 - \$194.9B (Current)
- TTM quarterly revenue: \$57 B (16.08%)
- 3Y Stock Revenue CAGR: 7.72%
- 5Y Stock Revenue CAGR: 3.43%
 - (Finance Charts)
- P/E: 17.31
- EV/Revenue: 3.48
- EBITDA: 17.22B

Revenue Breakdown

Value Propositions:

- Cisco's financial performance and market standing clearly show their model is highly successful:
 - They have generated positive cash flow every year in existence.
 - They have purchased >200 companies since (WebEx, OpenDNS, Meraki)
- 1988, CEO John P Morgridge grew Cisco sales from \$5 million to over \$1 billion



Product Portfolio



Secure, Agile Networks

- Manage higher bandwidth, interconnect public and private wireline.



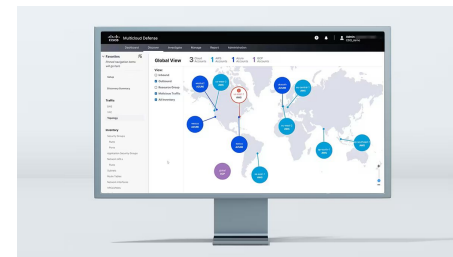
Internet for the Future

- Silicon and optics as the future of the internet and technology.



Collaboration

- Enhance hybrid/remote work, inclusiveness. **Subscriptions, licenses.**



End-to-End Security

- Encryption services that include SecureX, Unified Threat Management, Zero Trust.

Optimized Application Experiences

- Facilitate visibility of Cisco's customer experience, better manage the systems they utilize.

Services

- Customer support to ensure maximum gain out of purchased products. Advisory services. Aids customers with **migration to new technology platforms.**

Ownership of Cisco & CEO

Ownership of Cisco:

Publicly traded company

- Current largest shareholder: The Vanguard Group. (Others include: State Street Corp, BlackRock). Fluid structure, no set holders. Constantly changing ownership.
 - Influence on major decisions like acquisitions and mergers; results in difficult to predict value-oriented decisions.



BlackRock

Chief Executive Officer:

Chuck Robbins

- Held management positions at Bay Networks and Ascend Communications prior to joining Cisco.
- >20 yrs experience in Cisco



Supply Chain Sustainability

- Founding member of Responsible Business Alliance (RBA)
 - Requires suppliers to comply with their social, environmental and ethical Code of Conduct
 - Cisco Responsible Minerals Policy
- Public GHG emission reporting
- Implementation of Chief Sustainability Officer (CSO).
- Cisco Foundation: Climate Impact and Regeneration Investing Portfolio
- Cisco Refresh: Certified quality remanufactured products. Reduces carbon footprint, accelerates **circular economy** goals



Environmental

- Climate change and GHG awareness
 - Science Based Targets initiative (SBTi) approved goal of net zero emissions by 2040 across their value chain.
 - Reduced Scope 1 and 2 GHG emissions by 39% in 3 years
- 50% of plastic used in products will be made of recycled content by FY25
- Sourced 89% renewable energy for operations

Social

- Inclusion and diversity
 - 2022 achieved 60% increase in minority-identifying employees
- Employee health, safety and wellbeing
 - #3 World's Best Workplace (GPW)

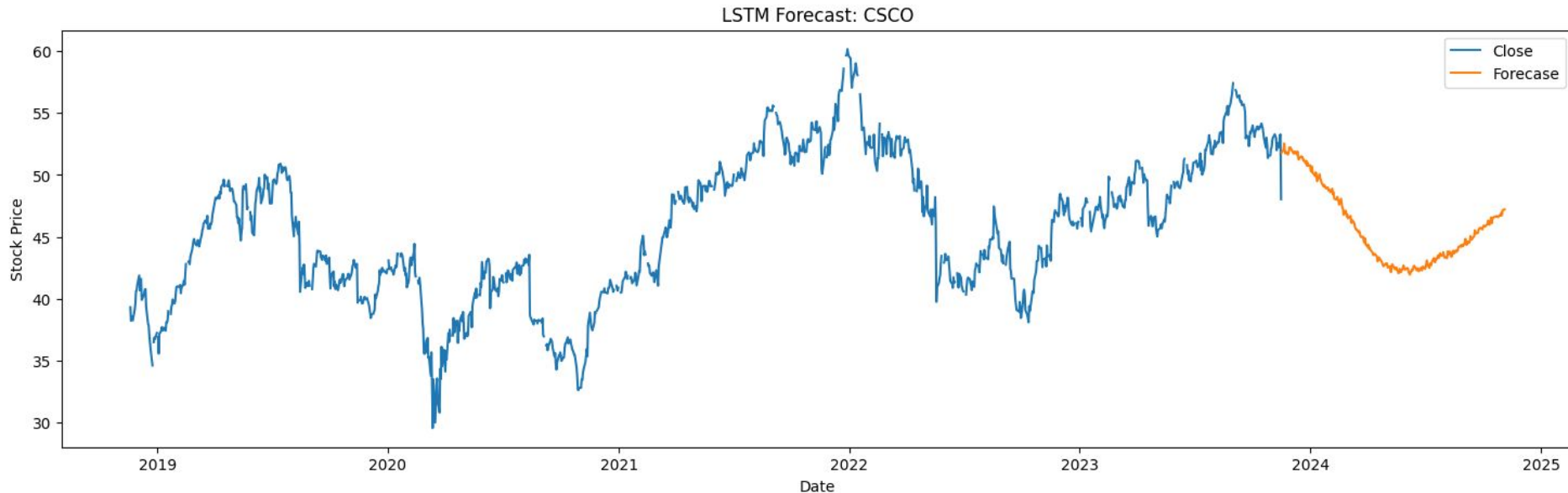
Governance

- Human Rights and working conditions throughout supply chain
- Data security and privacy between customers-provider and provider-government

Rolling Sharpe Regression: Cisco Vs. NETGEAR



ANN LSTM Price Forecasting



Summary of Quant Perspective

- NTGR currently sitting $-1 \sim 0$ = medium-high risk level
- CSCO currently sitting $0-1$ = medium-low risk level
- Past two years CSCO consistently outperforms NTGR in terms of risk adjusted return
- CSCO experiences strong/steady recovery from most any major event
 - Risk of new COVID outbreak
- Upward trend forecasted
 - Based on the data being collected after the acquisition of Splunk, we're expecting an accelerated version of the LSTM prediction

Industry Overview

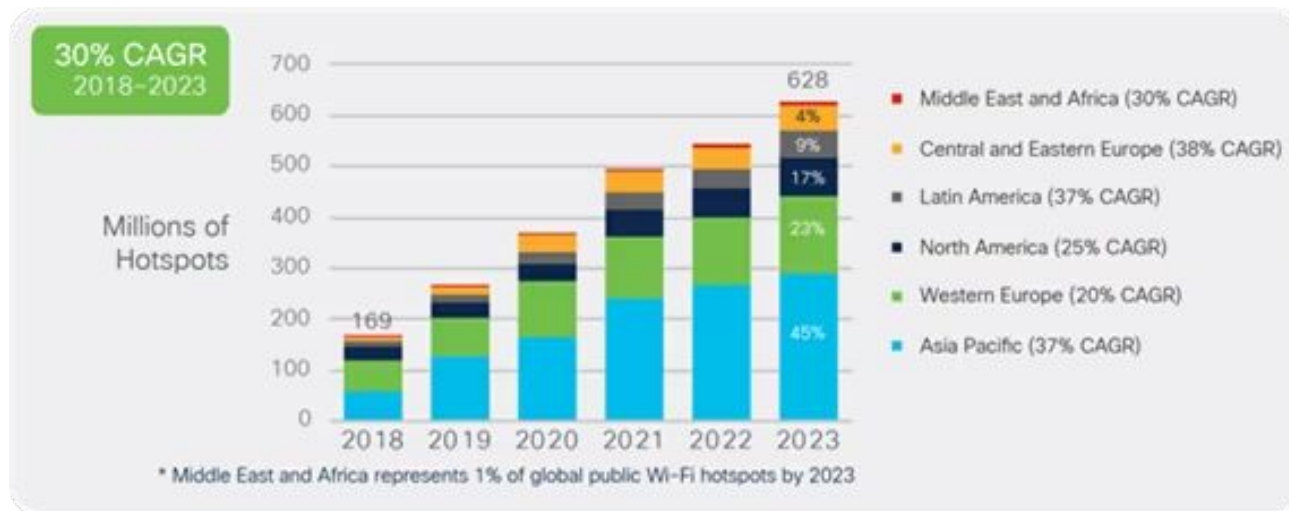
Industry Trends

Financial Trends:

- Strongest first quarter results in Cisco's history in terms of revenue and profitability with \$14.7 billion in revenue, up 8% year over year
- Targeting over \$900 Billion in Total Addressable Market by 2025 - CISCO Investor Day 2021

Technology Trends:

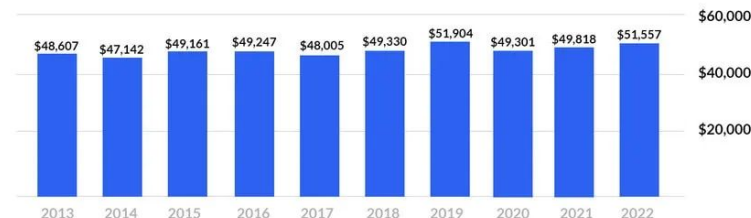
- The rise of the cloud
- The growth of the IoT
- Need for cybersecurity
- Demand for AI



Feasibility of Adoption

- Niche: modern approach. Promotional **videos** that target audiences that are “less well-versed” on their software systems.
 - Revolving around terms like “hackers”, appealing to visuals.
- Thinking ahead: company that focuses on providing solutions towards cybersecurity. We have just gone through COVID-19 pandemic, **hybrid work** was the norm so people and companies are more at risk of hacking and data breaches. This *could happen again* which gives this company’s value a drastic potential increase at any given moment (e.g. Zoom), while conserving a steady increase due to the products they sell.
- Market cap difference: very large gap between CISCO (valued at \$215B) and largest competitor, Arista (valued at \$65 B).
- Everything about the company is public, clear and transparent and can be easily located in their online page or reported by financial analytics pages.
- Very steady revenue over 10 years, considering global pandemic within this range.

 **REVENUE 2013 - 2022**
(in million U.S. dollars)



Value Chain



Inbound Logistics

- Procurement of raw materials and components
- Building strategic partnerships with suppliers
- Responsible Minerals Policy

Operations

- Design, development, and manufacturing.
- Quality control measures

Outbound Logistics

- Distribution and transportation of finished products
- Efficient order fulfillment and delivery processes

Marketing & Sales

- Building and maintaining relationships with customers through various channels
- Sales efforts to reach both enterprise and individual customers

Services

- Implementation of customer support and service functions
- Offering technical support, maintenance, and training to customers
- Regular updates and patches for software products



*Based on the OECD Guidance for Responsible Business Conduct

Valuation

DCF Cases

\$84.32

Upside

77.52% increase from current
base price of \$47.76
15.5% YoY growth rate.



- WACC: 6.72%

\$76.43

Base

60.01% increase from current
base price of \$47.76.
12% YoY growth rate.



- WACC: 6.72%

\$68.50

Downside

43.40% increase from current
base price of \$43.40.
8.7% YoY growth rate.



- WACC: 6.72%

WACC



WACC

x	WACC
$\text{WACC} = (\% \text{ Equity} \times \text{Cost of Equity}) + (\% \text{ Debt} \times \text{Cost of Debt} \times (1 - \text{Tax rate}))$	
$\text{Cost of Equity} = \text{Risk Free Rate} + (\text{Beta} \times (\text{Expected Market Return} - \text{Risk Free Rate}))$	
in millions	
Debt	8,391
% Debt	15.9%
Cost of Debt	4.3%
Tax Rate	18.4%
Equity Value	44,353
% Equity	84%
Cost of Equity	7.3%
Risk Free Rate	4.4%
Beta	0.9046
Market Risk Premium	3.2%
Debt + Equity	52,744
x	WACC 6.72%

DCF: Upside (\$84.32)



DCF	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	51,904	49,301	49,818	51,557	56,998	65,548	74,069	80,735	88,809	98,578
% growth		-5.0%	1.0%	3.5%	10.6%	15.0%	13.0%	9.0%	10.0%	11.0%
EBIT	14,500	14,097	13,739	14,025	15,588	2,294	2,370	2,664	3,197	3,253
% margin	27.9%	28.6%	27.6%	27.2%	27.3%	3.5%	3.2%	3.3%	3.6%	3.3%
Taxes	2,078	2,756	2,671	2,665	2,705	564	583	655	786	800
% of EBIT	14.3%	19.6%	19.4%	19.0%	17.4%	24.6%	24.6%	24.6%	24.6%	24.6%
EBIAT						1,730	1,787	2,009	2,411	2,453
D&A	1,726	1,957	1,862	1,957	1,726	1,743	1,757	1,773	1,791	1,809
% of sales	3.3%	4.0%	3.7%	3.8%	3.0%	2.7%	2.4%	2.2%	2.0%	1.8%
CapEx	887	591	664	386	846	860	876	893	910	927
% of sales	1.7%	1.2%	1.3%	0.7%	1.5%	1.7%	1.8%	1.9%	2.0%	1.8%
Change in NWC	(935)	(640)	(2,226)	(1,346)	1,224	(524)	(444)	(404)	(444)	(394)
% of sales	(1.8%)	(1.3%)	(4.5%)	(2.6%)	2.1%	(0.8%)	(0.6%)	(0.5%)	(0.5%)	(0.4%)
Unlevered FCF						3,137	3,113	3,293	3,735	3,729
Present Value of FCF						2,940	2,733	2,709	2,879	2,694
Terminal Value										55,491
Present Value of Terminal Value										40,086
Enterprise Value										54,042
+ Cash										13,705
- Debt										30,344
Equity Value										37,403
Shares										444
Share Price										\$ 84.32



DCF: Base (\$76.43)



DCF	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	51,904	49,301	49,818	51,557	56,998	63,838	69,583	74,454	81,155	89,270
% growth		-5.0%	1.0%	3.5%	10.6%	12.0%	9.0%	7.0%	9.0%	10.0%
EBIT	14,500	14,500	13,739	14,025	15,588	2,234	2,227	2,457	2,922	2,946
% margin	27.9%	29.4%	27.6%	27.2%	27.3%	3.5%	3.2%	3.3%	3.6%	3.3%
Taxes	2,078	2,756	2,671	2,665	2,705	550	548	604	719	725
% of EBIT	14.3%	19.0%	19.4%	19.0%	17.4%	24.6%	24.6%	24.6%	24.6%	24.6%
EBIAT						1,685	1,679	1,853	2,203	2,221
D&A	1,726	1,957	1,862	1,957	1,726	1,743	1,757	1,773	1,791	1,809
% of sales	3.3%	4.0%	3.7%	3.8%	3.0%	2.7%	2.5%	2.4%	2.2%	2.0%
CapEx	887	591	664	386	846	858	871	886	903	919
% of sales	1.7%	1.2%	1.3%	0.7%	1.5%	1.3%	1.3%	1.2%	1.1%	1.0%
Change in NWC	(935)	(640)	(2,226)	(1,346)	1,224	(511)	(417)	(372)	(406)	(357)
% of sales	(1.8%)	(1.3%)	(4.5%)	(2.6%)	2.1%	(0.8%)	(0.6%)	(0.5%)	(0.5%)	(0.4%)
Unlevered FCF						3,081	2,983	3,112	3,496	3,467
Present Value of FCF						2,887	2,619	2,561	2,695	2,505
Terminal Value										51,599
Present Value of Terminal Value										37,275
Enterprise Value										50,542
+ Cash										13,705
- Debt										30,344
Equity Value										33,903
Shares										444
Share Price										\$ 76.43



DCF: Downside (\$68.50)



DCF	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	51,904	49,301	49,818	51,557	56,998	60,418	64,043	68,526	74,693	81,416
% growth		-5.0%	1.0%	3.5%	10.6%	6.0%	6.0%	7.0%	9.0%	9.0%
EBIT	14,500	14,097	13,739	14,025	15,588	1,813	1,985	2,193	2,315	2,687
% margin	27.9%	28.6%	27.6%	27.2%	27.3%	3.0%	3.1%	3.2%	3.1%	3.3%
Taxes	2,078	2,756	2,671	2,665	2,705	446	488	539	570	661
% of EBIT	14.3%	19.6%	19.4%	19.0%	17.4%	24.6%	24.6%	24.6%	24.6%	24.6%
EBIAT						1,367	1,497	1,653	1,746	2,026
D&A	1,726	1,957	1,862	1,957	1,726	1,743	1,757	1,773	1,791	1,809
% of sales	3.3%	4.0%	3.7%	3.8%	3.0%	2.9%	2.7%	2.6%	2.4%	2.2%
CapEx	887	591	664	386	846	853	864	879	891	907
% of sales	1.7%	1.2%	1.3%	0.7%	1.5%	0.8%	1.3%	1.7%	1.2%	1.8%
Change in NWC	(935)	(640)	(2,226)	(1,346)	1,224	(483)	(384)	(343)	(373)	(326)
% of sales	(1.8%)	(1.3%)	(4.5%)	(2.6%)	2.1%	(0.8%)	(0.6%)	(0.5%)	(0.5%)	(0.4%)
Unlevered FCF						2,740	2,775	2,891	3,019	3,253
Present Value of FCF						2,568	2,436	2,378	2,328	2,350
Terminal Value										48,403
Present Value of Terminal Value										34,964
Enterprise Value										47,024
+ Cash										13,705
- Debt										30,344
Equity Value										30,385
Shares										444
Share Price										\$ 68.50



Thank you!