



**CISCO**

***CISCO***  
***SYSTEMS***

[CSCO]

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# Stock Chart



## Key Movements

- 1 - Stock rising due to increasing popularity of the IT sector and IT related stocks
- 2 - The effect of the Dot Com Bubble, which hit its peak in March of 2000
- 3 - 2008 Market crash effect
- 4 - COVID-19 Crash effect ranging from 2019 to 2021
- 5 - Since the crash, the stock has been on a gradual uptrend, kept going by the company's strong financial profile as well as the upkeep with technological advances

## Key Information

Beta: 0.99  
52 Week Range: \$38.60 - \$52.56  
IPO: February 16<sup>th</sup> 1990  
Ticker: CSCO  
Current Market Cap: \$189.432 B

# Introduction to Investment Thesis



1. HIGH  
SECTOR  
GROWTH

2. INCREASED  
IMPORTANCE OF  
CYBERSECURITY  
SYSTEMS

4.  
CORPORATE  
HEAVY  
CLIENT BASE

3. LARGE SHIFT  
TO SOFTWARE  
AND  
SUBSCRIPTION  
BASED SYSTEMS  
(SOFTWARE AS A  
SERVICE 'SAS')

1. Cisco's business practices are focused in high growth sectors within IT

2. Cybersecurity is one of the fastest growing sectors and Cisco is the market leader in the sector

3. Cisco has been performing a shift from a hardware driven company to a software and subscription based company, causing increased recurring revenues and increased client loyalty

4. Cisco's client base is largely built up of companies, this provides increased stability to their revenues and income statement



# BUSINESS OVERVIEW

# Cisco Business Overview



## Description

Through its innovation & quality control in supplying hardware, software and services they continue to be a market leader in networking hardware and software



Founded by L. Boscak and S. Lerner in 1984



80,000+ employees over the globe



Industry leader, acquired 200+ companies



Clients

Enterprises with complex networking needs - corporations, government agencies & institutions



HQ & Origin

Headquartered in San Jose, California - founded in 1984 as one of the first leading firms in Silicon Valley

## Management team



Chuck Robbins - CEO

- CEO since 2015
- 20+ years at Cisco
- Previously at Bay Networks and Ascend Communications



Scott Herren - CFO

- Previously CFO at Autodesk & held exec positions at IBM, FedEx & Citrix



Maria Martinez - COO

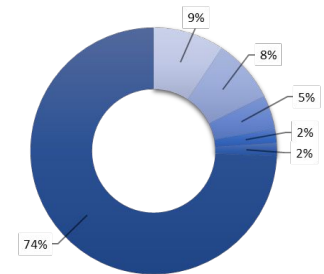
- Previous exec at Microsoft and AT&T
- 40+ years leadership experience

## Ownership Structure

A sizeable 82.77% chunk of the business ownership is controlled by institutions who's split is detailed in the following pie chart.

Most of the institutions have also been increasing their stake in the company the past quarters which gives us a sign of high market confidence and strong quarters to come

## Institutional ownership



# Business Model



## Core Business Attributes

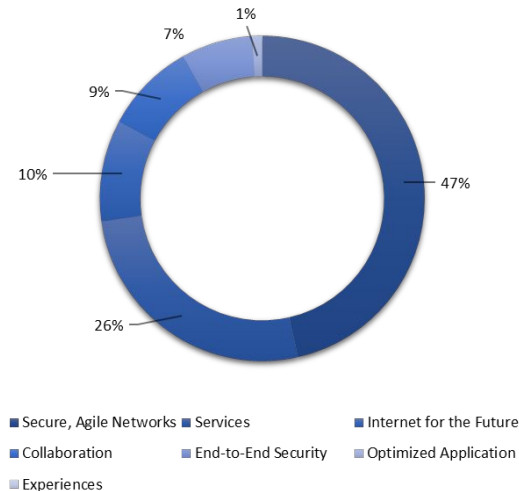
Cisco is a market leader in the IT industry, working in producing, securing and distributing both hardware and software devices.

Cisco's business practices are diversified and they specify in several high growth sectors such as cybersecurity, network systems, collaboration and communications systems.

Currently, Cisco is undergoing a transition from a majority hardware driven business to a core software driven business, providing cisco with higher recurring revenues from subscriptions, as well as allowing them to adapt to new market trends and meet their changing consumer's needs.

Cisco's strategy is to help its customers connect, secure, and automate to accelerate their digital agility in a cloud-first world. Navigating the dynamic environment we're currently experiencing, Cisco helps fulfill their clients IT, networks and security needs.

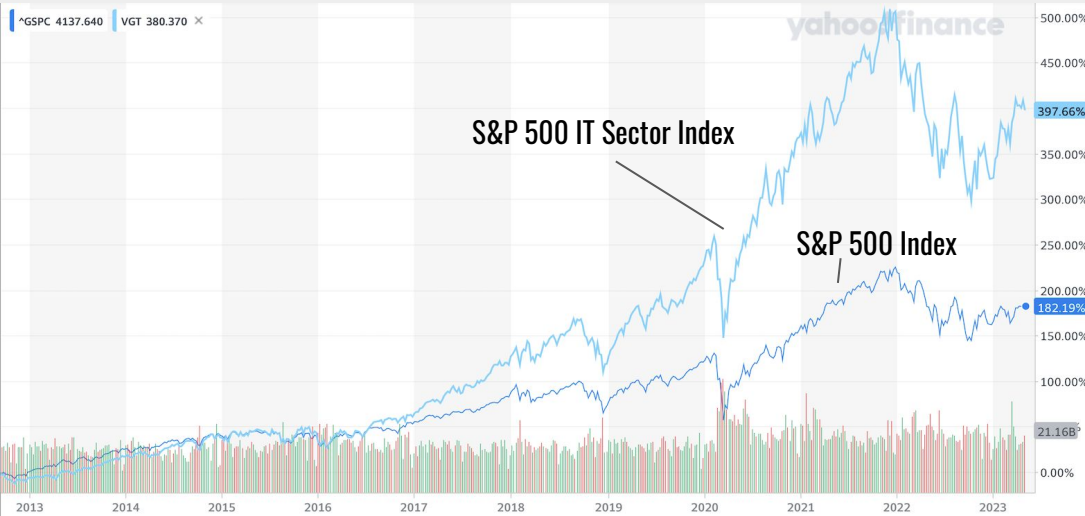
## Revenue split by business category



## Sustainability & ESG

Cisco is currently moving towards Net Zero Emissions by 2040 and has reduce greenhouse gas emissions by 39% in comparison to FY19

# Market Outlook



Industries in this sector

\*As of May-05-2023

Industries	Last % change ↕	5-day* ↕	1-month* ↕	3-month* ↕	YTD* ↕	1-year* ↕	5-year* ↕	10-year* ↕
Information Technology	+2.71%	+0.60%	+1.66%	+7.70%	+22.73%	+2.15%	+125.04%	+437.71%
Communications Equipment	+0.59%	-3.91%	-10.32%	-1.98%	+0.27%	-3.63%	+19.49%	+116.91%
Electronic Equipment, Instruments & Components	+1.71%	-1.10%	-6.83%	-12.45%	-1.82%	-8.68%	+38.71%	+185.48%
IT Services	-0.13%	-3.28%	-5.39%	-6.07%	+1.08%	-7.57%	+36.91%	+151.75%
Semiconductor & Semiconductor Equipment	+2.74%	+0.92%	-1.90%	+6.62%	+30.50%	+3.72%	+119.84%	+491.32%
Software	+1.81%	+0.13%	+4.48%	+14.10%	+25.42%	+5.37%	+165.89%	+590.30%
Technology Hardware, Storage & Peripherals	+4.61%	+2.20%	+4.46%	+11.46%	+32.43%	+3.21%	+242.73%	+805.12%

## IT Market Analysis

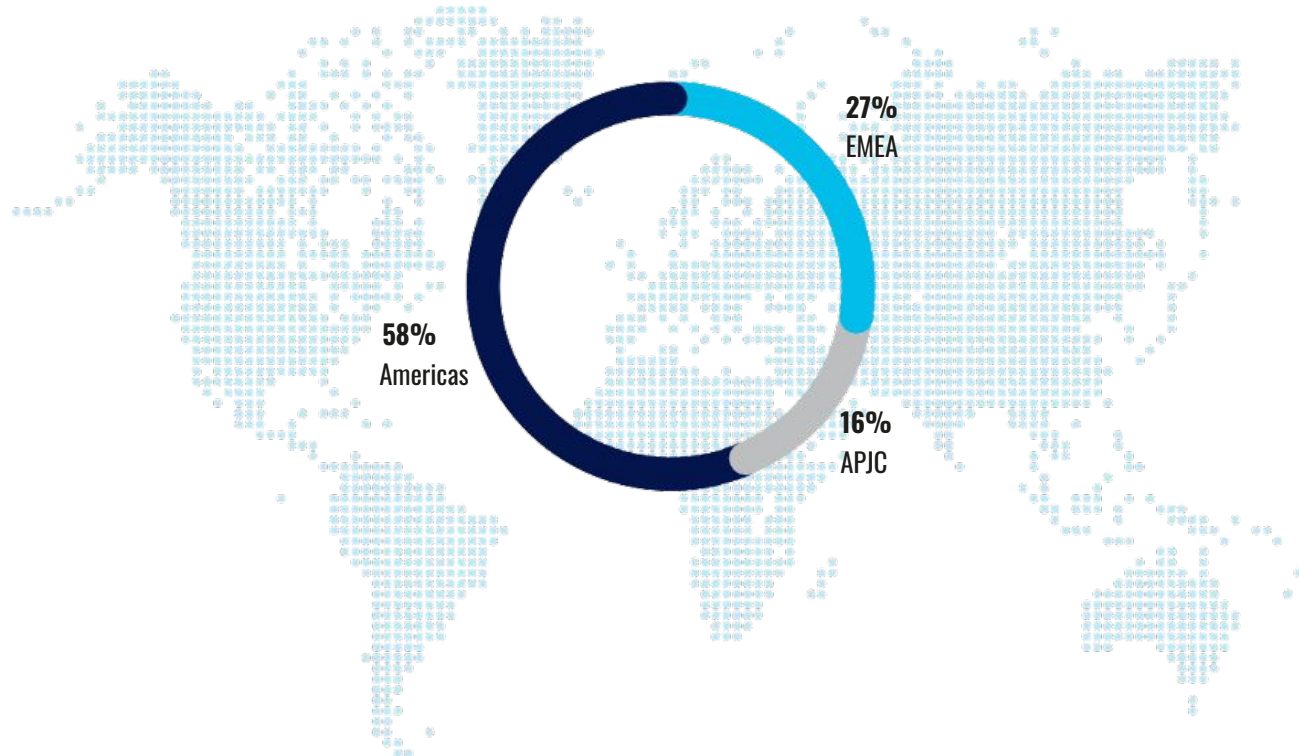
Cisco currently has a focus in several high-growth & high-potential IT segments including communication equipment, cybersecurity, collaboration, IT services and the software market.

Currently Cisco is undergoing a transition from a focus on communication equipment and a hardware sales heavy business model to a more service-based approach which is reliant on increasing revenues through a subscription based model, with a strong focus in cybersecurity, providing high profit margins and increasing recurring revenues. The shift can be seen with the decreasing revenue percentages that are coming from products, and the increasing revenue percentages from subscriptions and services.

# Global Exposure



## Revenue split by region



Cisco has operations in Asia Pacific, Europe, Middle East and Africa, North America, Latin America and Canada. They sell products in approximately 115 countries through a direct sales force, distributors, value-added resellers and system integrators. They are headquartered in San Jose, CA, and have major operations in Research Triangle Park, NC, and Chelmsford, MA. They run manufacturing facilities in Asia, China, Eastern Europe, Latin and North America, and Western Europe.



A close-up photograph of a Cisco network switch. The device is dark-colored with a prominent Cisco logo consisting of a stylized bridge icon above the word "CISCO" in white. Below the logo is a small green LED indicator labeled "System". To the right, several ports are visible, some with glowing green lights. The background is blurred, showing more network equipment and blue ambient lighting.

**CISCO**

System

SG 100-16 16-Port Gigabit

**VALUATION**

# Absolute Valuation



## Sensitivity Analysis

		Terminal Growth Rate				
	80.421299	1.50%	2.00%	2.5%	3.00%	3.50%
WACC	6.90%	83.243044	77.39979	77.39979	83.243044	98.91359
	7.40%	91.872064	84.703122	84.703122	91.872064	111.72452
	7.90%	91.872064	84.703122	84.703122	91.872064	111.72452
	8.40%	83.243044	77.39979	77.39979	83.243044	98.91359
	8.90%	70.04167	65.980075	65.980075	70.04167	80.421299

The sensitivity analysis was built using a 5 year Discounted cash flow model with forecast numbers being the average analyst forecast registered in bloomberg terminal

We can see that even in the worst case, our 5 year DCF gives Cisco an estimated upside of 42.7%

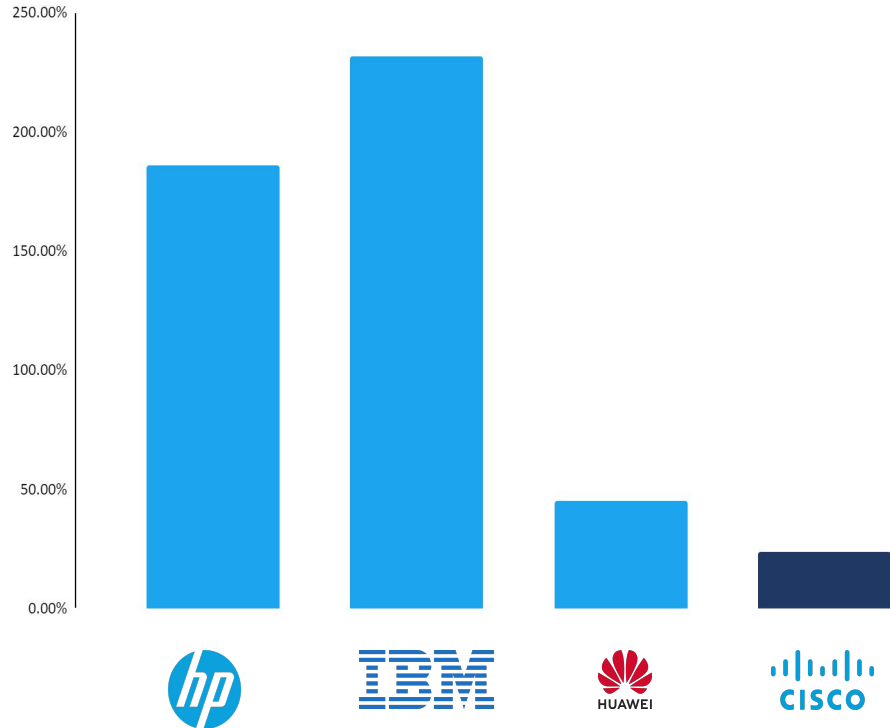
## Bloomberg Forecast Mean

Cisco Systems Inc		Period	2023*	-	Yr	Sou
Earnings & Estimates Next Announcement 05/17/23						
Measure	Revenue					
Firm	Analyst		Estimate	Date		
BEst Mean Consensus (Sta...			56.542B	05/01/23		

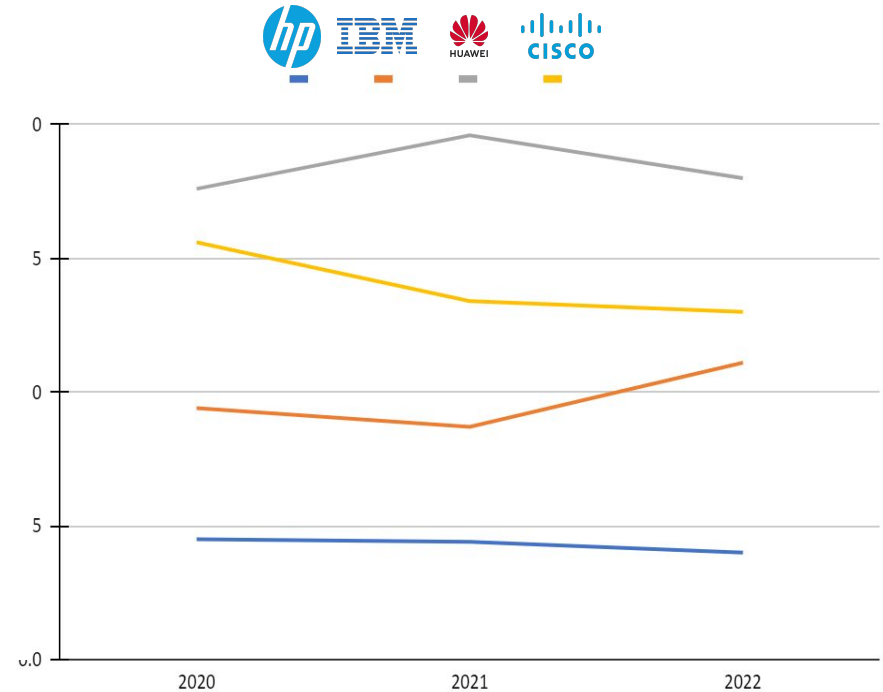
# Comparable Company Analysis



## D/E Ratios Comparison



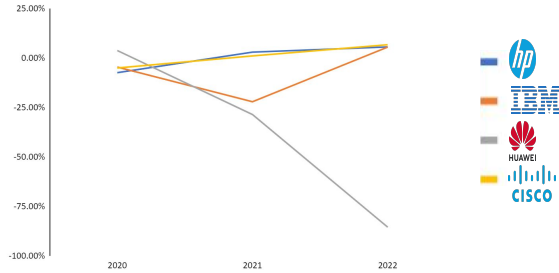
## Quick Ratio Comparison



# Comparable Company Analysis



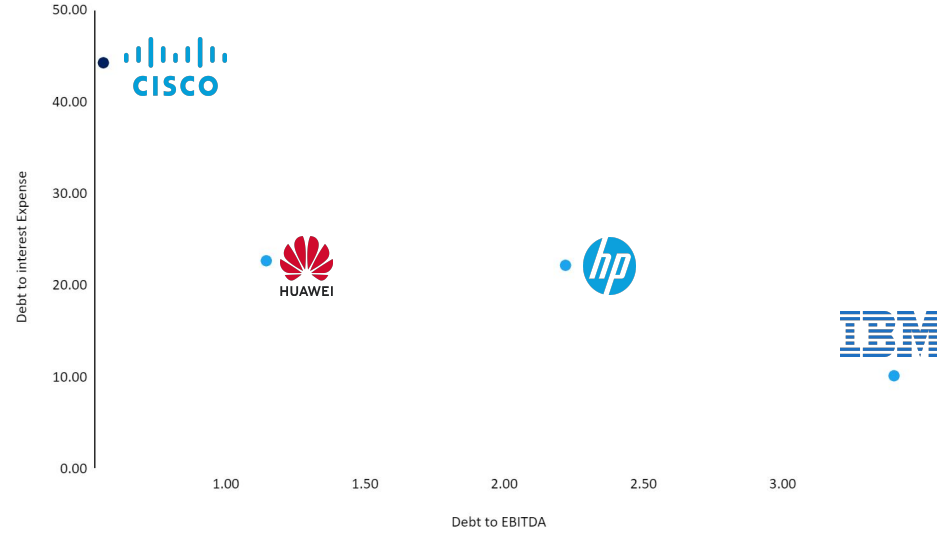
## Revenue Growth Comparison



## P/E Comparison



## EBITDA/Interest Expense vs Debt/EBITDA



# RISK ANALYSIS

The image features the Cisco logo, which consists of a stylized head shape formed by seven vertical bars of varying heights, positioned above the word "CISCO" in a bold, sans-serif font. The entire logo is illuminated in white. The background is a dark space filled with numerous small, bright blue lights, creating a starry or digital effect. The text "RISK ANALYSIS" is overlaid in the top right corner in a white, bold, sans-serif font.

CISCO

# Market Risks



## RISK FACTOR

### **REGULATORY RISK**

## EFFECT ON MARKET

Regulations on AI and the technology sector are a hot topic in global politics at the moment with countries taking action against technologies such as the recent ban on AI by the Italian government. These uncertainties looming over tech companies can be limiting to the growth of the sector and associated companies

## EFFECT ON CISCO

If Cisco faces regulation changes that affect their business areas, it can result in a loss of revenue and an increase in costs and debt due to being forced to exit the market. The regulatory changes could also result in legal battles which will cause a steep hike in legal costs incurred as well as the possibility of resulting in bad publicity for Cisco

### **TECHNOLOGICAL DISRUPTION**

The rapid growth in size and advancement of the technology sector makes it hard for companies with low funding and experience to keep up in the sector

The growth in the sector poses a threat to Cisco due to the large amount of businesses coming into the market with disruptions to the traditional technology used, causing Cisco to lose market share and come up with competing technologies. Cisco's size also makes it harder to respond to the new technologies as fast as the smaller businesses, however Cisco's capital allows them to have freedom working with new technologies.

### **SECURITY RISKS**

Cybercrime has been increasing in a very significant manner over the past few years, growing at a very fast pace. This poses problems to companies as they are provided to higher risk of losing their data or being the subject of a cyber-attack

Though all companies in the sector are exposed to the increased cybersecurity risks, Cisco's scale and client base makes them a particular target to attackers. A successful cyber attack on Cisco can cause major reputational damage and market turmoil around Cisco's stock price.

# Company Specific Risks



## 01 Operating results have tendency to fluctuate

Operating results have always been subject to fluctuations due to many factors such as Fluctuations in demand for our products and services, especially with respect to service providers and Internet businesses, in part due to changes in the global economic environment. This may lead to fluctuations in stock price.

## 02 Sales to the service provider market are especially volatile

The Service provider market is characterised by large and sporadic orders, service provider market sales dropped in Q4 of 2022 and order number may continue to decrease, especially given the fluctuating and uncertain economic environment

## 03 Market competition is extremely high

Cisco competes in markets characterized by rapid change and are very high competition sectors, the high competition puts lots of pressure on Cisco to keep up with technological advances and market changes

## 04 Dependence upon the development and enhancement of products and services

If Cisco fails to predict and respond to emerging technological trends and meet consumers changing needs, results will suffer and so will share price

# Conclusion



## Catalysts

1. HIGH SECTOR GROWTH

2. INCREASED IMPORTANCE OF CYBERSECURITY SYSTEMS

3. LARGE SHIFT TO SOFTWARE AND SUBSCRIPTION BASED SYSTEMS (SOFTWARE AS A SERVICE 'SAS')

4. CORPORATE HEAVY CLIENT BASE

## Entry & Exit Strategy

We are proposing holding Cisco for around a period of 36 months, seeking a minimum return on investment of 40% on the initial amount invested

## Deal and Trade Structure

Most of the allocated capital will go towards a regular, non leveraged long position in the stock.

However, in order to hedge the potential downside risk, whilst still maintaining upside exposure 25% of the underlying investment should be hedged using vanilla put options.

