

Cisco Systems Inc., NASDAQ, (CSCO)



HHIC

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Technology, Media, and Telecommunications

Buy Recommendation

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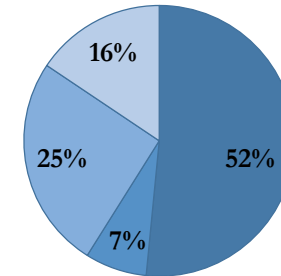
Summary

- CSCO is in the business of designing, manufacturing, and selling Internet Protocol (IP)-based networking products and services primarily related to both the communications and information technology sectors
- CSCO provides services associated with these products and their use in addition to also providing products and services for transporting data, voice, and video traffic across intranets, extranets, and the Internet

Management

John T. Chambers	Executive Chairman of the Board
Gary B. Moore	Chief Operating Officer
Kelly A Kramer	Chief Financial Officer
Willem P. Elfrink	Chief Globalisation Officer
Pankaj Patel	Chief Development Officer
Blair Christie	Chief Marketing Officer
Mark Chandler	Chief Compliance Officer
Charles H. Robbins	Chief Executive Officer

Geographic Revenue Segmentation



■ United States ■ Americas (excl. USA) ■ EMEA ■ APJC

Main Revenue Generating Products



Company Overview

Thesis

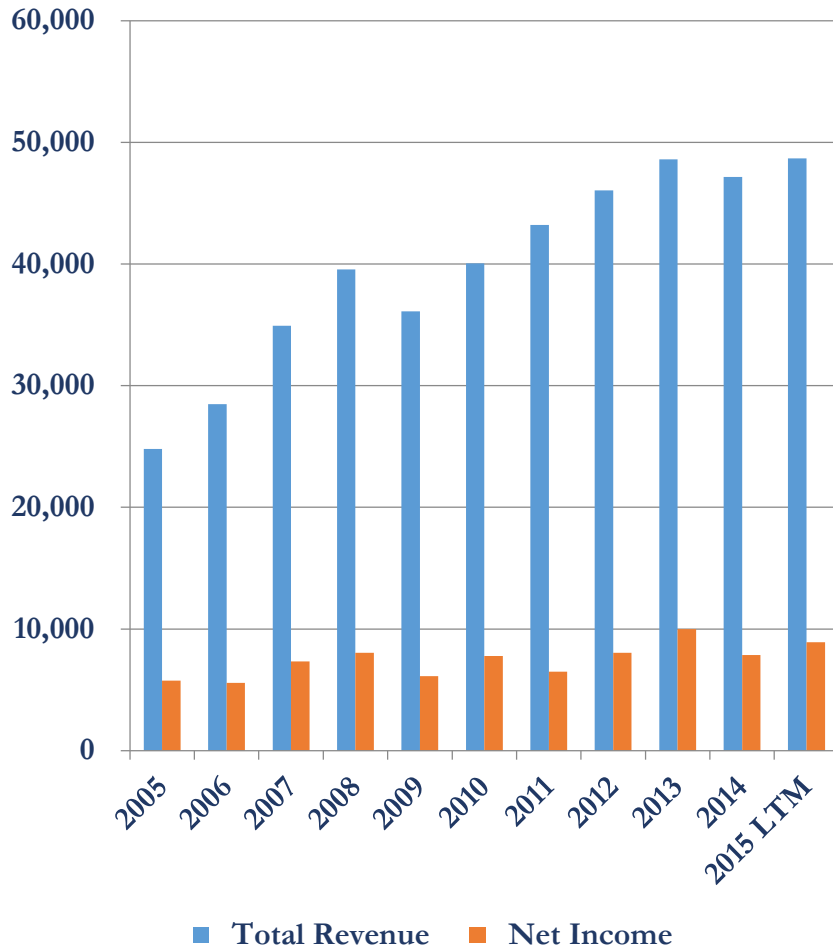
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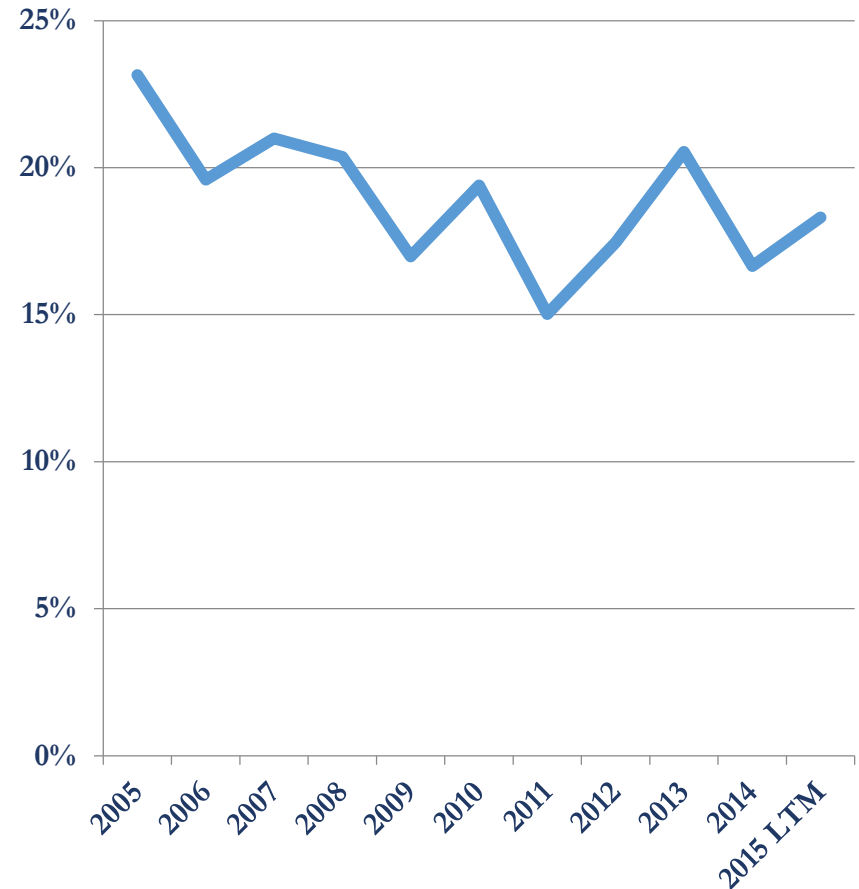
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Earnings Overview

Revenue and Net Income



Net Income Margin



Company Overview

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Thesis Breakdown

Characteristics of a High Quality Business

Diversifying Revenue Streams – Growth

Strong Record of Shareholder Value Creation

Thesis I: Characteristics of a High Quality Business

Large Installed Customer Base with High Switching Costs

- Customers are now dependent on CSCO products because it is integrated within their network enterprises, and switching would have a huge upfront cash outlay

Above Average Sustainable Margins

- Sustainable margins are a result of CSCO's "suite style" approach to their product

Strong History of Return on Capital

- Stable Return on Equity and Capital Following the Recession

Clean Balance Sheet

- Large Cash Balance
- Low Debt Levels

Strong Cash Flow Generation

High R&D Spending Outpaces Most Competition

- CSCO is able to spend large amounts in R&D to further push technological advances
- Higher R&D often results in greater product offerings and competitive advantages

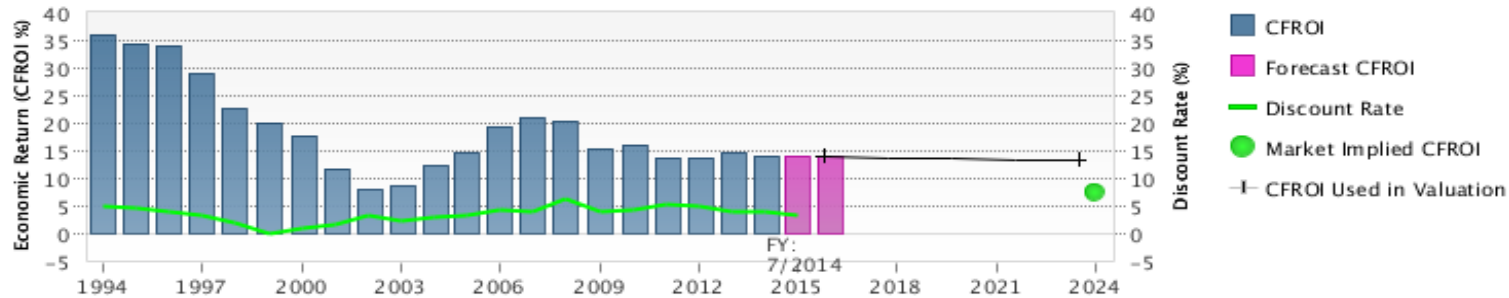
Thesis II: Diversifying Revenue Streams into New Growth Segments

Announced Date	Closed Date	Transaction Type	Target	Size (\$mm)
Jun-30-2015	-	Merger/Acquisition	OpenDNS, Inc.	635.0
Jun-24-2015	Jun-24-2015	Private Placement	Qwilt Inc.	25.0
Jun-08-2015	Jun-08-2015	Private Placement	EVERYTHNG Limited	7.5
Jun-03-2015	-	Merger/Acquisition	Piston Cloud Computing, Inc.	-
May-13-2015	-	Private Placement	MuleSoft, Inc.	128.3
May-07-2015	-	Merger/Acquisition	Tropo Inc.	-
May-01-2015	May-12-2015	Private Placement	Bit Stew Systems Inc.	17.2
Apr-17-2015	Apr-17-2015	Private Placement	Flashpoint Global Partners	5.0
Apr-07-2015	Apr-07-2015	Private Placement	One Mobikwik Systems Private Limited	25.0
Apr-01-2015	Apr-01-2015	Private Placement	HyTrust, Inc.	33.0
Apr-01-2015	Apr-13-2015	Merger/Acquisition	Embrane, Inc.	-
Mar-27-2015	Mar-27-2015	Private Placement	Innovid, Inc.	10.0
Feb-12-2015	Feb-12-2015	Private Placement	CloudVeloX, Inc.	15.0
Feb-10-2015	Feb-10-2015	Private Placement	Team8	18.0
Jan-20-2015	Jan-20-2015	Private Placement	Alchemist Accelerator	2.1
Jan-14-2015	Jan-14-2015	Merger/Acquisition	EnVerv, Inc.	-
Jan-09-2015	Jan-09-2015	Private Placement	Shanghai Ketong Information Technology Co., Ltd.	-

CSCO is actively expanding its product offerings into new opportunities in security, cloud, wireless, software, datacenters, and the Internet

- Cloud Infrastructure is the biggest growth opportunity based on the legacy business

Thesis III: Strong Record of Shareholder Value Creation



Comparable Companies Analysis

Company Name	TEV/Revenues LTM	TEV/EBITDA LTM	TEV/EBIT LTM	P/Diluted EPS LTM	TEV/Forward Revenue	TEV/Forward EBITDA	Forward P/E
					NTM	NTM	NTM
Juniper Networks, Inc.	2.2x	12.1x	15.3x	NM	2.17x	8.39x	14.51x
Arista Networks, Inc.	7.7x	33.4x	35.9x	59.5x	5.90x	23.66x	40.94x
Ciena Corporation	1.5x	17.0x	37.4x	NM	1.34x	10.49x	17.41x
F5 Networks, Inc.	4.3x	13.8x	14.8x	25.7x	3.97x	11.54x	17.81x
Brocade Communications Systems, Inc.	1.9x	7.5x	8.7x	15.6x	1.92x	7.00x	12.32x
Motorola Solutions, Inc.	2.1x	10.2x	11.9x	NM	2.10x	-	17.45x
Ruckus Wireless, Inc.	2.1x	32.6x	53.1x	128.7x	1.77x	11.27x	21.46x
Finisar Corp.	1.3x	11.7x	36.1x	163.2x	1.20x	6.90x	15.36x
Aerohive Networks, Inc.	1.8x	NM	NM	NM	1.49x	NM	NM
Palo Alto Networks, Inc.	17.4x	NM	NM	NM	12.67x	57.91x	127.66x
Cisco Systems, Inc.	2.2x	7.8x	9.4x	15.9x	2.09x	7.60x	-
Summary Statistics	TEV/Revenues LTM	TEV/EBITDA LTM	TEV/EBIT LTM	P/Diluted EPS LTM	TEV/Forward Revenue	TEV/Forward EBITDA	Forward P/E
					NTM	NTM	NTM
High	17.4x	33.4x	53.1x	163.2x	12.67x	57.91x	127.66x
Low	1.3x	7.5x	8.7x	15.6x	1.20x	6.90x	12.32x
Mean	4.2x	17.3x	26.7x	78.5x	3.45x	17.15x	31.66x
Median	2.1x	12.9x	25.6x	59.5x	2.01x	10.88x	17.45x

Risks and Catalysts

CSCO Shares Not Owned in Line with Size & Influence

- CSCO shares are not as widely held as would be suspected by the market capitalization and influence of the business
- The Street will soon realize that the “economic moat” that CSCO has created is sustainable in the future, and trading volume will increase

Management Change will be Favourable in the Long Term

- The Street is sceptical of the recent announcement of change in Management
- The ex-CEO will still be involved with the business as a Chairman to the Board, and the replacement is very familiar with the business model

Overreaction to “ Disruptive New Technology” Stocks

- Software-Defined Networking (SDN) and Network Function Virtualization (NFV) have emerged as potential threats to Cisco's high-margin hardware businesses and certainly spooked the Street
- CSCO has an opportunity to bundle a wide range of offerings, including multiple layers of networking, security, software stacks, and so on into what can effectively be turnkey private or hybrid clouds

Recommendation

Buy Cisco at Current Share Price: \$28.40

Target Price: \$35.00

23% Upside