



UConn Student Managed Fund

Cisco Systems, Inc (NYSE: CSCO)

November 23rd, 2020

Target Price: \$71.78
 Current Price: \$54.60
 Stop loss: \$43.68
 52 Week High/Low: \$41.90/\$60.27

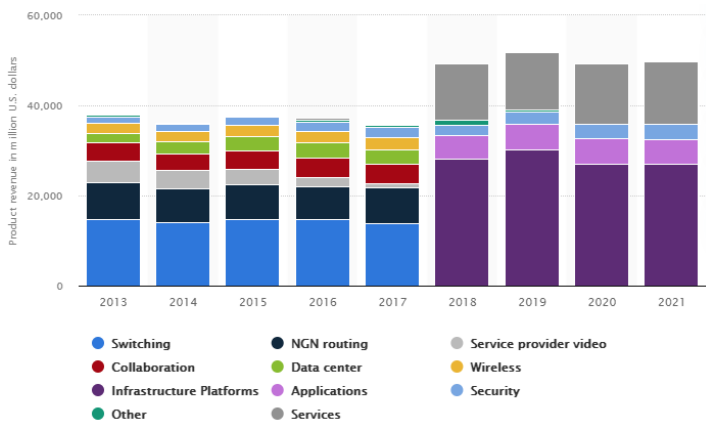
Market Cap (\$B): \$230
 Dividend Yield: 2.76
 Beta: .87
 ROE: 28.19%

P/E Ratio (TTM): 19.35
 EV/EBITDA: 13.22
 EBITDA Margin: 31.40%
 Gross Margin: 63.73%

Company Overview

Founded in December of 1984 & headquartered in San Jose, California, Cisco is a U.S. multinational technology corporation which manufactures & sells high-tech products & services, telecommunications equipment, networking software, & hardware. Cisco's goal is to integrate platforms across networks & the cloud in order to provide a highly secure, intelligent platform for its customers. Cisco's mission is to "...shape the future of the Internet by inspiring new possibilities & helping transform its clients' infrastructure, expand applications, analytics, address their security needs, & empower their teams."

Cisco is estimated to have a market cap of almost 70% of the communications equipment index. It has a number of income streams generating revenues from different segments & is well positioned to help us achieve our portfolio goal for generating alpha against the SPY. Its main segments driving growth are Infrastructure Platforms, Applications, Security & other products, & lastly Services as one can see in the graphic depicted below.

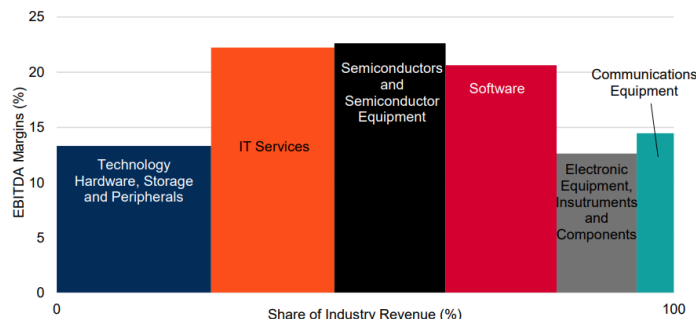


Industry Outlook

There are expected to be 5.3 billion total Internet users by 2023 and the communications hardware industry is expected to be valued at ~\$600 as of 2019. While demand on the hardware front is expected to decline in the short term, industry research is expecting there to be an increase in demand toward cloud computing, wireless usage, data center transformation to meet the hybrid cloud computing & client needs, as well as network

security. The industry overall is expected to grow in revenue by 9% due to investments in network infrastructure by service providers & enterprises that are attempting to meet a growing demand for data consumption & next generation business applications. Research also expects industry gross margins to improve to 47.5% in 2021 & 50.1% in 2022 with the major driving forces being the rapid adoption of social media content, internet video, and widespread migration toward a more virtualized network environment for many enterprises.

PROFIT SHARE MAP OF THE INFORMATION TECHNOLOGY SECTOR, 2020



Investment Thesis

- ✓ Tremendous opportunity for Cisco to capitalize on the expansion of its software & subscription services in the software industry
- ✓ Value of the software market is expected to grow from \$600B-\$800B
- ✓ Leading multinational technology firm & its worldwide installation base provides Cisco an edge to leverage economies of scale
- ✓ Cisco developed the concept of LANs & WANs which has been adopted globally giving it major brand recognition

Investment Risks

- Intense competition
- Cyber attacks
- Restructuring

Financial Performance

Breakdown	TTM	7/31/2021	7/31/2020	7/31/2019	7/31/2018
> Total Revenue	50,789,000	49,818,000	49,301,000	51,904,000	49,330,000
Cost of Revenue	18,423,000	17,924,000	17,618,000	19,238,000	18,724,000
Gross Profit	32,366,000	31,894,000	31,683,000	32,666,000	30,606,000
> Operating Expense	18,376,000	18,175,000	17,582,000	18,125,000	17,939,000
Operating Income	13,990,000	13,719,000	14,101,000	14,541,000	12,667,000
> Net Non Operating Interest Inc...	154,000	184,000	335,000	449,000	565,000
> Other Income Expense	94,000	-641,000	-466,000	-419,000	-193,000
Pretax Income	14,238,000	13,262,000	13,970,000	14,571,000	13,039,000
Tax Provision	2,841,000	2,671,000	2,756,000	2,950,000	12,929,000
> Net Income Common Stockhold...	11,397,000	10,591,000	11,214,000	11,621,000	110,000

Valuation Assumptions & Key Financials

We recommend a BUY recommendation for Cisco Systems Inc. based on a target price of \$71.78 per share. This target price reflects a 34.80% margin of safety based on its closing price of \$54.60 on November 22nd, 2021. The WACC was calculated as 5.4%, assuming a terminal growth rate of 1% and a 12.48x exit EV/EBITDA.

Perpetuity Growth Method - Value per Share	
Free Cash Flow at year 2025	13,178.31
WACC	5.40%
Perpetuity Growth Rate	1.00%
Perpetuity Value in 5 years	302,322.41
Present Value of Perpetuity (@ WACC)	241,741.90
(+) Present Value of Free Cash Flows (@ WACC)	53,798.56
(-) Current Enterprise Value	295,540.45
(-) Long Term Debt	12,694.00
(+) Cash and Marketable Securities	24,518.00
(-) Equity Value	307,364.45
(+) Dilutive Options Outstanding	500.10
Dilutive Equity Value	306,864.35
Shares outstanding	4,217.74
Estimated Value per Share (USD)	72.78
Current Price (USD)	53.25
Estimated Upside	19.51

Terminal EBITDA Method	
Terminal EBITDA at year 2025	24,456.06
WACC	5.40%
Exit Enterprise Value / EBITDA	12.48
Terminal Value in 5 years	305,211.59
Present Value of Terminal Value (@ WACC)	234,608.67
(+) Present Value of Free Cash Flows (@ WACC)	53,798.56
(-) Current Enterprise Value	288,407.22
(-) Long Term Debt	12694.00
(+) Cash and Marketable Securities	24518.00
(-) Equity Value	300231.22
(+) Dilutive Options Outstanding	500.10
Dilutive Equity Value	299,731.13
Shares outstanding	4217.74
Estimated Value per Share (USD)	71.06
Current Price (USD)	53.25
Estimated Upside	17.81

ESG Considerations

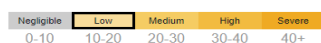
From reviewing the ESG report, Cisco has a relatively low ESG score due to the fact that there are limited material issues that would warrant a higher score.

Cisco Systems Inc

Industry Group: Technology Country: United States Identifier: NAS:CSCO
Hardware

ESG Risk Rating

11.8 Low Risk



Ranking

INDUSTRY GROUP
Technology Hardware **60** out of 580

UNIVERSE
Global Universe **404** out of 14640