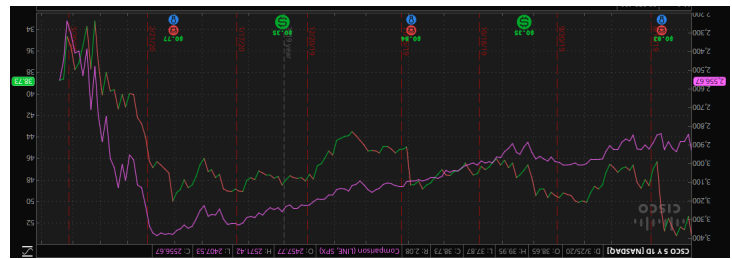


# Cisco (NYSE: CSCO)

## Sector: Information Technology

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$47.04	\$40.32	\$58.26	\$32.40	15.88	\$172.09B	3.82%	1.03

### 5-Year Share Price Performance:



### Business Description:

Cisco manufactures, services and sells networking products in the communications and technology sector. Cisco also offers services such as applications and cyber security. Cisco operates in the Americas, Europe, Middle-East, Africa, as well as Asia. The products segment Cisco offers comprises of Switches, Routers, Wireless, Network Management Interfaces and Modules, Optical Networking, Access Points, Outdoor and Industrial Access Points, Next-Generation Firewalls, Advanced Malware Protection, VPN Security Clients and Web Security.

### Industry Trends:

The industry has an overall positive outlook as the proliferation of smartphone, and overall smart-device/tablet, use has supported an increased consumption of network capacity. This has created a strong demand for increased capacity, as well as other network related services. There are also strong trends towards cloud computing, wireless, data center transformation, and increased spending on network security. It is forecasted that spending will increase for new technologies in the wireless space, such as network security and cloud computing. These are two of the areas into which Cisco is moving their business towards. Finally, a risk for the industry is the COVID-19 virus and ongoing trade war with China, as many of the products are manufactured in China, potentially causing supply chain issues.

### Investment Thesis:

Cisco continues to prove that it is a leader in innovation in the technology sector. Initially stemming from the innovation of using packet-switching technology compared to the circuit-switching existing at the time. Cisco has not lost its innovation touch and continues to acquire breakthrough companies as well as expanding into new fields. Cisco has grown into the IoT space as well as offering SaaS. We feel Cisco is going to continue to dominate in the networking industry and the market has not recognized this potential after a small earnings setback.

### Valuation Assumptions:

WACC: 10%

Perpetuity Growth Rate: 3%

Margin of Safety: 15.9%

### Competitive Advantage and Analysis:

Cisco is a trusted brand, with a strong-track record of providing comprehensive service to its customers and generating value to its shareholders. One of Cisco's biggest competitive advantage is its intangible assets. Its data analytics and intent-based networking makes them stickier with customers, as losing these resources can be detrimental to their performance. Also, there is a very high switching cost that customers would endure if they were to switch vendors, in monetary terms, time and risk. There is no reason for firms to switch vendors, as most are inherently risk averse and do not want to change enterprise wide networks. Finally, Cisco's recent shift to a subscription based business model will only further entwine them into their customer base.

### Risks:

The greatest risks facing CSCO which may negatively impact its share price include, but are not limited to:

- Hyperscale cloud offerings lead customers to bypass CSCO's hybrid cloud offerings
- Unknown future customer retention rates
- Competitors (including AWS) selling white-box switches into market, undercutting CSCO prices
- Increased competition in Security and WebEx markets

### Corporate Social Responsibility Highlights:

- 63% diversity among top management team
- Reduce total Cisco GHG emissions worldwide by 60 percent absolute by FY22
- 100% of electricity used at North American facilities is generated from renewable energy sources

### Report Prepared By:

Andrew Willard and Evan Cybart on March 30, 2020

Sources: Bloomberg, S&P, Value Line, HII 10-K