



CISCO

NOT So Risky Business

HISTORY

1984 - Founded in California

1986 - Shipped first multi-protocol router

1990 - Launched IPO: traded on NASDAQ

2006 - Launched “The Human Network “

2012 - Reorganized business into 3 geographic regions

2014 - Entering the cloud market

MISSION

Solve customers' most important business challenges by delivering intelligent networks and technology architectures built on integrated products, services, and software platforms

WHAT DOES CISCO DO?

Designs, manufactures networking equipment

Help organizations utilize resources more effectively through networking

Overcome limitations inherent in basic technology of local and wide area networking protocols

CUSTOMERS AND MARKETS

Enterprise

Service Providers

Commercial

Public Sector

ENTERPRISE

Large regional, national, or global organizations

Often employ >1000 employees

Offer service and support packages, financing, and managed network services

Sold through 3rd party application and technology vendors

SERVICE PROVIDERS

Regional, national, and international wireline, internet, cable, and wireless providers

Offer routing and switching, optical, security, video, mobility, and network management products, systems, and services for their own networks

COMMERCIAL

Smaller companies with <1000 employees

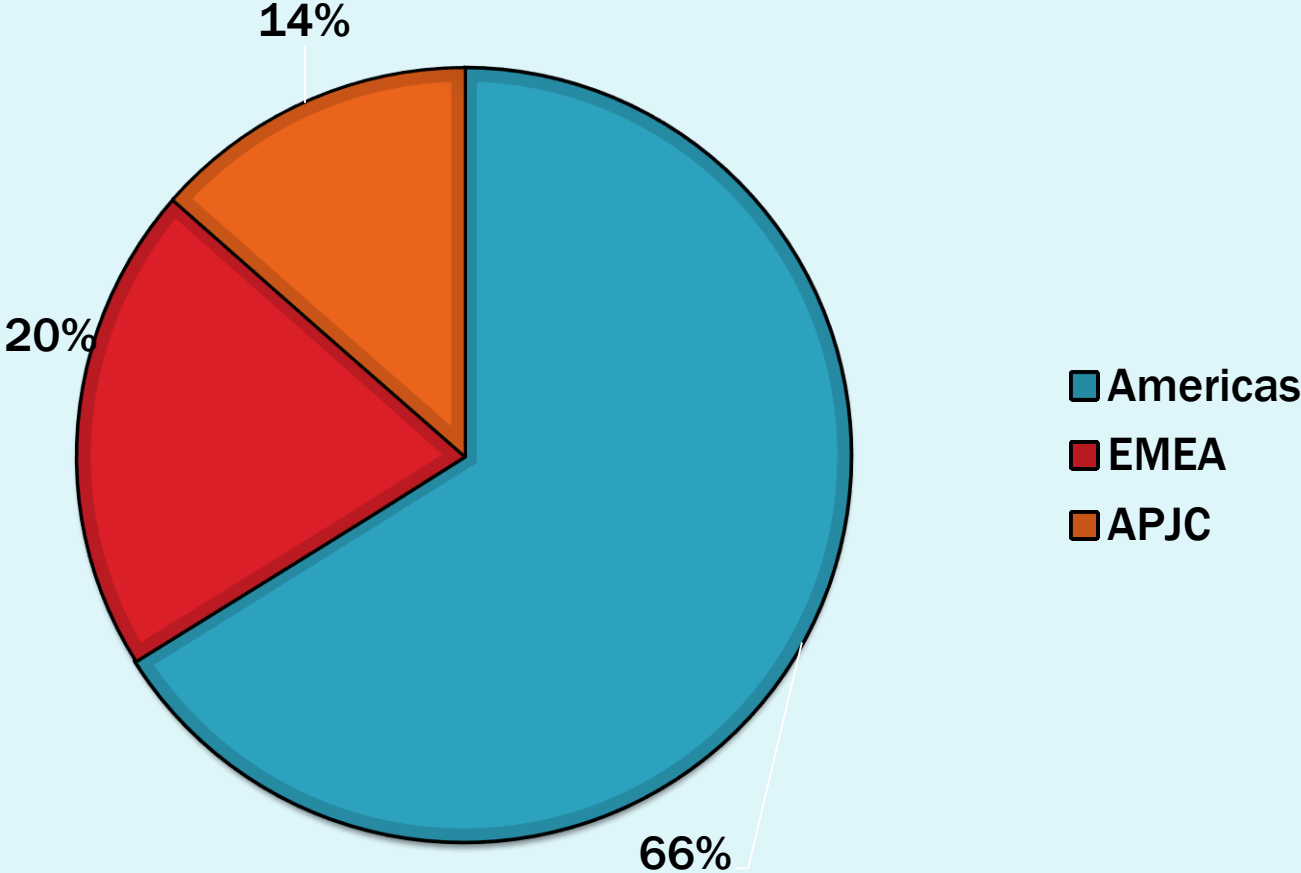
Require same technologies as enterprise customers but less complex and at a smaller scale

PUBLIC SECTOR

Federal, state, and local governments, and educational institutions.

Require unique IT, collaboration, and networking needs within a multivendor environment

SERVICE REVENUE BY SEGMENT (2013)



REVENUE BY GEOGRAPHY

Americas

\$7.35B

7% Y/Y

EMEA

\$3.14B

12% Y/Y

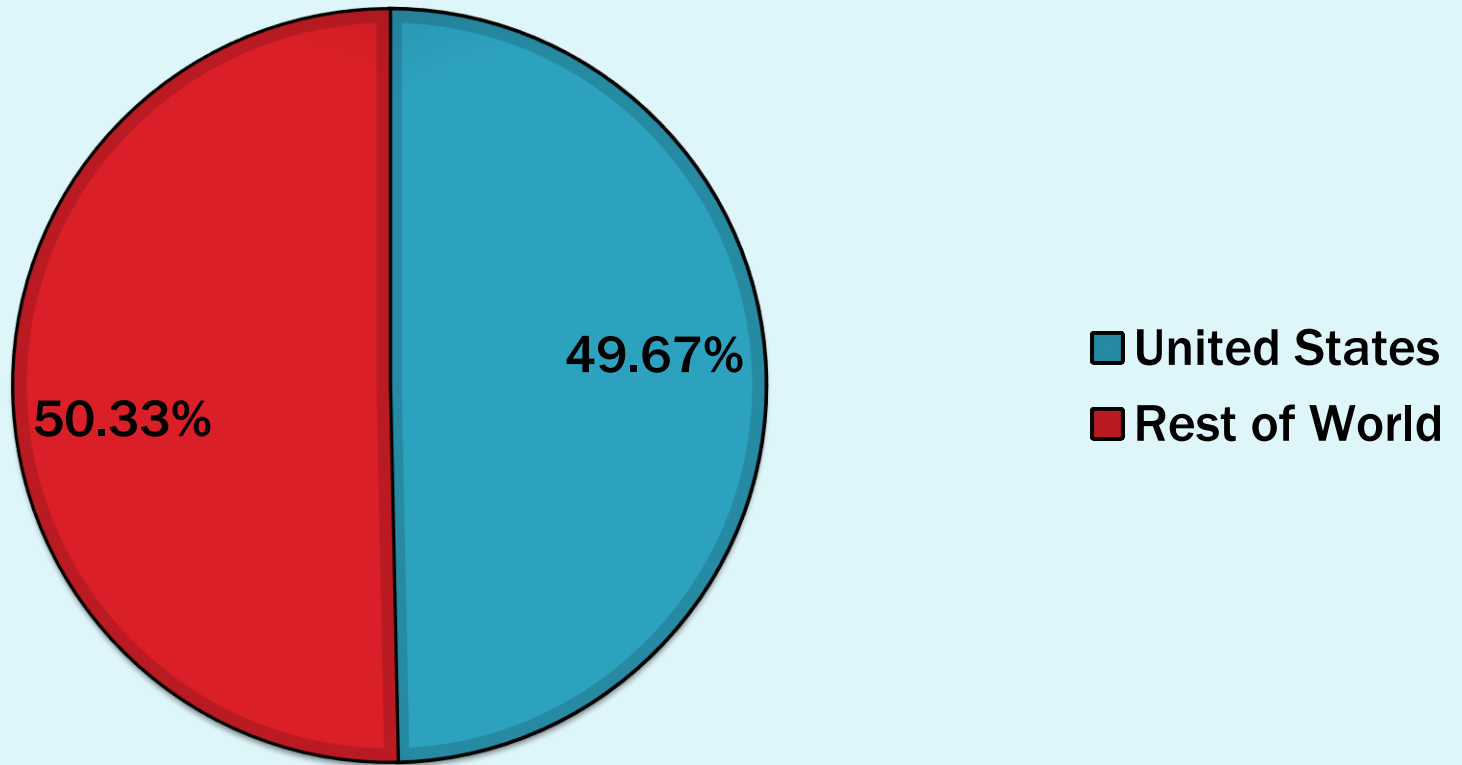
APJC

\$1.92B

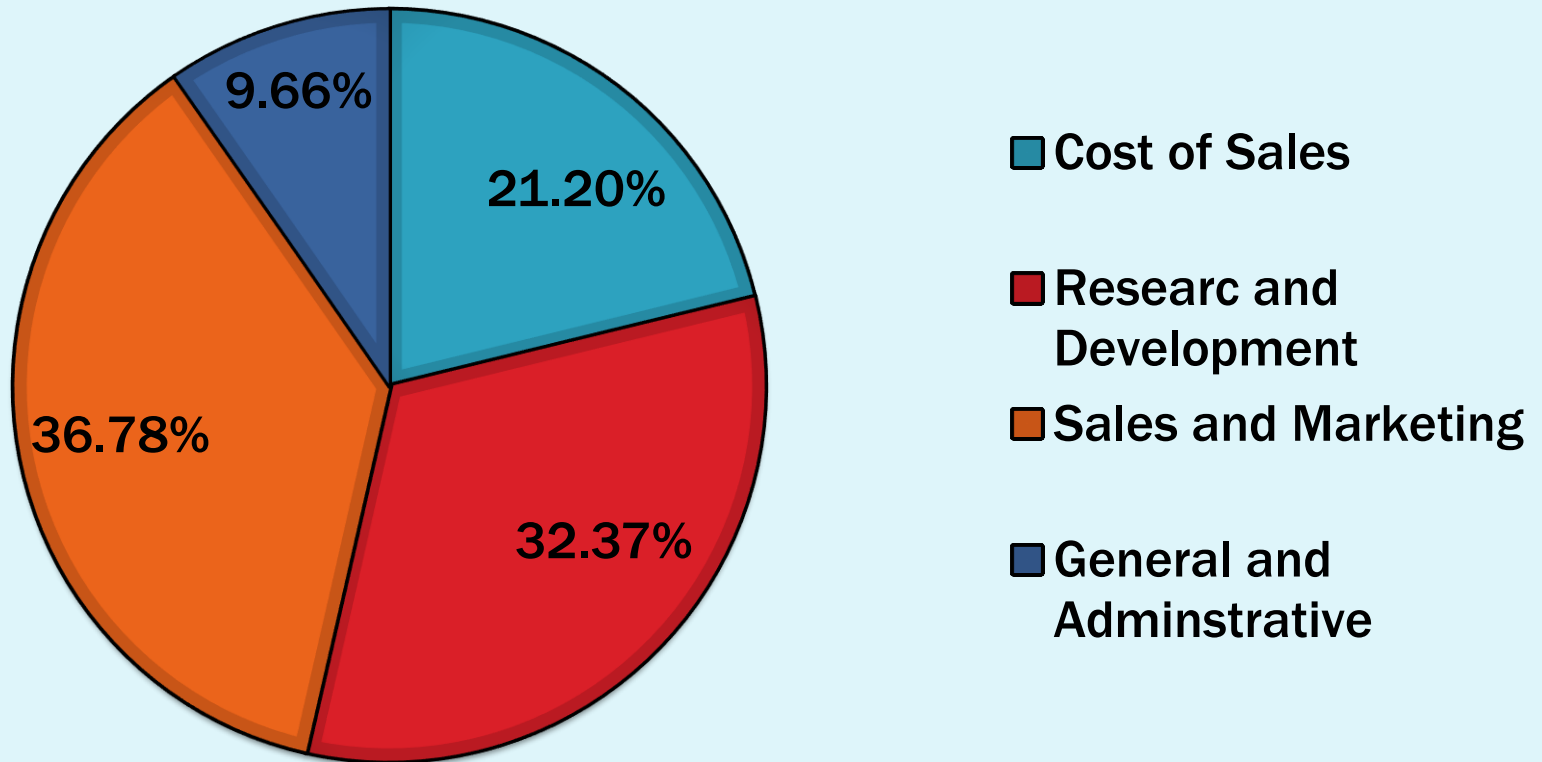
-3% Y/Y

Total \$12.417B | 6% Y/Y

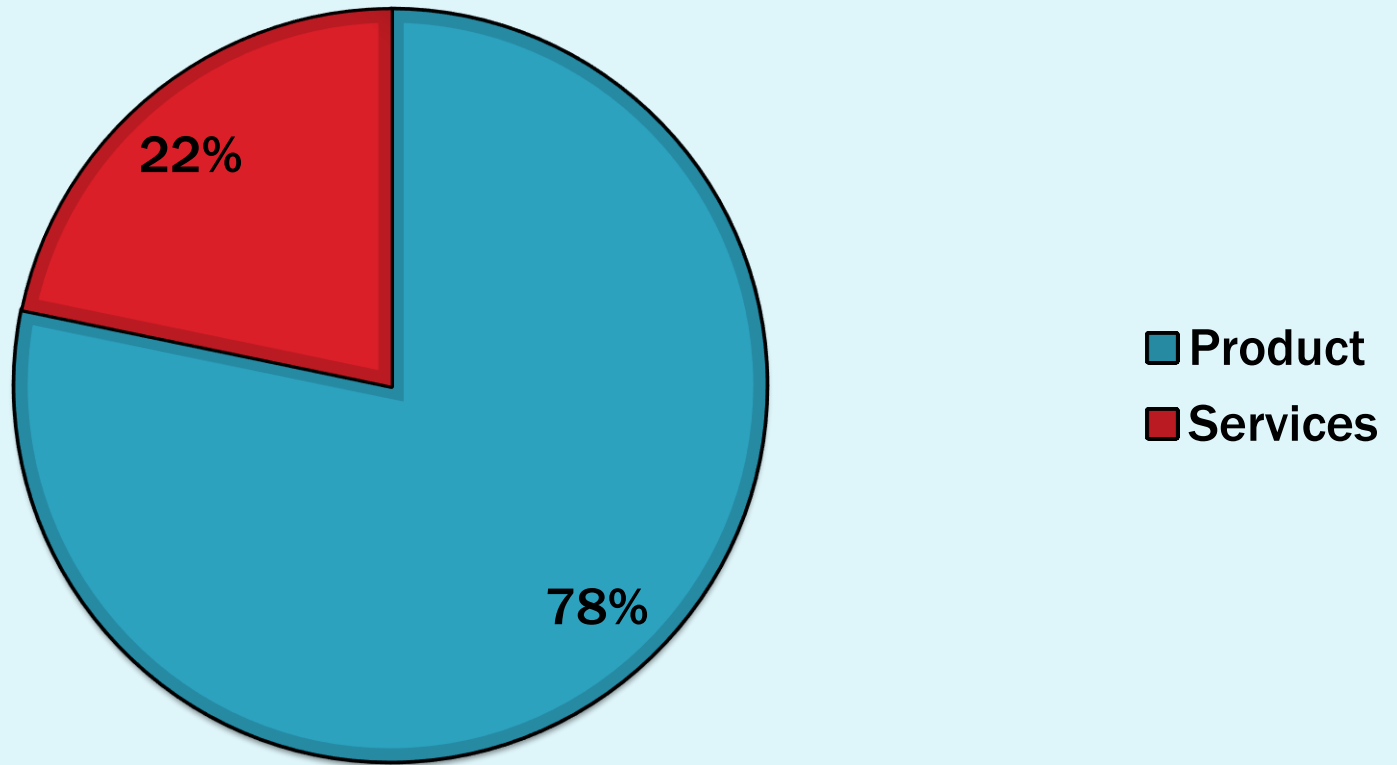
EMPLOYEES BY GEOGRAPHY



EMPLOYEES BY SEGMENT



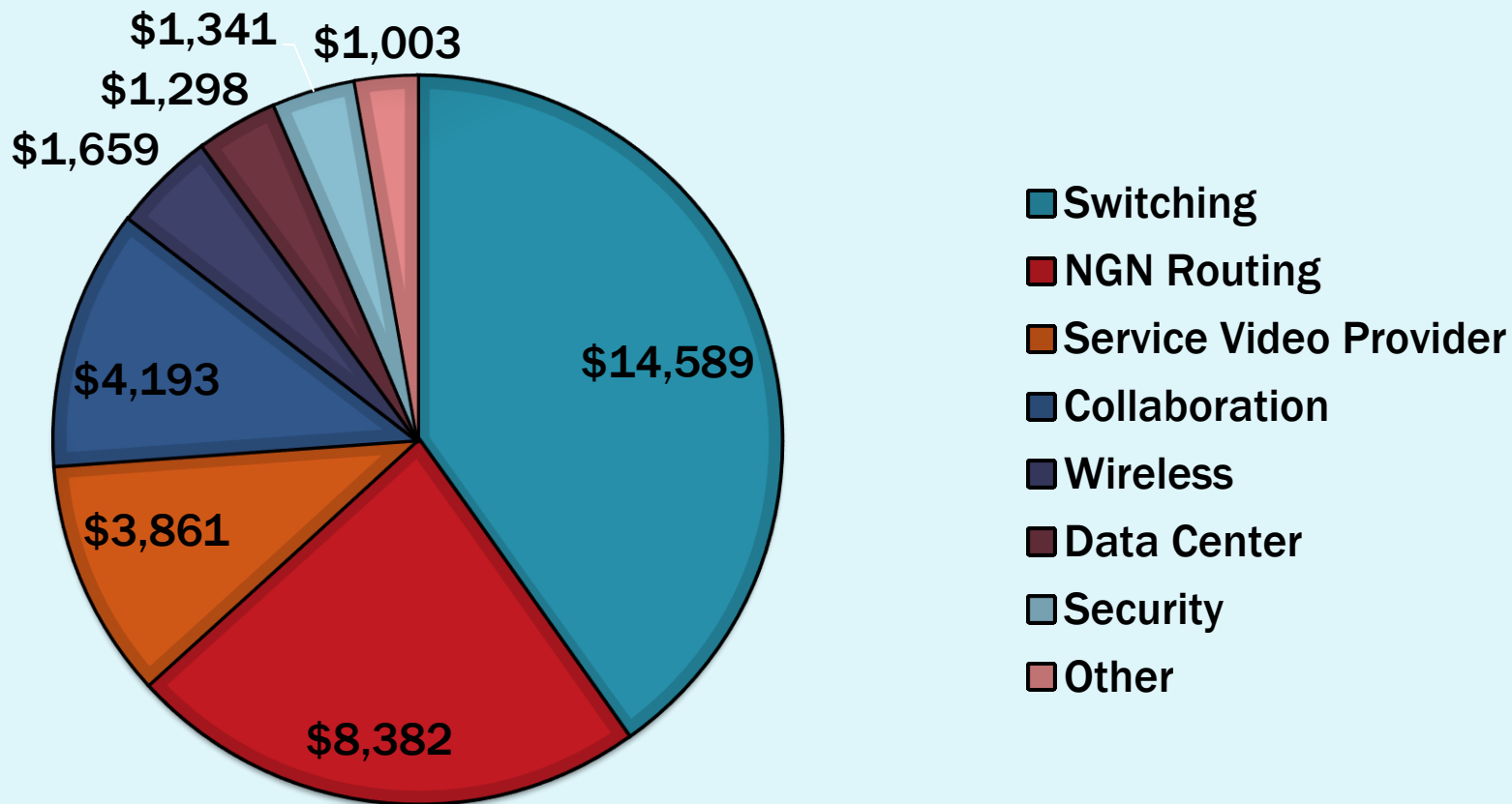
TOTAL REVENUE: \$48,607 MILLION



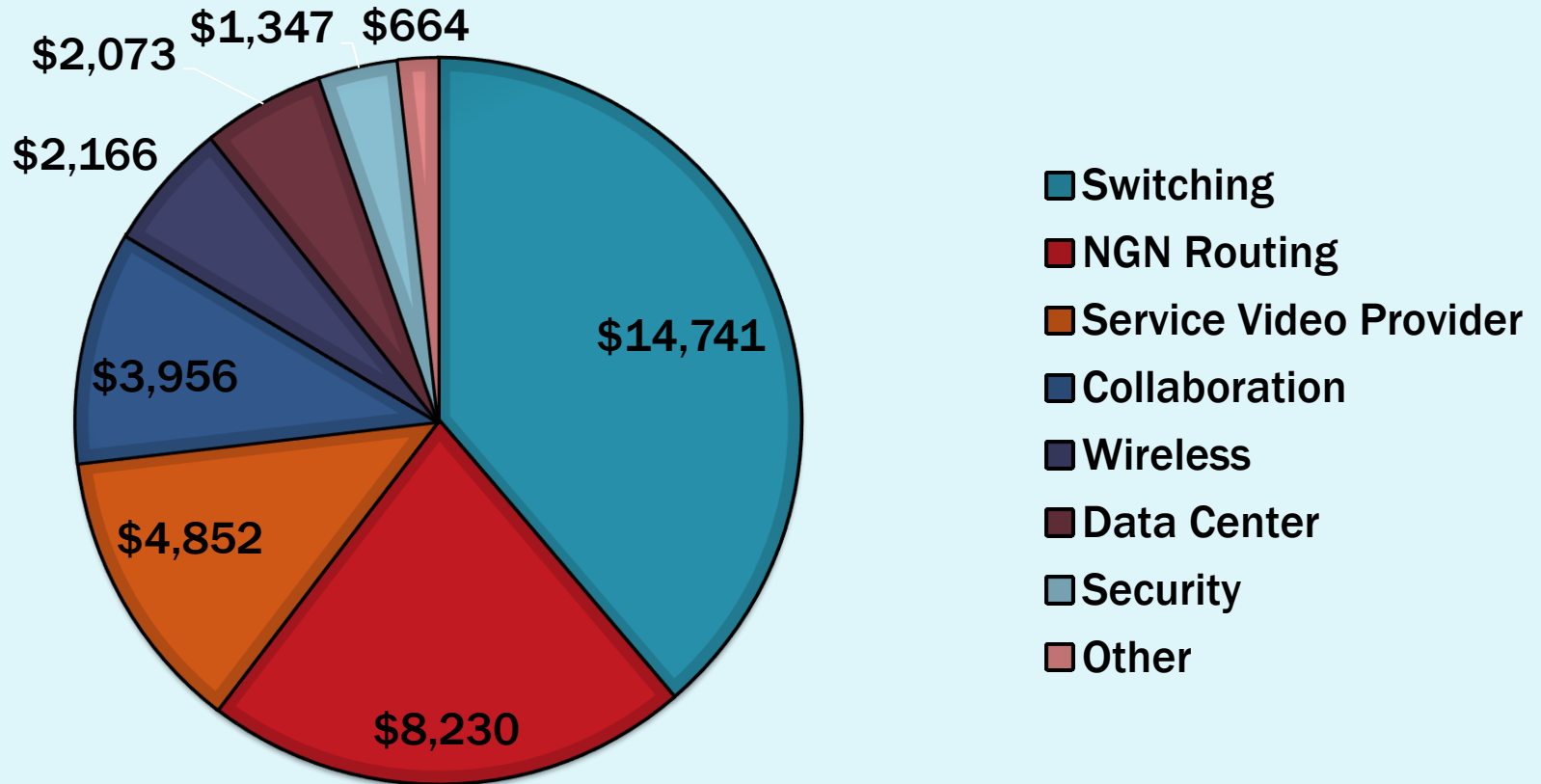
PRODUCT & SERVICES

- **Switching**
- **NGN Routing**
- **Service Provider Video**
- **Collaboration**
- **Wireless**
- **Data Center**
- **Security**
- **Other Products and Services**

BREAKDOWN OF PRODUCT REVENUE 2012 (IN MILLIONS)



BREAKDOWN OF PRODUCT REVENUE 2013 (IN MILLIONS)



SWITCHING

Integral networking technology

Offer many forms of connectivity to end users, workstations, IP phones, access points, and servers and also function as aggregators on LANs and WANs.

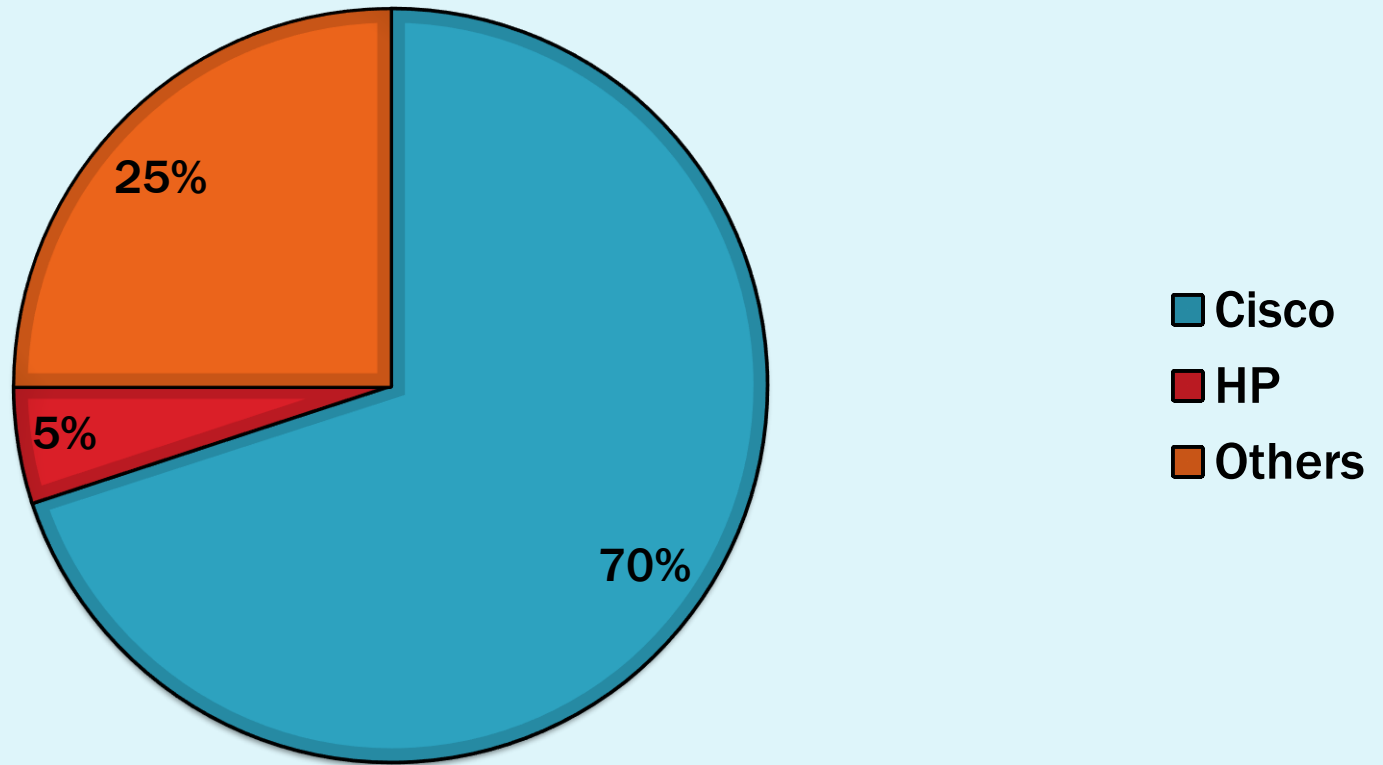
Kinds of Switches

Fixed-configuration switches

Modular switches

Storage

SWITCHING MARKET: DOMINATION



NGN ROUTING

Technologies interconnects public and private wireline and mobile networks for mobile, data, voice, and video applications

High-End Routers

- Cisco Aggregation Services Routers (ASRs)

- Cisco Carrier Routing Systems (CRS)

Midrange and Low-End Routers

- Cisco Integrated Services Routers (ISRs)

Other NGN Routing

- Optical networking products

- Other routing products

SERVICE PROVIDER VIDEO

Enable service providers and content originators to deliver entertainment, information, and communication services

Service Provider Video Infrastructure

Video Software and Solutions

COLLABORATION

integrates voice, video, data, and mobile applications on fixed and mobile networks across a wide range of devices and endpoints

Unified Communications:

IP phones

Call center and messaging products

Unified communications infrastructure products

Web-based collaborative offerings (“WebEx”)

WIRELESS

Include wireless access points; standalone, switch-converged, and cloud managed solutions; and network managed services

Provide simplified management and mobile device troubleshooting features

Reduce operational cost and maximize flexibility and reliability

Customized chipset development to deliver innovative radio frequency (RF)

Key Products

Cisco Aironet Series

Access point modules for 3600 Series (802.11ac, 3G, WSSI)

Controllers (standalone and integrated)

Meraki wireless cloud solutions

DATA CENTER

Fastest growing major product category for the past three fiscal years

Unites computing, networking, storage, management, and virtualization

Key Products

Cisco Unified Computing System (UCS):

- Cisco UCS B-Series Blade Servers
- Cisco UCS C-Series Rack Servers
- Cisco UCS Fabric Interconnects
- Cisco UCS Manager and Cisco UCS Central Software
- Cisco UCS Director

Server Access Virtualization:

- Cisco Nexus 1000V
- Cisco Nexus 1000V InterCloud

SECURITY

Identity, network, and content security solutions

Firewall, intrusion prevention, remote access, virtual private networks (VPNs), unified clients, network admission control, web gateways, and email gateways

AnyConnect Secure Mobility Client solution enables users to access networks with their mobile device of choice, such as laptops and smartphone-based mobile devices

DEFERRED REVENUES IN MILLIONS

Service	\$9,403
Product	\$4,020
Total	\$13,423

RISK FACTORS

Ability to provide broad range of products/services

Product Performance

Price

Market Presence

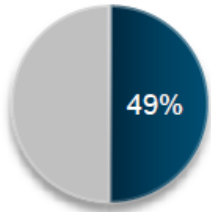
Ability to introduce new products

Ability to provide value-added

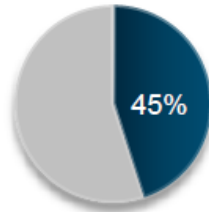
Ability to provide financing

MARKET LEADERSHIP

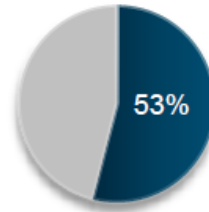
No. 1
Routing
Edge/Core/Access



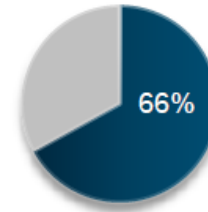
No. 1
TelePresence



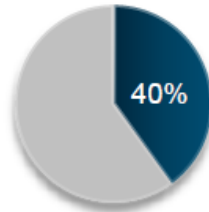
No. 1
Wireless LAN



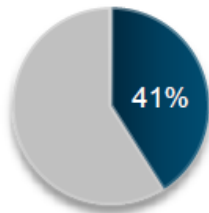
No. 1
Switching
Modular/Fixed



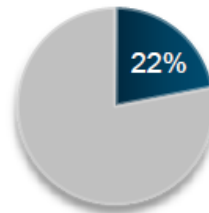
No. 1
Voice



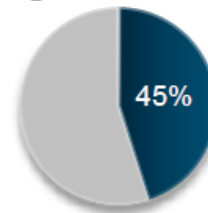
No. 1
Web Conferencing



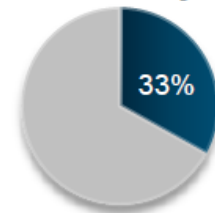
No. 2
x86 Blade Servers



No. 2
Storage Area Networks

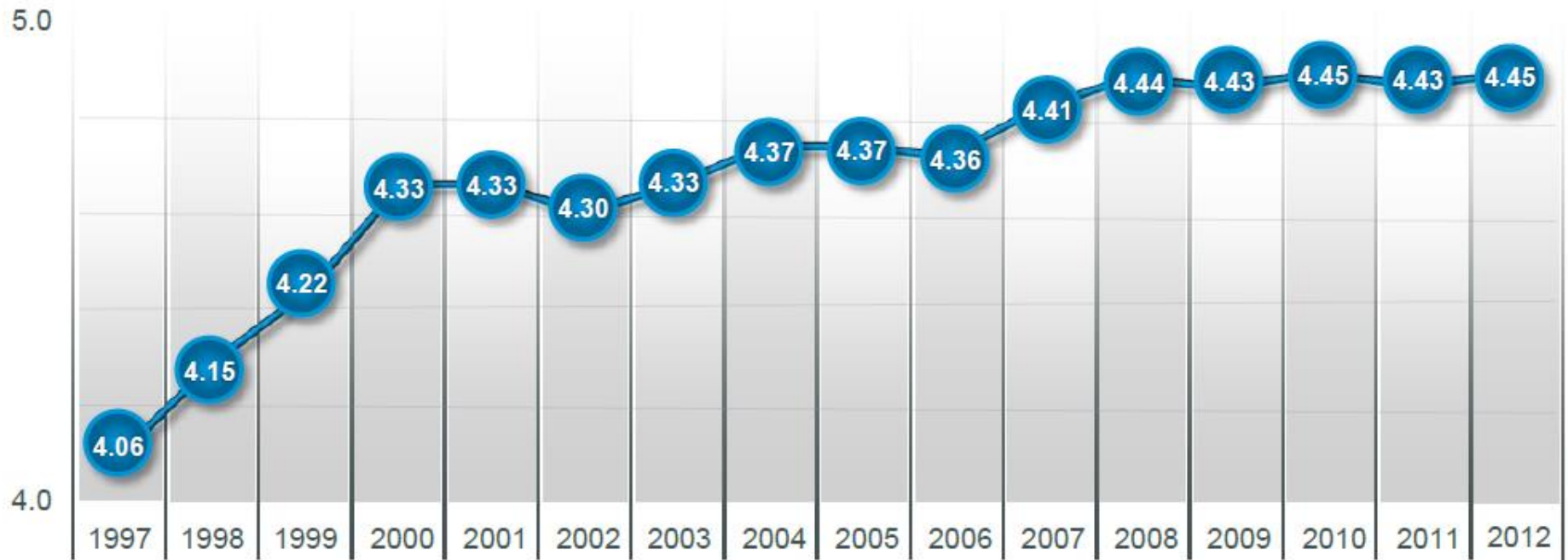


No. 1
Security



Breadth and Depth of Technology Portfolio

CUSTOMER SATISFACTION



THE INTERNET OF EVERYTHING



99% of the World is
Still Not Connected



FINANCIALS

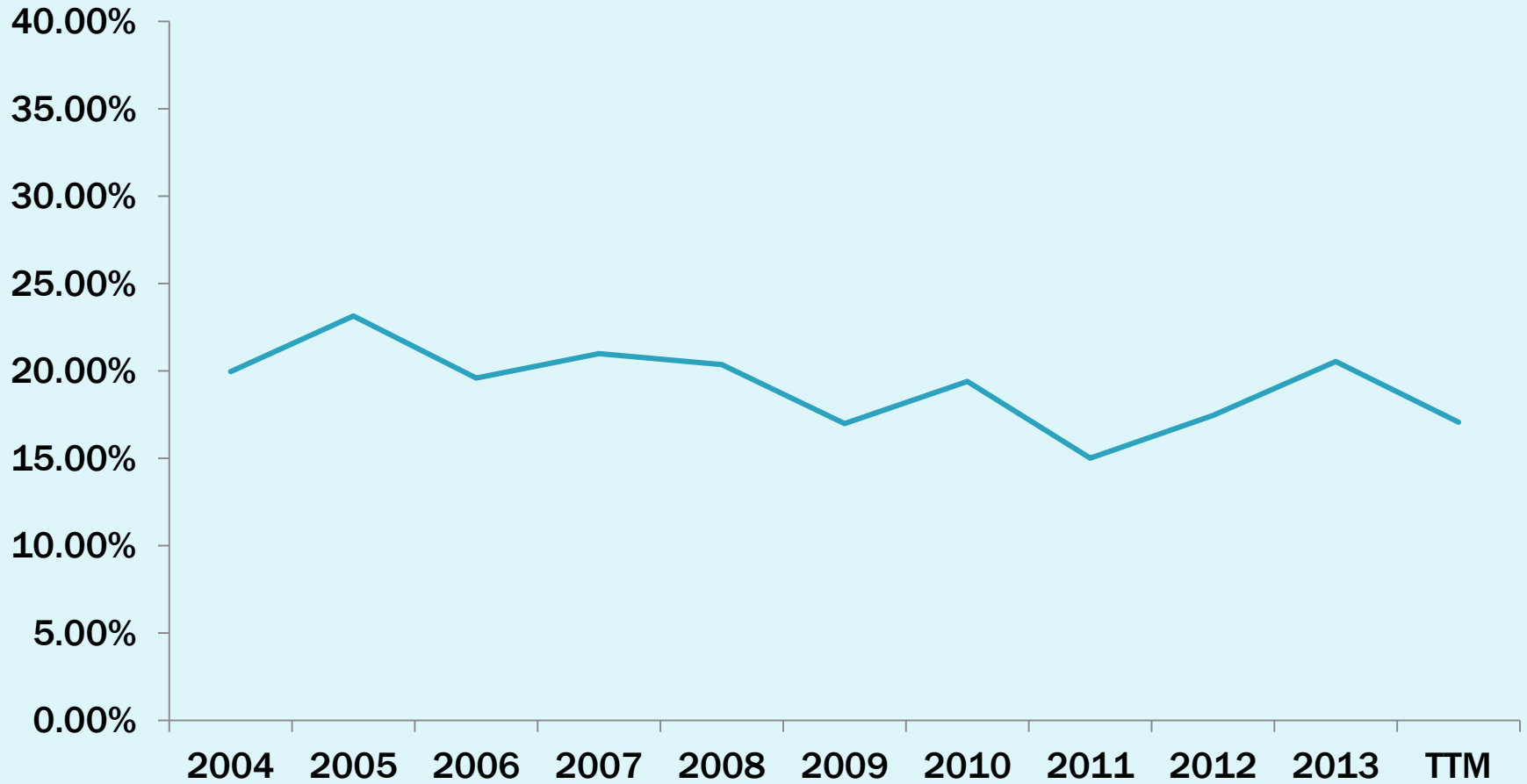
BUFFETTOLOGY

	Metric	Threshold	Pass?
Gross Profit Margin	58.94%	$\geq 20\%$	Yes
SGA % of GP	40.79%	$\leq 80\%$	Yes
R&D % of GP	21.96%	$\leq 10\%$	No
DD%A of GP	8.26%	$\leq 10\%$	Yes
Interest % of GP	5.71%	$\leq 15\%$	Yes
Net Profit Margin	17.07%	$\geq 10\%$	Yes

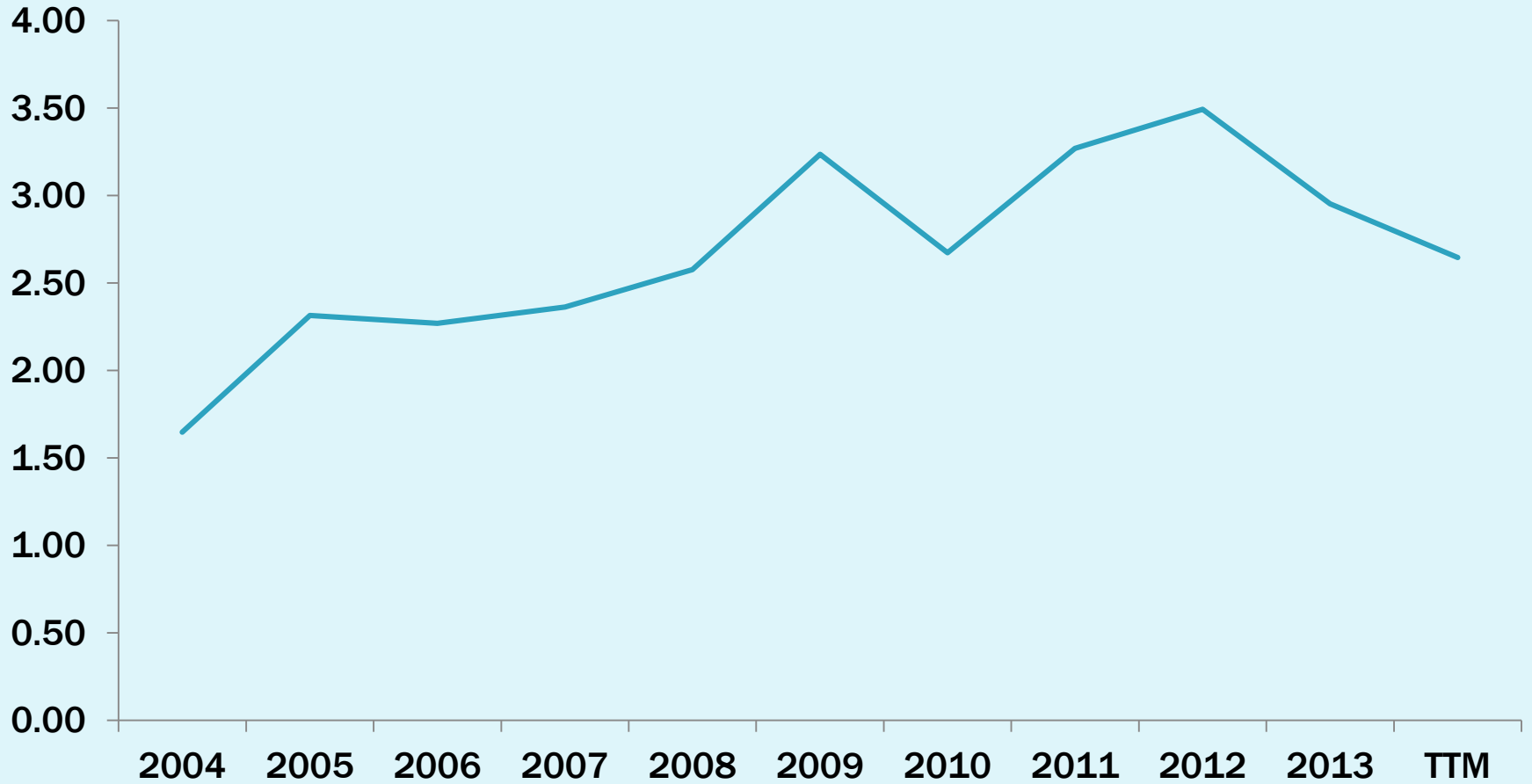
BUFFETTOLOGY

	Metric	Threshold	Pass?
Current Ratio	2.65	≥ 1	Yes
Obligation Ratio	1.52	< 5 years	Yes
Adj. Debt to Shareholders	0.76	< 0.8	Yes
Return on Equity	14.58%	$\geq 15\%$	No
Return on Capital	11.94%	$\geq 15\%$	No
CAPEX % of NP	14.50%	$\leq 25\%$	Yes
Dividend Payout Ratio	44.45%	$\leq 60\%$	Yes

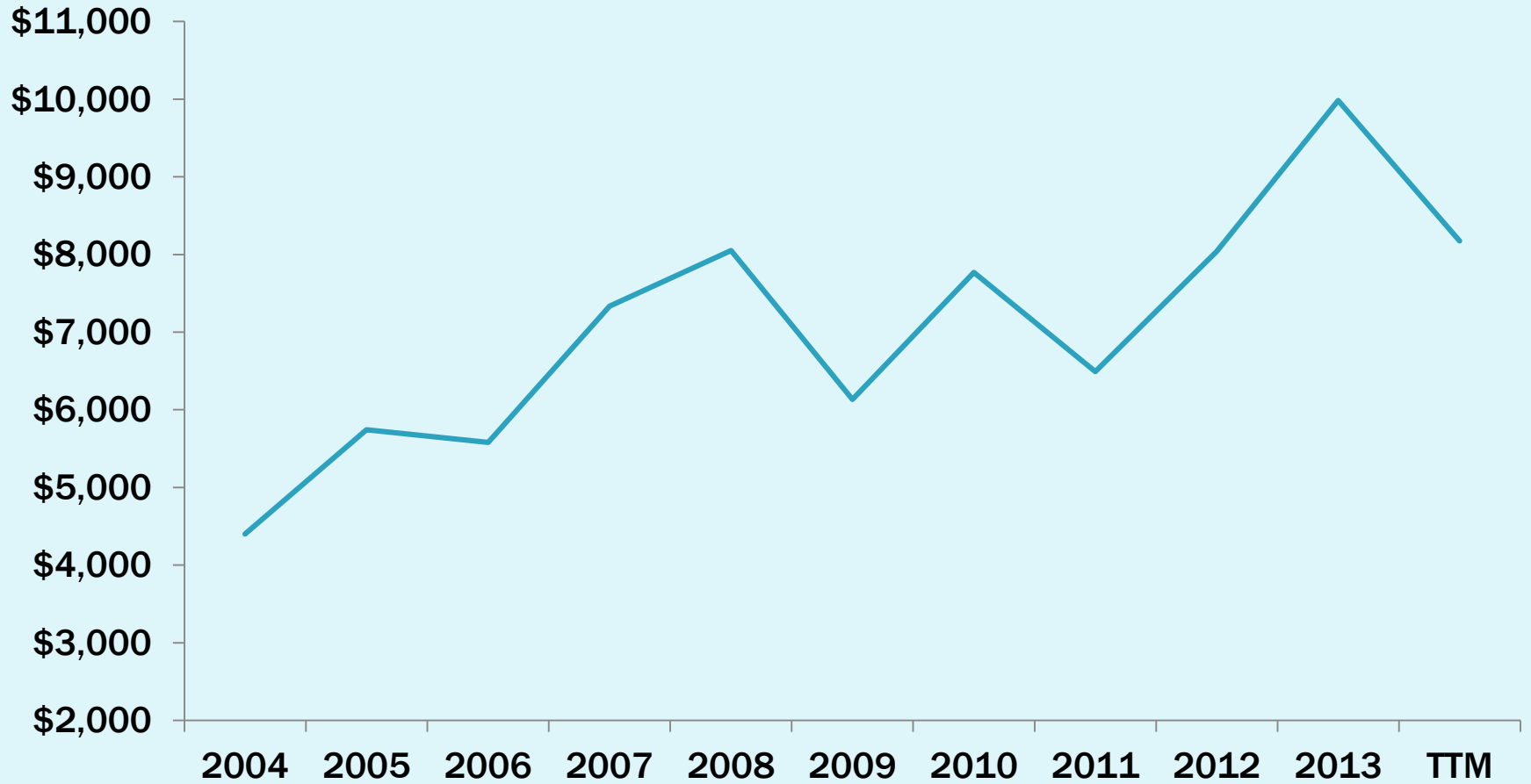
NET PROFIT MARGIN



CURRENT RATIO



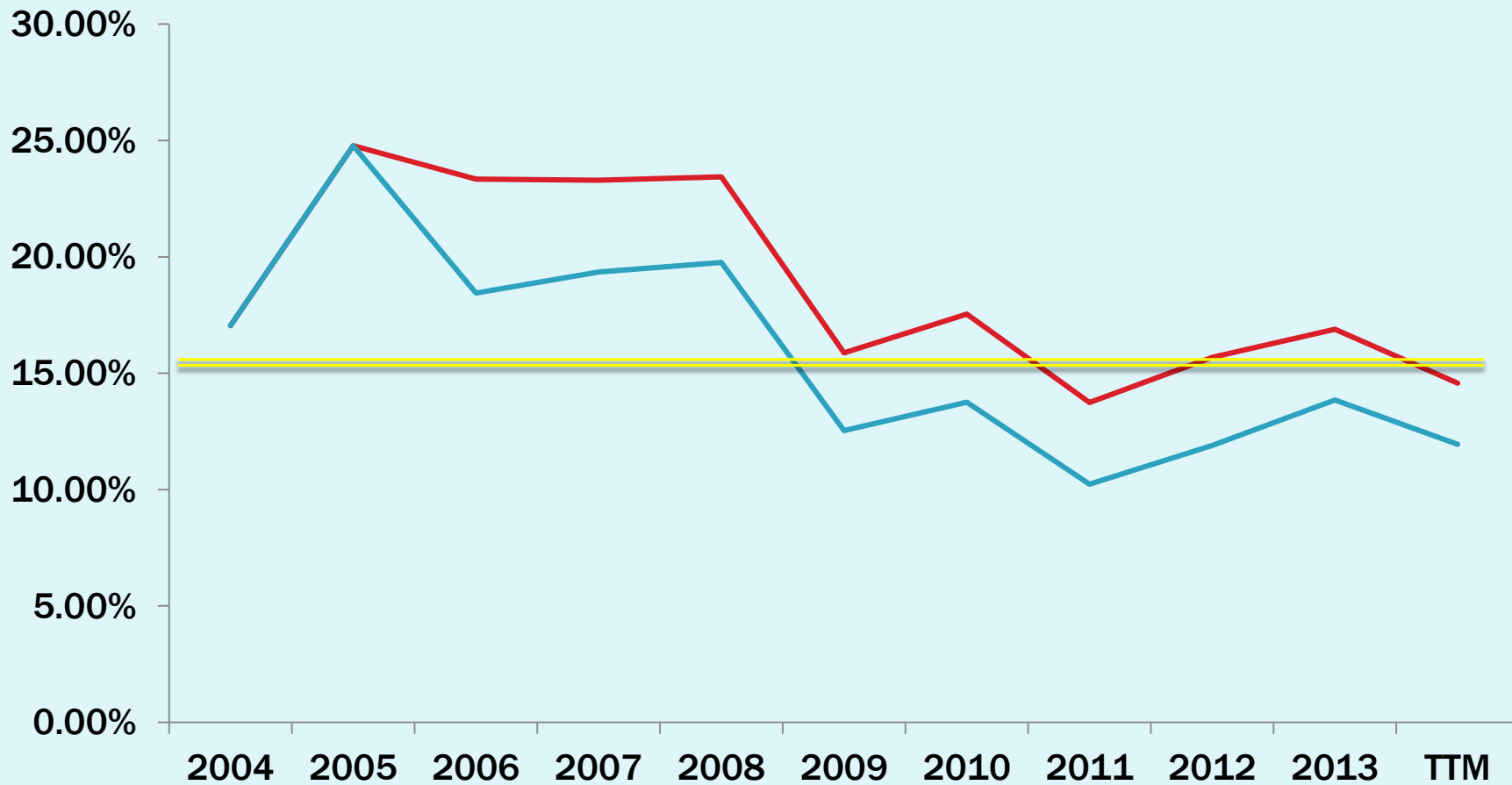
NET INCOME



DUPONT

	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity
2011	15.02%	.50	1.84	13.85%
2012	17.46%	.50	1.79	15.62%
2013	20.54%	.48	1.71	16.87%
TTM	17.07%	.49	1.76	14.58%

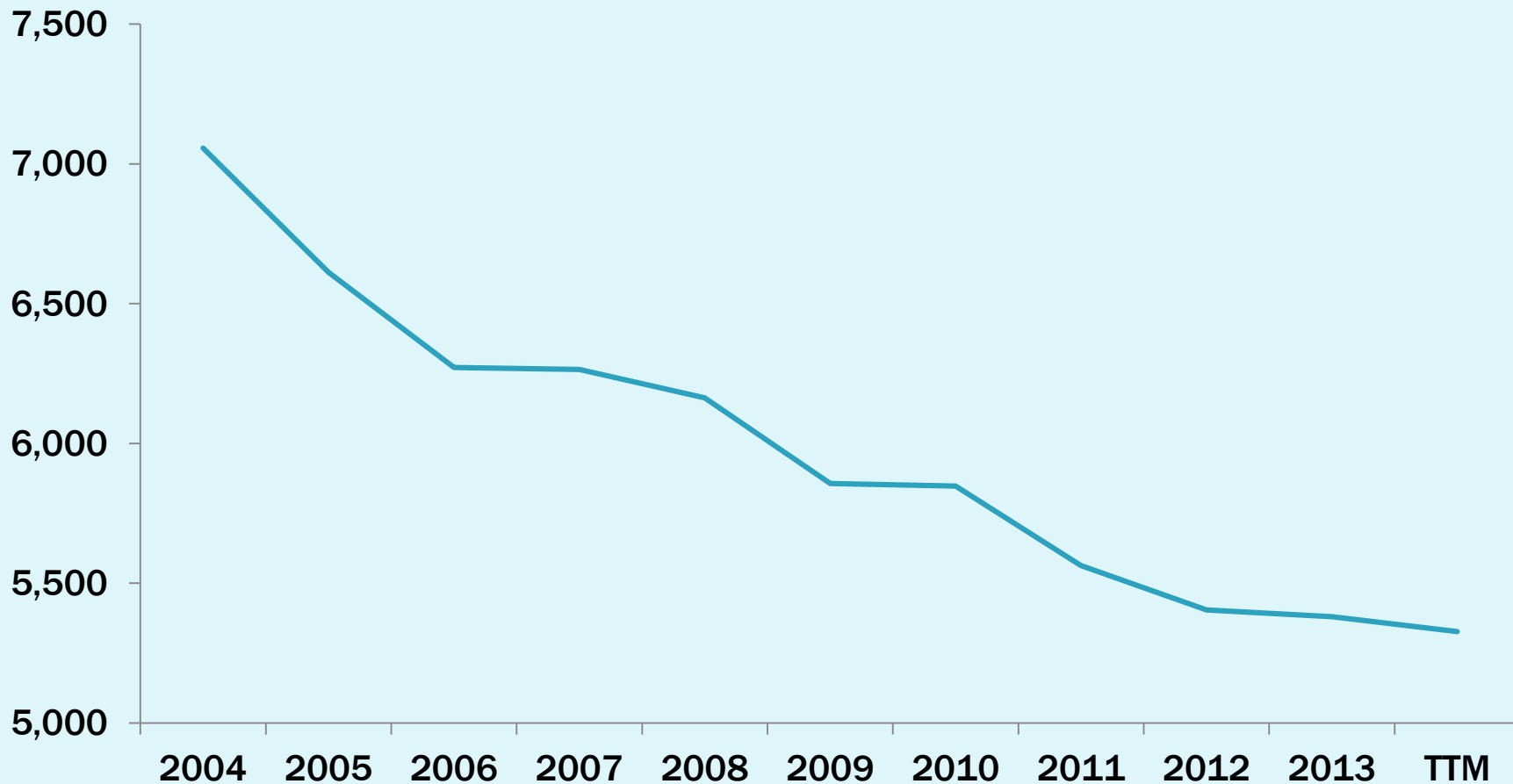
RETURN ON EQUITY & CAPITAL



SHARE BUYBACKS

As of July 27, 2013 the Board of Directors had authorized the repurchase of up to \$82 billion of common stock

TOTAL SHARES OUTSTANDING (IN MILLIONS)



GuruFocus

**Predictability:
3.5 out of 5**

**Number of Gurus holding:
18**

Value Line

Financial Strength: A++

**Earnings Predictability:
85**

Stock Price Stability: 70

DISCOUNTED CASH FLOWS – 10 YEAR EPS GROWTH

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?



DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 15.99 ?

Terminal Value: \$ 9.56 ?

= Fair Value: \$ 31 ?

Margin Of Safety: 26%

Financial Data of Cisco Systems Inc

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	11.90	10.30	0.90
EBITDA Growth (%)	9.30	11.50	-6.60
EBIT Growth (%)	7.80	12.60	-6.60
Earning Growth (%)	8.90	13.40	-12.60
Free Cash Flow Growth (%)	8.80	9.70	6.00
Book Value Growth (%)	14.10	12.80	3.50

DISCOUNTED CASH FLOWS – SLOWEST FCF GROWTH

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?



DCF Reverse DCF **NEW**

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 13.91 ?

Terminal Value: \$ 7.3 ?

= Fair Value: \$ 26.66 ?

Margin Of Safety: 14%

Financial Data of Cisco Systems Inc

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	11.90	10.30	0.90
EBITDA Growth (%)	9.30	11.50	-6.60
EBIT Growth (%)	7.80	12.60	-6.60
Earning Growth (%)	8.90	13.40	-12.60
Free Cash Flow Growth (%)	8.80	9.70	6.00
Book Value Growth (%)	14.10	12.80	3.50

DISCOUNTED CASH FLOW - BREAKEVEN

DCF

Reverse DCF NEW ↵

= Growth Rate: 3.01%



Revenue Growth Rate: 11.90%(10y) 10.30%(5y) 0.90%(1y)



EBITDA Growth Rate: 9.30%(10y) 11.50%(5y) -6.60%(1y)



Earnings Growth Rate: 8.90%(10y) 13.40%(5y) -12.60%(1y)



Free Cash Flow Growth Rate: 8.80%(10y) 9.70%(5y) 6.00%(1y)



Book Value Growth Rate: 14.10%(10y) 12.80%(5y) 3.50%(1y)



CONSCIOUS INVESTOR

3 YEAR DEFAULT

Earnings Per Share Growth	26.09%
EPS Growth Stability	99.76%
Sales Per Share Growth	6.26%
Sales Growth Stability	99.44%

Price	\$ 23.00
Earnings Per Share (TTM)	\$ 1.51
Price to Earnings Ratio	13.85
Growth Rate	26.09%
Payout	16.00%
Return per year	25.14%

6 YEAR DEFAULT

Earnings Per Share Growth	8.15%
EPS Growth Stability	86.09%
Sales Per Share Growth	7.85%
Sales Growth Stability	96.14%

Price	\$ 23.00
Earnings Per Share (TTM)	\$ 1.51
Price to Earnings Ratio	13.85
Growth Rate	8.15%
Payout	16.00%
Return per year	7.34%

TESTING CAPACITY TO SUFFER

Earnings Per Share Growth	26.09%
EPS Growth Stability	99.76%
Sales Per Share Growth	6.26%
Sales Growth Stability	99.44%

Price	\$ 23.00
Earnings Per Share (TTM)	\$ 1.51
Price to Earnings Ratio	12.63
Growth Rate	6.36%
Payout	16.00%
Return per year	3.75%

TESTING CAPACITY TO FURTHER SUFFER

Earnings Per Share Growth	26.09%
EPS Growth Stability	99.76%
Sales Per Share Growth	6.26%
Sales Growth Stability	99.44%

Price	\$ 23.00
Earnings Per Share (TTM)	\$ 1.51
Price to Earnings Ratio	11.5
Growth Rate	6%
Payout	16.00%
Return per year	1.6%

BREAKEVEN

Earnings Per Share Growth	26.09%
EPS Growth Stability	99.76%
Sales Per Share Growth	6.26%
Sales Growth Stability	99.44%

Price	\$ 23.00
Earnings Per Share (TTM)	\$ 1.51
Price to Earnings Ratio	11
Growth Rate	5%
Payout	16.00%
Return per year	-0.19%

INTRA – PORTFOLIO VALUATIONS

PRICE TO EARNINGS GROWTH

Company	▲ PEG Forward
Berkshire Hathaway	-
World Acceptance	0.6
Best Buy	0.8
Advance Auto Parts	1.0
American International	1.1
IBM	1.2
Oracle	1.3
Walgreens	1.3
Bed Bath & Beyond	1.3
Cisco Systems	1.4
Lorillard	1.5
Microsoft	1.7
CH Robinson Worldwide	1.8
Wal-Mart Stores	1.8
Becton Dickinson	2.0
Medtronic	2.4
PepsiCo	2.6
Coca-Cola	2.9
Nestle	5.8

PRICE TO EARNINGS GROWTH

Company	▲ Price / Earnings
American International	8.5
World Acceptance	9.1
Best Buy	12.3
IBM	12.7
Bed Bath & Beyond	12.8
Microsoft	14.8
Cisco Systems	15.2
Berkshire Hathaway	15.3
Wal-Mart Stores	16.2
Oracle	16.5
Medtronic	16.5
Lorillard	17.8
PepsiCo	19.3
CH Robinson Worldwide	21.3
Nestle	21.4
Coca-Cola	21.6
Advance Auto Parts	22.6
Walgreens	23.4
Becton Dickinson	23.6

PRICE TO BOOK

Company	Price / Book
Lorillard	-
American International	0.8
Berkshire Hathaway	1.3
Cisco Systems	2.1
Best Buy	2.1
World Acceptance	2.6
Medtronic	3.0
Walgreens	3.1
Bed Bath & Beyond	3.2
Wal-Mart Stores	3.3
Nestle	3.3
Microsoft	3.9
Oracle	3.9
Becton Dickinson	4.3
PepsiCo	4.4
Coca-Cola	5.5
Advance Auto Parts	5.8
IBM	8.7
CH Robinson Worldwide	8.9

ENTERPRISE VALUE TO EBITDA

Company	EV / EBITDA
Best Buy	4.7
Bed Bath & Beyond	7.0
Cisco Systems	7.5
Microsoft	8.3
World Acceptance	8.4
American International	9.2
Oracle	9.4
Wal-Mart Stores	9.7
IBM	10.2
Lorillard	10.5
Medtronic	11.1
Advance Auto Parts	11.3
Berkshire Hathaway	11.3
CH Robinson Worldwide	13.0
Walgreens	13.1
PepsiCo	13.8
Nestle	14.9
Becton Dickinson	15.0
Coca-Cola	17.2

INDUSTRY COMPARISON

Company	Cisco Systems Inc	Qualcomm Inc	Hewlett-Packard Co	Nokia Oyj
Number of Guru Holders	18	12	14	1
Market Value (mil)	\$118,479	\$130,996	\$59,848	\$27,226
Revenue (mil)	\$48,607	\$24,866	\$112,298	\$17,651
P/E(ttm)	15.20	19.40	11.60	0
P/S	2.59	5.24	0.55	1.02
P/B	2.13	3.42	2.16	2.96
Yield (%)	3.04	1.80	1.84	2
ROA (%)	9.87	15.06	4.84	-10.35
ROE (%)	16.88	18.99	18.75	-39.11
Operating Margin (%)	23.03	29.08	6.35	-7.62
Net Margin (%)	20.54	27.56	4.55	-10.29

DEBT STRUCTURE

Interest Rate	Amount	Due on
Float- Rate	\$ 1,250.00	2014
1.63%	\$ 2,000.00	2014
2.90%	\$ 500.00	2014
5.50%	\$ 3,000.00	2016
3.15%	\$ 750.00	2017
4.95%	\$ 2,000.00	2019
4.45%	\$ 2,500.00	2020
5.90%	\$ 2,000.00	2039
5.50%	\$ 2,000.00	2040

DEBT DUE BY 2020

Amount Due	\$ 12,000.00
Net Income in 2014	\$ 10,866.00

NEGATIVE HEADLINES

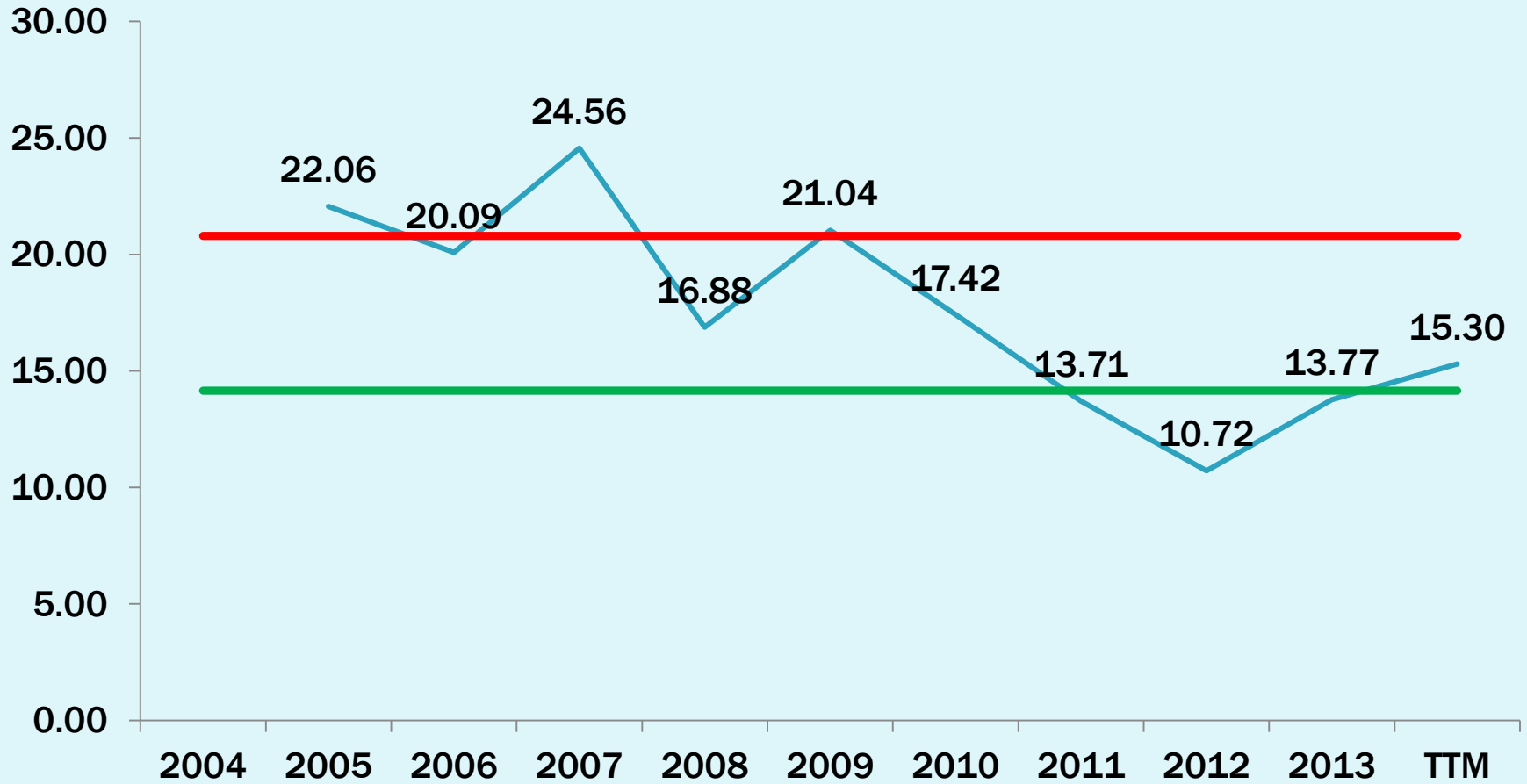
The primary reasons for the low volumes were a slowdown in emerging markets, weaker demand from service providers, and high-end product transitions taking time to accelerate

GREAT COMPANY

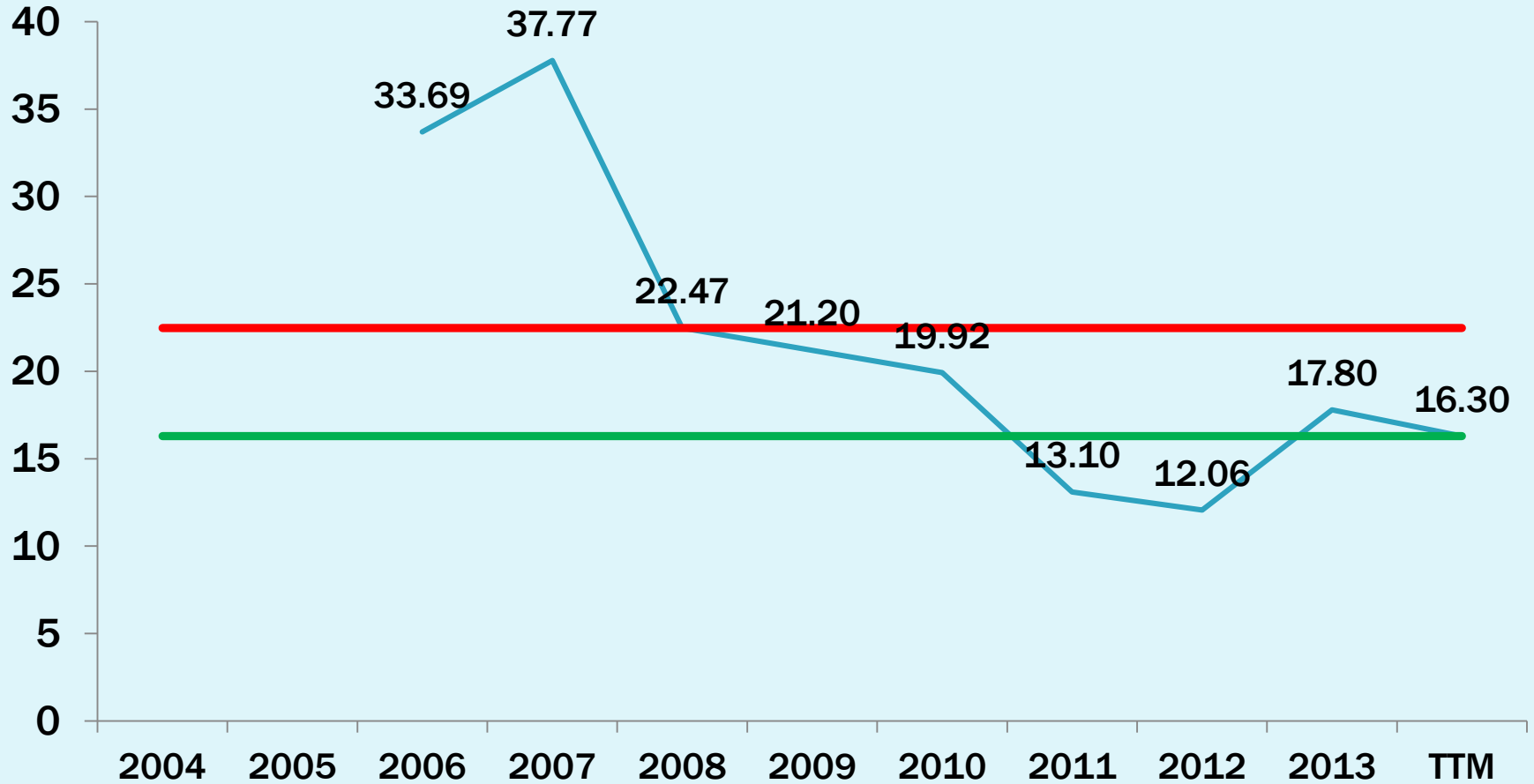
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
3.31	3.95	4.70	5.73	6.71	6.24	7.08	7.95	8.69	9.02	8.65	9.05	Revenues per sh ^A	12.10
.95	1.08	1.13	1.43	1.66	1.37	1.73	2.12	2.38	2.45	2.45	2.55	"Cash Flow" per sh	3.25
.76	.87	.89	1.17	1.31	1.05	1.33	1.62	1.85	2.02	1.97	2.10	Earnings per sh ^B	2.55
--	--	--	--	--	--	--	.12	.28	.62	.70	.78	Div'ds Decl'd per sh ^E	.92
.09	.11	.13	.21	.22	.17	.18	.22	.21	.22	.25	.25	Cap'l Spending per sh	.35
3.88	3.69	3.95	5.16	5.83	6.68	7.83	8.69	9.68	10.97	10.45	10.60	Book Value per sh	12.90
6650.4	6274.7	6059.0	6100.0	5893.0	5785.0	5655.0	5435.0	5298.0	5389.0	5330.0	5300.0	Common Shs Outst'g ^C	5050.0
29.6	21.6	21.3	22.0	20.6	17.7	17.9	11.9	9.7	10.3	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	12.0
1.56	1.15	1.15	1.17	1.24	1.18	1.14	.75	.62	.57			Relative P/E Ratio	.75
--	--	--	--	--	--	--	.6%	1.6%	3.0%			Avg Ann'l Div'd Yield	1.7%
22045	24801	28484	34922	39540	36117	40040	43218	46061	48607	46200	48000	Revenues (\$mill) ^A	61000
35.2%	34.0%	29.1%	28.7%	28.3%	25.2%	28.0%	32.0%	33.3%	31.0%	31.0%	31.0%	Operating Margin	32.0%
957.0	1009.0	1293.0	1413.0	1744.0	1768.0	2030.0	2486.0	2602.0	2351.0	2550	2620	Depreciation (\$mill)	2900
5337.0	5741.0	5580.0	7333.0	8052.0	6134.0	7767.0	9033.0	10017	10866	10485	10950	Net Profit (\$mill)	13450
28.0%	28.6%	26.9%	22.5%	21.5%	20.3%	17.5%	21.3%	21.9%	20.8%	20.0%	20.0%	Income Tax Rate	20.0%
24.2%	23.1%	19.6%	21.0%	20.4%	17.0%	19.4%	20.9%	21.7%	22.4%	22.7%	22.8%	Net Profit Margin	23.0%
5640.0	3520.0	14363	18216	21841	30522	32188	39725	44202	43329	42250	42050	Working Cap'l (\$mill)	49550
--	--	6332.0	6408.0	6393.0	10295	12188	16234	16297	12928	13500	13300	Long-Term Debt (\$mill)	14200
25826	23174	23912	31480	34353	38647	44267	47226	51286	59120	55698	56180	Shr. Equity (\$mill)	60200
20.7%	24.8%	18.7%	19.9%	20.2%	12.9%	14.3%	14.7%	15.3%	15.5%	15.0%	16.0%	Return on Total Cap'l	14.0%
20.7%	24.8%	23.3%	23.3%	23.4%	15.9%	17.5%	19.1%	19.5%	18.4%	18.0%	19.5%	Return on Shr. Equity	17.0%
20.7%	24.8%	23.3%	23.3%	23.4%	15.9%	17.5%	17.7%	16.6%	12.8%	12.0%	12.5%	Retained to Com Eq	14.0%
--	--	--	--	--	--	--	7%	15%	30%	35%	37%	All Div'ds to Net Prof	32%

VAN DEN BERG METRICS

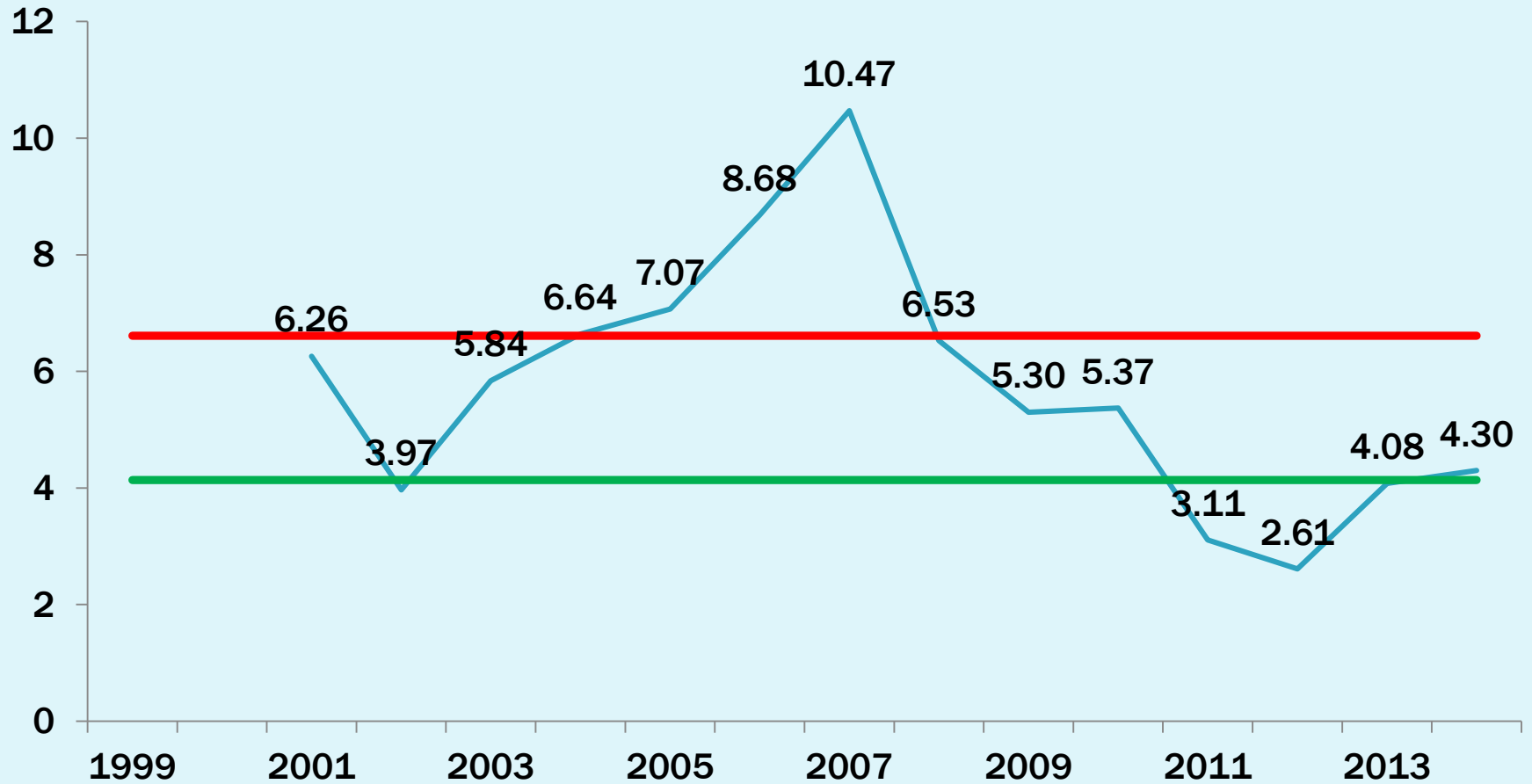
PRICE TO EARNINGS



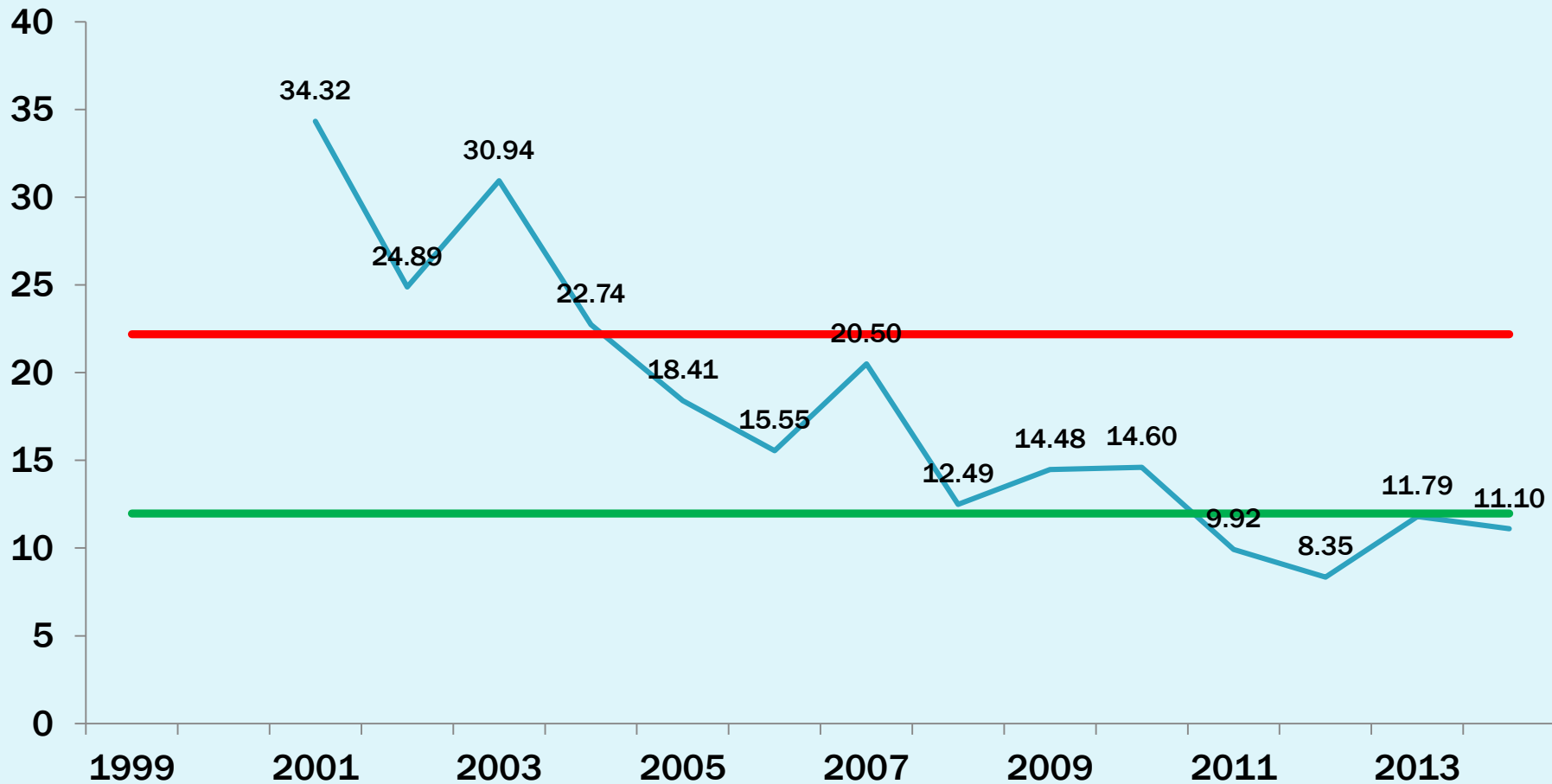
SHILLER PRICE TO EARNINGS



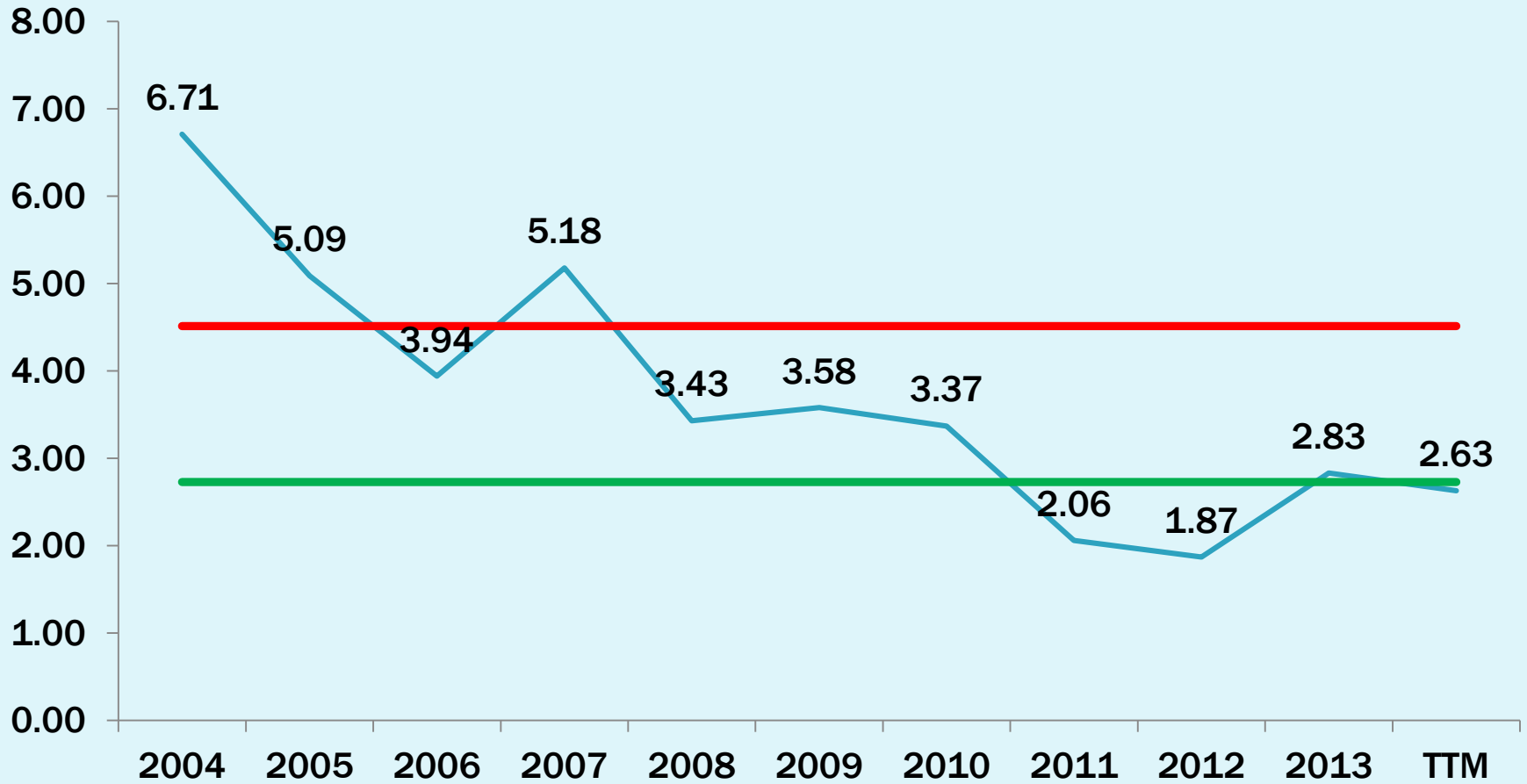
PRICE TO TANGIBLE BOOK



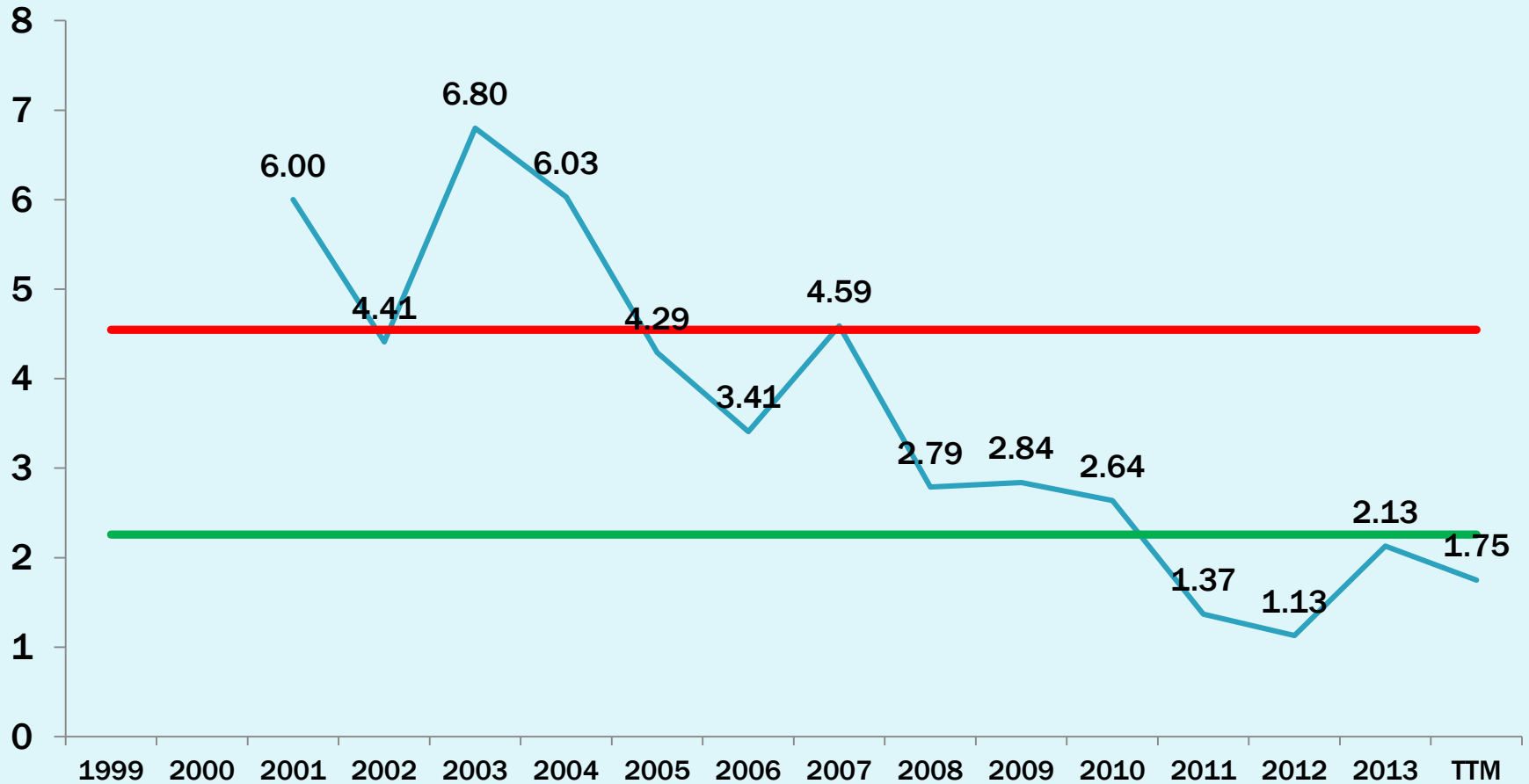
PRICE TO FREE CASHFLOW



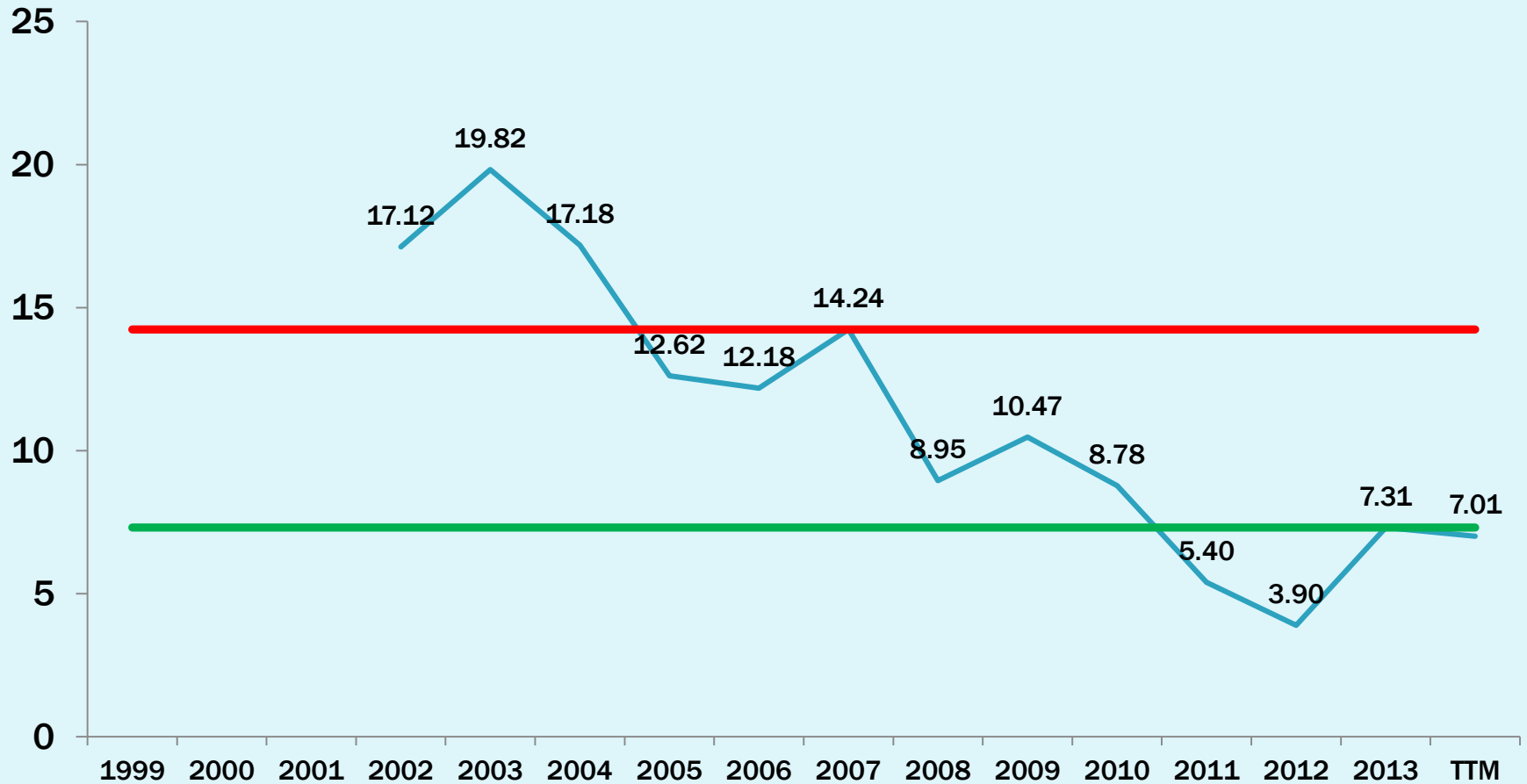
PRICE TO SALES



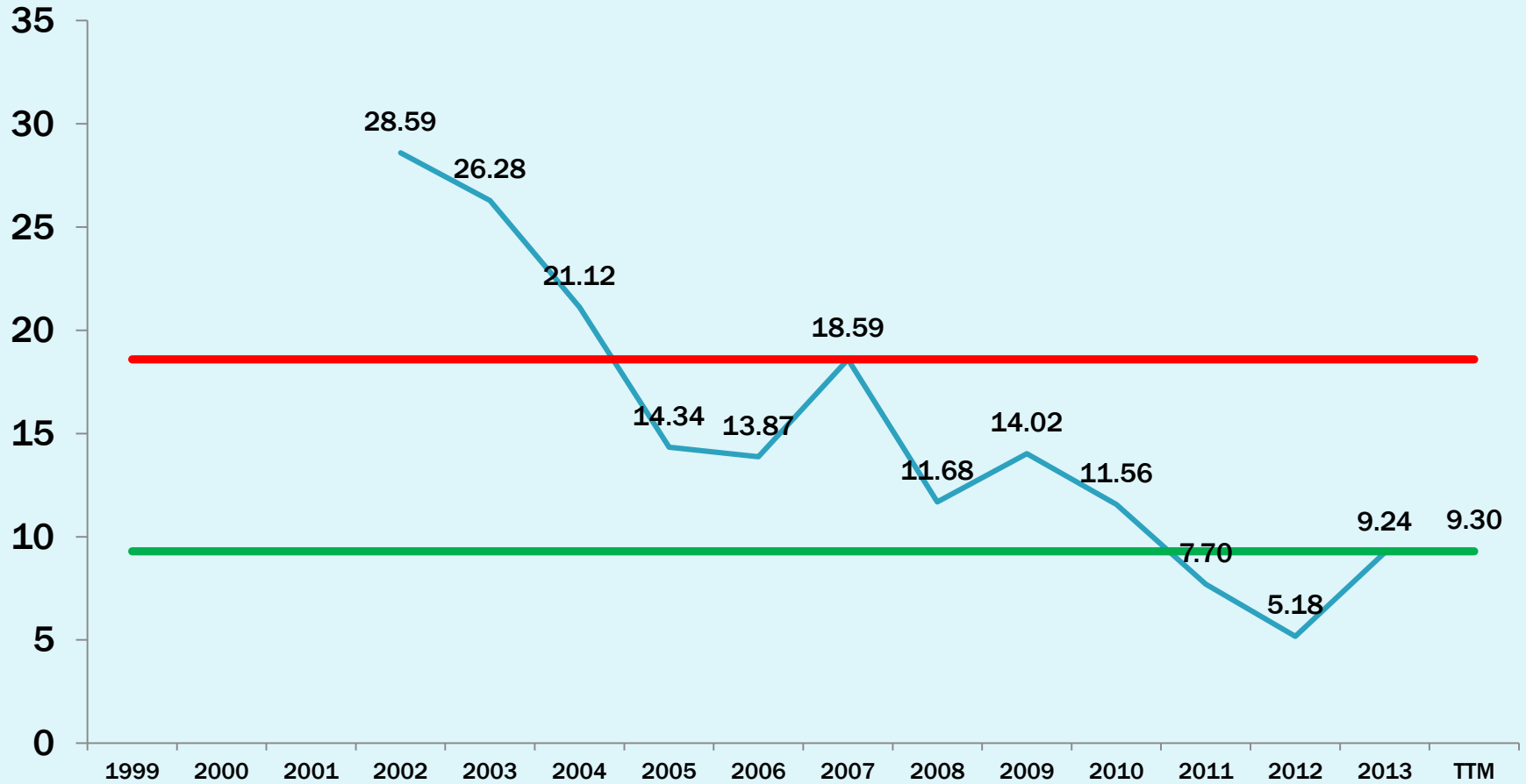
ENTERPRISE VALUE TO REVENUE



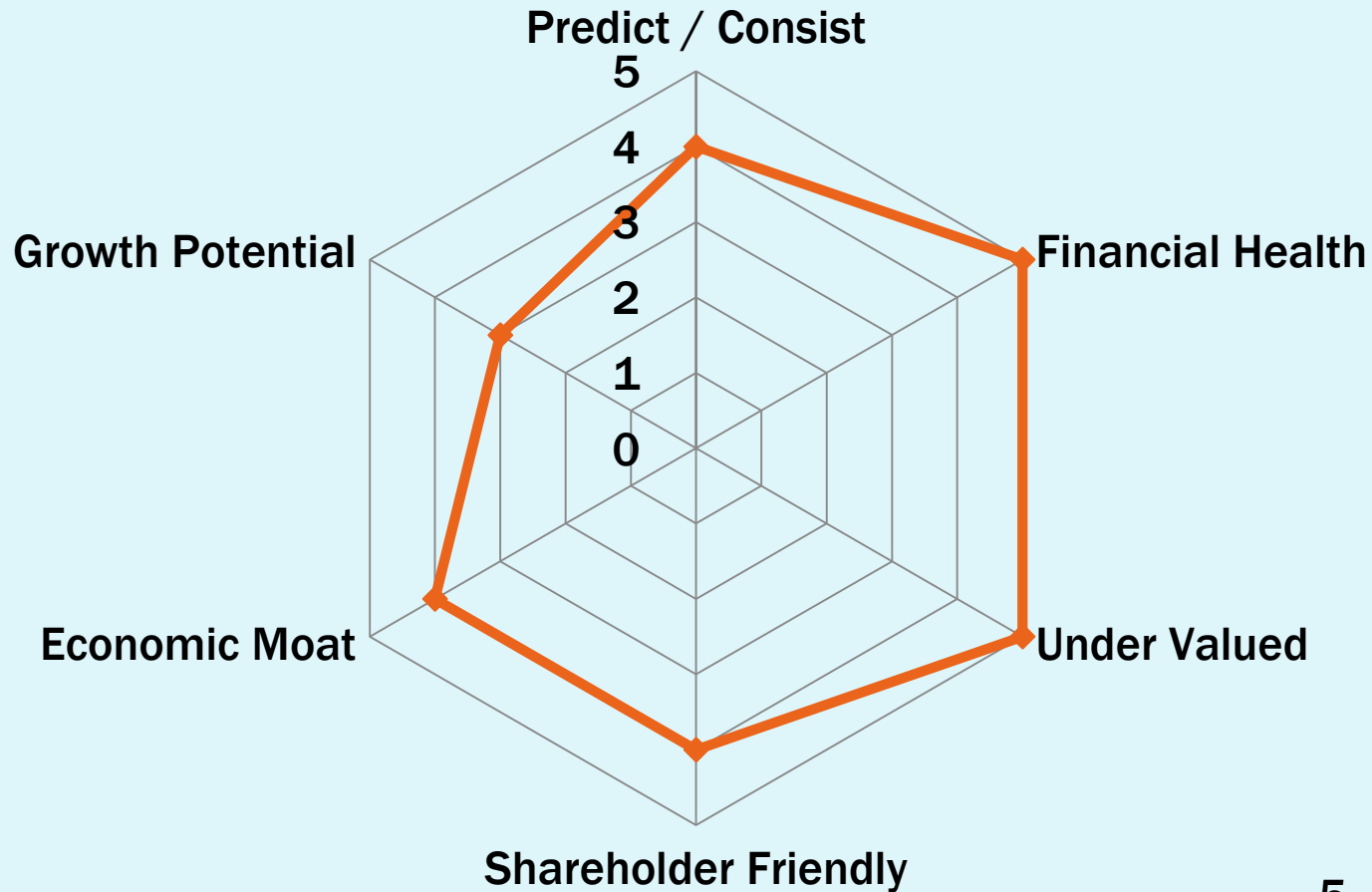
ENTERPRISE VALUE TO EBITDA



ENTERPRISE VALUE TO EBIT



SNAPSHOT OF COMPANY



5 - Strong
0 - Weak

RECOMMENDATION

Write 2 puts with \$23.00 per share strike price at a limit of \$1.00 per contract with an expiration date of 06/21/2014