

# CSCO

## Cisco Systems Inc

### Computers-Office Equip

<i>Balance Sheet Data as of</i>	2021-10-31
<i>Earnings Release Date</i>	2021-11-17
<i>Date of Report</i>	11/23/21

Equity & Credit Attractiveness		
	<u>CSCO</u>	<u>Sector</u>
Credit Ranking Percentile	90%	65%
Equity Ranking Percentile	90%	65%
<small>(Note: 100% = best, 10% = worst, 0% = not enough data)</small>		

Risk Summary
Company Risk Rating: Below Market Risk
Sector Risk Rating: Equal to Market Risk

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# Cisco Systems Inc (CSCO) / Computers-Office Equip

11/23/21

## Company Description

Cisco Systems, Inc. is the world's largest hardware and software supplier within the networking solutions sector. The infrastructure platforms group includes hardware and software products for switching, routing, data center, and wireless applications. Its applications portfolio contains collaboration, analytics, and Internet of Things products. The security segment contains Cisco's firewall and software-defined security products. Services are Cisco's technical support and advanced services offerings. The company's wide array of hardware is complemented with solutions for software-defined networking, analytics, and intent-based networking.

## Per Share Data

Stock Price	1 Yr Low	1 Yr High	% Change	
			3 Mo.	1 Yr
\$54.99	\$41.02	\$60.27	1%	33%

## Representative Bond

2.5% due 2026	
Moody's	A1 (10/30/2019)
S&P	AA- (09/13/2016)
Mod. Duration	4.5 yrs
Amount (mil)	1,500
Price (% of par)	105.820
YTW	1.19%

Dividend Yield:	2.7%	Div Grwth Rate:	1%
Balance Sheet Data as of		2021-10-31	
Earnings Release Date		2021-11-17	

\* Average annual increase over five years

Current Enterprise Value Mix (, millions)	TEV Mix	EBITDA Turns	Broad Market
Total Debt	9,502	4%	0.6x
Preferred & Other	-	0%	0.0x
Less Cash	23,346	11%	-1.4x
Market Cap of Equity	231,927	106%	14.0x
TEV (net of cash)	218,083	Eq Float: 100%	13.2x

## Margin Analysis (latest fiscal year)

EBITDA Margin	31%
Capex	1%
Unlevered Free Cash Flow	30%
Cash Flow From Operations (CFO)	31%
Free Cash Flow After Dividends (FCF)	17%

## Risk & Relative Volatility

Altman Z score	3.62x
Beta	0.92x
Aggregate Risk:	Below Market Risk

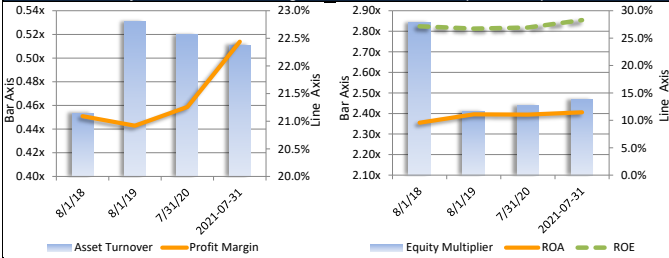
## Liquidity Analysis

Cash	23,346
Remaining FY Est. Free Cash flow (FCF)	4,678
Estimated FY End Cash & Availability	28,024

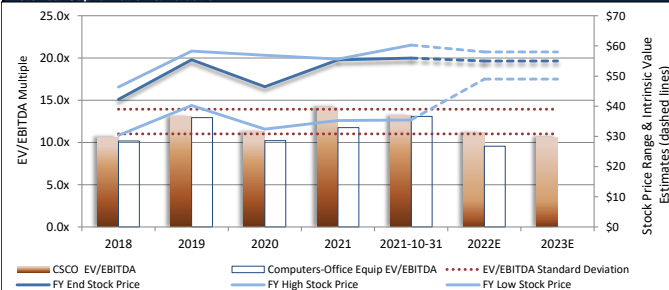
## DuPont Formula

ROA	22%
Profit Margin	0.5x
Asset Turns	12%
ROE	2.2x
Equity Multplr.	27%

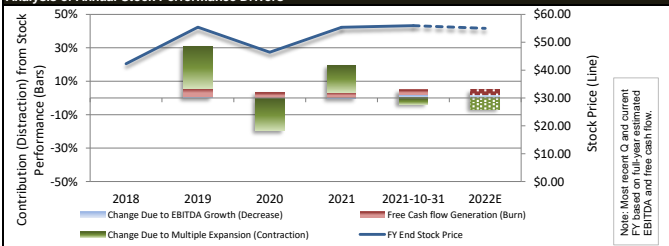
## Historical Profitability, Asset Utilization, Leverage and Return on Investment (ROA & ROE)



## Historical Capitalization & Valuation



## Analysis of Annual Stock Performance Drivers



Definitions: TEV: Total Enterprise Value (Market Cap of Equity plus Net Debt, Preferred & Minority Interest), EBITDA (Earnings Before Interest, Taxes & Depreciation & Amortization)

Altman Z Score: Above 3.0 indicates credit worthy company, below 1.8 indicates increased default probability over next 24 months (developed by Edward Altman)

Z spread: yield spread in basis points above comparable maturity LIBOR contract/forward curve

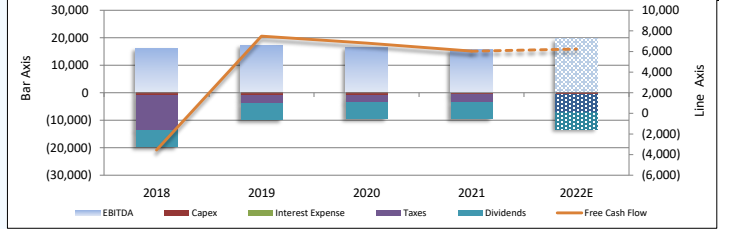
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Source: Company Reports, YCharts, Inc., Sixty Guilders Research, LLC

## Summary Financial Tables and Profitability

Cash Flow Metrics (, millions)	2018	2019	2020	2021	2022E	Growth Rates	
						'18-'21 avg.	'21-'22E
Revenue	49,330	51,904	49,301	49,818	52,767	0%	6%
EBITDA	16,174	17,327	16,363	15,558	19,574	-2%	26%
Capex	(834)	(909)	(770)	(692)	(788)	-7%	14%
Interest Expense	-	-	-	-	-	-	n/a
Taxes	(12,929)	(2,950)	(2,756)	(2,671)	(6,349)	-38%	n/a
Dividends	(5,968)	(5,979)	(6,016)	(6,163)	(6,200)	1%	1%
Free Cash Flow	(3,557)	7,489	6,821	6,032	6,238	-90%	3%
<b>Margins (% of Revenue, except for int. exp. &amp; tax rate)</b>							
EBITDA	32.8%	33.4%	33.2%	31.2%	37.1%	-156 bps	587 bps
Capex	1.7%	1.8%	1.6%	1.4%	1.5%	-36 bps	10 bps
Interest Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0 bps	0 bps
Eff. Tax Rate	76.0%	16.2%	16.1%	16.4%	31.2%	-5958 bps	1474 bps
Free Cash Flow	-7.2%	14.4%	13.8%	12.1%	11.8%	1932 bps	-29 bps
<b>Balance Sheet Data (, millions)</b>							
Total Debt (net debt)	25,569	24,666	14,583	11,526	(18,522)	-18%	-
Total Ent. Value	172,163	226,661	184,727	220,503	213,405	9%	-3%
Leverage	1.6x	1.4x	0.9x	0.7x	-0.9x	-0.8x	-1.7x
EV/EBITDA	10.6x	13.1x	11.3x	14.2x	10.9x	3.5x	-3.3x
Dividend Payout Ratio	>100%	44%	47%	51%	50%	-	-69 bps

## Annual EBITDA and Free Cash Flow Generation (, millions)



## Investment Considerations

Positives	Negatives
Ample equity relative to total assets	Recent margins below historic average
Attractive unlevered cash flow	
Attractive free cash flow	
Deleveraging over the recent years	
Modest total debt relative to capitalization	
Ample liquidity relative to debt	
Altman Z score implies strong credit metrics	
Ample dividend payout coverage	
Adequate public float	Broader Market potentially pricey

## Stock Upside under Takout Scenario Relative To Industry Group Historic M&A Multiples

Enterprise Value Multiple to:	EBITDA	Sales	Ttl Assets	Stock Bk Val	
Computers-Office Equip Sector	10.6x	1.0x	1.0x	2.1x	
CSCO current Valuation	10.9x	4.0x	2.3x	5.4x	
CSCO target at Industry Takeout Multiple	\$52.62	\$9.56	\$25.36	\$21.67	Wt. Avg \$42.79
Assigned Weight to Metric	75%	19%	5%	1%	
Takeout Upside (Downside) to Group M&A Multiples	-4%	-83%	-54%	-61%	-22%

Back of the Envelope Analysis of Ability to LBO

Assumptions: 1. EBITDA Growth ahead? Yes 2. Insiders own more than 5%? No

3. Assuming pro forma equity of 2X EBITDA post deal, can pre-deal free cash flow support new debt at a 7% interest cost to take out non-insider equity at a 20% equity premium? No

4. Would a 20% equity premium be cheap or rich relative to peer group M&A multiples shown above? No

Conclusion: Overall we believe an LBO of CSCO would likely be moderately feasible but richly priced

## Cumulative Cash Flow Quality (2018-2021)

	CSCO	Computers-Office Equip	Broad Equity Market
(CFO-Capex) / (EBITDA-Int.Exp.-Taxes-Capex)	1.4x	1.0x	0.9x

## Rate of Return Decomposition & Implied Stock Growth Expectation

	10 Yr LIBOR Swap	Est. 10 Yr Bond Yield	Earnings Yield (E/P)	Beta	Long Term Expected Equity Total Return (ETR)	Required Total Return Upside Above Earnings Yield: ETR-(E/P)
S&P 500	1.5%	1.3%	4.1%	1.0x	10%	5.9%
CSCO	1.5%	1.2%	6.7%	0.9x	9%	2.6%
Computers-Off	1.5%	2.5%	6.0%	1.0x	10%	4.3%

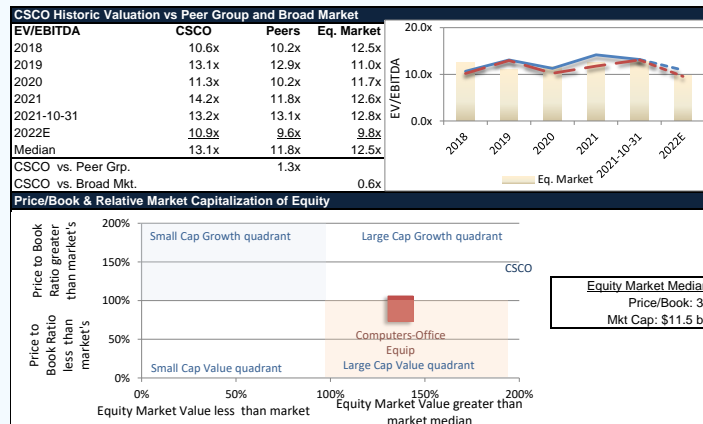
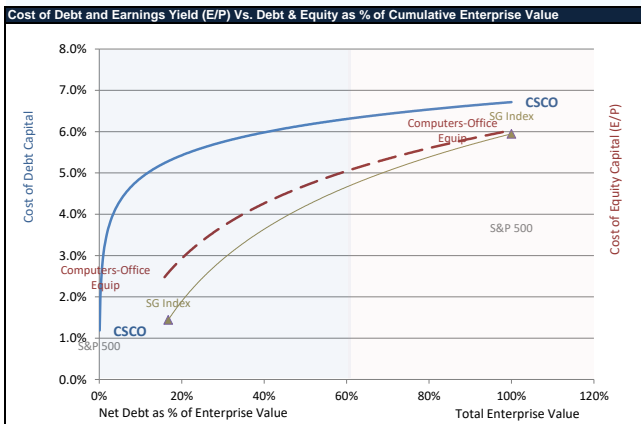
This table uses beta to estimate the long term expected equity return (fifth column). Given the current earnings yield (the inverse of the P/E ratio), the sixth column calculates the residual equity return necessary for the total return to reach the long term expected return. The chart shows the decomposition of return, starting with current 10 yr LIBOR swaps (the risk free rate), the incremental bond yield, the incremental earnings yield, and the residual "required growth return" necessary to achieve the long term expected return (ETR).

# Cisco Systems Inc (CSCO) / Computers-Office Equip

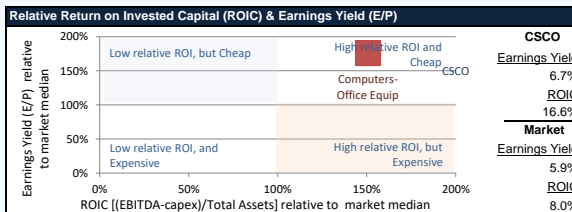
\$54.99 per share  
11/23/21

## Debt and Equity Valuation Analysis

	Amount	Recent Price	Estimated EPS	P/E Ratio (on Estimated EPS)	10 Yr Bond Yield & Earnings Yield (E/P)	Forward EBITDA Multiple	Tranche as % of Ent. Value (net of cash)	Earnings Yield / Bond Yield
S&P 500								
S&P 500 Net Debt	0							
S&P 500	4,667	4,667	\$193.21	24.2x	4.1%	20.1x	100%	S&P 500 3.2x
<b>Cisco Systems Inc (CSCO) / Computers-Office Equip</b>								
Cisco Sys Inc 2.5s % due 2026	1,500	105.820			1.2%	-0.9x	-6%	CSCO 5.7x
Equity Market Value	231,927	\$54.99 per share	\$3.69	14.9x	6.7%	10.4x	106%	
Total Enterprise Value (net of cash)	241,429					10.9x	100%	
<b>Computers-Office Equip Sector</b>								
Computers-Office Equip Debt					2.5%	2.1x	16%	Computers-Office Equip 2.4x
Computers-Office Equip Equity				16.6x	6.0%	13.1x	100%	



Stock Price Intrinsic Value Upside (Downside) Potential Analysis					
FY2023E Estimated EBITDA: 20487.6 mil (5% projected growth vs. 2022E)					
Implied Required Stock Return above Div Yield (one year NPV discount rate applied for 1.5 years) 11%					
	EV Forward EBITDA	2023E NPV	Upside		
	Historic Median	Current	Implied Price Target	(Downside)	
<b>A. Forward EBITDA on Current Multiple</b>					
EV/Forward EBITDA Multiple	11.9x	10.6x			
Price Target on FY EBITDA & lowest EV/ Forward Multiple		10.6x	\$54.92	\$54.05	-2%
<b>B. Historic EBITDA Multiple</b>					
	Assigned Weight				
Low	24%	10.6x			
Median	75%	13.0x			
High (capped at 20x if necessary)	1%	13.1x			
Valuation based on historic EBITDA	100%	12.5x	\$63.85	\$57.36	4%
<b>C. Industry Sector Relative Valuation</b>					
CSCO EV/EBITDA historic median		13.1x			
Computers-Office Equip EV/EBITDA median		11.8x			
CSCO median premium (discount) to sector		1.3x			
Computers-Office Equip EV/EBITDA 2022E (capped at 20x if needed)		9.6x			
Plus (minus) historic CSCO premium (discount)		1.3x			
<b>Sector-based Target CSCO EV/EBITDA 2023E</b>		10.9x	\$53.42	\$47.99	-13%
<b>D. Bond Market Yield Based Valuation</b>					
Required Equity Return (NPV Discount Rate): 5.9%		Act. Est P/E			
		14.9x			
Estimated EPS: \$3.69		Target P/E			
		16.9x			
Price Target	12.2x EBITDA		\$62.57	\$56.22	2%
<b>E. Plus Dividend Yield and Free Cash Flow</b>					
Average Price Target (A-D section calculations)				\$53.90	
Plus (minus Negative) Free Cash Flow balance of year per share				\$1.11	
<b>Average Fundamental Price Target</b>				\$55.01	
	Implied EV/EBITDA Multiple	2022E	2023E	NPV Target	
NPV Stock Intrinsic Value Estimate	11.1x	10.6x		\$55.00	0%



Stock Valuation Range Analysis (stock prices in \$)					
	Intrinsic Value Range	Intrinsic Value Upside (Downside)	Implied 2023E EV/EBITDA Multiple	P/E Multiple	
	78.00	42%		21.1x	
	74.00	35%	14.6x	20.0x	
	70.00	27%	13.7x	19.0x	
	67.00	22%	13.1x	18.1x	
	64.00	16%	12.5x	17.3x	
	61.00	11%	11.9x	16.5x	
<b>Intrinsic Value</b>	<b>58.00</b>	<b>5%</b>	<b>11.3x</b>	<b>15.7x</b>	
<b>Estimate:</b>	<b>55.00</b>	<b>0%</b>	<b>10.6x</b>	<b>14.9x</b>	
	52.00	-5%	10.0x	14.1x	
	49.00	-11%	9.4x	13.3x	
	47.00	-15%	9.0x	12.7x	
	45.00	-18%	8.6x	12.2x	
	43.00	-22%	8.2x	11.6x	
	41.00	-25%	7.8x	11.1x	
	39.00	-29%	7.4x	10.6x	
	37.00	-33%	6.9x	10.0x	

The S&P 500 @ 4667 reflects the following valuation metrics: 16.9x 21.1x  
The sector's historic M&A EBITDA takeover multiple has averaged: 10.6x

Computers-Office Equip Sector companies include: Arista Networks Inc, Ciena Corp, Cisco Systems Inc, 3D Systems Corp, Hewlett Packard Enterprise Co, HP Inc, Juniper Networks Inc, Motorola Solutions Inc, Nokia Oyj, NetApp Inc, EchoStar Corp, Seagate Technology Holdings PLC, Viavi Solutions Inc, Viastat Inc, Western Digital Corp, Zebra Technologies Corp.

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**Cisco Systems Inc (CSCO) / Computers-Office Equip**  
**\$54.99 per share** **Earnings & Equity Valuation Sensitivity**

Current Stock Price: \$54.99 per share						
Intrinsic Value Sensitivity to Earnings & Valuation Multiple Assumptions						
		FY2023E Estimated EBITDA:				
Implied 2023E		18,490	19,463	20,488	21,512	22,588
EV/EBITDA	P/E	-10%	-5%	0%	5%	10%
15.4x	21.1x	70.72	74.26	78.00	81.74	85.66
14.6x	20.0x	67.11	70.46	74.00	77.54	81.25
13.7x	19.0x	63.50	66.66	70.00	73.34	76.84
13.1x	18.1x	60.79	63.81	67.00	70.19	73.53
12.5x	17.3x	58.08	60.96	64.00	67.04	70.22
11.9x	16.5x	55.37	58.11	61.00	63.89	66.92
11.3x	15.7x	52.67	55.26	58.00	60.74	63.61
<b>10.6x</b>	<b>14.9x</b>	<b>49.96</b>	<b>52.41</b>	<b>55.00</b>	<b>57.59</b>	<b>60.30</b>
10.0x	14.1x	47.25	49.56	52.00	54.44	56.99
9.4x	13.3x	44.54	46.71	49.00	51.29	53.69
9.0x	12.7x	42.74	44.81	47.00	49.19	51.48
8.6x	12.2x	40.93	42.91	45.00	47.09	49.28
8.2x	11.6x	39.13	41.01	43.00	44.99	47.07
7.8x	11.1x	37.32	39.11	41.00	42.89	44.87
7.4x	10.6x	35.52	37.21	39.00	40.79	42.66
6.9x	10.0x	33.71	35.31	37.00	38.69	40.46

Stock Upside (downside) based on Intrinsic Value Sensitivity to EPS & Valuation Multiple Assumptions						
		FY2023E Estimated EBITDA:				
Implied 2023E		18,490	19,463	20,488	21,512	22,588
EV/EBITDA	P/E	-10%	-5%	0%	5%	10%
15.4x	21.1x	29%	35%	42%	49%	56%
14.6x	20.0x	22%	28%	35%	41%	48%
13.7x	19.0x	15%	21%	27%	33%	40%
13.1x	18.1x	11%	16%	22%	28%	34%
12.5x	17.3x	6%	11%	16%	22%	28%
11.9x	16.5x	1%	6%	11%	16%	22%
11.3x	15.7x	-4%	0%	5%	10%	16%
<b>10.6x</b>	<b>14.9x</b>	<b>-9%</b>	<b>-5%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
10.0x	14.1x	-14%	-10%	-5%	-1%	4%
9.4x	13.3x	-19%	-15%	-11%	-7%	-2%
9.0x	12.7x	-22%	-19%	-15%	-11%	-6%
8.6x	12.2x	-26%	-22%	-18%	-14%	-10%
8.2x	11.6x	-29%	-25%	-22%	-18%	-14%
7.8x	11.1x	-32%	-29%	-25%	-22%	-18%
7.4x	10.6x	-35%	-32%	-29%	-26%	-22%
6.9x	10.0x	-39%	-36%	-33%	-30%	-26%

This table depicts the tradeoff between the company meeting the earnings projections, versus meeting the multiple assumptions. The highlighted price range shows the price range derived from the single point EBITDA multiple analysis from the prior page.

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