CISCO SYSTEMS INC
NASDAQ: CSCO
October 15, 2017

BUY
HOLD
SELL

BUY RATING SINCE 10/13/2011
TARGET PRICE $38.42

CISCO BUSINESS DESCRIPTION
Cisco Systems, Inc. designs, manufactures, and sells Internet Protocol (IP) based networking and other products related to the communications and information technology industry worldwide.

STOCK PERFORMANCE (%)
3 Mo. 1 Yr. 3 Yr (Ann)
Price Change 6.73 9.62 12.53

GROWTH (%)
Last Qtr 12 Mo. 3 Yr CAGR
Revenues -4.00 -2.53 0.61
EPS -14.29 -9.91 8.63

RETURN ON EQUITY (%)
CSCO Ind Avg S&P 500
Q4 2017 14.52 10.88 13.41
Q4 2016 16.88 9.74 11.79
Q4 2015 15.04 2.52 12.91

P/E COMPARISON

EPS ANALYSIS¹ ($)

RECOMMENDATION
We rate CISCO SYSTEMS INC (CSCO) a BUY. This is based on the convergence of positive investment measures, which should help this stock outperform the majority of stocks that we rate. The company’s strengths can be seen in multiple areas, such as its largely solid financial position with reasonable debt levels by most measures, good cash flow from operations, increase in stock price during the past year, expanding profit margins and notable return on equity. We feel its strengths outweigh the fact that the company has had sub par growth in net income.

HIGHLIGHTS
The current debt-to-equity ratio, 0.51, is low and is below the industry average, implying that there has been successful management of debt levels. Along with this, the company maintains a quick ratio of 2.92, which clearly demonstrates the ability to cover short-term cash needs.

Net operating cash flow has slightly increased to $4,001.00 million or 4.79% when compared to the same quarter last year. The firm also exceeded the industry average cash flow growth rate of -11.05%.

Compared to where it was 12 months ago, the stock is up, but it has so far lagged the appreciation in the S&P 500. Turning our attention to the future direction of the stock, it goes without saying that even the best stocks can fall in an overall down market. However, in any other environment, this stock still has good upside potential despite the fact that it has already risen in the past year.

Despite the weak revenue results, CSCO has outperformed against the industry average of 15.5%. Since the same quarter one year prior, revenues slightly dropped by 4.0%. The declining revenue appears to have seeped down to the company’s bottom line, decreasing earnings per share.

The gross profit margin for CISCO SYSTEMS INC is rather high; currently it is at 66.48%. Regardless of CSCO’s high profit margin, it has managed to decrease from the same period last year. Despite the mixed results of the gross profit margin, CSCO’s net profit margin of 19.97% compares favorably to the industry average.

¹ Compustat fiscal year convention is used for all fundamental data items.

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INDUSTRY ANALYSIS

The US communications equipment industry is comprised of companies that manufacture communication equipments and products, including LANs, WANs, routers, telephones, switchboards and exchanges. The industry is highly competitive and characterized by rapidly changing technologies, evolving industry and government standards, changes in customer preferences, and new product introductions and enhancements.

Companies compete on the basis of product performance, quality, customer service, technological innovation, delivery time and price. The industry is becoming increasingly concentrated and globalized, dominated by large players with significant financial resources and technological capabilities. Cisco Systems (CSCO), Nokia (NOK), Motorola Solutions (MSI), and Ericsson (ERIC) are large players.

Industry demand is dependent on the capital spending of cellular and broadband companies for constructing, rebuilding or upgrading their communications systems. The domestic market is evolving at a brisk pace as cable and telecom network operators expand their video, data and voice services, commonly known as the “triple play”, to expand their subscriber base. Telecom operators are expanding their broadband networks and offering advanced video and data services using IPTV and 5G technologies. Cable operators are responding by bundling voice-over-IP services and expanding their broadband data service through Data Over Cable Service Interface Specifications (DOCSIS).

Companies are regulated by the United States Federal Communications Commission (FCC) and other global governmental communication regulators. The International Telecommunications Union (ITU) adopts cellular wireless access standards for cellular industry infrastructure.

The industry faces investment risks related to the introduction of new products for the transmission of telephony and high-speed data over hybrid fiber coaxial cable systems. Research and development is a complex and uncertain process, requiring high levels of innovation and an accurate understanding of market trends. The industry has witnessed consolidation in order to facilitate product breadth and improve technologies.

PEER GROUP: Communications Equipment

The peer group comparison is based on Major Communications Equipment companies of comparable size.
CISCO SYSTEMS INC

COMPANY DESCRIPTION
Cisco Systems, Inc. designs, manufactures, and sells Internet Protocol (IP) based networking and other products related to the communications and information technology industry worldwide. The company offers switching products, including fixed-configuration and modular switches, and storage products that provide connectivity to end users, workstations, IP phones, wireless access points, and servers; and next-generation network routing products that interconnect public and private wireline and mobile networks for mobile, data, voice, and video applications. It also provides collaboration products comprising unified communications products, conferencing products, collaboration endpoints, and business messaging products; data center products, such as blade and rack servers, series, fabric interconnects, and management software solutions; wireless products consisting of wireless access points, WLAN controllers, cloud and appliances based services, and integrated software services. In addition, the company offers security products, including network and data center security, advanced threat protection, Web and email security, access and policy, unified threat management, and advisory, integration, and managed services; and other products, such as emerging technologies and other networking products. Further, the company offers a distributed file system for hyperconvergence that enables server-based storage systems; service provider video software and solutions; and technical support services and advanced services. It serves businesses of various sizes, public institutions, governments, and service providers. The company sells its products directly, as well as through channel partners, such as systems integrators, service providers, other resellers, and distributors. The company was founded in 1984 and is headquartered in San Jose, California.

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STOCK-AT-A-GLANCE
Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of CSCO shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR SCORE
Growth 3.5 out of 5 stars weak strong
Measures the growth of both the company’s income statement and cash flow. On this factor, CSCO has a growth score better than 60% of the stocks we rate.

Total Return 4.0 out of 5 stars weak strong
Measures the historical price movement of the stock. The stock performance of this company has beaten 70% of the companies we cover.

Efficiency 4.5 out of 5 stars weak strong
Measures the strength and historic growth of a company’s return on invested capital. The company has generated more income per dollar of capital than 80% of the companies we review.

Solvency 5.0 out of 5 stars weak strong
Measures the solvency of the company based on several ratios. The company is more solvent than 90% of the companies we analyze.

Income 4.5 out of 5 stars weak strong
Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 80% of the companies we track.

THE STREET RATINGS RESEARCH METHODOLOGY
TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.
CISCO SYSTEMS INC

**FINANCIAL ANALYSIS**

CISCO SYSTEMS INC’s gross profit margin for the fourth quarter of its fiscal year 2017 is essentially unchanged when compared to the same period a year ago. Sales and net income have dropped, however the growth has outpaced the average competitor within the industry. CISCO SYSTEMS INC is extremely liquid. Currently, the Quick Ratio is 2.92 which clearly shows the ability to cover any short-term cash needs. The company’s liquidity has decreased from the same period last year.

At the same time, stockholders’ equity (“net worth”) has remained virtually unchanged only increasing by 4.01% from the same quarter last year. Overall, the key liquidity measurements indicate that the company is very unlikely to face financial difficulties in the near future.

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.
The Street Ratings

CISCO SYSTEMS INC

RATINGS HISTORY
Our rating for CISCO SYSTEMS INC has not changed since 10/13/2011. As of 10/12/2017, the stock was trading at a price of $33.26 which is 3.9% below its 52-week high of $34.80 and 14.2% above its 52-week low of $29.12.

Most Recent Ratings Changes
- Date: 10/12/15
  - Price: $27.96
  - Action: No Change
  - From: Buy
  - To: Buy

Price reflects the closing price as of the date listed, if available.

Ratings Definitions & Distribution of TheStreet Ratings
(as of 10/12/2017)
- **44.09% Buy**: We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.
- **30.82% Hold**: We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.
- **25.09% Sell**: We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

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CISCO SYSTEMS INC

VALUATION
BUY. The current P/E ratio indicates a significant discount compared to an average of 29.50 for the Communications Equipment industry and a discount compared to the S&P 500 average of 24.52. For additional comparison, its price-to-book ratio of 2.51 indicates a discount versus the S&P 500 average of 3.12 and a discount versus the industry average of 3.65. The current price-to-sales ratio is well above the S&P 500 average and above the industry average, indicating a premium. Upon assessment of these and other key valuation criteria, CISCO SYSTEMS INC proves to trade at a discount to investment alternatives within the industry.

Price/Earnings
- **CSCO 17.41**
  - Peers 29.50
  - Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
  - **CISCO is trading at a significant discount to its peers.**

Price/CashFlow
- **CSCO 11.94**
  - Peers 17.29
  - Discount. The P/CF ratio, a stock’s price divided by the company’s cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
  - **CISCO is trading at a significant discount to its peers.**

Price/Book
- **CSCO 2.51**
  - Peers 3.65
  - Discount. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
  - **CISCO is trading at a significant discount to its peers.**

Price/Sales
- **CSCO 3.45**
  - Peers 3.23
  - Average. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
  - **CISCO is trading at a valuation on par with its industry on this measurement.**

Sales Growth
- **CSCO -2.53**
  - Peers 7.26
  - Lower. A sales growth rate that trails the industry implies that a company is losing market share.
  - **CISCO significantly trails its peers on the basis of sales growth.**

Earnings Growth
- **CSCO -0.91**
  - Peers -9.22
  - Lower. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
  - However, CISCO is expected to significantly trail its peers on the basis of its earnings growth rate.

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