



Date: 2/25/13

Analyst Name: Kyle Temple

## CIF Stock Recommendation Report (Spring 2013)

Company Name and Ticker: Cisco Systems CSCO

### Section (A) Summary

Recommendation Buy: <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">Yes</span> No		Target Price: \$24	Stop-Loss Price: \$18.50
Sector: Technology	Industry: Networking Systems	Market Cap (in Billions): 111.43	# of Shrs. O/S (in Millions): 5,331.97
Current Price: \$20.90	52 WK Hi: \$21.67	52 WK Low: \$14.96	EBO Valuation: \$17.60
Morningstar (MS) Fair Value Est.: \$24.00	MS FV Uncertainty: Medium	MS Consider Buying: \$16.80	MS Consider Selling: \$32.40
EPS (TTM): 1.73	EPS (FY1): \$1.99	EPS (FY2): \$2.11	MS Star Rating: 4- Star
Next Fiscal Yr. End "Year": 2013 "Month": July	Last Fiscal Qtr. End: Less Than 8 WK: <span style="background-color: yellow;">Y</span> N	If Less Than 8 WK, next Earnings Ann. Date: May 15, 2013	Analyst Consensus Recommendation: Buy
Forward P/E: 10.2	Mean LT Growth: 8.4%	PEG: 1.16	Beta: 1.24
% Inst. Ownership: 83.05%	Inst. Ownership- Net Buy: <span style="background-color: yellow;">Y</span> N	Short Interest Ratio: 1.60	Short as % of Float: 1.10%
<b><u>Ratio Analysis</u></b>	<b><u>Company</u></b>	<b><u>Industry</u></b>	<b><u>Sector</u></b>
P/E (TTM)	12	38.3	15.6
P/S (TTM)	2.4	1.6	1.4
P/B (MRQ)	2.0	2.2	2.2
P/CF (TTM)	9.5	13.1	9.5
Dividend Yield	2.1	1.7	2.1
Total Debt/Equity (MRQ)	29.34	30	N/A
Net Profit Margin (TTM)	19.72	7.3	N/A
ROA (TTM)	10.04	N/A	N/A
ROE (TTM)	17.79	10.1	N/A

\* Information provided by Morningstar

<p><b><u>Investment Thesis</u></b></p> <ul style="list-style-type: none"> <li>- Cisco Systems has an extremely clean balance sheet, sitting on over \$46B in cash, that's over \$8/share. With only \$16B in debt, Cisco is healthy financially</li> <li>- Being the global leader, the company is exposed to many foreign markets which can be very unstable causing significant risk to CSCO</li> <li>- The company seems to be shareholder friendly, buying back \$500M in shares the most recent quarter. Even better, the company recently increased its quarterly dividend 75% from \$.08 to \$.14 and has plenty more cash for another increase</li> <li>- Fundamentally the company is solid, with a forward P/E of only 10, which isn't high when looking at the 46% increases in EPS year over year</li> <li>- The companies acquisition streak is expected to continue, but investors worry they may overpay for a highly speculative tech company</li> <li>- The company continues to make the necessary moves to stay atop of a quickly changing industry and stay very efficient</li> </ul>	<p><b><u>Summary:</u></b> CISCO Systems is a legend in the technology sector, once being the world's largest company in 2000 with a \$500 billion market cap. Times have certainly changed but Cisco remains a market leader.</p> <p><b><u>Company Profile:</u></b> Founded in 1984 by a married couple who worked at Stanford, Cisco offered some of the first IP products and rode the internet tech boom from top to bottom.</p> <p><b><u>Fundamental Valuation:</u></b> EBO valuations painted a bearish future for Cisco. Mainly due to a growth rate lower than the discount rate and an industry ROE of only 3%</p> <p><b><u>Relative Valuation:</u></b> There is nothing expensive about Cisco when stacked against its peers, with a low P/E for the tech industry, and fairly priced sales and book value. Solid but slower growth which is priced with caution.</p> <p><b><u>Revenue and Earnings Estimates:</u></b> Cisco continues to prove Wall Street wrong with 5 straight quarters of positive surprise on the top and bottom line. Most recently beat estimate EPS by \$.03.</p> <p><b><u>Analyst Recommendations:</u></b> Overall, analysts are very bullish with 15 buy recommendations to 1 sell. Analysts are starting to take notice to CSCO's efficient management that produces impressive EPS growth</p> <p><b><u>Institutional Ownership:</u></b> During the past three months, Cisco has seen a good sized 1.22% increase in institutional ownership up to 73% of available shares on the market</p> <p><b><u>Short Interest:</u></b> Bears have stayed away from this stock, with days to cover only peaking at 2. With only 1.1% of the shares short, short investors don't think this one is headed down anytime soon.</p> <p><b><u>Stock Price Chart:</u></b> Cisco got slowed down during a time the rest of the tech sector got going. Recently however, the stock has started performing well against the tech sector and S&amp;P 500</p>
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## **Section (B) Company Profile (two pages maximum)**

### **Company Summary**

Cisco Systems is a worldwide leader in internet protocol (IP) networking systems involving the communications and information technology (IT) industry and provides services along with its broad product base. The company was founded in 1984 in San Francisco by a married couple that was working as computer operation staff members at Stanford University. The name Cisco Systems came from the last 5 words of their home, San Francisco. A global corporation with over 70,000 employees located in 460+ offices in 165+ countries. The company designs, manufactures, and sells some of the most innovative products on the market that change the way people exchange data, voice, and video all across the world. The company has an extremely wide customer base from residential homes to large corporations and telecommunication companies. On top of having a broad market, they are world recognized leaders and have major operations in Europe, Latin America, Middle East, and Asia to name a few. Cisco Systems believes its market is endless as less than 1% of the world is “connected”.

### **Business Model, Competition, Environment and Strategy**

The company has a few operating segments including its core products of routers and switches. These are what have built Cisco to what it is now, and they continue to be worldwide market leaders in these markets even after many competitors have tried to chip away at their dominating market share. The company is also starting to grow its other product offers such as voice and video systems, network security, and cloud computing systems. Along with its diverse product portfolio, the company also offers services to assist with its products. By doing this Cisco has created a vertical integration business format which allows its customers to operate more efficiently and add products and services as they go along, creating long lasting relationships with its over 100,000 customers.

According to Cisco’s website, the company’s vision is to “Change the way the world works, lives, plays, and learns”. It is clear that they want to be the worldwide leaders in all communication styles. They want to help a worldwide business communicate better, a university to be connected to its students, and the average person receiving a great internet connection. With such a diverse customer base, they create products with everyone in mind. To build on that, Cisco’s strategy is stated “Solve our customers’ most important business challenges by delivering intelligent networks and technology architectures built on integrated products, services, and software platforms”. Leading the market for so long has allowed Cisco to notice changes in an extremely fast changing industry, and make corrections which allow them to capitalize on new technologies.

Being one of the first technology companies to blow up, Cisco Systems is a veteran in the market and has been at the top for some time now. Innovation has been a huge part of Cisco Systems success and is still greatly valued by management. In fiscal year 2012, Cisco Systems spent over \$5.5 billion in research and development. With that came over 13,000 patents issued to Cisco for their innovative products. Also a large part of Cisco's success comes from successful acquisitions, with over 150 since the company was founded. Most recently, Cisco acquired Broadhop, a policy control and service management technology company. In the last two years, Cisco has spent over \$8 billion buying over 15 companies. The company currently sits on a large amount of cash ready to make a major acquisition any moment.

The company recently underwent a restructuring in 2011, led by current CEO John Chambers. The company was performing sluggishly and its stock was being impacted by it. That's when the CEO realized a restructure was needed to change the current ways of the company "We need to have consistency in innovation and consistency in operations" He said in September 2011. This included over 12,000 employees exiting the company, mostly laid off due to budget cuts. The layoffs were part of a cut cutting program planning to eliminate \$1 Billion in expenses. This makeover seems to have worked as Cisco is back to its innovative ways and the company continues to improve on its profit margin during moderate revenue growth.

Cisco Systems is so large and so diverse it truly does not have a direct competitor, just a bunch of smaller companies trying to feed off of markets Cisco has successfully tapped. In 2011, CEO John Chambers said Cisco's largest competitors were Juniper Networks, HP, and a Chinese company Huawei. Its largest competitor to its core products of routers and switches is Juniper Networks. Juniper, a much smaller company, has been focusing on competing with Cisco by creating high performance routers and switches. The company has not been too successful as Cisco is still the #1 leader in both of those markets. According to its website, during Q3 of fiscal year 2012, Cisco owned 62% of the router market, and 68% of the switch market. Hewlett Packard is also a company that has been trying to compete with Cisco's switch market and newly entered cloud computing market, which has not proven too successful for HP. Lastly, Huawei, the world's largest telecommunications equipment maker in the world has tried to offer similar global services, but has failed to match the quality of Cisco's products and services.

When looking at the company's most recent 10K announced February 13, management broke its net sales down into three regions, the Americas which include the United States, Mexico, Canada and Southern America countries. APJC stands for Asia Pacific, Japan, and China. Lastly, EMEA includes Europe, the Middle East, and Africa. As you can see from the chart below, Cisco saw impressive revenue growth year over year in both the Americas region and APJC region. EMEA on the other hand saw a significant revenue decline after weak demand in southern Europe due to a weak economy.

Net Sales:	FY 2013, Q2	FY 2012, Q2	Change %
Americas	\$7,136	\$6,552	8.9%
EMEA	3,093	3,250	-4.8%
APJC	1,869	1,725	8.3%
Total	\$12,098	\$11,527	4.5%

Cisco broke down its revenues from seven different sources. When looking at these sales figures, you will notice that revenue from Cisco's "core products" of switching and routing actually had slightly negative growth year of year. This isn't a trend that has been decreasing each quarter, but shows that Cisco can no longer rely on their specialty if they want to continue to growth. That is why they have gone after segments such as service video providing which brings employees across the country into the same conference room wirelessly, and wireless market which provides internet service to cities, businesses, universities, and others. Overall revenue growth of 4.5% is moderate and management expects 4-6% annual growth next quarter.

Net Sales	FY 2013, Q2	FY 2012, Q2	Change %
Switching	\$3,724	\$3,621	2.8%
NGN Routing	1,946	2,068	-5.8%
Service Provider Video	1,220	1,014	20%
Collaboration	945	1,060	-10.8%
Wireless	520	409	27%
Security	336	333	.9%
Other	198	280	-29%
Total	\$12,098	\$11,527	4.5%

Cisco Systems saw a large increase in its service revenue as it looks to broaden its foot print in the industry. Not only do they want you to buy their products, they want you to pay them to install them. They even have a widely recognized industry certification called the Certified Cisco Systems Instructor which is equivalent to the MBA of information technology. They offer advanced services which include building entire networking infrastructures for a specific client with compatible software.

Net Sales:	FY 2013, Q2	FY 2012, Q2	Change %
Products	9,437	9,118	3.5%
Services	2,661	2,409	10.4%
Total	12,098	11,527	

## Revenue and Earnings History

<b>Revenue</b>			
<b>Periods</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
October	10750	11256	11876
January	10407	11527	12098
April	10866	11588	
July	11195	11690	
Total	43,218	46,061	

<b>Earnings Per Share</b>			
<b>Periods</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
October	0.34009	0.32865	0.3922
January	0.27224	0.404	0.51
April	0.32635	0.39681	
July	0.22416	0.35805	
Total	1.1628	1.4875	

As you can see from the revenue chart above, Cisco Systems has successfully been able to provide solid revenue growth the last two years. They have seen eight straight quarters of revenue growth in a row now and expect to continue that streak. CSCO saw revenues increase over 6.5% between fiscal year 2011, and 2012. More impressive than CSCO revenue growth, would be its earnings per share growth. EPS between fiscal year 2011 and 2012 grew an amazing 27.9%. While Cisco Systems may not be in a high growth industry, management has done an excellent job increasing earnings faster than revenues by focusing on efficient operation and portfolio management. Most recently, Cisco announced earnings on February 13<sup>th</sup>, where they delivered record breaking EPS as revenues increase and the company operates more efficiently. Management also noted that they received a lower tax rate than they were expecting. The earnings and revenue beat estimates on Wall Street however, the stock dropped



## Output

Above normal growth period chosen: 4(2017)

EBO valuation (Implied price from the spreadsheet): 17.60

## Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

17.65 if changing above normal growth period to 2

18.70 if changing growth rate from mean (consensus) to the highest estimate

12%

16.58 if changing growth rate from mean (consensus) to the lowest estimate

5%

27.20 if changing discount rate to 8%

\$27.20 if changing target ROE to 17%

Discount Rate: Rf: 2.83% Expected Return: 10% Beta:1.24

Abnormal growth: I choose 4 years because I believe if the global economy heats up Cisco will be one of the best companies in the world to take advantage.

All of the implied prices provided were at least \$4 less than Cisco's current price. At \$17.60 it is about \$2 more than the 52-week low. The stock continues to decline in value every year with the input metrics. This is mainly due to the high discount rate, and the extremely low industry ROE of 3%. If you lower the discount rate to a more reasonable 8% and increase the ROE to Cisco's 5 year average of 17%, you would get an implied price of \$27.20.

## Section (D) Relative Valuation

CSCO													
				Mean FY2									
Ticker	Name	Mkt Cap	Current Price	Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM	
1	JNPR	Juniper Networks	\$ 11,059.00	\$ 21.45	\$ 1.33	16.13	15.00%	1.08	1.58	5.88%	0.27	2.53	29.65
2	HPQ	Hewlett-Packard	\$ 37,492.27	\$ 19.20	\$ 3.56	5.39	0.25%	21.57	1.64	10.14%	0.16	0.32	3.6
3	IBM	Internation Business M	\$ 227,218.00	\$ 201.09	\$ 18.45	10.90	9.86%	1.11	12.05	70.96%	0.17	2.17	10.65
4	FFIV	F5 Networks	\$ 7,942.00	\$ 101.06	\$ 5.83	17.33	18.20%	0.95	5.73	17.83%	0.32	5.59	25.02
	CSCO	Cisco Systems	\$ 111,438.00	\$ 20.90	\$ 2.11	9.91	8.40%	1.18	2.00	17.72%	0.11	2.40	9.5
Implied Price based on:					P/E	PEG	P/B	Value	P/S	P/CF			
1	JNPR	Juniper Networks			\$34.03	\$19.06	\$16.51	\$49.76	\$22.03	\$65.23			
2	HPQ	Hewlett-Packard			\$11.38	\$382.36	\$17.14	\$29.95	\$2.79	\$7.92			
3	IBM	Internation Business Maching			\$23.00	\$19.59	\$125.92	\$31.45	\$18.90	\$23.43			
4	FFIV	F5 Networks			\$36.58	\$16.88	\$59.88	\$59.51	\$48.68	\$55.04			
	High				\$36.58	\$382.36	\$125.92	\$59.51	\$48.68	\$65.23			
	Low				\$11.38	\$16.88	\$16.51	\$29.95	\$2.79	\$7.92			
	Median				\$28.51	\$19.32	\$38.51	\$40.60	\$20.46	\$39.24			

Because Cisco offers so many products and services, they do not have a direct competitor, instead multiple competitors battling Cisco in its multiple operating segments. I choose Juniper Networks because they are Cisco's largest competitor in the internet router market. Juniper is also has a major presence in the security market which Cisco is slowly getting into. HP was chosen because it is the leading competitor against Cisco in the Ethernet switching market. IBM is not a direct competitor, but is manufacturing switches and routers for Cisco competitors Juniper Networks and Brocade. IBM was also added to compare a technology company with a large market cap such as Cisco's. F5 networks were chosen because of its presence in networking products including integrated hardware and software. Cisco's major competitors Huawei and Alcatel-Lucent were not added because they are traded on foreign exchanges.

### From the top panel

Cisco didn't really compare well to any particular competitor because of the major differences in company size and growth prospects. However, Cisco was fairly valued in terms of forward P/E and PEG. All companies had forward P/E ratios which were closely related to the company's long term growth rate, except for Hewlett-Packard who had a very low forward P/E but extremely high PEG due to its flat growth rate of only .25%. P/B ratios all seem fairly reasonable in the technology industry besides IBM's extremely high P/B. This is most likely due to the large value of their intellectual property that has no book value. P/S sales also seem to be reasonable for CSCO and most of its competitors. A high price to sales is not always a bad thing if a

company is increases sales rapidly, and they are profiting efficiently from those sales. In Cisco's case, a P/S of 2.4 isn't too expensive when looking at their revenue growth and continuous cost cutting program. Lastly, Cisco is trading cheap when looking at P/CF compared to its competitors. It is only a 1/3 compared to its competitor Juniper Networks.

### From the bottom panel

The implied prices for Cisco based on the valuations of other companies are all over the place. In terms of forward P/E, the implied price from IBM is the most accurate at \$23 which isn't too far from Cisco's 52 week high. The only lower forward P/E was HP which would price the stock at about \$11. The implied prices based on PEG were a lot more accurate with median price being \$19.32, just under Cisco's current price. This shows that Cisco is currently priced fairly based on its future earnings. One could make the case that Cisco is actually cheap at these levels since it has provided much more consistent and solid earnings than most of its competitors. The P/B media implied price is almost doubled its current price, but the data is skewed because of two major outliers. The median P/S was almost the same as Cisco's current price, which means CSCO's sales are fairly priced against its competitors. Lastly, P/CF was all over the board as well, with IBM being the closest with an implied price of \$23.43. This most likely has to deal with the size of the companies as CFs can be more important to smaller growing companies.

## Section (E) Revenue and Earnings Estimates

### Earnings Surprise Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Jan-13	12,063.10	12,098.00	34.89	0.29
Quarter Ending Oct-12	11,773.20	11,876.00	102.85	0.87
Quarter Ending Jul-12	11,609.00	11,690.00	80.98	0.7
Quarter Ending Apr-12	11,577.30	11,588.00	10.71	0.09

Quarter Ending Jan-12	11,232.30	11,527.00	294.66	2.62
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Earnings (per share)	Estimate	Actual	Difference	Surprise %
Quarter Ending Jan-13	0.48	0.51	0.03	6.43
Quarter Ending Oct-12	0.46	0.48	0.02	4.35
Quarter Ending Jul-12	0.46	0.47	0.01	2.87
Quarter Ending Apr-12	0.47	0.48	0.01	2.83
Quarter Ending Jan-12	0.43	0.47	0.04	8.27

As you can see from the charts above, Cisco has consistently beaten Wall Street estimates for the top and bottom line 5 straight quarters in a row. While analysts are able to come pretty close to revenue numbers, Cisco has completely surprised analyst a number of times with its EPS, most recently a .03 surprise in the most recent quarter. The stock didn't respond well to the news after negative guidance news from management. This shows that analysts do not have much faith in management's ability to produce a solid profit, yet they continue to prove them wrong time after time. If Cisco continues to beat these estimates, analysts should start respecting the stock more, driving up its price.

### Consensus Analyst Estimates

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Apr-13	35	12,196.70	12,313.10	12,100.00	12,351.30
Quarter Ending Jul-13	35	12,514.10	12,994.60	12,253.00	12,810.30
Year Ending Jul-13	37	48,689.50	49,137.50	48,352.00	49,136.40
Year Ending Jul-14	37	51,293.20	53,347.20	47,800.00	52,514.40

	# Estimates	Mean	High	Low	1 Year Ago
Quarter Ending Apr-13	37	0.49	0.51	0.48	0.5
Quarter Ending Jul-13	37	0.51	0.55	0.49	0.53
Year Ending Jul-13	40	1.99	2.04	1.95	1.98
Year Ending Jul-14	38	2.11	2.28	2	2.15
LT Growth Rate (%)	5	8.4	12	5	9.43

Analyst expectations aren't too far off from each other in terms of revenue. For quarter ending Apr-13, the high estimate was less than a 1% from the mean, while quarter ending Jul-13 was 3.83% higher than the mean. For year ending Jul-13, the high estimate was .9% more than the mean, while year ending Jul-14, the high estimate was 4% higher than the mean. Earnings per share numbers were a lot more skewed from each other. The high estimates compared to mean estimates for Quarter ending Apr-13 and Jul-13 were 4% and 7.84% respectively. The high estimate divergence for Year ending Jul-13 and Jul-14 were 8% and 42% respectively. For quarter ending Apr-13, the low estimate was .78% from the mean, while quarter ending Jul-13 was 2% lower than the mean. For year ending Jul-13, the low estimate was .7% less than the mean, while year ending Jul-14, the low estimate was 6.8% lower than the mean. The low estimates for EPS compared to mean estimates for Quarter ending Apr-13 and Jul-13 were 2% and 4% respectively. The low estimate divergence for Year ending Jul-13 and Jul-14 were 5% and 40% respectively. Overall, it seemed as though the bulls were pulling farther from the consensus estimates than were the bears of the stock, with the largest divergences coming from fiscal year 2014. Most interesting of these charts is the fact that only 5 analysts rated the company's long term growth rate, while 37 made estimates on the company's earnings and revenue. This may have to do with the technology sectors

### Conesus Analyst Trends

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
SALES (in millions)					
Quarter Ending Apr-13	12,196.70	12,198.80	12,212.30	12,215.70	12,351.30
Quarter Ending Jul-13	12,514.10	12,515.60	12,570.80	12,582.00	12,810.30
Year Ending Jul-13	48,689.50	48,693.00	48,702.10	48,758.20	49,136.40

Year Ending Jul-14	51,293.20	51,265.20	51,353.60	51,415.20	52,514.40
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<b>Earnings Per Share</b>	<b>Current</b>	<b>1 Week Ago</b>	<b>1 Month Ago</b>	<b>2 Month Ago</b>	<b>1 Year Ago</b>
Quarter Ending Apr-13	0.49	0.49	0.49	0.49	0.5
Quarter Ending Jul-13	0.51	0.51	0.51	0.51	0.53
Year Ending Jul-13	1.99	1.99	1.96	1.96	1.98
Year Ending Jul-14	2.11	2.11	2.1	2.1	2.15

Revenue and EPS estimates have been trending down lately for almost each quarter and annual report. This is most likely due to macroeconomic developments out of Cisco's control as Cisco has maintained consistent guidance over the period. The slight downward revision 1 week ago for revenue was most likely due to managements warning about its hurting Europe sales which will continue to impact its future numbers until the Europe economy sees a recovery. What is important to note is that revenue estimates for year ending Jul-13 have seen a significant downward revision, while EPS during the same period has actually increased. This shows that analysts are starting to recognize Cisco's ability to produce a growing bottom line even if revenues are not growing significantly. Also worth noting is that EPS for the years ending Jul-13 and Jun-13 have seen a small upward revision over the last 2 months. Analysts seem confident that Cisco will be able to maintain a strong bottom line while incoming revenues may be less than spectacular.

## Estimate Revision Summary

<b>Estimates Revisions Summary</b>				
	<b>Last Week</b>		<b>Last 4 Weeks</b>	
<b>Number Of Revisions:</b>	<b>Up</b>	<b>Down</b>	<b>Up</b>	<b>Down</b>
<b>Revenue</b>				
Quarter Ending Apr-13	0	1	16	16
Quarter Ending Jul-13	0	1	11	19
Year Ending Jul-13	0	1	18	17
Year Ending Jul-14	1	0	13	14
<b>Earnings</b>				
Quarter Ending Apr-13	0	1	15	8
Quarter Ending Jul-13	0	0	11	10
Year Ending Jul-13	1	1	35	1
Year Ending Jul-14	0	0	16	6

There have been a ton revisions the last 4 weeks, most of them likely coming after the company reported Q2 earnings about two weeks ago. Analysts seem pretty split on revenues of the company going forward, while many revised EPS upward. This is because the company reported mixed results, with negative news about its Europe exposure, and positive news about its accelerated growth in non-core businesses of data-centers and cloud computing technology. Management announced that it expected revenue for the quarter ending Jul-13 to be between 4 to 6 percent higher than a year ago, and that it expected EPS for the same period to be between .48 and .50, in line with the current estimate of .49. Cisco has been known to give conservative guidance so the upward revisions may be analysts who think management continues to be conservative and that they will report closer to .50. After smashing analyst expectations last quarter, only one analyst revised their fiscal year EPS downward, while 35 analysts raised it. CEO John Chambers may have given some bait to optimistic analysts during the most recent conference call when he stated “We are seeing early signs of stabilization in government spending and also in probably a little bit over two thirds of Europe” before adding “But I want to watch that for at least another quarter before I get really excited about it”. Analyst’s at Morningstar feel the same way as Cisco has been able to maintain it’s dominate market share in its two largest markets, routers and switches. Being an industry leader and innovative company lead analysts to believe that Cisco will be able to maintain solid and steady revenue growth, with the possibility of also growing its non-core businesses rapidly. For

example, Cisco has grown its data-center segment 65% year over year due largely to recent acquisitions.

I believe that Cisco has a good chance at beating consensus estimates when the company reports on May 15<sup>th</sup>. First, the company has beaten estimates on the top and bottom line 5 straight quarters as analyst continue to disrespect Cisco's earning power. Revenue will be a close one, but if the CEO was correct about seeing improving signs in Europe, then they should have no problem beating estimates as revenue from the America's and Asia continue to be solid. I believe they will also surprise on EPS as well, with management expecting .50 possibly and the consensus estimate at .49, I think it is definitely possible for a positive surprise for 6 straight quarters. The stock is currently trading below what it was before they announced earnings, so believe this hasn't been priced in, even though many analysts increased their estimates upward during the last four weeks. I believe this gives us a chance to pick up a stock that hasn't gotten the respect it deserves yet.

## Section (F) Analysts' Recommendations

Copy/paste the "Analyst Recommendations and Revisions" Table from *Reuters.com*, "Analysts" tab. NOTE: Make sure you copy the entire table including the "Mean Rating" at the bottom of the table.

Analyst Recommendations and Revisions				
1-5 Linear Scale	Current	1 Month	2 Month	3 Month
		Ago	Ago	Ago
(1) BUY	15	14	13	13
(2) OUTPERFORM	13	14	14	15
(3) HOLD	8	9	14	14
(4) UNDERPERFORM	3	4	2	2
(5) SELL	1	1	1	1
No Opinion	0	0	0	0
Mean Rating	2.05	2.14	2.18	2.18

Analyst revisions seem bullish with an increase of 2 buy recommendations over the last two months, and only 1 increase in underperform recommendations during the same time. What is interesting to note is that there are 5 less analyst recommending the stock currently than three months ago. Most of those analysts that stop recommending the stock had hold recommendations before stopping recommendations. Overall, the mean rating lowered from 2.18 to 2.05 which are closer to 1 which would be a mean buy rating. There are only 4 analysts which recommend and underperform or sell which is expected in a volatile and competitive sector like the technology sector. Morningstar provided similar results with 6 analysts rating CSCO a buy, 2 rate outperform, 2 rate hold, and 1 rate underperform. There are no analysts with a sell recommendation according to Morningstar. CNBC.com rates CSCO a buy with 38 analysts reporting. There seems to be a consensus buy rating from the research that I have done.

**\*There have been no upgrades or downgrades of CSCO during the last two months according to CNBC.com**

## Section (G) Institutional Ownership

CSCO				
Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			5,331,970,000	100.00%
# of Holders/Tot Shares Held	1,944	102.86%	3,894,845,408	73.05%
# New Positions	148	7.83%		
# Closed Positions	94	4.97%		
# Increased Positions	762	40.32%		
# Decreased Positions	878	46.46%		
Beg. Total Inst. Positions	1,890	100.00%	3,829,845,993	71.83%
# Net Buyers/3 Mo. Net Chg	-116	46.46%	64,999,415	1.22%
<b>Ownership Information</b>		<b>% Outstanding</b>		
Top 10 Institutions % Ownership	22.90%			
Mutual Fund % Ownership	1.59%			
Float %	99.74%			
<b>&gt; 5% Ownership</b>				
<b>Holder Name</b>	<b>% Outstanding</b>	<b>Report Date</b>		

Over the past three months, there has been a solid increase in shares held by institutions of 1.22%. This is a bullish indicator as companies with a large amount of capital to invest feel CSCO is a solid option. The only slightly bearish indicator is that more decreased their position than increased. Overall, 73% of shares are owned by institutions which is a good amount but not so much where the stock may be very volatile based on ownership changes. Only 22.90% of shares belong to the top 10 institutions, which means they have a large amount of investors. There are no owners of more than 5% of the shares outstanding.

## Section (H) Short Interest (two pages)

### CSCO

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/31/2013	56,795,221	36,429,060	1.559064
1/15/2013	58,245,707	35,800,768	1.626940
12/31/2012	53,667,165	34,933,746	1.536256
12/14/2012	62,925,327	42,260,921	1.488972
11/30/2012	76,188,712	37,914,227	2.009502
11/15/2012	72,077,748	46,463,355	1.551282
10/31/2012	64,616,503	39,430,488	1.638745
10/15/2012	55,452,158	32,058,086	1.729740
9/28/2012	54,120,725	36,435,145	1.485399
9/14/2012	52,547,374	38,170,959	1.376632
8/31/2012	58,240,036	46,855,449	1.242973
8/15/2012	57,213,687	42,436,057	1.348233
7/31/2012	52,388,992	43,504,945	1.204208
7/13/2012	57,942,237	32,010,920	1.810077
6/29/2012	66,893,641	42,744,259	1.564974
6/15/2012	71,394,995	35,634,324	2.003546
5/31/2012	83,076,513	45,080,091	1.842865
5/15/2012	48,787,856	62,936,527	1.000000
4/30/2012	50,487,316	39,309,962	1.284339
4/13/2012	43,200,498	38,017,655	1.136327
3/30/2012	46,098,410	39,433,905	1.169004
3/15/2012	48,933,705	35,782,609	1.367528
2/29/2012	52,434,453	38,871,055	1.348933
2/15/2012	52,620,626	60,020,196	1.000000



**JNPR**

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/31/2013	13,492,847	8,102,505	1.665269
1/15/2013	13,064,387	6,408,297	2.038668
12/31/2012	14,869,032	5,410,384	2.748240
12/14/2012	16,101,283	8,759,600	1.838130
11/30/2012	12,434,887	7,404,067	1.679467
11/15/2012	17,621,012	8,003,690	2.201611
10/31/2012	15,545,989	11,337,226	1.371234
10/15/2012	19,383,587	6,330,634	3.061871
9/28/2012	20,267,068	5,175,992	3.915591
9/14/2012	22,766,184	7,966,984	2.857566
8/31/2012	21,924,350	7,376,136	2.972335
8/15/2012	25,440,913	12,326,205	2.063970
7/31/2012	19,289,645	11,361,629	1.697789
7/13/2012	13,157,095	5,308,417	2.478535
6/29/2012	14,116,945	7,675,064	1.839326
6/15/2012	15,204,213	9,949,443	1.528147
5/31/2012	15,094,136	9,514,578	1.586422
5/15/2012	14,602,244	9,177,220	1.591140
4/30/2012	14,497,123	13,512,127	1.072897
4/13/2012	15,182,011	8,410,776	1.805067
3/30/2012	14,123,423	7,900,337	1.787699
3/15/2012	12,852,418	9,694,160	1.325790
2/29/2012	13,177,756	8,863,736	1.486704
2/15/2012	10,721,549	10,980,959	1.000000



HPQ

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/31/2013	80,623,230	24,366,550	3.308767
1/15/2013	98,156,455	37,787,025	2.597623
12/31/2012	93,903,810	22,374,284	4.196953
12/14/2012	96,721,545	34,289,321	2.820748
11/30/2012	106,649,726	47,379,970	2.250945
11/15/2012	98,511,783	23,353,326	4.218319
10/31/2012	98,858,526	19,980,951	4.947639
10/15/2012	99,229,614	45,740,409	2.169408
9/28/2012	82,158,621	22,532,277	3.646264
9/14/2012	73,249,023	21,096,844	3.472037
8/31/2012	79,471,364	27,082,290	2.934440
8/15/2012	67,834,602	21,842,071	3.105685
7/31/2012	55,058,815	17,760,231	3.100118
7/13/2012	53,508,184	17,459,119	3.064770
6/29/2012	48,885,983	18,633,561	2.623545
6/15/2012	48,650,416	15,975,858	3.045246
5/31/2012	46,930,099	26,587,692	1.765106
5/15/2012	35,499,693	15,920,648	2.229789
4/30/2012	38,815,213	14,680,463	2.644005
4/13/2012	29,748,567	20,610,072	1.443399
3/30/2012	27,633,268	23,109,234	1.195767
3/15/2012	21,926,770	21,884,867	1.001915
2/29/2012	15,841,672	30,173,117	1.000000
2/15/2012	14,981,683	12,892,683	1.162030



When comparing the short interest between its competitors, Cisco had the lowest average days to cover compared to Juniper Networks and HP. This is most likely because the stock is not very volatile and has been steadily increasing in share price since early November when the stock dipped below \$17.50. There have only been two weeks where days to cover was over 2 days which means bulls know they do not have a long opportunity to short the stock. The most recent report was 1/31/2013 where there was 1.55 days to cover. Juniper Networks has had low short interest as well with spikes before an announcement earning and before the fiscal cliff. In the last month, there has been a solid decrease in shares short of JNPR. Lastly, HP has seen a much higher short interest than the other two peers. This is most likely attributed to HPQ's continues revenue decline the past two years. Based on the short information available, I would say that investors are afraid to short CSCO which is a bullish indicator. It will be interesting to see what the days to cover currently is after the Cisco recently announced earnings.

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From <http://finance.yahoo.com/>

Complete the following table with information from the *"share statistics" table*.

<b>Avg Vol (3 month)</b>	<b>Avg Vol (10 day)</b>	<b>Shares Outstanding</b>	<b>Float</b>
33,731,100	45,970,900	5.32B	5.31B
<b>Shares Short (Most recent date)</b>	<b>Short Ratio (Most recent date)</b>	<b>Short % of Float (Most recent date)</b>	<b>Shares Short (2 weeks prior)</b>
56.80M	1.60	1.10%	58.2M



## A five year price chart



## 6 Month Technical Analysis



## 2 Year Technical Analysis



When looking at the three month chart you can see that CSCO has been riding the bull market recently, just outperforming the S&P 500 and technology sector ETF. Juniper Networks however has been on a tear the last three months after it announced a major EPS beat. Over the past year, CSCO has outperformed both JNPR and the tech sector, but not the market as a whole as it has been a slow year for the technology sector. The 5 year price chart shows CSCO outperforming its competitor JNPR but not the market or tech sector ETF. When looking at the technical analysis for 6 months, you can see the CSCO experienced a “death cross” in November. According to RSI the stock was being oversold as investors didn’t take to kindly to an acquisition announcement. A few days later CSCO announced earnings and the 10 day MA went above the 50 day MA, a bullish indicator. The chart also shows that CSCO is not currently being overbought or oversold. Looking at the 2 year technical analysis chart, you can see that the 50 day MA has had a hard time staying above the 200 day MA. This happened when management lowered guidance and the stock was heavily oversold. However, it just recently bounced off the 200 MA which is a bullish indicator.

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