



Position Close Update: Cisco Systems (CSCO)

Cisco Systems (CSCO: \$44/share) – Closing Long Position – up 62% vs. S&P up 32%

Cisco Systems was originally selected as a [Long Idea on 11/25/14](#). At the time of the initial report, the stock received an Attractive rating. Our investment thesis highlighted a high return on invested capital ([ROIC](#)), significant growth opportunity from the Internet of Things (IoT), and an undervalued stock price.

During the 1,416-day holding period, CSCO outperformed as a long position, gaining 62% compared to a 32% gain for the S&P 500.

CSCO was downgraded to Neutral on 9/26/18 after the rising stock price made the valuation more expensive.

The company continues to be highly profitable, and its \$46 billion in [excess cash](#) gives it plenty of resources to acquire innovative startups to make up for the difficulties in innovating that any giant company will have.

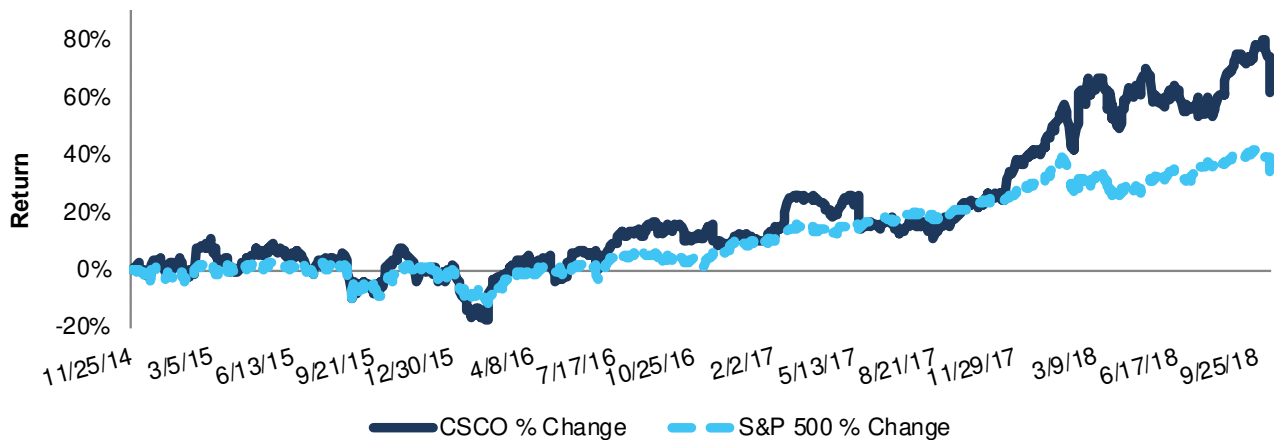
However, the company's ROIC declined from a peak of 18% in 2016 to 15% in 2018, which, combined with the rising stock price, makes the valuation less appealing. At its current price of \$44/share, CSCO has a price to economic book value ([PEBV](#)) ratio of 1.3 and a market implied growth appreciation period ([GAP](#)) of 11 years.

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Even though we still like the long-term outlook for CSCO's business, the stock no longer presents the quality risk/reward it once did. We are closing this position and waiting for a potential pullback or fundamental improvement to get back in.

Figure 1: CSCO vs. S&P 500 – Price Return

CSCO Performance During Holding Period



Sources: New Constructs, LLC and company filings

Note: Gain/Dcline performance analysis excludes transaction costs and dividends.

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.

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