

# Serial Acquirer Case Study: Cisco System



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**New York**  
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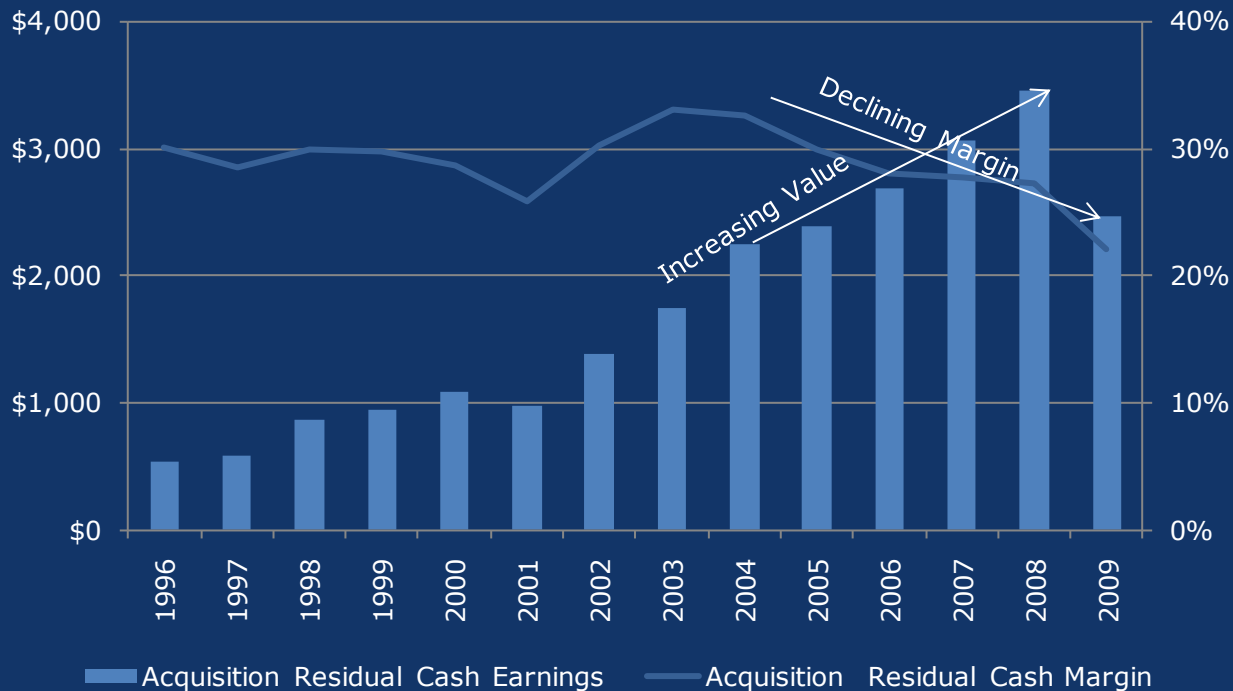
# Overview

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- Despite the claim that acquisitions destroy value certain companies excel as acquirers and deliver outstanding value for shareholders.
- We studied the relationship between long term total shareholder returns (TSR) and different acquisition strategies and a variety of deal characteristics.
  - The only trait that consistently has a strong positive relationship with long term TSR across each industry is acquisition frequency.
- We call them Serial Acquirers and many generate outstanding results by being better at planning, executing and integrating acquisitions than their peers.
- Cisco Systems is one of the world's best serial acquirers

# Cisco's M&A Strategy Emphasizes Growth

Cisco's Fundamental Performance



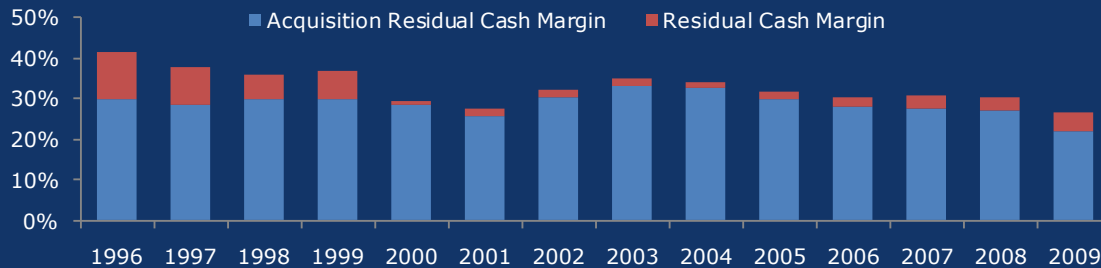
- Cisco's corporate development process requires the Company to identify and capitalize on market disruptions
- This strategy creates value for shareholders and demonstrates the benefits of redeploying capital even if it requires sacrificing near term returns

Source: Fortuna Advisors Analytics, using CapitalIQ Data

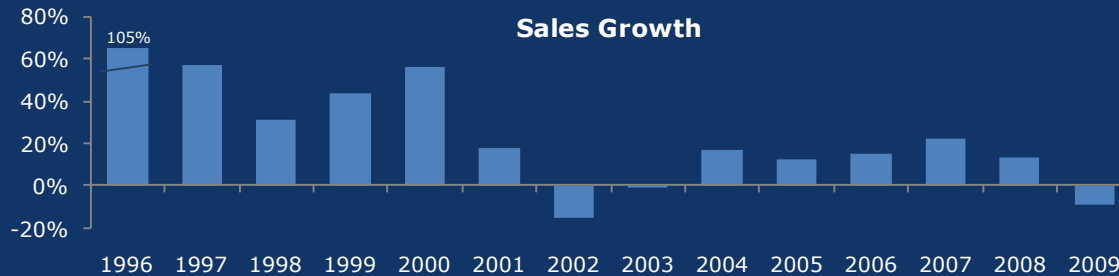
Note: Acquisition Residual Cash Earnings (ARCE) is EBITDA + Rent + R&D Less Taxes Less Capital Charge Including Goodwill & Intangibles  
 Acquisitions Residual Cash Margin (ARCM) is ARCE as a % of Revenue

# Cisco Creates Value Through Superior Returns and Growth

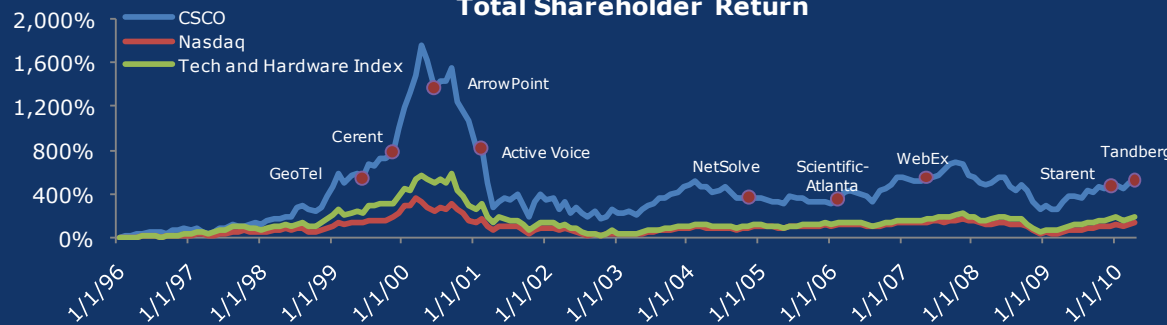
### Residual Cash Margin



### Sales Growth



### Total Shareholder Return



- Cisco's M&A Strategy emphasizes growth
- Over the past 14 years the company has averaged 26% revenue growth which compounds to 2500% growth
- Residual Cash Margins have remained consistently high making this growth even more valuable

Source: Fortuna Advisors Analytics, using CapitalIQ Data

Note: Residual Cash Margin (RCM) is EBITDA + Rent + R&D Less Taxes Less Capital Charge (Acquisition RCM includes Goodwill and Intangibles in the Capital Charge)

# Cisco's Emphasis on Growth leads it to pay relatively high market multiples given near term profitability

Cisco Acquired Companies	Time Period	Enterprise Value	EBITDARR Margin	Gross Margin	SG&A % of Sales	Asset Intensity	Gross Business Return	Enterprise Value to Gross Asset	Residual Cash Margin
Starent Networks	2008	1,550	46%	78%	37%	0.52x	90%	6.56x	43%
Tandberg	2008	3,056	36%	41%	5%	0.24x	121%	7.74x	27%
WebEx Communications	2006	1,910	43%	82%	47%	1.33x	25%	3.54x	22%
Scientific-Atlanta	2005	4,378	31%	37%	11%	0.69x	35%	3.46x	18%
NetSolve	2003	75	21%	38%	30%	1.56x	14%	1.10x	8%
Active Voice	1999	146	21%	58%	44%	1.88x	13%	1.16x	9%
ArrowPoint Communications	1999	373	-41%	59%	94%	3.58x	-11%	8.42x	-71%
GeoTel Communications	1998	1,124	48%	81%	38%	1.05x	34%	23.89x	27%
Acquired Target Median		\$1,337	34%	58%	37%	1.19x	29%	5.05x	20%
Cisco Peer Median	2009	\$10,898	31%	56%	30%	0.84x	35%	3.06x	21%
Cisco	2009	\$123,730	41%	64%	28%	0.88x	41%	3.88x	29%

Source: Fortuna Advisors Analytics, using CapitalIQ Data

Peers includes IBM, EMC, Hewlett-Packard, Polycm, Brocade Communications, F5 Networks, Juniper Networks, and NetApp.

# At the height of the tech bubble Cisco astutely acquired Arrow Point and Geotel using its own richly valued shares



Source: Fortuna Advisors Analytics, using CapitalIQ data.

Note: "Long-Term Market Norm" based on the historical relationship between Gross Business Returns and Market Multiples for the 1,000 largest non-financial US Companies

# Appendix

# Fortuna Advisors Partners

## Experts in Strategy, Finance and Value Management

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### Gregory V. Milano

Managing Partner, Founder & CEO

- 25 years of experience including 17 years in value based management as Partner and President of Stern Stewart & Co., and Managing Director and Co-Head of the Strategic Finance Group at Credit Suisse
- Industry thought leader and advisor to senior executives on business and financial strategies designed to increase share prices, financial management processes to support value based strategies and a strong focus on behavioral economics to align the interests of managers with those of shareholders.



### John R. Cryan

Partner & Co-Founder

- 10 years of experience including value management at Credit Suisse and Accenture
- Extensive experience in Enterprise Performance Management, developing and implementing value-based strategies into financial management and decision making processes



### Steven C. Treadwell

Partner

- 15 years of experience including 9+ years of value management experience at HOLT and Credit Suisse
- Extensive work with some of the largest companies in the retail, consumer products and industrial sectors incorporating shareholder insights into the client's strategic decision process

# Focus and Discipline of Postmodern Corporate Finance

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