Credit Crisis: The Breakdown in Liquidity Circulation

liquidity (li kwid'i tē)
Definition:
Cash available or the capacity to obtain it on demand
The ability to convert an asset to cash quickly for investment

Liquidity is characterised by a high level of trading activity
Market Reality

Credit Crisis

- Lending criteria have tightened, banks and financial institutions have taken a hit on bad (sub prime) investments
- Borrowing is increasingly challenging and expensive, capital (or cash) preservation is critical
- To raise capital, banks and financial institutions have sought to sell assets which has further deteriorated the financial markets.
- These forces, combined with lack of market confidence, are putting severe strain on the markets causing capital to become in short supply and freezing bank-to-bank lending, making the cost of new debt much more expensive and difficult to acquire, even for AAA-rated businesses.

Impact on our Customers

- Spending is being scrutinised more, investments are being put on hold
- Raising capital is more difficult and expensive, liquidity can become affected
- Operating expenses are under greater scrutiny than ever before
- Yet investment has to be made
The New Normal

“Not just another recession, but a restructuring of the economic order”

LEGITIMATE DEBT INCREASE

- Financial Innovation
- Flexibility of Credit

CREDIT BUBBLE driven by High Risk, Mis-selling, Fraud

- De-Regulation
- Poor Governance

BIGGEST FINANCIAL CRASH since the Depression

- Less Financial Leverage
- CapEx to OpEx
- More Regulation
- Falling Consumption

INNOVATION

Increase Market Share

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The New Conversation

• **Business Value**
  > Customer business model
  > Key Projects & Initiatives

• **Innovation**

• **Competition Differentiation**

• **Build Market Share**

• **Financial Leverage**
  > CapEx to OpEx
  > Balance Sheet Constraints vs Budgets (credit crunch)
  > Services vs Asset Purchase
  > TCO

Business Issue  Technology Solution  Commercial Wrapper
Who is Cisco Capital?

- A wholly-owned Cisco subsidiary established in 1996 created to leverage the financial strength of its parent by offering customers’ an alternative source of funding to acquire their Cisco solutions
- Global coverage – over 140 countries
- Cisco Capital is a key component of the Cisco ‘whole offer’
- Offers Cisco customers maximum business flexibility with a range of standard and tailored financing solutions
- Unlike other captive or third-party finance companies, because of Cisco Capital’s knowledge of Cisco solutions it is able to take a more aggressive residual value risk with Cisco products
- Knowledge of the life cycle of the asset allows TCO modelling to drive technology refresh and productivity gains
- We strive to work in partnership with our customers to release restrictive budgets and accelerate deployment of Cisco technology
A Better Way to Acquire Cisco Solutions

Help continue your business growth by:

- Conserving cash and bank facilities
- Maximising constrained budgets – move CapEx to OpEx
- Obtaining competitive rates and access to residuals, thereby reducing total costs
- Improve budget management, align project costs to technology benefits and improve ROI
- Flexible payments and terms give access to futures budgets
- Financing the total Cisco solution - including hardware, software, services and non-competing third party equipment (60:40 split)
- Bespoke financing for the best economics and useful life scenario
- Remove the burden associated with compliant equipment disposal
- Aligning and ensuring the success of technology projects
Cisco Capital
Lines of Business

Technology Financing
Attractive, flexible financing options for Cisco technology solutions

Channel Financing
Credit lines and payment terms beyond the standard Cisco net 30 day terms

Pre-Owned Equipment
Price competitive and trusted alternative when new Cisco is not an option
What We Do...

- Finance Leases
- Fair Market Value/Operating Leases
- Medium Term Loans
- Multi-year Maintenance Only
- Extended Terms 60-180 Days
- Short Term Promissory Notes
- Project Finance/Progress Payments

Enabling Cisco and Partner Sales, and End Users

Impact on...
P&L
Balance Sheet
Cash Flow
Foundational Finance Products

1. Standard Finance Lease
2. Operating Lease
3. Loan

Structuring possibilities

1. Payment profiles (eg Step Financing)
2. Technology refresh
3. Sale and leaseback
4. Commercial models (Flexible Demand; Pay As You Grow; Scale Pay)
Under the Bonnet
Our Solutions
Cisco Capital – What We Do

• Innovation through finance reduces technology investment costs.

• In Europe we lend close to $1Bn each year for investment in core infrastructure, data centre technologies and Managed Service cpe.

• Cisco Capital Pay As You Go models mitigate service provider risk. Our aim is help increase productivity, profitability and the efficiency of acquisition, deployment and refresh of Cisco technologies.

• The Options Contract creates a compelling event for the refresh of Cisco products and services. Cisco Capital carries technology obsolescence risk reducing Telekom Austria’s investment costs and the cost to upgrade / refresh of redundant equipment in your network.

• Cisco Capital is not a Bank, nor do we aspire to be a Bank. Reduced “total cost of ownership, without risk” through financial innovation is our ambition.
A) equipment is returned to Cisco within the primary term saving c. 20% of capex investment

B) equipment is retained where only the amount to pay is the RV

3 – 5 year primary term contract amortises c. 80% of the capex cost the funding rate is EQUAL / LOWER than Telekom Austria’s internal cost of money

- OpEx solution for hardware investment (if required)
- Cisco carries greater risk, no premium for strategic SP, only upside for refresh for Cisco technologies
- Retained equipment is funded as if ‘cash purchase’ from the outset
- Choose Option A) to return the equipment and save circa 20% of capex or B) to retain the equipment and pay no more than cash.
Options Contract

- For every $ you return, you save 20%+ of your costs.
- For every $ you retain, you pay the same as cash.
PAYG II Model (Pay as you Grow)

- **Deferred Invoice**
- **Buffer Capacity**
- **Demand**

**Base Capacity**

- **HoHW Payments Obligation**
- **Growth Capacity**
Capacity on Demand (Pay as you Go)
Cisco ‘Risk’ Models

Options Contract
*Guaranteed future value commitments*
*Zero premium for customer*
*Retained equipment costs the same as if paid for with cash*

**Greater Cisco risk, no premium**

Pay As You Grow
*Minimizing upfront capex investments*
*Reduced costs, no latency of product deployment*
*Rentals directly related to the use of Cisco technologies*

**Buffer capacity, ready to use**

Pay As You Go
*Significantly reduced capex and opex expenses*
*Rentals directly related to the utilization of Cisco technologies*
*Balance of fixed and variable rentals*

**Standby Capacity, on-line 'on demand'**
Summary & next steps

**Summary** - Cisco Capital is not attempting to compete with your Banking relation, moreover we aim to compliment the financial resources you already enjoy.

- The Options Contract is simple and effective, enable you to control the refresh cycle of your Cisco investments while demonstrating clear savings in TCO should you opt to return the equipment at the end of the primary term

- PAYG models save time and valuable opex expenses. Technology available ‘on demand’, monthly payments directly aligned the utilization of Cisco products and services

**Next steps** - a workshop to explore the details behind financial solutions, the architectures that lend themselves to each model and the real numbers that demonstrate the savings we can achieve for the Telekom Austria Group.
Thank you.