



Cisco Systems Inc. (CSCO)

Updated February 20th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	9.4%	Market Cap:	\$209 B
Fair Value Price:	\$53	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/04/23
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	04/26/23
Dividend Yield:	3.1%	5 Year Price Target	\$70	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Cisco Systems is the global leader in high performance computer networking systems. The company's routers and switches allow networks around the world to connect to each other through the internet. Cisco also offers data center, cloud, and security products. The company went public on February 16th, 1990. Today, Cisco employs more than 79,000 people and generates about \$57 billion in annual revenues.

On February 15th, 2023, Cisco announced a 2.6% dividend increase in the quarterly payment to \$0.39.

Also on February 15th, 2023, Cisco reported earnings results for the second quarter of fiscal year 2023. For the quarter, revenue grew 7.1% to \$13.6 billion, which was \$190 million above estimates. Adjusted earnings-per-share of \$0.88 compared to adjusted earnings-per-share of \$0.84 in the prior year and was \$0.02 more than expected.

Beginning with the first quarter of fiscal year 2022, Cisco has renamed its business segments. Secure Agile Networks, formerly known as Infrastructure, grew 14%, End-to-End Security, formerly known as Security, improved by 7%, and Optimized Application Experiences was up 11%. Internet for the Future declined 1% while Collaboration was lower by 10%. By region, the Americas grew 9%, Europe/Middle East/Africa was up 5%, and Asia-Pacific/Japan/China was higher by 1%. Total gross margins contracted 130 basis points to 62.0%. Deferred revenue grew 7% to \$23.9 billion. Cisco repurchased 26 million shares at an average price of \$47.72 during the quarter. The company's remaining share repurchase authorization is \$13.4 billion, or 6.4% of the current market cap.

Cisco provided an outlook for the third quarter and fiscal year 2023 as well, with the company expecting revenue growth of 11% to 13% for the quarter and adjusted earnings-per-share of \$0.96 to \$0.98. For fiscal year 2023, Cisco now expects revenue growth of 9% to 10.5%, compared to 4.5% to 6.5% and 4% to 6% previously, and adjusted earnings-per-share in a range of \$3.73 to \$3.79, up from \$3.51 to \$3.58 and \$3.49 to \$3.56 previously. At the midpoint, this would be a 11.9% increase from the prior year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.02	\$2.06	\$2.21	\$2.36	\$2.39	\$2.60	\$3.10	\$3.21	\$3.22	\$3.36	\$3.76	\$5.03
DPS	\$0.62	\$0.72	\$0.80	\$0.94	\$1.10	\$1.32	\$1.40	\$1.44	\$1.46	\$1.50	\$1.56	\$2.09
Shares¹	5389	5107	5085	5029	4983	4670	4307	4243	4238	4170	4116	4000

Between 2013 and 2022, Cisco's earnings increased at a rate of 5.8% per year. We reaffirm our expected growth rate of 6% due to a combination of improving margins and share repurchases offset by revenue weakness.

Cisco has increased its dividend for 13 consecutive years. For much of this time, shareholders have seen impressive dividend growth since the company instituted its dividend, though growth has slowed considerably over the past few years.

¹ Share count in millions

Disclosure: This analyst has a position in the security discussed in this research report.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.3	11.3	12.3	11.5	13.3	15.1	16.1	15.5	17.2	14.0	13.6	14.0
Avg. Yld.	3.0%	3.1%	2.9%	3.5%	3.5%	3.2%	2.7%	2.8%	2.6%	3.3%	3.1%	3.0%

Shares of Cisco have increased \$4, or 8.5%, since our November 18th, 2022 report. The 2009 to 2010 time frame saw shares of Cisco trade with a well above average price-to-earnings multiple. Over the last decade, shares have traded with an average P/E of 13.7. Given the company's overall business performance of the past few years, growth in deferred revenue, and large cash balance, we maintain our target P/E of 14.0 Reaching our target valuation by 2028 would add 0.6% to annual returns during the period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	30%	35%	36%	40%	46%	51%	45%	45%	45%	45%	41%	41%

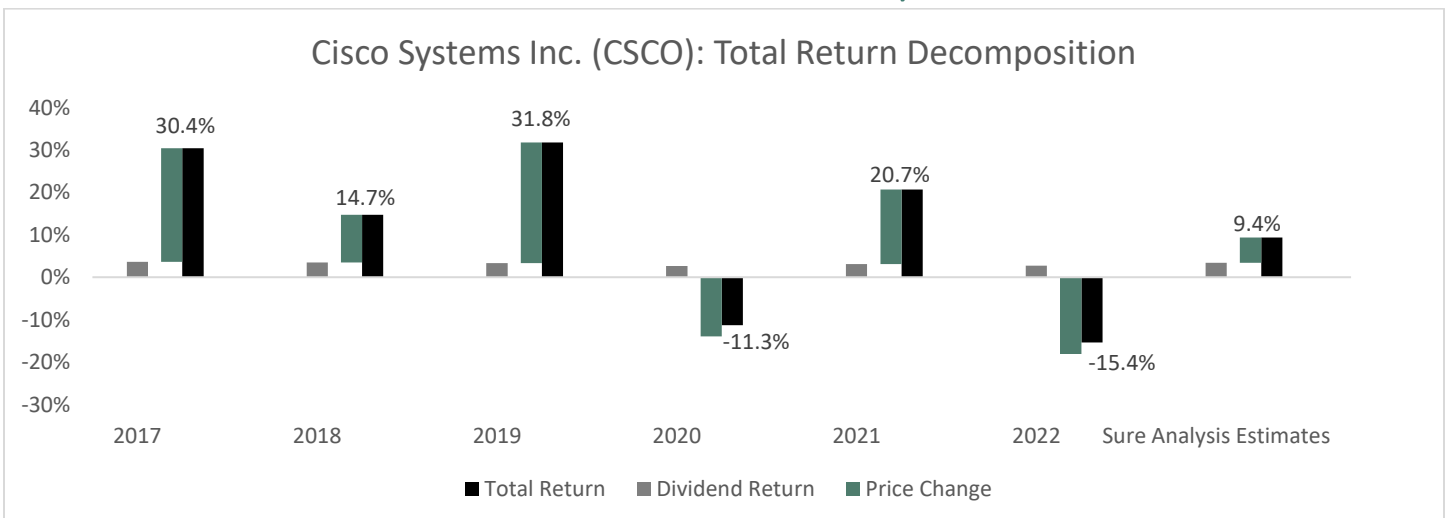
Cisco ended the second quarter of fiscal 2023 with \$22.1 billion in cash and equivalents. Given the cash on the balance sheet, it is likely that Cisco would be able to continue to pay a dividend even in the event of an extended recession.

With everything from computers to cell phones to buildings connected today, Cisco is in a prime position to capitalize on the Internet of Things. In fact, Cisco is responsible for 80% of all the data moved over the internet in the past 30 years. While Cisco continues to enjoy hardware dominance, the company is attempting to become more of a subscription services company. This should help create more predictable revenue streams. One such example of this effort is the Catalyst 9K switch. This switch is twice as fast as competing products and protects data and cloud networks.

Final Thoughts & Recommendation

Cisco Systems is projected to return 9.4% annually over the next five years, down from our prior estimate of 10.0%. Our estimated return stems from a 6% earnings growth rate, a 3.1% dividend yield, and a small contribution from multiple expansion. Cisco's outperformed expectations during the quarter once again as well as raised guidance for the fiscal year. We have raised our five-year price target \$3 to \$70 to reflect updated guidance, but now view shares as a hold due to total return potential. On a pullback, we would look more favorably upon the name.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022
Revenue	48,607	47,142	49,161	49,247	48,005	49,330	51,904	49,301	49,818	51,557
Gross Profit	29,440	27,769	29,681	30,960	30,224	30,606	32,666	31,683	31,894	32,248
Gross Margin	60.6%	58.9%	60.4%	62.9%	63.0%	62.0%	62.9%	64.3%	64.0%	62.5%
SG&A Exp.	11,802	11,437	11,861	11,433	11,177	11,386	11,398	11,094	11,411	11,186
D&A Exp.	2,460	2,439	2,442	2,150	2,286	2,192	1,897	1,808	1,862	1,957
Operating Profit	11,301	9,763	11,254	12,928	12,729	12,667	14,541	14,101	13,719	13,975
Op. Margin	23.2%	20.7%	22.9%	26.3%	26.5%	25.7%	28.0%	28.6%	27.5%	27.1%
Net Profit	9,983	7,853	8,981	10,739	9,609	110	11,621	11,214	10,591	11,812
Net Margin	20.5%	16.7%	18.3%	21.8%	20.0%	0.2%	22.4%	22.7%	21.3%	22.9%
Free Cash Flow	11,734	11,057	11,325	12,424	12,912	12,832	14,922	14,656	14,762	12,749
Income Tax	1,244	1,862	2,220	2,181	2,678	12,929	2,950	2,756	2,671	2,665

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022
Total Assets (\$B)	101.19	105.07	113.37	121.65	129.82	108.78	97.79	94.85	97.50	94.00
Cash & Equivalents	7,925	6,726	6,877	7,631	11,708	8,934	11,750	11,809	9,175	7,079
Acc. Receivable	5,470	5,157	5,344	5,847	5,146	5,554	5,491	5,472	5,766	6,622
Inventories	1,476	1,591	1,627	1,217	1,616	1,846	1,383	1,282	1,559	2,568
Goodwill & Int.	25,322	27,519	26,845	29,126	32,305	34,258	35,730	35,382	41,787	40,873
Total Liabilities	42,063	48,409	53,666	58,067	63,681	65,580	64,222	56,933	56,222	54,229
Accounts Payable	1,029	1,032	1,104	1,056	1,385	1,904	2,059	2,218	2,362	2,281
Long-Term Debt	16,211	20,845	25,354	28,643	33,717	25,569	24,666	14,583	11,526	9,515
Total Equity	59,120	56,654	59,698	63,586	66,137	43,204	33,571	37,920	41,275	39,773
LTD/E Ratio	0.27	0.37	0.42	0.45	0.51	0.59	0.73	0.38	0.28	0.24

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022
Return on Assets	10.3%	7.6%	8.2%	9.1%	7.6%	0.1%	11.3%	11.6%	11.0%	12.3%
Return on Equity	18.1%	13.6%	15.4%	17.4%	14.8%	0.2%	30.3%	31.4%	26.7%	29.1%
ROIC	14.0%	10.3%	11.0%	12.1%	10.0%	0.1%	18.3%	20.3%	20.1%	23.1%
Shares Out.	5389	5107	5085	5029	4983	4670	4307	4243	4238	4170
Revenue/Share	9.03	8.93	9.55	9.68	9.51	10.11	11.66	11.59	11.76	12.30
FCF/Share	2.18	2.09	2.20	2.44	2.56	2.63	3.35	3.45	3.48	3.04

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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