Cisco Systems Inc. (CSCO)

Updated August 16th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	8.9%	**Market Cap:**	$199 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	10/02/24
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	10/23/24
Dividend Yield:	3.3%	**5 Year Price Target**	$67	**Years Of Dividend Growth:**	14
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 almost $54 billion in annual revenues.

On February 14th, 2024, Cisco announced a 2.6% dividend increase in the quarterly payment to $0.40.

On March 18th, 2024, Cisco completed its $28 billion purchase of cybersecurity company Splunk.

On August 14th, 2024, Cisco reported results for the fourth quarter and fiscal year 2024 for the period ending July 27th, 2024. For the quarter, revenue fell 10.3% to $13.6 billion, but this was $100 million ahead of estimates. Adjusted earnings-per-share of $0.87 compared unfavorably to adjusted earnings-per-share of $1.14 in the prior year, but this was $0.02 more than expected. For the year, revenue declined 6% to $53.8 billion while adjusted earnings-per-share of $3.73 compared to $3.89 in the prior fiscal year.

This was the second quarter that included the company's acquisition of Splunk, which contributed $4.3 billion to the annualized recurring revenue total of $29.6 billion. For the most recent quarter, Networking declined 28%, Security surged 81%, Collaboration was once again flat, and Observability was up 4127%. By region, the Americas decreased 4%, Europe/Middle East/Africa was lower by 7%, and Asia-Pacific/Japan/China was down by 8%. Total gross margins expanded 30 basis points to 64.4%. Deferred revenue grew 11% to $28.5 billion. Cisco repurchased 43 million shares at an average price of $46.80 during the quarter. The company's remaining share repurchase authorization is $5.2 billion, or 2.6% of the current market cap.

Cisco provided an outlook for fiscal year 2025 as well, with the company expecting revenue in a range of $55 billion to $56.2 billion. Adjusted earnings-per-share is projected in a range of $3.52 to $3.58. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.21	$2.36	$2.39	$2.60	$3.10	$3.21	$3.22	$3.36	$3.89	$3.73	***$3.55***	***$4.75***
DPS	$0.80	$0.94	$1.10	$1.32	$1.40	$1.44	$1.46	$1.50	$1.54	$1.58	***$1.60***	***$1.81***
Shares[1]	5085	5029	4983	4670	4307	4243	4238	4170	4093	4035	***4035***	***4000***

Between 2015 and 2024, Cisco's earnings increased at a rate of 6.0% per year. The growth rate has deaccelerated to 2.0% when looking at the last five years. 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 14 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. We have lowered our expected dividend growth rate to 2.5% to better reflect recent increases.

[1] Share count in millions

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

Cisco Systems Inc. (CSCO)

Updated August 16th, 2024 by Nathan Parsh

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	12.3	11.5	13.3	15.1	16.1	15.5	17.2	14.0	13.4	12.7	***13.8***	***14.0***
Avg. Yld.	2.9%	3.5%	3.5%	3.2%	2.7%	2.8%	2.6%	3.3%	3.0%	3.3%	***3.3%***	***2.7%***

Shares of Cisco have increased $1, or 2.1%, since our May 17th, 2024 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 14.0. 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. Shares are trading at 13.8 times our expected earnings-per-share for the fiscal year, implying a valuation tailwind. Multiple expansion could add 0.3% to annual returns through fiscal year 2030.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	36%	40%	46%	51%	45%	45%	45%	45%	40%	42%	***45%***	***38%***

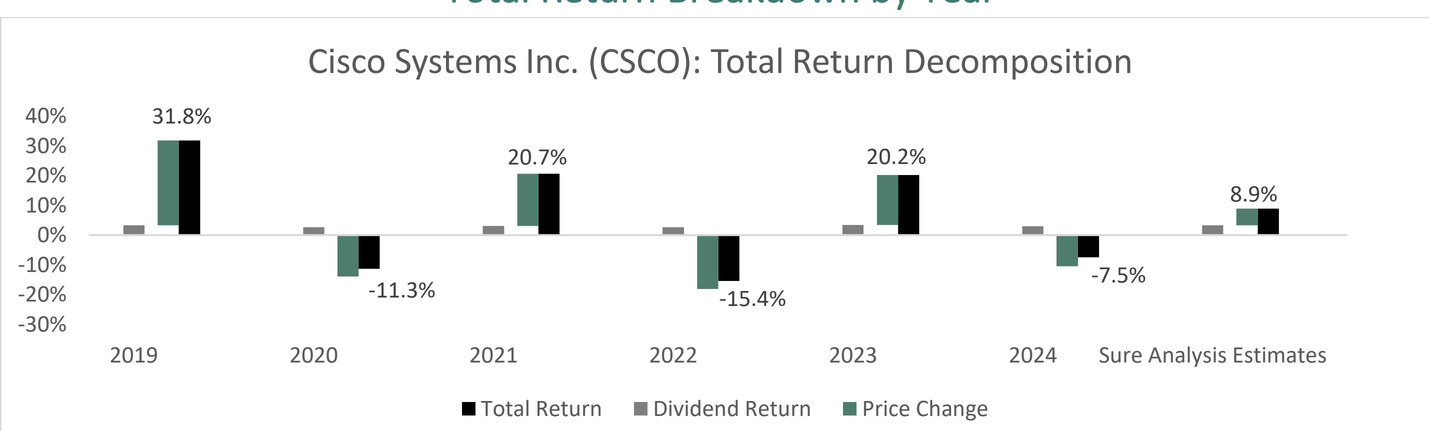
Cisco ended the most recent quarter with $17.9 billion in cash and equivalents and investments. Given the cash on the balance sheet, it is likely that Cisco would be able to continue to pay a dividend even in the event of an extended recession.

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 8.9% annually over the next five years, down from our prior estimate of 10.2%. Our estimated return stems from a 6% earnings growth rate, a starting yield of 3.3% dividend yield, and a small contribution from multiple expansion. Cisco's results were down from the prior year, but still better than what the market had anticipated. The acquisition of Splunk should add meaningfully to results going forward. We note again that the stock's yield is much higher than the typical technology name, but we continue to expect lower dividend growth moving forward. We have lowered our five-year price target $2 to $67 because of guidance for the fiscal year and now rate shares of Cisco as a hold due to projected returns.

Total Return Breakdown by Year



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

Cisco Systems Inc. (CSCO)

Updated August 16th, 2024 by Nathan Parsh

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2021	2022	2023	2024
Revenue	49,161	49,247	48,005	49,330	51,904	49,301	49,818	51,557	56,998	53,803
Gross Profit	29,681	30,960	30,224	30,606	32,666	31,683	31,894	32,248	35,753	34,828
Gross Margin	60.4%	62.9%	63.0%	62.0%	62.9%	64.3%	64.0%	62.5%	62.7%	64.7%
SG&A Exp.	11,861	11,433	11,177	11,386	11,398	11,094	11,411	11,186	12,358	13,177
D&A Exp.	2,442	2,150	2,286	2,192	1,897	1,808	1,862	1,957	1,726	2,507
Operating Profit	11,254	12,928	12,729	12,667	14,541	14,101	13,719	13,975	15,562	12,970
Op. Margin	22.9%	26.3%	26.5%	25.7%	28.0%	28.6%	27.5%	27.1%	27.3%	24.1%
Net Profit	8,981	10,739	9,609	110	11,621	11,214	10,591	11,812	12,613	10,320
Net Margin	18.3%	21.8%	20.0%	0.2%	22.4%	22.7%	21.3%	22.9%	22.1%	19.2%
Free Cash Flow	11,325	12,424	12,912	12,832	14,922	14,656	14,762	12,749	19,037	10,210
Income Tax	2,220	2,181	2,678	12,929	2,950	2,756	2,671	2,665	2,705	1,914

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2021	2022	2023	2024
Total Assets ($B)	113.37	121.65	129.82	108.78	97.79	94.85	97.50	94.00	101.9	124.14
Cash & Equivalents	6,877	7,631	11,708	8,934	11,750	11,809	9,175	7,079	10,123	7,508
Acc. Receivable	5,344	5,847	5,146	5,554	5,491	5,472	5,766	6,622	5,854	6,685
Inventories	1,627	1,217	1,616	1,846	1,383	1,282	1,559	2,568	3,644	3,373
Goodwill & Int.	26,845	29,126	32,305	34,258	35,730	35,382	41,787	40,873	40,353	69,879
Total Liabilities	53,666	58,067	63,681	65,580	64,222	56,933	56,222	54,229	57,499	78,956
Accounts Payable	1,104	1,056	1,385	1,904	2,059	2,218	2,362	2,281	2,313	2,304
Long-Term Debt	25,354	28,643	33,717	25,569	24,666	14,583	11,526	9,515	8,391	30,962
Total Equity	59,698	63,586	66,137	43,204	33,571	37,920	41,275	39,773	44,353	45,457
LTD/E Ratio	0.42	0.45	0.51	0.59	0.73	0.38	0.28	0.24	0.19	0.68

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2021	2022	2023	2024
Return on Assets	8.2%	9.1%	7.6%	0.1%	11.3%	11.6%	11.0%	12.3%	12.9%	9.1%
Return on Equity	15.4%	17.4%	14.8%	0.2%	30.3%	31.4%	26.7%	29.1%	30.0%	23.0%
ROIC	11.0%	12.1%	10.0%	0.1%	18.3%	20.3%	20.1%	23.1%	24.7%	16.0%
Shares Out.	5085	5029	4983	4670	4307	4243	4238	4170	4093	4035
Revenue/Share	9.55	9.68	9.51	10.11	11.66	11.59	11.76	12.30	13.89	13.25
FCF/Share	2.20	2.44	2.56	2.63	3.35	3.45	3.48	3.04	4.64	2.51

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