



Cisco Systems, Inc.

CSCO

EQUITY RESEARCH REPORT

August 07, 2026

CSCO — CISCO SYSTEMS, INC.

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Analyst: Moschovakis Capital Research

Exchange: Nasdaq | CIK 0000858877 | SIC 3576 (Computer Communications Equipment)

Fiscal Year End: Late July

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID** (quality business, disqualifying price)
Current Price	**EUR 104.88** (\$120.88 USD)
Fair Value (Base Case, today)	EUR 74.60 (\$86.00)
Margin of Safety	** -28.9%** (overvalued)
Target Entry (Watchlist Trigger)	**EUR 76.40** (\$88.00)

Return Profile	Value
Dividend Yield (trailing \$1.62)	1.34%
Expected Dividend Growth	3.0%
Expected Price Appreciation (Base)	2.7%
Total Expected Return (Base)	**4.2% CAGR**
Bear Case Total Return	-3.2% CAGR
Bull Case Total Return	+8.8% CAGR
Probability-Weighted Return	**3.5% CAGR**
Hurdle Rate (Inflation + 4%)	7.0%

Risk Assessment	Value
Wealth Preservation Score	**42 / 100**
Downside Protection Score	55 / 100
Return Adequacy Score	20 / 100
Quality Score	46 / 100
Risk Level	**ELEVATED** (valuation-driven)
Probability of >50% Permanent Loss	10-12%

Risk Assessment	Value
Recession Profile	SENSITIVE

One-Line Thesis:

Cisco owns a defensible position at the core of enterprise networks and generates \$13 billion of annual free cash flow, but at EUR 104.88 you are paying roughly 28x forward non-GAAP earnings for a business that has compounded EPS at 0.4% over the past year, which caps your base-case return at 4.2% and hands you a 39% drawdown if the AI order narrative slips.

INVESTMENT THESIS

You are not being asked to judge Cisco the business. Cisco the business passes almost every quality filter this framework applies: \$56.7 billion of FY2025 revenue, 64.9% gross margins, positive free cash flow in each of the last five years, \$31.1 billion of annual recurring revenue, \$43 billion of remaining performance obligations, and software plus subscriptions above 50% of the mix. Switching costs in core switching and routing are real, because ripping out the spine of a production network carries operational risk that most CIOs refuse to accept for a single-digit price advantage. Management raised the FY2026 AI infrastructure order target to \$9 billion from \$5 billion and guided to at least \$6 billion of AI infrastructure revenue in FY2027. Q3 FY2026 revenue of \$15.8 billion grew 12% year over year and beat the top of guidance. This is a functioning franchise executing a genuine product cycle.

You are being asked to judge the price. At EUR 104.88 the market capitalization sits near \$477 billion against FY2025 GAAP net income of \$10.18 billion, a trailing GAAP multiple in the mid-30s. The sourced valuation snapshots in the research file (P/E 28.5x, EV/EBITDA 19.5x, P/FCF 21.6x, P/B 6.1x) were taken at prices near \$96.57, roughly 25% below today. Re-based to EUR 104.88, those same measures land near 36x earnings, 24x EBITDA, 27x free cash flow and 7.7x book. The research file itself flags that Cisco's own five-year history runs 11-19x EV/EBITDA and 11-20x free cash flow. The stock trades above the top of every historical band on every metric simultaneously. The framework's Stage 2.6 rule is unambiguous: trading more than 40% above the five-year average multiple triggers avoidance regardless of quality.

The arithmetic of a re-rated defensive compounder is unforgiving. Cisco has grown revenue at a 2.6% CAGR from FY2021 (\$49.8 billion) to FY2025 (\$56.7 billion), and GAAP EPS went from \$2.51 to \$2.56 across those same four years, a 0.5% CAGR. Net margin fell from 21.3% to 18.0%. Non-GAAP gross margin declined 260 basis points year over year in the most recent quarter, with management naming mix and memory costs. The AI infrastructure business Cisco is winning carries lower gross margin than the campus switching it partially displaces, so faster revenue growth arrives with structurally thinner incremental profit. Even granting a 6% ten-year EPS CAGR (roughly double the last five years) and a generous 20x terminal multiple, you collect 4.2% annually including dividends. A 4% high-yield savings account beats that with no equity risk and no drawdown.

The downside case is where this position disqualifies itself outright. If enterprise networking orders normalize, if AI orders convert to revenue at lower margin than the Street models, and if the multiple reverts toward 14x non-GAAP (a level Cisco traded at repeatedly between 2019 and 2023), the shares find EUR 63 within the cycle. That is a 39% loss of capital from today, against a 1.34% dividend yield that provides almost no income cushion during the wait. The yield used to be the reason to own Cisco defensively. At 1.34%, the income floor has been removed by the re-rating.

Cisco becomes a legitimate wealth preservation holding again near EUR 76 (roughly 20x forward non-GAAP earnings, yielding near 1.9%). At that price the base case clears 8% and the bear case stops destroying capital. Until then this is a hold-cash decision, not a Cisco decision.

STAGE 1: SECTOR & THEME IDENTIFICATION

Q1: Is the sector understandable?

Yes. Enterprise networking hardware, security software, collaboration, observability. Revenue arrives from box sales plus attached software subscriptions and support contracts. Continue.

Q2: Is the sector in secular decline?

No. Data center switching, campus refresh cycles and AI back-end networking all show volume growth. Third-party reporting cites campus networking orders up more than 25% year over year and data center switching orders up more than 40%. Continue.

Q3: Defensive or cyclical?

Moderately cyclical. Enterprise IT capex budgets and telecom carrier spending drive product revenue. FY2024 demonstrated the sensitivity clearly: revenue fell 5.6%, EBITDA fell 11.3%, net income fell 18.2%, and free cash flow fell 46.4% in a single year without a recession. Continue with heightened balance sheet scrutiny.

Q4: Sector tailwinds (2-3 drivers)

Driver	Assessment	Priced In?
AI back-end and front-end networking buildout	Real and accelerating; Cisco raised FY2026 revenue target to \$9B from \$5B	Heavily priced in
Campus refresh cycle plus Catalyst-2026 rollout	Multi-year, moderate magnitude	Partly priced in
European and US policy pressure on ZTE, Huawei, TP-Link	Potential, unclear direction toward Cisco	Optionality, not priced

Tailwinds exist. The problem is that the first and largest one is already embedded in the multiple.

Q5: Sector valuation vs. history

Networking and communications equipment trades well above its own decade averages on the strength of AI capex. The research file records Cisco's EV/EBITDA at 19.5x against a five-year range of 11.2x to 18.6x, before adjusting for the 25% price move since that snapshot. Sector valuation risk is **elevated**.

Sector Verdict: CONTINUE with valuation risk flagged as the primary concern entering Stage 2.

STAGE 2: FUNDAMENTAL GATEKEEPING

2.1 Solvency Check

The provided dataset does not include balance sheet line items (total debt, total equity, cash, current assets, interest expense, or the debt maturity schedule). Where a figure is derived rather than sourced, it is labelled as such. No metric below is fabricated.

Metric	Threshold	Cisco	Status
Debt-to-Equity	<1.0x	**Not in dataset.** Post-Splunk capital structure is materially more leveraged than Cisco's.	Unverified
Interest Coverage	>5.0x	**Derived estimate ~6-10x.** FY2025 (operating) income \$14.95B (26.38% of revenue)	Unverified
Current Ratio	>1.5x	Not in dataset	Unverified
Free Cash Flow	Positive 4 of 5 years	**5 of 5.** \$11.5B / \$12.8B / \$19.0B vs \$10.2B / \$13.3B	Unverified
Debt Maturity Cliff	<30% in any 2-year window	Not in dataset. EDGAR review found no covenant disclosure, no restatement	Unverified
Cash / Total Debt	>20%	Not in dataset	Unverified

Stress Test (revenue down 30% for two years):

At \$39.7 billion of revenue and gross margin holding near 60%, gross profit lands near \$23.8 billion against an operating cost base that Cisco has repeatedly demonstrated it will cut (a FY2026 restructuring with workforce reductions is already underway). Operating income stays positive. Debt service is covered several times over. The dividend, at roughly \$6.4 billion of annual cash cost against \$13.3 billion of FY2025 free cash flow, survives a 30% revenue shock without a cut. An equity raise is not plausible.

Solvency Assessment: ADEQUATE

Cisco does not earn FORTRESS because the dataset does not verify the post-Splunk leverage profile and because FY2024 showed free cash flow can halve in one year. It comfortably clears the survival bar. Solvency is not the reason to avoid this stock.

2.2 Earnings Quality

Test	Result
Operating cash flow vs. net income	FY2025 OCF \$14.19B vs. net income \$10.18B = **139%** FY2023 was \$12.8B vs. \$9.5B = 135%
Receivables growing faster than revenue	Not disclosed in dataset
Inventory vs. COGS	Not disclosed in dataset. Memory cost inflation flagged by management as a risk
Unusual one-time gains	None identified
Restatements in past 5 years	**None.** EDGAR filing history shows normal 10-K/10-Q/8-K cadence, no restatements

One qualifier that matters: the gap between GAAP and non-GAAP is wide. FY2025 GAAP EPS was \$2.56 while the non-GAAP framework management guides to implies roughly \$4.20-4.40 for FY2026 (derived from Q3 FY2026 non-GAAP operating margin of 34.2% on \$15.8 billion of revenue). Amortization of acquired intangibles from Splunk and stock compensation account for most of that spread. Both are real economic costs to you as an owner. Any valuation built only on non-GAAP earnings understates the price you are paying.

Earnings Quality: ACCEPTABLE (high cash conversion, wide GAAP-to-non-GAAP spread)

2.3 Dilution Check

Share count history is not provided in the dataset. Two observations from what is available:

- Cisco has repurchased stock consistently across the five-year window and the 2025 annual meeting approved an amendment and restatement of the 2005 Stock Incentive Plan, which sustains the equity

compensation pipeline.

- Basic EPS grew from \$2.51 (FY2021) to \$2.56 (FY2025), a 0.5% CAGR, while net income fell from \$10.59B to \$10.18B, a -1.0% CAGR. The 1.5 percentage point gap is buyback-driven share count reduction, implying net share shrinkage near 1.5% annually rather than dilution.

Insider activity is a mild negative: roughly \$6.6 million of insider selling over a recent three-month window with no offsetting purchases, per the research file. That is unremarkable in absolute terms for a company this size and reads as scheduled disposition rather than a signal.

Dilution Assessment: ACCEPTABLE (net share count declining; scored conservatively given incomplete data)

2.4 Dividend Sustainability

Metric	Value	Threshold	Status
Dividend Yield	**1.34%** (\$1.62 / \$120.88)	1.5-5% sweet spot	**Below the floor**
Payout Ratio (FY2025 GAAP EPS \$2.56)	~63%	<75% mature	Pass
FCF Payout Ratio (est. \$6.4B / \$10.18B)	~63%	<70%	Pass
Dividend Growth 5Y CAGR	~2.3%	>3%	**Marginal fail**
Consecutive Years Paying	~15 (initiated 2011)	>10 preferred	Pass
Dividend Coverage (FCF/Div)	~2.1x	>1.3x	Pass

Stress Test (earnings down 40%): GAAP EPS falls to roughly \$1.54 against a \$1.62 dividend, a payout above 100% on GAAP. On free cash flow the picture is safer: a 40% FCF decline still leaves \$8.0 billion against \$6.4 billion of dividends. Cisco held and grew the dividend through 2020 and through the FY2024 earnings decline, which is the relevant evidence.

Dividend Sustainability: SUSTAINABLE. The payment is safe. The problem is that at 1.34% it no longer functions as a return floor. Five years ago the same dividend delivered over 3% and did meaningful work in a total return model. Today it contributes less than a fifth of the required hurdle.

2.5 Capital Efficiency

Derived from available data. FY2025 operating income \$14.95 billion, applying a 19% effective tax rate gives NOPAT near \$12.1 billion. Invested capital is not disclosed in the dataset; post-Splunk goodwill materially inflated the denominator relative to pre-2024 Cisco.

Metric	Value
ROIC (estimated)	15-18%
WACC (estimated)	8-9%
Spread	Positive, wide
5-Year Trend	**Deteriorating**

The trend matters more than the level. Operating margin: 27.6% (FY2021), 28.6% (FY2022), 27.9% (FY2023), 25.8% (FY2024), 26.4% (FY2025). Net margin: 21.3% down to 18.0% across the same span. Non-GAAP gross

margin fell 260 basis points year over year in Q3 FY2026. Cisco is adding revenue at lower incremental returns than the base business earns, and management has told you why: AI infrastructure mix and memory costs.

Verdict: Value Creating, with a deteriorating returns trend.

2.6 Valuation Screening

The sourced multiples in the research file correspond to share prices near \$96.57. Today's price is \$120.88, 25.2% higher. Both the sourced figure and the re-based figure appear below.

Metric	Sourced (at ~\$96.57)	Re-based to \$120.88	5Y Range (sourced)	Assessment
P/E (trailing)	28.5x	**~35.7x**	11-22x	Far above range top
EV/EBITDA	19.5x	**~24.0x**	11.2-18.6x	Far above range top
P/FCF	21.6x	**~27.0x**	11.2-20.5x	Far above range top
P/B	6.1x	**~7.7x**	4.2-5.8x	Far above range top
Dividend Yield	1.68%	**1.34%**	2.5-3.5% typical	Yield compressed to record low
Fwd P/E (non-GAAP, derived)		**~28.1x**	12-17x typical	Roughly 70-100% above history

Margin of Safety calculation.

Normalized approach: derived FY2026 non-GAAP EPS of \$4.30 (Q3 FY2026 revenue \$15.8B x 34.2% non-GAAP operating margin, taxed at 19%, on roughly 4.0 billion diluted shares, annualized). Applying a 20x fair multiple, generous against a 12-17x historical band and justified only by the >50% software mix and \$31.1B ARR base, gives fair value of **\$86.00 (EUR 74.60)**.

Margin of Safety = $(\$86.00 - \$120.88) / \$120.88 = -28.9\%$

Valuation: EXPENSIVE. Stage 2.6 triggers its own hard rule here: more than 40% above the five-year average on multiple metrics means avoid regardless of quality.

STAGE 3: PEER COMPARISON & QUALITY RANKING

3.1 Competitive Cohort

The dataset contains no peer-level financials. The only sourced comparison is a peer-median set (P/E 24.5x, P/B 6.50x, EV/EBITDA 19.3x) captured when Cisco traded near \$96.57, at which point Cisco screened roughly in line with peers. Re-based to EUR 104.88, Cisco now screens at a clear premium to that same peer median on P/E and EV/EBITDA.

Dimension	Cisco	ANET	PANW / FTNT	HPE (incl. Juniper)	Best for Preservation
Balance sheet	Adequate, post-Splunk leverage	None, no debt	Mixed	Most levered	**ANET**
Dividend yield	1.34%	None	None	Higher than CSCO	**HPE**
Payout cushion	~48% of FCF	n/a	n/a	Thinner	**Cisco**

Dimension	Cisco	ANET	PANW / FTNT	HPE (incl. Juniper)	Best for Preservation
FCF scale and stability	\$13.3B, 5/5 positive years	Strong, smaller	Strong	Weaker	**Cisco**
ROIC trend	15-18%, declining	Higher, stable	High	Low	**ANET**
Growth rate	5.3% FY2025	Materially faster	Faster	Slower	**ANET**
Valuation vs. own history	Top of 5Y range	Also elevated	Elevated	Cheaper	**HPE**

Cisco is the highest-quality cash generator in the group and the most defensively positioned on income durability. It is also the one whose entire relative advantage (a dependable 3%+ yield backed by fortress cash flow) has been erased by a 25% price move in a short window.

3.2 Wealth Preservation Quality Score

Balance Sheet Fortress (40 points possible)

- D/E in the 0.5-1.0x band (estimated, post-Splunk): **10**
- Interest coverage 5-8x (derived estimate, conservative): **10**
- FCF positive five consecutive years: **10**
- Subtotal: **30 / 40**

Income Reliability (30 points possible)

- Dividend yield 2-4% with payout <60%: yield is 1.34%, fails the band: **0**
- Dividend growth CAGR under 3% (~2.3%): **3**
- Dividend history 10-15 years (initiated 2011): **3**
- Subtotal: **6 / 30**

Capital Efficiency (15 points possible)

- ROIC above 15% (estimated): **10**
- ROIC trend declining: **0**
- Subtotal: **10 / 15**

Valuation (15 points possible)

- Trading above the 75th percentile of the 5Y range on all four measures: **0**
- Subtotal: **0 / 15**

Wealth Preservation Quality Score: 46 / 100

Decision rule places this at the boundary of "Marginal, better alternatives likely exist." The 46 is not a verdict on the business. Twenty-four of the fifty-four lost points come from the two categories that price controls directly: current yield and valuation percentile.

STAGE 4: QUALITATIVE DEEP DIVE

4.1 Competitive Moat

Moat Source	Durability	Assessment
Switching costs in core networking	High	Primary moat. Replacing the switching and routing s
Installed base and attach economics	High	Drives replacement, upgrade and support revenue v
Portfolio breadth (networking, security, collaboration, observability)	Medium	Enables enterprise agreements and cross-sell; also
Recurring revenue layer	Medium-High	\$31.1B ARR, \$43B RPO, software plus subscription

Where the moat leaks. In security, Palo Alto Networks and Fortinet win on product velocity. In collaboration, Microsoft Teams has taken the default position that Webex once held. In AI back-end networking, Arista and merchant-silicon Ethernet designs compete directly, and hyperscaler customers are the least switching-cost-bound buyers in the market because they design their own fabrics. Cisco's own risk factor language concedes that its products "inevitably contain vulnerabilities or security defects," and 2026 has produced concrete examples: an actively exploited zero-day in Catalyst SD-WAN Manager (CVE-2026-20245) enabling root privilege escalation, plus a critical Unified Communications Manager flaw with a public proof of concept, both disclosed June 5, 2026. For a vendor whose pitch is secure infrastructure, a repeating advisory cadence carries brand cost beyond the patch cost.

Ten-year erosion question: Can Cisco's competitive position materially erode by 2036? **Possible but manageable.** The campus and enterprise core is defensible. The AI and hyperscaler segment, which is the entire growth narrative in the current price, is the least defensible part of the portfolio.

Moat Preservation Confidence: MEDIUM

4.2 Management Quality & Capital Allocation

Leadership. Chuck Robbins has run Cisco since 2015, which clears the five-year stability bar. The CFO seat turned over recently: Scott Herren retired and Mark Patterson took the role, with Jeetu Patel elevated to President and Chief Product Officer. A CFO transition at the peak of an AI capex cycle adds execution risk to guidance credibility precisely when guidance credibility is doing the most work in the share price.

Capital allocation, five-year record.

Action	Assessment
Buybacks	Consistent. Net share count fell roughly 1.5% annually, converting a -1.0%
Splunk acquisition	Largest deal in company history. Strategically defensible (security and ob
Dividend	Uninterrupted, growing near 2.3% annually. Reliable but no longer inflatio
Restructuring	FY2026 workforce reductions announced alongside the AI pivot. Cost disc

Red flags checked: No related-party transactions surfaced. No dividend cut. No aggressive accounting. No restatements. Insider selling of roughly \$6.6 million over three months with no buying, which is mild.

Management Quality: GOOD. Capital Allocation Track Record: ACCEPTABLE. The Splunk integration remains unproven on returns, and buying back stock at these multiples would move this rating down.

4.3 Recession Performance History

Downturn	Revenue	EPS	Dividend	Notes
2008-09	Fell roughly 9% in FY2009	Fell materially		

IMPORTANT DISCLOSURES

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