

Company: Cisco Systems Inc. Ticker: CSCO Current price: \$48.15 Industry: Information Technology Sub-industry: Systems Software			
Target Price: \$52.82	TTM P/E: 17.43	Beta: 0.98	Market Cap: \$197.81B
Stop Loss: \$38.4	Forward P/E: 13.58	Credit Rating: Stable	Avg Vol (12M): 19.32 Million
52 Week High/Low: \$64.29/38.61	EPS: 2.763	Rating Outlook: Stable	Dividend Yield: 3.16%

Company Background:

Cisco Systems, Inc. designs, manufactures, and sells Internet Protocol based networking and other products related to the communications and information technology industry in the Americas, Europe, the Middle East, Africa, the Asia Pacific, Japan, and China. Cisco delivers highly secure, and reliable connectivity to campus, data centers and branch networks globally. Its wireless products include wireless access points that are standalone, controller appliance-based, switch-converged, and Meraki cloud-managed offerings; and its computer portfolio includes the Cisco unified computing system, hyperflex, and software management capabilities, which combine computing, networking, and storage infrastructure management and virtualization. For decades, Cisco has been evolving and expanding the way it positively impacts people and the planet. Cisco believes that technology, when thoughtfully and strategically applied, can help address inequities; bring positive, lasting change to people's lives and communities; and benefit the planet. Cisco leverages its resources and catalyzes its networks, partners, and people to make a positive impact in communities worldwide and for the planet.

Industry Outlook:

In an increasingly "cloud world", the distinction between application and systems software becomes fuzzier and less relevant from an investor's perspective, as the client-server era's clear demarcations dissolve into an increasingly distributed and functionally federated micro-services architecture. Not to mention the fact that Microsoft and Oracle, which together make up 95% of the S&P 500 System Software sub-industry by market cap, generate less than 50% of their revenue from what would be considered "systems software." Software industry growth had been accelerating as many enterprises delayed projects and cut spending due to the initial uncertainty at the start of the Covid-19 pandemic. We forecast S&P 500 Software Industry revenue for 2022 to grow 14% Y/Y, primarily driven by cloud migration and Covid-19-related digital transformation projects and partially hindered by declining revenue from sales of legacy client server software licenses and maintenance and support, which are now falling faster as enterprises look to cut costs through cloud migration and other rationalizations.

Investment Thesis:

Our Buy recommendation reflects our view that despite short-term headwinds in the overall tech sector, we continue to believe the long-term prospects for CSCO are positive, including the WiFi 6 upgrade cycle and 5G core deployments with its current dominant market position. Given the company's experience of surviving multiple recessions and economic threats, CISCO has consistently progressed through the past 40 or so years while competing with the world's top competition no matter the market or industry's environment. We also see CSCO benefiting from a rapid rise in bandwidth consumption, high demand for data center solutions, and the migration to cloud networking. CSCO's strong balance sheet will facilitate further debt management, M&A activity, and dividend hikes.

3-5 take away from last quarter investor call transcript:

1. Q1 2023 Earnings Call: *Chuuck Robbins - Cisco Systems Inc. - Chair & CEO*
"We are encouraged by what we are seeing with modest improvement in certain component availability as shortages continue to ease from last quarter. The redesign of many of our products has also helped bring supply stability and more resiliency."
2. Q1 2023 Earnings Call: *Scott Herren - Cisco Systems Inc. - CVP & CFO*
"In terms of orders in Q1, we had the second highest Q1 orders in our history. Although product orders were down 14% for the quarter, it's important to keep in mind that they compare against 34% growth from a year ago. We continue to have low cancellation rates, which remain below pre-pandemic levels. Looking at our geographic segments year-on-year, the Americas was down 10%, EMEA was down 23% and APJC down 10%. In our customer markets, Service Provider was down 23%, Commercial was down 14%, Enterprise was down 13% and Public Sector was down 7%."
3. "We executed well in Q1 in a highly complex environment, delivering better than expected top line growth and non-GAAP profitability. We continue to make progress on our business model shift to more recurring revenue while making strategic investments in innovation to capitalize on our significant growth opportunities. Consistent with that objective, we announced some restructuring actions focused on prioritizing our investments across our highest growth opportunities and rightsizing our real estate footprint to help maximize long-term value for our shareholders."

Financial performance:						Analyst Opinion			
	2018	2019	2020	2021	2022	Buy:	Hold:	Sell:	
Revenue	\$49.3 3B	\$51.9 B	\$49.3 B	\$49.82 B	\$51.55 B		Rating	Target	
Operating Profit	\$12.3 B	\$14.2 1B	\$13.6 2B	\$12.83 B	\$12.97 B	S&P Net Advantage	Strong Buy	\$60	
Net Income	\$110 M	\$11.6 2B	\$11.2 1B	\$10.59 B	\$11.81 B	Morningstar	Buy	\$54	
Revenue Growth (%)	6.51%	-6.51%	1.2%	3.33%		Yahoo Finance	Buy	\$55.28	
EBITDA%	30.55%	31.09%	29.63%	31.02%	30.43%	Total Return %			
Net Income Margin	2.5%	21.15%	21.76%	22.4%	22%		CSCO	Industry Sec	S&P 500
D/E						YTD	-21.63%	-27.76%	-16.19%
EPS	\$0.02	\$2.61	\$2.64	\$2.5	\$2.82	2021	-17.14%	-26.51%	-13.66%
PE Ratio	130.7	17.18	13.69	20.17	17.8	Last 3 years	5.08%	12.22%	9.15%
Current Ratio	2.11	1.7	1.59	1.62	1.45	Last 5 years	7.52%	18.21%	9.92%
ROE	0.2%	30.3%	31.4%	26.7%	29.1%	CSR Characteristics			
ROA	6.7%	8.8%	9.2%	8.9%	9.2%		CSCO	Industry	
Dividend/share						ESG Disclosure	12.1	22.19	
FCF						Governance Disclosure Score	6.4	7.89	
						Social Disclosure Score	5.6	12.54	
						Environmental Disclosure Score	0	1.48	

Relative Competitive Valuation Snapshot:

Company Information		Financial Metrics		Valuation Metrics			Operational Metrics			
Ticker	Firm	Market Cap	Total Assets	P/Sales	P/B	P/E	Gross Margin	EBIT Margin	ROE	ROA
GOOG	Alphabet	1.17T	358.25B	4.343	4.64	18.36	56.1%	33.23%	26.41%	18.74%
JNPR	Juniper Networks	10.22B	8.976B	2.018	2.356	24.54	8.22%	13.45%	9.88%	4.77%
FTNT	Fortinet	40.27B	5.336B	10.25	-63.25	56.47	75.15%	27.98%	150.87	13.39%