

## Cisco Systems

# Weakening into 2024; though trends are cyclical and not secular

Reiterate Rating: NEUTRAL | PO: 55.00 USD | Price: 50.28 USD

## Lower guidance reflects digestion of historical orders

Results slightly better than expectations with revenue growth of -5.9% vs. Street's -6.5%, but we focus on the weak guidance, reflecting 16%, and 19% YoY revenue declines in 3Q and 4Q. Beyond tough comps, the expected QoQ declines are low at -5% and +1%, respectively. The market is digesting historical abnormal orders, and the growth areas are either not growing or too small to make an impact, with Security up only 3% and Observability up 16% YoY, yet only at a combined 9.1% of revenue. On the positive side, the stock already reflects most of these risks, margins are solid, trends should recover by 4Q where expectations seem low, and we believe improvement in demand for infrastructure gear, together with improving impact of the growth initiatives should help the momentum into FY25. Reiterate Neutral.

## What went wrong: all customer categories are weak

Orders were down 12% YoY, and management noted that all customer categories, namely Telcos, Cable, Cloud and Enterprise were weak. It is taking customers more time to consume the elevated historical orders, which prompted a second consecutive cut to the guidance. Most of the weakness is related to the Networking segment that was down 12.5% YoY in 2Q, reflecting declines in switching, routing, and wireless, trends that we have highlighted in our past reports. Security was weak again, despite industry tailwinds, up only 3% YoY, yet management noted that the pipeline and portfolio is improving and by 2H24, it should pick up momentum. The company also noted the Splunk acquisition is expected to close in 3Q24, two quarters ahead of schedule.

## But there is light at the end of the tunnel too

Positively, the pressure is cyclical and not secular. 4Q guidance of 1% QoQ growth seems low vs. historical 4%-5%, especially given that by 4Q, the deployed inventories are expected to be consumed and networking orders are expected to stabilize. Security growth is expected to improve, especially with Splunk, and AI is expected to be a positive driver in almost all verticals. Margins remain solid, with 2Q GM and OM 120bps and 100bps higher than our expectations, improving on better freight and component costs, as well as workforce reduction plans, offset by greater discounts. For FY24, we model GM and OM at 66.7% and 34.6%, vs. 64.5% and 33.5% in FY23. FCF of \$638mn was pressured by a \$2.6bn impact from federal and transition taxes.

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.36	3.89	3.71	3.83	4.01
GAAP EPS	2.82	3.07	2.79	2.83	2.96
EPS Change (YoY)	4.3%	15.8%	-4.6%	3.2%	4.7%
Consensus EPS (Bloomberg)			3.87	4.00	4.14
DPS	1.49	1.54	1.56	1.56	1.56
EPS Ex-Options Expense	3.36	3.89	3.71	3.83	4.01
Valuation (Jul)					
P/E	15.0x	12.9x	13.6x	13.1x	12.5x
GAAP P/E	17.8x	16.4x	18.0x	17.8x	17.0x
Dividend Yield	3.0%	3.1%	3.1%	3.1%	3.1%
EV / EBITDA*	8.7x	8.1x	8.6x	7.9x	7.6x
Free Cash Flow Yield*	6.0%	8.9%	5.3%	8.0%	8.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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15 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	54,404.8	52,008.5
2025E Rev (m)	54,881.8	53,475.1
2026E Rev (m)	56,486.4	55,741.4
2024E EPS	3.90	3.71
2025E EPS	3.97	3.83
2026E EPS	4.15	4.01

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### Stock Data

Price	50.28 USD
Price Objective	55.00 USD
Date Established	16-Nov-2023
Investment Opinion	B-2-7
52-Week Range	45.56 USD - 58.19 USD
Mrkt Val (mn) / Shares Out (mn)	213,288 USD / 4,242.0
Free Float	91.3%
Average Daily Value (mn)	964.84 USD
BoFA Ticker / Exchange	CSCO / NAS
Bloomberg / Reuters	CSCO US / CSCO.OQ
ROE (2024E)	32.5%
Net Dbt to Eqty (Jul-2023A)	-3.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Cisco Systems

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	20.2%	23.2%	20.8%	19.5%	18.4%
Return on Equity	34.8%	38.0%	32.5%	29.8%	27.3%
Operating Margin	33.6%	33.5%	34.6%	34.5%	34.4%
Free Cash Flow	12,840	19,040	11,296	16,982	17,838

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	0.8x	1.2x	1.2x
Asset Replacement Ratio	0.2x	0.5x	0.4x	0.3x	0.3x
Tax Rate	18.9%	18.0%	19.0%	19.0%	19.0%
Net Debt-to-Equity Ratio	6.1%	-3.9%	-12.9%	-27.1%	-40.3%
Interest Cover	38.9x	35.2x	27.4x	26.8x	27.8x

## Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	51,557	56,998	52,009	53,475	55,741
% Change	3.5%	10.6%	-8.8%	2.8%	4.2%
Gross Profit	33,326	36,788	34,691	35,427	36,932
% Change	1.3%	10.4%	-5.7%	2.1%	4.2%
EBITDA	19,302	20,797	19,666	21,351	22,070
% Change	4.0%	7.7%	-5.4%	8.6%	3.4%
Net Interest & Other Income	30	420	650	620	620
<b>Net Income (Adjusted)</b>	<b>14,094</b>	<b>15,979</b>	<b>15,108</b>	<b>15,425</b>	<b>16,012</b>
<b>% Change</b>	<b>3.4%</b>	<b>13.4%</b>	<b>-5.5%</b>	<b>2.1%</b>	<b>3.8%</b>

## Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	11,912	15,979	15,108	15,425	16,012
Depreciation & Amortization	1,957	1,726	1,664	2,928	2,922
Change in Working Capital	(1,722)	5,042	(3,496)	1,538	1,969
Deferred Taxation Charge	(309)	(2,085)	(816)	0	0
Other Adjustments, Net	1,388	(776)	(492)	(2,107)	(2,229)
Capital Expenditure	(386)	(846)	(672)	(802)	(836)
<b>Free Cash Flow</b>	<b>12,840</b>	<b>19,040</b>	<b>11,296</b>	<b>16,982</b>	<b>17,838</b>
<b>% Change</b>	<b>-13.2%</b>	<b>48.3%</b>	<b>-40.7%</b>	<b>50.3%</b>	<b>5.0%</b>
Share / Issue Repurchase	(7,029)	(3,593)	(3,283)	(2,115)	(1,410)
Cost of Dividends Paid	(6,224)	(6,302)	(6,311)	(6,247)	(6,195)
Change in Debt	(1,895)	(1,102)	3,185	0	0

## Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	7,079	10,123	17,860	26,480	36,712
Trade Receivables	6,622	5,854	4,940	5,153	5,367
Other Current Assets	23,016	27,371	23,846	24,735	25,089
Property, Plant & Equipment	1,997	2,085	1,784	1,415	1,079
Other Non-Current Assets	55,288	56,419	56,790	56,288	55,785
<b>Total Assets</b>	<b>94,002</b>	<b>101,852</b>	<b>105,220</b>	<b>114,071</b>	<b>124,032</b>
Short-Term Debt	1,099	1,733	4,936	4,936	4,936
Other Current Liabilities	24,541	29,576	26,977	28,344	29,767
Long-Term Debt	8,416	6,658	6,669	6,669	6,669
Other Non-Current Liabilities	20,173	19,532	17,998	19,272	20,386
<b>Total Liabilities</b>	<b>54,229</b>	<b>57,499</b>	<b>56,580</b>	<b>59,221</b>	<b>61,757</b>
<b>Total Equity</b>	<b>39,773</b>	<b>44,353</b>	<b>48,639</b>	<b>54,850</b>	<b>62,275</b>
<b>Total Equity &amp; Liabilities</b>	<b>94,002</b>	<b>101,852</b>	<b>105,220</b>	<b>114,071</b>	<b>124,032</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Data Networking

## Company Description

Cisco Systems (CSCO) is a provider of data networking products using Internet protocol technology. The Company's solutions transport data, voice, and video within buildings, across campuses, and around the world. Product offerings fall into several categories: Routing, Switching, Advanced Technologies, Services and Other Products.

## Investment Rationale

We rate Cisco Neutral as backlog is expected to return to normal historical levels of \$4bn-\$5bn by 2H24, suggesting that starting 2H24, annualized product revenue estimates are higher than historical levels despite limited backlog support, implying orders would have to pick up meaningfully to hit product revenue estimates. We do note some offsetting factors, like a greater percentage of recurring revenues and software contribution, that could explain some of the stronger product revenue levels

## Stock Data

Average Daily Volume 19,189,412

## Quarterly Earnings Estimates

	2023	2024
Q1	0.86A	1.11A
Q2	0.88A	0.87A
Q3	1.00A	0.85E
Q4	1.14A	0.88E

## Key Takeaways

- Quarter results: revenue of \$12.791bn was down -5.9% YoY. Non-GAAP gross margin was 66.7%, up 280bps YoY. Non-GAAP operating margin was 33.0%, up from 32.5% a year ago. Non-GAAP EPS of \$0.87 was down -1.7% YoY.
- Networking revenue of \$7.081bn declined -12.5% YoY, on declines across switching, wireless and routed optical networking, driven primarily by weakness in the Enterprise, Service Provider, and Cloud markets.
- Security revenue of \$973mn increased 3.2% YoY, with Zero Trust offerings growing double-digits.
- Collaboration revenue of \$989mn increased 3.2% YoY, driven by growth in collaboration devices and calling, partially offset by a decline in meetings.
- Observability revenue of \$188mn increased 16.0% YoY, driven by growth across the portfolio, with continued strength in ThousandEyes.
- Product revenue of \$9.232bn was down -9.1% YoY. Services revenue of \$3.559bn was up 3.5% YoY. Subscription revenue accounted for 88% of total software revenue in the quarter, up 5% YoY. Software revenue totaled \$4.2bn in the quarter, flat YoY.
- Remaining performance obligations (RPO) were \$35.7bn, up 12% YoY with short-term RPO up 6% YoY. Product RPO increased 12% YoY and service RPO increased 12% YoY.
- Geographies: revenue out of the Americas declined -4.0% YoY, revenue out of EMEA declined -6.5% YoY, and revenue out of APJC declined -11.8% YoY.
- Product order growth was down -12% YoY. This is compared to -22% order growth a year ago and -20% in the prior quarter.
- On customer segments, management saw weakness across Enterprise, Service Providers (Telcos and Cable), and Cloud as these customers are digesting and implementing previous orders.
- 3Q24 revenue is expected to decline -17.0% to -15.6% YoY, non-GAAP gross margin is expected to be in the range of 66.0%-67.0%, and non-GAAP operating margin is expected to be in the range of 33.5%-34.5%. Non-GAAP EPS is expected to be in the range of \$0.84-\$0.86.
- 4Q24 implied revenue is expected to decline -21.5% to -16.2% YoY and non-GAAP gross margin is expected to be in the range of 66.0%-67.0%. Non-GAAP EPS is expected to be in the range of \$0.86-\$0.90.
- FY24 revenue guidance implies growth of -9.6% to -7.9% YoY, while non-GAAP EPS is expected to be in the range of \$3.68-\$3.74. This is below previous guidance of -5.6% to -3.5% YoY growth and non-GAAP EPS range of \$3.87-\$3.93.



# Financial Highlights

## Exhibit 1: Actual versus Estimated Results

Actual revenue and EPS of \$12,791mn and \$0.87, respectively, were above BofA estimates of \$12,707mn and \$0.83

	Actuals				Estimates				
	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Jan-24	delta	QoQ	YoY
Networking	8,092	8,982	9,465	8,822	7,081	7,084	-3	-19.7%	-12.5%
y/y	11.5%	24.2%	28.1%	9.8%	-12.5%	-12.5%			
Security	943	958	987	1,010	973	972	1	-3.7%	3.2%
y/y	6.8%	2.1%	0.3%	4.0%	3.2%	3.0%			
Collaboration	958	985	1,023	1,117	989	961	28	-11.5%	3.2%
y/y	-10.2%	-13.0%	-12.1%	2.9%	3.2%	0.3%			
Observability	162	167	176	190	188	182	6	-1.1%	16.0%
y/y	14.1%	13.6%	18.9%	21.0%	16.0%	12.6%			
Product Revenues	10,155	11,092	11,650	11,139	9,232	9,199	33	-17.1%	-9.1%
y/y	8.6%	17.4%	20.3%	8.7%	-9.1%	-9.4%			
Service Revenues	3,437	3,479	3,553	3,529	3,559	3,508	51	0.9%	3.5%
y/y	2.1%	2.7%	4.1%	4.2%	3.5%	2.1%			
Total Revenues	13,592	14,571	15,203	14,668	\$12,791	\$12,707	84	-12.8%	-5.9%
y/y	6.9%	13.5%	16.0%	7.6%	-5.9%	-6.5%			
Gross Profit	8,687	9,495	10,024	9,841	8,532	8,326	206	-13.3%	-1.8%
R&D	1,548	1,639	1,639	1,593	1,556	1,493	63	-2.3%	0.5%
S&M	2,216	2,349	2,399	2,319	2,236	2,219	17	-3.6%	0.9%
G&A	509	566	608	556	525	546	-21	-5.6%	3.1%
Total Opex	4,273	4,554	4,646	4,468	4,317	4,258	59	-3.4%	1.0%
Operating Income	4,414	4,941	5,378	5,373	4,215	4,068	147	-21.6%	-4.5%
Net Other Income	-79	-134	-163	-217	-153	-110	-43	-29.5%	
Pretax Income	4,493	5,075	5,541	5,590	4,368	4,178	190	-21.9%	-2.8%
Net Income	3,639	4,111	4,680	4,528	3,538	3,384	154	-21.9%	-2.8%
Dil. Share Count	4,116	4,110	4,093	4,087	4,073	4,071	2	-0.3%	-1.0%
EPS	\$0.88	\$1.00	\$1.14	\$1.11	\$0.87	\$0.83	\$0.04	-21.6%	-1.7%
y/y	4.8%	14.8%	37.5%	28.5%	-1.7%	-6.0%			
Margin Analysis								bps	bps
Product Gross Mgn	62.1%	64.5%	65.5%	66.5%	65.2%	64.2%	104	-1.2%	3.1%
Service Gross Mgn	69.1%	67.3%	67.5%	69.0%	70.5%	69.0%	150	1.5%	1.4%
Gross Margin	63.9%	65.2%	65.9%	67.1%	66.7%	65.5%	118	-0.4%	2.8%
R&D %	11.4%	11.2%	10.8%	10.9%	12.2%	11.7%	41.49	1.3%	0.8%
S&M %	16.3%	16.1%	15.8%	15.8%	17.5%	17.5%	1.76	1.7%	1.2%
G&A %	3.7%	3.9%	4.0%	3.8%	4.1%	4.3%	(19.26)	0.3%	0.4%
Opex %	31.4%	31.3%	30.6%	30.5%	33.8%	33.5%	24.00	3.3%	2.3%
Operating Margin	32.5%	33.9%	35.4%	36.6%	33.0%	32.0%	93.81	-3.7%	0.5%
Tax Rate	19.0%	19.0%	15.5%	19.0%	19.0%	19.0%	0.36	0.0%	0.0%
Net Margin	26.8%	28.2%	30.8%	30.9%	27.7%	26.6%	102.63	-3.2%	0.9%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

## Exhibit 2: Summary of Model Changes

We fine-tune our estimates to be more streamlined with guidance

	Sales (\$mn)			EPS (\$)			Gross Margin			Operating Margin		
<b>FY24E</b>												
1Q24 (Oct)	\$14,668	\$14,668	\$0	\$1.11	\$1.11	\$0.00	67.1%	67.1%	0.0%	36.6%	36.6%	0.0%
2Q24E (Jan)	\$12,707	\$12,791	\$84	\$0.83	\$0.87	\$0.04	65.5%	66.7%	1.2%	32.0%	33.0%	0.9%
3Q24E (Apr)	\$13,213	\$12,200	-\$1,014	\$0.96	\$0.85	-\$0.11	65.6%	66.5%	0.9%	33.9%	34.0%	0.2%
4Q24E (Jul)	\$13,817	\$12,350	-\$1,467	\$1.00	\$0.88	-\$0.11	65.8%	66.5%	0.7%	34.3%	34.5%	0.2%
<b>Total</b>	<b>\$54,405</b>	<b>\$52,009</b>	<b>-\$2,396</b>	<b>\$3.90</b>	<b>\$3.71</b>	<b>-\$0.18</b>	<b>66.0%</b>	<b>66.7%</b>	<b>0.7%</b>	<b>34.3%</b>	<b>34.6%</b>	<b>0.3%</b>
<b>FY25E</b>												
1Q25E (Oct)	\$14,404	\$13,030	-\$1,374	\$1.04	\$0.94	-\$0.09	65.6%	66.2%	0.6%	34.0%	34.4%	0.3%
2Q25E (Jan)	\$12,795	\$13,089	\$294	\$0.89	\$0.92	\$0.02	65.7%	66.1%	0.4%	34.0%	34.0%	0.0%
3Q25E (Apr)	\$13,466	\$13,512	\$46	\$0.99	\$0.96	-\$0.03	65.8%	66.3%	0.5%	34.1%	34.4%	0.3%
4Q25E (Jul)	\$14,217	\$13,844	-\$372	\$1.05	\$1.01	-\$0.04	65.9%	66.4%	0.5%	34.5%	35.0%	0.5%
<b>Total</b>	<b>\$54,882</b>	<b>\$53,475</b>	<b>-\$1,407</b>	<b>\$3.97</b>	<b>\$3.83</b>	<b>-\$0.14</b>	<b>65.7%</b>	<b>66.2%</b>	<b>0.5%</b>	<b>34.2%</b>	<b>34.5%</b>	<b>0.3%</b>
<b>FY26E</b>												
1Q26E (Oct)	\$14,890	\$13,578	-\$1,312	\$1.09	\$0.98	-\$0.11	65.4%	66.2%	0.8%	34.1%	34.1%	0.0%
2Q26E (Jan)	\$13,153	\$13,663	\$510	\$0.94	\$0.97	\$0.03	65.5%	66.1%	0.6%	34.0%	34.0%	0.0%
3Q26E (Apr)	\$13,815	\$14,083	\$268	\$1.03	\$1.01	-\$0.02	65.7%	66.3%	0.6%	34.3%	34.3%	0.1%
4Q26E (Jul)	\$14,629	\$14,418	-\$211	\$1.10	\$1.06	-\$0.04	65.9%	66.4%	0.5%	34.7%	34.9%	0.2%
<b>Total</b>	<b>\$56,486</b>	<b>\$55,741</b>	<b>-\$745</b>	<b>\$4.15</b>	<b>\$4.01</b>	<b>-\$0.14</b>	<b>65.6%</b>	<b>66.3%</b>	<b>0.6%</b>	<b>34.3%</b>	<b>34.4%</b>	<b>0.1%</b>

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



### Exhibit 3: Income Statement

Updated summary of financials; we reduce our FY24 revenue and EPS estimates to \$52,009mn and \$3.71, respectively

(\$mn except per share values)	FY2023				FY2024E				FY2025E				FY2026E				FY2022	FY2023	FY2024E	FY2025E	FY2026E
	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24	Oct-24	Jan-25	Apr-25	Jul-25	Oct-25	Jan-26	Apr-26	Jul-26					
Product Revenues	10,245	10,155	11,092	11,650	11,139	9,232	8,616	8,716	9,417	9,462	9,847	10,120	9,835	9,881	10,185	10,497	38,018	43,142	37,703	38,846	40,397
Service Revenues	3,387	3,437	3,479	3,553	3,529	3,559	3,584	3,634	3,613	3,628	3,665	3,725	3,743	3,782	3,898	3,922	13,539	13,856	14,306	14,629	15,345
<b>Total Revenues</b>	<b>13,632</b>	<b>13,592</b>	<b>14,571</b>	<b>15,203</b>	<b>14,668</b>	<b>12,791</b>	<b>12,200</b>	<b>12,350</b>	<b>13,030</b>	<b>13,089</b>	<b>13,512</b>	<b>13,844</b>	<b>13,578</b>	<b>13,663</b>	<b>14,083</b>	<b>14,418</b>	<b>51,557</b>	<b>56,998</b>	<b>52,009</b>	<b>53,475</b>	<b>55,741</b>
YoY Growth	5.7%	6.9%	13.5%	16.0%	7.6%	-5.9%	-16.3%	-18.8%	-11.2%	2.3%	10.8%	12.1%	4.2%	4.4%	4.2%	4.1%	3.5%	10.6%	-8.8%	2.8%	4.2%
Cost of Sales	5,050	4,905	5,076	5,179	4,827	4,259	4,091	4,141	4,403	4,433	4,559	4,654	4,589	4,627	4,749	4,845	18,231	20,210	17,317	18,049	18,810
Gross Profits	8,582	8,687	9,495	10,024	9,841	8,532	8,109	8,209	8,627	8,657	8,953	9,190	8,989	9,036	9,334	9,573	33,326	36,788	34,691	35,427	36,932
<b>Gross Margin</b>	<b>63%</b>	<b>64%</b>	<b>65%</b>	<b>66%</b>	<b>67%</b>	<b>67%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>66%</b>	<b>65%</b>	<b>65%</b>	<b>67%</b>	<b>66%</b>	<b>66%</b>
Gross Margin	63.0%	63.9%	65.2%	65.9%	67.1%	66.7%	66.5%	66.5%	66.2%	66.1%	66.3%	66.4%	66.2%	66.1%	66.3%	66.4%	64.6%	64.5%	66.7%	66.2%	66.3%
Research & Development	1,510	1,548	1,639	1,639	1,593	1,556	1,436	1,426	1,496	1,516	1,556	1,576	1,576	1,596	1,636	1,646	5,718	6,336	6,011	6,144	6,454
Sales and Marketing	2,237	2,216	2,349	2,399	2,319	2,236	2,116	2,116	2,186	2,206	2,246	2,256	2,266	2,276	2,316	2,326	8,467	9,201	8,787	8,894	9,184
General and Admin	497	509	566	608	556	525	405	405	465	485	505	510	515	515	550	565	1,796	2,180	1,891	1,965	2,145
<b>Operating Income</b>	<b>4,338</b>	<b>4,414</b>	<b>4,941</b>	<b>5,378</b>	<b>5,373</b>	<b>4,215</b>	<b>4,152</b>	<b>4,262</b>	<b>4,480</b>	<b>4,450</b>	<b>4,646</b>	<b>4,848</b>	<b>4,632</b>	<b>4,649</b>	<b>4,832</b>	<b>5,036</b>	<b>17,345</b>	<b>19,071</b>	<b>18,002</b>	<b>18,424</b>	<b>19,149</b>
Operating Margin	31.8%	32.5%	33.9%	35.4%	36.6%	33.0%	34.0%	34.5%	34.4%	34.0%	34.4%	35.0%	34.1%	34.0%	34.3%	34.9%	33.6%	33.5%	34.1%	34.5%	34.4%
Interest Income	169	219	262	312	360	324	262	362	360	324	262	362	360	324	262	362	476	962	1,308	1,308	1,308
Interest Expense/Other	-125	-140	-128	-149	-143	-171	-143	-201	-143	-201	-143	-201	-143	-201	-143	-201	-446	-542	-658	-688	-688
Income Tax Expense	833	854	964	861	1,062	830	812	840	892	869	905	952	921	907	941	988	3,281	3,512	3,544	3,619	3,756
<b>Net Income</b>	<b>3,549</b>	<b>3,639</b>	<b>4,111</b>	<b>4,680</b>	<b>4,528</b>	<b>3,538</b>	<b>3,459</b>	<b>3,583</b>	<b>3,804</b>	<b>3,704</b>	<b>3,859</b>	<b>4,057</b>	<b>3,927</b>	<b>3,865</b>	<b>4,010</b>	<b>4,210</b>	<b>14,094</b>	<b>15,979</b>	<b>15,108</b>	<b>15,425</b>	<b>16,012</b>
Non-GAAP EPS	\$0.86	\$0.88	\$1.00	\$1.14	\$1.11	\$0.87	\$0.85	\$0.88	\$0.94	\$0.92	\$0.96	\$1.01	\$0.98	\$0.97	\$1.01	\$1.06	\$3.36	\$3.89	\$3.71	\$3.83	\$4.01
GAAP EPS	\$0.65	\$0.67	\$0.78	\$0.97	\$0.89	\$0.65	\$0.61	\$0.64	\$0.69	\$0.67	\$0.71	\$0.76	\$0.72	\$0.71	\$0.74	\$0.79	\$2.82	\$3.07	\$2.79	\$2.83	\$2.96
Diluted share count	4,116	4,116	4,110	4,093	4,087	4,073	4,059	4,049	4,039	4,029	4,019	4,004	4,004	3,994	3,984	3,974	4,189	4,109	4,067	4,023	3,989
Operating Cash Flow	3,962	4,739	5,219	5,966	2,371	808	4,068	4,722	4,403	4,278	4,218	4,885	4,438	4,369	5,125	4,742	13,226	19,886	11,968	17,784	18,674
OCF Margin	29.1%	34.9%	35.8%	39.2%	16.2%	6.3%	33.3%	38.2%	33.8%	32.7%	31.2%	35.3%	32.7%	32.0%	36.4%	32.9%	25.7%	34.9%	23.0%	33.3%	33.5%
<b>Free Cash Flow</b>	<b>3,786</b>	<b>4,570</b>	<b>4,950</b>	<b>5,734</b>	<b>2,237</b>	<b>638</b>	<b>3,885</b>	<b>4,537</b>	<b>4,208</b>	<b>4,082</b>	<b>4,015</b>	<b>4,677</b>	<b>4,234</b>	<b>4,164</b>	<b>4,913</b>	<b>4,526</b>	<b>12,840</b>	<b>19,040</b>	<b>11,296</b>	<b>16,982</b>	<b>17,838</b>
FCF Margin	27.8%	33.6%	34.0%	37.7%	15.3%	5.0%	31.8%	36.7%	32.3%	31.2%	29.7%	33.8%	31.2%	30.5%	34.9%	31.4%	24.9%	33.4%	21.7%	31.8%	32.0%
Cash and equivalents	19,784	22,061	23,288	26,146	23,523	25,671	27,322	29,816	31,986	34,034	36,018	38,436	41,115	43,258	46,155	48,668	19,267	26,146	29,816	38,436	48,668
Total debt	8,878	8,887	8,394	8,391	7,650	11,605	11,605	11,605	11,605	11,605	11,605	11,605	11,605	11,605	11,605	11,605	9,515	8,391	11,605	11,605	11,605
Net cash	10,906	13,174	14,894	17,755	15,873	14,066	15,717	18,211	20,381	22,429	24,413	26,831	29,510	31,653	34,550	37,063	9,752	17,755	18,211	26,831	37,063
<b>Margin Analysis</b>																					
Gross Margin	63.0%	63.9%	65.2%	65.9%	67.1%	66.7%	66.5%	66.5%	66.2%	66.1%	66.3%	66.4%	66.2%	66.1%	66.3%	66.4%	64.6%	64.5%	66.7%	66.2%	66.3%
R&D	11.1%	11.4%	11.2%	10.8%	10.9%	12.2%	11.8%	11.5%	11.5%	11.6%	11.5%	11.4%	11.6%	11.7%	11.6%	11.4%	11.1%	11.1%	11.6%	11.5%	11.6%
Sales and Marketing	16.4%	16.3%	16.1%	15.8%	15.8%	17.5%	17.3%	17.1%	16.8%	16.9%	16.6%	16.3%	16.7%	16.7%	16.4%	16.1%	16.4%	16.1%	16.9%	16.6%	16.5%
General and Admin	3.6%	3.7%	3.9%	4.0%	3.8%	4.1%	3.3%	3.3%	3.6%	3.7%	3.7%	3.7%	3.8%	3.8%	3.9%	3.9%	3.5%	3.8%	3.6%	3.7%	3.8%
Total Opex	31.1%	31.4%	31.3%	30.6%	30.5%	33.8%	32.4%	32.0%	31.8%	32.1%	31.9%	31.4%	32.1%	32.1%	32.0%	31.5%	31.0%	31.1%	32.1%	31.8%	31.9%
<b>Operating Income</b>	<b>31.8%</b>	<b>32.5%</b>	<b>33.9%</b>	<b>35.4%</b>	<b>36.6%</b>	<b>33.0%</b>	<b>34.0%</b>	<b>34.5%</b>	<b>34.4%</b>	<b>34.0%</b>	<b>34.4%</b>	<b>35.0%</b>	<b>34.1%</b>	<b>34.0%</b>	<b>34.3%</b>	<b>34.9%</b>	<b>33.6%</b>	<b>33.5%</b>	<b>34.6%</b>	<b>34.5%</b>	<b>34.4%</b>
Tax Rate	19.0%	19.0%	19.0%	15.5%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	18.9%	18.0%	19.0%	19.0%	19.0%
Non-GAAP Net Income	26.0%	26.8%	28.2%	30.8%	30.9%	27.7%	28.4%	29.0%	29.2%	28.3%	28.6%	29.3%	28.9%	28.3%	28.5%	29.2%	27.3%	28.0%	29.0%	28.8%	28.7%
<b>YoY % Growth</b>																					
Product Revenues	7.5%	8.6%	17.4%	20.3%	8.7%	-9.1%	-22.3%	-25.2%	-15.5%	2.5%	14.3%	16.1%	4.4%	4.4%	3.4%	3.7%	5.6%	13.5%	-12.6%	3.0%	4.0%
Service Revenues	0.5%	2.1%	2.7%	4.1%	4.2%	3.5%	3.0%	2.3%	2.4%	1.9%	2.3%	2.5%	3.6%	4.3%	6.4%	5.3%	-1.9%	2.3%	3.2%	2.3%	4.9%
Revenues	5.7%	6.9%	13.5%	16.0%	7.6%	-5.9%	-16.3%	-18.8%	-11.2%	2.3%	10.8%	12.1%	4.2%	4.4%	4.2%	4.1%	3.5%	10.6%	-8.8%	2.8%	4.2%
Total Opex	5.3%	7.8%	15.8%	14.7%	5.3%	1.0%	-13.1%	-15.0%	-7.2%	-2.5%	8.8%	10.0%	5.1%	4.3%	4.5%	4.5%	-1.4%	10.9%	-5.8%	1.9%	4.6%
Operating Income	1.1%	1.1%	11.0%	26.9%	23.9%	-4.5%	-16.0%	-20.7%	-16.6%	5.6%	11.9%	13.8%	3.4%	4.5%	4.0%	3.9%	3.8%	10.0%	-5.6%	2.3%	3.9%
EPS	5.3%	4.8%	14.8%	37.5%	28.5%	-1.7%	-14.8%	-22.6%	-15.0%	5.8%	12.7%	14.5%	4.1%	5.3%	4.8%	4.5%	4.6%	15.6%	-4.5%	3.2%	4.7%
<b>QoQ % Growth</b>																					
Product Revenues	5.7%	-0.9%	9.2%	5.0%	-4.4%	-17.1%	-6.7%	1.2%	8.0%	0.5%	4.1%	2.8%	-2.8%	0.5%	3.1%	3.1%					
Service Revenues	-0.8%	1.5%	1.2%	2.1%	-0.7%	0.9%	0.7%	1.4%	-0.6%	0.4%	1.0%	1.6%	0.5%	1.0%	3.1%	0.6%					
Revenues	4.0%	-0.3%	7.2%	4.3%	-3.5%	-12.8%	-4.6%	1.2%	5.5%	0.5%	3.2%	2.5%	-1.9%	0.6%	3.1%	2.4%					
Total Opex																					
Operating Income	2.3%	1.8%	11.9%	8.8%	-0.1%	-21.6%	-1.5%	2.7%	5.1%	-0.7%	4.4%	4.4%	-4.5%	0.4%	3.9%	4.2%					
EPS	3.7%	2.5%	13.1%	14.3%	-3.1%	-21.6%	-1.9%	3.8%	6.5%	-2.4%	4.5%	5.5%	-3.2%	-1.3%	4.0%	5.2%					

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Cisco Systems (CSCO)

Our \$55 PO is based on roughly 12x EV/FCF using our CY2025 estimate, in-line with tech peers at 9-20x (appropriate given Cisco's stability and high 3.0%+ dividend yield). We also focus on FCF to better capture software revenue growth and the shift to subscription models.

Downside risks to our price objective are: (1) deterioration in the spending environment, (2) lack of growth in public spending, a vertical that Cisco dominates, (3) downside risk to gross margin stemming from pricing and competitive pressures, (4) technological changes that would adversely impact high profit switching and routing segments, (5) inability to drive technological innovation in its core and new growth segments through organic innovation and acquisitions, and (6) change in customer behavior that would result in revenue pressure in services and other key areas.

Upside risks to our price objective are: (1) higher than expected growth in key markets, particularly switching and routing, and (2) solid market share gains in security and observability.

## Analyst Certification

I, Tal Liani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as financial advisor to Cisco Systems Inc in connection with its proposed acquisition of (Splunk Inc, which was announced on September 21, 2023). The proposed transaction is subject to approval by shareholders of Splunk Inc. This research report is not intended to provide voting advice, serve as an endorsement of the proposed transaction, or result in the procurement, withholding or revocation of a proxy.

### US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
<b>NEUTRAL</b>				
	Cellebrite	CLBT	CLBT US	Tomer Zilberman
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani

## US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

**iQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

Cisco Systems (CSCO) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. Coverage Cluster is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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