

voice, and video across geographically dispersed local-areanetworks, metropolitan-area networks, and wide-area networks. Devices are primarily integrated by Cisco IOS Software and include Routers, Switches, New Products, and Other. Provides services as-

75,049 employees. Officers/Directors hold less than 1.0% of stock; BlackRock, 6.1%, Vanguard, 5.5%. (9/15 proxy). Chrmn. & CEO: Chuck Robbins. Inc.: CA. Address: 170 W. Tasman Drive, San Jose, CA 95134-1706. Tele.: 408-526-4000. Web: www.cisco.com.

ANNUAL RATES Past Est'd '14-'16 of change (per sh) Revenues 10 Yrs. 11.0% **5 Yrs.** 7.0% to '19-'21 5.0% 5.5% 'Cash Flow 11.0% 10.5% 11.5% 11.0% 6.0% Earnings Dividends 10.5% Book Value 11.5% 10.5%

67114

1032

19809

508 18269 76283

1104 3897

18622

23623

Current Assets

Accts Payable Debt Due

Current Liab.

Other

78719

1056

4160

19695

24911

Fiscal Year Ends			/ENUES (\$ Apr.Per		Full Fiscal Year
2013	11876	12098	12216	12417	48607
2014	12085	11155	11545	12357	47142
2015	12245	11936	12137	12843	49161
2016	12682	11927	12000	12638	49247
2017	12500	12260	12500	12990	50250
Fiscal	EARNINGS PER SHARE AB				<u>F</u> ull .
Year Ends	Oct.Per	Jan.Per	Apr.Per	Jul.Per	Fiscal Year
2013	.48	.51	.51	.52	2.02
2014	.53	.47	.51	.55	2.06
2015	.54	.53	.54	.59	2.21
2016	.59	.57	.57	.63	2.36
2017	.60	.59	.58	.63	2.40
Cal-	QUARTERLY DIVIDENDS PAID E				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2012	.06	.08	.08	.28	.50
2013		.17	.17	.17	.51
2014	.17	.19	.38		.74
2015	.40		.21	.21	.82
2016	.21	.26	.26		

Cisco Systems reported decent results to end fiscal 2016. The top line advanced 2% year over year in the July period, as product sales rose 1% and service revenue was 5% higher. The operating margin grew by 130 basis points, and earnings per share were 9% higher. The planned transition of the product suite toward software continued. That category made up 28% of total revenue versus 25% a year ago.

Underlying demand trends are wanting. Service providers spent 5% less than last year and emerging market revenue dropped 6%. Macroeconomic uncertainty was cited for the lackluster results. The company did not provide a timeline for an expected recovery from these end markets. Fiscal first-quarter guidance calls for revenue to be down 1% to up 1%, and for earnings to land between \$0.58 and \$0.60.

Traditional engineering and sales positions are being eliminated. Following similar actions by former CEO John Chambers in 2013 and 2014, current CEO Chuck Robbins recently announced that Cisco plans to lay off 5,500 employees, or roughly 7% of the global workforce. The decision stems from a shift in focus from low-growth core businesses to priority areas such as security, Internet of Things, collaboration, data center, and the cloud. In general, the company needs fewer people to make hardware and more people to write software, as businesses increasingly use cloud computing power to run operations as opposed to physical networking gear. The downsizing will take place in the October period, and is expected to result in \$325 million to \$400 million in pretax charges during that time frame, before totaling \$700 million in fiscal 2017. The company appears to be taking the steps necessary to maintain a competitive product and service offering, while also maintaining margins.

Conservative, income investors may find these shares worthy of consideration. The stock will likely move sideways until demand from service providers and emerging markets rebounds. Based on Cisco's successful history of predicting and preparing for technology transitions, we think it should be able to adapt to an increasingly competitive landscape networking companies.

September 16, 2016

(A) Fiscal year ends on last Saturday in July (four 13-week quarters). **(B)** Diluted earnings. Excludes nonrecurring items: '00, (17¢); '01, (38¢); '02, (14¢); '03, (9¢); '04, (14¢). '01 in-

thereafter. (C) In millions, adjusted for stock Jan., April, July, and Oct.

cludes \$0.15 inventory writeoff. May not sum due to rounding. Next egs. report due mid-November. GAAP egs. prior to 2011, pro-forma idend commenced March 29, 2011, paid in late

Kevin Downing

Company's Financial Strength Stock's Price Stability A++ 70 Price Growth Persistence 30 **Earnings Predictability** 95