Cisco

F4Q26 Preview: Expect Strong Demand Momentum on Display; However, High Bar for FY27 Guide Leaves Us Cautious Into the Print

Overweight

CSCO, CSCO US
Price (03 Aug 26):$115.86
Price Target (Dec-27):$145.00

IT Hardware/ Telecom & Networking Equipment

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Despite a C2Q26 earnings season to date that has highlighted a supportive demand environment for AI Infrastructure, Traditional Networking (*campus and data center*), and Security, we are cautious on the setup for Cisco heading into the F4Q26 (Jul-end) earnings print. Specifically, while we expect a comfortable beat for the quarter given strong momentum across both the AI and non-AI parts of the portfolio, we believe the accompanying FY27 guidance is likely to fall shy of elevated investor expectations. On the AI side, beyond Cisco exceeding its order and revenue targets for FY26, we expect an upward revision to the preliminary FY27 revenue target of $6 bn+, supported by strong hyperscaler capex outlooks (*see report here*), evidence of robust DCI and scale-across demand from peers (*see ANET report here and NOK report here*), and further upward revisions to the AI Networking TAM from industry analysts (*see report here*). This should help drive an initial FY27 revenue growth outlook of high-single to low-double digits, embedding not only strong double-digit growth in AI revenue, but also solid mid- to high-single digit growth across the rest of the business, the latter benefiting from Enterprise campus and data center network refresh, along with the more one-time-in-nature Mythos-driven upgrades highlighted in our recent channel checks (*see report here*). That said, the growth in AI/hyperscaler revenue is likely to be a watch point for investors, in tandem with industry-wide cost inflation across components (*memory, silicon, etc.*), with the resulting shift in customer mix likely presenting a headwind to gross margin, with investors keenly watching Cisco's ability to drive operating leverage to offset it. These dynamics play out against a backdrop of Cisco shares already trading up almost +60% YTD (*vs. +13% for the S&P 500*) and at a premium of 25x+ NTM earnings, which we expect sets a high bar of investor expectations into the print, with many investors already primed for the FY26 demand momentum to carry into FY27. Net-net, while we expect Cisco to comfortably beat in F4Q26 given strength across both AI and non-AI, we believe the buy-side bar for FY27 guidance is likely to be a tough hurdle for the company to clear and support the premium valuation at which the shares trade.

- **F4Q26 (Jul-end) Results: Expect revenue and earnings to track ahead of expectations.** For F4Q26, we expect revenue and earnings to track ahead of JPMe ($16.9 bn/$1.17), consensus ($16.8 bn/$1.17) and guidance ($16.7–16.9 bn/$1.16–1.18), driven by upside to both AI and non-AI revenue. A key watch point in the quarter will be gross margins, which we expect to land close to the midpoint of the 65.5%-66.5% outlook range, with solid operating leverage helping drive the earnings beat.
- **F1Q27 (Oct-end) Guidance: Earnings to track ahead of consensus on better revenue and despite lower gross margins.** JPMe is forecasting revenue of $17.0 bn (vs. consensus of $16.8 bn), led by growth of +25% in Networking, and gross margin of 65.9% (vs. consensus of 66.2%), driving operating margins to 34.4% (vs. consensus of 34.6%) and EPS to $1.17 (vs. consensus of $1.16).
- **FY27 (Jul-end) Guidance: Outlook likely to meet consensus expectations;**

Quarterly Forecasts (FYE Jul)

Adj. EPS ($)

	2025A	2026E	2027E
Q1	0.91	1.00A	1.17
Q2	0.94	1.04A	1.18
Q3	0.96	1.06A	1.19
Q4	0.99	1.17	1.25
FY	3.80	4.28	4.80

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	66	49	47	33	29
Growth	80	72	73	73	85
Momentum	30	40	28	53	66
Quality	19	21	35	38	39
Low Vol	3	1	2	5	6
ESGQ	26	44	37	14	21

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	50.4%	2.8%	26.1%	72.6%
Rel	39.4%	1.2%	21.0%	52.6%

Company Data

Shares O/S (mn)	3,982
52-week range ($)	130.37-65.75
Market cap ($ mn)	461,354.50
Exchange rate	1.00
Free float (%)	90.7%
3M ADV (mn)	25.21
3M ADV ($ mn)	2,889.8
Volatility (90 Day)	40
Index	S&P 500
BBG ANR (Buy | Hold | Sell)	18|10|0

Key Metrics (FYE Jul)

$ in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	56,654	62,968	68,709	74,877
Adj. EBIT	19,491	21,753	23,925	26,827
Adj. EBITDA	20,653	23,005	24,877	28,026
Adj. net income	15,213	17,033	18,967	21,440
Adj. EPS	3.80	4.28	4.80	5.45
BBG EPS	3.79	4.28	4.79	5.25
Cashflow from operations	14,193	13,324	19,884	22,947
FCFF	10,087	6,457	20,223	23,140
Margins and Growth				
Revenue Growth Y/Y (%)	5.3%	11.1%	9.1%	9.0%
EBIT margin	34.4%	34.5%	34.8%	35.8%
EBIT Growth Y/Y (%)	6.1%	11.6%	10.0%	12.1%
EBITDA margin	36.5%	36.5%	36.2%	37.4%
EBITDA Growth Y/Y (%)	6.6%	11.4%	8.1%	12.7%
Net margin	26.9%	27.1%	27.6%	28.6%
Adj. EPS growth	1.9%	12.6%	12.1%	13.7%
Ratios				
Adj. tax rate	18.4%	19.0%	18.9%	19.0%
Interest cover	34.9	37.2	59.5	117.8
Net debt/Equity	0.4	0.5	0.3	0.1
Net debt/EBITDA	1.0	1.0	0.6	0.2
ROE	32.9%	34.9%	34.9%	34.1%
Valuation				
FCFF yield	2.2%	1.4%	4.4%	5.1%
Dividend yield	1.4%	1.4%	1.5%	1.5%
EV/Revenue	8.5	7.6	7.0	6.4
EV/EBITDA	23.3	20.9	19.3	17.2
Adj. P/E	30.5	27.1	24.2	21.3

Summary Investment Thesis and Valuation

Investment Thesis

We are maintaining CSCO shares at Overweight driven by our expectation for further headroom for upside in the medium term, stemming from 1) upsides to AI-related demand driven by increasing share and customer spend in AI deployments; 2) earnings upgrades from a refresh cycle in Enterprise Networking, which is still in the early stages; 3) modest room for upside to the valuation multiple, particularly during a period with ramping demand momentum; and 4) a "wild card" in the form of Security, which we believe remains a critical watch point over the coming year with strong execution potentially leading to positive sentiment relative to a structural upshift in revenue growth.

Valuation

Our December 2027 price target of $145 is based on valuing our CY28E EPS estimate at a 25x P/E multiple, which is a significant premium to the historical average given accelerating revenue and earnings growth amid strength in Networking driving expectations of further earnings upside. Furthermore, we believe the premium is justified given the increasing relevance of AI in the mix against a backdrop of improving prospects for the non-AI portion of the business.

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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however, set against a tough buy-side bar. We expect Cisco to guide to revenue growth in the high-single to low-double digit range (vs. JPMe of +9.1% and consensus of +9.4%) and EPS growth in the low-double digit to mid-teens range (vs. JPMe of +12.1% and consensus of +12.2%).

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Investment Thesis, Valuation and Risks

Cisco *(Overweight; Price Target: $145.00)*

Investment Thesis

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Cisco P/E-Based Price Target Analysis

$ in Millions, except per share amounts

	NTM Qtrs 1-4	CY28E
JPM Net Income	18,694	22,941
JPM EPS	$4.72	$5.85
P/E Multiple	26x	
JPM P/E Multiple		25x
Implied Equity Value	**483,534**	**568,948**
Average Diluted Share Count	3,982	3,923
Implied Share Price	**$121.4**	**$145.0**
Current Value per Share	$121.43	$121.43
Upside vs. Current		19%
Memo:		
(-) Net Cash/(Debt)	(14,663)	3,207
Enterprise Value	498,197	565,741
JPM EBITDA	24,591	28,026
Implied EV/EBITDA	*20.3x*	*20.2x*

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Industry Downside Risks

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Shift of the industry to greater reliance on software reduces barriers to entry for new players. Customers have been driving network equipment manufacturers to provide value-add software instead of legacy value-add hardware, increasing flexibility of the network as well as accelerating the innovation cycle. While network equipment manufacturers like Cisco have also adopted a focus on software to be positioned for this transition in the industry, the barriers to entry for new players are lower in the field of software relative to hardware, increasing competitive risks for the industry overall.

Large enterprises, including cloud service providers, could increasingly look to in-source network infrastructure capabilities. Large enterprises, including the hyperscale cloud providers, have a significant amount of IT resources at their disposal. These large enterprises could in the future look to insource more of the network infrastructure capabilities, particularly when it comes to software capabilities required to support the hardware. Such investments by large enterprises could potentially lower the content opportunity for network equipment suppliers like Cisco.

Company-Specific Downside Risks

Pricing pressure on IT equipment with moderating inflation. Enterprise customers have to date absorbed the price increases from OEMs on account of the inflationary backdrop, which has provided limited alternatives. However, steeper than expected moderation in inflation can drive higher pressures on pricing of equipment relative to expectations, driving downside to revenue and earnings.

Integration risk with acquisitions is worth monitoring. Cisco has a strong record relative to integrating acquisitions. Additionally, we expect the pace of acquisitions seen over the last couple of years to continue unabated as Cisco focuses on building software and subscription-revenue capabilities. Integration risk with any future acquisitions could lead to downside to our price target.

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Cisco: Summary of Financials

Income Statement - Annual	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**53,803**	**56,654**	**62,968**	**68,709**	**74,877**
COGS	(17,491)	(17,716)	(20,877)	(23,436)	(25,616)
Gross profit	**36,312**	**38,938**	**42,090**	**45,273**	**49,262**
SG&A	(11,598)	(12,243)	(12,723)	(13,258)	(13,899)
Adj. EBITDA	**19,383**	**20,653**	**23,005**	**24,877**	**28,026**
D&A	(1,006)	(1,162)	(1,253)	(952)	(1,199)
Adj. EBIT	**18,377**	**19,491**	**21,753**	**23,925**	**26,827**
Net Interest	359	(592)	(618)	(418)	(238)
Adj. PBT	**18,579**	**18,644**	**21,029**	**23,387**	**26,469**
Tax	(3,429)	(3,431)	(3,995)	(4,420)	(5,029)
Minority Interest	-	-	-	-	-
Adj. Net Income	**15,150**	**15,213**	**17,033**	**18,967**	**21,440**
Reported EPS	3.73	3.80	4.28	4.80	5.45
Adj. EPS	**3.73**	**3.80**	**4.28**	**4.80**	**5.45**
DPS	**1.58**	**1.62**	**1.66**	**1.70**	**1.74**
Payout ratio	42.4%	42.6%	38.8%	35.5%	31.9%
Shares outstanding	4,064	4,003	3,982	3,955	3,934

Balance Sheet & Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	7,508	8,346	8,374	10,236	14,953
Accounts receivable	6,685	6,701	7,406	9,574	11,480
Inventories	3,373	3,095	5,046	5,553	6,429
Other current assets	19,008	19,231	21,183	23,858	26,640
Current assets	**36,862**	**35,341**	**39,114**	**43,651**	**51,150**
PP&E	2,090	2,113	2,205	2,205	2,205
LT investments	-	-	-	-	-
Other non current assets	15,582	16,799	19,268	19,268	19,268
Total assets	**124,413**	**122,564**	**127,729**	**130,892**	**136,894**
Short term borrowings	11,341	5,232	11,932	11,932	11,932
Payables	2,304	2,528	2,649	2,613	3,000
Other short term liabilities	26,939	27,304	25,395	26,275	27,182
Current liabilities	**40,584**	**35,064**	**39,976**	**40,821**	**42,114**
Long-term debt	19,621	22,861	19,371	14,371	9,371
Other long term liabilities	34,387	38,219	34,840	29,840	24,840
Total liabilities	**78,956**	**75,448**	**77,120**	**72,965**	**69,258**
Shareholders' equity	45,457	47,116	50,609	57,928	67,635
Minority interests	0	0	0	0	0
Total liabilities & equity	**124,413**	**122,564**	**127,729**	**130,892**	**136,894**
BVPS	**11.19**	**11.77**	**12.71**	**14.65**	**17.19**
y/y Growth	*3.6%*	*5.2%*	*8.0%*	*15.2%*	*17.4%*
Net debt/(cash)	23,454	19,747	22,929	16,067	6,350
Cash flow from operating activities	**10,880**	**14,193**	**13,324**	**19,884**	**22,947**
o/w Depreciation & amortization	2,507	2,811	2,612	2,748	2,995
o/w Changes in working capital	(4,298)	(1,647)	(5,545)	(1,831)	(1,488)
Cash flow from investing activities	**(20,478)**	**1,733**	**(3,558)**	**(1,374)**	**(1,498)**
o/w Capital expenditure	(4,230)	(4,589)	(7,367)	0	0
as % of sales	*7.9%*	*8.1%*	*11.7%*	*0.0%*	*0.0%*
Cash flow from financing activities	**6,844**	**(15,815)**	**(10,245)**	**(16,648)**	**(16,732)**
o/w Dividends paid	-	-	-	-	-
o/w Net debt issued/(repaid)	-	-	-	-	-
Net change in cash	**(2,754)**	**111**	**(479)**	**1,862**	**4,717**
Adj. Free cash flow to firm	**6,357**	**10,087**	**6,457**	**20,223**	**23,140**
y/y Growth	*(25.9%)*	*58.7%*	*(36.0%)*	*213.2%*	*14.4%*

Income Statement - Quarterly	1Q26A	2Q26A	3Q26A	4Q26E
Revenue	**14,883A**	**15,349A**	**15,841A**	**16,895**
COGS	(4,747)A	(4,992)A	(5,383)A	(5,755)
Gross profit	**10,136A**	**10,357A**	**10,458A**	**11,139**
SG&A	(3,166)A	(3,169)A	(3,144)A	(3,244)
Adj. EBITDA	**5,492A**	**5,742A**	**5,600A**	**6,171**
D&A	(373)A	(431)A	(188)A	(261)
Adj. EBIT	**5,119A**	**5,311A**	**5,412A**	**5,911**
Net Interest	(128)A	(160)A	(163)A	(167)
Adj. PBT	**4,952A**	**5,115A**	**5,218A**	**5,744**
Tax	(941)A	(972)A	(991)A	(1,091)
Minority Interest	-	-	-	-
Adj. Net Income	**4,011A**	**4,143A**	**4,227A**	**4,652**
Reported EPS	1.00A	1.04A	1.06A	1.17
Adj. EPS	**1.00A**	**1.04A**	**1.06A**	**1.17**
DPS	**0.41A**	**0.41A**	**0.42A**	**0.42**
Payout ratio	40.8%A	39.4%A	39.6%A	35.8%
Shares outstanding	3,993A	3,984A	3,982A	3,970

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	67.5%	68.7%	66.8%	65.9%	65.8%
EBITDA margin	36.0%	36.5%	36.5%	36.2%	37.4%
EBIT margin	34.2%	34.4%	34.5%	34.8%	35.8%
Net profit margin	28.2%	26.9%	27.1%	27.6%	28.6%
ROE	33.7%	32.9%	34.9%	34.9%	34.1%
ROA	13.4%	12.3%	13.6%	14.7%	16.0%
ROCE	23.2%	21.0%	22.4%	23.4%	25.1%
SG&A/Sales	21.6%	21.6%	20.2%	19.3%	18.6%
Net debt/equity	0.5	0.4	0.5	0.3	0.1
P/E (x)	31.1	30.5	27.1	24.2	21.3
P/BV (x)	10.4	9.8	9.1	7.9	6.7
EV/EBITDA (x)	24.8	23.3	20.9	19.3	17.2
Dividend Yield	1.4%	1.4%	1.4%	1.5%	1.5%
Sales/Assets (x)	0.5	0.5	0.5	0.5	0.6
Interest cover (x)	NM	34.9	37.2	59.5	117.8
Operating leverage	64.9%	114.4%	104.1%	109.5%	135.1%
Revenue y/y Growth	(5.6%)	5.3%	11.1%	9.1%	9.0%
EBITDA y/y Growth	(3.2%)	6.6%	11.4%	8.1%	12.7%
Tax rate	18.5%	18.4%	19.0%	18.9%	19.0%
Adj. Net Income y/y Growth	(5.2%)	0.4%	12.0%	11.4%	13.0%
EPS y/y Growth	(4.1%)	1.9%	12.6%	12.1%	13.7%
DPS y/y Growth	2.6%	2.5%	2.5%	2.4%	2.4%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Jul. o/w - out of which

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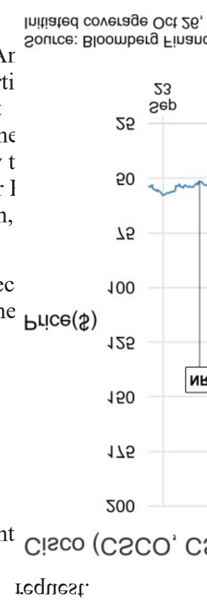

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IB clients**	95%	92%	87%

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