

Cisco Systems, Inc. (NASDAQ: CSCO)

Equity research update | Data as of 29 September 2026 close, published 30 September 2026

Recommendation	WATCHLIST	Previous	Buy (18 September 2026)
Price of record	\$106.94 (29 Sep close)	Fair value	\$121.73 probability-weighted (was \$130.15)
Implied upside	13.8%	Investment score	69 / 100 (was 71)
Watch price	\$98, or a November quarter that clears the margin test	Next catalyst	Q1 FY2027 results, 11 November 2026

Summary

The rating moves from Buy to Watchlist. The business case has not changed: fiscal 2027 guidance of \$72.2bn to \$73.4bn of revenue and \$5.05 to \$5.11 of non-GAAP earnings per share stands, management reiterated on 8 September that memory cost increases are being passed through to customers, and the \$9.3bn AI order book is intact. Two things have changed around it. First, the exit condition this coverage published on 18 September, two consecutive closes below \$107.53, was met on 23 September after the shares fell 4.5% on 22 September on a Piper Sandler target cut, and the stock has closed below that level for six straight sessions since. Second, the ten-year Treasury yield has climbed from 4.94% to 5.26% in eight sessions, and the market is now applying the lower multiple this coverage had listed as its second-largest risk. Rebuilding the scenarios on a lower base-case multiple cuts the probability-weighted fair value to \$121.73, 13.8% above the price, down from 18.1% a fortnight ago.

A Buy rating that re-issues itself with a lower stop after its own exit rule fires is not a risk discipline, so the levels are withdrawn rather than moved. Cisco becomes interesting again at about \$98, where the shares would sit on the 200-day average and at 19.3 times guided fiscal 2027 earnings, or earlier if the November quarter shows gross margin inside the 65% to 66% guide and free cash flow recovering as inventory turns. No company development in the period was material enough to alter the numbers; the most notable were a Splunk AI product release on 15 September and a non-binding memorandum with Bell Canada on 29 September.

1. The published levels at \$106.94

Level	18 Sep note	Status at \$106.94	Read
Recommended entry	\$106 to \$113	Inside, near the floor	Withdrawn with the rating
Ideal buy range	\$106 to \$110	Inside	Withdrawn with the rating
Exit condition	Two consecutive closes below \$107.53	Met 23 Sep; six closes below since	The rule did its job. A holder following it exited near \$106.43
Cut-loss	\$105	Not closed below; traded to \$104.51 intraday on 22 Sep	0.73 ATR away; no longer meaningful for a new position
100-day average (upgrade trigger)	\$112.95	Recomputed \$114.30; price 6.4% below	Further away than when published
Take-profit 1 / 2	\$132 / \$150	+23.4% / +40.3% away	Withdrawn with the rating

All averages recomputed in code from a 300-session daily series ending 29 September 2026, with the ATR(14) at \$2.65. No published level has been moved or widened; the trade plan is withdrawn instead.

2. Company developments

Development	Status and date	What is known	What is forecast (and by whom)	Impact
Splunk AI release: AI POD for Splunk, Splunk AI Assistant, agent observability with token cost tracking, new Observability Cloud editions	Shipped, 15 Sep 2026 (company release); Agent Launchpad due later in 2026	Most products available now; extended Nvidia partnership for on-premises Splunk AI; multi-year co-development agreement with AWS on agentic security operations. Pricing not disclosed.	None quantified by the company	Medium
Bell Canada sovereign AI memorandum	Signed 29 Sep 2026 (joint release)	Non-binding MOU. Cisco supplies AI PODs, security and observability; Bell supplies Canadian data-centre space, power and operations. No value or timeline disclosed.	None; follows the 25 Aug Canadian sovereign portfolio launch	Low
Management commentary on input costs	Goldman Sachs conference, 8 Sep 2026	CFO Mark Patterson: memory price increases are being passed on to customers; Q1 gross margin guided at 65% to 66% with slight headwinds through fiscal 2027 from a hardware-heavy mix. Q4 hyperscale AI orders were \$4bn.	Management expects the margin headwind to stay slight	Medium
AgenticOps enterprise research	Published 23 Sep 2026	Company survey on enterprise adoption of agentic IT operations.	Survey findings only	Low

None of these reaches the threshold that would change the scenarios, the fair value or the scores. The Splunk release is the most substantive: it extends the subscription line that supports the business-quality score, but it adds features to an existing franchise rather than opening a new revenue line, and no pricing was disclosed. The Bell memorandum continues the sovereign-infrastructure pattern recorded since August without committing either party to spend. The conference commentary is the more useful item for this thesis, because it is management's own statement that the cost pressure flagged in the last note is being priced through. It is a statement of intent that the November quarter will test.

3. Growth drivers

Driver	Status	Fact vs forecast	Likelihood	Impact
Hyperscale AI revenue to \$7.5bn in FY27	Guided	FY26 AI orders \$9.3bn (fact); FY27 revenue target (management)	Medium-high	High
Campus refresh on the AI-ready platform	Under way	Management describes a multi-year cycle; cadence not disclosed	Medium	Medium
Splunk and security subscription growth	Shipping (15 Sep release)	48% subscription mix (fact); growth rates not disclosed per product	Medium	Medium
Sovereign and neocloud build-outs	Early; Bell MOU non-binding	Deals announced; no revenue disclosed	Medium	Low-medium

4. Valuation at \$106.94

At \$106.94 Cisco trades at 21.1 times fiscal 2027 guided non-GAAP earnings of \$5.08, against 21.7 times at the last note. Market capitalisation is \$421.3bn on 3,940m diluted shares, the free cash flow yield is 3.0% on the \$12.77bn reported for fiscal 2026 and the dividend yield is about 1.57%. The consensus target has eased to \$133.86, 25.2% above the price. On these numbers the stock is modestly undervalued against the base case, but by a thinner margin than the last note carried, and the reason is the discount rate rather than the earnings.

Valuation measure	At \$110.24 (18 Sep)	At \$106.94 (now)	Own history
P/E on FY27 guided non-GAAP EPS \$5.08	21.7x	21.1x	~15x avg
Free cash flow yield	2.9%	3.0%	~5-6%

Valuation measure	At \$110.24 (18 Sep)	At \$106.94 (now)	Own history
Dividend yield	1.52%	1.57%	~2.8%
Market capitalisation	\$434.3bn	\$421.3bn	-
Consensus target (upside)	\$137.63 (24.8%)	\$133.86 (25.2%)	-
Probability-weighted fair value (upside)	\$130.15 (18.1%)	\$121.73 (13.8%)	-

Multiples computed on 3,940m diluted shares. Historical averages are approximate long-run reference levels. Consensus per Yahoo Finance as of 22 September 2026.

The macro variables that matter here. Cisco is not a rate-demand story: enterprise networking budgets and hyperscale AI build-outs are set by capital plans, so the policy rate reaches this business through the multiple. That channel has now moved. The ten-year Treasury yield closed at 5.26% on 29 September, near its highest level since 2007, up from 4.94% the day after the Federal Reserve raised its target range to 3.75%-4.00% on 16 September. Piper Sandler's 22 September target cut was explicitly a cut to the multiple, not to earnings. The second variable is input cost, which reaches the gross-margin guide. Core CPI ran 0.3% in August and the September Philadelphia Fed prices-paid index jumped to 48.6, while management says it is passing memory costs through. Business investment remains firm, with core capital goods orders up 1.6% in August, which supports the order book even as consumer confidence fell to 81.9 in September.

5. Financial position

Metric	Value	What it means here
FY26 revenue / net income	\$63.3bn / \$13.3bn	Annual report filed 2 Sep confirmed the August release
FY26 free cash flow	\$12.77bn, down 3.9%	Inventory rose 80% to \$5.69bn; recovery is a November test
FY27 guidance	\$72.2-73.4bn revenue; \$5.05-5.11 EPS	+15% revenue and +17% EPS at the midpoint
Q1 FY27 gross margin guide	65% to 66%	The single number most likely to move the rating
Net leverage / ROE	~0.55x / ~27%	Balance sheet is not the constraint

6. Sentiment

The only broker action in the period was negative. On 22 September Piper Sandler kept its Neutral rating and cut its target to \$125 from \$132, citing lower price-to-earnings assumptions and a view that the traditional networking industry's growth may be near its peak; the shares fell 4.5% to \$106.44 that day on 32.9m shares, the heaviest volume since the 18 September option expiry. Market news that day also pointed to recent insider sales, which were routine executive dispositions in August worth under \$1m each. The consensus rating remains Buy with an average target of \$133.86. The news flow digest reads bearish to neutral: one target cut and cautious options activity, against a steady stream of partnership announcements that do not yet carry revenue.

Institutional positioning (reported holdings, as of 30 June 2026, filings through 19 August 2026): Mixed, moderate confidence. Reported holdings show a net addition of about 2.7% of reported shares over four quarters and 0.2% in the latest quarter, with 22 managers adding and 34 cutting. The net addition rests largely on one large holder, and most of the rest of the register trimmed. Based on reported holdings filed by the cutoff. Late filers are not included, and passive, strategic and mixed holders are left out of the flow measure. The positioning predates the September sell-off.

7. Technicals

Indicator	18 Sep note	Now	Read
20-day SMA	\$110.01	\$108.72	Price 1.6% below; lost again after being reclaimed

Indicator	18 Sep note	Now	Read
50-day SMA	\$113.44	\$112.27	Price 4.7% below
100-day SMA	\$112.95	\$114.30	Price 6.4% below; still rising
200-day SMA	\$96.07	\$97.25	Price 10.0% above; the long-term uptrend holds
RSI(14)	-	42.4	Neutral, leaning weak
MACD (line / signal / hist.)	Turning positive	-1.47 / -1.39 / -0.08	Negative and below signal
ATR(14)	\$2.83	\$2.65 (2.5%)	Narrow range
Volume, 20d vs 50d	13.8m vs 19.0m	18.0m vs 19.4m	Selling on 22 and 24 Sep came on above-average volume

All indicators computed in code from one 300-session daily series (22 July 2025 to 29 September 2026); distances measured against \$106.94. Technicals inform timing only.

The medium-term structure has broken down: price sits below the 20, 50 and 100-day averages, the August recovery attempt failed at \$112.13 on 11 September and \$111.46 on 21 September, and the July-low support at \$107.53 has given way. The long-term trend remains up, with the 200-day average at \$97.25 and rising. That average is the natural support level and forms part of the watch price basis.

8. Risks

Risk	Probability	Severity	Comment
Multiple compression from higher long-term yields	Occurring	Medium-high	Ten-year at 5.26%. Piper's cut was a multiple cut. Base-case multiple lowered to 21x in this note
Gross margin misses the 65-66% guide on input costs	Medium-high	High	Management says costs are passed through; November tests that claim
Hyperscaler order digestion in 2H FY27	Medium	High	Carries the bear case to \$82
Free cash flow fails to recover	Medium	High	A second year of decline would make it structural
Core networking growth slows to single digits	Medium	Medium	The Piper argument; FY27 guide implies otherwise
Splunk integration underdelivers	Medium	Medium	Part of the 48% subscription mix

9. Scorecard

Factor	Score		Weight	Change and basis
Business Quality	8/10		15%	Unchanged. Dominant installed base; 48% subscription revenue
Financial Strength	8/10		12%	Unchanged. 0.55x net leverage; FY26 free cash flow down 3.9%
Competitive Advantage	7/10		15%	Unchanged. Broadening AI customer base; Arista leads scale-out
Management	8/10		10%	Unchanged. Beat the top of its own guide on every line
Growth Potential	8/10		15%	Unchanged. FY27 guided +15% revenue, +17% EPS
Valuation	6/10		15%	Unchanged. Cheaper on price, offset by a higher discount rate
Risk (10 = lowest risk)	5/10		13%	Down 1. Rate risk has moved from prospective to occurring
Technical Setup	3/10		5%	Down 2. Exit level broken; below 20, 50 and 100-day averages
Investment Score	69/100		100%	Was 71/100 on 18 September

Scored 1-10, where 10 is always best, including Risk. The composite is the weighted sum of the scores.

10. Scenarios

Case	Probability	Outlook	Fair value
Bull	30%	FY27 revenue above guide at \$74bn or more as AI revenue exceeds \$7.5bn; FY28 EPS near \$6.30; 25x as yields ease.	\$157.50
Base	45%	FY27 inside the \$72.2-73.4bn guide; FY28 EPS near \$5.70; 21x, in line with today's multiple under higher yields.	\$119.70
Bear	25%	Hyperscaler digestion in 2H FY27 and a margin miss; FY27 EPS near \$4.85; multiple de-rates to 17x.	\$82.45
Weighted	100%	Probability-weighted	\$121.73

Weighted fair value computed in code: \$121.73, 13.8% above \$106.94. The base-case multiple falls from 23x to 21x and the bull case from 26x to 25x to reflect the higher discount rate; earnings assumptions are unchanged.

11. Recommendation: Watchlist

The recommendation changes from Buy to Watchlist. The reasoning is narrow and worth stating exactly. The earnings case is where it was. What has changed is that the price-and-rate backdrop has taken about \$8 off the fair value, the stock's own risk rule has been triggered, and a 13.8% margin to fair value with a negative technical structure and a margin test six weeks away is not enough to justify putting new money to work. Without the rate move the fair value would still be near \$130 and a reset Buy might be defensible; with it, patience costs little. The name becomes interesting at about **\$98**, which combines the rising 200-day average (\$97.25) with 19.3 times guided fiscal 2027 earnings, 8.4% below the current price. It also becomes interesting at a higher price if the November quarter answers the margin question.

What would change the view	Direction
Shares reach about \$98, near the 200-day average and 19.3x guided FY27 EPS, with guidance intact	Up: back to Buy
November quarter shows gross margin inside 65-66% and free cash flow recovering, with price reclaiming the 50-day average	Up: back to Buy
A sustained easing in long-term Treasury yields that restores the multiple	Up

What would change the view	Direction
November quarter gross margin below the guided range	Down: toward Avoid
Hyperscaler orders fall below the roughly \$4bn quarterly pace	Down
A close below the 200-day average with guidance under pressure	Down

12. Final verdict

Would an investor put new money into Cisco today? Not yet. The business is performing and the guidance is credible, but the stock has lost the technical support this coverage used to define its risk, and the market has decided that a 5% ten-year yield buys less earnings multiple than it did a fortnight ago. The single biggest concern is that the gross-margin guide was set before the September cost pressure arrived; management says otherwise, and the November quarter will settle it. Until then the appropriate stance is to watch, with a price of about \$98 or a clean November print as the two routes back to Buy. No company development drove this call.

Sources

- Cisco newsroom: Splunk release, 15 Sep 2026; AgenticOps research, 23 Sep 2026
- Bell Canada and Cisco joint release (Newswire), 29 Sep 2026
- Cisco at Goldman Sachs Communacopia + Technology conference, 8 Sep 2026 (Investing.com transcript)
- Yahoo Finance and CNBC coverage of Piper Sandler target change, 22 Sep 2026
- Cisco fiscal 2026 annual report (SEC), filed 2 Sep 2026; Q4 FY26 results release, 12 Aug 2026
- moomoo news, notices and research feed; price of record from Alpha Vantage; daily series from Twelve Data
- Beating The Bull economic data posts, 11 to 29 Sep 2026

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