

Cisco Systems, Inc. (NASDAQ: CSCO)

Post-earnings equity research note | Q4 and full-year FY2026 results, reported 12 August 2026 after the close
| Report date: 13 August 2026

RECOMMENDATION BUY	INVESTMENT SCORE 70 / 100	WEIGHTED FAIR VALUE \$130	HORIZON 12–24m
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Pricing note. Cisco released results after the close on 12 August 2026. The last confirmed closing price is **\$123.88** (12 August, Alpha Vantage), which *predates* the announcement. Shares traded down roughly 6–7% to around **\$115** in pre-market and early trading on 13 August. All technical indicators below are computed from the daily series ending 12 August and therefore describe the pre-announcement chart; the post-release level of ~\$115 is discussed separately and is an indicative intraday figure, not a confirmed close.

1. What the Quarter Showed, and What It Changed

Cisco closed fiscal 2026 with a quarter that beat the high end of its own guidance on every line management guides to, and then paired it with a fiscal 2027 outlook well above where the sell side was modelling. Fourth-quarter revenue of \$17.25bn rose 18% year over year against guidance of \$16.7bn to \$16.9bn and a consensus of \$16.82bn. Non-GAAP EPS of \$1.22 rose 23% against guidance of \$1.16 to \$1.18 and a \$1.17 consensus. Non-GAAP operating margin reached 35.9%, up 160 basis points year over year. For the full year, revenue of \$63.3bn grew 12% and non-GAAP EPS of \$4.33 grew 14%, both above the ranges set three months earlier.

The guidance is the larger event. Cisco set fiscal 2027 revenue at \$72.2bn to \$73.4bn against a \$68.69bn consensus, and non-GAAP EPS at \$5.05 to \$5.11 against \$4.80. That is a roughly \$4bn revenue raise and a 6% EPS raise delivered in a single release, implying about 15% revenue growth and 17% EPS growth at the midpoints. A company that spent a decade guiding to a 4% to 6% long-term revenue model has just told the market to expect mid-teens, and the CFO explicitly noted that stripping out the \$7.5bn of guided hyperscaler AI revenue still leaves the core business growing near 10%.

What moved the stock was neither of those things. Management guided first-quarter non-GAAP gross margin to 65% to 66%, below the 66.3% just delivered, and flagged continued gross-margin erosion through fiscal 2027 as hardware becomes a larger share of the mix. Shares closed 12 August up 2.9% at \$123.88, then fell roughly 4% after hours and traded near \$115 the following morning, a decline of about 7%. The reaction is an observation about positioning into a stock that had already risen some 77% over twelve months and sat 5% below its 52-week high; it is not a verdict on the numbers. The numbers were better than the market asked for.

Reported Results Against Guidance and Consensus

Q4 FY2026 metric	Guided (May)	Consensus	Actual	vs guide high
Revenue	\$16.7–16.9bn	\$16.82bn	\$17.25bn	+\$0.35bn
Non-GAAP EPS	\$1.16–1.18	\$1.17	\$1.22	+\$0.04
GAAP EPS	\$0.80–0.85	—	\$0.97	+\$0.12
Non-GAAP operating margin	—	—	35.9%	+160bp y/y
Non-GAAP gross margin	—	—	66.3%	–210bp y/y
Product revenue	—	—	\$13.46bn	+24% y/y
Services revenue	—	—	\$3.79bn	flat y/y
Operating cash flow	—	—	\$5.39bn	+27% y/y

Sources: Cisco Q4 FY2026 press release (12 Aug 2026); Q3 FY2026 press release (13 May 2026) for the guidance column; Benzinga Pro consensus. Guidance beat on every guided line.

The Headline GAAP Figure Is Not Operating Performance

GAAP EPS of \$0.97, up 52%, should not be used for valuation. It contains a pre-tax gain on investments of \$869m, worth \$0.22 per share after tax on Cisco's own reconciliation, arising from mark-to-market movements on non-marketable equity stakes rather than from selling networking equipment. It is also depressed by a \$511m restructuring charge (\$0.13 per share) tied to the plan announced on 13 May 2026. Both are excluded from the \$1.22 non-GAAP figure, which is the cleaner measure of operating performance and the basis used throughout this report. Stripping only the investment gain from GAAP EPS gives approximately \$0.75 per share (analyst calculation: \$0.97 less \$0.22, using the company's own disclosed after-tax adjustment); that is not a company-reported measure and is shown only to make the point that the 52% GAAP growth headline overstates the underlying improvement.

2. The Variables That Will Drive the Return

Cisco is no longer a single business. Roughly 94% of fiscal 2026 revenue came from selling secure networking, security, collaboration and observability into enterprises, telcos and the public sector, at gross margins in the high 60s. The remaining 6% came from selling Silicon One systems and Acacia coherent optics to four or five hyperscalers, at materially lower gross margins but with almost no incremental operating expense. Management guides the second bucket to roughly 10% of revenue in fiscal 2027. Any framework that does not separate these two engines will produce the wrong answer, because they have opposite margin profiles and opposite cyclicity.

This report evaluates Cisco against five variables, chosen because they are the ones capable of changing the two-year return: (i) the durability of the enterprise and campus refresh, which supplies the high-margin cash flow; (ii) hyperscaler AI infrastructure conversion, specifically how much of the \$9.3bn order book becomes revenue and when; (iii) gross margin trajectory as mix shifts to hardware, and whether operating leverage offsets it; (iv) cash conversion, because reported earnings and free cash flow have decoupled; and (v) the valuation multiple, which has re-rated further than the earnings have grown.

3. Financial Performance and Quality of Earnings

Growth in the quarter was broad rather than concentrated. Product revenue rose 24% and every geography grew double digits, with the Americas up 18%, EMEA up 19% and APJC up 14%. Within products, networking rose 28%, security 14%, collaboration 12% and observability 6%. Orders ran ahead of revenue across the board: total product orders were up 35%, and up 25% excluding hyperscalers, which is the more useful number because it strips out the lumpiest customer set. Enterprise product orders accelerated to 21%, public sector to 30% and telco to over 30%. Eight consecutive quarters of double-digit networking order growth is a genuine trend, not a spike.

Profitability improved where it matters most. Non-GAAP gross margin fell 210 basis points to 66.3%, but non-GAAP operating expenses fell from 34.1% to 30.4% of revenue, so operating margin rose from 34.3% to 35.9%. That is the mechanism management is asking the market to underwrite: accept lower gross margin on hyperscaler hardware because capturing it requires almost no incremental sales, engineering or marketing spend. The arithmetic held this quarter.

The weak point is cash conversion, and it is the one item in the release that deserves more attention than it received. Full-year operating cash flow was \$14.18bn, essentially flat against \$14.19bn in fiscal 2025, while capital expenditure rose 56% to \$1.41bn. Free cash flow therefore fell about 4% to \$12.77bn in a year when non-GAAP EPS rose 14%. The gap sits in working capital: inventories rose 80% to \$5.69bn and financing receivables rose \$1.84bn, together consuming roughly \$4.4bn. Management frames the inventory build as strategic pre-positioning for the supply chain, and the fourth quarter alone did show operating cash flow up 27%. That is a fair reading and it may well prove correct. It is nonetheless the case that shareholders are being asked to pay a higher multiple on earnings that are converting to cash less efficiently than a year ago, and if the inventory does not turn in the first half of fiscal 2027 the explanation

becomes harder to accept.

Key Financials and Balance Sheet

Metric (FY ending late July)	FY2026	FY2025	Change
Revenue	\$63.33bn	\$56.65bn	+11.8%
Non-GAAP operating income	\$22.04bn	\$19.49bn	+13.1%
Non-GAAP operating margin	34.8%	34.4%	+40bp
Non-GAAP gross margin	66.9%	68.7%	-180bp
Non-GAAP EPS	\$4.33	\$3.81	+13.6%
GAAP EPS	\$3.33	\$2.55	+30.6%
Operating cash flow	\$14.18bn	\$14.19bn	flat
Capital expenditure	\$1.41bn	\$0.91bn	+55.8%
Free cash flow (analyst calc: OCF – capex)	\$12.77bn	\$13.29bn	-3.9%
Cash and investments	\$15.92bn	\$16.11bn	-1.2%
Total debt	\$29.53bn	\$28.09bn	+5.1%
Net debt / EBITDA (analyst calc)	0.55x	0.58x	stable
Return on equity	27.3%	22.2%	+510bp
Return on invested capital (analyst calc)	19.9%	16.3%	+360bp
Inventories	\$5.69bn	\$3.16bn	+80.0%
Remaining performance obligations	\$46.73bn	\$43.53bn	+7.4%
Capital returned to shareholders	\$12.70bn	\$12.44bn	+2.1%

Source: Cisco Q4 FY2026 press release, consolidated statements. Ratios marked 'analyst calc' are derived from the disclosed statements and are not company-reported measures. Capital returned equalled 99% of free cash flow in FY2026.

4. Competitive Position and the Hyperscaler Pivot

The strategically important disclosure on the call was not the order number but the mechanism behind it. Cisco won three new hyperscaler design wins in the quarter, one of them a Silicon One P200 system for scale-across, bringing the P200 to three scale-across wins across three separate hyperscalers, with orders already placed against all three. Scale-across is the problem of connecting multiple data centres when power and physical limits prevent a single site from housing a cluster; management put the associated traffic at roughly fourteen times traditional data centre interconnect. A fourth win positions Cisco's optical line system as an alternative supplier displacing an incumbent in managed optical fibre networks. Acacia alone booked over \$1bn of orders in the quarter.

This is a real moat being built rather than a narrative. Owning the silicon, the optics and the systems, with a direct TSMC relationship and no merchant-silicon intermediary, is a structural position that Arista, which buys Broadcom Tomahawk and Jericho parts, does not have and cannot quickly acquire. Management intends to roll Silicon One across the entire high-performance portfolio by fiscal 2029. The counterweight is that Arista continues to win the Ethernet AI fabric inside the largest hyperscalers on merchant silicon and software, growing revenue at roughly 35% against Cisco's 12%, and Broadcom's ecosystem remains the industry default. Cisco is winning adjacent and complementary sockets, chiefly scale-across and optics, more than it is displacing Arista in scale-out.

Security remains the unresolved question. Splunk closed more than two years ago and full-year fiscal 2026 security revenue grew just 2%, despite the segment posting 14% in the fourth quarter. Management attributed part of that fourth-quarter strength to a small number of longer-duration on-premise Splunk deals, an accounting-timing benefit rather than a demand inflection, and guided security to high single digits for fiscal 2027 from low single digits in fiscal

2026. Firewall orders up over 30% for a second consecutive quarter and 6,400 net new customers on the newer products are encouraging. But a \$28bn acquisition contributing 2% segment growth in its second full year is the clearest gap between Cisco's stated strategy and its delivered results.

Competitive Comparison

	Cisco	Arista	HPE / Juniper	Nvidia (networking)
Revenue growth	+12% FY26	~+35%	low single digit	very high
AI position	Scale-across, optics	Scale-out fabric	Sub-scale	InfiniBand / Spectrum-X
Silicon	Own (Silicon One)	Merchant (Broadcom)	Merchant	Own
Forward P/E	~23x	~49x	~14x	~30x
Enterprise reach	Dominant	Narrow	Broad, weaker	Minimal
Moat durability	Improving	Strong but narrow	Eroding	Very strong

Forward P/E for Cisco on FY2027 guided non-GAAP EPS midpoint of \$5.08 at ~\$115; peers on consensus forward estimates as of 11–13 August 2026. Peer figures are approximate and drawn from aggregators.

5. Management and Guidance Credibility

Guidance accuracy is one of the few testable measures of a management team, and Cisco's record this cycle is good. The Q4 range set on 13 May 2026 was \$16.7bn to \$16.9bn of revenue and \$1.16 to \$1.18 of non-GAAP EPS; the company delivered \$17.25bn and \$1.22, above the high end of both. The full-year fiscal 2026 range of \$62.8bn to \$63.0bn and \$4.27 to \$4.29 was likewise exceeded at \$63.3bn and \$4.33. The restructuring announced in May was sized at up to \$1.0bn pre-tax with about \$450m expected in Q4; \$511m was recognised, a modest overshoot that management disclosed cleanly.

The longer record deserves credit too. Robbins used his closing remarks to point out that six years ago Cisco had essentially no business inside hyperscaler data centres, and that the current position was built deliberately through silicon, optics and security acquisitions. That is verifiable and it happened. Against that, the Splunk transaction has not yet earned its price, and the fifteen-year dividend growth streak, while a genuine signal of cash-flow confidence, sits awkwardly beside a year in which free cash flow declined. Insider ownership is negligible at roughly 1.9%, typical for a company of this age and not a red flag, but it means alignment rests on compensation design rather than on founder-scale stakes.

6. Growth Drivers and Risks

Growth driver	Likelihood	Impact	Comment
Hyperscaler AI infrastructure revenue to \$7.5bn	High	High	\$9.3bn ordered in FY26; guide looks prudent
Campus and enterprise refresh cycle	High	High	20% campus order growth; Wi-Fi 7 >50% of wireless
Scale-across / optical design wins	Medium-High	High	3 P200 wins; multi-rail systems coming
Telco capex recovery	Medium-High	Medium	Orders +30%, accelerating from 9%
Security returning to high single digits	Medium	Medium	Guided; FY26 delivered only 2%
End-of-support and quantum-readiness refresh	Medium	Medium	Pipeline building; no material revenue yet
Price increases (memory pass-through)	High	Medium	4–5pts of FY27 growth; lapping begins 2H

Risk	Probability	Severity	Comment
Multiple compression from ~23x toward historic ~15x	Medium	High	The dominant risk; narrative-driven re-rating
Structural gross margin erosion below 65%	Medium-High	Medium	Guided to 65–66%; opex leverage is the offset
Hyperscaler order lumpiness / digestion	Medium	High	4–5 customers; orders non-linear by nature
Working capital fails to unwind	Medium	Medium	Inventory +80%; FCF already –4%
Splunk / security underdelivers again	Medium	Medium	\$59.5bn goodwill is 46% of total assets
Memory and component cost inflation	High	Low-Medium	Memory is only 15–20% of BOM; passed through
Enterprise IT budget contraction	Low-Medium	High	Budgets reprioritised, not expanded, per management
Tariffs and geopolitical disruption	Medium	Low-Medium	Explicitly flagged in Cisco's own guidance caveats

The balance of this risk set is moderate rather than severe: the balance sheet is investment grade with net debt at 0.55x EBITDA, the customer base outside hyperscalers is exceptionally diversified, and 48% of revenue is subscription. The concentrated risks are valuation and mix, not solvency or demand.

7. Valuation

Cisco is a mature, cash-generative business with a newly cyclical growth engine bolted on, which makes earnings multiples the appropriate primary method and a discounted cash flow secondary at best, since the terminal assumptions would do all the work. The relevant denominator is fiscal 2027 guided non-GAAP EPS of \$5.08 at the midpoint, not annualised fourth-quarter earnings, because the hyperscaler segment is explicitly guided to grow from roughly \$4bn to \$7.5bn of revenue and any single quarter therefore misrepresents the run rate.

At the last confirmed close of \$123.88 the stock traded at 24.4 times guided fiscal 2027 earnings and 28.6 times trailing non-GAAP earnings. At the post-release level near \$115 those become 22.6 times and 26.6 times, with a market capitalisation of roughly \$458bn, a free cash flow yield of 2.8% and a dividend yield of 1.5%. The two comparisons point in opposite directions and both are true. Against Arista at roughly 49 times forward, Cisco at 23 times looks like the cheap way to own AI networking. Against its own decade-long history in the mid-teens, 23 times is a 50% premium granted for a growth rate the company has delivered for exactly two years.

The honest conclusion is that Cisco is close to fairly valued rather than obviously cheap. The probability-weighted fair value of \$130 sits about 13% above \$115, which is a reasonable but not compelling margin. What makes the position workable is the asymmetry in how the multiple can move: the earnings base is guided, credible and supported by a \$9.3bn order book, so the downside is predominantly a de-rating rather than an earnings miss, and de-ratings from a 15-year-high multiple on a company with 27% return on equity and a fifteen-year dividend record tend to be shallower than they are on speculative names.

Valuation measure	At \$123.88	At ~\$115	Own history	Read
P/E on FY27 guided non-GAAP EPS \$5.08	24.4x	22.6x	~15x avg	Rich
P/E on FY26 non-GAAP EPS \$4.33	28.6x	26.6x	~15x avg	Rich
P/E on FY26 GAAP EPS \$3.33	37.2x	34.5x	~18x avg	Rich
Free cash flow yield	2.6%	2.8%	~5–6%	Below
Dividend yield	1.4%	1.5%	~2.8%	Below

P/E vs Arista (~49x forward)	—	22.6x	—	Discount
Market capitalisation	\$494bn	\$458bn	—	—

Multiples computed on 3,984m diluted shares. Historical averages are approximate long-run reference levels, shown for direction rather than precision. Verdict: fairly valued, modest upside.

8. Sentiment and Positioning

The sell side moved higher on the print even as the shares fell. Morgan Stanley raised its target from \$130 to \$135 at Overweight, KeyBanc from \$130 to \$135 at Overweight, and Rosenblatt from \$150 to \$165 at Buy; Citi had earlier moved to \$139 from \$112. Consensus across 26 analysts polled by S&P Global is a Buy with an average target near \$132.59, which is close to this report's probability-weighted fair value of \$130 and reinforces the view that the stock is priced for its guidance rather than ahead of it. Ownership is 76.6% institutional and 1.9% insider, with a modest \$2.6m of insider sales reported in May 2026, an unremarkable figure for a company of this size. Reliable current short interest could not be sourced; it is not treated as a factor here.

Note on sources: the moomoo community and news-digest sentiment feed was not reachable for this run, so the sentiment read above is built from published analyst actions, ownership filings and financial press coverage. The directional signal from those sources is constructive on fundamentals and cautious on price.

9. Technical Setup

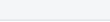
Every figure in this section is computed in code from the daily OHLCV series of 100 sessions ending 12 August 2026, the last confirmed close before the announcement. The intermediate trend into the print was strong: the stock had risen from \$77 in late March to \$123.88, sat above every moving average that the series length permits, and carried a positive MACD with RSI at 63, firm but short of overbought. The 52-week range is \$65.75 to \$130.37, so the shares entered the release roughly 5% below their high after a 77% twelve-month advance.

The post-release move to approximately \$115 changes the short-term picture without breaking the intermediate one. That level sits below the 20-day and 50-day simple averages of \$116.20 and \$118.01 and essentially on the 50-day exponential average of \$114.98, while remaining well clear of the 100-day at \$106.01. The structure below is well defined: the July and early-August base runs \$113 to \$116, the July low is \$107.53, and the 13 May earnings gap that carried the stock from \$101.87 to \$115.53 leaves unfilled air down to \$102. A close that holds above \$113 keeps the uptrend intact; a break of \$107.53 would mark the first lower low since March and would argue for standing aside regardless of the fundamentals.

Indicator	Value	vs close \$123.88	Read
SMA 20	\$116.20	price above	Short-term uptrend
SMA 50	\$118.01	price above	Intermediate uptrend
SMA 100	\$106.01	price above	Long-term uptrend
SMA 200	not computed	—	Series is 100 sessions; not estimated
EMA 20 / EMA 50	\$118.26 / \$114.98	price above both	EMA50 now the pivot at ~\$115
RSI (14)	63.0	—	Firm, not overbought
MACD (12,26,9)	1.93 / sig 1.02	histogram +0.91	Positive, momentum intact
ATR (14)	\$3.86 (3.1%)	—	A 7% gap is ~2.3 ATR
Volume avg 20d / 50d	20.6m / 23.4m	—	Normal; 12 Aug spiked to 36.2m
Support levels	\$113 / \$107.53 / \$102	—	Base, July low, gap edge
Resistance levels	\$124 / \$130.37	—	Pre-print close, 52-week high

Computed from Alpha Vantage daily OHLCV, 20 March to 12 August 2026 (100 sessions). The 200-day average is stated as not computed rather than estimated, because the available series is too short to produce it. Technicals inform entry timing only and do not override the fundamental view.

10. Scorecard

Factor	Score	Weight	Basis
Business Quality	 8/10	15%	Dominant installed base; 48% subscription revenue; services flat
Financial Strength	 8/10	12%	0.55x net leverage, 27% ROE; offset by flat OCF and inventory build
Competitive Advantage	 7/10	15%	Silicon One and Acacia are real; Arista still owns scale-out
Management	 8/10	10%	Beat own guidance on every line; Splunk still unproven
Growth Potential	 8/10	15%	FY27 guided +15% revenue, +17% EPS; core ex-AI near 10%
Valuation	 5/10	15%	22.6x forward vs ~15x own history; cheap only against Arista
Risk (10 = lowest risk)	 6/10	13%	Moderate: mix and multiple risk, not solvency or demand
Technical Setup	 6/10	5%	Intermediate uptrend intact; short-term structure broken by the gap
Investment Score	70 / 100	100%	Weighted sum of the factor scores above

Scored 1–10, where 10 is always best, including Risk. A long bar is always the favourable outcome. This is a first report on Cisco, so no prior scorecard exists for comparison.

11. Recommendation and Trade Plan

Verdict: Buy. The quarter and the guidance strengthened the investment case rather than merely confirming it, and the 7% decline has taken the entry price to a level where a 13% expected return carries acceptable risk. Three things support the rating. First, the fiscal 2027 guidance beat consensus by roughly \$4bn of revenue and 6% on earnings, a raise of a size that is difficult to reconcile with a bearish reading. Second, that guidance comes from a team that exceeded the top of its own range on every guided line this quarter and for the full year. Third, operating margin is guided to approximately 35% for fiscal 2027, a company high-water mark, which is the correct response to the gross-margin objection: Cisco is trading gross margin for operating profit and the trade is working.

The rating is Buy and not Strong Buy because of price, not business. Twenty-three times forward on a company that spent a decade at fifteen means much of the good news is paid for, free cash flow declined 4% in the year non-GAAP EPS grew 14%, and the largest new revenue pool depends on four or five customers whose ordering is by nature non-linear. Position accordingly: a moderate size, bought into weakness rather than chased, with a defined level at which the thesis is abandoned.

Parameter	Level	Rationale
Recommended entry	\$110 – \$118	Scale in; avoid a single fill on gap day
Ideal buy range	\$108 – \$114	At or below the 50-day EMA of \$114.98
Cut-loss	\$106	Below the July low of \$107.53; first lower low since March
Take-profit 1	\$132	Base-case fair value; near the \$132.59 consensus target

Take-profit 2	\$150	Bull case; requires AI revenue to beat the \$7.5bn guide
Expected upside (to TP1 / TP2)	+14.8% / +30.4%	From an assumed \$115 entry
Expected downside	-7.8%	To the \$106 cut-loss from \$115
Risk / reward	1.9 : 1 (TP1), 3.9 : 1 (TP2)	Acceptable; not exceptional at TP1
Holding horizon	12 – 24 months	Spans FY2027 and the AI revenue conversion
Position size	Moderate	Half a normal core position; add on confirmation
Suggested allocation	3% – 4% of portfolio	Sized for multiple risk, not business risk

Levels are anchored to the post-release indicative price of approximately \$115 on 13 August 2026, not to the 12 August close of \$123.88. Should the shares close materially away from \$115, the entry band should be re-derived before acting.

12. Scenario Analysis

Scenario	Prob.	Revenue outlook	Earnings outlook	Fair value	vs \$115
Bull	30%	FY27 above guide at \$74bn+; AI revenue exceeds \$7.5bn; supercycle extends into FY28	FY27 EPS \$5.25; FY28 ~\$6.30; multiple holds near 26x	\$165	+43%
Base	45%	FY27 delivered in the \$72.2–73.4bn guide; core ex-AI near 10%	FY27 EPS \$5.08; FY28 ~\$5.70 at 12% growth; 23x sustained	\$132	+15%
Bear	25%	Hyperscaler digestion in 2H FY27; campus refresh pulls forward then fades	FY27 EPS ~\$4.85; multiple de-rates toward 17x on the narrative breaking	\$85	-26%

Probability-weighted fair value: \$130.15 = $0.30 \times \$165 + 0.45 \times \$132 + 0.25 \times \$85 \rightarrow +13.2\%$ versus an assumed \$115. Probabilities sum to 100%.

Computed in code; the stated weighted value matches its inputs.

13. Investment Memo

Would an investor put their own money into Cisco today? Yes, at around \$115, in moderate size, and with a clear exit level.

The reason is that the market has misread the release. A company guided fiscal 2027 revenue \$4bn above consensus and earnings 6% above, having just beaten the top of its own range on every line, and the stock fell 7% because gross margin will be 65% to 66% instead of 66.3%. That objection is not wrong in fact, it is wrong in weight. Cisco is deliberately trading gross margin for operating profit by selling hyperscaler hardware that requires almost no incremental operating expense, and the fourth quarter proved the arithmetic: gross margin down 210 basis points, operating expense down 370 basis points as a share of revenue, operating margin up 160. Fiscal 2027 operating margin is guided to a thirty-year high. Selling a business for choosing more profit over a better-looking ratio is a mistake, and it has created the entry.

Why at this valuation? Because the price is defensible rather than attractive. Twenty-three times guided earnings is a large premium to Cisco's own history and only makes sense if the growth is real. The evidence that it is: eight consecutive quarters of double-digit networking order growth, orders up 25% excluding hyperscalers so the strength is not one customer set, three Silicon One P200 scale-across design wins across three separate hyperscalers with orders already placed, and an Acacia optics business booking over \$1bn in a single quarter. That is an installed-base company that has genuinely built a new franchise, and the market is right to pay more than fifteen times for it. Whether twenty-three is the right number is a closer call, which is why the expected return here is 13% rather than 40%, and why

the recommendation is Buy rather than Strong Buy.

What invalidates the thesis? Three things, in order of importance. If free cash flow fails to recover in the first half of fiscal 2027 and the \$5.69bn inventory does not turn, then the earnings growth is not converting to cash and the multiple is unsupportable; that is the single item to monitor in the November quarter. If hyperscaler orders decelerate materially from the \$4bn quarterly pace, the growth premium disappears with them, since four or five customers now carry the incremental story. And if security again fails to reach the guided high single digits, the \$59.5bn of goodwill sitting at 46% of total assets stops being an accounting footnote and starts being an impairment question. Technically, a close below \$107.53 would break the first support that matters and would justify exiting ahead of any of the fundamental triggers.

The biggest concern is none of those, though. It is that Cisco has been re-rated from roughly fifteen times to roughly twenty-three times in twelve months on a narrative that is currently being validated by results. Narratives that are validated by results are the most dangerous kind, because they invite investors to pay in advance for the next validation. The position is sized at 3% to 4% for exactly that reason.

Disclaimer. This report is for informational and educational purposes only and does not constitute investment advice, a recommendation, or an offer to buy or sell any security. It was prepared from publicly available information believed to be reliable but not independently verified. The Q4 FY2026 earnings call transcript was obtained and reviewed (Investing.com, published 12 August 2026); reported results and guidance are taken from Cisco's own press release. The last confirmed closing price used is 12 August 2026 and predates the announcement; the ~\$115 level referenced is an indicative intraday figure from 13 August 2026 and not a confirmed close. Figures labelled as analyst calculations are derived by the author and are not company-reported measures. Readers should conduct their own research and consult a licensed financial adviser before making any investment decision.