

Cisco Systems

The networking incumbent that found a growth story again: AI infrastructure, a completed subscription transition, and a margin watch

September 27, 2026 · NASDAQ: CSCO

Reference price: \$106.70 (September 25, 2026 close)

70/100

DalalBytes score

Positive

Verdict

\$135

FY2029 base target*

\$421.6B

Market cap

Headline verdict

Positive, with a margin watch.

Cisco Systems is a \$63 billion networking incumbent that finally has a growth story again, and the growth story is AI infrastructure. FY2026 was a record year: revenue \$63.3 billion (+12%), non-GAAP EPS \$4.33 (+14%), and \$9.3 billion of AI infrastructure orders, about 4.5 times the prior year, beating a target management itself raised mid-year. FY2027 guidance calls for \$72.2 to \$73.4 billion of revenue, roughly 15% growth at the midpoint, with \$7.5 billion of AI revenue expected. The subscription transition is substantially done: ARR of \$32.1 billion, half of revenue from subscriptions, and free cash flow around \$12.8 billion funding \$12.7 billion of dividends and buybacks. The bear case is the margin profile: non-GAAP gross margin fell 210 basis points in Q4 on the hardware mix that AI growth brings, and the company carries about \$13.6 billion of net debt from the Splunk acquisition. DalalBytes score: 70/100. Verdict: Positive, with a margin watch. FY2029 estimates (DalalBytes): bear \$80, base \$135, bull \$170.

\$106.70

REFERENCE PRICE

\$66.8-\$130.4

52-WK RANGE

32x / 21x

TTM / FWD P/E

70/100

SCORE

\$135

BASE TARGET*

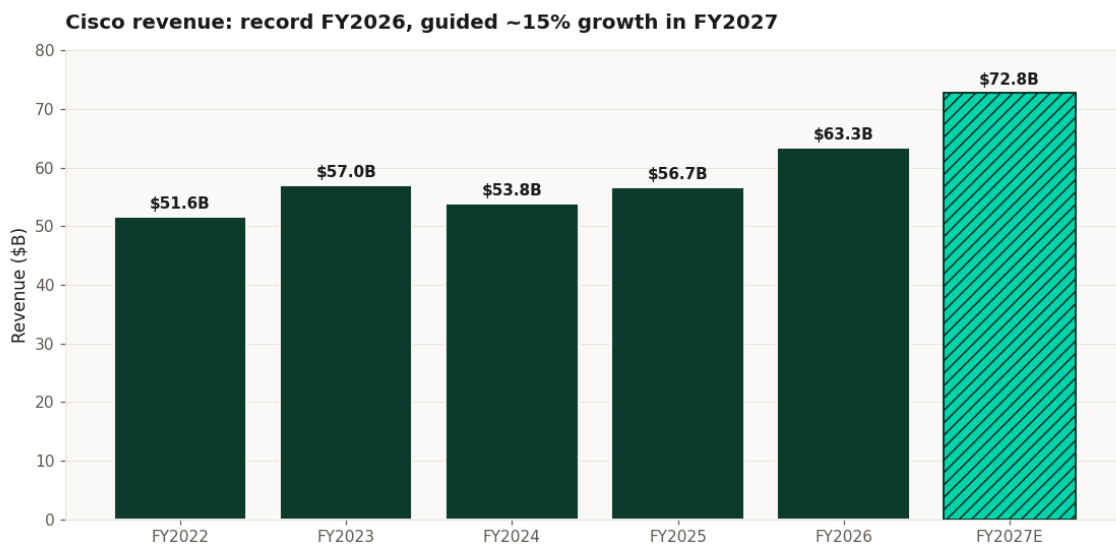
+27%

BASE UPSIDE*

* FY2029 targets are DalalBytes estimates, not facts. See the Valuation section for the full bear/base/bull framework.

Business overview

Cisco sells the plumbing of the internet and, increasingly, the security and observability software that runs on top of it. The strategic arc under Chuck Robbins has been consistent for a decade: convert one-time hardware sales into subscriptions, attach software to every box, and buy growth where the portfolio has gaps. Splunk, at \$28 billion and closed in March 2024, is the defining deal of that strategy. By Q4 FY2026, subscriptions were 48% of revenue and software revenue hit \$6.2 billion (+11%).



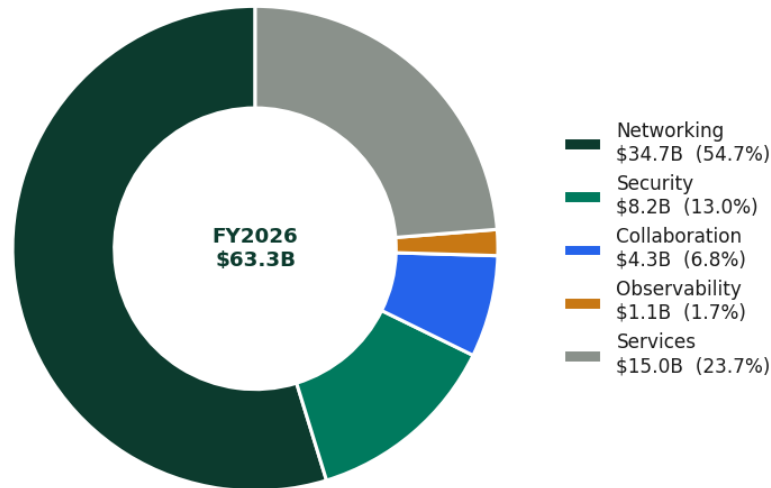
FY2027E \$72.8B is the guidance midpoint (full-year guide: \$72.2B - \$73.4B).

\$63.3B	\$32.1B	48%	\$6.2B	\$12.8B
FY2026 REVENUE	ARR	SUBSCRIPTION MIX	SOFTWARE REV (+11%)	FREE CASH FLOW*

* Free cash flow calculated from the cash-flow statement, not company-disclosed.

Segment deep dive

FY2026 revenue mix: networking is the AI engine



Networking (\$34.7B, +22%): the AI engine

Q4 networking revenue of \$9.8 billion (+28%) was driven by triple-digit growth in AI infrastructure plus double-digit data-center switching. Product orders in networking rose 40%, the eighth straight quarter of double-digit order growth, and service-provider and cloud orders jumped 95% in Q4. The segment is Cisco's largest and, for the first time in years, its fastest grower. The question is durability: hyperscaler capex cycles turn, and AI fabric share is contested (see Competition).

Security (\$8.2B, +2%): the refresh bet

FY2026 security revenue grew only 2%, and Q2 even printed a 4% decline on legacy on-prem mix shift, before rebounding 14% in Q4 on Splunk strength, network security, and SASE. Management expects security plus observability to accelerate from low-single-digit in FY2026 to high-single-digit in FY2027. The pipeline is real: Hypershield went generally available in August 2026, AI Defense expanded in February 2026, Secure Access passed 2.5 million users, and new firewall lines (6100 series, 200 series) are shipping. The risk is execution: Cisco's security growth has lagged the pure plays for years, and this refresh has to prove it this time.

Collaboration (\$4.3B, +4%): defensible niches

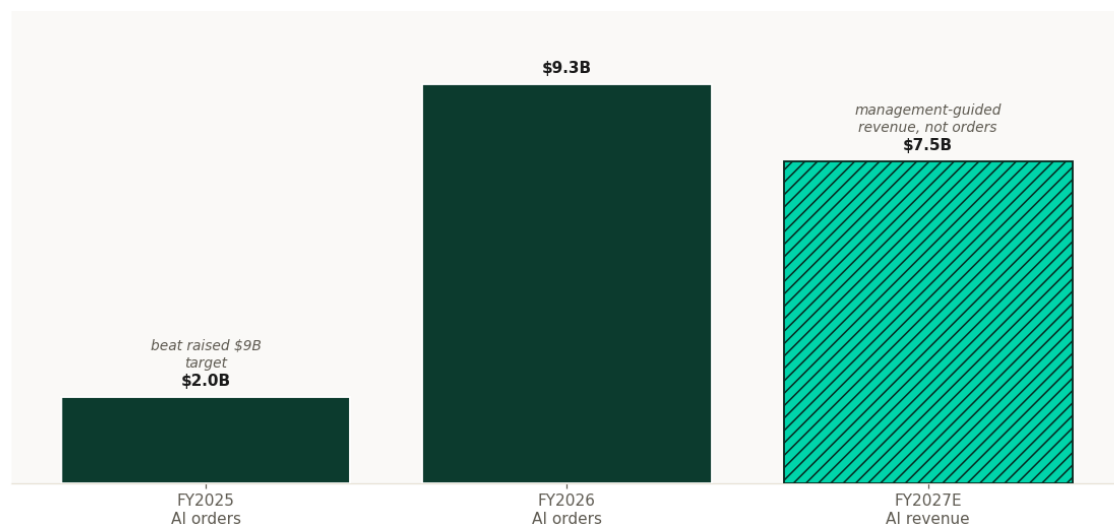
Stable but strategically marginal: Webex holds about 5% of unified communications revenue against Microsoft's 46% and Zoom's 6% (IDC 2024). Cisco's response has been pragmatic rather than heroic: RoomOS 26 runs Microsoft Teams Rooms natively on Cisco devices, Webex content is searchable in Microsoft Copilot, and the contact-center business (AI agents, quality management, Salesforce integration) is the actual growth pocket. Collaboration is a cash contributor, not a growth driver.

Observability (\$1.1B, +4%) and Services (\$15.0B, flat)

Observability is small but Splunk is the strategic asset: the Data Fabric rework (.conf25) federates analytics to where data lives, and .conf26 repositioned Splunk as the trust layer for agentic AI (AI PODs, tokenomics for tracking AI spend). Cisco's pitch is that the AI rack is commoditized but the Splunk subscription attached to it carries software margins. Services is the quiet compounder: support contracts on the installed base renew at high rates and fund the dividend.

AI infrastructure: the growth story

AI infrastructure: \$9.3B of orders in FY2026, \$7.5B of revenue guided for FY2027



FY2026 original target was \$5B; raised to \$9B mid-year and beaten by 3%. \$4B of Q4 orders came from hyperscalers.

FY2026 was the proof: \$9.3 billion of AI orders against a \$5 billion original target, and guidance that points to 15% growth in FY2027.

DalalBytes Research

- The orders beat a target management itself raised mid-year, from \$5 billion to \$9 billion. \$4 billion of Q4 orders came from hyperscalers.
- FY2027 AI revenue of \$7.5 billion is guided, the number that converts orders into the income statement.
- The sovereign-AI buildouts (G42, HUMAIN, the \$30 billion AI Infrastructure Partnership) are a structurally premium segment that needs exactly what Cisco sells: a trusted Western full-stack integrator. Announcements currently outnumber delivered megawatts, so this is pipeline, not proof.

Financial deep dive

Q4 FY2026 · QUARTER ENDED JULY 25, 2026 · REPORTED AUGUST 12, 2026

Metric	Q4 FY2026	YoY
Revenue	\$17.252B	+18%
GAAP EPS	\$0.97	+52%
Non-GAAP EPS	\$1.22	+23%
Non-GAAP gross margin	66.3%	-210 bps
Non-GAAP operating margin	35.9%	n/a
Operating cash flow	\$5.39B	+27%

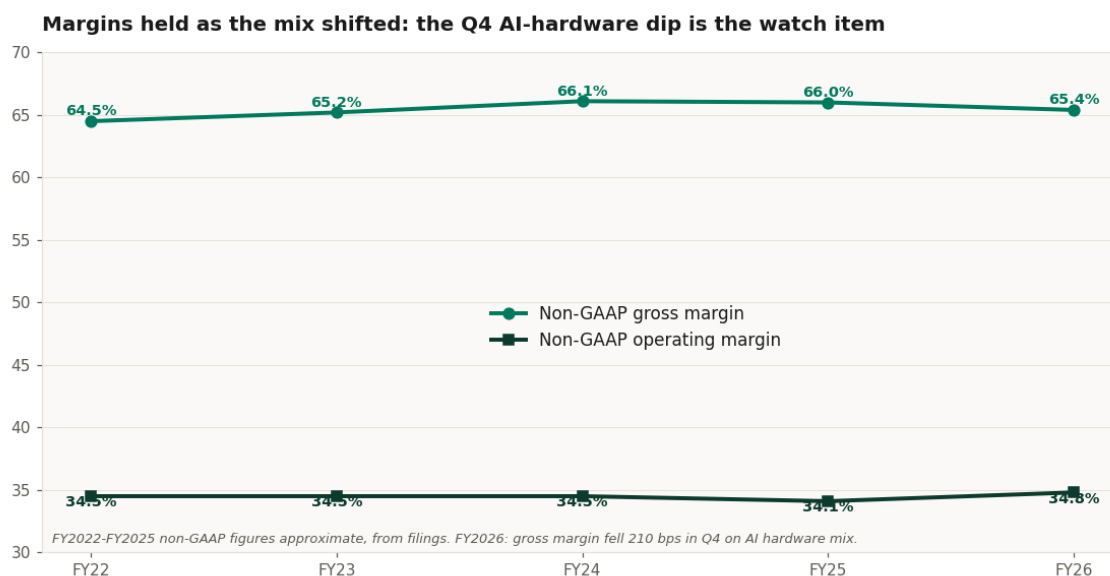
FULL FY2026

Metric	FY2026	YoY
Revenue	\$63.33B	+12% (record)
GAAP EPS	\$3.33	+31%
Non-GAAP EPS	\$4.33	+14%
Non-GAAP op margin	34.8%	+0.7 pts
Operating cash flow	\$14.18B	flat

Free cash flow*

~\$12.8B

calculated



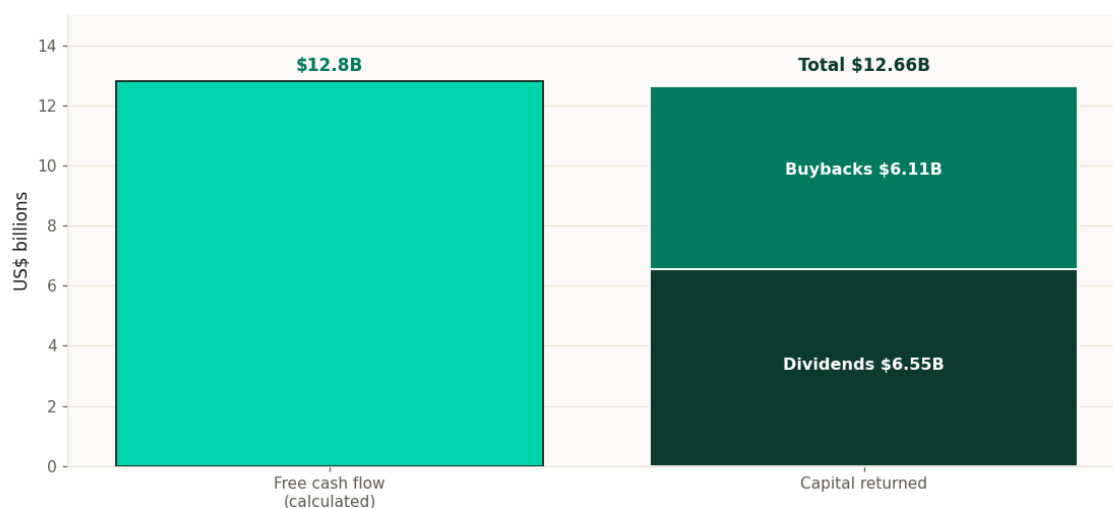
Margins held through the mix shift: full-year non-GAAP gross margin of 65.4% and operating margin of 34.8% are roughly flat over five years. The Q4 dip of 210 basis points on AI hardware mix and memory costs is the number to watch into FY2027.

Balance sheet and capital returns

\$15.9B	\$13.6B	\$29.8B	0.39x	\$12.66B
CASH + INVESTMENTS	NET DEBT*	DEFERRED REVENUE	DEBT-TO-EQUITY	CAPITAL RETURNED

* Net debt calculated: cash and investments of \$15.9 billion against total debt of \$29.5 billion, the legacy of the Splunk acquisition. Investment grade, but a leveraged balance sheet by Cisco's historical standards. Deferred revenue of \$29.8 billion (+3%) is a forward indicator of the subscription base.

FY2026: nearly every dollar of free cash flow went back to shareholders



Policy: minimum 50% of free cash flow returned annually. Dividend \$0.42/qtr (\$1.68 annualized), raised 2% Feb 2026; \$8.1B buyback authorization remains.

FY2026 returned about \$12.7 billion: \$6.11 billion of buybacks and \$6.55 billion of dividends. The dividend is \$0.42 per quarter (\$1.68 annualized, raised 2% in February 2026), yielding about 1.6% at the reference price. \$8.1 billion of buyback authorization remains. Policy is a minimum of 50% of free cash flow returned annually.

FY2027 GUIDANCE

Guide	FY2027
Revenue	\$72.2B - \$73.4B
GAAP EPS	\$4.00 - \$4.06
Non-GAAP EPS	\$5.05 - \$5.11
AI infrastructure revenue	\$7.5B
Operating margin	~35%

The guide sits well above prior consensus. Management expects about 35% operating margin with a modest gross-margin headwind from hardware volumes, and says supply is adequate (direct TSMC silicon relationship, strategic memory agreements). Q1 FY2027 guide: revenue \$18.0 to \$18.2 billion, non-GAAP EPS \$1.32 to \$1.34.

Technology deep dive

Silicon One: the in-house bet

One P4-programmable architecture compiled for routing or switching roles, collapsing multiple silicon development streams into one. The G200 (5nm, 51.2 Tbps, shipping) is the AI-fabric workhorse with a 256MB shared buffer designed for AI incast bursts. The G300 (102.4 Tbps, announced February 2026) anchors new 800G systems including Cisco's first water-cooled switch. The P200 targets long-haul AI interconnect, a direct answer to Broadcom's Jericho; the E100 powers Hypershield Smart Switches with AMD Pensando DPUs. Cisco is the only switch vendor besides NVIDIA shipping its own 51.2T ASIC, but Broadcom still holds roughly 80% of the merchant switching-chip market and hyperscalers prefer white-box. Cisco's edge is programmability, a unified architecture, and security integration, not raw silicon leadership.

AI networking: two tracks

The stated strategy is open Ethernet (RoCEv2 now, Ultra Ethernet Consortium later, where Cisco is a steering member) as the answer to NVIDIA's InfiniBand closed loop: congestion-aware load balancing, deep buffers, and lossless primitives on Nexus 9000, validated for NVIDIA, AMD, and Intel Gaudi 3 accelerators. But Cisco hedges: the N9100 is a Cisco switch built on NVIDIA Spectrum-X silicon for NVIDIA Cloud Partner-compliant deals. Open Ethernet where Cisco leads, NVIDIA's stack where the customer demands it. Pragmatic, and it keeps Cisco in deals it would otherwise lose, but the highest-performance closed-loop segment stays NVIDIA's.

Security stack: coherent, awaiting adoption proof

Hypershield (generally available August 2026) pushes enforcement into the data path via eBPF agents (built on the Isovalent/Cilium acquisition), Smart Switches, and DPUs, with virtual patching, autonomous segmentation, and self-qualifying upgrades. AI Defense (January 2025, expanded February 2026) secures AI applications across their lifecycle with network-embedded guardrails, no agents in application code. Secure Access (SSE) passed 2.5 million users with new AI-aware semantic inspection. The architecture is coherent; adoption metrics are the missing proof.

Observability and collaboration technology

Splunk's Data Fabric brings analytics to the data instead of forcing central ingestion; the agentic-AI trust layer (AI PODs, tokenomics) is the 2026 story. This is the highest-margin software in the portfolio and the attach that justifies Cisco's AI-infrastructure positioning. Collaboration technology (RoomOS 26, Webex AI Assistant, AI-agent contact center) is competent, not differentiating.

Partnerships and ecosystem

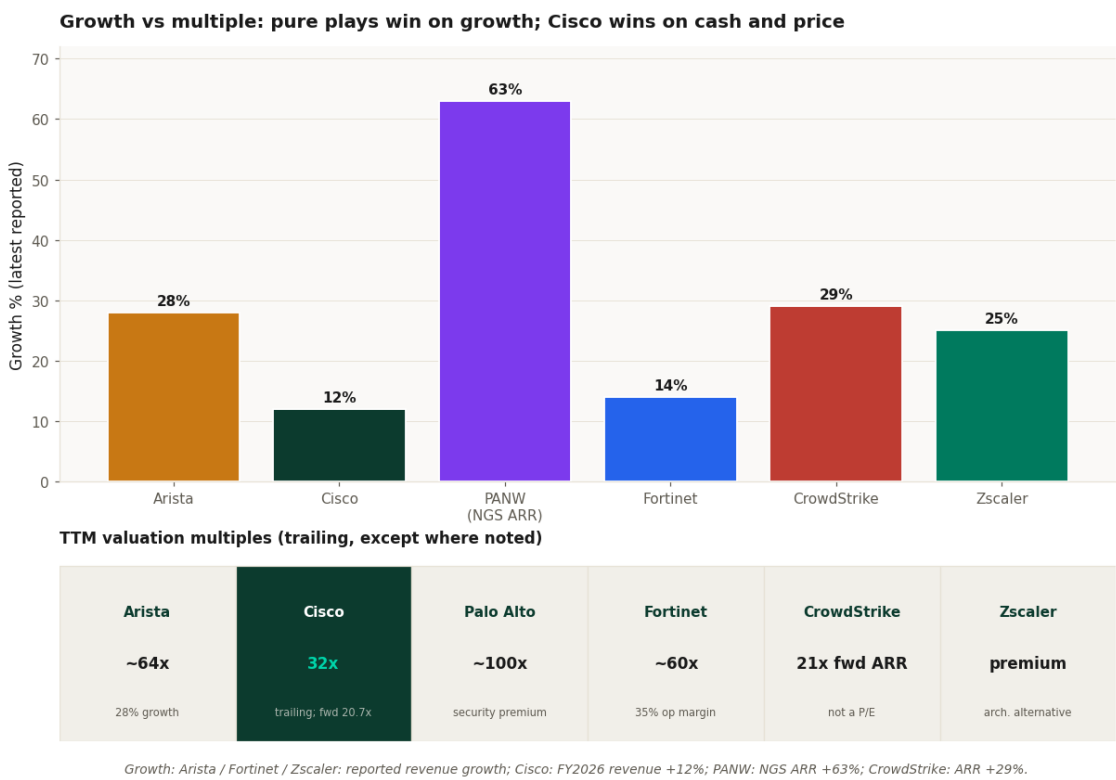


- NVIDIA is the anchor and the most structural relationship: Secure AI Factory with NVIDIA (AI PODs, Silicon One Nexus switching, UCS servers with NVIDIA GPUs, BlueField DPUs, Run:ai orchestration, AI Defense integrated with NeMo Guardrails), the N9100 Spectrum-X switch, and an August 2026 expansion into rack-scale systems. Cisco needs NVIDIA's validation to be credible in enterprise AI infrastructure; NVIDIA needs Cisco's enterprise sales and service footprint because it does not do enterprise hand-holding. The positioning is 'enterprise-safe NVIDIA.' The risk is junior-brand dynamics: the marquee value accrues to NVIDIA.
- AMD is the second stack: G42's UAE cluster (MI350X GPUs with Cisco as full-stack integrator), the HUMAIN joint venture targeting 1 GW of Saudi AI data-center capacity by 2030 (100 MW live August 2026 on MI355X), Pensando DPUs in Smart

Switches, and EPYC-based UCS servers. A complete non-NVIDIA AI stack matters where vendor diversification is a political requirement (sovereign AI). Mutual need, real substance.

- Intel validates the 'any accelerator, one fabric' claim: Nexus 9000 validated for Gaudi 3 Ethernet-native clusters; Xeon 6 in UCS edge nodes. Reinforces the claim; modest standalone moat.
- Microsoft coopetition neutralized: Teams Rooms runs natively on Cisco devices via MDEP; Webex and Copilot search each other bi-directionally. With most large customers running multiple meeting platforms, Cisco turned the Teams threat into a device attach.
- Meta is the halo: Cisco's Q200L silicon shipped in Meta's OCP Wedge 400C switches, and both co-founded ESUN for open Ethernet scale-up. Reputational more than revenue: Meta buys white-box, not Cisco systems, but the validation proves the silicon is webscale-grade.

Competition



Competitor	Arena	Read
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Arista	AI data-center switching	The sharpest threat in AI fabrics; premium multiple earned by growth (~28% growth, ~48% non-GAAP op margin, ~64x P/E)
HPE + Juniper	Full-stack enterprise networking	First credible full-stack challenger since the \$14B close (Jul 2025); value multiple
Huawei	Routing outside the West	#2 in high-end routing globally; non-threat in Western markets
Palo Alto Networks	Security platform	Outgrowing and outvalued vs Cisco Security; the platformization benchmark (NGS ARR +63%, ~100x P/E)
Fortinet	Firewalls, SASE	Price/performance disruptor; the value name in security (+14%, 35% op margin, ~60x P/E)
CrowdStrike	Endpoint/XDR	Validates the platform/ARR model Cisco chases (ARR +29%)
Zscaler	SSE/SASE	Architectural alternative to Cisco's network-centric security (+25%)
Zoom / Teams	Collaboration	Webex is marginal; Teams bundling is the structural headwind
Broadcom	Merchant silicon, VMware	Sells chips to Cisco's rivals while competing with Silicon One (AI revenue +143%)

Cisco still leads global Ethernet switching (28.7% vs Arista's 13.4%, Q2 2026) and high-end routing, but NVIDIA is now a third force in data-center switching (+181%), and in AI back-end Ethernet fabrics Cisco ranks fourth while gaining share fastest. In security, Cisco sits as a Gartner Visionary (firewall) and Challenger (SASE) behind Fortinet, Palo Alto Networks, and Zscaler. The pattern: Cisco wins on installed base and breadth; the pure plays win on growth and multiples.

Risks

- Margin dilution from AI hardware: the 210 bps gross-margin decline in Q4 is the core bear case. AI growth is lower-margin than the software mix it displaces.
- Hyperscaler concentration: \$4 billion of Q4 AI orders came from hyperscalers. Capex cycles turn and pricing power sits with the buyer.
- Security execution: two years of near-flat security revenue. The 2026 portfolio refresh must convert to sustained growth.
- Leverage: \$13.6 billion of net debt constrains buyback firepower relative to history.

- Restructuring drag: the May 2026 restructuring (fewer than 5% of the workforce, up to \$1 billion in charges) signals cost discipline but also disruption risk mid-cycle.
- Valuation: at 32x trailing earnings, the market already prices the AI growth. Forward 20.7x is fairer but leaves less room for disappointment.
- September 2026 overhangs: a Piper Sandler downgrade (to \$125, Neutral) and a max-severity ISE zero-day weighed on the stock into the reference date.

Valuation and targets

Multiple	Cisco
Trailing GAAP P/E	~32x (EPS \$3.33)
Forward non-GAAP P/E	~20.7x (guide \$5.05-\$5.11)
Dividend yield	~1.6%
FCF yield	~3% (\$12.8B on \$421.6B)
52-week range	\$66.81 - \$130.37

Cisco is priced as a low-teens grower with a hardware-mix discount, which matches the FY2027 guide (15% revenue growth) but not the AI order momentum. Peers: Arista at 64x (faster growth), Palo Alto at ~100x (security premium), Fortinet at 60x, HPE at a value multiple.

DalalBytes FY2029 targets (estimates)

Case	Target	Return	What has to happen
Bear	\$80	~-25%	AI hardware dilutes margins structurally; multiple compresses toward 16x forward earnings
Base	\$135	~+27%	FY2027 guide delivered; \$7.5B AI revenue lands; security accelerates to high single digits; dividend and buybacks continue
Bull	\$170	~+59%	Cisco gains AI fabric share against Arista; Splunk attach expands software margins; multiple rerates toward 25x forward earnings on sustained mid-teens growth

Bottom line

Cisco spent a decade becoming a subscription software company and the AI cycle arrived just in time to give the hardware business a growth story too. FY2026 was the proof: record revenue, \$9.3 billion of AI orders against a \$5 billion original target, and guidance that points to 15% growth in FY2027. The open question is whether the margins survive the mix shift, and whether the security refresh finally grows like a security business. At 70/100, this is a Positive with a margin watch, not a table-pounding compounder: the cash flow is real, the dividend is safe, the AI positioning is credible, but 32x trailing earnings already assumes the good version plays out.