Cisco Earnings Update Q3 FY2022

Conslusion

Cisco looks cheap again on a fundamental basis. Cash flows are there, so if they spend that money on buybacks and dividends, the value should be there.

Cisco LINK
Market capitalization 181.83
STOCK VALUE LIST'!A1

												Terminal Value	Growth rate	
Scenario 1	FCF for divs and buyba	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years
normal case	14.00	14.70	15.44	16.21	17.02	17.87	18.76	19.70	20.68	21.72	22.80	325.78	5%	5 to 10 years
in EUR	12.5%)	13.07	12.20	11.38	10.62	9.92	9.25	8.64	8.06	7.52	7.02	100.32	13%	Discount rate
	INTRINSIC VALUE	198.01											15.0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 2	FCF for divs and buyba	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years
best case	14.00	14.70	15.44	16.21	17.02	17.87	18.76	19.70	20.68	21.72	22.80	434.37	5%	5 to 10 years
in EUR	12.5%)	13.07	12.20	11.38	10.62	9.92	9.25	8.64	8.06	7.52	7.02	133.76	13%	Discount rate
	Present value sum	231.45											20.0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 3	FCF for divs and buyba	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	0%	next 5 years
worst case	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	140.00	0%	5 to 10 years
in EUR	12.5%)	12.44	11.06	9.83	8.74	7.77	6.91	6.14	5.46	4.85	4.31	43.11	13%	Discount rate
	Present value sum	120.62											10.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	198.01	118.80
Scenario 2 (best case)	0.2	231.45	46.29
Scenario 3 (worst case)	0.2	120.62	24.12
		Sum	189.22

SVEN CARLIN
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It is a huge business, so there will always be ebbs and flows.

Cash flows are a little bit down, but the cash position is strong so…

Cisco Systems Inc CSCO | ★★★★

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Quote | Chart | Stock Analysis | Performance | **Key Ratios** | Financials | Valuation | Insiders | Ownership | Filings | Bonds

Financials Export Ascending

	2012-07	2013-07	2014-07	2015-07	2016-07	2017-07	2018-07	2019-07	2020-07	2021-07	TTM
Revenue USD Mil	46,061	48,607	47,142	49,161	49,247	48,005	49,330	51,904	49,301	49,818	51,549
Gross Margin %	61.2	60.6	58.9	60.4	62.9	63.0	62.0	62.9	64.3	64.0	63.3
Operating Income USD Mil	10,369	11,301	9,763	11,254	12,928	12,729	12,667	14,541	14,101	13,719	14,023
Operating Margin %	22.5	23.2	20.7	22.9	26.3	26.5	25.7	28.0	28.6	27.5	27.2
Net Income USD Mil	8,041	9,983	7,853	8,981	10,739	9,609	110	11,621	11,214	10,591	11,825
Earnings Per Share USD	1.49	1.86	1.49	1.75	2.11	1.90	0.02	2.61	2.64	2.50	2.79
Dividends USD	0.28	0.62	0.72	0.80	0.94	1.10	1.24	1.36	1.42	1.46	1.48
Payout Ratio % *	18.8	29.4	47.3	45.4	44.1	54.3	—	46.6	55.7	59.9	52.3
Shares Mil	5,404	5,380	5,281	5,146	5,088	5,049	4,881	4,453	4,254	4,236	4,228
Book Value Per Share * USD	9.68	10.54	10.92	11.57	12.40	13.12	10.11	8.66	8.43	9.53	9.73
Operating Cash Flow USD Mil	11,491	12,894	12,332	12,552	13,570	13,876	13,666	15,831	15,426	15,454	14,272
Cap Spending USD Mil	-1,126	-1,160	-1,275	-1,227	-1,146	-964	-834	-909	-770	-692	-566
Free Cash Flow USD Mil	10,365	11,734	11,057	11,325	12,424	12,912	12,832	14,922	14,656	14,762	13,706
Free Cash Flow Per Share * USD	1.91	2.03	2.14	2.09	2.49	2.50	2.59	3.28	3.47	3.31	—
Working Capital USD Mil	44,202	43,329	47,305	52,660	53,808	56,120	34,802	16,043	18,242	12,855	—

* Indicates calendar year-end data information

Thus, now it is again the time to look at the business and see whether owning it for the long-term makes sense. (of course, if it shoots up tomorrow, maybe it is smarter to own it for the short term but with a long-term orientation now).

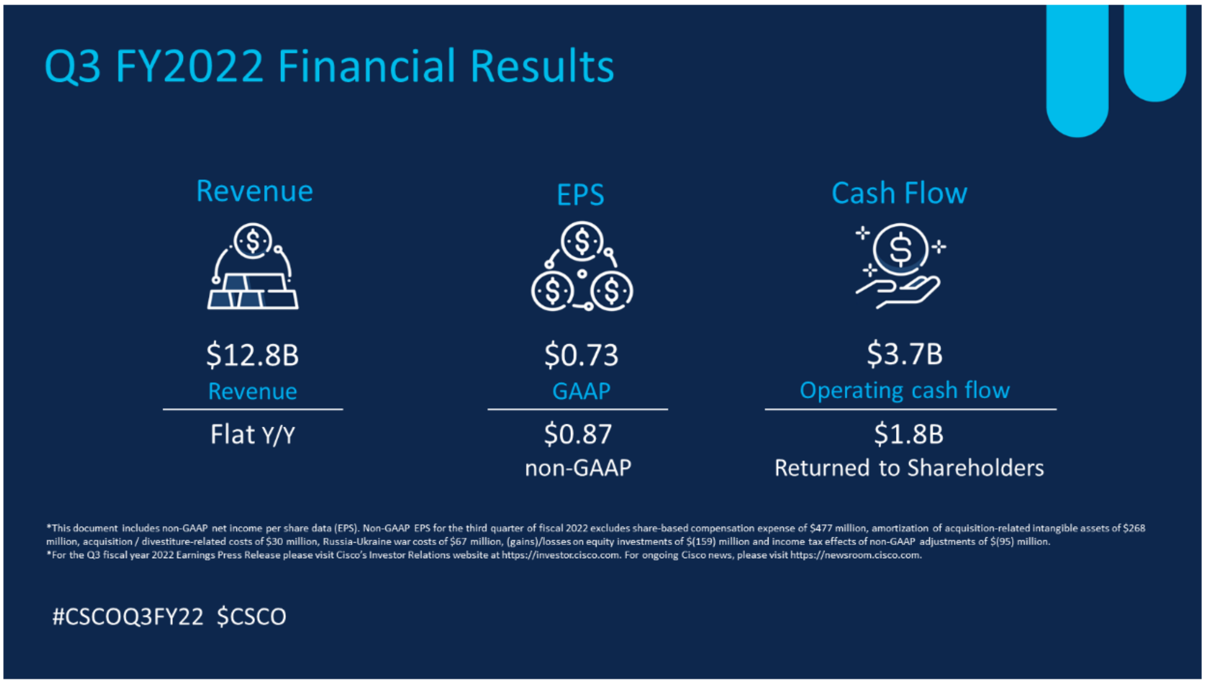
Cisco is a big business so there will always be issues, competition, slower and faster situations depending on the other. But, it looks interesting on cash flows and earnings.

Market cap is $180 billion so the FCF yield is not yet 10%, but long-term given the buybacks and some growth it could be.

Cisco stock

If I remember well I bought some Cisco in October 2020 then sold when it did well. I must say I am surprised to see it almost back in such a short period of time. I remember thinking a while ago how Cisco is a stock gone for good!

Earnings Q3 FY 2022



Revenue has been flat in the last quarter as spending on tech is slowing down.

The management is confident about future demand but the market doesn't agree it seems.

Services and collaboration are the two segments with the bad impact.

Q3 FY 2022 Revenue Highlights

Product Category	$M	Y/Y
Secure, Agile Networks	$5,869	4%
Internet for the Future	1,324	6%
Collaboration	1,132	(7%)
End-to-End Security	938	7%
Optimized Application Experiences	183	8%
Other Products	2	(58%)
Services	3,387	(8%)
Total Cisco	$12,835	0%

Amounts may not sum and percentages may not recalculate due to rounding.
Year over year revenue growth negatively impacted by the extra week in Q3 FY2021 and the war in Ukraine.

Net income was at $3 billion for the quarter

Q3 FY 2022 GAAP Income Statement Highlights

$M (except per-share amounts and percentages)	Q3 FY 2021	Q2 FY 2022	Q3 FY 2022
Revenue	$12,803	$12,720	$12,835
Year/Year Change	*7%*	*6%*	*0%*
Product	$9,139	$9,353	$9,448
Service	$3,664	$3,367	$3,387
Gross Margin	63.9%	63.3%	63.3%
Product Gross Margin	62.6%	61.8%	61.8%
Service Gross Margin	67.4%	67.3%	67.3%
Operating Expenses	$4,720	$4,562	$4,511
OPEX (% of Revenue)	36.9%	35.9%	35.1%
Operating Income (% of Revenue)	27.1%	27.4%	28.1%
Net Income	$2,863	$2,973	$3,044
Year/Year Change	*3%*	*17%*	*6%*
Earnings per Share (diluted)	$0.68	$0.71	$0.73
Year/Year Change	*5%*	*18%*	*7%*

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Cash flows good

Q3 FY 2022 Key Financial Measures

$M	Q3 FY 2021	Q2 FY 2022	Q3 FY 2022
Cash, Cash Equivalents and Investments	$23,579	$21,113	$20,108
Operating Cash Flow	$3,880	$2,461	$3,661
Accounts Receivable	$4,425	$6,003	$5,783
Inventory	$1,579	$2,059	$2,231
Deferred Revenue:	$20,889	$22,313	$22,293
Product Deferred Revenue	$8,698	$9,767	$9,835
Service Deferred Revenue	$12,191	$12,546	$12,458

Should be pushing on those bubyacks now that the stock price is lower also given their high cash position.

Q3 FY 2022 Capital Allocation

Total Capital Allocation	
Share Repurchases ($M)	$252
Dividends Paid ($M)	1,555
Total ($M)	$1,807
Quarterly Dividends Per Share	$0.38
Share Repurchases	
Amount Purchased ($M)	$252
Number of Shares (M)	5
Avg. Price Per Share	$54.20

Conference call notes

Main issue is the supply chain

When we spoke with you back in February, we entered Q3 in the second half of our fiscal year with optimism despite the supply and component challenges and other headwinds impacting us and many of our peers.

Many of those factors that fueled that optimism remain unchanged today. We continue to see strong demand resulting in record backlog, our business transformation is progressing well and our differentiated innovation across our portfolio is helping our customers embrace and adopt the multiple technology transitions happening.

However, there were two unanticipated events since our last earnings call, which impacted our Q3 revenue performance. The first is the war in Ukraine. This resulted in us ceasing operations in Russia and Belarus and had a corresponding revenue impact, which Scott will discuss. The second relates to COVID related lockdowns in China, which began in late March. These lockdowns resulted in an even more severe shortage of certain critical components. This in turn prevented us from shipping products to customers at the levels we originally anticipated heading into Q3.

Discontinuing guidance as they don't know what will be..

I want to reiterate what I said earlier. The fundamental drivers across our business are strong. While we are facing some short-term challenges, it does not change our long-term outlook, our alignment to our customers' most critical challenges or our belief in the tremendous opportunities in front of us.

Last week, we hosted our Global Customer Advisory Board meeting where we met with close to 100 customers. And they consistently shared that technology is at the heart of their strategy and has become even more important to everything they do. This driving not just their strategies, but also their overall business transformation. The technology they're adopting from Cisco is driving their business agility, allowing them to move with greater speed and empowering them to deliver differentiated experiences for their customers.

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We ended Q3 with total cash, cash equivalents and investments of $20.1 billion. Operating cash flow for the quarter was $3.7 billion, down 6% year-over-year, primarily driven by advanced payments to secure future supply. These advanced payments had a negative 9 percentage point year-on-year impact on Q3 operating cash flow.

In terms of capital allocation, we returned $1.8 billion to shareholders during the quarter, that was comprised of $1.6 billion for our quarterly cash dividend and approximately $250 million of share repurchases. Year-to-date, we have returned a total of approximately $10 billion in value to our shareholders via cash dividends and stock repurchases and more than $17 billion available under our Board stock repurchase authorization.

To summarize, we're navigating the highly complex environment while continuing to make progress on our business model shift and making strategic investments in innovation to capitalize on our significant growth opportunities and expanding addressable markets. Now let me provide our financial guidance for Q4.

Mostly analysts drilling on short term (supply, outlook, etc..)

Issues: supply chains, higher prices impacting spending on infrastructure and smaller companies.