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**Technology Research**
Company Update
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**Cisco (CSCO)** | **Attractive**

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## Cisco Earnings Preview; Expecting Slight Beat and Improving Underlying Growth Prospects

Our channel checks this quarter indicate that Cisco should report at least in-line, with likely upside, for January quarter results when the company reports next week. The Street is looking for total revenues of $11.8 billion and EPS of $0.59 for FY2Q18 (Jan), both of which should be met with the possibility of some modest upside on the top-line based on our slightly improving checks on the security and switching segments in the US and Europe during the quarter. While the macro environment remains a bit choppy especially on "large ticket" traditional networking deals, we are seeing the combination of better execution, newer product initiatives on cloud/security/IoT, and the focus on recurring revenue translating into a modestly improved selling environment for Cisco in the field and an expanding pipeline heading into the rest of FY18. The broadened Cisco portfolio and software centric approach has been a catalyst for the company, as we believe the company's multi-faceted hardware/software centric approach is music to ears of customers and partners. While the company has clear challenges given secular headwinds in its traditional sweet spot of switching/routing, we believe Cisco is slowly putting together newer growth engines (e.g. security, SaaS model, Cisco ONE, cloud initiatives) to help lay the groundwork for a stronger bookings growth trajectory in FY18/FY19. **We maintain our Attractive rating and $45 price target.**

- **Slow and steady progress; clear speed bumps remain.** We are expecting no major surprises around April guidance, as based on our work in the field the underlying pipeline and business momentum is modestly improving and the company should be on a trajectory to hit current Street expectations. While management has refocused the company on its core bread and butter networking market with a major product refresh on the horizon over the next 18 to 24 months, clearly Cisco needs to be positioned well on the transformational cloud shift among enterprises over the coming years and not be left behind. Although acquisitions such as BroadSoft could play a major role here bolstering Cisco's cloud product footprint, the company's ability to successfully transform (e.g. SaaS, subscription based model) its business model over the coming years remains the biggest wild card in the eyes of investors on the name. That said, while Cisco continues to struggle driving growth in the near term, we believe the stage is set for the company to see a renaissance of modest growth (~5%) return to the story over the coming years on the heels of more subscription based software revenue and newer growth initiatives which could help the stock get re-rated over time. With its massive cash flow generation and a repatriation benefit based on proposed tax changes on the horizon, we believe another step in the right direction with "good enough" January quarter results/guidance will be key and something for the bulls to hang their hat on.

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