

Cisco (CSCO)

Attractive

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Cisco Earnings; Valentine's Day Surprise for Investors-Positive Step in the Right Direction

After the bell Cisco reported total revenues and EPS of \$11.9 billion and \$0.63, vs. the Street's \$11.8 billion and \$0.59 estimate. This was another step forward for Robbins & Co. as Cisco looks to slowly be getting back on the modest growth trajectory with a software centric approach the key DNA in its turnaround plan. It appears 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, as evidenced this quarter and by the company's brighter April outlook. 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. The other major variable is the roughly \$60 billion of repatriated cash that Cisco will be bringing back to the US which should translate into a step up in major buybacks and potentially a catalyst for more M&A to accelerate the company's cloud/software transition, a topic we expect to hear more about on today's call. To this point, the company raised its dividend by 14% and approved a \$25 billion increase to its current buyback program, which could be the "tip of the iceberg" on the cash outlay strategy in our opinion. We are also encouraged by the better than expected April guidance with growth of between 3% and 5%, above Street expectations and another feather in the cap for bulls on the name digesting results. **We maintain our Attractive rating and \$45 price target.**