



Cisco results beat forecasts but CEO cautious

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Cisco Systems Inc gave a cautious business outlook on Tuesday, although its quarterly results exceeded expectations as rising Internet traffic fueled demand for network equipment.

Chief Executive John Chambers, considered a trend reader for the overall U.S. technology industry, said conditions were still challenging and that a U.S. market recovery is not in sight.

"We're continuing to see our U.S. and some European customers remain cautious in their views about their own economies," he told analysts on a conference call.

His comments reined in Wall Street's optimism, and Cisco shares rose just 1 percent in extended trading after gaining as much as 3 percent immediately after the company announced its fiscal third-quarter results.

Cisco, the largest U.S. makers of routers and switches that direct Web traffic, said earnings before items for the three months ended April 26 rose to \$2.3 billion, or 38 cents, from \$2.1 billion, or 34 cents a share, in the year-ago period. That beat the average analyst forecast of 36 cents according to Reuters Estimates.

"Usually Cisco beats by a penny. They beat by two pennies. That was better than the norm," said Robert W. Baird & Co analyst Kenneth Muth.

Its quarterly net profit fell to 29 cents a share from 30 cents, due mainly to an acquisition-related charge of 4 cents per share.

Revenue rose 10.4 percent to \$9.8 billion, compared to its previous forecast 10 percent growth.

ECONOMIC UNCERTAINTY

Cisco forecast revenue growth of 9 to 10 percent for the fourth quarter, compared with Wall Street's 9.1 percent consensus estimate. However, Chief Financial Officer Frank Calderoni urged caution.

"We encourage you to model on the conservative side due to the continued uncertainty in the macroeconomic environment in the near-term," he told analysts.

And while Cisco reiterated its long-term revenue growth target of 12 percent to 17 percent, Chambers said he was not sure when that pace of growth would return.

Chambers also said he would remain alert to risks of U.S. economic weakness spreading to other parts of the world. While the United States accounts for around half of Cisco's business, strong sales overseas, particularly in emerging markets, has been supporting its growth of the past year.

STRONG BEAT

But some analysts focused on the better-than-expected results.

"It's a good solid report relative to expectations and relative to the macro environment going in. Cisco's good at executing, but it can't be all that bad if it's beating numbers," Mark McKechnie, analyst at American Technology Research.

Cisco said U.S. orders grew around 5 percent in the quarter, while European orders rose 14 percent and emerging markets orders grew 10 percent.

One major weakness in the quarter was a 3 percent decline in orders from U.S. service providers, or phone and cable companies, but some said that was no surprise after a particularly strong quarter a year earlier.

Sales to such customers are seen as particularly volatile due to the size of each order. Some analysts were reassured by strong sales of Cisco's flagship high-end router, the CRS-1.

Dan Davidowitz, portfolio manager at Polen Capital Management, reaffirmed his positive view on Cisco.

"They're executing as well as anyone could in this environment," he said. "In the long run, the valuation in the stock is still compelling."

Cisco shares rose to \$26.70 in after-hours trade after closing up 5 cents at \$26.33 on Nasdaq. The shares have been under pressure in the past several months due to worries about weaker technology spending.