Cisco Systems Inc

Cisco cuts back China manufacturing to ease tariffs hit

Company's own product increases kept to a minimum due to its broad supply chain

Chuck Robbins, Cisco chief executive, says the company has 'a reasonably distributed supply chain'

Richard Waters in San Francisco MAY 15 2019

Cisco Systems said on Wednesday that it had slashed its manufacturing in China in anticipation of higher import tariffs levied in the US, as it laid out a financial forecast that showed it did not expect to be hurt by the deepening trade war.

The maker of networking equipment has been among the US tech companies most in the line of fire, with many different types of data centre equipment included on a list of imports from China that have been subjected to a higher, 25 per cent tariff since the end of last week.

In an interview with the Financial Times, Chuck Robbins, chief executive, said the company had started planning for the higher tariffs last summer, when the White House put a 10 per cent levy on many of its products, with a threat to increase the rate to 25 per cent later.

Cisco had "a reasonably distributed supply chain" with manufacturing facilities in 13 countries, he said, giving it flexibility to move production capacity between plants. "When you have capabilities in multiple countries, it's not so hard to do," he said, meaning that the price increases Cisco had to impose at the end of last week to make up for higher tariffs were "minimal".

Kelly Kramer, chief financial officer, added on a call with Wall Street analysts that Cisco had "greatly reduced our exposure" to production in China, and company executives said the shift was reflected in its financial forecasts for the current quarter. Cisco said it expected revenue growth of

4.5-6.5 per cent in the three months to the end of July, implying revenues of $13bn-$13.3bn, roughly in line with Wall Street expectations. It also forecast pro forma earnings per share of 80 to

81 cents.

The assurances about Cisco’s greatly reduced trade war exposure came as it reported revenue and earnings that topped Wall Street’s expectations in its latest quarter, sending its shares up by more than 3 per cent in after-market trading on Wednesday.

The performance matched its solid growth in the preceding three months, when the company proved itself more resilient to global economic and political uncertainties than most analysts had expected. Mr Robbins said Cisco still had relatively little “visibility” into how the state of the world in the months ahead would affect its business, but that it still felt confident in its near-term forecasts.

The latest quarter was underpinned by 9 per cent revenue growth in the Americas, with the Asia-Pacific region falling 4 per cent. Demand from most of the company’s customer segments remained robust, though orders from telecommunications service providers — typically a more volatile part of the business, given the large size of individual contracts — fell by 13 per cent.

The US networking equipment company turned in revenue growth of 6 per cent to $13bn, slightly ahead of Wall Street forecasts. Pro forma earnings per share, at 78 cents, came in 1 cent above expectations, and were 18 per cent up on the year before.