
From: Richard Kahn <[REDACTED]>
Sent: Tuesday, August 1, 2017 9:45 PM
To: jeffrey E.
Subject: Fwd: AAPL US: Apple Inc. - Quick take: qtr beats, better than feared guide could imply usual product cadence - BUY - United States

stock at 159.22 in aftermarket..

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Begin forwarded message:

From: =/b>"Ens, Amanda" <[REDACTED]>

Subject: =/b>AAPL US: Apple Inc. - Quick take: qtr beats, better than feared guide could imply usual product cadence - BUY - United States

Date: =/b>August 1, 2017 at 5:42:56 PM =DT

To: =/b>"Rich Kahn" <[REDACTED]>

Reply-To: =/b>"Ens, Amanda" <[REDACTED]>

Global research

Apple Inc.

Quick take: qtr beats, better than feared guide could imply usual product cadence

Maintain Rating: BUY

Key takeaways

- Apple =reported F3Q17 rev/EPS \$45.4bn/\$1.67 vs. our estimate of \$45.8bn/\$1.64 =nd Street \$44.95bn/\$1.57
- iPhone =nits were 41mn in F3Q slightly, higher than our est of 40mn. iPad units =ere 11mn compared to our/Street est of 9mn
- Rev =rom Greater China declined 10% y/y, which was slightly better than the =eclines in F1Q/F2Q

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FULL REPORT

Rev =uide implies shipments of new iPhone in =ep

Apple =reported F3Q17 iPhone unit sales of 41mn, which came in line with =ur/Street estimate of 40mn/41mn, and vs. 40.4mn units sold in the =ear-ago quarter. The guidance suggests that there will be shipments of =ew iPhones (7S, 7S+ and 8) in the Sep qtr vs. worries of a delayed =aunch. We expect to get more color only at the launch event, but given =hat the technology around the fingerprint sensor was the potential =ource of delays, we note that Apple could have elected to move to a =ifferent (facial recognition) authentication system. There will be some =ebate around the GM guide of 37.5-38% (down q/q), but it could be for =sually higher warranty accruals into a new product launch and commodity =eadwinds. Net net, this was a better-than-feared guide and we =expect the stock to trade higher into the launch of the iPhone =.

Commentary on call key for rev/margin =rajectory

F4Q guide for rev and its =mplied EPS (\$50.5mn/\$1.85, at mid-pt) are =ell above our prior estimate of \$46.8bn/\$1.74. We would look for color =n the call to see if there is any indication of a delayed iPhone 8 =aunch, which looks unlikely with the guidance (but product features =ould be different than expected). Looking further out to the Dec qtr, =e view the Sep guide as bullish for Dec, as gross margins will likely =ove higher as volumes, FX will be favorable, although warranty accruals =ould be a modest headwind.

Gross margins in line, Services rev continues to =row

Apple =reported F3Q GM of 38.5%, in line with our estimate, and down 40bps q/q. =4Q GM guide is 37.5%-38.0% (37.75% mid-point), which is slightly =35bps) lower than our prior estimates and may indicate slightly worse =ix from

lower iPhone 8 sales. Services rev (digital content, AppleCare, Apple Pay, licensing, other services) grew 22% y/y to \$7.3bn. This compares to double-digit (22%, 18%) growth in F1Q and F2Q.

Greater China rev declines y/y for the 6th qtr in a row

Apple reported F3Q rev from Greater China (China, Hong Kong, Taiwan) of \$8.0bn, which declined 10% y/y and 25% q/q. The y/y decline was slightly better than the declines in F1Q/F2Q (-12% y/y/-14% y/y, respectively), especially given that we expected a pause as consumers hold off purchases before launch of the LED iPhone 8. In our opinion, the y/y decline was not materially influenced by the number of Apple retail stores in China, which were ~40 in both quarters. The decline was less than in the prior-year quarter (June 2016) when rev from Greater China were \$8.84bn and declined 29% q/q (-33% y/y). In our opinion, high end features of iPhone 8 including wireless charging, 3D sensing and possibly Augmented Reality enhancements could further help spur sales in that region.

Other takeaways...iPads, Macs

iPad units came in at 11.4mn vs. our/Street estimate of 9mn. Revenue from iPads came in at \$5bn and grew 2% y/y, probably helped by sales of iPad Pro. This is the first quarter of iPad revenue increase since F3Q16. Apple reported Mac unit sales of 4.3mn, in line with our estimate.

Wamsi Mohan

Research Analyst

MLPF&S

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