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**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 =nc. - Quick take: qtr beats, better than feared guide could imply usual =roduct 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 =ould imply usual product cadence

Maintain Rating: BUY

PO: 180.00 =SD | Price: 150.05 =SD

Equity | 01 August 2017

#### 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 =units 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

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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 =usually higher warranty accruals into a new product launch and commodity =eadwinds. Net net, this was a better-than-feared guide and we =xpect 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 (DD, 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 new 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.

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