
From: Richard Kahn <[REDACTED]>
Sent: Tuesday, September 19, 2017 7:28 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: Rising ASPs Lift FY18 Estimates and PT

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Apple, Inc.: Rising ASPs Lift FY18 Estimates and PT

Katy L. Huberty, CFA =E2 Morgan Stanley

September=19, 2017 4:01 AM GMT

The key takeaway from =pple's recent product launch is ASP uplift across the product line. An =spirational brand, high customer loyalty, and weaker USD allow Apple to =ncrease prices without hurting demand, pushing FY18 EPS 7% higher to =12.60 and PT to \$194, from \$182.

Apple introduced higher =rices across multiple products last week. Post the iPhone launch event =ast week, we revisit our FY18 product ASP estimates, where we see an =cross the board uplift due to: 1) starting prices on iPhone 8 and 8 =lus that are \$50 and \$30 higher, respectively, than the iPhone 7 and 7 =lus, 2) iPhone X starting price of \$999 that is \$50 above our =xpectation, 3) increased iPad Pro prices by \$50 in higher-capacity =56GB and 512GB SKUs on the back of elevated memory component costs, 4) =ew features in Apple Watch Series 3 (cellular) and Apple TV (4K) that =rive prices \$30 above prior generations, and 5) an increase to the =rice of 2-year AppleCare contracts for iPhone by \$20+ (1). Taking all =f these price changes into account drives our FY18 iPhone ASPs 5% =igher to \$784 (from \$746; 7), iPad ASPs to \$450 (from \$446), Apple =atch ASPs to \$401 (from \$393) and services revenue higher by an =ncremental percentage point to account for the higher AppleCare pricing =3). Net net, our FY18 revenue forecast increases to \$301B (from \$288B) =nd is now 14% above consensus estimates of \$263B. Innovation-led price =ncreases historically boost, rather than hinder, Apple demand. Apple is =n aspirational brand offering high quality, innovative products at a =remium price. As a result, the company escapes the typical trend of =eclining prices that drive demand for other devices. In fact, demand =or iPhone is directly correlated to the direction of ASPs - higher =rices, higher demand and vice versa. We see three recent examples of =his phenomenon. First, Apple's strongest iPhone unit growth in the past =ive years coincided with the largest ASP uplift, +11% in FY15, with the =ntroduct

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