
From: [REDACTED]>
Sent: Wednesday, May 2, 2018 9:53 AM
To: Jeffrey Epstein
Subject: Fwd: Apple, Inc.: Revving the Services Engine

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Begin forwarded message:

From: "Morgan Stanley" <[REDACTED]>
Date: May 2, 2018 at 12:52:02 AM EDT
To: &l=;[REDACTED]>=br>Subject: Apple, Inc.: Revving the
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May 2, 2018 4:02 AM =GMT

Services growth acceleration headlined a better than expected quarter and guide. Even if smartphone replacement cycles continue to lengthen, we see Apple delivering 4% revenue and 16% EPS growth over the next three years with services the primary growth engine. Reiterate OW and \$200PT.

FY18 estimates increase as Services beat and iPhone better than feared. Significant inventory build in a tight commodity environment and with slowing smartphone growth is creating more noise than typical throughout the smartphone supply chain. On our updated estimates, slightly lower FY18 iPhone units (+1% y/y) and higher ASPs (+14% y/y) deliver the strongest iPhone revenue growth since FY15. This is slightly better than the -3% y/y iPhone units and +12% y/y

iPhone ASPs we modeled heading into the print. Flattish iPhone units and slightly declining iPhone ASPs over the next few years translates to=total device (iPhone + iPad + Mac) revenue down low single digits. This assumes replacement cycles continue to lengthen and allow the powerful growth of Services (+31% y/y in March) to shine through in results. Net, our FY18 EPS increases to \$11.41 from \$11 and FY19 EPS is largely unchanged at \$13.76= With more predictable, higher margin services revenue driving the model going forward, we see AAPL's multiple expanding with our \$200 PT implying 14.=x our FY19 EPS. What we learned from earnings:(+) Services becoming primary growth driver. Services revenue grew 31% y/y, faster than 27% growth in December (1), despite significant scale (\$33B LTM revenue). We don't see Services growth slowing anytime soon given the many growth levers, including: 1= fewer than half of users pay for services and the paying customer base is growing strong double-digits. 2) a broadening data center footprint and new payment methods improve the services experience, and 3) strong growth in relatively nascent services like Music and Pay along with upcoming services like=Video. Apple grew Services more

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