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**From:** Richard Kahn <[REDACTED]>  
**Sent:** Friday, April 20, 2018 10:01 AM  
**To:** Jeffrey Epstein  
**Subject:** Fwd: Apple, Inc.: Cautious Into The Print; Buy Any Post-Earnings Dip

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Katy L. Huberty= CFA – Morgan Stanley

April 20, 2018 4:01 AM =GMT

We forecast=in-line March Q but see downside to June consensus estimates following iPho=e build cuts and weak China data. We expect Apple to increase capital retur= program by \$150B. We would buy any post-earnings dip on 1) intact Services=story, 2) troughing ests, and 3) accelerated capital return.

What to do ahead of earnings. We expect Apple to report an in-line March qua=ter, but are cautious into earnings on May 1 due to our belief that June qu=arter consensus estimates need to be revised lower. Additionally, with expec=ations for a step up in capital returns at least partially embedded in valu=tion (AAPL +14% since last print vs. Tech sector +5%,

S&P 500 +2%), Apple's capital return announcement could amount to a "sell the news" type of event, especially if forward estimates are revised materially downward. That said, we would be buyers on any weakness following the print given 1) the Services story remains intact, (leading to a stronger and more consistent source of EPS growth and margin expansion), 2) estimate revisions are approaching through (we already assume no device revenue growth next three years), and 3) buybacks remain a source of downside protection. We lower our March and June quarter iPhone shipment estimates by 7M (1M in March, 6M in June; FY18 iPhone shipments now at 210M, from 217M), while increasing expectations for both buybacks and dividends, resulting in FY18e EPS of \$11.00 (down from \$11.60) and FY19e EPS of \$13.80 (down from \$14.00) (1 & 2). We remain overweight with a price target of \$200 (down from \$203), for 16% upside from current prices. We expect an in-line quarter... We believe that Apple will post March quarter results that are at the low end of its previously issued guidance and in-line with our updated estimates. Our proprietary AlphaWise iPhone demand tracker points to sell out of 54M in the March quarter (3), however we expect channel inventory reduction of ~2M units in the quarter after record inventory build in December, which

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