
From: Richard Kahn [REDACTED]>
Sent: Monday, February 5, 2018 1:48 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: 10-Q Highlights Elevated Component Inventory

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue 4th Floor
New York, NY 10022
tel [REDACTED]
fax [REDACTED]
cel [REDACTED]

Begin forwarded message:

From: =/b>"Morgan Stanley" <[REDACTED]>

Subject: =/b>Apple, Inc.: 10-Q Highlights Elevated Component Inventory

Date: =/b>February 5, 2018 at 12:37:13 AM =ST

To: =/b><[REDACTED]>

Reply-To: =/b><[REDACTED]>

<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>> <<http://www.morganstanley.com/>>
Wealth Management

<<http://www.morganstanley.com/img/cs/spacer.gif>>
Apple, Inc.: 10-Q Highlights Elevated Component Inventory

Katy L. Huberty, CFA =E2 Morgan Stanley

February =, 2018 5:01 AM GMT

Off-balance sheet =ommitments, vendor non-trade receivables & inventory are at record =evels, possibly leading to more supply chain noise as levels are worked =ower. Normalized gross margin of 38.3% is just below reported margin of =8.4% with currency & other hedges largely offsetting each other.

On and off balance sheet component inventory hit new highs. =he combination of reported balance sheet inventory and vendor non-trade =eceivables (component inventory transferred to manufacturing partners) =increased 41% Q/Q in December 2017, the highest sequential increase =ince 2013, and above 12% average seasonality over the prior three years =2). As a result, total non-vendor trade receivables and inventory on =he balance sheet is up \$15.2B Y/Y (3). The bulk of the increase was =riven by vendor non-trade receivables (+\$13.5B Y/Y) that are =istorically correlated to revenue growth (5). However, we believe the =rimary driver of the acceleration is associated with the company =urchasing more of its components directly rather than through =anufacturing partners potentially making this metric less predictive of =uture Apple revenue growth. Inventory dynamics provide mixed signals =or suppliers. From a supply chain perspective, the higher levels of =nventory at Apple and at suppliers could translate to slower unit =rowth relative to sell-out for Apple devices in the near-term, which =ur US Semiconductor team led by Joe Moore published on today. =nterestingly, off-balance sheet purchase commitments for outsourcing =nd components at the end of December 2017 - essentially Apple's =ommitment to manufacture product and purchase components in the near =uture - grew 40% Y/Y and fell only 11% Q/Q, less than the 3-year =istorical seasonal decline of 19% (4). This would suggest a robust =rowth outlook or that the company revised its view of demand after the =nd of the quarter. Any meaningful revision or lack thereof to this line =tem at the end of March will be an importan

This alert is sent from:

Andrew Atlas, [REDACTED]

You received this because you requested =hat you receive content and reports from:

APPLE =NC.

Please contact your FA if you want to unsubscribe from the =lerts.

<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>> Disclosures:

Please see =he full report for risks, disclosures and other important =nformation.

Important disclosures regarding the =elationship between the companies that are referenced in Morgan Stanley =research and Morgan Stanley Wealth Management research are available on =he Morgan Stanley Wealth Management disclosure website at <https://www.morganstanley.com/online/researchdisclosures>.

Morgan Stanley Wealth Management Not Acting as Municipal Advisor Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

Copyright

The copyright in materials provided by Morgan Stanley is owned by Morgan Stanley & Co. LLC. Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States.

© 2018 Morgan Stanley Smith Barney LLC. Member FINRA.

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

=