**From:** Richard Kahn [redacted]
**Sent:** Friday, February 2, 2018 1:47 PM
**To:** jeffrey E.
**Subject:** Fwd: Apple, Inc.: More Modest iPhone Growth Offset by Strong Services and Capital Return

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Begin forwarded message:

From: =/b>"Morgan Stanley" [redacted]n>

Subject: =/b>Apple, Inc.: More =odest iPhone Growth Offset by Strong Services and Capital Return

Date: =/b>February 1, 2018 at 11:09:08 PM =ST

To: =/b>[redacted]>

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Katy L. Huberty, CFA =E2 Morgan Stanley

February =, 2018 4:03 AM GMT

Offsets to weaker iPhone =hipments are 1) accelerating services growth and 2) expected return of =163B in net cash to shareholders. At 11.6x FY19 EPS of $14.50, assuming =75B incremental buyback over two years, Apple is now cheaper than most =T Hardware peers despite increasing recurring revenue.
Services Acceleration and Capital Return Offset Muted iPhone =nit Outlook. On the one hand, FY18 growth will come more from ASPs =+12% Y/Y) than unit growth (+4% Y/Y) as the smartphone end market =atures, lowering our EPS by 9% in FY18. On the other hand, the Apple =latform is healthy. Device installed base grew 30% over the past two =ears and customer satisfaction is at record highs (1). This translates =o growing share of smartphone users even as overall market growth =lows. Given strong retention rates, Apple will see ASPs rise this year =ithout any slowing of user growth. In fact, Apple's share of China =martphone users accelerated post the iPhone X launch (2). Services =rowth accelerated from 22% exiting 2016 to 27% today (on an avg. weekly =ales basis), and will account for more than 30% of gross profit dollars =y 2021 (from 20% in FY17). With the stock trading at less than 12x our =Y19 EPS of $14.50, we expect the company to return a considerable =ortion of its $163B excess cash to shareholders over the next two =ears. Net, we see more positive than negative catalysts post lowered =Phone expectations. While our FY18 EPS falls to $11.85 (from $13) =eflecting slower iPhone unit growth (+4% vs. +15% previously), FY19 =ncreases to $14.50 (from $14.28) on Services led revenue growth and the =ull impact of tax reform. We see shares trading at a slightly lower =ultiple of 14x, versus 15.4x previously, to reflect slower unit growth =nd higher contribution from tax rate. However, our PT moves up slightly =o $203, from $200, as we shift to FY19 EPS of $14.50, which fully =eflects the iPhone X upgrade cycle and benefits of tax reform. What we =earned from Dece

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