
From: Richard Kahn <[REDACTED]>
Sent: Friday, November 3, 2017 12:57 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: X Marks the Spot

Richard Kahn
HBRK Associates Inc.

[REDACTED]

Begin forwarded message:

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

Subject: =/b>Apple, Inc.: X =arks the Spot

Date: November 2, 2017 at 11:38:35 PM EDT

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Katy L. Huberty, CFA =E2 Morgan Stanley

November =, 2017 3:32 AM GMT

We see iPhone X unlocking =ent-up iPhone upgrades, especially in China, driving 20%+ iPhone unit =rowth and Revenue and EPS 15-16% above consensus in FY18. Accelerating =rowth in China contributed to the clean Sept Q print and Dec Q guidance =hich is supportive of our thesis. Remain OW.

Guidance =etter than feared, above consensus estimates largely unchanged. =nvestors worried that a slower than expected iPhone X production ramp =osed risk to December quarter guidance but the combination of 1) =ccelerating emerging market growth with Greater China returning to =rowth and India revenue doubling, 2) broad strength across categories =hich all grew Y/Y, and 3) recent price increases across many products =hich offsets slower iPhone X production ramp, drove in-line guidance. =ur December quarter revenue is largely unchanged but EPS increases on =etter gross margin, and operating income. Our bottom-up iPhone unit =orecast by region points to 268M iPhone shipments in CY18, ahead of =onsensus forecast of 242M. China is the biggest contributor to 2018 =rowth, with our bottom up forecast pointing to 74M shipments, an 80% =ncrease from 41M shipments in LTM (through June), as the large base of =Phone 6 owners upgrade to the first major form factor change since late =014 and Apple takes share from Android (1). Combined with higher than =onsensus ASPs, we model FY18 Revenue of \$307B, 15% above consensus, and =PS of \$13.00, 16% above consensus. We see further upside to AAPL shares =n the back of positive earnings revisions as iPhone X shipments ramp. =ur price target increases slightly to \$200 (from \$199), driven by 15.4x =ur FY18e EPS of \$13.00. Most important takeaways from the quarter: Recent =nnovation puts upward pressure on gross margin despite memory, iPhone X =roduction ramp costs. Apple faces a 110bps headwind from higher memory =rices Y/Y in the December quarter, as well as higher iPhone production =amp costs Y/Y as these costs are spread across the Septembe

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