
From: Richard Kahn <[REDACTED]>
Sent: Tuesday, August 21, 2018 6:53 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: NFLX Potentially Bypassing the App Store an Overblown Concern For Now

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Begin forwarded message:

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

Subject: =/b>Apple, Inc.: NFLX =otentially Bypassing the App Store an Overblown Concern For Now

Date: =/b>August 21, 2018 at 12:50:40 PM =DT

To: =/b><richardkahn12@gmail.com>

Reply-To: =/b><mswmir-cie-feedback@morganstanley.com>

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Katy L. Huberty, CFA – Morgan Stanley

August 21, 2018 4:47 PM GMT

What's New? This morning, TechCrunch reported that Netflix is currently testing (in 33 countries, excluding the US) having new or lapsed subscribers input their payment method directly into Netflix through a mobile web version of the service, thereby bypassing the App Store on iOS devices. In a worst case scenario, this would imply that Apple would no longer take a 15-30% cut of all NFLX related International revenue captured in the App Store. According to Sensor Tower estimates, we believe Entertainment-related app purchases account for ~6% of App Store net revenue and 2% of Apple services revenue on a T12M basis. However, it's important to note that China, where NFLX is not available, accounts for 40% of total entertainment spend on the App Store. Therefore, if we realistically assume that NFLX makes up half of the remaining 60% of entertainment-related App Store purchases and that only international markets, which account for about half of spend ex-China, bypass the App Store (NFLX reportedly not testing this in the US) then the net revenue impact to the App Store on a T12M basis would be 80bps, and about 30bps for all of Apple Services, with an immaterial impact to total Apple revenue. And despite the margin profile of the App Store being meaningfully higher than company average, we estimate the gross profit dollar impact at a company level would be a mere 6bps. Therefore, we believe the revenue and profit impact on the App Store and Apple more broadly is manageable in the event NFLX eventually decided to entirely bypass payments via the App Store. More concerning would be if other services followed suit, however we view this threat as unlikely, given services/developers value the App Store for greater exposure to high quality consumers and users value the App Store for frictionless purchasing across services.

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