From: Richard Kahn <[redacted]
Sent: Tuesday, November 6, 2018 4:47 PM
To: Jeffrey Epstein
Subject: Fwd: Apple, Inc.: 10-K Highlights Lower Capex and Work Down of Inventory

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Begin forwarded message:

From: =/b>"Morgan Stanley" <ms-wmir@morganstanley.com>

Subject: =/b>Apple, Inc.: 10-K =ighlights Lower Capex and Work Down of Inventory

Date: =/b>November 5, 2018 at 7:08:54 PM =ST

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

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Katy L. Huberty, CFA – Morgan Stanley

November 6, 2018 12:04 AM =MT

Apple's 10-K shows reduced capex guidance in FY19 and =ormalized F4Q gross margin increased 100bps Y/Y when adjusting for FX =amp; warranty, better than the 40bps expansion on a reported basis. =ower inventory allows for lower NAND prices to flow to margin, but FX a =rowing headwind.
Guidance for Reduced Capex Y/Y. Apple =xpects to incur $14B capex in FY19, down from $16.7B reported in FY18. =his is the first year Apple provided initial CapEx guidance lower Y/Y =ver the past decade. We attribute lower capex to 1) completing the =ulti-year build out of Apple's new headquarters and 2) further leverage =f past tooling investments as we model overall device units (iOS + =acOS) flat to modestly declining over the next four years. September =uarter gross margin expansion stronger Y/Y than reported after =ormalizing for warranty and derivatives. Normalized gross margin shows = 100bps Y/Y increase compared to 40bps expansion in reported gross =argin after adjusting for Y/Y headwinds in (1) greater warranty =ccruals and (2) one-time benefit in Services in the year ago period =assumed at 100% gross margin), partially offset by a Y/Y benefit from =3) FX hedges and (4) non-designated derivatives. Normalized September =ross margin of 38.0% was slightly below reported gross margin of 38.3% =nd increased 100bps Y/Y relative to +40bps on a reported basis. =arranty expense was a 60bps headwind to reported gross margin, greater =han the +50bps tailwind in the year ago reported gross margin. We =alculate the impact of warranty expenses by comparing reported warranty =xpense to normalized expense based on three year average ratios to =ardware revenue. Offsetting was 60bps of FX hedge gains in September, =ncreasing from a +10bps boost in the prior year quarter. Non-designated =erivates created a +30bps tailwind to reported gross margins and =mproved from a -40bps drag a year ago (1). Higher cost NAND inventory =eing worked down. $4B of inventory on the balance sheet is still =lightl

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