
From: Richard Kahn <[REDACTED]>
Sent: Thursday, November 15, 2018 7:39 PM
To: Jeffrey Epstein
Subject: Fwd: Apple, Inc.: Supply Chain Noise Creates Buying Opportunity; Still Bullish on Services

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Begin forwarded message:

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

Subject: =/b>Apple, Inc.: =upply Chain Noise Creates Buying Opportunity; Still Bullish on =ervices

Date: =/b>November 14, 2018 at 8:07:10 PM =ST

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

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Katy L. Huberty, CFA – Morgan Stanley

November 15, 2018 1:03 AM =MT

Weaker supplier guidance reflects Apple's already =ore cautious Nov 1 guidance and, importantly, doesn't impact =ur Services growth forecast, which is tied to installed base rather =han new shipments. We're buyers on unit-driven pullback given =ervices and share repurchases drive future earnings.

Apple =hares overreact to supply chain revisions. The 8.5% decline in Apple =hares following Lumentum's and Qorvo's negative pre-announcements this =eek suggests investors remain narrowly focused on units, despite the =ncreasing value of Apple Services. As highlighted in our Insight note =ast week, our detailed analysis of Apple Services gives us confidence =n long-term growth and valuation upside as Services becomes a key =rowth driver. As the smartphone market matures, Services takes the =rowth baton from Devices which ultimately results in more stable growth =nd higher margins at Apple (1). Additionally, normalized Services =evenue growth accelerated to 26% Y/Y in FY18 despite iPhone units down =% in the two years leading up to FY18, which suggests unit sales and =nstalled base growth and/or user engagement are not as tied as =nvestors may think. While investors generally support our Services =thesis, news flow around units is creating volatility and a buying =ppportunity while the investor base is still in the process of =transitioning away from units. Impact of revisions typically outsized at =suppliers relative to Apple. While we believe investors should focus on =ervices rather than units, we provide our view on negative =re-announcements from Lumentum and Qorvo in response to investor =uestions. We believe Apple's December quarter guidance incorporates =hese revisions as guidance was provided less than two weeks ago. Apple =Iso provided a wider revenue guidance range (\$4B) than normal (\$2B) to =eflect greater demand uncertainty given the higher number of new =roduct launches and greater macro uncertainty in the economy relative =o 12 months ago. Importantly, unit revis

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