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**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.: Supply Chain Noise Creates Buying Opportunity; Still Bullish on Services"  
**Date:** "/b>November 14, 2018 at 8:07:10 PM =ST  
**To:** "/b><richardkahn12@gmail.com>  
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Apple, Inc.: Supply Chain Noise Creates Buying Opportunity; Still Bullish on Services  
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Katy L. Huberty, CFA – Morgan Stanley

November 15, 2018 1:03 AM MT

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

Apple shares overreact to supply chain revisions. The 8.5% decline in Apple shares following Lumentum's and Qorvo's negative pre-announcements this week suggests investors remain narrowly focused on units, despite the increasing value of Apple Services. As highlighted in our Insight note last week, our detailed analysis of Apple Services gives us confidence in long-term growth and valuation upside as Services becomes a key growth driver. As the smartphone market matures, Services takes the growth baton from Devices which ultimately results in more stable growth and higher margins at Apple (1). Additionally, normalized Services revenue growth accelerated to 26% Y/Y in FY18 despite iPhone units down 1% in the two years leading up to FY18, which suggests unit sales and installed base growth and/or user engagement are not as tied as investors may think. While investors generally support our Services thesis, news flow around units is creating volatility and a buying opportunity 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 services rather than units, we provide our view on negative re-announcements from Lumentum and Qorvo in response to investor questions. We believe Apple's December quarter guidance incorporates these revisions as guidance was provided less than two weeks ago. Apple also provided a wider revenue guidance range (\$4B) than normal (\$2B) to reflect greater demand uncertainty given the higher number of new product launches and greater macro uncertainty in the economy relative to 12 months ago. Importantly, unit revis

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