
From: Richard Kahn <[REDACTED]>
Sent: Friday, September 7, 2018 12:52 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: Muted Expectations and Services Momentum Keep Us Positive into iPhone Launch

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Begin forwarded message:

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

Subject: "/b>Apple, Inc.: Muted Expectations and Services Momentum Keep Us Positive into iPhone Launch

Date: "/b>September 7, 2018 at 12:24:30 M EDT

To: "/b><[REDACTED]>

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Apple, Inc.: Muted Expectations and Services Momentum Keep Us Positive into iPhone Launch
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Katy L. Huberty, CFA – Morgan Stanley

September 7, 2018 4:01 AM MT

Apple will launch 3 new iPhone models on Sept 12th. The biggest investor debates around the product launch center on the possibility of further ASP expansion and re-accelerating unit growth. Importantly, consensus expectations are muted on both fronts, providing an attractive set-up.

What should we expect from Apple's 'Gather round' event next week? Apple will hold an event next Wednesday, September 12th at 1pm EST in the Steve Jobs Theater at Apple Park. While confirmed details are scarce, we expect the event will be headlined by the introduction of 3 new iPhone models - a high-end 5.8" OLED model similar to the iPhone X (recently referred to as the iPhone Xs), a high-end 6.5" OLED "plus" size iPhone Xs, and a lower-priced 6.1" LCD iPhone (more on this below). We also expect Apple to introduce an Apple Watch Series 4 (Series 3 was introduced at last year's September event), an updated 11" bezel-less iPad Pro with FaceID functionality, and an update to the Mac portfolio. Whether or not Apple finally unveils the AirPower wireless charging mat next week is unknown at this point, however they provided a sneak peak of it at last year's Sept event, so the timing could make sense. While the launch of the Watch, iPad, Mac and potentially AirPower are a net positive, we expect the focus of the event to be the new iPhone model launches. Recent lengthening of smartphone replacement cycles driving muted FY19 iPhone unit expectations... We estimate that over the last 12-24 months, smartphone replacement cycles have elongated from ~2 years to ~3 years (1) as carriers have largely done away with 2-year contracts and high subsidies, and overall device quality, even from lower-end vendors, has improved. Global smartphone shipments have reinforced this fact, with the market posting unit declines in 3 consecutive quarters through June after over a decade of growth, led by the two largest smartphone markets, China and EMEA (2 & 3). Investors fear the trend of lengthening replacement

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