
From: Richard Kahn [REDACTED]
Sent: Wednesday, September 5, 2018 12:30 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: The Emerging Power of Apple Services, Part 3: Video a New Growth Driver in 2019

Richard Kahn
HBRK Associates Inc.

[REDACTED]

Begin forwarded message:

From: =/b>"Morgan Stanley" <[REDACTED]>
Subject: =/b>Apple, Inc.: The =merging Power of Apple Services, Part 3: Video a New Growth Driver in =019
Date: =/b>September 5, 2018 at 12:27:13 =M EDT

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Katy L. Huberty, CFA – Morgan Stanley

September 5, 2018 4:01 AM =MT

Apple is spending \$1B on original video content, with 24 new =hows and partnerships announced. Video adds 200bps annually to Services =venue growth but is EBIT dilutive medium-term, accretive long-term. We =aise our PT to \$245 to reflect recent Services peer multiple =xpansion.

Apple original video content - coming to a =evice near you. In the last 12 months, it has been reported that Apple =igned on the likes of Steven Spielberg, Oprah Winfrey, and Sesame =orkshop, the non-profit responsible for creating Sesame Street, among =any other big names in Hollywood, to produce new and original content =or the iPhone maker. The Wall Street Journal has reported Apple is =pending up to \$1B on these efforts in just 2018 alone. This marks a =eaningful acceleration in Apple's efforts to procure and produce video =ontent in direct competition with many established peers in the =traditional media and streaming video-on-demand markets. For example, we =stimate that more than 10 other media players will spend upwards of \$1B =n video content in 2018, with companies like YouTube, Netflix, and NBC =iversal set to spend more than \$7B each, implying Apple is entering a =ightly competitive market. Video as a \$4B+ stand-alone business. Our =alysis assumes Apple focuses on fewer, more targeted content than =ther video platforms that target a more complete replacement of cable =subscribers. On a stand-alone basis, we forecast that an Apple Video =treaming service with high quality but limited breadth could be priced =t the low end vs. competitors, or \$7.99/month, and reach over 50M paid =subscribers by 2025, compared to 124M at Netflix (current paid streaming =ubs) and Apple's >650M unit iPhone installed base. This would imply =hat stand-alone Apple Video can grow from a ~\$500M business in CY19 to = \$4.4B business in just six years. Combined with Apple's stand-alone =treaming music business, which we project grows into an \$18B revenue =enerator over the same time period (from roughl

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