
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.



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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 shows and partnerships announced. Video adds 200bps annually to Services revenue growth but is EBIT dilutive medium-term, accretive long-term. We raise our PT to \$245 to reflect recent Services peer multiple expansion.

Apple original video content - coming to a device near you. In the last 12 months, it has been reported that Apple signed on the likes of Steven Spielberg, Oprah Winfrey, and Sesame Workshop, the non-profit responsible for creating Sesame Street, among many other big names in Hollywood, to produce new and original content for the iPhone maker. The Wall Street Journal has reported Apple is spending up to \$1B on these efforts in just 2018 alone. This marks a meaningful acceleration in Apple's efforts to procure and produce video content in direct competition with many established peers in the traditional media and streaming video-on-demand markets. For example, we estimate that more than 10 other media players will spend upwards of \$1B on video content in 2018, with companies like YouTube, Netflix, and NBC Universal set to spend more than \$7B each, implying Apple is entering a highly competitive market. Video as a \$4B+ stand-alone business. Our analysis assumes Apple focuses on fewer, more targeted content than other video platforms that target a more complete replacement of cable subscriptions. On a stand-alone basis, we forecast that an Apple Video streaming service with high quality but limited breadth could be priced at 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 subs) and Apple's >650M unit iPhone installed base. This would imply that stand-alone Apple Video can grow from a ~\$500M business in CY19 to a \$4.4B business in just six years. Combined with Apple's stand-alone streaming music business, which we project grows into an \$18B revenue generator over the same time period (from roughl

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