From: Richard Kahn [redacted]
Sent: Thursday, January 31, 2019 10:53 PM
To: Jeffrey Epstein
Subject: Fwd: Apple, Inc.: 10-Q Highlights Lower Capex and Hedge Gains Boosting Gross Margin

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Begin forwarded message:

From: =/b>"Morgan Stanley" [redacted]

Subject: =/b>Apple, Inc.: 10-Q =ighlights Lower Capex and Hedge Gains Boosting Gross Margin

Date: =/b>January 31, 2019 at 12:52:43 PM =ST

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

Reply-To: [redacted]

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Katy L. Huberty, CFA – Morgan Stanley

January 31, 2019 5:49 PM GMT

Apple's 10-Q shows reduced capex =uidance in FY19 and normalized F1Q gross margin decline of 140bps Y/Y =hen backing out the benefit from hedges & slightly lower warranty =ccruals, lower than the 40bps gross margin decline on a reported =asis.
FY19 capex reduced by $2B. Apple expects to incur =12B capex in FY19, down from $14B guided 3 months ago and $17B reported =n FY18. Apple initially highlighted lower capex Y/Y was partially =ttributable to 1) completing the multi-year build out of Apple's new =eadquarters and 2) further leverage of past tooling investments. The =ncrementally lower capex most likely is a function of lower tooling =nvestments in order to align with demand in the longer replacement =ycle environment, in our view. December quarter gross margin =ompression was greater Y/Y than reported after normalizing for hedge =ains and warranty accruals. Normalized gross margin shows a 140bps =ecline Y/Y compared to a 40bps decline in reported gross margin after =acking out Y/Y tailwinds in (1) benefits from FX hedges and =on-designated derivatives and (2) lower warranty accruals. Normalized =ross margin of 37.1% is below reported gross margin of 38.0%. First, FX =edges were a 40bps benefit to reported gross margin, greater than the =0bps headwind in the year ago reported gross margin. Second, =on-designated derivatives were a 40bps benefit to reported gross =argin, greater than the 10bps benefit a year ago. Lastly, lower =arranty accruals was a 10bps benefit to reported gross margin, versus =o impact a year ago. We calculate the impact of warranty expenses by =omparing reported warranty expense to normalized expense based on three =ear average ratios to hardware revenue (1). Non-vendor trade =eceivables plus inventory declined Y/Y for the first time in nearly two =nd half years. Inventory grew 13% Y/Y in the December quarter and =ncreased from down 19% Y/Y in the prior quarter. Sequentially inventory =ncreased 26% Q/Q, greater than historical seasonali

This alert is sent from:

Andrew Atlas, Andrew.Atlas@morganstanley.com

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