
From: Richard Kahn [REDACTED]
Sent: Wednesday, January 30, 2019 1:55 PM
To: Jeffrey Epstein
Subject: Fwd: Apple, Inc.: Reasons To Be More Bullish

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Begin forwarded message:

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

Subject: =/b>Apple, Inc.: =easons To Be More Bullish

Date: =/b>January 29, 2019 at 10:35:38 PM =ST

To: = [REDACTED]

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Katy L. Huberty, CFA – Morgan Stanley

January 30, 2019 3:28 AM GMT

Apple faces macro headwinds but investor sentiment/ positioning became overly negative, ignoring the strength of Apple's platform. Importantly, non-iPhone revenue grew 19%, ex-China revenue grew, and newly disclosed iPhone installed base and Services subs hint at sustained Services growth.

Estimates move lower, but less than feared. We lower March quarter revenue by 7%, or -4B, and FY19e revenue by 1.4% with FY19e EPS moving from \$12.39 to -11.50. That said, buy-side expectations deteriorated meaningfully in the four weeks post Apple's pre-announcement such that even our lowered estimates are better than feared (bears expect FY19e EPS of \$11). Importantly, Apple made investors feel better about several recent rebates - 1) weaker iPhone demand, 2) gross margin risk, and 3) Services growth deceleration, which we address below in more detail. We continue to value Apple on a SoTP basis which drives our \$197 PT, down from \$211 previously on our lower revenue estimates offset partially by higher peer multiples. New insights from earnings that should make investors more bullish (or at least less bearish): 1. iPhone showing signs of stabilization. After November and December iPhone sales deteriorated -/M, January sales trends improved, particularly after Apple rolled back recent dollar strength in the price of iPhone XR in China. Given Apple's December quarter experience of slowing growth through the quarter, we don't believe guidance extrapolates the better January trend, leaving room for modest upside in the quarter. Additionally, Apple balance sheet inventory typically increases slightly (+\$80M recent 3-year average) in the December quarter but the \$1B inventory increase in December 2018 indicates Apple likely didn't push as much into the channel due to deteriorating demand, suggesting a better set-up than a year ago but also that Apple March quarter iPhone revenue will look better than Apple suppliers. Finally, after the pre-announcement on January 2nd, in

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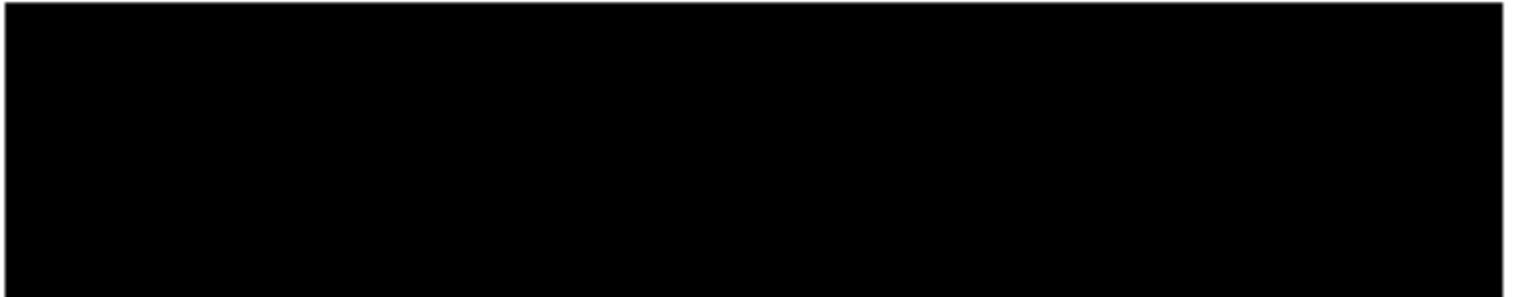
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