
From: Richard Kahn <[REDACTED]>
Sent: Wednesday, May 23, 2018 9:09 PM
To: jeffrey E.
Subject: Fwd: Apple, Inc.: The Emerging Power of Apple Services, Part 2: The App Store

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue 4th Floor
New York, NY 10022
tel [REDACTED]
fax [REDACTED]
cell [REDACTED]

Begin forwarded message:

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

Subject: =/b>Apple, Inc.: The =merging Power of Apple Services, Part 2: The App Store

Date: =/b>May 23, 2018 at 5:08:06 PM =DT

To: =/b><[REDACTED]>

Reply-To: =/b><[REDACTED]>

<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>> <http://www.morganstanley.com/>>
Wealth =anagement

<<http://www.morganstanley.com/img/cs/spacer.gif>>
Apple, Inc.: The =merging Power of Apple Services, Part 2: The App =tore
<<http://www.morganstanley.com/img/cs/spacer.gif>>

Katy L. Huberty, CFA =E2 Morgan Stanley

May 23, =018 9:00 PM GMT

In this follow-up to our =arch Services report, we counter the bears, arguing that App Store =rowth is sustainable and take rates are defensible. As a result, we =elieve Services margins have room to expand and the market is =ndervaluing the Services business. Raising SOTP PT to \$214 (from =200).

Services is fast becoming Apple's primary growth =river. Apple revenue grew at an 8% CAGR over the last five years, =iven in large part by sales of its flagship iPhone. But as device =placement cycles extend and device installed base growth slows to =ingle digits, we believe Services will pick up the growth baton and =ccount for ~67% of Apple revenue growth over the next five years. We =lready see the early stages of this transition, with normalized =ervices revenue growth accelerating from 18% Y/Y to 31% Y/Y in the last =ive quarters (1), while iPhone unit growth averaged just 1% Y/Y growth =ver the same period. We acknowledge that iPhone data points remain =levant to the Apple thesis, but we believe investors instead ought to =ocus on understanding the drivers and growth trajectory of the Services =usiness. We are using this follow-up to our March 2018 Apple Services =eep dive to explore the largest business within Services, the App =tore, which we estimate already accounts for nearly 40% of total =ervices revenue and is the greatest contributor to Services revenue =rowth. Why focus first on the App Store? Two reasons. First, the App =tore is the largest and most significant contributor to Services =rowth. We estimate the correlation between Apple Services revenue and =pp Store net revenue (i.e. what is recognized on Apple's P&L) is =.98, with an r-squared of 0.96 (2), implying Services revenue is =irectly linked to the performance of the App Store. Second, Apple is =otoriously reticent when it comes to Services data points, and the App =tore is one of the only Services segments where there is detailed third =arty data available to analyze. As a result, we have a bette

This alert is sent from:

Andrew Atlas, [REDACTED]

You received this because you requested =hat you receive content and reports from:

APPLE =NC.

Please contact your FA if you want to unsubscribe from the =lerts.

<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>
<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>> Disclosures:

Please see =he full report for risks, disclosures and other important =nformation.

Important disclosures regarding the =elationship between the companies that are referenced in Morgan Stanley =research and Morgan Stanley Wealth Management research are available on =he Morgan Stanley Wealth Management disclosure website at <https://www.morganstanley.com/online/researchdisclosures>.

Morgan Stanley Wealth Management Not Acting as Municipal Advisor Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

Copyright

The copyright in materials provided by Morgan Stanley is owned by Morgan Stanley & Co. LLC. Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States.

© 2018 Morgan Stanley Smith Barney LLC. Member FINRA.

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

<<http://www.morganstanley.com/img/cs/spacer.gif>>

=