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**From:** Richard Kahn <[REDACTED]>  
**Sent:** Thursday, July 21, 2016 5:20 PM  
**To:** jeffrey E.  
**Subject:** Fwd: Apple, Inc.: June Marks the Trough

april reports earnings june 26th after the close

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Begin forwarded message:

From: "/b>"Morgan Stanley" <ms-wmir@morganstanley.com>

Subject: "/b>Apple, Inc.: June =arks the Trough

Date: July 21, 2016 at 12:41:44 AM EDT

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

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Wealth management

Subscription Notification: July 21

Apple, =nc.: June Marks the Trough

Katy L. Huberty, CFA – =organ Stanley

July 21, 2016 4:01 AM GMT

We expect Apple to report in-line June =quarter results, and guide September quarter slightly below consensus =estimates. We like the set-up as iPhone growth likely troughed in June =nd we expect a more revolutionary iPhone cycle next year. We expect June quarter results in-line with expectations. Consensus =estimates revenue of \$42.0B, gross margin of 38.0%, and EPS of \$1.38, =hich are very close to our model of \$41.9B, 38.0% and \$1.39. Since =pple adopted its current guidance methodology 13 quarters ago, it has =ot missed its revenue or gross margin guidance ranges. The company came =n at the low-end of the revenue range in each of the last two quarters, =hough it still achieved the high-end of the gross margin range. Apple =uided revenue and gross margin to \$41-43B and 37.5-38.0% for the June =quarter. We estimate 39M iPhone shipments for the June quarter, and =hink consensus is close at about 40M. Our Asia Tech team led by Jasmine =u estimates 40M iPhone builds. Our AlphaWise iPhone Tracker, which =ompiles sell-through data using web search analysis, indicates 41M end =emand for the quarter or 1M higher than our read at the end of May =Exhibit 1). However, Apple plans to lower channel inventory by \$2B or =bout 3M units so reported units should be lower than end demand. We =elieve iPads could be slightly weaker than our estimate of 9.5M based =n build data, while Macs could be 2% better than our estimate, based on =DC 2Q16 market data. We expect Apple Music and Pay to continue to drive =igh Services growth, and estimate 18% Y/Y for the June quarter. Apple =ould guide gross margin slightly lower than consensus for the September =quarter. Consensus models C3Q16 revenue of \$46.0B, gross margin of =8.5%, and EPS of \$1.61. While we are not far off at \$45.6B, 38.2% and =1.60, the big difference is gross margin, the key metric this quarter. =imilarly in the last two quarters, consensus gross margin estimates =eading into earnings were 50bps and 100bps higher than the high-

[Click here =o see the full report.](#)

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