To: jeffrey epstein[jeevacation@gmail.com]
From: Tazia Smith
Sent: Tue 10/29/2013 11:24:22 AM
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Classification: Public

Good Morning Jeffrey - As you likely saw, AAPL recouped immediate losses in the aftermarket yday (trading back up to ~527) after mgmt comments on the conference call suggesting that lower gross margins were a result of deferrals. Will watch for any follow-through (the sell side has been broadly positive in response to earnings) and opportunity to sell OTM calls today. Fyi only, DB's summary of AAPL's earnings report and commentary below (reit 575 tgt).

Tazia

Source: bloomberg, streetaccount.com, db global markets research, 10/28/13

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From: EVS EquityFocus
Sent: 10/29/2013 10:01 AM GDT
Subject: DB: AAPL.OQ - Chris Whitmore

Classification: Public

Apple Inc (Buy, CP: $529.38, TP: $575.00, AAPL.OQ, Chris Whitmore)

Product cycles kicking into gear
AAPL reported revs of $37.5B and EPS of $8.26 which beat expectation (vs. DB at $36.9B/$8.02; Street at $36.8B/$7.93). Apple beat on iPhone units (33.8M vs. DB at 32.5M) and iPads (14.1M vs. DB at 12M) and Mac results were light (4.6M vs. DB at 4.8M). iPhone mix and operating leverage translated into OM (26.8% vs. DB at 26.1%) and EPS upside. AAPL will defer ~$900M in the Dec Q related to SW deferrals which impacts cash EPS but not cash flow. Consequently, we trim EPS est's but at ~8x CY14 EV/FCF we believe AAPL represents an attractive value; maintain Buy and $575 PT.

Margin guidance was solid after adjusting for software deferrals
Apple guided Dec Q revs to $55-58B which beat expectation (vs. Street at $55.5B). GM's guidance of 36.5-37.5% includes $900M of incremental software deferrals Q/Q related to including Mavericks, iLife and iWork for

free. We estimate ~$500M of this total is related to a change in accounting accrual per device ($5 incremental per iPhone, iPad & iPod touch unit; $20 incremental per Mac). The remaining ~$400M is related to higher volume of unit shipments in the December quarter. When comparing guidance on a like for like basis (i.e. ex the accounting change) Apple guided 4Q GM's to ~38% which was in line with Consensus on revenues of $57B +/- $1.5B which is above Consensus, suggesting improving iPhone 5S supply.

Several catalysts ahead
We expect strong holiday demand for Apple's new product lineup and suspect its guidance will prove conservative. Furthermore, Apple remains very confident in its product pipeline heading into CY14. Specifically, we see multiple catalysts to support growth over the next 12-18 months including iPhone 6, expansion with China Mobile and further geographic expansion. In addition, Apple pointed to expanding into new product areas (Apple TV and/or wearables) which should alleviate innovation concerns.

Cutting estimates to reflect accounting changes; maintain Buy and $575 PT
We adjust CY14 est's to $180B/ $43.90 (vs. prior to $184B/ $46.00) and introduce CY15 of $188B/ $48.35. Our $575 PT is unchanged and is based on ~9x CY14E EV/FCF; the lower end of its historical 7-29x range. We view the multiple as appropriate given AAPL's growth/profit profile. Risks include product execution, ASP declines & phone / tablet comp'n.

Please click on below link for full report:
http://pull.db-gmresearch.com/p/558-2231/11731481/0900b8c0877292a9.pdf

Regards,

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Please ensure all mails are also sent to our shared inbox evs.equityfocus@db.com to avoid getting overlooked.