
From: Richard Kahn [REDACTED]
Sent: Tuesday, January 8, 2019 11:54 PM
To: Jeffrey Epstein
Subject: Fwd: Apple, Inc.: New Disclosure Re-states Services Growth; App Store Healthy but AppleCare Slows

Richard Kahn
HBRK Associates =nc.
575 Lexington =venue, 4th Floor
New York, NY =0022
tel: [REDACTED]
fax: [REDACTED]
cell: [REDACTED]

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

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Date: =/b>January 8, 2019 at 6:01:53 PM =ST

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Katy L. Huberty, CFA =E2 Morgan Stanley

January =, 2019 10:58 PM GMT

Last week, Apple =re-announced December 2018 quarter results, where they disclosed that =ec Q Services revenue was ~\$10.8B, representing 28% Y/Y growth as =eported, but 15-22% Y/Y growth after the reclassification of Apple's =Y18 Services revenue to account for how the company now accounts for =he amortization of the deferred value of Maps, Siri and free iCloud =ervices. Today, Apple provided the quarterly disclosure of these =eclassifications, which clarified that December 2018 Services growth =as 18.3% Y/Y. We estimate this represents a 7 point deceleration from =5% Y/Y normalized growth in the September 2018 quarter, or a \$600M =hortfall vs. if growth was flat with Sept Q at 25% Y/Y. Importantly, =ecent third-party App Store data from Sensor Tower suggests App Store =rowth only decelerated 1 point in the December quarter, with a stable =rowth rate ex-China, an improving trend from a more meaningful =eceleration in September 2018. Therefore we believe the Services =eceleration this quarter is more temporary in nature and largely =ttributed to AppleCare, which was impacted by the estimated 19% Y/Y =ecline iPhone sales in the Dec Q and could account for as much as \$425M =f the shortfall. We continue to view the growing installed base (+8% in =Y18), Services engagement (+14% est. revenue per device in CY18), and =ardware attach (nearly 50% wearables growth in December 2018) as signs =hat Apple's platform value and customer loyalty continue to grow =espite the weaker iPhone product cycle.

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