From: Richard Kahn <[redacted]>
To: Jeffrey Epstein <[redacted]>
Subject: FW: Apple, Inc.: Is Shared Mobility in Apple's Future?
Date: Wed, 25 May 2016 11:16:36 +0000

From: Morgan Stanley <[redacted]>
Reply-To: <[redacted]>
Date: Wednesday, May 25, 2016 at 12:09 AM
To: Richard Kahn <[redacted]>
Subject: Apple, Inc.: Is Shared Mobility in Apple's Future?

WEALTH MANAGEMENT

Subscription Notification: May 25

Apple, Inc.: Is Shared Mobility in Apple's Future?

Katy L. Huberty, CFA – Morgan Stanley
May 25, 2016 4:01 AM GMT
Apple investments in the $2.6T shared mobility market open up the potential to contribute more revenue/EPS than Apple generates today. Supporting our view, incremental [redacted] investment is 20x larger than major auto OEMs & investment in Didi Chuxing & data centers point to a shared service model.
Shared mobility the most likely explanation for increased investments, due to: 1) The significant opportunity – $2.6T annually based on 20 trillion miles traveled in 2030 with 26% shared autos penetration at 50c/mile, 2) Intersection of three disruptive forces - electric, autonomous, shared vehicles, 3) Need for improved digital experience in vehicles, and 4) Faster technology cycles which average 1-2 years, at most, compared to auto design cycles of 5-7 years. Apple's recent investment in Didi Chuxing signals an interest in shared rather than owned vehicles creating a recurring revenue stream at maturity. With Apple outspending the major auto OEMs on this opportunity, we believe Apple could gain at least 16% of the shared mobility market, similar to the company's share in smartphones today. This translates to over $400B of revenue and $16 EPS for Apple in 2030 - more than the rest of Apple generates today ($234B / $9.22 in FY15) (Exhibit1). We assume Apple garners 16% share of the $2.6T shared mobility TAM in 2030, along with Apple's 2015 operating net income margin and average diluted share

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count.Over the past three years, Apple spent an incremental $5B on [redacted] likely for products not yet launched. This compares to $2B incremental [redacted] spend ahead of Watch and less than $1B ahead of iPhone and iPad launches (Exhibit2). While the investment cycle creates negative leverage today – [redacted] grew 80% vs. revenue up 37% last two years – if these projects deliver revenue in the future, we could see meaningful margin expansion similar to what the company experienced after the iPhone launch. Interestingly, Apple spent more on [redacted] in FY15 (3.5%) as a percent of revenue than it

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