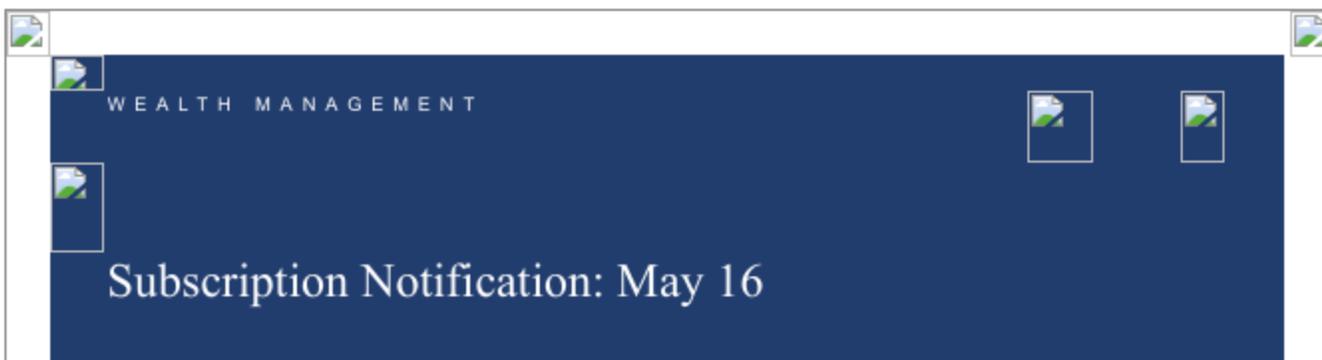


From: Richard Kahn <[REDACTED]>
To: "jeffrey E." <jeevacation@gmail.com>
Subject: Fwd: Apple, Inc.: Driving to a New Market
Date: Mon, 16 May 2016 12:54:20 +0000

Richard Kahn
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575 Lexington Avenue 4th Floor
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Begin forwarded message:

From: "Morgan Stanley" <ms-wmir@morganstanley.com>
Subject: Apple, Inc.: Driving to a New Market
Date: May 16, 2016 at 1:07:23 AM EDT
To: <[REDACTED]>
Reply-To: <mswmir-cie-feedback@morganstanley.com>



Apple, Inc.: Driving to a New Market

Katy L. Huberty, CFA – Morgan Stanley

May 16, 2016 5:00 AM GMT

We see positive near- and long-term implications from Apple's unexpected \$1B investment in Didi Chuxing. Apple can learn more about the services business, especially in an important market like China, and maybe one day deploy its own cars as-a-service.

Investment in Chinese ride-sharing business more than meets the eye. Apple recently messaged a greater appetite for acquisitions. Investor response was varied. Value investors want capital return and accretion. Growth investors want a transformative

deal. Apple's \$1B investment in Didi Chuxing is a balance of both – an insignificant dollar amount (at least to Apple and its shareholders) that potentially opens up transformative opportunities longer-term. We think near to medium term opportunities include better integration of Apple products (CarPlay, Music, Pay), and Apple learning more about China and services business models. Long term, if Apple chooses to launch a car, it can go to market as hardware-as-a-service instead of through traditional dealerships. An Apple autonomous car fleet paired with a leading (~87% market share in China) car sharing service creates a large addressable market. To put rough numbers around it, we estimate a \$145B addressable market for ride-sharing in China by 2020, assuming 7% of the 2T miles are shared at a value of about \$1/mile. We see significant growth to a roughly \$500B market by 2030 as ride-sharing gains adoption while value per mile falls to \$0.50. Apple leading with China, makes perfect sense. Apple has said China will soon be its largest market. US mobile services has proven a winner take all market, while share in China is more fragmented. Apple has 90% of its cash sitting overseas with a 30%+ cash tax hit if it brings the cash home to invest in a US company, making an international investment cheaper for investors even at the same or higher valuation. Apple has proven in the past its ability to make prescient and symbiotic investments, such as ARM or Imagination Technologi

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