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Subject: Fwd: Apple, Inc.: iPhone Trough Pushed Out a Quarter
Date: Wed, 27 Apr 2016 08:55:24 +0000

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Begin forwarded message:

From: "Morgan Stanley" <[REDACTED]>
Date: April 27, 2016 at 12:20:31 AM EDT
To: <[REDACTED]>
Subject: Apple, Inc.: iPhone Trough Pushed Out a Quarter
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[Apple, Inc.: iPhone Trough Pushed Out a Quarter](#)

Katy L. Huberty, CFA – Morgan Stanley

April 27, 2016 4:01 AM GMT

CY16 EPS reset \$1.13 lower to \$8 on weak Asia demand (Hong Kong), channel inventory reduction, and lower iPhone ASP, offset partially by better Services and iPads. With estimates de-risked, AAPL sets up better heading into iPhone 7 launch given 80% 2-year installed base growth and easier Y/Y comps. March quarter missed expectations on macro headwinds, slower upgrade cycle, and early

iPhone channel inventory reductions. Mainland China iPhone end demand only declined 5% Y/Y despite a very tough comparison but Hong Kong was weak due to HK\$ strength. Emerging market in general continues to be weak while Japan is doing better and Europe actually saw iPhone unit growth Y/Y. In addition, iPhone 6s upgrades are tracking slightly ahead of the 5s but significantly lower than 6. Net, this is causing Apple to lower channel inventory in both the March and June quarters. Services was the bright spot (+20% Y/Y vs. our estimate +15%) driven by App Store and Music. App Store revenue growing 35% Y/Y speaks to Apple's ability to monetize the 1B+ device installed base especially as the lengthening upgrade cycle lowers device sales. iPad revenue also surprised positively and beat our estimate by 5%, and Apple expects Y/Y declines to moderate again in the June quarter. June quarter guidance is not as bad as first feared. Apple is lowering channel inventory by \$2B or \$1.2B more than a year ago. Revenue guidance would have been seasonal without the \$1.2B additional destocking. This adjustment also accounts for 50bps of the gross margin decline. Guidance also assumes the company does not meet iPhone SE demand in the June quarter, while there were no supply constraints a year ago. That said, guidance would still have been lower than our pre-earnings revenue and EPS estimates of \$47.5B and \$1.77 after adjusting for these factors, signaling the mixed macro environment and elongating upgrade cycles. Capital return is as expected though M&A commentary more interesting. We expected Apple to increase

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