

**From:** Richard Kahn <[REDACTED]>  
**To:** Jeffrey Epstein <jeevacation@gmail.com>  
**Subject:** Fwd: Apple, Inc.: AlphaWise Survey Signals Long Runway for Apple Services Growth  
**Date:** Wed, 07 Nov 2018 23:12:05 +0000

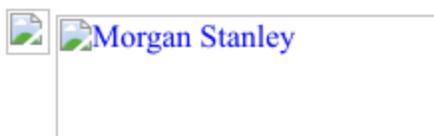
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Richard Kahn  
HBK Associates Inc

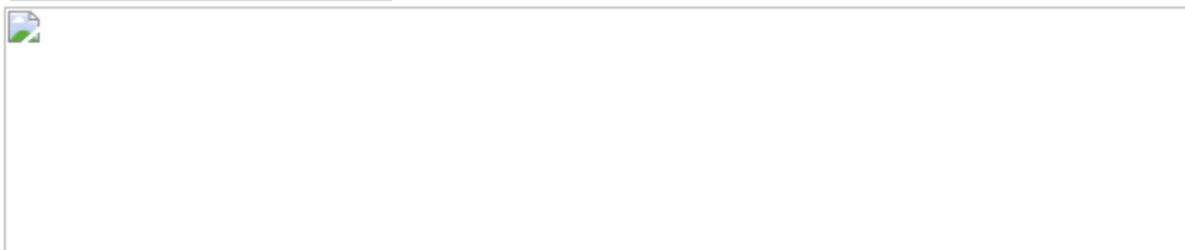


Begin forwarded message:

**From:** "Morgan Stanley" <[REDACTED]>  
**Date:** November 7, 2018 at 6:09:00 PM EST  
**To:** <[REDACTED]>  
**Subject:** Apple, Inc.: AlphaWise Survey Signals Long Runway for Apple Services Growth  
**Reply-To:** <[REDACTED]>



Wealth Management



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Katy L. Huberty, CFA – Morgan Stanley

November 7, 2018 11:00 PM GMT

AlphaWise survey of US and China smartphone users increases confidence in sustained 20%+ annual Services growth and margin expansion as Services takes the growth baton from iPhone. Our analysis adds \$27 incremental value tied to Services in our SOTP-driven PT of \$253. Remain OW.

We think the market underestimates both growth and value impact of Apple's Services business. With a maturing, more engaged iOS user base and broadening portfolio of Services, we believe Services represents the key growth driver for Apple over the next 5 years (1). Supported by Services penetration at a key inflection point and our AlphaWise survey signaling spending increases over the next year, we are confident Apple can sustain 20%+ annual growth over the next five years. The market isn't pricing this in with consensus predicting Services growth rate slows to the mid teens by FY20 and our Services forecast 11% above consensus over the next four years (2). While the market read announced changes to Apple financial disclosures negatively last week, we view it as a corroborating data point that Apple is approaching a services-led margin inflection, similar to when Amazon began breaking out AWS revenue and profits in 1Q15 (3). Overall Services and specifically iCloud & AppleCare are approaching key 20% inflection point; a level of penetration historically associated in technology with higher growth velocity (4 & 5). App Store, the service with highest penetration today, experienced a growth acceleration when penetration topped 20% and we expect other services to follow the same path (6). AlphaWise survey supports 21% Services 5-year CAGR. With little publicly available data, transparency into Apple Services metrics is low but partnering with AlphaWise provides survey driven metrics to better understand penetration and spending intentions. These bullish survey results (7) form the basis for our new penetration and spend per user forecasts for each of Apple's Services segments. We now forecast

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Andrew Atlas, [REDACTED]

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