From: Richard Kahn [redacted]
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject: Fwd: Apple, Inc.: China a Growing Headwind to App Store Growth Near-term
Date: Wed, 17 Oct 2018 23:41:04 +0000

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Begin forwarded message:

From: "Morgan Stanley" [redacted]
Subject: Apple, Inc.: China a Growing Headwind to App Store Growth Near-term
Date: October 17, 2018 at 7:07:55 PM EDT
To: [redacted]
Reply-To: [redacted]

Morgan Stanley

Wealth Management

Apple, Inc.: China a Growing Headwind to App Store Growth Near-term

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Katy L. Huberty, CFA – Morgan Stanley
October 17, 2018 11:00 PM GMT

Sept Q App Store net revenue of $3.6B fell short of $3.8B MSe. Pause in China new gaming approvals coupled with fear of economic slowdown in China present a near-term overhang but we see limited downside to near-term estimates and remain bullish on the long term sustainability of Services growth.
App Store growth decelerated by 150bps in C3Q but still growing 20%+. According to data compiled by Sensor Tower, Apple's App Store generated $8.4B in payments to developers in the September quarter, implying App Store net revenue (what is recognized on Apple's P&L, net of payments to developers) of $3.6B (+23% Y/Y), a quarterly high (1) but below our forecast of $3.8B (+30% Y/Y originally, +32% Y/Y after Sensor Tower restatements; 2). Assuming our estimates for the other Services line items are in-line, these results imply September quarter Services revenue of $9.8B (+15% Y/Y or +24% Y/Y on a normalized basis, excluding the $640M favorable one-time payment from the September 2017 quarter), below our current estimate of $10.0B (+18% Y/Y, +28% normalized) and below current consensus of $10.1B (+19% Y/Y, +28% normalized). Coupled with slower Chinese gaming approvals, decelerating gaming/luxury brand growth in China, and implications of a potentially escalating trade tensions, we see China exposure as the biggest near-term risk. However, we believe that many of the App Store blemishes we cite below are more temporary in nature and as a result, continue to believe in the longer-term sustainability of App Store growth, which plays a meaningful role in our bullish Services thesis.China growth continues to decelerate while the US maintains 30%+ growth and Japan accelerates. China remains the single largest revenue generating country for the App Store, producing slightly more than $1B in net revenue in the September quarter and accounting for 29% of total App Store net revenue, slightly lower than the T12M average of 31%. China App Store growth has now decelerated for 8 consecutive

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