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## ANALYST QUICK NOTES

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**Apple Inc. (NGS: AAPL: BUY)**

**Target Price: \$135**

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**2/1/2017**

### Thesis

- Apple is a “cycle” company (not a cyclical company) and the cycle is iPhone.
- Even with cautious guidance, we look for positive March quarter on rising worldwide demand for iPhone 7, particularly 7 Plus.
- BUY to \$135.

### AAPL stock price

- AAPL is up 5% in 2017 (indicated to be up 9% at \$126 open).
- In 2016, AAPL rose 10%, lagging 12% gain for Argus-covered peers.
- In July 2016, AAPL traded at \$97; 31% gain from there on confidence in iPhone 7 cycle.

### 1Q17 results

- 1Q revenue of \$78.4 billion up 3%, the first positive year-over-year comp since fiscal 1Q16 (calendar 4Q15).
  - Above \$77.3 billion consensus.
  - Above guidance midpoint of \$77.0 billion.
- GAAP EPS totaled \$3.36, up 2% year/year.
  - \$0.14 above consensus call.

## Product metrics

- 78.29 million iPhone, up 4.7% year/year.
  - iPhone revenue up 5.3%, to \$54.4 billion, as mix & pricing helped.
  - Overall ASP of \$695 up less than 1% y/y and up 12% sequentially on iPhone 7 and particularly iPhone 7 Plus demand.
- 13.1 million iPads, 19%.
  - Holiday quarter not good quarter for iPad Pro.
  - Tablet ASP down 4% on consumer-skewed mix.
  - Tablet revenue down 21%.
- Mac units up 1%, but revenue up 7%.
  - ASP rises 6% on strong reception for newer models; iPhone to Mac eco-system working.
- Services (apps, etc.) grew 18%; accounted for 9% of total revenue even in holiday quarter.
  - Other (watch, Beats, etc.) down 8%; Watch not a dud, but not a needle mover either.

## Quarterly concerns and positives

- Concerns: Greater China down 12%.
  - Actually better than down 30% in 4Q16.
- Positives: mature markets (Americas, Europe & Japan) all higher, with Japan up sharply.
- Supply constraints not as big an issue.

## 2Q17 outlook

- As usual, conservative.
- Revenue forecast at \$51.5-\$53.5 billion.
  - Revenue at guidance midpoint would be up 4%.
- Gross margin in the 38.0%-39.0% range.
- Operating costs of \$6.5-\$6.6 billion.
- Equates to EPS in the \$2.20-\$2.15 range.
  - Would be up about 15% y/y.

## Outlook & Conclusion

- We think iPhone 7 will drive a big refresh cycle, given that:
    - currency & commodity upheaval may have caused many to skip the iPhone 6/S cycle; and
    - the base of iPhone owners is twice the size of the base four years ago.
  - Apple is prioritizing return to shareholders.
    - We look for continued hikes in already rich dividend.
  - Unmatched iPhone customer base, fortress balance sheet, gradually normalizing commodity/currency outlook, and potential for iPhone 7 early-cycle sales momentum all argue for buying AAPL well off highs.
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