



## ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

---

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

**Target Price: \$150**

**Jim Kelleher, CFA**

**3/29/2017**

### **New iPads at Popular Price**

- Enormous installed iPhone base and competitor stumbles should drive strong and steady demand for iPhone 7/Plus and follow-on phone.
- New inexpensive iPad recognizes that tablet form factor is best treated as lower-end device for consumers, while iPad Pro will remain higher-end tool for business.
- Easy comps coming against the second half of iPhone 6 cycle; market betting on new phone, not iPhone 7 "S" models.
- BUY to \$150.

### **AAPL Stock Price**

- AAPL is up 25% in 2017, versus:
  - 5% for market; and
  - 11% for tech SPDR, Argus tech hardware coverage.
- In 2016, AAPL rose 10%, lagging 12% gain for Argus-covered peers.

### **Cheaper iPad**

- New iPad priced at \$329, close to what an out-of-date Mini used to cost.
  - Product release without fanfare: new release mode?
  - No branding effort, just the iPad, also may be part of new Apple (now more 1984 ads?).
  - Nice upgrade from iPad Air 2: A9 processor, bright screen, WiFi plus cellular, 32 GB.
  - Lowest price for a 9.7" model; predecessor launched at \$499 with only 16 GB, slower processor

### What Does it Mean?

- New iPads for consumers may be simple upgrades of the old model; no pre-release fanfare, no brand names, no Jon Ivey or Phil Schiller on stage.
- Also an effort to differentiate these consumer-directed products from what is being targeted at enterprise, the iPad Pro.
- Pro will remain differentiated by slightly larger 10.5" screen; there is also the larger 12.9" iPad Pro.
  - Higher capabilities, best processor.

### Solid 1Q17 Results

- During fiscal 1Q17, Apple posted a positive top-line comparison (sales up 3%) on a year-over-year basis for the first time since fiscal 1Q16. Above \$77.3 billion consensus.
- GAAP EPS for fiscal 1Q17 totaled \$3.36 per diluted share, which was up 2.3% year-over-year and nearly double \$1.67 per diluted share earned in 4Q16.
  - Apple's 1Q17 EPS was \$0.14 above the consensus call

### Product Metrics

- During 1Q17, Apple shipped 78.3 million iPhones, which was up 4.7%.
- In holiday driven 1Q17 (calendar 4Q16), iPad unit sales of 13.1 million were down 19% annually (though up 41% sequentially).
- In 1Q17, Mac units were up 1.2% annually, and Mac revenue of \$7.24 billion was up 7% year-over-year.

### 2Q17 Outlook

- For fiscal 2Q17 (calendar 1Q17);
  - revenue in a range of \$5.15-\$53.5 billion;
  - gross margin of 38.0%-39.0%; and
  - operating costs of \$6.5-\$6.6 billion.
  - GAAP EPS for fiscal 2Q17 in the \$2.15-\$2.20 range.
- At the revenue guidance midpoint, sales would be up 4% annually, while GAAP EPS would be up in the low- to mid-teen percentages.

### 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 twice the size of prior base four years ago.
  - Apple is prioritizing return to shareholders and 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.
-

---

## DISCLAIMER

This Note reflects the current thinking of an Argus analyst anticipating or responding to corporate earnings reports or other news relevant to covered companies. This Note may be an initial, real-time response to developments that are expected to impact stocks under coverage; as such, it does not imply that the information in it is correct as of any time after its preparation or that there has been no change in the business, financial condition, prospects, creditworthiness or status of a covered company. The views or opinions expressed in this Note are subject to change pending further analysis. This Note is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This Note is not an offer to sell or a solicitation of an offer to buy any security. The information presented in this Note is for general information only and does not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this Note. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this Note constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions and opinions than those represented in this Note, and all opinions are reflective of judgments made on the original date of publication. Those reports may reflect the different assumptions, views and analytical methods of the analysts who prepared them and Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this Note or to update or keep current the information contained in other reports so that such information is consistent with, or not contrary to, the information contained in this Note. Argus Research is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc., is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.

Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

---