



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: \$175

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Thesis

- Apple succeeds not by seeking to be first to market, but by looking to produce the best product in its niche. Pricing for HomePod (\$350) and iMac Pro (\$5K) demonstrate Apple would rather be best than be the high-volume seller.
- Product and enhancements announced at Worldwide Developers Conference (WWDC) will work to keep the installed base enormous as new technologies such as AI threaten Apple's device leadership.
- The "good enough" iPhone 7/Plus and highly anticipated upcoming iPhone should drive strong and steady demand for the Core business.
- The enormous installed iPhone base supports the fast-growing services business, which exceeds \$7 billion in annualized revenue.

AAPL stock price

- AAPL is up 34% in 2017 versus:
 - 9% for peer group;
 - 9% for market;
 - 18% for tech SPDR; and
 - 15% for Argus' tech hardware coverage.
- In 2016, AAPL rose 10%, lagging the 12% gain for Argus-covered peers.

New products & upgrades at WWDC

- HomePod
 - At \$350, it is pricier than AMZN Echo (\$170), GOOGL Home (\$129), or even the new iPad (\$329).
 - HomePod uses spatial awareness to sense its location in the room and automatically adjust the audio.
 - The device is designed to work with an Apple Music subscription.
 - HomePod is being positioned first as a smart music player and secondarily as a Siri-enabled digital home assistant.

- New Macs and iMac Pro desktop
 - Improved processor, display, and graphics, including support for VR gaming.
 - iMac Pro and MacBook Pro come with Intel's "Kaby Lake" processor.
 - The new MacBooks start at \$1,299, but the iMac Pro desktop costs a startling \$5,000.
- iOS 11
 - Features Siri updates and the ability to make payments through cloud-based iMessage.
 - iOS 11 for iPad makes the device more PC like with touch-and-drag features.
- New ARKit
 - Allows developers to build augmented reality apps for iPhone.
 - Apple perceived as playing catch up in AI and VR (virtual reality).
 - The new ARKit should accelerate development of useful AI and AR capabilities on iOS device.
- New 10.5" iPad Pro
 - Nearly all screen, and the fastest iPad yet.
 - Enables a Mac-like ability to open and move multiple apps around the screen at one time.

Solid products, but preliminary to the new iPhone launch this fall

- The new iPhone will have wireless charging, better processor, but likely not 3D sensing.

Valuation & Conclusion

- Apple not only sells hardware but also a range of enhancements within its closed ecosystem. Its products are an opportunity set for iCloud & iTunes & the App Store.
 - Apple is prioritizing return to shareholders.
 - Apple is trading at just a slight premium to historical relative P/E multiple.
 - Unmatched iPhone customer base, fortress balance sheet, huge services business, and potential for new iPhone all argue for buying AAPL even at new highs.
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