

## Apple Inc.

**SELL (AAPL, \$103.41, \$85 PT)**

### APPLE EARNINGS REVIEW: BUILDING UP THE CHANNEL

Haiku: While the stock is up, the underlying metrics, are all in decline.

Shares of Apple are up as the company produced June quarter results ahead of low consensus and issued September quarter guidance ahead of expectations. While the stock is materially rallying on the results, the underlying metrics that drive our sell rating are in still intact. These include:

- 1) Revenue decline of 15% YoY in the June quarter and our expectation of a decline of 8% in the September quarter, even at the upper end of company guidance.
- 2) We estimate FY2016 revenue declines 8% and FY2017 revenue declines 1%, and our bias remains to the downside. We see that it is more likely that the market for smartphones decelerates than accelerates.
- 3) September quarter guidance likely includes the benefit of building up channel inventory, which was decreased in the June quarter by 4 million units.
- 4) Channel inventory build may negatively impact December quarter results.
- 5) iPhone revenue declined for the second consecutive quarter, and we estimate that iPhone revenue to decline for the next 5 quarters on a year over year basis.
- 6) Average selling price for the iPhone dropped 10% YoY and 7% sequentially, driven by customer interest in lower priced iPhone SE, resulting in the lowest gross margins in 7 quarters.
- 7) Operating margin of 23.9% was the lowest in 7 years.
- 8) Greater China revenue declined 33% YoY and 29% sequentially, and even with adjustments for currency, we note the market declined in a quarter where the low cost iPhone SE was released.
- 9) Only two areas of the company produced revenue growth, iPad and Services. Services revenue, while touted by management, is only 14% of total. iPad revenue grew although units sold declined driven by higher ASPs.
- 10) Domestic cash is down to 7% of total, at \$17 billion, a 29% sequential decline, limiting flexibility as the company returned \$13 billion in the quarter, with a dividend commitment of \$3.2 billion per quarter. Debt is \$72 billion.
- 11) Shares keep making lower lows, and lower highs looking back to 2015, and remains precipitously subject to the consumer whim regarding the iPhone.
- 12) We give ourselves up to 9 months for the thesis to evolve and price target to be reached, after which we expect the iPhone 10<sup>th</sup> anniversary model to reset demand in the fall of 2017.

As we mentioned in our downgrade, with expectations for the June quarter low, and consensus at the midpoint of guidance, it was possible that shares rally. However, when we ask ourselves "Do we see Apple gaining or losing its next \$100 billion of value", the answer remains losing. The reason we picked \$100 billion is to accommodate a rally such as today, and we still see that the dynamics of the next iPhone cycle is positioned to disappoint the market. The setup of stronger than expected guidance for the September quarter driven by our opinion of an inventory build reverses the dynamic of the June quarter where expectations were low.

#### Balance Sheet:

AAPL has \$232B in cash (\$42.30/ share) and \$69B long-term debt as of June 25, 2016. We increase our FY16 estimates and adjust FY17 estimates, maintain our SELL rating and price target at \$85 on shares of Apple Inc.



#### Company Data

Price (\$)	103.41
52-Week Range (\$)	89.47-123.91
Mkt Cap (\$ B)	570.23
Price Target (\$)	85
Diluted Shares Out (M)	5,473
Avg. daily vol. (3mo)	38,989,619

**Colin W. Gillis**

Technology Analyst / Director  
cgillis@bgcpartners.com  
646.346.7052 cell: 917.921.8616  
BGC Financial L.P.

**Apple Inc.**

	2015A	2016E	2017E
EPS Reported (\$)			
Q1 (Dec)	3.06	3.28A	2.94
Q2 (Mar)	2.33	1.90A	1.87
Q3 (Jun)	1.85	1.42A	1.53
Q4 (Sep)	1.96	1.67E	1.77
FY (Fiscal Sep)	9.22	8.30E	8.12
Bloomberg EPS FY (\$)	9.22	8.21E	8.85

	2015A	2016E	2017E
Revenue Reported (\$M)			
Q1 (Dec)	74,599	75,872A	71,320
Q2 (Mar)	58,010	50,557A	50,051
Q3 (Jun)	49,605	42,358A	43,205
Q4 (Sep)	51,501	47,381E	48,802
FY (Fiscal Sep)	233,715	216,168	213,379
Bloomberg Revenue FY (\$)	233,715	215,039	223,055

Source: Company data, Bloomberg, BGC Financial estimates. Note: F14 and FY15 estimates may include adjustments. FY total may not add up due to rounding.

**Share Performance during Earnings**

Apple Inc. (AAPL)	Q3 / 14	Q4 / 14	Q1 / 15	Q2 / 15	Q3 / 15	Q4 / 15	Q1 / 16	Q2 / 16
Date of Earnings Release	22-Jul-14	20-Oct-14	27-Jan-15	27-Apr-15	21-Jul-15	27-Oct-15	26-Jan-16	26-Apr-16
Stock Price on Date of Earning Release	94.72	99.33	108.71	132.65	130.16	114.06	99.45	103.72
Stock Price a Day after Earning Release	97.19	102.03	114.86	130.56	124.66	118.76	92.92	97.23
%Change	2.6%	2.7%	5.7%	-1.6%	-4.2%	4.1%	-6.6%	-6.3%

Source: MSN and BGC Financial

**June Quarter Results:**

The Company reported June quarter revenue of \$42B (-15% YoY, -16% QoQ) in line with the consensus. Earnings of \$1.42 compared to \$1.85 in the prior year and \$1.90 in the prior quarter. Apple returned over \$14B to its shareholders in the quarter.

**iPhone:** The company sold 40M (-15% YoY) units in the quarter. **iPad:** The Company sold 10M (-9% YoY) **Macintosh:** Apple sold 4M (-11% YoY) Macs during the quarter.

**Geographical Breakdown:** The Company derived 18B (-11% YoY, 42% of total revenue) from Americas, 10B from Europe (-7% YoY, 23% of total revenue), 9B from Greater China (-33% YoY, 21% of revenue), 4B (+23% YoY, 8% of total revenue) from Japan and 2B from Asia Pacific (-20% YoY, 6% of total revenue)

**Company guidance** for the 2016 fourth quarter is \$45.5B-\$47.5B in revenue, gross margin of 37.5%-38.0%, tax rate to be 25.5%, and operating expense of \$6.05-\$6.15B.

**Recommendation**

We maintain our SELL rating and the price target at \$85 on shares of Apple Inc.

---

**Colin W. Gillis**

Technology Analyst / Director  
cgillis@bgcpartners.com  
646.346.7052 cell: 917.921.8616  
BGC Financial L.P.

---

## Estimates and Valuation

### **We adjust our FY2016 estimates to:**

\$8.30 eps and \$216B in net revenue

from

\$8.21 eps and \$212B in net revenue

Our estimates represent YoY revenue decline of 8%. This compares to consensus revenue of \$215B. Consensus EPS is \$8.21.

### **We adjust our FY2017 estimates to:**

\$8.12 eps and \$213B in net revenue

from

\$8.24 eps and \$209B in net revenue

Our estimates represent YoY revenue decline of 1%. This compares to consensus revenue of \$223B. Consensus EPS is \$8.85.

The company operates on a fiscal September year.

Based on our \$8.12 EPS estimate for FY2017 and using a 10x multiple, a discount to its peers, we determine a 12-month price target for AAPL of \$85. Given the decline in revenue, and concern on future upgrade cycles, Apple trades at a discount to the broader market.

**Colin W. Gillis**

Technology Analyst / Director  
cgillis@bgcpartners.com  
646.346.7052 cell: 917.921.8616  
BGC Financial L.P.

## Short Interest

Settlement Date	Short Interest	Average Daily Share Volume	Days to Cover
7/15/2016	44,254,000	28,163,322	1.57
6/30/2016	53,943,169	41,717,874	1.29
6/15/2016	62,924,036	29,282,511	2.15
5/31/2016	99,699,121	41,795,408	2.39
5/13/2016	55,733,236	44,166,305	1.26
4/29/2016	56,363,937	53,920,909	1.05
4/15/2016	52,542,435	30,393,447	1.73
3/31/2016	55,507,116	32,623,249	1.70
3/15/2016	52,659,928	35,220,977	1.50
2/29/2016	47,354,945	36,325,175	1.30
2/12/2016	56,750,479	44,825,738	1.27
1/29/2016	63,543,522	69,346,854	1.00
1/15/2016	65,997,629	64,645,385	1.02
12/31/2015	68,192,911	40,759,006	1.67
12/15/2015	74,238,930	43,220,113	1.72
11/30/2015	108,372,153	33,949,531	3.19
11/13/2015	70,928,727	41,229,072	1.72
10/30/2015	74,671,974	53,107,932	1.41
10/15/2015	90,192,312	48,229,722	1.87
9/30/2015	87,080,841	55,635,704	1.57
9/15/2015	92,636,145	59,710,739	1.55
8/31/2015	78,732,705	79,762,614	1.00
8/14/2015	64,997,120	73,058,250	1.00
7/31/2015	60,250,952	51,609,758	1.17
7/15/2015	62,126,463	44,071,591	1.41
6/30/2015	63,744,832	40,354,402	1.58
6/15/2015	60,498,031	39,545,843	1.53

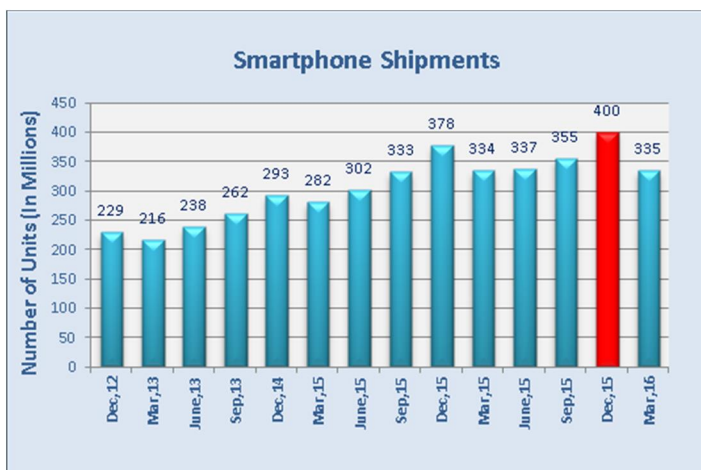
Source: www.nasdaqtrader.com

## Changing Dynamics of the Smartphone Market impacting iPhone sales

The smartphone market is maturing and the days of explosive double-digit growth are likely behind it, similar to the dynamic for PCs and the Tablets. We recognize that Apple CEO Tim Cook has stated smartphones have only penetrated 42% of the global handset market, but we see the remaining market share not particularly suited for Apple's product line up and pricing. IDC shows worldwide smartphone growth flat with shipment of 335 M units (+0.2% YoY) in Q1/16.

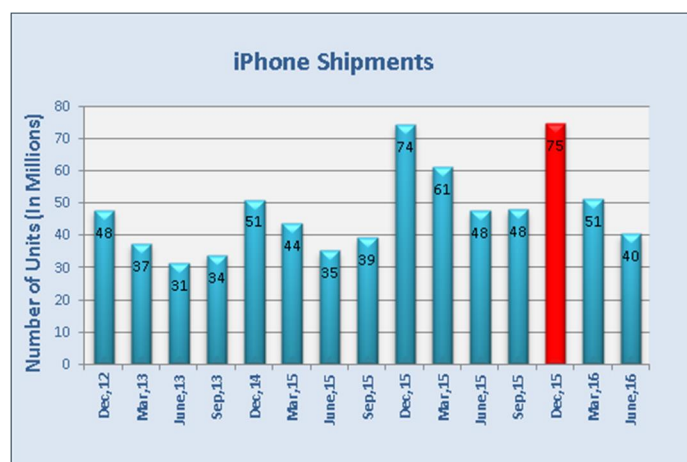
**Colin W. Gillis**

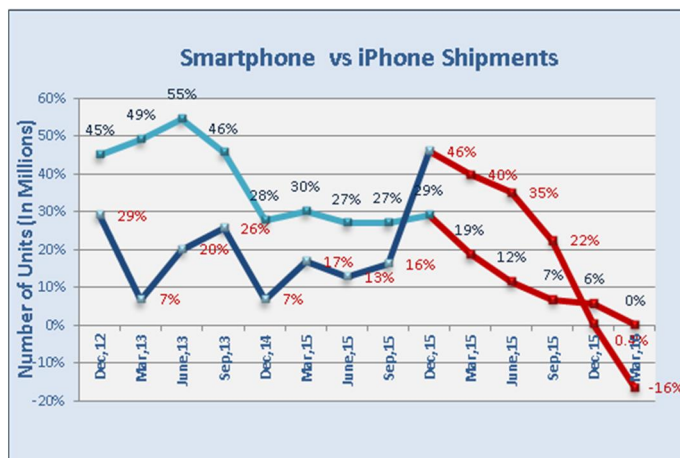
Technology Analyst / Director  
cgillis@bgcpartners.com  
646.346.7052 cell: 917.921.8616  
BGC Financial L.P.



After reaching peak shipments in December 2015, even the iPhone has started showing decreasing growth rates. The fact remains that both the broader smartphone market and Apple iPhone unit growth have been consistently slowing over the last four quarters.

We do not expect the next upgrade cycle for the iPhone to have the same impact as the iPhone 6 cycle that introduced larger screens due to the slowing market dynamics and our opinion that the value and desirability of Apple's premium priced products is eroding.



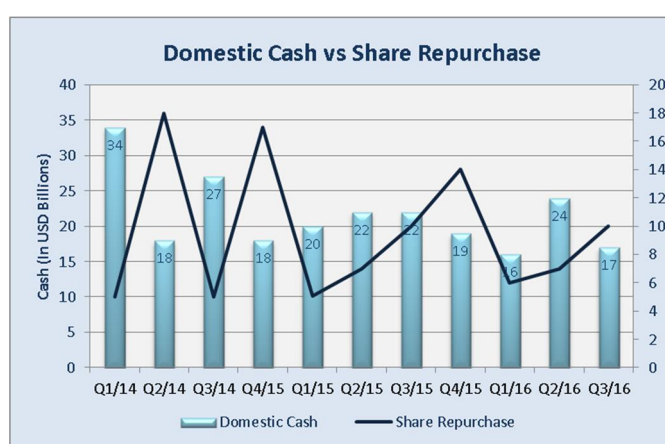
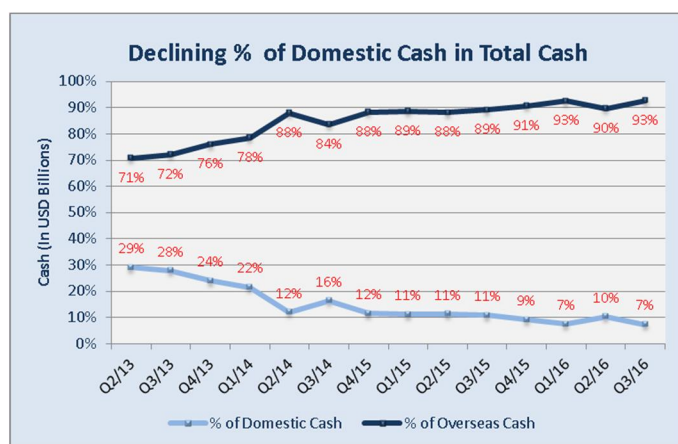


We make the point that Apple has no other product with the volume demand and margin structure that could replace the income statement impact if iPhone sales grow at single digit levels or even decline.

### Share Repurchases and Declining Domestic Cash

Apple has been draining its domestic cash via its extensive share repurchase program. The overseas cash now accounts for 90% of total cash.

We also note that AAPL purchased \$40B of stock in the period from January, 2015 till March, 2016 through share repurchase – which at current valuation is worth \$35B eroding the company's balance sheet of \$5B



Other areas where we feel that AAPL can foray into includes:

**Advertising** – Mobile advertising is expected to grow up to 80B over the next 3 years.

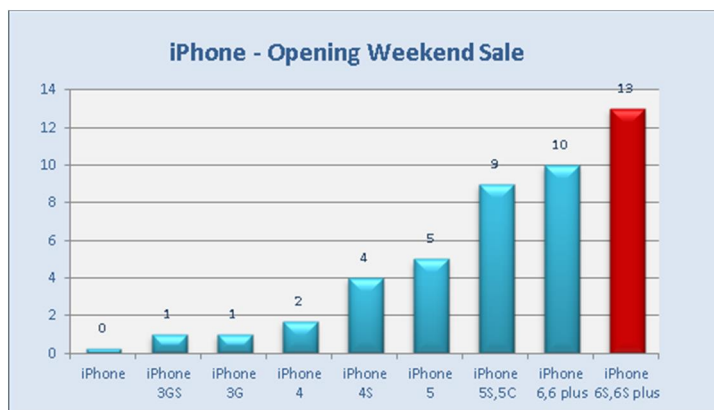
**Mobile Applications and Streaming Video** – Apple has no application in the top 10 smartphone applications per comScore, compared to Google which has five.

<b>Top 15 Smartphone Apps</b> <b>Total U.S. Smartphone Mobile Media Users, Age 18+</b> <b>(IOS and Android Platforms)</b> <b>Source: comScore Mobile Metrix</b>		
S.No	Applications	% Reach - June-16
1	Facebook	79.8%
2	Facebook Messenger	69.8%
3	YouTube	62.1%
4	Google Maps	54.8%
5	Google Play	52.5%
6	Google Search	51.8%
7	Gmail	44.8%
8	Instagram	41.7%
9	Pandora Radio	41.7%
10	Amazon Mobile	36.0%
11	Apple Music*	32.5%
12	Apple Maps	31.6%
13	Snapchat	30.0%
14	Google Drive	29.3%
15	Yahoo Stocks	28.9%

We understand the company is positioning for these markets, and it remains to be seen how long it takes Apple to build a service layer meaningful enough to offset potential future declines in smartphone revenue.

## iPhone History

- 2007: **iPhone** released.
- 2008: **iPhone 3G** released. **1M** units sold over first weekend.
- 2009: **iPhone 3GS** released. **1M** units sold over first weekend.
- 2010: **iPhone 4** released. **1.7M** units sold in first three days.
- 2011: **iPhone 4S** released. **4M** units sold in first three days.
- 2012: **iPhone 5** released. **5M** units sold in first three days.
- 2013: **iPhone 5S and iPhone 5C** released. **9M** units sold in the first 3 days.
- 2014: **iPhone 6 and iPhone 6 plus** released. **10M** units sold in the first 3 days
- 2015: **iPhone 6S and iPhone 6S plus** released. **13M** units sold in the first 3 days
- 2016: **iPhone 6E** released.

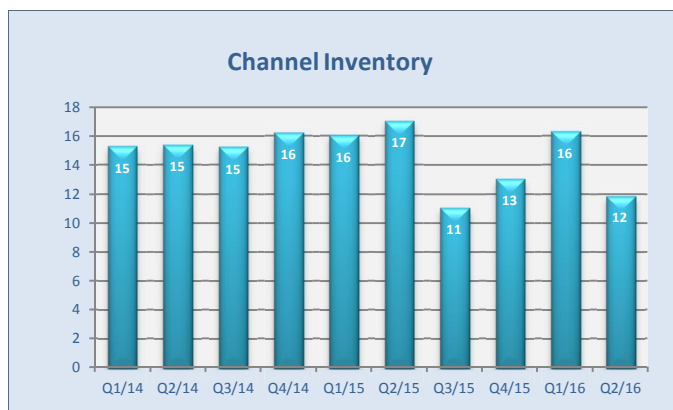


Source: Company Documents and BGC Financial.

iPhone Sales (Million Units)					
Fiscal Year	Q1 (Oct-Dec)	Q2 (Jan-Mar)	Q3 (Apr-Jun)	Q4 (Jul-Sep)	Total Sold
2007	-	-	0.3	1.1	1.4
2008	2.3	1.7	0.7	6.9	11.6
2009	4.4	3.8	5.2	7.4	20.7
2010	8.7	8.8	8.4	14.1	40.0
2011	16.2	18.6	20.3	17.1	72.3
2012	37.0	35.1	26.0	26.9	125.0
2013	47.8	37.4	31.2	33.8	150.3
2014	51.0	43.7	35.2	39.3	169.2
2015	74.5	61.2	47.5	48.0	231.2
2016	74.8	51.2	40.4		
Fiscal Year	Q1	Q2	Q3	Q4	821.8

Source: Company Documents and BGC Financial.

## iPhone Channel Inventory



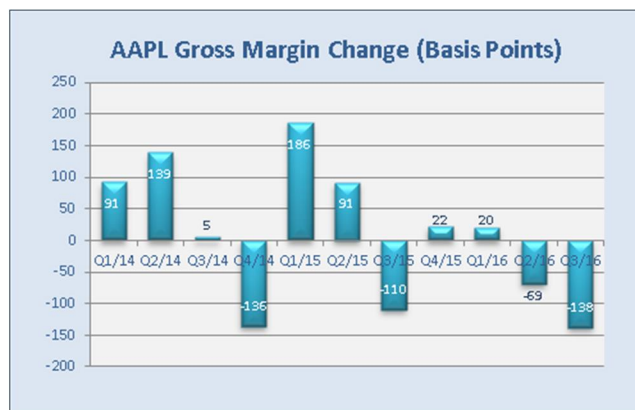
Source: Company Documents and BGC Financial.



## Gross Margin

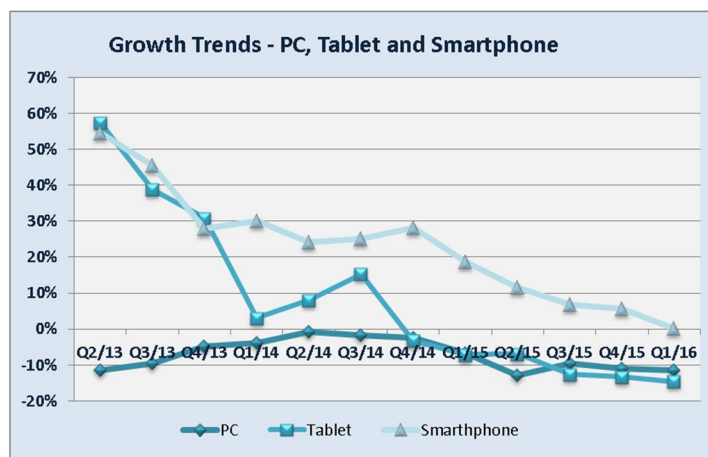


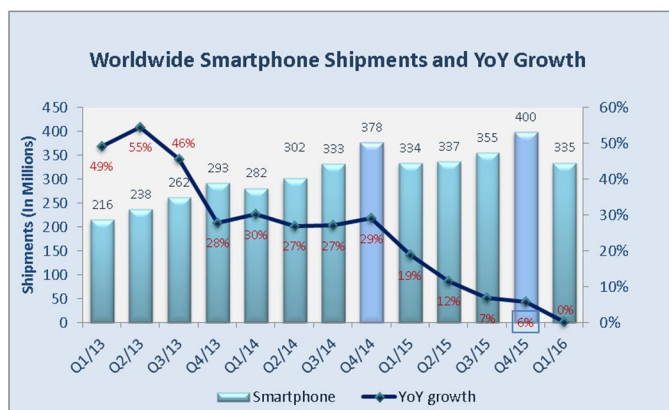
Source: Company Documents and BGC Financial.



## Combined Growth Trends – Declining PC, Tablets and Smartphone Market

The March quarter saw a negative YoY growth in both PC (-12%) and Tablet (-15%) shipments. Smartphone growth rate also declined to 0.2% YoY growth.





Source: IDC and BGC Financials

## Balance Sheet and Cash flow

AAPL has \$232B in cash (\$42.30/ share) and \$69B long-term debt as of June 25, 2016. The company generated \$11B in cash from operations. Cash decreased by \$1.4B in the quarter from \$233B on March 26, 2015 to \$232B on June 25, 2016.

## Key Metrics Review

AAPL made the following key reporting changes from its first quarter of fiscal 2015:

- Geographical Segment Reporting: Retail is no longer be reported as a separate segment in this category
- Creation of Other as a product category: Revenue from iPod and Accessories would henceforth be clubbed under the "Others" section

Revenue	Q1/16	Q2/16	Q3/16	Q4/16 E	Q1/17E	Q2/17E	Q3/17E	Q4/17E
<b>Revenue</b>	<b>75,872</b>	<b>50,557</b>	<b>42,358</b>	<b>47,381</b>	<b>71,320</b>	<b>50,051</b>	<b>43,205</b>	<b>48,802</b>
Y/Y Growth Rate	2%	-13%	-15%	-8%	-6%	-1%	2%	3%
Q/Q Growth Rate	47%	-33%	-16%	12%	51%	-30%	-14%	13%
<b>Americas</b>	<b>29,325</b>	<b>19,096</b>	<b>17,963</b>	<b>19,426</b>	<b>28,528</b>	<b>20,021</b>	<b>17,714</b>	<b>20,985</b>
As %of Revenues	39%	38%	42%	41%	40%	40%	41%	43%
Y/Y Growth Rate	-4%	-10%	-11%	-11%	-3%	5%	-1%	8%
Q/Q Growth Rate	35%	-35%	-6%	8%	47%	-30%	-12%	18%
<b>Europe</b>	<b>17,932</b>	<b>11,535</b>	<b>9,643</b>	<b>9,950</b>	<b>14,977</b>	<b>10,511</b>	<b>9,073</b>	<b>10,248</b>
As %of Revenues	24%	23%	23%	21%	21%	21%	21%	21%
Y/Y Growth Rate	4%	-5%	-7%	-6%	-16%	-9%	-6%	3%
Q/Q Growth Rate	70%	-36%	-16%	3%	51%	-30%	-14%	13%
<b>Greater China</b>	<b>18,373</b>	<b>12,486</b>	<b>8,848</b>	<b>10,424</b>	<b>15,690</b>	<b>11,011</b>	<b>9,505</b>	<b>10,737</b>
As %of Revenues	24%	25%	21%	22%	22%	22%	22%	22%
Y/Y Growth Rate	14%	-26%	-33%	-17%	-15%	-12%	7%	3%
Q/Q Growth Rate	47%	-32%	-29%	18%	51%	-30%	-14%	13%
<b>Japan</b>	<b>4,794</b>	<b>4,281</b>	<b>3,529</b>	<b>3,790</b>	<b>4,992</b>	<b>3,504</b>	<b>3,024</b>	<b>2,928</b>
As %of Revenues	6%	8%	8%	8%	7%	7%	7%	6%
Y/Y Growth Rate	-12%	24%	23%	-4%	4%	-18%	-14%	-23%
Q/Q Growth Rate	22%	-11%	-18%	7%	32%	-30%	-14%	-3%
<b>Asia Pacific</b>	<b>5,448</b>	<b>3,159</b>	<b>2,375</b>	<b>3,790</b>	<b>7,132</b>	<b>5,005</b>	<b>3,888</b>	<b>3,904</b>
As %of Revenues	7%	6%	6%	8%	10%	10%	9%	8%
Y/Y Growth Rate	4%	-25%	-20%	40%	31%	58%	64%	3%
Q/Q Growth Rate	101%	-42%	-25%	60%	88%	-30%	-22%	0%

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

Products Summary (Revenue in \$ M)	Q1/16	Q2/16	Q3/16	Q4/16 E	Q1/17E	Q2/17E	Q3/17E	Q4/17E
<b>iPhone</b>	51,635	32,857	24,048	28,125	48,240	31,005	23,560	27,671
<b>iPad</b>	7,084	4,413	4,876	4,590	6,235	42,957	4,257	4,300
<b>Mac</b>	6,746	5,107	5,239	6,375	6,375	5,625	5,500	7,125
<b>Services</b>	6,056	5,991	5,976	5,922	6,190	-32,038	7,425	6,779
<b>iPod</b>	4,351	2,189	2,219	2,369	4,279	2,503	2,463	2,928
<b>Consolidated</b>	<b>75,872</b>	<b>50,557</b>	<b>42,358</b>	<b>47,381</b>	<b>71,320</b>	<b>50,051</b>	<b>43,205</b>	<b>48,802</b>

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

Products Summary (Units)	Q1/16	Q2/16	Q3/16	Q4/16 E	Q1/17E	Q2/17E	Q3/17E	Q4/17E
<b>iPhone</b>	74,779	51,193	40,399	45,000	72,000	47,700	38,000	42,900
<b>iPad</b>	16,122	10,251	9,950	10,200	14,500	99,900	9,900	10,000
<b>Mac</b>	5,312	4,034	4,252	5,100	5,100	4,500	4,400	5,700

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

**Colin W. Gillis**

Technology Analyst / Director  
cgillis@bgcpartners.com  
646.346.7052 cell: 917.921.8616  
BGC Financial L.P.

## Risks

**Economic conditions:** Uncertain global economic conditions may postpone consumer spending due to unemployment, tighter credit, negative financial news and decline in income/asset values. This could adversely affect the performance and operations of the company.

**Competition:** There is immense competition and rapid technological changes take place in the global market for mobile communication devices, personal computers, digital music and video devices and related services. AAPL's operating results could be affected badly in case it is not able to compete in such adverse market conditions.

**Inventory and Other Asset Risk:** Product obsolescence is rapid in global personal computers and mobile market can lead to additional incurrence of inventory and asset related charges which could have a material impact on the company's finances.

**Key Components:** AAPL procures its key components including microprocessors, NAND flash memory, DRAM and LCDs from single or limited sources. This exposes the company to significant pricing and supply risks.

**Dependence on Third Parties Outside the US:** AAPL relies on third-party manufacturers for not just most of its products but also for its transportation and logistics management. This reduces the company's direct control over production and distribution and also leads to uncertainty.

**For additional risks, see the AAPL 10-K filing with the SEC.**

## Disclosures Appendix

### Analyst Certification

The analyst primarily responsible for this research report, and whose name appears on the front cover, certifies that: (i) all of the views expressed in this research report accurately reflects his or her personal views about any and all of the subject securities or issuers featured in this report; and (ii) no part of any of the research analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

### Legal Disclosures

Investment banking (next 3 months): BGC Financial LP and/or its affiliates, expect to receive, or intend to seek, compensation for investment banking services within the next three months from all of the companies referenced within this report.

Lead or Co-manager: BGC Financial LP and/or its affiliates, has not acted as lead or co-manager in a public offering of equity and/or debt securities for Apple within the last 12 months. BGC Financial LP and/or its affiliates has not received compensation for investment banking services in the last 12 months from Apple.

### BGC Financial LP's rating system

**BUY:** We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.

**HOLD:** We have a neutral outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation.

**SELL:** We have a negative outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors reduce their position.

**NC:** Not Covered. BGC Financial LP does not provide an investment opinion or does not provide research coverage on this stock.

### Other Disclosures

**Colin W. Gillis**

Technology Analyst / Director  
cgillis@bgcpartners.com  
646.346.7052 cell: 917.921.8616  
BGC Financial L.P.

This report is for informational purposes only and is based on publicly available data believed to be reliable, but no representation is made that such data are accurate or complete. Opinions and projections contained herein reflect our opinion as of the date of this report and are subject to change. Pursuant to BGC Financial LP's policy, the author of this report does not own shares in any company he/she covers.

**Additional material for UK investors**

This material is approved for distribution in the United Kingdom by Cantor Fitzgerald Europe ("CFE"). CFE is authorised and regulated by the Financial Conduct Authority ("FCA"). While we believe this information and the materials upon which this information was based is accurate, except for any obligations under the rules of the FCA, we do not guarantee its accuracy. This material is only intended for use by eligible counterparties or professional clients who fall within articles 19 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and not the general investing public. None of the investments or investment services mentioned or described herein are available to other persons in the U.K and in particular are not available to "retail clients" as defined by the rules of the FCA.

**Disclosure for Canadian Institutional Investors**

This research report was prepared by analysts of BGC Financial LP and not by BGC Canada Securities Corporation. As a result this report has not been prepared subject to Canadian Disclosure requirements. BGC Canada Securities Corporation itself does not issue research reports but may distribute research reports prepared by its affiliates.

**Risks**

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based on their specific investment objectives. Past performance should not be taken as an indication or guarantee of future performance. The price, value of and income from, any of the financial instruments featured in this report can rise as well as fall and be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or income derived from, the financial instrument, and such investors effectively assume currency risk. In addition, investors in securities such as ADRs, whose value is affected by the currency of the home market of the underlying security, effectively assume currency risk.

**Disclosures Appendix**
**Distribution of Ratings/Investment Banking Services (IB) as of 07/27/2016  
BGC**

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	4	50.0%	0	0
HOLD [H]	3	37.5%	0	0
SELL [S]	1	12.5%	0	0

## Price Target and Ratings Changes

Apple Inc. (AAPL)

3 Year



Source: BGC Financial and Bloomberg

\*Price have been adjusted for 7:1 stock split

<b>Apple Inc. (AAPL)</b>		<b>Q416 Guidance: Revenue between \$45.5 billion and \$47.5 billion</b>								Cash/eqv. \$2,31,520			
Income Statement		Gross margin between 37.5 percent and 38.0 percent								Cash / share \$42.30			
(Data in \$US millions, except per share)		Operating expenses between \$6.05 billion and \$6.15 billion								LT Debt \$68,939			
		Other income/(expense) of \$350 million, Tax rate of 25.5 percent								As of: June 25, 2016			
		2015 by Quarter				2016 by Quarter				2017 by Quarter			
		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16E	Q1/17E	Q2/17E	Q3/17E	Q4/17E
		Dec, 2014	Mar, 2015	Jun, 2015	Sep, 2015	Dec, 2015	Mar, 2016	Jun, 2016	Sep, 2016	Dec, 2016	Mar, 2017	Jun, 2017	Sep, 2017
		2014	2015	2016E	2017E	2014	2015	2016E	2017E	2014	2015	2016E	2017E
Revenues		74,599	58,010	49,605	51,501	75,872	50,557	42,358	47,381	71,320	50,051	43,205	48,802
Cost of Sales		44,858	34,354	29,924	30,953	45,449	30,636	26,252	29,376	44,076	30,832	26,485	29,916
Gross Profit		29,741	23,656	19,681	20,548	30,423	19,921	16,106	18,005	27,244	19,220	16,720	18,887
Operating expenses													
Research and development		1,895	1,918	2,034	2,220	2,404	2,511	2,560	2,559	2,568	2,553	2,506	2,635
Selling, general and administrative		3,600	3,460	3,564	3,705	3,848	3,423	3,441	3,554	3,566	3,454	3,543	3,904
Total operating expenses		5,495	5,378	5,598	5,925	6,252	5,934	6,001	6,112	6,133	6,006	6,049	6,540
Income from operations		24,246	18,278	14,083	14,623	24,171	13,987	10,105	11,893	21,111	13,214	10,672	12,347
Other income (expenses)		170	286	390	439	402	155	364	350	300	300	300	300
Income before income taxes		24,416	18,564	14,473	15,062	24,573	14,142	10,469	12,243	21,411	13,514	10,972	12,647
Provision for income taxes		6,392	4,995	3,796	3,938	6,212	3,626	2,673	3,122	5,460	3,446	2,798	3,225
Net income		18,024	13,569	10,677	11,124	18,361	10,516	7,796	9,121	15,951	10,068	8,174	9,422
EPS- diluted		\$3.06	\$2.33	\$1.85	\$1.96	\$3.28	\$1.90	\$1.42	\$1.67	\$2.94	\$1.87	\$1.53	\$1.77
Shares used in per share calculation- diluted		5,882	5,835	5,773	5,683	5,594	5,541	5,473	5,468	5,423	5,389	5,339	5,334
Margins on Revenue													
Gross Margin		40%	41%	40%	40%	40%	39%	38%	38.0%	38.2%	38.4%	38.7%	38.7%
Cost of Revenue		60%	59%	60%	60%	60%	61%	62%	62.0%	61.8%	61.6%	61.3%	61.3%
Research and development		3%	3%	4%	4%	3%	5%	6%	5.4%	3.6%	5.1%	5.8%	5.4%
Selling, general and administrative		5%	6%	7%	7%	5%	7%	8%	7.5%	5.0%	6.9%	8.2%	8.0%
EBITDAS		37%	37%	36%	36%	37%	35%	32%	32.7%	34.6%	33.6%	33.0%	32.7%
Operating Margin		33%	32%	28%	28%	32%	28%	24%	25.1%	29.6%	26.4%	24.7%	25.3%
Pretax Income		33%	32%	29%	29%	32%	28%	25%	25.8%	30.0%	27.0%	25.4%	25.9%
Tax Rate		26%	27%	26%	26%	25%	26%	26%	25.5%	25.5%	25.5%	25.5%	25.5%
Net Income		24%	23%	22%	22%	24%	21%	18%	19.2%	22.4%	20.1%	18.9%	19.3%
% Changes Q/Q													
Total Revenues		77%	-22%	-14%	4%	47%	-33%	-16%	11.9%	50.5%	-29.8%	-13.7%	13.0%
% Changes Year/Year													
Total Revenues		30%	27%	33%	22%	2%	-13%	-15%	-8.0%	-6.0%	-1.0%	2.0%	3.0%
EBITDAS		37%	34%	39%	34%	2%	-19%	-24%	-17.0%	-12.4%	-4.0%	4.3%	2.9%
Operating Income		39%	34%	37%	31%	0%	-23%	-28%	-18.7%	-12.7%	-5.5%	5.6%	3.8%
Pretax Income		38%	34%	38%	31%	1%	-24%	-28%	-18.7%	-12.9%	-4.4%	4.8%	3.3%
Net Income		38%	33%	38%	31%	2%	-22%	-27%	-18.0%	-13.1%	-4.3%	4.8%	3.3%
EBITDAS		27,709	21,684	18,023	18,657	28,203	17,512	13,685	15,493	24,711	16,814	14,272	15,947

July 27, 2016

Source: Company reports and BGC Financial

Source: Company Documents and BGC Financial

Balance Sheet	2014 by Quarter				2015 by Quarter				2016 by quarter			Fiscal Year			
(Data in Millions)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	2012	2013	2014	2015
	Dec 28 2013	Mar 29 2014	June 28 2014	Sep 27, 2014	Dec 27 2014	Mar 28 2015	June 27 2015	Sep 26 2015	Dec 26 2015	Mar 26 2016	June 25 2016				
<b>Assets</b>															
Current assets:															
Cash and cash equivalents	14,077	18,949	12,977	13,844	19,478	14,489	15,319	21,120	16,689	21,514	18,237	10,746	14,259	13,844	21,120
Short-term investments	26,634	22,401	24,828	11,233	12,985	18,607	19,384	20,481	21,385	33,769	43,519	18,383	26,287	11,233	20,481
Accounts receivable	14,200	9,700	10,788	17,460	16,709	10,905	10,370	16,849	12,953	12,229	11,714	10,930	13,102	17,460	16,849
Inventories	2,122	1,829	1,594	2,111	2,283	2,396	2,042	2,349	2,451	2,281	1,831	791	1,764	2,111	2,349
Deferred tax assets	3,742	4,014	3,884	4,318	5,046	5,141	5,010	5,546				2,583	3,453	4,318	5,546
Vendor non-trade receivables	10,998	6,120	6,053	9,759	13,267	7,259	9,537	13,494	11,668	7,595	7,328	7,762	7,539	9,759	13,494
Other current assets	8,574	7,528	7,825	9,806	13,635	9,094	9,291	9,539	11,073	10,204	11,132	6,458	6,882	9,806	9,539
<b>Total current assets</b>	<b>80,347</b>	<b>70,541</b>	<b>67,949</b>	<b>68,531</b>	<b>83,403</b>	<b>67,891</b>	<b>70,953</b>	<b>89,378</b>	<b>76,219</b>	<b>87,592</b>	<b>93,761</b>	<b>57,653</b>	<b>73,286</b>	<b>68,531</b>	<b>89,378</b>
Long term marketable securities	1,18,131	1,09,239	1,26,685	1,30,162	1,45,492	1,60,443	1,68,145	1,64,065	1,77,665	1,77,645	1,69,764	92,122	1,06,215	1,30,162	164,065
Property plant and equipment	15,488	15,120	17,585	20,624	20,392	20,151	21,149	22,471	22,300	23,203	25,448	15,452	16,597	20,624	22,471
Goodwill	2,022	2,055	2,374	4,616	4,629	4,711	5,044	5,116	5,202	5,249	5,261	1,135	1,577	4,616	5,116
Acquired intangible assets, net	4,105	3,928	3,767	4,142	4,370	4,061	3,779	3,893	3,924	3,843	3,506	4,224	4,179	4,142	3,893
Other assets	5,091	5,106	4,160	3,764	3,608	3,937	4,081	5,556	7,974	7,745	7,862	5,478	5,146	3,764	5,556
<b>Total assets</b>	<b>2,25,184</b>	<b>2,05,989</b>	<b>2,22,520</b>	<b>2,31,839</b>	<b>2,61,894</b>	<b>2,61,194</b>	<b>2,73,151</b>	<b>2,90,479</b>	<b>2,93,284</b>	<b>3,05,277</b>	<b>3,05,602</b>	<b>1,76,064</b>	<b>2,07,000</b>	<b>2,31,839</b>	<b>2,90,479</b>
<b>Liabilities and Stockholder's Equity</b>															
Current liabilities:															
Accounts payable	29,588	18,914	20,535	30,196	38,001	23,159	26,474	35,490	33,312	25,098	26,318	21,175	22,367	30,196	35,490
Accrued expenses	15,824	15,984	15,264	18,453	22,724	22,827	22,724	25,181	24,032	23,208	20,820	11,414	13,856	18,453	25,181
Deferred revenue	8,357	8,310	8,396	8,491	8,987	8,944	9,088	8,940	8,989	9,461	8,352	5,953	7,435	8,491	8,940
Current portion of long term debt	0	0	0	0	0	0	2,500	2,500	2,500	2,500	3,500	0	0	0	2,500
Commercial paper	0	0	2,010	6,308	3,899	3,799	4,499	8,499	7,259	7,998	12,496	0	0	6,308	8,499
<b>Total current liabilities</b>	<b>53,769</b>	<b>43,208</b>	<b>46,205</b>	<b>63,448</b>	<b>73,611</b>	<b>58,729</b>	<b>65,285</b>	<b>80,610</b>	<b>76,092</b>	<b>68,265</b>	<b>71,486</b>	<b>38,542</b>	<b>43,658</b>	<b>63,448</b>	<b>80,610</b>
Deferred revenue - non current	3,071	3,164	3,058	3,031	3,480	3,571	3,474	3,624	3,546	3,322	3,064	2,648	2,625	3,031	3,624
Non-current liabilities	16,961	16,962	23,287	24,826	28,971	40,072	31,296	33,427	32,175	33,859	35,572	16,664	20,208	24,826	33,427
Long term debt	21,699	22,476	29,030	28,987	32,504	29,816	47,419	53,463	53,204	69,374	68,939	0	16,960	28,987	53,463
<b>Total liabilities</b>	<b>95,500</b>	<b>85,810</b>	<b>1,01,580</b>	<b>1,20,292</b>	<b>1,38,566</b>	<b>1,32,188</b>	<b>1,47,474</b>	<b>1,71,124</b>	<b>1,65,017</b>	<b>1,74,820</b>	<b>1,79,061</b>	<b>57,854</b>	<b>83,451</b>	<b>1,20,292</b>	<b>1,71,124</b>
Stockholders' equity:															
Common stock	20,559	21,496	22,139	23,313	24,187	25,376	26,327	27,416	28,253	29,484	30,106	16,422	19,764	23,313	27,416
Accumulated other comprehensive income	1,09,431	98,934	98,715	87,152	97,178	1,00,920	98,252	92,284	1,01,494	1,02,021	96,542	1,01,289	1,04,256	87,152	92,284
	(306)	(251)	86	1,082	1,963	2,710	1,098	(345)	(1,480)	(1,048)	(1,07)	499	-471	1,082	-345
<b>Total shareholders' equity</b>	<b>1,29,684</b>	<b>1,20,179</b>	<b>1,20,940</b>	<b>1,11,547</b>	<b>1,23,328</b>	<b>1,29,006</b>	<b>1,25,677</b>	<b>1,19,355</b>	<b>1,28,267</b>	<b>1,30,457</b>	<b>1,26,541</b>	<b>1,18,210</b>	<b>1,23,549</b>	<b>1,11,547</b>	<b>1,19,355</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,25,184</b>	<b>2,05,989</b>	<b>2,22,520</b>	<b>2,31,839</b>	<b>2,61,894</b>	<b>2,61,194</b>	<b>2,73,151</b>	<b>2,90,479</b>	<b>2,93,284</b>	<b>3,05,277</b>	<b>3,05,602</b>	<b>1,76,064</b>	<b>2,07,000</b>	<b>2,31,839</b>	<b>2,90,479</b>

Source: Company Documents and BGC Financial