

## Rod Hall's Daily Download

Reports of iPhone 6S build plans, Apple Watch sales weak, and more...

- Apple Reportedly Asks Suppliers to Make Up to 90m New iPhones by Year-End:** Apple is reportedly preparing for a larger initial production run of its next iPhones. Apple is asking suppliers to manufacture between 85m and 90m units combined of two new iPhone models with 4.7-inch and 5.5-inch displays by Dec. 31. The screen sizes are the same as in the iPhone 6 and iPhone 6 Plus. By comparison, Apple last year ordered a then-record initial production run of 70m to 80m for its first larger-screen iPhones. (WSJ) ***Our View:** We are currently forecasting 78.9m iPhone units for Apple's December quarter. This represents 6% Y/Y growth vs. more pessimistic forecasts that iPhone units will actually decline in the December quarter this year. Initial build indications like this tend to impound optimistic estimates to make sure the vendor (Apple in this case) has plenty of component supply to hit sales targets. In any event, these early indications suggest that Apple believes iPhone units will grow even in the challenging December quarter this year.*
- Apple Watch Sales Reportedly Plunge:** Sales of the new Apple Watch have plunged by 90% since the opening week, according to data from Slice Intelligence. Apple reportedly has been selling fewer than 20,000 watches a day in the US since the initial surge in April, and on some days fewer than 10,000. That is a sharp decline from the week of the April 10 launch, when Apple sold about 1.5m watches, or an average of about 200,000 a day, Slice estimates. Furthermore, two-thirds of the watches sold so far have been the lower-profit "Sport" version, whose price starts at \$349, according to Slice, rather than the costlier and more advanced models that start at \$549. Apple also unveiled a gold "Edition" model priced at \$10,000 or more. So far, fewer than 2,000 of them have been sold in the US. (MarketWatch) ***Our View:** For Apple to hit our 26.3m unit estimate through December we believe that reviews will need to get materially more positive on the Watch after WatchOS 2.0 rolls out. We believe this is possible given the substantially better functionality in OS 2.0 but only time and reviews will tell in the early fall. For what it's worth, we believe the fundamental Watch hardware platform is excellent and that an OS update could materially improve consumer interest.*

## Telecom &amp; Networking Equipment

**Rod Hall, CFA** <sup>AC</sup>

(1-415) 315-6713

rod.b.hall@jpmorgan.com

**Bloomberg** JPMA HALL <GO>

**Ashwin Kesireddy**

(1-415) 315-6756

ashwin.x.kesireddy@jpmorgan.com

J.P. Morgan Securities LLC

## Upcoming events

**14 July**

- **ADTN:** Earnings

**17 July**

- **ERIC:** Earnings

**21 July**

- **AAPL:** Earnings

**22 July**

- **FFIV, INFN, EMC:** Earnings

**23 July**

- **JNPR:** Earnings

**28 July**

- **GLW:** Earnings

Table 1: One-Day Index Performance

	Index	1 day
DJ Stoxx 600	376	0.9%
S&P 500	2047	(1.7%)
Nasdaq Comp	4910	(1.8%)
DJ Tech	334	1.1%
DJ Telco	358	0.4%

Source: Bloomberg. Priced at close on Jul 08, 2015.

Table 2: Coverage Universe: Multiples and Performance

Company	Rec	Current Price	EV/Sales CY15E	P/E CY15E	Absolute Perf.		Company	Rec	Current Price	EV/Sales CY15E	P/E CY15E	Absolute Perf.	
					QTD	YTD						QTD	YTD
AAPL	OW	\$122.57	2.3x	12.8x	(2%)	11%	GLW	OW	\$19.14	2.4x	12.1x	(3%)	(17%)
ADTN	N	\$16.34	0.8x	24.5x	1%	(25%)	HPQ	OW	\$30.45	0.6x	8.5x	1%	(24%)
ATEN	OW	\$5.77	1.3x	NM	(10%)	32%	INFN	OW	\$20.07	2.8x	29.3x	(4%)	36%
BBRY	N	\$7.69	0.9x	NM	(6%)	(30%)	JDSU	N	\$11.23	1.1x	22.7x	(3%)	(18%)
BRCD	OW	\$11.96	2.0x	12.8x	1%	1%	JNPR	OW	\$25.61	2.1x	14.7x	(1%)	15%
CIEN	OW	\$23.22	1.3x	14.5x	(2%)	20%	MSI	N	\$56.79	2.0x	17.0x	(1%)	(15%)
CSCO	UW	\$26.99	2.1x	12.2x	(2%)	(3%)	NTAP	UW	\$30.60	0.9x	13.7x	(3%)	(26%)
CYNI	N	\$5.15	1.3x	NM	(2%)	106%	QCOM	NR	\$61.91	NA	NA	(1%)	(17%)
EMC	N	\$25.89	1.6x	13.6x	(2%)	(13%)	STX	N	\$46.40	1.2x	10.5x	(2%)	(30%)
ERIC	OW	SEK 85.85	0.9x	18.2x	1%	(8%)	WDC	N	\$78.31	1.1x	10.7x	(0%)	(29%)
FFIV	N	\$117.84	3.8x	17.9x	(2%)	(10%)							

Source: J.P. Morgan estimates, Bloomberg, Priced as of Jul 08, 2015

**See page 5 for analyst certification and important disclosures.**

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## Overnight News

**Ericsson Enables Tennis Fans to Follow Collector Swedish Open on Mobile Devices:** Ericsson is using its Networked Event platform to enable tennis fans around the world to follow the Collector Swedish Open - which takes place in Sweden, from July 13 to 19 - on their mobile devices. Apps for iOS and Android will enable fans to not only watch the TV broadcast but also switch freely between all courtside cameras at the event. The Ericsson Networked Event platform gathers data linked to the tournament, stats, records, photos, films, live reporting, and match results to facilitate the creation of apps with an immersive digital experience. (Ericsson)

**ALU and Telefónica Explore Implementation of NFV to Accelerate the Transformation of Networks:** ALU and Telefónica have signed a MoU under which the companies will test NFV technologies as part of the operator's strategy to evolve its networking infrastructure. The work will focus on enhancing network performance and efficiencies to support ever-growing demand for flexible connectivity. Telefónica has already tested ALU's Virtualized Service Router in its NFV Reference Lab using the OpenMANO NFV orchestration stack. The results delivered were outstanding, reaching 100% line-rate performance which allowed data to be transported with zero losses. The companies will continue testing other elements of ALU's NFV portfolio in the coming months. (Alcatel-Lucent)

**HP Tackles Big Data Management and Governance Challenges with New File Analysis Software Solutions:** HP announced the availability of two software solutions that help businesses leverage advanced analytics and policy management technology to address the rising information management, governance, and data storage challenges resulting from the growth of big data. HP ControlPoint and HP Storage Optimizer help organizations lower data storage costs, drive stronger compliance and information governance initiatives, and accelerate their path to hybrid cloud environments. (HP)

**Apple Issues Third Betas of iOS 9, Watch OS 2 & OS X 10.11 El Capitan to Developers:** Testing of Apple's next-generation software platforms continues to move along, as developers were provided with the third beta releases of iOS 9, WatchOS 2 and OS X 10.11 El Capitan, ahead of their anticipated release this fall. (AppleInsider)

**Apple to Hike International App Store Prices, Add New Low-Cost Tiers in Certain Countries:** In an email sent to developers on Tuesday, Apple announced

upcoming App Store pricing adjustments slated to affect Mexico, South Africa, South Korea and Turkey, including new low-price tiers in select emerging markets. (AppleInsider)

**Microsoft Announces Restructuring of Phone Hardware Business:** Microsoft announced plans to restructure its phone hardware business to better focus and align resources. Microsoft also announced the reduction of up to 7,800 positions, primarily in the phone business. As a result, the company will record an impairment charge of ~\$7.6bn related to assets associated with the acquisition of the NDS business in addition to a restructuring charge of ~\$750m to \$850m. (Microsoft)

**Apple Persuades US Judge to Void \$533m iTunes Award:** A federal judge has thrown out a \$532.9m award against Apple and ordered a new trial on damages, in a case where a jury found that Apple's iTunes software infringed three patents owned by a Texas company. In a decision on Tuesday, US District Judge said jurors who on Feb. 24 awarded the damages to Smartflash because of Apple's willful infringement might have been confused by his instructions on how to properly calculate royalties. Apple had argued that the damages were too high because jurors might have improperly considered the entire market value of the products, rather than distinguishing between patented and unpatented features. New trial on the issue of damages is on Sep 14. (Reuters)

**Win 10 Unlikely to Hike PC Demand, Say Taiwan ODMs:** Taiwan-based ODMs reportedly hold the opinion that Win 10 will not be able to boost large-scale PC replacements and upgrades because a large proportion of consumers mainly use PCs for Web surfing and document processing, and therefore do not need the advanced functions provided by Win 10. Seeing orders from the 2H remain weak, many ODMs have become pessimistic about the benefits brought by Windows 10, despite the fact that Microsoft still remains optimistic about Win 10's potential of creating a new PC replacement trend. The ODMs pointed out that most consumers have shifted their budgets to purchase a new smartphone, and Win 10's first-year free upgrade will make the matter worse. (Digitimes)

**Apple Music Helps iOS 8.4 Exceed 40% Adoption in First Week:** Apple now notes that as of June 22, 84% of its mobile users are now using iOS 8. Analytics firm Mixpanel further details that 40% of the installed base has already upgraded to iOS 8.4, and that rapid adoption is being driven by interest in the new Apple Music. (AppleInsider)

Table 3: Peer Group Valuation Multiples

	JPM Rating	Target price	Price 7/8/2015	Market Cap (Local mn)	Net Debt (Cash) (Local mn)	Sales (Local MM)		EV/Sales		EV/EBITDA		EPS (Local)		P/E		P/E (Adjusted)	
						CY 15E	CY 16E	CY 15E	CY 16E	CY 15E	CY 16E	CY 15E	CY 16E	CY 15E	CY 16E	CY15E	CY16E
<b>Large Cap</b>																	
Apple	OW	\$145.00	\$122.57	706,129	(149,668)	237,717	256,012	2.3x	2.2x	6.7x	6.4x	9.59	10.66	12.8x	11.5x	10.2x	9.2x
Amphenol	NC	NA	\$54.20	16,744	1,408	5,596	5,939	3.2x	3.1x	14.1x	13.0x	2.45	2.72	22.1x	19.9x	22.1x	19.9x
Cisco Systems	UW	\$17.00	\$26.99	137,268	(33,415)	49,648	50,059	2.1x	2.1x	6.6x	6.6x	2.21	2.23	12.2x	12.1x	9.4x	9.3x
Corning	OW	\$27.00	\$19.14	24,089	504	10,303	10,471	2.4x	2.3x	6.5x	6.4x	1.58	1.68	12.1x	11.4x	12.1x	11.4x
EMC	N	\$26.00	\$25.89	50,280	(9,160)	25,683	26,634	1.6x	1.5x	5.6x	5.3x	1.91	2.10	13.6x	12.3x	11.1x	10.1x
Ericsson	OW	SEK 105.00	SEK 85.85	261,267	(39,744)	240,327	246,682	0.9x	0.9x	6.5x	5.6x	4.72	5.71	18.2x	15.0x	15.4x	12.7x
F5 Networks	N	\$105.00	\$117.84	8,477	(1,167)	1,948	2,117	3.8x	3.5x	9.4x	8.6x	6.60	7.44	17.9x	15.8x	15.7x	13.9x
HP	OW	\$38.00	\$30.45	55,005	6,290	102,822	NA	0.6x	NA	4.8x	NA	3.58	NA	8.5x	NA	8.5x	NA
HTC	UW	NT\$100.00	NT\$68.50	56,717	(51,715)	178,845	190,576	0.0x	0.0x	NM	NM	1.05	1.21	NM	56.7x	8.5x	7.0x
Juniper Networks	OW	\$28.00	\$25.61	10,112	(623)	4,532	4,686	2.1x	2.0x	7.9x	7.7x	1.74	2.05	14.7x	12.5x	13.8x	11.7x
Motorola Solutions	N	\$60.00	\$56.79	11,979	(242)	5,825	5,802	2.0x	2.0x	8.6x	8.4x	3.34	4.18	17.0x	13.6x	16.7x	13.3x
NetApp	UW	\$29.00	\$30.60	9,332	(3,839)	5,805	6,070	0.9x	0.9x	4.9x	4.2x	2.23	2.70	13.7x	11.3x	8.1x	6.7x
Seagate	N	\$54.00	\$46.40	14,727	1,321	13,436	13,511	1.2x	1.2x	6.4x	6.4x	4.42	4.65	10.5x	10.0x	10.5x	10.0x
TE Connectivity	NC	NA	€ 61.76	25,111	3,429	13,133	13,285	2.2x	2.1x	10.9x	9.8x	3.81	4.41	16.2x	14.0x	16.2x	14.0x
Western Digital	N	\$92.00	\$78.31	18,083	(2,696)	14,240	14,256	1.1x	1.1x	5.2x	5.5x	7.31	7.40	10.7x	10.6x	9.1x	9.0x
Average								1.8x	1.7x	7.4x	7.2x			14.5x	16.3x	12.5x	11.4x
Median								2.0x	2.0x	6.6x	6.5x			13.7x	12.5x	11.1x	11.4x
<b>Small &amp; Mid Cap</b>																	
A10 Networks	OW	\$6.50	\$5.77	356	(92)	201	242	1.3x	1.1x	NM	NM	(0.41)	(0.01)	NM	NM	NM	NM
ADTRAN	N	\$16.50	\$16.34	871	(372)	625	624	0.8x	0.8x	9.3x	7.1x	0.67	0.91	24.5x	18.0x	14.8x	10.7x
Belden	NC	NA	\$74.85	3,192	1,740	2,478	2,620	2.0x	1.9x	11.5x	10.5x	5.38	6.17	13.9x	12.1x	13.9x	12.2x
BlackBerry	N	\$9.00	\$7.69	4,072	(1,766)	2,630	2,712	0.9x	0.9x	3.4x	2.9x	(0.08)	0.12	NM	NM	NM	36.1x
Brocade	OW	\$14.00	\$11.96	4,965	(579)	2,249	2,328	2.0x	1.9x	6.8x	6.3x	0.94	1.08	12.8x	11.1x	11.3x	9.8x
Ciena	OW	\$30.00	\$23.22	2,734	462	2,552	2,894	1.3x	1.1x	8.4x	7.3x	1.60	2.14	14.5x	10.9x	14.5x	10.9x
Cyan	N	NA	\$5.15	254	(66)	148	170	1.3x	1.1x	NM	NM	(0.60)	(0.45)	NM	NM	NM	NM
Finisar	NC	NA	\$17.65	1,838	(269)	1,296	1,418	1.2x	1.1x	8.1x	5.6x	1.09	1.40	16.2x	12.6x	13.9x	10.7x
Infinera	OW	\$26.00	\$20.07	2,602	(290)	826	1,020	2.8x	2.3x	18.1x	13.4x	0.68	0.93	29.3x	21.5x	26.1x	19.1x
JDSU	N	\$12.50	\$11.23	2,629	(734)	1,699	NA	1.1x	NA	8.9x	NA	0.50	NA	22.7x	NA	16.3x	NA
Nimble Storage	NC	NA	\$26.39	2,056	(201)	324	443	5.7x	4.2x	NM	NM	(0.31)	0.20	NM	NM	NM	NM
Oclaro	NC	NA	\$2.08	228	(53)	339	385	0.5x	0.5x	NA	NA	(0.32)	(0.13)	NM	NM	NM	NM
Ruckus Wireless	NC	NA	\$9.72	841	(194)	370	438	1.8x	1.5x	11.7x	8.4x	0.42	0.55	23.0x	17.8x	17.9x	13.8x
ShoreTel	NC	NA	\$6.87	443	(84)	351	381	1.0x	0.9x	16.7x	NA	0.15	0.20	45.5x	34.0x	36.8x	27.5x
Sonus Networks	NC	NA	\$6.36	314	(83)	246	276	0.9x	0.8x	NM	8.8x	(0.17)	0.36	NM	17.5x	NM	13.0x
Average								1.6x	1.4x	10.3x	7.8x			22.5x	17.3x	18.4x	16.4x
Median								1.2x	1.1x	8.9x	7.3x			15.6x	13.6x	14.8x	12.6x

Source: Company data, Bloomberg, J.P. Morgan estimates.  
JPM Rating: OW = Overweight, N = Neutral, UW = Underweight, NC = Not Covered.  
JPM Analysts: HTC (Narci Chang)  
Seagate, Western Digital and BlackBerry have Dec-16 PT end dates, rest have Dec-15 PT end dates.  
Note: Enterprise Value adjusts for minority interest, pension deficit obligations and deferred tax assets, where applicable, in addition to net debt  
Note: Priced as of CoB July 8, 2015  
Note: P/E (Adjusted) is P/E adjusted for Cash

Table 4: Peer Group Price Performance

	CCY	Target	Price	3-Yr Range		Short Interest		Absolute Performance					Relative to Index				
		Price	7/8/2015	High	Low	%	1M Chg	YTD	QTD	1 Day	1 M	12M	YTD	QTD	1 Day	1 M	12M
Large Cap																	
Apple	US\$	\$145.00	\$122.57	133.00	55.79	1%	-22%	11%	-2%	-2%	-4%	28%	12%	-7%	-1%	-2%	25%
Amphenol	US\$	NA	\$54.20	60.20	25.68	2%	8%	1%	-7%	-3%	-4%	11%	1%	-11%	-1%	-3%	8%
Cisco Systems	US\$	\$17.00	\$26.99	30.19	15.12	1%	-4%	-3%	-2%	-1%	-4%	6%	-2%	-6%	0%	-3%	2%
Corning	US\$	\$27.00	\$19.14	25.00	10.88	3%	20%	-17%	-3%	-2%	-7%	-13%	-16%	-7%	-1%	-6%	-17%
EMC	US\$	\$26.00	\$25.89	30.89	21.50	1%	-13%	-13%	-2%	-3%	-3%	-3%	-12%	-6%	-1%	-1%	-7%
Ericsson	SEK	SEK 105.00	SEK 85.85	114.30	56.80	NA	NA	-8%	1%	1%	-8%	9%	-18%	-9%	0%	-6%	-2%
F5 Networks	US\$	\$105.00	\$117.84	135.11	68.02	9%	5%	-10%	-2%	0%	-5%	5%	-13%	-13%	1%	-3%	-6%
HP	US\$	\$38.00	\$30.45	40.72	11.71	1%	4%	-24%	1%	-1%	-7%	-10%	-28%	-10%	1%	-4%	-21%
HTC	NT\$	NT\$100.00	NT\$68.50	318.00	68.50	8%	NA	-52%	-6%	-1%	-10%	-50%	-49%	-1%	2%	-8%	-44%
Juniper Networks	US\$	\$28.00	\$25.61	27.95	14.27	2%	8%	15%	-1%	-1%	-7%	5%	15%	-6%	1%	-5%	1%
Motorola Solutions	US\$	\$60.00	\$56.79	70.00	45.17	2%	6%	-15%	-1%	-1%	-2%	-15%	-15%	-5%	0%	0%	-18%
NetApp	US\$	\$29.00	\$30.60	45.85	26.33	4%	15%	-26%	-3%	-3%	-8%	-16%	-26%	-7%	-1%	-6%	-20%
Seagate	US\$	\$54.00	\$46.40	68.82	25.10	10%	13%	-30%	-2%	-3%	-12%	-21%	-34%	-14%	-1%	-10%	-32%
TE Connectivity	US\$	NA	€ 61.76	73.42	30.64	0%	-2%	-2%	-4%	-3%	-9%	-4%	-2%	-8%	-1%	-8%	-7%
Western Digital	US\$	\$92.00	\$78.31	114.28	31.35	2%	25%	-29%	0%	-2%	-15%	-17%	-33%	-12%	0%	-13%	-28%
Small & Mid Cap																	
A10 Networks	US\$	\$6.50	\$5.77	16.21	3.93	3%	-28%	32%	-10%	-1%	-9%	-54%	29%	-22%	0%	-7%	-65%
ADTRAN	US\$	\$16.50	\$16.34	27.75	15.65	3%	2%	-25%	1%	2%	-2%	-27%	-29%	-11%	4%	0%	-38%
Belden	US\$	NA	\$74.85	95.14	31.23	6%	17%	-5%	-8%	-2%	-11%	-4%	-9%	-19%	-1%	-9%	-15%
BlackBerry	US\$	\$9.00	\$7.69	17.90	5.75	17%	2%	-30%	-6%	-4%	-19%	-33%	-34%	-17%	-2%	-17%	-44%
Brocade	US\$	\$14.00	\$11.96	12.85	4.46	3%	1%	1%	1%	0%	-1%	32%	-3%	-11%	1%	1%	20%
Ciena	US\$	\$30.00	\$23.22	27.67	12.17	15%	8%	20%	-2%	-3%	-6%	11%	16%	-13%	-1%	-4%	0%
Cyan	US\$	NA	\$5.15	13.92	2.07	4%	1%	106%	-2%	-2%	-4%	27%	107%	-6%	-1%	-3%	23%
Finisar	US\$	NA	\$17.65	28.45	11.22	9%	-1%	-9%	-1%	-1%	-21%	-12%	-13%	-13%	1%	-19%	-23%
Infinera	US\$	\$26.00	\$20.07	22.74	4.35	9%	-8%	36%	-4%	-3%	-6%	134%	33%	-16%	-1%	-4%	123%
JDSU	US\$	\$12.50	\$11.23	16.27	8.63	4%	-5%	-18%	-3%	-1%	-12%	-8%	-18%	-7%	0%	-11%	-11%
Nimble Storage	US\$	NA	\$26.39	56.23	20.55	9%	-22%	-4%	-6%	-3%	-9%	-1%	-8%	-17%	-2%	-7%	-12%
Oclaro	US\$	NA	\$2.08	3.51	0.89	13%	21%	17%	-8%	-2%	-20%	-2%	13%	-19%	-1%	-18%	-13%
Ruckus Wireless	US\$	NA	\$9.72	25.87	8.96	12%	0%	-19%	-6%	-2%	-12%	-13%	-23%	-17%	-1%	-10%	-24%
ShoreTel	US\$	NA	\$6.87	9.68	3.35	2%	14%	-7%	1%	2%	-1%	13%	-10%	-10%	3%	1%	2%
Sonus Networks	US\$	NA	\$6.36	21.05	6.36	8%	35%	-68%	-8%	-2%	-18%	-67%	-72%	-19%	0%	-16%	-78%
Index																	
DJ Stoxx 600			376	415	302			10%	10%	1%	(2%)	11%					
Nasdaq Comp			4910	5164	4117			4%	11%	(2%)	(2%)	11%					
S&P 500			2047	2135	1821			(1%)	4%	(2%)	(2%)	4%					
TWSE			8976	10014	8501			(4%)	(4%)	(3%)	(2%)	(5%)					
Index: Relative to S&P 500/NASDAQ Composite for US stock, DJ Stoxx 600 for European and TWSE Index for Taiwan stocks																	
Source: Bloomberg; Index: Nasdaq Composite (US), S&P 500, TWSE, DJ STOXX 600, J.P. Morgan estimates																	
Note: Priced as of CoB July 8, 2015																	
JPM Analysts: HTC (Narci Chang)																	
Seagate, Western Digital and BlackBerry have Dec-16 PT end dates, rest have Dec-15 PT end dates.																	

**Companies Discussed in This Report** (all prices in this report as of market close on 08 July 2015)

Apple Inc. (AAPL/\$122.57/Overweight)

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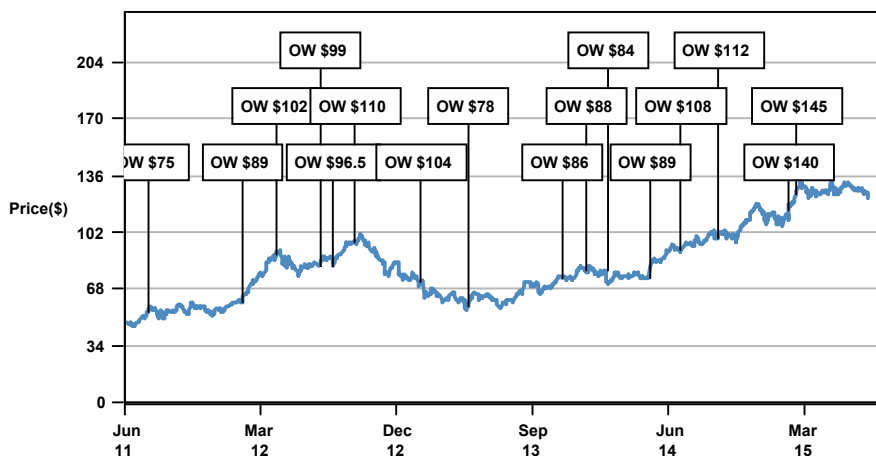
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Apple Inc. (AAPL, AAPL US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Jul 20, 2011.

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