

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

18 March 2018

Periodical

A weekly take on Apple news

For the week ending March 16, 2018

Best Buy rolled out iPhone discounts this week, including up to $800 oﬀ of iPhone

X. In addition, Eddy Cue disclosed that Apple Music's paid subscribers jumped to 38M, a 2M increase in just one month. In other news, Apple's brand reputation slipped in 2018, Apple's annual Worldwide Developers Conference will be held June 4-8, France is looking to ﬁne Apple over unfair treatment of start-ups and developers, Apple acquired digital magazine subscription app Texture, customers are complaining about Apple Store experiences on social media, a new lower- priced MacBook could be coming soon, as well as AirPower, a wireless charger.

Best Buy rolls out iPhone discounts

Retailer Best Buy is now contributing to the wave of iPhone discounting and is oﬀering customers up to $800 oﬀ of the iPhone X, according to the company's website. Based on 9to5Toys' analysis of the deals, the largest discounts are available to customers purchasing devices on an 18 to 24 month payment plan with service provided by Sprint. As we have written in previous Slices, the U.S. wireless carriers began oﬀering a range of iPhone deals in mid-February. (ht[tps://www](http://www.bestbuy.com/site/apple-iphone-x-64gb-space-gray-).best[buy.com/site/apple-iphone-x-64gb-space-gra](http://www.bestbuy.com/site/apple-iphone-x-64gb-space-gray-)y[-](http://www.bestbuy.com/site/apple-iphone-x-64gb-space-gray-) sprint/6009787.p?skuId=6009787&ref=212&loc=1&ksid=f3d2564c-

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Companies featured

Apple Inc. (AAPL.OQ),USD178.65 Hold

2017A 2018E 2019E

|  |  |  |  |
| --- | --- | --- | --- |
| EPS (USD) | 9.21 | 10.88 | 10.80 |
| P/E (x) | 14.9 | 16.4 | 16.5 |
| EV/EBITDA (x) | 7.9 | 9.9 | 10.4 |
| *Source: Deutsche Bank* |  |  |  |

e6a4-472b-853a-69a7732cfc20&ksprof\_id=10&ksaﬀcode=pg269451&ksdevice=c&lsft=ref:212,loc:2) (https://9to5toys.com/2018/03/13/best-buy-iphone-oﬀers/)

Apple Music paid subscribers reach 38M, up 2M in 1 month

Paid subscribers to Apple Music have grown from 36M in February to 38M in March, according to comments made by Eddy Cue, Apple's head of internet software and services, at the South by Southwest festival. As we have written in prior Slices, Apple's streaming music subscriber base continues to lag industry leader Spotify's 71M paid subscribers. However, according to Reuters, Apple Music's paid subscribers outnumber Amazon Music Unlimited's 16M paid users and Pandora Media's 5.5M paid subscribers, while the size of Google Play Music's subscriber base is undisclosed. Eddy Cue disclosed that Apple Music currently has 8M free trial users and we note that Apple has recently increased the number of Apple Music partnerships and promotions, including free trials, to drive paid subscriber growth.

(ht[tps://www.reuters.com/article/us-apple-music/apple-music-hits-38-mil](http://www.reuters.com/article/us-apple-music/apple-music-hits-38-million-)lion- paid-subscribers-idUSKCN1GO2G2)

Survey suggests Apple brand has lost some luster

*Our price target is based on shares trading at 14x our FY-19E EPS. Upside risks include stronger-than-expected smartphone sales and share gains, signiﬁcantly higher margins, and a faster ramp of new product categories including Watch and Apple Pay. Downside risks include slower smartphone sales, market share losses in smartphones, and weaker growth in Services sales.*

Apple was among the corporate brands to drop in the ranks of the annual Harris Poll Reputation Quotient poll, according to Reuters. The survey of over 25,000

U.S. adults ranks the reputations of the "most visible" corporate brands and ranked Apple 29th in 2018 down from 5th in 2017 and 2nd in 2016. Harris Poll CEO John Gerzema attributed the decline to the launch of fewer "attention-grabbing products" as in prior years.

(ht[tps://www.reuters.com/article/us-companies-reputation/apple-google-see-](http://www.reuters.com/article/us-companies-reputation/apple-google-see-) reputation-of-corporate-brands-tumble-in-survey-idUSKCN1GP1CI)

Apple WWDC event will be on June 4

Apple announced its 29th Worldwide Developers Conference will be held June 4-8, in San Jose, California. During the event's keynote address, the company typically introduces updates to its operating platforms and could unveil new software or hardware. Highlights from last year's event included the launch of updated iPad Pros, a refreshed line of Macs, and the rollout of the HomePod speaker. (ht[tps://www](http://www.apple.com/newsroom/2018/03/apples-worldwide-developers-).apple[.com/newsroom/2018/03/apples-worldwide-developers-](http://www.apple.com/newsroom/2018/03/apples-worldwide-developers-) conference-kicks-oﬀ-june-4-in-san-jose/)

French government to take legal action against Apple and Google

France's Finance Minister is accusing Apple and Google of unfair commercial practices, following a two-year investigation by the country's anti-fraud division, according to Bloomberg. The government's claims that both companies took advantage of French start-ups and developers could result in ﬁnes of up to 2 million euros ($2.5M) per company. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-03-14/france-to-take-action-v-)ws/art[icles/2018-03-14/france-to-take-action-v-](http://www.bloomberg.com/news/articles/2018-03-14/france-to-take-action-v-) google-apple-for-commercial-practices)

Apple acquiring digital magazine service

Apple has announced the acquisition of Next Issue Media and its digital magazine subscription app, Texture, for an undisclosed fee. Texture provides users with unlimited access to over 200 magazines for a $9.99 monthly fee. (ht[tps://www](http://www.apple.com/newsroom/2018/03/apple-to-acquire-digital-magazine-).apple[.com/newsroom/2018/03/apple-to-acquire-digital-magazine-](http://www.apple.com/newsroom/2018/03/apple-to-acquire-digital-magazine-) service-texture/)

(ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-03-12/apple-buys-texture-)ws/art[icles/2018-03-12/apple-buys-texture-](http://www.bloomberg.com/news/articles/2018-03-12/apple-buys-texture-) digital-magazine-service-in-subscription-push)

Social media reﬂecting rising number of Apple Store complaints

Poor customer reviews of Apple Store experiences are reportedly cropping up on social media, according to Business Insider. Overcrowding, long wait times, and poor customer service are among the top complaints. According to 9to5Mac, Apple renovated or opened more than 30 retail stores in 2017 as it rolls out a new, more open, store design.

[(http://www.businessinsider.com/apple-stores-suﬀer-from-customer](http://www.businessinsider.com/apple-stores-su%EF%AC%80er-from-customer-)- complaints-long-wait-time-2018-3) (https://9to5mac.com/2017/12/31/apple-retail-2017-architecture-review/) (https://9to5mac.com/2018/02/01/apple-vienna-karntner-strabe-opening- february-24/)

New entry-level MacBook could be coming

Apple is reportedly expected to launch a new 13-inch MacBook at the end of C2Q-18 priced at similar levels to the current 13-inch MacBook Air, or around

$999, according Digitimes. The device is expected to be priced below the currently available 12-inch MacBook, which starts at $1299, with shipments of the new device expected to reach 4M units in 2018.

[(http://www.digitimes.com/news/a20180312VL201.html)](http://www.digitimes.com/news/a20180312VL201.html))

Wireless charging pad could be launched by end of March

Apple may launch AirPower, a wireless charging device for "new generation" Apple devices, by the end of March, according to Digitimes. The charing pad will reportedly be capable of charging up to three devices simultaneously, including iPhone, Apple Watch, and AirPods. (ht[tps://www](http://www.digitimes.com/news/a20180313PD207.html?mod=3&amp;q=APPLE)).digit[imes.com/news/a20180313PD207.html?mod=3&q=APPLE)](http://www.digitimes.com/news/a20180313PD207.html?mod=3&amp;q=APPLE))

Apple Investment Thesis

Outlook

Apple has a dominant position in smartphones and tablets where its products represent the gold standard in both categories. These segments continue to oﬀer good growth opportunities, particularly smartphones, allowing Apple to outgrow overall IT spending. Despite healthy growth, slowing smartphone and tablet sales, as well as Apple’s already signiﬁcant revenue levels suggest growth will be more diﬃcult going forward. With puts and takes currently balanced, in our view, we consider shares as fairly valued and rate Apple a Hold.

## Valuation

Apple has traded at an average forward P/E of 13x since 2010 with a range of 9x to 16x. We believe shares should trade in line with these historical multiples and, because of its large market cap (3-4% of the S&P 500), should trade at a modest discount to the market. Our price target is based on shares trading at 14x our FY-19E EPS.

## Risks

Company-speciﬁc positive risks to Apple include stronger-than-expected smartphone sales and share gains, signiﬁcantly higher margins, and a faster ramp of new product categories including Watch and Apple Pay. Negative risks include slower smartphone sales, market share losses in smartphones, and weaker growth in Services sales.