

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

1 April 2018

Periodical

A weekly take on Apple news

For the week ending March 30, 2018

Apple's education-focused event, which featured the release of a refreshed 9.7- inch iPad, was the focus of Apple news this week. In other news, 59 separate lawsuits against the company for iPhone battery throttling may become a class- action suit, while the new iOS release this week will now allow users to disable battery management features at the risk of expected shutdowns. Also, Apple's move into video content creation remains unproven, Apple plans to release updated privacy controls to comply with European regulations, ARKit has been downloaded more than 13K times, and a Music Video section has been added to Apple Music.

Upgraded 9.7-inch iPad launched at education event

Apple introduced an upgraded 9.7-inch iPad featuring Apple Pencil support, along with some updated education-speciﬁc apps at an event in Chicago last week. The refreshed iPad features an A10 Fusion chip, advanced cameras, and sensors with AR capabilities, but is otherwise largely unchanged from prior versions. The device retails starting at $329, and Apple is oﬀering the device for $299 to schools. Free iCloud storage capacity was increased to 200GB, up from 5GB, for students and teachers with a managed Apple ID. The day before Apple's education-focused event, Google launched the Acer Chromebook Tab 10, the company's ﬁrst education tablet. According to EdSurge, the tablet, which runs on Chrome OS, will be priced at $329 but schools purchasing in volume will get a lower price. As we wrote in last week's Slices, Google dominates the education tech market and we do not expect the iPad to change that dynamic. (ht[tps://www](http://www.apple.com/newsroom/2018/03/apple-introduces-new-9-7-inch-).apple[.com/newsroom/2018/03/apple-introduces-new-9-7-inch-](http://www.apple.com/newsroom/2018/03/apple-introduces-new-9-7-inch-) ipad-with-apple-pencil-support/)

(https://appleinsider.com/articles/18/03/27/free-icloud-storage-for-teachers-and- students-boosted-from-5gb-to-200gb) (https://blog.google/topics/education/chromebook-tablets-versatile-learning/) [(http://em.edsurge.com/n0Lu08d02Wx10OF00t00tR4)](http://em.edsurge.com/n0Lu08d02Wx10OF00t00tR4))

Lawsuits over iPhone "throttling" could become class-action suit

Legal eﬀorts to combine 59 separate U.S. lawsuits into one class-action suit are underway in Atlanta, Georgia, according to the Wall Street Journal. The lawsuits relate to Apple's deliberate slowing of older iPhone, and as we have noted in previous Slices, Apple is facing a wave of lawsuits and investigations worldwide around the throttling issue. Currently, both the U.S. Department of Justice and the Securities and Exchange Commission are investigating Apple's disclosures in the matter.

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Companies featured

Apple Inc. (AAPL.OQ),USD167.78 Hold

2017A 2018E 2019E

|  |  |  |  |
| --- | --- | --- | --- |
| EPS (USD) | 9.21 | 10.88 | 10.80 |
| P/E (x) | 14.9 | 15.4 | 15.5 |
| EV/EBITDA (x) | 7.9 | 9.1 | 9.6 |
| *Source: Deutsche Bank* |  |  |  |

*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.*

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New iOS update released, featuring "throttling" controls

Apple has released iOS 11.3, the most recent software update for iPhone and iPad, which includes new features, and bug ﬁxes. In addition, the software includes battery management options which allow users to disable throttling at the risk of unexpected shutdowns. Other new features include additional Animoji for iPhone X, Health Records in the Health App, and Business Chat in iMessage. (ht[tps://www](http://www.apple.com/newsroom/2018/03/ios-11-3-is-available-today/)).apple[.com/newsroom/2018/03/ios-11-3-is-available-today/)](http://www.apple.com/newsroom/2018/03/ios-11-3-is-available-today/))

Apple Worldwide Video reportedly still a work in progress

The success of Apple's push into the world of video content creation remains uncertain, despite 12 deals for TV projects, a staﬀ of 40 employees, well-over a

$1B budget, and a new 128K square-foot headquarters, according to the New York Times. As we have written in previous Slices, Apple has invested signiﬁcant resources to hire key veteran TV executives and to develop the company's video strategy over the past year. (ht[tps://www](http://www.nytimes.com/2018/03/25/business/media/apple-hollywood-).nyt[imes.com/2018/03/25/business/media/apple-hollywood-](http://www.nytimes.com/2018/03/25/business/media/apple-hollywood-) streaming.html

New privacy settings forthcoming for GDPR compliance

Apple is rolling out new privacy settings for devices and iCloud services in order to comply with the EU's new General Data Protection Regulation (GDPR), according to Bloomberg. To comply with the new rules, which go into eﬀect on May 25, Apple will be adding new functionality to its web page for managing Apple IDs, allowing users to see their personal data on record and make changes, deactivate data, or delete it. Separately, the Inquirer reports that Apple’s CEO, Tim Cook has called for further regulations on data privacy, which would enhanced consumer visibility regarding personal information shared online and how companies exploit the information to study user patterns. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-03-29/apple-revamps-privacy-)ws/art[icles/2018-03-29/apple-revamps-privacy-](http://www.bloomberg.com/news/articles/2018-03-29/apple-revamps-privacy-) controls-to-comply-with-new-european-law) (ht[tps://www](http://www.theinquirer.net/inquirer/news/3029144/apples-tim-cook-calls-for-).t[heinquirer.net/inquirer/news/3029144/apples-tim-cook-cal](http://www.theinquirer.net/inquirer/news/3029144/apples-tim-cook-calls-for-)ls-f[or-](http://www.theinquirer.net/inquirer/news/3029144/apples-tim-cook-calls-for-) well-crafted-regulation-for-personal-data-collection)

ARKit app downloads surpass 13M in 6 months

Following Apple’s augmented reality framework ARKit roll out in September, over 13M ARKit apps have been downloaded to iPhones and iPads, with games accounting for roughly 47% of downloads, according to Sensor Tower. (https://appleinsider.com/articles/18/03/29/arkit-app-downloads-exceed-13m-

in-6-months-nearly-half-are-games-report-says)

Early release of Music Videos on Apple Music

Apple Music began featuring a dedicated Music Videos section mid-week last week, a new feature that was expected to be coming with the next iOS update, according to 9to5Mac. While BGR reports that music video content was previously available on Apple Music, it was not organized in a dedicated section, instead oﬀering content based on subscribers interests as well as Apple curated material. We view this added new feature as another step in Apple's eﬀorts to enhance and promote Apple Music, in order to drive paid subscriber growth (https://9to5mac.com/2018/03/29/new-music-videos-section-appears-in-apple- music-ahead-of-ios-11-3-release/)

[(http://bgr.com/2018/03/29/ios-11-3-release-date-apple-music-videos-section/)](http://bgr.com/2018/03/29/ios-11-3-release-date-apple-music-videos-section/))

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.