

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

26 November 2017

Periodical

A weekly take on Apple news

For the week ending November 24, 2017

Black Friday deals and iPhone X availability were the primary focus of Apple news this week. As is typical, Apple oﬀered in-store gift card promotions on Black Friday, while numerous retailers oﬀered discounts of up to $300 on Apple products. iPhone X wait times also improved again this week, falling to just 1-2 weeks across the U.S., Europe and Asia. In other news, Apple published its ﬁrst self-driving car research paper, acquired augmented reality headset maker Vrvana, and downsized its micro LED display R&D team. Also this week, the Irish government asked Apple to put 14B euros into escrow pending the appeal of the European Commission's ruling on Apple's back taxes.

Apple's Black Friday deals

Apple's Black Friday sales event featured gift cards of up to $150, similar to the promotions oﬀered in prior years. The one-day sale was limited to older devices and included a $25 gift card with Apple Watch Series 1, $50 with iPhone 7, 6S, and SE, $100 with iPad, and $150 with select Macs. As in previous years, other retailers had the most attractive Apple oﬀers. (https://9to5mac.com/2017/11/24/best-apple-black-friday-deals/)

Best Black Friday discounts on Apple products at Best Buy, B&H, Walmart, Target

Several retailers oﬀered deals on Apple products on Black Friday, including up to $200 oﬀ an iPhone 8 or 8 Plus at Best Buy and a $300 gift card at Walmart with the purchase of an iPhone X, 8, or 8 Plus. Best Buy also oﬀered up to $250 oﬀ Mac's while B&H featured $800 oﬀ the 2016 MacBook Pro. Best Buy oﬀered the 9.7-inch iPad for $250, while eBay, B&H, and Best Buy featured discounts of

$150-$229 on iPad Pro. Macy's, Target, and Best Buy oﬀered Apple Watch Series 1 for $179-$199, while Kohl's $105 discount on Apple Watch Series 3 sold out. (https://9to5mac.com/2017/11/22/best-black-friday-apple-deals/)

iPhone X wait times improve

Numerous Apple-focused websites have noted improved lead times for iPhone X. In the U.S., Europe and Asia, iPhone X order wait times are now 1 to 2 weeks, versus the initial 5-6 week wait time, and recent wait times of 3-4 weeks. As previously noted in Slices, Apple has been working with the supply chain to improve availability.

(https://9to5mac.com/2017/11/22/iphone-x-shipping-times-improvement/) Apple researchers publish ﬁrst paper on self-driving car technology

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Companies featured

Apple Inc. (AAPL.OQ),USD174.97 Hold

2017A 2018E 2019E

EPS (USD) 9.21 10.45 9.70

P/E (x) 14.9 16.7 18.0

EV/EBITDA (x) 7.9 9.2 9.9

*Source: Deutsche Bank*

*Our price target is based on shares trading at 16x 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 computer scientists Yin Zhou and Oncel Tuzel have published research detailing technology that can help autonomous cars to detect pedestrians and bicycles, according to Reuters. The paper, featured in online journal arXiv, details the use of software called "VoxelNet" to improve the resolution of LiDAR sensor data for identifying distant objects.

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Augmented reality startup Vrvana acquired

TechCrunch reported that Apple has acquired Canadian AR (augmented reality) Totem headset maker Vrvana, for roughly $30M. The acquisition suggests that Apple is continuing to develop its AR capabilities. (https://techcrunch.com/2017/11/21/apple-acquires-mixed-reality-headset- startup-vrvana-for-30m/)

Micro LED R&D team downsized

Apple has cut down the size of its R&D team developing micro LED displays in Taiwan, according to Digitimes. The report notes that slow progress in the development of mass production technology for micro LED panels resulted in the layoﬀs, but that Apple may still continue developing the technology in the U.S. for use in smart wearables, and augmented and virtual reality applications. [(http://www.digitimes.com/news/a20171117PD202.html)](http://www.digitimes.com/news/a20171117PD202.html))

Apple asked to transfer 14B Euros to European escrow account

The Irish government has requested that Apple contribute up to 14B Euros in back taxes “within weeks” to an escrow account, according to the Irish Times. The request follows both Apple's and Ireland's appeal of the European Commission's (EC) August 2016 ruling that Ireland illegally provided Apple with tax beneﬁts. As we have written in previous Slices, Ireland could face penalty payments for failing to extract the escrow funds from Apple during the appeals process. (ht[tps://www.irishtimes.com/business/econom](http://www.irishtimes.com/business/economy/varadkar-expects-action-within-)y/v[arad](http://www.irishtimes.com/business/economy/varadkar-expects-action-within-)kar[-expects-action-within-](http://www.irishtimes.com/business/economy/varadkar-expects-action-within-) weeks-on-apple-funds-1.3300244)

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 16x 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.