

US Equity Research

23 January 2018

BUY

unchanged

PRICE TARGET US\$200.00↑

from US\$195.00

Price (23-Jan) US\$177.04

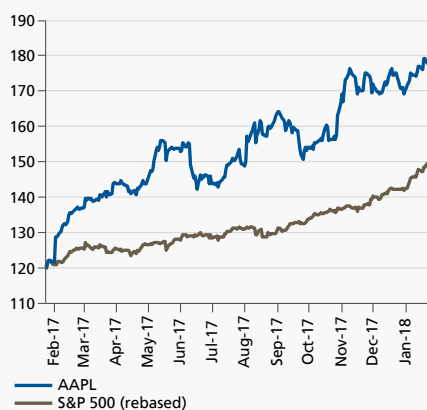
Ticker AAPL-NASDAQ

52-Week Range (US\$): 119.50 - 180.10
 Avg Daily Vol (M): 25.6
 Market Cap (US\$M): 900,612
 Shares Out. (M): 5,087.1

FYE Sep	2017A	2018E	2019E
Sales (US\$M)	229,234	273,234↓	278,875↑
Previous	-	279,870	275,172
EPS GAAP (US\$)	9.19	11.52↓	12.37↑
Previous	-	11.98	12.25

Quarterly Sales	Q1	Q2	Q3	Q4
2017A	78,351	52,896	45,408	52,579
2018E	88,172	66,600	57,485	60,977
2019E	91,304	68,927	58,231	60,412

Quarterly EPS GAAP	Q1	Q2	Q3	Q4
2017A	3.36	2.10	1.67	2.07
2018E	3.87	2.82	2.32	2.51
2019E	4.30	3.06	2.45	2.57



Priced as of close of business 23 January 2018

Apple designs, manufactures, and sells smartphones, tablets, PCs, and other hardware along with related software, services, and networking solutions.

Raising Target Price

Smartphone survey indicates normal seasonal demand; adjusting iPhone estimates

Investment recommendation: While our US survey work indicated strong iPhone sales during the December quarter, sales appear more consistent with normal seasonal trends during January. Further, with iPhone X reaching supply demand balance exiting the December quarter or ahead of our expectations, we are increasing our December quarter estimates but lowering our March quarter iPhone estimates. We are modeling the global iPhone replacement rate will increase to 31.3% in C2018 from 26.8% in C2017, as the new iPhone features and improving supply drive a stronger upgrade cycle from Apple's growing installed base. Following our expectations that strong C2018 upgrade sales will help generate 241M in iPhone sales, we anticipate a slightly moderating but still strong upgrade rate of 29.0% in C2019 to generate 239M iPhone sales. We believe Apple continues to grow its leading market share of the premium-tier smartphone market and believe the iPhone installed base will exceed 635M exiting C2017. This impressive installed base should drive strong iPhone replacement sales and earnings, as well as cash flow generation to fund strong long-term capital returns. We reiterate our BUY rating and increase our price target to \$200.

Anticipate more normal seasonal iPhone sales, resulting in lowered F2018 iPhone estimates but increased F2019 estimates: Our survey work indicates iPhone X sales were strong during the December quarter, but sales appear slower in January, more in line with normal seasonal trends. We had anticipated iPhone X supply would not meet demand until well into the March quarter, leading to our expectations for a stronger than normal March quarter. Given supply met demand exiting the December quarter combined with a more normal seasonal demand start to C2018, we have increased our Q1/F2018 or December quarter iPhone estimates from 78.5M units to 80.6M units but lowered our Q2/F18 iPhone estimates from 66.0M units to 59.9M units. For F2018, we have lowered our iPhone unit assumptions from 249M to 241M units, but we have increased our F2019 iPhone unit estimates from 235M units to 239M units. With the HomePod anticipated to launch in February, we have also increased our other products revenue estimates. These changes led to our Apple C2017/C2018/C2019 EPS estimate changes from \$9.56/\$12.37/\$12.24 to \$9.70/\$11.95/\$12.51.

Increased mix of larger screen OLED iPhones likely to drive strong ongoing iPhone sales through C2019: We anticipate new OLED screen iPhones will launch in September 2018 to help drive a continued strong upgrade cycle to higher margin and higher ASP iPhones. With our belief Apple will launch an iPhone X plus type combined with new improved features for the current sized iPhone X product, we believe Apple's iPhone franchise will extend strong sales of higher-priced iPhones through C2019. Despite our lowered near-term estimates, we believe our C2019 estimates could prove conservative as new iPhones could drive a stronger replacement cycle than the initial iPhone X versus our current estimates anticipating a modest slowdown in 2019 upgrade sales. Further, with Apple's cash repatriation, increased capital returns and especially stock repurchases could also create upside to our estimates. Therefore, we reiterate our BUY rating and increase our price target to \$200.

Surveys indicate normal seasonal iPhone sales trends

Our survey work indicates iPhone X sales were strong during the December quarter but sales appear slower in January, more in line with normal seasonal trends. We had anticipated iPhone X supply would not meet demand until well into the March quarter, leading to our expectations for a stronger than normal March quarter. Given supply met demand exiting the December quarter combined with a more normal seasonal demand start to C2018, we have increased our Q1/F2018 or December quarter iPhone estimates from 78.5M units to 80.6M units but lowered our Q2/F18 iPhone estimates from 66.0M units to 59.9M units. For F2018, we have lowered our iPhone unit assumptions from 249M to 241M units, but we have increased our F2019 iPhone unit estimates from 235M units to 239M units. Despite our lower near-term iPhone estimates, we believe new OLED screen iPhones launching in September 2018 will drive continued strong iPhone sales through C2019.

Large installed iPhone base positions Apple for a strong upgrade cycle through C2019

Figure 1 on page 3 provides detailed analysis of the installed iPhone base, annual iPhone net additions, replacement iPhone sales, and replacement rates by regions of the world. We estimate our 635M iPhone installed base exiting C2017 represents only 40% of the 1.6B global premium market smartphone subscribers estimated by the end of C2017, according to Gartner. Based on our potentially conservative replacement rate and installed base growth assumptions, we estimate Apple could sell roughly 225M to 275M iPhone units annually based on its growing and loyal installed base of new iPhone consumers.

We believe there is a large group of iPhone 6 or older iPhone users positioned to upgrade to the new iPhone products, and therefore we are modeling the percent of iPhone users to upgrade to a new iPhone to increase to 31.3% in C2018 from roughly 26.8% in C2017. We note our C2018 replacement sale estimate was lowered from 32.4% given our expectations for a more seasonally normal start to C2018 versus our previous expectations for a very strong March quarter. We believe the 31.3% upgrade rate for C2018 is still consistent with the strong upgrade rate in C2014 and C2015 driven by the iPhone 6 upgrade cycle. While we anticipate product introductions could generate stronger sales in one year versus another, we believe Apple's growing share of the high-end smartphone market positions Apple with a strong, loyal customer base that could enable Apple to maintain the high-levels of sales generated during C2015 with the successful iPhone 6 launch despite the higher ASPs for the iPhone 8 and X products versus the 6 products. In fact, given the growing installed base, we believe Apple will sell more iPhones in C2018 and C2019 with our 241M and 239M estimates, respectively versus the 232M units sold in C2015. With these levels of annual iPhone sales generating strong sales levels and margins, we believe this should drive very strong long-term sales, earnings, and cash flow generation for Apple to sustain or even increase its capital returns program, especially with the anticipated repatriation up to \$250M. Given our expectations for a strong upgrade cycle combined with new product introductions potentially contributing upside to our C2019 estimates, we reiterate our BUY rating and increase our price target to \$200.

Figure 1: iPhone installed base, net adds, replacement sales and replacement rates by region

	2013	2014	2015	2016	2017 E	2018 E	2019 E
iPhone Units (sell-in)	153.5	192.7	231.5	215.4	220.5	240.9	238.8
iPhone sell-through estimates by region (millions)							
North America	50.9	65.9	71.7	72.1	78.8	84.4	77.5
Latin America	6.1	7.2	6.8	7.2	7.6	7.2	8.3
Europe	31.0	35.5	38.3	41.0	46.5	47.2	48.6
Greater China	25.6	50.1	72.4	54.2	50.2	55.6	61.1
Japan	12.0	14.8	14.4	14.9	14.9	17.2	17.3
Rest of Asia Pacific	20.9	10.0	16.0	16.0	15.0	17.2	16.7
Middle East & Africa	4.3	5.2	6.2	8.3	9.4	10.0	9.6
Total iPhone sell-through	150.8	188.6	225.9	213.7	222.5	238.7	239.1
iPhone Channel inventory change	2.7	4.1	4.8	0.8	-3.3	2.2	-0.3
Total iPhone channel inventory	15.3	19.4	24.2	25.0	21.7	23.9	23.6
	2013	2014	2015	2016	2017 E	2018 E	2019 E
iPhone installed base estimates (millions)							
North America	92.2	114.4	131.5	142.0	152.0	158.1	163.6
Latin America	9.8	13.9	18.4	21.2	24.2	26.3	28.3
Europe	78.9	96.3	113.6	123.9	132.5	139.2	144.7
Greater China	68.8	96.3	134.8	159.1	181.4	195.9	209.6
Japan	21.8	27.4	32.2	34.6	36.7	38.3	40.1
Rest of Asia Pacific	27.7	38.8	53.8	65.6	75.7	82.0	88.5
Middle East & Africa	10.1	15.0	21.4	27.7	32.7	36.6	40.3
Total	309.3	402.1	505.7	574.1	635.1	676.3	715.1
iPhone installed base Y/Y growth							
North America	33%	24%	15%	8%	7%	4%	4%
Latin America	70%	42%	32%	16%	14%	9%	8%
Europe	42%	22%	18%	9%	7%	5%	4%
Greater China	100%	40%	40%	18%	14%	8%	7%
Japan	57%	26%	17%	8%	6%	4%	5%
Rest of Asia Pacific	39%	40%	39%	22%	15%	8%	8%
Middle East & Africa	85%	48%	43%	29%	18%	12%	10%
YoY % change	51%	30%	26%	14%	11%	6%	6%
	2013	2014	2015	2016	2017 E	2018 E	2019 E
iPhone net adds & replacement sales estimates (in millions):							
North America - net adds	22.9	22.2	17.2	10.5	9.9	6.1	5.5
North America - annual replacement sales	28.0	43.7	53.2	57.9	55.4	68.4	69.5
Latin America - net adds	4.0	4.1	4.4	2.8	3.0	2.2	2.0
Latin America - annual replacement sales	2.0	3.0	4.0	4.9	4.5	6.0	6.6
Europe - net adds	23.4	17.4	17.3	10.2	8.7	6.6	5.6
Europe - annual replacement sales	7.6	18.1	22.2	25.0	26.0	33.1	33.4
Japan - net adds	7.9	5.7	4.8	2.4	2.1	1.6	1.7
Japan - annual replacement sales	4.1	9.1	9.6	11.3	10.4	12.1	11.9
Asia Pacific - net adds	42.1	38.6	53.5	36.1	32.4	20.8	20.3
Asia Pacific - annual replacement sales	4.4	24.3	36.5	43.4	56.2	77.1	72.2
Middle East & Africa - net adds	4.7	4.9	6.4	6.3	5.0	3.9	3.7
Middle East & Africa - annual replacement sales	-0.3	0.3	0.8	1.1	1.5	1.8	2.2
Total iPhone Net adds	104.9	92.8	103.6	68.4	61.0	41.2	38.7
Total iPhone annual replacement	45.9	98.6	126.2	143.4	153.9	198.6	195.8
Total iPhone annual unit sell-through	150.8	191.4	229.8	211.9	214.9	239.8	234.6
Change in inventory	2.7	1.3	1.7	3.5	5.5	1.1	4.2
Total iPhone unit sales	153.5	192.7	231.5	215.4	220.5	240.9	238.8
	2013	2014	2015	2016	2017 E	2018 E	2019 E
Replacement rate (%)							
North America	40%	47%	47%	44%	39%	45%	44%
Latin America	35%	31%	29%	27%	21%	25%	25%
Europe	14%	23%	23%	22%	21%	25%	24%
Japan	30%	42%	35%	35%	30%	33%	31%
Asia Pacific	8%	25%	27%	23%	25%	30%	26%
Middle East & Africa	-6%	3%	6%	5%	5%	5%	6%
Global iPhone replacement rate	22.4%	31.9%	31.4%	28.4%	26.8%	31.3%	29.0%

Source: Company reports, Canaccord Genuity estimates

Apple Inc. - AAPL
Consolidated Income Statement
(in millions, except per share information)

Period Date	Q1-17 A 12/31/2016	Q2-17 A 3/31/2017	Q3-17 A 6/30/2017	Q4-17 A 9/30/2017	Q1-18 E 12/31/2017	Q2-18 E 3/31/2018	Q3-18 E 6/30/2018	Q4-18 E 9/30/2018	Q1-19 E 12/31/2018	Q2-19 E 3/31/2019	Q3-19 E 6/30/2019	Q4-19 E 9/30/2019	Q1-20 E 12/31/2019	FY-17 E 9/30/2017	FY-18 E 9/30/2018	FY-19 E 9/30/2019		CY-17 E 12/31/2017	CY-18 E 12/31/2018	CY-19 E 12/31/2019
Notes to Income Statement																				
Net Sales	78,351	52,896	45,408	52,579	88,172	66,600	57,485	60,977	91,304	68,927	58,231	60,412	90,554	229,234	273,234	278,875		239,054	276,367	278,125
Cost of Sales	48,175	32,305	27,920	32,648	54,496	40,442	34,820	37,029	55,402	41,566	34,980	36,410	54,609	141,048	166,788	168,359		147,369	167,694	167,565
Gross Profit	30,176	20,591	17,488	19,931	33,675	26,158	22,665	23,948	35,902	27,361	23,251	24,002	35,945	88,186	106,446	110,517		91,685	108,673	110,560
Research & Development	2,871	2,776	2,937	2,997	3,057	3,133	3,259	3,356	3,424	3,509	3,579	3,651	3,724	11,581	12,805	14,163		11,767	13,172	14,463
Selling, General and Administrative	3,946	3,718	3,783	3,814	4,653	4,513	4,513	4,649	5,114	4,602	4,602	4,740	5,120	15,261	18,329	19,059		15,968	18,790	19,065
Operating Expenses	6,817	6,494	6,720	6,811	7,710	7,647	7,772	8,005	8,537	8,112	8,182	8,391	8,844	26,842	31,134	33,222		27,735	31,962	33,528
Operating Income	23,359	14,097	10,768	13,120	25,965	18,511	14,893	15,943	27,365	19,249	15,070	15,611	27,102	61,344	75,312	77,294		63,950	76,711	77,031
Other income and expense	821	587	540	797	625	625	625	625	650	650	650	650	650	2,745	2,500	2,600		2,549	2,525	2,600
Pre-tax Income	24,180	14,684	11,308	13,917	26,590	19,136	15,518	16,568	28,015	19,899	15,720	16,261	27,752	64,089	77,812	79,894		66,499	70,952	79,631
Provision for income taxes	6,289	3,655	2,591	3,203	6,781	4,880	3,957	4,225	7,144	5,074	4,008	4,146	7,077	15,738	19,842	20,373		16,230	20,205	20,306
Net Income	17,891	11,029	8,717	10,714	19,810	14,256	11,561	12,343	20,871	14,825	11,711	12,114	20,675	48,351	57,970	59,521		50,270	59,031	59,325
GAAP EPS	3.36	2.10	1.67	2.07	3.87	2.82	2.32	2.51	4.30	3.06	2.45	2.57	4.44	9.19	11.52	12.37		9.70	11.95	12.51
Basic	5,199	5,225	5,195	5,149	5,083	5,017	4,951	4,884	4,818	4,818	4,752	4,686	4,619	5,192	4,984	4,768		5,163	4,918	4,719
Fully Diluted Shares	5,328	5,262	5,233	5,184	5,117	5,051	4,985	4,919	4,852	4,852	4,786	4,720	4,654	5,252	5,018	4,803		5,199	4,952	4,753
Costs as % Revenue:																				
Cost of Sales	61.5	61.1	61.5	62.1	61.8	60.7	60.6	60.7	60.7	60.3	60.1	60.3	60.3	61.5	61.0	60.4		61.6	60.7	60.2
Gross Profit	38.5	38.9	38.5	37.9	38.2	39.3	39.4	39.3	39.3	39.7	39.9	39.7	39.7	38.5	39.0	39.6		38.4	39.3	39.8
Research & Development	3.7	5.2	6.5	5.7	3.5	4.7	5.7	5.5	3.7	5.1	6.1	6.0	4.1	5.1	4.7	5.1		4.9	4.8	5.2
Selling, General and Administrative	5.0	7.0	8.3	7.3	5.3	6.8	7.9	7.6	5.6	6.7	7.9	7.8	5.7	6.7	6.7	6.8		6.7	6.8	6.9
Pro-forma operating margin	29.8	26.6	23.7	25.0	29.4	27.8	25.9	26.1	30.0	27.9	25.9	25.8	29.9	26.8	27.6	27.7		26.8	27.8	27.7
Provision for income taxes	8.0	6.9	5.7	6.1	7.7	7.3	6.9	6.9	7.8	7.4	6.9	6.9	7.8	6.9	7.3	7.3		6.8	7.3	7.3
Tax Rate	26.0	24.9	22.9	23.0	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	24.6	25.5	25.5		24.4	28.5	25.5
Net Income	22.8	20.8	19.2	20.4	22.5	21.4	20.1	20.2	22.9	21.5	20.1	20.1	22.8	21.1	21.2	21.3		21.0	21.4	21.3
Quarter/Quarter % change:																				
Sales	67.2%	-32.5%	-14.2%	15.8%	67.7%	-24.5%	-13.7%	6.1%	49.7%	-24.5%	-15.5%	3.7%	49.9%							
Operating Income	98.4%	-39.3%	-23.0%	23.1%	91.1%	-28.0%	-18.9%	6.8%	69.1%	-29.0%	-21.0%	3.4%	70.7%							
Year/Year % change:																				
Sales	3.3%	4.6%	7.2%	12.2%	12.5%	25.9%	26.6%	16.0%	3.6%	3.5%	1.3%	-0.9%	-0.8%	6.3%	19.2%	2.1%		9.6%	15.6%	0.6%
Pro-forma Operating Income	-3.4%	0.8%	6.6%	11.6%	11.2%	31.3%	38.3%	21.5%	5.4%	4.0%	1.2%	-2.1%	-1.0%	2.2%	22.8%	2.6%		8.0%	20.0%	0.4%
Pro-forma Net Income	-2.6%	4.9%	11.8%	18.9%	10.7%	29.3%	32.6%	15.2%	5.4%	4.0%	1.3%	-1.9%	-0.9%	5.8%	19.9%	2.7%		11.2%	17.4%	0.5%

For important information, please visit Canaccord Genuity's Online Disclosure Database: <http://www.canaccordgenuity.com/en/ODD/pages/disclosures.aspx>

Source: Company reports and Canaccord Genuity estimates

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A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

Apple Quarterly Sales by Product Category (in million USD)

	FY17E				FY18E												Annual Sales By Product (in million USD)					
	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	9/30/2017	9/30/2018	9/30/2019	FY17E	FY18E	FY19E	CY17E	CY18E	CY19E
	Q1-17 A	Q2-17 A	Q3-17 A	Q4-17 A	Q1-18 E	Q2-18 E	Q3-18 E	Q4-18 E	Q1-19 E	Q2-19 E	Q3-19 E	Q4-19 E	Q1-20 E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	CY17E	CY18E	CY19E
iPhone Units	78.29	50.76	41.03	46.68	82.00	59.04	48.41	51.32	82.11	59.94	47.95	50.35	80.56	216.76	240.77	240.35	220.47	240.88	238.80			
iPhone ASP (adjusting for deferral)	\$700	\$653	\$599	\$615	\$744	\$744	\$725	\$707	\$764	\$756	\$734	\$697	\$767	\$632	\$713	\$722	\$649	\$719	\$723			
iPhone ASP reported	\$695	\$655	\$606	\$618	\$737	\$743	\$728	\$709	\$758	\$756	\$738	\$701	\$762	\$652	\$731	\$741	#	\$669	\$738	\$743		
Current Quarter iPhone Revenue	\$53,270	\$32,132	\$23,755	\$27,771	\$59,376	\$42,751	\$34,155	\$35,274	\$61,084	\$44,134	\$34,219	\$34,083	\$60,147	\$136,928	\$171,556	\$173,520	\$143,034	\$173,264	\$172,583			
Prior Period iPhone Deferred Revenue	\$1,108	\$1,117	\$1,091	\$1,075	\$1,072	\$1,090	\$1,109	\$1,129	\$1,144	\$1,153	\$1,176	\$1,194	\$1,203	\$4,391	\$4,400	\$4,667	\$4,355	\$4,472	\$4,726			
Total iPhone Reported Revenue	\$54,378	\$33,249	\$24,846	\$28,846	\$60,448	\$43,841	\$35,264	\$36,403	\$62,228	\$45,287	\$35,395	\$35,277	\$61,350	\$141,319	\$175,956	\$178,187	\$147,389	\$177,736	\$177,309			
Q/Q Growth	93%	-39%	-25%	16%	110%	-27%	-20%	3%	71%	-27%	-22%	0%	74%									
Y/Y Growth	5%	1%	3%	2%	11%	32%	42%	26%	3%	3%	0%	-3%	-1%	3%	25%	1%	6%	21%	0%			
%age of Apple Revenue	69%	63%	55%	55%	69%	66%	61%	60%	68%	66%	61%	58%	68%	62%	64%	64%	62%	64%	64%			
iPad Units	13.08	8.92	11.42	10.33	13.94	8.92	8.03	8.03	11.24	7.53	6.78	6.78	10.17	43.75	38.92	32.33	44.61	36.22	31.26			
iPad ASP	\$424	\$430	\$435	\$468	\$523	\$551	\$550	\$561	\$570.44	\$567	\$561	\$575	\$536	\$429.93	\$541.43	\$565.59	\$327.16	\$559.31	\$558.28			
Current Quarter iPad Revenue	\$5,283	\$3,660	\$4,741	\$4,624	\$7,017	\$4,734	\$4,256	\$4,346	\$6,188	\$4,120	\$3,667	\$3,761	\$5,242	\$18,307	\$20,353	\$17,735	\$20,042	\$19,523	\$16,789			
Prior Period iPad Deferred Revenue	\$250	\$229	\$221	\$222	\$223	\$218	\$215	\$210	\$207	\$202	\$199	\$187	\$178	\$923	\$866	\$794	\$896	\$849	\$766			
Total iPad Reported Revenue	\$5,533	\$3,889	\$4,969	\$4,831	\$7,240	\$4,952	\$4,470	\$4,556	\$6,394	\$4,322	\$3,865	\$3,948	\$5,420	\$19,222	\$21,218	\$18,529	\$20,929	\$20,372	\$17,555			
Q/Q Growth	30%	-30%	28%	-3%	50%	-32%	-10%	2%	40%	-32%	-11%	2%	37%									
Y/Y Growth	-22%	-12%	2%	14%	31%	27%	-10%	-6%	-12%	-13%	-14%	-13%	-15%	-7%	10%	-13%	10%	-3%	-14%			
%age of Apple Revenue	7%	7%	11%	9%	8%	7%	8%	7%	7%	6%	7%	7%	6%	8%	8%	7%	9%	7%	6%			
Mac Units	5.37	4.20	4.29	5.39	5.44	4.62	4.55	5.47	5.47	4.48	4.26	5.11	5.16	19.25	20.08	19.31	19.32	20.11	19.01			
Mac ASP	\$1,348	\$1,392	\$1,303	\$1,331	\$1,331	\$1,331	\$1,291	\$1,382	\$1,340	\$1,340	\$1,300	\$1,391	\$1,349	\$1,303	\$1,296	\$1,305	\$1,339	\$1,336	\$1,345			
Current Quarter Mac Revenue	\$7,029	\$5,676	\$5,420	\$6,955	\$7,024	\$5,970	\$5,699	\$7,333	\$7,106.32	\$5,827	\$5,365	\$6,903	\$6,756	\$25,080	\$26,027	\$25,201	\$25,075	\$26,109	\$24,851			
Prior Period Mac Deferred Revenue	\$167	\$175	\$170	\$165	\$158	\$195	\$196	\$196	\$196	\$196	\$196	\$194	\$193	\$677	\$745	\$782	\$668	\$783	\$779			
Total Mac Reported Revenue	\$7,244	\$5,844	\$5,592	\$7,170	\$7,182	\$6,165	\$5,895	\$7,529	\$7,302	\$6,023	\$5,560	\$7,097	\$6,949	\$25,850	\$26,771	\$25,983	\$25,788	\$26,891	\$25,629			
Q/Q Growth	26%	-19%	-4%	28%	0%	-14%	-4%	28%	-3%	-18%	-8%	28%	-2%									
Y/Y Growth	7%	14%	7%	25%	-1%	5%	5%	5%	2%	-2%	-6%	-6%	-5%	13%	4%	-3%	11%	4%	-5%			
%age of Apple Revenue	9%	11%	12%	14%	8%	9%	10%	12%	8%	9%	10%	12%	8%	11%	10%	9%	11%	10%	9%			
iPod Revenue	\$180	\$94	\$84	\$42	\$84	\$61	\$57	\$53	\$80	\$41	\$35	\$32	\$51	\$401	\$255	\$188	\$305	\$251	\$158			
Apple watch units	4.36	3.10	3.18	4.11	7.19	4.31	4.44	4.62	8.32	5.41	5.57	5.79	9.84	14.75	20.57	25.08	17.58	21.69	26.61			
Apple watch ASPs	\$459	\$436	\$403	\$403	\$444	\$435	\$426	\$413	\$424	\$403	\$372	\$372	\$382	\$407	\$411	\$350	\$406	\$404	\$362			
Current Quarter Watch Revenue	\$1,915	\$1,290	\$1,219	\$1,575	\$3,047	\$1,790	\$1,805	\$1,818	\$3,358	\$2,068	\$1,962	\$2,041	\$3,561	\$6,000	\$8,460	\$8,771	\$7,132	\$8,771	\$9,632			
Prior Period Watch Deferred Revenue	\$38	\$49	\$57	\$59	\$61	\$67	\$74	\$81	\$88	\$98	\$104	\$110	\$114	\$203	\$283	\$400	\$226	\$310	\$426			
Total Watch Reported Revenue	\$1,953	\$1,339	\$1,276	\$1,634	\$3,108	\$1,857	\$1,879	\$1,899	\$3,447	\$2,167	\$2,066	\$2,151	\$3,675	\$6,202	\$8,742	\$9,830	\$7,357	\$9,081	\$10,059			
Q/Q Growth	163%	-31%	-5%	28%	90%	-40%	1%	1%	82%	-37%	-5%	4%	71%									
Y/Y Growth	-23%	81%	69%	120%	59%	39%	47%	16%	11%	17%	10%	13%	7%	30%	41%	12%	76%	23%	11%			
%age of Apple Revenue	2%	3%	3%	3%	4%	3%	3%	3%	4%	3%	4%	4%	4%	3%	3%	4%	3%	3%	4%			
Accessories	\$1,891	\$1,439	\$1,375	\$1,555	\$1,947	\$1,482	\$1,512	\$1,710	\$2,142	\$1,571	\$1,603	\$1,813	\$2,206	\$6,260	\$6,652	\$7,129	\$6,316	\$6,847	\$7,194			
Total Other Products	\$4,024	\$2,873	\$2,735	\$3,231	\$5,140	\$3,400	\$3,448	\$3,662	\$5,669	\$3,779	\$3,704	\$3,996	\$5,932	\$12,863	\$15,649	\$17,147	\$13,979	\$16,178	\$17,410			
Services	\$7,172	\$7,041	\$7,266	\$8,501	\$8,161	\$8,243	\$8,407	\$8,828	\$9,711	\$9,516	\$9,707	\$10,095	\$10,903	\$29,980	\$33,639	\$39,029	\$30,969	\$35,188	\$40,221			
Deferred Revenue	\$1,574	\$1,579	\$1,546	\$1,526	\$1,519	\$1,574	\$1,598	\$1,621	\$1,639	\$1,653	\$1,675	\$1,685	\$1,688	\$6,225	\$6,313	\$6,652	\$6,171	\$6,433	\$6,700			
Total Apple Revenue	\$78,351	\$52,896	\$45,408	\$52,579	\$88,172	\$66,600	\$57,485	\$60,977	\$91,304	\$68,927	\$58,231	\$60,412	\$90,554	\$229,234	\$273,234	\$278,875	\$239,054	\$276,367	\$278,125			

Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: January 23, 2018, 23:11 ET

Date and time of production: January 23, 2018, 17:20 ET

Target Price / Valuation Methodology:

Apple - AAPL

Our \$200 price target is based on shares trading at roughly 16x our C2019 EPS estimate.

Risks to achieving Target Price / Valuation:

Apple - AAPL

Risks to our investment thesis include: 1. Gross margin for key products such as the iPhone decline below our expectations. 2. Ability to innovate slows or competition catches up versus Apple's next iteration of its products. 3. Macro uncertainty leads to slower than expected sales of Apple products.

Distribution of Ratings:

Global Stock Ratings (as of 01/23/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	568	60.30%	41.02%
Hold	254	26.96%	28.74%
Sell	21	2.23%	14.29%
Speculative Buy	99	10.51%	64.65%
	942*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

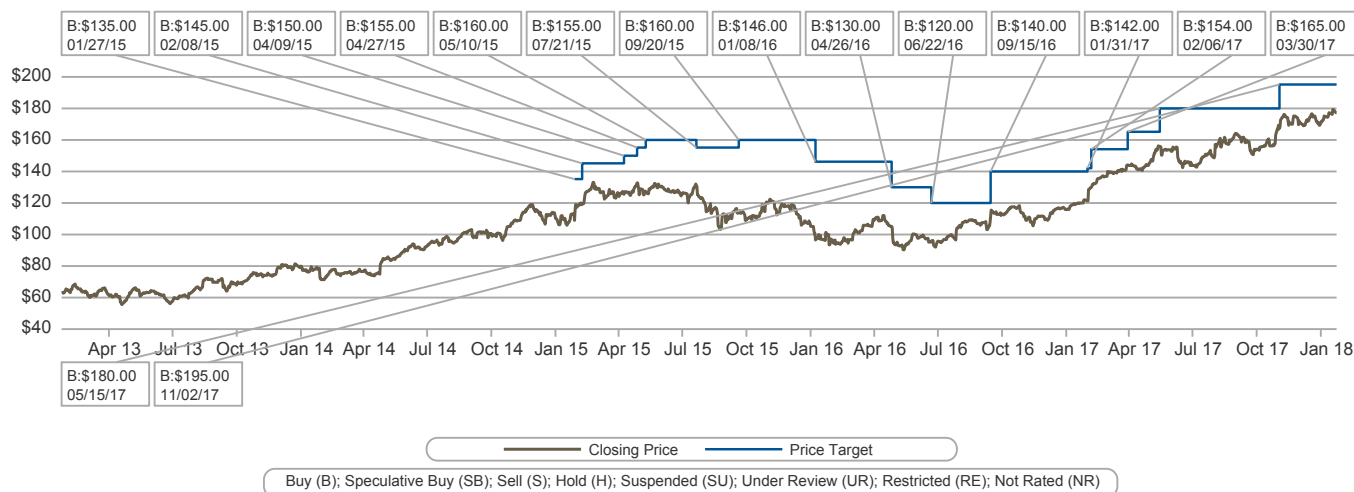
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