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**From:** [REDACTED] >  
**Sent:** Wednesday, May 2, 2018 9:53 AM  
**To:** Jeffrey Epstein  
**Subject:** Fwd: Apple, Inc.: Revving the Services Engine

[REDACTED]  
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May 2, 2018 4:02 AM =GMT

Services gr=wth acceleration headlined a better than expected quarter and guide. Even i= smartphone replacement cycles continue to lengthen, we see Apple deliverin= 4% revenue and 16% EPS growth over the next three years with services the p=imary growth engine. Reiterate OW and \$200PT. FY18 estimates increase as Services beat and iPhone better than feared. Sign=ficant inventory build in a tight commodity environment and with slowing sm=rtphone growth is creating more noise than typical throughout the smartphon= supply chain. On our updated estimates, slightly lower FY18 iPhone units (=1% y/y) and higher ASPs (+14% y/y) deliver the strongest iPhone revenue gro=th since FY15. This is slightly better than the -3% y/y iPhone units and=+12% y/y

iPhone ASPs we modeled heading into the print. Flattish iPhone units and slightly declining iPhone ASPs over the next few years translates to total device (iPhone + iPad + Mac) revenue down low single digits. This assumes replacement cycles continue to lengthen and allow the powerful growth of Services (+31% y/y in March) to shine through in results. Net, our FY18 EPS increases to \$11.41 from \$11 and FY19 EPS is largely unchanged at \$13.76. With more predictable, higher margin services revenue driving the model going forward, we see AAPL's multiple expanding with our \$200 PT implying 14.5x our FY19 EPS. What we learned from earnings: (+) Services becoming primary growth driver. Services revenue grew 31% y/y, faster than 27% growth in December (1), despite significant scale (\$33B LTM revenue). We don't see Services growth slowing anytime soon given the many growth levers, including: 1) fewer than half of users pay for services and the paying customer base is growing strong double-digits. 2) a broadening data center footprint and new payment methods improve the services experience, and 3) strong growth in relatively nascent services like Music and Pay along with upcoming services like Video. Apple grew Services more

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