

September 18, 2019

Rating:

**OUTPERFORM**

Price:

**\$220.70**

12-Month Price Target:

**\$245.00**

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## Apple (AAPL)

### *Drumroll Into Friday's iPhone 11 Launch; China Could Be Star of the Show*

We are seeing delivery times extend for iPhone 11 pre-orders across a range of colors and models this week, with our expectations now that iPhone launch units could exceed 75 million (original Street expectations were ~70 million) given underlying demand especially in China. The base model iPhone 11 currently we estimate is seeing pre-order activity in the all-important China region that is "roughly double" from a year ago with XR as it appears the lower price points, dual camera functionality, and added colors is hitting the sweet spot for consumers that have been waiting to upgrade. To put numbers around this, with our estimation that 60 million to 70 million iPhones in China are currently in the "window of an upgrade opportunity" this is an integral time for Cook & Co. to be successful in China and capture these upgrades. Especially with lower priced competition across the board, the price cut this time around was a smart strategy for Cupertino that is already paying dividends with many Chinese consumers looking at iPhone 11 as the right phone/price points/specs to upgrade which is key as Huawei and others look to capitalize on the current environment and convert Apple consumers to domestic Chinese smartphones in light of trade tensions. With the official launch this Friday with phones hitting the shelves around the world, we expect lines at the flagship stores to exceed the last two releases as roughly 1/3 of the 900 million iPhone users globally have not upgraded their smartphones in more than 3 years and we are modeling many will upgrade to iPhone 11/iPhone 11 Pro this time around. To this point, we now estimate iPhone units could exceed 185 million for FY20 based on the initial demand trajectory out of the gates and show modest YoY growth which is major fuel in the tank as Apple looks to further monetize these customers through services (streaming service launching November 1) as its next leg of growth. In the US, pre-order activity continues to look robust thus far with particular order strength on some variants of the 256G iPhone 11 Pro as well as Space Gray and Gold colors with certain models/carriers. With Cook ready to kick off the launch Friday, despite all the perceived black clouds from being the poster child of the current US/China trade tensions, Apple is seeing a very strong iPhone 11 launch trajectory and defying many skeptics that have been yelling fire in a crowded theater over the past few months. While services represents the next leg of growth, iPhones continue to be the hearts and lungs of Cupertino with the combination of this year's iPhone 11/iPhone 11 Pro launch and next year's 5G smartphones representing the 1-2 punch to cement Apple's next chapter of growth. We maintain our OUTPERFORM rating and \$245 price target.

*Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see pages 2-4 of this report for analyst certification and important disclosure information.*



## Valuation

Our \$245 price target represents our SOTP valuation: we assign an 8x multiple on the Services business at \$425B and the rest of Apple's iconic iPhone/Hardware ecosystem at \$700B with a 3.3x multiple.

## Risks to the Attainment of Our Price Target and Rating:

- Increasing competition, pricing, technology shifts, and macroeconomic conditions.
- The success of the iPhone product cycle remains key to the company's growth prospects
- Apple's ability to successfully ramp its software/services business is dependent on further penetration of its installed base
- Success of Apple's product strategy in China, which remains a key growth driver for the coming years and could be impaired by lower priced smartphones and competition. China macro/tariffs issue remain a long-term risk.

## Analyst Certification

We, Daniel Ives and Strecker Backe, certify that the views expressed in this report accurately reflect our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our specific recommendations or views contained in this report.

## Investment Rating System:

**OUTPERFORM:** Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

**NEUTRAL:** Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

**UNDERPERFORM:** Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).\*

Rating distribution (as of September 18, 2019)	Investment Banking Relationships (as of September 18, 2019)
OUTPERFORM: 60.06%	OUTPERFORM: 13.11%
NEUTRAL: 38.78%	NEUTRAL: 1.50%
UNDERPERFORM: 1.17%	UNDERPERFORM: 0.00%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

## Company Specific Disclosures

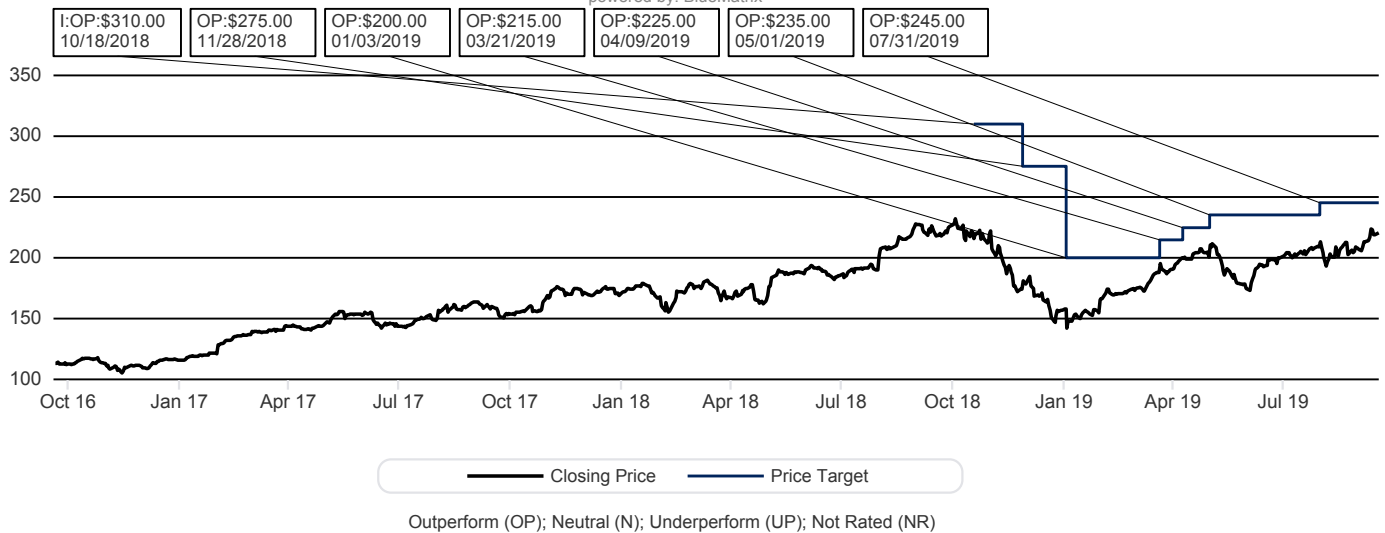
1. WS makes a market in the securities of Apple.

## Price Charts



### Apple Rating History as of 09-17-2019

powered by: BlueMatrix



Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

Disclosure information regarding historical ratings and price targets is available: [Research Disclosures](#)

\*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.

Applicable disclosure information is also available upon request by contacting Leslie Lippai in the Research Department at (212) 833-1375, by email to [leslie.lippai@wedbush.com](mailto:leslie.lippai@wedbush.com), or the Business Conduct Department (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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