

September 9, 2019

Rating:

OUTPERFORM

Price:

\$213.26

12-Month Price Target:

\$245.00

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Apple (AAPL)

The Drumroll for iPhone 11 Begins; Cook Kicks Off Launch This Week

This Tuesday at its HQ in Cupertino Apple is set to unveil its trifecta of iPhone 11s which represent the next step in the company's ability to put a fence around its unparalleled consumer installed base. With roughly 1/3 of the company's 900 million active iPhones globally currently in a "window of an upgrade opportunity" over the next 12 to 18 months Cook & Co. recognize this is a crucial product cycle on the horizon that we believe could translate into roughly 180 million iPhone units sold in FY20. Based on our recent Asia checks, we believe Apple's supply chain is planning on 75 million units for the initial iPhone 11 launch period, which is a slight uptick vs. its prior iPhone cycle last fall. We note there is capacity in the supply chain to bring this launch period unit range production up to 80 million iPhones depending on the level of pent up demand/pre-order activity starting in mid-September. With Apple caught in the crossfire on the US/China trade battle over the last six months the company (and its investors) are highly anticipating this iPhone 11 slate of smartphones to stimulate demand especially in the key China region. To this point, based on our analysis we believe roughly 60 million to 70 million consumers are due for an upgrade in the key China region which will be a major focus with the base iPhone 11 (replacing the XR) bringing enhanced memory, second back camera (dual lens) functionality, and a handful of other improvements. The main spotlight of this week's launch will be the flagship iPhone 11 Pro and the iPhone 11 Pro Max as these smartphones represent the crux of improvements coming in this year's releases. Expected price points look to be \$749 for the base iPhone, \$999 for the iPhone 11 Pro, and \$1,099 for the iPhone Pro Max. The new triple camera lens technology in iPhone 11 Pro that will work in unison for users taking pictures, along with some next generation AI capabilities built into this year's iPhones will be the key specs showcased in our opinion. The video capability on iPhone 11 Pro versions will be significantly stepped up with real time re-cropping technology that appears to be quite impressive in our opinion.

Streaming services will be highlighted as part of event. While we fully expect the lion's share of this launch will naturally focus on the iPhone 11 release, we believe Cook will likely use this forum to discuss the highly anticipated launch of Apple TV + expected to go live in the early November time-frame and ahead of the Disney Plus launch set for November 12th. From a pricing strategy, we believe \$10 per month will be the initial launch service fee offered to Apple customers, however we expect different bundled options with Apple Music and other services will also be offered at different price points. If Apple executes with minimal speed bumps and aggressively acquires content given the company's massive installed base and unmatched brand loyalty we believe reaching the 100 million subscriber number in the medium term (3 to 5 years) is a realistic goal that could translate into a \$7 billion to \$10 billion annual revenue stream over time for Apple and further cement its installed base and halo effect. Overall, we view this week's launch as putting fuel in Apple's growth tank which is much needed as Cupertino navigates mature secular smartphone headwinds which are being exacerbated by the US/China high stakes tariff poker game. 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 9, 2019)	Investment Banking Relationships (as of September 9, 2019)
OUTPERFORM: 58.94%	OUTPERFORM: 12.94%
NEUTRAL: 39.88%	NEUTRAL: 1.47%
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.

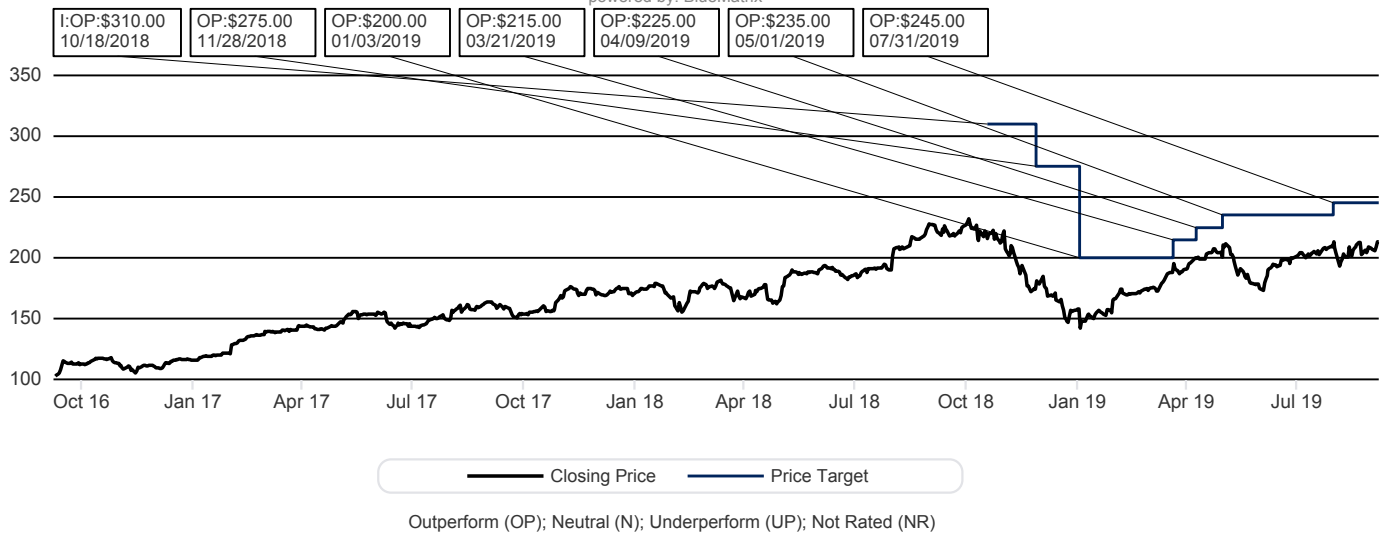
Company Specific Disclosures

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

Price Charts

Apple Rating History as of 09-06-2019

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, 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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