

November 19, 2014

Morgan Stanley
BEST IDEA**Apple, Inc.****Watch Upside Remains Key Catalyst; Raising PT to \$126**

Our global AlphaWise survey indicates investors underestimate demand for Apple Watch, similar to iPhone and iPad at launch, which provides an attractive set-up into 2015. We model 30M Watches in CY15 or 10% penetration of the compatible iPhone user base, higher than the buy-side view of 10-12M.

We expect wearables to be the fastest ramping consumer device to date. Ramping faster than even smartphones and tablets, we forecast the wearable market to hit 530M units in 2020 in our base case and 1B units in 2020 in our bull case. Persistent identity is the "killer" feature that will ignite a long tail of industry use cases and augment existing mobile applications, such as sensor analytics and mobile payments. For more details, please see our Blue Paper on Wearable Devices, *The 'Internet of Things' Becomes Personal*, published today.

Skepticism around Apple Watch mirrors low expectations seen ahead of the iPhone and iPad launches. Ahead of iPhone launch in June 2007, the Street modeled 9M units for FY08 (see Exhibit 1). Apple shipped 12M iPhones that year. Skepticism was more pronounced with the iPad as sell-side forecasted 5M shipments in CY10 ahead of the product launch in April 2010 even though supply chain builds at the time indicated 8-10M units. Apple shipped 15M iPads in CY10.

Our 30M Apple Watch unit estimate in CY15 is at the high end of consensus and arguably still conservative. Street estimates run the gamut, with most ranging between 10M and 30M units in the first year. We believe looking at penetration into the Apple installed base yields the most realistic assessment of demand potential of the Watch. Our 30M unit estimate implies 10% penetration into Apple's 315M iPhone 5 or newer installed base exiting 2014, which is lower than iPad penetration of 14% in its first year but higher than iPhone at 7%. However, the iPhone was constrained by limited carrier distribution and a more expensive two-year service contract (see Exhibit 2). In addition, our AlphaWise survey indicates initial purchase intentions in the US are higher than they were for the iPhone and iPad pre-launch (see Exhibit 3).

Revisiting risk-reward: We raise our base case CY15 EPS to \$8.40 from \$8.20 on the back of higher Watch unit (30M vs. 27M previously) and ASP (\$450 vs. \$400 previously) forecasts. Coupled with a one turn increase in P/E multiple to 15x, in-line with the recent trading range, our price target increases to \$126 from \$115. In addition, we raise our bull case to \$150 from \$135, in which we assume no further multiple expansion, but earnings power of \$10 in CY15 on the back of additional iPhone, Watch, and services upside. Our bear case share

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Apple, Inc. (AAPL.O , AAPL US)

IT Hardware / United States of America

Stock Rating	Overweight
Industry View	Cautious
Price target	\$126.00
Shr price, close (Nov 18, 2014)	\$115.47
Mkt cap, curr (mm)	\$681,494
52-Week Range	\$114.19-70.51

Fiscal Year Ending	09/14	09/15e	09/16e	09/17e
ModelWare EPS (\$)	6.45	7.89	9.16	9.83
Prior ModelWare EPS (\$)	-	7.77	8.93	9.72
P/E	15.6	14.6	12.6	11.7
Consensus EPS (\$)[§]	6.33	7.69	8.47	9.34
Div yld (%)	1.8	1.7	1.9	2.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
[§] = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

QUARTERLY MODELWARE EPS (\$)

Quarter	2014	2015e		2016e	
		Prior	Current	Prior	Current
Q1	2.07	2.50	2.50	2.96	3.05
Q2	1.66	1.98	1.99	2.27	2.31
Q3	1.28	1.60	1.64	1.75	1.80
Q4	1.42	1.68	1.75	1.93	1.98

e = Morgan Stanley Research estimates

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price is now \$92 vs. \$77 previously and assumes P/E multiple reverts to 12x, in-line with the 3-year average to reflect potential skepticism around long-term earnings growth if Watch doesn't beat the low-end of investor expectations. Our bear case EPS is \$7.63, driven by slowing iPhone growth and Watch shipments coming in at the low end of expectations.

Analysis

Exhibit 1: Actual iPhone and iPad Shipments Exceeded Initial Expectations

<i>In mln units</i>	iPhone	iPad
As of	6/25/2007	3/26/2010
Time Period	FY08	CY10
Street Estimates	9	5
Supply Chain Build Plans	NA	9
Actual Shipments	12	15

Source: Company Data, Bloomberg, Morgan Stanley Research

Exhibit 2:

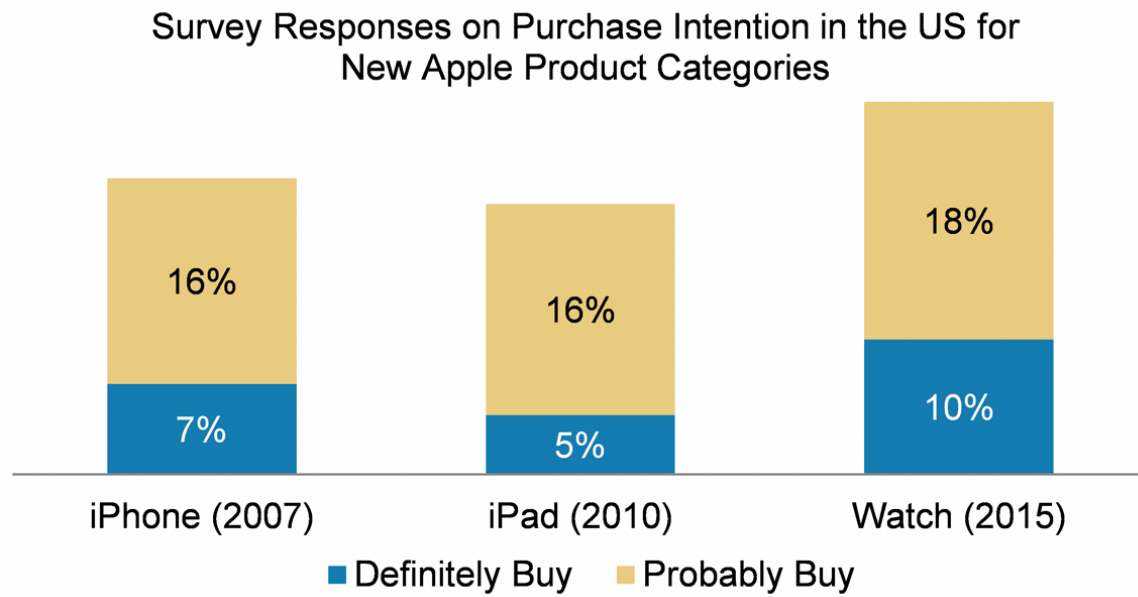
We Assume 10% Watch Penetration of Apple's Compatible User Base, Much Lower than Past New Products

New Product	Apple Installed Base at Launch	Initial 12 Months Shipments	New Product Penetration Rate
iPhone	87	6	7%
iPad	135	20	14%
Watch	315	30	10%

Note: iPhone penetration based on first five quarters of iPhone shipments (launched with a few days left in C2Q07) over trailing 2-year iPod shipments. iPad penetration based on pro-rated estimate of Apple's reported account numbers. Watch penetration based on estimate of trailing 2.5-year shipments of compatible iPhones (5 and newer generations). We estimate the Watch accounts for 6% of Apple's over 500M user base today.

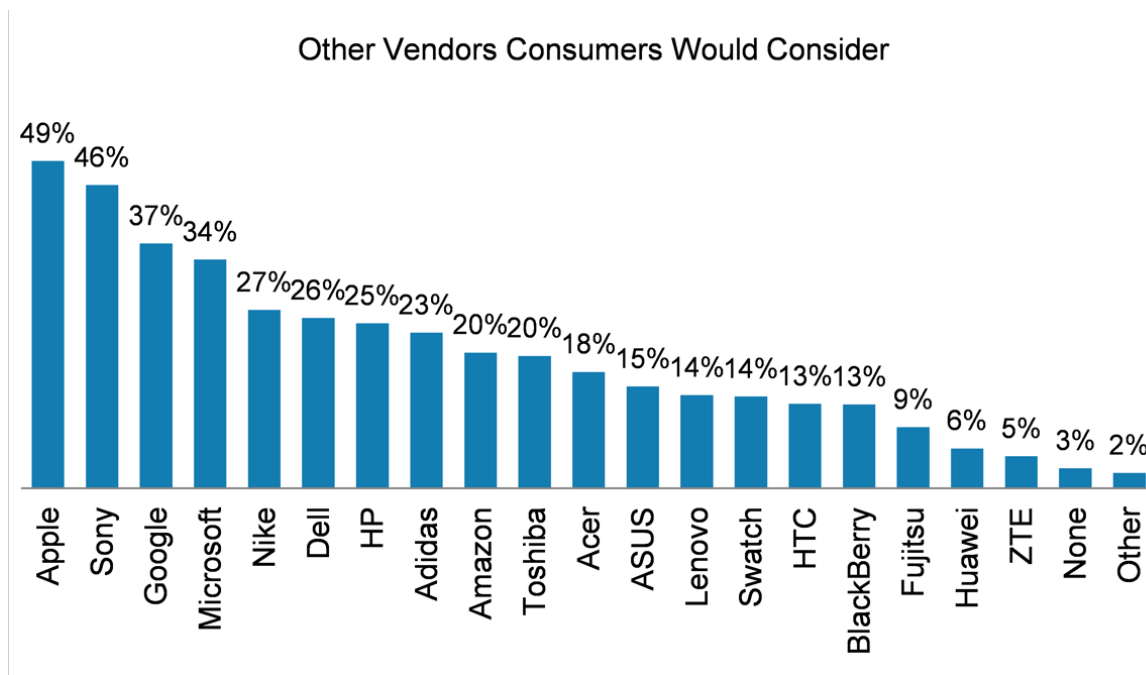
Source: AlphaWise Survey August 2014, Morgan Stanley Research

Exhibit 3:
Past Surveys Suggest Apple Watch Purchase Intention in the US Is Reasonable and Likely Conservative



Note: Purchase intention for the Watch in all countries excluding China is 7% “definitely buy” and 19% “probably buy” and including China, it is 9% and 23%. Source: AlphaWise Survey August 2014, Morgan Stanley Research

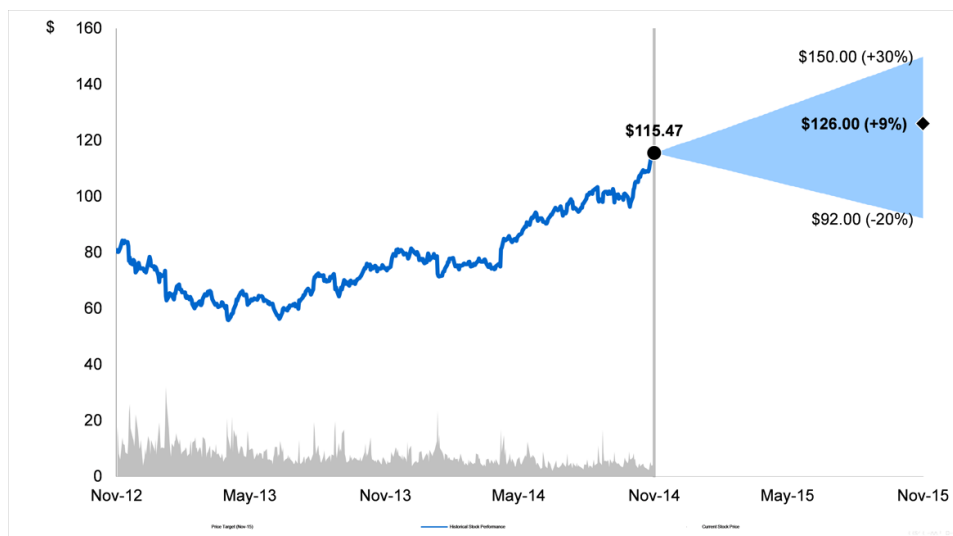
Exhibit 4: Apple Garnerers The Most Interest among Potential Wearables Vendors



Source: AlphaWise Survey August 2014, Morgan Stanley Research

Risk Reward

Larger screen iPhone, Watch and new services like Apple Pay drive upside



Source: Thomson Reuters, Morgan Stanley Research

Price Target **\$126**

Derived from base case scenario.

Bull **\$150**

15x Bull Case CY15e EPS of \$10.00

Larger screen iPhone drives more global share gains, new services drive accelerating revenue growth and Watch penetration exceeds expectations. Revenue growth comes in at roughly 30% in CY15 driven by (1) up to \$10B+ additional iPhone revenue from ex-US share gains, (2) up to \$13.5B additional from Watch revenue, and (3) acceleration in services growth. Gross margin of 40% reflects higher services and iPhone mix, and component cost reductions. We assume a 15x P/E multiple, in-line with the recent trading range, but 12x after adjusting for Apple's net cash.

Base **\$126**

15x Base Case CY15e EPS of \$8.40 or 12x Ex-Cash

Larger screen iPhone drives share gains and Watch unit shipments reach 30M in first year. Revenue grows 15% in CY15 driven by share gains in the US and China due to larger screen iPhone. Watch penetration into compatible iPhone installed base comes in at 10%, vs. 7% and 14% seen with the iPhone and iPad. Gross margin expands by 80bps Y/Y due to product mix. We assume a 15x P/E multiple, in-line with the recent trading range, or 12x after adjusting for Apple's \$120B net cash balance.

Bear **\$92**

12x Bear Case CY15e EPS of \$7.63

Revenue growth slows driven by weak iPhone unit growth and Watch shipments coming in at the low end of expectations. Revenue grows 7% as iPhone demand slows materially in CY15 as larger screens are not enough to sustain share gains and consumers react to lower carrier subsidies, and wearables demand takes longer to build momentum. Mix shift away from richer margin products drives overall gross margin down 50bps Y/Y. P/E multiple falls to 12x or 9x after adjusting for Apple's net cash balance.

Investment Thesis

- Apple shares do not price in upcoming hardware, software, and services innovations, in our view. We expect iPhone share gains and growth re-acceleration driven by larger screen iPhones based on our AlphaWise surveys and supply chain checks. We also see Watch and new services like Apple Pay helping to accelerate growth and expand margins.

Key Debates

- Can Apple grow revenue and EPS?* Yes, in our view, at a single-digit pace long term. Apple has the opportunity to take share in slower growth smartphone and tablet markets with larger screens and new services. New product categories like Watch, and services like Apple Pay could further boost growth.
- Can Apple accelerate innovation?* Yes, we see Watch as an important barometer of the company's innovation capabilities under the leadership of Tim Cook. We are also encouraged by recent additions to Apple's management team, which expand leadership in key areas like retail, design, health and digital content.

Potential Catalysts

- iPhone demand and share gains post 6/6 Plus launch in September
- Upcoming Watch launch (in spring 2015), potential hybrid iPad/MacBook Air product (likely in 2015) or smart TV launches (likely over the next 2-3 years)
- New US carrier installment plans and promotions, and large installed base of old iPhones drive strong refresh cycle
- Expanding points-of-sale, especially in emerging markets like China, Brazil and India
- New products and services drive "halo" effect across Apple's businesses

Risks to Achieving Price Target

- Maturing markets, and Android and Windows competition in smartphones and tablets
- Carriers lengthening replacement cycles and/or lower subsidies
- Regulatory and legal risk as Apple gains profit share in mobile devices
- Weak global consumer demand, including China and other emerging markets

- Lack of new product categories and/or services limit multiple expansion

Exhibit 5: Apple Income Statement

(\$ in millions)	2013A				2014A				2015E				Fiscal Year					Calendar Year					
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	2013A	2014A	2015E	2016E	2017E	2011A	2012A	2013A	2014E	2015E	
Revenues	54,512	43,603	35,323	37,472	57,594	45,646	37,432	42,123	65,267	53,155	45,534	48,146	170,910	182,795	212,102	228,437	238,392	127,841	164,687	173,992	190,468	219,681	
Mac	5,519	5,447	4,893	5,824	6,395	5,519	5,540	6,625	6,651	5,716	5,631	6,591	21,483	24,079	24,589	23,962	23,168	22,951	22,142	22,359	24,335	24,422	
iPod	2,143	962	733	573	973	461	442	410	572	277	229	217	4,411	2,286	1,295	684	320	6,556	5,230	3,241	1,885	994	
iPhone	30,660	22,955	18,154	19,510	32,498	26,064	19,751	23,678	41,383	31,757	24,801	25,308	91,279	101,991	123,249	127,493	129,962	59,709	85,402	93,117	110,876	124,972	
iPad	10,674	8,746	6,374	6,186	11,468	7,610	5,889	5,316	9,484	7,183	5,576	5,218	31,980	30,283	27,461	27,716	27,969	23,567	32,850	32,774	28,299	27,883	
Watch	-	-	-	-	-	-	-	-	-	1,350	2,700	4,050	-	-	8,100	19,170	25,017	-	-	-	-	13,500	
iTunes/Software/Services	3,687	4,114	3,990	4,260	4,397	4,573	4,485	4,608	4,793	4,965	4,869	5,023	16,051	18,063	19,689	21,461	23,607	10,246	13,557	16,761	18,459	20,120	
Accessories	1,829	1,379	1,179	1,319	1,863	1,419	1,325	1,486	2,385	1,887	1,709	1,739	5,706	6,093	7,720	7,951	8,349	4,812	5,506	5,740	6,615	7,791	
Cost of Sales	33,452	27,254	22,299	23,601	35,748	27,699	22,697	26,114	40,108	32,415	27,557	29,121	106,606	112,258	129,201	136,590	141,933	73,618	95,668	108,902	116,618	132,745	
Gross Profit	21,060	16,349	13,024	13,871	21,846	17,947	14,735	16,009	25,159	20,740	17,977	19,025	64,304	70,537	82,901	91,847	96,459	54,223	69,019	65,090	73,850	86,937	
<i>Gross Margin</i>	38.6%	37.5%	36.9%	37.0%	37.9%	39.3%	39.4%	38.0%	38.5%	39.0%	39.5%	39.5%	37.6%	38.6%	39.1%	40.2%	40.5%	42.4%	41.9%	37.4%	38.8%	39.6%	
Operating Expenses	3,850	3,791	3,823	3,841	4,383	4,354	4,453	4,844	5,515	5,422	5,510	5,826	15,305	18,034	22,272	24,447	25,751	10,920	13,908	15,838	19,166	23,022	
Research and Development	1,010	1,119	1,178	1,168	1,330	1,422	1,603	1,686	1,925	2,020	2,095	2,263	4,475	6,041	8,303	9,711	10,253	2,612	3,633	4,795	6,636	8,781	
Selling, General and Administrative	2,840	2,672	2,645	2,673	3,053	2,932	2,850	3,158	3,590	3,402	3,415	3,563	10,830	11,993	13,969	14,736	15,497	8,308	10,275	11,043	12,530	14,241	
Operating Income	17,210	12,558	9,201	10,030	17,463	13,593	10,282	11,165	19,644	15,318	12,467	13,199	48,999	52,503	60,629	67,400	70,708	43,303	55,111	49,252	54,684	63,915	
<i>PTOP Margin</i>	31.6%	28.8%	26.0%	26.8%	30.3%	29.8%	27.5%	26.5%	30.1%	28.8%	27.4%	27.4%	28.7%	28.7%	28.6%	29.5%	29.7%	33.9%	33.5%	28.3%	28.7%	29.1%	
Total Interest & Other Income	462	347	234	113	246	225	202	307	324	254	240	172	1,156	980	990	740	(141)	416	847	940	1,058	841	
Pretax Income	17,672	12,905	9,435	10,143	17,709	13,818	10,484	11,472	19,968	15,572	12,707	13,372	50,155	53,483	61,619	68,140	70,566	43,719	55,958	50,192	55,742	64,756	
GAAP Income Tax Provision	4,594	3,358	2,535	2,831	4,637	3,595	2,736	3,005	5,292	4,049	3,304	3,477	13,118	13,973	16,121	17,716	19,058	10,737	14,211	13,161	14,628	16,837	
Operating Tax Provision (excl one time tax ef	4,594	3,358	2,535	2,831	4,637	3,595	2,736	3,005	5,292	4,049	3,304	3,477	13,118	13,973	16,121	17,716	19,058	10,737	14,211	13,161	14,628	16,837	
<i>Effective Tax Rate</i>	26.0%	26.0%	26.9%	25.9%	26.2%	26.0%	26.1%	26.2%	26.5%	26.0%	26.0%	26.0%	26.2%	26.1%	26.2%	26.0%	27.0%	24.6%	25.4%	26.2%	26.2%	26.0%	
Operating Net Income	13,078	9,547	6,900	7,512	13,072	10,223	7,748	8,467	14,677	11,523	9,403	9,895	37,037	39,510	45,498	50,424	51,509	32,982	41,747	37,031	41,115	47,919	
<i>Operating Net Income Margin</i>	24.0%	21.9%	19.5%	20.0%	22.7%	22.4%	20.7%	20.1%	22.5%	21.7%	20.7%	20.6%	21.7%	21.6%	21.5%	22.1%	21.6%	25.8%	25.3%	21.3%	21.6%	21.8%	
Total Non-recurring Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GAAP Net Income	13,078	9,547	6,900	7,512	13,072	10,223	7,748	8,467	14,677	11,523	9,403	9,895	37,037	39,510	45,498	50,424	51,509	32,982	41,747	37,031	41,115	47,919	
Fully-diluted EPS																							
EPS - ModelWare	\$1.97	\$1.44	\$1.07	\$1.18	\$2.07	\$1.66	\$1.28	\$1.42	\$2.50	\$1.99	\$1.64	\$1.75	\$5.68	\$6.45	\$7.89	\$9.16	\$9.83	\$5.02	\$6.30	\$5.75	\$6.84	\$8.40	
EPS - Reported	\$1.97	\$1.44	\$1.07	\$1.18	\$2.07	\$1.66	\$1.28	\$1.42	\$2.50	\$1.99	\$1.64	\$1.75	\$5.68	\$6.45	\$7.89	\$9.16	\$9.83	\$5.02	\$6.30	\$5.75	\$6.84	\$8.40	
EPS - ModelWare excl. Stock Option Expen	\$2.05	\$1.53	\$1.16	\$1.27	\$2.18	\$1.77	\$1.40	\$1.55	\$2.64	\$2.13	\$1.77	\$1.87	\$6.02	\$6.92	\$8.44	\$9.77	\$10.51	\$5.22	\$6.58	\$6.12	\$7.34	\$8.97	
Dividend Payment	2,493	2,491	2,811	2,769	2,769	2,661	2,667	2,829	2,804	2,769	2,986	2,959	10,564	11,126	11,519	12,096	12,726	-	4,981	10,840	11,161	11,664	
Dividend Per Share	\$0.38	\$0.38	\$0.44	\$0.44	\$0.44	\$0.43	\$0.48	\$0.48	\$0.48	\$0.48	\$0.52	\$0.52	\$1.63	\$1.83	\$2.01	\$2.21	\$2.43	\$0.00	\$0.76	\$1.69	\$1.87	\$2.08	
Period Ending Outstanding Shares	6,572.8	6,580.7	6,359.5	6,294.5	6,247.1	6,032.2	5,987.9	5,866.2	5,817.8	5,721.7	5,665.8	5,620.0	6,294.5	5,866.2	5,620.0	5,358.5	5,118.0	6,497.9	6,563.3	6,370.4	5,926.0	5,639.0	
Avg Shares (Basic)	6,572.4	6,577.4	6,430.3	6,329.1	6,272.5	6,123.3	6,012.6	5,933.8	5,842.0	5,769.8	5,693.8	5,642.9	6,477.3	6,085.6	5,737.1	5,476.7	5,238.3	6,490.1	6,558.0	6,402.3	5,977.9	5,672.7	
Avg Shares (Fully Diluted)	6,630.5	6,622.2	6,469.9	6,363.9	6,310.2	6,156.7	6,051.7	5,972.1	5,877.0	5,804.8	5,718.8	5,667.9	6,521.6	6,122.7	5,767.1	5,506.7	5,238.3	6,571.0	6,627.9	6,441.5	6,014.4	5,701.4	

Source: Company Data, Morgan Stanley Research

Exhibit 7: Apple Balance Sheet

(\$ in millions)	2013A				2014A				2015E				2013A	2014A	2015E	2016E	2017E
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15					
Assets																	
Current Assets:																	
Cash and cash equivalents	16,154	12,053	11,248	14,259	14,077	18,949	12,977	13,844	30,689	25,075	58,148	59,262	14,259	13,844	59,262	105,644	159,226
Short-term investments	120,958	132,634	135,372	132,502	144,765	131,640	151,513	141,395	141,395	141,395	141,395	141,395	132,502	141,395	141,395	141,395	141,395
Accounts receivable	11,598	7,084	8,839	13,102	14,200	9,700	10,788	17,460	17,930	13,435	14,011	20,105	13,102	17,460	20,105	21,145	22,067
Inventories	1,455	1,245	1,697	1,764	2,122	1,829	1,594	2,111	2,204	2,137	1,817	1,600	1,764	2,111	1,600	1,650	1,715
Deferred tax assets	2,895	3,242	3,193	3,453	3,742	4,014	3,884	4,318	4,318	4,318	4,318	4,318	3,453	4,318	4,318	4,318	4,318
Other current assets	16,580	12,629	11,884	14,421	19,572	13,648	13,878	19,565	19,565	19,565	19,565	19,565	14,421	19,565	19,565	19,565	19,565
Total Current Assets	169,640	168,887	172,233	179,501	198,478	179,780	194,634	198,693	216,101	205,925	239,254	246,245	179,501	198,693	246,245	293,718	348,286
Property, Plant & Equipment, net	15,422	15,026	16,327	16,597	15,488	15,120	17,585	20,624	20,532	20,440	20,350	20,261	16,597	20,624	20,261	17,810	18,288
Acquired Intangible Assets	5,843	5,536	5,875	5,756	6,127	5,983	6,141	8,758	8,551	8,354	8,167	7,990	5,756	8,758	7,990	7,364	7,181
Other assets	5,183	5,294	5,421	5,146	5,091	5,106	4,160	3,764	3,764	3,764	3,764	3,764	5,146	3,764	3,764	3,764	3,764
Non-current debt and equity inv	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Fixed Assets	26,448	25,856	27,623	27,499	26,706	26,209	27,886	33,146	32,847	32,559	32,281	32,015	27,499	33,146	32,015	28,938	29,233
Total Assets	196,088	194,743	199,856	207,000	225,184	205,989	222,520	231,839	248,947	238,484	271,535	278,259	207,000	231,839	278,259	322,656	377,519
Liabilities																	
Current Liabilities:																	
Accounts payable	26,398	14,912	15,516	22,367	29,588	18,914	20,535	30,196	34,378	23,866	25,740	29,441	22,367	30,196	29,441	31,029	32,243
Accrued expenses	20,481	20,596	20,803	21,291	24,181	24,294	23,680	26,944	31,568	31,934	31,818	32,437	21,291	26,944	32,437	33,623	34,925
Current Debt	-	-	-	-	-	-	-	6,308	6,308	6,308	6,308	6,308	-	6,308	6,308	6,308	6,308
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	46,879	35,508	36,319	43,658	53,769	43,208	44,195	63,448	72,255	62,108	63,867	68,185	43,658	63,448	68,185	70,960	73,476
Non-Current Liabilities																	
Long-term debt	-	-	16,958	16,960	16,961	16,962	31,040	28,987	28,987	28,987	58,987	58,987	16,960	28,987	58,987	88,987	128,987
Deferred revenue - non-curre	2,938	2,877	2,672	2,625	3,071	3,164	3,058	3,031	3,590	3,649	3,779	3,515	2,625	3,031	3,515	3,377	3,397
Deferred tax liabilities	18,075	20,018	19,703	19,358	20,849	21,626	22,437	23,976	23,976	23,976	23,976	23,976	19,358	23,976	23,976	23,976	23,976
Other non-current liabilities	850	850	850	850	850	850	850	850	850	850	850	850	850	850	850	850	850
Total Non-Current Liabilities	21,863	23,745	40,183	39,793	41,731	42,602	57,385	56,844	57,403	57,462	87,592	87,328	39,793	56,844	87,328	117,190	157,210
Total Liabilities	68,742	59,253	76,502	83,451	95,500	85,810	101,580	120,292	129,658	119,570	151,459	155,514	83,451	120,292	155,514	188,150	230,686
Series A preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Shareholder's Equity	127,346	135,490	123,354	123,549	129,684	120,179	120,940	111,547	119,290	118,914	120,077	122,746	123,549	111,547	122,746	134,507	146,832
Total Liabilities and Sharehold	196,088	194,743	199,856	207,000	225,184	205,989	222,520	231,839	248,947	238,484	271,535	278,259	207,000	231,839	278,259	322,656	377,519

Source: Company Data, Morgan Stanley Research

Exhibit 8: Apple Cash Flow Statement

(\$ in millions)	2013A				2014A				2015E				2013A	2014A	2015E	2016E	2017E
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15					
Cash Flow Statement (Non Cumulative)																	
Operating activities:																	
Net Income / (Loss)	13,078	9,547	6,900	7,512	13,072	10,223	7,748	8,467	14,677	11,523	9,403	9,895	37,037	39,510	45,498	50,424	51,509
Cumulative effect of accounting change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to reconcile net income:																	
Depreciation & Amortization	1,588	1,692	1,694	1,783	2,144	1,887	1,946	1,969	2,566	2,680	2,800	2,928	6,757	7,946	10,974	12,906	12,187
Provision for (benefit from) deferred income taxes	1,179	778	567	(1,383)	1,253	806	1,095	(291)	-	-	-	-	1,141	2,863	-	-	-
Gain on non-current investments, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on short-term investments, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrealized loss on conv. securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on sale of PP&E	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-cash restructuring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In-Process R&D	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock based compensation expense	545	575	578	555	681	696	724	246	848	850	729	722	2,253	2,347	3,150	3,386	3,533
Tax benefit from ESO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Operating Assets and Liabilities:																	
Accounts receivable	(668)	4,514	(1,755)	(4,263)	(1,098)	4,499	(1,087)	(6,546)	(470)	4,496	(576)	(6,094)	(2,172)	(4,232)	(2,645)	(1,041)	(921)
Inventories	(664)	210	(452)	(67)	(358)	293	235	(246)	(93)	66	320	217	(973)	(76)	511	(50)	(65)
Other current assets	413	1,097	1,638	(2,925)	(319)	1,738	67	(3,706)	-	-	-	-	223	(2,220)	-	-	-
Other assets	(2,174)	3,443	(785)	596	(3,459)	3,473	917	(764)	-	-	-	-	1,080	167	-	-	-
Accounts payable	6,145	(10,567)	(318)	7,080	8,191	(10,566)	(156)	8,469	4,182	(10,512)	1,874	3,700	2,340	5,938	(755)	1,588	1,214
Deferred revenue	1,611	(70)	(137)	55	1,368	46	(20)	66	1,775	737	500	113	1,459	1,460	3,126	33	762
Accrued restructuring costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	2,373	1,285	(102)	965	1,195	443	(1,214)	5,586	3,409	(313)	(486)	242	4,521	6,010	2,852	1,015	560
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	23,426	12,504	7,828	9,908	22,670	13,538	10,255	13,250	26,894	9,528	14,565	11,724	53,666	59,713	62,710	68,261	68,780
Investing activities:																	
Purchase of short-term investments	(37,192)	(43,971)	(41,518)	(25,808)	(48,397)	(41,963)	(70,302)	(56,466)	-	-	-	-	(148,489)	(217,128)	-	-	-
Proceeds from maturities of short-term investments	3,460	5,783	4,720	6,354	5,556	5,313	4,242	3,699	-	-	-	-	20,317	18,810	-	-	-
Proceeds from sales of short-term investments	23,002	26,186	32,546	22,396	30,302	49,939	46,586	62,474	-	-	-	-	104,130	189,301	-	-	-
Purchases of long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Proceeds from sale of PP&E	-	-	-	-	-	-	-	-	206	217	229	242	-	-	895	1,092	304
Purchase of PP&E	(2,317)	(2,008)	(1,885)	(1,955)	(1,985)	(1,382)	(2,378)	(3,826)	(2,473)	(2,609)	(2,752)	(2,904)	(8,165)	(9,571)	(10,738)	(10,922)	(12,786)
Cash paid for acquisition of technology	(422)	(306)	(275)	(404)	(584)	(138)	(392)	(2,893)	-	-	-	-	(1,407)	(4,007)	-	-	-
Proceeds from sale of ARM shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(52)	(41)	(95)	28	5	(28)	30	9	-	-	-	-	(160)	16	-	-	-
Net cash used in investing activities	(13,521)	(14,357)	(6,507)	611	(15,103)	11,741	(22,214)	2,997	(2,267)	(2,392)	(2,523)	(2,662)	(33,774)	(22,579)	(9,843)	(9,830)	(12,482)
Financing activities:																	
Increase (decrease) in notes payable to banks	-	-	-	-	-	-	2,010	4,296	-	-	-	-	-	6,306	-	-	-
Increase (decrease) in long-term borrowings	-	-	16,896	-	-	-	11,960	-	-	-	30,000	-	16,896	11,960	30,000	30,000	40,000
Proceeds from issuance of common stock	76	199	60	195	134	207	94	295	22	20	18	11	530	730	70	47	10
Excess tax benefits from stock-based compensation	404	98	142	57	280	83	199	177	-	-	-	-	701	739	-	-	-
Dividends and dividend equivalent rights paid	(2,493)	(2,491)	(2,811)	(2,769)	(2,769)	(2,661)	(2,867)	(2,829)	(2,804)	(2,769)	(2,986)	(2,959)	(10,564)	(11,126)	(11,519)	(12,096)	(12,726)
Repurchase of common stock	(1,950)	-	(16,000)	(4,910)	(5,029)	(17,971)	(5,000)	(17,000)	(5,000)	(10,000)	(6,000)	(5,000)	(22,860)	(45,000)	(26,000)	(30,000)	(30,000)
Taxes paid related to net share settlement	(534)	(54)	(413)	(81)	(365)	(65)	(409)	(319)	-	-	-	-	(1,082)	(1,158)	-	-	-
Net Cash used in Financing Activities	(4,497)	(2,248)	(2,126)	(7,508)	(7,749)	(20,407)	5,987	(15,380)	(7,782)	(12,750)	21,031	(7,948)	(16,379)	(37,549)	(7,449)	(12,049)	(2,716)
Increase/(decrease) in Cash and Cash Equivalents	5,408	(4,101)	(805)	3,011	(182)	4,872	(5,972)	867	16,845	(5,614)	33,073	1,114	3,513	(415)	45,418	46,383	53,582
Adjustments for restatements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and Cash Equivalents at Beginning of Period	10,746	16,154	12,053	11,248	14,259	14,077	18,949	12,977	13,844	30,689	25,075	58,148	10,746	14,259	13,844	59,262	105,644
Cash and Cash Equivalents at End of Period	16,154	12,053	11,248	14,259	14,077	18,949	12,977	13,844	30,689	25,075	58,148	59,262	14,259	13,844	59,262	105,644	159,226

Source: Company Data, Morgan Stanley Research

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Apple, Inc. (AAPL.O) - As of 11/19/14 in USD
Industry : IT Hardware



Stock Rating History: 11/1/11 : O/I; 12/3/13 : O/C

Price Target History: 10/18/11 : 68.57; 1/24/12 : 73.57; 3/13/12 : 102.86; 5/31/12 : 105.43; 7/24/12 : 102.86;
10/26/12 : 102; 4/11/13 : 85.71; 4/24/13 : 77.14; 10/29/13 : 83.57; 12/3/13 : 90; 4/30/14 : 98.57; 7/14/14 : 110;
10/21/14 : 115; 11/19/14 : 126

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
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INDUSTRY COVERAGE: IT Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/18/2014)
Katy L. Huberty, CFA		
Apple, Inc. (AAPL.O)	O (05/26/2009)	\$115.47
CDW Corporation (CDW.O)	E (08/06/2013)	\$33.24
EMC Corp. (EMC.N)	E (01/10/2013)	\$30.39
Hewlett-Packard (HPQ.N)	O (03/18/2013)	\$37.50
IBM (IBM.N)	E (09/08/2009)	\$161.89
Lexmark International (LXK.N)	U (07/14/2010)	\$43.33
NCR Corp. (NCR.N)	E (09/25/2011)	\$28.35
NetApp Inc (NTAP.O)	U (03/24/2014)	\$41.89
Nimble Storage (NMBL.N)	O (06/18/2014)	\$27.98
QLogic Corporation (QLGC.O)	E (07/10/2014)	\$11.55
Seagate Technology (STX.O)	O (01/21/2014)	\$64.65
Teradata (TDC.N)	U (12/03/2013)	\$44.73
Western Digital (WDC.O)	O (12/03/2013)	\$100.39
Scott Schmitz		
3D Systems Corp (DDD.N)	E (09/03/2014)	\$35.37
Brocade Communications Systems (BRCD.O)	E (12/03/2013)	\$11.49
Stratasys Ltd (SSYS.O)	O (09/03/2014)	\$104.80

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* Historical prices are not split adjusted.

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