



Creative Global Investments

Apple (NYSE: AAPL \$104.15) SELL

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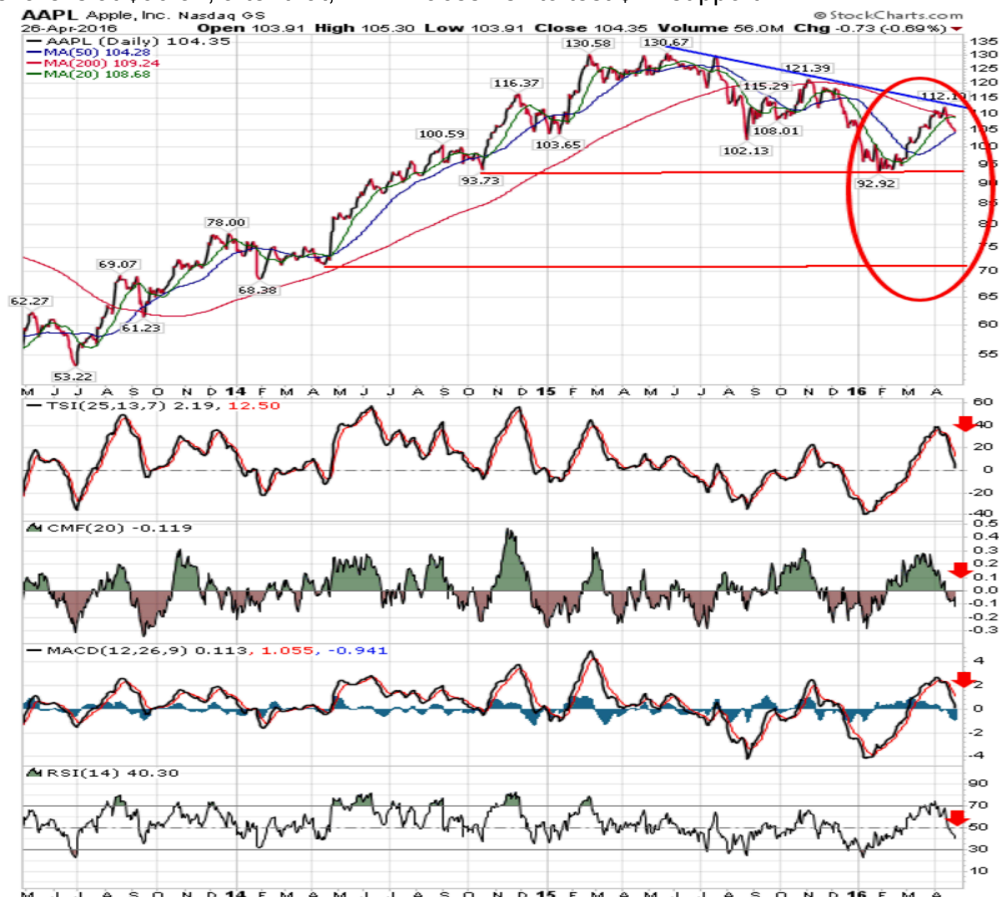
Objectivity

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Apple's 2016 Q2 results announced after the market close yesterday were disappointing again. Forward cautiously negative guidance by Tim Cook is confirming our past long term views, that Apple's business & product innovation, its industry lead and leading business strategy and implementation have peaked in 2013. Apple's 2016 Q2 profits fell nearly -23% and Q2 revenues declined for the first time in 13 years. AAPL reported \$50.6 BN in sales, as iPhone, iPad, and Mac sales declined, as we were forecasting, and Apple's sales dropped by more than 25% in China, its most important market after the US, and it also forecast another disappointing quarter for global revenues. Apple's first drop in quarterly revenues since 2003 is signaling a massive turning point. It's not the end of Apple Inc. and its' products, it is just that the highest growth and margins are behind the company and for its investors. We believe that Apple Inc. has still potential to grow in the US and territories, such as India and Africa.

In our view, however, the investment case for AAPL has changed a few years ago, and there are better and more opportunistic companies to invest in. **AAPL shares fell more than -8% after the close in NY yesterday, to about \$96 this morning in Frankfurt, and below our January 27th "Sell" on APL at \$ 99.99. We reiterate our "Sell" on AAPL at the current price of \$96/share, with our 3 - 6 months price target of \$70 for AAPL stock. The short-term technical outlook on AAPL is negative, with RSI, MACD, and 20-day, 50-day and 200-day MVA all negative.** First support for AAPL share is at \$90.32, after that, AAPL faces risk to test \$71 support.



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The after-hours drop in AAPL shares wipes out roughly \$46 BN in market capitalization, or the equivalent market capitalization of Croatia. **Encouraging to us is the fact that there are still 40 analysts out of 47 covering AAPL stock, which are still having a “buy” or “hold” recommendation on AAPL stock, with an unrealistically high \$132 average price target for 2016**

We believe most of those are being too bullish on Apple’s revenue & earnings outlook for 2016 and beyond, and that AAPL stock faces lots of downgrades and recommendation changes on AAPL in the near term and will give our “Sell” recommendation even more of a tailwind.

Analyst recommendations on AAPL

	current	1 Month Ago	3 Months Ago
BUY	37	36	39
OVERWEIGHT	3	3	4
HOLD	6	7	6
UNDERWEIGHT	0	0	0
SELL	1	1	1
MEAN	BUY	BUY	BUY

The overall investment case for Apple shares has changed, particularly given the very diversified shareholder base globally, and the fact that Apple shares are now included in all major equity indices.

The chart-technical outlook for AAPL shares is negative for the short & medium term. All short term indicators are negative (RSI, TSI, MACD and 20-, 50- and 200-day MVA’s are clearly negative.

From a technical aspect, we see significant risks for AAPL shares move down towards the \$ 70/sh level.

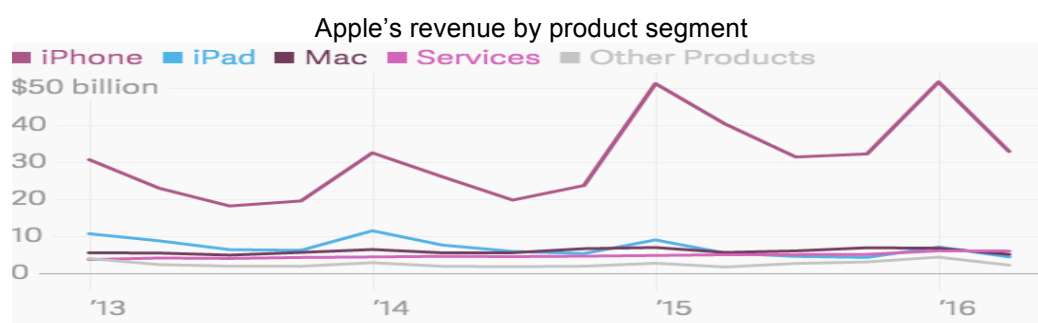
- Death Cross formation
- MACD indicates a Bearish Trend
- Chart pattern indicates a Strong Downward Trend
- Relative Strength is Bearish
- Up/Down volume pattern indicates that the stock is under Distribution
- The 20-day, 50-day and 200-day Moving Averages are falling which is Bearish
- Margin requirements hitting stock
- Foreign investors have stronger case for selling AAPL, due to big gains including recent gains due to strength of US\$

Business Fundamental Considerations for Apple Inc.

We undoubtedly see increasing evidence that Apple's iPhone sales, which still represented 65% of the Apple's Q2 revenues, and which are the highest margin product in Apple's product line, have peaked. We do not believe that given the dramatically changed negative macro economic circumstances affecting emerging market economies and their consumers' psychology and diminishing their purchasing power very negatively are going to lead to any substantial volume growth for Apple. Our immediate concerns are heightened due to the significant price premium Apple has charged for iPhones (US\$ 691 average price for all iPhone sales in Q2 versus an average of US\$ 200 for all other smart phones sold in 2016 y-t-d). Our concerns regarding Apple,

- Fundamentals slowing
- New product cycle & pipeline slowing
- Phone and tablet buyers psychology changing
- Pricing pressures increasing (too many competitors with lower priced products)
- Margin pressures in 2016 becoming major investors concern

Which we have reiterated repeatedly since October in 2013 are starting to become evident, as Apple is no longer leading in product innovation and that several new products, such as Apple TV, Apple Watch and have clearly failed to achieve the expected revenues and returns.



Apple forecast Q3 revenue of \$41 BN to \$43 BN, short of the Wall Street consensus of \$47.3 BN.

Earnings of \$1.90/sh fell short of the average analyst estimate of \$2/sh, according to Thomson Reuters I/B/E/S. Revenue of \$50.56 BN missed expectations of \$51.97 BN.

Apple Inc.
Q2 2016 Unaudited Summary Data
 (Units in thousands, Revenue in millions)

	Q2 2016	Q1 2016	Q2 2015	Sequential Change	Year/Year Change
Operating Segments	Revenue	Revenue	Revenue	Revenue	Revenue
Americas	\$19,096	\$29,325	\$21,316	- 35%	- 10%
Europe	11,535	17,932	12,204	- 36%	- 5%
Greater China	12,486	18,373	16,823	- 32%	- 26%
Japan	4,281	4,794	3,457	- 11%	24%
Rest of Asia Pacific	3,159	5,448	4,210	- 42%	- 25%
Total Apple	\$50,557	\$75,872	\$58,010	- 33%	- 13%

	Q2 2016	Q1 2016	Q2 2015	Sequential Change	Year/Year Change
Product Summary	Units Revenue	Units Revenue	Units Revenue	Units Revenue	Units Revenue
iPhone (1)	51,193 \$32,857	74,779 \$51,635	61,170 \$40,282	- 32% - 36%	- 16% - 18%
iPad (1)	10,251 4,413	16,122 7,084	12,623 5,428	- 36% - 38%	- 19% - 19%
Mac (1)	4,034 5,107	5,312 6,746	4,563 5,615	-24% - 24%	- 12% - 9%
Services (2)	5,991	6,056	4,996	- 1%	20%
Other Products (1)(3)	2,189	4,351	1,689	- 50%	30%
Total Apple	\$50,557	\$75,872	\$58,010	- 33%	- 13%

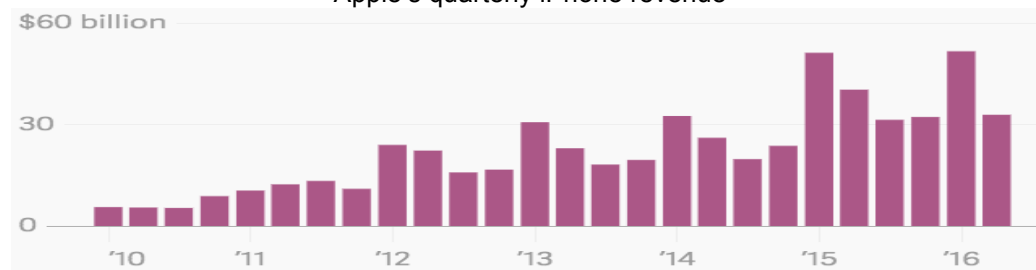
(1) Includes deferrals and amortization of related software upgrade rights and non-software services.

(2) Includes revenue from Internet Services, AppleCare, Apple Pay, licensing and other services.

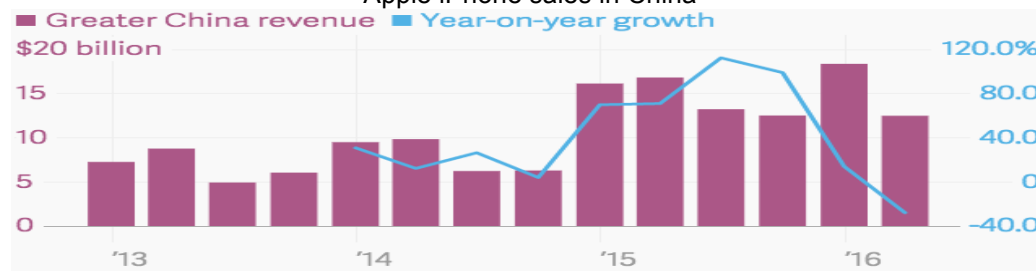
(3) Includes sales of Apple TV, Apple Watch, Beats products, iPod and Apple-branded and third-party accessories.

Apple sold 51.2MN iPhones in Q2 fiscal quarter, down from 61.2MN in the same quarter a year ago but above analysts' estimates of about 50 MN devices. While Apple executives had predicted iPhone sales would decline also in Q2, they must reassure investors that the drop represents a momentary roadblock, rather than a permanent shift for the product that fueled its meteoric rise.

Apple's quarterly iPhone revenue



Apple iPhone sales in China

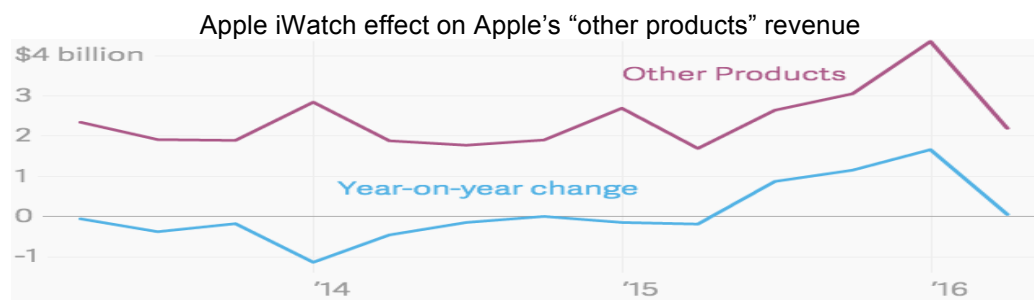


iPhone SE demand strong, but we doubt it will prevail, nevertheless accelerate much

In March, Apple released the iPhone SE, a smaller, 4-inch-screen phone featuring much of the company's latest technology. Although sales of the phone were not captured in Q2, the device is off to a strong start, as per Apple's official notes.

Cook said that mainland China sales were down only -7% in constant currency, attributing much of the Greater China drop to Hong Kong, where strength in the local dollar, which is pegged to US currency, deterred tourist shopping.

After years of blockbuster sales, the iPhone has reached saturation, besides cannibalization of its own products such as the iPad, the iWatch (and with the new iWatch to be released with full cellular data access, hence many users no longer needing a cell phone to facilitate data access, we anticipate even more product cannibalization to come) spelling the end for Apple's exponential growth.



The company did not comment on prospects for its iBooks Stores and iTunes Movie service, which were shut down last week in China.

Apple for about 4 years has lacked new product introductions with a radical new innovation, and has barely "re-introduced" product with incremental improvements.

We do not believe that Apple getting involved in the automotive market via "building an Apple-car" will stand a chance to compete against 100 plus years of global automotive manufacturing expertise. Not Apple, not TESLA, and not a highly speculated AAPL/TSLA potential acquisition/merger. And for acquisitions, given where global stocks are valued, particularly excessively high US company valuations, there is just no acquisition target and strategy currently that would be enhancing Apple's long term earnings outlook positively.

Apple also said it was raising its capital return program by \$50 BN through a \$35 BN increase in its share buyback authorization and a 10% rise in the quarterly dividend. A hike in Apple's share buyback and dividend as well as bumper revenue from services failed to mollify investors.



These total cash positions are currently accruing interest for more than a year, and this at a non-accretive rate of return, given where global interest rates are. However, as noted in earlier notes, almost all of Apple's cash and securities are held outside of the US; proceeds from sales outside the US that Apple cannot bring back due to the implication of that transfer being subject to a 38% US corporate tax Apple would have to pay in that case. Over 92% of Apple's cash is held outside of the US, and as we mentioned in 2013, we see little chance for investors, given that 38% US tax rate, that Apple management will consider in the near-term a partial or entire repatriation of this cash.

Do not take is wrongly, we still see Apple as a good company, and its products to continue to sell well in the premium segment market, however, the sales growth prospects in emerging markets have shrunk substantially over the past 18 months.

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