

Apple (AAPL)

Highly Attractive

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### Apple Watch 3 Gaining Momentum; FY18 an Inflection Point

Our Apple store checks and recent survey data are showing significant momentum for Apple Watch Series 3 sales since its launch in late September. Roughly 80% of consumers we have polled that are interested in the Watch are buying the new LTE/cellular version as this looks to be a major selling point for Apple Watch sales vs. prior versions given its new standalone product offering. We have found that 7 of every 10 Apple Watch consumers buying a Series 3 that we have surveyed is a new Watch customer (and existing iPhone user) and is not related to an upgrade of Series 1 or 2. This data point speaks to our belief that the Apple Watch Series 3 could be a “game changer” release for Cupertino to open up this wearables category for the coming years, which is important as the Watch is a gate opener consumer product in our opinion. We believe the cellular model is clearly a catalyst for Watch sales heading into holiday season and will ultimately drive higher attach rates and modestly higher ASPs for this product offering in FY18. We maintain our Highly Attractive rating and valuation range of between \$190 and \$200.

- **Series 3 strong out of the gates.** Given our bottoms up analysis that Apple has sold over 30 million Apple Watches since its launch in 2015, we believe this latest Series 3 and cellular enablement will be a much-needed driver for enhanced sales (and ASPs) with our forecast of 19 million units sold in FY18 vs. 14 million in FY17 and 23 million units now modeled for FY19. While Apple Watch sales still represents low to mid-single digits of overall revenue, this wearables category is an important product for Apple to further penetrate its massive consumer installed base and lay the groundwork for new product lines/technologies (e.g. AR glasses) over the coming years to complement its “bread and butter” iPhone franchise growth. While iPhone X is clearly the key to Apple’s growth/stock and we believe is on track to be a super cycle product release over the next 12 to 18 months, early signs of positive Apple Watch sales are a “feather in Cook’s hat” heading into its November 2 earnings call and has clear tailwinds for FY18.