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Repatriation & Tax Changes =Tailwind for Large Cap Tech in 2018 with Apple "Front and Center"

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As we begin 2018 a major theme that will be front and center for investors is the recently implemented corporate tax changes and the impact from repatriated cash. With the Trump administration and Beltway imposing a 15.5% tax on cash earnings vs. the previous 35% tax rate we expect a surge of overseas cash to come back into the US with large cap tech being the clear beneficiary for 2018 and beyond. We estimate between $550 billion and $600 billion of cash among a handful of large cap tech players is currently sitting overseas with stalwarts such as Apple, Microsoft, Alphabet, Cisco, Oracle, and Qualcomm representing much of the cash coffer that is potentially in play. Based on our analysis, we believe between $300 billion to $400 billion of this cash pile ultimately gets repatriated during 2018 with Apple representing roughly $200 billion of this overall pie. This is a major wild card for tech names over the next 6 to 12 months, especially on the large cap front, around how this cash is deployed between buybacks, dividends, M&A, as well as towards significant R&D initiatives and cap ex projects that now could possibly get the green light for 2018 in our opinion. When looking back on the 2004 Tax Holiday, 90%+ of the cash was used for buybacks and dividends with a negligible amount that drove incremental M&A, cap ex increases, and/or fueled new R&D initiatives. While the jury is still out, we estimate the lion's share (~70%) of the repatriated large cap tech cash this time around in 2018 will be deployed between increases in buyback programs, accelerated buybacks, and dividends with the rest (~30%) used for M&A, debt pay downs, cap ex increases, and accelerating high priority R&D initiatives.

- **Apple-What is Next for Cook & Co?** With Apple & Cook set to repatriate roughly $200 billion of cash based on our estimates we believe accelerated buybacks, another dividend hike, and potentially larger M&A will be the trifecta of benefits shareholders could expect to see in 2018. The burning question on the Street's mind is does Cook make a big bet with this infusion of cash and do a larger deal (e.g. Netflix) to catalyze and jump start its streaming video/content business. To this point, while its likely Apple keeps its M&A deals under $2 billion in size, we strongly believe it is a ripe time for Cupertino to look ahead and make a bigger bet on a new growth area such as streaming video as with the "content arms race" well underway between Netflix (spending $8 billion this year), Disney (Fox deal), Amazon, and a host of others such as HBO and Facebook aggressively spending on content, now is the right time for Apple to make an aggressive move in our opinion on this front. That said, for a company that historically is not a huge fan of larger M&A and focused on organic initiatives to broaden its golden consumer ecosystem, a larger M&A deal around buying Netflix, a movie studio, and/or another avenue of adding significant content would be a cultural shift although potentially necessarily IF Apple wants to make a big bet on the streaming front. Organically, Apple could make some headway on the streaming video content front over the next 12 to 18 months but ultimately this service would be limited in scale and scope in our opinion. In a nutshell, the repatriated cash and potential M&A will be a very interesting dynamic to watch, as the "chess moves" that Cook & Apple make (or do not make) in 2018 will be major tea leaves for Apple's future strategy around the iPhone and further penetrating/monetizing the consumer through the company's vast software/services footprint and other potential growth areas (wearables, AR, AI).

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