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AAPL: Thoughts into print

We are going to **sit out the June quarter earnings event**. The stock registered significant outperformance since the previous earnings. The stock galloped 31% over the three months vs. Qs at 12% and SPX at 10%. Into the March quarter earnings event we were unabashedly long into print ([link](#)). Into the event today though, we will stay on the sidelines. Our reasons:

The stock has come a long way over the past three months, and for all the right reasons – 1) China sales in the March quarter printed not as bad as thought earlier in the year and 2) the realization that AAPL has a tangible AI strategy vs. the view earlier in the year that there may be no strategy at all.

The March quarter results and the WWDC event changed investor expectations to the upside. Since the WWDC event, the bulls raised Fy25 expectations, in our view, to **sky-high levels**. The bulls' expectation of iPhone growth in the teens and overall revenue up double digits, we think is not realistic.

Whereas China sales last quarter provided upside to downbeat expectations, into June quarter though China sales could be a source of concern. CAICT report suggests strong sequential gains for domestic brands in the June quarter, whereas Apple sales was merely flat.

Whereas Street is modeling June quarter iPhones growth as down low single digit, it is only reasonable to expect a pause in sell-thru ahead of what is widely anticipated to be an applications-rich iPhone launch the next few years.

Google's client AI may be ahead of Apple: We think Google's progress in LLM and internal silicon development is ahead of Apple. We are not surprised with Apple disclosure that Apple Intelligence was trained on Google's TPU. Based on the data in the disclosure (number of TPUs used to train model, total memory used in training), we assess that the size of the Apple Intelligence LLM is about **7 to 8 million** parameters. This would put Apple Intelligence LLM size in the same ballpark as Google's Android Nano, and presumably having similar capabilities

Having said that, Google has **already delivered** the initial SDK to Android app developers whereas Apple has yet to deliver. We think the first set of AI models based on Android15 could have richer AI applications than the first set out of Apple's iPhone16.

Our view that Apple Silicon could power not only Apple's data centers, but also 3rd party data centers remains unchanged. However, in the words of the Google CEO 'it is going to take some time'. And in the current environment, we think **investors are fresh out of patience**.

Our view: When we raised our PT to \$240 a few days after WWDC, we explicitly took the stance that at launch, the iPhone16 would support only internally developed AI applications ([link](#)). We stated our expectation that AI applications from 3rd party ISVs would come in waves after the launch of iPhone16. We stated that we expected the full complement of 3rd party AI applications to arrive only in iPhone 17. Our view has now been validated by reports in the financial media. As such we modeled the iPhone 16 cycle **up a more modest mid-single digit vs. the bulls modeling up low teens.**

The upshot of our view being this – we model revenue in Fy25 and Fy26, each up ~7%. We modeled Fy26 at \$443bn/\$7.73. The bulls, on the other hand, **get to our F26 estimate in Fy25 itself!** We think the bulls are being too optimistic. See a summary of our model in Exhibit 1, unchanged from our note last month.

Net/Net: Either at the earnings event today or in the days to come, as bullish estimates are dialed down, we think the **stock could drift lower.** We maintain our \$240 PT and look to buy on pull-back. Our view on the long-term viability of Apple’s AI strategy remains unchanged. We continue to like the stock but will remain judicious on the timing of adding to position. We are going to sit out the earnings event today and will look for a better entry point. We maintain our \$240 PT.

Exhibit 1: Key financial estimates

| \$bn | FY24 | FY25 | FY26 |
|----------------------|------------|------------|------------|
| iPhone | 200.0 | 212.0 | 224.7 |
| Mac | 30.2 | 31.8 | 32.7 |
| iPad | 26.7 | 27.5 | 28.0 |
| Wearables | 36.4 | 37.5 | 39.3 |
| Services | 95.8 | 106.4 | 118.1 |
| Total revenue | 389 | 415 | 443 |
| | | | |
| Gross margin | 46.5% | 47.0% | 47.0% |
| Op margin | 32% | 32% | 31% |
| EPS \$ | 6.61 | 7.15 | 7.73 |

Source: Bloomberg, Lynx Equity Strategies

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