



## COMPANY UPDATE / ESTIMATE CHANGE / TARGET CHANGE

### Key Metrics

AAPL - NASDAQ - as of	5/2/17	\$147.51
Price Target		\$170.00
52-Week Range	\$89.47 -	\$148.09
Diluted Shares Outstanding (mil.)		5328.0
Market Cap. (\$mm)		\$785,932.5
1-Mo. Average Daily Volume		30,118,940
Institutional Ownership		61%
Debt/Total Capital (net)	FQ2'17	0%
ROE		34.2%
Book Value / Share	FQ2'17	\$27.48
Price / Book Value		5.4x
Indicated Dividend / Yield	\$2.52	1.7%
LTM EBITDA Margin		34.0%

### GAAP EPS FY 9/30

	Prior	Current		Prior	Current
	2016A	2017E		2018E	2018E
1Q	\$3.28	\$3.36	A	\$3.76	\$3.83
2Q	\$1.90	\$2.10	A	\$2.51	\$2.62
3Q	\$1.42	\$1.69		\$1.96	\$1.96
4Q	\$1.67	\$2.13		\$2.29	\$2.24
Year	\$8.27	\$9.19		\$10.53	\$10.66
P/E	17.8x	16.2x			13.8x

### Revenue (\$BN)

	Prior	Current		Prior	Current
	2016A	2017E		2018E	2018E
1Q	\$75.8	\$78.3	A	\$83.1	\$84.7
2Q	\$50.5	\$52.9	A	\$60.3	\$62.8
3Q	\$42.3	\$45.9		\$50.7	\$50.8
4Q	\$46.9	\$53.6		\$55.5	\$54.9
Year	\$215.6	\$230.7		\$249.7	\$253.3

**Company Description:** Apple Inc. designs, manufactures and markets hardware including the Mac, iPhone, iPad, iPod, Apple Watch, TV and Beats headphones. Apple also develops software, the Mac OS X operating system and the iOS mobile operating system, along with other consumer and professional software applications and services including Maps and Apple Pay. Third-party digital content is sold through iTunes and the App Store. The company sells its products globally through Apple retail stores, an online store and other traditional retail chains. The company is headquartered in Cupertino, California.

## Technology

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May 3, 2017

## Apple Inc.

AAPL - NASDAQ – Long term Buy -1

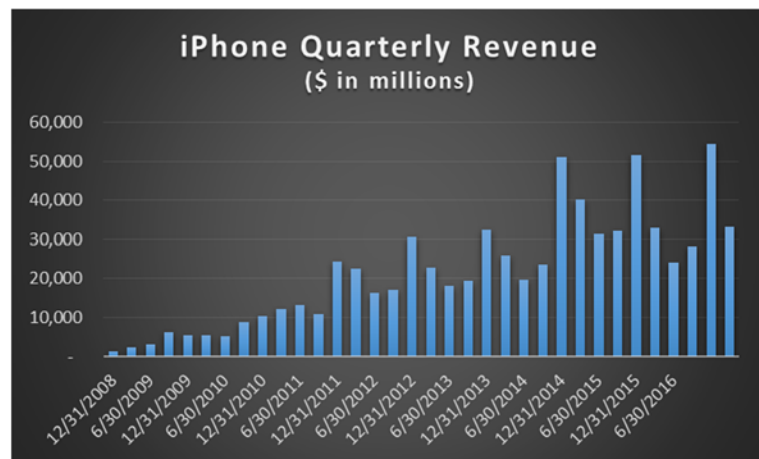
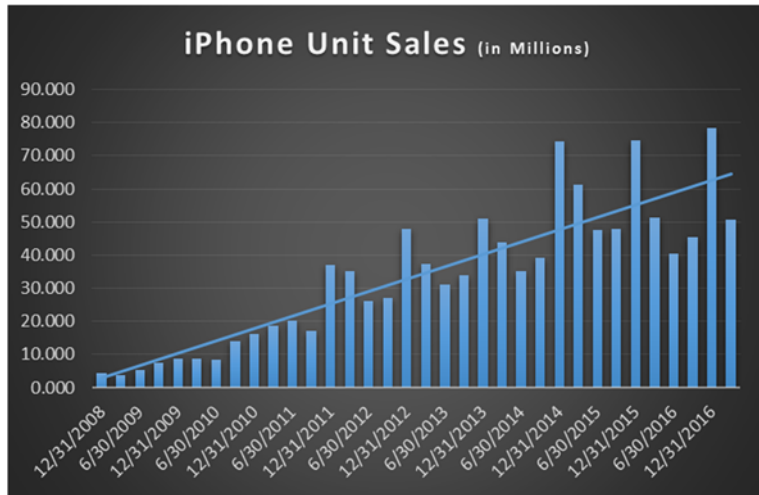
### Apple Reports Mixed Q2 Results & Provides Light Guidance; Raises Dividend & Buyback: Increasing PT to \$170

- Results.** Apple reported quarterly revenue of \$52.89 billion, a 4.6% y/y increase. Revenue was below the consensus analyst estimate of \$53.06 billion but above our target of \$52.80 billion. Gross margin declined 50 bps y/y to 38.9%, beating our 38.6% view. Margin was negatively impacted due to higher component costs vs. last year. Apple did not recognize a benefit from withholding Qualcomm payments, nor does it intend to in FQ3. Operating expense increased 50 bps y/y to 12.3% of total revenue. Net income totaled \$11.02 billion, an increase of 5% y/y. Apple spent \$7.2 billion repurchasing shares, reducing share count by 5% y/y. EPS increased a healthy 10.4% y/y to \$2.10, above our estimate of \$2.01 and consensus of \$2.02. Operating cash flow was \$12.5 billion, up 8% y/y, while FCF was \$9.5 billion. Cash balance reached \$256.8 billion or \$30 per share on a net cash basis. The capital return program increases to \$300 billion, with the dividend increasing 10.5% to \$0.63 vs. our \$0.65 estimate, and \$35 billion was added to the buyback.
- Highlights.** Apple sold 50.76 million iPhones, down 1% y/y, vs. our expectation for 52.5 million, however on a sell-through basis Apple sold 51.96 million units. The average selling price increased to \$655 vs \$642 last year on a higher mix of iPhone 7 Plus. The higher ASP lifted iPhone revenue to \$33.25 billion, up 1% y/y. iPad unit sales totaled 8.9 million, below our view of 9.5 million, down 13% y/y. iPad ASP increased to \$436 vs. \$430 last year. iPad revenue decreased 12% y/y to \$3.9 billion. Mac unit sales were up 4% y/y to 4.2 million, while the average selling price increased \$125 to \$1,392. Services revenue increased 18% y/y to over \$7 billion, and remains on track to double by 2020. App store revenue increased 40% on higher ARPU and the largest increase in paying accounts in Apple's history.
- Outlook.** FQ3 revenue guidance was provided of \$43.5 billion to \$45.5 billion. Gross margin was guided to 37.5% to 38.5% on component cost pressure, while operating expenses were guided above our prior view. We lower our FQ3'17 EPS estimate to \$1.59 from \$1.69. Our FY'17 EPS estimate declines to \$9.09 from \$9.19, while our FY'18 EPS estimate increases to \$10.66 from \$10.53.
- Opinion.** We raise our FYE'18 price target to \$170 from \$147 and maintain our Long-term Buy rating.

**Note Important Disclosures on Pages 9-10**  
**Note Analyst Certification on Page 9**

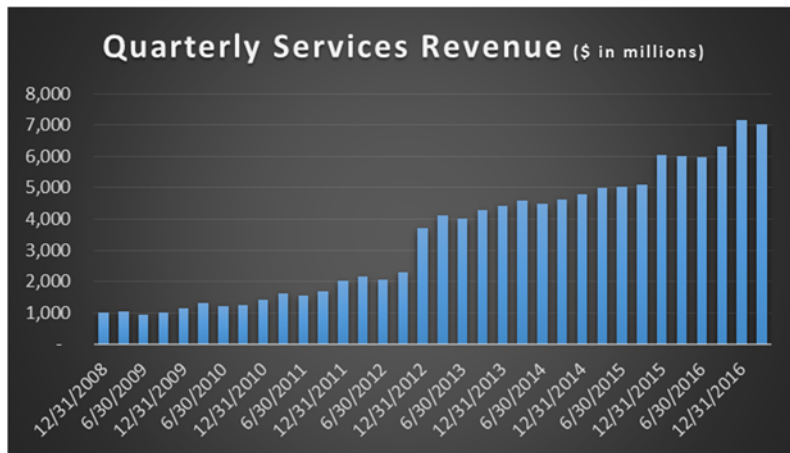
**PRODUCT REVIEW**

**iPhone.** Apple sold 50.76 million iPhones, down 1% y/y, vs. our expectation for 52.5 million, however on a sell-through basis Apple sold 51.96 million phones. The average selling price increased to \$655 vs \$642 last year on strong demand and a higher mix of iPhone 7 Plus. The higher ASP lifted iPhone revenue to \$33.25 billion, up 1% y/y. iPhone segment revenue represented 63% of total revenue vs 65% last year as growth in Service revenue grew double digits. We continue to expect y/y iPhone revenue growth in FQ3 on easier y/y ASP comparisons. We forecast a significant iPhone upgrade cycle later this year as Apple launches its 10th anniversary iPhone with significant feature upgrades expected. Rumors of the upgraded iPhone are having the effect of delaying iPhone purchases/upgrades ahead the fall launch. This is a major contributor to our estimate revision throughout FY' 17.



Source: Company reports

**Services.** The Services segment which includes iTunes purchased content, Apple Pay, App Store, Apple Music, iCloud, service parts, licensing, and other revenue posted revenue of \$7.04 billion, an 18% y/y increase. This beat our \$6.9 billion view. Services represented 13.3% of total revenue. App Store revenue was a record, increasing 40% y/y on higher ARPU and the largest increase in paying accounts in Apple’s history. In our opinion, this represents one of the single greatest product category opportunities for Apple as the company builds out content services including Apple Pay, Apple Music, and Apple TV content sales, and other subscription services. Paid subscriptions increased to 165 million, up 15 million from last quarter, the largest increase in Apple’s history. We also expect CarPlay, Healthkit, and Homekit to boost service revenue and related hardware sales longer term. Apple Pay transaction volume increased 450% y/y. We believe businesses are experiencing improved results from Apple Pay through higher conversion rates and lower cart abandonment. CEO, Tim Cook, noted Service revenue remains on track to double by 2020.



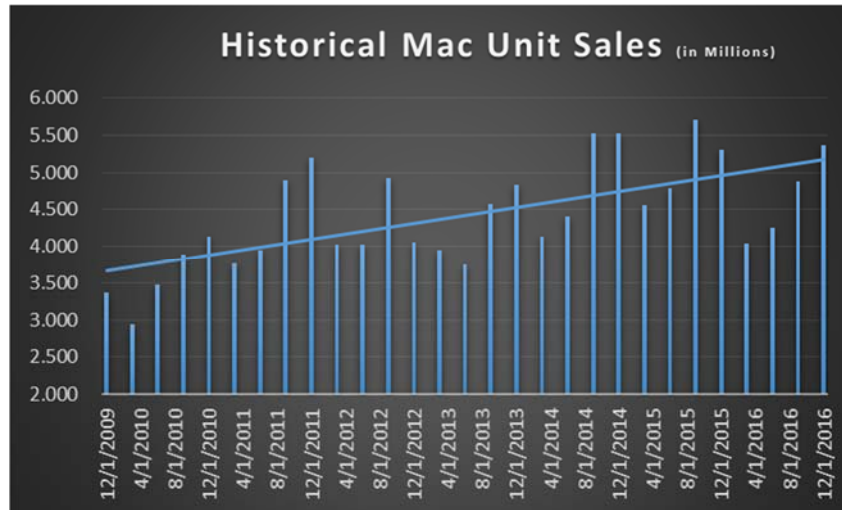
Source: Company reports

**iPad.** iPad unit sales totaled 8.9 million, below our view of 9.5 million, down 13% y/y. iPad ASP increased to \$436 vs. \$430 last year. iPad revenue decreased 12% y/y to \$3.9 billion vs. our \$3.99 billion estimate. The iPad represented 7.4% of total revenue. We continue to believe consumers will upgrade their iPad devices less frequently than iPhones but enterprise demand could ultimately stabilize demand. As consumers continue to shift to larger screen smartphones, iPad demand may continue to soften near term.



Source: Company reports

**Mac.** Mac unit sales were up 4% y/y to 4.2 million above our 4.05 million view. The average selling price increased \$125 to \$1,392. Mac revenue increased due to a significant boost to MAC ASPs from recent product launches. We expect global adoption of Macs to continue as the halo effect regarding customer satisfaction with Apple's mobile devices translates into higher Mac sales.



Source: Company reports

**Other Products.** The other products category includes the Apple Watch, iPod, AirPods, Beats headphones, Apple TV, and accessories. Revenue totaled \$2.87 billion, up 31% y/y, representing 5.4% of total revenue. Apple Watch sales nearly doubled and AirPods demand continued to outstrip supply. We expect segment sales to increase longer term from improvements to Apple's wearables including Apple Watch, AirPods, Beats headphones, and the continued success of the Apple TV.

## GEOGRAPHIC SEGMENT REVIEW

The Americas, Apple's largest region, represented 40% of total revenue with sales increasing double digits y/y to \$21.15 billion, a significant improvement over the prior quarters. Greater China region sales fell 14% y/y to \$10.7 billion. On a constant currency basis, China sales continue to improve on a y/y basis. European revenue of \$12.7 billion increased 10% from a year ago. Japan sales were up 8% y/y to \$4.5 billion. Asia Pacific sales increased 7% to \$3.8 billion. In general, global sales improved from a year ago excluding China, while India revenue reached a quarterly record and is set to expand further as 4G network infrastructure is rolled out. Apple retail stores reached 495 locations helping improve sales in each regional locale.

## FINANCIAL MANAGEMENT

Operating cash flow was \$12.5 billion, up 8% y/y, while free cash flow was up slightly at \$9.5 billion. Cash & investments reached \$256.8 billion or \$30 per share on a net cash basis. The capital return program increases to \$300 billion, with the dividend increasing 10.5% to \$0.63. This was somewhat light vs. our \$0.65 estimate. Apple increased their share repurchase amount by \$35 billion and extended it by 1 year. The company returned over \$10 billion to shareholders during the quarter. The capital return program has returned \$211 billion to shareholders to date, including \$151 billion in share buybacks. We believe Apple has enough cash on hand to continue to pay out all free cash flow in the form of dividends and buybacks. We also believe a 10% repatriation tax would allow Apple to bring back overseas cash at a reasonable rate and deploy that capital through M&A, infrastructure build out, continued buybacks, and dividend increases.

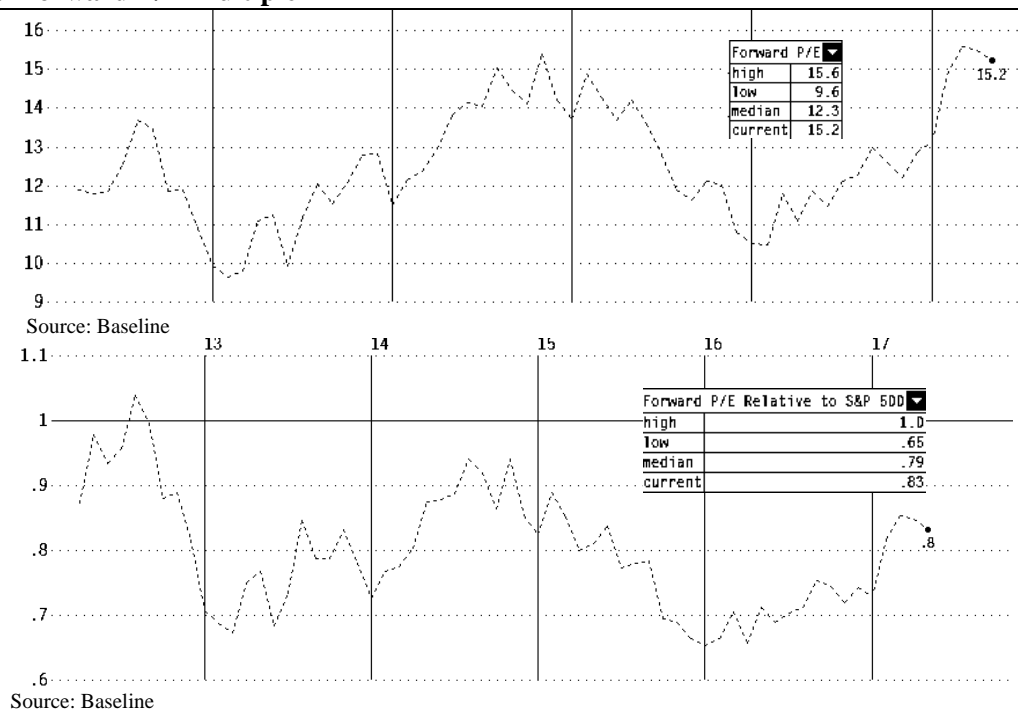
**OUTLOOK**

FQ3 revenue guidance was provided of \$43.5 billion to \$45.5 billion. Gross margin was guided to 37.5% to 38.5% as higher component costs are expected to continue to pressure margins throughout FY'17. We expect these higher costs to be offset by increased Services revenue as a percentage of total sales as well as higher priced iPhone sales ramping through the new release cycle. Operating expenses were guided above our prior view as R&D continues to ramp in what we expect to be an increased level of product introduction. We lower our FQ3'17 EPS estimate to \$1.59 from \$1.69. Our lower outlook reflects our lower revenue view as we become more conservative on iPhone sales near term as consumers pause purchases ahead of the new models expected later this year. We also expect higher operating expenses that we have extended throughout our investment time period. Our FY'17 EPS estimate declines to \$9.09 from \$9.19, while our FY'18 EPS estimate increases to \$10.66 from \$10.53 largely on minor tweaks to our estimates.

**VALUATION & OPINION**

We raise our FYE'18 price target to \$170 from our previous target of \$147 which was achieved well in advance of our two year investment timeframe. Our updated price target reflects our higher fiscal 2018 estimates and improved valuation metrics. Our forward P/E multiple increases to 16x from 14x as Apple has returned to meaningful double-digit EPS growth which we expect to continue through our FYE'18 investment timeframe. As depicted in the chart below, our forward multiple of 16x is slightly above Apple's current forward price to earnings multiple of 15.2x. Our 16x multiple used in our share price calculation represents a recent high multiple as we enter a potential iPhone super cycle event, expected to boost FY'18 EPS by 17% y/y. We believe our price target is justified as we do not include Apple's net cash balance of \$158.3 billion which we expect could be repatriated and used to further boost our growth outlook. Excluding net cash, shares trade at a forward P/E multiple of 11x our FY'18 EPS estimate. In our opinion, the recent price appreciation in Apple shares reflects Apple's return to solid growth and the high expectations for the fall iPhone launch. Our 16x forward multiple represents a 20% discount to the market representing its median 5 year discount. Also, at Apple's current price level, the FCF yield remains above 5%, very healthy compared to industry peers. Our price target of \$170 represents a potential total return of 19% including dividends at yesterday's closing price of \$147.51. We believe AAPL shares remain a core holding for investors seeking capital appreciation and a growing income stream.

**Historical Forward P/E Multiple**



**SUITABILITY**

We assign shares of AAPL a suitability rating of 1 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 1 rating is given based on Apple's long and reputable history as a public consumer electronics company. While a majority of revenue is derived solely from iPhone sales, we believe Apple has the ability to expand its services offering and continue to introduce new products over time. We also take into consideration the company's large cash balance and significant free cash flow generating ability. We believe a suitability rating of 1 incorporates these attributes. We believe AAPL shares remain a core holding for investors seeking capital appreciation and a growing income stream.

**RISKS & CONSIDERATIONS**

Risks to our valuation include but are not limited to:

- Uncertainty regarding potential court proceedings with Qualcomm, which could produce unintended consequences.
- Potential health risks, including brain cancer, caused by wireless device usage. Apple recommends users carry iPhones at least 5 millimeters away from the body. Regulators may begin to require a warning vs. the current recommendation, which could impact future sales.
- Management's ability to secure and retain top talent
- Possible risks from changes in the smartphone selling model.
- Piracy issues: Apple's ability to protect intellectual property rights against global competitors, including software and brand piracy
- Macroeconomic issues, including higher future international tax rates or tariffs, a decline in consumer spending or changes in consumer behavior/willingness to continue purchasing devices rather than fully functional PCs
- Lack of innovation due to a "closed-ecosystem" versus competitors' "open-ecosystem" architecture
- The risk of excessive spending due to rapid technological advances. Apple must ensure a timely flow of competitive products and services to compete
- Increased competition from global competitors, particularly low cost Asian manufactures
- The International Trade Commission's ability to ensure Apple's patents, trademarks, copyrights and licenses are enforced and upheld. Continued legal disputes involving patent infringement lawsuits and federal government inquiries into anti-competitive business practices, health and environmental concerns
- Component shortages or pricing risk due to single source availability. Also, future supply disruptions resulting from situations involving natural disaster, geopolitical events, etc.
- A large percentage of future growth expectations tied to emerging market economies which may choose to block certain products or services
- Internally generated product growth outside of the iPhone business could take a significant amount of time to ramp into a meaningful contribution to revenue whether hardware or service related offering.

*Additional information is available upon request.*

## Apple Inc. - Consolidated Statement of Operations (in millions except per share data and percentages)

	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	12/31/2016	3/31/2017	06/30/2017E	09/30/2017E	FY'17E	FY'18E
Net Sales	\$ 24,006	\$ 37,491	\$ 42,905	\$ 65,225	\$ 108,249	\$ 156,508	\$ 170,910	\$ 182,795	\$ 233,715	\$ 215,639	\$ 78,351	\$ 52,896	\$ 45,258	\$ 52,510	\$ 229,015	\$ 253,374
Cost of Sales	15,852	24,294	25,683	39,541	64,431	87,846	106,606	112,258	140,089	131,376	48,175	32,305	27,969	32,294	140,743	155,298
Gross Profit	8,154.00	13,197	17,222	25,684	43,818	68,662	64,304	70,537	93,626	84,263	30,176	20,591	17,289	20,216	88,272	98,076
<b>Operating expenses:</b>																
Research and Development	782	1,109	1,333	1,782	2,429	3,381	4,475	6,041	8,067	10,045	2,871	2,776	2,851	2,888	11,386	12,110
Selling, general and admin.	2,963	3,761	4,149	5,517	7,599	10,040	10,830	11,993	14,329	14,194	3,946	3,718	3,802	3,833	15,299	16,722
Total operating expenses	3,745	4,870	5,482	7,299	10,028	13,421	15,305	18,034	22,396	24,239	6,817	6,494	6,653	6,721	26,685	28,832
Operating income	4,409	8,327	11,740	18,385	33,790	55,241	48,999	52,503	71,230	60,024	23,359	14,097	10,636	13,495	61,587	69,244
Other income and expense	599	620	326	155	415	522	1,156	980	1,285	1,348	821	587	475	585	2,468	2,200
Income before provision for income taxes	5,008	8,947	12,066	18,540	34,205	55,763	50,155	53,483	72,515	61,372	24,180	14,684	11,111	14,080	64,055	71,444
Provision for income taxes	1,512	2,828	3,831	4,527	8,283	14,030	13,118	13,973	19,121	15,685	6,289	3,655	2,833	3,590	16,368	18,218
Net Income	\$ 3,496	\$ 6,119	\$ 8,235	\$ 14,013	\$ 25,922	\$ 41,733	\$ 37,037	\$ 39,510	\$ 53,394	\$ 45,687	\$ 17,891	\$ 11,029	\$ 8,277	\$ 10,490	\$ 47,687	\$ 53,226
Dividends					\$ 0.38	\$ 1.63	\$ 1.81	\$ 1.98	\$ 2.18	\$ 2.18	\$ 0.57	\$ 0.57	\$ 0.63	\$ 0.63	\$ 2.40	\$ 2.66
<b>GAAP Earnings per share:</b>																
Diluted	\$ 0.56	\$ 0.97	\$ 1.30	\$ 2.16	\$ 3.95	\$ 6.31	\$ 5.68	\$ 6.43	\$ 9.20	\$ 8.27	\$ 3.36	\$ 2.10	\$ 1.59	\$ 2.05	\$ 9.09	\$ 10.66
<b>Shares outstanding:(in millions)</b>																
Diluted	6,225	6,315	6,349	6,473	6,557	6,617	6,522	6,145	5,805	5,500	5,328	5,262	5,199	5,124	5,228	4,980
<b>Year/Year Growth Rate:</b>																
Net Sales	24.3%	56.2%	14.4%	52.0%	66.0%	44.6%	9.2%	7.0%	27.9%	-7.7%	3.3%	4.6%	6.8%	12.1%	6.2%	10.6%
Gross Profit	45.7%	61.8%	30.5%	49.1%	70.6%	56.7%	-6.3%	9.7%	32.7%	-10.0%	-0.8%	3.4%	7.3%	13.5%	4.8%	11.1%
Operating Income	79.7%	88.9%	41.0%	56.6%	83.8%	63.5%	-11.3%	7.2%	35.7%	-15.7%	-3.4%	0.8%	5.3%	14.7%	2.6%	12.4%
Net Income	75.8%	75.0%	34.6%	70.2%	85.0%	61.0%	-11.3%	6.7%	35.1%	-14.4%	-2.6%	4.9%	6.2%	16.4%	4.4%	11.6%
EPS			33.9%	66.9%	82.6%	59.5%	-9.9%	13.2%	43.1%	-10.1%	2.3%	10.4%	11.8%	22.5%	10.0%	17.2%
Diluted Shares Outstanding	1.34%	1.44%	0.5%	2.0%	1.3%	0.9%	-1.4%	-5.8%	-5.5%	-5.2%	-4.8%	-5.0%	-5.0%	-5.0%	-4.9%	-4.8%
<b>% of Net Sales:</b>																
Cost of sales	66.0%	64.8%	59.9%	60.6%	59.5%	56.1%	62.4%	61.4%	59.9%	60.9%	61.5%	61.1%	61.8%	61.5%	61.5%	61.3%
Gross Profit	34.0%	35.2%	40.1%	39.4%	40.5%	43.9%	37.6%	38.6%	40.1%	39.1%	38.5%	38.9%	38.2%	38.5%	38.5%	38.7%
R&D expense	3.3%	3.0%	3.1%	2.7%	2.2%	2.2%	2.6%	3.3%	3.5%	4.7%	3.7%	5.2%	6.3%	5.5%	5.0%	4.8%
SG&A expense	12.3%	10.0%	9.7%	8.5%	7.0%	6.4%	6.3%	6.6%	6.1%	6.6%	5.0%	7.0%	8.4%	7.3%	6.7%	6.6%
Total operating expense	15.6%	13.0%	12.8%	11.2%	9.3%	8.6%	9.0%	9.9%	9.6%	11.2%	8.7%	12.3%	14.7%	12.8%	11.7%	11.4%
Operating Income	18.4%	22.2%	27.4%	28.2%	31.2%	35.3%	28.7%	28.7%	30.5%	27.8%	29.8%	26.7%	23.5%	25.7%	26.9%	27.3%
Net Income	14.6%	16.3%	19.2%	21.5%	23.9%	26.7%	21.7%	21.6%	22.8%	21.2%	22.8%	20.9%	18.3%	20.0%	20.8%	21.0%

Source: Company reports and Hilliard Lyons estimates



**Apple Inc. - Consolidated Balance Sheet** (in millions except per share data and percentages)

	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	12/31/2016	3/31/2017
<b>Current assets:</b>													
Cash and Cash Equivalents	\$ 6,392	\$ 9,352	\$ 11,875	\$ 5,263	\$ 11,261	\$ 9,815	\$ 10,746	\$ 14,259	\$ 13,844	\$ 21,120	\$ 20,484	\$ 16,371	\$ 15,157
Short-Term Marketable Securities	3,718	6,034	10,236	18,201	14,359	16,137	18,383	26,287	11,233	20,481	46,671	44,081	51,944
Accounts receivables	1,252	1,637	2,422	3,361	5,510	5,369	10,930	13,102	17,460	16,849	15,754	14,057	11,579
Inventories	270	346	509	455	1,051	776	791	1,764	2,111	2,349	2,132	2,712	2,910
Deferred tax assets	607	782	1,447	2,101	1,636	2,014	2,583	3,453	4,318	5,546	-	-	-
Vendor non-trade receivables					4,414	6,348	7,762	7,539	9,759	13,494	13,545	13,920	9,033
Other current assets	2,270	3,805	5,822	6,884	3,447	4,529	6,458	6,882	9,806	9,539	8,283	12,191	11,367
Total current assets	14,509	21,956	32,311	36,265	41,678	44,988	57,653	73,286	68,531	89,378	106,869	103,332	101,990
Long-term marketable securities			2,379	10,528	25,391	55,618	92,122	106,215	130,162	164,065	170,430	185,638	189,740
Property, plant and equipment	1,281	1,832	2,455	2,954	4,768	7,777	15,452	16,597	20,624	22,471	27,010	26,510	27,163
Goodwill	38	38	207	206	741	896	1,135	1,577	4,616	5,116	5,414	5,423	5,473
Acquired intangible assets	139	299	285	247	342	3,536	4,224	4,179	4,142	3,893	3,206	2,848	2,617
Other assets	1,238	1,222	1,935	3,651	2,263	3,556	5,478	5,146	3,764	5,556	8,757	7,390	7,549
Total assets	17,205	25,347	39,572	53,851	75,183	116,371	176,064	207,000	231,839	290,479	321,686	331,141	334,532
<b>Current liabilities:</b>													
Accounts payable	3,390	4,970	5,520	5,601	12,015	14,632	21,175	22,367	30,196	35,490	37,294	38,510	28,573
Accrued expenses	3,053	4,310	3,719	3,376	5,723	9,247	11,414	13,856	18,453	25,181	22,027	23,739	23,096
Deferred revenue		-	4,853	10,305	2,984	4,091	5,953	7,435	8,491	8,940	8,080	7,889	7,682
Commercial paper									6,308	8,499	8,105	10,493	9,992
Current portion of long term debt										2,500	3,500	3,499	3,999
Total current liabilities	6,443	9,280	14,092	19,282	20,722	27,970	38,542	43,658	63,448	80,610	79,006	84,130	73,342
Deferred revenue-non-current	778	1,535	3,029	4,485	1,139	1,686	2,648	2,625	3,031	3,624	2,930	3,163	3,107
Long term debt								16,960	28,987	53,463	75,427	73,557	84,531
Other non-current liabilities	-	-	1,421	2,252	5,531	10,100	16,664	20,208	24,826	33,427	36,074	37,901	39,470
Total liabilities	7,221	10,815	18,542	26,019	27,392	39,756	57,854	83,451	120,292	171,124	193,437	198,751	200,450
<b>Shareholders' Equity:</b>													
Common Stock	4,355	5,368	7,177	8,210	10,668	13,331	16,422	19,764	23,313	27,416	31,251	32,144	33,579
Retained earnings	5,607	9,101	13,845	19,538	37,169	62,841	101,289	104,256	87,152	92,284	96,364	100,001	100,925
Accumulated other comprehensive income	22	63	8	84	(46)	443	499	(471)	1,082	(345)	634	245	(422)
Total shareholders equity	9,984	14,532	21,030	27,832	47,791	76,615	118,210	123,549	111,547	119,355	128,249	132,390	134,082
Total liabilities and shareholders equity	17,205	25,347	39,572	53,851	75,183	116,371	176,064	207,000	231,839	290,479	321,686	331,141	334,532

Source: Company reports



Other stocks mentioned: Qualcomm Inc. (QCOM-\$53.29)

### **Analyst Certification**

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

The author of this report or members of his household have a long position in the common stock of Apple Inc., but may not engage in buying or selling contrary to our recommendation.

### **Suitability Ratings**

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

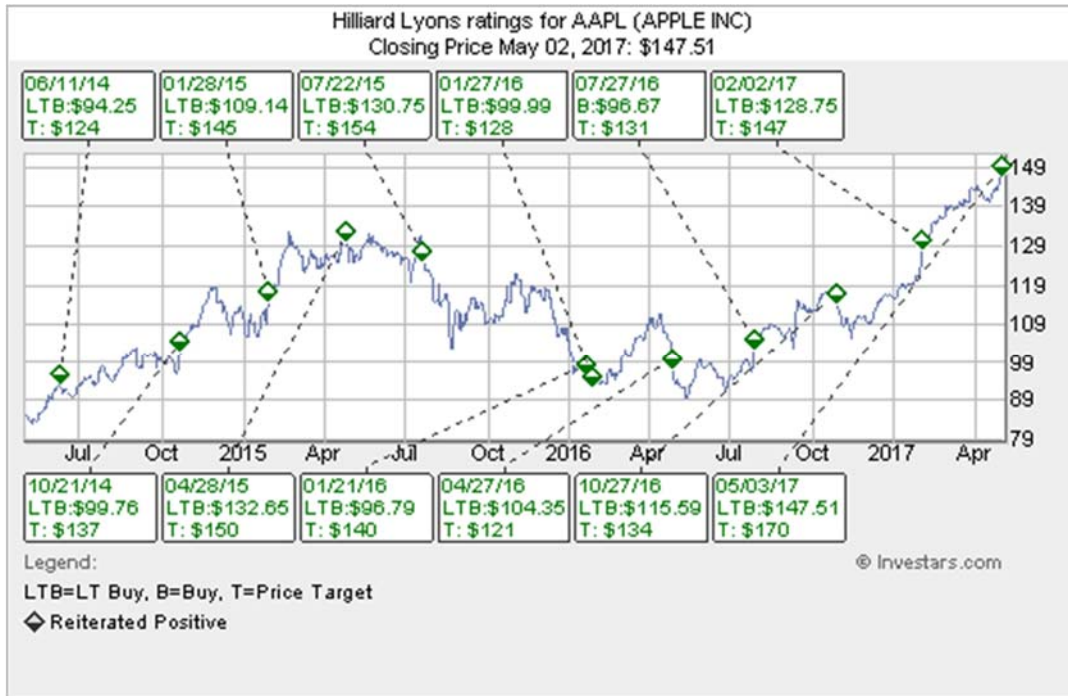
### **Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price setback in the next 12 months.



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings generally reflect a two to three year time period.

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

**Other Disclosures**

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