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Apple, Inc. (AAPL.O)

Expert Call: Megatrends: What to Expect at WWDC?

CITI'S TAKE

We hosted an industry expert call with IDC analysts Nabila Popal and Ryan Reith on WWDC expectations and summarize the key takeaways in this note.

Siri upgrade is the focus — The most important area to watch for WWDC this year is how Apple integrates a revamped Siri into the operating system and broader ecosystem, not only on the chatbot functionality, but whether Apple will begin laying the groundwork for agentic workflows and demonstrate autonomous agents that can proactively complete tasks on behalf of users, such as managing reservations, shopping decisions, travel logistics, and other multi-step actions across applications. As this is a developer conference, it will also be important for Apple to release new developer tools and APIs that enable third parties to build AI-native experiences on iOS.

But it will be catch-up rather than groundbreaking — Experts think this year's WWDC will likely mark Apple's AI catchup phase rather than be a breakthrough AI moment, with a major Siri overhaul and broader Apple Intelligence enhancements that could bring Apple closer to the functionality already offered by leading AI assistants. Rather than offering a truly differentiated AI experience this year, IDC experts see this year's WWDC as a necessary foundational step that closes competitive gaps and establishes the platform for future innovation.

iPhone demand is still driven by hardware design — In the near term, experts see iPhone demand continuing to be driven by hardware, design, and share gains, instead of AI. Apple has posted two record quarters especially for iPhones because of its strength in hardware, and is very well positioned to gain share during the period of memory constraints, especially in the \$400–500 price range through its order generation offerings. In China specifically, recent demand improvement is primarily to design refreshes and Apple's luxury brand positioning. IDC now expects global/China iPhone demand to be down –5%/–3% this year, up from –8%/–9% prior, vs global smartphone shipment to further down to –14% from –13% prior. As for Siri or agentic AI-driven refreshment cycle, experts do not see it as a main driver in the near future. One key reason is that many future Apple Intelligence features are likely able to run on existing AI-capable devices starting from the iPhone 16 family. As a result, consumers could still gain access to new AI functionality without purchasing the newest hardware. A more meaningful upgrade catalyst would emerge only when Apple introduces truly differentiated agentic experiences that consumers perceive as indispensable, which is likely a couple of years out.

Services could monetize from agentic AI, but not that soon — Experts believe AI represents a significant future monetization opportunity. Experts drew parallels to the iCloud adoption, where consumers initially resisted paying but ultimately became

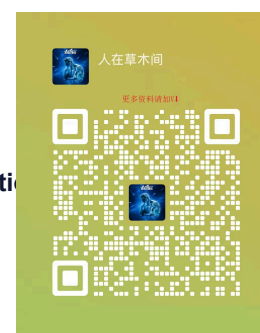
Buy	
Price (04 Jun 26 16:00)	US\$311.23
Target price	US\$315.00
Expected share price return	1.2%
Expected dividend yield	0.3%
Expected total return	1.5%
Market Cap	US\$4,571,146M

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations



willing to pay once it became embedded in daily workflows. Longer term, Apple could introduce premium AI subscription offerings integrated into its ecosystem, creating an additional high-margin recurring revenue stream. However, the company first needs to prove the value of Apple Intelligence before meaningful monetization becomes realistic.

Upcoming new products — Apple's hardware roadmap remains a key strategic advantage. IDC's supply chain discussions point towards expansion into new categories including foldables, smart glasses, desktop robotics devices, and potentially other AI-centric form factors. Apple remains fundamentally a hardware company, now especially with a product-focused new CEO; these new products may ultimately contribute more to ecosystem expansion and revenue growth than near-term AI announcements. The broader thesis remains that Apple's combination of hardware, software, silicon, and ecosystem integration positions it well to participate in emerging AI-enabled device categories over the next several years.

Apple, Inc.

Valuation

Our target price for Apple is \$315. We value AAPL at \$315 or 33x P/E on our CY2027 EPS estimate. Our 33x P/E is about a 20% premium to Apple's historical level. We believe a premium is warranted to reflect expanding gross margins (ex tariffs), growing services sales mix, gradual Apple Intelligence adoption, and a strong balance sheet.

Risks

Key risks to our investment thesis and to Apple achieving our target price include the following:

- 1) Weaker macroeconomic conditions or shifting consumer demand could cause greater-than-expected deceleration or contraction in the handset and smartphone markets. This would negatively impact Apple's prospects for growth, and the shares may fail to achieve our target price as a result.
- 2) Uncertainty regarding US/China tensions could impact Apple's supply chain, as the company is heavily reliant on suppliers/manufacturers in Taiwan and mainland China.
- 3) Regulatory risk remains as a major headwind including Digital Markets Act in Europe, which would push Apple to allow alternative app store on its iPhones and iPads and reduce app store revenues in the region.
- 4) Heavyweight in the market index makes institutional investors cautious on adding more Apple positions.