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Apple (AAPL): Surprise and Shine didn't disappoint, but what about Gross Margins?



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Yesterday Apple held its Surprise and Shine product release, this note summarizes the products announced including specs and prices and potential impact to gross margins.

The iPhone 18 Pro and Pro Max deliver meaningful improvements with smaller price increase than expected at entry storage levels. Among the improvements, most interesting was the 2nm A20 processor and packaging enabling up to 40% higher sustained performance. The 48 MP main camera with variable aperture and significantly improved battery life (with faster charging) were the other notable improvements. Most interesting though was the price - up only $100 (or 7-8%) on entry 18 Pro and Pro Max models, which was less severe than feared and less than what we've seen from Android competitors. At higher storage tiers though the price increase was more substantial (with 18 Pro Max 2TB at $2,499 up $500 vs. comparable 17 Pro Max).

The well anticipated "Surprise" was the iPhone Duo - Apple's first foldable phone, which didn't disappoint. Unlike most competitor Android offerings, the Duo opens out to an aspect ratio similar to what we're used to with an iPad, which should make it more intuitive and useful for watching movies or have windows side by side. Starting price of $1,999 (for the 256GB option) was also lower than feared and considering this ***potentially replaces a high-end iPhone and an iPad (at $1000+ each), we believe this price is competitive***, but ramps up to a whopping $3,199 for 2TB.

Apple is making steady progress on AI, with the potential to monetize. Apple Intelligence runs on-device whenever possible, while more computationally demanding requests are handled through Private Cloud Compute. Some capabilities that rely on the server models will have usage limits, with **increased access available through iCloud+ plans - the first signs of AI monetization**.

In addition to price increases on new models, **Apple bucked its trend of discounting older models by $100 and actually increased prices of older models by $100 - effectively a $200 price move.** This combined with the staggered launch should reduce gross margin impact from rising memory costs.

Our analysis shows that like for like 18 Pro / Pro Max models will have significantly worse gross margins than comparable 17 Pro / Pro Max models. Entry models will see over 1000bps of gross margin dilution, and on average 14% lower gross profit $/ unit. However, the ***iPhone Duo, increased price of older models and staggered launch should reduce this gross margin impact***.

While we like the new product releases and believe gross margin hit may not be as bad as feared, there continues to be **much uncertainty on new level of gross margins with today's elevated memory prices**. On the other-hand, these **lower price increases on entry models should help Apple continue to gain market share over Android rivals**. We rate Apple Outperform, PT $370, but worry that the stock may not work until December quarter guide is behind us (in late October).

See the Disclosure Appendix of this report for required disclosures, analyst certifications and other important information. Alternatively, visit our Global Research Disclosure Website.

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BERNSTEIN TICKER TABLE

			9 Sep 2026		TTM	Adjusted EPS				Adjusted P/E (x)		
			Closing	Price	Rel.							
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
AAPL (Apple)	O	USD	315.34	370.00	21.8%	USD	7.46	8.85	10.03	42.3	35.6	31.5
SPX			7,636.36									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

We rate Apple Outperform with a $370 TP.

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1. PRODUCT RELEASES — FOLDABLE AND MORE

IPHONE 18 PRO AND PRO MAX - MEANINGFUL PERFORMANCE UPGRADES, WITH MODEST PRICE INCREASES AT LOWER STORAGE TIERS

The iPhone 18 Pro and Pro Max deliver meaningful improvements in AI processing, sustained performance, camera capability, and battery life. The 2nm A20 Pro doubles neural-engine compute, increases GPU performance by up to 40%, and raises memory bandwidth (not capacity!) by 50%, while redesigned chip packaging and a vapor chamber 3x-ed the surface area vs the iPhone 17 Pro, and enable up to 40% higher sustained performance. The other major upgrade is a new 48 MP main camera with variable aperture and manual controls, providing better low-light capture and greater control over depth of field. Battery life reaches 36 hours of video playback on the Pro and 45 hours on the Pro Max, with both charging to 50% in around 15 minutes.

Both models are available with 256 GB, 512 GB, 1 TB, or 2 TB of storage. The base 256 GB capacity is unchanged from the iPhone 17 Pro and Pro Max, while the 2 TB option is new for the iPhone 18 Pro but was already available on the iPhone 17 Pro Max.

Apple kept the lower storage tiers pricing increases relatively modest while materially widening storage upgrade premiums at the high end. Pricing starts at $1,199 for the iPhone 18 Pro and $1,299 for the Pro Max, representing a $100 increase from the equivalent 256 GB iPhone 17 models - this ***was less than feared and at 7-8% price increase is also less than what we've seen from Android competitors***. The 512 GB configuration costs $1,399 for the Pro and $1,499 for the Pro Max, also $100 higher than the 17 equivalents. The increases are significantly larger at higher storage tiers:1 TB pricing rises by $300 to $1,799/$1,899 for the Pro/Pro Max, while the 2 TB Pro Max model costs $2,499, $500 above the previous 2 TB 17 Pro Max.

Pre-orders begin September 12, with availability on September 18.

EXHIBIT 1: **iPhone 18 Pro vs iPhone 17 Pro Specs Comparison**

Model	iPhone 18 Pro		iPhone 17 Pro
	Rumored Specs	**Released Specs**	**Released Specs**
Price	**Starting at $1,399 or higher**	**$1,199/$1,399/$1,799/$2,399**	**$1,099/$1,299/$1,499**
Display	6.3-inch OLED	6.3-inch Super Retina XDR OLED, ProMotion up to 120Hz, redesigned smaller Dynamic Island	6.3-inch OLED
Resolution	2622x1206	2622x1206	2622x1206
Weight/Design	Broadly similar chassis to 17 Pro	7.44 ounces (211 grams)	7.27 ounces (206 grams)
RAM	\	12GB (Assumed)	12GB
Processor	A20 Pro	A20 Pro (2nm, first Apple 2nm chip; 6-core CPU, 7-core GPU, dual 16-core Neural Engine, 32 total NE cores)	A19 Pro
Storage	\	256GB/512GB/1TB/2TB (2TB newly available on the smaller Pro model)	256GB/512GB/1TB
Camera	Rear: triple 48MP retained; Front: 24MP; Variable aperture rumored exclusive to Pro Max	Rear: triple 48MP Pro Fusion system with variable aperture (f/1.48-f/4.0) — variable aperture confirmed on both Pro and Pro Max, not Pro Max-exclusive; Front: 18MP Center Stage	Rear: triple 48MP Fusion Front: 18MP
Video Rec.	\	4K Dolby Vision up to 120fps; Cinematic effects applicable post-capture up to 60fps	4K Dolby Vision at 24 fps, 25 fps, 30 fps, 60 fps, 100 fps, 120 fps
Battery	Higher capacity than 17 Pro	Up to 36 hrs video playback (eSIM-only models); can charge to 50% in ~15 minutes wired	3,988 mAh (physical SIM) / 4,252 mAh (eSIM-only, US)
5G	Apple C2 Modem	Apple C2 Modem	Qualcomm Snapdragon X80 modem
Other Features	New N2 wireless/networking chip	Apple N1 wireless chip	MagSafe; Apple N1 Networking Chip; Splash, Water & Dust Resistant

Source: MacRumors, Macworld, Company release, Bernstein estimates and analysis

EXHIBIT 2: **iPhone 18 Pro Max vs iPhone 17 Pro Max Specs Comparison**

	iPhone 18 Pro Max		iPhone 17 Pro Max
	Rumored Specs	**Released Specs**	**Released Specs**
Price	**Starting at $1,499 or higher**	**$1,299/$1,499/$1,899/$2,499**	**$1,199/$1,399/$1,599/$1,999**
Display	6.9-inch OLED	6.9-inch Super Retina XDR LTPO OLED, ProMotion up to 120Hz	6.9-inch OLED
Resolution	\	1320x2868 pixels, ~460 ppi	2868x1320
Weight/Design		8.78 ounces (249 grams)	8.22 ounces (233 grams)
RAM	\	12GB (Assumed)	12GB
Processor	A20 Pro	A20 Pro (2nm, 6-core CPU, 7-core GPU with Neural Accelerators, dual 16-core Neural Engine)	A19 Pro
Storage	\	256GB/512GB/1TB/2TB	256GB/512GB/1TB/2TB
Camera	Rear: triple 48MP retained; Front: 24MP; Variable aperture rumored exclusive to Pro Max	Rear: triple 48MP (Main with variable aperture f/1.48-f/4.0, Ultra Wide, Telephoto); Front: 18MP Center Stage	Rear: triple 48MP Fusion Front: 18MP
Video Rec.	\	4K Dolby Vision up to 120 fps (100/120fps on Fusion Main)	4K Dolby Vision at 24 fps, 25 fps, 30 fps, 60 fps, 100 fps, 120 fps
Battery	Larger battery	Up to 45 hrs video playback (eSIM-only models); larger battery vs 17 Pro Max	Up to 39 hrs video playback
5G	Apple C2 Modem	Apple C2 Modem	Qualcomm Snapdragon X80 modem
Other Features	New N2 wireless/networking chip	N1 wireless networking chip (Wi-Fi 7, Bluetooth 6, Thread)	MagSafe; Apple N1 Networking Chip; Splash, Water & Dust Resistant

Source: MacRumors, Macworld, Company release, Bernstein estimates and analysis

IPHONE DUO - A COMPELLING FIRST FOLDABLE FORM FACTOR FROM APPLE

The well anticipated "Surprise" was the iPhone Duo - Apple's first foldable phone, which didn't disappoint. Unlike most competitor Android offerings, the Duo opens out to an aspect ratio similar to what we're used to with an iPad, which should make it more intuitive and useful for watching movies or have windows side by side.

The iPhone Duo is Apple's first foldable phone and the event's most significant new form factor. It combines a 7.6-inch inner display with a 5.4-inch outer display, supports two apps side-by-side and Apple Pencil (later this year), and automatically adapts its interface as the device is opened, rotated, or partially folded. It uses the same A20 Pro as the iPhone 18 Pro, delivering up to 35% higher sustained performance than the iPhone 17 Pro, and includes the new C2 modem, which provides

up to 50% faster uploads than C1X while consuming 15% less energy. Battery life reaches 31 hours of video playback on the inner display and 44 hours on the outer display.

We believe the Duo should appeal to consumers with high purchasing power, while existing foldable demand in China could help Apple gain additional momentum in that market. The Duo could also accelerate foldable adoption in established Apple markets such as the US and beyond.

The Duo is offered with 256 GB, 512 GB, 1 TB, or 2 TB of storage. The iPhone Duo is priced at $1,999 for 256 GB, $2,199 for 512 GB, $2,599 for 1 TB, and a whopping $3,199 for 2 TB. As the most expensive iPhone ever, the Duo adds a new price tier above the Pro Max, which will support blended ASP and product mix even at modest initial launch volume. While the top spec prices on the 2TB option may frighten way most consumers, the ***entry price of $1,999 is lower than feared and considering this potentially replaces a high-end iPhone and an iPad (at $1000+ each), we believe this price is competitive***.

Pre-orders begin October 16, with availability on October 23.

EXHIBIT 3: **Foldable iPhone Specs**

	iPhone Duo (Foldable iPhone)	
	Rumored Specs	**Released Specs**
Display	7.8-inch Internal/5.3-5.5-inch outer screen	7.6-inch inner Super Retina XDR OLED folding display (nano-texture); 5.4-inch outer Super Retina XDR OLED display
Resolution	\	Inner: 1878x2670 (430 ppi); Outer: 1398x2034 (460 ppi)
Weight/Design	“passport-style” design; dual display	Titanium foldable design (Grade 5 titanium frame), 8.96 oz (254g)
RAM	12GB	12GB (Assumed)
Processor	A20 Pro	A20 Pro (6-core CPU, 7-core GPU with Neural Accelerators, dual 16-core Neural Engine)
Storage	Up to 2TB	256GB, 512GB, 1TB, 2TB
Camera	Rear: two 48MP; Front: two selfie cameras	Rear: 48MP Dual Fusion (48MP Main f/1.6 + 48MP Ultra Wide f/2.2); Front: 12MP Center Stage outer + under-display FaceTime camera inner
Video Rec.	\	4K Dolby Vision up to 120fps (Main); Cinematic mode up to 4K Dolby Vision at 60fps
Battery	5,000 to 5,500mAh	up to 44 hrs video playback (outer display), up to 31 hrs (inner display), up to 24 hrs typical use
Price	$1,999 - $2,399	$1,999 (256GB) / $2,199 (512GB) / $2,599 (1TB) / $3,199 (2TB)
5G	Apple C2 Modem	Apple C2 modem
Other Features	No Face ID; side touch ID	Touch ID in side button (no Face ID); Apple N1 wireless chip; IP68; Apple Pencil support expected

Source: MacRumors, Macworld, Company release, Bernstein estimates and analysis

EXHIBIT 4: **iPhone Duo**



Source: Company website

APPLE INTELLIGENCE - APPLE IS MAKING STEADY PROGRESS ON AI, WITH THE POTENTIAL TO MONETIZE AI FURTHER AS THE IPHONE BECOMES THE GATEWAY TO CONSUMER EDGE AI.

Apple's product roadmap clearly focuses on delivering better on-device AI capabilities over time. Apple Intelligence runs on-device whenever possible, while more computationally demanding requests are handled through Private Cloud Compute. Apple said some capabilities that rely on powerful server models will have usage limits, with **increased access available through most iCloud+ plans**, although it did not disclose which functions will be limited, the size of the allowances, or which subscription tiers will qualify. This could represent an initial step toward monetizing AI by supporting iCloud+ adoption or upgrades to higher tiers.

Apple provided further details on its previously announced Siri AI platform. Siri AI, first unveiled at WWDC in June 2026, combines personal context from Mail, Messages, Photos, and other apps with current world knowledge and awareness of what the user sees on screen or through the camera. It can maintain conversations, retrieve personal information, draft and edit content, and take actions across Apple and third-party apps, while a standalone Siri app allows users to revisit conversations across devices. The launch event primarily demonstrated how these previously announced capabilities work with the new hardware.

The most incremental announcements included AI functions across Apple Watch, Health, Photos, and productivity applications. Live Rewind retrieves and transcribes the preceding 15 seconds of audio, while Siri Recap uses ambient listening to generate titles, summaries, and key points from conversations without retaining raw audio or identifying individual speakers. Both will be arriving in beta later this year. The redesigned Health app coming later this year uses Apple Intelligence to summarize relevant health developments and provide personalized guidance based on sleep, activity, heart health, and other data. Other new or upgraded functions include natural-language Shortcut creation, Safari webpage monitoring, improvements to Image Playground and Clean Up, generative photo expansion through Extend, post-capture Spatial Reframing, and AI-powered camera features including Smart Focus Tracking and Smart Take.

Apple is still developing and refining Apple Intelligence, and we expect additional capabilities to be introduced over time. We believe Apple can ultimately deliver a compelling AI experience, and if it does, the iPhone could become the primary gateway for consumer on-device AI. Longer term, Apple could potentially monetize AI through paid premium usage tiers, additional paid features, services bundles, developer fees, or an accelerated replacement cycle as more advanced AI capabilities become linked to newer hardware.

NEW AIRPODS AND WATCHES DELIVER SOLID AUDIO, HEALTH, AI, AND BATTERY UPGRADES

Apple also introduced AirPods 5, Apple Watch Series 12, and Apple Watch Ultra 4 with solid improvements while maintaining accessible starting prices.

AirPods 5 make active noise cancellation standard across Apple's open-ear lineup, with Apple claiming up to 50% more noise reduction than Airpods 4 with ANC. The US$129 model provides four hours of listening with ANC, while the US$149 version with wireless charging case adds stem-based volume controls, and five hours of listening with ANC and up to 22 hours with the case. Both models support Siri AI and Live Translation through a connected iPhone. Pre-orders began September 9, with

availability on September 18.

Apple Watch Series 12 introduces the S11 chip, more frequent heart-rate and HRV measurements, a daily Readiness score, and new Audio Intelligence capabilities; a redesigned Health app coming later this year also adds personalized AI-powered health guidance. Background heart-rate readings are now taken every five seconds, 60x more frequently than before, while HRV can be measured every five minutes, 24x more frequently. The watch retains up to 24 hours of battery life and starts at US$399.

Apple Watch Ultra 4 includes the same health and AI upgrades while extending general battery life to more than two days and workout tracking to as much as 45 hours in Max extended mode. It remains priced at US$799. Both watches became available for pre-order on September 9 and will launch on September 18.

2. WHAT DOES ALL THIS MEAN FOR GROSS MARGINS AND OUR ESTIMATES?

Apple is absorbing some memory price shock with pricing discipline at the lower-storage tiers, but gross margin dilution should be offset through a staggered launch and premium mix shift and higher prices on older models.

In addition to price increases on new models, **Apple bucked its trend of discounting older models by $100 and actually increased prices of older models by $100 - effectively a $200 price move.** This combined with the staggered launch should reduce gross margin impact from rising memory costs.

In our analysis, the gross profit dollar per iPhone 18 Pro Max falls ~14% versus the 17 Pro Max, but we expect December-quarter iPhone gross margin impact to be largely offset by the staggered launch, price hikes on older models, and the higher-ASP iPhone Duo tier. On our updated BOM analysis at 3Q26 contract memory pricing and a 45/45/5/5 product mix across the four storage tiers, blended gross profit per Pro Max unit falls from ~$640 to ~$548 (-14%) despite a ~10% higher blended ASP, and blended BOM-level gross margin falls from ~52% to ~41%. DRAM and NAND account for ~90% of the cost increase.

We see two mitigants to the margin hit in the December quarter. **First, there is no base model in the September launch event**: with the standard iPhone 18 and 18e deferred to Spring, the new-model mix this quarter is entirely Pro-tier, whose ~41% blended gross margin still sits in line with the broader iPhone gross margin we estimate for FY26. **Second, the iPhone Duo arrives on October 23 at $1,999–$3,199** with unit economics we expect to be above the Pro Max, adding a mix-accretive product to the quarter. However, we do expect a further step-down in the March quarter when the lower-priced base models launch on a 4Q26 memory cost base.

In conclusion, while we like the Duo and other new product releases and believe gross margin hit may not be as bad as feared due to reasons mentioned above, there continues to be **much uncertainty on new level of gross margins with today's elevated memory prices** (which could become the new normal). On the other-hand, these **lower price increases on entry models should help Apple continue to gain market share over Android rivals**. We rate Apple Outperform, PT $370, but worry that the stock may not work until December quarter guide is behind us (in late October).

Costs/Bill of Materials

- **The memory price surge continues to surprise, driving increased cost pressure.** Our updated BOM analysis for the iPhone 18 Pro Max, rebased to 3Q26 QTD contract pricing for DRAM and NAND, shows total device cost rising ~30% at the 256GB entry tier, 37% at 512GB, 50% at 1TB and 74% at 2TB. **Majority of the cost increase is attributable to Memory (LPDDR5 12GB) cost growing 360% yoy and Storage (Mobile NAND) cost growing 382% yoy** — together they account for ~$150 of the $168 incremental cost for the 256GB model tier, approx. 90%. We think AI-driven HBM demand continues to squeeze mobile memory supply capacity.

- **On compute, the new iPhone products adopt the A20 Pro chip, which moves to TSMC's 2nm node. This adds approx. $40 (~40% increase) in processor cost per unit.**

- **However, Apple's vertical integration helps offset some of the skyrocketing memory price** as Apple continues to move some core parts development and production in-house. iPhone 18 Pro and Pro Max' move to using in-house C2 modem approximately halves the baseband line cost (saving about $17.50 per iPhone unit), and we assume 5% decrease on the display panel (LTPO OLED) given Apple's negotiating leverage over its suppliers.

iPhone 18 Pro Max Pricing and Gross Margin Illustration

- We use iPhone 18 Pro Max to illustrate the gross margin dynamics against this backdrop.

- Apple raised iPhone 18 Pro Max pricing by $100 at 256GB and 512GB tier relative to the 17 Pro Max (up 8% and 7%, respectively), $300 at 1TB tier (up 19%) and $500 at 2TB tier (up 25%). Based on our BOM analysis for iPhone 18 Pro Max at different storage configurations, **iPhone models with higher storage would generally lead to higher gross margins**, since the incremental price Apple charges exceed the cost at the 1TB and 2TB tier levels. For example, iPhone 18 Pro max 2TB has an estimated gross margin of ~51%, significantly higher than the ~37% estimated gross margin of the 256GB tier.

- **Pricing recovers about half of the cost increase at the two lower-storage tiers (54% at 256GB, 43% at 512GB, both using wholesale prices) and nearly all of it at the high-storage tiers (>90% at 1TB and 2TB tiers).** We think the shape of the price increase curve across tiers is deliberate. It protects the entry price points and market share, and prices the memory-heavy configurations at close to full pass-through where buyers are least price-sensitive.

- The result is that gross profit $ per phone falls by 15% at 256GB tier, 18% at 512GB tier, 3% at 1TB tier and 2% at 2TB tier — and BOM-level gross margin falls by 10-14 points, from 48 — 64% to 37 — 51%.

The December quarter gross margin should be protected by the staggered launch (but revenue will disappoint)

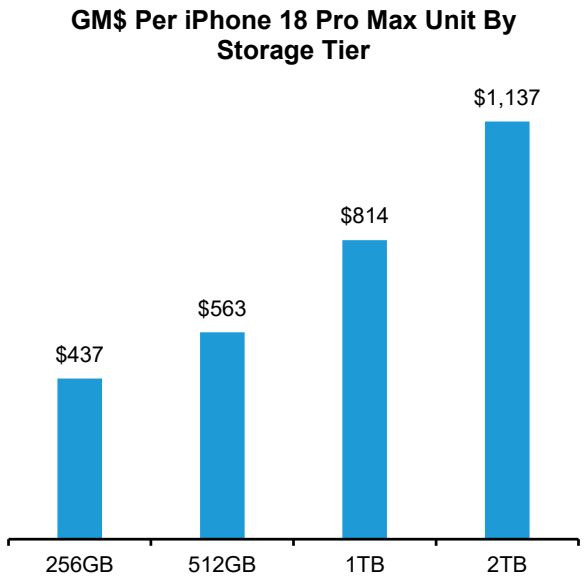
- **This year's iPhone launch is staggered where Apple splits the lineup to launch only the premium tier** (iPhone 18 Pro, Pro Max and Duo) this Fall, and leave the base iPhone 18 model and potentially 18e to next year Spring. The December quarter new model mix is therefore entirely Pro-tier, whose BOM-level margins, even after this cycle's compression, sit in line to slightly below the blended iPhone gross margin of 42% that we estimate for FY26.

- **The March quarter will likely see higher GM pressure.** The standard iPhone 18 and 18e would possibly arrive at lower price points, with the same per-unit DRAM inflation and less room to pass it through, and they will be built on 4Q26 cost bases. Thus, we do expect further step down in iPhone gross margin in the March quarter.

The Duo also adds a high-ASP product with attractive unit economics to the December quarter

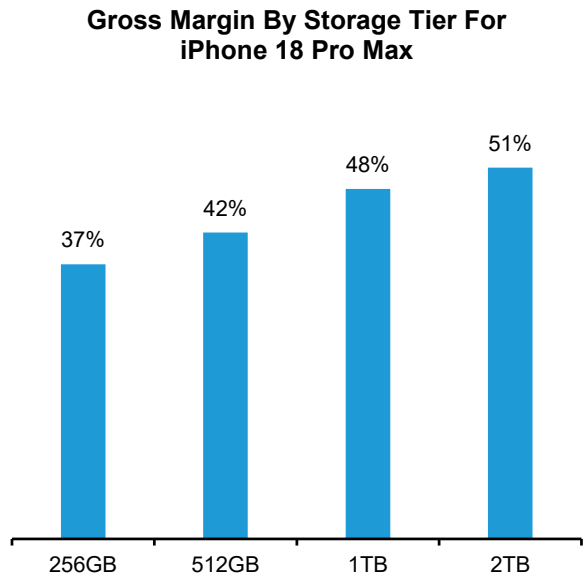
The iPhone Duo, Apple's first foldable, starts at $1,999 for 256GB and reaches $3,199 at 2TB. We do not yet have a BOM analysis built in for this form factor, but we do expect its unit margin to be better than the Pro Max series given its much-higher price points. Pre-orders will start from October 16 and availability from October 23, which further protects and contributes to the December quarter iPhone gross margin. We believe this new form factor offers another attractive driver for premium mix shift. Furthermore, our analysis used wholesale pricing as the top line, a 10% discount relative to retail pricing. We believe this built in another layer of conservatism.

EXHIBIT 5: **Estimated Gross Margin Dollar per iPhone 18 Pro Max Unit by Storage Tier**



Source: Company reports, Counterpoint, Bernstein estimates and analysis

EXHIBIT 6: **Estimated Gross Margin by Storage Tier For iPhone 18 Pro Max**



Source: Company reports, Counterpoint, Bernstein estimates and analysis

EXHIBIT 7: **Estimated DRAM pricing for iPhone**

Mobile DRAM Contract Price						
	2Q25	**3Q25**	**4Q25**	**1Q26**	**2Q26**	**3Q26**
LPDDR5 12GB Discrete (per GB)	2.4	2.8	4.0	6.3	11.4	12.7
Est. NAND price for Apple		**2.5**				**11.4**
% discount		-10%				-10%

Source: Bernstein Asia Semis Team; Bernstein estimates and analysis

EXHIBIT 8: **Estimated NAND pricing for iPhone**

Mobile NAND Contract Price (US$/GB)						
	2Q25	**3Q25**	**4Q25**	**1Q26**	**2Q26**	**3Q26**
eMMC/UFS*						
512GB UFS				0.132	0.238	0.284
256GB UFS				0.131	0.236	0.286
128GB TLC eMMC				0.131	0.231	0.280
Average	**0.064**	**0.063**	**0.067**	**0.132**	**0.235**	**0.283**
Est. NAND price for Apple	**0.045**	**0.044**			**0.176**	**0.212**
% discount	***-30%***	***-30%***			***-25%***	***-25%***

Source: Bernstein Asia Semis Team; Bernstein estimates and analysis

EXHIBIT 9: **Estimated BOM increase from iPhone 17 pro max to iPhone 18 pro max, 256GB configuration**

	256GB Model				
Component Category	**iPhone 17 Pro Max 256GB (Est.)**	**% of BOM**	**iPhone 18 Pro Max 256GB (Est.)**	**% of BOM**	**Est. BOM Cost increase**
Processor (A-Series SoC)	$100.00	18%	$140.00	19%	40%
Memory (12GB DRAM)	$29.70	5%	$136.62	19%	360%
Storage (256GB NAND)	$11.28	2%	$54.35	7%	382%
Baseband/Transceiver	$35.00	6%	$17.50	2%	-50%
Cellular Others	$12.50	2%	$12.50	2%	
Display (LTPO OLED)	$93.30	17%	$88.64	12%	-5%
Camera System	$113.90	20%	$113.90	16%	
Battery/Charging	$13.40	2%	$13.40	2%	
Others (PCB, Manufacturing etc)	$147.72	27%	$147.72	20%	
Total BoM Cost	**$556.80**		**$724.62**		**30%**
Warranty	**$7.00**		**$7.00**		
Total Device Cost	**$563.80**		**$731.62**		**30%**
Retail Price	$1,199		**$1,299**		8%
Wholesale Price	$1,079		$1,169		
GM$ per Phone	$515		$437		-15%
Est GM	***47.8%***		***37.4%***		

Source: Company release, Counterpoint, Gartner, Bernstein estimates and analysis

EXHIBIT 10: **Estimated BOM increase from iPhone 17 pro max to iPhone 18 pro max, 512GB configuration**

	512GB Model				
Component Category	**iPhone 17 Pro Max 512GB**	**% of BOM**	**iPhone 18 Pro Max 512GB (Est.)**	**% of BOM**	**Est. BOM Cost increase**
Processor (A-Series SoC)	$100.00	18%	$140.00	18%	40%
Memory (12GB DRAM)	$29.70	5%	$136.62	18%	360%
Storage (512GB NAND)	$22.56	4%	$108.69	14%	382%
Baseband/Transceiver	$35.00	6%	$17.50	2%	-50%
Cellular Others	$12.50	2%	$12.50	2%	
Display (LTPO OLED)	$93.30	16%	$88.64	11%	-5%
Camera System	$113.90	20%	$113.90	15%	
Battery/Charging	$13.40	2%	$13.40	2%	
Others (PCB, Manufacturing etc)	$147.72	26%	$147.72	19%	
Total BoM Cost	**$568.08**		**$778.96**		**37%**
Warranty	**$7.00**		**$7.00**		
Total Device Cost	**$575.08**		**$785.96**		**37%**
Retail Price	$1,399		**$1,499**		7%
Wholesale Price	$1,259		$1,349		
GM$ per Phone	$684		$563		-18%
Est GM	***54.3%***		***41.7%***		

Source: Company release, Counterpoint, Gartner, Bernstein estimates and analysis

EXHIBIT 11: **Estimated BOM increase from iPhone 17 pro max to iPhone 18 pro max, 1TB configuration**

1TB Model					
Component Category	**iPhone 17 Pro Max 1TB**	**% of BOM**	**iPhone 18 Pro Max 1TB (Est.)**	**% of BOM**	**Est. BOM Cost increase**
Processor (A-Series SoC)	$100.00	18%	$140.00	16%	40%
Memory (12GB DRAM)	$29.70	5%	$136.62	15%	360%
Storage (1TB NAND)	$45.13	8%	$217.38	24%	382%
Baseband/Transceiver	$35.00	6%	$17.50	2%	-50%
Cellular Others	$12.50	2%	$12.50	1%	
Display (LTPO OLED)	$93.30	16%	$88.64	10%	-5%
Camera System	$113.90	20%	$113.90	13%	
Battery/Charging	$13.40	2%	$13.40	2%	
Others (PCB, Manufacturing etc)	$147.72	26%	$147.72	17%	
Total BoM Cost	**$590.65**		**$887.65**		**50%**
Warranty	**$7.00**		**$7.00**		
Total Device Cost	**$597.65**		**$894.65**		**50%**
Retail Price	$1,599		**$1,899**		19%
Wholesale Price	$1,439		$1,709		
GM$ per Phone	$841		$814		-3%
Est GM	***58.5%***		***47.7%***		

Source: Company release, Counterpoint, Gartner, Bernstein estimates and analysis

EXHIBIT 12: **Estimated BOM increase from iPhone 17 pro max to iPhone 18 pro max, 2TB configuration**

2TB Model					
Component Category	**iPhone 17 Pro Max 2TB**	**% of BOM**	**iPhone 18 Pro Max 2TB (Est.)**	**% of BOM**	**Est. BOM Cost increase**
Processor (A-Series SoC)	$100.00	18%	$140.00	13%	40%
Memory (12GB DRAM)	$29.70	5%	$136.62	12%	360%
Storage (2TB NAND)	$90.25	16%	$434.76	39%	382%
Baseband/Transceiver	$35.00	6%	$17.50	2%	-50%
Cellular Others	$12.50	2%	$12.50	1%	
Display (LTPO OLED)	$93.30	16%	$88.64	8%	-5%
Camera System	$113.90	20%	$113.90	10%	
Battery/Charging	$13.40	2%	$13.40	1%	
Others (PCB, Manufacturing etc)	$147.72	26%	$147.72	13%	
Total BoM Cost	**$635.77**		**$1,105.03**		**74%**
Warranty	**$7.00**		**$7.00**		
Total Device Cost	**$642.77**		**$1,112.03**		**73%**
Retail Price	$1,999		**$2,499**		25%
Wholesale Price	$1,799		$2,249		
GM$ per Phone	$1,156		$1,137		-2%
Est GM	***64.3%***		***50.6%***		

Source: Counterpoint, Gartner, Bernstein estimates and analysis



APPENDIX - FINANCIAL FORECASTS

EXHIBIT 13: **AAPL Income Statement**

Fiscal Periods:	2025	2026E	2027E	2028E	1Q26	2Q26	3Q26	4Q26E
Net Sales	**416,161**	**477,056**	**533,070**	**571,246**	**143,756**	**111,184**	**109,417**	**112,699**
Cost of Goods Sold	220,960	244,711	280,836	296,699	74,525	56,403	54,647	59,136
Gross Income	**195,201**	**232,344**	**252,233**	**274,548**	**69,231**	**54,781**	**54,770**	**53,562**
	0%	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Research & Development	34,550	45,782	48,987	53,126	10,887	11,419	11,729	11,747
Selling, General, & Administrative	27,601	29,815	30,496	32,681	7,492	7,477	7,346	7,500
Operating Income	**133,050**	**156,747**	**172,750**	**188,741**	**50,852**	**35,885**	**35,695**	**34,315**
Interest and Other, Net (excludes gains/losse	(321)	1,020	-	-	150	(52)	572	350
Income Before Tax	**132,729**	**157,767**	**172,750**	**188,741**	**51,002**	**35,833**	**36,267**	**34,665**
Income Taxes (ex. 1-time items)	20,719	27,358	28,504	30,199	8,905	6,255	6,478	5,720
Net Income	**112,010**	**130,409**	**144,246**	**158,543**	**42,097**	**29,578**	**29,789**	**28,945**
Average Shares Outstanding, Basic	14,948	14,671	14,314	13,979	14,748	14,673	14,656	14,605
Earnings Per Share, Basic	**$ 7.49**	**$ 8.89**	**$ 10.08**	**$ 11.34**	**$ 2.85**	**$ 2.02**	**$ 2.03**	**$ 1.98**
Average Shares Outstanding, Diluted	15,016	14,736	14,388	14,053	14,810	14,726	14,715	14,663
Earnings Per Share, Diluted	**$ 7.46**	**$ 8.85**	**$ 10.03**	**$ 11.28**	**$ 2.84**	**$ 2.01**	**$ 2.02**	**$ 1.97**
EPS 5yr CAGR	*18.0%*	*9.6%*	*10.4%*	*13.0%*				
TRENDS, Post-FAS123(R)								
Key Ratios								
COGS as % of Sales	*53.1%*	*51.3%*	*52.7%*	*51.9%*	*51.8%*	*50.7%*	*49.9%*	*52.5%*
Gross Margin	*46.9%*	*48.7%*	*47.3%*	*48.1%*	*48.2%*	*49.3%*	*50.1%*	*47.5%*
R&D as % of Sales	*8.3%*	*9.6%*	*9.2%*	*9.3%*	*7.6%*	*10.3%*	*10.7%*	*10.4%*
SG&A as % of Sales	*6.6%*	*6.2%*	*5.7%*	*5.7%*	*5.2%*	*6.7%*	*6.7%*	*6.7%*
Operating Margin	*32.0%*	*32.9%*	*32.4%*	*33.0%*	*35.4%*	*32.3%*	*32.6%*	*30.4%*
Tax rate	*15.6%*	*17.3%*	*16.5%*	*16.0%*	*17.5%*	*17.5%*	*17.9%*	*16.5%*
Net Margin	*26.9%*	*27.3%*	*27.1%*	*27.8%*	*29.3%*	*26.6%*	*27.2%*	*25.7%*
Y/Y Change	-	-	-	-	-	-	-	-
Net Sales	*6.4%*	*14.6%*	*11.7%*	*7.2%*	*15.7%*	*16.6%*	*16.4%*	*10.0%*
Gross Income	*8.0%*	*19.0%*	*8.6%*	*8.8%*	*18.8%*	*22.1%*	*25.3%*	*10.8%*
R&D	*10.1%*	*32.5%*	*7.0%*	*8.4%*	*31.7%*	*33.6%*	*32.3%*	*32.5%*
SG&A	*5.8%*	*8.0%*	*2.3%*	*7.2%*	*4.4%*	*11.1%*	*10.5%*	*6.4%*
Operating Income	*8.0%*	*17.8%*	*10.2%*	*9.3%*	*18.7%*	*21.3%*	*26.6%*	*5.8%*
Net Income	*19.5%*	*16.4%*	*10.6%*	*9.9%*	*15.9%*	*19.4%*	*27.1%*	*5.4%*
Diluted Shares	(426)	(280)	(349)	(335)	(341)	(330)	(234)	(200)
EPS, Diluted	*22.9%*	*18.6%*	*13.3%*	*12.5%*	*18.5%*	*22.0%*	*29.1%*	*6.8%*

Source: Company reports, Bernstein estimates and analysis

EXHIBIT 14: **AAPL Revenue Model**

AAPL Revenue Model

Fiscal Periods:	2025	2026E	2027E	2028E	1Q26	2Q26	3Q26	4Q26E
Revenues ($M)								
iPhone	**209,586**	**252,861**	**287,791**	**306,800**	**85,269**	**56,994**	**54,252**	**56,346**
iPad	**28,023**	**28,304**	**28,587**	**29,159**	**8,595**	**6,914**	**6,191**	**6,604**
Mac	**33,708**	**36,561**	**39,852**	**42,641**	**8,386**	**8,399**	**10,352**	**9,424**
iTunes/Software/Services	**109,158**	**123,310**	**138,913**	**152,633**	**30,013**	**30,976**	**30,739**	**31,582**
Wearables	**30,073**	**29,474**	**30,400**	**31,357**	**10,479**	**5,606**	**5,976**	**7,414**
Apple Watch	**17,066**	**16,798**	**17,469**	18,168	6,930	3,131	2,891	3,846
AirPods and Beats	**13,008**	**12,677**	**12,930**	13,189	3,548	2,475	3,085	3,568
Other Products	**5,613**	**6,545**	**7,527**	**8,656**	**1,014**	**2,295**	**1,907**	**1,329**
Total Revenues	**416,161**	**477,056**	**533,070**	**571,246**	**143,756**	**111,184**	**109,417**	**112,699**
Memo: Other Products (reported)	$35,686	$36,019	$37,927	$40,013	$11,493	$7,901	$7,883	$8,742
Y/Y Change in Revenues								
iPhone	4.2%	20.6%	13.8%	6.6%	23.3%	21.7%	21.7%	14.9%
iPad	5.0%	1.0%	1.0%	2.0%	6.3%	8.0%	-5.9%	-5.0%
Mac	12.4%	8.5%	9.0%	7.0%	-6.7%	5.7%	28.7%	8.0%
0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
iTunes/Software/Services	13.5%	13.0%	12.7%	9.9%	13.9%	16.3%	12.1%	9.9%
Wearables	-3.3%	-2.0%	3.1%	3.1%	1.0%	-8.0%	1.0%	-3.5%
Apple Watch	-3.4%	-1.6%	4.0%	4.0%	2.0%	-8.0%	1.0%	-4.0%
AirPods and Beats	-3.2%	-2.5%	2.0%	2.0%	-1.0%	-8.0%	1.0%	-3.0%
Other Products	-4.8%	16.6%	15.0%	15.0%	-25.9%	60.7%	28.2%	0.0%
Total Revenues	6.4%	14.6%	11.7%	7.2%	15.7%	16.6%	16.4%	10.0%
Units (000)								
iPhone	**236,800**	**258,356**	**256,433**	**265,408**	**84,000**	**62,300**	**55,200**	**56,856**
Y/Y Change in Units								
iPhone	7.0%	9.1%	-0.7%	3.5%	14.1%	9.5%	9.5%	1.7%
Sequential Change in Units								
iPhone	**-**	**-**	**-**	**-**	50.3%	-25.8%	-11.4%	3.0%
ASPs ($)								
iPhone	885	979	1,122	1,156	1,015	915	983	991
Y/Y Change in ASPs								
iPhone	-2.6%	10.6%	14.7%	3.0%	8.1%	11.1%	11.1%	13.0%
Sequential Change in ASPs								
iPhone	-	-	15%	3.0%	15.7%	-9.9%	7.4%	0.8%

Source: Company reports, Bernstein estimates and analysis

EXHIBIT 15: **AAPL Balance Sheet**

AAPL Balance Sheet

Fiscal Periods:	2025	2026E	2027E	2028E	1Q26	2Q26	3Q26	4Q26E
Cash	35,934	38,588	50,844	64,153	45,317	45,572	39,544	38,588
Short-term Investments	18,763	22,855	22,855	22,855	21,590	22,935	22,855	22,855
Accounts Receivable	39,777	37,052	50,512	54,129	39,921	30,339	31,398	37,052
Inventory	5,718	9,721	11,014	12,193	5,875	6,747	11,092	9,721
Vendor non-trade receivables	33,180	29,769	38,332	40,497	30,399	23,172	27,509	29,769
Other current assets	14,585	17,942	16,765	17,965	15,002	15,349	17,420	17,942
Current Assets	**147,957**	**155,927**	**190,321**	**211,793**	**158,104**	**144,114**	**149,818**	**155,927**
Long-Term Marketable Securities	77,723	81,118	69,118	57,118	77,888	78,088	84,118	81,118
Net Property, Plant & Equipment	49,834	52,909	60,420	66,885	50,159	50,116	51,431	52,909
Other Assets	83,727	100,835	94,224	100,972	93,146	98,764	97,899	100,835
Non-Current Assets	**211,284**	**234,862**	**223,762**	**224,975**	**221,193**	**226,968**	**233,448**	**234,862**
Total assets	**359,241**	**390,789**	**414,083**	**436,768**	**379,297**	**371,082**	**383,266**	**390,789**
Current Debt	20,329	13,004	13,004	13,004	13,824	10,307	13,004	13,004
Accounts Payable	69,860	58,326	62,411	65,936	70,587	57,349	64,525	58,326
Other Current Liabilities	66,387	67,374	75,040	79,278	68,543	57,654	62,259	67,374
Deferred Revenues - Current	9,055	9,824	10,408	11,154	9,413	9,331	9,538	9,824
Total Current Liabilities	**165,631**	**148,528**	**160,863**	**169,372**	**162,367**	**134,641**	**149,326**	**148,528**
Long-Term Debt	78,328	71,108	70,180	69,252	76,685	74,404	71,340	71,108
Other Non-current Liabilities	41,549	55,080	55,080	55,080	52,055	55,546	55,080	55,080
Total Non-current Liabilities	**119,877**	**126,188**	**125,260**	**124,332**	**128,740**	**129,950**	**126,420**	**126,188**
Total liabilities	**285,508**	**274,716**	**286,123**	**293,704**	**291,107**	**264,591**	**275,746**	**274,716**
Common stock	93,568	104,134	118,305	133,604	95,221	99,507	100,702	104,134
Retained Earnings	(14,264)	16,447	14,162	13,784	(2,177)	12,359	11,326	16,447
Accumulated Other Comprehensive Income	(5,571)	(4,508)	(4,508)	(4,508)	(4,854)	(5,375)	(4,508)	(4,508)
Total Shareholders' Equity	**73,733**	**116,073**	**127,960**	**142,880**	**88,190**	**106,491**	**107,520**	**116,073**
Total Liabilities & Shareholders' Equity	**359,241**	**390,789**	**414,083**	**436,584**	**379,297**	**371,082**	**383,266**	**390,789**

Source: Company reports, Bernstein estimates and analysis

EXHIBIT 16: **AAPL Cash Flow Statement**

AAPL Cash Flow Statement

Fiscal Periods:	2025	2026E	2027E	2028E	1Q26	2Q26	3Q26	4Q26E
Net Income	112,010	130,409	144,246	158,543	42,097	29,578	29,789	28,945
Depreciation & Amortization	11,698	13,380	14,409	16,455	3,214	3,439	3,320	3,407
Stock based compenstation expense	12,863	13,955	14,172	15,299	3,594	3,528	3,401	3,432
Deferred Taxes & Investment Tax Credit	-	1,544	6,377	6,885	-	-	-	1,544
Other Operating Activities	(89)	(2,037)	-	-	(528.00)	(1,189.00)	(320.00)	-
Net Change in Working Capital	(13,924)	(20,806)	(9,804)	346	(6,985)	(1,422)	(4,536)	(7,863)
Net Change in Other Assets & Liabilities	(11,076)	7,080	6,611	(6,748)	12,533	(5,232)	2,715	(2,936)
Net Cash Flow - Operating	**111,482**	**143,525**	**176,012**	**190,779**	**53,925**	**28,702**	**34,369**	**26,529**
Capital Expenditures	(12,715)	(9,504)	(13,200)	(14,200)	(2,373)	(1,971)	(2,455)	(2,705)
Change in Investments / Securities	29,390	(7,232)	12,000	12,000	(2,359)	(2,767)	(5,106)	3,000
Other Investing Activities	(1,480)	(3,960)	(8,720)	(8,720)	(154)	(1,430)	(196)	(2,180)
Net Cash Flow - Investing	**15,195**	**(20,696)**	**(9,920)**	**(10,920)**	**(4,886)**	**(6,168)**	**(7,757)**	**(1,885)**
Cash Dividends	(15,421)	(15,737)	(16,080)	(16,710)	(3,921)	(3,822)	(4,035)	(3,959)
Change in Current Debt	(2,032)	(5,911)	-	-	(5,910)	(1)	-	-
Excess tax benefits from stock compensatio	(5,960)	(8,006)	(6,377)	(6,885)	(2,922)	(330)	(3,210)	(1,544)
Change in Long-Term Debt	(6,451)	(8,378)	(928)	(928)	(2,164)	(5,750)	(232)	(232)
Change in Capital Stock	(90,711)	(81,959)	(130,450)	(142,211)	(24,701)	(12,288)	(25,105)	(19,865)
Other Financing Activity	(111)	-	-	-	(38.00)	(88.00)	(58.00)	-
Net Cash Flow - Financing	**(120,686)**	**(119,991)**	**(153,836)**	**(166,734)**	**(39,656)**	**(22,279)**	**(32,640)**	**(25,600)**
Net Change in Cash	**5,991**	**2,838**	**12,256**	**13,125**	**9,383**	**255**	**(6,028)**	**(956)**
Cash at Beginning of Period	29,943	35,934	38,772	51,028	35,934	45,317	45,572	39,544
Cash at End of Period	**35,934**	**38,772**	**51,028**	**64,153**	**45,317**	**45,572**	**39,544**	**38,588**
Free Cash Flow								
As reported:								
Free cash flow	98,767	134,021	162,812	176,579	51,552	26,731	31,914	23,824

Source: Company reports, Bernstein estimates and analysis

I. REQUIRED DISCLOSURES

References to "Bernstein" or the “Firm” in these disclosures relate to the following entities: Bernstein Institutional Services LLC (April 1, 2024 onwards), Sanford C. Bernstein & Co., LLC (pre April 1, 2024), Bernstein Autonomous LLP, BSG France S.A. (April 1, 2024 onwards), Sanford C. Bernstein (Hong Kong) Limited 盛博香港有限公司, Sanford C. Bernstein (Canada) Limited, Sanford C. Bernstein (India) Private Limited (SEBI registration no. INH000006378), Sanford C. Bernstein (Singapore) Private Limited, Sanford C. Bernstein Japan KK（サンフォード・C・バーンスタイン株式会社）and analysts employed by Société Générale Africa Technologies & Services to produce Bernstein research under a Global Services Agreement in place between Bernstein and Société Générale.

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VALUATION METHODOLOGY

Apple Inc

We rate Apple Outperform. Our TP of $370 is based on 33x FY28E EPS or 29.5x EV/FCF

RISKS

Apple Inc

The biggest risks to the downside on Apple and to our price target are that: 1) Apple falls too far behind in Gen AI, and ultimately sees its ecosystem disrupted by AI native competitors; 2) Emergence of new form factors cause the smartphone to decline in relevance, eroding Apple’s moat and ecosystem as a consequence; 3) Escalation in US-China tensions disrupts Apple’s access to both supply and demand from China and 4) Regulatory challenges prevent Apple from effectively monetizing its ecosystem, cutting off high margin revenues streams - although this risk is significantly mitigated by the fact that the most important challenge (the Google DOJ case) has largely passed

RATINGS DEFINITIONS, BENCHMARKS AND DISTRIBUTION

EQUITY RATINGS DEFINITIONS

Bernstein brand

The Bernstein brand rates stocks based on forecasts of relative performance for the next 12 months versus the S&P 500 for stocks listed on the U.S. and Canadian exchanges, versus the Bloomberg Europe Developed Markets Large and Mid Cap Price Return Index EUR (EDME) for stocks listed on the European exchanges and emerging markets exchanges outside of the Asia Pacific region, versus the Bloomberg Japan Large and Mid Cap Price Return Index USD (JPL) for stocks listed on the Japanese exchanges, and versus the Bloomberg Asia ex-Japan Large and Mid Cap Price Return Index (ASIAX) for stocks listed on the Asian (ex-Japan) exchanges -unless otherwise specified.

The Bernstein brand has three categories of ratings:

- Outperform: Stock will outpace the market index by more than 15 pp
- Market-Perform: Stock will perform in line with the market index to within +/-15 pp
- Underperform: Stock will trail the performance of the market index by more than 15 pp

Coverage Suspended: Coverage of a company under the Bernstein research brand has been suspended. Ratings and price targets are suspended temporarily, are no longer current, and should therefore not be relied upon.

Not Rated: A rating assigned when the stock cannot be accurately valued, or the performance of the company accurately predicted, at the present time. The covering analyst may continue to publish research reports on the company to update investors on events and developments.

Not Covered (NC) denotes companies that are not under coverage.

Bernstein brand stock ratings are based on a 12-month time horizon.

Autonomous brand – common stocks

The Autonomous brand rates common stocks as indicated below. As our benchmarks we use the Bloomberg Europe 600 Financials Price Return Index (E600BK) and Bloomberg Europe Dev Mkt Financials Large and Mid Cap Price Ret Index EUR (EDMFI) index for developed European banks and Payments, the Bloomberg Europe 600 Insurance Price Return Index (E600IN) for European insurers, the S&P 500 and S&P Financials for US banks and Payments coverage, S5LIFE for US Insurance, the S&P Insurance Select Industry (SPSIINS) for US Non-Life Insurers coverage, the Bloomberg Emerging Markets Financials Large, Mid and Small Cap Price Return Index (EMLSF) for emerging market banks and insurers and Payments, and the Bloomberg Japan Financials Large & Mid Cap Price Return Index (JPFILM) for Japanese Financials. Ratings are stated relative to the sector (not the market).

The Autonomous brand has three categories of common stock ratings:

- Outperform (OP): Stock will outpace the relevant index by more than 10 pp
- Neutral (N): Stock will perform in line with the market index to within +/-10 pp
- Underperform (UP): Stock will trail the performance of the relevant index by more than 10 pp

Coverage Suspended: Coverage of a company under the Autonomous research brand has been suspended. Ratings and price targets are suspended temporarily, are no longer current, and should therefore not be relied upon.

Not Rated: A rating assigned when the stock cannot be accurately valued, or the performance of the company accurately predicted, at the present time. The covering analyst may continue to publish research reports on the company to update investors on events and developments.

Those denoted as 'Feature' (e.g., Feature Outperform FOP, Feature Under Outperform FUP) are our core ideas.

Not Covered (NC) denotes companies that are not under coverage.

Autonomous brand common stock ratings are based on a 12-month time horizon.

Autonomous brand – preferred stocks

The Autonomous brand has three categories of preferred stock ratings:

- Outperform (OP): The total return of the preferred instrument is expected to outperform preferred securities of other issuers operating in similar sectors or rating categories over the next six months.
- Neutral (N): The total return of the preferred instrument is expected to perform in line with preferred securities of other issuers operating in similar sectors or rating categories over the next six months.
- Underperform (UP): The total return of the preferred instrument is expected to underperform preferred securities of other issuers operating in similar sectors or rating categories over the next six months.

Autonomous preferred stock ratings are based on a 6-month time horizon.

AUTONOMOUS CREDIT RESEARCH

Where this report contains investment recommendations for credit instruments, as defined in article 3(1)(35) of the Market Abuse Regulation, the information below is presented to comply with its disclosure requirements.

The report may also include reference(s) to published opinions by other Autonomous or Bernstein analysts covering the equity securities of the issuer(s) referenced herein. Please note an investment recommendation for credit instruments published by the author(s) of this report may differ from the published view of the analyst covering equity securities for the issuer(s) contained in this report and vice versa.

CREDIT RATINGS DEFINITIONS

The Autonomous brand has three categories of credit ratings:

- Credit Outperform (C-OP): The total return of the Reference Credit Instrument is expected to outperform the credit spread of bonds of other issuers operating in similar sectors or rating categories over the next six months.
- Credit Neutral (C-N): The total return of the Reference Credit Instrument is expected to perform in line with the credit spread of bonds of other issuers operating in similar sectors or rating categories over the next six months.
- Credit Underperform (C-UP): The total return of the Reference Credit Instrument is expected to underperform the credit spread of bonds of other issuers operating in similar sectors or rating categories over the next six months.

Autonomous credit ratings are based on a 6-month time horizon.

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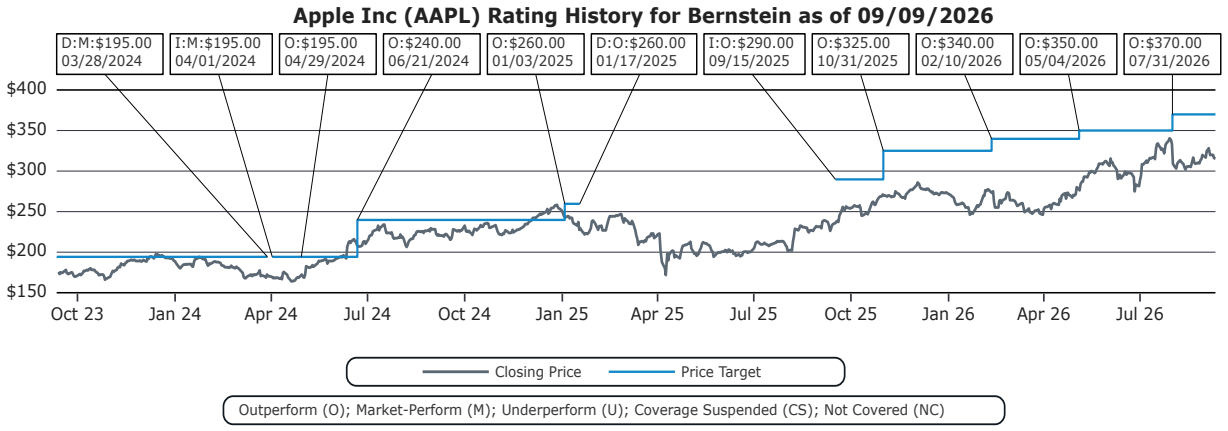
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