

Apple Inc. PMPs and Macs

COMPANIES: AAPL, DT, DTE GR, FTE, FTE FP, HPQ, PHG, PHIA NA, SNE, 6758 JP

iPods See Uptick, Mac Sales Slow QQ

Apple's refreshed iPod line drove an uptick in 3Q08 indirect channel sales growth rates yy despite inventory shortages in some markets; Mac sales deteriorated qq because of the economic slowdown, growing demand for low-priced computers and some customers waiting for refreshed Macs.

- Total 3Q08 PMP category sales mixed yy; inexpensive or feature-rich models remain popular but AAPL's nano leads by far
- Total 3Q08 computer category sales hurt by economy; some see netbooks driving sales
- Repeat sources' iPod sales accelerate above 2Q08 growth rate and outperform category, driven by refreshed models, but Mac sales decelerate and underperform category
- Mac desktop sales outperform laptops, reflecting a change qq
- AAPL repeat sources' 4Q08 orders for yy total iPod units remain stable or accelerate qq; 4Q08 Mac orders decelerate
- iPod inventory levels deteriorated qq with new models, colors hard to find; Mac inventory in-line with demand

EXECUTIVE SUMMARY

Apple Inc.'s yy iPod sales growth trends accelerated for repeat buyers and resellers during 3Q08, particularly in European and U.S. markets. Sources said Apple's refreshed models, released in September with bright colors and lower prices, had spiked consumer interest in the brand. Repeat sources' yy iPod ordering trends for 4Q08 remained stable or accelerated compared with 3Q08, with sources anticipating improved availability and growing demand for the refreshed models. Despite inventory shortages of the new models, sources said Apple slightly gained market share qq. Apple's yy Mac sales growth trends decelerated for repeat buyers and resellers during 3Q08 in all markets, with European and U.S. sources' sales falling slightly or significantly below their goals. Some U.S. sources said Apple's 3Q08 back-to-school channel sales took customers away; others said the economic slowdown was affecting how much customers were willing to spend on computers.

KEY DATA

Repeat Sources' iPod Unit Sales Trends Accelerate

(number of sources)

	ASIA	EUROPE	U.S.	TOTAL
Accelerate	-	8	2	10
Stable	3	2	3	8
Decelerate	1	3	1	5

SOURCES & BACKGROUND

74 buyers, resellers, distributors, store managers and PMP specialists, including many sources who commented on both PMP and computer sales

UNITED STATES 33 sources comprising 15 PMP specialists (5 each at 3 big box chains), 5 Mac resellers, 9 Best Buy Mac specialists and 4 Mac and iPod buyers at regional retail chains and specialty retailers; **EUROPE** 25 sources (comprising 5 iPod, 5 Mac, and 2 iPod and Mac sources in France; 1 iPod and 5 iPod and Mac sources in Germany; and 3 Mac, 3 iPod, and 1 iPod and Mac source in the United Kingdom) for premium resellers, department stores, computer and audio-video chains, business-to-business suppliers and supermarket chains; **JAPAN** 1 iPod source, 2 Mac sources and 4 iPod and Mac sources at major electronics stores in Tokyo and Yokohama areas; **CHINA** 2 Mac, 3 iPod and 4 Mac and iPod Apple specialty stores in Shanghai

REPEAT SOURCES 52 from OTR Global's July report, comprising 25 in the United States (7 MP3 specialists, 9 Best Buy Mac specialists, 5 Mac resellers and 4 buyers), 19 in Europe (5 in Germany, 8 in France and 6 in the United Kingdom), 3 in Japan and 5 in China

INTERVIEWS Sept. 17 through Oct. 7

AVERAGES Straight

BACKGROUND U.S. buyer and reseller sources interviewed for this report were selling a total of 5498 PMP units and 9745 computer units per week; European sources were selling a total of 25258 PMP units and 38185 computer units per week; and Asian sources were selling a total of 6835 PMP units and 2572 computer units per week. Because OTR does not have access to Apple channel sales, we are now focusing on accelerations and decelerations in repeat sources' qq trends in our PMP and Computer Trends: Apple Inc. coverage.

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PORTABLE MEDIA PLAYERS

PMP category sales lag

Repeat sources' 3Q08 portable media player (PMP) category sales trends were mixed, but with slightly more sources reporting yy sales growth trends deteriorated than those citing an acceleration. European sources experienced the most deterioration in yy growth rate, and U.S. sources experienced the least. Those citing deteriorating trends blamed a saturated market, increased competition, the economy and a lack of new iPod inventory. Chinese repeat sources said in addition to a struggling economy causing some customers to trade down, security and traffic-control measures taken for Beijing's summer Olympic Games made it difficult for customers to enter Beijing to shop during 3Q08, hurting all retail businesses. Repeat sources citing accelerating yy growth trends credited strong sales of MP4 players and no-name or other brands that offer different features and are less expensive than iPods. As in OTR Global's July report, Apple's nano continued to be the category leader, with Sony Corp.'s models and Apple's classic, touch and shuffle rounding out the top five spots.

Refreshed line-up drives iPod sales

Outperforming the category and led mostly by the U.S., repeat sources' 3Q08 total yy iPod sales growth rates accelerated compared with OTR Global's 2Q08 findings, driven primarily by Apple's September release of its refreshed iPod lineup and the growing number of stores selling the brand. Most sources said the new models were not as exciting as last year, but said customers liked the new touch and new, brighter nanos' increased capacity as well as iTunes software "that takes the work out of creating playlists." "The new touch is really flying now. We're selling them as fast as they come in," one said. Some U.S. repeat buyers' and resellers' 3Q08 iPod business was hurt by Apple's back-to-school promotion (available only through Apple's website or retail stores, which offered a free nano or touch with the purchase of an Apple computer), but others reported a rebound in iPod sales. "iPods continue to amaze me," a reseller said. "We're selling a lot of iPods. The back-to-school promotion only impacted college students going back to school. There's a wide range of demographics that have an iPod." iPod remained the leading PMP brand for big box sources during 3Q08. Total Apple 3Q08 iPod unit sales were up and outperforming the overall PMP category, and most said iPods were either holding or slightly gaining market share.

European repeat sources reported more mixed sales trends, with most citing stable yy iPod unit sales growth trends. Apple's strategy to lower prices on new and existing lines — notably nano and touch — paid back strongly in terms of volumes, as it positioned the products right in the selling price of mass market retailers. As a result, iPod's distribution coverage also expanded at a faster rate qq. "New iPod models were very well received and helped sales. It gave a real push in sales due to improved value for money," one source said. "Touch will gain momentum."

Nano, touch gains iPod share qq

The nano continued to lead total sources' 3Q08 iPod sales and gained share qq with its newly refreshed models. The touch also gained iPod share qq, also because of the refresh, and some sources said the iPhone may no longer be cannibalizing touch sales. "Last quarter, with the lower price on shuffle, shuffle gained share, but now this is the turn of nano and touch," a French buyer said. The classic and the shuffle lost iPod share qq. One source attributed the increase in touch

"The new touch is really flying now. We're selling them as fast as they come in."

MARGIN HEAD

INCREASED DISTRIBUTION IN EUROPE

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sales to college students switching from the nano to access the Internet and take advantage of Apple's software applications for music and gaming.

iPod inventory levels deteriorate qq

Inventory levels of iPods deteriorated qq, particularly in Europe and in the United States, with 13 sources reporting slight or significant shortages compared with only six during 2Q08. Several U.S. big box sources were completely sold out of the 16 GB touch and all colors of the 8 GB nano, noting they would have sold even more iPods if they had them in stock. "What we get from Apple is what they decide to send to us," one said. "It seems like we don't have much say in the matter." A U.K. source said September sales became very difficult after running into severe stock shortages.

Further acceleration in iPod growth expected

Repeat sources' 4Q08 yy iPod order trends remained stable or accelerated compared with OTR Global's previous findings. European sources in particular were very upbeat about their outlook, because of expected improvements in delivery — most notably on touch and the new lines — along with strong expectations for Christmas sales and the popularity of the refreshed models. In addition, most European sources will channel iPods through more doors during 4Q08, giving a significant boost to orders. "We will push iPods through more doors in the coming quarter; that's how confident we are with them," one said. U.S. repeat sources' yy ordering trends also remained stable or accelerated compared with OTR Global's previous findings, but Asian repeat sources' trends mostly were stable.

In Europe, two mass-market retailers said they would meet with Apple in October to discuss selling iPhones. Because of the opening of iPhones' distribution outside of the exclusive deals with **Deutsche Telekom AG's** T-Mobile and **France Telecom S.A.'s** Orange in Germany and in France, respectively, some French sources expect the highest growth contribution for Apple during 3Q08 and 4Q08 could come from iPhone's 3G version. Sales were well above expectations in France, but in line in Germany. "Twice more iPhones have been sold in France during July and August than during December to June," a French buyer said.

"We will push iPods through more doors in the coming quarter; that's how confident we are with them."

COMPUTERS

Mac sales growth trends yy deteriorate

More than two-thirds of repeat buyers and resellers in all markets reported yy Mac sales growth trends decelerated compared with OTR Global's 2Q08 findings. Sources blamed the economy, with the price of Macs being too expensive for a growing number of customers. Some U.S. sources also said their Mac sales had been hurt by Apple's back-to-school promotion, which was only available at Apple stores and Apple.com. Other sources suspect some customers held back spending in anticipation of newly-refreshed Macs. In a switch from OTR Global's past reports, Mac sales unperformed the overall computer category for repeat buyers and resellers. However, Apple remained a top-three bestseller for sources, in addition to **Hewlett-Packard Co.** and **Toshiba Corp.** Several sources said yy sales growth rates in their overall computer categories (which also deteriorated compared with OTR Global's 2Q08 findings) were being helped by the growing popularity of netbooks, with those sources mentioning **Asus Computer Inc.** and **Acer Inc.** as top-sellers.

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Mac desktops outperform laptops

Overall Mac sales fell slightly or significantly below repeat sources' goals during 3Q08, which reflected a deterioration compared with OTR Global's 2Q08 findings. Mac laptop sales deteriorated for 20 of 24 repeat sources, while Mac desktop sales deteriorated for 15 repeat sources. Several sources said more customers were turning to the iMac than previously because it seemed to be the best value for the money. Inventory levels were in line with demand. Repeat sources' orders yy for 4Q08 decelerated for almost one-half of sources, who remain concerned about the economy and customer spending patterns. "The economic situation is strange and there is a lack of new product with Mac — their existing lines start to look old," a French buyer said.

Best Buy customers spend less per computer qq

For **Best Buy Co. Inc.** computer department sources, Hewlett-Packard remained the top-selling computer brand during 3Q08, followed by Apple and Toshiba. Almost one-half of sources said their computer sales were being hurt by the economic slowdown and said customers were spending less per computer qq. However, Macs continued to outperform the overall computer category at the chain. Sources who commented said customers who do not choose to buy a Mac said it was because of price.

Mac, iPod Accessory sales up yy

Most Best Buy sources reported strong Mac and iPod accessory sales during 3Q08, despite the economic downturn. "Accessories are a big business for us. ASP has dropped a couple of dollars, but it's still profitable for us," one said. "iPhone accessories are really taking off even though we don't sell the iPhone." Another source said anytime iPod sales increase, he witnesses an increase in accessories. "I don't think anyone buying an iPod walks out the door with just an iPod," he said. "Accessories are up in line with overall computer sales, driven by hard drives," a German source said. "People demand a lot of storage space; personally, I really do not understand what people are storing. It is mad, but, hey, good for sales!" Some bestselling accessory brands mentioned were **Griffin Technology Inc.**, **Philips Electronics N.V.**'s Digital Lifestyle Outfitters (DLO), and **Belkin International Inc.**

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Portable Media Players

U.S.

"We're selling a whole lot less iPods than last year — nearly 45%–50% less. Everyone in the world sells them now."

"This refresh is totally lame versus last year. They introduced video and a larger screen last year, along with the touch, which was totally mind-blowing. Nothing they've done this year can compare."

"Our iPod sales are better than we've seen in a long time."

"Our most popular selling iPods are the ones that don't have Internet access. If people have an iPhone, they still want an iPod because of the music capacity."

"My 4Q forecast is up, and I hope it will remain up, but at this point I really don't know. ... I'm not sure what will happen."

"People like the refreshed iPods, but they're not lining up to buy them. I still don't have all the colors. All the colors for nano are a challenge when you think about eight colors for each of the two nano models — that's 16 that we'll have to deal with. Some places will probably focus on just the most popular colors."

"In our market, they've gained share. Nobody is buying anything but iPods around here."

UNITED KINGDOM

"We have some promotions [on iPods] planned for the run up to Christmas, so expectations are high."

"My biggest fear is that [Apple] will fall short on delivery execution. It will be a disaster if they do."

"Apple continues to be the market leader; the whole product is way ahead competitors."

"The bulk of sales during the quarter came from nano, and July and August was great. September became very difficult because we ran into severe stock shortages."

"Last year, we held back on orders because we knew the refreshed model was about to be released. When the refreshed models came out, we didn't get any for six weeks, whereas this year we had it in a few days. So for us, it was easy to grow with that type of comparison."

GERMANY

"The [PMP] market is saturated only due to the increased distribution channels, not from customers' point of view."

"[Microsoft Corp.'s] Zune is not available in Germany. [However, it] could knock Apple off the No. 1 position if they wanted since they have got the money to do it."

"So far, no impact from smartphones, etc., since they are very pricey and far off MP3 players' pricing. However, they are gaining speed and will contribute to saturation in the market. We expect the impact of these top-range mobiles over the next year."

"Since June, we are negotiating with T-Mobile about iPhone's distribution. I expect being able to sell it soon."

"I have got high hopes for touch 8 GB. I expect it to overtake the 16 GB nano since the price difference is not so big any more €199 versus €219."

FRANCE

"It is a bit early to say if the new line will be successful, but it definitely attracts customers now; initial sales are good, although there is nothing revolutionary in the products."

"The price of the old nano and touch has been lowered to the price of the new ones, but people still buy the old ones, too."

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"I'm not sure if it is because of the innovation or even the hype for the new lines, but all the advertising around the new iPods has definitely had a positive impact on sales."

"The iPods will definitely gain share during Christmas."

JAPAN

"From the pre-sales orders we are getting for touch, it might prove to be as popular as the classic."

"We don't have enough nano inventory. Apple didn't make enough as usual."

"It really comes down to a choice of having an all-in-one device or not. Some people want that; most people like keeping them separate because the devices are so small."

"We see a lot more young women looking at nano, and that is a good thing."

CHINA

"Some customers think the price of iPods is too high for a MP3. Many mobile phones have MP4 function now, and many MP4 mobile phone prices are lower than iPod classic, touch and nano. These customers will choose MP4 mobile phones first for the lower price. They do not care about the fashion appearance; they only care about the cost performance."

"iPod accessories are a very small amount of our overall iPod sales. We only sell legal iPod accessories in our shop. The legal iPod accessories prices are higher than other smuggling iPods accessories. The legal iPod earphone is 368 yuan while the smuggling iPod earphone is about 120 yuan, so the sales of iPod accessories are not good in our shop."

Macs

U.S. BUYERS/RESELLERS

"We have lots of people shifting to iMacs."

"Our overall notebook business is down slightly, offset by netbook sales that are way up. Macs are outperforming our overall notebook category."

"Our only Apple products not selling well are the Mac Mini, MacBook Air and Time Capsule."

"We're feeling the pinch; customers are tightening up on their spending."

"We are double digits below our plan, which was based on the run rate we were seeing all year long."

"We've been running double of last year in the first two quarters and all of sudden it seems like we're dead."

"Our retail business is soft, but our internet sales are very strong."

"That iPod promotion affected all of our sales. June through September plummeted."

U.S. BEST BUY

"The majority of people buy HP or Dell [Inc.] if they are buying a computer for school or work."

"Consumer confidence is down somewhat."

"Sales are below plan. About half the customers we get have toned down their computer purchases."

"A lot will come in and play around with a Mac for awhile and say it's something they'd like to have, but then they mention the price."

"We don't stock the Mac Mini, but people have been asking about it."

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“They want the lowest price possible and they also want everything with it.”

GERMANY

“Units are up significantly, but the real issue is price decreases overall, except Apple. Monetarily, we are up 5% only. The Asus notebooks sell well at €300.”

“There is no real price pressure on Apple apart from Air; people say that is too expensive, especially with all the other launches on the market.”

“We sell more [Apple] laptops overall, but the growth has leveled out; it is on par with desktops now.”

“Since [Apple] keeps gaining market share and growing, there is not too much price pressure. They could even increase market share with lower prices, but that would cut into margin, which is an issue.”

UNITED KINGDOM

“The computer market is suffering and we are finding that there is less money in it these days.”

“I’m hearing more and more that cheaper brands like Acer are making gains.”

“Delivery [from Apple] has been great, and for once, we are not short on anything.”

“The refreshed models are due to be released in October, so that has pushed orders up. We are also in the process of putting more Apple stock into stores this year.”

“I’m slightly cautious going forward. Orders will be up, but I don’t think it’s safe to say the consumer is going to spend.”

FRANCE

“We expect sales to increase massively with Macs for Christmas, so we will order even more to avoid shortages.”

“There was no shortage this quarter because there were no new products, but if they release something new, it will be a mess as usual.”

“Availability increased greatly with Macs, but so did competition.”

CHINA

“The price of Macs is much higher than other brands computers, and our customers are not interest in such high- priced computers.”

“There are more customers in our shop in 3Q08 compare to 3Q07. The sales of HP, Asus and Dell are pretty good in our shop.”

“Retail business was affected by the Olympic Games.”

“We have been losing money for several months as sales went so poorly.”

JAPAN

“Mac is still gaining popularity with younger people and also some business users who want to run both systems.”

“We are seeing more young users come to the Mac because of the move to Intel [Corp].”

“MacBook Air is getting stale; they really need to refresh it.”

“It’s really hard for us to get MacBook Pro models now; Apple is really running down the inventory.”

“Apple has a lousy relationship with the retail channel. They don’t do anything to motivate us.”

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