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IT Hardware | North America

Reciprocal Tariff FAQs

We answer the Top 10 investor FAQs from yesterday, including (but not limited to): what are your companies saying? What is downside to AAPL? Will there be tariff exemptions? What about potential retaliatory actions? Where are you buying the dip? And how are enterprises responding to future price hikes?

What are the odds that Apple gets tariff exemptions? This was the most frequently asked question yesterday, and we gauge the odds of a targeted tariff exemption for Apple at 20%. Reason being, the fundamental process of getting a tariff exemption is different this time around. During the first Trump administration, companies had weeks to formally respond to the USTR Section 301 tariff lists and provide feedback/reasons for specific product exemptions. This time, the Trump administration has implemented global tariffs through the International Emergency Economic Powers Act (IEEPA), which means no formal product list was presented in advance, and there is no official process for requesting tariff exemptions. Therefore, for Apple to receive an exemption, it would have to be a company (or product, i.e. smartphone) specific exemption granted specifically by the President. At this point, we believe it is unlikely (but subject to change).

Does Apple's announcement of \$500B in US spending commitments change how the Trump administration might treat Apple? Possibly, but again, unlikely. We'd remind our readers that Apple made similar commitments in 2018 (\$350B over 5 years) and 2021 (\$430B over 5 years), and therefore while the 2024 total spending commitment is both larger (\$500B) and over a shorter period of time (4 years), these types of statements from Apple are not necessarily new. And while we commend Apple for the actions they are taking in the US - doubling the US AMF to \$10B, helping suppliers and ODMs stand up new manufacturing facilities in the US, expanding R&D spending in the US, hiring 20,000 people, and others - the fact remains nearly 100% of Apple's product manufacturing is done in international markets. It is our belief that more significant direct manufacturing commitments in the US would be required to get special treatment, and we see this as unlikely (for the reasons we listed yesterday).

How do you think about the potential floor in Apple shares (where would you close your eyes and buy)? We had previously estimated the near-term floor on Apple shares at \$200-210, which assumed a full 20% China tariff and 25% tariffs on Mexico (where AAPL sources some AI servers). Clearly, this scenario did not contemplate a 54% China tariff, 46% on Vietnam, 36% on Thailand and 26% on India. As we estimated yesterday, Apple could be subject to \$33B of annualized incremental tariff costs, assuming no mitigation, which would equate to a 26% EPS headwind. However, we know Apple has pulled forward some iPhone builds, as well as component supplies, and would assume Apple likely pressures component suppliers (who rely on Apple's massive volumes) to share in the tariff costs. Apple could also potentially raise product prices, which we'd expect them to do globally to

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IT HARDWARE

North America

Industry View

In-Line

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prevent any price arbitrage. All of this means that rather than a 26% EPS headwind, perhaps the bear case headwind to Consensus EPS is 10-15%. On Street CY26 EPS of \$8.19, that implies \$7.19 of EPS, which on a trough multiple of 24x, would imply a \$172 stock, closely aligned with our current \$168 bear case valuation.

Were you surprised by the price action of any companies in your coverage yesterday? Twelve of the 19 companies in our IT Hardware coverage were down more than 10% yesterday, with all but one (IBM) down more than 7%. Given the severity of yesterday's tariff announcement, we are not surprised. However, we were surprised to see the disk drive companies (STX/WDC) underperform nearly every stock in our coverage given both have limited tariff exposure. This is because fully assembled hard disk drives for hyperscalers are typically shipped from plants in Thailand, Malaysia and China to an OEM/ODM (typically in SE Asia), who then integrates the HDD into a server rack, before shipping the full system to the final customer. Presumably HDDs might be forced to share the indirect tariff cost with other component vendors at the behest of the final customer, but very little direct US tariff exposure exists for HDDs. That said, the market could be telling us a severe downturn in HDDs is ahead, as worsening business conditions could lead to slowing growth, lower storage needs, and thus an HDD downcycle. Nevertheless, these are names we'll be watching closely given HDD cycle strength to-date.

What Hardware names would you 'buy the dip' on tomorrow? None. Even after yesterday's multi-standard deviation move lower in Hardware stocks, it's just far too early to gain conviction we've seen the end of the pain trade lower. Coming into this week, Hardware stocks were trading at 16.5x P/E (2.5x turns off the peak) on peak earnings. Historically, hardware stocks bottom at a trough multiple (10-11x in March 2020; 11-12x in Sept 2022) on trough earnings. This means Hardware stocks could be well away from bottoming. Even for those that take a longer-term mindset, we believe Consensus earnings have to be revised lower (potentially materially, though subject to changes in policy) before considering buying the dip.

Did you speak to any of your companies? What are they saying? Most companies in our coverage are in quiet period, save for a few off-cycle companies. For the few we spoke to, plenty of questions/uncertainties remain, especially on exactly how some of the tariffs will be implemented on components vs. finished goods imported to the US given some minor tariff carve-outs. That said, what we heard from one OEM yesterday was consistent with prior messaging - we'll do our best to mitigate these tariffs, but likely pass the remaining cost to the end customer.

How are enterprises responding to yesterday's reciprocal tariff announcement? As we highlighted in our [1Q25 CIO Macro Flash Survey last week](#), policy uncertainty has already resulted in CIOs taking a much more cautious view on enterprise Hardware spending this year, with CIOs surveyed prior to Feb 20th expecting 2.2% hardware spending growth in 2025 vs. CIOs surveyed after Feb 20th expecting just 0.7% hardware growth in 2025. However, from the few anecdotes we were able to capture yesterday, we'd highlight one other trend - pre-buying/pulling forward hardware purchases. It's hard to gauge exactly how much pre-buying/pull-forward is taking place (vs. deferrals and pauses), but US companies have less than 6 days until reciprocal tariffs kick in, and we'd expect to see more pre-buying of mission critical hardware up until the 9th at 12:01am ET, when the odds of pricing increases rise

materially.

How are you factoring in the risk of any potential retaliatory actions against US companies/brands? We have yet to factor this in given the fluidity of the geopolitical environment, but this potential risk is why we remain so concerned with our space. For example, what if we see boycotts, or outright bans, of US brands in China? For a company like Apple, which shipped 44M iPhones to China in LTM (\$65B of revenue) and is the single largest western employer (direct + indirect through suppliers) in China, the impact could be significant. While we hope calmer heads prevail and bilateral trade negotiations ease the tariff landscape, this is a potential risk that remains.

How are you thinking about the tariff impact on AI servers assembled in Asia?

We believe that an L10 AI server rack shipped by ODMs to the US for final L11 customization (i.e. Wistron ODM'ing for DELL) would likely be subject to the full 32% tariff on Taiwanese imports. However, questions remain on exactly what would be taxed given the large majority of a GB200 NVL72 AI server price (\$3M estimate) comes from the 72 GPUs in the server rack, which if shipped standalone from Taiwan would technically be exempt from reciprocal tariffs. Could the tariff just be on the value-add from the ODMs, rather than the full bill-of-materials? It's not clear at the moment.

Are there any beneficiaries of reciprocal tariffs in your universe? In the short-term, no. But given the pressure on softline retailers with significant sourcing exposure to SE Asia, Kornit Digital (KRNT) could be a medium-to-long-term beneficiary of any onshoring in the textile industry. Reason being, KRNT manufactures digital printers (+ the ink and software) for small-to-medium sized custom textile run (direct to garment or direct to fabric). They do this more sustainably, with lower water usage, more automation, and lower overhead costs than traditional screen printing. In the event reciprocal tariffs on SE Asian nations remain in place, and force apparel, fashion, and/or sportswear brands to consider onshoring some textile production, Kornit could benefit. Separately, while we don't cover these names, we'd highlight that Jabil (JBL), Sanmina (SANM), and Flex (FLEX) are US-based EMS providers.

Valuation Methodology and Risks

Apple, Inc. (AAPL.O)

Our \$252 PT is based a 8.5x EV/Sales FY26 multiple, which is derived from a regression of tech and consumer platform peers. Our price target implies ~30x P/E on \$8.20 CY26 EPS.

Risks to Upside

- iPhone 16 outperforms expectations
- Apple Intelligence adoption surprises to the upside
- Apple pulls forward form factor changes
- Services growth re-accelerates despite tougher compares
- Gross margins surprise positively

Risks to Downside

- Weak consumer spending limits iPhone upgrade rates
- Limited progress on AI features
- Geopolitical tensions/tariffs
- Increased regulation, particularly with GOOGL TAC and App Store

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(as of March 31, 2025)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1516	40%	387	46%	26%	694	40%
Equal-weight/Hold	1682	44%	380	45%	23%	805	47%
Not-Rated/Hold	3	0%	0	0%	0%	0	0%
Underweight/Sell	598	16%	81	10%	14%	227	13%
Total	3,799		848			1726	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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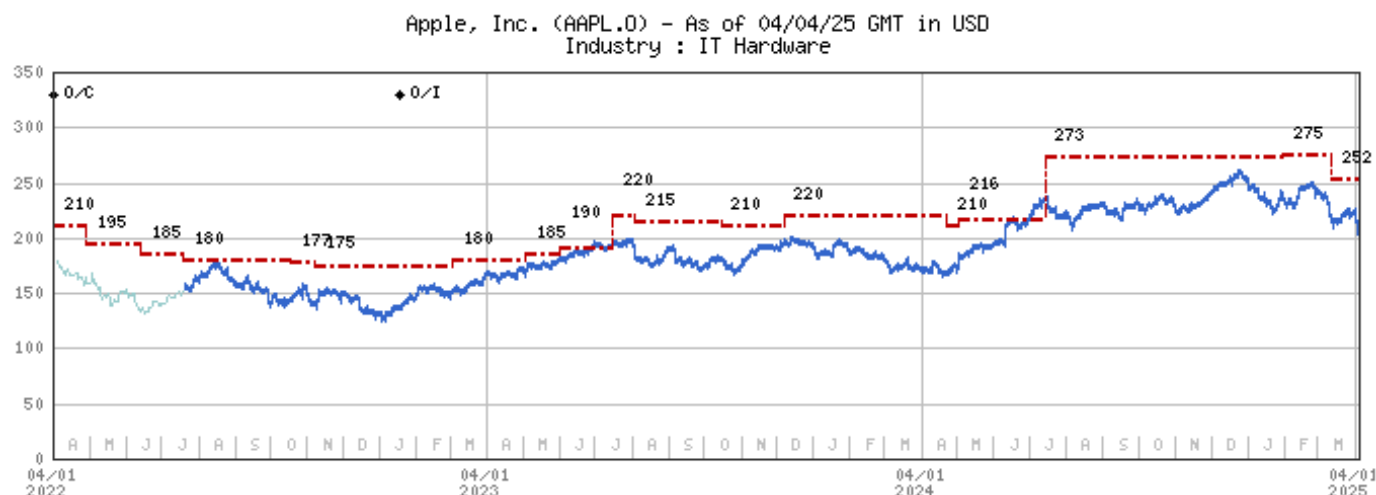
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INDUSTRY COVERAGE: IT Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/03/2025)
Erik W Woodring		
Apple, Inc. (AAPL.O)	O (05/26/2009)	\$203.19
CDW Corporation (CDW.O)	E (12/12/2023)	\$151.57
Cricut Inc (CRCT.O)	U (08/12/2021)	\$4.83
Dell Technologies Inc. (DELL.N)	O (05/01/2023)	\$77.23
Garmin Ltd (GRMN.N)	U (10/07/2024)	\$185.34
GoPro Inc (GPRO.O)	U (12/12/2023)	\$0.55
HP Inc. (HPQ.N)	E (08/19/2024)	\$23.78
IBM (IBM.N)	E (01/18/2023)	\$243.49
Ingram Micro (INGM.N)	O (01/16/2025)	\$16.90
Kornit Digital Ltd. (KRNT.O)	O (08/10/2023)	\$16.80
Logitech International SA (LOGI.O)	E (01/23/2025)	\$71.41
NCR Voyix Corp. (VYX.N)	E (09/19/2022)	\$8.93
Resideo Technologies Inc (REZI.N)	E (03/16/2021)	\$16.43
Seagate Technology (STX.O)	O (03/26/2024)	\$71.53
SmartRent, Inc. (SMRT.N)	++	\$1.07
Sonos Inc. (SONO.O)	U (09/26/2024)	\$8.90
Teradata (TDC.N)	E (02/13/2024)	\$21.30
Xerox Corp (XRX.O)	++	\$4.18
Meta A Marshall		
Hewlett Packard Enterprise (HPE.N)	O (12/05/2024)	\$13.68
NetApp Inc (NTAP.O)	E (07/26/2023)	\$81.61
Nutanix Inc (NTNX.O)	O (10/28/2024)	\$64.78
Pure Storage Inc (PSTG.N)	E (06/11/2024)	\$40.85

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.