

ARTILLY DATA BRIEFS

Will AR Add \$11 Billion to Apples' Top Line?

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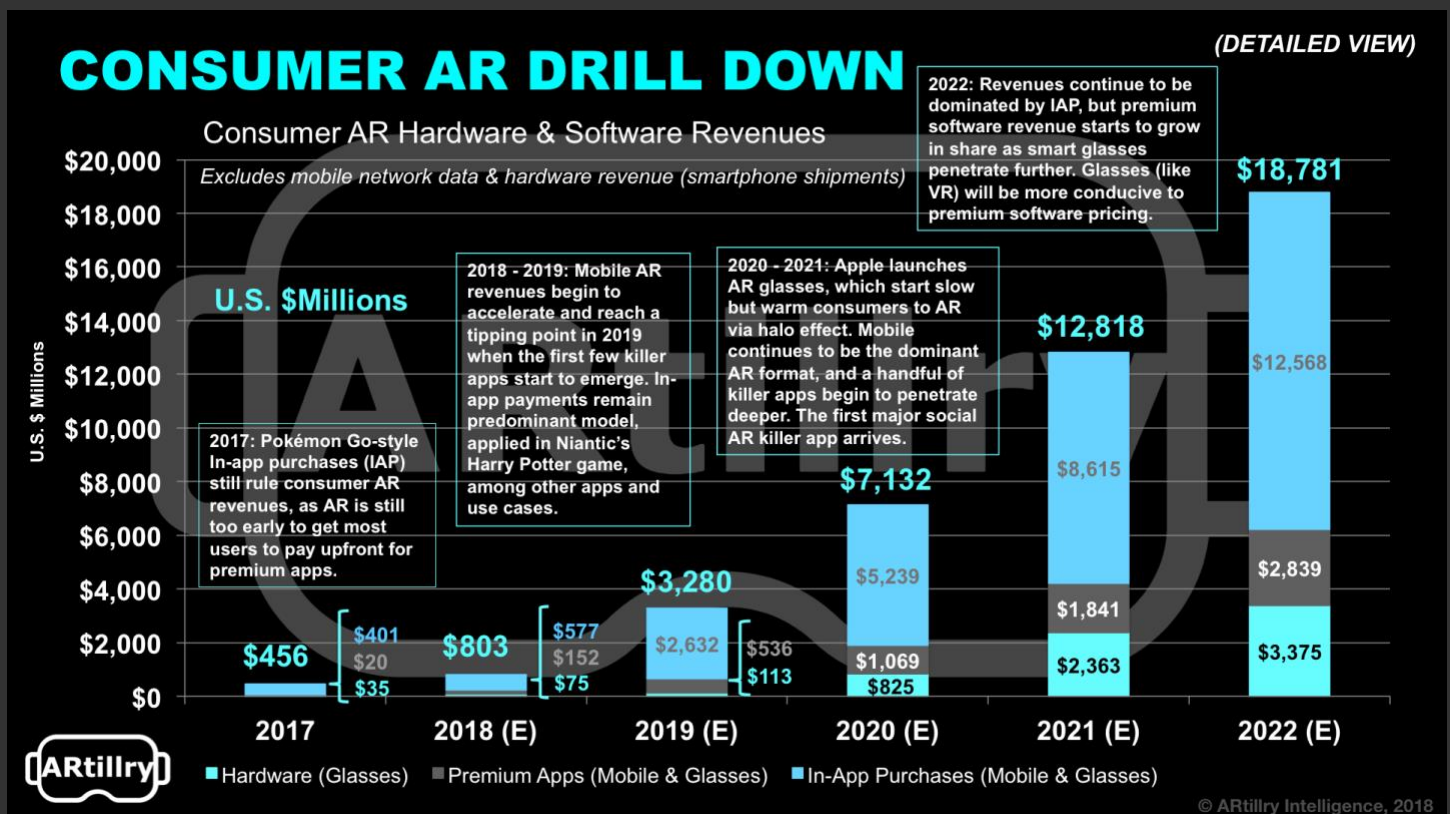


One of the things that gives us confidence about XR's eventual market size is the level of investment and motivation shown by influential tech giants. We wrote an entire report about it. One of those companies is particularly outspoken on AR's transformative opportunity: Apple.

Given those signals and other inputs (think: patents, acquisitions, supply-chain, etc.), the folks at Merrill Lynch believe that AR could drive \$8 billion in Apple revenues between now and 2020. And if it fulfills industry rumors to move into smart glasses, that total could be \$11 billion.

Breaking that down a bit, the \$8 billion is mostly in software revenues from AR apps. That breaks down to premium app purchases and in-app purchases, where Apple takes a 30 percent cut. That's essentially Apple's motivation for seeding an AR market with the free ARkit.

As for the breakdown of premium apps and in-app purchases, we believe the latter will be dominant in AR. That's due to consumer comfort levels that have been conditioned (especially in gaming), and the model's validation with Pokemon Go. Our survey data also support the claim.



Moving on to hardware, smart glasses are the wild card. Hardware is still where the majority of Apple's margins lie, so smart glasses could be a question of when. Timing is always a well calculated variable in Apple land: It's usually late and formulated (the opposite of Google and FB).



Merrill's software heavy-revenue projections (\$8 billion of the \$11 billion projected), align with our forecast for aggregate AR revenues (see above). This is mostly because software has head start, given the smartphone installed base it piggybacks on. Smart glasses will take longer to ramp up.

In the outer years of our forecast, the ratio of software to hardware revenue is about 4 to 1. That's not far off from Merrill's 2.7 to 1. Obviously the firm is more bullish on hardware revenues than we are, but they're careful to phrase hardware (smart glasses) as a "maybe" scenario.

More than the numbers themselves, it's relevant at this stage to focus on the rationale behind them, and the accuracy of inputs. Merrill's thinking is solid on those measures, and we'll be watching closely to see how it plays out and where it creates opportunity gaps for smaller player

Video Companion

(click link to open)

<https://youtu.be/On6GStY430s>



About ARtillery Intelligence

ARtillery is a publication and intelligence firm that examines augmented reality and virtual reality, collectively known as XR. Through writings, data and multimedia, it provides deep and analytical views into the industry's biggest players and opportunities. It's about insights, not cheerleading.

Run by career analyst and journalist Mike Boland, coverage is grounded in a disciplined and journalistic approach. It also maintains a business angle: Though fun and games permeate VR and AR (especially the former) long-term cultural, technological and financial implications are primary.

Learn more at <https://artillery.co/about>





About the Author

Mike Boland was one of Silicon Valley's first tech reporters of the Internet age, as a staff reporter for *Forbes* (print) starting in 2000. He has been an industry analyst covering mobile and social media since 2005, and is now Chief Analyst of *ARtillery Intelligence*, covering emerging tech.

Mike is a frequent speaker at industry conferences such as VRLA, ad:tech and LeadsCon. He has authored in-depth reports and market-sizing forecasts on the changing tech & media landscape. He contributes regularly to highly read online news sources such as *TechCrunch*, *Business Insider* and the *Huffington Post*.

A trusted source for tech journalists, his comments have appeared in A-list publications, including *The New Yorker*, *The Wall Street Journal* and *The New York Times*.

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