Stock Report | **February 10, 2018** | NasdaqGS Symbol: **AAPL** | **AAPL** is in the S&P 500

# Apple Inc.

| Recommendation | Price | 12-Mo. Target Price | Report Currency | Investment Style |
|---|---|---|---|---|
| **BUY** ★★★★☆ | $156.41 (as of Feb 09, 2018 4:00 PM ET) | $195.00 | USD | Large-Cap Growth |

**Equity Analyst Angelo Zino**

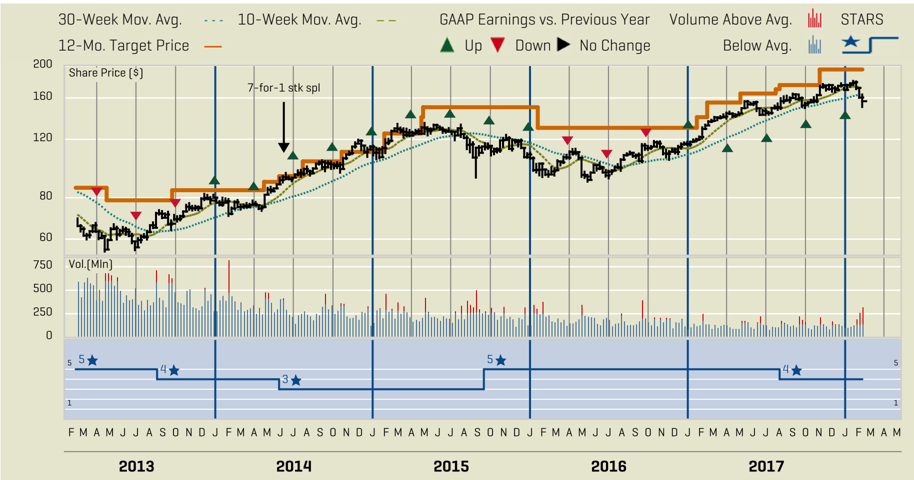
**GICS Sector** Information Technology
**Sub-Industry** Technology Hardware, Storage & Peripherals

**Summary** This company is a prominent provider of consumer computing devices, including the iPhone, iPad tablets, Mac computers, wearables and iPod digital media players.

## Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 52-Wk Range | **$180.10 - 132.05** | Oper. EPS 2018**E** | **11.46** | Market Capitalization[B] | **$793.6** | Beta | **1.30** |
| Trailing 12-Month EPS | **9.70** | Oper. EPS 2019**E** | **12.72** | Yield [%] | **1.61** | 3-Yr Proj. EPS CAGR[%] | **10** |
| Trailing 12-Month P/E | **15.99** | P/E on Oper. EPS 2018**E** | **13.54** | Dividend Rate/Share | **$2.52** | SPGMI's Quality Ranking | **B+** |
| $10K Invested 5 Yrs Ago | **$25,445** | Common Shares Outstg.[M] | **5,074.0** | Institutional Ownership [%] | **59** | | |

## Price Performance




**Source: CFRA, S&P Global Market Intelligence**
**Past performance is not an indication of future performance and should not be relied upon as such.**
Analysis prepared by Equity Analyst **Angelo Zino** on Feb 02, 2018 10:52 AM, when the stock traded at **$167.78.**

## Highlights

- We project 14% revenue growth for FY 18 (Sep.) and a 5.0% increase for FY 19, following a 6.3% rise for FY 17. We anticipate iPhone sales rising in FY 18 and FY 19 as consumers upgrade to devices with higher average selling prices that possess more content (e.g. OLED displays, facial recognition and wireless charging). We are encouraged by a recent growth in Services, up 18% in the December quarter, led by the App store and iCloud. We positively view recent Mac/iPad trends but are wary of sustainability. We see other hardware offerings (e.g. Watch, AirPods and HomePod) contributing to growth.
- We see the gross margin steady at 38% to 39% through FY 19 end. We see iPhone average selling prices up 14% in FY 18 and 3% in FY 19, but note elevated component costs. We see growth from the higher margin Services business supporting margins.
- While we acknowledge concerns about AAPL's ability to grow iPhone shipments amid a maturing smartphone industry and as consumers extend replacement cycles, we remain optimistic about a multi-year shift to higher priced devices. We believe that AAPL will accelerate efforts to return cash to shareholders, as it aims to be net cash neutral (currently $163 billion net cash).

## Investment Rationale/Risk

- Our Buy opinion reflects AAPL's compelling valuation, superior ecosystem, high customer retention rates and robust free cash flow generation/cash position. We note AAPL's significant market position in key areas, high customer satisfaction and switching costs. We see a growing installed base benefiting future product replacement cycles. We note net cash per share nearly $32, which we see increasingly employed for dividends, stock repurchases and small bolt-on acquisitions. We expect services growth to remain robust given AAPL's growing installed base (1.3 billion active installed base) and potential to sell original content. We view AAPL as among the biggest beneficiaries from foreign cash repatriation and are encouraged by lower planned tax rate of 15%.
- Risks to our recommendation and target price include weaker end-market demand, pricing pressures, competitive handset and tablet offerings gaining traction, less success with product launches/innovations and longer than expected hardware replacement cycles.
- Our 12-month target price of $195 is based on a P/E of 15.3X our FY 19 EPS estimate of $12.72, or about 12.8X excluding net cash, above hardware peers, but below the S&P 500 Technology sector.

## Analyst's Risk Assessment

| LOW | **MEDIUM** | HIGH |
|---|---|---|

Our risk assessment reflects our view of a seemingly ever-evolving market for consumer-oriented technology products, potential challenges associated with the company's growing size and offerings and possible changes in the pace or success of product innovations as the smartphone space matures. These concerns are partly offset by AAPL's significant cash position and free cash flow potential.

## Revenue/Earnings Data

**Revenue (Million U.S. $)**

| | 1Q | 2Q | 3Q | 4Q | Year |
|---|---|---|---|---|---|
| 2019 | -- | -- | -- | -- | -- |
| 2018 | 88,293 | -- | -- | -- | -- |
| 2017 | 78,351 | 52,896 | 45,408 | 52,579 | 229,234 |
| 2016 | 75,872 | 50,557 | 42,358 | 46,852 | 215,639 |
| 2015 | 74,599 | 58,010 | 49,605 | 51,501 | 233,715 |
| 2014 | 57,594 | 45,646 | 37,432 | 42,123 | 182,795 |

**Earnings Per Share (U.S. $)**

| | 1Q | 2Q | 3Q | 4Q | Year |
|---|---|---|---|---|---|
| 2019 | **E** 4.51 | **E** 2.97 | **E** 2.41 | **E** 2.83 | **E** 12.72 |
| 2018 | 3.89 | **E** 2.75 | **E** 2.20 | **E** 2.62 | **E** 11.46 |
| 2017 | 3.36 | 2.10 | 1.67 | 2.07 | 9.21 |
| 2016 | 3.28 | 1.90 | 1.42 | 1.68 | 8.31 |
| 2015 | 3.06 | 2.33 | 1.85 | 1.96 | 9.22 |
| 2014 | 2.07 | 1.66 | 1.28 | 1.41 | 6.45 |

Fiscal year ended Sep 30. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

## Dividend Data

| Amount ($) | Date Decl. | Ex-Div. Date | Stk. of Record | Payment Date |
|---|---|---|---|---|
| 0.57 | Jan 31 | Feb 09 | Feb 13 | Feb 16 '17 |
| 0.63 | May 02 | May 11 | May 15 | May 18 '17 |
| 0.63 | Aug 01 | Aug 10 | Aug 14 | Aug 17 '17 |
| 0.63 | Nov 02 | Nov 10 | Nov 13 | Nov 16 '17 |
| 0.63 | Feb 01 | Feb 09 | Feb 12 | Feb 15 '18 |

Dividends have been paid since 2012. Source: Company reports.

**Past performance is not an indication of future performance and should not be relied upon as such.**
Forecasts are not reliable indicator of future performance.

# Apple Inc.

## **Business Summary** November 03, 2017

CORPORATE OVERVIEW. Apple makes smartphones, tablet devices, computers and portable digital media players, and sells a variety of related software, services, and accessories.

AAPL's iPhone directly accounted for 62% of FY 17 revenues, with over 216 million units sold. AAPL sold over 211 million iPhones in FY 16, contributing 63% of revenues. We note that iPhone sales grew 3.4% in FY 17 after witnessing its first ever year-over-year decline ever in FY 16. While we expect the rate of growth to slow in the coming years as the business becomes larger and more mature, we still see substantial opportunities related to international, enterprise and education markets. We note the fall 2017 introductions of the next generation iPhone 8 and the iPhone 8 Plus devices as well as release of the iPhone X device, which includes a OLED screen and 3D sensing technology. We note all three devices come with wireless charging capabilities.

Released in April 2010, the iPad quickly became the best-selling tablet computer by far. Before the iPad, unit sales for similar computing devices were less than 200,000 units, according to market researchers. In FY 10, the first year of availability, AAPL sold over 7 million iPads, accounting for around 8% of total revenues. In FY 17, about 44 million iPads were sold (8% of sales), but showed a decline from the 46 million units shipped (10% of sales) the previous fiscal year.

Sales of AAPL's computers, commonly known as Macs, made up 11% of revenues in FY 17, similar to its representation in FY 16. On a unit shipment basis, we expect Macs to perform better than the overall PC industry, which we think is in the midst of a secular decline.

Revenue from Services and other hardware products comprised for about 19% of sales in FY 17 versus 16% in FY 16. Other hardware products includes sales of the Apple TV, Apple Watch, AirPods, Beats products, iPod and Apple-branded and third-party accessories. We note Services alone was 13% of FY 17 sales and grew an impressive 23%. Services includes revenue from the App Store, iCloud, AppleCare, licensing and other services.

COMPETITIVE LANDSCAPE. The company primarily competes in the handset, tablet, computer and media player markets. We think AAPL uses its ability to design and develop its own operating system, hardware, application software and services to differentiate itself from competitors. We see the appeal behind the products having a lot to do with its stated goal of providing customers with products that have superior ease of use, seamless integration and innovative industrial design. Reflecting what we view as AAPL's perceived quality and notable cachet, the company is able to compete in the middle to high-end segments of its target markets, and charge above-average prices for its products.

AAPL has a substantial hardware presence across key categories, and we think this helps garner interest from third-party application developers who continue to produce content and applications for the iPhone and iPad. We think AAPL's application business is one of the key elements that helps differentiate its devices from other products, and is very important to future sales growth and pricing power. Further, we view the App Store as an effective way of not only distributing content effectively, but also keeping the customer base entrenched. We think iCloud functionality encourages customers to buy more AAPL products and use them more regularly.

FINANCIAL TRENDS. Although AAPL's sales are affected by broader macroeconomic conditions, we think the company has generally been less cyclical than peers, given its strong brand, innovative and high-quality products, loyal customer base and exposure to fast-growing markets. Considering the maturity of the computer and tablets markets, we expect unit shipments and average selling prices for Macs and iPads to trend down over time but note quarterly mix and new product releases could result in volatility. However, with anticipated growth in the smartphone and wearables markets, and considering our view that AAPL will largely sustain notable share in these areas, we see increasing shipments of and revenues from iPhones and the Apple Watch over the next couple of years.

We think iPhones and Mac products offer margins above the level of the company as a whole, and this should support the gross margin, as they make up a large percentage of total revenues.

AAPL has what we view as a very strong balance sheet, with about $269 billion in cash and investments, and about $116 billion in debt as of the end of September 2017. AAPL boasts return metrics, such as return on equity, that are relatively high compared with other large/mega-cap hardware and software companies. In March 2012, AAPL announced a dividend and a share repurchase plan. Under the existing program (announced May 2017), Apple plans to spend $300 billion of cash by the end of March 2019 and currently pays a quarterly dividend of $0.63 per share.

In June 2014, a 7-for-1 stock split was implemented.

## Corporate Information

**Investor Contact**
N. Paxton (408-996-1010)

**Office**
1 Infinite Loop, Cupertino, California 95014

**Telephone**
408-996-1010

**Website**
www.apple.com

**Officers**

**Senior Director of Corporate Accounting**
C. Kondo

**Chairman**
A. D. Levinson

**Vice President of Technology**
K. M. Lynch

**CEO & Director**
T. D. Cook

**Senior VP & General Counsel**
K. L. Adams

**CFO & Senior VP**
L. Maestri

**COO & Senior VP**
J. E. Williams

**Board Members**

A. A. Gore
A. D. Levinson
A. Jung
J. A. Bell
R. A. Iger
R. D. Sugar
S. L. Wagner
T. D. Cook

**Domicile**
California

**Auditor**
Ernst & Young LLP

**Founded**
1977

**Employees**
123,000

**Stockholders**
25,333

# Apple Inc.

CFRA powered by data from S&P Global

## Quantitative Evaluations

| | | |
|---|---|---|
| **Fair Value Rank** | 4 | 1 / 2 / 3 / **4** / 5 (LOWEST → HIGHEST). Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5). |
| **Fair Value Calculation** | $169.30 | Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that AAPL is slightly undervalued by $12.89 or 8.2%. |
| **Volatility** | | **LOW** / AVERAGE / HIGH |
| **Technical Evaluation** | NEUTRAL | Since February, 2018, the technical indicators for AAPL have been NEUTRAL. |
| **Insider Activity** | | **UNFAVORABLE** / NEUTRAL / FAVORABLE |

## Expanded Ratio Analysis

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Price/Sales | 3.53 | 2.87 | 2.84 | 3.37 |
| Price/EBITDA | 11.32 | 8.79 | 8.06 | 10.20 |
| Price/Pretax Income | 12.63 | 10.10 | 9.16 | 11.53 |
| P/E Ratio | 16.73 | 13.56 | 12.44 | 15.62 |
| Avg. Diluted Shares Outsg.(M) | 5252 | 5500 | 5793 | 6123 |

Figures based on fiscal year-end price

## Key Growth Rates and Averages

| **Past Growth Rate (%)** | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| Sales | 6.30 | 7.84 | 7.93 |
| Net Income | 5.83 | 6.96 | 2.99 |
| **Ratio Analysis (Annual Avg.)** | | | |
| Net Margin (%) | NM | NM | NM |
| % LT Debt to Capitalization | NM | NM | NM |
| Return on Equity (%) | 36.87 | NM | NM |

## Company Financials Fiscal year ending Sep. 30

| **Per Share Data** (U.S. $) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Tangible Book Value | 24.59 | 22.42 | 19.78 | 17.52 | 18.71 | 17.17 | 11.10 | 7.28 | 4.95 | 3.50 |
| Free Cash Flow | 9.74 | 9.56 | 12.13 | 8.20 | 6.88 | 6.33 | 4.65 | 2.59 | 1.43 | 1.36 |
| Earnings | 9.21 | 8.31 | 9.22 | 6.45 | 5.68 | 6.31 | 3.95 | 2.16 | 1.30 | 0.97 |
| Earnings (Normalized) | 7.62 | 6.98 | 7.82 | 5.46 | 4.81 | 5.27 | 3.26 | 1.79 | 1.19 | 0.89 |
| Dividends | 2.40 | 2.18 | 1.98 | 1.82 | 1.64 | 0.38 | NA | NA | NA | NA |
| Payout Ratio (%) | 26 | 27 | 22 | 28 | 29 | 6 | NA | NA | NA | NA |
| Prices: High | 164.94 | 123.82 | 134.54 | 103.74 | 96.68 | 100.72 | 60.41 | 41.93 | 26.99 | 28.99 |
| Prices: Low | 104.08 | 89.47 | 92.00 | 67.77 | 55.01 | 50.61 | 39.29 | 25.81 | 11.17 | 16.49 |
| P/E Ratio: High | 18.6 | 13.8 | 18.4 | NM | NM | NM | NM | NM | NM | NM |
| P/E Ratio: Low | 12.7 | 9.9 | 11.9 | 15.1 | 62.0 | 83.8 | 97.8 | NM | NM | NM |
| **Income Statement Analysis** (Million U.S. $) | | | | | | | | | | |
| Revenue | 229,234 | 215,639 | 233,715 | 182,795 | 170,910 | 156,508 | 108,249 | 65,225 | 42,905 | 37,491 |
| Operating Income | 61,344 | 60,024 | 71,230 | 52,503 | 48,999 | 55,241 | 33,790 | 18,385 | 11,740 | 8,327 |
| Depreciation + Amortization | 10,157 | 10,505 | 11,257 | 7,946 | 6,757 | 3,277 | 1,814 | 1,027 | 709 | 469 |
| Interest Expense | 2,323 | 1,456 | 733 | 384 | 136 | NA | NA | NA | NA | NA |
| Pretax Income | 64,089 | 61,372 | 72,515 | 53,483 | 50,155 | 55,763 | 34,205 | 18,540 | 12,066 | 8,947 |
| Effective Tax Rate | 24.6 | 25.6 | 26.4 | 26.1 | 26.2 | 25.2 | 24.2 | 24.4 | 31.8 | 31.6 |
| Net Income | 48,351 | 45,687 | 53,394 | 39,510 | 37,037 | 41,733 | 25,922 | 14,013 | 8,235 | 6,119 |
| Net Income (Normalized) | 39,994 | 38,412 | 45,322 | 33,427 | 31,347 | 34,852 | 21,378 | 11,588 | 7,541 | 5,592 |
| **Balance Sheet and Other Financial Data** (Million U.S. $) | | | | | | | | | | |
| Cash | 74,399 | 67,883 | 41,995 | 25,158 | 40,590 | 29,129 | 25,952 | 25,620 | 23,464 | 22,111 |
| Current Assets | 128,645 | 106,869 | 89,378 | 68,531 | 73,286 | 57,653 | 44,988 | 41,678 | 31,555 | 30,006 |
| Total Assets | 375,319 | 321,686 | 290,345 | 231,839 | 207,000 | 176,064 | 116,371 | 75,183 | 47,501 | 36,171 |
| Current Liabilities | 100,814 | 79,006 | 80,610 | 63,448 | 43,658 | 38,542 | 27,970 | 20,722 | 11,506 | 11,361 |
| Long Term Debt | 97,207 | 75,427 | 53,329 | 28,987 | 16,960 | NA | NA | NA | NA | NA |
| Total Capital | 249,727 | 215,281 | 183,696 | 146,842 | 140,509 | 118,210 | 76,615 | 47,791 | 31,640 | 22,297 |
| Capital Expenditures | 12,451 | 12,734 | 11,247 | 9,571 | 8,165 | 8,295 | 4,260 | 2,005 | 1,144 | 1,091 |
| Cash from Operations | 63,598 | 65,824 | 81,266 | 59,713 | 53,666 | 50,856 | 37,529 | 18,595 | 10,159 | 9,596 |
| Current Ratio | 1.28 | 1.35 | 1.11 | 1.08 | 1.68 | 1.50 | 1.61 | 2.01 | 2.74 | 2.64 |
| % Long Term Debt of Capitalization | NA | NA | NA | 19.7 | 12.1 | NA | NA | NA | NA | NA |
| % Net Income of Revenue | 21.1 | 21.2 | 22.8 | 21.6 | 21.7 | 26.7 | 23.9 | 21.5 | 19.2 | 16.3 |
| % Return on Assets | 11.0 | 12.3 | 17.1 | 15.0 | 16.0 | 23.6 | 22.0 | 18.7 | 17.5 | 16.9 |
| % Return on Equity | 36.9 | 36.9 | 46.2 | 33.6 | 30.6 | 42.8 | 41.7 | 35.3 | 30.5 | 33.2 |

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted.
E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

## Sub-Industry Outlook

Our fundamental outlook for the technology hardware, storage & peripherals sub-industry for the next 12 months is positive. 2018 is shaping up to be another exciting year, we think, for the technology hardware space given anticipated next generation devices from the largest manufacturers in the world. While investors spent much of 2017 focused on what Apple (AAPL 173 ****) would unveil for the 10th anniversary of the iPhone, the hardware space is well-positioned to witness growth across most end-markets over the next year, by our analysis.

We expect the smartphone space to see growth accelerate in 2018 to 5%, which would be the best pace in three years (we projected up 2% in 2017 and up 3% in 2016). We anticipate that Apple will witness its strongest refresh cycle since the launch of the iPhone 6 (September 2014), driven by the November 2017 release of the iPhone X along with the iPhone 8 and iPhone 8 Plus. We expect average selling prices for smartphones to rise between 3% and 5% in 2018, driven by the ongoing shift by Apple and Samsung to offer consumers more features (e.g. OLED screens, wireless charging, and 3D sensing technology). Despite greater smartphone adoption in emerging regions like India that gravitate to lower-priced phones, we think consumers in developed regions will be willing to pay a higher price point given the reliance on installment programs and appetite for new features.

We expect a stable PC environment in 2018 (flat shipments) compared to our outlook for a 2% decline in 2017. We see a flat environment as a positive phenomenon given that PC shipments have fallen 30% from peak levels in 2011. We expect demand to be sustained in 2018 from the ongoing enterprise transition to Windows 10, with commercial notebooks seen being the biggest beneficiary. While we see areas of growth related to thinner and lighter devices as well as opportunities from gaming, we think longer replacement cycles will likely hinder growth for the space. Wearables shipment growth will likely be 20% to 25% in 2018, by our estimates, better than the IDC's projected increase of 17% for 2017. While adoption rates have risen, we expect growth to accelerate in 2018, driven by the emergence of un-tethered devices into the market (e.g. Apple Watch Series 3).

Demand for data storage will be driven by content digitization of old media such as paper and film, growing popularity of social networking websites and longer record retention for compliance with government regulations, in our view. We think the storage software market will be driven by business continuity and disaster recovery efforts, compliance and risk management activities and the increasing prevalence of data mining and related analytics. We see demand for traditional storage offerings declining in the foreseeable future while products related to all-flash arrays are seeing growing momentum within the data center space.

We foresee growing demand for Internet-based computing solutions because they offer companies opportunities to reduce costs and improve customer service. Accordingly, servers and data-center computing hardware should benefit from rising demand. However, we also see price competition in servers. We think that hardware vendors have been seeking to offset the negative impact on profits by offering higher-margin services, software and storage products.

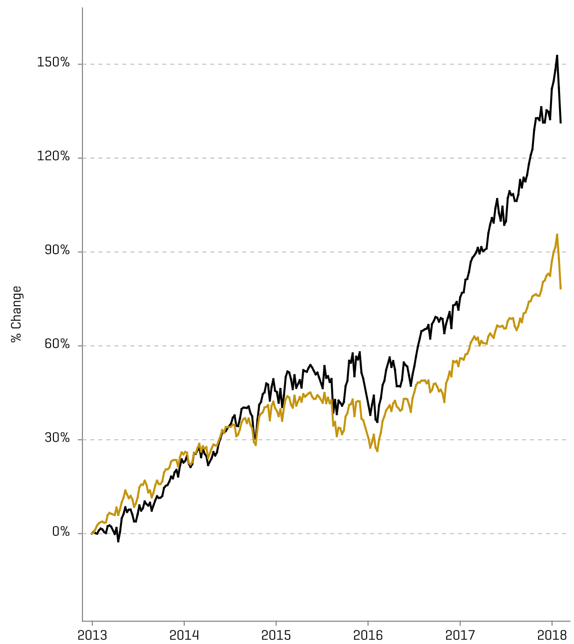
The S&P 1500 Technology Hardware, Storage & Peripherals Index increased 41.3% in 2017, while the S&P 1500 rose 18.8%.

**/Angelo Zino, CFA**

## Industry Performance

**GICS Sector:** Information Technology

Based on S&P 1500 Indexes
Five-Year market price performance through Feb 10, 2018




NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.

All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.
**Source: S&P Global Market Intelligence**

## Sub-Industry: Technology Hardware, Storage & Peripherals  Peer Group*: Technology Hardware, Storage & Peripherals

| Peer Group | Stock Symbol | Exchange | Currency | Recent Stock Price ($) | Stk. Mkt. Cap. (M $) | 30-Day Price Chg. (%) | 1-Year Price Chg. (%) | P/E Ratio | Fair Value Calc. ($) | Yield (%) | Return on Equity (%) | LTD to Cap (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Apple Inc.** | **AAPL** | **NasdaqGS** | **USD** | **156.41** | **793,626** | **-10.3** | **18.1** | **16** | **169.30** | **1.6** | **36.9** | **NA** |
| Canon Inc. | CAJ | NYSE | USD | 36.45 | 39,467 | -5.8 | 25.9 | 18 | NA | 4.0 | 8.4 | NA |
| FUJIFILM Holdings Corporation | FUJI.Y | OTCPK | USD | 41.04 | 17,694 | -5.0 | 8.6 | 11 | NA | 1.6 | 6.5 | NA |
| HP Inc. | HPQ | NYSE | USD | 20.11 | 33,086 | -8.8 | 28.6 | 14 | 17.14 | 2.8 | -69.2 | NA |
| Hewlett Packard Enterprise Company | HPE | NYSE | USD | 15.30 | 24,386 | 0.7 | -36.5 | 75 | 13.81 | 2.0 | 1.6 | NA |
| NetApp, Inc. | NTAP | NasdaqGS | USD | 56.17 | 14,986 | -7.4 | 42.9 | 24 | 54.87 | 1.4 | 18.0 | 15.2 |
| Ricoh Company, Ltd. | RICO.Y | OTCPK | USD | 10.06 | 7,289 | 1.4 | 17.6 | 49 | NA | 1.8 | 0.8 | NA |
| Seagate Technology plc | STX | NasdaqGS | USD | 47.82 | 13,620 | 1.6 | 3.1 | 22 | 42.92 | 5.3 | 52.2 | 78.6 |
| Seiko Epson Corporation | SEKE.Y | OTCPK | USD | 9.753 | 6,870 | -21.5 | -9.0 | 21 | NA | 2.7 | 10.2 | NA |
| Western Digital Corporation | WDC | NasdaqGS | USD | 80.59 | 23,980 | -0.4 | 3.3 | 63 | 62.89 | 2.5 | 3.5 | 52.6 |
| Xerox Corporation | XRX | NYSE | USD | 29.61 | 7,539 | -2.4 | 2.0 | 42 | 24.80 | 3.4 | 3.9 | NA |

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

# Apple Inc.

## Analyst Research Notes and other Company News

**February 02, 2018**
09:07 am ET... CFRA MAINTAINS BUY OPINION ON SHARES OF APPLE INC. (AAPL 167.78****): We keep our 12-month target of $195, on above-peer P/E of 15.3X our FY 19 (September) EPS view given its superior balance sheet. We up our FY 18 EPS estimate to $11.46 from $11.40 and FY 19 to $12.72 from $12.08. Despite lackluster Mar-Q guidance, we note a growing installed base to over 1.3B. We are positive on a multi-year shift to higher priced devices (iPhone ASP up 15% in Dec-Q), growth from higher margin services (up 18%), and representation from new products. We see AAPL accelerating cash return to shareholders as it aims to be net cash neutral (currently $163B net cash). /Angelo Zino, CFA

**February 01, 2018**
05:38 pm ET... CFRA KEEPS BUY OPINION ON SHARES OF APPLE INC. (AAPL 167. 43****): AAPL posts Dec-Q EPS of $3.89 vs. $3.36, beating the $3.85 consensus. Sales rose 13%, with iPhone sales growing 13%, as higher selling prices were partly offset by a decline in unit shipments. We positively view Services growth of 18% and Other products (e.g. Apple Watch), up 36%. We think AAPL executed well internationally, with Greater China rising 11% and Asia overall growing 15% (including Japan). While the Mar-Q revenue outlook of $60B-$62B was below our view, we think shares have largely discounted iPhone X softness. We view a 15% projected Mar-Q tax rate as a bright spot. /Angelo Zino, CFA

**January 29, 2018**
10:11 am ET... CFRA MAINTAINS BUY OPINION ON SHARES OF APPLE INC. (AAPL 168.6146****): We keep our 12-month target of $195, on a P/E of 16.1X our FY 19 (Sep.) EPS view, above hardware peers, but below the S;P 500 Technology sector. We raise our FY 18 EPS estimate to $11.40 from $11.33 and FY 19 to $12.08 from $11.91. Ahead of Dec-Q results on 2/1, we see EPS of $3.84 vs. $3.36. We acknowledge supply chain production cuts for the iPhone X, which places some concern on Mar-Q expectations. Yet, we remain positive on a multi-year shift to higher priced devices, growth from higher margin services, greater representation from new products, and EPS upside on tax reform. /Angelo Zino, CFA

**January 17, 2018**
02:49 pm ET... CFRA MAINTAINS BUY OPINION ON SHARES OF APPLE INC. (AAPL 177.9****): AAPL says it will pay a repatriation tax of about $38B, near our expectations, assuming slightly under $250B in overseas investments (total cash and investments stood at $269B at the end of September). These figures are roughly in line with our expectations. We anticipate AAPL to potentially repurchase as much as 10% of its shares over the next 12-18 months with the higher U.S. cash but see more clarification on its capital allocation strategy in late April/early May. AAPL also announces a number of other initiatives that will accelerate U.S. investments and spur job creation. /Angelo Zino, CFA

**December 26, 2017**
10:12 am ET... CFRA REITERATES BUY OPINION ON SHARES OF APPLE INC. (AAPL 170.28****): According to an unconfirmed report from Taiwan's Economic Daily News, cited by Reuters and others, some see disappointing demand for the iPhone X. A Reuters analysis of Chinese social media is consistent with this concern. We note high expectations, but think worries related to iPhone X demand are being overblown, and think AAPL will be able to continue to shift its users towards higher-priced smartphones. We remain bullish on the shares, in light of improving smartphone average selling prices (ASPs), services growth, new offerings, and potential usage of overseas cash. Angelo Zino, CFA, Scott Kessler

**November 03, 2017**
08:33 am ET... CFRA MAINTAINS BUY OPINION ON SHARES OF APPLE INC. (AAPL 168.11****): We up our 12-month target price to $195 from $175, on a P/E of 16.4X our FY 19 (Sep.) EPS view or 13.9X ex. net cash, above peers, but below the S;P 500 Technology sector. We increase our FY 18 EPS estimate to $11.33 from $11.08 and start FY 19 at $11.91. Last night, AAPL posted Sep-Q results and offered Dec-Q guidance that exceeded our expectations. We think AAPL is poised to benefit from higher selling prices through FY 19, on robust iPhone X demand, and an acceleration of growth from its higher-margin services business (up 24% after removing a one-time favorable adjustment). /Angelo Zino, CFA

**November 02, 2017**
05:35 pm ET... CFRA KEEPS BUY OPINION ON SHARES OF APPLE INC. (AAPL 168.11****): AAPL posts Sep-Q EPS of $2.07 vs. $1.67, beating the $1.87 consensus. Sales rose 12.2%, better than expected. iPhone sales grew 2.4%, on a 2.6% increase in unit shipments. We are excited about an acceleration of AAPL's Services business, which grew 34%, while Greater China grew 12% after 6 consecutive quarters of YoY declines. We note 14% growth in iPad sales and a 13% rise in Mac sales, as both businesses benefited from a refresh in product offerings. We are optimistic about iPhone prospects over the next year and believe concerns about supply constraints were likely overdone. /Angelo Zino, CFA

**October 24, 2017**
02:19 pm ET... CFRA MAINTAINS BUY OPINION ON SHARES OF APPLE INC. (AAPL 157.145****): We keep our 12-month target of $175, on a P/E of 15.9X our FY 18 (Sep.) EPS view or 12.9X ex. net cash, above peers, but below the S;P 500 Technology sector. We adjust our FY 17 EPS estimate to $9.00 from $9.02 and up FY 18 to $11.08 from $10.63. Ahead of Sep-Q results on 11/2, we see EPS of $1.87 vs. $1.67. While we assume higher selling prices for FY 18, we see potential push-outs of iPhone X shipments given supply constraints. An unconfirmed Nikkei report says AAPL will ship 20M iPhone X units in the Dec-Q, half of what it originally planned, due to TrueDepth camera issues. /Angelo Zino, CFA

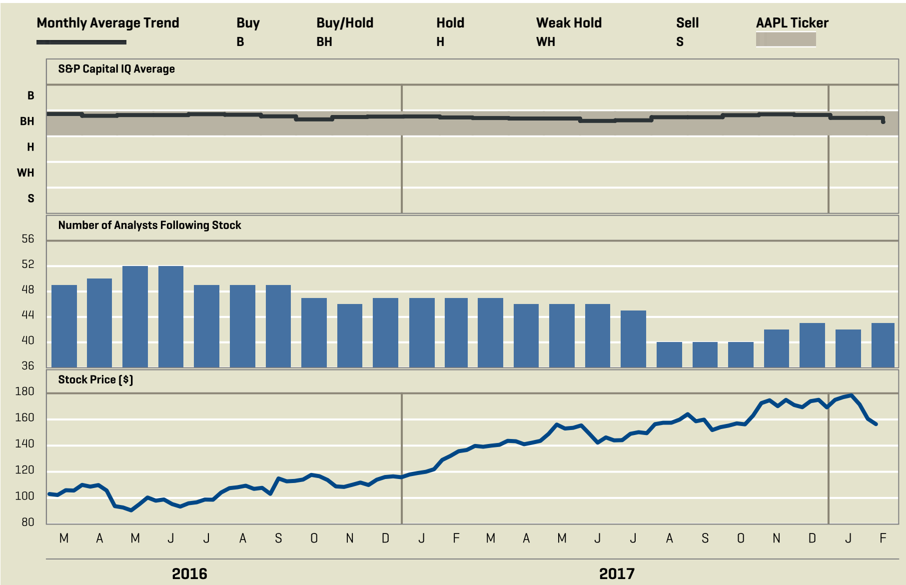
**September 12, 2017**
03:27 pm ET... CFRA MAINTAINS BUY OPINION ON SHARES OF APPLE INC. (AAPL 159.5****): AAPL unveils the iPhone X, iPhone 8/iPhone 8 Plus, Series 3 Watch, and 4K Apple TV. While we like features in the iPhone X (e.g,. OLED screen, FaceID, animoji) and think the $999 price is fair, we see 11/3 availability putting Dec-Q estimates at risk. The iPhone 8/8 Plus start at $699/$799, with shipments starting 9/22 (same for Series 3 Watch and 4K Apple TV). All new phones will include all glass designs and wireless charging. The Series 3 Watch is available with 4G connectivity ($399 with and $329 without cellular). AirPower, a wireless charging pad, will be available in '18. /A. Zino-CFA

**August 02, 2017**
08:14 am ET... CFRA REDUCES OPINION ON SHARES OF APPLE INC. TO BUY FROM STRONG BUY (AAPL 150.05****): We raise our 12-month target by $5 to $175, on an above peers P/E of 16.5X our FY 18 (Sep.) EPS estimate to reflect net cash/share over $32. After better than expected Jun-Q results, we raise our FY 17 EPS estimate to $9.02 from $8.91 and FY 18's to $10.77 from $10.63. We set FY 19's at $11.37. We think Sep-Q guidance (implying 11% sequential revenue growth) likely indicates a new iPhone launch in September after delay speculation. We think further growth acceleration in Services (up 22% in Jun-Q) could result in multiple expansion, and we see upside to consensus estimates. /A. Zino-CFA

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

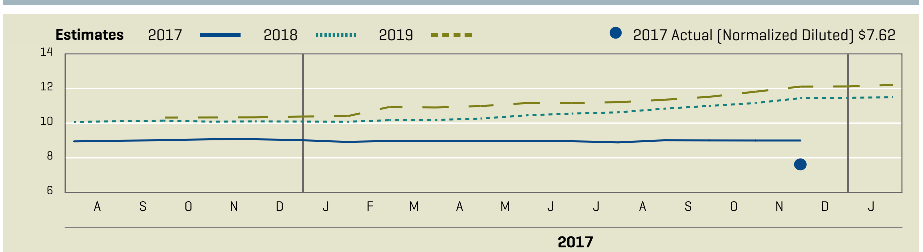
# Apple Inc.

## Analysts' Recommendations




| | No. of Recommendations | % of Total | 1 Mo.Prior | 3 Mos.Prior |
|---|---|---|---|---|
| Buy | 17 | 40 | 19 | 22 |
| Buy/Hold | 7 | 16 | 8 | 10 |
| Hold | 15 | 35 | 11 | 8 |
| Weak Hold | 0 | 0 | 0 | 0 |
| Sell | 0 | 0 | 0 | 0 |
| No Opinion | 4 | 9 | 4 | 2 |
| **Total** | **43** | **100** | **42** | **42** |

## Wall Street Consensus Estimates




| Fiscal Years | Avg Est. | High Est | Low Est. | # of Est. | Est. P/E |
|---|---|---|---|---|---|
| 2019 | 13.10 | 15.34 | 10.80 | 37 | 11.9 |
| 2018 | 11.50 | 12.88 | 8.93 | 40 | 13.6 |
| **2019 vs. 2018** | **▲14%** | **▲19%** | **▲21%** | **▼-8%** | **▼-12%** |
| | | | | | |
| Q2'19 | 2.98 | 3.40 | 2.57 | 18 | 52.5 |
| Q2'18 | 2.71 | 2.80 | 2.59 | 29 | 57.7 |
| **Q2'19 vs. Q2'18** | **▲10%** | **▲21%** | **▼-1%** | **▼-38%** | **▼-9%** |

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

**Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.**

## Wall Street Consensus Opinion

**BUY/HOLD**

## Wall Street Consensus vs. Performance

For fiscal year 2018, analysts estimate that AAPL will earn USD $11.50. For the 1st quarter of fiscal year 2018, AAPL announced earnings per share of USD $3.89, representing 33.8% of the total revenue estimate. For fiscal year 2019, analysts estimate that AAPL's earnings per share will grow by 14% to USD $13.10.

## Glossary

**STARS**

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

**S&P Global Market Intelligence's Quality Ranking**

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

| | | | |
|---|---|---|---|
| A+ | Highest | B | Below Average |
| A | High | B- | Lower |
| A- | Above Average | C | Lowest |
| B+ | Average | D | In Reorganization |
| NR | Not Ranked | | |

**EPS Estimates**

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

**12-Month Target Price**

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

**CFRA Equity Research**

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**Abbreviations Used in Equity Research Reports**

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

**Qualitative Risk Assessment**

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

**STARS Ranking system and definition:**

★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:**

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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### STARS Stock Reports:

Global STARS Distribution as of December 29, 2017

| Ranking | North America | Europe | Asia | Global |
|---|---|---|---|---|
| Buy | 35.1% | 24.0% | 39.1% | 33.8% |
| Hold | 59.3% | 59.6% | 35.6% | 56.6% |
| Sell | 5.6% | 16.4% | 25.3% | 9.6% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

### Analyst Certification:

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