Apple (AAPL)

Date: 06/09/2011

Stock Prices
Current Price = $331.49
Exchange: NASDAQ
Industry: Computer Systems

52 Week Range = $235.56 to $364.90

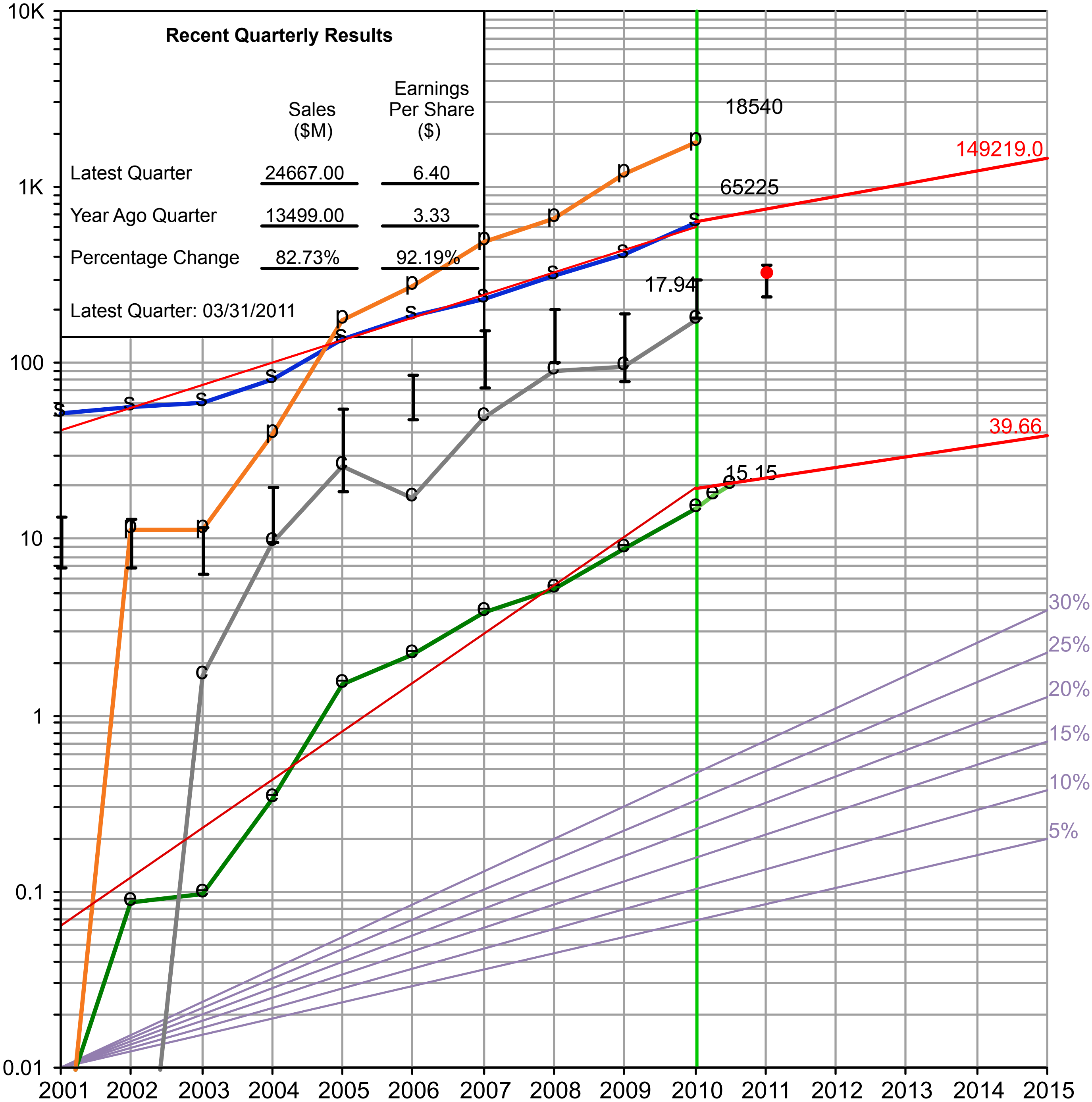
Debt ($M): 0.00
% Total Cap.: 0.00%

Share Data	Authorized	Issued	
Preferred:			
Common:	935.944	923.196	
Preferred Stock Dividend:			Dilution: 12.748

Recent Quarterly Results

	Sales ($M)	Earnings Per Share ($)
Latest Quarter	24667.00	6.40
Year Ago Quarter	13499.00	3.33
Percentage Change	82.73%	92.19%

Latest Quarter: 03/31/2011



(1) Historical Sales Growth = 34.06%
(2) Estimated Sales Growth = 18.00%

(3) Historical EPS Growth = 88.98%
(4) Estimated EPS Growth = 15.00%

ACE 5-year EPS Growth Estimate: 18.1%

2 EVALUATING MANAGEMENT

Apple (AAPL) - 06/07/2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	5 Yr Ave	Trend
% Pretax Profit on Sales (Net Before Tax/Sales)	-0.8	2.1	1.9	4.9	13.0	14.6	20.9	21.2	28.1	28.4	22.6	UP
% Earned on Invested Capital (EPS/Book Val)	-1.1	1.6	1.7	5.4	17.3	19.3	23.5	21.3	25.8	29.0	23.8	UP
% Debt to Equity	8.2	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

3 PRICE & EARNINGS HISTORY

Current Price: 331.49 52 Week High= 364.90 52 Week Low= 235.56

Year	High Price	Low Price	EPS	PE High	PE Low	Dividend	Payout	High Yield
2006	86.4	47.9	2.27	38.1	21.1	0.000	0.0	0.0
2007	155.0	72.6	3.93	39.4	18.5	0.000	0.0	0.0
2008	203.0	100.6	5.36	37.9	18.8	0.000	0.0	0.0
2009	188.9	78.2	9.08	20.8	8.6	0.000	0.0	0.0
2010	294.7	181.3	15.15	19.5	12.0	0.000	0.0	0.0
TOTAL	928.0	480.6						
AVE	185.6	96.1		31.1	15.8		0.0	
Average Price Earnings Ratio: 23.5					Current Price Earnings Ratio: 15.8			

Current PE Ratio Based on Current EPS [$20.98]
Projected PE Ratio of [13.7] Based on Projected EPS [$24.1]

4 EVALUATING BUY, HOLD, & SELL

A. CALCULATED HIGH PRICE - 5 YEARS

Ave High PE 20.0 X Estimated High Earnings/Share 39.66 Projected High Price = $ 793.2

B. CALCULATED LOW PRICE - 5 YEARS

(a) Avg. Low P/E 14.0 X Estimated Low Earnings/Share 15.15 = $ 212.10
(b) Avg. Low Price of Last 5 Years = $96.1 (e) Price Variant = $189.0
(c) Recent Market Low = $78.2
(d) Dividend Price Support = $_____
Selected Estimated Low Price $ 212.1

C. BUY/HOLD/SELL ZONES

Selected High of $793.20 minus Selected Low of $212.10 = $581.10 Range. 1/4 of Range = $145.275

25%/50%/25% Zoning

Lower 1/4 = $212.1 To $357.38 (Buy)
Center 1/2 = $357.38 To $647.92 (Hold)
Upper 1/4 = $647.92 To $793.2 (Sell)

D. UPSIDE RISK ANALYSIS

High Price 793.2 - Current Price 331.49 / Current Price 331.49 - Low Price 212.1 = **3.9** to 1

Current price of $331.49 is in the BUY zone

PEG Ratio = 1.05 Relative Value = 67.2%
Proj PEG = 0.92 Proj Rel Value = 58.5%

5 YIELD ANALYSIS

Current Yield = 0.00%
5 Yr. Yield = 0.0%

Price Appreciation = ((100*Projected High Price÷Current Price)-100)÷5 = 27.9 %
Average Total Return = Price Appreciation+Ave. 5 Yr. Yield = 30.4 %

	P.A.R	Tot. Ret.
Average Yield	0.0%	0.0%
Annual Appreciation	15.3%	19.1%
Compounded Annual Return	15.3%	19.1%

APPLE INC. NDQ-AAPL

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
350.96	15.7	(Trailing: 19.6 / Median: 31.0)	0.94	Nil	VALUE LINE

TIMELINESS 3 Lowered 4/8/11
SAFETY 2 Raised 4/9/10
TECHNICAL 3 Raised 3/18/11
BETA 1.05 (1.00 = Market)

High:	37.6	13.6	13.1	12.5	34.8	75.5	93.2	203.0	200.3	214.0	326.7	364.9
Low:	6.8	7.2	6.7	6.4	10.6	31.3	50.2	81.9	79.1	78.2	190.3	324.8

Target Price Range
2014 | 2015 | 2016

2014-16 PROJECTIONS

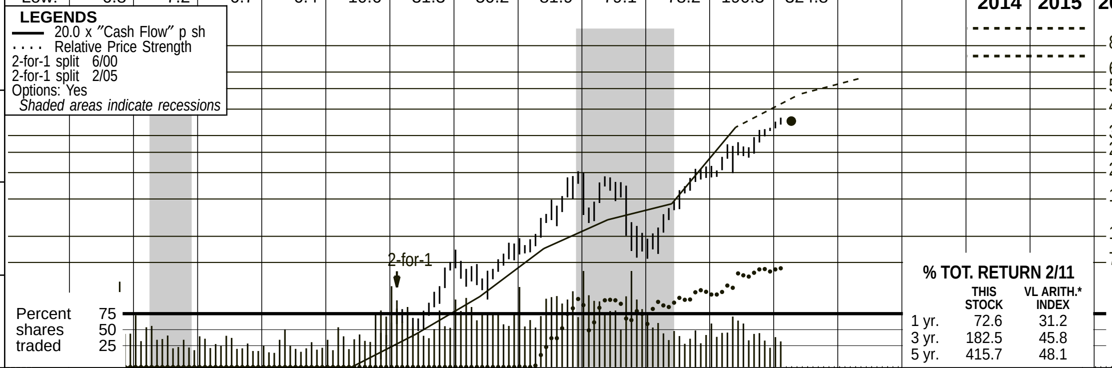
	Price	Gain	Ann'l Total Return
High	965	(+175%)	29%
Low	715	(+105%)	19%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	1	1	0	0	0	2	0	0	0
to Sell	1	1	0	1	2	4	2	0	1

Institutional Decisions

	2Q2010	3Q2010	4Q2010
to Buy	658	713	725
to Sell	702	667	750
Hld's(000)	629313	640660	635757



% TOT. RETURN 2/11

	THIS STOCK	VL ARITH.* INDEX
1 yr.	72.6	31.2
3 yr.	182.5	45.8
5 yr.	415.7	48.1

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
22.50	19.75	13.84	10.99	9.54	11.89	7.64	8.00	8.46	10.58	16.68	22.58	27.52	36.56	40.61	71.21	***106.15***	***120.10***	Sales per sh [A]	***161.60***
1.09	d1.18	d.51	.73	.79	1.04	.03	.33	.26	.54	1.72	2.59	4.37	5.97	7.12	16.42	***23.55***	***28.25***	"Cash Flow" per sh	***42.00***
.83	d1.50	d.75	.49	.65	.85	d.14	.17	.10	.36	1.44	2.27	3.93	5.36	6.29	15.15	***22.30***	***26.75***	Earnings per sh [B]	***40.00***
.12	.03	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	***Nil***	***Nil***	Div'ds Decl'd per sh	***Nil***
.32	.13	.10	.09	.07	.16	.33	.24	.22	.22	.31	.77	.84	1.23	1.27	2.19	***2.85***	***2.90***	Cap'l Spending per sh	***3.05***
5.90	4.13	2.05	2.76	4.59	6.00	5.59	5.70	5.76	6.48	8.94	11.67	16.66	23.67	30.93	52.18	***80.65***	***97.35***	Book Value per sh [E]	***159.60***
491.69	497.99	511.80	540.77	643.20	671.35	701.84	717.92	733.45	782.89	835.02	855.26	872.33	888.33	899.81	915.97	***930.00***	***945.00***	Common Shs Outst'g [C]	***990.00***
12.4	- -	- -	13.3	17.3	30.8	- -	NMF	NMF	37.9	26.2	29.1	26.3	30.4	19.2	15.2	***Bold figures are***		Avg Ann'l P/E Ratio	***21.0***
.83	- -	- -	.69	.99	2.00	- -	NMF	NMF	2.00	1.40	1.57	1.40	1.83	1.28	.96	***Value Line***		Relative P/E Ratio	***1.40***
1.2%	.4%	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	***estimates***		Avg Ann'l Div'd Yield	***Nil***

CAPITAL STRUCTURE as of 12/25/10

Total Debt None

Leases, Uncapitalized Annual rentals $266 mill.

No Defined Benefit Pension Plan
Pfd Stock None

Common Stock 921,278,012 shs.
as of 1/7/11

Market Cap: $323 billion (Large Cap)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		14-16
5363.0	5742.0	6207.0	8279.0	13931	19315	24006	32479	36537	65225	***98700***	***113500***	Sales ($mill) [A]	***160000***
NMF	2.9%	2.2%	5.7%	13.1%	13.9%	19.7%	20.8%	22.9%	29.8%	***29.5%***	***30.5%***	Operating Margin	***33.0%***
102.0	118.0	113.0	150.0	179.0	225.0	317.0	473.0	703.0	1027.0	***1200***	***1400***	Depreciation ($mill) [D]	***2000***
d83.0	117.0	76.0	276.0	1254.0	1989.0	3496.0	4834.0	5704.0	14013	***20700***	***25300***	Net Profit ($mill)	***39600***
- -	25.9%	26.2%	27.9%	30.9%	29.4%	30.2%	29.9%	28.6%	24.4%	***25.0%***	***25.5%***	Income Tax Rate	***25.5%***
NMF	2.0%	1.2%	3.3%	9.0%	10.3%	14.6%	14.9%	15.6%	21.5%	***21.0%***	***22.3%***	Net Profit Margin	***24.8%***
3625.0	3730.0	3530.0	4375.0	6816.0	8038.0	12657	20598	16983	20956	***22500***	***25000***	Working Cap'l ($mill)	***35000***
317.0	316.0	- -	- -	- -	- -	- -	- -	- -	- -	***Nil***	***Nil***	Long-Term Debt ($mill)	***Nil***
3920.0	4095.0	4223.0	5076.0	7466.0	9984.0	14532	21030	27832	47791	***75000***	***92000***	Shr. Equity ($mill) [E]	***158000***
NMF	2.8%	1.8%	5.4%	16.8%	19.9%	24.1%	23.0%	20.5%	29.3%	***27.5%***	***27.5%***	Return on Total Cap'l	***25.0%***
NMF	2.9%	1.8%	5.4%	16.8%	19.9%	24.1%	23.0%	20.5%	29.3%	***27.5%***	***27.5%***	Return on Shr. Equity	***25.0%***
NMF	2.9%	1.8%	5.4%	16.8%	19.9%	24.1%	23.0%	20.5%	29.3%	***27.5%***	***27.5%***	Retained to Com Eq	***25.0%***
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	***Nil***	***Nil***	All Div'ds to Net Prof	***Nil***

CURRENT POSITION ($MILL.)	2009	2010	12/25/10
Cash Assets	23464	25620	26977
Receivables	3361	5510	6027
Inventory (FIFO)	455	1051	885
Other	8985	9497	10038
Current Assets	36265	41678	43927
Accts Payable	5601	12015	14301
Debt Due	- -	- -	- -
Other	13681	8707	9494
Current Liab.	19282	20722	23795

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '14-'16
Sales	16.5%	33.0%	*22.0%*
"Cash Flow"	28.0%	63.5%	*27.5%*
Earnings	30.0%	70.0%	*28.5%*
Dividends	- -	- -	*Nil*
Book Value	23.0%	38.0%	*28.5%*

Fiscal Year Ends	QUARTERLY SALES ($ mill.) [A] Dec.Per	Mar.Per	Jun.Per	Sep.Per	Full Fiscal Year
2008	9608	7512	7464	7895	32479
2009	10167	8163	8337	9870	36537
2010	15683	13499	15700	20343	65225
2011	26741	***22709***	***22650***	***26600***	***98700***
2012	***30750***	***26100***	***26050***	***30600***	***113500***

Fiscal Year Ends	EARNINGS PER SHARE [A B] Dec.Per	Mar.Per	Jun.Per	Sep.Per	Full Fiscal Year
2008	1.76	1.16	1.19	1.26	5.36
2009	1.78	1.33	1.35	1.82	6.29
2010	3.67	3.33	3.51	4.64	15.15
2011	6.43	***5.02***	***4.85***	***6.00***	***22.30***
2012	***7.70***	***6.00***	***5.85***	***7.20***	***26.75***

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007					
2008	NO CASH DIVIDENDS				
2009					
2010	BEING PAID				
2011					

BUSINESS: Apple Inc. is one of the world's largest makers of personal computers and peripheral and consumer products, such as the *iPod* digital music player, the *iPad* tablet, and the *iPhone* smartphone, for sale primarily to the business, creative, education, government, and consumer markets. It also sells operating systems, utilities, languages, developer tools, and database software. As of September 25, 2010, Apple operated 317 retail outlets, including 233 stores in the U.S. and 84 overseas. R&D: 2.7% of '10 revenues. '10 depreciation rate: 14.2%. Has about 46,600 employees. Officers & directors own less than 1.0% of common (1/11 Proxy). CEO: Steve Jobs. Inc.: CA. Address: 1 Infinite Loop, Cupertino, CA 95014. Telephone: 408-996-1010. Internet: www.apple.com.

Apple continues to fire on all cylinders. The tech giant got off to a great start in fiscal 2011 (ends September 24th), posting first-quarter share earnings of $6.43, well ahead of our $5.30 estimate and a hefty 75% above the year-earlier tally. The upside was mainly due to better-than-expected gross margins (favorable component prices played a big role here), and brisk sales of the *iPad* tablet PC, which debuted in April of 2010. (Apple released an upgraded *iPad 2* in March of this year.) Also, the company continued to gain ground in the traditional computing segment, with *Mac* shipments climbing more than 20% on a year-over-year basis. And investments overseas started to garner greater financial benefits, as evidenced by a whopping 400% sales increase in the important Chinese market.

The momentum should persist well into the future. Competition in the mobile Internet space appears set to heat up, as OEMs like Acer, Samsung, and Motorola Mobility prepare to launch a host of new *Android*-enabled smartphones and tablets. (*Android* is Google's handheld operating system.) But there looks to be plenty of room for multiple players to succeed, given the broad movement by consumers to give up their desktop PCs in favor of lightweight laptops and the new generation of portable devices. Moreover, Apple, one of the best-run outfits in Silicon Valley, is far from resting on its laurels. The *iPad 2*, with enhanced features that should help the company to penetrate the large business market, is proof of this. And its rollout, within a year of the original *iPad's* introduction, shows Apple's commitment to speeding up its product cycles.

Steve Jobs, while retaining his CEO title, is taking another medical leave of absence from the company. (COO Tim Cook has taken charge of Apple's day-to-day operations.) This unfortunate development will likely act as an overhang on the company's stock. Even if Mr. Jobs does not return to run Apple, however, we believe that there is ample talent in place to keep the firm on a strong growth track.

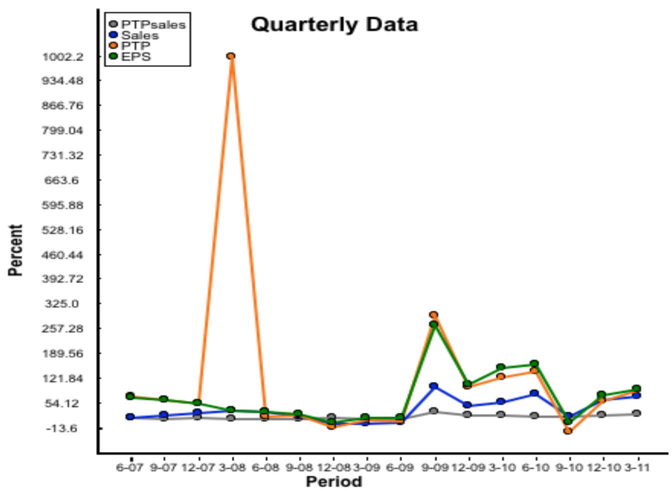
We like these shares for the long haul. Though the issue has had a sharp rally over the past two years, it still looks inexpensive relative to forward earnings.

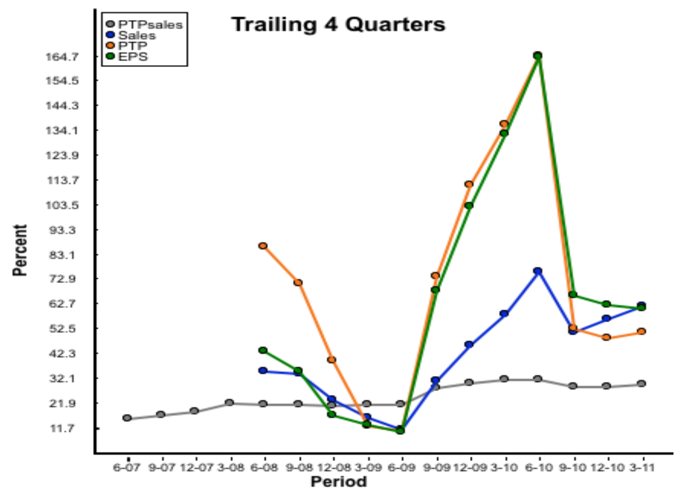
Justin Hellman *April 8, 2011*

(A) Fiscal year ends last Saturday in September. **(B)** Primary earnings through fiscal '97, then diluted. Quarters may not add to total due to rounding. Excludes nonrecurring gains: '95, 3¢; '96, 11¢; '98, 4¢; '99, 26¢; '00, 24¢; '01, 8¢; '05, 12¢; losses: '96, 26¢; '97, $1.32; '02, 8¢. Next earnings report due late April. **(C)** In millions, adjusted for stock splits. **(D)** Depreciation on accelerated basis. **(E)** Includes intangibles. In 2010, $1083 million, $1.18 a share.

Company's Financial Strength	A++
Stock's Price Stability	60
Price Growth Persistence	100
Earnings Predictability	60

Company: Apple **Symbol: AAPL**





Quarterly Performance **Trailing Twelve Months**

Quarterly Performance

Period	SALES $ mil	SALES % Chg	PRETAX PROFIT $ mil	PRETAX PROFIT % Sales	PRETAX PROFIT % Chg	EARNINGS $	EARNINGS % Chg
3-11	24667.0	82.7%	7900.0	32.0%	96.1%	6.40	92.2%
12-10	26741.0	70.5%	7963.0	29.8%	67.4%	6.43	75.2%
9-10	20343.0	25.3%	5461.0	26.8%	-13.6%	4.64	0.7%
6-10	15700.0	88.3%	4292.0	27.3%	147.8%	3.51	160.0%
3-10	13499.0	65.4%	4029.0	29.8%	132.9%	3.33	150.4%
12-09	15683.0	54.3%	4758.0	30.3%	108.3%	3.67	106.2%
9-09	16238.0	105.7%	6320.0	38.9%	299.5%	4.61	265.9%
6-09	8337.0	11.7%	1732.0	20.8%	14.7%	1.35	13.4%
3-09	8163.0	8.7%	1730.0	21.2%	17.1%	1.33	14.7%
12-08	10167.0	5.8%	2284.0	22.5%	-1.8%	1.78	1.1%
9-08	7895.0	27.0%	1582.0	20.0%	28.6%	1.26	24.8%
6-08	7464.0	38.0%	1510.0	20.2%	26.3%	1.19	29.3%
3-08	7512.0	42.7%	1477.0	19.7%	1002.2%	1.16	33.3%
12-07	9608.0	35.0%	2326.0	24.2%	60.6%	1.76	54.4%
9-07	6217.0	28.5%	1230.0	19.8%	70.6%	1.01	62.9%
6-07	5410.0	23.8%	1196.0	22.1%	80.9%	0.92	70.4%

Trailing Twelve Months

Period	SALES $ mil	PRETAX PROFIT $ mil	PRETAX PROFIT % Sales	EPS $	PERCENT CHANGE Sales	PERCENT CHANGE PTP	PERCENT CHANGE EPS
3-11	87451.0	25616.0	29.3%	20.98	62.7%	52.1%	61.9%
12-10	76283.0	21745.0	28.5%	17.91	57.5%	49.6%	63.4%
9-10	65225.0	18540.0	28.4%	15.15	52.0%	53.7%	67.0%
6-10	61120.0	19399.0	31.7%	15.12	76.8%	164.7%	164.3%
3-10	53757.0	16839.0	31.3%	12.96	59.6%	137.0%	133.1%
12-09	48421.0	14540.0	30.0%	10.96	46.6%	112.2%	103.3%
9-09	42905.0	12066.0	28.1%	9.07	32.1%	75.0%	68.9%
6-09	34562.0	7328.0	21.2%	5.72	12.2%	12.0%	11.7%
3-09	33689.0	7106.0	21.1%	5.56	17.2%	14.1%	14.6%
12-08	33038.0	6853.0	20.7%	5.39	24.7%	40.3%	18.2%
9-08	32479.0	6895.0	21.2%	5.37	35.3%	72.0%	36.3%
6-08	30801.0	6543.0	21.2%	5.12	36.1%	87.0%	44.2%
3-08	28747.0	6229.0	21.7%	4.85			
12-07	26499.0	4886.0	18.4%	4.56			
9-07	24006.0	4008.0	16.7%	3.94			
6-07	22626.0	3499.0	15.5%	3.55			

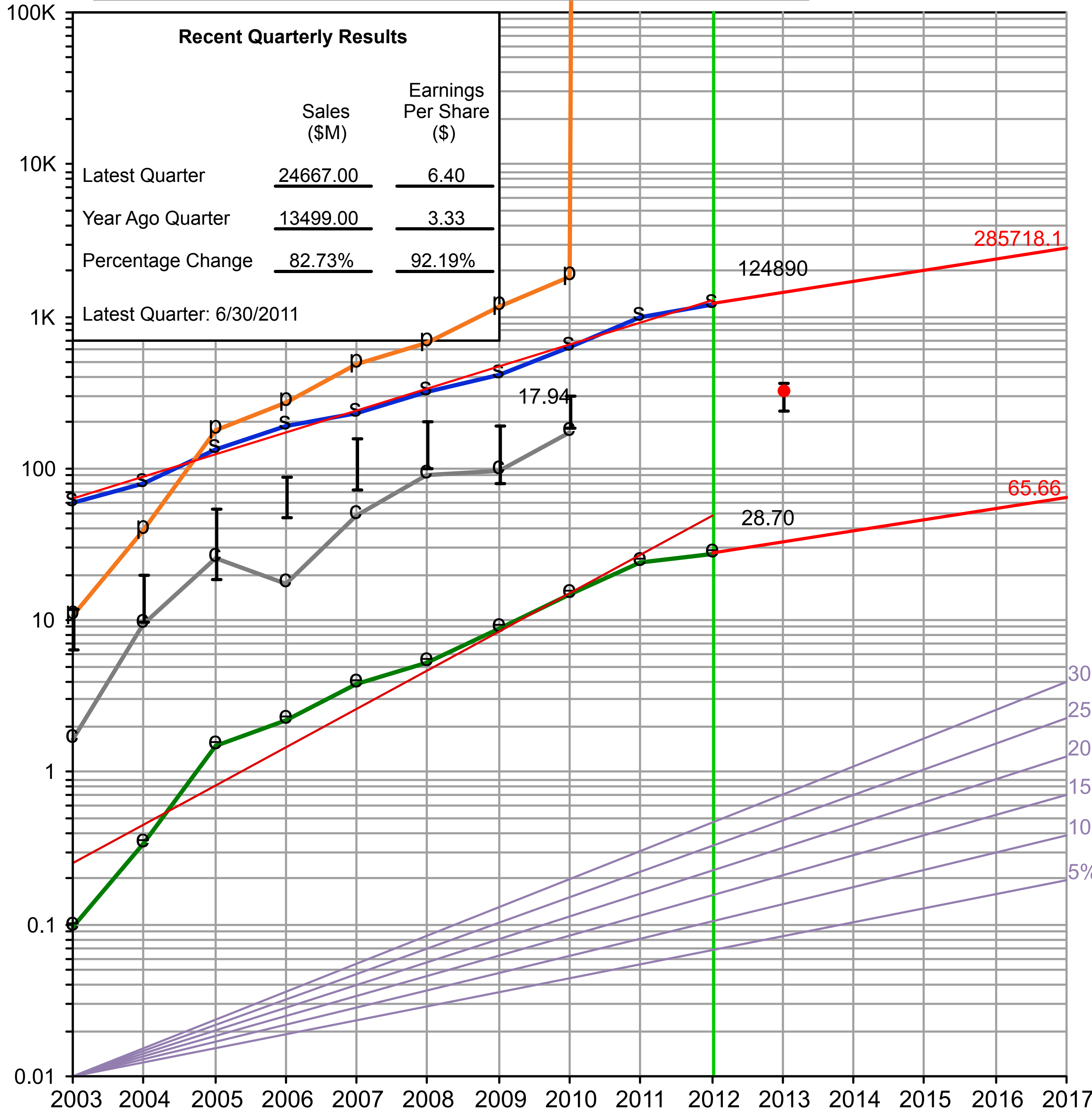
Apple (AAPL)

Date: 06/09/2011

Stock Prices
Current Price = $331.49 52 Week Range = $235.56 to $364.90
Exchange: NASDAQ
Industry: Computer Systems

Debt ($M): 0.00
% Total Cap.: 0.00%

Share Data	Authorized	Issued	
Preferred:			
Common:	935.944	923.196	
Preferred Stock Dividend:			Dilution: 12.748



Recent Quarterly Results

	Sales ($M)	Earnings Per Share ($)
Latest Quarter	24667.00	6.40
Year Ago Quarter	13499.00	3.33
Percentage Change	82.73%	92.19%

Latest Quarter: 6/30/2011

(1) Historical Sales Growth = 39.65%
(2) Estimated Sales Growth = 18.00%

(3) Historical EPS Growth = 79.56%
(4) Estimated EPS Growth = 18.00%

ACE 5-year EPS Growth Estimate: 18.1%

Equity Analysis Guide: Apple Inc. (AAPL)

Company	Ticker	Industry	Quality	PAR
Apple Inc.	AAPL	**Computer Systems**	83.3	22.6%

Current Price (06/09)		$331.49
CAPS Rating (**Rate this stock on CAPS**)		
Expected Income Statement		
Current Sales		85,493.0
Sales Growth Forecast		17.7%
Net Profit Margin		24.8%
Projected Shares Outstanding		990.00
EPS - Five year Forecast		$48.31
Average P/E Ratio		19.0
Projected Average Price		$917.89
Price Appreciation (Annualized)		22.6%
Annual Dividend Yield		0.0%
Projected Annual Return		22.6%
Quality		
Financial Strength	98	24.5
EPS Stability	36	9.0
Industry Sales Growth Rate	6.3%	25.0
Industry Net Profit Margin	11.3%	25.0
Calculated Quality Rating		83.3

Fool CAPS

Total Players
23916 Outperforms 2116 Underperforms

All-Stars (5068)
4819 Outperforms (95%) 249 Underperforms

Fundamental Data Updated: 04/08/2011

Quality Legend:	
Blue	Excellent with quality greater than 65.
Green	Good with quality between 55 and 65.
Neutral	Average or below average with quality between 35 and 55.
Red	Poor with quality less than 35.
PAR Legend:	
Green	PAR is within the target range of MIPAR +5-10%, currently 13.9%-18.9%
Yellow	PAR is above the target range of MIPAR +10%, currently 18.9%
PAR	Projected Annual Return

Apple (AAPL)

Date: 06/09/2011

Stock Prices
Current Price = $331.49 52 Week Range = $235.56 to $364.90
Exchange: NASDAQ
Industry: Computer Systems

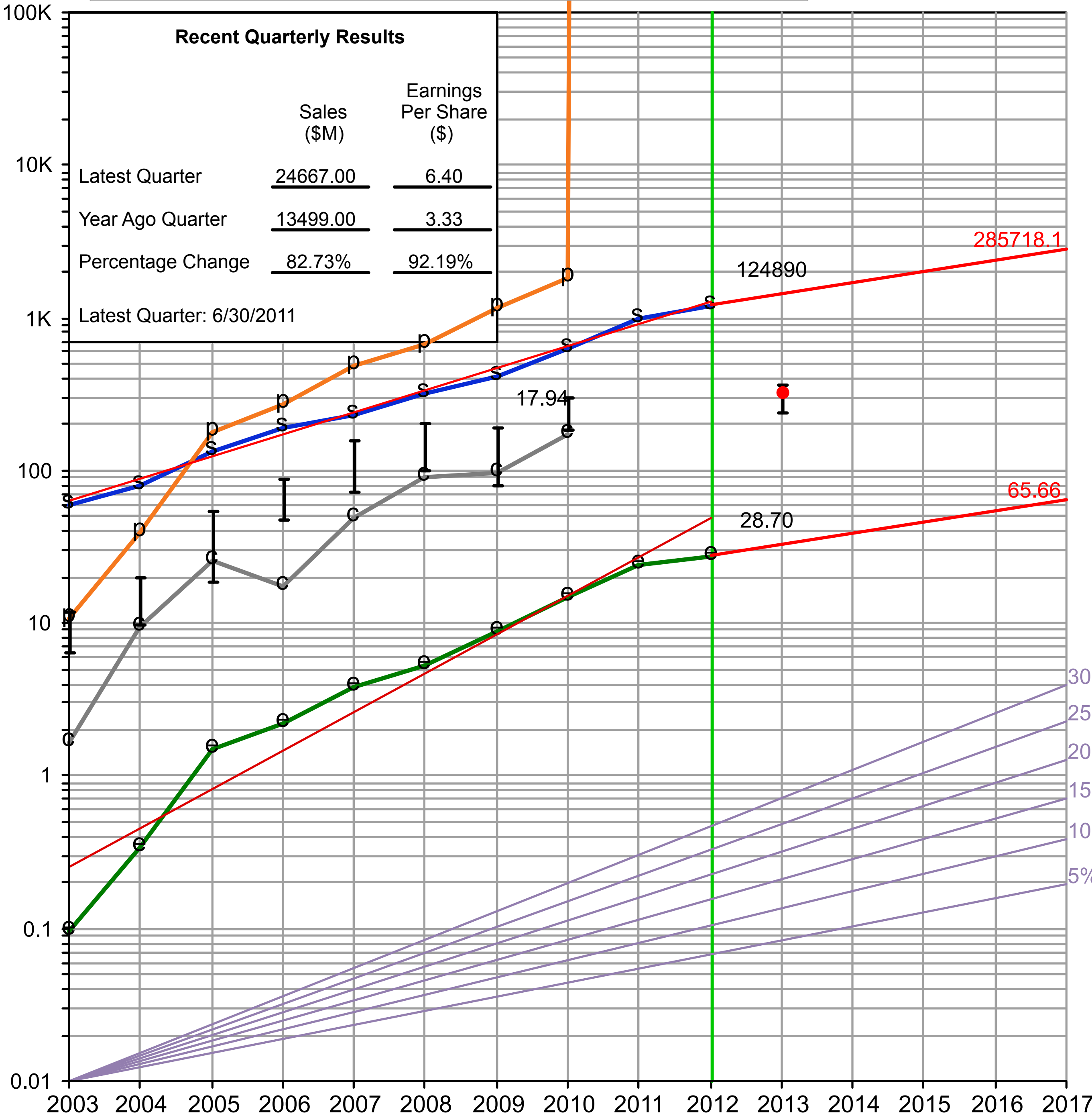
Debt ($M): 0.00
% Total Cap.: 0.00%

Share Data	Authorized	Issued	
Preferred:			
Common:	935.944	923.196	
Preferred Stock Dividend:			Dilution: 12.748

Recent Quarterly Results

	Sales ($M)	Earnings Per Share ($)
Latest Quarter	24667.00	6.40
Year Ago Quarter	13499.00	3.33
Percentage Change	82.73%	92.19%

Latest Quarter: 6/30/2011



(1) Historical Sales Growth = 39.65%
(2) Estimated Sales Growth = 18.00%

(3) Historical EPS Growth = 79.56%
(4) Estimated EPS Growth = 18.00%

ACE 5-year EPS Growth Estimate: 18.1%

Apple, Inc. AAPL

by Joseph Beaulieu

Analyst Note 04-20-2011

We are sticking with our $475 fair value estimate for Apple AAPL after reviewing the company's second-quarter results.

Revenue increased 83%, driven by 126% iPhone revenue growth, 32% Mac revenue growth, $2.8 billion of iPad sales (there isn't a year-over-year growth figure because the iPad was released later in 2010), 23% in iTunes revenue, 17% growth in software sales, and 23% growth in revenue from peripherals. This growth was partially offset by a 14% decline in iPod revenue. Our investment thesis has been that the firm would see broad-based growth across its entire product portfolio (excepting the iPod, which is being cannibalized by the iPhone); based on second-quarter results we think our thesis remains intact.

One area in which our thesis appeared at first to not quite hold up this quarter was on the gross margin line. Apple actually saw a small amount of gross margin contraction, to 41.4% from 41.7% in the year-ago quarter. However, it is important to note that although software and iTunes revenue grew an impressive 17% and 23%, respectively, this was much slower than the revenue growth of 93% for the the combination of iPod, iPad, iPhone, hardware peripherals, and Macs. Given that we think software and iTunes have significantly higher gross margins than hardware, our guess is that gross margins improved for most (if not all) categories, but the overall gross margin decline was from the mix shift.

Apple also beat our expectations on operating expenses. We've been modeling long-term selling, general, and administrative expenses at about 8% of sales, and R&D at 3%-3.5% of sales. In the second quarter, those figures numbers were 7.1% and 2.4%, respectively. These represent a significant improvement over the prior year's 9% and 3.2%. Put gross margins and operating expenses

Morningstar Rating
★★★★

Stock Price
As of 04-20-2011
$342.41

Fair Value Estimate
$475.00

Consider Buying
$332.50

Consider Selling
$665.00

Fair Value Uncertainty
Medium

Economic Moat
Narrow

Stewardship Grade
B

Bulls Say

- The iOS mobile opera system is likely to be a duopoly with Google Android, but we think Apple's integrated cor both hardware and so puts iOS at less risk t Android, which runs t of fragmentation.
- With less than 5% sh worldwide, the Mac c can continue to increa share as a capable Wi alternative. We think App Store will acceler share gains.

together and operating margins rose to 31.9% from 29.5% in the year-ago quarter.

Thesis 04-05-2011

In the past decade, Apple has transformed itself from a niche computer company into an integrated consumer electronics and media distribution powerhouse. It is now one of the most valuable companies in the world, achieving this position through a combination of product innovation, strategic foresight, and careful management of its brand image. We believe Apple has dug itself a narrow but widening economic moat that is based primarily on iOS, the operating system behind the iPhone and the iPad. While iOS is now the primary driver of Apple's growth, we are excited to see that the firm is applying what it has learned from iOS to its OS X operating system for desktops and notebooks.

In our view, the seeds of Apple's success were sown in 2001 with the March release of OS X, the May launch of the first Apple retail store, and the October release of the first-generation iPod. The retail stores gave potential customers a place to gain hands-on experience with Apple's products; the iPod gave the uninitiated a reason to go to the Apple store; and the launch of the robust, intuitive OS X helped Apple to gain market share in desktops and notebooks. From there, new products and services appeared to just fall into place--the iTunes Store for purchasing music; new iPod models for different purposes; video playback on the iPod combined with the distribution of video content on the iTunes Store; and finally, the iPhone, which leveraged Apple's experience in developing handheld electronics, software design, and media distribution.

We think the iPhone cemented Apple's economic moat. The iPhone and now the iPad run on iOS, which we believe has the potential to hold nearly as strong a position in high-end portable computing devices as Windows has in the desktop market. (We use the modifiers "potential" and "nearly" here, as iOS has a much stronger competitor in Android than Windows ever had.) Already, iOS has a strong network effect, as the vast number of iPhones in customers' hands has created a massive market for third-party applications, which has enticed a massive number of developers to create applications for iOS, which in turn increases the appeal of the iOS platform for consumers. Additionally, as consumers invest more money in iOS applications and media from the iTunes Store, switching costs will grow. Apple is already leveraging the success of the iPhone with the launch of the iPad, which by some estimates accounts for more than 80% of the nascent tablet computing market.

Although Apple's desktop and notebook revenue is now only two thirds the size of iPhone revenue, it is important to recognize that revenue from those products has been steadily growing--from $7.4 billion in 2006 to $17.5 billion in

- Apple's retail stores p platform for exposing consumers to the bre the company's expand product line. We conti be surprised at the nu of first-time Mac custo the firm adds every y

Bears Say

- Apple's sales are concentrated in the U exposing the firm to significant customer concentration risk in t event of a big econom downturn. Although it significant internation presence, the high pri points of its products limit growth in emerg markets.
- Nearly 40% of Apple's revenue comes from t iPhone line, and our v assumes that the iPad becomes a significant driver. If either the iPh iPad disappoints, our value estimate will fal
- Steve Jobs' recurring problems are a legitin concern. We think he deserves much of the for Apple's tremendou success during the pa decade.
- While we think Apple economic moat, much ability to open custom wallets is based on its image. We think this i deserved, since the fi gone a full decade wit significant flop. But if brand becomes tarnis bets are off.

2010--despite the fact that the iPod, iPhone, and iPad work in conjunction with Windows-based computers as well. Apple has steadily gained share in the notebook and desktop market throughout the past decade, and we think the launch of the Mac App Store could accelerate market share increases.

The biggest legitimate knock against Apple's PCs, in our view, is that the availability of third-party applications has been extremely limited compared with Windows. This was exacerbated by the fact that third-party software produced for the Mac got extremely limited retail distribution. With the Mac App Store, Apple can now distribute third-party applications directly to consumers. Moreover, it makes it easy for consumers to review applications (thus making it less risky to try new applications) and makes it extremely easy for consumers to install applications and to keep their applications library up to date with one click. We therefore believe the Mac App Store has the potential to drive further market share gains.

Despite a full decade of continuous successes under its belt, there is still the potential for things to go wrong at Apple. While we believe the network effects and modest switching costs are partially responsible for Apple's continued revenue growth and expanding profitability, we think the intangibles associated with the Apple brand are just as important to the company's ongoing success. Anything that tarnishes the brand could quickly undo what it took the past decade to achieve.

This is why we think investors are right to be concerned about the potential for Steve Jobs' permanent departure from Apple. Although Apple has an abundance of talented developers, engineers, product managers, and marketers, we think Jobs' leadership has been instrumental to pull those people together and prevent any truly bad products from making it out the door.

Valuation

We are increasing our fair value estimate to $475 per share from $460. Most of this increase is due to higher expectations for iPad sales after the strong U.S. and international launches of the iPad 2, but we've also increased our expectation for PC sales.

We now expect 2014 iPad sales to come to about 75 million units (up from our previous 40 million estimate) and think iPad sales will hit 80 million units (about $45 billion) in 2015. We've also modeled more rapid market share gains in Apple's legacy desktop and notebook computer businesses. We still expect Apple's share of the smartphone market to top out at around 15% by 2015.

We believe the iPod business will contract at a 10% per year on volume, but expect revenue to contract at about 18% per year as iPod average selling prices fall and more consumers replace their dedicated MP3 devices with converged devices such as the iPhone. However, we still think iPods will have a place in the iOS ecosystem.

As we believe the iPad will remain very successful and will drive increased sales of high-margin applications and media, we've boosted our long-term gross margin target to 42.5% from 40%. We don't expect a significant change in the firm's cost structure, so we think operating margins will hit north of 30%.

Risk

In our view, Apple's success during the past decade is largely attributable to the leadership of Steve Jobs, and his long-term absence could deal a heavy blow to the company. We think COO Tim Cook is an able manager and Apple has an extremely deep talent pool. But we also believe Jobs' product- and user-focused vision has been instrumental to Apple's renaissance and has served investors incredibly well. If Jobs were to leave the firm on a permanent basis, we would expect a couple of years of smooth sailing, but we'd worry about how long Apple's winning streak could continue after that.

The other major risk for shareholders is the firm's heavy dependence on U.S. consumers and high-priced products. A downturn in the U.S. economy, or a worldwide economic downturn, would probably weigh on sales growth, as it did in fiscal 2009.

Close Competitors	TTM Sales $Mil	Market Cap $Mil
Apple, Inc.	**87,451**	**306,547**
* Dell, Inc.	61,637	29,572
* Hewlett-Packard Company	127,158	76,517
* Sony Corporation	84,377	25,728
* Microsoft Corporation	68,615	202,049

* Morningstar Analyst Report Available

Data as of 04-30-11

Strategy

Unavailable

Management & Stewardship

Steve Jobs cofounded Apple in 1976 and rejoined the company as CEO in 1997. Jobs' health is a significant concern, but is somewhat alleviated by the fact that the company maintains a talented management bench and culture of innovation that will sustain it in the near term. He has personally recruited much of the current management team, and most have worked with him for a long time. COO Tim Cook came to Apple from Compaq in 1998. CFO Peter

Oppenheimer has been with the company since 1996.

Though the stock-option backdating scandal raises our stewardship concerns, we believe aggressive moves by the board have enabled the company to turn the page. Apple has taken other steps in the right direction, including the appointment of lead codirectors in 2006. The majority of executive compensation is aligned with shareholder interests in the form of restricted stock units tied to long-term company performance. As such, Apple's executives have been richly rewarded as a result of the company's tremendous performance, but the vast majority of compensation comes from equity as opposed to cash.

Profile

Apple designs consumer electronic devices, including PCs, the iPad, the iPhone, and the iPod. Its iTunes online store is the largest music distributor in the world; it sells and rents TV shows and movies and sells applications for the iPhone and iPad. In early 2011, Apple launched the Mac App Store, an online store that sells first- and third-party applications for the Mac line of desktop and notebook computers. Apple's products are distributed online as well as through company-owned stores and third-party retailers.

Growth

Profitability

Financial Health

The company has $26 billion in cash and short-term investments, holds another $25 billion in long-term investments, and has generated $16.5 billion in free cash flows in fiscal 2010. It carries no debt.

Authors can be reached at analyst feedback.