Acorn Capital Partners

Company Snapshots
Investment Research
Technology - Consumer Electronics
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Apple Inc. (Nasdaq: AAPL)

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Company Description: Apple's mantra is "think different". The company's stated goal is to make the best consumer electronics products in the world. They do this by producing consumer electronics products that incorporate software and subscription services developed by Apple as well as third party developers.

Products and Services: Apple designs, manufactures and markets an array of consumer electronics products, software services and subscription services.

Their consumer electronics products include:

- **iPhone:** A line of smartphones known for their design, performance, and ecosystem integration.
- **iPad:** A line of tablets designed for various purposes, including productivity, entertainment, and creativity.
- **Mac:** A line of personal computers, including laptops (MacBook Air and MacBook Pro) and desktops (iMac, Mac mini, and Mac Pro)
- **Apple Watch:** A smartwatch with health and fitness tracking features, as well as integration with other Apple devices.
- **AirPods:** Wireless earbuds that offer a seamless and integrated audio experience with Apple devices.
- **Apple TV:** A digital media player and streaming device for accessing content from various services.
- **Apple Vision Pro:** A mixed reality headset that will be available in early 2024. (Product Review)

Their software services include:

- **iOS:** Apple's mobile operating system for iPhones and iPads.
- **macOS:** The operating system for Mac computers.
- **watchOS:** The operating system for the Apple Watch.
- **tvOS:** The operating system for the Apple TV.
- **iTunes:** A media player, media library, and online store for purchasing and organizing digital music and videos.
- **App Store:** An online marketplace for downloading and installing apps on iOS and macOS devices.
- **iWork and iLife:** Productivity and creativity software suites that include applications like Pages, Numbers, Keynote, iMovie, and GarageBand.

Their subscription services include:

- **Apple Music:** A subscription-based music streaming service.

Ownership & Compensation

Company Ownership (* = < 1%)

Name	Shares	Percent
The Vanguard Group	1.3 b	7.96%
BlackRock	1.0 b	6.44%
Berkshire Hathaway	907.6 m	5.73%
Kate Adams	425k	*
James Bell	36k	*
Tim Cook	3.3 m	*
Al Gore	467k	*
Alex Gorsky	2k	*
Andrea Jung	141k	*
Art Levinson	4.6 m	*
Monica Lozano	5k	*
Luca Maestri	110k	*
Deirdre O'Brien	136k	*
Ron Sugar	106k	*
Sue Wagner	66k	*
Jeff Williams	677k	*
All Officers and Directors	**10.0 m**	*

Management Total Compensation

Executive	Title	Total
Tim Cook	CEO	$99.4 m
Luca Maestri	CFO	$27.2 m
Kate Adams	Counsel	$27.1 m
Deirdre O'Brien	SVP	$27.2 m
Jeff Williams	COO	$27.2 m
Total		**$208.1 m**

- **Apple TV+:** A subscription-based streaming service for original TV shows and movies.
- **Apple Arcade:** A subscription service offering access to a variety of games.
- **Apple News+:** A subscription service providing access to premium news and magazine content.
- **Apple Fitness+:** A subscription service offering fitness classes and workouts.

Market and Competition: The market for each of Apple's products include virtually every person on earth. Apple focuses on producing higher quality products than their competitors, and they charge a premium price, so they have a more dominant market share in developed markets than they do in developing markets. The lowest priced iPhone sells for over $400 while the lowest priced smartphones sell for just over $100. Economic progress in developing countries should therefore increase the demand for Apple products. This secular trend is tempered by the fact that Apple faces some increasing competition in developing markets. China's leading smartphone companies, Huwaei and Xiaomi have both recently surpassed the iPhone's market share in China. The iPhone's market share has grown in other developing countries in recent years.

Apple reported $298 billion in product sales in fiscal 2023. There are about 8 billion people on the planet, about 1 billion of whom are under the age of 10. This means that on average, every person over the age of 10 spent about $43 on Apple products in the past year. If we include services, which generated $85 billion in revenue in 2023, Apple's total revenue was $383 billion, which increases the total money spent to about $55 per person (or $47 if we include those under age 10).

The company got a significant boost in revenue in 2021 due to the pandemic and ensuing work from home trend. More people working remotely increases the demand for technology products and services. The table below shows Apple's product release dates over the past several years and their current competitive position:

Product/Service	Release Date	Market Share	Market Leader
Apple Watch	April 2015	32.6% (1st)	Apple
AirPods	Dec 2016	34.4% (1st)	Apple
Apple TV+	Nov 2019	7% (7th)	Amazon
Apple Arcade	Sept 2019	49% (1st)	Apple
Apple News+	March 2019	37.5% (1st)	Apple
Apple Fitness+	Dec 2020	20% (2nd)	Peleton

Board Total Compensation

Director	Total
James Bell	$383,714
Al Gore	$382,346
Alex Gorsky	$453,185
Andrea Jung	$409,509
Art Levinson	$562,458
Monica Lozano	$376,474
Ron Sugar	$423,947
Sue Wagner	$405,418
Total	**$3,397,051**

Ownership & Compensation Ratios

Director	Total
Mgmt % Ownership	*
Board % Ownership	*
Mgmt Comp/FCF	*

Valuation and Growth

Valuation Statistics

Statistic	Value
Revenue 2023	$383.3 b
Gross Profit	$169.1 b
EBITDA	$125.8 b
Operating Profit	$114.3
Net Profit	$97.0 b
Dividend	$15.0 b
CFO	$110.5 b
Capex	($11.0 b)
CFI	$3.7 b
CFF	($108.5 b)
FCF	$99.5 b
Gross Margin %	44.13%
EBITDA Margin %	32.8%
Operating Margin %	29.8%
Effective Tax Rate	14.6%
Net Margin %	25.3%

The company has released a new product or service about once every two years for the last decade and most of them have created a new category or risen to the top of an existing category.

Business Model/Competitive Advantage: Apple's products integrate seamlessly with each other and Apple's services are featured as preinstalled default applications on all of their products, which provides the company with a significant competitive advantage over similar products and services. The power of the default option is significant. Studies have shown that the vast majority of users typically choose the default option and Alphabet pays Apple $20 billion per year for Google to be the default search option on the iPhone, despite their well-established dominance in the search business.

Apple also has strong brand recognition and brand value due to their track record of producing high quality products. The company's significant financial resources give them the ability to undercut competitors on price when they enter new markets, like streaming and fitness where their service is significantly cheaper than the industry leaders. They have the ability to spend as much or more money on content than their competitors and they bundle their services with their Apple One offering.

Lastly, Apple utilizes partnerships with wireless carriers and credit services to spread out the cost of their products over time, making them more affordable for the average consumer.

The People: Apple was founded by Steve Jobs, who is widely regarded as one of the greatest entrepreneurs and businessmen of all time. He played a significant role in the growth of personal computers, tablets, smartphones, digital movies, digital books and digital music and more.

Apple's current CEO, Tim Cook, worked with Jobs from 1998 until his departure due to terminal illness in 2011. Mr. Cook was the head of operations under Jobs and Jony Ive was the head of product design. In Steve Jobs biography, he discusses the importance of companies being led by a person that focuses on the product rather than a person that focuses on sales or operations. Jony Ive exited the company in 2019 to start his own design consulting business and retained Apple as a client. Their partnership ended in 2022. Apple didn't replace Mr. Ive upon his departure and eliminated the head of design position. Designers now report to the head of operations.

Apple's newest product, the Apple Vision Pro, was likely influenced by Jony Ive as it was developed when he had a consulting agreement with the company. One of the challenges and risks going forward with Apple is the extent to which the product and design focused culture gets replaced with a focus on operations and sales.

Valuation Statistics

Statistic	Value
CFO Margin %	28.8%
Capex Margin %	(2.9%)
FCF Margin %	26.0%
Dividend/FCF	15.1%
Shares Outstanding	15.7 b
Diluted Shares Out	15.8 b
Cash & Securities	$162.1 b
Working Capital	($1.7 b)
Total Debt	$119.1 b
Tangible Book Value	$62.1 b

Growth Statistics

Statistic	Growth
Revenue (1Y)	(2.8%)
Revenue (3Y)	39.6%
Revenue (5Y)	44.3%
Revenue (10Y)	124.3%
Gross Profit (1Y)	(1.0%)
Gross Profit (3Y)	61.2%
Gross Profit (5Y)	66.1%
Gross Profit (10Y)	163.0%
EBITDA (1Y)	(3.6%)
EBITDA (3Y)	62.7%
EBITDA (5Y)	53.8%
EBITDA (10Y)	125.7%
Operating Income (1Y)	(4.3%)
Operating Income (3Y)	72.4%
Operating Income (5Y)	61.2%
Operating Income (10Y)	126.4%
Effective Tax Rate (1y)	(9.4%)
Effective Tax Rate (3y)	0.3%
Effective Tax Rate (5y)	(22.3%)
Effective Tax Rate (10y)	(43.6%)
CFO (1Y)	(9.5%)
CFO (3Y)	37.0%
CFO (5Y)	42.8%
CFO (10Y)	106.0%

Apple's current products have significant competitive advantages, but the company has to produce new category defining products and software to continue to grow revenue at a reasonable pace from the current high level.

Valuation: Apple currently trades at a $3 trillion valuation and generates $100 billion per year in free cash flow. This equates to a 3% earnings yield versus a 4.75% yield on 2 year Treasuries and a 4.5% yield on 10 year Treasuries. In recent years, Apple has been able to grow earnings per share at a rapid rate due to transition from devices to services which command higher margins, a significant stock buyback program which has reduced their share count, and the remote working trend, which increased the demand for their products and services. The company has to grow earnings at a significant rate or Treasury yields need to decline to justify the current valuation.

A big test for Apple in the near term will be the growth of the Apple Vision Pro. Apple is the only major tech company that has created a mixed reality headset. At over $3k per device it has the potential to significantly add to the company's revenue base if the product achieves wide consumer adoption.

Risks: Apple is a very strong business and has some of the most significant competitive advantages of any business in the world. The company built this position by using technology to create new products that disrupted old world businesses. Today the company competes with other large well-funded technology companies that are able to create competitive products.

Many of the other risks related to Apple's valuation are out of the company's hands. Apple sells its products and services in various countries around the world that each have their own regulations. The regulatory environment has been favorable for Apple and large corporations for a long time in an environment declining inflation, declining interest rates, declining tax rates and declining regulation. If and as other countries become more important to Apple than Apple is to them, the company could face headwinds to its valuation like laws that favor domestic corporations, higher tax rates and higher interest rates.

Growth Statistics

Statistic	Growth Rate
Capex (1Y)	2.3%
Capex (3Y)	49.9%
Capex (5Y)	(17.7%)
Capex (10Y)	20.7%
FCF (1Y)	(10.6%)
FCF (3Y)	35.7%
FCF (5Y)	55.3%
FCF (10Y)	123.3%
Shares Outstanding (1Y)	(2.9%)
Shares Outstanding (3Y)	(9.3%)
Shares Outstanding (5Y)	(20.6%)
Shares Outstanding (10Y)	(39.2%)
Revenue Per Share (1Y)	0.0%
Revenue Per Share (3Y)	53.9%
Revenue Per Share (5Y)	81.7%
Revenue Per Share (10Y)	269.1%
Earnings Per Share (1Y)	0.2%
Earnings Per Share (3Y)	86.1%
Earnings Per Share (5Y)	105.3%
Earnings Per Share (10Y)	330.8%
FCF Per Share (1Y)	(8.0%)
FCF Per Share (3Y)	49.6%
FCF Per Share (5Y)	95.5%
FCF Per Share (10Y)	267.5%
Cash & Sec Per Share (1Y)	(1.3%)
Cash & Sec Per Share (3Y)	(6.9%)
Cash & Sec Per Share (5Y)	(13.9%)
Cash & Sec Per Share (10Y)	81.8%
Total Debt Per Share (1Y)	(4.7%)
Total Debt Per Share (3Y)	8.9%
Total Debt Per Share (5Y)	22.2%
Total Debt Per Share (10Y)	977.9%
Tangible BV Per Share (1Y)	26.3%
Tangible BV Per Share (3Y)	4.8%
Tangible BV Per Share (5Y)	(27.0%)
Tangible BV Per Share (10Y)	(17.2%)

Income Statement

Income Statement	9/30/23	9/24/22	9/25/21	9/26/20	9/28/19
Revenue	383,285,000,000.00	394,328,000,000.00	365,817,000,000.00	274,515,000,000.00	260,174,000,000.00
Cost of Revenue	214,137,000,000.00	223,546,000,000.00	212,981,000,000.00	169,559,000,000.00	161,782,000,000.00
Gross Profit	169,148,000,000.00	170,782,000,000.00	152,836,000,000.00	104,956,000,000.00	98,392,000,000.00
Gross Profit Margin	44.13%	43.31%	41.78%	38.23%	37.82%
Research and Development	29,915,000,000.00	26,251,000,000.00	21,914,000,000.00	18,752,000,000.00	16,217,000,000.00
Selling General and Administrative	24,932,000,000.00	25,094,000,000.00	21,973,000,000.00	19,916,000,000.00	18,245,000,000.00
Other Expenses	(565,000,000.00)	(334,000,000.00)	258,000,000.00	803,000,000.00	1,807,000,000.00
Operating Expenses	54,847,000,000.00	51,345,000,000.00	43,887,000,000.00	38,668,000,000.00	34,462,000,000.00
Cost and Expenses	268,984,000,000.00	274,891,000,000.00	256,868,000,000.00	208,227,000,000.00	196,244,000,000.00
EBITDA	125,820,000,000.00	130,541,000,000.00	120,233,000,000.00	77,344,000,000.00	76,477,000,000.00
EBITDA Margin	32.83%	33.10%	32.87%	28.17%	29.39%
Interest Expense	3,933,000,000.00	2,931,000,000.00	2,645,000,000.00	2,873,000,000.00	3,576,000,000.00
Depreciation and Amortization	11,519,000,000.00	11,104,000,000.00	11,284,000,000.00	11,056,000,000.00	12,547,000,000.00
Operating Income	114,301,000,000.00	119,437,000,000.00	108,949,000,000.00	66,288,000,000.00	63,930,000,000.00
Operating Income Ratio	29.82%	30.29%	29.78%	24.15%	24.57%
Total Other Income Expenses Net	(565,000,000.00)	(334,000,000.00)	258,000,000.00	803,000,000.00	1,807,000,000.00
Income Before Tax	113,736,000,000.00	119,103,000,000.00	109,207,000,000.00	67,091,000,000.00	65,737,000,000.00
Income Before Tax Ratio	0.30	0.30	0.30	0.24	0.25
Income Tax Expense	16,741,000,000.00	19,300,000,000.00	14,527,000,000.00	9,680,000,000.00	10,481,000,000.00
Net Income	96,995,000,000.00	99,803,000,000.00	94,680,000,000.00	57,411,000,000.00	55,256,000,000.00
Net Income Ratio	25.31%	25.31%	25.88%	20.91%	21.24%
Eps	6.16	6.15	5.67	3.31	2.99
Eps Diluted	6.13	6.11	5.61	3.28	2.97
Weighted Average Shares Out	15,744,231,000.00	16,215,963,000.00	16,701,272,000.00	17,352,119,000.00	18,471,336,000.00
Weighted Average Shares Out Diluted	15,812,547,000.00	16,325,819,000.00	16,864,919,000.00	17,528,214,000.00	18,595,652,000.00

Balance Sheet

Date	9/30/23	9/24/22	9/25/21	9/26/20	9/28/19
Cash and Cash Equivalents	29,965,000,000.00	23,646,000,000.00	34,940,000,000.00	38,016,000,000.00	48,844,000,000.00
Short Term Investments	31,590,000,000.00	24,658,000,000.00	27,699,000,000.00	52,927,000,000.00	51,713,000,000.00
Cash and Short Term Investments	61,555,000,000.00	48,304,000,000.00	62,639,000,000.00	90,943,000,000.00	100,557,000,000.00
Net Receivables	60,985,000,000.00	60,932,000,000.00	51,506,000,000.00	37,445,000,000.00	45,804,000,000.00
Inventory	6,331,000,000.00	4,946,000,000.00	6,580,000,000.00	4,061,000,000.00	4,106,000,000.00
Other Current Assets	14,695,000,000.00	21,223,000,000.00	14,111,000,000.00	11,264,000,000.00	12,352,000,000.00
Total Current Assets	143,566,000,000.00	135,405,000,000.00	134,836,000,000.00	143,713,000,000.00	162,819,000,000.00
Property Plant Equipment Net	43,715,000,000.00	42,117,000,000.00	39,440,000,000.00	36,766,000,000.00	37,378,000,000.00
Long Term Investments	100,544,000,000.00	120,805,000,000.00	127,877,000,000.00	100,887,000,000.00	105,341,000,000.00
Other Non-Current Assets	64,758,000,000.00	54,428,000,000.00	48,849,000,000.00	42,522,000,000.00	32,978,000,000.00
Total Non-Current Assets	209,017,000,000.00	217,350,000,000.00	216,166,000,000.00	180,175,000,000.00	175,697,000,000.00
Total Assets	352,583,000,000.00	352,755,000,000.00	351,002,000,000.00	323,888,000,000.00	338,516,000,000.00
Account Payables	62,611,000,000.00	64,115,000,000.00	54,763,000,000.00	42,296,000,000.00	46,236,000,000.00
Short Term Debt	15,807,000,000.00	21,110,000,000.00	15,613,000,000.00	13,769,000,000.00	16,240,000,000.00
Deferred Revenue	8,061,000,000.00	7,912,000,000.00	7,612,000,000.00	6,643,000,000.00	5,522,000,000.00
Other Current Liabilities	58,829,000,000.00	60,845,000,000.00	47,493,000,000.00	42,684,000,000.00	37,720,000,000.00
Total Current Liabilities	145,308,000,000.00	153,982,000,000.00	125,481,000,000.00	105,392,000,000.00	105,718,000,000.00
Long Term Debt	95,281,000,000.00	98,959,000,000.00	109,106,000,000.00	98,667,000,000.00	91,807,000,000.00
Other Non-Current Liabilities	49,848,000,000.00	49,142,000,000.00	53,325,000,000.00	54,490,000,000.00	50,503,000,000.00
Total Non-Current Liabilities	145,129,000,000.00	148,101,000,000.00	162,431,000,000.00	153,157,000,000.00	142,310,000,000.00
Total Liabilities	290,437,000,000.00	302,083,000,000.00	287,912,000,000.00	258,549,000,000.00	248,028,000,000.00
Common Stock	73,812,000,000.00	64,849,000,000.00	57,365,000,000.00	50,779,000,000.00	45,174,000,000.00
Retained Earnings	(214,000,000.00)	(3,068,000,000.00)	5,562,000,000.00	14,966,000,000.00	45,898,000,000.00
Accumulated Other Comprehensive Income Loss	(11,452,000,000.00)	(11,109,000,000.00)	163,000,000.00	(406,000,000.00)	(584,000,000.00)
Total Stockholders' Equity	62,146,000,000.00	50,672,000,000.00	63,090,000,000.00	65,339,000,000.00	90,488,000,000.00
Total Liabilities and Stockholders' Equity	352,583,000,000.00	352,755,000,000.00	351,002,000,000.00	323,888,000,000.00	338,516,000,000.00
Total Investments	31,590,000,000.00	145,463,000,000.00	155,576,000,000.00	153,814,000,000.00	157,054,000,000.00
Total Debt	111,088,000,000.00	120,069,000,000.00	124,719,000,000.00	112,436,000,000.00	108,047,000,000.00
Net Debt	81,123,000,000.00	96,423,000,000.00	89,779,000,000.00	74,420,000,000.00	59,203,000,000.00

Cash Flow Statement

Date	9/30/23	9/24/22	9/25/21	9/26/20	9/28/19
Net Income	96,995,000,000.00	99,803,000,000.00	94,680,000,000.00	57,411,000,000.00	55,256,000,000.00
Depreciation and Amortization	11,519,000,000.00	11,104,000,000.00	11,284,000,000.00	11,056,000,000.00	12,547,000,000.00
Deferred Income Tax	5,195,000,000.00	895,000,000.00	(4,774,000,000.00)	(215,000,000.00)	(340,000,000.00)
Stock Based Compensation	10,833,000,000.00	9,038,000,000.00	7,906,000,000.00	6,829,000,000.00	6,068,000,000.00
Change in Working Capital	(6,577,000,000.00)	1,200,000,000.00	(4,911,000,000.00)	5,690,000,000.00	(3,488,000,000.00)
Accounts Receivables	(1,688,000,000.00)	(1,823,000,000.00)	(10,125,000,000.00)	6,917,000,000.00	245,000,000.00
Inventory	(1,618,000,000.00)	1,484,000,000.00	(2,642,000,000.00)	(127,000,000.00)	(289,000,000.00)
Accounts Payables	(1,889,000,000.00)	9,448,000,000.00	12,326,000,000.00	(4,062,000,000.00)	(1,923,000,000.00)
Other Working Capital	5,195,000,000.00	(7,909,000,000.00)	(4,470,000,000.00)	2,962,000,000.00	(1,521,000,000.00)
Other Non-Cash Items	(7,422,000,000.00)	111,000,000.00	(147,000,000.00)	(97,000,000.00)	(652,000,000.00)
Net Cash Provided by Operating Activities	110,543,000,000.00	122,151,000,000.00	104,038,000,000.00	80,674,000,000.00	69,391,000,000.00
Investments in Property Plant and Equipment	(10,959,000,000.00)	(10,708,000,000.00)	(11,085,000,000.00)	(7,309,000,000.00)	(10,495,000,000.00)
Acquisitions Net	0.00	(306,000,000.00)	(33,000,000.00)	(1,524,000,000.00)	(624,000,000.00)
Purchases of Investments	(29,513,000,000.00)	(76,923,000,000.00)	(109,558,000,000.00)	(115,148,000,000.00)	(40,631,000,000.00)
Sales Maturities of Investments	45,514,000,000.00	67,363,000,000.00	106,483,000,000.00	120,483,000,000.00	98,724,000,000.00
Other Investing Activities	(1,337,000,000.00)	(1,780,000,000.00)	(352,000,000.00)	(791,000,000.00)	(1,078,000,000.00)
Net Cash Used for Investing Activities	3,705,000,000.00	(22,354,000,000.00)	(14,545,000,000.00)	(4,289,000,000.00)	45,896,000,000.00
Debt Repayment	(11,151,000,000.00)	(9,543,000,000.00)	(8,750,000,000.00)	(13,592,000,000.00)	(8,805,000,000.00)
Common Stock Issued	1,250,000,000.00	0.00	1,105,000,000.00	880,000,000.00	781,000,000.00
Common Stock Repurchased	(77,550,000,000.00)	(89,402,000,000.00)	(85,971,000,000.00)	(72,358,000,000.00)	(66,897,000,000.00)
Dividends Paid	(15,025,000,000.00)	(14,841,000,000.00)	(14,467,000,000.00)	(14,081,000,000.00)	(14,119,000,000.00)
Other Financing Activities	(6,012,000,000.00)	3,037,000,000.00	14,730,000,000.00	12,331,000,000.00	(1,936,000,000.00)
Net Cash Used Provided by Financing Activities	(108,488,000,000.00)	(110,749,000,000.00)	(93,353,000,000.00)	(86,820,000,000.00)	(90,976,000,000.00)
Net Change in Cash	5,760,000,000.00	(10,952,000,000.00)	(3,860,000,000.00)	(10,435,000,000.00)	24,311,000,000.00
Cash at End of Period	30,737,000,000.00	24,977,000,000.00	35,929,000,000.00	39,789,000,000.00	50,224,000,000.00
Cash at Beginning of Period	24,977,000,000.00	35,929,000,000.00	39,789,000,000.00	50,224,000,000.00	25,913,000,000.00
Operating Cash Flow	110,543,000,000.00	122,151,000,000.00	104,038,000,000.00	80,674,000,000.00	69,391,000,000.00
Capital Expenditure	(10,959,000,000.00)	(10,708,000,000.00)	(11,085,000,000.00)	(7,309,000,000.00)	(10,495,000,000.00)
Free Cash Flow	99,584,000,000.00	111,443,000,000.00	92,953,000,000.00	73,365,000,000.00	58,896,000,000.00

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