

STIFEL

Apple Inc.  
AAPL – NASDAQ  
Buy

Enterprise Hardware/Software &amp; Hard Disk Drives

Company Update

## Expecting \$150B+ Capital Return (Dividend +25%) & A Deeper Look at Apple's Tax Rate (Conservative?)

**Conclusion:** We are increasing our target price to \$150 from \$130 for Apple. While we note that shares currently trade at 2 standard deviations above the trailing 4-year median forward EV/EBITDA multiple (i.e., ~9.4x vs. ~6.4x median) and have crossed through 4% of the S&P 500 (historical peak at 5.0%), shares still trade at a more reasonable forward EV/FCF multiple (i.e. 11.7x using consensus NTM est. of ~\$52.5B and 10.2x using TTM FCF of \$60B) – see EV/EBITDA, P/E, and EV/FCF charts below. We also believe the *platform effect* of Apple, and the resulting strong fundamentals, will continue to resonate as a strong underlying positives – elevated by the company's strong growth in China (+2x yr/yr in F1Q15; *Gartner* estimates ~13.4M iPhones shipped), anticipated strong adoption across a very loyal / expanding installed base (iPhone 6 / 6+ penetration in mid-teens exiting C2014), and the proliferation of Apple Pay (now at 90 banks, credit unions, etc. supported).

**Capital Return:** Apple's very strong FCF story (TTM FCF at \$59.96B and totaling +\$40B for thirteen consecutive qtrs) coupled with the company's recently announced debt issuance and comments that it would not be *hoarders* of cash has left high expectations of a strong capital return message in April. Since initiating a capital return strategy in the September 2012 quarter, Apple has returned 78% of its FCF (or share repo + div. of \$102.7B); reducing its FD share count by 11.4% over this timeframe. The company has maintained an annualized dividend payout in the ~\$10-\$11B range and increased its quarterly dividend per share payout by 15% and 8% in 2013 and 2014, respectively. We believe Apple has more than enough capacity to increase its quarterly dividend significantly – up to \$13.5-\$14.0B/annum (~\$2.30-\$2.40/sh.; ~1.8% div. yield). We believe investors could look at Apple's potential dividend increase as a key proxy on the company's FCF expectations when considering Apple has averaged a dividend payout of ~23% when compared to TTM FCF over the past few years.

**A Look into Apple's Tax Structure:** While we do not claim to be tax experts, in this report we provide a closer look into Apple's tax structure; focus on comparatively lower % of foreign earnings held indefinitely reinvested outside of U.S. vs. peers (i.e., resulting in higher tax rate). We believe Carl Icahn's views on Apple's tax rate (i.e., assumed 20% rate vs. reported / modeled 26% rate) present interesting points to explore when looking at Apple's reported / modeled earnings power (see analysis below).

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Changes	Previous	Current
Rating	—	Buy
Target Price	\$130.00	\$150.00
FY15E EPS (Net)	—	\$8.61
FY16E EPS (Net)	—	\$9.24
FY15E Rev (net)	—	\$227.18B
FY16E Rev (net)	—	\$248.91B

Price (02/24/15):	\$132.17
52-Week Range:	\$134 – \$73
Market Cap.(mm):	769,890
Shr.O/S-Diluted (mm):	5,825.0
Enterprise Val. (mm):	\$628,305.0
Avg Daily Vol (3 Mo):	55,742,136
LT Debt/Total Cap.:	23.0%
Net Cash/Share:	\$24.07
Book Value/Share:	\$20.97
Cash (mm):	\$177,955
Debt (mm):	\$36,403
Assets (mm):	\$261,894
Dividend(\$ / %)	\$1.88 / 1.4%
S&P Index	2,115.48

EPS (Net)	2014A	2015E	2016E
Q1	\$2.07	\$3.06A	\$3.01
Q2	1.66	2.06	2.36
Q3	1.28	1.67	1.88
Q4	1.42	1.82	1.99
FY Sep	\$6.43A	\$8.61	\$9.24
P/E	20.6x	15.4x	14.3x

Rev (net)	2014A	2015E	2016E
Q1	\$57.59B	\$74.60BA	\$75.85B
Q2	45.65B	54.36B	63.05B
Q3	37.43B	47.16B	53.44B
Q4	42.12B	51.06B	56.56B
FY Sep	\$182.80B	\$227.18B	\$248.91B
EV/Revenue	3.4x	2.8x	2.5x



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All relevant disclosures and certifications appear on pages 11 - 12 of this report.

## Discussion:

**Capital Return:** Apple's very strong FCF story – TTM FCF now standing at \$59.962 billion (totaling +\$40B for thirteen consecutive quarters) – coupled with the company's recently announced debt issuance and comments that it would not be *hoarders* of cash has left high expectations of a strong capital return message from Apple in April. Since initiating a capital return strategy in the September 2012 quarter, Apple has returned \$102.737 billion in cash via share repo (\$72.9B) and dividends (\$27.0B), which equates to 78% of the company's FCF generated over this timeframe. Apple has reduced its fully diluted share count by more than 11.4% over this timeframe (note: we currently model a -6% FD share reduction through F2017), while maintaining an annualized dividend payout in the ~\$10-\$11 billion range. On a per fully diluted share basis, Apple's quarterly dividend per share payout increased by 15% and 8% in 2013 and 2014, respectively. We believe Apple has more than enough capacity to increase its quarterly dividend significantly – up to \$13.5-\$14.0B/annum, or ~\$2.30-\$2.40/sh. (~1.8% dividend yield). We believe investors could look at Apple's potential dividend increase as a key proxy on the company's FCF expectations when considering the company has averaged a dividend payout of ~23% when compared to trailing 12-month FCF over the past few years.

As of the end of December 2014, the company had utilized ~\$72.4 billion of its \$90 billion share repurchase authorization (increased from \$60 billion in April 2014); reiterating that the remaining \$17.6 billion would be utilized by the end of December 2015. With the company's \$130 billion total capital return strategy to be completed by the end of calendar 2015 (\$27.3 billion remaining post F1Q15), we / investors anticipate a new 3-year target into the +\$150B-\$170B range with \$110-\$120B in share repo. At the current share price (\$132.17/sh.), this would equate to ~15% of shares outstanding. The table below summarizes Apple's prior three capital return announcements, as well as our estimate for the likely April 2015 announcement. We are highlighting an estimated \$160 billion total capital return plan (3-year) with a \$110-\$120B share repo authorization and a 25% increase in the company's dividend per share (\$2.35/sh.). Apple exited the December 2014 quarter with \$178 billion in total cash and investments, which includes approximately \$20.2 million of cash held domestically (\$157.8 million held in foreign subsidiaries). This would leave us to estimate ~\$50-\$55 billion in FCF return to shareholders; leaving annual capital return + capex in the \$65-\$70 billion range (note: Apple has a F2015 capex spend guide at \$13 billion). Apple's 10-Q filing reports that the company is currently earning ~1.4% weighted-average interest rate on its cash held. Apple's weighted interest rate stands at 1.99%. We would note that Apple's leverage remains well below the company's large-cap peer group – debt-to-EBTIDA standing at 0.6x vs. a peer group average at ~1.1x

**Apple's Tax Rate – Focus on Foreign Earnings *Indefinitely* Reinvested Outside the U.S.?** While it is important to note that we would not claim to be experts on what is most certainly complex tax structures at Apple, we do believe Carl Icahn's views on Apple's tax rate (i.e., assumed 20% rate vs. reported / modeled 26% rate) present interesting points to explore when looking at Apple's reported / modeled earnings power and thus P/E multiples (note: in addition to the fact that Apple's reported results are fully GAAP vs. most other tech companies reporting on a non-GAAP basis). A few of the key points / considerations:

- Apple recorded \$33.6 billion in foreign pre-tax earnings in F2014 (~63% of total pre-tax income), which compares to \$36.8 billion and \$30.5 billion in F2012 and F2013, respectively.

- Apple's filings disclose a cumulative \$69.7 billion in total foreign earnings held as indefinitely reinvested outside the U.S. – an absolute increase of \$15.3 billion yr/yr (45.5% of the aforementioned total foreign pre-tax earnings).
- From the \$15.3 billion incremental recognition, Apple reported a reduction to its recognized income tax provision totaling \$4.744 billion (equates to 31% rate; averaging 33% over past three fiscal years).
- Apple's recorded \$4.744 billion reduction in its effective tax reconciliation disclosure for F2014 reflective of the *Indefinitely Invested Earnings of Foreign Subsidiaries*...in the past has been noted as solely representing the difference between the U.S. statutory rate of 35% and the local tax rate on those indefinitely reinvested undistributed earnings, substantially all of which were generated by subsidiaries organized in Ireland. Apple reports an Ireland statutory tax rate of 12.5% (i.e., assuming \$4.744B comes primarily from Ireland, we would use a ~22.5% differential for the calculation).
- In two correspondence letters with the SEC in mid-2013 (June 24, 2013 and July 22, 2013), Apple notes that the company does NOT expect to require the repatriation of undistributed international earnings of its foreign subsidiaries in the foreseeable future – we believe the key point to Mr. Icahn's argument on Apple's reported tax rate.
- The deemed use of foreign held undistributed earnings (\$69.7 billion) includes: product tooling and manufacturing process equipment, long-term supply agreements, retail store investments (company guiding ~\$600M capex spend in F2015), strategic business and technology investments, and global expansion.
- As summarized below, we compare Apple's increase in foreign earnings held for indefinite reinvestment outside the U.S. over the past five years (+\$64.6 billion) to the company's total reported foreign derived pre-tax earnings (\$137.9 billion; ~47%) to the same ratio at Microsoft (78%), Intel (+75%), Google (+88%), and Oracle (+75%) – highlighting lower recognition of earnings as indefinitely reinvested (and thus lower effective tax rate reduction) when compared to these large cap peers.

With the above in mind, we believe Mr. Icahn's argument is not necessarily that Apple should increase the amount of undistributed foreign earnings deemed to be indefinitely reinvested, but rather that it is unlikely that Apple will repatriate the amount of earnings not reported within this category. Therefore, the company's accounting foreign earnings (averaging ~46% of total earnings being classified as indefinitely reinvested over the past four fiscal years) adversely impacts the company's effective tax rate. Although very simplistic, we would calculate an increase from 46% to 70% would result in Apple's effective / reported tax rate declining to an average of 20% over the past five fiscal years. This would equate to a 7% increase in Apple's reported EPS. While it is interesting to consider the EPS impact, we also point out that Apple's cash taxes paid totaled \$9.1 billion and \$10.0 billion in F2013 and F2014; or ~18.2% and 18.7%, respectively. Therefore, Apple's lower cash taxes paid are reflected in the company's Statement of Cash Flows.

**Apple's Capex & Accelerating R&D Spend – An Important / Expanding Differentiator?** We believe Apple's significant, and focused, capital expenditures will continue to represent a significant competitive differentiator. Apple spent approximately \$11 billion in capex during F2014 (\$10.5 billion outside of retail capex, up from \$7.0 billion in F2013). We continue to estimate that the majority of Apple's capex is going into its Machinery, Equipment, & Internal Use Software balance, which represents the company's investments in its supply chain. We believe this has been a key driver of Apple's manufacturing velocity as reflected in the company's F1Q15 results. Apple is guiding its F2015 capex at \$13.0 billion

with approximately \$600 million spent for retail stores and the remaining \$12.4 billion spent on tooling and manufacturing equipment, data centers, and corporate infrastructure and facilities. While we continue to question the capex impact of Apple's new headquarters (past reports suggesting as much as \$5 billion in cumulative spend), we would note that a recent *Asymco* article highlighted the high correlation between Apple's capex and iOS device shipments, arguing that the company's current outlook could support 310-320 million iOS devices ship in C2015 (vs. our 281 million estimate; albeit we again consider incremental headquarter-related capex).

In addition to Apple's capex spending, we highlight Apple's accelerating spending on R&D over the past few quarters. As shown below, the yr/yr absolute increase in Apple's trailing 12-month R&D spending has noticeably accelerated over the past three quarters, leaving us / investors to likely become increasingly focused on *what's next* in the proliferation of Apple's ecosystem.

**Additional Quick Notes / Thoughts:** 1.) In addition to what we believe will remain a positive underlying iPhone mix impact on Apple's gross margin, we continue to highlight the normalizing impacts of Apple's manufacturing capex spending going forward, as well as the impact of an increased deferred revenue contribution per iOS and Mac device shipped (i.e., costs recognized at time of sale). 2.) We maintain our estimate of Apple Watch shipments totaling 19.6 million in the first 12-months (~7.3M units for 2HF2015); ~\$9.1 billion of incremental revenue with a blended ASP at ~\$465. 3.) We do not model any contributions from the long debated / awaited move by Apple into the TV market, though we believe the aforementioned increases in R&D expenditures will result in increasing questions on the next piece of Apple's platform expansion story.

## Summary Tables / Charts:

### Apple Capital Return Summary:

	Past Three Capital Return Programs			Estimated
	March 2012	April 2013	April 2014	April 2015E
Date Plan Announced	3/19/12	4/23/13	4/23/14	4/21/15
Share Price @ Announcement	\$85.87	\$58.02	\$74.96	\$129.50
Market Capitalization @ Announcement	\$560,354	\$381,800	\$452,201	\$754,276
- Total Shares Out.	6,525.5	6,580.7	6,032.2	5,824.7
<b>Total Cash &amp; Cash Equivalents (Prior Qtr Ending; Current)</b>	<b>\$110,176</b>	<b>\$144,687</b>	<b>\$150,589</b>	<b>\$177,955</b>
- Total Debt	\$0	\$0	\$16,962	\$36,403
<b>Net Cash</b>	<b>\$110,176</b>	<b>\$144,687</b>	<b>\$133,627</b>	<b>\$141,552</b>
Note: Weighted Avg. Interest Rate Earned on Cash	1.01%	1.05%	1.04%	1.41%
Note: Weighted Avg. Interest Rate on Debt	N/A	N/A	1.94%	1.99%
Foreign Subsidiary Cash Held (Approx)	\$74,000	\$102,300	\$132,200	\$157,800
Domestic Cash (Approx.)	\$36,176	\$42,387	\$18,389	\$20,155
<b>Announced Capital Return Plans; Stifel Apr '15 Est:</b>				
<b>Total Capital Return*</b>	<b>\$45,000</b>	<b>\$100,000</b>	<b>\$130,000</b>	<b>\$160,000</b>
- Total Share Repurchase Authorization	\$10,000	\$60,000	\$90,000	\$118,936
- Implied Dividend Payout on S/O	\$9,881	\$11,469	\$11,341	\$13,688
-- Dividend per Share (split adjusted)	\$1.51	\$1.74	\$1.88	\$2.35
-- % Increase	N/A	15.1%	7.9%	25.0%
-- Implied Dividend Yield	1.8%	3.0%	2.5%	1.8%
Prior 12-Month Cash Flow from Operations (CFO)	\$53,068	\$55,255	\$53,944	\$69,313
Prior 12-Month Free Cash Flow (FCF)	\$47,868	\$45,413	\$46,737	\$57,282
Share Repo Plan (Evenly Split) - % of Prior CFO	18.8%	108.6%	166.8%	171.6%
Share Repo Plan - % of TTM FCF	20.9%	132.1%	192.6%	207.6%
<b>Post Plan 12-Month Capital Returned :</b>				
Share Repurchase	\$17,950	\$43,910	\$32,030	\$39,645
Dividend	\$10,283	\$11,010	\$11,235	\$13,688
<b>Total</b>	<b>\$28,233</b>	<b>\$54,920</b>	<b>\$43,265</b>	<b>\$53,333</b>
- % of Free Cash Flow	65.3%	117.5%	75.5%	
Capital Expenditures - Post Capital Return Program (CF Statement)	\$9,671	\$7,207	\$12,030	\$13,135

\* Apple initiated 3-year target capital return program in March 2012 w/ \$45B announcement; April 2013 & April 2014 plans targeted by end of calendar 2015.

Source: Stifel Estimates



**Apple Taxes - The Argument / Adjustment for ~20% Tax Rate Estimate (vs. 26% Current / Forecasted Rate)**

All figures in \$M (except per share)

	F2009	F2010	F2011	F2012	F2013	F2014
Foreign Pre-Tax Earnings (Disclosed Approx. in 10-K)	\$6,600	\$13,000	\$24,000	\$36,800	\$30,500	\$33,600
Apple's Total Pre-Tax Income	\$12,066	\$18,540	\$34,205	\$55,763	\$50,155	\$53,483
Foreign Pre-Tax Earnings as % of Total	54.7%	70.1%	70.2%	66.0%	60.8%	62.8%
Foreign Earnings held Indefinitely Reinvested Outside U.S. (Cumulative - 10-K)	\$5,100	\$12,300	\$23,400	\$40,400	\$54,400	\$69,700
Yr/Yr Increase in Indefinitely Reinvested Earnings	\$1,300	\$7,200	\$11,100	\$17,000	\$14,000	\$15,300
% of Foreign Earnings	19.7%	55.4%	46.3%	46.2%	45.9%	45.5%

**REPORTED TAX RECONCILIATION:****Reconciliation of Tax Provision (REPORTED):**

Computed Expected Tax	\$4,223	\$6,489	\$11,973	\$19,517	\$17,554	\$18,719
State Taxes, Net of Federal Effect	\$339	\$351	\$552	\$677	\$508	\$469
<b>Reported: Tax Benefit for Indefinitely Reinvested Earnings</b>	<b>(\$647)</b>	<b>(\$2,125)</b>	<b>(\$3,898)</b>	<b>(\$5,895)</b>	<b>(\$4,614)</b>	<b>(\$4,744)</b>
Research and Development Credit, Net	-\$84	-\$23	-\$167	-\$103	-\$287	-\$88
Domestic Production Activities Deduction	-\$36	-\$48	-\$168	-\$328	-\$308	-\$495
Other	\$36	-\$117	-\$9	\$162	\$265	\$112
<b>Total Provision for Income Taxes</b>	<b>\$3,831</b>	<b>\$4,527</b>	<b>\$8,283</b>	<b>\$14,030</b>	<b>\$13,118</b>	<b>\$13,973</b>
Apple's 10-K effective tax rate	31.8%	24.4%	24.2%	25.2%	26.2%	26.1%
- Implied Tax Adjustment Rate on Indefinitely Reinvested Earnings	49.8%	29.5%	35.1%	34.7%	33.0%	31.0%

**Reconciliation of Tax Provision on % Basis (REPORTED)**

Computed Expected Tax (Statutory Rate)	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
State Taxes, Net of Federal Effect	2.8%	1.9%	1.6%	1.2%	1.0%	0.9%
<b>Reported: Tax Benefit for Indefinitely Reinvested Earnings</b>	<b>-5.4%</b>	<b>-11.5%</b>	<b>-11.4%</b>	<b>-10.6%</b>	<b>-9.2%</b>	<b>-8.9%</b>
Research and Development Credit, Net	-0.7%	-0.1%	-0.5%	-0.2%	-0.6%	-0.2%
Domestic Production Activities Deduction	-0.3%	-0.3%	-0.5%	-0.6%	-0.6%	-0.9%
Other	0.3%	-0.6%	0.0%	0.3%	0.5%	0.2%
<b>Total Provision for Income Taxes</b>	<b>31.8%</b>	<b>24.4%</b>	<b>24.2%</b>	<b>25.2%</b>	<b>26.2%</b>	<b>26.1%</b>

**Uplifted % of Foreign Pre-Tax Earnings Indefinitely Reinvested****70%****Reconciliation of Tax Provision (ADJUSTED)**

Computed Expected Tax (Statutory Rate)	\$4,223	\$6,489	\$11,973	\$19,517	\$17,554	\$18,719
State Taxes, Net of Federal Effect	\$339	\$351	\$552	\$677	\$508	\$469
<b>Adjusted: Indefinitely Invested Earnings of Foreign Subsidiaries</b>	<b>(\$2,299)</b>	<b>(\$2,686)</b>	<b>(\$5,900)</b>	<b>(\$8,933)</b>	<b>(\$7,036)</b>	<b>(\$7,293)</b>
Research and Development Credit, Net	(\$84)	(\$23)	(\$167)	(\$103)	(\$287)	(\$88)
Domestic Production Activities Deduction	(\$36)	(\$48)	(\$168)	(\$328)	(\$308)	(\$495)
Other	\$36	(\$117)	(\$9)	\$162	\$265	\$112
<b>Total Provision for Income Taxes</b>	<b>\$2,179</b>	<b>\$3,966</b>	<b>\$6,281</b>	<b>\$10,992</b>	<b>\$10,696</b>	<b>\$11,424</b>
- Difference -	\$1,652	\$561	\$2,002	\$3,038	\$2,422	\$2,549

**Reconciliation of Tax Provision on % Basis (ADJUSTED)**

Computed Expected Tax (Statutory Rate)	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
State taxes, net of federal effect	2.8%	1.9%	1.6%	1.2%	1.0%	0.9%
<b>Adjusted: Indefinitely Invested Earnings of Foreign Subsidiaries</b>	<b>-19.1%</b>	<b>-14.5%</b>	<b>-17.2%</b>	<b>-16.0%</b>	<b>-14.0%</b>	<b>-13.6%</b>
Research and Development Credit, Net	-0.7%	-0.1%	-0.5%	-0.2%	-0.6%	-0.2%
Domestic Production Activities Deduction	-0.3%	-0.3%	-0.5%	-0.6%	-0.6%	-0.9%
Other	0.3%	-0.6%	0.0%	0.3%	0.5%	0.2%
<b>Total Provision for Income Taxes</b>	<b>18.1%</b>	<b>21.4%</b>	<b>18.4%</b>	<b>19.7%</b>	<b>21.3%</b>	<b>21.4%</b>
- Difference -	13.7%	3.0%	5.9%	5.4%	4.8%	4.8%

**Memo: Apple's Reported Cash Taxes Paid**

- Difference -	\$2,997	\$2,697	\$3,338	\$7,682	\$9,128	\$10,026
- Cash Tax Rate -	\$834	\$1,830	\$4,945	\$6,348	\$3,990	\$3,947
	24.8%	14.5%	9.8%	13.8%	18.2%	18.7%

**Apple's Reported EPS**

- Adjusted EPS	\$1.30	\$2.16	\$3.95	\$6.31	\$5.66	\$6.43
<b>Adjusted EPS Benefit via Increased Foreign Earnings Contribution</b>	<b>\$1.56</b>	<b>\$2.25</b>	<b>\$4.26</b>	<b>\$6.76</b>	<b>\$6.03</b>	<b>\$6.85</b>
- % Difference	\$0.26	\$0.09	\$0.31	\$0.46	\$0.37	\$0.42
	20.1%	4.0%	7.7%	7.3%	6.6%	6.5%
FD shares (M)	6349.04	6,473	6,556	6,618	6,522	6,123

**Deferred Tax Liability from Unremitted Earnings of Foreign Subsidiaries**

- Amount of Unrecognized Deferred Tax Liability Related to Temporary Differences	\$2,774	\$4,979	\$8,896	\$14,712	\$18,044	\$21,544
	N/A	\$4,000	\$8,000	\$13,800	\$18,400	\$23,300

Source: Company Data; Stifel Estimates

**Large Cap Technology Compare - Foreign Earnings Held for Indefinite Reinvestments Outside U.S.**

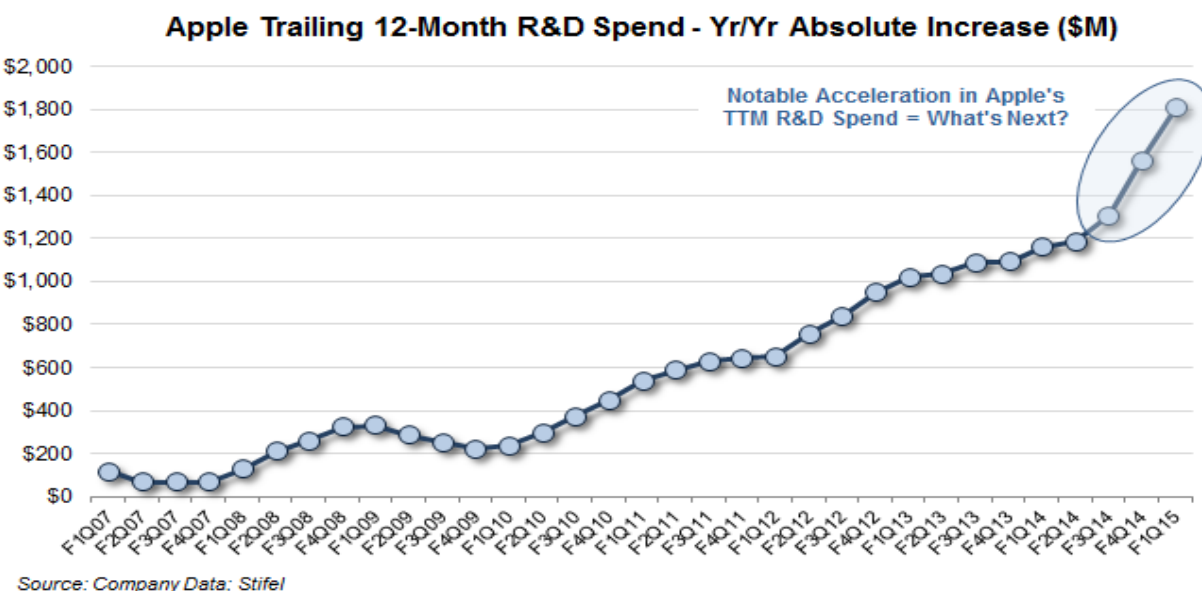
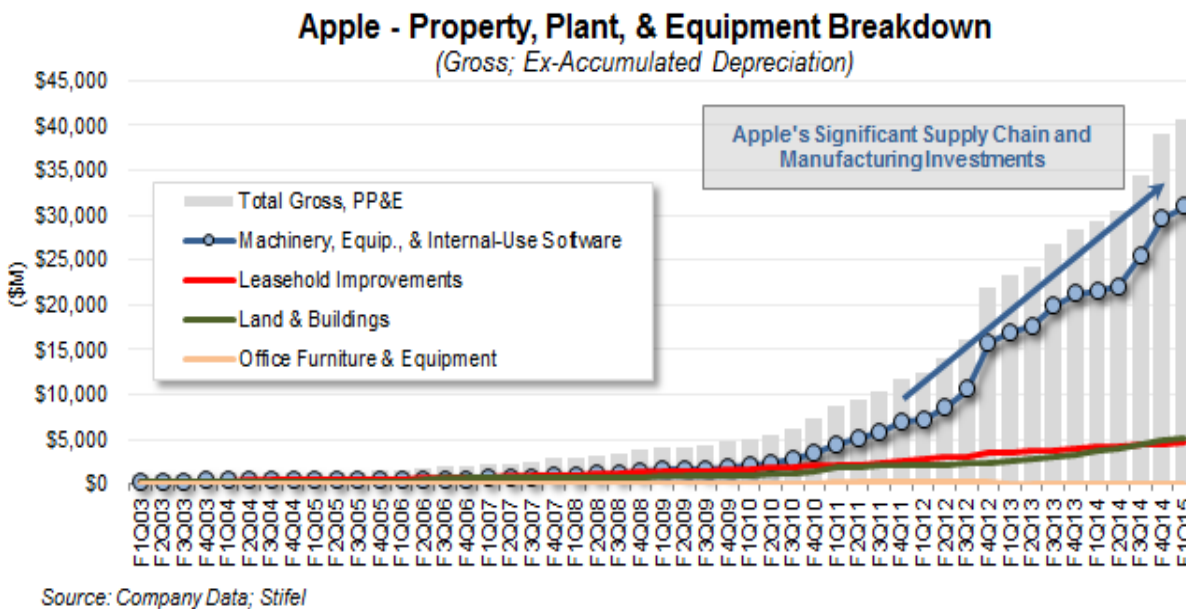
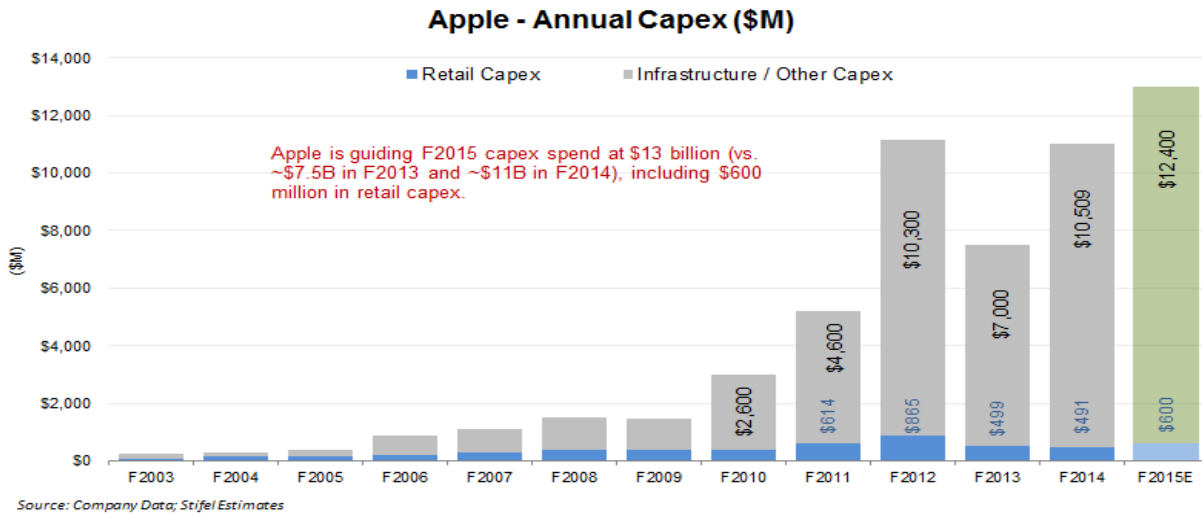
All figures in \$M (except per share)

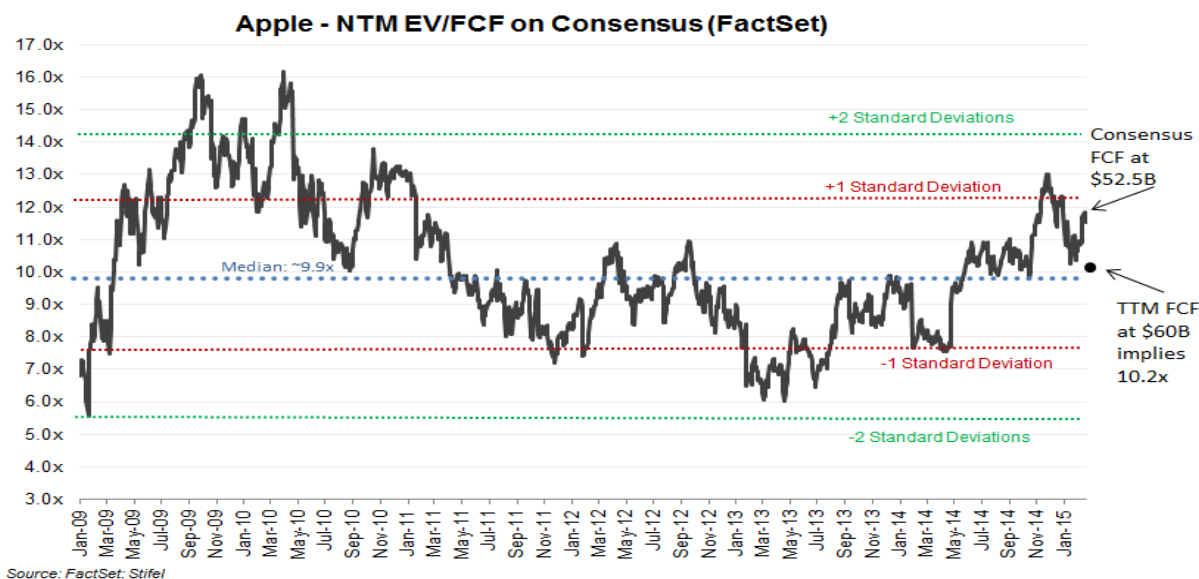
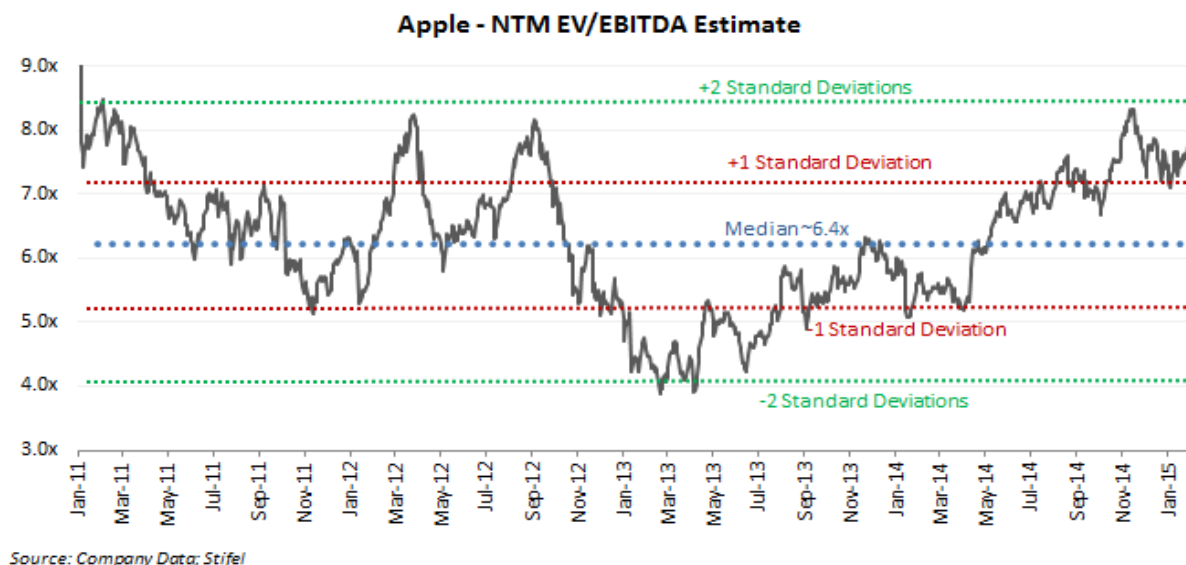
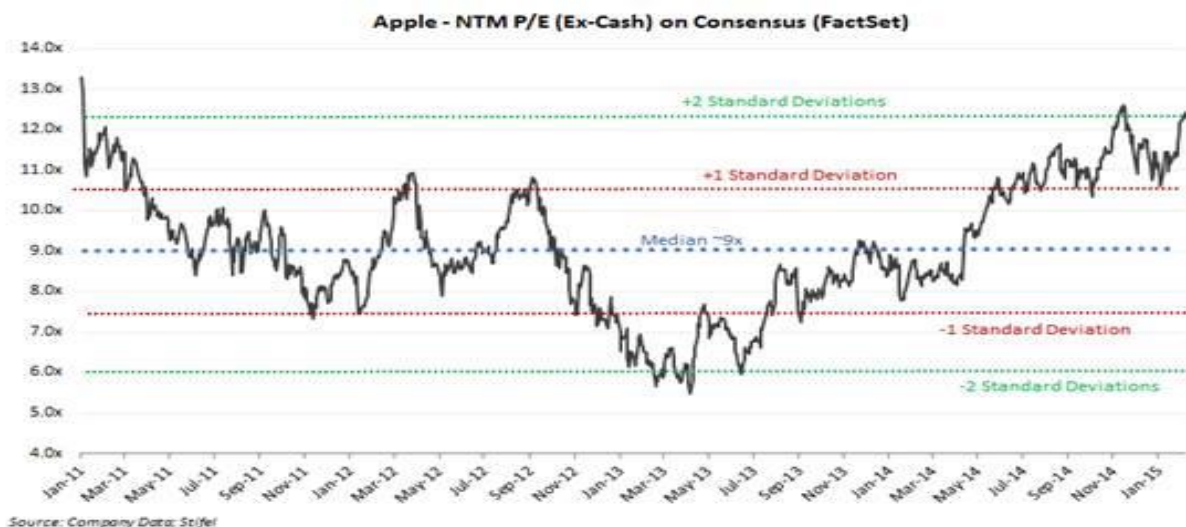
	Recent FY End	Foreign Earnings Held for Indefinite Reinvestment Outside U.S. (Cumulative)					(A) Absolute Increase 2010-2014	Pre-Tax Earnings from Foreign Subsidiaries					(B) Cumulative Foreign Pre-Tax Earnings 2010-2014	(A ÷ B = C) Indef. Reinv / Foreign Earn. 2010-2014	Foreign Pre-Tax Earnings % of Total 2010-2014
		2010	2011	2012	2013	2014		2010	2011	2012	2013	2014			
Apple	Sep-14	\$12,300	\$23,400	\$40,400	\$54,400	\$69,700	\$64,600	\$13,000	\$24,000	\$36,800	\$30,500	\$33,600	\$137,900	46.8%	65.0%
Microsoft	Jun-14	\$29,500	\$44,800	\$60,800	\$76,400	\$92,900	\$74,900	\$15,438	\$19,209	\$20,667	\$20,378	\$20,693	\$96,385	77.7%	75.6%
Intel	Dec-14	\$11,800	\$14,200	\$17,500	\$20,000	\$23,300	\$13,200	\$2,119	\$3,122	\$4,831	\$3,237	\$4,236	\$17,545	75.2%	22.8%
Google	Dec-14	\$17,500	\$24,800	\$33,300	\$38,900	\$47,400	\$35,100	\$5,878	\$7,633	\$8,021	\$8,855	\$9,323	\$39,710	88.4%	56.1%
Oracle	May-14	\$13,000	\$16,100	\$20,900	\$26,200	\$32,400	\$23,500	\$3,961	\$5,033	\$6,678	\$7,284	\$8,307	\$31,263	75.2%	51.9%

**Effective Tax Rate & Tax Rate Impact from Foreign Earnings**

	Reported Effective Tax Rate (%)					Average 2010-2014	Impact of Foreign Earnings on Effective Tax Rate					Average 2010-2014
	2010	2011	2012	2013	2014		2010	2011	2012	2013	2014	
Apple	24.4%	24.2%	25.2%	26.2%	26.1%	25.2%	-11.5%	-11.4%	-10.6%	-9.2%	-8.9%	-10.3%
Microsoft	23.0%	17.5%	23.8%	19.2%	20.7%	20.8%	-21.1%	-15.6%	-21.1%	-17.5%	-17.1%	-18.5%
Intel	26.0%	27.2%	26.0%	23.7%	25.9%	25.8%	-3.4%	-4.4%	-7.3%	-5.8%	-6.1%	-5.4%
Google	21.2%	21.0%	20.2%	16.1%	19.3%	19.5%	-16.4%	-16.2%	-15.3%	-16.7%	-13.9%	-15.7%
Oracle	25.6%	25.1%	23.0%	21.4%	20.1%	23.0%	-8.2%	-9.9%	-11.4%	-11.8%	-13.1%	-10.8%

Source: Company Data; Stifel







**Target Price Methodology/Risks**

Our \$150 target price reflects a weighted valuation methodology using a 16.2x P/E, ~10x EV/EBITDA, and 12.3x EV/FCF multiples on our Calendar 2015 estimates. Risks to our target price include: (1) Reinventing product momentum - can Apple sustain current level of product innovation?; (2) Emerging competition for iPad and MacBook Air; (3) Wireless carriers looking to push back on iPhone subsidies; (4) Slowdown in Chinese growth impacting expanding operations in the country; (5) Legal disputes (e.g. Samsung tablet litigation); and (6) Execution missteps.

**Company Description**

Apple designs, manufactures and markets personal computers (Mac) and other personal computing (iPad, iPod touch) and mobile communication (iPhone) devices. The company also operates a digital music store through its iTunes application and offers a large variety of downloadable applications for its devices through the App Store. Apple also features its own operating systems, the iOS and Mac OS X, for use in its products. The company sells its products through its online store, growing retail locations, direct sales force, and 3rd party cellular network carriers to a variety of end markets including consumer, small and medium-sized businesses, education, enterprise, government and creative markets. The company was founded in 1976 and is headquartered in Cupertino, CA.

## Apple Inc

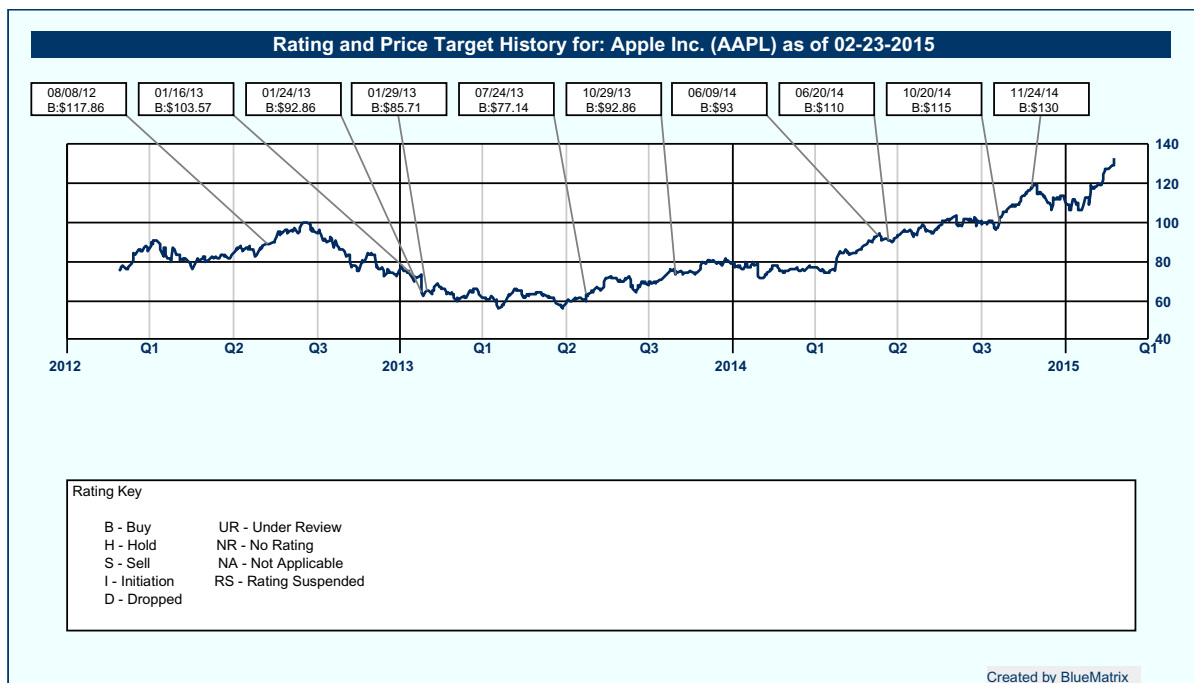
## Income Statement Summary

(\$ in Millions, Except per Share; Units Shipped in Millions)

	FY2013 Total	F1Q14 Dec-13	F2Q14 Mar-14	FY2014 F3Q14 Jun-14	F4Q14 Sep-14	Total	Last Rptd	Stifel == Estimates ==>	FY2015 F3Q15E Jun-15	F4Q15E Sep-15	Total	FY2016 F3Q16E Jun-16	F4Q16E Sep-16	Total	FY2017 F3Q17E Jun-17	F4Q17E Sep-17	Total	CY2013	Calendar Year CY2014	CY2015E	CY2016E					
Units Shipped (M)																										
Macs	16.34	4.84	4.14	4.41	5.52	18.91	5.52	4.88	5.27	6.48	22.15	6.65	6.01	6.32	6.81	25.79	6.79	6.33	6.73	7.25	27.10	17.12	19.59	23.28	25.93	
Apple Watch									3.30	3.96	7.26	4.55	7.74	5.42	5.96	23.68	6.32	10.11	7.08	7.43	30.94			11.81	25.44	
iPad	71.03	26.04	16.35	13.28	12.32	67.98	21.42	12.85	11.57	11.22	57.06	19.30	11.96	10.77	10.55	52.58	16.36	12.27	11.65	11.65	51.93	74.21	63.36	54.93	49.64	
iPhone	150.26	51.03	43.72	35.20	39.27	169.22	74.47	53.62	42.36	46.17	216.61	71.56	59.40	47.52	51.32	229.80	74.41	55.81	50.23	52.74	233.19	153.49	192.66	213.71	232.65	
Total Units	264.01	87.95	66.97	55.82	59.75	270.48	101.41	71.35	62.49	67.83	303.08	102.07	85.11	70.03	74.64	331.85	103.88	84.52	75.69	79.07	343.16	264.57	283.94	303.74	333.66	
ASPs (\$/Unit)																										
Macs	\$1,315	\$1,322	\$1,334	\$1,255	\$1,200	\$1,274	\$1,258	\$1,300	\$1,250	\$1,250	\$1,263	\$1,280	\$1,230	\$1,190	\$1,170	\$1,217	\$1,220	\$1,150	\$1,140	\$1,130	\$1,160	\$1,306	\$1,257	\$1,269	\$1,202	
Apple Watch									\$475	\$470	\$472	\$475	\$450	\$470	\$470	\$464	\$460	\$445	\$440	\$440	\$440	\$461			\$473	\$461
iPad	\$450	\$440	\$465	\$444	\$432	\$445	\$419	\$410	\$420	\$420	\$418	\$430	\$420	\$420	\$425	\$425	\$430	\$420	\$420	\$420	\$425	\$442	\$439	\$421	\$424	
iPhone	\$607	\$637	\$596	\$561	\$603	\$603	\$687	\$670	\$650	\$635	\$665	\$680	\$660	\$650	\$640	\$660	\$670	\$645	\$640	\$630	\$649	\$607	\$626	\$662	\$657	
Total Unit ASPs (\$/unit)	\$565	\$584	\$592	\$567	\$603	\$587	\$662	\$666	\$649	\$649	\$657	\$663	\$647	\$649	\$644	\$652	\$655	\$626	\$632	\$628	\$637	\$573	\$614	\$658	\$650	
Sales (\$M)																										
Macs	\$21,483	\$6,395	\$5,519	\$5,540	\$6,625	\$24,079	\$6,944	\$6,343	\$6,587	\$8,101	\$27,976	\$8,517	\$7,393	\$7,522	\$7,962	\$31,394	\$8,288	\$7,279	\$7,673	\$8,188	\$31,428	\$22,359	\$24,628	\$29,549	\$31,166	
Apple Watch								\$0	\$1,568	\$1,861	\$3,429	\$2,163	\$3,484	\$2,547	\$2,802	\$10,996	\$2,907	\$4,499	\$3,114	\$3,270	\$13,789			\$5,592	\$11,739	
iPad	\$31,980	\$11,468	\$7,610	\$5,889	\$5,316	\$30,283	\$8,985	\$5,269	\$4,858	\$4,712	\$23,824	\$8,298	\$5,025	\$4,522	\$4,485	\$22,330	\$7,033	\$5,152	\$4,895	\$4,953	\$22,033	\$32,774	\$27,800	\$23,137	\$21,065	
iPhone	\$91,279	\$32,498	\$26,064	\$19,751	\$23,678	\$101,991	\$51,182	\$35,923	\$27,532	\$29,318	\$143,955	\$48,663	\$39,202	\$30,887	\$32,844	\$151,596	\$49,857	\$35,997	\$32,146	\$33,226	\$151,226	\$93,117	\$120,675	\$141,436	\$152,789	
Services (iTunes/App Store/ Apple Pay etc.)	\$16,051	\$4,397	\$4,573	\$4,485	\$4,608	\$18,063	\$4,799	\$4,943	\$4,844	\$5,086	\$19,672	\$5,341	\$5,447	\$5,338	\$5,766	\$21,892	\$6,112	\$6,417	\$6,289	\$6,918	\$25,735	\$16,761	\$18,465	\$20,214	\$22,663	
Other Products	\$5,706	\$1,863	\$1,419	\$1,325	\$1,486	\$6,093	\$2,689	\$1,882	\$1,769	\$1,982	\$8,322	\$2,873	\$2,500	\$2,625	\$2,704	\$10,702	\$3,920	\$3,528	\$3,705	\$3,816	\$14,969	\$5,740	\$6,919	\$8,507	\$11,749	
Revenue	\$170,910	\$57,594	\$45,646	\$37,432	\$42,123	\$182,795	\$74,599	\$54,361	\$47,158	\$51,060	\$227,179	\$75,854	\$63,051	\$53,442	\$56,562	\$248,909	\$78,117	\$62,873	\$57,821	\$60,370	\$259,181	\$173,992	\$199,800	\$228,434	\$251,171	
Cost of Sales	\$106,606	\$35,748	\$27,699	\$22,697	\$26,114	\$112,258	\$44,858	\$33,051	\$28,955	\$31,555	\$138,420	\$46,650	\$39,092	\$33,348	\$35,464	\$154,654	\$48,823	\$39,484	\$36,427	\$38,154	\$162,888	\$108,902	\$121,368	\$140,212	\$156,727	
Gross Margin	\$64,304	\$21,846	\$17,947	\$14,735	\$16,009	\$70,537	\$29,741	\$21,310	\$18,203	\$19,505	\$88,759	\$29,204	\$23,959	\$20,094	\$21,098	\$94,355	\$29,294	\$23,389	\$21,394	\$22,216	\$96,292	\$65,090	\$78,432	\$88,222	\$94,445	
Operating Expenses																										
R&D	\$4,475	\$1,330	\$1,422	\$1,603	\$1,686	\$6,041	\$1,895	\$1,957	\$2,146	\$2,247	\$8,244	\$2,465	\$2,554	\$2,538	\$2,602	\$10,159	\$2,812	\$2,798	\$2,775	\$2,777	\$11,162	\$4,795	\$6,606	\$8,815	\$10,506	
SG&A	\$10,830	\$3,053	\$2,932	\$2,850	\$3,158	\$11,993	\$3,600	\$3,479	\$3,395	\$3,574	\$14,049	\$3,944	\$3,783	\$3,687	\$3,846	\$15,261	\$4,257	\$4,024	\$3,932	\$4,117	\$16,330	\$11,043	\$12,540	\$14,393	\$15,574	
Total Operating Expenses	\$15,305	\$4,383	\$4,354	\$4,453	\$4,844	\$18,034	\$5,495	\$5,436	\$5,541	\$5,821	\$22,293	\$6,410	\$6,337	\$6,226	\$6,448	\$25,420	\$7,070	\$6,822	\$6,702	\$6,894	\$27,493	\$15,838	\$19,146	\$23,208	\$26,080	
Operating Income (EBIT)	\$48,999	\$17,463	\$13,593	\$10,282	\$11,165	\$52,503	\$24,246	\$15,873	\$12,662	\$13,684	\$66,466	\$22,794	\$17,623	\$13,868	\$14,650	\$68,935	\$22,224	\$16,567	\$14,687	\$15,322	\$68,800	\$49,252	\$59,286	\$65,014	\$68,365	
EBITDA	\$55,756	\$19,607	\$15,480	\$12,228	\$13,134	\$60,449	\$26,848																			
Other Income & Expenses	\$1,156	\$246	\$225	\$202	\$307	\$980	\$170	\$350	\$350	\$350	\$1,220	\$350	\$350	\$350	\$350	\$1,400	\$350	\$350	\$350	\$350	\$1,400	\$940	\$904	\$1,400	\$1,400	
Pretax Income	\$50,155	\$17,709	\$13,818	\$10,484	\$11,472	\$53,483	\$24,416	\$16,223	\$13,012	\$14,034	\$67,686	\$23,144	\$17,973	\$14,218	\$15,000	\$70,335	\$22,574	\$16,917	\$15,037	\$15,672	\$70,200	\$50,192	\$60,190	\$66,414	\$68,163	
Taxes	\$13,118	\$4,637	\$3,595	\$2,736	\$3,005	\$13,973	\$6,392	\$4,267	\$3,422	\$3,691	\$17,772	\$6,087	\$4,727	\$3,739	\$3,945	\$18,498	\$6,095	\$4,568	\$4,060	\$4,231	\$18,954	\$13,161	\$15,728	\$17,467	\$18,506	
Net Income (Non-GAAP)	\$37,037	\$13,072	\$10,223	\$7,748	\$8,467	\$39,510	\$18,024	\$11,957	\$9,590	\$10,343	\$49,914	\$17,057	\$13,246	\$10,479	\$11,055	\$51,837	\$16,479	\$12,349	\$10,977	\$11,441	\$51,246	\$37,031	\$44,462	\$48,947	\$49,657	
EPS (Non-GAAP; Headline)	\$5.66	\$2.07	\$1.66	\$1.28	\$1.42	\$6.43	\$3.06	\$2.06	\$1.67	\$1.82	\$8.61	\$3.01	\$2.36	\$1.88	\$1.99	\$9.24	\$2.98	\$2.23	\$1.98	\$2.07	\$9.26	\$5.75	\$7.39	\$8.54	\$9.20	
Fully Diluted Shares	6,522	6,310	6,157	6,052	5,972	6,123	5,882	5,812	5,752	5,692	5,764	5,662	5,622	5,582	5,542	5,602	5,537	5,532	5,532	5,522	5,531					
Margin Summary																										
Gross Margin	37.6%	37.9%	39.3%	39.4%	38.0%	38.6%	39.9%	39.2%	38.6%	38.2%	39.1%	38.5%	38.0%	37.6%	37.3%	37.9%	37.5%	37.2%	37.0%	36.8%	37.2%	37.4%	39.3%	38.6%	37.6%	
Operating Margin (EBIT)	28.7%	30.3%	29.8%	27.5%	26.5%	28.7%	32.5%	29.2%	26.9%	26.8%	29.3%	30.1%	28.0%	26.0%	25.9%	27.7%	28.5%	26.4%	25.4%	25.4%	26.5%	28.3%	29.7%	28.5%	27.2%	
-- Operating Expenses - % of Rev.	9.0%	7.6%	9.5%	11.9%	11.5%	9.9%	7.4%	10.0%	11.8%	11.4%	9.8%	8.5%	10.1%	11.7%	11.4%	10.2%	9.1%	10.9%	11.6%	11.4%	10.6%	9.1%	9.6%	10.2%	10.4%	
EBITDA Margin	32.6%	34.0%	33.9%	32.7%	31.2%	33.1%	36.0%																			
Pretax Margin	29.3%	30.7%	30.3%	28.0%	27.2%	29.3%	32.7%	29.8%	27.6%	27.5%	29.8%	30.5%	28.5%	26.6%	26.5%	28.3%	28.9%	26.9%	26.0%	26.0%	27.1%	28.8%	30.1%	29.1%	27.1%	
Tax Rate	26.2%	26.2%	26.0%	26.1%	26.2%	26.1%	26.2%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	27.0%	27.0%	27.0%	27.0%	27.0%	26.2%	26.1%	26.3%	27.1%	
Net Income Margin	21.7%	22.7%	22.4%	20.7%	20.1%	21.6%	24.2%	22.0%	20.3%	20.3%	22.0%	22.5%	21.0%	19.6%	19.5%	20.8%	21.1%	19.6%	19.0%	19.0%	19.8%	21.3%	22.3%	21.4%	19.8%	
Yr/Yr Growth %																										
Revenue	9.2%	5.7%	4.7%	6.0%	12.4%	7.0%	29.5%	19.1%	26.0%	21.2%	24.3%	1.7%	16.0%	13.3%	10.8%	36.2%	3.0%	-0.3%	8.2%	6.7%	14.1%	5.7%	14.8%	14.3%	10.0%	
Gross Profit	-6.3%	3.7%	9.8%	13.1%	15.4%	9.7%	36.1%	18.7%	23.5%	21.8%	25.8%	-1.8%	12.4%	10.4%	8.2%	33.8%	0.3%									

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**HOLD** --For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

**SELL** -For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value. For other non-U.S. securities we expect the stock to underperform the MSCI World Index by more than 10% over the next 12 months and believe the stock could decline in value.

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