

Apple Inc.

The EU DMA flexes its muscle; Apple responds with changes

Maintain Rating: BUY | PO: 225.00 USD | Price: 194.17 USD

Updated iOS, Safari, and App store changes in the EU

Apple announced on January 25th changes to apps distributed in the EU to comply with the DMA that will begin in March 2024. The changes are (1) alternative distribution on iOS, (2) alternative web browser engines, (3) contactless payment transactions in banking & wallet apps, (4) expanded defaults app controls, (5) interoperability requests, (6) alternative payments on the App Store, and (7) expanded developer analytics & user data. We maintain our Buy rating on Apple given positive estimate revisions, margin expansion and growth in Services. Apple was recently added to the US1 List at BoFA.

Our estimate of impact to Apple revenue ex-CTF

Taking a look at the impact of the announced changes (Figure 1), we estimate that the changes could be an annual headwind to Apple revenue in the range of \$388mn to \$563mn (ex-Core Technology Fee (CTF)) if all the developers chose to be on the App Store (depending on how much rev was subscription apps vs one time downloads). In CY23, Apple had ~\$26bn in revenue from the app store globally and total Apple revenue in CY23 was ~\$385bn. We estimate the total impact to annual Apple revenue from the app store is ~1.5% to 2.0% and the total impact to annual Apple revenue is ~10-15bps.

Core Technology Fee for iOS apps to the rescue

Apple is adding the Core Technology Fee to business in the EU to reflect the value add from Apple to developers. Developers can choose to remain on the current App Store business terms or adopt the new terms for iOS in the EU. Developers that choose the new terms will be permitted 1mn “first annual installs” (reinstallation by the same account in a 12-month period is just one “first annual install”) in the EU for free. After the first million annual installs, the developer will pay a CTF of €0.50. A fee waiver is available for nonprofit organizations, accredited educational institutions, and government entities. Apple estimates that less than 1% of developers would pay a CTF. However, the most popular apps have downloads that cumulatively could run into the billions and could provide a substantial offset to the lowered app store take rates. Net-net, depending on which apps choose to move to the new system (creates friction for developers and users), the impact to Apple could be relatively low based on the fact that the most popular apps will have lower take rates but an offsetting higher CTF.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.11	6.13	6.73	7.62	8.17
GAAP EPS	6.12	6.12	6.73	7.62	8.17
EPS Change (YoY)	8.9%	0.3%	9.8%	13.2%	7.2%
Consensus EPS (Bloomberg)			6.63	7.15	7.86
DPS	0.90	0.94	0.99	1.04	1.09
Valuation (Sep)					
P/E	31.8x	31.7x	28.9x	25.5x	23.8x
GAAP P/E	31.7x	31.7x	28.9x	25.5x	23.8x
Dividend Yield	0.5%	0.5%	0.5%	0.5%	0.6%
EV / EBITDA*	22.6x	23.4x	21.6x	19.5x	18.5x
Free Cash Flow Yield*	3.7%	3.3%	3.4%	3.5%	3.8%

* For full definitions of *IQmethod*SM measures, see page 5.

26 January 2024

Equity

Wamsi Mohan
Research Analyst
BoFA
+1 646 855 3854
wamsi.mohan@bofa.com

Ruplu Bhattacharya
Research Analyst
BoFA
+1 646 855 0315
ruplu.bhattacharya@bofa.com

Joseph Leeman
Research Analyst
BoFA
+1 646 855 1262
joseph.leeman@bofa.com

Nathawan Asdornwised
Research Analyst
BoFA
+1 646 855 1848
nathawan.asdornwised@bofa.com

Stock Data

Price	194.17 USD
Price Objective	225.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-7
52-Week Range	141.32 USD - 199.62 USD
Mkt Val (mn) / Shares Out (mn)	3,002,236 USD / 15,461.9
Free Float	94.0%
Average Daily Value (mn)	10971.16 USD
BoFA Ticker / Exchange	AAPL / NAS
Bloomberg / Reuters	AAPL US / AAPL.OQ
ROE (2024E)	134.9%
Net Dbt to Eqty (Sep-2023A)	130.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BoFA ESGMeter Methodology"](#).

DMA: Digital Markets Act
EU: European Union

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Timestamp: 26 January 2024 12:26AM EST

iQprofileSM Apple Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	46.6%	47.5%	47.9%	46.9%	40.8%
Return on Equity	175.5%	171.9%	134.9%	105.0%	73.5%
Operating Margin	32.1%	31.8%	32.7%	33.4%	33.6%
Free Cash Flow	111,443	99,584	102,080	106,448	115,160

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.0x	1.0x	1.4x	1.3x	1.2x
Tax Rate	16.2%	14.7%	16.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	190.3%	130.5%	69.1%	38.5%	-3.4%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	394,328	383,285	405,214	438,715	456,672
% Change	7.8%	-2.8%	5.7%	8.3%	4.1%
Gross Profit	172,026	170,452	184,642	202,566	211,847
% Change	11.7%	-0.9%	8.3%	9.7%	4.6%
EBITDA	137,601	133,300	144,113	159,707	168,394
% Change	8.5%	-3.1%	8.1%	10.8%	5.4%
Net Interest & Other Income	(291)	(765)	(755)	(656)	(395)
Net Income (Adjusted)	99,803	96,995	104,167	115,427	121,118
% Change	5.4%	-2.8%	7.4%	10.8%	4.9%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	105,764	103,187	110,803	122,416	128,460
Depreciation & Amortization	11,104	11,519	11,449	13,318	15,071
Change in Working Capital	1,200	(6,577)	(5,228)	(13,069)	(11,502)
Deferred Taxation Charge	895	0	0	0	0
Other Adjustments, Net	3,188	2,414	1,264	1,331	1,398
Capital Expenditure	(10,708)	(10,959)	(16,209)	(17,549)	(18,267)
Free Cash Flow	111,443	99,584	102,080	106,448	115,160
% Change	19.9%	-10.6%	2.5%	4.3%	8.2%
Share / Issue Repurchase	(89,402)	(77,550)	(76,000)	(76,000)	(43,000)
Cost of Dividends Paid	(14,841)	(14,875)	(15,318)	(15,751)	(16,190)
Change in Debt	(4,078)	(5,923)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	23,646	29,965	41,499	56,195	112,166
Trade Receivables	28,184	29,508	38,734	46,017	56,216
Other Current Assets	83,575	84,093	84,947	85,065	85,679
Property, Plant & Equipment	42,117	43,715	51,301	58,820	65,737
Other Non-Current Assets	175,233	165,302	165,852	166,407	166,968
Total Assets	352,755	352,583	382,333	412,504	486,765
Short-Term Debt	21,110	15,807	10,000	10,000	10,000
Other Current Liabilities	132,872	129,501	134,886	129,768	129,637
Long-Term Debt	98,959	95,281	95,281	95,281	95,281
Other Non-Current Liabilities	49,142	49,848	49,865	49,871	49,873
Total Liabilities	302,083	290,437	290,032	284,920	284,791
Total Equity	50,672	62,146	92,301	127,585	201,974
Total Equity & Liabilities	352,755	352,583	382,333	412,504	486,765

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

IT Hardware

Company Description

Apple Inc. (AAPL) designs, manufactures, and markets consumer electronics and computers, and has developed its own proprietary iOS, Mac OS, tvOS and Watch OS operating systems and related software platform/ecosystem.

Revenues are principally derived from the iPhone line of smartphones, Services, hardware sales of the Macintosh family of notebook and desktop computers, iPad tablets, and wearables.

Investment Rationale

Our Buy rating on Apple is based on: 1) expected strong iPhone upgrade cycle in F25 driven by the need for latest hardware to enable Gen AI features, 2) higher growth in Services revenue, 3) higher margins from more internally developed silicon, 4) continuing capital returns, 5) AI features that can drive higher institutional ownership, and 6) risk around legal issues being manageable.

Stock Data

Average Daily Volume 56,298,824

Quarterly Earnings Estimates

	2023	2024
Q1	1.88A	2.10E
Q2	1.52A	1.62E
Q3	1.26A	1.39E
Q4	1.46A	1.61E

Apple app store EU rev change estimates

Figure 1: Estimate of impact to Apple revenues

We estimate the EU app store changes could be a \$388mn to \$563mn annual headwind to Apple

Scenario 1	One-time subscriptions – 50%	Recurring subscriptions – 50%
EU rev to developers	\$2,303mn	\$2,303mn
Developer rev % of total	70%	85%
Total EU rev	\$3,291mn	\$2,710mn
AAPL old take rate	30%	15%
AAPL old EU rev	\$987mn	\$406mn
AAPL new take rate	17%	10%
AAPL new EU rev	\$559mn	\$271mn
Difference	\$428mn	\$135mn
Total difference	\$563mn	

Scenario 2	One-time subscriptions – 20%	Recurring subscriptions – 80%
EU rev to developers	\$921mn	\$3,686mn
Developer rev % of total	70%	85%
Total EU rev	\$1,316mn	\$4,336mn
AAPL old take rate	30%	15%
AAPL old EU rev	\$395mn	\$650mn
AAPL new take rate	17%	10%
AAPL new EU rev	\$224mn	\$434mn
Difference	\$171mn	\$217mn
Total difference	\$388mn	

Source: Sensor Tower, BofA Global Research estimates

Note: We include credit card processing at Apple in these estimates

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Figure 2: CY23 CTF estimate

We estimate the CTF in 2023 could have been as high as \$731mn

CY23 CTF in EUR (\$mn)	673
EURUSD	1.08
CY23 CTF in USD (\$mn)	731
Total downloads after first million by publisher	1,346,918,231

Source: Sensor Tower, BofA Global Research estimates

Note: We cannot filter out repetitive downloads in the data

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Price objective basis & risk

Apple Inc. (AAPL)

Our PO of \$225 is based on approximately 32x our C24E EPS. Our target multiple compares to the 5-year historical range of 16-34x (median 27x). We believe a multiple at the higher end of the historical range is justified given a large cash balance and opportunity to diversify into new end markets, increasing mix and diversity of services.

Downside risks are: a) weaker iPhone 15 cycle on consumer spending risk, b) weaker near-term services trajectory where App Store & Licensing can decelerate, c) gross profit dollars declining y/y next few quarters, d) iPads/Macs reverting to pre-COVID levels, and e) stronger dollar. Other risks are potential trade conflicts, tariffs, longer iPhone replacement cycles, commoditization in the smartphone market, intensifying competition in the tablet market, ability to manage beat and raise expectations for EPS estimates, and requirement to maintain pace of product innovation.

Upside risks are: a) stronger sales of Pro iPhone models which can help average selling price and help the mix of the business, b) est. revisions can be lower vs. peers, c) potential new products (AR/VR), and services (advertising). Other upside risks are stronger than expected iPhone cycle, gross margin upside from better mix of higher end iPhones, tailwinds from lower memory costs, and a faster than expected recovery in emerging markets.

Analyst Certification

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US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
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	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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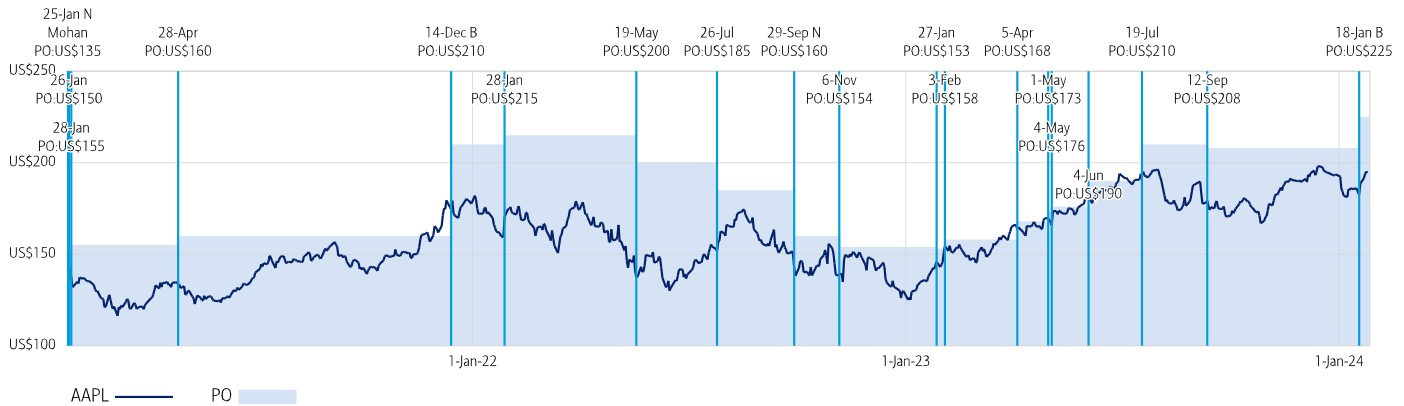
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Apple Inc. (AAPL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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