

Apple Inc.

iPhone has gained market share (rev and units) despite weak smartphone market

Maintain Rating: BUY | PO: 225.00 USD | Price: 172.75 USD

Apple's pricing strategy is driving both unit and rev share

The first iPhone, launched in 2007, was priced at \$499 (4GB) and \$599 (8GB). Fast forward to 17 years later, Apple now offers iPhones with prices ranging from \$429 to \$1,599. Every year, the company launches new iPhones with Pro/Pro Max model to capture premium market consumer demand, while reducing prices of previous iPhone models around \$100 for each iteration (Fig 1). In our opinion, this pricing strategy, along with installment plans introduced by Apple and carriers, has led to the iPhone installed base reaching record level of 1.2bn in 2023. Despite slower unit sales, Apple has been able to drive the mix of units to higher value (See Fig 2), which in our opinion will continue as a long-term trend, thereby offsetting some of the potential unit weakness in China. Apple dominates the \$1,000 and above price band with a consistent ~90%+ market share for the last three years (Fig 9). Maintain Buy given multi-year iPhone cycle driven by GenAI, strong services growth, and margin expansion.

Steady increase in market share despite lower unit sales

Although iPhone units shipped have been declining for the last three years (Fig 4), partly attributable to slower sales in China, Apple has been able to consistently grow its iPhone market share (both rev share Fig 3, and unit share Figure 12). In 2023, iPhone recorded 18.8% (+10bps y/y) of total unit share in the smartphone market compared to 18.7% (+190bps y/y) in 2022. Similarly, Apple's rev market share consistently grew over the last three years. In 2023, Apple saw rev market share increase in the following price bands: \$500-599, \$400-499, \$800-899, and \$1000+, respectively (Fig 5, 7, and 9).

Used iPhone accounts for a larger % of the installed base

The % of used iPhone in the installed base has been increasing since 2018 (Fig 11), accounting for 34% of the installed base in 2023. We expect those who choose to buy used iPhones will slowly over time move to buy new iPhones and those that buy new iPhones will keep up with the iPhone refresh cycle of approximately every 4 years.

Meaningful increase in Services rev per installed base

The monetization of services revenue per installed base device (Fig 14) has climbed meaningfully over time to \$73.01 in 2023 from \$50.59 in 2019. We expect continued increase in monetization of Services rev per installed base device.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.11	6.13	6.70	7.59	8.16
GAAP EPS	6.12	6.12	6.70	7.59	8.16
EPS Change (YoY)	8.9%	0.3%	9.3%	13.3%	7.5%
Consensus EPS (Bloomberg)			6.61	7.20	7.80
DPS	0.90	0.94	0.99	1.04	1.09
Valuation (Sep)					
P/E	28.3x	28.2x	25.8x	22.8x	21.2x
GAAP P/E	28.2x	28.2x	25.8x	22.8x	21.2x
Dividend Yield	0.5%	0.5%	0.6%	0.6%	0.6%
EV / EBITDA*	20.3x	20.9x	19.5x	17.7x	16.8x
Free Cash Flow Yield*	4.2%	3.7%	3.8%	4.0%	4.3%

* For full definitions of *IQmethod*SM measures, see page 10.

12 March 2024

Equity

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Stock Data

Price	172.75 USD
Price Objective	225.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-7
52-Week Range	147.70 USD - 199.62 USD
Mkt Val (mn) / Shares Out	2,671,043 USD / 15,461.9 (mn)
Free Float	94.0%
Average Daily Value (mn)	10546.99 USD
BoFA Ticker / Exchange	AAPL / NAS
Bloomberg / Reuters	AAPL US / AAPL.OQ
ROE (2024E)	139.3%
Net Dbt to Eqty (Sep-2023A)	130.5%
ESGMeter™	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](#)".

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Timestamp: 12 March 2024 05:00AM EDT

iQprofileSM Apple Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	46.6%	47.5%	48.1%	47.7%	41.7%
Return on Equity	175.5%	171.9%	139.3%	111.3%	77.5%
Operating Margin	32.1%	31.8%	33.2%	33.4%	33.5%
Free Cash Flow	111,443	99,584	100,365	107,672	115,795

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	1.0x	1.2x	1.2x
Tax Rate	16.2%	14.7%	16.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	190.3%	130.5%	79.5%	44.1%	-2.0%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	394,328	383,285	396,240	434,681	455,001
% Change	7.8%	-2.8%	3.4%	9.7%	4.7%
Gross Profit	172,026	170,452	182,746	200,891	210,842
% Change	11.7%	-0.9%	7.2%	9.9%	5.0%
EBITDA	137,601	133,300	142,919	157,810	166,228
% Change	8.5%	-3.1%	7.2%	10.4%	5.3%
Net Interest & Other Income	(291)	(765)	(253)	(145)	128
Net Income (Adjusted)	99,803	96,995	103,600	114,933	120,936
% Change	5.4%	-2.8%	6.8%	10.9%	5.2%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	105,764	103,187	110,214	121,922	128,277
Depreciation & Amortization	11,104	11,519	11,511	12,520	13,645
Change in Working Capital	1,200	(6,577)	(10,603)	(12,885)	(11,599)
Deferred Taxation Charge	895	0	0	0	0
Other Adjustments, Net	3,188	2,414	1,320	1,331	1,398
Capital Expenditure	(10,708)	(10,959)	(12,076)	(15,216)	(15,927)
Free Cash Flow	111,443	99,584	100,365	107,672	115,795
% Change	19.9%	-10.6%	0.8%	7.3%	7.5%
Share / Issue Repurchase	(89,402)	(77,550)	(77,139)	(76,000)	(43,000)
Cost of Dividends Paid	(14,841)	(14,875)	(15,366)	(15,735)	(16,172)
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	36,295	52,232	108,855
Trade Receivables	28,184	29,508	39,019	46,356	56,612
Other Current Assets	83,575	84,093	85,731	85,885	86,502
Property, Plant & Equipment	42,117	43,715	45,926	50,411	54,643
Other Non-Current Assets	175,233	165,302	166,138	166,707	167,281
Total Assets	352,755	352,583	373,109	401,590	473,892
Short-Term Debt	21,110	15,807	10,000	10,000	10,000
Other Current Liabilities	132,872	129,501	131,138	126,301	126,146
Long-Term Debt	98,959	95,281	95,088	95,088	95,088
Other Non-Current Liabilities	49,142	49,848	50,311	50,322	50,325
Total Liabilities	302,083	290,437	286,537	281,710	281,559
Total Equity	50,672	62,146	86,573	119,880	192,333
Total Equity & Liabilities	352,755	352,583	373,109	401,590	473,892

* For full definitions of iQmethodSM measures, see page 10.

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 61,053,464

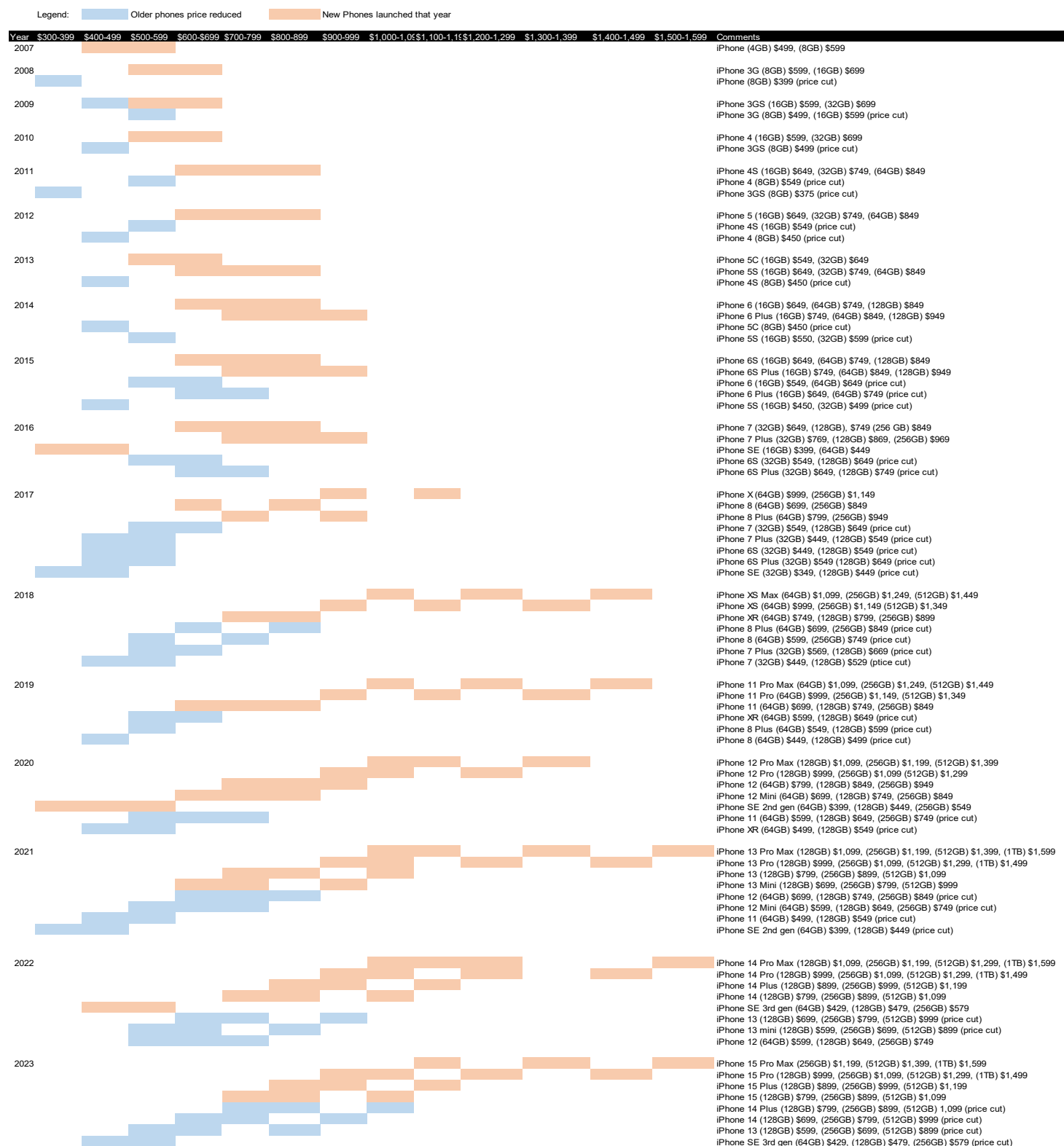
Quarterly Earnings Estimates

	2023	2024
Q1	1.88A	2.18A
Q2	1.52A	1.52E
Q3	1.26A	1.36E
Q4	1.46A	1.64E

Charts

Figure 1: iPhone price range, by year

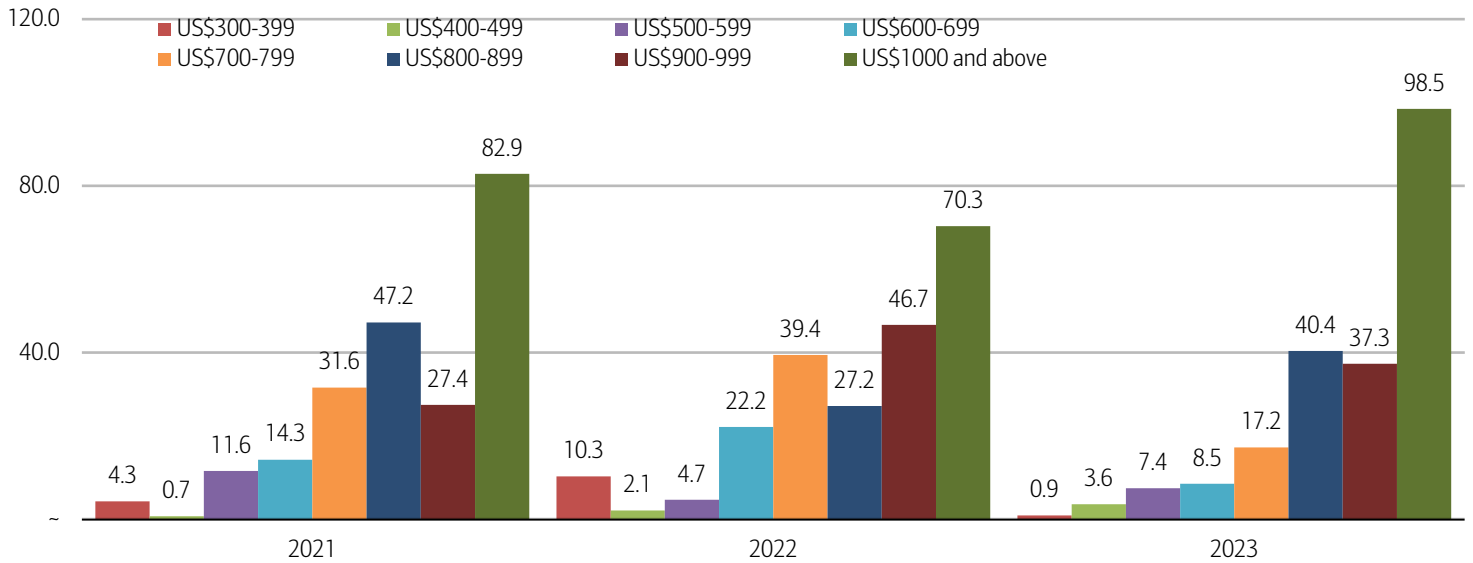
Over the years, Apple has been offering higher price iPhone but keep its low-end iPhones cheap through price cuts of older versions.



Source: Company website

Figure 2: iPhone units shipped per year, by price bands

Most of the iPhone units shipped are in the \$1,000 and above price band

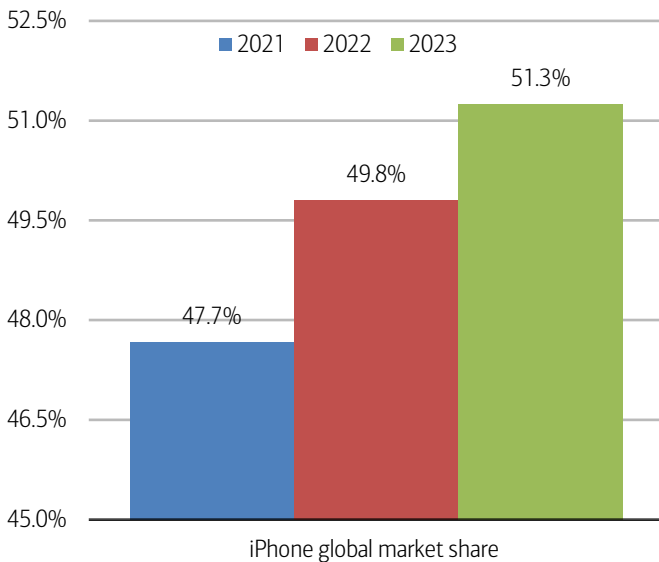


Source: Strategy Analytics

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Figure 3: iPhone revenue market share

Apple saw an increase in revenue market share over the last three years.

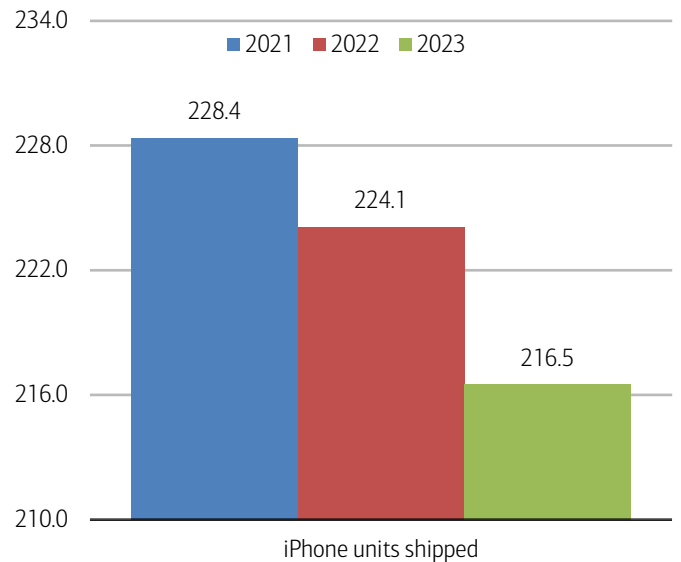


Source: Strategy Analytics

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Figure 4: iPhone units shipped

Apple saw a decline in iPhone units shipped over the last three years

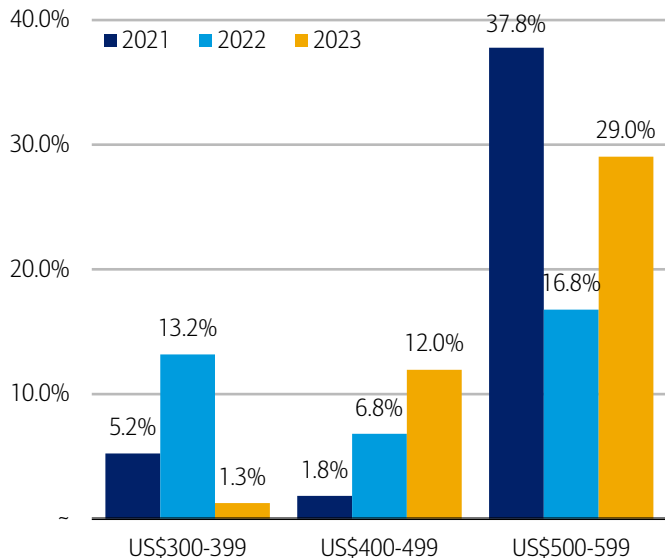


Source: Strategy Analytics

BofA GLOBAL RESEARCH

Figure 5: iPhone rev market share by price band (\$300-399, \$400-499, \$500-599)

In 2023, Apple saw an increase in iPhone rev market share in the \$400-499 and \$500-599 price bands.

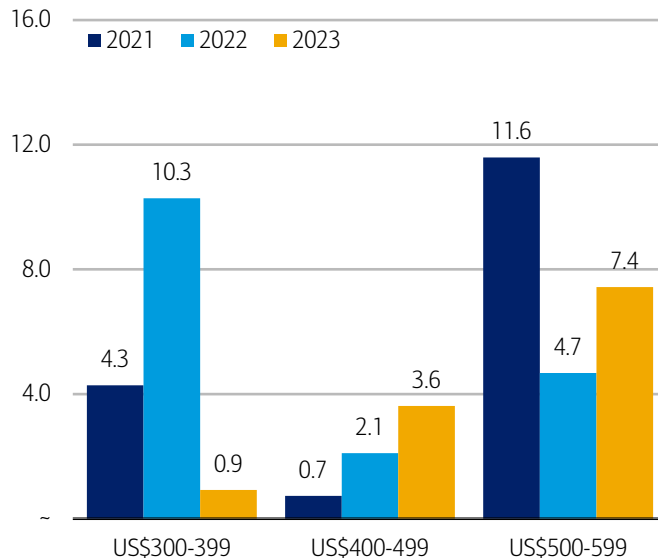


Source: Strategy Analytics

BofA GLOBAL RESEARCH

Figure 6: iPhone units shipped by price band (\$300-399, \$400-499, \$500-599)

In 2023, Apple saw an increase in iPhone units shipped in the \$400-499 and \$500-599 price bands.

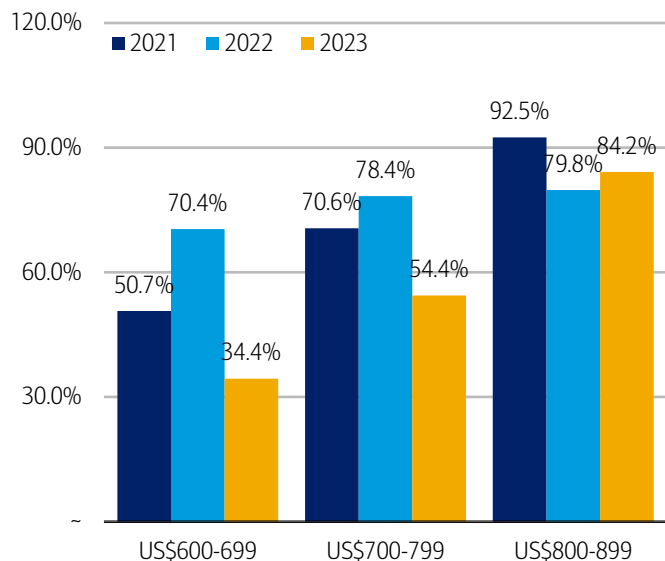


Source: Strategy Analytics

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Figure 7: iPhone rev market share by price band (\$600-699, \$700-799, \$800-899)

In 2023, Apple saw an increase in iPhone rev market share in the \$800-899 price band.

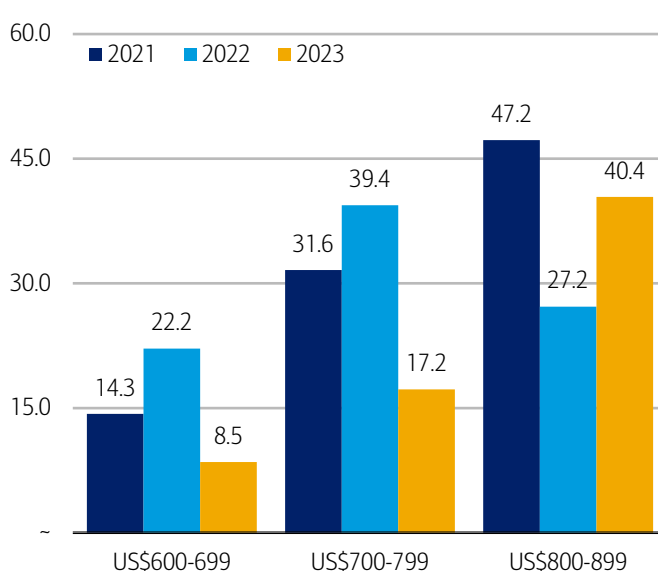


Source: Strategy Analytics

BofA GLOBAL RESEARCH

Figure 8: iPhone units shipped by price band (\$600-699, \$700-799, \$800-899)

In 2023, Apple saw an increase in iPhone units shipped in the \$800-899 price band.

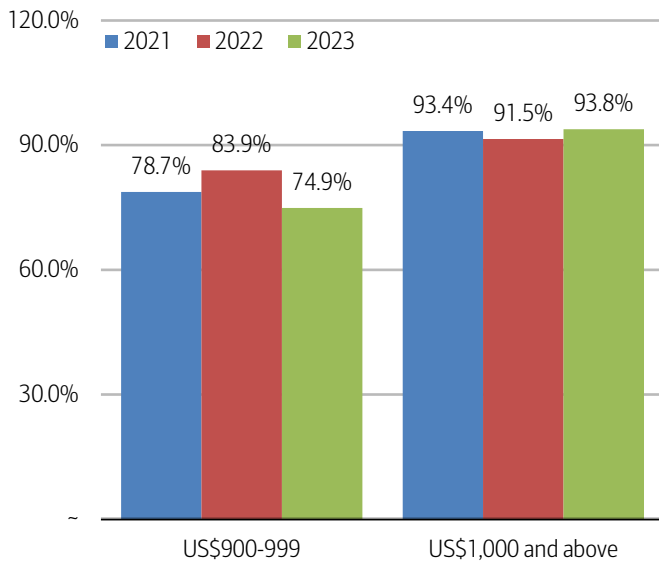


Source: Strategy Analytics

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Figure 9: iPhone rev market share by price band (\$900-999 and \$1000+)

In 2023, Apple saw an increase in iPhone rev market share in the \$1000+ price band.

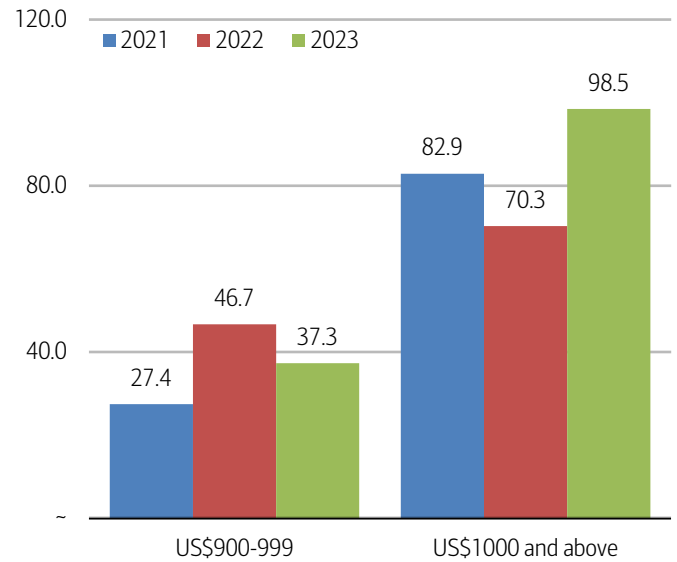


Source: Strategy Analytics

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Figure 10: iPhone units shipped by price band (\$900-999 and \$1000+)

In 2023, Apple saw an increase in iPhone units shipped in the \$1000+ price band.

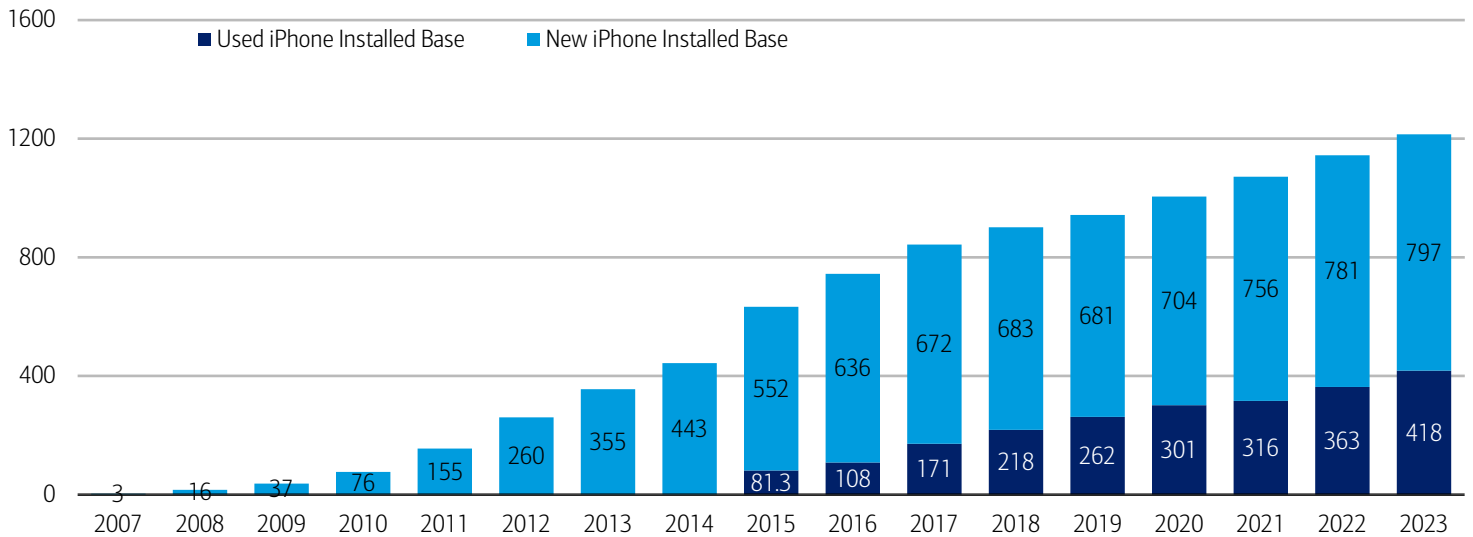


Source: Strategy Analytics

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Figure 11: iPhone global installed base, by year

iPhone global installed base was 1.215mn in CY23.

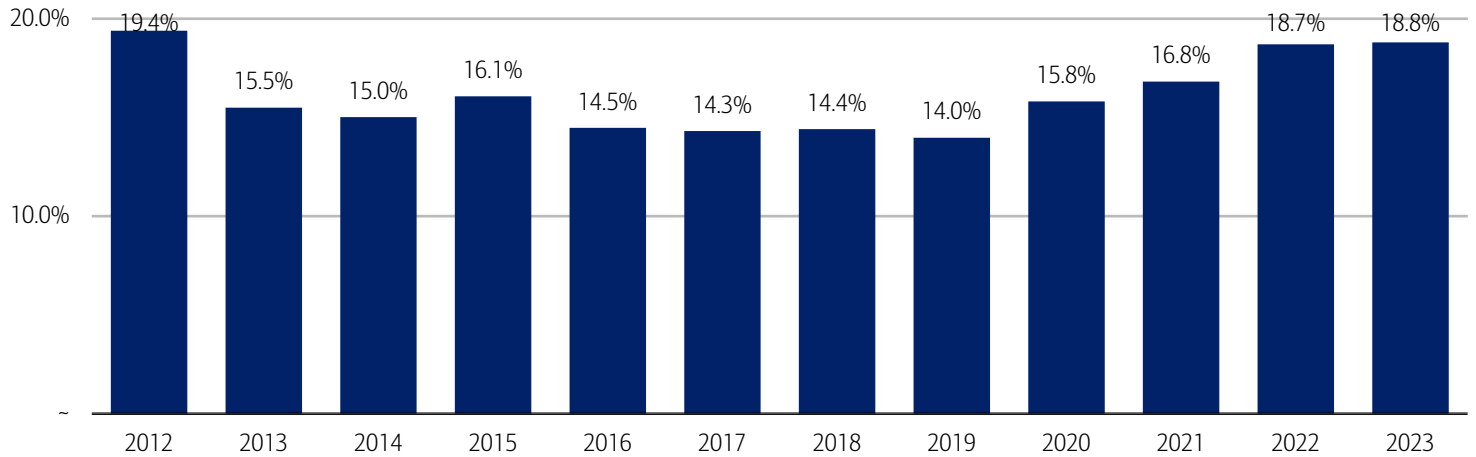


Source: BofA Global Research estimates

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Figure 12: iPhone unit market share 2012 – 2023

iPhone unit market share was 18.8% in 2023

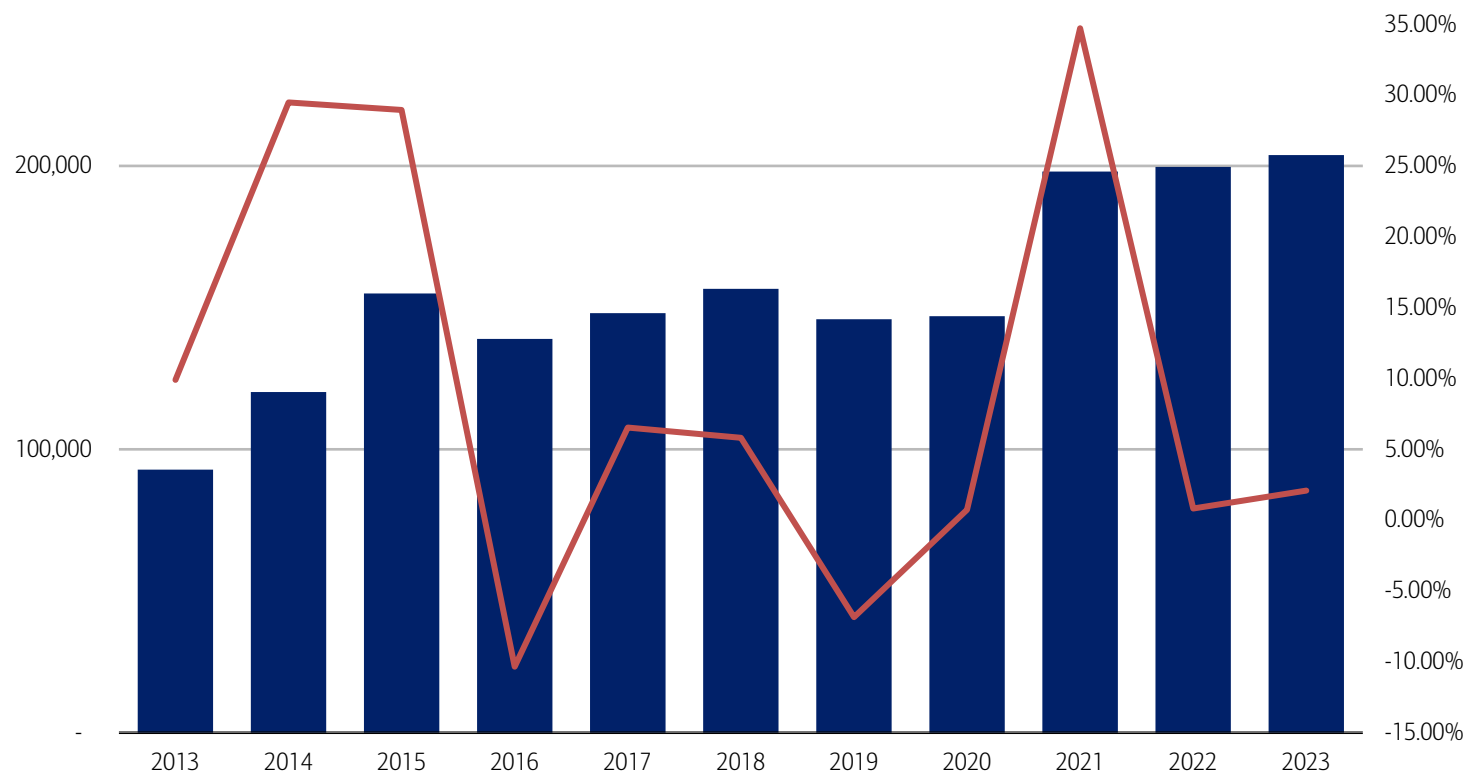


Source: Strategy Analytics

BofA GLOBAL RESEARCH

Figure 13: iPhone revenue (\$mn), by year and y/y growth (%)

iPhone recorded iPhone revenue of \$203.8bn with y/y rev growth of 2.1% in 2023.

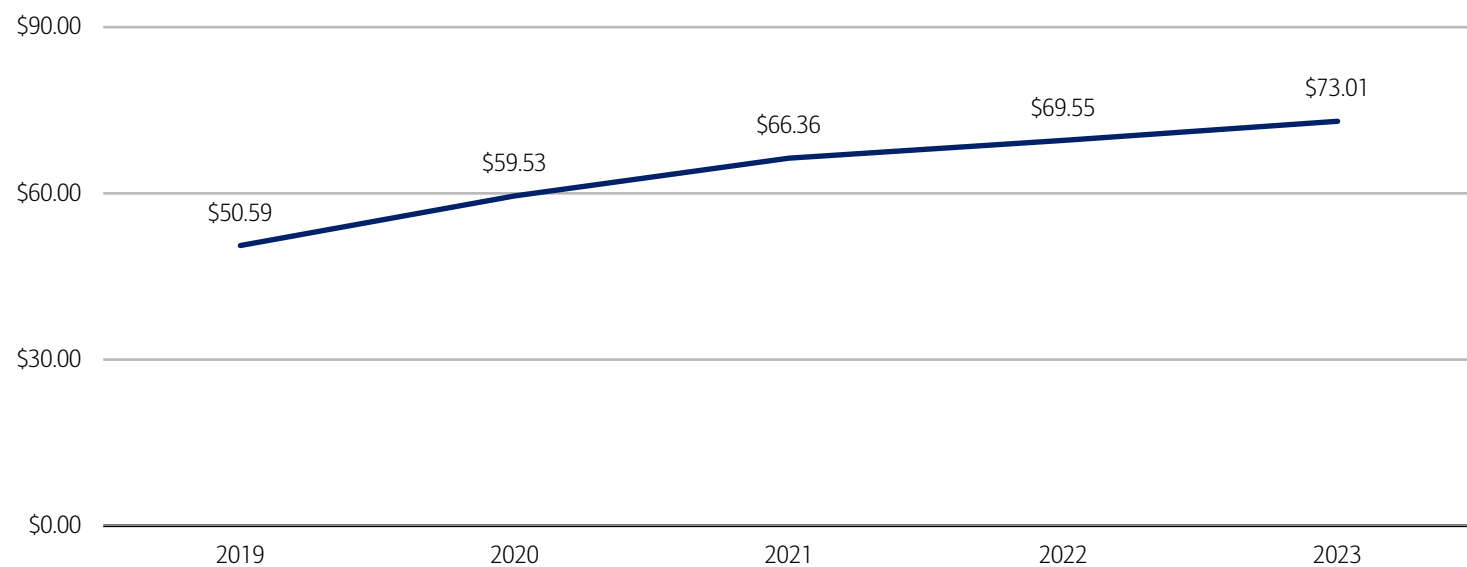


Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Figure 14: Services revenue per installed base device

Services revenue per installed base device in 2023 was \$73.01.



Source: BofA Global Research estimates

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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

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	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
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan



US - IT Hardware and Technology Supply Chain Coverage Cluster

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

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

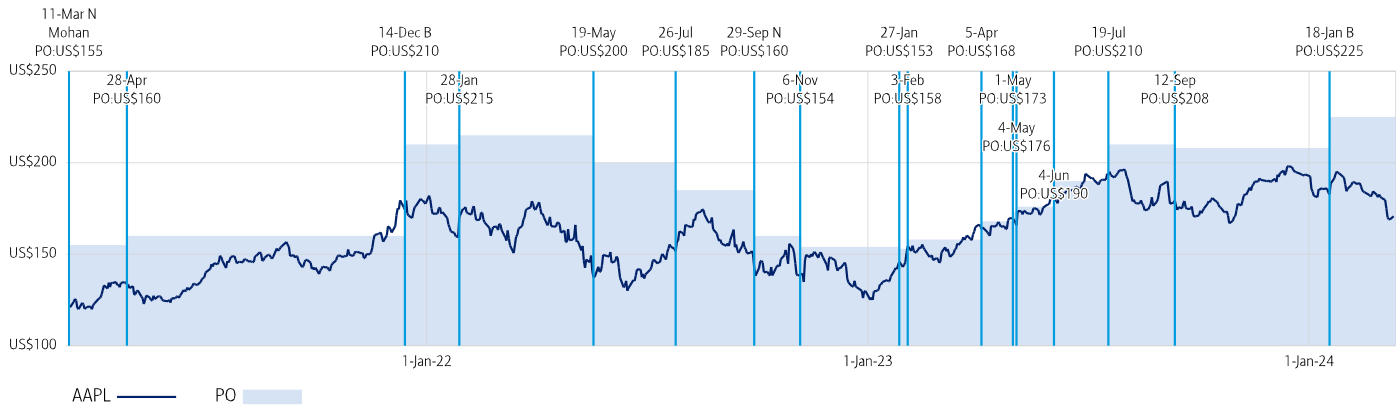
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Disclosures

Important Disclosures

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Apple Inc.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Apple Inc.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Apple Inc.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Apple Inc.

The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Apple Inc.

An officer, director or employee of BofAS or one of its affiliates is an officer or director of this issuer: Apple Inc.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Apple Inc.

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