

Apple Inc.

Browser download trends not changing materially in EU

Maintain Rating: BUY | PO: 225.00 USD | Price: 172.66 USD

Will Safari traffic be impacted by browser choice in EU?

As a result of the EU Digital Markets Act (DMA), customers now have a choice screen in the EU to choose their internet browser. Google currently pays Apple to be the default search for iOS and Safari and given the various choices for browsers that are now offered to customers, we look at data to see if users are meaningfully moving away from Safari to other browsers. Early indications show that the magnitude of other browsers downloaded remains relatively low. Reiterate Buy as we see a multi-year phone upgrade cycle driven by Gen AI and continued tailwinds from mix shift to Services.

Effect on downloads since compliance date began

6 days into the compliance date for Apple, we see relatively little change to data from Sensor Tower (fig 2). During the March 6th to March 11th period 2024, EU app store browser downloads increased by 500k y/y. this accounts for less than 3% of the CY23 total internet browser downloads in the EU app store and only about 3bps of the CY23 EU app store total downloads. The downloads data does not indicate any meaningful trend of users switching away from safari. This is likely explained by the fact that most users are quite content with the browser they use by default (inertia to switch is always high). The data suggests (Fig 2) that there is a very minimal uptick in other browser downloads and hence does not pose any meaningful impact to a potential shift away in value/negotiating power that Apple holds for access to search in particular.

Enforcement of EU DMA

The other biggest effects to Apple are the requirements to allow users to download outside of the iOS app store (sideloading) and allowing users to uninstall preloaded apps. We estimate the impact to Apple's rev to be minimal ([see this report](#)) as long as they maintain compliance with EU DMA. The Digital Markets Act (DMA) was conceptualized by the European Commission (EC) to regulate the dominant digital platforms to ensure fair competition, prevent abuse of power by large platforms and offer more choice to consumers and established a set of criteria for influential companies to be designated as "gatekeepers". In September 2023, the EC designated six companies (Alphabet, Amazon, Apple, ByteDance, Meta, and Microsoft) as gatekeepers and they are required to comply with the DMA do's and don'ts by March 2024.

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	22.7x	21.2x
GAAP P/E	28.2x	28.2x	25.8x	22.7x	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 5.

14 March 2024

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Stock Data

Price	172.66 USD
Price Objective	225.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-7
52-Week Range	149.92 USD - 199.62 USD
Mkt Val (mn) / Shares Out	2,669,651 USD / 15,461.9 (mn)
Free Float	94.0%
Average Daily Value (mn)	10684.54 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"](#).

EU-European Union

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Timestamp: 14 March 2024 12:19PM 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 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.

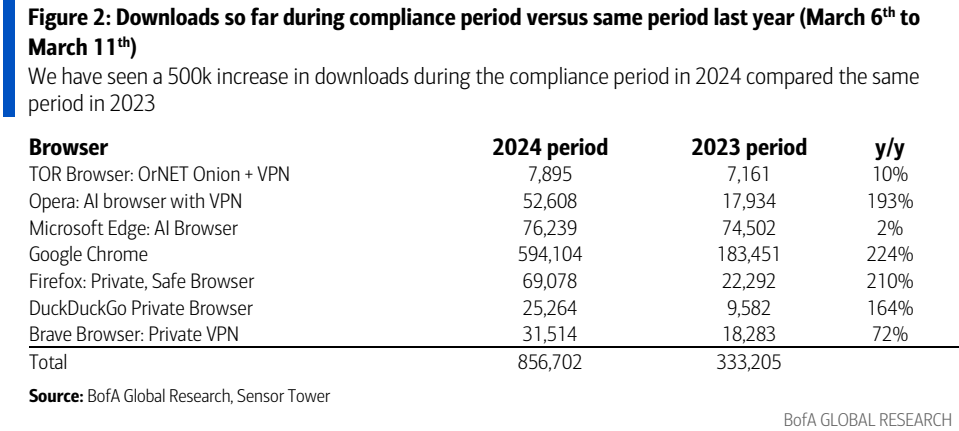
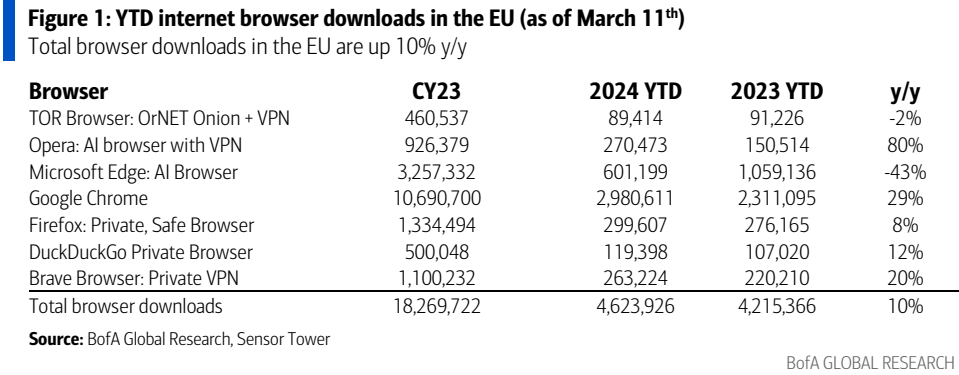
Stock Data

Average Daily Volume 61,881,948

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

App store data



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

iQ^{method}™ 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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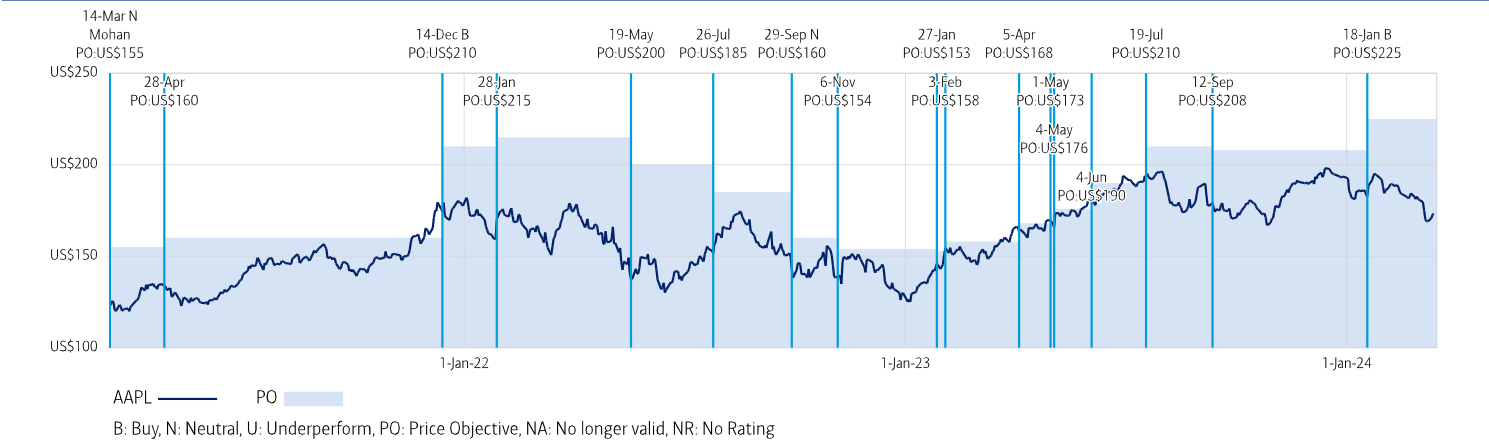
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Apple Inc. (AAPL) Price Chart



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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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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