Equity Research



Company Update — April 20, 2022

IT Hardware & Communications Networking

Apple Inc. (AAPL)

AAPL: F2Q22 Preview—Expect In-Line iPhone, Mac Upside, & Positive Capital Return Update

Our Call

Heading into Apple's F2Q22 earnings on 4/28, we maintain our revenue / EPS estimates at \$93.0B / \$1.40 (Street: \$94.0B / \$1.43). **Our Call**: While we would like to make an actionable fundamental call into Apple's F2Q22 print, we largely expect in-line results / forward commentary. We view Apple's annual capital return update as being the most incremental potential positive.

Intra-Qtr Data Points: iPhone: Based on our proprietary intra-quarter iPhone-related data analysis (historically exhibiting a R² = >0.90), we est. Apple shipped 54-58 million iPhones; rev. in the range of ~\$45-\$48 billion. A few data points include: 1) US smartphone imports for Jan + Feb. at +12% y/y; +21% y/y on a US\$ basis. 2) Overall China internal smartphone registrations from *CAICT* were weak with Jan + Feb at -23% y/y. However, non-China branded mobile phone registrations, which we view as the best proxy for iPhone, totaled ~9.5M, +10% y/y (Feb. at -5% y/y). 3) China smartphone production in 1Q22 at ~264M, +6% y/y and -28.5% q/q vs. -25% q/q avg. for 2017-2021 (ex-1Q20 per COVID). 4) Taiwanese sales data showed Hon Hai and Pegatron combined rev. +11% y/y in 1Q22 and -24% q/q vs. 5-yr avg. of -29%. TSMC reported *Smartphone* segment rev. at +1% q/q and implied ~20% y/y growth. Apple accounted for ~25% and ~26% of TSMC's rev. in 2020 and 2021, respectively. For Mac, we would highlight *Gartner* 1Q22 prelim PC ship data showing Apple units +9% y/y vs. industry ship at -7% y/y. We reiterate our belief that Apple's M1 lineup can drive sustainable share gains looking forward (see our recent note titled: *AAPL: Thinking About Mac Adoption in Enterprise - Poised to Inflect Higher?*)

Other: 1) Subscription Model. Apple's comments on the potential establishment of broad-based consumer hardware subscription service is a clear focus among investors. We think the establishment of such a model will be viewed as providing support for the company to maintain a 25-30x+ forward P/E multiple. Bloomberg has reported that Apple could roll out a monthly hardware subscription model in late 2022. As a reminder, on 3/31 Apple officially launched its Business Essentials for SMB commercial customers starting at \$2.99 per device/mo with 50GB of storage up to \$24,99 per user/mo. covering up to 3 devices and 2TB of storage. 2) Supply Chain: We will be focused on Apple's commentary around its supply chain following reports of significant disruptions in its Chinese suppliers related to COVID lockdowns. While we expect that F1Q22 will benefit from some easing, especially in iPad, we continue to focus on reports that lockdowns around Shanghai could impact Mac shipments by as much as 20-30% in F3Q22. 3) Margins: We continue to expect Apple's margins to move higher (modeling GM% at 43.2% in F2Q22 vs. guided 42.5%-43.5% and up from 42.5% in the year-ago period) driven by positive product mix shift (higher iPhone 13 mix) and subscription momentum (we model ~960M subscriptions exiting F2023).

Capital Return Update. Apple is expected to provide its annual capital return update during the F2Q22 earnings call. Given what appears to be a sustainable +\$90 billion per annum FCF story and with a dividend yield now at only 0.5%, we think Apple could provide investors with an incrementally positive capital return update—estimate \$90B+ additional share repo + >10% dividend increase. Since announcing its initial share repo + dividend strategy in March 2021, Apple has cumulatively returned 95%+ of its FCF; avg.

Signature Picks 🗸



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Rating	Overweight
Ticker	AAPL
Price Target/Prior:	\$205.00/NC
Upside/(Downside) to Target	22.5%
Price (04/19/2022)	\$167.40
52 Week Range	\$122.25 - 182.94
Shares Outstanding	16,319,441,000
Market Cap (MM)	\$2,731,874
Enterprise Value (MM)	\$2,652,076
Average Daily Volume	95,775,277
Average Daily Value (MM)	\$16,033
Dividend (NTM)	\$0.88
Dividend Yield	0.5%
Net Debt (MM) - last reported	\$(79,798)
ROIC - Current year est.	53%
3 Yr EPS CAGR from current year (unless otherwise noted)	15%

\$ EPS	2021A	2022E Curr.	2022E Prior	2023E Curr.	2023E Prior
Q1 (Dec)	1.68 A	2.10 A	NC	2.29 E	NC
Q2 (Mar)	1.40 A	1.40 E	NC	1.53 E	NC
Q3 (Jun)	1.30 A	1.28 E	NC	1.42 E	NC
Q4 (Sep)	1.24 A	1.42 E	NC	1.58 E	NC
FY	5.61 A	6.20 E	NC	6.82 E	NC
P/E	29.9x	27.0x		24.5x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv. NA = Not Available, Volatility = Historical trading volatility

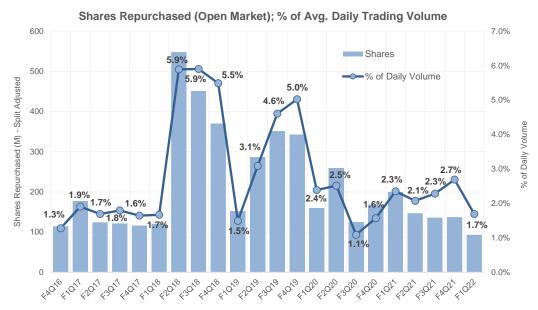
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at >130% of FCF generated over the past 5 yrs. <u>As a reference, below we include a table outlining Apple's capital return updates over the past 10 yrs.</u>

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Apple's Annual Capital Return Update

Since its last capital return update in April 21, Apple has repurchased \$63.126B in stock and paid \$11.139B in dividends (through F1Q22), which has reduced the company's net cash position to \$79.798B exiting F1Q22 (vs. \$65.797B exiting F4Q21 and \$82.728B in F2Q21). This brings Apple's total capital return since the last update to \$74.265B, or 93% of FCF generated during the return period. Below we highlight Apple's share repurchase activity as a % of avg. daily trading volume over the past several quarters, as well as table summarizing the company's capital return update announced over the past several years. On a 3 yr. rolling CAGR basis, Apple has reduced its fully diluted share count by an avg. of \sim 5% (ranging between 4% and 6%; our model currently reflects a -4% CAGR through 2023).



Source: FactSet, Company Data; Wells Fargo Securities, LLC

Apple Capital	Return	Summary:
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\$ million; except per share		3/19/2012 4/23/2013 4/23/2014 4/21/2015 4/26/2016 5/2/2017 5/1/2018 4/30/2019 4/30/202 \$21.47 \$14.51 \$18.74 \$31.73 \$26.09 \$36.88 \$42.28 \$50.17 \$73.4 \$560,345 \$381.812 \$452,174 \$740,502 \$571,569 \$769,094 \$813,150 \$923,298 \$12,85,57 26,102 26,323 24,129 23,339 21,910 20,855 19,661 18,404 17,50 \$110,176 \$144,687 \$150,589 \$193,539 \$232,928 \$256,841 \$267,226 \$225,411 \$192,85 \$0 \$0 \$16,962 \$43,871 \$79,872 \$86,212 \$21,840 \$112,630 \$109,850										
• •	March 2012	April 2013	April 2014	April 2015	April 2016	May 2017	May 2018	April 2019	April 2020	April 2021		
Date Plan Announced	3/19/2012	4/23/2013	4/23/2014	4/21/2015	4/26/2016	5/2/2017	5/1/2018	4/30/2019	4/30/2020	4/28/2021		
Share Price @ Announcement (Split-Adjusted)	\$21.47	\$14.51	\$18.74	\$31.73	\$26.09	\$36.88	\$42.28	\$50.17	\$73.45	\$133.58		
Market Cap @ Announcement	\$560,345	\$381,812	\$452,174	\$740,502	\$571,569	\$769,094	\$831,150		\$1,285,516	\$2,242,554		
- Total Shares Outstanding (Split-Adjusted)			24,129	23,339	21,910	20,855	19,661	18,404	17,502	16,788		
Total Cash & Cash Equivalents (Prior Qtr Ending; Current)									\$192,844	\$204,373		
- Total Debt									\$109,507	<u>\$121,645</u>		
Net Cash	\$110,176	\$144,687	\$133,627	\$149,668	\$153,056	\$160,629	\$145,386	\$112,781	\$83,337	\$82,728		
Announced Capital Return Plans:												
- Total Share Repurchase Authorization	\$10,000	\$60,000	\$90,000	\$140,000	\$175,000	\$210,000	\$310,000	\$385,000	\$435,000	\$525,000		
- Addition to Share Repurchase Authorization	\$10,000	\$50,000	\$30,000	\$50,000	\$35,000	\$35,000	\$100,000	\$75,000	\$50,000	\$90,000		
- Implied Dividend Payout on S/O	\$9,854	\$11,450	\$11,341	\$12,137	\$12,489	\$13,139	\$14,352	\$14,171	\$14,352	\$14,774		
- Actual FY (Ending March) Dividend Payments	n/a	\$7,472	\$11,010	\$11,240	\$11,888	\$12,413	\$13,164	\$14,194	\$14,022	\$14,227		
- Dividend per Share (split adjusted)	\$0.38	\$0.44	\$0.47	\$0.52	\$0.57	\$0.63	\$0.73	\$0.77	\$0.82	\$0.88		
- % Increase	n/a	15.2%	8.0%	10.6%	9.6%	10.5%	15.9%	5.5%	6.5%	7.3%		
- Implied Dividend Yield	1.8%	3.0%	2.5%	1.6%	2.2%	1.7%	1.7%	1.5%	1.1%	0.7%		
Prior 12-Month Cash Flow from Operations (CFO)	\$53,068	\$55,255	\$53,944	\$76,308	\$67,527	\$66,339	\$67,442	\$71,856	\$75,373	\$99,591		
Prior 12-Month Free Cash Flow (FCF)	\$47,868	\$45,413	\$46,737	\$64,518	\$55,918	\$53,244	\$54,295	\$59,830	\$66,636	\$90,473		
Cumulative Free Cash Flow (FCF) since March 2012 quarter	\$12,520	\$57,933	\$104,670	\$169,188	\$225,106	\$278,350	\$332,645	\$392,475	\$459,111	\$549,584		
Post Plan 12-Month Capital Returned:										i i		
Share Repurchase (Current = TTM for Period Ending F1Q22)	\$1,950	\$43,910	\$34,000	\$37,086	\$34,204	\$47,739	\$72,385	\$73,679	\$76,401	\$84,674		
<u>Dividend (Current = TTM for Period Ending F1Q22)</u>	\$7,472	\$11,010	\$11,240	\$11,729	\$12,413	\$13,164	\$14,194	\$14,022	\$14,227	<u>\$14,586</u>		
Total Share Repo + Dividend Payments	\$9,422	\$54,920	\$45,240	\$48,815	\$46,617	\$60,903	\$86,579	\$87,701	\$90,628	\$99,260		
- % of Free Cash Flow	19.7%	120.9%	96.8%	75.7%	83.4%	114.4%	159.5%	146.6%	136.0%	109.7%		
Capital Expenditures - Post Capital Return Program (CF Statement)	\$9,842	\$7,207	\$11,790	\$11,609	\$13,095	\$13,147	\$12,026	\$8,737	\$9,118			
Cumulative as of Date Announced:										į į		
Share Repurchase	\$0	\$1,950	\$45,860	\$79,860	\$116,643	\$150,847	\$198,586	\$270,971	\$344,650	\$421,051		
<u>Dividend</u>	<u>\$0</u>	\$7,472	\$18,482	\$29,722	\$41,610	\$54,023	\$67,187	\$81,381	\$95,403	\$109,630		
Total Share Repo + Dividend Payments	\$0	\$9,422	\$64,342	\$109,582	\$158,253	\$204,870	\$265,773	\$352,352	\$440,053	\$530,681		
- % of FCF since March 2012 quarter	0.0%	16.3%	61.5%	64.8%	70.3%	73.6%	79.9%	89.8%	95.8%	96.6%		

Source: Company Data; Wells Fargo Securities, LLC

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iPhone—Intra-Quarter Data Points Leave us to Est. ~54-57M iPhones Shipped in F2Q22; Blended ASP (\$/unit) and 3rd-gen iPhone SE Ramp in Focus

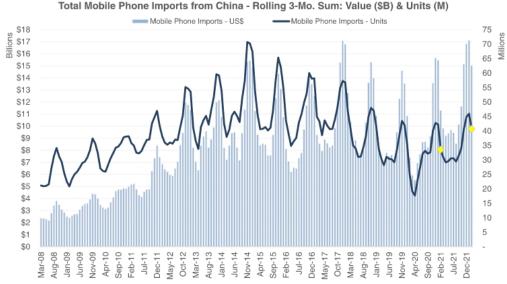
Based on our proprietary data analysis / Wells Fargo iPhone index, we think Apple shipped \sim 54-58 million iPhones during F2Q22; est. iPhone revenue in the range of \$44-\$48 billion. We consider intra-quarter iPhone-related data points as net-neutral vs. our maintaining F2Q22 iPhone revenue / shipment at \$47.416B / 57.47M (vs. street at \$48.345B / 57.41M). We expect investors to be focused on commentary around any weakening of consumer demand, especially in China, as well as improvement around the company's supply chain. We will be focused on ASP uplift from the iPhone 13 lineup as well as commentary around the rollout of the company's 3^{rd} -gen iPhone SE (\$429 starting price; launched on March 8^{th}).

Hardware Subscription Offering? We hope to hear more detail on Apple's <u>reported plans</u> to offer a subscription service for its hardware products by the end of 2022. Investors should be positive on any move toward a subscription hardware model with added recurring revenue and potential for a higher proportion of newer iPhones driving pull-thru revenue for wearables such as the upcoming AR/VR headsets. We would note Apple's November '21 launch of Apple <u>Business Essentials for SMBs</u>, which is designed for SMBs of up to 500 employees and packages device management, support, and iCloud storage into subscription plans.

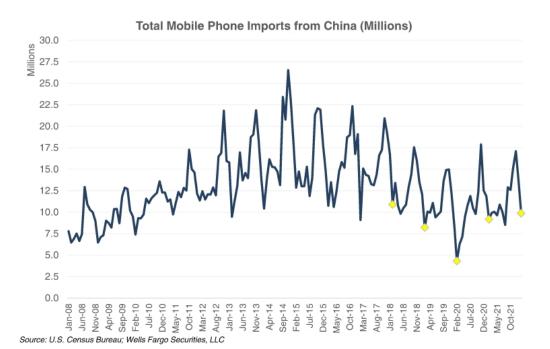
We would highlight mixed / neutral data points below with strong U.S. smartphone imports and relatively weak China mobile phone shipment data.

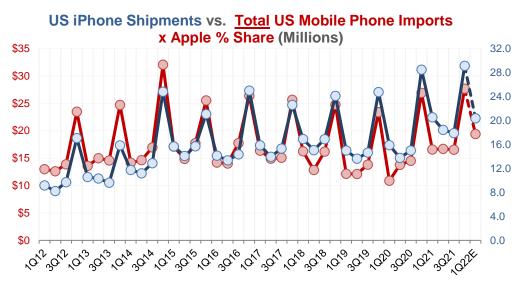
U.S. Smartphone Imports

February U.S. trade data implied a continued positive trend for January + February in terms of smartphone imports with imports to the U.S. totaling \$10.819 billion, +35% y/y. February imports of smartphones totaled \$4.251 billion, +21% y/y. On a unit basis combined January + February imports were 28.272 million, -3% y/y. Smartphone imports from China, which we have seen represent the highest historical correlation with Apple's iPhone shipments, are +25% y/y on a US\$ basis in Jan + Feb; units are +12% y/y.



Source: U.S. Census Bureau; Wells Fargo Securities, LLC

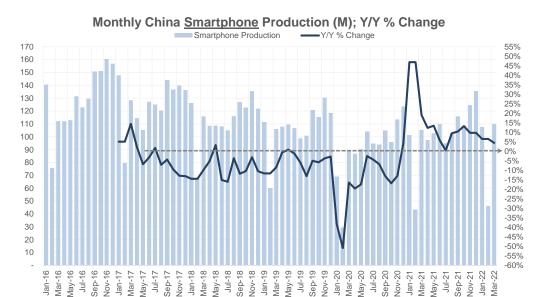




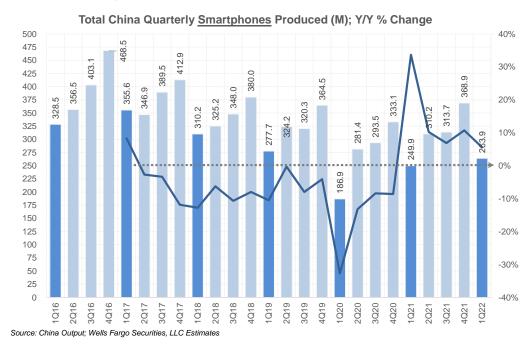
Source: US Customs; IDC; Wells Fargo Securities, LLC Estimates

China Smartphone Production

China production statistics from March 2022 showed smartphone production at ~110.05M units +4% y/y, bringing total 1Q22 production to 263.88M; implying +6% y/y (vs. 11% y/y in 4Q21) and -28.5% q/q. This was slightly below the 2017-2021 seq. average (ex-1Q20 due to COVID) at -25% q/q.

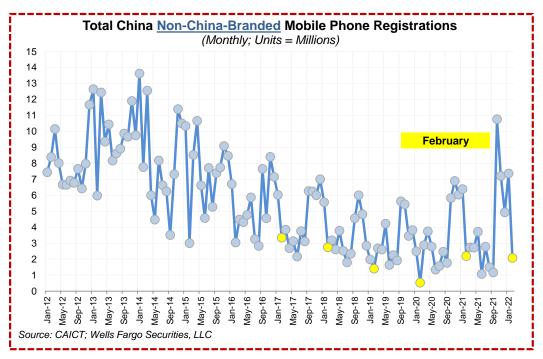


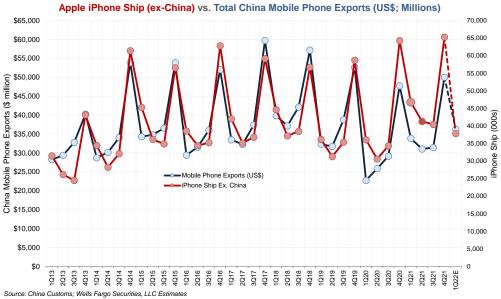
Source: China Output; Wells Fargo Securities, LLC

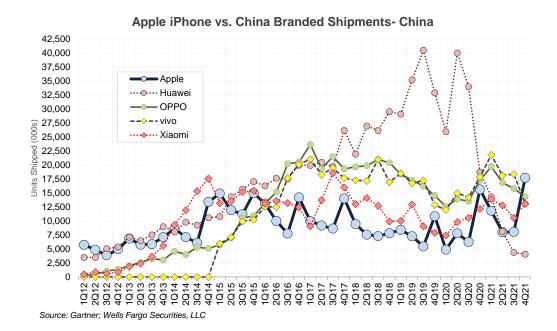


China Internal Smartphone Registrations

China mobile phone shipment (registration) data earlier this month from the China Academy of Informational & Communications Technology (CAICT) for February was relatively weak with shipments of ~14.86M down 32% y/y and 55% m/m compared to a 4-year avg. of -32% m/m. China branded mobile shipment shipments totaled 12.783 million in February (-35% y/y), implying non-China branded mobile phones (proxy for iPhone) totaled ~2.08 million, or -5% y/y. For Jan+ Feb total implied non-China branded mobile phone shipments totaled ~9.45 million,+10% y/y.



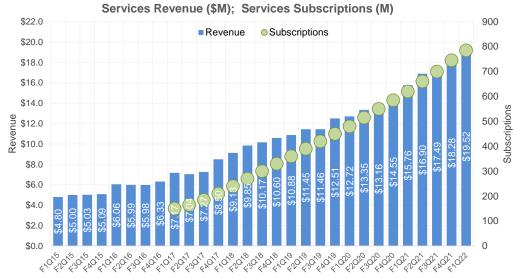




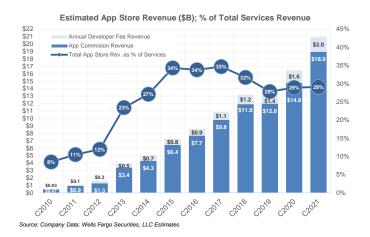
Services—Solid Double-Digit Growth to Continue

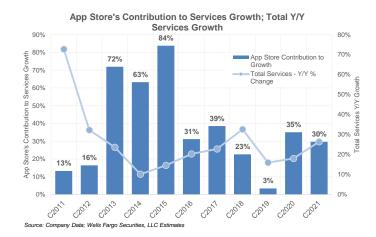
We are modeling F2Q22 services revenue at \$20.101B or up +19% y/y and +3% q/q (vs. Street est. at \$19.728B, +17% y/y). We continue to believe that Apple will maintain subscription growth momentum despite the end of COVID lockdowns with potential for a positive mix shift driving further margin upside. We model the number of Apple services subscriptions to expand to \sim 810 million exiting F2Q22, up in the low to mid-20% range y/y following several quarters of high-20% growth. We estimate that Apple will reach \sim 960M subscriptions exiting F2023.

We will also be focused on Alphabet's Distribution Partner TAC (Traffic Acquisition Costs) when the company reports on 4/26 AMC. These payments to Apple have historically been highly correlated with Apple's Services revenue.





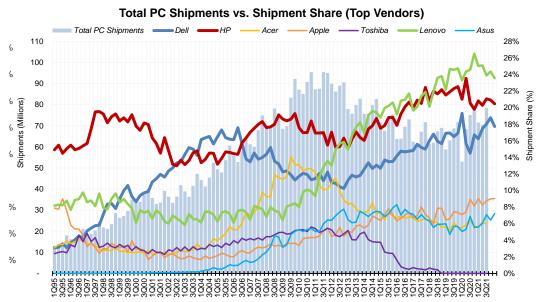


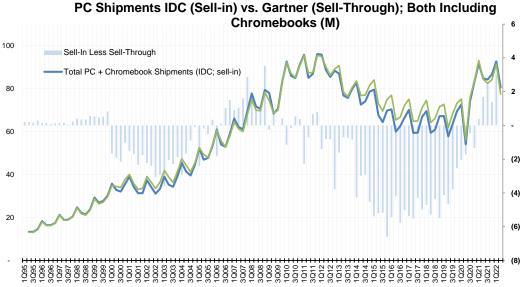


Mac / iPad

We expect Apple to report positive Mac results following share gains in *Gartner* and *IDC* preliminary 1Q22 PC shipment data. We are modeling Mac revenue at \$9.011B (Street: \$9.094B) and iPad revenue at \$7.135B (Street: \$7.208B). *Gartner* 1Q22 preliminary PC shipment data (sell-through) estimated Apple shipments at 7.005M units, up 8.6% y/y compared to an industry-wide decline of 7.3% driven by its M1-based processor lineup. Apple saw even stronger growth in the United States where Mac shipments were up 18.6% y/y (-9.1% q/q) compared to a market-wide decline of 16.5%. We continue to be positive on Apple's ability to pick up share in the PC market, especially the commercial market, as its high-performance M1 processors give the company an edge. We will also be focused on any easing of the iPad's supply chain following commentary that it was severely constrained last quarter.

At the same time, we think it is clear that the PC market is beginning to slow / enter a digestion phase. Taiwanese notebook ODMs and component suppliers continue to report low visibility into 2Q22 but with Quanta expecting 2Q22 notebook shipments to increase q/q; Compal expecting shipments to increase in the high-single digit or double-digit q/q range (vs. -20% q/q in 1Q22) and Wistron and Inventec are forecasting shipments to increase in the single digits q/q in 2Q22.





Source: IDC; Gartner, Wells Fargo Securities, LLC

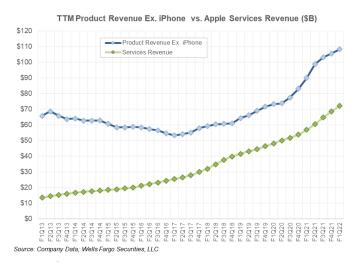
Apple [Mac] Arm-based M1 Silicon Comparison

	M1	M1 Pro	M1 Max
Process	5nm	5nm	5nm
Transistor Count	16 billion	33.7 billion	57 billion
Die Size (mm²)	120.40	245.92	432.35
- Transistor Density (MTr/mm ²)	132.9	137.0	131.8
Max CPU Clock Speed	3.2GHz	~3.2GHz	~3.2GHz
Total CPU Cores	8	10	10
High-Performance Cores	4 (Firestorm)	8	8
High-Efficiency Cores	4 (Icestorm)	2	2
Integrated GPU Cores	8 cores	16 cores	32 cores
- GPU Performance	2.6 TFLOPS	5.2 TFLOPS	10.4 TFLOPS
- Execution Engines	1,024	2,048	4,096
- Concurrent Threads	>25,000	49,512	98,304
Neural Engine	16 cores;	16 cores;	16 cores;
	11 TOPS	11 TOPS	11 TOPS
Unified Memory Capacity	16GB	32GB	64GB
DRAM Type	128-bit	256-bit LPDDR5	512-bit LPDDR5
Memory Bandwidth	68.25GB/s	200GB/s	400GB/s

Source: Company Data; Wells Fargo Securities, LLC

Wearables

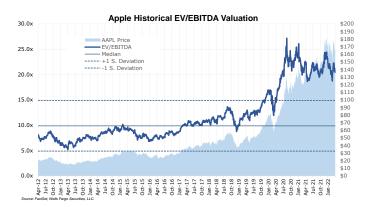
We are modeling Apple's Wearables, Home, and Accessories segment at \$9.335B compared to the consensus estimate at \$8.711B. We have seen conflicting <u>reports</u> about Apple moving to cut orders for its AirPods in 2Q22 (*DigiTimes* citing a 20M unit reduction in 2022). We expect broader availability of Series 7 watches and AirPods 3 to continue to drive growth in F2022. We model F2022 Wearables revenue at \$45.41B (+18% y/y) vs. the consensus estimate at \$43.19B.





Valuation





Financials

Segment Estimate Summary:

(\$ in Millions, Except per Share; Ur	nits Shipped in	Millions)				F2Q22 Estimates		F3Q22 E	stimates	F2022 Estimates		F2023 E	stimates	
	F1Q21	F2Q21	F3Q21	F4Q21	F1Q22	WFS	Street	WFS	Street	WFS	Street	WFS	Street	
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-22	Ma	r-22	Jur	1-22	F2022		Ма	r-22	
Total Revenue	\$111,439	\$89,584	\$81,434	\$83,360	\$123,945	\$92,999	\$94,021	\$86,881	\$86,165	\$398,843	\$395,116	\$423,804	\$418,285	
Y/Y % Change	21%	54%	36%	29%	11%	4%	5%	7%	6%	9%		6%	6%	
Seq. % Change	72%	-20%	-9%	2%	49%	-25%	-24%	-7%	-8%					
Product Revenue	\$95,678	\$72,683	\$63,948	\$65,083	\$104,429	\$72,898	\$74,581	\$67,282	\$65,660	\$319,048	\$316,093	\$332,043	\$331,554	
Y/Y % Change	21%	62%	37%	30%	9%	0%	3%	5%	3%	7%	6%	4%	5%	
Q/Q % Change	91%	-24%	-12%	2%	60%	-30%	-29%	-8%	-12%					
Mac	\$8,675	\$9,102	\$8,235	\$9,178	\$10,852	\$9,011	\$9,094	\$8,832	\$8,592	\$38,733	\$38,210	\$37,726	\$38,965	
iPad	\$8,435	\$7,807	\$7,368	\$8,252	\$7,248	\$7,135	\$7,208	\$7,309	\$7,387	\$29,226	\$29,599	\$30,319	\$30,187	
iPhone	\$65,597	\$47,938	\$39,570	\$38,868	\$71,628	\$47,416	\$48,345	\$41,059	\$40,352	\$205,679	\$202,854	\$214,436	\$209,185	
Other Products	\$12,971	\$7,836	\$8,775	\$8,785	\$14,701	\$9,335	\$9,934	\$10,082	\$9,330	\$45,410	\$45,430	\$49,562	\$53,217	
Units Shipped														
Mac	6.4	6.4	5.8	6.9	7.5	6.7	6.6	6.7	6.1	28.2	27.0	28.3	28.8	
iPad	19.5	17.2	17.4	20.0	19.6	17.4	15.3	18.3	15.5	73.0	63.4	74.1	66.4	
iPhone	82.3	57.1	49.5	50.2	85.8	57.5	57.4	54.0	49.3	258.9	243.7	267.2	249.8	
ASP (\$/Unit)														
Mac	\$1,346	\$1,411	\$1,414	\$1,337	\$1,447	\$1,350	\$1,391	\$1,310	\$1,367	\$1,375	\$1,406	\$1,334	\$1,399	
iPad	\$434	\$454	\$423	\$414	\$371	\$410	\$445	\$400	\$419	\$401	\$435	\$409	\$442	
iPhone	\$797	\$840	\$800	\$775	\$835	\$825	\$835	\$760	\$781	\$795	\$824	\$802	\$834	
Services Revenue	\$15,761	\$16,901	\$17,486	\$18,277	\$19,516	\$20,101	\$19,728	\$19,599	\$19,955	\$79,795	\$80,368	\$91,761	\$91,181	
Y/Y % Change	24%	27%	33%	26%	24%	19%	17%	12%	14%	17%	17%	15%	13%	
Q/Q % Change	8%	7%	3%	5%	7%	3%	1%	-3%	1%					
Gross Profit	\$44,328	\$38,079	\$35,255	\$35,174	\$54,243	\$40,168	\$40,373	\$38,115	\$36,916	\$173,460	\$169,518	\$186,155	\$180,228	
Gross Margin	39.8%	42.5%	43.3%	42.2%	43.8%	43.2%	42.9%	43.9%	42.8%	43.5%	42.9%	43.9%	43.1%	
Operating Expenses:														
R&D Expense	\$5,163	\$5,262	\$5,717	\$5,772	\$6,306	\$6,696	\$6,390	\$7,081	\$6,560	\$27,399	\$25,728	\$32,905	\$28,572	
SG&A Expense	\$5,631	\$5,314	\$5,412	\$5,616	\$6,449	\$5,952	\$6,188	\$6,386	\$6,158	\$25,466	\$23,626	\$28,391	\$25,615	
Total Operating Expenses	\$10,794	\$10,576	\$11,129	\$11,388	\$12,755	\$12,648	\$12,593	\$13,467	\$12,689	\$52,866	\$50,857	\$61,296	\$55,812	
% of Revenue	9.7%	11.8%	13.7%	13.7%	10.3%	13.6%	13.4%	15.5%	14.7%	13.3%	12.9%	14.5%	13.3%	
Operating Profit	\$33,534	\$27,503	\$24,126	\$23,786	\$41,488	\$27,521	\$27,895	\$24,648	\$24,209	\$120,594	\$119,556	\$124,859	\$124,415	
Operating Margin	30.1%	30.7%	29.6%	28.5%	33.5%	29.6%	29.7%	28.4%	28.1%	30.2%	30.3%	29.5%	29.7%	
Net Income	\$28,760	\$23,630	\$21,744	\$20,551	\$34,630	\$22,991	\$23,284	\$20,701	\$20,245	\$100,958	\$99,957	\$105,168	\$104,274	
Net Income Margin	25.8%	26.4%	26.7%	24.7%	27.9%	24.7%	24.8%	23.8%	23.5%	25.3%	25.3%	24.8%	24.9%	
EPS	\$1.68	\$1.40	\$1.30	\$1.24	\$2.10	\$1.40	\$1.43	\$1.28	\$1.24	\$6.20	\$6.14	\$6.82	\$6.55	

Source: Company Data; Wells Fargo Securities, LLC Estimates

Apple Inc. **Equity Research**

Apple Inc Income Statement Summary

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

						Last Rotd	Wells Far													
	F1Q21	F2Q21	FY2021 F3Q21	F4Q21	Total	F1Q22	F2Q22E	FY2022E F3Q22E	F4Q22E	Total	F1Q23E	F2Q23E	FY2023E F3Q23E	F4Q23E	Total	C2019	C2020	alendar Yea C2021	r C2022E	C2023E
Units Shipped (MM)	Dec-20	Mar-21	Jun-21	Sep-21		Dec-21	Mar-22	Jun-22	Sep-22		Dec-22	Mar-23	Jun-23	Sep-23						
Macs	6.45	6.45	5.82	6.87	25.58	7.50	6.68	6.74	7.25	28.16	7.75	6.67	6.60	7.26	28.29	18.34	22.01	26.64	28.42	28.01
iPad iPhone	19.45 82.30	17.20 57.07	17.42 49.46	19.95 50.15	74.03 238.99	19.55 85.78	17.40 57.47	18.27 54.03	17.73 61.59	72.96 258.87	19.85 91.15	17.67 59.25	18.91 55.10	17.68 61.71	74.10 267.22	46.03 191.03	61.08 198.24	74.13 242.47	73.25 264.24	73.52 268.63
Total Units	108.21	80.72	72.71	76.97	338.61	112.84	81.55	79.04	86.56	359.99	118.76	83.59	80.61	86.65	369.61	255.39	281.33	343.24	365.91	370.17
ASPs (\$/Unit)																				
Macs	\$1,346	\$1,411	\$1,414	\$1,337	\$1,375	\$1,447	\$1,350	\$1,310	\$1,385	\$1,375	\$1,350	\$1,320	\$1,310	\$1,350		\$1,390	\$1,369	\$1,403	\$1,349	\$1,331
iPad iPhone	\$434 \$797	\$454 \$840	\$423 \$800	\$414 \$775	\$430 \$803	\$371 \$835	\$410 \$825	\$400 \$760	\$425 \$740	\$401 \$795	\$430 \$840	\$405 \$825	\$395 \$775	\$405 \$750	\$409 \$802	\$446 \$766	\$429 \$744	\$414 \$817	\$417 \$797	\$405 \$801
Total Unit ASPs (\$/unit)	\$764	\$803	\$759	\$731	\$770	\$795	\$779	\$724	\$730	\$854	\$805	\$776	\$730	\$730		\$753	\$724	\$775	\$764	\$762
Sales (\$M)																				
Macs	\$8,675	\$9,102	\$8,235	\$9,178	\$35,190	\$10,852	\$9,011	\$8,832	\$10,038	\$38,733	\$10,469	\$8,803	\$8,649	\$9,804		\$25,484	\$30,137	\$37,367	\$38,349	
iPad iPhone	\$8,435 \$65,597	\$7,807 \$47,938	\$7,368 \$39,570	\$8,252 \$38,868	\$31,862	\$7,248 \$71,628	\$7,135 \$47,416	\$7,309 \$41,059	\$7,533 \$45,576	\$29,226	\$8,536 \$76,568	\$7,156 \$48,880	\$7,468 \$42,704	\$7,159 \$46,285	\$30,319	\$20,528 \$146,356	\$26,182	\$30,675 \$198,004	\$30,514 \$210,619	\$29,778
Services (iTunes/App Store/ Apple Pay etc.)	\$15,761	\$16,901	\$17,486	\$18,277	\$191,973 \$68,425	\$19,516	\$47,416	\$19,599	\$20,579	\$205,679 \$79,795	\$21,608	\$22,472	\$23,146	\$24,535	\$214,436 \$91,761	\$48,131	\$147,421 \$56,814	\$72,180	\$81,887	\$94,811
Other Products (Includes Apple Watch)	\$12,971	\$7,836	\$8,775	\$8,785	\$38,367	\$14,701	\$9,335	\$10,082	\$11,292	\$45,410	\$16,486	\$10,221	\$10,988	\$11,867	\$49,562	\$27,184	\$33,581	\$40,097	\$47,195	\$50,877
Revenue	\$111,439	\$89,584	\$81,434	\$83,360	\$365,817	\$123,945	\$92,999	\$86,881	\$95,017	\$398,843	\$133,667	\$97,532	\$92,954	\$99,651	\$423,804	\$267,683	\$294,135	\$378,323	\$408,564	\$427,911
Cost of Sales	\$67,111	\$51,505	\$46,179	\$48,186	\$212,981	\$69,702	\$52,831	\$48,767	\$54,084	\$225,383	\$76,022	\$54,593	\$51,645	\$55,388	\$237,649	\$166,105	\$180,068	\$215,572	\$231,703	\$241,151
Gross Margin	\$44,328	\$38,079	\$35,255	\$35,174	\$152,836	\$54,243	\$40,168	\$38,115	\$40,934	\$173,460	\$57,645	\$42,939	\$41,309	\$44,262	\$186,155	\$101,578	\$114,067	\$162,751	\$176,861	\$186,760
Operating Expenses					,					,										
R&D	\$5,163	\$5,262	\$5,717	\$5,772	\$21,914	\$6,306	\$6,696	\$7,081	\$7,316		\$7,686	\$7,998	\$8,552	\$8,670		\$16,766	\$19,464	\$23,057	\$28,779	
SG&A	\$5,631	\$5,314	\$5,412	\$5,616	\$21,973	\$6,449	\$5,952	\$6,386	\$6,680	\$25,466	\$7,218	\$6,827	\$6,972	\$7,374		\$18,659	\$20,350	\$22,791	\$26,235	\$29,095
Total Operating Expenses	\$10,794 \$33,534	\$10,576	\$11,129	\$11,388	\$43,887	\$12,755	\$12,648	\$13,467	\$13,996	\$52,866	\$14,904	\$14,825	\$15,523	\$16,044		\$35,425	\$39,814	\$45,848 \$116,903	\$55,014	\$63,269 \$123,491
Operating Income (EBIT) FRITDA	\$33,534 \$36,200	\$27,503 \$30,300	\$24,126 \$26,958	\$23,786 \$26,775	\$108,949 \$120,233	\$41,488 \$44,185	\$27,521 \$31,166	\$24,648 \$28,306	\$26,938 \$31,264	\$120,594 \$134,921	\$42,741 \$46,542	\$28,114 \$30,844	\$25,786 \$28,368	\$28,218	\$124,859 \$136,742	\$66,153 \$78,121			\$121,847 \$137,278	
Other Income & Expenses	\$50	\$508	\$243	-\$538	\$263	-\$247	-\$150	-\$150	-\$150	-\$697	-\$100	-\$100	-\$100	-\$100	-\$400	\$1,596	\$504	-\$34	-\$550	-\$350
Pretax Income	\$33,584	\$28,011	\$24,369	\$23,248	\$109,212	\$41,241	\$27,371	\$24,498	\$26,788	\$119,897	\$42,641	\$28,014	\$25,686	\$28,118	\$124,459	\$67,749	\$74,757	\$116,869	\$121,297	\$123,141
Taxes	\$4,824	\$4,381	\$2,625	\$2,697	\$14,527	\$6,611	\$4,379	\$3,797	\$4,152	\$18,940	\$6,609	\$4,342	\$3,981	\$4,358	\$19,291	\$10,222	\$10,822	\$16,314	\$18,938	\$19,087
Net Income (Non-GAAP)	\$28,760	\$23,630	\$21,744	\$20,551	\$94,685	\$34,630	\$22,991	\$20,701	\$22,636	\$100,958	\$36,031	\$23,672	\$21,705	\$23,760	\$105,168	\$57,527	\$63,935	\$100,555	\$102,359	\$104,054
EPS (Non-GAAP; Headline)	\$1.68	\$1.40	\$1.30	\$1.24	\$5.61	\$2.10	\$1.40	\$1.28	\$1.42	\$6.20	\$2.29	\$1.53	\$1.42	\$1.58		\$3.17	\$3.70	\$6.02	\$6.39	\$6.88
Fully Diluted Shares	4,234	4,169	4,089	4,009	4,125	3,929	3,869	3,809	3,744	3,838	3,669	3,594	3,519	3,444	3,557					
Margin Summary																				
Gross Margin	39.8%	42.5%	43.3%	42.2%	41.8%	43.8%	43.2%	43.9%	43.1%	43.5%	43.1%	44.0%	44.4%	44.4%	43.9%	37.9%	38.8%	43.0%	43.3%	43.6%
Operating Margin (EBIT) Operating Expenses - % of Rev.	30.1% 9.7%	30.7% 11.8%	29.6% 13.7%	28.5% 13.7%	29.8% 12.0%	33.5% 10.3%	29.6% 13.6%	28.4% 15.5%	28.4% 14.7%	30.2% 13.3%	32.0% 11.2%	28.8% 15.2%	27.7% 16.7%	28.3% 16.1%	29.5% 14.5%	24.7% 13.2%	25.2% 13.5%	30.9% 12.1%	29.8% 13.5%	28.9% 14.8%
EBITDA Margin	32.5%	33.8%	33.1%	32.1%	32.9%	35.6%	33.5%	32.6%	32.9%	33.8%	34.8%	31.6%	30.5%	31.1%	32.3%	29.2%	29.0%	33.9%	33.6%	31.7%
Pretax Margin	30.1%	31.3%	29.9%	27.9%	29.9%	33.3%	29.4%	28.2%	28.2%	30.1%	31.9%	28.7%	27.6%	28.2%	29.4%	25.3%	25.4%	30.9%	29.7%	28.8%
Tax Rate Net Income Margin	14.4% 25.8%	15.6% 26.4%	10.8% 26.7%	11.6% 24.7%	13.3% 25.9%	16.0% 27.9%	16.0% 24.7%	15.5% 23.8%	15.5% 23.8%	15.8% 25.3%	15.5% 27.0%	15.5% 24.3%	15.5% 23.3%	15.5% 23.8%	15.5% 24.8%	15.1% 21.5%	14.5% 21.7%	14.0% 26.6%	15.6% 25.1%	15.5% 24.3%
Yr/Yr Growth %	23.0%	20.4%	20.7%	24.770	23.9%	21.976	24.170	23.0%	23.0%	23.3%	27.0%	24.376	23.376	23.0%	24.0%	21.5%	21.770	20.0%	23.1%	24.3%
Revenue	21.4%	53.6%	36.4%	28.8%	33.3%	11.2%	3.8%	6.7%	14.0%	9.0%	7.8%	4.9%	7.0%	4.9%	6.3%	2.3%	9.9%	28.6%	8.0%	4.7%
Gross Profit	25.9%	70.2%	55.4%	42.5%	45.6%	22.4%	5.5%	8.1%	16.4%	13.5%	6.3%	6.9%	8.4%	8.1%	7.3%	1.6%	12.3%	42.7%	8.7%	5.6%
Operating Margin (EBIT)	31.2%	114.0%	84.3%	61.0%	64.4%	23.7%	0.1%	2.2%	13.3%	10.7%	3.0%	2.2%	4.6%	4.8%	3.5%	-2.7%	12.2%	57.4%	4.2%	1.3%
Operating Expenses EBTIDA	11.9% 27.5%	11.1% 93.7%	16.1% 70.2%	14.9% 53.2%	13.5% 55.5%	18.2% 22.1%	19.6% 2.9%	21.0% 5.0%	22.9% 16.8%	20.5% 12.2%	16.8% 5.3%	17.2% -1.0%	15.3% 0.2%	14.6% -0.9%	15.9% 1.3%	10.7% -1.8%	12.4% 9.0%	15.2% 50.6%	20.0% 7.1%	15.0% -1.3%
Pretax Income	29.6%	113.3%	85.5%	56.0%	62.8%	22.8%	-2.3%	0.5%	15.2%	9.8%	3.4%	2.4%	4.8%	5.0%	3.8%	-2.9%	10.3%	56.3%	3.8%	1.5%
Net Income	29.3%	110.1%	93.2%	62.2%	64.9%	20.4%	-2.7%	-4.8%	10.1%	6.6%	4.0%	3.0%	4.8%	5.0%	4.2%	-3.2%	11.1%	57.3%	1.8%	1.7%
EPS	34.7%	118.6%	100.6%	68.2%	71.6%	24.7%	0.6%	-1.2%	14.7%	10.5%	9.3%	8.6%	11.0%	11.6%	10.0%	4.1%	16.9%	62.8%	6.2%	7.7%
Seq. Growth %																				
Revenue	72.2%	-19.6%	-9.1%	2.4%		48.7%	-25.0%	-6.6%	9.4%		40.7%	-27.0%	-4.7%	7.2%						
Gross Profit Operating Margin (EBIT)	79.5% 127.0%	-14.1% -18.0%	-7.4% -12.3%	-0.2% -1.4%		54.2% 74.4%	-25.9% -33.7%	-5.1% -10.4%	7.4% 9.3%		40.8% 58.7%	-25.5% -34.2%	-3.8% -8.3%	7.1% 9.4%						
Operating Margin (EBIT)	8.9%	-2.0%	5.2%	2.3%		12.0%	-0.8%	6.5%	3.9%		6.5%	-0.5%	4.7%	3.4%						
EBTIDA	107.1%	-16.3%	-11.0%	-0.7%		65.0%	-29.5%	-9.2%	10.5%		48.9%	-33.7%	-8.0%	9.2%						
Pretax Income	125.4%	-16.6%	-13.0%	-4.6%		77.4%	-33.6%	-10.5%	9.3%		59.2% 59.2%	-34.3%	-8.3%	9.5% 9.5%						
Net Income EPS	126.9% 128.8%	-17.8% -16.9%	-8.0% -7.2%	-5.5% -4.7%		68.5% 69.7%	-33.6% -33.0%	-10.0% -8.8%	9.3% 10.7%		59.2% 61.7%	-34.3% -33.5%	-8.3% -6.8%	9.5% 11.3%						
	.20.070	.0.070	70	70		00.770	33.378	0.070	/6		31.70	00.070	0.070							

Source: Company Data, Wells Fargo Securities, LLC Estimates

IT Hardware & Communications Networking

Equity Research

Investment Thesis, Valuation and Risks

Apple Inc. (AAPL)

Investment Thesis

Our Overweight rating reflects: 1) Apple's competitive differentiation and overall deepening product/services portfolio will create sustainable brand loyalty, 2) Apple's strong balance sheet and sustainable FCF generation; continually funding a strong capital return strategy, and 3) The continued expansion of Apple's recurring paid subscriber base.

Target Price Valuation for AAPL: \$205.00 from NC

Our \$205 price target reflects ~30x P/E on our C2023 estimate; we believe Apple's expanding subscription customer base can sustain a higher multiple.

Risks to Our Price Target and Rating for AAPL

Risks include: (1) Reinventing product momentum—can Apple sustain current level of product innovation? (2) Emerging competition; pricing pressure; (3) Component pricing volatility and gross margin impacts; (4) Supply chain disruptions; (5) Legal disputes; and (6) Execution missteps.

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Apple Inc.

Equity Research

Required Disclosures

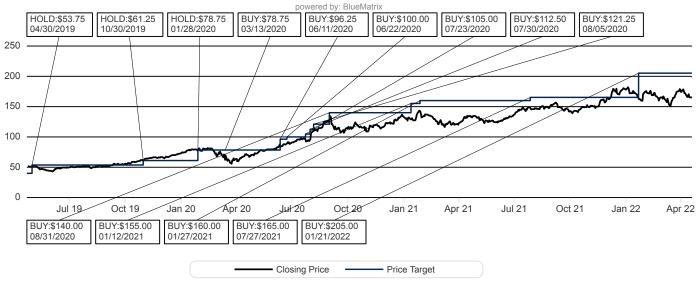
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Additional Information Available Upon Request

Apple Inc. Rating History as of 04-18-2022



Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)

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Wells Fargo Securities, LLC, or its affiliates has a significant financial interest in Apple Inc..

STOCK RATING

- 1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY
- 2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of April 19, 2022

56.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight. 36.8% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

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IT Hardware & Communications Networking Equity Research

7.2% of companies covered by Wells Farqo Securities, LLC Equity Research are rated Underweight.

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