

Apple Inc.

HOLD (AAPL, \$552.19)

APPLE EARNINGS PREVIEW: DOWNGRADE TO HOLD AS SHARES HIT PRICE TARGET.

The risks seem balanced, to the upside and downside, with good news priced in.

Shares of Apple have produced a total return (dividends reinvested) of 42.5% since our upgrade on April 22, 2013 compared to a total return of the S&P500 index of 16.4% (dividends reinvested). We are reducing our rating to HOLD from BUY as the stock has reached our \$550 price target and we expect the performance of the stock to track more in line with the broader market index.

What about the Record Holiday Quarter?

We expect Apple to post an astounding quarter with over 80 million iOS units sold, powered by the view that the company makes the best products in the space. That said, we see that the market has already broadly anticipated a record quarter, and the upside risks seem balanced with downside risks in our view. Yes, we could be giving away some upside on the reaction to the December quarter print, particularly if the company can ship 57-60 million iPhones or produce results with revenue and EPS around \$60 billion and \$15. That said, we see that expectations are again possibly overheating, particularly with regard to the opportunity with China Mobile. Additionally the market dynamic where the functionality gap between products is closing, while the price gap is widening remains an issue for Apple. Broadly speaking, the next 1 billion people purchasing smartphones are going to be from demographics less wealthy than the first billion, and the skew towards lower priced hardware is likely to continue. We do not suggest that Apple, as a high-end brand, needs to chase after the low-end market, but we do suggest that the company introduce new products to its customer base.

Wearables, Beacons, Payments, TVs.

We remain positive on Apple's ability to introduce wearable products that target the quantified self, a market we see as a natural fit to the Apple customer base. We are also positive on the potential for beacons and payments. We appreciate the concept of ultra-high definition TVs, and the streaming potential for associated content from iTunes, but caution this type of product may capture less than the 10% market share suggested by certain investors in a recent SEC filing.

Laggard.

It is also worth mentioning that one can argue that Apple is lagging in critical areas, with high profile wearable products from competitors already on the market such as Glass, inexpensive products such as Chromecast linking tablets/phones/PCs to TVs, and Apple's approximately 575 million credit cards associated with iTunes an underutilized asset as it is not being broadly used for other payments.

Valuation. While we appreciate that Apple's shares may look appealing from a ratio perspective, trading at 12.3x our FY2014 earnings estimate, we mention again that earnings of companies in a fast moving technology landscape can change quickly. Apple remains that largest capitalized company on a U.S. listed exchange with its \$493B valuation and as such we see the company as also being subject to selling for reasons outside of its fundamentals such as cash liquidation needs.

Company guidance for the December quarter is \$55-\$58B in revenue, gross margin of 36.5-37.5%, tax rate to be 26.25%, other income/(expense) of \$200M and operating expense of \$4.4-\$4.5B.

Balance Sheet: AAPL has \$146.7B in cash (\$161.40 / share) and \$17B long-term debt as of September 30, 2013.

PRICE PERFORMANCE CHART



Source: finance.yahoo.com

Company Data

| | |
|------------------------|-----------------|
| Price (\$) | 552.19 |
| 52-Week Range (\$) | 385.10 - 575.14 |
| Mkt Cap (\$ B) | 493 |
| Price Target (\$) | 550 |
| Diluted Shares Out (M) | 909.1 |
| Avg. daily vol. (3mo) | 11,410,300 |

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Apple Inc.

| | 2012A | 2013A | 2014E |
|-----------------------|-------|-------|-------|
| EPS Reported (\$) | | | |
| Q1 (Dec) | 13.87 | 13.81 | 14.05 |
| Q2 (Mar) | 12.30 | 10.09 | 10.91 |
| Q3 (Jun) | 9.32 | 7.47 | 9.54 |
| Q4 (Sep) | 8.67 | 8.26 | 10.21 |
| FY (Fiscal Sep) | 44.15 | 39.75 | 44.72 |
| Bloomberg EPS FY (\$) | 44.15 | 39.75 | 43.85 |

| | 2012A | 2013A | 2014E |
|---------------------------|---------|---------|---------|
| Revenue Reported (\$M) | | | |
| Q1 (Dec) | 46,333 | 54,512 | 57,238 |
| Q2 (Mar) | 39,186 | 43,603 | 45,434 |
| Q3 (Jun) | 35,023 | 35,323 | 40,268 |
| Q4 (Sep) | 35,966 | 37,472 | 42,006 |
| FY (Fiscal Sep) | 156,508 | 170,910 | 184,946 |
| Bloomberg Revenue FY (\$) | 156,508 | 170,910 | 185,278 |

Source: Company data, Bloomberg, BGC Financial estimates. Note: F13 and FY14 estimates may include adjustments. FY total may not add up due to rounding. 'Bloomberg' above denotes Bloomberg consensus estimates.

Recommendation

We reduce our rating to HOLD from BUY and maintain our price target of \$550 on shares of Apple Inc. The company reports results on Monday January 27th post market. Our estimate of revenue for December quarter at \$57.2B is growth of 5% YoY and compares to consensus revenue of \$57.5B. Our EPS estimate of \$14.05 compares to \$13.81 in the prior year and is roughly inline with consensus earnings estimates of \$14.08.

Company guidance for the December quarter is \$55-\$58B in revenue, gross margin of 36.5-37.5%, tax rate to be 26.25%, other income/(expense) of \$200M and operating expense of \$4.4-\$4.5B.

We are estimating 53M iPhones (ASP \$595), 25.3 million iPads (\$425), 4.8M Macs (ASP \$1300) and 10M iPods (ASP \$165) sold in the December quarter to generate \$57.2B in revenue and \$14.05 in EPS with a gross margin assumption of 37.4%.

Estimates and Valuation

No change to our FY2014 estimates:

\$44.72 eps and \$185B in net revenue

Our estimates represent YoY revenue growth of 8.2%. This compares to consensus revenue of \$185.3B. Our earnings estimate is \$44.72 EPS, which compares to \$39.75 in the prior year, growth of 12.5%. Consensus EPS is \$43.85.

The company operates on a fiscal September year.

Based on our \$44.72 EPS estimate for FY2013 and using a 12.3x multiple, a discount to its peers, we determine a 12-month price target for AAPL of \$550.

Short Interest

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| Settlement Date | Short Interest | Percent Change | Average Daily Share Volume | Days to Cover |
|-----------------|----------------|----------------|----------------------------|---------------|
| 12/31/2013 | 14,158,050 | -11.69 | 11,021,590 | 1.28 |
| 12/13/2013 | 16,032,758 | -5.90 | 13,346,337 | 1.20 |
| 11/29/2013 | 17,038,304 | -12.12 | 10,161,944 | 1.68 |
| 11/15/2013 | 19,388,272 | 9.01 | 9,434,658 | 2.06 |
| 10/31/2013 | 17,785,876 | -2.70 | 14,214,733 | 1.25 |
| 10/15/2013 | 18,279,959 | 4.50 | 11,299,346 | 1.62 |
| 09/30/2013 | 17,493,461 | -2.11 | 15,821,188 | 1.11 |
| 09/13/2013 | 17,870,393 | 1.69 | 16,375,704 | 1.09 |
| 08/30/2013 | 17,573,332 | -14.01 | 12,205,599 | 1.44 |
| 08/15/2013 | 20,435,838 | -2.82 | 15,045,415 | 1.36 |
| 07/31/2013 | 21,029,731 | -19.25 | 10,519,619 | 2.00 |
| 07/15/2013 | 26,042,120 | -6.09 | 11,691,065 | 2.23 |
| 06/28/2013 | 27,731,412 | 18.60 | 13,640,602 | 2.03 |
| 06/14/2013 | 23,382,965 | -2.85 | 12,472,904 | 1.87 |
| 05/31/2013 | 24,068,388 | -7.32 | 15,120,924 | 1.59 |
| 05/15/2013 | 25,968,885 | -37.56 | 16,765,684 | 1.55 |
| 04/30/2013 | 41,589,490 | 107.17 | 23,982,694 | 1.73 |
| 04/15/2013 | 20,074,811 | 0.34 | 13,318,714 | 1.51 |
| 03/28/2013 | 20,006,081 | -2.40 | 15,676,372 | 1.28 |
| 03/15/2013 | 20,497,889 | 5.48 | 18,248,899 | 1.12 |
| 02/28/2013 | 19,432,642 | 3.48 | 16,174,820 | 1.20 |
| 02/15/2013 | 18,778,593 | -0.42 | 19,820,170 | 1.00 |
| 01/31/2013 | 18,856,860 | 6.51 | 25,889,477 | 1.00 |
| 01/15/2013 | 17,704,192 | -0.89 | 20,161,862 | 1.00 |

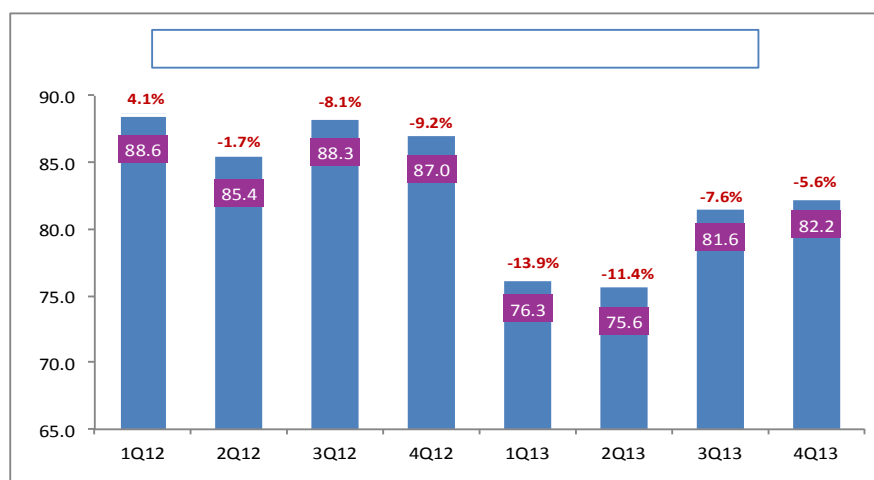
Source: www.nasdaqtrader.com

Share Performance during Earnings

| Apple Inc. (AAPL) | Q2/12 | Q3/12 | Q4/12 | Q1/13 | Q2/13 | Q3/13 | Q4/13 |
|------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Date of Earnings Release | 23-Apr-12 | 24-Jul-12 | 25-Oct-12 | 23-Jan-13 | 23-Apr-13 | 23-Jul-13 | 28-Oct-13 |
| Stock Price on Date of Earnings Release | 571.70 | 600.92 | 609.54 | 514.00 | 406.13 | 418.99 | 529.88 |
| Stock Price a Day After Earnings Release | 560.28 | 574.97 | 604.00 | 450.50 | 405.46 | 440.51 | 516.68 |
| % Change | -2.0% | -4.3% | -0.9% | -12.4% | -0.2% | 5.1% | -2.5% |

Source: MSN and BGC Financial

PC Market Data



Source: IDC Worldwide Quarterly PC Tracker. Quarterly data shown is tied to Microsoft's Fiscal June year.

Top 5 Vendors, Worldwide PC Shipments

Fourth Quarter 2013 (Preliminary) (Units Shipments are in thousands)

| Rank | Vendor | 4Q13 Shipments | 4Q13 Market Share | 4Q12 Shipments | 4Q12 Market Share | 4Q13/4Q12 Growth |
|------|------------|----------------|-------------------|----------------|-------------------|------------------|
| 1 | Lenovo | 15,279 | 18.6% | 14,013 | 16.1% | 9.0% |
| 2 | HP | 13,779 | 16.8% | 15,059 | 17.3% | -8.5% |
| 3 | Dell | 10,030 | 12.2% | 9,482 | 10.9% | 5.8% |
| 4 | Acer Group | 5,540 | 6.7% | 7,046 | 8.1% | -21.4% |
| 5 | ASUS | 4,988 | 6.1% | 5,610 | 6.4% | -11.1% |
| | Others | 32,595 | 39.6% | 35,840 | 41.2% | -9.1% |
| | Total | 82,211 | 100.0% | 87,049 | 100.0% | -5.6% |

Source: IDC Worldwide Quarterly PC Tracker, BGC Financial

Top 5 Vendors, Worldwide Tablet Shipments, Third Quarter 2013 (Preliminary) (Units Shipments are in millions)

| Vendor | 3Q13 Shipments | 3Q13 Market Share | 3Q12 Shipments | 3Q12 Market Share | 3Q13/3Q12 Growth |
|-------------|----------------|-------------------|----------------|-------------------|------------------|
| Apple | 14.1 | 29.6% | 14.0 | 40.2% | 0.6% |
| Samsung | 9.7 | 20.4% | 4.3 | 12.4% | 123.0% |
| Asus | 3.5 | 7.4% | 2.3 | 6.6% | 53.9% |
| Lenovo | 2.3 | 4.8% | 0.4 | 1.1% | 420.7% |
| Acer | 1.2 | 2.5% | 0.3 | 0.9% | 346.3% |
| Others | 16.8 | 35.3% | 13.5 | 38.8% | 25.0% |
| All Vendors | 47.6 | 100.0% | 34.8 | 100.0% | 36.7% |

Source: IDC

Smartphone

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Top Five Smartphone Vendors, Shipments, and Market Share, 2013 Q3 (Units in Millions)

| Vendor | 3Q13 Unit Shipments | 3Q13 Market Share | 3Q12 Unit Shipments | 3Q12 Market Share | Year-over-year Change |
|--------------|---------------------|-------------------|---------------------|-------------------|-----------------------|
| Samsung | 81.2 | 31.4% | 57.8 | 31.0% | 40.5% |
| Apple | 33.8 | 13.1% | 26.9 | 14.4% | 25.7% |
| Huawei | 12.5 | 4.8% | 7.1 | 3.8% | 76.5% |
| Lenovo | 12.3 | 4.7% | 6.9 | 3.7% | 77.6% |
| LG | 12.0 | 4.6% | 7.0 | 3.8% | 71.4% |
| Others | 106.6 | 41.3% | 80.5 | 43.2% | 32.4% |
| Total | 258.4 | 100.0% | 186.2 | 100.0% | 38.8% |

Source: IDC

iPhone History

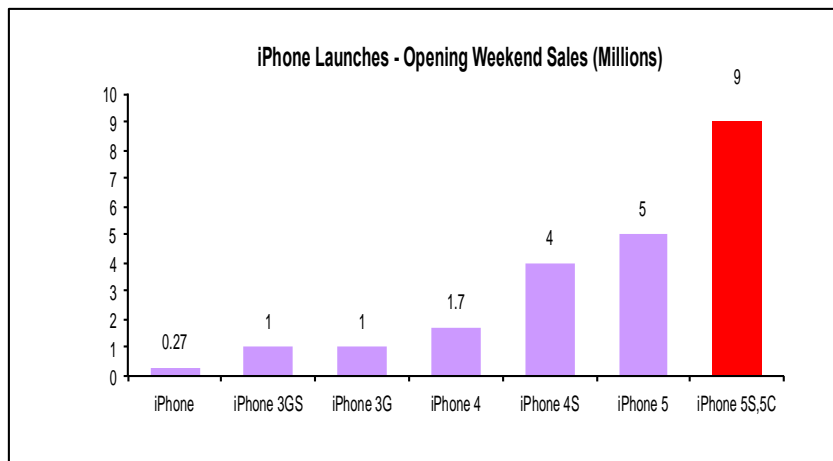
- 2007: **iPhone** released.
- 2008: **iPhone 3G** released. **1M** units sold over first weekend.
- 2009: **iPhone 3GS** released. **1M** units sold over first weekend.
- 2010: **iPhone 4** released. **1.7M** units sold in first three days.
- 2011: **iPhone 4S** released. **4M** units sold in first three days.
- 2012: **iPhone 5** released. **5M** units sold in first three days.
- 2013: **iPhone 5S and iPhone 5C** released. **9M** units sold in the first 3 days.

| iPhone Sales (Million Units) | | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|------------|
| Fiscal Year | Q1 (Oct-Dec) | Q2 (Jan-Mar) | Q3 (Apr-Jun) | Q4 (Jul-Sep) | Total Sold |
| 2007 | - | - | 0.3 | 1.1 | 1.4 |
| 2008 | 2.3 | 1.7 | 0.7 | 6.9 | 11.6 |
| 2009 | 4.4 | 3.8 | 5.2 | 7.4 | 20.7 |
| 2010 | 8.7 | 8.8 | 8.4 | 14.1 | 40.0 |
| 2011 | 16.2 | 18.6 | 20.3 | 17.1 | 72.3 |
| 2012 | 37.0 | 35.1 | 26.0 | 26.9 | 125.0 |
| 2013 | 47.8 | 37.4 | 31.2 | 33.8 | 150.3 |
| Fiscal Year | Q1 | Q2 | Q3 | Q4 | 421.3 |

Source: Company Documents and BGC Financial.

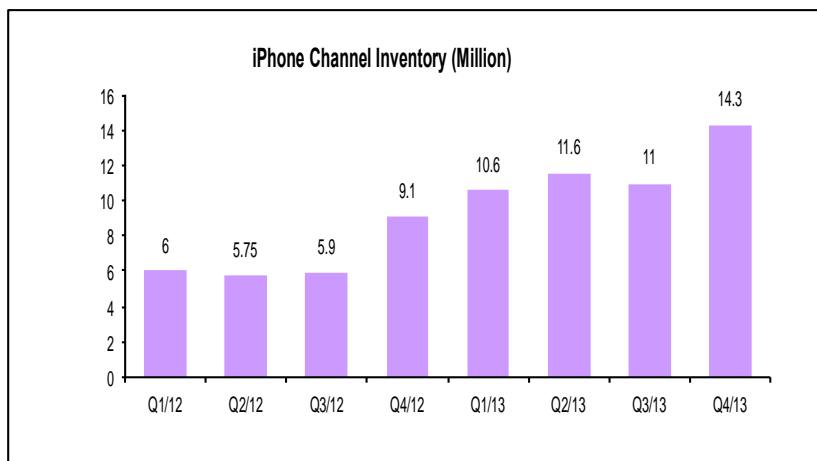
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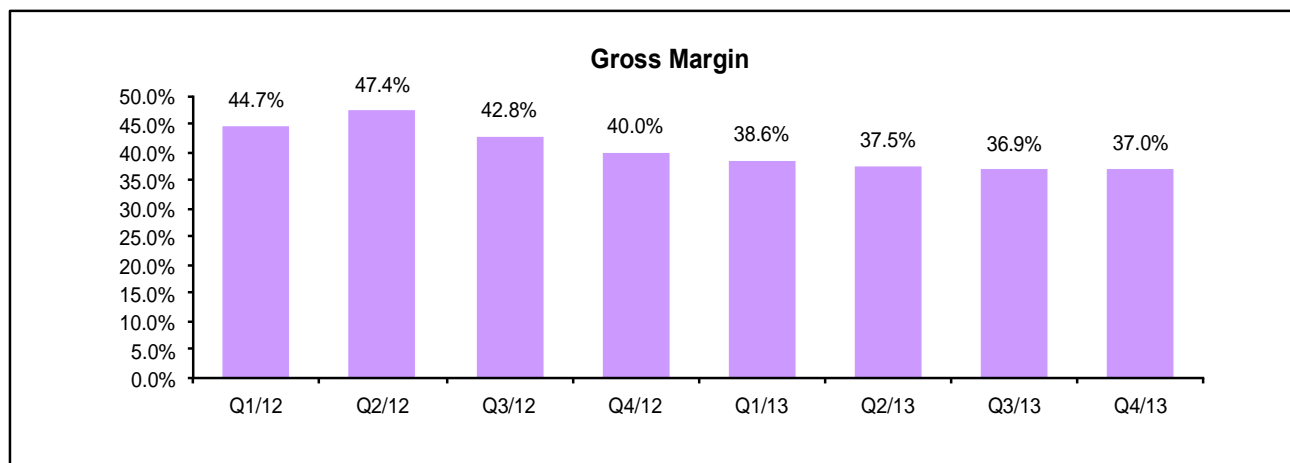
Source: Company Documents and BGC Financial.

iPhone Channel Inventory

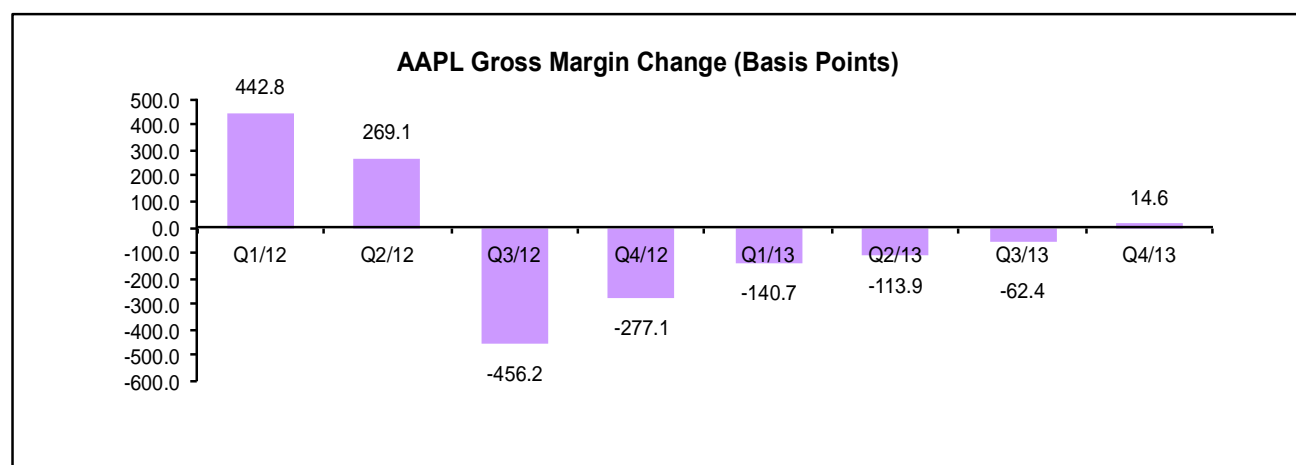


Source: Company Documents and BGC Financial.

Gross Margin



Source: Company Documents and BGC Financial.



Source: Company Documents and BGC Financial.

Balance Sheet and Cash flow

AAPL has \$146.7B in cash (\$161.4 / share) and \$17B long-term debt as of September 30, 2013. The company generated \$9.9B in cash from operations in the September quarter. Cash grew by \$141M in the September quarter from \$146.6B on June 30, 2013 to \$146.7B on September 30, 2013.

Key Metrics Review

| Revenue | 2012 | 2013 | Q1 (2012) | Q2 (2012) | Q3 (2012) | Q4 (2012) | Q1 (2013) | Q2 (2013) | Q3 (2013) | Q4 (2013) |
|------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 1,56,508 | 1,70,910 | 46,333 | 39,186 | 35,023 | 35,966 | 54,512 | 43,603 | 35,323 | 37,472 |
| Y/Y Growth Rate | 45% | 9% | 73% | 59% | 23% | 27% | 18% | 11% | 1% | 4% |
| Q/Q Growth Rate | na | na | 64% | -15% | -11% | 3% | 52% | -20% | -19% | 6% |
| Americas | 57,512 | 62,739 | 17,714 | 13,182 | 12,806 | 13,810 | 20,341 | 14,052 | 14,405 | 13,941 |
| Y/Y Growth Rate | 50% | 9% | 92% | 41% | 26% | 43% | 15% | 7% | 12% | 1% |
| Q/Q Growth Rate | na | na | 84% | -26% | -3% | 8% | 47% | -31% | 3% | -3% |
| Europe | 36,323 | 37,883 | 11,256 | 8,807 | 8,237 | 8,023 | 12,464 | 9,800 | 7,614 | 8,005 |
| Y/Y Growth Rate | 31% | 4% | 55% | 46% | 16% | 8% | 11% | 11% | -8% | 0% |
| Q/Q Growth Rate | na | na | 52% | -22% | -6% | -3% | 55% | -21% | -22% | 5% |
| Greater China | 22,533 | 25,417 | 4,080 | 7,637 | 5,389 | 5,427 | 6,830 | 8,213 | 4,641 | 5,733 |
| Y/Y Growth Rate | 78% | 13% | 65% | 244% | 48% | 24% | 67% | 8% | -14% | 6% |
| Q/Q Growth Rate | na | na | -6% | 87% | -29% | 1% | 26% | 20% | -43% | 24% |
| Japan | 10,571 | 13,462 | 3,550 | 2,645 | 2,009 | 2,367 | 4,443 | 3,135 | 2,543 | 3,341 |
| Y/Y Growth Rate | 94% | 27% | 148% | 91% | 33% | 113% | 25% | 19% | 27% | 41% |
| Q/Q Growth Rate | na | na | 220% | -25% | -24% | 18% | 88% | -29% | -19% | 31% |
| Asia Pacific | 10,741 | 11,181 | 3,617 | 2,516 | 2,498 | 2,110 | 3,993 | 3,162 | 2,046 | 1,980 |
| Y/Y Growth Rate | 8% | 4% | 44% | 0% | -7% | -3% | 10% | 26% | -18% | -6% |
| Q/Q Growth Rate | na | na | 67% | -30% | -1% | -16% | 89% | -21% | -35% | -3% |
| Retail | 18,828 | 20,228 | 6,116 | 4,399 | 4,084 | 4,229 | 6,441 | 5,241 | 4,074 | 4,472 |
| Y/Y Growth Rate | 33% | 7% | 59% | 38% | 17% | 18% | 5% | 19% | 0% | 6% |
| Q/Q Growth Rate | na | na | 71% | -28% | -7% | 4% | 52% | -19% | -22% | 10% |
| As % of Revenues | | | | | | | | | | |
| Americas | 37% | 37% | 38% | 34% | 37% | 38% | 37% | 32% | 41% | 37% |
| Europe | 23% | 22% | 24% | 22% | 24% | 22% | 23% | 22% | 22% | 21% |
| Greater China | 14% | 15% | 9% | 19% | 15% | 15% | 13% | 19% | 13% | 15% |
| Japan | 7% | 8% | 8% | 7% | 6% | 7% | 8% | 7% | 7% | 9% |
| Asia Pacific | 7% | 7% | 8% | 6% | 7% | 6% | 7% | 7% | 6% | 5% |
| Retail | 12% | 12% | 13% | 11% | 12% | 12% | 12% | 12% | 12% | 12% |

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

| Cost | 2012 | 2013 | Q1 (2012) | Q2 (2012) | Q3 (2012) | Q4 (2012) | Q1 (2013) | Q2 (2013) | Q3 (2013) | Q4 (2013) |
|-------------------------------------|--------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cost of Revenues | 87,846 | 1,06,606 | 25,630 | 20,622 | 20,029 | 21,565 | 33,452 | 27,254 | 22,299 | 23,601 |
| As % of Revenues | 56% | 62% | 55% | 53% | 57% | 60% | 61% | 63% | 63% | 63% |
| Research and development | 3,381 | 4,475 | 758 | 841 | 876 | 906 | 1,010 | 1,119 | 1,178 | 1,168 |
| As % of Revenues | 2% | 3% | 2% | 2% | 3% | 3% | 2% | 3% | 3% | 3% |
| Selling, general and administrative | 10,040 | 10,830 | 2,605 | 2,339 | 2,545 | 2,551 | 2,840 | 2,672 | 2,645 | 2,673 |
| As % of Revenues | 6% | 6% | 6% | 6% | 7% | 7% | 5% | 6% | 7% | 7% |

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

| Profitability | 2012 | 2013 | Q1 (2012) | Q2 (2012) | Q3 (2012) | Q4 (2012) | Q1 (2013) | Q2 (2013) | Q3 (2013) | Q4 (2013) |
|----------------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Income from operations | 55,241 | 48,999 | 17,340 | 15,384 | 11,573 | 10,944 | 17,210 | 12,558 | 9,201 | 10,030 |
| As % of Revenues | 35% | 29% | 37% | 39% | 33% | 30% | 32% | 29% | 26% | 27% |
| Net Income | 41,733 | 37,037 | 13,064 | 11,622 | 8,824 | 8,223 | 13,078 | 9,547 | 6,900 | 7,512 |
| As % of Revenues | 27% | 22% | 28% | 30% | 25% | 23% | 24% | 22% | 20% | 20% |
| EPS (Diluted) | \$44.15 | \$39.75 | \$13.87 | \$12.30 | \$9.32 | \$8.67 | \$13.81 | \$10.09 | \$7.47 | \$8.26 |
| Number of Shares (Diluted) | 945 | 932 | 942 | 945 | 947 | 948 | 947 | 946 | 924 | 909 |
| Operating Cash Flow | \$16,022 | \$18,591 | \$17,554 | \$13,977 | \$10,189 | \$9,136 | \$23,426 | \$12,504 | \$7,828 | \$9,908 |

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

| Products Summary (Revenue) | 2012 | 2013 | Q1 (2012) | Q2 (2012) | Q3 (2012) | Q4 (2012) | Q1 (2013) | Q2 (2013) | Q3 (2013) | Q4 (2013) |
|----------------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| iPhone | 78,692 | 91,279 | 23,950 | 22,276 | 15,821 | 16,645 | 30,660 | 22,955 | 18,154 | 19,510 |
| iPad | 30,945 | 31,980 | 8,769 | 6,264 | 8,779 | 7,133 | 10,674 | 8,746 | 6,374 | 6,186 |
| Mac | 23,221 | 21,483 | 6,598 | 5,073 | 4,933 | 6,617 | 5,519 | 5,447 | 4,893 | 5,624 |
| iPod | 5,615 | 4,411 | 2,528 | 1,207 | 1,060 | 820 | 2,143 | 962 | 733 | 573 |
| iTunes/Software/Services | 12,890 | 16,051 | 3,020 | 3,171 | 3,203 | 3,496 | 3,687 | 4,114 | 3,990 | 4,260 |
| Accessories | 5,145 | 5,706 | 1,468 | 1,195 | 1,227 | 1,255 | 1,829 | 1,379 | 1,179 | 1,319 |
| Consolidated | 1,56,508 | 1,70,910 | 46,333 | 39,186 | 35,023 | 35,966 | 54,512 | 43,603 | 35,323 | 37,472 |

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

| Products Summary (Units) | 2012 | 2013 | Q1 (2012) | Q2 (2012) | Q3 (2012) | Q4 (2012) | Q1 (2013) | Q2 (2013) | Q3 (2013) | Q4 (2013) |
|--------------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| iPhone | 1,25,046 | 1,50,257 | 37,044 | 35,064 | 26,028 | 26,910 | 47,789 | 37,430 | 31,241 | 33,797 |
| iPad | 58,310 | 71,033 | 15,434 | 11,798 | 17,042 | 14,036 | 22,860 | 19,477 | 14,617 | 14,079 |
| Mac | 18,158 | 16,341 | 5,198 | 4,017 | 4,020 | 4,923 | 4,061 | 3,952 | 3,754 | 4,574 |
| iPod | 35,165 | 26,379 | 15,397 | 7,673 | 6,751 | 5,344 | 12,679 | 5,633 | 4,569 | 3,498 |

Source: Company Documents and BGC Financial. Data is based on fiscal year ending September.

Risks

See page 9 for important disclosures and disclaimers

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Economic conditions: Uncertain global economic conditions may postpone consumer spending due to unemployment, tighter credit, negative financial news and decline in income/asset values. This could adversely affect the performance and operations of the company.

Competition: There is immense competition and rapid technological changes take place in the global market for mobile communication devices, personal computers, digital music and video devices and related services. AAPL's operating results could be affected badly in case it is not able to compete in such adverse market conditions.

Inventory and Other Asset Risk: Product obsolescence is rapid in global personal computers and mobile market can lead to additional incurrence of inventory and asset related charges which could have a material impact on the company's finances.

Key Components: AAPL procures its key components including microprocessors, NAND flash memory, DRAM and LCDs from single or limited sources. This exposes the company to significant pricing and supply risks.

Dependence on Third Parties Outside the US: AAPL relies on third-party manufacturers for not just most of its products but also for its transportation and logistics management. This reduces the company's direct control over production and distribution and also leads to uncertainty.

For additional risks, see the AAPL 10-K filing with the SEC.

Disclosures Appendix

Analyst Certification

The analyst primarily responsible for this research report, and whose name appears on the front cover, certifies that: (i) all of the views expressed in this research report accurately reflects his or her personal views about any and all of the subject securities or issuers featured in this report; and (ii) no part of any of the research analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

Legal Disclosures

Investment banking (next 3 months): BGC Financial LP and/or its affiliates, expect to receive, or intend to seek, compensation for investment banking services within the next three months from all of the companies referenced within this report.

Lead or Co-manager: BGC Financial LP and/or its affiliates, has not acted as lead or co-manager in a public offering of equity and/or debt securities for Apple within the last 12 months. BGC Financial LP and/or its affiliates has not received compensation for investment banking services in the last 12 months from Apple.

BGC Financial LP's rating system

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BUY: We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.

HOLD: We have a neutral outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation.

SELL: We have a negative outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors reduce their position.

NC: Not Covered. BGC Financial LP does not provide an investment opinion or does not provide research coverage on this stock.

Other Disclosures

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Additional material for UK investors

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Risks

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based on their specific investment objectives. Past performance should not be taken as an indication or guarantee of future performance. The price, value of and income from, any of the financial instruments featured in this report can rise as well as fall and be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or income derived from, the financial instrument, and such investors effectively assume currency risk. In addition, investors in securities such as ADRs, whose value is affected by the currency of the home

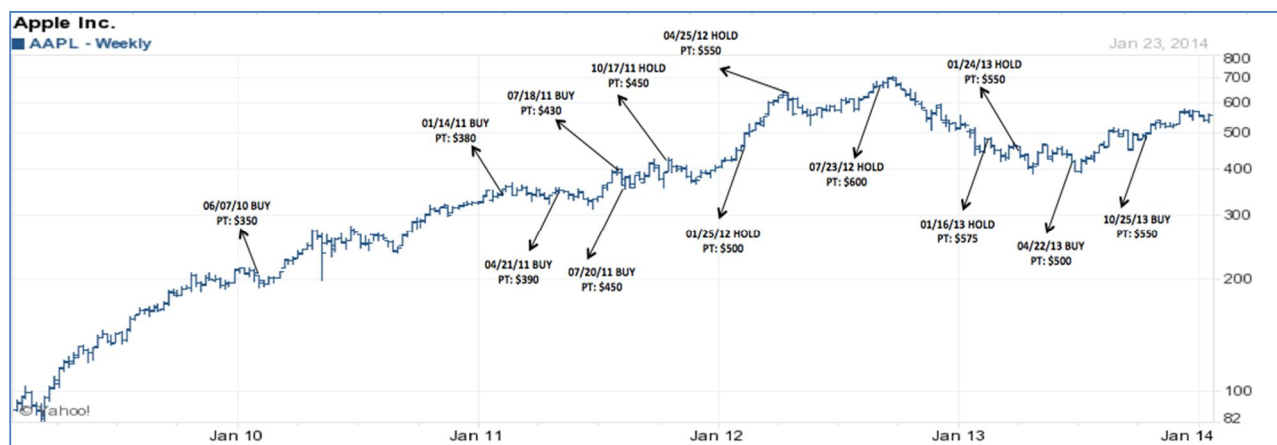
market of the underlying security, effectively assume currency risk.

Disclosures Appendix

Distribution of Ratings/Investment Banking Services (IB) as of 01/24/14 BGC

| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
|----------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
| BUY [B] | 17 | 43% | 0 | 0 |
| HOLD [H] | 22 | 55% | 0 | 0 |
| SELL [S] | 1 | 2% | 0 | 0 |

Price Target and Ratings Changes



Source: BGC Financial and Bloomberg

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| Apple Inc. (AAPL) Income Statement (Data in \$US millions, except per share) | | | | | | | | | | | | | Cash&eqv. \$1,46,761.0 Cash / share \$161.43 LT Debt \$16,960 As of: Sep 30, 2013 | | | |
|------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------------------------------------------------------------------------------|------------|------------|------------|
| | 2012 by Quarter | | | | 2013 by Quarter | | | | 2014 by Quarter | | | | Fiscal Year September | | | |
| | Q1/12 Dec-11 | Q2/12 Mar-12 | Q3/12 Jun-12 | Q4/12 Sep-12 | Q1/13 Dec-12 | Q2/13 Mar-13 | Q3/13 Jun-13 | Q4/13 Sep-13 | Q1/14E Dec-2014 | Q2/14E Mar-2014 | Q3/14E Jun-2014 | Q4/14E Sep-2014 | 2011 | 2012 | 2013 | 2014E |
| Revenues | 46,333.0 | 38,186.0 | 35,023.0 | 35,966.0 | 54,512.0 | 43,863.0 | 35,323.0 | 37,472.0 | 57,237.6 | 45,434.3 | 40,268.2 | 42,006.1 | 1,08,249.0 | 1,56,508.0 | 1,70,910.0 | 1,84,946.3 |
| Cost of Sales | 25,630.0 | 20,622.0 | 20,029.0 | 21,565.0 | 33,452.0 | 27,254.0 | 22,299.0 | 23,801.0 | 35,830.7 | 28,260.2 | 25,006.6 | 26,127.8 | 64,431.0 | 87,846.0 | 1,06,608.0 | 1,15,225.3 |
| Gross Profit | 20,703.0 | 18,564.0 | 14,994.0 | 14,401.0 | 21,060.0 | 16,349.0 | 13,024.0 | 13,671.0 | 21,406.9 | 17,174.2 | 15,261.7 | 15,878.3 | 43,818.0 | 68,662.0 | 64,304.0 | 69,721.0 |
| Operating expenses | | | | | | | | | | | | | | | | |
| Research and development | 758.0 | 841.0 | 876.0 | 906.0 | 1,010.0 | 1,119.0 | 1,178.0 | 1,168.0 | 1,259.2 | 1,181.3 | 1,167.8 | 1,134.2 | 2,429.0 | 3,381.0 | 4,475.0 | 4,742.5 |
| Selling, general and administrative | 2,605.0 | 2,339.0 | 2,545.0 | 2,551.0 | 2,840.0 | 2,672.0 | 2,645.0 | 2,673.0 | 3,148.1 | 2,907.8 | 2,738.2 | 2,646.4 | 7,599.0 | 10,040.0 | 10,830.0 | 11,440.5 |
| Total operating expenses | 3,363.0 | 3,180.0 | 3,421.0 | 3,457.0 | 3,850.0 | 3,791.0 | 3,823.0 | 3,841.0 | 4,407.3 | 4,089.1 | 3,906.0 | 3,780.6 | 10,028.0 | 13,421.0 | 15,305.0 | 16,183.0 |
| Income from operations | 17,340.0 | 15,384.0 | 11,573.0 | 10,944.0 | 17,210.0 | 12,558.0 | 9,201.0 | 10,030.0 | 16,999.6 | 13,085.1 | 11,355.6 | 12,097.8 | 33,790.0 | 55,241.0 | 48,999.0 | 53,538.1 |
| Other income and expenses | 137.0 | 148.0 | 288.0 | (51.0) | 462.0 | 347.0 | 234.0 | 113.0 | 250.0 | 250.0 | 250.0 | 250.0 | 415.0 | 522.0 | 1,156.0 | 1,000.0 |
| Income before income taxes | 17,477.0 | 15,532.0 | 11,861.0 | 10,893.0 | 17,672.0 | 12,905.0 | 9,435.0 | 10,143.0 | 17,249.6 | 13,335.1 | 11,605.6 | 12,347.8 | 34,205.0 | 55,763.0 | 50,155.0 | 54,538.1 |
| Provision for income taxes | 4,413.0 | 3,910.0 | 3,037.0 | 2,670.0 | 4,594.0 | 3,358.0 | 2,535.0 | 2,631.0 | 4,502.1 | 3,467.1 | 3,017.5 | 3,210.4 | 8,283.0 | 14,030.0 | 13,118.0 | 14,197.1 |
| Net Income | 13,064.0 | 11,622.0 | 8,824.0 | 8,223.0 | 13,078.0 | 9,547.0 | 6,900.0 | 7,512.0 | 12,747.4 | 9,868.0 | 8,588.2 | 9,137.3 | 25,922.0 | 41,733.0 | 37,037.0 | 40,340.9 |
| EPS- diluted | \$13.87 | \$12.30 | \$9.32 | \$8.67 | \$13.81 | \$10.09 | \$7.47 | \$8.26 | \$14.05 | \$10.91 | \$9.54 | \$10.21 | \$27.68 | \$44.15 | \$39.75 | \$44.72 |
| Shares used in per share calculation- diluted | 941.6 | 944.9 | 947.1 | 948.2 | 947.2 | 946.0 | 924.3 | 909.1 | 907.1 | 904.1 | 900.1 | 895.1 | 936.6 | 945.4 | 931.7 | 902.2 |
| Margins on Revenue | | | | | | | | | | | | | | | | |
| Gross Margin | 44.7% | 47.4% | 42.8% | 40.0% | 38.6% | 37.5% | 36.9% | 37.0% | 37.4% | 37.8% | 37.9% | 37.8% | 40.5% | 43.9% | 37.6% | 37.7% |
| Cost of Revenue | 55.3% | 52.6% | 57.2% | 60.0% | 61.4% | 62.5% | 63.1% | 63.0% | 62.6% | 62.2% | 62.1% | 62.2% | 59.5% | 56.1% | 62.4% | 62.3% |
| Research and development | 1.6% | 2.1% | 2.5% | 2.5% | 1.9% | 2.6% | 3.3% | 3.1% | 2.2% | 2.6% | 2.9% | 2.7% | 2.2% | 2.2% | 2.6% | 2.6% |
| Selling, general and administrative | 5.6% | 6.0% | 7.3% | 7.1% | 5.2% | 6.1% | 7.5% | 7.1% | 5.5% | 6.4% | 6.8% | 6.3% | 7.0% | 6.4% | 6.3% | 6.2% |
| EBITDAS | 39.9% | 42.2% | 36.7% | 34.4% | 35.5% | 34.0% | 32.5% | 33.0% | 33.5% | 33.6% | 33.6% | 34.0% | 34.0% | 38.5% | 33.9% | 33.7% |
| Operating Margin | 37.4% | 39.3% | 33.0% | 30.4% | 31.6% | 28.8% | 26.0% | 26.8% | 29.7% | 28.8% | 28.2% | 28.8% | 31.2% | 35.3% | 28.7% | 28.9% |
| Pretax Income | 37.7% | 39.6% | 33.9% | 30.3% | 32.4% | 29.6% | 26.7% | 27.1% | 30.1% | 29.4% | 28.8% | 29.4% | 31.6% | 35.6% | 29.3% | 29.5% |
| Tax Rate | 25.3% | 25.2% | 25.6% | 24.5% | 26.0% | 26.0% | 26.9% | 25.9% | 26.1% | 26.0% | 26.0% | 26.0% | 24.2% | 25.2% | 26.2% | 26.0% |
| Net Income | 28.2% | 29.7% | 25.2% | 22.9% | 24.0% | 21.9% | 19.5% | 20.0% | 22.3% | 21.7% | 21.3% | 21.8% | 23.9% | 26.7% | 21.7% | 21.8% |
| % Changes Q/Q | | | | | | | | | | | | | | | | |
| Total Revenues | 63.9% | -15.4% | -10.6% | 2.7% | 51.6% | -20.0% | -19.0% | 6.1% | 52.7% | -20.6% | -11.4% | 4.3% | na | na | na | na |
| % Changes Year/Year | | | | | | | | | | | | | | | | |
| Total Revenues | 73.3% | 58.9% | 22.6% | 27.2% | 17.7% | 11.3% | 0.9% | 4.2% | 5.0% | 4.2% | 14.0% | 12.1% | 66.0% | 44.6% | 9.2% | 8.2% |
| EBITDAS | 117.9% | 92.5% | 26.7% | 29.5% | 4.7% | -10.4% | -10.8% | 0.0% | -0.9% | 2.9% | 17.9% | 15.4% | 81.2% | 63.9% | -3.7% | 7.3% |
| Operating Income | 121.5% | 95.4% | 23.4% | 25.6% | -0.7% | -18.4% | -20.5% | -8.4% | -1.2% | 4.2% | 23.4% | 20.6% | 83.8% | 63.5% | -11.3% | 9.3% |
| Pretax Income | 119.5% | 96.6% | 24.2% | 23.9% | 1.1% | -16.9% | -20.5% | -6.9% | -2.4% | 3.3% | 23.0% | 21.7% | 84.5% | 63.0% | -10.1% | 8.7% |
| Net Income | 117.6% | 94.1% | 20.7% | 24.2% | 0.1% | -17.9% | -21.8% | -8.6% | -2.5% | 3.4% | 24.5% | 21.6% | 85.0% | 61.0% | -11.3% | 8.9% |
| EBITDAS | 18,481.0 | 16,548.0 | 12,856.0 | 12,373.0 | 19,343.0 | 14,825.0 | 11,473.0 | 12,368.0 | 19,174.6 | 15,260.1 | 13,530.6 | 14,272.8 | 36,772.0 | 60,258.0 | 58,009.0 | 62,238.1 |
| October 28, 2013 | | | | | | | | | | | | | | | | |
| Source: Company reports and BGC Financial | | | | | | | | | | | | | | | | |

Source: Company Documents and BGC Financial

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| Balance Sheet (Data in Millions) | 2012 by Quarter | | | | 2013 by Quarter | | | |
|---------------------------------------------|-----------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 |
| | Dec 31 2011 | Mar 31 2012 | Jun 30 2012 | Sep 30 2012 | Dec 31 2012 | Mar 30 2013 | Jun 30 2013 | Sep 30 2013 |
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | 10,310 | 10,121 | 7,945 | 10,746 | 16,154 | 12,053 | 11,248 | 14,259 |
| Short-term investments | 19,846 | 18,417 | 19,709 | 18,383 | 23,666 | 27,084 | 31,358 | 26,287 |
| Accounts receivable | 8,930 | 7,042 | 7,657 | 10,930 | 11,598 | 7,084 | 8,839 | 13,102 |
| Inventories | 1236 | 1102 | 1122 | 791 | 1455 | 1245 | 1697 | 1,764 |
| Deferred tax assets | 1,937 | 2,253 | 2,309 | 2,583 | 2,895 | 3,242 | 3,193 | 3,453 |
| Vendor non-trade receivables | 7,554 | 6,727 | 6,641 | 7,762 | 9,936 | 6,252 | 4,614 | 7,539 |
| Other current assets | 4,958 | 5,050 | 6,560 | 6,458 | 6,644 | 6,377 | 7,270 | 6,882 |
| Total current assets | 54,771 | 50,712 | 51,943 | 57,653 | 72,348 | 63,337 | 68,219 | 73,286 |
| Long term marketable securities | 67,445 | 81,638 | 89,567 | 92,122 | 97,292 | 1,05,550 | 1,04,014 | 1,06,215 |
| Property plant and equipment | 7,816 | 8,847 | 10,487 | 15,452 | 15,422 | 15,026 | 16,327 | 16,597 |
| Goodwill | 896 | 1141 | 1132 | 1135 | 1381 | 1400 | 1522 | 1,577 |
| Acquired intangible assets, net | 3472 | 3604 | 4329 | 4224 | 4462 | 4136 | 4353 | 4,179 |
| Other assets | 4,281 | 4,992 | 5,438 | 5,478 | 5,183 | 5,294 | 5,421 | 5,146 |
| Total assets | 138,681 | 150,934 | 162,896 | 176,064 | 196,088 | 194,743 | 199,856 | 207,000 |
| Liabilities and Stockholder's Equity | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable | 18,221 | 17,011 | 16,808 | 21,175 | 26,398 | 14,912 | 15,516 | 22,367 |
| Accrued expenses | 11,500 | 9,778 | 10,430 | 11,414 | 13,207 | 13,331 | 13,470 | 13,856 |
| Deferred revenue | 4,886 | 5,247 | 5,822 | 5,953 | 7,274 | 7,265 | 7,333 | 7,435 |
| Total current liabilities | 34,607 | 32,036 | 33,060 | 38,542 | 46,879 | 35,508 | 36,319 | 43,658 |
| Deferred revenue - non current | 2,187 | 2,446 | 2,530 | 2,648 | 2,938 | 2,877 | 2,672 | 2,625 |
| Non-current liabilities | 11,833 | 13,954 | 15,560 | 16,664 | 18,925 | 20,868 | 20,553 | 20,208 |
| Long term debt | 0 | 0 | 0 | 0 | 0 | 0 | 16,958 | 16,960 |
| Total liabilities | 48,627 | 48,436 | 51,150 | 57,854 | 68,742 | 59,253 | 76,502 | 83,451 |
| Stockholders' equity: | | | | | | | | |
| Common stock | 13,961 | 14,850 | 15,573 | 16,422 | 17,167 | 17,954 | 19,024 | 19,764 |
| Accumulated other comprehensive income | 75,709 | 87,124 | 95,641 | 1,01,289 | 1,09,567 | 1,16,572 | 1,04,564 | 1,04,256 |
| Total shareholders equity | 384 | 524 | 532 | 499 | 612 | 964 | (234) | (471) |
| Total liabilities and stockholders' equity | 90,054 | 1,02,498 | 1,11,746 | 1,18,210 | 1,27,346 | 1,35,490 | 1,23,354 | 1,23,549 |
| Total liabilities and stockholders' equity | 138,681 | 1,50,934 | 1,62,896 | 1,76,064 | 1,96,088 | 1,94,743 | 1,99,856 | 2,07,000 |

Source: Company Documents and BGC Financial