

Equity Research

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AAPL

12 month target

\$114.55

\$160.00

BUY

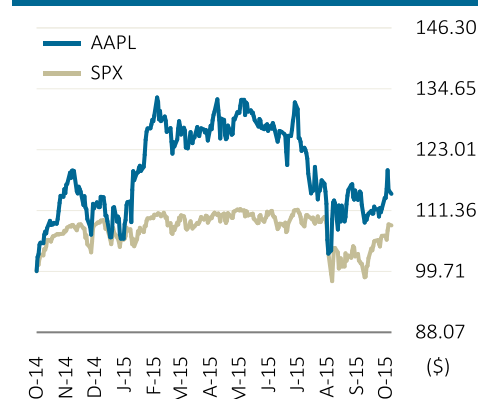
52 week range

\$103.12 - \$133.00

Market Cap (m)

\$650,933

Price Performance



Source: IDC

TMT

Apple, Inc.

Apple Growth Story Intact

Apple's quarter was fine overall and FQ1 2016 guidance implies EPS growth even at the low end of the range.

- ▶ There is no change to our \$10 Fiscal 2016 EPS estimate, which reflects 8% EPS growth and is above consensus.
- ▶ We maintained our estimate of 80 million iPhone units sold in the December quarter, but took down our March estimate to 62.5 million units from 66 million.
- ▶ Apple is generating \$70 billion of free cash flow annually, which implies an 11% FCF yield.
- ▶ **Valuation:** Our \$160 price target is based on 16x our F2016 EPS estimate of \$10.

Estimates

	1Q14 A	2Q14 A	3Q14 A	4Q14 A	FY14 A	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	FY16 E
Sales	57,594	45,646	37,432	42,123	182,795	74,599	58,010	49,605	51,501	233,715	248,143
Gross Margin (%)	37.9%	39.3%	39.4%	38.0%	38.6%	39.9%	40.8%	39.7%	39.9%	40.1%	39.2%
Diluted EPS (Adj.)	2.07	1.66	1.28	1.42	6.43	3.06	2.33	1.85	1.96	9.20	10.00
DPS	0.44	0.44	0.47	0.47	1.81	0.47	0.47	0.52	0.52	1.98	2.14
EPS Growth (%)	5.0%	15.2%	20.0%	20.1%	13.6%	47.9%	40.1%	44.5%	38.1%	43.0%	8.7%

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

Company reports and BTIG Research estimates

Please Read: Important disclosures and analyst's certification appear in Appendix

Apple's guidance for the December quarter indicates growth in revenue and EPS, even at the low end of the range. That growth might be low single-digits, but it's growth nonetheless for a stock that is discounting a fear of revenue and EPS declines. CEO Tim Cook also indicated that iPhone units would grow, which should be welcome news to investors after recent soft commentary from US wireless operators about upgrade rates.

While there are plenty of adjustments within our financial model, we continue to expect Apple to generate \$10 in EPS in Fiscal 2016, reflecting 8% EPS growth, thanks to the continued aggressive share repurchase. This may be a slowdown from the 43% growth in Fiscal 2015, but we believe it should be enough to deserve a 16.0x P/E multiple and \$160 price target for Apple, given the strong free cash flow conversion.

iPhones

Over the past week, the commentary from US operators about declining phone upgrade rates was starting to concern us, but apparently China continues to chug along unabated, with mainland units growing 120% during the quarter. As we learn more about phone upgrade programs, we agree with management's assessment that the benefit might actually be larger in future years than what they are seeing now. We also think there is an opportunity for Apple to expand its own upgrade program internationally, which could further accelerate replacement rates.

We maintained our estimate of 80 million iPhone units sold in the December quarter, recognizing that the US might not be as strong as we first thought. We took down our March estimate to 62.5 million units from 66 million in recognition of the potential impact of launching the iPhone into 50 markets earlier than we expected. Our new estimate reflects 2.2% unit growth in the March quarter and 5% growth for the year. We maintain our estimate of 4% ASP erosion in Fiscal 2016 as it seems implausible that Apple can continue the 5 consecutive quarters of annual iPhone ASP growth. The net impact is for slight growth in revenue for iPhones in 2016.

iPads

iPads continue to disappoint, declining y/y for the seventh consecutive quarter. However, the ASP outlook is improved based on the current quarter's results and the launch of the iPad Pro. As a result, our estimate for a decline in iPad revenue was cut in half to -5% from -10% in Fiscal 2016.

Services

There are several factors that have led us to increase our services revenue by \$1.7 billion for Fiscal 2016. The proliferation of Apple products globally from new and used purchases is leveraging the launch of Apple Music and obvious traction in Apple Pay, which got an added boost from a new deal with American Express for international use. Our new expectation of 10% growth is in-line with the growth rate Apple delivered in Fiscal Q4 and all of Fiscal 2015, yet the dynamics for accelerating growth are clearly present.

Apple Watch

While Apple does not report Apple Watch revenue or units, we estimate it sold 3.5 million in the quarter, generating \$1.5 billion in revenue. We cut our Fiscal 2016 Apple Watch unit estimate by 15 million, to 35 million, resulting in a \$6.3 billion negative impact to our Fiscal 2016 estimate. Those cuts were offset partially by higher revenue estimates for AppleTV and iPod refresh.

Tax rate and share repurchase

There is no change to our overall operating margins as a slight increase in our gross margin estimate was offset by slight increases in R&D and SG&A. Higher other income and a 30 basis point reduction in our estimated tax rate helped offset some of the operating reductions detailed above.

Apple bought back \$13.3 billion of stock during the quarter versus our estimate of \$12.5 billion. The purchases were also completed at an effective price of \$109 versus our \$130 estimate at the start of the quarter, resulting in 26 million more shares purchased than we estimated. This helped to offset a \$1 billion reduction in our Net Income estimate based on the adjustments above.

Where are we versus consensus?

Our \$3.30 FQ1 EPS estimate is at the high end of management's implied guidance range and \$0.08 above consensus going into last night's report. Our \$10 Fiscal 2016 EPS estimate is \$0.20 above consensus. Our revenue estimates are \$1 billion higher than consensus for FQ1 and \$2.7 billion for the year.

Buy

Apple is converting 30% of its revenue into free cash flow, generating \$70 billion of free cash flow annually. This implies an 11% FCF yield relative to its \$650 billion market cap. That is simply too high of a yield given its market position, expectation of growth and high margins, regardless of the much lower level of revenue growth and EPS expectations for 2016 detailed above.

Even with no growth in EPS, we believe Apple's valuation is too low based on cash generation. Apple bought back over 5% of its stock over the past year and will buy in another 6% this year if the stock remains at these levels. . Our \$160 price target is based on 16x our Fiscal 2016 EPS estimate of \$10.

Income Statement

Apple Income Statement											Est	Est	Est	Est	Est
\$ millions	Dec	Mar	Jun	Sep	2014	Dec	Mar	Jun	Sep	2015	Dec	Mar	Jun	Sep	2016
Revenues	57,594	45,646	37,432	42,123	182,795	74,599	58,010	49,605	51,501	233,715	78,136	61,139	53,015	55,853	248,143
Cost of goods sold	35,748	27,699	22,697	26,114	112,258	44,858	34,354	29,924	30,953	140,089	47,194	37,295	32,339	34,065	150,893
Gross profit	21,846	17,947	14,735	16,009	70,537	29,741	23,656	19,681	20,548	93,626	30,942	23,844	20,676	21,788	97,250
R&D	1,330	1,422	1,603	1,686	6,041	1,895	1,918	2,034	2,220	8,067	2,250	2,250	2,250	2,310	9,060
SG&A	3,053	2,932	2,850	3,158	11,993	3,600	3,460	3,564	3,705	14,329	4,100	3,668	3,778	3,927	15,473
Operating income	17,463	13,593	10,282	11,165	52,503	24,246	18,278	14,083	14,623	71,230	24,592	17,927	14,648	15,551	72,717
Other inc and exp	246	225	202	307	980	170	286	390	439	1,285	400	400	400	400	1,600
NIBT	17,709	13,818	10,484	11,472	53,483	24,416	18,564	14,473	15,062	72,515	24,992	18,327	15,048	15,951	74,317
Taxes	4,637	3,595	2,736	3,005	13,973	6,392	4,995	3,796	3,938	19,121	6,548	4,802	3,943	4,179	19,471
Net Income	13,072	10,223	7,748	8,467	39,510	18,024	13,569	10,677	11,124	53,394	18,444	13,525	11,105	11,772	54,846
EPS	\$2.07	\$1.66	\$1.28	\$1.42	\$6.43	\$3.06	\$2.33	\$1.85	\$1.96	\$9.20	\$3.30	\$2.46	\$2.05	\$2.20	\$10.00
Shares outstanding	6,310	6,157	6,052	5,972	6,123	5,882	5,835	5,773	5,683	5,793	5,594	5,509	5,429	5,352	5,471
Dividends per share	\$0.44	\$0.44	\$0.47	\$0.47	\$1.81	\$0.47	\$0.47	\$0.52	\$0.52	\$1.98	\$0.52	\$0.52	\$0.55	\$0.55	\$2.14
Dividends	2,749	2,683	2,844	2,807	11,083	2,764	2,742	3,002	2,955	11,464	2,909	2,865	2,986	2,944	11,703
Margins															
GPM	37.9%	39.3%	39.4%	38.0%	38.6%	39.9%	40.8%	39.7%	39.9%	40.1%	39.6%	39.0%	39.0%	39.0%	39.2%
R&D/Revenue	2.3%	3.1%	4.3%	4.0%	3.3%	2.5%	3.3%	4.1%	4.3%	3.5%	2.9%	3.7%	4.2%	4.1%	3.7%
SG&A/Revenue	5.3%	6.4%	7.6%	7.5%	6.6%	4.8%	6.0%	7.2%	7.2%	6.1%	5.2%	6.0%	7.1%	7.0%	6.2%
Operating Inc	30.3%	29.8%	27.5%	26.5%	28.7%	32.5%	31.5%	28.4%	28.4%	30.5%	31.5%	29.3%	27.6%	27.8%	29.3%
NIBT	30.7%	30.3%	28.0%	27.2%	29.3%	32.7%	32.0%	29.2%	29.2%	31.0%	32.0%	30.0%	28.4%	28.6%	29.9%
Tax rate	26.2%	26.0%	26.1%	26.2%	26.1%	26.2%	26.9%	26.2%	26.1%	26.4%	26.2%	26.2%	26.2%	26.2%	26.2%
Net Income	22.7%	22.4%	20.7%	20.1%	21.6%	24.2%	23.4%	21.5%	21.6%	22.8%	23.6%	22.1%	20.9%	21.1%	22.1%
Annual growth															
Revenues	5.7%	4.7%	6.0%	12.4%	7.0%	29.5%	27.1%	32.5%	22.3%	27.9%	4.7%	5.4%	6.9%	8.5%	6.2%
Operating income	1.5%	8.2%	11.7%	11.3%	7.2%	38.8%	34.5%	37.0%	31.0%	35.7%	1.4%	-1.9%	4.0%	6.3%	2.1%
NIBT	0.2%	7.1%	11.1%	13.1%	6.6%	37.9%	34.3%	38.0%	31.3%	35.6%	2.4%	-1.3%	4.0%	5.9%	2.5%
EPS	5.0%	15.2%	20.0%	20.1%	13.6%	47.9%	40.1%	44.5%	38.1%	43.0%	7.6%	5.6%	10.6%	12.4%	8.7%
Dividends	15.1%	15.1%	7.9%	7.9%	11.2%	7.9%	7.9%	10.6%	10.6%	9.3%	10.6%	10.6%	5.8%	5.8%	8.1%

Source: Company reports and BTIG Research estimates

Revenue and Units

Apple Revenue Analysis											Est	Est	Est	Est	Est
\$ millions	Dec	Mar	Jun	Sep	2014	Dec	Mar	Jun	Sep	2015	Dec	Mar	Jun	Sep	2016
Revenue by Product	57,594	45,646	37,432	42,123	182,795	74,599	58,010	49,605	51,501	233,715	78,136	61,139	53,015	55,853	248,143
iPhone	32,498	26,064	19,751	23,678	101,991	51,182	40,282	31,368	32,209	155,041	52,785	39,512	31,676	32,178	156,150
iPad	11,468	7,610	5,889	5,316	30,283	8,985	5,428	4,538	4,276	23,227	7,825	5,385	4,695	4,235	22,140
Mac	6,395	5,519	5,540	6,625	24,079	6,944	5,615	6,030	6,882	25,471	6,938	5,610	6,025	6,876	25,448
Services	4,397	4,573	4,485	4,608	18,063	4,799	4,996	5,028	5,086	19,909	5,279	5,496	5,531	5,595	21,900
Other Products	2,836	1,880	1,767	1,896	8,379	2,689	1,689	2,641	3,048	10,067	5,310	5,137	5,089	6,970	22,505
Annual Revenue Growth	5.7%	4.7%	6.0%	12.4%	7.0%	29.5%	27.1%	32.5%	22.3%	27.9%	4.7%	5.4%	6.9%	8.5%	6.2%
iPhone	6.0%	13.5%	8.8%	21.4%	11.7%	57.5%	54.6%	58.8%	36.0%	52.0%	3.1%	-1.9%	1.0%	-0.1%	0.7%
iPad	7.4%	-13.0%	-7.6%	-14.1%	-5.3%	-21.7%	-28.7%	-22.9%	-19.6%	-23.3%	-12.9%	-0.8%	3.5%	-1.0%	-4.7%
Mac	15.9%	1.3%	13.2%	17.8%	12.1%	8.6%	1.7%	8.8%	3.9%	5.8%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Services	19.3%	11.2%	12.4%	8.2%	12.5%	9.1%	9.2%	12.1%	10.4%	10.2%	10.0%	10.0%	10.0%	10.0%	10.0%
Other Products	-28.6%	-19.7%	-7.6%	0.2%	-17.2%	-5.2%	-10.2%	49.5%	60.8%	20.1%	97.5%	204.1%	92.7%	128.7%	123.6%
Sequential Revenue Growth	53.7%	-20.7%	-18.0%	12.5%		77.1%	-22.2%	-14.5%	3.8%		51.7%	-21.8%	-13.3%	5.4%	
iPhone	66.6%	-19.8%	-24.2%	19.9%		116.2%	-21.3%	-22.1%	2.7%		63.9%	-25.1%	-19.8%	1.6%	
iPad	85.4%	-33.6%	-22.6%	-9.7%		69.0%	-39.6%	-16.4%	-5.8%		83.0%	-31.2%	-12.8%	-9.8%	
Mac	13.7%	-13.7%	0.4%	19.6%		4.8%	-19.1%	7.4%	14.1%		0.8%	-19.1%	7.4%	14.1%	
Services	3.2%	4.0%	-1.9%	2.7%		4.1%	4.1%	0.6%	1.2%		3.8%	4.1%	0.6%	1.2%	
Other Products	49.9%	-33.7%	-6.0%	7.3%		41.8%	-37.2%	56.4%	15.4%		74.2%	-3.3%	-0.9%	37.0%	
Revenue Mix															
iPhone	56.4%	57.1%	52.8%	56.2%	55.8%	68.6%	69.4%	63.2%	62.5%	66.3%	67.6%	64.6%	59.7%	57.6%	62.9%
iPad	19.9%	16.7%	15.7%	12.6%	16.6%	12.0%	9.4%	9.1%	8.3%	9.9%	10.0%	8.8%	8.9%	7.6%	8.9%
Mac	11.1%	12.1%	14.8%	15.7%	13.2%	9.3%	9.7%	12.2%	13.4%	10.9%	8.9%	9.2%	11.4%	12.3%	10.3%
Services	7.6%	10.0%	12.0%	10.9%	9.9%	6.4%	8.6%	10.1%	9.9%	8.5%	6.8%	9.0%	10.4%	10.0%	8.8%
Other Products	4.9%	4.1%	4.7%	4.5%	4.6%	3.6%	2.9%	5.3%	5.9%	4.3%	6.8%	8.4%	9.6%	12.5%	9.1%
Units															
iPhone	51,025	43,719	35,203	39,272	169,219	74,468	61,170	47,534	48,046	231,218	80,000	62,500	50,000	50,000	242,500
iPad	26,035	16,350	13,276	12,316	67,977	21,419	12,623	10,931	9,883	54,856	17,500	12,000	10,500	9,500	49,500
Mac	4,837	4,136	4,413	5,520	18,906	5,519	4,563	4,796	5,709	20,587	5,685	4,700	4,940	5,880	21,205
Annual Unit Growth															
iPhone	6.8%	16.8%	12.7%	16.2%	12.6%	45.9%	39.9%	35.0%	22.3%	36.6%	7.4%	2.2%	5.2%	4.1%	4.9%
iPad	13.9%	-16.1%	-9.2%	-12.5%	-4.3%	-17.7%	-22.8%	-17.7%	-19.8%	-19.3%	-18.3%	-4.9%	-3.9%	-3.9%	-9.8%
Mac	19.1%	4.7%	17.6%	20.7%	15.7%	14.1%	10.3%	8.7%	3.4%	8.9%	3.0%	3.0%	3.0%	3.0%	3.0%
Sequential Unit Growth															
iPhone	51.0%	-14.3%	-19.5%	11.6%		89.6%	-17.9%	-22.3%	1.1%		66.5%	-21.9%	-20.0%	0.0%	
iPad	84.9%	-37.2%	-18.8%	-7.2%		73.9%	-41.1%	-13.4%	-9.6%		77.1%	-31.4%	-12.5%	-9.5%	
Mac	5.7%	-14.5%	6.7%	25.1%		0.0%	-17.3%	5.1%	19.0%		-0.4%	-17.3%	5.1%	19.0%	
Average Sales Prices															
iPhone	637	596	561	603	603	687	659	660	670	671	660	632	634	644	644
iPad	440	465	444	432	445	419	430	415	433	423	447	449	447	446	447
Mac	1,322	1,334	1,255	1,200	1,274	1,258	1,231	1,257	1,205	1,237	1,220	1,194	1,220	1,169	1,200
Annual ASP Growth															
iPhone	-0.7%	-2.8%	-3.4%	4.4%	-0.8%	7.9%	10.5%	17.6%	11.2%	11.3%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
iPad	-5.7%	3.7%	1.7%	-1.8%	-1.0%	-4.8%	-7.6%	-6.4%	0.2%	-5.0%	6.6%	4.4%	7.7%	3.0%	5.6%
Mac	-2.7%	-3.2%	-3.7%	-2.4%	-3.1%	-4.8%	-7.8%	0.2%	0.4%	-2.9%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Sequential ASP Growth															
iPhone	10.3%	-6.4%	-5.9%	7.5%		14.0%	-4.2%	0.2%	1.6%		-1.6%	-4.2%	0.2%	1.6%	
iPad	0.3%	5.7%	-4.7%	-2.7%		-2.8%	2.5%	-3.5%	4.2%		3.3%	0.4%	-0.4%	-0.3%	
Mac	7.5%	0.9%	-5.9%	-4.4%		4.8%	-2.2%	2.2%	-4.1%		1.2%	-2.2%	2.2%	-4.1%	

Source: Company reports and BTIG Research estimates

Income Statement Estimates vs Actuals

Apple Income Statement	Act	Est	Act	Diff
\$ millions	Jun	Sep	Sep	
Revenues	49,605	51,168	51,501	334
Cost of goods sold	29,924	30,956	30,953	(3)
Gross profit	19,681	20,211	20,548	337
R&D	2,034	2,150	2,220	70
SG&A	3,564	3,700	3,705	5
Operating income	14,083	14,361	14,623	262
Other inc and exp	390	400	439	39
NIBT	14,473	14,761	15,062	301
Taxes	3,796	3,882	3,938	56
Net Income	10,677	10,879	11,124	245
EPS	\$1.85	\$1.92	\$1.96	\$0.04
Shares outstanding	5,773	5,679	5,683	4
Dividends per share	\$0.52	\$0.52	\$0.52	\$0.00
Dividends	3,002	2,953	2,955	2
Margins				
GPM	39.7%	39.5%	39.9%	0.4%
R&D/Revenue	4.1%	4.2%	4.3%	0.1%
SG&A/Revenue	7.2%	7.2%	7.2%	0.0%
Operating Inc	28.4%	28.1%	28.4%	0.3%
NIBT	29.2%	28.8%	29.2%	0.4%
Tax rate	26.2%	26.3%	26.1%	-0.2%
Net Income	21.5%	21.3%	21.6%	0.3%
Annual growth				
Revenues	32.5%	21.5%	22.3%	0.8%
Operating income	37.0%	28.6%	31.0%	2.3%
NIBT	38.0%	28.7%	31.3%	2.6%
EPS	44.5%	35.1%	38.1%	3.0%
Dividends	10.6%	10.6%	10.6%	0.0%

Source: Company reports and BTIG Research estimates

Revenue and Units Estimates vs Actuals

Apple Revenue Analysis		Act	Est	Act	Diff
\$ millions		Jun	Sep	Sep	
Revenue by Product					
	49,605	51,168	51,501	334	
iPhone	31,368	30,638	32,209	1,572	
iPad	4,538	4,590	4,276	(314)	
Mac	6,030	7,121	6,882	(239)	
Services	5,028	5,000	5,086	86	
Other Products	2,641	3,819	3,048	(771)	
Annual Revenue Growth					
	32.5%	21.5%	22.3%	0.8%	
iPhone	58.8%	29.4%	36.0%	6.6%	
iPad	-22.9%	-13.7%	-19.6%	-5.9%	
Mac	8.8%	7.5%	3.9%	-3.6%	
Services	12.1%	8.5%	10.4%	1.9%	
Other Products	49.5%	101.4%	60.8%	-40.7%	
Sequential Revenue Growth					
	-14.5%	3.1%	3.8%	0.7%	
iPhone	-22.1%	-2.3%	2.7%	5.0%	
iPad	-16.4%	1.1%	-5.8%	-6.9%	
Mac	7.4%	18.1%	14.1%	-4.0%	
Services	0.6%	-0.6%	1.2%	1.7%	
Other Products	56.4%	44.6%	15.4%	-29.2%	
Revenue Mix					
iPhone	63.2%	59.9%	62.5%	2.7%	
iPad	9.1%	9.0%	8.3%	-0.7%	
Mac	12.2%	13.9%	13.4%	-0.6%	
Services	10.1%	9.8%	9.9%	0.1%	
Other Products	5.3%	7.5%	5.9%	-1.5%	
Units					
iPhone	47,534	47,500	48,046	546	
iPad	10,931	11,000	9,883	(1,117)	
Mac	4,796	5,934	5,709	(225)	
Annual Unit Growth					
iPhone	35.0%	21.0%	22.3%	1.4%	
iPad	-17.7%	-10.7%	-19.8%	-9.1%	
Mac	8.7%	7.5%	3.4%	-4.1%	
Sequential Unit Growth					
iPhone	-22.3%	-0.1%	1.1%	1.1%	
iPad	-13.4%	0.6%	-9.6%	-10.2%	
Mac	5.1%	23.7%	19.0%	-4.7%	
				0.0%	
Average Sales Prices					
iPhone	660	645	670	25	
iPad	415	417	433	15	
Mac	1,257	1,200	1,205	5	
Annual ASP Growth					
iPhone	17.6%	7.0%	11.2%	4.2%	
iPad	-6.4%	-3.3%	0.2%	3.6%	
Mac	0.2%	0.0%	0.4%	0.5%	
Sequential ASP Growth					
iPhone	0.2%	-2.3%	1.6%	3.8%	
iPad	-3.5%	0.5%	4.2%	3.7%	
Mac	2.2%	-4.6%	-4.1%	0.4%	

Source: Company reports and BTIG Research estimates

Income Statement Old vs New Estimates

Apple Income Statement	OLD	NEW	Diff	OLD	NEW	Diff
\$ millions	Dec	Dec		2016	2016	
Revenues	79,809	78,136	(1,673)	254,257	248,143	(6,114)
Cost of goods sold	48,444	47,194	(1,250)	155,384	150,893	(4,491)
Gross profit	31,365	30,942	(423)	98,873	97,250	(1,623)
R&D	2,150	2,250	100	8,885	9,060	175
SG&A	3,816	4,100	284	15,183	15,473	289
Operating income	25,399	24,592	(807)	74,805	72,717	(2,087)
Other inc and exp	325	400	75	1,300	1,600	300
NIBT	25,724	24,992	(732)	76,105	74,317	(1,787)
Taxes	6,817	6,548	(269)	20,168	19,471	(697)
Net Income	18,907	18,444	(463)	55,937	54,846	(1,091)
EPS	\$3.33	\$3.30	(\$0.03)	\$10.00	\$10.00	\$0.00
Shares outstanding	5,681	5,594	(87)	5,583	5,471	(112)
Dividends per share	\$0.52	\$0.52	\$0.00	\$2.14	\$2.14	\$0.00
Dividends	2,954	2,909	(45)	11,943	11,703	(240)
Margins						
GPM	39.3%	39.6%	0.3%	38.9%	39.2%	0.3%
R&D/Revenue	2.7%	2.9%	0.2%	3.5%	3.7%	0.2%
SG&A/Revenue	4.8%	5.2%	0.5%	6.0%	6.2%	0.3%
Operating Inc	31.8%	31.5%	-0.4%	29.4%	29.3%	-0.1%
NIBT	32.2%	32.0%	-0.2%	29.9%	29.9%	0.0%
Tax rate	26.5%	26.2%	-0.3%	26.5%	26.2%	-0.3%
Net Income	23.7%	23.6%	-0.1%	22.0%	22.1%	0.1%
Annual growth						
Revenues	7.0%	4.7%	-2.2%	8.9%	6.2%	-2.8%
Operating income	4.8%	1.4%	-3.3%	5.4%	2.1%	-3.3%
NIBT	5.4%	2.4%	-3.0%	5.4%	2.5%	-2.9%
EPS	8.6%	7.6%	-1.0%	9.2%	8.7%	-0.5%
Dividends	10.6%	10.6%	0.0%	8.1%	8.1%	0.0%

Source: Company reports and BTIG Research estimates

Revenue and Units Old vs New Estimates

Apple Revenue Analysis	OLD	NEW	Diff	OLD	NEW	Diff
\$ millions	Dec	Dec		2016	2016	
Revenue by Product	79,809	78,136	(1,673)	254,257	248,143	(6,114)
iPhone	53,065	52,785	(281)	159,117	156,150	(2,967)
iPad	8,081	7,825	(256)	21,083	22,140	1,057
Mac	6,904	6,938	34	25,562	25,448	(114)
Services	5,000	5,279	279	20,150	21,900	1,750
Other Products	6,759	5,310	(1,449)	28,345	22,505	(5,840)
Annual Revenue Growth	7.0%	4.7%	-2.2%	8.9%	6.2%	-2.8%
iPhone	3.7%	3.1%	-0.5%	3.7%	0.7%	-3.0%
iPad	-10.1%	-12.9%	-2.9%	-10.4%	-4.7%	5.8%
Mac	-0.6%	-0.1%	0.5%	-0.6%	-0.1%	0.5%
Services	4.2%	10.0%	5.8%	1.6%	10.0%	8.4%
Other Products	151.3%	97.5%	-53.9%	161.5%	123.6%	-38.0%
Revenue Mix						
iPhone	66.5%	67.6%	1.1%	62.6%	62.9%	0.3%
iPad	10.1%	10.0%	-0.1%	8.3%	8.9%	0.6%
Mac	8.7%	8.9%	0.2%	10.1%	10.3%	0.2%
Services	6.3%	6.8%	0.5%	7.9%	8.8%	0.9%
Other Products	8.5%	6.8%	-1.7%	11.1%	9.1%	-2.1%
Units						
iPhone	80,425	80,000	(425)	249,126	242,500	(6,626)
iPad	19,500	17,500	(2,000)	50,950	49,500	(1,450)
Mac	5,657	5,685	28	21,332	21,205	(128)
Annual Unit Growth						
iPhone	8.0%	7.4%	-0.6%	8.0%	4.9%	-3.1%
iPad	-9.0%	-18.3%	-9.3%	-9.0%	-9.8%	-0.8%
Mac	2.5%	3.0%	0.5%	2.5%	3.0%	0.5%
Average Sales Prices						
iPhone	660	660	0	639	644	5
iPad	414	447	33	414	447	33
Mac	1,220	1,220	0	1,198	1,200	2
Annual ASP Growth						
iPhone	-4.0%	-4.0%	0.0%	-4.0%	-4.0%	0.0%
iPad	-1.2%	6.6%	7.8%	-1.6%	5.6%	7.2%
Mac	-3.0%	-3.0%	0.0%	-3.0%	-3.0%	0.0%

Source: Company reports and BTIG Research estimates

Appendix: Analyst Certification and Other Important Disclosures

Analyst Certification

I, Walter Piecyk, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Joseph Galone, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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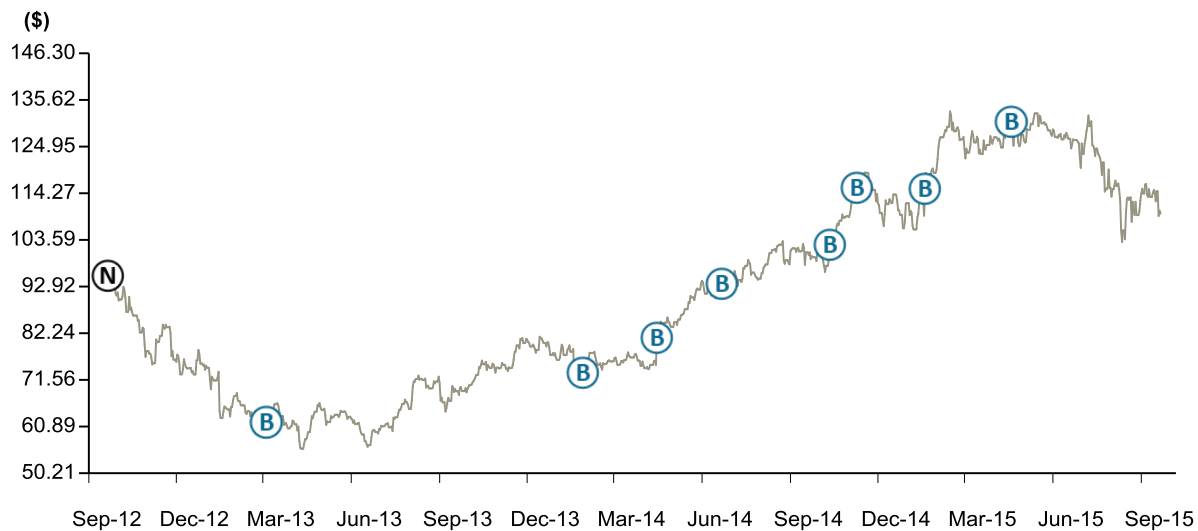
Company Valuation and Risk Disclosures

Apple, Inc. (AAPL, BUY)

Valuation: Our 12-month price target of \$160 is based on 16x our 2016 EPS estimate of \$10.00.

Risks: Apple competes against a number of traditional and start-up wireless device manufacturers who are constantly bringing new products to market that could potentially take share from the company. These competitors could also be more willing to cut prices to compete and have promotional offers in the market. The ramp-up of the Apple Watch, the company's first new product category in 5 years, is also a risk for the company.

Apple, Inc. (AAPL)



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
20-May-10	33.97	47.14	Walter Piecyk	BUY
21-Jul-10	36.32	50	Walter Piecyk	BUY
12-Oct-10	42.65	53.57	Walter Piecyk	BUY
16-Mar-11	47.14	64.29	Walter Piecyk	BUY
19-Jul-11	53.84	71.43	Walter Piecyk	BUY
18-Oct-11	60.32	78.57	Walter Piecyk	BUY
05-Jan-12	59.72	82.86	Walter Piecyk	BUY
24-Jan-12	60.06	85.71	Walter Piecyk	BUY
09-Apr-12	90.89		Walter Piecyk	NEUTRAL
14-Mar-13	61.79	77.14	Walter Piecyk	BUY
06-Feb-14	73.22	78.86	Walter Piecyk	BUY
24-Apr-14	81.11	85.71	Walter Piecyk	BUY
01-Jul-14	93.52	112	Walter Piecyk	BUY
21-Oct-14	102.47	128	Walter Piecyk	BUY
18-Nov-14	115.47	135	Walter Piecyk	BUY
28-Jan-15	115.31	150	Walter Piecyk	BUY
28-Apr-15	130.56	160	Walter Piecyk	BUY

Other Disclosures

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