

Apple manufactures smartphones, tablets, PCs, software, and peripherals for a worldwide customer base. Its products include Mac desktop and mobile PCs, iPhone, iPad, Apple Watch, and various consumer products, including AirPods, Beats headphones, and Apple TV. Apple services include App Store, iTunes, iCloud, Apple TV+, Apple Arcade, Apple Music, Apple Pay, and more.

Analyst's Notes

Analysis by Jim Kelleher, CFA, October 31, 2024

ARGUS RATING: BUY

- Return to growth as services shine
- Apple posted fiscal 4Q24 (calendar 3Q24) revenue that exceeded consensus expectations. GAAP EPS fell 34% due to a one-time charge, while non-GAAP EPS was up 12%.
- The new iPhone 16 family was introduced in September 2024, and Apple has now enabled Apple Intelligence features.
- Service revenue set another new all-time record in fiscal 4Q24, rising 12% year over year and 3% sequentially. The active installed base of Apple devices again reached a new record level.
- Apples perpetually refreshed roster of highly desirable products provides a unique advantage over industry rivals.

INVESTMENT THESIS

BUY-rated Apple Inc. (NGS: AAPL) fell 1% in the aftermarket on 10/31/24 after posting fiscal 4Q24 (calendar 3Q24) revenue that topped consensus expectations and set an all-time record for any fiscal 4Q. GAAP EPS fell 34% due to a one-time charge; excluding that charge, non-GAAP EPS was up 12%. Fiscal 4Q24 revenue rose 6% from the prior year, capping a fiscal 2024 in which sales rose 2% to \$391 billion.

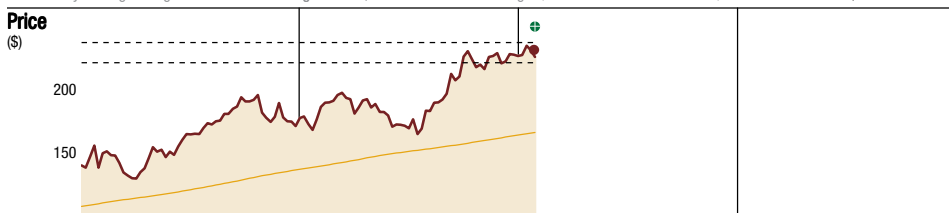
Service revenue set another record in fiscal 4Q24, rising 12% year over year. iPhone revenue was up 6% year over year, better than expectations as demand growth in other regions more than offset weak China sales. The active installed base of Apple devices again reached a new record level.

Apple has lauded its version of AI as 'Apple Intelligence.' As of October, the technology has now been enabled for iPhone 16 devices, which were first introduced in September 2024. Amid speculation that Apple might raise prices for its first AI-enabled phones, pricing was unchanged for all iPhone 16 models compared with 2023's iPhone 15 family.

With the launch of the new iPhones, Apple has entered the generative AI space after being on the sidelines for nearly two years following ChatGPT's launch in November 2022. By mainly positioning these new enhancements on its highest end 'Pro' series iPhones, the company seeks to drive a robust new upgrade cycle in 2025 and beyond.

Market Data Pricing reflects previous trading week's closing price.

—200-Day Moving Average ●Target Price: \$250.00 ●52 Week High: \$237.49 ●52 Week Low: \$221.33 ●Closed at \$231.41 on 10/25



Rating													BUY HOLD SELL							
EPS (\$)																				
Quarterly	1.88 1.53 1.26 1.47				2.18 1.53 1.40 0.97				2.03 1.58 1.63 1.90				2.12 1.66 1.76 0.00							
Annual	6.13				6.07				7.14 (Estimate)				7.75 (Estimate)							
Revenue (\$ in Bil.)																				
Quarterly	117.2 94.8 81.8 89.5				119.6 90.8 85.8 94.9				122.2 94.0 91.0 106.3				124.9 97.4 96.9 0.0							
Annual	383.3				391.0				413.5 (Estimate)				319.1 (Estimate)							
FY ends Sept 30	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
	2023				2024				2025				2026							

Please see important information about this report on page 7

©2024 Argus Research Company

Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 72% Buy, 28% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$225.91
Target Price	\$250.00
52 Week Price Range	\$164.08 to \$237.49
Shares Outstanding	15.20 Billion
Dividend	\$1.00

Sector Overview

Sector	Information Technology
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	31.70%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	66.6%
Return on Equity	150.0%
Net Margin	24.0%
Payout Ratio	0.15
Current Ratio	0.99
Revenue	\$391.04 Billion
After-Tax Income	\$93.74 Billion

Valuation

Current FY P/E	31.64
Prior FY P/E	37.22
Price/Sales	8.78
Price/Book	51.58
Book Value/Share	\$4.38
Market Capitalization	\$3.43 Trillion

Forecasted Growth

1 Year EPS Growth Forecast	17.63%
5 Year EPS Growth Forecast	13.00%
1 Year Dividend Growth Forecast	6.12%

Risk

Beta	1.08
Institutional Ownership	60.90%

Analyst's Notes ...Continued

Although some view these products as 'AI-Lite,' the market believes product perfecter Apple will continue to enhance on-device generative AI in future models.

In June 2024, Apple hosted its worldwide developer conference (WWDC) with a focus on bringing artificial intelligence onto Apple devices. The company's 'Apple Intelligence' aims to improve the user experience on iPhone, iPad, Mac and other devices while sustaining Apple's focus on user privacy. Apple Intelligence is integrated into new updates to Apple operating systems introduced at WWDC, including iOS 18 for iPhone, iPadOS for iPad, and macOS Sequoia, and new iterations for Watch and Vision Pro.

Apple, which is tracking the peer group and stock market in 2024, is on track for EPS growth over the next two years. This reflects a strong appetite for Apple's hardware, and its brand loyalty in turn spurs demand for Apple's services, including App Store, iCloud, and much more. The company, in our view, benefits from aggressive shareholder-return policies and from a perpetually refreshed roster of desirable product.

We believe the current environment represents an opportunity to establish or dollar-average into positions in AAPL. We are reiterating our BUY rating and our 12-month target price of \$250.

RECENT DEVELOPMENTS

AAPL is up 20% year-to-date in 2024, while peers are up 17%. AAPL rose 48% in 2023, while the peer group of computing, storage, and information-processing companies in Argus coverage

advanced 40%. AAPL fell 27% in 2022, slightly better than the 30% decline for peers; advanced 34% in 2021, in line with the 35% gain for peers; and rose 81% in 2020, compared to a 9% advance for peers.

For fiscal 4Q24 (calendar 3Q24), Apple posted revenue of \$94.9 billion, which was up 6% year over year. Revenue beat the consensus forecast of \$94.6 billion. GAAP earnings totaled \$0.97 per diluted share, down 34% from a year earlier. On a non-GAAP basis excluding a large one-time charge, non-GAAP EPS of \$1.64 rose 12% annually and exceeded the consensus estimate of \$1.53. Apple did not guide on quarterly or annual sales or EPS for fiscal 4Q24.

Apple's geographic expansion is proving to be a strong positive for Apple as the company faces weakness in China due to challenging economic conditions (and, we believe, secular and demographic challenges) along with smartphone competition from Huawei and others. Regionally in 4Q24, Apple's revenue grew in all regions except China (16% of revenue). Greater China sales declined less than 1%, which was better than expected.

Sales grew 4% in the Americas, the largest region at 44% of revenue. Sales also rose 11% in Europe (26% of revenue), extending prior-quarter growth; 8% in Japan; and a robust 16% in Rest of Asia-Pacific. All-in Asia sales of \$28.3 billion were up 5% annually.

On a segment basis for fiscal 4Q24, iPhone generated revenue of \$46.2 billion (49% of total), which was up 6% year-over-year in

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2019	2020	2021	2022	2023
Revenue	260,174	274,515	365,817	394,328	383,285
COGS	161,782	169,559	212,981	223,546	214,137
Gross Profit	98,392	104,956	152,836	170,782	169,148
SG&A	18,245	19,916	21,973	25,094	24,932
R&D	16,217	18,752	21,914	26,251	29,915
Operating Income	63,930	66,288	108,949	119,437	114,301
Interest Expense	-1,385	-890	-198	106	183
Pretax Income	65,737	67,091	109,207	119,103	113,736
Income Taxes	10,481	9,680	14,527	19,300	16,741
Tax Rate (%)	16	14	13	16	15
Net Income	55,256	57,411	94,680	99,803	96,995
Diluted Shares Outstanding	18,596	17,528	16,865	16,326	15,813
EPS	2.97	3.28	5.61	6.11	6.13
Dividend	0.75	0.80	0.85	0.90	0.94

GROWTH RATES (%)

Revenue	-2.0	5.5	33.3	7.8	-2.8
Operating Income	-9.8	3.7	64.4	9.6	-4.3
Net Income	-7.2	3.9	64.9	5.4	-2.8
EPS	-0.3	10.4	71.0	8.9	0.3
Dividend	10.3	6.0	6.9	5.9	4.4
Sustainable Growth Rate	41.8	55.8	125.1	149.6	145.6

VALUATION ANALYSIS

Price: High	\$73.49	\$138.79	\$182.13	\$182.94	\$199.62
Price: Low	\$35.50	\$53.15	\$116.21	\$125.87	\$124.17
Price/Sales: High-Low	5.3 - 2.5	8.9 - 3.4	8.4 - 5.4	7.6 - 5.2	8.2 - 5.1
P/E: High-Low	24.7 - 12.0	42.3 - 16.2	32.5 - 20.7	29.9 - 20.6	32.6 - 20.3
Price/Cash Flow: High-Low	19.7 - 9.5	30.2 - 11.5	29.5 - 18.8	24.5 - 16.8	28.6 - 17.8

Financial & Risk Analysis

FINANCIAL STRENGTH

	2021	2022	2023
Cash (\$ in Millions)	34,940	23,646	29,965
Working Capital (\$ in Millions)	9,355	-18,577	-1,742
Current Ratio	1.07	0.88	0.99
LT Debt/Equity Ratio (%)	189.2	216.5	171.4
Total Debt/Equity Ratio (%)	216.4	261.4	199.4

RATIOS (%)

Gross Profit Margin	41.8	43.3	44.1
Operating Margin	29.8	30.3	29.8
Net Margin	25.9	25.3	25.3
Return On Assets	28.1	28.4	27.5
Return On Equity	147.4	175.5	171.9

RISK ANALYSIS

Cash Cycle (days)	-52.9	-62.4	-70.9
Cash Flow/Cap Ex	9.4	11.4	10.1
Oper. Income/Int. Exp. (ratio)	42.3	41.6	29.9
Payout Ratio	24.2	15.2	14.7

The data contained on this page of this report has been provided by Morningstar, Inc. (© 2024 Morningstar, Inc. All Rights Reserved). This data (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. This data is set forth herein for historical reference only and is not necessarily used in Argus' analysis of the stock set forth on this page of this report or any other stock or other security. All earnings figures are in GAAP.

Analyst's Notes ...Continued

GAAP. Sales were up 8% sequentially from the trough quarter of 3Q.

After six down quarters, global smartphone unit sales swung to positive annual comparisons in calendar 4Q23 and sustained that strength in calendar 1Q24, 2Q24, and 3Q24. According to IDC, global mobile device shipments grew 7.8% year over year in 1Q24, 6.5% year over year in 2Q24, and 4.0% growth in 3Q24.

Third-quarter global smartphone unit volumes of 316.1 million units for 3Q24 were up from 303.9 million units in 3Q23. Apple's share slipped to 17.7% from 17.8% a year earlier, while iPhone hung onto the second spot. Samsung's share eased to 18.3% in 3Q24 from 19.6%. Apple's iPhone unit shipments grew 3.5% annually, to 56.0 million in calendar 3Q24 from 54.1 million a year earlier. We calculate that iPhone ASPs were \$825 in calendar 3Q24, up 20% from a year earlier but down 5% sequentially. That is normal seasonality as Apple discounts past iPhone models as it rolls out the new iPhone family, which was available for about half a month in fiscal 4Q24.

Apple sells its high-end phones such as Pro Max in developed markets, and uses its mature, lower-priced iPhones to build share in the developing world. We believe ASP trends are less important than global expansion of the iPhone base. Apple's seasonally strongest quarter for iPhone is calendar 4Q (fiscal 1Q25), and we look for unit and revenue growth and peak market share for the calendar year.

Also for fiscal 4Q24, Mac revenue of \$7.74 billion (8% of

total) was up 2% year over year in GAAP. The multi-year downturn in PC demand worldwide finally reversed in calendar 1Q24, according to IDC. Mac unit sales in calendar 2Q24 were up 21%, while overall global PC unit sales were up 3% in calendar 2Q24. Mac boosted its market share to 8.8% in calendar 2Q24 from 7.5% a year earlier.

Mac unit sales in calendar 3Q24, according to IDC, declined 24% to 5.8 million units, while overall global PC unit sales were down 3%. Given demand for Macs with Apple M series chips, ASPs rose in double-digits year over year and in high single-digits sequentially. We believe Mac is in a transition period ahead of broad availability of AI PCs, or in Apple's case PCs with Apple Intelligence.

iPad revenue of \$7.0 billion (7% of total) was up 8% annually. During 3Q24, Apple launched new 11" and 13" iPad Air models, and a new iPad Pro with the M4 chip. Total compute revenue (mac and iPad) of \$19.9 billion for 4Q24 rose 14%. Revenue from Wearables, Home, and Accessories of \$9.0 billion (10% of total) was down 3% in GAAP and up 12% sequentially.

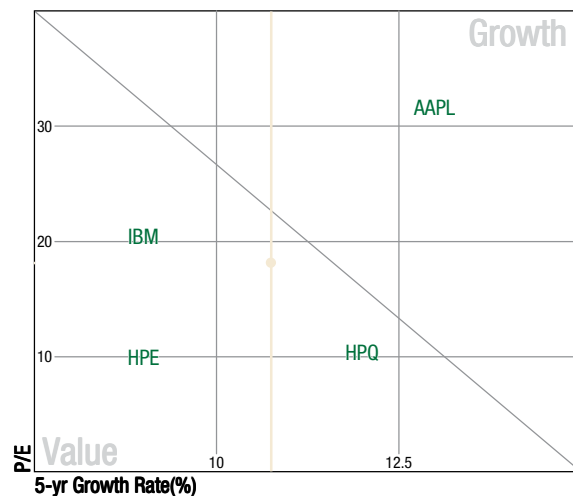
Services revenue set another all-time record in fiscal 4Q24, while rising 12% year over year to \$25.0 billion; revenue also rose 3% sequentially. The active installed base of Apple devices again reached a new record level, according to CFO Maestri.

On 9/9/24, Apple hosted its 'Glowtime' event to launch its new generation of devices and the new iPhone 16 family. At the company's annual Worldwide Developers Conference (WWDC) in

Peer & Industry Analysis

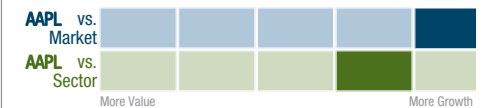
The graphics in this section are designed to allow investors to compare AAPL versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how AAPL stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how AAPL might fit into or modify a diversified portfolio.

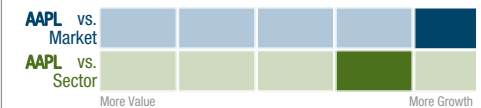


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
AAPL	Apple Inc	3,434,767	13.0	31.6	24.0	8.5	BUY
IBM	International Business Machine	191,143	9.0	20.5	10.2	6.8	BUY
HPQ	HP Inc	34,231	12.0	10.4	5.3	10.6	BUY
HPE	Hewlett Packard Enterprise Co	25,311	9.0	10.0	6.4	7.2	BUY
Peer Average		921,363	10.8	18.1	11.5	8.3	

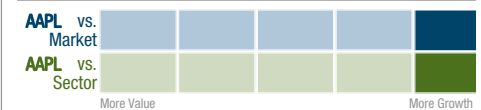
P/E



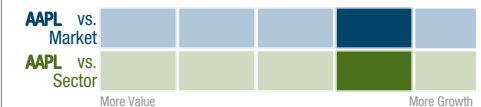
Price/Sales



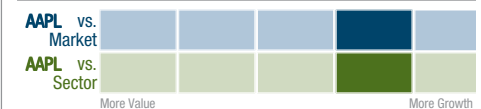
Price/Book



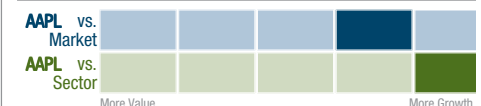
PEG



5 Year Growth



Debt/Capital



Analyst's Notes ...Continued

June, Apple first rolled out its 'Apple Intelligence,' which builds personalized intelligence into iPhone, iPad, Watch, Mac and more while prioritizing privacy. In October, Apple Intelligence became available for iPhone users.

New features on iPhone 16 include elements of Apple Intelligence. Camera control is a flush-to-the surface side button that enables you to take pictures without opening the app. Visual search will enable the user to point the phone camera at a restaurant and immediately learn menu, hours, and more.

The all-new A18 chip is the most meaningful manifestation of Active Intelligence. This technology allows iPhone to run multiple generative AI models on the phone simultaneously. For more intensive tasks, Apple Intelligence reaches out to Apple's 'Private Cloud Compute,' which runs on Apple's in-house servers.

Made in second-generation 3 nm process, the A18's neural engine is twice as fast compared to the predecessor product and features 17% more memory bandwidth. Its six-core CPU is 30% faster than the CPU in iPhone 15, while consuming 30% less power. And its built-in GPU is 40% faster than the predecessor product.

The screen is a new Ceramic Shield glass (from Corning) that is 50% tougher than the prior generation. The new color lineup includes pink, ultramarine, white, teal, and black. iPhone 16 has a big boost to battery life, according to the company, but AI is a power hog. iPhone 16 starts at \$799 and iPhone 16 Plus starts at \$899, both with 128 Gb of storage.

Apple has always differentiated iPhone Pro from 'plain old' iPhone, but over the past three years, we believe the differentiation has become more pronounced. A standard marketing strategy for Apple now is to introduce features to Pro phones in one model year, and then to make all or most of those features available in the next year's iPhone, while giving Pro a new set of differentiators.

Phone 16 Pro and iPhone 16 Pro Plus have all the iPhone 16 features and, as noted, differentiation. They are bigger, at 6.3' diameter 16 Pro and 6.9' for Pro Plus vs. 6.1' for iPhone 16 and 6.7' for 16 Plus, and have 'the thinnest borders on any Apple product,' according to the company. The Pro models are encased in titanium vs. aluminum for iPhone 16. Battery life was described as 'best ever,' though again the improvement was not quantified.

The A18 Pro chip is an upgrade on the A18 used on iPhone 16 and includes a 16-core neural engine designed to 'excel' at generative AI workloads. On this chip, Apple Intelligence runs 15% faster than on iPhone 15 Pro. Many of its refinements will enable functionality of Apple's most advanced camera system ever.

Like the 15 family, iPhone 16 shows two camera lenses on the back of the device, while the Pro models have three lenses. The new 48 MP Fusion Camera has a faster quad-pixel sensor that enables 4K120 fps video recording in Dolby vision. The 48MP ultra-wide camera is designed for higher-resolution photography and has a 12 MP, 5x telephoto camera on both Pro models. The camera has a combination of 'hardware and software intelligence,' which will enable easier and more intuitive post-snap editing features.

iPhone 16 Pro starts at \$999 with 128 Gb of storage, and iPhone 16 pro Plus starts at \$1,199, with 256 Gb of storage. All iPhone 16 family products are available for pre-order on 9/13/24 and available in stores on 9/20/24.

Apple also introduced the new Watch Series 10, which has a new design, and new models of Ultra Watch Series 2, which was launched a year ago. Watch Series 10 is both thinner and possesses

a bigger display compared with Series 9 - another amenity to Apple's first generation of users who are now well into boomer-hood.

The new Air Pods 4 series are made to ergonomically fit the ear with 'the most comfortable Air Pods ever.' According to Apple, the H2 chip in Air Pods 4 results in a massive improvement in audio quality, with richer bass. Like series 3, Air Pods 4 has active noise cancellation. 'Conversation awareness' will reduce music volume when you start talking. Air Pods 4, available 9/20/24, are \$129, or \$179 with active noise cancellation.

Air Pods Pro 2 'will soon feature a clinical-grade hearing aid capability,' according to literature on the Apple web site. This includes Hearing Test, the hearing aid feature, and active hearing protection. Apple calls the solution, which entails use of Air Pods Pro 2 and an iPhone or iPad, the world's first all-in-one hearing health solution. For Air Pods Pro 2 owners, it will be available with a free software upgrade.

Apple expects to receive clearance for the technology from the FDA and other regulators soon, and anticipates the software upgrade will be issued during autumn 2024. Air Pods Pro 2 begins at \$249, although we believe the full hearing health model will retail for more.

Apple announced iPhone 16 and 16 Max in one article on its website, and announced iPhone 16 Pro and 16 Pro Max in a separate article. Apple has always differentiated Pro from 'plain old' iPhone, but over the past three years, we believe the differentiation has become more pronounced. A standard marketing strategy for Apple now is to introduce features to Pro phones in one model year, and then to make all or most of those features available in the next year's iPhone, while giving Pro a new set of differentiators.

While that strategy remains intact, iPhone 16 did get some new features, including elements of Apple Intelligence. The Action button can quickly access in-demand features. Among the upgrades to the advanced camera system, the user can adjust the camera by sliding your finger. Visual search will enable the user to point the phone camera at a restaurant and immediately learn menu, hours, and more. Camera control is a flush-to-the surface side button that enables you to take pictures without opening the app.

Made in second-generation 3 nm process, A18's neural engine is twice as fast compared to the predecessor product, and features 17% more memory bandwidth. Its six-core CPU is 30% faster than the CPU in iPhone 15, while consuming 30% less power. And its built-in GPU is 40% faster than the predecessor product.

The all-new A18 chip is the most meaningful manifestation of Active Intelligence. This technology allows iPhone to run multiple generative AI models on the phone simultaneously. For more intensive tasks, Apple Intelligence reaches out to Apple's 'Private Cloud Compute,' which runs on Apple's in-house servers.

Several of the search, find and generate features using Apple Intelligence on iPhone 16 were shown or teased at WWDC. Many of these features will await future software upgrades. Siri in particular seems badly outdated but will receive a needed refresh in coming months.

The screen is a new Ceramic Shield glass (from Corning) that is 50% tougher than the prior generation. iPhone 16 has a 'vibrant new look which celebrates color,' according to the company. The new color lineup includes pink, ultramarine, white, teal, and black. iPhone 16 has a big boost to battery life, according to the

Analyst's Notes ...Continued

company, but remember that AI is a power hog. The company's presentation was also unclear on which Apple Intelligence features would be available and the timing of that availability. iPhone 16 starts at \$799 and iPhone 16 Plus starts at \$899, both with 128 Gb of storage.

Phone 16 Pro and iPhone 16 Pro Plus have all the iPhone 16 features and, as noted, differentiation. They are bigger, at 6.3' diameter 16 Pro and 6.9' for Pro Plus vs. 6.1' for iPhone 16 and 6.7' for 16 Plus, and have 'the thinnest borders on any Apple product,' according to the company. The Pro models are encased in titanium vs. aluminum for iPhone 16. Battery life was described as 'best ever,' though again the improvement was not quantified.

The A18 Pro chip is an upgrade on the A18 used on iPhone 16, and includes a 16-core neural engine designed to 'excel' at generative AI workloads. On this chip, Apple Intelligence runs 15% faster than on iPhone 15 Pro. Many of its refinements will enable functionality of Apple's most advanced camera system ever.

Like the 15 family, iPhone 16 shows two camera lenses on the back of the device, while the Pro models have three lenses. The new 48 MP Fusion Camera has a faster quad-pixel sensor that enables 4K120 fps video recording in Dolby vision. The 48MP ultra-wide camera is designed for higher-resolution photography and has a 12 MP, 5x telephoto camera on both Pro models. The camera has a combination of 'hardware and software intelligence,' which will enable easier and more intuitive post-snap editing features.

iPhone 16 Pro starts at \$999 with 128 Gb of storage, and iPhone 16 Pro Plus starts at \$1,199, with 256 Gb of storage. All iPhone 16 family products are available for pre-order on 9/13/24 and available in stores on 9/20/24.

On balance, Apple was smart to hold the line on pricing; all four phones carry the same prices that iPhone 15 family phones carried one year earlier. That's because the current level of Apple Intelligence on these devices is solid, even impressive, but not amazing. Apple plans to more deeply integrate OpenAI models, inference and other tools into its phones going forward. For now, we expect these devices to generate some interest but perhaps not fly off the shelves. Their performance in the 2024 holiday and 2025 year may have more to do with consumers' financial health, Fed policy, and economic growth than with the underlying technology.

Apple, which is tracking the peer group and stock market in 2024, is on track for EPS growth over the next two years. This reflects strong appetite for Apple's hardware, and its brand loyalty in turn spurs demand for Apple's services, including App Store, iCloud, and much more.

EARNINGS & GROWTH ANALYSIS

For fiscal 4Q24 (calendar 3Q24), Apple posted revenue of \$94.9 billion, which was up 6% year over year. Revenue beat the consensus forecast of \$94.6 billion.

The GAAP gross margin was 46.2% in fiscal 4Q24 versus 46.3% in fiscal 3Q24 and 45.2% a year earlier. The GAAP operating margin was 31.26% in fiscal 3Q24, up from 29.6% in fiscal 3Q24, and up from 30.1% in the prior-year quarter.

GAAP earnings totaled \$0.97 per diluted share, down 34% from a year earlier. On a non-GAAP basis excluding a one-time 'back taxes' payment of over \$10 billion to the EU, non-GAAP EPS of \$1.64 rose 12% annually and exceeded the consensus estimate of \$1.53. Apple did not guide on quarterly or annual sales or EPS for fiscal 4Q24.

For all of FY24, Apple posted revenue of \$391.0 billion, up 2% from \$383.3 billion in FY23. GAAP EPS totaled \$6.07 for FY24 (including the one-time charge), down 1% from the \$6.13 for FY23.

We have raised our FY25 GAAP EPS forecast to \$7.14 per diluted share from \$7.07. We are implementing a FY26 GAAP EPS projection of \$7.75. We regard our estimates as fluid and subject to change. Our long-term EPS growth rate forecast for AAPL is 13%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Apple is High, the top point of our five-point scale. In the wake of the recent cut in the corporate tax rate and relaxed restrictions on repatriating overseas cash, Apple has stepped up its shareholder-return program with higher buybacks and an April 2023 dividend hike. It has also accelerated debt retirement.

Cash & short- and long-term investments were \$156.6 billion at the end of fiscal 2024. Cash was \$162.1 billion at the end of fiscal 2023, \$169.1 billion at the end of fiscal 2022, and \$196.3 billion at the end of fiscal 2021.

Debt was \$106.6 billion at the end of fiscal 2024. Debt was \$114.4 billion at the end of fiscal 2023, \$120.1 billion at the end of fiscal 2022, \$124.7 billion at the end of fiscal 2021, and \$112.4 billion at the end of FY20.

For fiscal 2024, cash flow from operations was \$118.2 billion. Cash flow from operations was \$110.5 billion in FY23, \$122.2 billion in FY22, \$104.0 billion in FY21, and \$80.7 billion in FY20.

Apple added \$110 billion to its buyback authorization in April 2024. Prior increases in the repurchase authorization were \$90 billion in April 2023, \$90 billion in April 2022, \$90 billion in April 2021, \$50 billion in April 2020, \$75 billion in April 2019, and \$100 billion in April 2018.

In April 2024, Apple raised its quarterly dividend by 4% to \$0.25 per share. Apple also raised its dividend by 4% to \$0.24 per share in April 2023; by 5% to \$0.23 in April 2022; by 7% in April 2021; by 6.5% in April 2020; by 5% in April 2019; and by 16% in April 2018. Apple declared its first quarterly dividend in April 2012.

Our dividend forecasts are \$1.04 for FY25 and \$1.12 for FY26.

MANAGEMENT & RISKS

Timothy Cook has served as CEO since industry legend Steve Jobs passed away in 2011. Former Apple controller and former Xerox CFO Luca Maestri became CFO in September 2013. He has announced plans to exit the CFO role in January 2025 and lead the corporate services team. At that time, VP of Financial Planning Kevan Parekh will become CFO. Jeff Williams is COO, and James Wilson is chief technology officer. Another long-term Apple executive, Greg Joswiak, is the SVP of marketing. Longtime head of worldwide marketing Phil Schiller retired from that role and has become an Apple fellow.

The DoJ lawsuit alleging anti-competitive behavior is a real risk in that a successful outcome by the DoJ could disrupt Apple's business model and closed eco-system. Currently, we do not expect the outcome of the DoJ action to dissuade the multitude of satisfied Apple device owners to shift to other operating systems and devices.

Several top executives, including design leader Jony Ive and SVP of retail Angela Ahrendts, have left the company in the past few years. However, Apple has a deep bench of executive, engineering,

Analyst's Notes ...Continued

and marketing talent. We think the company will continue to attract high-quality talent, both from an engineering perspective as well as in the corporate leadership ranks.

Apple is in its familiar cadence of introducing new phones in the fall, just ahead of holiday spending, though that schedule was delayed slightly last year. The upcoming 5G cycle promises to be major. Apple is a product perfecter, not a product originator, and should eventually find a ready appetite for its iPhones whenever they are ready.

Apple sells phones around the globe; smartphones are now ubiquitous and in need of constant upgrades; and consumers are anxious to remain within the Apple ecosystem. For these reasons, we expect Apple's long-cycle demand to smooth any near-term demand bumps. Tariffs also represent a difficult-to-quantify risk, but all parties have a long-term interest in facilitating global trade flows.

Investors have criticized Apple for its closed ecosystem. That system, however, has the effect of prompting consumers to buy iPads and Macs for system compatibility. Even more compelling for brand loyalty are Apple's services, including iTunes, App Store, and iCloud, as consumers do not want the cost and complexity of pulling their media libraries out of the comfortable arms of Mother Apple.

The shares are always at risk from the perception that growth could slow as the law of large numbers catches up with Apple. The company has mitigated that risk, in our view, with aggressive shareholder-return policies, which likely will remain paramount. Despite the company's growing largesse, we expect institutional investors to continue to demand aggressive dividend growth and a larger share-repurchase plan.

COMPANY DESCRIPTION

Apple manufactures smartphones, tablets, PCs, software, and peripherals for a worldwide customer base. Its products include Mac desktop and mobile PCs, iPhone, iPad, Apple Watch, and various consumer products, including AirPods, Beats headphones, and Apple TV. Apple services include App Store, iTunes, iCloud, Apple TV+, Apple Arcade, Apple Music, Apple Pay, and more.

VALUATION

AAPL trades at 32.2-times our FY25 EPS estimate and at 29.7-times our FY26 forecast; the two-year average P/E of 30.9 is above the five-year (FY20-FY24) trailing multiple of 27.4. Apple is trading at a two-year forward relative P/E of 1.44, above its historical relative multiple of 1.37 over the past five years. We believe Apple deserves to trade at premiums to its historical comparables, as it sets itself further apart as a provider of premium electronic consumer devices and high-margined digital services, and notably as the age of on-device generative AI gets underway. On all comparable historicals, we calculate a value in the low-\$200s, in a rising trend and near current prices.

AAPL trades at premiums to the technology hardware peer group on absolute and relative P/E, EV/EBITDA, P/S, and PEGY. While peer-indicated value of about \$130 is below current prices, it is rising. We believe that AAPL warrants a significant premium to peers given the company's ability to expand globally and generate healthy demand for its products seemingly in every kind of economy. Apple also trades on GAAP results while peers trade on non-GAAP results.

Our more forward-looking two- and three-stage discounted free

cash flow model renders a value around \$320 per share, in a stable trend and well above current levels. Our blended fundamental valuation model points to a price of \$285, in a stable to slightly higher trend and above current prices.

Appreciation to our 12-month target price of \$250, along with the dividend yield of about 0.4%, implies a risk-adjusted total return in excess of our forecast for the broad market and is thus consistent with a BUY rating.

On October 31, BUY-rated AAPL closed at \$225.91, down \$4.19.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

Morningstar Disclaimer

© 2024 Morningstar, Inc. All Rights Reserved. Certain financial information included in this report: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

For Residents of Singapore

Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives.