

HULT
INTERNATIONAL
BUSINESS SCHOOL

Valuation Project

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Class : Business Analysis and Valuation

Industry Review

Apple is an American company specializing in the electronics and software sector. It was founded on April 1st, 1976, by Steve Jobs, Steve Wozniak and Ronald Wayne as Apple Computer. Apple, with the SIC code 3571 [ELECTRONIC COMPUTERS], is the leader in its sector and quickly experienced success thanks in particular to its flagship product, the iPhone, which was released in 2007 and revolutionized the industry.

Through its Macintosh computers, operating system, iPad, iPhone, and other products, Apple, Inc., Apple is recognized for its strength in selling products. Apple's success is largely attributed to its ability to innovate and bring unique products to market that have engendered substantial brand loyalty, a keen adoption of the differentiation strategy. Apple's arsenal for grabbing public attention is first a question of designing cool and innovative products, maintaining a simple range of products, invest in memorable advertisements and working on its customer base in such a way that customers feel special.

Apple is now focusing its image on two very distinct ranges from middle to upper income consumers: the first is intended for the general public and young people from 16 to 24 years, with a very "cool" image, while the second, reserved for professionals usually between 45 to 60, has a sober e-face and emphasizes power. The majority of communication is targeted at adolescents and young adults because they represent the bulk of iPod sales. To seduce them Apple creates advertising campaigns aimed at them.

The electronics sector is in full fledge constant growth as consumers behavior is switching more to an online socialization. The industry global market size was USD 729.11 billion in 2019. Moreover, the industry is very cyclical, prospering during economic growth and slowing down during recession, as it depends heavily on consumers spending. Electronics products usually sell better during Christmas period and in the US during black Friday period, around October – November.

Apple's dominance in the industry is largely undisputed. The level of competition between large companies that directly compete with Apple in the technology sector is high and most of them are from the United States. Apple has a market share of 56.6% and competes directly with companies such as Amazon, Huawei and Asus, created after Apple, with market share respectively of 5.44%, 3.97% and 1.62%, and competitors like Samsung Electronics Co., Ltd with a market share of 24.06%, founded decades before Apple. One thing that makes the industry so competitive is the relatively low switching cost. It does not require a substantial investment for a consumer to ditch the Apple iPad for an Amazon Kindle or other tablets. The threat of market competition is a key consideration for Apple, which it has addressed primarily by continually developing unique new products to increase and strengthen its market share position.



Stock Report | August 02, 2022 | Nasdaq Symbol: AAPL

Recommendation: BUY

Price: \$160.01(08/02/2022)

12-Mo. Target Price: \$82.51

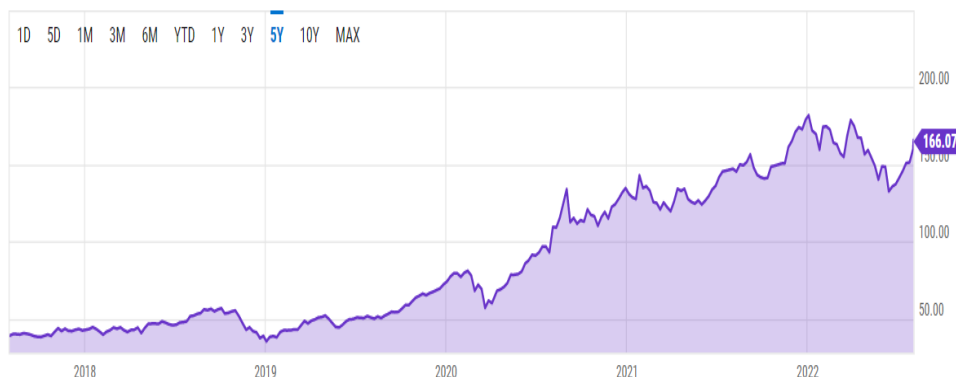
Industry: Radio & TV communications equipment (SIC 3663) (NAICS 334220)

Business Summary: Apple is the leader in manufacture and marketing of computers, technological products, software and online services for professionals and the general public. Apple's sales amount to approximately 60 million computers sold worldwide since their debut.

Key Stock Statistics

52-Week Range	\$182.01-\$130.06	Common Shares Outstanding (M)	23,502
Trailing 12 Month EPS	\$6.1	Market Capitalization (B)	\$2,690
Trailing 12Months P/E	\$27.41	Dividend Yield (%)	0.57
Trailing 12Months P/Sales	\$5.87	Dividend rate per share	\$0.89
Institutional Ownership (%)	60.12%	Beta	1.19

Price Performance



Recent Developments

- ❖ Apple unveiled a modernized Macbook Air at its conference on 06/06/2022. On the software side, the iPhone screensaver will soon offer extensive customization possibilities.
- ❖ Apple released its financial report for the first quarter of 2022 on April 28. Its overall revenue increased 9% from a year earlier to \$97.3 billion. It achieves a record in terms of sales of iPhone, Mac and services..

Company Financials

(Billion)	Q1	2021	2020	2019	2018	2017
Balance Sheet (\$)						
Cash	28.09	34.9	38.01	48.8	25.9	20.3
Current Assets	118.18	134.8	143.7	162.8	131.3	128.6
Total Assets	350	351.0	323.9	338.5	365.7	375.3
Current Liabilities	127.5	125.5	105.4	105.7	108.1	94.3
Long Term Debt	103.3	109.1	98.7	91.8	93.7	97.2
Common Equity	67.39	63.09	65.3	90.5	107.1	134.0

Income Statement (\$)

Revenue	77.45	365.8	274.5	260.2	265.6	229.2
Operating Income	29.97	108.9	66.3	63.9	70.9	61.3
Pretax Income	30.13	106.6	64.2	62.2	69.6	61.8
Effective Tax Rate (%)	17	13.3				
Net Income	25.0	92.03	55.5	53.7	60.1	53.3

Financial Ratios

Return On Equity (%)	162.8	147.8	73.89	56.07	49.36	36.27
Return On Assets (%)	22.2	28.13	17.38	15.74	16.07	13.65
Current Ratio	0.87	1.07	1.36	1.54	1.12	1.28
Payout Ratio (%)	14.71	15.20	24.31	25.28	23.32	26.45
Annualized Dividend	0.22	0	0.795	0.75	0.68	0.6

Value Drivers/Risk Factors

- ❖ The main driver for investing in Apple is that thanks to constant innovation and growth, Apple has shown solid financial and stock market performance for several years, which enabled it to recently become the first company to reach a capitalization of 3,000 billion USD.
- ❖ Aside from its products, Apple also generates revenues through its services. In fiscal 2021, services accounted for 19% of brand revenue and posted a growth rate of 27%. Due to a higher margin profile than devices, they contributed 31% to gross profit in dollars
- ❖ Nonetheless, there is an uncertainty about the future growth of the iPhone, which is coming to the end of a "super cycle".
- ❖ In addition, geopolitical tensions, which have weighed on the Chinese operations of other American multinationals, also pose a risk for Apple, which generates 19% of its turnover in China, where it also sources a large part of its supplies.

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