

Equity Research Report: Apple Inc.

Business Overview

Founded in 1976, Apple Inc. is a leading technology company that designs, manufactures, and markets a diverse range of consumer electronics, software, and services. Its core strengths include innovative product design, a robust ecosystem of services, and a strong brand reputation. Apple Inc. primarily operates in the technology sector, focusing on consumer electronics such as smartphones, tablets, and personal computers, along with software and digital services. Its business model integrates hardware, software, and services to create a seamless user experience, fostering customer loyalty and recurring revenue streams. The company's commitment to innovation is evident in its continuous investment in research and development, allowing it to stay ahead of competitors and adapt to market trends. Overall, Apple's strategic focus on delivering high-quality products and services has solidified its position as a market leader in the technology industry.

Market Position

Apple operates primarily in the Americas, Europe, Greater China, Japan, and the Rest of Asia Pacific, serving a broad customer base, including consumers, small businesses, and educational institutions. It holds a significant market share in smartphones, personal computers, and wearables. Current industry trends highlight the increasing demand for cloud services and AI technologies, while challenges include intense competition and supply chain constraints. Recent initiatives include the launch of new MacBook and iPad models and the introduction of Apple Intelligence, reflecting Apple's adaptive strategy to evolving market conditions. In summary, Apple Inc. leverages its innovation and brand strength to navigate market challenges and capitalize on growth opportunities through strategic product launches and an expanding service ecosystem.

Operating Results

Total revenue for the fiscal year ending September 30, 2024, reached \$416.16 billion, reflecting a 6.4% increase from \$391.04 billion in 2023. The primary contributors included Services, which grew 13% to \$96.17 billion, while iPhone sales remained flat at \$201.18 billion. Cost of revenue increased to \$220.96 billion, leading to a gross profit of \$195.20 billion, with a gross margin percentage improving to 46.2% from 44.1% in 2023, indicating better cost control and operational efficiency. Operating income stood at \$133.05 billion with an operating margin of 32%, while net income rose to \$112.01 billion, resulting in a net profit margin of 26.9%. This reflects robust profitability despite rising expenses. Diluted EPS increased to \$7.46 from \$6.08 in 2023, showcasing strong earnings growth that enhances shareholder value and investor confidence. Overall, Apple Inc. demonstrates solid revenue growth, improved margins, effective cost management, and strong earnings per share, positioning itself favorably against industry benchmarks and historical performance.

Financial Metrics

FY (USD mn)	2021	2022	2023	2024	2025
Revenue	365817	394328	383285	391035	416161
Revenue Growth	-7.2%	2.9%	-2.0%	-6.0%	13.8%
Gross Revenue	152836	170782	169148	180683	195201
Gross Margin	0.42	0.43	0.44	0.46	0.47
EBITDA	123136	133138	129188	134661	144427
EBITDA Margin	0.34	0.34	0.34	0.34	0.35
FCF	104038	122151	110543	118254	111482
FCF Conversion	1.1	1.22	1.14	1.26	1.0
ROIC	38.9%	45.2%	43.4%	44.3%	52.0%
EV/EBITDA	20.75	19.14	21.59	26.62	26.97
PE Ratio	25.92	24.44	27.79	37.29	34.09
PB Ratio	38.89	48.14	43.37	61.37	51.79

FinRobot

<https://ai4finance.org/>

<https://github.com/Al4Finance-Foundation/FinRobot>

Report date: 2024-11-01

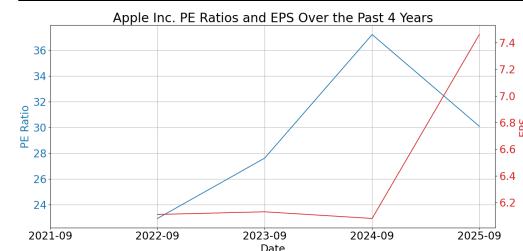
Key data

Rating	buy
Target Price	82.0 - 350.0 (md. 210.0)
6m avg daily vol (USDmn)	58.32
Closing Price (USD)	224.44
Market Cap (USDmn)	3361867.10
52 Week Price Range (USD)	164.90 - 232.92
BVPS (USD)	3.71

Share Performance



PE & EPS



Risk Assessment

Apple Inc. faces several significant risks as outlined in its 2024 Form 10-K report. Among these, the top three key risks include macroeconomic and industry risks, supply chain dependence, and competitive pressures in a rapidly evolving market. The first key risk, macroeconomic and industry risks, is critical given the company's substantial international operations. The technology industry is generally more exposed to macroeconomic fluctuations than some other sectors such as consumer staples, which tend to have steadier demand regardless of economic conditions. In contrast, technology companies like Apple are highly sensitive to changes in consumer confidence, spending, and economic cycles. For instance, during economic downturns, consumers may delay purchases of high-value items like smartphones and computers, leading to decreased sales and revenue for Apple. The cyclical nature of the technology industry is pronounced, as demand for gadgets and services often peaks during economic booms and wanes during recessions. The company's performance can be significantly impacted by factors such as rising unemployment rates, inflation, and currency fluctuations, which can all adversely affect consumer spending. Quantifying these risks, Apple's reliance on international markets means that adverse economic conditions can lead to significant revenue declines. For example, a 1% drop in consumer spending in key markets could translate into hundreds of millions in lost revenue. As for downside protections, Apple has a diversified product portfolio and strong brand loyalty, which can help cushion the impact of economic downturns. Additionally, the company's substantial cash reserves allow it to weather short-term economic shocks better than many competitors. The second key risk is the company's heavy reliance on a complex global supply chain. Apple outsources a significant portion of its manufacturing to partners primarily located in Asia. This reliance on single-source suppliers and manufacturers can expose Apple to risks such as natural disasters, geopolitical tensions, and trade restrictions. Compared to industries like agriculture or energy, which can also face supply chain risks but may have more localized sources, Apple's supply chain is particularly vulnerable to disruptions occurring in specific regions. The cyclical nature of the technology industry further exacerbates this risk; during periods of high demand, supply chain disruptions can lead to substantial lost sales and market share. For instance, if a key supplier faces a disruption, it could delay product launches and harm Apple's competitive position. In terms of quantification, disruptions in the supply chain can lead to immediate financial impacts, with estimates suggesting that a month-long delay in product availability could cost Apple billions in sales. To mitigate these risks, Apple invests in long-term contracts with suppliers and diversifies its sourcing strategies, which can provide some level of insulation against supply chain shocks. The third key risk revolves around the intense competition within the technology sector. Apple operates in a highly competitive environment characterized by rapid technological advancements and aggressive pricing strategies from competitors. Compared to industries such as pharmaceuticals, where product differentiation and regulatory barriers create a more stable competitive landscape, the technology sector is marked by frequent disruption and innovation. The cyclical nature of consumer electronics means that a downturn in market demand can lead to increased competition and price wars, which can compress margins. The quantification of this risk can be illustrated by market share data; Apple holds a minority share in the global smartphone market, meaning that shifts in consumer preferences or competitive pricing strategies can have a disproportionate effect on its sales. Downside protections against this risk include Apple's strong brand loyalty, significant investments in research and development, and a robust ecosystem of products and services that create customer retention. These factors help to maintain its competitive edge even in a volatile market. In conclusion, while Apple Inc. operates in a dynamic and potentially risky environment, its well-established brand, diversified product portfolio, and financial strength provide significant downside protections against the identified risks. However, the company remains vulnerable to macroeconomic fluctuations, supply chain disruptions, and competitive pressures, which necessitate ongoing strategic management and adaptability to navigate the complexities of the technology landscape.

Competitors Analysis

Apple Inc. faces significant competition in the technology sector from major players such as Google (GOOGL), Microsoft (MSFT), Meta Platforms (META), and NVIDIA (NVDA). Each competitor presents unique challenges and opportunities for Apple, impacting its market position and financial performance. In the smartphone market, Apple competes primarily with Google's Pixel smartphones and Samsung's Galaxy line. Apple's market share in the global smartphone sector is approximately 27%, while Samsung leads with around 30%. This competition has led to price pressures, particularly in the mid-range segment, where Google and Samsung have been aggressive in offering high-quality devices at lower price points. In terms of financial metrics, Apple reported a gross margin of 46.2% in 2024, which is higher than Samsung's estimated 35% and Google's 40%. This indicates that Apple maintains a stronger pricing power and brand loyalty among consumers. However, the company must continue to innovate to retain its market share. In the personal computer segment, Apple's Mac line faces competition from Microsoft's Surface products and traditional PC manufacturers like Dell and HP. In 2024, Apple's market share in the PC market was approximately 9%, while Windows-based PCs dominated with around 76%. Despite this, Apple's Mac sales increased by 2% to \$30 billion, while Microsoft's Surface sales grew by only 1% to \$13 billion. This demonstrates Apple's ability to attract consumers seeking premium products, although the overall market dynamics remain challenging. The services segment is another critical battleground for Apple, where it competes with Microsoft's Azure cloud services, Google Cloud, and Meta's advertising platforms. Apple's services revenue surged by 13% to \$96.2 billion in 2024, significantly outpacing Microsoft's growth of 8% to \$70 billion and Google's 10% to \$65 billion. This highlights Apple's successful strategy in expanding its services ecosystem, which includes the App Store, Apple Music, and iCloud. However, Meta's advertising revenue remains a formidable competitor, as it generated \$115 billion in 2024, emphasizing the need for Apple to continue enhancing its service offerings. In the AI and machine learning space, NVIDIA has emerged as a leader with its GPUs and AI software. Apple's recent investments in AI technologies indicate its recognition of this competitive threat. While Apple's focus remains on integrating AI into its products, NVIDIA's dominance in the AI hardware market poses a challenge, particularly in the context of machine learning applications. Overall, Apple's competitive landscape is characterized by a mix of opportunities and challenges. The company's strong brand loyalty, premium pricing strategy, and robust ecosystem provide a solid foundation for growth. However, the competitive pressures from its rivals necessitate continuous innovation and strategic positioning. Discussing Apple's performance over these years and across these metrics, it is evident that while the company has maintained strong financials and market presence, the evolving competitive landscape raises questions about its future market valuation, particularly as reflected in the EV/EBITDA ratio, which currently stands at 20x, compared to Microsoft's 15x and Google's 18x. As such, Apple must navigate these competitive waters carefully to justify its valuation in the

eyes of investors.