

## Apple Inc.

October 29, 2013

(AAPL:NASDAQ)

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### Company Comment

Rating Strong Buy 1

### Communications Technology: Mobile Devices

### Higher Deferred Revenues Obscure Strong Guide, Steady Underlying Growth

**Recommendation:** We are maintaining our **Strong Buy** rating on shares of AAPL following the company's fiscal 4Q13 results, which came in ahead of our expectations on the top and bottom line. December guidance was slightly weaker than we had anticipated, but this appears to be entirely the result of an accounting change whereby Apple will defer \$900 million more in revenues than typical due to its decision to bundle software for free with its products. Adjusted for this anomaly, Apple's guide would have been approximately in line with our expectations and above consensus.

- ◆ **F4Q13 results:** Apple reported revenues of \$37.5 billion, up 4.2% y/y and slightly above our \$36.9 billion estimate. EPS of \$8.26 was above our \$8.05 estimate. The company bought back 10.4 million shares in the quarter, for a cumulative total of 47 million shares since the beginning of the program, roughly 5% of the shares outstanding. Over the last five quarters, Apple has returned \$36 billion in cash to shareholders via dividends (\$13 billion) and share buybacks (\$23 billion). Existing domestic cash for dividends and buybacks has stopped accumulating and now stands at \$35.5 billion, or 24% of its total cash balance.
- ◆ **Gross margin guidance explained:** Apple is guiding F1Q14 gross margin to 36.5-37.5%, lower than our prior expectation for 39% due to a deferred revenue adjustment of roughly \$900 million stemming from Apple's decision to bundle software for free with iPhones, iPads and Macs. This deferral is essentially all margin, and without it gross margin would have been 38.5% at the midpoint, and Apple's guidance would have been approximately at our EPS estimate of \$15.24, which was well ahead of consensus.
- ◆ **Estimates:** We are lowering our FY14/FY15 EPS estimates from \$46.49/\$50.83 to \$41.77/\$45.95 due primarily to the added deferrals. These estimates do not include any new product categories (TVs, wearables, etc.), or new iPhone distribution partners. Our iPhone/iPad shipment estimates for FY14 are now 168 million/71.7 million, respectively (effectively unchanged). Note we expect \$45-50/share in FCF in the next two fiscal years.
- ◆ **Catalysts:** Over the next several months, the significant catalysts to Apple's shares include a potential deal with China Mobile (~\$3/share in EPS), potential for increased capital returns in calendar 1Q14, and new product lines (heavily hinted at on the call).

**Valuation:** For the next two years, we believe Apple's current product portfolio should lead to single-digit revenue and EPS growth despite meaningful deferred revenue headwinds. We believe this warrants a roughly parity multiple with the S&P 500. We are lowering our price target from \$675 to \$650, which equates to 15x our 2014 calendar EPS estimate of \$43.11, roughly in line with the S&P 500 2014 P/E.

Non-GAAP EPS	Q1 Dec	Q2 Mar	Q3 Jun	Q4 Sep	Full Year	GAAP EPS Full Year	Revenues (mil.)
2012A	\$13.87	\$12.30	\$9.32	\$8.67	\$44.14	\$44.14	\$156,507
Old 2013E	13.81A	10.09A	7.47A	8.05	39.56	39.56	170,346
<b>New 2013A</b>	<b>13.81</b>	<b>10.09</b>	<b>7.47</b>	<b>8.26</b>	<b>39.76</b>	<b>39.76</b>	<b>170,910</b>
Old 2014E	15.24	11.60	9.60	9.97	46.49	46.49	184,499
<b>New 2014E</b>	<b>14.10</b>	<b>10.39</b>	<b>8.30</b>	<b>8.87</b>	<b>41.77</b>	<b>41.77</b>	<b>179,189</b>
Old 2015E	UR	UR	UR	UR	50.83	50.83	192,885
<b>New 2015E</b>	<b>15.55</b>	<b>11.51</b>	<b>9.04</b>	<b>9.77</b>	<b>45.95</b>	<b>45.95</b>	<b>188,186</b>

Rows may not add due to rounding. Non-GAAP EPS excludes amortization of intangible assets from acquisitions. UR: Under Review.

Please read domestic and foreign disclosure/risk information beginning on page 9 and Analyst Certification on page 9.

### Current and Target Price

Current Price (Oct-28-13)	\$529.88
Target Price: Old: \$675.00	New: \$650.00
52-Week Range	\$603.00 - \$385.10
Suitability	Growth

### Market Data

Shares Out. (mil.)	908.4
Market Cap. (mil.)	\$481,343
Avg. Daily Vol. (10 day)	12,979,290
Dividend/Yield	\$12.20/2.3%
Book Value (Sep-13)	\$135.92
ROE %	24%
LT Debt (mil.)/% Cap.	\$16,958/0%

### Earnings & Valuation Metrics

	2012A	2013A	2014E	2015E
P/E Ratios (Non-GAAP)	12.0x	13.3x	12.7x	11.5x
Non-GAAP EPS (CY)				
Old	\$44.10	\$40.85	\$47.87	\$51.53
New	\$44.10	\$39.92	\$43.11	\$47.20
P/E Ratios (CY Non-GAAP)	12.0x	13.3x	12.3x	11.2x

### Company Description

Apple, Inc., headquartered in Cupertino, California, is a leading vendor of computing products to consumers and enterprises around the globe. The company helped create the personal computer market with its iconic Macintosh computer in the 1980s, reinvented the PC market for an Internet connected world with the iMac in 1998, reinvented how consumers consume music with its iPod and iTunes products and services, reinvented the mobile phone market with iPhone and iTunes app store products and services, and brought tablet computing mainstream with its iPad line of devices.

	4Q13	4Q12	%Chg		4Q13E	Variance
			Y/Y	Seq.		
<b>Units - 000s</b>						
iPhone	33,797	26,910	25.6%	8.2%	31,241	2,556
iPad	14,079	14,036	0.3%	-3.7%	13,500	579
Mac	4,574	4,923	-7.1%	21.8%	4,529	45
iPod	3,498	5,344	-34.5%	-23.4%	3,617	(119)
<b>Revenues \$-millions</b>						
iPhone	\$ 19,510	\$ 16,645	17.2%	7.5%	\$ 18,745	765
iPad	6,186	7,133	-13.3%	-2.9%	5,887	299
Mac	5,624	6,617	-15.0%	14.9%	6,024	(400)
iPod	573	820	-30.1%	-21.8%	580	(7)
iTunes/Software/Services	4,260	3,496	21.9%	6.8%	4,355	(95)
Accessories	1,319	1,255	5.1%	11.9%	1,318	1
<b>Total Sales</b>	<b>\$ 37,472</b>	<b>\$ 35,966</b>	<b>4.2%</b>	<b>6.1%</b>	<b>\$ 36,909</b>	<b>563</b>
EBIT	10,030	\$ 10,944	-8.4%	9.0%	\$ 9,706	324
<b>GAAP EPS</b>	<b>\$ 8.26</b>	<b>\$ 8.67</b>	<b>-4.7%</b>	<b>10.6%</b>	<b>\$ 8.05</b>	<b>\$ 0.21</b>
<b>Margins</b>						
Gross Margin	37.0%	40.0%	-300bps	10bps	37.0%	0bps
EBIT Margin	26.8%	30.4%	-360bps	80bps	26.3%	50bps
<b>Bal. Sheet &amp; Other</b>	<b>4Q13</b>	<b>3Q13</b>	<b>Y/Y</b>	<b>Seq.</b>	<b>4Q13E</b>	<b>Variance</b>
DSO's	32	23	4	9	23	9

Operating Highlights						
	4Q13	4Q12	%Chg		4Q13E	Variance
			Y/Y	Seq.		
<b>\$-millions</b>						
<b>Revenues</b>						
Americas	13,941	13,810	0.9%	-3.2%	N/A	N/A
Europe	8,005	8,023	-0.2%	5.1%	N/A	N/A
Greater China	5,733	5,427	5.6%	23.5%	N/A	N/A
Japan	3,341	2,367	41.1%	31.4%	N/A	N/A
Asia Pacific	1,980	2,110	-6.2%	-3.2%	N/A	N/A
Retail	4,472	4,229	5.7%	9.8%	N/A	N/A
<b>Total</b>	<b>37,472</b>	<b>35,966</b>	<b>4.2%</b>	<b>6.1%</b>	<b>N/A</b>	<b>N/A</b>

Financial Model Revisions						
	Before		After		Before	
	1Q14E	1Q14E	2014E	2014E	2015E	2015E
<b>Total Revenues</b>	<b>58,168</b>	<b>57,129</b>	<b>184,499</b>	<b>179,189</b>	<b>192,885</b>	<b>188,186</b>
Y/Y % Growth	6.7%	4.8%	8.3%	4.8%	4.5%	5.0%
Sequential % Growth	57.6%	52.5%	N/A	N/A	N/A	N/A
EBIT	18,400	16,973	55,174	49,193	56,747	52,641
<b>GAAP EPS</b>	<b>\$15.24</b>	<b>\$14.10</b>	<b>\$46.49</b>	<b>\$41.77</b>	<b>\$50.83</b>	<b>\$45.95</b>
Gross Margin	39.0%	37.5%	39.2%	37.1%	39.2%	37.4%
EBIT Margin	31.6%	29.7%	29.9%	27.5%	29.4%	27.6%
Free Cash Flow	15,627	25,869	39,101	40,350	40,044	41,388
FCF/share	\$17.42	\$28.79	\$44.18	\$45.71	\$46.63	\$48.82

Source: Apple Inc., Raymond James research.

Apple, Inc. Table 1: Consolidated Statement of Income (Sept. Fiscal Year, \$-Millions)																			
9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016
2011	2012	2012	2012	2012	2012	2013	2013	2013	2013	2014	2014	2014	2014	2015	2015	2015	2015	2016	2016
Net Sales	110,498	46,333	39,168	35,023	156,507	54,512	43,603	35,323	37,472	170,910	67,606	38,689	179,189	59,605	47,824	38,634	41,123	188,186	188,186
Cost of Sales	66,680	25,630	20,622	20,029	21,561	33,462	27,254	22,299	23,081	106,606	36,706	29,010	123,946	36,965	30,129	24,969	25,702	117,756	117,756
Gross Margin	43,818	20,703	18,546	14,994	134,946	21,050	16,349	13,024	14,391	64,304	30,900	9,676	55,243	22,640	17,695	14,665	15,421	70,430	70,430
Research & Development	2,429	759	841	876	906	3,381	1,019	1,178	1,168	4,475	1,250	1,387	5,295	1,376	1,416	1,400	1,479	5,758	5,758
Selling, General and Admin	7,559	2,605	2,339	2,545	2,551	10,940	2,672	2,645	2,673	10,830	3,200	3,073	12,123	3,305	3,097	3,226	3,087	12,729	12,729
Restructuring Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12/31/2011	17,340	15,384	11,573	10,944	95,241	17,210	12,558	9,201	10,030	48,969	16,973	12,315	9,676	17,915	13,003	10,119	10,958	51,944	51,944
12/31/2012	2,982	1,441	1,164	1,283	5,017	2,133	2,267	2,272	2,338	9,010	2,222	2,332	2,365	2,306	2,450	2,476	2,534	9,737	9,737
12/31/2013	36,772	18,481	16,548	12,856	60,298	19,343	14,825	11,473	12,968	50,009	19,196	14,647	12,061	20,221	16,473	12,596	13,390	61,680	61,680
12/31/2014	46,171	-	-	-	61,220	57,862	-	-	-	-	-	-	-	-	-	-	-	62,082	62,082
Other Income	415	137	148	288	(51)	522	347	234	113	1,156	200	200	200	138	194	188	177	698	698
Interest Income	34,205	17,477	15,532	11,861	55,763	17,672	12,905	9,435	10,143	50,155	17,173	12,515	9,876	18,063	13,246	10,308	11,034	52,641	52,641
Interest Expense	8,283	4,413	3,910	3,037	2,670	4,598	3,363	2,535	2,631	13,118	4,508	2,592	2,738	4,684	3,444	2,630	2,689	13,887	13,887
Net Income	25,922	13,094	11,622	8,824	8,223	13,076	9,547	6,900	7,512	37,037	12,665	9,220	7,691	13,360	9,802	7,628	8,165	38,934	38,934
Net AAPD EPS	\$ 27.68	\$ 13.67	\$ 12.30	\$ 9.32	\$ 8.67	\$ 44.14	\$ 10.09	\$ 7.47	\$ 8.26	\$ 39.76	\$ 14.10	\$ 10.39	\$ 8.30	\$ 15.55	\$ 11.51	\$ 9.04	\$ 9.77	\$ 45.95	\$ 45.95
Net EPS from Continuing Operations	\$ 27.68	\$ 13.67	\$ 12.30	\$ 9.32	\$ 8.67	\$ 44.14	\$ 10.09	\$ 7.47	\$ 8.26	\$ 39.76	\$ 14.10	\$ 10.39	\$ 8.30	\$ 15.55	\$ 11.51	\$ 9.04	\$ 9.77	\$ 45.95	\$ 45.95
Chair EPS (ex-gifts, ex-amort, ex-12/31/2011)	\$ 28.63	\$ 14.20	\$ 12.63	\$ 9.67	\$ 9.03	\$ 45.54	\$ 14.24	\$ 10.52	\$ 7.93	\$ 41.40	\$ 14.55	\$ 10.65	\$ 8.77	\$ 16.03	\$ 11.99	\$ 9.53	\$ 10.26	\$ 47.80	\$ 47.80
Chair EPS (ex-gifts, ex-amort, ex-12/31/2011)	\$ 31.11	\$ 14.10	\$ 12.50	\$ 9.57	\$ 8.93	\$ 43.02	\$ 14.10	\$ 10.42	\$ 7.85	\$ 40.92	\$ 14.40	\$ 10.55	\$ 8.68	\$ 15.93	\$ 11.89	\$ 9.43	\$ 10.17	\$ 47.20	\$ 47.20
Adjusted Avg. Unltd Shares	833	942	945	947	948	893	946	946	900	899	888	878	867	869	852	844	836	840	840
FCF/share	\$ 35.53	\$ 17.23	\$ 13.29	\$ 8.61	\$ 5.99	\$ 45.01	\$ 11.08	\$ 6.28	\$ 8.61	\$ 48.85	\$ 28.79	\$ 7.09	\$ 5.09	\$ 45.71	\$ 31.02	\$ 5.45	\$ 4.20	\$ 48.82	\$ 48.82
FCF-EPS	\$ 7.85	\$ 3.36	\$ 0.99	\$ (0.71)	\$ (2.68)	\$ 0.88	\$ 0.99	\$ (1.19)	\$ 0.34	\$ 9.09	\$ 14.69	\$ (3.30)	\$ (3.21)	\$ (4.78)	\$ (3.59)	\$ (3.58)	\$ (5.56)	\$ 2.87	\$ 2.87
Stock Based Compensation	201	63	63	70	69	265	85	85	88	348	88	88	88	88	88	88	88	302	302
COGS	459	160	168	172	168	668	224	224	209	902	209	209	836	209	209	209	209	836	836
R&D	250	197	193	206	211	807	236	243	258	973	258	258	258	258	258	258	258	1,032	1,032
SG&A	520	420	424	448	448	1,740	545	578	555	2,223	555	555	555	555	555	555	555	2,220	2,220
Capital Expenditures	1,180	420	424	448	448	1,740	545	578	555	2,223	555	555	555	555	555	555	555	2,220	2,220
Sequential Growth																			
Revenue	63.9%	-15.4%	-10.6%	2.7%	51.6%	-20.0%	-19.0%	6.1%	62.5%	-20.0%	-17.5%	2.7%	54.0%	-19.8%	-17.1%	-17.1%	3.8%	5.0%	5.0%
YoY Growth																			
Total Revenues	69.4%	73.3%	58.9%	22.6%	41.6%	17.7%	11.3%	0.9%	4.2%	9.2%	4.8%	3.3%	4.8%	4.3%	4.7%	5.2%	6.3%	5.0%	5.0%
Operating Costs	37.4%	38.1%	35.7%	23.4%	33.8%	14.5%	19.2%	11.8%	11.1%	14.0%	11.5%	11.5%	13.4%	6.4%	6.5%	6.6%	6.6%	6.6%	6.6%
EBIT	63.8%	121.5%	95.4%	23.4%	26.0%	63.9%	-18.4%	-20.5%	-1.3%	-11.3%	-1.9%	2.0%	0.4%	5.9%	8.0%	4.8%	6.1%	5.6%	5.6%
EBITDA	62.7%	115.5%	92.3%	23.4%	26.0%	63.9%	-18.4%	-20.5%	-1.3%	-11.3%	-1.9%	2.0%	0.4%	5.9%	8.0%	4.8%	6.1%	5.6%	5.6%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
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EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%	10.7%	8.9%	10.1%	10.0%	10.0%
EPS from Operations	62.7%	115.5%	92.3%	15.6%	59.4%	-0.4%	-17.9%	-19.9%	-4.7%	-8.9%	3.0%	11.1%	7.9%	10.3%					

Apple, Inc.

Tavis McCourt, CFA  
(615) 665-3644

Table 3: Product Mix Analysis (Sept. Fiscal Year, \$-Millions)															Apple, Inc.														
Product Revenue Breakdown		2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E							
Revenue Breakdown	Mac	21,783	6,598	5,073	4,933	5,617	23,221	5,519	5,447	4,893	5,624	21,483	5,795	5,175	4,648	5,343	20,981	4,981	4,500	4,166	5,208	18,855							
	iPad	20,365	9,153	6,590	9,171	7,133	32,047	6,186	3,247	10,674	6,186	31,980	10,674	8,570	6,431	6,195	31,536	10,340	8,570	6,431	6,195	31,536							
	iPhone	7,463	2,528	1,207	1,060	820	5,615	2,143	982	733	573	4,411	1,558	708	561	3,684	3,384	1,352	570	453	346	2,721							
	iTunes/Swift/Services	24,417	22,680	16,245	16,245	79,597	22,955	30,660	22,955	18,154	19,510	91,279	33,000	24,780	19,950	20,160	97,680	35,310	26,515	21,347	21,571	104,742							
	Accessories	3,973	3,020	3,171	3,203	3,486	12,880	3,887	4,114	3,990	4,260	16,051	4,260	4,387	4,788	5,112	19,281	5,309	5,324	5,746	6,134	22,113							
	Total	77,401	39,926	35,966	35,966	158,915	158,915	54,512	43,603	35,323	37,472	170,910	170,910	57,129	45,895	37,676	38,689	179,189	59,605	47,824	39,634	41,123	188,186						
Revenue Growth Analysis																													
Revenue Growth	Mac	24.6%	21.5%	1.9%	-3.4%	5.5%	6.0%	-18.4%	7.4%	-0.8%	-15.0%	-7.9%	5.0%	-5.0%	-5.0%	-5.0%	-2.4%	-14.1%	-13.0%	-10.4%	-2.5%	-10.0%							
	iPad	310.6%	98.6%	132.4%	51.7%	3.9%	57.4%	16.6%	32.7%	-30.5%	-13.3%	-4.2%	3.1%	-2.0%	0.9%	0.1%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%							
	iPhone	86.9%	133.3%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	11.8%	17.2%	14.1%	7.6%	8.0%	-2.4%	-3.3%	7.2%	-17.0%	-7.0%	-7.0%	-7.0%	-7.0%							
	iTunes/Swift/Services	89.4%	40.7%	33.0%	37.0%	39.6%	37.0%	22.1%	29.7%	24.6%	21.9%	24.5%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%							
	Accessories	146.6%	73.4%	11.7%	11.7%	2.4%	15.0%	24.6%	15.4%	-3.9%	5.1%	7.9%	10.3%	10.0%	6.7%	3.3%	10.0%	15.0%	15.0%	15.0%	15.0%	15.0%							
	Total	33.6%	73.4%	22.6%	22.6%	24.2%	43.8%	15.5%	9.2%	-1.4%	4.2%	4.2%	10.3%	10.0%	4.8%	6.7%	3.3%	4.8%	4.3%	4.7%	5.2%	6.3%							
Revenue Mix Analysis																													
Revenue Mix	Mac	19.7%	14.0%	12.7%	13.8%	18.4%	14.6%	10.1%	25.6%	15.6%	18.1%	17.0%	12.2%	25.1%	15.0%	18.0%	17.4%	12.2%	25.2%	14.9%	17.7%	17.4%							
	iPad	18.4%	19.6%	19.6%	25.6%	19.8%	20.2%	19.6%	20.1%	18.0%	16.5%	18.7%	18.1%	18.8%	17.1%	16.0%	17.6%	17.3%	17.9%	16.2%	15.1%	16.8%							
	iPhone	6.7%	5.4%	3.0%	3.0%	3.5%	3.9%	2.2%	2.2%	2.1%	1.5%	2.6%	2.7%	1.5%	1.5%	1.1%	1.8%	2.3%	1.2%	1.1%	0.8%	1.4%							
	iTunes/Swift/Services	42.6%	51.7%	58.8%	45.3%	46.3%	50.3%	52.6%	52.6%	51.4%	52.1%	53.4%	51.8%	54.2%	53.0%	52.1%	54.6%	59.2%	55.4%	53.9%	52.5%	55.7%							
	Accessories	67.8%	76.5%	73.9%	73.9%	76.4%	70.0%	78.6%	74.9%	71.5%	70.1%	74.7%	74.7%	78.0%	74.5%	71.5%	68.2%	74.1%	74.6%	71.2%	68.4%	73.9%							
	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%							
Unit Shipment Breakdown (000)																													
Unit Shipment	Mac	16,795	5,198	4,017	4,020	4,923	18,158	4,061	3,952	3,754	4,574	16,341	4,264	3,754	3,566	4,345	15,930	4,051	3,660	3,388	4,236	15,335							
	iPad	32,384	15,434	11,798	17,042	14,036	59,310	22,860	19,477	14,617	14,079	71,033	23,500	19,477	14,617	14,079	71,673	23,500	19,477	14,617	14,079	71,673							
	iPhone	42,620	15,397	7,673	6,751	5,344	35,165	12,679	5,633	4,569	3,488	26,379	9,509	4,225	3,427	2,624	19,784	8,083	3,951	2,913	2,230	16,817							
	Total	72,293	37,044	26,028	26,028	26,028	112,066	47,768	37,426	31,241	33,716	150,237	55,000	42,000	35,000	36,000	103,000	58,850	44,940	37,450	36,520	179,760							
	Revenue Growth Analysis																												
	Unit Growth	Mac	22.5%	25.7%	6.8%	1.8%	0.6%	8.8%	-21.9%	-1.6%	-6.6%	-7.1%	-10.0%	5.0%	-5.0%	-5.0%	-5.0%	-2.5%	-5.0%	-2.5%	-5.0%	-2.5%	-3.7%						
iPad		334.4%	110.5%	151.3%	84.3%	26.2%	80.0%	48.1%	65.1%	-14.2%	0.3%	21.8%	2.8%	0.0%	0.0%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%								
iPhone		-15.3%	-20.8%	-14.9%	-10.4%	-17.7%	-17.9%	-28.6%	-32.3%	-32.3%	-34.5%	-25.0%	-25.0%	-15.1%	-12.2%	-12.0%	-25.0%	-15.0%	-15.0%	-15.0%	-15.0%								
Accessories		80.8%	128.2%	88.0%	28.0%	57.6%	73.0%	29.0%	6.1%	20.0%	25.6%	20.2%	18.0%	15.0%	12.0%	6.5%	11.8%	7.0%	7.0%	7.0%	7.0%								
Revenue Growth Analysis																													
ASP's		Mac	1,302	1,269	1,263	1,227	1,344	1,279	1,359	1,378	1,303	1,230	1,315	1,359	1,378	1,303	1,230	1,316	1,230	1,230	1,230	1,230	1,230						
	iPad	628	593	559	538	508	550	467	449	436	439	460	440	440	440	440	440	440	440	440	440	440							
	iPhone	175	164	157	157	153	160	169	171	160	164	167	164	167	164	167	165	167	159	156	155	162							
	Total	651	659	647	624	618	640	642	613	581	577	607	600	580	590	590	585	600	590	570	560	583							
	Revenue Growth Analysis																												
	Revenue Growth	Mac	2.2%	-1.9%	-4.6%	-4.6%	-3.6%	-1.7%	-2.7%	-5.2%	-6.9%	-6.7%	-5.0%	-4.3%	-3.0%	-1.9%	-3.0%	-4.1%	0.0%	0.0%	0.0%	0.0%							
Total		2.2%	-1.9%	-4.6%	-4.6%	-3.6%	-1.7%	-2.7%	-5.2%	-6.9%	-6.7%	-5.0%	-4.3%	-3.0%	-1.9%	-3.0%	-4.1%	0.0%	0.0%	0.0%	0.0%								
Revenue McCourt, CFA (615) 665-3844																													

Apple, Inc.  
Table 4: Geographic Detail  
(Sept. Fiscal Year, \$-Millions)

	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E
Geographic Revenue Breakdown																					
Americas	38,315	17,714	13,182	13,898	13,810	57,542	20,341	14,052	14,405	13,941	62,759										
Europe	27,778	11,256	8,807	9,297	8,027	36,323	12,464	9,800	7,814	8,095	37,683										
Greater China	12,680	4,080	7,537	5,389	5,427	22,533	6,800	8,213	4,841	5,733	25,417										
Japan	5,437	3,550	2,845	2,009	2,367	10,571	4,443	3,135	2,543	3,341	13,462										
Retail	14,127	6,116	4,399	4,084	4,229	18,828	6,441	5,241	4,074	4,472	20,228										
APAC	9,902	3,617	2,516	2,498	2,110	10,741	3,983	3,162	2,046	1,980	11,181										
Total	108,249	46,333	39,186	38,023	35,966	156,608	54,512	43,603	35,323	37,472	170,910										
Geographic Revenue Mix																					
Americas	35.4%	38.2%	33.6%	36.6%	38.4%	36.7%	37.3%	32.2%	40.8%	37.2%	36.7%										
Europe	25.7%	24.3%	22.5%	23.9%	22.3%	23.2%	22.9%	22.5%	21.6%	21.4%	22.2%										
Greater China	11.7%	8.8%	19.5%	15.4%	15.1%	14.4%	12.5%	18.8%	13.1%	15.3%	14.9%										
Japan	5.0%	7.7%	6.7%	5.7%	6.6%	6.8%	8.2%	7.2%	7.2%	8.9%	7.9%										
Retail	13.1%	13.2%	11.2%	11.7%	11.8%	12.0%	11.8%	12.0%	11.5%	11.9%	11.8%										
APAC	9.1%	7.8%	6.4%	7.1%	5.9%	6.9%	7.3%	7.3%	5.8%	5.3%	6.5%										
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%										
Geographic Revenue Growth																					
Americas	56.4%	92.2%	41.4%	26.5%	43.1%	50.1%	14.8%	6.6%	12.5%	0.9%	9.1%										
Europe	48.0%	55.1%	16.0%	16.0%	8.5%	30.8%	10.7%	11.3%	-7.6%	-0.2%	4.3%										
Greater China	36.6%	65.4%	244.0%	48.0%	24.4%	77.6%	67.4%	7.5%	-13.9%	5.6%	12.8%										
Japan	147.7%	91.3%	33.0%	33.0%	113.1%	94.4%	25.2%	18.5%	26.6%	41.1%	27.3%										
Retail	46.6%	59.0%	37.9%	16.5%	18.0%	33.3%	5.3%	19.1%	-0.2%	5.7%	7.4%										
APAC	17.2%	45.3%	-6.3%	-7.2%	5.0%	52.9%	20.2%	22.7%	-10.1%	-5.2%	4.1%										
Total	68.0%	73.5%	56.9%	22.6%	27.2%	44.6%	17.7%	11.3%	0.9%	4.2%	9.2%										
% Rev Direct																					
% Rev Indirect																					
Number of Apple Stores	357	360	363	372	390	390	401	402	408	414	414					444					
Annualized Revenue per Store	41.9	68.2	48.7	44.5	44.4	59.4	65.1	52.2	40.2	40.2											
Timex McCourt, CFA																					
(615) 655-3644																					

Table 5: Consolidated Statement of Cash Flows (Sept. Fiscal Year, \$-Millions)															
	2011	1Q12	2012	3Q12	4Q12	2012	1Q13	2013	3Q13	4Q13	2013E	1Q14E	2Q14E	3Q14E	4Q14E
Operating Activities															
Net income from Continuing Ops	\$ 25,922	\$ 13,064	\$ 11,622	\$ 8,824	\$ 8,223	\$ 41,233	\$ 13,078	\$ 9,547	\$ 6,900	\$ 7,512	\$ 37,037	\$ 12,665	\$ 9,802	\$ 7,628	\$ 8,165
Depreciation & Amortization	1,814	721	740	835	991	3,277	1,588	1,692	1,684	1,783	6,757	1,667	1,865	1,921	1,979
Stock-based compensation	1,169	420	424	448	448	1,740	545	575	578	555	2,253	555	555	555	555
Non-cash restructuring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	2,868	1,466	1,459	1,511	339	4,405	1,179	776	967	(1,363)	1,141	-	-	-	-
Goodwill, stock based	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains on sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on disposal of PP&E	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains on sales of investments, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets & liab.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A/R	143	(3,561)	1,898	(615)	(3,272)	(5,551)	(668)	4,514	(1,755)	(4,263)	(2,172)	947	2,435	1,704	(5,515)
Inventory	1,034	(1,036)	1,034	86	(1,121)	(1,141)	(664)	1,510	1,652	(2,859)	(1,063)	211	228	(461)	(1)
Other operating assets	(1,924)	(1,292)	827	46	(1,321)	(1,414)	1,064	1,510	1,652	(2,859)	(1,063)	-	-	-	-
Other assets/Deferred Costs	(1,381)	(962)	(548)	(359)	76	(3,162)	(1,761)	3,030	(785)	(261)	223	-	-	-	-
Accounts payable	2,515	4,314	(1,505)	(359)	2,017	4,467	6,145	(10,567)	(318)	7,080	2,340	11,472	(6,346)	(4,868)	427
Deferred Revenue	1,654	1,296	620	659	249	2,624	1,611	(1,700)	(137)	55	1,459	900	700	700	700
Other Liabilities	4,465	2,472	(1,694)	908	866	2,652	2,373	1,285	(102)	965	4,521	-	-	-	-
Net Cash Prov. by Operating Activ	37,529	17,554	13,977	10,189	9,136	50,856	23,426	12,504	7,628	9,908	53,666	26,418	8,579	6,593	5,742
includes new deferred revenue program (\$50mm in 1Q)															
Investing Activities															
Proceeds from ST Investments	(102,317)	(40,175)	(44,847)	(36,069)	(30,141)	(151,323)	(37,152)	(43,971)	(41,519)	(25,808)	(148,489)	-	-	-	-
Proceeds from LT Investments	20,437	3,038	4,664	2,642	2,691	13,035	3,460	5,783	4,720	6,354	20,317	-	-	-	-
Purchases of LT Investments	49,416	21,472	27,590	24,088	26,630	99,770	23,002	26,186	32,546	22,396	104,130	-	-	-	-
Purchases of LT Investments	-	-	-	(350)	(350)	(350)	(284)	(15)	(144)	(53)	(486)	-	-	-	-
Purchases from sale of PowerSch	(4,260)	(1,321)	(1,457)	(2,044)	(3,461)	(8,295)	(2,317)	(2,008)	(1,885)	(1,955)	(8,165)	(2,549)	(2,209)	(2,488)	(2,581)
Purchases of PP&E	(3,456)	(1,098)	(423)	(557)	(49)	(1,107)	(138)	(291)	(131)	(531)	(911)	-	-	-	-
Payment for acq. of intangible as	(229)	(108)	(149)	(10)	(48)	(379)	(132)	(471)	(62)	(179)	(1,078)	-	-	-	-
Other	(54)	(54)	(14)	(5)	(3)	(69)	(12)	(41)	(82)	(10)	(10)	-	-	-	-
Net Cash Provided by Investing Act	(40,419)	(77,126)	(14,476)	(13,310)	(4,313)	(48,277)	(13,521)	(14,357)	(5,397)	611	(33,774)	(2,549)	(2,209)	(2,488)	(2,581)
Financing Activities															
Payment of LT Debt	-	-	-	-	(1,226)	(1,226)	(534)	534	16,886	-	16,886	-	-	-	-
Dividend	831	91	286	56	232	(2,488)	(2,483)	(2,491)	(2,911)	(2,769)	(10,654)	(2,741)	(2,709)	(2,278)	(2,258)
Issuance of Common Stock	1,133	333	303	400	315	665	76	189	(1,276)	1,531	530	-	-	-	-
Excess tax benefit from stock ba	(520)	(359)	(379)	(51)	1,143	1,351	(404)	(430)	(1,065)	(278)	701	(5,902)	(5,902)	(5,902)	(5,902)
Purchases of Common Stock	-	-	-	-	-	-	(1,952)	(430)	(16,829)	(5,902)	(23,249)	(5,902)	(5,902)	(5,902)	(5,902)
Net Cash Provided by Financing A	1,444	69	310	(65)	(2,022)	(1,696)	(4,497)	(2,446)	(2,126)	(7,368)	(10,379)	(8,133)	(8,170)	(8,270)	(8,250)
Effect of Exchange Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase/Decrease in Cash	(1,446)	495	(188)	(2,176)	2,801	931	5,408	(4,101)	(805)	3,011	3,613	17,136	(2,331)	(4,149)	(5,045)
Beginning Cash Balance	11,261	9,815	10,310	10,121	7,945	9,615	10,746	16,154	12,053	11,248	10,746	14,259	31,395	29,064	24,916
Ending Cash Balance	9,815	10,310	10,121	7,945	10,746	10,746	16,154	12,053	11,248	14,259	14,259	31,395	29,064	24,916	19,871
Free Cash Flow	33,269	16,233	12,520	8,133	5,675	42,801	21,109	10,496	5,943	7,953	46,501	25,869	6,370	4,520	3,591
Free Cash Flow/Share	35.53	17.23	13.29	8.61	5.99	45.01	22.29	11.08	6.28	8.61	48.85	28.79	7.09	5.09	4.09
calendar Free Cash Flow	40,943				47,437						50,261				41,138
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Table 6: Consolidated Balance Sheet  
(Sept. Fiscal Year, \$-Millions)

	2011	10/12	2012	30/12	40/12	10/13	2013	30/13	40/13	2013E	10/14E	2014E	30/14E	40/14E	2015E	40/15E	2015E
<b>Current Assets</b>																	
Cash & Equivalents	9,815	10,310	10,121	7,945	10,746	16,154	12,053	11,248	14,259	\$ 14,259	\$ 31,395	\$ 23,064	\$ 24,916	\$ 19,871	\$ 38,216	\$ 28,136	\$ 28,136
Short-Term Investments	16,137	19,846	18,417	19,709	18,383	23,666	27,084	31,358	26,287	26,287	26,287	26,287	26,287	26,287	26,287	26,287	26,287
Gross Trade Receivables	5,424	8,930	7,042	7,657	10,930	11,598	7,183	8,943	13,201	13,201	12,155	9,720	9,016	13,531	12,682	8,433	14,379
Allowance for Doubtful Accts.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Trade Receivables	5,369	8,930	7,042	7,657	10,930	11,598	7,084	8,943	13,192	13,192	12,155	9,720	9,016	13,531	12,682	8,433	14,379
Prepaid Expenses	2,014	1,937	2,253	2,209	2,593	2,895	3,242	3,193	3,453	3,453	3,453	3,453	3,453	3,453	3,453	3,453	3,453
Deferred Tax Assets	44,877	12,512	11,777	13,201	14,220	16,590	12,629	11,894	14,421	14,421	14,421	14,421	14,421	14,421	14,421	14,421	14,421
Other current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>88,995</b>	<b>54,771</b>	<b>50,712</b>	<b>51,843</b>	<b>57,653</b>	<b>72,346</b>	<b>63,337</b>	<b>66,219</b>	<b>73,286</b>	<b>73,286</b>	<b>80,264</b>	<b>84,271</b>	<b>78,899</b>	<b>79,371</b>	<b>96,666</b>	<b>88,596</b>	<b>88,596</b>
<b>Investments</b>																	
PP&E Net	55,618	67,445	81,638	89,567	92,122	97,292	106,550	104,014	106,215	106,215	106,215	106,215	106,215	106,215	106,215	106,215	106,215
Goodwill	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777	7,777
Acquired intangible assets	886	886	1,141	1,132	1,135	1,381	1,400	1,522	1,577	1,577	1,577	1,577	1,577	1,577	1,577	1,577	1,577
Other Assets	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552	3,552
<b>Total Assets</b>	<b>\$ 138,881</b>	<b>\$ 150,934</b>	<b>\$ 162,886</b>	<b>\$ 162,886</b>	<b>\$ 176,064</b>	<b>\$ 196,088</b>	<b>\$ 194,743</b>	<b>\$ 196,856</b>	<b>\$ 207,000</b>	<b>\$ 207,000</b>	<b>\$ 223,859</b>	<b>\$ 219,298</b>	<b>\$ 214,170</b>	<b>\$ 214,907</b>	<b>\$ 233,511</b>	<b>\$ 227,384</b>	<b>\$ 227,384</b>
<b>Current Liabilities</b>																	
Accounts Payable	14,632	19,221	17,011	16,808	21,175	26,398	14,912	15,516	22,367	22,367	33,839	27,493	22,495	22,922	35,023	28,554	24,358
Accrued Liabilities/Deferred inv	13,338	16,386	15,025	17,367	17,367	20,481	20,596	20,803	21,291	21,291	21,291	21,291	21,291	21,291	21,291	21,291	21,291
Current debt	27,970	34,007	32,036	33,060	38,542	46,879	35,508	36,319	43,658	43,658	55,130	48,784	43,786	44,213	58,314	48,845	45,649
<b>Total Current Liabilities</b>	<b>55,940</b>	<b>89,614</b>	<b>84,074</b>	<b>86,835</b>	<b>97,084</b>	<b>113,766</b>	<b>71,016</b>	<b>72,638</b>	<b>87,316</b>	<b>87,316</b>	<b>90,260</b>	<b>77,568</b>	<b>67,566</b>	<b>68,426</b>	<b>94,438</b>	<b>78,690</b>	<b>71,298</b>
<b>Long Term Debt</b>																	
Other Liabilities/Deferred Revs	11,786	14,020	16,400	18,090	19,312	21,863	23,745	22,225	22,533	22,533	16,960	16,960	16,960	16,960	16,960	16,960	16,960
<b>Shareholders' Equity</b>	<b>76,615</b>	<b>50,054</b>	<b>62,412</b>	<b>65,961</b>	<b>68,668</b>	<b>61,242</b>	<b>100,002</b>	<b>104,014</b>	<b>97,151</b>	<b>97,151</b>	<b>116,659</b>	<b>120,439</b>	<b>125,614</b>	<b>124,271</b>	<b>122,012</b>	<b>131,839</b>	<b>139,426</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 138,881</b>	<b>\$ 150,934</b>	<b>\$ 162,886</b>	<b>\$ 162,886</b>	<b>\$ 176,064</b>	<b>\$ 196,088</b>	<b>\$ 194,743</b>	<b>\$ 196,856</b>	<b>\$ 207,000</b>	<b>\$ 207,000</b>	<b>\$ 223,859</b>	<b>\$ 219,298</b>	<b>\$ 214,170</b>	<b>\$ 214,907</b>	<b>\$ 233,511</b>	<b>\$ 227,384</b>	<b>\$ 227,384</b>
<b>Ratio Analysis</b>																	
DSOs	23.3	17.3	16.2	19.7	27.4	19.1	14.6	22.5	31.5	23.3	19.1	19.1	19.1	19.1	19.1	19.1	23.3
Days Payable	81.8	64.0	74.2	75.5	88.4	71.0	48.2	62.6	85.3	81.8	85.3	85.3	85.3	85.3	85.3	85.3	81.8
Inventory Turns	47.7	82.9	74.9	71.4	109.1	92.0	87.6	52.6	53.5	47.7	92.0	87.6	52.6	53.5	92.0	87.6	47.7
Debt/Equity	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%
Net Debt/Cash	(81.570)	(97.601)	(110.176)	(117.221)	(121.251)	(137.112)	(144.887)	(120.662)	(129.801)	(129.801)	(146.037)	(144.000)	(140.450)	(135.413)	(153.750)	(143.381)	(143.678)
Book Value/Share	81.82	95.60	108.46	116.00	124.69	134.47	143.22	133.50	135.92	132.63	142.49	146.39	146.19	147.53	155.36	159.19	160.55
Tangible Book Value/Share	77.08	90.96	103.44	112.23	118.04	128.30	137.37	127.14	128.59	126.46	136.08	138.91	138.64	140.89	148.67	152.43	153.72
Net Cash/Share	87.11	103.61	116.59	123.78	127.90	144.79	152.95	140.33	142.80	138.35	163.52	162.83	160.06	156.20	178.93	178.49	169.49
Working Capital	20,164	18,676	19,853	19,111	19,111	25,469	27,829	31,800	29,629	29,629	34,134	35,487	35,113	35,157	40,262	42,303	42,947
Net Working Capital	(8,270)	(9,929)	(8,977)	(9,771)	(10,019)	(14,351)	(11,398)	(10,709)	(10,518)	(10,518)	(23,549)	(19,865)	(18,090)	(17,000)	(20,431)	(20,431)	(17,476)
Change in Net Working Capital	(4,270)	(1,958)	130	1,091	(1,247)	(4,333)	3,043	602	(212)	(180)	(12,650)	(3,883)	(3,775)	(5,089)	(13,151)	(3,732)	(4,725)
Asset Turnover	0.95	1.34	1.04	0.86	0.82	1.11	0.90	0.71	0.72	0.83	1.02	0.83	0.70	0.72	1.02	0.83	0.83
Net Margin	23.5%	28.2%	29.7%	25.2%	22.9%	24.0%	21.9%	19.5%	20.0%	21.7%	22.2%	20.2%	19.3%	19.9%	22.4%	20.5%	19.9%
Return on Assets	22.3%	37.7%	30.9%	21.7%	18.7%	26.7%	19.6%	13.8%	14.5%	17.9%	22.6%	16.9%	13.6%	14.3%	22.9%	17.1%	17.1%
Leverage	1.52	1.54	1.47	1.46	1.49	1.54	1.44	1.62	1.68	1.68	1.75	1.70	1.67	1.68	1.70	1.66	1.67
Return on Book Equity	38.0%	56.0%	46.4%	31.6%	27.6%	41.1%	28.2%	22.4%	24.3%	30.0%	38.6%	28.6%	24.1%	24.1%	40.0%	28.9%	28.9%
EBIT (annualized)	33,790	69,360	61,536	46,292	43,776	68,840	59,232	36,804	40,120	48,989	67,893	48,261	38,704	40,915	71,660	52,211	40,478
NOPAT (38% Tax Rate)	20,950	43,003	38,152	28,701	27,141	42,681	31,144	22,818	24,874	30,379	42,094	30,542	23,986	25,367	44,529	32,371	25,068
Invested Capital	76,615	50,054	62,412	65,961	68,668	61,242	100,002	104,014	97,151	97,151	116,659	120,439	125,614	124,271	122,012	131,839	139,426
Capital Expenditures	50,663	59,988	73,960	84,092	89,081	87,526	96,353	83,003	83,003	83,003	70,354	73,770	77,089	81,743	69,000	72,817	76,365
ROIC	27.3%	47.8%	37.2%	25.7%	23.0%	33.5%	23.0%	18.5%	20.1%	24.6%	32.9%	22.7%	17.1%	19.8%	33.3%	23.9%	19.8%
ROIC ex-cash	41.4%	71.8%	51.6%	34.1%	30.5%	48.8%	32.3%	26.3%	30.0%	36.6%	58.8%	41.4%	31.1%	31.0%	64.4%	44.5%	38.9%
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**Strong Buy (SB1)** Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.

**Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

**Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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**Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

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**Market Perform (MP3)** Expected to perform in line with the underlying country index.

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	Coverage Universe Rating Distribution				Investment Banking Distribution			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
<b>Strong Buy and Outperform (Buy)</b>	50%	58%	43%	48%	25%	34%	0%	0%
<b>Market Perform (Hold)</b>	43%	41%	57%	32%	9%	23%	0%	0%
<b>Underperform (Sell)</b>	7%	1%	0%	20%	3%	0%	0%	0%

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**Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

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**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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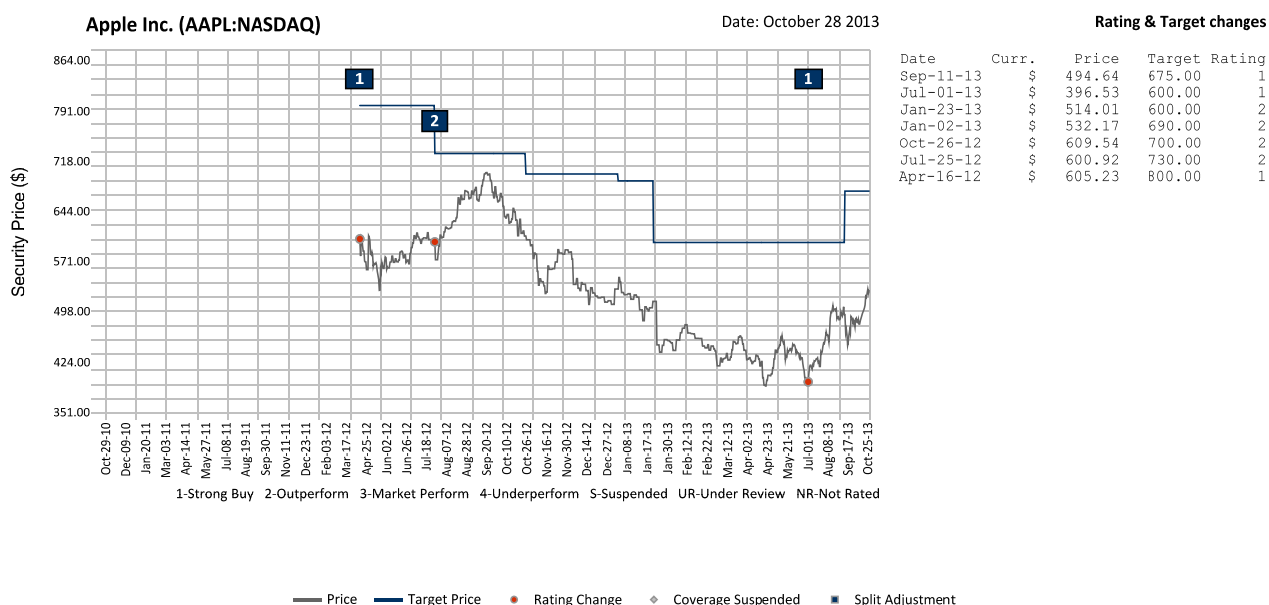
Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
Apple Inc.	Raymond James & Associates makes a market in shares of AAPL.

## Stock Charts, Target Prices, and Valuation Methodologies

**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

**Target Prices:** The information below indicates our target price and rating changes for AAPL stock over the past three years.



**Valuation Methodology:** We value AAPL shares using three distinct methodologies including a discounted cash flow valuation, a comparison to a broad range of peer groups, and a comparison to the S&P 500.

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#### Communication Technology Risks

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## Company-Specific Risks for Apple Inc.

### Rapid Technology Evolution

Historically, the global consumer electronics and computer hardware business has been characterized by aggressive price cutting, with resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors, and price sensitivity on the part of consumers.

### New Product Adoption

Apple's current dominance in the world of consumer electronics has been largely the result of a five-year run of developing hit products beginning with the first iteration of the iPhone in 2007, which was followed by the iPad in 2010. Relying on its strong margins from hardware sales, Apple is at risk should new products not create excitement in the market and fail to support premium prices. Apple relies on its carrier partners to subsidize the purchasing price of iPhones in order to maintain competitiveness vs. alternative hardware providers. In markets that lack subsidies, Apple's iPhone penetration is drastically reduced.

### Defense of Intellectual Property

Apple maintains significant investments in research and development to ensure its premium market position across product categories. As a result, it holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. By contrast, many of the Apple's competitors seek to compete primarily through aggressive pricing and very low cost structures. If Apple is unable to protect its intellectual property from cooption by competitors, Apple's ability to maintain a competitive advantage could be negatively affected. Conversely, many of Apple's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, those licenses have been obtained on reasonable terms. There is however no assurance that the necessary licenses could be obtained on acceptable terms or at all.

### Pricing Structure

Apple is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications, and related services. Conversely, many of its competitors rely on Google's Android as a "free" (subject to various IP royalties) operating system allowing them to focus on hardware specifications and offer aggressive pricing.

### Global Supply Chain

Apple is subject to a global supply chain and relies on contract manufacturers for most of its production. Working conditions at contract manufacturers in places like China have brought negative attention and may be a source of negative customer perception to its products in the future. Other risks to its supply chain may be the result of too much demand and limited component availability leading to delayed product shipments, risks associated with currency volatility, and risks associated with stability of sovereign governments.

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