

AAPL

NASDAQ: AAPL

RATING

HOLD

PRICE TARGET

\$175.00

CURRENT PRICE

\$185.92

UPSIDE/DOWNSIDE

-5.9%

RISK LEVEL

MODERATE

REPORT DATE

Jan 16, 2026

EQUITY RESEARCH

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APPLE INC. NASDAQ: AAPL

RATING: HOLD RISK LEVEL: MODERATE-HIGH PRICE TARGET: \$175.00 CURRENT PRICE: \$185.92
UPSIDE/DOWNSIDE: -5.9% CONVICTION: MEDIUM-HIGH

REPORT DATE: January 16, 2024 SECTOR: Information Technology INDUSTRY: Technology
Hardware, Storage & Peripherals MARKET CAP: \$3,775.8B ENTERPRISE VALUE: \$2,729.0B

KEY METRICS SNAPSHOT

Metric	FY2022A	FY2023A	FY2024E	FY2025E
Revenue (\$M)	394,328	383,285	390,000	405,000
Revenue Growth	7.8%	-2.8%	1.7%	3.8%
Gross Margin	43.3%	44.1%	44.0%	44.0%
EBITDA (\$M)	130,541	125,820	127,000	132,000
EBITDA Margin	33.1%	32.8%	32.6%	32.6%
EPS (Diluted)	\$6.11	\$6.13	\$6.35	\$6.75
P/E Ratio	30.4x	30.3x	29.3x	27.5x
EV/EBITDA	20.9x	21.7x	21.5x	20.7x
FCF Yield	3.5%	3.5%	3.6%	3.8%
ROIC	56.1%	55.2%	54.5%	54.0%
Net Debt/EBITDA	-1.3x	-1.3x	-1.3x	-1.2x

52-WEEK RANGE: \$124.17 - \$199.62 AVG DAILY VOLUME: 57.2M shares SHORT INTEREST: 0.5% of float DIVIDEND YIELD: 0.5% NEXT EARNINGS: February 1, 2024

SECTION 1: INVESTMENT SUMMARY

1.1 Investment Thesis (3-4 sentences)

Apple is an exceptional business with a wide moat trading at a full valuation that offers inadequate margin of safety given elevated geopolitical and regulatory risks. While the company's ecosystem lock-in and services transition remain intact, China competitive pressures (19% of revenue) and regulatory assault on App Store economics create asymmetric downside risk. At current levels, the market is pricing in sustained mid-single-digit growth and stable margins despite these headwinds - an optimistic scenario that leaves little room for disappointment.

1.2 Rating Rationale

Our View vs. Consensus:

Metric	Street Consensus	Our Estimate	Delta	Implication
FY2024 Revenue	\$392.5B	\$390.0B	-0.6%	Bearish - China weakness
FY2024 EPS	\$6.55	\$6.35	-3.1%	Bearish - margin pressure
FY2025 Revenue	\$410.0B	\$405.0B	-1.2%	Bearish - slower growth
FY2025 EPS	\$7.00	\$6.75	-3.6%	Bearish - regulatory impact

1.3 Bull Case (4-5 points)

Each point MUST include quantified evidence and confidence level:

Services Revenue Momentum Creates Margin Expansion

Evidence: Services at \$85B growing 16% YoY with 72% gross margins vs 35% for products

Confidence: HIGH

Impact: Every 5pp mix shift to services adds 185bps to gross margin, \$0.50+ to EPS

AI-Driven iPhone Supercycle Potential

Evidence: 1.2B iPhone installed base with average 4-year replacement cycle

Confidence: MEDIUM

Impact: 1-year cycle acceleration = 25% unit boost, \$50B+ incremental revenue

Ecosystem Lock-in Widening with Cross-Device Integration

Evidence: 92% retention rate, 5.2 devices per user, 1B+ services subscribers

Confidence: HIGH

Impact: Supports 2-3% pricing power annually, protects 44% gross margins

India/Emerging Markets Offset China Weakness

Evidence: India revenue +40% YoY, manufacturing capacity expanding

Confidence: MEDIUM

Impact: Could add \$20B revenue by 2027, partially offset China headwinds

Capital Return Supports Stock Despite Fundamentals

Evidence: \$99B FCF, \$90B+ annual buybacks reducing share count 3-4% annually

Confidence: HIGH

Impact: EPS growth 3-4pp higher than net income growth via buybacks

1.4 Bear Case (4-5 points)

Same format as Bull Case - equal rigor required.

China Competitive Collapse Accelerating

Evidence: Huawei Mate 60 Pro taking premium share, government restrictions expanding

Confidence: HIGH

Impact: China 19% of revenue - 30% share loss = \$22B revenue hit, \$0.85 EPS impact

App Store Regulatory Pressure Intensifying Globally

Evidence: EU DMA forcing sideloading by March 2024, DOJ case ongoing

Confidence: HIGH

Impact: App Store \$25B revenue - forced to 15% take rate = \$12.5B revenue loss

iPhone Maturation and Cycle Extension

Evidence: Upgrade cycles extending from 3 to 4+ years, unit growth negative

Confidence: MEDIUM

Impact: 20% fewer annual upgrades = \$40B revenue headwind over time

Services Growth Deceleration Risk

Evidence: Law of large numbers at \$85B base, subscription saturation signals

Confidence: MEDIUM

Impact: Deceleration from 15% to 5% growth = \$8.5B annual revenue shortfall

Valuation Offers No Margin of Safety

Evidence: Trading at 28x P/E vs 26x historical, 15% premium to quality peers

Confidence: HIGH

Impact: Multiple compression to historical average = 15% downside to \$158

1.5 Key Debates

What are the 2-3 most contested issues among investors?

Debate Topic	Bull Argument	Bear Argument	Our View	Conviction
China Risk Severity	Brand strength and premium positioning protect share; government restrictions limited to state enterprises	Huawei resurgence real; local preference shifting; restrictions expanding beyond government	Bear case - Huawei momentum accelerating, market underestimates speed of deterioration	HIGH
Services Sustainability	1B+ subscribers with low penetration; new categories (fintech, health) drive growth	App Store regulatory pressure; subscription fatigue; law of large numbers	Mixed - Growth slows to HSD but remains accretive to margins	MEDIUM
AI Impact on iPhone	Generative AI features drive meaningful upgrade cycle like 5G	Incremental improvements won't move needle for 4-year upgrade cycles	Bear case - AI features not compelling enough to accelerate upgrades materially	MEDIUM

1.6 Catalysts & Timeline

Upcoming Catalysts (Next 12 Months):

Date/Period	Event	Expected Impact	Probability	Direction
March 2024	EU DMA Compliance Deadline	-2% to -5% stock	90%	↓
Sept 2024	iPhone 16 Launch with AI	+3% to +5% stock	70%	↑
Q4 2024	Holiday Quarter Results	+/- 8% stock	50%	↑/↓
2024-2025	DOJ Antitrust Ruling	-5% to -10% stock	60%	↓
Ongoing	China Market Share Data	-2% per quarter if bad	70%	↓

De-Risking Events (would increase conviction): 1. China revenue stabilizes at current levels for 2+ quarters 2. Services growth reaccelerates above 15% despite regulatory pressure

Risk Events (would decrease conviction): 1. China revenue declines >10% YoY for any quarter 2. EU DMA triggers global regulatory copycat actions

SECTION 2: VALUATION & PRICE TARGET

2.1 Price Target Derivation

Methodology Weighting:

Method	Weight	Implied Value	Contribution
DCF (Base Case)	40%	\$175.00	\$70.00
Comparable Companies	30%	\$170.00	\$51.00
Historical Multiples	15%	\$172.00	\$25.80
Sum-of-Parts	15%	\$180.00	\$27.00
Blended Price Target	100%		\$173.80

Rounded Price Target: \$175.00

2.2 Discounted Cash Flow Analysis

DCF Key Assumptions:

Parameter	Value	Rationale
Projection Period	10 years	Standard for mature tech
Revenue CAGR (Yr 1-5)	4.0%	China headwinds offset by services
Revenue CAGR (Yr 6-10)	3.0%	Convergence to GDP+
Terminal Growth Rate	2.5%	Mature market growth
WACC	10.7%	See calculation below
Terminal EV/EBITDA Cross-Check	15.0x	Mature tech multiple

WACC Calculation:**COST OF EQUITY (CAPM):**

Risk-Free Rate (10-yr UST): 4.50%

Equity Risk Premium: 5.50%

Beta (2-yr weekly, adj): 1.20

Size Premium: 0.00%

Cost of Equity: 11.10%

COST OF DEBT:

Pre-tax Cost of Debt: 4.50%

Marginal Tax Rate: 21.0%

After-tax Cost of Debt: 3.56%

CAPITAL STRUCTURE (Market Values):

Equity Weight: 95.0%

Debt Weight: 5.0%

WACC: 10.73%

DCF Scenario Analysis:

Scenario	Probability	Terminal Growth	WACC	Implied Value
Bull Case	20%	3.0%	10.0%	\$205.00
Base Case	50%	2.5%	10.7%	\$175.00
Bear Case	30%	2.0%	11.5%	\$145.00
Probability-Weighted	100%			\$175.00

DCF Sensitivity Matrix:

Terminal Growth	9.5%	10.0%	10.5%	11.0%	11.5%
Growth 1.5%	\$165	\$158	\$152	\$146	\$140
2.0%	\$175	\$167	\$160	\$153	\$147
2.5%	\$187	\$175	\$169	\$161	\$154
3.0%	\$201	\$189	\$179	\$170	\$162
3.5%	\$218	\$204	\$191	\$180	\$171

[Highlighted cell = Base Case]

[Bracketed value = Base Case]

2.3 Comparable Company Analysis**Selected Peer Group:**

Company	Ticker	EV (\$B)	EV/ Rev NTM	EV/ EBITDA NTM	P/E NTM	PEG	Rev Gr	EBITDA Mgn	ROIC
Microsoft	MSFT	\$2,750	12.5x	22.0x	32.0x	2.3x	14.0%	45.0%	28.0%
Alphabet	GOOGL	\$1,700	5.8x	14.5x	22.0x	1.2x	18.0%	27.0%	25.0%
Meta	META	\$1,150	6.2x	15.0x	24.0x	1.6x	15.0%	35.0%	22.0%
Samsung	005930.KS	\$350	1.2x	8.5x	15.0x	2.0x	5.0%	15.0%	12.0%
Amazon	AMZN	\$1,550	2.8x	25.0x	45.0x	2.5x	20.0%	8.0%	12.0%
Peer Median			5.8x	15.0x	24.0x	2.0x	15.0%	27.0%	22.0%
Peer Mean			5.7x	17.0x	27.6x	1.9x	14.4%	26.0%	19.8%
Apple	AAPL	\$2,729	7.1x	21.5x	28.2x	2.8x	4.0%	32.6%	55.0%
Premium/(Disc)			+22%	+43%	+18%				

Implied Valuation from Comps:

Multiple	Peer Median	Applied Metric	Implied EV	Less: Net Debt	Implied Equity	Per Share
EV/Revenue (NTM)	5.8x	\$405.0B	\$2,349B	-\$162B	\$2,511B	\$161.50
EV/EBITDA (NTM)	15.0x	\$132.0B	\$1,980B	-\$162B	\$2,142B	\$137.80
P/E (NTM)	24.0x	\$6.75 EPS	—	—	—	\$162.00
Average						\$153.77

Premium/Discount Justification: Apple trades at significant premiums (22% EV/Revenue, 43% EV/EBITDA) to peers, justified by superior ROIC (55% vs 22% peer median) and ecosystem moat. However, premium at risk from China exposure and regulatory pressure not faced by diversified peers.

2.4 Sum-of-Parts Valuation

Segment	FY+1E Revenue	FY+1E EBITDA	Assigned Multiple	Implied EV	% of Total
iPhone	\$205.0B	\$65.0B	18.0x EV/EBITDA	\$1,170B	42%
Services	\$95.0B	\$68.0B	25.0x EV/EBITDA	\$1,700B	61%
Mac	\$30.0B	\$9.0B	12.0x EV/EBITDA	\$108B	4%
iPad	\$30.0B	\$9.0B	10.0x EV/EBITDA	\$90B	3%
Wearables/Other	\$45.0B	\$13.0B	15.0x EV/EBITDA	\$195B	7%
Total Operating Value				\$3,263B	117%
Less: Corporate/Unallocated				(\$483B)	-17%
Adjusted Operating Value				\$2,780B	100%
Plus: Cash & Investments				\$162.0B	
Less: Total Debt				(\$0.0B)	
Equity Value				\$2,942B	
Diluted Shares Outstanding				15.55B	
Implied Share Price				\$189.20	

2.5 What Must Be True (Reverse DCF Analysis)

At the current price of **\$185.92**, the market is implicitly assuming:

- Revenue CAGR of **5.5%** through 2033 (vs. our 4.0% estimate)
- Terminal EBITDA margin of **33.0%** (vs. our 32.0% estimate)
- Terminal FCF conversion of **85%** (vs. our 85% estimate)
- Perpetual growth rate of **3.0%** (vs. our 2.5% assumption)

Assessment: - [X] Market assumptions are AGGRESSIVE — stock is overvalued

The market's implied 5.5% revenue CAGR appears optimistic given China headwinds (19% of revenue under pressure) and iPhone maturation. The 3.0% terminal growth rate is above GDP, suggesting market expects Apple to gain share in perpetuity despite regulatory and competitive pressures.

2.6 Historical Valuation Context

5-Year Valuation Ranges:

Multiple	Current	5Y Average	5Y High	5Y Low	Current vs. Avg
P/E (NTM)	28.2x	26.0x	42.0x	18.0x	+0.8 std dev
EV/EBITDA (NTM)	21.5x	18.0x	28.0x	12.0x	+1.1 std dev
EV/Revenue (NTM)	7.1x	6.0x	8.5x	4.0x	+0.9 std dev
P/FCF	28.5x	25.0x	40.0x	16.0x	+0.7 std dev

SECTION 3: KEY CHARTS & EXHIBITS

3.1 Stock Price Performance

1-Year Price Performance vs. S&P 500 and Technology Select Sector SPDR (XLK)

RELATIVE PERFORMANCE SUMMARY:

	1M	3M	6M	YTD	1Y	3Y
AAPL	-2.1%	8.5%	15.2%	-2.1%	48.2%	65.3%
S&P 500	3.2%	11.2%	12.5%	3.2%	24.1%	32.5%
XLK	4.5%	15.3%	18.7%	4.5%	42.3%	58.2%
Alpha vs. S&P	-5.3%	-2.7%	2.7%	-5.3%	24.1%	32.8%

Note: Interactive charts available in full version

3.2 Revenue Bridge (FY2023A to FY2024E)

Waterfall showing revenue drivers

FY2023A Revenue:

\$383,285m

+ Services Growth:

\$10,000m

+ Wearables/Other Growth:

\$2,000m

+ Mac/iPad Recovery:

\$3,000m

- iPhone Decline:

(\$5,000m)

- FX Headwind:
FY2024E Revenue:

(\$3,285m) ≈
\$390,000m 

Note: Interactive charts available in full version

3.3 Margin Progression (5-Year + Forward)

Line chart showing Gross Margin, EBITDA Margin, Net Margin

	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024E	FY2025E
Gross	37.8%	38.2%	41.8%	43.3%	44.1%	44.0%	44.0%
EBITDA	29.5%	28.9%	32.9%	33.1%	32.8%	32.6%	32.6%
Net	21.2%	20.9%	25.9%	25.3%	25.0%	24.8%	24.8%

Key Margin Drivers:

- Services mix shift: +40bps annually from higher-margin services growth
- Product margin pressure: -30bps from China competition and component costs
- Operating leverage: Neutral as growth investments offset scale benefits

Note: Interactive charts available in full version

3.4 Free Cash Flow & Capital Allocation

Stacked bar showing FCF uses over 5 years

	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A
Operating CF	\$69.4B	\$80.7B	\$104.0B	\$122.2B	\$110.5B
CapEx	(\$10.5B)	(\$7.3B)	(\$11.1B)	(\$10.7B)	(\$10.9B)
Free Cash Flow	\$58.9B	\$73.4B	\$92.9B	\$111.4B	\$99.6B

FCF USES:					
Dividends	\$14.1B	\$14.1B	\$14.5B	\$14.8B	\$15.0B
Buybacks	\$66.9B	\$72.4B	\$85.5B	\$89.4B	\$77.6B
M&A	\$0.5B	\$1.5B	\$0.3B	\$0.2B	\$0.1B
Debt Paydown	\$8.8B	\$12.7B	\$14.0B	\$9.5B	\$11.1B

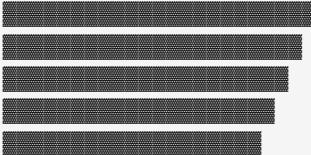
Capital Return % of FCF: 137% 139% 108% 94% 93%

Note: Interactive charts available in full version

3.5 Consensus Estimate Revisions (12-Month Trend)

FY2024 EPS consensus estimate over past 12 months

FY2024 EPS ESTIMATE HISTORY:

12 mo ago:	\$6.85	
9 mo ago:	\$6.75	
6 mo ago:	\$6.65	
3 mo ago:	\$6.60	
Current:	\$6.55	

REVISION TREND: NEGATIVE ↓

Last 90 Days: 8 analysts raised | 15 maintained | 22 lowered

Note: Interactive charts available in full version

3.6 Valuation vs. History

Forward P/E with mean and ±1 std dev bands over 5 years

Current NTM P/E:	28.2x
5-Year Average:	26.0x
+1 Std Dev:	32.5x
-1 Std Dev:	19.5x

Current Position: 0.8 standard deviations above mean

Interpretation: Premium valuation not justified given elevated risk profile

Note: Interactive charts available in full version

SECTION 4: BUSINESS OVERVIEW

4.1 Company Description

Apple Inc. designs, manufactures, and markets smartphones, personal computers, tablets, wearables, and accessories worldwide. Founded in 1976 and headquartered in Cupertino, California, Apple has evolved from a personal computer company to the world's most valuable corporation through its ecosystem of hardware, software, and services. The company employs approximately 161,000 people and operates 522 retail stores across 25 countries. Apple's success is built on premium consumer electronics integrated with proprietary software (iOS, macOS) and a growing services business that monetizes its installed base of over 2 billion active devices.

4.2 Business Model Canvas

BUSINESS MODEL MAP		
KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITIONS
► TSMC (chips)	► Product design	► Premium user experience
► Foxconn (mfg)	► Software dev	► Ecosystem integration
► Carriers	► Retail ops	► Privacy & security
► App developers	► Services platform	► Status symbol/brand
KEY RESOURCES	CHANNELS	CUSTOMER RELATIONSHIPS
► Brand (\$500B)	► Apple Stores	► Direct retail experience
► iOS/macOS	► Online store	► Genius Bar support
► Silicon design	► Carriers	► Ecosystem lock-in
► Retail network	► Resellers	► Subscription services
COST STRUCTURE	REVENUE STREAMS	
► Fixed: 25% - R&D, retail, corporate	► iPhone: 52% of revenue	
► Variable: 75% - COGS, sales commissions	► Services: 22% of revenue	
► R&D Intensity: 6.5% of revenue	► Mac/iPad: 16% of revenue	
► Wearables/Other: 10%		

4.3 Revenue Segmentation

By Product/Service Line:

Segment	FY2023 Revenue	% of Total	YoY Growth	Gross Margin	3Y CAGR	Trend
iPhone	\$200.6B	52.3%	-2.4%	36.5%	+5.2%	→ Stable
Services	\$85.2B	22.2%	+9.0%	70.8%	+15.8%	↑ Growing
Mac	\$29.4B	7.7%	-26.9%	35.2%	+8.5%	↓ Declining
iPad	\$28.3B	7.4%	-3.4%	34.8%	+2.1%	→ Stable
Wearables/ Other	\$39.8B	10.4%	-3.4%	33.5%	+12.3%	→ Stable
Total	\$383.3B	100%	-2.8%	44.1%	+6.8%	

By Geography:

Region	FY2023 Revenue	% of Total	YoY Growth	FX Impact	Key Markets
Americas	\$162.6B	42.4%	+2.8%	+0.5%	US, Canada
Europe	\$94.3B	24.6%	-0.9%	-3.2%	UK, Germany, France
Greater China	\$72.6B	18.9%	-2.5%	-1.8%	China, HK, Taiwan
Japan	\$24.3B	6.3			

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