

Case Study - Apple Inc Book Value Per Share



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- ❖ As a Cost Valuation exercise we are going to take a look at Apple Inc's Book Value per share
- ❖ This may be considered a proxy for cost valuation although it is important to recognise that the book value on the Apple Balance Sheet is not the same as economic cost or economic replacement value

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- ❖ It is also important to recognise that Apple expenses its annual R&D which arguably adds a considerable amount to the company's value
- ❖ As it is expensed, its value is not reflected in the Balance Sheet

Operating Expenses					
Operating expenses for 2018, 2017 and 2016 were as follows (dollars in millions):					
	2018	Change	2017	Change	2016
Research and development	\$ 14,236	23%	\$ 11,581	15%	\$ 10,045
Percentage of total net sales	5%		5%		5%
Selling, general and administrative	\$ 16,705	9%	\$ 15,261	8%	\$ 14,194
Percentage of total net sales	6%		7%		7%
Total operating expenses	\$ 30,941	15%	\$ 26,842	11%	\$ 24,239
Percentage of total net sales	12%		12%		11%

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- ❖ This is the formula
- ❖ The Preferred Stock is excluded as it ranks ahead of Common Stock in a liquidation
- ❖ The average number of shares outstanding enables adjustment for share issues
- ❖
$$\text{Book Value Per Share} = \frac{(\text{Stockholders Equity} - \text{Preferred Stock})}{\text{Average Shares Outstanding}}$$

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- ❖ I have attached a Spreadsheet with key data from Apple's Balance Sheet and Earnings Information
- ❖ This shows that the Book value of Shareholders Equity is \$107,147m in 2018
- ❖ The Market Capitalisation is \$273,806m
- ❖ *Source: Apple Inc. 2018 Form 10-K*

Shareholders Equity		
Common Stock	US\$40,201	US\$35,867
Retained Earnings	US\$70,400	US\$98,330
Accum Other Income	-US\$3,454	-US\$150
Total Shareholders Equity	US\$107,147	US\$134,047
Total Liabilities and Shareholders Equity	US\$365,725	US\$375,319
Date	28 Sep 2018	30 Sep 2017
Share Price	54.76	39.84
Market Capitalisation	US\$273,805.97	US\$209,227.41

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- ❖ When divided by the fully diluted average number of shares, the Book Value per Share is \$21.43 (2018)
- ❖ The fully diluted number of shares is the better number as it takes into account the exercise of existing share options and warrants
- ❖ This compares to the share price of \$54.76

Shares in EPS Calc		
Basic	4,955,377	5,217,242
Diluted	5,000,109	5,251,692

Date	28 Sep 2018	30 Sep 2017
Share Price	US\$54.76	US\$39.84
Market Capitalisation	US\$273,805.97	US\$209,227.41
Book Value Per Share	US\$21.43	US\$25.52

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- ❖ We can conclude initially from this that the ratio of the Market Price to the Book value per share is 2.56x
- ❖ This reflects the market's view of the earnings potential of Apple's business

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- ❖ Having said that the Market Price is forward looking where as the Book Value per share represents historic value
- ❖ It is also under stated by the expensing of R&D costs for example
- ❖ It does not include the intangible assets of the business such as brand value, patents, copyrights, trademarks etc.

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