

- * 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

- * It is also important to recognise that Apple expenses it 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%

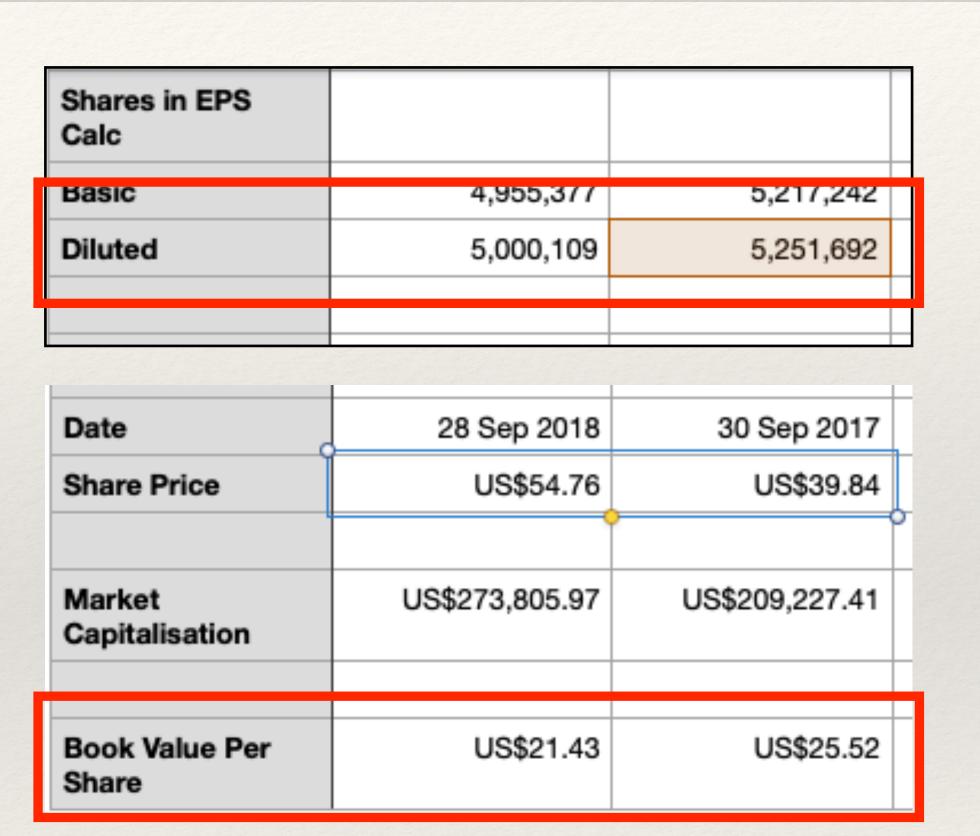
- * This is the formula
- The Preferred Stock is
 excluded as it ranks ahead of
 Common Stock in a
 liquidation
- * The average number of shares outstanding enables adjustment for share issues

Book Value Per Share =
 (Stockholders Equity Preferred Stock) / Average
 Shares Outstanding

- * 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

- * 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



- 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

- * 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.

