

AAPL

Description

Apple designs and manufactures personal consumer electronics (PCE) such as smartphones, tablets, and computers, complemented by a proprietary operating system (OS). As of January 2022, Apple holds dominant smartphone market shares across major economies such as the US, China, Europe, and Japan, which together account for about 50% of its revenue [1]. I believe Apple is well-positioned to continue expanding its global PCE market share and deliver an annualized return of approximately 8–10% CAGR to its shareholders for the next 5 years, barring the emergence of a disruptive product that fundamentally redefines the PCE market.

Engineering

Apple is renowned for producing high-quality products that consistently outlast the typical product lifecycle for PCEs. This durability is reflected in their higher than average resale value, indicating that Apple devices maintain their utility longer than most others [2]. A key factor contributing to this longevity is Apple's in-house silicon chip, widely regarded as one of the best-performing chips in the world [3]. By vertically integrating chip production, Apple gains greater control over its supply chain, which in turn can ensure optimal performance with its proprietary OS.

This proprietary OS fosters an ecosystem where devices are tightly integrated. The resulting network effect is that as users incorporate more Apple products into their daily routines, their overall experience becomes increasingly cohesive. This synergy between hardware and software highlights Apple's dedication to quality engineering and user-focused design. It creates a win-win scenario: users benefit from its functionality and convenience, while Apple boosts its sales.

Brand

Beyond their engineering excellence, Apple's products have evolved into cultural icons. This shift happened as mobile phones became indispensable to daily life, especially in developed countries. When an object becomes ubiquitous and essential, it often transcends its functional role to become a means of self-expression, similar to how cars and clothing serve as symbols of individuality and social differentiation.

Apple has strategically positioned itself as more than just a technology company—it is also a lifestyle brand with strong appeal in the fashion world [4]. This is evident in demographic data showing that Apple has a higher proportion of female users than any other PCE brand [5]. No other PCE company has managed to blend utility and style quite like Apple. Competitors are either functional and utilitarian or stylish and trendy—but Apple does both.

This unique positioning affords Apple significant pricing power. Just as consumers are willing to pay a premium for luxury goods and services, they're willing to do the same with Apple products. Apple reinforces this perception through its shopping experience. Their retail stores are consistent in its architectural language and resemble a boutique shop, offering personalized attention and a consultative approach from sales associates who act more like advisors than traditional salespeople.

Capital Allocation

Since 2013, Apple has been repurchasing its shares at an average rate of 6% [6]. Apple has used its operating revenue to accelerate this process, providing substantial returns to investors.

Some might argue that this capital could have been better spent on R&D for new and more innovative products. However, given Apple's market dominance, thus its ability to release products that are incrementally better in the short term and significantly better in the long term, I believe the buybacks were sound.

Catalyst

Apple has built the ultimate PCE win-win model. For everyday users, their products work flawlessly, last a long time, and meet practical needs. For trend-conscious consumers, Apple delivers on cultural relevance. This dual appeal ensures that, as long as Apple maintains its edge in chip performance, user experience, and cultural significance, it will retain what Warren Buffett refers to as the “share of mind.”

References

- [1] [https://s2.q4cdn.com/470004039/files/doc_financials/2022/q4/_10-K-2022-\(As-Filed\).pdf](https://s2.q4cdn.com/470004039/files/doc_financials/2022/q4/_10-K-2022-(As-Filed).pdf)
- [2] <https://www.wesellcellular.com/blog/why-apple-holds-its-value-more-than-competitors/>
- [3] <https://proandroiddev.com/apple-m1-vs-intel-the-ultimate-comparison-2a2f0d197dc>
- [4] <https://www.vogue.com/article/are-the-airpods-max-the-latest-celebrity-it-item>
- [5] <https://www.flurry.com/blog/gen-z-and-millennials-prefer-apple-over-samsung/>
- [6] <https://www.macrotrends.net/stocks/charts/AAPL/apple/shares-outstanding>