

APPLE

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 2023, 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 10–15% 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.

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 utilitarian or decorative—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 a consultative approach from sales associates who act more like advisors than traditional salespeople.

Capital Allocation

Apple's market dominance in the mature PCE market enabled the company to release incrementally improved products that continue to meet customer expectations. This has allowed the company to use its excess cash to repurchase shares at an average rate of 6% [6], which has maximized shareholder returns while maintaining product sales growth.

Beyond share repurchases, Apple has demonstrated strong capital allocation in its foray into original content creation through Apple TV. By producing series such as Ted Lasso, Severance, and The Morning Show, the company has successfully expanded its ecosystem into the entertainment industry.

Conclusion

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

Catalyst

- Share repurchase program
- Revenue for 2022 was \$394B, up 7.8% from 2021
- Consistent mid-20% net margin
- Apple accessories catching the fashion trend

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>