



Apple Inc. (AAPL)

Updated February 24th, 2025, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|-------|--|--------|----------------------------------|---------|
| Current Price: | \$246 | 5 Year CAGR Estimate: | -1.6% | Market Cap: | \$3.7 T |
| Fair Value Price: | \$143 | 5 Year Growth Estimate: | 9.0% | Ex-Dividend Date: | 5/9/25 |
| % Fair Value: | 173% | 5 Year Valuation Multiple Estimate: | -10.3% | Dividend Payment Date: | 5/15/25 |
| Dividend Yield: | 0.4% | 5 Year Price Target | \$219 | Years Of Dividend Growth: | 12 |
| Dividend Risk Score: | A | Retirement Suitability Score: | C | Rating: | Sell |

Overview & Current Events

Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today the technology company designs, manufactures, and sells products such as iPhones, iPads, Mac, Apple Watch and Apple TV. Apple also has a services business that sells music, apps, and subscriptions. The company was founded in 1976, is headquartered in Cupertino, CA, and is valued at \$3.7 trillion.

On January 30th, 2025, Apple reported financial results for the first quarter of fiscal year 2025 (Apple's fiscal year ends the last Saturday in September). Total sales grew 4% over the prior year's quarter, to a new record of \$124.3 billion, thanks to sustained growth in iPhone, iPad and Wearables across all regions. Earnings-per-share grew 10%, from \$2.18 to \$2.40, and exceeded the analysts' consensus by \$0.05. Notably, Apple has missed the analysts' estimates only once in the last 25 quarters. Apple continues to implement massive updates in its software platforms, including Apple Intelligence. We thus expect strong growth of sales and earnings to remain in place this year.

Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|----------------|
| EPS | \$2.31 | \$2.08 | \$2.30 | \$2.98 | \$2.97 | \$3.28 | \$5.61 | \$6.11 | \$6.13 | \$6.75 | \$7.50 | \$11.54 |
| DPS | \$0.50 | \$0.55 | \$0.60 | \$0.68 | \$0.75 | \$0.80 | \$0.85 | \$0.90 | \$0.94 | \$0.98 | \$1.00 | \$1.92 |
| Shares¹ | 22,315 | 21,345 | 20,505 | 19,020 | 17,773 | 16,977 | 16,865 | 16,326 | 15,672 | 15,243 | 15,000 | 13,500 |

Apple has grown its earnings-per-share by 11.5% per year on average over the last decade. This is certainly an impressive growth rate, although it is lower than the growth rates Apple produced in the years prior to 2015. The larger the bottom line gets, the harder it becomes to grow at a very fast pace.

Going forward, Apple's earnings growth will be driven by several factors. One of these is the ongoing cycle of iPhone releases, which creates lumpy results. In the long run, Apple should be able to grow its iPhone sales, albeit in an irregular fashion. Moreover, in emerging countries where consumers have rising disposable incomes, Apple should be able to increase the number of smartphones it is selling in the coming years. In addition, Apple's Services unit, which consists of iTunes, Apple Music, the App Store, iCloud, Apple Pay, etc., has recorded a significant revenue growth rate in recent years. Services revenues grow at a fast rate and produce high-margin, recurring revenues.

Another factor that has played a role in the past is the shrinking share count. Due to its immense cash flows, Apple can repurchase hundreds of millions of shares. Apple should continue to lower its share count, further boosting EPS.

The COVID-19 pandemic did not affect the underlying earnings power of the company. We expect Apple to grow its earnings-per-share by 9% per year on average over the next five years.

Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 12.8 | 12.6 | 14.9 | 15.3 | 16.1 | 24.7 | 23.4 | 25.5 | 26.4 | 28.7 | 32.8 | 19.0 |
| Avg. Yld. | 1.7% | 2.1% | 1.8% | 1.5% | 1.6% | 1.0% | 0.6% | 0.6% | 0.6% | 0.5% | 0.4% | 0.9% |

¹ In millions.

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In the 2011 through 2016 stretch, shares of Apple routinely traded with an average price-to-earnings multiple between 12- and 13-times earnings. In the years since, the earnings multiple has expanded tremendously. With shares now trading at a 10-year high price-to-earnings ratio of 32.8, we believe there is the potential for a significant valuation headwind in the years to come. This view could be too conservative if the valuation remains elevated, but we prefer to be on the safe side. If the stock trades at a price-to-earnings ratio of 19.0 in 2030, it will incur a -10.3% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 22% | 26% | 26% | 23% | 25% | 24% | 15% | 15% | 15% | 15% | 13% | 17% |

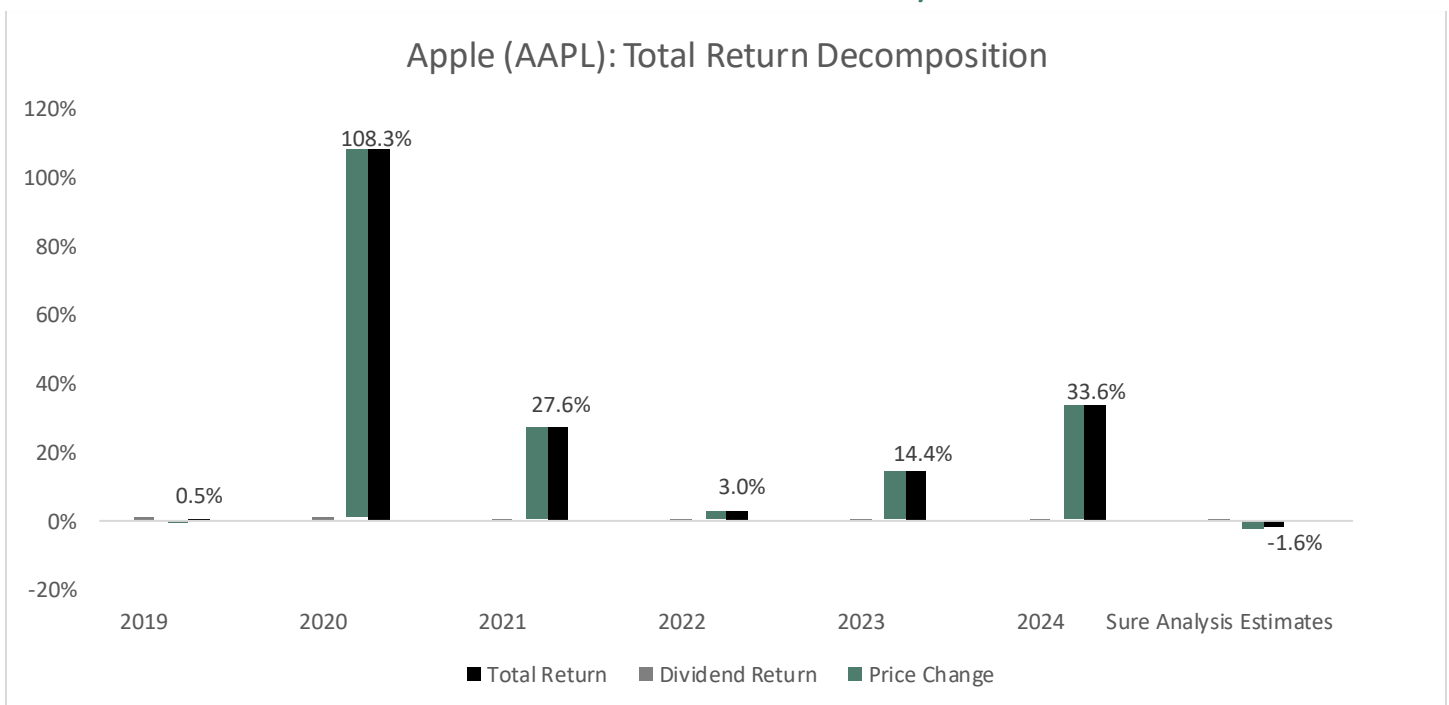
Apple started paying a dividend in 2012. Since then, the dividend has been increased regularly, but at a pace slower than earnings-per-share growth, which is why the dividend payout ratio has remained low. Given also the rock-solid balance sheet of Apple, its dividend is safe.

Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. In addition, Apple's Services will bring in an increasing stream of recurring revenues. During the last financial crisis, Apple's profits rose, but that was during the hyper-growth phase. Since Apple is still highly dependent on sales of relatively high-cost smartphones, a major economic crisis could hurt its profits.

Final Thoughts & Recommendation

We are enthused about Apple on several fronts, including an extraordinary business story, a growing Services segment and a balance sheet that provides safety. However, in our view, the current valuation remains a hindrance. The stock could offer a -1.6% average annual total return over the next five years, as its 9.0% growth of earnings-per-share and a 0.4% dividend could be offset by a potential valuation headwind of -10.3%. Due to its rich valuation, the stock maintains its sell rating. The stock may remain richly valued for a considerable period but its valuation may be compressed if earnings growth decelerates.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue (\$B) | 233.7 | 215.64 | 229.2 | 265.6 | 260.2 | 274.5 | 365.8 | 394.3 | 383.3 | 391.0 |
| Gross Profit | 93626 | 84263 | 88186 | 102B | 98392 | 105B | 153B | 171B | 169B | 181B |
| Gross Margin | 40.1% | 39.1% | 38.5% | 38.3% | 37.8% | 38.3% | 41.8% | 43.4% | 44.1% | 46.2% |
| SG&A Exp. | 14329 | 14194 | 15261 | 16705 | 18245 | 19920 | 21970 | 25090 | 24932 | 26097 |
| D&A Exp. | 11257 | 10505 | 10157 | 10903 | 12547 | 11060 | 11280 | 11100 | 11519 | 11445 |
| Operating Profit | 71230 | 60024 | 61344 | 70898 | 63930 | 66290 | 109B | 119B | 114B | 123B |
| Op. Margin | 30.5% | 27.8% | 26.8% | 26.7% | 24.6% | 24.1% | 29.8% | 30.2% | 29.8% | 31.5% |
| Net Profit | 53394 | 45687 | 48351 | 59531 | 55256 | 57410 | 94680 | 99800 | 96995 | 93736 |
| Net Margin | 22.8% | 21.2% | 21.1% | 22.4% | 21.2% | 20.9% | 25.9% | 25.3% | 25.3% | 24.0% |
| Free Cash Flow | 69778 | 52276 | 50803 | 64121 | 58896 | 73360 | 92950 | 111B | 99684 | 109B |
| Income Tax | 19121 | 15685 | 15738 | 13372 | 10481 | 9680 | 14530 | 19300 | 16741 | 29749 |

Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|
| Total Assets (\$B) | 290.35 | 321.69 | 375.32 | 365.73 | 338.52 | 323.9 | 351 | 353 | 353 | 365 |
| Cash & Equivalents | 21120 | 20484 | 20289 | 25913 | 48844 | 38020 | 34940 | 26650 | 29965 | 29943 |
| Accounts Receivable | 16849 | 15754 | 17874 | 23186 | 22926 | 16120 | 26280 | 28180 | 29508 | 33410 |
| Inventories | 2349 | 2132 | 4855 | 3956 | 4106 | 4061 | 6580 | 4946 | 6331 | 7286 |
| Goodwill & Int. Ass. | 9009 | 8620 | 8015 | --- | --- | --- | --- | --- | --- | --- |
| Total Liab. (\$B) | 170.99 | 193.44 | 241.27 | 258.58 | 248.03 | 258.6 | 287.9 | 302.1 | 290.4 | 308.0 |
| Accounts Payable | 35490 | 37294 | 49049 | 55888 | 46236 | 42300 | 54760 | 64120 | 62611 | 68960 |
| Long-Term Debt (\$B) | 64.33 | 87.03 | 115.68 | 114.48 | 108.05 | 112.4 | 124.7 | 120.1 | 111.1 | 106.6 |
| Total Equity (\$B) | 119.36 | 128.25 | 134.05 | 107.15 | 904.88 | 63340 | 63.1 | 50670 | 62146 | 56950 |
| LTD/E Ratio | 0.539 | 0.6786 | 0.863 | 1.0685 | 1.19 | 1.72 | 1.98 | 2.37 | 1.79 | 1.87 |

Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 20.5% | 14.9% | 13.9% | 16.1% | 15.7% | 17.3% | 28.1% | 28.4% | 27.5% | 26.1% |
| Return on Equity | 46.2% | 36.9% | 36.9% | 49.4% | 55.9% | 73.7% | 147.4% | 175.5% | 171.9% | 157.4% |
| ROIC | 32.3% | 22.9% | 20.8% | 25.3% | 26.3% | 30.5% | 51.8% | 55.7% | 56.4% | 55.7% |
| Shares Out. | 22,315 | 21,345 | 20,505 | 19,020 | 17,773 | 16,977 | 16,860 | 16,330 | 15,813 | 15,408 |
| Revenue/Share | 10.09 | 9.80 | 10.91 | 13.28 | 13.99 | 15.66 | 21.69 | 24.15 | 24.24 | 25.38 |
| FCF/Share | 3.01 | 2.43 | 2.46 | 3.21 | 3.17 | 4.19 | 5.51 | 6.83 | 6.30 | 7.06 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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