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Erik Skoronski, Portfolio Manager
Kian Sadeghi, Investment Analyst
Sina Hadjiahmadi-Ardakani, Investment Analyst

Return on Investment

Current Share Price	\$364.80
Target Price	\$400.00
Dividend Yield	0.90%
Holding Period Return	11%
Conviction Rating	3

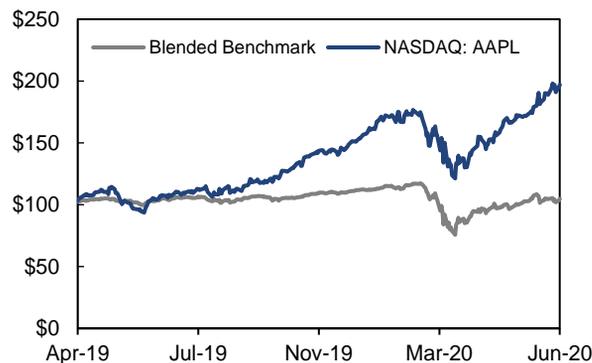
Market Profile

52-Week Range	\$193.34 - \$366.53
Market Capitalization (US\$B)	\$1,591
Net Debt (US\$B)	\$24.7
Enterprise Value (US\$B)	\$1,615
Beta (5-Year Monthly)	1.19

Metrics

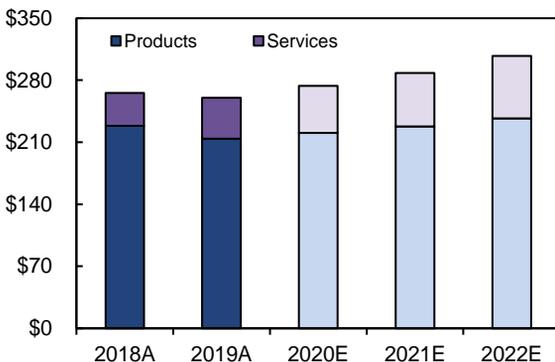
	2020E	2021E	2022E
Revenue (US\$B)	\$275	\$291	\$310
EBITDA (US\$B)	\$83	\$91	\$97
EPS (US\$)	\$14.08	\$15.09	\$16.08
EV/EBITDA	19.5x	17.7x	16.6x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Products & Services Revenue Mix (US\$B)



Source: Company Filings, CPMT Estimates

Business Description

Apple Inc. (NASDAQ: AAPL) is an international technology company, based in Cupertino, California, that designs, manufactures and distributes mobile and media devices, personal computers, and a wide array of consumer electronics with related support services. AAPL's primary products and services include the iPhone, iPad, Mac, Apple Watch, Apple TV, Apple Pay, and a growing portfolio of consumer and professional software applications.

Industry Overview

The hardware technology industry has seen strong competitive forces arise, as companies in emerging markets have shown meaningful innovation in the premium smartphone segment. Coupled with the improvement of elongated replacement cycles for such devices, the industry's outlook has shown much less upside potential in comparison to a decade ago. However, developments in software design continue to be a driver of promising growth throughout the sector. Moreover, the impact of COVID-19 on the traditional workflow of the global economy has accelerated the demand for cloud-based services. In addition to the emergence of strong competitive forces in the online entertainment and transaction processing spheres, the Software-as-a-Service segment maintains innovative potential in both developed and emerging markets.

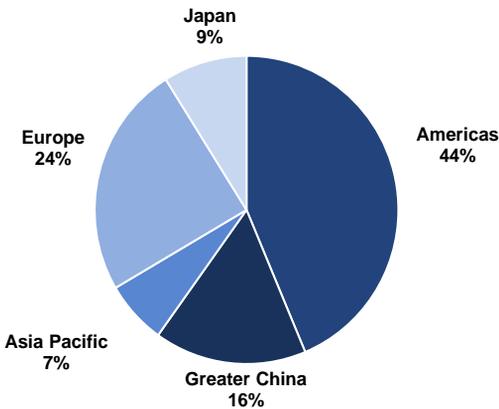
Competitive Advantage

With global operations, AAPL's revenues are primarily driven by its Americas (44.9%) geographical segment, followed by an increasing presence in Europe (23.2%), Greater China (16.8%), Japan (8.3%), and the Rest of Asia Pacific (6.8%). Asian exposure has significantly increased over the last five years, with revenues from Greater China, Japan, and the Rest of Asia Pacific increasing by an average of 20.2%, 2.1%, and 15.9% YoY, respectively. AAPL's growing global exposure places it in an advantageous position as the Company prepares to battle Huawei for control of the Asian market.

Despite falling behind historic competitors, Samsung and LG, in the development of 5G-compatible devices, AAPL has been able to maintain its Product segment's revenue levels, exemplifying a higher than expected customer acceptance rate throughout the rollout of its latest devices. This success showcases the Company's strong brand recognition, as customers continue to purchase products and use services despite innovative shortcomings. Additionally, the Company experienced a 31% increase in revenue in the Services segment, coinciding with AAPL's strategic partnership with Goldman Sachs (NYSE: GS) to advance Apple Pay by providing a credit card.

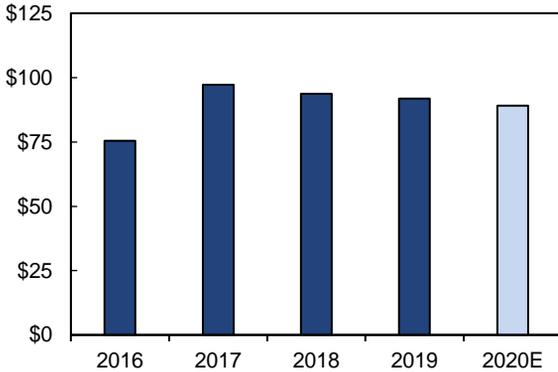
Moving forward, the Company announced that it will develop custom in-house chips for its Macs, which utilizes the ARM architecture, vertically integrating its supply chain. The transition from the current Intel chips is expected to be completed in two years. This decision aims to improve the Company's overall development efficiency by creating a common architecture for all AAPL products going forward.

Figure 2: Geographic Revenue Segmentation



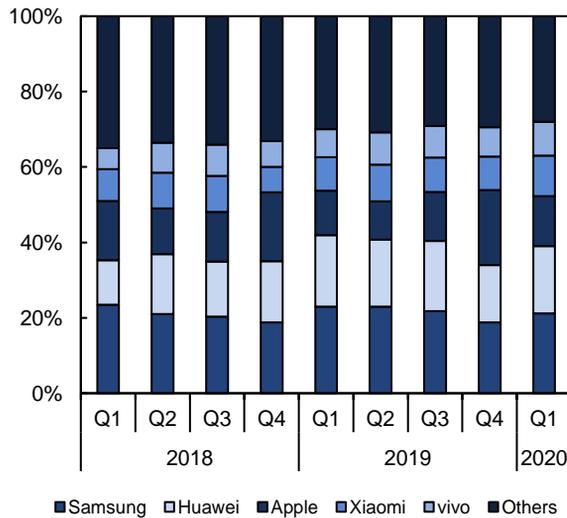
Source: Company Filings

Figure 3: Cash & Cash Equivalents Over Time (US\$B)



Source: Company Filings, CPMT Estimates

Figure 4: Global Smartphone Market Share



Source: International Data Corporation (IDC)

Additionally, despite being the Services segment’s smallest revenue driver (34%), the App Store has become one of AAPL’s most versatile categories; it has provided US\$32.8B of revenue (equivalent to 12.6% of annual revenues) through in-app purchases, subscriptions, and premium apps and games during the first six months of 2020, amounting to a 24.7% YoY increase from 2019. China, Japan, and the U.S. collectively account for approximately 75% of the App Store’s revenue, as China leads the group with a total of US\$16.4B in revenue.

Management and Corporate Governance

U.S.-China trade war tensions have many negative implications for the technology sector, primarily resulting from tariffs on manufactured hardware transportation from either country. In response, AAPL’s CEO, Tim Cook, has been able to mitigate these risks to the Company by forging strong relationships with high-level executives in both parties (notably U.S. President Donald Trump). By navigating such uncertainties with Cook’s diplomatic approach, AAPL has been given exceptions on stringent tariffs placed on China-based production. The CPMT believes that such managerial foresight will serve as a key differentiator for the Company amongst its peers as U.S.-China trade war tensions continue to develop.

Furthermore, by maintaining compliance with regulatory bodies around the globe, AAPL’s privacy and information practices support the CPMT’s view that the Company remains committed to developing its technology with full integration of applicable regulations. Such factors reinforce the CPMT’s confidence that management continues to maximize investors’ confidence in the name, as AAPL continues to expand and innovate in new and developing fields with little to no existing regulatory infrastructure.

Strong Balance Sheet

AAPL’s balance sheet continues to maintain its strength, as the CPMT believes its debt maturities are manageable. Maturing debt can be spread out at ~US\$10B annually, which the Company’s expansive cash position can cover in coming years should it not be refinanced. AAPL currently holds ~US\$40B in cash or ~US\$94B with the inclusion of short-term investments. In conjunction with management’s desire to reach a cash neutral position in the long-run, the CPMT believes that AAPL’s financial health will maintain its strong track record, with consideration of current share repurchases and annual dividends.

Investment Thesis and Risks

A five-year DCF with a WACC of 6.8% and 2.0% perpetual growth rate was used to arrive at AAPL’s \$400 target price. In accordance with the valuation, the CPMT believes that AAPL’s investment thesis continues to hold, as the Company has made significant progress in expanding its services, sustainably transitioning from heavy reliance on product sales as a source of growth. Moreover, AAPL’s successful entrance into streaming and transaction services demonstrate its strong innovate developments and global brand recognition, leading to a promising outlook for the Company going forward. Potential risks facing the Company include a greater-than-expected contraction in smartphone markets due to poor economic conditions and stronger shifts in consumers’ demands. Furthermore, AAPL’s presence in foreign markets, such as China and India, faces competitive pressure since local players are better situated to their domestic environments and could leverage that position by competing on pricing to gain market share.