

# AAPL

## Apple Inc

### Electronics

<i>Balance Sheet Data as of</i>	2020-03-31
<i>Earnings Release Date</i>	2020-04-30
<i>Date of Report</i>	6/8/20

Equity & Credit Attractiveness		
	<u>AAPL</u>	<u>Sector</u>
Credit Ranking Percentile	90%	75%
Equity Ranking Percentile	90%	75%
<small>(Note: 100% = best, 10% = worst, 0% = not enough data)</small>		

Risk Summary
Company Risk Rating: Below Market Risk
Sector Risk Rating: Equal to Market Risk

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# Apple Inc (AAPL) / Electronics

6/8/20

## Company Description

Apple designs a wide variety of consumer electronic devices, including smartphones (iPhone), tablets (iPad), PCs (Mac), smartwatches (Apple Watch), and TV boxes (Apple TV), among others. The iPhone makes up the majority of Apple's total revenue. In addition, Apple offers its customers a variety of services such as Apple Music, iCloud, Apple Care, Apple TV+, Apple Arcade, Apple Card, and Apple Pay, among others. Apple's products are distributed online as well as through company-owned stores and third-party retailers. The company generates about 40% of its revenue from the Americas, with the remainder earned internationally.

## Per Share Data

Stock Price	1 Yr Low	1 Yr High	% Change	
			3 Mo.	1 Yr
\$332.21	\$185.77	\$331.75	16%	82%

## Representative Bond

3.25% due 2026	
Moody's	Aa1 (04/27/2016)
S&P	AA+ (02/16/2016)
Mod. Duration	5.2 yrs
Amount (mil)	3,250
Price (% of par)	112.520
YTW	0.89%

Dividend Yield:	0.9%	Div Grwth Rate:	1%
Balance Sheet Data as of 2020-03-31			
Earnings Release Date 2020-04-30			

\* Average annual increase over five years

Current Enterprise Value Mix (, millions)	TEV Mix	EBITDA Turns	Broad Market	
Total Debt	109,507	8%	1.3x	3.6x
Preferred & Other	-	0%	0.0x	0.1x
Less Cash	94,051	6%	-1.4x	-0.8x
Market Cap of Equity	1,439,909	99%	17.6x	8.8x
TEV (net of cash)	1,455,365	Eq Float: 100%	17.5x	11.8x

## Margin Analysis (latest fiscal year)

EBITDA Margin	31%
Capex	4%
Unlevered Free Cash Flow	27%
Cash Flow From Operations (CFO)	27%
Free Cash Flow After Dividends (FCF)	17%

## Risk & Relative Volatility

Altman Z score	4.24x
Beta	1.18x
Aggregate Risk:	Below Market Risk

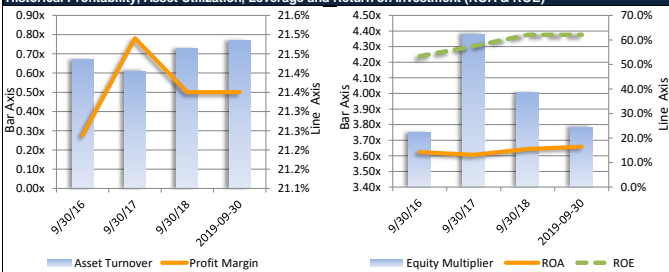
## DuPont Formula

ROA	21%
Profit Margin	0.8x
Asset Turns	18%
ROE	4.1x
Equity Multplr.	73%

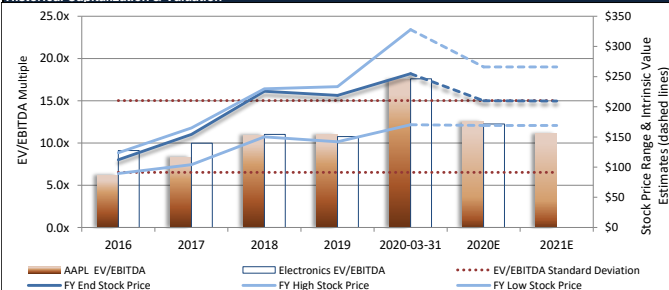
## Liquidity Analysis

Cash	94,051
Remaining FY Est. Free Cash flow (FCF)	17,725
Estimated FY End Cash & Availability	111,776

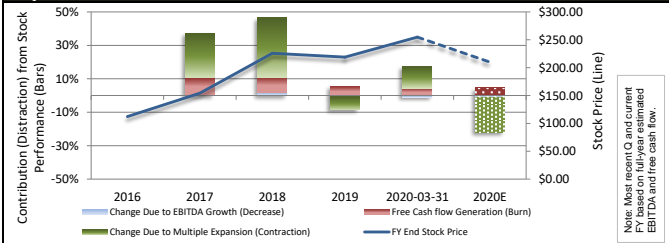
## Historical Profitability, Asset Utilization, Leverage and Return on Investment (ROA & ROE)



## Historical Capitalization & Valuation



## Analysis of Annual Stock Performance Drivers



Definitions: TEV: Total Enterprise Value (Market Cap of Equity plus Net Debt, Preferred & Minority Interest), EBITDA (Earnings Before Interest, Taxes & Depreciation & Amortization)  
Altman Z Score: Above 3.0 indicates credit worthy company, below 1.8 indicates increased default probability over next 24 months (developed by Edward Altman)  
Z spread: yield spread in basis points above comparable maturity LIBOR contract/forward curve

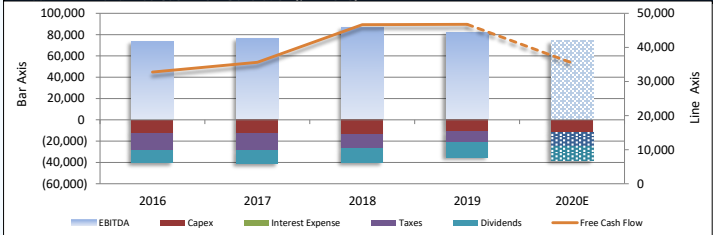
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Source: Company Reports, YCharts, Inc., Sixty Guilders Research, LLC

## Summary Financial Tables and Profitability

Cash Flow Metrics (, millions)	2016	2017	2018	2019	2020E	Growth Rates	
						'16-'19 avg	'19-'20E
Revenue	215,639	229,234	265,595	260,174	263,221	7%	1%
EBITDA	73,333	76,569	87,046	81,860	74,068	5%	-10%
Capex	(12,734)	(12,451)	(13,313)	(10,495)	(12,016)	-5%	14%
Interest Expense	-	-	-	-	-	n/a	n/a
Taxes	(15,685)	(15,738)	(13,372)	(10,481)	(13,036)	-13%	n/a
Dividends	(12,150)	(12,769)	(13,712)	(14,119)	(13,567)	5%	-4%
Free Cash Flow	32,764	35,611	46,649	46,765	35,449	14%	-24%
<b>Margins (% of Revenue, except for int. exp. &amp; tax rate)</b>							
EBITDA	34.0%	33.4%	32.8%	31.5%	28.1%	-254 bps	-332 bps
Capex	5.9%	5.4%	5.0%	4.0%	4.6%	-140 bps	53 bps
Interest Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0 bps	0 bps
Eff. Tax Rate	18.2%	17.7%	13.3%	11.3%	15.1%	-688 bps	380 bps
Free Cash Flow	15.2%	15.5%	17.6%	18.0%	13.5%	278 bps	-451 bps
<b>Balance Sheet Data (, millions)</b>							
Total Debt (net debt)	87,032	115,680	114,483	108,047	(2,269)	8%	
Total Ent. Value	452,701	636,835	950,774	897,301	1,437,641	33%	60%
Leverage	1.2x	1.5x	1.3x	1.3x	0.0x	0.1x	-1.4x
EV/EBITDA	6.2x	8.3x	10.9x	11.0x	19.4x	4.8x	8.4x
Dividend Payout Ratio	27%	26%	23%	23%	28%	-386 bps	449 bps

## Annual EBITDA and Free Cash Flow Generation (, millions)



## Investment Considerations

Positives	Negatives
Ample equity relative to total assets	Recent leverage above historic average
Attractive unlevered cash flow	Recent margins below historic average
Attractive free cash flow	
Modest total debt relative to capitalization	
Ample liquidity relative to debt	
Altman Z score implies strong credit metrics	
Ample dividend payout coverage	
Adequate public float	
	Broader Market potentially pricey
	Stock possibly rich to broader market
	Stock potentially rich to historic valuation

## Stock Upside under Takout Scenario Relative To Industry Group Historic M&A Multiples

Enterprise Value Multiple to:	EBITDA	Sales	TTI Assets	Stock Bk Val	
Electronics Sector	10.0x	0.9x	0.9x	1.9x	
AAPL current Valuation	19.4x	5.5x	4.5x	18.4x	
AAPL target at Industry Takeout Multiple	\$166.64	\$30.56	\$65.23	\$34.74	Wt. Avg
Assigned Weight to Metric	75%	19%	5%	1%	\$134.40
Takeout Upside (Downside) to Group M&A Multiples	-50%	-91%	-80%	-90%	-60%

## Back of The Envelope Analysis of Ability to LBO

Assumptions: 1. EBITDA Growth ahead? **No** 2. Insiders own more than 5%? **No**  
3. Assuming pro forma equity of 2X EBITDA post deal, can pre-deal free cash flow support new debt at a 7% interest cost to take out non-insider equity at a 20% equity premium? **No**  
4. Would a 20% equity premium be cheap or rich relative to peer group M&A multiples shown above? **Rich**  
**Conclusion: Overall we believe an LBO of AAPL would likely be unfeasible and richly priced**

Cumulative Cash Flow Quality (2016-2019)	AAPL	Electronics	Broad Equity Market
(CFO-Capex) / (EBITDA-Int.Exp.-Taxes-Capex)	1.0x	0.9x	0.8x

## Rate of Return Decomposition & Implied Stock Growth Expectation

	10 Yr LIBOR Swap	Est. 10 Yr Bond Yield	Earnings Yield (E/P)	Beta	Long Term Expected Equity Total Return (ETR)	Required Total Return Upside Above Earnings Yield: ETR-(E/P)
S&P 500	2.5%	3.4%	3.0%	1.0x	10%	7.0%
AAPL	2.5%	2.5%	4.5%	1.2x	11%	6.9%
Electronics	2.5%	3.9%	5.1%	1.1x	11%	5.9%

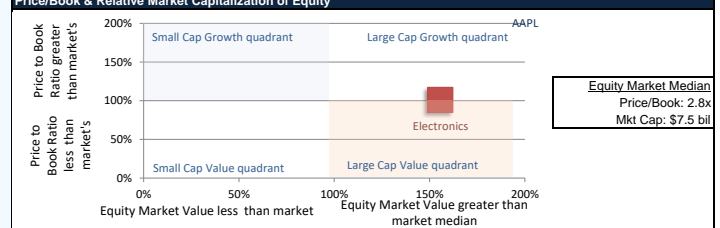
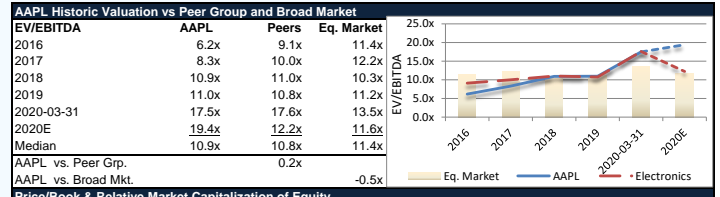
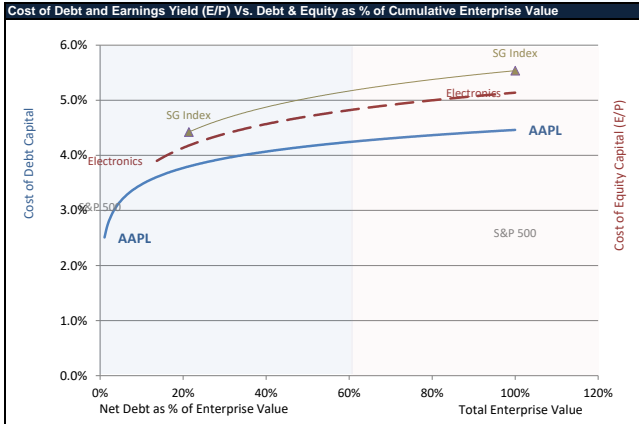
This table uses beta to estimate the long term expected equity return (fifth column). Given the current earnings yield (the inverse of the P/E ratio), the sixth column calculates the residual equity return necessary for the total return to reach the long term expected return. The chart shows the decomposition of return, starting with current 10 yr LIBOR swaps (the risk free rate), the incremental bond yield, the incremental earnings yield, and the residual "required growth return" necessary to achieve the long term expected return (ETR).

# Apple Inc (AAPL) / Electronics

\$332.21 per share  
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## Debt and Equity Valuation Analysis

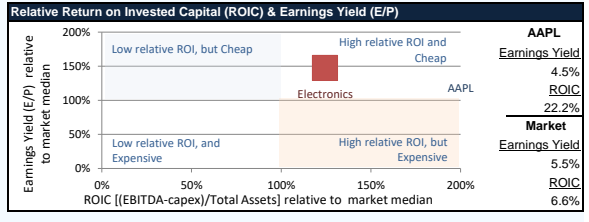
	Amount	Recent Price	Estimated EPS	P/E Ratio (on Estimated EPS)	10 Yr Bond Yield & Earnings Yield (E/P)	Forward EBITDA Multiple	Tranche as % of Ent. Value (net of cash)	Earnings Yield / Bond Yield
S&P 500								
S&P 500 Net Debt	0							
S&P 500	3,219	3,219	\$95.16	33.8x	3.4%	1.6x	0%	<b>S&amp;P 500</b>
<b>Apple Inc (AAPL) / Electronics</b>								
Apple Inc 3.25% % due 2026	3,250	112,520			2.5%	0.0x	1%	<b>AAPL</b>
Equity Market Value	1,439,909	\$332.21 per share	\$14.82	22.4x	4.5%	17.9x	99%	
Total Enterprise Value (net of cash)	1,549,416					19.4x	100%	
<b>Electronics Sector</b>								
Electronics Debt					3.9%	2.4x	14%	<b>Electronics</b>
Electronics Equity				19.5x	5.1%	17.6x	100%	



### Stock Price Intrinsic Value Upside (Downside) Potential Analysis

FY2021E Estimated EBITDA: \$3504.4 mil (13% projected growth vs. 2020E)  
Implied Required Stock Return above Div Yield (one year NPV discount rate applied for 1.25 years) 13%

	EV/ Forward EBITDA	2021E	NPV	Upside (Downside)
<b>A. Forward EBITDA on Current Multiple</b>				
Historic Median	10.9x	19.0x		
Current		10.9x		
Price Target on FY EBITDA & lowest EV/ Forward Multiple		\$207	\$205	-38%
<b>B. Historic EBITDA Multiple</b>				
Assigned Weight				
Low	24%	6.2x		
Median	75%	10.9x		
High (capped at 20x if necessary)	1%	17.7x		
Valuation based on historic EBITDA	100%	9.9x	\$186	\$164 -50%
<b>C. Industry Sector Relative Valuation</b>				
AAPL EV/EBITDA historic median		10.9x		
Electronics EV/EBITDA median		10.8x		
AAPL median premium (discount) to sector		0.2x		
Electronics EV/EBITDA 2020E (capped at 20x if needed)		12.2x		
Plus (minus) historic AAPL premium (discount)		0.2x		
Sector-based Target AAPL EV/EBITDA 2021E		12.4x	\$215	\$190 -43%
<b>D. Bond Market Yield Based Valuation</b>				
Required Equity Return (NPV Discount Rate): 5.0%		Act. Est P/E		
Estimated EPS: \$14.82		22.4x		
Target P/E		20.0x		
Price Target	15.6x EBITDA	\$296	\$262	-21%
<b>E. Plus Dividend Yield and Free Cash Flow</b>				
Dividend Yield				1%
Average Price Target (A-D section calculations)		\$205.43		
Plus (minus Negative) Free Cash Flow balance of year per share		\$4.09		
Average Fundamental Price Target		\$209.52		
Implied EV/EBITDA Multiple	2020E	2021E	NPV Target	
NPV Stock Intrinsic Value Estimate	12.5x	11.1x	\$210.00	-37%



### Stock Valuation Range Analysis (stock prices in \$)

	Intrinsic Value Range	Intrinsic Value Upside (Downside)	Implied 2021E EV/EBITDA Multiple	P/E Multiple
	296.00	-11%	14.8x	19.0x
	282.00	-15%	14.1x	18.1x
	269.00	-19%	13.5x	17.3x
	256.00	-23%	12.9x	16.5x
	244.00	-27%	12.2x	15.7x
	232.00	-30%	11.7x	14.9x
	221.00	-33%	11.1x	14.2x
<b>Intrinsic Value Estimate:</b>	<b>210.00</b>	<b>-37%</b>	<b>10.6x</b>	<b>13.5x</b>
	200.00	-40%	10.0x	12.8x
	190.00	-43%	9.6x	12.2x
	181.00	-45%	9.1x	11.6x
	172.00	-48%	8.6x	11.0x
	163.00	-51%	8.2x	10.5x
	155.00	-53%	7.8x	9.9x
	147.00	-56%	7.5x	9.4x
	140.00	-58%		

The S&P 500 @ 3219 reflects the following valuation metrics: 16.1x 20.0x  
The sector's historic M&A EBITDA takeover multiple has averaged: 10.0x  
Shaded area denotes broad valuation range driven by the various valuation methods (A -D) in accompanying chart (single point NPV highlighted). Light gray font prices reflect trading levels

Electronics Sector companies include: Apple Inc, Amphenol Corp, Arrow Electronics Inc, Activision Blizzard Inc, Avnet Inc, Electronic Arts Inc, Corning Inc, Jabil Inc, Sanmina Corp, Tech Data Corp, TE Connectivity Ltd, Take-Two Interactive Software Inc.

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\$332.21 per share

## Earnings & Equity Valuation Sensitivity

Current Stock Price: \$332.21 per share						
Intrinsic Value Sensitivity to Earnings & Valuation Multiple Assumptions						
		FY2021E Estimated EBITDA:				
Implied 2021E		77,325	80,355	83,504	86,653	89,921
EV/EBITDA	P/E	-7%	-4%	0%	4%	8%
15.5x	20.0x	273.83	284.70	296.00	307.30	319.02
14.8x	19.0x	260.87	271.23	282.00	292.77	303.94
14.1x	18.1x	248.83	258.72	269.00	279.28	289.94
13.5x	17.3x	236.79	246.21	256.00	265.79	275.95
12.9x	16.5x	225.68	234.66	244.00	253.34	263.02
12.2x	15.7x	214.57	223.12	232.00	240.88	250.10
11.7x	14.9x	204.38	212.53	221.00	229.47	238.26
<b>11.1x</b>	<b>14.2x</b>	194.20	201.95	<b>210.00</b>	218.05	226.41
10.6x	13.5x	184.94	192.32	200.00	207.68	215.64
10.0x	12.8x	175.68	182.70	190.00	197.30	204.87
9.6x	12.2x	167.34	174.04	181.00	187.96	195.18
9.1x	11.6x	159.01	165.38	172.00	178.62	185.49
8.6x	11.0x	150.67	156.72	163.00	169.28	175.80
8.2x	10.5x	143.27	149.02	155.00	160.98	167.18
7.8x	9.9x	135.86	141.32	147.00	152.68	158.57
7.5x	9.4x	129.38	134.59	140.00	145.41	151.03

Stock Upside (downside) based on Intrinsic Value Sensitivity to EPS & Valuation Multiple Assumptions						
		FY2021E Estimated EBITDA:				
Implied 2021E		77,325	80,355	83,504	86,653	89,921
EV/EBITDA	P/E	-7%	-4%	0%	4%	8%
15.5x	20.0x	-18%	-14%	-11%	-7%	-4%
14.8x	19.0x	-21%	-18%	-15%	-12%	-8%
14.1x	18.1x	-25%	-22%	-19%	-16%	-13%
13.5x	17.3x	-29%	-26%	-23%	-20%	-17%
12.9x	16.5x	-32%	-29%	-27%	-24%	-21%
12.2x	15.7x	-35%	-33%	-30%	-27%	-25%
11.7x	14.9x	-38%	-36%	-33%	-31%	-28%
<b>11.1x</b>	<b>14.2x</b>	-42%	-39%	<b>-37%</b>	-34%	-32%
10.6x	13.5x	-44%	-42%	-40%	-37%	-35%
10.0x	12.8x	-47%	-45%	-43%	-41%	-38%
9.6x	12.2x	-50%	-48%	-45%	-43%	-41%
9.1x	11.6x	-52%	-50%	-48%	-46%	-44%
8.6x	11.0x	-55%	-53%	-51%	-49%	-47%
8.2x	10.5x	-57%	-55%	-53%	-52%	-50%
7.8x	9.9x	-59%	-57%	-56%	-54%	-52%
7.5x	9.4x	-61%	-59%	-58%	-56%	-55%

This table depicts the tradeoff between the company meeting the earnings projections, versus meeting the multiple assumptions. The high lighted price range shows the price range derived from the single point EBITDA multiple analysis from the prior page.

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