

# The Street Ratings

May 10, 2015

NASDAQ: AAPL

## APPLE INC

<b>BUY</b>				<b>HOLD</b>			<b>SELL</b>						<b>BUY</b>	RATING SINCE	04/13/2009		
A+	<b>A</b>	A-	B+	B	B-	C+	C	C-	D+	D	D-	E+		E	E-	F	TARGET PRICE
Annual Dividend Rate <b>\$1.88</b>				Annual Dividend Yield <b>1.50%</b>			Beta <b>0.81</b>			Market Capitalization <b>\$721.6 Billion</b>			52-Week Range <b>\$82.90-\$134.54</b>		Price as of 5/7/2015 <b>\$125.26</b>		

Sector: **Technology** | Source: **S&P**

### AAPL BUSINESS DESCRIPTION

Apple Inc. designs, manufactures, and markets mobile communication and media devices, personal computers, watches, and portable digital music players worldwide.

### STOCK PERFORMANCE (%)

	3 Mo.	1 Yr.	3 Yr (Ann)
Price Change	5.32	48.02	15.47

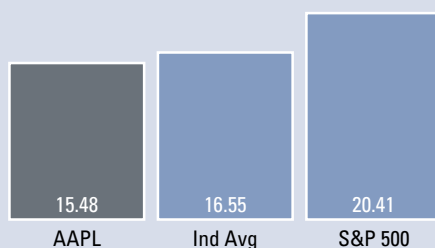
### GROWTH (%)

	Last Qtr	12 Mo.	3 Yr CAGR
Revenues	27.08	20.52	14.22
Net Income	32.73	26.78	7.38
EPS	40.36	35.31	11.36

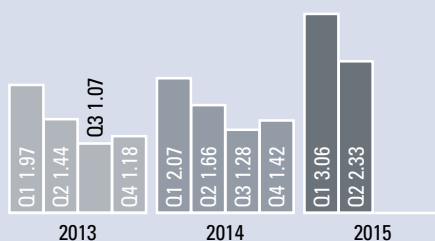
### RETURN ON EQUITY (%)

	AAPL	Ind Avg	S&P 500
Q2 2015	37.05	35.07	14.20
Q2 2014	31.37	28.81	14.48
Q2 2013	29.28	26.10	13.11

### P/E COMPARISON



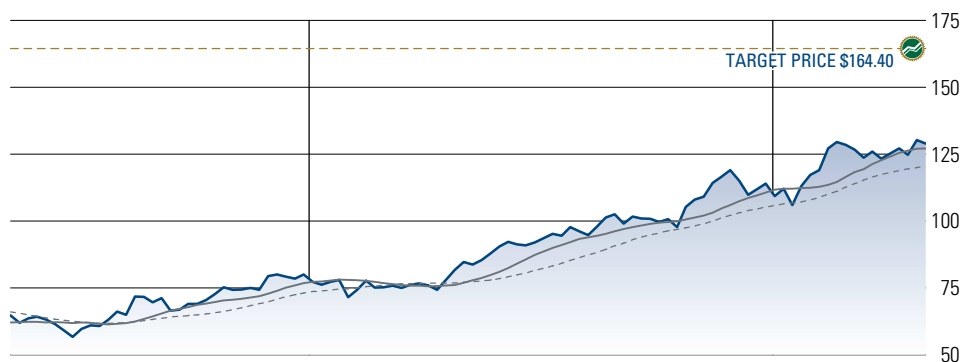
### EPS ANALYSIS' (\$)



NA = not available NM = not meaningful

1 Compustat fiscal year convention is used for all fundamental data items.

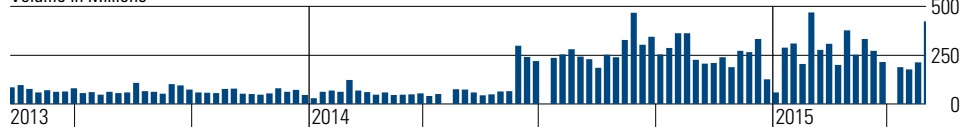
Weekly Price: (US\$) | SMA (50) — SMA (100) --- 1 Year | 2 Years



### Rating History

**BUY**

### Volume in Millions



COMPUSTAT for Price and Volume, TheStreet Ratings, Inc. for Rating History

### RECOMMENDATION

We rate APPLE INC (AAPL) a BUY. This is based on the convergence of positive investment measures, which should help this stock outperform the majority of stocks that we rate. The company's strengths can be seen in multiple areas, such as its solid stock price performance, impressive record of earnings per share growth, compelling growth in net income, robust revenue growth and notable return on equity. Although the company may harbor some minor weaknesses, we feel they are unlikely to have a significant impact on results.

### HIGHLIGHTS

Powered by its strong earnings growth of 40.36% and other important driving factors, this stock has surged by 48.02% over the past year, outperforming the rise in the S&P 500 Index during the same period. Regarding the stock's future course, although almost any stock can fall in a broad market decline, AAPL should continue to move higher despite the fact that it has already enjoyed a very nice gain in the past year.

APPLE INC has improved earnings per share by 40.4% in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past two years. We feel that this trend should continue. During the past fiscal year, APPLE INC increased its bottom line by earning \$6.43 versus \$5.66 in the prior year. This year, the market expects an improvement in earnings (\$8.96 versus \$6.43).

The net income growth from the same quarter one year ago has greatly exceeded that of the S&P 500, but is less than that of the Computers & Peripherals industry average. The net income increased by 32.7% when compared to the same quarter one year prior, rising from \$10,223.00 million to \$13,569.00 million.

Despite its growing revenue, the company underperformed as compared with the industry average of 33.8%. Since the same quarter one year prior, revenues rose by 27.1%. Growth in the company's revenue appears to have helped boost the earnings per share.

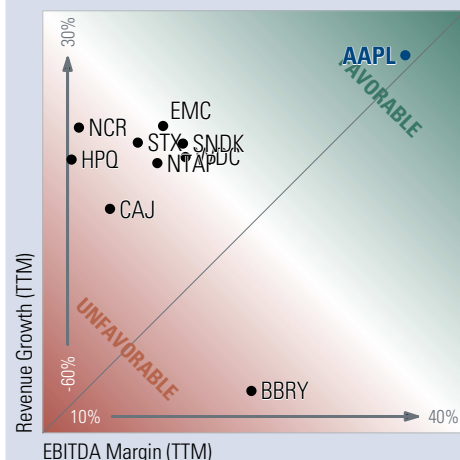
Current return on equity exceeded its ROE from the same quarter one year prior. This is a clear sign of strength within the company. When compared to other companies in the Computers & Peripherals industry and the overall market, APPLE INC's return on equity exceeds that of the industry average and significantly exceeds that of the S&P 500.

Sector: Technology | Source: S&P

Annual Dividend Rate <b>\$1.88</b>	Annual Dividend Yield <b>1.50%</b>	Beta <b>0.81</b>	Market Capitalization <b>\$721.6 Billion</b>	52-Week Range <b>\$82.90-\$134.54</b>	Price as of 5/7/2015 <b>\$125.26</b>
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## PEER GROUP ANALYSIS

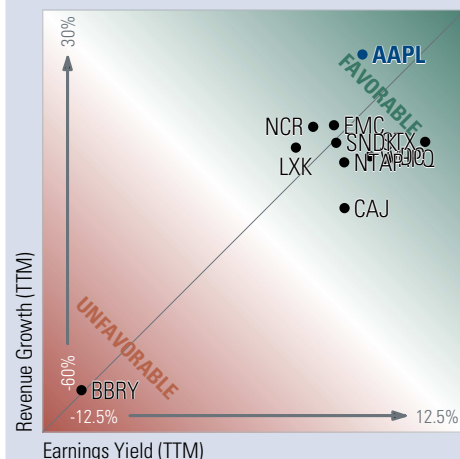
### REVENUE GROWTH AND EBITDA MARGIN\*



Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between \$2.7 Billion and \$721.6 Billion. Companies with NA or NM values do not appear.

\*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

### REVENUE GROWTH AND EARNINGS YIELD



Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -51% and 20.5%. Companies with NA or NM values do not appear.

## INDUSTRY ANALYSIS

The computers and peripherals industry includes PC equipment, handheld devices, complex information technology systems and network equipment. Technological factors such as interoperability of hardware products and compatibility with the web have brought about industry consolidation. Also, intense competition and the importance of intellectual property rights have been instrumental to growth.

The US computers and peripherals industry is one of the largest global markets, including companies such as Apple (AAPL), IBM (IBM), Dell (DELL) and Hewlett-Packard (HPQ). The industry is capital-intensive with highly automated operations. Larger companies are built on purchasing power and mass production while smaller firms concentrate on product specialty and superior technology.

Research and development spending at large manufacturers generally varies between 5% and 15% of product revenue and can be more for smaller companies and low for pure assemblers like Dell. Patent licensing is a common practice as are disputes arising from patents. Technological advancement renders products quickly outdated. Many products have a lifespan less than 18 months.

Companies with excellent process technology, capital-intensive components production and flexible high-volume assembly are expected to dominate the hardware value chain. Companies with patent capital, close links to component and equipment developers and the ability to afford research and development expenditures and capital investments will benefit the most in the future. These attributes play into the strategic and technical strengths of Japanese companies. The US industry has superior design skills, but remains largely fragmented, undercapitalized and lacks a long-term approach. However, some US companies have been successful in producing structures, strategy and operational techniques necessary for commercial success.

With the global economic recovery, the computers and peripherals industry is expected to thrive as corporations continue to automate and upgrade their systems to increase efficiency and enhance competitive positions. Major players in the sector derive a substantial portion of their revenues from foreign markets adding geographic diversity to their product sales base. A weaker US dollar has given a pricing edge to American products and services.

Companies have little room for errors or inefficiencies in such a competitive and economically volatile environment. According to International Data Corp., price wars and technological evolution can drive down prices by 25% a year.

Computer storage and peripherals are strong sellers as data storage continues to be a top priority across businesses. Increasing amounts of data and content and the proliferation of broadband access have necessitated greater capacity across the storage infrastructure.

## PEER GROUP: Computers & Peripherals

Ticker	Company Name	Recent Price (\$)	Market Cap (\$M)	Price/Earnings	Net Sales TTM (\$M)	Net Income TTM (\$M)
<b>AAPL</b>	<b>APPLE INC</b>	<b>125.26</b>	<b>721,627</b>	<b>15.48</b>	<b>212,164.00</b>	<b>47,808.00</b>
HPQ	HEWLETT-PACKARD CO	32.82	59,652	12.57	110,139.00	4,954.00
BBRY	BLACKBERRY LTD	9.72	5,142	NM	3,335.00	-304.00
EMC	EMC CORP/MA	26.18	50,843	20.94	24,574.00	2,574.00
CAJ	CANON INC	35.52	47,375	18.60	31,099.31	2,125.97
NCR	NCR CORP	27.79	4,710	28.36	6,549.00	178.00
LXK	LEXMARK INTL INC	43.35	2,657	39.77	3,702.00	69.50
WDC	WESTERN DIGITAL CORP	94.84	21,911	14.48	15,032.00	1,562.00
STX	SEAGATE TECHNOLOGY PLC	56.43	17,910	9.83	14,112.00	1,925.00
SNDK	SANDISK CORP	66.59	13,845	20.43	6,448.00	777.52
NTAP	NETAPP INC	35.57	11,089	18.62	6,232.00	622.00

Sector: Technology | Source: S&P

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## COMPANY DESCRIPTION

Apple Inc. designs, manufactures, and markets mobile communication and media devices, personal computers, watches, and portable digital music players worldwide. The company also sells related software, services, accessories, networking solutions, and third-party digital content and applications. It offers iPhone, a line of smartphones that comprise a phone, music player, and Internet device; iPad, a line of multi-purpose tablets; Mac, a line of desktop and portable personal computers; iPod, a line of portable digital music and media players, such as iPod touch, iPod nano, and iPod shuffle; and Apple Watches, personal electronic devices that combine watch technology with an iOS-based user interface. The company also provides iTunes app and the iTunes Store; Mac App Store that allows customers to discover, download, and install Mac applications; iCloud, a cloud service; Apple Pay for making mobile payments; Apple TV, a portfolio of consumer and professional software applications; iOS and OS X operating systems software; iLife, a consumer-oriented digital lifestyle software application suite; iWork, an integrated productivity suite designed to help users create, present, and publish documents, presentations, and spreadsheets; and other application software, including Final Cut Pro, Logic Pro X, and its FileMaker Pro database software. In addition, it offers various Apple-branded and third-party Mac-compatible and iOS-compatible accessories, including headphones, cases, displays, storage devices, and various other connectivity and computing products and supplies. The company sells and delivers digital content and applications through the iTunes Store, App Store, iBooks Store, and Mac App Store; and sells its products through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. The company was founded in 1977 and is headquartered in in Cupertino, California.

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## STOCK-AT-A-GLANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of AAPL shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock's strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock's valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR	SCORE					
<b>Growth</b>	<b>5.0</b> out of 5 stars	★	★	★	★	★
Measures the growth of both the company's income statement and cash flow. On this factor, AAPL has a growth score better than 90% of the stocks we rate.		weak				strong
<b>Total Return</b>	<b>5.0</b> out of 5 stars	★	★	★	★	★
Measures the historical price movement of the stock. The stock performance of this company has beaten 90% of the companies we cover.		weak				strong
<b>Efficiency</b>	<b>5.0</b> out of 5 stars	★	★	★	★	★
Measures the strength and historic growth of a company's return on invested capital. The company has generated more income per dollar of capital than 90% of the companies we review.		weak				strong
<b>Price volatility</b>	<b>3.0</b> out of 5 stars	★	★	★	☆	☆
Measures the volatility of the company's stock price historically. The stock is less volatile than 50% of the stocks we monitor.		weak				strong
<b>Solvency</b>	<b>5.0</b> out of 5 stars	★	★	★	★	★
Measures the solvency of the company based on several ratios. The company is more solvent than 90% of the companies we analyze.		weak				strong
<b>Income</b>	<b>3.5</b> out of 5 stars	★	★	★	☆	☆
Measures dividend yield and payouts to shareholders. The company's dividend is higher than 60% of the companies we track.		weak				strong

## THE STREET RATINGS RESEARCH METHODOLOGY

TheStreet Ratings' stock model projects a stock's total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

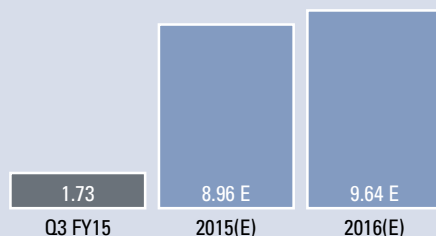
Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

Sector: Technology | Source: S&P

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## Consensus EPS Estimates<sup>2</sup> (\$)

IBES consensus estimates are provided by Thomson Financial



## FINANCIAL ANALYSIS

APPLE INC's gross profit margin for the second quarter of its fiscal year 2015 is essentially unchanged when compared to the same period a year ago. Even though it increased sales and net income significantly, the company was unable to grow at a faster pace than its industry competitors. APPLE INC has weak liquidity. Currently, the Quick Ratio is 0.87 which shows a lack of ability to cover short-term cash needs. The company's liquidity has decreased from the same period last year.

During the same period, stockholders' equity ("net worth") has increased by 7.34% from the same quarter last year. Overall, the key liquidity measurements indicate that the company is in a position in which financial difficulties could develop in the future.

**STOCKS TO BUY:** TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit [www.TheStreetRatings.com](http://www.TheStreetRatings.com).

## INCOME STATEMENT

	Q2 FY15	Q2 FY14
Net Sales (\$mil)	58,010.00	45,646.00
EBITDA (\$mil)	20,757.00	15,480.00
EBIT (\$mil)	18,278.00	13,593.00
Net Income (\$mil)	13,569.00	10,223.00

## BALANCE SHEET

	Q2 FY15	Q2 FY14
Cash & Equiv. (\$mil)	33,096.00	41,350.00
Total Assets (\$mil)	261,194.00	205,989.00
Total Debt (\$mil)	43,871.00	16,962.00
Equity (\$mil)	129,006.00	120,179.00

## PROFITABILITY

	Q2 FY15	Q2 FY14
Gross Profit Margin	45.05%	43.45%
EBITDA Margin	35.78%	33.91%
Operating Margin	31.51%	29.78%
Sales Turnover	0.81	0.85
Return on Assets	18.30%	18.30%
Return on Equity	37.05%	31.37%

## DEBT

	Q2 FY15	Q2 FY14
Current Ratio	1.16	1.63
Debt/Capital	0.25	0.12
Interest Expense	163.00	85.00
Interest Coverage	112.14	159.92

## SHARE DATA

	Q2 FY15	Q2 FY14
Shares outstanding (mil)	5,762	6,032
Div / share	0.47	0.44
EPS	2.33	1.66
Book value / share	22.39	19.92
Institutional Own %	NA	NA
Avg Daily Volume	52,501,306	53,394,644

<sup>2</sup> Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

Sector: Technology | Source: S&P

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## RATINGS HISTORY

Our rating for APPLE INC has not changed since 4/13/2009. As of 5/7/2015, the stock was trading at a price of \$125.26 which is 6.9% below its 52-week high of \$134.54 and 51.1% above its 52-week low of \$82.90.

### 2 Year Chart



## MOST RECENT RATINGS CHANGES

Date	Price	Action	From	To
5/7/13	\$65.52	No Change	Buy	Buy

Price reflects the closing price as of the date listed, if available

## RATINGS DEFINITIONS & DISTRIBUTION OF THE STREET RATINGS

(as of 5/7/2015)

**47.17% Buy** - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

**29.71% Hold** - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

**23.12% Sell** - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

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## VALUATION

**BUY.** This stock's P/E ratio indicates a discount compared to an average of 16.55 for the Computers & Peripherals industry and a discount compared to the S&P 500 average of 20.41. Conducting a second comparison, its price-to-book ratio of 5.59 indicates a significant premium versus the S&P 500 average of 2.82 and a premium versus the industry average of 4.80. The price-to-sales ratio is well above both the S&P 500 average and the industry average, indicating a premium.

Price/Earnings	1	2	3	4	5
			premium		discount

**AAPL 15.48** Peers **16.55**

- Average. An average P/E ratio can signify an industry neutral price for a stock and an average growth expectation.
- AAPL is trading at a valuation on par with its peers.

Price/Projected Earnings	1	2	3	4	5
			premium		discount

**AAPL 12.99** Peers **14.02**

- Average. An average price-to-projected earnings ratio can signify an industry neutral stock price and average future growth expectations.
- AAPL is trading at a valuation on par with its peers.

Price/Book	1	2	3	4	5
		premium			discount

**AAPL 5.59** Peers **4.80**

- Premium. A higher price-to-book ratio makes a stock less attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- AAPL is trading at a premium to its peers.

Price/Sales	1	2	3	4	5
		premium			discount

**AAPL 3.40** Peers **2.88**

- Premium. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- AAPL is trading at a premium to its industry on this measurement.

Price/CashFlow	1	2	3	4	5
			premium		discount

**AAPL 9.39** Peers **18.09**

- Discount. The P/CF ratio, a stock's price divided by the company's cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- AAPL is trading at a significant discount to its peers.

Price to Earnings/Growth	1	2	3	4	5
			premium		discount

**AAPL 0.40** Peers **0.67**

- Discount. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- AAPL trades at a significant discount to its peers.

Earnings Growth	1	2	3	4	5
	lower				higher

**AAPL 35.31** Peers **27.40**

- Higher. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- AAPL is expected to have an earnings growth rate that significantly exceeds its peers.

Sales Growth	1	2	3	4	5
	lower				higher

**AAPL 20.52** Peers **15.12**

- Higher. A sales growth rate that exceeds the industry implies that a company is gaining market share.
- AAPL has a sales growth rate that significantly exceeds its peers.

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