

# Apple Inc.

**US CORE HOLDING\***

Recommended since 24.09.20

09.04.2024



<b>Country</b> US	<b>Market capitalization (bn)</b> USD 2636,4	<b>Perf. since reco. (%)</b>
<b>Sector</b> Technology	<b>Free float</b> 99,9%	Apple Inc. 55,7
<b>Factset</b> AAPL-US	<b>Closing price</b> USD 168,45	Sector 56,9
<b>ISIN</b> US0378331005	<b>ESG Risk score*</b> 16,7 Low risk	



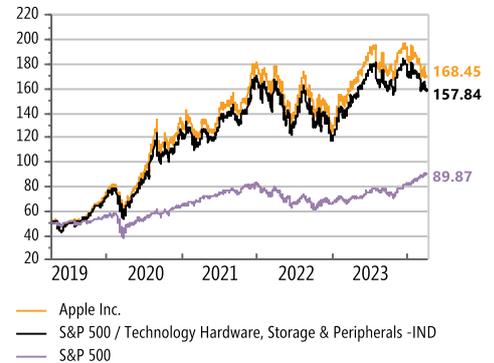
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

Apple designs, manufactures and markets mobile phones, PCs and accessories. In terms of hardware, the iPhone represents the largest share of turnover (52.1% in 2022), the iPad (7.4%), and the Mac (10.2%). Next come accessories (Apple Watch, head-phones, etc.) representing 10.5% of turnover, and Services (App Store, Streaming, AppleCare, iCloud, etc.) with 19.8%. Geographically, the Americas dominate (43% of CA), followed by Europe (24.1%) and China (18.8%).

## Market - competition - positions - barriers to entry

The smartphone market declined by -14% y/y in 2023 in terms of global volumes. This market is becoming mature: the main market shares (in the Q1-2023) are in the three manufacturers: Samsung, No°1, with ~22%; Apple, No°2, 21%, and Xiami, No°3, 11%. Barriers to entry: technology and ecosystem, brand reputation (very high retention rates of 83%, with a unique ecosystem on both hardware and software with iOS).



Source: Factset

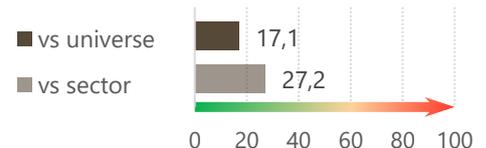
## Investment case

- The arrival of the Group's flagship model, the iPhone 14 (5G compatible), offers a gain in growth with sales expected to maintain over the next quarters in 2023. In October 2020 and 2021, the iPhone 12 and 12 Pro / 13 and 13 Pro Max become the best-selling smartphones according to the Counterpoint report. Still in hardware, Apple is continuing its vertical integration with an in-house design of its chips (M3 Ultra on Macs and A16-17 on iPhone 15), which enables it to deliver cutting-edge performance and better cost management. The growth drivers are also found in the deployment of services and accessories (Apple Watch and AirPods max).
- The expansion of the services business also means the expansion of the Apple ecosystem. By offering financial services (Apple Pay, Apple Card, Apple Deals), Apple intends to control (without intermediaries) the entire chain of customer relations (from production to sales, via financing). For example, customers can buy an iPhone, iPad or Mac on credit, free of charge (the loan is interest-free for 12 or 24 months). In addition, the Group is also strengthening its media offers, with Apple One, which will bundle the streaming, music and video game offers. An Apple Fitness+ offer is also being introduced and is compatible with the Apple Watch series 6. Two positive elements for this business segment: resilience (50-55% of recurring revenues in 2023) and expansion (post-pandemic growth still present).
- Another segment that confirms very positive prospects: accessories and wearables. Air Pods, Apple Watch, HomePod mini are already experiencing solid growth (+10% on average), while still recording a small market share. This segment could also grow by more than 15% in 2024 and 2025. Given the high level of brand loyalty, accessories have the potential to further strengthen the business model (services + growth of the installed base + technological leadership) and the Group's ecosystem. The upcoming generations are set to enhance these trends by also incorporating generative AI, specifically designed for direct use on the devices.
- Finally, Apple is finally bringing its virtual and augmented reality projects to fruition with Apple Vision Pro, on the market since February 2024 (still in the test phase). Its entry into the chip market has also proved beneficial in mastering its hardware, with a disruptive player in design (based on an ARM architecture).

## ESG - risks and key points

- The coronavirus epidemic has had only a limited impact on the Group's results: on the one hand, containment problems have slowed down the supply of essential components for iPhones and other hardware equipment, but on the other hand, teleworking and the need to stay at home have increased demand for these same devices. On the ESG standards side, Apple is classified as "Medium risk" because of the number of controversies (tax optimization of cash flow and earnings, anti-competitive behavior [App Store], issues about data encryption [essential for the development of services]). European regulations (Digital Market Act) aim to prohibit anti-competitive practices on the App Store.

## ESG risk vs. universe & sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price	<b>Value Bordier Scenario</b>
168	149

Our scenario assumes a 10-year rate in the USA of 3.5%; normalized sales growth rates at 3% by 2033 and a stable EBIT margin above 33%. We expect a rebound in sales in 2026-2027.

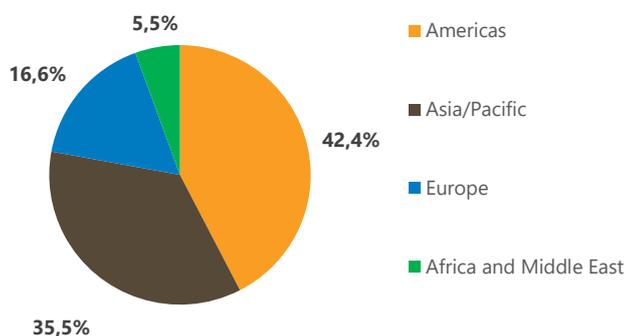
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	394 328	383 285	394 784	408 601	422 902
Sales growth %	7,8%	-2,8%	3,0%	3,5%	3,5%
a/w organic	7,8%	-2,8%	3,0%	3,5%	3,5%
EBIT adjusted	119 437	114 301	120 016	129 617	133 506
% of sales	30,3%	29,8%	30,4%	31,7%	31,6%
Net income	99 803	96 995	100 339	108 404	111 670
Adjusted EPS	6,11	6,13	6,73	7,37	7,60
Adjusted EPS growth	8,9%	0,3%	9,8%	9,5%	3,0%
Capex/Sales	2,8%	2,9%	2,9%	2,9%	2,8%
Free cash-flow	111 137	99 584	101 546	110 155	113 772
FCF/Sales	28,2%	26,0%	25,7%	27,0%	26,9%
Dividend per share	0,92	0,94	1,18	1,18	1,18
Dividend yield	0,7%	0,5%	0,7%	0,7%	0,7%
ROCE - WACC	80,8%	82,5%	88,1%	83,7%	65,1%
ROE (%)	197,0%	156,1%	114,7%	91,7%	73,2%
Net debt/Ebitda	47,3%	34,6%	12,9%	-11,0%	-35,5%

Source: Factset, Bordier estimates

Sales breakdown - 09/2023



Governance and ownership structure

Since 01.08.2011 Tim Cook, CEO.

Key shareholders (if any):

The Vanguard Group, Inc 7.09% / Berkshire Hathaway, Inc (investment management) 5.55% / BlackRock Fund Advisors 4.28%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

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Ratios

	Apple Inc.	S&P 500 Sector	Market	
PE (x)***	Tech. Hardware, Storage & Peripherals		S&P 500	
	2023	31,4	28,4	23,4
	2024e	25,0	24,4	21,5
	2025e	22,8	22,0	18,9
P/B (x)***	2023	47,8	30,0	4,7
	2024e	29,7	24,1	4,4
	2025e	22,0	19,4	3,9
Beta (2Y, daily) vs market:			1,05	

\*\*\*) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Agenda

02.05.2024: Earnings Q2 2023 - 24.07.2024: Earnings Q3 2024  
24.10.2024: Earnings Q4 2024

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainability, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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