

B / S	P / C / S	Strike	Exp.	Premium
Sell	Put	95.00	OCT '16	\$7.40

IOI Tear Sheet : Apple (AAPL)

“Bond Replacement” (High Conviction)

Data as of 10 May, 2016



IOI's Take

The product category AAPL pioneered in the mid-aughts, Internet-enabled portable time-wasting devices, has matured. Formerly the trend-setter, AAPL is now as likely to be a trend-follower. Developed markets maturing, it now must rely on more price-sensitive emerging markets to provide growth opportunities—difficult considering its premium-priced devices. It's got a mountain of cash stranded overseas and for cultural reasons, there's almost zero chance that it will use that cash to make a bold int'l acquisition. It will need to pay a big tax bill or leave that cash overseas. iPhone sales will stagnate; no new great product ideas on the hrzn. Still, stock is undervalued.

Drivers

Revenues	iPhone sales growth will be tepid, but iTunes and Apple Pay create brand stickiness. iPhone-centric ecosystem is self-reinforcing. Projected: 9% (Best), 0% (Worst)
Profitability	Good, but may fall with increased competition, EM expansion and less product differentiation. Proj: 27% (B), 20% (W)
Investment Level / Eff.	7% of profits spent on cap improvements. Unbelievable efficacy for 10 years, less effective going forward. Proj (med-term growth): 7% (B), 3% (W: Sub-nominal GDP)

Balance Sheet Roughly \$80 billion of tax-adjusted net cash added to value.

Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	128	151	174
Stock Return (%)	37	62	87
Option Period Return (%)	8	8	8
Option Annual Return (%)	18	18	18

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	28	28
Profit Margin (%)	30	27
Med-term Growth	Incredible	Ditto

Market Risk

AAPL had very high PSR values in the 2007 timeframe, so we show a wide potential price range with 85th and 15th percentile PSR values. Too much focus on iPhone's slowing sales growth means risk to downside market-wise.

Case / Scenario	Value
252-day Low	93
PSR Implied Low	110
*1% 20% 3%	128
1% 20% 7%	145
252-day High	133
1% 27% 3%	167
*9% 20% 3%	174
1% 27% 7%	190
9% 20% 7%	199
9% 27% 3%	230
PSR Implied High	240
9% 27% 7%	263

