

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

<b>Revenues</b>	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)
<b>Profitability</b>	Good, but may fall with increased competition, EM expansion and less product differentiation. Proj: 27% (B), 20% (W)
<b>Investment Level / Eff.</b>	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
<b>Stock Fair Value (\$)</b>	128	151	174
<b>Stock Return (%)</b>	37	62	87
<b>Option Period Return (%)</b>	8	8	8
<b>Option Annual Return (%)</b>	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

