

ARETE CAPITAL VIEW

AAPL continues to be a long-term core holding within our portfolios

BACKGROUND

- Success still focused on the iPhone with over 65% of the company's total revenues and over 75% of its gross profits
- 2016 iPhone YOY sales challenging year for iPhone sales due to:
 - Soft sales in major growth market (China) Initial lack of supply of new product (iPhone 7)
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OPPORTUNITIES 2017 & BEYOND

- iPhone & other sales finally ramping up again
 - Latest quarterly earnings report shows a return to growth in iPhone sales
 - A redesigned 10-year anniversary iPhone coming 2017
 - Newly launched Macbook, and other products
- Improving Apple Services revenue still the low hanging fruit
 - 2016 Service revenues @ USD 35 per head * 700m users = USD 24.5bn.
 - AAPL forecast to double in next 3 years = USD 50bn of annuitized and very high margin revenue.)
 - Services may eventually account for 33% of bottom line - the new earnings stream that investors desire
- A fortress like balance sheet & strong free cash flow (2016 USD 52bn) give AAPL plenty of flexibility - expect increased dividends and stock buy backs (c. USD 30bn to 50bn)

CHALLENGES

- Perceived saturation in many markets for smart phone users
- Transitions into new growth products and services
- Keeping a relatively high gross margin at/above current 38% (services is one answer...)
- US Trade spats and immigration policies

INCOME STATEMENT Billion (USD)

	2012	2013	2014	2015	2016
Revenue	156.5	170.9	182.8	233.7	215.6
Operating Expenses	101.3	121.9	130.3	162.5	155.6
Operating Income	55.2	49	52.5	71.2	60
Net income Before Taxes	55.8	50.2	53.5	72.5	61.4
Net income After Taxes	41.7	37	39.5	53.4	45.7
Net income Before Extra Items	41.7	37	39.5	53.4	45.7

BUSINESS SUMMARY

Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players. The Company sells a range of related software, services, accessories, networking solutions, and third-party digital content and applications. Its products and services include iPhone, iPad, Mac, iPod, Apple Watch, Apple TV, a portfolio of consumer and professional software applications, iPhone OS (iOS), OS X and watchOS operating systems, iCloud, Apple Pay and a range of accessory, service and support offerings.

FINANCIAL SUMMARY

For the 14 weeks ended 31 December 2016, Apple Inc. revenues increased 3% to \$78.35B. Net income decreased 3% to \$17.89B. Revenues reflect Americas- Operating segment increase of 9% to \$31.97B, Japan- Operating segment increase of 20% to \$5.77B, Europe- Operating segment increase of 3% to \$18.52B. Net income was offset by Greater china- Operating segment income decrease of 18% to \$6.18B, Corporate segment loss increase of 14% to \$3.95B.

5 YEAR CHART



RATIOS

Dividend Yield	1.77
P/E (Trailing)	15.4
Current P/E	15.1
Current P/E (ex cash)	9.54
Annual free cash flow	52 billion USD