AAPL BUSINESS DESCRIPTION

Apple Inc. designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players to consumers, small and mid-sized businesses, education, and enterprise and government customers worldwide.

STOCK PERFORMANCE (%)

<table>
<thead>
<tr>
<th>3 Mo.</th>
<th>1 Yr.</th>
<th>3 Yr (Ann)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Change</td>
<td>-2.92</td>
<td>-16.72</td>
</tr>
</tbody>
</table>

GROWTH (%)

<table>
<thead>
<tr>
<th>Last Qtr</th>
<th>12 Mo.</th>
<th>3 Yr CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>0.97</td>
<td>17.33</td>
</tr>
<tr>
<td>Net Income</td>
<td>1.86</td>
<td>20.84</td>
</tr>
<tr>
<td>EPS</td>
<td>7.18</td>
<td>26.95</td>
</tr>
</tbody>
</table>

RETURN ON EQUITY (%)

<table>
<thead>
<tr>
<th>AAPL</th>
<th>Ind Avg</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2016</td>
<td>41.88</td>
<td>38.95</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>36.05</td>
<td>33.97</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>28.55</td>
<td>27.48</td>
</tr>
</tbody>
</table>

P/E COMPARISON

<table>
<thead>
<tr>
<th>AAPL</th>
<th>Ind Avg</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.23</td>
<td>13.82</td>
<td>22.51</td>
</tr>
</tbody>
</table>

EPS ANALYSIS¹ ($)

<table>
<thead>
<tr>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Q4 2016</th>
<th>Q1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.07</td>
<td>2.16</td>
<td>3.06</td>
<td>2.33</td>
<td>3.06</td>
</tr>
<tr>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

RECOMMENDATION

We rate APPLE INC (AAPL) a BUY. This is driven by some important positives, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company’s strengths can be seen in multiple areas, such as its revenue growth, notable return on equity, expanding profit margins, increase in net income and growth in earnings per share. We feel its strengths outweigh the fact that the company shows weak operating cash flow.

HIGHLIGHTS

Despite its growing revenue, the company underperformed as compared with the industry average of 2.6%. Since the same quarter one year prior, revenues slightly increased by 1.0%. 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.

43.58% is the gross profit margin for APPLE INC which we consider to be strong. It has increased from the same quarter the previous year. Along with this, the net profit margin of 24.37% is above that of the industry average.

The net income growth from the same quarter one year ago has exceeded that of the S&P 500, but is less than that of the Computers & Peripherals industry average. The net income increased by 1.9% when compared to the same quarter one year prior, going from $18,024.00 million to $18,361.00 million.

APPLE INC has improved earnings per share by 7.2% 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. However, we anticipate underperformance relative to this pattern in the coming year. During the past fiscal year, APPLE INC increased its bottom line by earning $9.20 versus $6.43 in the prior year. For the next year, the market is expecting a contraction of 1.5% in earnings ($9.07 versus $9.20).

¹ Compustat fiscal year convention is used for all fundamental data items.
Technology Hardware, Storage & Peripherals

Source: S&P

The Street Ratings

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.

The peer group comparison is based on Major Technology Hardware, Storage & Peripherals companies of comparable size.

PEER GROUP: Computers & Peripherals

Ticker | Company Name | Recent Price ($) | Market Cap ($M) | Price/Earnings | Net Sales TTM ($M) | Net Income TTM ($M)
--- | --- | --- | --- | --- | --- | ---
AAPL | APPLE INC | 105.80 | 586.6 Billion | 11.23 | 234,440.00 | 53,731.00
NTAP | NETAPP INC | 26.66 | 7,707.00 | 21.50 | 5,705.70 | 371.90
EMC | EMC CORP/MA | 26.45 | 51,499.00 | 25.93 | 24,780.00 | 1,990.00
BBRY | BLACKBERRY LTD | 8.10 | 4,221.00 | NM | 2,366.00 | 58.00
CAJ | CANON INC | 29.76 | 39,693.00 | 17.92 | 31,597.83 | 1,830.96
NCR | NCR CORP | 27.69 | 3,686.00 | NM | 6,373.00 | -178.00
LOGI | LOGITECH INTERNATIONAL SA | 16.30 | 2,822.00 | NA | 2,054.49 | -18.65
HPQ | HP INC | 11.72 | 20,357.00 | 5.55 | 88,762.00 | 3,780.00
SNDK | SANDISK CORP | 75.98 | 15,273.00 | 41.07 | 5,564.87 | 388.48
WDC | WESTERN DIGITAL CORP | 46.00 | 10,707.00 | 9.48 | 13,418.00 | 1,138.00
STX | SEAGATE TECHNOLOGY PLC | 34.93 | 10,354.00 | 17.73 | 12,169.00 | 626.00

The peer group comparison is based on Major Technology Hardware, Storage & Peripherals companies of comparable size.
COMPANY DESCRIPTION

Apple Inc. designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players to consumers, small and mid-sized businesses, education, and enterprise and government customers 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; iPad, a line of multi-purpose tablets; and Mac, a line of desktop and portable personal computers. The company also provides iLife, a consumer-oriented digital lifestyle software application suite; iWork, an integrated productivity suite that helps users create, present, and publish documents, presentations, and spreadsheets; and other application software, such as Final Cut Pro, Logic Pro X, and FileMaker Pro. In addition, it offers Apple TV that connects to consumers’ TV and enables them to access digital content directly for streaming high definition video, playing music and games, and viewing photos; Apple Watch, a personal electronic device; and iPod, a line of portable digital music and media players. Further, the company sells Apple-branded and third-party Mac-compatible, and iOS-compatible accessories, such as headphones, displays, storage devices, Beats products, and other connectivity and computing products and supplies. Additionally, it offers iCloud, a cloud service; AppleCare that offers support options for its customers; and Apple Pay, a mobile payment service. The company sells and delivers digital content and applications through the iTunes Store, App Store, iBooks Store, Mac App Store, and Apple Music. It also sells its products through its retail and online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. Apple Inc. was founded in 1977 and is headquartered in Cupertino, California.

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USA
Phone: 408-996-1010
http://www.apple.com

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

Growth 5.0 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.

Total Return 3.0 out of 5 stars
Measures the historical price movement of the stock. The stock performance of this company has beaten 50% of the companies we cover.

Efficiency 5.0 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.

Price volatility 3.5 out of 5 stars
Measures the volatility of the company’s stock price historically. The stock is less volatile than 60% of the stocks we monitor.

Solvency 5.0 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.

Income 3.5 out of 5 stars
Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 60% of the companies we track.

THESTREET 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.
FINANCIAL ANALYSIS

APPLE INC’s gross profit margin for the first quarter of its fiscal year 2016 is essentially unchanged when compared to the same period a year ago. The company has grown sales and net income during the past quarter when compared with the same quarter a year ago, however, it was unable to keep up with the growth of the average competitor within its industry. APPLE INC has weak liquidity. Currently, the Quick Ratio is 0.82 which shows a lack of ability to cover short-term cash needs. The liquidity decreased from the same period a year ago, despite already having weak liquidity to begin with. This would indicate deteriorating cash flow.

At the same time, stockholders’ equity (“net worth”) has remained virtually unchanged only increasing by 4.00% 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.
RATINGS HISTORY
Our rating for APPLE INC has not changed since 4/13/2009. As of 3/17/2016, the stock was trading at a price of $105.80 which is 21.4% below its 52-week high of $134.54 and 15.0% above its 52-week low of $92.00.

VALUATION
BUY. This stock’s P/E ratio indicates a discount compared to an average of 13.82 for the Computers & Peripherals industry and a significant discount compared to the S&P 500 average of 22.51. Conducting a second comparison, its price-to-book ratio of 4.57 indicates a significant premium versus the S&P 500 average of 2.68 and a premium versus the industry average of 3.96. The current price-to-sales ratio is well above the S&P 500 average and above the industry average, indicating a premium.

Price/Earnings
AAPL 11.23 Peers 13.82
- Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
- AAPL is trading at a discount to its peers.

Price/Projected Earnings
AAPL 10.55 Peers 12.31
- 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
AAPL 4.57 Peers 3.96
- 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
AAPL 2.50 Peers 2.21
- 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.

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