

Apple (AAPL:NASDAQ)

Value Investor Analysis at price \$119.33 - 2014 Annual Report

Is the company large, prominent and important?

Market cap of \$730 billion- yes

Conservatively financed

AAPL has a current ratio of 1.08, which means current assets are greater than current liabilities.

This company will not go bust based on these numbers.

Current assets	Current liabilities	Ratio
\$68,531,000,000	\$63,448,000,000.00	1.08

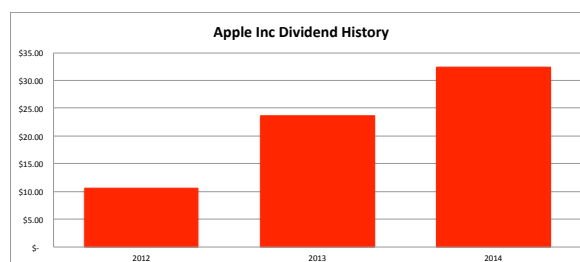
The ratio does not meet the formal minimum requirement of 2 to satisfy a defensive value investor, but the ratio is still close. The reason being that Apple prefers to hold the majority of its cash pile in long term government bonds rather than the shorter dated bonds that would fall under the current ratio. Also due to the company's size and ability to raise long term debt there is low chance of short term liquidity problems.

Long term debt is less than current assets. Long term debt (non current liabilities) of \$28,987 million less than the current assets of \$73,286 million

Dividend

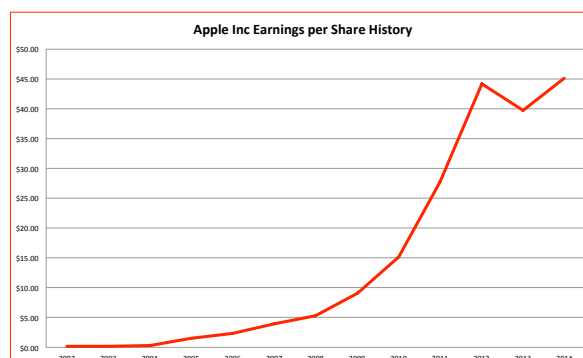
A regular dividend has only been paid since 2012.

Estimated yield, February 2015, 1.53%. Since introducing the dividend and share buy back programme, Apple has steadily increased both (dividend has been raised by 8% in 2014). The dividend record does not meet the defensive value investor criterion for a good history of dividend payment. However, this is a technical fail only as Apple is most unlikely to now stop paying dividends.



Earnings

Reported earning per share needs to rise by at least one third to meet the defensive investor criteria over say 10 years. Apple earnings have risen 132 fold in the last 10 years so easily meet the defensive value investor criteria. The average



earnings per share over the last three years is US\$43.02 after adjusting for the recent 7 for 1 stock split. The average P/E ratio for the last three years is 19.42 using a share price of \$119.33 then adjusting for a 7 for 1 stock split. Current P/E ratio on 2014 earnings is 18.5 so the P/E ratio is moderate to fairly priced.

Depreciation

	2014	2013	2012
Depreciation and amortisation	\$7,946,000,000.00	\$6,757,000,000.00	\$3,277,000,000.00

Analysis including depreciation and amortisation is not included in the defensive investor criteria, but would be appropriate for a more entrepreneurial value investor. It should be noted that depreciation is increasing, but the values are very small in comparison to earnings and market capitalisation.

Price to book

Price to Book ratio is 6.5 so the price is significantly above the book value.

Defensive Value Investor- Conclusion

Apple does not pass all the Defensive Value Investor tests. However, Apple is conservatively financed and moderately

priced with an outstanding record of growing its earnings over the last ten year period. The defensive value investor can buy at this price, but any lower prices would provide a larger margin of safety. An appropriate strategy might be to buy in several stages.

Defensive investor criteria	Pass or Fail
Large, prominent and important	Pass
Conservatively financed	Pass
Dividend Record	Fail
Earnings Record	Pass
Book value	Fail

Entrepreneurial Value Investor- Conclusion

It is important to understand how good APPL is at using the assets entrusted to the company by the shareholders. APPL has a Return on Equity of 35.42%, which could explain why earnings have grown at such a high rate over the last 10 years. It also is a possible explanation of the high Price to Book ratio. An entrepreneurial value investor could take the same approach and purchase common stock in stages.