Apple (AAPL:NASDAQ)

Value Investor Analysis at price $98.66

Data from 2015 Annual report, which covers the period to 26 September2015.

Is the company large, prominent and important?

Market cap of $571 billion and total capitalisation of $658 billion - yes

Conservatively financed

Current assets	Current liabilities	Ratio
$89,678,000,000	$80,610,000,000.00	1.11

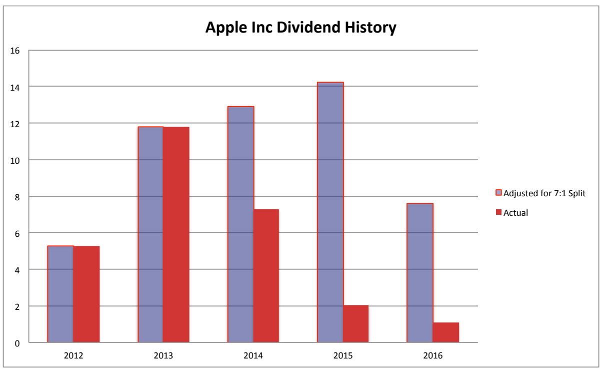
AAPL has a current ratio of 1.11, which means current assets are greater than current liabilities. This company will not go bust based on these numbers. The ratio does not meet the formal minimum requirement of 2 to satisfy a defensive value investor, but the ratio is acceptable.

AAPL has total long term liabilities of $87 billion, of which the funded debt is $53 billion. The market capitalisation of the common stock is just over 10 times the value of the funded debt, so AAPL is conservatively financed on this measure.

Reported earnings before tax cover interest payments over 98 times, which is a very conservative ratio. This figure relates to the actual interest paid by AAPL on its debt. AAPL actually has a net interest income from its financial assets so AAPL has no problem meeting its interest obligations. AAPL is conservatively financed for a defensive value investor when considering the capacity of the company to meet its interest obligations.

Long term debt is less than current assets, which is also a conservative indicator.

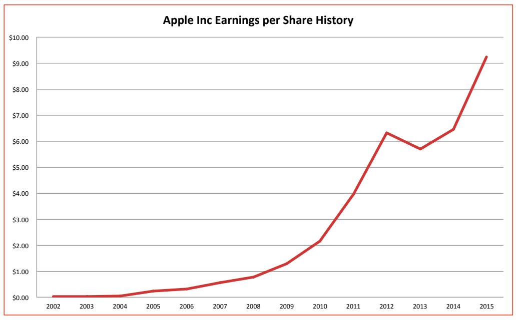
Dividend



A regular dividend has only been paid since 2012 so AAPL does not meet the defensive value investor criterion for regular dividends. Estimated yield, July 2016, is 2.31%. The chart shows the actual dividend per share in red and the dividend multiplied by 7 to show how the dividend has increased taking into account the share split in 2014. Apple has steadily increased the dividend since 2012, which gives some confidence in future dividends The figure for 2016 will be about double the size of the bar in the chart if the quarterly dividend continues at the current rate.

Earnings

Reported earning per share needs to rise by at least one third over a reasonable time period to meet the defensive investor criterion for earnings growth. Apple earnings have risen 41 times in



the last 10 years so easily meets the defensive value investor criterion for earnings growth.

The average earnings per share over the last three years is US$7.12, which gives an average P/E ratio for the last three years of 13.86, which in turn makes AAPL look cheap at current prices. Current P/E ratio on 2015 earnings is 10.7 so the current P/E makes AAPL look cheap. The P/E is being measured at a fairly high earnings level, but even if earnings were to halve the price would not be outrageously high.

Depreciation

	2015	2014	2013
Depreciation and amortisation	$11,257,000,000.00	$7,946,000,000.00	$6,757,000,000.00

Analysis including depreciation and amortisation is not included in the defensive investor criteria, but would be appropriate for a more entrepreneurial value investor. Depreciation at AAPL is increasing, but the values are small in comparison to earnings and market capitalisation so is not creating adverse effects to the earnings numbers.

Price to book

Price to Book ratio is 4.78 so the price is fair in comparison with book value.

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

Defensive Value Investor- Conclusion

Apple does not pass all the Defensive Value Investor tests. However, the failure is a technical fail only as it is likely that the dividend will be consistent in the future. The dividend record should not prevent an investment by a defensive value investor at this price.

Entrepreneurial Value Investor- Conclusion

It is important to understand how good AAPL is at using the assets entrusted to the company by the shareholders. AAPL has a Return on Equity of 44.69%, which could explain why earnings have grown at such a high rate over the last 10 years. This return on equity is outstanding and will eventually be reflected in higher stock prices and dividends.