



THE GREATEST CASH MACHINE IN  
HISTORY? AN ANALYSIS OF APPLE

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# The Apple “Market” Balance Sheet

Assets	Market Value (in billions)	Liabilities	Market Value (in billions)
Operating Businesses (Smartphones, Computers and Services)	\$544	Debt	\$ 94
Cash	\$245	Equity	\$695
Total	\$789	Total	\$789

Apple’s cash balance is the largest ever held by a company.

# Apple's Cash Spigot

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	LTM
Net Income	\$ 3,495	\$ 6,119	\$ 8,235	\$ 14,013	\$ 25,922	\$ 41,733	\$ 37,037	\$ 39,510	\$ 53,394	\$ 45,687	\$ 45,217
+ Deprecn, Amort & Other Non-cash ch	\$ 327	\$ 496	\$ 734	\$ 1,027	\$ 1,814	\$ 3,277	\$ 6,757	\$ 7,946	\$ 11,257	\$ 10,505	\$ 10,538
Operating CF to Equity	\$ 3,822	\$ 6,615	\$ 8,969	\$ 15,040	\$ 27,736	\$ 45,010	\$ 43,794	\$ 47,456	\$ 64,651	\$ 56,192	\$ 55,755
- Chg in non-cash WC	\$ (1,321)	\$ (2,045)	\$ 560	\$ (1,236)	\$ (5,757)	\$ 299	\$ (6,478)	\$ (7,047)	\$ (11,647)	\$ (484)	\$ (860)
- Cap Ex and Acquisitions	\$ 986	\$ 1,419	\$ 1,213	\$ 2,759	\$ 7,696	\$ 9,752	\$ 9,572	\$ 13,578	\$ 11,831	\$ 13,845	\$ 13,190
FCFE before debt	\$ 4,157	\$ 7,241	\$ 7,196	\$ 13,517	\$ 25,797	\$ 34,959	\$ 40,700	\$ 40,925	\$ 64,467	\$ 42,831	\$ 43,425
+ Debt Issued	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,896	\$ 18,266	\$ 29,305	\$ 24,954	\$ 27,339
- Debt Repaid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,897	\$ 1,657
FCFE (Potential Dividends)	\$ 4,157	\$ 7,241	\$ 7,196	\$ 13,517	\$ 25,797	\$ 34,959	\$ 57,596	\$ 59,191	\$ 93,772	\$ 64,888	\$ 69,107

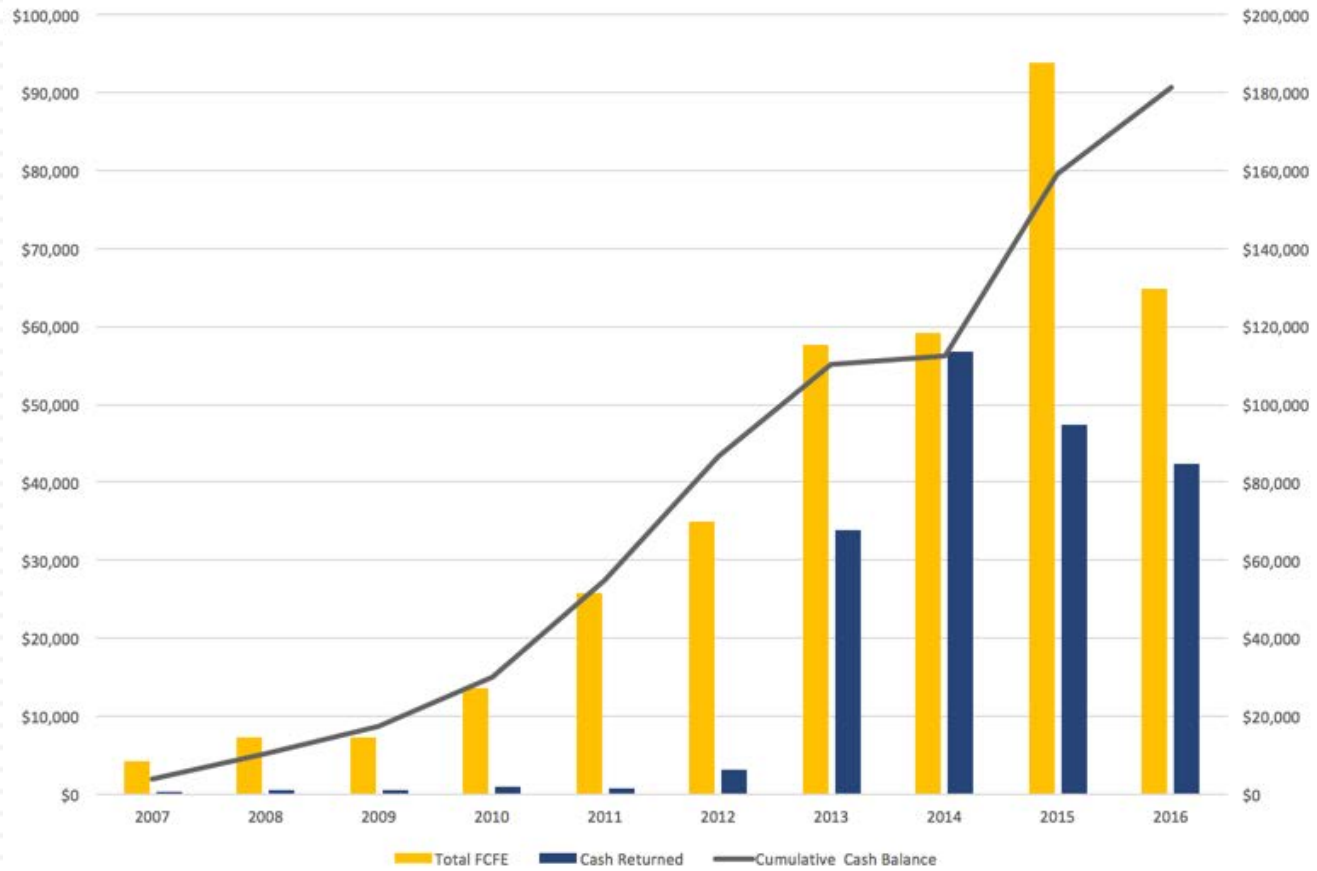
# Apple's Cash Return

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	LTM
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,488.00	\$ 10,564.00	\$ 11,126.00	\$ 11,561.00	\$ 12,150.00	\$ 12,311.00
Stock Buybacks	\$ 365.00	\$ 483.00	\$ 475.00	\$ 912.00	\$ 831.00	\$ 665.00	\$ 23,390.00	\$ 45,730.00	\$ 35,796.00	\$ 30,217.00	\$ 34,204.00
Total Cash Returned	\$ 365.00	\$ 483.00	\$ 475.00	\$ 912.00	\$ 831.00	\$ 3,153.00	\$ 33,954.00	\$ 56,856.00	\$ 47,357.00	\$ 42,367.00	\$ 46,515.00

Apple has returned \$183 billion in cash to its stockholders in the last five years, making it by far the company that has returned the most cash to stockholders over any five-year time period.

# The Cash Build-up

Apple: The Cash Build Up



# Tracing Apple's valuation (or at least my view of it): June 2012

- The setting: In my July 2012 valuation, where I looked at Apple just after it had become the largest market cap company in the world and had come off perhaps the greatest decade of disruption of any company in history (iTunes, iPod, iPhone and iPad).
- My story: I concluded that Apple was one of the great cash machines of all time, but that its days of disruption were behind it, partly because Steve Jobs was no longer at the helm but mostly because of its size; it is so much more difficult for a \$600 billion company to create a significant enough disruption to change the trend lines on earnings, cash flows and value.

# Updates in 2015 & 2016

- In my story, I saw Apple continuing to produce cash flows, with low revenue growth and gradually decreasing margins, as the smartphone business became more competitive.
- [In August 2015](#), when I updated the Apple story (and looked at Facebook and Twitter at the same time). The value I estimated for Apple in that post was \$130, higher than the stock price of \$110 at the time.
- I [revisited the story](#) after an earnings report from Apple in February 2016 and compared it to Alphabet. At the time, I valued Apple at about \$126 per share, well above the \$94/share that it was trading at the time.

## Big Names come and go...

- In May 2016, Carl Icahn, a long time bull on Apple sold his shares, and Warren Buffett, a long time avoider of tech companies, bought shares in the company.
- I argued that while these big names entering and exiting the stock may have pricing consequences, I saw no reason to change my story and thus my value, leaving my Apple holdings intact.

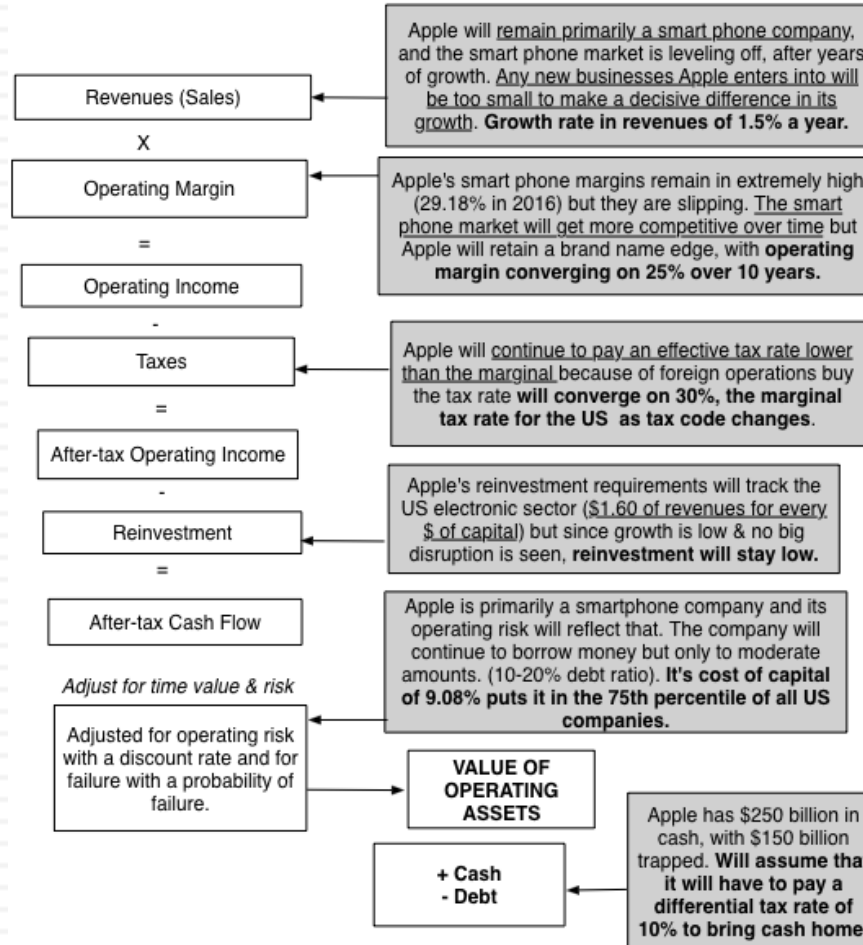


# The Latest Earnings Report: Apple plays the earnings game!

- **Revenues:** Revenue of \$78.4 billion for the quarter, up 3% over the same quarter in the prior year, beating expectations of \$77.4 billion
- **Earnings per share:** EPS of \$3.36, up 2% over the same quarter in the prior year, beating expectations of \$3.22/share
- **Gross margin:** Gross profit margin of 38.5%, versus expectations of 38.4%
- **iPhone unit sales:** 78 million, up 4% year-over-year, versus expectations of 76.3 million.
- **Quarter 2 Guidance:** Revenues of \$51.5-\$53.5 billion, below expectations.

# My Apple Story (in February 2017), with numbers

## APPLE: THE CASH MACHINE



## Apple

### The Story

Apple is a cash machine, deriving much of its cash and value from its iPhone franchise. Its large size will make it disruptive growth difficult and I expect the company to continue to churn out cash from its existing businesses, albeit with almost flat revenues and declining margins, as competition increases. In spite of its size, the company will continue to be riskier than average, because it has to reinvent itself every two years to survive. Finally, the tax rate paid by the company will gradually rise over time to a global average and trapped cash will be returned with a tax penalty.

### The Assumptions

	Base year	Years 1-5	Years 6-10		After year 10	Link to story
Revenues (a)	\$ 218,118	1.50%	→ 1.00%		1.00%	Mature company; size impedes growth
Operating margin (b)	29.18%	29.18%	→ 25.00%		25.00%	Margins decrease with competition
Tax rate	26.01%	26.01%	→ 30.00%		30.00%	Tax rate increases to global average
Reinvestment (c)		Sales to capital ratio = 1.60		RIR =	14.35%	Reinvest like electronics company
Return on capital	-7189.38%	Marginal ROIC =	-6.60%		6.97%	ROIC converges on cost of capital
Cost of capital (d)		9.09%	→ 6.97%		6.97%	In the 75th risk percentile of US firms

### The Cash Flows

	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	\$ 221,390	28.76%	\$ 63,674	\$ 47,113	\$ 2,045	\$ 45,068
2	\$ 224,711	28.34%	\$ 63,690	\$ 47,125	\$ 2,076	\$ 45,049
3	\$ 228,081	27.93%	\$ 63,692	\$ 47,127	\$ 2,107	\$ 45,020
4	\$ 231,502	27.51%	\$ 63,680	\$ 47,118	\$ 2,138	\$ 44,979
5	\$ 234,975	27.09%	\$ 63,654	\$ 47,098	\$ 2,170	\$ 44,927
6	\$ 238,265	26.67%	\$ 63,549	\$ 46,513	\$ 2,056	\$ 44,457
7	\$ 241,362	26.25%	\$ 63,366	\$ 45,874	\$ 1,936	\$ 43,938
8	\$ 244,258	25.84%	\$ 63,106	\$ 45,182	\$ 1,810	\$ 43,371
9	\$ 246,945	25.42%	\$ 62,768	\$ 44,439	\$ 1,679	\$ 42,760
10	\$ 249,415	25.00%	\$ 62,354	\$ 43,648	\$ 1,543	\$ 42,104
Terminal year	\$ 251,909	25.00%	\$ 62,977	\$ 44,084	\$ 6,325	\$ 37,759

### The Value

Terminal value	\$ 632,483		
PV(Terminal value)	\$ 281,080		
PV (CF over next 10 years)	\$ 286,557		
Value of operating assets =	\$ 567,637		
Adjustment for distress	\$ -	Probability of failure =	0.00%
- Debt & Minority Interests	\$ 94,141		
+ Cash & Other Non-operating assets	\$ 215,090		
Value of equity	\$ 688,586		
- Value of equity options	\$ 128		
Number of shares	5,336.17		
Value per share	\$ 129.02	Stock was trading at =	\$130.27

# Riding the Pricing Roller Coaster

Apple, Price and Value - 2010 to 2017

