

Apple Inc.

US CORE HOLDING*

Recommended since 24.09.20

04.07.2022



Country	US	Market capitalization (bn)	USD	2282,8
Sector	Technology	Free float		99,9%
Factset	AAPL-US	Closing price	USD	138,93
ISIN	US0378331005	ESG Risk score*	16,4	Low risk

Perf. since reco. (%)	
Apple Inc.	28,4
Sector	29,3



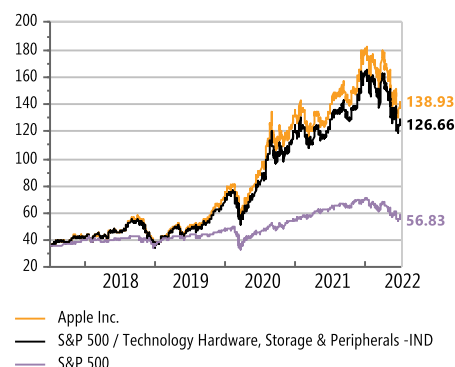
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Apple designs, manufactures and markets mobile phones, PCs and accessories. In terms of hardware, the iPhone represents the largest share of turnover (52.4% in 2021), the iPad (8.7%), and the Mac (9.6%). Next come accessories (Apple Watch, head-phones, etc.) representing 10.5% of turnover, and Services (App Store, Streaming, AppleCare, iCloud, etc.) with 18.7%. Geographically, the Americas dominate (36.6% of CA), followed by Europe (24.4%) and China (18.7%).

Market - competition - positions - barriers to entry

The smartphone market rebounded by +5% in 2021 in terms of global volumes. This market is becoming mature: the main market shares (in the Q4-2021) are in the three manufacturers: Apple, No°1, with ~22%; Samsung, No°2, 18%, and Xiami, No°3, 12%. Barriers to entry: technology and ecosystem, brand reputation (very high retention rates of 83%, with a unique ecosystem on both hardware and software with iOS).



Source: Factset

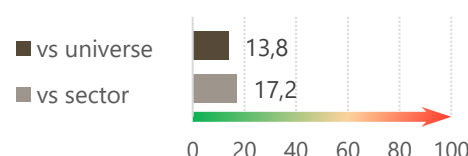
Investment case

- The arrival of the Group's flagship model, the iPhone 13 (5G compatible), offers a gain in growth with high sales expected to continue over the next quarters in 2022. In October 2020 and 2021, the iPhone 12 and 12 Pro / 13 and 13 Pro Max become the best-selling smartphones according to the Counterpoint report. Still in hardware, Apple is continuing its vertical integration with an in-house design of its chips (M1 on Macs and A15 on iPhone 13), which enables it to deliver cutting-edge performance and better cost management. The growth drivers are also found in the deployment of services and accessories (Apple Watch and AirPods max).
- The expansion of the services business also means the expansion of the Apple ecosystem. By offering financial services (Apple Pay, Apple Card, Apple Deals), Apple intends to control (without intermediaries) the entire chain of customer relations (from production to sales, via financing). For example, customers can buy an iPhone, iPad or Mac on credit, free of charge (the loan is interest-free for 12 or 24 months). In addition, the Group is also strengthening its media offers, with Apple One, which will bundle the streaming, music and video game offers. An Apple Fitness+ offer is also being introduced and is compatible with the Apple Watch series 6. Two positive elements for this business segment: resilience (50-55% of recurring revenues in 2021e) and expansion (double digit growth for 2021-2022).
- Another segment that confirms very positive prospects: accessories and wearables. Air Pods, Apple Watch, HomePod mini are already experiencing solid growth (+10% on average), while still recording a small market share. This segment could also grow by more than 15% in 2022 and 2023. Given the high level of brand loyalty, accessories have the potential to further strengthen the business model (services + growth of the installed base + technological leadership) and the Group's ecosystem. The next generation of iPhone should reinforce these trends.
- Finally, Apple intends to materialize the virtual and augmented reality projects with Apple Glasses, with a launch in 2023. Its entry into the chip market has also proved beneficial in mastering its hardware, with a disruptive player in design (based on an ARM architecture).

ESG - risks and key points

- The coronavirus epidemic has had only a limited impact on the Group's results: on the one hand, containment problems have slowed down the supply of essential components for iPhones and other hardware equipment, but on the other hand, teleworking and the need to stay at home have increased demand for these same devices. On the ESG standards side, Apple is classified as "Medium risk" because of the number of controversies (tax optimization of cash flow and earnings, anti-competitive behavior [App Store], issues about data encryption [essential for the development of services]). European regulations (Digital Market Act) aim to prohibit anti-competitive practices on the App Store.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
139	122

Our scenario assumes a 10-year rate in the USA of 2.5%; normalized sales growth rates higher than 3% by 2030 and a stable EBIT margin above 32%. The supply chain constraints will continue to put pressure on margins in 2022.

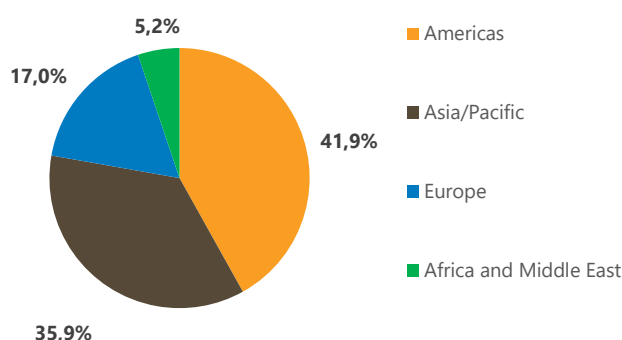
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	274 515	365 817	395 082	408 910	422 200
Sales growth %	5,5%	33,3%	8,0%	3,5%	3,3%
<i>o/w organic</i>	5,5%	32,7%	8,0%	3,5%	3,3%
EBIT adjusted	66 288	108 949	116 402	116 807	121 760
% of sales	24,1%	29,8%	29,5%	28,6%	28,8%
Net income	57 411	94 680	98 029	98 370	102 530
Adjusted EPS	3,28	5,61	6,09	6,35	6,84
Adjusted EPS growth	10,2%	71,4%	8,4%	4,3%	7,7%
Capex/Sales	2,7%	3,0%	2,3%	2,3%	2,3%
Free cash-flow	73 365	92 953	103 902	102 322	106 625
FCF/Sales	26,7%	25,4%	26,3%	25,0%	25,3%
Dividend per share	0,80	0,85	0,98	1,08	1,18
Dividend yield	0,6%	0,5%	0,7%	0,8%	0,9%
ROCE - WACC	57,1%	71,0%	78,1%	81,5%	84,6%
ROE (%)	87,9%	150,1%	136,8%	116,7%	93,1%
Net debt/Ebitda	27,8%	46,4%	32,4%	19,5%	-3,6%

Source: Factset, Bordier estimates

Sales breakdown - 09/2021



Governance and ownership structure

Since 01.08.2011 Tim Cook, CEO.

Key shareholders (if any):

The Vanguard Group, Inc 7.09% / Berkshire Hathaway, Inc (investment management) 5.55% / BlackRock Fund Advisors 4.28%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

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Ratios

	Apple Inc.	S&P 500 Sector	Market
PE (x)***	Tech. Hardware, Storage & Peripherals		S&P 500
2021	31,5	26,7	21,2
2022e	22,8	20,6	16,8
2023e	21,9	19,3	15,4
P/B (x)***			
2021	45,4	29,5	4,5
2022e	31,4	23,5	3,6
2023e	26,7	20,2	3,3
Beta (2Y, daily) vs market:			1,02

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Agenda

02.08.2022: Earnings Q3 2022 - 03.11.2022: Earnings Q4 2022

31.01.2022: Earnings Q1 2023

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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