

### Apple: 2Q15 results ... another record quarter

In what is becoming par for the course, Apple on Monday reported another record-breaking quarter. In 2Q15 the company sold more than 60mn iPhones – an impressive 40% YoY gain. Apple EPS rose to \$2.33, vs \$1.66 in 2Q14, while overall revenue increased 27% YoY to \$58.01bn vs \$45.65bn a year ago. The company's biggest 2Q growth came from China, where revenue rocketed 71% YoY. The gross margin came in at 40.8% vs 39.3% in the same period a year ago (and above an estimated 38.5%-39.5%). Cash flow from operations was also outstanding at \$19.1bn. As the *Wall Street Journal* noted in its review of the results, Apple is pulling off "a feat rarely seen in any industry, much less the cutthroat world of consumer electronics: gaining market share while also commanding higher prices". The average price of an iPhone in 2Q15 was \$659, up more than \$60 compared with the models sold in 2Q14.

Apple also increased its dividend by 11% YoY and its share-repurchase programme by \$50bn, to \$140bn with the company pledging to return \$200bn to shareholders through buybacks and dividends by March 2017 (vs a previously promised \$130bn by the end of 2015). Apple's cash pile (despite the company's aggressive efforts to repurchase shares and pay dividends) now totals \$193.5bn (it stood at \$178bn at the end of 1Q15). Apple's results were above analysts' expectations (*Thomson Reuters* consensus forecasts estimated that Apple would post earnings of \$2.16/share on revenue of \$56.1bn).

The company's shares rose c. 1.8%, to \$132.65 in after-hours trading.

Spot (\$)	132.65
Mkt Cap, \$bn	772.7
12M trailing P/E	16.4
12M fwd P/E	14.8
10-year average P/E	50.2
10-year average DY	1.42
P/Book ratio	5.93
12M trailing DY	1.42
12M fwd DY	1.5

Looking ahead to the current June quarter (3Q15), Apple

guided investors with the following estimates:

- revenue between \$46bn and \$48bn.
- gross margin between 38.5% and 39.5%.
- operating expenses between \$5.65bn and \$5.75bn.
- other income/(expense) of \$350mn.
- A tax rate of 26.3%.

By segment the company reported the following numbers:

**iPhone:** As mentioned sales of iPhones reached 61.17mn units earning Apple \$13.57bn in 2Q revenue vs \$10.22bn in 2Q14. Apple CEO Tim Cook noted that "We are thrilled by the continued strength of iPhone, Mac and the App Store, which drove our best March quarter results ever," he added that Apple was seeing "a higher rate of people switching to iPhone than we've experienced in previous cycles, and we're off to an exciting start to the June quarter with the launch of Apple Watch."

Cook said that in emerging markets (EMs), revenues were up 58% YoY with EMs accounting for a little over 40% of company revenue.



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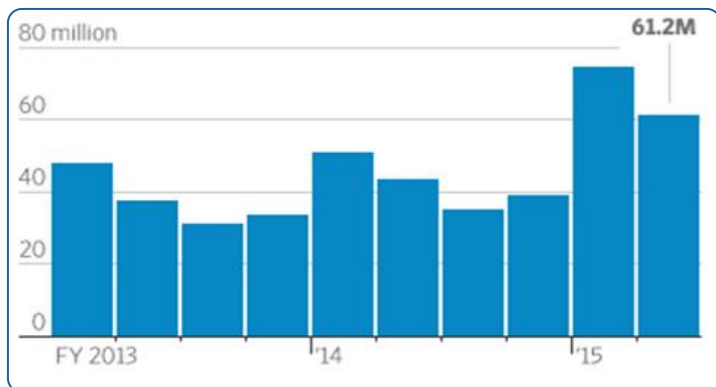


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## Apple iPhone unit sales:

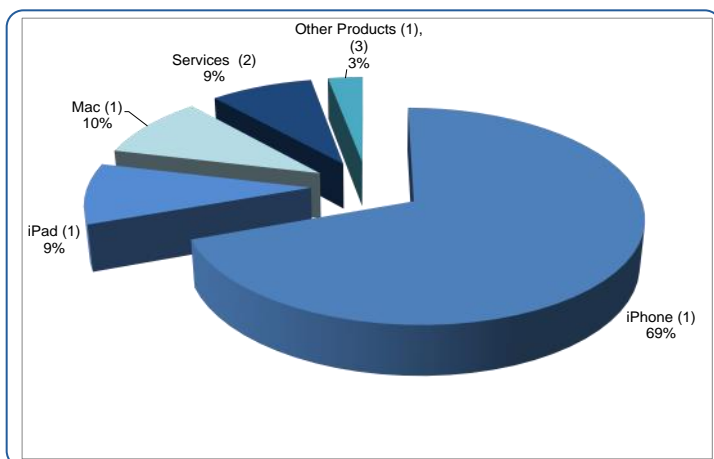


Source: Apple

- **Mac:** Sales were up 10% YoY to 4.56mn units, vs a 7% YoY decline for the overall PC market (IDC data).
- **iPad:** As expected, disappointing sales of only 12.6mn – down 23% YoY. Cook said he thinks the iPhone and Mac are cannibalising iPad sales.
- **App store:** Apple highlighted the success of the App Store in its earnings announcement indicating that a record performance for the App store contributed to its record quarter.

We note that the Apple Watch, which started shipping on Friday (24 April), isn't expected to deliver a major earnings impact in the near future. Apple CFO Luca Maestri said the Apple Watch would carry lower profit margins than the rest of the business. In terms of orders for the Watch, demand was still running "ahead of supply".

## Apple revenue contribution by product, 2Q15:



Source: Company data, Anchor Capital

- (1) Includes deferrals and amortisation of related non-software services and software upgrade rights.
- (2) Includes revenue from the iTunes Store, App Store, Mac App Store, iBooks Store, AppleCare, Apple Pay, licensing and other services.
- (3) Includes sales of iPod, Apple TV, Beats Electronics and Apple-branded and third-party accessories.

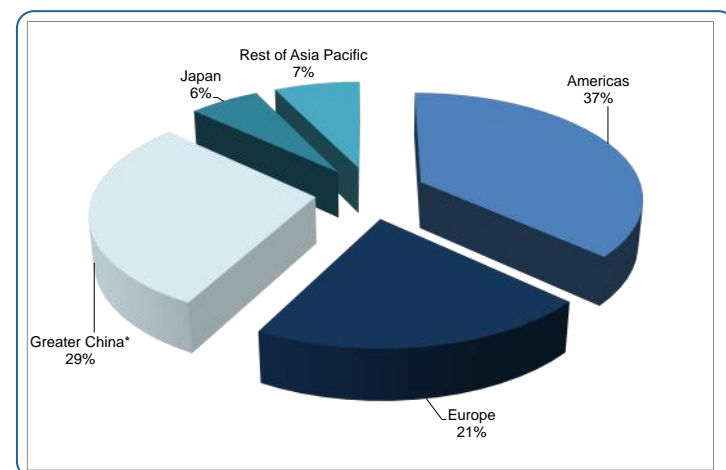
## Apple revenue contribution by product, 2Q15 vs 2Q14:

	2Q15	2Q14	YoY % Change
iPhone (1)	40 282	26 064	54.6
iPad (1)	5 428	7 610	-28.7
Mac (1)	5 615	5 519	1.7
Services (2)	4 996	4 573	9.2
Other Products (1), (3)	1 689	1 880	-10.2

Source: Company data, Anchor Capital

- (1) Includes deferrals and amortisation of related non-software services and software upgrade rights.
- (2) Includes revenue from the iTunes Store, App Store, Mac App Store, iBooks Store, AppleCare, Apple Pay, licensing and other services.
- (3) Includes sales of iPod, Apple TV, Beats Electronics and Apple-branded and third-party accessories.

## Apple 2Q15 revenue by operating segment:



Source: Company data, Anchor Capital

\* Greater China = China plus Hong Kong and Taiwan

## Apple revenue by region, \$mn

	2Q15	2Q14	YoY % Change
Americas	21 316	17 982	18.5
Europe	12 204	10 941	11.5
Greater China*	16 823	9 835	71.1
Japan	3 457	4 047	-14.6
Rest of Asia Pacific	4 210	2 841	48.2
<b>Total</b>	<b>58 010</b>	<b>45 646</b>	<b>27.1</b>

Source: Company data, Anchor Capital

\* Greater China = China plus Hong Kong and Taiwan

## Some interesting facts:

- In the six months since Apple introduced its new iPhones, its revenue increased by more than \$29bn compared with the year-ago period - that is around the same a Nike's 2014 revenue.

- Apple's cash pile is greater than the market cap of all but 15 other companies in the S&P 500.
- Apple's revenue gains are despite the impact of a stronger dollar (in the current quarter Apple said foreign-exchange impact reduced its revenue growth by 6ppts).
- On the earnings call Tim Cook said that c. 20% of the iPhone installed base had upgraded to the iPhone 6/6 Plus and Apple has seen a higher rate of switchers from other platforms than in previous iPhone cycles. A large number of first-time buyers of the iPhone (69% of 2Q15 revenue) still come from emerging markets (EMs).
- In China, besides iPhone 6 sales, local demand was lifted by higher Mac and (in spite of weakness elsewhere) iPad sales, and a 100%+ increase in Chinese App Store revenue. 70% of Chinese iPad buyers and 40% of US buyers are first-time.

cial scale click on the link below <http://thingsappleisworthmorethan.tumblr.com/>

**Marco de Matos**

#### Tailwinds:

- **China:** Apple's expansion into China continues to be important for the company (Greater China is now its second-biggest market). Apple's revenue growth is coming in large part from the greater China market (Apple defines this as China plus Hong Kong and Taiwan). The segment has now passed Europe to become the company's second-biggest region. Revenue grew 71% YoY during the quarter, a peak shopping period for China because of the Lunar New Year. Cook said that China's expanding middle class was fuelling iPhone sales there.
- **Apple Watch.** While no numbers have been given for early Apple Watch sales, Tim Cook said demand was higher than supply and that over 3,500 Watch apps are now available. "Customer response is close to 100% positive from what I've seen." The Apple Watch is expected to launch in more markets in late June. We note that in terms of gross margin, CFO Luca Maestri said that Watch margins were below the company average for now and will have an impact on margins going forward (as will a strong dollar).
- **Apple Pay.** Apple announced that the number of locations accepting Apple Pay has now tripled since the service first launched in October 2014. Best Buy stores in the US will begin accepting Apple Pay later in 2015. Discover card also announced it will be supporting Apple Pay later this year.
- **Loyal customer base:** As highlighted last quarter, *Piper Jaffray* indicated in a report earlier this year that investors should be less concerned with Apple product cycles and focus more on the stickiness of its platform for the company's loyal customer base.

Following the results, *Seeking Alpha* is reporting that 9 firms have increased target prices (TPs) on the share, with estimates ranging from \$155 to \$170/share. Activist investors Carl Icahn, who has been punting Apple for a while (in February he published a report with a TP for Apple of \$216/share) said yesterday he still considers Apple "undervalued and misunderstood".

For an lighthearted (and eye-opening) look at Apple's finan-



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