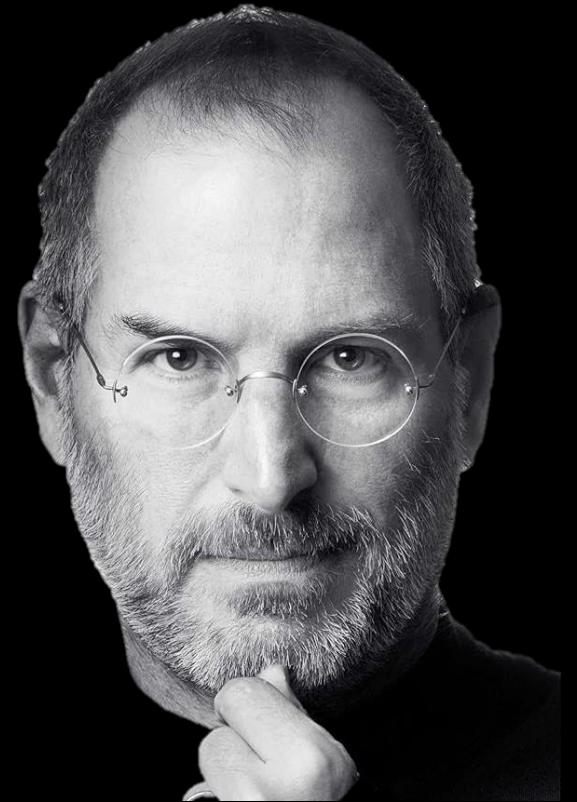
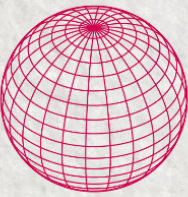


Why Is **Buffett** Selling **Apple** Stock Now—And Should **You?**


CASE STUDY
VALUATION MASTER CLASS
by
A. Stotz INVESTMENT
RESEARCH

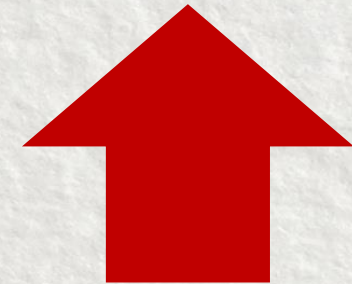


CASE  STUDY

VALUATION MASTER CLASS

by  INVESTMENT
RESEARCH

Welcome to this...




Valuation Master Class

What you are going to learn in this video

- ★ Discover why even a giant like Apple still has room to grow
- ★ Uncover the reasons behind Buffett's recent sales of Apple shares—and find out if you should consider doing the same
- ★ Identify the risks Apple faces as it may have reached peaks in price, margins, and growth
- ★ Evaluate Apple's potential using my cheat sheet for assessing any stock's attractiveness



Andrew Stotz, PhD, CFA

-  And you can get that Cheat Sheet and this presentation for free by clicking on the link in the description

Why Do People Happily Overpay for Apple Products



This is not a recommendation
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- 🌐 What is the company's background?
- 🌐 What is its competitive strategy?
- 🌐 Does that strategy lead to a competitive advantage?
- 🌐 What does the valuation look like?

As of October 2024, Apple is the largest company in the world by market cap



Rank	Company	Exchange	MCap (US\$bn)
1	Apple	USA	3,356
2	NVIDIA	USA	3,337
3	Microsoft	USA	3,037
4	Alphabet	USA	2,080
5	Amazon	USA	2,059
6	Saudi Aramco	Saudi Arabia	1,747
7	Meta Platforms	USA	1,415
8	Berkshire Hathaway	USA	954
9	TSMC	Taiwan	884
10	Eli Lilly	USA	860
11	Broadcom	USA	755
12	Tesla	USA	725
13	JP Morgan Chase	USA	626

Andrew Stotz, PhD, CFA

The tech giant that redefined innovation

- ★ Founded in 1976 by Steve Jobs, Steve Wozniak, and Ronald Wayne, Apple revolutionized personal tech with its focus on design and premium user experience
- ★ Apple offers pioneering products like the iPhone, iPad and Mac, along with services like iCloud and Apple music
- ★ These products and services are available worldwide through 500+ Apple-owned retail stores in 25+ countries



Apple has 2 distinct segments



Products
US\$298bn, 78%

Andrew Stotz, PhD, CFA



Services
US\$85bn, 22%

Over half of Apple's revenue comes from the iPhone sales



iPhone, 52%



Wearables, 11%



Mac, 8%



iPad, 7%

- 🌐 Let's review some recent financial disclosures of Apple

Sales dropped in 2023 mainly due to 28% drop in Mac sales

Revenue (US\$bn)	2022	2023	Chg	%Chg	% of Total
Products	316	298	(18)	(6)	77
iPhone	206	201	(5)	(2)	52
Mac	40	29	(11)	(28)	8
iPad	29	28	(1)	(3)	7
Wearables, Home and Accessories	41	40	(1)	(2)	11
Services	78	85	7	9	22
Total	394	383	(11)	(3)	100



Andrew Stotz, PhD, CFA

Apple's overall gross profit declined, due to a 5% drop in gross profit in its product segment

Revenue (US\$bn)	2022	2023	Chg	%Chg	% of Total
Products	316	298	(18)	(6)	77
iPhone	206	201	(5)	(2)	52
Mac	40	29	(11)	(28)	8
iPad	29	28	(1)	(3)	7
Wearables, Home and Accessories	41	40	(1)	(2)	11
Services	78	85	7	9	22
Total	394	383	(11)	(3)	100

Gross profit (US\$bn)	2022	2023	Chg	%Chg	% of Total
Products	115	109	(6)	(5)	64
Services	56	60	4	8	36
Total	171	169	(2)	(1)	100

Massive profits in services



Andrew Stotz, PhD, CFA

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Services	56	60	4	8	36
Total	171	169	(2)	(1)	100

Gross profit (%)	2022	2023
Products	36	37
Services	72	71
Total	43	44

- With a GP of 71%, Apple's services contribute just 22% of revenue but drive a remarkable 36% of gross profit

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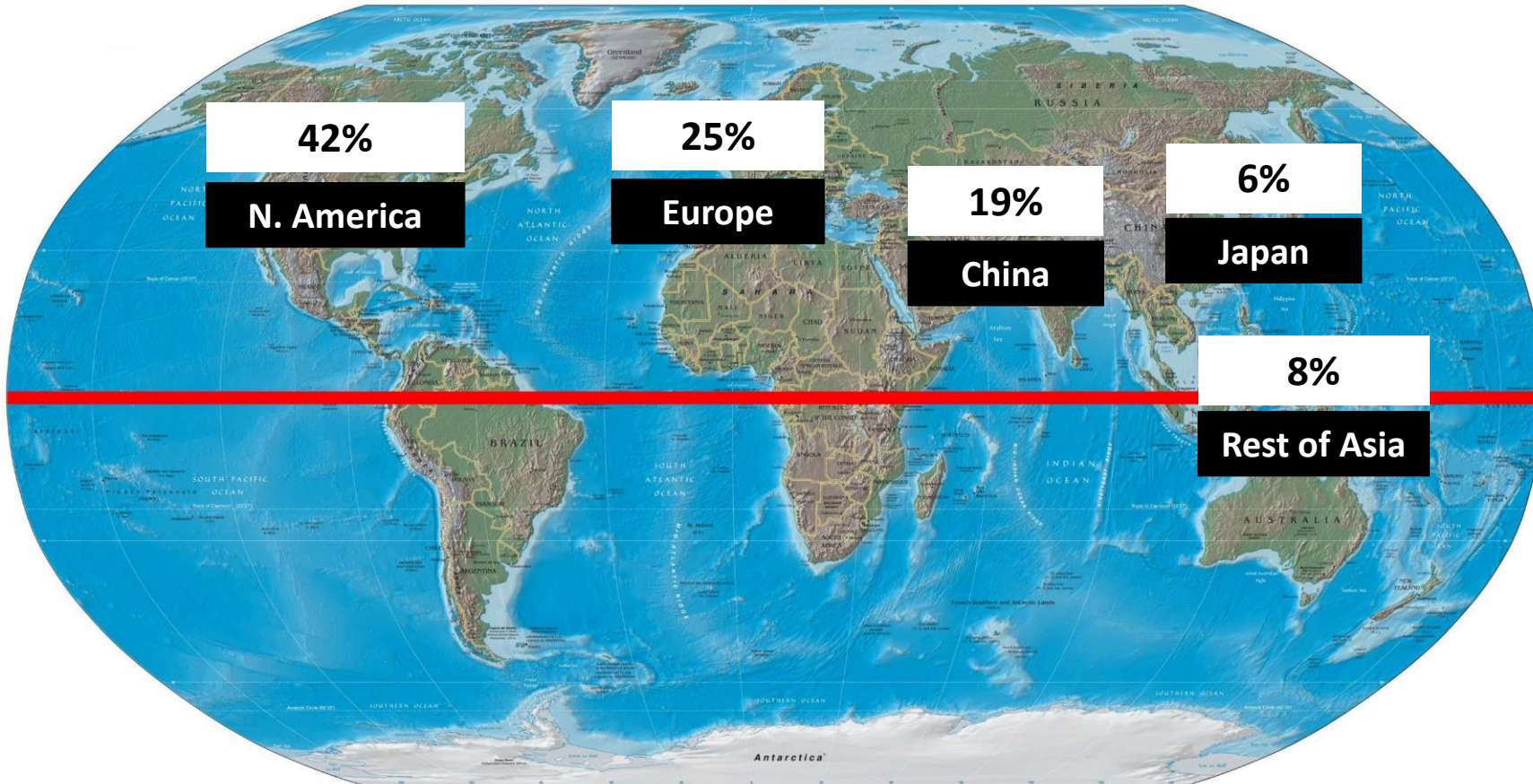


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There is still room for growth

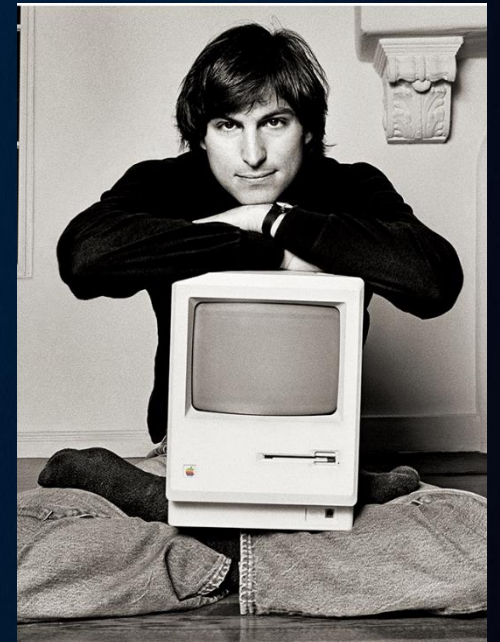
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- 🌐 North America is Apple's main market
- 🌐 With only 8% of revenue from "Rest of Asia," Apple is tapping growth potential in emerging markets like India and Southeast Asia by promoting entry-level models like the iPhone SE

Early Apple timeline

- ★ 1983 (My high school graduation) Lisa debuts
 - **The 1st PC with a graphics interface, named after Steve Jobs' daughter**
- ★ 1988 (when I bought my first PC): 1st iMac
 - **With its colorful design and user-friendliness, the iMac was the first computer that seemed cool**
- ★ 1997 (Year of the Asian Crisis): Jobs returns
 - **After he was fired by the company's board in 1985, Jobs' return spurred a turnaround for Apple, which was facing bankruptcy at the time**



Early Apple timeline

- ★ 2001: iPod arrived
 - Fortune called it “Apple’s 21st-Century Walkman”
- ★ 2007: The iPhone – The Blackberry killer!
 - Jobs described it as “an iPod, a phone, and an internet communicator” in one device!
- ★ 2008: MacBook Air (Even I bought one!)
 - The revolutionary computer that became the world’s thinnest notebook



Fortune Magazine called Steve Jobs “CEO of the Decade” in 2009



Steve Jobs

(56 years: 1955 – 2011)

Co-founder, chairman, and CEO of Apple

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ACADEMY

Andrew Stotz, PhD, CFA

Apple was not done yet

- ★ 2011: Tim Cook took over
 - After Jobs' death that year, Cook took over and used his catchphrase "one more thing" to introduce the Apple watch
- ★ 2016: Time to go wireless
 - Apple unveiled the AirPods after the announcement of removing the headphone jack from its iPhones and now wearables account for US\$40bn or 10% of its revenue



In 2023 Apple introduced Vision Pro – their first spatial computer



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- 🌐 Vision Pro is a mixed-reality headset that combines virtual and augmented reality, allowing users to interact with digital content in a 3D space

To recap

- >50% of revenue from iPhones
- Wearables account for US\$40bn or 10% of its revenue
- There is still room for growth in spite of being the largest company by market cap

Why Do People Happily Overpay for Apple Products



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- 🌐 What is the company's background?
- 🌐 **What is its competitive strategy?**
- 🌐 Does that strategy lead to a competitive advantage?
- 🌐 What does the valuation look like?

Apple - US - Founded 1976

Info. Tech. sector, 164,000 employees, US\$383bn revenue

Main segments/products/divisions/brands

- iPhone
- Services (including App Store, Apple Music, iCloud)
- Mac computers

Its competitive advantage

Competitive advantage through product differentiation, user experience, and strong brand loyalty.

How it achieved its competitive advantage

By leveraging innovation, premium product design, a seamless ecosystem, an efficient supply chain, impactful marketing and expanding into high-margin services.



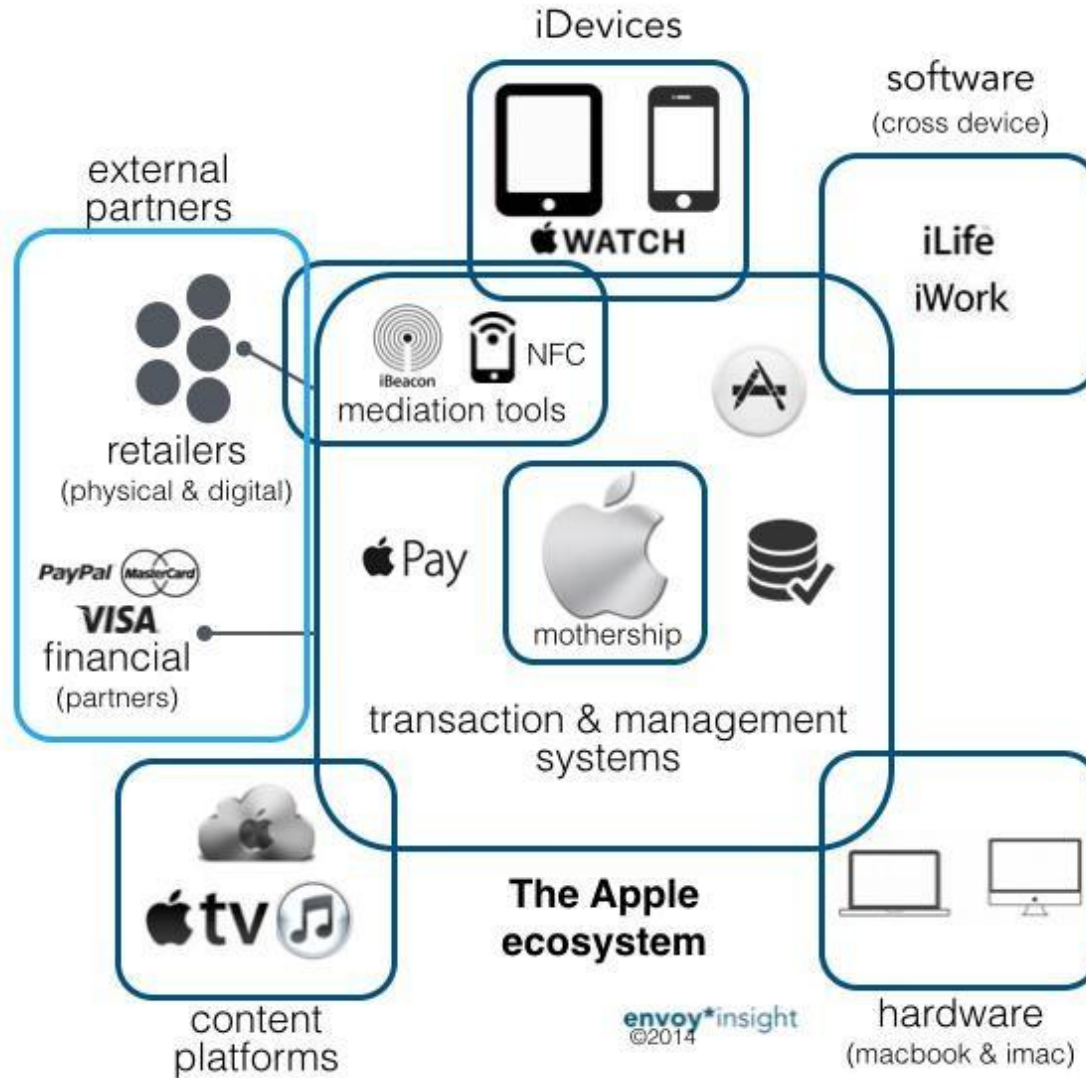
High-margin services are an impressive money-maker for Apple

- ★ Apple's services make up 36% of its total profits, with a high 70% gross profit margin—much higher than the 37% margin on its core products
- ★ The services segment has grown faster than any other, with a 5-year CAGR of over 16%
- ★ This growth has helped Apple become less reliant on hardware sales, reinforcing its ecosystem and increasing customer retention, while driving higher profitability



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People enjoy the seamless ecosystem



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- 🌐 Apple's ecosystem is tightly integrated, making it easy for users to connect and switch between devices
- 🌐 This has created a "stickiness" where customers are less likely to switch to other brands

I was recently reading, *Competition Demystified* written by Bruce Greenwald and Judd Kahn

- ★ “Though its sales in the year ending 2000 were down almost 30% from the high of 1995, Jobs had managed to restore operating margins to the same 5% level they had been.
- ★ Apple survived; it had hardly prospered. Its future does not look bright.”



Andrew Stotz, PhD, CFA

- 🌐 *Competition Demystified: A Radically Simplified Approach to Business Strategy*, first published in 2005 by Bruce C. Greenwald and Judd Kahn

Customers eagerly wait to be the first to experience the latest innovations from Apple



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- 🌐 Apple has a cult-like following, driven by powerful branding and marketing
- 🌐 Apple's advertising focuses on lifestyle and emotions, creating a strong connection with users

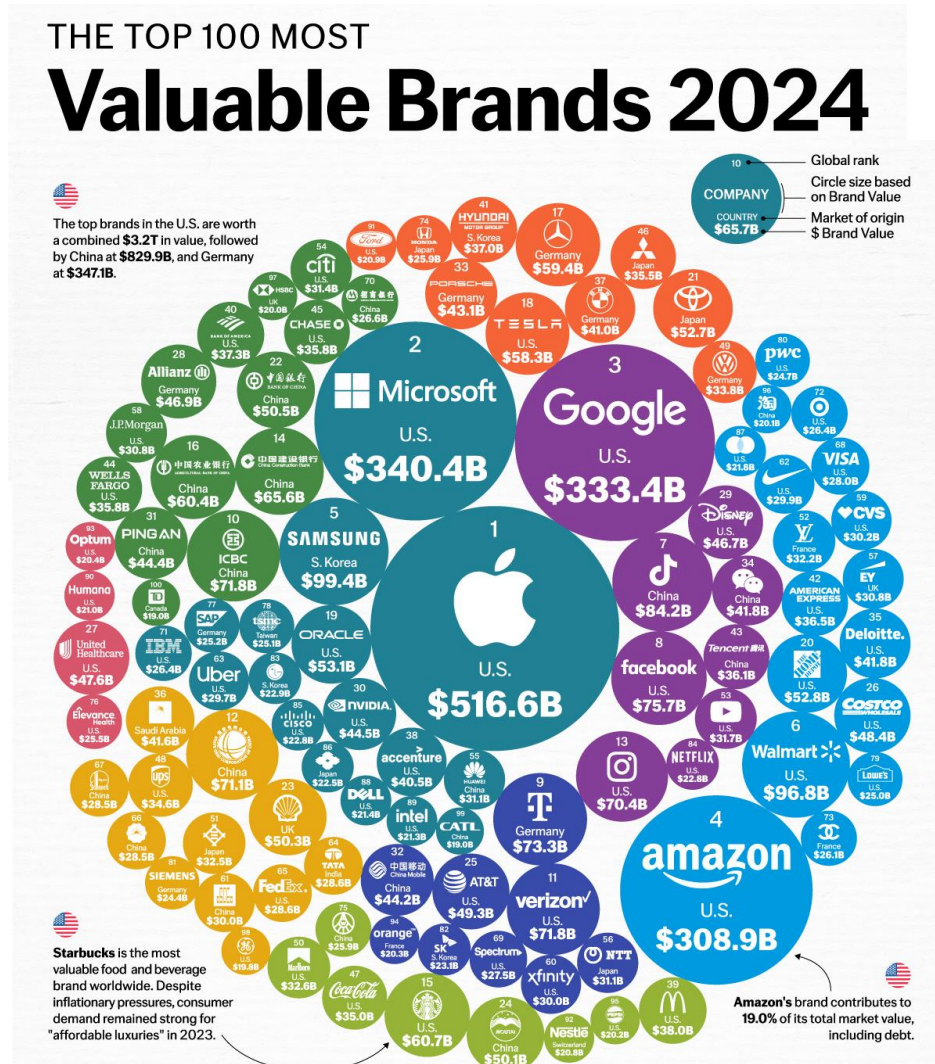
Let's look at the latest news on Apple



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Apple again ranked as the most valuable brand according to Brand Finance Global 500 ranking



Andrew Stotz, PhD, CFA

Apple's remarkable brand loyalty, built over decades, plays a pivotal role in this achievement

This is not a recommendation or investment advice.

Sources: Bloomberg.com, apple.com, finance.yahoo.com

Right after release of Vision Pro in 2024, a Brazilian doctor used it during surgery



During a shoulder arthroscopy surgery for a torn rotator cuff, a Brazilian doctor used Apple's Vision Pro mixed reality headset. Reports about Apple products providing useful medical insights or fall detection features keep swirling on the internet.

The Doctor Praises Vision Pro's Micro-OLED Display With 4K Resolution

With the headset, the surgeon could "see the image on the size of a movie screen with high resolution." The Vision Pro uses micro-OLED displays (one for each eye) with a resolution of 3660 x 3200 pixels (just under 4K).

Further, the headset allows users to adjust the size of virtual windows easily. Hence, with high color accuracy and resolution, the doctor could view the joint camera's visuals on a large virtual screen in the headset.

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- 🌐 This is the first surgery in Brazil replacing surgery monitor with Vision Pro
- 🌐 The doctor can view the joint camera's visuals on a large virtual screen in the headset

Apple's buyback program is still ON!



- 🌐 The company announced a US\$110bn share buyback program in 2024, which is considered the largest in the US history

Apple brings ChatGPT to iPhones in AI overhaul

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
- 🌐 Apple has announced a significant integration of OpenAI's ChatGPT into its devices, branded as "Apple Intelligence"
- 🌐 This new feature will enhance Siri and other applications across iOS 18, iPadOS 18, and macOS

What you are going to learn in this video

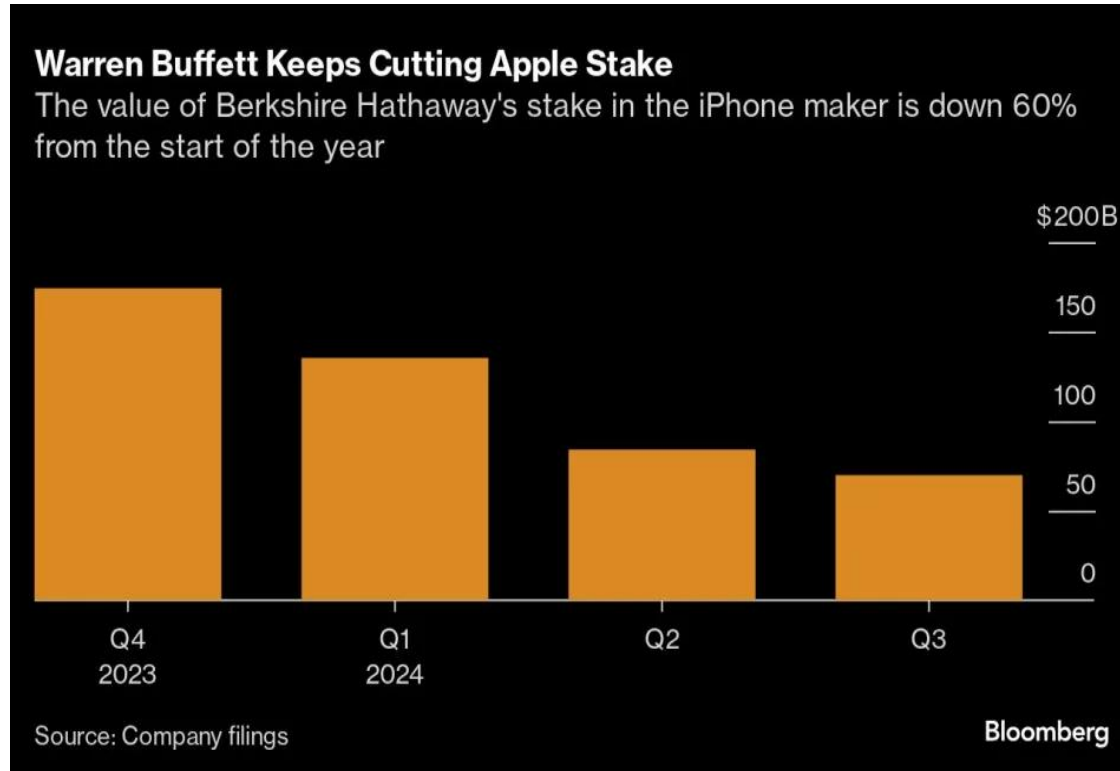
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Warren Buffett is selling Apple, should you?



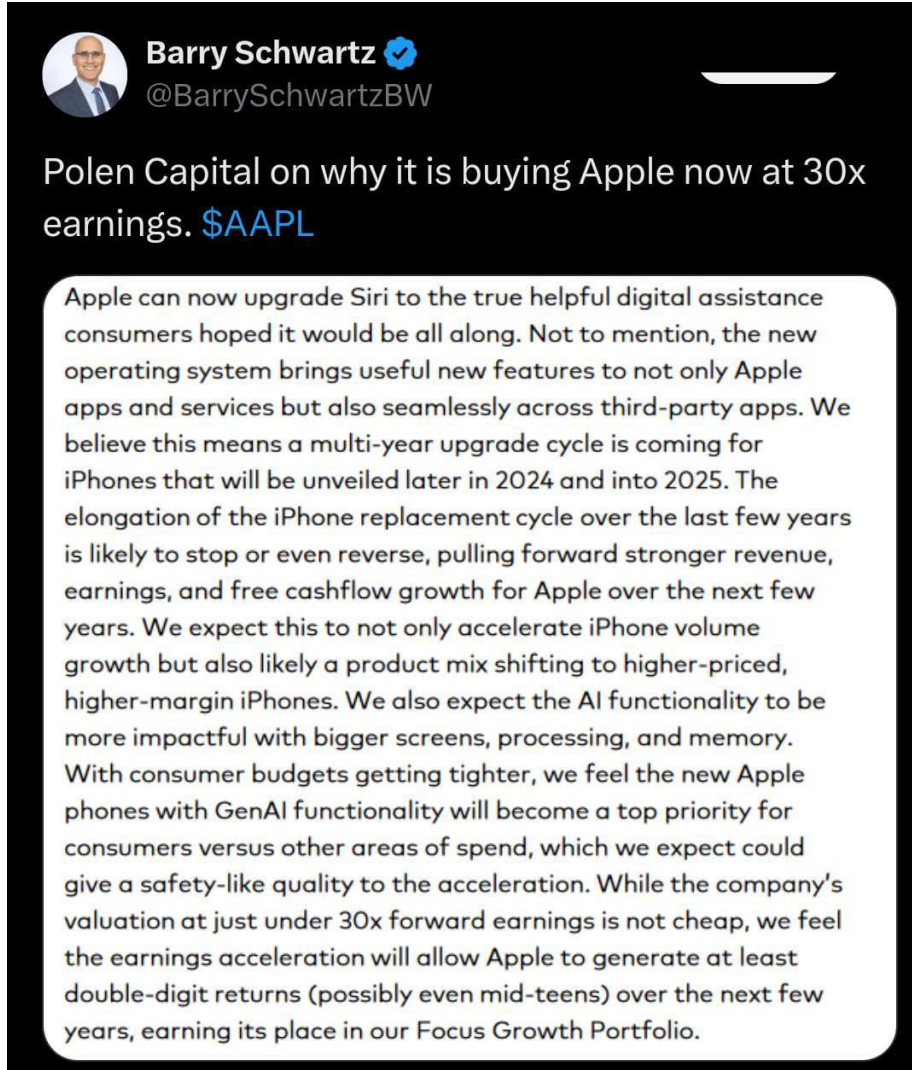
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- So far in 2024, Berkshire sold about 489m Apple shares
- At an average YTD2024 price of about US\$200 it would add nearly US\$100bn in cash to Berkshire's coffers

Why is Buffett selling?

- ★ Concern over a potential rise in corporate tax rates from the current 21% (Pre election)
 - **Buffett remarked, "With the present fiscal policies, I think higher taxes are quite likely."**
- ★ Reducing concentration risk as Apple accounted for nearly half of his portfolio
- ★ Maybe considers Apple overvalued
- ★ The sale yielded him about US\$100bn of cash
 - **At 1Q24, Berkshire held US\$189bn in cash, which increased to US\$325bn by 3Q24**

But wait...Polen Capital, asset manager with US\$58bn AUM, is buying Apple



 **Barry Schwartz** ✓
@BarrySchwartzBW

Polen Capital on why it is buying Apple now at 30x earnings. [\\$AAPL](#)

Apple can now upgrade Siri to the true helpful digital assistance consumers hoped it would be all along. Not to mention, the new operating system brings useful new features to not only Apple apps and services but also seamlessly across third-party apps. We believe this means a multi-year upgrade cycle is coming for iPhones that will be unveiled later in 2024 and into 2025. The elongation of the iPhone replacement cycle over the last few years is likely to stop or even reverse, pulling forward stronger revenue, earnings, and free cashflow growth for Apple over the next few years. We expect this to not only accelerate iPhone volume growth but also likely a product mix shifting to higher-priced, higher-margin iPhones. We also expect the AI functionality to be more impactful with bigger screens, processing, and memory. With consumer budgets getting tighter, we feel the new Apple phones with GenAI functionality will become a top priority for consumers versus other areas of spend, which we expect could give a safety-like quality to the acceleration. While the company's valuation at just under 30x forward earnings is not cheap, we feel the earnings acceleration will allow Apple to generate at least double-digit returns (possibly even mid-teens) over the next few years, earning its place in our Focus Growth Portfolio.

This is not a recommendation or investment advice.

Sources: X, Apple.com, Barry Schwartz

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- 🌐 They view Apple's AI features and shift to higher-priced models as justifying its 30x earnings valuation
- 🌐 The firm anticipates double-digit returns as consumers prioritize upgrading to Apple's new devices

To recap

- Services segment is a money-maker
- Apple's ecosystem fosters customer loyalty, strengthening its competitive edge
- Buffett's Apple sales likely aimed to reduce tax and concentration risks, address Apple's valuation, and increase cash reserves by US\$100bn to 3Q24's US\$325bn

Why Do People Happily Overpay for Apple Products



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- 🌐 What is the company's background?
- 🌐 What is its competitive strategy?
- 🌐 **Does that strategy lead to a competitive advantage?**
- 🌐 What does the valuation look like?

**Is the company
financially world class?**



I use my **World Class Benchmarking** scorecard to measure if a company has a **competitive advantage**



I developed this scorecard ten years ago; here's how we construct it



Andrew Stotz, PhD, CFA

- ★ My team gathers the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
 - Which is a composite measure of both profitability and growth

I developed this scorecard ten years ago; here's how we construct it

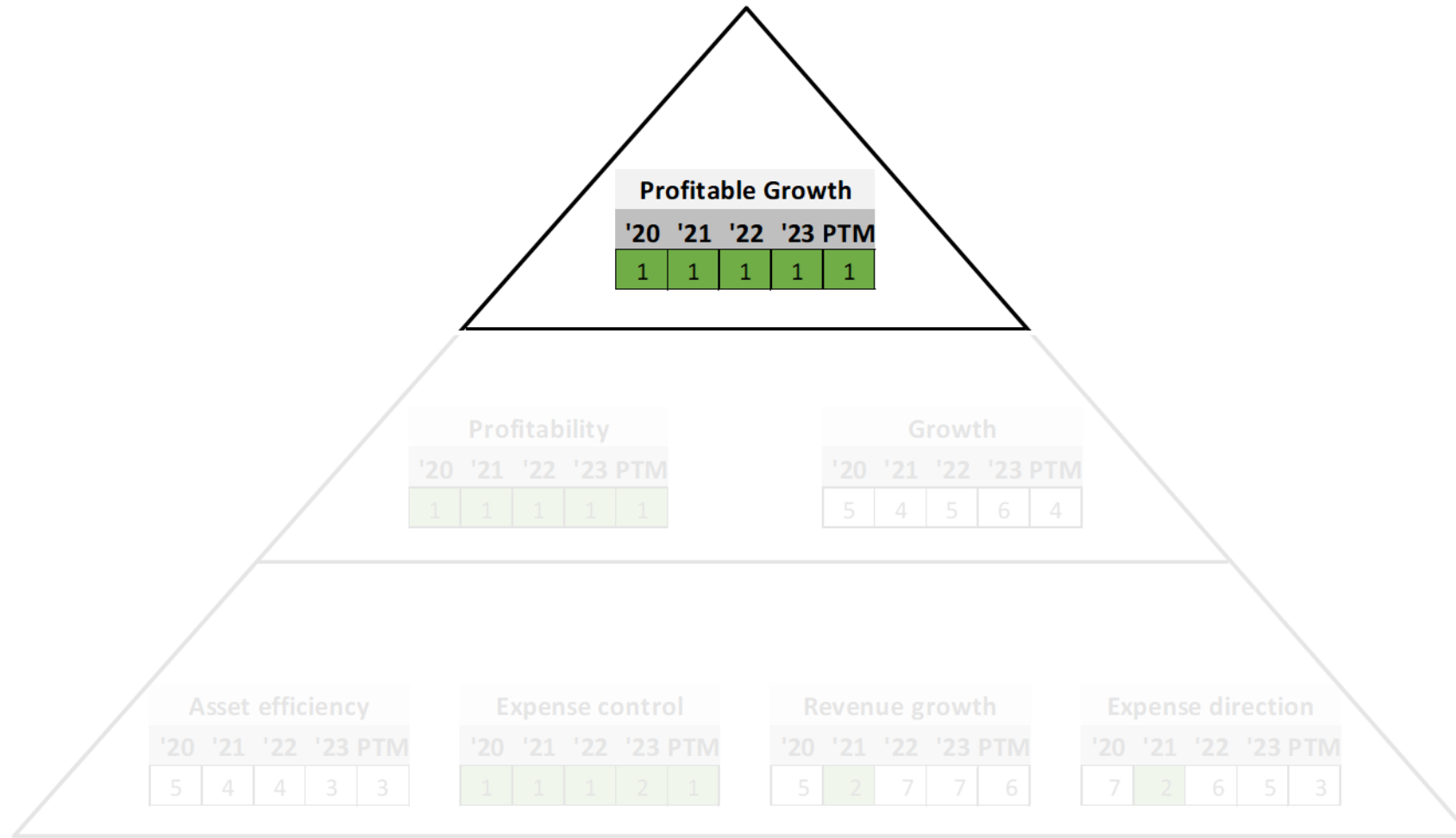
- ★ After that, we rank the company relative to sector peers of similar size
 - A decile ranking of 1 or 2 is financially world class, while 10 is the worst
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)



Andrew Stotz, PhD, CFA

**Is the company
financially
world class?**

Apple: A. Stotz Profitable Growth



Benchmarked against 630 large Info Tech companies worldwide.



Why Do People Happily Overpay for Apple Products

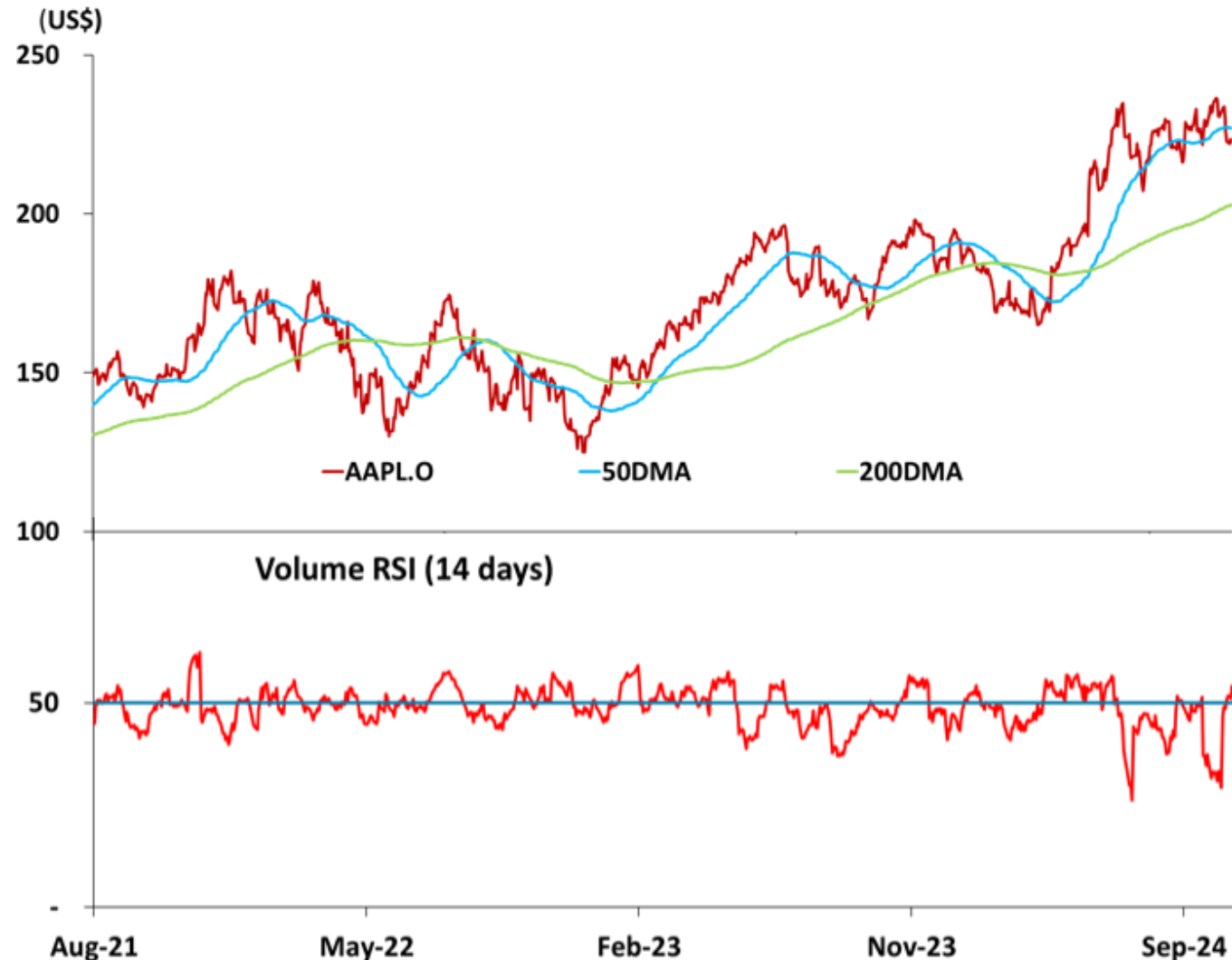


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Apple's recent positive share price momentum could be peaking

Andrew Stotz, PhD, CFA



- 🌐 The 50-day moving average (50DMA) is above the 200-day (200DMA), indicating positive momentum
- 🌐 The share price has recently fallen through the 50DMA, which could be a bearish turning point
- 🌐 The Volume RSI has fallen below 50, which signals selling pressure

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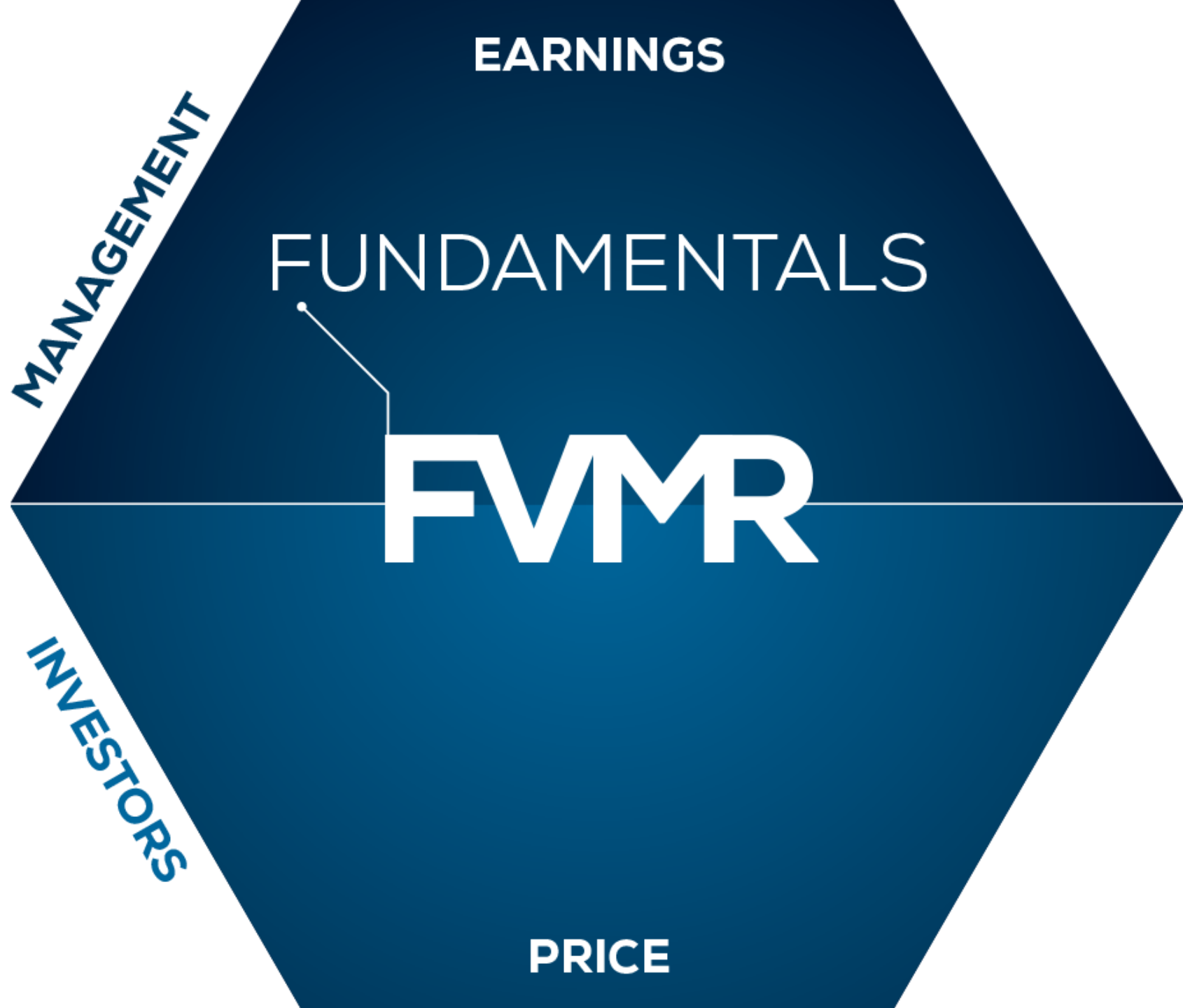
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I use my **FVMR** methodology
to determine the
attractiveness of the
company



Net profit margin (NPM)

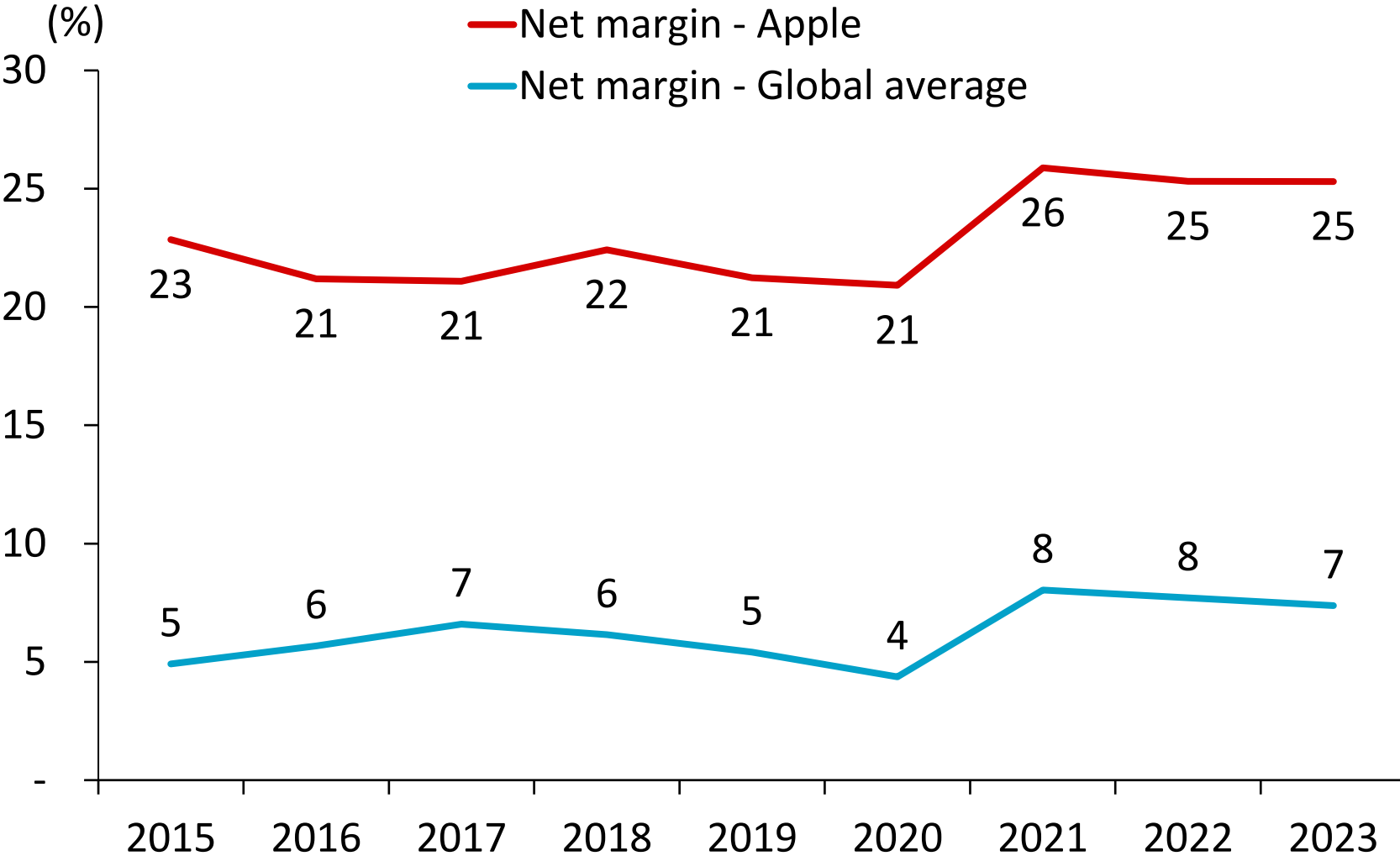
Return on assets (ROA)

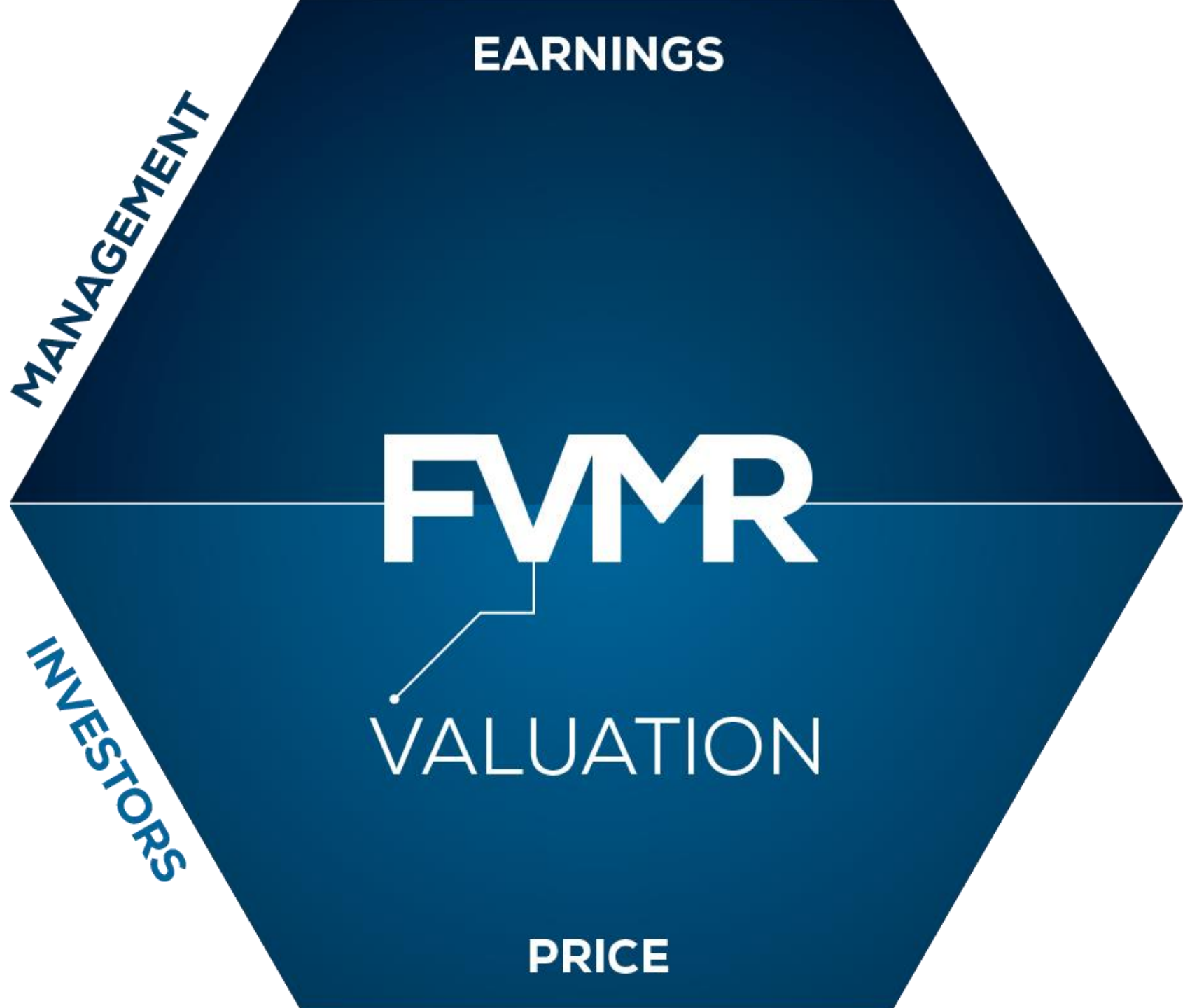


Net margin 3-4x global company average



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EARNINGS

MANAGEMENT

FVMMR

VALUATION

PRICE

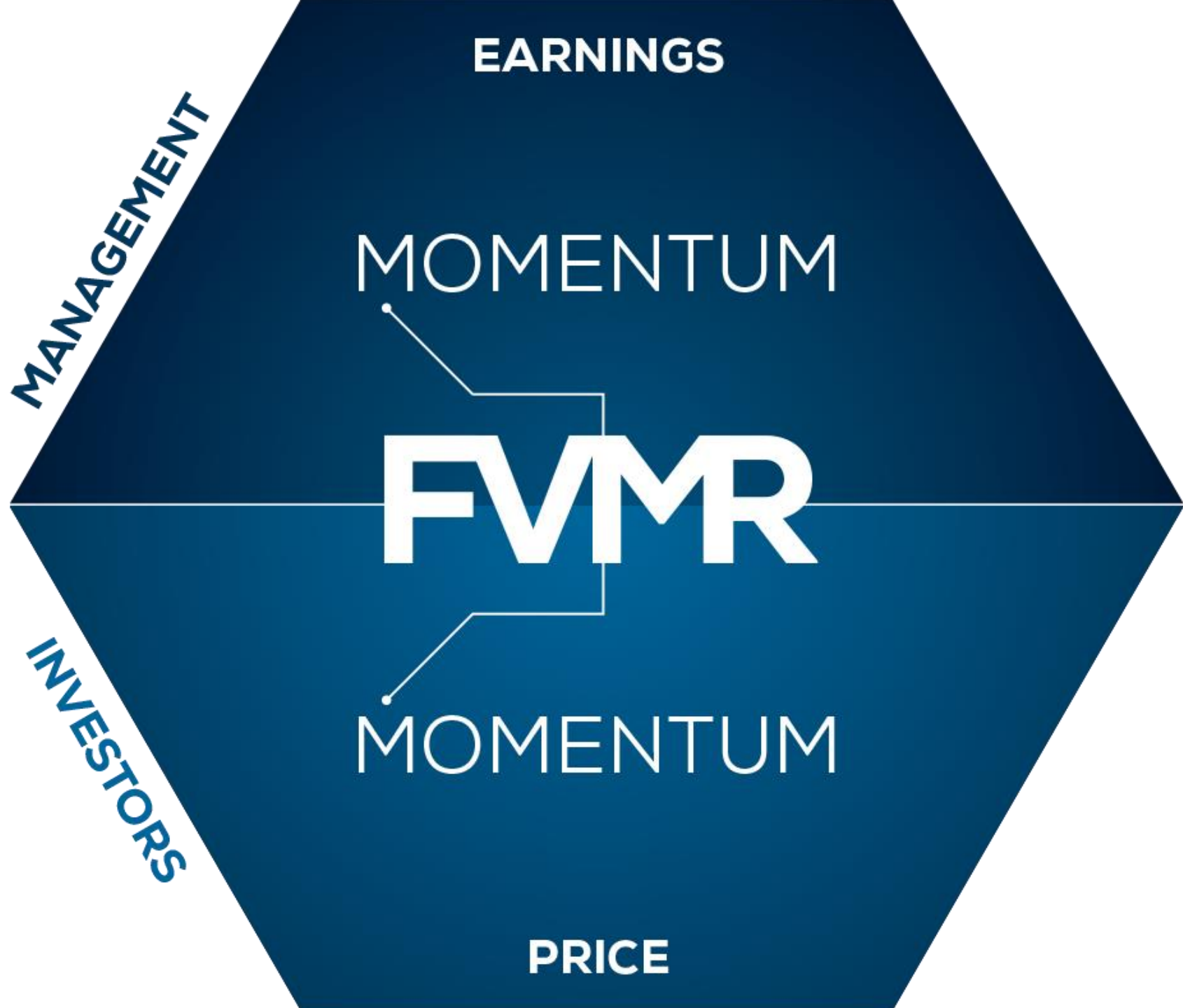
INVESTORS

Price-to-earnings (PE)

Price-to-book value (PB)

EPS growth (EPS)

% Price change (Price*)



EARNINGS

MANAGEMENT

MOMENTUM

FVMR

INVESTORS

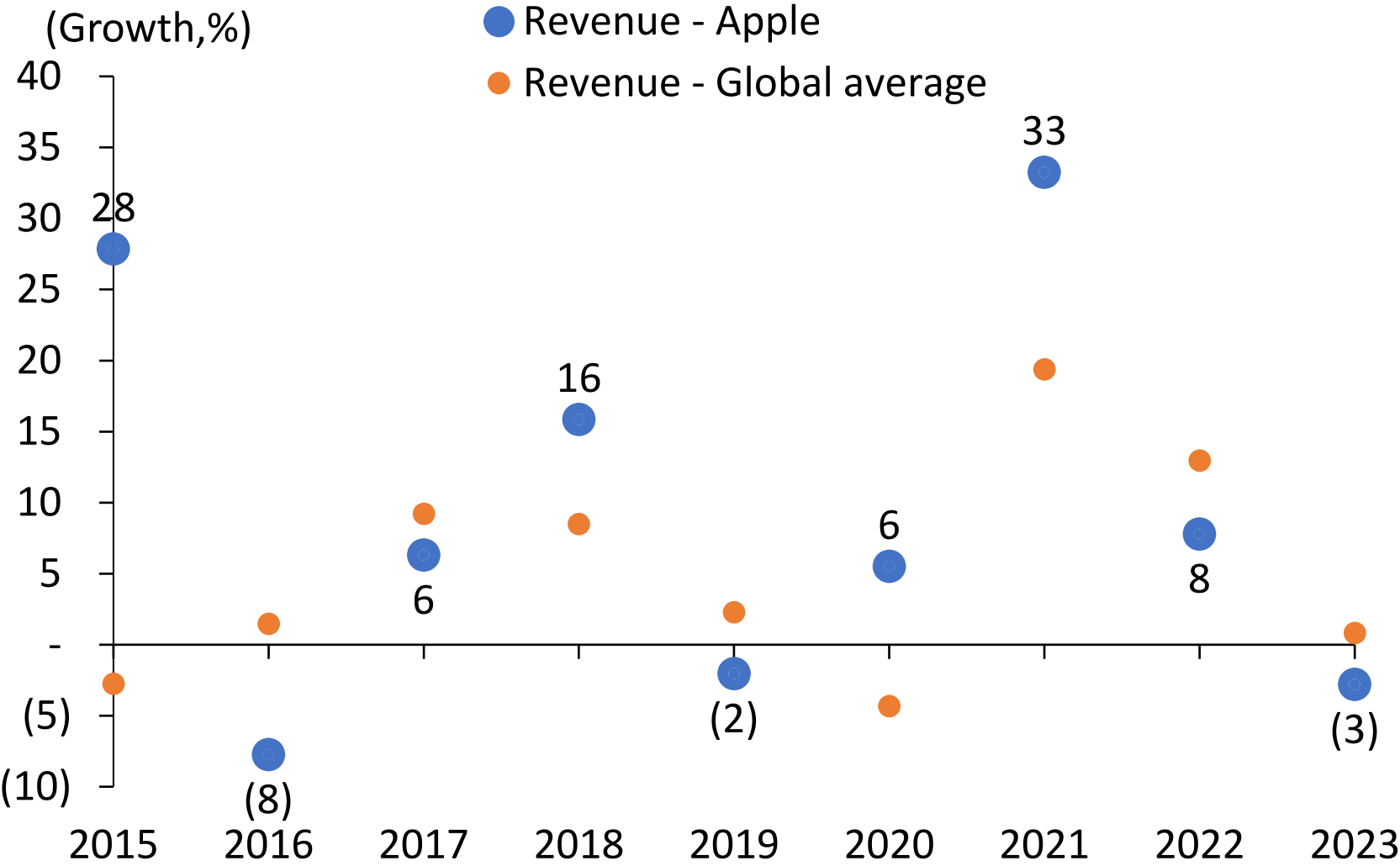
MOMENTUM

PRICE

Revenue CAGR of 9% from 2015 to 2023, two percentage points above the global average

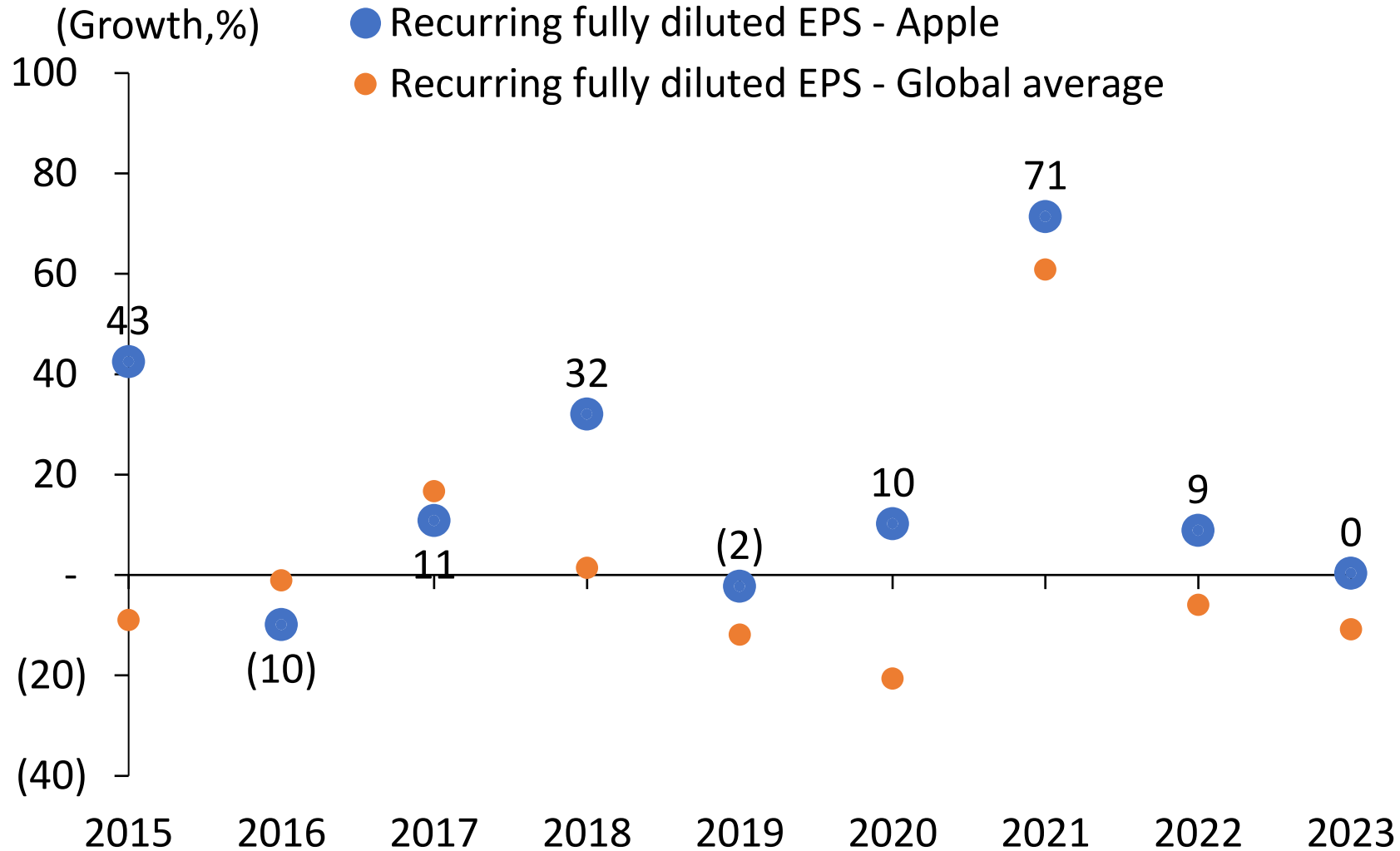


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Recurring EPS CAGR of 16% from 2015 to 2023, nine percentage points above the global average



MANAGEMENT

EARNINGS

RISK

FVMR

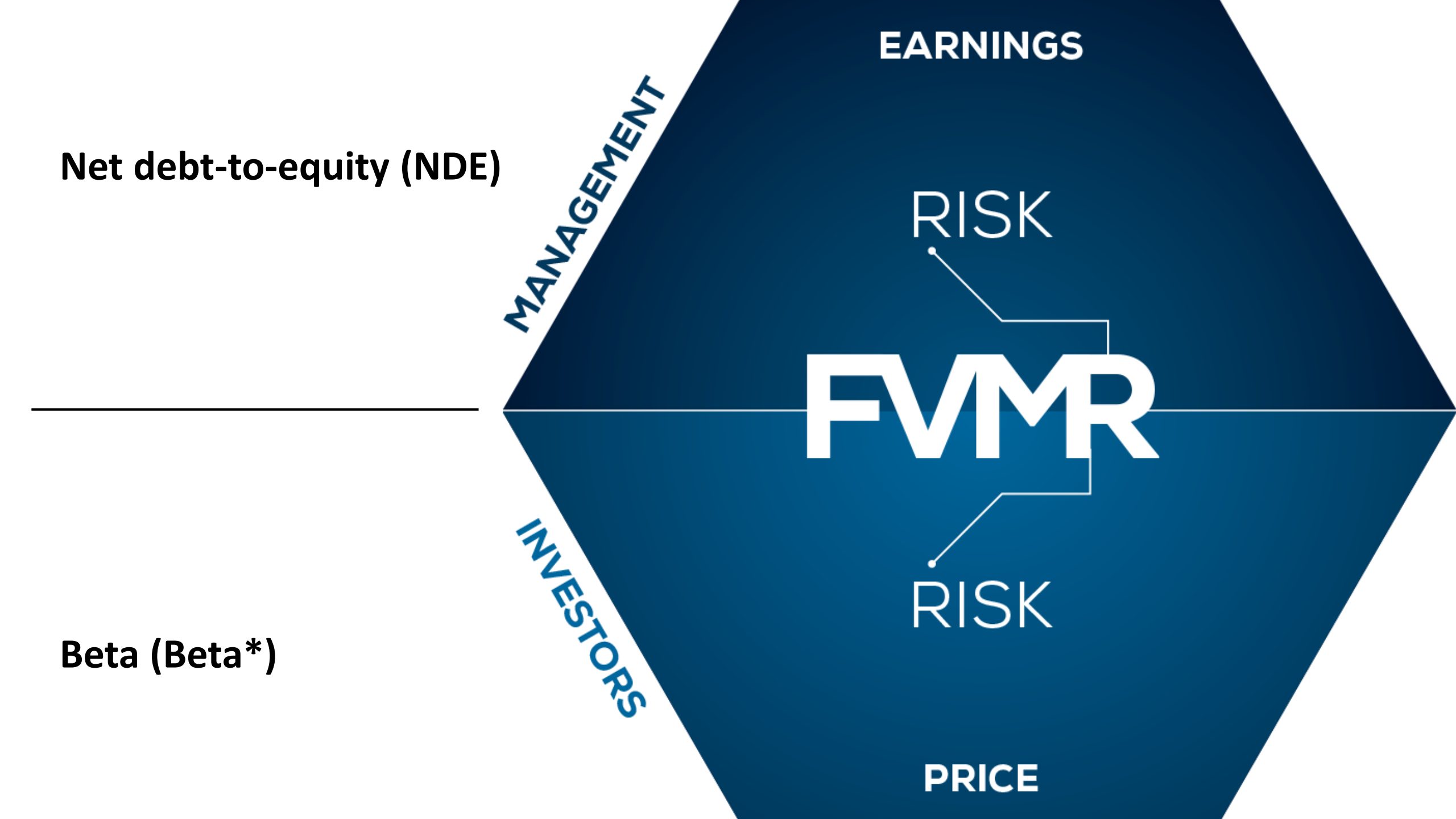
RISK

INVESTORS

PRICE

Net debt-to-equity (NDE)

Beta (Beta*)



Let's take a look at the
abbreviated **FVMR**
Scorecard to determine
the **attractiveness** of the
Apple

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Apple ranks 6th based on the FVMR assessment



A. Stotz FVMR Methodology - Info. Tech.: Tech. Hardware & Equip.

Company	Exchange	Mcap US\$bn	Fund. (%)		Valuation (x)		Momo (% chg)		Risk (x)		FVMR rank
			NPM	ROA	PE	PB	EPS	Price*	NDE	Beta*	
Info. Tech.: Tech. Hardware & Equip.		4.932	21.0	21.8	36.8	43.7	6.3	13.0	0.6	1.2	
Apple Inc	USA	3,366.6	24.0	27.2	35.9	59.1	(1.0)	7.5	0.8	1.1	6
Cisco Systems Inc	USA	230.7	19.2	9.8	22.4	5.1	(17.4)	28.1	(0.3)	0.9	7
Arista Networks Inc	USA	132.9	39.0	27.1	54.0	15.8	28.4	30.8	(0.6)	2.5	2
Keyence Corp	Japan	111.3	37.4	13.5	43.7	5.3	5.2	11.0	(0.4)	2.1	12
Dell Technologies Inc	USA	97.1	4.3	4.7	24.5	nm	110.6	46.1	(7.4)	2.6	13
Hon Hai Precision Industry Co Ltd	Taiwan	92.8	2.4	3.9	19.2	1.9	22.3	27.5	(0.0)	0.9	11
Xiaomi Corp	HK	88.6	6.1	6.2	33.9	3.7	111.9	66.1	(0.4)	0.8	4
Amphenol Corp	USA	87.0	15.4	13.2	39.7	9.2	12.5	20.5	0.4	2.1	17
Motorola Solutions Inc	USA	78.3	14.0	11.4	53.5	97.6	(13.7)	16.5	13.9	0.5	25
Foxconn Industrial Internet Co Ltd	China	67.6	3.9	8.1	21.2	3.5	1.5	(10.7)	(0.2)	1.8	24
Delta Electronics Thailand PCL	Thailand	57.8	13.4	20.2	93.8	23.7	20.3	60.7	(0.1)	0.7	3
TE Connectivity PLC	USA	46.4	20.2	14.4	14.5	3.8	71.0	8.3	0.3	0.9	1
Quanta Computer Inc	Taiwan	38.8	4.4	6.9	24.6	6.7	45.2	29.8	0.1	1.0	16
Murata Manufacturing Co Ltd	Japan	36.2	10.9	6.3	29.0	1.9	(9.9)	(0.8)	(0.1)	2.0	19
HP Inc	USA	35.6	5.3	7.7	12.5	nm	28.5	12.8	(7.5)	1.2	5
Delta Electronics Inc	Taiwan	32.8	9.1	8.0	28.1	4.7	14.5	8.0	0.1	1.4	18
Keysight Technologies Inc	USA	28.1	18.2	10.3	30.8	5.4	(17.4)	31.4	(0.1)	1.8	14

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- Click the link in the description to download this PDF and get the Abbreviated FVMR Scorecard for the world's top 500 companies
- Or drop your email in the comment section to receive the updated FVMR scorecard in your inbox every week

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Sources: A. Stotz Investment Research, Refinitiv

The scorecard ranking should not be seen as investment advice, do your own research.

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