

# CHART OF THE MONTH

JANUARY 2012

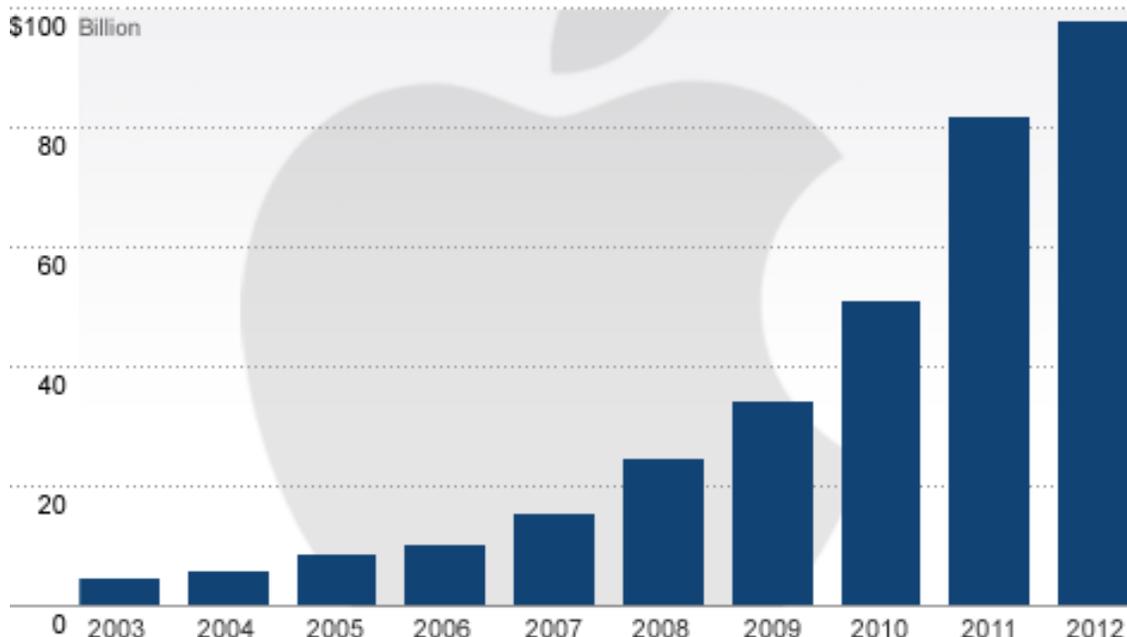
Apple Inc. (AAPL) reported stellar results for its most recent quarter last week. The Company earned \$13.87 per share, more than doubling the \$6.43 it made in the year ago quarter and beating the consensus estimate by nearly 40%. The stock popped 6.2% on the news to an all-time high of \$446.66. The price has subsequently rallied another \$10, closing today at \$456.48.

Despite trimming our positions in AAPL ever so slightly this morning at \$457.50, the stock remains the largest holding for most of our equity portfolios. We believe the shares are extraordinarily attractive at less than 11x the earnings projection for the fiscal year ending in September 2012. By comparison, the Standard & Poor's 500 is valued at more than 12x the estimate for the current year. Given Apple's strong market position, finances, and growth, we contend that it should warrant a premium rather than a discount to the index.

Apple has approximately \$100 billion in cash, equal to \$104/share. As a result, cash represents 23% of the price of the stock. If one were to subtract the cash, the shares would trade for a remarkably low valuation of just over 8x EPS. Apple has surpassed Exxon Mobil as the world's most valuable publicly traded corporation and its cash hoard exceeds the market capitalization of all but 26 companies in the S&P 500. Apple is generating over \$100 million in cash a day. At a pace of more than \$4 million per hour, the Company earned another \$1 million during the time you may have spent reading our Chart of the Month.

What will Apple do with its cash? While no announcement has been made, the Chief Financial Officer told analysts on the conference call following the Company's quarterly results that management was "actively discussing the best uses of our cash balance." The three most likely choices for the cash include strategic acquisitions, buying back stock, and paying dividends. With respect to the latter, Apple could easily afford to distribute \$2.50/share per quarter (or \$10/share per year) while still adding north of \$30 billion to its bank account every year. It's a dilemma that the management of every corporation would wish upon itself.

## APPLE'S CASH



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