

# CHART OF THE MONTH

JANUARY 2015

Apple reported record revenue of \$74.6 billion and net income of \$18 billion – the highest quarterly profit ever recorded by a public corporation – during the three months ended in December. Sales rose nearly 30% and net income increased 37% compared to the year ago quarter. Earnings soared to \$3.06 per diluted share, a 48% advance year-over-year and \$.46 higher than the consensus estimate of more than 40 analysts.

The results were fueled by all-time best revenues from iPhone and Mac sales as well as record performance of the App Store. The Company sold 74.5 million iPhones last quarter, equal to an average of 34,000 every hour, every day, every week for each of the past three months. Notably, more than 1% of the world's population bought an iPhone last quarter. The most important factoid from a shareholder perspective is that Apple's profits averaged \$200 million per day!

As shown in the chart below, sales of the iPhone are seasonal, peaking in December and bottoming in June. However, the sales are trending up with higher highs at each of the peaks and higher lows at each of the bottoms. Meanwhile, the installed base has grown to almost 350 million customers. Of those, only a small percentage ("mid-teens" as described by CEO Tim Cook) have upgraded to the iPhone 6 or 6 Plus, suggesting ample opportunities for additional growth down the road.

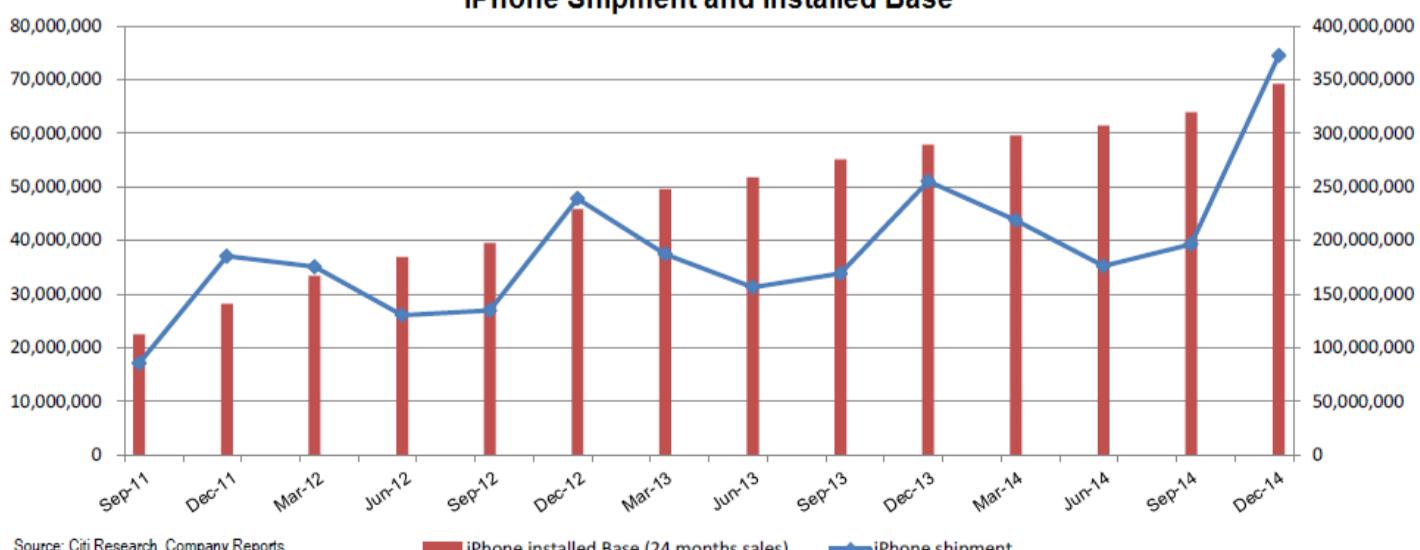
One of the knocks on Apple is that it has become too dependent on the iPhone. We believe that is a problem most corporations would envy. Be that as it may, Apple sold 21.4 million iPads and 5.5 million Macs for a combined total of nearly \$17 billion in revenues last quarter. In addition, the App Store increased sales 41% during this period. Furthermore, the Company recently introduced Apple Pay and plans to begin shipping its Apple Watch this spring.

Although Apple's current rate of growth will moderate over time, the Company has just begun to penetrate China in a meaningful way. Sales in China, which now comprise 21% of the total, advanced 70% year-over-year even though Apple has only four stores in a country with a population of 1.35 billion people (greater than 4x the population of the U.S.). The Company plans to grow its number of stores tenfold by mid-2016. In the meantime, online revenues in China last quarter were more than the sum of the previous five years.

Apple has accumulated \$178 billion in cash, a total that exceeds the market capitalization of all but 19 other publicly traded corporations in the U.S. If Apple could buy The Walt Disney Company (DIS) at the current price, it would own the most valuable entertainment business on the planet and still have \$20 billion in cash. Moreover, we expect that Apple will generate at least \$50 billion in cash flow over each of the next several years.

What's a company to do with all this cash? Make strategic acquisitions, buy back stock, and increase its dividend. In April, we believe Apple will announce as much as a \$200 billion capital return to shareholders over the next few years, including an immediate 10% to 20% boost to its dividend.

**APPLE, INC. (AAPL)**  
**iPhone Shipment and Installed Base**



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