



The Road to \$1,650 a Share: How Apple Can Keep Growing

The Next Growth Areas

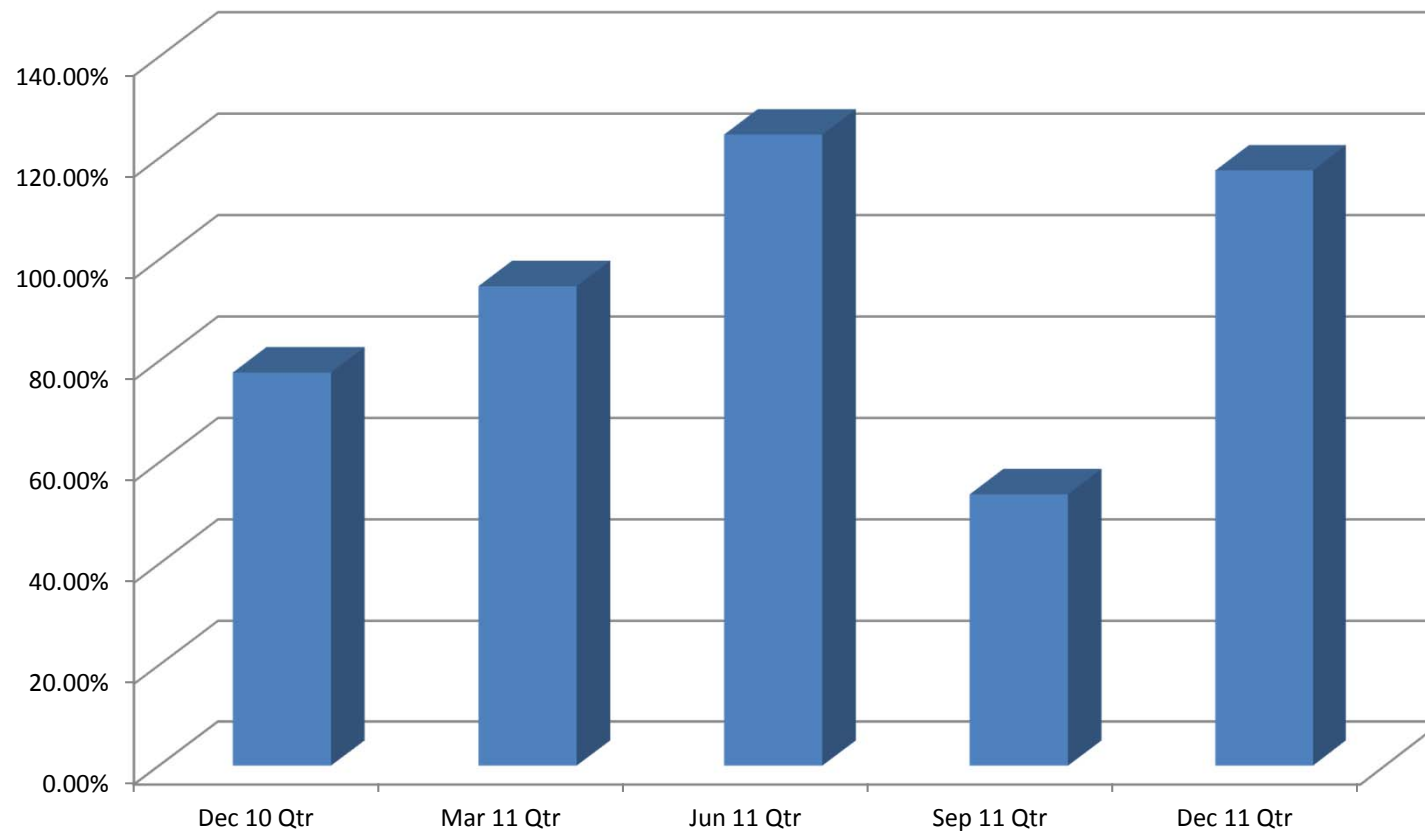
March 15th 2012
Apple Investor Summit
LA

- Isn't Apple Too Big To Keep Growing This Much?
- How Is It Possible?
- What are the Growth Areas from Existing Portfolio?
- What are the Greenfield Growth Areas?

- **Why Apple Can't Keep Growing:**
- Unprecedented
- Too Big
- No More Steve Jobs
- Everyone likes it; it's a bubble

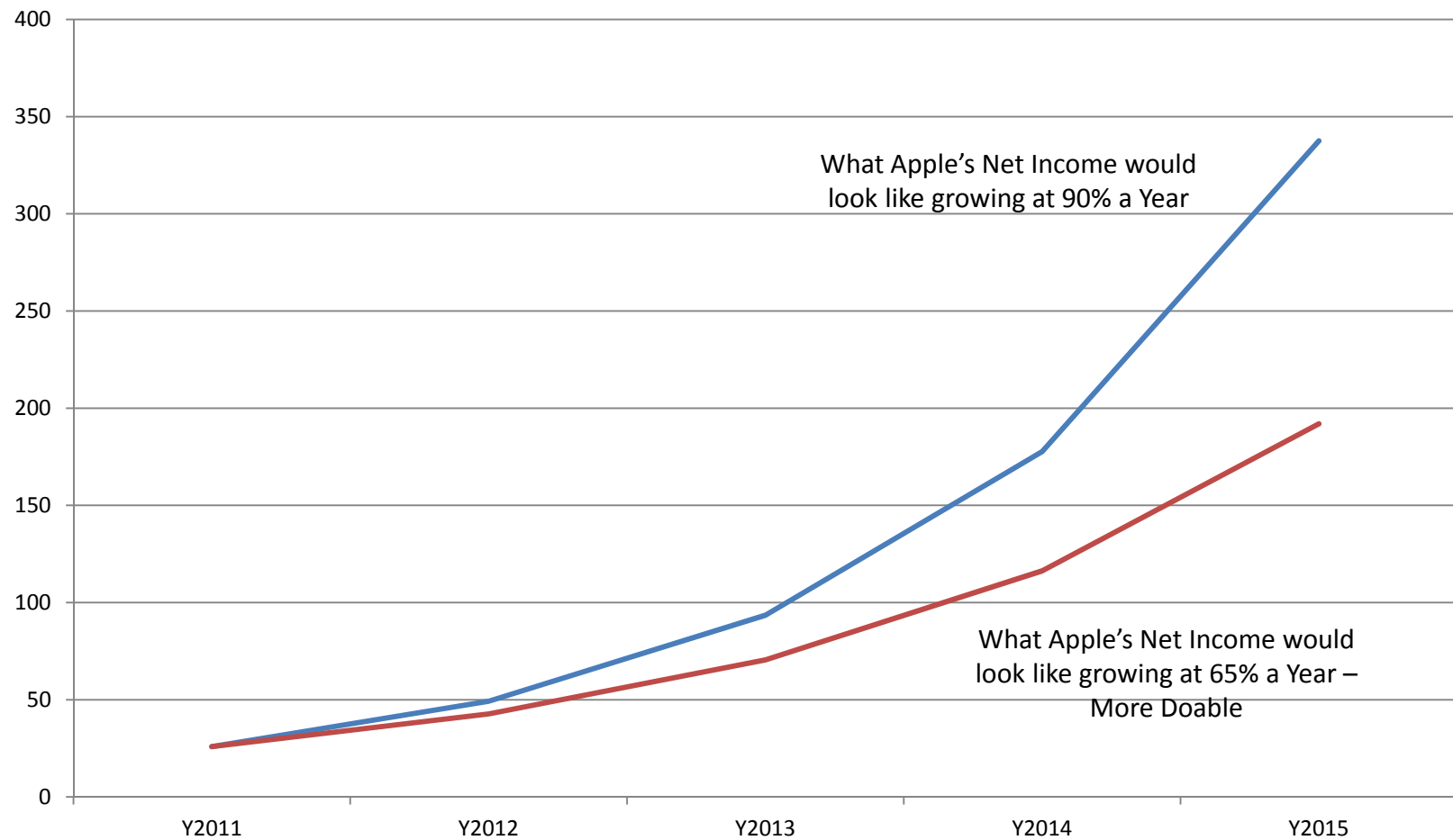
- **Why Apple *Can* Keep Growing:**
- Unprecedented → But no company this big has had these opportunities
- Too Big → Yet all Apple does is win
- No More Steve Jobs → Yet Steve's greatness masked how good rest of the team is
- Everyone likes it; it's a bubble → Still cheap with a forward P/E of 11x and a trailing P/S of 4x

It Can't Be Done – But They Keep Doing it



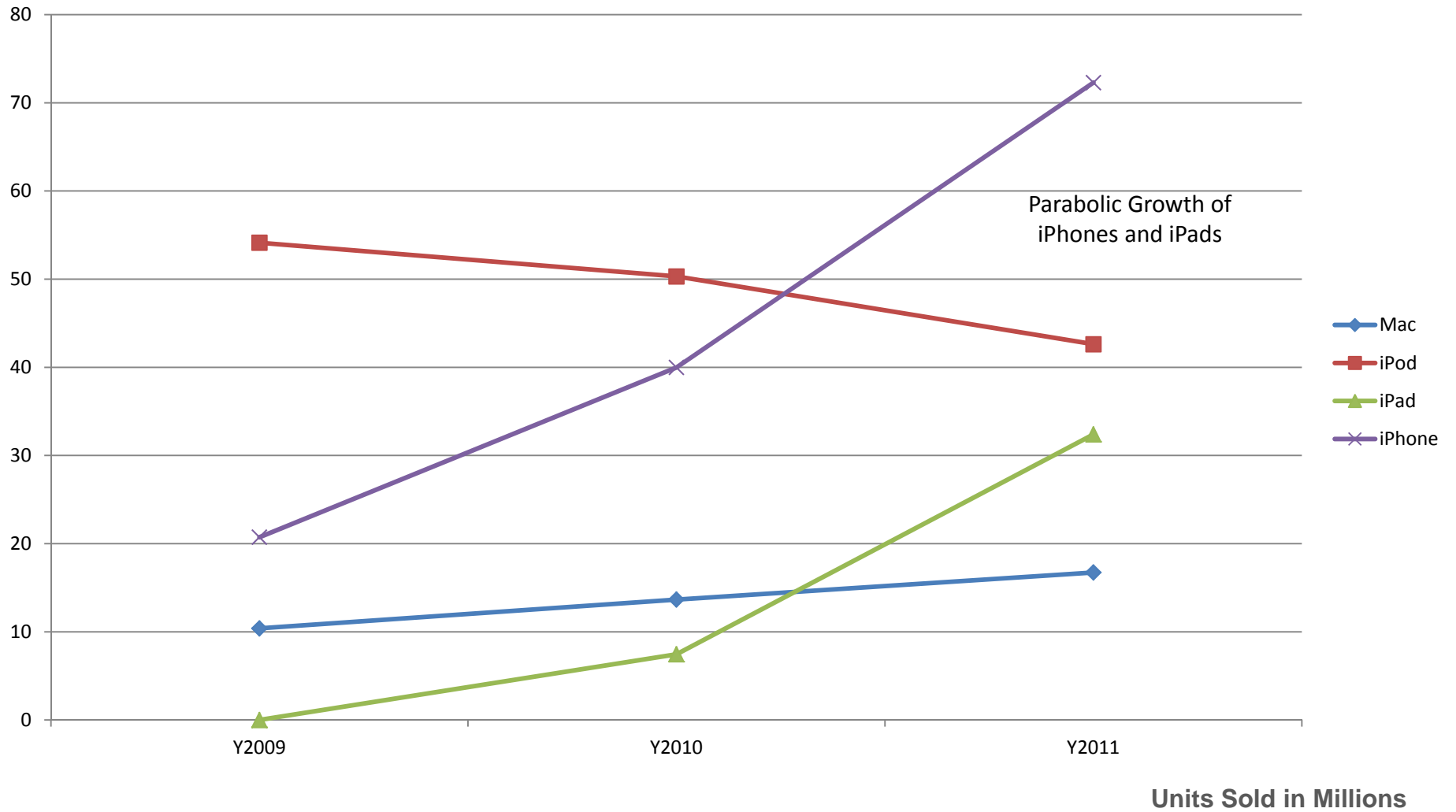
Apple Quarterly Growth Y/Y in Net Earnings

How Is It Possible To Keep Growing Earnings 90% per Year?



Projected Apple Net Income in \$B – 90% Y/Y vs. 65% Y/Y

Apple Products Sold In Last 3 Years



What are the Growth Areas from Existing Portfolio?

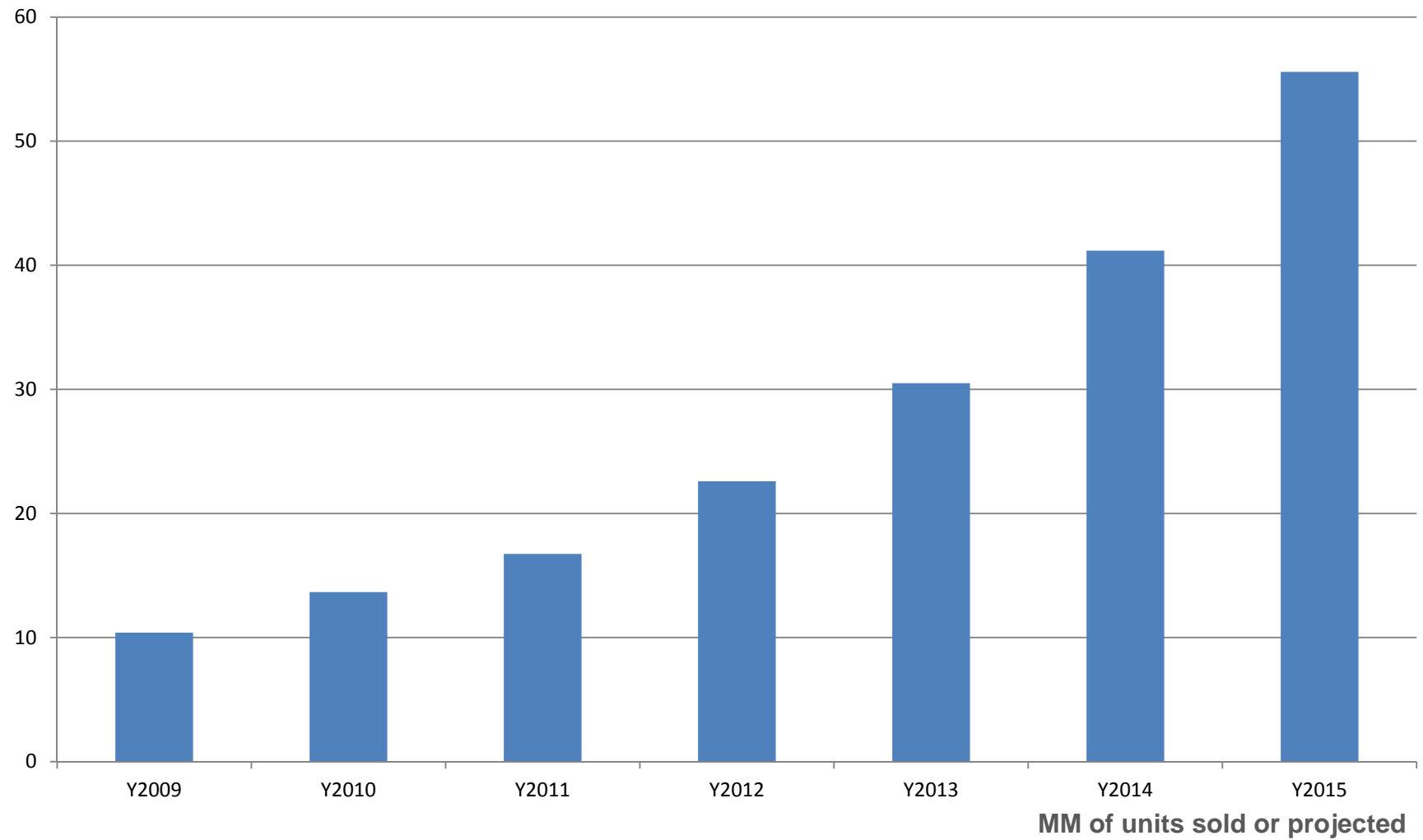
- Macs
- iPad
- iPhone
- iTunes

What are the Growth Areas from Existing Portfolio?

Mac Growth:

- One of the most ignored parts of the Apple portfolio
- Has consistently grown faster than the PC industry
- Grew Revenue 26% Y/Y in the Last Quarter and 22% for Last Year
- PC Industry growing 10% annually
- Huge opportunity to grow market share in the years ahead

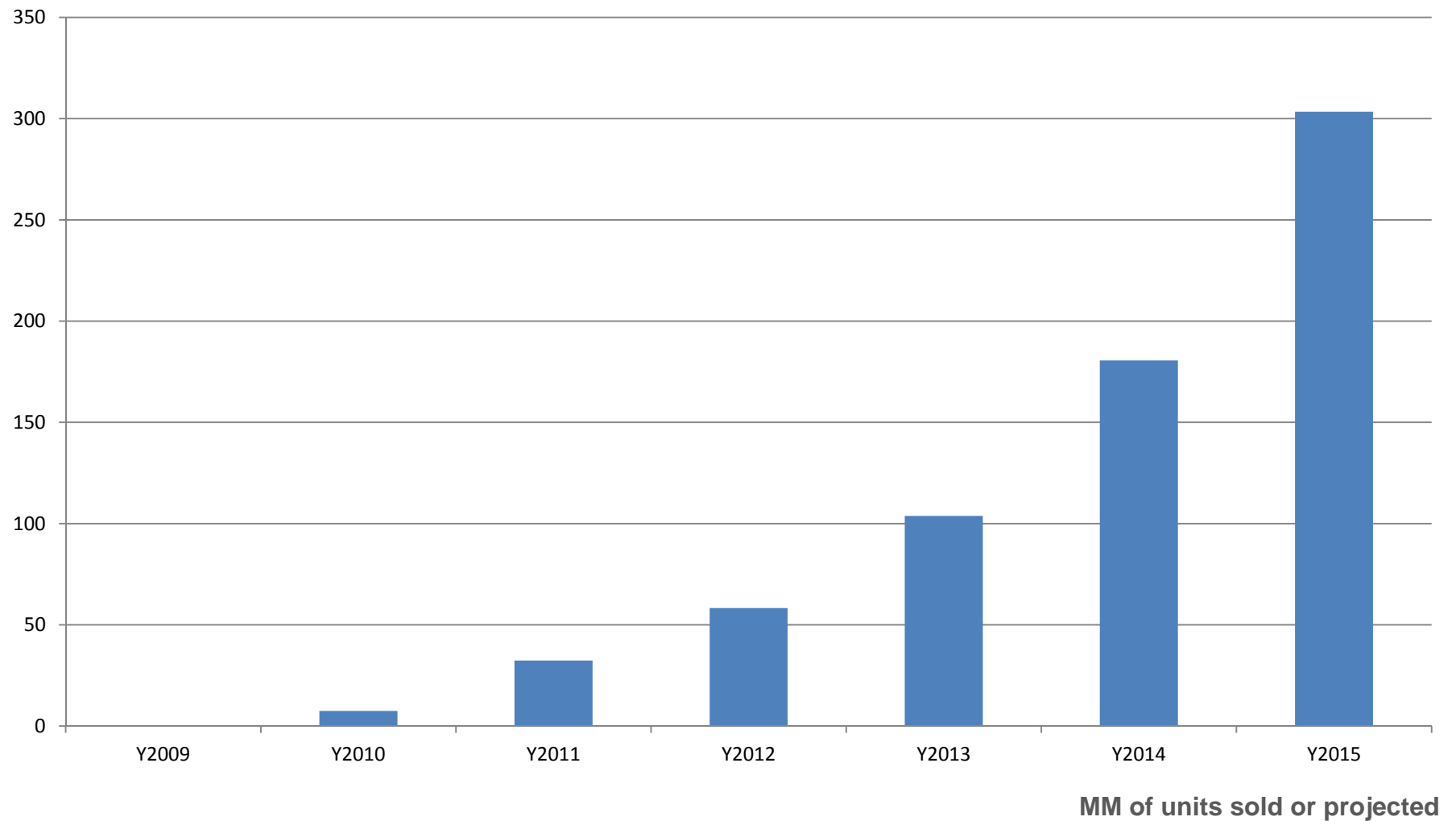
Mac Halo Effect to Speed Up



iPad Growth:

- New Category created from scratch 2 years ago, now 20% of Apple's revenues
- 55 million devices sold since inception
- Likely 58 million iPads will be sold in this fiscal year
- iPad trying to achieve iPod market share
- A 500 million tablet market in 2015 means 300 million iPads with 60% share
- For comparison, 409 million PCs were sold globally in 2011

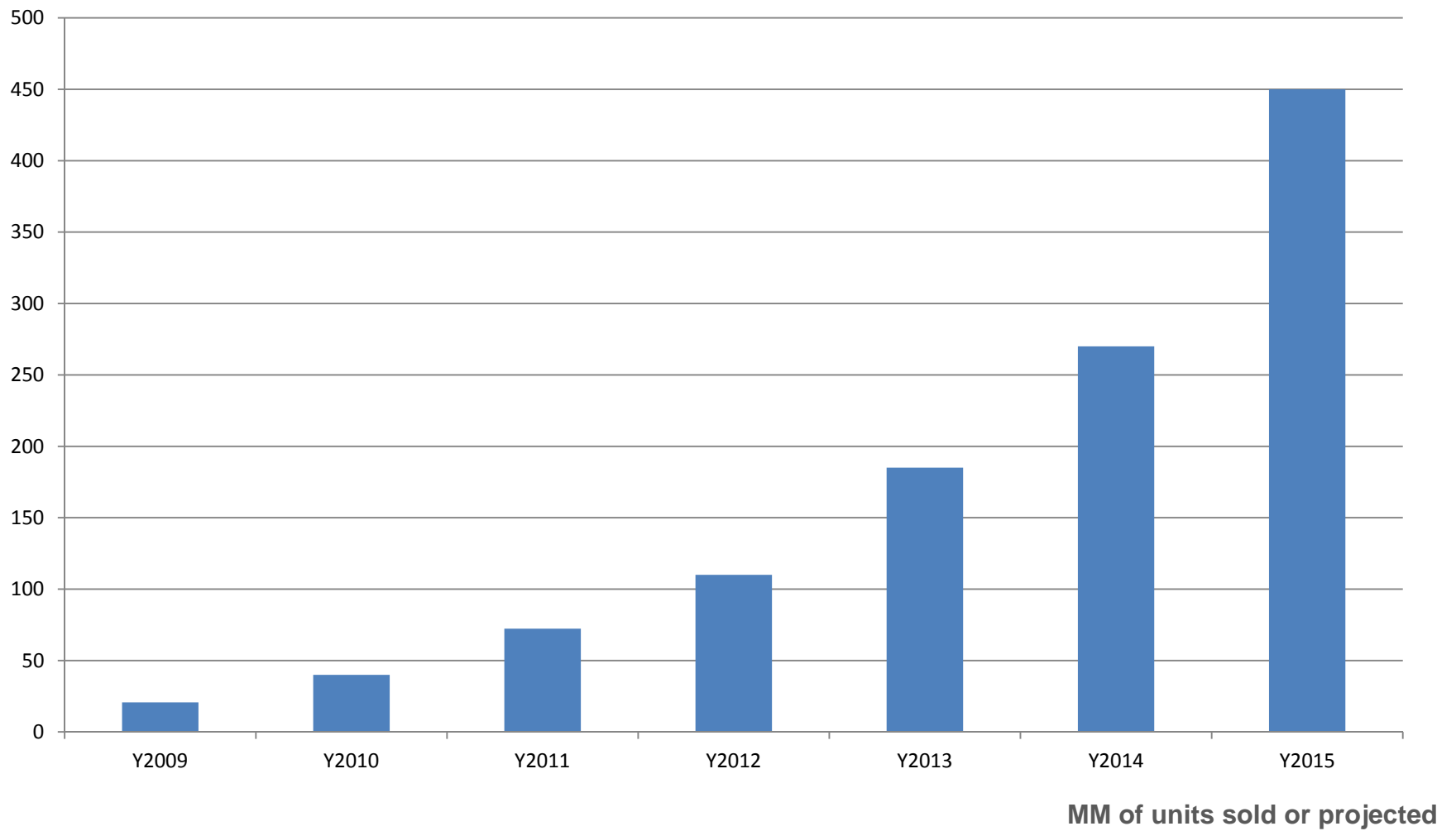
From Nothing to 300 Million Units Sold in 7 Years: iPad



iPhone Growth: Driven By Smart Phone Adoption

- 53% of Apple's revenues from announcement 5 years ago
- Likely to remain 44% of Apple's revenues by 2015
- Smart phones will be every person's dominant computing device
- 72 Million iPhones sold last year, yet could sell 6x that in 2015, assuming 1.5 billion smart phones will be sold and Apple retains a 32% share

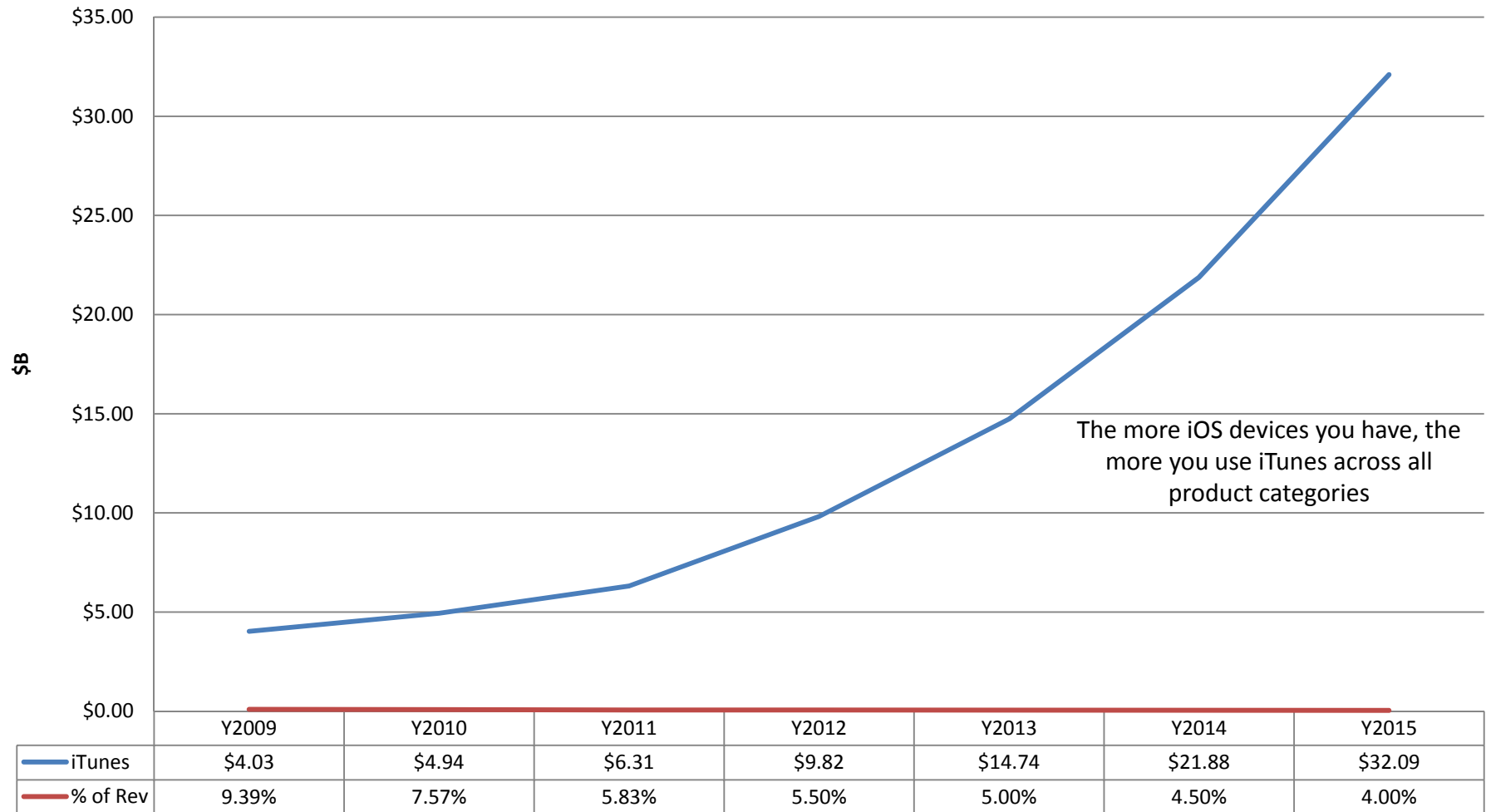
10x 2010's iPhones To Be Sold in 2015



iTunes Growth:

- After Macs, the most easily forgotten part of the Apple portfolio
- iTunes had \$2 Billion in net sales last quarter; Facebook had \$1.1 Billion
- iTunes last quarter of revenues was 1/5th the amount of Google's total revenues
- iTunes growth tags along from the number of active iOS devices
- If devices explode, so will iTunes → \$32 Billion in revenue by 2015
- Will they do something different for iTV? Very likely

iTunes Revenue Set To Explode with New iOS Devices Sold



The more iOS devices you have, the more you use iTunes across all product categories

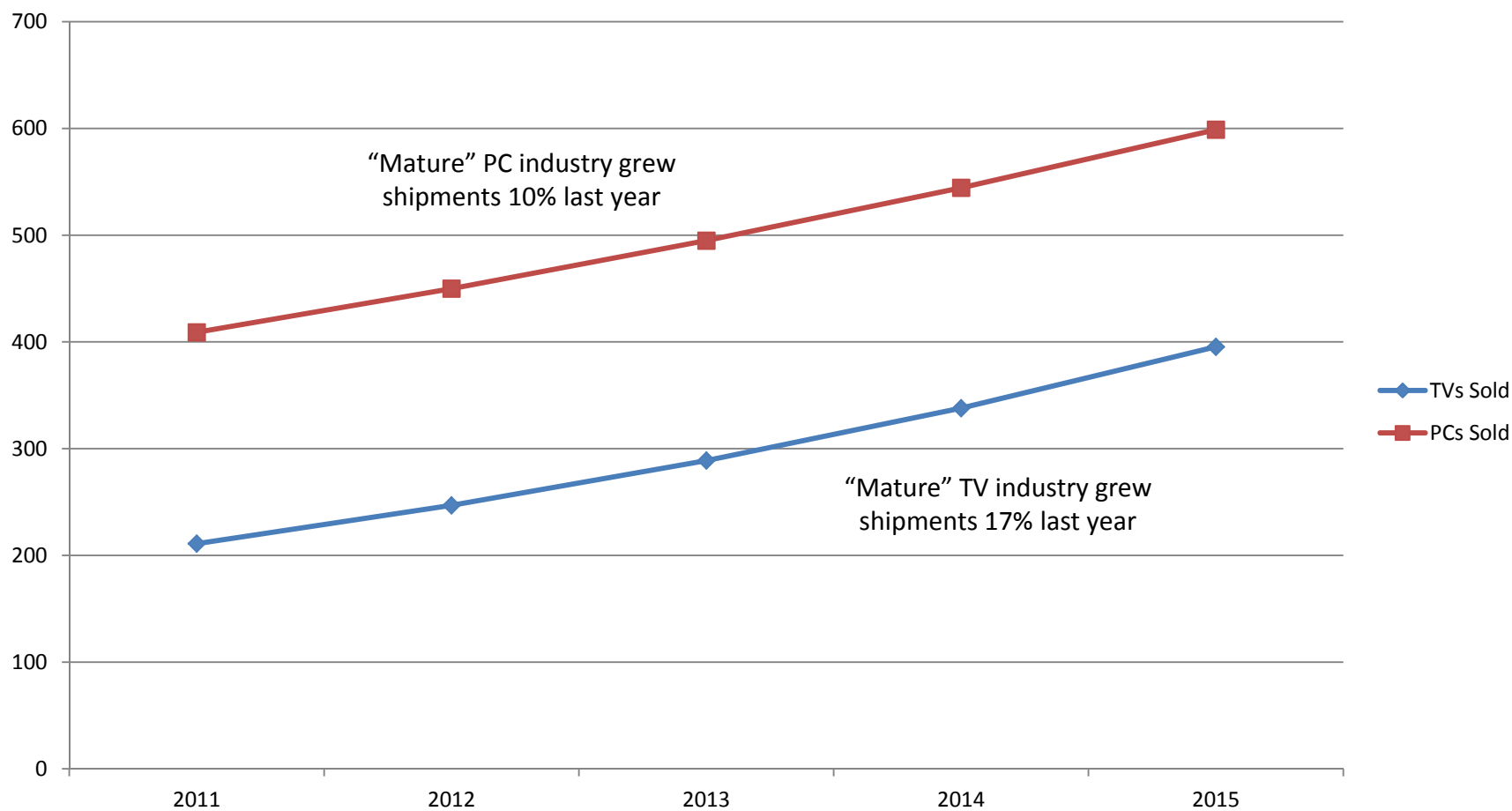
iTunes Revenue Set to Explode

What are the Greenfield Growth Areas?

- iTV
- iAd
- iPay
- Siri

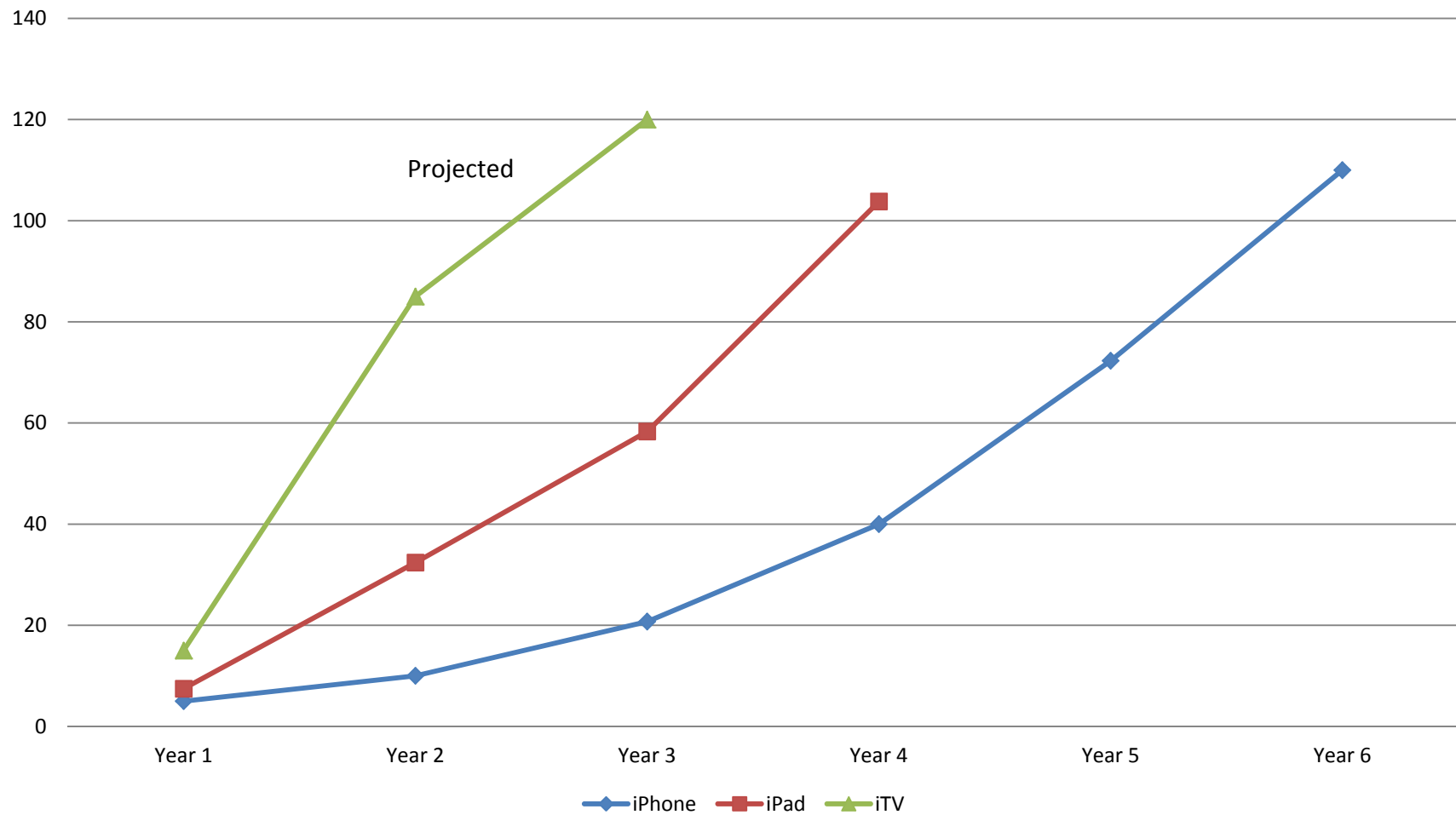
What are the Greenfield Growth Areas?

iTV Growth: The Market for PCs and TVs Today



Projected future TV and PC Growth – in MM of units sold

iTV Growth: The Meeker Effect is Real



iTV Growth: The Meeker Effect is Real

iAd Growth:

- Apple has seemed to be conflicted about getting into Ad business
- Jobs referenced need to help developers and making quantum leap in ads as reason for Apple to do it
- Jobs was right though that the key is Emotion and Interaction
- We've yet to really see this though from ads – even from Apple
- If Apple is going play a central role in TV, they need to step this up

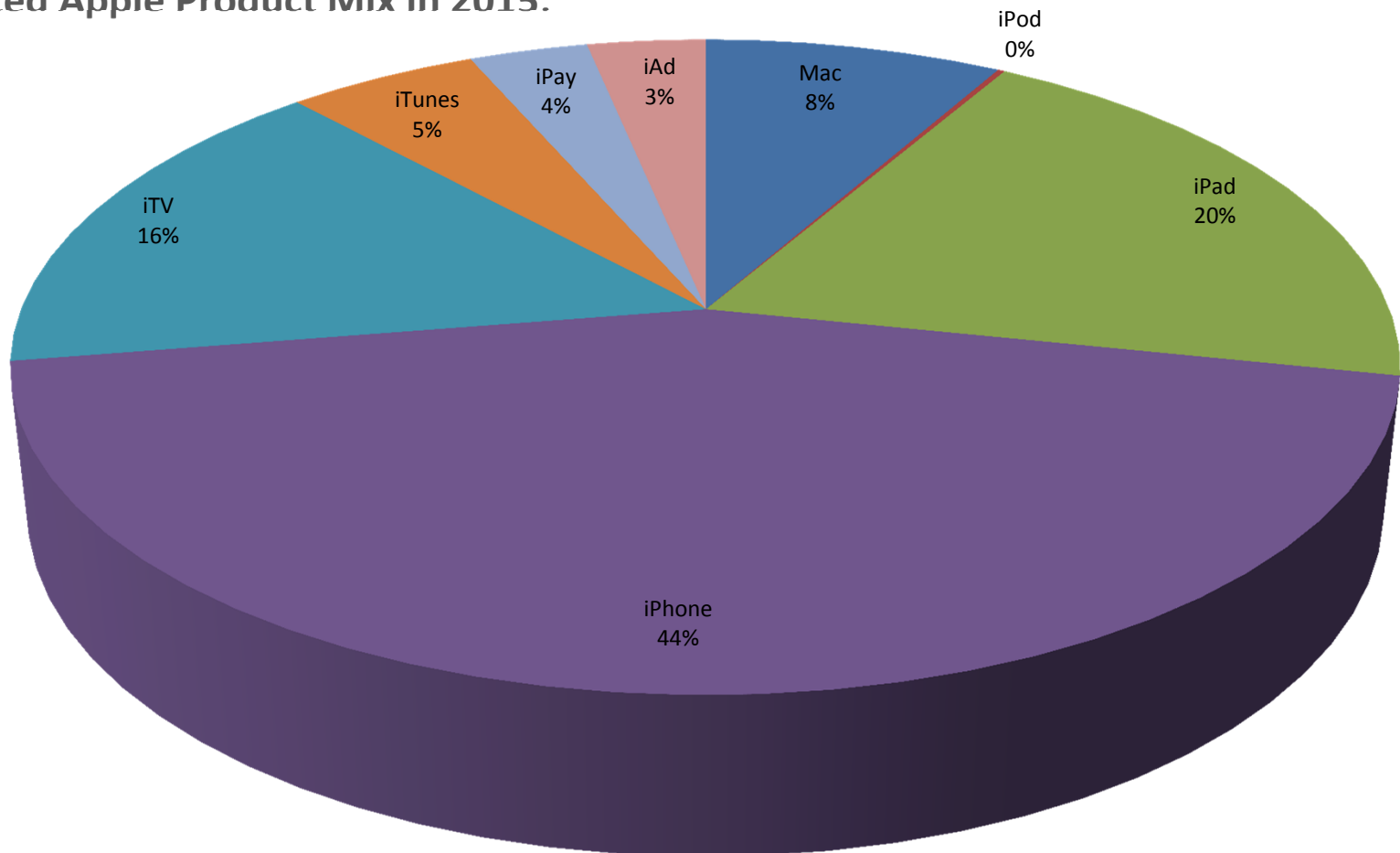
iPay Growth:

- Huge inefficient market waiting to be disrupted
- Unlike Google, Apple waiting to do this right
- PayPal expects Apple's entry and has been seeking to differentiate itself as vendor-neutral mobile payment provider
- Will require more than a credit card linked to an iTunes account
- Just shaving off the percentage fees to credit card companies would save Apple billions from its retail stores
- Could decide to do something totally new in mobile location payments area

Siri Growth:

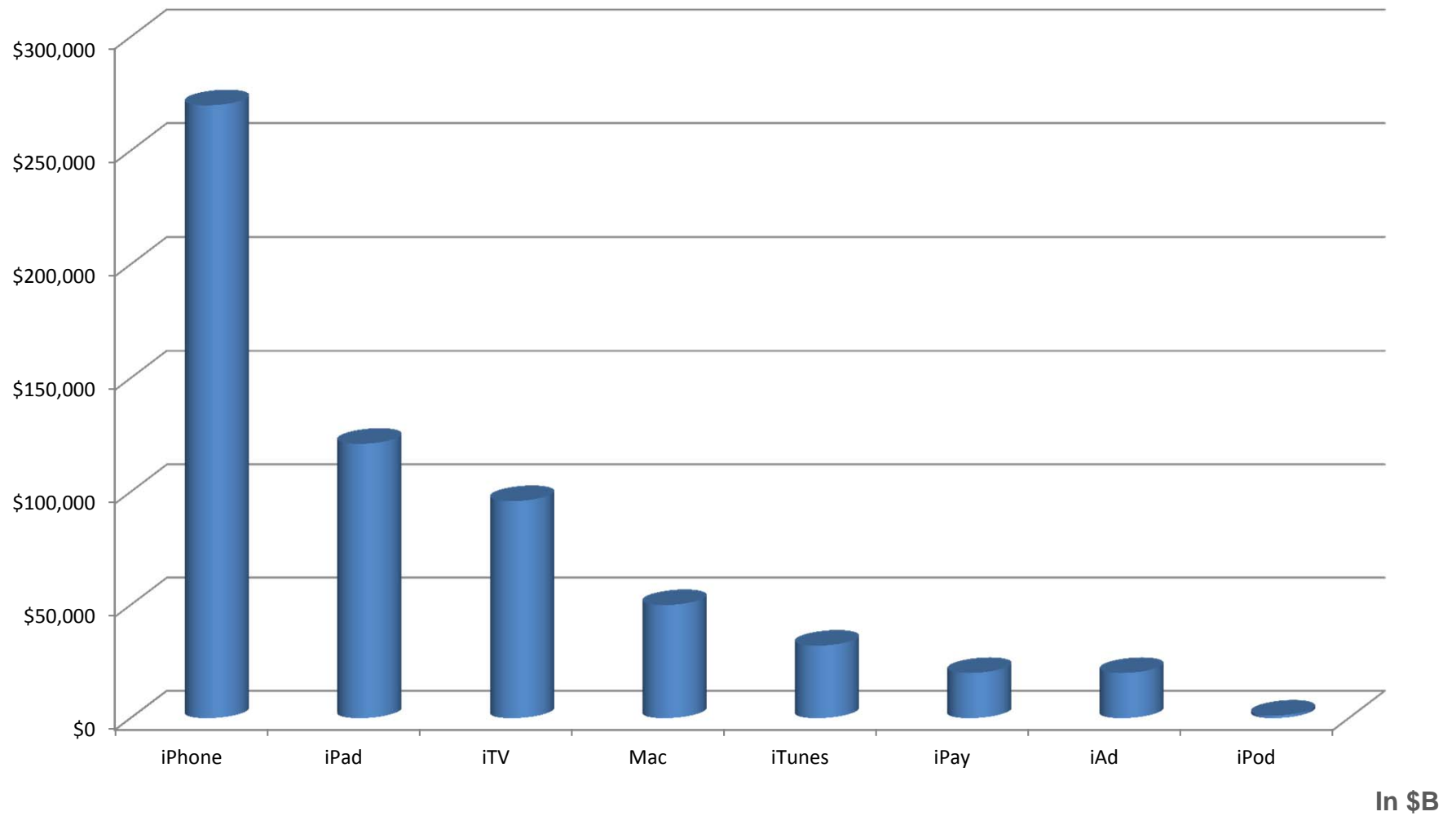
- “Google Killer” as it bleeds away reliance on desktop index search to get information
- Siri itself won’t be a money-maker for Apple
- But it will build powerful loyalty among users to Apple products
- Even more powerful when it becomes the interface to your TV and your house

Projected Apple Product Mix in 2015:

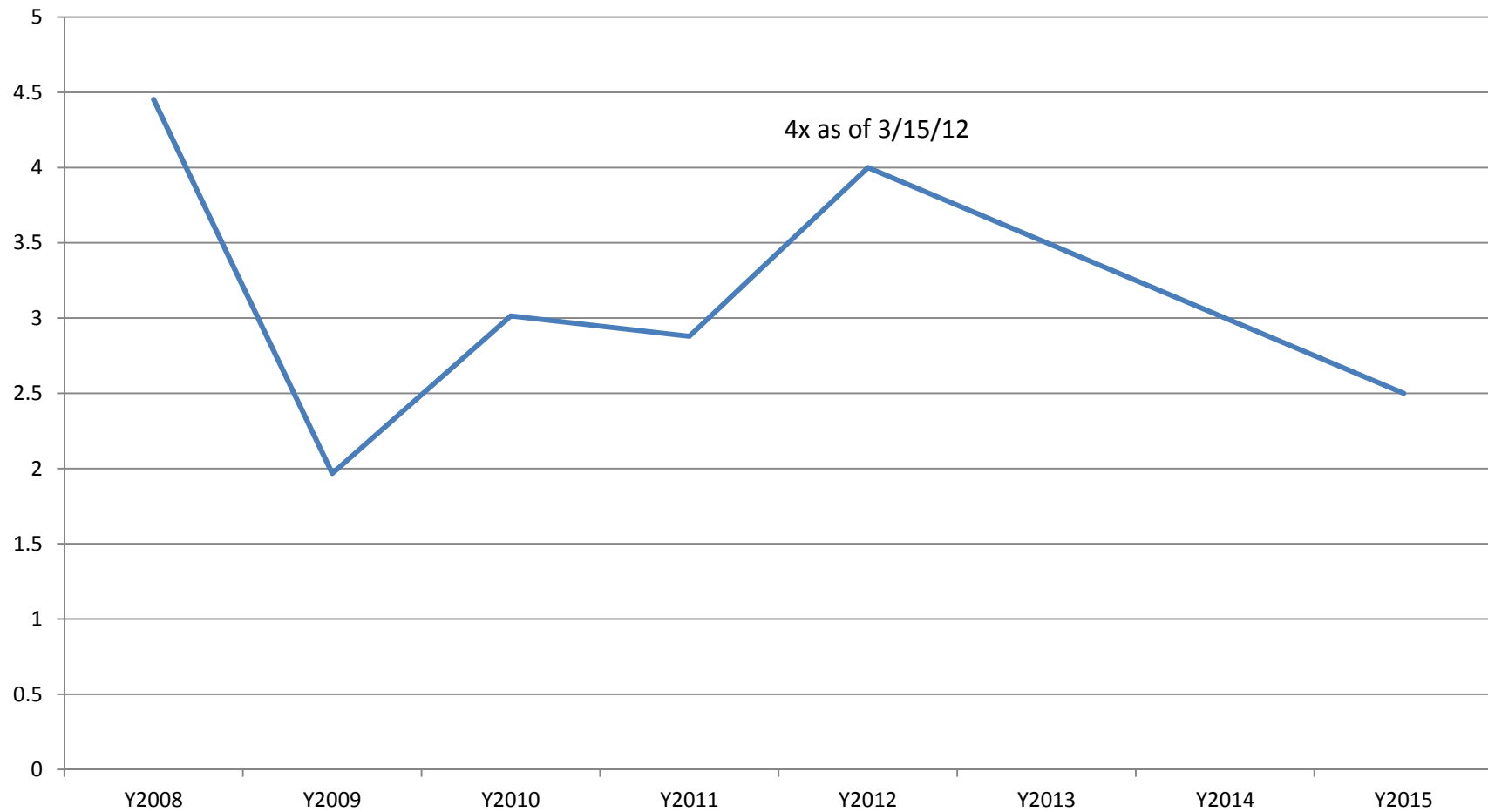


Projected Apple Product Mix in 2015

What Will \$610 Billion in Annual Revenue Look Like in 2015?



Apple's Price-Sales Ratio Over Time: Likely at a Top Now



Conclusion

- At a 2.5x compressed price-sales multiple, Apple can easily get to a \$1.53 Trillion market capitalization by 2015 – or \$1,646/share representing a 183% increase over today's price
- iTV's growth should exceed the success of iPad
- Feature phone decline opening door to massive iPhone growth
- iPad could be close to the current size of the PC industry in a few years
- Macs will grow share in PC industry through Halo Effect
- iAd and iPay are wildcards here; both have potential to be massive