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

The Next Growth Areas

March 15th 2012
Apple Investor Summit
LA

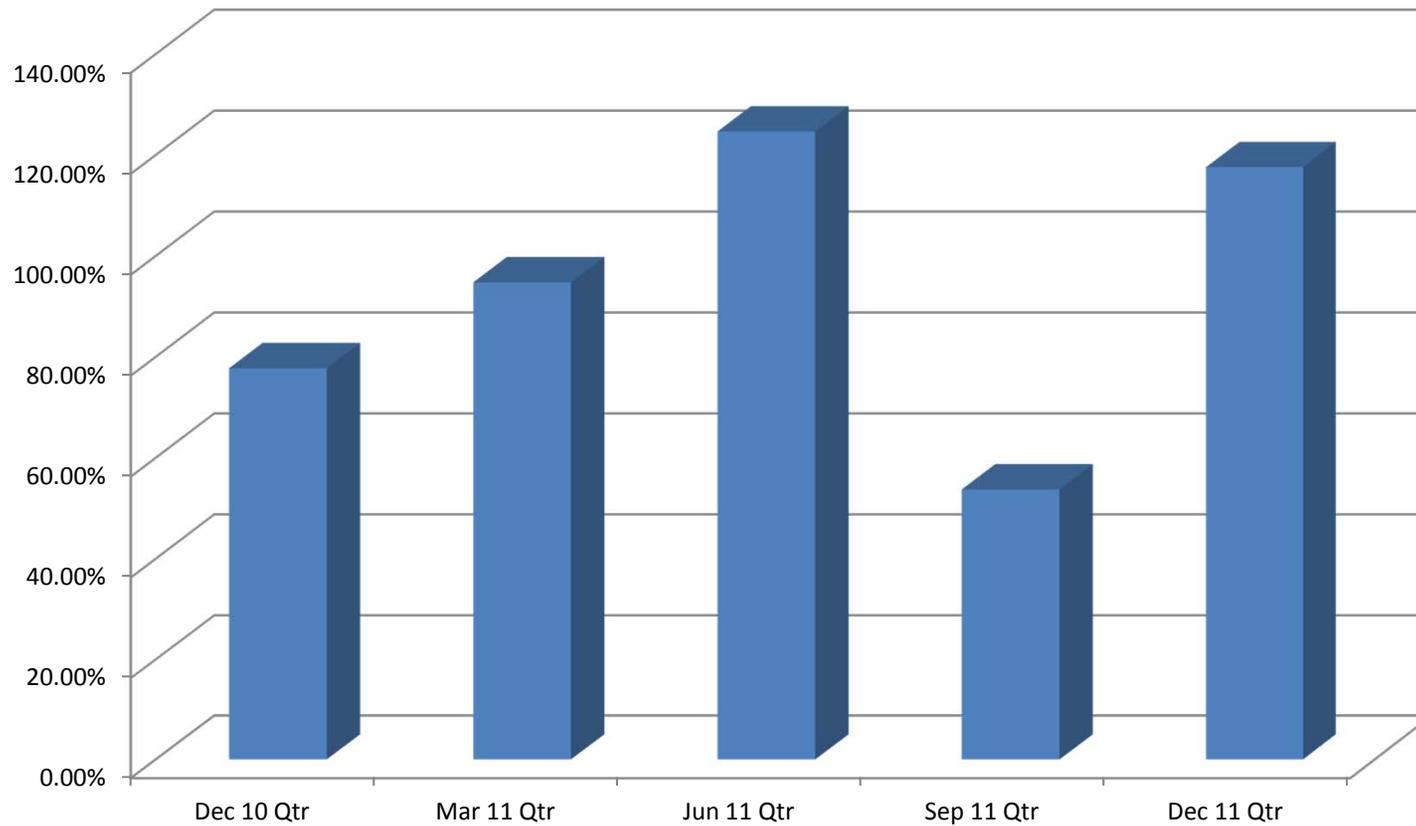
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- Isn't Apple Too Big To Keep Growing This Much?
- How Is It Possible?
- What are the Growth Areas from Existing Portfolio?
- What are the Greenfield Growth Areas?

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

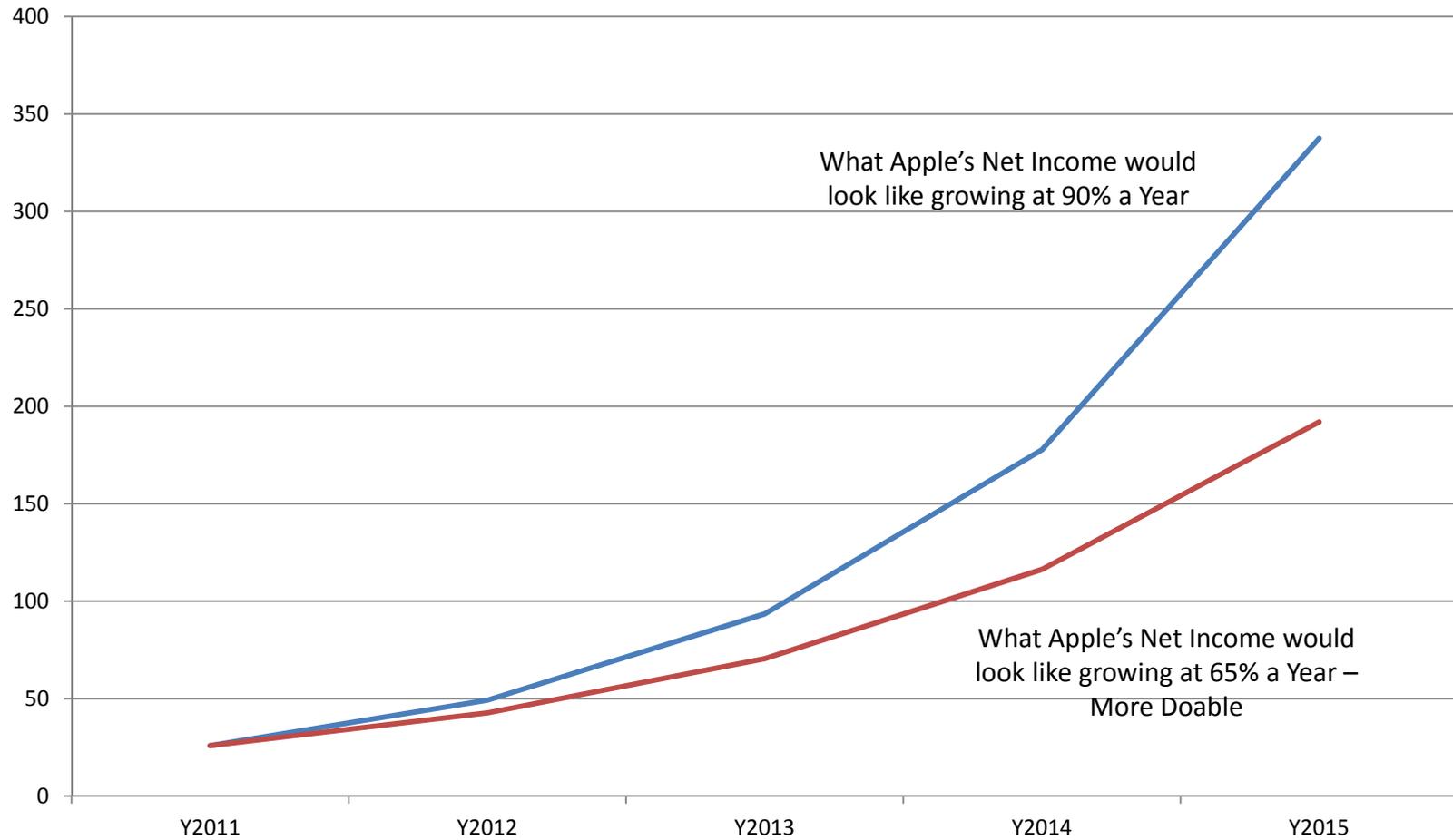
- **Why Apple *Can* Keep Growing:**
- Unprecedented → But no company this big has had these opportunities
- Too Big → Yet all Apple does is win
- No More Steve Jobs → Yet Steve's greatness masked how good rest of the team is
- Everyone likes it; it's a bubble → Still cheap with a forward P/E of 11x and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

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



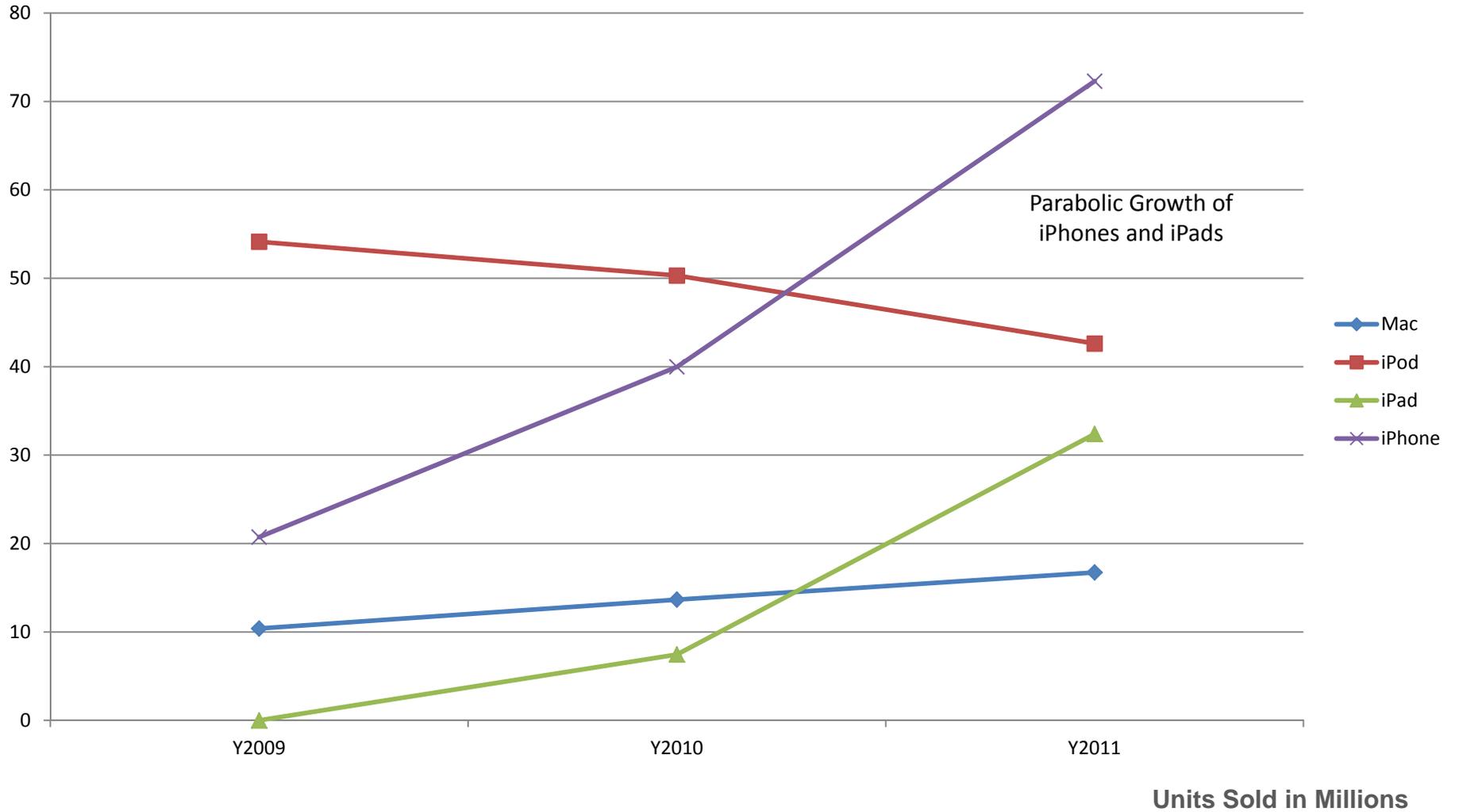
Apple Quarterly Growth Y/Y in Net Earnings

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?

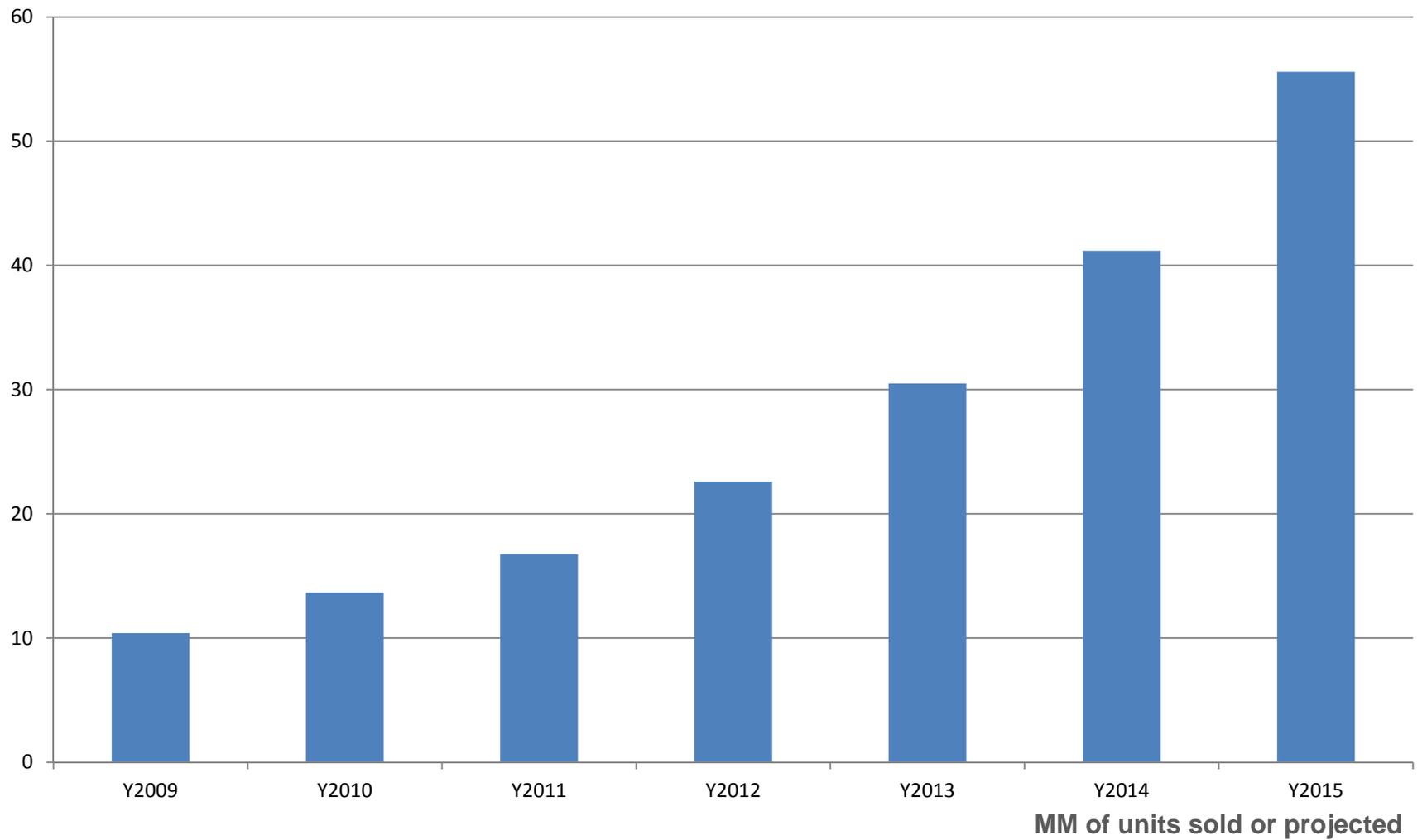
- Macs
- iPad
- iPhone
- iTunes

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

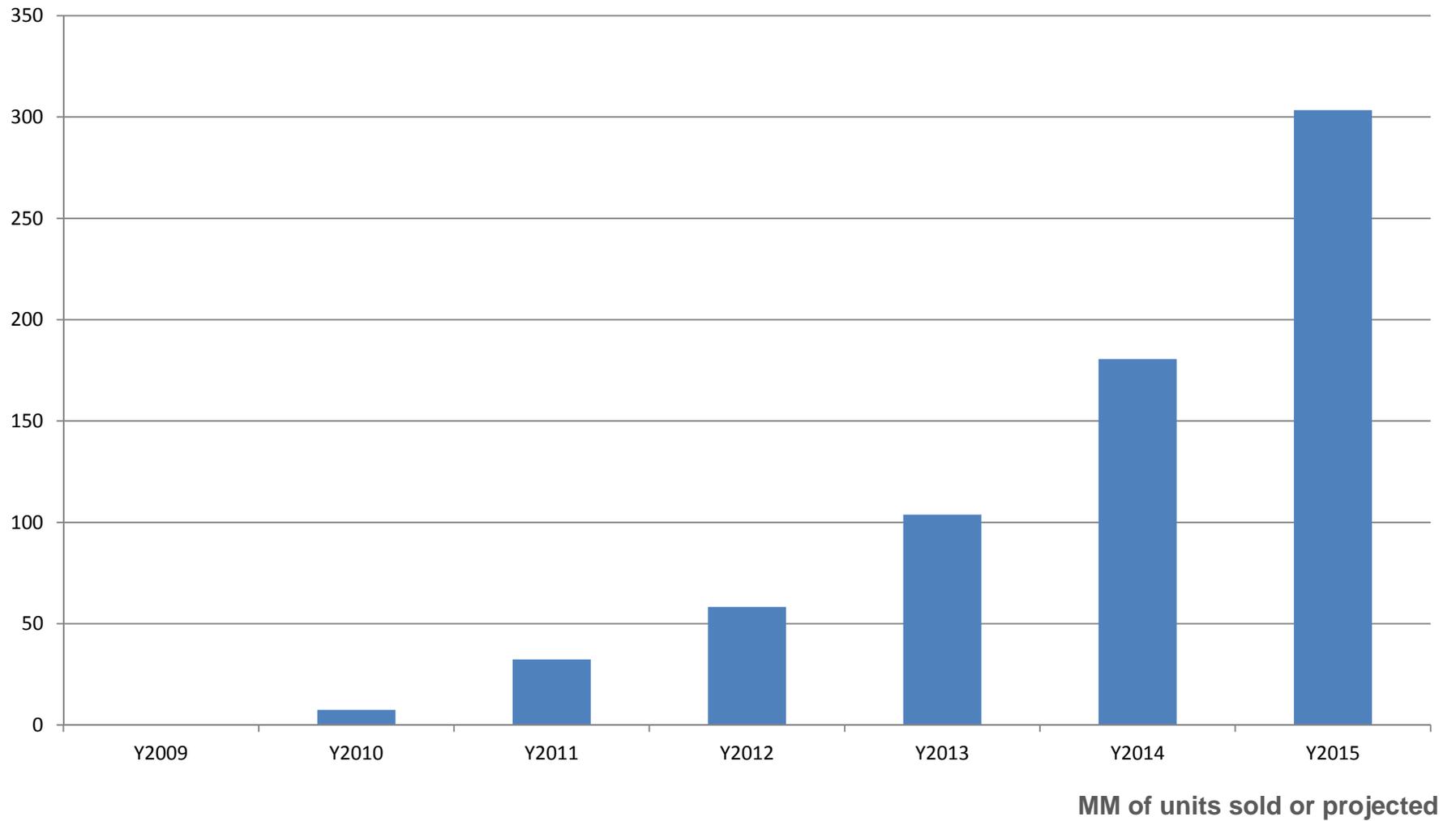
Mac Halo Effect to Speed Up



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

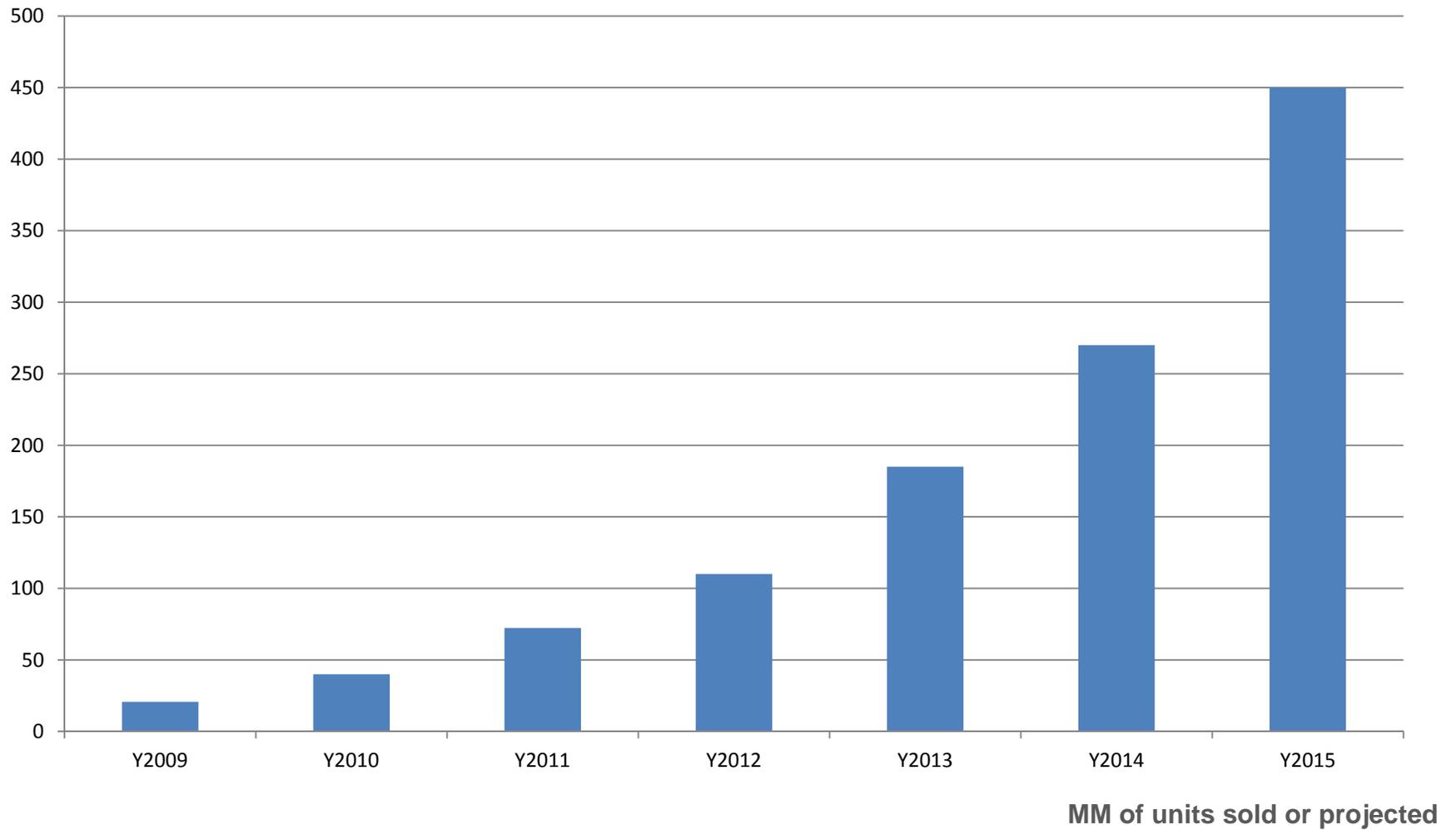
From Nothing to 300 Million Units Sold in 7 Years: iPad



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

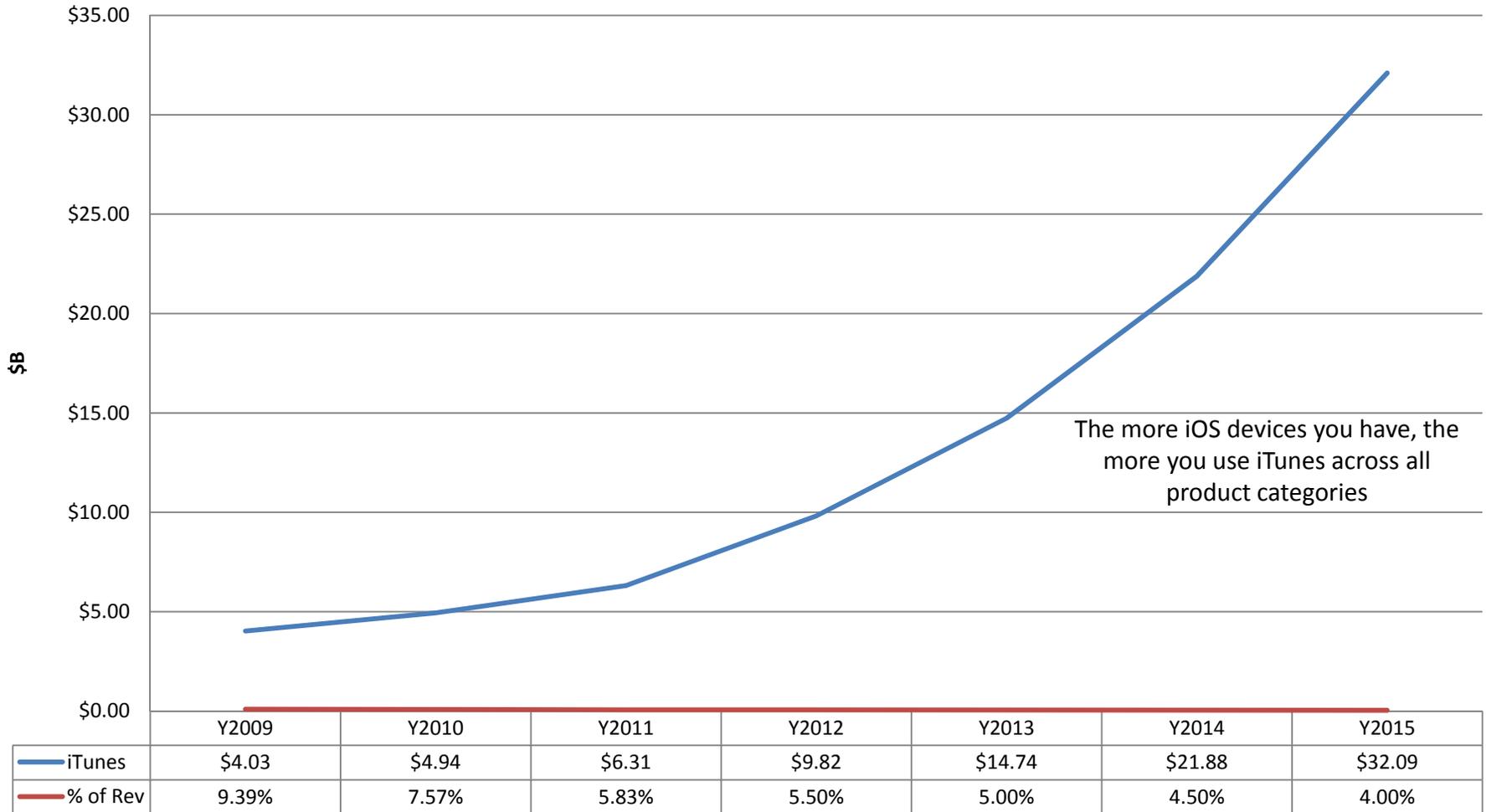
10x 2010's iPhones To Be Sold in 2015



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

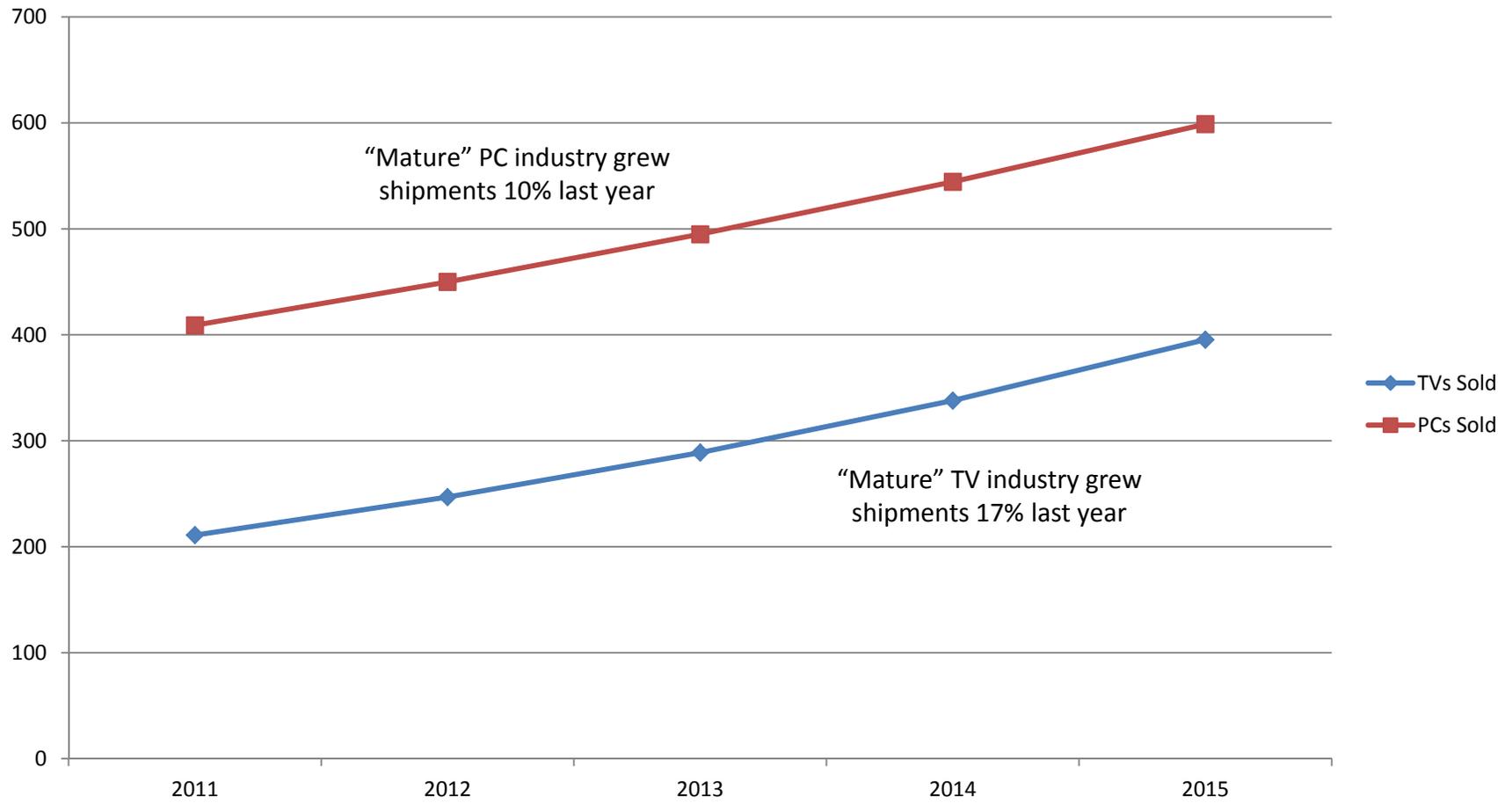


iTunes Revenue Set to Explode

What are the Greenfield Growth Areas?

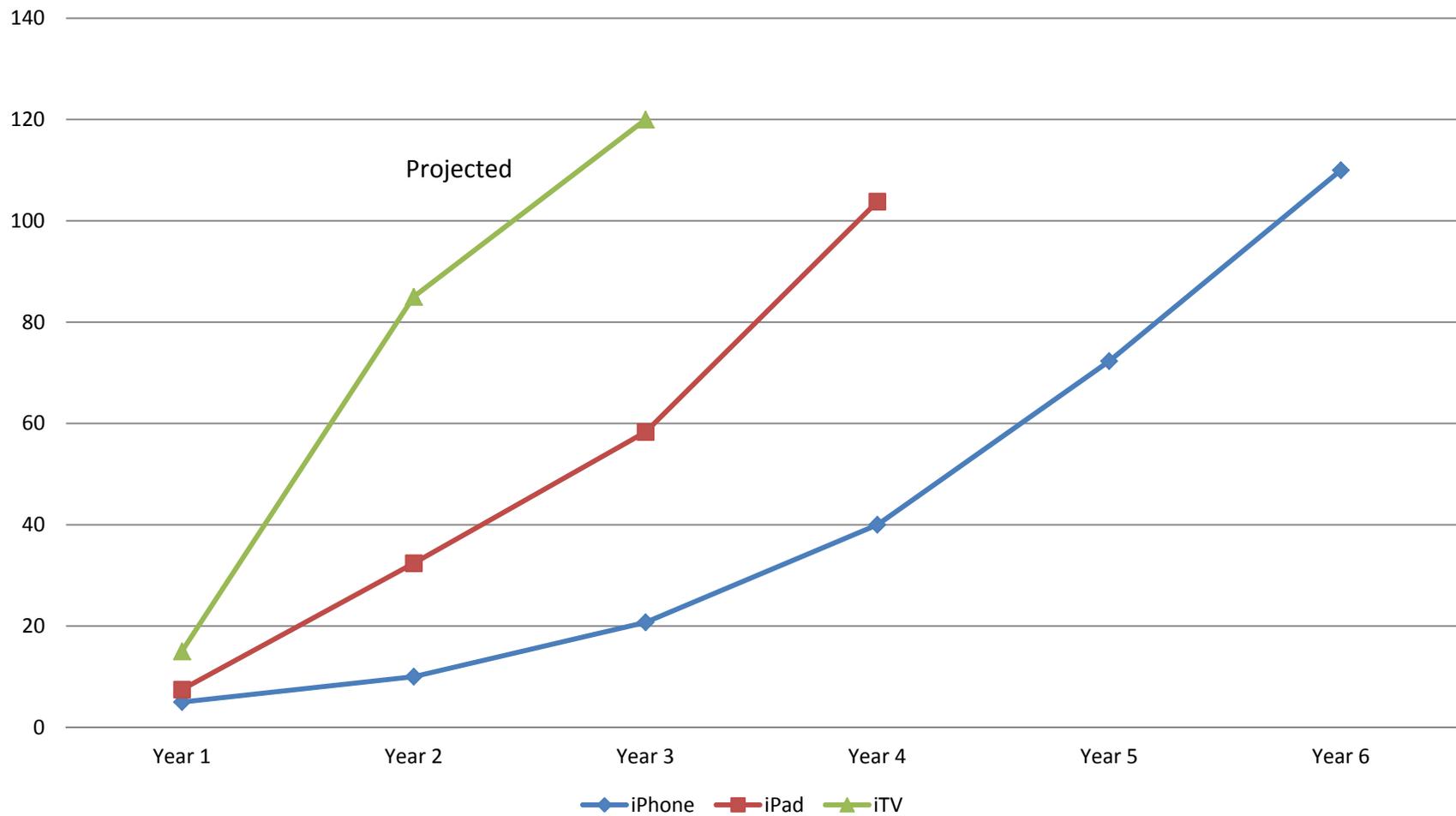
- iTV
- iAd
- iPay
- Siri

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

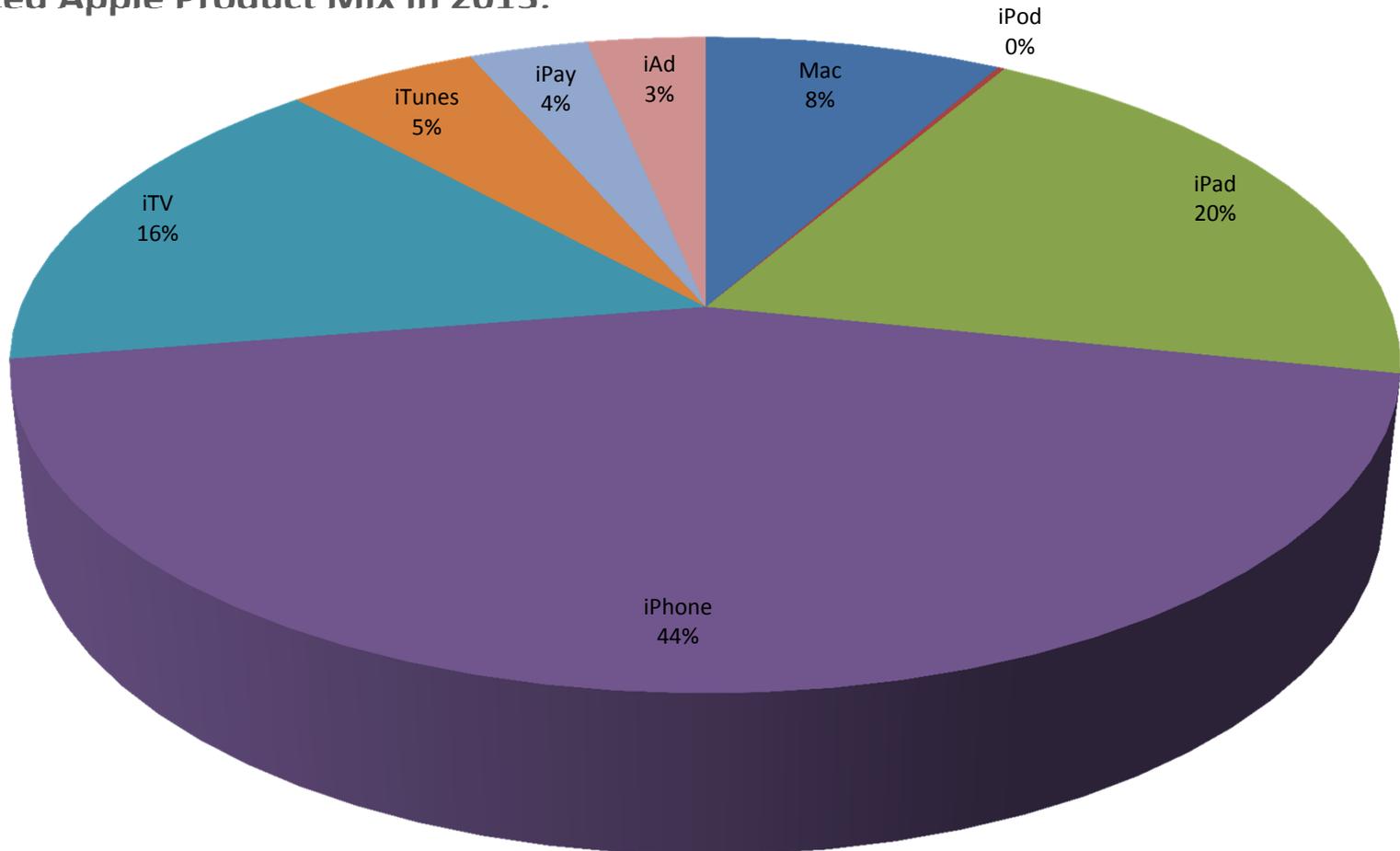
iPay Growth:

- 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:

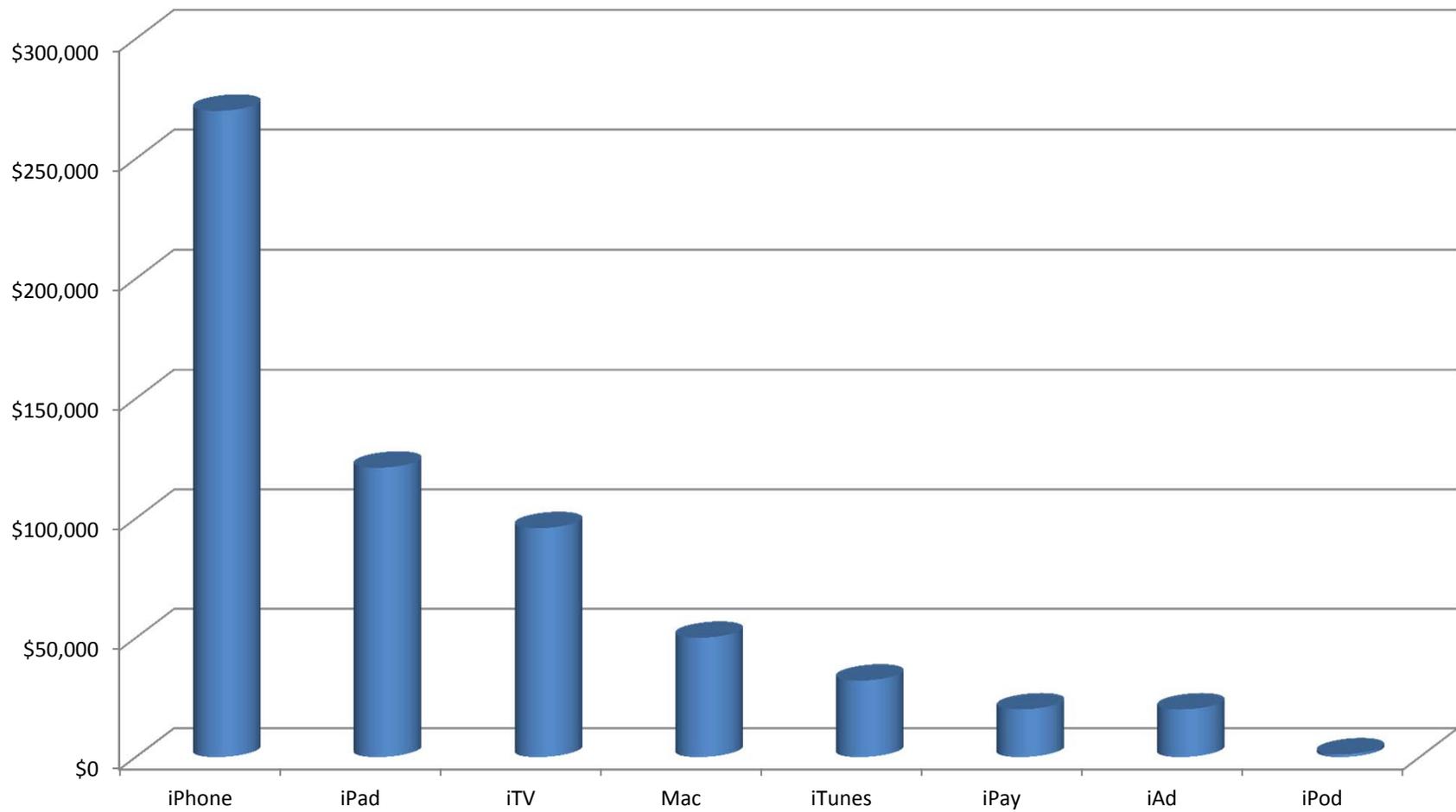
- “Google Killer” as it bleeds away reliance on desktop index search to get information
- Siri itself won’t be a money-maker for Apple
- But it will build powerful loyalty among users to Apple products
- Even more powerful when it becomes the interface to your TV and your house

Projected Apple Product Mix in 2015:



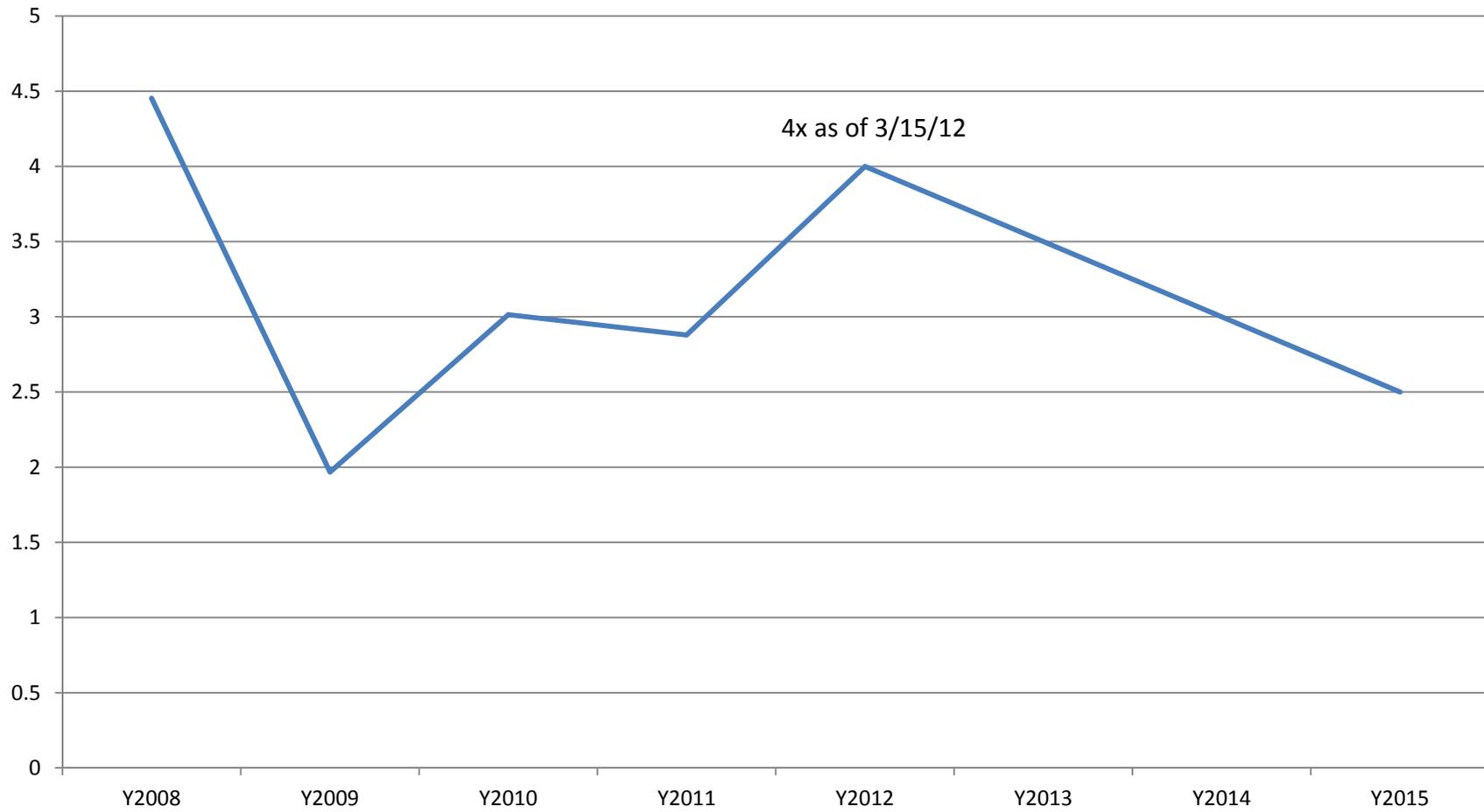
Projected Apple Product Mix in 2015

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



In \$B

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