Apple Inc.

AAPL · Thesis and analysis · October 26, 2026

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of 10 · hold signal

Watch: a wide-moat, capital-light franchise (32% operating margin, 77% return on invested capital, net-cash balance sheet) priced at ~40x normalized EBIT and a ~2% earnings yield against a 5% Treasury — the quality is not in question, the price leaves no margin of safety; buy only near $72.

The thesis

WATCH

Watch: a wide-moat, capital-light franchise (32% operating margin, 77% return on invested capital, net-cash balance sheet) priced at about 40× normalized EBIT and about 2% earnings yield against a 5% Treasury — the quality is not in question, the price leaves no margin of safety; buy only near $72.

The score

4.4

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Lifting it

- Return on capital (ROIC)

Holding it down

- Price

The key numbers

EV / EBIT, normalized	**40.6×**
P / E, normalized	**48.7×**
ROIC, normalized	**76%**
Operating margin, average	**30.1%**
Marginal return on capital	**sales grew with no new capital — self-funded growth**

normalized FY2019-FY2025 · debt and cash as of 2026-06-27

What one share is worth

Worst case	Bear case	Base case	Bull case	Expected value
$60.00	$61.18	$97.72	$130.25	$107.42
10% chance	6% chance	50% chance	34% chance	weighted by the chances
83% below today	82% below today	72% below today	62% below today	69% below today

Today $343.91 · value without the bull case $88.60 (0.26× the price)

The standard valuation the score uses: the same discount rate formula for every company (10.00%).

Bear case and bull case

Bear case

Mature hardware at low-single-digit sales growth (~1-2% a year); the operating margin eases to the normalized ~28-30% trough as Services decelerates under commission pressure. Terminal growth zero.

Bull case

An AI-led upgrade cycle and Services acceleration lift growth toward ~8-10% a year with the operating margin to ~34%, and the App Store / Google-payment regulation proves manageable. Terminal growth 3%.

Filings and accounting quality

> Accounting quality is high and conservative — the franchise is not an accounting artefact.

- Auditor Ernst & Young LLP, unqualified opinion; the sole critical audit matter is uncertain tax positions.
- R&D fully expensed — $34.6B in FY2025 — and nothing is capitalized: level 1 confirmed capex_intangibles 0 and capex_other 0 (no capitalized software, content or development). Conservative relative to large-cap peers.
- Revenue recognition is clean: hardware at delivery, bundled services deferred and recognized over time, third-party App Store sales booked net of commission; deferred revenue $13.7B.

Balance sheet

> Fortress, capital-light balance sheet — net cash and negligible tangible capital, the signature of a self-funding franchise.

- Q3 FY2026: cash $39.5B + current marketable securities $22.9B + non-current marketable securities $84.1B = $146.5B, vs total borrowings $84.3B (term debt $82.3B + commercial paper $2.0B) → about $62B net cash and investments; the engine's EV counts only $11.5B as excess cash, so EV ($5,090B) is if anything slightly overstated.
- Tangible capital tiny: net working capital negative every recent year (FY2022–$7.4B, FY2024–$12.5B, FY2025–$5.3B — customers and suppliers fund it); total capital (NWC + net PP&E) only $33–45B on $416B sales, about 8–11%.
- ROIC on invested capital about 76%, on tangible capital about 299% FY2025 (key_metrics); growth is self-funded.

Cash flow statement

> A cash machine — earnings convert to cash well above the franchise bar, and about $105B a year goes back to owners.

- Cash conversion (operating cash flow / net income): FY2019 126%, FY2020 141%, FY2021 110%, FY2022 122%, FY2023 114%, FY2024 126%, FY2025 99.5% — seven-year average about 120%, far above the 90% franchise test.
- Capex steady $7–13B a year (FY2025 $12.7B) against D&A $11.7B — no under-investment; free cash flow about $100B (OCF less capex), about $86B reported / about $97B normalized after all capitalized spend (key_metrics).
- Capital returned: buybacks $66.9B (FY2019) rising to about $90B a year, dividends about $15B a year — about $105B a year; diluted shares cut from 18.60B (FY2019) to 15.00B (FY2025), about 3.5% a year.

Income statement

> Expanding margins and genuine pricing power — the income-statement signature of a franchise — but FY2026 is a peak, not the valuation basis.

- Consolidated gross margin rising: 44.1% (FY2023) → 46.2% (FY2024) → 46.9% (FY2025), driven by the Services mix — Services gross margin 70.8% → 73.9% → 75.4%, now 26% of revenue — while Products held about 37% (36.5/37.2/36.8%) even absorbing tariff costs.
- Operating margin 32.0% FY2025 and rising (7-year 30.1%, 5-year 31.0%, 3-year 31.3%); revenue +8.1% a year and EBIT +13.0% a year FY2019→FY2025.
- Normalized (recent-weighted): EBIT $125.4B, net income $105.8B, EPS $7.05; no unusual operating items any year (one-off tax items handled by rate normalization).

Debt tables

> Debt is immaterial to risk — net cash, trivially covered, long-dated and cheap; it is a financing choice, not a burden.

- Fixed-rate notes $91.3B principal at FY2025 ($12.4B due within 12 months), future interest $37.0B total / about $2.6B a year; commercial paper $8.0B at 4.19%; maturities laddered 2026 $12.4B, 2027 $10.1B out to 2042+. By Q3 FY2026 term debt was down to $82.3B and commercial paper to $2.0B.
- Against $132.4B of cash and marketable securities at FY2025 — net cash; interest coverage EBIT $133B / interest about $2.6B about 50×.
- Leases are rent (fixed lease obligations $16.8B) and are excluded from debt per policy.

Commitments and contingencies

> The real contingencies are regulatory and supply-chain, not financial.

- Manufacturing purchase obligations $56.2B at FY2025 ($55.4B within 12 months) — short-dated component/assembly commitments; other purchase obligations $14.8B; unconditional purchase obligations beyond a year $4.8B (2026) tapering; deemed TCJA repatriation tax payable $8.8B within 12 months.
- Supply concentration: final assembly and many components outsourced to partners primarily in China, India, Vietnam, Taiwan and South Korea — the source of tariff and geopolitical exposure.
- Regulatory/legal: US DOJ antitrust suit, EU Digital Markets Act investigations, Epic Games litigation and scrutiny of the Google search-default payments — all aimed at the App Store commission and default-placement economics inside Services.

Receivables and provision for credit losses

> Receivables are clean — no channel-stuffing or collectibility red flag.

- Trade receivables $39.8B FY2025 (DSO about 35 days), falling to $31.4B at Q3 FY2026 even as sales rose about 16% — the opposite of channel stuffing.
- Concentration is disclosed and managed: cellular carriers 34% of trade receivables, one customer 12%; vendor non-trade receivables $33.2B concentrated in two Asian vendors (46% / 23%) — a supply-chain, not a credit, point.
- No material allowance for credit losses flagged; Apple requires third-party credit support/ collateral from higher-risk customers.

Market and segment analysis

> A concentrated but mix-diversified franchise — iPhone half of sales, Services the high-margin growth engine, Greater China the weak spot.

- By product (FY2025): iPhone $209.6B (50% of sales, +4%), Services $109.2B (26%, +14%, about 75% gross margin), Wearables/Home/Accessories $35.7B (9%, -4%), Mac $33.7B (8%, +12%), iPad $28.0B (7%, +5%).
- By region (FY2025): Americas $178.4B (43%, +7%), Europe $111.0B (27%, +10%), Greater China $64.4B (15%, -4% — the only shrinking region), Japan $28.7B (+15%), Rest of Asia Pacific $33.7B (+10%).
- Position: about 20% of global smartphone units and about 65% of the premium tier in 2025 (IDC/Counterpoint, source added); the 10-K concedes a minority unit share in phones, PCs, tablets and wearables, yet Apple earns the large majority of industry profit. Moat = integrated hardware-software-services ecosystem, switching costs, brand and scale.

Inventory analysis

Inventory is immaterial — Apple barely carries it.

- Inventory $5.7B FY2025 (about 9 days of cost of sales, FIFO), rising to $11.1B at Q3 FY2026 — a new-product and tariff-era pre-build, alongside manufacturing purchase obligations of $57.0B and other purchase obligations up to $29.3B.
- Turns are very high; write-down risk is disclosed but historically minor.

Leases and real estate analysis

> Leases are immaterial rent, correctly excluded from debt — Apple is not lease-heavy.

- Total lease liabilities $13.7B at FY2025 (operating $12.5B + finance $1.2B), weighted-average term 9.8 years at a 3.4% discount rate; ROU assets $12.2B.
- Fixed operating lease cost only $2.1B a year — about 1.6% of EBIT; the $16.1B ”variable lease cost” is based on purchases of output of leased manufacturing assets and sits inside cost of sales, not rent.
- Per policy leases are rent and are excluded from debt, EV and leverage; no hidden owned-real-estate value play (Apple owns its Cupertino campus and leases retail and data-centre space).

Depreciation analysis

> Depreciation is straightforward; capex modestly exceeds depreciation as Apple builds AI/data-centre capacity.

- Gross PP&E $125.8B, accumulated depreciation $76.0B, net $49.8B FY2025; depreciation expense $8.0B (2025), $8.2B (2024), $8.5B (2023), straight-line.
- Total D&A $11.7B implies about $3.7B amortization; capex $12.7B runs above depreciation $8.0B — growth capacity (data centres, custom-silicon tooling, retail), not under-investment.
- Engine maintenance capex $12.7B (the higher of capex and the depreciation estimate) is conservative; no acquired-intangible amortization distortion given negligible goodwill.

Business quality and moat

> A wide-moat franchise — among the highest-quality businesses in the world; the only real debate is price.

- Returns: ROIC on invested capital about 76%, on tangible capital about 299% FY2025; total tangible capital just about $33–45B on $416B sales. Marginal return is effectively self-funded — FY2019→FY2025 sales rose +$156B ($260B→$416B) on only about $7B more tangible capital, so incremental sales carry almost no capital.
- Durability: operating margin held and expanded through the cycle — 24.1% trough (FY2020) to 32.0% (FY2025); 12-year revenue +7.9% a year ($183B FY2014 → $416B FY2025) through COVID and smartphone maturity.
- Moat sources: integrated hardware-software-services ecosystem with high switching costs, a vast installed base, custom silicon, a deep developer network, brand and premium pricing (about 65% of premium smartphones); Services (26% of revenue, about 75% gross margin) monetizes the base with recurring revenue.

Management and governance

> Excellent operators; disciplined-in-form but price-insensitive capital allocation.

- Leadership: Tim Cook (CEO) with a deep bench; execution is first-rate — the Apple Silicon transition, the Services build-out (26% of revenue) and margin expansion to 32% all under this team.
- Capital allocation: about $90B a year of buybacks (new $100B authorizations in May 2025 and April 2026, plus $10B of ASRs in May 2026) and a growing dividend ($0.26/qtr, raised annually); about $105B a year returned and the diluted share count down about 13% since FY2021. The 10-K candidly warns buybacks may be executed above the later stock price.
- Governance: shareholder-approved 2022 equity plan (4-year RSU vesting); clean, candid disclosure; no integrity flags.

Valuation

> Worth roughly $100 a share against a $344 price — a wide-moat compounder with no margin of safety.

- Two-stage DCF at the standard about 10% cost of capital (US 10-year 5.0% + 5% equity premium, no leverage/size add-ons given net cash): base about $105, bear about $88, bull about $132, worst about $60; probability-weighted about $107 (odds from the scorecard: base 50%, bull 33%, bear 2%, worst 15%).
- Cross-checks all say dear: normalized EV/EBIT 40.6× and P/E 48.7×, FY2027 forward about 30×/37× on my forecast, a 2.6% business earnings yield versus a 5.0% US Treasury.
- Value rests on cash flows (sales, about 32% margin, self-funded growth, net cash), never on a multiple; the price is about 3× the central value.

Risk and margin of safety

> Business risk moderate; the balance sheet removes solvency risk — but the price itself is the dominant risk.

- Concentration: a ”significant portion of net sales from a single product category” (iPhone about 50%) and final assembly of substantially all hardware in Asia (China, India, Vietnam, Taiwan) — demand and supply-chain/tariff exposure.
- Moat-eroders: regulation of the App Store take-rate and the Google default payments (DMA/DOJ/Epic) threatens high-margin Services; the AI platform shift where Apple is currently a follower; Greater China share loss (15% of sales, -4% in FY2025).
- Permanent loss of the business is low — net cash about $62B, wide moat, about 100% cash conversion — set at 0.15 on the scorecard.

Decision, sizing and portfolio fit

> Decision: do not buy — a best-in-class franchise with no margin of safety at $343.91; target weight 0% until well below about $72.

- The scorecard's business factors are strongly positive (wide moat, about 76% ROIC, 32% margin, net cash), but the price factor (-1.0 at 40% weight) drives the final score below the buy threshold — the signal is not a buy.
- AAPL is not held (0% of a CAD 1.20M book; 74.7% equities / 25.3% fixed income). Initiating at $344 would add a mega-cap at about 3× intrinsic and worsen the book's margin of safety; the equity sleeve is already fully invested (HMM.A 31%, ZMMK.TO 14%, CMCSA 13%).
- Target weight 0% now; computed buy-below about $72 (weighted value about $107 less about 30% margin of safety). At the low case it would merit a core 4–6% position given the quality.

Monitoring and selling

> Monitor the Services take-rate, China, margin versus tariffs, and the AI product — and the price above all; buy only below about $72.

- Regulation is the chief watch-item: DMA/DOJ/Epic rulings on App Store commissions and the Google default payments threaten the about 75%-margin Services stream (Services gross margin flat-to-up in Q3 FY2026).
- China recovered: Greater China returned to growth in Q3 and nine months of FY2026 (iPhone plus renminbi strength) after the FY2025 decline — watch whether it holds.
- Tariffs: the US Supreme Court struck down certain tariffs (Feb 2026) and Apple is claiming refunds (a credit to Products cost of sales), lifting Products gross margin in Q3 FY2026 — but policy stays volatile (Section 232/301).

The decision

WATCH

The decision: watch. Buy below $72.00. Trim above $130.00. Target weight 0.0 percent of the portfolio. What would change our mind: A price near $72 (roughly a 40% decline) with the moat intact, or durable evidence that growth and margins beat the base case — Services re-accelerating with the App Store / Google-payment regulatory threat defanged — would make us buyers.