

Apple Inc. (AAPL)

F2Q26 review: Strong demand with better-than-feared gross margins

AAPL	12m Price Target: \$340.00	Price: \$271.35	Upside: 25.3%
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AAPL's F2Q26 results beat consensus, but were largely in-line with our above-consensus estimates across EPS (\$2.01 v. GS/consensus \$2.00/\$1.95), gross margins (49.3% v. GS/consensus of 49.0/48.3%) and revenue (\$111.2 bn v. GS/consensus of \$110.3/\$109.5 bn). AAPL's F3Q26E guidance was better-than-expected and likely is driving the stock higher with revenue growth of 14-17% yoy (v. consensus of +10% yoy), gross margins of 47.5-48.5% (v. consensus of 47.5%), and opex of \$18.8-\$19.1 bn (v. consensus of \$18.1 bn).

Results demonstrated strong iPhone, Mac, and Services momentum, along with AAPL's ability to effectively manage cost inflation, both of which have been investor concerns, in our view. First, although revenue increased 17%, growth would have been at least 250 bps better if not for supply constraints on advanced node for SOC. AAPL's better-than-expected F3Q26E revenue guidance also includes the assumption of continued supply constraints with underlying demand outpacing AAPL's ability to sell-in. This includes iPhone given the success of iPhone 17, as well as Mac which is benefiting from AI agent workload-related demand for Mac Mini and Studio, as well as the success of the lower-priced MacBook Neo. Second, gross margins of 49.3% had better-than-expected product gross margins, which are burdened by significantly higher memory costs qoq. The F3Q26E gross margin outlook also beat, despite increasing commodity cost inflation. Notably, AAPL will be seeking >\$3 bn of tariff refunds, which will eventually be a contra-COGS when received. Third, AAPL increased its share repurchase authorization by \$100 bn and no longer has a goal of achieving net cash neutral, though shareholder returns should continue to grow.

Key debates coming out the quarter likely will be the (1) sustainability of the iPhone momentum; (2) gross margin trajectory given the lagging impact of memory cost inflation which will likely be a growing headwind over time, offset by continued premium

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BUY

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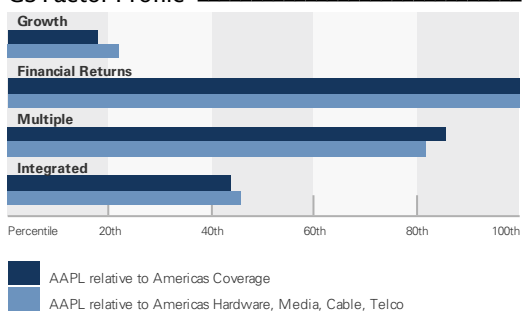
Key Data

Market cap:	\$4.0tr
Enterprise value:	\$3.9tr
3m ADTV:	\$11.8bn
United States	
Americas Hardware, Media, Cable, Telco	
M&A Rank:	3

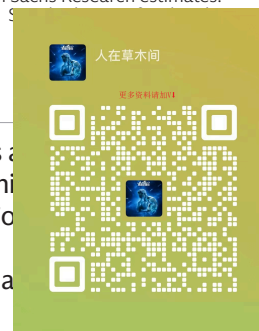
GS Forecast

	9/25	9/26E	9/27E	9/28E
Revenue (\$ mn) New	416,161.0	479,404.1	505,780.7	531,096.8
Revenue (\$ mn) Old	416,161.0	471,297.7	498,745.7	523,145.5
EBITDA (\$ mn)	144,748.0	170,570.6	179,923.8	188,036.6
EBIT (\$ mn)	133,050.0	156,951.0	164,485.9	170,705.4
EPS (\$) New	7.46	8.86	9.50	10.10
EPS (\$) Old	7.46	8.70	9.41	10.19
P/E (X)	30.0	30.6	28.6	26.9
Dividend yield (%)	0.5	0.4	0.4	0.4
Net debt/EBITDA (X)	(0.2)	(0.4)	(0.4)	(0.5)
	3/26	6/26E	9/26E	12/26E
EPS (\$)	2.01	1.93	2.07	2.90

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.



BUY

Apple Inc. (AAPL)

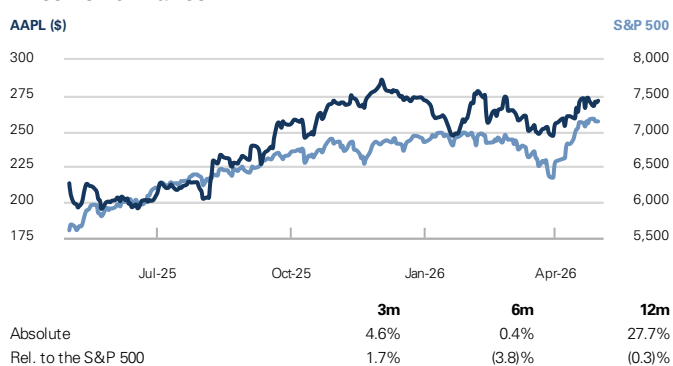
Rating since Mar 5, 2023

Ratios & Valuation

	9/25	9/26E	9/27E	9/28E
P/E (X)	30.0	30.6	28.6	26.9
EV/EBITDA (X)	22.9	22.9	21.3	19.8
EV/sales (X)	8.0	8.2	7.6	7.0
FCF yield (%)	3.0	3.7	3.7	4.1
EV/DACF (X)	24.2	25.1	23.0	21.4
CROCI (%)	86.0	92.6	92.4	89.4
ROE (%)	171.4	140.7	115.6	109.5
Net debt/EBITDA (X)	(0.2)	(0.4)	(0.4)	(0.5)
Net debt/equity (%)	(45.8)	(63.0)	(62.5)	(63.0)
Interest cover (X)	31.7	37.4	39.2	40.6
Inventory days	10.7	9.5	10.2	10.2
Receivable days	32.1	32.1	33.1	33.1
Days payable outstanding	114.7	108.0	108.0	107.7

Growth & Margins (%)

	9/25	9/26E	9/27E	9/28E
Total revenue growth	6.4	15.2	5.5	5.0
EBITDA growth	7.5	17.8	5.5	4.5
EPS growth	10.6	18.6	7.3	6.4
DPS growth	4.1	3.9	3.8	3.6
Gross margin	46.9	48.5	48.7	48.8
EBIT margin	32.0	32.7	32.5	32.1

Price Performance

Source: FactSet. Price as of 30 Apr 2026 close.

Income Statement (\$ mn)

	9/25	9/26E	9/27E	9/28E
Total revenue	416,161.0	479,404.1	505,780.7	531,096.8
Cost of goods sold	(220,960.0)	(246,986.1)	(259,360.8)	(272,057.5)
SG&A	(27,601.0)	(29,323.0)	(29,858.0)	(30,658.0)
R&D	(34,550.0)	(46,144.0)	(52,076.0)	(57,676.0)
Other operating inc./ (exp.)	-	-	-	-
EBITDA	144,748.0	170,570.6	179,923.8	188,036.6
Depreciation & amortization	(11,698.0)	(13,619.6)	(15,437.9)	(17,331.3)
EBIT	133,050.0	156,951.0	164,485.9	170,705.4
Net interest inc./ (exp.)	(321.0)	530.3	863.2	1,121.7
Income/(loss) from associates	-	-	-	-
Pre-tax profit	132,729.0	157,481.3	165,349.1	171,827.0
Provision for taxes	(20,719.0)	(27,169.9)	(28,109.3)	(29,210.6)
Minority interest	-	-	-	-
Preferred dividends	-	-	-	-
Net inc. (pre-exceptionals)	112,010.0	130,311.4	137,239.7	142,616.4
Net inc. (post-exceptionals)	112,010.0	130,311.4	137,239.7	142,616.4
EPS (basic, pre-exception) (\$)	7.49	8.89	9.53	10.14
EPS (diluted, pre-exception) (\$)	7.46	8.86	9.50	10.10
EPS (ex-ESO exp., dil.) (\$)	--	--	--	--
DPS (\$)	1.02	1.06	1.10	1.14
Div. payout ratio (%)	13.6	11.9	11.5	11.2
Wtd avg shares out. (basic) (mn)	14,947.7	14,659.3	14,396.1	14,064.0
Wtd avg shares out. (diluted) (mn)	15,004.7	14,714.3	14,448.7	14,116.6

Balance Sheet (\$ mn)

	9/25	9/26E	9/27E	9/28E
Cash & cash equivalents	35,934.0	57,895.7	74,461.4	88,372.6
Accounts receivable	39,777.0	44,494.7	47,177.1	49,278.3
Inventory	5,718.0	7,189.9	7,274.1	7,859.6
Other current assets	66,528.0	75,378.3	80,234.0	77,502.0
Total current assets	147,957.0	184,958.6	209,146.7	223,012.6
Net PP&E	49,834.0	53,039.3	60,193.0	66,345.7
Net intangibles	6,512.0	6,512.0	6,512.0	6,512.0
Total investments	77,723.0	75,088.0	69,088.0	63,088.0
Other long-term assets	77,215.0	92,252.0	92,252.0	92,252.0
Total assets	359,241.0	411,849.9	437,191.7	451,210.4
Accounts payable	69,860.0	76,310.5	77,203.9	83,418.6
Short-term debt	20,329.0	10,307.0	10,307.0	10,307.0
Current lease liabilities	-	-	-	-
Other current liabilities	75,442.0	83,810.1	93,738.7	93,121.2
Total current liabilities	165,631.0	170,427.5	181,249.6	186,846.9
Long-term debt	78,328.0	74,404.0	74,404.0	74,404.0
Non-current lease liabilities	-	-	-	-
Other long-term liabilities	41,549.0	55,546.0	55,546.0	55,546.0
Total long-term liabilities	119,877.0	129,950.0	129,950.0	129,950.0
Total liabilities	285,508.0	300,377.5	311,199.6	316,796.9
Preferred shares	-	-	-	-
Total common equity	73,733.0	111,472.3	125,992.1	134,413.5
Minority interest	-	-	-	-
Total liabilities & equity	359,241.0	411,849.9	437,191.7	451,210.4
BVPS (\$)	4.93	7.60	8.75	9.56

Cash Flow (\$ mn)

	9/25	9/26E	9/27E	9/28E
Net income	112,010.0	130,311.4	137,239.7	142,616.4
D&A add-back	11,698.0	13,619.6	15,437.9	17,331.3
Minority interest add-back	-	-	-	-
Net (inc)/dec working capital	(25,000.0)	3,759.7	(1,600.4)	842.6
Others	12,774.0	12,073.6	14,480.1	15,204.1
Cash flow from operations	111,482.0	159,764.2	165,557.4	175,994.3
Capital expenditures	(12,715.0)	(12,833.9)	(19,791.6)	(20,684.0)
Acquisitions	-	-	-	-
Divestitures	-	-	-	-
Others	-	-	-	-
Cash flow from investing	15,195.0	(15,543.9)	(11,791.6)	(12,684.0)
Dividends paid	(15,421.0)	(15,659.6)	(15,892.0)	(16,091.1)
Share issuance/(repurchase)	(96,671.0)	(92,648.0)	(121,308.0)	(133,308.0)
Inc/(dec) in debt	-	-	-	-
Others	-	-	-	-
Cash flow from financing	(120,686.0)	(122,258.6)	(137,200.0)	(149,399.1)
Total cash flow	5,991.0	21,961.7	16,565.7	13,911.2
Free cash flow	98,767.0	146,930.4	145,765.7	155,310.3
Free cash flow per share (basic) (\$)	6.61	10.02	10.13	11.04

Source: Company data, Goldman Sachs Research estimates.

price/mix shift, in-sourcing of components (e.g., C2 modem in the iPhone 18 family), abating tariff headwinds; (3) new product roadmap; and (4) potential changes in capital allocation strategy.

Key takeaways from the quarter

- **Products strength to drive growth momentum into F3Q26.** During the quarter, AAPL beat consensus expectations across all major product categories. First, iPhone revenue grew 22% yoy overall (DD% yoy growth across the US, Latin America, Greater China, Western Europe, India, Japan, and Southeast Asia) driven by continued strong demand for the iPhone 17 family, which is now the most popular iPhone family (measured between launch through March quarter), and reached a March quarter record for upgraders. Second, Mac revenue of \$8.4 bn beat consensus \$8.1 bn, with record upgraders and customers new to Mac. Notably, the company saw (a) increased applications for AI within the Mac Mini, and (b) adoption of MacBook Neo across enterprises and education markets (e.g. Kansas City public schools) switching from Chromebooks. Per AAPL, the company was supply constrained in F2Q26 due to (a) higher than expected demand for Mac Mini and MacBook Neo, where AAPL expects to continue to be constrained for several months, and (b) availability of advanced nodes used to create SOCs. If not for supply constraints, AAPL's overall revenue growth would have been at least 250 bps better than F2Q26's ~17% yoy growth. For the June quarter, AAPL's revenue guide of 14-17% yoy growth beat substantially (v. consensus +10% yoy), and should be driven by both volume and premium mix shifting as the breadth of AAPL's product portfolio resonates across developed and emerging markets.
- **Services to continue to scale from growing product installed base.** During F2Q26, Services revenue growth of +16% yoy beat consensus & guidance for 14% yoy growth, with all-time records across most services categories. Services growth is benefiting from the expanding active installed base of Apple products, which reached over 2.5 bn during the quarter, with transacting and paid accounts reaching an all-time high. For F3Q26, AAPL expects Services revenue to grow at a similar rate to F2Q26 excluding the benefit of forex tailwinds (which were greater than the 2.5% tailwind for overall revenue growth). Additionally, the company reiterated its expectation to launch AI enhanced Siri this year, and should see Services growth benefits from expansion of Ads (e.g. across Apple Maps) in coming quarters.
- **Gross margin outlook beats despite growing memory cost headwinds.** AAPL's F2Q26 gross margins of 49.3% beat GSe/consensus 49.0%/48.3% with beats across products and services (products GM 38.7% v. GSe/consensus 38.6%/36.4%; services GM 76.7% v. GSe/consensus 76.4%/76.4%). AAPL's product gross margins benefited from inventory on-hand that was not affected from spot memory cost inflation. While AAPL should continue to benefit from inventory on-hand in F3Q26, the benefit should be less than in F2Q26 and in F1Q26 as it draws down its supply of memory acquired pre-cost increases. As such, the company expects memory cost impacts to grow substantially over the next several quarters. That said, AAPL's

F3Q26 outlook for gross margins between 47.5–48.5% beat (v. 47.5% consensus), which we believe reflects continued benefits from product premiumization and tariff headwinds abating.

Earnings and guidance:

EPS of \$2.01 beat GS/consensus (FactSet) of \$2.00/\$1.95. Revenue of \$111.2 bn beat GS/consensus of \$110.3/\$109.5 bn with iPhone revenue of \$57.0 bn beating GS/consensus of \$56.6/\$56.5 bn and Services revenue of \$31.0 bn beating GS/consensus of \$30.4/\$30.4 bn. Gross margins of 49.3% beat GS/consensus of 49.0%/48.3% with Product gross margins at 38.7% v. GS/consensus of 38.6%/36.4%.

- **Revenue of \$111.2 bn beat** GSe/consensus \$110.3 bn/\$109.5 bn. Products revenue of \$80.2 bn was just above GSe \$80.0 bn and beat consensus \$78.2 bn. Services revenue of \$31.0 bn (+16% yoy) beat GSe/consensus \$30.4 bn/\$30.4 bn.
- **Broad-based Product revenue beat relative to consensus.**
 - iPhone revenue of \$57.0 bn beat GSe/consensus \$56.6 bn/\$56.5 bn.
 - Mac revenue of \$8.4 bn beat consensus \$8.1 bn but was just below GSe \$8.9 bn.
 - iPad revenue of \$6.9 bn was just above GSe/consensus \$6.8/\$6.7 bn.
 - Wearables, Home, and Accessories revenue of \$7.9 bn beat GSe/consensus \$7.6 bn/\$7.8 bn.
- **Gross profit of \$54.8 bn beat** GSe/consensus \$54.1 bn/\$52.9 bn, with a gross margin rate of 49.3% above GSe 49.0% and consensus 48.3%. Product gross margins of 38.7% beat GSe/consensus 38.6%/36.4%. Services gross margins of 76.7% beat GSe 76.4% and consensus 76.4%.
- **EBIT of \$35.9 bn represented 32.3% margins, and beat GSe/consensus** \$35.5 bn/\$34.8 bn (GS/consensus of 32.2%/31.8% margins). Operating expenses of \$18.9 bn beat GSe \$18.5 bn and consensus \$18.1 bn.
- **AAPL repurchased ~\$12.3 bn of shares during the quarter** (v. GSe \$30 bn) and was down from F1Q26 (~\$24.7 bn).

Apple provided F3Q26 guidance including: (1) total company revenue growth between 14–17% yoy (v. Visible Alpha Consensus Data +10% yoy); (2) Services to grow similar to March quarter growth excluding for-ex tailwinds (F2Q26 Services growth +16% yoy with >2.5% forex tailwinds, v. +13% yoy consensus); (3) gross margins between 47.5–48.5% (v. 47.5% consensus); (4) opex between \$18.8–\$19.1 bn; (5) OI&E of \$250 mn; and (6) tax rate of 17%.

Exhibit 1: Actuals v. GS estimates v. consensus

\$ millions, except per share data

(\$, mn)	Gse				Consensus				Comments/guidance	
	New	yoy Δ (%)	Old	Δ (\$, mn)	Δ (%)	FactSet	Δ (\$, mn)	Δ (%)		yoy Δ (%)
Sales	\$111,184	17%	\$110,337	\$847	1%	\$109,458	\$1,726	2%	15%	13-16% yoy
Gross profit	\$54,781	22%	\$54,070	\$711	1%	\$52,897	\$1,884	4%	18%	
Operating expenses	\$18,896	24%	\$18,529	\$367	2%	\$18,135	\$761	4%	19%	\$18.4-\$18.7 bn
Operating income	\$35,885	21%	\$35,541	\$344	1%	\$34,761	\$1,124	3%	17%	
Other income (expense), net	(\$52)	-81%	\$100	(\$152)	-152%	(\$236)	\$184	-78%	-15%	~\$100 mn
Earnings before tax	\$35,833	22%	\$35,641	\$192	1%	\$34,525	\$1,308	4%	18%	
Tax (Non-GAAP)	\$6,255		\$6,237	\$18	0%	\$6,031	\$224	4%		
Tax rate	17.5%		17.5%	(0.0%)		17.5%				17.5%
Net income - Non-GAAP	\$29,578	19%	\$29,404	\$174	1%	\$28,517	\$1,061	4%	15%	
Diluted EPS (Non-GAAP)	\$2.01	22%	\$2.00	\$0.01	1%	\$1.95	\$0.06	3%	18%	
Segment information										
iPhone	\$56,994	22%	\$56,585	\$409	1%	\$56,500	\$494	1%	21%	
iPad	\$6,914	8%	\$6,805	\$109	2%	\$6,704	\$210	3%	5%	
Mac	\$8,399	6%	\$8,938	(\$539)	-6%	\$8,115	\$284	3%	2%	
Wearables, Home and Accessories	\$7,901	5%	\$7,638	\$263	3%	\$7,806	\$95	1%	4%	
Products	\$80,208	17%	\$79,965	\$243	0%	\$78,207	\$2,001	3%	14%	
Services	\$30,976	16%	\$30,372	\$604	2%	\$30,357	\$619	2%	14%	in-line with F1Q26 Services growth (+14% yoy)
Total revenue	\$111,184	17%	\$110,337	\$847	1%	\$109,458	\$1,726	2%	15%	13-16% yoy
Products Gross Profit	\$31,029	26%	\$30,867	\$162	1%	\$28,467	\$2,562	9%	15%	
Services Gross Profit	\$23,752	18%	\$23,203	\$549	2%	\$23,187	\$565	2%	15%	
Gross profit	\$54,781	22%	\$54,070	\$711	1%	\$52,897	\$1,884	4%	18%	
Products gross margin (%)	38.7%	2.8%	38.6%	0.1%		36.4%	2.3%		0.5%	
Services gross margin (%)	76.7%	0.9%	76.4%	0.3%		76.4%	0.3%		0.6%	
Gross profit margin (%)	49.3%	2.2%	49.0%	0.3%		48.3%	0.9%		1.3%	48-49%
Operating income margin (%)	32.3%	1.2%	32.2%	0.1%		31.8%	0.5%		0.7%	
Revenue by geography										
Americas	\$45,093	12%	\$44,750	\$343	1%					
Europe	\$28,055	15%	\$27,633	\$422	2%					
Greater China	\$20,497	28%	\$21,603	(\$1,106)	(5%)					
Japan	\$8,401	15%	\$7,663	\$738	10%					
Rest of Asia-Pacific	\$9,138	25%	\$8,689	\$449	5%					
Total revenue	\$111,184	17%	\$110,337	\$847	1%	\$109,458	\$1,726	2%	15%	

Source: Company data, Goldman Sachs Global Investment Research, FactSet, StreetAccount

Estimate and price target changes**Estimate changes**

We raise our F2026/27/28 EPS estimates by 1% on average on sustained iPhone and Mac demand, as well as <\$3 bn in tariff refunds in F2027, offset by lower underlying product gross margins.

Exhibit 2: AAPL estimate changes

\$ millions, except per share data

	FY2026E				FY2027E				FY2028E			
	Current	Prior	Δ (\$, mn)	Δ (%)	Current	Prior	Δ (\$, mn)	Δ (%)	Current	Prior	Δ (\$, mn)	Δ (%)
Sales	479,404	471,298	8,106	2%	505,781	498,746	7,035	1%	531,097	523,146	7,951	2%
Cost of sales	246,986	242,419	4,568	2%	259,361	255,090	4,271	2%	272,057	264,382	7,676	3%
Gross profit	232,418	228,879	3,539	2%	246,420	243,656	2,764	1%	259,039	258,764	276	0%
Research & development	46,144	45,848	296	1%	52,076	51,548	528	1%	57,676	57,148	528	1%
Selling, General & Administration	29,323	28,918	405	1%	29,858	29,718	140	0%	30,658	30,518	140	0%
Total operating expenses	75,467	74,766	701	1%	81,934	81,266	668	1%	88,334	87,666	668	1%
Operating income	156,951	154,113	2,838	2%	164,486	162,390	2,096	1%	170,705	171,098	(392)	0%
Other income (expense), net	530	404	127	31%	863	463	400	86%	1,122	512	609	119%
Earnings before tax	157,481	154,517	2,965	2%	165,349	162,853	2,496	2%	171,827	171,610	217	0%
Tax	27,170	26,681	489	2%	28,109	27,685	424	2%	29,211	29,174	37	0%
Net income - GAAP	130,311	127,836	2,475	2%	137,240	135,168	2,072	2%	142,616	142,436	180	0%
Diluted EPS (GAAP)	\$8.86	\$8.70	\$0.16	2%	\$9.50	\$9.41	\$0.09	1%	\$10.10	\$10.19	(\$0.09)	-1%
Diluted shares	14,714	14,699	15	0%	14,449	14,362	87	1%	14,117	13,979	137	1%
EBITDA	170,571	167,332	3,239	2%	179,924	177,399	2,525	1%	188,037	187,929	108	0%
iPhone	252,183	245,851	6,332	3%	255,744	254,323	1,420	1%	260,767	259,323	1,445	1%
Mac	35,735	34,944	790	2%	41,077	36,813	4,264	12%	43,579	39,055	4,523	12%
iPad	29,519	29,573	(54)	0%	30,568	30,568	0	0%	31,020	31,020	0	0%
Wearables, Home and Accessories	37,072	36,510	562	2%	39,314	38,724	590	2%	41,220	40,601	619	2%
Products	354,509	346,878	7,631	2%	366,692	360,419	6,274	2%	376,586	369,999	6,587	2%
Services	124,895	124,419	476	0%	139,088	138,327	761	1%	154,511	153,147	1,364	1%
Total revenue	479,404	471,298	8,106	2%	505,781	498,746	7,035	1%	531,097	523,146	7,951	2%
Products Gross Profit	137,120	134,120	3,000	2%	140,154	138,200	1,955	1%	140,836	141,855	(1,019)	-1%
Services Gross Profit	95,298	94,759	539	1%	106,266	105,456	810	1%	118,203	116,908	1,295	1%
Gross profit	232,418	228,879	3,539	2%	246,420	243,656	2,764	1%	259,039	258,764	276	0%
Products gross margin (%)	38.7%	38.7%		0.0%	38.2%	38.3%		(0.1%)	37.4%	38.3%		(0.9%)
Services gross margin (%)	76.3%	76.2%		0.1%	76.4%	76.2%		0.2%	76.5%	76.3%		0.2%
Total Gross Margin (%)	48.5%	48.6%		(0.1%)	48.7%	48.9%		(0.1%)	48.8%	49.5%		(0.7%)

Source: Goldman Sachs Global Investment Research

Price target, rating, and valuation

We are **Buy rated** on Apple with a **12-month target price of \$340** (v. \$330 prior) reflecting 34X (unchanged) our NTM+1Y EPS.

Key risks include:

Weakening consumer demand for products and services. Apple's products and services are typically sold to consumers and any weakness in the macroeconomic environment could reduce demand for Apple products and services. Apple generated ~50% of its revenue from iPhones (F2025), which is highly dependent on purchases driven by upgrades. Lengthening replacement cycles due to macroeconomic headwinds, improved product durability, or lackluster product innovation could all negatively impact upgrade demand.

Supply chain disruption. Although Apple's suppliers have a global footprint, the majority of final assembly occurs in China. Increased geopolitical tension may result in disruptions to global trade including through tariffs. While Apple has a robust supply chain network, it may rely on one or a few key suppliers for unique or hard-to-manufacture at scale parts.

Intensifying competition. Apple competes across personal devices (e.g., handsets, tablets, PCs, headphones) and a variety of services (e.g., video streaming, app distribution, advertising, music streaming, online fitness, cloud storage, product warranties). Although Apple is the largest company and the most well resourced among its competitors, it is not the market leader in every single business line. For instance, in video streaming, it faces several key competitors that invest more heavily than Apple in content.

Regulatory risks. Apple is subject to intense regulatory scrutiny in all the major markets that it operates in. Regulatory intervention could result in weakening Apple's competitive advantages if it is forced to make its proprietary products or services available for competitors to use.

Capital allocation execution. Apple has a history of M&A, which has no guarantee of success. AAPL also has a history of share repurchases, which could prove to offer lower ROI or come under deeper regulatory scrutiny.

Thesis summary

Apple designs, manufactures, and markets personal technology devices and sells a variety of related services. Its long history and track record of **(1) designing category-defining and innovative products** (e.g., Mac, iPhone, iPad, Apple Watch, AirPods, iPod); **(2) protecting digital privacy**; and **(3) delivering premium services & experiences** have contributed to an unmatched brand strength. Apple's brand loyalty has resulted in a growing installed base of users that provide Apple with visibility into revenue growth by reducing customer churn, lowering customer acquisition costs for new product and services launches (e.g., Apple TV+, Apple Fitness, Apple Watch), and encouraging repeat purchases, such as phone upgrades.

We are Buy-rated on AAPL as we believe that the market's focus on slower product revenue growth masks the strength of the Apple ecosystem and associated revenue durability & visibility. Apple's installed base growth, secular growth in services, and new product innovation should more than offset cyclical headwinds to product revenue, such as a reduced iPhone unit demand due to a lengthening replacement cycle and reduced

consumer demand for the PC & tablet category. Valuation is attractive relative to AAPL's historical multiple — both on an absolute & relative basis — and compared to key tech peers. The majority of gross profit growth over the next 5-years should be driven by Services, which should mark an inflection point in the Services investment narrative and support AAPL's premium multiple. The durability of Apple's installed base and the resulting revenue growth visibility from attaching more Services and Products is what underpins the recurring revenue — or Apple-as-a-Service — opportunity.

Key risks to our view include weakening consumer demand, supply chain disruption, intensifying competition, regulatory risks, and capital allocation execution.

Income statement

Exhibit 3: AAPL income statement

\$ millions, except per share data

Income statement (\$, millions)	Q1'25	Q2'25	Q3'25	Q4'25	Q1'26	Q2'26	Q3'26E	Q4'26E	Q1'27E	Q2'27E	Q3'27E	Q4'27E	Q1'28E	Q2'28E	Q3'28E	Q4'28E	FY'2024	FY'2025	FY'2026E	FY'2027E	FY'2028E
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28					
Sales	124,300	95,359	94,036	102,466	143,756	111,184	109,845	114,619	147,638	119,943	116,671	121,529	153,924	127,005	123,227	126,942	391,035	416,161	479,404	505,781	531,097
Cost of sales	66,025	50,492	50,318	54,125	74,525	56,403	56,935	59,123	76,721	62,148	60,677	59,815	79,113	65,082	63,233	64,630	210,352	220,960	246,986	259,361	272,057
Gross profit	58,275	44,867	43,718	48,341	69,231	54,781	52,910	55,496	70,918	57,795	55,994	61,714	74,811	61,923	59,993	62,312	180,683	195,201	232,418	246,420	259,039
Research & development	8,268	8,550	8,866	8,866	10,887	11,419	11,819	12,019	12,519	12,919	13,219	13,419	13,919	14,319	14,619	14,819	31,370	34,550	46,144	52,076	57,676
Selling, General & Administration	7,175	6,728	6,650	7,046	7,492	7,477	7,127	7,227	7,727	7,377	7,327	7,427	7,927	7,577	7,527	7,627	26,097	27,601	29,323	29,858	30,638
Total operating expenses	15,443	15,278	15,516	15,914	18,379	18,896	18,946	19,246	20,246	20,296	20,546	20,846	21,846	21,896	22,146	22,446	57,467	62,151	75,467	81,934	88,334
Operating income	42,832	29,589	28,202	32,427	50,852	35,885	33,964	36,250	50,672	37,499	35,448	40,868	52,865	40,027	37,847	39,866	123,216	133,050	156,951	164,486	170,705
Other income (expense), net	-248	-279	-171	377	150	-52	250	182	162	-239	197	264	227	304	-261	330	269	(321)	530	863	1,122
Earnings before tax	42,584	29,310	28,031	32,804	51,002	35,833	34,214	36,432	50,834	37,738	35,645	41,132	53,192	40,331	38,109	40,196	123,485	132,729	157,481	165,349	171,827
Tax (Non-GAAP)	6,254	4,530	4,597	5,338	8,905	6,255	5,816	6,194	8,642	6,415	6,060	6,992	9,043	6,856	6,478	6,833	19,503	20,719	27,170	28,109	29,211
Net income (Non-GAAP)	36,330	24,780	23,434	27,466	42,097	29,578	28,398	30,239	42,192	31,323	29,585	34,140	44,149	33,474	31,630	33,362	103,982	112,010	130,311	137,240	142,616
Post-tax exceptionals	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,246	0	0	0	0
Net income - GAAP	36,330	24,780	23,434	27,466	42,097	29,578	28,398	30,239	42,192	31,323	29,585	34,140	44,149	33,474	31,630	33,362	93,736	112,010	130,311	137,240	142,616
Basic EPS (Non-GAAP)	\$2.41	\$1.65	\$1.57	\$1.85	\$2.85	\$2.02	\$1.94	\$2.07	\$2.91	\$2.17	\$2.06	\$2.39	\$3.11	\$2.37	\$2.26	\$2.39	\$6.78	\$7.49	\$8.89	\$9.53	\$10.14
Diluted EPS (Non-GAAP)	\$2.40	\$1.65	\$1.57	\$1.85	\$2.84	\$2.01	\$1.93	\$2.07	\$2.90	\$2.16	\$2.05	\$2.38	\$3.10	\$2.36	\$2.25	\$2.39	\$6.75	\$7.46	\$8.86	\$9.50	\$10.10
Basic EPS (GAAP)	\$2.41	\$1.65	\$1.57	\$1.85	\$2.85	\$2.02	\$1.94	\$2.07	\$2.91	\$2.17	\$2.06	\$2.39	\$3.11	\$2.37	\$2.26	\$2.39	\$6.11	\$7.49	\$8.89	\$9.53	\$10.14
Diluted EPS (GAAP)	\$2.40	\$1.65	\$1.57	\$1.85	\$2.84	\$2.01	\$1.93	\$2.07	\$2.90	\$2.16	\$2.05	\$2.38	\$3.10	\$2.36	\$2.25	\$2.39	\$6.08	\$7.46	\$8.86	\$9.50	\$10.10
Basic shares	15,082	14,991	14,903	14,815	14,748	14,673	14,635	14,581	14,512	14,437	14,357	14,278	14,194	14,108	14,020	13,934	15,344	14,948	14,659	14,396	14,064
Diluted shares	15,151	15,056	14,948	14,864	14,810	14,726	14,687	14,633	14,565	14,489	14,410	14,331	14,247	14,160	14,073	13,987	15,408	15,005	14,714	14,449	14,117
Dividend per share	\$0.25	\$0.25	\$0.26	\$0.26	\$0.26	\$0.26	\$0.27	\$0.27	\$0.27	\$0.27	\$0.28	\$0.28	\$0.28	\$0.28	\$0.29	\$0.29	\$0.98	\$1.02	\$1.06	\$1.10	\$1.14

Year-over-year change (%)	Q1'25	Q2'25	Q3'25	Q4'25	Q1'26	Q2'26	Q3'26E	Q4'26E	Q1'27E	Q2'27E	Q3'27E	Q4'27E	Q1'28E	Q2'28E	Q3'28E	Q4'28E	FY'2024	FY'2025	FY'2026E	FY'2027E	FY'2028E
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28					
Sales	4%	5%	10%	8%	3%	17%	12%	12%	3%	8%	6%	6%	4%	6%	6%	4%	2%	6%	15%	6%	5%
Cost of sales	2%	4%	9%	6%	13%	12%	13%	9%	3%	10%	7%	1%	3%	5%	4%	8%	-2%	5%	12%	5%	5%
Gross profit	6%	6%	10%	10%	19%	22%	21%	15%	2%	6%	6%	11%	5%	7%	7%	1%	7%	8%	19%	6%	5%
Research & development	7%	8%	11%	14%	32%	34%	33%	36%	15%	13%	12%	12%	11%	11%	11%	10%	5%	10%	34%	13%	11%
Selling, General & Administration	6%	4%	5%	8%	4%	11%	7%	3%	3%	-1%	3%	3%	3%	3%	3%	3%	5%	6%	6%	2%	3%
Total operating expenses	7%	6%	8%	11%	19%	24%	22%	21%	10%	7%	8%	8%	8%	8%	8%	8%	5%	8%	21%	9%	8%
Operating income	6%	6%	11%	10%	19%	21%	20%	12%	0%	4%	4%	13%	5%	7%	7%	-2%	8%	8%	18%	5%	4%
D&A	8%	-6%	-1%	7%	4%	29%	21%	13%	13%	12%	15%	14%	13%	12%	12%	11%	-1%	2%	16%	13%	12%
EBITDA	6%	5%	10%	9%	18%	22%	21%	12%	0%	5%	5%	13%	5%	7%	7%	-1%	7%	7%	18%	5%	5%
Earnings before tax	6%	4%	10%	11%	20%	22%	22%	11%	0%	5%	4%	13%	5%	7%	7%	-2%	9%	7%	19%	5%	4%
Net income (Non-GAAP)	7%	5%	9%	10%	16%	19%	21%	10%	0%	6%	4%	13%	5%	7%	7%	-2%	7%	8%	16%	5%	4%
Net income - GAAP	7%	5%	9%	8%	16%	19%	21%	10%	0%	6%	4%	13%	5%	7%	7%	-2%	-3%	19%	16%	5%	4%
Basic EPS (Non-GAAP)	10%	8%	12%	13%	18%	22%	23%	12%	2%	8%	6%	15%	7%	9%	9%	0%	10%	11%	19%	7%	6%
Diluted EPS (Non-GAAP)	10%	8%	12%	13%	19%	22%	23%	12%	2%	8%	6%	15%	7%	9%	9%	0%	10%	11%	19%	7%	6%
Basic EPS (GAAP)	10%	8%	12%	9%	18%	22%	23%	12%	2%	8%	6%	15%	7%	9%	9%	0%	-1%	23%	19%	7%	6%
Diluted EPS (GAAP)	10%	8%	12%	9%	19%	22%	23%	12%	2%	8%	6%	15%	7%	9%	9%	0%	-1%	23%	19%	7%	6%
Basic shares	-3%	-3%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-3%	-3%	-2%	-2%	-2%
Diluted shares	-3%	-3%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-3%	-3%	-2%	-2%	-2%

% of revenue	Q1'25	Q2'25	Q3'25	Q4'25	Q1'26	Q2'26	Q3'26E	Q4'26E	Q1'27E	Q2'27E	Q3'27E	Q4'27E	Q1'28E	Q2'28E	Q3'28E	Q4'28E	FY'2024	FY'2025	FY'2026E	FY'2027E	FY'2028E
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28					
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	53.1%	52.9%	53.5%	52.8%	51.8%	50.7%	51.8%	51.6%	52.0%	51.8%	52.0%	49.2%	51.4%	51.2%	51.3%	50.9%	53.8%	53.1%	51.5%	51.3%	51.2%
Gross profit	46.9%	47.1%	46.5%	47.2%	48.2%	49.3%	48.2%	48.4%	48.0%	48.2%	48.0%	50.8%	48.6%	48.8%	48.7%	49.1%	46.2%	46.9%	48.5%	48.7%	48.8%
Research & development	6.7%	9.0%	9.4%	8.7%	7.6%	10.3%	10.8%	10.5%	8.5%	10.8%	11.3%	11.0%	9.0%	11.3%	11.9%	11.7%	8.0%	8.3%	9.6%	10.3%	10.9%
Selling, General & Administration	5.8%	7.1%	7.1%	6.9%	5.2%	6.7%	6.5%	6.3%	5.2%	6.2%	6.3%	6.1%	5.1%	6.0%	6.1%	6.0%	6.7%	6.6%	6.1%	5.9%	5.8%
Total operating expenses	12.4%	16.0%	16.5%	15.5%	12.8%	17.0%	17.2%	16.8%	13.7%	16.9%	17.8%	17.2%	14.2%	17.2%	18.0%	17.7%	14.7%	14.9%	15.7%	16.2%	16.6%
Operating income	34.5%	31.0%	30.0%	31.6%	35.4%	32.3%	30.9%	31.6%	34.3%	31.3%	30.4%	33.6%	34.4%	31.5%	30.7%	31.4%	31.5%	32.0%	32.7%	32.5%	32.1%
D&A	2.5%	2.8%	3.0%	3.1%	2.2%	3.1%	3.1%	3.1%	2.5%	3.2%	3.4%	3.3%	2.7%	3.4%	3.6%	3.5%	2.9%	2.8%	2.8%	3.1%	3.3%
EBITDA	36.9%	33.8%	33.0%	34.7%	37.6%	35.4%	34.0%	34.7%	36.8%	34.5%	33.8%	36.9%	37.1%	34.9%	34.3%	34.9%	34.4%	34.8%	35.6%	35.6%	35.4%
Earnings before tax	34.3%	30.7%	29.8%	32.0%	35.5%	32.2%	31.1%	31.8%	34.4%	31.5%	30.6%	33.8%	34.6%	31.8%	30.9%	31.7%	31.6%	31.9%	32.8%	32.7%	32.4%
Net income (Non-GAAP)	29.2%	26.0%	24.9%	26.8%	29.3%	26.6%	25.9%	26.4%	28.6%	26.1%	25.4%	28.1%	28.7%	26.4%	25.7%	26.3%	26.6%	26.9%	27.2%	27.1%	26.9%
Net income - GAAP	29.2%	26.0%	24.9%	26.8%	29.3%	26.6%	25.9%	26.4%	28.6%	26.1%	25.4%	28.1%	28.7%	26.4%	25.7%	26.3%	24.0%	26.9%	27.2%	27.1%	26.9%

Source: Goldman Sachs Global Investment Research, Company data