# AAPL

Mike Torbenson
Let's Talk Stock
1/26/2010

## New accounting proceedures

Under the historical accounting principles, the Company was required to account for sales of both iPhone and Apple TV using subscription accounting because the Company indicated it might from time-to-time provide future unspecified software upgrades and features for those products free of charge. Under subscription accounting, revenue and associated product cost of sales for iPhone and Apple TV were deferred at the time of sale and recognized on a straight-line basis over each product's estimated economic life. This resulted in the deferral of significant amounts of revenue and cost of sales related to iPhone and Apple TV. Costs incurred by the Company for engineering, sales, marketing and warranty were expensed as incurred. As of September 26, 2009, based on the historical accounting principles, total accumulated deferred revenue and deferred costs associated with past iPhone and Apple TV sales were $12.1 billion and $5.2 billion, respectively.

The new accounting principles generally require the Company to account for the sale of both iPhone and Apple TV as two deliverables. The first deliverable is the hardware and software delivered at the time of sale, and the second deliverable is the right included with the purchase of iPhone and Apple TV to receive on a when-and-if-available basis future unspecified software upgrades and features relating to the product's software. The new accounting principles result in the recognition of substantially all of the revenue and product costs from sales of iPhone and Apple TV at the time of sale. Additionally, the Company is required to estimate a standalone selling price for the unspecified software upgrade right included with the sale of iPhone and Apple TV and recognizes that amount ratably over the 24-month estimated life of the related hardware device. For all periods presented, the Company's estimated selling price for the software upgrade right included with each iPhone and Apple TV sold is $25 and $10, respectively. The adoption of the new accounting principles increased the Company's net sales by $6.4 billion, $5.0 billion and $572 million for 2009, 2008 and 2007, respectively. As of September 26, 2009, the revised total accumulated deferred revenue associated with iPhone and Apple TV sales to date was $483 million; revised accumulated deferred costs for such sales were zero.

## Restated 2008

| | EPS | PTP | Sales |
|---|---|---|---|
| Original | 6.28 | 7,984 | 36,537 |
| Restated | 9.07 | 12,066 | 42,905 |
| Increase | 2.79 | 4,082 | 6,368 |
| | 44% | 51% | 17% |

| | PERIOD | EPS | | PRE-TAX PROFIT | | | SALES | |
|---|---|---|---|---|---|---|---|---|
| | | $ | % CHANGE | $ MIL | % SALES | % CHANGE | $ MIL | % CHANGE |
| Original | 12/08 | 1.78 | 1.1 | 2,284.00 | 22.5 | -1.8 | 10,167.00 | 5.8 |
| | 03/09 | 1.33 | 14.7 | 1,730.00 | 21.2 | 17.1 | 8,163.00 | 8.7 |
| | 06/09 | 1.35 | 13.4 | 1,732.00 | 20.8 | 14.7 | 8,337.00 | 11.7 |
| | 09/09 | 1.82 | 44.4 | 2,238.00 | 22.7 | 41.5 | 9,870.00 | 25.0 |
| Restated | 12/08 | 2.50 | 42.0 | 3,259.00 | 27.4 | 40.1 | 11,880.00 | 23.6 |
| | 03/09 | 1.79 | 54.3 | 2,386.00 | 26.3 | 61.5 | 9,084.00 | 20.9 |
| | 06/09 | 2.01 | 68.9 | 2,692.00 | 27.7 | 78.3 | 9,734.00 | 30.4 |
| | 09/09 | 2.77 | 119.8 | 3,729.00 | 30.5 | 135.7 | 12,207.00 | 54.6 |

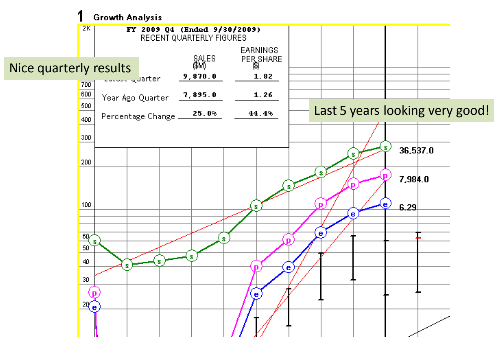
# Beliefs

- Rule of 5 is correct –
  - 1/5 will exceed my expectations
  - 3/5 will generally meet my expectation
  - 1/5 will not meet my expectations
- I don't have a crystal ball. 100% confidence is not achievable.
- My judgment is as good as the analysts
  - 2002 study reveals 59% of consensus forecasts are at least 15% off.
- Mr. Market is bi-polar.
  - He normally does a good job of representing the value of a company but occasionally presents unjustified manic optimism or unjustified depressed skepticism.
  - Mr. Market's opinions cannot be assumed are correct.

Do I want to own this stock?

## QUALITY REVIEW

# Section 1 – Growth Rate



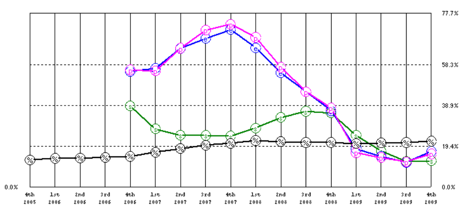
# Section 2 – Managed Results

**2 QUALITY ANALYSIS** Company APPLE INC (AAPL) 01/22/10

| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 5 YEAR AVG | TREND UP/DOWN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | % Pre-tax Profit on Sales | 14.9 | -0.8 | 2.0 | 1.9 | 4.9 | 13.0 | 14.6 | 20.9 | 21.2 | 21.9 | 18.3 | UP |
| B | % ROE (Beginning Yr) | | -0.7 | 2.1 | 2.1 | 6.4 | 22.5 | 25.1 | 33.7 | 32.2 | 26.6 | 28.0 | DOWN |
| C | % Debt to Equity | 7.4 | 8.1 | 7.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EVEN |

Good
Good
Very Good.

# PERT A – Graph Growth Trends




Turning the corner.
How low?

# Pert A

***Quarterly Trend Analysis***

Company APPLE INC (AAPL)

QUARTERLY DATA

| PERIOD | EPS $ | EPS % CHANGE | PRE-TAX PROFIT $ MIL | PRE-TAX PROFIT % SALES | PRE-TAX PROFIT % CHANGE | SALES $ MIL | SALES % CHANGE | INCOME TAX RATE |
|---|---|---|---|---|---|---|---|---|
| 12/04 | 0.35 | | 429.00 | 12.3 | | 3,490.00 | | 31.6 |
| 03/05 | 0.33 | | 430.00 | 13.3 | | 3,243.00 | | 34.2 |
| 06/05 | 0.37 | | 472.00 | 13.4 | | 3,520.00 | | 32.5 |
| 09/05 | 0.40 | | 477.00 | 13.0 | | 3,678.00 | | 27.3 |
| 12/05 | 0.65 | 85.7 | 831.00 | 14.5 | 93.7 | 5,749.00 | 64.7 | 31.6 |
| 03/06 | 0.47 | 42.4 | 605.00 | 13.9 | 40.7 | 4,359.00 | 34.4 | 31.8 |
| 06/06 | 0.54 | 45.9 | 661.00 | 15.1 | 40.0 | 4,370.00 | 24.1 | 28.4 |
| 09/06 | 0.59 | 47.5 | 721.00 | 14.9 | 51.2 | 4,837.00 | 31.5 | 28.1 |
| 12/06 | 1.14 | 75.4 | 1,448.00 | 20.4 | 74.2 | 7,115.00 | 23.8 | 30.5 |
| 03/07 | 0.87 | 85.1 | 1,134.00 | 21.5 | 87.4 | 5,264.00 | 20.8 | 32.0 |
| 06/07 | 0.92 | 70.4 | 1,196.00 | 22.1 | 80.9 | 5,410.00 | 23.8 | 31.5 |
| 09/07 | 1.01 | 71.2 | 1,230.00 | 19.8 | 70.6 | 6,217.00 | 28.5 | 26.5 |
| 12/07 | 1.76 | 54.4 | 2,326.00 | 24.2 | 60.6 | 9,608.00 | 35.0 | 31.9 |
| 03/08 | 1.16 | 33.3 | 1,477.00 | 19.7 | 30.2 | 7,512.00 | 42.7 | 29.4 |
| 06/08 | 1.19 | 29.3 | 1,510.00 | 20.2 | 26.3 | 7,464.00 | 38.0 | 28.8 |
| 09/08 | 1.26 | 24.8 | 1,582.00 | 20.0 | 28.6 | 7,895.00 | 27.0 | 27.9 |
| 12/08 | 1.78 | 1.1 | 2,284.00 | 22.5 | -1.8 | 10,167.00 | 5.8 | 29.7 |
| 03/09 | 1.33 | 14.7 | 1,730.00 | 21.2 | 17.1 | 8,163.00 | 8.7 | 30.6 |
| 06/09 | 1.35 | 13.4 | 1,732.00 | 20.8 | 14.7 | 8,337.00 | 11.7 | 29.1 |
| 09/09 | 1.82 | 44.4 | 2,238.00 | 22.7 | 41.5 | 9,870.00 | 25.0 | 25.6 |

LAST 12 MONTHS DATA

| PERIOD | EPS $ | PRE-TAX PROFIT $ MIL | PRE-TAX PROFIT % SALES | SALES MIL | INCOME TAX $ MIL | INCOME TAX % RATE | % CHANGE EPS | % CHANGE PRE-TAX PROFIT | % CHANGE SALES |
|---|---|---|---|---|---|---|---|---|---|
| 12/04 | | | | | | 30.0 | | | |
| 03/05 | | | | | | 31.2 | | | |
| 06/05 | | | | | | 31.9 | | | |
| 09/05 | 1.45 | 1,808.00 | 13.0 | 13,931.0 | 568.3 | 31.4 | | | |
| 12/05 | 1.75 | 2,210.00 | 13.7 | 16,190.0 | 694.6 | 31.4 | | | |
| 03/06 | 1.89 | 2,385.00 | 13.8 | 17,306.0 | 734.9 | 30.8 | | | |
| 06/06 | 2.06 | 2,574.00 | 14.2 | 18,156.0 | 766.6 | 29.8 | | | |
| 09/06 | 2.25 | 2,818.00 | 14.6 | 19,315.0 | 844.5 | 30.0 | 55.2 | 55.9 | 38.6 |
| 12/06 | 2.74 | 3,435.00 | 16.6 | 20,681.0 | 1,019.4 | 29.7 | 56.6 | 55.4 | 27.7 |
| 03/07 | 3.14 | 3,964.00 | 18.4 | 21,586.0 | 1,178.6 | 29.7 | 66.1 | 66.2 | 24.7 |
| 06/07 | 3.52 | 4,499.00 | 19.9 | 22,626.0 | 1,372.3 | 30.5 | 70.9 | 74.8 | 24.6 |
| 09/07 | 3.94 | 5,008.00 | 20.9 | 24,006.0 | 1,507.1 | 30.1 | 75.1 | 77.7 | 24.3 |
| 12/07 | 4.56 | 5,886.00 | 22.2 | 26,499.0 | 1,792.5 | 30.5 | 66.4 | 71.4 | 28.1 |
| 03/08 | 4.85 | 6,229.00 | 21.7 | 28,747.0 | 1,856.3 | 29.8 | 54.5 | 57.1 | 33.2 |
| 06/08 | 5.12 | 6,543.00 | 21.2 | 30,801.0 | 1,906.3 | 29.1 | 45.5 | 45.4 | 36.1 |
| 09/08 | 5.37 | 6,895.00 | 21.2 | 32,479.0 | 2,034.5 | 29.5 | 36.3 | 37.7 | 35.3 |
| 12/08 | 5.39 | 6,853.00 | 20.7 | 33,038.0 | 1,985.2 | 29.0 | 18.2 | 16.4 | 24.7 |
| 03/09 | 5.56 | 7,106.00 | 21.1 | 33,689.0 | 2,080.0 | 29.3 | 14.6 | 14.1 | 17.2 |
| 06/09 | 5.72 | 7,328.00 | 21.2 | 34,562.0 | 2,150.7 | 29.3 | 11.7 | 12.0 | 12.2 |
| 09/09 | 6.28 | 7,984.00 | 21.9 | 36,537.0 | 2,297.4 | 28.8 | 16.9 | 15.8 | 12.5 |

EPS – OK
PTP – OK
Sales – Quarterly tending up - OK

| EPS | PTP | Sales |
|---|---|---|
| 16.9 | 15.8 | 12.5 |

Check analysts consensus estimates for consistency

## WHAT DO THE ANALYSTS SAY?

## Analyst 5 years estimates?

Yearly Earnings Forecasts

| Fiscal Year End | Consensus EPS* Forecast | High EPS* Forecast | Low EPS* Forecast | Number of Estimates | Over the Last 4 Weeks Number of Revisions Up | Down |
|---|---|---|---|---|---|---|
| Sep 2010 | 7.912 | 9.51 | 6.795 | 45 | 17 | 0 |
| Sep 2011 | 9.622 | 12.57 | 7.88 | 36 | 15 | 0 |
| Sep 2012 | 10.689 | 14 | 8.26 | 10 | 1 | 1 |
| Sep 2013 | 9.85 | 9.85 | 9.85 | 1 | 0 | 0 |

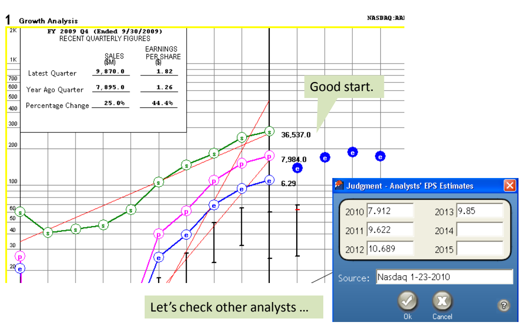


Dip in 2013???
Only 1 analyst.

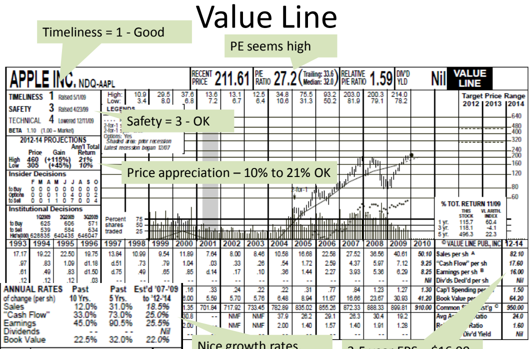
Forecasts being adjusted up.

http://www.nasdaq.com/earnings/earnings_forecast.asp?symbol=AAPL&selected=AAPL

## Add analyst estimates to section 1



# Value Line




http://www.kcls.org/databases

# Value Line Analysis

Lots of room to grow.

**BUSINESS:** Apple Inc. is a major developer, manufacturer, and marketer of personal computers and peripheral and consumer products, such as the iPod digital music player and the iPhone, for sale primarily to the business, creative, education, government, and consumer markets. Apple also sells operating systems, utilities, languages, developer tools, and database software. As of September 26, 2009, Apple operated 273 retail outlets, including 217 stores in the U.S. and 56 stores overseas. R&D: 3.6% of '09 revenues. '09 depreciation rate: 15.1%. Has 34,300 employees. Officers & directors own less than 1.0% of common; Fidelity Investments, 5.2% (1/09 Proxy). CEO: Steve Jobs. Inc.: CA. Addr.: 1 Infinite Loop, Cupertino, CA 95014. Tel.: 408-996-1010. Web: www.apple.com.

**The growth story at Apple appears to have a long way to go.** The electronics giant's financial results have skyrocketed since the mid-2000s, thanks to inroads by Mac computers and the success of the iPod, iTunes, and iPhone hardware and software platforms that have transformed the portable music and cellular telephone businesses. And we believe that the top and bottom lines will experience further rapid growth in fiscal 2010 (ends September 25th) and beyond, given Apple's vast market opportunity, advertising prowess, and knack for creating innovative, user-friendly products. Notably, despite its multiyear growth spurt . . .

**The company still has just a small share of the global PC (about 4%) and mobile phone (2%) markets.** It continues to expand its retail footprint (it now has over 270 stores worldwide), and leverage its expertise and brand name to enter new technology sectors, too, which ought to lend additional support to results as we head deeper into the decade. In the mobile computing/Internet space, we envision many new product rollouts in the coming quarters, as Apple looks to capitalize on strong consumer demand for devices that are smaller than traditional notebook computers and more powerful than today's mobile phones. Moreover, we expect the company to take on the cable industry by launching a subscription-based TV service over the Internet, possibly in partnership with a few entertainment heavyweights like Disney and CBS. Such a move would not be without risks, especially since people would have to buy individual content (through iTunes or some similar site) that they are used to getting for free or as part of a package deal. But the upside potential is huge if the right business model is implemented and new Apple TV devices, which have been slow to get off the ground, become mainstays in living rooms across America.

**These top-ranked shares have rallied sharply in recent months along with the broader market,** and are now trading near their all-time high. Long-term appreciation potential remains attractive, however, based on our expectations that share net will climb at around a 25% annual clip through 2012-2014.

*Justin Hellman* *January 8, 2010*

A bit too rosy?

# MSN vs VL vs NASDAQ

| Earnings Estimates | Qtr(12/09) | Qtr(3/10) | FY(9/10) | FY(9/11) |
|---|---|---|---|---|
| Average Estimate | 2.08 | 1.77 | 7.89 | 9.66 |
| Number of Analysts | 36 | 34 | 41 | 28 |
| High Estimate | 2.27 | 2.00 | 8.88 | 11.04 |
| Low Estimate | 1.74 | 1.52 | 7.00 | 8.00 |
| Year Ago EPS | 1.78 | 1.33 | 6.29 | 7.89 |
| Growth Rate | +17.04% | +33.10% | +25.40% | +22.44% |

Financia

MSN (Zacks) & NASDAQ (Thompson) seem to agree.

Zacks Industry: COMP-MICRO

| Fiscal Year End | Consensus EPS* Forecast |
|---|---|
| Sep 2010 | 7.912 |
| Sep 2011 | 9.622 |

| 2010 | © VALUE LINE PUB., INC | 12-14 |
|---|---|---|
| 50.10 | Sales per sh A | 82.10 |
| 9.25 | "Cash Flow" per sh | 17.60 |
| 8.25 | Earnings per sh B | 16.00 |
| Nil | Div'ds Decl'd per sh | Nil |

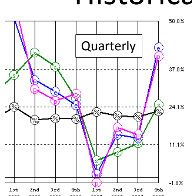
Too optimistic?

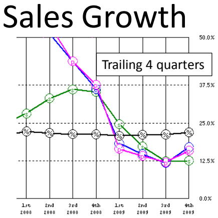
Results: Confident that next two years will not exceed 7.89 or 9.62 respectively.

I have a feeling for earnings but my projection is built on sales growth

## WHAT ABOUT SALES GROWTH?

## Historical Sales Growth




QUARTERLY DATA

| PERIOD | EPS | | PRE-TAX PROFIT | | | SALES | |
|---|---|---|---|---|---|---|---|
| | $ | % CHANGE | $ MIL | % SALES | % CHANGE | $ MIL | % CHANGE |
| 12/08 | 1.78 | 1.1 | 2,284.00 | 22.5 | -1.8 | 10,167.00 | 5.8 |
| 03/09 | 1.33 | 14.7 | 1,730.00 | 21.2 | 17.1 | 8,163.00 | 8.7 |
| 06/09 | 1.35 | 13.4 | 1,732.00 | 20.8 | 14.7 | 8,337.00 | 11.7 |
| 09/09 | 1.82 | 44.4 | 2,238.00 | 22.7 | 41.5 | 9,870.00 | 25.0 |

LAST 12 MONTHS DATA

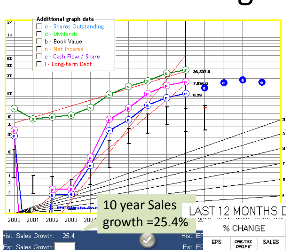
| % CHANGE | | |
|---|---|---|
| EPS | PRE-TAX PROFIT | SALES |
| 18.2 | 16.4 | 24.7 |
| 14.6 | 14.1 | 17.2 |
| 11.7 | 12.0 | 12.2 |
| 16.9 | 15.8 | 12.5 |

Quarterly sales increasing quickly.

Annual sales stable on 12.5%.

Let's see what the analysts expect.

## Estimating Sales Growth




10 year Sales growth =25.4%

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '07-'09 to '12-'14 |
|---|---|---|---|
| Sales | 12.0% | 31.0% | 18.5% |
| "Cash Flow" | 33.0% | 73.0% | 25.0% |
| Earnings | 45.0% | 90.5[illegible] | 25.5% |
| Dividends | - - | | Nil |
| Book Value | 22.5% | [illegible] | 22.0% |

VL Sales growth = 18.5% (too high)

QUARTERLY DATA

| PERIOD | EPS | | PRE-TAX PROFIT | | | SALES | |
|---|---|---|---|---|---|---|---|
| | $ | % CHANGE | $ MIL | % SALES | % CHANGE | $ MIL | % CHANGE |
| 12/08 | 1.78 | 1.1 | 2,284.00 | 22.5 | -1.8 | 10,167.00 | 5.8 |
| 03/09 | 1.33 | 14.7 | 1,730.00 | 21.2 | 17.1 | 8,163.00 | 8.7 |
| 06/09 | 1.35 | 13.4 | 1,732.00 | 20.8 | 14.7 | 8,337.0[illegible] | 11.7 |
| 09/09 | 1.82 | 44.4 | 2,238.00 | 22.7 | 41.5 | 9,87[illegible] | 25.0 |

LAST 12 MONTHS DATA

| % CHANGE | | |
|---|---|---|
| EPS | PRE-TAX PROFIT | SALES |
| 18.2 | 16.4 | 24.7 |
| 14.6 | 14.1 | 17.2 |
| 11.7 | 12.0 | 12.2 |
| [illegible] | 15.8 | 12.5 |

TTM sales growth = 12.5%

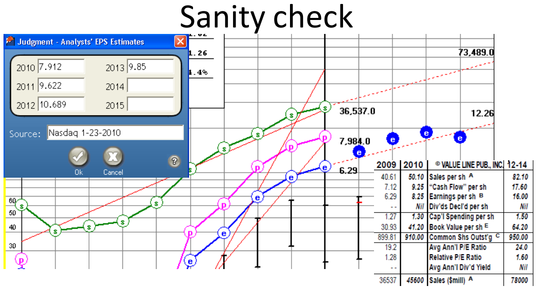
Last Quarterly sales growth = 25%

18.5% is too high. 12.5% is minimum. Choose 15% for this economy.

## USE SALES GROWTH TO ESTIMATE EPS GROWTH

## Preferred Method


## Sanity check




1. Sales projection visually seems reasonable.
2. 5-year projected sales, $73,489, is lower than Value Line projection of $78,000.
3. 5-year projected EPS visually seems conservatively below ACE.
4. 5-year projected EPS, $12.26, is well below $16 Value Line projection.
5. 1-year projected EPS is $6.29 x 1.143% = $7.19 (above low forecast of $6.80)

## HOW DOES MANAGEMENT COMPARE WITH INDUSTRY?

## Section 2 – Managed Results

**2** QUALITY ANALYSIS Company APPLE INC (AAPL) 01/22/10

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 5 YEAR AVG | TREND UP/DOWN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A % Pre-tax Profit on Sales | 14.9 | -0.8 | 2.0 | 1.9 | 4.9 | 13.0 | 14.6 | 20.9 | 21.2 | 21.9 | 18.3 | UP |
| B % ROE (Beginning Yr) | | -0.7 | 2.1 | 2.1 | 6.4 | 22.5 | 25.1 | 33.7 | 32.2 | 26.6 | 28.0 | DOWN |
| C % Debt to Equity | 7.4 | 8.1 | 7.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EVEN |

| Company | Ticker | Price | Growth | Net Margin | P/E | Quality |
|---|---|---|---|---|---|---|
| Apple Inc. | AAPL | $203.07 | 18.0% | 15.4% | 27.0 | 75.4 |
| Intl Business Machines | IBM | $126.12 | 4.7% | 13.5% | 12.0 | 74.3 |
| Hewlett-Packard | HPQ | $50.06 | 4.3% | 7.7% | 16.0 | 61.7 |
| Dell Inc. | DELL | $13.89 | 7.5% | 4.7% | 18.0 | 55.8 |
| Mercury Computer | MRCY | $12.90 | 7.2% | 7.6% | 17.0 | 37.0 |
| Sun Microsystems | JAVA | $9.48 | 5.7% | 3.0% | 23.0 | 16.7 |
| Average | | | 7.9% | 9.5% | 22.0 | |

| | AAPL | Industry |
|---|---|---|
| Profit Margin | 21.9% | 6.5% |
| ROE | 26.6% | 16.5% |
| Debt/Equity | 0% | 34% |

Composite Statistics: COMPUTER & PERIPHERALS INDUSTRY

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | | 12-14 |
|---|---|---|---|---|---|---|---|
| 347625 | 372186 | 415636 | 448069 | **410000** | **425000** | Sales ($mill) | **520000** |
| 10.5% | 10.7% | 12.2% | 12.9% | **12.5%** | **13.5%** | Operating Margin | **13.5%** |
| 11061 | 11562 | 13035 | 14547 | **14500** | **14700** | Depreciation ($mill) | **15500** |
| 21807 | 22704 | 28781 | 31711 | **25500** | **28000** | Net Profit ($mill) | **36000** |
| 25.6% | 26.1% | 24.0% | 25.1% | **22.0%** | **24.0%** | Income Tax Rate | **24.0%** |
| 6.3% | 6.1% | 6.9% | 7.1% | **6.2%** | **6.5%** | Net Profit Margin | **6.9%** |
| 49705 | 46670 | 54821 | 52386 | **53300** | **51500** | Working Cap'l ($mill) | **59500** |
| 24110 | 25518 | 39699 | 46029 | **48000** | **50000** | Long-Term Debt ($mill) | **60000** |
| 118388 | 122572 | 131781 | 118293 | **140000** | **150000** | Shr. Equity ($mill) | **175000** |
| 15.7% | 15.7% | 17.3% | 19.9% | **14.0%** | **14.5%** | Return on Total Cap'l | **17.0%** |
| 18.4% | 18.5% | 21.8% | 26.8% | **18.0%** | **18.5%** | Return on Shr. Equity | **20.5%** |
| 16.5% | 16.3% | 19.4% | 23.8% | **16.0%** | **16.5%** | Retained to Com Eq | **18.0%** |
| 11% | 12% | 11% | 11% | **11%** | **11%** | All Div'ds to Net Prof | **12%** |
| 18.6 | 19.1 | 18.1 | 16.6 | *Bold figures are Value Line estimates* | | Avg Ann'l P/E Ratio | **16.0** |
| .99 | 1.03 | .96 | 1.00 | | | Relative P/E Ratio | **1.05** |
| .6% | .6% | .6% | .7% | | | Avg Ann'l Div'd Yield | **1.0%** |

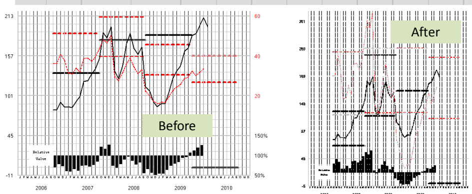
All good!
Yes, I want to own this company!

Buy today?

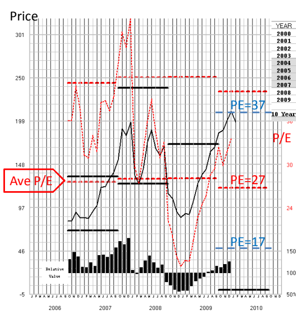
## VALUE REVIEW

# PERT-B Outliers & PMG

| YEAR | EPS | PRICE RANGE HIGH | PRICE RANGE LOW | P/E RATIO HIGH | P/E RATIO LOW | 5 YR AVG P/E RATIO HIGH | 5 YR AVG P/E RATIO AVG | 5 YR AVG P/E RATIO LOW | DIV/ SHARE | % PAYOUT THIS YEAR | % PAYOUT 5 YR AVG | % HIGH YIELD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2000 | 1.18 | 37.6 | 12.7 | 31.9 | 10.8 | | | | .000 | .0 | | .0 |
| 2001 | -0.04 | 13.6 | 6.8 | ~~NMF~~ | ~~NMF~~ | | | | .000 | NMF | | .0 |
| 2002 | 0.12 | 13.1 | 6.9 | ~~113.8~~ | ~~60.0~~ | | | | .000 | .0 | | .0 |
| 2003 | 0.12 | 11.7 | 6.4 | ~~97.2~~ | ~~53.0~~ | | | | .000 | .0 | | .0 |
| 2004 | 0.37 | 19.6 | 9.6 | ~~53.1~~ | ~~26.0~~ | 31.9 | 21.3 | 10.8 | .000 | .0 | | .0 |
| 2005 | 1.46 | 54.6 | 18.8 | 37.4 | 12.9 | 37.4 | 25.1 | 12.9 | .000 | .0 | | .0 |
| 2006 | 2.24 | 86.4 | 47.9 | 38.6 | 21.4 | 38.0 | 27.6 | 17.1 | .000 | .0 | | .0 |
| 2007 | 3.93 | 155.0 | 72.6 | 39.4 | 18.5 | 38.5 | 28.0 | 17.6 | .000 | .0 | | .0 |
| 2008 | 5.36 | 203.0 | 100.6 | 37.9 | 18.8 | 38.3 | 28.1 | 17.9 | .000 | .0 | | .0 |
| 2009 | 6.29 | 188.9 | 78.2 | 30.0 | 12.4 | 36.7 | 26.7 | 16.8 | .000 | .0 | | .0 |
| 10 Year | Avg. | | | 35.9 | 15.8 | | 25.8 | | | | | |




# PMG P/E Analysis




| YEAR | EPS | PRICE RANGE HIGH | PRICE RANGE LOW | P/E RATIO HIGH | P/E RATIO LOW | 5 YR AVG P/E RATIO HIGH | 5 YR AVG P/E RATIO AVG | 5 YR AVG P/E RATIO LOW |
|---|---|---|---|---|---|---|---|---|
| 2000 | 1.18 | 37.6 | 12.7 | 31.9 | 10.8 | | | |
| 2001 | -0.04 | 13.6 | 6.8 | ~~NMF~~ | ~~NMF~~ | | | |
| 2002 | 0.12 | 13.1 | 6.9 | ~~113.8~~ | ~~60.0~~ | | | |
| 2003 | 0.12 | 11.7 | 6.4 | ~~97.2~~ | ~~53.0~~ | | | |
| 2004 | 0.37 | 19.6 | 9.6 | ~~53.1~~ | ~~26.0~~ | 31.9 | 21.3 | 10.8 |
| 2005 | 1.46 | 54.6 | 18.8 | 37.4 | 12.9 | 37.4 | 25.1 | 12.9 |
| 2006 | 2.24 | 86.4 | 47.9 | 38.6 | 21.4 | 38.0 | 27.6 | 17.1 |
| 2007 | 3.93 | 155.0 | 72.6 | 39.4 | 18.5 | 38.5 | 28.0 | 17.6 |
| 2008 | 5.36 | 203.0 | 100.6 | 37.9 | 18.8 | 38.3 | 28.1 | 17.9 |
| 2009 | 6.29 | 188.9 | 78.2 | 30.0 | 12.4 | 36.7 | 26.7 | 16.8 |
| 10 Year | Avg. | | | 35.9 | 15.8 | | 25.8 | |

1. Ave P/E fairly stable between 26-27
2. P/E from 12.4 to 39.4; mid = 25.9
3. 10 year P/E average = 25.8
4. 5 year P/E average = 26.7

Use 5 year average

Average High P/E = 37
Average P/E = 27
Average Low P/E = 17

# Section 3 – Price & P/E Analysis

**3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS**

CURRENT PRICE 197.750 52-WEEK HIGH 215.590 52-WEEK LOW 82.330

| | Fiscal Year | High Price | Low Price | EPS | High P/E | Low P/E | Dividend | % Payout | % High Yield |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2005 | 54.6 | 18.8 | 1.46 | 37.4 | 12.9 | 0.000 | 0.0 | 0.0 |
| 2 | 2006 | 86.4 | 47.9 | 2.24 | 38.6 | 21.4 | 0.000 | 0.0 | 0.0 |
| 3 | 2007 | 155.0 | 72.6 | 3.93 | 39.4 | 18.5 | 0.000 | 0.0 | 0.0 |
| 4 | 2008 | 203.0 | 100.6 | 5.36 | 37.9 | 18.8 | 0.000 | 0.0 | 0.0 |
| 5 | 2009 | 188.9 | 78.2 | 6.29 | 30.0 | 12.4 | 0.000 | 0.0 | 0.0 |
| 6 | AVERAGE | | 63.6 | | 36.7 | 16.8 | | 0.0 | |

| | | | | | |
|---|---|---|---|---|---|
| AVERAGE P/E RATIO | 26.8 | PROJECTED P/E RATIO | 27.6 | TTM EPS | 6.28 |
| CURRENT P/E RATIO | 31.5 | PEG RATIO | 1.9 | FTM EPS | 7.18 |
| RELATIVE VALUE | 117.5% | PROJ. RELATIVE VALUE | 102.8% | | |

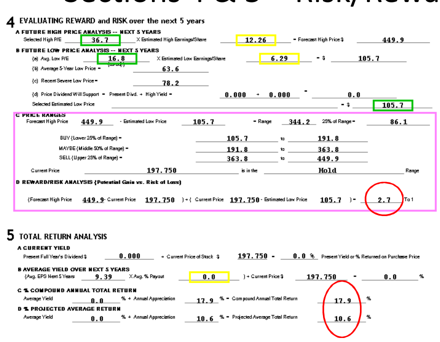
PE = 31.5
RV = 117.5%
PEG = 1.9

Alt+B = Buy @ $191.75 with 3:1 U/D

Conclusions
- Too expensive to buy today.
- High Alert when P/E = 36.7 for sell Price = 36.7 x 6.28 = 230.48
- Low Alert when P/E = 26.8 for buy Price = 26.8 x 7.18 = 192.42

## Section 4 – Low Price?


## Sections 4 & 5 – Risk/Reward




## Results

- Price on 1/23/2010 = 197.75
- DCF = $112.66 Intrinsic Value = 254.56
- UB=$193.70
- MA=$154.56 (trend up)
- LB= $115.41
- News:
  - Apple/Google competition.
  - Announcing tablet?
  - Rumors of replacing Goggle search on iPhone with Microsoft bing.
- Industry PE = 22 (mi) S&P 500 P/E = 87 DJIA P/E = 17 VL Industry = 19/98
- PE = 31.5 RV=117.5% PEG=1.9 U/D=2.7
- Return = 17.9% PAR=10.6%
- Alt+B Price = 191.75 (U/D=3)
- Conclusion: Too much risk/price too expensive today despite 17.9% potential return. Expecting price to expand as high as $230 (up 16%) before market pulling quickly down to $192.
- High Alert when P/E = 36.7 for sell Price = 36.7 x 6.28 = 230.48 (u/d = 1.8, RV = 137%)
- Low Alert when P/E = 26.8 for buy Price = 26.8 x 7.18 = 192.42 (u/d = 2.96; RV = 100%)

Price above DCF

Price below Intrinsic Value

Price above UB

Serious competitive change

P/E RV PEG all too high

## Online References

- BI S&P data service
- www.nasdaq.com (5 years ACE)
- http://Moneycentral.msn.com (financials & industry)
- http://kcls.org for Value Line online access
- http://www.manifestinvesting.com (financials & industry)
- http://finance.yahoo.com (price movement & competitors)
- http://online.barrons.com/public/page/9_0210-indexespeyields.html for S&P 500 & DJIA PE
- http://alerts.yahoo.com (price alerts via email)
- www.gurufocus.com for DCF calculation
- www.valuepro.net for Intrinsic Value calculation
- www.bob-adams.net for Annual Report analysis spreadsheet
- http://biwiki.editme.com/Spreadsheets for TKPorfolio spreadsheet