

Is Apple Still the “Apple” of Analysts’ (Long-Term) Eye?

Overview

- + Analysts have lowered EPS estimates for Q4 2012 for Apple by 14% since September 30. As a result of these cuts, Apple is projected to report a year-over-year decline in EPS for the first time in nine years.
- + Despite these estimate reductions and the decline in price during the fourth quarter, analysts are still bullish long-term on Apple in terms of their ratings and target prices. Apple is currently ranked #1 out of all the companies in the S&P 500 in terms of certain ratings and target price metrics.

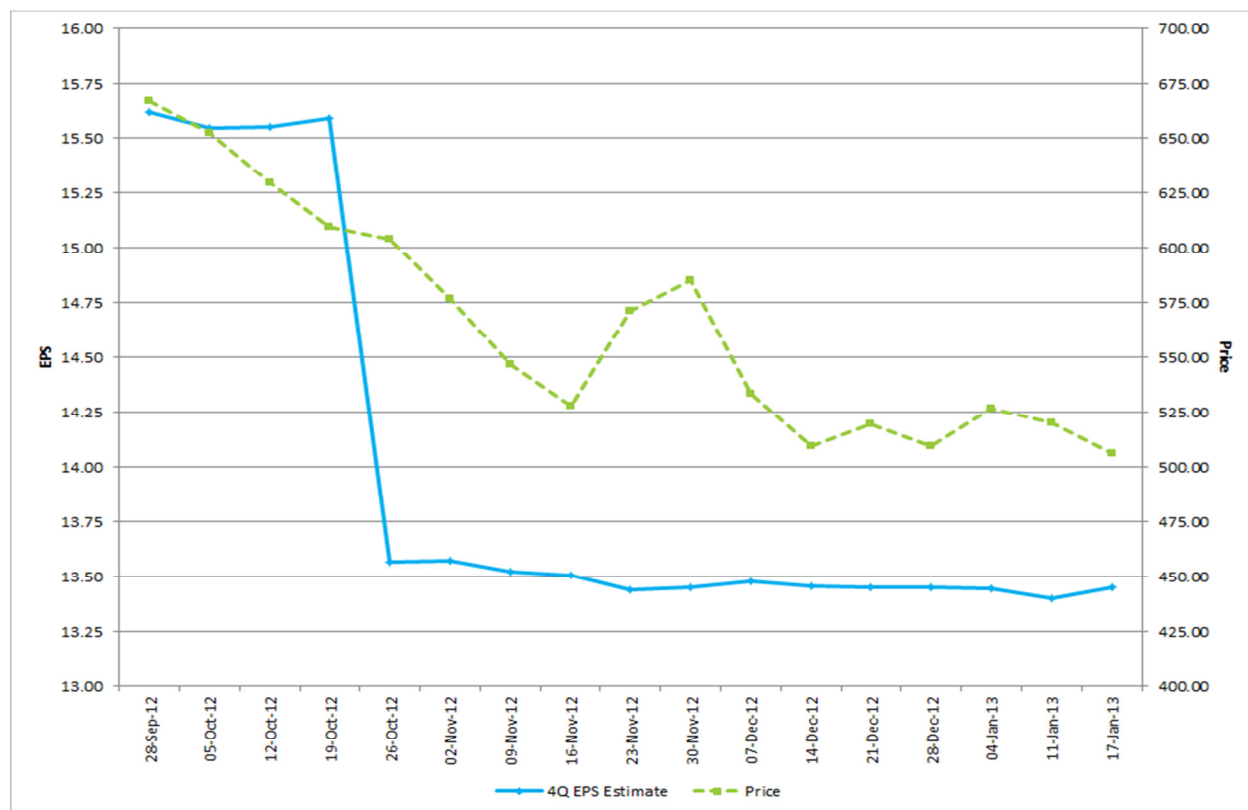
Fourth Quarter Outlook: Estimates and Price Have Fallen

EPS Estimates and the Price of the Stock Have Fallen During Q4

Apple is scheduled to report earnings for Q4 2012 on January 23. The mean EPS estimate for Apple is \$13.45, which is nearly 14% below the mean EPS estimate of \$15.62 at the start of the quarter (September 30). During the quarter, analysts reduced their earnings estimates for Apple. Most of this reduction occurred in late October, after the company issued EPS guidance below the expectations of analysts. On October 25, Apple stated that the company expected to earn \$11.75 in Q4 2012, below the mean EPS estimate of about \$15.50 at the time of the guidance.

While the EPS estimates for Apple recorded a sharp decline in October, the price of the stock has witnessed a more gradual decrease. Since September 30, the price of the stock has fallen 24%.

Apple: Change in Q4 EPS Estimate and Price since Sep 30



Projected Year-Over-Year Decline in EPS: First Decline in Growth in 9 Years

As a result of the reduction of the mean EPS estimate during the quarter, Apple is now projected to report a year-over-year decline in EPS. The mean EPS estimate of \$13.45 for Q4 2012 is 3.0% below the year-ago actual EPS of \$13.87.

Thus, Apple would have to report an actual EPS number that is 3% or more above the current mean EPS estimate to report earnings growth for the quarter. Over the past five quarters, Apple has reported actual EPS above the mean EPS estimate in only two quarters (Q4 2011, Q1 2012). In the other three quarters (Q3 2011, Q2 2012, Q3 2012), Apple reported actual EPS below the mean EPS estimate. Prior to missing analysts' earnings expectations in Q3 2011, Apple had reported actual EPS above the mean EPS estimate for 35 straight quarters.

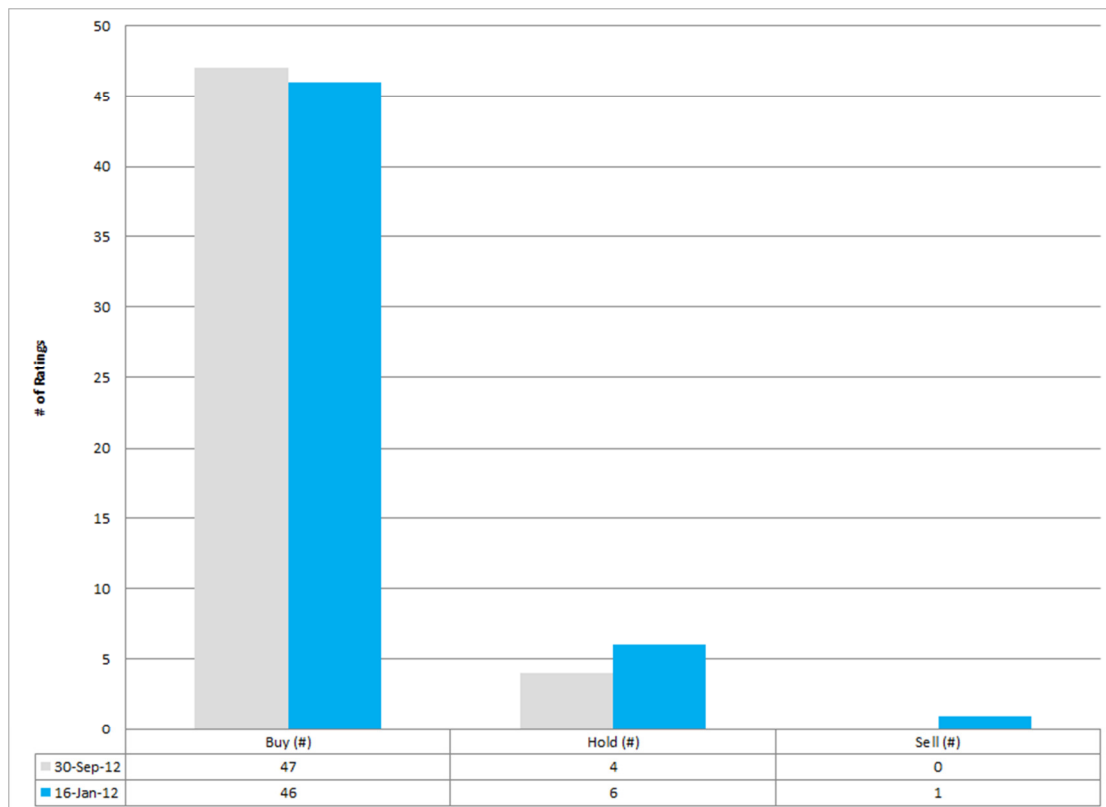
If Apple does report a year-over-year decline in EPS, it will be the first time in over nine years. The last time Apple reported a year-over-year decrease in EPS was Q2 2003.

Long-Term Outlook: Analysts Have Remained Optimistic

Little Change in Ratings and Target Price Sentiment since September 30

Although analysts reduced their fourth quarter EPS estimates for Apple, they did not make significant changes to their ratings over this time frame.

Apple: Change in Number of Ratings since Sep. 30



In terms of target prices, analysts did lower their estimates in aggregate by about 8%. The mean target price for Apple is \$729.84 today, compared to the mean target price of \$792.40 back on September 30. However, it is important to note that the price of the stock has dropped by a much larger amount (-24%) over this same time frame.

Apple: #1 Ranked Stock in S&P 500 in Terms of # of Buy Ratings and Target Price Difference.

Given the lack of substantial revisions to ratings and targets, Apple is currently ranked in the S&P 500:

- + #1 in terms of the highest number of Buy ratings
- + #10 in terms of the highest percentage of Buy ratings
- + #1 in terms of largest percentage upside difference between mean target price and closing price

S&P 500: Top 10 Companies by # of Buy Ratings

<u>Ticker</u>	<u>Company</u>	<u>Buy (#)</u>	<u>Hold (#)</u>	<u>Sell (#)</u>
AAPL	Apple Inc.	46	6	1
BRCM	Broadcom Corp.	42	4	0
QCOM	QUALCOMM Inc.	42	5	1
EMC	EMC Corp.	35	7	0
CRM	salesforce.com Inc.	34	4	5
NE	Noble Corp.	33	5	1
CSCO	Cisco Systems Inc.	32	10	1
GOOG	Google Inc. Cl A	31	12	0
ORCL	Oracle Corp.	31	13	0
SLB	Schlumberger Ltd.	30	6	0

S&P 500: Top 10 Companies by % of Buy Ratings

<u>Ticker</u>	<u>Company</u>	<u>Buy (%)</u>	<u>Hold (%)</u>	<u>Sell (%)</u>
WPO	Washington Post Co. Cl B	100%	0%	0%
NRG	NRG Energy Inc.	92%	8%	0%
CVS	CVS Caremark Corp.	92%	8%	0%
BRCM	Broadcom Corp.	91%	9%	0%
APC	Anadarko Petroleum Corp.	90%	10%	0%
AES	AES Corp.	90%	10%	0%
SLM	SLM Corp.	89%	11%	0%
QCOM	QUALCOMM Inc.	88%	10%	2%
CAM	Cameron International Corp.	88%	13%	0%
AAPL	Apple Inc.	87%	11%	2%

S&P 500: Top 10 Companies by Upside % Difference Between Target and Closing Price

<u>Ticker</u>	<u>Company</u>	<u>Target</u>	<u>Close</u>	<u>Diff. (%)</u>
AAPL	Apple Inc.	729.84	506.09	44%
WPX	WPX Energy Inc.	19.61	14.28	37%
NEM	Newmont Mining Corp.	61.36	44.75	37%
NFX	Newfield Exploration Co.	38.63	28.41	36%
CNX	Consol Energy Inc.	40.96	30.29	35%
PBI	Pitney Bowes Inc.	15.67	11.71	34%
ATI	Allegheny Technologies Inc.	39.41	29.61	33%
CHK	Chesapeake Energy Corp.	22.98	17.31	33%
QEP	QEP Resources Inc.	39.25	29.75	32%
APC	Anadarko Petroleum Corp.	100.81	77.01	31%

Thus, despite analysts reducing their fourth quarter EPS estimates for Apple and the significant decrease in the price of the stock over the last few months, analysts still view Apple as one of the highest ranked stocks long-term in the entire S&P 500, based on their ratings and target prices for the company.

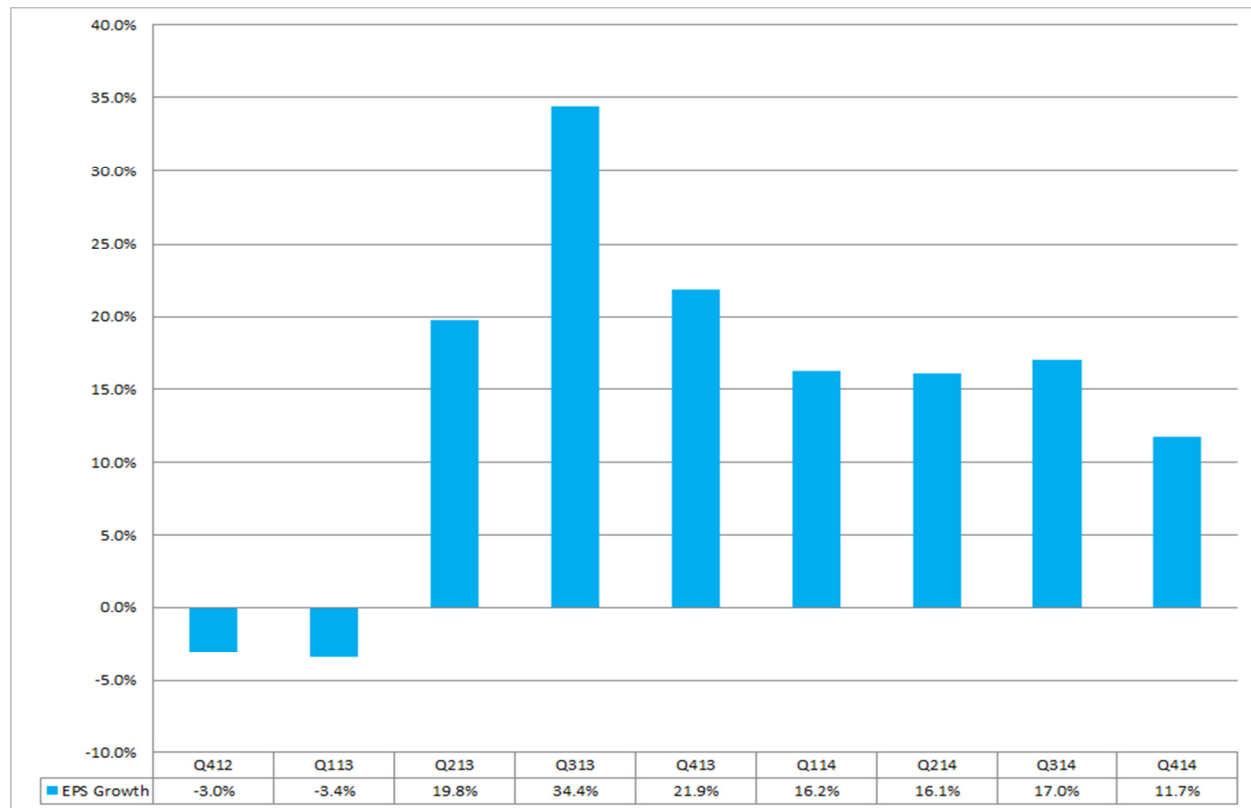
Earnings Growth Projected to Rebound in 2nd Half of 2013

It is possible (and perhaps likely) that analysts are waiting for Apple to report earnings for Q4 2012 before revising their ratings and targets on the company. Will analysts maintain their long-term optimism for Apple after the company reports earnings?

One of the reasons for the short-term pessimism but long-term optimism from analysts regarding Apple is their projections of earnings growth for the company over the next two years. While analysts are predicting a year-over-year decline in earnings for the current quarter (Q113), they expect to not only see a rebound in earnings growth in the second half of 2013, but also expect to see sustained double-digit earnings growth through 2014.

Should analysts believe these future earnings growth rate estimates are too optimistic after the earnings release for Q4, they may lower their ratings and targets for the company along with earnings estimates.

Apple: Projected EPS Growth (Q412 – Q414)



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