SPECULA DCF VALUATION REPORT

Apple Inc. (AAPL) — DCF Valuation FY2025

AAPL • EDGAR • USD • FCFF model • Reference price: USD 283.64

Analyst: Christopher Pérez Vega • Cut-off date: 5 May 2026 • Reference price: USD 283.64 • Market capitalisation: USD 4,166.7 bn

1. Executive summary

Apple trades at a 73% premium to the DCF base fair value (USD 164 per share) and at a 38% premium to the plausible upside (USD 206 per share). The gap does not close under any reasonable scenario: justifying the market price via DCF would require assuming revenue growth of 15% for five years and 13.5% for the following five — a pace five times faster than the realised CAGR FY21–FY25 (3.3%) and incompatible with the company's current size.

The conclusion is not that Apple is a poor business — operating quality, the net-cash balance sheet, structurally high ROIC and capital discipline are extraordinary. The conclusion is that the current price discounts a structurally atypical growth thesis with no anchor in the recent trajectory or in public information about products in development. The premium reflects momentum, defensive institutional positioning and extrapolated expectations rather than defensible discounted cash flows.

Scenario	Value per share	vs Current price
Plausible downside	USD 107.98	−61.9%
Base case	USD 164.18	−42.1%
Plausible upside	USD 205.51	−27.5%
Reverse DCF (implied price)	USD 280.18	−1.2%

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2. WACC

The cost of capital is built bottom-up using Damodaran data from April 2026, adjusting the ERP to its normalised long-run level (4.5%) instead of the current implied (5.03%) since this is considered more defensible for a mature large-cap company.

Component	Value	Source / rationale
Risk-free rate	4.41%	UST 10Y
Unlevered beta	1.15	Damodaran Computer Hardware + adjustment for growing Services mix
Levered beta	1.199	Re-levered with D/E = 5.26% (5% D/(D+E) structure)
Equity Risk Premium	4.5%	Normalised vs implied 5.03% (adjustment for elevated time-series volatility)
Country Risk Premium	0.0%	US-domiciled
Cost of equity	9.81%	Ke = 4.41% + 1.199 × 4.5%
Cost of debt (pre-tax)	4.96%	rf + 55bps spread (Apple AA+)
Tax rate (marginal WACC)	19%	Steady-state Pillar Two/GloBE/CAMT
Equity weight	95%	Apple is structurally net-cash
Debt weight	5%	Conservative target on market values
WACC	**9.52%**	0.95 × 9.81% + 0.05 × 4.96% × (1−0.19)

The 5% target_debt_ratio is deliberately conservative: the operating reality is that Apple trades with D/(D+E) at market values of 2.5–3% and maintains a net-cash position thanks to its marketable securities portfolio (USD 132 bn). Lifting the target to industry levels (15–20%) would be fictional given the historical capital allocation behaviour.

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3. Starting data (TTM)

Period closed on 28 March 2026 (10-Q Q2 FY2026).

Metric	TTM	Notes
Revenue	USD 451,442 M	+8.5% vs FY25 (iPhone 17 cycle + Services)
Reported EBIT	USD 147,366 M	Reported margin 32.64%
Adjusted EBIT (post R&D capitalisation)	USD 187,404 M	R&D capitalised at 3 years, asset USD 65.4 bn
D&A	USD 12,610 M	Cash-flow concept
Capex	USD 11,048 M	PP&E acquisitions
FCFF	USD 149,611 M	NOPAT − reinvestment
Cash + ST investments	USD 146,595 M	Includes current and non-current marketable securities
Financial debt	USD 84,697 M	LongTermDebt + CommercialPaper
Lease liabilities	USD 13,720 M	Operating + Finance, treated as debt
Shares outstanding	14,667.7 M	Diluted approximation

The engine applies 3-year R&D capitalisation (Damodaran standard for tech hardware), treats leases as debt, and does not add SBC back to FCFF (it is a real economic cost). The equity bridge automatically includes excess liquidity via mapping (operating cash at 2% of revenue, the rest is added to equity value).

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4. Base case

Thesis

Apple is a mature, high-quality business with two main growth engines: hardware (iPhone, Mac, iPad, wearables) in a phase of geographic saturation with an installed base of 1.5 bn users, and Services (App Store, iCloud, subscriptions) growing at 10–13% but representing only 26% of total revenue. On-device Apple Intelligence should sustain the iPhone replacement cycle without dramatically accelerating it, and regulation (DMA in Europe, antitrust in the US) introduces a diffuse ceiling for Services growth. Terminal growth of 4% sits below the risk-free to avoid the implicit assumption that Apple is a structurally declining company within a decade.

Assumptions

Driver	Y1	Y5	Y10	Terminal
Revenue growth	6.0%	6.0%	4.5%	4.0%
Operating margin	32.5%	33.5%	33.0%	32.0%
Sales-to-capital	3.5x	3.5x	3.5x	3.5x
Tax rate	19%	19%	19%	19%
ROIC	95%	92%	91%	91%

The 0.91 terminal ROIC is mathematically self-consistent: 0.32 × (1−0.19) × 3.5 = 0.907. This aligns the sanity check between terminal growth, ROIC and reinvestment rate (4%/91% = 4.4%), coherent with a capital-light platform that self-sustains and returns the rest to shareholders via buybacks and dividends.

Result

Metric	Value
Enterprise value	USD 2,360.0 bn
Equity value (post bridge)	USD 2,408.2 bn
Value per share	**USD 164.18**
Margin of safety vs price	**−42.1%**
Terminal value as % of EV	60.1%

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5. Plausible downside scenario

Thesis

This is **not an extreme bear case**: it does not assume a China ban, global recession or AI disruption. It assumes regression to the mean of growth (aligned with the realised FY21–FY25 CAGR of 3.3%) combined with three headwinds materialising simultaneously: (1) Apple Intelligence underperforms vs marketing and does not accelerate the iPhone cycle, (2) DMA and antitrust reduce the App Store take rate from 30% to 17–20% (a scenario already in legal discussion), (3) Trump 2.0-style tariffs on imported electronics reduce iPhone margin by ~100 bps. Pillar Two tightens and the effective rate rises to 22%.

Assumptions

Driver	Y1	Y5	Y10	Terminal
Revenue growth	3.0%	3.0%	2.5%	2.5%
Operating margin	31.5%	30.5%	30.0%	30.0%
Sales-to-capital	3.0x	3.0x	3.0x	3.0x
Tax rate	22%	22%	22%	22%
ROIC	85%	78%	72%	70%

Terminal ROIC 0.702 = 0.30 × (1−0.22) × 3.0. Terminal reinvestment rate 2.5%/70.2% = 3.6%.

Result

Metric	Value
Enterprise value	USD 1,535.6 bn
Equity value	USD 1,583.8 bn
Value per share	**USD 107.98**
Margin of safety vs price	**−61.9%**
Terminal value as % of EV	51.2%

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6. Plausible upside scenario

Thesis

This is not a reverse DCF. It reflects a defensible bull thesis but not an extrapolated one: Apple Intelligence works, sustains the iPhone ASP and modestly accelerates the replacement cycle. Services keeps growing at 12–15% for five more years before slowing, with no severe regulatory shock (DMA is implemented but the adjustment is absorbed via new monetisation models). The AR glasses rumoured for 2027–2028 add USD 20–40 bn of revenue by year 10 — they are not an iPhone-class category, but contribute marginally. The growing Services mix lifts sales-to-capital to 4.0x and the effective rate stays stable at 18%.

Assumptions

Driver	Y1	Y5	Y10	Terminal
Revenue growth	8.0%	8.0%	6.0%	4.41%
Operating margin	33.0%	34.5%	34.0%	33.0%
Sales-to-capital	4.0x	4.0x	4.0x	4.0x
Tax rate	18%	18%	18%	18%
ROIC	105%	110%	110%	108%

Y1-5 growth of 8% is above the realised CAGR but below the TTM-vs-FY25 growth (8.5%). The 4.41% terminal equals the risk-free, assuming Apple keeps growing nominally at the pace of the developed global economy indefinitely. Year-10 revenue ≈ USD 875 bn — aggressive but not fanciful.

Terminal ROIC 1.082 = 0.33 × (1−0.18) × 4.0. A ROIC above 100% is mathematically correct and economically coherent with Apple: supplier financing and already-expensed intangibles (accumulated R&D) make every dollar of incremental capital generate more than a dollar of incremental NOPAT.

Result

Metric	Value
Enterprise value	USD 2,966.2 bn
Equity value	USD 3,014.4 bn
Value per share	**USD 205.51**
Margin of safety vs price	**−27.5%**
Terminal value as % of EV	64.0%

The plausible upside still sits USD 78 below the market price. This is the most important observation of the analysis: there is no reasonable scenario that justifies the current USD 283.64.

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7. Reverse DCF — what the market is pricing in

To answer the question "what would someone need to assume for the current price to be fair value?", all other base-case drivers (margin, sales-to-capital, tax, terminal_g, terminal_roic) are held constant and the Y1–Y5 and Y6–Y10 growth rates that produce a value per share ≈ USD 283.64 are sought.

Result

Driver	Reverse DCF
Revenue growth Y1–5	**15.0%**
Revenue growth Y6–10	**13.5%**
Terminal growth	4.0%
Other drivers	Identical to base case
Value per share	**USD 280.18** (≈ current price)

Implications of this implied growth

Year-10 revenue: 451.4 bn × (1.15)^5 × (1.135)^5 ≈ **USD 1,700 bn**, that is:

- 3.8 times Apple's current revenue
- Greater than the current combined revenue of Microsoft + Alphabet + Meta
- Five times the realised FY21–FY25 CAGR (3.3%)

For this to materialise one of three theses is needed, none of them defensible with currently available public information:

1. **iPhone 6-style super-cycle:** Apple Intelligence accelerates the replacement cycle to levels not seen since 2014–2015 (when the iPhone 6 doubled category revenue in two years on the shift to a larger screen). Possible but not probable, and would depend on killer features that are not visible today.

2. **Unannounced product of an iPhone-class category:** AR glasses or premium AI services adding USD 500–800 bn of revenue over a decade. For context: Vision Pro at its best adds USD 20–30 bn. We would need twenty Vision Pros or a product of iPhone-class category. There are no official announcements supporting this.

3. **Services at 25–30% sustained for ten years with no regulatory shock:** Today Services grows at 12–13%. To reach a sustained 25%, the App Store would need to double its take rate (improbable with DMA and antitrust in motion) or a new Services vertical the size of the entire App Store would need to appear.

Alternative sensitivities explored

Intermediate combinations that do not reach the price:

Combination	Resulting VPS
WACC 9.0% + g 12%/9% + margin 34/36/35/34	USD 284.59
g 10%/7% + Services-bull margin (34/36/35/34)	USD 198.79
g 10%/7% + base margin	USD 167.49

Only by simultaneously combining a WACC below the defensible level, margin 200 bps above current, and growth double the realised do we reach the price. Any more realistic combination falls short.

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8. Probabilistic analysis

If, instead of a single scenario, a distribution over the three DCF scenarios is constructed, what probability would have to be assigned to the upside for the expected value to equal the price?

Distribution (down/base/up)	E[VPS]	vs Price
20% / 60% / 20%	USD 161.21	−43%
10% / 50% / 40%	USD 175.09	−38%
10% / 30% / 60%	USD 183.36	−35%
5% / 20% / 75%	USD 192.37	−32%

Even assigning a 75% probability to the plausible upside does not close the gap with the market price. This confirms that the price is not justifiable as a probabilistic expectation over reasonable DCF scenarios — it is discounting a scenario outside the defensible range (the reverse DCF one).

Recommendation

Watch list, not portfolio. At USD 283.64, Apple trades at a 73% premium to base-case fair value and a 38% premium to the plausible upside. The decision to buy requires accepting the reverse DCF thesis (15%/13.5% sustained growth for a decade), which has no anchor in verifiable data.

Entry price with a reasonable margin of safety:

- 20% margin of safety on base case → **USD 131 per share**
- 30% margin of safety on base case → **USD 115 per share**

This would require a 54–60% correction from current levels. Without a clear bear catalyst (global recession, China ban, severe regulatory failure), a correction of that magnitude is unlikely in the short term. The reasonable position is to wait.

Reflection on the premium

Apple has traded at a premium over DCF for years and shareholders who bought in 2018 at USD 50 have made ~5x. This does not contradict the analysis: the market pays for quality, momentum, structural buybacks, defensive institutional positioning and storytelling. These factors exist and are real, but **they are not discounted cash flows** and therefore do not enter a methodologically correct DCF. The question for the investor is not "is Apple expensive on DCF?" — the answer is clearly yes — but rather **"am I willing to pay a quality premium accepting an expected negative IRR?"**. That decision sits outside the DCF and depends on portfolio mandate, time horizon and tolerance for re-rating.

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10. Risks and model limitations

Upside risks (which would imply undervaluation):

- Launch of an iPhone-class product category not currently announced
- Stronger-than-expected iPhone-cycle acceleration from Apple Intelligence
- Favourable regulatory resolution of DMA / antitrust (low probability)
- WACC reduction via ERP compression to 3.5–4% levels

Downside risks (which would widen the gap):

- DMA and antitrust with unfavourable resolution (App Store take rate at 15% or below)
- Tariffs on electronics imports from China / India / Vietnam
- iPhone demand shock in China driven by geopolitical tensions
- Stricter Pillar Two / CAMT, effective rate above 22%
- AI disruption: if Google / OpenAI / Microsoft achieve a cross-device ecosystem before Apple

Methodological limitations:

- The model does not incorporate explicit real optionality (not applicable to Apple due to lack of identifiable exclusive rights over contingent assets)

- Buybacks are not modelled as an independent value driver (correctly: Damodaran considers it double-counting in FCFF)
- The equity bridge uses current shares outstanding held constant; any future dilution / concentration via SBC and buybacks nets to zero at the firm-value level but affects value-per-share — the assumption is reasonable because Apple's buyback/SBC ratio has been net-reductive over the past decade
- Terminal_g of 4% in base and upside is at the limit of the risk-free; any g_terminal > rf assumption would imply Apple structurally beats the nominal growth of the economy in perpetuity.

Disclaimer: this analysis is for educational and research purposes. It does not constitute an investment recommendation. The analyst is not a registered financial adviser and readers should perform their own due diligence before making investment decisions.