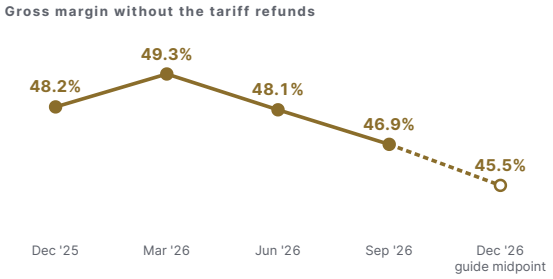
EQUITY VALUATION · TECHNOLOGY · AAPL · 2 NOVEMBER 2026

Apple (AAPL) — The Control Group Gets the Bill

Apple closed its best fiscal year with iPhone revenue up 21%, again spending seven cents of capex per dollar of net income. The AI build reached it anyway, through memory: gross margin without tariff refunds fell to about 46.9%, and the December guide is 45% to 46% with memory pricing "unprecedented" and still rising. We value Apple at $171.34, from $208 in July, against $338.32 at the close before the release.

TON618 CAPITAL RESEARCH · AS OF 2 NOVEMBER 2026



The control group gets the bill.

Apple spent $0.07 of capex per dollar of net income in FY26, the same as in July. The AI build still reaches its margin, through the memory that the servers are bidding away.

THE PRINT · THE CYCLE · THE MEMORY · SERVICES · THE CONTROL · THE VALUE · THE RECEIPT

Our July note called Apple the control group of the AI build: the one large technology income statement with no depreciation wave coming, because it was not building. That finding held. What changed is where the build reaches Apple. Memory makers are moving capacity to servers, and the company that spends seven cents on plant now pays for the shortage in its gross margin. This note asks what a record year is worth once that bill is counted.

THE QUESTIONS

What this note answers

1. What did Apple earn once the tariff refunds are removed, and what did it guide?
2. Is iPhone up 21% a cycle or a new level, and what is the difference worth?
3. What does memory do to the margin path, and what is the $8.8 billion inventory build?
4. Is the Services slowdown real?
5. Is Apple still the control group, or is it buying its AI another way?
6. What is Apple worth, what moved our number from $208, and what does $338.32 require?
7. What would change our view?

$171

FAIR VALUE A SHARE · BEAR $113 / BASE $178 / BULL $217 AT 25 / 50 / 25

The view. We value Apple at **$171.34** a share, from $208 in July. The $338.32 close of 2 November, before the release, is 97% above that; the overnight print of $328.60 is 92% above. On July's method the quarter lowers value $15.59, to $192.34, as margins and operating expenses take $14.74 and the iPhone and other-product paths $8.85, against $8.00 from the better year, the lower share count and tax rate, and Services. A rebuilt model adds a net $2.12 and a re-argued cost of equity $1.43. The largest single move is our own: no longer weighting a price-to-earnings value takes $24.55, two-thirds of the fall from $208 (Exhibit 5). At July's weights the value would be $195.89 and the bull case $253.49, still below the close. Holding everything else, any one of these reaches the price: a cost of equity of 6.9% for the forecast years and 6.6% for the terminal, against our 9.7% and 9.4%; revenue growth of 12.9% a year to 2033, against 4.7%; or terminal growth 3.2 points higher in every scenario, 7.2% in the base. The Fund holds no position.

+21.2%	+9.5%	$0.07	46.9%	+9.8%
FY26 iPhone revenue, $254.1B, on a record year for upgraders; Duo went on sale 23 October, in FY27	AAPL since our July note at $308.91	FY26 capex per dollar of net income; $0.19 counting all additions to plant and intangibles	September-quarter gross margin without refunds; December guide 45% to 46%	Services growth, from +14.1% over the first nine months; December guide +8% to +9%

Terms used throughout, defined once. Fiscal years: Apple's year ends in late September, so FY27 runs from 27 September 2026 and the December quarter is its first. **Ex-refund:** a figure without the tariff refunds Apple disclosed, about 2 points of gross margin and $0.11 of EPS in the June quarter and about 1 point and $0.05 in the September quarter. **Capex:** payments for property, plant and equipment. **Net additions:** the rise in net property, plant and equipment plus non-current intangibles over the year, plus depreciation and amortization; it counts assets acquired whether or not cash has been paid. **Free cash flow to equity (FCFE):** net income plus depreciation and amortization, less additions; stock compensation stays an expense. **Carry-in inventory:** components bought earlier at lower prices and used now. **ROIC:** after-tax operating income over operating capital, against the weighted average cost of capital (**WACC**). **Terminal growth:** the rate the business grows at forever after the forecast ends, set here from long-run GDP projections.

THE CASE FOR THE PRICE

The case for the price, in the company's terms

Apple's fiscal 2026 was the best year in its history: revenue of $478.8 billion, up 15%, and EPS of $8.98, up 20%. iPhone grew 21% with a record year for upgraders globally, Greater China grew 28%, and the installed base passed 2.5 billion active devices, an all-time high in every major category and region. Paid subscriptions passed 1.5 billion and grew double digits. Free cash flow was 103% of net income, or 92.5% after stock compensation, and Apple returned $102.1 billion through buybacks and dividends. The stock has gone from $308.91 to $338.32 since our July note put fair value 33% below it, a rise of 9.5%, through a record year we did not fully model: FY26 EPS beat our estimate by 15 cents.

The forward case is stronger than the trailing one. The iPhone Duo, which management calls the most transformational iPhone since the original, went on sale on 23 October at $1,999, and chief operating officer Sabih Khan said "iPhone Duo is constrained as of today." The 18 Pro added $100 of price. Management expects December to be "the best quarter for revenue in the history of the company" even with supply short. Apple has made Siri AI available without an AI factory: capex fell 29% while the four hyperscalers were on course for about $630 billion of calendar-2026 capex on our July basis, and a company that rents some of its model capacity carries less of the risk that the hardware ages early. On this view earnings at Apple mean what they say, and that is scarce. Durable franchises with clean earnings trade at high multiples in our brokerage feed: Walmart at 44.8 times trailing earnings, Costco at 48.8 and Visa at 37.1, against Apple's 37.7 on its reported FY26 EPS. And the discount rate is a judgment: on the 36-month beta of 0.74, instead of the 60-month 1.06 we use, the fair value is $218.68 and the bull case $279.25.

This note tests five of these claims: what the record year earned without refunds, whether the iPhone's jump is a new level, what memory does to the margin, whether Services is slowing, and whether capital-light AI is free. It cannot

> test, inside a seven-year model, whether a personal AI agent on the iPhone becomes a new source of revenue; our base case carries Siri AI as a cost and gives it no revenue line, which cuts against the company; only the bull has a paid tier. Nor can it say what foldables become over a decade, or where memory prices settle after 2027, or whether $33 billion of new purchase obligations wins share if memory stays short for everyone. §6 argues the rate; the peer multiples we report but do not test. We carry those we can read as tripwires, not verdicts.

THE PRINT

What the quarter earned, and what Apple guided

The quarter beat, and the guide is the news: at the midpoints, December revenue grows 8.5% and EPS about 1.4% to 2.1%, a house calculation. That gap is the note's subject. Net sales were $114.5 billion, up 11.7%, above July's guide of 9% to 11%; the release rounds to 12%. iPhone rose 17.5% to $57.6 billion, Mac 23.7% to $10.8 billion, and Services +9.8% to $31.6 billion, while iPad fell 10.4% and Wearables, Home and Accessories fell 7.9%. Greater China rose 21.0%. Chief financial officer Kevan Parekh said supply limited iPhone, Mac and iPad, and that currency cost nearly two points against the June quarter.

Gross margin was $54.8 billion, 47.9%, including about 1 point from tariff refunds, so about 46.9% without them. Parekh said Apple has now received "the vast majority of the refunds," so we do not expect them to recur at this scale, and we strip them from every run rate. Products margin was 37.2% as reported, against 36.2% a year ago; Services margin was 76.0%. Research and development rose 32.3% to $11.7 billion, and operating income rose 9.9% to $35.6 billion. Net income was $30.7 billion.

One earnings number, on one basis. Diluted EPS was $2.10, up 14%, against a $1.98 estimate in our brokerage feed. The $2.10 includes $0.05 of refunds, so $2.05 without them. The quarter's tax rate was 15.0% against 17.0% for the year; at the full-year rate EPS would have been about 5 cents lower, a house calculation. For the year, EPS of $8.98 compares with our July estimate of $8.83, both including refunds; without them, $8.82 against $8.66, so the beat is 15 cents as reported and 16 without refunds.

The December guide, from the call. Revenue up 7% to 10%, which Parekh said "reflects our best view of constrained supply": about $156.0 billion at the midpoint. Services up 8% to 9%. Gross margin 45% to 46%. Operating expenses of $20.4 billion to $20.8 billion, up 11% to 13%. At the midpoints and 14.5 billion shares, EPS is $2.90 ($2.88 on the 14,592 million count the model uses), a house calculation, in line with the $2.90 in the feed and against $2.84 a year ago.

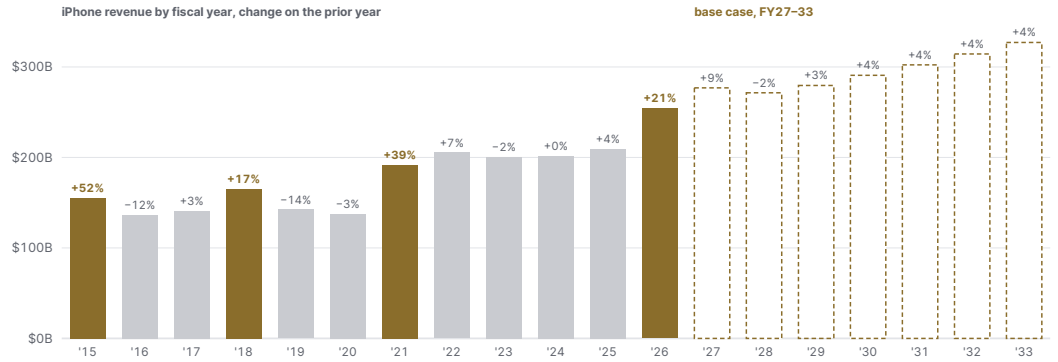
Cash and capital. Operating cash flow for the year was $145.1 billion and capex $9.04 billion, down 28.9%, leaving free cash flow of $136.1 billion. Apple bought back $86.4 billion of stock and paid $15.7 billion of dividends, and it ended with $56.8 billion of net cash.

THE CYCLE

The cycle: iPhone up 21%

The record says both: each jump set a higher level, and growth paused after it. On our model the difference moves fair value between $169.30 (base case only) and $180.68 (all three scenarios). Before FY26 the iPhone had jumped three times in seven years (Exhibit 1). After FY15's 52% jump, revenue fell 11.8%; after FY18's 16.7%, it fell 13.6%; after FY21's 39.3%, it rose 7.0%, then stalled for three years. The average year after a jump was −6.1%. The level mostly holds: iPhone revenue has stayed above $190 billion since FY21, and from FY15 to FY26 it grew 4.6% a year. But growth pauses: from FY21 to FY25 it was 2.2% a year.

EXHIBIT 1 — IPHONE REVENUE BY FISCAL YEAR, AND THE BASE CASE



How to read it. Billions of dollars, fiscal years 2015 to 2026 as bars, with the change on the prior year above each. Gold marks the jump years; the dashed outlines are our base case for FY27 to FY33. Compare each jump with the bar after it. The one thing it shows: each jump set a higher level, the next year gave some of it back or slowed, and the base case follows that pattern from a higher start.

What differs this time. FY27 has a second reason to grow that the earlier cycles lacked: a new form factor at $1,999 against $1,199 for the 18 Pro. Most of FY27's growth is price and mix, an inference from those list prices, since Apple reports no units and Parekh said "it's early to really read price elasticity." Khan said it is "really hard to predict when supply and demand will be in balance" on Duo, so some FY27 demand may move into FY28, which argues for a shallower give-back. Against that, FY26 was already a record for upgraders before Duo shipped, and those upgraders are less likely to buy again in FY27 or FY28.

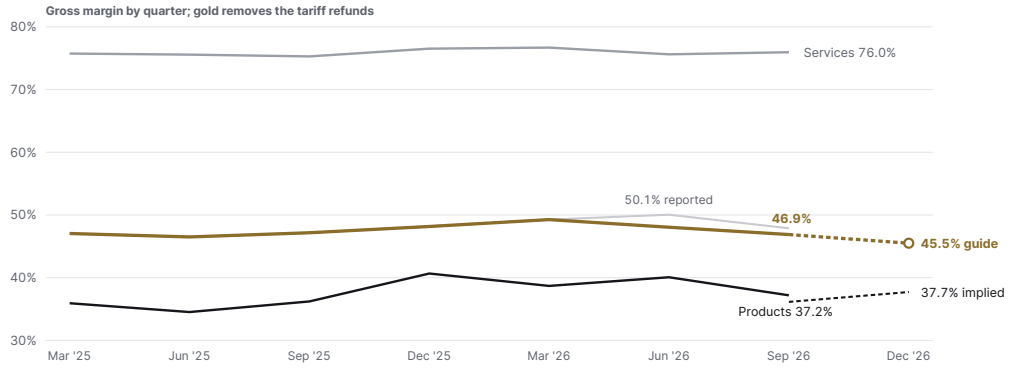
What we carry. Our base case takes iPhone up 9% in FY27 and down 2% in FY28, a third of the average give-back, then 3% and 4% a year; it reaches $327 billion in FY33, 3.7% a year from FY26. The bull takes 13% and 4%, with no give-back at all; the bear 4% and −10%, a little shallower than the two sharper give-backs. On July's method the path is worth −$5.46 a share, because July's base carried one rate fading from 7.5% and this one pauses. **Cycle or level matters less than it sounds.** These change the base case only, at half the weight. If FY28 is flat, fair value is $172.33, up $0.99. With no give-back, 9% in FY27 and about 5% a year after, $176.35, up $5.01; the same 5% a year after each scenario's own FY27 growth, in all three scenarios, gives $180.68. If FY28 takes the full average give-back, $169.30, down $2.05. All of them start from a level the whole model already accepts.

THE MEMORY

The memory: what it does to the margin

Exhibit 2 is the quarter's most important figure, and memory is the reason. Without refunds, gross margin ran 49.3% in March, 48.1% in June and about 46.9% in September, and the guide midpoint is 45.5%. Parekh said the one-point fall from June to September was "driven entirely by memory impacts," after offsets from carry-in inventory, other components and price. Chief executive John Ternus was direct about what comes next: "What we're seeing with memory pricing right now is unprecedented," December brings "even higher memory costs," and "looking beyond the December quarter, we see the pricing for memory purchases continuing to increase." TrendForce projects fourth-quarter contract prices up 10% to 15% for conventional DRAM and 15% to 20% for NAND, with suppliers moving capacity to server products and PC makers buying ahead of a tight 2027.

EXHIBIT 2 — GROSS MARGIN BY QUARTER, WITH AND WITHOUT THE REFUNDS



How to read it. Percent of revenue, March 2025 to the December 2026 guide. The gold line is company margin without refunds and the pale line as reported; the black line is products, the grey line Services. Dashed segments are the guide midpoint and the products margin it implies if Services margin falls to 75%, a house calculation. The one thing it shows: Services has been steady and all of the fall is in products, where memory sits.

The inventory build delays the cost; it does not avoid it. Inventories went from $5.7 billion a year ago to $6.7 billion in March, $11.1 billion in June and $14.5 billion in September. A launch does not explain that: September 2025 was also a launch quarter and held $5.7 billion, and the build started in June, before any launch. The 10-K shows that $8.3 billion of the $8.8 billion rise is components, which went from $2.1 billion to $10.4 billion. It does not say how much is memory, and Duo parts are in the figure too; our call is that most of those components are memory, bought ahead. On rising costs and short supply, the filing says Apple "expects these trends to intensify for memory and storage components," and manufacturing purchase obligations rose from $57.0 billion in June to $89.7 billion, with $82.7 billion payable within 12 months. Management said the carry-in benefit continues in December, and Ternus expects "a decreasing benefit from the carry-in inventory on memory over time." If all $8.3 billion were memory and prices rise 15% a quarter, the holding saves about $1.2 billion for each quarter it defers a purchase, about 0.8 point of December's gross margin, a rough ceiling and a house estimate. So the December guide already has this help, and the guide is 45.5%.

What we carry. The midpoint implies a products margin of about 37.7% in December if Services margin falls to 75% (37.5% if it holds 76%), normally Apple's strongest quarter for products. Our base takes 35.5% for FY27 and FY28, which implies about 34.4% in the three quarters after December, then 36.5% in FY29 and 37% from FY30, the level of FY24 and FY25. Prices stay up and supply catches up; we do not assume the 39% of FY26, which had the refunds and pre-shortage memory. Services falls from 76% to 74% because Parekh said Siri AI's inference costs "will be recognized through services cost of sales," and that the guide includes "some costs related to the ramp of Siri AI." Company margin comes out at 45.8% in FY27 and 48.4% in FY33, against 48.1% in FY26 without refunds. On July's method these gross margins cost $8.88, the largest data line in the bridge.

Operating expenses are the other half, and they outlast memory. They were 15.8% of revenue in FY26 and have risen as a share every year since FY21's 12.0%; the December guide is up 11% to 13% on revenue up 7% to 10%. We grow them 11% in FY27, the low end of that guide, then 7% and 5%, and with revenue after that, so they reach 17.0% of revenue in FY28, when the iPhone pauses, and stay near 17.1%. We stop the rise, which the trend does not do, but we do not let the share fall back: six years have shown no operating leverage, and while Parekh said "this growth rate is coming down," he added "we continue to significantly increase our overall investments in AI"; we carry the slowdown in the dollars and not in the share. On July's method that path costs $5.86. Back at FY26's 15.8% from FY29, fair value would be $174.74 in the base case alone and $178.41 in all three. This is where the long-run gap sits: FY33 gross margin, 48.4%, ends 0.3 point above FY26's without refunds (48.1%), so operating expense, which rises 1.3 points of revenue, accounts for more than all of the 1.0-point gap between FY26's 32.3% operating margin without refunds and the 31.3% we carry. Base-case FY27 EPS is $8.88, against $8.98 in FY26 and $8.82 without refunds.

Length matters less than level. In the base case alone, one more year of squeeze, with the recovery a year later, changes fair value by 13 cents. One point of products margin in every year and every scenario moves it about $3.88, because the

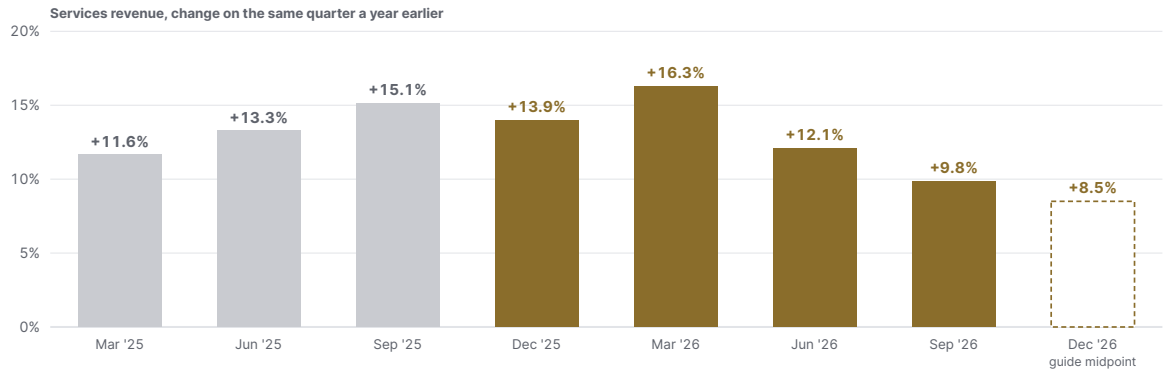
terminal value capitalizes the level (about $2.00 in the base case alone). No recovery at all in the base case gives $168.69; a return to 39% by FY29 in the base case gives $175.13.

SERVICES

Services: the boring check first

Less than it looks. Services grew 13.9%, 16.3%, 12.1% and +9.8% over the four quarters of FY26 (Exhibit 3). The fall from March to September is 6.4 points, and arithmetic more than covers it. Parekh attributed about four points to currency, which he had told investors to expect on the prior call: "This ended up being a significant headwind." The comparison also got harder: a year earlier Services grew 11.6% in the March quarter and 15.1% in the September quarter. Adding each quarter's growth to the year-earlier growth, the two-year figure was 27.9% in March and 24.9% in September, a fall of 2.9 points, smaller than the currency effect alone.

EXHIBIT 3 — SERVICES REVENUE GROWTH BY QUARTER



How to read it. Change on the same quarter a year earlier, in percent, March 2025 to September 2026, with the midpoint of the December guide as a dashed bar. Gold bars are FY26, grey FY25. Read the height of each bar against the bars four places to its left. The one thing it shows: growth fell 6.4 points from March to September; currency is about four points and the harder comparison another 3.5, together more than the fall.

These items are real, but they are not what moved the number. Parekh said "the performance on the App Store was similar to the prior year," with continuing weakness in mobile gaming, changes to the App Store's business model in certain countries and a US court ruling on link-out transactions. December adds another half point of currency and a new item, sequential headwinds "primarily from third-party licensing." The call did not say what that licensing is. The largest licensing line we know of in Services is search payments, whose remedy is still in the D.C. Circuit (§7). The 10-K lists third-party licensing arrangements within Advertising and describes search licensing arrangements with Google, but does not say what Parekh's headwind is, so we do not read it as search until a later call or filing does. Video, cloud, payments and advertising each set all-time records.

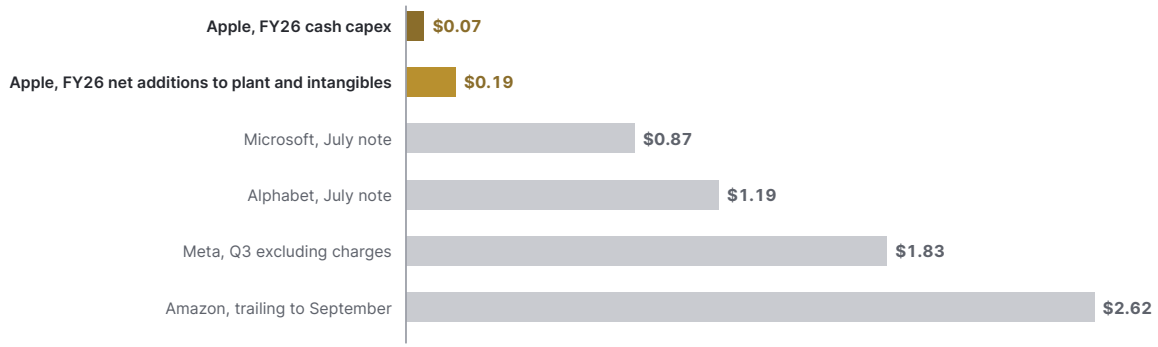
What we carry. Base Services growth is 9% in FY27, from the 8% to 9% guide and with currency lapping in the second half, 9.5% in FY28, then fading to 4% by FY33, when Services is 31% of revenue, from 25.8%. The bull takes 11% to 12.5% with a paid Siri AI tier, for which Ternus said "anyone who needs greater capacity will be able to purchase expanded access in the future." The bear loses search payments in FY28: growth of 6%, then 1%, and a margin falling to 71%. July carried no separate line; on its method this path adds +$3.21. In the base case alone, Services at about 6% a year (7% in FY27) gives fair value of $165.14, and at about 12% (11% in FY27), $178.43. **The slower path costs more than the iPhone can give back:** Services at about 6% takes $6.21 from fair value, more than the $5.01 that removing the iPhone's give-back adds, because each dollar of Services carries about twice the gross margin of a dollar of products. The bear's search path in the base case gives $157.90.

THE CONTROL

Is Apple still the control group?

Yes, for what the series tests, and no longer in the sense that it has no AI bill. The series asks whether long depreciation clocks on rising capex flatter earnings. Capex fell to $9.04 billion, $0.07 per dollar of net income, the same as the nine-month $0.07 in July (Exhibit 4). Re-running July's method on FY26 actual capex, a three-year clock against a five-year clock moves FY26 depreciation by −$58 million, or 0.3 cents of EPS; the sign flipped from July because capex has now fallen, and the size still rounds to zero. Whatever else is true, the EPS is clean.

EXHIBIT 4 — CAPITAL SPENDING PER DOLLAR OF NET INCOME



How to read it. Dollars of capital spending for each dollar of net income. Apple is shown two ways for FY26: cash capex, and net additions, which count assets acquired whether or not cash has been paid. The peers are the most recent figures in our own notes, on the bases and dates labeled (Microsoft and Alphabet are July's), so read them as orders of magnitude rather than a same-period ranking. The one thing it shows: counted either way, Apple spends a fraction of what the AI builders spend on capital.

But the AI bill exists, and it runs through four other lines. Research and development rose $11.2 billion to $45.8 billion, 8.5 cents per dollar of net income, and the 10-K attributes the rise primarily to "higher infrastructure-related costs, including investments in artificial intelligence, and headcount-related expenses." Siri AI's server costs will enter Services cost of sales as the rollout widens, and from the December quarter part of hardware revenue is deferred for it. Non-current intangibles rose 83% to $20.3 billion, all of it by March. And memory is the fourth line, the one Apple did not choose. Capital stays small even on the wider counts: net additions were $24.9 billion, $0.19 per dollar of net income, 2.7 times the cash capex, or $28.1 billion and 21 cents with the current portion of licensed rights the 10-K breaks out.

The intangibles step is licensed rights with a term. The 10-K shows gross licensed intangibles up from $16.1 billion to $29.6 billion, $13.5 billion of the $14.5 billion total rise. It names no licensor and gives no useful life, but its schedule for all amortizable intangibles, $24.2 billion including $3.2 billion owned, runs off 91% by FY30: $6.6 billion of amortization in FY27, against $4.9 billion in FY26, with $0.8 billion in FY31 and $1.4 billion in total after. Off the balance sheet, unconditional purchase obligations with a remaining term over one year rose from $13.3 billion to $24.8 billion, at $5.5 billion to $6.7 billion a year through FY30, then $0.2 billion in FY31. The filing ties neither to AI: the intangibles note does not say what the rights cover, and the obligations note lists supplier arrangements, distribution rights and licensed intellectual property and content. Reading them as part of the AI bill is our inference, from timing alone: the rights came by March and the unconditional obligations by June, as Apple built Siri AI and R&D rose on infrastructure including AI. The label moves no number: the rights sit in the margins and the 15 cents whatever they license. We model no cliff, which assumes Apple renews. Intangible amortization ran at $3.6 billion and $3.7 billion in FY24 and FY25, before this step, so we read renewal as the book's record, untested for the step itself.

The liability is the size of the rights, and we leave it out of net cash. Other non-current liabilities rose $12.8 billion to $54.3 billion. Leases and non-current deferred revenue explain about $1.0 billion, and unrecognized tax benefits fell. The remaining $11.8 billion is the size of the $11.8 billion rise in net licensed rights, though that figure includes a current portion and the filing neither links the two nor names the liability. It also does not say where payments for licensed rights are classified; the investing "Other" line is only $2.4 billion. We read the liability as rights bought on deferred terms. It is not a deduction: our cash flows treat the cost of rights as paid in the year, through additions at least equal to

amortization, and hold working capital flat, so taking the payable off net cash as well would largely charge the same rights twice if the payable is rolled over. If it is paid down with nothing replacing it, the cost is about $0.81 a share.

So Apple is buying its AI mainly through operating expense, on a mix of its own data centers and rented compute, with what we read as a one-time step in intangibles. That is the opposite of the accounting the series questions: expensed now, deferring almost nothing. The cost of that choice is that the rent can rise. "In addition to its own data center infrastructure, the Company relies on third-party cloud service providers to meet these compute and storage needs," the 10-K says, and it gives no split. Parekh left the owned side open at "any further requirements we might have on the compute side." If Apple needed 30 cents of capital per added revenue dollar instead of our 15, fair value would be $163.83.

THE VALUE

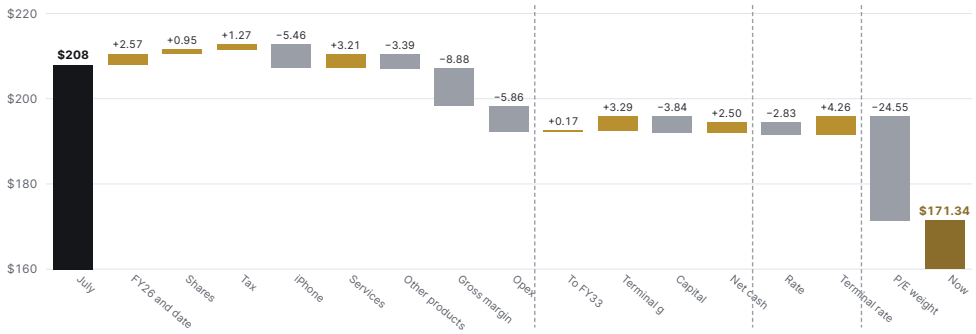
What Apple is worth after the print, and why the number moved

The print's largest effect is on margins, the cash-flow method and the rate add only $2.12 and $1.43, and the largest single move is a decision on a weight, shown last so it can be judged alone.

The model. Free cash flow to equity in three scenarios weighted 25/50/25, stock compensation expensed, the diluted count held flat at 14,592 million because buybacks are the distribution of the cash flows we discount, and net cash added once. Every input and method below was set as the most defensible choice on today's evidence. To show what moved, we first re-ran July's configuration, which reproduces its fair value exactly, $207.93 (published as $208): free cash flow to equity $181.58, price-to-earnings value $247.46, blended 60/40. Each factor in Exhibit 5 and the attribution table re-runs that blend with one more change, so the factors sum to the move.

The quarter's data, on July's method: $192.34. FY26 actuals and rolling the date add +$2.57. The share count, 14,532 million outstanding at 26 September plus the quarter's 60 million of dilution against July's 14,715 million, adds +$0.95. Tax at 17.0%, the FY26 rate and the December guide, against 17.5%, adds +$1.27. The iPhone takes $5.46, Services adds +$3.21, and a slower line for Mac, iPad and Wearables takes $3.39; those three grew 4.1% together in FY26, with supply short in December. Gross margins take $8.88 and operating expenses $5.86 (§3).

EXHIBIT 5 — FROM JULY'S $208 TO $171.34, ONE FACTOR AT A TIME



How to read it. Fair value in dollars a share, on an axis that starts at $160. The first black bar is July's value; each bar after it is one factor applied to the same blend, gold for a rise and grey for a fall, labeled with its effect in dollars; the bar at the end is today's value. Dashed lines separate the quarter's data, the cash-flow method, the cost of equity and the weight. The one thing it shows: the print's biggest effect is on margins, the method changes and the rate are small, and the largest single move is the decision on the weight, which is shown last so it can be judged alone.

Four changes to how the cash flows work: +$2.12 net. The forecast now runs to FY33, with every line landing on terminal growth, where July stopped at 4.5% against a 3.5% terminal: +$0.17. Terminal growth is set from long-run nominal GDP: the Federal Reserve's projections of 16 September 2026 give 2.0% real growth and 2.0% inflation in the longer run, so 4.0% in the base and bull cases and 3.0% in the bear, against July's 3.5%, 4.0% and 3.0%: +$3.29. The bear stays a point below because it loses search payments and iPhone share; at 4.0% fair value would be $174.72.

Capital now grows with revenue: additions equal depreciation plus 15 cents per added revenue dollar, FY26's ratio of plant and non-current intangibles to revenue, where July held capex below depreciation forever: −$3.84. Counting the current portion of licensed rights the ratio is 16.2 cents; at 16 cents fair value is $170.84. Without non-current licensed rights the ratio is about 12 cents; at 12 cents fair value is $172.85. We model no working-capital drag: FY26's $14.3 billion is more than explained by $8.9 billion of inventory and the final $8.8 billion of repatriation tax, and FY25's $25.1 billion includes the $15.8 billion State Aid payment. Net cash of $56.8 billion is added at face value and its interest taken out of the cash flows: +$2.50.

The cost of equity: 9.7% for FY27 and FY28 (−$2.83), 9.4% for the terminal (+$4.26). We argue the rate for the company and show the standard reads beside it. The 10-year Treasury was 4.91% on 2 November, against 4.67% on 29 July. Apple's own 60-month beta against the S&P 500 is 1.06, with a standard error of 0.15; blended toward the 1.04 median of Microsoft, Alphabet and Sony it barely moves (1.06), and with a 4.5% equity risk premium that is 9.7%, against July's 9.53%. The 36-month beta is 0.74, which would mean 8.2%. The 60-month window reads about 1.3 over its first two years and 0.74 over its last three, and the gap rejects neither. We keep the longer window for its smaller error (0.15 against 0.26) and higher correlation with the market (0.68 against 0.44), not because the recent reading is wrong, and we show it: $218.68 at that rate throughout. The terminal value describes a company growing with the economy with debt at 1.6% of capital, so we discount it at a beta of 1.0, 9.4%, reached in a straight line over FY29 to FY33. The peer median of 1.04 would give 9.6% ($166.53); we prefer 1.0 because two of those three peers are mid-build and the third is a conglomerate. At July's 9.53% throughout, fair value would be $168.96. At a 4.0% equity risk premium with the same betas, the rates are 9.1% and 8.9% and fair value $187.66.

> **What changed in the weights, and why (−$24.55).** July weighted free cash flow to equity at 60% and a price-to-earnings value at 40%: 20, 26 and 32 times FY27 EPS. We now show that value as a cross-check ($232.72) and give it no weight. This is a separate judgment from the changes above, and at two-thirds of the fall from $208 it has to stand on its own. It is not the reason we used for Meta, and Amazon's rested on cash conversion and on AWS now being its own line. Our Meta note called a multiple "a fair lens only when earnings turn into cash a shareholder can have," and Apple's do: free cash flow after stock compensation is 92.5% of net income, about 84% of it went out in FY26 as buybacks and dividends (89% counting taxes paid on net share settlement), and net cash rose $23.1 billion. That removes the Meta ground; it does not by itself give the multiple weight. For Apple, the question becomes what growth the multiple implies, not whether the earnings are real. When earnings are nearly all distributed or banked as cash, a multiple and a cash-flow model are close to the same equation, and they differ only in the discount rate less growth. Our base value is itself 20 times FY27 EPS, which on our path needs our 4.0% terminal growth, so the bottom of the band adds nothing. At our rates, 26 and 32 times need terminal growth of about 5.6% and 6.5%, above the 5% ceiling our model rules set for any terminal rate. Any rate above the 4.0% long-run nominal growth we use has Apple outgrowing the economy forever; we tolerate up to a point of that as a judgment, and no more. A 40% weight would be a 40% weight on those growth rates, not a second measure of value. The market may be right and we may be wrong; its multiples are evidence of a lower discount rate than ours. That disagreement belongs in plain view, in the rate, the growth and the price requirements, not averaged into the number. Weight returns if rates fall far enough that 26 times stops needing growth above that ceiling (tripwire 7). Conversion would still be high at those rates, so the weight would return because 26 times had become a growth rate we accept, not because the multiple measures something new. Here a multiple can lift the value only inside our growth ceiling and cannot argue against the ceiling, and that is a judgment a proponent of the multiple can reject. At July's 60/40, fair value is $195.89; at 80/20, $183.62. The call on the price does not depend on this choice.

	BEAR (25%)	BASE (50%)	BULL (25%)
iPhone growth FY27 / FY28	4% / −10%	9% / −2%	13% / 4%
Services growth FY27 / FY28	6.0% / 1.0%	9.0% / 9.5%	11.0% / 12.5%
Mac, iPad, Wearables growth FY27	−1%	3%	7%
Revenue FY27 / FY33	$495B / $537B	$516B / $661B	$533B / $755B
Revenue growth a year, FY26–33	1.7%	4.7%	6.7%
Products gross margin FY27 / FY33	34.0% / 34.5%	35.5% / 37.0%	37.0% / 39.0%
Services gross margin FY27 / FY33	74.5% / 71.0%	75.0% / 74.0%	76.0% / 76.0%
Company gross margin FY27 / FY33	44.7% / 45.4%	45.8% / 48.4%	47.0% / 50.1%
Operating margin FY27 / FY33	27.8% / 26.4%	29.5% / 31.3%	31.1% / 33.9%
FY27 EPS (share count down 1.6%)	$8.02	$8.88	$9.65
Terminal growth	3.0%	4.0%	4.0%
Terminal return on new capital	146%	173%	187%
Terminal value share of operating value	65%	71%	72%
FCFE value a share (with net cash)	**$113.18**	**$177.83**	**$216.53**
P/E cross-check (20x / 26x / 32x, unweighted)	$160.36	$230.79	$308.92

FACTOR	KIND	$ A SHARE	FAIR VALUE AFTER
FY26 actuals, and the valuation date rolled to 2 Nov	data	+2.57	210.50
Share count: 26 Sep outstanding plus dilution; FY27 EPS shrink at FY26's pace	data	+0.95	211.45
Tax 17.0%, the FY26 rate and the December guide	data	+1.27	212.72
iPhone: a cycle with a give-back, not July's single fading rate	data	-5.46	207.26
Services: 9% to 9.5%, from the December guide, fading	data	+3.21	210.47
Mac, iPad, Wearables: their own slower line	data	-3.39	207.08
Gross margins: memory and the Siri AI ramp, opex held at FY26's share	data	-8.88	198.20
Operating expenses above FY26's share, from the December guide	data	-5.86	192.34
Forecast to FY33, each line landing on terminal growth	dcf-method	+0.17	192.51
Terminal growth 4.0% (base, bull) and 3.0% (bear), from the Fed's long-run projections	dcf-method	+3.29	195.80
Capital tied to growth: plant and intangibles grow with revenue	dcf-method	-3.84	191.96
Net cash of $56.8bn valued at face; its interest out of the cash flows	dcf-method	+2.50	194.46
Cost of equity for the forecast years: 9.53% to 9.7%	cost-of-equity	-2.83	191.64
Terminal cost of equity 9.4%, reached by FY33	cost-of-equity	+4.26	195.89
Weighting: the P/E leg from 40% to an unweighted cross-check	weighting	-24.55	171.34
Fair value 207.93 → 171.34		**-36.59**	**171.34**

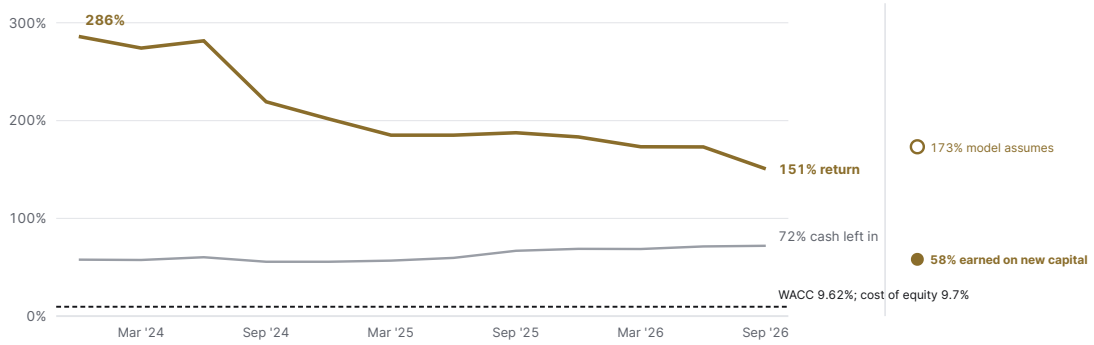
Each row re-runs the same blend (July's FCFE 60% / P/E 40% until the weighting row) with one more factor at today's value, in the order shown; each row's FCFE and P/E values and its source are in the workbook's Attribution sheet.

How long each part of the business grows faster than normal. Each stage's length comes from what drives it, checked against base rates of growth persistence, which find long runs of above-median sales growth uncommon (6.3% of firms against 3.1% by chance).

BUSINESS	STAGE	YEARS	WHAT DRIVES IT	WHAT SETS THE LENGTH
iPhone	Cycle and give-back (FY27-28)	2	Duo at $1,999 and 18 Pro up $100 on a record upgrade year, then the comparison	Duo supply is constrained with no balance date; each earlier jump was followed within two years by a down or slower year
iPhone	Replacement trend (FY29-33)	5	Installed base of more than 2.5 billion devices replaced at higher prices	One full replacement run after the give-back, landing on long-run nominal GDP
Services	Above-trend (FY27-30)	4	Paid subscriptions above 1.5 billion and installed base growth, net of App Store and licensing headwinds	House judgment: the remedy ruling and App Store rule changes should be known and absorbed by about FY30; currency comparisons lap within a year
Services	Fade (FY31-33)	3	Share of device owners already paying rises toward saturation	Straight fade that lands on terminal growth when Services is about 31% of revenue
Mac, iPad, Wearables	Trend (FY27-33)	7	Replacement demand under memory-driven supply limits and higher prices	No supernormal driver: FY26 grew 4.1% across the three, with Mac +12.5% and the other two flat
Gross margin	Memory squeeze (FY27-28)	2	Memory contract prices still rising and carry-in inventory benefit fading	TrendForce reports PC makers buying ahead on expectations that DRAM supply stays tight in 2027; we carry the squeeze through FY28 as a house judgment
Gross margin	Partial recovery (FY29-30)	2	Supply catches up and Apple keeps part of its price increases	Ends when products margin regains FY24-25's about 37%
Gross margin	Steady (FY31-33)	3	Mix only: Services share rises against rising inference cost	Margin held so the terminal value capitalizes no further expansion

Return on capital. Apple's capital is a judgment before it is a number. Equity plus debt less all cash and securities averaged $48 billion over the last year, because suppliers and customers fund much of the business: accounts payable are $82.3 billion against $39.9 billion of receivables from the same vendors. On that base the return is 276%, too sensitive to a small denominator to read a trend from. Leaving $137 billion of cash in gives 72%, but that charges the operations for securities that earn nothing in operating income. Our headline counts net supplier float as capital, because Apple's purchase obligations show that float has a cost when supply is short: $87 billion on average, and a return of 151%. The WACC is 9.62%: equity at 9.7% and 98.4% of capital, debt at about 4.5% after tax and 1.6%, so it sits within a tenth of a point of the cost of equity; the workbook shows the build. No definition puts the return near the hurdle.

EXHIBIT 6 — RETURN ON CAPITAL AGAINST ITS COST, TWELVE QUARTERS



How to read it. Trailing-twelve-month after-tax operating income over average capital, December 2023 to September 2026, in percent. The gold line counts net supplier float as capital; the grey line leaves cash in. The dashed black line is the 9.62% WACC, with the 9.7% cost of equity as its reference, which sits on it at this scale. The two markers at the right set the 58% earned on new capital over the window beside the 173% the terminal value assumes in the base case. The one thing it shows: the return is many times its cost however capital is defined, and the fall in the gold line comes from a low and rising capital base.

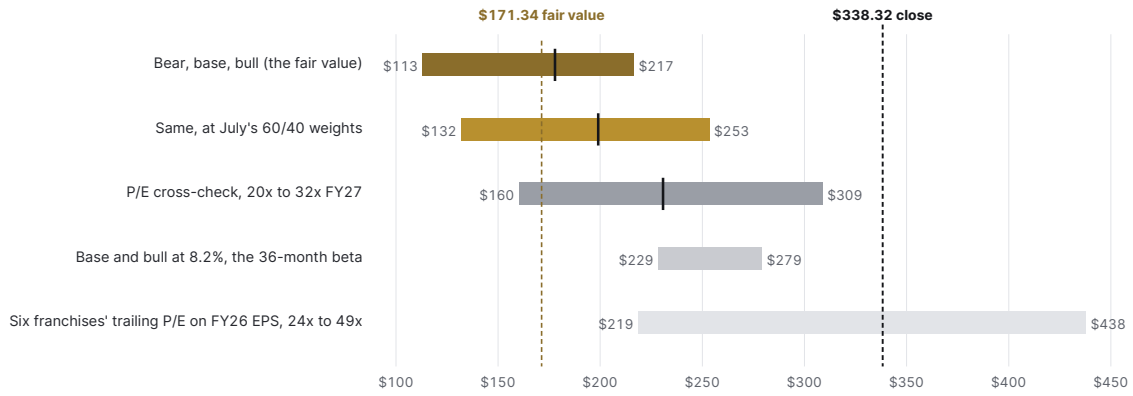
The mechanical label is fading, because the spread fell 37 points in four quarters. Read it from the business. After-tax operating income rose from $101 billion to $131 billion over the window, and capital rose from $35 billion to $87 billion as Apple paid its remaining long-dated tax in cash, built inventory and added intangibles; with cash left in the

denominator the return rose. The return earned on new capital over the window is 58%, against the 173% our terminal value assumes on 15 cents of capital per added dollar. That gap is large and we explain it: the window's added capital includes $22.0 billion of repatriation tax paid down from September 2023, which supports no growth, and without it the earned figure is about 101%, a house estimate. The rest is the inventory build and the intangibles step. If new capital earned only that 101% forever, fair value would be $165.98; at the unadjusted 58%, $156.32.

What the price requires. Holding every other input in all three scenarios, fair value reaches $338.32 with costs of equity of 6.9% for the forecast years and 6.6% for the terminal, 2.8 points below ours, which at a 4.91% 10-year and a 4.5% premium means a beta near 0.45. Or with positive growth rates 2.9 times ours in every line through FY32, the give-back years left as they are: in the base that is 12.9% a year, reaching $1.12 trillion of revenue in FY33 against $661 billion. Or with terminal growth 3.2 points higher in every scenario, 7.2% in the base. No margin we can argue gets there: each point of operating margin in every year and scenario is worth $5.54, so it would take about 30 points. The stock is at 38.1 times our base FY27 EPS. Terminal value is 71% of operating value in the base case, so the long-run inputs carry most of the number (Exhibit 7). Combinations also count: the bull at 8.2% is worth $279.25, the closest of the cash-flow routes we show, or $291.12 at July's weights, and it needs both the higher path and a rate we did not choose.

What investors pay. The cross-check's 32 times is the top of Apple's post-2020 band in our July note, and the market pays more today. On FY26 EPS, trailing multiples in our feed for the six durable franchises we pulled run from Procter & Gamble's 24.4 ($219) through Microsoft's 27.3 and Coca-Cola's 27.7, Visa's 37.1 and Walmart's 44.8 to Costco's 48.8 ($438), a range that brackets the price. We leave out Alphabet's 14.6, whose trailing earnings carry marks on private stakes. That is what investors pay for durable franchises now; it is not a value we can derive from these cash flows at our rates.

EXHIBIT 7 — VALUE RANGES AGAINST THE 2 NOVEMBER CLOSE



How to read it. Dollars a share. Each bar runs from low to high for one lens, with a black tick at its base value where it has one: our three scenarios; the same at July's weights; the price-to-earnings cross-check; the base and bull cases at the 8.2% the 36-month beta gives; and six durable franchises' trailing multiples on Apple's FY26 EPS. The dashed lines mark the fair value and the close. The one thing it shows: every lens built from these cash flows sits below the price, and only those peers' multiples reach it.

THE RECEIPT

The receipt: seven July tests, scored

Our July note armed seven tests, and three carried due dates of 30 October that predate this print, so we score them on it. The stock's rise since July is the first line on the record: we put fair value at $208 against a $308.91 close, 33% below the price (the price was 49% above value), and the stock is now 9.5% higher.

scored against the company, or not passing | moved in favor of the company | pending, not fired or not readable

SCORED **Whether ex-refund gross margin stabilizes near 46.5%, and the December guide**

The quarter held; the guide does not. Gross margin was 47.9%, about 46.9% without the refund, 0.4 point above the line and not materially different from it. Parekh then guided December to 45% to 46%. The 45.5% midpoint is a full point below the line, with memory 'even higher' and pricing 'continuing to increase' beyond December. We read the 46.5% as a level the margin passed through, and the guide, the operating-expense path and the Siri AI cost are the reason the margin lines moved -14.74 a share.

SCORED **10-K: intangibles detail, useful lives, full-year capex above $14bn**

Fired on composition, in the 10-K filed the day after the print. Gross licensed intangibles rose $13.5bn of the $14.5bn total rise; the filing gives an amortization schedule that runs off 91% by FY30, no useful life and no licensor. The capex leg did not fire: $9.04bn against the >$14bn condition, below the press figure of $13bn to $14bn that the July note carried with a label. The forward test moves to tripwire 5.

NOT PASSING

Two quarters of revenue growth at or above 12%, ex-refund margin at or above 48%, Services at or above 16%

All three legs missed: revenue +11.7%, which the release rounds to 12%; ex-refund margin about 46.9%; Services +9.8%. The two-quarter count does not start. July's bar asked for all three legs at once, and the December guide (+7% to +10%, 45% to 46%, +8% to +9%) misses each of them. We replace it with a revision keyed to the model's bull path.

NOT TRIPPED **Close under $156**

The 2 Nov close was $338.32, up 9.5% from the $308.91 of our July note, a move in the company's favor, and the 52-week high was $351.73 on 23 October. Replaced at the new fair value (tripwire 9).

NOT FIRED **A capex inflection or strategy shift on owned AI infrastructure under Ternus**

FY26 capex fell 28.9% to $9.04bn, $2.24bn in the fourth quarter against July's estimate of about $3.7bn. On the call Parekh placed server-side Siri AI on Private Cloud Compute with inference costs in Services cost of sales and left open 'any further requirements we might have on the compute side'. The $33bn rise in manufacturing purchase obligations is supply for products on the 10-Q's definition, not infrastructure. No inflection; the question stays open as tripwire 6.

NOT READABLE **Siri AI: shipped, and whether it is an upgrade driver or a feature**

The launch leg scored in October: shipped as a beta on 14 September. The driver leg cannot be read from this print. iPhone grew +17.5% with Siri AI live for twelve days of the quarter, in beta and in one language, while growth had run faster before it arrived (+23%, +22% and +22% in the prior three quarters). Management's statement is a belief, not a measure: 'we feel AI offers a compelling reason for customers to upgrade and switch.' December is supply-constrained on Duo, so it cannot separate the two either. Our base case carries Siri AI as a cost and no revenue line; tripwire 4 reads it from the March and June quarters.

PENDING **DOJ v. Google appeal: the search-payment remedy (through 2027)**

Still in the D.C. Circuit. The plaintiffs' 28 July cross-appeal brief asks the court to send back the question of a ban on search payments, which Judge Mehta declined to order; on 5 October the parties asked for argument as early as 9 December. No ruling. A ban would take the base Services path to the bear's, about $158 on fair value (tripwire 8).

THE TRIPWIRES

What carries the story to the next update

45.5% the December gross-margin guide midpoint — the first test, on the late-January call, is where the quarter lands and what March is guided to

Each tripwire has its reading rule set now, so the next update scores it rather than reinterprets it. Effects are on fair value at today's other inputs.

1. **December-quarter gross margin (FQ1-27 release, late January).** At or below 44.5%, with a March guide midpoint at or below 44.5%: base products margin moves down one point in every year, about $169.35 in the base alone ($167.46 if every scenario moves). At or above 46.5%, with a March guide midpoint at or above 46.5%: up one point, about $173.34 ($175.23 if every scenario moves). Between those, the base holds.

2. **Carry-in and the build (each 10-Q).** Inventories below $10 billion by the June quarter with ex-refund margin under 45%: the carry-in is spent and the squeeze stage extends a year, $171.21. Inventories above $15 billion with margin at or above 46%: the build is still working, and the base holds with the recovery brought forward a year. Purchase obligations are recorded each quarter; a fall below $60 billion reads as supply normalizing.
3. **Services growth and margin (FQ2 to FQ4-27).** Read after currency lapped, from the June quarter. Two quarters at or above 12%: the 12% path, $178.43. Two quarters at or below 6%: the 6% path, $165.14. Services margin at or above 75.5% through FY27, with Siri AI rolled out: the 74% we carry for its cost comes off, which lifts fair value to about $172.59 in the base alone (+$1.25). Third-party licensing named as search-related, on any call or filing: read with tripwire 8.
4. **The iPhone give-back and Siri AI (FY27 release, late October 2027; waypoints each quarter).** FY27 iPhone growth at or above 13% with FY28 guided or tracking flat or up: bull's path. At or below 4%: bear's. Siri AI is scored as a driver only if management attributes upgrades to it with a number, or a paid tier reports revenue; otherwise it stays a cost.
5. **Licensed rights and commitments (FY2027 10-K).** We read FY26's rise as a single step with a term of about four years. Another rise of $10 billion or more in gross licensed intangibles, about three-quarters of FY26's, or unconditional purchase obligations with a remaining term over one year above $40 billion, about $22 billion of new commitments once FY27's $6.7 billion runs off, makes it a recurring bill and re-opens our 15 cents of capital. A trip only re-opens the rate: our base funds $20.0 billion of additions in FY27, so net additions at or below that leave the 15 cents standing. We have no mapping from a trip to a capital rate; for scale, 26 cents of capital per added revenue dollar, where the terminal return on new capital equals the 101% Apple earned over the window without the $22.0 billion of repatriation tax, gives $165.98. Neither rise, with FY27 amortization near the scheduled $6.6 billion, keeps the step reading and the 15 cents. If gross licensed rights fall and obligations fall with them, Apple is not renewing, which is the assumption behind the 15 cents: we would re-open it the other way, $172.85 at 12 cents, before any margin the lapsed amortization returns. If the $11.8 billion liability is paid down with no new rights behind it, flat working capital costs about $0.81 a share.
6. **Owned AI infrastructure (each quarter).** FY27 capex guided or tracking above $14 billion, or $0.10 per dollar of net income on cash capex: Apple is building, and the capital rate moves to 30 cents, $163.83, and the control-group claim is re-opened.
7. **The P/E weight (our rates, each quarter).** The weight stays at zero while 26 times needs terminal growth above the 5% ceiling on our path. That breaks with our rates about 0.5 point lower, a 10-year near 4.4% on today's beta, or the same fall in the rate from a lower beta. Below that for a full quarter, a 20% weight returns, about $183.62 at today's inputs and more with the lower rate.
8. **DOJ v. Google (D.C. Circuit, any ruling).** An affirmed remedy with payments intact: no change. A payment ban ordered: the bear's Services path becomes the base, $157.90. A ruling in Google's favor on liability removes this from the bear.
9. **Price.** A close at or below $171.34 resolves the gap. $128.51 is a 25% margin of safety to fair value. Replaces July's $156. Scored against this note if, at the FY28 print, AAPL's total return from $338.32 beats the S&P 500's with base inputs tracking.

What would change our view

We revise the valuation if the evidence tracks the whole bull path: iPhone growth of 13% in FY27 with FY28 up at least 4%, products gross margin at or above 37% in FY27 and 38% in FY28, Services at or above 11% in FY27 and 12.5% in FY28, and capex under $14 billion. That path is worth $216.53 at our rates, and those inputs then become the base case in the next update. It does not reach the price at our rates, and we say so plainly. We would change the rate if the 36-month beta stays at or below 0.80 through an S&P 500 fall of 10% or more; at 0.80 the rate is 8.5% and fair value about $204.96, and at the 36-month reading itself, 8.2%, $218.68, both before the 20% weight tripwire 7 would return at those rates. On one flat rate, the bull path reaches the price at about 7.5% in every year, terminal included, which is a 0.74 beta throughout and a 10-year near 4.1%, against 4.91% today; if the whole bull path tracks and the rate falls that far, we would call it fair value. The case hardens the other way on the mirror: iPhone growth of

> 4% and −10%, products margin at or below 34% in FY27 and 33.5% in FY28, Services at or below 6% and 1%, with search payments ended. That path is worth $113.18, and its inputs become the base case.

THE CALL

The call

We value Apple at $171.34 a share, from $208. This was a record year, the earnings are clean and the cash is real, and our July estimates were too low on revenue and EPS. Apple is still the control group: seven cents of capex per dollar of net income, and a re-mark that rounds to zero. But the bill for the AI build has reached it through memory, and the print's largest effect on value is the margin path. An iPhone cycle worth a few dollars either way does not offset that, and the operating-expense share outlasts the squeeze. Arithmetic more than covers the Services slowdown to September; the App Store and third-party licensing items are real but are not what moved the number. Two-thirds of the fall from $208 is our decision on the weight, and at July's weights the value is $195.89. Holding our other inputs, the price takes a cost of equity about 2.8 points below ours, or 12.9% revenue growth for seven years, and our bull case, $216.53, stops well short of it. The late-January call, with the December margin and the March guide, is the next test. The Fund holds no position in AAPL.

SOURCES

Sources & Method

Filings. Apple Form 8-K Exhibit 99.1 for FQ4 2026 (acc. 0000320193-26-000024, filed 2 November 2026): income statement, categories, segments, balance sheet and cash flows. Earlier releases for FY26 and FY25 quarters. Form 10-K for FY2026 (acc. 0000320193-26-000026, filed 3 November 2026) for licensed intangibles and their amortization schedule, inventory components, purchase obligations, leases, deferred revenue, tax reserves and the third-party cloud risk factor. Form 10-Q for the June quarter (acc. 0000320193-26-000020) for June purchase obligations and gross intangibles. Forms 10-K filed 2015, 2017, 2020, 2023 and 2025 for iPhone revenue, operating expenses and cash-flow history. Every filed figure in the tables is asserted against the filed text by `data/release_facts.py`.

The call. 2 November 2026, 5:00 PM ET. Apple posts a webcast and no written transcript, so quotes are taken word for word from two independent transcriptions, Six Colors and The Motley Fool, and each quoted passage appears in both, checked by `data/check_call_quotes.py` (archived in `data/tells/`). Apple gives no outlook beyond December.

Press and third parties. 18 Pro prices and dates: Apple Newsroom, 9 September 2026. Duo at $1,999: LBC, launch day. The prior $1,099 base: 9to5Mac. Duo on sale 23 October: MacRumors. TrendForce fourth-quarter contract forecasts, via Communications Today. DOJ cross-appeal brief of 28 July 2026, via MLex; docket dates as recorded in our Alphabet update.

Market data. AAPL settled close 2 November 2026 ($338.32) and the overnight print ($328.60 at 9:11 PM ET) from the brokerage feed; the overnight price is reported, not an input. EPS estimates and trailing price-to-earnings ratios from the same feed. US Treasury par yield curve, 2 November (4.91%, the DGS10 source series; FRED had not posted the print at build time). Month-end closes for AAPL, SPY, MSFT, GOOGL and SONY, August 2021 to October 2026, split-adjusted, for the betas.

Macro. Federal Reserve Summary of Economic Projections, 16 September 2026, Table 1: longer-run real GDP 2.0%, PCE inflation 2.0%.

Method. Free cash flow to equity in three scenarios weighted 25/50/25, flows mid-year from 2 November on the 26 September balance sheet. Revenue in three lines (iPhone; Mac, iPad and Wearables; Services), gross margin for products and Services, operating expenses in dollars then with revenue, tax 17%. Additions equal depreciation at 20% of opening net plant and intangibles plus 15 cents per added revenue dollar; working capital flat. Discount rates 9.7% for FY27–28 (10-year 4.91%; beta 1.06; equity risk premium 4.5%), converging in a straight line to 9.4% over FY29–33; terminal value by the Gordon growth formula at that rate on the FY34 flow, with terminal operating margin equal to FY33's, carried at the final flow's discount factor, consistent with mid-year flows. Stock compensation is expensed and the diluted count held at 14,592 million. Net cash added at face. ROIC from SEC XBRL through June 2026, September from the release on the same definitions. Model, stages, attribution and ROIC series are in the downloadable workbook.

Limitations. The 10-K, filed the day after the print, names no licensor, gives no useful life and does not break out other non-current liabilities, so the term of the rights, their link to AI and the deferred-payment reading are inferences; non-current deferred revenue is placed in other non-current liabilities by elimination and derived from rounded totals. "About 46.9%" uses the release's approximate one point; the $0.05 of EPS implies a refund closer to 0.8 point, which would make the ex-refund margin about 47.1%. The June figure has the same issue: the $0.11 implies a refund near 1.8 points and an ex-refund margin near 48.3%. DOJ docket dates rest on our Alphabet update and press, not the docket itself. The split of components between memory and other parts is not disclosed. Peer capital ratios come from our own notes on the bases labeled. The base case carries no revenue from Siri AI, and no scenario has a separate line for search payments, which the bear removes through its Services path.

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