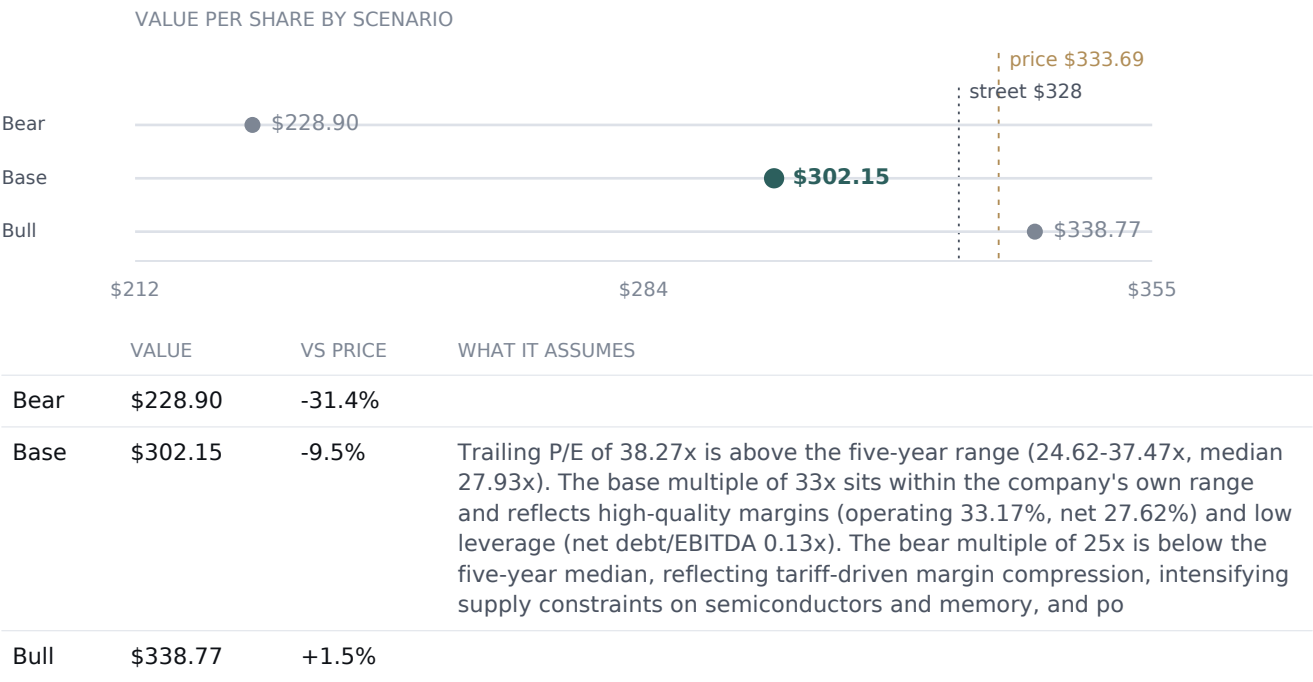


EQUITY RESEARCH / AAPL

Apple Inc.

SHORT CANDIDATE · historical study through 2026-10-02 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$333.69	\$302.15	-9.5%	\$292.99	\$4,869.93B	38.3x



STREET CHECK
Street target **\$328** (-1.7% vs price) · 25 buy / 13 hold / 6 sell · forward P/E 35.2x · EPS estimates \$8.82 this year, \$9.58 next
Our base case is **0.92x** the Street target: within the Street's range.
Consensus is shown for calibration only. The model never receives it.

Thesis

Apple trades at 38.27x trailing diluted EPS, above its own five-year maximum of 37.47x, on a TTM EPS of \$8.72 that includes a non-recurring tariff-refund benefit of approximately \$0.11 per share. The base-case value of \$302.15 (33x on forecast EPS of \$9.16) sits below the \$333.69 price, implying roughly 9.5% downside, while the probability-weighted value of \$292.99 implies 12.2% downside. The core argument is that the market has extrapolated a one-time tariff windfall and an AI narrative into a multiple that exceeds the company's own historical range, while management explicitly warns that supply constraints for semiconductors, NAND and DRAM will intensify and gross margins face downward pressure. The bear case at 25x on \$9.16 yields \$228.90, a 31.4% decline, reflecting margin compression and multiple reversion below the five-year median of 27.93x.

What the market may be missing

The price does not reflect that the Q3 FY2026 gross margin of 50.1% included approximately 2 percentage points from tariff refunds, a non-recurring item that inflated EPS by roughly \$0.11. Management states supply constraints for advanced semiconductors, NAND and DRAM are expected to intensify, which will pressure product gross margins back toward the FY2025 level of 46.9% or lower. The trailing P/E of 38.27x exceeds the five-year maximum of 37.47x, suggesting the market is pricing in a seamless AI hardware cycle and sustained services margin expansion that conflicts with management's own warnings of volatility and downward pressure. The YTD revenue growth of 16.15% and operating income growth of 21.67% are partly tariff-refund-driven and not a sustainable run-rate.

Why the opportunity exists

A narrative overshoot. The market prices Apple at 38.27x, above its own five-year maximum of 37.47x, extrapolating a one-time tariff-refund EPS boost of approximately \$0.11 and an AI narrative into a sustainable multiple. Management explicitly warns that gross margins face volatility and downward pressure, and supply constraints for semiconductors, NAND and DRAM are expected to intensify. The YTD revenue growth of 16.15% and operating income growth of 21.67% are partly tariff-refund-driven and not a durable run-rate; the 3-year revenue CAGR is only 1.81%. The market appears to be pricing in a seamless AI hardware upgrade cycle and sustained services margin expansion that conflicts with management's own warnings, creating a narrative overshoot above the company's historical multiple range. Evidence: Trailing P/E of 38.27x exceeds the five-year maximum of 37.47x. Q3 FY2026 gross margin of 50.1% includes approximately 2 percentage points from tariff refunds. Management outlook states 'gross margins will be subject to volatility and downward pressure' and 'supply constraints and increasing costs for components... with expectations these trends will intensify.' The 3-year revenue CAGR of 1.81% contrasts with the YTD 16.15% surge.

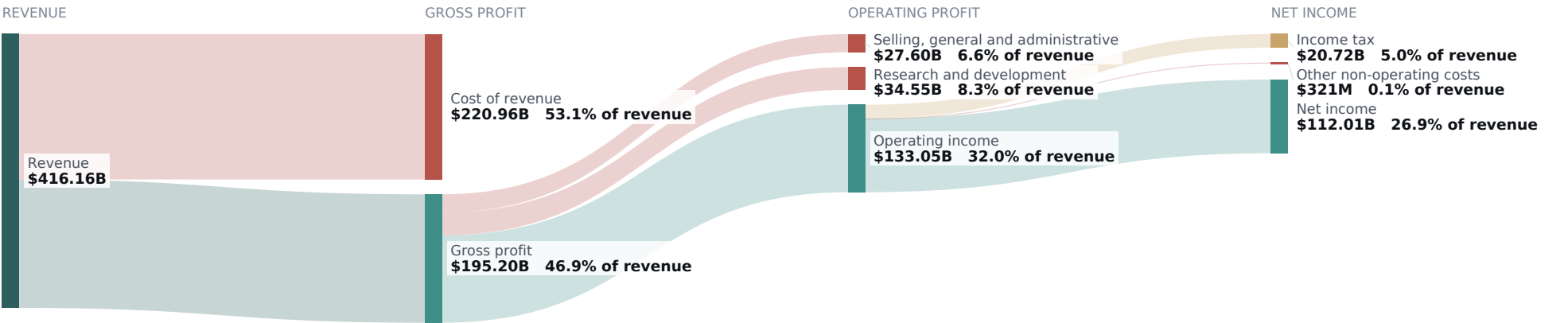
Since our last note

Thesis weakened against our note of 2026-10-02 (investigate short). The shares have moved +1.0% since. No guidance-versus-delivery record is available in SINCE THEN (the `guidance_vs_delivery` array is empty, and only 3 days have passed with the same filing). Management has not issued numeric forward guidance in the excerpts. The prior memo noted management's warnings about margin compression, and the current filing reiterates those warnings without providing specific targets. There is no guided-versus-delivered record to grade. Management's qualitative warnings about supply constraints and margin pressure are consistent with the bear case, but the absence of numeric guidance means credibility cannot be assessed on a delivery basis.

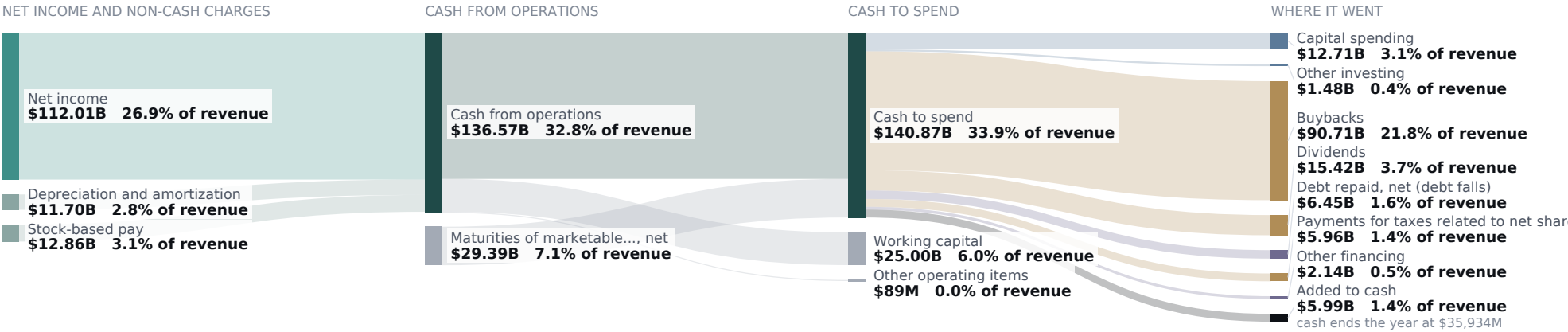
Follow the money: fiscal 2025

Of every \$100 of revenue, \$53 went to cost of revenue, \$15 to operating costs and \$5.0 to interest and tax, and \$27 became net income. Operations turned that into \$27 of cash; \$3.1 went to capital spending and \$26 back to shareholders. Operations turned that into \$27 of cash; \$3.1 went to capital spending and \$26 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 2.0 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-09-27, XBRL accession 0000320193-25-000079. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Apple designs, manufactures and markets smartphones, personal computers, tablets, wearables and accessories, and sells a variety of related services, operating through geographic segments with a mix of direct and indirect distribution channels.

What it sells

Hardware products: iPhone (iPhone 17 Pro, iPhone Air, iPhone 17, iPhone 16, iPhone 16e), Mac (MacBook Air, MacBook Pro, iMac, Mac mini, Mac Studio, Mac Pro), iPad (iPad Pro, iPad Air, iPad, iPad mini), Wearables (Apple Watch Series 11, Apple Watch SE 3, Apple Watch Ultra 3, AirPods, AirPods Pro, AirPods Max, Beats, Apple Vision Pro), Home (Apple TV 4K, HomePod, HomePod mini), and Accessories. Services: Advertising (third-party licensing and own platforms), AppleCare (fee-based service and support), Cloud Services, Digital Content (App Store, Apple Arcade, Apple Fitness+, Apple Music, Apple News+, Apple TV), and Payment Services (Apple Card, Apple Pay). Products: iPhone (\$209.6B, 4% growth driven by Pro models), Mac (\$33.7B, +12% from laptops and desktops), iPad (\$28.0B, +5% from iPad Air, iPad mini, iPad), Wearables/Home/Accessories (\$35.7B, -4% from lower Accessories and Wearables). Services (\$109.2B, +14% from advertising, App Store, cloud services). Services include amortization of deferred value of services bundled in product sales. Product announcements in FY2025 spanned MacBook Pro, Mac mini, iMac, iPad mini, iPhone 16e, iPad Air, iPad, MacBook Air, Mac Studio, iOS 26/macOS Tahoe 26/iPadOS 26/watchOS 26/visionOS 26/tvOS 26, iPhone 17/Air/17 Pro/17 Pro Max, Apple Watch Series 11/SE 3/Ultra 3, AirPods Pro 3. Hardware products: iPhone, Mac, iPad, Wearables/Home/Accessories (AirPods, Apple Watch, Apple Vision Pro). Services: App Store, Apple Music, Apple Pay, iCloud, Apple TV. Six software platforms: iOS, iPadOS, macOS, watchOS, visionOS, tvOS. In Q3 FY2026, Products generated \$78,678M and Services \$30,739M of the \$109,417M total. During Q3 2026, Apple announced iOS 27, macOS 27 Golden Gate, iPadOS 27, watchOS 27, visionOS 27, tvOS 27, and introduced Siri AI.

Customers and channels

Customers are primarily in consumer, small and mid-sized business, education, enterprise and government markets. Direct channels (retail stores, online stores, direct sales force) accounted for 40% of total net sales in 2025; indirect channels (third-party cellular network carriers, other resellers) accounted for 60%. Services are sold through various service platforms in the same markets. Consumer customers globally. Manufacturing relies on outsourcing partners for subassemblies and final assembly/testing, plus a wide variety of individual component suppliers. Retail space is part of lease arrangements. No single-customer concentration disclosed in this excerpt. Consumers and distributors. Indirect distribution channels are filled with new inventory following product launches; channel inventory of older products declines as newer product launches approach. Third-party applications are distributed through the App Store, where Apple may retain a commission from sales of applications and digital services or goods initiated within an app. Direct-to-consumer distribution models by developers could reduce or eliminate commissions.

Unit economics and costs

No specific unit economics or cost figures are disclosed in the excerpt. The text notes aggressive price competition and downward pressure on gross margins. The Company must make significant investments in R&D to ensure timely introduction of innovative products. Approximately 166,000 full-time equivalent employees as of September 27, 2025. The Company designs and develops nearly the entire solution (hardware, OS, software applications, services), implying vertically integrated cost structure. Component sourcing involves single or limited sources for certain custom components, with exposure to industry-wide shortages and commodity pricing fluctuations. Total gross margin 46.9% (Products 36.8%, Services 75.4%). Products margin fell 40bps YoY due to product mix and tariff costs, partially offset by favorable costs. Services margin rose 150bps YoY due to mix, partially offset by higher costs. R&D \$34.6B (8% of sales), driven by headcount and infrastructure. SG&A \$27.6B (7% of sales), driven by headcount and variable selling expenses. Effective tax rate 15.6% vs 21% statutory, driven by lower foreign earnings rate, R&D credit, share-based comp benefits, partially offset by valuation allowance change. Manufacturing purchase obligations \$56.2B (\$55.4B within 12 months). Other purchase obligations \$14.8B (\$7.0B within 12 months) include capital assets for product manufacturing. Q3 FY2026 gross margin: Products 40.1% (up from 34.5% prior year), Services 75.6% (flat YoY), Total 50.1% (up from 46.5%). YTD: Products 39.9%, Services 76.3%, Total 49.1%. Products gross margin improvement driven by different product mix and tariff refunds, partially offset by higher costs including memory. R&D was \$11,729M (11% of sales) in Q3, up from 9% prior year, driven by AI infrastructure investments and headcount. SG&A was \$7,346M (7% of sales). Total operating expenses \$19,075M (17% of sales). Effective tax rate 17.9% in Q3 (up from 16.4% prior year), driven by higher effective tax rate on foreign earnings. Capex for 9 months was \$6,799M. Operating cash flow for 9 months was \$116,996M.

Segments

- **Americas** - Includes North and South America; managed separately to align with customer and distribution partner locations and unique market dynamics.
- **Europe** - Includes European countries, India, Middle East and Africa.
- **Greater China** - Includes China mainland, Hong Kong and Taiwan.
- **Japan** - Managed separately for unique market dynamics.
- **Rest of Asia Pacific** - Includes Australia, New Zealand and other Asian countries not in other segments.

Revenue drivers

- Hardware product sales (iPhone, Mac, iPad, Wearables, Home, Accessories)
- Services revenue (advertising, AppleCare, cloud, digital content subscriptions, payment services)
- Seasonal holiday demand (historically higher net sales in first fiscal quarter)
- New product and service introductions impacting net sales, cost of sales and operating expenses
- Indirect channel inventory fill following product launches
- Third-party licensing arrangements for advertising services

- Subscription-based digital content services (Apple Arcade, Apple Fitness+, Apple Music, Apple News+, Apple TV)
- iPhone Pro models drove iPhone growth (+4% to \$209.6B)

Competitive position

Apple holds a minority market share in global smartphone, personal computer, tablet and wearables markets. Competitors have broad product lines, low-priced products, large installed bases of active devices, and large customer bases. Competition is characterized by aggressive price competition, downward pressure on gross margins, short product life cycles, evolving industry standards, and rapid adoption of technological advancements. Some competitors compete primarily through aggressive pricing and very low cost structures, imitating Apple's products and infringing on its IP. Certain competitors can provide products at little or no profit or even at a loss. Apple's competitive factors include price, product/service features (including security), relative price and performance, quality and reliability, design and technology innovation, third-party software and accessories ecosystem, marketing and distribution capability, service and support, corporate reputation, and IP protection. Not explicitly discussed in this excerpt. Management notes gross margins are subject to volatility and downward pressure, implying competitive pricing pressure. Apple holds a minority market share in global smartphone, personal computer, tablet and wearables markets, which can make developers less inclined to develop or upgrade software for Apple products versus competitors with larger market share. Competitors include Android for smartphones/tablets, Windows for PCs/tablets, and PlayStation, Nintendo, Xbox for gaming. Third-party developer support depends on perceived benefits compared to competitors' platforms. Apple relies on continued availability of compelling third-party software applications.

Industry direction

Markets are highly competitive and subject to rapid technological change. Frequent introduction of new products and services, short product life cycles, evolving industry standards, and rapid adoption of technological advancements by competitors define the landscape. Competition is expected to intensify as competitors imitate Apple's approach to providing components seamlessly or work collaboratively to offer integrated solutions. Some markets have experienced little to no growth or contracted overall. Apple is focused on expanding market opportunities in smartphones, personal computers, tablets, wearables, accessories, and services. Not explicitly discussed in this excerpt. Management notes macroeconomic conditions (inflation, interest rates, currency fluctuations) have directly and indirectly impacted results. Tariff environment and Section 232 semiconductor investigation create uncertainty. Trade disputes can shift consumer spending and sentiment. Apple is experiencing a period of supply constraints and increasing costs for components driven by industry supply-demand imbalances for advanced semiconductors, storage (NAND) and memory (DRAM), with expectations these trends will intensify. Demand for cloud computing and AI infrastructure has increased substantially across the technology industry, resulting in constrained supply, extended lead times, and increasing costs. Tariffs on imports to the U.S. from China, India, Japan, South Korea, Taiwan, Vietnam, and the EU have been imposed since Q2 2025. The U.S. Supreme Court struck down certain IEEPA tariffs on February 20, 2026. Section 232 semiconductor investigation initial results published January 14, 2026 did not impose additional tariffs. Various Section 301 modifications have been announced.

Recent developments

- Q3 FY2026 revenue of \$109.4B up 16% YoY; diluted EPS \$2.02 up 29% YoY; record June quarter for revenue and EPS
- Gross margin 50.1% in Q3, including favorable impact of approximately 2 percentage points from tariff refunds; EPS included favorable impact of \$0.11 from tariff refunds
- Apple applied for tariff refunds following U.S. Supreme Court ruling striking down IEEPA tariffs (Feb 20, 2026); refunds recognized as reduction of products cost of sales
- Supply constraints and increasing component costs (semiconductors, NAND, DRAM) expected to intensify, potentially materially negatively impacting revenue, costs, gross margin
- Deemed repatriation tax payable fully paid: remaining \$8.8B balance paid during first nine months of 2026
- Q3 buybacks of \$25.8B; Q3 dividends of \$4.0B; quarterly dividend \$0.27 per share declared payable August 13, 2026
- Manufacturing purchase obligations \$57.0B (\$56.2B within 12 months); other purchase obligations \$29.3B (\$9.2B within 12 months)
- Term debt decreased: current \$11,007M and non-current \$71,340M vs. \$12,350M and \$78,328M at Sept 2025; commercial paper \$1,997M vs. \$7,979M

Management outlook

Management states gross margins will be subject to volatility and downward pressure. Supply constraints and increasing component costs are expected to intensify, which may materially negatively impact revenue, costs, gross margin, results of operations and financial condition. Price increases taken by the Company may not effectively mitigate negative impacts and may reduce demand. No specific numeric forward guidance (revenue, margin, EPS, capex, cash flow ranges) is provided in the excerpt. Management believes cash, cash equivalents, marketable securities, cash generated by operations, and access to debt markets will be sufficient for cash requirements and capital return program over the next 12 months and beyond. The Company intends to increase its dividend on an annual basis, subject to Board declaration. Management states gross margins will be subject to volatility and downward pressure. No specific numeric guidance for FY2026 is provided in this excerpt. Management believes \$132.4B cash plus ongoing operations and debt market access will satisfy cash requirements and capital return program over next 12 months and beyond. Intends to increase dividend annually, subject to Board declaration. Share repurchase program does not obligate minimum acquisition. The Company is focused on expanding market opportunities related to smartphones, personal computers, tablets, wearables and accessories, and services. Management emphasizes the need for continual and timely introduction of innovative new products, services and technologies. The Company relies on R&D, licensing of intellectual property, and acquisition of third-party businesses and technology to expand offerings. Management acknowledges that some markets have experienced little to no growth or contracted overall.

Accounting flags

- ASU 2025-06 (Internal-Use Software): modernizes accounting, removes software development stages, requires capitalization when management commits to project; effective Q1 2029; early adoption permitted; Company evaluating timing and method

- ASU 2024-03 (Disaggregation of Income Statement Expenses): requires disclosure of purchases of inventory, employee compensation, depreciation, intangible asset amortization in certain expense captions; effective Q4 2028 using prospective transition
- ASU 2023-09 (Income Taxes): requires additional income tax rate reconciliation disclosures and disaggregation of income taxes paid by federal, state, foreign; effective Q4 2026 using prospective transition
- No material changes to critical accounting estimates since 2025 Form 10-K
- No material changes to market risk disclosures during first nine months of 2026
- State Aid Decision caused \$10.7B year-over-year decrease in provision for income taxes (Note 7)

Key figures

KEY FIGURES	TTM TO 2026-06-27	FY2025	
Revenue	\$466.82B	\$416.16B	+6.4% y/y
Gross margin	48.6%		
Operating income	\$154.86B	\$133.05B	33.2% margin
Net income	\$128.93B	\$112.01B	
Diluted EPS	\$8.72	\$7.46	38.3x trailing P/E
Operating cash flow	\$146.72B	\$111.48B	-5.7% y/y
Capital spending	\$10.04B	\$12.71B	2.1% of revenue
Cash and short-term investments	\$62.40B		
Net debt	\$21.95B		0.1x EBITDA
Share repurchases	\$82.23B	\$90.71B	1.7% yield
Market capitalisation	\$4,869.93B		31.6x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-27 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-31). Balance-sheet items are as of 2026-06-27 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. No interest expense fact; FCFF is not computed. OCF less capex is the only cash-flow figure. Current debt of \$11,007.0M (Term debt) falls due within twelve months of 2026-06-27; the price date is 97 days later, so check in the filing whether any of it matured or was refinanced before 2026-

The counter-case

The base-case value of \$302.15 is only 9.5% below the price, which is a modest margin of safety for a short. Apple's operating margin of 33.17% and net margin of 27.62% are exceptional for a hardware business, and the services segment at 75.4% gross margin provides structural margin support. The company's \$106,973M marketable securities portfolio, \$39,544M cash, and consistent buyback program (TTM \$82,226M) create a floor that limits downside. The 5-year P/E median of 27.93x is well below the base multiple of 33x, but Apple's quality metrics justify a premium. If tariff refunds are partially recurring or AI monetization accelerates services growth beyond 14%, the multiple could remain above 37x, making the short thesis fragile. The bull case at \$338.77 is only 1.5% above the current price, suggesting limited upside risk but also that the market may already be pricing in the best-case scenario. Services revenue grew 14% in FY2025 to \$109.2B at 75.4% gross margin, and Siri AI introduced at WWDC26 alongside iOS 27 could accelerate subscription and advertising monetization. Q3 FY2026 was a record June quarter with \$109.4B revenue up 16% YoY and diluted EPS of \$2.02 up 29% YoY. Operating cash flow for nine months was \$116,996M, a record. The buyback yield of 1.69% and dividend yield of 0.32% provide shareholder-return support. Net debt/EBITDA of 0.13x means the balance sheet is essentially unlevered, and the \$106,973M in marketable securities plus \$39,544M cash provide a substantial cushion. If AI monetization delivers and tariff refunds are partially recurring, the multiple could sustain above 37x, supporting the bull case at \$338.77.

Valuation

FCFF cannot be computed because no interest expense fact is available in the filings, so the DCF calculator has no starting FCFF. The earnings multiple is feasible: diluted EPS is positive at \$8.72, trailing P/E is 38.27x, and the company has five consecutive years of positive EPS. Apple's business model - high-margin hardware plus recurring services - produces sustainable earnings that a P/E multiple captures well, and the fact sheet's operating margin of 33.17% and net margin of 27.62% support a quality premium. The absence of an interest-expense line means the unlevered cash-flow bridge is incomplete, so DCF is not supported.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	25.0x forward EPS \$9.16 (reported diluted, growth +5.0%)	\$228.90	-31.4%
Base (P/E)	33.0x forward EPS \$9.16 (reported diluted, growth +5.0%)	\$302.15	-9.5%
Bull (P/E)	37.0x forward EPS \$9.16 (reported diluted, growth +5.0%)	\$338.77	+1.5%

- Anchors from the company's own history: base-case growth band -5.7% to +8.7% a year; worst revenue decline -8% (2015-2016); own trailing P/E 24.62-37.47x (median 27.93x) over the last five fiscal year ends.
- Probability-weighted value \$292.99 (-12.2% vs price) at 25%/50%/25% weights.

Bear case (25% probability, \$228.90): Supply constraints for semiconductors, NAND and DRAM intensify as management warns, product gross margin reverts below 40% without tariff-refund support, consumer demand weakens under macroeconomic pressure, and the multiple reverts below the five-year median of 27.93x to 25x on \$9.16 forecast EPS. Base case

(50% probability, \$302.15): Tariff refunds are non-recurring, product margins stabilize near FY2025 levels, services growth moderates from the 16% YTD surge to a sustainable mid-single-digit rate, and the multiple settles at 33x, within the five-year range but below the current 38.27x. Bull case (25% probability, \$338.77): Siri AI accelerates services monetization, tariff relief partially persists, supply constraints ease, and the multiple sustains near the five-year maximum of 37x on \$9.16 forecast EPS, leaving only 1.5% upside from the current price.

No listed peer was judged comparable. No peer tree is available for this quarter (anchors.peers status: unavailable). No comparables can be judged. Against the company's own five-year trailing P/E range of 24.62-37.47x (median 27.93x), the current 38.27x sits above the maximum. Revenue growth last year was 6.43% and YTD 16.15%; operating margin 33.17% and net margin 27.62% are high for a hardware-plus-services business. The tariff-refund boost to Q3 EPS (approximately \$0.11/share) and the fiscal-year difference between the FY2025 end (September 27) and the TTM window ending June 27, 2026, distort the trailing P/E relative to the five-year year-end readings. Without peer data, the multiple is justified solely against the company's own history and quality metrics.

What would change the view

Key debates

- Gross margin under supply constraints and tariffs: Product gross margin fell 40 bps in FY2025 and management warns supply constraints for semiconductors, NAND and DRAM will intensify. Each 100 bp of margin on \$466.8B TTM revenue is roughly \$4.7B, directly affecting EPS and the multiple. (Fact sheet gross margin 48.65%; business read: 'Products margin fell 40bps YoY due to product mix and tariff costs'; management outlook: 'gross margins will be subject to volatility and downward pressure')
- Services growth and AI monetization: Services grew 14% in FY2025 to \$109.2B at 75.4% gross margin. Siri AI introduction at WWDC26 could accelerate subscription and advertising revenue, supporting a higher multiple. If AI monetization disappoints, the services premium erodes. (Fact sheet: services revenue \$109.2B, +14%; business read: 'Siri AI introduced at WWDC26'; Q3 FY2026 services revenue \$30,739M)
- Tariff and trade policy trajectory: Tariffs imposed since Q2 2025 on imports from China, India, Japan, South Korea, Taiwan, Vietnam and the EU affect cost of goods. The Supreme Court struck down certain IEEPA tariffs in Feb 2026, generating refunds, but Section 232 semiconductor investigation remains open. The net tariff burden determines whether product margins recover or compress. (Business read: 'U.S. Supreme Court struck down certain IEEPA tariffs on February 20, 2026'; 'Section 232 semiconductor investigation initial results published January 14, 2026 did not impose additional tariffs')

Sensitivities the company discloses

- U.S. interest rates: 100 basis points increase, all tenors gives Decline in fair value of investment portfolio of \$2,416 million (2025) vs \$2,755 million (2024)
- U.S. interest rates: 100 basis points increase, all tenors gives Increase in annual interest expense on term debt of \$129 million (2025) vs \$139 million (2024)
- Foreign exchange rates: Adverse movements in rates (Monte Carlo VAR, 95% confidence, one-day) gives Maximum one-day loss in fair value of foreign currency derivative positions of \$590 million (2025) vs \$538 million (2024)

Catalysts

- Q4 FY2026 earnings report showing whether product gross margin holds above 40% without tariff-refund contribution
- Section 232 semiconductor investigation outcome potentially imposing additional tariffs on component imports
- Siri AI adoption metrics and services revenue growth rate in Q4 FY2026 and FY2027
- Whether tariff refunds recur or are fully non-recurring, removing the ~\$0.11 EPS boost
- Supply constraint severity for NAND, DRAM and advanced semiconductors in Q4 FY2026 and FY2027
- EU DMA or App Store regulatory developments affecting services commission rates

Invalidation

- Product gross margin holds above 42% for two consecutive quarters without tariff-refund contribution, indicating structural margin resilience
- Services revenue growth sustains above 20% for three consecutive quarters, supporting a premium multiple
- TTM operating cash flow growth sustains above 15% for two consecutive quarters, contradicting the 3-year OCF CAGR of -3.0%
- The trailing P/E reverts below 37.47x (the five-year maximum) while EPS continues to grow, indicating the market has already normalized
- Section 232 semiconductor investigation concludes without additional tariffs, removing a key margin-compression risk

Risks

- Tariff and trade policy uncertainty: Section 232 semiconductor investigation could impose additional tariffs, compressing product gross margins
- Supply constraints for semiconductors, NAND and DRAM expected to intensify, raising component costs and potentially reducing volumes
- Consumer demand sensitivity to macroeconomic conditions, inflation, and currency fluctuations
- Single or limited source dependency for certain custom components exposes Apple to industry-wide shortages
- Regulatory risk: EU DMA, App Store commission rulings, and potential direct-to-consumer distribution models could reduce services revenue
- The tariff-refund EPS boost of approximately \$0.11 is non-recurring; its removal would lower normalized EPS and the multiple
- Short squeeze risk on a mega-cap stock with high institutional ownership and index inclusion
- Unbounded loss risk inherent to any short position if AI monetization or tariff relief drives a further multiple expansion

Short side

Apple is a mega-cap stock with a market capitalization of \$4,869,931.9M and 14,594,180,000 shares outstanding, so borrow availability should be adequate through most prime brokers, though the stock is heavily owned by index funds and long-only managers, which limits the available float for shorting. Squeeze risk is moderate: the massive float and consistent buyback program (TTM \$82,226M, buyback yield 1.69%) mean the stock is not easily squeezable, but a positive AI or tariff surprise could trigger a short-covering rally. Timing is uncertain: the tariff-refund benefit is already in the trailing EPS, so the normalization could occur in Q4 FY2026 or FY2027, but the market may not re-rate the multiple until a clear margin compression is visible. Unbounded loss is the primary structural risk: if Siri AI monetization accelerates services growth and the multiple sustains above 37x, the short position has no theoretical floor. The base-case downside of 9.5% is modest for a short; the bear case at 31.4% provides more meaningful risk-reward, but requires margin compression to materialize. Position sizing should account for the limited base-case margin and the possibility that the market is simply correct at 38x given Apple's quality metrics.

Open questions

What is the after-tax dollar amount of the tariff refund in Q3 FY2026, and is it recurring or fully non-recurring? (missing fact)

The fact sheet notes approximately \$0.11 EPS impact but no after-tax dollar amount in millions is disclosed, so normalization cannot be performed per the rules. If the refund is recurring, the base multiple of 33x may be too low. Watch: Q4 FY2026 earnings release disclosing tariff refund amounts and whether they recur

Will product gross margin revert below 40% in Q4 FY2026 or FY2027 as supply constraints intensify? (forecast uncertainty)

Management warns supply constraints will intensify. Q3 FY2026 product margin was 40.1%, up from 34.5% prior year, partly due to tariff refunds. Without the refund, the underlying product margin trend is the key variable for the bear case. Watch: Q4 FY2026 product gross margin reported below 38%

Does Siri AI monetization accelerate services revenue growth beyond the 14% FY2025 rate? (forecast uncertainty)

Siri AI was introduced at WWDC26. If it drives services growth above 20%, the bull case at 37x could be justified and the short thesis weakens further. Watch: Services revenue growth rate in Q4 FY2026 or FY2027 guidance

Has any of the \$11,007M current term debt matured or been refinanced between 2026-06-27 and 2026-10-02? (missing fact)

The fact sheet notes 97 days between the balance-sheet date and the price date. This is immaterial to the valuation but could affect the net debt calculation if refinanced at different rates. Watch: Q4 FY2026 balance sheet or 10-Q debt line items

Limitations

The base-case value of \$302.15 is only 9.5% below the price, which is a narrow margin for a short thesis. The tariff-refund EPS boost of approximately \$0.11 cannot be normalized because no after-tax dollar amount in millions is disclosed in the fact sheet or excerpts, so reported diluted EPS of \$8.72 is used as-is. The forecast growth of 5% is a judgment call between the 3-year revenue CAGR of 1.81% and the YTD revenue growth of 16.15%; the 5% figure carries tariff and supply headwinds but may understate services-driven growth. No interest expense fact is available, so FCFF cannot be computed and DCF is not supported. The base multiple of 33x is within the five-year range but above the median of 27.93x; the premium is justified by quality metrics but is not peer-validated because no peer tree is available. The prior memo's base value of \$263.00 implied ~20.4% downside; the current base value of \$302.15 implies ~9.5% downside, a meaningful narrowing that weakens the short thesis. The probability-weighted value of \$292.99 implies 12.2% downside, which is the most defensible figure given the 25/50/25 scenario weighting. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:commodity input costs; exposure quote unverified:consumer demand; exposure quote unverified:tariffs trade.

Sources

10-K for the fiscal year ended 2025-09-27, filed 2025-10-31 (accession 0000320193-25-000079).

10-Q for the quarter ended 2026-06-27, filed 2026-07-31 (accession 0000320193-26-000020).

8-K for the earnings release dated 2026-07-30, filed 2026-07-30 (accession 0000320193-26-000018).

- Price: historical close of \$333.69 on 2026-10-02.
- 8 cited claims and 15 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 519 · memo SHA-256 1b4b4eed1fe341e4... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.