

>: An Apple (AAPL) Holiday!

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Apple is trading at \$164, and I want every share I can get going into the holiday season!

About three months ago I made a life changing decision, the decision to purchase an IMAC desktop computer. 15 minutes later I was asking myself, "what took me so long??"

Ahh the colors, the compatibility, the ease with which I maneuvered on my new computer. My initial impression: the MAC offered the greatest operating system and computing unit I have ever experienced. Three months later my MAC was my new prized possession. I call her "My Baby."

I run to her in the morning and re-live the feelings I felt the first time I turned her on and discovered, to my delight, Mac has no start-up. No disks to download, no Internet to connect, nothing. Just take it out of the box, turn it on, and you are ready to go.

I plugged in my HP printer and, *voila*

, my Mac detected the printer and automatically set up to print. A far cry from the disk install for the same printer on my Sony Vaio, which took considerably more time than necessary.

I, like so many others, found it hard to leave the familiarity I had developed with Microsoft OS. I had heard that Mac was great, but I was a Microsoft guy. The truth is, I just didn't know any better.

With my Mac I have forgotten what a pop-up window looks like ... a distant memory is the process of re-starting my frozen computer ... forgotten is the need to install printers. Oh, and where is the tower that comes with desktops? That's right, the Mac contains the whole computer in the monitor. "You mean no wires? No pop-ups? No Viruses? No freezing?" I am pleased to say No Sir, none of that. Life is great!!!

I can truly say I am saying goodbye to Microsoft forever. I was stuck in a prison of Microsoft Operating Systems and have been released. Mac delivers freedom, a breath of fresh air in a dark place.

Now, armed with my iMac, Mac Book PRO (Laptop), and iPod, I am taking on the world. I truly cannot wait to see what is coming next. It's like Steve Jobs is trapped in a prison of coolness causing him to create the most innovative, trendy products in the world.

Meanwhile, a good portion of the computing public remains trapped in Microsoft's operating prison. Whether unwilling to admit it or not, consumers are slow to realize Mac computers and operating systems are leaps and bounds ahead of Microsoft products. I am not negative on Microsoft as a company, but as far as computers go, Mac is hands down a better product.

When I go to work, I find myself depressed while working on their Microsoft HP computer, thinking "why must the misery continue?"

APPLE HOLIDAY

So today I am buying a mother lode of Apple stock (AAPL), trading at \$164 per share, almost 30 points off their yearly high. Honestly, I don't care if (AAPL) was trading at their high, I want in for the holiday season.

I believe this holiday season is an "Apple Holiday," a defining moment for the company. Before I get into the fundamentals, let me just explain where I am coming from.

Looking at my Christmas list today, I came to a strong conclusion: Apple products will be the most desirable gifts this holiday season.

My Christmas List so far:

- 1) For Me: iPhone (I need This).
- 2) My Amazing Girlfriend: iPhone, Mac Book for Law School.
- 3) Her mom, my mom & dad, my brother, and our sister in law: Touch screen iPod with wi-fi internet (5 Total).
- 4) My Nephew: A Mac notebook for 3rd grade.

Then I thought of all the iPods I bought last year for presents, and how many I will buy this year. I believe I will end up purchasing close to ten

iPods this holiday. I already own a ton of Apple products, and year-to-year I am increasing how many I buy. Steve Jobs, Apple's CEO said, "We're looking forward to a strong December quarter as we enter the holiday season with Apple's best products ever." I must own this stock.

I know others' Christmas lists look similar to mine. Let's face it, Apple products are hot! Looking around, all I see are iPods, iPhones, and Mac books. Everywhere, passing kids going to school carrying different color notebooks, businessmen with their iPhones. Apple products appear to be the in-style brand for young and old.

With their new operation system the "Leopard" already selling 2 million copies in their first weekend, this shows still more demand for new Apple products

Before I get into the numerical fundamentals, I want to focus on Apple's 6th fundamental: Innovation. Not only are Apple products innovative from their TV commercials to the iPhone, Apple products are revolutionizing their respective industries. Apple didn't create a phone; they revolutionized the phone industry and mobile Internet. Apple didn't create an mp3 player, they revolutionized the way we listen, buy, and play music and movies. They continue to display an uncanny knack for this type of revolutionizing innovation.

iPOD NATION

How was life without an iPod? I just can't remember, and nor do I want to. The ability to play any song, from any album I own, at any time with the easy swipe of a finger has changed my life forever. Could I ever go to the gym without my iPod? Oh no. Could I imagine a day in my car without my music? I don't think so. This is a common theme for iPod owners.

The music-purchasing counterpart to the iPod (iTunes Music Store) is revolutionary on its own strengths. The ability to buy one or two songs instead of purchasing a whole album has changed the music industry forever. No longer will I be the victim of a record company, buying an album with two quality songs. I, the consumer, will choose the way I purchase music.

iTunes hosts 6 million songs. Did I tell you they also host 550 TV series and 500 movies? Apple has sold 3 billion songs to date, 2 million movies, and 100 million TV shows. Not only can I buy movies and music for my iPod, I can watch my favorite TV shows as well, simply amazing. Bravo Steve, Bravo.

Did you know Microsoft has an MP3 player out as well? Yeah, not only is one out, but it's the second model, as the first failed to resonate with consumers.

I predict in two years Microsoft is no longer in the mp3 business. They just cannot compete with the iPod. Oh, and the new iPod is completely touch screen with built in wi-fi for free Internet access. So now on your iPod you can surf the web anywhere you want for free via wi-fi. Genius Steve, Genius.

iPHONE REVOLUTION

I presently own a Blackberry, and compared to my friend's iPhone, my Blackberry looks prehistoric. I am getting the iPhone for Christmas, and the wait is brutal. I am falling right into Apple's marketing strategy. Said Steve Jobs, "We can't wait to get this revolutionary product into the hands of even more customers this holiday season." Sign me up Steve.

I believe Steve will get his product into significant new hands, and you are unwise to believe otherwise. The iPhone sold 1 million units 74 days after debuting. Since then, Apple has reduced the price and is seeing huge sales overseas. When the next round of numbers come out on iPhone sales, there is no question they will report extraordinary sales. The iPhone is better than any other product on the market. The Internet is crisp and easy to steer. Not the slow limited blackberry Internet I am used to.

Now, let's find out what is in the pudding. How do their numbers hold up to their innovation?

Fundamentals

Briefly, let's examine 4th quarter results ending September 29, 2007. Apple released results showing better quarterly growth than analysts expected, reporting revenue of \$6.22 billion, compared to \$4.84 billion in the year-ago quarter.

They're showing a gross margin (gross margins are figured by dividing gross income into net sales, while gross income is revenue remaining after subtracting cost of goods sold) of 33.6 percent, up from 29.2 percent in the year-ago quarter. Value investors hold increases in gross margins year over year as a strong indicator of quality management.

Apple reported net quarterly profit of \$904 million vs. quarterly profit of \$542 million in the year-ago quarter, with the Mac computer being the driving force behind the huge growth in sales. Apple shipped 2,164,000 Mac computers, delivering 34% growth over the year-ago quarter and

greater than the previous quarterly record for Mac shipments by 400,000.

Apple's international exposure is interesting as well. If there is any further deterioration in the US economy, Apple's overseas sales should help maintain their growth rates. Their overseas marketing campaign is working, as international sales accounted for 40 percent of their Q4 revenue.

Let's take closer look at the 2007 fiscal year and how the company has progressed since 2003. "We are very pleased to have generated over \$24 billion in revenue and \$3.5 billion in net income in fiscal 2007," said Jobs.

Of course Mr. Jobs is happy, Apple ended the fiscal 2007-year with \$15.4 billion in cash and no debt. How did they get there?

Net Sales (The Top Line, Total revenue: Before Expenses) have increased year over year since 2003. Net sales for 2007 were 24,006 up 24% from 19,315 in 2006. Net sales were 13,931 in 2005, up from 8,279 in 2004, which was up from 6207 in 2003. Net sales have increased four fold since 2003 and increased 4.7 billion in 2007 from 2006.

Net Income (The bottom line: what is left after subtracting expenses from revenue) has increased from \$57 million in 2003 to \$3,496 in 2007, more than a 600% increase.

Looking at Apple's flagship product, the Mac computer, we see that they are increasing their market share in the personal computer industry. Total Mac net sales were reported at 10,314, up 40% from 7,375 in 2006, which is up 18% from 6,275 in 2005. The increasing sales percentages are very exciting. I expect sales of Mac to continue to grow. The 40% increase in computer sales is way above the industry average, and Apple has room for growth here. Mac unit sales increased by 1.75 million units, or 33%, in 2007. It is important for MAC unit sales to continue to increase and retain market share in the computer industry for long-term stock growth.

The iPhone sold 1,359 million units debuting in the second half of 2007.

Net Sales of music related products increased \$611 million or 32% during 2007 vs. 2006 from increased iTunes store sales.

There is no reason to expect a slowdown this holiday season in Apple products. Peter Oppenheimer, Apple's CFO said, "Looking ahead to the first quarter of fiscal 2008, we expect revenue of about \$9.2 billion and earnings per diluted share of about \$1.42." That is more than a 30% increase in revenue from the fourth quarter 2007 to the first quarter 2008. I presume they will beat that estimate.

Make no mistake about it: Apple is on the move. They have a quality company with amazing management and a loyal fan base. Once you buy one Apple product you are sure to buy another ... there are just no comparable products on the market. This holiday seems to be Apple's holiday; maybe for Christmas you should treat yourself to a stock position in Apple and profit with the company.

I am buying (APPL) for the short-term as the holiday season should create a tremendous quarter for Apple products. For the midterm I am buying because after the holiday I expect continued growth in market share for the Mac computer. For the Long-term investor (5 years or more) this is the company I want to be in ... buy (APPL) and tuck it away for my kids and watch the most innovative company expand its market share in the computing industry.

With new iPods coming out every year and a new phone already in development, the company has a recipe to retain loyal consumers (I am now one) to continue to purchase their products.

The stock has been on the rise as the world starts to understand that Apple products are superior to competitors. Once the world finally realizes how superior Apple computers are, we will see even greater growth going forward. For all the Macs out there, Apple still holds a relatively small portion of the market share on personal computers, providing a bases for millions of customers. The iPod, already the leader in the mp3 market, still has a large untapped resource of new mp3 customers.

The bottom line: I want to own as much Apple stock, and as many of their products as I can, and so should you. They create revolutionary lifestyle products for young and old, the cool and un-cool, with business coming from new and current customers.

-- John Micheline

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