

July 31st, 2020

We listened, (as you may have as well), to Apple's earnings call yesterday. What follows is a summary, our thoughts, and the market's general reactions.

Apple's 3rd quarter 2020 was arguably the best quarter the company has ever had. General assumptions were that Apple would have an average or below-average quarter given the economic drop caused by COVID-19. However, there was nothing average about the results Apple accomplished.

Revenue grew by 11% Y/Y. This resulted in record 3rd quarter revenues of \$59.6B. Earnings came in at \$2.58 per share, growth of 18.3% Y/Y. Every single geographic segment grew Y/Y as well as every single product segment. Additionally, Apple accomplished its goal of doubling the Services business, and this was done 6 months ahead of target.

Highlights from the call are as follows:

- Services grew 14% Y/Y.
- iPhone sales grew by 2% Y/Y.
- Mac sales grew by 22% Y/Y.
- iPad sales grew 31% Y/Y.
- iPad grew Y/Y for the 1st time in 8 years.
- Wearables and other products grew by 17% Y/Y.

Tim and Luca also stated that Apple will be completing a 4 for 1 split of the stock. We'd like to now briefly answer a few questions regarding the 4:1 split.

What is a 4:1 split? Will more shares of Apple be owned at the same price?

A 4:1 split is what it sounds like. If 1 share of Apple stock is owned, after the split, 4 shares of AAPL will be owned. The value of Apple stock and the dividend amount will be pro-rated. If AAPL is trading at \$400.00, it will be trading at \$100.00 after the split and each investor will hold 4 shares valued at \$100 vs. 1 share valued at \$400.

When will this happen?

August 31st is the first day AAPL will trade split adjusted. August 24th is the last day to buy AAPL and still receive the 4:1 split on 8/31.

Why is Apple doing a stock split?

Stock splits do not change the value of stock, so why is Apple completing 4:1 split? According to Luca, it is to appeal to a broader range of investors. The hope here, is that a stock price of \$100 makes AAPL more easily available and broadly appealing to a larger audience and therefore will increase the stock price.

Another equally important reason AAPL is splitting has to do with the Dow Jones Industrial Average (DJIA). In 2015, AAPL become a member of the DJIA. The DJIA consists of 30 stocks across multiple industries and is a price-weighted index. Since AAPL has grown so quickly the past few years, it is now the highest-priced stock in the DJIA. Because it is the highest priced-stock in the DJIA (by over 150 points) the price-movements of AAPL are impacting the DJIA at too high a factor. The 4:1 split alleviates this issue.

As of 7:04 a.m. Apple stock price is \$408.2 per share, up over 6% due to surprising Y/Y growth in spite of the COVID-19 economic drag.

Please don't hesitate to contact us with any questions, concerns, or specific issues regarding your Apple holdings.

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