

From: Arthur McKee <art@mckeeinvestments.com>
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To: update@mckeeinvestments.com

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PLANNING

Dear Clients,

After reviewing the latest quarterly results from Apple, I do not see a need to sell Apple stock at this time. Here are some highlights from this last quarter's earnings:

Sales for the quarter came in at \$26.7 billion and profit for the quarter was \$6 billion. Compared to the same quarter last year, revenue grew by 70%, profit grew by 77%, and cash flow from operations grew by 70%. Operating income from the Asia-Pacific segment was up by 249% versus last year. While that number sounds pretty good, consider the following comparison between different geographic areas in which Apple markets:

--- In the "Americas" segment, which includes both North and South America, Apple's sales growth came in at 50% and the operating profit margin was 31%.

--- In Asia, Apple's sales grew by 251% and the operating profit margin was 41%.

What does that mean? In short, Apple is growing sales 5 times faster in Asia than in the Americas and the profit margin is significantly higher in Asia (10% higher). Further, during the conference call to discuss the quarterly results, Apple reported that the Asian component has just started to gain traction. That should bode well for the near future. By my calculations, if the trend continues for another 12 months, the Asian market will become Apple's largest and most profitable business segment.

Product Line / Halo Effect

It has long been my contention that Apple's master plan is to dominate in the computer market and that the iPod and iPhone was just a way to introduce the Apple brand to the young generation who will one day make purchasing decisions for the big ticket items. Basically, this plan is based upon the "halo effect" and it appears to be working.

Mac sales (the computers) grew at 23% and actually accelerated with the introduction of the iPad. Mac's still just represent 8% of the computer market. While market share is growing, there is still a long way to go before Macs can be called dominant.

Now, with the Verizon iPhone rollout coming up, we should see a whole host of people who get introduced to Apple products via the Verizon iPhone.

Relative Value

Apple now has about \$60 billion in cash and marketable securities (money market). With that much cash, Apple could buy complete ownership of any of the following companies: Caterpillar, Home Depot, Visa, Credit Suisse, or Boeing, just to name a few. Another way to look at this: Apple has more money in the checking account than the entire net worth of these other companies. In fact, Apple's cash hoard is larger than the market cap of 423 out of the 500 companies in the S&P 500 and equates to over \$65 per share for every share we own.

Final Note on Steve Jobs

It has been reported, from inside Apple, that Steve is more effective as a CEO when he is away on medical leave. The story goes that Steve, at times, can micromanage to an extent that it becomes unproductive and that his real talent is his vision for what the future can look like.

At this point, we don't know the extent of his health issues, but I am looking at this from a worst case scenario, where he doesn't return. I believe that Steve has done a great job at bringing in the most talented people in the world and built a culture that should transcend. Just like Wal-Mart changed with the passing of Sam Walton, Apple will certainly morph over the years. We'll just keep watching it closely for now.

Have a great weekend.

Best Regards,

Arthur McKee, CFP®
McKee Investment Planning

18130 W. Apshawa Road
Clermont, FL 34715

141 E. Central Avenue
Suite 340-B
Winter Haven, FL 33880

(863) 401-3937 Phone
(352) 408-4710 Phone
(888) 904-9344 Fax
art@mckeeinvestments.com