

## Investment thesis

**Apple Inc. presents a compelling investment-grade credit, underpinned by one of the most durable and diversified cash flow profiles in the global corporate universe.**

The core credit thesis rests on three pillars. First, **cash generation is exceptional and consistent** – Apple produces close to \$100 billion in annual free cash flow, providing extraordinary debt service coverage with minimal refinancing risk. Additionally, its access to capital markets is excellent.

Second, **the ongoing mix shift toward Services** – now a \$120+ billion annualised revenue stream with gross margins above 70% - structurally reduces earnings cyclicality and strengthens the predictability of cash flows available to creditors.

Third, **the balance sheet is fortress-grade**, carrying over \$147 billion in cash and marketable securities, giving Apple the capacity to absorb significant macroeconomic stress without approaching covenant thresholds. Debt metrics are conservative, with Debt/EBITDA of 0.69x and interest coverage above 25x, reflecting ample capacity to service obligations.

Key risks include reliance on the iPhone, China exposure (~18% of sales), and regulatory scrutiny of App Store practices and its aggressive buyback programme (\$100 billion freshly authorised).

## Latest Earnings Summary

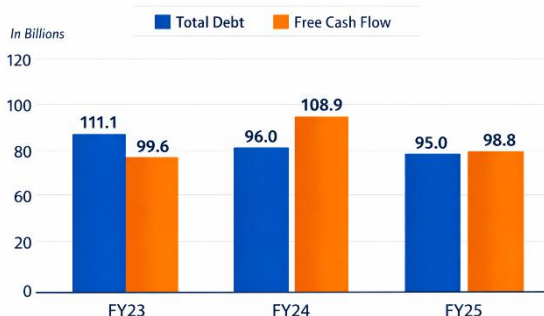
In fiscal Q2 2026, Apple reported revenue of \$111.2 billion, up 17% year-on-year, with EPS of \$2.01, supported by strong demand for the iPhone 17 lineup and record services revenue.

The standout metric was cash generation. Operating cash flow exceeded \$28 billion for the quarter, a March quarter record, with net income rising to \$29.6 billion. Gross margin expanded to 49.3%, a meaningful improvement that signals continued mix shift toward high-margin Services, reducing earnings volatility and supporting debt serviceability.

Services revenue hit an all-time high of \$30.98 billion, up ~16% year over year, the most credit-relevant segment given its recurring, asset-light nature and superior margin profile. iPhone revenue reached \$56.99 billion, a March quarter record, up 22%.

On capital allocation, the board authorised a further \$100 billion in buybacks and raised the dividend 4% to \$0.27 per share, an aggressive return of capital that warrants monitoring from a creditor's perspective, though Apple's fortress balance sheet provides ample headroom. Management guided Q3 FY2026 revenue growth of 14% to 17% yoy, well above street expectations.

FCF enough to retire total debt in a year



## Credit Profile Summary

### Credit Positives

Exceptional FCF generation of ~\$100B enough to retire entire debt in a year

Fortress grade balance sheet – \$147B cash vs. \$85B debt at Q2FY26

Large liquidity and deep capital market access

Huge installed base and brand loyalty

Diversified revenue across products and geographies.

Premium pricing power and strong customer retention.

### Credit Negatives

iPhone dependence: ~51% of revenue from iPhone sales

Aggressive capital returns – \$100B buyback authorised

China revenue exposure (~18% of sales)

Supplier concentration in Taiwan/Asia

Leadership transition risk: Tim Cook stepping down Sept 2026

AI execution gap: Perceived slower rollout of generative AI features

## Company Snapshot

Apple Inc., headquartered in Cupertino, California, is the world's largest technology company by market capitalization, exceeding \$4.4 trillion. Founded in 1976, Apple designs, manufactures, and markets consumer electronics, software, and digital services across five key segments: iPhone, Mac, iPad, Wearables & Accessories, and Services. The iPhone remains the dominant revenue driver, contributing roughly half of sales, while the high-margin Services segment, including the App Store, Apple Music, iCloud, Apple TV+, AppleCare, and Apple Pay, has emerged as the principal growth engine, accounting for about a quarter of revenues with gross margins above 70%. Apple's ecosystem of over two billion active devices underpins customer loyalty and recurring cash flows, reducing earnings volatility compared with pure hardware peers.

## Key Financials (\$, Billion)

|                   | Q2FY26 | Q1FY26 | FY25  | FY24  | FY23  |
|-------------------|--------|--------|-------|-------|-------|
| Revenue           | 111.2  | 143.8  | 416.2 | 391.0 | 383.3 |
| EBITDA            | 36.4   | 58.5   | 138.0 | 126.2 | 119.9 |
| Cash & Securities | 147.0  | 144.8  | 147.0 | 151.2 | 148.3 |
| Total Debt        | 85.0   | 95.0   | 95.0  | 96.0  | 111.1 |
| Total Assets      | 371.1  | 379.3  | 359.0 | 364.9 | 352.6 |
| Operating CF      | 28.7   | 53.9   | 111.5 | 118.3 | 110.5 |
| Capex             | 2.0    | 2.4    | 12.7  | 9.4   | 10.9  |
| Free Cash Flow    | 26.7   | 51.5   | 98.8  | 108.9 | 99.6  |

## Key Ratios

|               |                   |                       |                  |                  |                  |
|---------------|-------------------|-----------------------|------------------|------------------|------------------|
| EBITDA Margin | Debt / EBITDA     | Return on Assets      | Return on Equity | Debt / Equity    | Debt / Capital   |
| 33%           | 0.69x             | 31%                   | 152%             | 1.29x            | 0.57x            |
| Debt / Assets | Interest Coverage | Debt Service Coverage | Current Ratio    | FFO / Total Debt | FCF / Total Debt |
| 0.26x         | 25.1x             | 27.3x                 | 0.89x            | 1.17x            | 1.04x            |