

Case Study: Apple (AAPL) — A World-Class Business at a Bargain Price, Ten Years On

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Buy world-class businesses, don't overpay, and let compounding work its magic.

I run a concentrated, quality-focused equity strategy: roughly 120 businesses I know well, evaluated against the same checklist every time, held with a multi-year horizon. What follows is one real example of that process — Apple (AAPL), which I wrote up publicly on Seeking Alpha on 28 September 2016 as *Apple: The Free Cash Flow Behemoth*, part of a series on building a portfolio of the world's best businesses. It sets out the checklist as I applied it then, and what the business and the stock did over the following ten years, to September 2026.

What happened

The call itself. The write-up went out on 28 September 2016, when the stock closed at \$113.95 (\$28.49 on today's basis, after the four-for-one split of 2020). On 23 September 2026 Apple closed at \$337.02. Put simply, \$1 million invested at the price of the call would have grown to about \$11.8 million — about 28.1% a year for ten years — and to about \$12.9 million with dividends reinvested (29.2% a year). The same \$1 million in the S&P 500, with dividends reinvested, would have become about \$4.2 million (15.3% a year).

The business did just over half the work; the market's re-rating did the rest. Between fiscal 2016 (the year to September 2016) and the twelve months to June 2026, revenue grew from \$215.6bn to \$466.8bn, net income from \$45.7bn to \$128.9bn, and free cash flow from \$53.5bn to \$136.7bn. With the share count down a third, free cash flow per share grew about 3.8 times — a compound annual growth rate of about 14.7%. That accounts for a little more than half of the return. The rest came from the market paying far more for each dollar of that cash flow than it was willing to pay in 2016: the price was wrong, and it corrected.

The price question

Nobody in 2016 disputed that Apple made a great deal of money. The dispute was whether it could keep doing so. At the price of the call the stock traded at 13x trailing and 12x forward earnings against 20x for the S&P 500, and at just over 9x enterprise value to free cash flow. The article put it another way: at 12.5x the operating profit of the iPhone alone, *"a prospective investor at current prices is getting all the other businesses, including the high-margin, high-growth Services business... for free."* Not every reader agreed. One wrote in the comments: *"It's a fine stock to trade, but insane to hold."*

The article set the price in its history. Between September 2012 and April 2013 the stock had fallen 44%, to a price-to-earnings ratio of about 9x, on much the same bear case — saturation, competition, dependence on the iPhone — and had then risen 138% to its March 2015 peak. By May 2016 it was back near 10x earnings. At the call it stood about 14% below its February 2015 record close; it passed that record in February 2017.

Ten years on, the price question has a clear answer. At the call the stock stood at about 11.7 times free cash flow per share for fiscal 2016; in September 2026 it stood at about 36.4 times the free cash flow of

the latest twelve months. The multiple roughly tripled while free cash flow per share grew 3.8 times — the correction of the mispricing, on top of the compounding. That is what buying a world-class business when the market prices it as broken is supposed to deliver.

What kind of business, and what kind of price

Free cash flow per share can compound in three ways: a business can grow the cash flow itself, through a durable competitive position and high returns on capital (the permanent compounder); it can shrink its share count by buying back its own stock at sensible prices (the cannibal); or it can buy cash flow, acquiring smaller businesses cheaply and without issuing shares (the serial acquirer). Apple is the first kind, and the 2016 article made the case in its first line: *"Apple is a world-class business and a free cash flow machine."* It argued that Apple *"deserves cornerstone status in the construction of my portfolio of the 'world's best businesses.'"* Over the following decade it also became the second kind: with the cash it could not use in the business, it bought back a third of its own shares.

Price opportunities come in two kinds. In one, a great business suffers a temporary setback and the market prices it as if the damage were permanent, so it trades at a substantial discount to fair value. In the other, nothing is wrong and nothing is cheap: the business is fairly priced, and the return comes from the compounding in the numbers. Apple in 2016 sat between the two. It was a compounder of the highest quality, and it was also mispriced — in the article's words, *"the market seems to be pricing Apple as if its growth prospects are permanently impaired."* The return reflects both.

Linearity: why it matters

The principle behind everything that follows. A world-class business shows linearity: its revenue, earnings and free cash flow per share rise steadily, not in fits and starts. That steadiness makes it predictable. Predictable and sustained growth over many years gives its free cash flow quality — cash that can be counted on, not cash that happened to arrive. The market recognises that quality and pays a higher multiple for it, which is why such businesses are seldom priced cheap. So a world-class business becomes a world-class investment only through the price paid for it. Bought at fair value, the compounding does the work. Bought during a temporary setback — when the market prices a passing problem as if it were permanent — the investor gets the compounding and the multiple re-rating as well. Apple in 2016 had elements of both, mostly the setback case.

The heart of a permanent compounder is not only how fast it grows, but also how steadily. A company that doubles its free cash flow per share in a straight line over ten years is a different proposition from one that goes nowhere for nine years and then doubles in the tenth, even though the end points are the same. The steady one is the one you can underwrite. I measure that steadiness as the correlation of the series with time, using half-yearly figures: a perfectly straight line rising scores 1, and around 0.9 and above is what I look for. This is the basis of how I work.

On trailing-twelve-month figures at every half-year from March 2006 to March 2016 — the record available when the article was written — Apple scored 0.97 on revenue, 0.96 on net income, 0.96 on free cash flow and 0.96 on free cash flow per share. That is despite two dips: earnings fell in fiscal 2013, and revenue fell 8% in fiscal 2016, the dip the market was pricing in when the article was written. Against a ten-year line that straight, the market was treating a dip as a break.

The question the next ten years answer is whether the line held. From September 2016 to June 2026, on the same basis, the scores were 0.97 on revenue, 0.95 on net income, 0.93 on free cash flow and 0.96 on

free cash flow per share. Free cash flow itself was a little less steady, flat between fiscal 2022 and 2025 before rising again in 2026; the falling share count kept the per-share line straight. Free cash flow per share went from \$2.43 to \$9.27, about 3.8 times (a compound annual growth rate of about 14.7%).

The checklist, applied

The criteria are the same for every business: easy to understand and not exposed to obsolescence; a durable moat that shows up as pricing power; leadership in its industry; margins above the average business and stable or rising; a long record of high returns on capital; sustained operating leverage; durable economic goodwill — low capital needs; copious free cash flow; a strong balance sheet; management that allocates capital in shareholders' interest; a strong likelihood of continued growth; and a price that does not require heroic assumptions. The 2016 article took them one at a time, using the company's filings. Here is each, as it stood then and as it turned out.

A high-quality, easy-to-understand business with a leadership position. Apple sells premium hardware — iPhone, Mac, iPad — and a growing range of services to the people who own it. In 2016 it was, in the article's words, *"the most profitable business in the U.S. as measured by both earnings and free cash flow."* Revenue grew from \$19.3bn in fiscal 2006 to \$233.7bn in fiscal 2015, about 32% a year compounded, and to \$416.2bn in fiscal 2025, about 6% a year from 2015. Growth slowed in the second decade, as it had to. A business already selling \$234bn a year cannot grow the way it did at \$19bn — what investors call the law of large numbers. But a 6% top line did not stop Apple compounding. With margins holding, little capital needed and a third of its shares bought back, free cash flow per share still grew about 15% a year. Revenue growth is one test on the checklist, not the verdict.

Likely to be around in ten or fifteen years; little obsolescence risk. The 2016 bear case was a saturated smartphone market and a *"peak iPhone"*. The article's answer was that a growing base of users would keep upgrading, with first-time buyers on top, and that services would grow alongside. Revenue in fiscal 2025 was 1.8 times that of fiscal 2015.

A sizeable moat. The moat is the brand and the ecosystem built around it: a billion iPhones had been sold by July 2016, and every one is a customer for the next device and for the services that run on it. Services revenue was \$24.3bn in fiscal 2016, 11% of the total, and \$109.2bn in fiscal 2025, 26% of the total (Apple has redefined the Services line since 2016, so the two figures are close but not identical measures). The margins below are the evidence that the moat held.

Margins well above the average business, stable or rising. Between fiscal 2006 and 2015 operating margin rose from 12.7% to 30.5% and net margin from 10.3% to 22.8%, for a business the market called a hardware maker. In fiscal 2025 operating margin was 32.0% and net margin 26.9%.

A long record of high returns on capital. Return on equity was 36% in fiscal 2016 — while, as the article put it, \$147bn of net cash sat on the balance sheet earning very little. The article noted that, with only \$50bn of net cash, the figure would have been about 160%, a measure of what the operating business itself earned. In fiscal 2025 return on equity was 152%. (As the cash has gone back to shareholders, the equity base has shrunk to \$73.7bn, against \$112.0bn of net income, so the figure now says as much about the buybacks as about the business.)

Sustained operating leverage. Operating leverage is how revenue growth turns into faster profit growth. Between fiscal 2006 and 2015 revenue rose about elevenfold (1,110%) while operating income rose about 29-fold (2,804%) — operating leverage of 2.5 times — and earnings per share

grew 2.5 times faster than revenue. From 2015 to 2025 revenue rose 78% and operating income 87%, from \$71.2bn to \$133.1bn, while earnings per share rose 224%, about 2.9 times faster than revenue. Margin gains did little of that in the second decade; the shrinking share count did most of it.

Durable economic goodwill. This is the test Buffett set out in the appendix to his 1983 letter, and the cornerstone of my screening: a high return on net tangible assets that does not need heavy capital spending to sustain it. In total over the ten years 2006–2015, Apple spent \$47bn on capital expenditure while generating \$282bn of free cash flow — about \$6 of free cash flow for every \$1 of capital spending (capital spending was 20% of net income and 17% of free cash flow, as the article said). In total over the ten years 2016–2025 it spent \$111bn while generating \$813bn — about \$7 for every \$1.

Capital spending took 3.4% of revenue in fiscal 2006, 4.8% in 2015 and 3.1% in 2025; over the same years free cash flow went from 8.1% of revenue to 30.0%, and then to 23.7% (29.3% in the twelve months to June 2026). The article predicted that capital spending would not keep pace with cash flow. It did not grow at all: it was \$12.7bn in fiscal 2016 and \$12.7bn in fiscal 2025, while free cash flow per share rose more than threefold.

Copious free cash flow. When the article was written, trailing free cash flow was \$50bn, 105% of net income and 23% of revenue. The article noted that Apple's trailing figure was larger than that of Microsoft, Cisco and Oracle combined. Over the ten years 2016–2025 Apple generated \$813bn of free cash flow; in the twelve months to June 2026 it generated \$136.7bn, 29% of revenue and 106% of net income.

A strong balance sheet. When the article was written Apple held \$233bn of cash and securities against \$85bn of debt — \$147bn of net cash, more than the market value of all but 34 US companies. The article argued that the cash should come home and go back to shareholders, taking the balance sheet towards "*net neutral*". That is broadly what happened: at the end of fiscal 2025 Apple held \$132.4bn of cash and securities against \$98.7bn of debt, net cash of \$33.8bn.

Shareholder-friendly management with a record of good capital allocation. The article pointed to three things: a dividend that had grown at about 11% a year, compounded, in the five years since it began; buybacks averaging \$36.3bn a year over the previous three years, 65% of free cash flow; and 86% of free cash flow returned to shareholders in total. On the same three measures since: the quarterly dividend rose from \$0.1425 to \$0.27 (split-adjusted), 6.6% a year compounded — slower, because Apple chose buybacks; buybacks averaged about \$87.7bn a year over fiscal 2023–2025, 86% of free cash flow; and over fiscal 2016–2025 Apple returned \$855bn, 105% of the free cash flow it generated. Along the way the diluted share count fell by a third, from 22.0bn to 14.8bn.

A strong likelihood of continued growth. The article named iPhone upgrades, first-time buyers, services and a "*game-changing*" next iPhone. From fiscal 2016 to the twelve months to June 2026 revenue grew about 8% a year — faster than the 6% measured from 2015, because 2016 was the dip year — and free cash flow per share about 15% a year, with services the fastest-growing part.

Three judgements in the piece, checked

On the overseas cash, the article supposed that Apple would bring home \$147bn, pay tax at 25.6% and spend the remaining \$109bn on buybacks; a reader replied that the true rate was nearer 39.6%. The tax law changed in December 2017, and in January 2018 Apple said it would pay about \$38bn in tax on the cash it brought back. Buybacks went from \$29.7bn in fiscal 2016 to \$72.7bn in fiscal 2018.

The article also offered a second way to express the same view, using options rather than buying the shares: sell the November 2017 \$110 put and buy the \$120 call. The put paid more than the call cost, so the trade put \$2.75 a share into the account on day one, with nothing paid out. The one obligation was to buy the shares at \$110 if Apple was below that price when the options expired in November 2017. By then it was far above it — around \$170: the put expired worthless, so the \$2.75 was kept, and the call was worth about \$50. In all, roughly \$53 a share, with nothing paid up front.

And on the arithmetic: a reader spotted that a chart gave the dividend yield as 0.8% when the text said 2.0%. I replied the next day, *"Error acknowledged!"*

This is a specific, dated call, checkable against public filings and a public research platform, and argued with in real time by people who had no reason to be generous. It's the standard I hold every idea in the portfolio to — not just this one.