

Apple Unveils New Notebooks

■ Refresh To Notebook Lineup

We attended the AAPL notebook event, in which the company lowered the entry price of the MacBook to \$999 from \$1,099, which we view as the most significant announcement. The entry point represents AAPL's first sub-\$1,000 notebook, which could be a key psychological threshold, and now features an aluminum design and improved functionality. The company maintained the entry prices of the MacBook Air and MacBook Pro, while offering improved functionality (faster graphics, glass track pad, unibody design) & in our opinion more stylish designs.

■ New Notebooks Help Expand Market Opportunity

While acknowledging the broader economic challenges, we believe Apple's new notebooks, with more compelling price/performance profiles could help the company address a larger part of the market, and increase its opportunity for continued share gains.

■ AAPL Reports on Oct 21st

Apple reports its 4Q08 earnings results on October 21st, and as is typical of AAPL management, we expect continued conservative guidance. However, we believe 4Q results are likely to be strong & we are forecasting revs of \$8.1bn and EPS of \$1.11.

■ Valuation: Target \$125

Our \$125 price target reflects 18x our FY09 adjusted EPS estimate of \$6.78 (assumes iPhone revenues are recognized upon sale).

Highlights (US\$m)	09/06	09/07	09/08E	09/09E	09/10E
Revenues	19,315	24,006	32,669	37,770	43,777
EBIT (UBS)	2,453	4,409	6,162	6,893	8,511
Net Income (UBS)	1,989	3,496	4,706	5,089	6,216
EPS (UBS, US\$)	2.27	3.93	5.21	5.60	6.81
Net DPS (UBS, US\$)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	09/07	09/08E	09/09E	09/10E
EBIT margin %	-	18.4	18.9	18.3	19.4
ROIC (EBIT) %	-	131.4	120.2	132.1	257.6
EV/EBITDA (core) x	-	17.0	12.4	10.4	7.7
PE (UBS) x	-	26.4	20.1	18.7	15.4
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$104.80 on 14 Oct 2008 14:23 EDT

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Global Equity Research

Americas

Computers

12-month rating **Buy**
Unchanged

12m price target **US\$125.00**
Unchanged

Price **US\$104.80**

RIC: AAPL.O BBG: AAPL US

14 October 2008

Trading data

52-wk range	US\$199.83-88.74
Market cap.	US\$94.2bn
Shares o/s	899m (COM)
Free float	99%
Avg. daily volume ('000)	36,889
Avg. daily value (US\$m)	5,095.9

Balance sheet data 09/08E

Shareholders' equity	US\$20.6bn
P/BV (UBS)	4.6x
Net Cash (debt)	US\$15.0bn

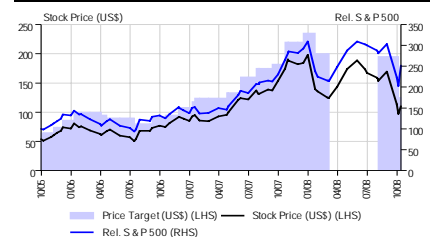
Forecast returns

Forecast price appreciation	+19.3%
Forecast dividend yield	0.0%
Forecast stock return	+19.3%
Market return assumption	6.6%
Forecast excess return	+12.7%

EPS (UBS, US\$)

	09/08E		09/07
	UBS	Cons.	Actual
Q1	1.76	1.76	1.14
Q2	1.16	1.16	0.87
Q3E	1.19	1.19	0.92
Q4E	1.11	1.11	1.01
09/08E	5.21	5.22	
09/09E	5.60	5.81	

Performance (US\$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities LLC

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Apple Inc.

Income statement (US\$m)	09/03	09/04	09/05	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
Revenues	6,207	8,279	13,931	19,315	24,006	32,669	36.1	37,770	15.6	43,777	15.9
Operating expenses (ex deprecn)	(6,069)	(7,780)	(12,109)	(16,637)	(19,280)	(26,050)	35.1	(30,409)	16.7	(34,798)	14.4
EBITDA (UBS)	138	499	1,822	2,678	4,726	6,618	40.0	7,361	11.2	8,979	22.0
Depreciation	(113)	(150)	(179)	(225)	(317)	(456)	43.8	(468)	2.6	(468)	0.0
Operating income (EBIT, UBS)	25	349	1,643	2,453	4,409	6,162	39.8	6,893	11.9	8,511	23.5
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	83	57	165	365	599	600	0.2	482	-19.7	498	3.3
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	108	406	1,808	2,818	5,008	6,763	35.0	7,375	9.1	9,009	22.1
Tax	(27)	(113)	(480)	(829)	(1,512)	(2,057)	36.1	(2,286)	11.1	(2,793)	22.1
Profit after tax	81	293	1,328	1,989	3,496	4,706	34.6	5,089	8.2	6,216	22.1
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	81	293	1,328	1,989	3,496	4,706	34.6	5,089	8.2	6,216	22.1
Net Income (UBS)	81	293	1,328	1,989	3,496	4,706	34.6	5,089	8.2	6,216	22.1
Tax rate (%)	25	28	27	29	30	30	0.8	31	1.9	31	0.0
Pre-abnormal tax rate (%)	25	28	27	29	30	30	0.8	31	1.9	31	0.0
Per share (US\$)	09/03	09/04	09/05	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
EPS (local GAAP)	0.11	0.38	1.55	2.27	3.93	5.21	32.6	5.60	7.4	6.81	21.7
EPS (UBS)	0.11	0.38	1.55	2.27	3.93	5.21	32.6	5.60	7.4	6.81	21.7
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	0.27	0.57	1.76	2.52	4.29	5.72	33.4	6.11	6.9	7.32	19.8
BVPS	5.82	6.53	8.95	11.77	16.71	22.86	36.8	28.29	23.7	34.99	23.7
Balance sheet (US\$m)	09/03	09/04	09/05	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
Cash and equivalents	4,566	5,464	8,261	10,110	15,386	21,870	42.1	31,214	42.7	39,385	26.2
Other current assets	1,321	1,591	2,039	4,399	6,570	9,046	37.7	10,909	20.6	13,115	20.2
Total current assets	5,887	7,055	10,300	14,509	21,956	30,915	40.8	42,123	36.3	52,500	24.6
Net tangible fixed assets	669	707	817	1,281	1,832	2,545	38.9	3,021	18.7	3,648	20.7
Net intangible fixed assets	109	97	96	177	337	329	-2.4	329	0.0	329	0.0
Investments / other assets	152	180	303	1,238	1,222	1,499	22.6	1,455	-2.9	1,302	-10.5
Total assets	6,817	8,039	11,516	17,205	25,347	35,288	39.2	46,929	33.0	57,779	23.1
Trade payables & other ST liabilities	2,055	2,682	3,487	6,471	9,299	11,305	21.6	16,624	47.0	20,150	21.2
Short term debt	304	0	0	0	0	0	-	0	-	0	-
Total current liabilities	2,359	2,682	3,487	6,471	9,299	11,305	21.6	16,624	47.0	20,150	21.2
Long term debt	0	0	0	0	0	0	-	0	-	0	-
Other long term liabilities	235	294	601	750	1,516	3,354	121.2	4,586	36.8	5,695	24.2
Total liabilities	2,594	2,976	4,088	7,221	10,815	14,659	35.5	21,210	44.7	25,844	21.9
Equity & minority interests	4,223	5,063	7,428	9,984	14,532	20,630	42.0	25,719	24.7	31,935	24.2
Total liabilities & equity	6,817	8,039	11,516	17,205	25,347	35,288	39.2	46,929	33.0	57,779	23.1
Cash flow (US\$m)	09/03	09/04	09/05	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
Net income	81	293	1,328	1,989	3,496	4,706	34.6	5,089	8.2	6,216	22.1
Depreciation	113	150	179	225	317	456	43.8	468	2.6	468	0.0
Net change in working capital	126	349	492	(221)	1,325	1,159	-12.5	4,212	263.3	2,061	-51.1
Other (operating)	(31)	142	536	227	332	561	69.0	520	-7.3	520	0.0
Net cash from operations	289	934	2,535	2,220	5,470	6,882	25.8	10,289	49.5	9,266	-9.9
Capital expenditure	(164)	(176)	(260)	(617)	(986)	(1,262)	28.0	(944)	-25.2	(1,094)	15.9
Net (acquisitions) / disposals	959	(1,323)	(2,275)	1,032	(2,312)	(5,439)	135.3	0	-	0	-
Other changes in investments	33	11	(21)	(58)	49	20	-	0	-	0	-
Cash from investing activities	828	(1,488)	(2,556)	357	(3,249)	(6,681)	105.6	(944)	-85.9	(1,094)	15.9
Increase/(decrease) in debt	0	(300)	0	0	0	0	-	0	-	0	-
Share issues / (repurchases)	27	427	543	(37)	362	411	-	0	-	0	-
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Other cash from financing	0	0	0	361	377	505	-	0	-	0	-
Cash from financing activities	27	127	543	324	739	916	24.0	0	-	0	-
Cash flow chge in cash & equivalents	1,144	(427)	522	2,901	2,960	1,117	-	9,344	-	8,171	-
FX / non cash items	-	1,325	2,275	(1,052)	2,316	5,367	-	0	-	0	-
Bal sheet chge in cash & equivalents	-	898	2,797	1,849	5,276	6,484	-	9,344	-	8,171	-
Core EBITDA	138	499	1,822	2,678	4,726	6,618	40.0	7,361	11.2	8,979	22.0
Maintenance capital expenditure	(164)	(176)	(260)	(617)	(735)	(1,173)	59.6	(944)	-19.5	(1,094)	15.9
Maintenance net working capital	126	349	492	(221)	1,325	1,159	-12.5	4,212	263.3	2,061	-51.1
Operating free cash flow, pre-tax	100	672	2,054	1,840	5,316	6,605	24.2	10,629	60.9	9,946	-6.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

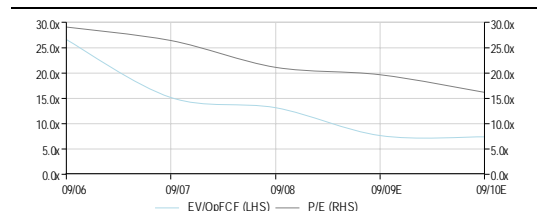
12m price target

US\$125.00

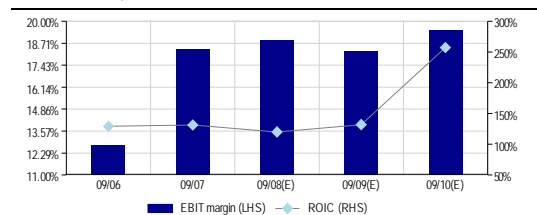
Company profile

Apple sells desktops, notebooks, servers, and associated software and peripherals predominantly in the consumer markets worldwide. Apple is also the leading provider of digital music players and recently entered the Smartphone market with the release of the iPhone.

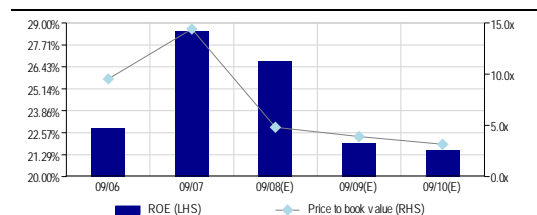
Value (EV/OpFCF & P/E)



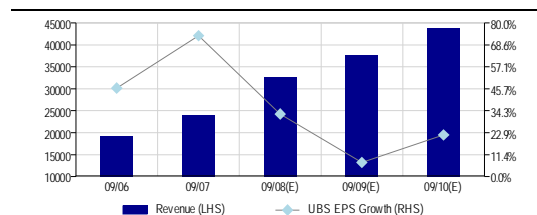
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
P/E (local GAAP)	-	29.1	26.4	20.1	18.7	15.4
P/E (UBS)	-	29.1	26.4	20.1	18.7	15.4
P/CEPS	-	26.1	24.2	18.3	17.1	14.3
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	5.6	6.2	4.6	3.7	3.0
EV/revenue (core)	-	2.5	3.4	2.5	2.0	1.6
EV/EBITDA (core)	-	18.3	17.0	12.4	10.4	7.7
EV/EBIT (core)	-	20.0	18.3	13.3	11.1	8.1
EV/OpFCF (core)	-	26.6	15.2	12.4	7.2	6.9
EV/op. invested capital	-	NM	NM	NM	NM	NM

Enterprise value (US\$m)	09/06	09/07	09/08E	09/09E	09/10E
Average market cap	55,755	89,472	94,250	94,250	94,250
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(6,808)	(8,903)	(12,452)	(17,957)	(25,523)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	48,947	80,569	81,798	76,293	68,727

Growth (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
Revenue	-	38.6	24.3	36.1	15.6	15.9
EBITDA (UBS)	-	47.0	76.5	40.0	11.2	22.0
EBIT (UBS)	-	49.3	79.7	39.8	11.9	23.5
EPS (UBS)	-	46.1	73.4	32.6	7.4	21.7
Cash EPS	-	43.3	69.9	33.4	6.9	19.8
Net DPS	-	-	-	-	-	-
BVPS	-	31.4	42.0	36.8	23.7	23.7

Margins (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
EBITDA / revenue	-	13.9	19.7	20.3	19.5	20.5
EBIT / revenue	-	12.7	18.4	18.9	18.3	19.4
Net profit (UBS) / revenue	-	10.3	14.6	14.4	13.5	14.2

Return on capital (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
EBIT ROIC (UBS)	-	NM	NM	NM	NM	NM
ROIC post tax	-	NM	NM	NM	NM	NM
Net ROE	-	22.8	28.5	26.8	22.0	21.6

Coverage ratios (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
Revenue / op. invested capital	-	10.2	7.2	6.4	7.2	13.2
Revenue / fixed assets	-	16.3	13.2	13.0	12.1	11.9
Revenue / net working capital	-	31.3	16.6	8.9	8.2	12.9

Investment ratios (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
OpFCF / EBIT	-	0.8	1.2	1.1	1.5	1.2
Capex / revenue (%)	-	3.2	4.1	3.9	2.5	2.5
Capex / depreciation	-	2.7	3.1	2.8	2.0	2.3

Capital structure (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
Net debt / total equity	-	(79.0)	(68.2)	(72.7)	(81.4)	(94.3)
Net debt / (net debt + equity)	-	NM	NM	NM	NM	NM
Net debt (core) / EV	-	(13.9)	(11.1)	(15.2)	(23.5)	(37.1)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US\$104.80 on 14 Oct 2008 14:23 EDT Market cap(E) may include forecast share issues/buybacks.

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■ **Apple Inc.**

Apple sells desktops, notebooks, servers, and associated software and peripherals predominantly in the consumer markets worldwide. Apple is also the leading provider of digital music players and recently entered the Smartphone market with the release of the iPhone.

■ **Statement of Risk**

Apple is exposed to several risks including: 1) a slowdown in consumer spending and general macro economic concerns, 2) iPhone accounting given the amortization method and lack of clarity on ASPs could result in quarterly adjustments that could have more material impact to out years, 3) an increasingly competitive environment which could place downward pressure on ASPs and margins 4) rising component prices, and 5) lack of demand for new products.

■ **Analyst Certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Apple Inc. ^{6, 16}	AAPL.O	Buy	N/A	US\$110.26	13 Oct 2008

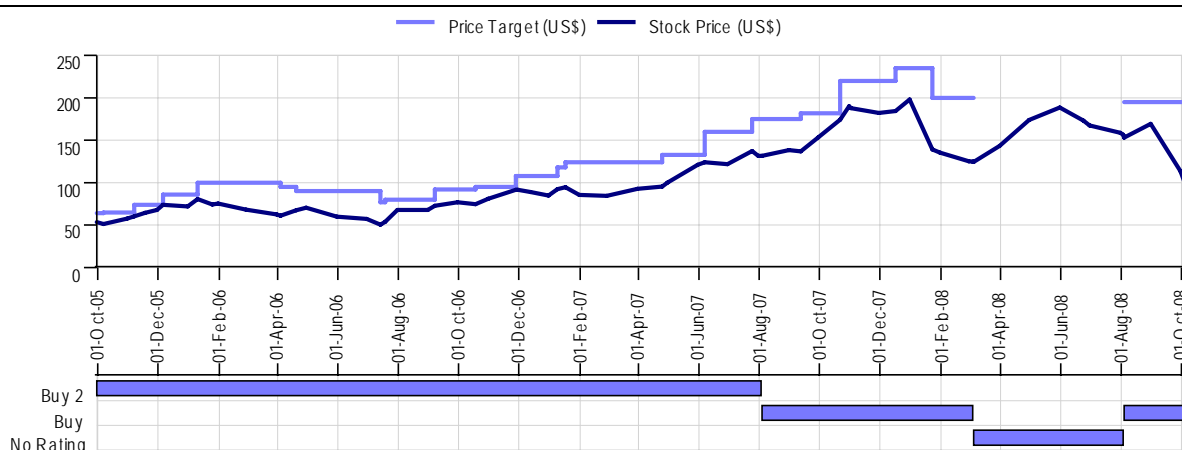
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

- 6. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
- 16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Apple Inc. (US\$)



Source: UBS; as of 13 Oct 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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