

Apple Report – Potential for Considerable Price Decline Caused by P/E Compression

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Apple's current P/E ratio stands at 40. But what should it be? While ERS's data analytics can provide estimates, we'll leave those aside for now.

The table below outlines potential future stock prices for Apple, based on actual revenue and earnings trends over the past three years. It is designed to help you assess the potential for both gains and losses in Apple's stock price, given Apple's current valuation, P/E ratio and three-year revenue and earnings trends.

Apple's Current Financials (as of 12/31/24)

Price	Market Cap	Revenue	Net Income	P/S	P/E	Profit Margin
\$250.42	\$3.78 tril.	\$391 bil.	\$93.7 bil.	9.7	40.4	24.0%

Future Assumptions*

Years Held	Annualized Revenue Growth	Future Profit Margin
3	2.25%	25.4%

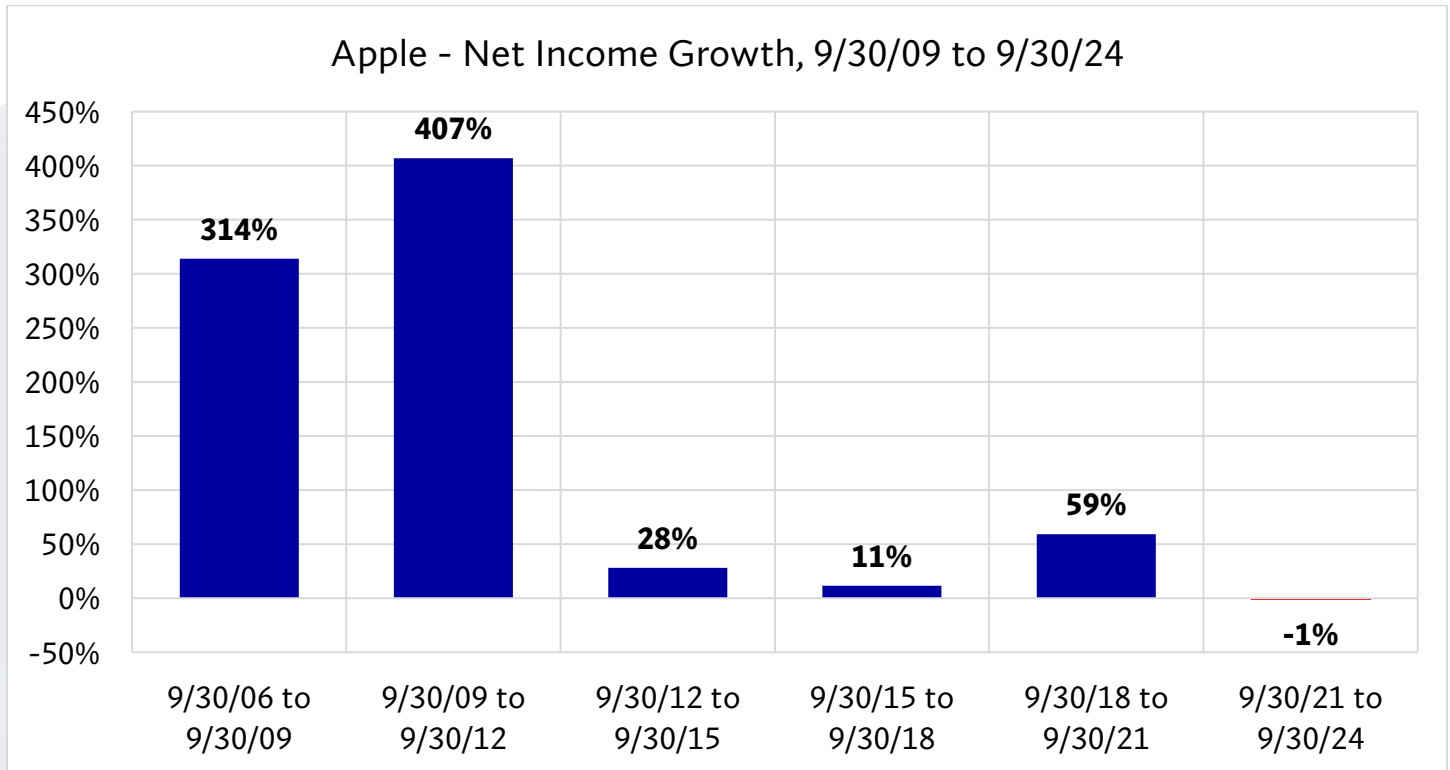
**In the past 3 years, Apple's revenues increased at an annual rate of 2.25% and their profit margins averaged 25.4%.*

The table below indicates the price changes of Apple's stock if the future revenues and profit margins match their 3-year averages, but the P/E ratio declines:

Net Income Growth Projections for 3 Years Out (12/31/2027)

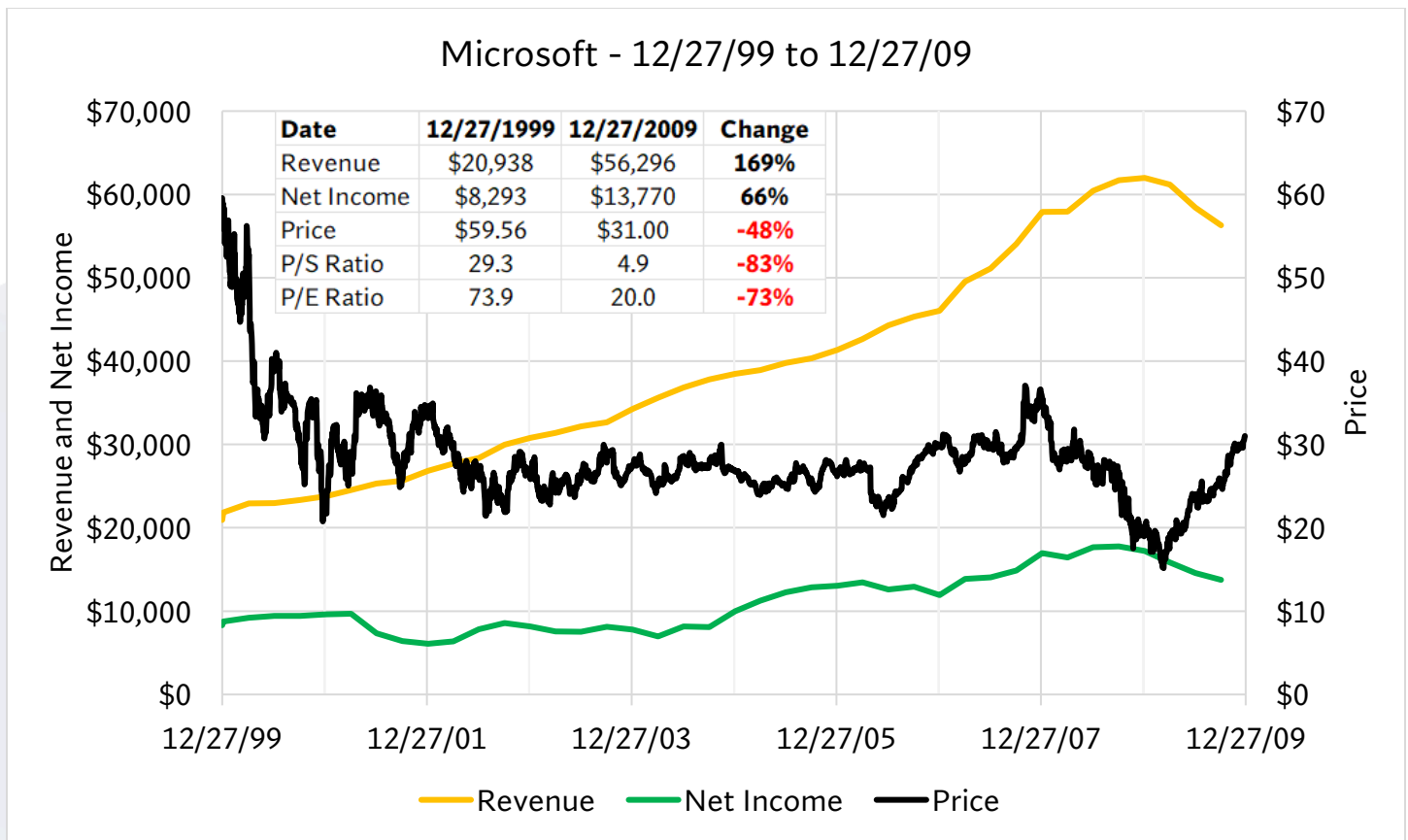
Future P/E Ratio	Future Revenue Growth	Future Revenue	Future Profit Margin	Future Net Income	Future Market Cap	Future Price	Price Gain (Loss)
40	2.25%	\$418 bil.	25.4%	\$106 bil.	\$4.25 tril.	\$280.97	+12.2%
35	2.25%	\$418 bil.	25.4%	\$106 bil.	\$3.72 tril.	\$245.85	-1.8%
30	2.25%	\$418 bil.	25.4%	\$106 bil.	\$3.19 tril.	\$210.73	-15.8%
25	2.25%	\$418 bil.	25.4%	\$106 bil.	\$2.65 tril.	\$175.61	-29.9%
20	2.25%	\$418 bil.	25.4%	\$106 bil.	\$2.12 tril.	\$140.49	-43.9%
15	2.25%	\$418 bil.	25.4%	\$106 bil.	\$1.59 tril.	\$105.36	-57.9%

Equity Risk Sciences focuses on providing data analytics that highlight the most probable financial outcomes. For Apple, the data suggests that a lower P/E ratio and slower revenue growth are the most likely scenarios. While no one can precisely predict these figures, the table offers a range of possibilities for your consideration.



Over the past 18 years, Apple’s net income has experienced periods of rapid growth followed by a significant slowdown. Between 2006 and 2012, net income surged, but over the last 12 years, growth has decelerated sharply – see the included bar chart. Notably, in the past three years, Apple’s net income has actually declined.

At Equity Risk Sciences, we don’t forecast revenues or net income—that’s the job of your financial analyst. However, considering Apple’s recent earnings decline and its current sales growth rate of just 2.25%, it would be a significant departure from historical trends to assume a meaningful acceleration in growth, given its current revenue trajectory.



Lastly, the Microsoft chart illustrates the powerful impact that price to sales and price to earnings compression has on the future price of high growth stocks. It illustrates the fact that when a company's valuation is high in spite of future revenue and earnings growth, the stock price still can fall very significantly.