Company Analysis Group Final Project

Finance 358

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December 10th, 2020

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Executive Summary

Apple is a leading brand in the United States and continues to grow largely every year with new products and services as well as technology innovation. Apple is largely focused on growing their global market share, increasing their amount of available third party software, becoming cash neutral and increasing their innovation through research and development. Although Apple holds a high amount of market share in the United States the company currently holds only a small amount of market share in the global market (10-K 2019, pg. 9). Since Apple has a very diverse product and service line they fall under many different industries. Their main industry classification is Technology Hardware, Storage and Peripherals (Technology Hardware, 2020). It is important for the company to focus on quickly creating and selling new technology for all of their products to continue to stay ahead of competitors and draw in new consumers. By offering technology that other companies may not be able to offer yet, Apple is able to differentiate themselves from their competitors. Apple’s first step to doing this was launching laptops and desktops using chips they manufacture rather than purchasing processors from Intel (Kifleswing, 2020). Moving forward as Apple continues to increase their research and development they will continue to be able to make these changes and in hopes increase their global market share and increase the value of the company.

Apple’s Economic/ Industry Analysis

Competition in the Industry

Apple is a leading brand when it comes to technology today. This industry is considered very aggressive with a large number of competitors. The top competitors for Apple include; Microsoft, Dell, Samsung, Lenovo, HP, Sony, Google, and Asus (Apple competitors and Alternatives - Owler). Due to the large amount of competition in this industry these companies including Apple are focused on a few key elements to help increase their market share. For example; price, new innovative products with short life cycles, and new services. For the majority of Apple's competitors the main focus is the ability to undercut price by using low cost structures and creating products and services similar to Apple's products and services to attract buyers. This forces Apple to continuously create new products and services with the latest technology to set themselves apart from their competitors.

(10-K 2019, pg. 5).

Apple classifies themselves as having 4 main products categories and 4 main services categories as of 2019. These include iPhone, Mac, Ipad, Wearables, Home and Accessories, Digital Content Stores, Streaming Services, AppleCare, iCloud, Licensing, and Other Services (10-K 2019, pg. 5). All the competitors together cover all the same products and services as Apple but not one of the competitors covers all the products and services alone. Apple has managed to secure consistent suppliers that currently provide them with the security to have enough resources to manufacture with the levels of demand. Once these contracts are up Apple can not be guaranteed to renew these contracts and a competitor has the chance to come in and create a better deal with suppliers. Since most technology products use the same type of hardware it is very easy for companies to take other companies' suppliers or supply of hardware. This high level of competition is able to keep this industry priced well, highly innovative, and a high expectation of products and services.

(10-K 2019, pg. 6).

Threat of New Entrants

Threat of new entrants for Apple is quite low. If a new company were to enter the market to compete with Apple, they would need two main things. The first would be a high amount of capital. Apple had to spend a lot of money in order to reach a lower cost of goods sold. In addition, this money has been used for researching and developing products for decades in order to reach the success that they have today. The second thing that the firm would need to have is brand recognition. Apple was established decades ago, and has since established itself as a very successful, reputable technology company. Apple products are everywhere today. A majority of people would recognize Apple’s logo alone if they saw it. In conclusion, the threat of new entrants is low due to the high cost to compete and the brand recognition required in order to compete with the tech giant.

(10-K 2019).

Power of Suppliers

Apple currently only has a handful of competitors, giving them lots of supplier power, however as mentioned in the competition in the industry, once their current contracts expire many new competitors can flood into the market and Apple no longer has control of supplier power for that specific product. In order to maintain their supplier power, Apple must continually innovate and engineer new forms of technology in order to stay ahead of the market. The iconic brand name, Apple, has the power to charge a high amount for their electronic devices when first releasing a new electronic device that is new to the market, providing it is realistically priced towards a similar product found by a competitor. In terms of Apple’s Music, Movies and TV, and other various suppliers, the company has very low supplier power. Apple cannot drastically change the price of movies and tv shows on their own accord, because no one would purchase these items. This is due to larger competition to sell these items, so they must trade at the same price the market is. Apple has more supplier power in their electronic products, than the remaining aspects of the company.

(10-K 2019, pg. 6).

Power of Customers

Apple holds a large market share for most of their products and services across the world. The market share for all of their products and services is higher in the U.S. than in the global market (10-K 2019, pg. 9). That means that Apple has a large customer base with the ability to easily find new customers as they lose old ones. This helps Apple have the power to price their products at a higher cost without fear of losing customers. Apple is also considered a “cult” brand meaning that the customer base is extremely loyal even though they are not small. This loyalty also allows Apple to set their prices at a higher level. Although Apple is able to dictate their prices and have higher power over the customers when it comes to wealthier people, that strategy does not work similarly with the majority of the customers. With less than 10% of the population (U.S.) buying smartphones that are $1,000 or more, the power shifts to the customer (Eadicicco, 2019). The majority of consumers require a more affordable price for their products to buy which forced Apple to release more affordable products. For example in 2020 Apple released the iPhone SE 2nd generation starting at $400. For Apple to continue to find new customers the brand must follow the demand of what the customer is willing to pay for their products.

Threat of Substitutes

Threat of Substitutes for Apple low. Apple has a product line that consists of many multi-functional products. Consumers could choose to opt for just a telephone capable of making only calls, or a camera capable of only taking photos/video, but why would they? For example, the newly released iPhone 13 has capabilities not only beyond calls and texts, but also capabilities that are very high quality. The camera in the iPhone 13 Pro Max has a 12 megapixel camera that can take telephoto, wide, and ultra wide photos. It is becoming more common for new freelance photographers, for example, to find greater appeal in just getting the new iPhone over a fancy camera. They would be getting similar specifications for a similar price. Not only that, but it would have capabilities beyond taking photos and videos (call/text, stream music, movies, etc.) and that is something they could not get from just a camera.

Company Strategies

Currently, Apple holds minority market share in the global market for smartphones, personal computers, and tablets. By increasing their market share, Apple will be able to increase their shareholder value through their company growing in size and being able to receive a larger return. Apple’s main goals of 2021 and the last few years are to 1. Increase current buyers and global market share by increasing the amount of available third party software created for Apple products. 2. Increase innovative products being released to compete better in the market and grow their customer base with increased research and development. 3. Repurchase stocks to increase overall shareholder value and reduce the company’s outstanding stocks and dividends paid. Although there are many more things Apple is doing to help grow their company, these three have been a focus of the company for the last few years (Investor relations, 2021)

Due to this small market share, it makes it difficult for Apple to incentivize developers to upgrade current software or to create new software for Apple’s products. For Apple, it is a main focus to ensure that these developers are continuing to update and create new software to help Apple compete in the global marketplace. It is Apple's goal to create a world that embodies the focus of Android, Windows, PlayStation, Nintendo and Xbox, but all under the Apple brand. Since Apple mainly uses third-party developers to create software similar to these companies, it is harder to ensure that their brand will be able to compete and offer similar products (Investor relations, 2021, pg.13). In the upcoming years, Apple will continue to grow their acquisition of third-party businesses and technology and licensing of intellectual property to help ensure a spot in this specific market.

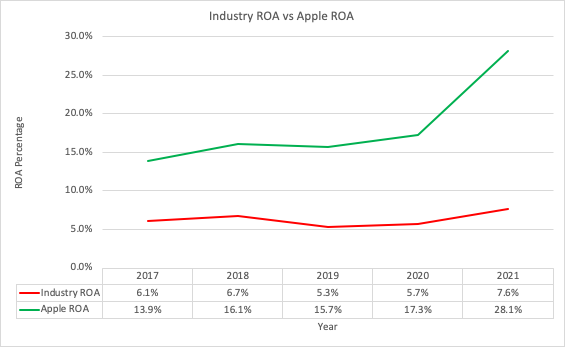
Apple will continue investing in research and development of their own technology as well as working to create a better space for third party companies to launch their software. Apple works to protect the developers and follow current laws and regulations to create a safer place for developers to launch their products. With this occurring in the upcoming years, Apple and other brands could be facing law changes that restrict Apple from collecting revenue from these third party software sales on their platform. In turn, it would negatively affect revenue for Apple in this specific section. However, it would create a larger incentive for developers to create software for Apple that would increase their user retention for their products. By increasing the amount of software from third party developers, Apple will be able to increase their sales resulting in more market share. This will overall increase the shareholder value for Apple (Investor relations, 2021 pg 14).

Apple's core business strategy is to continuously innovate and sell new products to increase their revenue and value. Apple has the most sales growth during holidays as well as during releases of new technology. Apple typically releases new iPhones heading into the holidays and scatters their other product releases during the slower periods of the year. To be able to continuously innovate and release new products, Apple has a larger focus on their research and development. Apple is continuing to grow its research and development in the year 2021 and will continue this trend in the upcoming years. In the last four years, Apple has increased their R&D on average by 6% (Investor relations, 2021 pg 26) (Investor relations, 2020 pg 26).

For current shareholders in 2021, Apple’s repurchase program was important in the aspect of increasing their value. Apple's repurchase program was authorized to increase to $315 billion from the original $225 billion. During 2021, Apple repurchased 656 million shares for $85.5 billion of their common stock and paid dividends. In addition, quarterly dividends increased to $0.22 per share starting May, 2021 (Investor relations, 2021 pg 49). In the last four years, Apple has continued to decrease their common stock outstanding by repurchasing a total of 1,061.5 billion shares which in turn is continuing to raise prices and increase current shareholder value. All of these changes in Apple’s repurchases are due to an announcement in 2018 that they plan on taking the company cash neutral. With the repurchasing of stocks the company has been able to cut in half their cash position from 2018 to 2021 (Jones, C. 2021). If Apple continues on this path and reaches cash neutrality the company will be able to increase their return.

(Investor relations, 2020 pg 53), (Investor relations, 2021 pg 49), (Investor relations, 2019 pg 51), (Investor relations, 2018 pg 60).

Valuation and Recommendations

Apple has shown promising financial numbers based on the analysis of the last five years for the company. For example, return on assets has been increasing every single year since 2016. ROA was just 13.9% in 2016, and grew substantially to 28.1% in 2021. This figure is over double what it was in 2016, which is excellent. Return on assets is a very important financial indicator for evaluating the performance of a company. It signifies how much net income is increasing relative to the firm’s total assets. Since Apple is increasing its ROA year-to-year, it demonstrates they are effectively increasing the amount left after all expenses have been paid (net income). Compared to Apple’s primary industry classification they are outperforming on ROA.

\*Apples primary industry classification is: Technology Hardware, Storage and Peripherals

\* Source Technology Hardware, Storage and Peripherals.

\*Excel Sheet Attached in Canvas for data

A financial ratio that could use improvement for the company is long-term debt to long-term capital. This is a solvency ratio which indicates how effectively the company is paying off its debts. In 2016 the ratio was 42% and by fiscal year 2021 that number grew to 63.4%. As mentioned previously, this raises concern due to the fact that it measures how effective debt is being paid off. A higher ratio indicates less of an ability for them to pay off debt. However, there are important factors that should be considered. First, the COVID-19 pandemic occurred right in the middle of this five-year period. Most companies took a hit financially, at least temporarily, during this period. Another consideration that should be made is the future plans of the company. Taking on more long-term debt could signify further expansion being made to the company (the purchase of property, plant, and equipment). If the company is looking to purchase more long-term assets that could skew the data. More spending toward research and development could also impact these numbers.

Overall, the financial numbers of Apple appear to be strong. Factors beyond the control of the company had to be considered (e.g. COVID-19), as well as the potential plans of the company to expand its operations/higher spending in R&D. ROA is an important metric that is illustrating strong returns for the company, despite the company’s weakness in regard to solvency ratios. Apple is still considered to be a good company to invest in, and shareholders may still continue to find promising returns for the years to come.

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