

Apple Inc.

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MET315-02

April 9, 2017

Contents

1	Description of Company	1
2	Stock Chart	3
3	Discussion of Chart	4
4	Financial Performance	5
5	Performance Ratios	6
6	Positives & Negatives	8
7	Non-Financial Concerns	8
8	Competition	8
9	Other Information	8
10	Conclusion	8
11	Required Documents	9
11.1	Balance Sheet	9
11.2	Income Statement	10
11.3	Cash Flow Statement	11
A	Performance Ratio Table	12
	Resources	13

1 Description of Company

Apple is one of the most successful companies of all time. Not only in the U.S. but in the whole world. They are one of the biggest designers/manufacturers of desktops, laptops/netbooks, tablets, and smartphones as well [3]. Not to mention their massive grip on the multimedia realm with iTunes, Apple Music, Apple TV, and their assortment of multimedia editing programs. They don't only rule the school of multimedia and are rapidly seizing the tech world due to its easy-to-use interface and unix-based (DarwinOS) background. Monetarily, the company does extremely well; as would any company among the top in the world. Just one of their products, the iPhone, is responsible for two-thirds of the company's revenue [3]. This may not be too surprising because pretty much *everyone* has an iPhone! That being said, Apple's biggest claims to fame are as a computer hardware/software manufacturing/designing company and as a catalyst of new technology in the market.

Mostly everyone has heard of the founders Steve Jobs and Steve Wozniak. Wozniak left the company in 1983, only 3 years after the company went public [3]. Jobs was with the company on and off¹ until his death in 2011. After his death, Tim Cook took over as CEO and remains CEO to this day. A few other notable employees of the company are: Dr. Arthur Levinson, chairman, Jeff Williams, COO, Jonny Ive, chief design officer, Craig Federighi, SVP software engineer, Dan Riccio, SVP hardware engineer, and Phil Schiller, SVP worldwide marketer [3]. We know most of these people from Apple's events which they come on stage to talk. Jonny Ive is most known for the videos that reveal the newest Apple projects. Either way, without these people, and many more, Apple would not be as successful as it is today.

Most people know that Apple doesn't assemble most of their devices in the US. How do they know this? Well, on the back of any Apple device, there will be a note informing the user that it was designed in the US but assembled in China. According to LexisNexis Academic, they have a subsidiary called *AuthenTec*. One of the locations for this company is in Shanghai, which I believe is the main manufacturing plant for some of their bigger products [4]. That being said, there are also some plants/facilities found in Japan, Mexico, Europe, and even Australia [4]. Their headquarters is located in Cupertino, California and is approximately 16,000

¹In 1985, Jobs resigned from Apple due to workplace drama with John Sculley. He rejoined Apple in 1997 [7].

sq. ft in size [3]. Apple has hundreds of locations all over the world, ranging from design facilities to retail stores to manufacturing.

Needless to say, Apple does a lot of business. They sell a lot of product. In fact, in 2016 they had about \$215,639,000 worth of sales [3]! Also according to Hoover, they have a market value of about \$594,339,610. Talk about big numbers! Apple sold approximately 226,200,000 iPhones [2] and about 45,590,000 iPads [6] in 2016 alone. Just based on those approximate numbers, we can determine that Apple gets all most all of it's revenue from the iPhone.² Let's not forget the other slew of products they sell that weren't mentioned. That being said, the volume of product from Apple is absolutely enormous! Along with their huge fan base, it's no wonder they are so successful.

²The iPhone, at full retail price, is about \$800. Multiply that by the number of sold iPhones, we get \$180,960,000. That's about 84% of their sales!

2 Stock Chart



Figure 1: Apple (blue) vs NASDAQ (green) for 3 months [1]

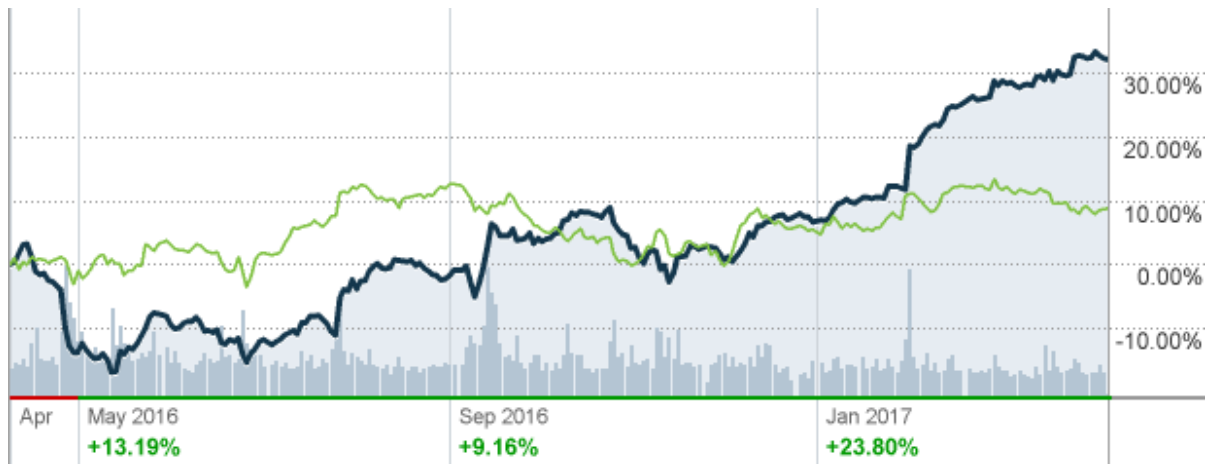


Figure 2: Apple (blue) vs NASDAQ (green) for 1 year [1]



Figure 3: Apple (blue) vs NASDAQ (green) for 5 years [1]

3 Discussion of Chart

In the figures found on the previous page, you will notice that I chose to compare Apple to the NASDAQ for the past 3 months, year, and 5 years. Firstly, my reasoning for choose NASDAQ was simple; I felt as though it would give a good visual as to how the market as a whole was doing. Secondly, I selected multiple graphs so that I could analyze the company for longer than just the required period; not to mention the *Financial Performance* section has to do with the past 5 years. Now that the preliminaries are out of the way, let the discussion begin!

While looking at the graphs, one would notice that Apple seems to be doing quite poor in comparison to the NASDAQ; except for the past 2 months (Feb. through Apr.). For the past years, Apple has been dancing around the NASDAQ, as seen in Figure 2. During spring-summer months, Apple tends to do poorly because they don't have anything huge being released. iPhones tend to be released in September and, as we saw earlier, is their biggest seller. This would explain how in Figure 2, Apple jumps up to about even with the NASDAQ. The new iPhone would then ride the company through Christmas and into the new year. This doesn't explain why they are 20% above the NASDAQ from February until now. Well, it looks as though the company had it's best holiday quarter ever in 2016 [5]. Also according to The Motley Fools, "their fast-growing service segment ... has expanded to nearly 10% of sales, and soaring demand for apps pushed its high-margin revenue." This very well could explain that large jump, although, I'm not sure if I believe it or not.

The last thing to discuss is the company's 5 year graph. In 2012, Apple was about fair with the NASDAQ. Then the NASDAQ started to move away, and never crossing paths again until this year. I found this rather interesting but I believe that the reasoning for this is that Apple has a safety net. The company, although very intuitive, doesn't make extreme changes on their products.³ This gives the customer as sense of home, even when they get a new device. While they are doing that, the market is trying all sorts of new things. Since the NASDAQ doesn't solely rely on Apple, it might have to do with other companies making more galvanizing devices that caused the NASDAQ to leave Apple in the dust.

³Besides them removing the 3.5mm headset jack on their newest model iPhone.

4 Financial Performance

Most of the information I will be discussing in this section can be found in Section 11.1 (Balance Sheet), which are sections from Apple's balance sheet. They contain the past 5 years. Going right down the line, you will find the assets table first. The very first thing to note is that 2016 seems to have the biggest numbers in almost all the categories; some even being significantly larger. For example, their total current assets is up from 2015 by about 17,491 million, total assets are up 31,207 million, and cash/equivalents are up 25,554 million. There don't seem to be any major decreases, which is good. There are any major drops, except the drop in other current assets by 6,502 million. Overall, this part of the balance sheet looks good and points the company toward a successful direction.

Looking at the next piece of the balance sheet is the liabilities. The only thing that I'm going to note is that the total liabilities seem to be increasing with time. This isn't necessarily a bad thing, but it isn't necessarily a good thing either. Luckily, their total assets is significantly greater than their total liabilities. So far the company seems to be holding up well on their balance sheet. Let's look into the income and cash flow statements.

The income statement is found in Section 11.2 (Income Statement). The very first thing I noticed was that 2016 dropped by about 10,000 million in almost every category. In fact, the sales dropped by about 15,000 million. Another interesting thing to note is that 2015 has the highest numbers for all the years listed. Luckily the cost of goods also dropped as well, saving the company some money. The numbers dropped, but they didn't drop below any previous year, which is good. Overall, it's bad that it dropped, but nothing too scary yet. The cash flow statement, found in Section 11.3 (Cash Flow Statement), supports the same claim, for the most part. It seems as though they increased the number of operating activities⁴ and dropped investments. In this case, some of the values dropped below previous years, but, yet again, this isn't something to worry about too much. Overall, I believe that the company is growing, despite having a couple small set backs. I believe this because the company's numbers are still high and haven't dropped too low. However, it's still very important that they keep it up or they could be in trouble.

⁴This could be because of their iPhone recycling campaign, if so, that's a warm fuzzy to consider.

5 Performance Ratios

All of the ratios I will be discussing in this section will be coming from Zack's balance sheet and income statement found in section 11. My calculations are found in Appendix A. First and foremost, you will notice that Apple's PE ratio for all five previous years have been fairly close. They aren't extremely small, but I suppose they could be higher. In the grand scheme of things, I believe this is a fairly good stock; for all of the years. Their current ratio is also good because it is greater than 1. They did get very close to 1 in 2015 and 2014 but looks like they're going up. Throughout the years listed, Apple seems to have an alright quick ratio as well. It only dropped under a dollar for 2 years, 2015 and 2014, and seems to be going back up. Although these number are best when higher, they aren't terrible, for the most part.

We've looked at the company's ability to pay off their debt, now let's look at their actual debt. According to my calculations, about 60% of the company is debt to others currently. This is quite the percentage! As I expected, the percent is going up with the years due to their ever increasing costs. In 2012, the company was only about 33% debt which means that it increased its debt by about 30% in 4 years. I don't really find this all that surprising coming from Apple, but 60% is a lot of debt. Looking back at their current ratio, the company does have the ability to pay back their current debt. This may mean that they also have the ability to pay back there long term debt. Whether this is accurate or not, I'm not entirely sure. Let's look more into their ratios to see if we can unwrap this mysterious case.

To my surprise, the working capital wasn't extremely large; especially in 2014 and 2015. Once again we see the same trough in those years and Apple come out of it in 2016. In fact, the working capital more than tripled from 2015! As discussed earlier, 2016 was when Apple started to meet up with the NASDAQ in the stock market. This obviously means that 2016 was a very important time for the company. While on the topic of dollar amounts, their new worth is fairly consistent with the rest of the data. Once again, there was a drop in 2014 and 2015 and an increase into 2016. The drop is about 10,000 million, which is significant. It's a good thing that they got out of that trough.

Looking at the return on assets for Apple, I noticed that early on was better. 2013 and 2012 both had high number, meaning that their assets must having been making very good profit.

Contrary to the past situations, 2015 and 2014 didn't prove to be terrible for ROA, in fact, they were about average for the company during these 5 years. In terms of return on equity, there isn't much change. Oddly enough, their returns are pretty constant throughout the five years. The maximum was in 2012 and the minimum in 2015. Not too much to say here. Lastly, their return on sales for the most part are constant throughout the 5 year range. The only except is for 2016, where the ROS dropped by about 15%. This could mean that Apple didn't use their assets very wisely in 2016.

The last ratios I will be discussing are the profit margins. Their PM before taxes throughout the 5 years were consistent. There weren't any huge drops or increases. The same can be said about the PM after taxes. In fact, the difference between the PBIT and PAIT isn't very big at all, maxing out around 9% in 2012. On average the company seems to be making about 20-30% profit after taxes. This isn't great but I wouldn't say that it is bad either. Overall, you can see that Apple's performance is mediocre. They don't have an exceptional net worth nor do they have exceptional profit margins. Not to mention their huge debt percentage, Apple may need to step up it's game to remain relevant.

6 Positives & Negatives

Pros and cons

7 Non-Financial Concerns

Non-free software!! Spying!!

8 Competition

Microsoft, Google, Amazon, Samsung

9 Other Information

Who cares

10 Conclusion

Please be over.

11 Required Documents

11.1 Balance Sheet

	9/30/2016	9/30/2015	9/30/2014	9/30/2013	9/30/2012
Assets					
Cash & Equivalents	67,155	41,601	25,077	40,546	29,129
Receivables	29,299	30,343	27,219	20,641	18,692
Notes Receivable	0	0	0	0	0
Inventories	2,132	2,349	2,111	1,764	791
Other Current Assets	8,283	15,085	14,124	10,335	9,041
Total Current Assets	106,869	89,378	68,531	73,286	57,653
Net Property & Equipment	27,010	22,471	20,624	16,597	15,452
Investments & Advances	170,430	164,065	130,162	106,215	92,122
Other Non-Current Assets	0	0	0	0	0
Deferred Charges	0	0	0	0	0
Intangibles	8,620	9,009	8,758	5,756	5,359
Deposits & Other Assets	8,757	5,556	3,764	5,146	5,478
Total Assets	321,686	290,479	231,839	207,000	176,064

Figure 4: Assets. All values in millions except per share data [8]

Liabilities & Shareholders Equity	9/30/2016	9/30/2015	9/30/2014	9/30/2013	9/30/2012
Notes Payable	0	0	0	0	0
Accounts Payable	37,294	35,490	30,196	22,367	21,175
Current Portion Long-Term Debt	11,605	10,999	6,308	0	0
Current Portion Capital Leases	0	0	0	0	0
Accrued Expenses	22,027	25,181	18,453	13,856	11,414
Income Taxes Payable	0	0	0	0	0
Other Current Liabilities	8,080	8,940	8,491	7,435	5,953
Total Current Liabilities	79,006	80,610	63,448	43,658	38,542
Mortgages	0	0	0	0	0
Deferred Taxes/Income	2,930	3,624	3,031	2,625	2,648
Convertible Debt	0	0	0	0	0
Long-Term Debt	75,427	53,463	28,987	16,960	0
Non-Current Capital Leases	0	0	0	0	0
Other Non-Current Liabilities	36,074	33,427	24,826	20,208	16,664
Minority Interest (Liabilities)	0	0	0	0	0
Total Liabilities	193,437	171,124	120,292	83,451	57,854

Figure 5: Liabilities & shareholder equity. All values in millions except per share data [8]

Shareholders Equity	9/30/2016	9/30/2015	9/30/2014	9/30/2013	9/30/2012
Preferred Stock	0	0	0	0	0
Common Stock (Par)	31,251	27,416	23,313	19,764	16,422
Capital Surplus	0	0	0	0	0
Retained Earnings	96,364	92,284	87,152	104,256	101,289
Other Equity	634	-345	1,082	-471	499
Treasury Stock	0	0	0	0	0
Total Shareholder's Equity	128,249	119,355	111,547	123,549	118,210
Total Liabilities & Shareholder's Equity	321,686	290,479	231,839	207,000	176,064
Total Common Equity	128,249	119,355	111,547	123,549	118,210
Shares Outstanding	5,388.40	5,702.70	5,864.80	6,359.40	6,561.80
Book Value Per Share	23.80	20.93	19.02	19.43	18.01

Figure 6: Shareholder equity. All values in millions except per share data [8]

11.2 Income Statement

	9/30/16	9/30/15	9/30/14	9/30/13	9/30/12
Sales	215,639	233,715	182,795	170,910	156,508
Cost Of Goods	131,376	140,089	112,258	106,606	87,846
Gross Profit	84,263	93,626	70,537	64,304	68,662
Selling & Administrative & Depr. & Amort Expenses	24,239	22,396	18,034	15,305	13,421
Income After Depreciation & Amortization	60,024	71,230	52,503	48,999	55,241
Non-Operating Income	1,348	1,285	980	1,156	522
Interest Expense	0	0	0	0	0
Pretax Income	61,372	72,515	53,483	50,155	55,763
Income Taxes	15,685	19,121	13,973	13,118	14,030
Minority Interest	0	0	0	0	0
Investment Gains/Losses	0	0	0	0	0
Other Income/Charges	0	0	0	0	0
Income From Cont. Operations	45,687	53,394	39,510	37,037	41,733
Extras & Discontinued Operations	0	0	0	0	0
Net Income	45,687	53,394	39,510	37,037	41,733

Figure 7: All values in millions except per share data [10]

11.3 Cash Flow Statement

	9/30/2016	9/30/2015	9/30/2014	9/30/2013	9/30/2012
Cash Flow From Operations, Investments & Financial Activities					
Net Income (Loss)	45,687.00	53,394.00	39,510.00	37,037.00	41,733.00
Depreciation/Amortization & Depletion	10,505.00	11,257.00	7,946.00	6,757.00	3,277.00
Net Change from Assets/Liabilities	484.00	11,647.00	7,047.00	6,478.00	-299.00
Net Cash from Discontinued Operations	0.00	0.00	0.00	0.00	0.00
Other Operating Activities	9,148.00	4,968.00	5,210.00	3,394.00	6,145.00
Net Cash From Operating Activities	65,824.00	81,266.00	59,713.00	53,666.00	50,856.00
Property & Equipment	-12,734.00	-11,247.00	-9,571.00	-8,165.00	-8,295.00
Acquisition/ Disposition of Subsidiaries	-297.00	-343.00	-3,765.00	-496.00	-350.00
Investments	-32,022.00	-44,417.00	-9,017.00	-24,042.00	-38,427.00
Other Investing Activities	-924.00	-267.00	-226.00	-1,071.00	-1,155.00
Net Cash from Investing Activities	-45,977.00	-56,274.00	-22,579.00	-33,774.00	-48,227.00

Figure 8: All values in millions except per share data [9]

A Performance Ratio Table

Ratio	2016	2015	2014	2013	2012
PE	13.937	13.161	10.599	11.546	-
CR	1.353	1.019	1.080	1.679	1.496
QR	1.221	0.892	0.824	1.402	1.241
DR	0.601	0.589	0.519	0.403	0.329
WC	27,863	8,768	5,083	29,628	19,111
NW	128,249	119,355	111,547	123,549	118,210
ROA	0.191	0.25	0.166	0.242	0.317
ROE	0.142	0.134	0.17	0.179	0.237
ROS	0.67	0.805	0.788	0.826	0.887
PM(PBIT)	0.285	0.31	0.293	0.293	0.356
PM(PAIT)	0.254	0.228	0.216	0.217	0.267

Table 1: PE from LexisNexis, WC & NW in millions of dollars

Resources

- [1] CNN. *CNN Money Apple Inc.* URL: <http://money.cnn.com/quote/quote.html?symb=AAPL>.
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