Financial Analysis Report

Apple Inc.

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**Why I choose this organization:**

Since my minor is computing, and I am interested in programming and the hardware of electronic products. I would like to take this opportunity to learn more about the financial aspects of Apple Inc. In addition, Apple is one of the companies I think can represent the highest enthusiasm for creating products. Not just because of its design team's ingenuity and the corporate culture. It is also reflected in Apple's CEO Tim Cook's attitude towards the supply chains.

Another thing that interests me is that Apple's products are consistently highly exclusive in terms of software and systems. IOS and macOS are not as widely applicable to the hardware of various vendors as Android and Windows, and Apple has voluntarily given up the pc games market; However, this has not affected its spread to the world and in 2011 became the world's most valuable company.

**Horizontal Analysis**

According to the Horizontal Analysis sheet, both percentage of base-year amount and percentage of change for the year of 2018 is larger than that of 2019. That means In the past three years, the sales volume of Apple products has been a steady growth trend.

From the Horizontal Analysis of balance sheet, we can even Apple have a dramatically decrease in Marketable securities and inventories (25% and 18.52%). Since the amount of vendor non-trade receivables increases in 45%, the total current assets still growed during the past two years.

The analysis shows that the accounts receivable increased by 5,312 million, or 29.72%; However, the increase of net sales had only increased in 15.86%. The cost of sales is increased in 22,708 million, or 16.10%. Form the 2017 and 2017 Apple 10K form, we can see this number is continuously getting large. We can attribute the reason to the OLED screen, dot projector and flood illuminator used in the new iPhone and iPad.

The research and development increased in 2655 millions, or 22.93%. This is a problem all technology companies face. With the development of the chip industry, Moore's Law is getting lapse. Many technology companies, including Apple, must invest more resources to ensure a stable iteration of their products.

**Vertical Analysis**

The Vertical Analysis shows that the property, plant and equipment(net) increased from 9% to 11.29% during the last two years. According to Benjamin Kabin, most of the products produced by Apple rely on outsourcing, thus this 2.29% growth is more reflected in the R&D-centric laboratory.

The percentage of net income in last three years are basically the same: 22.41% in 2018, 21.09% in 2017 and 21.19% in 2016. Although the percentage of gross margin decreased during past three years, the percentage of net income increased steadily.

In operating income, the percentage of research and development is getting larger from 4.66% to 5.36%

**Liquidity Analysis**

The receivable turnover ratio could be calculated, since apple did not release the sales on credit and sales returns. Then we lack of data to calculate Net cash provided (Net Credit Sales).

And Average collection requires receivable turnover ratio:

The liquidity ratios shows the working capital decreased from 27,831 to 14,473 during the past two years. And the current ratios are fall from 1.28 to 1.12, which means for every liability, Apple has $1.12 of current assets. According to CNBC.com, Apple briefly falls below $1 trillion market value at the beginning of November, 2018.

From the balance sheets we can see, apple’s term debt increased from 3,500 to 8,784 from Sep 24,2016 to Sep 29, 2018. At that time, Apple was focus on overcoming the overheating problem of the wireless charging pad and the iteration of the iPhone supply chain.

The liquidity ratios also shows Apple’s inventory turnover falls from 40.37 to 37.17, and Days in inventory increased from 9.04 to 9.82.

**Solvency Analysis**

The Free Cash Flow = Net cash provided (used) by operating activities − Net capital expenditures − Dividends paid. Since I lack of the non-cash expenses, then I did not achieve FCF.

The Debt to total assets of Apple decreased from 0.6 to 0.71. This ratio increased dramatically and above 0.5, which means most of Apple’s assets are financed through debt.

The times interest earned increased from 3.01 to 4.69 at 2018, which shows Apple's ability to honor its debt payments increased.

**Profitability Analysis**

The profitability Analysis shows that the gross profit margin decreased 0.01 at year 2017 and then remains at 0.38 at 2018, which is less than Apple’s competitor Samsung with Gross profit margin 46.03 at 2016; However, it’s profit margin increased from 0.21 to 0.22 at 2018.

Apple’s asset turnover ratio increased from 0.66 to 0.72, that’s a gratifying grow. And

Return on assets increased to 0.16. Another good news is the return on equity increased from 0.37 to 0.49.

**Conclusion**

Strength:

From Horizontal Analysis for Apple’s sales, both percentage of base-year amount and percentage change for the year change increased (from 106.3% to 123.17% and from 6.3% to 15.86 respectively). This is due to the shaping of the product itself and the corporate culture.

From Solvency Analysis, times interest earned increased from 3.01 to 4.69. As the interest coverage ratio is getting higher, Apple will earn enough from its operations EBIT to meet its interest obligations

Weakness:

The Debt to total assets of Apple increased from 0.6 to 0.71. Since the ratio is greater than 0.5, most of Apple’s assets are financed through debt. The higher the ratio, the greater the risk associated with the company's operations.

Samsung's Debt-to-Equity Ratio is 0.05, that's way lower than Apple. It’s seems strange its competitor has a much lower Debt-to-Equity Ratio. According to Steven Nickolas, Although the debt is huge, Apple can get a very favorable interest rate on its debt. When Apple issued most of its notes, Apple benefited from a very low-interest-rate environment.

Improvement:

The profitability Analysis shows that the gross profit margin of 2018 is 0.38, or 38%, which is high but still below Samsung and could be better.

According to me, this situation will be improved soon. Part of the reason for the lower gross profit margin is that Apple has hoped to occupy more mid-range mobile phone and PC market in recent years.

Worsening:

From the liquidity analysis, we have noticed that in 2018 Apple’s current ratio worsened; that is liability per current assets was lower.

The current ratios are fall from 1.28 to 1.12, which means for every liability, Apple has $1.12 of current assets. this ratio is related to short-term obligations. Apple's is getting lower, which means the current liabilities part is getting lager.

**Citation:**

Apple Inc. FORM 10-K ANNUAL REPORT For the fiscal year ended September 29, 2018

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