

ANNUAL REPORT ANALYSIS

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Apple Inc. [AAPL]

AAPL, Apple

(Using Annual Report dated 2023)

*Numbers used for calculations are in millions, as found on the annual report

Preface:

Apple Inc. [NYSE: AAPL] is a global leader in consumer technology, known for its innovative products and services, including the iPhone, iPad, and Mac. Founded in 1976 by Steve Jobs and Steve Wozniak in Los Altos, California, Apple has consistently delivered cutting-edge products and exceptional financial performance. I chose to analyze Apple due to its industry leadership, consistent innovation, and strong historical returns.

Liquidity:

Working Capital, Current Ratio, Acid-Test Ratio

Working Capital = $143,566 - 145,308 = (1,742)$ *parentheses denote negative value

Current Ratio = $143,566 / 145,308 = 0.9880$

Acid-Test Ratio = $(29,965 + 29,508) / 145,308 = 0.4093$

Overall Liquidity

Based on the analysis above, Apple [AAPL] currently holds **negative working capital**, with current liabilities (\$145,308M) exceeding current assets (\$143,566M). This results in a current ratio of 0.99, below the technology industry average of approximately 1.5. This ratio implies Apple could have trouble meeting their short-term obligations, although the operating nature of Apple, and their continued success in leading the tech industry should not provide significant alarm (Current Ratio of 1.6 in Q4 2019). Although Apple operates with negative working capital, partly due to component costs and semiconductor supply constraints, the demand for computing products in the modern world continues to rise. Even operating with negative working capital, the stock price of Apple has risen 288.72% over the past 5 years. While these ratios may initially suggest liquidity risk, Apple's ability to efficiently manage inventory, secure favorable vendor terms, and rapidly generate cash from operations minimizes near-term concern. Historically, Apple has used negative working capital as a strategic advantage (Forbes, 2021).

Working Capital and Current Ratio

The working capital and current ratio are related because they both use current assets and current liabilities in the calculations. Working Capital = Current Assets – Current Liabilities, whereas Current Ratio = Current Assets / Current Liabilities. Based on these formulas you would typically expect firms and companies with high working capital to have high current ratios because their current assets would significantly outnumber their current liabilities.

Profitability:

Return on Investment Trend

*Net Income = \$96,995 [2023]

\$99,803 [2022]

\$94,680 [2021]

*Avg. Total Assets = $(352,583[2023] + 352,755[2022]) / 2 = 352,669 [2023]$

$= (352,755 + 351,002[2021]) / 2 = 351,878.5 [2022]$

$= (351,002 + 323,888[2020]) / 2 = 337,445 [2021]$

2023 ROI = $96,995 / 352,669 = 0.2750 = 27.50\%$

2022 ROI = $99,803 / 351,878.5 = 0.2836 = \mathbf{28.36\%}$

2021 ROI = $94,680 / 337,445 = 0.2806 = \mathbf{28.06\%}$

In the previous 3 years Apple ROI has decreased by 0.56%, staying relatively stable throughout this period. These numbers support the fact that Apple has been getting large returns on investment for the past 3 years. Apple's ROI consistently exceeds the S&P 500 average of ~10.5%, reinforcing its superior capital efficiency. These ROI figures demonstrate that Apple's net returns consistently exceed capital costs, underscoring efficient asset utilization.

Return on Equity Trend

**Avg Total SE = 56,409 [2023]
= 56,881 [2022]
= 64,214.5 [2021]*

2023 ROE = $96,995 / 56,409 = 1.7195 = \mathbf{171.95\%}$

2022 ROE = $99,803 / 56,881 = 1.7546 = \mathbf{175.46\%}$

2021 ROE = $94,680 / 64,214.5 = 1.4744 = \mathbf{147.44\%}$

This trend shows that Apple consistently has had large returns on equity, increasing by over 25 percentage points from 2021 to 2022. Apple's ROE illustrates exceptionally efficient use of equity to generate net income. These elevated values reflect both strong profitability and Apple's capital structure, which includes significant use of debt and share buybacks that reduce total equity.

P/E Ratio Trend and Analysis

**Stock Price as of
October 7, 2024 = \$221.80
October 7, 2023 = \$178.99
October 7, 2022 = \$140.09
October 7, 2021 = \$143.29*

**all EPS - Diluted
EPS 2023 = \$6.13
EPS 2022 = \$6.11
EPS 2021 = \$5.61*

P/E Ratio 2023 = **29.1990**

P/E Ratio 2022 = **22.9280**

P/E Ratio 2021 = **25.5419**

As of October 11, 2024, Apple's current P/E Ratio is 34.53, showing significant increase since 2022. While the broader market P/E average typically falls within the 20–25 range Apple's current P/E ratio falls outside of this range. When comparing this to Microsoft's P/E ratio of 35.1 (with a 2022 EPS of \$9.65), they are both outside of this range. Many

leading technology firms trade at elevated P/E ratios due to high growth expectations. A P/E of 29.2 implies investors are willing to pay \$29.20 for each \$1 of Apple's earnings, higher than the historical market average, but consistent with premium valuations for tech leaders.

Dividend Payout Ratio Trend

**Dividends Declared Per Share*

2023 = \$0.94

2022 = \$0.90

2021 = \$0.85

Dividend Payout Ratio

2023 = 0.1533 = **15.33%**

2022 = 0.1473 = **14.73%**

2021 = 0.1515 = **15.15%**

This Dividend Payout Ratio could be considered low by a Dividend focused investor. Due to Apple being a tech company, with new products being tested and released yearly, that would add some rationale behind having a lower DPR. Having to reinvest their net income, holding more retained earnings with the intention of putting it toward the innovation of new products. In comparison, Microsoft's dividend payout ratio is approximately 24.1%, which may appeal more to income-oriented investors.

Overall Profitability, Strengths & Weaknesses

Return on Equity in comparison to Return on Investment would show a strength of Apple; the numbers showing they are extremely effective at turning equity into net income. The high ROE would also correlate to their low Working Capital, using their debt to help generate net income. Having a lower DPR than their industry competitor Microsoft, is a company weakness for dividend focused investors, they also have a significantly lower Dividend yield, at 0.44% (compared to Microsoft 0.80%). Both are lower than the S&P average dividend yield above 1%; I believe investors would like to see the Apple dividend yield get closer towards that 1% mark. With ROI more than double the S&P 500 average, Apple presents an attractive opportunity for investors seeking strong capital efficiency. **Apple shows itself to be extremely profitable, and the historical performance of the company has shown to agree.**

Solvency:

Debt Ratio on September 30, 2023

Debt ratio = $290,437 / 352,583 = 0.8237 = 82.37\%$

The high debt ratio above shows that Apple uses a significant amount of debt financing. This does fall in the industry range of where other competitive firms would also be operating.

The large gap between Apple's ROE and ROI reflects the company's use of **financial leverage**. While leverage amplifies returns on equity, it also introduces additional risk. Apple has demonstrated strong performance in both ROE and ROI, consistently generating substantial returns on equity and total assets. The high percentage difference shows **Apple would be in a position of high financial leverage**, this could both amplify returns and risks for potential investors.

Overall assessment:

- I believe a \$10,000 investment in Apple common stock would be a financially sound investment as a potential investor.
- **High ROI**, averaging over 27% for three consecutive years, more than double the S&P 500 average.
- **Exceptional ROE**, consistently >100%, driven by profitability and aggressive share buybacks.
- **Low Dividend payout**, a drawback for income investors, however, reinvestment supports long-term growth.
- **High Leverage** amplifies returns but increases risk exposure.
- **Strong Historical Performance**, a proven track record of innovation and resilience in global markets.

Based on the metrics above, a \$10,000 investment in Apple stock as of October 2024 appears financially attractive under stable market conditions, though investors should weigh the lower dividend yield and higher leverage risk.

References:

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