Good essay on apple analysis

Business, Company

ASSIGN BUSTER

Apple Company was founded in 1976 by Steve jobs, Steve Wozniak and Ronald Wayne with the objective of developing and selling personal computers. It was later to be named Apple Inc. in 2007 in order to mirror its shift towards consumer electronics. The company has well-established brands of equipment in the market that involves iPod media player, iPhone smartphone, and the iPad tablet computer. The company has continued to develop and come up with innovations hence ahead of its competitors such as Samsung.

The company has been involved in several industries such as computer software, consumer electronics, and digital distribution. Its geographical coverage in terms of market covers the whole world with 14 retail stores and 39 online stores. Its headquarters is in the United States, and the current CEO is Tim Cook. Its revenues stand at $170, 910 billion with the profits as $37037 billion. The company has a total of 80300 employees and its main competitors include Samsung, amazon, Microsoft Corporation, Lenovo group limited among others.

SWOT and PESTLE analysis are used to evaluate a company on the basis of political, economic, social, technological, legal and environmental factors. The strengths of the company lie in its marketing and advertising capabilities. The company's annual budget for adverting is in the excess of $1billion though it's not the largest budget as compared to its competitors. In addition, the company has strong and extensive channels of distribution in the United States that ensures that its product reach a wide variety of consumers.

Its opportunities lie in the acquisition of valuable companies, mobile payments and gadgets that can be worn. On the weaknesses side, the company lacks breadth in terms of commodities and offerings at different price points. Though its distribution channels in the United States are strong, its other distribution networks are weak such as in china and India. There is also over dependency of two commodities, which is iPhone and iPad to drive its sales. If the sales of the two products were to be affected, then the company would experience a slump in its revenues.

Threat is ever present to the company from its competitors and a strong US dollar. In addition, the company is threatened by many lawsuits of infringement of rights such as Nokia and Samsung in the development of the operating systems and other applications.

Apple sells its products internationally with half of its sales coming from other countries other than America. Since the company sells its products to other countries such as china, Ireland among others, the bad political relations between the US and the other countries impacts on the company's outcome negatively.

On the economic front, inflation, currency, and recession are important indicators and determinants of Apple performance. Most of the company's products are luxury goods and changes in the currency values together with inflation impacts the company's supply and demand for its products. However, the effects of currency fluctuations are minimized in through hedging such as purchase of other foreign currencies.

The social setups in many cultures boost the sales of Apple products. This is because, possession of the technological products are seen as a status symbol in many societies. The electronic gadgets have also eased access to information and have several applications that are influential on individuals' further increasing the sale of Apple products.

Technological factors are an essential feature that Apple has had to review overtime. This is because it has a short term life, and Apple has to keep on innovating their products to stay ahead of its competitors. The company has, therefore, a lot of funds in the research and development field and thus able to maintain its market dominance.

The legal factors have also played their part in Apple operations where the company has been in several legal fronts. One such situation is the Nokia case where Apple was sued in 2009 f0or infringing on Nokia's rights relating to wireless technology. The company has also been involved in other legal cases such as with Samsung.

Environmental factors require that companies report the carbon footprint and also find ways to reduce it. Apple has not been left behind in this and followed rules on environment conversation. This involves proper disposal of electronic equipment at the end of its useful life.

Ratios

DuPont identity

ROE= Net Margin × Asset Turnover × (Asset to Equity Ratio)

Net Margin= EATSales= 39510000/182795000= 0. 022

The net profit margin is a profitability ratio that enables comparison between firms in the same industry. It is calculated as the net profit divided by the sales revenue. It measures the proportion of profit that is left over after all the expenses have been paid. If the net profit margin is higher for the company than its peers in the industry, it means that the company is performing well.

Asset Turnover= SalesTotal Assets= 182795000231839000= 0. 79

The assets turnover ratio is a measure of efficiency that assist in the measurement or the ability of assets to generate sales. In a nutshell, the ratio measures the ability of the company to generate revenues through its assets. For instance, if the ratio is 0. 4, it indicates that the company generates 0. 4 cents worth of dollars for every $1 asset it uses. Thus, in this case of Apple, the ratio is 0. 79, indicating that the company can generate around 80 cents of dollars for every $1 worth of assets. A high ratio also indicates that the company is efficient in its utilization of sales. A low ratio, on the other hand, indicates inefficiency.

Asset to Equity Ratio= Total AssetsEquity= 231839000111547000= 2. 08

This is a financial ratio that compares the company's assets with its equity. As such, the ratio indicates the proportion of equity that is contributed by assets. A high ratio is favorable since it indicates that the company is in a position to finance its operations through internal resources. In this case of apple, the ratio is 2. 08, which is favorable, allowing the company to finance its activities from the internal resources at two times the activities.

ROE= 0. 022 × 0. 79 × 2. 08= 0. 036

The ROE as determined by the DuPont system aids a company in identifying its strengths or weaknesses. A declining or low ROE as determined by the system is an indication that there are weaknesses with the company. The ROE of Apple is very low at 0. 036, showing that Apple has weaknesses that need to be addressed.

Current ratio= current AssetsCurrent Liabilities= 6853100063448000= 1. 08

It is also known as the working capital ratio and is a measure of liquidity. It indicates the proportion of current assets to its current liabilities. As such, it shows the ability of the firm to cover or meet its short-term liabilities through current assets. A ratio of 2 is recommended since it indicates that the firm can offset its liabilities twice using its current assets. Though the ratio of 1 may also indicate the ability of the firm to offset its short-term obligations, it does not cover the unforeseen contingencies and thus puts a firm in a risky situation.

Acid-Test Ratio= Current Assets-InventoriesCurrent Liabilities= 68531000-211100063448000= 1. 05

The acid test ratio shows the ratio of cash together with other liquid resources in a firm relative to its current assets. It, therefore, measures the ability of a firm to offset its short-term obligations through its liquid resources. As such, the ratio of 0. 6 indicates that the firm can offset its current liabilities instantaneously. If a business environment is uncertain, companies seek to maintain high acid test ratios, and where the environment involves steady cash flows, firms maintain low ratios. If the ratio is high as compared to the industry's, it may suggest that a firm is investing a lot of resources towards the working capital at the expense of investing it in other profitable areas. On the other hand, a lower ratio than the industry's mark may indicate the position where the company is risking too much by not maintaining an appropriate buffer of stocks of liquid resources.

Inventory Holding Period= 365 dyasInventory Turnover= 36586. 59= 4.

22days

The ratio indicates the number of days it takes the business to dispatch its stocks or how long the firm keeps inventory before selling. A high ratio indicates that the firm holds inventory for as a long period before selling that may show difficulties by the firm to sell or low demand for t product. A lower ratio, on the other hand, shows the ability of the firm to dispatch its stocks quickly. As such, the ratio shown by apple stands at 4. 22 showing that Apple takes only four days to sell its products. In addition, a high ratio of holding inventory exposes the firm to high risk of obsolescence where its accumulated products will lose value in a soft market.

Inventory Turnover= SalesInventories= 1827950002111000= 86. 59

Inventory turnover is an efficiency ratio that shows the number of times inventory is turned or converted into sales. A high ratio shows efficiency since it indicates that the company did not waste resources in buying stocks that would take a long time to sell. In this case of Apple, the ratio is 86. 59, which indicates a high efficiency.

Average Collection Period= 365daysReceivables Turnover= 3655. 8= 62. 9days

Receivables Turnover= SalesAccount Receivables= 18279500031537000= 5. 8

The average collection period shows how long it takes a firm to collect its debt from its debtors. Since firms are uncertain about their debtors, maintaining a low ratio is seen as optimal. However, the ratio also depends on the industry's ratio, so that effective analysis is done on the position of a firm.

Debt Ratio= Total DebtTotal Assets= 28987000231839000= 0. 125

The debt equity ratio shows the proportion of the company's financing that is contributed by creditors and investors. A high ratio shows a high credit financing such as through bank loans while a low ratio indicates a low credit financing. The ratio of Apple stands at 0. 125 indicating a low credit financing by the company.

Free Cash Flow= Operating Cash flow-Capital Expenditures= 59713000-9571000= 50142000

Free cash flow indicates the cash that a company generates after setting aside an amount of money required to maintain or expand its asset base. If the amount is high, it means that the company has cash to enhance the shareholders' value. The cash, therefore, assists the company in developing new products, make acquisitions among others. As such, a high value indicated by Apple show that the firm has enough cash to enhance the value of its shareholders.

Market Value Added

MVA= # of shares of common stock × Market price per share- Stockholders Equity= 23313000×112. 79-111547000= 2517926270

Economic value Added

EVA= EBIT 1-t- Investor Supplied Capital × Cost of money= 534830001-0. 26-111, 547, 000 *0. 1= 28422720

Dividend Yield= Dividend per sharePrice per share= 1. 886. 43= 0. 29

Industry values

The dividend yield for the Apple Company is way above that of the industry that stands at 1. 6% compared to Apples 29%. This is a huge difference between the two values hence recommendable for Apple. In addition, the debt-equity ratio for the electronic industry is 32. 6% compared to Apples 12. 5. Again, the ratio is low relative to the industries, meaning Apple can manage debt well as opposed to its peers in the industry.

However, it is also important to note that Apples current ratio is below the ideal point of 2. This means that, though the company may meet its short-term obligations; it is exposed to the risk of uncertain occurrences. The acid test ratio is favorable to the company since it above one thus the company can meet its short-term obligations through its liquid assets.

The price earnings ratio of Apple is 21. 27 compared to the industry's 33. 9. This ratio is low meaning that the company is performing below its peers in terms price and earnings. This ratio shows what the market is willing to pay for a company's stock as a result of its earnings. Therefore, by Apple being below the industry's mark, it means there are other stocks that are valued highly than its stocks. The P/E ratio shows that Apple's stocks are performing at 62. 7% compared to the industry, reflecting a large gap in the valuation of the firm's stocks as compared to its peers.

Though at some instances the industry's ratios are high as compared to Apple's, the company in many areas performs better than its peers. In addition, it has large funds in form of free cash flows that it can use to enhance the shareholders' value. Such an investment would give shareholders a good value of their money and hence the company provides a good investment opportunity for investors.

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