

Financial analysis of apple inc



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Introduction

The essay provides a financial analysis and comparison of Apple Inc. from the fiscal year 2008 to 2009. The performance assessment bases on the ratio calculated by the data from balance sheet, cash flow statement and income statement of Apple. The essay contains three parts. The first part is history record and position in the market of Apple Inc. The second part is the assessment of Apple's performance and the key drivers for Apple's performance. Finally, the author will provide the conclusion and recommendation for Apple.

History record and position in the market of Apple Inc.

Apple was founded by Stephen Gary Wozniak, Steven Paul Jobs and Ronald Gerald Wayne in California on April 1, 1976 (Linzmayr, Ronald W, 1999). At the early years Apple released many products like personal computer and operating system, but these products were not very successful. After this lacklustre period, Steve Jobs back to Apple and led Apple to renaissance in 1997, since then, Apple got the momentum in the personal computer market. Now, Apple's logo becomes the symbol of innovation and fantastic new technology. In 2009, Apple's brand became one of the most valuable brand of the world which valued as \$15433 million and ranked as 20th (Interbrand, 2009).

Apple encounters many aggressive competitors in both hardware and software market. The key features of these markets are high technology with rapid development and high competition. In the hardware market, Apple focuses on personal computer, MP3 and mobile phone. Several PC

manufacturing and selling company such as IBM, Dell, HP, Acer and Lenovo occupied more than 50% market share. Furthermore, there are many competitors like Sony and Samsung although iPod occupied approximately 80% MP3 market share. Microsoft is the giant in the software market, windows operating system occupied around 85% market share (Yoffle & Slind, 2008). In addition, a serious threat for both iPod and iPhone is free download music and illegal cracked software from internet against iTunes Store.

Assessment of Apple's performance and the key drivers for Apple's performance

1. Overview of Apple's financial performance

The following table shows the net sales by product and the unit sales by product from 2007 to 2009 respectively (in millions).

Net Sales by Product (Apple annual report, 2009)

The table (Apple annual report, 2009) shows total net sales increased 12% from \$32, 479 million to \$36, 537 million. There are two key drivers contribute to this phenomenon:

Firstly, the most noteworthy increase of the net sales was recorded in the period between 2008 and 2009 where the numbers in net sales of iPhone and relate products and services rose dramatically from approximately \$1, 844 million to around \$6, 754 million. The increase in net sales of iPhone is 266%. The release of iPhone 3GS is a important factor for the increase, iPhone 3GS was released in July 19, 2009, which is the third generation of

iPhone, and Apple released support software iPhone 3. 1 in September which enhances the performance and the function of iPhone. In addition, iPhone 3. 1 makes the application organization and syncing music become more and more convenient. Strong demand for the mobile phone in 2009 and the growth of the mobile phone market may contribute to the growth of iPhone handset unit sales and the iPhone accessories sales. The sales of iPhone handset units increased 78% or 9. 1 million during 2009 compared with 2008.

Secondly, the sales of iTunes Store increased dramatically from 2008 to 2009. Interestingly, the increase is a double-digit growth. The increase in the sales of the third part software from the iTunes Store is the key driver for the increase in other music related products and services, and it increased 21% or \$696 million from 2008 to 2009.

There are two factors bring the negative impact on total revenue:

Firstly, net sales of Mac occupied 38% overall net sales which was decreased 3% from 2008 to 2009. Substitute products with lower selling price from competitors are the main reason for the decrease in net sales of Mac. In addition, decrease in net sales of its operating system was 23% from 2008 to 2009.

Secondly, there were 12% and 11% decrease in both net sales of iPod and net sales per iPod units from 2008 to 2009 respectively. Interestingly, the primary factor of this decrease was due to the significant increase in the sales of iPhone, because iPhone is a multifunction product which combines iPod, mobile phone and PDA with a fantastic touch screen, iPhone regards as

the substitution of iPod. The net sales of iPhone and related products and services experienced a dramatic increase which was partially offset by a slight decrease of the net sales of iPod.

Despite the net sales partially offset by some negative factors, the overall trend still increased during 2009 compared with 2008.

2. Profitability

The following table shows the gross margin from 2007 to 2009 (in millions):

Gross margin (Apple annual report, 2009)

Gross profit margin = $\text{Gross profit} / \text{Sales revenue} * 100\%$

The gross margin experienced a slight increase from 34.3% to 36.0% during 2009 compared with 2008. The main reason of this increase is lower price of raw material and other cost which offset the discount of the products, another reason is the increase in sales of its products. For instance, iPhone 3GS was released in July 19. For the sake of expanding the market of iPhone, Apple launched the discount plan for iPhone in Wal-Mart in 2008 (iPhone 3G: Totally new, 2008). Net sales of iPhone and related products and services increased approximately 4910 million from 2008 to 2009. The increase in net sales of iPhone is 266%. The data from the table indicates that the profitability of Apple seems good.

3. Liquidity

The following table shows selected information from 2007 to 2009 (in millions):

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Liquidity and Capital Resources (Apple annual report, 2009)

There was a significant increase in cash, cash equivalents and marketable securities, from \$24, 490 to \$ 33, 992. \$10. 2 billion cash from the operating activities is the main component of this significant increase.

(1) Current ratio

2009

2008

Current ratio

1. 88

2. 29

Current ratio = Current assets / Current liabilities

According to Perter Atrill and Eddie McLaney (2008), usually 2 times or 2: 1 is a normally ratio for most companies, the manufacturing company have a relatively higher ratio than other company. In addition, Perter Atrill and Eddie McLaney (2008) indicate that a relatively higher ratio shows the higher liquidity of the company. The current ratio experienced a decrease during 2009 compared with 2008, from 2. 29 to 1. 88. The liquidity of Apple will decrease, but the current ratio is also around at the ideal ratio 2: 1. That is, the financial condition of Apple seems healthy.

(2) Acid test ratio

2009

2008

Acid test ratio

1. 85

2. 26

Acid test ratio = Current assets (except inventories) / Current liabilities

Perter Atrill and Eddie McLaney (2008) indicate that the ideal acid test ratio is usually around at 1: 1. Acid test ratio declined from 2. 26 to 1. 85 in 2009 compared with 2008, but the ratio still seem relatively high according to Perter Atrill and Eddie McLaney. Relatively high ratio shows the inventories are not enough, but debt paying ability is good in short term because the ratio indicates the company have enough cash or current assets.

Despite the decrease in both current ratio and acid test ratio, Apple has a relatively healthy financial condition and a optimistic financial future.

Conclusion

The financial performance of Apple Inc was well during 2009 compared with 2008. The overall trend of its financial performance experienced an increase from 2008 to 2009. Because of the release of iPhone 3GS in 2009, net sales of iPhone and related products and services increased dramatically which partially offset by a slight decrease of the net sales of iPod. Interestingly, increase in sales of iPhone and its multifunction due to a slight decrease in sales of iPod. Considering the impact of the financial crisis, Apple launched

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the discount plan for iPhone and Mac in 2008 to expand the mobile phone and personal computer market. Although Apple was effected by financial crisis, Apple still has advantage in the market share and profit growth quotas compared with other firms like HP and Dell based on Windows operating system.

Reference

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