

Business analysis part ii

Business



Apple Financial Analysis Apple Inc. as discussed in the previous paper is a California based Technological company that manufactures both hardware and software products. It is one of the most profitable companies in the world. It manufactures a variety of products that range from personal computers, portable digital music players such as the iPods, and mobile communication gadgets such as the iPhones. It also manufactures a variety of software products used for professional and personal use and this include its popular browser called safari, professional video editing software, professional photography software and the latest in the hardware in the market: the iPad (DM, 2006). In order to understand the financial health of any company, it is important to review all the financial documents in the company such documents include the traditional balance sheet, income statements and cash flows. This will tell you whether a company is worth investing into or one that will be failing the near future (Richey & Maddron, 2008). Looking at these documents will help us deduce some very important information that is necessary for any investor. These documents will help us in calculating a number of important ratios that tell us everything we need to know about a company. They also help us in evaluating the trends that exist in a certain company and therefore help us in predicting the future of the company (Richey & Maddron, 2008). Financial analysis of Apple indicates so many things about the company. The vertical financial statements will give us immense information about the financial health of the company. This together with the product sales will give us the relevant information to predict the future. In 2010 apple posted net revenue of \$20. 34 billion and a net quarterly profit of \$4. 31 billion as compared to 2009 where it had posted revenue of 12. 21 billion and a net quarterly profit 2. 53 billion. Dell another

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technology firm posted revenue of \$14.9 billion in 2010 up by eleven percent from \$13.43bn in its fourth quarter results. Apple posted the highest revenues ever during this period and this is attributed to the high number of sales of its Mac's, iPhones and iPads (Apple Press, 2010). Apple's company Gross margin reduced from 41.8 percent in 2009 to 36.9 percent in 2010 (Apple Press, 2009). This is a bad indication as it shows that Apple is incurring a lot of costs in producing its products and services. This high expenditure on production of products is paying off with revenue which is not a bad indicator. Dell on the other hand had a gross margin of 18.7% which was attributed to disciplined pricing, increase in the sale of enterprise products and competitive pricing (Dell, 2011). Comparing the two companies we can conclude that Apple is doing well in the industry and therefore it is wise investing in this company because it means with the money left over it can invest in other projects that will contribute to the increase in revenues for the company. Financial ratios tell us what transpired between a given period and thus help us in assessing the financial health and future prospects of a company (Richey & Maddron, 2008). The Current ratio of Apple is at 1.7 at the moment which is a good indicator for any company (Forbes, 2011). It shows the short term debt paying ability of apple which is above the average, though this ratio has been declining over the years for example comparing to 2007 which stood at 2.7. This constant drop each year could be a sign of deteriorating financial condition of the company. Though it is seen to post high revenue it may not be using resources effectively (Richey & Maddron, 2008). Quick ratio helps us determine how well a company can meet its obligations without having to liquidate or depend heavily on its inventory. Apple's quick ratio stands at 1.5 at the

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moment (Forbes, 2011), which has also been dropping over the years as compared to 2007 when it stood at 2.2 (Richey & Maddron, 2008). This is also a bad indicator showing the dwindling financial situation of a company. Comparing the above two ratios with another rival company such as HP shows a rather higher value. HP's current ratio stands at 1.2 while its quick ratio stands at 0.7 (Forbes, 2011). This shows us that Apple is above average in the industry though the figures are dropping each year which is not a good indicator. Accounts receivable turnover for Apple stands at 11.2 which is good because any value above one month is not a good indicator (Forbes, 2011). The return on equity helps investors in measuring how well assets have been employed by management. Apples return on equity stands at 22.1 percent which is very high in the industry and this is a positive aspect of the company. A look at HP shows its receivable turnover and return on assets at 6.5% and 7.5% respectively (Forbes, 2011). This means apple is doing rather well in the industry as compared to HP. The last ratio that would be significant to an investor is the debt to equity ratio. This shows or is a measure of the amount of assets being provided for each dollar of assets being provided by stockholders. If the value is high (this is different in industries) it means that the company has been aggressively financing its growth with debt. The cost of financing this debt may outweigh the return that the company generates on the debt and this may be too much for a company to handle. This in the long run may lead the company to bankruptcy which leaves shareholders with nothing (Richey & Maddron, 2008). Apple's debt to equity ratio at the moment is 0.00 which means that it does not finance its growth with debts which is a positive aspect for the company (Forbes, 2011). A look at HP's value, it stands at 0.45 at the <https://assignbuster.com/business-analysis-part-ii/>

moment which is good for the computer industry but higher than Apple's (Forbes, 2011). Cash flows help understand how money is flows in the company during a given year and can help us understand whether it is worth investing in it or not. Apple's cash flow has been steady over the time improving each year and is expected to go on like this for the next 10 years. The total cash flow from operating activities in 2010 stood at 18.5 million, investing activities at 13.8 million and financing activities at 1.2 million. In each year there is a change though small but it is quite significant (Yahoo, 2010). It is possible to conclude that Apple is doing well in the computer industry according to the above information from their financial records. It is a company worth investing in because an investor will be guaranteed of good returns. Although there are a few problems as seen from some of the decreasing ratios, there is no cause for alarm as the figures are constant and above average in the industry. This though can be improved by the management if corrective action is taken earlier so as to prevent it from going under. Apple is endowed with the latest technology that is used in designing their products. Apple gets the latest technology before anyone else can get it. This is attributed to the \$60 billion reserve that they use it to acquire virtually anything. Once the company identifies new technology they pay for the construction cost of that factory in exchange for the output production of the given factory for a given period of time (Gobry, 2011). The second technological advantage that they used to have until a week ago was Steve jobs, Apple's former CEO, who had experience in hardware mass production. This gave apple a big advantage over its rivals as it had an exclusive supply chain of advanced technology. The other technological advantage is that they have production equipment that produces products of

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superior design. They have this aluminum machining technology that is exclusive to them making them produce products of unsurpassed strength and lightness (Gobry, 2011). Apple has no rival when it comes to technology. They have the best technology. Toshiba and HP have tried to produce quality products but their technology is still much far behind that of Apple. Apple business strategy is all about design and innovation. It brings with it the best technology in terms of personal computing and mobile communication systems coupled with innovativeness in design and architecture.

Globalization has positively affected Apple in different ways. It has managed to open a number of stores in many different cities of the world thus bringing its technology with it to other countries (Richey & Maddron, 2008). This expansion has greatly contributed to the growth in revenue and the economy of those countries. Its innovative nature and designs have incorporated the many languages of the world in its products thus enabling people to use their products with ease as compared to their rivals (Prakash & Hart, 2000). The ease with which people can access their websites and order for products has also contributed a lot to its increased revenues internationally. Therefore from the few examples above globalization has worked to the advantage off apple as it complements its business strategy and thus bringing in more revenue to the company (Dedrick & Kraemer, 2008). Benchmarking analysis refers to the process of continual improvement through systematic analysis and action to improve production efficiency and profitability. The analysis involves a series of questions ranging from what is the standard level of performance, who is the best in the industry, how do I compare with the best company in the industry and how do I compare to others in the industry (Fleisher & Bensoussan, 2007).

Apple is a company that is admired across the computer industry not only for its ability to post the highest revenues but also for its technological capability and innovativeness. It sets the standards for others in the market. Its best practices are being adopted by their competitors in the industry simply because they have worked well for them for a long time. The only company that comes close to apple in terms of design and innovation is Toshiba which has tried to come up with products that can be matched to those of Apple. Though they have tried they are still dragging behind in terms of new technology that Apple has access to before them (Gobry, 2011). Apples operations and processes yield the best products in the market. Its marketing strategy is the best in the industry. It has also been able to venture into other countries and has got a large percentage of the economy in such countries. This has given it an edge over everyone else with rival companies adopting some of their processes and techniques (Richey & Maddron, 2008). This means they are already there and need to continue working harder to maintain the top position. For example dell has been trying to fight hard to compete with apple and thus has been forced to adopt some of apple's business operations and processes but is still far from coming closer to Apple. Apples products are classy and trendy. The names iPhone and iTunes have become street names in America. People own the brand because of the unique features and capabilities they come with. They have the resources to manufacture products that suit people's needs and taste and therefore they have won the hearts and minds of people. Apart from the few faulty ones that they have recalled the company is doing well in terms of products and this gives them an added advantage in the industry (DM, 2006). References Apple Press. (2009, October 19). Apple reports fourth

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