

Apple performance evaluation

Finance



Apple Performance Evaluation Apple Performance Evaluation Introduction For the purpose of this assignment, I have chosen Apple Inc, which ranks 17 amongst the Fortune 500 companies. Apple is one of the well recognised IT brands in the world. The basic activities of the company include manufacturing and marketing of mobile communication, media devices, PCs and digital music players together with a variety of software and services (Apple Inc, 2012).

Ratios Interpretation Profitability Profitability has improved in 2012 as compared to previous two years. The net profit ratio has reached 26.67% in comparison to 23.95% in 2011 and 21.48 in 2010. Similar is the situation with the gross profit ratio which has increased by 4.49% since 2010. The management has made efforts in controlling the cost as well as the company is able to achieve economies of scale due to higher levels of production. Return on capital employed has also improved by 3.07% and 8.7% as compared to 2011 and 2010 respectively, due to the increase in operating profit. Further, earnings per share have risen in line with the increased net profit. The current EPS is \$ 27.68 as compared to \$15.41 in 2011 and \$9.08 in 2010.

Efficiency In all three years Apple has a very high inventory turnover. It reached 111.06 times in 2012 from 83.03 times in 2011 and 62.06 times in 2010. This extraordinary turnover is due to the reason that Apple is holding minimum amount of inventories at year end and there is a much higher cost of sales in comparison. Trade receivable collection days have increased to 25.49 days from 18.1 days in 2011. Currently, the receivable collection period is higher than last year, but still it is better than 2010 in which its collection period reached almost 31 days. The company is trying to attract more customers through extended credit terms. It is good to see that the trade payable payment period has

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decreased to 82.89 days from 110.91 days in 2010. It is good to have higher payable days because it represents a free source of finance. Although it takes time for Apple to pay for the credit purchases, the creditors have confidence that their debt will be paid due to a premium liquidity position of the company. There are no such changes in the total assets turnover. It kept changing between 0.87 and 0.93 times in all three years. Liquidity Apple has an ideal liquidity situation from 2010 to 2012. The current ratio has declined from 2.01 in 2010 to 1.5 in 2012 due to a heavy increase in trade payables as compared to both previous years. The acid test ratio has also declined to some extent. It reached 1.48 in 2012 from 1.96 in 2010 for the same reason. It is important to note that there is no major difference in the current ratio and quick ratio. It is because of the fact that Apple is holding a very low quantity of inventories and a significant portion of the current assets is liquid resources.

Investors Ratios From the point of view of dividends, the company is not attractive for investors. In 2010 and 2011, there was no dividend announced. In 2012, a cash dividend of \$2.65 per share was paid. Due to this low dividend per share, the dividend cover ratio is very high because the EPS is significantly higher than dividend per share. Dividend yield is also lower than 1% because the share prices are very high. The company has distributed only 6% of the total earning amongst the investors as indicated by the dividend payout ratio. The only attraction of shareholders in Apple is the amount of capital gain on their stock. Share price on September 25, 2010 was \$292.3, which reached \$404.3 in September 2011, and further at the end of 2012, the price reached a high level of \$667. There is an extraordinary increase in prices during this period in anticipation of further increase in stock value because the company's

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earnings are growing rapidly. Other Factors Highlighting Performance There is an overall 45% growth in sales revenue in 2012 as compared to 2011. The growth rate in 2011 was 66%. The major reason for the increase in sales is the demand for iPhone and iPad. The company managed to sell 73% and 81% additional units of iPhone in 2012 and 2011 respectively. This increase is due to extended demand for iPhone 4S which was launched in the first quarter of 2012, and iPhone 5. In addition, there is a significant increase in iPad demand due to the introduction of iPad and iPad 2, which enabled Apple to sale 80% additional units of it than last year. Increase in the demand for iPad and related products in 2011 was recorded to be 311%. In 2012, the company opened 33 more retail stores. 28 of these newly operated stores are based outside USA. The average revenue increased by 19% per store during 2012-2011. Apple is now operating with total 390 retail stores. The financing for this expansion is wholly equity based and there is no debt involved. The company is spending a significant amount on the research and development. R&D expenses in 2012 are \$3, 381 million as compared to \$2, 429 million in 2011, representing a 2% increase. Apple spent \$1, 333 million for these expenses in 2010. This heavy expenditure is showing the direction of the company to be successful by being innovative. The liquidity position strengthened with the increase in cash and other liquid resources. The company at the end of 2012 holds \$121, 251 million cash and other market securities as compared to \$81, 570 million in 2011 and \$51, 011 million in 2010. Additional working capital was introduced in 2012, keeping in view the future requirement. There is a healthy operating cash flow of \$50, 856 million from operations in 2012 and \$37, 592 in 2011, making Apple an attractive company for the investors. Conclusion The overall performance of <https://assignbuster.com/apple-performance-evaluation/>

the company since 2010 is commendable. Apple has managed sustainable growth in the business with the introduction of new products and extended retail stores. There is an attractive situation for the investors because the share prices have risen sharply. The chances of capital gain on investments are reasonably high. The liquidity position is strong. The company is also heavily investing in the research and development of new products. This will help Apple to manage consistent growth in the future and beat the competition with the continuous introduction of advanced technology products. Keeping in view the above mentioned highlights of the extraordinary performance of this growing company, it can be argued that investment in Apple would be a good move for a safe, healthy and prompt return. Moreover, in the light of the recent market report, Apple, Inc. is under great pressure due to intense competition by companies including Blackberry and Samsung, which could displace the company from the top position in the smart phone market. The sad loss of Steve Jobs has somewhat slowed the innovation process in the company and consumers are hoping that the company does make bold moves in the short term to tackle the competitive forces. References Apple Inc. (2012). Financial Statement.

California, USA: Apple Inc. Appendix Ratio Computation Apple Inc Ratios

Basis	2012	2011	2010	Profitability ratios	Net profit ratio	Net profit/ sales*100
	26.67%	23.95%	21.48%	Gross profit margin	Gross profit/revenue*100	43.87%
	40.48%	39.38%		Return on capital employed	Operating profit/Capital employed*100	47.17%
	44.10%	38.47%		Efficiency Ratios	Inventory Turnover (Times)	Revenue/inventory
	111.06	83.03	62.06	Trade receivable collection period (Days)	Receivable/revenue*365	25.49
	18.10	30.83		Trade payable payment period	Trade payables/Cost of sales*365	87.98
	82.89	110.				

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91 Total assets turnover (Times) Revenue/total assets 0.89 0.93 0.87

Liquidity ratios Current ratio (Times) Current Assets/Current Liabilities 1.50

1.61 2.01 Acid test ratio (Times) Quick Assets/Current Liabilities 1.48 1.58

1.96 Investment ratios: Dividend cover (Times) EPS/DPS 16.85 - - Dividend

yield DPS/Share price 0.0040 - - Dividend payout ratio DPS/EPS 0.06 - -