FINANCIAL CASE STUDY

APPLE INC.

Amir Patel

Business 101

Professor Finnin

16 October 2014

Apple Inc., an American multinational corporation with its headquarters located in Cupertino, California was founded on April 1, 1976 and incorporated as Apple Computer Inc. on January 3, 1977 has transformed the technology field by becoming the second – largest information technology company in the world. On top of that, Apple is also recognized as the world's third largest mobile phone maker. Apple Inc. is best known for its various products including its OS X operating computers and laptops, the iPhone smart phone, the iPod music player, and the iPad tablet computer. In addition to such products, Apple Inc. has also become very well known for its variety of software's such as iTunes and the Creativity and Production suites including iLife and iWork. Apple Inc. has become a leading competitor in the technologies field due to their innovative and simplistic designs, which allow users to utilize top of the line features in an easier fashion.

Part 1

Apple Inc.					
(In millions)					
Financial Data	**2013**	**2012**	**% change**	**Actual Change**	**Formula Derivation**
Sales	170910	156608	8.37%	14302	(170910 - 156608) / 170910
Cost of Sales	106606	87746	17.69%	18860	(106606 - 87746) / 106606
Gross Profit	64304	68662	-6.78%	-4358	(64304 - 68662) / 64304
Net Income(loss)	37037	41733	-12.68%	-4696	(37037 - 41733) / 37037
Inventory	1764	791	55.16%	973	(1764 - 791) / 1764
Cash	14259	10746	24.64%	3513	(14259 - 10746) / 14259
Total Current Assets	73286	57653	21.33%	15633	(73286 - 57653) / 73286
Long Term Debt	16960	0	100%	16960	(16960 - 0) / 16960
Total Equity	123549	118210	4.32%	5339	(123549 - 118210) / 123549
Total Assets	207000	176064	14.94%	30936	(207000 - 176064) / 207000

Observations

Sales

An increase in sales from 2012 to 2013 may have occurred from the release of various new products by the company. Increasing sales of the iPhone among versions 4, 4s, 5, 5c, and 5s played a large role in these sales as well as improving on the company's name with innovative technological features. The iPad mini and 4th Generation iPad were introduced containing a higher resolution and improved specifications which attracted more buyers to purchase the products or upgrade their existing iPad.

Cost of Sales

Apple's increase in Cost of Sales should not be a large shock to the public. While looking at the percentage of increase between the previous year and 2013, it seems to have risen by a large amount, but while looking back at the products which were introduced, it seems appropriate. With an increase in specifications and new products, an increase in cost would also make sense.

Gross Profit and Net Income

Between a loss of 6.76% in gross profit and 12.68% in net income, Apple took a large hit. While 2013 may not have shown a large return, they were still successful in the year. Rather than making money, they were able to introduce a line of products which were beyond innovative, creating much more popularity for the products. With that being said, an increase in popularity among the company can aid in increasing sales for years to come by even more.

Inventory

The increase in inventory can be correlated with the number of sales made by the company. With such a high demand, it is shown that they are gaining many more buyers and attracting many more potential customers. They may also be preparing for assumed sales based on their track record throughout the year.

Long Term Debt

With a large turn in debt present in 2013 compared to 2012, it can be said that Apple began using large amounts of borrowed funds for that year. By doing such, the debt to equity ratio would increase, showing that more money is coming from creditors/investors.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 28, 2013	September 29, 2012	September 24, 2011
Net sales	$170,910	$156,508	$108,249
Cost of sales	106,606	87,846	64,431
Gross margin	64,304	68,662	43,818
Operating expenses:			
Research and development	4,475	3,381	2,429
Selling, general and administrative	10,830	10,040	7,599
Total operating expenses	15,305	13,421	10,028
Operating income	48,999	55,241	33,790
Other income/(expense), net	1,156	522	415
Income before provision for income taxes	50,155	55,763	34,205
Provision for income taxes	13,118	14,030	8,283
Net income	$ 37,037	$ 41,733	$ 25,922
Earnings per share:			
Basic	$ 40.03	$ 44.64	$ 28.05
Diluted	$ 39.75	$ 44.15	$ 27.68
Shares used in computing earnings per share:			
Basic	925,331	934,818	924,258
Diluted	931,662	945,355	936,645
Cash dividends declared per common share	$ 11.40	$ 2.65	$ 0.00

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Years ended		
	September 28, 2013	September 29, 2012	September 24, 2011
Net income	$37,037	$41,733	$25,922
Other comprehensive income/(loss):			
Change in foreign currency translation, net of tax effects of $35, $13 and $18, respectively	(112)	(15)	(12)
Change in unrecognized gains/losses on derivative instruments:			
Change in fair value of derivatives, net of tax benefit/(expense) of $(351), $73 and $(50), respectively	522	(131)	92
Adjustment for net losses/(gains) realized and included in net income, net of tax expense/(benefit) of $255, $220 and $(250), respectively	(458)	(399)	450
Total change in unrecognized gains/losses on derivative instruments, net of tax	64	(530)	542
Change in unrealized gains/losses on marketable securities:			
Change in fair value of marketable securities, net of tax benefit/(expense) of $458, $(421) and $17, respectively	(791)	715	29
Adjustment for net losses/(gains) realized and included in net income, net of tax expense/(benefit) of $82, $68 and $(40), respectively	(131)	(114)	(70)
Total change in unrealized gains/losses on marketable securities, net of tax	(922)	601	(41)
Total other comprehensive income/(loss)	(970)	56	489
Total comprehensive income	$36,067	$41,789	$26,411

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

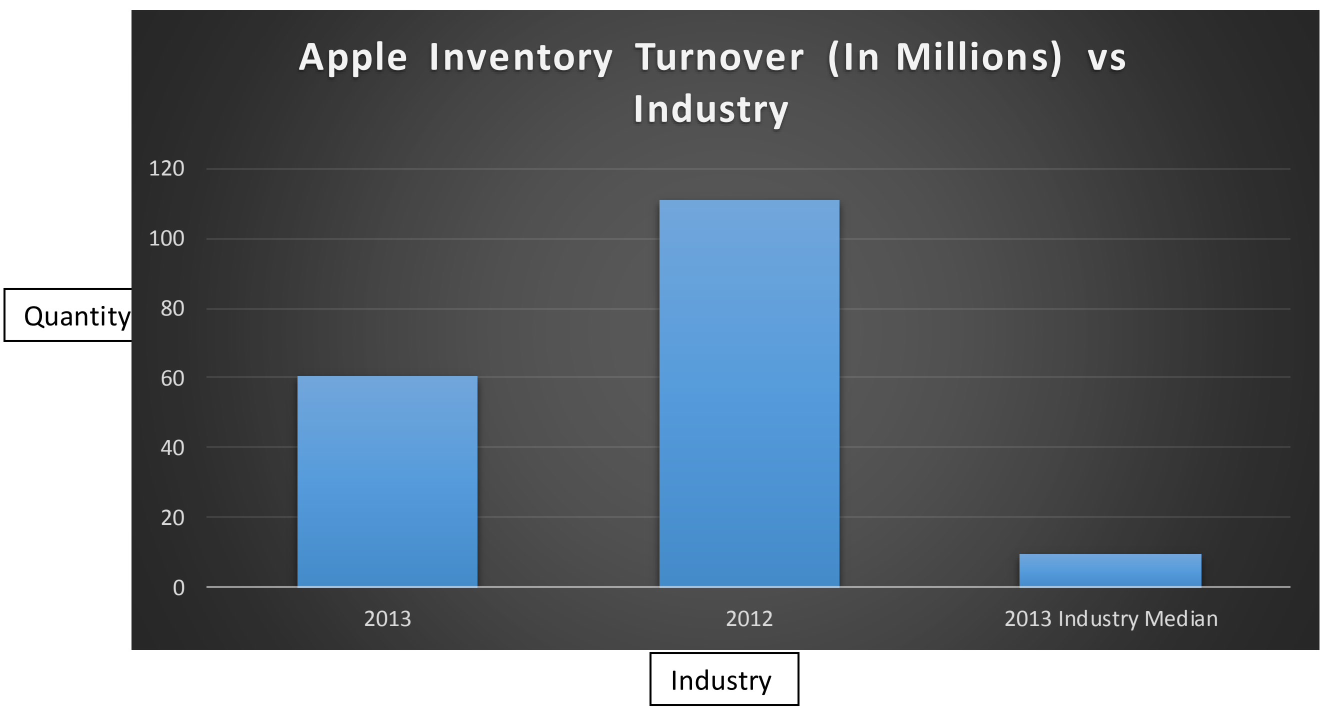
(In millions, except number of shares which are reflected in thousands)

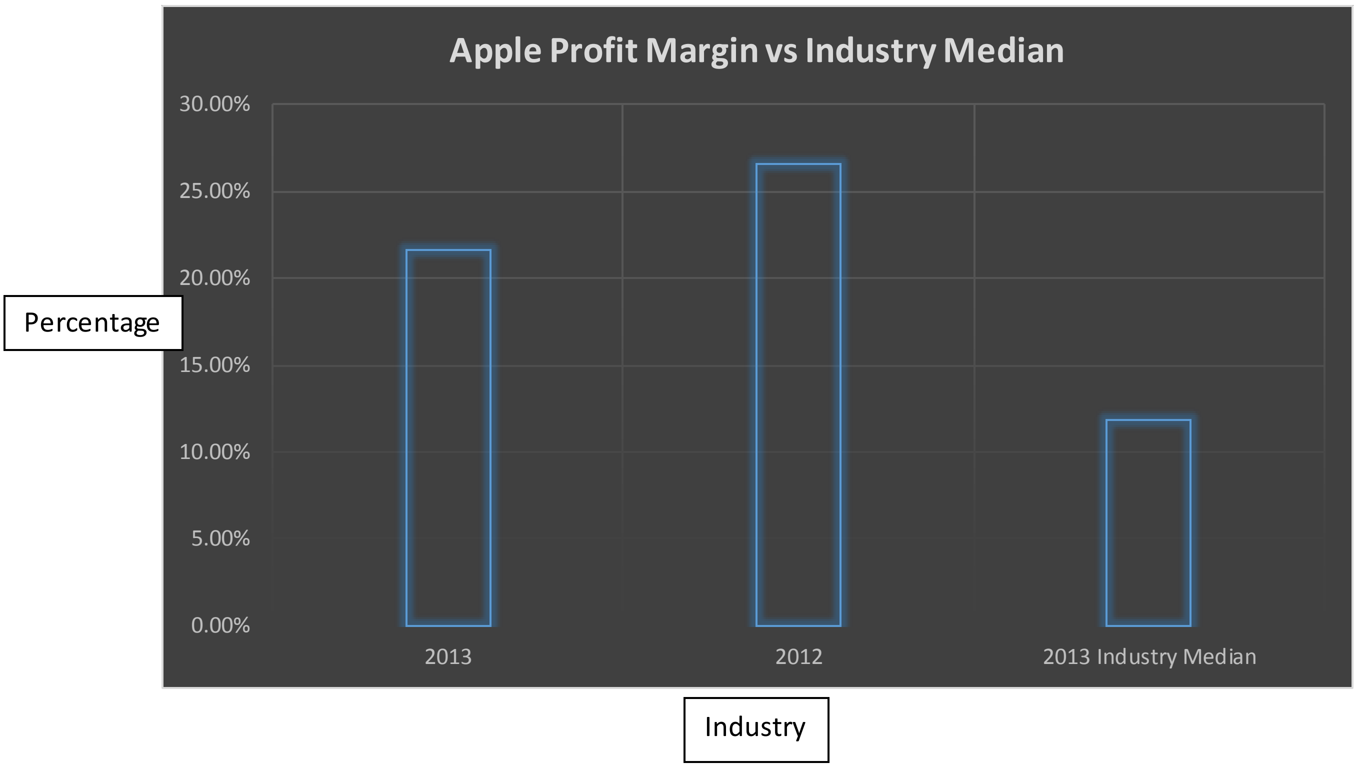
	September 28, 2013	September 29, 2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 14,259	$ 10,746
Short-term marketable securities	26,287	18,383
Accounts receivable, less allowances of $99 and $98, respectively	13,102	10,930
Inventories	1,764	791
Deferred tax assets	3,453	2,583
Vendor non-trade receivables	7,539	7,762
Other current assets	6,882	6,458
Total current assets	73,286	57,653
Long-term marketable securities	106,215	92,122
Property, plant and equipment, net	16,597	15,452
Goodwill	1,577	1,135
Acquired intangible assets, net	4,179	4,224
Other assets	5,146	5,478
Total assets	$207,000	$176,064
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 22,367	$ 21,175
Accrued expenses	13,856	11,414
Deferred revenue	7,435	5,953
Total current liabilities	43,658	38,542
Deferred revenue – non-current	2,625	2,648
Long-term debt	16,960	0
Other non-current liabilities	20,208	16,664
Total liabilities	83,451	57,854
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 1,800,000 shares authorized; 899,213 and 939,208 shares issued and outstanding, respectively	19,764	16,422
Retained earnings	104,256	101,289
Accumulated other comprehensive income/(loss)	(471)	499
Total shareholders' equity	123,549	118,210
Total liabilities and shareholders' equity	$207,000	$176,064

See accompanying Notes to Consolidated Financial Statements.

Part 2

Ratio	Formula	Computation	2013		2012	2013 Industry Median
Current Ratio/ Liquidity	Current Assets Current Liabilities	73286/43656	1.68	57653/38542	1.50	1.28
Debt to Equity	Total Liabilities Owner's Equity	83451/123549	0.68	57854/118210	0.49	0.90
Inventory Turnover	Cost of Sales Inventory	106606/1764	60.43	87746/791	110.93	9.34
ROI	Net Income Owner's Equity	37037/123549	29.98%	41733/118210	35.30%	21.07%
Profit Margin	Net Income Sales	37037/170910	21.67%	41733/156608	26.64%	11.79%
Quick Ratio	Cash+Marketable Securities+Acct Recievable Current Liabilities	(14259+26287+13102)/43656	1.23	(10746+18383+92122+10930)/38542	1.04	0.90





Observations

Based on the information given, Apple's data varies from the industry median significantly in certain areas. Being a leading and innovative technologies company, with the introduction of various new products within the past few years, Apple had a noticeable greater profit margin than that of the 2013 industry median. Proof of such can be found in the inventory turnover values from the past two consecutive years. While there was a drop in turnovers from 2012 to 2013 by nearly half, during 2013 Apple had an inventory turnover of over 6 times the amount of the industry average. The reason why there was such a high drop in inventory turnover for the latest of the two years, is because there was also more than double the inventory available during in 2013 than in 2013. Such a large value stems from, once again, the introduction of many innovative and popular products. From the data, some may ask as to why the net income was lower in 2013 even though there was a larger inventory and more products introduced in that year than in the previous year.

Part 3

1) The general meaning to liquidity is how quickly and easily a company can its assets into cash (or cash equivalents). Apple experienced an increase in liquidity over the two-year period growing from 1.5 in 2012 to 1.68 in 2013. With an increase in Apple's liquidity, both the short term and long term goals are benefitted. This allows for Apple to quickly turn its Accounts receivable's (type of short-term goal) into cash as well as use the high rate of liquidity to pay off debts associated with inventory. An increase in cash can also aid in long-term goals such as paying off properties and rent expenses.

2) The profit margin of a company measures the amount of each dollar of sales they actually retain and keep in earnings. Apple experienced a decrease in its profit margin over the two-year period analyzed. This would slow down the company's ability to accomplish its short and long-term goals. In short, Apple is receiving less money per sale than they were in the previous year.

3) In the debt to equity ratio Apple's total debts are being compared to its total equity. This ratio shows the percentage of Apple's financing which is being supplied by creditors and investors. Apple experienced an increase in its debt to equity ratio moving from 0.49 in 2012 to 0.68 in 2013. This shows that Apple is being funded by more creditors and investors rather than using its own assets. While they are still below the industry median of 0.9, it is not in Apple's best interest to continue in increasing this ratio. The performance of Apple will be hurt in the short-term as they will have to recover from this increase in outside financing. Since they are still at a relatively low percentage, Apple does not seem to face any long term consequences just yet, unless they continue on this same track.

4) An increase in Inventory turnover generally would result in an increase in liquidity as there are more sales taking place. For Apple, in 2013 they experienced an increase of more than double their 2012 inventory, as well has almost half the inventory turnover. This major increase in inventory and lack of increased turnover hurt the company more than benefitted.

Apple Inc. has experienced a large turn in events over the two-year span described. With the introduction of many new products, the company also increased its inventory over double-fold. Sales increased among the company but the Cost of Goods Sold also increased by a higher percentage. Thus, showing that Apple may have increased its sales, but also the amount of money which was spent in creating their products. This resulted in a decrease in profit margin, a negative Gross Profit and negative Net Income compared to the data collected from the previous year (2012). While many factors point towards a decrease in performance between 2012 and 2013, when compared to the industry median, Apple is exceeding that of the others in many categories such as Liquidity, ROI, Inventory Turnover and Profit Margin. Also, Apple has a lower debt to equity ratio is lower than the industry median which shows that less borrowed funds are being used. Apple Inc. is full of innovators which are leading the industry in various technologies.

Works Cited

Nickels, William G., James M. McHugh and, Susan M. McHugh. *Understanding Business Tenth edition*. McGraw Hill Education, 2014. Print.

"Profit Margin Definition | Investopedia." *Investopedia*. N.p., n.d. Web. 14 Oct. 2014.

"Debt to Equity Ratio | Formula | Analysis | Example." *My Accounting Course*. N.p., n.d. Web. 14 Oct. 2014.

"Apple - Investor Relations." *Apple - Investor Relations*. N.p., n.d. Web. 14 Oct. 2014.

"AAPL Key Financial Ratios." *NASDAQ.com*. N.p., n.d. Web. 15 Oct. 2014.

"Apple Inc." *Growth, Profitability, and Financial Ratios for (AAPL) from Morningstar.com*. N.p., n.d. Web. 16 Oct. 2014.

"Login - Hoover's." *Login - Hoover's*. N.p., n.d. Web. 16 Oct. 2014.

"AAPL Profile & Executives." *Bloomberg.com*. Bloomberg, n.d. Web. 12 Oct. 2014.