Apple Inc analysis

Name

Institution

1. Introduction (200)

Following the upsurge of globalisation and international business, investments in various industries such as the telecommunication, real estate and tourism industries have provided luxurious opportunities for both individual and corporate investors. In light of this trend, the following report investigates Apple Incorporated as a potential investment option for any willing investor. The report is a critical analysis of the company that focuses on the due diligence of the company, with the aim of finding out whether or not Apple is a good company in which to invest and offer sound recommendations to the investor. In order to achieve this sole goal, the paper firstly offers a brief history of the company and industry, justifying their choices, followed by a financial analysis of the last four financial years. The report later discusses the strengths and weaknesses of Apple Inc. Additionally, the report will use the Porter's five forces to analyses Apple's competitors and the industry at large, so as to determine the position of the company in the next five years. Based on these aspects of the organization, the question whether Apple is a good company into which an investor should venture shall be answered while giving a clear recommendation to the client.

2. Company and industry background

The telecommunication industry has grown at an undeniable pace over the years, partly due to the rise of the information age, and partly due to globalization. While valorous sectors of the economy have also grown with it, the telecommunication sector stands out as the most consistent industry, owing to the rise and growth of multinational companies that trade in the industry. For an avid investor, it would present the golden opportunity for investment, especially if the right company is selected. While the South Korean based Samsung, US based Google, and Apple, US-Based Vodafone and China-based China Mobile are examples of the many companies to pick from for their being global leaders in telecommunication, other considerations must be made. Elements such as the company's current assets, total assets, turnover of cash and inventory, profit margin and rates of return provide a peak into the health of the company, thereby enabling the investor to make the right decision. Based on these considerations, Apple presents the investor with the best investment opportunity, and the following sections justify why this is the case.

Apple Incorporation is a telecommunication and technology company that manufactures, and sells computer-related products and smartphones. Having been founded in 1976 by Steve Jobs and Steve Wozniac, the company has grown to be one of the world's largest producers of smartphones, laptops and computer software, with its revenues second only to Samsung Electronics. Additionally, since 2008, it has been the world's most admired company, whereas since 2013, the company's brand was named the world's most valuable brand, valued at $119 billion. According to the company's annual report, as of 2013, Apple had at least 76,000 employees, revenue of $170 billion and was ranked sixth in Fortune 500. Among oother things, the company is famous for its products such as iTunes, iPhones, iPads, MacBook, OS X, iLife, iWork, and iCloud, among others. As of 2014, the company has more than 400 stores that sell its products, which are distributed across fourteen countries (Apple, 2014).

3. Financial analysis

In regard to the financial standings of the company, Apple is the world's largest publicly traded company as of 2014, with a market capitalization of more than $445 billion, and a growth rate of between 39% and 45%. Reports by Market Watch indicate that Apple's revenue has grown from $65 billion in 2010 to $182.8 billion in 2014, which indicates an average revenue percentage growth of 12.9% per year. Comparatively, the income for the company in 2010 was $25.5 billion whereas the income in 2014 was $70 billion, thus signifying an income growth of 12.7% per year. With a net income of $14 billion and $39.5 billion between 2010 and 2014, Apple's average net profit margin in 12.9% (Apple, 2014).

Comparing Apple's performance to that of other players in the industry, it is easy to note that Apple is strategically positioned to continue dominating the scene. Its closest competitor, Samsung, for example, recorded a gross profit of $100 billion in 2013, up from $41.7 billion in 2009, thus indicating a growth margin of 11.7% per year, which is significantly lower than that recorded by Apple. The net profit for Samsung was $9 billion in 2009 and $29 billion in 2013, indicating a net profit margin of 13.7%, which is slightly more than that of Apple (Marketwatch, 2014).

However, looking at the key financial ratios, for Apple and Samsung as indicated in tables 1 and 2, it becomes clear that Apple has a much better return on equity (ROE) and return on assets (ROA) than does Samsung. Another important aspect to consider is Apple's assets. It is worthy to note that the company registered current assets worth $41 billion in 2010 and 68.5billion in 2014, indicating a 7.9% growth in the five years. Other important ratios for the company are as listed in table 1.

Table 1: Apple profitability ratios

Profitability	2010-09	2011-09	2012-09	2013-09	TTM
Tax Rate %	24.42	24.22	25.16	26.15	26.07
Net Margin %	21.48	23.95	26.67	21.67	21.64
Asset Turnover (Average)	1.06	1.13	1.07	0.89	0.84
Return on Assets %	22.84	27.07	28.54	19.34	18.26
Financial Leverage (Average)	1.57	1.52	1.49	1.68	1.84
Return on Equity %	35.28	41.67	42.84	30.64	31.56
Return on Invested Capital %	35.28	41.67	42.84	26.94	26.38
Interest Coverage	—	—	—	369.79	149.16

Compared to the other participants in the industry, such as Samsung its closest competitor and Nokia, among others, Apple is poised at the most promising position for investment. Compared to Samsung's 1.43 in financial leverage, Apple had 1.84, giving the latter better investment flexibility than any other company in the industry. Moreover, Samsung only had 121 in interest coverage against Apple's 149, thereby showing that Apple was better poised to give the optimum return on investment to its investors than its arch rivals (Marektwatch, 2014).

Table 2 Samsung profitability ratios

Profitability	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Tax Rate %	19.94	16.46	19.96	20.29	20.56	20.46
Net Margin %	7.02	10.22	8.32	11.53	11.32	11.14
Asset Turnover (Average)	1.25	1.25	1.14	1.19	1.16	1.05
Return on Assets %	8.80	12.82	9.47	13.77	13.11	11.67
Financial Leverage (Average)	1.54	1.51	1.53	1.49	1.43	1.41
Return on Equity %	14.13	19.52	14.40	20.80	19.09	16.80
Return on Invested Capital %	12.32	17.89	13.19	18.54	17.59	15.54
Interest Coverage	23.78	34.26	27.64	108.80	121.14	104.27

The only advantage that Samsung and other companies headquartered in China, South Korea, Japan and US seem to have over Apple is corporate tax rates, as US' tax levels are comparatively high. Nevertheless, other factors come into play that dilutes this advantage, such as legal factors, political factors, environmental factors as well as economic factors. By using PESTEL framework, the factors can be analysed at a much keener detail.

4. PESTEL analysis 500

Political Factors

Apple operates in the US, and as such, is affected by the political climate of the region in terms of company's operations and market operations (Reckom, 2007).The US is a democratic government system in which the politics of the land mostly takes place within the parliamentary system. Secondly, Reckom (2007) argues that US has a very stable government, which is an advantage for Apple as it can easily trade within and out of the country. Additionally, Apple enjoys full government support, as does other businesses, which facilitates the legal and other operations of Apple (Burghausen and Fan, 2002).

Economic Factors

According to Waller (2008), inflation and the rates of exchange affect Apple because it reduces the purchasing power of consumers to purchase discretionary goods. Secondly, the region imposes value added tax, excise duty, import and export as well as corporation taxes on all companies operating within it, which reduces the profit margin that Apple can make (Balmer and Gray, 2003). Finally, the competition within the apparel company in the US is stiff, with competitors like Uniqlo, Mango and Hennes & Mauritz (Waller, 2008).

Socio-cultural Factors

Customers are embracing rich cultural roots, which is evidenced in the increased affinity for bright colours and trendy fashion. Consumers are now focused more on quality of products than on prices, which makes it a challenge for Apple to increase its production quality (Balmer and Gray, 2003). In terms of demographics, the US's most populous group is the economically-active credit population aged between 16 and 64 (World Bank, 2014). The region has an uneven age distribution, with the active population forming the biggest portion of the total, as well as a slow growth rate of 0.8% per year (World Bank, 2014).

Technological Factors

Consumers are increasingly turning to online shopping which is facilitated by the rapid increase in modern technological facilities such as fibre-optic and 3G networks (Folpe, 2000). The use of machines to process the products in the earlier stages of production has also facilitated production in Apple, with only the final assembly left for human employees. Finally, faster transport and communication systems have led to globalisation, thereby expanding the market for the apparel industry (Burghausen and Fan, 2002).

Legal Factors

Firstly, consumer law exists in the US, which is meant to protect the rights of the purchaser against exploitation, or unfair treatment, including Sales of Goods Act, The Consumer Credit Act, and The Supply of Goods and Services Act, (Burghausen and Fan, 2002). Similarly, copyright protection laws, and Intellectual property laws exist to protect the companies operating within the region against unfair competition (Rekom, 2007).

5. Weaknesses

Various recommendations can be given in regards to the discussions that have gone on in the preceding sections. Apple's vertical integration strategies, customer's demand for branded smartphone IP and copyright laws as well as diversification are its major strengths. On the other hand, the organisation suffers from weaknesses including high dependence on American market, unbalanced retail chains and poor advisement strategy. Some of the opportunities that Apple might take advantage of include such strategies as the exploitation of new markets, diversification into new segments, and optimised use of existing technology. Nevertheless, the organisation must be wary of its major threats, which include possible failure from standard production, saturation of market, and currency fluctuations (David, 2006).

Apple has implemented a good strategy that has seen it rise to be the world's most profitable company in the industry. However, the company faces various threats such as stiff competition and increasing health awareness, which necessitates its change of strategy. As such, he company's management must consider adopting healthy production practices, especially in its production facilities in different areas around the world, such as China, as well as taking part in environmental conservation and employee satisfaction, among others if it is to retain its position as a global leader in fast foods industry. This is especially important because of the recent concerns that environmentalists, human right activists as well as other non-governmental agencies have raised. Particularly, Apple has been criticized for underpaying its workers as well as operating sweat shops in some of its firms. However, this is a small issue that the organisation might solve and conserve its reputation.

With the competition in the telecommunication industry stiffening, it is also imperative for the company to offer differentiated products, rather than what every company in the industry is offering, which can be achieved by a thorough market research and exploitation of new markets and new products. This can, for example be achieved by introducing new programs, smartphones as well as other entertainment features, as it did by purchasing Beats by Dre franchise. Experts also suggest that the company can profit by introducing monthly bonuses in their sales and marketing, as well as by reducing their product prices which is too high for some consumers (Dahringer and Leihs, 2009).

6. Recommendations

In as much Apple has faced stiff challenges from different quarters, the company has prevailed in the face of adversity and stiff competition. Apple's financials show that the company has been very innovative over the last one decade and should this continue, then its dominance in the telecommunication and technology industry is bound to continue. Moreover, the organisation has shown through its financials that it has got the best investment opportunities for any investor willing to invest their money in a promising company. As a recommendation, therefore, it is imperative that any strategic investor should purchase a significant portion of the organization' shares as this will be of great benefit to them in the short run and in the long run. In fact, for any investor looking to invest, one of the best industries in wish to do that in the current market situation is the telecommunication industry. While Apple is not the only good company to invest in, it presents a mixture of opportunities that qualify it to be the leading investment platform for people. Lastly, the knowledge of telecommunication and technology is not necessary in order for one to invest in Apple, neither is the knowledge of every bit of the company's operation. Rather, it is the knowledge of such crucial factors as discussed in this paper that informs an investor.

References

Apple. (2014) *About* Available at: https://www.apple.com/ (Accessed: 25 February 2014).

Balmer, J.M.T. and Gray, E.R. (2003). 'corporate brands: what are they? What of them?', *European Journal of Marketing*, 37(7), pp. 972-997.

Burghausen, M. and Fan, Y. (2002). 'Corporate branding in the retail sector: a pilot study', *Corporate Communications: An International Journal*, (72), pp. 92-99.

Dahringer M. and Leihs, J. (2009). *International Marketing.*London: Thomson Business Press.

David. W. (2006). 'Effectiveness and efficiency: the role of demand chain management', *The International Journal of Logistics Management*, 17(1), pp. 75-94.

Folpe, J. (2000). 'Zara has a Made-to-Order Plan for Success', *Fortune*, September, 4 p. 34.

Market watch (2014) Annual Financials for Apple Inc. http://www.marketwatch.com/investing/stock/aapl/financials (Accessed: 25 February 2014).

Waller, A. (2008) 'The globalization of business: the role of supply chain management', *Management Focus*, 11(1), pp. 126-132.

World Bank (2014) *United Kingdom*. Available at: http://data.worldbank.org/country/united-States-of-America (Accessed: 25 February 2014).