**The Financial and Risk Analysis of Apple Inc.**

Name

Institution

Course

Instructor

Date

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**Apple Inc. Financial and risk analysis report**

# Introduction

## History of the organization

Apple Inc. was founded on 1st April 1976 by Steve Jobs and Steve Wozniak (Payne, 2017). The two visualized that they could change people’s perspectives in computes by making small gadgets suitable for homes and offices. In their opinions, these devices were user friendly. Steve Jobs and Wozniak started the company in a garage, and the original Apple computer lacked the monitor, keyboard and casing. This first device was revised in 1977 with the introduction of colored graphics, and sales increased from $7.8 million to $117 million (Magwizi, 2020). In this year, Apple Inc. as an organization became known to the public. With time Wozniak’s interest in the company diminished, and he left the organization in 1983. Steve Jobs hired a new president, John Sculley, a move that backfired and prompted the creation of NeXT Software. Though the 1980s, Apple maintained a track of good financial records, and in 1985, Microsoft proposed the need for licensure, which was declined by Apple’s management (Payne, 2017). However, this move was detrimental because Microsoft became one of Apple’s competitors throughout the 1980s and 1990s.

In 1997, Apple bought Steve Job’s NeXT Software and made Jobs the Interim CEO. This former board member started revamping the company by forging a partnership with Microsoft that created the Mac version of Apple’s Software (Amin & Munsi, 2020). Steve Jobs also introduced iBook computers, iPod and iTunes shortly after his appointment. He also released iPhone and the Apple Television before his death in 2011. Despite the challenges that the organization has faced over the years, Apple Inc. has pushed beyond its limits through creativity by ensuring that it produces the best gadgets in the market. Being more than thirty years old today, Apple arguably has a significant impact on technology.

## Design and financial activities

Apple Inc. utilizes various techniques to stay ahead of its competitors. For instance, it is focused on providing the best customer experience through its innovative programs and technology. Its business strategy exerts leverage on its exceptional capability of designing and developing its OS, hardware software and services to support its OS. Its designs are most of the time superior to their competitors. As part of its leverage strategy, Apple Inc. utilizes the internet in advertising where customers who have already purchased the products can get information on new releases (Lockamy, 2017). Clients can also download and update their operating systems, digital content, and applications through Mac, iPhone, iPad or iOS.

Apple Inc. also upholds a top-notch buyer experience evident from its well-trained salespersons who excellently portray the company's values to attract and keep clients. Subsequently, the organization’s system works on expanding and building retail stores and third-party affiliates to reach more clients. Lastly, the company invests in marketing, research and development, which is evident from their new releases that startle the world each time.

## Organizational Structure of Apple Inc.

The organizational structure of Apple is geographically based. Although the company is global, it is mainly segmented into the American, European, Chinese, Japanese and Asian Pacific market (Trivedi, 2019). The American market is divided into the Northern and southern regions. On the other hand, the European market comprises of European countries, India, Middle East and Africa. The Chinese segment is made up of China, Hong Kong and Taiwan. Lastly, the Asian Pacific segment comprises of Australia and other Asian countries. Although each segment is supplied with similar products, some elements are tweaked to align with the user's geographical location effectively.

## Products

Apple Inc. deals in a variety of products. The company manufactures media gadgets, PCs, music players, programming software, and digital applications. Its range of products includes iPhone, IPad, Mac, iPod, Apple Watch, Apple television, programming software, IOS, MacOS WatchOS, and TVOS. The organization is also responsible for delivering both free and purchased applications through iTunes, Mac, TV app, iBooks and App Store. Sales are made through online platforms, retail stores, or third-party resellers, e.g. cellular network owners, wholesale, and retail stores. Clients range from business owners, the government, education stakeholders and regular people.

To attain and retain profits, Apple Inc. must have faced various challenges and dealt with them successfully over the years. These challenges may emerge from its operations, organizational structure and finances (Shah, 2020). These challenges pose risks to the liquidity of both the company and its shareholders. This paper first analyzes the finances of Apple for three years to establish a position on its value, then later assesses the risks to profitability. The last segment of the paper suggests some actions that may mitigate these risks.

# Financial analysis

## Income statement

According to the income statement released by Apple Inc, between 2018 and 2020, the highest growth in sales was in 2018 at 16.2%. The numbers declined in 2019 by 2.2%, probably due to the COVID-19 pandemic and rose again in 2020 by 5.5%. The net income also had a similar trend where the highest income was recorded in 2018 and the lowest in 2019. The income statement, net income growth, the percentage in the growth of sales of Apple Inc. is as illustrated in Appendix 1.

## Balance sheet

The organization’s balance sheet reveals that between 2018 and 2020, this company has been experiencing a negative trend in assets’ growth. However, the most critical plunge of assets was in the year 2019. The current ratio was the highest in 2019 and the lowest in 2020. The balance sheet, total growth in assets, current ratio analysis of Apple Inc. is as illustrated in appendix 2.

## Liquidity and solvency

Considering that the organization has been experiencing negative growth in assets, it is imperative to look into the possibility of insolvency. The three-year analysis of the percentage liability and assets ratio reveals that the company was at its best in 2018. Perhaps this ratio is elevated in 2020 because the company was affected by the economic crises of 2019.

## Off-Balance sheet item analysis

* Warranties

Product warranties are among the non-balance sheet items that may affect the finances of the company. For instance, the company agrees with the client that it will service products that may be damaged on the point of sale or up to a certain period of use. The company also offers an in trade possibility where the client may exchange the damaged products with another one for a lesser amount provided the contractual terms are met. Although these warranties are covered under insurance, some may be too significant, and they may affect the net profit.

* Unconditional purchase obligations

The company also incurs off-balance costs in supply arrangements, internet services, and intellectual property acquisition. These costs may sometimes not be captured in the balance sheet. For example, as in 2018, the unconditional purchase obligations amounted to $8 billion.

* Operating leases

Apple Inc. may lease equipment, space or facilities under non-cancelable lease agreements. These costs may sometimes be high, although they are not captured in the balance sheet. For example, in 2018, the total operating leases were over $9 billion.

## Regulatory compliance analysis

* R$D and product development policy

To remain competitive in telecommunication, Apple Inc. upholds research and development (Cardoso, 2017). The organization believes that it must continuously introduce new products into the market to provoke demand. The introduction of new products also motivates customers into upgrading their older versions of devices. However, the success of these new products depends on risk management, market acceptability, effective supply chain management and the availability of software to match the products (Podolny & Hansen, 2020). Although the company cannot predict the effects of its product in the market, it invests in researchers who develop and forecast the impact of these products. Appendix 1 shows the total amount of capital spent on research and development from 2018 to 2020.

* Distributors commitments

The distributors of Apple Inc. range from regional cellular networks, wholesalers, and retailers who also distribute competitor products (Cardoso, 2017). Some of these distributors offer their clients discounts that vary from one location to another. There is no guarantee that these subsidized prices will continue upon contract renewal with Apple, and many distributors who may be affected by adverse economic conditions may withdraw from selling Apple products. However, the company supports distributors by providing them with company employees, although it does not assure them of any increments in revenue.

* Inventory regulation

The company regulates its inventory by writing write-downs for products that exceeded their demand and shelf life. These inventory write-downs also cover long term assets annually, even those with its suppliers’ when their value can no longer be recovered (Cardoso, 2017). However, the product inventory uses forecasting techniques that cannot accurately predict the impact of a device in the market and oversupply and undersupply may easily occur.

* Raw material regulations

Due to the unique sources of the company’s raw materials, there are several risks involved. For example, during shortages, the prices for raw materials may increase. The suppliers may also encounter challenging economic situations and fail to deliver the raw materials. Therefore, Apple Inc. is subjected to a supply shortage risk in case of any adverse changes in pricing or supply. This may delay the release of new products even when capital has been invested in research and development.

* Logistics management

Apple Inc. relies on outsourced logistics companies to transport finished goods globally. Although this arrangement decreases transportation costs, it diminishes its control over the supply and distribution of products. No one can be certain of what may happen between the transportation process and delivery to the client, and some activities may decrease the quality of the products.

# Risk analysis

* Recent actions on risks

Recently, Apple Inc. has encountered several risks associated with its activities, especially amid the COVID-19 crisis. These risks come in the form of inventory, operations, credit, and the global market. The company's management has been carefully maneuvering through the risks and dealing with them as they come.

* Market risk

While the mobile phone industry continues to evolve in a concise span of time, Apple seems to be keeping up with the trend through its diverse product ranges. This technique, together with globalization, increases the foreign exchange risk (Harnish & Collins, 2021). The cost of borrowing is also improved through interest because different countries in affiliate markets have diverse borrowing rates. Therefore, the increased costs may negatively affect the company’s finances. Therefore, Apple’s choice of the market is a critical determinant of profitability. Another market risk is that since the company is globalized, there is a decrease in performance levels in countries where exchange rates are un-favorable. Although there may be a difference of a few dollars per item, the cumulative effect may cost up to millions of dollars. This affects the net sales and the profit margins during the conversion of local currency into dollars. The high exchange costs, in the long run, leads to repatriation and losses.

* Competition risk

Being a global organization, Apple faces competition from other telecommunication manufacturers in the world. These competitors range from small, mid-sized to large organizations that face similar challenges as Apple. The main competition that Apple faces is that of Android devices. Since Apple is an international company, the introduction of any new product that seems to be of similar quality but lower purchasing costs anywhere in the world compromises the attractiveness of Apple products to the buyer. This is because most telecommunication clients view the company’s products as expensive but of high quality (Cusumano et al., 2019). This insinuates that although Apple Inc. may have a small market share and any minor interruptions due to a less expensive product from another manufacturer may offset the company’s profit margin. Given that the telecommunication industry is very dynamic, Apple must have very high leverage on other manufacturers to maintain its profits.

* Operational risk

The organization’s ability to attract and retain global markets suggest that it must be making a lot of profit from markets worldwide. Therefore, for the company to manage the different cultural values and legislature across continents, the operational costs must be very high. Since operating costs are regarded as sunk costs, there is an increased urgency of increasing the level of these risks to manage globalization and ensure constant profit generation (Wu et al., 2019)

* Credit risk

Apple Inc. also faces credit risks (Vasilaki & Tsakalidis, 2019). During the purchase of the company’s products, some clients may use credit due to the high cost incurred during purchase. When customers default on their payments, especially on online sale platforms, the company runs at risk of making significant losses.

* Inventory risk

The continuous expansion and internationalization of the firm may affect the demand for products in unpredictable ways. Therefore, the firm needs to strategize its manufacturing to ensure a constant flow of products to the markets. However, the high price of the products may decrease the movement of stock from production to the client, which further adds to the unpredictable nature of Apple's supply chain.

## Advice on risk management strategies.

Although risks are expected in business, an organization should strive to minimize them (Zhang, 2018). For example, Apple should look into strategies that reduce performance variability in its different markets despite the mentioned challenges like the foreign exchange rates. To achieve this, the management should first determine the factors that cause the variability of profits in different regions, their magnitude and their recurrence rate. After the identification of the causes, a response can be tailored to minimize the risks starting with those of the most significant magnitude. This tactical response should be performed by a risk analysis team that should consider the capital expenditure involved in risk management versus the possible salvage of profits (Mukhlis & Damayanti, 2021).

After identifying and analyzing the risk by the organization, the community and stakeholders may be involved in the process of risk mitigation. This will help in decreasing the likelihood of such risks affecting a business. For instance, community involvement in mitigating credit risks is more likely to reduce the number of defaulters. By asking for public support, the firm is more likely to succeed in its efforts of minimizing business risks.

While market, competition, operational, inventory, and credit risks may be the only observed risks, the dynamic nature of the telecommunication industry may pose more issues in the future. Apple Inc., therefore, needs to cultivate a culture of aligning itself with risk-minimizing behaviors. Thus, the firm should invest in risk analysis tools, forecasting, risk accountability, and backup plans if a risk is detected.

# Conclusion

Apple Inc. is a globally recognized company that was founded in 1976. It manufactures a wide range of telecommunication devices. The organization’s financial analysis reveals that in 2019, it recorded the poorest performance and efforts need to be adjusted to prevent insolvency. To prevent further economic decline, the organization should minimize risks associated with its business structure, including market, competition, operational, credit, and inventory risks. The firm may invest in selecting a team of experts who should analyze risks and set up backup plans in case of financial downsides.

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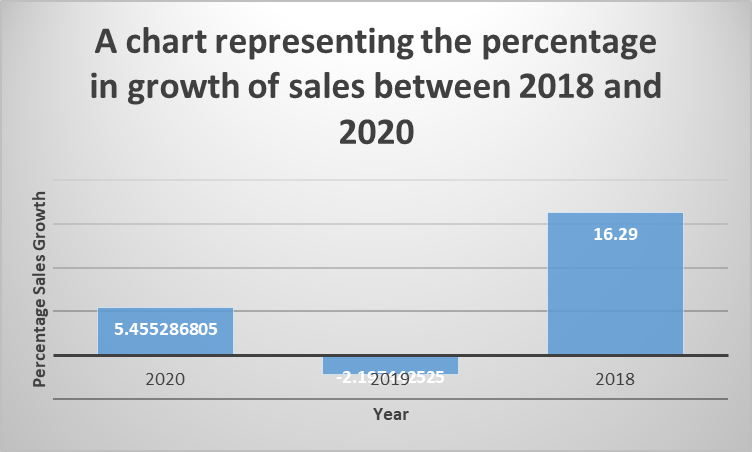
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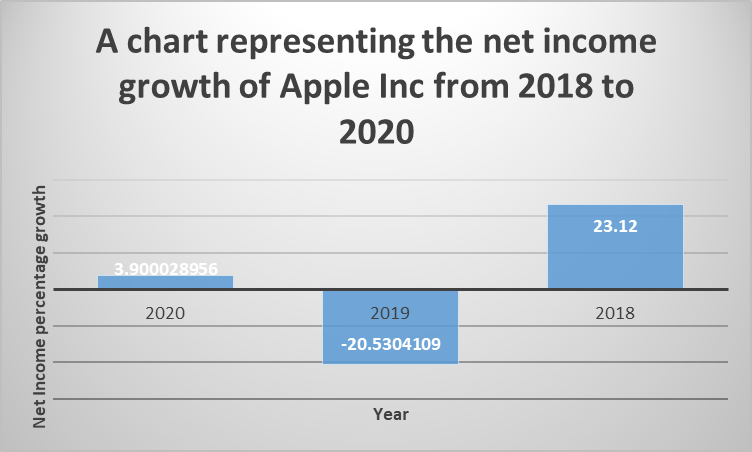
**Appendices**

**Appendices 1: The organization’s income statement**

|  |  |  |  |
| --- | --- | --- | --- |
| The fiscal year is October to September |  |  |  |
| All values are in USD millions |  |  |  |
|  | 2020 | 2019 | 2018 |
| Sales / Revenue | 274150 | 259968 | 265809 |
| sales growth ~~%~~ | 5.45529 | -2.1974 | 16.29 |
| Cost of goods sold incl. D & A | 170143 | 162264 | 163826 |
| Cost of goods sold excl. D & A | 159087 | 150964 | 154526 |
| Depreciation and Amortization expense | 11056 | 11300 | 9300 |
| Depreciation | 11056 | 11300 | 9300 |
| Amortization of intangibles | 0 | 0 | 0 |
| COGS growth % | 4.85567 | -0.9535 | 15.61 |
| Gross Income | 104007 | 97704 | 101983 |
| Gross income growth % | 6.45112 | -4.1958 | 17.4 |
| SG&A expense | 38668 | 34462 | 30941 |
| Research and development | 18752 | 16217 | 14236 |
| Others | 19916 | 18245 | 16705 |
| SGA growth % | 12.2047 | 11.3797 | 12.6 |
| EBIT | 65339 | 63242 | 71042 |
| Unusual expense | 465 | 0 | 0 |
| Non-operating Income / expense | 397 | 1110 | 585 |
| non-operating Interest/ expense | 3763 | 4961 | 5686 |
| Interest expense | 2873 | 3576 | 3240 |
| Interest expense growth % | -19.659 | 10.3704 | 39.47 |
| Gross Interest expense | 2873 | 3576 | 3240 |
| pretax income | 67091 | 65737 | 72903 |
| pretax income growth % | 2.05972 | -9.8295 | 13.75 |
|  |  |  |  |
| Income tax | 9680 | 10481 | 3372 |
| income tax - current domestic | 6761 | 6859 | 41976 |
| income tax - current foreign | 3134 | 3962 | 3986 |
| income tax - deferred domestic | 3598 | 3006 | 33771 |
| income tax - deferred foreign | 3383 | 2666 | 1181 |
| Consolidated Net income | 57411 | 55256 | 69531 |
| Net income | 57411 | 55256 | 69531 |
| Net income growth % | 3.90003 | -20.53 | 23.12 |
|  |  |  |  |



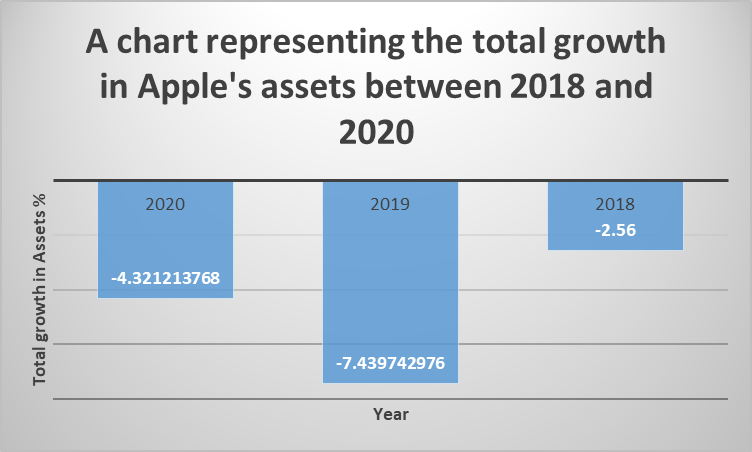
Graph 1: A presentation of Apple’s growth in net sales



Graph 2: A presentation of Apple’s net income growth

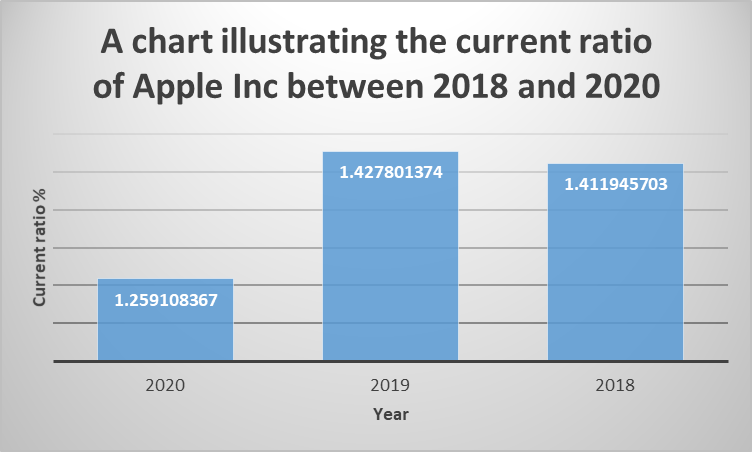
**Appendices 2: The organization's balance sheet between 2018 and 2020.**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| The Fiscal Year is October to September | Assets |  |  |  |  |  |  |  |  |
| All values are in million USD |  |  |  |  |  |  |  |  |  |
|  | 2020 | 2019 | 2018 |  |  |  |  |  |  |
| Cash and short-term investments | 90,979 | 100,580 | 66,301 |  |  |  |  |  |  |
| Cash Only | 19,980 | 28,124 | 19,658 |  |  |  |  |  |  |
| Short term Investments | 70,999 | 72,456 | 46,643 |  |  |  |  |  |  |
| Cash and Short term investments growth % | -9.5456 | 51.7021 | -11 |  |  |  |  |  |  |
| Cash and short term investments/total assets % | 28.0896 | 29.712 | 18.1286 |  |  |  |  |  |  |
| Total accounts receivable | 37445 | 45804 | 48,995 |  |  |  |  |  |  |
| Accounts receivable Net | 16,120 | 22926 | 23,186 |  |  |  |  |  |  |
| Accounts receivable Gross | 16,120 | 22926 | 23,186 |  |  |  |  |  |  |
| Bad debts | 0 | 0 | 0 |  |  |  |  |  |  |
| Other receivables | 21,325 | 22878 | 25,809 |  |  |  |  |  |  |
| accounts receivables growth % | -18.249 | -6.5129 | 37 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Inventories | 4061 | 4106 | 3,956 |  |  |  |  |  |  |
| Finished goods | 4061 | 4106 | 3956 |  |  |  |  |  |  |
| Other current assets | 11228 | 12329 | 12087 |  |  |  |  |  |  |
| Miscellaneous current assets | 11228 | 12329 | 12087 |  |  |  |  |  |  |
| Total current assets | 143713 | 162819 | 131339 |  |  |  |  |  |  |
| Net property, plant and equipment | 45336 | 37378 | 41304 |  |  |  |  |  |  |
| Property, Plant and equipment gross | 103526 | 95957 | 90403 |  |  |  |  |  |  |
| Buildings | 17952 | 17085 | 16216 |  |  |  |  |  |  |
| Machinery and equipment | 75291 | 69797 | 65982 |  |  |  |  |  |  |
| Other property, plant and equipment | 10283 | 9075 | 8205 |  |  |  |  |  |  |
| Accumulated depreciation | 66760 | 58579 | 49099 |  |  |  |  |  |  |
| total investments and advances | 102624 | 106698 | 170799 |  |  |  |  |  |  |
| Other long term investments | 102624 | 106698 | 170799 |  |  |  |  |  |  |
| Intangible assets | 0 | 0 | 0 |  |  |  |  |  |  |
| Net goodwill | 0 | 0 | 0 |  |  |  |  |  |  |
| Net other intangibles | 0 | 0 | 0 |  |  |  |  |  |  |
| Other assets | 32215 | 31621 | 22283 |  |  |  |  |  |  |
| Tangible other assets | 32215 | 31621 | 22283 |  |  |  |  |  |  |
| Total assets | 323,888 | 338516 | 365725 |  |  |  |  |  |  |
| Total assets growth | -4.3212 | -7.4397 | -2.56 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Liabilities |  |  |  |  |  |  |  |  |  |
| ST debt and current portion LT debt | 15229 | 16240 | 20748 |  |  |  |  |  |  |
| ST debt | 6432 | 5980 | 11964 |  |  |  |  |  |  |
| Cp. debt of long term debt | 8797 | 10260 | 8784 |  |  |  |  |  |  |
| Accounts payable | 42296 | 46236 | 55888 |  |  |  |  |  |  |
| Accounts payable growth % | -8.5215 | -17.27 | 13.94 |  |  |  |  |  |  |
| Other Current liabilities | 47967 | 43242 | 40230 |  |  |  |  |  |  |
| Miscellaneous current liabilities | 47967 | 43242 | 40230 |  |  |  |  |  |  |
| Total current liabilities | 105392 | 105718 | 116866 |  |  |  |  |  |  |
| Current ratio | 1.25911 | 1.4278 | 1.41195 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Long term debt | 107049 | 91807 | 93735 |  |  |  |  |  |  |
| Long-term debt excluded capitalized leases | 98667 | 91807 | 93735 |  |  |  |  |  |  |
| Non-convertible debt | 98667 | 91807 | 93735 |  |  |  |  |  |  |
| capitalized lease obligations | 637 | 0 | 0 |  |  |  |  |  |  |
| Provision for risks and charges | 28170 | 29545 | 33589 |  |  |  |  |  |  |
| Deferred taxes | 0 | 16919 | 11520 |  |  |  |  |  |  |
| Deferred taxes - credit | 0 | 16919 | 11520 |  |  |  |  |  |  |
| Other liabilities | 17938 | 4039 | 2868 |  |  |  |  |  |  |
| Other liabilities excl. deferred income | 17938 | 4039 | 71 |  |  |  |  |  |  |
| Deferred income | 0 | 0 | 2797 |  |  |  |  |  |  |
| Total liabilities | 257236 | 237089 | 259022 |  |  |  |  |  |  |
| Total liabilities/total assets % | 79.4213 | 70.0378 | 70.8243 |  |  |  |  |  |  |



Graph 3: A presentation of the organization’s total growth on assets.

The results are shown in the graph below:



Graph 4: A presentation of the organization’s current ratios.



Graph 5: a representation of the percentage liabilities/assets at Apple Inc.