

**Financial Performance Analysis**

For Years ended September 2020-2022



August 18, 2024

Apple Inc.

**Liquidity Ratios**

**Current Ratio:**

The current ratio has steadily declined over the three-year period, indicating a deteriorating ability to cover short-term liabilities with current assets. In 2022, the ratio fell below 1, suggesting potential liquidity issues.

**Quick Ratio:**

The quick ratio shows a similar downward trend, implying a decreasing capacity to meet short-term obligations using liquid assets. The 2022 figure suggests the company may struggle to pay off its current liabilities without selling inventory.

**Cash Ratio:**

The cash ratio has declined significantly, indicating a substantial reduction in the company's ability to pay off short-term debts using only cash and cash equivalents.

**Key Insights:**

Declining liquidity: All three ratios show a consistent downward trend, suggesting the company's overall liquidity position has weakened considerably from 2020 to 2022.

Increased financial risk: The decline in ratios indicates higher financial risk and potential difficulty in meeting short-term obligations.

Possible cash flow issues: The sharp drop in the cash ratio may indicate cash flow problems or increased reliance on non-cash current assets.

Need for action: Management should consider strategies to improve liquidity, such as reducing current liabilities, improving cash collection, or securing additional financing.

Industry comparison needed: To gain a fuller picture, these ratios should be compared with industry averages and competitors' figures.

Fig 1: Graph showing current, quick and cash ratios for the years 2020-2022.

**Inventory Days:**

The company's inventory management efficiency fluctuated over the three-year period. In 2022, inventory days decreased to 9.0 from 12.5 in 2021, indicating improved inventory turnover. This suggests better inventory management or increased sales. The 2022 figure is closer to the 2020 level of 9.8 days, potentially signalling a return to pre-pandemic efficiency.

**Payable Days:**

There's a consistent upward trend in payable days, increasing from 91.0 in 2020 to 93.9 in 2021, and further to 104.7 in 2022. This suggests the company is taking longer to pay its suppliers, which could indicate:

Improved negotiating power with suppliers

Potential cash flow management issues

A strategic decision to maximize working capital

**Receivable Days:**

Receivable days remained relatively stable between 2021 (26.2 days) and 2022 (26.1 days) but increased from 2020 (21.4 days). This implies:

Consistent credit policies in the last two years

A potential shift in customer base or credit terms since 2020

Possible impact of economic conditions on customer payment behaviour

Overall Working Capital Management:

The company appears to be optimizing its working capital by reducing inventory days and extending payable days while maintaining stable receivable days. This strategy could lead to improved cash flow, but it's important to monitor supplier relationships and ensure the extended payment terms don't negatively impact the supply chain.

Fig 2: Graph showing inventory, payable and receivable days ratios for the years 2020-2022.

**Net Trading Cycle:**

The net trading cycle has been negative for all three years, indicating that the company is collecting cash from sales before paying its suppliers. This trend has become more pronounced over time:

2020: -59.8 days

2021: -55.1 days

2022: -69.6 days

The significant decrease in 2022 suggests improved cash flow management, as the company is retaining cash for a longer period before paying suppliers.

**Working Capital as a % of Sales:**

This ratio shows a concerning downward trend:

2020: 13.96%

2021: 2.56%

2022: -4.71%

The shift from positive to negative working capital indicates that the company's current liabilities now exceed its current assets. This could signal potential liquidity issues and difficulty meeting short-term obligations.

**Insights:**

* Cash flow management appears to be improving, as evidenced by the lengthening net trading cycle.
* However, the company's liquidity position is deteriorating, shown by the declining working capital ratio.
* The conflicting trends suggest that while the company is efficient in collecting cash, it may be struggling with other aspects of its short-term financial management.

Fig 3: Graph showing net trading cycle, and working capital as a % of sales for the years 2020-2022.

**Defensive Interval**

The Defensive Interval ratio measures how long a company can continue to operate using its current liquid assets without relying on additional revenue or funding. This report analyses the trend over three years:

2020: 1899.7 days

2021: 1509.5 days

2022: 1228.2 days

**Observations:**

Declining trend: The Defensive Interval has consistently decreased over the three-year period.

Significant reduction: From 2020 to 2022, the interval decreased by 671.5 days, or approximately 35.3%.

**Insights:**

Reduced liquidity: The declining trend suggests a reduction in the company's liquid assets relative to its daily cash expenditures. This could be because of

Increased operational costs

Decreased cash reserves or marketable securities

Expansion or investments using liquid assets

Financial resilience: Despite the decline, the company still maintains a substantial defensive interval of over 3 years (1228.2 days) as of 2022.

Risk assessment: While the company remains in a strong position, the consistent decline may warrant attention from management to ensure long-term financial stability.

Fig 4: Graph showing defensive interval days ratios for the years 2020-2022.

**Profitability Ratio**

**Gross Margin:**

The company has shown consistent improvement in its gross margin over the three-year period. Starting at 38.23% in 2020, it increased to 41.78% in 2021 and further to 43.31% in 2022. This upward trend suggests enhanced efficiency in production processes or better pricing power.

**EBITDA Margin:**

EBITDA margin also demonstrates a positive trend, rising from 28.17% in 2020 to 32.87% in 2021, with a slight increase to 33.10% in 2022. This indicates improved operational efficiency and cost management.

**EBIT Margin:**

The EBIT margin follows a similar pattern, increasing from 24.15% in 2020 to 29.78% in 2021 and 30.29% in 2022. This suggests that the company has been successful in controlling its operating expenses relative to revenue growth.

**Net Margin:**

Net margin showed significant improvement from 20.91% in 2020 to 25.88% in 2021. However, there was a slight decrease to 25.31% in 2022. Despite this minor setback, the overall trend remains positive compared to 2020.

**Insights:**

Consistent improvement across all margins from 2020 to 2022, indicating overall enhanced profitability and operational efficiency.

The most significant improvements occurred between 2020 and 2021, with more modest gains or slight decreases from 2021 to 2022.

The company has maintained its improved performance in 2022, suggesting that the positive changes implemented in 2021 were sustainable.

Fig 5: Graph showing profitability ratios for the years 2020-2022.

**Solvency/Debt Management Ratio**

**Debt to Equity (D/E) Ratio**

The D/E ratio has been steadily increasing over the three-year period, indicating that the company is increasingly relying on debt financing relative to equity. This suggests a more aggressive financial strategy, which may increase financial risk but could also lead to higher returns for shareholders if managed effectively.

**Debt to Total Assets**

The debt to total assets ratio has slightly decreased over time, suggesting that the company is gradually reducing its reliance on debt to finance its assets. This trend indicates improved financial stability and reduced risk of insolvency.

**Long-term Debt to Capital**

The long-term debt to capital ratio has increased slightly each year, indicating that the company is using more long-term debt in its capital structure. This aligns with the increasing D/E ratio and suggests a shift towards longer-term financing strategies.

**Times Interest Earned**

The times interest earned ratio has significantly improved over the three-year period, nearly doubling from 2020 to 2021. This indicates the company's growing ability to meet its interest obligations, suggesting improved profitability and financial health.

**Debt Coverage**

The debt coverage ratio has shown substantial improvement, more than doubling from 2020 to 2021 and maintaining a high level in 2022. This indicates the company's enhanced ability to service its debt obligations using operating income, reflecting improved financial stability.

**Free Cash Flow (FCFE) per Share**

Free cash flow per share has consistently increased over the three years, indicating improving operational efficiency and the company's growing ability to generate cash for shareholders after meeting all financial obligations and investment needs.

The company shows a trend of increasing leverage, as evidenced by the rising D/E and long-term debt to capital ratios. However, this is balanced by improving profitability and cash flow metrics, as seen in the times interest earned, debt coverage, and free cash flow per share figures. The slight decrease in debt to total assets also suggests prudent management of overall debt levels.

The company appears to be leveraging debt to drive growth while maintaining strong ability to service its debt obligations. This strategy, if continued successfully, could lead to increased shareholder value, but it also carries increased financial risk that should be monitored closely.

Fig 6: Graph showing solvency ratios for the years 2020-2022.

**Total Asset Turnover**

The total asset turnover ratio has shown consistent improvement over the three-year period. This indicates that the company has become more efficient in using its assets to generate sales. The increasing trend suggests better asset utilization and improved operational efficiency.

**Fixed Asset Turnover**

Fixed asset turnover has also demonstrated steady growth. This upward trend implies that the company is generating more sales per unit of fixed assets, indicating improved efficiency in utilizing property, plant, and equipment.

**Inventory Turnover**

The significant increase in 2022 suggests that the company has greatly improved its inventory management, selling and replacing inventory more quickly. This could indicate better demand for products or more efficient supply chain management.

**Return on Assets (ROA)**

The consistent increase in ROA indicates that the company is becoming more profitable relative to its total assets. This suggests improved overall efficiency in converting assets into profits.

**Insights:**

* The company has shown consistent improvement in asset utilization and operational efficiency from 2020 to 2022.
* There's been a significant enhancement in inventory management in 2022, potentially due to increased demand or improved processes.
* Profitability relative to assets has steadily increased, indicating better overall financial performance.
* The positive trends across all ratios suggest that the company has successfully navigated challenges and improved its operations over the three-year period.

Fig 7: Graph showing asset utilisation ratios for the years 2020-2022.

Earnings per Share (EPS) increased from $3.28 in 2020 to $6.11 in 2022, indicating strong earnings growth.

Return on Equity (ROE) rose from 87.87% to 196.96%, suggesting better utilization of shareholders' equity.

Return on Capital Employed (ROCE) improved from 38.37% to 74.30%, reflecting more efficient use of capital.

Return on Assets (ROA) increased from 17.73% to 28.29%, indicating improved asset utilization.

Price to Earnings (P/E) ratio decreased from 34.37 in 2020 to 22.41 in 2022, suggesting the stock may be more attractively valued.

Price to Book Value (PBV) increased from 30.52 to 44.40, indicating higher market valuation relative to book value.

The company maintains a consistent dividend policy with some changes.

Dividend Payout Ratio decreased from 24.53% to 14.87%, suggesting the company is retaining more earnings for growth.

Dividend per Share increased slightly from $0.80 to $0.91.

Dividend Yield remained relatively stable, decreasing slightly from 0.71% to 0.66%.

Book Value per Share (BV) decreased from $3.73 to $3.10, which may indicate share buybacks or increased liabilities.

EV/EBITDA data is incomplete for 2022, but showed a decrease from 3.70 in 2020 to 2.63 in 2021.

**Insights:**

The company's profitability is improving, as evidenced by the growing EPS.

The decreasing P/E ratio, coupled with increasing EPS, suggests that the stock price growth is not keeping pace with earnings growth, potentially making the stock more attractive to value investors.

The rising PBV ratio indicates strong market confidence, but also raises concerns about potential overvaluation.

The combination of these factors suggests a company with improving fundamentals that may be approaching fair valuation in the market.

The decreasing P/E ratio coupled with increasing PBV suggests a need to balance growth with market expectations. Communicate the company's value proposition clearly to investors.

Fig 8: Graph showing investor ratios for the years 2020-2022.

**Percentage Increases**

1. **Profitability**

* Gross profit margin improved steadily from 38.23% in 2020 to 43.31% in 2022.
* Operating income margin increased from 24.15% in 2020 to 30.29% in 2022.
* Net profit margin rose from 20.91% in 2020 to 25.31% in 2022.

Insight: The company has significantly improved its profitability across all levels.

1. **Cost Management**

* COGS as a percentage of net sales decreased from 61.77% in 2020 to 56.69% in 2022.
* R&D expenses fluctuated but remained relatively stable (6.83% in 2020, 6.66% in 2022).
* SGA expenses decreased from 7.25% in 2020 to 6.36% in 2022.

Insight: Effective cost management has contributed to improved profitability.

1. **Tax Rate**

* Income tax rate fluctuated, peaking at 23.24% in 2021 before decreasing to 16.43% in 2022.

Insight: The company may have benefited from tax optimization strategies or changes in tax regulations.

1. **Capital Expenditure**

* Capex as a percentage of sales increased from 1.56% in 2020 to 5.67% in 2022.
* Capex as a percentage of fixed assets rose from 11.67% in 2020 to 53.08% in 2022.

Insight: The company has significantly increased its investment in fixed assets, potentially indicating expansion or modernization efforts.

**Overall Insights:**

* Continue cost optimization: The company has successfully reduced COGS and SGA expenses. Maintain this focus on efficiency to further improve profitability.
* Invest in R&D: Consider increasing R&D spending to drive innovation and maintain competitiveness, as it has remained relatively stable while other metrics improved.
* Monitor tax strategies: Analyse the factors contributing to the fluctuating tax rate and explore opportunities for consistent tax optimization.
* Evaluate capital expenditure: Assess the return on investment from the increased Capex to ensure it aligns with long-term growth strategies.
* Leverage improved profitability: Use the enhanced financial position to explore new market opportunities or invest in areas that can sustain long-term growth.
* Maintain financial discipline: While metrics have improved, continue to monitor and control expenses to maintain the positive trend in profitability.