

Financial Ratio Analysis Report of Apple Inc.

Drashti Patel

Quill Capital Partners

03/09/2024

Table of Contents

- Executive Summary
- Introduction
- Liquidity Ratios
- Profitability Ratios
- Solvency Ratios
- Efficiency Ratios
- Valuation Ratios
- Conclusion

Executive Summary

This report provides an analysis of Apple Inc.'s financial performance, focusing on key financial ratios that evaluate its liquidity, profitability, solvency, efficiency, and valuation. Apple Inc., a global leader in consumer electronics, software, and services, has consistently demonstrated strong financial health and operational efficiency.

Liquidity Analysis indicates that Apple maintains a robust position, with a strong current ratio and quick ratio, reflecting its ability to meet short-term obligations comfortably.

Profitability Ratios reveal that Apple continues to achieve high margins, with a gross margin above industry standards, driven by premium pricing and cost efficiency. The company's EBITDA and net margins remain strong, indicating solid operating performance and profitability.

Solvency Ratios highlight Apple's prudent financial management, with a low debt-to-equity ratio and substantial interest coverage, suggesting that the company is well-positioned to manage its long-term obligations.

Efficiency Ratios suggest that Apple effectively utilizes its assets, with high total and fixed asset turnover ratios. The company's inventory turnover also indicates efficient inventory management practices.

Valuation Ratios, including the Price to Earnings (P/E) and Price to Book Value (PBV), reflect a premium market valuation, driven by investor confidence in Apple's growth prospects and sustained profitability. The company's strong return on equity (ROE) and return on assets (ROA) further underscore its ability to generate substantial returns for shareholders.

Overall, Apple Inc.'s financial metrics reflect a well-managed company with strong profitability, efficient operations, and a solid balance sheet, positioning it favorably for continued growth and value creation.

Introduction

Apple Inc. is a multinational technology company that designs, manufactures, and markets consumer electronics, software, and services. Founded in 1976, Apple has grown to become one of the most valuable and influential companies in the world, known for its innovative products such as the iPhone, iPad, Mac computers, and Apple Watch, as well as its extensive ecosystem of software and services, including the App Store, Apple Music, and iCloud.

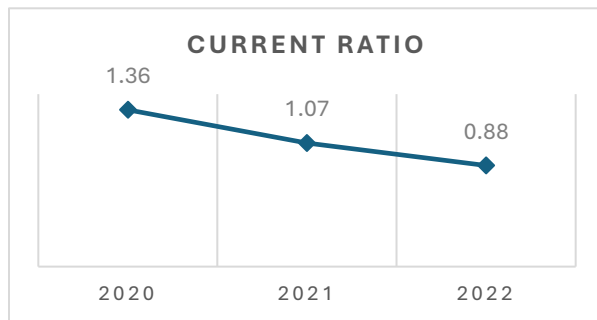
This report aims to provide a comprehensive financial analysis of Apple Inc., utilizing key financial ratios to assess the company's liquidity, profitability, solvency, efficiency, and market valuation. By examining these metrics, we seek to gain insights into Apple's financial health, operational performance, and strategic positioning within the competitive landscape of the global technology industry.

The analysis covers Apple's recent financial performance, comparing it with historical data and industry benchmarks where applicable. Through this report, we will explore how Apple's financial strategies and operational decisions contribute to its continued success and how it maintains its leadership position in an ever-evolving market. The findings will offer valuable insights for investors, stakeholders, and management to understand the company's strengths, potential risks, and opportunities for future growth.

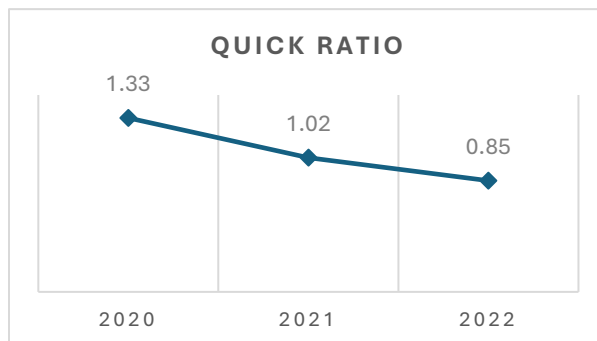
Liquidity Ratios

Apple Inc.'s liquidity ratios, including the current ratio, quick ratio, cash ratio, defensive interval, and working capital as a percentage of sales, provide a comprehensive view of the company's ability to meet its short-term obligations.

Current Ratio: The current ratio measures a company's ability to cover its short-term liabilities with its short-term assets. Apple's current ratio has steadily decreased from 1.36 in 2020 to 0.88 in 2022. A current ratio below 1, as seen in 2022, indicates that Apple may face challenges in meeting its short-term obligations with its available assets. This declining trend suggests that Apple is using more of its current assets to finance operations or is increasing its short-term liabilities faster than its current assets. Although a lower ratio can indicate efficient use of assets, it also heightens liquidity risk.

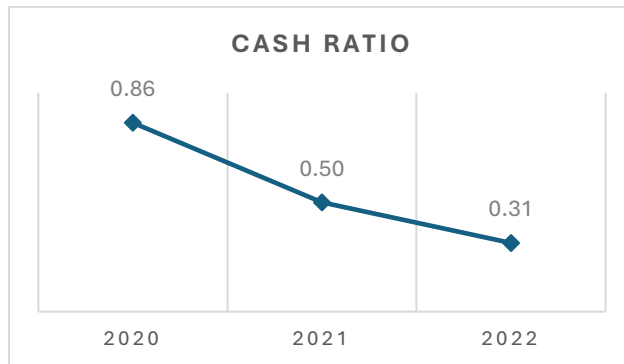


Quick Ratio: The quick ratio excludes inventory from current assets, providing a more conservative view of liquidity. Apple's quick ratio has dropped from 1.33 in 2020 to 0.85 in 2022, mirroring the trend seen with the current ratio. This decline indicates a shrinking buffer of liquid assets that can be quickly converted to cash. A quick ratio of less than 1, as in 2022, may raise concerns about Apple's ability to meet short-term liabilities without relying on inventory sales. However, given Apple's strong cash generation, this may be part of an active capital management strategy rather than a cause for alarm.

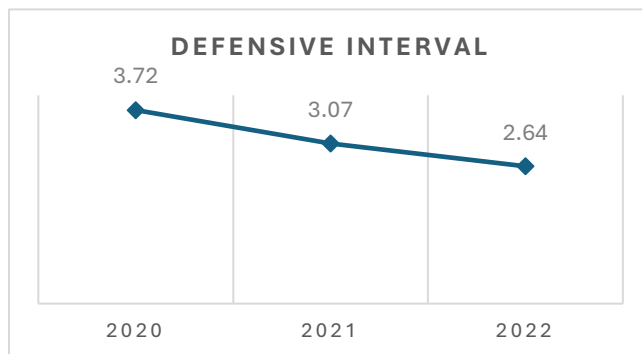


Cash Ratio: The cash ratio measures the company's ability to pay off its current liabilities using only its cash and cash equivalents. Apple's cash ratio has significantly declined from 0.86 in 2020 to 0.31 in 2022. This sharp reduction indicates that Apple is holding less cash relative to its

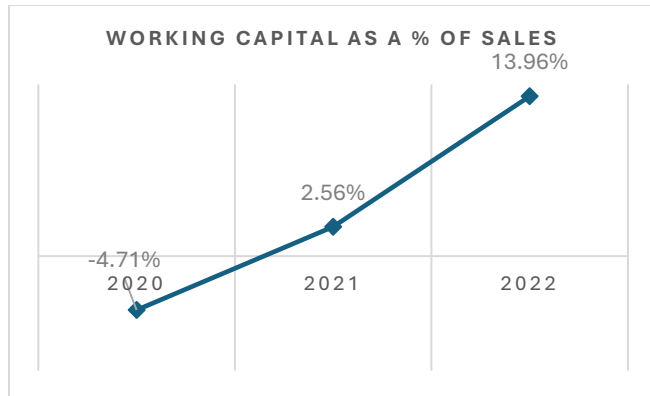
short-term liabilities. While this ratio is more conservative than others, the downward trend shows that Apple is either reinvesting its cash into growth opportunities or relying on other sources of liquidity. While the low cash ratio might concern some, Apple's strong operating cash flow likely mitigates the immediate liquidity risk.



Defensive Interval: The defensive interval ratio measures how long a company can continue to operate without needing additional cash inflows, based on its liquid assets. Apple's defensive interval ratio has decreased from 3.72 in 2020 to 2.64 in 2022, reflecting a decline in the number of days Apple can sustain its operations without generating additional revenue. This downward trend indicates that Apple has less liquidity to cover its operating expenses, although its current level still suggests sufficient liquidity for day-to-day operations. The declining interval warrants attention, but Apple's strong market position and revenue generation capabilities mitigate this risk.



Working Capital as a % of Sales: Apple's working capital as a percentage of sales shows a notable improvement from a negative 4.71% in 2020 to a positive 13.96% in 2022. This significant turnaround highlights Apple's improved liquidity and operating efficiency. Negative working capital in 2020 indicated that Apple had more current liabilities than current assets, which could have been a sign of aggressive capital management or liquidity strain. However, by 2022, the positive working capital reflects that Apple has ample current assets relative to its liabilities, improving its ability to fund day-to-day operations and capitalize on opportunities without requiring external financing.



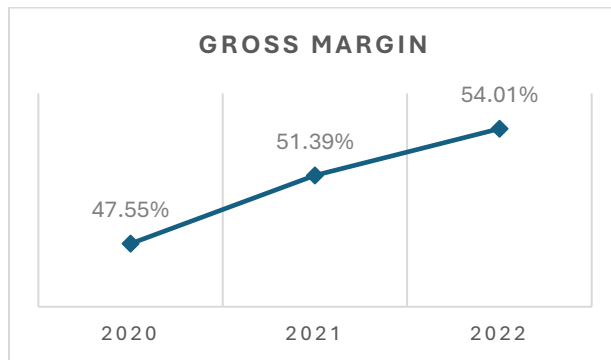
Conclusion

Apple's liquidity ratios have shown a general decline between 2020 and 2022, with the current, quick, and cash ratios all moving lower. While this may suggest some liquidity tightening, Apple's substantial cash flows and overall financial strength likely offset immediate liquidity concerns. The positive movement in working capital as a percentage of sales indicates improved liquidity management, but Apple should remain cautious about maintaining adequate short-term liquidity buffers in case of unforeseen financial demands.

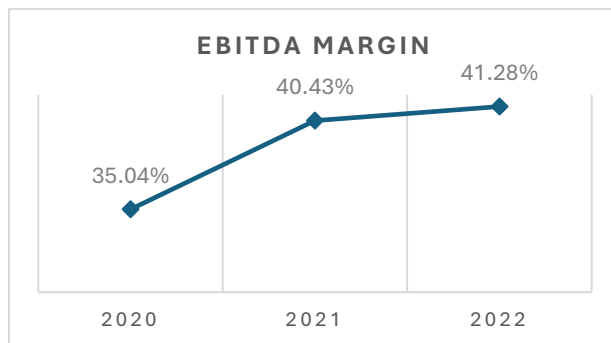
Profitability Ratios

Apple Inc.'s profitability ratios, including gross margin, EBITDA margin, EBIT margin, net margin, return on assets (ROA), and return on equity (ROE), provide insights into the company's ability to generate profits, its operational efficiency, and the returns it delivers to shareholders.

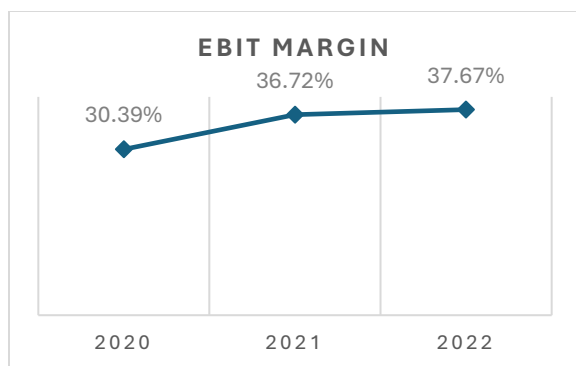
Gross Margin: Apple's gross margin has been steadily increasing over the past three years, rising from 47.55% in 2020 to 54.01% in 2022. This upward trend indicates improved efficiency in production and cost management. A higher gross margin suggests that Apple is effectively controlling its production costs relative to its sales, leading to better profitability on its core business operations.



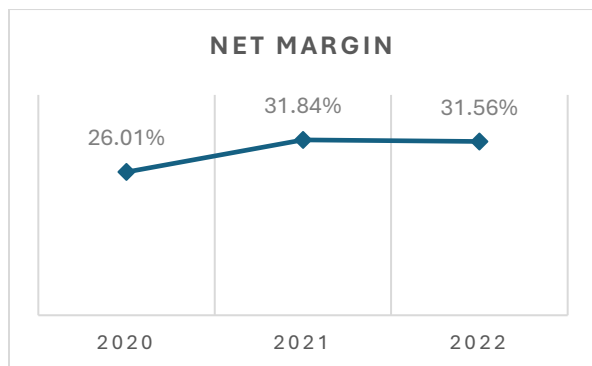
EBITDA Margin: The EBITDA margin has also shown a consistent improvement, from 35.04% in 2020 to 41.28% in 2022. This suggests that Apple has been enhancing its operational efficiency and is able to generate a higher percentage of earnings before interest, taxes, depreciation, and amortization relative to its revenue. It reflects strong operational performance and effective cost management.



EBIT Margin: The EBIT margin has risen from 30.39% in 2020 to 37.67% in 2022. This indicates that Apple's profitability from core operations is improving, suggesting effective management of operating expenses. The increase in EBIT margin over the years reflects stronger control over operating costs and enhanced operational efficiency.



Net Margin: Apple's net margin shows a significant increase from 26.01% in 2020 to 31.56% in 2022, though it slightly decreased from 31.84% in 2021. Despite the small dip in 2022, the overall trend indicates strong profitability after all expenses, taxes, and interest. A high net margin reflects Apple's ability to convert a large portion of revenue into profit, signaling robust financial health and effective management of both operating and non-operating costs.



Return on Assets (ROA): The ROA has remained relatively stable, increasing slightly from 28.06% in 2021 to 28.36% in 2022. This suggests that Apple has been consistent in generating profit relative to its assets. A high ROA indicates efficient use of assets to generate earnings, reflecting the company's effective asset management.

Return on Equity (ROE): The ROE has experienced a significant increase from 147.44% in 2021 to 175.46% in 2022. This dramatic rise highlights Apple's impressive ability to generate profits from shareholders' equity. A high and increasing ROE indicates that the company is providing substantial returns to its shareholders and efficiently using its invested capital.

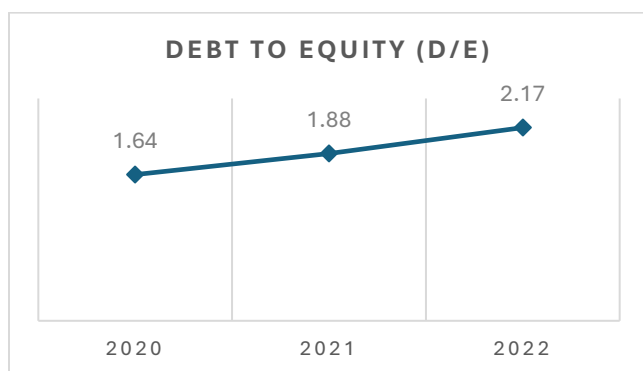
Conclusion

Overall, Apple Inc.'s profitability ratios reflect a strong and improving financial performance. The consistent increase in gross EBITDA, EBIT, and net margins suggests effective cost control and operational efficiency. The stable and high ROA indicates prudent asset management, while the significant rise in ROE demonstrates exceptional returns for shareholders. These trends underscore Apple's robust financial health and successful business strategy.

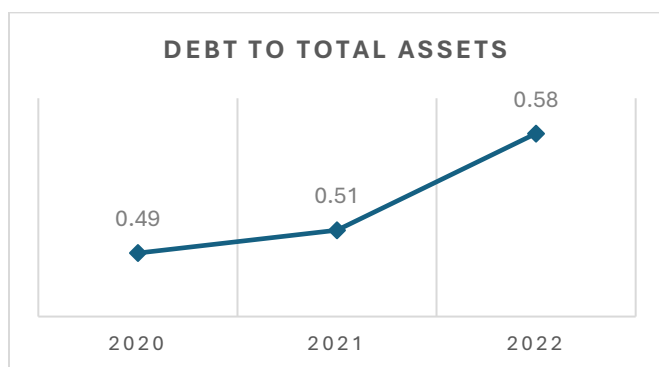
Solvency Ratios

Apple Inc.'s solvency ratios, including debt to equity, debt to total assets, long-term debt to capital, times interest earned, and debt coverage, provide insights into the company's financial leverage and its ability to meet long-term obligations. These ratios are crucial for understanding Apple's financial stability and the level of financial risk it carries.

Debt to Equity: The Debt to Equity ratio has increased from 1.64 in 2020 to 2.17 in 2022. This rising trend indicates that Apple is progressively relying more on debt relative to equity to finance its operations. A higher D/E ratio suggests increased financial leverage, which could imply higher risk if the company faces financial difficulties. However, the ability to manage and service this debt effectively is crucial. Investors should consider whether the company's returns are sufficient to cover the cost of debt and if the increased leverage aligns with its overall growth strategy.

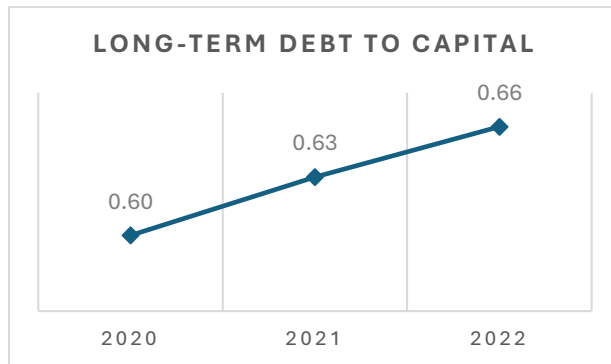


Debt to Total Assets: The Debt to Total Assets ratio has risen from 0.49 in 2020 to 0.58 in 2022. This indicates that a higher proportion of Apple's assets are financed by debt. An increasing ratio suggests that the company is using more debt to finance its asset base, which could increase financial risk. While leveraging can potentially enhance returns, it also increases the company's financial obligations and interest expenses, which could impact profitability if not managed properly.



Long-term Debt to Capital: The Long-term Debt to Capital ratio has increased from 0.60 in 2020 to 0.66 in 2022. This ratio reflects the proportion of long-term debt in relation to the total capital

employed. The rising trend suggests that Apple is financing a larger portion of its capital structure with long-term debt. While this can be beneficial if used for strategic investments or expansion, it also implies that the company has higher long-term obligations. Investors should assess whether this increase in long-term debt is supporting growth and whether the company's earnings are sufficient to service this debt over time.



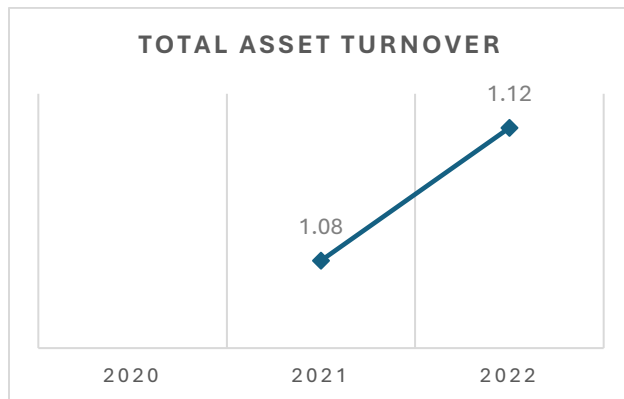
Conclusion

Apple Inc.'s solvency ratios indicate a trend toward higher financial leverage. The rising Debt to Equity, Debt to Total Assets, and Long-term Debt to Capital ratios suggest that Apple is increasingly relying on debt to finance its operations and asset base. While higher leverage can enhance returns, it also introduces additional financial risk. It is important for investors to evaluate whether the company's returns from these investments are sufficient to cover the associated debt costs and to ensure that the increased leverage aligns with the company's overall strategy and growth objectives.

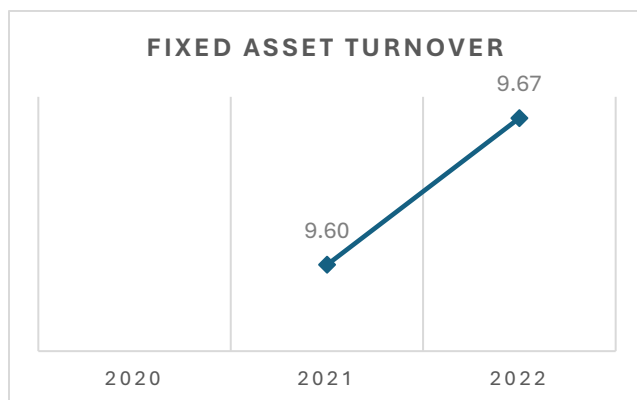
Efficiency Ratios

Apple Inc.'s efficiency ratios, including total asset turnover, fixed asset turnover, inventory turnover, and capital expenditures (Capex) as a percentage of sales, provide insights into how effectively the company utilizes its assets to generate revenue and manage inventory. These ratios are crucial for assessing operational efficiency and identifying areas for potential improvement.

Total Asset Turnover: The Total Asset Turnover ratio has improved from 1.08 in 2021 to 1.12 in 2022. This ratio measures how efficiently Apple is using its assets to generate revenue. An increase in this ratio indicates that Apple is becoming more efficient in utilizing its assets to produce sales. This improvement suggests effective asset management and operational efficiency, contributing to better revenue generation from the company's asset base.

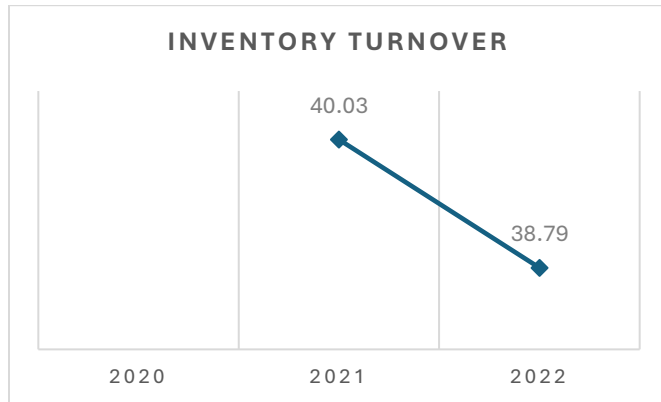


Fixed Asset Turnover: The Fixed Asset Turnover ratio has slightly increased from 9.60 in 2021 to 9.67 in 2022. This ratio assesses how well Apple is using its fixed assets (such as property, plant, and equipment) to generate sales. A higher ratio implies that Apple is efficiently utilizing its fixed assets to drive revenue. The slight increase suggests that Apple has managed to maintain or slightly improve its efficiency in generating sales from its fixed assets.

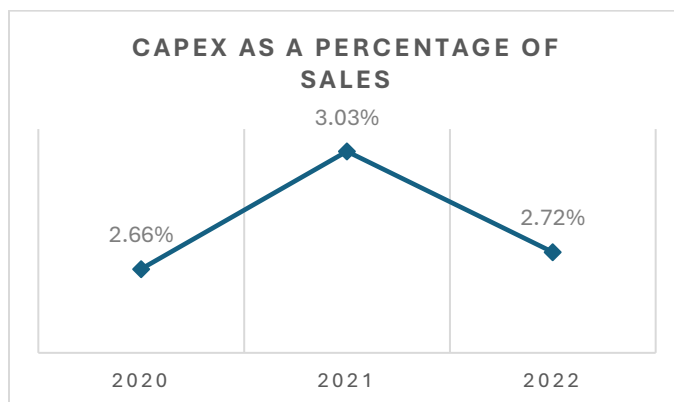


Inventory Turnover: The Inventory Turnover ratio has decreased from 40.03 in 2021 to 38.79 in 2022. This ratio measures how efficiently Apple is managing its inventory by comparing the cost of goods sold to the average inventory level. A decrease in this ratio may indicate that inventory

is not turning over as quickly as in the previous year, potentially pointing to slower sales or increased inventory levels. This change could be a signal to investigate whether inventory management practices need adjustment or if there are changes in sales dynamics affecting turnover.



Capex as a % of Sales: The Capex as a Percentage of Sales ratio increased from 2.66% in 2020 to 3.03% in 2021, then slightly decreased to 2.72% in 2022. This ratio shows the proportion of capital expenditures relative to sales. A higher percentage indicates that Apple is investing more in capital assets relative to its sales, which can support future growth and expansion. The fluctuation in this ratio suggests varying levels of investment in capital projects over the years. The decrease in 2022 might imply a stabilization in capital spending or a shift in investment strategy.



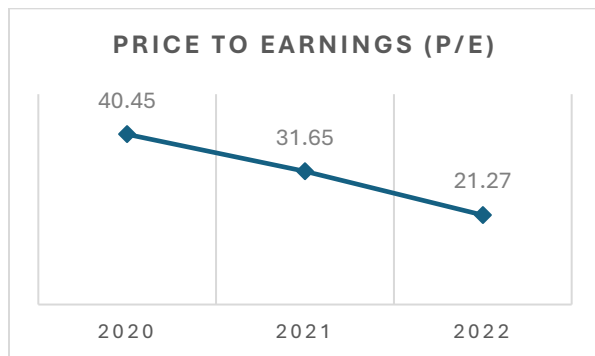
Conclusion

Apple Inc.'s efficiency ratios generally reflect effective asset management and operational performance. The improvement in Total Asset Turnover and Fixed Asset Turnover ratios indicates efficient use of assets to generate revenue. However, the slight decrease in Inventory Turnover suggests potential areas for improvement in inventory management. The fluctuations in Capex as a Percentage of Sales indicate varying investment levels in capital assets, which should be monitored to assess their impact on long-term growth. Overall, Apple's efficiency metrics suggest strong operational management with some areas that might benefit from further optimization.

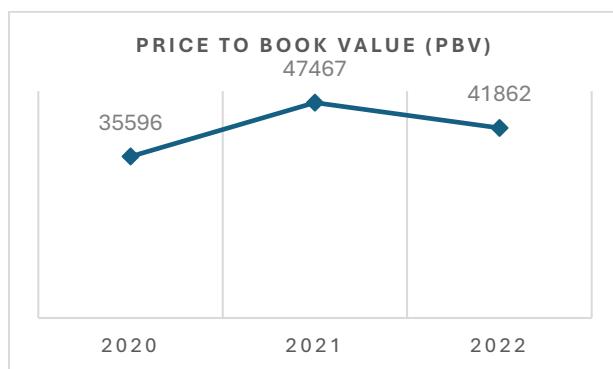
Valuation Ratios

Apple Inc.'s valuation ratios, including the Price to Earnings (P/E) ratio, Price to Book Value (PBV) ratio, Dividend Yield, and Enterprise Value to EBITDA (EV/EBITDA), provide insights into how the market values the company relative to its earnings, book value, dividends, and overall business performance. These ratios are essential for evaluating Apple's market valuation and growth prospects in comparison to industry peers and standards.

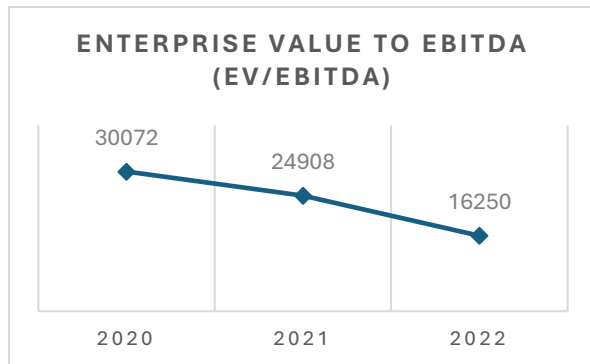
Price to Earnings (P/E) Ratio: The P/E ratio has decreased significantly from 40.45 in 2020 to 21.27 in 2022. A declining P/E ratio suggests that the market's valuation of Apple's earnings has become less expensive over time. This can be due to either increasing earnings or a decrease in the stock price. The lower P/E ratio in 2022 may indicate that Apple's stock is currently undervalued relative to its earnings, or it may reflect a market adjustment to slower growth expectations. Investors often see a lower P/E as an opportunity, provided that the company's growth prospects remain strong.



Price to Book Value (PBV) Ratio: The PBV ratio shows some fluctuation over the years, increasing from 35,596 in 2020 to 47,467 in 2021, and then decreasing to 41,862 in 2022. This ratio measures how the market values Apple relative to its book value. The high PBV ratio indicates that investors are willing to pay a premium for Apple's stock relative to its book value, reflecting strong growth expectations and market confidence. The decrease in 2022 might suggest that the premium investors are willing to pay has slightly diminished, potentially due to changes in market sentiment or adjustments in growth expectations.



Enterprise Value to EBITDA (EV/EBITDA): The EV/EBITDA ratio has decreased from 30,072 in 2020 to 16,250 in 2022. This significant decline suggests that Apple's valuation relative to its earnings before interest, taxes, depreciation, and amortization has become more attractive. A lower EV/EBITDA ratio indicates that the company is cheaper in terms of its enterprise value relative to its operating earnings. This decrease could reflect improvements in Apple's operating performance, a drop in enterprise value, or a combination of both. It suggests that Apple's stock might be undervalued relative to its earnings potential, potentially presenting a buying opportunity for investors.



Conclusion

Apple Inc.'s valuation ratios indicate a shift toward more attractive valuations over the analyzed period. The substantial decline in the P/E and EV/EBITDA ratios suggests that Apple's stock is becoming less expensive relative to its earnings and operational performance. The fluctuating PBV ratio shows changes in market sentiment and valuation premium over time. Overall, the lower valuation ratios could indicate potential investment opportunities, but it's essential to consider broader market conditions and future growth prospects when evaluating these metrics.

Conclusion

Apple Inc.'s financial performance over the past few years demonstrates strong profitability, evolving solvency dynamics, efficient asset utilization, and shifting valuation metrics.

Profitability: Apple has shown robust and improving profitability, with significant increases in gross margin, EBITDA margin, and EBIT margin. This reflects effective cost management and strong operational efficiency. The net margin remains high, despite a slight decrease, indicating the company's ability to convert revenue into profit efficiently. Additionally, the substantial increase in Return on Equity (ROE) highlights exceptional returns for shareholders, while a stable Return on Assets (ROA) suggests effective asset use to generate earnings.

Solvency: The solvency ratios reveal a rising trend in financial leverage. The Debt to Equity (D/E) ratio, Debt to Total Assets, and Long-term Debt to Capital ratios have all increased, indicating a higher reliance on debt financing. While this can enhance returns, it also introduces higher financial risk. Increasing leverage requires careful management to ensure that debt servicing does not adversely impact the company's financial stability.

Efficiency: Apple's efficiency ratios generally reflect effective asset management. The Total Asset Turnover and Fixed Asset Turnover ratios have shown improvements, suggesting that the company is becoming more efficient in generating revenue from its assets. However, the slight decrease in Inventory Turnover may indicate slower inventory turnover or increased inventory levels, which could warrant closer scrutiny. The fluctuations in Capex as a Percentage of Sales suggest variable investment levels in capital assets, potentially reflecting strategic adjustments or stabilization in capital spending.

Valuation: Valuation metrics indicate a trend toward more attractive pricing of Apple's stock. The significant decline in the Price to Earnings (P/E) ratio and Enterprise Value to EBITDA (EV/EBITDA) ratio suggests that Apple's stock is becoming more reasonably valued relative to its earnings and operational performance. The Price to Book Value (PBV) ratio, though fluctuating, remains high, indicating that investors are willing to pay a premium for the company's stock. The lower P/E and EV/EBITDA ratios may present potential buying opportunities, provided that the company's growth prospects and market conditions align with investor expectations.

Overall, Apple Inc. demonstrates strong profitability and operational efficiency, with evolving solvency and valuation metrics reflecting a higher financial leverage and potentially more attractive stock valuation. The company's financial health appears solid, but the increasing debt levels warrant attention to ensure sustainable growth and stability. The analysis suggests that Apple's stock could be an appealing investment opportunity, given the current valuation metrics, but investors should consider the broader market context and future growth prospects.