
Apple Inc.: An Application of Financial Analysis, 2003–2018

Quality is much better than quantity. One home run is much better than two doubles.

—Steve Jobs, 1955–2011

As of 2018, Apple Inc. had been one of the best-known companies in the world for over four decades, unarguably reaching iconic status. Steve Jobs, Apple’s deceased cofounder and CEO, was widely regarded as one of the elite group of visionaries whose ideas and products significantly changed the world. Since its launch in a garage in 1976, with handmade personal computers as its first product offering, the company had adapted and innovated, staying true to creating unique, high-quality electronic devices that carried mass appeal. Over the years, Apple had transformed from primarily a computer-manufacturing company to the undisputed leader in diversified consumer electronics and media. Unparalleled financial performance along almost every metric followed. Since 2003, total sales had increased over 20 times. Profit margins more than doubled. And in September 2018, Apple’s market capitalization topped \$1 trillion, the first time a US publicly traded company reached that mark.

A Brief History¹

Many key events in Apple’s history defined its path to success. Below are listed just a few corporate milestones that chart its progression:

1976–79

- Apple Computer founded by Steve Jobs, Steve Wozniak, and Ronald Wayne in Jobs’s garage. Wayne later exited, cashing in his stake for \$800.
- The first product, the Apple I, retailed at a price of \$666.66. The next-generation Apple II was later launched, among the first computer models to utilize the floppy disk storage drive.
- During a visit to the Xerox PARC research center, Jobs saw an interface that used boxes, windows, and virtual folders as graphics. He immediately changed the company’s focus to the now-ubiquitous graphical user interface (GUI).

¹ “Apple Timeline: The Key Milestones in the Company’s 40-Year History,” *Irish Examiner*, March 31, 2016, <https://www.irishexaminer.com/breakingnews/business/apple-timeline-the-key-milestones-in-the-companys-40-year-history-727552.html> (accessed Dec. 17, 2018).

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1984–85

- Apple launched the Macintosh. This marked the beginning of Apple’s direct competition with established mainstream manufacturers (i.e., IBM).
- Jobs and then-CEO John Sculley had strategic disagreements, with the Apple board later siding with Sculley and relieving Jobs of his responsibilities. Jobs resigned and created a competing computer and software company, NeXT.

1993–98

- After a series of expensive product missteps, including the Newton tablet, Sculley was removed as chief executive and replaced by Michael Spindler, who was later replaced by Gil Amelio. Amelio cut costs and staff, and Apple eventually bought NeXT, desiring its computer operating system.
- Jobs returned to Apple, and his first major initiative upon return was the iMac. This desktop computer model began the second era of innovation at the company.

2001–07

- The iPod was launched, enabling users to carry a massive library of songs in their back pockets. The iTunes Store soon followed, beginning the age of digital media downloads.
- Apple Computer changed its name to Apple Inc., and Jobs unveiled the company’s first smart mobile device, the iPhone.

2010–17

- Jobs unveiled the iPad, leading to unprecedented and immediate growth in tablet use by consumers. Many competitors subsequently entered the market.
- In 2011, Jobs took an indefinite leave of absence. Tim Cook assumed the role of CEO. In October, Jobs died of pancreatic cancer.
- Apple announced its first wearable device, the Apple Watch. The product went on sale in 2015.

2018

- Apple reported record annual profits of \$59.5 billion. On October 3, the company’s market capitalization briefly topped \$1.1 trillion.

Apple’s Financial Performance as Reflected in Its Financial Statements²

The purpose of financial accounting is to convey information useful in assessing the financial position and performance of a company. Implied in this objective is that the financial statements serve as a scorecard for investors, and the success of a company in meeting its strategic objectives should be reflected in those financial statements. The exhibits that follow provide a longitudinal view of Apple over the years 2003 to 2018. The financial statements and other data are as presented by the company in its annual filings with the US Securities and Exchange Commission (SEC). The exhibits presented are:

² Apple Inc. SEC Form 10-K filings and annual reports, 2003–18.

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- Exhibit 1:** Company Background, Fiscal Years 2018, 2008, and 2003³
 - Exhibit 2:** Stock Price Performance, November 2003–November 2018
 - Exhibit 3:** Balance Sheets
 - Exhibit 4:** Income Statements and Statements of Retained Earnings
 - Exhibit 5:** Statements of Cash Flow
 - Exhibit 6:** Sales by Segment and by Product
 - Exhibit 7:** Unit Sales and Other Miscellaneous Data

From these data, a number of different financial analyses can be performed. These include evaluations of (i) the mix of assets and liabilities across time, (ii) changes in capital structure, (iii) dividend policy and other returns of capital to shareholders, (iv) returns on investment, (v) cash flow generation, (vi) value and growth assessments, and (vii) degrees of liquidity and solvency. Using the data provided in the exhibits, from a financial perspective, what inferences do you draw about how Apple has evolved over time?

³ Fiscal years for Apple were either 52- or 53-week years. Each year ended on the last Saturday of September.

Exhibit 1

Apple Inc.: An Application of Financial Analysis, 2003–2018

Company Background, Fiscal Years 2018, 2008, and 2003

2018

The Company designs, manufactures and markets mobile communication and media devices and personal computers, and sells a variety of related software, services, accessories and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, Apple Watch®, AirPods®, Apple TV®, HomePod™, a portfolio of consumer and professional software applications, iOS, macOS®, watchOS® and tvOS™ operating systems, iCloud®, Apple Pay® and a variety of other accessory, service and support offerings. The Company sells and delivers digital content and applications through the iTunes Store®, App Store®, Mac App Store, TV App Store, Book Store and Apple Music® (collectively "Digital Content and Services"). The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and resellers. In addition, the Company sells a variety of third-party Apple-compatible products, including application software and various accessories, through its retail and online stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

2008

Apple Inc. and its wholly-owned subsidiaries (collectively "Apple" or the "Company") design, manufacture, and market personal computers, portable digital music players, and mobile communication devices and sell a variety of related software, services, peripherals, and networking solutions. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, and third-party wholesalers, resellers, and value-added resellers. In addition, the Company sells a variety of third-party Macintosh® ("Mac"), iPod® and iPhone™ compatible products, including application software, printers, storage devices, speakers, headphones, and various other accessories and peripherals through its online and retail stores, and digital content through the iTunes Store®. The Company sells to consumer, small and midsized business ("SMB"), education, enterprise, government, and creative customers.

2003

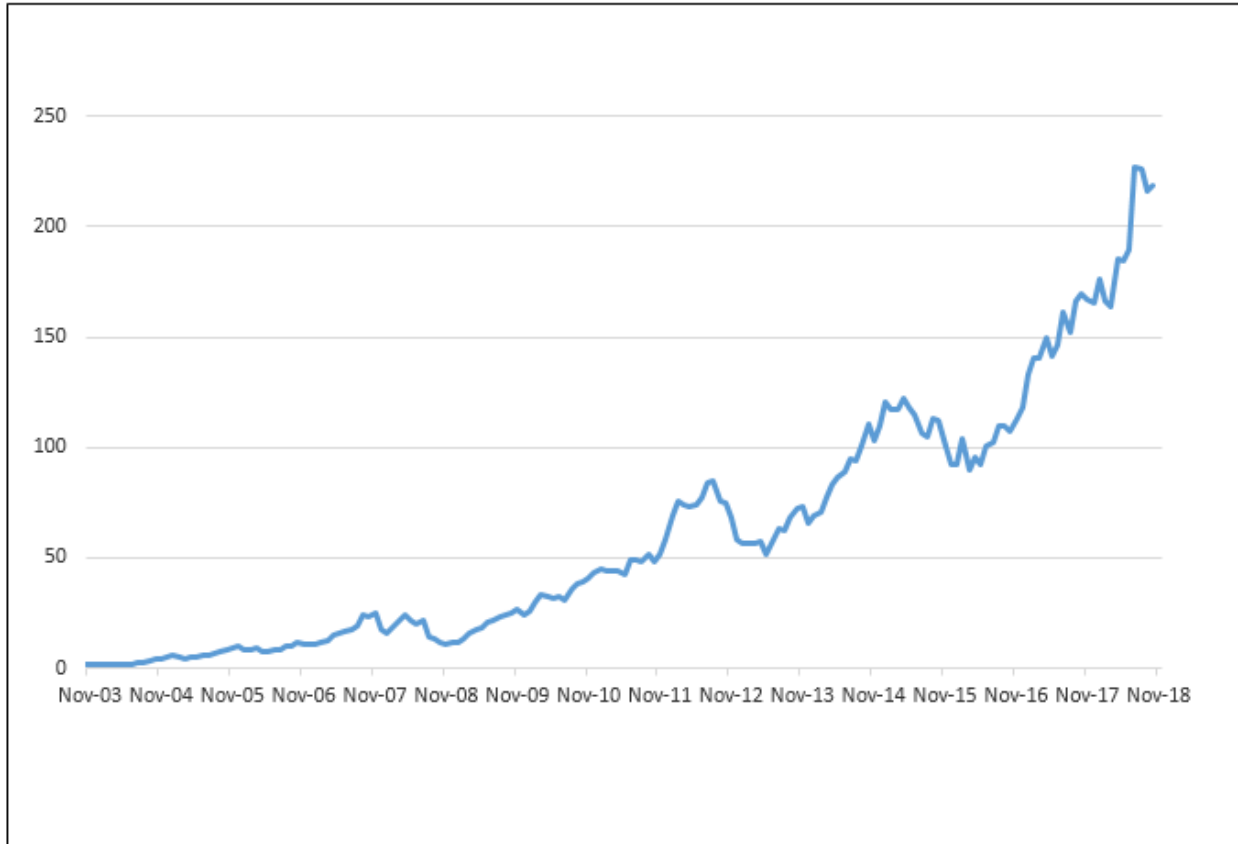
Apple Computer, Inc. ("Apple" or the "Company") was incorporated under the laws of the State of California on January 3, 1977. The Company designs, manufactures and markets personal computers and related software, peripherals and personal computing and communicating solutions. The Company's products include the Macintosh® line of desktop and notebook computers, the Mac OS® X operating system, the iPod™ digital music player, and a portfolio of software and peripheral products for education, creative, consumer and business customers. The Company sells its products through its online stores, direct sales force, third-party wholesalers and resellers, and its own retail stores.

Sources: Apple Inc. SEC Form 10-K, 2018; Apple Computer SEC Form 10-K, 2008; and Apple Computer SEC Form 10-K, 2003.

Exhibit 2

Apple Inc.: An Application of Financial Analysis, 2003–2018

Stock Price Performance, November 2003–November 2018



Data sources: Yahoo! Finance and Center for Research in Security Prices (CRSP) Daily Stock Price database.

Exhibit 3

Apple Inc.: An Application of Financial Analysis, 2003–2018

Balance Sheets

	2018	2017	2016	2015	2014	2013	2012	2008	2003
Balance Sheets <i>(in millions of US dollars)</i>									
Cash & cash equivalents	25,913	20,289	20,484	21,120	13,844	14,259	10,746	11,875	3,396
Short-term marketable securities	40,388	53,892	46,671	20,481	11,233	26,287	18,383	12,615	1,170
Accounts receivable, net	23,186	17,874	15,754	16,849	17,460	13,102	10,930	2,422	766
Inventories	3,956	4,855	2,132	2,349	2,111	1,764	791	509	56
Deferred tax assets				5,546	4,318	3,453	2,583	1,447	190
Vendor nontrade receivables	25,809	17,799	13,545	13,494	9,759	7,539	7,762	2,282	
Other current assets	12,087	13,936	8,283	9,539	9,806	6,882	6,458	3,540	309
Total current assets	131,339	128,645	106,869	89,378	68,531	73,286	57,653	34,690	5,887
Long-term marketable securities	170,799	194,714	170,430	164,065	130,162	106,215	92,122		
Gross property, plant, & equipment (PPE)	90,403	75,076	61,245	49,257	39,015	28,519	21,887	3,747	1,174
Accumulated depreciation & amortization	(49,099)	(41,293)	(34,235)	(26,786)	(18,391)	(11,922)	(6,435)	(1,292)	(505)
Other noncurrent assets	22,283	18,177	17,377	14,565	12,522	10,902	10,837	2,427	259
Total assets	365,725	375,319	321,686	290,479	231,839	207,000	176,064	39,572	6,815
Accounts payable	55,888	44,242	37,294	35,490	30,196	22,367	21,175	5,520	1,154
Accrued expenses	32,687	30,551	22,027	25,181	18,453	13,856	11,414	8,572	899
Deferred revenue	7,543	7,548	8,080	8,940	8,491	7,435	5,953		
Commercial paper	11,964	11,977	8,105	8,499	6,308				
Current portion of long-term debt	8,784	6,496	3,500	2,500					304
Total current liabilities	116,866	100,814	79,006	80,610	63,448	43,658	38,542	14,092	2,357
Deferred revenue—noncurrent	2,797	2,836	2,930	3,624	3,031	2,625	2,648	3,029	235
Long-term debt	93,735	97,207	75,427	53,463	28,987	16,960			
Deferred tax & other noncurrent liabilities	45,180	40,415	36,074	33,427	24,826	20,208	16,664	1,421	
Total liabilities	258,578	241,272	193,437	171,124	120,292	83,451	57,854	18,542	2,592
Common stock	40,201	35,867	31,251	27,416	23,313	19,764	16,422	7,177	1,926
Retained earnings	70,400	98,330	96,364	92,284	87,152	104,256	101,289	13,845	2,394
Accumulated other comprehensive income (loss) & other, net	(3,454)	(150)	634	(345)	1,082	(471)	499	8	(97)
Total shareholders' equity	107,147	134,047	128,249	119,355	111,547	123,549	118,210	21,030	4,223
Total liabilities and shareholders' equity	365,725	375,319	321,686	290,479	231,839	207,000	176,064	39,572	6,815

Data sources: Unless otherwise noted, all exhibits based on data from Apple Inc. SEC Form 10-K filings and annual reports, 2003–18.

Exhibit 4

Apple Inc.: An Application of Financial Analysis, 2003–2018

Income Statements and Statements of Retained Earnings

	2018	2017	2016	2015	2014	2013	2012	2008	2003
Income Statements (in millions of US dollars)									
Net sales	265,595	229,234	215,639	233,715	182,795	170,910	156,508	32,479	6,207
Cost of sales	163,756	141,048	131,376	140,089	112,258	106,606	87,846	21,334	4,499
Gross margin	101,839	88,186	84,263	93,626	70,537	64,304	68,662	11,145	1,708
Research & development expense	14,236	11,581	10,045	8,067	6,041	4,475	3,381	1,109	471
Selling, general, & administrative expense	16,705	15,261	14,194	14,329	11,993	10,830	10,040	3,761	1,238
Total operating expenses	30,941	26,842	24,239	22,396	18,034	15,305	13,421	4,870	1,709
Operating income (loss)	70,898	61,344	60,024	71,230	52,503	48,999	55,241	6,275	(1)
Interest & dividend income	5,686	5,201	3,999	2,921	1,795	1,616	1,088	653	
Interest expense	3,240	2,323	1,456	733	384	136			
Other income (expenses), net	(441)	(133)	(1,195)	(903)	(431)	(324)	(566)	(33)	93
Income (loss) before provision for taxes	72,903	64,089	61,372	72,515	53,483	50,155	55,763	6,895	92
Provision for (benefit from) income taxes	13,372	15,738	15,685	19,121	13,973	13,118	14,030	2,061	24
Net income (loss)	59,531	48,351	45,687	53,394	39,510	37,037	41,733	4,834	69
Weighted average shares outstanding—basic	4,955	5,217	5,471	5,753	6,086	6,477	6,544	6,171	5,049
Weighted average shares outstanding—diluted	5,000	5,252	5,500	5,793	6,123	6,522	6,617	6,315	5,089
Net earnings (loss) per common share—basic	12.01	9.27	8.35	9.28	6.49	5.72	6.38	0.78	0.01
Net earnings (loss) per common share—diluted	11.91	9.21	8.31	9.22	6.45	5.68	6.31	0.77	0.01
Statements of Retained Earnings (in millions of US dollars)									
Previous retained earnings	98,330	96,364	92,284	87,152	104,256	101,289	62,841	9,101	2,325
Net income	59,531	48,351	45,687	53,394	39,510	37,037	41,733	4,834	69
Cum. effect of change in accounting principle	278							11	
Dividends & dividend equivalent rights declared	(13,735)	(12,803)	(12,188)	(11,627)	(11,215)	(10,676)	(2,523)		
Repurchase of common stock	(73,056)	(33,001)	(29,000)	(36,026)	(45,000)	(22,950)			
Dividends & dividend equivalent rights declared	(948)	(581)	(419)	(609)	(399)	(444)	(762)	(101)	
Retained earnings	70,400	98,330	96,364	92,284	87,152	104,256	101,289	13,845	2,394

Exhibit 5

Apple Inc.: An Application of Financial Analysis, 2003–2018

Statements of Cash Flow

	2018	2017	2016	2015	2014	2013	2012	2008	2003
Statements of Cash Flow									
<i>(in millions of US dollars)</i>									
<u>Operating Activities</u>									
Net income (loss)	59,531	48,351	45,687	53,394	39,510	37,037	41,733	4,834	69
Depreciation & amortization	10,903	10,157	10,505	11,257	7,946	6,757	3,277	473	113
Share-based compensation expense	5,340	4,840	4,210	3,586	2,863	2,253	1,740	516	16
Deferred income tax expense (benefit)	(32,590)	5,966	4,938	1,382	2,347	1,141	4,405	(368)	(11)
Accounts receivable, net	(5,322)	(2,093)	1,095	611	(4,232)	(2,172)	(5,551)	(785)	(201)
Inventories	828	(2,723)	217	(238)	(76)	(973)	(15)	(163)	(11)
Accounts payable	9,175	9,618	1,791	5,400	5,938	2,340	4,467	596	243
Deferred revenue	(44)	(626)	(1,554)	1,042	1,460	1,459	2,824	5,642	
Net changes in other assets and liabilities	29,613	(9,892)	(1,065)	4,832	3,957	5,824	(2,024)	(1,149)	71
Net cash flows from operating activities	77,434	63,598	65,824	81,266	59,713	53,666	50,856	9,596	289
<u>Investing Activities</u>									
Purchases of securities and long-term investments	(71,356)	(159,486)	(142,428)	(166,402)	(217,128)	(148,489)	(151,232)	(23,003)	(2,648)
Proceeds from sales of securities and investments	103,719	126,339	111,794	121,985	208,111	124,447	112,805	16,243	3,607
Payments made in connection w/ business acq., net	(721)	(329)	(297)	(343)	(3,765)	(496)	(350)	(220)	
Payment for acquisition of PPE	(13,313)	(12,451)	(12,734)	(11,247)	(9,571)	(8,165)	(8,295)	(1,091)	(164)
Payment for acquisition of intangible assets	-	(344)	(814)	(241)	(242)	(911)	(1,107)	(108)	
Payments for strategic investments	(1,518)	(395)	(1,388)						
Other cash flow from investing activities	(745)	220	(110)	(26)	16	(160)	(48)	(10)	33
Net cash flows from investing activities	16,066	(46,446)	(45,977)	(56,274)	(22,579)	(33,774)	(48,227)	(8,189)	828

Exhibit 5 (continued)

Statements of Cash Flow

	2018	2017	2016	2015	2014	2013	2012	2008	2003
<u>Financing Activities</u>									
Proceeds from issuance of common stock	669	555	495	543	730	530	665	483	53
Excess tax benefits from stock-based compensation	-	627	407	749	739	701	1,351	757	
Payments for taxes rel. to settlement of equity awards	(2,527)	(1,874)	(1,570)	(1,499)	(1,158)	(1,082)	(1,226)		
Payments for dividends & dividend equivalent paid	(13,712)	(12,769)	(12,150)	(11,561)	(11,126)	(10,564)	(2,488)		
Repurchases of common stock and other equity	(72,738)	(32,900)	(29,722)	(35,253)	(45,000)	(22,860)		(124)	(26)
Proceeds from issuance of term debt, net	6,969	28,662	24,954	27,114	11,960	16,896			
Payments of long-term debt	(6,500)	(3,500)	(2,500)						
Change in commercial paper, net	(37)	3,852	(397)	2,191	6,306				
Net cash flows from financing activities	(87,876)	(17,347)	(20,483)	(17,716)	(37,549)	(16,379)	(1,698)	1,116	27
Cash & cash equivalents, beginning of the year	20,289	20,484	21,120	13,844	14,259	10,746	9,815	9,352	2,252
Increase (decrease) in cash & cash equivalents	5,624	(195)	(636)	7,276	(415)	3,513	931	2,523	1,144
Cash & cash equivalents, end of the year	25,913	20,289	20,484	21,120	13,844	14,259	10,746	11,875	3,396
Cash paid (received) for income taxes, net	10,417	11,591	10,444	13,252	10,026	9,128	7,682	1,267	45
Cash paid during the year for interest	3,022	2,092	1,316	514	339	-	-	-	20

Exhibit 6

Apple Inc.: An Application of Financial Analysis, 2003–2018

Sales by Segment and by Product

<u>Net Sales by Segment</u> (in millions of US dollars)	2018	2017	2016	2015	2014	2013	2012	2008	2003
Americas	\$ 112,093	\$ 96,600	\$ 86,613	\$ 93,864	\$ 65,232	\$ 62,739	\$ 57,512	\$ 14,573	\$ 3,181
Europe	62,420	54,938	49,952	50,337	40,929	37,883	36,323	7,622	1,309
Greater China	51,942	44,764	48,492	58,715	29,846	25,417	22,533	n/a	n/a
Japan	21,733	17,733	16,928	15,706	14,982	13,462	10,571	1,509	698
Rest of Asia Pacific	17,407	15,199	13,654	15,093	10,344	11,181	10,741	n/a	n/a
Retail	n/a	n/a	n/a	n/a	21,462	20,228	18,828	6,315	621
Other segments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,460	398
Total Net Sales	\$ 265,595	\$ 229,234	\$ 215,639	\$ 233,715	\$ 182,795	\$ 170,910	\$ 156,508	\$ 32,479	\$ 6,207
<u>Net Sales by Product</u> (in millions of US dollars)	2018	2017	2016	2015	2014	2013	2012	2008	2003
iPhone	\$ 166,699	\$ 141,319	\$ 136,700	\$ 155,041	\$ 101,991	\$ 91,279	\$ 78,692	\$ 1,844	-
iPad	18,805	19,222	20,628	23,227	30,283	31,980	30,945	-	-
Mac	25,484	25,850	22,831	25,471	24,079	21,483	23,221	14,276	4,491
iPod						4,411	5,615	9,153	345
Services	37,190	29,980	24,348	19,909	18,063	16,051	12,890	2,207	644
Other products	17,417	12,863	11,132	10,067	8,379			3,340	36
Accessories						5,706	5,145	1,659	691
Total Net Sales	\$ 265,595	\$ 229,234	\$ 215,639	\$ 233,715	\$ 182,795	\$ 170,910	\$ 156,508	\$ 32,479	\$ 6,207

Exhibit 7

Apple Inc.: An Application of Financial Analysis, 2003–2018

Unit Sales and Other Miscellaneous Data

<u>Unit Sales by Product</u> (in thousands)	2018	2017	2016	2015	2014	2013	2012	2008	2003
iPhone	217,722	216,756	211,884	231,218	169,219	150,257	125,046	11,627	-
iPad	43,535	43,753	42,590	54,856	67,977	71,033	58,310	-	-
Mac	18,209	19,251	18,484	20,587	18,906	16,341	18,158	9,715	3,012
iPod	-	-	-	-	-	26,379	35,165	54,828	939
<u>Other Items</u>									
Shares outstanding	4,755	5,126	5,336	5,579	5,866	6,294	6,574	6,218	5,134
Stock price per share	\$ 225.74	\$ 151.82	\$ 109.11	\$ 108.72	\$ 93.88	\$ 62.84	\$ 84.82	\$ 16.24	\$ 1.31
Beta	1.14	1.02	1.00	1.16	0.62	0.99	0.81	1.38	1.10
10-year T-bond rate (%)	3.16	2.38	1.83	2.15	2.34	2.54	1.69	3.97	4.30
Cash dividends declared	\$ 2.72	\$ 2.40	\$ 2.18	\$ 1.98	\$ 1.82	\$ 1.63	\$ 0.38	-	-
Full-time employees	132,000	123,000	116,000	110,000	92,600	80,300	72,800	32,000	10,912

Data sources: "Shares outstanding" is split adjusted, in millions; data from Apple Inc. annual reports, 2003–18. "Stock price per share" data from CRSP Daily Stock Price database, and "10-year T-bond rate" data from CRSP US Treasury database. "Beta" estimated by author: one-year daily stock returns (ending September of each year), regressed on decile-based value-weighted market returns; data from CRSP Daily Stock Price database.