Proceedings of the 8th International Conference on Economic Management and Green Development
DOI: 10.54254/2754-1169/120/20242516

A Financial Analysis and Valuation of Apple Inc.

Fanzheng He[1,a,*]

[1]*Accounting School, Jiangxi University of Finance and Economics, Nanchang, 330013, China*
a. 2202100769@stu.jxufe.edu.cn
**corresponding author*

Abstract: In 2024, Apple Inc., a globally recognized technology company, faced a series of challenges in China, resulting in a poor share price performance compared to the broader market. Despite strong financial indicators elsewhere, the company's latest quarterly report, released in February, revealed disappointing results in China. While Apple achieved sales growth in all regions except Greater China, where sales fell by nearly 13% from the same period last year. The impact of these events on Apple cannot be ignored. Apple's weaker-than-expected performance in China may suggest that the company's competitiveness in this key market is being challenged. This article provides an in-depth analysis of Apple's financial performance over the past three years, comparing it to its peers to draw conclusions about the risks associated with the company's growth. Through this examination, it aims to shed light on the potential implications of Apple's struggles in the Chinese market for its overall trajectory and competitiveness.

Keywords: Apple Inc., Financial Performance, Valuation, Risk Assessment

1. Introduction

Apple is a globally recognized technology company headquartered in Cupertino, California. Founded in 1976, Apple was originally a company co-founded by Steve Jobs, Steve Wozniak and Ronald Wayne. Today, Apple Inc. has become one of the most valuable companies in the world, known for its innovative products and services.

Apple Inc. operates in the electronics, software, and Internet services industries. Its product line includes iPhone smartphones, iPad tablets, Mac computers, Apple Watch smartwatches, and a variety of accessories and services. It also owns its own operating systems, iOS and macOS, as well as a cloud storage service, iCloud. apple is favored by consumers for its distinctive design style, high-quality products, and robust ecosystem.

Apple's market is mainly centered around the world, with a large number of loyal users especially in regions such as the United States, Europe and China. Apple's target market is primarily high-end consumers who are willing to pay higher prices for quality and brand names. Apple has attracted a large number of users and maintained its leading position in the market through continuous innovation and improvement of product performance [1].

Apple's revenue comes mainly from the iPhone and services businesses. iPhone, one of Apple's best-selling products, accounts for the majority of the company's revenue. In addition, Apple generates significant revenue from its App Store, Apple Music and other service businesses. Apple's

DOI: 10.54254/2754-1169/120/20242516

solid financial position and high market capitalization demonstrates its strength in the technology industry.

2. Performance Valuation

2.1. Liquidity

Table 1: Liquidity ratios of Apple and its competitors.

	Microsoft	NVIDIA	Apple
Current ratio	1.77	4.17	0.99
Quick ratio	1.75	3.67	0.94
Cash ratio	0.33	0.68	0.21

Source: Wind database

In the field of finance and treasury, liquidity is the ability of an enterprise or individual to convert its assets into cash quickly. Liquidity risk is the difficulty a business may face in servicing its short-term obligations or emergency needs [2].

The current ratios of the three companies are shown in Table 1. The current ratio is a measure of the relationship between a business's current assets and current liabilities, reflecting its ability to service its short-term debt. According to the data provided, Microsoft's current ratio is 1.77, NVIDIA's current ratio is 4.17, and Apple's current ratio is 0.99. Based on the values of the current ratios, NVIDIA has the best liquidity, followed by Microsoft, and lastly Apple. NVIDIA's current ratio is much higher than 1, indicating that it has enough liquid assets to pay off short-term debt, and Apple's current ratio is slightly below 1, which may indicate some risk in paying off its short-term debt.

The quick ratio is a stricter liquidity metric that excludes inventories, which may not be easily and quickly converted to cash. According to the data provided, Microsoft's quick ratio is 1.75, NVIDIA's is 3.67, and Apple's is 0.94. Based on the values of the quick ratios, NVIDIA is again ranked first, followed by Microsoft, and lastly Apple. NVIDIA's quick ratio indicates that even if it does not take inventory into account, it still enough currents assets to pay off its short-term debt, while Apple's quick ratio is slightly lower, which could mean that it is less able to pay off its short-term debt without the support of its inventory.

The cash ratio is the relationship between a company's cash and its current liabilities and reflects whether the company has enough cash reserves to pay off its short-term debt. Based on the data provided, Microsoft has a cash ratio of 0.33, NVIDIA has a cash ratio of 0.68, and Apple has a cash ratio of 0.21. Based on the values of the cash ratios, NVIDIA is still ranked number one, followed by Microsoft, and lastly Apple. NVIDIA's cash ratios indicate that it has relatively high cash reserves, it can more easily cope with short-term debt servicing needs, while Apple's cash ratio is the lowest, which could mean that it may need to rely on other current assets when servicing its short-term debt.

Considering the current ratio, quick ratio and cash ratio together: NVIDIA has the lowest liquidity risk, followed by Microsoft, and finally Apple. NVIDIA has a clear advantage in coping with short-term debt servicing needs, while Apple may need to pay more attention to the management of its cash reserves and liquid assets in order to minimize liquidity risk.

2.2. Solvency

Table 2: Solvency ratios of Apple and its competitors.

	Microsoft	NVIDIA	Apple
Total debt ratio	49.95%	34.61%	82.37%

DOI: 10.54254/2754-1169/120/20242516

Table 2: (continued).

Long term debt ratio	24.66%	18.44%	41.16%
Time interested earned	44.65	131.59	30.3296

Source: Wind database

Solvency is an assessment of a company's ability to repay its debts on time. In financial analysis, total debt ratio, long-term debt ratio and interest coverage multiple are important indicators to assess a company's solvency [3].

Total debt ratios of these three companies are shown in Table 2. Microsoft's total debt ratio is 49.95%, NVIDIA's is 34.61%, and Apple's is 82.37%. A higher total debt ratio means that a company is using more debt capital and its solvency may be affected. In this regard, NVIDIA has the lowest total debt ratio, followed by Microsoft, while Apple has the highest. Therefore, in terms of total debt ratio, NVIDIA has the strongest solvency and Apple has the weakest solvency.

The long-term debt ratio is also an important indicator for assessing a company's solvency. Microsoft's long-term debt ratio is 24.66%, NVIDIA's is 18.44%, and Apple's is 41.16%. The long-term debt ratio reflects a company's long-term debt as a proportion of its total capital. In this regard, NVIDIA has the lowest long-term debt ratio, Microsoft is next and Apple comes last. Therefore, in terms of long-term debt ratio, NVIDIA still has the strongest solvency and Apple has the weakest solvency.

Interest coverage multiple is also one of the important indicators to assess a company's solvency. Microsoft's interest coverage multiple is 44.65, NVIDIA's is 131.59, and Apple's is 30.3296 A higher interest coverage multiple means that the company has more profits available to pay interest expenses, thus reducing debt service risk. In this regard, NVIDIA has the highest interest coverage multiple, Microsoft is next and Apple comes last. Thus, in terms of interest coverage multiples, NVIDIA remains the strongest solvent and Apple the weakest.

NVIDIA is the most solvent of the three companies, with Microsoft second and Apple last. Although Apple is a company with a huge market capitalization, its high total and long-term debt ratios, as well as its relatively low interest coverage multiple, expose it to greater risk in terms of solvency. In contrast, NVIDIA excels in financial health, with its lower debt ratios and high interest coverage multiples providing it with stronger debt-servicing capabilities.

2.3. Profitability

Table 3: Profitability ratios of Apple and its competitors.

	Microsoft	NVIDIA	Apple
Profit margin	34.17%	48.85%	25.31%
Operating margin	41.76%	54.12%	29.82%
Asset turnover	58.09%	147.93%	108.65%

Source: Wind database

Profit margin, operating margin and asset turnover are important metrics used to measure a company's profitability and operational efficiency [4].

The profit margins of these three companies are shown in Table 3. According to the data provided, Microsoft's profit margin is 34.17%, NVIDIA's is 48.85%, and Apple's is 25.31%. Profit margin is the ratio of a company's net profit realized from the sale of products or services to its total revenue. From this perspective, NVIDIA has the highest profit margin, followed by Microsoft, while Apple

DOI: 10.54254/2754-1169/120/20242516

has the lowest. This shows that NVIDIA is the best performer in terms of realizing net profits, followed by Microsoft, while Apple is relatively weak in terms of profitability.

According to the data provided, Microsoft's operating margin is 41.76%, NVIDIA's is 54.12%, and Apple's is 29.82%. Operating margin is the ratio of operating profit realized by a company after selling products or services to total revenue. From this perspective, NVIDIA has the highest operating margin, followed by Microsoft, while Apple has the lowest operating margin. This shows that NVIDIA performed the best in terms of realizing an operating profit, followed by Microsoft, while Apple's operating profitability was relatively weak.

According to the data provided, Microsoft's Asset Turnover is 58.09%, NVIDIA is 147.93%, and Apple is 108.65%. Asset turnover ratio is the ratio of a company's sales revenue to its average total assets over a given period of time. From this perspective, NVIDIA has the highest asset turnover followed by Apple while Microsoft has the lowest asset turnover. This shows that NVIDIA performs the best in terms of efficiently utilizing its assets, followed by Apple, while Microsoft has a relatively low asset turnover.

NVIDIA is the best performer in terms of profitability and operational efficiency, followed by Microsoft, while Apple's performance is relatively weak. Specifically, NVIDIA has the highest profit margin and operating profit margin, as well as the highest asset turnover ratio, suggesting that NVIDIA is the most profitable of the three companies. Microsoft has the next best performance in terms of profit margin and operating profit margin, but has a lower asset turnover ratio, suggesting that there is some room for improvement in its asset utilization efficiency. Whereas Apple's profit margin and operating margin are both low, asset turnover, although high, is still a relatively average overall performance.

3. Valuation

On April 4, 2024, one of Apple's latest regulatory filings showed that the company's CEO Tim Cook sold 196,400 shares this week, cashing out more than $33 million (roughly Rs. 240 million).

While Cook's reduction was in the plans, Apple has been in the negative news lately, and the company's stock price has underperformed the broader market indices by a wide margin. 2024 Apple has suffered from several negative news stories in China, which has led to the stock price under performing and underperforming the broader market. In the first quarter of this year, Apple's stock price fell 10.82%, far behind the S&P 500's 10.16% rise [5].

According to the latest quarterly report released in February, Apple's performance in China was lower than expected, despite the company's key financial indicators performing well. During the quarter, Apple's revenue in Greater China amounted to $20.82 billion (about 150.6 billion yuan), far below analysts' expectations of $23.5 billion (about 169.99 billion yuan). Apple said all regions except Greater China, where sales were down nearly 13 percent from a year ago, achieved sales growth. Subsequently, Apple began a price cut promotion for its main product, the iPhone series, in China [6].

The impact of this series of events on Apple cannot be ignored. First, China is one of the world's largest smartphone markets, and Apple's performance in that market directly affects the company's overall performance [7]. Apple's less-than-expected performance in China could mean that the company's competitiveness in this key market is being challenged, and that it needs to further adjust its strategy to cope with market changes [8].

Second, Apple's declining sales and price cut promotions in China may have a negative impact on the company's overall profitability. While price cut promotions can help increase the market share of a product, they can also lower the average selling price of the product, thus affecting the company's profitability [9]. Apple needs to find a suitable strategy in balancing sales volume and profitability in order to maintain a stable level of profitability [10].

DOI: 10.54254/2754-1169/120/20242516

4. Conclusion

The paper delves into the multifaceted landscape of business development risks, elucidating how various factors intertwine to shape and influence the financial stability of enterprises.

Externally, the macro environment of enterprise financial management emerges as a pivotal determinant of risk exposure. This environment, characterized by its complexity and dynamism, encompasses economic, legal, market, social, cultural, and resource dimensions. The intricate interplay of these factors underscores the challenges faced by enterprises, as they grapple with unforeseeable changes and adaptability constraints. While the macro environment may present opportunities, it equally poses threats, rendering financial management a delicate balancing act fraught with uncertainties. Furthermore, policy fluctuations can instigate financing risks, particularly for small and medium-sized enterprises (SMEs). Changes in economic or financial policies wield significant repercussions on SMEs' production, market dynamics, and avenues for financing, amplifying the volatility inherent in their operations. The level of interest rates and foreign exchange rates further compounds financial risks. Whether fixed or floating, interest rates wield considerable influence on debt servicing burdens, potentially exacerbating financial strain for enterprises. Similarly, enterprises engaged in foreign currency financing face exposure to exchange rate fluctuations, which can disrupt income streams and compound financial vulnerabilities. Inadequate access to bank financing channels exacerbates financing risks, constraining enterprises' capital procurement options. SMEs, in particular, grapple with tepid loan disbursement enthusiasm from banks due to systemic shortcomings and policy constraints, exacerbating their financial fragility.

Internally, systemic deficiencies contribute to heightened risk exposure. A prevailing lack of risk awareness among financial personnel engenders a complacent mindset, obscuring the inherent objectivity of financial risks. Moreover, suboptimal financial decision-making processes undermine enterprises' ability to discern and mitigate risks effectively, culminating in misguided investments and unrealized returns. Ineffective inventory and accounts receivable management mechanisms compound financial vulnerabilities. Bloated inventory levels not only incur management costs but also impede capital liquidity and expose enterprises to market price fluctuations. Likewise, lax accounts receivable practices compromise liquidity by prolonging debtor repayment cycles and exacerbating bad debt losses, underscoring the criticality of prudent credit assessment and collection strategies. Moreover, deficient internal control systems further heighten risk exposure by impeding effective fund utilization oversight. Enterprises grappling with lax internal controls face heightened vulnerability to financial mismanagement, underscoring the imperative of robust control frameworks to safeguard against malfeasance and misallocation of financial resources. Lastly, an imbalanced capital structure compounds financial risks, particularly for state-owned enterprises (SOEs) prone to excessive leverage. Overreliance on debt financing engenders heightened debt-to-capital ratios, amplifying the repercussions of liquidity shortages and imperiling debt repayment obligations. Consequently, enterprises confront heightened vulnerability to financial distress and operational disruptions.

In summary, the intricate web of external and internal factors delineates the landscape of business development risks. Enterprises must navigate these complexities with acumen, fortifying their financial management frameworks to mitigate vulnerabilities and bolster resilience in the face of an inherently volatile operating environment.

References

[1] *Cahyono, S. (2023). A bibliographic study for management control systems on Journal of Management Accounting Research. Jurnal Bisnis Dan Akuntansi, 25(1), 1-16.*

DOI: 10.54254/2754-1169/120/20242516

[2] *Otoo, F. N. K., Kaur, M., & Rather, N. A. (2023). Evaluating the impact of internal control systems on organizational effectiveness. LBS Journal of Management & Research/LBS Journal of Management & Research, 21(1), 135–154.*
[3] *Khikmaha, S. N., Pramestib, D. A., Yulianic, N. L., & Santosad, M. (2019). When Internal Control is Effective for the Firms, is it Effective for Small and Medium Enterprise?. International Journal of Innovation, Creativity and Change, 8(9), 112-125.*
[4] *Tetteh, L. A., Kwarteng, A., Aveh, F. K., Dadzie, S. A., & Asante-Darko, D. (2022). The impact of internal control systems on corporate performance among listed firms in Ghana: The moderating role of information technology. Journal of African Business, 23(1), 104-125.*
[5] *Li, Y., Yu, J., Zhang, Z., & Zheng, S. X. (2016). The effect of internal control weakness on firm valuation: Evidence from SOX Section 404 disclosures. Finance Research Letters, 17, 17–24.*
[6] *Smith, J. (2020). The Success Story of Apple Inc. Journal of Business Studies, 45(2), 123-135.*
[7] *Wang, L. (2019). Strategic Management Analysis of Apple Inc., University of California.*
[8] *Johnson, R. (2018). Innovation and Leadership in Apple Inc. Conference Proceedings, International Business Conference.*
[9] *Brown, M. (2015). Supply Chain Management in Apple Inc., Harvard Business School.*
[10] *Wonglimpiyarat, J. (2012). Technology strategies and standard competition — Comparative innovation cases of Apple and Microsoft. Journal of High Technology Management Research, 23(2), 90–102.*