

COMPANY PROFILE

Apple Inc

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COMPANY OVERVIEW

Apple Inc (Apple) designs, manufactures, and markets mobile communication and media devices, personal computers (PCs), portable and wearable devices. The company also offers related software, services, accessories, networking solutions, and third-party digital content and applications. Apple's product portfolio includes iPhone, iPad, Mac, iPod, Apple Watch, Apple TV. It offers various consumer and professional software applications such as iOS, macOS, iPadOS, and watchOS operating systems, iCloud, AppleCare, Apple Pay, and accessories. Apple sells and delivers digital content and applications through Apple Store, App Store, Mac App Store, TV App Store, Watch App Store and Apple Music. The company's business operations span the US, Europe, the Middle East, and Asia-Pacific. Apple is headquartered in Cupertino, California, the US.

The company reported revenues of (US Dollars) US\$274,515 million for the fiscal year ended September 2020 (FY2020), an increase of 5.5% over FY2019. In FY2020, the company's operating margin was 24.1%, compared to an operating margin of 24.6% in FY2019. In FY2020, the company recorded a net margin of 20.9%, compared to a net margin of 21.2% in FY2019.

KEY FACTS

Head Office	Apple Inc 1 Apple Park Way Cupertino California Cupertino California USA
Phone	1 408 9961010
Fax	
Web Address	www.apple.com
Revenue / turnover (USD Mn)	274,515.0
Financial Year End	September
Employees	147,000
NASDAQ Ticker	AAPL

SWOT ANALYSIS

Apple Inc (Apple) designs, manufactures, and markets smartphones, personal computers, tablets, wearables and accessories, Distribution channels, R&D, and revenue growth are the company's major strengths, whereas lawsuit and declining profitability remain causes for concern. Smartphones market in North America, strategic initiatives, stores expansion, new product launches and strategic acquisitions are likely to offer growth opportunities to the company. However, foreign exchange risks, intense competition, dependence on network providers, and technological changes could impact its business operations.

<p>Strength</p> <p>R&D Distribution Channels Revenue Growth</p>	<p>Weakness</p> <p>Lawsuits Profitability</p>
<p>Opportunity</p> <p>Strategic Initiatives Stores Expansion Launch of New Products Smartphone Market in North America Strategic Acquisitions</p>	<p>Threat</p> <p>Foreign Exchange Risks Intense Competition Dependence on Network Providers Technological Changes</p>

Strength

R&D

Apple's ability to compete with peers depends upon its ability to ensure a continuous and timely introduction of innovative and competitive products, services and technologies. The company is well supported by its robust in-house R&D facilities. It continues to develop new technologies and up-gradation of existing products and services as well as expansion of its offerings through R&D. The company regularly files patent applications to protect innovations emerge from its R&D and is currently pursuing thousands of patent applications around the world. In FY2020, the company invested US\$18.752 million on R&D efforts, which as a percentage of revenue, stood at 6.8%. Apple also holds wide intellectual property rights related to accessories, software, hardware devices and services, which include trademarks, copyrights, patents, trademarks and other forms of intellectual property.

Distribution Channels

Apple uses both direct and indirect distribution channels to effectively reach its customers in the consumer, small and mid-sized business, and education, enterprise, and government markets. The company sells its products and resells third-party products in most of its major markets directly to consumers and small-and mid-sized businesses through its retail and online stores and direct sales force.

The company's retail stores are typically located at high-traffic locations in quality shopping malls and urban shopping districts. By operating its own stores and locating them in desirable high-traffic locations, the company is better positioned to ensure improved customer buying experience and attract new customers. The stores are designed to simplify and enhance the presentation and marketing of the company's products and related solutions. Apple also employs a variety of indirect distribution channels such as third-party cellular network carriers, wholesalers, retailers, and value-added resellers. The company invested in programs to enhance reseller sales by placing quality Apple fixtures, merchandising materials, and other resources within selected third-party reseller locations. Through the Apple Premium Reseller Program, certain third-party resellers focus on the Apple platform by providing a high level of product expertise, integration, and support services. Its iTunes U platform also facilitates in mobile learning and real-time distribution of various education related materials. Apple sells its hardware and software products to enterprise and government customers in each of its reportable operating segments. In FY2020, Apple's direct and indirect distribution channels contributed for 34% and 66%, respectively, of the total sales.

Revenue Growth

Apple reported steady revenue growth during the review year. Strong financial performance improves investors' confidence in the company and enables it to pursue expansion plans. In FY2020, the company generated revenue of US\$274,515 million as against US\$260,174 million in FY2019, with an annual growth of 5.5%, which grew at a CAGR of 6.2% during 2016-2020. Growth in revenue was mainly due to increase in net sales of mac, iPad, services and wearables, home and accessories by 11.2%, 11.5%, 25.1% and 16.2%, respectively.

Weakness

Lawsuits

Legal proceedings could result in huge penalties. In January 2021, a consumer advocacy group in Europe has filed the latest lawsuit against the company saying it intentionally throttled older iPhones in Italy. The potential class-action lawsuit seeks EUR60 million in compensation, or about EUR60 per device for owners of iPhone 6, 6 Plus, 6S, and 6S Plus models sold in Italy between 2014 and 2020. In November 2020, Apple agreed to pay about US\$113 million to settle litigation filed against it for slowing down older iPhones to encourage owners to purchase replacement batteries or handsets, as it introduced new models. Under the settlement terms, the company has agreed to maintain easily accessible and prominent webpages that provide clear and conspicuous information to consumers about lithium-ion batteries, unexpected shutdowns and performance management.

Profitability

Though the company's revenue increased in FY2020 over that in the last fiscal, its profitability declined. Declining profitability decreases the company's ability to provide higher returns to its shareholders. The company's operating margin decreased from 24.6% in FY2019 to 24.1% in FY2020. Weak operating performance indicates the lack of efficiency in cost management. The company's net profit margin decreased from 21.2% in FY2019 to 20.9% in FY2020.

Opportunity

Strategic Initiatives

The company undertook several strategic initiatives to expand its business operations. In February 2021, the company and Taiwan Semiconductor Manufacturing entered into a partnership to develop ultra-advanced displays. Through this partnership, the company plans to utilize micro OLED displays which are far thinner, smaller and use less power, making them more suitable for wearable AR devices. In December 2020, the company and TikTok entered into a partnership to offer a four-month free trial of Apple Music. In the same month, the company entered into a partnership with Amazon to offer Macs through cloud computing. This partnership helps the company to provide better cloud services for its customers.

Stores Expansion

The company's recent expansions could drive its revenue growth. In November 2020, the company announced to open retail store in South Korea. In September 2020, the company opened a new store, Apple Marina Bay Sands, in Singapore. In August 2020, the company announced to launch Apple store online in India. In the same month, the company opened its all-glass Apple Store in Bangkok. In the same month, the company announced to open new retail space in Bangkok, Thailand. In July 2020, the company announced the opening of a new store in Sanlitun, Beijing, China. These store expansions enhance the company's business operations.

Launch of New Products

Launch of new products could help Apple in driving its revenue growth. In December 2020, the company announced its plans to launch an updated ninth-generation iPad in Spring 2021. In November 2020, Apple announced its plans to launch new MacBook Pro laptops. In October 2020, the company announced the launch of the iPhone 12. In the same month, the company introduced a new smart speaker, HomePod mini. In August 2020, the company launched two new radio stations on Apple Music namely, Apple Music Hits and Apple Music Country and also announced its flagship radio station, Beats 1, has been renamed to Apple Music 1. In April 2020, the company introduced the new iPhone SE, a lower-cost model into the market. These new product launches strengthen the company's product portfolio.

Smartphone Market in North America

Apple stands to benefit from growing smartphone market in North America. The company has manufactured and developed apps for mobile devices. According to in-house research, smartphone sales in North America are expected to increase at a CAGR of 22.6% during 2018-2023 to reach 268.7 billion in 2023 from US\$219.2 billion in 2018. The US accounts for 87.7% of the North American mobile phones market value.

Strategic Acquisitions

Apple continues to view acquisitions as a major part of its growth strategy. In October 2020, the company announced the acquisition of ViLynx, an artificial intelligence startup. In August 2020, the company acquired Spaces., a startup which provides virtual reality technologies. In the same month, the company acquired Camerai, an Israeli photography startup. In June 2020, the company acquired Fleetsmith Inc, a software company. In May 2020, the company acquired NextVR, a provider of sports and other content for virtual-reality headsets. In the same month, the company acquired Inductiv, which developed technology that uses artificial intelligence to correct data. In April 2020, the company acquired Voysis Ltd, a developer of voice artificial intelligence platform. Such acquisitions are intended to augment growth, expand its business with new technologies and products, and enhance its geographical reach.

Threat

Foreign Exchange Risks

Apple operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in US dollar and its revenue is exposed to the volatility of the US dollar against other functional currencies, as it conducts business operations worldwide. A significant part of its revenue is also denominated in other currencies such as Euro, INR, Japanese Yen and Chinese yuan. The major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2020, the company reported a gain of US\$88 million due to foreign exchange translation adjustments as compared to a loss of US\$408 million in FY2019. To minimize risks from currency fluctuations, the company involves in foreign exchange hedging by entering into foreign exchange forward contracts. However, there may be no assurance that such hedging or other measures could limit the impact of movements in exchange rates on the company's results of operations.

Intense Competition

Apple's products and services compete in highly competitive global markets that are characterized by aggressive price cutting and resulting downward pressure on gross margins, continual improvement in product price/performance characteristics and frequent introduction of new products. Further, the competition is also characterized by evolving industry standards, rapid adoption of technological and product advancements by competitors, short product life cycles and price sensitivity of consumers. Its major competitors include Alphabet Inc, Acer Inc, BlackBerry Ltd, Dell Technologies Inc, HP Inc, Fujitsu Ltd, and among others. Some of the competitors of the company have greater financial, marketing and other resources, which enables them to pursue more vigorous marketing and expansion activities. The company's competitors that sell mobile devices and personal computers compete with aggressive pricing and very low-cost structures. Major competitive factors to the company include product price, features, relative price and performance, quality and reliability of product and service, design innovation, third-party accessories and software ecosystem, distribution and marketing capability and corporate reputation.

Dependence on Network Providers

The company is heavily dependent on the cellular network providers with respect to its iPhone. It relies on

a few cellular network carriers in the US, the UK, Germany, and France for iPhone distribution and related services. Apple depends on major cellular network carriers to distribute iPhone and related services including AT&T in the US, O2 in the UK, T-Mobile in Germany, and Orange in France. The inability of these network carriers to attract and retain iPhone customers or the termination of any of the agreements may prove unfavorable results for Apple. Dependence on network providers could affect the profitability of the company in case of any failure by such cellular carriers.

Technological Changes

The company operates in a highly competitive market that is subject to rapid technological changes. Introduction of products using new technologies, or the adoption of new industry standards will make existing products or products under development obsolete or unmarketable. In this scenario, to compete effectively, the company must continuously innovate and introduce new products that gain market acceptance. Unless the company understands the customers' requirements and adapts to emerging technologies in the market and introduces new products and services, its business could be affected. The deployment of products across a wide range of platforms, integration of software with third party software applications and databases are some of the major challenges for the company.

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