

# ***Research on Apple's Financing Method and Its Enlightenment to Multinational Corporations***

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**Abstract:** In the 21st century, the phenomenon of economic globalization is very common, many companies have begun to enter the global market, transnational business models have become popular, so that complex financing methods have become a topic that every enterprise that wants to enter the international market must study. Many experts and scholars in the world have studied this in depth, but for individual excellent enterprises, it is worthwhile to start from its perspective. This article uses Apple as an example to analyze the company's financing methods and inspiration for the development of other multinational companies in the world. This paper uses the method of case analysis to analyze the unique financing structure of Apple at various stages of development, and draws the following conclusions, first of all, it is necessary to establish a diversified financing model to avoid the shortage of funds caused by single financing. Second, it is necessary to flexibly adjust the financing structure according to the development stage of the enterprise. Finally, it should pay attention to the issue of equity dilution in the external financing process, which may involve the loss of control of the company.

**Keywords:** Apple inc, transnational corporation, international markets, financing mode

## **1. Introduction**

As the world enters the 21st century, the international development model is becoming more and more popular, many enterprises around the world have begun to enter the world market, and the scale of multinational companies has developed rapidly. Compared with domestic companies, emerging multinational companies have more ways to raise funds, but they also face more risks. As far as China is concerned, there are few successful enterprises with certain strength and a firm foothold on the international stage [1]. However, the international market is still the goal of many entrepreneurs with its fierce competition. As the financing of multinational companies is affected by the international financial environment and their own operating conditions, successful multinational companies have their own characteristics in the presentation of financing methods. Researchers have in-depth research on the financing methods of enterprises, because of the early development of Western capital. Influenced by MM theory, there is now a mature system, which usually starting from the financing structure of enterprises and the factors affecting financing. Among many multinational companies, Apple in the United States stands out, scientists do not study it much, and rarely from its point of view, therefore, this article will start from Apple's point of view, through the method of case analysis, analysis of the financing model of the enterprise. Capital is the foundation of enterprise development, and

capital is present throughout the entire process of transnational operation in international trade. Without the flow of funds, the company's finances are not dynamic, and it is difficult to continue to move forward. Therefore, rational planning of the company's financing methods has become a problem that every company manager needs to solve.

## **2. Literature Review**

### **2.1. MM Theorem**

MM theory was proposed by American economists Modigliani and Miller in 1958, the theory holds that while corporate income tax is not taken into account, the operating risks of the enterprise are the same, and only the capital structure is different, the market value of the company is not related to the capital structure of the company, but depends on the expected return of the company [1]. This shows that no matter what kind of financing method the enterprise chooses, it will not have an impact on the cost of capital and the value of the company. But in fact, in such a volatile market, the situation of not considering taxes is very extreme. So, after adding the impact of taxes on the company, the theorem has been corrected, because the interest on liabilities is a tax-free expenditure, which can reduce the comprehensive cost of capital and increase the value of the enterprise [1]. The company only needs to increase the cost of capital through the continuous increase of financial leverage benefits, so that the cost of capital continues to decrease. The more debt, the more obvious the leverage benefit, and the greater the value of the company [1].

### **2.2. Enterprise Lifecycle Theory**

The concept of life cycle is widely used, especially in many fields such as politics, economy, environment, science and technology, society, etc., and its basic meaning can be understood as the whole process of "from cradle to grave". The enterprise life cycle theory regards the enterprise as an organic whole, and divides the development of the enterprise into three stages: budding, growth and demise [2]. In 1972, Glens proposed that the concept of enterprise life cycle. The growth stage of the enterprise includes the gestation period, infancy, toddler period, adolescence, and prime years [2]. The decline phase of the enterprise includes the period of stability, the period of nobility and the period of bureaucracy, during which the state of the enterprise shows a trend of first rising and then slowly declining. The life cycle of the enterprise is related to the financing cycle, the enterprise has a special financing method at different life cycle points [2]. In the embryonic stage, the enterprise usually needs entrepreneurs to raise their own funds, and is not yet mature. Financing is very limited, it is difficult to meet the capital needs of the start-up enterprise. After entering the development period, the enterprises gradually matures, and the financing structure is more complete, there are more channels to raise funds, and some venture capital investment will be carried out [2]. After entering a recession period, stable endogenous investment became the main source of financing.

### **2.3. Concepts and Methods of Financing for Multinational Corporations**

Multinational companies have a wide range of business, usually involving international trade, covering many countries and regions. In order to achieve their own business objectives, multinational companies often raise funds on a global scale. Different types of enterprises should choose the appropriate financing methods according to their own business characteristics, and establish the correct financing structure. After mastering the characteristics of international financing methods, we can find the correct direction of financing [3].

TNCs operate globally, require large amounts of capital, and often have significant constraints on financing due to different systems in different regions [3]. The financing methods of multinational

companies are mainly divided into internal financing and external financing. Internal financing is mainly carried out within the company, so the scale of financing is small, the financing risk is lower, the cost is lower, and the autonomy of funds is strong. There are three main ways of external financing, the first is debt financing, which has a certain local tax effect and is larger, so the risk of financing is also higher. The second is equity financing, because of the intervention of shareholders, the scale of financing is also large, and it involves the control of the company, and the procedures are more cumbersome. The third is hybrid financing, which has relatively flexible terms and a lower cost of financing, but there is price risk and also involves the issue of corporate control [3].

### **3. Apple**

#### **3.1. Overview and Business**

Apple was founded by Jobs, Wozniak, and Wayne on April 1, 1974, and named Apple Computer Corporation of America, and renamed Apple On January 9, 2007. The core industry of the enterprise is the production of electronic technology products, the main well-known products consist of iPhones, iPad tablets, iPod music devices, MacBook series notebooks and so on. In the brain system, there is its own independently developed Mac OS system, and it also has its own software application store [4].

Apple went public on 12 December 1980, set a record market capitalization of US\$623.5 billion in 2012, and has repeatedly become the world's largest company by market capitalization as of 2020. In 2008, Apple became the world's first company with a market value of more than one trillion dollar [4]. Among many multinational companies, Apple's sales indicators are at the forefront of the world. According to Apple's 2020 annual report, revenue in 2020 was \$274.515 billion, an increase of 5.51% over the previous year. Net profit reached \$57.411 billion, up 3.9% from the previous year [5]. In the past five years, Apple's revenue has maintained an upward trend, and the growth rate in the past two years has been relatively slow due to the impact of the new crown pneumonia epidemic. Due to the recent promotional activities and the strong attraction of new products, so that the net income can continue to rise [5]. Although the new product sales have declined compared with the previous products, it is still possible that Apple is still the most profitable company, which shows the strong vitality of Apple's development so far.

#### **3.2. Apple's Financing Process at Different Stages**

According to the above-mentioned enterprise life cycle theory, Apple has also gone through three stages: seed stage, growth stage to maturity stage, and different financing combinations at different stages.

##### **3.2.1. Seed Stage**

**Internal Financing.** This stage is the product development and testing stage for Apple Inc., product quality can not have a reliable guarantee, so it is difficult to attract investors. Therefore, external financing is very difficult. However, the company need funds to promote product development, so the usual financing of enterprises in the start-up period comes from their own investment and government support funds.

In April 1976, Jobs and others established Apple, raising 1250 US dollars though the internal financing. Although internal financing is the preferred financing method of financing due to the low cost and risk and the simplicity of the process. But for Apple, to develops electronic technology products, 1250\$ can not meet the entrepreneur's financial needs for research and development. Internal financing is not enough for a company to develop in the long term run.

Angel investment. The research and development of Apple's first and second generation computers require a lot of funds, Jobs and other people's self-financing can not meet such a huge demand for funds. At this time, willing to bear a certain risk of venture capital has become Apple's main source of financing. Because of the success of Apple's generation of computers, it attracted external financing for Apple. In August 1976, Makula invested \$91,000 in his personal name and received other venture capital totaling \$600,000, after which a total of \$1,000 was raised [5]. \$10,000 is used to develop and produce Apple's second-generation computers. At this time, Apple needs to attract shareholders to participate in the shares, obtain equity financing channels, and be able to obtain more funds in a short period of time, which is conducive to further expanding the scale of the company in the future [5].

### **3.2.2. Growth Period**

Apple is in a critical period of bringing products to the market, the success of Apple's generation of computers has not completely alleviated Apple's urgent need for funds, it is the consumer's preference for Apple computers, which has led to Apple's need for more funds to improve the quality of products, and then meet the needs of the market. Because the company's own internal financing is still unable to meet the capital needs, venture capital is still the mainstream financing method at this stage, But at this stage, Apple's operating risk has been much lower than that of the seed stage and the start-up stage, so Apple chooses external private financing and tries to attract shareholders for the last time before listing. In 1979, Apple attracted capital companies, such as Xerox and 16 individual, investors to the stock market, and successfully raised \$727,000 in this round of financing. Apple's move offers unlimited possibilities for future development and great equity for investors, and private equity has paved the way for apple to go public and will not affect control of the company. After the listing, Apple began to issue shares to the market, and a single venture capital was not enough to support the company's continued expansion, but after the listing, it also brought more external financing to the company [6].

Mature Apple has reached an unprecedented level of market size, product quality and credit, so Apple has begun to issue bonds to the market, and bank credit has become one of its main financing options. Apple has been active in the bond market for many years, and from the data of recent years, Apple has maintained a very high debt ratio. However, Apple has more than \$246 billion in cash reserves, so its solvency is very high, which in turn has also increased the company's credibility [6]. Mature Apple has issued billions of bonds to raise money, setting a record for U.S. corporate bond issuance. From the above MM theorem, it can be seen that under the condition of having a large amount of capital reserves, the choice of debt financing increases the proportion of financial leverage, which can reduce the cost of capital and increase the value of the company. After Apple gained a high corporate reputation, the bank's loan restrictions on it were also greatly reduced, and the huge loans brought a lot of money to the company, fully solving the problem of insufficient funds in the early short period of time.

## **4. Implications of Apple's Financing Process**

### **4.1. Establish Diversified Financing Models to Reduce the Cost of Capital**

According to Apple's financing process in various periods, no matter what period, it is difficult to meet the company's capital needs in a short period of time by relying on a single financing method [7]. A variety of financing methods can quickly raise a large amount of funds for research and development or expand the market when the company is short of funds. For a start-up enterprise, internal financing is often the preferred financing method, internal financing is easy to implement, the risk is small, it is the most direct way to raise funds, but it also faces the problem of lack of funds, and

accepting appropriate venture capital is the key to breaking the bottleneck [7]. Multinational companies are different from domestic companies, should stand in the global perspective to observe the problem, comprehensively consider the financing methods suitable for the company, multinational companies to raise more external funds, the issuance of international bonds, so that you can enjoy tax incentives, thereby increasing the financial effect of enterprises. Apple used its own funds, government support funds and angel investment, private financing, etc. before listing, and Apple was active in the bond market after listing, actively issuing international bonds, improving leverage and increasing corporate value [8]. The organic combination of internal financing and external financing, and the comprehensive use of a variety of financing methods is an important way for enterprises to obtain financing advantages.

#### **4.2. Analyze the Development of the Company and Change the Financing Model in Combination with the Life Cycle of the Enterprise**

Multinational companies need a lot of capital to maintain their global operations, and a reasonable choice of financing methods is the key to the long-term survival of enterprises. The growth of enterprises is like the growth process of a person, and various scholars have created the theory of enterprise life cycle based on this, providing a theoretical framework for the financing of enterprises. As mentioned above, Apple has adopted different financing combinations at different stages of development, which have played a very good role. The growth of the enterprise is a slow and excessive process, and only by formulating different financing structures at the right time can it adapt to the development of the enterprise [9].

#### **4.3. Corporate Control Issues to Avoid in the Financing Process**

The founder is the core of a company, and in the financing project, if the problem of dilution of the founder's equity is ignored, it may cause the founder to lose control of the company. In the early days of Apple's shortage of funds, founder Jobs had to attract investors. In the process, the founder's equity was diluted many times, and finally even dismissed by the board of directors, fired by the company he founded. It can be seen that founders cannot ignore the risk of losing control of the company with the continuous arrival of external financing. The founder of the enterprise is the backbone of the enterprise, which plays a pivotal role and must have a long-term plan for the future development of the enterprise [10].

### **5. Conclusion**

Capital is the lifeblood of a business, and everything needs to be driven by funds, so the right financing is crucial for every company. For multinational companies, in any financing activity, the choice and combination of financing methods have become the focus of attention of enterprise managers.

This article takes Apple's development status and the financing process at various stages as an example, introduces the different financing methods that Apple will use at different stages of the development of the enterprise life cycle, and the problems that arise in the financing process. Recommendations are then made on the financing of multinational companies. First of all, when choosing a financing method, you can refer to the life cycle theory of the enterprise and choose the most suitable financing method for the enterprise at different stages of development of the enterprise. Secondly, enterprises should pay attention to financing costs, and save financing costs, and use diversified financing methods to raise funds. At the same time, enterprises should expand internal financing and strengthen the organic combination of internal financing and external financing. Finally, it is necessary to pay attention to the changes in control that may arise after the dilution of equity. Therefore, multinational companies must combine the factors of the host country, take into account the various

changes in the international market, and constantly adjust and choose the most suitable financing method for themselves, which will be conducive to the long-term development of enterprises.

Some of the data in this article is insufficient, the persuasiveness is low, and Apple's development history is a long process that cannot be done in every way, so some details will be omitted. In the future, we can start from Apple's perspective and study and analyze the company's success in depth.

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