

Apple's 2022 Financial Trends and Recommendations for Investors

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Abstract: With the downturn in the economic situation that most companies continue to glide after COVID-19, the operation of large companies has been a concern in various fields. Apple has not been affected by the situation affected by COVID-19 in recent years and still maintains a good state of operation. This paper aims to analyze the economic situation of Apple in 2022 and predict future economic trends by data analysis and example analysis. In this way, some companies affected by the economic situation can take a lesson from Apple's case to ride out the downturn. This paper also discusses three hot topics about Apple, including the iPhone hardware subscription plan, MR products and return on shareholder capital. It can be found that Apple has an excellent economic trend and it's worth investing in for investors. In the end, some risks that investors may face in the future will also be evaluated for investors.

Keywords: Apple, Financial statements, Balance sheet, Income statement, Dupont analysis

1. Introduction

Apple is one of the largest electronics companies in the world. Its products include a lot such as iPhone, iPad, and Mac. On December 12, 1980, Apple went public and all 4.6 million shares were sold in less than an hour, closing at \$29 each. At the time they attracted more money than any initial public offering since Ford went public in 1956 and created more millionaires than any company in history. Within five years, the company had entered the World's top 500, the fastest record at the time. In the 2022 Fortune 500 list, Apple ranked fourth. The sales of Apple continue to grow these years. His financial situation and accounting operations are worth studying and learning from other companies. There are also some risks that Apple may face in the future. This paper will discuss Apple's financial trends and recommendations for investors. This paper studies Apple's 10-k data in 2022, using Dupond analysis and comparing it with 2021's data. In this way, investors can get some advice from this paper. This paper uses data analysis to Intuitive performance of Apple's 2022 operating conditions and financial indicators and uses comparing analysis to compare different years' data. This paper can provide a reference for investors to find useful investment methods, and it can also provide some reference value for those who want to set up an electric company.

2. Apple's Financial Data

2.1. Apple's 10-k Data for 2022

The U.S. Securities and Exchange Commission (SEC) requires public companies to file a comprehensive report on their financial performance and corporate operations every year. As shown in Table 1, Apple's 10-k shows basic financial accounting index data in income statement, balance sheet, cash flows and statements of shareholder's equity.

Table 1: 10-k's data of Apple in 2022 (Unit: million)

Item	Net income (before tax)	Earnings per share (basic)	Earnings per share (diluted)	Revenue	Operating income	Gross margin	Cost of good sales
Data	99803	6.15	6.11	394328	119437	170782	223546

From the income statement, in 2022, the net income (before tax) is 99,803, the earnings per share (basic) is 6.15, the earnings per share (diluted):6.11. The revenue is 394,328, the operating income is 119,437, the gross margin is 170,782, and the cost of goods sales is 223,546.

Table 2: Cash flow's data in 2022 (Unit: million)

Cash	From operating activities	Used for financial activities	Used for invest activities
Data	122,151	110,749	22,354

From the cash flows(see Table 2), we can find cash generated from operating activities(122.151), cash used for financial activities(110,749) and investing activities(22,354).

2.2. Dupont Analysis

Dupont analysis method, also known as Dupont analysis system, is a method to comprehensively and systematically analyze and evaluate the financial status and economic benefits of enterprises by establishing a comprehensive model of financial indicators based on the internal relationship between the main financial ratio indicators.

Focusing on Apple's Dupont data in 2022, the return on assets is 0.28, it consists of a profit margin(0.25) and asset turnover(1.11).

The return on equity is about 2, and the current ratio is 0.88, (less than 1). That indicates that the company must rely on selling part of the inventory to pay off short-term debts. The operating margin is about 30 percent, which means every one hundred dollar revenue has about 30 dollar profit. It's considerable data. The sales growth is 8 percent, which means business status and market share are in a good situation.

2.3. Comparison with 2021's Data

Compared with 2021's data, the total revenue increased and the revenue of iPhone, Mac, and services increased but the revenue of iPad decreased. This may be because the function of the iPhone became stronger and in March of 2023, the iPad5 was published but it didn't have far more functions than iPad 4. Also, we know that Apple publishes a new iPhone in September every year, and it contributes most of the revenue. In 2021, Apple published iPhone 13, which was a major breakthrough in overall

performance, so the revenue of iPhone increased a lot in 2021. In 2022, On September 7, Apple released new products such as the iPhone 14 series of smartphones and a new series of smartwatches that support emergency satellite service connectivity. The price of the iPhone 14 has barely risen amid inflationary pressures. Apple said in a "Far Out" product launch event that the latest iPhone would start at \$799 [1]. On July 29, Apple released its financial results for the third quarter of fiscal year 2022 (Q2 2022). In the second quarter, Apple's revenue reached 82.959 billion US dollars, an increase of 1.87%. Net profit was \$19.442 billion, down 10.59 percent from a year earlier. Brokers expect Apple's iPhone 14 to begin mass production in August and be released in September. Apple Chief Financial Officer Luca Maestri said demand for the iPhone, which is the company's largest source of revenue, was not slowing down [2].

Regarding profit margin, 2021's is higher than 2022's, Regarding asset turnover, 2021's is lower than 2022's, it indicates that total asset turnover speed is faster in 2022, but profitability is a little lower. ROE shows that business operations are unstable. The sales growth increased, and it has a trend that sales growth will increase steadily in the future.

The current ratio in 2021 is more than 1, and the current ratio in 2022 is less than 1. So in 2022, Apple may adjust its assets and liabilities.

3. Apple's Future Development Trend

3.1. Apple's Three Steps

Apple is working on a subscription service for the iPhone and other hardware devices that will be the same as an App subscription. The general rules are that customers can trade in a new device at any time during the subscription period, rather than having to pay down the balance over 24 or 12 months in installments and allow participating customers to trade in new hardware when it becomes available.

3.1.1.A Possible iPhone Hardware Subscription Plan

On June 6, Apple released the first MR(mixed reality) Headset device - Apple Vision Pro- at the WWDC Conference in 2023. Everything about MR Makes the outside world curious, Apple CEO Cook plans to lead the first product.

In the "One more thing" segment, "Product Manager" Cook personally introduced the concept and positioning of MR Products on stage. Cook said Apple has been planning for this day for a long time and believes augmented reality is the future, "Just as the Mac introduced us to personal computing and the iPhone introduced us to mobile computing, Apple Vision Pro will bring us into the era of spatial computing." [3].

As early as February 12, 2023, it was mentioned that although Apple's "iPhone hardware subscription plan" may be delayed, it is expected to arrive eventually.

Many Apple iPhone owners typically include a lump sum in their budgets for a new model. Assuming Apple does launch an iPhone hardware subscription plan, as has been reported, this would give iPhone users greater ability to spend more on Apple's other services and products. That means Apple's overall revenue could grow faster as users subscribe to more services and buy other ancillary products without having to pay a large sum each year for a new iPhone upgrade. In addition, the introduction of iPhone hardware subscription plans will also reduce switching costs for consumers and reduce the likelihood of current iPhone users switching to other brands of smartphones.

What's more, Apple's valuation has been discounted by the market because of its reliance on non-recurring products. According to Apple's 10-K filing, iPhone and services accounted for 52% and 20% of Apple's revenue, respectively, in fiscal year 2022. In the most recent fiscal year, other products contributed the remaining 28 percent of revenue. If Apple can increase the percentage of recurring

revenue streams through iPhone hardware subscriptions, then the market will give Apple a higher valuation.

3.1.2. Launch New MR Products

In the current smartphone space, the lack of innovation like Jobs has attracted little interest. For example, that the new iPhone isn't much different from previous versions. And thanks to the rise of new investment booms such as chatbots this year, and the recent increase in investor interest in other tech areas, the smartphone space seems particularly "boring" by comparison. This has largely limited the capital appreciation and valuation upside potential of Apple's stock.

As early as February 15, 2023, the media reported that Apple's first "MR Headset" may be available in the middle of this year. It's worth noting that Apple CEO Tim Cook recently said in an interview with the media that he believes MR Products "can greatly enhance people's communication and connection" and "enable people to achieve things that were not possible before." It's clear that Tim Cook sees the new MR Product as a game-changing innovation.

Assuming Apple targets sales of 1 million MR Headphones at an average selling price of around \$3,000, Apple could potentially generate around \$3 billion in revenue from the MR Headset in its first year. Add to that the 2 billion active devices Apple currently has, so through the cross-selling of active devices, Apple's MR Headphones should be sold in the next few years.

3.1.3. Return on Shareholder Capital

Looking ahead, the firm believes that Apple's user base will continue to grow and that the company has the ability to increase average spend per use with the introduction of iPhone hardware subscription plans and other new products and services. This suggests that Apple's recurring cash flow will grow over time, which we believe will translate into continued dividends and share buybacks in the future. Apple's free cash flow in fiscal 2022 was billion, and in the most recent fiscal year, Apple returned 111 billion in capital to shareholders which means that Apple's free cash flow rate is 100% [4].

3.2. Risks of Investing in Apple

It is a truth that is almost unshaken in the Apple industry chain. "As far as we know, Apple's cuts to the supply chain are mainly concentrated in headphones, watches and PCS, and it is OK for mobile phones." The continued decline in PC shipments is also an important reason for the pressure on Apple and its industrial chain. On January 3, 2023, Apple shares opened down and closed down 3.74%, with a market value below \$2 trillion. According to media reports, Apple, citing weakening demand, notified component suppliers in the industrial chain to reduce the production of AirPods, Apple Watch and MacBook devices in the first quarter of this year production [5].

3.2.1. The Risk of the Stock Price's Peak

From the listing to now, the cumulative increase of tens of thousands of times accumulated countless profit orders, and the peak of the stock price will make investors face the risk of a long-term downward trend.

In the past six years, Apple has never traded at more than 15 times estimated earnings per share for the current fiscal year. Apple closed Monday at about 20.50 times earnings, a premium to the S&P 500 and nearly 60 percent above its six-year average. While the company's revenue and earnings are expected to grow over the next few years, we're not seeing the same dramatic growth we've seen in the past.

Part of a value investment is the capital that a name returns to the investor. As you might expect, a big rise in a stock means its annual dividend yield will fall. However, Apple did not announce a significant increase in this year's dividend. The chart below shows that the stock yield on this day is not only at its lowest point in years but also about 37% below the seven-year average.

3.2.2. Risk of Mismanagement

Apple has changed from a pure scientific and technological innovation company to a hodgepodge company with a collection of many projects. Due to the lack of product innovation, the competitive is declining, and the cost of sales is rising. In particular, it will face the dual industry risks of rising production costs and declining sales performance due to high inflation.

Also, In the United States, we may see the Democratic Party take over all three branches of government in next year's elections. Whether they do or not, taxing big business and millionaires/billionaires has become a key topic of late. I mention this because with President Trump's tax cut plan, Apple's GAAP effective tax rate has come down quite a bit

4. Conclusion

In this paper, we analyze Apple's financial trends and give some advice to investors in the future. In conclusion, Apple is a successful firm in investing, in the situation of a possible iPhone hardware subscription plan, launching new MR products, and return on shareholder capital. However, the investors may face some risks: the risk of the stock price's peak and the risk of mismanagement.

This paper has some parts to improve, such as a deep analysis of Apple 10-k data and reasons for Apple's good financial situation. In the future, researchers can compare Apple's financial performance with that of other companies. If some people want to set up an electronics company, they can learn some policy from this type of research.

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