

Apple Inc. (AAPL US)

FICC Research Dept

Maintaining a strong financial position

- FY23 Revenues decreased 3% y/y with lower revenues in all segments except Services; EBITDA decreased 4% y/y
- Maintains a strong financial position with a net cash position of \$51bn
- Outlook stable given the large and relatively stable revenues, the continuous growth of services segment and the strong balance sheet

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Credit Opinion

We evaluate the credit outlook as stable given Apple's large and relatively stable revenues, the continuous growth of services revenues and the strong balance sheet. In FY23, total revenues decreased 3% y/y to \$383.3bn as FX had a significant negative impact on revenues. On a constant-currency basis, total revenues increased y/y despite the challenging macroeconomic environment. The performance in emerging markets was strong as revenues reached an all-time record in FY23, registering double-digit growth in constant-currency.

Services segment continues to grow with FY23 revenues up 9.1% y/y. Revenue growth was broad based with growth in advertising, cloud services and the App Store. There are a few factors that continue to support the services growth. First, the installed base of active devices continues to grow, reaching an all-time high for all major products categories and geographic segments. Second, there is an increased customer engagement with more than 1bn of paid subscriptions across services. Third, Apple continues to launch new services and new offerings within the services. Services revenue growth is credit positive as it helps diversify Apple's product portfolio and increases the recurring revenue.

Apple maintains a strong financial position with a net cash position of \$51bn. Apple continues to return capital to shareholders through share repurchases and dividends but we don't expect significant deterioration in the credit metrics. We expect the financial policy to remain conservative in line with the firm's announced target of net zero cash position over time.

Apple has an excellent liquidity profile with \$162.1bn of cash and marketables on its balance sheet as end of FY23. The liquidity profile is also supported by Apple's high capabilities to generate cash flows with \$99.6bn of free operating cash flows in FY23. Apple continues to have healthy profit margins with gross margins at 44.1% and EBITDA margins at 32.8%.

FY23 Financial Highlights

Total revenues decreased 3% y/y to \$383.3bn mainly due to lower sales of Mac and iPhone, partially offset by higher sales of Services. FX had a negative impact on revenues and the weakness in foreign currencies relative to the US dollar accounted for more than the entire y/y revenue decrease.

iPhone revenues decreased 2% y/y to \$200.6bn due to lower sales of non-Pro iPhone models, partially offset by higher sales of Pro iPhone models. iPhone continues to be the largest segment with a share of 52% in total revenues.

Mac revenues decreased 27% y/y to \$29.4bn as the sales of laptops were lower y/y due to challenging market conditions and a difficult comparison against the strong results a year ago. In FY22, Apple experienced supply disruptions from factory shutdowns which was followed by significant pent-up demand during the September quarter.

iPad revenues decreased 3% y/y to \$28.3bn due to lower sales of iPad mini and iPad Air.

Wearables (Wearables, Home and Accessories) revenues decreased 3% y/y to \$39.8bn due to lower sales of Wearables and Accessories.

Services revenues increased 9.1% y/y to \$85.2bn setting an all-time revenue record. Services revenue growth was broad based with growth in advertising, cloud services and the App Store. Services is the second largest segment with 22% share in total revenues.

On a geographical basis, Americas revenues decreased 4% y/y to \$162.6bn due to lower sales of iPhone and Mac, partially offset by higher sales of Services; Europe decreased 1% y/y to \$94.3bn due to lower sales of Mac and Wearables, partially offset by higher sales of iPhone and Services. The weakness of foreign currencies relative to the US dollar accounted for more than the entire y/y decrease in Europe sales; Greater China decreased 2% y/y to \$72.6bn due to lower sales of Mac and iPhone. The weakness of the Chinese renminbi relative to the US dollar accounted for more than the entire decrease in Greater China sales; Japan decreased 7% y/y to \$24.3bn due to lower sales of iPhone, Wearables and Mac. The weakness of the yen relative to US dollar accounted for more than the entire y/y decrease in Japan sales; Rest of Asia increased 1% y/y to \$29.6bn due to higher sales of iPhone and Services, partially offset by lower sales of Mac and iPad. The weakness in foreign currencies relative to the US dollar had a significantly unfavorable y/y impact on Rest of Asia Pacific sales.

EBITDA decreased 4% y/y to \$125.8bn due to lower revenues and higher operating expenses. EBITDA margin decreased 30bps y/y to 32.8%.

Gross margin increased 80bps y/y to 44.1% driven by higher products gross margin, partially offset by lower services gross margin. Products gross margin improved 20bps y/y to 36.5% due to cost savings and a favorable product mix. Services gross margin decreased 90bps y/y to 70.8% due to higher services costs and the negative FX impact.

Apple's liquidity sources include cash holdings, cash generated by ongoing operations and the access to debt markets. **As end of September 2023, the balance of cash, cash equivalents and marketable securities totaled \$162.1bn.**

Free operating cash flow (FOCF=operating cash flows - CapEx) decreased 11% y/y to \$99.6bn due to lower cash flow from operations and higher CapEx. Cash flow from operations decreased 9.5% y/y to \$110.5bn. CapEx increased 2.3% y/y to \$11bn.

Total debt decreased 8% y/y to \$111.1bn. When taking into consideration the cash balance, Apple had a net cash position of \$51bn as of end of September 2023. Apple maintains its target of reaching a net cash neutral position over time.

In May 2023, Apple announced a new share repurchase program of up to \$90bn and raised its quarterly dividend from \$0.23 to \$0.24 per share beginning in May 2023. During 2023, Apple repurchased \$76.6bn of its common stock and paid dividends and dividend equivalents of \$15bn.

Chart 1: Financial results

(\$m)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Y/Y
Period End	09/28/2019	09/26/2020	09/25/2021	09/24/2022	09/30/2023	
■ P/L						
Revenues	260,174	274,515	365,817	394,328	383,285	-2.8%
Gross profit	98,392	104,956	152,836	170,782	169,148	-1.0%
Gross margin	37.8%	38.2%	41.8%	43.3%	44.1%	0.8
Operating expenses	▲ 34,462	▲ 38,668	▲ 43,887	▲ 51,345	▲ 54,847	6.8%
SG&A	▲ 18,245	▲ 19,916	▲ 21,973	▲ 25,094	▲ 24,932	-0.6%
R&D	▲ 16,217	▲ 18,752	▲ 21,914	▲ 26,251	▲ 29,915	14.0%
Operating Income	63,930	66,288	108,949	119,437	114,301	-4.3%
Pretax Income	65,737	67,091	109,207	119,103	113,736	-4.5%
Tax rate	15.9%	14.4%	13.3%	16.2%	14.7%	▲ 1.5
Net Income	55,256	57,411	94,680	99,803	96,995	-2.8%
EBITDA	76,477	77,344	120,233	130,541	125,820	-3.6%
EBITDA margin	29.4%	28.2%	32.9%	33.1%	32.8%	▲ 0.3
■ C/F						
Cash from operations	69,391	80,674	104,038	122,151	110,543	-9.5%
Depreciation & Amortization	12,547	11,056	11,284	11,104	11,519	3.7%
Cash from investing	45,896	▲ 4,289	▲ 14,545	▲ 22,354	3,705	---
CapEx	▲ 10,495	▲ 7,309	▲ 11,085	▲ 10,708	▲ 10,959	2.3%
Cash from financing	▲ 90,976	▲ 86,820	▲ 93,353	▲ 110,749	▲ 108,488	-2.0%
Dividends paid	▲ 14,119	▲ 14,081	▲ 14,467	▲ 14,841	▲ 15,025	1.2%
Net stock repurchases	▲ 66,116	▲ 71,478	▲ 84,866	▲ 89,402	▲ 77,550	-13.3%
Free cash flow (FCF)	115,287	76,385	89,493	99,797	114,248	14.5%
Free operating cash flow (FOCF)	58,896	73,365	92,953	111,443	99,584	-10.6%
Net cash flow	24,311	▲ 10,435	▲ 3,860	▲ 10,952	5,760	---
■ B/S						
Assets	338,516	323,888	351,002	352,755	352,583	0.0%
Current assets	162,819	143,713	134,836	135,405	143,566	6.0%
Cash&Marketable	205,898	191,830	190,516	169,109	162,099	-4.1%
Liabilities	248,028	258,549	287,912	302,083	290,437	-3.9%
Current liabilities	105,718	105,392	125,481	153,982	145,308	-5.6%
Total Debt	108,047	112,436	124,719	120,069	111,088	-7.5%
Net Debt(*)	▲ 97,851	▲ 79,394	▲ 65,797	▲ 49,040	▲ 51,011	4.0%
Equity	90,488	65,339	63,090	50,672	62,146	22.6%
■ Financial Ratios						
Equity Ratio	26.7%	20.2%	18.0%	14.4%	17.6%	3.3
NetD/E	▲ 1.08	▲ 1.22	▲ 1.04	▲ 0.97	▲ 0.82	0.1
NetD/EBITDA	▲ 1.28	▲ 1.03	▲ 0.55	▲ 0.38	▲ 0.41	▲ 0.0
ROA (**)	15.7%	17.3%	28.1%	28.4%	27.5%	▲ 0.9
ROE (**)	55.9%	73.7%	147.4%	175.5%	171.9%	▲ 3.5

Source: Company materials, Bloomberg; compiled by Daiwa

(*) Net Debt= total debt- cash- marketables

(**) Calculations are based on net income data for the last twelve month.

Chart 2: Revenues breakdown by products

(\$m)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Y/Y
Period Ending	09/28/2019	09/26/2020	09/25/2021	09/24/2022	09/30/2023	
Total Revenues	260,174	274,515	365,817	394,328	383,285	-2.8%
iPhone	142,381	137,781	191,973	205,489	200,583	-2.4%
Mac	25,740	28,622	35,190	40,177	29,357	-26.9%
iPad	21,280	23,724	31,862	29,292	28,300	-3.4%
Wearables, Home and Accessories	24,482	30,620	38,367	41,241	39,845	-3.4%
Services	46,291	53,768	68,425	78,129	85,200	9.1%

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 3: Product share in total revenues

(\$m)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Y/Y
3 Months Ending	09/28/2019	09/26/2020	09/25/2021	09/24/2022	09/30/2023	Change
Total Revenues	260,174	274,515	365,817	394,328	383,285	
iPhone	55%	50%	52%	52%	52%	0.2
Mac	10%	10%	10%	10%	8%	▲ 2.5
iPad	8%	9%	9%	7%	7%	▲ 0.0
Wearables	9%	11%	10%	10%	10%	▲ 0.1
Services	18%	20%	19%	20%	22%	2.4

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 4: Revenues growth rates by product (y/y)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Y/Y
3 Months Ending	09/28/2019	09/26/2020	09/25/2021	09/24/2022	09/30/2023	Change
Total Revenues	-2%	6%	33%	8%	-3%	---
iPhone	-14%	-3%	39%	7%	-2%	---
Mac	2%	11%	23%	14%	-27%	---
iPad	16%	11%	34%	-8%	-3%	---
Wearables, Home and Accessories	41%	25%	25%	7%	-3%	---
Services	16%	16%	27%	14%	9%	▲ 5.1

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 5: Revenues/ Operating Income breakdown by geographical segments

(\$m)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Y/Y
3 Months Ending	09/28/2019	09/26/2020	09/25/2021	09/24/2022	09/30/2023	
Revenue	260,174	274,515	365,817	394,328	383,285	-3%
Americas	116,914	124,556	153,306	169,658	162,560	-4%
Europe	60,288	68,640	89,307	95,118	94,294	-1%
Greater China	43,678	40,308	68,366	74,200	72,559	-2%
Japan	21,506	21,418	28,482	25,977	24,257	-7%
Rest of Asia Pacific	17,788	19,593	26,356	29,375	29,615	1%
Segment Operating Income	85,950	91,240	137,006	152,895	150,888	-1.3%
Americas	35,099	37,722	53,382	62,683	60,508	-3.5%
Europe	19,195	22,170	32,505	35,233	36,098	2.5%
Greater China	16,232	15,261	28,504	31,153	30,328	-2.6%
Japan	9,369	9,279	12,798	12,257	11,888	-3.0%
Rest of Asia Pacific	6,055	6,808	9,817	11,569	12,066	4.3%

Source: Company materials, Bloomberg; compiled by Daiwa

Apple manages its business primarily on a geographic basis with five reportable segments:

- (1) Americas, including both North & South America
- (2) Europe, including European countries, India, the Middle East and Africa
- (3) Greater China, including China, HK, Taiwan
- (4) Japan
- (5) Rest of Asia Pacific, including Australia, other Asian countries

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