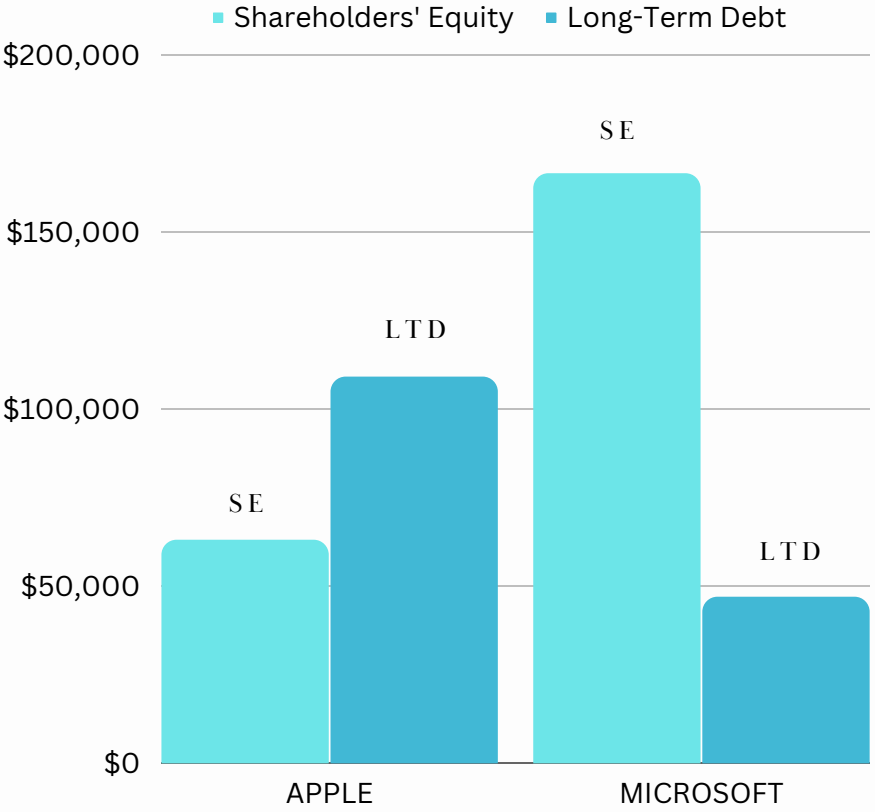


FINANCIAL COMPARISON: APPLE & MICROSOFT

FINANCIAL MANAGEMENT | PARSONS SCHOOL OF DESIGN
ALESSANDRA FERRETTI & MICHELLE GERSTER

Balance Sheet Comparison Apple & Microsoft Corp		
(In millions; as of)		
	Apple	Microsoft
	September 25, 2021	June 30, 2022
Assets:		
Marketable Securities	\$27,699	
Accounts Recivables, net	\$26,278	\$44,261
Inventories	\$6,580	\$3,742
Vendor Non-trade Receivables	\$25,228	
Other Current Assets	\$14,111	\$16,924
Short-Term Investments		\$90,826
Total Current Assets	\$99,896	\$155,753
Non-Current Assets:		
Marketable Securities	\$127,877	
Property, Plant and Equipment, net	\$39,440	\$74,398
Other Non-Current Assets	\$48,849	
Operating Lease Right-of-Use Assets		\$13,148
Equity Investments		\$6,891
Goodwill		\$67,524
Intangible Assets, net		\$11,298
Other Long-Term Assets		\$21,897
Total Non-Current Assets	\$216,166	\$195,156
Total Assets	\$316,062	\$350,909
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts Payable	\$54,763	\$19,000
Other Current Liabilities	\$47,493	\$13,067
Deferred Revenue	\$7,612	
Commercial Paper	\$6,000	
Short-Term Debt	\$9,613	
Current Portion of Long-Term Debt		\$2,749
Accrued Compensation		\$10,661
Short-Term Income Taxes		\$4,067
Short-Term Unearned Revenue		\$45,538
Total Current Liabilities	\$125,481	\$95,082
Non-Current Liabilities:		
Long-Term Debt	\$109,106	\$47,032
Other Non-Current Liabilities	\$53,325	
Long-Term Income Taxes		\$26,069
Long-Term Unearned Revenue		\$2,870
Deferred Income Taxes		\$230
Opearting Lease Liabilities		\$11,489
Other Long-Term Liabilities		\$15,526
Total Non-Current Liabilities	\$162,431	\$56,184
Total Liabilities	\$287,912	\$151,266
Shareholders' Equity:		
Common Stock	\$57,365	
Retained Earnings	\$5,562	\$84,281
Accumulate Other Comprohensive Income/(Loss)	\$163	-\$4,678
Common Stock and Paid in Capital		\$86,939
Total Shareholders' Equity	\$63,090	\$166,542
Total Liabilities and Shareholders' Equity	\$351,002	\$317,808



Microsoft is with its Shareholder Equity of **\$166,542** up +\$103,450 compared to Apple's **\$63,090** Shareholder Equity.

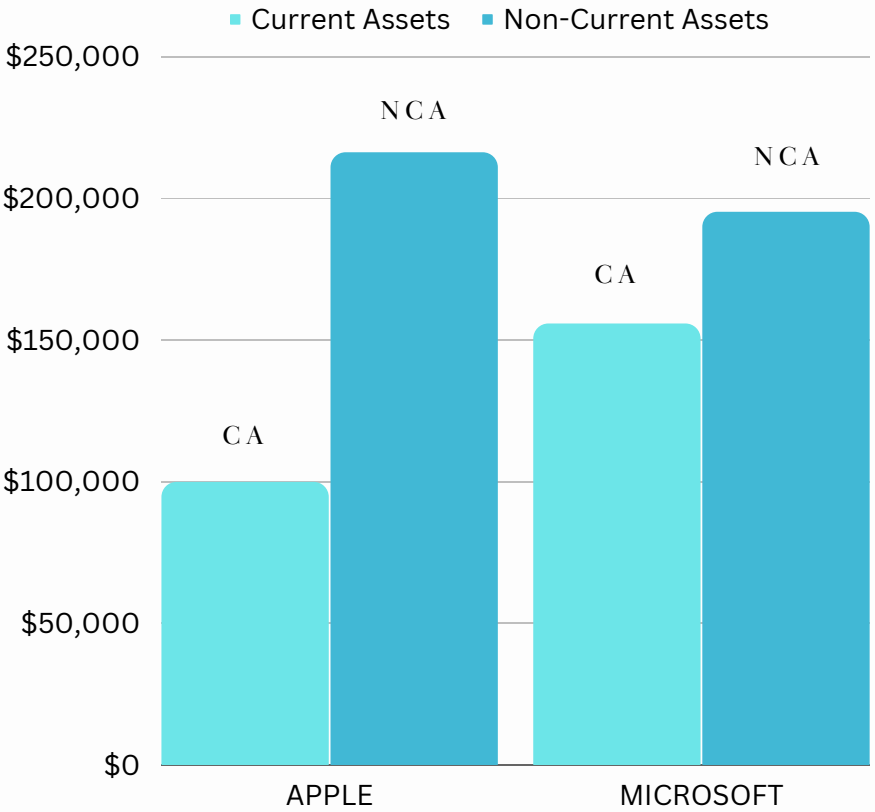
Microsoft's Shareholder Equity is **2.6** times as big as Apple's. Apple's equals to 37.88% of Microsoft's Shareholder Equity.

Apple is with it's Long-Term Debt of **\$109,106** up +\$62,074 compared to Microsoft **\$47,032** Long-term debt.

Apple's Long-Term Debt is **2.3** times as big as Microsoft's. Microsoft equals to 43.11% of Apple's Long-Term Debt.

0.28 Debt to Equity Ratio for Microsoft
1.73 Debt to Equity Ratio for Apple

Generally, a good debt-to-equity ratio is anything lower than 1.0. A ratio of 2.0 or higher is usually considered risky. Further research shows that Apple's debt-to-equity ratio has been increasing over the past five years as it takes on more debt to finance share buybacks, increase dividends, and grow.



Microsoft is with its Current Assets of **\$155,753** up +\$55,857 compared to Apple's **\$99,896** Current Assets.

Microsoft's Current Assets is **1.6** times as big as Apple's. Apple equals to 64.14% of Microsoft's Current Assets.

Apple is with its Non-Current Assets of **\$216,166** up +\$21,010 compared to Microsoft's **\$195,156** Non-Current Assets.

Apple's Non-Current Assets is **1.1** times as big as Microsoft's. Microsoft is 90.28% of Apple's Non-Current Assets.

Because inventory is deducted from current assets, Apple's current assets are comparatively low.

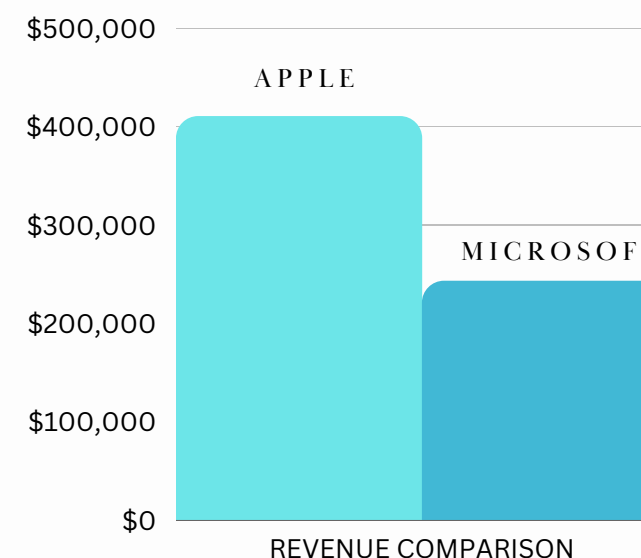
Since noncurrent assets have a useful life for a very long time, companies spread their costs over several years. This process helps avoid huge losses during the years when capital expansions occur.

Income Statement Comparision Apple & Microsoft

(In millions; for the 12 months ended)

	Apple September 25, 2021	Microsoft June 30, 2022
Net Sales:		
Products	\$297,392	\$72,732
Services	\$68,425	
Service and Other		\$125,538
Total Net Sales	\$410,281	\$243,012
Cost of Sales:		
Products	\$192,266	\$19,064
Services	\$20,715	
Service and Other		\$43,586
Total Cost of Sales	\$212,981	\$62,650
Gross Profit	\$197,300	\$180,362
Operating Expenses:		
Research and Development	\$21,914	\$24,512
Selling, General and Administrative	\$21,973	
Sales and Marketing		\$21,825
General and Administrative		\$5,900
Total Operating Expenses	\$43,887	\$52,237
Operating Income	\$153,413	\$128,125
Other Income/(Expense), net	\$258	\$333
Income Before Provision for Income Taxes	\$153,671	\$83,716
Provision for Income Taxes	\$14,527	\$10,978
Net Income	\$139,144	\$72,738

Apple's balance sheet may be made more debt-ridden or more asset-light. By issuing more stocks, they might potentially raise stockholders' equity. To balance their bank sheet, Apple might possibly take on more debt. By acquiring more assets, Microsoft might balance its surplus. This could be accomplished by temporarily raising the year's short-term assets, like cash and cash equivalents.

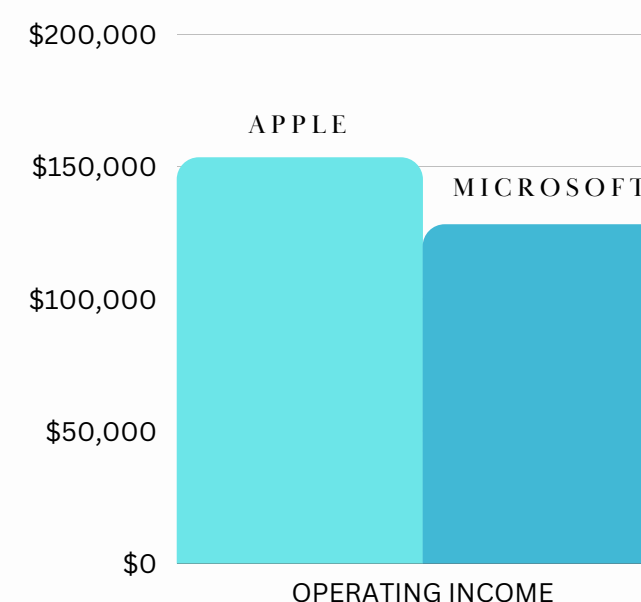


Apple is with its Revenue of **\$410,281** up +\$167,269 compared to Microsoft's **\$243,012** Revenue.

Apple made **1.7** times as much Revenue as Microsoft. Microsoft equals to 59.23% of Apple's Revenue.

Not only does Apple sell hardware, but it sells great hardware. Not only does it sell great hardware, but it sells hardware with a great operating system. Not only does it do all these things, it does it with unbeatable support. All at a Premium.

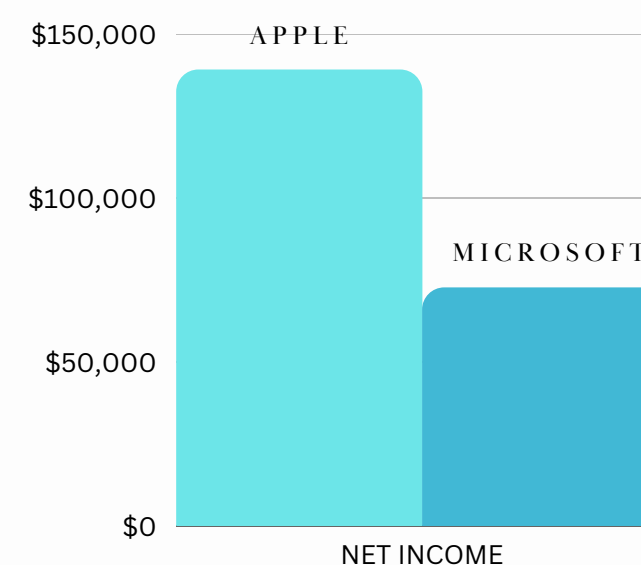
Microsoft's big desktop cash cow is Office. And, Google has built a functional alternative to Office for 80% of users. Microsoft is strong in the cloud but has stiff competition from Amazon, Google and increasingly Apple.



Apple is with its Operating Income of **\$153,413** up +\$25,288 compared to Microsoft's **\$128,125** Operating Income.

Apple made **1.2** times as much Operating Income as Microsoft. Microsoft equals to 83.52% of Apple's Operating Income.

Apple charges its hardware, operating systems and support at a premium. The operating expenses of Apple are significantly lower, especially in comparison to how much each company sells.



Apple is with its Net Income of **\$139,144** up +\$66,406 compared to Microsoft's **\$72,738** Net Income.

Apple made **1.6** times as much Net Income as Microsoft. Microsoft equals to 52.28% of Apple's Net Income.

The reason why Net Income of Apple is only 1.6 times Microsoft versus the revenue with Apple being 1.7 times Microsoft's revenue, is due to Apple's higher charges from Provision for Income Taxes, which is at a higher price due to more taxable income.

CASH CONVERSION CYCLE

CASH CONVERSION CYCLE = DAYS ACCOUNTS RECEIVABLES + INVENTORY DAYS – ACCOUNTS PAYABLE DAYS

- DAYS ACCOUNTS RECEIVABLES = AVERAGE ACCOUNTS RECEIVABLE/(TOTAL REVENUE/PERIOD OF ANALYSIS (1YR))
- DAYS ACCOUNTS PAYABLE = AVERAGE ACCOUNTS PAYABLE/(COGS/PERIOD OF ANALYSIS (1YR))
- INVENTORY DAYS = AVERAGE INVENTORY/(COGS/PERIOD OF ANALYSIS (1YR))

The cash conversion cycle (CCC) is a metric that expresses the length of time (in days) that it takes for a company to convert its investments in inventory and other resources into cash flows from sales.

With a CCC of -59.2 days Apple may convert its inventory investments and resources into cash 36.8 days faster than Microsoft with its -22.4 days CCC.

Microsoft has a 62.2% decrease in cash conversion time compared to Apple.

A negative cash conversion cycle means that inventory is sold before you have to pay for it. In other words, suppliers are funding the company's operations. A negative cash conversion cycle is a desirable situation for businesses.

APPLE

Period of analysis	365 days
Total revenues	410,281 \$
Cost of goods sold	212,981 \$
Average inventory	6580 \$
Average accounts receivables	26,278 \$
Average accounts payable	54,763 \$
Accounts receivables days	23.4 days
Inventory days	11.3 days
Accounts payable days	93.9 days
Cash conversion cycle	-59.2 days

MICROSOFT

Period of analysis	365 days
Total revenues	243,012 \$
Cost of goods sold	62,650 \$
Average inventory	3,742 \$
Average accounts receivables	44,261 \$
Average accounts payable	19000 \$
Accounts receivables days	66.5 days
Inventory days	21.8 days
Accounts payable days	110.7 days
Cash conversion cycle	-22.4 days

APPLE:

-59.2 DAYS = 23.4 DAYS + 11.3 DAYS – 93.9 DAYS

- DAYS ACCOUNTS RECEIVABLES
23.4 DAYS = 26,278\$/(410,281\$/365DAYS(1YR))
- DAYS ACCOUNTS PAYABLE
54,763\$/(212,981\$/365 DAYS (1YR))
- INVENTORY DAYS =
6580\$/(212,981\$/365 DAYS (1YR))

MICROSOFT:

-22.4 DAYS = 66.5 DAYS + 21.8 DAYS – 110.7 DAYS

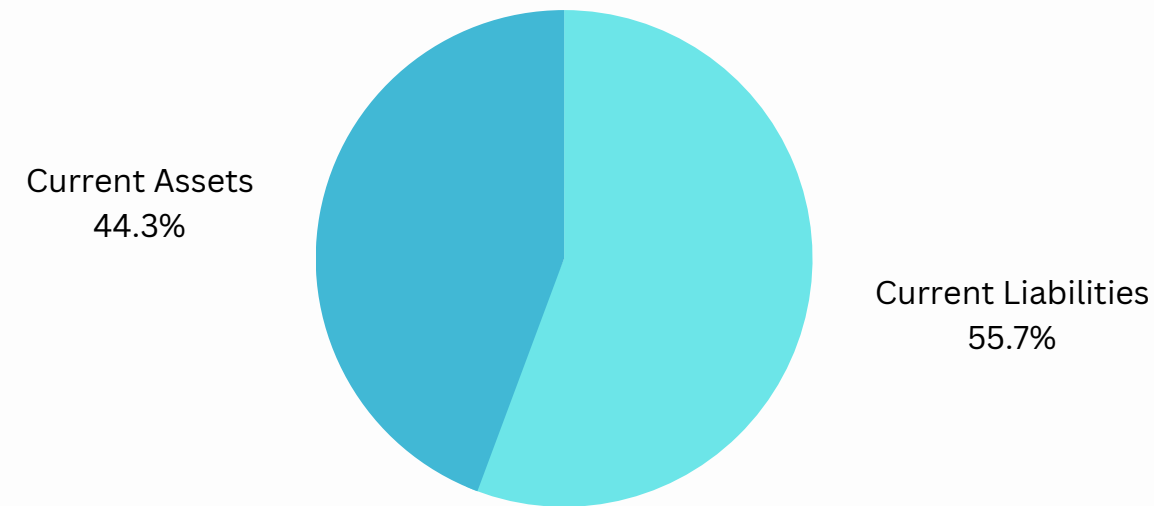
- DAYS ACCOUNTS RECEIVABLES
66.5 DAYS = 44,261\$/(243,012\$/365DAYS(1YR))
- DAYS ACCOUNTS PAYABLE
19,000\$/(62,650\$/365 DAYS (1YR))
- INVENTORY DAYS =
3,742\$/(62,650\$/365 DAYS (1YR))

CURRENT RATIO

$$\text{CURRENT RATIO} = \text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$$

A liquidity ratio called the current ratio assesses a company's capacity to settle short-term debts or those that are due within a year.

APPLE



a current ratio of 1.5 or above is considered healthy, while a ratio of 1 or below suggests the company would struggle to pay its liabilities and might go bankrupt.

This suggests that the Apple business might struggle to fulfill its present obligations. Low numbers, however, do not signify a significant problem. If Apple has promising long-term prospects, it could be able to borrow money to pay for immediate obligations.

a part of this trend could be explained by apple likely using its cash to pay dividends and buy back its own stock. Since 2012, Apple has been buying back its own shares at an extraordinary rate. For a variety of reasons, including consolidation and to increase shareholder value, companies typically repurchase their own stock, which typically results in higher share prices. Furthermore Apple CFO Luca Maestri said that Covid disruptions in China and silicon shortages are making it difficult to make enough product to satisfy customer demand.

Given that Apple produces a higher percentage of its products in hardware than does Microsoft, the present supply chain problems may affect Apple more and result in Microsoft operating under a healthier economic model.

MICROSOFT



APPLE:

$$0.796 = \$99,896 / \$125,481$$

MICROSOFT:

$$1.638 = \$155,753 / \$95,082$$

CASH/QUICK RATIO

CASH RATION = (CURRENT ASSETS - INVENTORY)/CURRENT LIABILITIES

The quick ratio assesses a company's capacity to satisfy its short-term obligations using its most liquid assets and serves as an indicator of its short-term liquidity position.

APPLE:
0.744 = (\$99,896 - \$6,580)/\$125,481

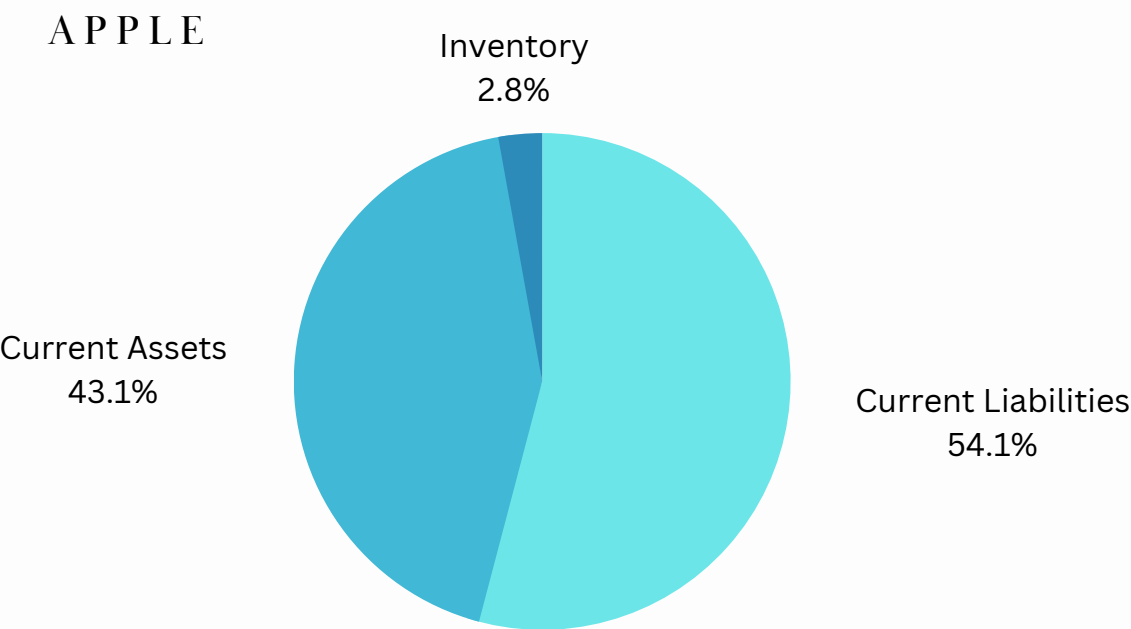
MICROSOFT:
1.599 = (\$155,753 - \$3,742)/\$95,082

A 1:1 liquid ratio is regarded as usual. A business with a quick ratio under 1 is now unable to fully cover its current liabilities:

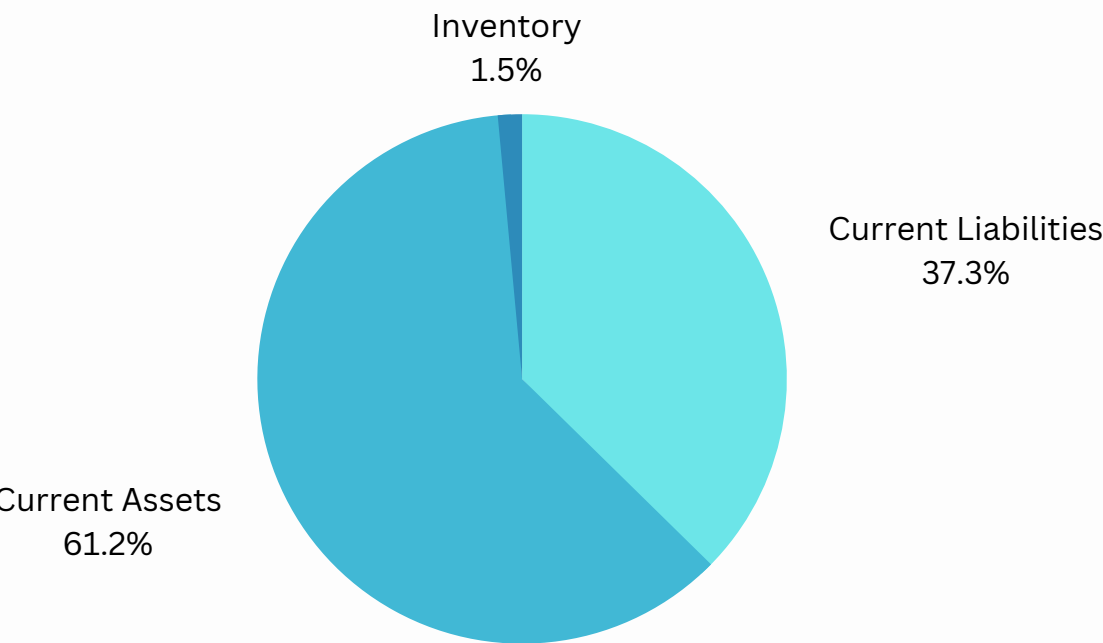
Apple's quick ratio is \$0.74 of liquid assets available to cover each \$1 of current liabilities.

Microsoft's quick ratio is \$1.59 of liquid assets available to cover each \$1 of current liabilities.

Microsoft can pay off short-term debt more readily since its quick ratio is larger than Apple's. In general, Microsoft's stock price is greater than Apple's, indicating the company is more financially stable, Apple puts a lot of emphasis on consumer technologies, whereas Microsoft is more known for emphasizing business-to-business sales. Microsoft experiences less market fluctuations, making it a more stable and secure long-term investment. It's also crucial to keep in mind that Microsoft, compared to Apple, has stronger financial ratios overall and far less debt, making it a better investment.



MICROSOFT



RETURN ON INVESTMENT (ROI)

RETURN OF INVESTMENT (ROI) = (NET PROFIT / COST OF INVESTMENT) X 100

- **COST OF INVESTMENT = COST OF GOODS SOLD + OPERATING EXPENSES**

Return on Investment (ROI) is a calculation of the monetary value of an investment versus its cost.

APPLE:

54.2% = (\$139,144/\$256,868) X 100

MICROSOFT:

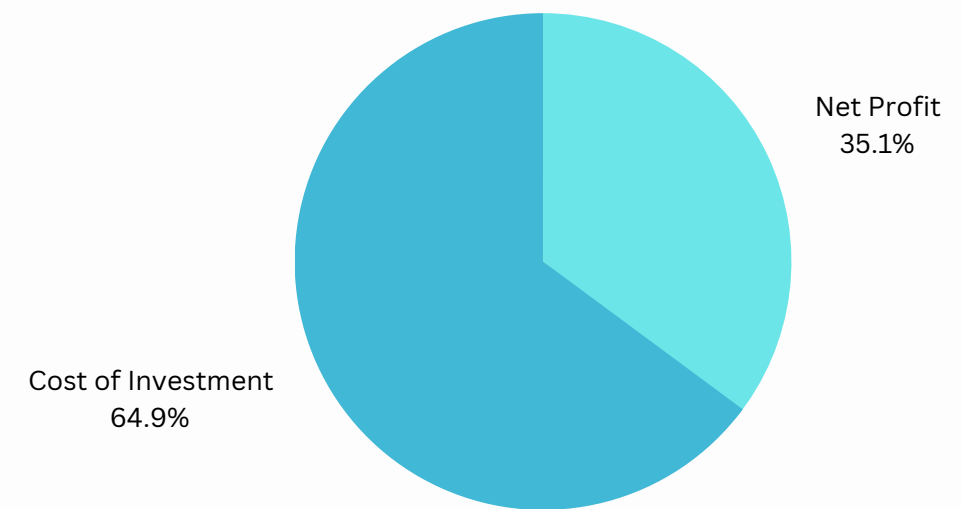
63.3% = (\$72,738/\$114,887) X 100

Despite both being technology giants, Microsoft and Apple's goods often don't directly compete with one another. Both companies have strong growth sectors that could continue to generate future returns, and both showed double-digit sales growth during the most recent earnings releases.

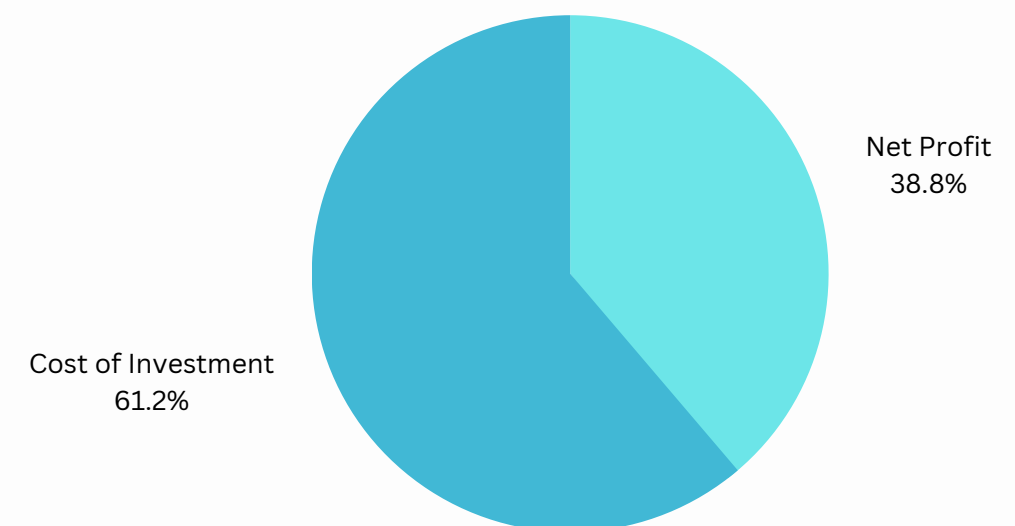
The majority of Apple's income growth comes from its hardware items, but the company is also seeing growth in its revenue from digital products like its Apple-TV streaming service.

Under Satya Nadella, who took over as CEO in 2014, Microsoft's move to the cloud is the reason for its increase in revenue. From cloud-based software applications to data storage, Microsoft provides a wide range of cloud-related solutions.

APPLE



MICROSOFT



RETURN ON ASSETS (ROA)

RETURN ON ASSETS (ROA) = NET INCOME/TOTAL ASSETS

Return on assets (ROA) measures a company's profitability in relation to its total assets.

APPLE:

$0.44 = \$139,144 / \$316,062 = 44\%$ RETURN

MICROSOFT:

$0.207 = \$72,738 / \$350,909 = 20.7\%$ RETURN

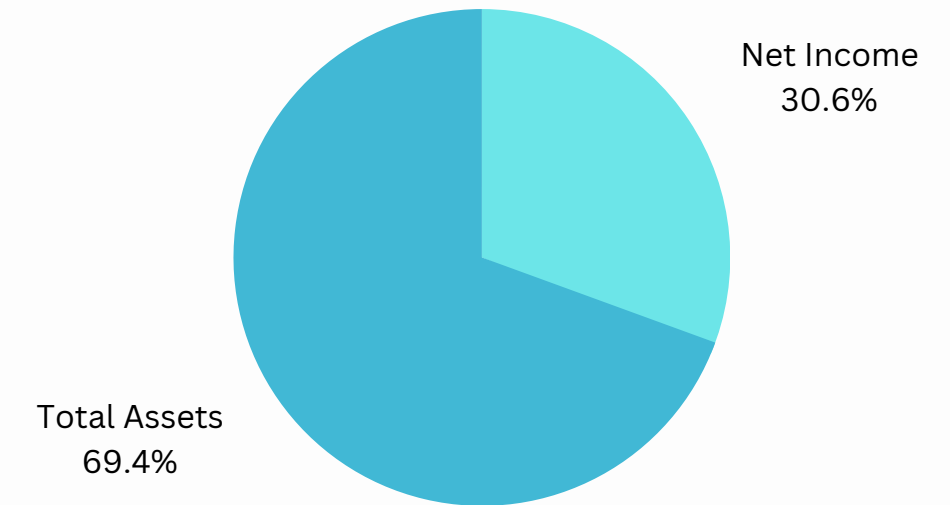
The ROA indicates how successfully a corporation uses its assets to generate profits; the higher the number, the better the Return a company is producing from its holdings of assets.

Apple leads in terms of productivity. Microsoft's beta is significantly lower than Apple's, and Apple's return over the past year has generally exceeded Microsoft's.

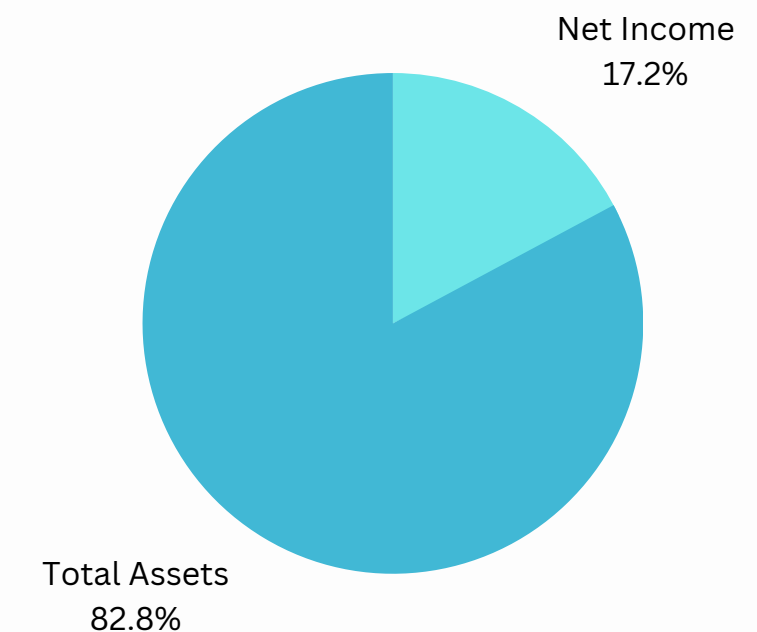
Beta measures the risk or volatility of a company's share price in comparison to the market as a whole. For example, a company with a beta of 1.1 will theoretically see its stock price increase by 1.1% for every 1% increase in the market.

Apple's larger net income and higher return on assets demonstrate that it is more profitable than Microsoft. Microsoft is better at keeping more of the revenue from sales than they are at keeping more of the revenue from their assets. In other words, Microsoft could boost its income by making better use of their resources.

APPLE



MICROSOFT



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