

COMPANY PROFILE

Apple Inc

TABLE OF CONTENTS

Company Overview	3
Key Facts	3
SWOT Analysis	4

COMPANY OVERVIEW

Apple Inc. (Apple) designs, manufactures, and markets mobile communication and media devices, personal computers (PCs), and portable digital music players, and sells a variety of 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. Its portfolio of consumer and professional software applications include iOS, macOS, watchOS and tvOS operating systems, iCloud, Apple Pay and a variety of accessory, service and support offerings. Apple sells and delivers digital content and applications through the iTunes Store, App Store, Mac App Store, TV App Store, iBooks Store and Apple Music. The company operates globally across the US, Europe and Asia Pacific. Apple is headquartered in Cupertino, California, the US.

The company reported revenues of (US Dollars) US\$229,234 million for the fiscal year ended September 2017 (FY2017), an increase of 6.3% over FY2016. In FY2017, the company's operating margin was 26.8%, compared to an operating margin of 27.8% in FY2016. In FY2017, the company recorded a net margin of 21.1%, compared to a net margin of 21.2% in FY2016.

KEY FACTS

Head Office	Apple Inc 1 Infinite Loop Cupertino California Cupertino California USA
Phone	1 408 9961010
Fax	
Web Address	www.apple.com
Revenue / turnover (USD Mn)	229,234.0
Financial Year End	September
Employees	123,000
NASDAQ Ticker	AAPL

SWOT ANALYSIS

Apple Inc. (Apple) designs, manufactures, and markets mobile communication and media devices, and personal computers (PCs). Strong horizontal and vertical integration, research and development (R&D) activities, and extensive distribution channels are the company’s main strengths, whereas dependence on the iPhone and iPad product lines, and legal proceedings remain major areas of concern. In the future, intense competition, premium pricing, and foreign exchange risk could impact market position. However, the growing North American smartphone market, smart wearable devices market, artificial intelligence, and Apple Pay are likely to provide growth opportunities.

<p>Strength</p> <p>Formidable Competitive Advantages through Horizontal and Vertical Integration Strong Research and Development Capabilities Robust and Extensive Distribution Channels</p>	<p>Weakness</p> <p>High Dependence on iPhone and iPad Product Lines Legal Proceedings</p>
<p>Opportunity</p> <p>North American Smartphone Market Smart Wearable Devices Market Offers Robust Growth Opportunities Focus on Artificial Intelligence Apple Pay Provides Robust Growth Opportunity</p>	<p>Threat</p> <p>Premium Pricing Could Limit Growth in Emerging Markets Foreign Exchange Risks Competitive Pressures</p>

Strength

Formidable Competitive Advantages through Horizontal and Vertical Integration

Apple has over the years followed integration both horizontally and vertically and as a result emerged as a formidable competitor. The company's multiple devices provide horizontal integration. Apple has presence across the main digital media devices of computing and mobile communications. Through PCs, tablets, smartphones and other devices, Apple offers a whole range of associate products and devices. It also offers hardware, software, content, services creating vertical integration. In addition, Apple' strong software and content business has equipped it with several competitive advantages. The Apple software and services ecosystem spans across multiple devices and includes content and applications. Consequently, switching to a competitor becomes more difficult. Another key integration aspect that has enabled Apple to gain competitive advantage is content. The company's iTunes Store, App Store, iBooks Store and Apple Music services enable users to purchase, organize and share digital content and apps. In addition to the above, the company has a strong retail presence.

Apple has followed a vertical integration strategy to build a formidable competitive advantage. The company's business strategy leverages its ability to design and develop its own operating systems,

hardware, application software, and services. The vertical integration provides control over the entire user experience or process from hardware to software which facilitates higher customer loyalty and provides lock-in. None of the company's competitors have been able to replicate this model with as much success as Apple.

Apple enjoys a favorable competitive environment provided by user dependence on its iOS ecosystem which enables it to earn incremental earnings by offering all associated devices and services. In the era of convergence this is a sustainable competitive advantage. Apple's sustainability of market share stems from the fact that it was able to successfully connect its devices with each other and one generation of devices with the next. Through these integration models, Apple has built sustainable competitive advantages that are hard to replicate.

Strong Research and Development Capabilities

The company has strong research and development (R&D) capabilities. Apple has been consistently spending on R&D. The company's ability to compete successfully depends heavily upon its ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. Apple continues to develop new technologies to enhance existing products and to expand the range of its product offerings through R&D, licensing of intellectual property and acquisition of third-party businesses and technology. The company spent \$11.6 billion, \$10 billion, and \$8.1 billion on R&D in FY2017, FY2016, and FY2015. Strong R&D capabilities allow the company to introduce new products that effectively enhance revenue and market share.

Robust and Extensive Distribution Channels

Apple has robust and extensive distribution channels. It uses both direct and indirect distribution channels to effectively reach its customers primarily 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 its direct sales force. The company has been continuously improving its distribution capabilities by expanding the number of its own retail stores worldwide. 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 a high quality 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. Few of its rivals have their own physical retail stores and none have such a vast network. Apple also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and value-added resellers. Apple has invested extensively 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. The company also supports mobile learning and real-time distribution of, and access to, education related materials through iTunes U, a platform that allows students and teachers to share and distribute educational media online. The company also sells its hardware and software products to enterprise and government customers in each of its reportable operating segments. Thus, the robust and extensive distribution capabilities of Apple enhance its customer reach and provide incremental growth

opportunities.

Weakness

High Dependence on iPhone and iPad Product Lines

Apple's revenues and growth are largely dependent on the iPhone and iPad product lines. The iPhone and iPad product lines together accounted for 70% of the total revenues in FY2017. Although, these product lines have been the growth drivers for the company, any future decline in the growth rates could impact the company's performance. Dependence on few product lines increases business risk, especially in an industry characterized by fast paced technological changes. Any market share losses of key products could have a material adverse impact on the company's growth prospects.

Legal Proceedings

The company is a defendant in several lawsuits. In December 2017, Apple faced a lawsuit, which alleges that the company did not disclose that there is a slowdown in its software updates in older-model iPhones, which resulted in shortage of battery life. In the same month, fraud lawsuits were filed against Apple. The lawsuit alleges that the company made a fraud promise through concealment and unfair business practices. In October 2017, Emonster, a Japanese company filed a lawsuit against Apple. The lawsuit alleges that the company used Animoji, which is a trademark of Emonster, to its iPhone X feature. The company has to continuously follow through these litigations and it also increases operational costs. Lawsuits could result in penalties and fines, which increase operating costs.

Opportunity

North American Smartphone Market

The deployment of high speed 4G technology, increasing usage of over-the-top content (OTT) and social media services are expected to drive smartphone adoption across North America. According to in-house research, smartphone sales in North America are expected to increase from 174.2 million in 2017 to 194.2 million in 2022, at a CAGR of 0.3% during 2017-2022. Smartphones are estimated to account for 93.3% of total mobile handset sales during the forecast period. In terms of revenue, smartphones could account for 98.7% of the total mobile handset revenue. In FY2017, Apple sold approximately 216.7 million iPhones. The robust outlook for the smartphone market is likely to help increase the company's sales in the immediate future.

Smart Wearable Devices Market Offers Robust Growth Opportunities

The market for wearable devices has been growing strongly over the past few years. According to in-house research, the wearable devices market size is expected to reach a value of \$15 billion by 2026 growing at a CAGR of over 23% during 2016-23 periods. Apple is keen to benefit from the growth opportunities offered by these end markets. The company launched Apple Watch in 2014. Apple Watch is a personal electronic device that combines watch functionality with an iOS-based user interface created

specifically for a smaller device. The company has enhanced its Watch devices over the years. In 2017, Apple and Nike launched Apple Watch Nike+. Apple is well positioned to tap this growing market.

Focus on Artificial Intelligence

Apple has taken several initiatives to strengthen its artificial intelligence portfolio. In September 2017, the company acquired Regaind, a French artificial intelligence start-up. This acquisition helped Apple to add intelligent search to the Photos app on iPhone. In March 2017, the company acquired DeskConnect, a tool that lets the customers to hook together apps and functions within apps in strings of commands to automate tasks. This initiative helped Apple to strengthen its application portfolio. An increasing focus on artificial intelligence could enable the company to strengthen its market position and improve its financial performance.

Apple Pay Provides Robust Growth Opportunity

Apple Pay is expected to provide incremental growth opportunities for the company. Apple Pay, the company's mobile payment service, works with iPhone, Apple Watch, iPad or Mac through a Near Field Communications (NFC) antenna design, a dedicated chip called the secure element, and Touch ID. Apple Pay does not require Apple Pay-specific contactless payment terminals, and can work with existing contactless terminals. Apple Pay allows users to add their credit or debit card on file from their iTunes Store account. Launched initially in the US and the UK, Apple Pay is now available in 15 countries. Apple Pay is expected to provide new growth opportunities for the company in the medium to long term. According to in-house report, the mobile pay market was valued at approximately \$90 billion in 2017. Apple Pay is an extension of the company's iOS ecosystem, which makes it a disruptive player in the fast growing mobile payments industry. The strong outlook for mobile payments coupled with Apple's robust smartphone market share provides incremental growth opportunities to enhance revenues and market share.

Threat

Premium Pricing Could Limit Growth in Emerging Markets

Price can be one of the key competitive disadvantages of Apple that the competitors can effectively use to gain market share. This will prove to be a challenge while addressing emerging markets, which become important as the advanced economies' smartphone markets attain maturity. Emerging markets lack carrier subsidies and the customer base in these markets is highly price sensitive and therefore competing with lower priced Android products could be a challenge for Apple. Revenues from emerging markets for Apple products will come from a higher mix of older models. This indicates that as the smartphone markets move towards emerging countries, average prices will start to fall, impacting margins. Apple has been facing marginal declines in average price per product. Apple has not been able to effectively gain market share in emerging markets where historically, lower priced phones are popular. Apple's premium pricing strategy will prove to be challenging and could have a negative impact on the company's gross margins.

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 the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies such as Swiss franc, British pound and Euro. 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 FY2017, the company registered a gain of US\$224 million from foreign currency translation adjustment compared to gain of US\$75 million and a loss of US\$411 million in FY2016 and FY2015, respectively. To minimize risks from currency fluctuations, the company could hedge foreign exchange risks by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

Competitive Pressures

Apple's products and services compete in highly competitive global markets characterized by aggressive price cutting and resulting downward pressure on gross margins, continual improvement in product price/performance characteristics, frequent introduction of new products, evolving industry standards, rapid adoption of technological and product advancements by competitors, short product life cycles and price sensitivity of consumers. Apple continuously and timely introduces innovative new products and technologies including the operating system, hardware, numerous software applications and related services, whereas many of its competitors seek to compete primarily through aggressive pricing and very low cost structures. Apple's ability to maintain a competitive advantage could be adversely affected if it is unable to develop and sell innovative new products with attractive margins. The company also faces substantial competition in the PC market from companies that have significant technical, marketing, distribution, established hardware, software and digital content supplier relationships. This market has been dominated by computer makers using competing operating systems, primarily Windows. Competitors selling Windows-based PCs have cut prices and lowered product margins. Apple's performance in this market depends on its ability to continually improve the Mac platform to maintain its perceived functional and design advantages.

Copyright of Apple Inc SWOT Analysis is the property of MarketLine, a Progressive Digital Media business and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.