

Apple: the Right Company to Invest In

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Thirty-four years ago nobody would think that a small garage firm of three “employees”, S. Jobs, S. Wozniak, and R. Wayne, once would grow to the giant consumer technology corporation with over 40,000 employees and \$65 billion in sales (Apple Inc., 2010). A person who invested money into Apple’s stock in the early beginning must be a billionaire nowadays. The period of late 80’s and early 90’s was a golden age for Apple. The company introduced Macintosh, the first personal computer, and later, in 1991, the PowerBook, which established the modern layout of the laptop computer. Meanwhile, Steve Jobs, the cofounder of Apple, left the company, having a negative impact on the Apple’s welfare. The market share and stock prices continued to decrease until, in 1997, Steve Job returned and became the CEO of the company again (Lohr, 1997). Jobs began restructuring the company and its product line, coming with a new all-in-one personal computer concept, iMac, and a new and innovative portable music player, iPod. Since Jobs return, Apple’s financial statement has got into black numbers. Nowadays, almost all its products are popular, including revolutionary iPhone and iPad. Apple has a huge potential to grow, similarly as 30 years ago, and investors shouldn’t hesitate to invest into this innovative, financially healthy company with continuously increasing market share.

Some readers might object the argument that investors should invest in Apple Inc. arguing that Apple doesn’t pay dividends to its stockholders. “Apple hasn’t paid a dividend since 1995” (Guglielmo & Garner, 2009, para 4.). On the one hand, not paying dividends means that stockholders earn less per share than they would if the dividend was paid. But, on the other hand, the company is able to accumulate cash that can be used for potential acquisitions and investments, which the company as well as its stakeholders would benefit of. Large companies, in order to stay competitive, must invest billions into research or to acquire other companies. Paying dividends, companies often run out of cash, which may lead them to borrow a lot of money needed for acquisitions, putting these companies at risk. “The cash in

the bank gives [Apple] tremendous security and flexibility,” said Steve Jobs (Guglielmo & Garner, 2009, para 2.). In addition, a dividend is not the only way to profit from the stocks. A company’s shares, if the company is profitable, increase their price. For example, Apple stocks rose from about \$190 to over \$300 per stock in the year 2010 (Yahoo Finance, 2010). This represents almost 60% increase over the year. This is the sign that Apple stocks are profitable enough, even without dividend payments.

Apple is probably the most significant innovator in information technology industry. Steve Jobs considers his firm to be Software Company at the first place. The corporation really pays attention to its software. For example, in 1984, Apple introduced the first personal computer with operating system using graphical user interface (Allbusiness, 2010). That time, Microsoft was still using MS-DOS where only text without graphics was displayed on the screen. Another evidence that Apple has been innovative company since the beginning is Apple’s introduction of the first commercial mouse, which was part of Apple Lisa computer system (Edwards, 2008). Next innovation, Apple came with, began a revolution in the music industry. When Sony came with his Walkman to the public, the way people listened music was changed. Later on, Discman was introduced which basically was the same as Walkman where CDs replaced cassettes. Music fans had been waiting for the next innovation, until Apple introduced iPod. Immediately after Apple’s first iPod went public, it became bestseller. The most significant innovation was that people could have, virtually, hundreds of albums in their pocket at the same time. Introduction of iPod caused that people started to demand digital music. Therefore, Apple didn’t hesitate and launched iTunes music store, the innovative way of selling music online. There are many innovations Apple came with in the last decade. The company first came with the idea to start selling Apple products in its own Apple Retail Store. Nowadays, many IT firms copy Apple and open their own retail stores, such as Lenovo and its retail store or Microsoft with its Microsoft retail store. Next

innovation, iPhone, was the first phone that fully relied on its touch screen. With iPhone, the company established App Store, a new business model of selling and purchasing applications. Definitely, Apple has stuck to its slogan “Think Different” when implementing a new Multi-Touch touchpad in the latest generation of Macbook family. The touchpad doesn’t contain a separate button(s) as we can see it on competitions’ laptops. The innovative feature of the Apple touchpad is that the whole touchpad serves as a button, which, consequently, leaves more room for gestures. The use of “gestures” is the next innovation Apple introduced with the Multi-Touch touchpad on a Macbook. This innovation, however, was first introduced on iPhone. Gestures allow users for example to scroll on a web page or to rotate and zoom a photo only by moving two fingers on the touchpad. This feature ease working with Macbooks, notebooks designed by Apple, especially when users cannot use mouse. These are just few examples of innovations Apple came with in the past. Innovation is the key to success of every company in the world, no matter whether it is in an IT, service, or automotive industry. If the company is innovative, it is also successful and the sales revenue goes up. And investors want to invest into successful companies, don’t they?

Because of such innovations, Apple is on an upward trend in sales. The market share of many Apple products is significant and still increasing. Lets consider the market share of iPod first. In 2009, the market share of iPod was about 70% (Letzing, 2009). Apple dominates the market with MP3 players. iPods are extremely popular globally, not just in the USA. Even such competitor as Microsoft with its Zune music player is not threatening the Apple’s market share. The sales of iPods are on the decline nowadays, however, according to experts, the decline is caused by iPhone sales. Actually, users substituted their iPod by iPhone, as it is iPod and mobile phone in one device. The iPhone is another device, designed by Apple, celebrating a stellar performance when talking about sales. In the third quarter 2010, Apple sold 14.5 million devices. The market share worldwide increased from 2.3 to 3.2 percent,

leaving behind such companies as Sony Ericson, HTC, and RIM. Currently, iPhone is sold in 89 countries through mobile operators. In Europe, as well as in Asia and Japan, the iPhone sales more than doubled in comparison to 2009 (Gartner, 2010). Apple could have sold more but limited supply capacity of iPhone 4 caused shortage on the market and Apple is now on the fourth place worldwide. In addition, although Apple remains focused on individual consumers, the iPhone celebrates success in enterprise as well, where RIM used to dominate. Another device that has become popular is iPad. The sale of iPad started recently, however, its market share rises significantly. The iPad is tablet PC and e-Book reader in one. Nowadays, it is Amazon with its Kindle that dominates the e-Reader market. However, according to the latest survey, the Amazon kindle is rapidly losing lead over the Apple iPad. While the iPad's market share has doubled (from 16% to 32%) since August 2010, the Kindle has experienced a drop from 62% to 47% (Carton, 2010). Furthermore, Gartner, the world's leading information technology research and advisory company, predicts increased demand for media tablets (Gartner, 2010) and the Apple iPad has a great potential to dominate this market also. Nowadays, Apple products have steady market share. In some product lines, such as iPad and iPhone, the sales have the continuous up-trend. The company has a great potential to increase its sales in the near future, having a positive impact on Apple stock price.

Besides market share, Apple products are dominant when concerning reliability and service. Products reliability and perfect service enhance the customers' satisfaction and loyalty to the brand. According to the poll done by PCWorld magazine, Apple provides the best tech support and service. The company won in the desktop, notebook, and smartphone categories. In all categories Apple products received virtually above the average scores (Bertolucci, 2010). High reliability and service is hand-in-hand with popularity of and satisfaction with the devices. And only satisfied users continue to purchase company's products. Apple has a lot of users who will want to purchase from Apple.

Another reason to invest in Apple is the financial health of the company. Apple is one of the few companies whose sales weren't influenced significantly during the crisis.

Paradoxically, Apple was able to increase the sales (Apple Inc., 2010), which allowed the company to save a nice pile of cash. According to Daily Finance, the pile is worth \$25.6 billion, nowadays. When taking longer-term assets into consideration, the corporation would have \$51 billion for acquisitions and investments (Cohan, 2010). Another positive is the company has no additional debts that would put it at risk (Apple Inc., 2010). Next sign of the financial health is current ratio. The ratio is calculated as current assets (buildings, land, and machinery) divided by Current liabilities (accounts payable, salary payable, interest payable). At the end of 2010 accounting period, current ratio of Apple was 2.01 to 1, which means that Apple had \$2,01 of current assets for every \$1 of current liabilities. In the world of economics, the ratio 2 to 1 is considered as a sign of short-term financial health (Norton & Porter, 2005). The sales performance together with other indicators of financial health, Apple is the right corporation where to put money.

The performance of Apple on the stock market is next reason to buy Apple stocks. The market price of Apple stock more than quadrupled in the last 2 years. During the sale on the Wall Street in 2008, the market price dropped from \$199 per share to only \$78.20. However, since then, Apple stocks have recorded a 405 percent increase and these days the market value fluctuates around \$316 per share (Yahoo Finance, 2010).

Although the crisis hasn't ended yet, the corporation's stocks have experienced significant demand, pushing the price of the stocks up. The high numbers in Apple's latest annual report are like magnets for investors. But high sales aren't the only thing that attracts investors. Many of them are raving fans of Apple and its products. The high credibility and reliability of the products helps the company retain new loyal customers. And innovations Apple comes with continually even strengthen the loyalty of customers. Almost everybody

loves Apple products and investors are aware of it. Apple seems a good investment in future technology.

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