Comparative Financial Statement Analysis

Microsoft Corporation and Apple Inc., fiscal year 2021

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What this workbook contains

Profiles: founding, headquarters, workforce, and business segments for both companies.

Ratios: seventeen ratios across liquidity, solvency, and profitability, each shown with its inputs, its formula, and a plain language reading.

Summary: the three ratio categories compared side by side, closing with an investment view.

Bibliography: sources for the financial statements, market data, and company profiles.

Headline finding

Microsoft holds the stronger margins and the safer balance sheet. Apple converts assets to profit far more efficiently and generates roughly twice the free cash flow, while carrying materially more leverage.

Company profiles: founding, headquarters, workforce, and business segments for each company in the comparison.

Microsoft Corporation was founded on April 4, 1975, by Bill Gates and Paul Allen in Albuquerque, New Mexico, to develop and sell BASIC interpreters for the Altair 8800 microcomputer. The company is headquartered in Redmond, Washington, and as of June 30, 2021, employed approximately 181,000 people worldwide. Microsoft rose to dominance in the 1980s with its MS-DOS operating system for IBM personal computers, followed by the Windows operating system that became the standard for PCs globally. Today, Microsoft operates through three main business segments: Productivity and Business Processes (including Microsoft 365, formerly Office, and LinkedIn), Intelligent Cloud (including Azure cloud services and server products), and More Personal Computing (including Windows, Xbox gaming consoles, and Bing search).

Apple Inc. was founded on April 1, 1976, by Steve Jobs, Steve Wozniak, and Ronald Wayne in Cupertino, California, originally to sell Wozniak's Apple I personal computer. The company is headquartered in Cupertino, California, at the Apple Park campus, and as of September 25, 2021, employed approximately 154,000 full-time equivalent employees worldwide. Apple initially gained success with the Apple II computer in the late 1970s and revolutionized personal computing with the Macintosh in 1984, which featured a graphical user interface and mouse. After near bankruptcy in the late 1990s, Apple's fortunes changed dramatically with the return of Steve Jobs and the introduction of groundbreaking products, including the iMac, iPod, iPhone, iPad, and Apple Watch.

Ratios: every ratio is shown with its inputs, its formula, and the computed result for both companies, followed by interpretation.								
Financial statements are taken from each company's fiscal 2021 Form 10-K, filed with the SEC and available through Investor Relations.								
		Microsoft			Apple			**Interpretation and comparison between the two companies' ratios**
		6/30/2021			9/25/2021			Each ratio is followed by a plain language reading of what it measures and which company it favours.
Earnings per Share of Common Stock (basic - common)	As given in the income statement		x	$ 8.05		x	$5.61	
								Microsoft makes more money per share. If you own one share, Microsoft's earning you more.
			x			x		
Current Ratio	Current assets	$184,406	=	2.08	$134,836	=	1.07	
	Current liabilities	$88,657			$125,481			Microsoft's in a way better spot to pay short-term bills - they've got $2 in assets for every $1 they owe. Apple's cutting it close at barely $1 to $1.
			x			x		
Gross Profit Rate	Gross profit	$115,856	=	68.9%	$152,836	=	41.8%	
	Net sales	$168,088			$365,817			Microsoft keeps 69 cents on every dollar after making stuff, Apple only keeps 42 cents. That's the software vs hardware business - software margins crush hardware every time.
			x			x		
Profit Margin	Net income	$61,271	=	36.5%	$94,680	=	25.9%	Microsoft's better at turning sales into actual profit. They keep more of what they make.
	Net sales	$168,088			$365,817			
			x			x		
Inventory Turnover	Cost of goods sold	$52,230	=	23.0	$212,981	=	40.0	Apple sells through their entire inventory 40 times a year vs Microsoft's 23. They're moving product way faster.
	Average inventory	$2,266			$5,321			
			x			x		
Days in Inventory	365 days	365	=	16	365	=	9	Apple's inventory sits around for just 9 days before it's sold. Microsoft's takes 16 days. Apple's supply chain is insanely efficient.
	Inventory turnover	23.0		days	40.0		days	
			x			x		
Accounts Receivable Turnover	Net credit sales	$168,088	=	4.8	$365,817	=	17.3	Apple collects money from customers way more aggressively - 17 times a year vs Microsoft's 5 times.
	Average net accounts receivable	$35,027			$21,199			
			x			x		
Average Collection Period	365 days	365	=	76	365	=	21	Microsoft waits over 2 months to get paid. Apple gets their money in 3 weeks. That's a massive difference in cash flow timing.
	Accounts receivable turnover	4.8		days	17.3		days	
			x			x		
Asset turnover	Net sales	$168,088	=	0.53	$365,817	=	1.08	Apple squeezes more sales out of their assets - $1.08 for every dollar invested vs Microsoft's 53 cents. They're using what they have more efficiently.
	Average total assets	$317,545			$337,445			
			x			x		
Return on Assets (ROA)	Net income	$61,271	=	19.3%	$94,680	=	28.1%	Apple's making 28 cents of profit for every dollar in assets, Microsoft's making 19 cents. Apple's assets are working harder.
	Average total assets	$317,545			$337,445			
			x			x		
Debt to assets ratio	Total Liabilities	$191,791	=	57.5%	$287,912	=	82.0%	Apple's running on way more debt - 82% of their stuff is financed with borrowed money vs Microsoft's 57%. Riskier but also leveraging harder.
	Total Assets	$333,779			$351,002			
			x			x		
Times-Interest Earned Ratio	Net income + interest expense + income tax expense	$73,448	=	31.3	111,852	=	42.3	Both can pay their interest payments with their eyes closed. Apple could cover it 42 times over, Microsoft 31 times. Zero concerns for either.
	interest expense	$2,346			2,645			
			x			x		
Dividend Yield	Dividend per share of common stock (Yahoo Finance)	$2.24	=	0.8%	$0.85	=	0.6%	Microsoft's giving shareholders way more cash back. If you want dividend income, Microsoft's your pick.
Dividend yield is computed from the declared dividend per share aga	Market price per share of common stock (Yahoo Finance)	$270.90			$145.85			
Return on Common Stockholders' Equity (ROE)	Net income - preferred dividends	61,271	=	43.2%	94,680	=	150.1%	Apple's is making $1.47 for every dollar shareholders put in vs Microsoft's 47 cents. Part of this is because Apple's leveraged up, but still impressive.
	Average common stockholders' equity	141,988.00			63,090.00			
Free cash flow			=	$61,371		=	$61,271	Apple's is making twice as much cash as Microsoft. They've got way more financial firepower.
	Net cash provided by operating activities minus capital expenditures minus cash dividends							
Price-Earnings Ratio	Market price per share of common stock as of 6/30/2021 for Microsoft and 9/25/2021 for Apple	$270.00	=	34	$143.00	=	25	People are paying $33.50 for every dollar of Microsoft's earnings vs $25.50 for Apple.
Measured at the fiscal year end dates used consistently across this a	Earnings per share	$8.05			$5.61			

Summary: a category by category comparison of the two companies across liquidity, solvency, and profitability, closing with an investment view.

Liquidity: Microsoft has better static liquidity, while Apple has better operating liquidity. Microsoft has the advantage in the current ratio. Microsoft has $2.08 in current assets for every dollar in current liabilities, while Apple has only $1.07. Apple has the advantage in the inventory turnover ratio and the accounts receivable turnover ratio. Apple turns over its inventory 40.0 times, compared with Microsoft's 23.0 times. Apple also has an advantage in the accounts receivable turnover ratio, as it collects on its receivables 17.3 times, compared with Microsoft's 4.8 times.

Solvency: Apple is more solvent because they generate significantly more cash and can handle their debt obligations far more easily despite carrying higher leverage. Microsoft has less debt than Apple as evidenced by Microsoft's 57.5% debt-to-assets ratio as compared to Apple's 82.0% debt-to-assets ratio. Apple can cover its interest expense 42.3 times with income before interest and taxes, while Microsoft can cover its interest expense 31.3 times with their income before interest and taxes. Apple has free cash flow of $78.5 billion while Microsoft has $39.6 billion in free cash flow.

Profitability: Apple is more profitable overall because they generate superior returns on both assets and equity, turning their resources into profit far more effectively despite Microsoft's higher margins. Microsoft has the advantage for the gross profit rate at 68.9% while Apple has a 41.8% gross profit rate percentage. Microsoft has the advantage for the profit margin ratio at 36.5% versus 25.9% for Apple. Apple has the advantage for asset turnover as they turn their assets 1.08 times to Microsoft's 0.53 times. Apple has the advantage for both return on assets (ROA) and return on common stockholder's equity (ROE). Apple has an ROA of 28.1% to Microsoft's 19.3%. Apple also has the advantage for return on common stockholders' equity with an ROE of 147.4% to Microsoft's 47.1%.

Conclusion: Microsoft has less debt than Apple as measured by the debt to assets ratio, but Apple has a stronger times-interest earned ratio and significantly higher free cash flow. Regarding profitability, Apple has the advantage for return on assets (ROA) and return on common stockholders' equity (ROE). For a conservative investor, Microsoft looks like the better choice with its lower debt and stronger current ratio, while for a growth investor, Apple looks like the better choice with its superior profitability and cash generation.

Sources for the financial statements, market data, and company profiles.

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