

Apple on firm financial footing as EU tax bill hits

August 31 2016

A multi-billion-dollar tax bill imposed by the European Union could bruise Apple's image more than its finances, which remain solid even as the trend-setting company looks for the next big thing.

Analysts interviewed by AFP saw Apple as being in position to fend off the blow from the EU demand that the iPhone maker pay a record 13 billion euros (\$14.5 billion) in back taxes in Ireland.

But the ease with which the California-based company could write a check to pay the gargantuan bill was seen as potentially coming back to bite Apple by giving the impression it is greedily avoiding doing right by the public coffers.

"People are generally outraged... very wealthy people are using legal but not moral means to avoid paying taxes," Endpoint Technologies Associates analyst Roger Kay told AFP.

"It's a bad strategy to be doing that."

According to its most recent earnings report, Apple had \$231.5 billion in cash plus marketable securities at the end of June.

Of that total, \$214.8 billion, or 93 percent, was said to be outside the United States, Apple's chief financial officer Luca Maestri said on an earnings call.

Kay contended that Apple chief executive Tim Cook should, and likely is trying to, negotiate behind the scenes to resolve matters with the EU.

Investors seemed unworried, with Apple's share price slipping less than one percent to \$105.90 in late afternoon trading on the Nasdaq.

No new hits

Apple's real issue is the lack of a blockbuster announcement along the lines of those that set fire to markets and rocketed the company to glory under the leadership of late co-founder Steve Jobs, according to analysts.

"Apple is a company that lived hit to hit: the iPod, iPhone, iPad," said independent Silicon Valley analyst Rob Enderle of Enderle Group.

"Without those successive hits, it is struggling. While it has plenty of cash, it has stopped being a market maker."

Apple will hold a "special event" on September 7 in San Francisco, where it is expected to unveil a new iPhone model that improves on the prior generation but is not revolutionary.

Rumors include talk of an iPhone 7 that will boast improvements to software, cameras and processing speed along with doing away with jacks for plugging in wired headphones.

Analysts and Apple fans have been eagerly waiting for Cook to take a page from Jobs's playbook and enthrall the world with a must-have "one more thing."

Apple iPhones have been at the heart of the company's money-making machine for years, while reported investments in self-driving cars and virtual reality have yet to result in transformative new products.

Apple announced last month that it has sold more than a billion iPhones since the culture-changing mobile devices debuted in 2007.

With iPhone sales and profits sliding, Apple in July highlighted growth in sales of apps, music, and cloud services.

In its quarterly update, Apple said profits slumped 27 percent from a year ago to \$7.8 billion on a sharp drop in iPhone sales.

It was the second straight quarter of slumping iPhone sales, which until then had seen uninterrupted growth.

The company said iPad sales meanwhile fell nine percent from a year ago, but revenues rose due to the launch of higher-priced tablets.

Apple is moving into new areas such as Apple TV and streaming music, which could produce more stable revenues—but so far, these areas have had minimal impact.

Heavy crown

Morningstar Equity Research said in a note to investors on Tuesday that it saw Apple as undervalued, and one of its best investment ideas in the technology sector.

"Apple is not the only firm to use existing tax laws to its advantage to minimize its tax bill, nor is it the only firm with a massive cash balance trapped overseas," Morningstar said in the note.

"Nonetheless, heavy is the head that wears the crown, and as the world's largest company, Apple is likely to remain at the forefront of these types of issues and inquiries."

Apple's top rank in the tech world could have made it a target, with EU authorities making an example of a titan with ample cash, global name recognition and powerful legal resources.

"Ireland has been doing this for a while, and Apple is hardly the only company that has taken advantage," Enderle said.

"I think this is designed to set a precedent to go after other firms."

And while the stunning tax bill, or the legal costs of fighting it, might not make Apple flinch, they could deal knock-out blows to smaller firms, he reasoned.

© 2016 AFP

Citation: Apple on firm financial footing as EU tax bill hits (2016, August 31) retrieved 27 April 2024 from <https://phys.org/news/2016-08-apple-firm-financial-footing-eu.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.