Apple Inc.’s Cash-to-Assets Ratio: 1 Fundamental Ratio Investors Need to Carefully Consider

Description

Warren Buffett’s recent purchase of over $1 billion of **Apple Inc.** (NASDAQ:AAPL) stock over the past months is notable, especially considering **Berkshire Hathaway’s** purchases spanning a range of prices with purchases at levels significantly above $100. The independent investor must ask, What sort of fundamental security-analysis ratios did Mr. Buffett use in analyzing Apple to justify this investment, considering his extreme tech-averse stock-selection *modus operandi*?

One set of ratios that Warren Buffett has spoken about and don’t garner enough media attention are liquidity ratios, and these ratios work overtime when assessing Apple due to its large cash hoard (approximately $220 billion with $200 billion overseas). This ratio of cash to net assets is one way of quantifying Warren Buffett’s esteemed “margin of safety,” which is paramount in his investment decisions, and we will see through analysis that Apple is indeed a very “safe” bet given its size and financial slack, relative to comparable companies.

apple Image not found or type unknown *Source: 2015 Apple Annual Report*

Apple’s cash situation

Looking at Apple’s financial statements, we see that the year-end cash and cash equivalents have grown substantially year over year, accompanied by an increase in “term debt.” The average investor can see that the cash generated from operating activities basically covers cash used by investing activities and financing activities (i.e., the capital needed to keep the business profitable over the long term), but the cash proceeds have risen almost in lockstep with debt creation.

This means the company is essentially piling all of its cash from operations back into the company via investing and financing activities, while building its cash hoard using cheap debt (most of which is long term with options to hedge interest-rate exposure).

The effects of debt in calculating a company’s cash-to-assets ratio can skew the data; as such, we will compute Apple’s net-excess-cash-to-assets ratio (as well as the other top 10 firms of the S&P500),

subtracting debt from the company’s cash position to provide a clearer picture of each company’s true margin of safety via excess cash.

Apple’s cash-to-assets ratio

Company	Market Capitalization	Cash Position	Assets	Debt	**Ne Ca Ra**
Apple	533.17B	205.67B	290.48B	79.91B	**43**
Microsoft	395.85B	108.58B	176.22B	46.77B	**35**
Exxon Mobil	378.38B	37.95B	336.76B	43.11B	**-1.**
Johnson & Johnson	321.19B	38.38B	133.41B	23.56B	**11**
General Electric	281.12B	102.46B	492.69B	186.05B	**-16**
Amazon	338.43B	19.81B	65.44B	17.61B	**3.3**
Facebook	327.31B	18.43B	49.41B	0	**37**
Berkshire Hathaway	349.15B	117.28B	552.26B	101.54B	**2.8**
AT&T	249.43B	6.73B	402.67B	133.08B	**-31**
JP Morgan Chase	227.52B	573.08B	2,351.70B	591.54B	**-0.**

All numbers are calculated as of June 16, 2016, with total assets estimated from each company’s balance sheet. Apple clearly has the most excess cash among some of the largest firms in the S&P500, with excess cash representing over 43% of the company’s total assets. The only two firms that come close to Apple are **Facebook** (primarily due to the fact that Facebook has no long-term debt) and **Microsoft** (due primarily to its large cash hoard).

The margin of safety excess cash provides is related directly to the liquidity of the firm. In the unlikely event of a market crash or buying opportunity, the company with excess liquidity can easily capture opportunities that competitors cannot, contributing to a greater long-term competitive advantage—the primary “stuff” investors such as Warren Buffett look for.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2016/07/25
Author
chrismacdonald