

International Financial Management

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Introduction

The management of finance is one of the main ways in which an organisation can contain its longevity. It has to be noted that the international financial market is volatile and can possess extreme challenges to a multinational business corporation. The organisation of interest for this essay is Apple Incorporation, an American multinational company dealing in technological devices. Apple Incorporation was founded by Steve Jobs, Steve Wozniak and Ronald Wayne in the year 1976. The present CEO of the organisation is Tim Cook and he has been leading the organisation since 2011 (Apple, 2022). This essay will particularly deal with three major aspects of the organisation – ***dividend policies, project appraisals*** and ***market efficiency***. These three aspects are extremely important for the market and as well as the organisation in the discussion. Dividends of an organisation are the distribution of profits to the shareholders of the organisation. In addition to this, the efficient market hypothesis states that the market is extremely efficient and no investor will have a chance to earn any form of added profit from the market.

Discussion

One of the most important ways in which an organisation can finance itself is with the help of selling its share to the public. These shareholders are paid dividends which are a part of the profit. The amount which is not given out as dividends is reinvested into the business. A business corporation can have different types of dividend distribution policies. The dividend distribution policy defines a certain amount of dividend that can be paid to the shareholders. There are three dividend policies from which the government can opt— **stable dividend policy**, **constant dividend policy**, and **residual dividend policy**. The stable dividend policy is one of the simplest forms of policy used by a business organisation (Adapted from the lecture slides). On the other hand, the residual dividend policy is extremely volatile as it depends on the profit remains of the organisation.

It can be said that most technologies do not pay good dividends but Apple Incorporation has matured as an organisation and therefore pay healthy dividends to the shareholders. In the first quarter of 2022, the dividend yield for Apple was around 0.55%. In addition to this, it is required to be noted that the apple stocks pay up to 12% dividend (Apple, 2022). Just like any other technology company the Apple incorporation pays out lower dividends. It can be easily said that Apple Corporation makes use of the **residual dividend** policy. The residual policy is the dividend paid from the remaining amount of the profit after they have met the capital expenditure of the company. Thus, the **cost of capital** is one important aspect of determining the value of the stocks through dividends. For a tech company like Apple, the organisation pays good enough dividends to the shareholders. The stock of Apple pays dividends four times a year (Apple, 2022). However, it can be said that the residual system of paying the dividend may not be sufficient for many shareholders as it is extremely volatile.

The dividend of the organisation also helps the organisation in ensuring that there are different ways in which the price of the stock can be properly predicted. **Dividend discounting** is a theory that states that the present-day value of the stock is all the future dividends discounted back to the value today or more technically known as the present value (Kusumanisita and Minanti, 2021). There are various types of dividend discounting models that can be used by the stakeholders to predict the stock price of Apple Corporation (d'Amico and De Blasis, 2020). Some of the most popular dividend discounting models are – **zero growth DDM**, **variable growth DDM** or **constant growth DDM**. These aspects can help the investors in ensuring that the stock will be profitable or not in near future.

The efficient market hypothesis argues that the market is complexly efficient and it leaves no chance for the business organisations to earn extra profits as the market is already fairly priced. In other words, there is a very few chances for the investors to beat the market. Thus, it can be stated that the share prices of Apple Incorporation will represent all the information and a consistent amount of generation of alpha results are not possible. It means that the investors will not be able to include an arbitrage from the stocks of Apple. According to the efficient market hypothesis, an investor will not be able to buy undervalued stocks from the exchange and sell it at an inflated price as in the market everything is fairly valued (Ying *et al.*, 2019).

The theories which are against the efficient market hypothesis state that the markets are inefficient and the chances of making an arbitrage profit will increase in total. In an efficient market, the price of the stock of Apple Corporation will reflect all the information available on it. As per **the random walk theory**, the organisation will be able to explain this concept better (Adapted from the lecture slides). This theory states that the changes in the stock prices have the same form of odd distribution and are independent of each other (Adapted from the lecture slides). If there is a forecast that the stocks of Apple will have favourable future performances then it will also have favourable current performances as well.

However, it is important to note that the markets are not efficient all the time. It can be said that new information is generally available and insider information does not always lead the market to be efficient in any way possible. One of the major reasons the why Efficient Market Hypothesis is wrong is because many investors are more skilled and are better at analysing the information better than the other investors. And this allows certain investors to beat the market and earn arbitrage (Adapted from the lecture slides). For instance, any new information available on the stocks of Apple Incorporation will be analysed differently by different analysts and therefore it can be said that the different analysts can predict different prices (Rossi and Gunardi, 2018). Irrespective of the skills different people can also have different opinions regarding an aspect. The concept of **insider information** about the stocks is one of the major aspects which can help an investor beat the market more efficiently.

A project appraisal method is a way in which Apple Corporation will be assessing the profitability and returns from a project and select to continue it. The investment decision techniques help the organisation in understanding the benefits of continuing with an investment project. It can be said that the organisation will be required to ensure that there are different ways in which a project or similar aspects impact its efficiency (Pawlak *et al.*, 2020). For investment decisions, there are two different evaluation techniques – **non-**

discounting methods and **discounting methods**. The non- discounting methods have the concepts of payback period and accounting rate of return (Adapted from the lecture slides). On the other hand, the discounting methods include steps such as the – net profit value, profitability index, internal rate of return and modified internal rate of return.

For any kind of appraisal method, it is very important to understand the **time value of money**. It states that the sum of money now in the present time has more value than in the future times. It can be said that the organisation will be required to ensure that there are different ways in which the project can be appraised (Adapted from the lecture slides). A big and multifunctional organisation like Apple would require using various methods of appraising their projects. If Apple Incorporation is considering taking into a project, then it needs to look into its NPV. If the net present value of the project is less than zero it will be rejected while a positive NPV will indicate that the project is ought to be accepted by the organisation.

However, it is important to note that this appraisal method will not be sufficient for Apple incorporation if different projects of various sizes are being compared here. In addition to that, the accuracy of the NPV method depends on the quality of inputs added to the appraisal method (Marchioni and Magni, 2018). In case Apple Incorporation requires to find out how fast will it reach its break-even point with a project. For this, the corporation can use the payback period method of appraisal. Apple incorporation must set a benchmark before it is considering the calculation of the payback period.

In recent times Apple Corporation has come up with interesting and high investment projects such as the iPhone 13 and iPad pro with the M1 chip (Apple, 2022). It can be safely said that the corporation uses various mentioned appraisal techniques to ensure that the project provides proper returns to the organisation. Contrasting to these factors Apple Incorporation can also make use of the discounted appraisal methods such as the IRR ad modified IRR to ensure that it can get more realistic valuations. In addition to this, the **discounted cash flow model** is one of the theories which can be used to reach a positive project appraisal result.

Conclusion

At the end of the analysis, it can be stated that the business organisation will be required to ensure that it is paying dividends to the shareholders in due time. In addition to this, it can be said that the business corporation will need to choose an appropriate dividend-paying model for itself. There are many different ways in which the corporation can understand the importance of selecting a project. These models can be either discounting or non-discounting. It has been also concluded that an investor will not be able to earn from arbitrage profits as the market is extremely efficient. However, the different analysing methods of various investors go against the efficient market hypothesis.

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