Who’s a better cash machine – Apple or Microsoft?

Firstly, it seems Apple is being financed by its suppliers. Their accounts receivable is only $8.9bn but accounts payable is a whopping $18.2bn. That’s a nett accounts receivable of NEGATIVE $9.3bn. For the layman, this means that Apple owes its suppliers $9.3bn MORE than what its customers owes Apple.

Secondly, have you ever thought about the billions in $$$ in iTunes card sales that have not yet been utilised at the iTunes store? This is buried in deferred revenue item of current liabilities and amounts to $4.9bn. This is cash that Apple’s customers have handed over but have not yet claimed the corresponding goods or services.

In other words, if Apple stops being a going concern, about half of the $30bn in cash, equivalents and marketable securities would disappear as Apple has to pay off its suppliers and refund the unutilised iTunes balances.

What remains is about $16bn. Add the $67bn of long term marketable securities and **Apple basically has $83bn in unencumbered liquidity. This amount is astounding when you consider that Apple’s book value is only $90bn and its market capitalisation is $425bn.**

For comparison, Microsoft has $52bn in cash, equivalents and marketable securities. Like Apple, it also has a lot of unearned revenue - $15bn. Unlike Apple, it is not funded by its suppliers and if it squares off its accounts receivables and payables, it would actually reap another $10bn. In addition, unlike Apple which is debt free, Microsoft has $12bn in debt. **Squaring off everything gives Microsoft $35bn of unencumbered liquidity. Microsoft has a book value of $64bn and a market capitalisation of $248bn.**

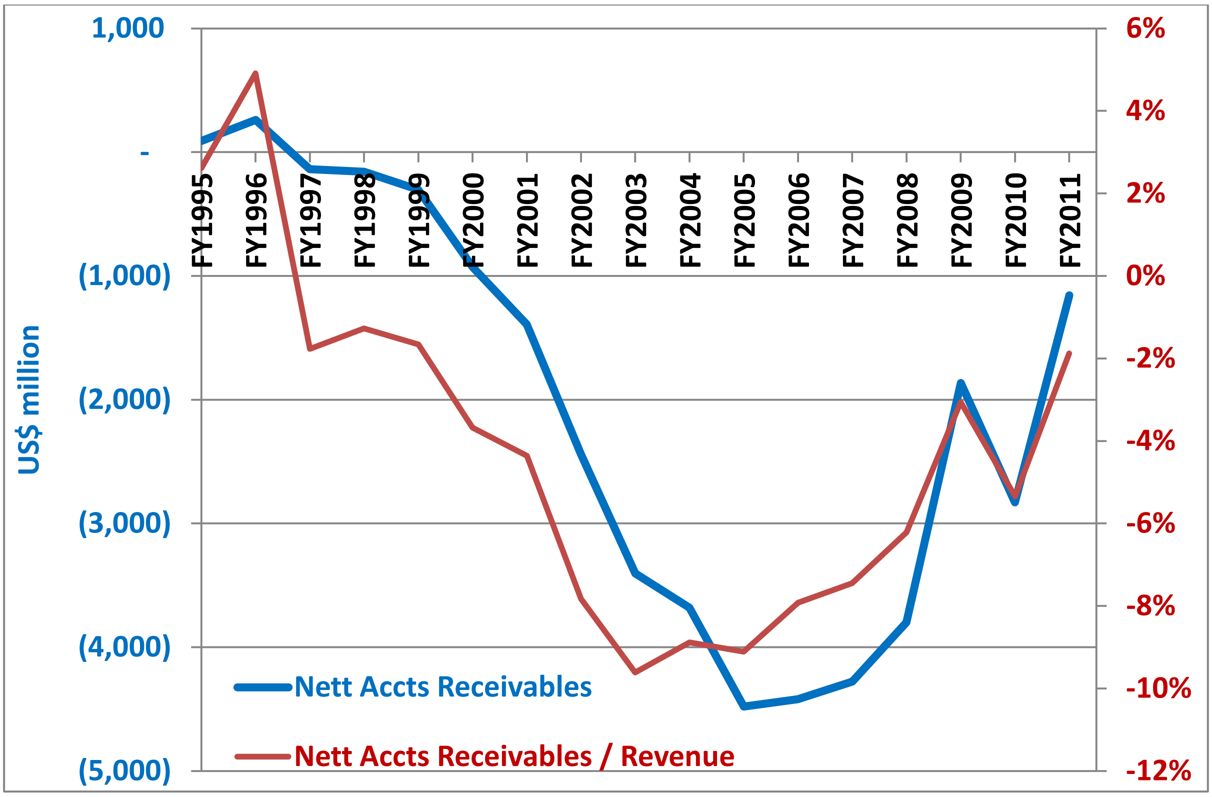
As of now, there is no doubt that there is a lot more cash in Apple’s share price than Microsoft.

Apple bulls would argue that Apple has a fantastic model that is unbeatable because it is funded by both its suppliers and customers to such a degree that the more revenue it generates, the bigger the liquidity float that lies at its disposal.

This is exactly what they used to say about a company called DELL. For those who are old enough to have been watching tech stocks in the heady days of the late 1990s, DELL was the unstoppable cash machine of its time. It collected cash from its customers and extracted 2-3 months of credit from its suppliers. The more its revenue grew, the bigger DELL’s liquidity float.

But fate has a way of reverting to the norm.

The following chart shows what happened to DELL’s nett accounts receivable (Accounts Receivable less Accounts Payable) and what ratio of revenue it represented.



As you can see, the industry eventually learnt to get around DELL's business model and the company simply stopped being such a gusher of a cash machine.

Can anyone be certain that the same thing will not happen to Apple?

My answer to the title question is this - at this point, Apple is the better cash machine by far. However, this ability rests on factors that history has demonstrated to be not as sustainable as one might think. Therefore, in the long run, Microsoft may be more sustainable as a cash machine of its current magnitude.