

## Appendix B: Financial Analysis

### Summary

- B.1 As part of our investigation, we have undertaken an analysis into the financial performance of Apple and Apple's Mobile Platform, which can be one indicator of the market power of Apple's Mobile Platform, as set out in our guidance.<sup>1</sup>
- B.2 In this Appendix we set out the issues in assessing the profitability of Apple's Mobile Platform activities and our findings on the profitability of Apple, having considered Apple's responses to our financial information requests and publicly available financial information.
- B.3 Since our SMS assessment relates to Apple's market position in the UK, we are interested in the profitability of Apple's Mobile Platform at a UK level. However, to help inform this assessment we have started with global figures, recognising that the digital activities we are assessing are global in nature, and because Apple did not provide information on the profitability of its Mobile Platforms at a UK level.<sup>2</sup>
- B.4 Our analysis is therefore based on global data from Apple supplemented by information we obtained from Apple to enable more detailed breakdowns and UK specific analysis where appropriate.
- B.5 On the basis of this analysis, our view is that Apple is earning profits very significantly above its cost of capital.
- B.6 We have found that Apple has been highly profitable in absolute terms over the last ten years,<sup>3</sup> and our estimate of its actual return on capital for the total business is over 100%. This remains high even when applying sensitivity analyses, and exceeds significantly our estimate of Apple's WACC of [X]% [10-15%].<sup>4</sup>
- B.7 We have also analysed the returns relating to Apple's Mobile Platform specifically and our estimate of ROCE for these is also well above our stated

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<sup>1</sup> Digital markets competition regime guidance, December 2024 (CMA194), paragraph 2.55(e).

<sup>2</sup> Apple's response to section 69 notice [X]; Apple's response to section 69 notice [X].

<sup>3</sup> Apple 10Ks 2015-2024. Apple's response to section 69 notice [X]; [X].

<sup>4</sup> CMA analysis based on Apple's response to section 69 notice [X]. and Google's response to Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [X].

WACC range and this remains the case when applying various sensitivities to our work.

- B.8 We have also compared Apple's recent financial performance with its financial projections relating to future revenues and profitability, and have seen no evidence that these high levels of profitability would not continue.<sup>5</sup>

## Contents of this Annex

- B.9 This appendix has the following sections:

- (a) Our approach to profitability analysis;
- (b) Our assessment of Apple's publicly available profitability indicators;
- (c) our analysis of the profitability of Apple's Mobile Platform; and
- (d) Our emerging findings from the profitability analysis we carried out on Apple.

- B.10 We have conducted a profitability analysis to identify whether Apple generates profits at a level that indicates it has substantial market power, either directly from Mobile Platform activities or indirectly, for example, in relation to its broader Mobile Ecosystem.

- B.11 We have focused on a few standard reporting metrics to inform our analysis of Apple's revenues, costs, and profits. In particular:

- (a) We have assessed the amount of profit Apple has earned in absolute terms using the metric 'earnings before interest and taxation' (**EBIT**).<sup>6</sup>
- (b) We have analysed the level of its profits with reference to the 'return on capital employed' (**ROCE**). This approach compares accounting profit with the size of investment made by firms to achieve those profits.
- (c) We have compared our ROCE findings against Apple's weighted average cost of capital (**WACC**), which is a widely used benchmark for returns on

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<sup>5</sup> This is a high-level conclusion based on our analysis in this Annex. CMA analysis based on Apple's response to section 69 notice [X]; [X]; Apple's response to section 69 notice [X]; [X].

<sup>6</sup> For this purpose, we use Apple's Operating Income metric, as reported in its 10-Ks; Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025.

an investment. The WACC is essentially the minimum return required on an investment or asset to satisfy the owners and creditors.

- (d) We have also compared Apple's recent financial performance with its financial projections relating to future revenues and profitability.

### **Our approach to profitability analysis**

- B.12 In the following section we set out the business activities we consider to be relevant, the time periods over which we propose to assess profitability, and our approach to calculating and applying the ROCE-based analysis.

### **Business activities**

- B.13 We are interested in the profitability of Apple's Mobile Platform activities in the UK.

- B.14 We asked Apple to provide profit and loss statements for its mobile products and services. Apple explained that it has an integrated approach to the development of its products and services and is generally organised cross-functionally, with various functions all contributing to the development and operation of Apple products and Services.

- B.15 We also asked Apple to provide UK-level revenue, profitability and balance sheet asset data, but [REDACTED].<sup>7</sup> Apple told us [REDACTED],<sup>8</sup> and told us that:

- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED].<sup>9</sup>

- B.16 Apple did not provide:

- (a) UK-level profitability data; and
- (b) Country level or product level asset data

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<sup>7</sup> Apple's response to section 69 notice [REDACTED].

<sup>8</sup> Apple's response to section 69 notice [REDACTED].

<sup>9</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

- B.17 We considered requiring [REDACTED] decided that this was not necessary for the purpose of our SEMP assessment. Where necessary we have assumed that the cost profile of the UK business is similar to Apple's global business, as we explain in more detail below
- B.18 Apple told us that [REDACTED],<sup>10</sup> and that [REDACTED] its company level P&L comprises all costs incurred in the operation of its activities.<sup>11</sup>
- B.19 Apple explained that [REDACTED], and told us that [REDACTED].<sup>12</sup>
- B.20 Our analysis is therefore based primarily on global data, supplemented by information we obtained from Apple to enable more detailed segmental breakdowns and UK specific analysis where possible and appropriate, due to:
- (a) the integrated nature of the products and services Apple provides;
  - (b) the global nature of Apple's Mobile Platform activities;
  - (c) the global nature of its financial reporting, asset base and capital investment; and
  - (d) the limited availability of UK-specific profitability data.

### **Time period under consideration**

- B.21 For our SEMP assessment, we are interested in understanding whether Apple has been earning consistently high profits in the past and is likely to continue to do so. For that reason, we have looked back over a time period that is sufficiently long to provide a representative picture of profitability and that is not unduly distorted by unusual macroeconomic conditions or one-off events.
- B.22 We have sought to balance this aim with the constraints faced by Apple to provide us with reliable and consistent financial information requested.
- B.23 We have therefore assessed Apple's overall group-level profitability based on publicly available financial information over a ten-year period. We have also assessed the operating profitability of its Mobile Platform over the period 2022

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<sup>10</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

<sup>11</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

<sup>12</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

to 2024, in order to understand the key drivers of its profitability in relation to its Mobile Platform activities.

- B.24 We have also considered the likely profitability of Apple's Mobile Platform activities beyond 2024, including in relation to the UK, to the extent that our review of Apple's internal documents suggests that this may be meaningful.

### **Overarching conceptual approach**

#### *Return on capital employed versus cost of capital*

- B.25 The analysis of profitability as an indicator of market power is based on the premise that under effective competition a firm would generally earn no more than a 'normal' rate of profit over the long run.<sup>13</sup>
- B.26 For the purpose of this profitability assessment, we consider a 'normal' level of profit can be defined as the minimum level of profits required to keep the factors of production in their current use in the long run, i.e. the rate of return on capital employed for a particular business activity would be equal to the opportunity cost of capital for that activity.<sup>14</sup>
- B.27 The rationale for benchmarking return on capital with the opportunity cost of capital is that, under effective competition, if firms persistently earned in excess of the return required to compensate investors for the risks taken, we would expect these profits to attract entry and/or expansion.<sup>15</sup> This entry/expansion would serve to compete away profits in excess of the cost of capital up until the point where firms cover their total costs, including a market-based cost of capital, and no more. Where firms persistently earn in excess of a normal return, this signals that there may be limitations in the competitive process
- B.28 Return on capital can be based on cash flows (internal rate of return (**IRR**)) or profits (ROCE). These approaches are very similar in substance, with the

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<sup>13</sup> As identified in CMA194, paragraph 2.55(e), one indicator of a firm with market power would be earnings which are significantly and persistently above normal returns. Digital markets competition regime guidance, December 2024 (CMA194), paragraph 2.55(e).

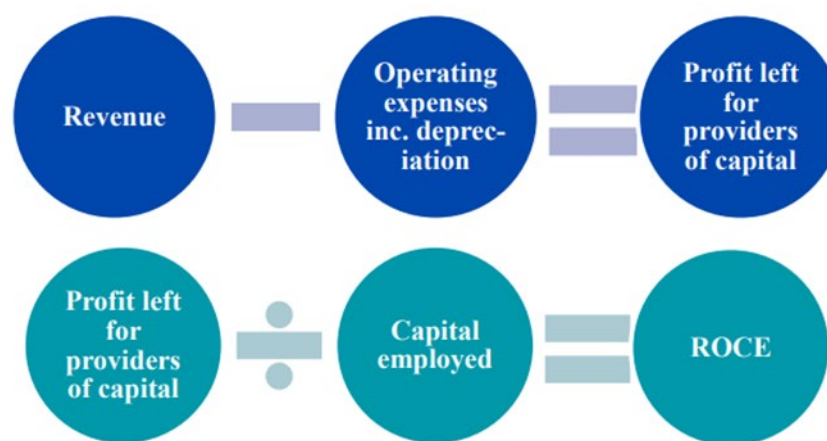
<sup>14</sup> CMA194 does not itself define what constitutes a normal rate of profit. For the purpose of the profitability analysis set out in this appendix, we consider that the CMA market guidance definition of 'normal returns' offers a useful reference point. See CMA4, paragraph 116.

<sup>15</sup> The time period over which this process may take place may differ between different sectors due to the time taken for entry and/or expansion of capacity.

choice between them determined in part by industry characteristics and in part by data availability.

- B.29 We have considered different approaches to assessing Apple's profitability and have taken the approach of comparing its ROCE with the cost of capital. Use of ROCE allows us to calculate annual profitability and thus provides insights into trends over time and the drivers of profits which may exist above the 'normal' level.
- B.30 We consider that the pattern of ongoing variable capital investments (as opposed to large one-off investments) and the lack of any obvious time period to use as investment entry and exit assumptions means that ROCE is more suitable than IRR for measuring profitability. We would not expect an IRR assessment to produce materially different results to a ROCE assessment.<sup>16</sup>
- B.31 Figure B.1 below illustrates how ROCE is calculated.

**Figure B.1: The components of ROCE**



*Source: CMA analysis. Note, profit left for providers of capital can be distributed or reinvested in the business.*

- B.32 ROCE is the annual return made on the investments needed to run the business, and is calculated by dividing EBIT by the value of capital employed (calculated as total assets minus current liabilities) in the relevant business. The general principle is that all revenues, costs, assets and liabilities necessarily arising from the operation of the business to supply the relevant activities

<sup>16</sup> Provided that analysis is undertaken carefully, with various adjustments made, ROCE assessment is equivalent to an IRR assessment and is also, therefore, conceptually robust. See *The Economic Analysis of Accounting Profitability* (1987), Jeremy Edwards, J A Kay, Colin P Mayer, for a fuller discussion of the conditions under which the ROCE and IRR approaches are equivalent.

should be included. In practice this means the following items should be excluded:

- (a) financing costs both of a profit and loss and balance sheet nature (eg cash, interest and sources of finance), regardless of whether they are short- or long-term; and
- (b) taxation on income and any associated corporation tax or deferred tax assets and liabilities.

B.33 The ROCE is then benchmarked against the opportunity cost of capital, which is the weighted average cost of capital (WACC), over the relevant period(s) of analysis. The WACC is the return on investment that providers of capital– both debt and equity – expect, given the risks associated with the relevant activity.<sup>17</sup>

B.34 A finding that ROCE is higher than the WACC is not in itself an indicator of market power. A firm that innovates and gains a competitive advantage may earn higher ROCE for the period that it is able to sustain that competitive advantage.

B.35 For the purpose of our SMS investigation, we do not consider it necessary to define a specific value for the differential between Apple's ROCE and WACC that would indicate a level of profits above the 'normal' level. When considering whether the differential is substantial, we will take into consideration the size of this differential and the length of time over which the differential persists.

#### *Economic versus accounting profitability*

B.36 When estimating ROCE, our approach is to start with accounting figures from the profit and loss account and balance sheet of the relevant activities, and then make adjustments to arrive at an economically meaningful measure of profitability.

B.37 An important factor to consider when selecting an appropriate measure of profitability in relation to Apple's Mobile Platform will be data availability. Where possible, the CMA will base its calculations on financial data that can be reconciled to audited financial statements, albeit with appropriate adjustments.

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<sup>17</sup> WACC is therefore expected return on equity and expected return on debt, weighted by gearing – the relevant proportions of debt and equity.

- B.38 There is also the need to obtain an appropriate value for capital employed. Obtaining a value for capital employed can present difficulties irrespective of the choice of profitability measurement method; a return on capital approach requires an economically meaningful value for the capital base, which may not accord with the value ascribed in the financial records.
- B.39 We may consider adjustments to accounting data produced in line with UK Generally Accepted Accounting Practice (**GAAP**) relating to the difference between historical cost and replacement cost, and relating to the inclusion of certain intangible assets where certain criteria are met. We may also consider adjustments to cost or asset allocations on a case-specific basis to account for the activities which are the subject of the investigation, where a firm undertakes other business activities and/or where there are material intercompany transactions.

*Limitations of a ROCE versus WACC framework*

- B.40 We recognise that economic profitability analysis, based on a ROCE versus WACC framework, requires certain assumptions to be made. The results from economic profitability analysis can be sensitive to ranges around these assumptions, particularly with regard to asset valuations. Where relevant, therefore, we have considered sensitivity analyses.
- B.41 We also recognise that in digital markets, where there is significant internal investment in assets such as intellectual property (IP), R&D and patents, rather than acquisition of technology from third parties, that for some activities the value of those assets may not be fully reflected in the book value of the capital employed, and we have therefore considered the sensitivity of our analysis to the assumptions we have used.

**CMA assessment of Apple's publicly available profitability indicators, including in relation to its Mobile Platform**

- B.42 In assessing Apple's financial performance, we have begun our assessment by considering the profitability of the Apple Group, and its Products and Services reporting segments (referred to in this Annex as its 'Devices' and 'Services')



segments), which can be directly observed from Apple's publicly reported financial statements.<sup>18</sup>

- B.43 In this section we consider profitability indicators based on publicly available information for Apple and its main reporting segments. Specifically, we consider:
- (a) the overall size and financial position of the Apple Group;
  - (b) Apple's segmental reporting structures; and
  - (c) the revenue and profitability indicators for Apple's entire Devices and Services segments, as well as the revenue breakdown that Apple reports for individual device categories.

### **Overall size and financial position**

- B.44 Apple generated worldwide revenues of \$391 billion in 2024 and has grown total revenues by 6% per year on a compound basis over 2015-2024. It is also highly profitable in absolute terms, reporting global operating income of \$123 billion in the financial year ending September 2024.<sup>19</sup>
- B.45 Figure B.2 demonstrates Apple's level of profitability for the last ten years. Its percentage profit margin, measured as operating income or earnings before income and tax, have remained consistently high and the profit margin has not fallen below 24%.<sup>20</sup>

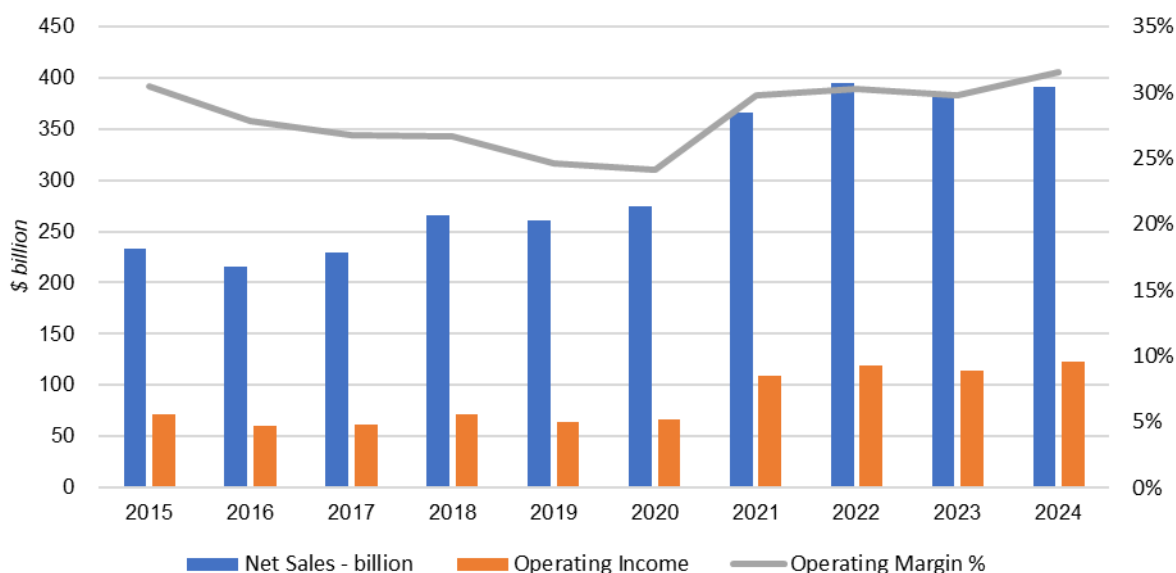
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<sup>18</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, pages 23-24.

<sup>19</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 29.

<sup>20</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 32.

**Figure B.2: Apple Group Revenue and Profit 2015-2024**



Source: CMA analysis of Apple 10-K data<sup>21</sup>

- B.46 Apple is also highly cash generative. In the financial year ending September 2024 Apple generated operating cashflow of \$118 billion.<sup>22</sup> Apple also returned approximately \$110 billion to shareholders through a combination of dividends and share buybacks.<sup>23</sup>
- B.47 Apple continues to invest in its business, with its cumulative R&D expenditure and capital expenditure over the last three financial years amounting to \$88 billion<sup>24</sup> and \$31 billion respectively.<sup>25</sup>

<sup>21</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 32.

<sup>22</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 36.

<sup>23</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 36.

<sup>24</sup> Reported Research and Development expense for the financial years ending September 2022, September 2023 and September 2024 in Apple's Consolidated Statements of Operations; Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 32.

<sup>25</sup> Reported payments for acquisition of property, plant and equipment for the financial years ending September 2022, September 2023 and September 2024 in Apple's Consolidated Statement of Cashflows; Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 36.

## Segmental reporting

- B.48 Apple is an integrated global firm, providing a range of hardware and software products, alongside a variety of services.
- B.49 Apple's products and services are split into two main reporting segments for revenue and gross margin reporting purposes:
- (a) Products, which is described by Apple as comprising the following product categories: the iPhone, Mac, iPad, Wearables, Home and Accessories (in this Annex we refer to these as "Devices");<sup>26</sup>
  - (b) Services, which is described by Apple as comprising the following Services categories: Advertising, Apple Care, Cloud Services, Digital Content (including the App Store), and Payment Services.<sup>27</sup>
- B.50 In the financial year ending September 2024, Apple's total global revenues of \$391 billion comprised \$295 billion from Devices and \$96 billion from Services.<sup>28</sup>
- B.51 Figure B.3 depicts Apple's total global revenues split by Devices and Services. It shows that, while the majority of Apple's revenue continues to come from device sales, the contribution and importance of Services to Apple has been increasing steadily in recent years. Services accounted for almost 25% of revenue in 2024, up from 9% in 2015.

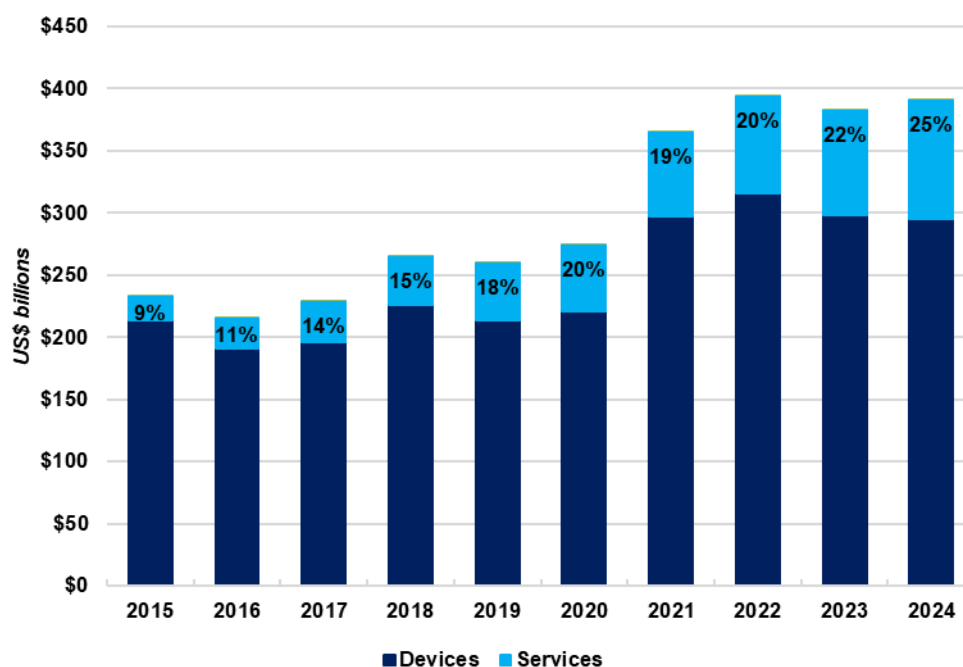
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<sup>26</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 2.

<sup>27</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 2.

<sup>28</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 35.

**Figure B.3: Apple Global Revenue (Devices & Services) between 2015 and 2024**



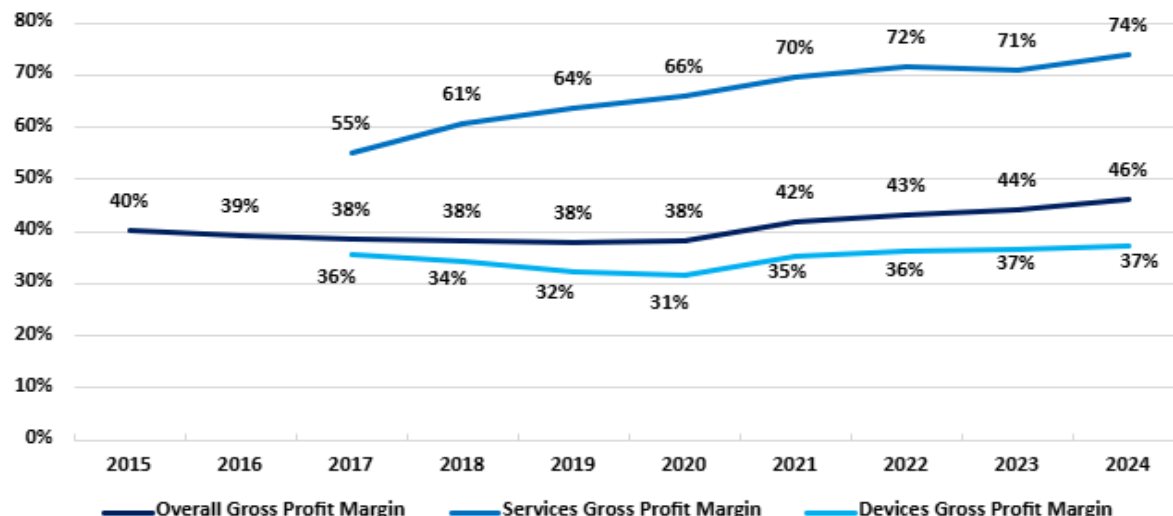
Source: CMA Analysis of Apple 10-K data <sup>29</sup>

- B.52 Apple only reports net revenues and gross profit margin for the Devices and Services segments, and net revenues at individual product level in the Devices segment.<sup>30</sup>
- B.53 Figure B.4 presents Apple's global gross margins for the total company, and the Devices and Services segments. Apple only started reporting gross margins for Devices and Services separately in 2017.

<sup>29</sup> Calculated using segmental revenue data from Apple Form 10-Ks for 2015-2024.

<sup>30</sup> Gross margin takes into account only the direct costs associated with producing a particular product and differs from operating margin, which deducts other company-wide expenses, such as selling, general and administrative costs and research and development expenditure.

**Figure B.4: Apple Total Company, Devices and Services Gross Margins (2015 to 2024)**



Source: CMA Analysis of Apple 10-K data <sup>31</sup>

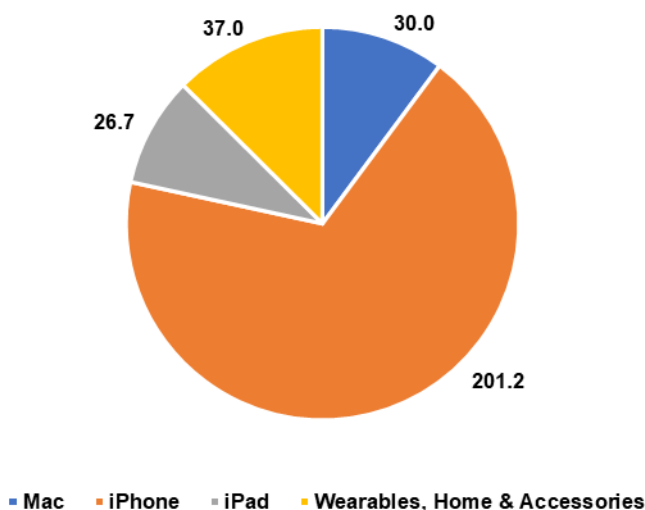
## Devices segment

- B.54 Within the Devices segment, Apple provides an additional breakdown of revenue by device type. As set out in Figure B.5, Apple's global device revenue in 2024 was dominated by iPhone sales (68%), while iPad revenues accounted for 9%.<sup>32</sup> Analysis of Apple's 10-Ks highlights that Devices gross margins have largely been stable since 2017.

<sup>31</sup> Calculated using the total company and segmental revenues, and gross profit data from Apple 10-Ks for 2015-2024.

<sup>32</sup> Apple, 'Form 10K for Apple filed 1 November 2024', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 26.

**Figure B.5: Split of Global Apple Devices Revenue 2024 (\$ billion)**



Source: CMA Analysis of Apple 10-K data <sup>33</sup>

### Services segment

- B.55 Apple does not provide an equivalent breakdown of the Services segment revenue by individual service in the way it does for the Devices segment and, instead, only reports revenues and gross profit for the Services segment as a whole. Although Apple has historically been a Devices business, its business model is evolving, and the share of profits attributable to its Services business has been rapidly increasing.
- B.56 Apple's Services segment, which includes Advertising and the App Store,<sup>34</sup> has lower direct costs and therefore higher gross margins than for Devices. Services gross margins overall have exhibited steady growth over 2017 to 2024, rising from 55% in 2017 to 74% and, in 2024, gross margin is now double that for Devices. The Services segment also now accounts for almost 40% of total gross profits.

<sup>33</sup>, 'Form 10K for Apple filed 1 November 2024', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 23..

<sup>34</sup> Apple's Advertising services include third-party licensing arrangements and the Company's own advertising platforms; Apple, 'Form 10K for Apple filed 1 November 2024', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 5

## Geographic segmentation

- B.57 Apple's UK activities form part of its Europe region,<sup>35</sup> which accounted for approximately a quarter of global revenues and segmental operating income in 2024.
- B.58 Apple's submissions indicate that the UK accounts for around [REDACTED]% of 2024 European revenues, averaging [REDACTED]% over 2022-2024.<sup>36</sup> Our analysis indicates that the mix in Apple's UK Devices and Services revenues follows a similar pattern to the whole company globally and the Europe region.<sup>37</sup>
- B.59 We note that the Europe and other regional operating income figures are not comparable with Group level operating income, as they exclude certain expenses that are included only in the global operating margin, in particular Apple's total global R&D expense of \$31.4 billion.<sup>38</sup> Therefore we have not relied on Apple's regional operating profit margins when assessing the profitability of Apple's UK Mobile Platform activities.

## CMA analysis of the profitability of Apple's Mobile Platform

- B.60 In the section above we have described Apple's performance based on the way it reports its business activities. However, this reporting structure does not exactly match the mobile activities relevant to our analysis. In this section we set out our analysis of the profitability of Apple's Mobile Platform.
- B.61 When considering the profitability of Apple's Mobile Platform, we have considered devices as well as services, on account of the interdependencies between the two. An end user does not buy a Mobile Platform in isolation; an end user buys into a Mobile Ecosystem as a whole, considering the hardware of the device they are purchasing in tandem with the Mobile Platform deployed on it (see Chapter 6).

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<sup>35</sup> The Europe reporting segment includes European countries as well as India, The Middle East and Africa; Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page reference 2.

<sup>36</sup> CMA analysis of Apple's response to section 69 notice [REDACTED]; [REDACTED].

<sup>37</sup> CMA analysis of Apple's response to section 69 notice [REDACTED]; [REDACTED].

<sup>38</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 47.

- B.62 Therefore our analysis of the profitability of Apple's Mobile Platform is conducted at the Mobile Ecosystem level (ie including the profitability of the iPhone and iPad), and focuses primarily on the following products and services:
- (a) Advertising (TPLA and App Store);
  - (b) App Store;
  - (c) Safari;
  - (d) iOS operating system; and
  - (e) iPhones and iPads.

### **Profitability of Apple's Mobile Platform**

- B.63 We are interested in the returns which Apple earns either directly or indirectly from its Mobile Platform, rather than returns for the total Apple Group. This analysis requires additional assumptions to be made given that Apple does not prepare separate financial accounts for its Mobile Platform or Mobile Ecosystem more broadly.
- B.64 In this section, we first consider revenue and profit margins for Apple's Mobile Platform, including in relation to its broader Mobile Ecosystem, and then consider ROCE. Our objective is to understand whether Apple makes high profit margins from its Mobile Platform, either directly or indirectly, including in the UK.
- B.65 Although we are interested in the profitability of Apple's Mobile Platform activities in the UK, for the reasons discussed above relating to Apple's lack of UK-specific data, we conducted our analysis primarily on a global basis. Our analysis is based on information provided by Apple.

### **Global revenues and operating profit**

- B.66 In this section, we consider revenue and profit margins for Apple's Mobile Platform activities, including in relation to its broader Mobile Ecosystem.
- B.67 We asked Apple to provide certain information about the share of revenues and operating profits for these activities for the period 2022-2024.



B.68 Apple supplied revenues and gross margin data for its individual products and services at the global level. We also asked Apple to provide estimates of operating margins for its various activities, including the App Store, but [REDACTED].<sup>39</sup>

### *Revenues*

B.69 In this section we provide an overview of revenues relating to Apple's mobile activities, based on global revenue data received from Apple.

B.70 Based on the revenue breakdown we received from Apple, we estimate that the majority of Apple's global revenues in 2024 [REDACTED] related to its Mobile Ecosystem,<sup>40</sup> including in particular revenues relating to:

- (a) TPLA advertising, including in particular from its revenue-sharing agreement with Google;
- (b) App Store billings and App Store advertising; and
- (c) iPhone and iPad sales.<sup>41</sup>

B.71 Apple generated revenues also from non-mobile devices (Mac Wearables, Home etc) and other services, some of which relate at least in part to its mobile activities.

B.72 App Store and Advertising accounted for the majority of Apple's Services revenues, and iPhones and iPads accounted for the majority of device revenues.

B.73 As discussed below, Apple does not directly monetise Safari, iOS and iPadOS.

### *UK revenues*

B.74 Apple generated £[REDACTED] [£10-20] billion of UK revenues in 2024, of which at least £[REDACTED] [£5-10] billion relates to its Mobile Ecosystem.<sup>42</sup> Apple does not directly

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<sup>39</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

<sup>40</sup> Minimum estimate of Mobile Ecosystem revenue is calculated based on revenues of \$201million for the iPhone, \$33 billion for the iPad, \$[REDACTED] billion for the App Store (including App Store Advertising) and \$[REDACTED] billion for TPLA Advertising, and excludes revenues from other products and services which relate at least in part to Apple's Mobile Ecosystem. [REDACTED]. Source: Apple 10k; Apple's response to section 69 notice [REDACTED].

<sup>41</sup> A small proportion of revenues from Advertising and the App Store relate to sources other than the iPhone and the iPad.

<sup>42</sup> Apple's response to section 69 notice [REDACTED].

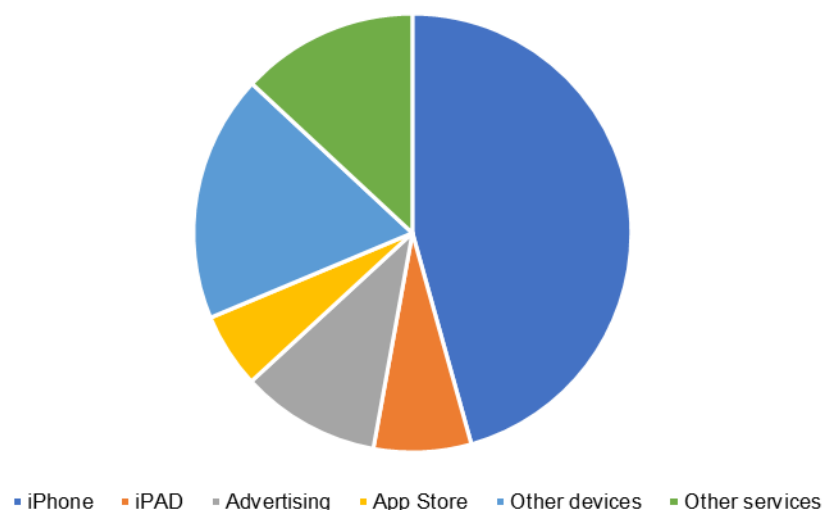
monetise its iPhoneOS and iPad OS mobile operating systems, so our estimate of Mobile Ecosystem revenues includes the following:

- (a) £[X] [£5-10] billion and £[X] [£0-5] billion of iPhone and iPad revenues respectively;
- (b) at least “£[X] billion of Advertising revenues, of which the significant majority, £[X] billion, relates to TPLAs, and a further £[X] billion relates to App Store Advertising;<sup>43, 44</sup> and
- (c) £[X] [£0-2] billion from the App Store.<sup>45</sup>

B.75 The remaining £[X] billion of UK revenues relate to:

- (a) other services (£[X] [£0-5] billion), although many of these, such as Apple Care and Apple Pay and digital content subscriptions which still relate in part to Apple’s Mobile Platform;<sup>46</sup> and
- (b) the sale of non-mobile devices (£[X] [£0-5] billion).<sup>47</sup>

**Figure B.6 Breakdown of UK revenue in 2024**



<sup>43</sup> Total TPLA advertising revenues include sources other than mobile devices. [X].

<sup>44</sup> Advertising revenues include revenues relating to sources other than the iPhone and the iPad

<sup>45</sup> Apple’s response to section 69 notice [X]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

<sup>46</sup> Revenue from other services also includes App Store customer billing revenues from products other than the iPad and iPhone.

<sup>47</sup> Apple’s response to section 69 notice [X].

## Profit margins

- B.76 In this section, we consider profit margins relating to Apple's Mobile Platform activities, based on its broader Mobile Ecosystem.
- B.77 Apple supplied revenues and gross margin data for its individual products and services at the global level. We also asked Apple to provide estimates of operating margins for its various activities, including the App Store, but [REDACTED].<sup>49</sup>
- B.78 In this section we focus in particular on the profitability of Apple's Advertising Services, the App Store and Mobile Devices, and Apple's monetisation strategy with regards to Safari, iOS and iPadOS. However, we recognise also that Apple's Mobile Ecosystem generates profits also from other devices and services.

## Advertising

- B.79 Apple's Services revenue comes primarily from the App Store and Safari. Apple monetises Safari via the sale of advertising, generating fees from what it calls 'Third Party Licensing Arrangements', or TPLAs, and advertising platforms.<sup>50</sup>
- B.80 TPLAs constitute the significant majority of advertising revenues. In 2024, Apple generated £[REDACTED] of Advertising related revenues in the UK and \$[REDACTED] billion globally,<sup>51</sup> of which £[REDACTED] billion related to Third Party Licensing Arrangements, and a further £[REDACTED] billion related to App Store Advertising.<sup>52</sup> In 2024, third-party licensing revenues were [REDACTED]% of total UK turnover ([REDACTED]% globally).<sup>53</sup>
- B.81 TPLAs allow third-party software and services access to the Apple Mobile Ecosystem and the associated revenue accounts for the vast majority of Apple's advertising revenue.

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<sup>48</sup> Apple's response to section 69 notice [REDACTED]; [REDACTED].

<sup>49</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

<sup>50</sup> Apple's response to section 69 notice [REDACTED]; [REDACTED].

<sup>51</sup> Apple's response to section 69 notice [REDACTED]; [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England)

<sup>52</sup> CMA analysis of Apple's response to section 69 notice [REDACTED]; [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England)

<sup>53</sup> Apple's response to section 69 notice [REDACTED]; [REDACTED]; Apple's response to section 69 [REDACTED].

- B.82 The largest component of Apple's TPLA Advertising revenues is its ISA with Google in which Google pays a share of search advertising revenues to Apple in return for Google Search being the default search engine on Safari.<sup>54</sup>
- B.83 We estimate that the value of the payments Apple receives from Google under the ISA in return for being the default search engine on mobile Safari for the UK alone was [X] [£1-3] billion] in 2024.<sup>55</sup>
- B.84 In its submissions, Google told us that its payments to Apple cover all mobile search access points, including Chrome mobile and [X] as well as mobile Safari, although the latter accounts for [X]. We [X] consider that the data supplied by Google broadly supports our estimate of Apple's TPLA revenues.<sup>56</sup>
- B.85 We estimate that Apple's gross profit margins from Advertising revenues averaged [X]% over the period 2022 to 2024 on a global basis, and were higher than for Apple's overall Services Segment.<sup>57</sup>

#### *Native App Distribution*

- B.86 Apple generates App Store revenues from a combination of App Store customer billings and App Store Platform Advertising.<sup>58</sup>
- B.87 Excluding App Store Advertising, App Store revenues accounted for [X]% of Services revenues in the UK ([X]% globally) in 2024, and [X]% of total group revenues [(X)% globally)].<sup>59</sup>
- B.88 Net revenues for the App Store in the UK and globally grew significantly between 2021 and 2024. Specifically, net revenue increased by approximately [X]% on a global basis, and [X]% within the UK over the same period.<sup>60</sup>

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<sup>54</sup> Apple's response to section 69 notice [X]; [X].

<sup>55</sup> CMA analysis of Google's response to section 69 notice [X].

<sup>56</sup> Google's response to section 69 notice [X].

<sup>57</sup> CMA analysis of Apple's response to section 69 notice [X], [X]; [X].

<sup>58</sup> Apple reports App Store Advertising revenues as part of its Advertising activities, separate from its App Store revenues, which comprise net revenues from customer billings.

<sup>59</sup> Apple's response to section 69 notice [X]; [X]. Percentages are based on App Store revenues for all devices, including products and services other than the iPad and iPhone.

<sup>60</sup> Apple's response to section 69 notice [X]; [X]. Percentages are based on App Store revenues for all devices, including products and services other than the iPad and iPhone.

- B.89 We also note the average ratio between net revenue and gross billings over the period 2022-2024 has remained consistent for all three years at [%] on a global basis, which reflects Apple's commission structure.<sup>61</sup>
- B.90 We estimate that the App Store's gross profit margin averaged [%] over the period 2022 to 2024 on a global basis excluding App Store Advertising, and is higher than for the overall Services reporting segment.<sup>62</sup>
- B.91 As explained above, Apple also generates revenues from App Store Advertising, which it reports separately within its Advertising revenues reporting segment. Including App Store Advertising, Apple generated £[%] billion of revenues from the App Store in 2024 in the UK, of which £[%] billion relates to mobile devices, and \$[%] billion globally, with an average gross margin over the period 2022-2024 of [%].<sup>63</sup>
- B.92 Taken together, the App Store and total Advertising revenues (including TPLA and Platforms) are the largest contributors to the Services gross margin, accounting for [%] of the global total in 2024.

#### *iPhone and iPad*

- B.93 The majority of Apple's revenues come from Device sales, including in particular the iPhone, which accounted for 51% of Apple's global revenues,<sup>64</sup> and [%] [a similar proportion] of its UK revenues in 2024.<sup>65</sup>
- B.94 Globally, Apple generated \$201.2 billion of revenues from iPhone device sales and a further \$26.7 billion from iPad device sales.<sup>66</sup> In the UK, Apple generated revenues of £[%] [£5-10 billion] from iPhone device sales and a further £[%] [£0-5 billion] from the sale of iPads.<sup>67</sup>
- B.95 Apple's gross profit margins for iPhone and iPads for the period 2022-24 were around [%] respectively, which is lower than its services activities.<sup>68</sup>

<sup>61</sup> Apple's response to section 69 notice [%]; [%].

<sup>62</sup> Apple's response to section 69 notice [%]; [%].

<sup>63</sup> Apple's response to section 69 notice [%]; [%]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England)

<sup>64</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 37.

<sup>65</sup> Apple's response to section 69 notice [%]; [%].

<sup>66</sup> Apple's response to section 69 notice [%]; [%].

<sup>67</sup> Apple's response to section 69 notice [%]; [%]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

<sup>68</sup> Apple's response to section 69 notice [%]; [%].

## *iOS and iPadOS Operating Systems*

- B.96 Apple's iPhone and iPad operating systems are embedded in Devices and are not directly monetised by Apple. However, the costs of iOS and iPadOS are included within Devices and are therefore also included in our estimate of Devices profitability.

## *UK profit margins*

- B.97 Although we do not have UK specific profitability and cost data, we have data on revenues in the UK as set out below, and have also considered whether the profitability of Apple's activities in the UK was likely to be materially different from its global activities, using the data provided to us by Apple.
- B.98 Given the global nature of Apple's cost reporting structures, we have therefore assumed that the gross profit margins and the operating profit margins for Apple's Mobile Ecosystem are broadly similar in the UK to those for the total Apple Group. Based on the above analysis, this would imply that Apple generated UK gross profit from its Mobile Ecosystem of at least £[REDACTED] billion.<sup>69,70</sup>

## **Return on Capital Employed (ROCE)**

### **Apple Group ROCE**

- B.99 In this section we compare the ROCE of Apple to a benchmark return based on our estimate of Apple's WACC.
- B.100 We have considered Apple's ROCE, measured as EBIT (earnings before income and tax)<sup>71</sup> divided by capital employed (calculated as total assets minus current liabilities excluding net cash and marketable securities) based on published asset values in the accounts.<sup>72</sup>

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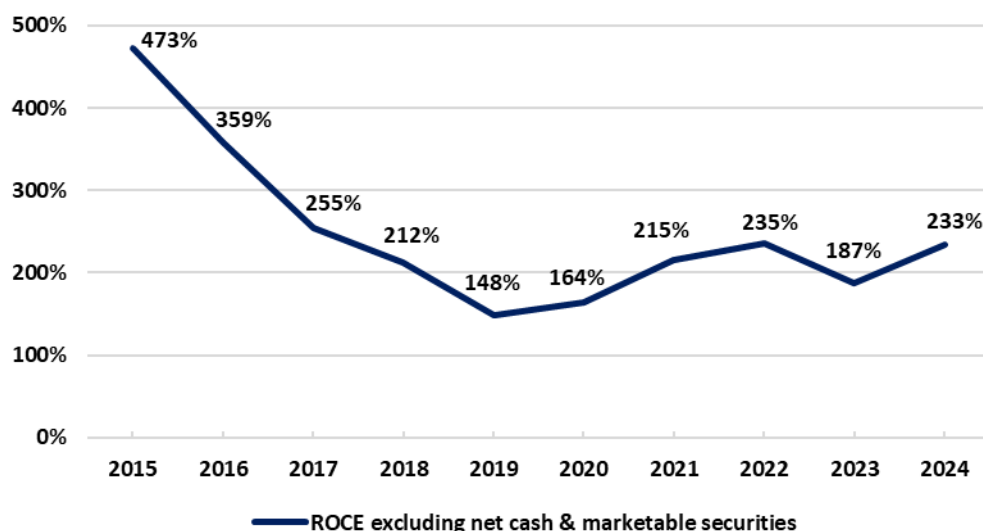
<sup>69</sup> CMA analysis based on Apple's response to section 69 notice [REDACTED]; [REDACTED]; Apple's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

<sup>70</sup> As noted above, the UK is part of the Europe reporting region, and we have also found that the Europe region's gross margin was similar to that of the total Apple Group.

<sup>71</sup> We used Apple's reported operating income from its 10-Ks, for 2015-2024.

<sup>72</sup> Capital employed is calculated by reference to Apple's Consolidated balance sheets in its published 10-Ks, by deducting Apple's reported Cash, Marketable Securities, net of short term debt and commercial paper, from its reported Total Assets; Apple, 'Form 10K for Apple filed 1 November 2024', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 31. [\[link\]](#) As is discussed in more detail below, cash and marketable securities together with short term debt obligations, have been excluded on the basis that they represent means of funding the capital employed by the business, rather than an operational balance.

**Figure B.7: Apple Return on Capital Employed 2015-2024**



Source: CMA Analysis of Apple 10K data <sup>73</sup>

B.101 Figure B.7 above demonstrates that Apple's ROCE has been higher than 140% for at least ten years, and has averaged 207% over the last five years.

#### *Our estimate of Apple's WACC*

B.102 Given the scale of the actual ROCE and by how much it exceeds any likely WACC benchmark, we have not at this stage undertaken a detailed assessment of Apple's WACC. Apple told us that [REDACTED]. Apple identified that WACC is employed [REDACTED], but highlighted that [REDACTED].<sup>74</sup>

B.103 Taking into consideration Apple's own WACC for [REDACTED], and our estimate of Google's WACC based on Google's estimation of WACC for the Alphabet Group,<sup>75</sup> we have decided to use a WACC of [REDACTED]% [10-15]% as an appropriate level of return for Apple.

#### *Apple ROCE relative to WACC*

B.104 On the basis that the actual ROCE for Apple's total business has averaged 207% of the last five years, and has been higher than 140% over the last ten

<sup>73</sup> Source: Apple Form 10-Ks 2015-2024.

<sup>74</sup> Apple's response to section 69 notice [REDACTED].

<sup>75</sup> CMA estimate of Google's WACC is [10-15]% based on Google's own estimate of WACC of [10-15%. Source:]Google's response to section 69 notice [REDACTED]; [REDACTED].

years, we therefore conclude that Apple's total business ROCE is and has been consistently higher than the benchmark WACC.

### **Assessment of Apple's ROCE in relation to its Mobile Platform**

- B.105 As we describe above, we are interested in understanding the profitability of Apple's Mobile Platform activities at the Mobile Ecosystem level. However these activities do not form a discrete business unit in Apple's reporting structure and[REDACTED]..
- B.106 We have therefore instead used our Group level ROCE analysis as a starting point to estimate the ROCE that Apple might generate from assets employed by its Mobile Ecosystem. To do so, we made the conservative assumption that Apple's total group assets were allocated to its Mobile Ecosystem (ie we are assessing the ROCE of Apple's Mobile Ecosystem activities using the entire capital base of the Apple Group).
- B.107 This is likely to over-estimate the asset base, considering, for example, our expectation that some of the tangible asset investments would be avoidable if Apple operated only a Mobile Ecosystem. In addition, this analysis does not take into account the income Apple derives from other mobile devices, or from other services, some of which are likely to also relate in whole or in part to its mobile activities (eg Apple Pay).
- B.108 To complete this assessment, we have also calculated an estimate of operating income including from devices. Our operating income estimate is calculated as gross margin (revenues less directly attributable costs) as discussed below, net of an allocation of common costs.
- B.109 Apple told us that attempting to estimate operating profit at the product or service level is likely to be inaccurate. It explained that [REDACTED].<sup>76</sup> [REDACTED].<sup>77</sup>
- B.110 We accept that any allocation of common costs can be somewhat arbitrary. At the same time, it is also normal business practice to calculate operating profits, at least at an aggregate business unit level, as businesses have to recover common costs, and returns to investors are determined by profits after

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<sup>76</sup> Apple's response to section 69 notice [REDACTED].

<sup>77</sup> Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].



operating costs. As a result, there are a number of well-established methodologies for the allocation of common costs for this purpose.

*Inputs in assessing profitability of Apple's Mobile Platform*

*Operating income (EBIT)*

B.111 As discussed above, Apple has not provided us with more detailed financial information. For the purpose of assessing the profitability of Apple's Mobile Platform at the Mobile Ecosystem level, we have therefore conservatively estimated EBIT as follows:

- (a) we have used Apple's estimate of revenues and direct costs for each of the following elements of its Mobile Ecosystem, to estimate a minimum level of gross profits from its Mobile Platform activities and broader Mobile Ecosystem (ie excluding indirect income relating to other products and services that may relate at least in part to its Mobile Platform):
  - (i) iPhone and iPad;
  - (ii) TPLA advertising (including in particular the ISA with /Google);
  - (iii) the App Store (including App Store advertising)
- (b) we have then estimated the share of operating costs that would be allocated to these products and services, by applying the same proportion of gross profits they generate to total operating cost data from Apple's 10K.<sup>78</sup>
- (c) Based on the above, we estimate that the majority ([X]) of Apple's EBIT for the financial year ending September 2024 relates to its Mobile Ecosystem.<sup>79</sup> This is a conservative estimate because, as already noted above, we consider Apple's Mobile Platform derives income from other mobile products and services which relate at least in part to its Mobile Platform activities.

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<sup>78</sup> Apple's Consolidated Statement of Operations – Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 31.

<sup>79</sup> CMA analysis based on Apple's response to section 69 notice [X]; Apple's Consolidated Statement of Operations – Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 31.

- B.112 We have also conducted a sensitivity analysis to compare the effect of allocating indirect costs on a revenue-based rather than a gross profit-based methodology. We found that the choice of allocation method does not have a material effect on our profitability findings.

*Balance sheet as a starting point*

- B.113 One objective of a ROCE analysis is to assess how actual returns on investment compare to the level of returns on investment in competitive markets. To achieve this objective, the level of assets should represent a reasonable estimate of what it would cost for a competitor to replicate the operational assets of the firm being analysed. As noted above, only assets and liabilities necessarily arising from the operation of the business to supply the relevant business activities should be included in the measure of capital employed used to calculate ROCE.
- B.114 Apple publicly reports a consolidated balance sheet for the total Apple Group. Apple's public accounts do not include segmental asset balances, and Apple has told us that [REDACTED].<sup>80</sup>
- B.115 Therefore, in estimating the value of the asset base which relates to Apple's Mobile Ecosystem, we have adopted the conservative approach of using the reported assets for the total Apple Group.

*Cash and cash equivalents*

- B.116 Apple's balance sheet includes significant cash and marketable security balances. Apple reported cash and cash equivalents at 30 September 2024 totalled \$29.9 billion, and total marketable securities, including both current and non-current, of \$126.7 billion.<sup>81</sup>
- B.117 There are limited circumstances where cash should be included in the balance sheet for ROCE purposes and measured against the WACC. This would normally only be in cases where there are particularly low assets and a cash buffer is required as part of the capital needed to operate the business and where investors would be at risk of losing that cash investment. This should be distinguished from the circumstances where cash is held as part of the choice of

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<sup>80</sup> Apple's response to section 69 notice [REDACTED].

<sup>81</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 31.

capital structure, ie that a business chooses to hold cash balances as a potential source of financing for future investment, rather than distributing that cash to shareholders.

- B.118 We have not seen any evidence supporting the inclusion of cash in our calculations and we have therefore excluded them from our ROCE analysis, net of short-term borrowings.

#### *Non-current assets*

- B.119 A review of Apple's classification of its other non-current assets (**NCA**s) suggests that they include some items which do not appear to be relevant to the calculation of Apple's ROCE, such as deferred tax assets.<sup>82</sup> As such, we would expect some of these assets to be reasonably excluded from this assessment
- B.120 On the basis that we have only partial information to fully classify NCAs in terms of whether they should be included in Capital Employed, we have tested the sensitivity of findings to changes in NCA assumptions. the sensitivities that we have conducted a high level sensitivity analysis using the following scenarios:
- (a) Capital Employed comprises net Property, Plant and Equipment (**PPE**) plus all other NCAs; and
  - (b) Capital Employed comprises net PPE only.
- B.121 Sensitivity (a) is likely to overestimate the correct replacement cost of the assets required by an entrant or competitor and therefore underestimate ROCE, whereas sensitivity (b) may understate the level of capital employed and hence, overstate ROCE. These sensitivities would therefore represent upper and lower bounds for an approach to measuring ROCE where capital employed is based on accounting measures for non-current assets.

#### *Intangible assets*

- B.122 We have considered whether we should include intangible assets in our estimate of the capital base. Intangible assets are assets such as goodwill, brand value and in-process research and development assets.

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<sup>82</sup> Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 34.

- B.123 Our approach for considering intangible assets is based on the following set of criteria that we consider intangible assets should meet to be considered for inclusion in capital employed:
- (a) it must comprise a cost that has been incurred primarily to obtain earnings in the future;
  - (b) this cost must be additional to costs necessarily incurred at the time in running the business; and
  - (c) it must be identifiable as creating such an asset separate from any arising from the general running of the business.

### **Goodwill**

- B.124 Goodwill can be acquired in a business combination. Acquired goodwill is not a separately identified asset but rather is a balancing figure. It is the remaining, unallocated element of an acquisition price once all tangible assets and certain (although not necessarily all) intangible assets have been fair-valued and set against the price paid. In principle, we consider that, when purchasing a business, goodwill may represent the value of intangible assets not capitalised on the businesses' balance sheets.
- B.125 Our approach is to recognise those intangible assets that meet our criteria for recognition, regardless of whether they have been separately identified in the companies' balance sheets or are included in a balancing goodwill figure, but to exclude any remaining goodwill. This approach ensures that only intangible assets that meet our criteria for recognition are included in the estimate of the capital employed by Apple in relation to its Mobile Platforms. It also avoids the risk of capitalising any economic profit.
- B.126 However, based on the limited available balance sheet reporting, we have conservatively included goodwill for the total Apple Group in our analysis.<sup>83</sup>

### **Brand value**

- B.127 We recognise that brand value, whether acquired or developed in house, could meet the criterion of comprising a cost that has been incurred primarily to obtain

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<sup>83</sup> Apple does not separately disclose goodwill in its publicly available accounts. Any goodwill included in its reported non-current assets will have been included in our non-current asset sensitivity scenario, which is set out below.

earnings in the future. An acquired brand appears more likely to meet the criterion of being additional to costs necessarily incurred at the time in running the business, whereas operating costs that contribute to developing brand value would be less likely to meet this criterion. We have therefore considered whether there is evidence of an Apple brand value asset, and how that may have arisen.

- B.128 We recognise that there is significant value in the Apple brand. However, within the ROCE-based framework we are applying, our particular focus is on whether there is evidence of an investment in the Apple brand asset that falls within the criteria which we have set out above.
- B.129 Given that Apple does not record an intangible asset relating to brand value in its public accounts, there is limited evidence of an Apple brand value that would fall within criteria of being costs in addition to the costs Apple has necessarily incurred in running its business and of creating a separately identifiable asset.
- B.130 We would normally expect that much of a firm's advertising spend might be correctly treated as current costs, and have not received specific evidence that Apple's advertising expense meets criteria that would support capitalisation. We have not seen specific evidence that expensed advertising spend meets criteria that would support capitalisation. We are not aware of any brand asset investments that should be capitalised for the purpose of our ROCE assessment.

### **Investments in research & development**

- B.131 As discussed in more detail above (see B.41), we recognise that in digital markets, where there is significant internal investment in assets such as intellectual property (IP), R&D and patents, rather than acquisition of technology from third parties, the value of those assets may not be fully reflected in the book value of the capital employed.
- B.132 We have therefore conducted a high-level sensitivity analysis in relation to Apple's ROCE to reflect R&D expenditure as set out below.

### *Summary*

- B.133 In estimating the value of the asset base for Apple's Mobile Ecosystem for the purpose of our ROCE analysis, we used publicly available information from

financial statements, adopting the conservative approach described above. This provides us with an asset base for Apple's Mobile Ecosystem of \$52.8 billion for 2024.<sup>84</sup>

- B.134 We have calculated an estimated of Apple's EBIT at the Mobile Ecosystem level of at least \$[§] billion for the purposes of our ROCE analysis, based on revenue and gross profit information submitted by Apple in relation to its Mobile Platform and mobile devices, and publicly available operating cost data.<sup>85</sup>
- B.135 We set out our estimates of ROCE in more detail below.

### **Sensitivity analysis**

- B.136 As we explain above, we recognise that economic profitability analysis, based on a ROCE versus WACC framework, requires certain assumptions to be made. The results from economic profitability analysis can be sensitive to ranges around these assumptions, particularly with regard to asset valuations.

#### *Sensitivity 1: Non-current assets (NCAs)*

- B.137 The first sensitivity analysis we have conducted is to test the sensitivity of our ROCE to the inclusion of other NCAs.
- B.138 As discussed above, we would expect the majority of Apple's other NCAs, to reasonably be excluded from our estimate of capital employed.
- B.139 However, on the basis that we have only partial information to fully classify NCAs in terms of whether they should be included in Capital Employed, we have tested the sensitivity of findings to changes in NCA assumptions, using the following alternatives:
- (a) Capital Employed comprises net PPE plus all other NCAs (\$120.5 billion); and
  - (b) Capital Employed comprises net PPE only (\$45.7 billion).

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<sup>84</sup> We calculate capital employed using data from Apple's publicly reported balance sheet. Specifically, capital employed is calculated as Total Assets minus Current Liabilities less Cash and cash equivalents net of Commercial Paper and Term Debt minus current and non-current Marketable Securities. Apple, 'Form 10K for Apple filed 1 November 2024', dated 1 November 2024, accessed by the CMA on 16 July 2025.

<sup>85</sup> Apple's response to section 69 notice [§]; Apple's Consolidated Statement of Operations – Apple, 'Form 10K for Apple filed 1 November 2024', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 31. [\[link\]](#).

- B.140 We have found that even when applying a conservative sensitivity including all other NCAs, ROCE remains significantly higher than Apple's WACC.
- B.141 When applying our estimate of EBIT to our calculation of Apple's total capital employed, we estimate that Apple's Mobile Ecosystem generated a ROCE of at least [X]% for 2024. For our asset base sensitivities described above, we observe that the Mobile Ecosystem ROCE is [X]% when using the more conservative PPE and Other NCAs variant, which is still substantially higher than its WACC.

*Sensitivity 2: Investments in research and development*

- B.142 The second sensitivity analysis we have conducted is to test the sensitivity of our ROCE to changes in intangible assets relating to R&D expenditure.
- B.143 Under accounting principles, R&D is typically treated as an expense and accounted for in the firm's profit and loss account. However, there may be circumstances where this expenditure leads to the creation of an asset that will provide future economic benefits and therefore represents capital investment from an economic perspective. In these circumstances, the level of capital employed recorded on a firm's balance sheet may be understated.
- B.144 One potential approach to ROCE for a firm investing in long-term assets through R&D is to adjust the capital employed to include that part of the firm's R&D expenditure, ie to assume it creates an intangible asset. Such a change would have two offsetting effects on the calculation of ROCE. In addition to increasing the firm's level of capital employed by moving expenses into its capital base, the firm's EBIT will also increase since it removes some of its operating expenses out of its cost base, which is only partially offset by the effect of amortising that asset. In other words, both profit and capital employed will increase. As a result, while this could change the percentage ROCE, it might not reduce it.
- B.145 We have not seen specific evidence that expensed R&D spend meets the criteria that would support capitalisation, and we would normally expect that much of a firm's R&D investment would relate either to expansion into new business ventures outside the scope of current businesses, or to incremental improvement to products which might be correctly treated as current costs.

- B.146 However, we recognise that for the software development costs associated with mobile products and services for example, there may be uncertainty both as to whether a cost might meet the criteria for capitalisation and the value that may apply. We have tested the sensitivity of our ROCE to R&D capitalisation at the Apple Group level, assuming an amortisation period of up to 5 years.<sup>86</sup>
- B.147 Based on this high-level scenario, we have found that even if we capitalised an additional 10-20% of annual R&D expenses over a five-year period,<sup>87</sup> there is only a modest reduction in Apple's ROCE.<sup>88</sup>
- B.148 We have not tried to refine these estimates further at this stage. Our intention was to identify whether Apple still earns high profit margins if we adjust its intangible asset base to take into consideration the risk that R&D asset investments are understated in its reported balance sheet assets, and we have found that it does.

### *Sensitivity 3: Indirect costs*

- B.149 The third sensitivity analysis we have conducted is to test the sensitivity of our Mobile Ecosystem ROCE to changes in common cost allocations, by calculating an alternative value for indirect costs based on revenue-based rather than gross-margin based allocation. As the average gross margin for the products and services included in our estimate of Mobile Products operating income is higher than for the overall Apple Group, this results in higher operating income, and therefore a higher ROCE than a gross-profit based allocation.

### *Our analysis and findings of Apple's ROCE in relation to its Mobile Platform activities*

- B.150 Based on the above analysis, which we consider to be a conservative estimate, we have found that Apple's Mobile Ecosystem generated a ROCE of at least [X]% in 2024, compared with 233% for the total Apple Group (Devices and

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<sup>86</sup>In the absence of any information suggesting a different period is appropriate, our scenario assumes a five year amortisation period for R&D expenditure. We consider this approach to be conservative and reflects our view that R&D expenditure encapsulates a wide range of expense types and will not necessarily accrue economic benefits over a sustained period.

<sup>87</sup> Based on publicly reported R&D expenses in the Apple Inc Consolidated Statements of Operations Apple's Consolidated Statement of Operations – Apple, '[Form 10K for Apple filed 1 November 2024](#)', dated 1 November 2024, accessed by the CMA on 16 July 2025, page 32

<sup>88</sup> For example, capitalising an additional 10-20% of Apple's annual R&D expense over a 5 year amortisation period would reduce our estimate of Apple's Group level 2024 ROCE from 233% to 193-211%.



Services segments combined).<sup>89</sup> As discussed above, this is a conservative approach which is likely to underestimate Apple's ROCE from its Mobile Platform and broader Mobile Ecosystem, because it excludes income from other products and services which relate at least in part to its Mobile Platform activities.

- B.151 On this basis, we have found that the ROCE of Apple's Mobile Ecosystem, on a standalone basis, is substantially higher than our estimate of a benchmark WACC of [X]% [10-15%].
- B.152 We also estimate that Apple's Mobile Ecosystem would be highly profitable if we apply the sensitivities set out above, in relation to cost allocation methodologies, capitalisation of R&D expenditure, and our approach to NCAs.

*Our estimate of Apple's UK mobile profitability*

- B.153 In the previous section, we analysed the returns achieved by Apple's global Mobile Platform activities, at the Mobile Ecosystem level. However, we are interested in the returns achieved by Apple's UK Mobile Platform activities.
- B.154 For illustrative purposes we have considered how ROCE would convert into an annual profit number as an estimate of how much profit Apple's UK Mobile Platforms activities earned at the Mobile Ecosystem level over and above our estimate Apple's WACC.
- B.155 To calculate our estimate of UK Mobile Platform activities ROCE above a benchmark level we have:
- (a) First, estimated UK Mobile Ecosystem EBIT using a revenue based allocation of each component of our estimate of Apple's global Mobile Ecosystem EBIT (ie our estimates of Apple's EBIT for each of the following: Advertising Services, App Store, iPhone and iPad);
  - (b) Second, used a revenue based allocation to estimate a UK share of the global expected investor return based on our estimate of Apple's Group WACC; and

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<sup>89</sup> Our Mobile Ecosystem ROCE is calculated using balance sheet information from Apple's 10-Ks 2017-2024, and the CMA's estimate of Apple's EBIT based on Apple's own submissions. Specifically, capital employed is calculated as Total Assets minus Current Liabilities less Cash and cash equivalents net of Commercial Paper and Term Debt minus current and non-current Marketable Securities.

- (c) Third, deducted (b) from (a) to estimate the profit earned by Apple's UK Mobile Ecosystem in excess of WACC.

B.156 Using this approach, we have found that Apple generated at least £[REDACTED] billion of profits in excess of WACC from its Mobile Platform and broader Mobile Ecosystem in 2024.<sup>90</sup>

### **Forward-looking profitability analysis**

B.157 As part of the SMS investigation, we have also compared Apple's recent financial performance with its financial projections relating to future revenues and profitability, based on available information, in order to assess whether current trends in revenues and profitability are expected to continue into the future.

B.158 As part of this assessment, we have reviewed financial projections submitted by Apple. These included [REDACTED].

B.159 [REDACTED]:

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

(d) [REDACTED]

(e) [REDACTED].<sup>91</sup>

B.160 Based on our review of Apple's own financial projections relating to future revenue and profitability, we have seen no evidence that these high levels of profitability would not continue.

### **Summary of findings on Apple's financial performance**

B.161 Our analysis of Apple's financial performance illustrates that it has consistently been highly profitable over the last ten years, including in relation to its Mobile

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<sup>90</sup> As discussed above, this is a conservative estimate which excludes income from other products and services which relate in part to Apple's Mobile Platform activities.

<sup>91</sup> Apple's response to section 69 notice [REDACTED]; [REDACTED].

Platform activities. The global return on capital employed for Apple has been at a level which may be one indicator of substantial market power.

- B.162 We have demonstrated this by comparing our estimate of Apple's ROCE – its actual profitability – with our estimate of Apple's WACC.
- B.163 Taking into account the gross profit margins for the main products and services through which Apple monetises its Mobile Platform, we estimate that Apple's gross profit margin for its Mobile Platform activities for 2024 is broadly similar to the total Apple Group gross profit margin of 46%.<sup>92</sup>
- B.164 We have also considered the profitability of Apple's Mobile Platform at the Mobile Ecosystem level, and found that if Apple's Mobile Ecosystem was considered as a standalone business, and all the assets of the integrated Devices and Services business were allocated to this business, it would still earn well above any normal benchmark ROCE level.
- B.165 Given the global nature of Apple's cost reporting structures, and having seen no evidence that Apple's UK Mobile Ecosystem has materially higher cost profile than globally, we estimate that Apple's Mobile Activities are, at the Mobile Ecosystem level, generating a ROCE higher than our estimate of its weighted average cost of capital.
- B.166 We estimate that this high return means that Apple was able to earn at least £[REDACTED] billion of profits in 2024 from its UK Mobile Platform activities over and above a return based on our estimate of WACC for the Apple Group of [REDACTED]% [10-15%].<sup>93</sup>
- B.167 Based on our review of Apple's own financial projections relating to future revenues and profitability (see paragraphs B.158 - B.159), we have seen no evidence that these high levels of profitability would not continue.

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<sup>92</sup> Apple 10Ks 2024; Apple's response to section 69 notice [REDACTED]; [REDACTED]; Apple's response to section 69 notice [REDACTED].

<sup>93</sup> Apple 10K 2024; Apple's response to section 69 notice [REDACTED]; [REDACTED]; Apple's response to section 69 notice [REDACTED]; Figures converted from USD to GBP at an average annual exchange rate for the period 1 September 2023 to 30 September 2024.