

Appendix B: Financial Analysis

Summary

- B.1 As part of our investigation, we have undertaken an analysis of the financial performance of Apple and Apple's Mobile Platform, which can be one indicator of the market power in respect of Apple's Mobile Platform, as set out in our Guidance.¹
- B.2 In this Appendix we set out the issues in assessing the profitability of Apple's Mobile Platform 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 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 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 Platform at a UK level.²
- 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,³ 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 weighted average cost of capital (**WACC**) of [redacted] [10-15]%.⁴
- 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 WACC range, and this remains the case when applying various sensitivities to our work.

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

² Apple's response to section 69 notice [redacted]; Apple's response to section 69 notice [redacted].

³ Apple 10-Ks 2015-2024. Apple's response to section 69 notice [redacted].

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

- B.8 We have also compared Apple's recent financial performance with its financial projections relating to future revenues and profitability, and we have not seen evidence indicating that these high levels of profitability will not continue.⁵

Contents of this Appendix

- 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 conclusions.
- 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 its Mobile Platform or indirectly, in relation to its broader Mobile Ecosystem.⁶
- 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**).⁷
 - (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 WACC, which is a widely used benchmark for returns on 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.

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

⁶ 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.

⁷ For this purpose, we use Apple's Operating Income metric, as reported in its 10-Ks; Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025.

Approach to our 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 have assessed profitability, and the ROCE-based approach we are applying.

Business activities

B.13 We are interested in the profitability of Apple's Mobile Platform 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].⁸ Apple told us [REDACTED],⁹ and told us that:

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED].¹⁰

B.16 Apple did not provide:

(a) UK-level profitability data; and

(b) country-level or product-level asset data.

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],¹¹ and that [REDACTED] its company level profit and loss statement comprises all costs incurred in the operation of its activities.¹²

⁸ Apple's response to section 69 notice [REDACTED].

⁹ Apple's response to section 69 notice [REDACTED].

¹⁰ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

¹¹ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

¹² Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

- B.19 Apple explained that [REDACTED] and told us that [REDACTED].¹³
- 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;
 - (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 aimed to look 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 to 2024 in order to understand the key drivers of its profitability in relation to its Mobile Platform.
- B.24 We have also considered the likely profitability of Apple's Mobile Platform 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.

¹³ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

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.¹⁴
- 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, ie the rate of return on capital employed for a particular business activity would be equal to the opportunity cost of capital for that activity.¹⁵
- 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.¹⁶ 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 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

¹⁴ 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.

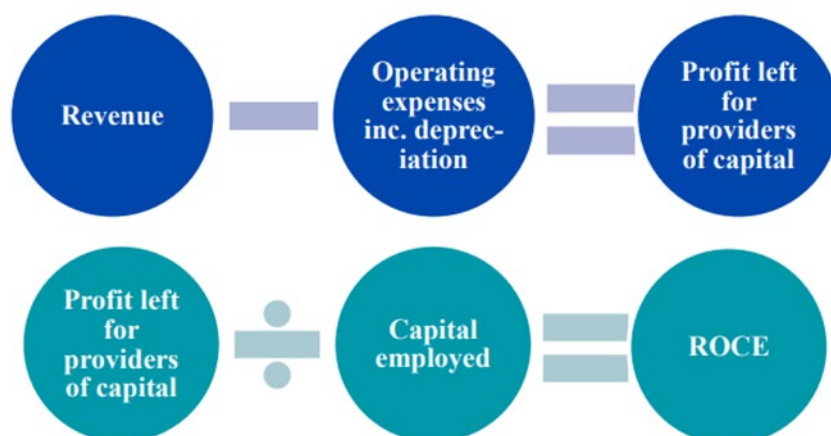
¹⁵ CMA194 does not itself define what constitutes a normal rate of profit. For the purpose of the profitability analysis set out in this Appendix, we consider that the CMA market guidance definition of 'normal returns' offers a useful reference point. See CC3, paragraph 116. [CC3 \(Revised\), Guidelines for market investigations: Their role, procedures, assessment and remedies](#).

¹⁶ 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.

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.¹⁷

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 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 WACC, over the relevant period(s) of analysis. The WACC is

¹⁷ 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.

the return on investment that providers of capital – both debt and equity – expect, given the risks associated with the relevant activity.¹⁸

- 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 have taken 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 was 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 was data availability. Where possible, the CMA has based its calculations on financial data that can be reconciled to audited financial statements, albeit with appropriate adjustments.
- 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 standard accounting practices 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

¹⁸ WACC is therefore expected return on equity and expected return on debt, weighted by gearing – the relevant proportions of debt and equity.

business activities and/or where there are material intercompany transactions.

Limitations of a ROCE versus WACC framework

Apple's view

- B.40 Apple submitted that ROCE is not a meaningful indicator for market power in a highly innovative industry, given that accounting based data takes into account only the cost of the investment, not the realised value of the investment, and because the results of a ROCE analysis vary significantly depending on the accounting treatment of intangible assets.¹⁹

CMA assessment

- B.41 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 the sensitivity of our analysis to the assumptions we have used.
- B.42 We recognise that in digital markets, where there is significant internal investment in assets such as intellectual property (**IP**), research and development (**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 conducted a sensitivity analysis.
- B.43 We agree that the book value of an intangible asset may vary depending on the accounting methodology used, and that the approach taken may in some cases vary depending on whether an asset is internally generated or externally acquired assets. However, variability of accounting treatment for intangible assets does not imply that ROCE is not a meaningful indicator of profitability in digital markets.
- B.44 As explained above, while our approach was to start with accounting figures, we may consider adjustments to the accounting data to reflect differences

¹⁹ Submission from Apple, [38]. Apple included examples relating to the accounting treatment of acquired intangible assets from recent third-party transactions to highlight this point, and stated that its intangible assets are not delineated separately on the balance sheet, as it has developed them internally.

between the historical cost and replacement value, as well as considering the sensitivity of our analysis to the assumptions we have used.

- B.45 However, we have not seen any evidence relating to the replacement value of Apple's intangible assets that would have helped to inform our analysis.²⁰

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

- B.46 In assessing Apple's financial performance, we began our assessment by considering the profitability of the Apple Group, and its Products and Services reporting segments (referred to in this Appendix as its 'Devices' and 'Services' segments), which can be directly observed from Apple's publicly reported financial statements.²¹
- B.47 In this section we consider profitability indicators based on publicly available information for Apple and its main reporting segments. 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.48 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 2024.²²
- B.49 Figure B.2 demonstrates Apple's level of profitability for the last ten years. Its percentage profit margins, measured as operating income or earnings before income and tax, have remained consistently high and the profit margin has not fallen below 24%.²³

²⁰ We understand from the judgment in *Epic Games, Inc. v Apple Inc.* (Case No. 4:20-cv-05649-YGR) brought by EPIC Games against Apple, that Apple did not provide a numerical value for its intellectual property in that case [§<] with the judgment having commented on Apple's 'lack of clarity on the value of its intellectual property.'

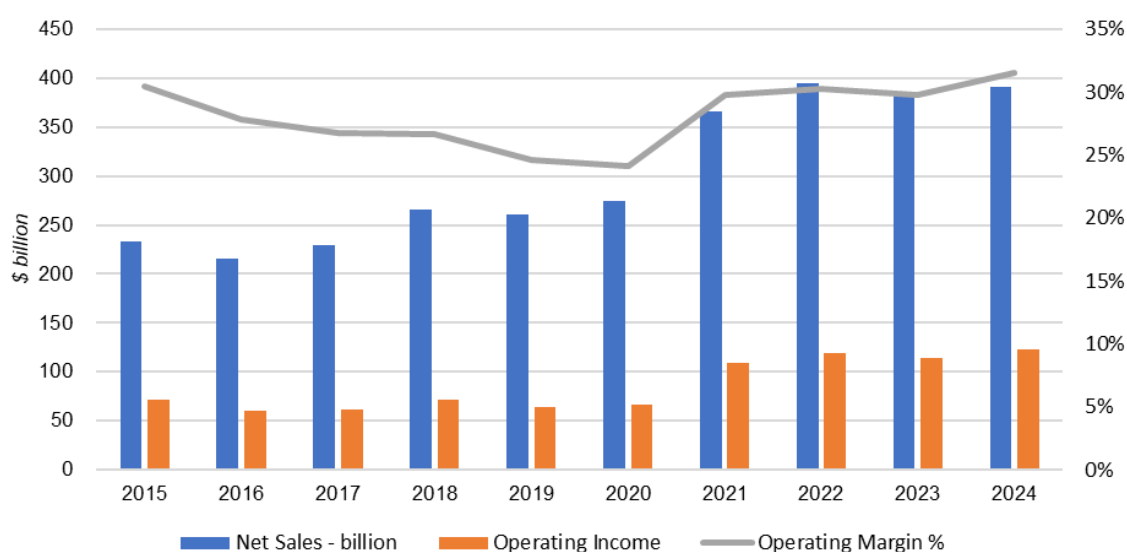
(Source: [Microsoft Word - Draft Final Order - Master Document 9_9.docx](#), page 94)

²¹ Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, pages 23-24.

²² Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 29.

²³ Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 29.

Figure B.2: Apple Group Revenue and Profit between 2015 and 2024 (\$ billion)



Source: CMA analysis of Apple 10-K data²⁴

- B.50 Apple is also highly cash generative. In the financial year ending September 2024 Apple generated operating cashflow of \$118 billion.²⁵ Apple also returned approximately \$110 billion to shareholders through a combination of dividends and share buybacks.²⁶
- B.51 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 billion²⁷ and \$31 billion respectively.²⁸

Segmental reporting

- B.52 Apple is an integrated global firm, providing a range of hardware and software products, alongside a variety of services.
- B.53 Apple's products and services are split into two main reporting segments for revenue and gross margin reporting purposes:

²⁴ Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 29.

²⁵ Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 33.

²⁶ Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 33.

²⁷ 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 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 29.

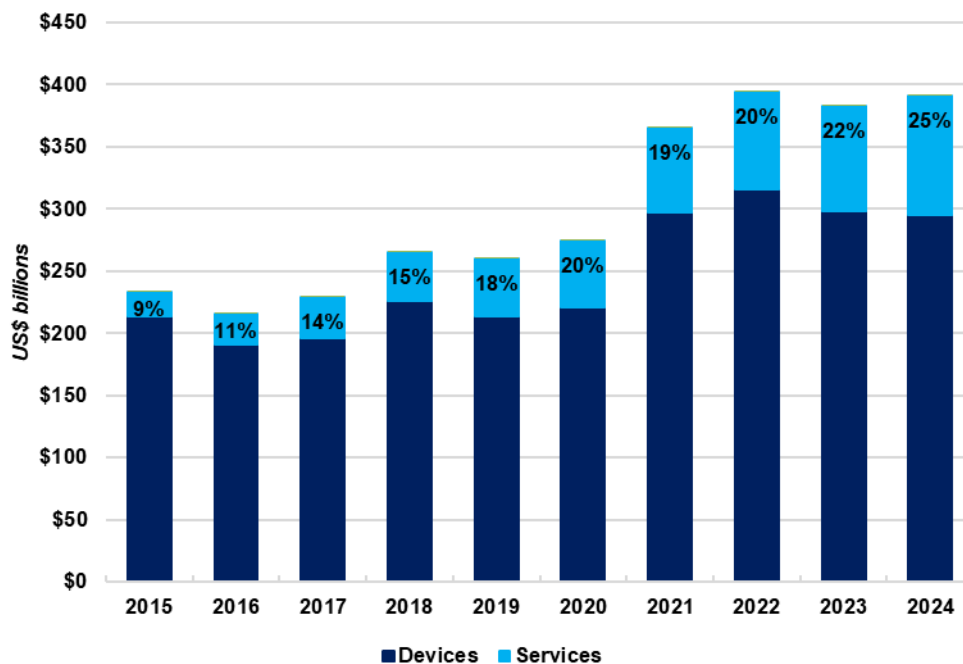
²⁸ Reported payments for acquisition of property, plant and equipment for the financial years ending September 2022, September 2023 and September 2024 in Apple's Consolidated Statement of Cashflows; Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 33.

- (a) Products, which is described by Apple as comprising the following product categories: the iPhone, Mac, iPad, Wearables, Home and Accessories (in this Appendix we refer to these as “Devices”);²⁹
- (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.³⁰

B.54 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.³¹

B.55 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.

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



Source: CMA Analysis of Apple 10-K data ³²

²⁹ Apple, ‘[Form 10-K for Apple filed 1 November 2024](#)’, accessed by the CMA on 16 July 2025, page 2.

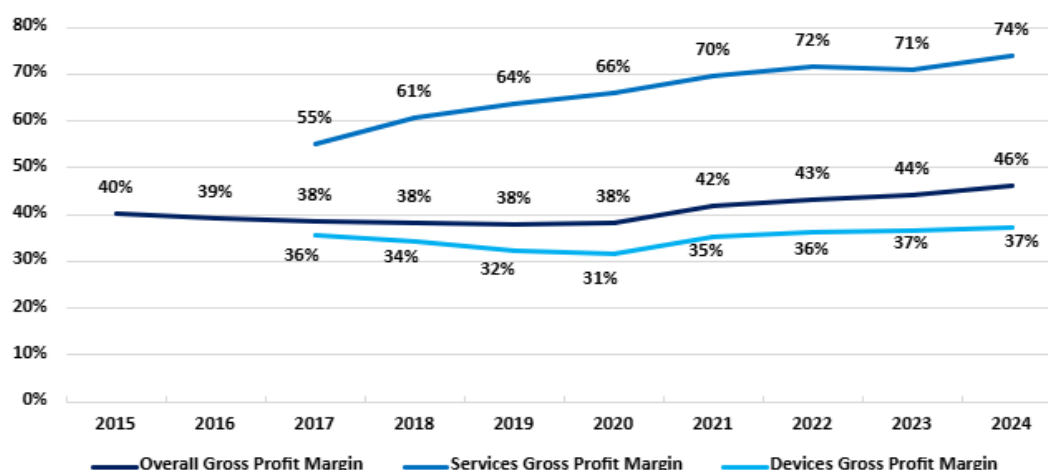
³⁰ Apple, ‘[Form 10-K for Apple filed 1 November 2024](#)’, accessed by the CMA on 16 July 2025, page 2.

³¹ Apple, ‘[Form 10-K for Apple filed 1 November 2024](#)’, accessed by the CMA on 16 July 2025, page 35.

³² Calculated using segmental revenue data from Apple Form 10-Ks for 2015-2024.

- B.56 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.³³
- B.57 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.

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



Source: CMA Analysis of Apple 10-K data ³⁴

Devices segment

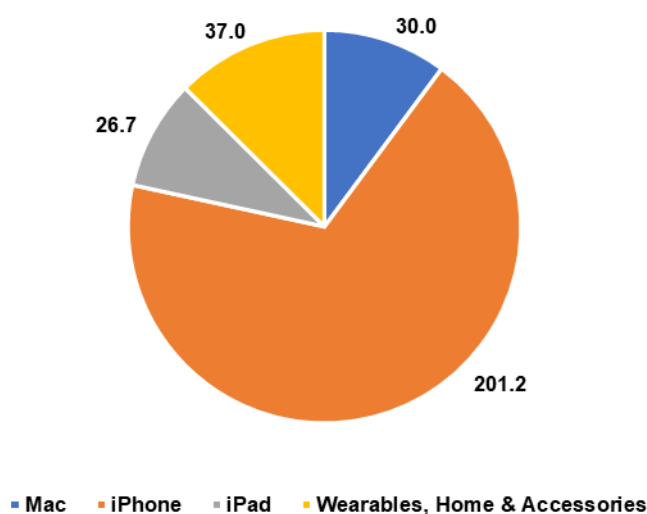
- B.58 Within the Devices segment, Apple provides an additional breakdown of revenue by device type. As set out in Figure B.5, Apple's global device revenue in 2024 was dominated by iPhone sales (68%), while iPad revenues accounted for 9%.³⁵ Analysis of Apple's 10-Ks highlights that Devices gross margins have largely been stable since 2017.

³³ 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.

³⁴ Calculated using the total company and segmental revenues, and gross profit data from Apple 10-Ks for 2015-2024.

³⁵ Calculated using product revenues from Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 23.

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



Source: CMA Analysis of Apple 10-K data ³⁶

Services segment

- B.59 Apple does not provide a 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.60 Apple's Services segment, which includes Advertising and the App Store,³⁷ has lower direct costs and therefore higher gross margins than for Devices.³⁸ 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.³⁹

³⁶ Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 23.

³⁷ Apple's Advertising services include third-party licensing arrangements and the Company's own advertising platforms; Apple, 'Form 10-K for Apple filed 1 November 2024', accessed by the CMA on 16 July 2025, page 2.

³⁸ Apple told us that our analysis of the Services segment gross profit margin considers only direct costs and fails to recognise the integrated nature of Apple's ecosystem and that Apple [§]. (Submission from Apple, [§]). We note that our analysis here simply references gross margin as a reflection of the way Apple itself reports on the segment in its Form 10-K disclosures.

³⁹ Calculated using segmental data from Apple 10-Ks for 2017-2024.

Geographic segmentation

- B.61 Apple's UK activities form part of its Europe region,⁴⁰ which accounted for approximately a quarter of global revenues and segmental operating income in 2024.
- B.62 Apple's submissions indicate that the UK accounts for around [§] of 2024 European revenues, averaging [§] over 2022-2024.⁴¹ 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.⁴²
- B.63 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.⁴³ Therefore we have not relied on Apple's regional operating profit margins when assessing the profitability of Apple's Mobile Platform at UK level.

CMA analysis of the profitability of Apple's Mobile Platform

- B.64 In the section above we have described Apple's performance based on the way it reports its business activities. Our objective was to understand whether Apple makes returns substantially and persistently in excess of its WACC in relation to its Mobile Platform.
- B.65 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).
- B.66 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:

⁴⁰ The Europe reporting segment includes European countries as well as India, The Middle East and Africa; Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 2.

⁴¹ CMA analysis of Apple's response to section 69 notice [§].

⁴² CMA analysis of Apple's response to section 69 notice [§].

⁴³ Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 47.

- (a) Advertising (Third Party Licensing Arrangements (**TPLA**), which include its revenue-sharing agreement with Google, and App Store);
- (b) App Store;
- (c) Safari;
- (d) iOS and iPadOS operating systems; and
- (e) iPhones and iPads.

Profitability of Apple's Mobile Platform

- B.67 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 required additional assumptions to be made given that Apple does not prepare separate financial accounts for its Mobile Platform or Mobile Ecosystem more broadly.
- B.68 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.69 Although we are interested in the profitability of Apple's Mobile Platform 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.70 In this section, we consider revenue and profit margins for Apple's Mobile Platform, including in relation to its broader Mobile Ecosystem. Our objective is to understand whether Apple makes high profit margins from its Mobile Platform, either directly or indirectly, including in the UK.
- B.71 We asked Apple to provide certain information about the share of revenues and operating profits for these activities for the period 2022-2024.
- B.72 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].⁴⁴

Revenues

- B.73 In this section we provide an overview of revenues relating to Apple's mobile activities, based on global revenue data received from Apple.
- B.74 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,⁴⁵ 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.⁴⁶
- B.75 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.76 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.77 As discussed below, Apple does not directly monetise Safari, iOS and iPadOS.

UK revenues

- B.78 Apple generated £[REDACTED] [10-20] billion of UK revenues in 2024, of which at least £[REDACTED] [5-10] billion related to its Mobile Ecosystem.⁴⁷ Apple does not

⁴⁴ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

⁴⁵ Minimum estimate of Mobile Ecosystem revenue is calculated based on revenues of \$201 billion for the iPhone, \$28 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, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 35; Apple's response to section 69 notice [REDACTED].

⁴⁶ A small proportion of revenues from Advertising and the App Store relate to sources other than the iPhone and the iPad.

⁴⁷ Apple's response to section 69 notice [REDACTED]. Revenues are converted from USD to GBP at an annual average exchange rate for 2024 of 1.2783 (Source: Bank of England).

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

- (a) £[§] [5-10] billion and £[§] [0-5] billion of iPhone and iPad revenues respectively;
- (b) at least [§] billion of Advertising revenues, of which the significant majority, [§] billion, relates to TPLAs,⁴⁸ and a further £[§] billion relates to App Store Advertising;⁴⁹ and
- (c) £[§] [0-2] billion from the App Store.⁵⁰

B.79 The remaining [§] billion of UK revenues relate to:

- (a) other services (£[§] [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;⁵¹ and
- (b) the sale of non-Mobile Devices (£[§] [0-5] billion).⁵²

⁴⁸ Total TPLA advertising revenues include sources other than Mobile Devices. [§].

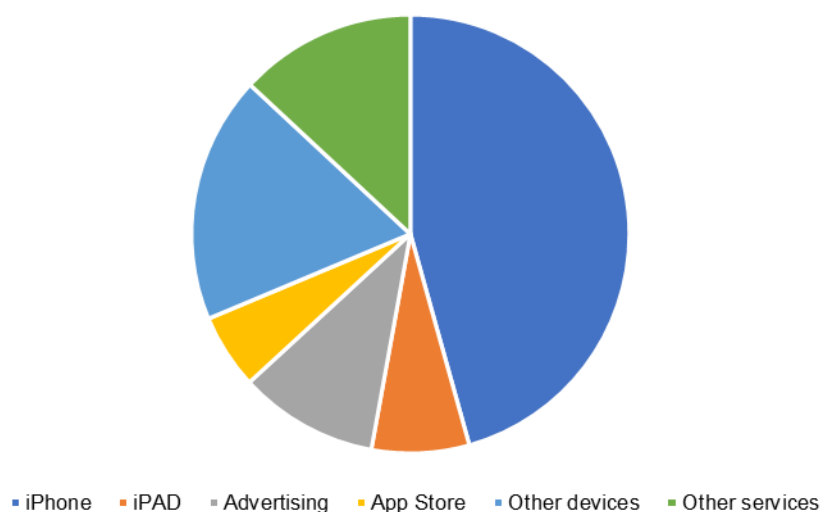
⁴⁹ Advertising revenues include revenues relating to sources other than the iPhone and the iPad.

⁵⁰ Apple's response to section 69 notice [§]. All revenue numbers converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁵¹ Revenue from other services also includes App Store customer billing revenues from products other than the iPad and iPhone.

⁵² Apple's response to section 69 notice [§]. All revenue numbers converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

Figure B.6 Breakdown of UK revenue in 2024



Source: CMA Analysis of Apple Submissions⁵³

Profit margins analysis

- B.80 In this section, we consider profit margins relating to the activities comprising Apple's Mobile Platform, based on information received from Apple in relation to its broader Mobile Ecosystem.
- B.81 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], and our profit margin analysis therefore focused on gross margins.^{54,55}
- B.82 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.

⁵³ Apple's response to section 69 notice [REDACTED].

⁵⁴ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

⁵⁵ Apple told us that our focus on gross margins and direct costs failed to address the integrated nature of Apple's Mobile Ecosystem, and that any attempts to attribute direct costs to a subset of activities are meaningless. (Submission from Apple, [REDACTED]). We recognise that gross profit metrics exclude indirect costs that may be attributable to particular products and services, and consider operating profit (EBIT) elsewhere in our analysis, at an aggregate level. However, we consider it useful to consider profit margins for subsets of products. In this section we have calculated these at the gross profit rather than the operating profit level, as [REDACTED].

Advertising

- B.83 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.⁵⁶
- B.84 TPLAs constitute the significant majority of advertising revenues. In 2024, Apple generated [£] of Advertising related revenues in the UK and [£] billion globally, of which [£] billion related to Third Party Licensing Arrangements, and a further [£] billion related to App Store Advertising.⁵⁷ In 2024, third-party licensing revenues were [£] of total UK turnover ([£] globally).⁵⁸
- B.85 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.
- B.86 The largest component of Apple's TPLA Advertising revenues is its ISA with Google pursuant to which Google pays a share of search advertising revenues to Apple in return for Google Search being the default search engine on Safari.⁵⁹
- B.87 In its submissions, Google told us that its payments to Apple cover all mobile search access points, including Chrome mobile and [£] as well as mobile Safari, although the latter accounts for [£].⁶⁰ The scale of the payments that Google makes under the ISA makes it one of Apple's largest sources of revenues and profits.⁶¹
- B.88 We estimate that Apple's gross profit margins from Advertising revenues averaged [£] over the period 2022 to 2024 on a global basis, and were higher than for Apple's overall Services Segment.⁶²

Native App Distribution

⁵⁶ Apple's response to section 69 notice [£].

⁵⁷ CMA analysis of 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).

⁵⁸ Apple's response to section 69 notice [£]. Revenue figures converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁵⁹ Apple's response to section 69 notice [£].

⁶⁰ Google's response to section 69 notice [£]. In 2024, Google paid Apple approximately [£] [£1-3 billion] under the ISA in relation to search access points on Safari, Chrome [£] across all Apple Mobile Devices in the UK [£].

⁶¹ CMA analysis of Apple's response to section 69 notice [£].

⁶² CMA analysis of Apple's response to section 69 notice [£].

- B.89 Apple generates App Store revenues from a combination of App Store customer billings and App Store Platform Advertising.⁶³
- B.90 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).⁶⁴
- B.91 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.⁶⁵
- B.92 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 [X] on a global basis, which reflects Apple's commission structure.⁶⁶
- B.93 We estimate that the App Store's gross profit margin averaged [X] over the period 2022 to 2024 on a global basis excluding App Store Advertising, and is higher than for the overall Services reporting segment.⁶⁷
- B.94 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 £[X] billion of revenues from the App Store in 2024 in the UK, of which £[X] billion relates to Mobile Devices, and \$[X] billion globally, with an average gross margin over the period 2022-2024 of [X].⁶⁸
- B.95 Taken together, the App Store and total Advertising revenues (including TPLA and Platforms) are the largest contributors to the Services gross margin, accounting for [X] of the global total in 2024.

⁶³ 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.

⁶⁴ Apple's response to section 69 notice [X]. Percentages are based on App Store revenues for all devices, including products and services other than the iPad and iPhone.

⁶⁵ Apple's response to section 69 notice [X]. Percentages are based on App Store revenues for all devices, including products and services other than the iPad and iPhone.

⁶⁶ Apple's response to section 69 notice [X].

⁶⁷ Apple's response to section 69 notice [X].

⁶⁸ 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).

iPhone and iPad

- B.96 The majority of Apple's revenues come from Device sales, including in particular the iPhone, which accounted for 51% of Apple's global revenues,⁶⁹ and [§] [a similar proportion] of its UK revenues in 2024.⁷⁰
- B.97 Globally, Apple generated \$201.2 billion of revenues from iPhone device sales and a further \$26.7 billion from iPad device sales.⁷¹ 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.⁷²
- B.98 Apple's gross profit margins for iPhone and iPads for the period 2022-24 were around [§] respectively, which is lower than its services activities.⁷³

iOS and iPadOS Operating Systems

- B.99 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 profitability

- B.100 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.101 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 £[§] billion.⁷⁴

⁶⁹ Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 35.

⁷⁰ Apple's response to section 69 notice [§].

⁷¹ Apple's response to section 69 notice [§].

⁷² 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).

⁷³ Apple's response to section 69 notice [§].

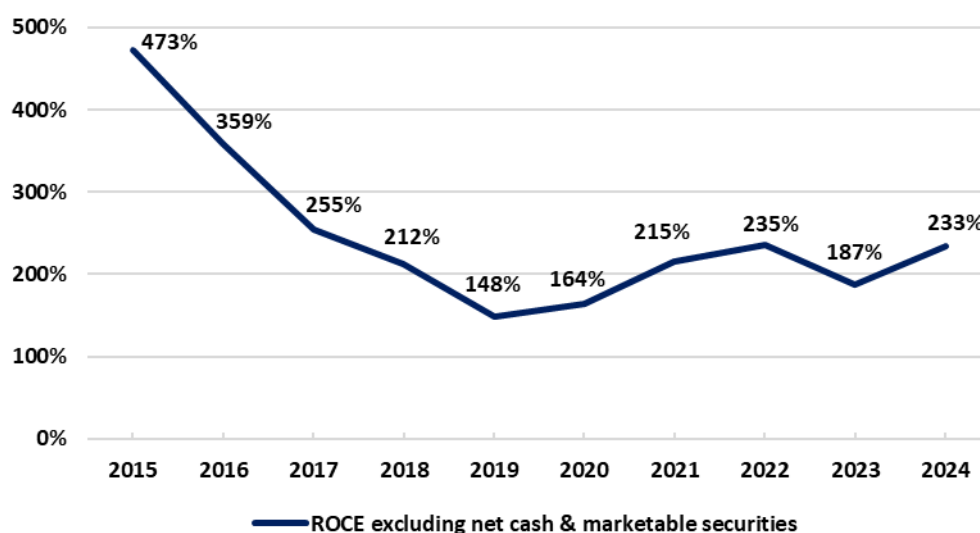
⁷⁴ CMA analysis based on Apple's response to section 69 notice [§]; Apple's response to section 69 notice [§]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank

Return on Capital Employed (ROCE)

Apple Group ROCE

- B.102 In this section we compare the ROCE of Apple to a benchmark return based on our estimate of Apple's WACC.
- B.103 We have considered Apple's ROCE, measured as EBIT (earnings before income and tax)⁷⁵ 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.⁷⁶

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



Source: CMA Analysis of Apple 10-K data ⁷⁷

- B.104 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.

of England). 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.

⁷⁵ We used Apple's reported operating income from its 10-Ks for 2015-2024.

⁷⁶ 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 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 31. 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.

⁷⁷ Source: Apple Form 10-Ks 2015-2024.

Our estimate of Apple's WACC

- B.105 Given the scale of the actual ROCE and by how much it exceeds any likely WACC benchmark, we have not undertaken a detailed assessment of Apple's WACC. Apple told us that [REDACTED]. Apple identified that WACC is employed [REDACTED], but highlighted that [REDACTED].⁷⁸
- B.106 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, we have decided to use a pre-tax WACC of [REDACTED] [10-15]% as an appropriate level of return for Apple.⁷⁹
- B.107 Apple submitted that, because we have relied on a conservative book value-based calculation of capital employed rather than a market capitalisation-based valuation, there is a conceptual mismatch between our measure of capital employed and our estimate of WACC, and that an adjusted hypothetical WACC correcting for this mismatch would amount to [REDACTED] depending on the year.⁸⁰
- B.108 We disagree with Apple's submission that a hypothetical WACC rate of [REDACTED] would be required to correct for this mismatch. It is standard practice to estimate WACC using market values, regardless of the firm's market-to-book value.⁸¹
- B.109 As discussed later in this chapter, we also disagree with Apple's broader submission that market capitalisation [REDACTED] capital employed in our profitability analysis.

Apple ROCE relative to WACC

- B.110 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 years, we conclude that Apple's total business ROCE is and has been consistently higher than the benchmark WACC.

⁷⁸ Apple's response to section 69 notice [REDACTED]. Submission from Apple, [REDACTED] and Apple's response to the CMA's request [REDACTED].

⁷⁹ CMA estimate of Google's WACC is [10-15]% based on Google's own estimate of WACC of [10-15]%, converted by the CMA from a post-tax to a pre-tax WACC rate. Source: Google's response to section 69 notice [REDACTED].

⁸⁰ Submission from Apple, [REDACTED].

⁸¹ We also find Apple's alternative WACC estimates implausible. They are [REDACTED]. There is no basis for making this assumption.

Mobile Platform return on capital employed (ROCE)

Approach to assessing the profitability of Apple's Mobile Platform

- B.111 As we describe above, we are interested in understanding the profitability of Apple's Mobile Platform at the Mobile Ecosystem level. However, these activities do not form a discrete business unit in Apple's reporting structure and [REDACTED].
- B.112 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.113 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.114 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.115 Apple told us that attempting to estimate operating profit at the product or service level is likely to be inaccurate. It explained that [REDACTED].⁸² [REDACTED].⁸³
- B.116 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 operating costs. As a result, there are a number of well-established methodologies for the allocation of common costs for this purpose.

⁸² Apple's response to section 69 notice [REDACTED].

⁸³ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED].

Inputs in assessing profitability of Apple's Mobile Platform

Operating income (EBIT)

B.117 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 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 Form 10-K.⁸⁴

B.118 Based on the above, we estimate that the majority ([REDACTED]) of Apple's EBIT for the financial year ending September 2024 relates to its Mobile Ecosystem.⁸⁵ 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.⁸⁶

B.119 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.

⁸⁴ Apple's Consolidated Statement of Operations – Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 29.

⁸⁵ CMA analysis based on Apple's response to section 69 notice [REDACTED]; Apple's Consolidated Statement of Operations – Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 29.

⁸⁶ Apple submitted that any meaningful measure of operating profit should not focus on the services segment alone. In considering this representation we note that: (i) in assessing the profitability of Apple's Mobile Platform, we have considered also Apple's iPhone and iPad devices; and (ii) we have also calculated a total company ROCE which takes into account what Apple refers to as its "fully burdened" P&L statement that includes all direct and indirect costs for the whole company. Submission from Apple, [REDACTED].

Asset base

Balance sheet as a starting point

- B.120 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.121 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].⁸⁷
- B.122 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.
- B.123 In the following section we set out the approach we have taken and consider issues raised by Apple relating to the valuation of intangible assets and the relevant intangible assets to include. This is to determine what is included in our measure of capital employed for Apple's business, based on the balance sheet data available and Apple's submissions.

Cash and cash equivalents

- B.124 Apple's balance sheet includes significant cash and marketable security balances. Apple's reported cash and cash equivalents at 30 September 2024 totalled \$29.9 billion, and total marketable securities, including both current and non-current, \$126.7 billion.⁸⁸
- B.125 As discussed above, we calculated Apple's capital employed as total assets minus current liabilities excluding net cash and marketable securities based on published asset values in the accounts.

⁸⁷ Apple's response to section 69 notice [REDACTED].

⁸⁸ Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 31.

Apple's views

- B.126 Apple submitted that our ROCE analysis should include cash holdings and marketable securities in Apple's asset base when calculating capital employed.⁸⁹ Apple stated that [REDACTED].⁹⁰

Our Assessment

- B.127 The purpose of evaluating return on capital relative to WACC is to assess whether actual return on investment in business activities is sufficient to reward investors for making those investments.
- B.128 Our ROCE analysis therefore aims to reflect the operational capital used by the business, ie the actual capital invested in purchasing or creating revenue-generating assets. As discussed above, cash balances or marketable securities represent ways of funding the capital employed by the business and, while these may be invested into such assets in future, they are not being used to support ongoing business operations and are, therefore, not an operational balance. We have not seen evidence of any legal or regulatory requirements for it to hold cash or marketable securities for its business operations.
- B.129 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 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.130 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.131 A review of Apple's classification of its other non-current assets (**NCAs**) suggests that they include some items which do not appear to be relevant to

⁸⁹ Submission from Apple, [REDACTED].

⁹⁰ Submission from Apple, [REDACTED].

the calculation of Apple's ROCE, such as deferred tax assets.⁹¹ As such, we would expect some of these assets to be reasonably excluded from this assessment.

B.132 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 our findings to changes in NCA assumptions. 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.133 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.134 Intangible assets are assets such as goodwill, brand value and in-process research and development assets. In the following section we consider issues raised by Apple relating to the inclusion and valuation of intangible assets.

Apple's view

B.135 Apple submitted that ROCE is not a meaningful indicator for market power in highly innovative industries.⁹² Apple submitted that the profitability analysis set out in the Proposed Decision failed to properly account for Apple's intangible assets, significantly understating its capital base and overestimating its ROCE.⁹³

B.136 Apple submitted that the criteria used by the CMA for recognising intangible assets are conceptually flawed,⁹⁴ and further submitted that it is wrong to

⁹¹ Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 34; Apple's response to section 69 notice [38].

⁹² Submission from Apple, [38].

⁹³ Submission from Apple, [38].

⁹⁴ Submission from Apple, [38].

infer an economic value for intangible assets directly from financial accounts, or to rely on cost-based criteria.⁹⁵

- B.137 Apple submitted that the CMA had failed to accommodate the valuation of Apple's assets in a meaningful way, and further submitted the value of Apple's intangible assets should be derived from Apple's market capitalisation rather than from its financial statements.⁹⁶ Using this alternative methodology, Apple estimates that [REDACTED] is in the region of [REDACTED], with a resulting ROCE of [REDACTED].⁹⁷
- B.138 Apple also made submissions on the CMA's approach to R&D and brand assets which are considered separately below.

Our assessment

- B.139 Our approach for considering intangible assets is based on the following set of criteria that we consider an intangible asset 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.
- B.140 Apple submitted that the approach taken for recognising intangible assets in the Proposed Decision was inconsistent with the approach taken in other CMA cases. However, the criteria that we have applied in this investigation are consistent with the criteria set out in the CMA guidelines applicable to those cases, and the differences cited by Apple relate primarily to case specific factors and evidence submitted by the parties involved.⁹⁸

⁹⁵ Submission from Apple, [REDACTED].

⁹⁶ Submission from Apple, [REDACTED].

⁹⁷ Submission from Apple, [REDACTED].

⁹⁸ Apple submitted that the approach taken in the Proposed Decision was inconsistent with the approach taken in other CMA cases, comparing the approach in Cloud Services market investigation (2025), Housebuilding Market Study (2024), Funerals market study (2020) and Energy markets investigation (2016), and the Investment Consultants Market Investigation (2018) as well as the SMS investigation into Google's Mobile Platform. Submission from Apple, [REDACTED]. However, we consider that the criteria that we have applied in this investigation are consistent with those set out in applicable Guidance (see CC3, paragraph 14). We consider that the differences cited in Apple's response relate primarily to case-specific factors involved and evidence submitted by the parties involved.

- B.141 Our starting point is to consider accounting data, including evidence relating to actual spend on research and development and other cost categories as appropriate, in the absence of other meaningful information.
- B.142 Other than Apple proposing [redacted] based on its market capitalisation, we have not seen evidence relating to Apple's intangible assets that would meet our criteria, or an assessment of their potential value.⁹⁹
- B.143 We have considered Apple's submission regarding [redacted] derived from market capitalisation, and do not regard this as a reliable methodology by which to value Apple's intangible assets.
- B.144 What we are seeking to estimate is the capital employed using the 'value to owner' principle, and the most common outcome of applying this principle is to use the replacement value of the modern equivalent asset. Market capitalisation is unlikely to be a suitable proxy for the cost of replicating Apple's operating capabilities.
- B.145 There is a circularity in using a market valuation approach to asset valuation for the purpose of our profitability analysis. Market capitalisation represents the market's perception of Apple's ability to generate future cashflows. To the extent that Apple were to generate profits in excess of what we might expect in competitive markets, and these were expected to continue, its market value would capitalise those excess profits. Apple's market capitalisation is not a measure of the capital employed and does not reflect the replacement value of its assets.
- B.146 We recognise that there may be occasions where the replacement value of a particular asset may differ from the historical spend recorded in a company's accounts. However, the principle still remains that a cost would need to have been incurred for the asset to be considered for the purpose of capital employed.

Goodwill

- B.147 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,

⁹⁹ Submission from Apple, [redacted].

when purchasing a business, goodwill may represent the value of intangible assets not capitalised on the businesses' balance sheets.

- B.148 Our approach is to recognise those intangible assets that meet our criteria for recognition, regardless of whether they have been separately identified in the company's 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 Platform.¹⁰⁰ It also avoids the risk of capitalising any economic profit.
- B.149 However, based on the limited available balance sheet reporting, we have conservatively included goodwill for the total Apple Group in our analysis.¹⁰¹

Brand value

Apple's view

- B.150 Apple submitted that we should account for brand value when calculating its capital employed.¹⁰² [REDACTED].¹⁰³

CMA's assessment

- B.151 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 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.152 We recognise that there is significant value in the Apple brand. However, within the ROCE-based framework we are applying, our particular focus is

¹⁰⁰ Apple told us that it considers total goodwill represents a [REDACTED] component of the capital base. Submission from Apple, [REDACTED]. However, we do not consider that goodwill, which represents the balancing figure between price paid and assets acquired, meets the criteria of creating a separately identifiable asset (separate from any arising from the general running of a business), or is likely to meet the criteria of cost additional to the costs necessarily incurred at the time in running such business.

¹⁰¹ 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. We recognise that by conservatively including all goodwill, the figures used may include goodwill that does not meet the CMA's specified criteria and/or is not directly related to its mobile ecosystem.

¹⁰² Submission from Apple, [REDACTED]. For example, Apple told us [REDACTED].

¹⁰³ Submission from Apple, [REDACTED].

on whether there is evidence of an investment in the Apple brand asset that falls within the criteria which we have set out above.¹⁰⁴

- B.153 Apple does not record an intangible asset relating to brand value in its public accounts, and we have not seen evidence of an Apple brand value that would fall within our criteria for recognising an intangible asset. In particular, we have not seen evidence that Apple has incurred brand-related costs in addition to the costs it has necessarily incurred at the time in running its business.
- B.154 We would normally expect that much of a firm's advertising spend might be correctly treated as current costs, and have not seen specific evidence that Apple's advertising expense meets the criteria that would support capitalisation. We are therefore not aware of any brand asset investments that should be capitalised for the purpose of our ROCE assessment.¹⁰⁵
- B.155 Moreover, based on our findings from the illustrative sensitivity assessment that we separately conducted in relation to Apple's R&D expenditure (see above), we would expect the impact on Apple's overall ROCE to be relatively limited, even if the expensed costs did include an element of unidentified brand asset investments meeting the criteria we have set out.

Investments in research & development

Apple's view

- B.156 Apple submitted that R&D expenditure leading to a successful innovation generally does not appropriately capture the realised economic value of that innovation, and that the R&D sensitivity analysis conducted by the CMA fails to meaningfully account for the economic value of Apple's intangible assets.¹⁰⁶ As well as submitting that a cost-based approach fails to recognise the value of Apple's intangible assets, Apple submitted that:
- (a) the 10-20% capitalisation rate applied by the CMA is arbitrary and unfounded; and
 - (b) the five year amortisation period applied by the CMA [REDACTED].¹⁰⁷

¹⁰⁴ Submission from Apple, [REDACTED].

¹⁰⁵ Including in relation to [REDACTED].

¹⁰⁶ Submission from Apple, [REDACTED].

¹⁰⁷ Submission from Apple, [REDACTED].

CMA Assessment

- B.157 As discussed in more detail above (see above), 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.158 We have considered whether Apple has R&D assets that meet our criteria. To the extent that there are relevant intangible assets, we would expect Apple to be able to provide evidence of these and how they meet the criteria set out above. However, although Apple submitted that [REDACTED], we have not seen more detailed evidence of these.
- B.159 We have also conducted a high-level sensitivity analysis in relation to Apple's ROCE to take into account that Apple's R&D expenditure may include capital investments that have been expensed rather than capitalised. When we tested the sensitivity of our analysis to the capitalisation of Apple's R&D expenditure, we also considered Apple's submissions in relation to capitalisation rates and amortisation periods.

Summary

- B.160 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 provided us with an asset base for Apple's Mobile Ecosystem of \$52.8 billion for 2024.¹⁰⁸
- B.161 We have calculated an estimate of Apple's EBIT at the Mobile Ecosystem level of at least \$[REDACTED] 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.¹⁰⁹
- B.162 We set out our estimates of ROCE in more detail below.

¹⁰⁸ 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 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025.

¹⁰⁹ Apple's response to section 69 notice [REDACTED]. Apple's Consolidated Statement of Operations – Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 31.

Sensitivity Analysis

- B.163 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.164 The first sensitivity analysis we have conducted is to test the sensitivity of our ROCE to the inclusion of other NCAs.
- B.165 As discussed above, we would expect the majority of Apple's other NCAs to reasonably be excluded from our estimate of capital employed.
- B.166 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).
- B.167 We have found that even when applying a conservative sensitivity including all other NCAs, ROCE remains significantly higher than Apple's WACC.
- B.168 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.169 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.170 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.171 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, the impact may be relatively limited.
- B.172 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.173 However, we recognise that for the software development costs associated with Mobile Devices 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 for each additional 10% of Apple's annual R&D cost that is amortised rather than being expensed, assuming an amortisation period of up to five years.¹¹⁰
- B.174 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,¹¹¹ there is only a modest reduction in Apple's ROCE.¹¹²
- B.175 We have not refined these estimates further. 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

¹¹⁰ 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.

¹¹¹ Based on publicly reported R&D expenses in the Apple Inc Consolidated Statements of Operations Apple's Consolidated Statement of Operations – Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 29. Apple submitted that the five-year amortisation period applied by the CMA [redacted], as evidenced by standard US accounting rules and accounting practices of other highly innovative firms. Although we have [redacted], we have conducted a further R&D sensitivity assuming an amortisation period of [redacted], and found that it has only a limited impact on our ROCE estimate. Submission from Apple, [redacted].

¹¹² For example, capitalising an additional 10-20% of Apple's annual R&D expense over a five-year amortisation period would reduce our estimate of Apple's Group level 2024 ROCE from 233% to 193-211% ([redacted]% if we instead assume a [redacted] amortisation period).

understated in its reported balance sheet assets, and we have found that it does.¹¹³

Sensitivity 3: Indirect costs

- B.176 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

- B.177 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 [REDACTED] in 2024, compared with 233% for the total Apple Group (Devices and Services segments combined).¹¹⁴ 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.
- B.178 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 [REDACTED] [10-15]%.
- B.179 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.

¹¹³ Apple submitted that the 10-20% capitalisation rate applied by the CMA is arbitrary and unfounded, as it implicitly assumes that the remaining 80-90% of Apple's R&D expenditure does not result in any intangible assets, while the remaining R&D efforts become only as valuable as conducting this subset of efforts. However, this misunderstands the purpose of our analysis. We have not seen evidence of specific R&D expenditure that should be capitalised, and the purpose of our analysis is to illustrate the sensitivity of our assessment to higher levels of R&D capitalisation. Submission from Apple, [REDACTED].

¹¹⁴ 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. Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 31.

Our estimate of Apple's UK mobile profitability

- B.180 In the previous section, we analysed the returns achieved by Apple's global Mobile Platform, at the Mobile Ecosystem level. However, we are interested in the returns achieved by Apple's Mobile Platform at the UK level.
- B.181 For illustrative purposes we have considered how ROCE would convert into an annual profit number as an estimate of how much profit Apple's Mobile Platforms at the UK level earned at the Mobile Ecosystem level over and above our estimate Apple's WACC.
- B.182 To calculate our estimate of Mobile Platform ROCE at the UK level 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
 - (c) third, deducted (b) from (a) to estimate the profit earned by Apple's UK Mobile Ecosystem in excess of WACC.
- B.183 Using this approach, we have found that Apple generated at least £[✂] billion of profits in excess of WACC from its Mobile Platform and broader Mobile Ecosystem in 2024.¹¹⁵

Forward-looking profitability analysis

- B.184 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.185 As part of this assessment, we have reviewed financial projections submitted by Apple. These included [✂].

¹¹⁵ 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.

B.186 [REDACTED]:

(a) [REDACTED];

(b) [REDACTED];

(c) [REDACTED];

(d) [REDACTED]; and

(e) [REDACTED].¹¹⁶

B.187 Based on our review of Apple's own financial projections relating to future revenue and profitability, we have not seen evidence indicating that these high levels of profitability will not continue.¹¹⁷

Conclusion

B.188 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 Platform.

B.189 We have found that the global return on capital employed for Apple has been at a level which may be one indicator of substantial market power. We have demonstrated this by comparing our estimates of Apple's return on capital employed (ROCE) – its actual profitability – with our estimate of Apple's WACC.

B.190 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 for 2024 is broadly similar to the total Apple Group gross profit margin of 46%.¹¹⁸

B.191 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.

¹¹⁶ Apple's response to section 69 notice [REDACTED].

¹¹⁷ We shared this provisional view with Apple in the Proposed Decision and they had no comments.

¹¹⁸ Apple, '[Form 10-K for Apple filed 1 November 2024](#)', accessed by the CMA on 16 July 2025, page 29. Apple's response to section 69 notice [REDACTED].

- B.192 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.193 We estimate that this high return means that Apple was able to earn at least £[REDACTED] billion of profits in 2024 from its Mobile Platform at the UK level over and above a return based on our estimate of the WACC for the Apple Group of [REDACTED] [10-15]%.¹¹⁹
- B.194 Based on our review of Apple's own financial projections relating to future revenues and profitability (see above), we have not seen evidence indicating that these high levels of profitability will not continue.

¹¹⁹ Apple's response to section 69 notice [REDACTED]; Apple's response to section 69 notice [REDACTED]. Figures converted from USD to GBP at an average annual exchange rate for 2024 of 1.2783 (Source: Bank of England)