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EXPLANATION OF APPLE INC.**

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“AN ANALYSIS OF AN EXPLANATION”

(APPLE INC.)

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ABSTRACT

This study aimed to analyze the factors that affect the performance company from the perspective of internal and external factors in Apple Inc. Internal factors include financial risk, market risk, operating risk, credit risk, and liquidity risk. While the external factor comprises the Gross Domestic Product (GDP), inflation, exchange rates, and index rates. While the Return On Asset (ROA) becomes a dependent variable to study its relationship between the independent variable. The data obtained is from Apple Inc.'s annual report for five years from 2014 to 2018. Both factors are used to see overall performance over five years. Also, Data was analyzed using sample, framework, and model. This study proposes companies to apply the four principles of corporate governance, namely transparency, accountability, justice, and independence.

Keyword: *corporate governance, financial risk, market risk, operational risk, credit risk, and liquidity risk*

1.0 INTRODUCTION

1.1 introduction

This chapter begins with an overview of the Apple Inc. At the same time, it will discuss the problem statement, the research objectives, the scope of the study, and lastly the organization of the study.

1.2 Background of The Apple Inc.

Apple Inc. is an American multinational technology company headquartered in Cupertino, California, United States. The company was founded in April 1976 and is known only as apple computers, and is owned by Steve Jobs and Steve Wozniak. After the idea was developed for the company, they initially offered a personal computer-friendly product. So it's the first computer branded by apple.

After Steve Jobs death in 2011, Ceo Tim Cook took over the company. However, the company under the supervision of Tim Cook is slowly declining to expect bankrupts. However, with the re-election of Steve Wozniak, the company is expanding with the introduction of new products such as smartphones (iPhones), iPads (tablet computers), personal computers (macs), mobile media players (iPods) apple watch), digital media players (apple tv), wireless earbuds (airpods) and smart speakers (homepod). Additionally, Apple Inc. also sells software, consumer electronics and a variety of content-based services. The company sells its products worldwide through retail, online stores, and direct sales, as well as through third-party cellular network providers, wholesalers, retailers, and sellers.

Every company has corporate governance, just like Apple Inc. Corporate governance is the system by which companies are controlled. The purpose of corporate governance is to facilitate all types of management. Therefore, the concept of good corporate governance must be applied and practiced in every company such as openness, honesty, transparency, freedom, accountability, responsibility, justice, reputation and social responsibility.

According to Apple Inc.'s annual report, the company also adopts the concept of openness in which Apple Inc. willing to provide information about the company to individuals and groups through the free website. In addition, Apple Inc. also provides information to investors on its

corporate website including press releases and other financial performance information, information on corporate governance, and details of the company's annual shareholder meeting. This is to make investors believe in the honesty they give in managing the company.

Although responsible, Apple Inc. has given the responsibility to the knowledgeable seller (who can convey the value of the product and the service of the product) to attract and retain customers. As such, the company's strategy also includes building and expanding online and third-party retail networks to reach more customers. As for the concept of transparency, Apple Inc. it also provides information on the benefits of their latest products. Therefore, outsiders can make meaningful analysis by making choices about whether to buy something or not buy it from the company.

Although it is a world-class company, it cannot avoid risks such as market risk, operating risk, liquidity risk, and credit risk. It is also influenced by macroeconomic factors such as GDP, inflation, unemployment risk, interest rate and exchange rate. Among the risks faced by the company will affect the company's business, operating results, financial condition and growth. This study will look at the relationship between these two factors towards the company's performance.

1.3 problem statement

When a company decides to start a company, it faces problems and has to take risks to boost its business growth. However, the risks involved need to be well managed so that they do not affect the income and potential growth of the organization. Among the most common risks are financial risk, credit risk, market risk and operating risk. In fact, the performance of a company is also influenced by internal and external factors. Although Apple Inc. is a large and powerful company, it is not immune to the problems arising from intense competition from other companies in the same industry. Apple Inc. is a multinational technology company that manufactures mobile products such as laptops, personal computers, mobile phones, watches and etc but the price is quiet high. Because of these weaknesses, it has given other companies the opportunity to compete with them in producing products similar to Apple Inc. However, in terms of price, it is cheaper than Apple Inc. products. As the company's growth and finances depend on product sales, Apple Inc. need to reduce financial risk by focusing more on ways to attract customers to use the products

offered while offering affordable prices. In addition, other risks, such as financial risk, market risk, operating risk, credit risk, and liquidity risk may adversely affect the company's performance.

1.4 research objective

1.4.1 identify the influence of internal factors on company performance.

1.4.2 identify external factors in the performance of the company.

1.4.3 both factors influence the performance of the company.

1.5 research question

1.5.1 what determines the internal factor of company's performance?

1.5.2 what determines the external factor towards a company's performance?

1.5.3 what determines both factors towards a company's performance?

1.6 scope of study

This study is about a multinational technology company in America, Apple Inc. Meanwhile, the financial calculations and ratios are based on Apple Inc.'s annual report which is for 5 years from 2014 to 2018.

1.7 Organization of The Study

The research is comprised of five main chapters, which are the first chapter of the introductory section which includes company background, problem statement, research objectives, research questions, research scope, and research organization. For the second chapter, however, the literature review is about the details of independent and dependent variables, which are internal and external factors for measuring company performance. Next, the third chapter focuses on the details of variable variables, namely research methodologies that are samples, frameworks, and models. This is followed by chapter four, which discusses the results and findings of the study. Finally, chapter five in this chapter concludes this study with a recommendation to resolve the issue.

2.0 LITERATURE REVIEW

2.1 Introduction

Risk is the likelihood of damage, injury, liability, loss, or any other negative event caused by the weakness of an external or internal factor. According to Kevin Dowd (2005), the most important principles of risk management come from financial discipline, science, economics, organizational theory, and law. Some of the major risks may affect the performance and strategy of the organization, such as credit risk, operating risk, liquidity risk, and market risk.

2.2 Corporate governance

According to the dictionary of American Heritage 2 College (1991), corporate governance refers to the merger of several individuals or groups into a corporate body. While according to Andrei Shleifer and Rober W. Vishny (1996), corporate governance is where business owners need to address how to gain investor confidence in the company that they are getting their return on investment. Whereas, according to Stijn Claessens (2006), corporate governance can be defined in two categories, the first being related to a set of behavioral patterns, the actual behavior of the company, in terms of performance, efficiency, growth, financial structure, and position shareholders and more. However, the second definition deals with the normative framework, the rules by which firms operate, and the rules that come from sources such as the legal system, the judicial system, the financial market, and the (labor) market factors.

2.3 Financial risk

Most of the companies facing financial risk are closely linked to financial lending and debt financing. If a company uses a high percentage of debt financing to run its business, it will result in a high level of financial risk and it will take a long time to complete the loan. Financial risk is the risk that a company cannot meet its obligation to repay the debt it has created. This means that an investor of a company has the potential to lose money invested in the company. The same is true of David L. Scott (2003). He argues that financial risk is where firms are unable to meet their financial obligations. While according to Campbell R. Harvey (2012), financial risk is an insufficient cash flow risk for a business owner to meet his or her financial commitments. It can also be referred to as the additional risk that the shareholders face.

2.4 Market risk

Market risk is related to the risk of loss arising from a negative change in the value of an asset held by market price movements. According to Kevin Dowd (2005), Market risk is the risk of loss arising from unexpected market risk changes or it can also be classified as interest rate risk, equity risk, exchange rate risk, commodity price risk, and so on. Risk is interest rate, commodity price risk. While according to Amit, Max, Sonja, and Thomas (2012), Market risk refers to the risk of loss in a bank's trading book as a result of changes in equity prices, interest rates, credit spreads, foreign exchange rates, commodity prices, and other indicators whose value is set out in public market. Market risk can also be termed systematic risk.

2.5 Operational risk

Operational risk can be defined as an organization's risk when it seeks to work in a particular field or industry. It is the risk of balance in determining the adequacy of financing and incorporating risks arising from damage to internal techniques, individuals and frameworks. According to Kevin Dowd (2005), operating risk is the risk of loss arising from failure of the internal system or the person performing the operation. As well as Marcelo Cruz (2002), he argues that operational risk has been defined by the Basel Committee as the risk of loss arising from problems from internal controls, systems, people and external events. According to Spulbar Cristi (2009), groups of operational risks of various types, such as trade offenses at the implementation and registration stages, insufficient internal controls or misconduct, legal issues, etc.

2.6 Credit risk

Credit risk can be defined as a risk of loss associated with the possibility of counterparty fails to meet its obligations. And also, according to Westgaard and Wijst (2001), credit risk is the risk that a borrower/counterparty will default, i.e., fail to repay an amount owed to the bank. Credit risk includes all of the counterparties and reasons for which they may default on their obligations to repay. According to Kevin Dowd (2005), credit risk is the risk of loss arising from the failure of a counterparty to make a promised payment.

2.7 Liquidity risk

Liquidity risk occurs when an investor, business, or financial institution is unable to meet its short-term debt obligations. Investors are unlikely to convert assets to cash without losing capital and income due to shortage of buyers or markets. According to Jeremy Berkowitz (2000), liquidity risk refers to an uncertain change in the value of a portfolio caused by the liquidation of assets to meet future cash needs. It also arises from the volatile demand for funds that must be met by liquidating assets. According to Leonard Matz and Peter Neu, (2007), the importance of liquidity to the financial system and the need to minimize the impact of liquidity failure on the system as a whole.

3.0 METHODOLOGY

3.1 Introduction

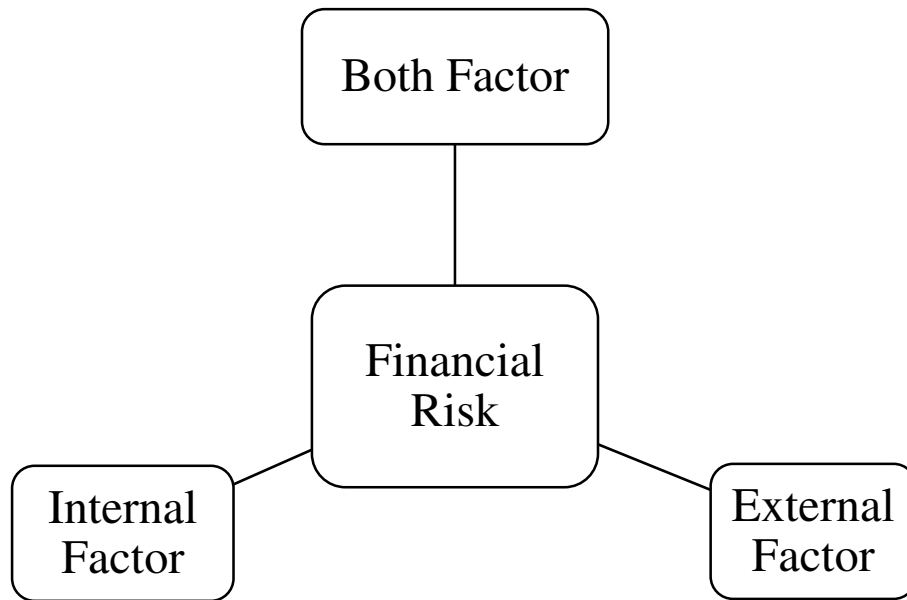
Research methodologies are the methods and approaches used to achieve the research objectives. Using this method, the study becomes more systematic and more focused on achieving the goal. The contents of this chapter will explain the research methodology used, namely sampling method, data analysis and variables. The study was conducted to determine whether the performance of the company was affected by internal and external factors.

3.2 Sampling Technique

Sampling technique is the specific process by which a sample entity is selected. This sampling technique is used at random to ensure that every element of the population has the same opportunity to be part of the selected sample. This process is known as random sampling. Random sampling can be divided into simple random sampling, stratified sampling, systematic sampling, cluster sampling, and multi-level sampling. Alternatively, samples can consist of locations such as cities, industries or organizations such as specific firms or groups. For this method, one company was selected as a sample, to conduct this study, namely Apple Inc. where data from annual reports from 2014 to 2018 are used to measure dependent variables (operating risk) and independent variables (internal and external factors).

3.3 Data Analysis

The theoretical framework introduces and explains the theory that explains why research problems are under study. The overall purpose of this framework is to make research more meaningful, and accepted by theoretical construction in the field of research as well as to ensure reliability. This framework also helps to increase empiricism and research spirit. In line with the conceptual research framework, there are one dependent variable and three independent variables in this study. The research framework is as follows:



3.4 Variables

To determine the effect of independent variables on dependent variables, multiple regression analyses can be used. This regression technique illustrates the effect of independent variables on dependent variables.

$$LR = \mathbf{a}_i + \mathbf{a}_1 ROA + \mathbf{a}_2 CR + \mathbf{a}_3 + e \dots\dots\dots \text{Equation}$$

$$LR = \mathbf{a}_i + \mathbf{a}_1 GDP + e \dots\dots\dots \text{Equation}$$

$$LR = \mathbf{a}_i + \mathbf{a}_1 \text{internal \& external} + e \dots\dots\dots \text{Equation}$$

4.0 FINDINGS AND ANALYSIS

4.1 descriptive statistics

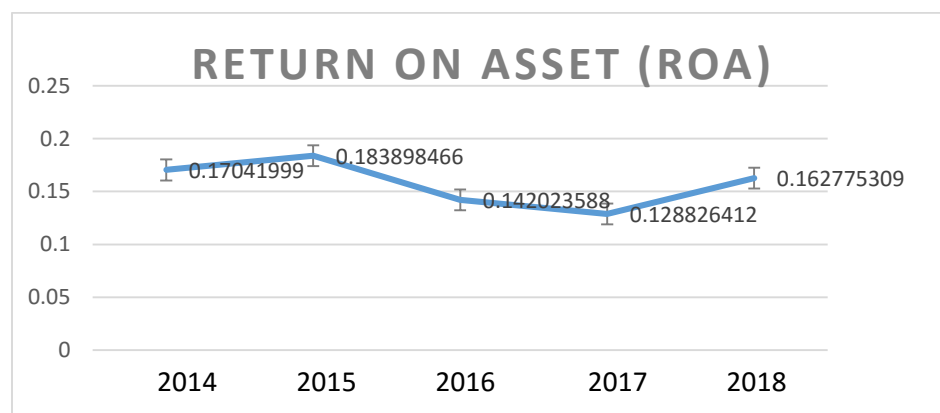
Figure 1: descriptive statistics

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	.157588752911046	.022098012434917	5
CURRENT RATIO	1.188291685973005	.119272533163998	5
QUICK RATIO	1.154010552633250	.118372491873949	5
AVERAGE-COLLECTION PERIOD	55.093940437909870	7.791220298190515	5
DEBT TO INCOME	2.220469601878600	.445411657317784	5
OPERATIONAL RATIO	.719021010230574	.015716246964378	5
OPERATING MARGIN	.280978989769426	.015716246964378	5
GDP	2.400000000000000	.524404424085076	5
Inflation	1.520	.8468	5
InterestRate	1.57020	.962352	5
ExchangeRate	1.00	.000	5

4.2 Performance

Figure 4.2 Return On Asset (ROA)

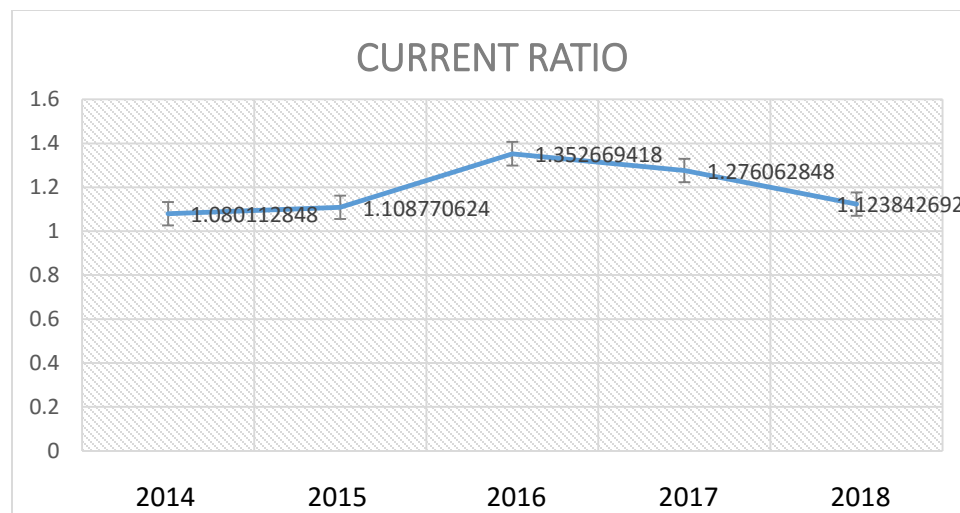


Based on the graph above, we can see that the fluctuating for every year. the formula to calculate the ROA is by dividing net income with the total asset. we

can that the highest ROA among all five years is in 2015 which is 0.1839 (18.39%). Its show that the company is efficient in utilizing their assets to generate more profit. However, we can see that the lowest ROA among all years is in 2017 which is only 0.1288 (12.88%). This also indicates that in 2017, Apple Inc. is not efficient to manage its assets.

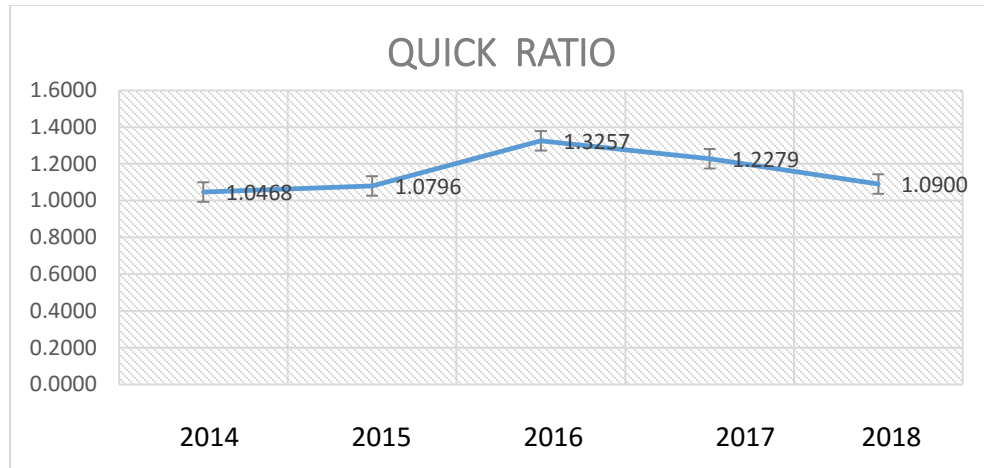
4.3 Liquidity Risk

Figure 4.3 Current Ratio



The figure shows the current ratios of Apple Inc. from 2014 until 2018. The formula to calculate the current ratios is, by dividing the current assets with current liabilities. So, investors will be able to asses a company's valuation and risk factors just by looking at the company's current ratios. We can see that the current ratio in 2016 is the highest value which is 1.3526 (0.013%). However, we must know that a too high current ratio will indicate that the company is inefficient in utilizing its current assets to generate revenue. While in 2014 has, the value of the current ratio is the most lower which is only 1.0811 (0.0108%). Even the value is mostly lower, but it shows that the company is efficient to utilize its current ratio.

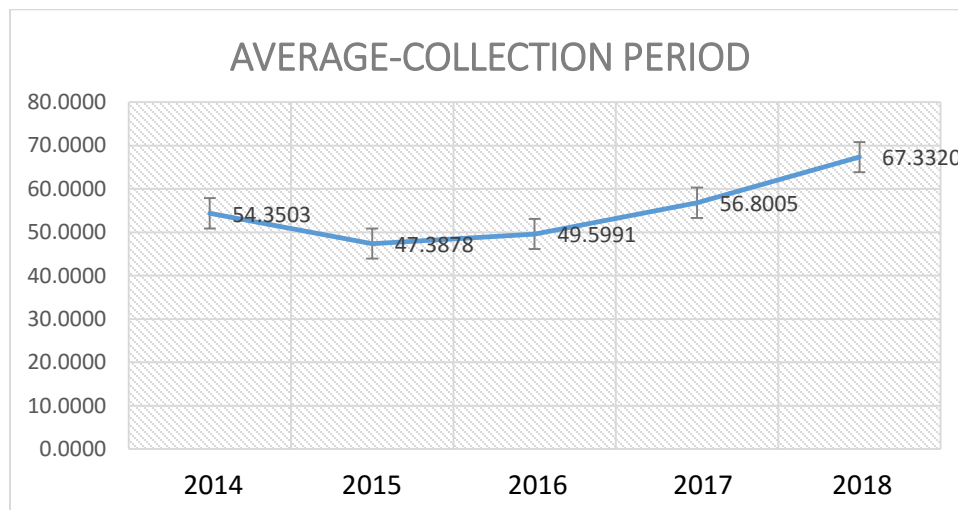
Figure 4.4 Quick Ratio



A quick ratio is to measure a company's liquidity by showing its ability to pay off current liabilities with quick assets. The figure shows the quick ratio for 2014 to 2018. The formula to calculate this ratio is the current assets minus inventory and divide with the current liability. We can see that the most higher value for the quick ratio is in 2016 which is 1.3257. While the most lower value is in 2014 which is 1.0458.

4.4 Credit Risk

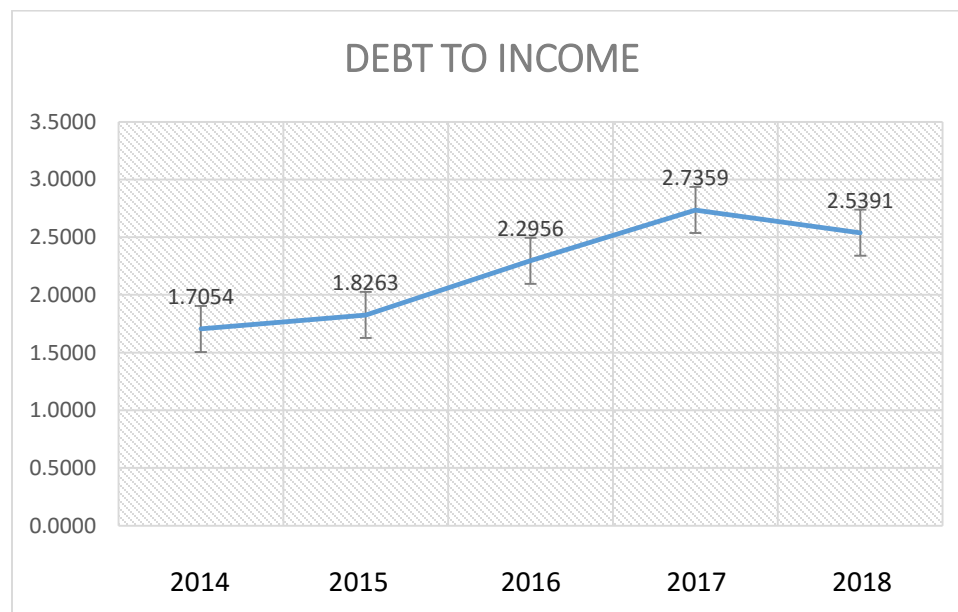
Figure 4.5 Average Collection Period



This figure shows the credit risk of the average collection period from 2014 to 2018. The average collection period is the number of days the company takes to

collect the account receivable from the customer. The formula to calculate this is by dividing the days with account receivable turnover. The lower average collection period is the most efficient in exercise their credit and collection policy. We can see that the most efficient average collection period is in 2015 which is has the lowest value (47.3878). however, the most inefficient is in 2018 which has a higher value (67.3320).

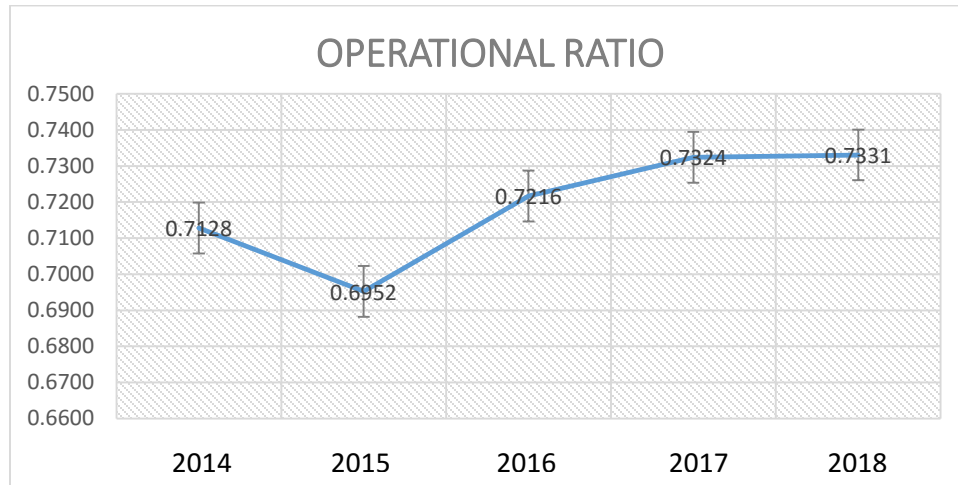
Figure 4.6 Debt to Income



Based on the graph, we can see the debt to income from 2014 to 2018. Debt to income ratio can be defined as a percentage of gross monthly income that will pay off the monthly debt payments. The formula to calculate this ratio is by dividing the total liability and total income. We can see from the figure above, the most higher debt to income is in 2017 with the total value is 2.7359. While in 2014 is the most lower ratio with the total value is 1.7054.

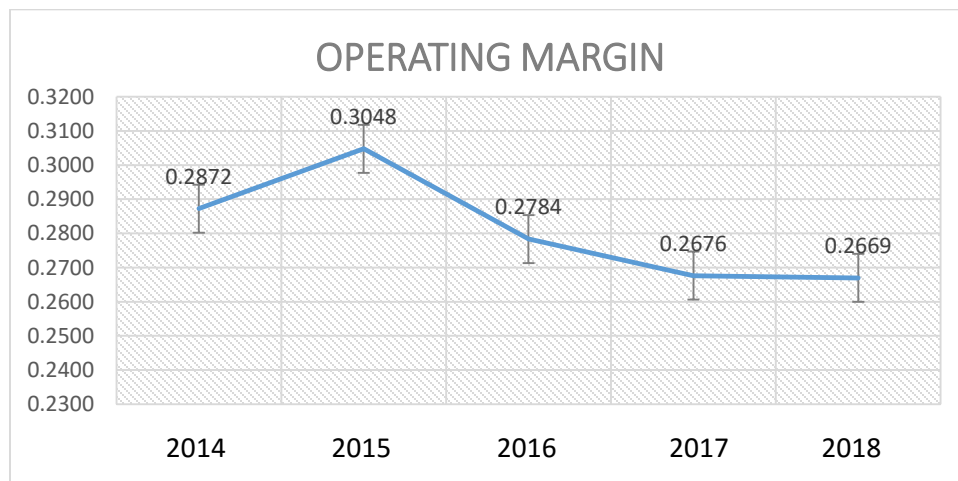
4.5 Operational Risk

Figure 4.7 Operational Ratio



Operational risk happens because of the failure of a human. If the operational risk is not managed properly, it may affect the company. Operational risk can be measured by computing the operating ratio for five years which is from 2014 to 2018. Based on the figure above, we can see that the most higher operational ratio is in 2015 which is 0.7331. However, the most higher value will be the most inefficient operational ratio. While in 2015, is the most efficient operational ratios which are the value is only 0.6952.

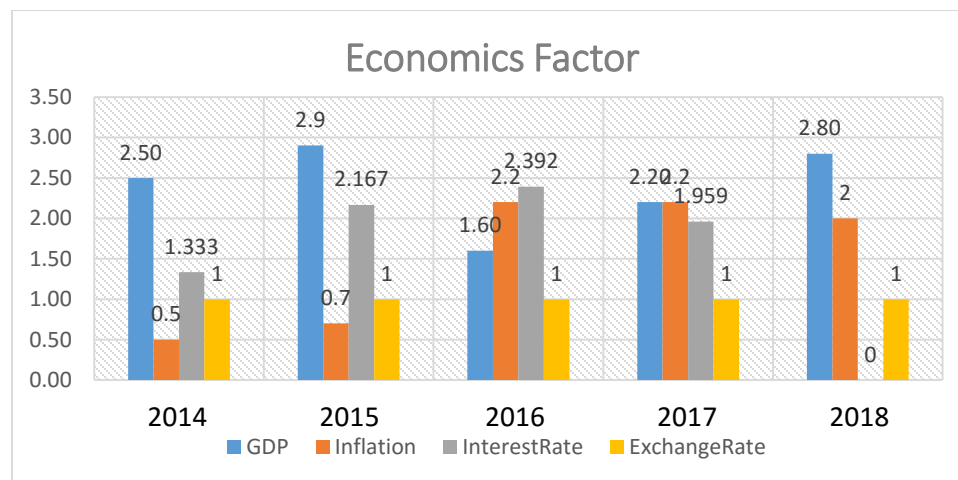
Figure 4.8 Operating margin



Based on the figure above, we can see the operating margin for 2014 to 2018. The purpose of Operating Margins is to measure how much profit a company makes in sales, after paying for variable production financings, such as wages and raw materials, but before paying interest or taxes. From figure 4.8, the most higher for the operating margin is in 2015 (0.3048) but we also can see that the operating margin become decrease from year to year starting from 2016 until 2018.

4.6 Market Risk

Figure 4.9 Economic Factor



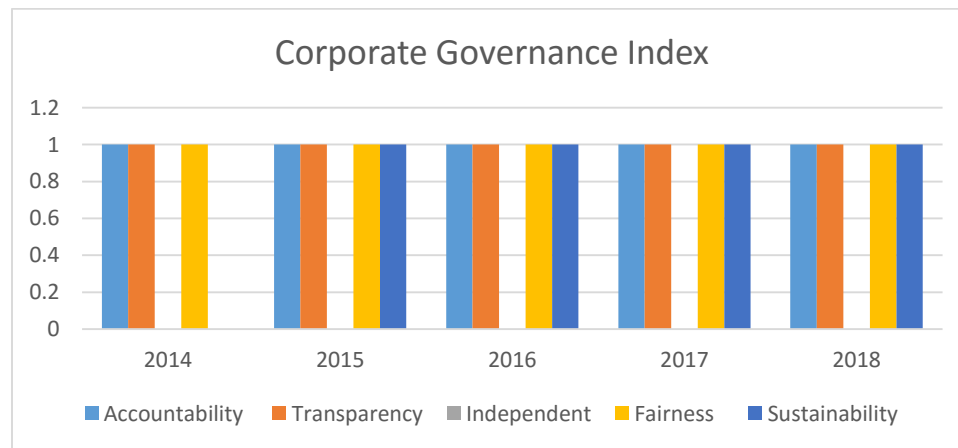
Market risk or otherwise known as systematic risk is an uncontrollable risk. It cannot be eliminated through diversity even though it may be protected. Changes in Gross Domestic Product (GDP), inflation rates and exchange rates are some of the determinants of market risk. The figure shows the economic factor movement that influences company performance for five years which is from 2014 to 2018. GDP can be used to measure the monetary value of goods and services produced by the country in one year. From the figure above, we can see that the most higher GDP is in 2015 with the total value is 2.9. it told us that in that particular year, the country's economy is the best from the other years. While in 2016, it becomes decrease until 1.6 but for 2017 and 2018, the GDP becomes increase from 2.202 to 2.80.

In the same figure, we can see that the inflation rate in 2014 is the most lower from the other year with the total value is 0.5 but it becomes increase from 2015 until 2016 and become decrease again in 2017 until 2018. We can see that the most higher inflation rate is in 2016 which is 2.20. However, the high inflation rate is not good for the country as it will reduce the value of money. Next, for the interest rate, the most higher is in 2016 with the value is 2.392. While the most lower interest rate is in 2018 with no value in that year. Besides, the figure also shows the exchange rate from 2014 to 2018. We can see that the exchange rate is maintained and doesn't change from 2014 until 2018.

4.7 Corporate Governance Index

	2014	2015	2016	2017	2018
Accountability	1	1	1	1	1
Transparency	1	1	1	1	1
Independent	0	0	0	0	0
Fairness	1	1	1	1	1
Sustainability	0	1	1	1	1

Figure 5.0 Corporate Governance Index



An index is used to determine the corporate governance index of the company. It is used to determine the level of compliance of the company based on the principle of corporate governance which is accountability, transparency, independent, fairness and sustainability. To calculate the index score, we are using five elements that were used as indicators to determine the effectiveness of corporate governance for Apple Inc. the first element is, accountability. We can see that every year, Apple Inc. will make an annual meeting and the report will be submitted to the audit committee which stands for transparency. While for the independent variable, Apple Inc. doesn't have any non-executive. It is because the company wants to save money from hired to many staff. The next variable is fairness. We can see that for this variable, the company also hired the female employee to manage the company. Last but not least is sustainability. For this variable, the company also provides a program that is called a developing program starting from 2015 to 2018. This program not only provides for the staff but also the user of Apple's product.

4.8 Model Summary and Anova

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000 ^a	1.000	.	.	1.800

a. Predictors: (Constant), InterestRate, Inflation, GDP, OPERATING MARGIN

b. Dependent Variable: ROA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	4	.000	.	. ^b
	Residual	.000	0	.		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), InterestRate, Inflation, GDP, OPERATING MARGIN

Based on the table above, the adjusted R square is equal to 0.002. This shows that by using all the internal and external factors in equation 3 which is known as ROA, current ratio, quick ratio, ACP, DTI, operational ratio, operating margin, and economic factors. While the mean square in the ANOVA for Apple Inc. Is .000. Besides, the ANOVA table shows that for the significant, there is no value, which is below form the alpha value ($p < 0.05$). It shows that the variable is perfectly significant to represent the model.

4.9 Correlations and Coefficient

		Correlations										
		ROA	CURRENT RATIO	QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	GDP	Inflation	Interest Rate	Exchange Rate
Pearson	ROA	1.000	-.844	-.809	-.163	-.796	-.762	.762	.749	-.833	-.229	.
Correlation	CURRENT RATIO	-.844	1.000	.998	-.228	.584	.436	-.436	-.901	.782	.541	.
	QUICK RATIO	-.809	.998	1.000	-.257	.546	.400	-.400	-.909	.765	.552	.
	AVERAGE-COLLECTION PERIOD	-.163	-.228	-.257	1.000	.561	.752	-.752	.307	.393	-.917	.
	DEBT TO INCOME	-.796	.584	.546	.561	1.000	.863	-.863	-.304	.930	-.205	.
	OPERATIONAL RATIO	-.762	.436	.400	.752	.863	1.000	-1.000	-.354	.817	-.453	.
	OPERATING MARGIN	.762	-.436	-.400	-.752	-.863	-1.000	1.000	.354	-.817	.453	.
	GDP	.749	-.901	-.909	.307	-.304	-.354	.354	1.000	-.563	-.539	.
	Inflation	-.833	.782	.765	.393	.930	.817	-.817	-.563	1.000	-.055	.
	InterestRate	-.229	.541	.552	-.917	-.205	-.453	.453	-.539	-.055	1.000	.
	ExchangeRate	.	.	.	.	.	.	.	.	.	.	1.000
	Sig. (1-tailed)	ROA	.	.036	.049	.397	.054	.067	.067	.073	.040	.356	.000
CURRENT RATIO		.036	.	.000	.356	.151	.232	.232	.018	.059	.173	.000
QUICK RATIO		.049	.000	.	.338	.171	.252	.252	.016	.066	.168	.000
AVERAGE-COLLECTION PERIOD		.397	.356	.338	.	.163	.071	.071	.307	.256	.014	.000
DEBT TO INCOME		.054	.151	.171	.163	.	.030	.030	.309	.011	.371	.000
OPERATIONAL RATIO		.067	.232	.252	.071	.030	.	.000	.279	.046	.222	.000
OPERATING MARGIN		.067	.232	.252	.071	.030	.000	.	.279	.046	.222	.000
GDP		.073	.018	.016	.307	.309	.279	.279	.	.162	.174	.000
Inflation		.040	.059	.066	.256	.011	.046	.046	.162	.	.465	.000

InterestRate	.356	.173	.168	.014	.371	.222	.222	.174	.465	.	.000
ExchangeRate	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000	.

Based on the table above, interest rates show it has the strongest negative correlation with return on assets (ROA) of -0.229. In addition, interest rates also have p-value = 0.356 > 0.01 compared to others. This indicates that interest rates negatively affect financial risk. As interest rates rise, the company's finances will decrease as the company has to repay the loan and may cause other problems such as credit risk. High interest rates will make it difficult for companies to attract foreign investors and make other loans.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics Tolerance
	B	Std. Error				Lower Bound	Upper Bound	
(Constant)	-.302	.000		.	.	-.302	-.302	
OPERATING MARGIN	1.769	.000	1.258	.	.	1.769	1.769	.119
GDP	-.004	.000	-.104	.	.	-.004	-.004	.258
Inflation	.002	.000	.090	.	.	.002	.002	.207
InterestRate	-.020	.000	-.850	.	.	-.020	-.020	.197

a. Dependent Variable: ROA

Based on the given table, it shows the independent variables that affect the financial risk of the company. The independent variables can be measured using p-value. Variables showing p-values <0.001 can be considered to be the most influential of dependent variables. Whereas a p-value of <0.05 indicates that individual variables have a modest effect on dependent variables. A variable with a p-value of <0.10 indicates the least dependent variable. According to the analysis in this study, interest rates show negative readability and are the main risk factors affecting p-value = -0.850, beta = -0.20 compared to operating margin, GDP and interest rates.

5.0 CONCLUSION

5.1 Introduction

This study aims to determine the performance of the company Apple Inc. Apple Inc. is a leading multinational technology company in America. To achieve the aim of this study, internal and external factors need to be analyzed. This chapter provides discussion and recommendation for the problems faced by the findings and analysis in chapter four.

5.2 Discussion of Result

This study aims to determine the financial risk that affects the company performance for Apple Inc. This study is done to achieve the research objective, which are:

1. To determine the internal factors influence company performance.
2. To determine the external factor towards a company performance.
3. To determine both factors towards a company's performance.

The entire review of Apple Inc. this, shows a relatively good performance on all financial risk measures from 2014 to 2018. Based on the Pearson correlation output in the given table, interest rates have the strongest negative correlation with return on assets (ROA) and have good value. most significant compared to other variables such as operating margin, GDP, and inflation. Overall, it can be concluded that both internal and external factors influence company performance. If the company is unable to pay its debts within the time frame, the company will be in trouble and this will indicate that the company has poor corporate governance. However, external factors also influence the performance of the company. Therefore, companies need to be aware of the economic situation and must take risks to ensure profitability is low.

5.3 Recommendation

The interest rate is the percentage of principal charged by the lender to the borrower for the use of money from their bank. The bank will charge a higher interest rate borrower a little more than the depositor's payment for profit. To keep financial risks low, companies need to pay interest at least monthly without delay. this is because, if it is paid over time, the interest rate will increase. In addition, the company can also pay the money more than the actual amount due, so that debt

can be reduced quickly. Otherwise, the accumulated debt will increase even if the company is making payments due to the delay.

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