MV Capital Management Midweek Market Commentary

Apple Embraces the Earnings Culture

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Tech has always been a bit different. Among the staid dark suits of other industry sectors like finance or manufacturing, tech likes to play the part of disruptive rebel. Tech companies live to upend the apple cart (as it were); to invent new paradigms that we all – whether willingly or led kicking and screaming – wind up incorporating into the rhythms of our lives.

In recent years the pinnacle of this Valhalla of disruptive technology gods was occupied by Steve Jobs. Jobs lived for the product launch and famously despised the quarterly earnings call with investors and analysts. His insouciance and a torrid streak of product wins vaulted Apple to the coveted title of "world's most valuable company", as measured by market capitalization, for a time.

Be Careful What You Wish For

Coveted, but precarious. John Chambers and Bill Gates could watch Apple's ascendancy from the sidelines and say "been there, done that" – both Cisco Systems and Microsoft have worn the MVP crown in the not too distant past. They learned what every successful tech company learns sooner or later: there comes a time when you get out of bed, put on your Hermes tie and muted colors, and head to work with all your energies focused on pleasing those capricious money types who are staring laser-like at your earnings estimates, product shipments and top-line revenue guidance. That day came yesterday for Tim Cook and post-Jobs era Apple.

Pennies from Heaven

For most of us pennies are annoying bits of copper that we're as liable to leave in the little tray at the checkout counter as we are to save them for a rainy day. In the world of quarterly earnings, though, pennies rule. Apple reported net earnings of $10.09 per share yesterday, which was exactly two pennies higher than analysts' forecasts. Now that reflected a drop in net earnings of 17% over the last twelve months, which may sound dour. But the immediate reaction as financial pundits blogged and live-Tweeted the disclosure was ebullient. Apple beat estimates! By two whole pennies!

Cook then went on to unleash a torrent of pennies on his company's shareholders, in the form of a pledge to return $100 billion to them in the form of share buybacks and a higher dividend between now and 2015. That's a massive program and a radical departure from the Jobsian ways of hoarding as much capital as possible. Only Exxon Mobil has ever announced a bigger buyback program.

What About Changing the World?

What was missing from yesterday's earnings call? Any frisson of excitement over an imminent product release to set the world on fire. Cook promised "lots of great stuff" in the fall and into next year, without providing any further detail. He wasn't romancing his gadget-geek fan base, but rather showering love on the financial suits. He was doing, in short, what Gates and Chambers and any other tech visionary before him have always had to do – to realize that as the CEO of a company that is in a slowing growth paradigm he has to make the hard choices that will preserve shareholder value. It's a tough pill for a disruptive tech guy to swallow, but swallow it he must.

Of Phoenixes and Ashes

For now, anyway. Apple may be at the crest of its S-curve now (i.e. in a phase of maturing growth) but it has already reinvented itself at least once and can plausibly do so again. Tech pundits are taking a second look at Microsoft these days, in ways more reminiscent of the mid-90s than the last five years. IBM is quietly entrenching itself as the king of predictive analytics, which may sound less sexy than a hi-res iPad but is slowly taking over more and more real estate in the land of business decision making. Contrary to F. Scott Fitzgerald's observation, there are second acts in America – and in American tech.

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