

COMMENTARY

BY ARIKHESSELD AHL

What to Do with Apple's Cash

Its \$12 billion and tech expertise could nurture promising startups

WHAT WOULD YOU DO with \$12 billion? That's how much cash Apple Inc. had on its balance sheet when it reported its latest quarterly earnings on Jan. 17. Driven by the wild success of the iPod line and the rejuvenated Macintosh, Steve Jobs and crew are rolling in it. And that cash hoard is growing by about \$1 billion

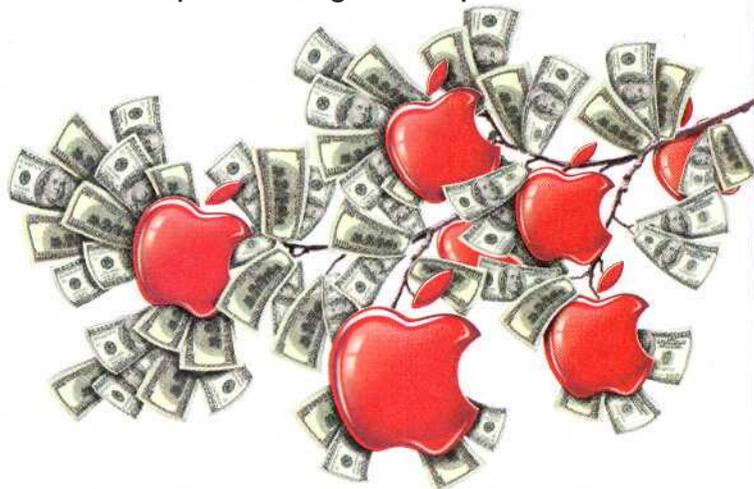
and change per quarter. Apple might not be the richest tech outfit around: Microsoft Corp., after all, has about \$29 billion in cash. But with 61% of its assets held in cash, Apple dwarfs Microsoft (44%) on a relative basis.

Any other company with such a fat savings account—and zero debt—might be castigated by shareholders or even become a target of private raiders. That's unlikely, given Apple's \$76 billion market cap. You would at least expect to see investor-friendly gestures such as buying back some stock, or paying dividends, as Apple did from 1987 to 1995. Or, a shopping spree. But tech takeovers have a high failure rate, and Jobs is a big believer in the power of small teams and focused operations. He's not going to throw cash against the wall just to become a player in lots of markets.

In the rare cases where Apple does deals, it tends to buy small outfits that can be integrated into projects already under development. In 2002, Apple paid \$30 million for EMagic, the German company behind the Logic program for professional musicians. That led to a popular Mac program called GarageBand. Apple also has used its cash to ensure a solid supply of components. In 2005 it bought up a big slice of the world's NAND flash-memory manufacturing capacity. Those chips are key components in the iPod nano and shuffle.

But now consider another bet Apple could make: What if it took, say, \$1 billion and handed it out to little Apples in the making, through a company-owned venture capital arm?

Plenty of other tech giants have gone the VC route, including Qualcomm, Motorola, IBM, and Intel. Intel Capital has invested \$4 billion in 1,000 companies over 15 years—\$1 billion of that in 2006. Some 160 of those companies have been scooped up by other companies, while a further 150 have gone public. Either way, Intel can cash in. Last year, Intel Capital's



A better way for Jobs & Co.'s hoard to benefit shareholders

investments added \$214 million to the parent company's net income.

Not every roll of the dice comes up a winner. In fact, Intel Capital's holdings lost a net \$45 million in 2005. But getting richer in the short term isn't the point. Intel's agenda is to use its considerable resources—cash, technical expertise, and industry insight—to discover and nurture a few dozen brilliant startups. Their success could lead to a surge in chip demand down the road.

Imagine what could come of making Apple's cash, together with its technical expertise and design sense, available to a raft of startup companies.

If you're a music-software outfit, wouldn't you want guidance from the folks who developed the iPod, clearly the biggest thing in consumer electronics in a decade, and the iTunes Store, the single force to contend with in the still-nascent age of digital media distribution? The Mac OS X computer operating system has more buzz around it than anything coming from that company outside Seattle. If Jobs' latest hunch is right, the iPhone may prove to be even bigger than the iPod.

There are plenty of branches of the Apple tree that could use nourishment. Once you get beyond the big names, like Microsoft, Adobe, Intuit, and a batch of others, the most prominent names developing Mac software are small companies with limited resources. Gaming on the Mac still lags far behind the Windows world. And while there's a healthy industry worth \$1 billion or more in iPod accessories, ideas for products built around enhancing the iPhone and Apple TV (which sends Internet video to a TV) are just now taking shape.

Apple hasn't always been this successful. At one point in the mid-1990s it had barely enough cash to keep its doors open for two months. Now, those days seem a long way off. And Apple has a chance to use some of its winnings to help other struggling entrepreneurs—and enrich shareholders in the process. ■

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