

Apple: bruised or burnished?

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The market has had a weekend to absorb news of Steve Jobs' liver transplant and the successful launch of the iPhone 3G S. How will investors react?



October 2008: Apple CEO Steve Jobs at Apple headquarters in Cupertino, Calif. Justin Sullivan/Getty Images

If ever there were a moment to leak potentially explosive news about the health of Apple CEO Steve Jobs, the early-morning hours of June 20 were about as optimal as one could choose. A little after midnight on that date, The Wall Street Journal reported that Jobs, a survivor of a rare form of pancreatic cancer for which he had surgery in 2004, had traveled to Tennessee to undergo a liver transplant in order to treat what it described as an "undisclosed medical condition."

But the news came at the close of the same day that Apple (AAPL) launched its iPhone 3G S, the third generation of the wildly successful wireless device. By all accounts, the launch has been enormously successful. AT&T (T), Apple's wireless partner in the U.S., said on June 19 that it received "hundreds of thousands" of pre-orders for the phone, while O2, which offers the iPhone in the United Kingdom, reported similarly strong demand.

So Apple investors will be judging two competing headlines as the market opens on June 22: Will they worry about the mortality of Jobs, long believed to be the irreplaceable creative and aesthetic powerhouse of Apple, or will they decide that the successful launch of the latest iPhone is sufficiently good news to warrant buying more Apple stock?

The liver-transplant news could in fact turn out to be a positive, said Charles Wolf, an analyst at Needham & Co. in New York and a longtime Apple watcher, on June 21. Assuming the surgery was successful and Jobs suffers no serious complications, the prognosis is generally good for liver-transplant patients. This fact would seem to remove much of uncertainty about Jobs' ability to continue on the job for the foreseeable future, Wolf says. "What Apple would seem to want to do is defuse the 'Jobs premium' around this stock. The last year has just been crazy with rumors that he's healthy or not healthy, moving the stock 5 or 10 points," he says. "That hasn't been good for the company, it hasn't been good for investors, it hasn't been good for anyone."

Indeed, when Jobs disclosed his leave on Jan. 5, Apple stock had closed at \$94.58. By Jan. 20, as speculation on the state of his health dominated coverage about the company, the stock price was \$78.20, or about 16% lower, and the lowest price the stock has seen in the last 52 weeks. It has since recovered all of that lost ground and then some, and on June 19 closed at \$139.48, nearly double that recent low.

Succession guessing game

What the latest reports won't end is speculation about Apple's succession plans. While Jobs has been on leave, Apple's day-to-day operations have been overseen by COO Tim Cook. A veteran of both IBM (IBM) and Compaq Computer before its acquisition by Hewlett-Packard (HPQ), Cook joined Apple in 1998 as it was clawing its way back from the brink of the near-disaster it experienced in the early 1990s.

While Jobs has generally been credited as the force behind Apple's extraordinary product strategy, Cook has been chief among those on the managerial bench who have enabled it. And where Jobs isn't likely to give much thought to such dry but critical operational details as supply-chain management, those operational details are Cook's specialty.

When Jobs was recovering from surgery in 2004, he turned to Cook, then executive vice-president, to run the company in his absence. Cook was named COO in 2005, and speculation has been strong that Jobs might turn over the CEO job to Cook while retaining the title of chairman and perhaps create a new title, such as "chief innovation officer."

Cook would also be a likely candidate for a seat on Apple's board of directors. Apple currently has eight directors, and its corporate by-laws allow for a maximum of nine. Moreover, any of Apple's directors could opt to retire from the board in the near future.

Apple director Jerome York is over 70 years old, while William V. Campbell, chairman of Intuit, is 68, though neither has indicated an interest in stepping down from the board. Apple corporate-governance guidelines, however, say directors may not stand for reelection to the board after reaching the age of 75.

Formalizing a solid bench

Such a managerial shakeup would in many ways be designed for external consumption and would simply formalize the division of labor that Jobs and Cook have forged in recent years. Jobs would continue to do what he's good at, which is leading product development and marketing and showing up as the closing negotiator on strategically important deals with vendors and partners. He would also be likely to continue to be the public face of Apple, unveiling important products in a way only he can, though with one key difference: He will be sharing the limelight. Like a basketball great in the later years of his career, Jobs could pass the ball to younger players, sharing the stage at important Apple events with up-and-coming managers such as Scott Forstall, senior vice-president and head of the iPhone software division.

Cook, meanwhile, would continue to do what he does best, which is running Apple's sprawling 35,000-person operation in concert with other senior managers, such as Phil Schiller, senior vice-president for worldwide product marketing, and Ron Johnson, senior vice-president and head of Apple's 252-store retail segment.

Back in January, Cook made a brief statement that essentially served as his notice to outsiders that an Apple under Tim Cook wouldn't differ significantly from Apple under Steve Jobs. "We are constantly focusing on innovating," he said. "We believe in the simple, not the complex. We believe that we need to own and control the primary technologies behind the products we make, and participate only in markets where we can make a significant contribution."

Meanwhile, Apple, which did not comment for this story, maintains that Jobs is expected to be back at work by the end of the month, though it has not yet been more specific about the date of his expected return.

Whether his return is full-time or part-time is almost beside the point. Any return by Jobs to his office at 1 Infinite Loop in Cupertino will be seen as good news by Apple investors and fans.

"It takes some uncertainty out of the Apple story," says Needham's Wolf. "I talked to investors who thought seriously that Jobs would not return to Apple ever. Now it all looks like good news. He has a pretty good chance of being around for another five years at least."

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