

Apple With \$137 Billion in Cash Considers Preferred Stock: Tech
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By Peter Burrows

Feb. 8 (Bloomberg) -- As Apple Inc. discusses ways to disburse some of its \$137.1 billion in cash to shareholders, it will have to weigh the appeal of preferred shares against the higher dividends and buybacks favored by many investors.

Each option has advantages. Greenlight Capital Inc.'s David Einhorn is pushing for preferred shares, saying they benefit investors. Some shareholders said they'd be satisfied with higher dividends and bigger buybacks.

Apple is considering Einhorn's proposal, and the board and management are actively discussing disbursing more cash, the company said in a statement. Directors have been working with Goldman Sachs Group Inc. to determine the best course, according to a person with knowledge of the plans, who asked not to be named because the talks are private. While many investors agree Apple should return more money, some say Chief Executive Officer Tim Cook should focus on higher dividends, share buybacks or a special dividend.

"I would like more of the cash returned," said Michael Scanlon, senior investment analyst at Boston-based John Hancock Asset Management, whose team oversees \$3.5 billion. "I am highly confident that the current dividend on the common is going to be raised very significantly in the coming years and that there will be a meaningful increase to the buyback."

Apple said last month that it's considering an increase in share buybacks and the quarterly dividend. Apple's cash balance includes \$16.2 billion of cash and \$23.7 billion in short-term investments. The rest of the balance is invested in long-term marketable securities.

'Ongoing Dialogue'

Einhorn is recommending that Apple issue \$50 billion of preferred stock, to be traded alongside common shares and funded by operating cash flow. It would have a 4 percent annual cash dividend, paid quarterly, he said in a letter to shareholders.

Preferred stock can have a higher yield and be issued without diluting the value of common shares.

Yesterday's statement suggests Apple is softening its stance on the preferred shares, after previously saying in its annual proxy that there aren't any plans to issue them. Apple also said it's already committed to returning \$45 billion over three years.

David Wells, a spokesman for Goldman Sachs, declined to comment.

Apple rose 1.3 percent to \$474.19 at 9:30 a.m. in New York.

Through yesterday, the shares were down 33 percent from a record on Sept. 19, making them the worst-performing stock in the Standard & Poor's 500 Index during that period.

"We remain committed to having an ongoing dialogue with our shareholders to get perspectives around return of capital and driving shareholder value," Apple said in the statement.

Greenlight Sues

Preferred dividends entered the cash debate after Apple included a proposal to investors to do away with so-called blank check preferred stock offerings, which can be issued without shareholder approval, in a government filing in December. Apple said the company had no intention of issuing preferred shares and hasn't activated any since 1997, the year the late Steve Jobs returned to lead the company he co-founded.

Greenlight, which holds more than 1.3 million Apple shares, sued to block Apple management's proposal, asking a federal court in Manhattan to bar Apple from certifying votes cast in its favor at

Apple's annual meeting on Feb. 27. Einhorn, who said he's been in discussions with Apple's management, said the cash hoard equates to about \$145 a share.

"Several hundred dollars per share would be unlocked if Apple were to follow through on this suggestion," Einhorn said in an interview on Bloomberg Television.

Dividend Debate

Preferred shares would be a way to reward investors without putting the company at risk or forcing it to incur taxes on cash brought to the U.S. from overseas, he said. In its discussions with Apple management, Greenlight suggested a preferred share distribution, with dividends funded by a small percentage of cash flow. Einhorn said Apple rejected the idea in September.

"I understand what Einhorn is trying to do, he's trying to do it because he has such a big position," said Colin Gillis, an analyst at BGC Partners LP in New York. He has a hold rating on Apple. "The stock is underperforming."

A company bears more responsibility to pay dividends on preferred stock, potentially benefiting shareholders, John Hancock's Scanlon said. He said he's confident that Apple will boost its dividend and increase buybacks.

Cupertino, California-based Apple reinstated dividends last year, part of a three-year, \$45 billion plan to return cash, including buybacks. Before that, Apple last paid a dividend in 1995, before Jobs returned as CEO and led the introduction of top-selling products including the iPod, iPhone and iPad.

"As of next week we will have executed \$10 billion of that plan," Apple said.

Steady Payout

"Investors want them to do both, really, repurchase stock and increase the dividend," said James Ragan, an analyst at Crowell Weedon & Co. based in Los Angeles. He has a buy rating on Apple and owns shares. "I'd like to see Apple establish a long-term dividend increase."

Apple's indicated dividend yield has climbed to 2.3 percent as the stock has fallen, according to data compiled by Bloomberg. That compares with 1.7 percent for International Business Machines Corp and 5.1 percent for AT&T Inc., companies that offer investors slower sales growth, predictable earnings and a steady dividend. Erick Maronak, chief investment officer at Victory Capital Management Inc., said he would like to see Apple's dividend yield at 3 percent to 4 percent. Victory Capital owns 370,000 shares of Apple stock.

A steady dividend payout would bolster the increasingly popular view among analysts that Apple is shifting to a value stock. At least 20 analysts lowered their price targets after Apple on Jan. 23 reported its slowest growth rates in years, and said the trend will continue.

Special Dividend

Offering preferred shares with a higher dividend would ease some investors' concerns about Apple's slowing revenue growth and shrinking margins, according to Maronak. That would attract a new class of value investors, he said.

Another option that has been floated by analysts is a one-time special dividend, similar to the one Microsoft Corp. issued in 2004 in response to pressure from shareholders.

Apple refrained from paying a special one-time dividend in December, when dozens of companies were accelerating payouts ahead of a potential rise in the top federal tax rate.

"I don't necessarily expect them to pay a large one-time dividend," Ragan said. "But I think they could easily support a fairly significant dividend increase."

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