With the death of **Apple, Inc.’s (NASDAQ: AAPL)** co-founder and senior innovator, Steve Jobs, many have speculated about how the largest company in America will fare in the future. With a market cap of $600 billion and more than a 4% share of the S&P 500, the strength of the market goes as Apple goes. Despite unprecedented gain in the company’s stock value, there may be issues that would affect Apple’s future position.

***Problems with iPhone Sales***

Recently, [as reported on the Mac Observer](http://www.macobserver.com/tmo/article/apples_stock_downgraded_on_iphone_subsidy_concerns/), Walter Piecyk, an analyst with BTIG Research, issued a downgrade on Apple’s shares April 9th, changing his recommendation from “Buy” to “Neutral”. In a note to his client, Piecyk stated that carrier subsidy policies will result in fewer smartphone upgrades, which would compromise Apple’s selling point of $600 for the iPhone in emerging markets. He also removed his $600 12-month price target on AAPL, which has been surpassed—the stock has risen more than 50% in the first quarter of 2012. ([At close April 10th](http://www.google.com/finance?cid=22144), AAPL was selling at $628.44, -1.22% loss from opening.) Among other analysts, Apple has a price target as high as $1,001. According to AppleInsider, Piecyk suspects a one billion dollars earning miss.

Apple has the highest subsidies in the mobile industry. While iPhones retails for $199-$399, the unit price is $659. The difference is subsidized by the wireless carrier. These subsidies have been stomached by the carriers by mean of aggressive upgrade policies that pushed consumers towards iPhones and smartphones. With carriers’ profits not keeping pace with Apple’s profits, many carriers are curbing their aggressive upgrading. This will, undoubtedly, slow sales of the iPhone. To counter, Apple has courted a greater percentage of the emerging market, particularly China, where riots have been known to happen over iPhone scarcity.

***Problems with Suppliers***

[As reported in ComputerWorld](http://www.computerworld.com/s/article/9225681/Update_Apple_supplier_Foxconn_hit_on_poor_working_conditions), a Fair Labor Association investigation into Foxconn, an Apple supplier in China, found worker abuse and poor working conditions. Foxconn has promised to resolve these issues. Foxconn has been under investigations for the last few years, following several suicide attempts. Foxconn is Apple’s largest supplier and is the maker of the iPad and the iPhone. Audits have shown that Foxconn underpaid their staff, overworked their staff past legal limits and did not pay for overtime. 43 % of all workers experienced or witnessed accidents, according to the FLA. Apple has acknowledged labor violations in its [2012 annual supplier report](http://www.apple.com/supplierresponsibility/reports.html), but stated that the company is leading the way in improving conditions among their suppliers. Apple has since been admitted to the [Fair Labor Association](http://www.apple.com/supplierresponsibility/code-of-conduct/labor-and-human-rights.html).

Infrastructure improvements and improved monitoring assurance will cut into Apple’s extensive monetary reserves. In addition, the bad press from this failure to vet may weaken the Apple brand, which is among the largest in the world. It is also determined, [as reported by ComputerWorld](http://www.computerworld.com/s/article/9225697/Foxconn_overtime_reduction_won_t_affect_product_prices_analysts_say), that Foxconn adhering to Chinese overtime laws will not raise the price of the iPad or iPhone, or limit supplies.

***Apple’s Share Buyback***

It can be argued that Apple’s recent announcement to pay dividends is a sharp departure from Steve Jobs’ theory of equity management, [as reported in the San Francisco Chronicle](http://www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2012/04/10/investopedia78980.DTL). With a quarterly dividend yield projected at 1.7%, the dividend—within itself—is not attractive enough to reel in hardcore investors, and exposes stockholders to a 15% dividend tax. It is believed that Apple’s 74% gain in shares’ value was caused by rumors of a potential Apple dividend.

In addition to the dividend, Apple announced a $10 billion buyback, which would instantly increase the value of all outstanding shares, starting in October and lasting three years. As Apple’s stock is expected to increase in value formulaically, and as an Apple product can be found in 50% of all homes, Morgan Stanley’s price target of $720 may seem conservative. There is reason to suspect that Apple is becoming an income stock.

***The Future of the Brand***

In 2012, Apple is expected to release a refresh of the MacBook Air, the iPad3 and the LTE iPhone, [as reported by Forbes](http://www.forbes.com/sites/erikkain/2012/02/01/why-apples-valuation-is-on-the-decline/). Apple TV will be released in 2012, as well. With the exception of Apple TV, all of the scheduled releases are revamps of existing lines, and as the iPad 3 was the last product to be green-lighted under Jobs, it is unclear where the company is going innovatively. The last time Apple was without Steve Jobs, during the period that started with the 1985 power struggle with John Sculley and ended with Jobs’ 1997 return to power as interim CEO, Apple suffered from a series of poor product releases, clunky product designs, crippling lawsuits, and diminishing market shares. Without the strength of Jobs’ leadership, many fear a return to the “dark times”.

[With the announced release of iBooks](http://bits.blogs.nytimes.com/2012/01/19/apple-unveils-tools-for-digital-textbooks/?scp=2&sq=Apple&st=cse), Apple is looking to enter the textbook business by adding the ability to present textbooks and other educational material on the iPad. Despite an expensive initial cost to schools (ie. the cost of the iPads and recharging stations), the savings per textbook unit is thought to make this an industry-changing innovation.

With the increase of competition—**Microsoft (NASDAQ: MSFT)** opening more Microsoft stores (with many being next door to or near existing Apple stores), **Google’s (NASDAQ: GOOG)** Android-enabled devices gaining more of the market share every day, and **Samsung (NASDAQ: SSNLF)** becoming the bestselling smartphone maker—Apple must be decisive with its innovation and brand image. Only time will tell if Apple can meet the mark.

***Outlook***

Apple currently bears 4% of the S&P 500. For the near future, Apple is a healthy solid buy; with the buyback and with the current slate of refreshes, Apple is positioned to increase the valuation of their stock in the short term and may become the first trillion dollar company by 2013. However, concerns with supply-line issues, an apparent lack of future innovation, and flagging sales of the iPhone suggest choppy waters ahead. Caution is suggested for late 2013 and 2014, as focus shift towards non-Jobs innovations. As Microsoft had [a thirteen days’ record-high valuation in 2000](http://www.washingtonpost.com/business/technology/apple-market-value-hits-600-billion-closing-in-on-microsoft-record/2012/04/10/gIQAhvqF8S_story.html), lack of innovation and direct competition can erode a company’s base; Microsoft’s valuation shifted from $619 billion in December 30, 1999 to $255 billion today.