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## Financial Policy at Apple, 2013 (B)

On April 23<sup>rd</sup>, 2013 Apple held its second-quarter press conference. At this press conference, Apple announced an increase to both their share buyback program as well as their quarterly dividend. The repurchase program increased by five times to \$60 billion dollars authorized until the end of 2015 and the quarterly dividend increased by 15% to \$3.05 per common share. With annual dividend payments of approximately \$11 billion per year, this "translates to an average rate of \$30 billion per year from the time of the first dividend payment in August 2012 through December 2015."<sup>1</sup> Taken together, Apple planned to distribute approximately \$100 billion in cash by the end of 2015.

Apple completed a \$17 billion bond issuance as well, which was the largest corporate-bond deal in history. At the Senate hearing in May 2013, Tim Cook offered the following statement:

The cost of capital today is at an all-time low, as you know. And so, our weighted average cost for the borrowing that we just did was less than 2%. We were faced with a decision to go that route or pay 35% to repatriate. So as we looked at that analysis, we felt strongly that it was in the best interest of our shareholder for us to secure the debt.<sup>2</sup>

This program expansion was seen as insufficient to some major shareholders, such as Carl Icahn, who urged Apple to authorize a \$150 billion buyback. Icahn believed that Apple was still undervalued and a larger buyback could raise Apple's stock price to more than \$625 a share.<sup>3</sup> On the other hand, Apple's stock price had been doing significantly better since their announcement on April 23<sup>rd</sup>, 2013 (see **Exhibit 1** for Apple's recent share price.)

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<sup>1</sup>Apple, Inc., "Apple More Than Doubles Capital Return Program," press release, April 23, 2013, <https://www.apple.com/pr/library/2013/04/23Apple-More-than-Doubles-Capital-Return-Program.html>, accessed April 2014.

<sup>2</sup>U.S. Senate Committee on Homeland Security and Governmental Affairs, Permanent Subcommittee on Investigations, *Offshore Profit Shifting and U.S. Tax Code – Part 2 (Apple Inc.)*, Testimony of Apple Inc., May 21, 2013, <http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code-part-2>, accessed April 2014.

<sup>3</sup>Adam Satariano, "Carl Icahn Pushes for Bigger Investor Payout from Apple," Bloomberg on the Web, August 14, 2013, <http://www.bloomberg.com/news/2013-08-14/carl-icahn-pushes-for-bigger-investor-payout-from-apple.html>, accessed May 2014.

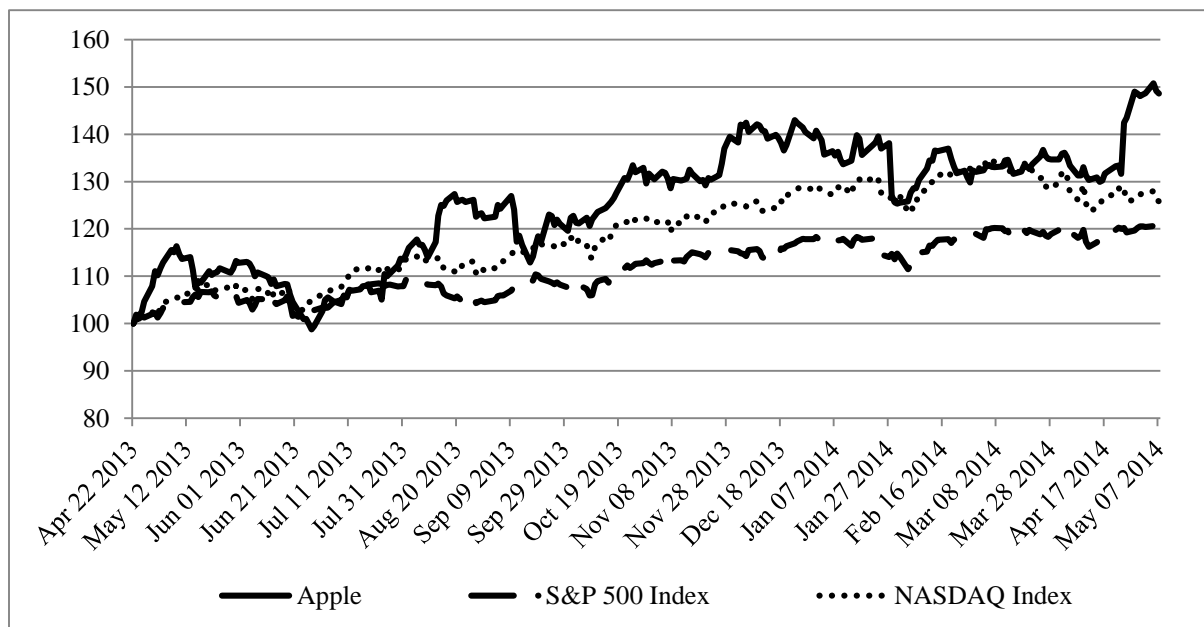
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One year later, on April 23<sup>rd</sup>, 2014, Apple announced another expansion to their buyback program. This time, they authorized up to \$90 billion in share repurchases, increased their quarterly dividend by 8% to \$3.29 a share, and announced a seven-for-one stock split to occur in June 2014. Apple now expects to distribute over \$130 billion by the end of 2015. In addition to this, Apple issued another \$12 billion in bonds, increasing their total debt to \$29 billion. In the two weeks following the announcement, Apple's stock price broke \$600 per share for the first time since late 2012, rising by approximately 12%.

**Exhibit 1** Stock Price of Apple Compared to S&P 500 and NASDAQ Indices, Apr. 2013 – May 2014



Source: Casewriter, based on data from Capital IQ.

Note: Values are indexed to Apr. 22<sup>nd</sup>, 2013 = 10.

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