

Uncertainty grips Apple investors

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By Dave Hendrick

Analysts and investors began reassessing their positions on Apple Inc. after CEO Steve Jobs on Jan. 14 announced plans to take a temporary leave of absence for health reasons.

The surprising announcement was made even more so given that Jobs had been publicly dismissive of concerns related to his health just nine days prior while vowing to stay in the top spot.

Now, with Jobs out for the time being and Apple's comparatively unknown COO Timothy Cook elevated in his absence, the future of Apple appears slightly less certain.

The company's shares plummeted in after-hours trading Jan. 14 and were off more than 5% in midmorning trading Jan. 15.

The news also brought a host of analyst downgrades, with RBC Capital Markets analyst Mike Abramsky among those lowering his estimate on the company to "underperform" given what he described as the "leadership void" at the company.

"Jobs is widely viewed as Apple's chief innovator, dealmaker, leader, deeply involved in minute decisions, inextricably tied to Apple's brand," Abramsky said. "Jobs' being sidelined for 6 months or more and unavailable day-to-day — with no clear successor — in our view raises risks to Apple's sustaining its stellar record of innovation going forward."

Indeed, while few doubt that Apple will continue to sell scores of its marquee products, notably iPhones, iPods and laptop computers, Jobs is widely credited with ushering in the current wave of success at the company and revered as a near-legendary figure in much of the tech space.

"Apple is a machine like any other large company, so the impact that any one person can have when you are that size can be muted," Ben Rose, an analyst at Battle Road Research, told SNL Kagan Jan.

15. "But he is, along with [Microsoft Corp.'s Bill] Gates, probably the greatest entrepreneur in the last 50 years, so it is going to have an impact. My concern is that his departure is going to coincide with some trying times."

Rose, whose firm held a "sell" rating on Apple prior to the most recent disclosure related to the CEO's health, said he believes the company could already look forward to a few difficult quarters in its immediate future.

"They have a pretty strong exposure in both the consumer and education segment, which could be as much as 30% of their revenues," Rose said, adding that he does not believe the initial negative response to the health disclosure represented an overreaction.

Given the uncertainty surrounding the company's leadership, Oppenheimer analyst Yair Reiner, who holds an "outperform" rating on the company, urged the Apple board to articulate a clear succession plan.

Saying the current "wait-and-see" approach could become "noxious" to shareholders, Reiner noted that an extended period of uncertainty surrounding executive leadership would "almost surely impact product releases in 2010 and beyond."

Whether Jobs, a survivor of pancreatic cancer, will reclaim the day-to-day duties of the CEO position remains an unknown, but Jobs claimed he would return at the end of June.

The New York Times on Jan. 14 cited sources close to the matter saying that while the CEO's cancer had not returned, he suffers from a condition that prevents him from absorbing food.

In a Jan. 15 research report in which he lowered his price target on the company \$15 to \$95.00, Calyon Securities analyst Shebly Seyrafi said Jobs' imminent renouncement of the CEO position had become a "reasonable probability." *i*