

Apple's dilemma: what to do with \$256 bn cash pile

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An aerial view of the Apple's new headquarters in Cupertino, California, seen on April 28, 2017

It is a sign of Apple's success but also a thorny problem: its cash stockpile has hit a staggering \$256.8 billion, sparking debate on what to do with such massive reserves.

Apple's quarterly report on Tuesday showed its [cash](#) holdings—the vast

majority held overseas—jumped to a sum that tops the entire economic output of Chile.

The tech giant has resisted the idea of bringing the cash home, because of disincentives in the US tax code—it allows multinational firms to defer profits while they are held overseas but taxes income at up to 35 percent when repatriated.

Proposals by President Donald Trump and lawmakers could lower the tax rate for repatriated earnings, an incentive for Apple and others to put the money to work in the United States.

While any company would gladly be in Apple's shoes with its cash hoard, "there's something not quite healthy about it," said Roger Kay, analyst with Endpoint Technologies Associates.

"Normally, you would expect cash to fund investment opportunities, but obviously Apple doesn't have any use for that much cash."

Apple has become the most valuable and profitable company of the current era. But the unique challenges it faces because its earnings come mostly from the iPhone, which faces increasingly tough competition in a saturated smartphone market.

Long-term strategy

Apple faces periodic pressure to return more cash to shareholders with higher dividends and more share buybacks, and has already spent some \$200 billion doing this.

Patrick Moorhead of Moor Insights & Strategy argued that returning all the cash to shareholders "doesn't help further anyone's strategic interests" and that Apple needs to find ways to diversify its business.

One way to do this would be "going vertical," or acquiring a chipmaker such as AMD to supply all Apple devices, Moorhead said.



(From L) US President Donald Trump, Peter Thiel and Tim Cook, CEO of Apple, Inc., listen during a meeting with technology executives at Trump Tower in New York, in December 2016

Netflix, he said, could complement Apple's business by offering content for Apple's ecosystem of devices.

Moorhead said that if Apple—which has a permit to test its self-driving car system—is serious about autonomous vehicles "it would need to buy a car company" such as Tesla to ensure "the Apple experience."

Bob O'Donnell of Technalysis Research said Apple has a staggering

amount of cash and "could make enormous entries and completely rewrite industries" with it.

"The challenge is culturally and organizationally, how do you integrate something that big," O'Donnell said.

He said Apple has always sought to minutely manage details of its operations, "so making an enormous purchase goes against their culture."

The tax conundrum

Apple's situation has highlighted the growing stockpiles of cash held overseas by US multinationals, now estimated to be between \$2.5 trillion and \$3 trillion.

Lisa De Simone, a Stanford University professor who specializes in international taxation, said the current code creates "incentives for companies to shift as much of their profits as they can offshore."

But De Simone said a temporary tax "holiday" as Washington tried in 2004 would only increase the incentives.

"Companies like Apple have only increased their income shifting in expectation they could get another holiday later on," she said, arguing for a permanent tax change.

Georgetown University finance professor Lee Pinkowitz said companies with cash overseas are essentially holding the funds hostage to US policymakers.



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"The government already revealed in 2004 they were willing to negotiate with the hostage takers," he said. "What you would expect is that more hostages will be taken."

The Trump administration is seeking to encourage firms to bring those earnings home for investment and job creation in the United States.

But Pinkowitz said a major stimulus from repatriated assets is unlikely.

With Apple, much of the funds are held nominally by its Irish subsidiary but are invested in US assets.

"Apple has almost \$50 billion in US Treasury and agency securities, so

technically that \$50 billion is already here. It just hasn't been taxed."

Made in USA?

Could Apple use some of the cash to bring large-scale manufacturing back to the United States?

Jan Dawson of Jackdaw Research said this is unlikely because of Apple's manufacturing and supply process.

"We simply don't have the work force to support this scale of manufacturing," he said. "No tax break is going to offset that entirely."

But Kay said he sees potential for Apple to bring factories home if the conditions are right.

"I could see a happy solution where contract manufacturers and Apple partner and train American workers to be as efficient as the Chinese," he said.

"It would take quite a bit to make it come true but it could bring down the myth that Chinese workers are more efficient."

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