

Silicon Valley, led by Apple, becomes Wall Street's backbone and ATM

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Led by the most successful company in the history of American commerce, Silicon Valley technology firms have become increasingly attuned to the demands of Wall Street, churning out profits at a record pace and sending a fire hose of cash back to investors.

With the 30th annual SV150, the San Jose Mercury News' ranking of the largest companies in Silicon Valley by [revenue](#), it's clear that Wall Street depends on Silicon Valley tech companies like never before. In 1985, only six companies in the SV150 also had residence in the Standard & Poor's 500 index. Now, 30 companies are shared between the two, information technology is the S&P's biggest sector, and Apple has joined the Dow Jones industrial average for the first time.

Overall, the SV150 produced a [profit](#) margin of 16.4 percent amid record sales and profits, but the \$134.4 billion that companies pushed back to investors through dividends and stock repurchases was even greater than the profits of nearly \$128 billion.

"There's been a change in the valley over the last five to 10 years," said Nick Donatiello, who teaches at Stanford's Graduate School of Business. Fast-growing tech companies once shunned paying dividends, which are traditionally associated with mature industries such as utilities and tobacco. "There was a stigma associated with it."

No longer.

Apple, which ended 2014 just short of becoming the first Silicon Valley firm to hit \$200 billion in sales in a year, has led the way, spending \$11.2 billion on dividends last year, as well as \$45 billion - slightly more than its record profits - on stock repurchases, which Wall Street also likes because when a company buys its own shares, it "retires" them, making the remaining shares more valuable.

With the massive cash coming in from selling iPhones and other gadgets, Apple doesn't have to scrimp elsewhere. However, the company increased research and development by 38 percent, its workforce by 15 percent and tax withholdings by 20 percent. And it continues to grow at a phenomenal rate.

After emerging from the recession, maturing tech companies have grown less anxious about having cash on their balance sheet in order to weather future storms, and more inclined to give back money to shareholders. Of the 35 big Bay Area tech companies on the SV150 that pay regular dividends, 10 of them only began doing so last year.

Wall Street, in turn, has become more forward-thinking about the tech universe's quirks.

"You've seen Wall Street start to better understand Silicon Valley," said Robert Peck, an analyst for SunTrust Robinson Huntley. "When Google bought YouTube for \$1.6 billion, Wall Street's initial reaction was that it was a terrible deal. That ended up being one of the best buys of all time."

Even Google, which has long resisted paying dividends in favor of putting money into future research, signaled a possible shift earlier this year during an earnings call and with its hiring of Wall Street executive Ruth Porat as its incoming chief financial officer. Yahoo CEO Marissa Mayer has repeatedly called her company not just a tech innovator but a good "steward of capital," spinning off its huge stake in Chinese e-commerce company Alibaba back to investors.

"There's generally more discipline," Donatiello said. "Dividends are no longer seen as inconsistent with growth, and activist investors are working hard to encourage that discipline and exploit situations where they feel discipline isn't present, sometimes

correctly and sometimes not so correctly."

Unlike Apple, though, other companies may have to choose between rewarding investors or spending cash on the types of investments - research and development, workers, acquisitions - that tend to lead to growth in future sales.

For example, Juniper Networks established a dividend in 2014 and increased stock repurchases nearly 300 percent, pushing more than \$2.3 billion to investors amid an activist investor push. Meanwhile, the Sunnyvale company slashed its workforce by 7 percent, chopped 4 percent off research and development and reduced capital expenditures by 16 percent as sales dropped and annual profits turned to a loss.

The SV150 has always held a mix of waning giants, fast-growing upstarts, steadily chugging legacy firms and volatile newcomers, but together they have grown into a mature tech economy circling San Francisco Bay.

And the region's dominance and its allure to distant Wall Street shows no signs of abating, even as the spreading of technology and the lowering of costs has helped [tech companies](#) proliferate elsewhere.

"It's not geography, it's an ecosystem that exists in Silicon Valley that encourages, supports, allows for all this to happen," Donatiello said. "That's pretty darn special. More than special, at the moment it's unique on a global scale."

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