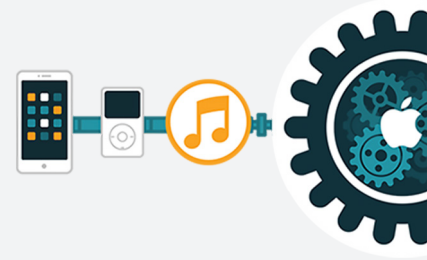


Apple & Growth



Most of us thought we had missed the boat when we saw the returns Forrest Gump made on his Apple stock in 1994. However, a \$5,000 investment on the day of the movie's release would be worth approximately \$1 million today, more than a 200-times return. On August 2, 2018, Apple became the first US company to hit a \$1 trillion market cap, and the tech giant isn't slowing down. One integral part of the company's record-setting growth is its access to huge cash reserves — holding around \$200 billion. That's a larger reserve than any other company, and even some countries including New Zealand, Finland, and Denmark! That cash has been Apple's fuel for igniting growth through a combination of internal strategic measures: organic growth and mergers and acquisitions, also known as inorganic growth.

Organic Growth: iTunes to iPhones

Organic growth is the term used in business to describe internal company growth and not growth from mergers and/or acquisitions. When

it comes to growing organically, Apple has gone from gold to platinum to diamond faster than anyone. In January 2001, Steve Jobs took the stage at MacWorld and introduced us to iTunes. "There is a music revolution happening right now," he said. A week later BusinessWeek snubbed the application, concluding, "The MacWorld crowd wasn't wowed ... Apple has a problem."

The BusinessWeek review made little mention of iTunes, but less than 10 months later, Apple would introduce the iPod and BusinessWeek's tune would change. "It's going to do for MP3 music what the original Palm Pilot did for handheld computing in the late '90s — that is, ignite demand like a match to dry twigs." They were right: Apple wasn't done. Three years after releasing iTunes, Apple unveiled the iTunes Music Store and sold one million digital songs in its first week of operation, totally shocking (and later upending) the music industry.





The lesson here isn't that Apple produced a No. 1 hit, but that it used its success as a stepping stone to reach even greater heights. Between 2001 and 2007, it introduced 14 different versions of the iPod and sold more than 120 million units. With all the cash Apple made from those iPods, it funded secret engineering projects such as the iPod phone, which would later morph into the iPhone and eventually give birth to the App Store, iPads, Apple Watch, and most recently the Vision Pro. And generate even more cash. It's an organic growth story for the record books.

Inorganic Growth: Can't beat 'em? Beats 'em.

Inorganic growth is a strategy companies use to "buy growth" through mergers and/or acquisitions. Mergers and acquisitions can be a great strategy for companies that need to boost their performance or make dramatic shifts — sort of like reinventing their business models. While it sounds simple enough, study after study has shown that somewhere between 70% and 90% of mergers and acquisitions fail to meet expectations because integrating two companies is like blending two huge families... but you have to let go of some of the kids. That's not to suggest that mergers and acquisitions should be avoided, but rather that getting them right takes

executives who are thoughtful, deliberate, and clear about their long-term vision.

Consider Tim Cook, the CEO of Apple. With such an impressive company savings account, he could acquire any multitude of companies — or entire industries for that matter. So far he hasn't allowed the allure of deal-making to take priority over Apple's impressive organic growth engine (perhaps with the exception of Apple TV). Instead, Cook and team seem to be more interested in smaller, more-targeted acquisitions that naturally extend Apple's organic growth. Case in point: iTunes' music business took a nosedive in 2014 as streaming services like Pandora and Spotify rose in popularity. Apple was late to the dance party, and it recognized that slow and steady organic moves would likely leave it on the outside looking in.

After acquiring some music streaming services you'd probably never heard of, Apple still didn't have a compelling streaming offering. Cook decided to dip into the company's pockets to make its biggest acquisition to date: Beats by Dre for \$3 billion. And sure, they got some slick headphones from the deal, but what the company really wanted was Beats' two-month-old music-streaming platform, Beats Music. The



acquisition stopped iTunes' dive, and in less than a year, Beats Music became Apple Music. Apple was seven years late (and not invited) to Spotify's party, but it only took three years for Apple to regain its foothold. Spotify is the undeniable king of music streaming with its device cross-compatibility and 30% market share, but Apple's 13.7% is strong.

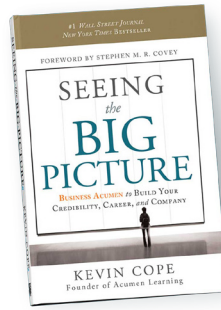
Conclusion

Apple surpassed \$2 trillion in market cap in August 2020 and briefly reached \$3 trillion in 2022. Apple uses its cash to make the

investments it needs to keep reaching. The tech giant's ambition highlights a vital business reality: grow or die. If your company isn't expanding product and service lines, cultivating new customers and markets, and attracting new capital (cash) for further growth, its competitors surely are, and they'll either put your company out of business or acquire it. While not every business needs to grow at Apple's rate, most can't survive without constant change, something you need lots of cash for. Take a page from Apple's book and use cash from today's wins to finance tomorrow's growth.

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