Apple elbows Google aside to become Silicon Valley's most valuable company

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As the creator of some of the coolest products on the planet, Apple has always had plenty of swagger. Now it's got major financial mojo as well: The maker of iPhones, iPads and Macintosh computers has elbowed Google out of first place as Silicon Valley's most valuable company.

With the total value of its publicly traded stock at $224 billion, up 107 percent from a year ago, Apple now has a market capitalization greater than all but two companies in the United States, Exxon Mobil and Microsoft.

Last year, amid the worst recession in decades, the Cupertino company recorded a 39 percent increase in profit to $9.4 billion. That was the highest profit earned by any company in the SV150, according to the Mercury News' annual report on Silicon Valley's largest publicly traded companies, which will be published Sunday.

Apple's revenue surged 20 percent to $46.7 billion, returning the company to its standing as Silicon Valley's second-largest by revenue, a ranking it hasn't held for 23 years.

"It's just mind-boggling," Needham & Co. analyst Charles Wolf said. "Thanks to the iPhone, it just sailed through the recession. It was just an incredible engine."

Last year, one of every five dollars Apple took in was profit, giving it a profit margin three times that of Hewlett-Packard, the valley's revenue leader. Much of Apple's profit came from the iPhone, now its best-selling product, garnering $15.7 billion in sales last year.

"They have very efficient execution," said Broadpoint AmTech analyst Brian Marshall.

Apple's financial performance in recent years is reminiscent of its fast-growing early days.
In 1987 it was the valley's second-biggest revenue generator but dropped in rank over the years, falling to No. 10 at the start of the 2000s. Since then, Apple's profit has soared from $408 million in 2000 to $9.4 billion, a 2,194 percent increase, while its market value has risen from $5.2 billion to $224 billion, a 4,259 percent surge.

Last year, it leapfrogged Intel and Cisco Systems to become the second-biggest company in terms of revenue once again, driven in large part by the success of its iPhone, sales of which surged 81 percent.

Apple has always deployed a contrarian strategy; when other companies cut costs during downturns, Steve Jobs and Co. double down on research.

During the 2000 and 2001 slowdown, as many companies were laying off workers, Apple began pumping more resources into innovation. It revamped its Macintosh operating system, opened retail stores and developed new software focused on digital music, video and photos.

Last year, during the worst recession since the Great Depression, Apple's R&D spending jumped 20 percent to $1.4 billion. That contrasted with a 4 percent drop in spending on research among the SV150 as a group. While the SV150 as a whole slashed payroll by 6 percent, Apple went on a hiring binge, adding 2,300 employees to the fold, a 7 percent increase in its work force.

Apple's contrarian streak reaches back to its founding days, when almost no one other than Steve Jobs and co-founder Steve Wozniak thought the world was ready for a personal computer.

The company was launched on April Fools' Day in 1976 with the revolutionary idea that individuals could have access to technology then available only to specialists. That year, Jobs was able to sell 50 of the computers to the Byte Shop in Mountain View before Wozniak, a self-trained electrical engineer, had even built them.

In 1977, the Apple II was the first PC to reach the
mainstream. Apple moved into buildings in Cupertino and became one of the fastest-growing corporations in U.S. history. Two years later, Jobs discovered the first "graphical user interface," or GUI, developed at Xerox's Palo Alto Research Center. The breakthrough made the computer much easier to master for the average person, who could simply click on a file to view it, rather than typing in commands. It became the foundation for the Macintosh, introduced in 1984.

The darkest chapter in Apple's history began when Jobs was forced out in 1985. The company's resurgence began with his return in 1997. At Macworld in 2001, Jobs introduced his vision of the Macintosh as the centerpiece of a digital lifestyle. And the Mac's software became the basis for the iPod digital music player, the iPhone and now the company's latest creation, the iPad tablet.

"The reason Apple has been able to do so well is that it produces products that consumers want," Kaufman Brothers analyst Shaw Wu said. "That's something that's very difficult and, frankly, something a lot of companies struggle with."

Apple sold more than 25 million iPhones in 2009, representing more than a third of its total sales. And many analysts expect it to be atop the valley heap for years to come.

While sales of iPods dipped 5 percent last year, which company executives say they anticipated as the iPhone gains in popularity, Apple's core computers are gaining favor among consumers. During the last quarter of calendar year 2009, the company recorded $4.4 billion in sales of Macintosh laptops and desktops — roughly equal to what it sold in all of 2003.

"Now they have another product," Wolf said of the just-launched iPad. "It just got better for 2010."

"They are in a league of their own," added Broadpoint's Marshall, noting that Apple — with $40 billion worth of cash and investments — is well positioned for continued growth.

"I don't think this is short-lived," he said. "This is sustainable."

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