

AN ODE TO RESTRAINT: LESSONS FROM THE TIM COOK LEGACY

Don't just sit there, do something!

Not very good advice meted out to CEOs

HAIL TO THE CONQUEROR!

- Through history, we have **glorified conquerors and empire builders** in politics, civic life and business, from Alexander and Genghis Khan to the tech titans of today. That is no surprise, since these individuals have oversized personas and often change the course of history, but it is also true that this glorification of expansion has shortcomings.
 - The first is the deification of these heroes comes with **whitewashing of the dark sides and the costs of empire building**.
 - The second is that we **discount and undervalue those** who make contributions to societal or business advances but **do so quietly and with little fanfare**.
- It is in this context that I was drawn to the story of **Tim Cook stepping down as Apple CEO, after a tenure of fifteen years** atop a company that has been among the top market cap companies in the world for much of that period.

APPLE: STEVE JOBS – THE FIRST COMING!

- To tell Tim Cook's story at Apple, **you have to start with the Steve Jobs era**. Jobs co-founded the company in 1976, with Steve Wozniak, and while the company went through a series of CEOs in the years after, Jobs was the driving force in the company's early years.
- While it is easy, with the benefit of hindsight, to view these as good years for the company, **those early years reflected both Job's strengths and weaknesses**. His vision and force of personality gave rise to the personal computer in its current form, as a tool for everyone to use, not just tech geeks.
- That said, **the dark side of Jobs, manifested in impatience with underlings and an obstinate belief that he knew what customers needed better than they did**, led to the Lisa, the only Mac I regretted buying almost immediately after my purchase, and a loss of business markets to Microsoft.
- Those failures led Apple to the brink, and to **Jobs being cast out of the company by its board in 1985**, though the CEOs that followed had neither the strategic vision nor the business-building capacity to rescue the company.

APPLE: STEVE JOBS – THE SECOND COMING!

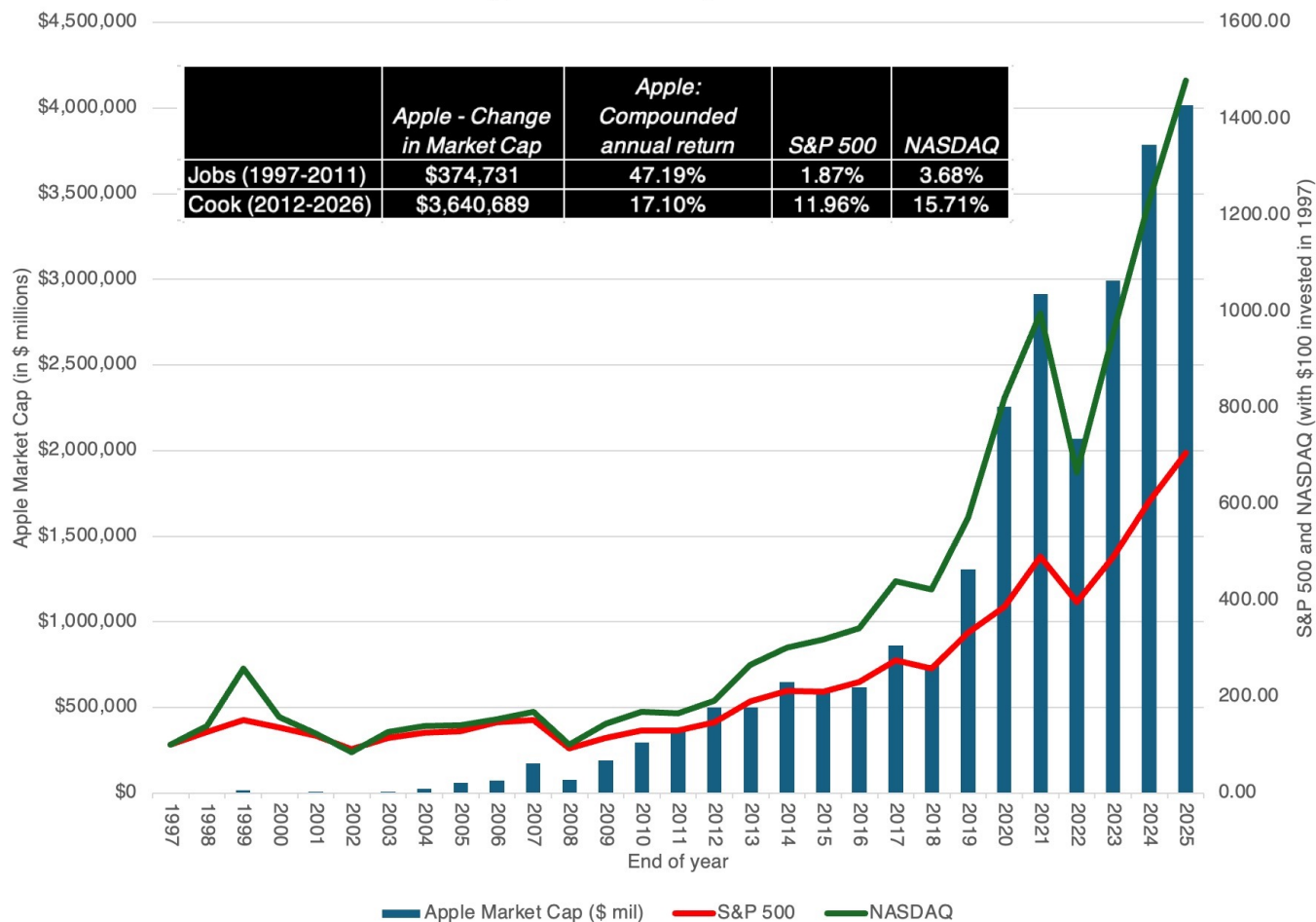
- In 1997, Apple **looked like it was a company heading into the sunset**, as Windows became the dominant operating system for personal computers, and it seemed like the company had lost its purpose.
- The August 1997 return of Steve Jobs is now the stuff of legend, as he **rebuilt Apple back in the ensuing years into a powerhouse, with the iPod, the iPad and most of all the iPhone.**
- It is worth asking **what the difference was** between the first iteration of Steve Jobs at Apple and the second iteration of Steve Jobs.
 - The first was that **he was older**, and to the extent that with age comes some wisdom.
 - The second was that in his period away from Apple, *Jobs created and built up other companies, with Pixar being the biggest*, where he learned to deal with people better and perhaps compromise a little more.
 - The third was that he benefited from **the presence of Tim Cook**, first as an executive in Apple sales and operations, and more importantly, as chief operating officer (COO) for Apple. If Steve's skill was vision, Cook's skill was building manufacturing hubs and supply chains to convert the vision to products.

APPLE: THE TIM COOK YEARS

- Tim Cook has been CEO for fifteen years, and when he retires on September 1, 2026, **he will have been the longest serving CEO at Apple.**
 - It **cannot have been easy**, especially in the early years, as the comparisons to Steve Jobs were front and center, with the critique being that Tim was not Steve.
 - **To his credit, he never tried to be Jobs**, and I do think that he created a very different template for himself, one that fit him well and was a testimonial to his self assurance.
- In one of my talks about a decade ago about Apple, I **described Cook, perhaps harshly, as a man without a visionary bone in his body**, but one who would make sure that the trains ran on time (or the iPhones were delivered as promised), and I think that he has used that strength to good effect during his years as CEO of the company.

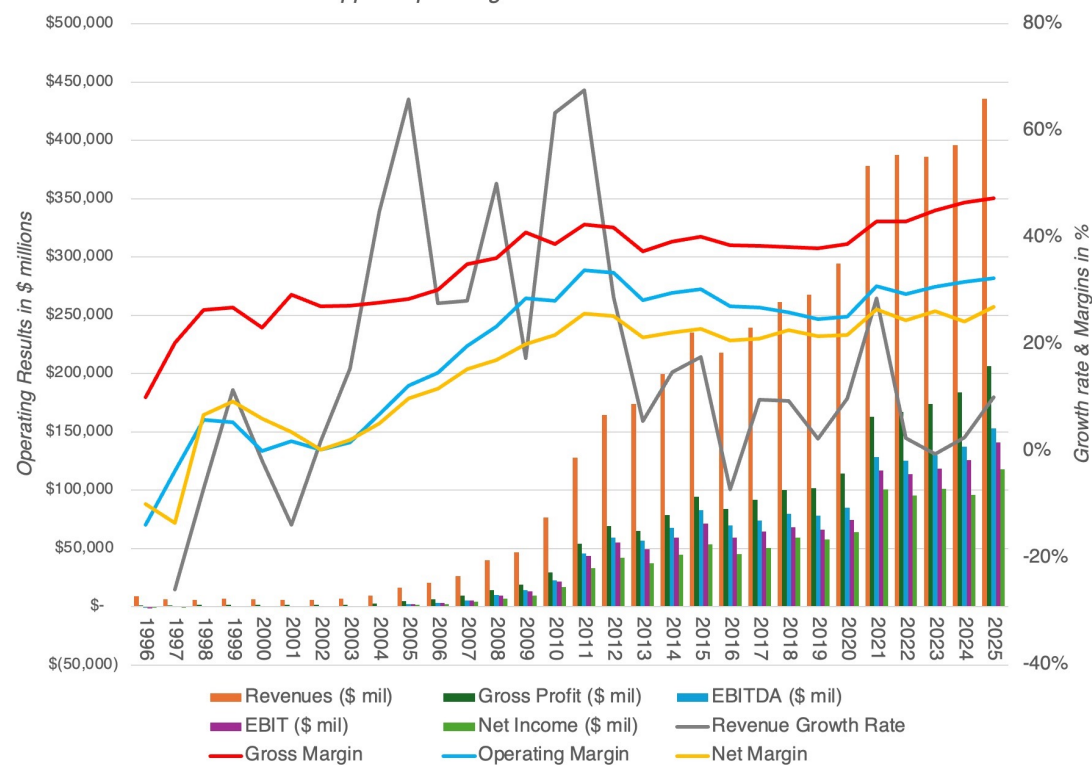
APPLE: A MARKET CAP GIANT IS BUILT!

Apple's Rise to the Top: 1997 -2025



BUILT ON OPERATING SUCCESS

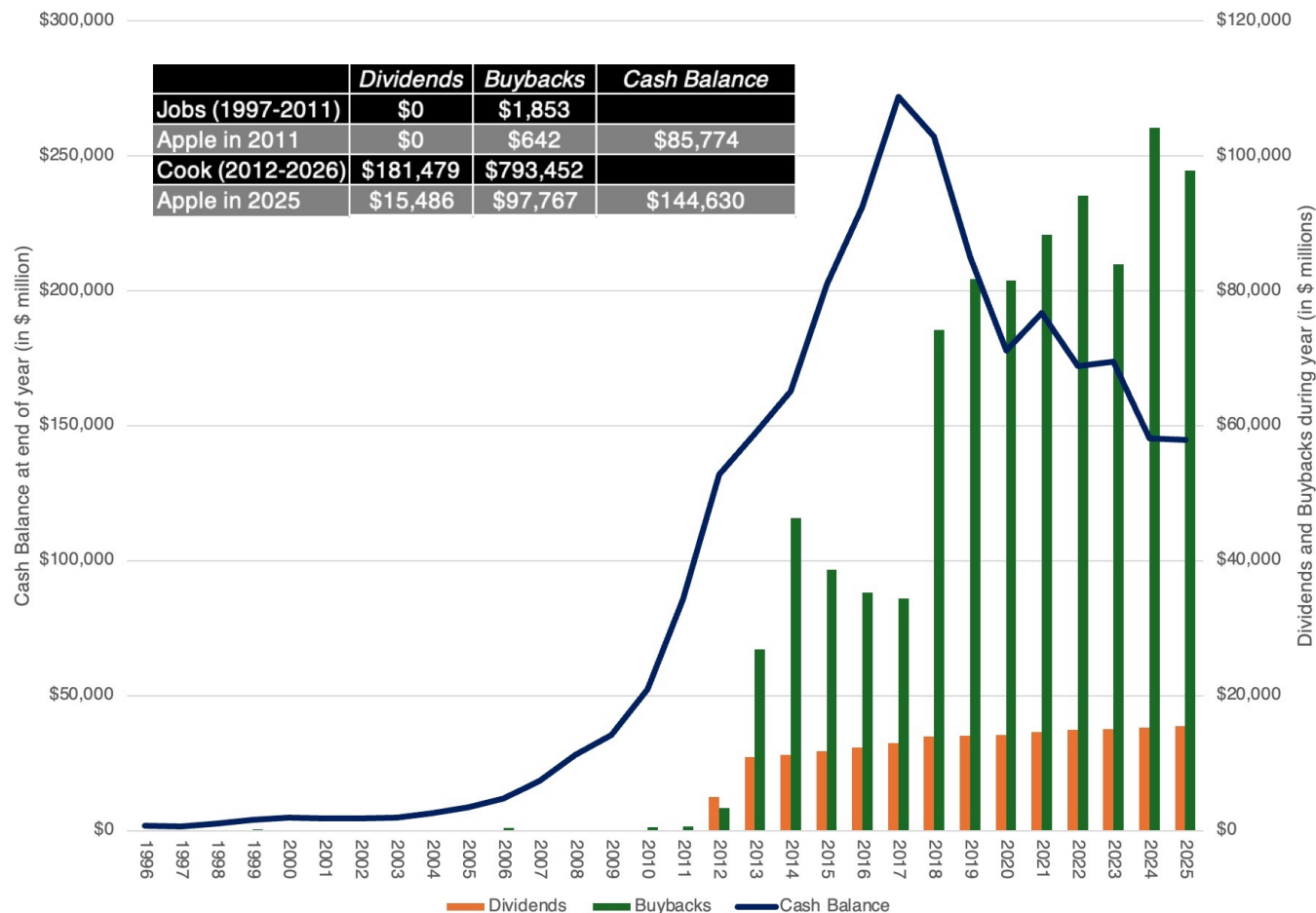
Apple: Operating Results from 1997 to 2025



	Revenue: CAGR	Gross Margin	Operating Margin	Net Margin
Jobs (1997-2011)	23.67%	36.56%	23.48%	17.86%
Apple in 2011	28.82%	41.91%	33.46%	25.35%
Cook (2012-2026)	8.52%	41.91%	29.30%	23.88%
Apple in 2025	10.07%	47.33%	32.38%	27.04%

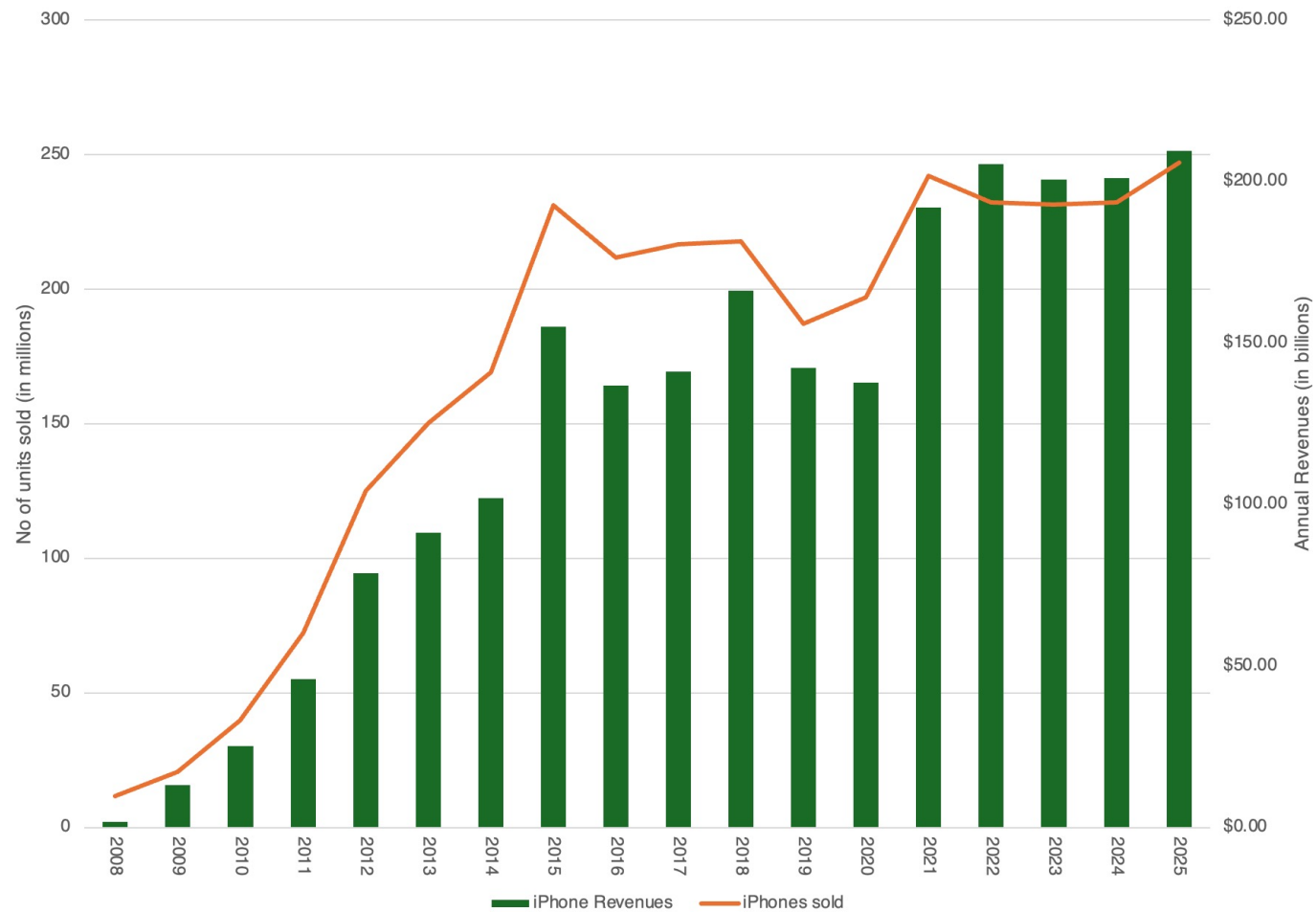
JOBS VERSUS COOK: THE BIGGEST DIFFERENCE!

Apple: Cash Return from 1996 to 2025



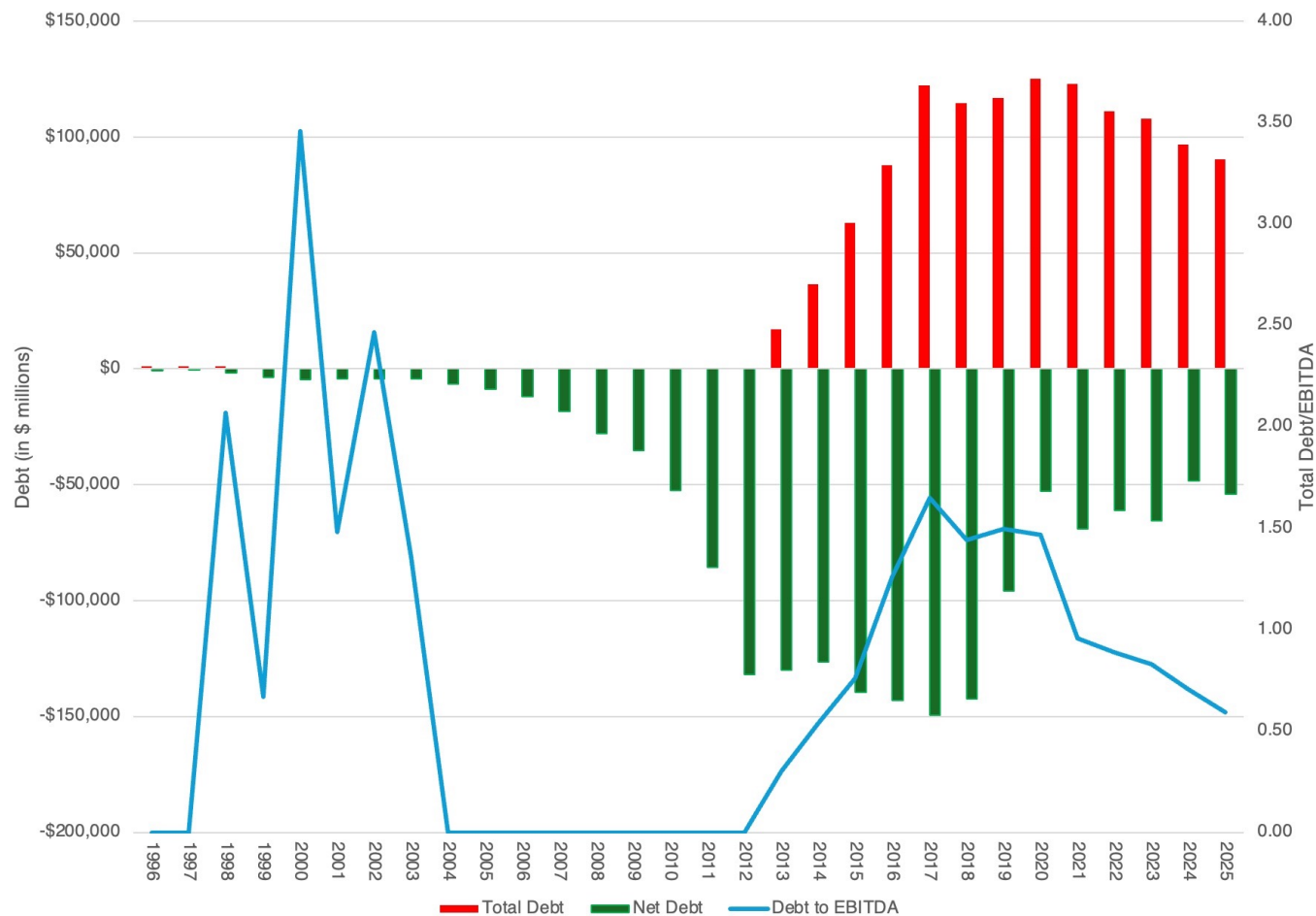
THE CASH MACHINE 1: THE IPHONE FRANCHISE

The iPhone Franchise from 2008 to 2025



THE CASH MACHINE 2: TAPPING THE BOND MARKET

Apple's Debt from 1997 to 2025

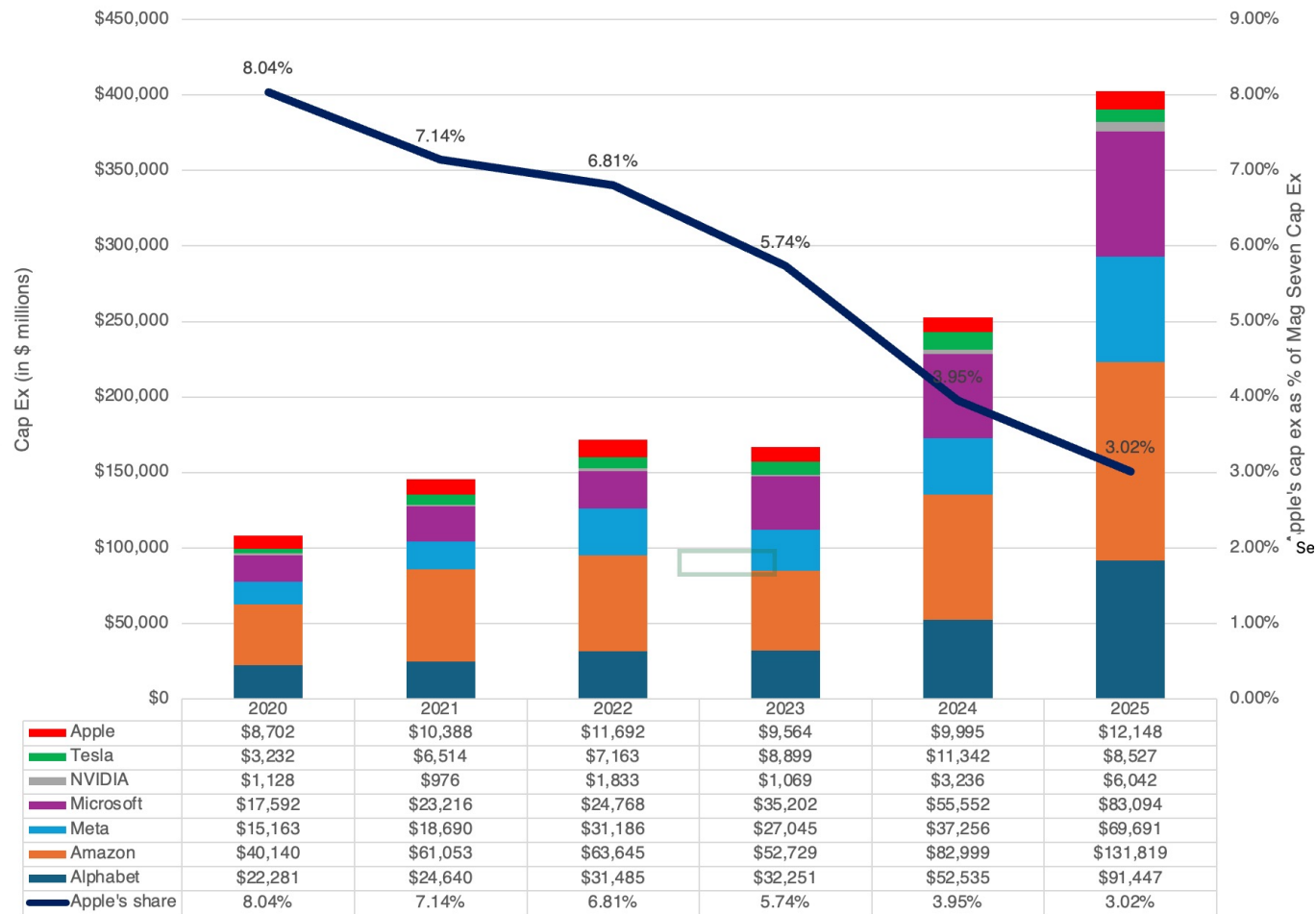


THE CASH MACHINE 3: RESTRAINT ON ACQUISITIONS

- The first is that while Apple has acquired more than a hundred companies, **almost all of them are small, private technology companies with small price tags**, with the intent being bringing their products and services into the Apple ecosystem after the acquisition.
- In fact, **its largest acquisitions during this century are so small that they are almost petty cash**, relative to its cash balance as a company.
- **Given that the ecosystem built to encourage companies to acquire other companies is so forceful**, this required immense discipline on the part of Apple (and Tim Cook, since one of the best ploys to get acquisitions on track is to appeal to the CEO's ego..)

AND ON CAP EX (AND ESPECIALLY ON AI)

Apple's Cap Ex versus Mag Seven - 2020 to 2025



A CORPORATE LIFE CYCLE

- In sum, looking at the changes at Apple over the last fifteen years, **the company has changed** from the growth engine, driven by disruptions, in the Jobs years to a mature, cash-returning and more cautious company under Cook.
- I have **posted more** about Apple than about any other company in the world (and have **been a shareholder in the company for significant portions of both the Jobs and Cook tenures**).
- I have **not always agreed with either man**, on choices that they have made at the company, but I **respected both of them enough**, to view them as good stewards of my investment.

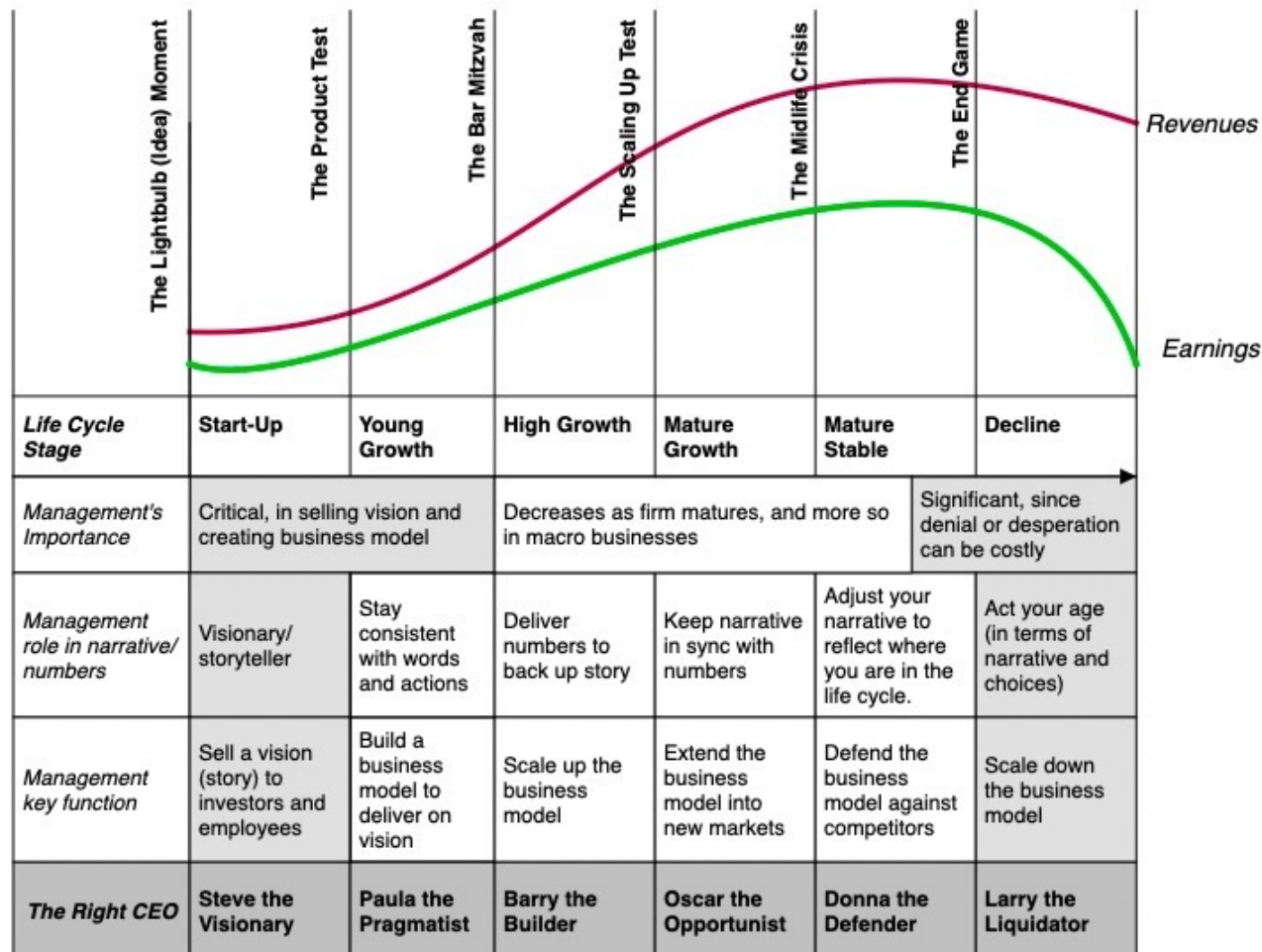
VISION OR RESTRAINT: THE TRADE OFF!

- If you were to **create a profile of Tim Cook**, the manager, based upon the choices that he has made at Apple during his tenure as CEO, **two very divergent views** emerge.
 - To his admirers, his actions on some fronts (initiating dividends, massive stock buybacks, borrowing money) and inaction on other fronts (no big acquisitions, diffidence on AI investments), **represent an exercise in discipline and restraint**, preserving the company's crown jewel (the iPhone) and fending off the bankers and consultants, with their deals and promises.
 - To his critics, and there are quite a few, **Cook's caution has cost Apple its disruptor status**, when it could have used its ample cash reserves to buy its way or invest in into almost every new business that has bloomed in the last fifteen years. In fact, they can point to chances that Apple has had to buy some of the biggest stars in the market, from Tesla and Netflix more than a decade ago to Anthropic, Mistral and Perplexity in more recent years.

THE PRICE AND PAYOFF OF RESTRAINT!

- It is true that **Apple's restraint** has led it to miss out on some of the **biggest trends in technology** over the last decade, but it has also **avoided the overpayment** that is so common with high profile acquisitions of big companies.
- The argument that Apple would be worth a lot more today if it had bought Netflix or Tesla a decade ago falls flat for two reasons.
 - The first is **the selection bias** in picking two companies that, in hindsight, have emerged as winners, when in fact there were a dozen other worse performing companies that were also on Apple's radar.
 - The second is the **presumption that even the winning companies would have been just as successful**, owned by Apple, as they were as stand alone enterprises. The clash of corporate cultures that would have ensued if Apple had bought either Tesla, a company that reinvents its business narrative every few hours, or Netflix, an entity that makes content in quantity with the hope that some it sticks, would have been epic, with the risk that both Apple and its acquired target would have gone down in flames.

A CORPORATE LIFE CYCLE PERSPECTIVE ON CEOS



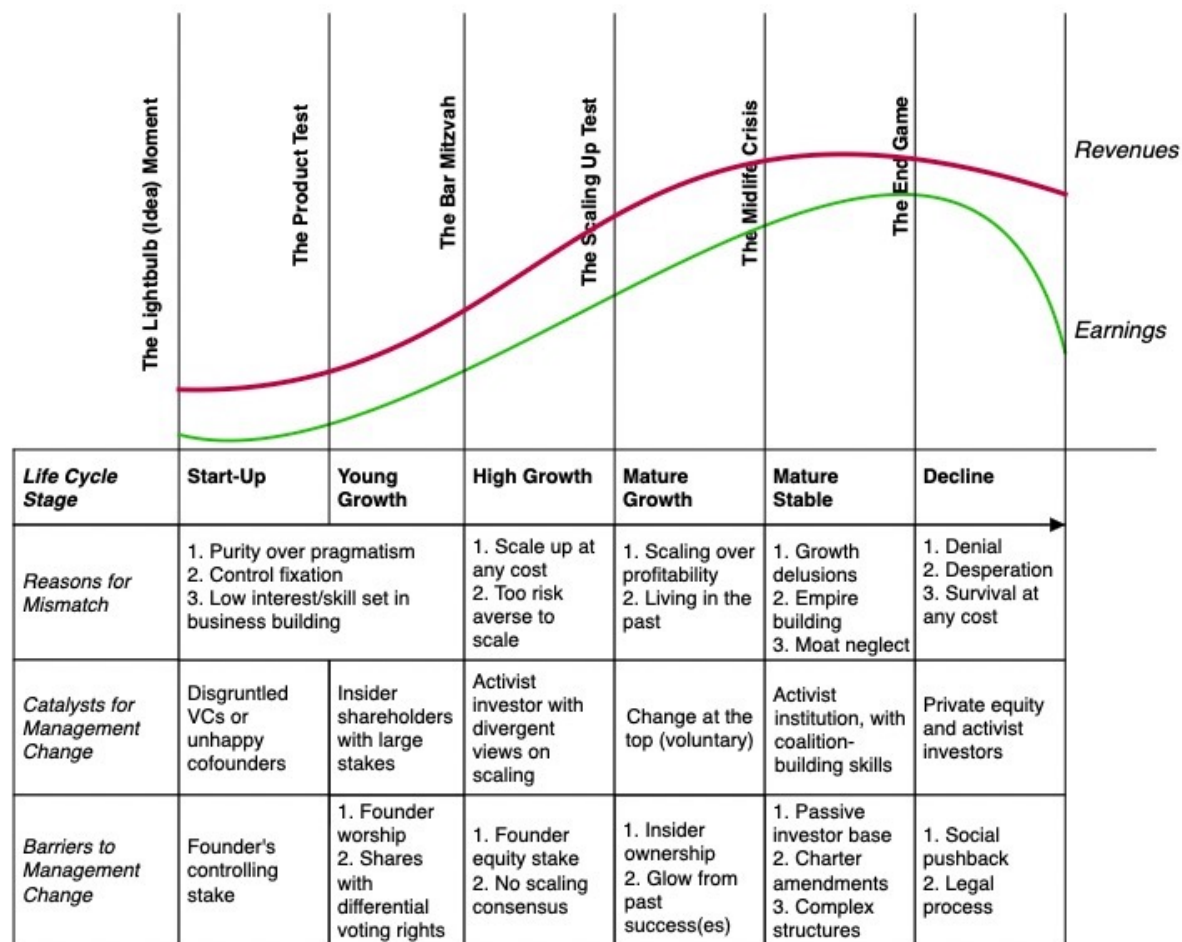
WITH IMPLICATIONS FOR APPLE!

- Viewed in this framework, I would argue that Apple has been lucky in its last two CEOs, both in terms of persona and in sequence.
 - When Steve Jobs rejoined Apple in 1997, the company had hit rock bottom, and with little to offer in liquidation, **his vision allowed for a reincarnation, with disruptions leading the way**, and as we noted earlier in this post, having a strong chief operating officer in Tim Cook made the difference.
 - The Apple that Tim Cook inherited, when he became CEO, was a very different entity, already the world's largest market cap company, with a superlative franchise in the iPhone. In corporate life cycle terms, Apple was a mature growth company, and **what Cook lacked in opportunism, he made up for by defending Apple's biggest product line(iPhone).**
 - That said, **while each of these men created value for shareholders, I don't think that either would be regarded as highly, if you swapped their tenures in terms of timing.** I don't think Tim Cook would have been able to bring Apple from its near-demise to being on top of the corporate universe, if he had become CEO in 1997. and I think Steve Jobs would have been ill-suited to the Apple that was in existence in 2011.

MATCHING CEO TO CORPORATE LIFE CYCLE: CONFOUNDING FACTORS

- Like humans, companies age, but unlike humans, **the rates at which different companies go through the life cycle can be wildly different.** Managers and investors who use chronological age as their corporate aging metric can misjudge where they are on the life cycle.
- While aging is inevitable for both humans and businesses, some mature or even declining **businesses can find pathways, either through happenstance or management choices to rediscover their youth.** These businesses become the stuff of legend, and they are the subjects of books and business school case studies, and their CEOs are elevated to management deities.
- The narratives built around companies that reincarnate and the CEOs atop these companies also **feed into management incentives and behavior.** In essence, the **glorification of CEOs who bet big on turnarounds at mature or declining companies,** and win, **sets up CEOs facing similar circumstances to behave like riverboat gamblers,** when making management choices at their firms. After all, if their bets pay off, they join the winner crowd, and if they do not, they contend that they did their best, and that circumstances conspired to bring them down.

MANAGEMENT MISMATCHES ACROSS THE CORPORATE LIFE CYCLE



LOOKING BACK AT THE COOK LEGACY

- While Tim Cook's time as CEO of Apple is now seen through rose-colored lens, it is worth remembering that **Apple was targeted repeated early in his tenure by activist investors.**
- While **some of the changes that these activists were pushing for were warranted, some were not**, and Cook deserves credit for not capitulating.
 - Carl Icahn, for instance, wanted Apple to increase its debt substantially, borrowing hundreds of billions, but I took issue with his argument that Apple could borrow this money at the low rates that he was extrapolating.
 - A couple of years later, David Einhorn made his play, arguing that Apple should issue preferred shares with a 4% dividend yield, and I noted that preferred stock could bring with it all of the cashflow commitments of debt, with none of the tax advantages.
- The **best defense a management has against activist investors is delivering superior performance and returns**, and Tim Cook delivered on both dimensions, and faced little more than sniping from disgruntled investors in his later years as CEO.

MANAGEMENT TRANSITIONS — THE CHALLENGE FOR JOHN TERNUS

1. Find your own path: While it may take time, Ternus has to **find his own path as CEO**, based on not only what he brings to the table, given his background in computer hardware, but on what Apple's strengths are as a company in 2026.
2. Adapt to the company you are managing: When you are at the helm of one of the largest market cap companies in the world, **any new product or service will have to be huge to make a dent in the operating metrics** (revenues and profits) or market capitalization. In addition, the franchise that holds up the **company's cash machine is the iPhone** and Ternus cannot afford to take his eyes off that prize.
3. Keep the feedback loop open: As CEO, Ternus will have **advice meted to you constantly on what he should or should not do**. I hope that he **takes the market seriously**, viewing the market price as a crowd judgment on Apple's actions rather than the product of speculation.

MANAGEMENT TRANSITIONS- THE REST OF THE MAG SEVEN

- At Microsoft, **there have been two CEO transitions, from Bill Gates to Steve Ballmer in 2000, and from Ballmer to Satya Nadella in 2014.** While Gates built Office and Windows into cash cows, and Ballmer preserved them, Nadella created his own pathway to reincarnation by building up a cloud business that is now the dominant source of revenues for the company.
- Amazon has seen a management transition, **where a legendary founder (Bezos) left the firm in 2021, and his successor (Andy Jassy) has taken the reins,** with remarkably little fanfare.
- Alphabet **offers a case study of a company that tried to split the difference, by separating its cash cow (Google advertising) from its other businesses, naming Sundar Pichai as its CEO), while remaining atop the other Google businesses (the bet in Alphabet).** That experiment failed insofar as the other businesses remained earth-bound and in 2019, Pichai took over as CEO of Alphabet as well
- In three of the companies (Tesla, Meta and Nvidia), **founders remain CEOs, though they bring very different perspectives and personalities into their roles.**

THE AI BET!

- The fact that all six of these companies have invested heavily in AI is a lead-in to **what could be the key test for management at all of them.**
- If the **AI investments pay off and deliver value**, Nadella will pass into legend status, Jassy will have created his own legacy at Amazon, the Alphabet experiment will finally pay off, and the founder-run companies will have more room to run.
- If the **AI investments fail**, though, Nadella's reincarnation reputation will take a hit and Jassy's position atop Amazon will be at-risk. The AI failure will also raise doubts about Alphabet's capacity to grow beyond advertising and the rumblings about Zuckerberg's big bets will get louder, but at these two companies, **it is unclear what investors, no matter how large their holdings are, can do, since they have acquiesced to a voting share structure at these two companies that has reduced them to bystander status.**

AN ODE TO RESTRAINT!

- While there are many who will compare to Tim Cook to Steve Jobs and find him wanting on vision and flair, **I am grateful, as an investor in Apple, for the restraint and discipline that he brought to the job.**
- That gratitude will stay intact even if Apple's caution on AI turns out to be a mistake, since the restraint and rectitude that Cook brought to his job are qualities that are essential to any well-functioning economy, but are significantly undervalued.
 - I don't teach from or write cases, but **I would love to see more business school cases about CEOs like Cook** who are not easily swayed by the temptation of more growth and ego-driven acquisitions.
 - I loved the [Steve Jobs movie](#), but I don't expect to see a Tim Cook movie anytime soon, and while that is understandable, it also explains why we will continue to **have too many CEOs at companies viewing themselves as saviors, gambling shareholder money on turnarounds and rescues**, when the better pathway would be acceptance and shrinkage.