EI REPORT

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Capital return program

In total, with this updated program during the next 8 quarters, we expect to return $87 billion to our investors which represents about 15% of our market cap of the current stock price.

With $12 billion in annual dividend payments, we're proud to be one of the largest dividend payers in the world.

We also know that the dividend is that important to many of our investors who value income and we are raising it for the fourth time in less than four years. The quarterly dividend we grow from $0.52 per share to $0.57 per share, an increase of about 10%. This is effective with our next dividend which the Board has declared today and is payable on May 12, 2016 to shareholders of record as of May 9, 2016.

Given our strong confidence in Apple's future and the value we see in our stock, the Board has increased the share repurchase authorization by $35 billion raising it from the current $140 billion level to $175 billion.

We have now completed over $163 billion of the current $200 billion capital return program including $117 billion in share repurchases. As Tim mentioned, today we are announcing the latest update to our program which we're increasing to a total of $250 billion. Once again we're allocating the majority of the expansion of the program to share repurchases.

We returned $10 billion to investors during the quarter including $2.9 billion in dividends and equivalents and $7 billion of repurchases of 71.8 million Apple shares through market transactions.

Creating value for shareholders by developing great products and services that enrich people's lives will always be our top priority and the key factor driving our investment in capital allocation decision. As our business continues to generate high levels to free cash flow we're in the fortunate position to expand our capital return program again this year as we've done each year since we started the program four years ago. Today we are announcing an extension of the timeframe of the program by four quarters through March of 2018 and we're expanding the total program size from $200 billion to $250 billion.

Outlook

Sequentially our guidance implies a revenue decline on 15% to 19% which is comparable to the 17% sequential decline that we have averaged from the March to June quarter for the last three years despite the anticipated channel inventory adjustments I just described.

Embedded in this guidance is a planned channel inventory reduction worth over $2 billion as we have elected to be prudent about our channel inventory positions given the macro environment.

We expect revenue to be between $41 billion and $43 billion. The revenue guidance implies a year-over-year decline as we had an incredibly strong June quarter last year when revenue grew 33% due in part to accelerated iPhone upgrade purchases.

We expect gross margins to be between 37.5% and 38%.

We expect OpEx to be between $6 billion and $6.1 billion.

We expect other income to be about $300 million and we expect the tax rate to be about 25.5%.

IPad

Corporate buyers reported a 94% for iPad and a June quarter purchase intent of 71%.

In February 451 Research measured a 97% consumer satisfaction rate for iPad Air 2 and among consumers planning to purchase a tablet within the next six months, 59% plan to purchase an iPad more than three times the purchase intention rate of the next highest brand measured.

We sold 10.3 million compared to 12.6 million in the year ago quarter. We also reduced channel inventory by about 200,000 units and we exited the quarter within our five to seven week target range.

Recent data from MPD indicates that the iPad has 78% share of the US market for tablets priced above $200 and the latest data published by IDC, indicates that iPad accounts for 72% of the US commercial tablet market comprising business, government, and education.

Macs

We sold 4 million Macs compared to 4.6 million last year, a decline of 12%.

Our latest survey of major market over half of buyers were new to the Mac and in some countries the percentage is extremely high. Like in China, where over 80% of customers were purchasing a Mac for the first time.

Turning to the Mac. We met our selling expectations in addition to reducing channel inventory by about 100,000 units.

Debt

We exited the March quarter with $72 billion in term debt.

We issued $15.5 billion in US dollar denominated notes during the quarter including our first green bond tranch to fund initiatives such as renewal energy and environmental design projects.

Services

We generated $6 billion in revenue, an increase of 20% over the March quarter last year thanks primarily to the continued strong performance of the App Store with revenue growing 35% to a new time all time high. The App Store generated 90% more global revenue than Google Play in the March quarter up from a 75% lead in 2015.

Other

Revenue for the quarter was $50.6 billion which was within our guidance range.

In constant currency, our revenue declined by 9% from last year, 400 basis points less than the reported decline of 13%.

For the first half of the fiscal year, our revenue in constant currency was up 1% year-on-year.

We sold 51.2 million iPhones in the quarter consistent with the range of our own expectations but lower than the exceptional year ago quarter when we saw an acceleration in iPhone upgrade and 40% iPhone sales growth over the previous year.

With only 42% smartphone penetration of the global handset market today, iPhone is still attracting millions of first time smartphone buyers each quarter especially from emerging markets. For example, in India our iPhone sales were up 56% from a year-ago.

Setting aside the amount we received from a patent settlement in the December quarter, the March quarter Services revenue was our highest ever. Services revenue jumped 20% to $6 billion.

App Store revenue was up 35% to beat last quarter's all-time record and Apple Music continues to grow in popularity with over 13 million paying subscribers today.

The Services business is powered by our huge install base of active devices which crossed 1 billion units earlier this year. As we discussed on this call in January, these 1 billion plus active devices are a source of recurring revenue that is growing independent of the unit shipments we report every three months.

In fact the purchase value of services tied to our installed base was a record $9.9 billion in the March quarter, up 27% over last year, accelerating from the 24% growth rate we reported in the December quarter.

Reach of Apple Pay also continues to expand following a very successful in China in the March quarter and last week's rollout in Singapore. Apple pay is growing at a tremendous rate with more than five times the transaction volume of a year-ago and 1 million new users per week.

There are more than 10 million contact-less ready locations in the countries where Apple Pay has launched today including over 2.5 million locations now accepting Apple Pay in the United States and more expansion of Apple Pay is coming soon.

Turning to the Apple Watch. For some color on how we think about Apple Watch sales, we expected seasonality to be similar to the historical seasonality of iPod which typically generated 40% or more of its annual unit sell-through in the December quarter.

iPhone SE became available on March 31 so none of its sales were reflected in our second quarter results but so far this quarter we're seeing terrific customer response.

We made 15 acquisitions in the last four quarters to accelerate our product and services roadmaps and we are always on the lookout for companies with great technology, talent, and strategic fit.

Revenue for the quarter landed within our guidance range of $50.6 billion compared to $58 billion in the year-ago quarter, a decline of 13%.

As we had expected, our comparisons to last year were influenced by the continued strength of the US dollar against foreign currencies. In constant currency our revenue declined by 9%.

In Mainland China revenue was down 11% and the decline was 7% in constant currency terms. Keep in mind that we were up against an extremely difficult year-ago compare when our Mainland China revenue grew 81%.

Gross margin was 39.4% near that high-end of our guidance range thanks to strong cost performance.

Operating margin was 27.7% for revenue and net income was $10.5 billion.

Diluted earnings per share was $1.90 and cash flow from operations was strong at $11.6 billion.

We sold 51.2 million iPhones in the quarter compared to 61.2 million in the year-ago quarter, a decline of 16%. It was particularly challenging comparison to the record quarter a year ago when iPhone sales grew 40% as we entered last March quarter and supply demand imbalance which was recorded during the quarter.

Also, this year we reduced channel inventory by 450,000 units while we increased the inventory by a million units a year-ago. We have exited the quarter within our 5 to 7 week target range for channel inventory.

iPhone ASP was $642 compared to $659 in the year-ago quarter with weak international currencies and very popular mid-tier and entry offerings contributing to the difference year-over-year.

A recent survey by 451 Research formally known as Change Wave found that among US corporate buyers planning to purchase smartphones in the June quarter, 78% plan to purchase iPhones. That's the highest June quarter iPhone purchase intent ever measured by the survey and 5 points higher than a year-ago.

Revenue from other products grew 30% over the last year thanks to Apple Watch. Our customers are very happy with Apple Watch with 451 Research measuring 94% customer satisfaction.

IBM now has engagements for more than 200 deployments of native iOS apps for large enterprise customers to accelerate mobile transformation.

Our mobility partner program also continues to grow with 108 partners across 20 countries.

We ended the quarter with $232.9 billion in cash plus marketable securities, a sequential increase of $17.2 billion. $208.9 billion of this cash or 90% of the total was outside the US.

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