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Q2 2016

Ticker	: AAPL
Company	: Apple, Inc.
Event Name	: Q2 2016 Earnings Call
Event Date	: Apr 26, 2016
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Q2 2015

Ticker	: AAPL
Company	: Apple, Inc.
Event Name	: Q2 2015 Earnings Call
Event Date	: Apr 27, 2015
Event Time	: 5:00 PM

Summary

Title	Q2 2016	Q2 2015	SRC
iPhone Sales	sold 51.2 million iPhones in the quarter compared to 61.2 million in the year-ago quarter,	We sold 61.2 million iPhones in the quarter, representing 40% year over year growth	↓
Annual dividend	\$12 billion in annual dividend payments	\$11 billion in annual dividend payments	↑
Share repurchases	increased the share repurchase authorization by \$35 billion raising it from the current \$140 billion level to \$175 billion	increased the share repurchase authorization by \$50 billion, raising it from the current \$90 billion to \$140 billion	↑
Revenue	Revenue for the quarter landed within our guidance range of \$50.6 billion compared to \$58 billion in the year-ago quarter	Revenue for the March quarter was \$58 billion, an increase of \$12.4 billion or 27% year over year	↓
Macs	We sold 4 million Macs compared to 4.6 million last year, a decline of 12%	We sold 4.6 million Macs, representing 10% year over year growth	↓
Ipad Sales	We sold 10.3 million compared to 12.6 million in the year ago quarter	we sold 12.6 million, compared to 16.4 million in the year ago quarter	↓
iPhone ASP	iPhone ASP was \$642 compared to \$659 in the year-ago quarter	iPhone ASPs of \$659, an increase of \$62 year over year	↓

Services Revenue	Services revenue jumped 20% to \$6 billion	\$5 billion in total services revenue	
Mainland China	In Mainland China revenue was down 11% and the decline was 7% in constant currency terms	we established an all-time quarterly record for revenue, which grew 71% year over year, to \$16.8 billion	
Gross Margin	39.4% near that high-end of our guidance range	Gross margin was 40.8%, ahead of our expectations	
Diluted Earnings Per Share	Diluted earnings per share was \$1.90 and cash flow from operations was strong at \$11.6 billion	Diluted earnings per share were \$2.33, a 40% year over year increase, and cash flow from operations was \$19.1 billion	
Cash Plus Marketable Securities	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	We ended the quarter with \$193.5 billion in cash plus marketable securities, a sequential increase of \$15.6 billion. Over \$171 billion of this cash was offshore	

Details

Revenues

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

Today, we're reporting our strongest March quarter ever, with 27% revenue growth and 40% earnings per share growth year over year.

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

We also reached an all-time quarterly record of \$5 billion in total services revenue.

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

Our revenue has grown by 28% to over \$132 billion, net income has increased 36% to over \$31 billion, and EPS has grown by 44%. We're making many strategic investments in Apple's future, in research and development, in our supply chain, and in our infrastructure, and we've made 27 acquisitions in the last six quarters.

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.

Revenue for the March quarter was \$58 billion, an increase of \$12.4 billion or 27% year over year.

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.

Turning to services, revenue grew to a new all-time record of \$5 billion, an increase of 9% year over year.

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%.

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.

iphones

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.

We're seeing fantastic results for iPhone, with revenue growth of 55% year on year, and we're seeing a higher rate of switchers than we've experienced in previous iPhone cycles.

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.

The success of iPhone has been extremely strong in emerging markets, where unit sales were up 63% year on year.

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 sold over 135 million iPhones, 34 million iPads, and 10 million Macs in the first six months of the year.

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.

The first research apps developed using ResearchKit study asthma, breast cancer, cardiovascular disease, diabetes, and Parkinson's disease, and have enrolled over 60,000 iPhone users in just the first few weeks of being available on the App Store.

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.

We sold 61.2 million iPhones in the quarter, representing 40% year over year growth and demand for iPhone 6 and 6 plus has remained incredibly strong.

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.

iPhone sales more than doubled in Korea, Singapore, Taiwan, and Vietnam, and they were up 80% or more in several other markets including Canada, Mexico, Germany, and Turkey.

The strong mix of iPhone 6 and 6 plus combined with the popularity of higher capacity offerings led to iPhone ASPs of \$659, an increase of \$62 year over year, despite the very significant foreign exchange headwinds I already mentioned.

App Store

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 App Store had its best quarter ever, with a record number of customers making purchases, driving a new record for revenue and 29% year on year growth.

Most of them have grown out of the success of the App Store, which has generated more than \$7.5 billion for European developers since just 2008.

The growth was led by the App Store, which remains incredibly popular with our customers around the world, with revenue up 29% in the March quarter.

According to App Annie, the App Store generated 70% more global revenue in the March quarter than Google Play, up from a 60% lead in the September quarter.

Installed Base

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.

Apple Pay

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.

And last month, we said that the number of locations accepting Apple Pay has tripled, and we continue to see great progress with merchants.

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.

Earlier this month, a leading healthcare payment network announced acceptance of Apple Pay for its clients, so over 50 major hospitals across the country, including Stanford Healthcare and Aspen Valley, will accept Apple Pay this year for copays and bill payments at registration and check in.

Macs

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

We also continue to defy the trend of declining global PC sales, with double digit Mac unit growth in a market that IVC estimates contracted by 7%. We're now halfway through fiscal 2015 and our year to date results have been simply staggering.

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.

We sold 4.6 million Macs, representing 10% year over year growth, which is particularly impressive in the context of IDC's latest estimate of a 7% global PC market contraction.

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

Apple Watch

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.

Adding to the surprise and delight of Apple Watch are the more than 3,500 apps that are already available.

Acquisitions

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.

Capital return program

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 of 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.

So today, we're announcing another significant update to our capital return program, expanding its size to \$200 billion through March of 2017 to reflect our strong confidence in what lies ahead for Apple.

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.

We spent \$7 billion to repurchase 56.4 million Apple shares through open market transactions, paid \$2.7 billion in dividends and equivalents, and utilized about \$100 million to settle vesting employee RSUs.

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 also retired an additional 13.3 million shares during the quarter, with the conclusion of the accelerated share repurchase program we launched last August.

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 executed our capital return program aggressively, and we've now taken action on over \$112 billion of our \$130 billion program, including \$80 billion in share repurchases at an average price of \$85. As we've said consistently, creating value for shareholders by developing great products that enrich people's lives will always be our top priority and the key factor driving our investments and our capital allocation decisions.

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.

We first announced our capital return program three years ago with an initial size of \$45 billion, and we've increased it annually since then.

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

The Board has increased the share repurchase authorization by \$50 billion, raising it from the current \$90 billion to \$140 billion.

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.

The quarterly dividend will grow from \$0.47 per share to \$0.52 per share, an increase of 11%.

This effective with our next dividend, which the board has declared today and is payable on May 14, 2015 to shareholders of record as of May 11, 2015. We believe this is a meaningful increase for those shareholders who value income, and we continue to plan for annual dividend increases going forward.

With over \$11 billion in annual dividend payments, we're proud to be one of the largest dividend payers in the world.

In total, the size of our revised capital return program will increase by over 50%, from approximately \$130 billion to \$200 billion.

Mainland China

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%.

We're undertaking a groundbreaking partnership with several companies to build a 40 megawatt solar farm in Szechuan Province that will generate far more than the amount of energy used by all of our offices and retail stores in China combined.

In Greater China, we established an all-time quarterly record for revenue, which grew 71% year over year, to \$16.8 billion.

We're progressing well with our plans for retail store expansion in Greater China, where we added six new stores in the past quarter alone, bringing us to 21 stores in 11 cities.

We're on track to have 40 stores open in Greater China by the middle of next year.

Gross Margin

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

Gross margin was 40.8%, ahead of our expectations, mainly due to stronger than expected iPhone results.

Operating Margin

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

Operating margin was 31.5% of revenue and net income was \$13.6 billion, a new Q2 record.

Diluted Earnings Per Share

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

Diluted earnings per share were \$2.33, a 40% year over year increase, and cash flow from operations was \$19.1 billion, also a new March quarter record.

Channel Inventory

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.

We increased iPhone channel inventory by 1 million units during the quarter, which allowed us to get into the low end of our target range of 5 to 7 weeks of channel inventory.

We ended the quarter within our 4 to 5 week target range for Mac channel inventory.

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.

iPad

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.

Turning to iPad, we sold 12.6 million, compared to 16.4 million in the year ago quarter.

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.

iPad sell-through was 13.7 million, as we reduced channel inventory by about 1.1 million units, coming off the holiday quarter. This left us within our 5 to 7 week target range of iPad channel inventory.

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.

A recent Changewave survey found that among corporate buyers planning to buy tablets in the next six months, 77% plan to purchase iPads.

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

ios

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

Since we released HealthKit with iOS 8 last September, over 1,000 apps have been developed to transform how people track, manage, and interact with their health and they're now available on the App Store.

Cash Plus Marketable Securities

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.

We ended the quarter with \$193.5 billion in cash plus marketable securities, a sequential increase of \$15.6 billion. Over \$171 billion of this cash was offshore.

Debt

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

In the March quarter, we issued 6.5 billion United States of America dollar denominated notes and 1.3 billion Swiss franc denominated notes as we continue to diversify our global debt investor base.

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

We've now raised a total of \$40 billion of term debt at very attractive rates.

Outlook

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 revenue to be between \$46 billion and \$48 billion, compared to \$37.4 billion in the year ago quarter.

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 gross margin to be between 38.5% and 39.5%.

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.

We expect OpEx to be between \$5.65 billion and \$5.75 billion.

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

We expect YNE to be about \$350 million and we expect the tax rate to be about 26.3%.

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%.

Other

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

Just this past weekend, Cedars-Sinai in Los Angeles turned on the largest HealthKit integration to date, giving more than 87,000 patients the ability to share their health and fitness data seamlessly with their MyCS link app, which syncs with their electronic medical record.

Over 1,000 researchers have contacted us expressing interest in performing studies through ResearchKit.

Last quarter, we also announced a major economic investment in Europe, where we will spend \$2 billion to build data centers in Ireland and Denmark.

Apple is now responsible for creating over 670,000 jobs across the European continent.

The two data centers we're building will run on 100% renewable energy from day one.

Today, 100% of Apple's United States of America operations and 87% of global operations are powered by renewable energy.

We also announced an innovative new partnership with the Conservation Fund to permanently protect more than 36,000 acres of working forest in Maine and North Carolina to help offset the impact our packaging has on the world's supply of sustainable virgin fiber.

Traffic to our retail and online stores was excellent, with a 22% year over year increase in customer visits.

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