

## Q4 2023 Earnings Call

### Company Participants

- Luca Maestri, Senior Vice President and Chief Financial Officer
- Suhasini Chandramouli, Investor Relation
- Tim Cook, Chief Executive Officer

### Other Participants

- Aaron Rakers, Analyst
- Amit Daryanani, Analyst
- Ben Reitzes, Analyst
- David Vogt, Analyst
- Erik Woodring, Analyst
- Harsh Kumar, Analyst
- Krish Sankar, Analyst
- Mike Ng, Analyst
- Richard Kramer, Analyst
- Wamsi Mohan, Analyst

### Presentation

#### Operator

Good day, and welcome to the Apple Q4 Fiscal Year 2023 Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Suhasini Chandramouli, Director of Investor Relations. Please go ahead.

#### Suhasini Chandramouli

Thank you. Good afternoon, and thank you for joining us. Speaking first today is Apple's CEO, Tim Cook. And he'll be followed by CFO, Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including, without limitation, those regarding revenue, gross margin, operating expenses, other income and expense, taxes, capital allocation and future business outlook, including the potential impact of macroeconomic conditions on the company's business and results of operations. These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast.

For more information, please refer to the risk factors discussed in Apple's most recently filed annual report on Form 10-K and the Form 8-K filed with the SEC today along with the associated press release. Apple assumes no obligation to update any forward-looking statements, which speak only as of the date they are made.

I'd now like to turn the call over to Tim for introductory remarks.

## **Tim Cook** {BIO 14014370 <GO>}

Thank you, Suhasini. Good afternoon, everyone, and thanks for joining the call. Today, Apple is reporting revenue of \$89.5 billion for the September quarter. We achieved an all-time revenue record in India, as well as September quarter records in several countries, including Brazil, Canada, France, Indonesia, Mexico, the Philippines, Saudi Arabia, Turkey, the UAE, Vietnam and more. iPhone revenue came in ahead of our expectations, setting a September quarter record, as well as quarterly records in many markets, including China mainland, Latin America, the Middle East, South Asia and an all-time record in India.

In Services, we set an all-time revenue record with double-digit growth and ahead of our expectations. During the September quarter, we continue to face an uneven macroeconomic environment, including foreign exchange headwinds and we've navigated these challenges by following the same principles that have always guided us. We've continued to invest in the future and manage for the long term. We've adapted continuously to circumstances beyond our control, while being thoughtful and deliberate on spending. And we've carved a path of groundbreaking innovations and delivered with excellence every step of the way. That includes Apple Vision Pro, which has gotten such an amazing response from developers who are currently creating truly incredible apps. We're excited to get this magical product in the hands of customers early next year.

Now, let me share more about our products, beginning with iPhone. iPhone revenue came in at \$43.8 billion, 3% higher than a year ago, and a new record for the September quarter. This fall, we were thrilled to debut the iPhone 15 lineup. The all-new iPhone 15 and iPhone 15 Plus feature a gorgeous design, powerful cameras and the intuitive Dynamic Island Ireland. Powered by the industry-leading A17 Pro, our iPhone15 Pro lineup has a beautiful strong and durable titanium design and the best iPhone camera system ever, including a 5X Telephoto lens on iPhone 15 Pro Max. Customers are loving the entire iPhone 15 family and reviews have been off the charts.

In Mac, revenue came in at \$7.6 billion, down 34% year-over-year from the prior year's record quarter. This was due to challenging market conditions, as well as difficult compares against the supply disruptions and subsequent demand recapture we experienced a year ago. Earlier this week, we were excited to unveil the next generation of Apple Silicon with our incredible family of M3 chips, M3; M3 Pro; and M3 Max. We're continuing to innovate at a tremendous pace. And our industry-leading lineup of personal computers just got even better. The new MacBook Pro lineup brings our most advanced technology to our Pro users, while iMac, the world's best-selling all-in-one, just got faster and more capable. And according to the latest data from Student Monitor, nearly two out of three college students chose a Mac. We couldn't be more excited about the future.

Turning to iPad. Revenue for the September quarter was \$6.4 billion. iPad sets the gold standard for tablets and our competitors are unable to match the iPad experience that is enabled by our seamless integration of hardware and software. iPad is also our most versatile product. In classrooms around the world, it's helping educators bring lessons to life, while giving students a window into the world around them. And in artist workshops, design studios and everywhere else, creative minds come together, iPad supercharges the creative process, helping users take their ideas farther than they ever could before.

Across Wearables, Home and Accessories, revenue came in at \$9.3 billion. Apple Watch has become essential in our lives. And this is our best Apple Watch lineup ever. With Apple Watch Series 9 and Apple Watch Ultra 2, we're giving people even more tools to stay safe and live healthy, active lives. With the new double tap gesture, users can easily control Apple Watch Series 9 and Apple Watch Ultra 2 using just one hand and without touching the display. It feels like magic. Our latest Apple Watch lineup also includes our first-ever carbon-neutral products, a significant achievement of innovation and determination.

Apple's unique ecosystem of hardware, software, and services delivers an unparalleled user experience. During the quarter, we also had the chance to introduce a range of exciting new updates to our software that will allow users to get even more out of their devices. Whether it's personalized contact posters and new FaceTime features in iOS 17, new tools for users to make their experience their own in macOS Sonoma and iPadOS 17, or a bold new look in watchOS 10 that lets you see and do more, faster than ever, Apple is delivering an even better, richer experience that users are loving.

Services revenue set an all-time record of \$22.3 billion, a 16% year-over-year increase. We achieved all-time revenue records across App Store, advertising, AppleCare, iCloud, payment services, and video, as well as the September quarter revenue record in Apple Music. Whether subscribers are waking up to headlines on Apple News+, getting their morning workout in with Fitness+, feeling the beat with Apple Music on their way to work or school, or unwinding at the end of the day with Apple Arcade, we have so many different services to enrich their day.

Apple TV+ continues to delight customers as well, with new and returning shows like the Morning Show, Lessons in Chemistry and Monarch. We're telling impactful stories that inspire imagination and stir the soul. Making movies that make a difference is also at the heart of Apple TV+ and we were thrilled to produce Martin Scorsese's Killers of the Flower Moon, a powerful work of cinema that premiered in theaters around the world last month. We're proud to say that since launch, just over four years ago, Apple TV+ has earned nearly 1,600 award nominations and nearly 400 wins. We also offer subscribers an unprecedented live sports experience with MLS Season Pass. We couldn't be more pleased with how our partnership with Major League Soccer has gone in its first year. Subscriptions to MLS Season Pass have exceeded our expectations and we're excited to continue that momentum next year. With the playoffs now underway, we can't wait to see who takes home MLS cup.

And nowhere does the magic of Apple come alive more than it does in our stores. Over the past year, we've continued to find ways to connect with even more customers. We

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welcomed customers to our first-ever retail locations in India. We also opened doors to new stores in Korea, China and the UK and expanded the Apple store online to Vietnam and Chile. And we have another store opening in China this week. In September, I joined our team at Apple Fifth Avenue on launch day and the energy and excitement were unbelievable. Every time we connect with the customer, we're reminded why we do what we do. From simple joys of creating and sharing memories, to life-saving features like emergency SoS via satellite, we're enriching lives in ways large and small. And whether we're working to safeguard user privacy, ensure technology made by Apple is accessible for everyone, or build an even more inclusive workplace, we're determined to lead with our values.

Our environmental efforts are a great example of the intersection of our work and our values. Across Apple, we act on a simple premise, the best products in the world should be the best products for the world. We've made our environmental work a central focus of our innovation, because we feel a responsibility to leave the world better than we found it and because we know that climate change cannot be stopped, unless everyone steps up and does their part. Our first ever carbon-neutral products represent a major milestone. And we're going to go even further. We plan to make every product across our lineup carbon neutral by the end of the decade. And we're not doing it alone. Over 300 of our suppliers have committed to using a 100% clean energy for Apple production by 2030.

We also continue to invest in entrepreneurs who are lighting the way for a greener, more equitable future. Through our third impact accelerator class, we're proud to support a new class of diverse innovators on the cutting edge of green technology and clean energy. Apple is always looking forward, driven in equal measure by a sense a possibility and a deep belief in our purpose. We're motivated by the meaningful difference we can make for our customers and keenly determined to push the limits of technology even further. And that's why I'm so confident that Apple's future is bright.

With that, I'll turn it over to Luca.

**Luca Maestri** {BIO 15738533 <GO>}

Thank you, Tim, and good afternoon, everyone. Revenue for the September quarter was \$89.5 billion, down less than 1% from last year. Foreign exchange had a negative impact of over 2 percentage points. And on a constant-currency basis, our revenue grew year-over-year in total, and in each geographic segment. We set a September quarter record in the Americas and saw strong performance across our emerging markets, where both iPhone and Services grew double digits.

Products revenue was \$67.2 billion, down 5% from last year, due to very challenging compares on both Mac and iPad, which I will discuss in more detail later on. At the same time, we reached a September quarter record on iPhone, driven by strength in emerging markets. Our total installed-base of active devices reached an all-time high across all products and all geographic segments, thanks to our high levels of customer satisfaction and many new customers joining our ecosystem. Our Services revenue set an all-time record of \$22.3 billion, up 16% year-over-year, with growth accelerating sequentially from the June quarter. Our performance in Services were broad based, as we reached all-time

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revenue records in the Americas, Europe and rest of Asia-Pacific and a September quarter record in Greater China. We also set new records in every Services category.

Company gross margin set a September quarter record at 45.2%, up 70 basis points sequentially, driven by leverage and favorable mix, partially offset by foreign exchange. Products gross margin was 36.6%, up 120 basis points sequentially, also driven by leverage and mix, partially offset by foreign exchange. Services gross margin was 70.9%, up 40 basis points from last quarter due to a different mix. Operating expenses of \$13.5 billion were at the low end of the guidance range we provided, up 2% year-over-year. Net income was \$23 billion, diluted earnings per share was \$1.46, up 13% versus last year and a September quarter record, and operating cash flow was strong at \$21.6 billion.

Let me now provide more detail for each of our revenue categories. iPhone revenue was \$43.8 billion, up 3% year-over-year and a new September quarter record. We had strong performance in several markets, including an all-time record in India as September quarter records in Canada, Latin America, the Middle East, and South Asia. Our iPhone active installed base grew to a new all-time high and fiscal 2023 was another record year for switches. We continue to see extremely high levels of customer satisfaction which 451 Research recently measured at 98% in the US. Mac revenue was \$7.6 billion, down 34% year-over-year, driven by challenging market conditions and compounded by a difficult compare in our own business, whereby last year we experienced supply disruptions from factory shutdowns in the June quarter and were subsequently able to fulfill significant pent-up demand during the September quarter.

We also had a difference in launch timing with the MacBook Air launching earlier this year in the June quarter compared to the September quarter last year. We have great confidence in our Mac lineup and are excited about the recently-announced iMac and MacBook Pro powered by our M3 chips. Our installed base is at an all-time high and half of Mac buyers during the quarter were new to the product, driven by MacBook Air. Also, we saw reported customer satisfaction of 97% for Mac in the US.

iPad generated \$6.4 billion in revenue, down 10% year-over-year. Similar to Mac, these results were a function of a difficult compare from the supply disruptions in the June quarter a year ago and the subsequent fulfillment of pent-up demand in the September quarter. iPad continues to attract a large number of new customers to the installed base with over half of the customers who purchase iPads during the quarter being new to the product and the latest reports from 451 Research indicate customer satisfaction of 98% in the US.

Wearables, Home and Accessories revenue was \$9.3 billion, down 3% year-over-year. We had a September quarter record in Europe and we saw strong performance in several emerging markets around the world. Apple Watch continues to expand its reach with nearly two-thirds of customers purchasing Apple Watch during the quarter being new to the product and customer satisfaction for the Watch was recently measured at 97% in the US. Services had a great quarter. We reached a new all-time revenue record of \$22.3 billion, up 16% year-over-year. And we're happy to see growth coming from all categories and every geographic segment, which is a direct result of the strength of our ecosystem.

Our installed base of over 2 billion active devices continues to grow at a nice pace and establishes a solid foundation for the future expansion of the ecosystem.

And we continue to see increased customer engagement with our Services. Both transacting accounts and paid accounts grew double-digits year-over-year, each reaching a new all-time high. Also our paid subscriptions showed strong growth. We have well over 1 billion paid subscriptions across the Services on our platform, nearly double the number we had only three years ago. And finally, we continue to improve the breadth and quality of our current services. from exciting new content on Apple TV+ and Apple Arcade to additional storage tiers on iCloud. We believe our customers will love this new offering.

Turning to enterprise, we are excited to see our business customers in both developed and emerging markets expand their deployment of Apple products and technologies to drive business innovation and employee satisfaction. Starbucks continuously invest in Apple technology to bring the best experience to the customers and employees, including tens of thousands of iPads across all retail stores to help their teams streamline order management, operations and training. In addition, Starbucks recently refreshed over 10,000 Macs to the latest M2-powered MacBook Air for all store managers, enabling them to do their best work and improve productivity. And in Indonesia, popular technology company GoTo is offering Mac as a choice, so that employees can have the best tools to be most productive. Today, more than half of its workforce are already choosing Mac for work.

Let me now turn to our cash position and capital return program. We ended the quarter with over \$162 billion in cash and marketable securities. We increased commercial paper by \$2 billion, leaving us with total debt of \$111 billion. As a result, net cash was \$51 billion at the end of the quarter. And our goal of becoming net cash-neutral over time remains unchanged. During the quarter, we returned nearly \$25 billion to shareholders, including \$3.8 billion in dividends and equivalents and \$15.5 billion through open market repurchases of 85 million Apple shares. We also began a \$5 billion accelerated share repurchase program in August, resulting in the initial delivery and retirement of 22 million shares.

Taking a step back, as we close our 2023 fiscal year, our annual revenue was \$383 billion. While it was down 3% from the prior year, it grew on a constant-currency basis despite the volatile and uneven macroeconomic environment. Our year-over-year revenue performance improved each quarter as we went through the year, and so did our earnings per share performance, as we reported double-digit EPS growth in the September quarter. We are particularly pleased with our performance in emerging markets with revenue reaching an all-time record in fiscal 2023 and double-digit growth in constant currency. We are expanding our direct presence in these markets from new Apple retail stores in India to online stores in Vietnam and Chile. And we continue to work with our partners to offer a wide range of affordability programs so that we can best serve our customers. We're very excited about the momentum we have in these markets and the opportunity ahead of us.

As we move ahead into the December quarter, I'd like to review our outlook, which includes the types of forward-looking information that Suhasini referred to at the

beginning of the call. The color we are providing today assumes that the macroeconomic outlook doesn't worsen from what we are projecting today for the current quarter. Also, on foreign exchange, we expect a negative year-over-year revenue impact of about 1 percentage point.

As a reminder, the December quarter this year, we last [ph] the usual 13 weeks, whereas the December quarter a year ago spanned 14 weeks. For clarity, revenue from the extra week last year added approximately 7 percentage points to the quarter's total revenue. Despite having one less week this year, we expect our December quarter, total company revenue to be similar to last year. We expect iPhone revenue to grow year-over-year on an absolute basis. We also expect to grow after normalizing for both last year's supply disruptions and the one extra week. We expect Mac year-over-year performance to significantly accelerate from the September quarter. We expect the year-over-year revenue performance for both iPad and Wearables, Home and Accessories to decelerate significantly from the September quarter due to a different timing of product launches. On iPad, we launched a new iPad Pro and iPad 10th Generation during the December quarter a year ago.

For the Wearable category, last year we had the full December quarter benefit from the launches of the AirPods Pro 2nd Generation [ph], the Watch SE, and the first Watch Ultra. For our Services business, we expect the average revenue per week to grow at a similar strong double-digit rate as it did during the September quarter. We expect gross margin to be between 45% and 46%. We expect OpEx to be between \$14.4 billion and \$14.6 billion. We expect OI&E to be around negative \$200 million, excluding any potential impact from the mark-to-market of minority investments and our tax-rate to be around 16%.

Finally, today our Board of Directors has declared a cash dividend of \$0.24 per share of common stock, payable on November 16, 2023, to shareholders of record as of November 13, 2023.

With that, let's open the call to questions.

## **Suhasini Chandramouli**

Thank you, Luca. We ask that you limit yourself to two questions. Operator, may we have the first question, please?

## **Questions And Answers**

### **Operator**

Certainly. We will go ahead and take our first question from Mike Ng of Goldman Sachs. Please go ahead.

**Q - Mike Ng** {BIO 18285376 <GO>}

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Hey, good afternoon and thank you very much for the question. I just have a question on iPhone storage and demand versus iCloud. As demand for storage grows, are you seeing a mix-shift towards higher storage iPhone models or are consumers mostly opting for the same because of increased uptake of iCloud+? You know, what are some of the strategic and financial considerations here and trade-offs, as you think about the mix-shift towards higher storage models versus iCloud penetration? Thanks.

**A - Tim Cook** {BIO 14014370 <GO>}

Michael, it's Tim. We -- as you probably know, we started the line with the iPhone Pro max at 256 GB and so we are seeing a different mix, if you will, this year than last year. Outside of that, not significant changes.

**Q - Mike Ng** {BIO 18285376 <GO>}

Great. Thank you. And as a separate follow-up, I was just wondering if you could talk a little bit about the marketing conditions on notebooks and desktops, and then any color that you can share regarding the timing of the Mac -- M3 MacBook Pros this year versus the M2 earlier in the calendar year? Thank you.

**A - Tim Cook** {BIO 14014370 <GO>}

Yeah, we're thrilled to have announced M3 lineup, get the new MacBook Pro, the new iMac out there. We couldn't be more excited about it. We -- as Luca said, with the lineup that we've got and the compare issue that we don't have during Q1, we anticipate a significant acceleration in the Mac space for Q1. To just repeat a little bit about the circumstances of the performance last quarter, in the year-ago June quarter, we had a factory disruption that lasted several weeks. The pent-up demand that resulted from that was filled in the September quarter, and that made the September quarter not only a record, but a substantial record. And obviously, we're now comparing against that for '23 and so that, I wouldn't look at the negative 34% as representative of the underlying business performance. It's sort of the net of it.

**Q - Mike Ng** {BIO 18285376 <GO>}

Excellent. That's very clear. Thank you, Tim.

**A - Tim Cook** {BIO 14014370 <GO>}

Yeah.

**A - Suhasini Chandramouli**

All right. Thanks, Mike. Can we have the next question, please?

**Operator**

Our next question is from Aaron Rakers with Wells Fargo. Please go ahead.

**Q - Aaron Rakers** {BIO 6649630 <GO>}

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Yeah, thanks for taking the question and congratulations on the execution in the quarter. I'm curious if you could help us characterize what the demand environment you're seeing in China looks like. You know, how has the reception been to the iPhone 15? And kind of similar question to the prior one, how would you characterize the mix within China as you go through this current product cycle? And I have a follow-up.

**A - Tim Cook** {BIO 14014370 <GO>}

Yeah, if you look at how we did in Greater China for the quarter, we came in at, on a revenue basis, minus 2 [ph]. But one thing to keep in mind here is that the FX impact was nearly 6 points. So we grew in constant currency. And underneath that, if you look at the different -- the categories, iPhone actually set a September quarter record in mainland China. And the -- what pulled down the performance was a combination, largely of Mac and iPad. Services also grew during the quarter and the Mac and iPad suffered from the same issues that the company did with the compare issues to factory disruptions in Q3 that were filled subsequently in Q4 of '22.

We had the -- in addition to that, we had the top four selling phones in urban China for last year, and I was -- I just took a trip over there and could not be more excited about the interactions I had with the customers and employees and others.

**Q - Aaron Rakers** {BIO 6649630 <GO>}

Yeah. And then, as a quick follow-up, I'm curious as we move towards more of an inflationary component pricing environment, Luca, how do we think about that [ph] factor? How you're thinking about the gross margin at the product level, as maybe component pricing starts to turn, what's been clearly very favorable over the last several quarters to more of a inflationary environment? Thank you.

**A - Luca Maestri** {BIO 15738533 <GO>}

Well, as you've seen from our results in Q4 and the guidance for Q1, we're obviously experiencing very strong levels of gross margin. The 45.2% was a record for the September quarter. And then, you know, the guidance for Q1 is obviously strong at 45% to 46%. Our gross margins are affected by multiple factors. Obviously, the commodity environment is one of them, as you mentioned. It's been a good environment in recent quarters. But equally important is the mix of what we sell. And obviously, growth in Services for us is favorable, and that has helped our company gross margin.

Foreign exchange, on the other hand, has been a drag for us for several quarters, given the strength of the dollar. You know, we don't provide guidance past the December quarter, which is a very important one for us because it's the beginning of the product cycle for many products. And so we feel very good, very confident about, you know, this coming year, and I think the gross margin guidance reflects that.

**Q - Aaron Rakers** {BIO 6649630 <GO>}

Thank you.

**A - Suhasini Chandramouli**

Thanks, Aaron. Can we have the next question, please?

## Operator

Our next question is from Erik Woodring with Morgan Stanley. Please go ahead.

### Q - Erik Woodring {BIO 19492555 <GO>}

Awesome. Thank you very much for taking my questions. Maybe if I start, Luca, I know that the iPhone 15 Pro and Pro Max are constrained today, but I think some of your comments suggests you should be back to supply-demand balance before quarter end. So, I guess, my question is, does your December quarter revenue guidance account for any supply constraints? And if so, is there any way to kind of quantify how much supply would be limiting your December quarter revenue performance? And then, I have a follow-up. Thank you.

### A - Luca Maestri {BIO 15738533 <GO>}

Yes, it's correct. We are constrained today on iPhone 15 Pro and iPhone 15 Pro Max. We're working very hard to get the product in the hands of all the customers that have ordered it. We expect, as of today, that we're going to be in supply-demand balance by the end of the quarter. So the guidance reflects that.

### Q - Erik Woodring {BIO 19492555 <GO>}

Okay, very clear. Thanks. And then, you know, maybe for you and Tim. You know, you guys have been on the leading end of -- edge of innovation across hardware, software, silicon, services. And I'm sure there's plenty of technology in kind of longer-term projects that you're investing in. you know, how should we think about your capital intensity as we look to fiscal year '24, just given over the last few years, CapEx as a percentage of revenue had been relatively low compared to the eight years prior? So should we expect a step-up or kind of similar capital intensity? And what are the more notable moving pieces, if any, that we should be thinking about? Thanks.

### A - Luca Maestri {BIO 15738533 <GO>}

Well, the big areas of investment for us are tooling and equipment for manufacturing plants. Our investments in data centers and our investments in our own facilities, both corporate facilities and retail stores. And so, both for the tooling in our plants and, you know, our data center investments, we tend to have a bit of a hybrid model where we share some of the investments with our partners and suppliers and so maybe that's why you see sometimes a bit of variability. But over the last few years, we've made all the investments that we needed to make. And obviously, we're planning to make all the investments that we believe are needed and appropriate in order to continue to innovate.

### Q - Erik Woodring {BIO 19492555 <GO>}

Great. Thanks so much for the color, guys.

### A - Suhasini Chandramouli

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Thanks, Eric. Can we have the next question, please?

## Operator

Our next question is from David Vogt with UBS. Please go ahead.

### Q - David Vogt {BIO 21761779 <GO>}

Great. Thanks, guys, for taking my question. I know you covered China. I want to pivot to the US for a second. You know, obviously, iPhone and the business looks like it returned to growth in the quarter. But it's still relatively softer kind of where I thought it would be at this point in the cycle and some of the US carriers obviously haven't been that particularly aggressive in promoting upgrades. So just wanted to kind of get a sense, first, what you're seeing from your partners in the US kind of currently and going forward and what do you expect.

And then, second, Luca, on the margins, I mean, is it fair to say that the mix in Q1 from a product versus services dynamic is kind of the key driver of the better gross margin guide as a whole relative to, let's say, the December quarter? Or is there anything else? I know you mentioned there's a lot of moving pieces, but is that the primary driver of the uplift in the margin? Thanks.

### A - Tim Cook {BIO 14014370 <GO>}

On the US carriers and the US business in general, it's really too early to call the iPhone cycle, particularly with the constraint around the Pro and the Pro Max and the US tends to do quite well with those products. It's really too early to tell what the upgrade rates will be and what the switcher rates will be.

### A - Luca Maestri {BIO 15738533 <GO>}

On the margin side, if I understood your question correctly about the December quarter guidance, keep in mind that actually December is the quarter where our products businesses tends to be very heavy because of the holiday season. And so the Services gross margins that are accretive to total company had an impact, but not as meaningful as other quarters during the year and so I think that the main drivers of the guidance that we provided are the fact that we are seeing improved costs, and improved mix on our -- on the product side of the business, partially offset by foreign exchange, which continues to be a drag, both sequentially and on a year-over-year basis.

### Q - David Vogt {BIO 21761779 <GO>}

Got it. So the weakness in iPad and Wearables are less of an impact on sort of the margin trajectory in the December quarter?

### A - Luca Maestri {BIO 15738533 <GO>}

That's correct.

### Q - David Vogt {BIO 21761779 <GO>}

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I guess?

**A - Luca Maestri** {BIO 15738533 <GO>}

That's correct.

**Q - David Vogt** {BIO 21761779 <GO>}

Got it. Thanks, Luca.

**A - Suhasini Chandramouli**

All right. Thanks, David. We'll take our next question, please.

**Operator**

Our next question is from Amit Daryanani with Evercore. Please go ahead.

**Q - Amit Daryanani** {BIO 7113568 <GO>}

Yeah, good afternoon. Thanks for taking my question. I have two as well. You know, I guess, first off, just the Services growth rate, there's a tremendous acceleration I think in September quarter, the 16% growth. And it sounds like (inaudible) December. Can you just talk about what is driving this acceleration? Are there a couple of products that have just stepped up in a very meaningful way? Just maybe flush out like what is driving this acceleration because it's fairly notable compared to what you've been seeing in the last few quarters.

**A - Luca Maestri** {BIO 15738533 <GO>}

We had a really strong quarter across the board, Amit, because both geographically and from a product category standpoint, we saw very significant growth. I mentioned the records on a geographic basis. And from a category standpoint, literally, we set records in each one of the big categories. We had all-time record for App Store, for advertising, for cloud, video, AppleCare, payments and a September quarter record for Music. So it's hard to pick, you know, one in particular because they all did well.

And really then, we step back and we think about why is it that our Services business is doing well and it's because we have an installed base of customers that continues to grow at a very nice space and the engagement in our ecosystem continues to grow. We have more transacting accounts, we have more paid accounts, we have more subscriptions on the platform and we continue to add. We continue to add content and features. You know, we're adding a lot of content on TV+, new games on Apple Arcade, new features, new storage plans for iCloud. So it's a combination of all these things and the fact that the engagement in the ecosystem is improving, and therefore, it benefits every service category.

**Q - Amit Daryanani** {BIO 7113568 <GO>}

Got it, that's really helpful. And then, maybe if I could ask you about Vision Pro, which I believe is supposed to be launched more broadly sometime in 2024, in the early part of

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the year. I'm curious how different do you think the launch and the consumer education of this product or a new category will be versus other things like AirPods or Apple Watch that you've done. And then, perhaps any themes I think that's set out to you from the developers that have been able to use this and the developer labs, what feedback have you gotten from them?

**A - Tim Cook** {BIO 14014370 <GO>}

Yeah, that's a great question. There is a tremendous amount of excitement around the Vision Pro and we're -- we've been very happy to share it with developers, and we have developer labs set up in different parts of the world so that they can actually get their hands on it and are working on apps and I've been fortunate enough to see a number of those. And there some real blow away kinds of things that are coming out, and so that all looks good. To answer your question about is it similar to AirPods or Apple Watch, I would say, no. There's never been a product like the Vision Pro. And so, we're purposely bringing it out in our stores only, so we can really put a great deal of attention on the last mile of it. We'll be offering demos in the stores and it will be very different process than the -- a normal grab-and-go kind of process.

**Q - Amit Daryanani** {BIO 7113568 <GO>}

Perfect. Thank you.

**A - Suhasini Chandramouli**

Thanks, Amit. We'll take the next question, please.

**Operator**

Our next question is from Harsh Kumar with Piper Sandler. Please go ahead.

**Q - Harsh Kumar** {BIO 3235392 <GO>}

Yeah. Hey, thanks for the question and congratulations on tremendous execution in a very tough macro. Actually, Tim, the last question is a perfect segue here, given what you are doing with your Vision Pro. So lots of companies are experimenting with generative AI. I'm curious about what kind of efforts you have. I'm sure there are segues into Pro Vision [ph] that you have, but I was curious about if you can give us a glimpse on how you might be able to monetize some of these efforts of generative AI.

**A - Tim Cook** {BIO 14014370 <GO>}

If you kind of zoom out and look at what we've done on AI and machine learning and how we've used it, we view AI and machine learning as fundamental technologies, and they're integral to virtually every product that we ship. And so just recently, when we shipped iOS 17, it had features like Personal Voice and Live Voicemail. AI is at the heart of these features. And then, you can go all the way to then life-saving features on the launch end of phone like fall detection, crash detection, ECG on the watch. These would not be possible without AI.

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And so, we don't label them as such, if you will. We label them as to what their consumer benefit is. But at the -- the fundamental technology behind it is AI and machine learning. In terms of generative AI, we have -- obviously, we have work going on. I'm not going to get into details about what it is, because you know -- as you know, we don't -- we really don't do that. But you can bet that we're investing, we're investing quite a bit, we're going to do it responsibly and it will -- you will see product advancements over time that where the -- those technologies are at the heart of them.

**Q - Harsh Kumar** {BIO 3235392 <GO>}

Thanks, Tim. Very clear. And for my follow-up, I had a philosophical question. So, you guys always try to provide the best experience for consumers. To that end, I think, over the last decade you in-sourced a lot of important chips in your phones, in your Macs, iPads, so on and so forth. And that was, I think, a function that ARM wasn't around in the industry from a merchant angle. But now, we see these, the silicon guys, the chip guys moving to ARM architecture.

So my question to you is, has the move to internal silicon been economically profitable proposition for Apple? Or is it -- or is it a strategic one, where you simply need to own this and it's vital to your products for the consumer experience or maybe there's a path back to chip vendors at some point in time?

**A - Tim Cook** {BIO 14014370 <GO>}

It's really enabled us to build products that we could not build without doing it ourselves. And as you know, we like to own the primary technologies in the products that we ship and arguably, the silicon is at the heart of the primary technologies, and so, no, I don't see going back. I am happier today than I was yesterday, than I was last week that we made the transition that we've made, and I see that benefit every day of it.

**Q - Harsh Kumar** {BIO 3235392 <GO>}

Thanks, Tim.

**A - Tim Cook** {BIO 14014370 <GO>}

Yeah.

**A - Suhasini Chandramouli**

Thank you, Harsh. We'll take the next question, please.

**Operator**

Our next question is from Wamsi Mohan from Bank of America. Please go ahead.

**Q - Wamsi Mohan** {BIO 15994435 <GO>}

Yes, thank you so much. Tim, over the last decade, pretty much you've gained a lot of share in China. As you look, your -- some of the domestic players are starting to re-emerge, especially in the high-end phone space. I know you touched on China. But how

would you see Apple's positioning and opportunity for continued share gains, particularly in China? And how was the linearity in China from a demand perspective? And I have a follow-up, please.

**A - Tim Cook** {BIO 14014370 <GO>}

In the September quarter, we set an iPhone record -- revenue record in China and we're very proud of that. And we obviously grew. The market -- the market predictions that I've seen, we've had the market contracting. And so if that's -- if those are correct, then we gained share last quarter. And so we are -- we're very proud of that. I don't know what every quarter will hold. And obviously, we just give a bit of color on the current quarter. But over the long term, I view China as an incredibly important market and I'm very optimistic about it.

**Q - Wamsi Mohan** {BIO 15994435 <GO>}

Okay, thanks. Tim. And as a follow-up, you obviously had a great Services quarter and part of your Services business has these licensing relationships with research partners, where you serve a very important distribution function for them. Can you talk about how you think about these relationships and potentially some of the options maybe Apple has to mitigate some of the risks, given some of the scrutiny on with some of the research partners? Thank you so much.

**A - Luca Maestri** {BIO 15738533 <GO>}

They are important relationships. And as you know, we don't get into our commercial relationships in the call. I see them as important and we make decisions that are in the best interest of our users or what we feel is in the best interest of our users. And that's kind of what we've done in the past and how we've -- how we'll run the show in the future as well.

**Q - Wamsi Mohan** {BIO 15994435 <GO>}

Okay. Thank you, Tim.

**A - Suhasini Chandramouli**

Thank you, Wamsi. Can we have the next question, please.

**Operator**

Our next question comes from Krish Sankar with TD Cowen. Please go ahead.

**Q - Krish Sankar** {BIO 16151788 <GO>}

Yeah, hi. Thanks for taking the question. I had two of them too. First one, Luca, thanks for the color on gross margin. And when I look at it over the last four quarters, even if on a year-over-year basis revenue declined, the gross margins have improved. And I understand Services definitely helped. I'm just kind of curious, when you look at on a go forward basis, are most of the big step functions and cost reductions like the Mac Silicon conversion, et cetera, that are done or is there more room for margin expansion from here? And then, I had a follow-up.

## **A - Luca Maestri** {BIO 15738533 <GO>}

Well, on the product side, as you know, we -- when we launch new products, the cost structures of those products tend to be higher than the products that they replace. It happens because we are always adding new technologies, new features, and then, we worked through the cost curve over the lifecycle of the product and we tend to get benefits as time goes by. The guidance that we provided for December reflects all that and so we're starting from a better position than a year ago or than, you know, in the past, in general.

There are other factors that play a role. For example, the mix of products that we sell. Not every product has the same gross margin profile, and so our guidance, our results are reflective of that. And also, within a specific product category, a lot depends on the kind of models that we sell because they have different margin profiles. I think one of the things that we've done well over the last few years is to offer more affordability solutions to our customers in the form of instalment plans, trading options, and spend -- you know, low-cost financing in general.

And what that has accomplished is reduced the affordability threshold for our customers and therefore, they can, you know, buy at the top of our product ranges. That has been a big factor in the reason for our margin expansion. You know, we don't provide guidance or color past the current quarter because there's so many different variables that affect gross margins, but we obviously feel very good about the trajectory that we've had in 2023 and now, the guidance that we provide for the beginning of our fiscal '24. And we -- you know, we need some of these things because, obviously, their foreign exchange environment has been difficult and has been a bit of a drag for us. But net-net, we're very pleased where we are.

## **Q - Krish Sankar** {BIO 16151788 <GO>}

Got it, thanks for that, Luca. And then, I have a follow-up for Tim. You know, obviously, you're seeing amazing momentum in India. I'm just kind of curious how do you look at -- when you look at the India growth opportunity on these hardware units, how to think about ASP relative to that versus like the rest of the geographies? And is there a way to compare or contrast India, you know, growth momentum versus China maybe a decade ago or so at the same point in the rollout of, you know, the share gains in that geography?

## **A - Tim Cook** {BIO 14014370 <GO>}

Yeah, it's a great question. We had a all-time revenue record in India. We grew very strong double-digits. It's a incredibly exciting market for us and a major focus of ours. We have low share in a large market, and so it would seem there's a lot of headroom there. The ASPs, I haven't looked at them most recently, but I'm sure that they're lower than the worldwide. But that doesn't bother us at all. It just -- and in terms of the similarity, I would say, each country has its own journey. And I wouldn't want to play the comparison game. But we see an extraordinary market, a lot of people moving into the middle class, distribution is getting better, lots of positives. We put two retail stores there, as you know. They're doing better than we anticipated. It's still early going, but they're off to a good start and I couldn't be happier with how things are going at the moment.



**Q - Krish Sankar** {BIO 16151788 <GO>}

Thanks, Tim.

**A - Suhasini Chandramouli**

Thank you, Krish. We'll now take our next question, please.

**Operator**

Our next question is from Ben Reitzes with Melius Research. Please go ahead.

**Q - Ben Reitzes** {BIO 1880391 <GO>}

Hey. Thanks a lot. I appreciate the question. Tim, I appreciate all your commentary around China. It was great to kind of hear about the growth potential there, your optimism. I wanted to also ask about the supply chain and where is your priority? Do you have a priority to diversify your supply chain? How do you feel about Apple's supply chain around the world? And in particular, what do you think about further investments in the US as well?

**A - Tim Cook** {BIO 14014370 <GO>}

You know, our supply chain is truly global, and so we're investing all over the world, including in the United States. You know, we were very focused on advanced manufacturing for the US and have worked on a number of different projects in the US, whether that's our venture with Corning on the glass or Face ID module or semiconductors. And so all of these are our advanced manufacturing and I think exactly the kinds of things that the US would be and are very, very good at.

We also invested in other regions of the world and we're continually optimizing the chain. And so we -- the moment we learned something that didn't work exactly right, we are tweaking it. And so we're going to continue to do that. But at the end of day, it will still be a global supply chain.

**Q - Ben Reitzes** {BIO 1880391 <GO>}

Got it. Thanks.

**A - Tim Cook** {BIO 14014370 <GO>}

Yeah.

**Q - Ben Reitzes** {BIO 1880391 <GO>}

Next one for Luca. Just really quick on the extra week dynamic. There was also last year an issue with the iPhone production, where there was the COVID lockdowns in China. Is it possible to give some color around what that -- I guess, having a normalized supply chain somewhat this year, what that benefit is this year and maybe contrast that with the 7 point hit from the extra week? Thanks a lot.

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**A - Luca Maestri** {BIO 15738533 <GO>}

Yeah. Thanks for the question, Ben. I mentioned during the prepared remarks the extra week is 7 points of revenue. We did have disruptions, supply disruptions last year on the phone, on the 14 Pro and Pro Max in the December quarter a year ago. And when we normalize for those two factors, and I said it during the call, we still expect to grow on iPhone. So you take into account the -- you know, the loss of the extra week, you compare it with the supply disruptions that are not going to repeat, hopefully, this year. And when you normalize for those two things, we still expect to grow on iPhone.

**Q - Ben Reitzes** {BIO 1880391 <GO>}

Thanks a lot everybody. Appreciate it, Luca.

**A - Suhasini Chandramouli**

Thank you, Ben. And we'll take the last question now.

**Operator**

Our last question comes from Richard Kramer with Arete Research. Please go ahead.

**Q - Richard Kramer** {BIO 1557448 <GO>}

Thank you very much. Tim, first off, if we look over the past two years, Apple sales are about \$18 billion higher and R&D is up by about 8% -- \$8 billion [ph] or over a third higher. Can you give us a sense of some of the main components or drivers behind that increase in innovation spend? Is it Apple Silicon, is it new products like Vision Pro or is it content to support new services? I think that's one of the top questions investors have. Thanks.

**A - Tim Cook** {BIO 14014370 <GO>}

Sure. It's a number of things, Richard. It's the -- some things I can't talk about, its Vision Pro, it's AI and ML, it's the silicon investment that we're making, the transition with the Mac and other silicon. It's sort of all of those things and -- but I think you would find that the R&D expenditure in the aggregate looks very competitive versus others.

**A - Luca Maestri** {BIO 15738533 <GO>}

And I would add, Richard, on this front. Some of the investments that we're making in R&D are also one of the drivers for the gross margin expansion. So I think it's important to think about it that way.

**Q - Richard Kramer** {BIO 1557448 <GO>}

That's great. And Luca, you mentioned -- or Tim mentioned college students choosing Mac. Then, you mentioned the record Services revenue. What other metrics do you think you could provide to help investors understand how Apple measures and increases customer lifetime value, especially when we see a lot of users entering the ecosystem with a relatively lower-priced products or even refurbished devices? So you're growing your

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ecosystem, but how do you think about growing customer lifetime value over the long run?

**A - Luca Maestri** {BIO 15738533 <GO>}

Well, some of the metrics that I mentioned before, obviously, we look at the installed base of active devices. We see, we want to make sure that, you know, the customers that we acquire remain with us and so we have good visibility over that, and we pay a lot of attention to the behavior of the installed base, both by product and by geography. And then, we look at the daily engagement in the ecosystem. So that's why we pay a lot of attention on things like transacting accounts, paid accounts, we want to see if, in fact, we are able to move our customers from a free model to a paid model over time. That's obviously very, very important for us.

And so, this -- you know, on this, you know, we keep track of all these things and, you know, that's, you know -- and then what we do, because I think it's really important is that over time, we add new services and that, you know, obviously, like, for example, the progress that we've made in payments in recent years, very, very important because we've attracted more and more people that are actually now using additional features on our devices and we are able to monetize that, right. So we take all that into account, we understand what happens when a customer joins us, when they buy a primary device versus a used device, we understand their behavior, you know, in different markets and so on. So we have, I think, pretty good visibility. And I think the progress that we're making in Services, we did \$85 billion in the last 12 months. It's -- that's a size of a Fortune 50 and, you know, significantly bigger than it was just a couple of years ago.

**Q - Richard Kramer** {BIO 1557448 <GO>}

Absolutely. Thanks very much.

**A - Suhasini Chandramouli**

Thank you, Richard. A replay of today's call will be available for two weeks on Apple Podcasts, as a webcast on [apple.com/investor](https://apple.com/investor) and via telephone. The number for the telephone replay is 866-583-1035. Please enter confirmation code 0106234 followed by the pound sign. These replays will be available by approximately 5 PM Pacific Time today. Members of the press with additional questions can contact Josh Rosenstock at 408-862-1142 and financial analysts can contact me, Suhasini Chandramouli, with additional questions at 408-974-3123.

Thank you again for joining us today.

**Operator**

Once again, this does conclude today's conference. We do appreciate your participation.

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