

Q3 2023 Earnings Call

Company Participants

- Luca Maestri, Senior Vice President and Chief Financial Officer
- Saori Casey, Vice President of Finance
- Tim Cook, Chief Executive Officer

Other Participants

- Aaron Rakers, Analyst
- Amit Daryanani, Analyst
- David Vogt, Analyst
- Erik Woodring, Analyst
- Harsh Kumar, Analyst
- Krish Sankar, Analyst
- Michael Ng, Analyst
- Shannon Cross, Analyst
- Sidney Ho, Analyst
- Wamsi Mohan, Analyst

Presentation

Operator

Good day, and welcome to the Apple's Q3 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 Saori Casey, Vice President of Finance. Please go ahead.

Saori Casey {BIO 21337601 <GO>}

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, Saori. Good afternoon, everyone, and thanks for joining us. Today, Apple is reporting revenue of \$81.8 billion for the June quarter, better than our expectations. We continued to see strong results in emerging markets, driven by robust sales of iPhone with June quarter total revenue records in India, Indonesia, Mexico, the Philippines, Poland, Saudi Arabia, Turkey, and the UAE. We set June quarter records in a number of other countries as well, including France, The Netherlands, and Austria. And we set an all-time revenue record in services driven by more than \$1 billion paid subscriptions.

We continued to face an uneven macroeconomic environment, including nearly 4 percentage points of foreign-exchange headwinds. On a constant-currency basis, we grew compared to the prior year's quarter in aggregate and in the majority of markets we track. We continued to manage deliberately and innovate relentlessly, and we're driven by the sense of possibility those efforts inspire. To that end, before I turn to the quarter in more detail, I want to take a moment to acknowledge the unprecedented innovations we were proud to announce at our Worldwide Developers Conference.

In addition to extraordinary new Max and incredible updates to our software platforms, we had the chance to introduce the world to spatial computing. We were so pleased to share the revolutionary Apple Vision Pro with the world, a bold new product unlike anything else created before. Apple Vision Pro is a marvel of engineering, built on decades of innovation only possible at Apple. It is the most advanced personal electronic device ever created and we've been thrilled by the reaction from press, analysts, developers and content creators who have had the chance to try it. We can't wait to get it into customers' hands, early next year.

Now, let me share more with you on our June quarter results, beginning with iPhone. iPhone revenue came in at \$39.7 billion for the quarter, down 2% from the year-ago quarter's record performance. On a constant-currency basis, iPhone revenue grew and we had a June quarter record for switchers, reflecting the popularity of the iPhone lineup. iPhone 14 customers continued to praise the exceptional battery life and essential health and safety features, while iPhone 14 Plus users are loving the new larger screen size. And with Dynamic Island, always-on display, and the most powerful camera system ever in an iPhone, the iPhone 14 Pro lineup is our best ever.

Turning to Mac, we recorded \$6.8 billion in revenue, down 7% year-over-year. We are proud to have completed the transition of our entire Mac lineup to run exclusively on Apple silicon. We are also excited to have introduced the new 15-inch MacBook Air during the quarter, the world's best 15-inch laptop and one of the best Macs we've ever made.

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And we launched two new powerhouses in computing, Mac Studio with M2 Max and M2 Ultra, and Mac Pro with M2 Ultra which are the most powerful Mac we've ever made.

iPad revenue was \$5.8 billion for the June quarter, down 20% year-over-year, in part due to a difficult compare because of the timing of the iPad Air launch last year. Customers are loving iPad's versatility and exceptional value. There was a great deal of excitement from creators when we brought Final Cut Pro and Logic Pro to iPad this spring. And with the back-to-school season in full swing, iPad has the power to help students tackle the toughest assignments.

Across Wearables, Home and Accessories, revenue was \$8.3 billion, up 2% year-over-year and in line with our expectations. Packed with features to empower users to live a healthier life, Apple Watch and Apple Watch Ultra continue to help people take the next step on their wellness journey.

As I mentioned earlier, last quarter, we held our biggest and most exciting WWDC year. We were thrilled to welcome developers from across the globe to Apple Park both in-person and virtually and to share some stunning new announcements with the world. In addition to Apple Vision Pro and the new Max that we introduced, we had the chance to reveal some truly remarkable new innovations to our software platforms. From exciting new features like live voicemail and standby in iOS 17 to new tools for users to work, play and personalize their experience in macOS Sonoma and iPadOS 17 to our first design and new workout capabilities in WatchOS 10, there's so much coming later this year to empower users to get more out of their devices, and we think they're going to instantly love these new features.

It was also an exciting quarter for services where revenue reached \$21.2 billion and saw a sequential acceleration to an 8% year-over-year increase better than we expected. We set an all-time revenue record for total services and in a number of categories including video, AppleCare, cloud and payment services.

Since we introduced Apple Pay almost a decade ago, customers have been loving how easy it is to make purchases online, in apps and in stores. We're also pleased to see Apple Card build on the success of Apple Pay. Designed with our user's financial health and mind, Apple Card has become one of the most successful credit card programs in the US with award-winning customer satisfaction. In the spring, we introduced a new high-yield savings account for Apple Card customers, which has become incredibly popular with customers already making more than \$10 billion in deposits.

Meanwhile, Apple TV+ continues to provide a spectacular showcase of imaginative storytelling. Recently fans welcomed new series like Hijack and Silo, as well as returning fan favorites like Foundation, and The Afterparty. In a few years since its launch Apple TV+ has earned more than 1,500 nominations and 370 wins, that includes the 54 Emmy Award nominations across 13 titles that Apple TV+ received last month.

It's also been an exciting time for sports on Apple TV+. Soccer legend Lionel Messi made his debut with Major League Soccer, last month and fans all over the world tuned in with

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MLS Season Pass. We are excited about our MLS partnership and we're thrilled to see Messi suiting up with Inter Miami. And just in time for summer concert season, Apple Music launched new discovery features celebrating live music, including venue guides and Apple Maps and setlists from tours of major artists. These new features and others join a lineup of updates coming later this year to make services more powerful, more useful and more fun than ever.

Everything we do is in service of our customers and retailers where we bring the best of Apple. During the quarter, we opened the Apple Store online in Vietnam, and we're excited to connect with more customers there. We also redesigned our first-ever Apple Store located in Tysons Corner Northern Virginia with inclusive, innovative and sustainable design enhancements. We opened a beautiful new store beneath our New London headquarters and the historic Battersea Power Station. And the performance of the stores we opened in India this spring exceeded our initial expectations.

With every product we create, every feature we develop and every interaction we share with our customers, we lead with the values we stand for. We believe in creating technology that serves all of humanity, which is why accessibility has always been a core value that we embed in everything we do. On Global Accessibility Awareness Day, we unveiled some extraordinary new tools for cognitive, vision, hearing and mobile accessibility that will be available later this year, including Assistive Access which distills apps to their most essential features, and Personal Voice, which allows users to create a synthesized voice that sounds just like them.

Building technology and service of our customers also means protecting their privacy, which we believe is a fundamental human right. That's why we were pleased to announce major updates to Safari private browsing, communication safety, and lockdown mode to further safeguard our users. And as part of our efforts to build a better world, we announced that we more than doubled our initial commitment to our Racial Equity and Justice Initiative to more than \$200 million. We will continue to do our part to support education, economic empowerment and criminal justice reform work. And while supporting efforts to advance equity and opportunity, we continue to build a culture of belonging at Apple and a workforce that reflects the communities we serve.

Through our environmental work, we're making strides in our commitment to leave the world better than we found it. Last month, Apple joined with global nonprofit Acumen in a new effort to improve livelihoods in India through clean-energy innovation, and we are as committed as ever to our Apple 2030 goal to be carbon-neutral across our entire supply chain and the lifecycle of our products.

We've long-held that education is the great equalizer. With that in mind, we're expanding Apple Learning Coach, a free professional learning program that teaches educators how to get more out of Apple technology in the classroom. Today, we welcome more than 1,900 educators across the US to the program. By the end-of-the-year, we will offer Apple Learning Coach in 12 more countries. As we're connecting with teachers, we're also celebrating the graduations of students at our app developer academies around the world. From Detroit to Naples to Riyadh and more, we're excited to watch these talented

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developers embark on careers in coding and find ways to make a positive difference in their communities.

Apple remains a champion of innovation, a company fueled by boundless creativity, driven by a deep sense of mission and guided by the unshakeable belief that a great idea can change the world. Looking ahead, we will continue to manage for the long term, always pushing the limits of what's possible and always putting the customer at the center of everything we do.

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

Luca Maestri {BIO 15738533 <GO>}

Thank you, Tim, and good afternoon, everyone. Revenue for the June quarter was \$81.8 billion, down 1% from last year and better than our expectations, despite nearly 4 percentage points of negative impact from foreign exchange. On a constant-currency basis, our revenue grew year-over-year in total and in the majority of the markets we track. We set June quarter records in both Europe and Greater China, and continued to see strong performance across our emerging markets, driven by iPhone.

Products revenue was \$60.6 billion, down 4% from last year as we faced FX headwinds and an uneven macroeconomic environment. However, our installed base reached an all-time high across all geographic segments, driven by a June quarter record for iPhone switchers and high new tool rates in Mac, iPad and Watch, coupled with very high levels of customer satisfaction and loyalty.

Our services revenue set an all-time record of \$21.2 billion, up 8% year-over-year and grew double-digits in constant currency. Our performance was strong around the world as we reached all-time services revenue records in Americas and Europe, and June quarter records in Greater China and rest of Asia-Pacific.

Company gross margin was 44.5%, a record level for the June quarter, and up 20 basis points sequentially, driven by cost-savings and a favorable mix-shift towards services, partially offset by a seasonal loss of leverage. Products gross margin was 35.4%, down 130 basis points from last quarter due to seasonal loss of leverage and mix, partially offset by favorable costs. Services gross margin was 70.5%, decreasing 50 basis points sequentially.

Operating expenses of \$13.4 billion were below the low end of the guidance range we provided at the beginning of the quarter and decelerated from the March quarter. We continue to take a deliberate approach in managing our spend with a strong focus on innovation and new product development. The results of these actions delivered net income of \$19.9 billion, diluted earnings per share of \$1.26, up 5% versus last year, and very strong operating cash flow of \$26.4 billion.

Let me now provide more detail for each of our revenue categories. iPhone revenue was \$39.7 billion, down 2% year-over-year but grew on a constant-currency basis. We set revenue records in several markets around the world, including an all-time record in India,

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and June quarter records in Latin America, the Middle East and Africa, Indonesia, the Philippines, Italy, the Netherlands and the UK. Our iPhone active installed base grew to a new all-time high, thanks to the June quarter record in switches. This is a testament to our extremely high levels of customer satisfaction, which 451 Research recently measured 98% for the iPhone 14 family in the US.

Mac generated \$6.8 billion in revenue, down 7% year-over-year. We continue to invest in our Mac portfolio, and this past quarter, we were pleased to complete the transition to Apple silicon for the entire lineup. This transition has driven both strong upgrade activity and a high number of new customers. In fact, almost half of Mac buyers during the quarter were new to the product. We also saw reported customer satisfaction of 96% for Mac in the US.

iPad revenue was \$5.8 billion, down 20% year-over-year and in line with our expectations. These results were driven by a difficult compare against the full-quarter impact of the iPad Air launch in the prior year. At the same time, we continued to attract a large number of new customers to the iPad installed base with over half of the customers who purchased iPads during the quarter being new to the product. And the latest reports from 451 Research indicate customer satisfaction of 96% in the US.

Wearables, Home and Accessories revenue was \$8.3 billion, up 2% year-over-year, with a June quarter record in Greater China and strong performance in several emerging markets. We continue to see Apple Watch expand its reach with about two-thirds of customers purchasing an Apple Watch during the quarter being new to the product, and this is combined with very high levels of customer satisfaction which was recently reported at 98% in the United States.

Moving on to services, we reached a new all-time revenue record of \$21.2 billion with year-over-year growth accelerating sequentially to 8% and up double-digits in constant currency. In addition to the all-time records Tim mentioned earlier, we also set June quarter records for advertising, App Store and Music. We are very pleased with our performance in services, which is a direct reflection of our ecosystem strength.

First, 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 our ecosystem. Second, we see increased customer engagement with our services. Both our transacting accounts and paid accounts grew double-digits year-over-year, each reaching a new all-time high. Third, our paid subscriptions showed strong growth. This past quarter, we reached an important milestone and passed 1 billion paid subscriptions across the services on our platform, up 150 million during the last 12 months and nearly double the number of paid subscriptions we had only three years ago. And finally, we continue to improve the breadth and the quality of our current services from 20 new games on Apple Arcade to brand new content on Apple TV+ to the launch of our high-yield savings account with Apple Card. Our customers are loving these enhanced offerings.

Turning to the enterprise market, our customers are leveraging Apple products every day to help improve productivity and attract talent. Blackstone, a global investment

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management firm is expanding its Apple footprint from their corporate iPhone fleet to now offering the MacBook Air powered by M2 to all of their corporate employees and portfolio companies. Gilead, a leading biopharmaceutical company has deployed thousands of iPads globally to their sales team. Over the last six months, they have also doubled their Mac user base by making MacBook Air available to more employees with a focus on user experience and strong security.

Let me now turn to our cash position and capital return program. We ended the quarter with over \$166 billion in cash and marketable securities. We repaid \$7.5 billion in maturing debt while issuing \$5.2 billion of new debt and increasing commercial paper by \$2 billion, leaving us with total debt of \$109 billion. As a result, net cash was \$57 billion at the end-of-the quarter.

During the quarter, we returned over \$24 billion to shareholders, including \$3.8 billion in dividends and equivalents and \$18 billion through open-market repurchases of 103 million Apple shares. We continue to believe there is great value in our stock and maintain our target of reaching a net cash-neutral position over time.

As we move ahead into the September quarter, I'd like to review our outlook, which includes the types of forward-looking information that Saori referred to at the beginning of the call. We expect our September quarter year-over-year revenue performance to be similar to the June quarter, assuming that the macroeconomic outlook doesn't worsen from what we are projecting today for the current quarter.

Foreign exchange will continue to be a headwind and we expect a negative year-over-year revenue impact of over 2 percentage points. We expect iPhone and services year-over-year performance to accelerate from the June quarter. Also, we expect the revenue for both Mac and iPad to decline by double-digits year-over-year due to difficult compares, particularly on the Mac. For both products, we experienced supply disruptions from factory shutdowns in the June quarter a year ago, and we are able to fulfill significant pent-up demand in the year-ago September quarter.

We expect gross margin to be between 44% and 45%. We expect OpEx to be between \$13.5 billion and \$13.7 billion. We expect OI&E to be around negative \$250 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 August 17, 2023, to shareholders of record as of August 14, 2023.

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

Saori Casey {BIO 21337601 <GO>}

Thank you, Luca. We ask 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 Shannon Cross with Credit Suisse. Please go ahead.

Q - Shannon Cross {BIO 22988679 <GO>}

Thank you very much, and nice to speak with you. Tim, you mentioned -- and actually, Luca too, you mentioned an uneven macroenvironment during the quarter several times on the call. I'm wondering if you can talk on a geographic basis about some of the trends you're seeing in iPhone. I'm specifically wondering how demand is trending within (Technical Difficulty)

A - Luca Maestri {BIO 15738533 <GO>}

Shannon, I'll answer it. I didn't get the end of your question.

A - Saori Casey {BIO 21337601 <GO>}

I think she has dropped.

A - Luca Maestri {BIO 15738533 <GO>}

Okay. Well, let me answer the question for the part that I could follow. So on a geographic basis, we've had great performance for iPhone in emerging markets. We set June quarter records in many of the emerging markets. We grew in total double-digits and the performance was strong across-the-board in emerging markets from China where our performance improved from minus 3% to plus 8% in the June quarter, and we grew double-digits in constant currency to many other areas around the world from India, where again we set a June quarter record with very strong performance there. Indonesia, Southeast Asia, in general, and Latin America, Middle East, and so it's been really good there.

We -- also as you can see from our geographic segments, we had a slight acceleration of performance in the Americas, primarily in the United States, but we declined there because the smartphone market has been in a decline for the last couple of quarters in the United States.

Q - Shannon Cross {BIO 22988679 <GO>}

Thank you very much. Sorry about that. I'm not sure why I cut off. In terms of gross margin, you were at the high end of the range (Technical Difficulty) and you described -- you guided that 45% at the high end, which is I think higher than I remember in 20 years of covering you. So how should we think about puts and takes of gross margin? And what -- it seems like there is like a perfect storm of good things so I just -- maybe if you can talk about how you're thinking about it more holistically. Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

Yeah. I think you remember correctly, Shannon because the 44.5% for the June quarter is an all-time record for us in June. We were up 20 basis points sequentially. It was driven by

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cost-savings and a mix-shift towards services, which obviously helps Company gross margins, partially offset by the seasonal loss of leverage.

We have a commodity environment that is favorable to us. Our product mix is quite strong at this point. And so with the exception of foreign exchange, it continues to be a drag and it was a significant drag on a year-over-year basis. Yeah. We are in a good position right now. We were in a good position for the June quarter. And as I mentioned, we expect similar level of gross margins for the same reasons frankly for the September quarter.

Q - Shannon Cross {BIO 22988679 <GO>}

Thank you very much.

A - Saori Casey {BIO 21337601 <GO>}

Next question, please.

Operator

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

Q - Wamsi Mohan {BIO 15994435 <GO>}

Hi. Yes. Thank you so much. Luca, can you just give us a little more color around the guidance? Your overall revenue performance, you called out similar. Obviously, you absorbed a higher FX impact this quarter versus your guide, and you also noted services acceleration. So just wondering when you think about that comment on iPhone acceleration, is that on a reported basis? Is that constant-currency basis? And is there something that's changing in terms of seasonality perhaps for you that is causing not as much step-up in product revenue as typical on a sequential basis? And I have a follow up.

A - Luca Maestri {BIO 15738533 <GO>}

Yes. So all our comments are in reported currency, not in constant currency in relation to the outlook. And we said acceleration sequentially for iPhone and for services, but we're also pointing out and this is where I think Wamsi you're referring to some seasonality issues. We also said that for Mac and iPad, we expect to decline double-digits. And the reason for that is that we have a very difficult compare versus last year.

You remember that a year ago in the June quarter, we had factory shutdowns for both Mac and iPad and so we were able to feel the pent-up demand from the shutdowns during the September quarter. So an unusual level of activity that we had a year ago, and so now obviously, the compare is difficult. So we expect both iPad and Mac to be down double-digits which offset the acceleration that I mentioned for iPhone and services.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Okay. Thank you, Luca. And Tim, I was wondering if you could update us on what percent of iPhones are sold on some type of installment basis now versus full upfront payment on a global basis, and maybe some thoughts on if you expect similar promotional activity

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from carriers, especially in the US that seems to be grappling with a lot of cash flow issues this particular year. Thank you so much.

A - Luca Maestri {BIO 15738533 <GO>}

Wamsi, I'll take it. We've done a really good job over the last few years with affordability programs around the world directly in our direct channel and with our partners around the world. The majority of iPhones at this point are sold using as some kind of a program, trade-ins, installments, some kind of financing. And that percentage which again, it's well over 50% is very similar across developed and emerging markets. We want to do more of that because we think it really helps reduce the affordability threshold for our products, and we think it is also one of the reasons why our product mix has been very strong during the last couple of cycles. So we will continue to push on that front.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Okay. Thank you, Luca.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Wamsi. 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 questions. I just wanted to follow up on two points that both you Tim and Luca made about growth and maybe commodities. So just to be clear, I know you're talking about an acceleration in iPhone, but the comp is about 2 point easier from FX. So just want to understand, is that on a like-for-like basis excluding the currency improvement of about 2 points from the June quarter to the September quarter?

And from a commodity perspective, I know last quarter you talked about buying a lot of inventory at favorable prices which was an incredibly smart strategy. Where do you sit today, and what sort of the timing or the duration of that commodity sort of backlog that you have as we think about next quarter and the subsequent quarters? How far does that get you out into the future from this favorable cost dynamic? Thanks.

A - Luca Maestri {BIO 15738533 <GO>}

Let me start again. I just want to be clear about the guidance -- the outlook guidance that we provided. We are referring entirely to reported numbers. So they take into account the fact that we have a slight improvement in foreign exchange. So when I talk about similar performance, I refer to reported performance in the June quarter and then the reported performance in the September quarter. And again, we expect on a reported basis, our iPhone performance to accelerate, our services performance to accelerate, and iPad and Mac to decline double digits.

On the commodity front, as I mentioned, the environment is favorable. We always make sure that we take advantage of the opportunities that are available in the market and we will continue to do that going forward.

Q - David Vogt {BIO 21761779 <GO>}

Luka, any sense on how long that gives you a runway today based on what you currently have? Give us a sense for at least the short-term tailwind.

A - Luca Maestri {BIO 15738533 <GO>}

I don't want to speculate past the September quarter because that's the horizon where we provide guidance. And I've said that the guidance for September is \$44 billion to \$45 billion, [ph] which you know is historically a very high and -- so obviously, that reflects a favorable environment for us.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, David.

Q - David Vogt {BIO 21761779 <GO>}

All right. Thanks a lot, guys.

A - Saori Casey {BIO 21337601 <GO>}

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>}

Hey, guys, thank you for taking my question. I have two as well. Maybe if we just start kind of big-picture, Tim or Luka. I was wondering if you could just kind of share some incremental color on how you think the consumer is behaving today versus 90 days ago, and maybe how that differs by region. Meaning are there any signs that consumer is incrementally more willing to spend on things like consumer electronics? Or is there still relative caution in the market? Are there any regions where you're seeing more strength in the consumer? And how sustainable do you think some of that strength or weakness could be based on some of the KPIs you track? And then I have a follow-up. Thanks.

A - Tim Cook {BIO 14014370 <GO>}

Yeah. Hi, David. It's Tim. If you sort of step around the world, we did exceptionally well in emerging markets last quarter, and even better on a constant-currency basis. And so emerging markets were -- was a strength. If you look at China, in China, we went from a negative 3% in Q2 to plus 8% in Q3. And so in in China, we had an acceleration. If you look at the US, which is in the -- obviously, in the Americas segment and is the vast majority of what's in there, there was also a slight acceleration sequentially, although the Americas is still declining somewhat year-over-year, as you can see on the datasheet. The

primary reason for that is that it's a challenging smartphone market in the US currently. And then in Europe, Europe saw a record quarter and for the June quarter a record. And so some really good signs in most places in the world. Yeah.

Q - Erik Woodring {BIO 19492555 <GO>}

Awesome. Thank you for that color, Tim. And then maybe, Luca, a question for you. I think it's been about three quarters now where we've seen OpEx either grow below historical seasonality or come in below your expectations. I think this is the first time we've seen R&D grow less than 10% year-over-year since fiscal 2Q 2007.

So can you maybe just talk about some of the cost actions you're taking? And as you look forward, what are the indicators that you're really evaluating that would give you greater confidence in perhaps returning back to a more seasonal cadence of OpEx spending? Or is this just a new normal that we should be expecting? That's it from me. Thanks so much.

A - Luca Maestri {BIO 15738533 <GO>}

Obviously, we look at the environment and we know that this is being an uncertain period for the last few quarters, and so we decided to be deliberate in what we do in terms of controlling our spend and as many areas across the Company that we are working on. And we've been quite effective at slowing down the spend. We slowed down also the hiring within the Company in several areas, and we are very pleased with our ability to decelerate some of the expense growth taking into account the overall macro situation.

We will continue to manage deliberately. You can see that we continue to grow our R&D costs faster than the rest of the Company. SG&A is actually growing at a much slower pace because obviously, our focus continues to be in innovation and product development, and we will continue to do that.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Erik. Can we have the next question, please?

Operator

Our next question is from Michael Ng with Goldman Sachs. Please go ahead.

Q - Michael Ng {BIO 18285376 <GO>}

Hey, good afternoon. I just have two questions as well. First, it was encouraging to see the services outperformance in the quarter, up double-digits on an FX-neutral basis and more services acceleration next quarter on a reported basis. I was just wondering if you could just talk a little bit more about key underlying drivers for the confidence in the services acceleration in next quarter. I understand the FX season [ph] a little bit, but anything to call out as it relates to things in Apple Search Ads that's helping? You're obviously, making a lot of investments in Apple TV+ between MLS and the Canal+ deal. So any thoughts there would be great. Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

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Yes, Michael, you're correct. I mean, clearly, we've seen an improvement in the June quarter and we expect further improvement in the September quarter. In June, the performance was across-the-board. Tim and I mentioned, we set records really across-the-board. We add all-time records in cloud, in video, in Apple Care, in payments, and June quarter records in App Store, advertising and music. So we saw improvement in all our services categories.

We think this situation will continue to improve as we go through September, and that's very positive because not only good for the financial results but obviously, it shows a high level of engagement of our customers in the ecosystem, which is very important for us. And it's really the sum of all the things that I mentioned in my prepared remarks. It goes from the fact that our installed base continues to grow. So we've got a larger pool of customers to the fact that our customers are more engaged as we have more transacting accounts and paid accounts on the ecosystem. And the subscriptions business is very healthy with growth of 150 million paid subscriptions just in the last 12 months. It's almost doubled to what we had three years ago. And of course, we are providing more-and-more content to our users. And so the combination of all these things gives us good confidence for September.

Q - Michael Ng {BIO 18285376 <GO>}

Great. Thank you very much. And just as a related follow-up. It's about the hardware installed base and services ARPU. I thought I was curious when you talked about the services' strengths, you talked about the 2 billion-plus installed base. When you think about the opportunity to increase the services ARPU, do you really think about it internally on a per active iPhone user basis or on a per device basis? Said differently, I'm just curious where you think about whether you think there's an incremental opportunity for those users that have multiple devices. Do you really see a big services ARPU uplift in that respect? Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

We know that customers that own more than one device are typically more engaged in our ecosystem. So obviously, they tend to also spend more on the services front. I would say the biggest opportunities that we know that there's a lot of customers that we have that are very familiar with our ecosystem. They're engaged in the ecosystem. And still today, they're using only the portion of the ecosystem that is free and so we think that by offering better content and more content over time, we're going to be able to attract more of them as paid customers.

Q - Michael Ng {BIO 18285376 <GO>}

Great. Thank you, Luca.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Michael. May I have the next question, please?

Operator

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

Q - Amit Daryanani {BIO 7113568 <GO>}

Thanks for your time. I have two as well. I guess, Luca, maybe if we can talk on wearables a bit. The growth over there I think in constant currency was fairly impressive at plus 6%. You just touch on maybe what's driving that and then how do we think about the wearables segment heading into the September quarter. I know you talked about a bunch of other ones, but how do we think about wearables into September as well?

A - Luca Maestri {BIO 15738533 <GO>}

Sorry, Amit. I didn't get the -- what are you referring to?

Q - Amit Daryanani {BIO 7113568 <GO>}

Yeah. Sorry. I was hoping you could talk a bit about the wearables segment because the growth over there was fairly impressive, and then how do you think about it in September as well?

A - Luca Maestri {BIO 15738533 <GO>}

Wearables. Yeah. Yeah. On the wearables front, we had a really good performance in Greater China, and that's again very important for us. It was a June quarter record for Greater China. Very important for us because again it shows that the engagement with the ecosystem in a market that is so important for us like China continues to grow. It means that there is more-and-more customers that are owning more than the iPhone. Also, we continue to grow the installed base of the category very quickly because as I mentioned, two-thirds of every buyer of Apple Watch during the course of the June quarter was new to the product. And so that is all additive to the installed base.

So it's just great to see the AirPods continue to be a great success in the marketplace for us and so things are moving in the right direction there. It's become a very large business for us. In Wearables, Home and Accessories, the last 12 months, we've done \$40 billion of business, which is nearly the size of a Fortune 100 company. So it's become very important and it's allowed us to diversify, both our revenues and our earnings.

Q - Amit Daryanani {BIO 7113568 <GO>}

That's really helpful. And then if I could just follow up. The Europe growth -- the growth in Europe at up 5% is probably notable as well. I think you have a few emerging markets that you put in Europe as well, but would love to kind of what's happening in Europe, and if there's a way to think about sort of Western Europe or developed world versus emerging markets over there. Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

Yeah. It's been very good. Primarily on the emerging market side of Europe, we will include India and the Middle East, and Central and Eastern Europe into the Europe segment. But as we mentioned at the beginning of the call, we had a number of markets that did very well like France, like Italy, the Netherlands, Austria. So it was a good quarter for Europe.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Amit. Can we have 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, guys, thanks for letting me ask the question. I had one for Luca and then later on one for Tim. So, Luca, for some time now for many quarters, you've had a currency headwind -- foreign-exchange currency headwind. It's conceivable that as rates start to come down, hopefully, next year that the dollar weakens, could you take us through the mechanism of how that will work on your revenues and for your costs?

A - Luca Maestri {BIO 15738533 <GO>}

So we tend -- we try to hedge our foreign-exchange exposures because we think it's the right approach for the Company in terms of minimizing the volatility that necessarily happens from the movements of currencies. We cannot effectively hedge every single exposure around the world because in some cases, it is not possible. In other cases, it is prohibitively expensive, but we tend to cover all the major currency pairs that we have.

Above 60% of our business is outside the United States, so it's a very large and I would say very effective hedging program. And so we set up these hedges and they tend to roll over very regularly, and then we replace them with new hedges at the new spot rates. So the impact that we're going to have on revenue and cost will depend on where the spot rates are at different points in time and therefore, because of the way the program works, that will be a bit of a lag in both directions as the foreign exchange moves over time.

Q - Harsh Kumar {BIO 3235392 <GO>}

Understood. Very helpful. And for Tim. Tim, historically for the last many years, carriers in at least the US, which I think is your largest market for iPhone have had programs to help folks upgrade whether they give a cash rebate or you bring in your old phone, something like that. I'm just curious as you get into your peak December quarter, if you are aware of these programs are in place. And the reason why I'm asking is I think earlier you mentioned that more than 50% of your phones are sold through some kind of program. I assume the number is even higher in the US.

A - Tim Cook {BIO 14014370 <GO>}

I don't want to get into revealing specifics in the different carriers, but generally speaking, I would think that it would be quite easy to find a promotion on a phone, provided you're hooking up to a service, and either switching services carriers or upgrading your phone at the same carrier. I think both of those cases today that you can find promotions out there, and I would expect that you'd be able to do that in the December timeframe as well.

Q - Harsh Kumar {BIO 3235392 <GO>}

Very well. Thank you.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Harsh. 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>}

Yeah. Thank you for letting me ask the question. I have two as well. So first of all, I just want to kind of ask Tim strategically. As we think about the services growth and kind of the content expansion behind that, I'm curious if you could help us maybe appreciate what you've seen from a sporting perspective in terms of the engagement with MLS, the engagement with Major League Baseball? And how strategically you're thinking about expansion in sports as a key driver of services growth going forward?

A - Tim Cook {BIO 14014370 <GO>}

We were focused on original content as you know with TV+, and so we're all about giving great storytellers the venue to tell great stories and hopefully, get us all to think a little deeper. And sport is a part of that because sport is the ultimate original story. And for MLS, where we could not be happier with how the partnership is going. It's clearly in the early days but we are beating our expectation in terms of subscribers and the fact that Messi went to Inter Miami helped us out there a bit. And so we're very excited about it.

Q - Aaron Rakers {BIO 6649630 <GO>}

Yeah. Thank you. And as a quick follow-up, I'm just curious -- an update on. You mentioned in your prepared remarks, the continued growth that you've seen in India. I'm curious of how we think about that market opportunity looking forward. Is there anything that you see evolving that could accelerate the opportunity for iPhone in that large mobile market?

A - Tim Cook {BIO 14014370 <GO>}

We did hit a June quarter revenue record in India, and we grew strong double-digits. We also opened our first two retail stores during the quarter and it's -- of course, it's early going currently, but they're currently beating our expectation in terms of how they're doing.

We continue to work on building out the channel and putting more investment in our direct-to-consumer offers as well. And -- so I think if you look at it, it's the second-largest smartphone market in the world and it's the -- so we ought to be doing really well there. And where I'm really pleased with our growth there, we're still -- we still have a very, very modest and low share in the smartphone market, and so I think that it's a huge opportunity for us and we are putting the -- all of our energies in making that occur.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Aaron. Can we have the next question, please?

Operator

Our next question comes from Sidney Ho with Deutsche Bank. Please go ahead.

Q - Sidney Ho {BIO 6922415 <GO>}

Thank you for taking my question. Your -- I wanted to ask about the AI side of things. Your strategy on AI seems quite different than many of your peers, at least you don't talk too much about that and how much you're interested in it. Maybe you can elaborate a little bit on that. But related to that, how do you see your investment in this area turning into financial performance in the future? Is it mainly through a faster upgrade cycle, maybe a higher ASP? Or are you thinking about maybe additional surfaces that you can capitalize on that? And then have follow-up.

A - Tim Cook {BIO 14014370 <GO>}

If you take a step back, we view AI and machine learning as core fundamental technologies that are integral to virtually every product that we build. And so if you think about WWDC, in June, we announced some features that will be coming and iOS 17 this fall like Personal Voice and live voice mail. Previously we had announced lifesaving features like fall detection and crash detection and ECG. None of these features that I just mentioned and many, many more would be possible without AI and machine learning. And so it's absolutely critical to us.

And of course, we've been doing research across a wide range of AI technologies, including generative AI for years. We're going to continue investing and innovating, and responsibly advancing our products with these technologies with the goal of enriching people's lives. And so that's what it's all about for us. And as you know, we tend to announce things as they come to market. And that's our aim [ph] and I'd like to stick to that.

Q - Sidney Ho {BIO 6922415 <GO>}

Okay, that's fair. Thank you. Maybe I have a follow-up is related to, you talked about WWDC where you actually introduced Vision Pro there. Clearly, a very big announcement there. How should we think about the revenue ramp related Vision Pro? Is there any catalyst that we should be thinking about that will drive the introduction [ph] of that product? Thank you.

A - Tim Cook {BIO 14014370 <GO>}

Yeah. There is enormous excitement around the Vision Pro. We're excited internally. Everybody that's been through the demos are blown away, whether you're talking about press or analysts or developers. We are now shipping units to the developer community for them to begin working on their apps and we're looking forward to shipping early next year. And so we could not be more excited with it. I'm using the product daily. And so we're not going to forecast revenues and so forth on the call today, but we're very excited about it.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Sidney. Can we have the next question, please?

Operator

Certainly. We will take our last question from Krish Sankar with TD Cowen. Please go ahead.

Q - Krish Sankar {BIO 16151788 <GO>}

Yeah. Hi. Thanks for taking my question. I have two of them as well. Number one on iPhone. Tim, you mentioned about the record number of switchers in the quarter. I'm kind of curious how to think about given the weak macro customer consumer spending, how is the replacement cycle for iPhone? Is it similar longer, shorter versus prior years? And can you talk a little bit about the demand linearity of iPhones during the June quarter? And then I have a follow-up.

A - Tim Cook {BIO 14014370 <GO>}

Switchers were a very key part of our iPhone results for the quarter. We did set a record. We set a record in Greater China, in particular, and it was at the heart of our results there. And we continue to try to convince more-and-more people to switch because of our -- the experience and the ecosystem and -- that we can offer them. And so I think switching is a huge opportunity for us.

In terms of the upgrade cycle and so forth, it's very difficult to estimate real time what is going on with the upgrade cycle. I would say, if you think about the iPhone results year-over-year, you have to think about the -- at SE announcement in the year-ago quarter -- the iPhone SE announcement in the year ago quarter, and so that provides a bit of a headwind on the comp. But as Luca said, as he talked about how we're viewing Q4, the September quarter, we see iPhone accelerating in Q4.

Q - Krish Sankar {BIO 16151788 <GO>}

Got it. Very helpful, Tim. And then my final question is, on the retail stores, you obviously have a very large retail footprint and many of your stores seem to have been open for over a year now. How is the foot traffic there? And how to think about sales or the retail trends in the June quarter and implications for the back half of this year on a seasonality basis?

A - Tim Cook {BIO 14014370 <GO>}

I'm sorry. Are you talking about our retail stores?

Q - Krish Sankar {BIO 16151788 <GO>}

Yes. Yes, your retail stores.

A - Tim Cook {BIO 14014370 <GO>}

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Yeah. If you look at retail, it's a key part of our go-to-market approach, and it will be so key and such a competitive advantage with Vision Pro. It will give us the opportunity to launch a new product and demo to many people in the stores. And so it has many advantages in it. And we continue to roll out more stores. As you know, we just opened two in India last quarter, where -- there's still a lot of countries out there that don't have Apple Stores and we would like to go into. And -- so we continue to see it as a key part of how we go to market and love the experience that we can provide customers there.

Q - Krish Sankar {BIO 16151788 <GO>}

Awesome. Thanks a lot, Tim, very helpful.

A - Tim Cook {BIO 14014370 <GO>}

Yeah. Thank you.

A - Saori Casey {BIO 21337601 <GO>}

Thank you, Krish. A replay of today's call will be available for two weeks on Apple Podcasts, at a webcast of apple.com/investor and via telephone. The number for the telephone replay is 866-583-1035. Please enter the confirmation code 2553017 followed by the pound sign. These replays will be available by approximately 5:00 PM Pacific Time today. Members of the press with additional questions can contact Josh Rosenstock at 408-862-1142. Financial analysts can contact me, Saori Casey, with additional questions at 408-974-3123, while Suhasini Chandramouli is on her maternity leave.

Thank you again for joining us.

Operator

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

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