

Q2 2023 Earnings Call

Company Participants

- Luca Maestri, Senior Vice President and Chief Financial Officer
- Suhasini Chandramouli, Head of Investor Relations
- Timothy D. Cook, Chief Executive Officer & Board of Director

Other Participants

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

Presentation

Operator

Good day and welcome to the Apple Q2 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 or information which speak as of their respective dates.

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

Timothy D. Cook {BIO 14014370 <GO>}

Thank you, Suhasini. Good afternoon everyone and thanks for joining us. Today, we're reporting revenue of \$94.8 billion for the March quarter, which was better than our expectations. We set an all-time record for Services and a March quarter record for iPhone. We were particularly pleased with the performance we saw in emerging markets and achieved all-time records in Mexico, Indonesia, the Philippines, Saudi Arabia, Turkey and the UAE, as well as a number of March quarter records, including in Brazil, Malaysia, and India. This result is a testament, first and foremost, to our teams around the world who are engaged every day and the work of bringing new innovations to life. It speaks to the incredible power of Apple products and services to enrich people's lives in indispensable ways. And whether it's in the design lab in Cupertino, or in one of the brand-new retail stores in India, I am constantly inspired by the way our people come together to make a real difference in the world.

During the March quarter, we continued to face foreign exchange headwinds, which had an impact of more than 500 basis points, as well as ongoing challenges related to the macroeconomic environment. Revenue was down 3% year-over-year as a result, while on a constant-currency basis we grew in total and in the vast majority of the markets we track. Despite these challenges, we continue to manage for the long-term and to push the limits of what's possible, always on behalf of the customers who depend on our products, whether it's students exploring new frontiers, developers dreaming up their next big idea or artist taking their creativity to a whole new level. Let me share how these results showed up across our lineup of products and services.

Let's start with iPhone, which set a new March quarter record with revenue of \$51.3 billion. The iPhone 14 and 14 Plus continued to delight users with their long-lasting battery and advanced camera. And our Pro users continue to rave about the most powerful camera system ever in an iPhone. This March, we were excited to expand Emergency SOS via Satellite to six new countries, bringing this important safety feature to even more users. We now offer this vital service in 12 countries, and I am grateful for every note I receive from around the world about the lifesaving impact of our safety features.

Now let's turn to Mac, which recorded \$7.2 billion in revenue for the March quarter, in-line with our expectations. As we noted during our last call, Mac faced a very difficult compare because of the incredibly successful rollout of our M1 chips throughout the Mac lineup last year. And like our other product lines, Mac is facing some macroeconomic and foreign

FINAL

exchange headwinds as well. That said, the advancements we've made in power-efficient performance continue to amaze our users. Our M2 Mac mini customers are raving about the pro-level powerhouse packed into an ultra-compact design, and users are marveling at the power and speed at the heart of every M2-powered MacBook Air and MacBook Pro, which allow them to sustain even the most demanding workloads.

iPad revenue was \$6.7 billion, which was also in-line with our expectations. Similar to Mac, iPad revenue performance was impacted by macroeconomic challenges, foreign exchange headwinds, and a difficult compare with last year when we launched the M1-powered iPad Air. iPad's versatility continues to be its greatest strength, as we're helping students learn on the same family of devices artists use to create their next masterpiece.

Across Wearables, Home and Accessories, revenue was \$8.8 billion. With its exceptional range of game-changing health and safety features, Apple Watch becomes more and more indispensable day. Apple Watch Ultra is attracting adventurers, athletes and everyday users with its breakthrough features built for endurance and exploration. And with summer travel season soon heating up, there is no better companion in the air, or on the road than AirPods, the best and most popular headphones in the world.

Meanwhile, Services set an all-time record with \$20.9 billion in revenue for the March quarter. We achieved all-time revenue records across App Store, Apple Music, iCloud and payment services. And now with more than 975 million paid subscriptions, we're reaching even more people with our lineup of services.

Apple TV+ continues to draw praise from customers and reviewers alike. During the past quarter, fans tuned into incredible new series like Shrinking and The Big Door Prize, and got to welcome Ted Lasso back into their homes for a third season. Moves like Tetris are captivating viewers with many more to come, including Martin Scorsese's Killers of the Flower Moon later this year. Three years since its launch, Apple TV+ programming has been celebrated across the globe with over 1,450 nominations and more than 350 wins. Recently, we were thrilled to cheer on The Boy, the Mole, the Fox and the Horse, which won an Academy Award for Best Animated Short Film.

The first season of our historic 10-year partnership with Major League Soccer is well underway with MLS Season Pass, we've created the ultimate destination for soccer fans offering subscribers the ability to watch every match with no blackouts. And with baseball season in full swing, Apple TV+ subscribers can watch their favorite teams with the return of Friday Night Baseball.

This quarter we launched Apple Music Classical, a standalone app that gives something special to classical music lovers. Apple Music Classical packs the largest library of classical music on earth into a thoughtful and intuitive design that strikes all the right nodes. Whether you're listening with AirPods or HomePod, the premium sound experience of Apple Music Classical will leave you with the feeling of being front-row at the Symphony, just behind the conductor.

In March, we also launched Apple Pay Later. Designed with users' privacy and financial health in mind, Apple Pay Later allows users to split purchases into multiple payments with no interest or fees. And last month, we introduced Apple Card savings accounts to give users even more value out of their daily cash Apple Card benefit.

At Apple, our customers are at the center of everything we do. Nowhere is that more evident than retail where our teams are dedicated to sharing the best of Apple with our customers. And we're constantly innovating to deliver exceptional experiences and meet our customers where they are. In the US, we launched Shop with a Specialist over Video, a new way for customers to learn about iPhone and find the one that's just right for them.

And as I noted earlier, in a milestone for Apple, we just opened our first two Apple Stores in India in Mumbai and Delhi. I was there to see it for myself and I couldn't have been more delighted by the excitement and enthusiasm of the customers, developers, creatives, and team members I got to spend time.

I've had the chance to connect with customers and teams all around the world in recent months. So many people shared with me that they were fans of Apple, not just because of the innovations we create, but because of the values that guide us. And that means a great deal to us. We are constantly striving to make a positive difference in people's lives and be a force for progress.

We're investing in education to give students the skills they need to shape the future. We're helping to create pathways of opportunity for communities of color through our Racial Equity and Justice Initiative. And every day, we're building an even more inclusive and diverse Apple, rooted in our culture of belonging. To better understand how our work intersects with our values, look no further than what we're doing for the environment.

We just celebrated Earth Day in April. And during that month, Apple announced that its global manufacturing partners now support over 13 gigawatts of renewable energy, a nearly 30% increase in just the last year. This translates to 17.4 million metric tons of avoided carbon emissions, the equivalent of removing nearly 3.8 million cars from the road. We're also investing up to an additional \$200 million in our Restore Fund, which is designed to support innovative, scalable, nature-based carbon removal projects with the goal of remove 1 million metric tons of carbon every year. These are just the latest steps on our journey toward our 2030 goal to be carbon-neutral across our supply chain and life cycle of our devices.

At the same time we're advancing renewable energy across our supply chain, we're also sourcing more recycled materials in our products. Last month, we announced our plans to have all Apple-designed batteries include a 100% certified recycled cobalt by 2025. And we remain committed to one day using only recycled and renewable materials in our products.

We have a deep sense of mission here at Apple. We believe in the power of innovation to build a better world. We are determined to do our best work on behalf of our customers and to give them the tools that can enrich lives. So we will manage for the long term, just

as we always have, with our eyes to the horizon with limitless creativity and with a deep belief that we can achieve anything we put our minds to.

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

Luca Maestri {BIO 15738533 <GO>}

Thank you, Tim, and good afternoon, everyone. Revenue for the March quarter was \$94.8 billion, down 3% from last year and better than our expectations. Foreign exchange had a negative impact of over 5 percentage points on our results, in-line with what we had expected. On a constant-currency basis, our revenue grew year-over-year in total and in the majority of the markets we track. In addition to the records in emerging markets that Tim mentioned, we also set March quarter records in Australia, Canada, Spain and Switzerland, among others.

Products revenue was \$73.9 billion, down 5% from last year due to challenging compares on Mac and iPad. iPhone, however, reached a March quarter revenue record thanks to very strong performance in emerging markets from South Asia and India to Latin America and the Middle East. During the quarter, our installed base of active devices continued to grow at a nice pace, thanks to extremely high levels of customer satisfaction and loyalty, and reached an all-time high for all major product categories and geographic segments. Our Services set an all-time revenue record of \$20.9 billion, up 5% year-over-year, on top of growing 17% in the March quarter a year ago. We reached an all-time Services revenue record in Greater China and March quarter records in Americas, Europe and Rest of Asia Pacific.

Company gross margin was 44.3%, up 130 basis points from last quarter driven by cost savings and favorable mix shift toward services, partially offset by leverage. Products gross margin was 36.7%, decreasing 30 basis points sequentially due to seasonal loss of leverage and mix, partially offset by favorable cost. Services gross margin was 71%, up 20 basis points sequentially.

Operating expenses of \$13.7 billion were at the low-end of the guidance range we provided at the beginning of the quarter and continued to decelerate from the December quarter. We are closely managing our spend by remaining focused on long-term growth with continued investment in innovation and product development. Net income was \$24.2 billion. Diluted earnings per share were \$1.52, unchanged versus last year. And we generated very strong operating cash flow of \$28.6 billion.

Let me now provide more detail for each of our revenue categories. iPhone revenue set a March quarter record of \$51.3 billion, up 2% year-over-year despite significant foreign exchange headwinds and a challenging macroeconomic environment. We set March quarter records in several developed and emerging markets with India, Indonesia, Turkey, and the UAE doubling on a year-over-year basis. Our active installed base of iPhone grew to a new all-time high and was up in all our geographic segments. We are very pleased by the results of the latest survey of US consumers from 451 Research, which measured customer satisfaction at 99% for the iPhone 14 family.

Mac revenue was \$7.2 billion, down 31% year-over-year and in-line with our expectations. These results were driven by the challenging macroeconomic environment, coupled with a difficult compare against last year's launch of the completely re-imagined M1 MacBook Pros. Despite this, the installed base of active Macs reached an all-time high across all geographic segments, and we continue to see strong upgrader activity to Apple silicon. Also the latest survey of US consumers from 451 Research reported customer satisfaction at 96% for Mac.

iPad generated \$6.7 billion in revenue, down 13% year-over-year and in-line with our expectations. This performance was due to two key factors. A tough compare against the launch of iPad Air powered by the M1 chip in the year ago quarter and headwinds from the macroeconomic environment. The iPad installed base reached a new all-time high in all geographic segments, thanks to exceptional customer loyalty and a high number of new customers. In fact, over half of the customers who purchased iPads during the quarter were new to the product.

Wearables, Home and Accessories revenue was \$8.8 billion, down 1% year-over-year as the category experienced the impact from the macroeconomic environment. However, we did set March quarter records both in the US and in Greater China. We continue to see strength in our Watch installed base, which set a new all-time record, thanks to very high customer loyalty and new to rates. Nearly two-thirds of customers purchasing an Apple Watch during the quarter were new to the product.

Moving to Services, we reached a new all-time revenue record of \$20.9 billion. And in addition to the all-time records Tim mentioned earlier, we set March quarter records for advertising, Apple Care and video. Despite these records, as we saw in recent quarters, certain services offerings, such as digital advertising and mobile gaming, continue to be affected by the current macroeconomic environment. Stepping back, however, the continued growth in Services is the reflection of our ecosystem strength and the positive momentum we're seeing across several key metrics.

First, our growing installed base of over 2 billion active devices represents a great foundation for future expansion of our ecosystem. We continue to grow across every major product category and geographic segment, thanks to very high levels of customer loyalty and satisfaction. Second, we saw increased customer engagement with our services during the quarter. Both our transacting accounts and paid accounts grew double digits year-over-year, each setting a new all-time record. Third, paid subscriptions showed strong growth. We now have more than 975 million 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 offerings from new content on Apple TV+ to great new features available in Apple Pay and Apple Music, which we believe our customers will love.

Turning to the enterprise market, we see business customers continuing to invest in the Apple platform to drive higher employee productivity and satisfaction. In Brazil, Boticario

FINAL

Group, the world's largest cosmetics franchiser, originally starting with iPhone to help employees manage operations across a network of retail stores, franchisees and resellers. As it continues to digitize its business, Boticario has chosen to move all software development in-house and adopted Mac as the standard device for all of their developer teams across the world.

In small business, we see an increasing number of customers relying on Apple hardware, software and services to power their businesses forward, from accepting payments on iPhone to tracking inventory on Mac or iPad to managing employee devices with Apple Business Essentials. As we celebrate National Small Business Week here in the US, we are proud to continue supporting the small business community.

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 \$2.3 billion in maturing debt and increased commercial paper by about \$300 million, leaving us with total debt of \$110 billion. As a result, net cash was \$57 billion at the end of the quarter.

During the March quarter, we returned over \$23 billion to shareholders, including \$3.7 billion in dividends and equivalents, and \$19.1 billion through open market repurchases of 129 million Apple shares. Given the continued confidence we have in our business now and into the future, today our Board has authorized an additional \$90 billion for share repurchases as we maintain our goal of getting to net cash neutral over time. We're also raising our dividend by 4% to \$0.24 a share and we continue to plan for annual increases in the dividend going forward.

As we move ahead into the June 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.

We expect our June quarter year-over-year revenue performance to be similar to the March quarter, assuming that the macroeconomic outlook does not 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 impact of nearly 4 percentage points. For Services, we expect our June quarter year-over-year revenue growth to be similar to the March quarter while continuing to face macroeconomic headwinds in areas such as digital advertising and mobile gaming.

We expect gross margin to be between 44% and 44.5%. We expect OpEx to be between \$13.6 billion and \$13.8 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, reflecting the dividend increase I mentioned earlier today, our Board of Directors has declared a cash dividend of \$0.24 per share of common stock payable on May 18, 2023 to shareholders of record as of May 15, 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 Erik Woodring of Morgan Stanley.

Q - Erik Woodring {BIO 19492555 <GO>}

Hey, good afternoon guys. Thank you so much for taking the questions. Tim, maybe if we start with you, if we go back to the December quarter and the shutdowns -- the production shutdowns around that time, I think the question a lot of us were asking was, how should we think about the deferral of demand versus destruction of demand? March quarter was quite strong, 2% year-over-year iPhone growth. And so, as we sit here in May, how have you seen that customers that weren't able to purchase during the December quarter behave? Meaning, are you seeing that they deferred purchases to March and June? Could they be deferring purchases to later in hopes of buying a new iPhone? Just how should maybe we think about the cadence of that? And then I have a follow-up. Thanks.

A - Timothy D. Cook {BIO 14014370 <GO>}

Yes. Hi, Erik, it's hard to quantify this. But we do believe we did recapture some amount of sales in the March quarter. As we did see the iPhone performance accelerate relative to the December quarter, the production levels for the whole quarter were where we wanted them to be. So supply was not an issue during Q2.

Q - Erik Woodring {BIO 19492555 <GO>}

Okay, perfect. Thank you for that color. And Tim, maybe to follow-up, it's been three or four quarters now that you've mentioned emerging markets like India and others, and I imagine having just opened two new stores in the country, it's clearly an important market for you. So maybe can you just talk about why you see India as such an important market and others? How you think about monetization trends in the country? And specifically, what you have to do within the country to really ensure that India becomes maybe a more material mix of your business? And that's it from me. Thanks so much.

A - Timothy D. Cook {BIO 14014370 <GO>}

Yes, sure. Looking at the business in India, we did set a quarterly record and grew very strong double-digits year-over-year. So it was quite a good quarter for us. Taking a step back, India is an incredibly exciting market. It's a major focus for us. I was just there. And the dynamism in the market, the vibrancy is unbelievable. Over time, we've been expanding our operations there to serve more customers. And three years ago, we launched the Apple Store Online. And then, as you just mentioned, we launched two stores just a few weeks ago. And they're off to a great start, one in Mumbai and one in Delhi.

FINAL

Bloomberg Transcript

FINAL

We've got a number of channel partners in the country as well that we are partnering with, and we are very happy with how that's going. Overall, I couldn't be more delighted and excited by the enthusiasm I'm seeing for the brand there. There are lot of people coming into the middle class, and I really feel that India is at a tipping point and it's great to be there.

On other emerging markets, we had a stellar quarter in emerging markets overall, as I've mentioned, with record set in a number of different places, including Indonesia and Mexico, the Philippines, Saudi Arabia, Turkey, UAE, and then quarterly records in Brazil, India and Malaysia. And so it was a great quarter for emerging markets in general despite the headwinds of the currency that Luca mentioned. And so, we're putting efforts in a number of these markets and really see -- particularly given our low share and the dynamics of the demographics, etc., a great opportunity for us in those markets.

A - Suhasini Chandramouli

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

Operator

Our next question is from Mike Ng of Goldman Sachs. Please go ahead.

Q - Michael Ng {BIO 18285376 <GO>}

Hey, good afternoon. Thank you very much for the question. It is encouraging to hear about the record installed base across iPhone and across all devices. It's been, I think, double-digit growth over the last few years across the active devices. I was just wondering is that a good way to think about the installed base growth going forward? And then for the iPhone installed base specifically, I was just wondering if you could provide a little bit of texture around how you think about the growth there, whether regionally or by first smartphones versus switchers? And then I have a quick follow-up.

A - Timothy D. Cook {BIO 14014370 <GO>}

Yes. If you look at the installed base of active devices now, overall, it's more than 2 billion, as you know we announced in January that we surpassed that. In this quarter, our Q2, rather we set new records across each of the geographic segments, and each of the major product categories. And that's despite declines in current quarter sales, in particular in Mac and iPad. This is a huge asset for us and it's a testament to the overall customer satisfaction and engagement and loyalty of our customers. And so we view this as a major asset for us. The iPhone base is well over 1 billion active devices. We see this as upgrade rates and these sorts of things may change quarter-to-quarter depending upon macroeconomic. But if you back up and look at the installed base, we feel great about the size of it and the rate that it's growing.

Q - Michael Ng {BIO 18285376 <GO>}

Great. Excellent. And then, it was also encouraging to see the number of devices per iPhone user continue to grow. I was just wondering if you could talk about the opportunity to continue to increase that number of Apple devices per iPhone user. And if you have any

Bloomberg Transcript

color around how the monetization per user may differ from those, for lack of better words, super users versus those that may not be as deep into the ecosystem? Thanks.

A - Timothy D. Cook {BIO 14014370 <GO>}

We try really hard to design our products in such a way that they work seamlessly together, and so whether that's the Watch or the Mac, and so that you can start working on one device and finish it on the other. And so there are good deal of people out there that have multiple Apple devices. And I think this is a testament to the customer satisfaction and loyalty that we've been able to get from the incredible design that our engineering teams do on our products.

Q - Michael Ng {BIO 18285376 <GO>}

Excellent. Thank you, Tim.

A - Suhasini Chandramouli

Thanks, Michael. Operator, can we have the next question please?

Operator

Our next question is from Shannon Cross of Credit Suisse. Please go ahead.

Q - Shannon Cross {BIO 1891806 <GO>}

Thank you very much. Thank you for taking my question. Tim, can you talk a bit about AI? Obviously, that wasn't the topic of the day. It seems like the topic of the year. Just, how you think about it through your products and services? I know you use it in different ways. But also if you can just give us any thoughts you have on generated AI and, I don't know, where you see it going? Not sure what you want to say on it, but I'm really curious as your take. Thank you.

A - Timothy D. Cook {BIO 14014370 <GO>}

Yes. Thanks for the question, Shannon. As you know, we don't comment on product roadmaps. I do think it's very important to be deliberate and thoughtful in how you approach these things. And there's a number of issues that need to be sorted as this being talked about in a number of different places. But the potential is certainly very interesting. And we've obviously made enormous progress integrating AI and machine learning throughout our ecosystem, and we weaved into products and features for many years, as you probably know. You can see that in things like fall detection and crash detection and ECG. These things are not only great features, they are saving people's lives out there. And so it's absolutely remarkable. And so we are -- we view AI as huge and we'll continue weaving it in our products on a very thoughtful basis.

Q - Shannon Cross {BIO 1891806 <GO>}

Okay, thank you. And then can you talk a bit about your shift of manufacturing and diversification of manufacturing footprint? I'm curious, obviously, you have a very tight network in China. So how is it going to move to some of these other regions? Are you seeing any impact from a margin perspective or just any thoughts you have on what

FINAL

Bloomberg Transcript

you've seen as you started to shift more and more outside of China, whether it's growth or it's actual production? Thank you.

A - Timothy D. Cook {BIO 14014370 <GO>}

Our supply chain is truly global. And we are investing all over the world. We're investing in the US, we're investing in a number of other countries as well. And so we make products everywhere, we'll continue to invest everywhere, and we'll continue to look for ways to optimize the supply chain based on what we learn each and every day and week and so forth to ensure that we can deliver the best products and services for our customers.

If you sort of step back and look at how we performed over the last three years on the supply chain. Despite this parade of horrors, if you will, between the pandemic and the chip shortages and macroeconomic factors, the supply chain has been incredibly resilient. And we feel good about what we are and what our plans are.

Q - Shannon Cross {BIO 1891806 <GO>}

Thank you.

A - Suhasini Chandramouli

Thanks, Shannon. Operator, can we have the next question please?

Operator

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

Q - Wamsi Mohan {BIO 15994435 <GO>}

Yes, thank you. Tim, you had called out on December quarter earnings that Pro models were significantly constrained. Do you see a catch-up on the Pro model specifically in the March quarter and was the mix better than typical, and do you see that mix re-normalizing here in the June quarter? And maybe you can comment on the channel inventory levels as well for iPhones. And I have a follow-up.

A - Timothy D. Cook {BIO 14014370 <GO>}

Sure. It's hard to quantify, Wamsi. But we do believe we did recapture some amount of sales in the March quarter. And obviously, we had to set the channel at the right levels and we're very comfortable with the channel inventory that we have on a forward basis. So we do think there were some, but it's difficult to quantify it.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Okay, thanks, Tim. And Tim, as a follow-up, you launched so many services around Apple Pay. Most recently, you mentioned buy now, pay later, high-yield savings account. Where do you see the expansion in the payments ecosystem over time? And do you look at the payments ecosystem as a standalone revenue opportunity, or is it more about making the devices even more inseparable from us? Thank you.

FINAL

Bloomberg Transcript

A - Timothy D. Cook {BIO 14014370 <GO>}

What we're trying to do with our payments work is that sort of like we've done on the Watch where we're focused on helping people live a healthier day, on the -- on our financial products, we are helping people have a better financial health. And so things like the Apple Card and the fact that it has no fees, like the savings account, which has, as you mentioned, it's very attractive yield. So we're trying to help our users, and these things have to stand on their own, obviously. But we're very user focus and we're listening to them at what things are -- provide them pinch points and orchestrate our roadmaps around that. Buy now, pay later is another one that we've just gotten out of the chute. But on the savings account, specifically we are very pleased with the initial response. It's been incredible.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Thanks, Tim.

A - Suhasini Chandramouli

Thanks, Wamsi. Operator, can we have the next question please?

Operator

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

Q - David Vogt {BIO 21761779 <GO>}

Great, thanks for taking my question. Tim, I just wanted to go back to maybe kind of dig into the restocking of inventory in the channel versus what we're hearing from a demand perspective. That appears to be a little bit softer in the March quarter from some of your larger carriers that exhibited relatively weak upgrade rates. So, just wanted to get a sense for where you're seeing demand signals today, vis-a-vis how you were thinking about it maybe a month ago or even three months ago? And is there sort of an acceleration in demand, or any sort of signals that you might want to share with us at this point? And then I have a follow-up.

A - Timothy D. Cook {BIO 14014370 <GO>}

I don't want to go into what we're seeing in Q3 other than the guidance that Luca has given. But for Q2, I think you're probably referencing primarily US carriers. And if you look at our geographic distribution of our performance, it was lower in the Americas, which is primarily, predominantly the United States. And a part of that is -- I believe is macroeconomic, a part is that there were more promotional activity in the year ago quarter. And so, I think that's what you're seeing there. Where our results were really stellar during this quarter was really in the emerging markets, and we couldn't be prouder of the results that we had there.

Q - David Vogt {BIO 21761779 <GO>}

Great, that's helpful. And then just quickly on services. Are you seeing anything in terms of consumers' behavior other than sort of the macro that you mentioned and tough comps

FINAL

on digital advertising and mobile gaming? Are you seeing users of all the disparate services change in what they're using and how they're using it and time spent with an Apple service now that we're technically, hopefully, fully past COVID with China almost fully reopened? I'm just trying to get a sense for how user or consumer behavior has changed over the last three to six months? Thanks.

A - Luca Maestri {BIO 15738533 <GO>}

David, it's Luca. As you said, of course, we got the issue around the macroeconomic environment, particularly in advertising and in mobile gaming. But outside of those areas, the behavior of customers continues to be pretty consistent. We are doing particularly well, obviously, in some of the services that we've launched more recently like payments where our growth rates are very strong as the adoption of Apple Pay and Apple Card and now the new services that Tim mentioned. The adoption continues to increase.

Cloud is an area that continues to grow very consistently. Users want to store more photos and videos and more content on their devices, and so they adopt our cloud services. And in general, the model in the App Store around paid subscriptions continues to grow very strongly. I mentioned, we now have more than 975 million paid subscriptions on the platform, and that's almost twice as much what we had only three years ago. So obviously the growth in subscriptions is very strong.

Q - David Vogt {BIO 21761779 <GO>}

Great, thanks guys.

A - Suhasini Chandramouli

All right. Thanks, David. Operator, can we have the next question please?

Operator

Our next question is from Samik Chatterjee of JPMorgan. Please go ahead.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Hi, thanks for taking my questions. I guess, maybe if I can follow-up on David's question here on services. And in the past, pre-pandemic, the growth rate there was more about sort of mid-teens. The growth rates today where you stand, even if I back out FX impact is more about low-double digit. So one of the questions that we get often from investors and wanted to get your thoughts on is, even as the installed base growth seems to have accelerated, are these more cyclical drivers that are depressing growth at this point from returning to that level, or do you see more of a rollout on the monetization that you need to do to get back to those growth levels? And I have a follow-up, please.

A - Luca Maestri {BIO 15738533 <GO>}

Samik, the areas where we are seeing the impact of the macro environment, as I mentioned, is digital advertising, as you know, obviously, the micro environment is not helping on that front, and mobile gaming, where we've seen a bit of a slowdown partly due to the macro environment, partly due to the fact that we had very elevated usage

Bloomberg Transcript

during the COVID years. But outside of those areas, we continue to see very healthy growth rates.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Okay. And maybe if I can just follow-up on, this is more of a macro question. I don't know if Luca, you or Tim want to take this. But obviously, the macro is not sort of helpful at this point. But what you're sort of implying in terms of your guide is momentum for your products remains pretty stable, you're actually guiding to a modest uptake ex-FX for the overall business. I mean, what are you seeing in terms of customer sort of spending trends? And overall, does the consumer sort of continue to deteriorate in terms of spending patterns? And is your sort of momentum here just a function of share gains? How should we think about sort of where the consumer is versus what your products are doing independent of that?

A - Luca Maestri {BIO 15738533 <GO>}

Well, part of it, Samik, is what Tim was talking about. We are having momentum in emerging markets, and those are markets where our share is low, gives us a great opportunity to grow over time. It also helps us with the growth of the installed base because you can imagine any places where our market share is low, we tend to add a lot of switchers, people that are new to the Apple ecosystem, that increases the installed base. And over the longer term, it obviously improves our ability to monetize on services as well.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Thank you. Thanks for taking my questions.

A - Suhasini Chandramouli

All right. Thanks, Samik. Operator, can we have the next question please?

Operator

Our next question is from Amit Daryanani of Evercore.

Q - Amit Daryanani {BIO 7113568 <GO>}

I have two, as well. I guess first off on gross margins for the June quarter, they seem to be holding up fairly well, especially given the fact that sales is going down on a sequential basis. So, Luca, I'm wondering if you can just touch on what's driving the strength in gross margin sequentially, it's offsetting the lack of leverage, if you may? And then I also noticed that the range of your gross margin guidance is 50 basis points. It's typically 100 basis points. What does that entail? What does that mean?

A - Luca Maestri {BIO 15738533 <GO>}

So the -- you're right. I mean, we are guiding to a fairly stable level of gross margins at a very high level. We're very happy with the gross margins that we're having this cycle. For the first time in several quarters, foreign exchange -- we expect foreign exchange to be flat on a sequential basis at the gross margin level, unfortunately, still a headwind at the

revenue level. But at gross margin level, sequentially, we expect foreign exchange not to be a factor. And so the seasonal loss of leverage that you're referring to, we expect to be offset by cost savings. And so that should give us that level of margins.

As you know, you were asking about 50 basis points, we have guided to 50 basis points of a range before as well. This year, in particular, because of the 14th week in the -- during the December quarter, we are a bit late in the calendar year, right, and so we have a bit more visibility around margins for the June quarter.

Q - Amit Daryanani {BIO 7113568 <GO>}

Got it. That's helpful. And then, I guess, Tim, if I just go back to the India discussion a bit, perhaps you could just contrast what you're seeing in India today versus what you saw in China maybe a decade or so ago. Is that a reasonable ramp do you think India would have, or could it be different from the lessons you've seen in China?

A - Timothy D. Cook {BIO 14014370 <GO>}

I think each country is different and has their own journey. And so I hesitate to compare too much. But what I do see in India is, a lot of people entering the middle class and I'm hopeful that we can convince some number of them to buy an iPhone, and we'll see how that works out. But right now it's working out well.

Q - Amit Daryanani {BIO 7113568 <GO>}

Thank you.

A - Suhasini Chandramouli

Thanks, Amit. Operator, can we have the next question please?

Operator

Our next question is from Krish Sankar of TD Cowen. Please go ahead.

Q - Krish Sankar {BIO 16151788 <GO>}

Yes. Hi, thanks for taking my question. The first question I had is for Tim. Tim, primarily being a consumer-centric company, but it seems like the line is blurring with the iPhone, iPad, your hardware products being used for corporate applications. So is there a way to segment how much of your revenues today are coming from enterprise versus consumer? And does the slower corporate IT spend impact your outlook for iPhone, iPad, Mac, etc.? And then I had a follow-up.

A - Timothy D. Cook {BIO 14014370 <GO>}

Internally, we have our estimates for how much is enterprise versus consumer. And the enterprise business is growing. We have been focusing a lot on BYOD programs and there is more and more companies that are leaning into those and giving employees the ability to select, which is plays to our benefit I believe, because I think a lot of people want

to use a Mac at work or an iPad at work. And so -- but we're certainly primarily a consumer company in terms of our revenues, obviously.

Q - Krish Sankar {BIO 16151788 <GO>}

Got it, Tim. Thanks for that. And then just as a follow-up, obviously, the other question on the India retail opening, I'm just curious, you also mentioned that you hope to convert lot of folks into iPhone there. Where do you think the biggest opportunity? Is it like primarily a hardware business, like the iPhone, iPad, wearables, etc.? Or do you think there is a service opportunity in India longer term, too? Thank you very much.

A - Timothy D. Cook {BIO 14014370 <GO>}

I think there is an opportunity across the board, including in services. Obviously, the ARPUs are lower in India for whether you're talking about TV and movie streaming or music ARPUs are much lower than other regions. But if you look at it over a long arc of time, I think there is good opportunity across the board.

Q - Krish Sankar {BIO 16151788 <GO>}

Thanks a lot, Tim.

A - Timothy D. Cook {BIO 14014370 <GO>}

Yes.

A - Suhasini Chandramouli

Thanks, Krish. Operator, can we have the next question please?

Operator

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

Q - Aaron Rakers {BIO 6649630 <GO>}

Yes. Thanks for taking the questions. I guess my first question is, I'm going to go back to the geographical dynamics. I'm curious as we all think about the reopening attributes of China, just how you would characterize the shaping of demand you saw through the course of this last quarter and how you're thinking about the impact of that reopening playing out over the next couple of quarters?

A - Timothy D. Cook {BIO 14014370 <GO>}

If you look at China, our revenue came in at negative 3% for the quarter year-over-year, but we actually grew on a constant-currency basis. And we also accelerated as compared to the December quarter, which, as you know, had 14 weeks in it and was a negative 7% on a reported basis. And so we were pleased with how we did and with the acceleration that we saw with the reopening. And we'll see how we do this quarter.

FINAL

But if you look at the top-selling smartphones in urban China, based on a survey from Kantar, we have four out of the top five. And I think in all of the third-party data I've seen on the market itself in the smartphone space, we believe we gained share during Q2. So we feel good about it. It also China has a lot of very good metrics in terms of new buyers. For example, on the Mac about 6 out of 10 customers are buying the Mac for the first time. Same thing on iPad. If you look over at the Watch, it's more than three out of four customers are buying the Watch for the first time. And so the buyer metrics, if you will, are very, very good. And our Services business hit an all-time record in China during the quarter.

Q - Aaron Rakers {BIO 6649630 <GO>}

Yes, very helpful, Tim. As a quick follow-up, I want to go back to Amit's question on gross margin. You talked about FX, the lessening impact there. I'm just curious of, when you look at your gross margin, obviously you got mix attributes kind of potentially continuing to drive that higher. But I'm curious, on the current environment, how you would characterize the component pricing dynamics and what you're thinking about in this current quarter's guidance?

A - Luca Maestri {BIO 15738533 <GO>}

Yes. The environment on the component side is favorable. We've seen component prices decline during the March quarter and we expect the same during the June quarter.

Q - Aaron Rakers {BIO 6649630 <GO>}

Thank you.

A - Suhasini Chandramouli

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

Operator

Our next question is from Sidney Ho of Deutsche Bank. Please go ahead.

Q - Sidney Ho {BIO 6922415 <GO>}

Great, thanks for taking my question. I was hoping you can talk about the linearity of the March quarter and perhaps the first 4.5 weeks of the current quarter. It looks like things are slowing down quite a bit, elsewhere. But if my math is right, your fiscal third quarter guidance imply product revenue will be a little bit lower than seasonal average on a sequential basis. Any color would be helpful. Thanks.

A - Luca Maestri {BIO 15738533 <GO>}

We said that we expect our performance during the June quarter, at the revenue level, to be similar to the one that we've just reported for the March quarter. Keep in mind this. We always have differences in the launch timing across our products. And also that, especially over the last few years we've seen certain amount of supply disruptions, sometimes it was COVID related. Sometimes, it was related to specific component shortages. Just to remind you, in the June quarter a year ago, we had the full quarter impact of the launch for both

the iPhone SE and the iPad Air, which leads to a more difficult compare. So I think it's important to keep those things in mind.

Q - Sidney Ho {BIO 6922415 <GO>}

Okay, that's helpful. Maybe as a quick follow-up, you talked about Apple Pay Later. How has the feedback been so far and how do you expect the adoption of that service over the next few quarters? Thank you.

A - Timothy D. Cook {BIO 14014370 <GO>}

The feedback for both Apple Pay Later and the savings products, have both been really good and we think both of them help customers live a better or healthier financial life. And so, we are very excited about the first days of both of them.

Q - Sidney Ho {BIO 6922415 <GO>}

Okay, thank you.

A - Suhasini Chandramouli

Thank you, Sidney. Operator, can we have the last question please?

Operator

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

Q - Harsh Kumar {BIO 3235392 <GO>}

Yes. Hey, guys. Thanks for squeezing me in. Tim, you are one of the largest chip companies. You are not a component maker. You actually use your own products. But we almost never hear in any context of you guys being a beneficiary -- Apple being a beneficiary for either the CHIPS Act money R&D or on the -- or the R&D tax credit that's being proposed. I was just curious if you're eligible for any of those? And then I've got a follow-up.

A - Timothy D. Cook {BIO 14014370 <GO>}

I don't see Apple participating in the CHIPS Act directly. But we would be a beneficiary indirectly, because some of our partners would hopefully be recipients of it and therefore, put in additional capacity. And so, on that sort of indirect basis, we would have a benefit.

Q - Harsh Kumar {BIO 3235392 <GO>}

Understood and thanks for clarification. Luca, I wanted to clarify your comments about June. When you're saying June performance will be similar to March, I assume on a year-on-year basis, which will be June should be down about 2-something-odd percent. Is that a fair way? And then my question that I wanted to ask maybe another one for Tim was, where do you think is the largest opportunity in your services offering? You're doing a great job. You just set a record. But surely, there must be areas where you think you can do better?

A - Luca Maestri {BIO 15738533 <GO>}

Yes. So to the -- to your question around the June performance, yes, on a year-over-year basis, so comparable to the March quarter on a year-over-year basis.

A - Timothy D. Cook {BIO 14014370 <GO>}

Harsh, I think we can do better on everything and so I wouldn't just point to one of them. If you look at the number of active devices and the growth of active devices, I think our services are underpenetrated in a number of different ways. And so I -- the way that I look at it is, there is opportunity in many of them.

Q - Harsh Kumar {BIO 3235392 <GO>}

Understood. Thanks, Tim.

A - Timothy D. Cook {BIO 14014370 <GO>}

Yes.

A - Suhasini Chandramouli

All right. Thank you, Harsh. A replay of today's call will be available for two weeks on Apple Podcasts, as a webcast on apple.com/investor and via telephone. The number for the telephone replay is 866-583-1035, please enter confirmation code 4934362 followed by the pound sign. These replays will be available by approximately 5 p.m. Pacific Time today. Members of the press with additional questions can contact Josh Rosenstock at 408-862-1142 and financial analysts can contact me with additional questions at 408-862-5119.

Thanks again for joining us.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2023, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.