Q2 2022 Earnings Call

Company Participants

- Luca Maestri, Senior Vice President and Chief Financial Officer
- Tejas Gala, Director, Investor Relations, and Corporate Finance
- Tim Cook, Chief Executive Officer

Other Participants

- Amit Daryanani
- Ben Bollin
- Chris Caso
- David Vogt
- Jim Suva
- Katy Huberty
- Krish Sankar
- Kyle McNealy
- Samik Chatterjee
- Wamsi Mohan

Presentation

Operator

Good day, and welcome to the Apple Q2 FY 2022 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 Tejas Gala, Director of Investor Relations and Corporate Finance. Please go ahead.

Tejas Gala {BIO 20432011 <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 today's discussion 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 COVID-19 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.

Tim Cook {BIO 14014370 <GO>}

Thank you, Tejas. Good afternoon, everyone and thank you for joining us today.

Apple is proud to report another record quarter with a March quarter revenue record of $97.3 billion, up 9% from a year ago and better than we anticipated. iPhone, Mac, and Wearables, Home and Accessories, had their best ever March quarter and Services set an all-time record on the strength of subscription growth over the past year.

Before I get into details, I want to take a moment to acknowledge the humanitarian tragedy unfolding in Ukraine. We're continuing to do everything we can to support our teams in the region, and we are donating to humanitarian efforts on the ground. We've also committed to donating products to support refugees arriving here in the United States.

I also want to speak to the unpredictable nature of the pandemic. We are excited to be welcoming employees back to the offices in the US and Europe. At the same time, we are monitoring COVID related disruptions in China. Our thoughts are with all those in the path of the virus and we remain as committed as ever to doing our part to help protect people and their communities.

These times remind us that we cannot know what the future may hold. But they remind us too that technology infused with humanity makes a real difference in the world, and that's where our focus has remained, on driving the innovations that can enrich people's lives.

Throughout the quarter, Apple continued its streak of unparalleled innovation at an unmatched pace. With Apple silicon, our teams are pushing the limits of what we once thought possible, and we are seeing leaps and bounds in performance and efficiency. Last month, we announced another breakthrough with M1 Ultra, the world's most powerful chip for a personal computer. The incredible customer response to our M1-powered Macs, helped propel a 15% year-over-year increase in revenue despite supply constraints.

We now have our most powerful Mac lineup ever with the addition of the entirely new Mac Studio. Paired with the new studio display of 5K resolution display equipped with its own A13 Bionic chip, this new desktop and display, transform any work space into a creative powerhouse.

As we released the groundbreaking M1 Ultra, we also expanded our iPhone offerings, adding two beautiful green finishes to the iPhone 13 lineup and introducing the new 5G enabled iPhone SE, which is great for our existing users, who want a smaller iPhone and a great value for people buying an iPhone for the first time. They love how much power and performance, we've injected into such an affordable device, and rave about it's incredible camera and it's lightning fast speeds.

In the March quarter, iPhone revenue grew 5% over the previous year despite a challenging compare as we saw strong demand from our customers for the iPhone 13 family.

And with the all new iPad Air supercharged by M1, iPad brings more power and more versatility across the entire iPad lineup. For customers around the world, iPad continues to be essential for education, creativity, and entertainment. That's why we're continuing to see such a strong demand for iPad, even while navigating the significant supply constraint we predicted at the start of the quarter.

Turning to Wearables, Home and Accessories, we are pleased to see these products continue to delight our users, growing 12% year-over-year. Customers are enthusiastically taking charge of their health with Apple Watch Series 7, and Apple Watch SE. The rich sound, beautiful colors, and compact design of HomePod mini continue to make it a hit with customers. And there's still no better companion to Apple Music than AirPods with spatial audio that transforms the way we listen, putting our customers right in the center of the music.

The seamless integration of hardware, software, and services, is at the center of our work and philosophy at Apple. Apple Services are designed to be easy to use with expert curation that brings our users' compelling content from talented developers, creators, storytellers, and artists. These principles are reflected in all of the services we've developed, which continue to generate incredible enthusiasm from our customers.

Services revenue rose to $19.8 billion in the March quarter, reflecting a 17% increase from a year ago. We were especially excited to cheer on CODA, as it won the Academy Award for best picture, making Apple TV+ the first streaming service to win in this category. We were honored to be stewards of this incredibly powerful, deeply moving film. In a little over two years, Apple TV+ shows and movies have earned over 240 awards and more than 960 nominations. From Severance to WeCrashed to Pachinko, new Apple originals are connecting with audiences and earning praise from critics.

We're also winning over sports fans with Friday Night Baseball, which debuted early this month, and They Call Me Magic, a four-part documentary that premiered last week tracing the life of the iconic Magic Johnson.

Fitness+ is helping users channel their inner athlete with a range of workout routines for any fitness level. We recently introduced a postpartum routine designed by mothers for mothers. And with our Apple Heart and Movement Study, we are helping researchers gain new insights into cardiovascular fitness.

As our products and services entertain customers and help them stay healthy, we're also working to make their lives easier. Arizona, for example, is the first state to enable its citizens to securely add their driver's license and state IDs to Apple Wallet. More states and the territory of Puerto Rico will soon follow. We've also announced plans to introduce tap-to-pay on iPhone, a simple and secure way for businesses to accept contactless payments launching across the US later this year.

To meet the needs of customers wherever they are, our Apple retail teams are constantly adapting to better serve them. We opened a new store in the United Arab Emirates this quarter at a unique waterfront location with panoramic views of the Abu Dhabi Skyline. And earlier this month, we opened a new store in Korea, our third and largest store in the heart of Seoul. And across the US, we marked the return of in-person Today at Apple sessions with a special program featuring music from pop icon, Lady Gaga.

I'd like to thank our team members working in Apple Stores, customer care centers, channel partners stores, and our Apple Care Teams for bringing customers the best of Apple.

As we look to the environment, we are making good progress on our commitment to achieve carbon neutrality across our products and supply chain by 2030. Through our green bonds program, we're investing in breakthrough technologies, like low carbon aluminum, which we will be integrating into the new iPhone SE. And we were pleased to announced recently that we've nearly doubled the number of our top suppliers who have committed to accelerating the transition to clean energy. We are also investing in renewable energy projects in communities most impacted by climate change around the world.

As we do our part to protect our planet, we're also prioritizing people. As part of our long-standing commitment to inclusion and diversity, we're continuing to build a better, stronger Apple, rooted in a culture where everyone belongs. Last month, we published an update on the progress we've made with inclusion and diversity at Apple. We've hired more women than ever into leadership roles, and in the US nearly 60% of all leadership openings were filled by people from underrepresented communities in 2021.

We also recently announced a $50 million Supplier Employee Development Fund that will help workers in our supply chain discover additional educational opportunities and build new skills. And through our racial equity and justice initiative, we're continuing to advance our work to support underrepresented communities and help build a more just and equitable world.

Before I hand it over to Luca, I want to acknowledge the challenges we are seeing from supply chain disruptions driven by both COVID and silicon shortages, to the devastation from the war in Ukraine. We are not immune to these challenges, but we have great confidence in our teams, in our products and services, and in our strategy. Fundamentally, our work is about making technology that enriches people's lives and unlocks the full creative potential of humanity. And though the twists and turns of the future may be uncertain, what is certain is that we will never stop striving to be a force for good in the world, in everything we do and everything we are.

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

Luca Maestri {BIO 15738533 <GO>}

Thank you, Tim, and good afternoon, everyone.

We are pleased to report very strong financial results for the March quarter, during which we set a revenue record of $97.3 billion, up 9% year-over-year. We also set new March quarter records in the Americas, in Europe and in greater China.

On the product side, revenue was $77.5 billion, up 7% over a year ago, and a March quarter record. We grew in each of our product categories except iPad, which remains significantly supply-constrained throughout the quarter. And we set March quarter records for iPhone, Mac, and Wearables, Home and Accessories.

This level of sales performance, combined with unmatched customer satisfaction and loyalty, helped our installed base of active devices to reach an all-time high for all major product categories as well as geographic segments.

Our Services set an all-time revenue record of $19.8 billion, up 17% over a year ago, with March quarter records in every geographic segments and services category.

Company gross margin was 43.7%, down 10 basis points from last quarter, as seasonal loss of leverage and unfavorable foreign exchange were partially offset by favorable mix.

Products gross margin was 36.4%, down 200 basis points sequentially, mainly driven by seasonal loss of leverage and FX. Services gross margin was 72.6%, up 20 basis points sequentially, due to a different mix.

Operating cash flow of $28.2 billion, net income of $25 billion, and diluted earnings per share of $1.52, were all March quarter records.

The strong March quarter results capped a record first half of the fiscal year in the midst of a challenging macroeconomic environment. We generated over $220 billion in revenue, growing 10% year-over-year, and set all-time records for iPhone, Mac, Wearables, Home and Accessories, and Services. These record sales results drove strong double-digit growth in operating income and earnings per share.

Let me now get into more detail for each of our revenue categories during the March quarter. iPhone revenue grew 5% year-over-year to a March quarter record of $50.6 billion despite supply constraints, thanks to a continued strong customer response to our iPhone 13 family and the launch of our new iPhone SE. We set March quarter records in both developed and emerging markets and the latest survey of US consumers from 451 Research, indicates iPhone customer satisfaction of 99% for the iPhone 13 family.

As a result of this level of sales performance combined with unmatched customer loyalty, the iPhone active installed base reached a new all-time high across all geographies.

For Mac, revenue of $10.4 billion was a March quarter record despite supply constraints with 15% year-over-year growth driven by strong demand for our M1-powered MacBook Pro. As Tim mentioned earlier, our continued innovation and investment in Apple silicon has clearly shown in our Mac results, as the last seven quarters have been the best seven quarters ever for Mac. Our investment focus on Mac has also helped to drive significant activity in our growing installed base. In fact, we had a March quarter record for upgraders, while at the same time, nearly half of the customers purchasing a Mac were new to the product.

IPad revenue was $7.6 billion, down 2% year-over-year, due to continued supply constraints. Customer response to our iPad lineup, including our new M1-powered iPad Air, remains very strong and our installed base of iPads reached a new all-time high during the quarter with over half of the customers purchasing an iPad during the quarter being new to the product.

Wearables, Home and Accessories set a March quarter record of $8.8 billion, up 12% year-over-year. And we set March quarter revenue records in both developed and emerging markets. In particular, our Wearables business has doubled in three years, and is nearly the size of a Fortune 100 business, as we continue to attract many customers who are new to Wearables. For instance, Apple Watch continues to extend its reach with over two-thirds of customers purchasing an Apple Watch during the quarter being new to the product.

Turning to Services. As I mentioned, we reached an all-time revenue record of $19.8 billion, up 17%, with all-time records for the App Store, Music, Cloud Services and AppleCare, and March quarter records for video, advertising and payment services. These impressive results reflect the impact of our continued investment in improving and expanding our services portfolio and the positive momentum that we're seeing on many fronts.

First, our installed base has continued to grow, reaching an all-time high across each geographic segments and major product category. Next, we continue to see increased customer engagement with our Services. Our transacting accounts, paid accounts and accounts with paid subscriptions, all reached all-time highs during the March quarter in every geographic segments. Also, paid subscriptions continue to show very strong growth. We now have more than 825 million paid subscriptions across the Services on our platform, which is up more than 165 million during the last 12 months alone.

And finally, as Tim highlighted before, we continue to improve the breadth and the quality of our current service offerings, while launching new services.

In the enterprise market, many businesses and government organizations continue to turn to Apple for the latest technologies to deliver innovative services to customers and employees. In March, Alaska Airlines began to replace the conventional airport self-service kiosks with iPad Pros for faster passenger check-in and self bag drop. Also last month, the Western Australia Police Force completed the world's first commercial deployment of CarPlay across their entire fleet of vehicles to complement the iPhone 13s issued to each officer. This allows officers to access critical information faster on the road and enhance public safety for the community. We also unveiled the general availability of Apple business essentials in the US, adding new subscription services designed to help small businesses manage every aspect of their Apple device life cycle.

Let me now turn to our cash position. As we continue to generate very strong cash flow, we ended the quarter with $193 billion in cash and marketable securities. We repaid $3.8 billion in maturing debt, while increasing commercial paper by $2 billion, leaving us with total debt of $120 billion. As a result, net cash was $73 billion at the end of the quarter. We returned nearly $27 billion to shareholders during the March quarter. This included $3.6 billion in dividends and equivalents and $22.9 billion through open market repurchases of 137 million Apple shares.

We also retired an additional 5 million shares in the final settlement of our 18th ASR.

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 5% to $0.23 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 Tejas referred to at the beginning of the call. Given the continued uncertainty around the world in the near term, we're not providing revenue guidance, but we are sharing some directional insights based on the assumption that the COVID related impacts to our business do not worsen from what we are projecting today for the current quarter.

We believe our year-over-year revenue performance during the June quarter will be impacted by a number of factors. Supply constraints caused by COVID related disruptions and industry-wide silicon shortages, are impacting our ability to meet customer demand for our products. We expect these constraints to be in the range of $4 billion to $8 billion, which is substantially larger than what we experienced during the March quarter. The COVID related disruptions are also having some impact on customer demand in China.

With respect to foreign exchange, we expect it to be a nearly 300 basis point headwind to our year-over-year growth rate. Additionally, we paused all sales in Russia during the March quarter. This will impact our year-over-year growth rate by approximately 150 basis points. Specifically related to services, we expect to continue to grow double-digits, but decelerate from our March quarter performance due to some of the factors I just described.

We expect gross margin to be between 42% and 43%. We expect OpEx to be between $12.7 billion and $12.9 billion. We expect OI&E to be around negative $100 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 $0.23 per share of common stock, payable on May 12, 2022, to shareholders of record as of May 9, 2022.

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

Questions And Answers

Operator

(Question And Answer)

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Absolutely. We'll take our first question from Katy Huberty with Morgan Stanley.

Q - Katy Huberty {BIO 6993997 <GO>}

Yes. Thank you. Congrats on the quarter. A couple of macro-related questions, just given everything that's going on in the market. The first is on how you're thinking about consumer spending as we see more stock market volatility, rising interest rates, inflation, what metrics are you watching, either internal to your business or external at the macro level, to understand whether you'll ultimately start to see some demand impact, particularly on the product side of your business? And then I have a follow-up.

A - Tim Cook {BIO 14014370 <GO>}

Katy. Hi, it's Tim. We're obviously monitoring our daily sales very closely. From an inflation point of view, we are seeing inflation. It is or was evident in our gross margin last quarter and in our OpEx last quarter, and it is assumed in the guidance that Luca gave for this quarter as well. So we're definitely seeing some level of inflation that I think everybody is seeing.

Q - Katy Huberty {BIO 6993997 <GO>}

And how are -- just as a follow-up to that, how are you thinking about how that might impact either the consumers in your business and whether it influences their ability to purchase at the same level?

A - Tim Cook {BIO 14014370 <GO>}

Well, we're monitoring that closely and we've sort of right -- but right now, our main focus, frankly speaking, is on the supply side.

Q - Katy Huberty {BIO 6993997 <GO>}

Okay. And as it relates to that, in China, how should we think about lockdowns from an impact on supply and an impact on demand? And what products in your portfolio should we expect to be most impacted? Thank you.

A - Tim Cook {BIO 14014370 <GO>}

Yes, good question. For Q2, so the quarter that we just finished, the restrictions in China had not started yet. And so Q2, we did have supply constraints. They were significantly lower than what we had experienced during the December quarter. They were driven by industry-wide silicon shortages. And specifically, the issue that I've talked about on previous calls with the legacy nodes.

But looking ahead, we see two causes of supply constraints. One is the COVID-related disruptions, and there's the industry-wide silicon shortages that will continue. We've estimated the constraints to be in the range of $4 billion to $8 billion. And if you -- these constraints are primarily centered around the Shanghai Corridor. And the -- on a positive front, almost all of the affected final assembly factories have now restarted. And so the range, the $4 billion to $8 billion range, reflects various ramps of getting back up and running. We're also encouraged that the COVID case count that's been reported in Shanghai has decreased over the last few days, and so there's some reason for optimism there.

Q - Katy Huberty {BIO 6993997 <GO>}

Thank you. Pretty amazing how the team has navigated all the cross currents. Congrats again on the quarter.

A - Tim Cook {BIO 14014370 <GO>}

Thanks so much.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Thank you. We'll take our next question from Amit Daryanani with Evercore.

Q - Amit Daryanani {BIO 7113568 <GO>}

Yes. Good afternoon, and thanks for taking my questions. I guess, I have two as well. First, I was hoping if you could just touch a little bit on the geographic growth vectors that you saw, and I think Americas grew really well, 19%, 20%, but Europe and China had much more muted growth, if you may. I know your compares are fairly difficult but I am curious, if anything you would call out in terms of spillover effect on the macro side from Russia, Ukraine and Europe, that's seeing some impact to consumer spend or even in China? Just help us understand what happened geographically there?

A - Luca Maestri {BIO 15738533 <GO>}

So Amit, in -- as you said, in the Americas, we had a very strong quarter, up 19%, very, very happy across the board there. Europe again was a really good quarter for us. We grew 5% in spite of the fact that of course, as you know, during the month of March, we paused our sales in Russia. So we had an impact to our sales results there for a month of the quarter, but a number of European countries, particularly in Western Europe, did really, really well for us. And so it was a very good quarter for us, pretty much in line with our expectations. America's was better than our expectations. China was again a March quarter record for us.

Keep in mind -- and this affected every geographic segments for us. The different launch timing for the iPhone this year versus a year ago, had an impact on the March quarter results because we launched the product later, a year ago, than we did this year. So some of the channel feel for the new products happened during the March quarter a year ago.

Japan and Asia-Pacific were affected by foreign exchange. Japan would have grown in line with company average in constant currency terms. Asia-Pacific as well was affected by foreign exchange with the dollar appreciating against most currencies. And then, again, this difference in the launch timing for the iPhone made a difference. Keep in mind again, the supply constraints that we had during the quarter, our results would have been obviously better without the supply constraints. Overall, we felt very good about the performance around the world.

Q - Amit Daryanani {BIO 7113568 <GO>}

If I could just to follow up on the supply chain, the $4 billion to $8 billion impact that you folks talked about, do you think this is demand that's deferred out or demand that's essentially destroyed, because you have a product cycle that's going to come out at some point soon this year. How do you think about demand deferred versus demand destroyed on that front? And then, is there a sense of which product categories are most impacted by this versus not?

A - Tim Cook {BIO 14014370 <GO>}

It will affect most of the product categories. And in terms of whether it's -- whether we can recapture or not, we believe that there's a percentage of it that is recapturable and a percentage of it that is likely not, where somebody needs something quickly. And that ratio or that percentage is very difficult to estimate. We obviously try to do that and internally in order to demand plan, but it's not something that we share.

Q - Amit Daryanani {BIO 7113568 <GO>}

Got it. Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

We'll take our next question from Chris Caso with Raymond James.

Q - Chris Caso {BIO 4815032 <GO>}

Yes, thank you. Good evening. Also just wanted to dig in on the supply constraints a bit. And I guess one of the things you said is that the $4 billion to $8 billion range reflects some reopening of facilities during the quarter. I know, obviously, it's tough to predict as you go forward into the second half of launch of new products. But at that point, would you expect the constraints to still be mainly on the component side? And then hopefully if things don't get worse in China, then the facilities are open and the constraints are only the component constraints as you go into the second half of the year?

A - Tim Cook {BIO 14014370 <GO>}

Yes, Chris, it's hard to answer a question about unannounced products. And so, I'll try to not do that. But the --

Q - Chris Caso {BIO 4815032 <GO>}

No. Yes, for all products. Yes.

A - Tim Cook {BIO 14014370 <GO>}

The $4 billion to $8 billion is simply as I had mentioned that, if you look at the Shanghai Corridor, we have some final assembly plants in this area, and almost all of them have restarted, is the good news of it -- working with local officials. But we planned various ramps for these and that's the range of $4 billion to $8 billion that we've estimated.

Q - Chris Caso {BIO 4815032 <GO>}

Got it. Thank you.

A - Tim Cook {BIO 14014370 <GO>}

COVID is difficult to predict.

Q - Chris Caso {BIO 4815032 <GO>}

For sure, for sure. As a follow-up, I wanted to also follow on some of your comments regarding inflation and how Apple is dealing with that. Obviously, component costs have been going up in many different areas. And then, specifically in the semiconductor side, costs have been going up, but perhaps for some different reasons, because of the additional cost of going up to new process nodes, but it's higher than it has been in the past. How is Apple planning to deal with that? And is it possible for you to get through that without either raising prices on your product or affecting gross margins?

A - Tim Cook {BIO 14014370 <GO>}

Well, some of what you've said is in the results for the last quarter that we've announced, and obviously, we've put our current thinking in the current quarter guidance that Luca listed earlier. There are component costs that are falling and ones that are rising. And so not all of them are moving in the same direction. And so we've really tried to manage to the net of these and I think we're doing a reasonable job currently navigating the -- what is a challenging environment.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Thank you. We'll take our next question from David Vogt with UBS.

Q - David Vogt {BIO 21761779 <GO>}

Great. Thank you guys for taking my question. I just want to dig in a little bit on the product disruption, the $4 billion to $8 billion. In the past, you kind of gave us a sense for how it would affect each of the different product lines and should we expect it to have similar pro rata impacts and is there an opportunity to maybe reallocate resources to limit maybe some of the impact on the iPhone line, and then maybe versus the iPad line? And then I have a quick follow-up.

A - Tim Cook {BIO 14014370 <GO>}

It will affect most of the product categories. And we obviously will look to do any kind of optimization that we can do to minimize the effect on the user.

Q - David Vogt {BIO 21761779 <GO>}

Great. And then maybe just as a follow-up, you talked about potential COVID related demand issues in China and taking out 150 basis points from Russia. But when you look at the other geographies, if there's anything that you can share with us whether it's in Western Europe or the US that you're seeing from a demand perspective that may be sort of out of the ordinary or outside of sort of the disruptions and the lack of product, demand seems to be sort of where you would think it would be at this point in the cycle. Thank you.

A - Tim Cook {BIO 14014370 <GO>}

We were happy with the iPhone growth last quarter particularly when you think about the comp that it was going against, because we had very different timing on the launches in the year ago quarter, where we launched in Q1, and therefore, naturally Q2 is at a different place on the new product curve. And so it was a very difficult comp. And so we were pleased with it. And as Luca said, the Americas geography did quite well last quarter, and the US of course, is the major geography within there, and certainly, the US was quite strong last quarter.

Q - David Vogt {BIO 21761779 <GO>}

Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

We take our next question from Jim Suva with Citigroup.

Q - Jim Suva {BIO 6329522 <GO>}

Thank you. Tim and your entire company has done a great job at navigating through all the issues of the past several years, where it be COVID, power outages, trade wars, shipping challenges, and all that. When we hopefully someday get past all of these and these supply constraints in society and turmoil hopefully across the world, do you start to reconsider the way you do the supply chain, albeit just in time ordering and outsourcing so much of your chips, or do you actually consider like holding more buffer inventory internally? Because right now, letting $4 billion to $8 billion go away, it'd be nice to have that to be able to sell. So do you consider holding more buffer inventory or maybe even doing your own chips, but by outsourcing your own chips to control them more? Or how should we think about strategically when hopefully the world's in a better place from today?

A - Tim Cook {BIO 14014370 <GO>}

Well, I'm looking forward to that day, as I know all of you are. Our supply chain is truly global and those -- so the products are made everywhere and we do a lot in the US, we'll probably be doing even more here as more chips are produced here, and we continue to look at optimizing. We learn something every day and make changes. But when you back up and kind of zoom out, and look to see how the supply chain has done within the environment that you eloquently talked about, I think, it's been very resilient with -- the top issue we've had clearly is the silicon shortage that I think everybody's struggling with.

And I think we've done a really good job of managing through the COVID piece of it. And so -- but, we are learning and we are making some changes as we go. We don't have a tenure [ph]. And so to the degree that we learn something that we should change, you can bet that we're doing that.

In this business, you don't want to hold a ton of inventory. It's -- and so you want to work on cycle times and so forth to do things very quickly, and take strategic inventory in places where you need to buffer for interruptions and so forth. And so we're constantly thinking about where those places are.

In today's world, it's not really possible for us to have buffer on silicon. And so today, silicon rolls off the fab and it's into a final assembly plant very, very quickly, and we try to make that as shorter time as possible.

Q - Jim Suva {BIO 6329522 <GO>}

And then my quick follow-up, we've been talking about supply chain issues for multiple quarters now. Are you kind of hearing from your suppliers that maybe latter half of this year or is it actually going to go into kind of 2013 for some closer equilibrium time period?

A - Tim Cook {BIO 14014370 <GO>}

I wouldn't -- you're talking about for the -- the silicon shortage in particular, I assume. I don't want to predict that, because the -- that entails knowing how worldwide demand and supply are for the whole -- for industries outside of even the industry we're in, and I don't proclaim to be an expert in that. That also heavily is influenced by how strong the economies are in the different markets. And so, I think there are varying levels of outcomes and what we're focused on is doing -- trying to do very well regardless of how that question is answered.

Q - Jim Suva {BIO 6329522 <GO>}

Thank you. And congratulations to you and your entire team.

A - Tim Cook {BIO 14014370 <GO>}

Thanks so much.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Thank you. We'll take our next question from Samik Chatterjee with J.P. Morgan.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Hi. Thanks for taking my question and congrats on the results as well. I'll stick to two more micro level questions here. Firstly, Tim, you talked about the iPhone SE 3 demand that you -- the product that you just launched. I was hoping you could compare what are you seeing in terms of momentum to previous iPhone SE cycles? Particularly I think in the past, North America has been the largest region in terms of demand, what are you seeing with the current product in terms of demand by geography? And I have a quick follow-up for, Luca. Thank you.

A - Tim Cook {BIO 14014370 <GO>}

Yes. We don't get to that level of granularity, because we view it to be sensitive data that our competitors would love to have. And so I'm going to punt on answering that question. I would just say that when you zoom out and look at iPhone as a total, we could not be happier with the iPhone 13 family of products and the strength we've seen for this cycle. And really, it's those products that have powered the line and given us the overall results that we've had on iPhone, which for the first half, the revenues were $120 billion and we feel very, very good about those results.

Q - Samik Chatterjee {BIO 15496543 <GO>}

And my follow up for Luca. Luca, we're seeing sort of a settling in in terms of growth rate for the Services business on the tough comps that you have. We're also seeing the gross margins, they're settling around this sort of 72% range. And understand there are a lot of moving pieces beneath that. But is this sort of a good range for services longer term or are there sort of moving pieces there that as they scale, they can take the -- there is an opportunity for more upside?

A - Luca Maestri {BIO 15738533 <GO>}

Well, we feel really great about the momentum for our Services business. I was looking at the absolute numbers here that this run rate of almost $20 billion is essentially double what we had just four years ago. So we've done really, really well with Services. We have a lot of momentum for a variety of reasons. The first one is the fact that our installed base of active devices continues to grow very nicely, and so there is obviously a big engine for our Services business.

The second thing is that the level of engagement that we see on our platform continues to grow. We have more transacting accounts, more paying accounts, more accounts with subscriptions, the absolute amount of paid subscriptions on our platform, is pretty impressive, $825 million. It's an increase of $165 million in the last 12 months alone. So you can tell that this is great growth. And of course, as you've seen over the last few years, we've added a lot of new services and we plan to add new services and new features that we believe that our customers would love. And so we think there's great, absolute great momentum.

The growth rates can change a bit, especially during COVID, because we've gone through some cycles of lockdowns and then re-openings and so on. And so sometimes the comps can be a bit deceiving. We are looking at it from the lens of continuing to satisfy our customers adding to the portfolio, improving the quality of the services, and that has served us very well, because in the last 12 months, we've generated $75 billion of services revenue. And you've seen the margins are obviously accretive to company margin.

So we feel good. We feel good about the Services business. I mentioned in my prepared remarks that the growth rate for the June quarter, we expect it to be less than the 17% that we've reported in March for some of the reasons that I described. Of course, foreign exchange is an issue with the dollar being strong at this point. And of course, we pause our sales in Russia. So we need to take that into account. But in general, when we look across the board, we set all-time records and quarterly records for each one of our categories.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

We will take our next question from Krish Sankar with Cowen & Company.

Q - Krish Sankar {BIO 16151788 <GO>}

Yes. Hi. Thanks for taking my questions and congrats on the really strong result. I have two questions too, and I do apologize, the first one is on supply constraints. Luca, if I try to read the tea leaves, based on June quarter guidance, revenues being impacted, kind of implies year-over-year down revenue. And you also spoke about a $4 billion to $8 billion supply constraint, which is a large amount compared to the revenue. And I understand you have the supply constraints and the China shutdowns.

I'm just kind of curious, do you think the last three quarters, Apple supply chain had a better buffer inventory of semis that kind of got used up and now you're kind of more tied to whatever the true supply constraint of legacy semis is or is there something else going on? And then I had a follow-up.

A - Luca Maestri {BIO 15738533 <GO>}

What has happened, obviously, during COVID has changed over the quarters. Recently, for example, during the March quarter, the constraints that we had, were limited to silicon shortages. When we are giving out this range of $4 billion to $8 billion, it's not only silicon, but it's the restrictions in China that we're seeing right now. So they are different. There is additional constraints at this point that we are seeing, because of the COVID situation. So it's -- that is the fundamental difference there.

Q - Krish Sankar {BIO 16151788 <GO>}

Got it, got it. Very helpful. And then as a quick follow up, with the shutdowns especially in places like China, have you seen actually the App Store's or your Services business actually inflect positively or is it too short a time frame to make a judgment call on that?

A - Luca Maestri {BIO 15738533 <GO>}

Yes, I think it's early to tell. The restrictions in China started at the very end of March. So it's very, very early to tell.

Q - Krish Sankar {BIO 16151788 <GO>}

Got it. Got it. Thank you, Luca. Thank you very much.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

We take our next question from Wamsi Mohan with Bank of America.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Yes. Thank you. Luca, thanks for the color around the impacts to the revenue guidance. But I was wondering if you could share, A, if you expect to grow overall revenue in the June quarter on a year-on-year basis? And just to be clear on these impacts that you gave, those are on a year-on-year basis, can you also tell us how much FX is a headwind if any, on a quarter-on-quarter basis and incremental Russia impact quarter-on-quarter basis, and incremental supply chain impact also on a quarter-on-quarter basis? And I have follow-up.

A - Luca Maestri {BIO 15738533 <GO>}

Well, as we said, we're not guiding to a specific revenue number. Just to repeat what I said during the prepared remarks, we're having supply constraints that are caused by the COVID related disruptions and by the silicon shortages, and that is what is creating the constraints. We're expecting to be in the range of $4 billion to $8 billion. This is substantially larger than what we've had during the March quarter. Again, let me repeat, the COVID related disruptions did not affect the March quarter, so you need to keep that in mind.

With respect to foreign exchange, we expect it to be a nearly 300 basis points headwind. It was about 200 basis points headwind during the March quarter. For Russia, we said that the impact on a year-over-year basis is approximately 150 basis points. That reflects the three months of the quarter. We paused sales in Russia at the beginning of March, so it's -- it was a partial impact on the March quarter. So obviously, on a sequential basis, it's an incremental factor to keep in mind.

I would say, on the positive side here, is that the demand for both our products and services is solid. Tim has mentioned a number of times the iPhone 13 family is having a really strong year. We -- when we look at top selling smartphones around the world, we've had pretty incredible results during the March quarter. The top six models in the United States are iPhones, the top four in Japan, the top five in Australia, five of the top six in urban China, and so on and so forth. So the iPhone 13 has been truly a global success.

And as you know, and as you can tell even from our website, most of the iPad and Mac models are constrained today, they've been constrained for several quarters, because the demand is very good for those products, and the Services business, as you know, is growing double-digits. So that's what gives us confidence for the June quarter and going forward.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Okay. Thank you, Luca. And if I could follow up. Tim, you're in a really enviable place of being pretty far from your net cash neutral objective. At the same time, you are generating a significant amount of cash flow every year. So your capital return strategy has been extremely successful program in the past. But $90 billion is 3% of your market cap. And on the other hand, there are just a lot of assets that arguably have a lot of synergies with Apple in the healthcare space or the fitness area like Teladoc or Peloton or Netflix in content area. Why is this not the right time for Apple to perhaps look at such assets instead of buying back stock or maybe do both?

A - Tim Cook {BIO 14014370 <GO>}

We're always looking and we'll -- we continue to look and we would only acquire something that were strategic. We acquire a lot of smaller companies today, and we'll continue to do that for IP and for great talent. And -- but we don't discount doing something larger either if the opportunity presents itself. And so -- but I don't want to go through my list with you on the phone, but we're always looking.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Thanks, Tim.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

We'll take our next question from Kyle McNeely with Jefferies.

Q - Kyle McNealy {BIO 21065231 <GO>}

Hi. Thanks very much for the question. This one's regarding Mac. Great quarter results by the way. Some exciting products coming out for sure. We're noticing that there's -- the lead times are longer for Macs now ordered today with some available now, but many not shipping till June. Just wanted to get your insight on how much of that you think is driven by the strong March results with the product launch and likely sell out conditions, versus just real tightness in this supply chain? And the obvious follow-on to that is when do you expect you might catch up to get Mac lead times back within a week?

A - Tim Cook {BIO 14014370 <GO>}

Well, we're working hard. We've got lots of customers that we want to get the new Macs too. And so we're working hard on them. They are a result of the combination of the COVID disruptions and the silicon shortage that we've talked about before. And when we might remedy that, I don't -- we're not really forecasting when we can be out of the silicon shortage. So that would be a difficult answer. I think the COVID piece of it I hope is a transitory kind of issue. And so I would hope that it would get better over time.

Q - Kyle McNealy {BIO 21065231 <GO>}

Great. Thanks a lot.

A - Tim Cook {BIO 14014370 <GO>}

Yes.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Thank you. We'll take our next question from Ben Bollin with Cleveland Research.

Q - Ben Bollin {BIO 7475003 <GO>}

Good afternoon, everyone. Thanks for taking the question. The first one is on services. Luca, I was hoping you could share a little bit of a perspective on maybe how much of the Services contribution is purely consumer versus enterprise? And how you think about the longer-term opportunity to monetize the enterprise community?

And then, Tim, for you as a follow-up, I think Jim Suva had asked a question earlier about some of your strategy. I was curious, how strategy might have evolved since everything's been going on? What changes you might have seen as of late with respect to freight and some of the geographic production footprint? And any evolution that has happened as of late? Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

So Ben, on the Services side, of course, the vast majority of what we do in Services is to final consumers. We do understand and appreciate the fact that the enterprise is a great opportunity for us. Very recently, for example, we launched this new subscription service here in the United States, which we call Apple Business Essentials, where essentially, we provide support to small and medium-sized businesses in terms of 24/7 support, device management for small business owners, which we think small companies will value and appreciate.

Obviously, we sell AppleCare to enterprises already today. But we know and the enterprise in general as a market is a very interesting market for us, and we're putting a lot of effort and focus on it, and we believe, we have really good opportunities to grow.

A - Tim Cook {BIO 14014370 <GO>}

Ben, you brought up freight. Freight is a huge challenge, and today, both from an inflationary point of view and from a availability point of view. And so right now, the focus is on moving the freight to customers any way that we can do that. Over time, we'll do that much more efficiently. And I would hope that the fundamental rates resets on both, and I'm talking about both ocean and air. And so, both of them have come under some significant inflationary pressure partly due to COVID and some other reasons as well I would guess. And in terms of geo-production, we are constantly making tweaks here and there. And I don't want to go into the details of those, because we view as to be sensitive kind of information. But we're constantly making moves to optimize in the current environment.

Q - Ben Bollin {BIO 7475003 <GO>}

Thank you, both.

A - Tim Cook {BIO 14014370 <GO>}

Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

Thank you, Ben.

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 numbers for the telephone replay are 888-203-1112 or 719-457-0820. Please enter confirmation code 1807633. These replays will be available by approximately 5 PM Pacific Time today.

Members of the press with additional questions can contact Josh Rosenstock at 408-862-1142. Financial analysts can contact me with additional questions at 669-227-2402.

Thank you again for joining us.

Operator

This concludes today's conference. We appreciate your participation.