

Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Aaron Rakers, Analyst
- Amit Daryanani, Analyst
- David Vogt, Analyst
- Harsh Kumar, Analyst
- Katy Huberty, Analyst
- Krish Sankar, Analyst
- Kyle McNealy, Analyst
- Samik Chatterjee, Analyst
- Shannon Cross, Analyst
- Wamsi Mohan, Analyst

Presentation

Operator

Good day, and welcome to the Apple Q2 FY 2021 Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the call over to Tejas Gala, Director, 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 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 COVID-19 on the Company's business results of operation. 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 over the call to Tim for introductory remarks.

Tim Cook {BIO 14014370 <GO>}

Thanks, Tejas. Good afternoon, everyone, and thanks for joining the call today. Apple is proud to report another strong quarter, one where we set new March quarter records for both revenue and earnings, besting our year ago revenue performance by 54%. Reflecting both the enduring ways our products have helped our users meet this moment in their own lives as well as the optimism consumers seem to feel about better days ahead, we set new March quarter records in every geographic segment, and success was broadly distributed across our product categories. Mac & Services delivered all-time record results, and we set new March quarter records for iPhone, and Wearables, Home and Accessories.

To provide some color on our results, let's turn to our product categories. We saw a very strong performance for iPhone, which grew 66% year-over-year driven by the strong popularity of the iPhone 12 family. With unmatched 5G capability, the best camera system ever in an iPhone and advanced durability from ceramic shield, this family of devices is popular with both upgraders and new customers alike. And just last week, we unveiled an all-new purple finish for iPhone 12 and 12 Mini. As has been the case throughout the pandemic, iPad and Mac continue to be critically important tools for our customers. Over the past year, tens of millions of iPads and Macs have been deployed to help students learn, creators create, and to enhance remote work in all of its forms. This has helped iPad grow very strong double digits to its highest March quarter revenue in nearly a decade.

On Mac, fueled by the M1, we set an all-time revenue record continuing the momentum for the product category. In fact, the last three quarters for Mac have been its three best quarters ever. Last week, both iPad and Mac took a big step forward. We debuted a radically redesigned brand-new iMac designed around M1's unmatched capabilities, and we've brought M1 to iPad for the first time in a new iPad Pro with 5G capability and a Liquid Retina XDR display.

It was a quarter of sustained strength for Wearables, Home and Accessories, which grew by 25% year-over-year. Apple Watch is a global success story, and the category set March quarter records in each geographic segment, thanks to strong performance from both Apple Watch Series 6 and Apple Watch SE. It's an exciting and busy period ahead for Wearables, Home and Accessories with the launch of the next-generation Apple TV 4K and our newest accessory, AirTag. AirTag builds on the powerful and incredibly useful Find My experience, helping users privately and securely keep track of the items that matter most to them. Third-party accessories and products can also make use of the Find My network, guaranteeing a great experience no matter what products you choose to use.

Turning to Services. We achieved growth of 27% year-over-year and set new records for services in each of our geographic segments. We continue to enhance and improve our current service offerings from Apple Music to Apple News, while continuing to launch new

services that enhance our customers' lives. Just last week, we introduced Apple Card family, which reinvents how you can share credit cards and build credit together. We also announced Apple Podcast subscriptions, a global marketplace for listeners to discover premium content from their favorite creators and storytellers.

While we're on the topic of services, in many ways, this quarter showed the unique value to customers created by Apple's belief in the deep integration of hardware, software and services. Across our products and throughout our software ecosystem, we continue to deploy industry-leading new tools to protect users' fundamental right to privacy. In addition to the App Store privacy nutrition labels that we discussed on last quarter's call, we're proud to have launched the full implementation of App Tracking Transparency. This powerful, yet simple, idea gives users a choice over how their data is used and shared across the apps that they love and use every day.

No matter what device you enjoy it from, it is a milestone period for Apple TV+, racking up many new award nominations and wins, including its first Oscar nominations. Ted Lasso, in particular, has been recognized with a multitude of awards and nominations including most recently, an AFI Program of the Year Recognition, Writers Guild of America Awards and a clean sweep at the Critics Choice Awards. Apple TV+ also continues to be a place where we can tell stories that matter and lift up important voices and experiences like our new upcoming content partnership with Malala, our latest original documentary special, the Year the Earth changed narrated by the legendary David Attenborough and released to commemorate Earth Day.

This is, of course, just one example of how Apple lives its values and operationalizes the idea that to whom much is given, much as expected. To begin with our environmental efforts, just last week, we marked a milestone Earth Day on multiple fronts. In addition to the progress we've made in our own efforts to achieve our pledge of a net zero carbon footprint by 2030 across our entire supply chain and use of our products, we're proud to play a role in the growing ripple change taking place across the private sector.

As of this month, 110 of our suppliers have joined us in our renewable energy commitment, and we will bring on line nearly 8 gigawatts of new clean energy, the equivalent of taking 3.4 million gas-powered vehicles off the road each year. Through Apple's \$4.7 billion in green bonds and related efforts, we've supported transformative environmental projects around the world from clean energy initiatives in China to two of the world's largest onshore wind turbines in Denmark to 180-acre solar project outside Reno, Nevada and many more.

We're also keenly focused on how this wave of green innovation can lead to equitably shared prosperity. Through our new \$200 million restore fund, we're helping local and rural communities around the world build sustainable industries around working for us creating opportunities and removing up to 1 million metric tons of carbon from the atmosphere every year. And here in the United States, we started a green impact accelerator, investing and supporting minority-owned businesses at the forefront of environmental fields.

FINAL

As we look forward to WWDC we're taking new steps to foster -- to support and foster the unmatched community of developers we work with here in the United States and around the world. I'm particularly excited about our inaugural entrepreneur camp for black to founders and developers. Building on the success of our entrepreneur camp program, which we began in 2019, this program gives this profoundly innovative community of developers the chance to develop next-level technical skills through hands-on technology labs, and with our partners at Harlan Capital, it also shares insights and mentorship on building and scaling an app business.

We were proud to announce that we have expanded and accelerated our commitment to the US economy. Over the next five years, we will invest \$430 billion, creating 20,000 jobs in the process. The investments will support American innovation and drive economic benefits in every state, including a new North Carolina campus and job creating investments in innovative fields like silicon engineering and 5G technology.

Looking forward, whether you're running a business or just hoping to see family again after more than a year, it's tempting at this moment to let hope about the end of the COVID-19 pandemic outstrip clear-eyed realism about the challenges we still face. In many places around the world, new waves of infections driven by even more infectious variants of the virus are driving new lockdowns. Instead of simply assuming that the end is in sight, we at Apple are doing our part to make it a reality.

Beginning with an enduring and uncompromising commitment to the health and safety of our teams, and extending well beyond our walls into the communities where we work. We also want to do everything we can to connect users to life-saving vaccinations that are in ever greater supply. Through Apple Maps, for example, we now showcase vaccine site locations here in the United States, building on our maps of testing locations in many countries around the world.

It's worth remembering for much more than financial reasons or year-ago compares, just how we felt at this time last year when everything we knew had to change, plains set grounded, entire business districts were empty and silent. People left groceries or care packages sitting in the garage or in the hall overnight in recognition of all that we didn't know and therefore, had to imagine.

Thanks to researchers and scientists, doctors and nurses, everyone who can put a shot in an arm and even just check a name off a list, we have reached new days of hopeful resolve. Our work is not done, but as I said a year ago, while we can't say for sure how many chapters are in this book, we can have confidence that the ending will be a good one.

With that, I'll hand things over to Luca.

Luca Maestri {BIO 15738533 <GO>}

Thank you, Tim. Good afternoon, everyone. We are extremely pleased to report record results for our March quarter despite continued uncertainty in the macro environment.

FINAL

We've been operating in new ways for over a year, and we could not be more proud of the way our team continues to execute and innovate at unprecedented levels.

Our revenue reached a March quarter record of \$89.6 billion an increase of over \$31 billion or 54% from a year ago. We grew very strong double digits in each of our product categories, with all-time records for Mac and for Services and March quarter records for iPhone and for Wearables, Home and Accessories. We also set new March quarter records in every geographic segment with growth of at least 35% in each one of them.

Products revenue was a March quarter record of \$72.7 billion, up 62% over a year ago. As a result of this level of sales performance and the unmatched loyalty of our customers, our installed base of active devices reached a new all-time record in each of our major product categories. Our services set an all-time record of \$16.9 billion, growing 27% over a year ago. We established new records in each geographic segment and in most service categories. I will provide more details about the performance of our services business later.

Company gross margin was 42.5%, up 270 basis points from last quarter, driven by cost savings, a strong mix and favorable foreign exchange. Products gross margin was 36.1%, growing 100 basis points sequentially, also thanks to cost savings and FX, partially offset by seasonal loss of leverage. Services gross margin was 70.1%, up 170 basis points sequentially mainly due to a different mix. Net income of \$23.6 billion, diluted earnings per share of \$1.40 and operating cash flow of \$24 billion were all March quarter records by a wide margin.

Let me get into more detail for each of our revenue categories. iPhone revenues had a March quarter record of \$47.9 billion, growing 66% year-over-year as the iPhone 12 family continue to be in high demand. Performance was consistently strong across the world as we grew strong double digits in each geographic segment and set March quarter records in most markets we track. Thanks to the exceptional loyalty of our customer base and strength of our ecosystem, our active installed base of iPhones reached a new all-time high. In the US the latest survey of consumers from 451 Research indicates customer satisfaction of over 99% for the iPhone 12 family.

Turning to Services. We reached an all-time revenue record of \$16.9 billion with all-time records for the App Store, cloud services, music, video, advertising and payment services. Our new service offerings, Apple TV+, Apple Arcade, Apple News+, Apple Card, Apple Fitness+ as well as the Apple One bundle, continue to scale across users, content and features and are contributing to overall services growth. The key drivers for our services business all continue to move in the right direction.

First, our installed base growth has accelerated and reach an all-time high across each major product category. Second, the number of both transacting and paid accounts on our digital content stores reached a new all-time high during the March quarter, with paid accounts increasing double digits in each of our geographic segments. Third, paid subscriptions continue to show strong growth. During the March quarter, we added more than 40 million paid subs sequentially, and we have now reached more than 660 million

paid subscriptions across the services on our platform. This is up 145 million from just a year ago and twice the number of paid subscriptions we are only 2.5 years ago.

Finally, we're adding new services that we think our customers will love, while also continuing to improve the breadth and quality of our current service offerings. For example, Apple Arcade launched its biggest expansion yet, adding incredibly fun games to the catalog, including new exclusive Arcade originals, along with two entirely new categories, App Store Greats and Timeless Classics. Apple Pay continues to expand geographically, launching in Mexico and in South Africa, bringing our payment service to six continents.

Wearables, Home and Accessories grew 25% year-over-year to \$7.8 billion, setting new March quarter revenue records in every geographic segment. Apple Watch continues to extend its reach, with nearly 75% of the customers purchasing Apple Watch during the quarter, being new to the product. We're very excited about the future of this category and believe that our integration of hardware, software and services uniquely positions us to provide great customer experiences in this category.

Next, I'd like to talk about Mac. We set an all-time revenue record of \$9.1 billion, up 70% over last year, and grew very strongly in each geographic segment with all-time revenue records in Europe and rest of Asia Pacific and March quarter records in the Americas, Greater China and Japan. This amazing performance was driven by the very enthusiastic customer response to our new Macs powered by the M1 chip.

iPad performance was also outstanding with revenue of \$7.8 billion, up 79%. We grew very strongly in every geographic segment with an all-time record in Japan and a March quarter record in rest of Asia Pacific.

Both Mac and iPad are incredibly relevant products for our customers in the current working and learning environments, and we are delighted that the most recent surveys of US consumers from 451 Research measured customer satisfaction at 91% for Mac and 94% for iPad. With this level of customer satisfaction, and with around half of the customers purchasing Mac and iPad during the quarter being new to that product, the active installed base for both products continues to grow nicely and reached new all-time highs.

In the enterprise market, customers across many industries are accelerating their adoption of iPhone 12 and 5G as a key platform for the future of their business. Delta Airlines, for example, is putting iPhone 12 and 5G connectivity into the hands of flight attendants so they can provide the best passenger service possible as air travel rebounds. Openreach in the UK has started equipping tens of thousands of field engineers with iPhone 12 to speed up their deployment of broadband services to homes around the country. And UCHHealth, a large healthcare provider in Colorado, was able to reduce per patient vaccination time from three minutes to only 30 seconds largely by moving from PC stations to iPhones. This has allowed their staff to rapidly scan and register new patients and vastly increase their daily vaccination capacity.

Let me now turn to our cash position. We ended the quarter with over \$204 billion in cash plus marketable securities. We issued \$14 billion of new term debt and retired \$3.5 billion of term debt, leaving us with total debt of almost \$122 billion. As a result, net cash was \$83 billion at the end of the quarter.

This strong position allows us to continue to invest confidently in our future, while also returning value to our shareholders. We are innovating and investing at an unprecedented pace, including accelerating our investment in the United States with our new commitment to contribute more than \$430 billion and 20,000 jobs to the country over the next five years.

As we continue to execute at an extremely high level, we were also able to return nearly \$23 billion to shareholders during the March quarter. This included \$3.4 billion in dividends and equivalents and \$19 billion through open market repurchases of 147 million Apple shares. We continue to believe there is great value in our stock and maintain our target of reaching a net cash neutral position over time.

Given the confidence we have in our business today and into the future, our Board has authorized an additional \$90 billion for share repurchases. We're also raising our dividend by 7% to \$0.22 per 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 are not providing revenue guidance, but we are sharing some directional insights assuming that the COVID-related impacts to our business do not worsen from what we are seeing today for the current quarter. We expect our June quarter revenue to grow strong double digits year-over-year. However, we believe that the sequential revenue decline from the March quarter to the June quarter will be greater than in prior years for two reasons. First, keep in mind that due to the later launch timing and strong demand, iPhone only achieved supply-demand balance during the March quarter. This will cause a steeper sequential decline than usual. Second, We believe supply constraints will have a revenue impact of \$3 billion to \$4 billion in the June quarter.

We expect gross margin to be between 41.5% and 42.5%. We expect OpEx to be between \$11.1 billion and \$11.3 billion. We expect OI&E to be around \$50 million and our tax rate to be around 14.5%. Finally, reflecting the approved 7% dividend increase I just mentioned, today, our Board of Directors has declared a cash dividend of \$0.22 per share of common stock payable on May 13, 2021, to shareholders of record as of May 10th, 2021.

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

Questions And Answers

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

(Operator Instructions) We'll take our first question from Shannon Cross with Cross Research. Please go ahead.

Q - Shannon Cross {BIO 1891806 <GO>}

Thank you very much. Tim, I had sort of a big picture question on iPhone. I'm just curious, there are so many different things happening in this cycle, 5G, pandemic, how are you thinking about the opportunity for refreshing the installed base and attracting new customers. And are you seeing lives shorten given some of the programs that are being put out there by the carriers and by yourself? Just kind of maybe big picture, if you can talk about what you're seeing in terms of iPhone out there in the market. Thank you.

A - Tim Cook {BIO 14014370 <GO>}

Sure, Shannon. We saw double-digit increases on a year-over-year basis on both the new to iPhone and upgraders. So -- and in fact, in the March quarter, there was actually a record number of upgraders for a March quarter. And so we like what we see. It's obviously the early days of 5G. Different countries are in different points. But penetration is still -- on a global level, is still low at this point. And so a lot of the 5G upgrades will be in front of us, not behind us.

You see in China, things have moved quickly to 5G. They're moving quickly in the United States. But a lot of the other regions are slower to adopt and slower to gain coverage in 5G.

Q - Shannon Cross {BIO 1891806 <GO>}

Okay, thank you. And then, Luca, can you talk about gross margin? I mean 42% is higher than it's been that I can kind of remember actually at this point. So maybe if you talk about the drivers of gross margin. And maybe if there were any offsets from higher component costs or the logistics costs that obviously were overshadowed by currency and other things. Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

Yes, Shannon. Yes, we did 42.5% during March, and we've guided to similar, slightly lower levels for June. So for March, we were up 270 basis points sequentially, really driven by three major factors. Cost savings, which has been good for us during the cycle. A really strong mix, a strong mix on iPhone, but in general, across all product categories, and that obviously was helpful. And foreign exchange sequentially, again, from December to March, was favorable 90 basis points. So that helped as well. So those are the three major factors there. As we transition into June, as you know, that we will expect some level of deleverage but that will be offset by cost savings. Foreign exchange doesn't have much of an impact as we go from March to June.

FINAL

Bloomberg Transcript

Q - Shannon Cross {BIO 1891806 <GO>}

Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Absolutely. We will now take our next question from Amit Daryanani with Evercore.

Q - Amit Daryanani {BIO 7113568 <GO>}

Thank you for taking my question. I have two as well. First one just on Services, I think 90 days ago, the expectation was that line item would decelerate a little bit into the March quarter. It turned out it actually accelerated for us. I'd like to just understand what do you think drove that acceleration specifically? And is mid-20% sort of the growth norm as we go forward for Services?

A - Luca Maestri {BIO 15738533 <GO>}

So Amit, the -- our Services business did better than what we were expecting when we had the last call in January. It was stronger across the board. One of the things that we've noticed is that throughout COVID was that obviously digital services have done very well. And then we've had a couple of categories like Apple Care because many of the points of sale and stores were closed and advertising because of the reduced economic activity that were negatively affected during COVID.

During the March quarter, we've seen a return to growth on Apple Care and obviously, we've reopened a lot of the stores during the course of the quarter. And advertising, obviously, consumer sentiment has improved and advertising is coming back. And so the combination of these factors really delivered this very, very strong performance during the March quarter.

As we look ahead, as you know, we don't provide specific guidance for our product categories. But in general, I talked during our prepared remarks, I mean, there are a number of things that we always look at around the Services business, how many new paid accounts do we have, what number of new subscriptions do we get that -- above all, is our installed base continuing to grow. Are we adding new services? Are we improving the quality of the existing services? And so when we look at all these fundamental vectors of our Services business, obviously, we feel very good. We feel very good about it.

Q - Amit Daryanani {BIO 7113568 <GO>}

Got it. That's helpful. And then, Tim, if I could follow up with you. It seems like engagement with iPhones and Apple devices generally has gone up materially over the last 12 months. And I don't think replacement cycles, at least in the data we see, has shrunk or changed that much at the end of the day. I'm wondering, does that combination of increased usage, replacement cycles haven't changed, end up in iPhones potentially

FINAL

Bloomberg Transcript

growing on a multiyear basis because I would imagine if I'm using something more I have to replace it more often. So I'd love your perspective on it.

A - Tim Cook {BIO 14014370 <GO>}

Yes. We're clearly seeing strong performance in both the new to iPhone or the switcher component and upgraders. as I'd mentioned before. And in fact, the upgrader was the best March quarter that we've ever had in -- and so that speaks to what you're seeing, I think, a lot.

It's difficult with just this far into the cycle to make a statement about the cycle in general because keep in mind that we just launched midway through the Q1 period. And so we've only been operating for 4.5 months or so. But clearly, we like what we see right now a lot. If you look at how the iPhone did around the world, we had the top five models of smartphone in the US, the top selling, the top two in urban China, four out of the top five in Japan, the top four in the UK and the top six in Australia. And so it was a sort of across the board in some really key countries, we did really, really well. I do think that the 5G cycle is important. And we're in the early days of it, frankly.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Absolutely. We'll take our next question from Katy Huberty from Morgan Stanley. Please go ahead.

Q - Katy Huberty {BIO 6993997 <GO>}

Thank you. This was a pretty unbelievable quarter, and investors are going to ask about the sustainability of current demand trends, especially as you lap some of the benefits from COVID in areas like services and Macs later this year. So I know you don't guide beyond -- or provide an outlook beyond the next quarter. But can you talk from a high level over the next year, which segments do you see the opportunity to maintain strong revenue growth versus where is it reasonable to assume there will be some digestion as consumers shift their spending priorities? And then I have a follow-up for Luca.

A - Tim Cook {BIO 14014370 <GO>}

If you sort of look at the different products, iPhone, I've already mentioned some of the great momentum that we had there. Keep in mind that the compare that we're running to would be the quarter, the Q2 of last year, the quarter that China would have entered a shutdown first and then the rest of the world entered the shutdown in middle part of March. And so part of the growth is compared -- is the comparison point. But that said, the results were fabulous across the board. The shortages that Lucas spoke about in the color that he provided on the future, affect primarily the iPad and the Mac. And so we'll have some challenges in there, and challenges in meeting the demand that we've got.

The demand feels very strong right now. Both on the Mac side, you have the combination of M1 and work from home and remote learning. And then iPad, you've got remote learning and work from home as well. And the product that we just announced is really killer, the iPad Pro with the M1 in it. And so there's a lot of great things of the strength of the product cycle in addition to the trends that we're seeing in the marketplace.

And where this pandemic will end, it seems like many companies will be operating in a hybrid kind of mode. And so it would seem that work from home and the productivity of working from home will remain very critical.

If you look at Wearables then, the watch had a fabulous quarter. And I still think we're in the early innings on the Watch. The number of new -- people that are new to the Watch is almost three out of four. And so this is a long way from being a mature market. And so -- and then the Services by itself has really accelerated and so all in all, we feel very, very good.

Q - Katy Huberty {BIO 6993997 <GO>}

And then, Luca, as I look at inventory plus vendor nontrade receivables, that grew only about 8% this quarter which is a big deceleration from last quarter. Should we read into that as a leading indicator for how we should think about the revenue growth deceleration in the business as the world normalizes? Or were there some supply disruptions during the quarter that caused you to drain inventory and create that tightness that you're talking about for June?

A - Luca Maestri {BIO 15738533 <GO>}

No. On -- as you think about the June quarter, Katy, I would point you to what we said in our prepared remarks around the two factors that will influence our normal seasonality, right? One is the fact that iPhone, we launched iPhone later than usual during this cycle. And so we reached supply-demand balance only during the March quarter, which makes obviously the sequential decline steeper than usual. And then this \$3 billion or \$4 billion of supply constraints that Tim just said, primarily on iPad and Mac. So as you look at your model and you obviously can look at our numbers that we've done in the past, I think you can try to gauge that.

From a channel inventory standpoint, we did what we normally do during a March quarter. So we reduced inventory as it's typical on iPhone. We exited within our target range. So I would say that on the inventory side, it was pretty straightforward. Obviously, given that the supply constraints are on the iPad and on the Mac, we wish we had more inventory of iPad and Mac. But this is all a function of high demand for all our products.

Q - Katy Huberty {BIO 6993997 <GO>}

Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Thank you. We'll take our next question from Wamsi Mohan with Bank of America.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Yes, thank you. Tim, your content offerings are still at very compelling price points. And you've seen other content providers, whether it be Spotify, Hulu, Netflix, all announced price increases recently. I'm just wondering how you're thinking about pricing as it pertains to your offering here and if you could share any stats around the uptake of TV plus paid subs, that'd be great. And have a follow-up for Luca

A - Tim Cook {BIO 14014370 <GO>}

TV+ -- let me start with TV+. TV+ is going very well. As you know, the objective and the philosophy that we've had on TV+ is to create high-quality original content and to be one of the most desired platforms for storytellers. And I see that happening day-by-day as we sign more shows and more storytellers including Malala as I'd mentioned in my opening comments.

To date, we've received -- the Apple Originals have received 352 award nominations and had 98 wins. And this is from Oscar nominations to Indie awards to Critic Choice awards and all the rest. And we've got some shows that are -- have gotten significant buzz like Ted Lasso and The Morning Show and Defending Jacob and many others. And so we feel really good about where we are. We're not releasing subscriber numbers. But we feel good about where we are.

In terms of other services and pricing, I don't have anything to announce today. We try to give the customer a great value. And we feel that we're doing that in the -- with the prices that we've got. And we'll see where we go from here.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Okay. Thanks, Tim. As my follow-up, Luca, on the June quarter guide, when you talk about the sequential decline being a little bit about perhaps the 13% or low-teens percent that we've seen historically. Are the supply constraints of the \$3 billion, \$4 billion impact included in that? Or is that in addition to sort of the more-than-average sequential decline that you're referring to? And any color on what specifically is driving the supply constraints of the subcomponent level? Thank you.

A - Luca Maestri {BIO 15738533 <GO>}

The -- yes. So when you look at our normal seasonality, and you've mentioned a percentage that is really an average of several years, what we're saying is that we believe that the sequential decline this year is going to be higher than that. And it's a combination of the two factors, right. One is the timing of the launch and then the very high demand for iPhone during the March quarter. And the \$3 billion to \$4 billion supply constraints that we mentioned. Yeah, and the constraints come from the semiconductor shortages that are affecting many, many industries, and it's a combination of the shortages as well as the very, very high level of demand that we are seeing for both iPad and Mac.

For Mac, for example, if you just -- just to keep it into context, the last three quarters of Mac have been the best three quarters ever in the history of the product, right? So we are experiencing an incredible level of demand, which certainly is favored by working from home and learning from home environment, but also by the incredible amount of new products and innovation that we put into the products that we launched during the last couple of quarters.

Q - Wamsi Mohan {BIO 15994435 <GO>}

Thank you, Luca.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Absolutely. We will take our next question from Aaron Rakers with Wells Fargo.

Q - Aaron Rakers {BIO 6649630 <GO>}

Yeah, thanks for taking the question and congratulations on the great quarter. I wanted to go back to iPhone. As we think about the iPhone 12 cycle, appreciating that you guys don't give actual shipment numbers. It would appear though that the mix has been quite healthy. So I'm wondering if you could give us any context of what in this cycle you're seeing in terms of the mix relative to past cycles? Is that mix sustainable? I'm just trying to understand kind of the mix of -- within the iPhones and how that's driving, I guess, particularly gross margin. And I have a follow-up.

A - Tim Cook {BIO 14014370 <GO>}

Aaron, let me give you a little color on that. The iPhone 12 of the -- the iPhone 12 family are -- more broadly affect all iPhones. The iPhone 12 is the most popular. But we did see very strong sales of the Pro portion of the family as well, the Pro Plus the Pro Max. And so the revenue that you're seeing is a function of unit growth and revenue -- revenue per unit growth. Does that help?

Q - Aaron Rakers {BIO 6649630 <GO>}

Yeah, that helps. Can you give any context of how that might have changed this cycle relative to the prior cycles. Have we seen kind of a structural change to the higher band of the product category that you believe can be sustained going forward?

A - Tim Cook {BIO 14014370 <GO>}

We don't predict going forward other than for our internal use. But we're really happy with the results.

Q - Aaron Rakers {BIO 6649630 <GO>}

Okay. And then as a quick follow-up back to the supply constraints. I guess it's hard to kind of see again, looking forward beyond this quarter. But what's your best assessment of

when maybe the supply constraints could ease? Do you have any views of just the industry in general, overcoming some of the supply constraint dynamics?

A - Tim Cook {BIO 14014370 <GO>}

Most of our issue is on legacy nodes. And so on legacy nodes, there are many different people, not only in the same industry, but across other industries that are using legacy nodes. And so in order to really answer that question on -- accurately, we would need to know the true demand from each of these players and how that's going to change over the next few months. And so it's very, very difficult to give you good answer. I think we have a good handle on our demand, but what everybody else is doing, I don't know. And so we will do our best. That's what I can tell you.

Q - Aaron Rakers {BIO 6649630 <GO>}

Fair enough. Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

Thank you Aaron. Can we have our next question please?

Operator

Thank you. We'll take our next question from Harsh Kumar with Piper Sandler.

Q - Harsh Kumar {BIO 3235392 <GO>}

Yeah, hey guys, congratulations on a very nice quarter. Question on semi semis supply as well. You just beat by a substantial margin on the top line in the March quarter. I'm curious what went in your favor to be able to secure that kind of supply that you were able to beat by, I think it was \$11 million or so? And then I had a follow-up.

A - Tim Cook {BIO 14014370 <GO>}

We did not have a material supply shortage in Q2. And so how are we able to do that? You wind up collapsing all of your buffers and offsets. And that happens all the way through the supply chain. And so that enables you to go a bit higher than what we were expecting to sell when we went into the quarter 90 days ago.

Q - Aaron Rakers {BIO 6649630 <GO>}

That's very helpful. And then for my follow-up, I know there's a lot of moving parts, Tim, but with the economy sort of reopening here in the US, and you mentioned about supply constraints possibly on the Mac and the iPad. I was curious if I can get your thoughts, maybe just color-wise, on what you would expect for those two categories, Macs and the iPads in the second half of this year.

A - Tim Cook {BIO 14014370 <GO>}

Well, we don't predict a rev guide to product-level detail. We're not even guiding to the top level at this point because of COVID. And so I'll sidestep that question. But I would

FINAL

Bloomberg Transcript

point to Luca's point earlier about the shortages and those shortages primarily affect iPad and Mac. So we expect to be supply gated, not demand gated.

A - Tejas Gala {BIO 20432011 <GO>}

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

Operator

Thank you. We'll take our next question from Krish Sankar with Cowen and Company. Please go ahead.

Q - Krish Sankar {BIO 16151788 <GO>}

Yeah, hi, thanks for taking my question and congrats on a fantastic quarter. First question for Tim or Luca. The Greater China sales were very strong in the March quarter. Can you give some color on what drove this strength. Which hardware products or services enabled the solid outperformance in China. And then I had a follow-up.

A - Tim Cook {BIO 14014370 <GO>}

We were very pleased with our performance in China. We set a March quarter revenue record and grew strong double digits across each of the product categories. And so the revenue growth was broad. We've been especially pleased by the customer response in China to the iPhone 12 family. And as I had mentioned earlier, you have to remember that China entered the shutdown phase earlier in Q2 of last year. Then other countries and so they were relatively more affected in that quarter, and that has to be taken into account as you look at the results.

As I had mentioned earlier, we had the top two selling smartphones in urban China, so we're very proud of that. And iPad, Mac both had enormously positive quarters with great strength across the Board. And we are seeing strong reception to the new iPad Pro as well that we just announced a lot of great comments. And about two-thirds of the people buying Mac and iPad were buying them for the first time. And so we are attracting some new customers in China, which is really important to us.

Q - Krish Sankar {BIO 16151788 <GO>}

Well, it's very helpful, Tim. And then maybe as a follow-up, again, I had like a big picture to look after the question and to the extent you can answer this. One of the concerns many investors have is about the overhang of regulatory risks. And I understand it's very hard to handicap that. But I'm kind of curious, do you think giving more public disclosure on its services business like App Store, would help alleviate some of this concerns, that we think that we're winning a lot of competitive details, but kind of curious to know what you think on Services Disclosure?

A - Tim Cook {BIO 14014370 <GO>}

I think with the regulatory questions and scrutiny, we have to make sure that we are telling our story and why we do, what we do and we are very focused on doing that. If we feel that more disclosure would help, we would obviously move in that direction. The App

FINAL

Store and other parts of Apple are not cast in concrete. And so we can move in our flexible with the times. For example, on the App Store, as you know, just a couple of quarters ago, we lower the commission rate for small developers to 15%. So, that was an example of moving with the times and we've gotten into a great reception to that. And so we continue to learn and I think it's very important that we're very clear about why we do, what we do. The idea behind curating the App Store, in order to get the privacy and security that our customers want, I think is very important and we have to convey that in a very straightforward manner.

Q - Krish Sankar {BIO 16151788 <GO>}

Very helpful. Thanks, Tim.

A - Tim Cook {BIO 14014370 <GO>}

Yeah.

A - Tejas Gala {BIO 20432011 <GO>}

Thank you. Can we have the next question please?

Operator

Absolutely. We will take our next question from Kyle McNealy with Jefferies.

Q - Kyle McNealy {BIO 21065231 <GO>}

Hi, thanks a lot for the question. One of the things we've been positive about is how growing iPhone sales can pull long Watch and AirPods sales as well, as customer shop the whole store. But you mentioned due COVID, that accessories do much better in a physical store environment and that's been hard due to the shutdowns, obviously. So my question is, have you seen any improvement in the attach rate for Watch and AirPods, with iPhone and can I get a lot better from here as the environment gets closer to normalization?

A - Tim Cook {BIO 14014370 <GO>}

I think we get a lot of benefit from our stores, when they are open and are fully operational and we were in better shape for parts of Q2 than we were previously. But we're still operating with a limited operational model in many stores and there is still some stores today that're closed, like stores in Michigan and stores in France and so forth. And so I think it will take some amount of time, but my view would be as the stores get back up to speed, fully up to speed, there we should be able to increase some of the accessory sales. Although, I think we're doing fairly well at the moment. So it's not something that we're not doing well. Online has been much more beneficial much more productive than we would have guessed going into this.

Q - Kyle McNealy {BIO 21065231 <GO>}

Okay, great. Thanks a lot.

A - Tejas Gala {BIO 20432011 <GO>}

Thanks. Can we have the next question, please?

Operator

Our next question -- absolutely, we will take our next question from David Vogt from UBS.

Q - David Vogt {BIO 21761779 <GO>}

Great. Thanks guys, and congratulations on a good quarter. Maybe if I could just ask a question, I know it's early days, but any commentary, color from maybe the developer community on AirTag on AGT, and kind of what the initial feedback and data might look like that you could share with us? Thanks.

A - Tim Cook {BIO 14014370 <GO>}

Our AGT's focus is really on the user. And giving the user, the ability to make a decision about whether they want to be tracked or not. And so it's putting the user in the control not Apple, not another company, but the user of where it should be. And so, that's really the focus of it and the feedback that we've gotten from users, both before it went live, when it was in the planning stages and so forth, and after has been tremendous. And so we are really standing up on behalf of the consumer here.

Q - David Vogt {BIO 21761779 <GO>}

So maybe just a quick follow-up, Tim. Can you kind of discuss any sort of -- what the downloads look like? I know we just rolled out earlier this week and sort of the acceptance by the consumer at this point. Any sort of metrics that you can share with us, whether it's sort of an opt-in or opt out sort of view from the consumer perspective?

A - Tim Cook {BIO 14014370 <GO>}

I don't even know the answer to that. It's not something that we would have predicted beforehand. And frankly even if it's very low of people that don't want to be tracked, it's worth doing because of those people should have the -- should make their own mind up, whether they would like to be tracked or not.

Q - David Vogt {BIO 21761779 <GO>}

Great. Thanks.

A - Tejas Gala {BIO 20432011 <GO>}

Thanks. Can we have the next question, please?

Operator

Absolutely. We'll take our next question from Samik Chatterjee from J.P. Morgan.

Q - Samik Chatterjee {BIO 15496543 <GO>}

FINAL

Bloomberg Transcript

Hi, thanks for the question. I have a couple, and just wanted to get into the performance by geography here a bit. And Europe really exceptional results, particularly for this time of the year. Tim, I know you mentioned some of the 5G iPhone upgrades are in front of you, and I would assume Europe's kind of in that category, but curious to hear or maybe if you can double click on what's driving the exceptional growth here in Europe? And like are we -- are consumers moving to 5G phones even though some of the service provider plants are not rolled out? Or are we still expecting that to be much more in front of us?

A - Luca Maestri {BIO 15738533 <GO>}

Hey, Samik. I'll take that one. You're right, I mean, we had great performance in Europe, we grew 56% during the quarter, and it was probably one of the geos, where we actually saw results were better than even our own expectations. We grew very strong double digits across the Board, every product category. Particularly, I would say iPad and Mac, they really are very, very strong. Again, obviously Europe has been affected by lockdowns more than most parts of the world. The lockdowns have lasted longer than here in the United States for example. Tim was mentioning there are places in Europe still today where our stores are closed. Unfortunately, we have a very strong online business that has really helped us. Working from home, learning from home, limited entertainment options that has all played in our favor. Keep in mind that our Europe segment is a very (inaudible) version of Europe, because it includes Western Europe which has done very, very well. And then, Eastern Europe and it goes into the Middle East, even India is part of Europe, and those emerging markets have done incredibly well, significantly better than company average. So very, very pleased with some of the results in India. For example, Russia, Middle East, in general. So, it's been very broad, both across product categories and across countries in Europe.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Perfect. And just a quick follow-up for you, Luca, I think overall, just wanted to understand the implication of the investment plans that you -- plans that you announced recently for the U.S. The \$430 billion over a multiyear period, getting some questions from investors of how to think about the implication on the run rate of operating expenses for the company?

A - Luca Maestri {BIO 15738533 <GO>}

If you remember, we announced back in 2018, that we were making a very sizable commitment to the United States, where at the time we announced \$350 billion of investment over the following five years. And during these three years, since then, we've overachieved on those commitments, and we felt it was the right time to update these type of investments. And they span from, obviously, the investment that we made directly at Apple. For example, we talked about the creation of 20,000 new jobs at Apple over the next five years in the United States. And of course, our business has grown. And so our commitment, for example, to U.S. suppliers grows over time, and that shows in the higher numbers. In the meantime, we've got into new businesses, for example, Apple TV+, a lot of the content that we developed for our TV service is produced here in the United States. And so that's additional investment here in the United States.

From an OpEx standpoint, I think as you've seen this year, we're getting a lot of leverage. This is one of those years we said many times, sometimes our OpEx grows faster than

revenue, and there are some other cycles where the opposite happens. We are growing revenue this year much faster than our OpEx increase. But we want to continue to make all the necessary investments into the business. We will never under-invest in our business. And so you will continue to see the fact that we -- we will continue to grow our operating expenses, particularly on the R&D side, which continues to be the core of the Company.

Q - Samik Chatterjee {BIO 15496543 <GO>}

Thank you.

A - Tejas Gala {BIO 20432011 <GO>}

Thank you, Samik. A replay of today's call will be available for two weeks on Apple Podcast 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 5799138. These replays will be available by approximately 5:00 PM Pacific Time today. Members of the press with additional questions can contact Kristin Huguette at 408-974-2414. Financial analysts can contact me with additional questions at 669-227-2402. Thank you again for joining us.

Operator

Thank you. That does conclude today's Apple Q2 FY 2021 Earnings Conference Call. We thank you for your participation, and you may now disconnect.

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.

FINAL

Bloomberg Transcript