**Suhasini Chandramouli**

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

**Question-and-Answer Session**

**Operator**

Certainly. We'll go ahead and take our first question from Erik Woodring with Morgan Stanley.

**Erik Woodring**

Great, thanks so much guys for taking my questions. Tim, I'd love to maybe touch on the tariff point first. There were comments from you earlier on CNBC talking about 50% of iPhones for the U.S. currently coming from India. Where do you expect the mix of India-sourced iPhones for the U.S. to be by the end of your fiscal year? And is it the goal to source 100% of your U.S.-bound iPhones from India? Can you just help us understand kind of how we should expect that to trend as we look beyond just the June quarter? And then I have a follow-up. Thank you.

**Tim Cook**

Yes, Erik, hi. It's Tim. The existing tariffs that apply to Apple today are based on the product's country of origin as you alluded to. For the June quarter, we do expect the majority of iPhones sold in the U.S. will have India as their country of origin and Vietnam to be the country of origin for almost all iPad, Mac, Apple Watch, and AirPods products sold in the -- also sold in the U.S. China would continue to be the country of origin for the vast majority of total product sales outside the U.S. And so if you look at the categories of tariffs that are applicable to us today, for the June quarter, most of our tariff exposure relates to the February IEEPA-related tariff at the rate of 20%, which applies to imports to the U.S. for products that have China as their country of origin. In addition, for China, there was an additional 125% tariff for imports of certain categories of products announced in April. And for us, that's some of our U.S. AppleCare and Accessories businesses and brings the total rate in China for these products to at least 145%. Also for transparency and clarity, the vast majority of our products, including iPhone, Mac, iPad, Apple Watch, and Vision Pro, are currently not subject to the global reciprocal tariffs that were announced in April as the Commerce Department has initiated a Section 232 investigation into imports of semiconductors, semiconductor manufacturing equipment and downstream products that contain semiconductors. And so if you -- for the June quarter, as I talked about in the -- in my opening comments, we estimate the impact, assuming that the current global tariff, rates, policies and applications don't change for the balance of the quarter, to be 900 million to our costs. I wouldn't want to predict the mix of production in the future, but I wanted to give you clarity for the June quarter of where the country of origins are so you can use that for your modeling.

**Erik Woodring**

Okay. I appreciate that color. Thank you, Tim. And then maybe my follow-up is there were a number of reports during the quarter that Apple had pulled forward sell-in into the channel to get ahead of tariffs. So can you just help us better kind of understand or clarify if sell-in and sell-through were aligned in the March quarter? If you're assuming that they would be aligned in the June quarter guide? And ultimately, do you believe that consumers are accelerating hardware purchases to get ahead of any potential pricing increases or was behavior normal? Thank you so much, Tim.

**Tim Cook**

Yes. Thanks, Erik, for the question. There are several questions there. One, in terms of the pull forward in demand, if you look at the March quarter, we don't believe that we saw obvious evidence of a significant pull forward in demand in the March quarter due to tariffs. If you look at our channel inventory, from the beginning of the quarter to the end of the quarter, the unit channel inventory was similar, not only for iPhone but for the balance of our products. Again, for transparency, you will see that we did build ahead inventory, and that's reflected in our manufacturing purchase obligations that you'll see on the quarterly filing when it comes out. So I hope that makes the -- answers all your questions.

**Erik Woodring**

Thank you so much, Tim. Good Luck.

**Tim Cook**

Thanks.

**Suhasini Chandramouli**

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

**Operator**

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

**Ben Reitzes**

Hi, thanks a lot. Tim, if you had told me that on April 2 that your hit from tariffs was only a nickel-ish a quarter at 900 million, that would have been a pretty good outcome, given the panic that ensued. I'm surprised that it's that low. But then you did make a comment about after the June quarter, and sorry to push you on that, but could it be a multiple of that figure or is it just completely unknown? We're all just trying to figure out what happens after June. And if there's just any guidance you guys can possibly give that it's bigger, smaller or what? And hoping you can just give us a little color on that. Thanks.

**Tim Cook**

Yes, Ben. Thanks for the question. I tried to give you some information in the previous question about the country of origin, which currently is the key factor in determining the tariffs that we're paying. I don't want to predict the future because I'm not sure what will happen with the tariffs, and there is the Section 232 investigation going on. And so it's very difficult to predict beyond June. And June has the assumptions in it that I had mentioned earlier.

**Ben Reitzes**

All right, Tim. And then just with regard to China down 2%, I mean, you intuitively would have thought there would have been an increased nationalism there and perhaps it would have been worse than that. And the trajectory there improving even with subsidies because subsidies benefited your competitors, too. Just wondering if I could get a little more color there. Can it keep improving? What are you thinking with regard to that trajectory in China, given all the geopolitical tensions? Thanks.

**Tim Cook**

Yes, we were down 2%, as you point out, for the March quarter. And to provide a little more transparency around that, we were roughly flat when you remove the headwinds from foreign exchange. And so we did see quite a bit of sequential improvement from the December quarter, which was down 11. And again, for going out of the way for transparency, the channel inventory at the end of March, the unit channel inventory was similar to where we started the quarter. So there wasn't a build of channel inventory in there. I do believe that the subsidies played a favorable impact on the results. It's difficult to estimate with precision as to exactly how much, but I think it was positive. Some of our products are included. Some of them are not. Generally, on iPhone, if something is priced above RMB6,000, it is not eligible for the subsidy and the other products have different rules. But I do think it helped. And I think it's helping others as well, I'm sure. iPhone was the key driver of the improvement sequentially. And so hopefully, that provides you some color. The other thing I would say is that the Mac, the iPad, and the Watch are attracting a majority of customers new to that product. And so that continues to look quite good in China. And iPhone was the top two models in urban China, and iPad was the top two tablets in urban China. So there's some positive nuggets there.

**Ben Reitzes**

Thanks a lot, Tim.

**Tim Cook**

Yes. Thank you, Ben.

**Suhasini Chandramouli**

Thank you, Ben. Operator, may we have the next question, please?

**Operator**

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

**Michael Ng**

Hi, good afternoon. Thank you very much for the question. I was just wondering if you could talk a little bit about your responses on some of this trade policy uncertainty. I appreciated the transparency around building ahead with inventory. Will you continue to do that in this interim period until we get some clarity on Section 232 investigation? And could you talk a little bit about your philosophy on pricing, elevated costs to the extent that comes through, whether that be to resellers or end consumers and other efficiency efforts that you might be able to pursue? Thank you.

**Tim Cook**

Yes. Obviously, we're very engaged on the tariff discussions. We believe in engagement and we'll continue to engage. On the pricing piece, we have nothing to announce today. And I'll just say that the operational team has done an incredible job around optimizing the supply chain and the inventory. And we'll obviously continue to do those things to the degree that we can.

**Michael Ng**

Great. Thanks. And just as a quick follow-up for Kevan, on product gross margins, I was just wondering if you could provide a little bit more color on some of the factors that may have impacted product gross margins in the quarter. Obviously, down sequentially on seasonal factors but there was a year-over-year decline as well. So any additional color would be helpful? Thank you.

**Kevan Parekh**

Yes, Michael, thanks. This is Kevan. So on the sequential, as we mentioned in the prepared remarks, we had a decrease in the product gross margin by 340 basis points sequentially. That was primarily driven by mix, seasonal loss of leverage, foreign exchange and that was partly offset by cost savings. And when we look at the year-on-year performance, we were down 70 basis points on a year-on- year basis. And that was driven by a different mix and foreign exchange.

**Michael Ng**

Thank you.

**Kevan Parekh**

Thank you.

**Suhasini Chandramouli**

Thank you, Mike. Operator, could we have the next question, please?

**Operator**

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

**Amit Daryanani**

Thanks a lot. I guess I'll have to start with a tariff question as well. Tim, I think when you talked about the 900 million impact to your cost of goods sold, you sort of had a statement that there are certain unique factors that benefit you in the June quarter related to that number. Can you just talk about what are these unique factors that are benefiting you in the June quarter? And what would the impact be without those benefits essentially?

**Tim Cook**

I wouldn't want to go through all of them. But as an example, the build ahead that is -- I mentioned earlier that's in the manufacturing purchase obligations is -- were helpful.

**Amit Daryanani**

Got it. And then as I think about the June quarter guide of low to mid-single-digit revenue growth, I was wondering, do you folks expect services growth to remain in the double-digit range as you go into the back half of the year? I imagine FX is a bit of a benefit as you go to the back half. I would love to just understand, within that framework, how do you think services stacks up as you go through the June quarter?

**Kevan Parekh**

Yes, Amit. Hi, it's Kevan. So I think when we talk about the overall June quarter, we talk about the low to mid-single digits year- over-year. We do expect foreign exchange in the June quarter to improve sequentially. However, we are expecting it to be a slight headwind to revenue on a year-on-year basis. With respect to services, given the uncertainty we see from several factors, we aren't providing the category level of color today.

**Amit Daryanani**

Got it. Thank you.

**Kevan Parekh**

Thank you.

**Suhasini Chandramouli**

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

**Operator**

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

**Wamsi Mohan**

Yes. Thank you. Tim or Kevan, how should investors think about the gross margin trajectory as you source more from the U.S. in particular or other supply chain changes that you are making, including in India? How should those kind of play into the cost structure and how should we think about that gross margin trajectory and I will follow-up?

**Tim Cook**

We're excited about bringing more production to the U.S. As you know, we've been very key in the TSMC project in Arizona and are the largest and first customer getting product out of that. And that's the SoC that's coming out of there. We also have glass coming out of the U.S. and the Face ID module and loads of chips. In fact, there's 19 billion chips coming out across 12 states. This is down to the resistor and capacitor level, obviously. And so there's some that is already built into the margins that Kevan has quoted. And we don't really forecast beyond the current quarter as you know.

**Kevan Parekh**

Yes, maybe I'll add a couple of more points as we think about just the margin going forward. A couple of observations I'd mention is every product cycle is different and over the years we have managed gross margin well. We've made good decisions balancing units revenue margins. When we launch new products, they tend to have a higher cost structure than the products they replace as we introduce new features and technologies. We do have a good track record of reducing those costs and structures over the life of the product. And our products and services all have different levels of profitability and their relative success in the marketplace has an impact on the overall gross margin. So I hope that's helpful color and context for you.

**Wamsi Mohan**

No, that's super helpful. Thank you. I guess you just noted that you weren't going to give services maybe a growth forecast here in light of some of the uncertain news. But maybe, Tim, could you share any color around what you have seen in developer behavior in areas like Europe where there has now been emergence of alternate app stores for a little more time? What have you seen anecdotally or within your data in terms of maybe develop a behavior, whether it's large or small? Any color you can share on what has like actually happened?

**Tim Cook**

It's embedded in our results that Kevan talked about earlier and embedded in the overall company color that was provided. But as you know, the Digital Markets Act went into effect in, I believe it was March of last year. And so the Digital Markets Act has been enacted for a bit over a year and there's been alternate app stores for some period of time of that. And so it's -- at this point in Europe, there are some embedded in the actuals. There may be more to come and so forth. I don't want to predict beyond the current quarter.

**Wamsi Mohan**

Okay. Thank you, Tim.

**Suhasini Chandramouli**

Thank you, Wamsi. Operator, could we have the next question, please?

**Operator**

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

**David Vogt**

Great. Thanks, guys. Thanks for taking my question. So I've got two as well, and Tim, this is more of a big picture supply chain philosophical question. So can you maybe update us on your thoughts on how you're thinking about your resiliency and redundancy, following the change that you guys talked about earlier on the call? I guess what I'm trying to understand is how do we think about where your supply chain is two to three years from now? And is there any risk, at least in the near term, of maybe some export control issues in your outlook for the balance of this year? And I'll give you my second one at the same time. You quantified a $900 million hit from tariffs. Or Kevan, is there any impact in how you're thinking about the demand backdrop in your outlook for the June quarter on the revenue line holistically? Thanks.

**Tim Cook**

In terms of the resiliency and risk, et cetera, there -- we have a complex supply chain. There's always risk in the supply chain. And so I wouldn't tell you anything different than that. What we learned some time ago was that having everything in one location had too much risk with it. And so we have, over time, with certain parts of the supply chain, not the whole thing, but certain parts of it opened up new sources of supply. And you could see that kind of thing continuing in the future. I'll let Kevan answer the other question.

**Kevan Parekh**

Hi, David. On the other question, I would say that our best thinking is captured in the outlook that we provided. However, I did want to reemphasize the point that the assumptions we made on the outlook do assume that the global tariff rates, the policies and application remain the same as they are today as of this call and that the global macroeconomic outlook doesn't worsen from today.

**David Vogt**

Okay. But no quantifiable impact on demand to date, at least from where we are over the last month? Is there a way to kind of think about that from early April to early May?

**Kevan Parekh**

I would say our best thinking is reflected in the range that we provided.

**David Vogt**

Okay. Thanks, Kevan. Thanks, guys.

**Kevan Parekh**

Thank you.

**Suhasini Chandramouli**

Thank you, David. Operator, could we have the next question, please?

**Operator**

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

**Samik Chatterjee**

Hi. Good afternoon. Thanks for taking my questions. I guess, Tim, you made a comment on the last earnings call about Apple Intelligence making a visible impact on iPhone sales in the countries where it was available. I'm just curious if you continue to see that play out similarly in the more broader number of countries you've rolled that out. Or the delays that you talked about related to Siri, personalized Siri features, has that had an impact in terms of consumer willingness to upgrade? And I have a follow-up. Thank you.

**Tim Cook**

Yes, thank you for the question. During the March quarter, we saw that in markets where we had rolled out Apple Intelligence, that the year-over-year performance on the iPhone 16 family was stronger than those where Apple Intelligence was not available. A lot of the languages that I think you're referring to rolled out in April and so they actually rolled out in Q3.

**Samik Chatterjee**

Okay, got it. Then maybe for my follow-up, I mean, you have a lot of insights now in terms of what consumers or how consumers are reacting to the overall macro. And I know you prefaced all your guidance with macro remaining consistent. But how -- what are you seeing in terms of the U.S. consumer? And what's the reaction there in terms of the tariff impact? We saw U.S. GDP also shrink here in 1Q. When you look at velocity at the stores or trade down within the iPhone portfolio mix, what are you seeing in terms of how the consumer is reacting to the macro at this point? Thank you.

**Tim Cook**

I'm not an economist and so I'd start by saying that. In terms of the -- as you can see from a total company point of view, our results accelerated sequentially to the 5% level. And the U.S. is obviously the vast majority of the Americas segment, and you can see how the Americas performed during the quarter. And so that's all I want to say about that. I don't want to try to predict what happens in the months from now. The past, I'm quite pleased with the results from Q2.

**Samik Chatterjee**

Thank you. Thanks for taking the questions.

**Tim Cook**

Yes.

**Suhasini Chandramouli**

Thank you, Samik. Operator, could we have the next question, please?

**Operator**

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

**Krish Sankar**

Yes, hi. Thanks for taking my question. I have two of them, too. Tim, thanks for that information on the $500 billion U.S. investment. I'm kind of curious how to think about the composition of that? How much is CapEx versus R&D? How much is going into like the Texas server? How much is going into maybe TSMC Arizona? Any kind of color you can give on that $500 billion investment would be helpful. And then I had a follow-up.

**Tim Cook**

Well, there's lots of all of it is what I would say. We're not giving out the exact split, but as we expand facilities in the different states from Michigan to Texas to California and Arizona and Nevada and Iowa and Oregon and North Carolina and Washington, there will be CapEx involved in that and OpEx involved in it. And standing up a server -- advanced server manufacturing in Texas, we did that through a partner. We do our manufacturing through a partner, but we'll be putting a fair amount in cost of goods sold to do that and some OpEx as well, and I'm sure some CapEx as well. And so it's a bit of all of it.

**Krish Sankar**

Got it, got it. And then kind of had like a long term, more like a philosophical question. When you look at -- in the past, you've spoken about AI on the Edge. Obviously, it's very topical to hear from both the iPhone angle and the Mac angle. But I'm just kind of curious, when you look at AI on Edge, are the current smartphone specs or improved hardware and silicon specs good enough to meet future Edge LLM for inference? Or do you think you need somewhat of a whole new different kind of device? Just kind of curious how to think about the evolution of the Edge devices from here.

**Tim Cook**

Yes. As you know, we're shipping an LLM on the iPhone 16 today. And there are -- some of the queries that are being used by our customers are on-device, and then others go to the private cloud where we've essentially mimicked the security and privacy of the device into the cloud. And then others, for world knowledge, are with the integration with ChatGPT. And so there's -- we continue to be very excited about the opportunities here. We are very excited about the road map, and we are pleased with the progress that we're making.

**Krish Sankar**

Thanks, sir.

**Suhasini Chandramouli**

Thank you, Krish. Operator, could we get the next question, please?

**Operator**

Our next question is from Richard Kramer with Arete Research. Please go ahead.

**Richard Kramer**

Thank you very much. Wanted to ask about tariffs. Tim, given your recognition that a new Siri system is taking longer than you thought to deliver, I'd like to go back to my question from the last call and ask about what some of the learnings you had from those delays and whether you attribute them to organizational factors, to your legacy software stack? Or is it a matter of R&D spending? And what are some of the key gating factors investors should look for either at WWDC or beyond to have a sense that Apple can deliver on some of the promises of the announcements of the prior WWDC? Thanks.

**Tim Cook**

Yes. If you sort of step back from what we said at WWDC, we talked about a number of different features that would launch with iOS 18. And we've released a slew of those from Writing Tools to seamlessly connecting to ChatGPT to Genmoji to Image Playground to Image Wand to Clean Up and Visual Intelligence, making movies or movies of your memories with a simple prompt, AI-powered photo search, smart replies, priority notifications, the list goes on. And so we've delivered a lot, and we've just recently, just a few weeks ago, expanded it into several different languages, including French, German, Italian, Portuguese, Spanish, Japanese, Korean, simplified Chinese as well as localized English for both Singapore and India. So we've delivered a lot. However, with regard to the more personal Siri, as you mentioned, we just need more time to complete the work so they meet our high-quality bar. And there's not a lot of other reason for it. It's just taking a bit longer than we thought. But we are making progress, and we're extremely excited to get the more personal Siri features out there.

**Kevan Parekh**

And Richard, I'll just add that on your question about investment that we don't underestimate -- underinvest in our business. We make significant investments in R&D. That continues to grow. We're continuing to grow our R&D investment. And so we definitely are making all the investments we think we need to enable our road map.

**Richard Kramer**

Thanks. And Kevan, 1 for you. I mean, it's hard to ignore some of the ongoing very high-profile legal cases that touch on Apple, be it yesterday's Epic case injunction or the Google antitrust trial touching on default search. And investors are clearly concerned that these might have material impacts on your Services business. Do you feel now that you have ample ways in which you might be able to mitigate some of the potential negative impacts on Apple Services business that might come about from what's been proposed or might come about in legal rather than commercial pressures that the business faces?

**Tim Cook**

Let me make a couple of comments on that before Kevan. The case yesterday, we strongly disagree with. We've complied with the court's order and we're going to appeal. In the DOJ case that you referenced with Google, that case is ongoing and I don't really have anything to add beyond that. And so we're monitoring these closely. But there -- as you point out, there's risk associated with them and the outcome is unclear.

**Kevan Parekh**

Yes, I think Tim answered it really well. I don't have anything to add to that.

**Richard Kramer**

Thank you.

**Suhasini Chandramouli**

Thank you, Richard. Operator, we will take our last question, please.

**Operator**

We'll go ahead and take our last question from Aaron Rakers with Wells Fargo. Please go ahead.

**Aaron Rakers**

Yes, thanks for taking the question. I want to go back to the AI strategy a little bit. I know, Tim, in your prepared comments, you had mentioned building some of your own foundational models. And I'm curious of how important you think it is for Apple to have their own foundational models. And kind of dovetailed with that is that, how do you think about your data center footprint when we look at Apple spending, call it, 3 billion a quarter relative to some of these other companies spending multiples of that. How does the strategy play out in your opinion?

**Tim Cook**

Well, we -- on the data center side, we have a hybrid strategy. And so we utilize third parties in addition to the data center investments that we're making. And as I've mentioned in the 500 billion, there's a number of states that we're expanding in. Some of those are data center investments. And so we do plan on making investments in that area and we're not gating it. We invest in the business first, as Kevan talked about, is our most important thing to do. In terms of the foundation models, we want to have certain models and we'll partner as well. And so I don't view it as a -- all of one or all of the other. We've been working on foundation models for quite some time and are shipping some today, obviously, with what's on-device and what's in the Private Cloud Compute.

**Aaron Rakers**

Yes. And then as a follow-up, I'm curious with the iPhone 16e launching this quarter, internalizing your C1 modem, I'm curious of how you see kind of the modem strategy playing out or maybe just the continual deepening of that internal silicon opportunity for Apple?

**Tim Cook**

We're super excited to ship the first 1 and get it out there and it's gone well. We love that we can produce better products from a point of view of really focusing on battery life and other things that customers want. And so we're -- we have started on a journey is the way I would put it.

**Aaron Rakers**

Thank you.

**Tim Cook**

Yes.