



Apple

Q3 2025 31 Jul, 2025

Speaker 2

0s

Good afternoon and welcome to the Apple Q3 Fiscal Year 2025 earnings conference call. My name is Suhasini Chandramouli, Director of Investor Relations. Today's call is being recorded. Speaking first today is Apple's CEO, Tim Cook, and he'll be followed by CFO, Kevin Perek. 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. These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast, including risks related to the potential impact to the company's business and results of operations from macroeconomic conditions, tariffs and other measures, and legal and regulatory proceedings. For more information, please refer to the risk factors discussed in Apple's most recently filed reports on Form 10-Q and Form 10-K, and the Form 8-K filed with the SEC today, along with the associated press release. Additional information will also be in our report on Form 10-Q for the quarter ended June 28, 2025, to be filed tomorrow, and in other reports and filings we make with the SEC.

Speaker 2

1m 33s

Apple assumes no obligation to update any forward-looking statements, which speak only as of the date they are made. I'd now like to turn the call over to Tim for introductory remarks.

Speaker 1

1m 45s

Thank you, Suhasini. Good afternoon, everyone, and thanks for joining the call. Today, we are proud to report a June quarter revenue record of \$94 billion, up 10% from a year ago, which was better than we expected. EPS set a June quarter record of \$1.57, up 12% year over year. We saw an acceleration of growth around the world in the vast majority of markets we track, including Greater China and many emerging markets. We had June quarter revenue records in more than two dozen countries and regions, including the US, Canada, Latin America, Western Europe, the Middle East, India, and South Asia. These results were driven by double-digit growth across iPhone, Mac, and services. We set a June quarter record for iPhone, which grew a strong 13% year over year. We saw iPhone growth in every geographic segment and double-digit growth in emerging markets, including India, the Middle East, South Asia, and Brazil. Mac continued to see excellent results, with revenue up 15% year over year. We set another all-time revenue record in services, which grew 13%, with double-digit growth in both developed and emerging markets. Last month, we hosted WWDC, an incredible event for our developer community, with millions joining us online and more than 1,000 developers here in person at Apple Park.

Speaker 1

3m 23s

We shared some truly exciting updates, including a stunning new design crafted from a material we call liquid glass. It is both beautiful and expressive, and for the first time ever, this design extends across all of our platforms. We cannot wait for users everywhere to experience it this fall. We were excited to share some updates across our AI work. We announced even more capabilities coming later this year, including live translation and Workout Buddy. In addition to those new features, we announced new support for a number of languages, and we opened up access to the on-device foundation models at the core of Apple Intelligence, enabling developers to build a whole new experience for our users. It's wonderful to see great momentum building for our platforms. iOS 26, macOS 26, and iPadOS 26 are by far the most popular developer betas we've had. Taking a step back, we see AI as one of the most profound technologies of our lifetime. We are embedding it across our devices and platforms and across the company. We are also significantly growing our investments. Apple has always been about taking the most advanced technologies and making them easy to use and accessible for everyone.

Speaker 1

4m 48s

That is at the heart of our AI strategy. With Apple Intelligence, we're integrating AI features across our platforms in a way that is deeply personal, private, and seamless, right where users need them. We've already released more than 20 Apple Intelligence features, including visual intelligence, cleanup, and powerful writing tools. We're making good progress on a more personalized Siri, and as we've said before, we expect to release these features next year. Apple Silicon is at the heart of all of these experiences, enabling powerful Apple Intelligence features to run directly on-device. For more advanced tasks, our servers, also powered by Apple Silicon, deliver even greater capabilities while preserving user privacy through our private cloud compute architecture. We believe our platforms offer the best way for users to experience the full potential of generative AI. Thanks to the exceptional performance of our systems, our users are able to run generative AI models right on their Mac, iPad, and iPhone. We're excited about the work we're doing in this space, and it's incredibly rewarding to see the strong momentum building. Now let me turn to more details about our results for the quarter, starting with iPhone. iPhone revenue was \$44.6 billion, up 13% from a year ago, and we set a June quarter record for upgraders.

Speaker 1

6m 24s

This strong, broad-based performance was driven by the incredible popularity of the iPhone 16 family, which was up strong double digits year over year as compared to the 15 family. We also recently marked a significant milestone. We shipped the 3 billionth iPhone since its launch in 2007. From the Pro models with the powerhouse A18 Pro and innovative Pro camera features to the iPhone 16e with breakthrough battery life and a two-in-one camera system, users are finding so many reasons to love the best iPhone lineup we've ever created. iOS 26 will take that experience even further. In addition to the beautiful new design and powerful Apple Intelligence features, it introduces a range of meaningful updates, like real-time call screening and hold assist in the phone app, smarter messaging tools, and new live translation features. It all adds up to a smarter, more personal iPhone experience that we can't wait for users everywhere to enjoy this fall. In Mac, we had another strong quarter, with revenue of \$8 billion, up 15% year over year, largely driven by the strength of the M4 MacBook Air. We set a June quarter record for upgraders on Mac, and we saw great performance in emerging markets, with strong double-digit growth on revenue, as well as strong double-digit growth on both upgraders and customers new to Mac.

Speaker 1

7m 59s

MacBook Air, the world's most popular laptop, unlocks a whole new level of performance with the power of M4. MacBook Pro customers, meanwhile, continue to be drawn to its incredible power and the longest battery life we've ever had on a Mac. Customers are also loving the newest Mac Studio, which is the most powerful Mac we've ever made, with next-level capabilities to tackle even the most demanding AI workflows. At the same time, Mac Mini continues to win over customers by packing so much performance into an ultra-compact design. With fantastic new updates in macOS Tahoe 26, from the phone app to live activities to our biggest ever update to Spotlight, Mac users across our entire lineup are going to find delightful new ways to stay connected and productive. For iPad, June quarter revenue was \$6.6 billion. Our incredibly versatile iPad lineup brings together power and portability like never before. Users are already excited for our biggest iPad software update ever with the upcoming release of iPadOS 26. It starts with a new windowing system that is remarkably intuitive, giving users more control than ever of their iPad experience. An enhanced Files app makes it easier than ever to stay organized.

- Speaker 1**
9m 33s
- That is all on top of a beautiful new software design that brings these updates to life. Turning to wearables, home, and accessories, revenue was \$7.4 billion, and we saw a June quarter record for upgraders to Apple Watch. During the quarter, we marked the 10-year anniversary of Apple Watch, celebrating a decade of helping users navigate their health and fitness journeys. With watchOS 26, Apple Watch will be more intelligent than ever, with smart updates to the Workout app and Smart Stack, along with a fresh new design that feels both dynamic and personal. We're also thrilled about what's coming to Apple Vision Pro with visionOS 26, introducing spatial widgets that let users customize their digital space, more lifelike personas, and new enterprise APIs that empower companies to build their own spatial experiences. This fall, new features for our latest AirPods lineup will unlock even more possibilities, from studio-quality audio recording to using AirPods as a camera remote, giving users powerful new ways to capture content and stay connected. As we're innovating across our lineup, we're especially proud of the work we're doing to help our users live healthier lives. Since we first launched our hearing health features for AirPods Pro 2, I've received notes from people who are delighted to be able to connect more deeply with loved ones.
- Speaker 1**
11m 8s
- Whether it's with AirPods Pro 2 or Apple Watch or iPhone, it's amazing to see the power of our health and safety features. From hearing tests to fall detection alerts to irregular rhythm notifications, having such a profound impact. Turning to services, revenue for the June quarter was \$27.4 billion, up 13% from a year ago and an all-time record. Apple TV+ scored 81 nominations, a record for the platform, across nearly every eligible category for this year's Emmy Awards. Severance leads all Emmy nominees with 27 nominations, and the studio follows close behind with 23 nominations, more than any other freshman comedy series ever. It's amazing to see how these and other Apple TV shows have captured the popular imagination. To date, Apple TV+ has earned more than 2,700 award nominations and 585 wins on the strength of the highest-rated original content of any streaming network. We continue to see very positive trends in the June quarter, with TV+ viewership up strong double digits year over year. In June, we were also thrilled to release F1 in theaters around the world, one of the summer's most unforgettable blockbusters. During the quarter, we celebrated a big anniversary with 10 years of Apple Music.
- Speaker 1**
12m 47s
- To mark the occasion, we launched an all-new studio space in Los Angeles for artists to create content and connect with fans. Later this year, we're bringing Apple Music users even more to love, from an enhanced listening experience with Auto Mix, which mixes songs like a DJ, to lyrics translation and more. The App Store, meanwhile, continues to be the very best place to discover the latest apps from developers around the world in a safe and trusted way, and App Store revenue grew double digits year over year, setting a June quarter record. In retail, we continue to find opportunities in emerging markets to connect with even more customers. We recently launched the Apple Store online in Saudi Arabia, and we couldn't be more excited to open new stores in the UAE and India later this year. We were also delighted to welcome customers in Japan to a new location in the heart of Osaka. Across everything we do at Apple, we show up by leading with our values. We feel strongly that the benefits of technology should be shared by everyone. That's why we make technology for everyone. In May, to mark Global Accessibility Awareness Day, we announced updates to help users learn, connect, and interact with their worlds, including Magnifier for Mac, a new Braille experience, and Accessibility Reader, a new system-wide reading mode to make it easier to understand content.

Speaker 1
14m 26s

We are proud to introduce Accessibility Nutrition Labels, giving users an understanding of accessibility features before they download an app, while helping developers educate people on features their apps support. This month, we also announced a \$500,000,000 commitment with MP Materials to strengthen the supply of vital recycled rare earth materials in the U.S. to support American industry. In August, we're opening our all-new Apple Manufacturing Academy in Detroit to train and support American manufacturers. These investments are part of Apple's largest-ever spend commitment, which we announced earlier this year. Over the next four years, Apple is investing \$500 billion in the U.S., driving innovation and creating jobs in cutting-edge fields like advanced manufacturing, silicon engineering, and artificial intelligence. We're proud of this work and all that we're doing to tap into American innovation and bring the best technology experiences to users across the globe. We continue to look for further opportunities to do even more. Finally, the situation around tariffs is evolving, so let me provide some color there. For the June quarter, we incurred approximately \$800 million of tariff-related costs. For the September quarter, assuming the current global tariff rates, policies, and applications do not change for the balance of the quarter and no new tariffs are added, we estimate the impact to add about \$1.1 billion to our costs.

Speaker 1
16m 12s

This estimate should not be used to make projections for future quarters, as there are many factors that could change, including tariff rates. We're really proud of our results for the June quarter, and I want to thank our teams and our customers. In everything we do, we're driven by transformative innovation, delivering the most exceptional products and services we've ever created, and we're especially excited about what's ahead. With that, I'll turn it over to Kevan. Thanks, Tim, and good afternoon, everyone. Our revenue of \$94 billion was up 10% year over year and is a new June quarter record. We grew in every geographic segment and in the vast majority of the markets we track. Products revenue was \$66.6 billion, up 8% year over year, driven by growth across iPhone and Mac. Thanks to our high levels of customer satisfaction and strong loyalty, our installed base of active devices reached another all-time high across all product categories and geographic segments. Services revenue was \$27.4 billion, up 13% year over year, and an all-time record. We saw strength across the world with double-digit growth in a majority of our markets. Company gross margin was 46.5% at the high end of our guidance range and down 60 basis points sequentially, primarily driven by approximately \$800 million in tariff-related costs Tim mentioned earlier.

Speaker 1
17m 44s

Products gross margin was 34.5%, down 140 basis points sequentially, driven by mixed and tariff-related costs partly offset by cost savings. Services gross margin was 75.6%, down 10 basis points sequentially. Operating expenses landed at \$15.5 billion, up 8% year over year. This strong business performance led to June quarter records for both net income at \$23.4 billion and diluted earnings per share of \$1.57, which was up 12% year over year. Operating cash flow was also strong at \$27.9 billion. Now, I'm going to provide some more details for each of our revenue categories. iPhone revenue was \$44.6 billion, up 13% year over year, driven by the iPhone 16 family. As Tim noted, we saw iPhone growth in every geographic segment and double-digit growth in many emerging markets. The iPhone active install base grew to an all-time high in total and in every geographic segment, and we reached a June quarter record for upgraders. According to a recent survey from Worldpanel, formerly of Kantar, iPhone was a top-selling model in the U.S., urban China, the U.K., Australia, and Japan during the June quarter. We continue to see very high levels of customer satisfaction in the U.S. at 98%, as measured by 451 Research.

Speaker 1

19m 17s

Mac revenue was \$8 billion, up 15% year over year, driven by continued strength across the portfolio, including MacBook Air, Mac Mini, and MacBook Pro. We grew in every geographic segment and saw double-digit growth in Europe, Greater China, and the rest of Asia-Pacific. The Mac install base reached an all-time high, and we hit a June quarter record for upgraders. In the U.S., customer satisfaction was recently measured at 97%. iPad revenue was \$6.6 billion, down 8% year over year, which was expected given the difficult compare against the launch of the iPad Air and iPad Pro in the year-ago quarter. At the same time, the iPad install base reached another all-time high, and over half of the customers who purchased an iPad during the quarter were new to the product. Based on the latest reports from 451 Research, customer satisfaction was 98% in the U.S. Wearables, home, and accessories revenue was \$7.4 billion, down 9% year over year. This was driven by a difficult compare on accessories due to the prior year's iPad launches that I just referred to. The Apple Watch install base reached a new all-time high, with over half of customers purchasing an Apple Watch during the quarter being new to the product.

Speaker 1

20m 38s

We also set a quarterly record for upgraders on Apple Watch, and the latest customer satisfaction for watch in the U.S. was reported at 97%. Our services revenue reached an all-time high of \$27.4 billion, up 13% year over year. The performance in the June quarter was broad-based. We saw a sequential acceleration across a majority of the categories, including cloud services, where we reached an all-time revenue record driven by the year-over-year growth of iCloud paying accounts. We saw strong momentum during the June quarter, and the growth of our install base of active devices gives us great opportunities for the future. Customer engagement across our services offerings also continued to grow. Both transacting and paid accounts reached new all-time highs, with paid accounts growing double digits year over year. Paid subscriptions also grew double digits. We have well over a billion paid subscriptions across the services on our platform. We continue to improve the quality and breadth of our service offerings, from the new Apple Games app to a continued expansion of Tap to Pay and Wallet. Turning to enterprise, organizations are continuing to invest in Apple products to drive employee innovation and productivity. With companies like PayPal and Roche deploying more Macs for their workforce, we had the best June quarter ever for Mac and enterprise.

Speaker 1

21m 55s

In Thailand, Siam Commercial Bank, one of the largest Thai banks, has deployed thousands of iPads across their branches to enhance the quality and efficiency of their banking operations, from loan services to wealth management. CAE, a leader in pilot training and simulation technology, is using Apple Vision Pro to enable pilots to become more familiar with aircraft procedures, leading to more productive in-person flight simulator training outcomes. Let's turn to our cash position and capital return program. We ended the quarter with \$133 billion in cash and marketable securities. We had \$5.7 billion of debt maturities, issued \$4.5 billion of new debt, and increased commercial paper by \$4 billion, resulting in \$102 billion in total debt. Therefore, at the end of the quarter, net cash was \$31 billion. During the quarter, we returned over \$27 billion to shareholders. This included \$3.9 billion in dividends and equivalents and \$21 billion through open market repurchases of 104 million Apple shares. As we move into the September quarter, I'd like to review our outlook, which includes the types of forward-looking information that you've often referred to. Importantly, the color we're providing assumes that the global tariff rates, policies, and application remain in effect as of this call, the global macroeconomic outlook does not worsen from today, and the current revenue share agreement with Google continues.

Speaker 1
23m 25s

We expect our September quarter total company revenue to grow mid to high single digits year over year. We expect services revenue to grow at a year-over-year rate similar to what we reported in the June quarter. We expect gross margin to be between 46%-47%, which includes the estimated impact of the \$1.1 billion tariff-related costs that Tim referred to earlier. We expect operating expenses to be between \$15.6 billion-\$15.8 billion. We expect OI&E to be around negative \$25 million, excluding any potential impact from the mark-to-market of minority investments, and our tax rate to be around 17%. Finally, today, our board of directors has declared a cash dividend of \$0.26 per share of common stock payable on August 14, 2025, to shareholders of record as of August 11, 2025. With that, let's open the call to questions. Thank you, Kevin. We ask that you limit yourself to two questions. Operator, may we have the first question, please? Certainly. We'll go ahead and take our first question from Michael Ng with Goldman Sachs. Please go ahead. Hey, good afternoon. Thank you for the questions. I just have one on upgrade rates and one on CapEx. First, on the upgrade rates, it was encouraging to see the records on iPhone, Mac, and watch.

Speaker 1
24m 58s

I was wondering if you're seeing strength in the upgrade rates, or is the records more a function of the growing install base? What is your research showing that made upgrades particularly compelling this year? For example, is it product features, tariff pull forward, perhaps Apple Intelligence? Okay. You want to do CapEx first? Yeah, let's do CapEx first. Mike Sarge. Yeah, sure. Just on. Yeah, go ahead. Just on the CapEx, it's up notably year to date. Could you just comment on your capital spending plans this year and next and provide some qualitative color in terms of what's driving that growth? Is it AI-related or supply chain diversification, for instance? Thank you. Yeah, Mike, it's a combination of factors. I would say a pretty significant driver, as Tim talked about, is the fact we are increasing our investment significantly in AI, so that is certainly a component of it. As you know, we've been investing in Private Cloud Compute, which is also in our first-party data centers. The other piece, as you know, is we do have a hybrid strategy where, in cases, we do use third parties to make capital investments, and we also invest in our own.

Speaker 1
26m 12s

You are going to see an increase in CapEx. We also, from time to time, have other investments in facilities, in tooling, but I would say a significant portion of the driver of growth that you're seeing now is really driven by some of our AI-related investments. On the upgrades, Michael, if you look at iPhone, the 16 family grew double digit as opposed to the 15 family from the year-ago quarter. We did set an upgrade record. I think it directly is because of the strength of the product. Mac also set records on upgrade. I think we continue to see a move to Apple Silicon, and the performance of Apple Silicon is playing a very key role. It was an incredible quarter. In terms of if you're wondering about pull forward, we would estimate the pull forward of demand into April specifically to be about one point of the 10 points in terms of people buying because of discussions about tariffs. All right. Thank you. Thank you, Tim. Thank you, Kevin. Thanks, Mike. Operator, can we have the next question, please? Our next question is from Eric Woodring with Morgan Stanley. Please go ahead. Hey, good afternoon, guys.

Speaker 1
27m 48s

Thank you very much for taking my questions. I have two as well. Tim, maybe starting with you. Shortly after March quarter earnings, there were some reports about searches on Safari declining in April for the first time, I think, in over two decades. Judging by your 13% services growth this quarter, it does not seem to indicate that April trends necessarily played out through the remainder of the June quarter. I am really just looking for a little bit more color on really how the rest of the quarter played out. If you believe Apple products as kind of search access points are losing their strategic value as AI platforms become more valuable, popular, or increasing in strategic value? I have a follow-up. Thank you. I think they continue to be very valuable. I think that consumers' behaviors are evolving, and we are monitoring it very closely. Okay. I appreciate that color. Thanks, Tim. Then maybe second to that, I'd love if you could maybe elaborate a bit on what you're seeing in China. I think in an interview earlier this afternoon, you alluded to some of the promotions being tailwinds, but just bigger picture, if we take a step back in China, how would you characterize demand, interest in the iPhone 16 and some of your other products?

Speaker 1
29m 19s

Is that shifting, or maybe were some of the trends in the June quarter maybe a bit more one-time and unique in nature? Thank you so much. Yeah, we did grow in Greater China by 4% during the quarter. Versus the previous quarter, it was driven by an acceleration by iPhone, although we also had substantial growth on the Mac year-over-year. As you know, the government has placed certain subsidies that affect some of our products, not all of them, but there are some of them, and I think that had some effect. It was the first full quarter of the subsidy playing out that it cut in during a portion of the previous quarter. The other things I would say are that the install base hit a record high in Greater China, and we set an all-time record for the iPhone install base. The iPhone upgraders in mainland China set a record for the June quarter. According to Worldpanel, which was formerly known as Kantar, iPhone had the top three models in Urban China, which is extraordinary. Also, if you look at the other products, Mac, iPad, and Watch, the majority of customers that are buying in China mainland were new to the product.

Speaker 1
30m 58s

Lots of good things there. The other thing I would point out, which is an interesting point, the MacBook Air was the top-selling laptop model in all of China, and the Mac Mini was the top-selling desktop model in all of China. Overall, a very positive quarter. Great. Thanks for the color, Tim. Good luck. All right. Thank you, Eric. Thanks, Eric. Operator, can we have the next question, please? Our next question is from Ben Ricey with Melius Research. Please go ahead. Yeah, thanks. I really appreciate it. I wanted to ask about Siri, Tim, and just the overall AI investment. There's a perception that Siri is going to help drive other new products potentially that maybe where voice is quite needed. Just wondering, how's your confidence towards launching that next year? Is there anything that's been done internally to increase that confidence? Is it tied to the investment? I just think folks would love to know a little bit more about your confidence and how that's going. I have a follow-up. Thanks. Yeah, thanks for the question. We're making good progress on a more personalized Siri, and we do expect to release the features next year, as we had said earlier.

Speaker 1
32m 34s

Our focus from an AI point of view is on putting AI features across the platform that are deeply personal, private, and seamlessly integrated. Of course, we've done that with more than 20 Apple Intelligence features so far, from visual intelligence to cleanup to writing tools and all the rest. We are significantly growing our investment. We did during the June quarter. We will again in the September quarter. I'm not putting specific numbers behind that at this point, but you can probably tell in the guidance that things are moving up. We are also reallocating a fair number of people to focus on AI features within the company. We have a great team, and we're putting all of our energy behind it. In terms of products, in terms of other products, I don't want to really comment on specific other products, but we have an exciting roadmap ahead, and I could not be more excited about it. That's great, Tim. Thanks for the color. Just with regard to my second question, it's about the overall revenue guide, and I appreciate that you guide the best you can see it, but I just wanted to challenge it from a different way.

Speaker 1
34m 9s

Why would it decelerate if services is staying the same at 13? Is there a conservatism there? I would think even currency is just as favorable, if not more favorable. Why would it decelerate to the higher single digits from where you were in the quarter, or is it just being conservative? If there's something decelerating or a comp, do you mind just pointing that out? Thanks. Yeah, Ben, this is Kevin. Thanks for the question. I think when you look at the growth from Q3, which is reported to the mid to high single-digit guide, you have to kind of keep in mind two components. The first is the effect of the tariff-related pull ahead in demand that Tim referenced earlier, which we estimated to be about one point of the 10 points that we ended up doing in Q3. The other factor that I think you have to take into consideration is the fact that in September quarter a year ago, we had the full quarter impact of the iPad launches, which also leads to a difficult compare this year. Those two components are things you have to take into consideration as you think about the move from Q3 to Q4.

Speaker 1
35m 17s

I would say foreign exchange is a very minor tailwind going from Q3 to Q4, so not really a major factor. Okay, thanks a lot. Awesome. Thank you, Ben. Operator, could we have the next question, please? Our next question is from Wangzi Moen with Bank of America. Please go ahead. Hi, yes, thank you so much. Tim, I know you said similar growth in services, and that's predicated with Google payments continuing. Is there any way for us to dimensionalize sort of, or maybe just conceptually talk about maybe options if the counter were to happen, if the payments were not allowed in some way? What are some of the things that Apple could do, given that it is a significant chunk of profitability? And I have a follow-up. Yeah, Wangzi, I don't really want to speculate on the court ruling and how they would rule and what we would do as a consequence of it. Okay. Okay, I guess we'll wait for that ruling to come out. I guess separately, Tim, at a high level, when you look at some of what is perceived fears of new form factors and ways to interact with devices, there was some worry that given some of the developments in AI, that there could be a world where dependence on screen-based devices significantly diminishes.

Speaker 1
36m 47s

I'm kind of curious to get your thoughts on if. Do you think that would happen and rate and pace in which, and how do you think Apple is preparing in that case? Yeah, when you think about all the things an iPhone can do, from connecting people to bringing app and game experiences to life, to taking photos and videos, to helping users explore the world and conduct their financial lives and pay for things and so much more, it's difficult to see a world where iPhone's not living in it. That doesn't mean that we are not thinking about other things as well, but I think that the devices are likely to be complementary devices, not substitution. Okay, thank you so much, Tim. Thank you. Thank you, Wangzi. Operator, could we have the next question, please? Our next question is from Amit Daryanani with Evercore. Please go ahead. Yep. Good afternoon. I guess just to start with, Tim, the tariff assumption of \$1.1 billion in the September quarter, I understand the uptick you folks are talking about. Can you just talk about assuming tariffs remain at these levels or even if they evolve under Section 232, how do you eventually think about offsetting this headwind to your P&L?

Speaker 1
38m 27s

When do you decide to execute on the levers to offset this headwind versus just flowing into your bottom line? Right now, we're just estimating the cost of it, and it's up quarter over quarter because our volume is up quarter over quarter. There was some build ahead in the previous quarter. That's the primary reason that it's up. In terms of what we do to mitigate, we obviously try to optimize our supply chain. Ultimately, we will do more in the US. We've committed \$500 billion investment in the US over the next four years. We've already been building chips in Arizona, and in fact, we're building semiconductors across 12 states and 24 factories and have a lot of other things in the works. You probably saw the investment in MP Materials last week. We continue to explore these things and look for more that we can do, which I think ultimately is the objective. Got it. Super helpful. Your services growth, I think, was extremely impressive at 13%, especially given all the fears folks had. Can you just touch on, did you see any impact that was notable from the Epic case and the steering dynamics that came after that?

Speaker 1
40m 14s

Maybe just touch on what does that appeals process look like for me as you go forward? Thank you. Yeah, this is Kevin. Let me take that one. In general, I think just reminding, I think you just said we had a very strong services quarter. We had an all-time record at the \$27.4 billion, up 13%. The one thing I would also say is our services performance is broad-based. We also saw strength in developed and emerging markets. Both parts of the world had double-digit growth. We also saw a sequential acceleration across the majority of our categories, including cloud services, where I mentioned in the paired remarks that we had an all-time revenue record. As it relates to the Epic decision, keep in mind we only just introduced the change required by the court in the June quarter. As you know, we do not provide the level of detail. In general, I would say it was a very, very—in the US, we had double-digit growth for the US App Store, and we set an all-time record. We will continue to monitor the effects on our business, but we will continue to innovate and ensure that the App Store delivers the best experience for users and remains a great business opportunity for developers.

Speaker 1

41m 22s

All right. Thank you, Amit. Operator, could we have the next question, please? Our next question is from David Vogt with UBS. Please go ahead. Great. Thanks, guys. I have two questions as well. Maybe, Tim, just on the supply chain strategy. I know last quarter you talked about focusing production or assembly to India. I just want to get an update on how you're thinking about the strategy holistically, given sort of the tariff rates I think in India potentially are higher than I think anyone had expected. I know you mentioned some US investments, but we'll have to kind of get your thoughts on how you're thinking about China versus the rest of Southeast Asia and India going forward. I'll give you my second question also. Kevin, I'm just trying to understand a little bit more about the demand drivers of iPhone in the quarter because obviously the 16 has been in the market for some time. I know there was some promotional activity, but seasonally, you generally don't see this kind of strength in the June quarter. Maybe can you help us understand outside of maybe the promotional activity, what else were some of the drivers that led to what looks like a pretty significant above-seasonal strength in the June quarter?

Speaker 1

42m 26s

Thanks. Yeah, in terms of the tariff situation and country of origin and so forth, one thing I would say just to remind everyone is keep in mind that the vast majority of our products are covered under the Section 232 investigation. Today, or I should say last quarter, the bulk of the tariffs that we paid were the IEEPA tariffs that hit early in the year related to China. That's just a reminder of where things are and what we assumed as we calculated the projection of \$1.1 billion that's in our outlook color. In terms of the country of origin, it's the same as I referenced last quarter. There has not been a change to that, which is the vast majority of the iPhones sold in the U.S., or the majority, I should say, have a country of origin of India. The vast majority of the products, other products, the Mac and the iPad and the watch, have a country of origin of Vietnam that are sold in the United States. Still, the products for other international countries, the vast majority of them are coming from China. That hopefully gives you a flavor of where things are. I would stress again that we do a lot in this country, in the United States, and we have committed \$500 billion, and we are always looking to do more.

Speaker 1

44m 34s

You could kind of see that in the most recent announcements, whether it's MP Materials or our Manufacturing Academy that we're standing up in Detroit in a couple of weeks or so. We're going to be doing more in this country, and that's on top of having roughly \$19 billion chips coming out of the US now, and we will do more. Of course, glass for iPhone and the Face ID module. There are loads of different things that are done in the United States. David, on the iPhone activity? Yeah, I was going to mention the iPhone activity. You asked if there's any kind of unique characteristics this quarter. I would just say, as Tim outlined, we really believe that the strong upgrade performance, which was a June quarter record, was really driven by the strength of the product lineup. The iPhone 16 family has done incredibly well compared to the iPhone 15 family. We also, as you recall, recently introduced the 16e as well, which also continued to impact the success of the overall iPhone 16 lineup. Great. Thanks, guys. Thank you. Great. Thank you, David. Operator, could we have the next question, please? Our next question is from Chris Sanker with TD Cowen.

- Speaker 1**
46m 7s
- Hi to them. The first one is for Kevin. This was a previous question. Do you think there was any pulling of iPhones in the June quarter that led to some of the upside? How do you think about channel inventory in June quarter and how it looks in September relative to seasonal trends? I had a longer-term follow-up for Tim. Let me see if I can answer the channel inventory question or what I think is the channel inventory question. If you look at iPhone channel inventory from the beginning of the quarter to the end of the quarter, we reduced it, and it ended toward the low end of our targeted range. That is the answer on the inventory piece of it. Yeah, I think you also asked about the pull ahead impact. I think we referenced that earlier. Just to be clear on what we believe we saw in the June quarter, we did see some obvious signs of pull ahead really in the April timeframe around the tariff-related discussions that were out in the marketplace. We felt that that was, from what we saw, about a one-point impact of the 10 points at the total company level of growth.
- Speaker 1**
47m 19s
- That was the limited impact that we believe saw for the quarter. Got it. Very helpful. I think I just have a long-term follow-up for Tim. Tim, I'm kind of curious about your thoughts on AI for edge devices. There are some people who think that LLM could be a commodity in the future. Do you see a scenario where LLMs become a core part of your iOS, or is SLM the way to go? How to think about the evolution of edge devices in a futuristic AI world, and is smartphone going to be the choice of device? I'm curious your thoughts on it, broadly speaking. Thank you. The way that we look at AI is that it's one of the most profound technologies of our lifetime. I think it will affect all devices in a significant way. What pieces of the chain are commoditized and not commoditized, I wouldn't want to really talk about today because that gives away some things on our strategy. I think it's a good question. Thanks, Tim. Yeah. Thank you, Chris. Operator, could we have the next question, please? Our next question is from Samik Chatterjee with JPMorgan. Please go ahead. Hi.
- Speaker 1**
48m 46s
- Thanks for taking my questions. Tim, maybe if I can start with your remarks about the pull ahead being about a 1 percentage point benefit here. Anything to share in terms of what's underlying that estimate in terms of what you're seeing for is it a pull ahead largely on iPhones, or is it across the board, and is it primarily in the U.S., or again, sort of across multiple regions? Any color there would be helpful in terms of how you're sort of getting to that assumption there and have a follow-up. It was principally on iPhone and Mac. It was obvious evidence of it. It was an unusual buying pattern there that largely occurred in April toward the beginning of the quarter. It was really, we believe, largely the United States. Okay. Okay. Got it. Maybe on the tariff front, when you gave the estimate of \$900 million last quarter, which came in at \$800 million, you did highlight there were some unique factors in the quarter. When I take the \$1.1 billion that you're now sort of expecting for the September quarter, and as we start to think about December, is there anything unique in the December quarter in terms of sourcing from regions, etc., that would uniquely impact December, just given that you had highlighted that quarter to quarter, so there would be unique things?

Speaker 1
50m 27s

Just curious if December looks very different from September because of any unique factors. I would be careful about projecting based on the numbers from Q2 and Q3 because, one, we're uncertain of what the rates will be. The rates may change. Two, particularly in last quarter, we had some build-ahead inventory that we had within the company and within our supply chain. Those two are a little unique. Also, as you know from following us for so long, Q1 is generally a higher volume quarter. The tariffs are currently pretty linear with volume. Okay. No. Understood. Thank you. Thanks for taking my question. All right. Thank you, Samik. Operator, could we have the next question, please? Our next question is from Aaron Rakers from Wells Fargo. Please go ahead. Yeah. Thanks for taking the question. I've got two as well, and I'll just ask them together. I guess the first one is just more housekeeping. Kevin, when we think about currency impact, how much of a benefit was currency this quarter? I guess across the business and in particular, maybe on the services segment, and on a year-on-year basis, how much currency benefit should we be thinking about embedded in the guidance into the September quarter?

Speaker 1
52m 18s

The second quick question is, CapEx is clearly moving higher. I know you guys do not guide specifically to that number, but just kind of qualitatively, as you lean in more on AI, should we really start to see that CapEx, which is running close to about \$4 billion annualized today, really start to move appreciably higher? Any color on that would be helpful. Thank you. Great, Aaron. Thanks for the questions. Let me answer the first one, first round foreign exchange. For Q3, we really had no impact from a foreign exchange standpoint on the year-on-year results. When we look at both the revenue growth as well as the gross margin, there was really virtually no impact from foreign exchange. As we look at going from Q3, the June quarter, to the September quarter, again, very, very, as I mentioned earlier, a very small tailwind going from Q3 to Q4 from a foreign exchange standpoint on both revenue as well as gross margin. On the second question, sure, on the CapEx side, I think we talked about the fact that we are, and Tim mentioned the fact that we are increasing our investment significantly in AI. You are going to continue to see our CapEx grow.

Speaker 1
53m 31s

It's not going to be exponential growth, but it is going to grow substantially. A lot of that's a function of the investments we're making in AI. As we mentioned, we also have other items that fall under that category, facilities and some of our retail store investments. I would say a lot of the growth is really being driven by AI. I would remind you that we do have a hybrid model, though, where we also leverage third-party infrastructure in addition to investing in our own first-party infrastructure. Yeah. Thank you. Thank you. Thank you, Aaron. Operator, may we have the next question, please? Our next question is from Asif Malik with Citi. Please go ahead. Hi. Thank you for taking my question. Tim, at the WWDC earlier in the quarter, you showed impressive updates on Vision Pro with the use of widgets, facial scenes, persona, and new ways to create content. It appears like Meta and Xiaomi are seeing strong momentum on their AI glasses. Is the focus still around enterprises on Vision Pro, or are you thinking of broadening the use cases, maybe tying it to more of your devices? Any thoughts on Vision Pro as it did not get enough airtime in the prepared remarks?

Speaker 1 Yeah. Thanks for bringing it up. I was thrilled with the release from the team on visionOS 26. It includes many things in it, like spatial widgets to enable users to customize their digital space. The personas took a huge increase. They're much more lifelike. Of course, there's new enterprise APIs for companies as well. We're seeing, as Kevin talked about in his opening remarks, those things resonate out with CAE and other customers. We continue to be very focused on it. I do not want to get into the roadmap on it, but this is an area that we really believe in. Great. Kevin, historically, you guys have not done much big M&A. Do you feel like you need to accelerate your AI roadmap or just keep the organic focus? Let me take that one as well. We have acquired around seven companies this year. That is companies from all walks of life, not all AI-oriented. We are doing one; think of it as one every several weeks. We are very open to M&A that accelerates our roadmap. We are not stuck on a certain size company, although the ones that we have acquired thus far this year are small in nature.

Speaker 1 We basically ask ourselves whether a company can help us accelerate a roadmap. If they do, then we are interested, but we do not have anything to share specifically today. All right. Thank you, Atif. A replay of today's call will be available for two weeks on Apple Podcasts as a webcast on apple.com/investor and via telephone. The number for the telephone replay is 866-583-1035. Please enter confirmation code 628-7473, followed by the pound sign. These replays will be available by approximately 5:00 P.M. Pacific Time today. Members of the press with additional questions can contact Josh Rosenstock at 408-862-1142. Financial analysts can contact me, Suhasini Chandramouli, with additional questions at 408-974-3123. Thanks again for joining us.